

IAB Europe Economic Trends Forum: 2020 Outlook



Dr Daniel Knapp
Chief Economist, IAB Europe

Brussels, 11th December 2019

iabeurope.eu

Cyclical

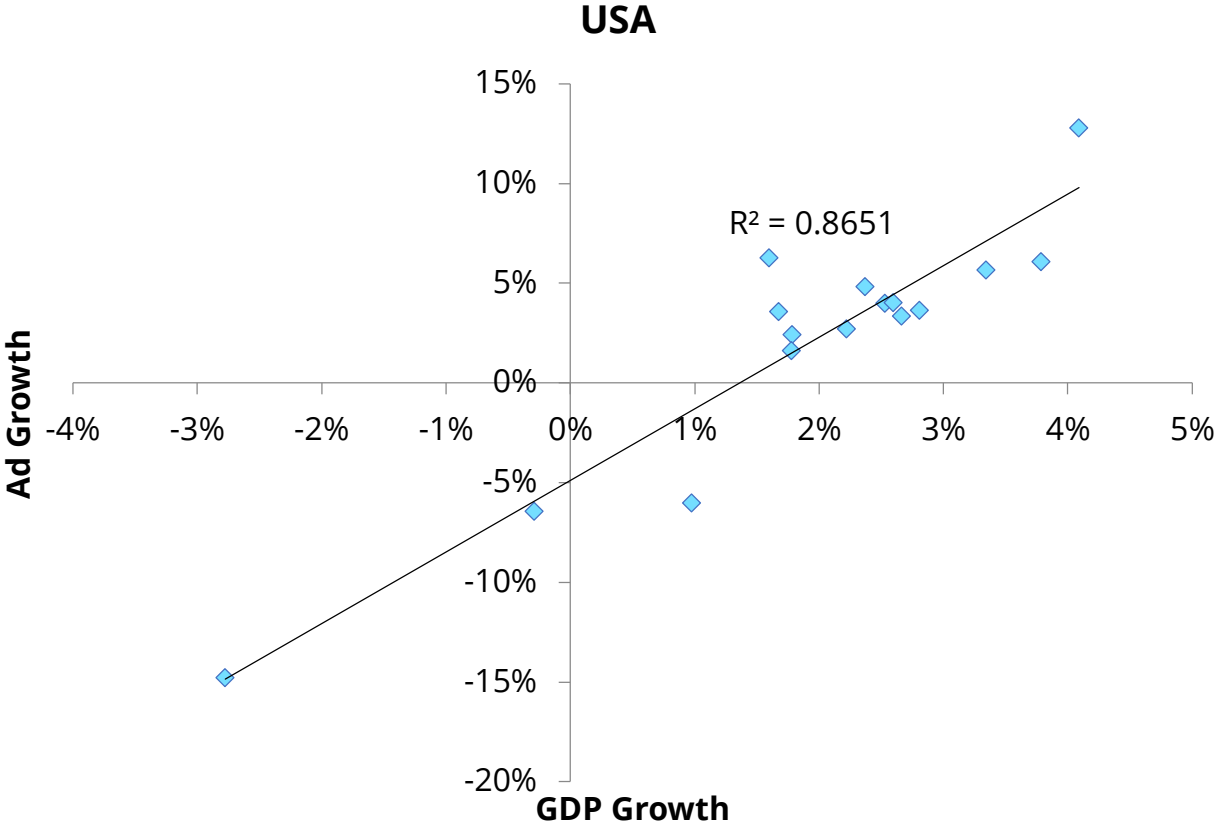
Structural

Endogenous

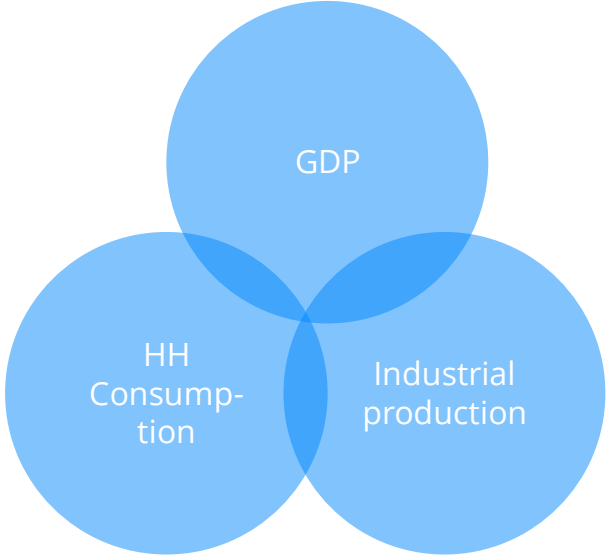
Exogenous

2020 is going to be shaped by a multitude of forces. These have different origins and different longevity. To better contextualise these forces, the labels on the left will be used.

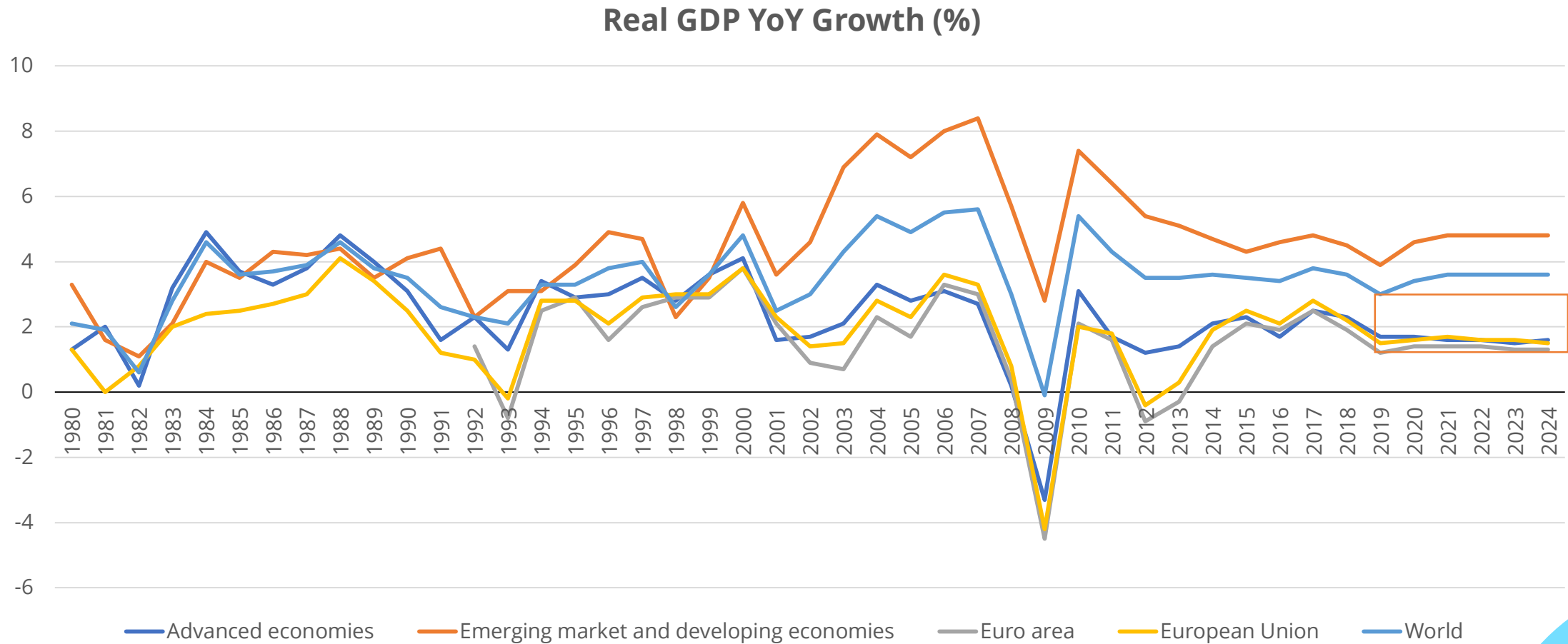
Ad spend is correlated to economic growth



3 important macro variables



Real GDP growth below 2% YoY in Europe



Uncertainty impacts global economic investment

“Uncertainty is the enemy of the business cycle, and “uncertainty still reigns.”

Chetan Ahya, Chief Economist
Morgan Stanley

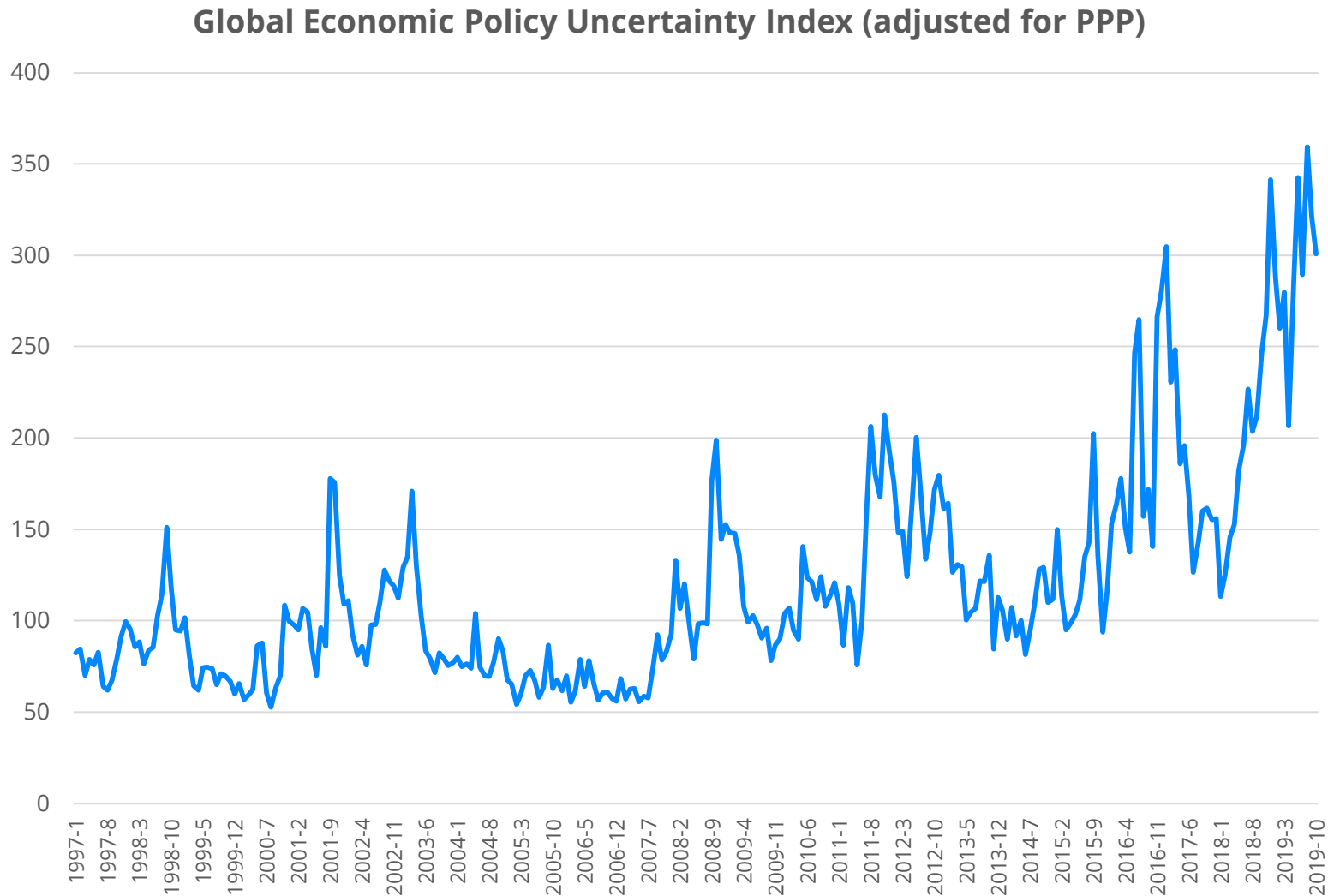
“We’re still in the middle of really trying to understand where the trade talks are going to land and how that’s going to impact the overall economy.”

