ECONOMIC TRENDS FORUM

Listen Up! The Rise of Digital Audio Advertising

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Welcome to The IAB Europe Economic Trends Forum

#IABEUEconomicTrends

- New IAB Europe format
- Every 8 weeks – physical location
- Quantitative & qualitative trends analysis on factors impacting digital advertising
- Future topics will include:
    - Digital Out of Home
    - Connected TV
    - Artificial Intelligence
    - Bi-Annual Macroeconomic Outlook & Ad Forecasts
    - Please feel free to suggest topics of interest!

Dr. Daniel Knapp,
Chief Economist, IAB Europe

Listen Up! The Rise of Digital Audio Advertising

#IABEUEconomicTrends

Excavations of the future as seen in 1922

"Seated comfortably in the club car of the Twenty-first Century Flyer — fast airplane service between London and New York — the president of the Ultra National Bank removes a small rubber disk from his vest pocket and places it over his ear. A moment hence, he will receive by radiophone the financial news of the world. Simultaneously, millions of other people all over the globe will receive the message. At designated hours, news of a general character will also be received. The broadcasting of news by radiophone had long displaced the daily newspaper [...]"

(Radio News, March 1922)

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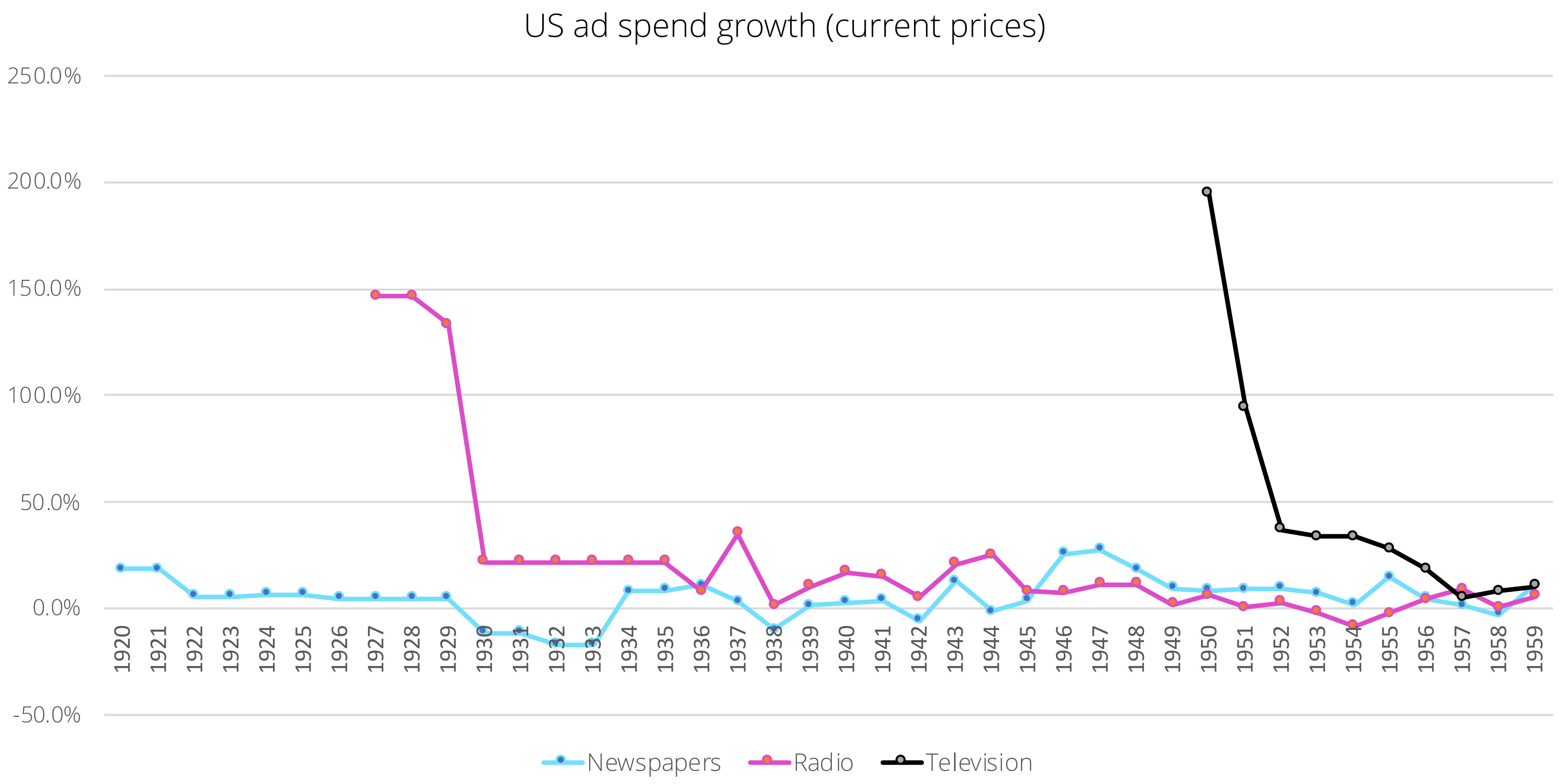
Radio was the internet of the 1920s-30s: rapid ad growth & talk of 'disruption'



Source: Robert J. Coen (formerly McCann Erickson)

Radio Fidelity

According to most records, the first radio ad (officially) was developed by the WEAF organization in America, by AT&T. In 1922, the group offered businesses a chance to appear on their radio station in exchange for a fee of $50 – plus long-distance access fees. The first sponsor to take advantage of the deal was the Queensboro Corporation of New York, who used their advertisement to sell real estate.

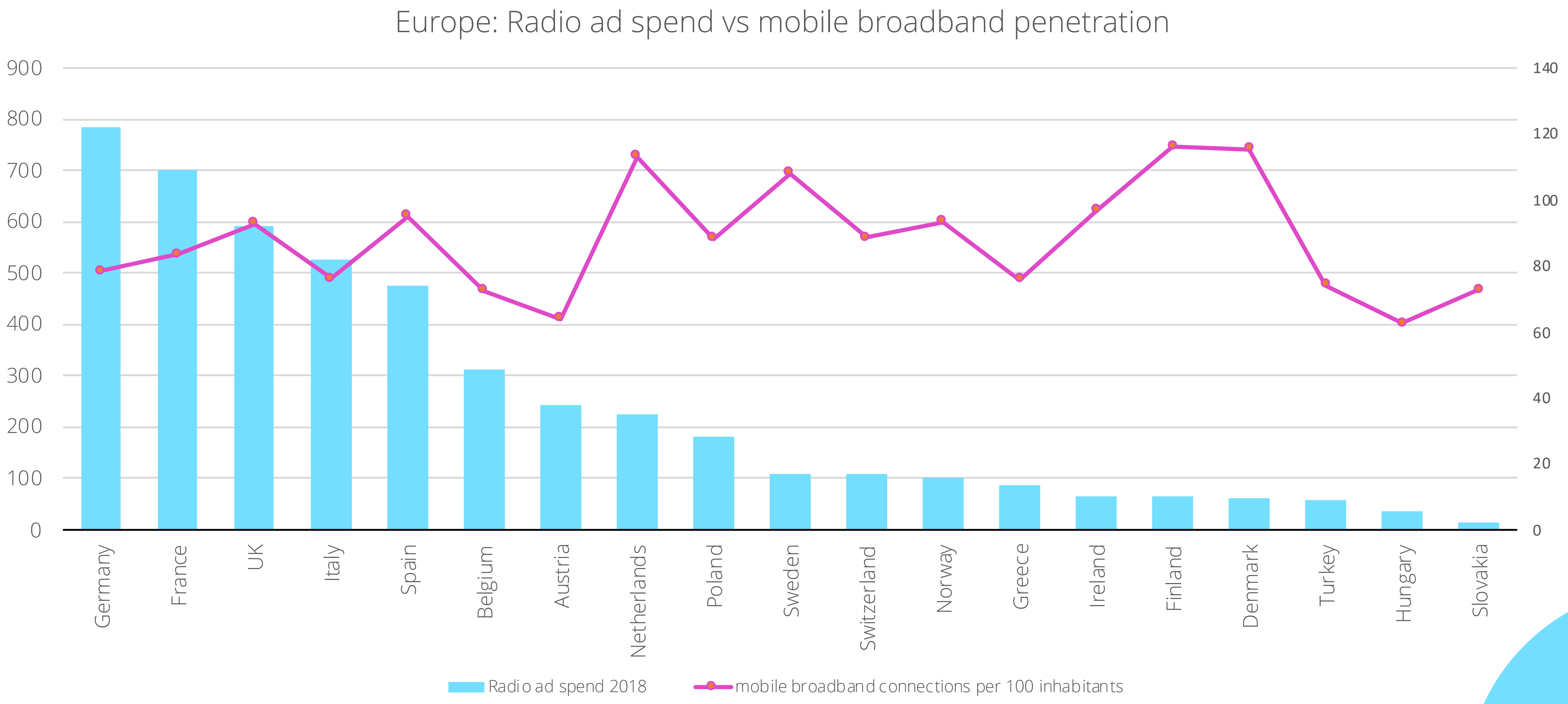
TECHNOLOGY

The First-Ever Banner Ad on the Web

It was an advertisement for AT&T in 1994, and people clicked on it like crazy.

