

The role of digital advertising & data for the European media ecosystem and economy

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Agenda Today

- Presentation of results from two intersecting studies:
 - > Contribution of Digital Advertising to the EU Economy
 - > The Economic Value of Data-Driven Advertising

Economic Contribution of Digital Advertising

Measuring economic contribution

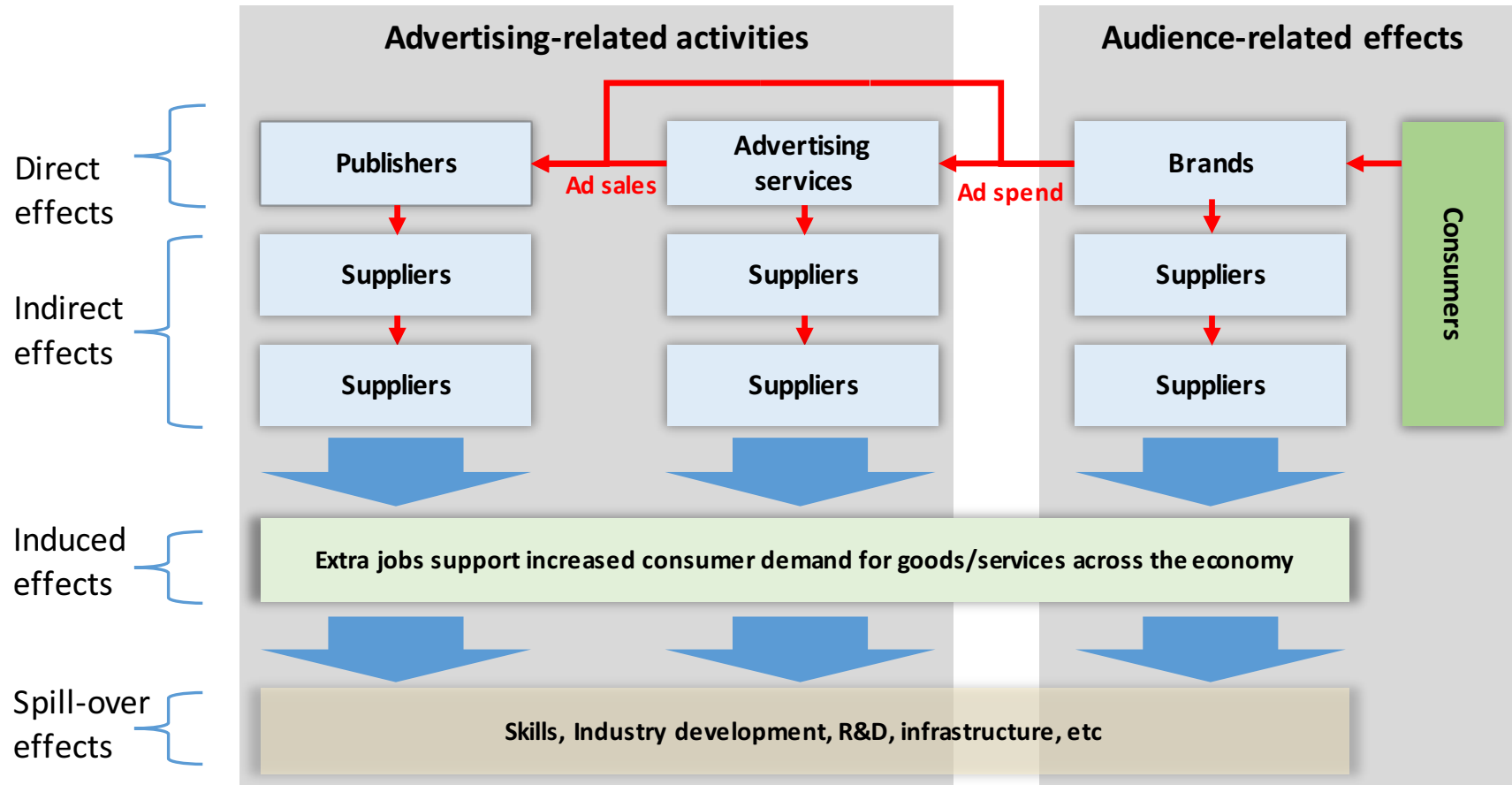
We measure the economic contribution of digital advertising in terms of two main metrics:

- **Gross Value Add (GVA):** a firm's turnover minus what it pays its suppliers, which can be added up and whose total sum across the economy is roughly equivalent to the economy's gross domestic product or GDP (GDP is equivalent to the sum of all industries' GVA plus taxes minus subsidies).
- **Jobs Created & Enabled** by digital advertising.

About this study

- 2015: first attempt to quantify the economic contribution of digital advertising to the EU economy.
- Foundational method developed in 2015 study, update for 2017 release.
- Meta-analysis of third-party studies & extraction of assumptions and models for audit.
- Ingestion of multiple official statistical data sources (eg. Eurostat).
- Data relating to advertising or media content & service revenue is sourced from IHS Markit's proprietary industry databases and the joint IAB Europe Adex Benchmark report.

Overview of economic impact flows of advertising



Converting effect types into measures of economic contribution

Types of Effects	Nature of Effects	Measure of Contribution
Direct Effects (1)	Economic contributions from firms in the immediate advertising value chain.	Direct contribution, only taking into account direct effects (1).

Converting effect types into measures of economic contribution

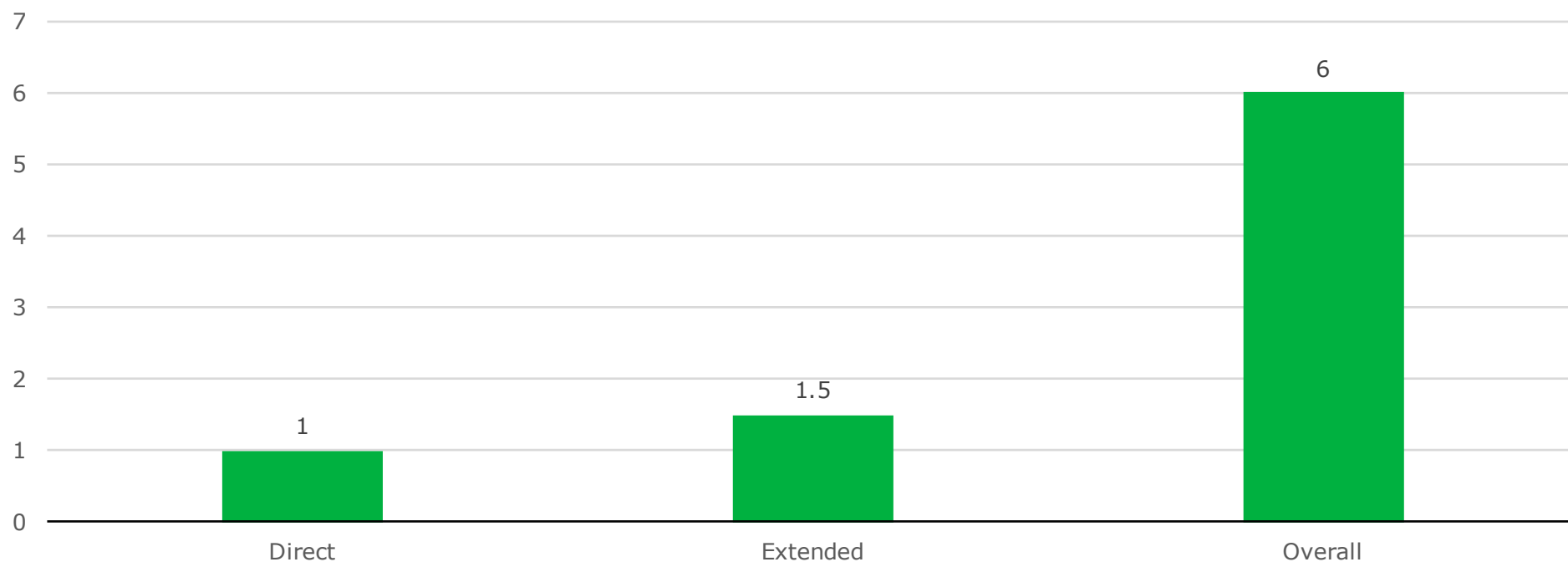
Types of Effects	Nature of Effects	Measure of Contribution
Direct Effects (1)	Economic contributions from firms in the immediate advertising value chain.	Direct contribution, only taking into account direct effects (1).
Indirect Effects (2)	Contributions from these firms' suppliers, their suppliers' suppliers, etc.	Extended contribution, taking into account direct effects, plus indirect and induced effects (1+2+3).
Induced Effects (3)	Activities that support the jobs of employees throughout this extended advertising ecosystem (1+2), who in turn spend money as consumers.	

