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Cooperation between media companies
Changing landscape in the online advertising market

Content

Summary

Online advertising spend in Europe and Belgium increases its share in total advertising budgets at the expense of traditional media and becomes the second largest advertising channel, behind television.

The online advertising market is increasingly captured through technological trading platforms controlled by various new market entrants, resulting in loss of control and decreasing advertising revenues for traditional media companies.

Media companies reinvent their online advertising business model by:

- Aligning offering, transaction types and channels, yield management, and sales teams to work seamlessly together in tune with the market, and
- Building technological expertise and data management capabilities.

Worldwide, especially in Europe, cooperation between media companies is clearly manifesting itself. The main motivation is to create economies of scale in order to be able to compete with international technology players.

In general, these cooperation platforms are initially focused on creating scale by bundling and selling the unsold inventory of various media companies. Later on, additional inventory segments and product types (e.g. mobile and video) are included in the offering to the market.

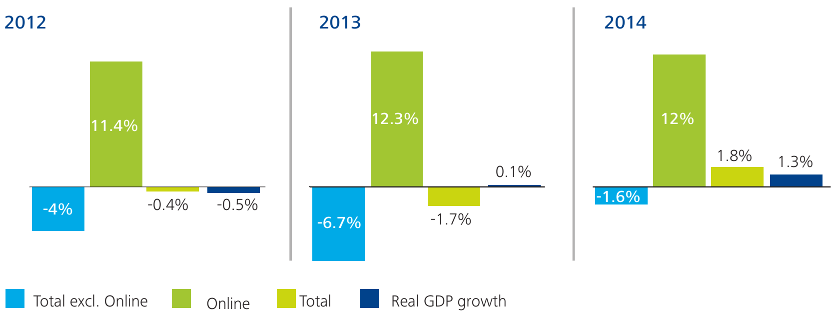
Belgian media companies could benefit from cooperation initiatives by setting up a platform to automate selling of premium inventory, pooling unsold display inventory or focusing on a niche platform for video inventory.

Online advertising is poised for further growth

Online advertising spend in Europe is growing at the expense of traditional advertising

- The European advertising market shows positive growth in 2014 after two consecutive years of single digit negative growth, which correlates with GDP movements over the period.
- However, significant different trends are observed for online versus traditional media types:
  - Traditional advertising shows negative growth.
  - Online advertising grows year over year by more than 11%.

Europe: advertising spend growth YoY

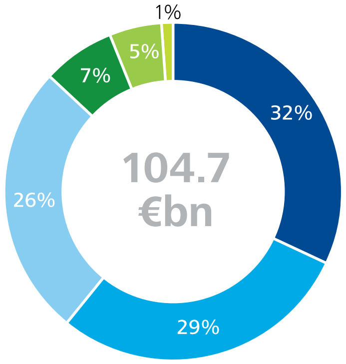


Source: IAB; Eurostat; Deloitte analysis

- In Europe, TV remains the top media category in 2014. However, the gap between TV and online has narrowed significantly compared to previous years given the growth of online advertising.
- Over the last eight years, European online advertising spend as a percentage of total advertising spend increased from 10% (2006) to 29% (2014). Print ad spend lags behind online in 2014.

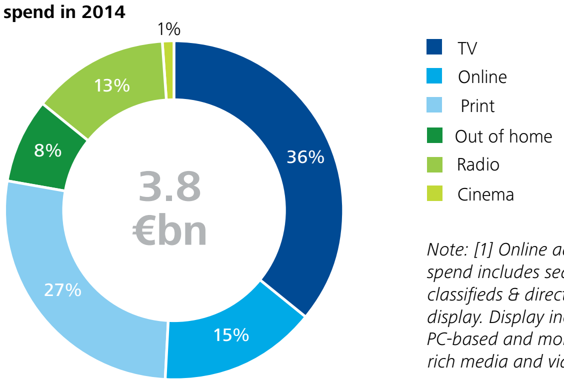
- In Belgium, the share of online advertising is significantly lower compared to the European market.
- In 2014, online advertising as a percentage of total advertising spend represents 15% in Belgium versus 29% in Europe.
- Belgium has a much higher stake for radio and TV compared to Europe. Other channels appear largely in line.

