



ARTILLY INTELLIGENCE BRIEFING

THE CAMERA IS THE NEW SEARCH BOX: ADS IN AR
AUGUST 2018





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Executive Summary

One of the many areas projected to be transformed by immersive computing is advertising. The visually-immersive nature of technologies like AR and VR can offer advertisers new ways to spotlight products, and to engage prospective customers in deeper ways than two-dimensional media.

For example, advertisers can create AR campaigns that let consumers visually infuse products in the world around them, as captured through their smartphone's camera. Several brands like Nike, Home Depot and Michael Kors are already experimenting with – and learning from – such campaigns.

Beyond graphical AR overlays, advertisers will soon be able to participate in a related area: visual search. A close cousin of AR, this is represented by tools like Google Lens, which let users point their smartphone cameras at objects around them to contextualize (or purchase) those items.

Altogether, AR ad formats are beginning to map to existing 2D ad formats that advertisers have been using for years. For example, branded graphical AR overlays are analogous to display advertising, while visual search can carry similar dynamics and user intent as search advertising.

But the opportunity is to go much deeper than these legacy formats in both creative capacity and effectiveness. Indeed, brands that have experimented with AR-based promotion already see favorable engagement and conversion metrics, such as **11x** increases in product purchases.

The opportunity is further fueled by vested interest of tech giants. Tech's "four horsemen" – Google, Apple, Facebook and Amazon – are especially keen on AR. Those specifically built on ad revenue (Google and Facebook), will fight to ensure positioning in advertising's next visually-immersive era.

Resulting competition will accelerate innovation, investment and market timing for AR advertising in general. Indeed, one point of confidence *ARtillery Intelligence* holds for AR's overall revenue generation and opportunity is the level of motivation behind these tech giants to make it happen.

But it won't be without challenges and question marks. Though all of the above stands to reason and quantitative analysis, one wild card is advertiser adoption. They're a famously laggard constituency of the tech ecosystem, and the survey data we examine in this report indicates their AR uncertainty.

There are also practical hurdles. Though mobile AR's addressable market is **762 million** smartphones at the time of this writing, the *actual market* is a subset of that. Active AR users are relatively few, and session lengths are small, due to factors like arm strain, which diminish ad inventory.

All of these variables converge to drive **\$2.6 billion** in AR ad revenues by 2022. But how will this materialize? What campaign tactics work? And what does it mean for developers, media companies and anyone vetting AR. This report answers such questions and dissects the AR ad opportunity.