Converting effect types into measures of economic contribution

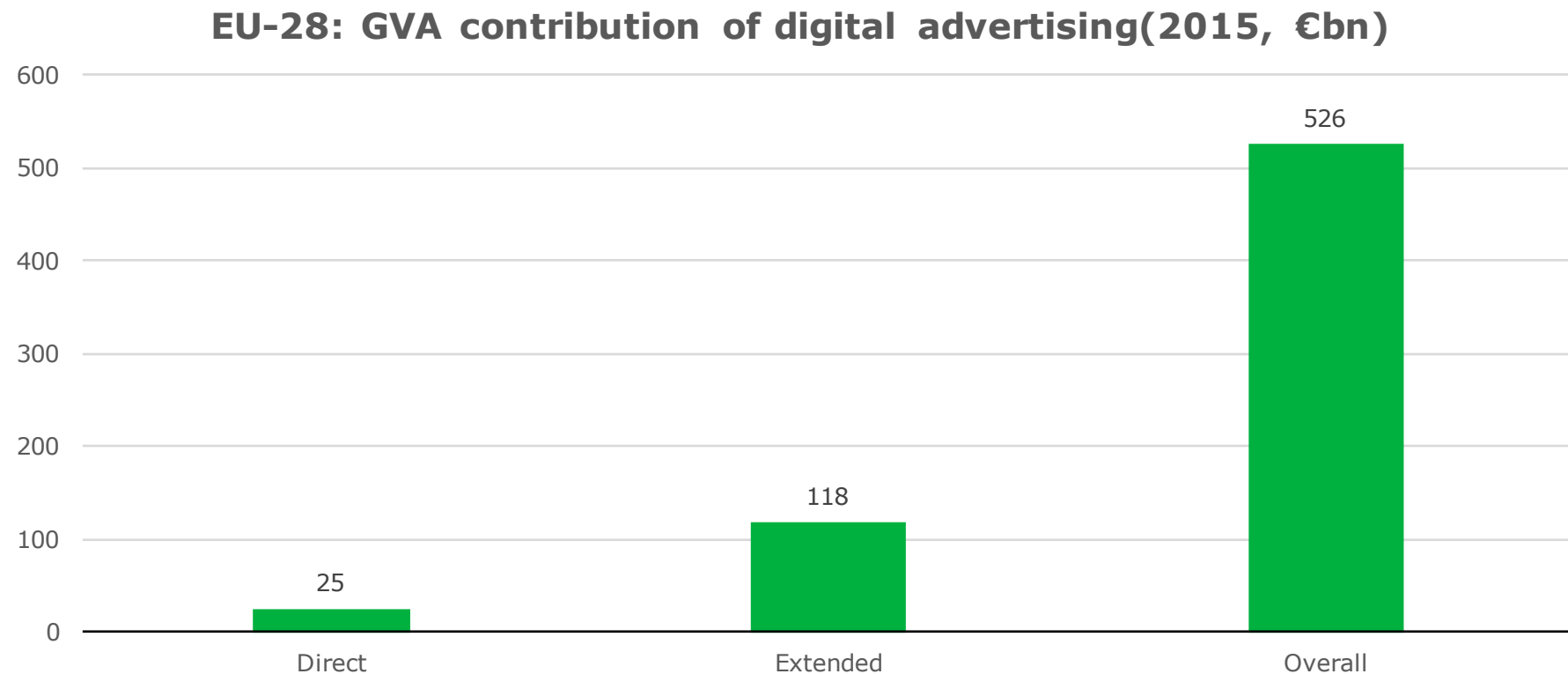
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Spill-over Effects (4)	Effects <i>sui generis</i> for advertising outside the immediate value chain.	Overall contribution, adding all types of effects (1+2+3+4).

Up to 6 million jobs in the EU are contingent on digital advertising

EU-28: Jobs supported by digital advertising (2015, millions)

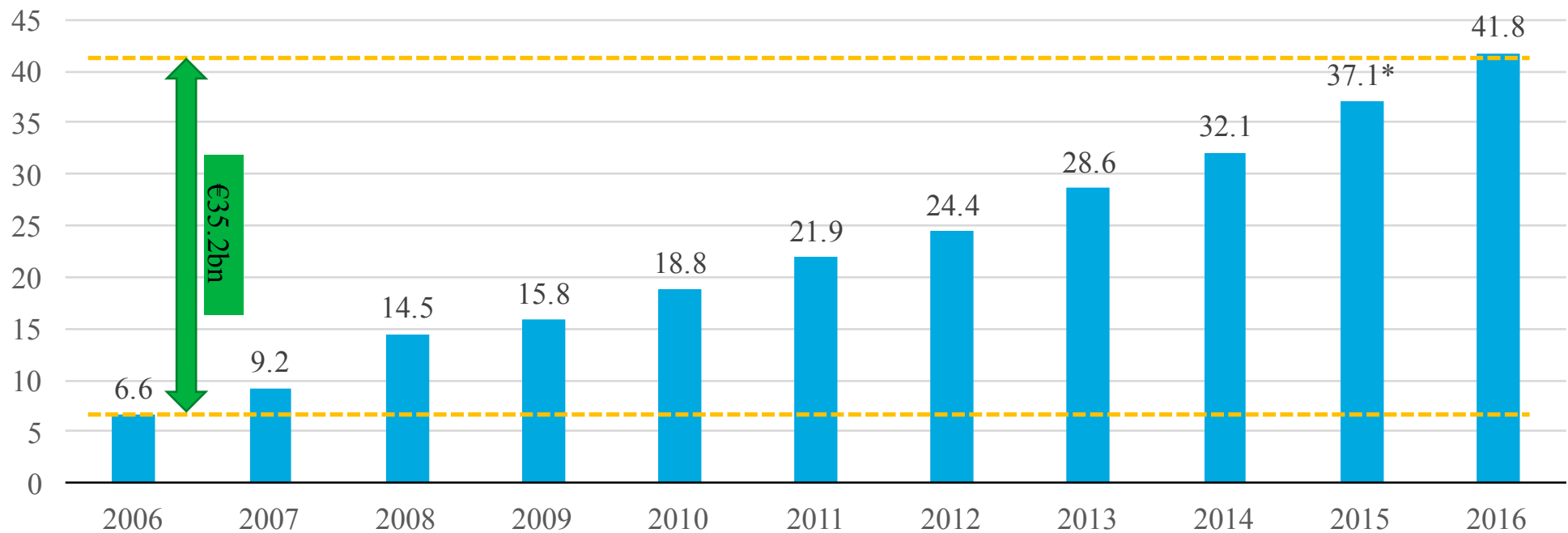


Digital advertising contributes over half a trillion €s to the EU economy



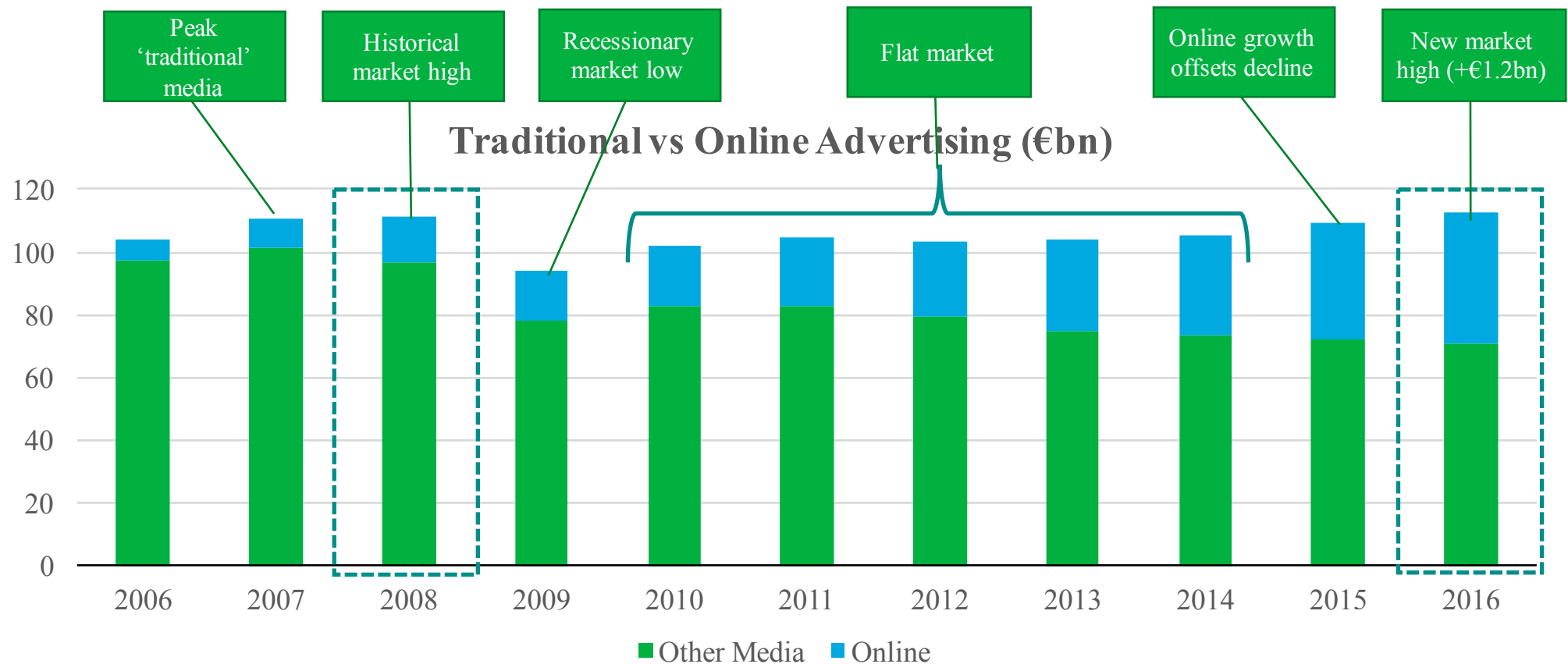
€35.2bn net addition in 11 years....

