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Closing the programmatic gap

The changing digital advertising ecosystem in Germany

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Executive Summary

Players have to act rapidly to win in a fast-changing environment

The programmatic market in Germany is expected to kick off and to grow to EUR 2.8 bn by 2019, offering a significant market opportunity. New players enter a dynamic market dominated up to now by hot shots like Google and Facebook. In order to succeed, traditional Media Houses and Telcos have to seize the current opportunity to capitalize on the tremendous data assets via a combination of

analytics capabilities and real-time enabling technology stacks. Those capabilities are set to be acquired externally. Cooperation across Media Houses and other players in the ecosystem could be a lever against the two advertising heavyweights, but the window of opportunity is closing fast. Telcos and Media Houses have to act quickly to capture their value share in programmatic.

Programmatic in Germany on the rise?

Programmatic advertising is the current hype in advertising, and a shift towards trading inventory programmatically has a tremendous impact on the advertising market.

Looking abroad (but here in Germany too), a strong tandem has crystalized. Digital advertising is increasingly dominated by walled-garden players like Google and Facebook, and these players are writing a unique success story (for example, Facebook's advertising revenue grew from USD 11.5 bn to USD 17 bn in 2015, driven mainly by advertising via mobile devices). The reasons for their success are rather simple. Firstly, both players have a vast set of customer data. Due to log-ins, the information they have about their audiences and individual users is a real advantage. Secondly, they have developed of corresponding analytics capabilities to turn this data into real insights and thirdly they have all this backed by a strong technology base.

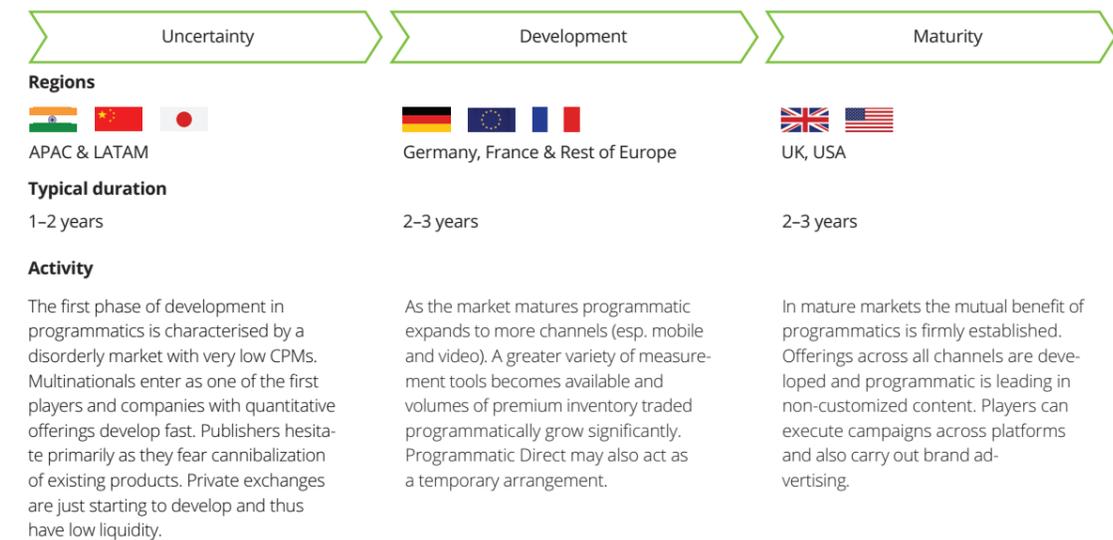
Facebook and Google capture half of the digital advertising market

So the question is: will Facebook and Google be the only winners or can traditional Media Houses (and others) with their various online and mobile activities compete successfully in the German market?

The German market is behind the US/UK markets by two to three years.