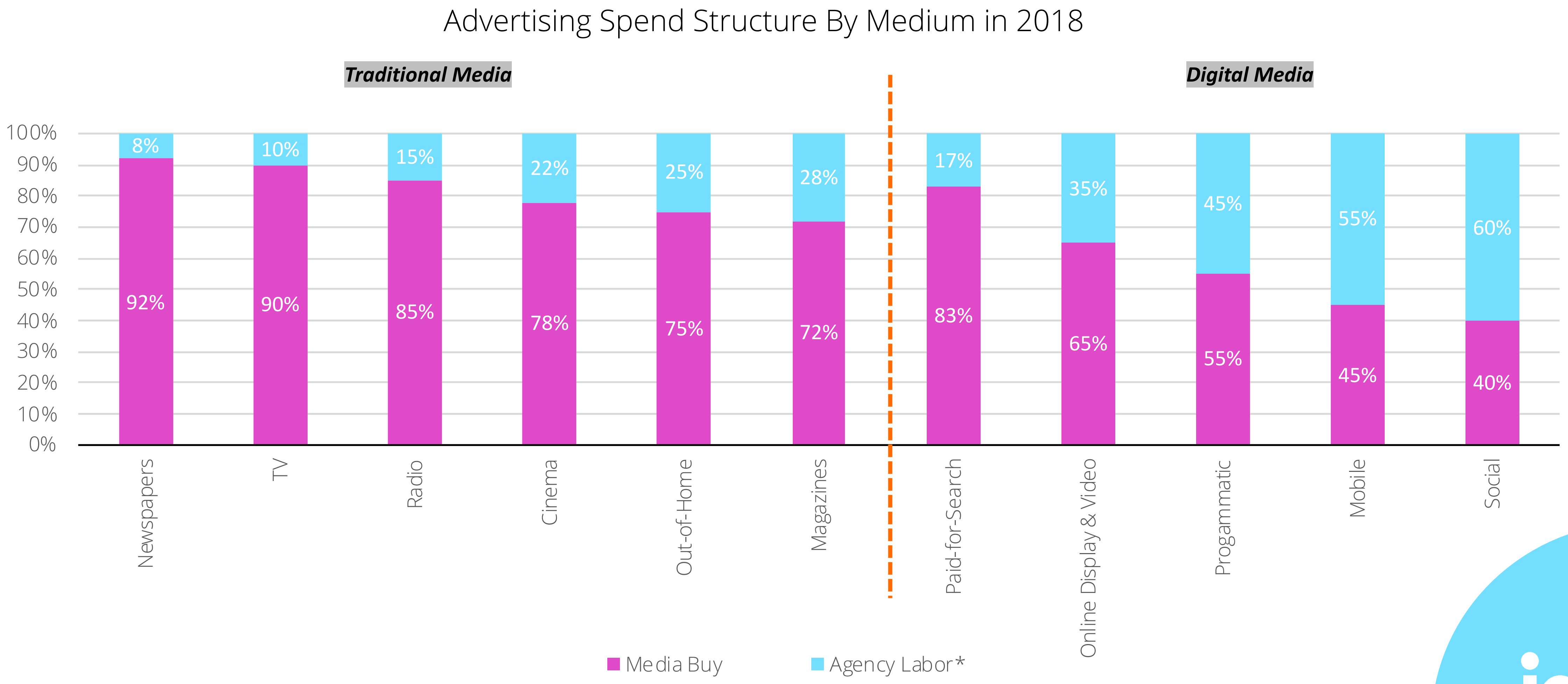
ADRIENNE LAFRANCE APR 21, 2017

Radio advertising: a €6bn industry in Europe* facing significant change



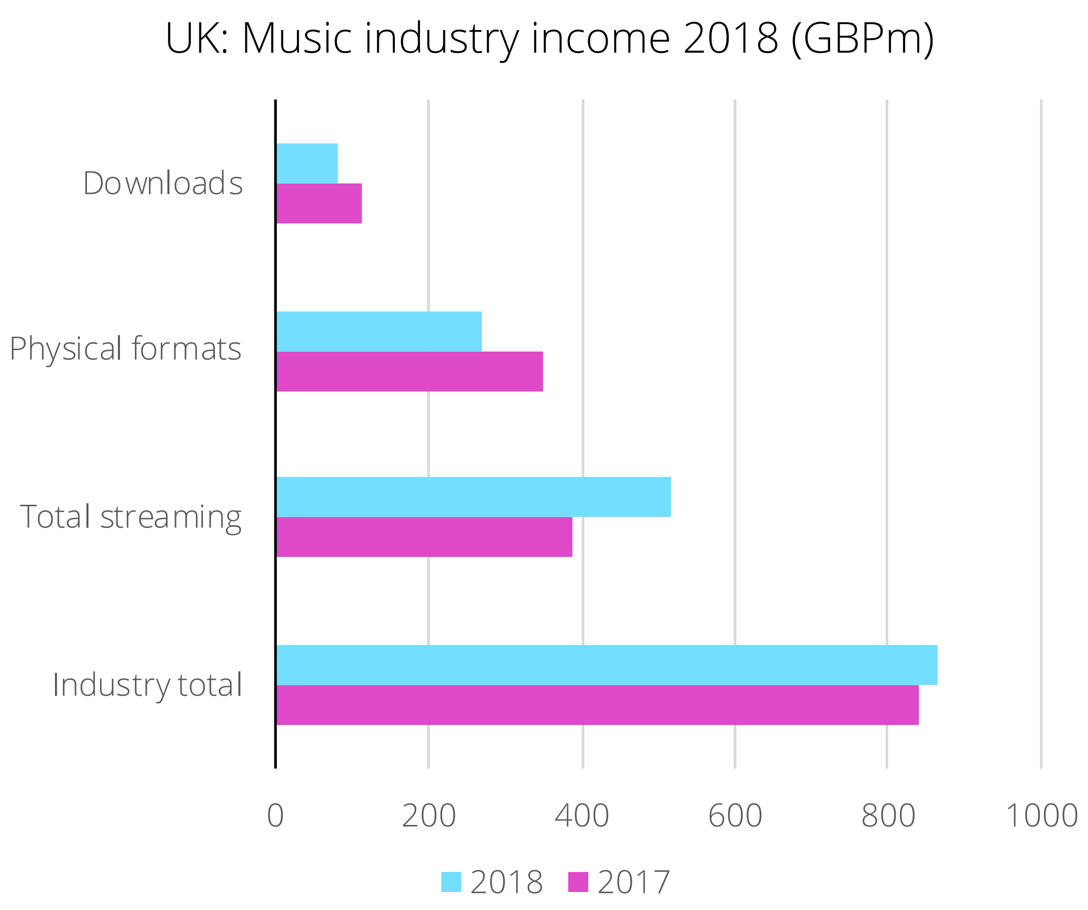
*traditional AM/FM radio, analogue & digital (DAB), excl. IP-based delivery

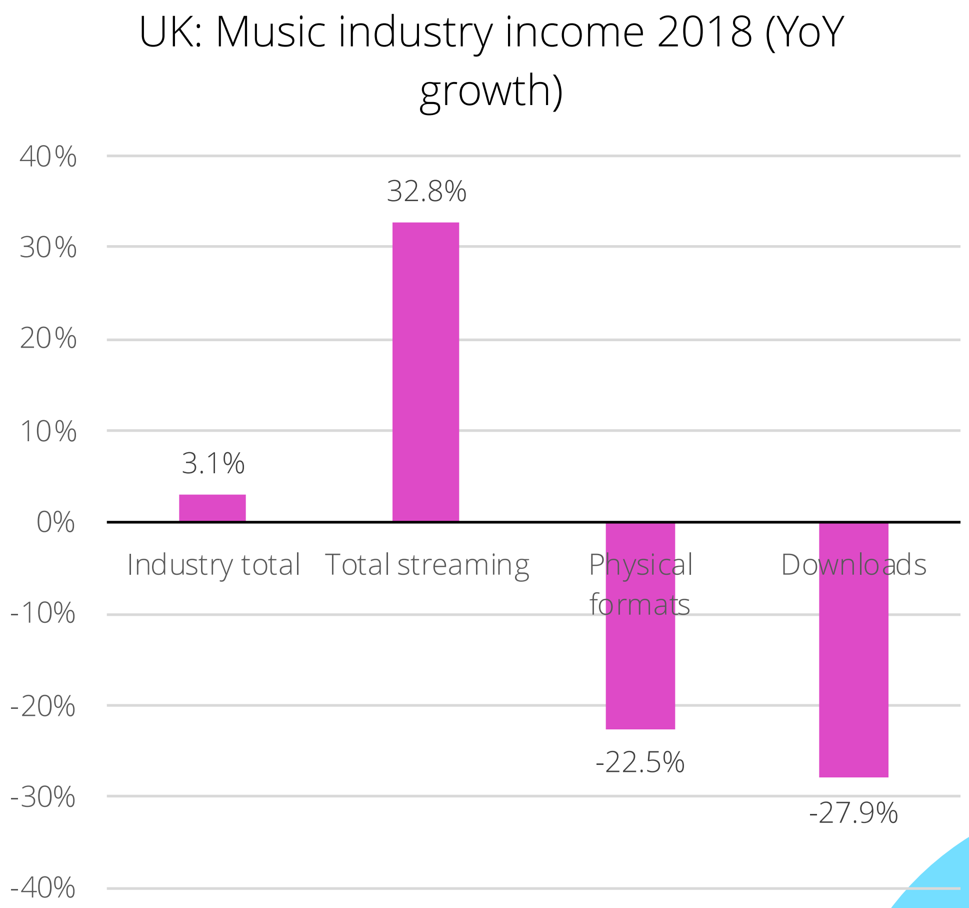
Changing buyer logic towards digital metrics & automation forces innovation



*all agency production & service costs including shoot, talent, creation, advisory, planning, measurement, optimisation

