ARTILLRY DATA BRIEFS

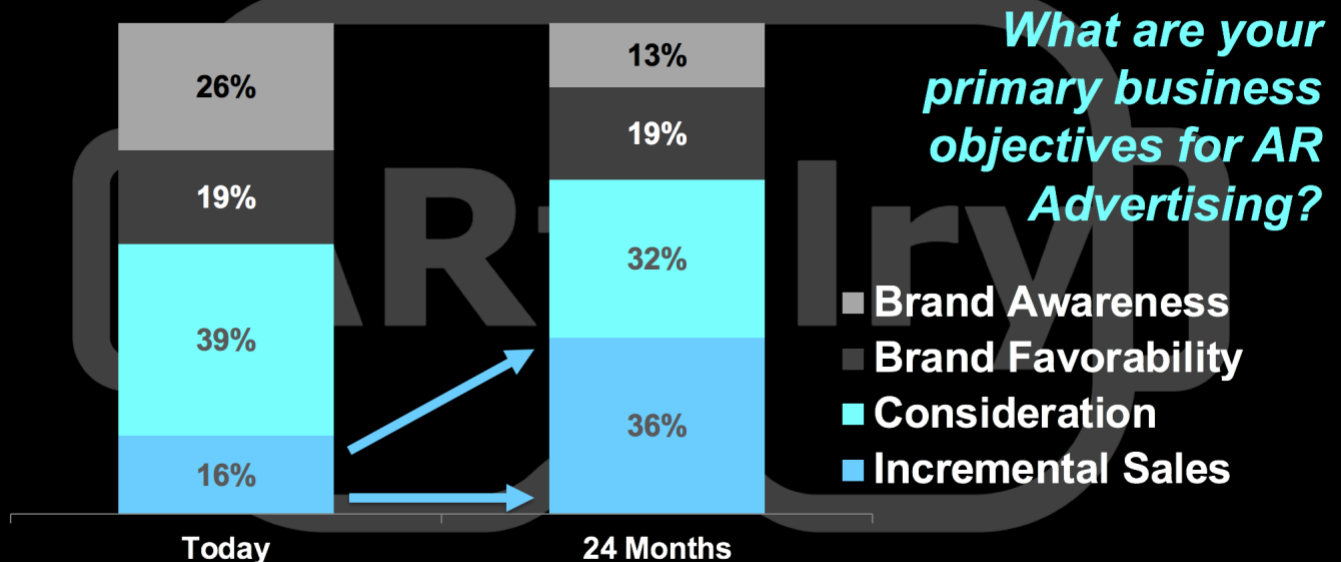## ADVERTISERS HOT AND COLD ON AR

11/26/18

AR advertisers today represent an adoptive minority. How does the rest of the industry look? According to Boston Consulting Group (BCG), ten percent of companies have AR campaigns, 45 percent are interested, and 35 percent foresee campaign launches within two years (see below).

As for the stage in the consumer purchase funnel where AR is making a mark, it's mostly in "consideration." This makes sense, as higher-funnel stages like awareness are better served by reach media like TV. But as we've examined, AR can achieve full-funnel engagement.

Advertisers see this potential: when asked where AR will be in two years, survey respondents see it moving down the funnel. They also recognize that AR's melding of the digital and physical makes it fitting to proximity-based engagement like Google Lens or in-store overlays.

ADVERTISERS' AR ADOPTION

What are your primary business objectives for AR Advertising?