Looking over to the US the market is significantly ahead in the development of the mobile advertising landscape. Mobile digital advertising spending overtook online spending in 2015, reaching USD 32 bn (online USD 28 bn) according to eMarketerⁱ. Programmatic already dominates display advertising buying and with regard to mobile, the programmatic share is already at almost 70 %ⁱⁱ. The top three walled gardens (Facebook, Google and Twitter) have made up over 43 % of digital advertising spending in the USⁱⁱⁱ.

Fig. 1 – Programmatic maturity across markets



Source: Deloitte analysis

The situation is quite similar in the UK. Digital mobile advertising spending is expected to overtake online in 2016^v.

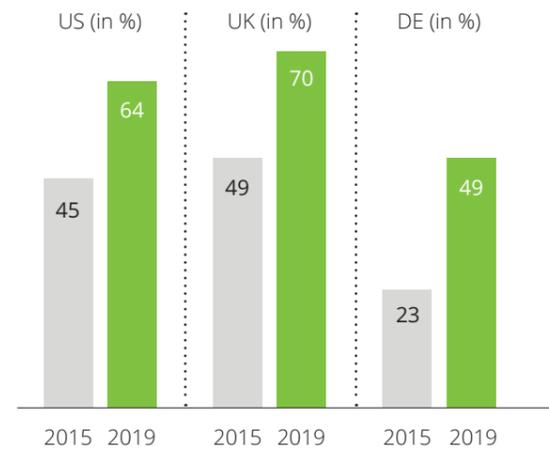
Compared to those impressive numbers, both mobile and programmatic are still behind in Germany (mobile accounting for 31 % of digital advertising spending in 2015) but potentially catching up in 2017^v. Total programmatic share is at ~23 % but we expect the programmatic share also to catch up in the next three to four years.

However, we see the German market at an inflection point now with significant growth potential projected for the coming years. The German programmatic market is expected to grow by 39 % p.a. by 2019, to EUR 2.8 bn and thus catching up with the US and UK markets, creating significant opportunities for all players the share of mobile could increase significantly, reading ~37-59 %^v.

Programmatic in Germany is expected to kick off since Media Houses have overcome their reluctance:

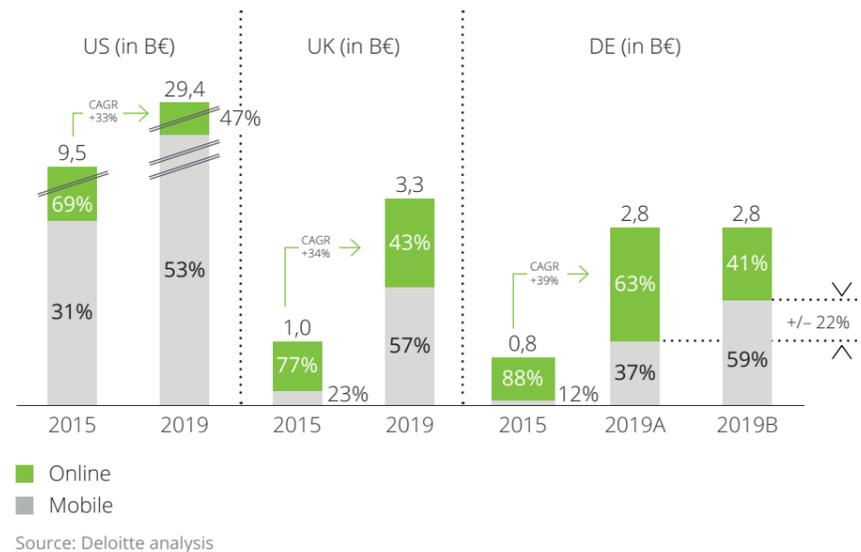
- Media Houses understand that programmatically traded inventory must not necessarily be cheaper than inventory sold directly
- (Supply-) technology has become mature, allowing not only for auction-based deals (as in early days) but also for private deals as well as other forms of transaction
- The industry has developed a commonly-used set of standards (OpenRTB standards from IAB), making it easier to integrate with the ecosystem