Total online ad spend: historical perspective



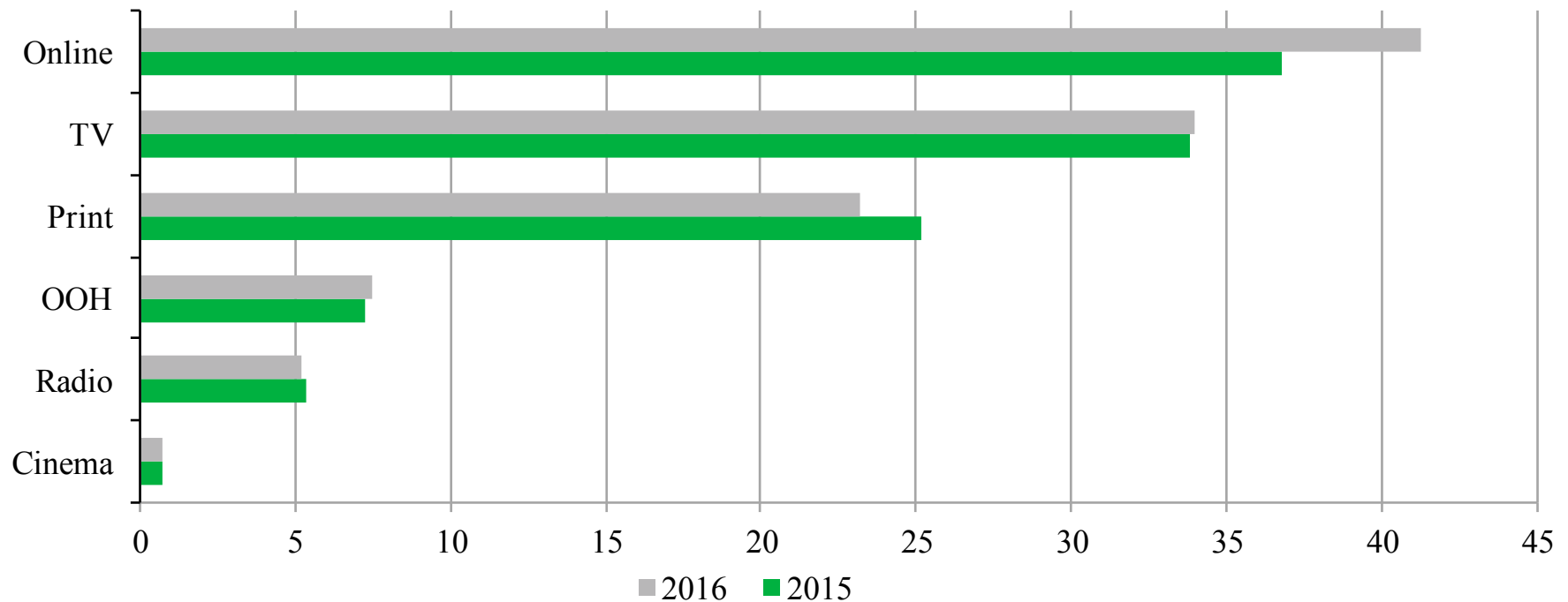
**restated from €36bn as measured in 2015 due to methodology change at local IABs*

...as online offsets losses of traditional media, establishing a new advertising market high for the first time since the 2009 recession



Online expands its lead over other media categories*

Ad spend by category in Europe in 2015 and 2016 (€bn)

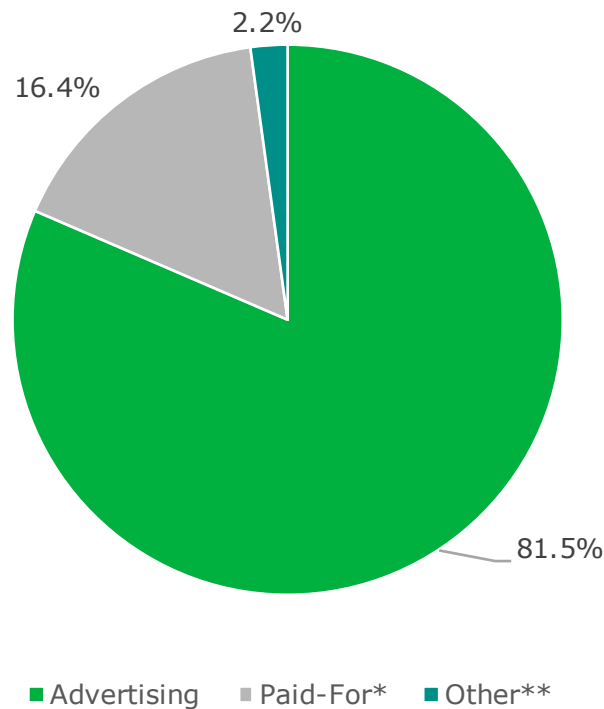


Source: IHS Markit

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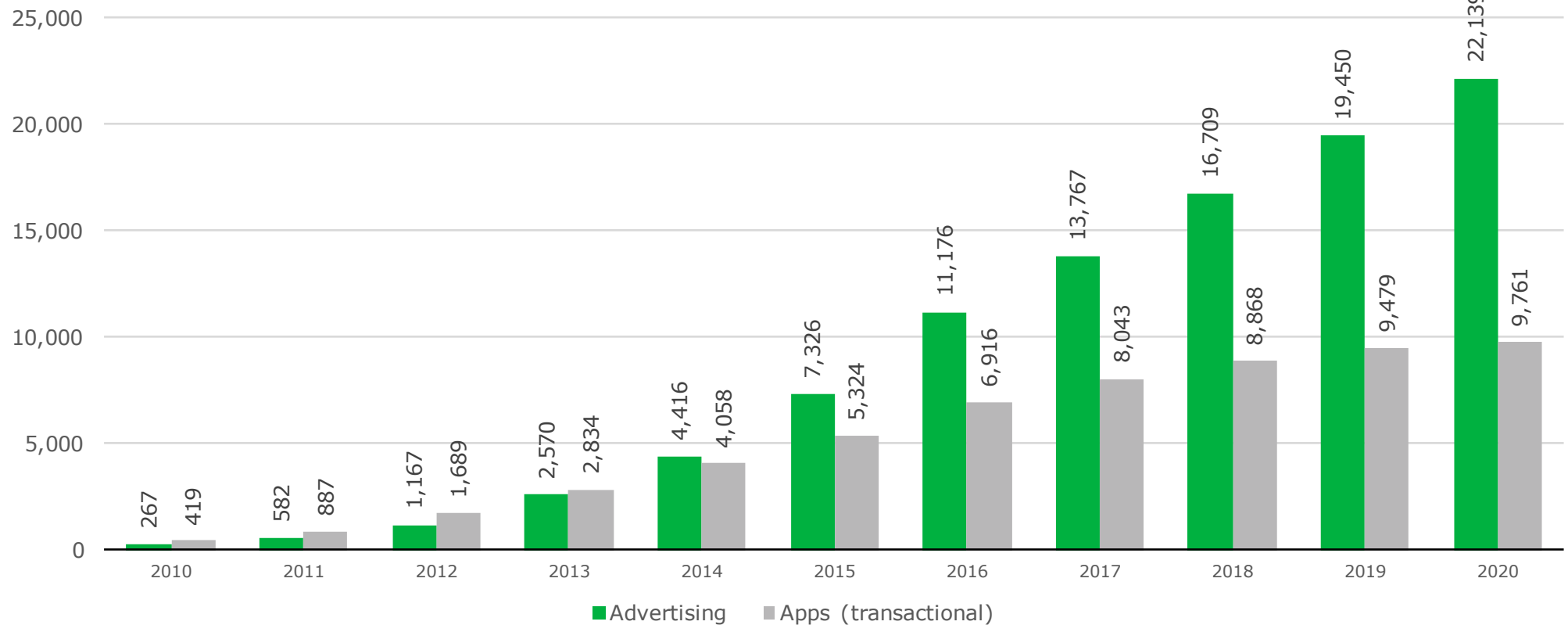
Advertising is the predominant online business model for newspapers and magazines

EU-28: Online revenues newspaper & consumer magazines (2016)