Europe: split gross advertising spend in 2014



Source: IAB (2015)

Belgium: split gross advertising spend in 2014



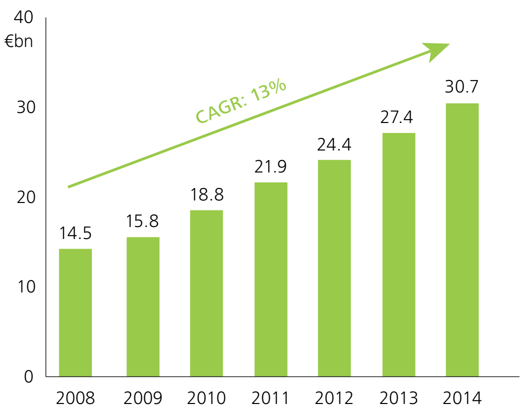
Source: CIM (2015); IAB (2015); Deloitte analysis

Note: [1] Online advertising spend includes search, classifieds & directories, and display. Display includes PC-based and mobile banners, rich media and video formats.

In Belgium online advertising penetration is catching up

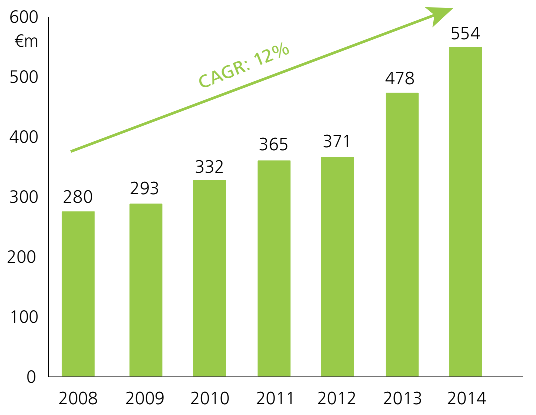
- Advertisers and agencies shift their budgets towards online advertising at the expense of traditional media channels. Over the years, the European online advertising market performed very well and grew at a CAGR[1] of 13% since 2008.
- In Belgium, the online advertising market grew at a lower pace until 2012, but has been catching up over the past years with growth rates of 29% and 16% in 2013 and 2014 respectively.
- The lead of digital over print will continue to increase in the future. This growth is mainly driven by an increased use of social media, mobile internet, and video advertising by the Belgian consumer.

Europe: total online advertising spend



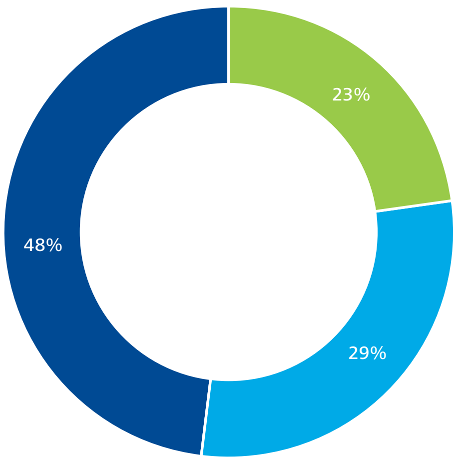
Source: IAB (2015)

Belgium: total online advertising spend



Note: 2014 data based on a 16% like-for-like growth compared to 2013
Source: IAB (2015); Deloitte analysis

Belgium: split online advertising spend in 2013



Source: IAB (2014)

- A further breakdown of the Belgian online advertising market shows that Paid-for-search is the leading online advertising category. Basically, Paid-for-search advertising is used by advertisers to occur more clearly, in the search results of online web users. Typically, Paid-for-search services are offered by large integrated international ad techs like Facebook, Yahoo, Bing and Google.
- International players are as well active in the two other categories: display and classifieds, thus capturing most of the online growth.
- Therefore, as in other European countries, a significant amount of the online advertising spend in Belgium 'leaks' to international market participants.

