European Media Markets 2021:

Student White Paper #3 - 22 November 2021

The European Advertising Market:

The disruption of the Programmatic Advertising market

Chandni Ganesh, Dounya Lahmami, Kara Kübra

Editor: Marlen Komorowski

SMIT STUDIES MEDIA INNOVATION TECHNOLOGY

Programmatic Advertising (PA) is the most promising and dominant advertising strategy due to its high degree of automation and efficiency. This White Paper aims to identify the current state of the European PA market including its main disruptors, namely ad fraud, GDPR and Google. It also introduces significant changes ahead in PA's future: tech companies will become more vocal in their data protection leading to false privacy promises and privacy-washing. Furthermore, over-the-top (OTT) is potentially the future of PA, since mobile ad spends are exponentially. By researching and critically analyzing the European PA market, this paper introduces three recommendations that will favor the market's future in terms of self-regulation to foster the creation of a privacy first web, the review of the GDPR and tackling ad fraud through benchmarking.

Highlights
• In Western Europe, linear advertising revenues decreased by -18%, linear television ad sales by -13%, print ad decreased by -18%, radio decreased by -15%, outdoor advertising by -32% and cinema by -68% in 2020.
• One of the reasons for these losses in revenues is the rise of digital advertising and more specific PA. In 2019, digital became the dominant advertising medium and PA represents now 80% of total digital display spending.
• The three main market disruptors of the PA sector in Europe are presented including ad fraud, the GDPR, and Google.
• Three trends emerging in the PA sector are presented incuding privacy-washing, OTT advertising, and Google's internal measures to "protect" its users.

1. Programmatic Advertising: the dominant advertising strategy

In Western Europe, linear advertising revenues decreased by -18% in 2020. Despite an uprise in viewing time during the lockdowns, linear television ad sales declined by -13%. The revenues of print ad decreased by -18% while radio decreased by -15%, outdoor advertising by -32% and cinema by -68%.[1]

One of the reasons for these losses in revenues is the rise of digital advertising and more specific PA. In 2019, digital became the dominant advertising medium, with more than 50% of global ad spending. The advertising sector struggled through GDPR's introduction, but quickly bounced back thanks to video, mobile, social and programmatic.[2] It is expected that 73% of all e-commerce sales will come from mobile by 2021, since the total mobile spending accounts for 41% of all digital ad spend. Mobile and social continue to drive growth in Europe, and reflect consumer engagement through various devices, showing the power of digital advertising influencing consumers' decision-making. In 2019, 58% of video ad spend was processed programmatically and in 2013, € 172 M was processed for programmatic video, whereas € 1,651 M was processed for classic video[3]. Nowadays, the worldwide PA market is estimated to be worth over € 32 B.

[1] https://s3.amazonaws.com/media.mediapost.com/uploads/MagnaYearEnd2020Forecast.pdf

[2] https://iabEurope.eu/research-thought-leadership/iab-Europe-reveals-results-of-its-adex-benchmark-2018-study-digital-advertising-grew-13-9-percent-to-e55-1bn/

[3] https://iabeurope.eu/wp-content/uploads/2020/10/Programmatic-Market-Advertising-Spend-2019-Report.pdf

PA has become multi-billion business that uses web-based technologies and large data sets to create personalized ads. Brands can target the right audiences, at the right place, at the right time through segmentation. PA has led to efficiently buying and selling ad spaces, representing 80% of display spending today.[4] It has become the dominant advertising strategy due to its high automation, flexibility, and cost-efficiency, functioning on a real-time bidding (RTB) system, where organizations can buy online advertisement space. Those with the highest bid win the best spot to display their ad.