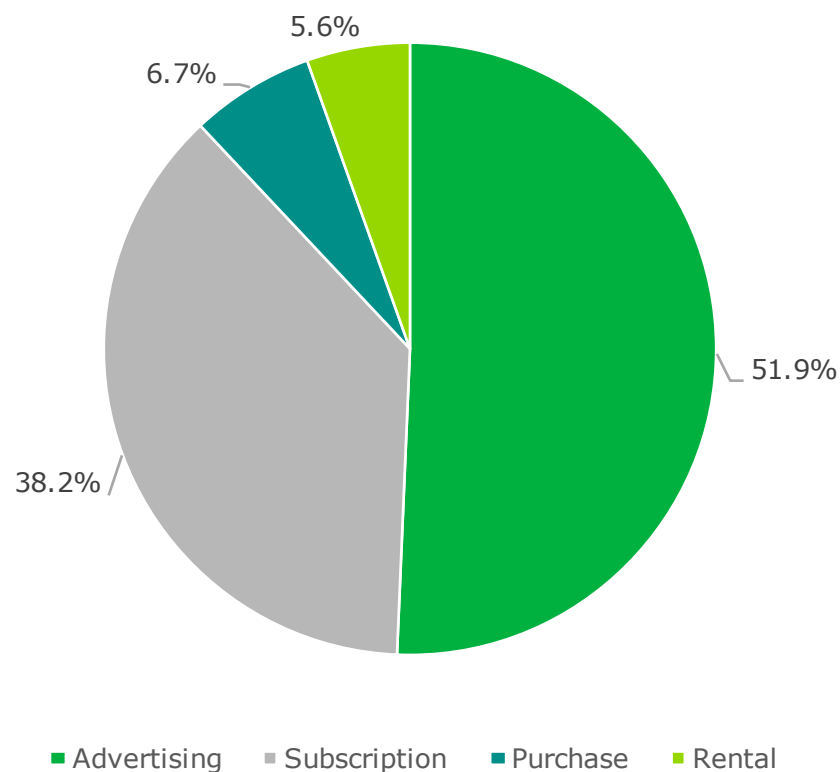
Advertising 1.6x of App revenue in 2016, set to expand lead to 2.2x by 2020

EU-28: Mobile advertising vs app revenue (€m)



Over half of online video revenues are generated through advertising

EU-28: Online video revenue distribution by business model (2016)



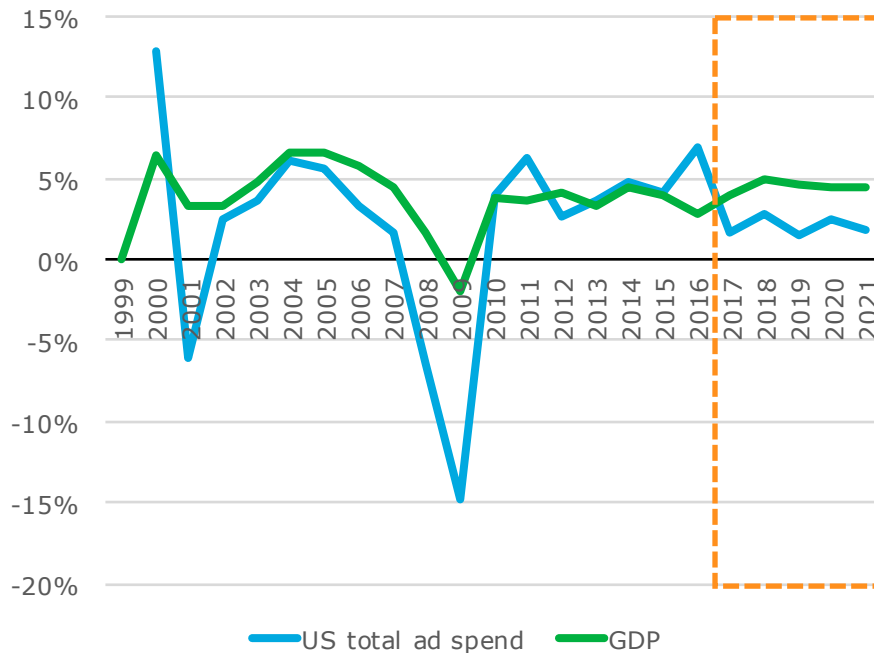
Economic Value of Data-Driven Advertising

About the study

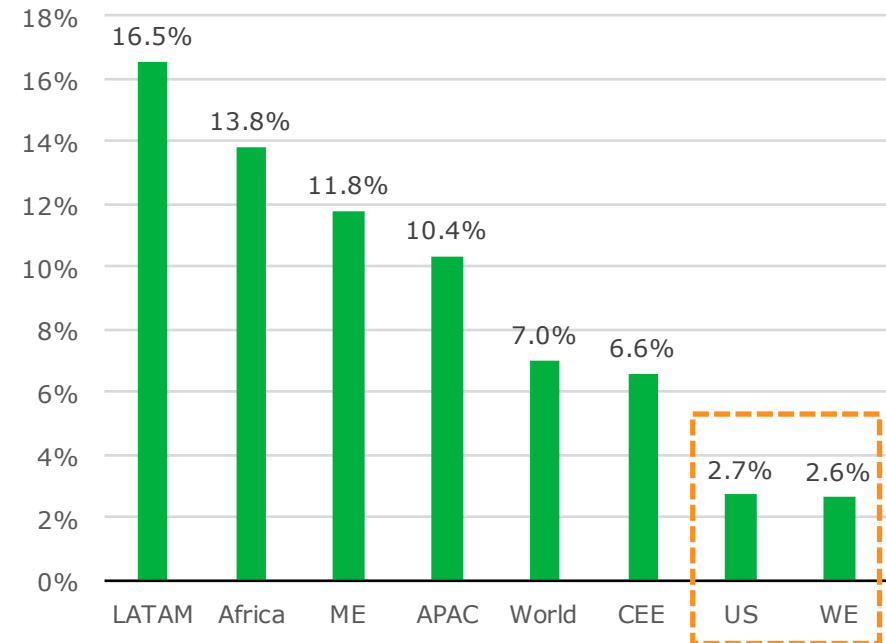
- In- depth interviews and consultations with digital advertising market participants in the EU-28.
- n=30, using principle of sample saturation
- Feedback from countries with a mature digital advertising economy (high digital ad spend per capita) and emerging digital advertising markets (low digital ad spend per capita).
- Adding IHS Markit's proprietary database expressed in an econometric model.
- Scenario-based impacts calculated through by-company and company-group segmentation of the digital advertising market size. Each company/type has been marked with meta-data on indexes/scores.
- GDPR and ePrivacy impacts have not been separated out as many participants were able to provide feedback on a holistic impact only. In practice, more companies have developed contingency models for GDPR to mitigate impact than for ePrivacy.

Brands are pressured to generate more results & measure ROI from same or smaller media dollars in a post-growth age

