

Digital Competition Expert Panel – Call for Evidence

Introduction and background

About the IAB

IAB UK is the trade association for digital advertising, representing over 1,200 of the UK's leading brands, agencies, media owners and technology providers. We have a Board comprised of 25 leading businesses in the sector, including news media brands. Our purpose is to build a sustainable future for digital advertising, a market that was worth £11.55bn in the UK in 2017.

The IAB is actively engaged in working towards the optimal policy and regulatory environment for the digital advertising market to continue to thrive. We also seek to promote good practice to ensure a responsible medium.

Types of digital advertising

Digital advertising is:

- Online advertising viewed on a desktop PC or laptop, accessed via an internet connection
- Advertising that has been specifically tailored and served on a tablet device, accessed via 3G, 4G or wifi
- Advertising that has been specifically tailored and served on a smartphone device, accessed via 3G, 4G or wifi

It comes in different categories and formats:

Formats	Categories
Display (these can appear in any online environment: websites, apps, social media)	<ol style="list-style-type: none">1. 'Banner' ads (e.g. at the top or side of a webpage)2. Video3. Content (paid-for sponsorship, advertisement features)4. Native (in-feed & native distribution units, e.g. 'recommendation engines')
Search	Sponsored or promoted listings in search engine results
Classifieds	Listings for jobs, property, cars, tradespeople, etc.
Other	e.g. audio, lead generation

Size of the digital advertising market

The IAB has measured the size of the digital advertising market in the UK in conjunction with PricewaterhouseCoopers (PwC) since 1997, based on media

spend. The IAB's Adspend data feeds into the Advertising Association/WARC Expenditure Report that covers the whole UK advertising market.

In 2017, £11.55 billion was spent on UK digital advertising. The market grew by over 14% on a like-for-like basis (versus 2016) and now exceeds 50% of the total UK advertising market.¹This figure breaks down as follows:

Figure 1: Digital Advertising expenditure 2017

Type	Spend in 2017	Share of the market
Display	£4.18bn	36%
Paid-for search	£5.82bn	50%
Classified	£1.47bn	13%
Other	£0.08bn	<1%
TOTAL	£11.55bn	100

Source: IAB/PwC Adspend 2017

Digital advertising's increased market share appears to be primarily accounted for by a shift in advertising spend from print, press classified and directory advertising to digital. This shift is driven by changes in consumer behaviour, particularly the trend in people accessing content and services on mobile devices (smartphones and tablets) and the emergence of a 'mobile first' generation of users.

Programmatic advertising

Programmatic advertising is the automated process of buying and selling digital ad inventory; connecting advertisers to publishers to deliver ads to the right person, at the right time, in the right place.

Before programmatic advertising, marketers turned to a handful of publishers with whom they would contract to run campaigns. Publishers had to individually traffic each ad and advertisers had little control over how often the same user would see the same ads.

Programmatic advertising has revolutionised this process by using automated software to handle previously manual transactions to deliver engagements on any device, through any channel (e.g. social media feeds or websites). This offers buyers and sellers the flexibility to adjust campaigns in real time, for optimal performance, making it much easier to dial up the things that are working and dial down the things that aren't.

¹ <https://www.iabuk.com/adspend/full-year-2017-digital-adspend-results> (please contact policy@iabuk.com for access to the full report)

Figure 2: Media owner (publisher) sales techniques

		TECHNIQUE	
		TRADITIONAL	PROGRAMMATIC
CHANNEL	DIRECT	<p>Direct sales</p> <p>Inventory bought at fixed prices directly from media owners through in-house or external sales teams, using insertion orders and manual processes to book and turn the campaign</p> <p style="text-align: right;">18% (-8pp)</p>	<p>Programmatic direct (e.g. direct deals, private marketplaces)</p> <p>Inventory bought from a particular media owner using automated processes, where a direct relationship exists between the buyer and media owner in the form of pre-existing deal terms (e.g. exclusive access and price floors)</p> <p style="text-align: right;">63% (+10pp)</p>
	INDIRECT	<p>Networks</p> <p>Inventory bought at fixed prices from a third party offering packages which aggregate supply across multiple media owners</p> <p style="text-align: right;">2% (=)</p>	<p>Programmatic indirect (e.g. open RTB exchanges)</p> <p>Inventory bought on an impression-by-impression basis in real-time through an open, unreserved auction.</p> <p style="text-align: right;">17% (-2pp)</p>