Mary Barra, CEO General Motors

“Brexit [uncertainty] made it too risky to put a Gigafactory in the UK.”

Elon Musk, CEO Tesla

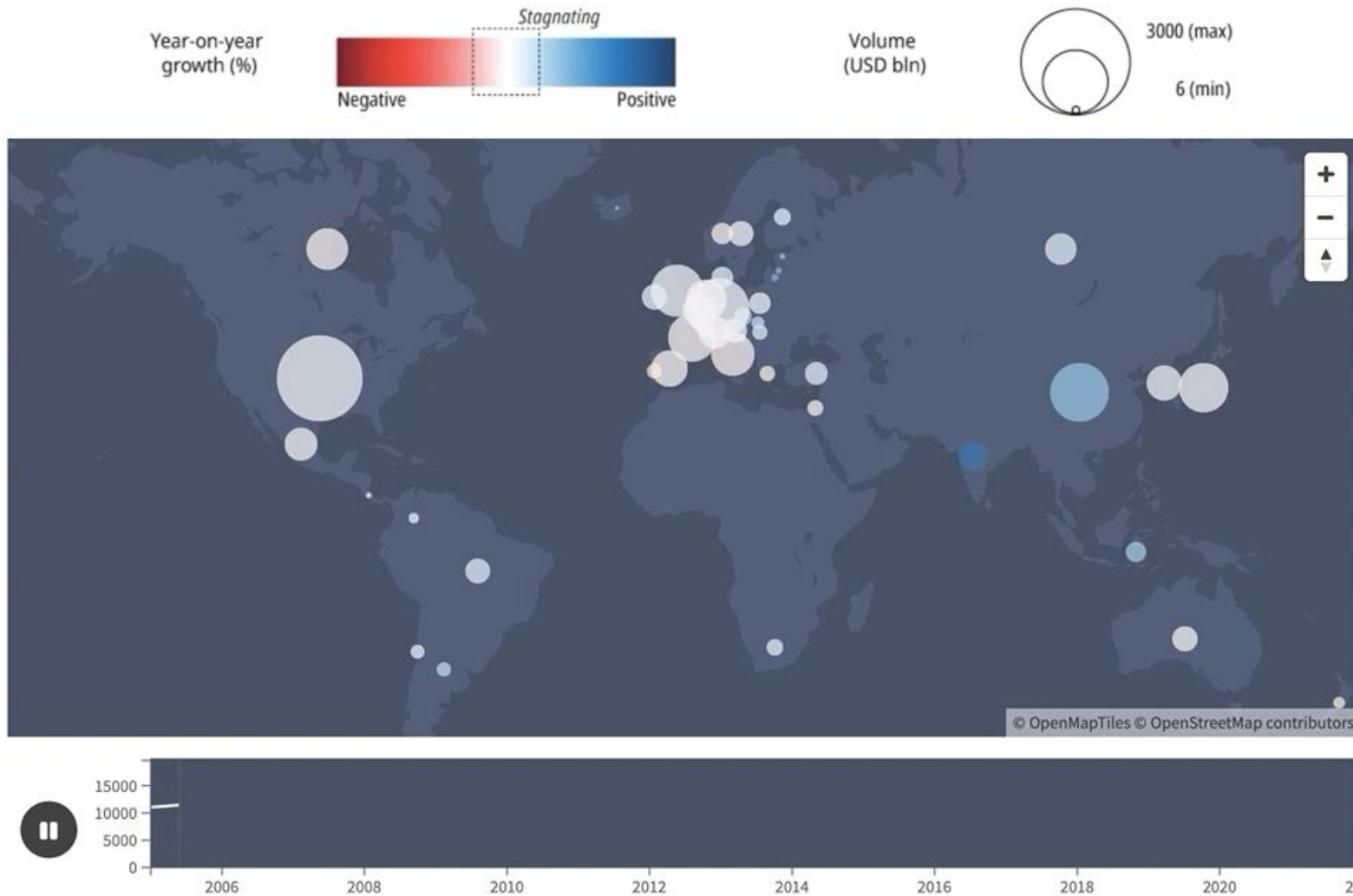
Uncertainty indicators on highest recorded levels



- Developed by Kellogg, Stanford, Booth economists.
- Quantified newspaper coverage of policy-related economic uncertainty.
- Number of federal tax code provisions set to expire in future years.
- Disagreement among economic forecasters as a proxy for uncertainty.
- Global index focusses on trio of terms relating to economy (E), policy (P) and uncertainty (U) in news coverage.
- Calculated monthly as GDP-weighted average.

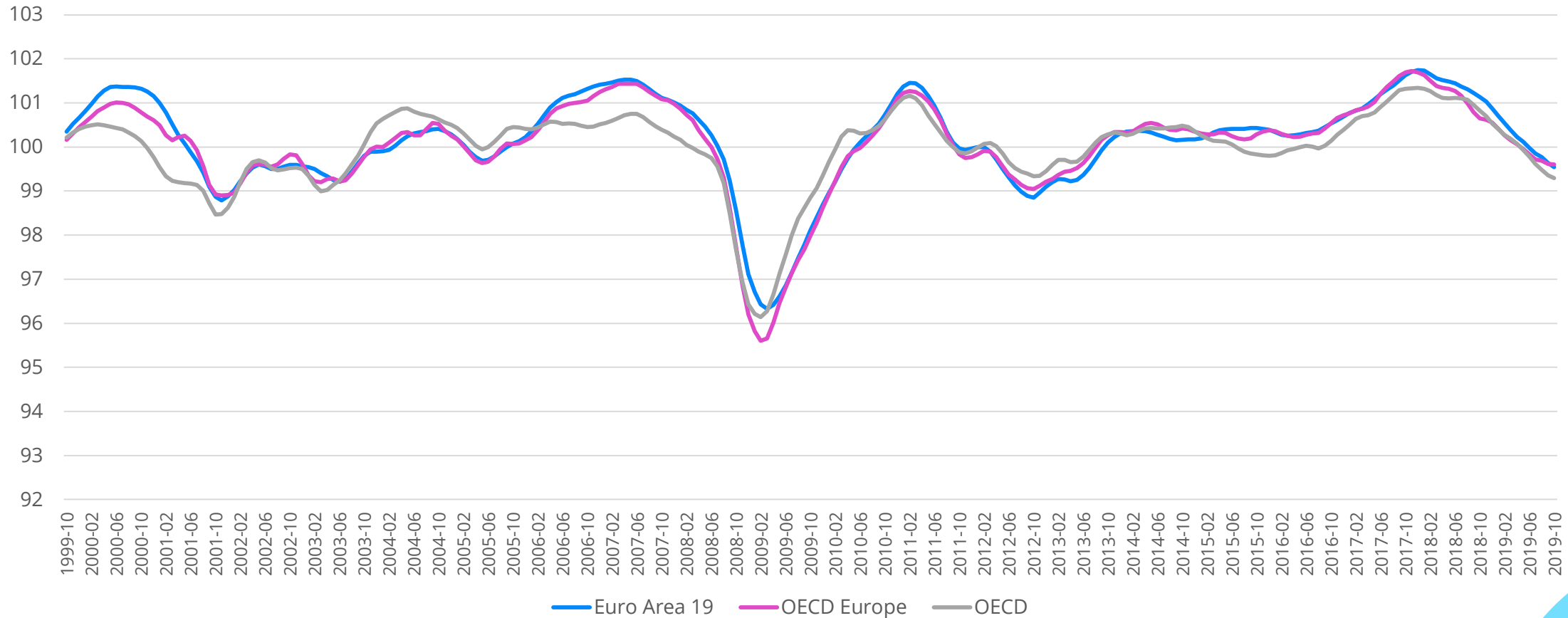
Global trade is stalling as trade conflicts heat up