- Brand Awareness
- Brand Favorability
- Consideration
- Incremental Sales

Today: 26% / 19% / 39% / 16%

24 Months: 13% / 19% / 32% / 36%

Source: BCG Marketing Executive Benchmarking Study, January 2018; BCG Analysts. N = 55

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But advertisers' feelings on the AR advertising opportunity aren't all positive. They show lots of signs of doubt or uncertainty. Among those uninterested in AR advertising, top reasons for holding back include a lack of scale, internal expertise and unclear ROI (figures below).
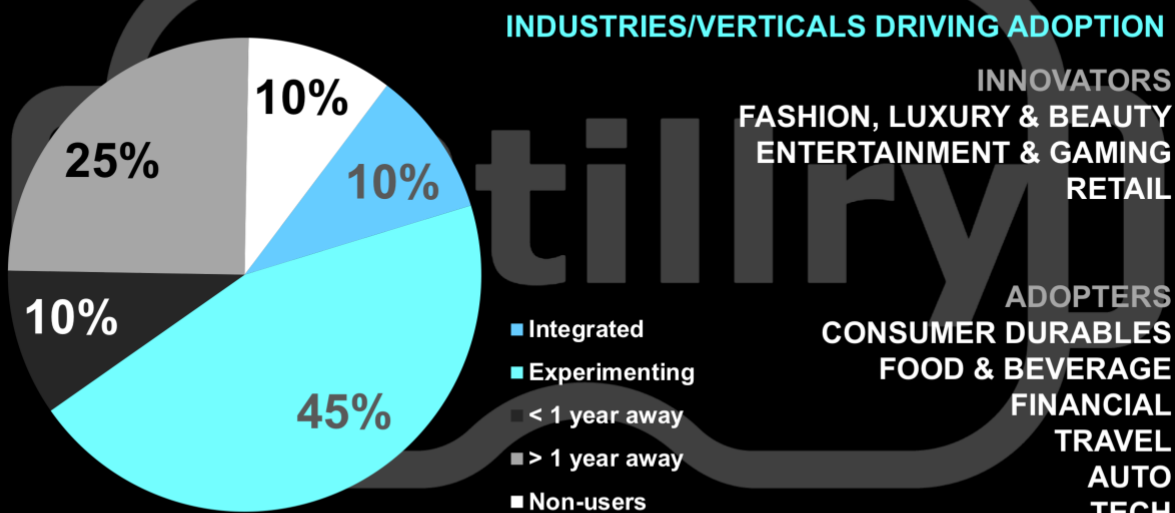
This speaks to the need for education because the KPIs for AR's advertising efficacy are certainly there. Advertisers just have to be made aware en masse, which will take a while if history is any indication. Their acclimation to smartphone advertising is still underway, ten years later.

But it goes beyond awareness and even real interest and adoption. AR ad campaign effectiveness and sustained spending will come down to execution. And that will be an even longer learning curve, which will be all about native design and measuring the right things.

"With immersive technology, everyone's going to ask for the ROI," You Are Here Labs' futurist Kathy Hackl said at AWE. "Do we need to create new metrics… something like return on engagement or whatever that would translate to? There's definitely going to be new metrics."

ADVERTISERS' AR ADOPTION
What best describes your company's use of AR marketing?

