Swiss Entertainment & Media Outlook 2020-2024

Internet advertising

Pulling the future forward: The entertainment and media industry reconfigures amid recovery

Internet advertising

Segment definition

This segment comprises spending by advertisers on placements displayed either by means of a landline Internet connection or via mobile devices. The two ways of advertising (landline or mobile) are classified primarily by format rather than by form of transmission or device. This revenue is digital, and from advertiser spending. Total Internet advertising includes online television, newspaper, consumer magazine, trade magazine, directory advertising and online radio (for North America only), with the related revenues broken down for each venue in the respective segment. The landline subsegments comprise paid search, display and classified formats. Display is divided into video and other display. "Social" advertising, although it is present across a range of landline and wireless subsegments, is not broken down separately. Figures for total advertising eliminate any double counting. Paid search Internet advertising relates to ads on web pages that show the results of search-engine queries (e.g. Google AdWords). Display Internet advertising comprises revenues from traditional ads placed on web pages in many forms, including banner ads and branded content/native advertising. Other Internet advertising formats (affiliates, rich media, e-mail) are also included in this category. Ads sold through programmatic advertising are also captured here, but we do not break down that revenue by method of placement. Separated from display Internet advertising revenue is video Internet advertising revenue, which is generated from in-stream video advertising (pre-rolls, mid-rolls, post-rolls) and out-of-stream video advertising. It includes revenue from both traditional broadcasters and Internet-based websites, including YouTube. Classified Internet advertising covers adverts placed online in a categorical listing of products or services. A fee is paid by an advertiser to display an ad or listing within a specific grouping such as automotive, recruiting or real estate. Mobile Internet advertising comprises all advertising delivered to mobile devices via formats designed for the specific device. It is split into two subsegments, namely mobile paid search Internet advertising revenue and mobile display Internet advertising revenue. The latter is broken down further into mobile video Internet advertising revenue and mobile other display Internet advertising revenue. This revenue is digital.

Global market drivers

Internet advertising revenue continues to be driven at the global level by growth in both the accessibility and quality of connectivity across all regions. This, coupled with the increasing propagation of smartphones, is driving rapid growth in the mobile segment of the market, particularly in emerging markets and regions that lack widespread fixed network infrastructure.

The march towards a mobile-dominated Internet advertising market is a global trend, with many mature markets actually leading the way in terms of mobile's share of total revenue. Noteworthy, though, is that its share of global Internet advertising revenue – which stood at just under 59% in 2019 – is still playing catch-up to mobile's share of the time consumers spend with digital media and services. Indeed, according to a June 2019 study by Comscore, consumers in nine out of the ten countries surveyed spent more than three-quarters of their digital time on mobile devices. The dominance of mobile in the amount of digital time spent by consumers is being driven by consumers' strong preference to use highly personalised mobile devices, especially among younger users, many of whom have a smartphone as their only personal connected device. Plus, this trend is even stronger in emerging markets, driven by the growing affordability of smartphones and mobile Internet, as well as a lack of reliable and affordable landline infrastructure: India and Indonesia topped the list in terms of the proportionate mobile digital minutes(91%) in Comscore's survey. The rollout of 5G networks across the world will only serve to spur the consumption of increasingly data-intensive digital media (i.e. videos) on mobile devices in the coming years.

While the aforementioned gap is closing, the continued lag of mobile ad spend versus mobile time spent is the result of several factors. Firstly, mobile advertising – particularly in the paid search segment – has historically commanded lower prices than in desktop venues. Secondly, many advertisers have been reluctant to transfer significant portions of their ad spend to the mobile domain due to concerns over viewability, measurement and ad fraud – particularly within in-app environments.

The latter point is crucial: according to Comscore, almost all consumer time spent on mobile devices is in-app across both mature (e.g. the UK at 86%) and emerging (e.g. Indonesia at 96%) markets. As much of the time spent by consumers on mobile devices is concentrated on just a few of their favourite apps, this makes reaching a mobile audience difficult. As a result, the popularity of app-install ads and marketing – utilised for example by mobile video game publishers – continues to grow, as they are designed to drive app installs which then appear as an icon on consumers' smartphone start pages.