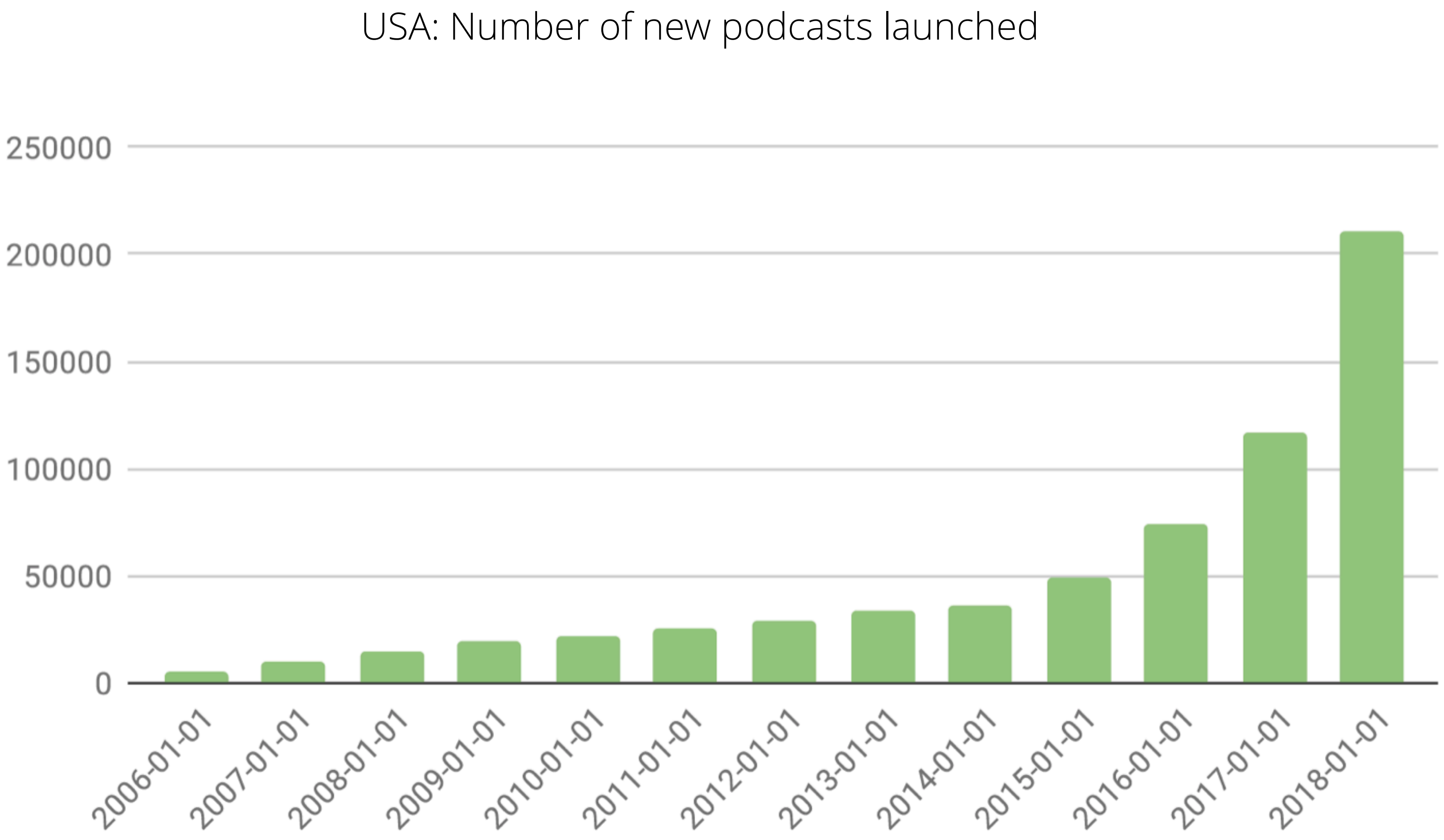
UK: Music industry income 2018





Source: BPI. Physical formats include CDs and vinyl

Content explosion generates reach & diversity of targeting options



Source: Chartable.com

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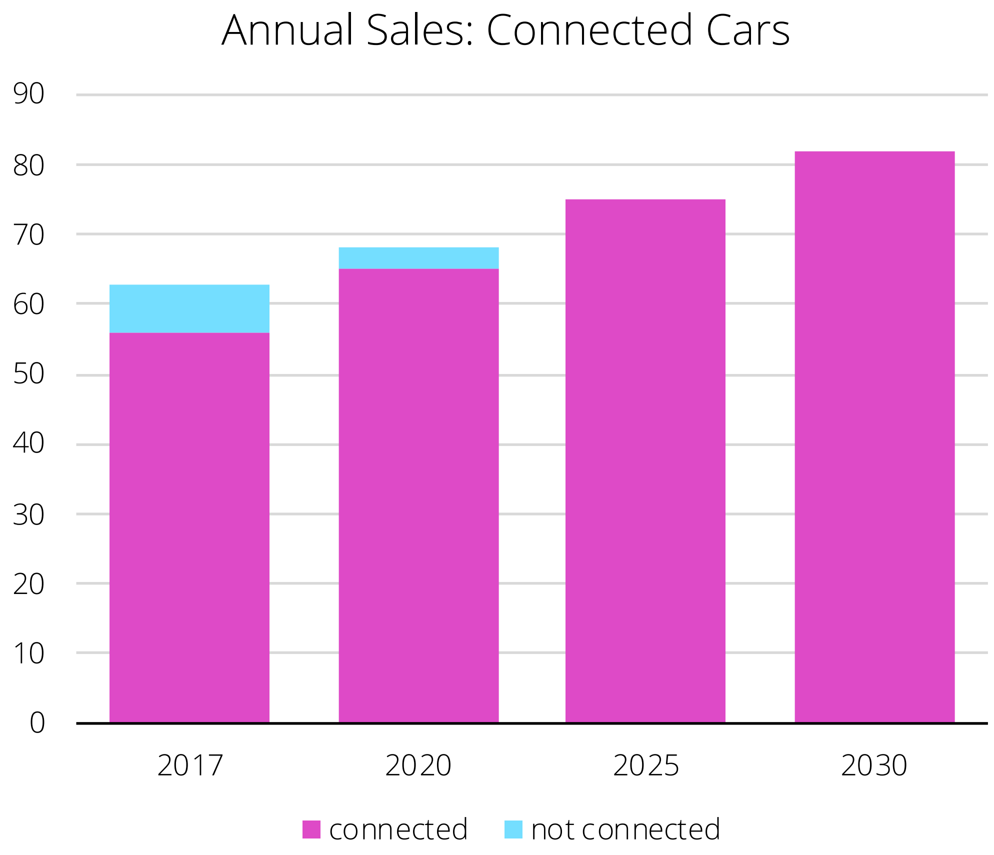
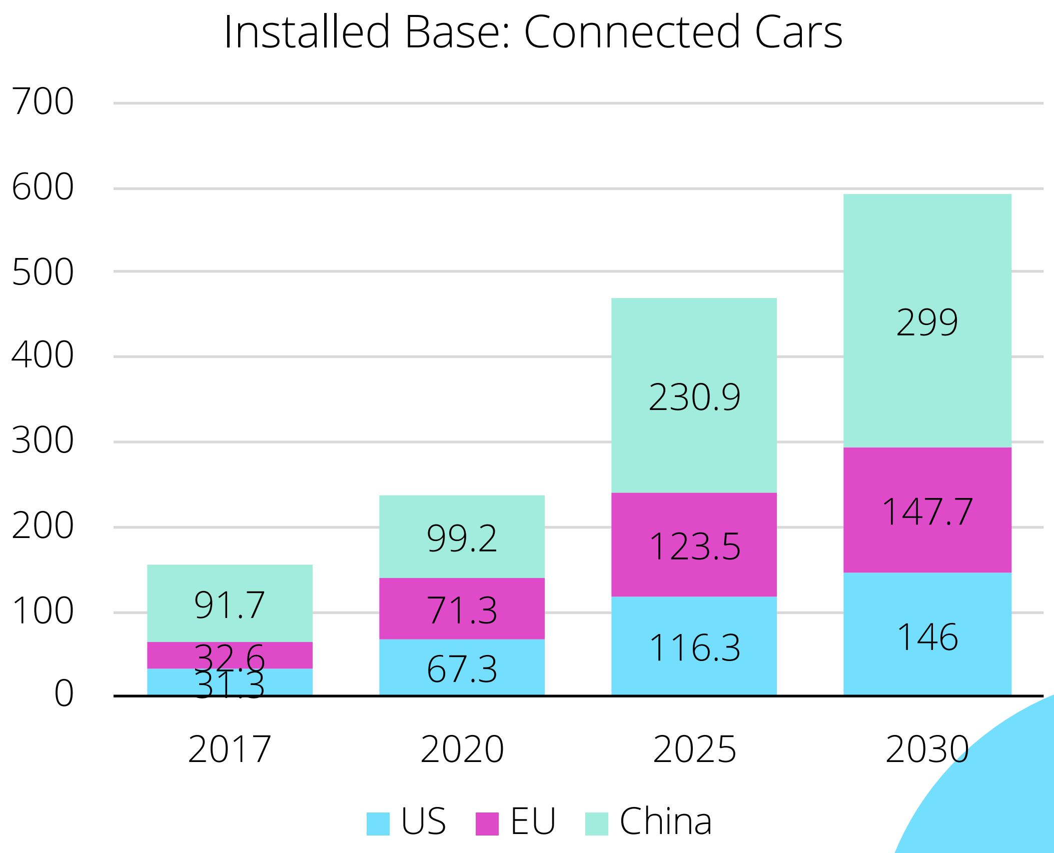
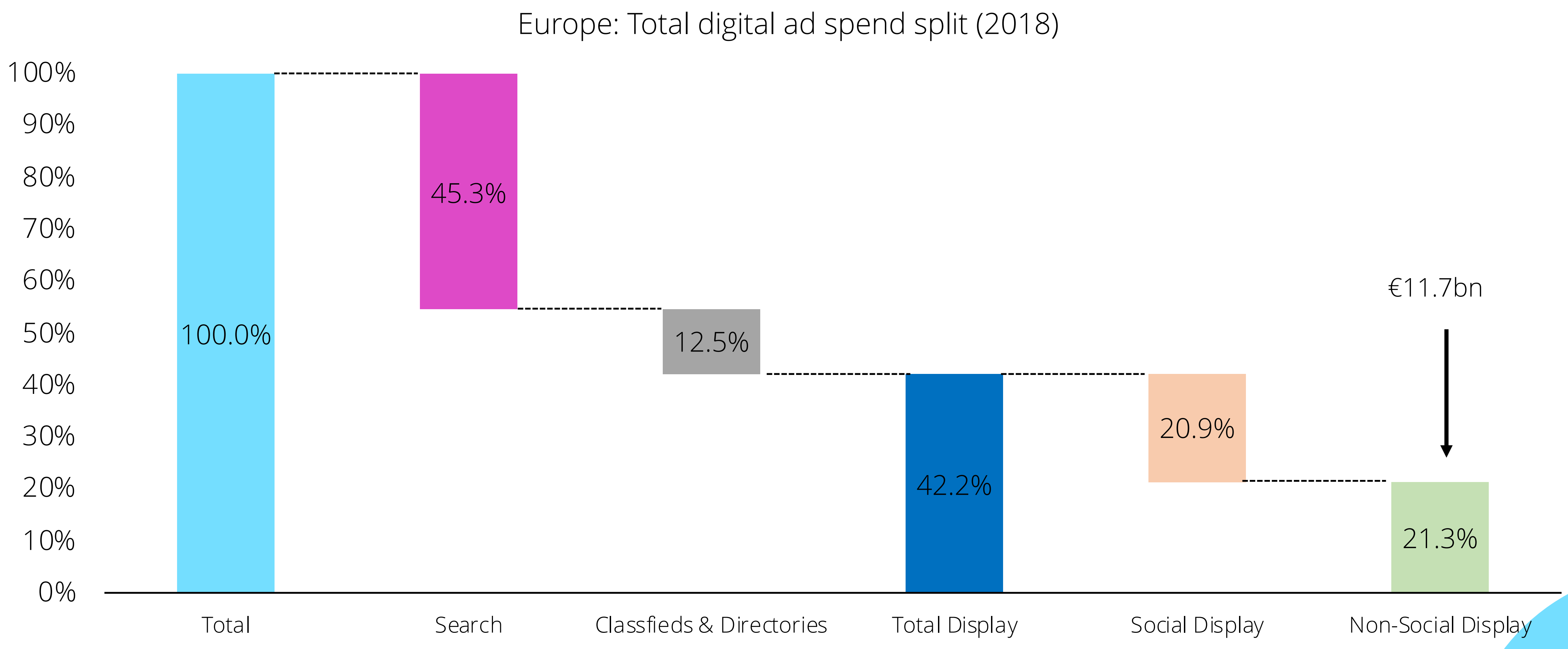
Drive time is radio time: connected car will be critical driver of programmatic audio