Display
Classifieds & Directories
Paid-for-search

Note: [1] CAGR: Compound Annual Growth Rate

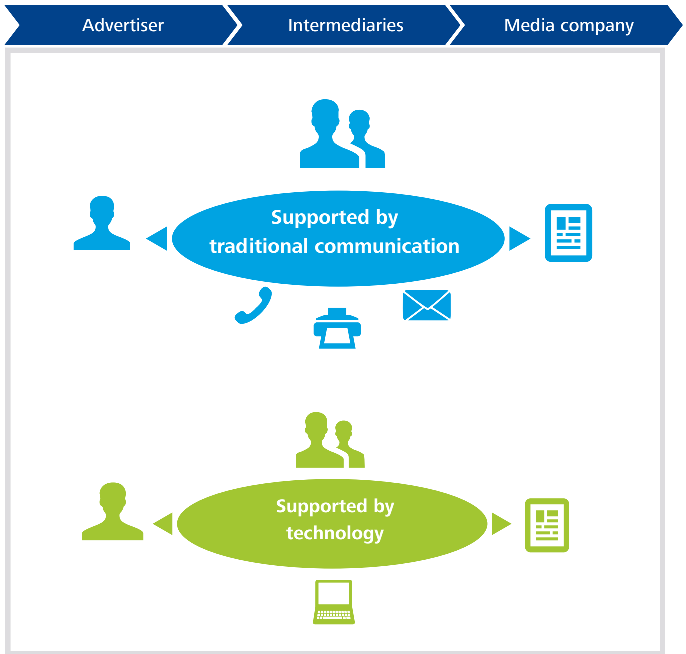
Automated trading systems start to dominate online advertising space

The traditional process of buying and selling advertising that involves RFPs, human negotiations and manual insertion orders will increasingly be replaced by programmatic trading

Programmatic advertising

Traditional buying and selling of ad space (inventory), is a direct agreement with fixed volume and price parameters between an advertiser and a publisher. The advertiser buys ad space on a website owned by a publisher and consequently the sold ad is placed on that website. The interaction is mainly supported by traditional means of communication.

New ways of trading ad space have been developed that are mainly supported by software and automated trading platforms. Selling of advertising space is automated without the need for direct communication between buyer and seller. This type of transacting inventory was appropriately named 'programmatic trading' and mainly applicable to online advertising space.

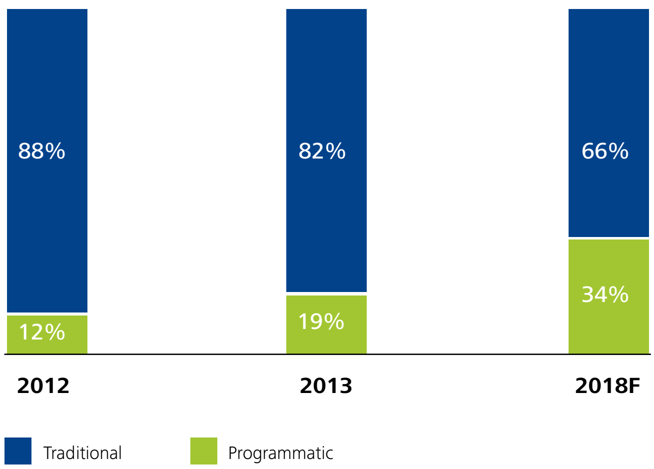


Increase of programmatic trading

Automated platforms are forecast to capture an increasingly larger part of the online advertising market. Online display advertising inventory being traded via programmatic systems is forecast to increase its share in the total online display market to more than one third of the market in 2018. Real time bidding is a key driver in the development of the advertising technology marketplace and refers to the trading of advertising space in real time through an auction type process.

Large advertisers such as P&G and American Express announced in 2014 a shift in their advertising budgets towards programmatic advertising. This shift has given birth to a new digital ecosystem.

