

# Facebook, Google go head-to-head in mobile, video ad wars

September 30 2013, by Benjamin Pimentel

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Facebook Inc. and Google Inc. are poised to dominate a growing online advertising arena that's increasingly being defined by the rise of mobile computing and video.

Facebook and Google have sizable and established user bases seen as critical as ad dollars shift to mobile away from desktop PCs. The two Internet giants are also zeroing in more on video ads, which are expected to lead to robust growth, although some analysts are skeptical that video will have much of a financial impact over the next year or two.

"With more ways for online users to shed cookies and with the advent of mobile devices, the most valuable user data may fall with the few large Internet giants that have some pre-existing relationship with the user," RBC Capital's Mark Mahaney told clients in a note based on one of several advertising conferences attended by analysts in New York last week.

"These large Internet companies may come to possess some of the most valuable data about how users behave across devices in an increasingly cookie-less world."

Google dominates the digital ad market with a projected 33 percent share of total revenue in 2013, followed by Facebook with a little over 5 percent and Yahoo Inc. with 3 percent, according to estimates from eMarketer. The market itself is projected to expand 13 percent to \$118 billion this year.

Facebook shares closed above \$50 last week for the first time, as analysts pointed to the social network's online ad momentum, especially in mobile. The stock gained 1.7 percent Friday to close at \$51.24.

"Our conversations on the conference floor suggest continuing momentum for Facebook, but also significant runway left," Goldman Sachs analyst Heather Bellini, who raised her price target to \$58 from \$52, told clients in a note.

That runway is being defined by the steady growth of online advertising, particularly in mobile, where Facebook has displayed impressive growth in the past year. Analysts also cite the promise of Facebook's Instagram and of online video ads in general.

"Facebook is laying the foundation for a new video ad product, which we believe could be its next billion-dollar business," Jefferies analyst Brian Pitz told clients in a note. He raised his price target for Facebook even higher, from \$37 to \$60. He did note that Facebook must proceed with caution, given worries that video ads could turn off users.

"Facebook recently began testing auto-play videos in users' mobile news feeds," Pitz said. "When it does eventually launch its video product, the first videos will be user-generated content, and we won't expect to see video ads until the format has been refined over time. This strategy should get users comfortable with seeing auto-play videos in the news feed, likely minimizing user blowback when ads are introduced."

Bernstein Research analyst Carlos Kirjner was less upbeat about Facebook's video gains, saying in a note, "We believe the incremental revenue impact of News Feed video ads over the next 12-24 months will be small. ... None of what we have heard so far gives us high conviction that [video ads](#) will create major upside to the current revenue trajectory in the next 12-24 months."

Still, Bellini of Goldman Sachs noted positive feedback from advertisers and marketers, saying "early adopters of Facebook advertising" pointed to "ongoing success around in-feed ads and custom audiences as well as growing budgets."

"Those relatively newer to Facebook indicated growing interest and experimentation driven by the scale of Facebook's reach, as well as its targeting options," she wrote.

Meanwhile, Google is seen maintaining its dominant position in the online ad market, thanks in part to the search giant's gains with its popular YouTube service.

"Overall, attendees we spoke with indicated Google and YouTube remain staples in their marketing budgets," Bellini wrote.

Google shares edged lower by 0.2 percent to close at \$876.39 on Friday. The stock has risen 24 percent year-to-date.

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