INDUSTRIES/VERTICALS DRIVING ADOPTION

10%
10%
25%
10%
45%

- Integrated
- Experimenting
- < 1 year away
- > 1 year away
- Non-users

INNOVATORS
FASHION, LUXURY & BEAUTY
ENTERTAINMENT & GAMING
RETAIL

ADOPTERS
CONSUMER DURABLES
FOOD & BEVERAGE
FINANCIAL
TRAVEL
AUTO
TECH
CPG

Source: BCG Marketing Executive Benchmarking Study, January 2018; BCG Analysts. N = 55
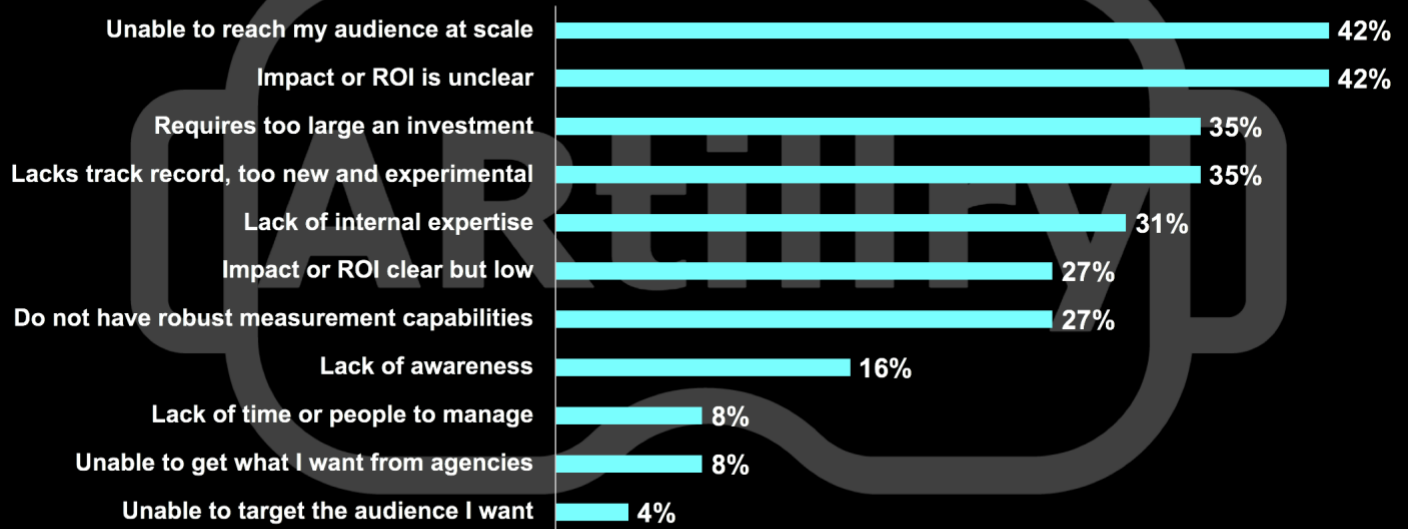
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When it comes to AR's ad scenarios, there are lots of potential strengths including the high user engagement and performance indicators we examined recently. But though that could be effective on an individual-impression basis, AR advertising could be challenged to scale in the aggregate.

In other words, AR in the next 12-18 months will continue to have a relatively niche status in media and advertising terms. This diminishes reach, which is a primary objective of most brand advertisers and ad agencies. There's not enough scale yet in AR to get them excited.

Quantifying that, there are about 2000 ARkit apps within a universe of about 2.2 million iOS apps. And there are just under a billion AR-compatible smartphones. That's a strong addressable market, but a more relevant figure is the actual market of 136 million active AR users.

ADVERTISERS' AR ADOPTION

What are your biggest challenges for AR advertising adoption?

Challenge	Percentage
Unable to reach my audience at scale	42%
Impact or ROI is unclear	42%
Requires too large an investment	35%
Lacks track record, too new and experimental	35%
Lack of internal expertise	31%
Impact or ROI clear but low	27%
Do not have robust measurement capabilities	27%
Lack of awareness	16%
Lack of time or people to manage	8%
Unable to get what I want from agencies	8%
Unable to target the audience I want	4%

Source: BCG Marketing Executive Benchmarking Study, January 2018; BCG Analysts. N = 55

On the plus side, active users will grow to more than a billion by 2022. And it should be noted that there's lots of active AR engagement today (especially with AR advertising) outside of the above numbers, given ads built on Snapchat's AR Studio and Facebook Camera Effects.