n.b. These figures represent the whole digital advertising market, i.e. all types of publishers. Figures and trends may differ between types of publisher/media owners.

The impact of programmatic advertising

It is important that the Review understands the positive impacts of programmatic advertising. It is often presented as a barrier to a competitive market, while overlooking how it more broadly addresses some of the challenges of the traditional media buying model.

There are several benefits to selling programmatically. One of the most significant benefits is that publishers are able to monetise inventory that they weren't able to before, or wouldn't otherwise be able to manage selling manually. Digital advertising inventory becomes 'available' whenever a person visits a web page, app, etc. Programmatic technology enables publishers to make all of this space available for sale in real time, according to supply levels, rather than having to forecast how much they may have available and sell it in advance, thereby helping them to monetise short-term spikes in traffic (that might arise from a big breaking news story, for example).

Selling programmatically also enables publishers to sell inventory that they may not have been able to previously because it wasn't considered to be valuable (e.g. because of its position on the page), whereas through the programmatic supply chain such ad space can be sold on the basis of how well the audience of that space meets buyers' criteria, rather than being left empty. Similarly, through RTB publishers can monetise the inventory they haven't otherwise been able to sell by making it available on the open market to buyers who are looking to target on the basis of the audience, rather than the publisher or the content, which again means that publishers can sell ad space on this basis that the buyer may not have otherwise bought on the basis of other factors.

A further innovation in the digital advertising market has helped to ensure that publishers are being paid the right price for their advertising inventory. Header Bidding is a process that allows marketers to bid for inventory that would have previously been reserved for direct bookings only, for example because it is considered to be premium and therefore of high value. If the publisher can make a better price selling an impression programmatically, then their ad server will make the decision automatically to do so, rather than using the space for the lower-value direct booking.

The digital advertising supply chain

The digital advertising supply chain has evolved over its twenty or so years of existence and now makes much greater use of technology. Our [short video²](#) explains this evolution. The volume of available advertising inventory online is constantly growing, and in order to effectively monetise this inventory, media owners (publishers) increasingly rely on technology, including programmatic advertising.