Ad spend is getting decoupled from wider economic growth

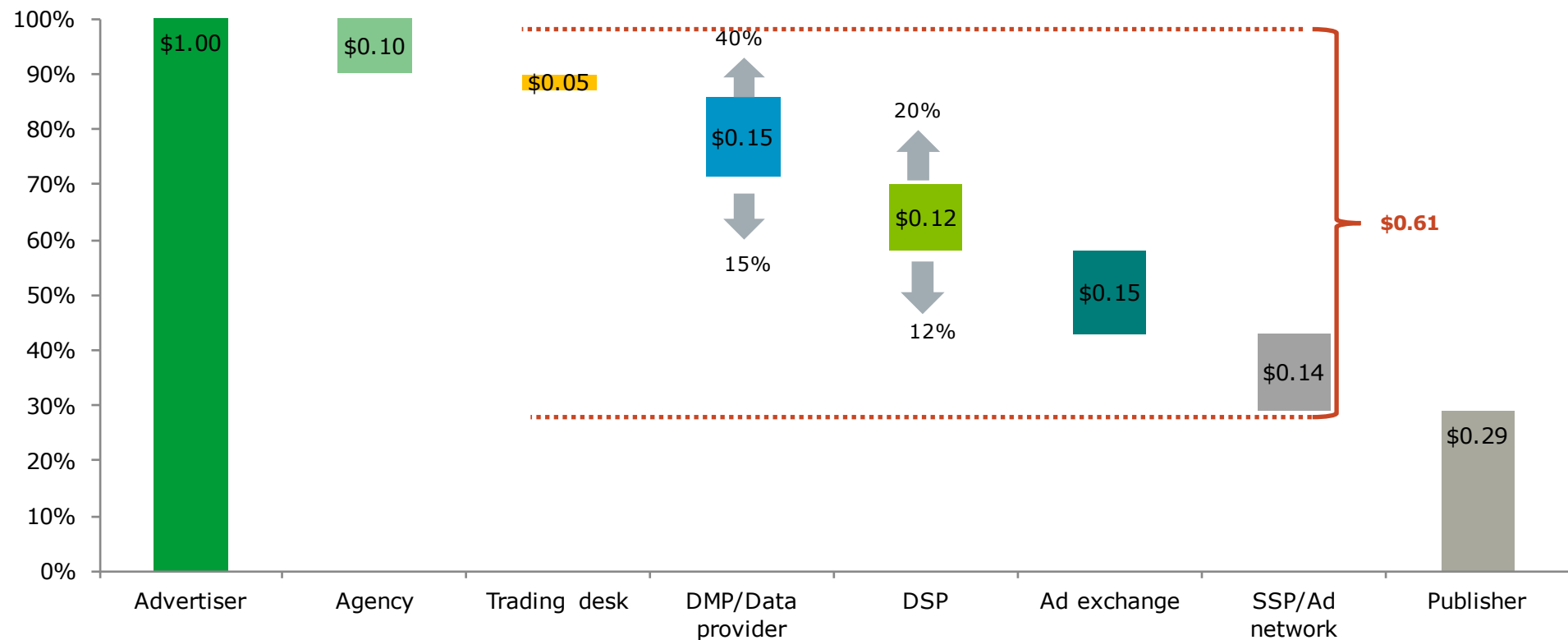


Ad spend CAGR 2016-2021: mature ad markets are post-growth



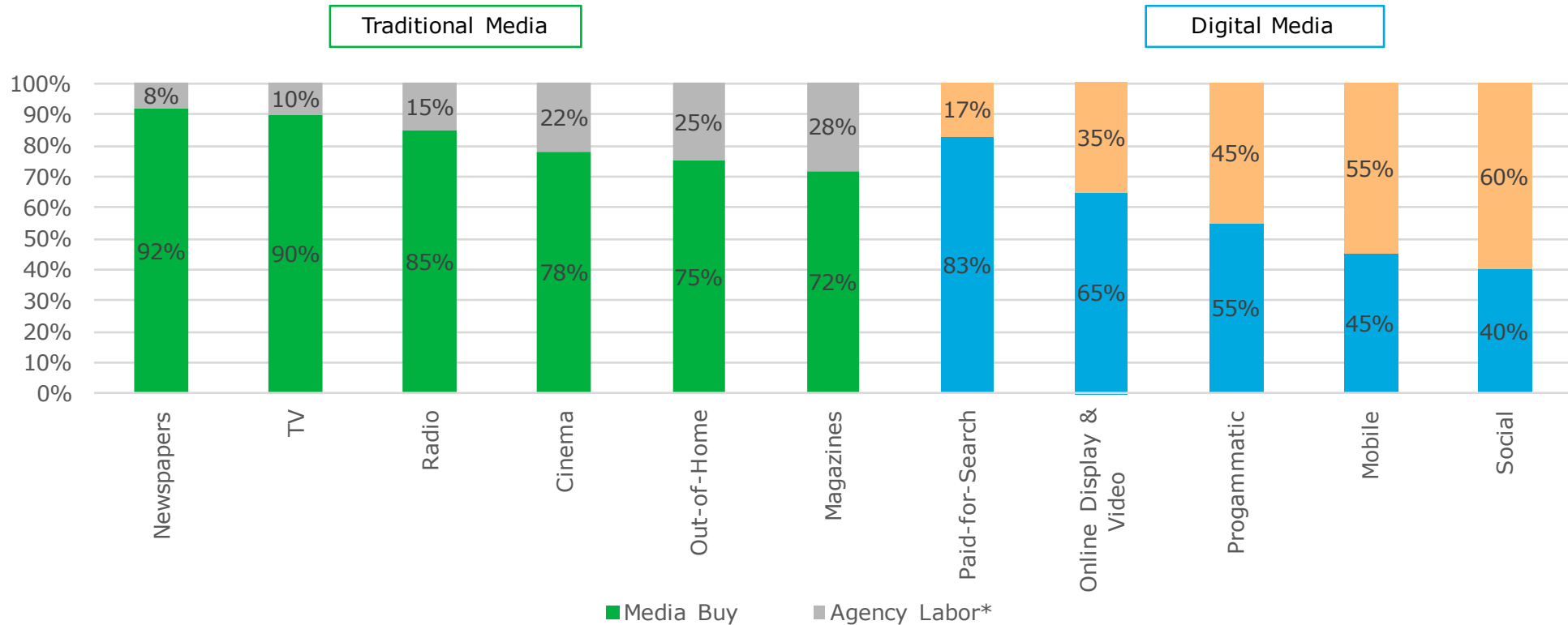
Need for ROI and measurability means that in digital display ads, value of data already exceeds media value...

Flow of spend in digital display ad ecosystem



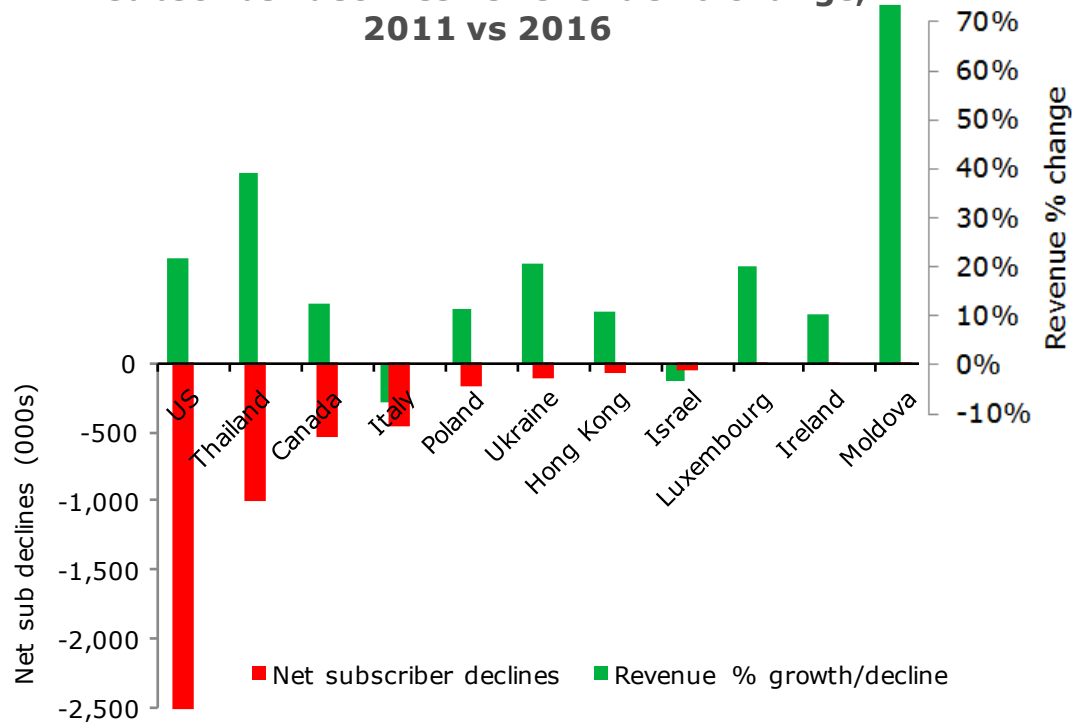
...and all media need to answer brands' call to augment inventory with data, analytics to boost accountability

Advertising Spend Structure By Medium in 2016

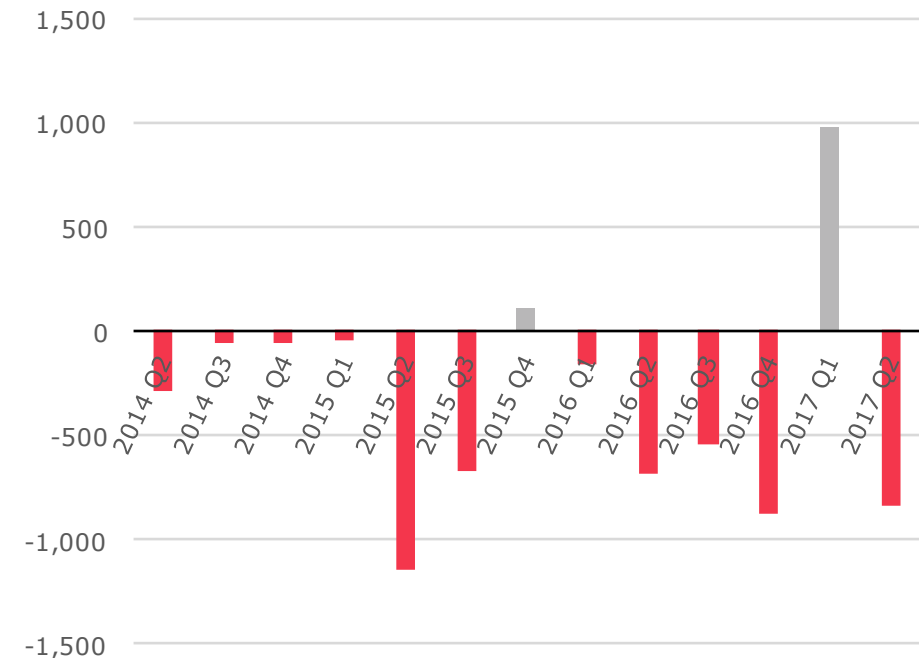


Acceleration of cord-cutting makes it harder for brands & agencies to deliver against TV brand advertising KPIs...