Fig. 2 – Programmatic share of display advertising across selected markets



Source: Deloitte analysis

Fig. 3 – Programmatic advertising market across selected regions



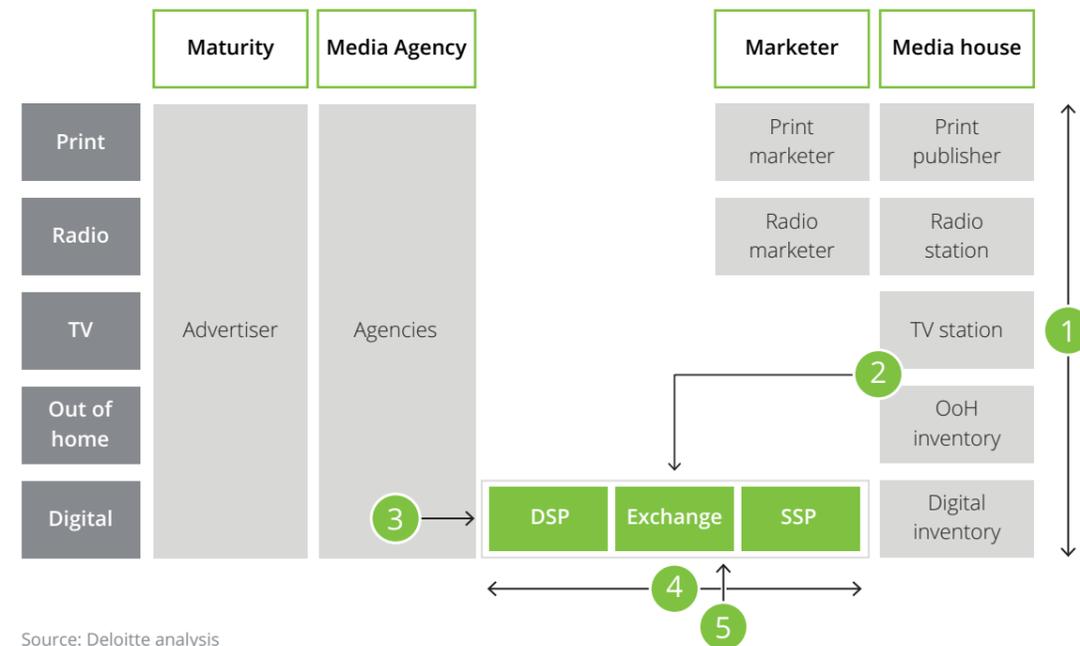
Source: Deloitte analysis

Consolidation everywhere?

How to navigate in the heterogeneous ecosystem

Consolidation everywhere? The programmatic market is highly dynamic and many players (traditional Media Houses and new entrants) see their chance by engaging in programmatic and securing their portion of the above-described opportunity. However, as the market matures, players will have to reap economies of scale to stay profitable and a consolidation process will set in. Possessing unique data assets such as log-ins is decisive in such an environment as it enables players to occupy niche markets in the ecosystem. The mere accumulation of inventory on its own is not as critical for building complete and universal data sets around customers and audiences. ➔

Fig. 4 – Programmatic value chain



Source: Deloitte analysis

The ecosystem is characterized by five key developments.

1 Media Houses consolidate inventory – size matters!

During the consolidation phase over the last three to four years we saw several moves of Media Houses to acquire new inventory. Axel Springer for example significantly increased its digital reach via acquisitions. Key rationale was to manage the transition from traditional media towards digital. Ströer followed a similar path and by acquiring OMS and Interactive Media brought together the largest German online reach. The T-online acquisition was beneficial for Ströer especially with regard to acquiring additional inventory. Mediahouses have thus significantly enhanced their inventory base. They will have to navigate further challenges in programmatic, however, as the winning business models in the ecosystem will be based on identifying and communicating with specific, advertiser-requested audience segments.

2 Media Houses expand upstream into AdTech businesses

The emergence of several players along the programmatic value chain led to smaller profits on the media house side. In traditional media, Media Houses received approximately 70 cents in the euro spent on advertising. In programmatic days, their profit decreased to 40 cents^{vii}.