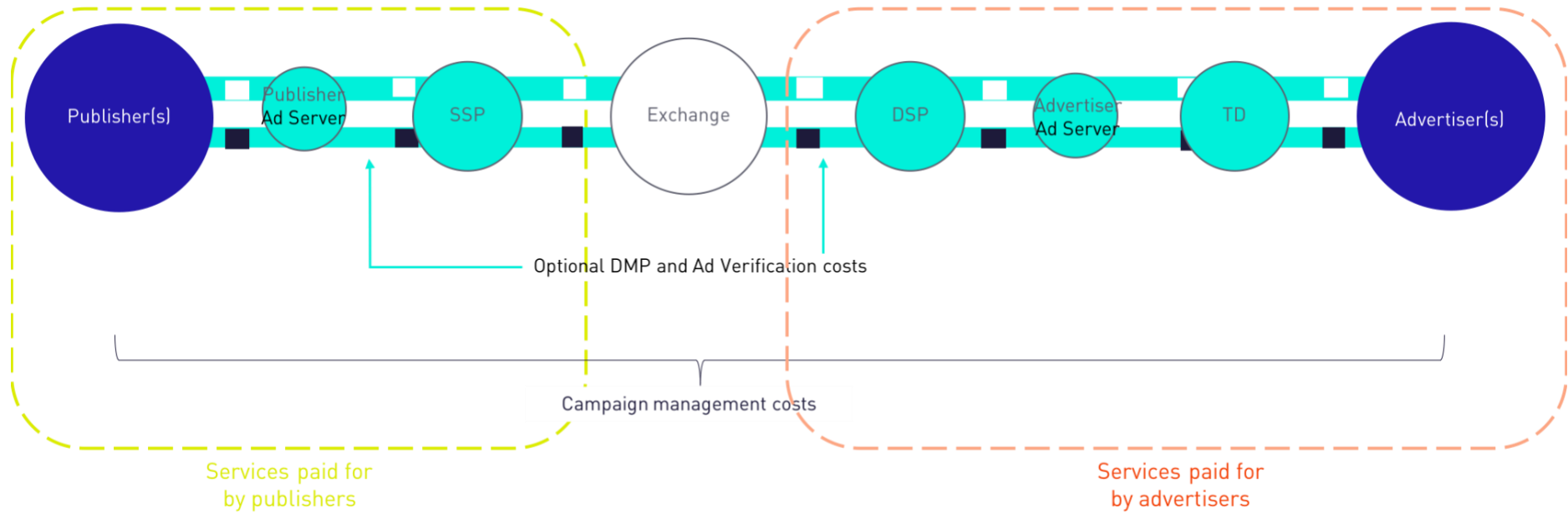
Money spent by advertisers (or agencies on their behalf) – collectively 'buyers' – on digital advertising is often distributed throughout the supply chain. This is because the overall 'cost' of buying advertising space (inventory) includes both the value of the inventory itself, which is variable, and the cost of any services provided by intermediary companies that sit between buyers and sellers and work to improve the overall efficiency of the buying and selling, for example by providing services to more accurately target ads at the intended audience.

There are some services that are essential to trading programmatically, and others that are optional. Advertisers (or agencies on their behalf) decide which of these intermediary services they wish to use. Similarly, publishers decide which intermediary services they work with to sell their ad inventory. The money 'spent' by buyers therefore includes intermediaries' fees as well as the cost of the inventory itself, which is paid to the publisher.

² <https://www.youtube.com/watch?v=efHVOWcNJZo>

The diagram and table below give an overview of the key services involved in buying and selling digital advertising that advertisers and publishers use (and therefore pay for, or develop in-house), and their functions.

Figure 3: Services in the programmatic trading supply chain



See table on following page for definitions and explanations.

Service type	What do they do?	Who pays for it?
Publishers (collectively 'sellers')	The owners of web properties (e.g. sites, apps) providing content for individuals. Publishers are the owners and sellers of the advertising space (inventory).	-
Publisher ad server	Ad servers are technology used by both advertisers and publishers. Publishers use ad servers to inform SSPs when an ad slot is available and to display ads (whether or not the inventory has been sold programmatically).	Publisher and advertiser ³
SSP: Supply side platform	An advertising technology platform that represents the suppliers of online ad space (publishers). SSPs give publishers the ability to increase their website advertising revenues by engaging with multiple demand-side channels (Ad Networks, Ad Exchanges and DSPs) through a single vendor. Used by publishers.	Publisher
Exchange	Virtual exchange where supply side and demand side platforms meet to trade and exchange inventory. ⁴	-
DSP: Demand side platform	An advertising technology platform that allows marketers to manage their online media campaigns by facilitating the buying of auction-based display media and audience data across multiple inventory and data suppliers in a centralised management platform.	Advertiser
Advertiser ad server	Ad servers are technology used by both advertisers and publishers. For advertisers, ad servers are used to store and deliver creative assets (i.e. the content of an ad) and keep track of delivery.	Advertiser
TD: Trading Desk	A trading entity known as the expert operators in their use of new technology. These entities can be independent or operate within an agency holding company. This group of people (known as traders) play the day-to-day campaign management role. Used by agency holding companies, operating agencies, advertisers.	Advertiser
Advertisers (collectively 'buyers')	Brands, or agencies acting on behalf of brands, looking to buy digital media inventory	-
Campaign management	The costs of setting up, managing, optimising and reporting on programmatic campaigns, as well as costs for building and maintaining technology, are incurred throughout the supply chain.	Advertiser and publisher
Optional services		
DMP: Data Management Platform	Platforms that allow advertisers, agencies, publishers and others to control their own first-party audience and campaign data, compare it to third-party audience data, and give the ability to make smarter media	Advertiser and/or publisher