Source: PwC strategy& Digital Auto Report

Total digital ad market in Europe

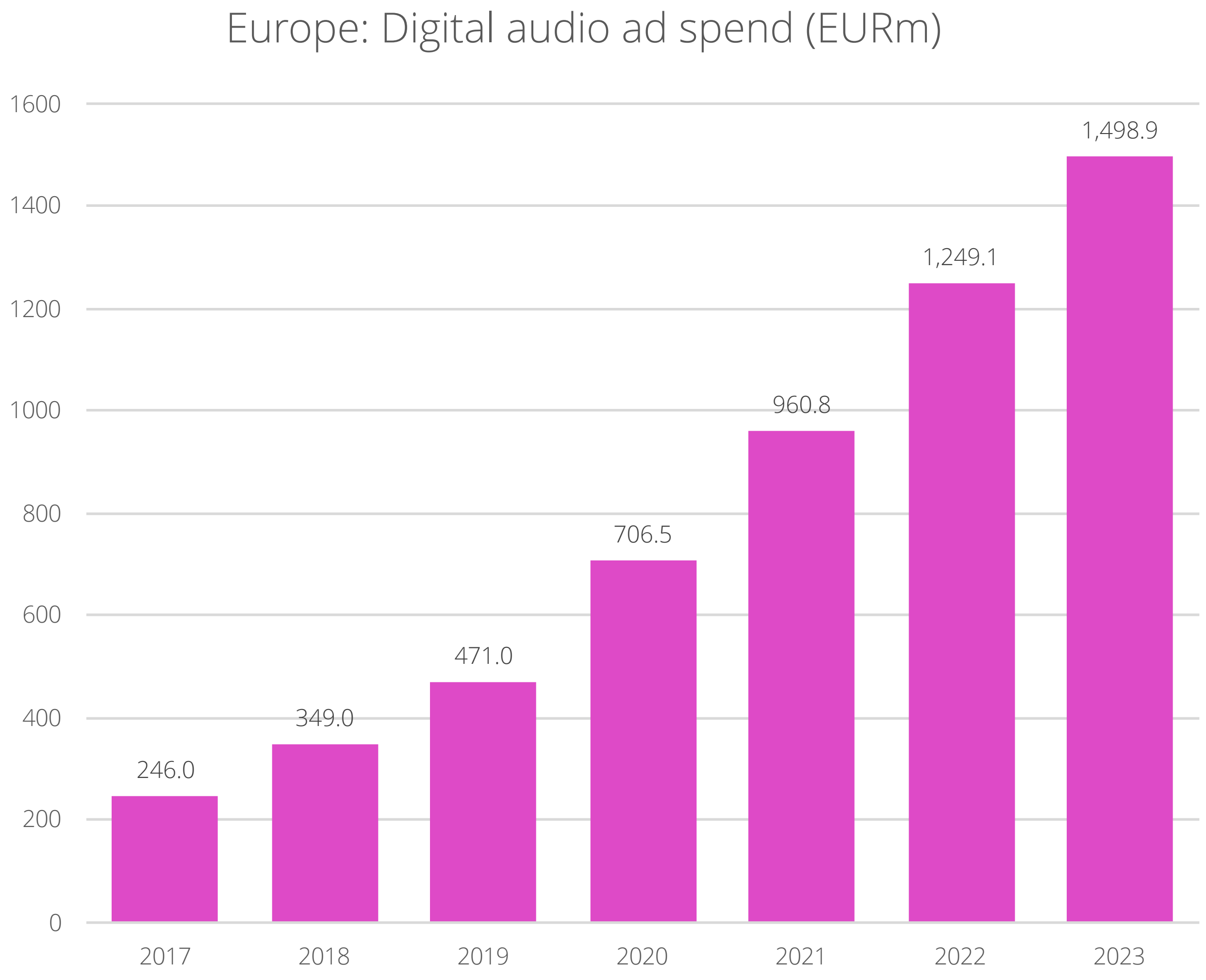


Source: IAB Europe AdEx Benchmark 2018 Study

adex Benchmark 2018

iab.europe

Digital audio ads to become a €1.5bn market



- Growth driven by podcasts, music streaming services, digital/online radio from 'legacy' radio firms.
- Smart speakers have no direct impact on growth yet but drive awareness of voice.
- Radio Apps in smart speakers will become significant growth driver.
- Log-in based streaming services have advantage due to tracking & attribution.
- Radio marketers forming alliances & investing in data pools.
- Around 80% of revenue is mobile.

Sources: Company reports, RadioCentre, own model, updated in September 2019 to reflect additional streaming services and new country data

**audio ad formats only – excludes banner & video ads sold against audio content*

CPMs indicate value of audio, but also still nascent market

Typical CPMs*

Streaming platforms (e.g. Spotify, Deezer)	Soundcloud	Podcasts
EUR 5-20	EUR 5-10	EUR 80-120

**based on buyer feedback in Germany and the UK*

4 factors underpin renaissance of audio

Quality and Trust: premium environment with low risk of fraud and a high degree of transparency.

Control: Many premium sellers operate only via private marketplaces.

Share of Voice: Most audio environments—particularly on mobile devices—offer brands 100 percent share of voice in a one-to-one setting.

Data-Driven Creative: streaming audio subscriber data paired with emerging dynamic creative solutions allow data-driven storytelling.

Some existing hurdles removed

1. Change in buying responsibility

Broadcast & analogue teams

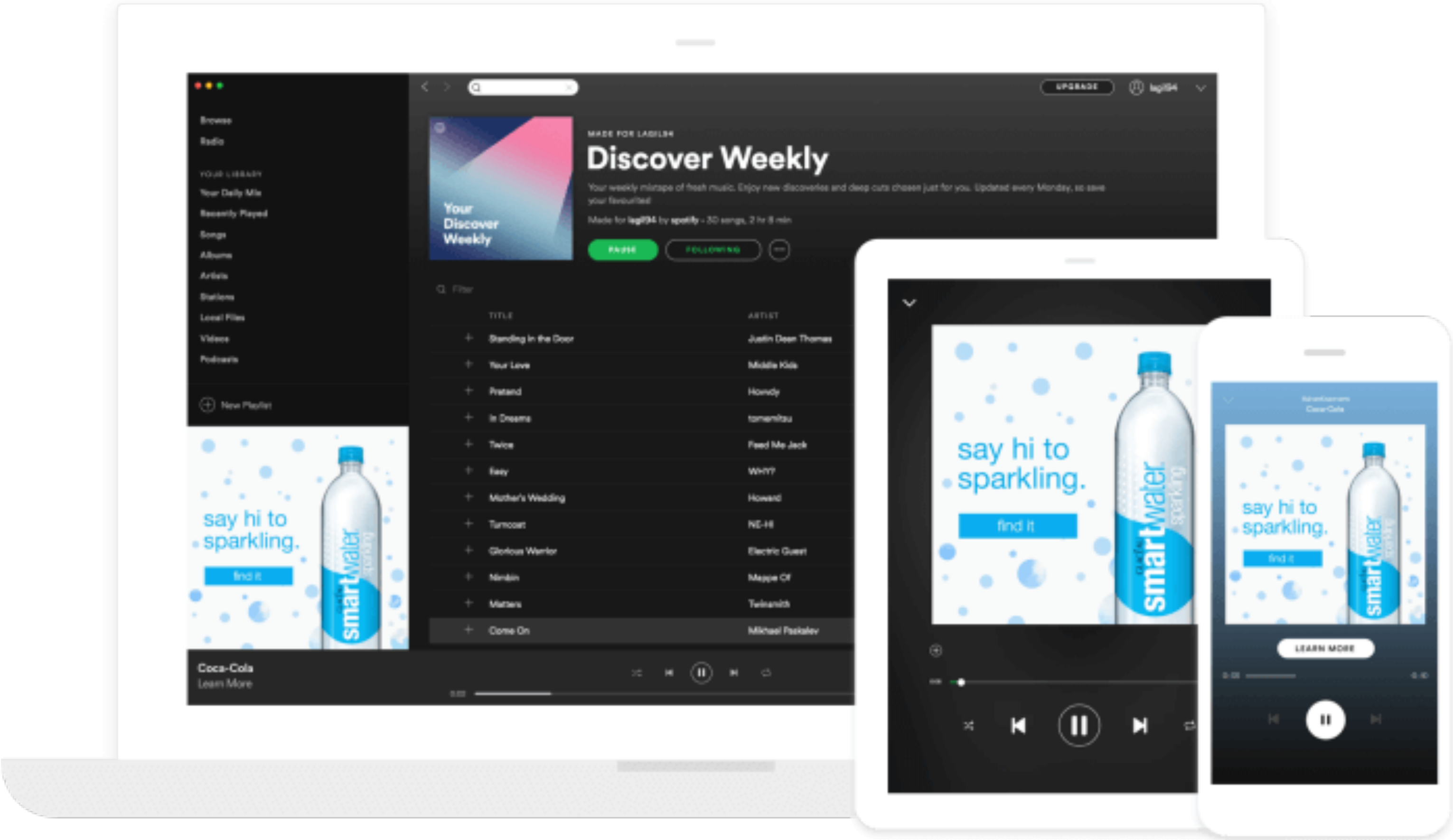
Programmatic & digital media teams

2. Standardisation

DAAST & VAST

Single marketplace through VAST 4.1

New VAST 4.1: connecting audio ads to other media forms



Source: Spotify

Dynamic creative: personalisation is fast & cost-effective

Closest airport to listener | Weather | Airport-specific holiday destinations | Temperature at specific destination | Flight departure time | Call to action