Growth in imports & exports

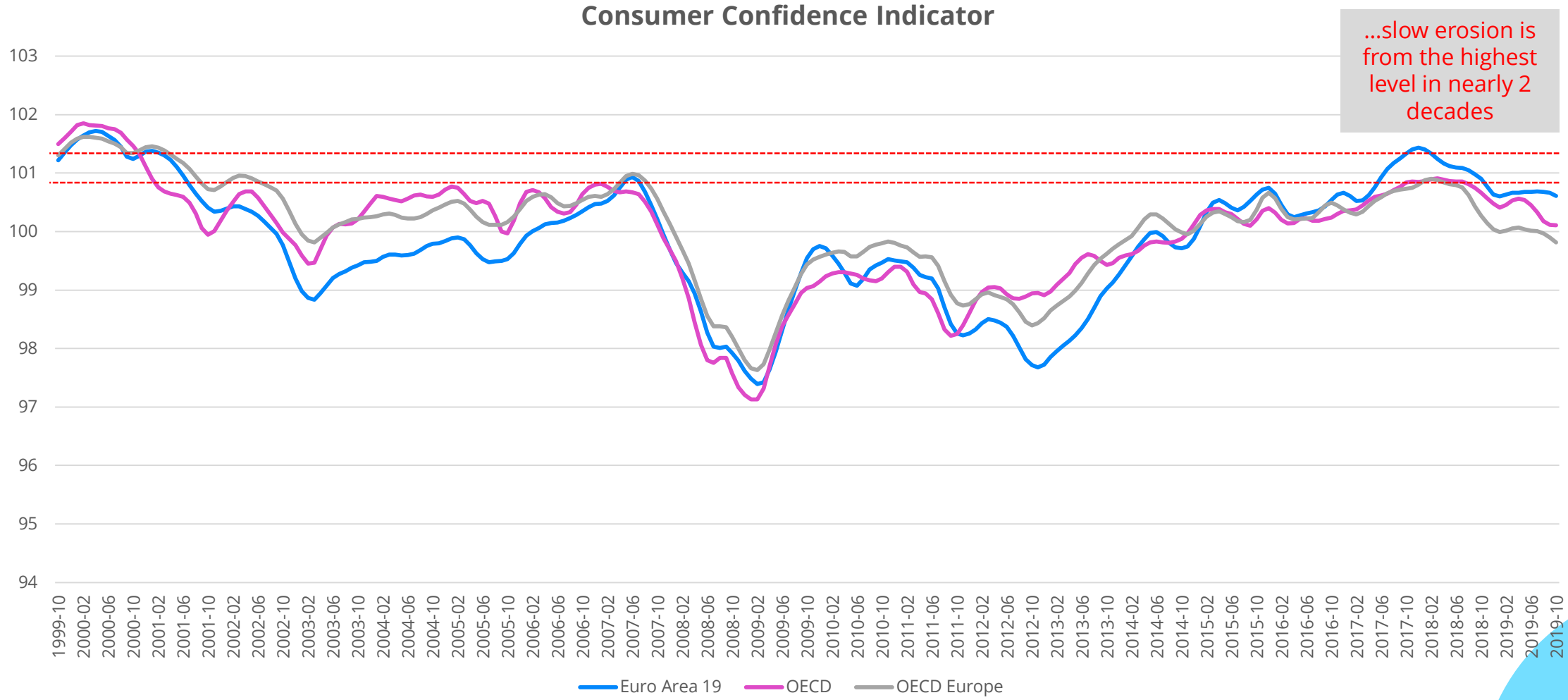


Business confidence in 22 months consecutive decline

Business Confidence Indicator

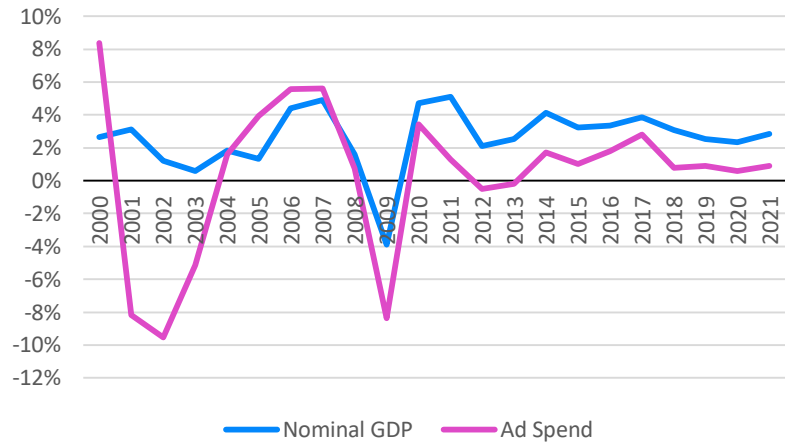


But consumer confidence has so far bucked the downward trend...

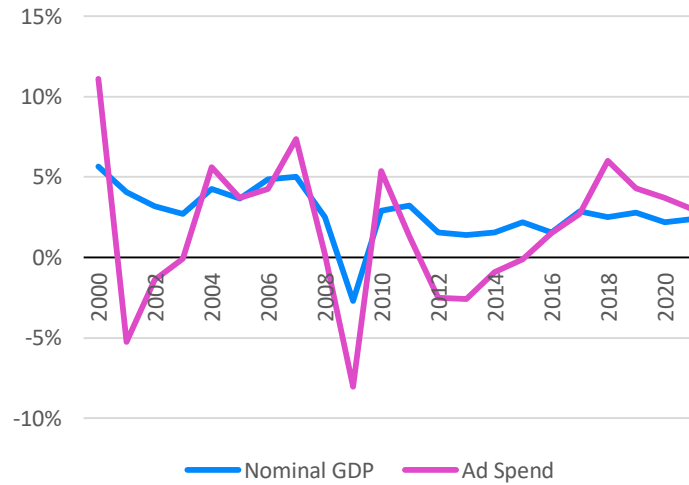


Advertising in Europe not a multiple of economic growth anymore – but exceptions to the rule exist

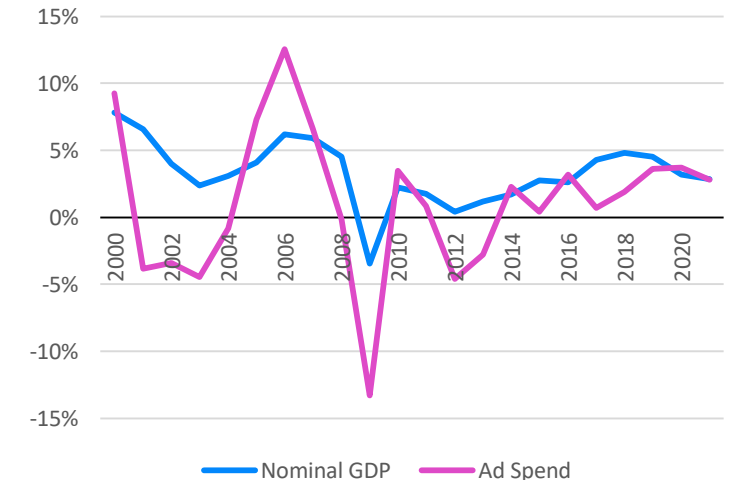
Germany



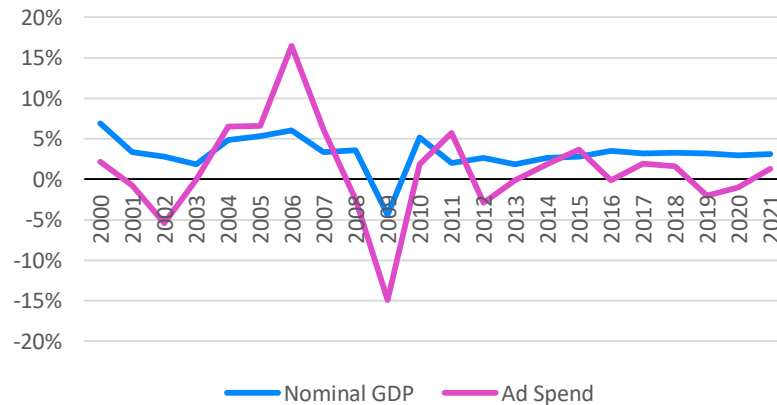
France



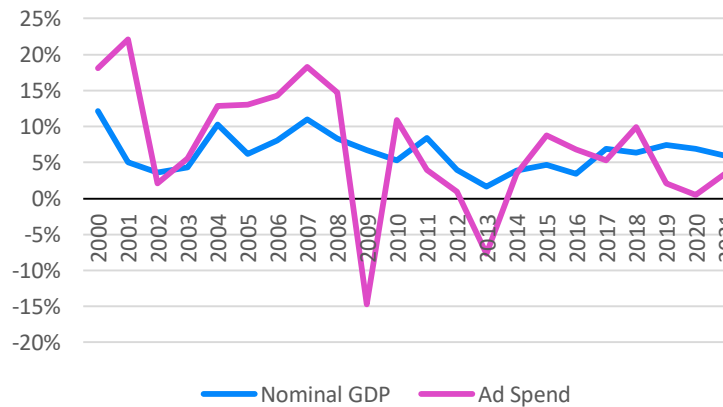
Netherlands



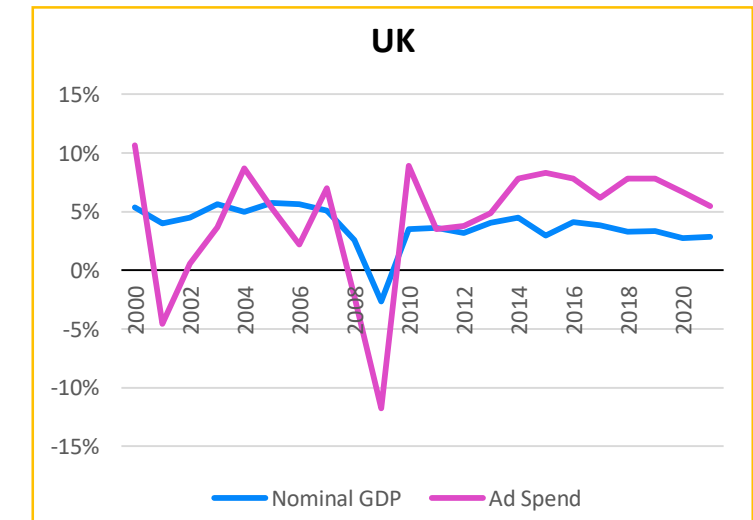
Denmark



Poland



UK



Exceptionalism fueled by digitally-native brands & small advertisers

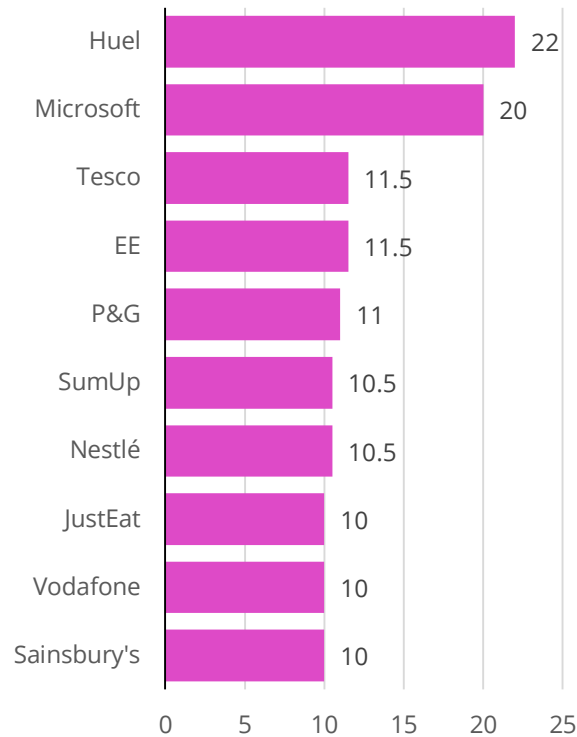
“Notably, a substantial share of global advertising is now accounted for by digital-first brands that are endemic to the internet.”
GroupM