³ Depending on how they manage their buying, this could be an advertiser directly or a media agency on an advertiser's behalf

⁴ As distinct from a type of company known as an 'ad exchange' that provides both SSP and DSP services in one place.

	<p>buying and campaign planning decisions via behavioural targeting or extending audiences via lookalike modelling.</p> <p>Advertisers and agencies generally use DMPs in order to buy more effectively while publishers typically use DMPs in order to segment their audiences and sell more effectively.</p>	
Ad verification	Typically used to measure viewability and used for blocking ad delivery, i.e. stopping an ad being displayed, for example where fraudulent traffic has been detected or for brand safety reasons.	Advertiser and/or publisher

Delivering a competitive digital advertising market in the UK

The UK digital advertising market is the largest in Europe, not only contributing significantly to the economy – every £1 spent on advertising contributes £6 to GDP⁵ – but also helping to fund digital content and services, such as news. The UK leads Europe: our digital advertising market is larger than the next three combined.⁶

The IAB’s membership is wide-ranging and comprises companies of all sizes aggressively competing in a very challenging climate. These companies are investing in self-regulation and tools to ensure a responsible and world-leading ad market in the UK, as well as innovation that improves returns and choice for advertisers and helps support the UK’s creative and other industries.

The questions in the Expert Panel’s call for evidence are largely focused on the economic aspects of competition. In our view, consideration of the barriers to competition in the digital advertising market must also take into account other relevant factors, as set out here.

Consumer benefits of digital advertising

Advertising plays a significant role in the internet and the digital economy in the UK, EU and globally. It is one of the main commercial models for making (non-publicly funded) content online widely available to UK citizens for little or no cost.⁷ It helps fund a wide range of content and services that have become part of people’s everyday lives – including search, webmail, social media, price comparison sites, online classified services (e.g. cars, jobs and homes), video- and photo-sharing tools and the majority of news, information and entertainment services.

⁵ ‘Advertising Pays’, Deloitte for the Advertising Association, 2013 http://www.adassoc.org.uk/wp-content/uploads/2014/09/Advertising_Pays_Report.pdf

⁶ IAB Europe adex benchmark 2017 <https://www.iabeurope.eu/research-thought-leadership/resources/iab-europe-report-adex-benchmark-2017-report/>

⁷ The call for evidence specifically excludes the question of the impacts of digital markets on the availability of a range of news media and we have not addressed that issue here.

The ad-funded business model enables companies to develop innovative products and services that benefit individuals and are either wholly or partly subsidised by advertising. For example, in June 2017 the fifth most popular digital property in the UK (i.e. a site or app) by time spent was Spotify, the music streaming service that has only been available in the UK since 2009, that generates revenue from both advertising and subscriptions. Eighth in the list was Snapchat, an app that launched in 2011 and also relies on advertising to generate revenue.⁸ Studies have consistently shown that people prefer this model to the option of paying the true cost to access such products and services. When asked, 84% of UK adults prefer to access content for free and have ads present than to pay for content with no ads.⁹

Business benefits of digital advertising

The ‘currencies’ of digital advertising are ‘traffic’ (i.e. people) and data - or a combination of both. Companies that can identify the right audience for advertisers and agencies and provide insights and targeting capabilities at a competitive price and at scale are likely to be successful in attracting advertising revenue. This has always been the case with advertising, and digital advertising is particularly effective at achieving those things at scale and at a relatively low cost, providing performance and return for advertisers.