Europe: share of programmatic trading in online display advertising spend

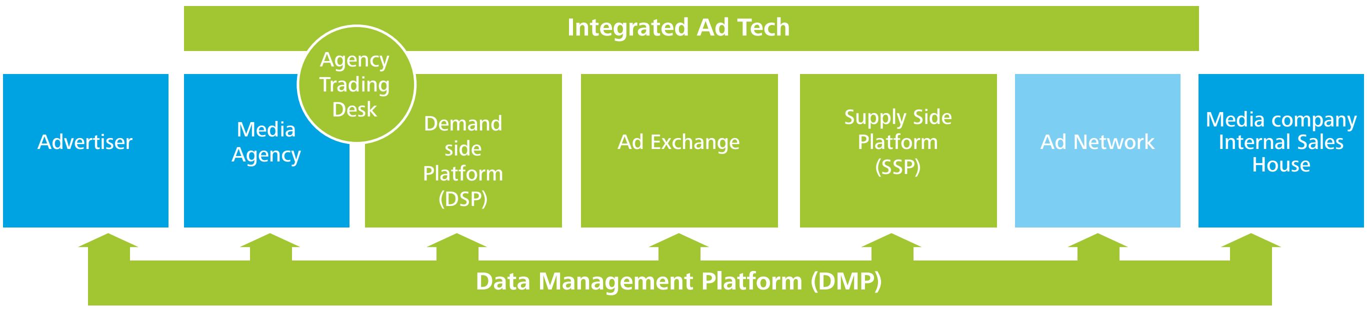


Source: IAB & IHS (2014), Deloitte analysis

New advertising technology players acquire an important share of the online advertising market

New kids in town

Advertising technology ('ad tech') refers to all software solutions and services used for delivering, displaying, targeting and controlling online ads. On the one hand, the ad tech ecosystem is characterised by a huge number of vendors offering technology with a purpose applicable to a specific part along the value chain. On the other hand, large ad techs such as Google and Facebook integrate several parts of the value chain.



Definition of ad tech players

DSP
DSP stands for a "Demand Side Platform": DSPs have a broker function for the benefit of the advertisers and other demand side parties. DSPs assist advertisers in centralising the buying of inventory available with media companies, minimising prices paid for inventory, optimising reach of target audience of advertiser, and providing analytics to advertisers to increase and monitor campaign ROI.

SSP
SSP stands for "Supply Side Platform". SSPs have a broker function for the benefit of the media companies and other supply side parties. SSPs assist media companies in handling the transaction process fast and efficiently, maximising prices paid for their inventory by advertisers, managing supply of inventory to the market through various channels, and providing analytics to media companies to increase yield optimisation.

DMP
The importance and use of data increases noticeably to target the desired audiences online. This results in another category of new market entrants specialised in data management, -integration, and -analysis known as "Data Management Platform" or DMP.

Integrated ad techs
Large ad techs such as Google and Facebook integrate several parts of the value chain. They offer enhanced usability through their proprietary trading platforms and end consumer targeting capabilities through their own vast online reach.

Ad exchange
A digital marketplace that automates inventory buying and selling and connects DSPs with SSPs.

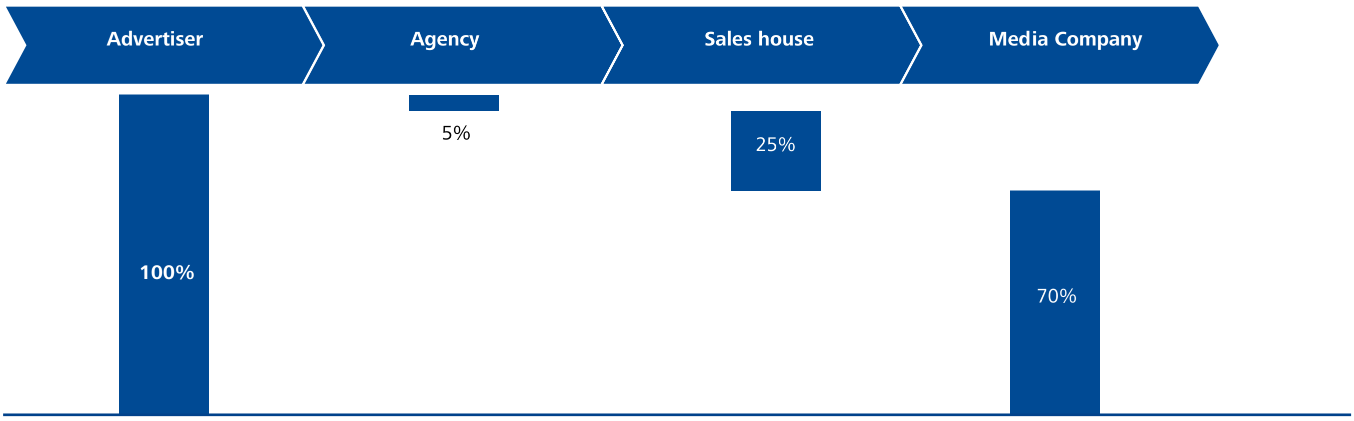
Agency trading desk
An agency trading desk is a department or subsidiary of an advertising or media agency. It is often considered as an "internal" centre of excellence for managing digital advertising buying on behalf of agency clients.