Media Houses want to recapture some of the lost value and move up the value chain. RTL for example acquired video SSP SpotXchange. Sky recently acquired a significant stake in DataXu, one of the large international DSPs to prepare for programmatic in TV. ProSiebenSat.1 aims to develop an integrated AdTech stack and invest in players in the ecosystem via their subsidiary Virtual Minds (together with United Internet).

3 Agencies move downstream into AdTech models

Agencies on the other side of the table move down the value chain by building their own DSPs (trading desks). Recently, they also moved towards data by acquiring or setting up DMPs. Some examples (to name but a few): GroupM, who launched Xaxis as a trading desk, acquired exchangelab Meta-DSP and launched Turbine DMP. Omnicom launched Accuen (DSP) and annalect (DMP). Vivaki acquired RUN (DSP/DMP).

4 Programmatic players consolidate or add cross-channel capabilities

Players of the first programmatic hour, namely DSPs and SSPs, are starting to struggle and consolidate horizontally. Some US players are already reconsidering their sales approach in Europe and streamlining operations in order to increase profitability.

Additionally, some DSPs saw acquisitions as a way to build the relevant capabilities and position for cross-device and multi-channel. Sizmek, for example, acquired StrikeAd to acquire mobile capabilities.

Consolidation, especially on DSP side, will further accelerate and assume that there is room for only three to five large global players in the field. Only real integrated AdTech stacks are expected to survive.

5 New entrants enter the programmatic field

As already mentioned, programmatic advertising has become a playground for various companies. Many players who were not originally active in the media area have entered the market.

SAP, for example, has expanded its enterprise software solutions towards a full-scale integrated end-to-end advertising stack under the SAP XM (eXchange Media) brand. The idea is to enable a new digital advertising buying model that connects buyers and

Verizon absorbs former Internet icons

With the acquisitions of AOL and Yahoo, Verizon followed an aggressive expansionary approach to boost its digital advertising business. Both targets failed to deliver on their promise as Internet hopefuls in the post-2000s, instead being overtaken by Google and Facebook. When Verizon announced the takeover of AOL for USD 4.4 bn in May 2015, analysts commented that the main driver behind the deal was “not so much the content as having a platform for programmatic [advertising].”^{xi} Verizon’s recent acquisition of Yahoo (July 2016, USD 4.8 bn) occurred in much the same spirit^{xii}: not only did the company thus obtain considerable tech and reach assets but, more importantly, valuable customer data and new audiences. Especially log-in and email data (particularly available in the case of AOL) allow for effective targeting in digital/ programmatic advertising.

sellers directly, while reducing the role of intermediaries. Adobe has also announced it will integrate advertising technology into their Adobe Marketing Cloud. Other technology companies have already climbed the advertising Olympus. IBM IX is already considered the largest online agency^{xiii}.

Telecommunications players have also entered the stage. In Germany, Deutsche Telekom partnered with several Media Houses to build emetriq, forming the strategic cooperation to build a shared marketing data pool.

Norwegian’s Telenor acquired Tapad, a cross-device re-targeting provider, to “take a position within the rapidly growing market for advertising technology, and secure important competence within digital marketing and analytics”.

Cable operator Comcast recently announced it would acquire StickyAds.tv, a French video SSP, to integrate it into Comcast’s subsidiary Freewheel.

The most recognized big bangs however have been Verizon’s acquisition of AOL and Yahoo in order to enter the digital advertising scene. Verizon’s vision is to leverage the big data assets of mobile users (including name, address and often enough credit card data) via AOL’s and Yahoo’s inventory and based on their technology stack.

What are currently the winning business models?

The entire value chain was historically inventory-focused. However, since media buyers are shifting to buying audiences and users rather than bulk inventories, data is becoming more important. Recent efforts to streamline the programmatic workflow therefore shift to targeting precision.