Travel campaign: 12,500 ads

Source: A Million Ads via Earshot Creative

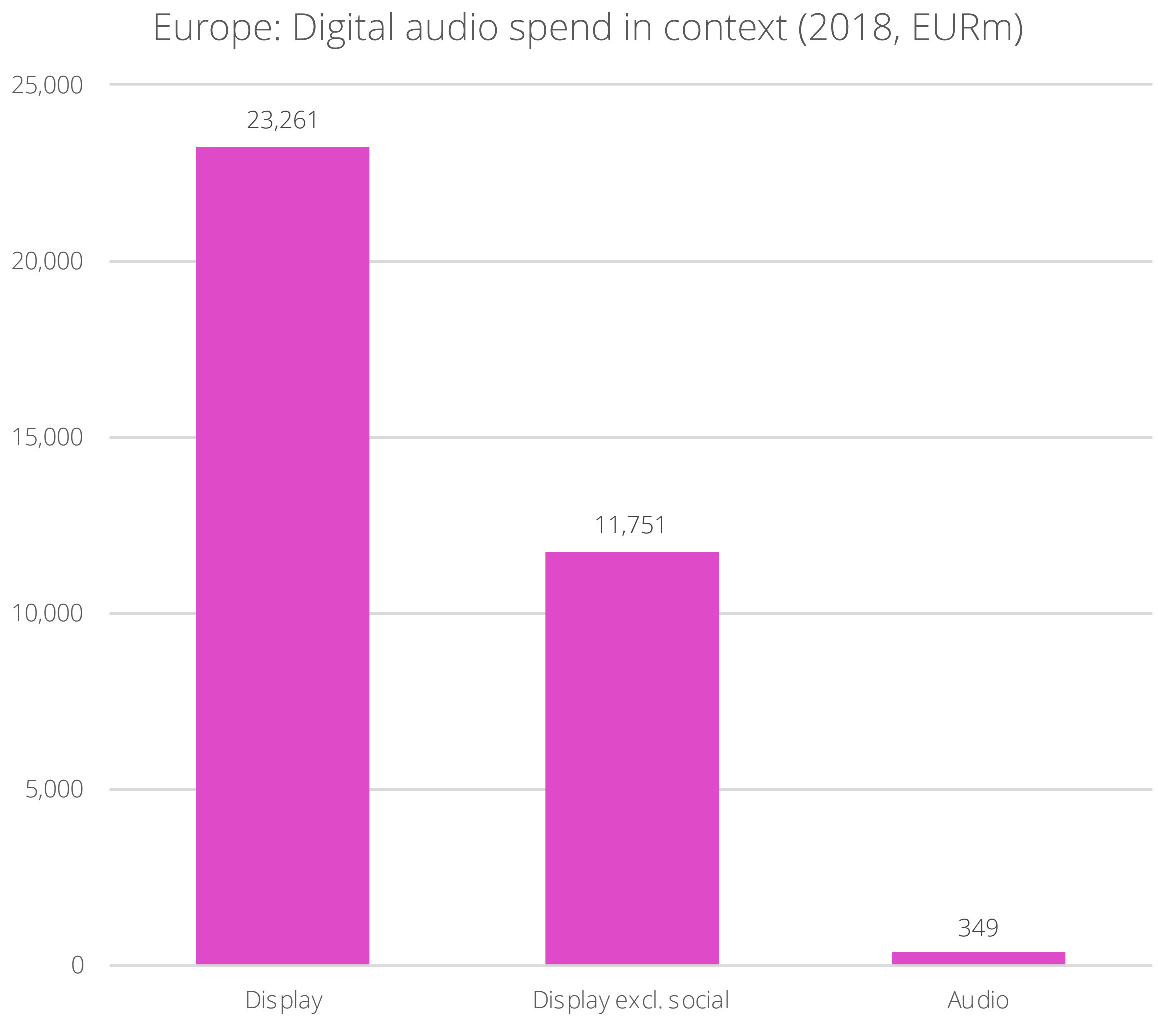
What about programmatic? Strong sector activity: pipes are being laid. Yet market too nascent to be sized accurately

sell-side | buy-side

iHeart MEDIA	P	Spotify	SOUNDCLOUD	dax DIGITAL AUDIO EXCHANGE FROM global	RMS		amillionads
acquired	*acquired*	*built*	*partners with*	*partners with*	*built*	*channels demand*	*funding from*
Jelli	adswizz	**Ad Studio**	AppNexus	heart more music variety	**Audio DMP**	SOUNDCLOUD	GMG Ventures
		partners with		BAUER	*partners with*	Spotify	
		AppNexus		SOUNDCLOUD	adswizz	Google Play Music	
		rubicon PROJECT				TUNE IN	
		theTradeDesk				P	
		TRITON					

Note: Not exhaustive. Aim is to demonstrate variety of activity for ecosystem building.

Digital audio in context: hype vs reality



Source: IAB Europe

- Despite fast growth and a vibrant ecosystem: digital audio market is still very small, ~3% of display market (excl. social)
- Programmatic so early at scale that is is hard to measure
- Benchmark: 25% of Spotify's global ad revenue ($291m in H1) is programmatic
- Estimated Spotify programmatic revenue for FY 2019: $150-160m
- But this is across display, video, audio

Limitations need to be overcome to unlock programmatic audio

1. Explosion of engagement with digital audio content, but ad-funded model has not grown at same speed

2. Underlying programmatic infrastructure was not built for audio. New native tech and adjustments required, esp. for seamless ad insertions.

3. Limited return-path data, analytics & measurement, esp. on podcasts.

4. Lack of scale: Specific audiences are already hard to find at scale in audio per se. Even more limited in programmatic, which hampers ability of campaigns to be fulfilled.

5. Crucial podcast market differentiates through 'native' ads (e.g. host-read) – this requires programmatic models that focus on workflow automation instead of RTB.

6. Fragmented inventory outside of major streaming platforms.

7. True power of audio is not as stand-alone channel, but in integration with other programmatic channels (display, video). Increases complexity, skill requirement and reduces pool of buyers (omnichannel responsibility.

8. Education audio-specific metrics required (e.g. listen-through rate, mute rate).

M&A signals heated market

Streaming platform

Podcast network

Creator tools (build & monetise)

Parcast
(true crime podcast production)

Spotify + Gimlet + Anchor + PARCAST
PODCAST. AUDIO. RADIO. RE-IMAGINED

"We want to acquire more, and have line-of-sight on total spend of $400-$500M on multiple acquisitions in 2019."
Spotify SEC filings, FY 2018

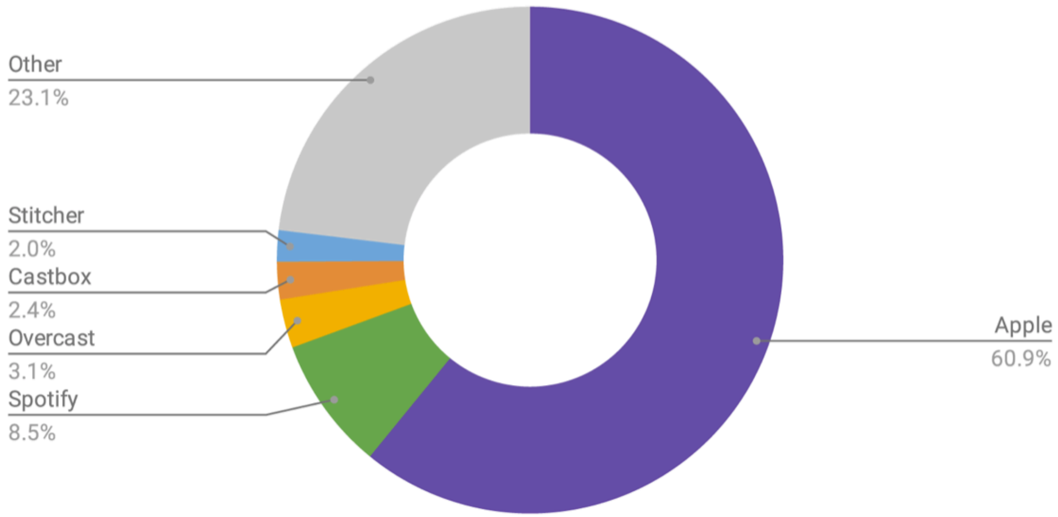
Deal value 2019 so far

$154m (Anchor)
+$195m (Gimlet)
+$55m (Parcast)

=$404m

US with Apple dominance is the battleground which will also affect the European market

US: Podcast player market share 2018

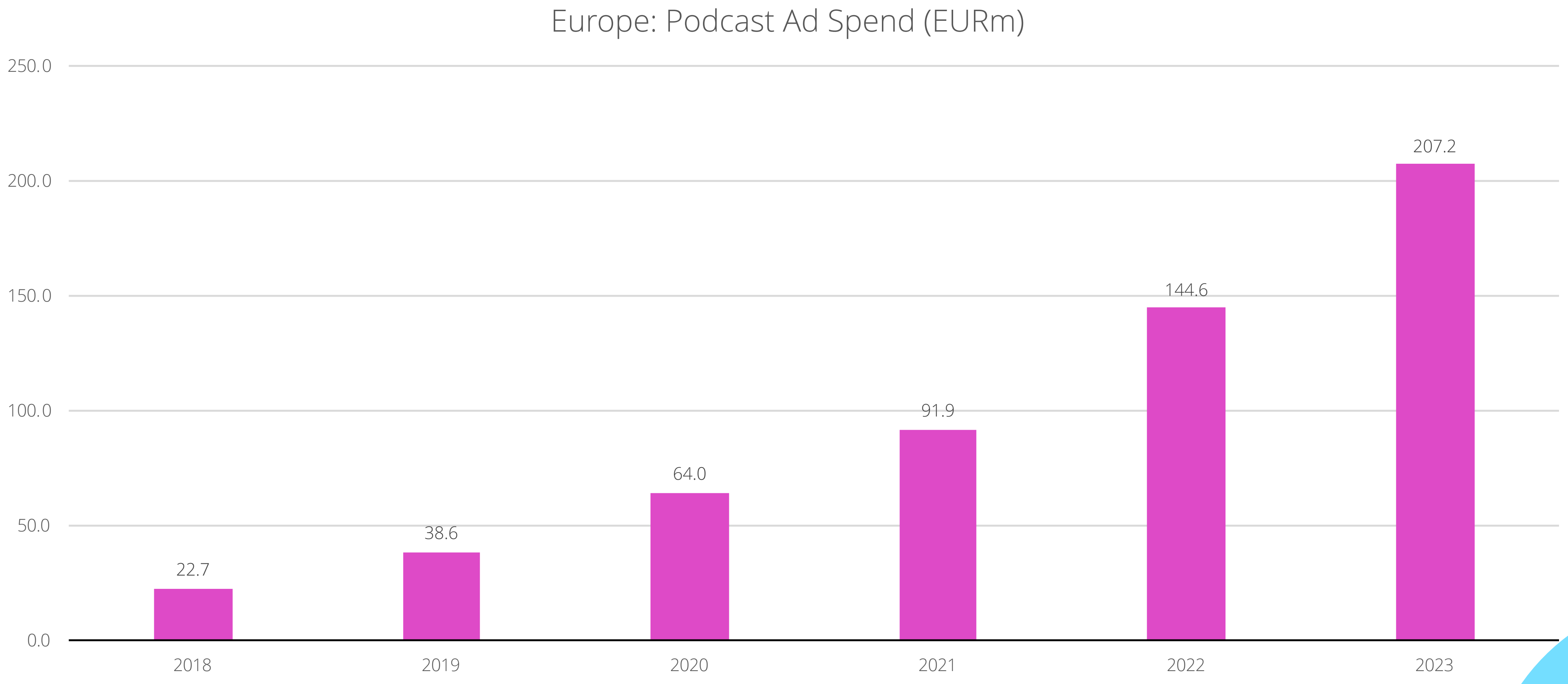


Battle for market share gains

- Apple engrained with podcast platform natively installed in iOS
- Development of original productions (e.g. Spotify deal with Amy Schumer)
- Scale through third party platforms
- End-to-end lifecycle for producers & owners