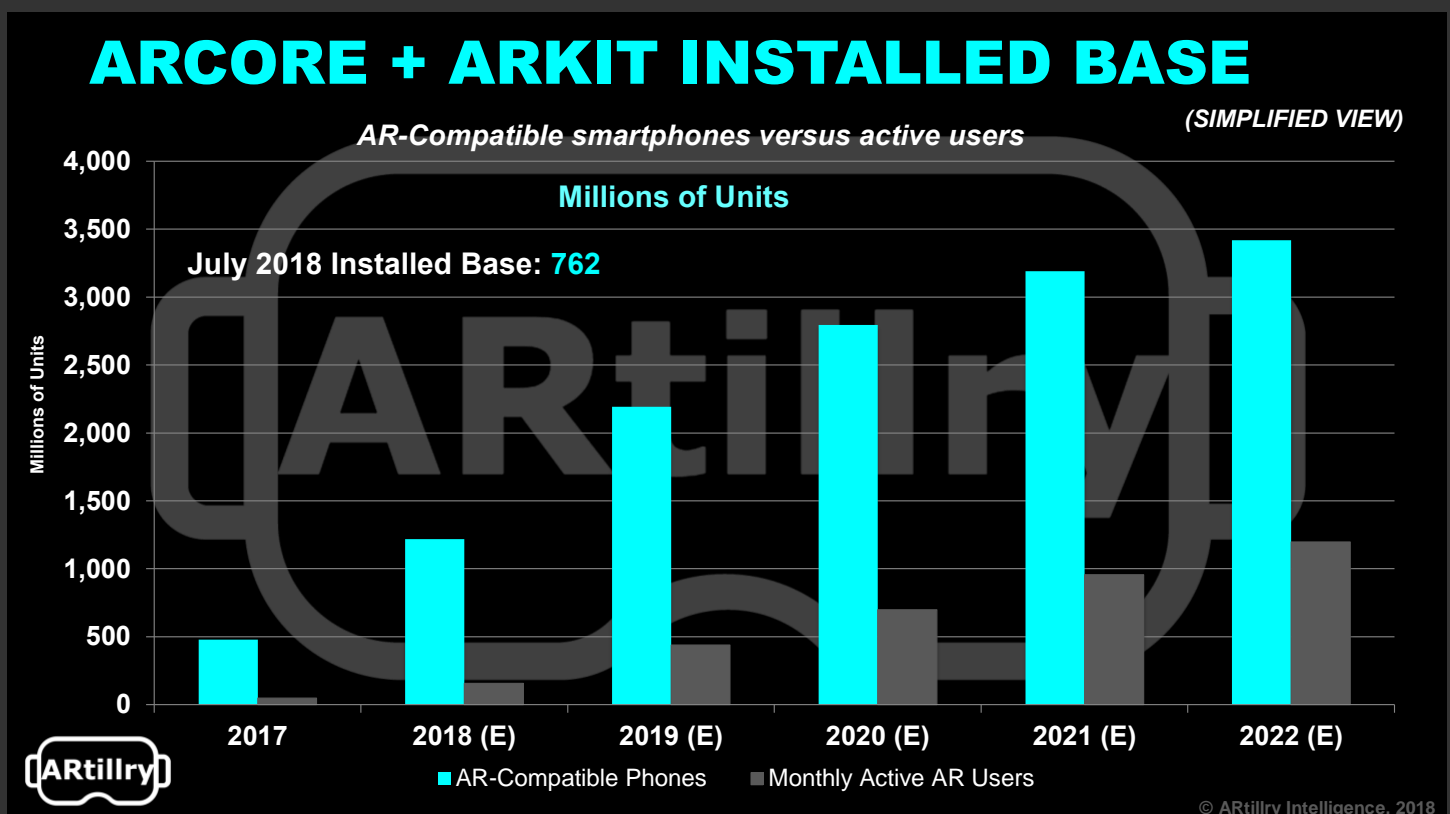
Introduction: Signs of Opportunity

Whenever tech revolutions come along, they affect – and create opportunity within – several aspects of our lives and work. This was the case with the PC, commercial internet and mobile revolutions. One of the areas most transformed by these technology shifts has been media and advertising.

Advertising specifically has been completely transformed by the Internet, which was then further catapulted by the distribution, formats and strategies developed in the smartphone era. *ARtillery Intelligence* believes the next advertising inflection will happen with immersive media such as AR.

AR's visual orientation and interactivity align with advertising's core goals. It can enhance "upper funnel" (e.g. awareness) ads by letting consumers playfully interact with products. And "lower funnel" actions (e.g. conversions) are achieved by contextualizing products at or near the point of purchase.

Further boosting these qualitative attributes are quantitative measures. The advertising opportunity piggybacks on AR's scale: *ARtillery Intelligence* pegs mobile AR's installed base at **762 million** smartphones at the time of this writing. This is key, given that brand advertisers are reach driven.