Due to this shift, players who only enable the programmatic process technologically (e.g., DSPs/SSPs) will have to fight for their value share. Data will be the key to creating value and players who will be able to monetize data (either by providing access to a unique data asset or by being the nodal marketplace for data) will be the new heavyweights in the ecosystem.

And although almost everyone in the market agrees that data might add a benefit to the targeting process, so far no one is really able to measure the added value. However, there are some data points that underline the value that data adds to the bidding process. We assume that CPM for data-enriched impressions increased by a factor 1.5 to non-enriched impressions.

Ströer’s shopping spree

Ströer acquired a number of players with considerable inventory assets on its way to achieving 50% of its revenues in the digital sector. In November 2015 the company purchased t-online.de and Interactive Media from Deutsche Telekom for about EUR 300 mn and took over online marketer OMS in January 2016^{xiii}. At that time OMS had more than 28 million unique users, thus bringing together the largest German online reach^{xiv}.

Thus data becomes the new ecosystem currency and therefore a variety of players have evolved with the aim of monetizing data by making it programmatically accessible (e.g., DMPs, data market places).

The hunt for data, analytics and real-time technology

The consolidation patterns described follow a simple logic. Players want to combine capabilities in order to create a picture of their specific customer or audience that is as complete as possible.



The key capabilities that players are currently hunting for are data, analytics, and real-time capabilities backed by broad inventory reach.



Data as a prerequisite for the complete view on the customer

Data is the key to targeting success and access to / control over valuable customer data is a game-changing asset. More than 50 % of the respondents to an IAB survey answered that they had already realized a “tangible competitive advantage through [their] use of data in marketing and advertising”. Almost the same proportion of respondents mentioned that they were satisfied with the value realized by first-party data while third-party data is lagging behind*.

Different business models have emerged around a data proposition and different



players have positioned themselves for the data game. Stand-alone DMPs, for example, have entered the scene and are allowing advertisers to use their own first-party data. They also allow advertisers to ingest and use third-party data purchased from external data providers and thus more and more are developing towards data marketplaces. Agencies also have acquired or established their own DMPs and even DSPs and SSPs are also trying to differentiate by setting-up DMP offerings. However, only stand-alone DMPs have a clear (and inventory-agnostic) proposition.



Analytics capabilities (“Data +”) to generate customer insights will be the real value driver

Data is the basis for targeting success. However, pure data injection also has to prove the value it contributes. Central to success are the underlying analytics



capabilities. Increasing segmentation capabilities (backed by the corresponding data sets) will permit targeting the advertiser’s focal audiences. As the next evolutionary step, customer insights analytics will find their way into the programmatic process since Media Houses are beginning to monetize their audiences.



Technical integration and real-time

Needless to say: programmatic advertising is a real-time game and the best data and analytics capabilities are useless if not made usable/accessible for programmatic with real-time APIs. An integrated tech stack reduces the technological complexity for all potential partners. And with regard to technology platforms, the days of niche players are numbered. Advertisers are increasingly striving to reduce the number of advertising



technology partners, using more comprehensive, people-based targeting methods, and increasingly demanding services across all devices and channels. Fully integrated players who combine the success factors across the full programmatic spectrum (multi-channel and cross-device, performance measurement, attribution services) will have a competitive advantage. Niche players will leave the market, either by being acquired or by being squeezed out.



Inventory as a lever for increased reach

In addition to the three innovative capabilities described above, Media Houses expand their inventory base since scale is becoming more and more important. Other business models in the ecosystem require a broad advertising reach across a variety of channels.

Media Houses in particular are strategically well-positioned to exploit the advantages of their existing portfolios. Telcos, too, can be expected to profit, thanks to their considerable mobile inventory.

Data, analytic capabilities, real-time integration and inventory are thus the four key elements for success in the programmatic ecosystem. Bundling these capabilities will allow players to step beyond generating data to create customer insights.

Play to win – Leverage audiences and scale (together?)

In order to win against digital heavyweights like Google and Facebook, the German players will have to reconsider how to compete.