\$1bn+ annual marketing spend*

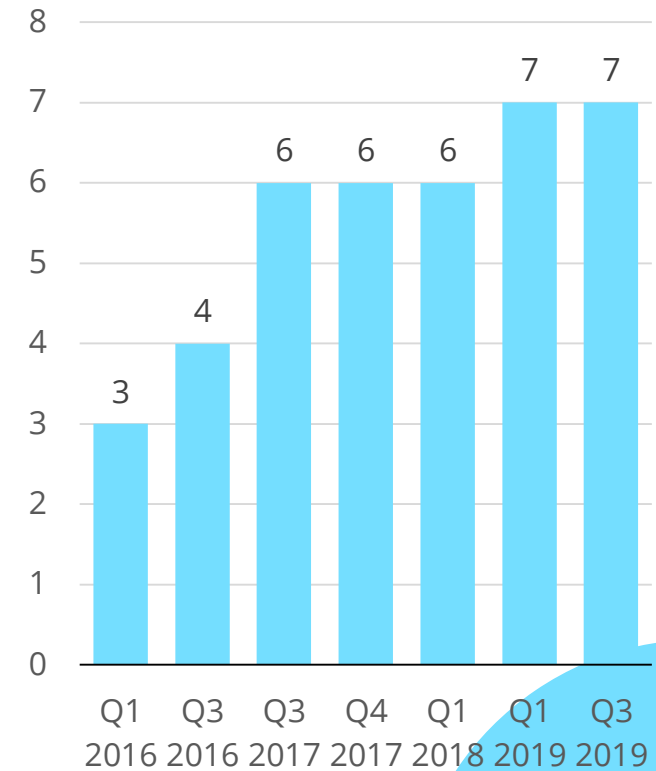
“[Spend] has largely been boosted by the flood of new small and medium-sized companies using Facebook and Google to advertise for the first time.”
Zenith

UK: Top Facebook Advertisers H1 2019 (\$m)



Source: Pathmatics

Facebook: Active Advertisers (millions)

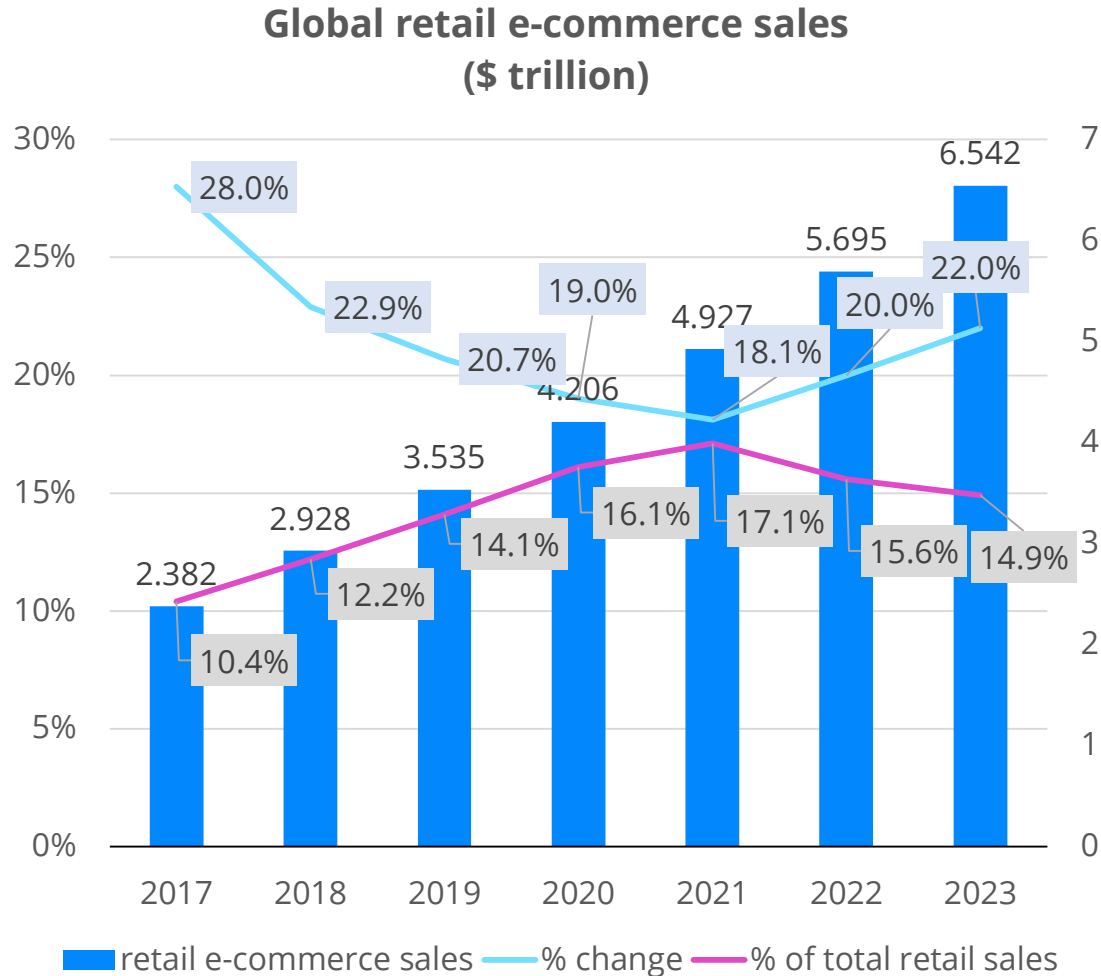


Source: Facebook SEC filings

*company filings, quoted after GroupM, TNYN December 2019



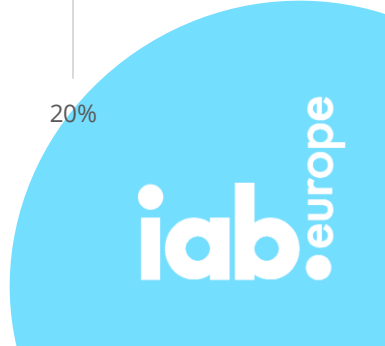
Yet rise of e-commerce to (digital) ad investments in more countries