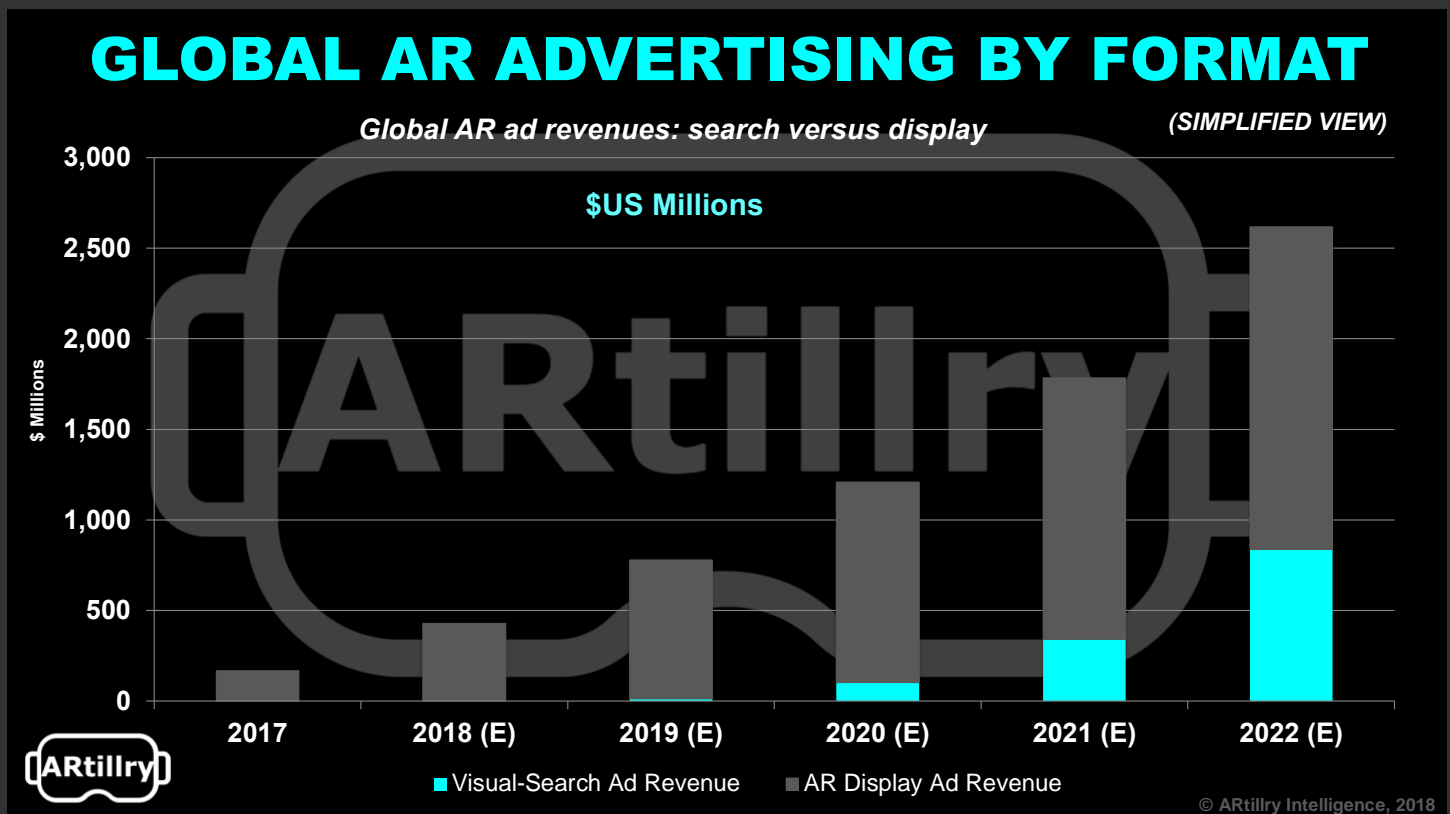
Beyond high level or theoretical advantages, we're seeing proof points that these factors translate to real results. Among several key performance indicators (KPIs) detailed later in this report, AR can boost consumer purchase intent by 11x and time spent with media by 2.7x, according to Houzz.

Influential tech giants are also investing heavily in AR advertising, providing further confidence in its opportunity. Ad-dominant business models at Facebook and Google have motivated significant resources to ensure positioning in advertising's next era, thereby accelerating the AR industry overall.

But it's not all positive signals. Advertisers will be slow to adopt (as they often are), and already indicate some uncertainty. And mobile AR presents challenges such as diminished ad inventory through short session lengths, which can result from arm fatigue and other form-factor realities.

Further jeopardizing available ad inventory are questions of reach. Though the installed base of compatible AR smartphones is sizeable, as noted, a more relevant figure is active AR users. That figure stands at about 158 million users today, which is fragmented between different AR apps.

So where do all of the advantages and potential drawbacks come together and indicate the path forward? We'll examine all the factors in the following pages, including bull and bear perspectives, and our ultimate revenue outlook. But first let's examine the types of mobile AR ads developing today.