The current programmatic market situation allows solvent players to gain a foothold, typically through M&A. It is essential for all players to act rapidly, as the window of opportunity is closing fast. The intelligent use of existing customer data to identify relevant audiences for certain campaigns will be a key task in order to survive in the market. Media Houses must therefore overcome their reluctance and engage in the programmatic game.

1 Media Houses need to develop the 360° view on their customers

Media Houses have to realize the value of their customer data as their most valuable asset by implementing the necessary customer analytics capabilities. Implementing for instance data management platforms or big data capabilities is an important step in this direction. It enables them to connect insights across all customer touch-points and to create the 360° view of their

customers. With the analytics capabilities gained, Media Houses can leverage for example DMPs to uncover audience segments with significant market value. Also players with a data-driven understanding of their customers are set to benefit. They can make audiences - potentially enriched with third-party data - accessible for advertisers as a new sales opportunity. The careful analysis of marketers buying inventory on an audience basis through exchanges and sell-side platforms (SSPs) helps media Houses uncover new opportunities with a programmatic strategy.

2 To build or to buy? M&A as entry into programmatic

Realizing the above-described capabilities through an organic build-up of the necessary department is a long and arduous task. Media Houses that plan on entering programmatic will not have the time to complete this process if they are to realize

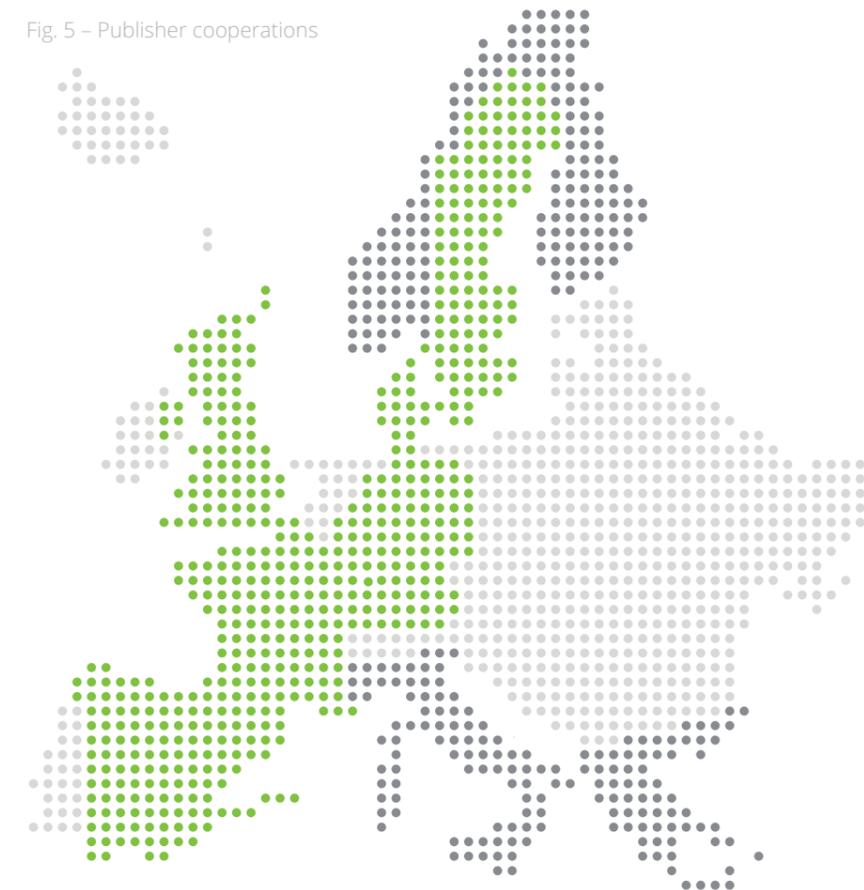
important first mover advantages. Acquisitions of existing programmatic players are thus a viable alternative for solvent players.

