

Google's persistent ad slump weighs on Alphabet's 1Q results

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In this Sept. 24, 2019, file photo a woman walks below a Google sign on the campus in Mountain View, Calif. Alphabet reports earnings on Tuesday, April 25, 2023. Credit: AP Photo/Jeff Chiu, File

Google's advertising malaise persisted during the first quarter while the

internet company also grapples with advancements in artificial intelligence technology that threaten to undercut its dominant search engine.

An unprecedented downturn in Google's digital ad revenue—the company's main moneymaker for more than 20 years—came into sharper focus Tuesday with the release of the January-March results for owner Alphabet Inc.

Although Alphabet's total revenue for the period rose from a year earlier, Google's first-quarter ad sales of \$54.5 billion marked a slight decrease from a year ago. That dip followed a nearly 4% decline [during the final three months of last year](#), making this the first time Google has sustained back-to-back drops in year-over-year ad revenue since becoming a publicly traded company in 2004.

Google's YouTube video site, a marketing magnet in recent years, saw its ad sales decrease 2.5% from last year, marking its second consecutive quarter of erosion, too.

Boosted by growth in its cloud-computing division, Alphabet's total revenue for the quarter came in at \$69.8 billion, a 3% increase from last year. But the ad woes weighed on Alphabet's earnings. The Mountain View, California, company earned \$15.05 billion, or \$1.17 per share, an 8% decrease from last year. More than \$2 billion in charges for [mass layoffs](#) and other cost cutting contributed to the earnings downturn.

Both Alphabet's revenue and profit exceeded the tempered expectations among analysts polled by FactSet Research. That—and a \$70 billion stock buyback plan—helped lift Alphabet's stock price by about 2% in extended trading after the numbers came out. The company's shares have fallen by about 15% during the past year amid investor concerns about Google's ad slump and worries about the company's future

prospects.

"Google's core business is facing the most serious challenges it has encountered in quite some time," Insider Intelligence analyst Max Willens said after assessing the [first-quarter](#) results.

To help prop up its profits, Alphabet in January announced plans to lay off 12,000 employees, or 6% of its workforce, by far the biggest payroll purge in its history. But the layoffs weren't completed before the end of the quarter, leaving Alphabet with more than 190,000 employees as of March 31, roughly the same number it had Dec. 31 after the company added nearly 34,000 workers last year. Alphabet expects its workforce to reflect the recent layoffs' by the end of June.

Alphabet CEO Sundar Pichai said management remains focused on identifying "areas for durable savings," but provided no specifics during a Tuesday discussion with analysts.

Google's current ad slump largely reflects more cautious spending by companies reacting to a slowdown in discretionary consumer spending. Rising inflation has fueled an increase in interest rates that could culminate in a recession.

Another threat is the ChatGPT artificial intelligence bot that is being melded into Microsoft's Bing search engine, raising fears that Google could be facing a longer-term threat to its own search engine.

If people embrace ChatGPT and Bing as a better way to find what they are looking for, it could siphon traffic from the Google search engine—long the internet's main gateway. That would depress Google's ad sales.

Google is trying to counter with [its own alternative, dubbed Bard](#), but so

far has [restrained its capabilities](#) to ensure Bard doesn't offend billions of users and advertisers in the process, and to reduce the chances it manufactures misinformation and other fabrications.

Promising there's still "lots more to come" with Bard, Pichai told analysts Tuesday that Alphabet is "excited about helping people, businesses and society reach their full potential with AI."

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