Taxation

The Government has announced a new Digital Services Tax, due to be implemented in 2020. The IAB has not yet responded to the consultation, and we will do so in due course. However, our early analysis indicates that this tax – while intended to be narrowly-targeted – may in practice have a detrimental impact on the wider digital advertising market by increasing costs for those partnering with the services that are in the scope of the new tax to place or buy advertising – which includes other advertising companies as well as advertisers and media-buying agencies. Assumptions about profitability and margins should be tested to understand how the costs of a tax on revenue may be passed down to buyers in some form. Likewise there is a risk of double taxation by failing to account for any costs, which needs to be assessed.

Regulation and self-regulation

Existing regulation and self-regulation apply online. There are a number of key pieces of legislation that apply to digital advertising, including in relation to data and privacy, consumer protection, and ‘information society services’. Self-regulatory frameworks also cover a range of other areas including advertising standards (regulated by the Advertising Standards Authority (ASA) which enforces the UK Code UK Code of Non-broadcast Advertising, Sales Promotion and Direct Marketing (CAP Code)); good practice in the use of data for online behavioural advertising; good practice in addressing brand safety, ad fraud and viewability of online

⁸ <http://ukom.uk.net/digital-market-overview/97-q3-2018-uk-digital-market-overview-report.php>

⁹ <https://www.iabuk.com/research/iab-fit-purpose-research>

advertising and improving the consumer experience of advertising online. More details are included in Appendix 1 for reference.

Self-regulation and good practice complement legislation and achieve objectives that the law does not or cannot, often going beyond what the law requires. They offer an easily-accessible route for educating consumers, resolving disputes and providing the flexibility to respond to issues and adapt to new technologies and business models. This is particularly important in fast-moving markets like digital advertising where statutory legislation may not be able to, or be the right tool by which to achieve the desired policy goals. Self-regulation and good practice also provide an opportunity for responsible companies to differentiate themselves and therefore encourage competition.

The UK digital advertising industry is facing the most uncertain regulatory climate it has ever seen. For example, legislation such as the GDPR has impacted the market in unexpected ways and the proposed EU ePrivacy Regulation may have similar impacts, and this is creating new uncertainties about the future. The impact of the UK's departure from the EU on business and consumer confidence is also a concern for the stability of the ad market. Finally, the potential for regulatory intervention via the forthcoming Online Harms White Paper could serve as a precedent for regulation that disadvantages innovative players. It is important that this is taken into account in considering how best to achieve the desired policy aims. The Panel must take care to look beyond its focus on data controllership and also examine the potential of well-intended but poorly-thought-through policy and legislation to skew competitive incentives and impact the future shape and direction of the UK ad market.

Looking at each of these areas in more detail:

- The UK Government has recently implemented GDPR, which remains an uncertain piece of legislation due to its ambiguity, recency and associated lack of regulatory consistency or case-law to guide companies on its practical interpretation in a way that creates a level playing field and a stable basis for competition.
- The European Commission proposed a new ePrivacy Regulation before the full impact of the GDPR was understood. This proposal not only overlaps some of the scope of the GDPR but has also created even further uncertainty for the digital advertising industry. The proposed regulation threatens the future existence of ad-funded business models that rely on cookies and other similar technologies to generate income from selling advertising to their audiences to help fund the provision of their content/service, and the ability of companies to deliver digital advertising services based on data – regardless of compliance with the GDPR. This regulation, like the GDPR, has the potential to create a situation which advantages some but not others.
- Outside the area of privacy, the UK Government is undertaking various streams of work that affect digital advertising, under the auspices of its Digital Charter work programme, and has made several references to potentially introducing further regulation of digital advertising, including in its response to the Internet Safety Strategy Green Paper, its response to the House of Lords Select

Committee on Communications 'UK advertising in a digital age' report, and more specifically in its 'Childhood obesity: a plan for action, Chapter 2'. In this document, the Government announced it would consult on introducing new restrictions to advertising of products high in fat, salt or sugar (HFSS) – seemingly cutting across the existing and effective self-regulatory system that applies to the content and placement of advertising in the UK both online and offline, and already contains specific rules restricting HFSS advertising to children.

