Craig Jaffe Research 360
Leadership in Research & Analytics

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Digital Ad Spending Is Expected To Decline?
Similar To Declines In Newspapers And Magazines

This year is supposed to be an inflection point in the history of media and advertising--it is generally believed that for the first time, marketers in the U.S. are expected to spend more money advertising themselves on digital media, surpassing TV.

Ad spending is expected to decrease on TV, while increasing on digital. When 2017 concludes however, that won't be quite true for digital.

There are an estimated 320 million active websites, as of this writing. Yet despite the abundance of digital real-estate and promising opportunities for marketers, advertising on these sites is expected to decline overall at a significant rate of -10%. Overall, digital is largely overlooked and underutilized by the ad community.

How can that be? Are predictions wrong? There's a simple explanation.

Our industry supports two digital media ecosystems.

One of the ecosystems encompasses hundreds of millions of websites and is expected to decline overall by -10%, as advertisers cut spending from $24.1 billion (2016) to $21.8 billion (2017) on them.

The other ecosystem includes just 5 digital media companies which will be the beneficiaries of +29% more ad dollars, as advertisers increase spending from $47.5 billion (2016) to $61.2 billion (2017) on them.

If no distinction is made between the two digital media ecosystems when placed on a business chart and all of the data is looked at together, the 5 companies stand by themselves while the majority of sites make up what statisticians call the "long tail."

The long tail is visually obvious--it shows an unusually large number of occurrences within a distribution that is far removed from the head. The visual skew towards one side of the chart is made very clear, when a small number of occurrences immediately spike up. In a business context, the upward spike is usually due to a minority of companies whose successes far exceed those of the majority of companies whose performances are also being charted.

It's common however for analysts to remove anomalies from data sets before drawing conclusions. Removing statistical outliers gives a much clearer picture that more faithfully represents an actual trend or pattern.

Think of it as if you were to calculate the net worth of employees who work on the same floor as Warren Buffett at Berkshire Hathaway. If you wanted to get a sense as to how much people are worth, the inclusion of Buffett in the calculation would skew the average and give you the false impression that everyone on the floor is worth hundreds of millions of dollars, when in fact, that may not be the case at all. Buffett is the statistical outlier in this hypothetical scenario, and should be removed from your analysis due to his enormous net worth. Otherwise, your calculation (while true) is misrepresenting reality.

Within our digital industry, it's a similar phenomenon. Two companies are wildly successful, while hundreds of millions are not. Google and Facebook are the statistical outliers. When ascertaining the health of digital advertising, keeping Google and Facebook in your calculations statistically misrepresents reality and fails to provide you with the actual trend or pattern. The long tail in the digital industry is more than just the majority of occurrences--it's hundreds of millions of sites which, in essence, is our industry.

When you estimate how much money marketers are expected to spend on digital media in 2017, the significant decline is obvious when you remove Google, Facebook, and a few other companies from the math.

Given the bifurcation that exists however, it may make more sense to acknowledge there are two digital ecosystems: one that includes Google and Facebook, and another that is based on everyone else.

Overall, digital is clearly the future of advertising and is expected to increase by +16% at the end of 2017 when the two digital media ecosystems are combined mathematically. Evaluating it as two businesses however provides an even clearer picture and better understanding of the growing pains our industry is experiencing.

Some marketers may find this perspective extremely useful. It can help them recognize much of digital is underutilized. It may also inspire conversations with their agencies about how to more fully optimize the digital media planning process.

For those interested in calculating the math for themselves, this analysis was based on data published by eMarketer and can be found here (https://www.emarketer.com/Article/Google-Facebook-Tighten-Grip-on-US-Digital-Ad-Market/1016494).

For more information, please click here.

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About Craig Jaffe Research 360:
Craig Jaffe Research 360 is a research and analytics consultancy that advises how consumer trends, behavioral shifts and attitudinal dynamics can be leveraged and monetized. The consultancy is hired to perform Analytics, Consumer Insights, and Ad Sales Research. It utilizes a variety of resources -- such as Nielsen, MRI, comScore, and others -- and employs data science, research, and analytic techniques while working with media and marketing companies operating in the television, digital, and social marketplaces. Craig Jaffe Research 360 helps television networks and digital publishers increase ad sales and audiences, and helps advertising agencies and marketers activate consumer purchase behavior. In addition to consulting, Craig teaches an MBA program in digital marketing at Baruch College in New York.