Cord cutting in all affected markets: Pay TV net subscriber declines vs revenue % change, 2011 vs 2016



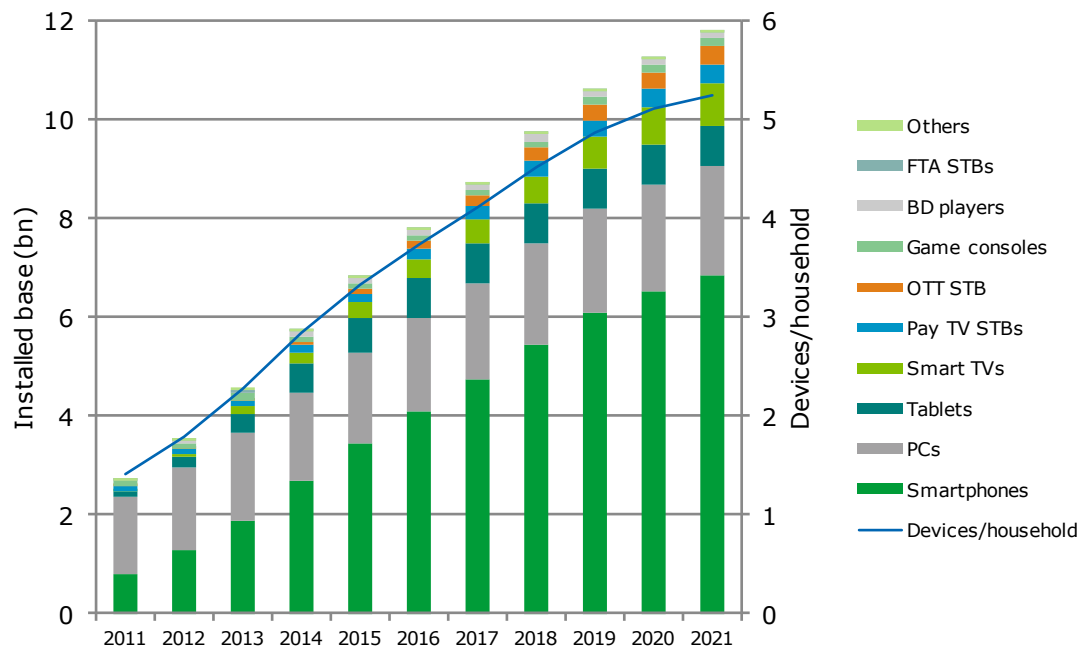
US: Quarterly pay TV net additions/losses (000s)



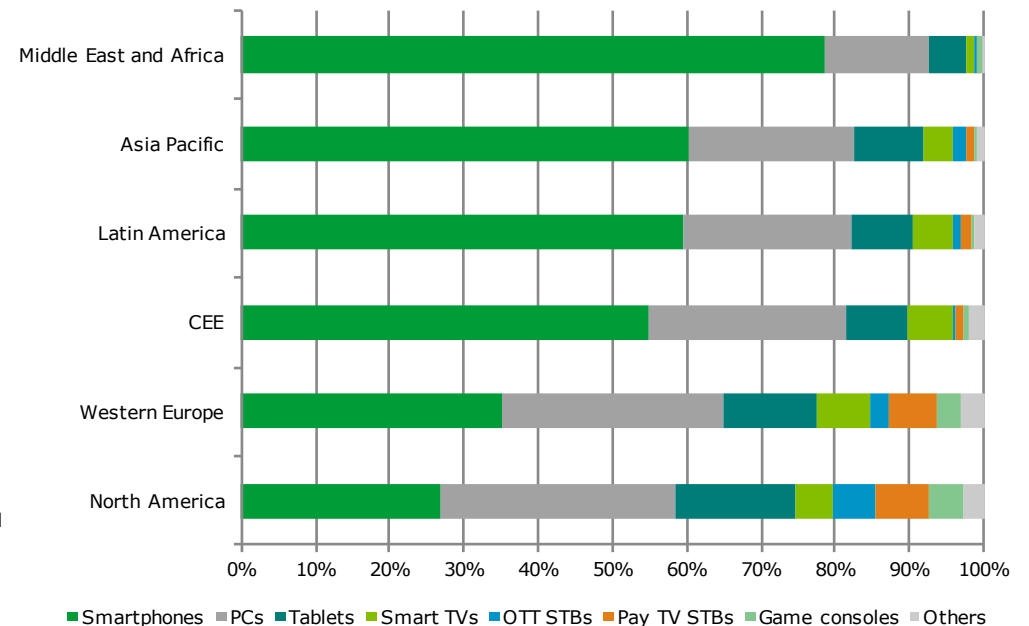
...while an explosion of connected & mobile video devices complicates reaching increasingly distracted consumers

- Less mature markets are being driven by smartphones – Asia is a 'mobile-first' region

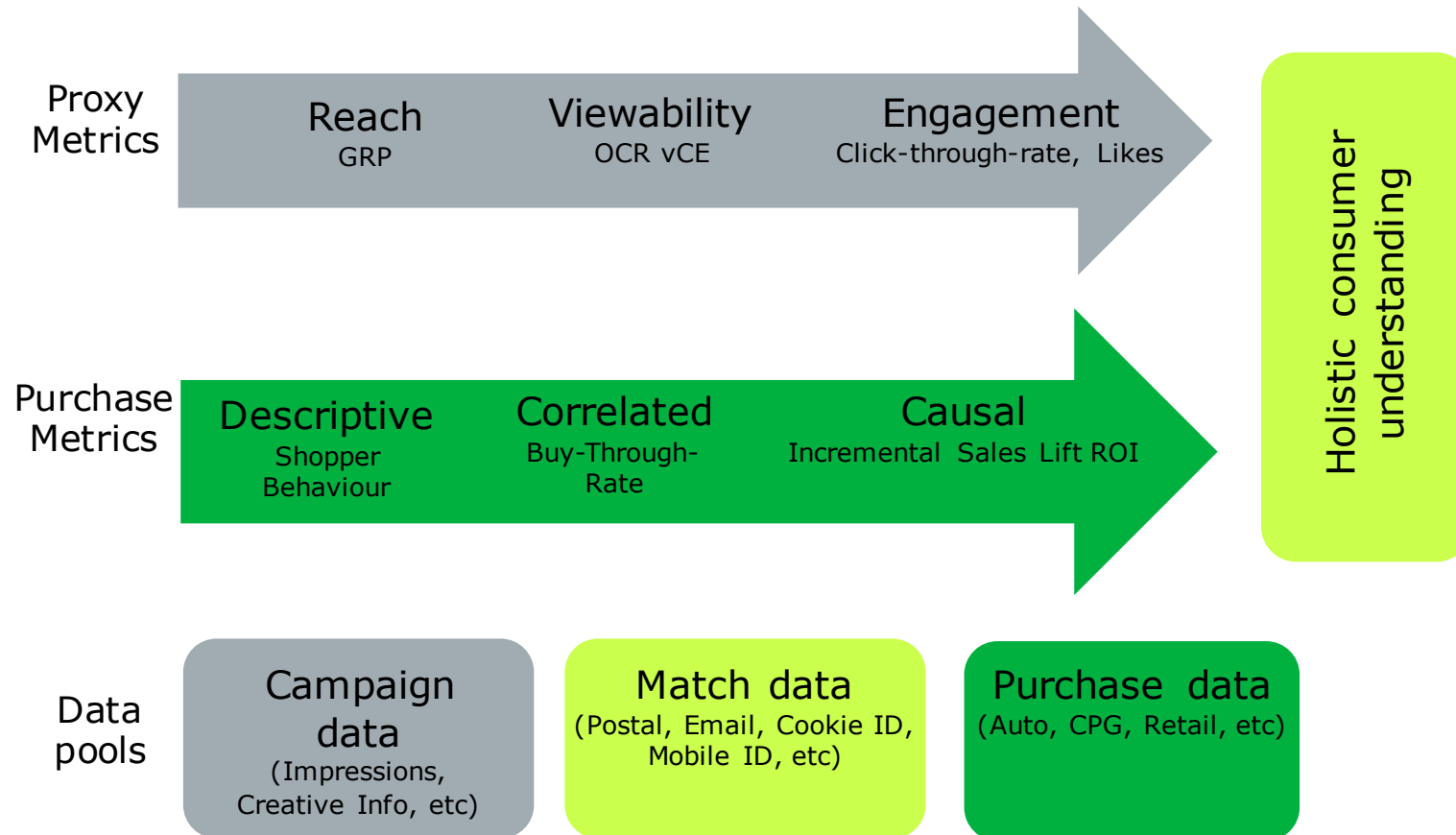
Global connected AV devices installed base by type