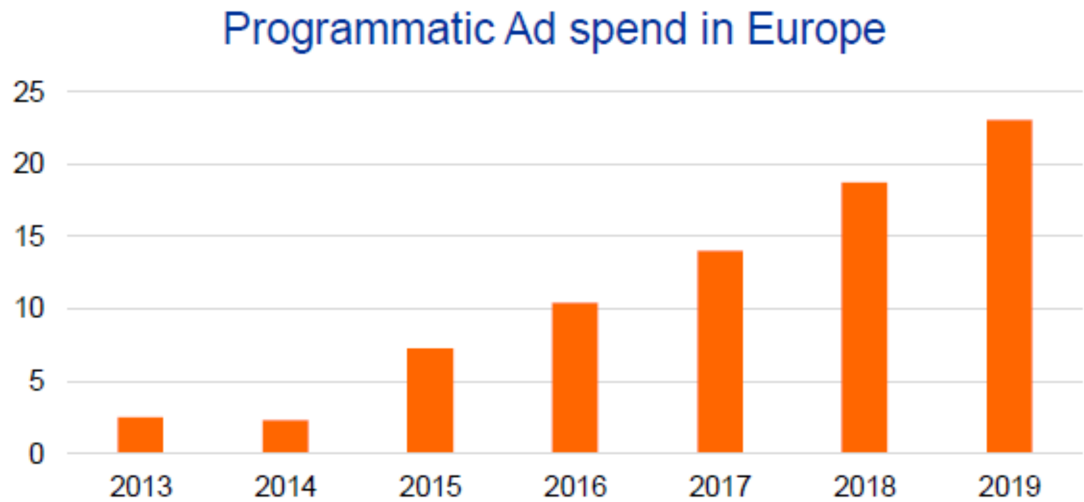

Figure: Programmatic ad spend in Europe.

Europe represents a large amount of the worldwide PA spend. The UK is the third country that spends the most on PA worldwide[5] and the first one that spends the most on a European level. Therefore, European countries play an influential and essential role within international PA developments.[6]

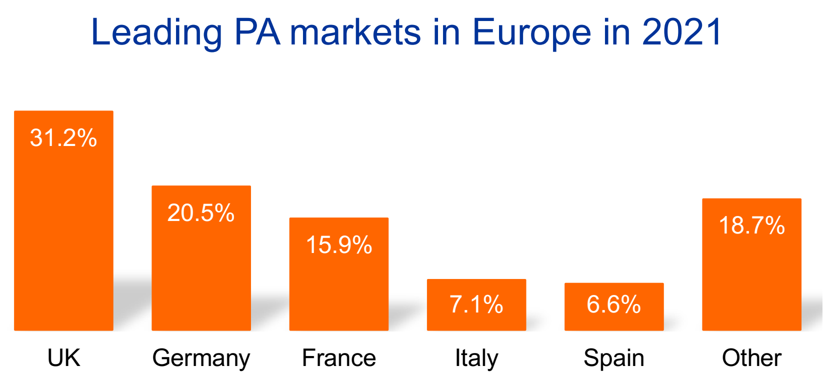

Figure: The leading PA markets in Europe in 2021.

2. Market disruptors

While PA and digital advertising is becoming the dominant advertising strategy in Europe, we can find several disrupting trends, that should be briefly discussed, namely the impact of ad fraud, the GDPR and Google's advertising dominance:

1. Ad fraud is "the fraudulent representation of online advertising impressions, clicks, conversions, or data events, in order to generate revenue".[7] It has a significant impact on the programmatic ecosystem, because it puts advertiser's ROI and brand reputation

[4] https://medium.com/@maximuslive.mediabuying/how-tech-is-disrupting-the-advertising-industry-a79f553deaeb
[5] https://www.iab.com/wp-content/uploads/2020/08/IAB_2020ProgrammaticInHousing_European_2020-08.pdf
[6] https://www.statista.com/statistics/1150598/programmatic-ad-spend-europe/
[7] https://iabeurope.eu/wp-content/uploads/2020/12/IAB-Europe-Guide-to-Ad-Fraud-1.pdf

at stake.[8] Fraudsters tend to change website's URLs to make ads appear on lower-quality websites, increase visitor's volume with non-human traffic, show ads when apps are not in use and bots clicking on ads to mimic human behavior.

2. The GDPR is considered to be one of PA's main disruptors. The EU wants to give citizens more control over the use and storage of their data with the GDPR[9], which represents a big challenge for the European PA market. It forces companies to be compliant which requires time and money and limits them to collect only necessary data. This strongly impacts their business model.
3. Google is a significant disruptor of the PA sector due to its misuse of dominant power. It dominates 61% of the global ad spending and 90% of digital advertising growth, making it impossible for competitors to compete, obliging them to use third-party websites. One of Google's illegal practices under the EU antitrust rules is the "Premium Placement" clause in 2009, in which contractors get the right to reserve the best spots in contrast to other contractors. The European Commission therefore fined Google with 1.29% of their 2018 turnover and a Statement of Objections to stop this practice. To glorify its image, Google recently announced that they are taking measures to protect users' privacy and data by introducing the Google Privacy Lockdown, implying that they no longer sell ads using personal information, yet rely on anonymized and aggregated data. This "privacy-enhanced" solution is called Federated Learning of Cohorts (FLoC). This could be a new way for businesses to reach people with relevant content and ads while respecting user's privacy. But, is it up to a monopolist to decide about users' cookies? Is the FLoC only a way for Google to repair its damaged reputation and integrity?