Disruption of the advertising value chain

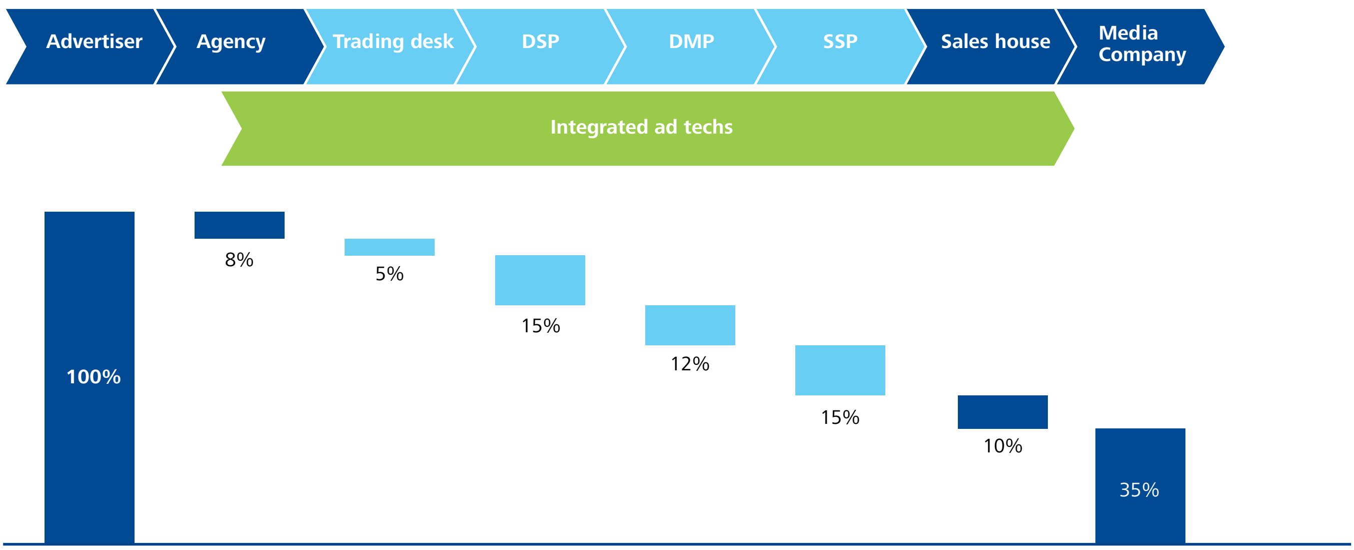
The emergence of a new ecosystem leads to significant challenges for media companies

Today international intermediaries are positioning themselves along the value chain to facilitate the buying and selling of online advertising space in a more automated way. As a result, media companies are losing part of their revenues, pricing power and data to international players.

Traditional value chain structure (indicative)



Programmatic value chain structure today (indicative)



Source: IHS (2014); Deloitte analysis

As the ad tech market will further consolidate, media companies will need to change their business model to deal with several challenges

Revenues of media companies under pressure

- An automated bidding environment can exert downward pressure on prices as a result of increased liquidity of ad inventory.
- An increased number of intermediaries results in an increased cumulative fee cost incurred through the value chain, leading to potentially lower revenues for media companies.