Connected AV devices market share by type and region, 2016

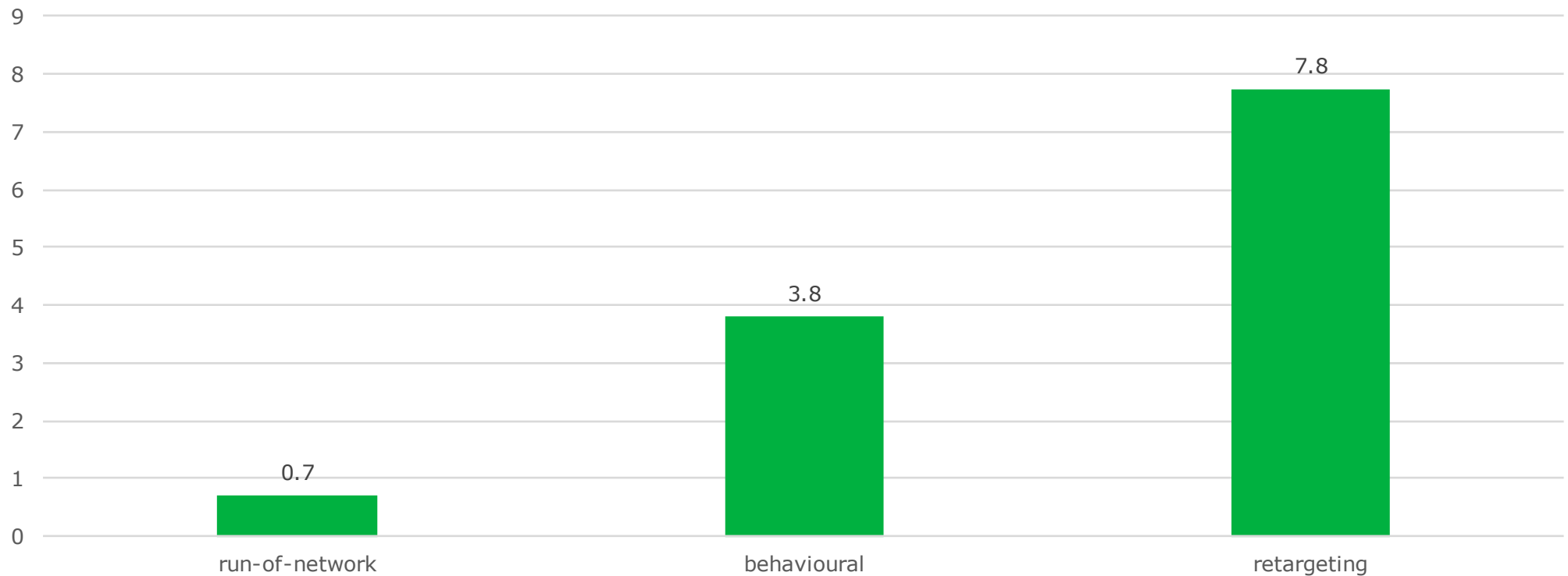


Amidst these challenges, new data-driven opportunities for consumer understanding emerge to deliver better ad ROI

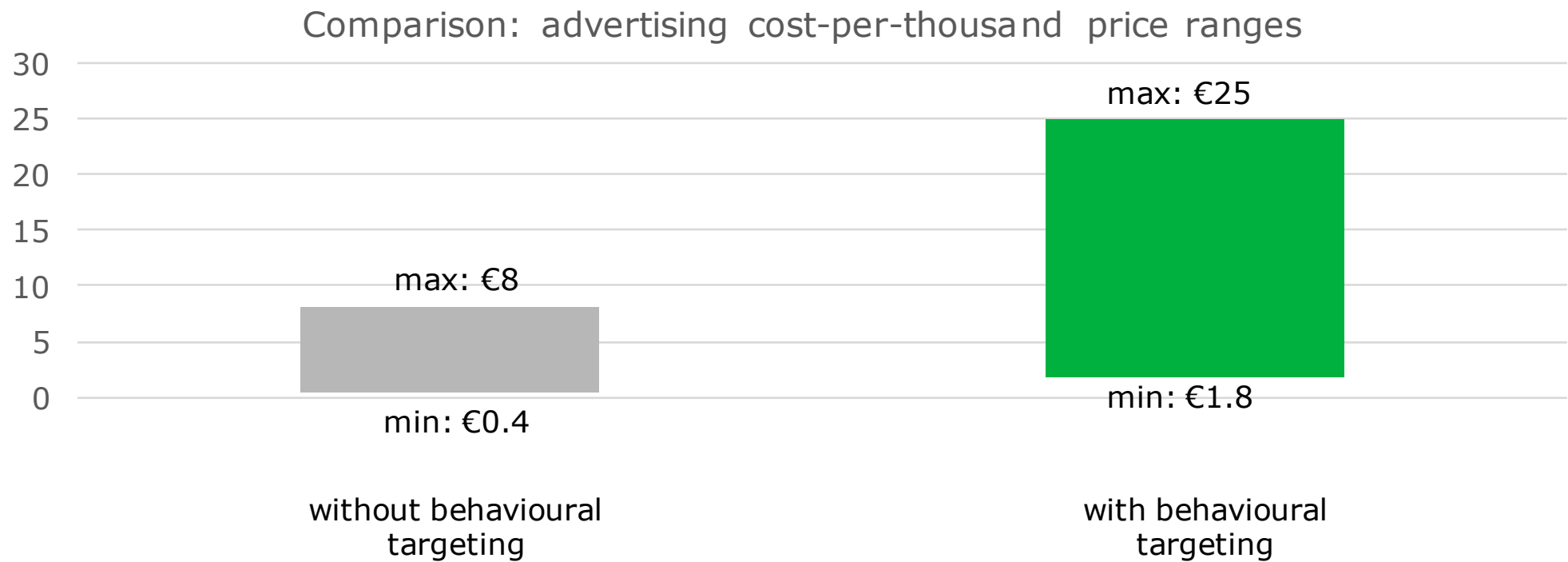


Data helps produce more relevant ads for consumers...

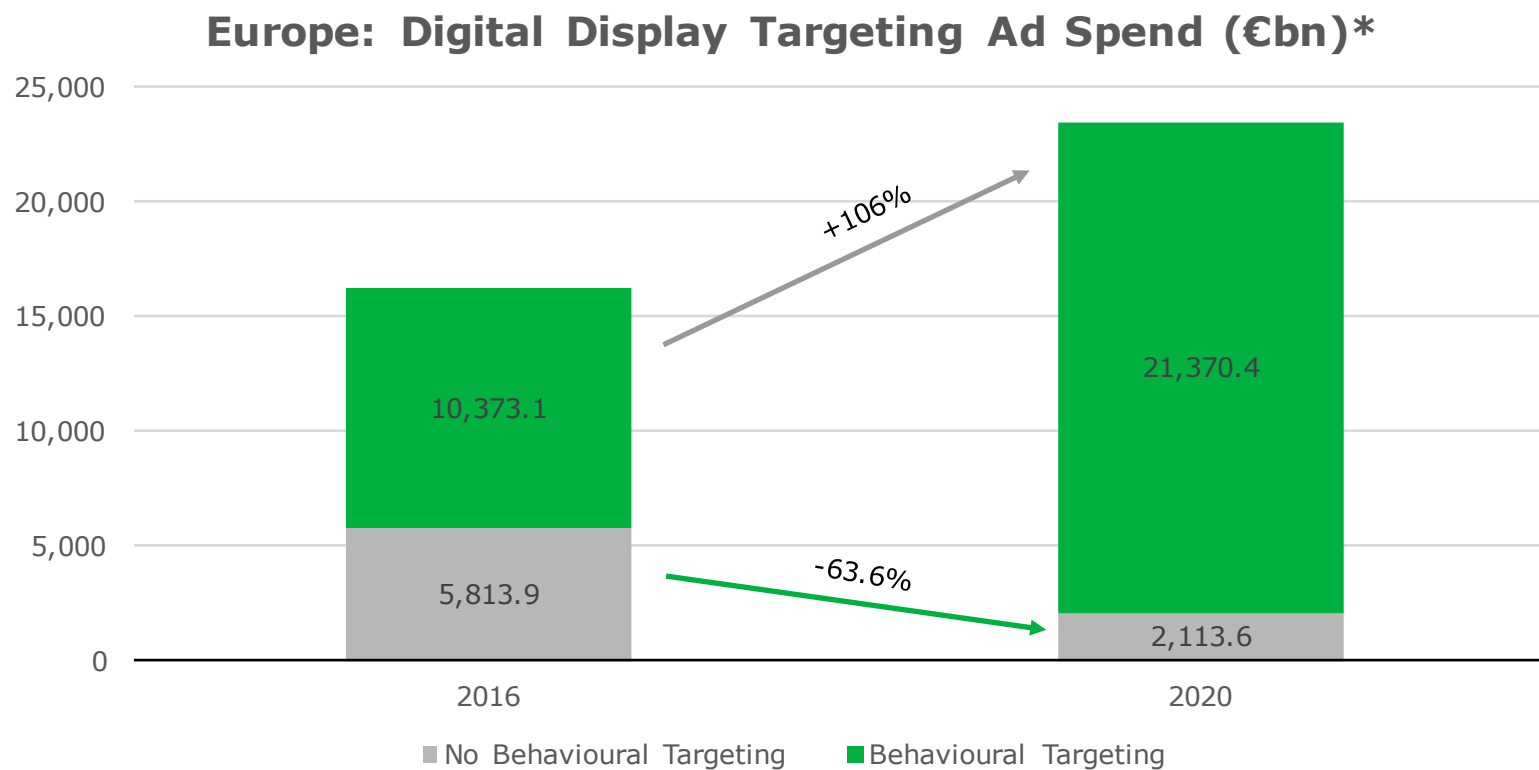
Average conversion rates display banner advertising*



...and enhances media companies' ability to create sustainable business models with free consumer access