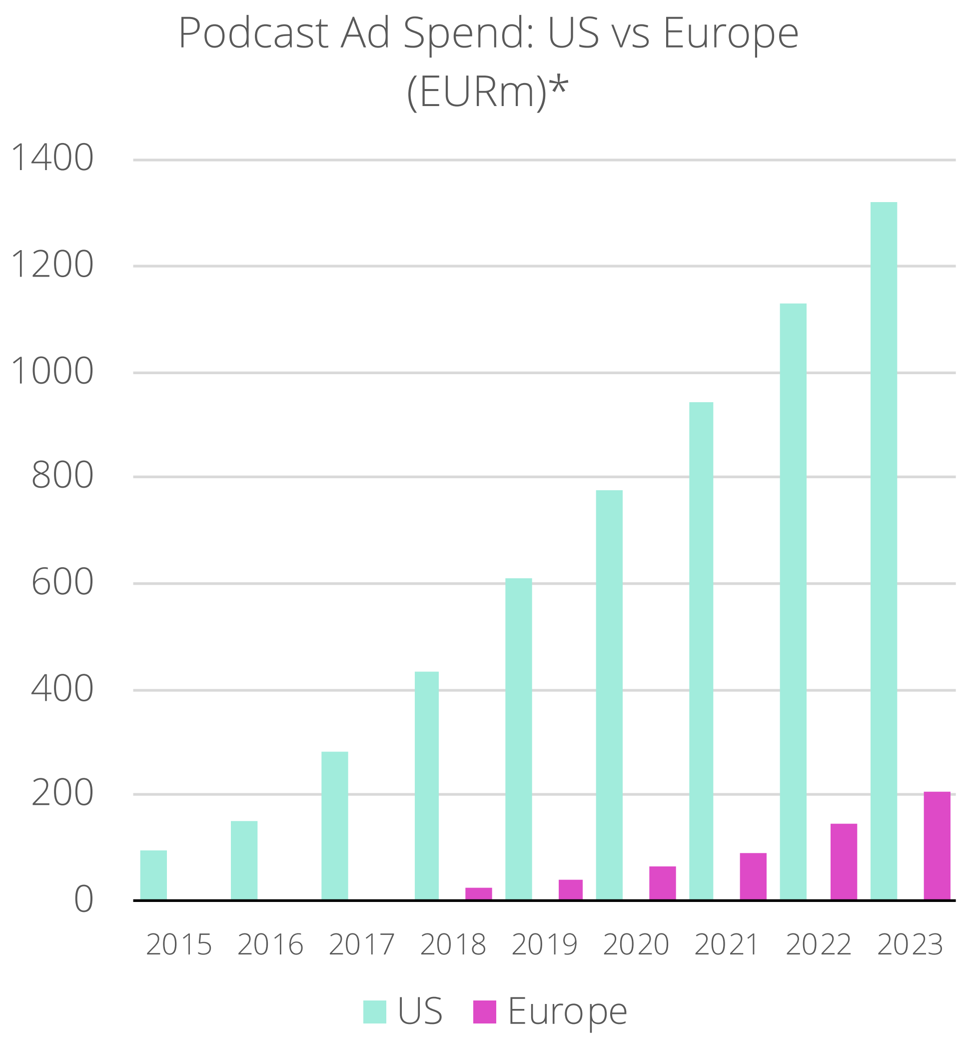
Source: Chartable.com

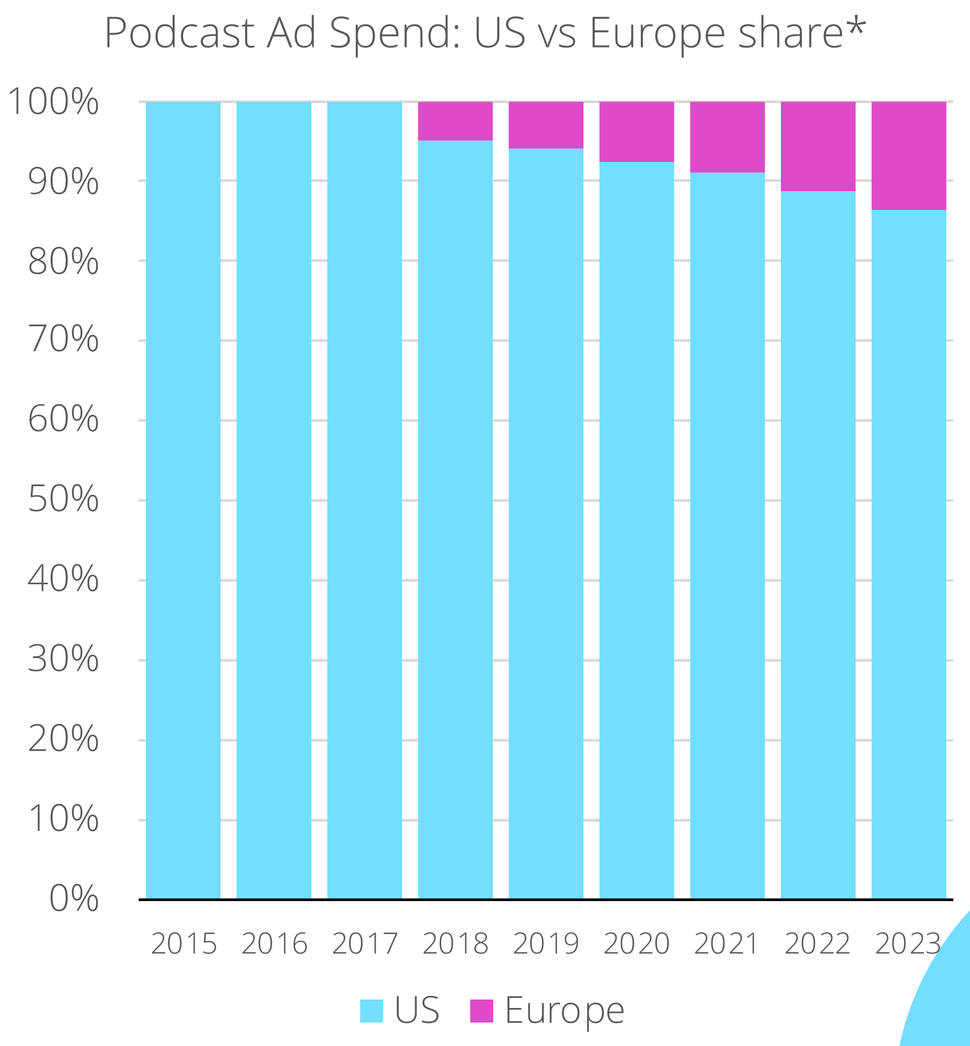
Podcast ad spend to grow with CAGR of 52%



Source: IAB Europe

Europe trails behind the US, but is catch

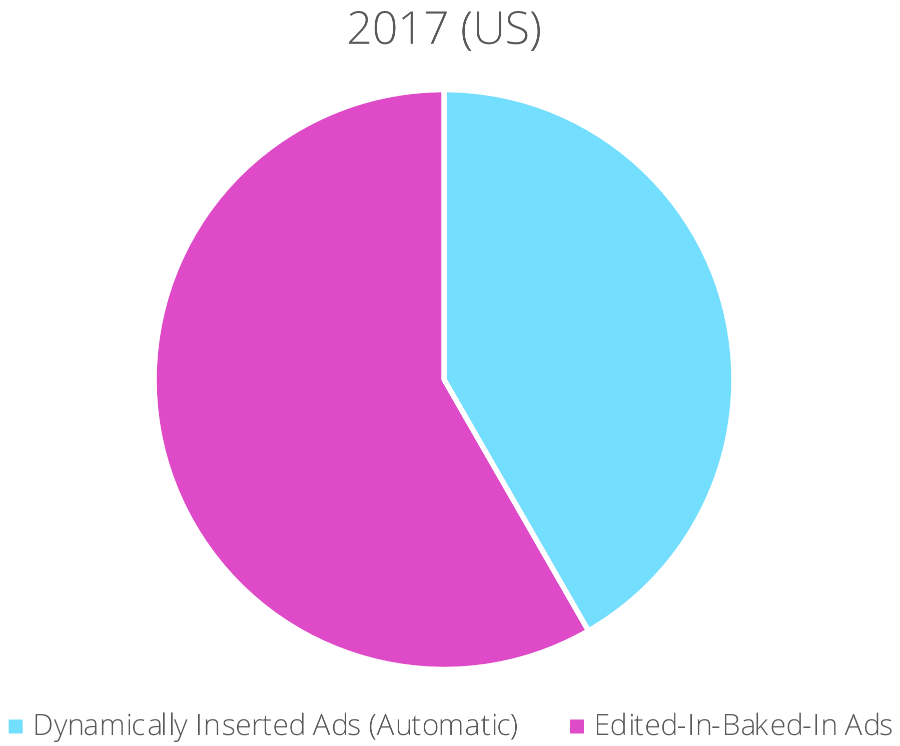


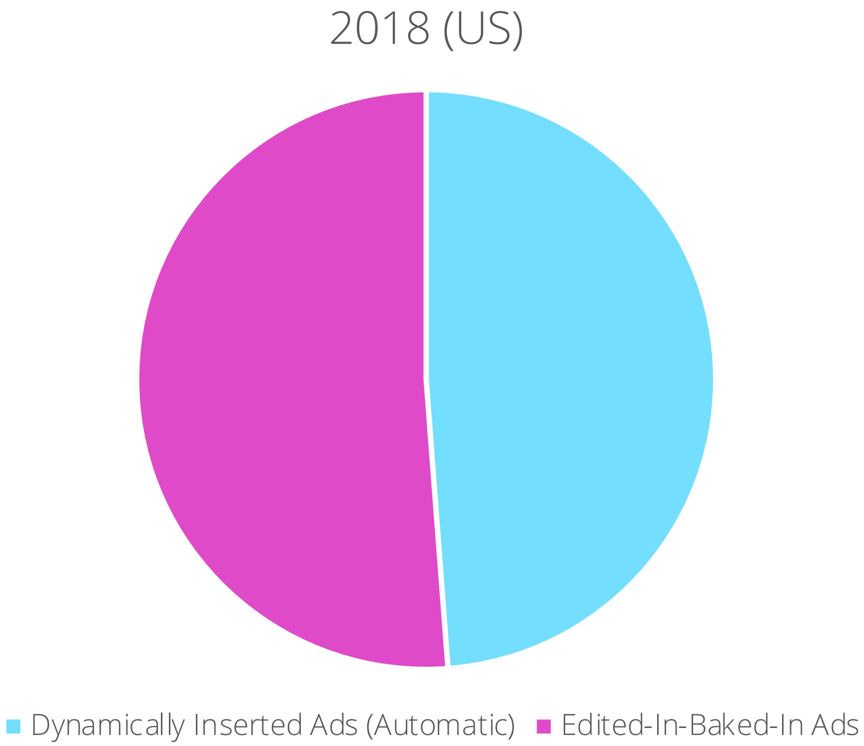


Source: IAB Europe; US data 2015-2021 is from IAB US/PwC, 2022-2023 are own projections