The Panel should therefore acknowledge that a competitive UK ad market needs a policy and legislative approach to digital advertising that is holistic and coordinated, and promotes scalable and competition-friendly policies, supporting existing self-regulation where it is working well. Any competition-specific issues should be dealt with by competition law.

Conclusion

The Government's Digital Charter aims to make the UK the best place to start and run a digital business. Its Industrial Strategy aims to – among other things – support and promote businesses in the UK to generate jobs and growth and ensure the future success of the country, which is particularly important in the context of the UK's exit from the EU. The Department for International Trade, together with the Advertising Association, is working with the advertising industry to support the UK industry internationally and showcase UK advertising services to the world. Its 'Promote UK' initiative wants to position Britain as 'the top global hub and centre of excellence for advertising'.

To achieve these various policy aims, and for the UK digital advertising market to be competitive and to continue to succeed, it needs a coherently designed and well-targeted regulatory, tax and competition framework that maximises competition, is fair, supports growth and innovation and encourages existing and new companies to participate in the UK market, so that the UK can continue to be a world-leader in digital advertising.

IAB UK

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Appendix 1: Self-regulation in digital advertising

The IAB's Gold Standard

IAB UK is committed to raising standards in digital advertising so that, collectively, we can build a sustainable future for the industry. As part of this we launched the IAB UK Gold Standard initiative last year, with a public commitment from all of our Board members – leading businesses in the digital advertising sector, including news media brands – aimed at driving up standards in the industry. The Standard aims to address three key industry challenges – ad blocking, ad fraud and brand safety – and commits signatories to adopt three existing industry initiatives.¹⁰ At the time of writing, 114 companies are participating in the Gold Standard, of which 68 have completed the certification process. This includes some of the largest companies in the UK digital advertising market.¹¹

The Gold Standard has already demonstrated its value as buyers of advertising services have begun to use Gold Standard certification as a selection criterion when considering which advertising service providers to partner with.

EDAA Framework for Online Behavioural Advertising

IAB UK acknowledges that the collection and use of consumer data (such as web browsing and other information) could potentially raise issues relating to consumer privacy. In 2011, building on an US initiative and the development of good practice in the UK, EU advertising and media trade bodies published good practice for all EU and EEA markets to enhance transparency and user control for online behavioural advertising (OBA), administered by the European Interactive Digital Advertising Alliance (EDAA). The EDAA initiative also provides a consumer-facing website to educate and provide people with choice and control. This initiative is widely supported, including by companies of all sizes operating in the UK market.¹²

A copy of the EU industry Framework can be found at: <http://edaa.eu/european-principles/>.

The ASA administers OBA consumer complaints in the UK and in 2013 new rules on OBA were introduced to the CAP Code to ensure businesses provide:

- notice to web users **in or around the advertisement**;
- choice via an **opt out mechanism** to prevent data from being collected and used for behavioural ad purposes.¹³

¹⁰ <https://www.iabuk.com/news-article/iab-uk-gold-standard>

¹¹ <https://www.iabuk.com/news-article/gold-standard-certified-and-registered>

¹² <https://www.edaa.eu/participating-companies/>

¹³ In response to changes introduced by the GDPR, the Committee of Advertising Practice (CAP) recently consulted on changes to the rules related to the collection and use of data for marketing. <https://www.asa.org.uk/news/gdpr-consultation-on-the-collection-and-use-of-data-for-marketing.html>

These rules are **complementary** to the EU Framework: those businesses complying with the EU Framework will be complying with the CAP Code.