Scale driven industry

- There is a shift of power towards international platforms which achieve scale advantages by giving access to the inventory of many media companies at once.
- Local media companies may experience difficulties to monetise their perceived high quality value when trading inventory on large open, technology-driven markets.

Consolidation ad tech space

- International programmatic platforms are being developed predominantly by ad techs. These players with substantial financial resources are reinforcing their positions by mergers and acquisitions.
- The future ad tech space might further consolidate resulting in increased market power for value chain integrators.

Pressure from advertisers

- An increasing number of advertisers require a user friendly and automated way to buy inventory.
- Advertisers exert more pressure on media companies to provide transparent data and demonstrate performance of the purchased inventory.

Data Leakage

- Algorithms, owned by ad tech players, and their workings which impact budget and inventory allocations, often represent a black box for other market actors.
- The ownership of the profile and data of a website visitor can be transferred to other players in the value chain.

Key success factors for media companies to regain control

On the one hand media companies start to incorporate digital technologies to reinvent their advertising business model and on the other hand the idea of cooperation among former competitors is spreading

Cooperation
Increase cooperation between media companies within an (inter)national context

Business model reinvention
Increase scale and offering through business model reinvention and digitalise in terms of know-how, infrastructure and responsiveness to rapidly integrate new digital trends

Visit **www.deloitte.com/be/tomorrow-is-today** and gain valuable insights into core factors on how organisations consider to improve their digital maturity in the Building your digital DNA report from our Deloitte Digital practice.

Business model reinvention requires setting out a clear roadmap for each type of inventory

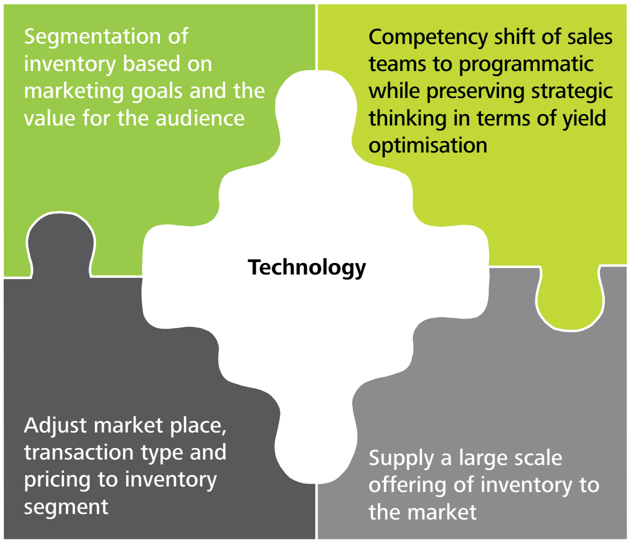
Roadmap of business model reinvention

Alignment of key business drivers: inventory segmentation, transaction types, yield management, organisational readiness, and technology.

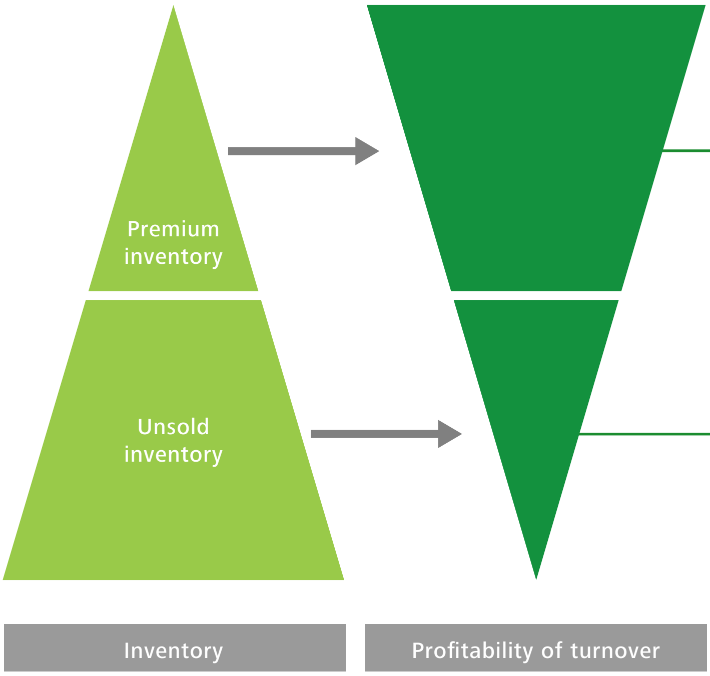
A modified business model and specialised team allow a publisher to maximise the revenue potential of the inventory.