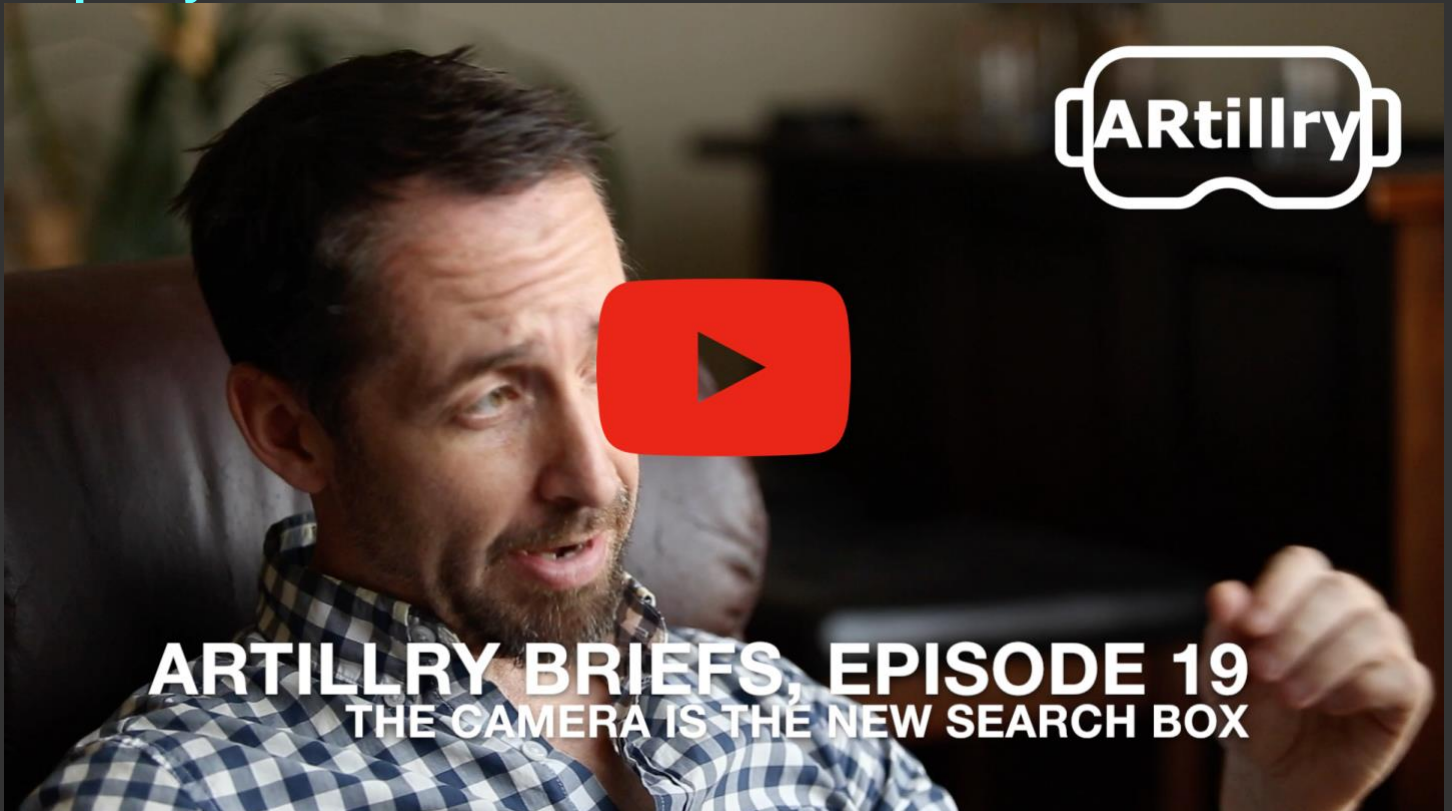
Advertiser	App/Publisher	Campaign Dynamics	Results
Home Depot	Yahoo Mail	AR sequence launched from static email banner ad.	2+ minute average engagement time. 12.5 percent CTR to shopping page.
Kia	Facebook Messenger	Car visualization via AR overlay, launched from Kia's Facebook Messenger Bot.	46 percent boost in dealer inventory searches; 20 percent boost in phone calls.
Nike	Facebook Messenger	Kyrie 4 shoe release available exclusively through Facebook Messenger after users launched AR visualization feature.	Shoe sold out in less than an hour
Asus	Facebook Messenger	Customers "virtually unbox" latest ZenPhone 5 via AR visualization launched from Messenger.	Achieved 10x engagement compared to non-AR campaigns.
Foot Locker	Snapchat	The latest Jordan sneaker visualized through AR animations, launched from Snap Stories.	45-second average play time, 4 million impressions.
N/A	Houzz	In-home furniture visualization of a large portion of Houzz's online catalogue.	11x increase in purchase intent. 2.7x increase in time-in-app.
N/A	Snapchat	Branded Lenses, Shoppable AR and Ad to AR comprise its current range of paid AR offerings.	Overall 15 percent boost in purchase intent and a 9 percent boost in conversions from branded AR lenses.