Source: eMarketer

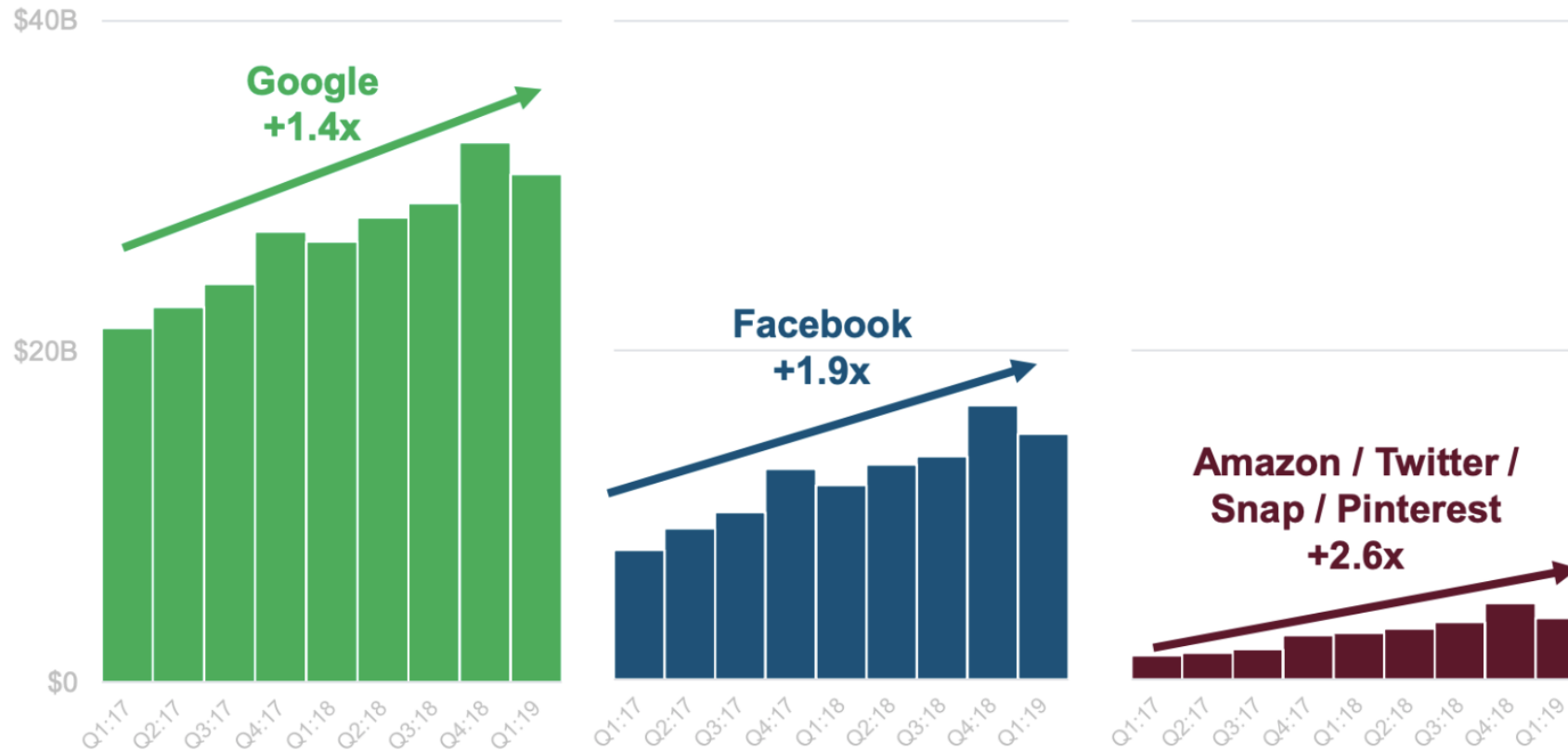


Source: Centre for Retail Research

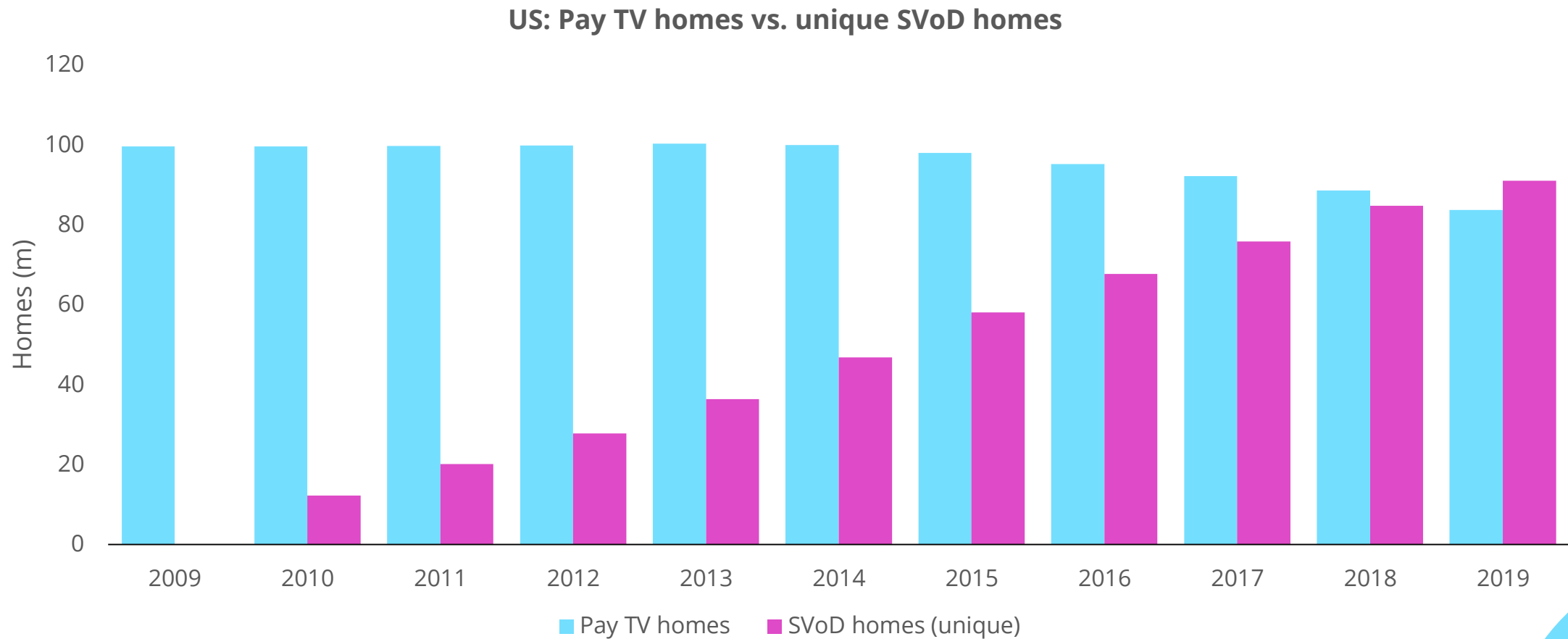


Faster growth beyond the duopoly – but it remains focused on platforms

Quarterly revenue of US-based ad-funded internet firms (\$bn)



Warning sign: US is entering a 5th consecutive year of significant declines in pay TV

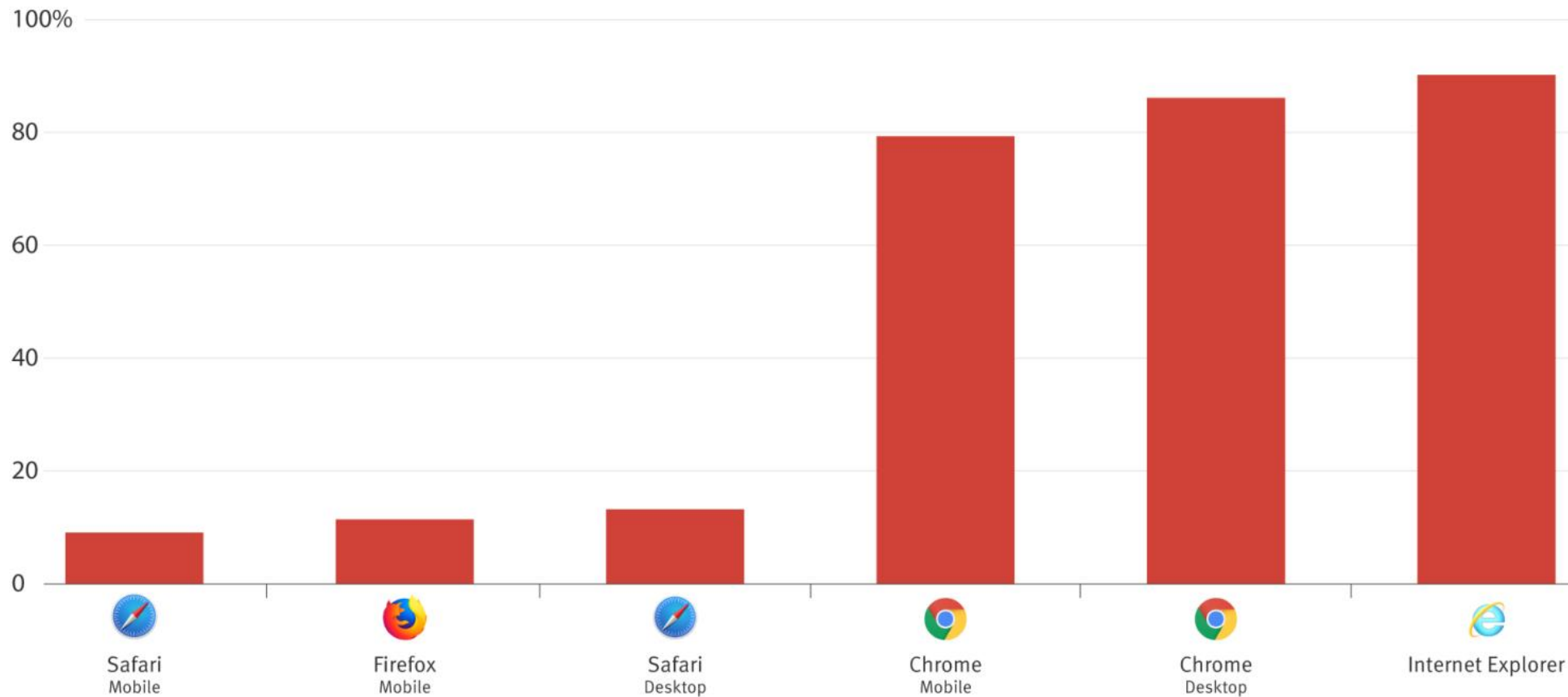


“Overall brands have been faced with a choice: continue to rely on TV, spending more to get less, or invest in data and technology that allows them to aggregate digital audiences cost effectively. The latter is a more sustainable strategy in the long term.”

Zenith, December 2019

GDPR, Cookies, Identity

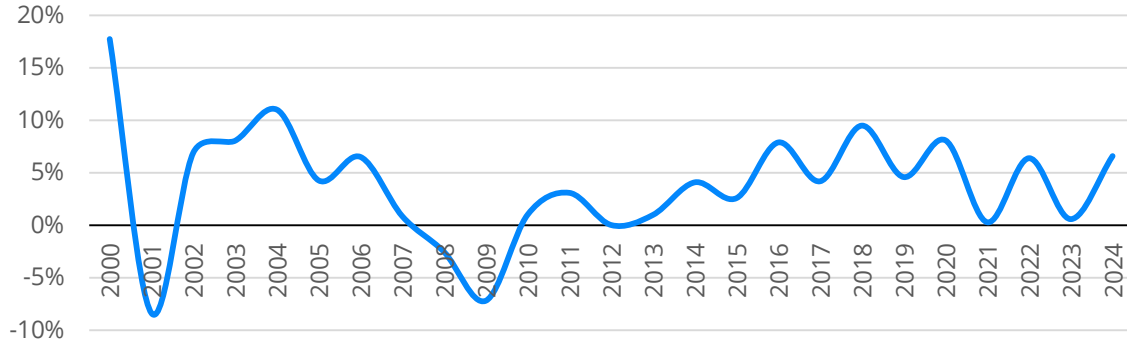
% of each browser's users that enable 3rd party cookies



Source: Nativo, via The Information

Cyclical drivers? Quadriennial boosts? Low impact in Europe

US all media ad spend: odd/even year cyclicality



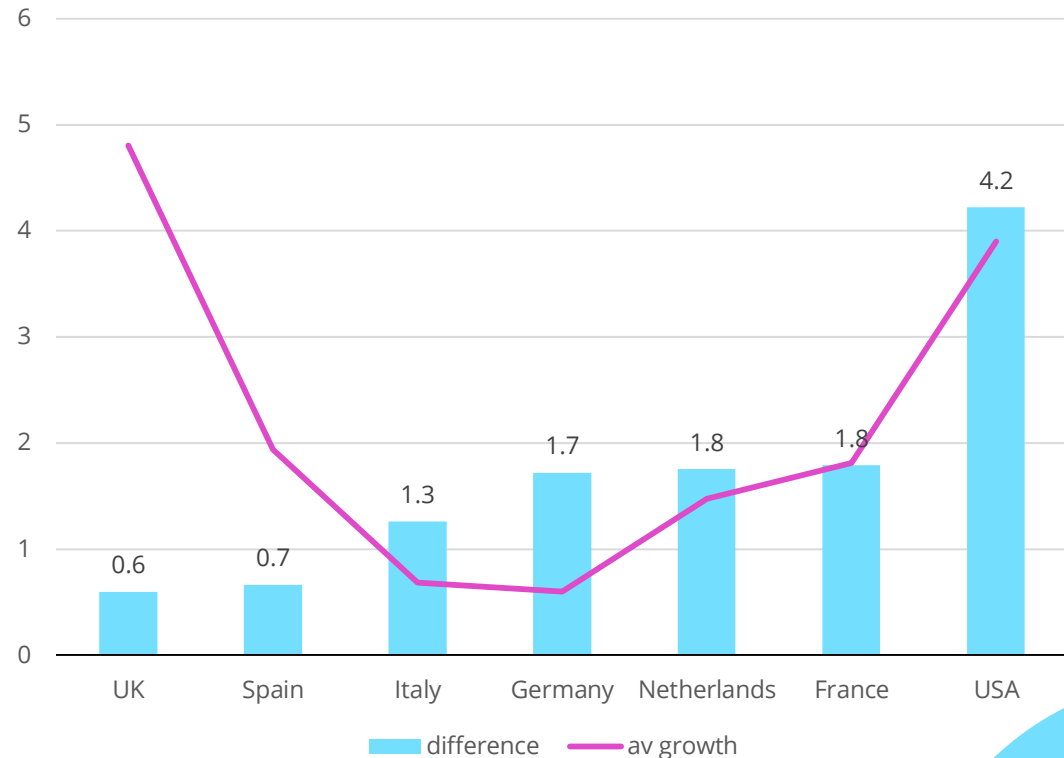
Relevant drivers in 2020

- Summer Olympics (Tokyo)
- Euro 2020 Football Championship (distributed across Europe)

Past sports event ad performance in Europe

- London 2012: only OOH boost
- Germany & Poland Euro Football Championships: event avoidance
- Spanish national team performance drove national ad spend