In the future, technological market places will also try to facilitate transactions for premium inventory types (programmatic guaranteed). Media companies and sales houses should therefore develop an alertness and agility to spot new digital evolutions fast and integrate those evolutions in their way of doing business.

To be able to cope with an ever changing environment, media companies should align five of their key business drivers to optimise their online advertising revenues.



Yield optimisation of inventory as objective



Premium inventory

Premium inventory represents inventory for which the publisher or representing sales house managed to find a buyer (advertiser). The most profitable part of turnover is generated when media companies are able to monetise premium inventory.

Unsold inventory

The inventory amount left to sell is called unsold or remnant inventory. This type of inventory can be offered through technology driven market places to a large number of potential buyers. Mostly, these market places are auction type markets often causing significant price pressure on offered inventory. A key requirement to sell remnant inventory successfully is to avoid cannibalisation of the premium inventory. Scale, or the ability to offer a package of multiple inventories to an advertiser, is a key success factor.

Cooperation: media company coalitions

(Inter)national cooperation

Media companies' coalitions try to provide part of the solution for media companies of how to deal with the challenges of the new digitalised ecosystem without destroying market value. In the last two years, there has been a surge of alliances within Europe and worldwide. The main motivation for media companies to cooperate is to create economies of scale and to become more competitive in the markets for online advertising. These partnerships grow strongly, strengthen the local market and manage to protect the value and prices of media companies' inventories.
Many publisher coalitions work with an ad tech company as technology provider and use programmatic platforms to sell unsold inventory.

While media companies recognise the added value of cooperation, a lack of trust between them remains the highest barrier for setting up a formal collaboration platform. When a platform was set up successfully, it started small by offering unsold inventory of a group of premium media companies under a single independent umbrella brand.

The Economist, CNN, The Guardian, Reuters and Financial Times announced in March 2015 that they launched a joint platform to offer their inventory under the name "Pangaea alliance". Outside Europe, cooperation initiatives have been set up in Israel, Canada, Australia, and South Africa.

Two established cooperation platforms: La Place Media (Amaury Médias, Figaro Médias, Lagardère and TF1 Publicité) and Audience Square (Echos, Roularta, Libération, M6, Le Monde, NextRadioTV, Nouvel Observateur, Le Point, Groupe Prisma Média, CCM Benchmark and RTL).

In the German market, one cooperation initiative is known (AdAudience). Rumours about other collaborations exist in the market.

DUN (Politiken, Jyllands Posten, Ekstra Bladet, Exchange, Nordjyske, Police Lokalaviser, DBA, The Great Danish, Jobzonen, SBS Discovery Media, and Sjaellandske Media) is a cooperation platform for premium content providers.

Members of the British association of online content providers (AOP) created a new platform in March 2015 (AOP Premium Publisher Alliance). 1XL is a partnership in the UK with the initial partners Johnston Press, Local World, Newsquest and a large number of local content providers.

Cpex is a collaboration between six Czech premium content providers.

Aunia (a.o. Mediaset Espana, AtresMedia) was established in 2014 with a focus on the booming market for online video advertising.

In Italy potential partnerships are being investigated by premium content providers.

"This is definitely a phenomenon beginning and sprouting in Europe, but the interest is a global one," said Jay Stevens, general manager of international for Rubicon Project, whose technology powers a number of coalitions, especially in Europe. "There are probably eight to 10 other countries we're having discussions with all over the world."