Beyond active users, it's also important to consider usage behavior. For example AR session lengths are short due to arm strain of holding one's phone up. Developers are learning and applying this to app design which is a good thing: but a by-product is diminished ad inventory.
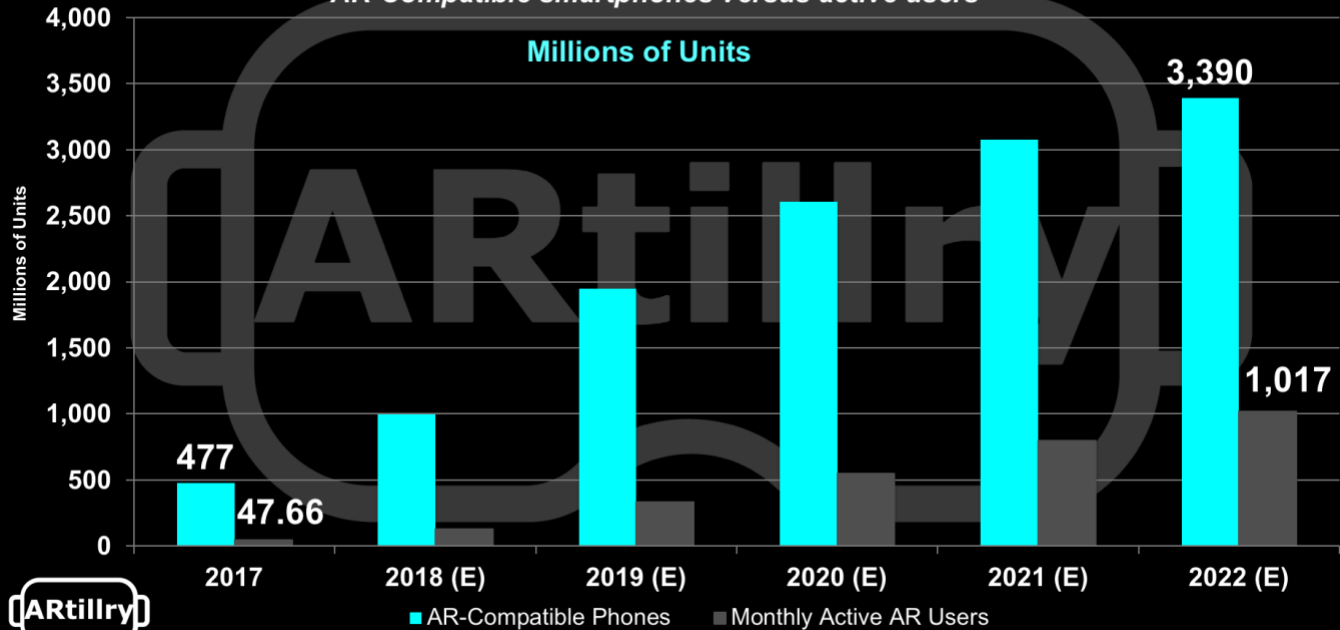
Those ad inventory constraints combined with advertisers' historically-validated pace of new technology adoption (and the above survey data) signal that AR ad revenues will be relatively moderate in the near term. But we believe they will accelerate as advertisers get acclimated.

We project that to happen to the tune of $2.6 billion by 2022. That's a combination of display-oriented AR ads (e.g. branded AR lenses) and the nascent but potentially lucrative area of visual search. Like smartphone ad adoption over the past decade, it will build slow, then happen fast.