Ad growth outperformance even vs odd years (in ppts)

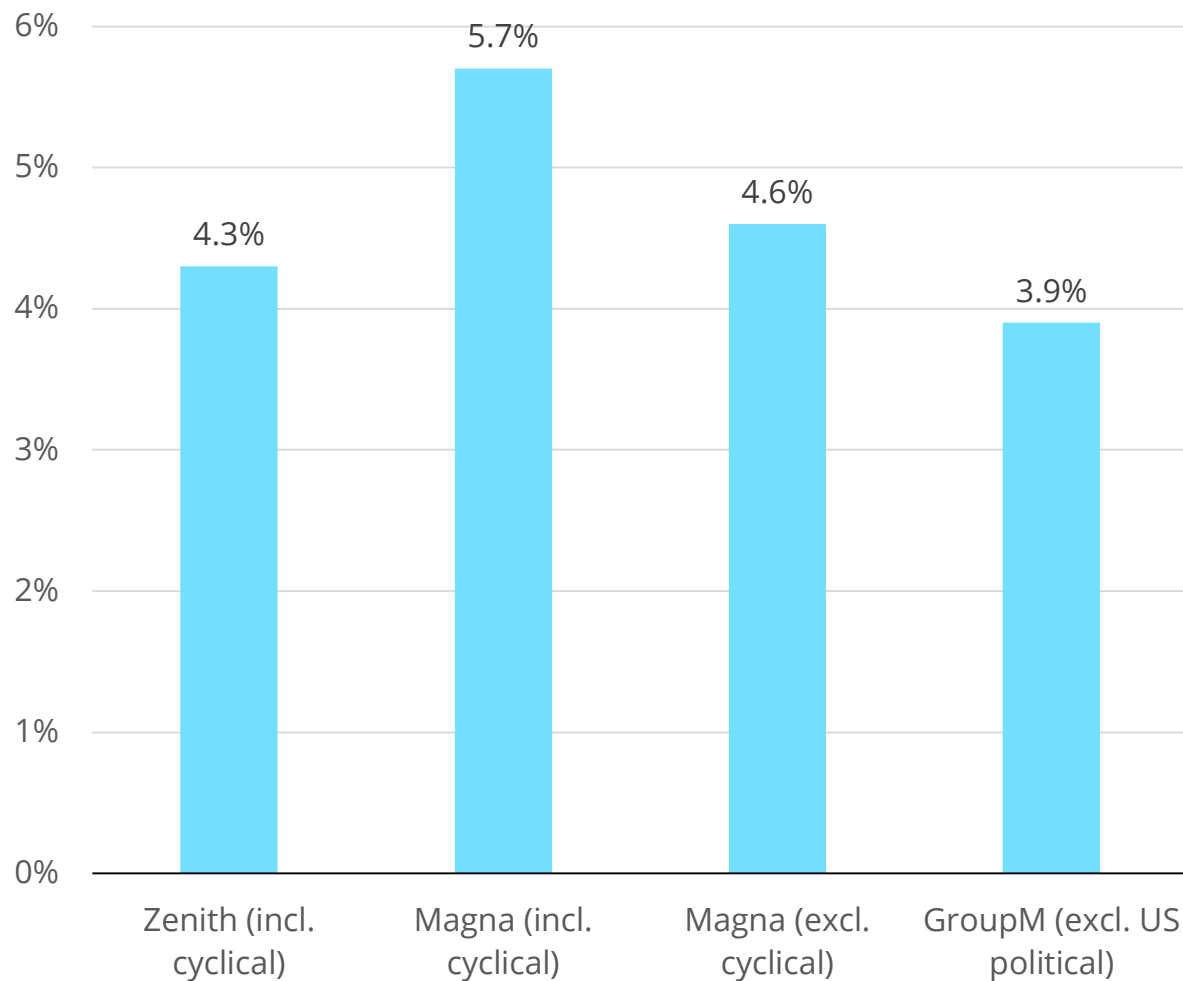


Note: chart is based on 20-year comparison growth rates even vs odd calendar years. It shows by how many percentage points (not percent!) an even year grows faster on average than an odd year.



'Tis the season: end of year ad forecasts released

2020 Ad Spend Outlook across forecasters*



*December 2019 reports from all forecasters

Estimates cyclical / US political

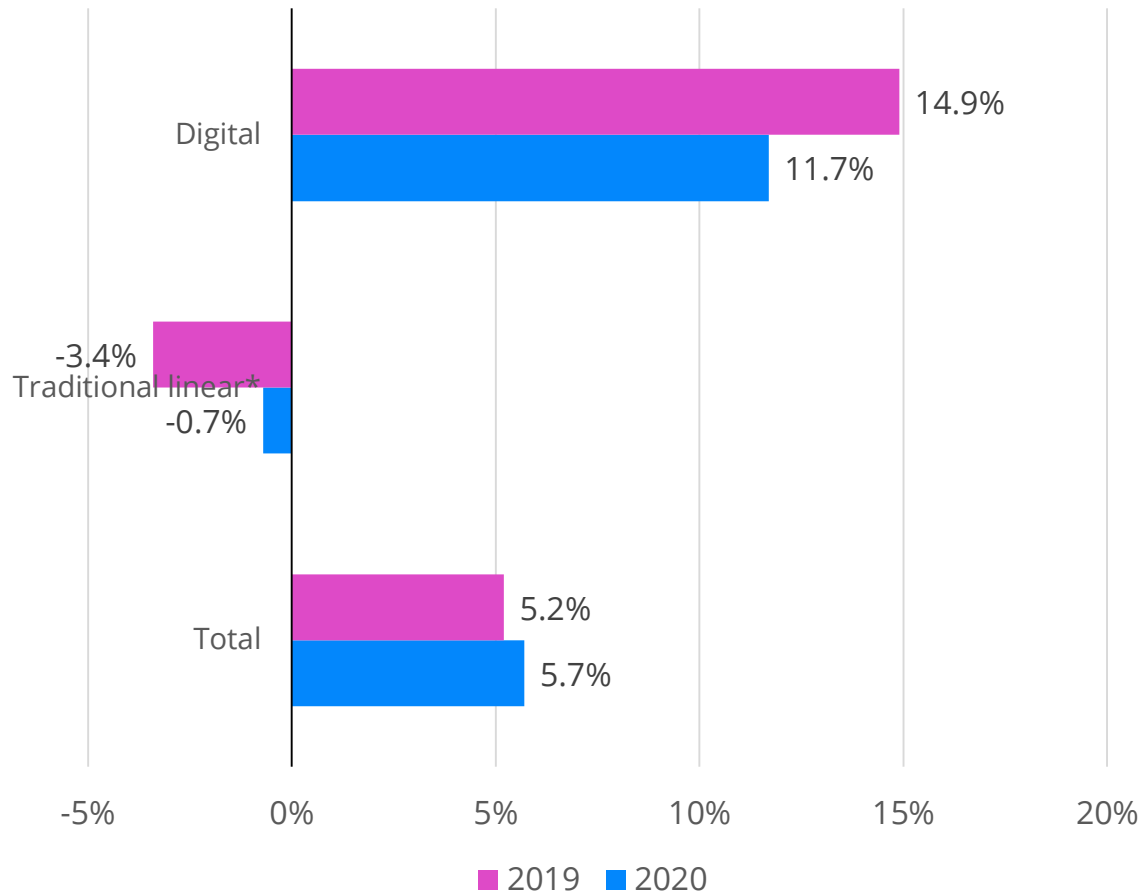
- \$7bn for Summer Olympics, Euro 2020 Football, US Political combined (*Magna*)
- US political distorts global growth rates by +/-1% each year (*GroupM*)

Why do forecasts vary?

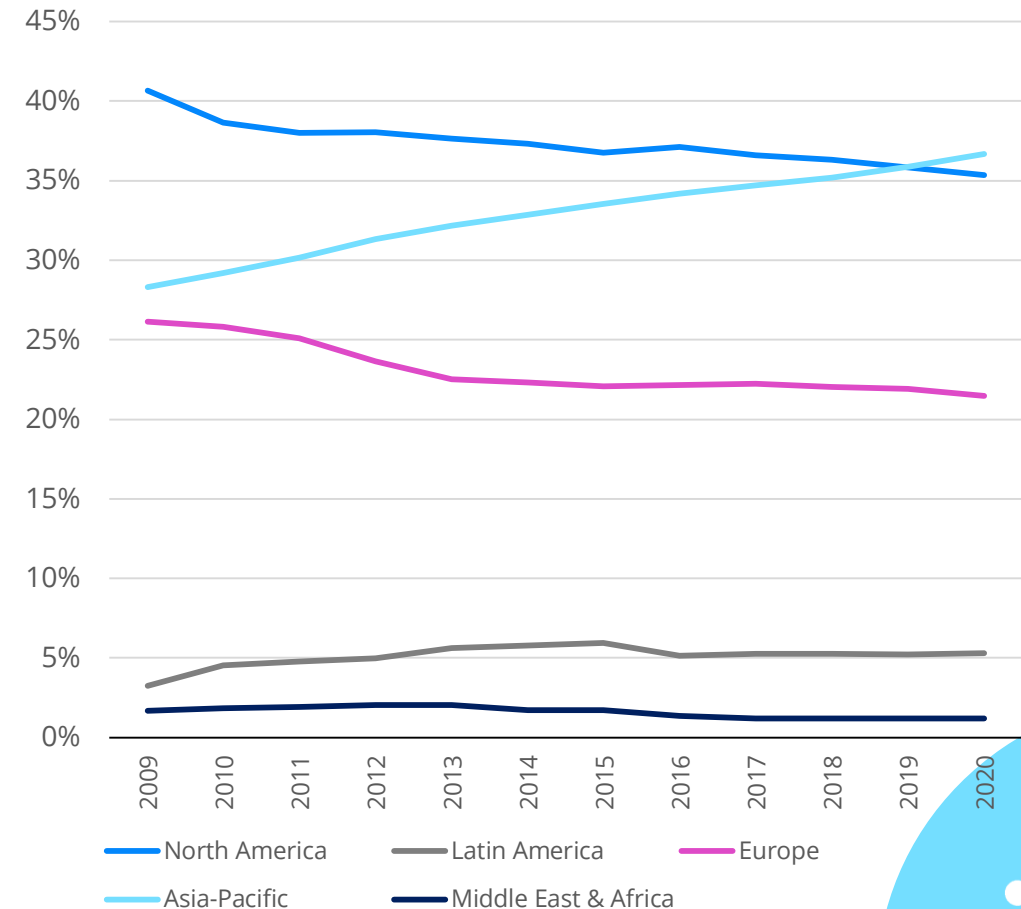
- Different sources for historical ad spend data
- Gross/net discounting
- Number of countries covered
- Models for cyclical spend
- Every agency only has partial view