3. The future of PA in Europe

What is coming next? We highlight here three current discussions, which could impact the PA market in Europe in the future:

1. Privacy washing: As mentioned above, with the growth of public consciousness about the GDPR, tech companies are becoming more vocal in their data protection support. Those who incorporate privacy practices, increase competitive advantage, improve attractiveness, and greater customer trust.[10] Privacy-washing occurs when a company claims that it prioritizes data protection but neglects to implement privacy practices. An excellent example of this is Zuckerberg's "privacy-focused vision for social networking"[11], comparable to Google's FLoC.
2. OTT Advertising: OTT is one of the biggest trends shaping advertising and makes up 80% of internet traffic. OTT can be defined as directly delivered advertising through streaming video services and devices, such as CTV's or smartphones, without any middlemen. The term "over-the-top" comes from the ability to bypass traditional providers that control media distribution, giving advertisers the ability to reach their audiences directly.[12] It might be the future of digital advertising and PA as it is continuously evolving and growing. However, tech giants forget that they need more data from the public to make it work, which could result in the public acceptance of more data usage.
3. Ad Fraud: Germany acknowledged the issue of ad fraud and launched the Bundesverband Digitale Wirtschaft (BVDW[13]), which is developing standards to avoid disruption by using the Digital Trust Initiative[14] (DTI). European Countries should adopt such an initiative to avoid fraud, misinformation, and weaponized anonymity.

---

[8] https://www.geoedge.com/how-to-handle-the-risks-of-programmatic-direct-campaigns/
[9] www.bannerflow.com/blog/dooh-advertising-trends-2019
[10] https://www.linkedin.com/pulse/beware-privacy-washing-silicon-valleys-latest-trend-rafael
[11] https://www.nytimes.com/2019/03/06/technology/facebook-privacy-blog.html#:~:text=A%20Privacy%2DFocused%20Vision%20for%20Social%20Networking&text=Privacy%20gives%20people%20the%20freedom,growing%20areas%20of%20online%20communication.
[12] https://www.monetizemore.com/ott-vs-ctv/
[13] The German Association for the Digital Economy (BVDW) is the central body for the representation of interests of companies that operate digital business models and whose value creation is based on the implementation of digital technologies.
[14] The Digital Trust Initiative assesses national and international standards of digital advertising and makes such usable.

4. Conclusion

PA is only possible by collecting abundant data about users, which raises ethical questions about online privacy and data protection. Based on this White Paper's findings, the following three recommendations have been formulated:

Recommendation 1: Advertising companies should self-regulate to foster a privacy-first web

"Google has proven that to err is human, to forgive divine." FLoC being a big step forward, advertisers should launch similar self-regulating initiatives to combat abundant misuse of user data and support a privacy-first web.

Recommendation 2: GDPR should both serve users and advertisers equally

The fact that companies try to circumvent the GDPR's shortcomings is proof of it being a stumbling block for the PA sector. Thus, the GDPR should be reviewed to also consider companies to better ensure users' data safety.

Recommendation 3: Other European countries should adopt the digital trust initiative

With the help of the DTI, the BVDW decided that it will focus on the area of verification to tackle ad fraud. This action must ensure brand safety, transparency, and quality. Countries taking Germany as an example could be a help for Europe to create a safer marketplace.

** The White Paper is part of the Student White Paper Series on European Media Markets. It was written with further contributions by Eirini Rapti and Lea Mokambia.*

SMIT STUDIES MEDIA INNOVATION TECHNOLOGY

This Student White Paper Series is part of the European Media Markets course at the VUB. The course is headed by Prof. Dr. Marlen Komorowski & Pieter De Leenheer (marlen.komorowski@vub.be).