3 Cooperation as alternative to M&A - Telcos in a key position

A prime example of the inorganic approach described is Verizon. With the acquisition of Yahoo and AOL, Verizon is set to become an important player in programmatic advertising. However, the circumstances surrounding deals like this – a solvent, dominant Telco and large Internet players with substantial tech capabilities – are not given in Germany.

Scale is nevertheless an important factor and cooperation is an opportunity for German players, data providers, and platforms to create a nodal German heavyweight against the likes of Google and Facebook. A number of considerations are however essential for effective cooperation. Firstly,

Fig. 5 – Publisher cooperations



Source: Deloitte analysis

-  • La Place Media is a JV of some of France's biggest media players
 -  • Audience Square is a cooperation between eleven French media houses (incl. Les Echos, M6 Group, Group Le Monde)
 -  • AdAudience is a JV between G+J EMS, Forward AdGroup, IP Deutschland, iq digital media, Media Impact, OMS and SevenOne Media. The partnership was expanded and the Intelligent Data Alliance was founded with xplosion interactive. Deutsche Telekom's newly founded subsidiary emetriq aims to market Germany's largest pool of data
 -  • Danish Publishers Network is a collaboration platform between premium publishers
 -  • Pangaea is a digital advertising alliance of the Guardian, Financial Times, CNN International, Reuters and others
 -  • 1XL is a collaboration platform between 30 local media groups
 -  • Cpex is a collaboration platform between six premium publishers
 -  • The 10 largest Finnish publishers recently founded a cooperation to market their inventory together
 -  • Aunia, a collaboration platform was formed with a focus on online video advertising
 -  • The Premium Publisher's Network (PPN) was launched in 2014 and features the inventory of 24MEDIA, DPG Digital Media, Olive Media and Adweb
 -  • Project Agora is a publisher coalition led by ad-tech company TailWind bringing together Greek and Romanian publishers
- Existing collaborations
● Emerging collaborations
● No identified collaborations

such alliances have to create a combined pool of audience data to benefit from different partner audiences. Secondly, it is essential that the analytic capabilities to deduce audience segments and provide audience insights be built up. Furthermore, the cooperation should build the required technology stack together, leverage a mutual data management platform to share and access the data pool to make it accessible for advertisers. Lastly, it is critical that players and platforms cooperate with external data providers to enrich their own data and deduce relevant segments.

Thinking beyond publisher cooperation, Telcos could play a nodal role and could become key players as they are very well positioned to drive the programmatic integration game. They own a tremendous data asset and have a transactional relationship with their customers. Telcos could seize the opportunity to enter the market by identifying and acquiring the tech nuggets

that enable them to leverage their data asset and develop a broad technological footprint in the ecosystem.

Thus in order to (re-)capture some value in programmatic and address the large market opportunity, Telcos and media players should immediately start the M&A game and monitor the start-up scene to identify the technology nuggets that add the required capabilities. Both Telcos and Media Houses are very well positioned to play key role in the market – and they have to start immediately, to take advantage of the window of opportunity.

Glossary

| | |
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| Ad exchange | Technology platform enabling automated trading of bid requests |
| CPM (cost per mille) | Cost of 1000 impressions of a certain type |
| Demand-side platform (DSP) | Technology platform allowing brands and agencies to automatically bid for and purchase inventory |
| First-party data | Information and data sets owned or derived by the advertiser (e.g., CRM data) or by publishers (e.g. audience data) |
| Programmatic buying/trading/selling | The automated trading of impressions |
| Second-party data | Data obtained from a partner who derived the data from its users (i.e. its first-party data). Includes, for example, data pooling |
| Supply-side platform (SSP) | Technology platform enabling publishers to manage the sale of their inventory programmatically |
| Third-party data | Data obtained from external data providers |

End-Notes

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^{vi} Deloitte calculations

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^{xii} Cnet: “Verizon to buy Yahoo for \$4.83 billion, merge it with AOL”. URL: <http://www.cnet.com/news/verizon-buying-yahoo-likely-merging-it-with-aol/> (accessed 01 September 2016)

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