Growth driven by digital & cyclical, Europe loses global share

Global Advertising Growth

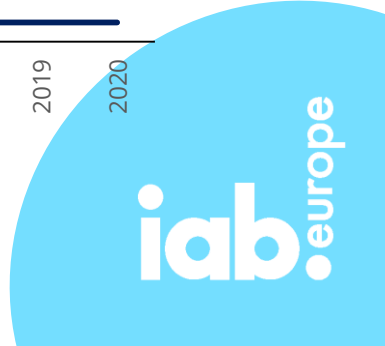


Share of Global Advertising



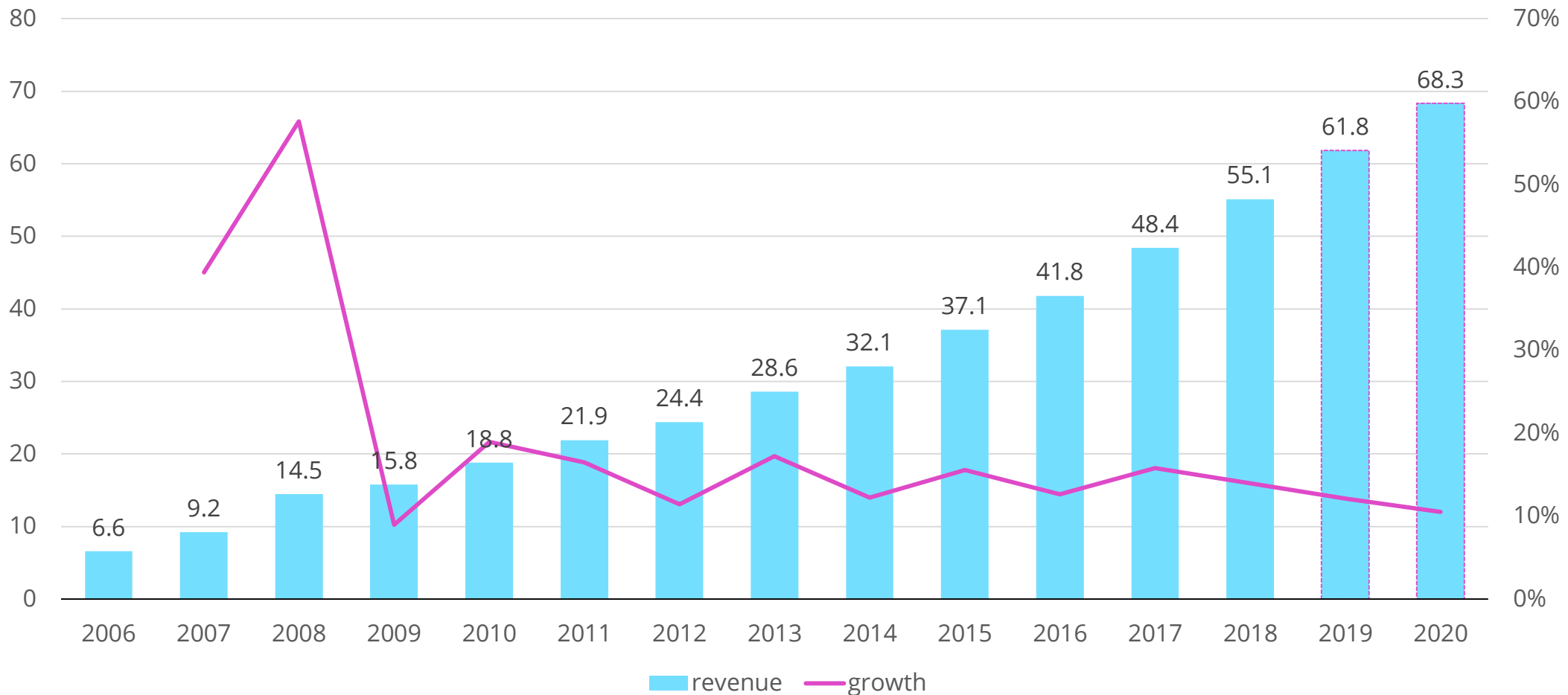
Source: Magna Global, December 2019

Source: local trade bodies, GroupM, Magna Global



European digital ad market estimated to reach €68bn in 2020

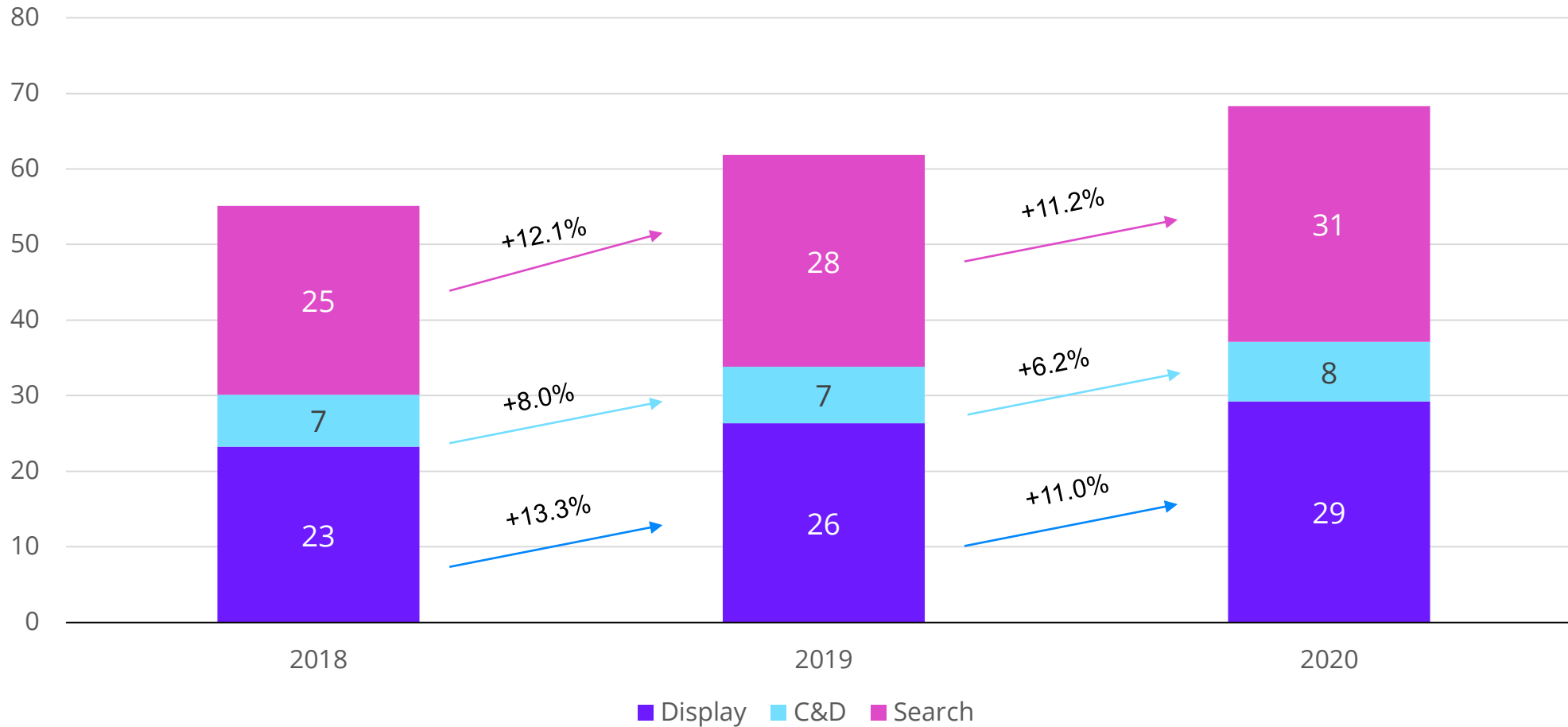
Europe: Digital Ad Market Forecast*



Source: IAB Europe. Based on Adex Benchmark 2018. Excludes CTV, Audio, DOOH

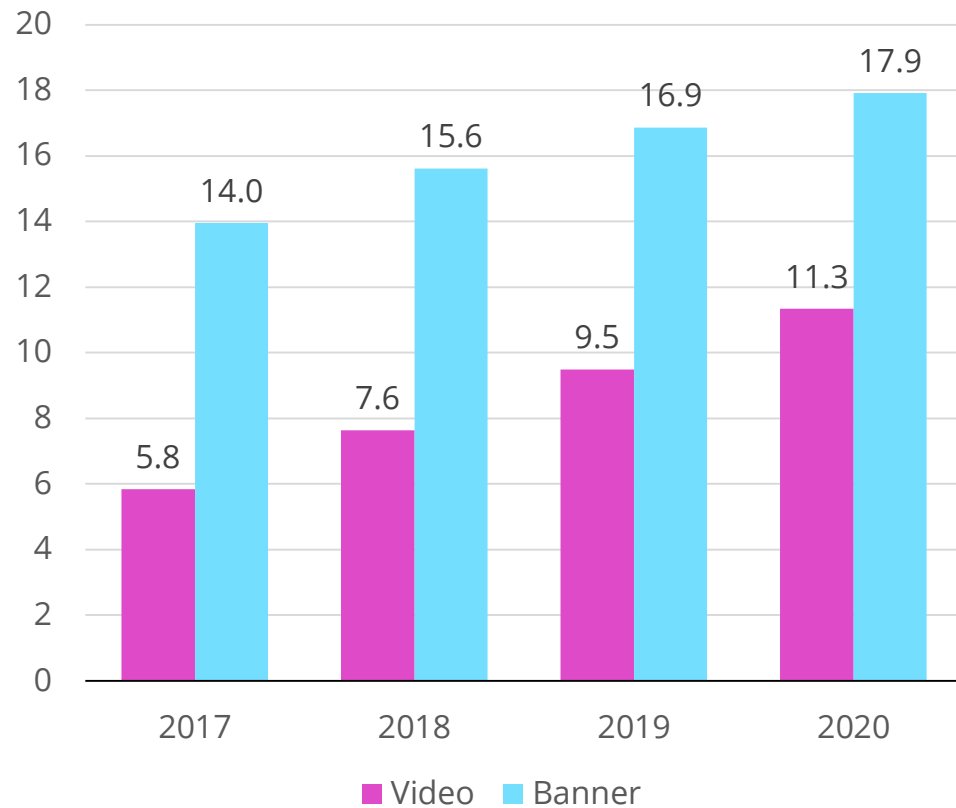
Market will keep growing double-digit

Europe: Digital ad market forecast by format (€bn)