**no data for Europe prior to 2018*

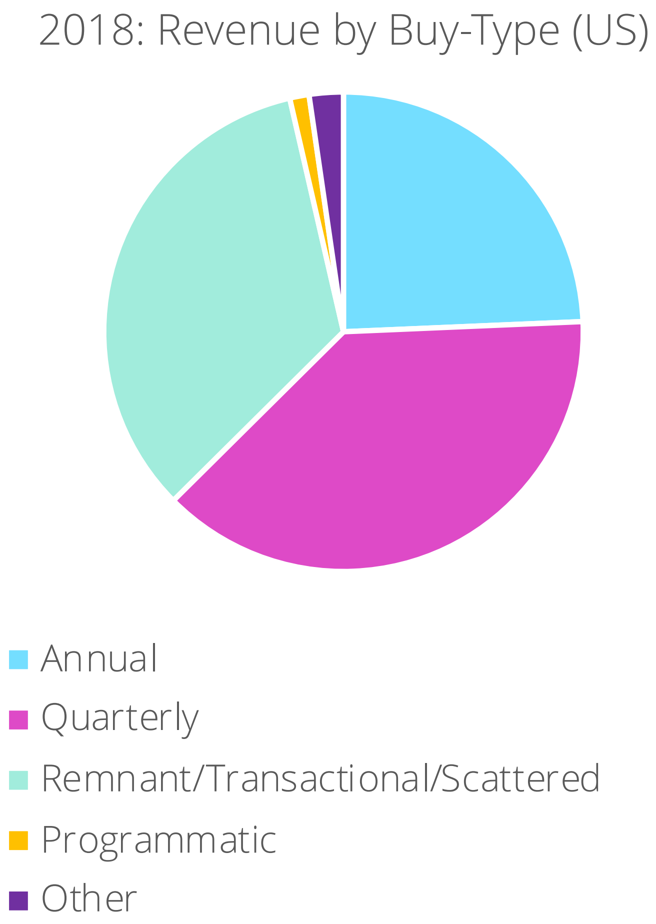
Podcasts: dynamic ad insertion on the rise

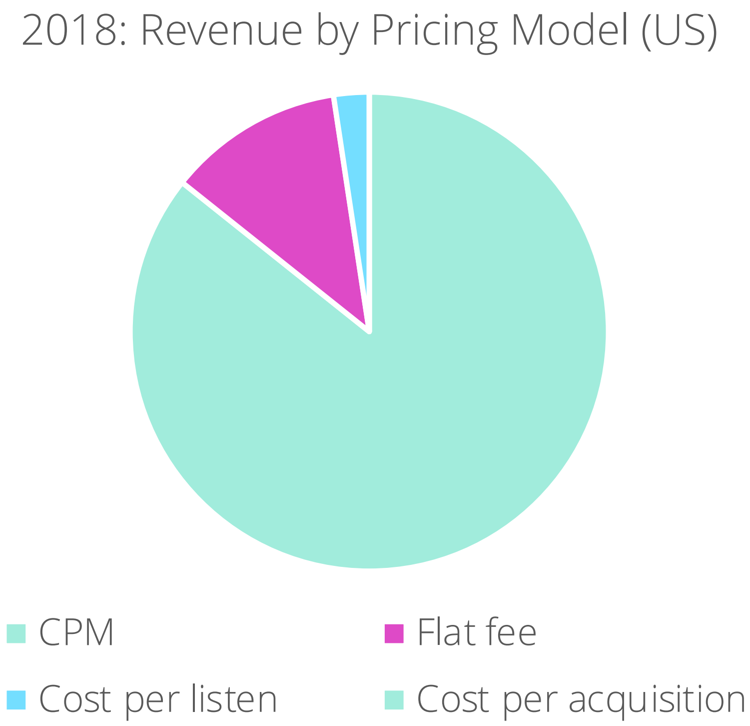




Source: IAB US/PwC, 2019

Programmatic nascent, CPM model dominates





Source: IAB US/PwC, 2019

New breed of advertiser uses podcasts to engage with digital-native consumers

Revenue (by Business Category)	2017	2018	% Change
Retail (Direct to Consumer)	16.2%	22.2%	37.0%
Financial Services	18.1%	20.7%	14.4%
Business-to-Business	12.3%	14.1%	14.6%
Arts & Entertainment	12.5%	9.6%	-23.2%
Telecommunications	4.0%	7.1%	77.5%
Retail (Brick & Mortar / eCommerce)	6.3%	5.9%	-6.3%
Corporate	3.6%	4.7%	30.6%
Other	12.2%	4.3%	-64.8%
Consumer Packaged Goods	3.1%	2.5%	-19.4%
Travel and Tourism	1.2%	2.4%	100%
Pharmaceuticals, Healthcare, Drugs, and Remedies	0.7%	2.3%	228.6%
Automotive / Automotive Services	6.4%	2.1%	-67.2%
Beverage / Restaurants	3.3%	2.1%	-36.4%

73.7% ad revenue captured in 2018

Source: IAB US/PwC, 2019

Platformisation of podcasts will drive programmatic adoption

"We've had a pretty significant number of brand advertisers reach out [...] What they've said is, 'We like this space, we think it has our audience, it has enough reach; is there a way we can quantify whether the ads work?' [...] And the answer is, 'Maybe.'"

Agency Executive

Sample podcast platforms & attribution providers

MIDROLL
A STITCHER COMPANY

ADVERTISECAST

Chartable

Source: As quoted in Digiday

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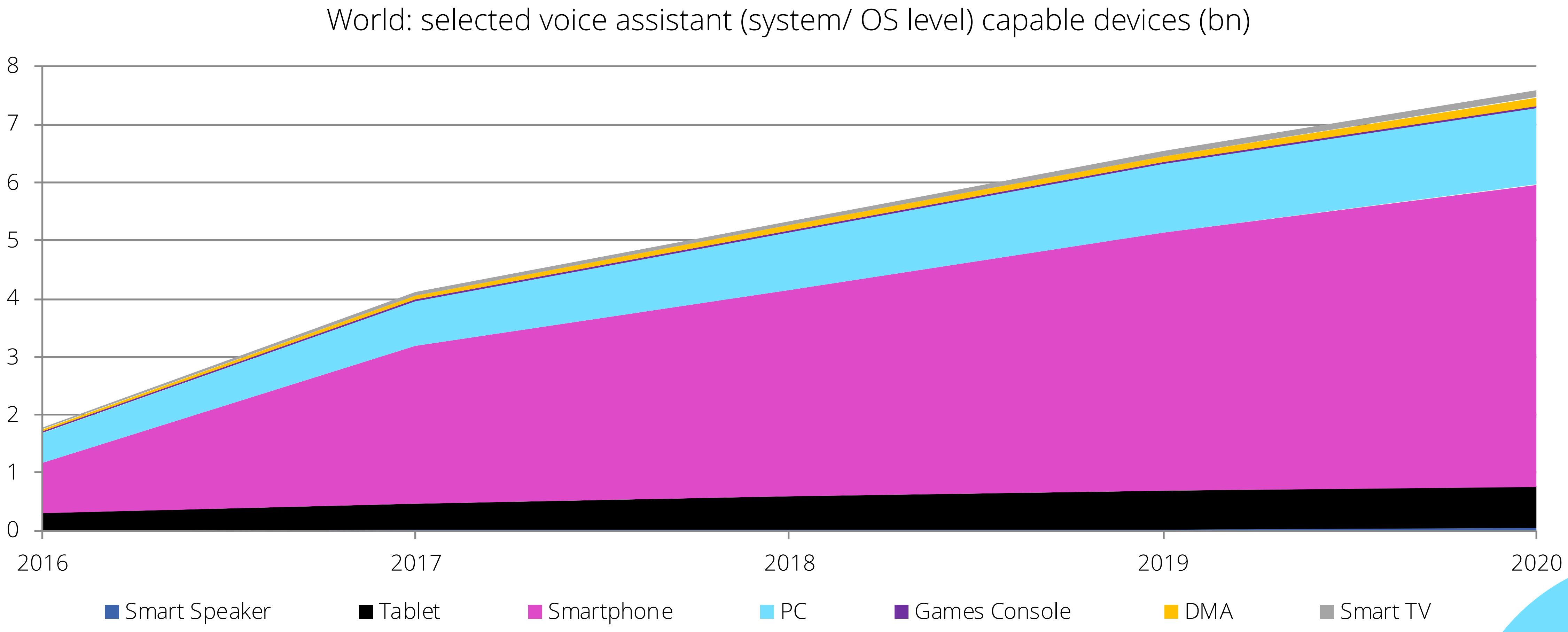
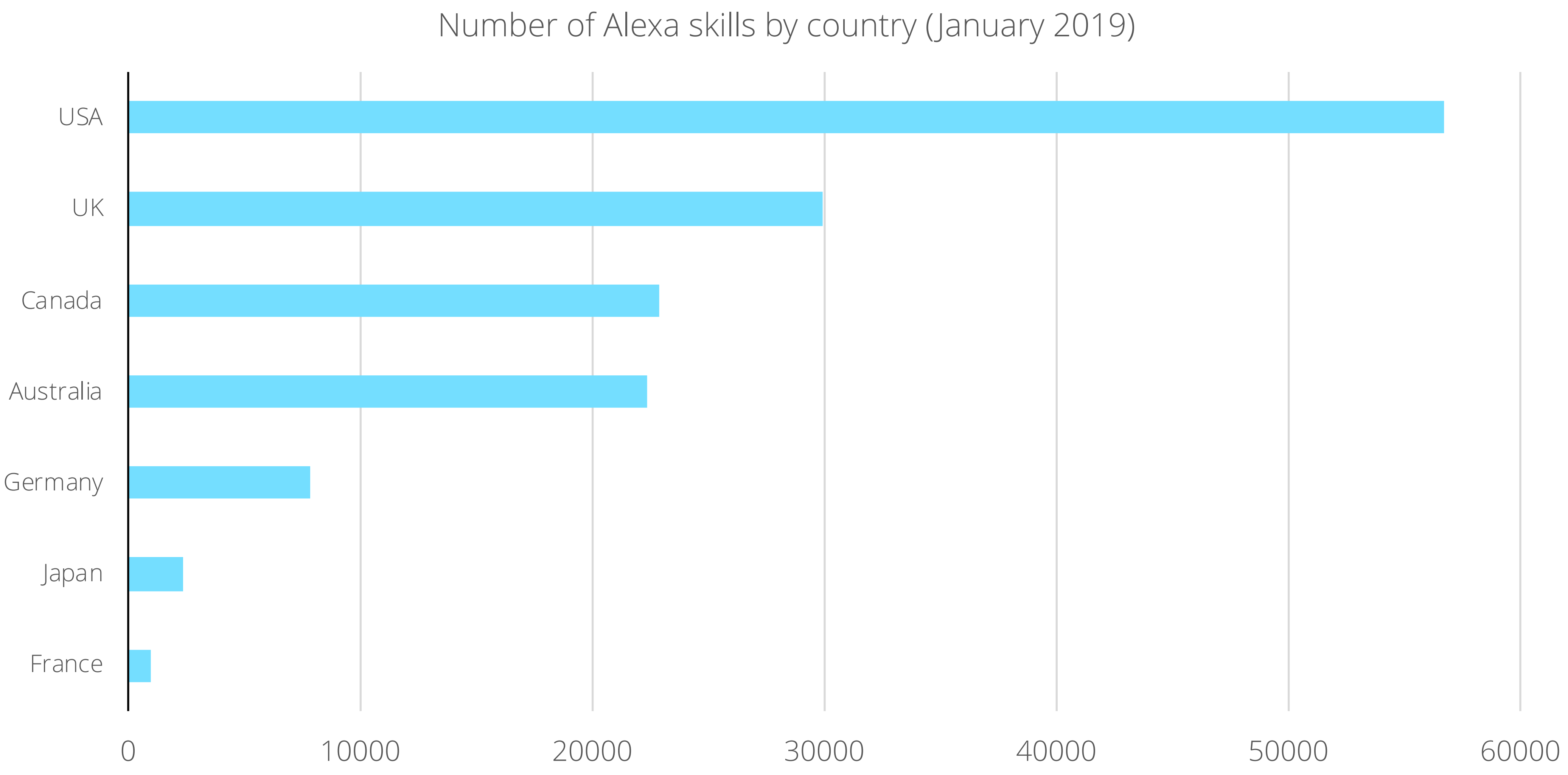
More than 7bn voice assistant capable devices in use by 2020: 7% of marketers see them as top priority