Video Companion: AR Advertising

(click URL to open)

<https://youtu.be/naJ9MEeb0Ws>





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<https://artillery.co/pro>

About ARtillery PRO

ARtillery Intelligence has launched an intelligence vault containing data, insights and analyst access. Known as *ARtillery PRO*, it equips subscribers in XR sectors to make informed business decisions.

FEATURES

Original Research: Monthly reports and weekly briefs on XR data, opportunities and dynamics.

Curated Research: ARtillery analysts collect, analyze and filter recommended reading and data.

Conference Talks: We watch, select and summarize video from XR events.

Slide Bank: We assemble charts for your presentations and knowledge building.

Data Concierge: We'll help you find what you're looking for.

Event Discounts: We partner with the top XR events for subscriber discounts

UPCOMING CALENDAR

September: Where's the Money: Tech Giants Tackle XR

October: Social XR: Finding the Killer App

November: XR Global Revenue Forecast

December: 2018 Lessons, 2019 Predictions

January: Enterprise XR Strategies & Case Studies

COST

Packages starting at **\$49/month**

https://youtu.be/dFZVGE_UA8A





About ARtillery Intelligence

ARtillery is a publication and intelligence firm that examines augmented reality and virtual reality, collectively known as XR. Through writings, data and multimedia, it provides deep and analytical views into the industry's biggest players and opportunities. It's about insights, not cheerleading.

Run by career analyst and journalist Mike Boland, coverage is grounded in a disciplined and journalistic approach. It also maintains a business angle: Though fun and games permeate VR and AR (especially the former) long-term cultural, technological and financial implications are primary.

Learn more at <https://artillery.co/about>





About Intelligence Briefings

ARtillery Intelligence Briefings are monthly installments of VR/AR data and analysis. They synthesize original and third-party data to reveal opportunities and dynamics of VR and AR sectors. In addition to data, a layer of insights is applied to translate market events and raw figures into prescriptive advice.

More information, past reports and editorial calendar can be seen at:

<https://artillery.co/artillery-intelligence/>

About the Author

Mike Boland was one of Silicon Valley's first tech reporters of the Internet age, as a staff reporter for *Forbes* (print) starting in 2000. He's been an industry analyst covering mobile and social media since 2005, and is now Chief Analyst of *ARtillery Intelligence*, and SF president of the *VR/AR Association*.

Mike is a frequent speaker at industry conferences such as AWE, VRLA and LeadsCon. He has authored in-depth reports and market-sizing forecasts on the changing tech & media landscape. He contributes regularly to news sources such as *TechCrunch*, *Business Insider* and the *Huffington Post*.

A trusted source for tech journalists, his comments have appeared in A-list publications, including *The New Yorker*, *The Wall Street Journal* and *The New York Times*.

Further background, history and credentials can be found at:

<http://www.mikebo.land/>





Methodology

This report highlights *ARtillery Intelligence* viewpoints, gathered from its daily in-depth coverage of the XR sector. To support the narrative, data are cited throughout the report. These include *ARtillery Intelligence* original data, as well as that of third parties. Data sources are attributed in each case.

For market sizing and forecasting, *ARtillery Intelligence* follows disciplined best practices, developed and reinforced through its principles' 15 years in tech sector research and intelligence. This includes the past 2.5 years covering AR & VR exclusively, as seen in research reports and daily reporting.

AR advertising figures specifically include money spent on paid AR campaigns, such as the examples cited early in this report. Figures do not include general "marketing" spend, such as brands that develop their own AR apps. The latter is measured in our forecast under enterprise AR software.

Furthermore, devising these figures involves the "bottom-up" market-sizing methodology, which involves granular ad revenue dynamics such as campaign pricing and spending. For more on *ARtillery Intelligence*'s market sizing and forecasting methodology, see the explanations at the following link.

<https://artillery.co/artillery-intelligence/forecasts/methodology/>

Disclosure and Ethics Policy

ARtillery has no financial stake in the companies mentioned in this report, nor was it commissioned to produce it. With respect to market sizing, ARtillery remains independent of players and practitioners in the sectors it covers, thus mitigating bias in industry revenue calculations and projections.

ARtillery's disclosure and ethics policy can be seen in full at:

<https://artillery.co/about/disclosure-and-ethics-policy/>

Contact

Questions and requests for deeper analysis can be submitted at:

<https://artillery.co/contact/>