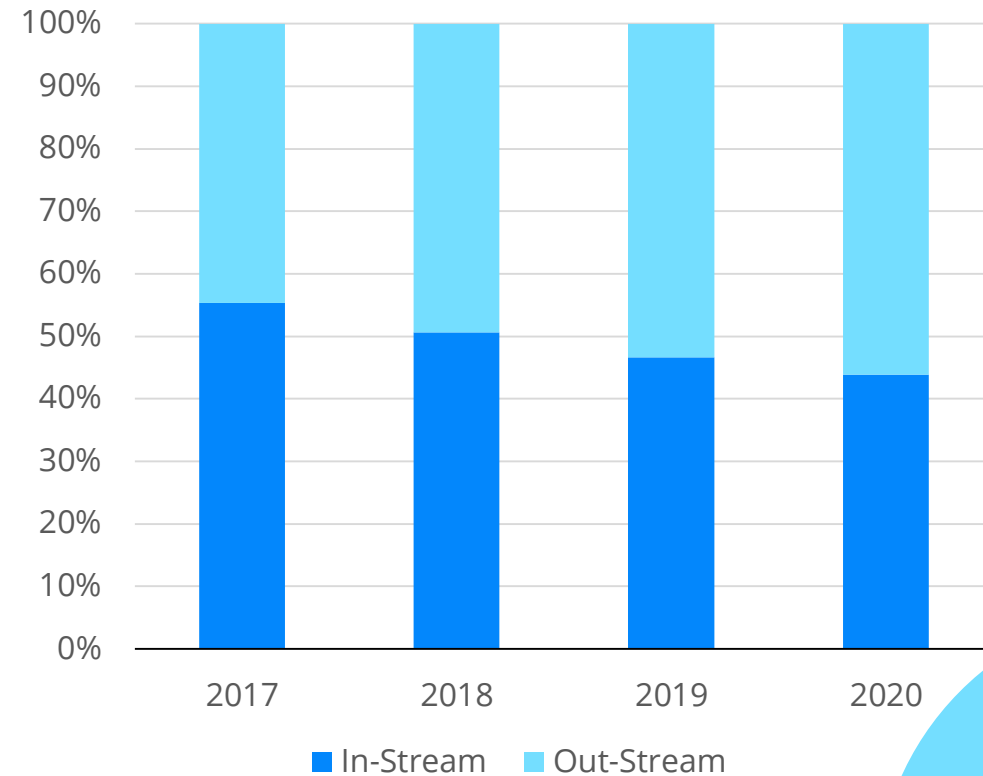


Video to grow share, Out-Stream to lead

Europe: Banner vs Video revenue (€bn)

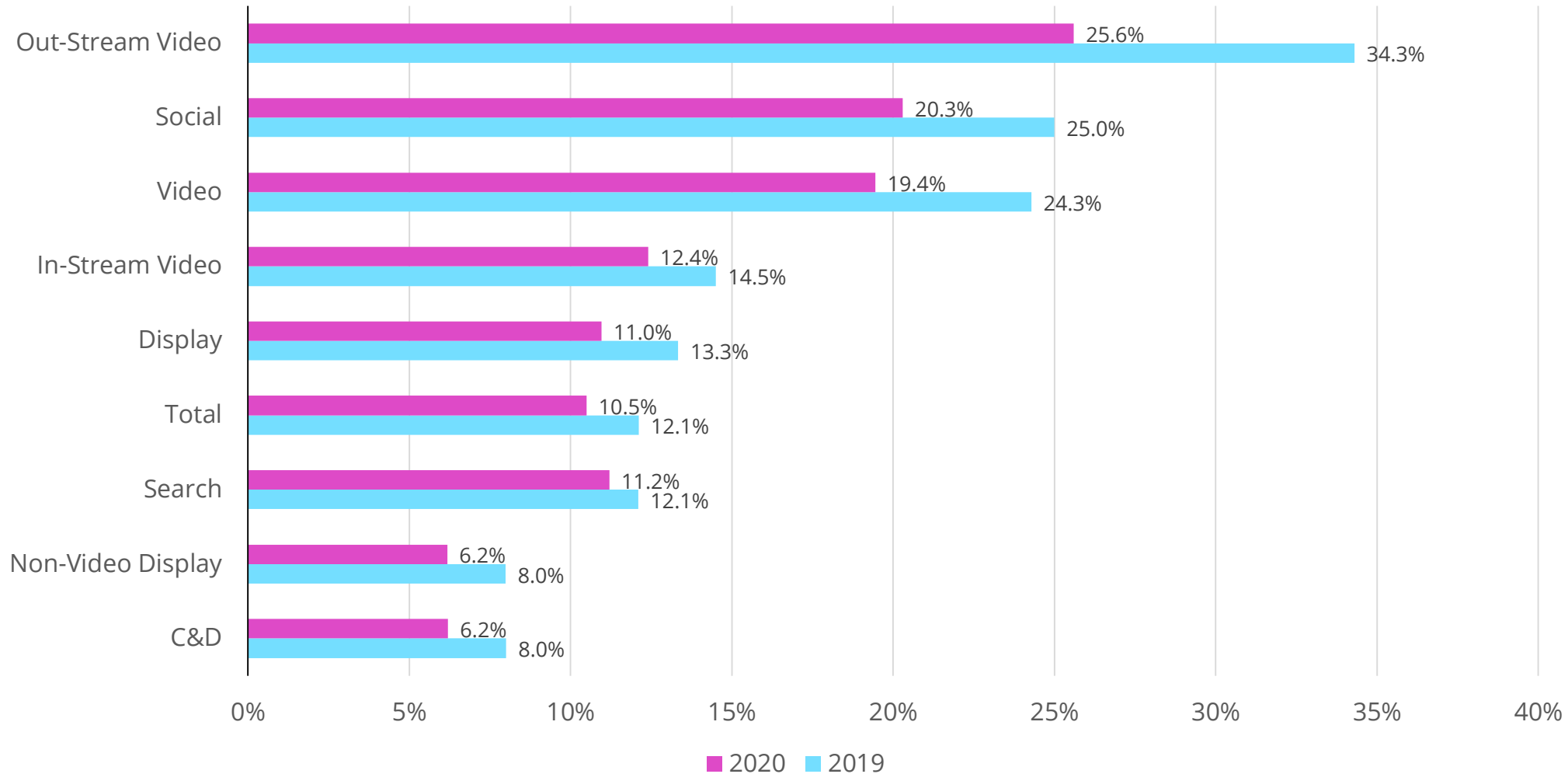


Europe: In-Stream vs Out-Stream Video



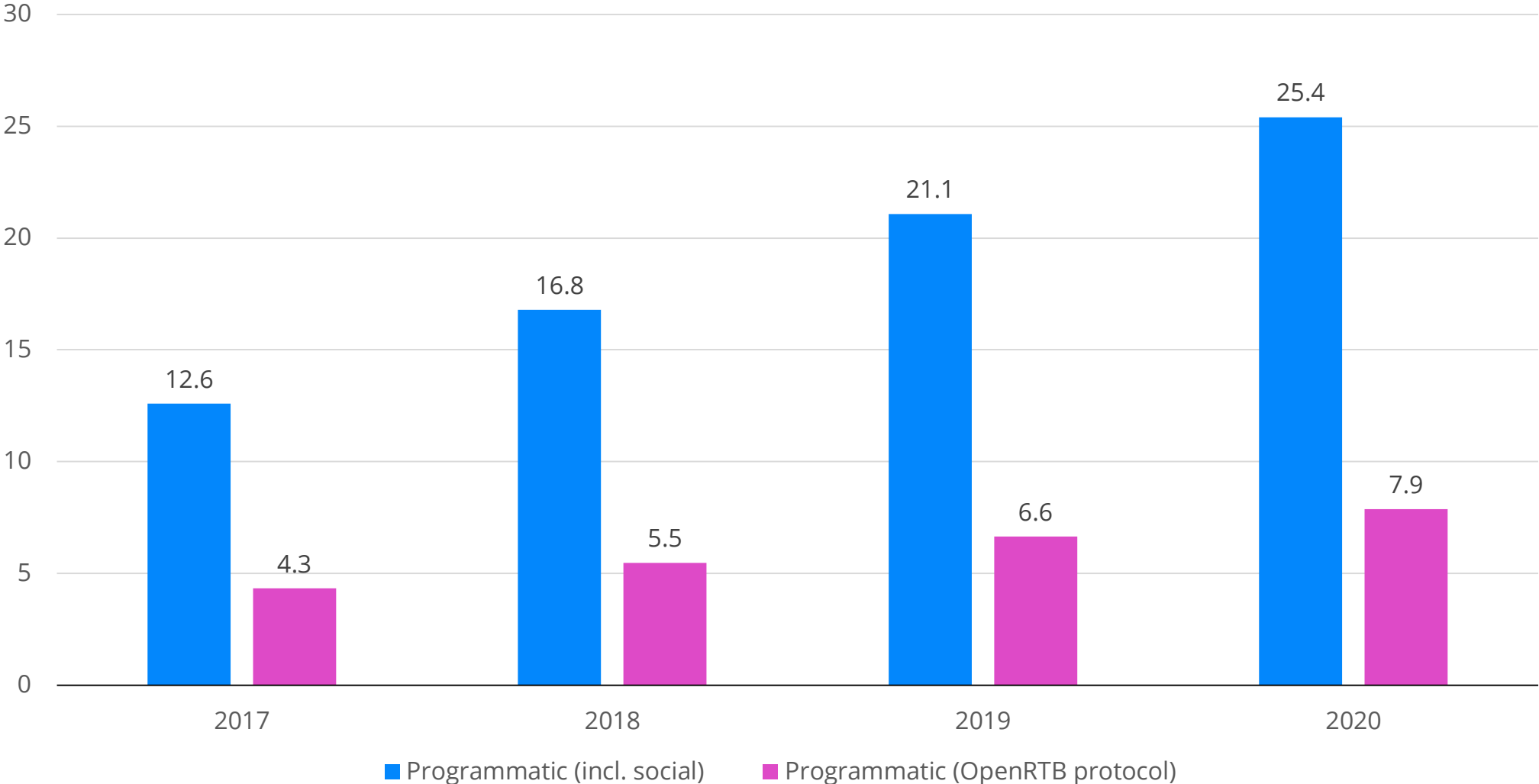
Format balance remains stable in 2020

Europe: Digital ad growth forecast by format



OpenRTB programmatic to become a €8bn market, growing 20% YoY

Europe: Programmatic ad forecast (€bn)



Other factors shaping digital advertising in Europe in 2020

ID solutions

DSP / SSP
innovations

Agencies &
In-Housing

Talent



@_dknapp

iabeurope.eu