ARCORE + ARKIT INSTALLED BASE

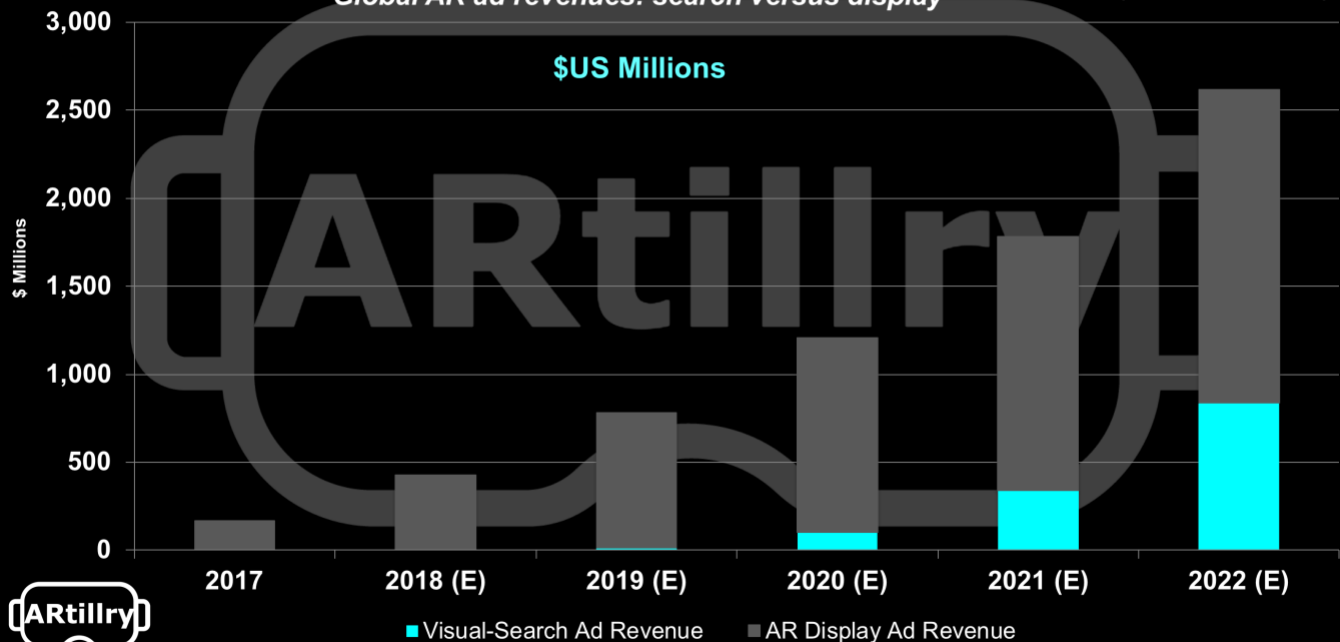AR-Compatible smartphones versus active users

(SIMPLIFIED VIEW)

Millions of Units

Millions of Units

477
47.66
3,390
1,017

2017 | 2018 (E) | 2019 (E) | 2020 (E) | 2021 (E) | 2022 (E)

■ AR-Compatible Phones   ■ Monthly Active AR Users

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GLOBAL AR ADVERTISING BY FORMAT

Global AR ad revenues: search versus display

(SIMPLIFIED VIEW)

$US Millions

$ Millions

2017 | 2018 (E) | 2019 (E) | 2020 (E) | 2021 (E) | 2022 (E)

■ Visual-Search Ad Revenue   ■ AR Display Ad Revenue

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Video Companion

(click link to play)

https://youtu.be/naJ9MEeb0Ws

About ARtillry Intelligence

ARtillry Intelligence chronicles the evolution of augmented reality (AR) and virtual reality (VR). Through writings and multimedia, it provides deep and analytical views into the industry's biggest players, opportunities and strategies. It's about insights, not cheerleading.

Run by analysts and former journalists, coverage is grounded in a disciplined and journalistic approach. It also maintains a business angle: Though there are lots of fun and games in AR & VR, long-term cultural, technological and financial implications are primary.

Products include the *AR Insider* publication and the ARtillry PRO research subscription., which together engender a circular flow of knowledge. Research includes monthly Intelligence Briefings, market-sizing forecasts and consumer survey data, all housed in a robust intelligence vault.

Learn more at **https://artillry.co/about**

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 has been an industry analyst covering mobile and social media since 2005, and is now Chief Analyst of *ARtillry Intelligence* and Editor-in-Chief of *AR Insider.*

Mike is a frequent speaker at industry conferences such as VRLA, ad:tech and LeadsCon. He has authored in-depth reports and market-sizing forecasts on the changing tech & media landscape. He contributes regularly to highly read online 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*.

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https://artillry.co/contact/

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