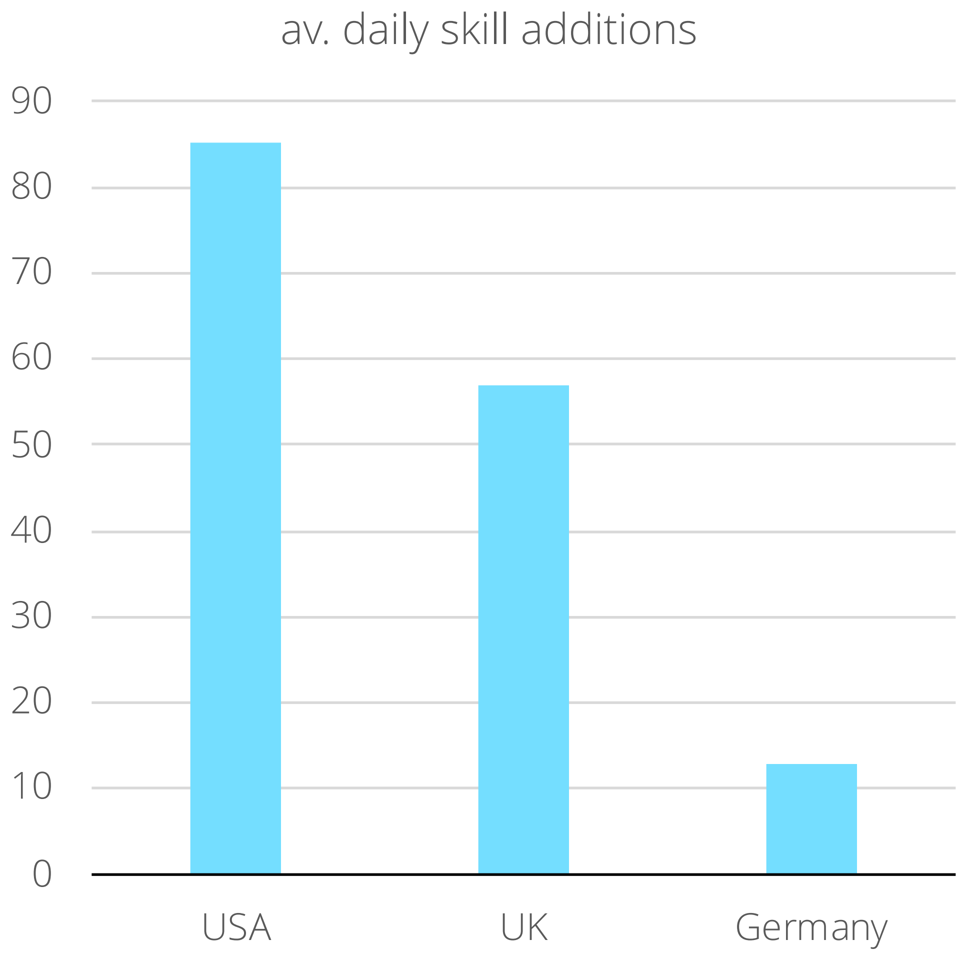
Source: IHS Markit

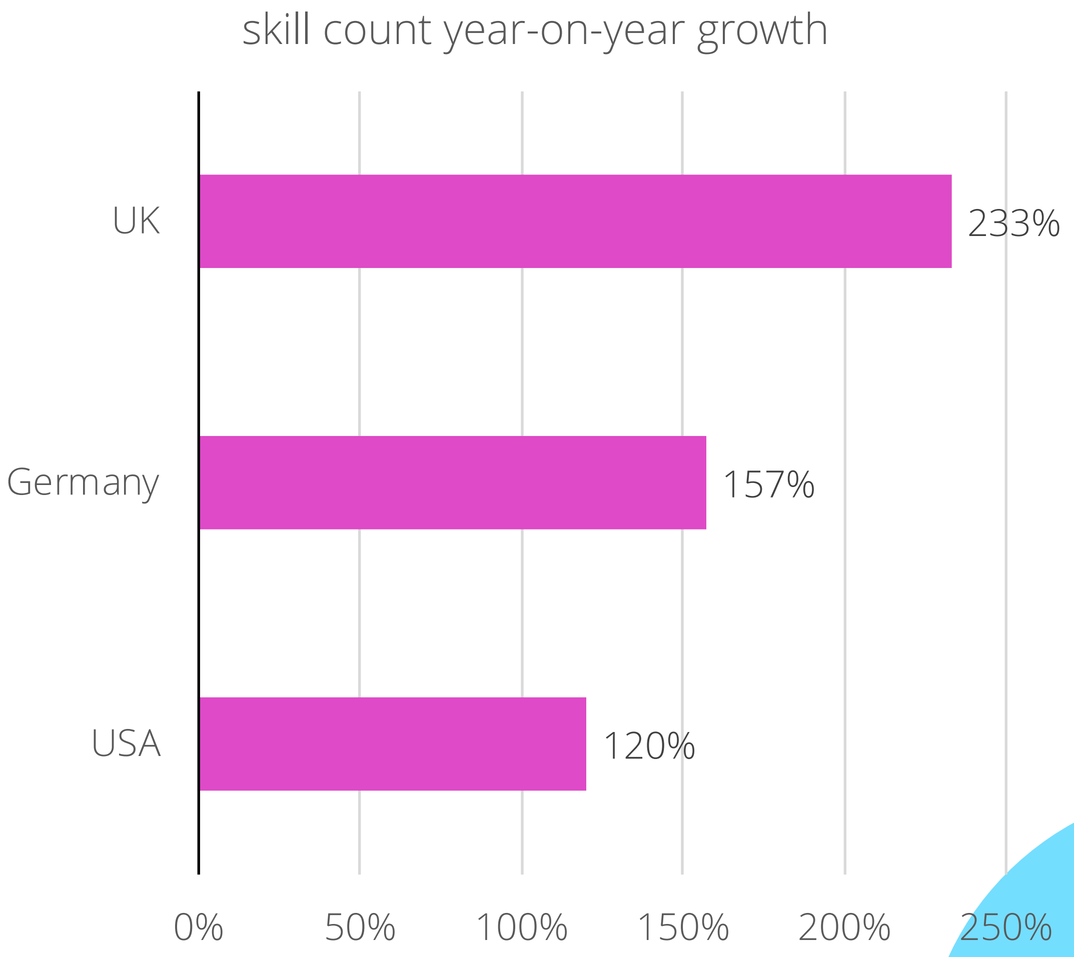
Over 80,000 Alexa skills worldwide



Source: voicebot.ai

Alexa: skill growth is both good and bad news: ecosystem growth, but discoverability impacted





Source: voicebot.ai

Emerging marketing strategy on voice assistants

Voice direct

branded skills

'on assistant' paid media (spots, sponsorships, promotions), e.g. via VoiceLabs

aural identity (e.g. earcons)

Voice indirect

Continuous monitoring & intelligence

Hijacks, Exploits

Outside voice ecosystem

Trigger consumer actions on voice through off-voice brand advertising

Underlying search engine (e.g. Google, Bing)

Store placement strategy(e.g. Amazon placement strategy)

Algorithms

Reality check: for major players, the programmatic audio revolution will be part of the display & video world

Amazon Echo

Amazon Echo Spot

Amazon Echo Show

Watching radio

Google Home

Google Home Hub

Spotify annual results

"[...] our premium video offerings outpaced overall growth, growing 74% and reaching 29% of Ad-Supported revenue."

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Marketing is bigger than advertising, and voice applications reflect this

Customer Engagement & Loyalty

McDonald's Acquires Voice Startup Apprente to Build Drive-Thrus With Voice Assistants

Owned media

Oreo Releases Alexa Skill for Mystery Flavor Challenge

ERIC HAL SCHWARTZ on September 16, 2019 at 10:14 am

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