Ad Spend using behavioural data to grow by 106% over forecast period

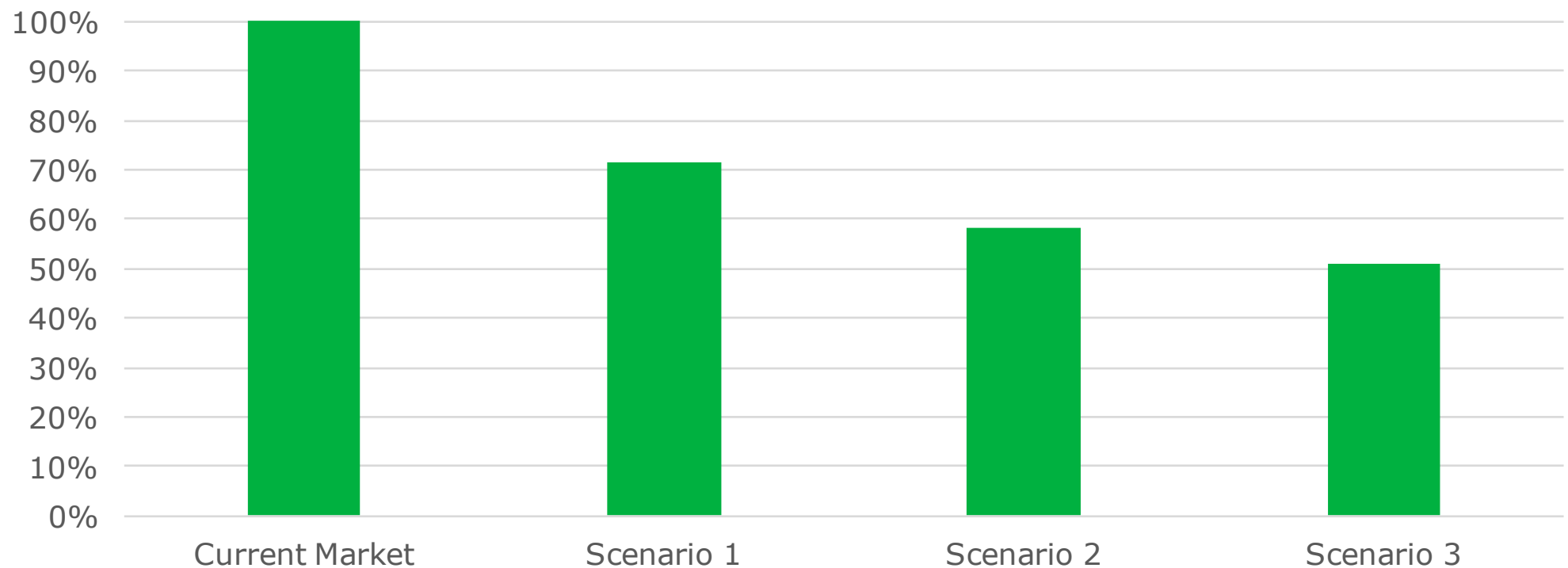


*definition of 'behavioural data differs between companies, we have not audited claims & definitions of 'behavioural' in this study, demographic data included, i.e. for behavioural look-alike modelling

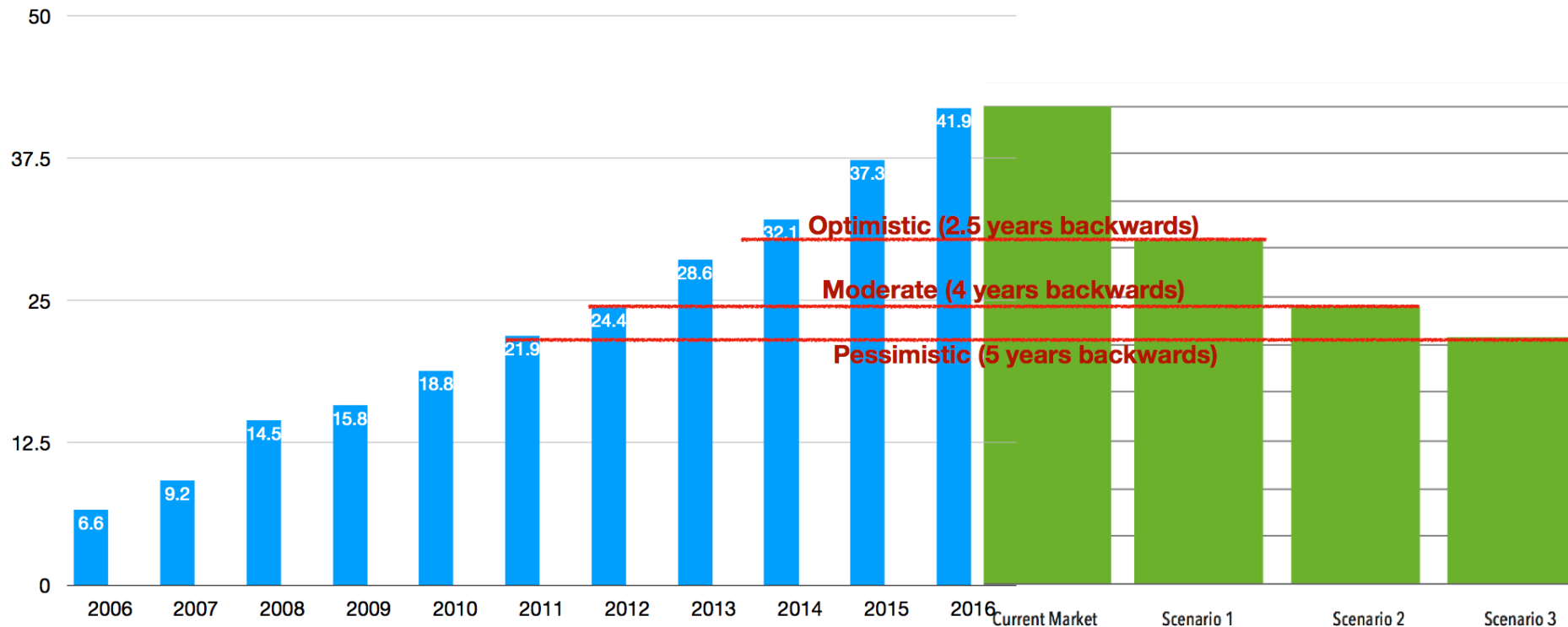
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Up to 50% value loss on 2016 market size

Behavioural Targeting Digital Ad Spend: Regulatory Impact Scenarios based on 2016 values



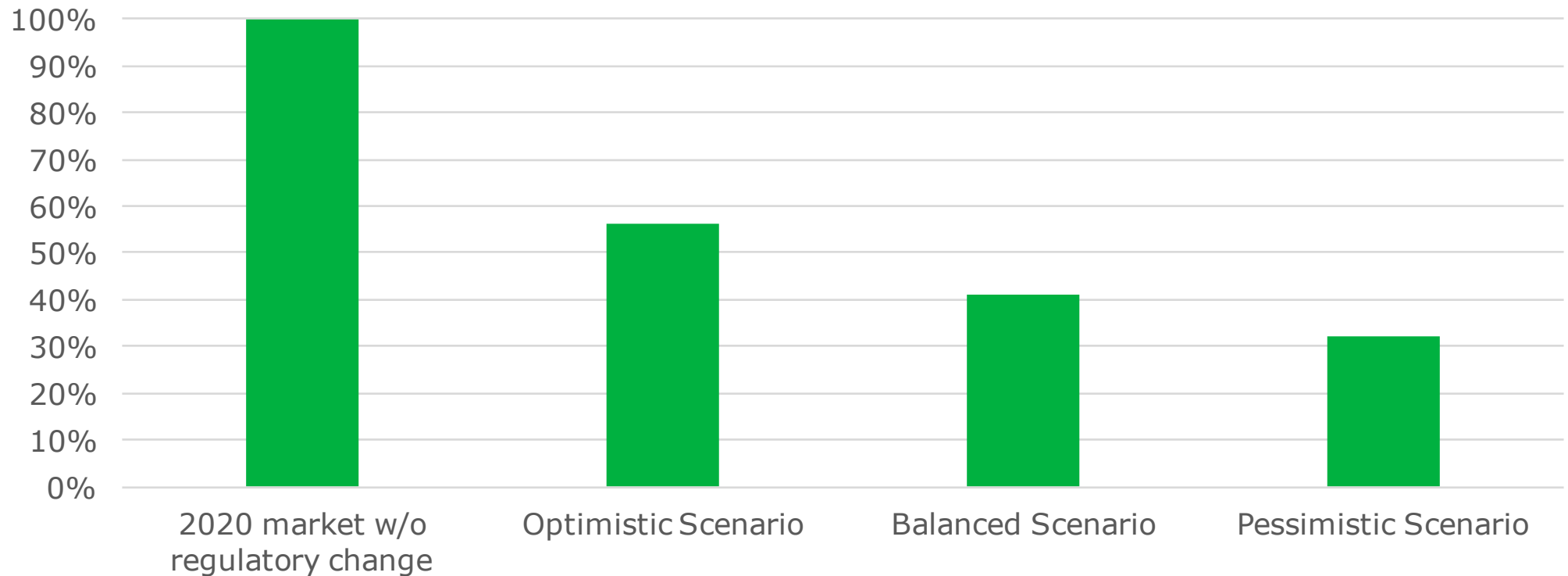
The market will be thrown back 2.5. to 5 years...



Source: IAB Europe analysis of IHS Markit data

...and further growth will be additionally hampered

Behavioural Targeting Digital Ad Spend: Regulatory Impact Scenarios based on 2020 market forecast





Thank You

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