Source: adexchanger.com, 2015

Case Study: La Place Media

Alliances among media companies as an intrinsic part of a healthy online advertising strategy

Case study: La Place Media (France)
La Place Media is an independent collaboration platform founded in 2012 by large French media companies (Amaury Médias, Figaro Médias, Lagardère, and TF1 Publicité). The initial focus was to deliver unsold inventory to the market. Later on, participating media companies requested La Place Media to sell premium inventory packages as well. Today, the services performed by La Place Media evolved to a fully fledged offering including trading of inventory for mobile and video advertising, and consultancy services to media companies with regards to yield management. The company does not consider developing an in-house technology, but focusses on improving the negotiating power towards technology providers through its scale.

Important advantages of scale include:

- Improved negotiating power vis-à-vis suppliers,
- Team, know-how, data, and resources: the ability to attract talent and knowledge to engage in efficient yield management,
- Unsold premium inventory from different media companies can be bundled and sold in a blind process (without visibility of specific brands of content providers) preventing cannibalisation of premium sales, and
- Advertisers have access to large amounts of inventory through a single channel.

"La Place Media is owned by media companies and our job is to make as much money as possible for the media companies. So far all the profit we've been making has been reinvested into innovation and into reducing the fees we charge the media companies, [but the end goal is where] most of the money we make is sent back to them in net revenues."

Fabien Magalon, Managing Director La Place Media, 2013

"We are growing rapidly, bringing new products to the market as we get more confidence from the media companies. 2015 could possibly become the best year we have ever had."

Fabien Magalon, Managing Director La Place Media, 2015

Key requirements for success

Proper preparation is essential

Trust through independent entity and management
Ideally, a cooperation initiative should:
- Unite a substantial amount of media companies that represent a significant amount of market share,
- Ensure equal treatment of all initial and future partners,
- Have a management team that is kept independent from any of the collaboration platform partners,
- Drive revenue capturing potential of advertisers' budgets through its scale advantage, and
- Impact the negotiation power towards technology providers.

In any case, trust among the partners is of utmost importance.

Competitive product offering
The product strategy should:
- Complement the partners' product offering enhancing total yield management, and
- Create competitive advantage through scale over other sell side platform offerings, and
- Prevent cannibalisation through pooling of inventory.

Technological awareness
In depth know-how and thorough application of technology is crucial to make sure the platform is attuned to market trends and buy side requirements. This requires a dedicated team of yield and technology managers.

Focus area
There should be a clearly defined focus:
- When previous initiatives are observed, a successful platform starts small by offering the unsold inventory of a group of premium media companies under a single independent brand name through an independent platform.
- As the whole market of online video advertising is still in an early stage of development, collaboration initiatives that have their first focus on online video advertising could reap significant first mover advantages in the online video advertising market.

"My role as CEO of DUN is to create trust between our publisher partners and to build a strategy that meets the demands for both the publisher and the buy side."

Troels Nielsen, DUN, 2015

The Belgian market is in a transition phase

Setting up a joint platform could be beneficial to all industry participants

Setting up a joint platform could be beneficial to all industry participants

Currently the Belgian ecosystem is in a transition phase. Traditional media companies will need to further invest in digital competences and acquire scale to be able to compete in an international digital context:

- In the future, digital will become one of the dominant sources of income and significant investments will be required to transform the business model (building know how, technology platforms, etc.).
- In this digital era, we expect programmatic trading to be an integral part of media companies' internal or external sales houses, and as demonstrated in other countries and witnessed by leading international media companies, setting up a collaboration platform can strengthen the position of every participant.
- Although cooperation initiatives can take many forms, recent experience shows that alliances are more successful when focused on a specific area such as pooling unsold inventory, setting up a platform for automating sales of premium inventory or creating a niche platform for video inventory.

"The quality of the Financial Times audience is what our advertisers buy. Pangaea is an exciting initiative that strengthens premium media companies' proposition by guaranteeing a trusted advertising environment, building significant scale and sharing smart targeting abilities."

Dominic Good, advertising sales director at the Financial Times

Please contact us for additional information about our perspectives as well as our expertise within TMT.

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