But the growth of Internet advertising is not only indicative of a shift from desktop to mobile, but also of the broader consumer move from traditional to digital media. This is putting pressure on traditional media players, which face the daunting prospect of competing against the likes of Google, Facebook and Amazon in both the digital and traditional space as big tech players move into other areas of advertising, such as TV. Moreover, online retail giant Amazon's ad platform continues to grow at a rapid pace and is now a clear challenger to Google and Facebook across both search and display. This is due to the unique opportunity Amazon affords advertisers, with its links to actual purchase data (not just interests). Amazon's new ad product offering will continue to drive high growth in the next few years as a stronger ecosystem of tech partners and agencies starts to deploy spend on the platform.

A major driver of the move towards Internet advertising, and particularly programmatic advertising, has been the medium's ability to effectively democratise the advertising market – in other words, it allows smaller businesses to run campaigns on a reduced, localised scale and budget. While the pool of such advertisers is starting to dry up in mature markets, there are still many more that remain untapped in emerging markets, and those areas should support further growth in the sector. However, this will depend on the ability of the large tech players to help such prospective new advertisers understand the market, how to buy and measure ads, and how to target and forecast their campaigns at the appropriate local level as digital audiences continue to grow rapidly.

Internet advertising's ability to provide clear evidence of short-term results and highly granular, data-based targeting has also served it well in terms of poaching ad dollars from other media segments. But some advertisers are now starting to question the long-term effectiveness and brand safety/suitability of Internet advertising, and with broadcasters and other TV players investing in addressable TV technology, Internet advertising's growth trajectory is gradually being threatened as traditional advertising starts to catch up. This rally is not just a result of traditional media's ability to target individual households (or even consumers, in some instances), but also its ability to attract spend from more niche-oriented, local advertisers who for years have been mainly served by the digital giants. The actions of major ad-tech players, along with traditional media companies like AT&T and its Xandr advertising division, are leading to the creation of end-to-end ad platforms that merge traditional and digital venues and allow advertisers to consolidate their cross-media activity into one measurable campaign. This should serve to increase the value of both types of advertising to brands and agencies. As more players seek to offer similar end-to-end advertising platforms – which will grow in value as more brands take ad operations "in-house" and agencies seek greater control over campaigns – consolidation in the ad-tech market will continue. Consolidation should also be driven by the relentless margin pressures that smaller players in the advertising industry are experiencing.

But while the data-driven targeting enabled by programmatic advertising has certainly been a boon, this innovation has been impacted by recent regulatory changes, growing consumer concerns over privacy, and the response of tech players. Specifically, the usefulness of third-party cookies, which track user activity across the Web and upon which digital programmatic advertising has largely come to rely, has been severely limited by regulation – for example, the EU's largely consent-driven General Data Protection Regulation (GDPR). Also, in response to – or to get ahead of – impending regulation and changing consumer attitudes, and in the wake of several very stiff fines, the tech giants increasingly pivoted towards transparency and privacy in 2019. Google, Apple and Mozilla all made changes to their browsers and platforms to give users more control over cross-site third-party cookies and the ability to block other methods of unwanted tracking. Apple, which relies very little on Internet advertising – has made privacy a cornerstone of its pitch to consumers: it already blocks third-party cookies by default on its Safari browser, and has continued to augment its Intelligent Tracking Prevention (ITP) scheme to deter workarounds. Meanwhile, ad giant Google has committed to a phased approach for blocking third-party tracking cookies on its dominant Chrome browser, a move that gives it time to assess and establish new, privacy-focused ways of tracking and targeting digital ads. Although other methods of tracking/targeting do exist, vendors and advertisers who rely on third-party cookies will continue to experience an uphill battle.

As a result of the “death of cookies”, the importance of regulatorily-unimpeachable, first-party data – the kind collected within the “walled gardens” of Google, Facebook and Amazon – will continue to grow, as will AI-enabled, identity-based audience-measurement, segmentation and attribution services. Meanwhile, it is likely that many advertisers will start to, once again, prioritize context over the granularity of targeting in their Internet ad campaigns.

The impact of COVID-19

The outbreak of COVID-19 will affect the Internet advertising market globally in 2020. Consumers are forced to spend even more time on the Internet during lockdown periods, be it via mobile or the Web, and this offers advertisers a larger captive audience to target. In China, mobile users spent 30% more time on their phones while in lockdown.

Social media usage is also increasing significantly as consumers spend more time indoors, with Facebook seeing a 70% rise in traffic in Italy during lockdown periods. However, Facebook itself stated that, “We don’t monetise many of the services where we’re seeing increased engagement.” The result: Facebook and the other industry heavyweight, Google, which collectively account for around 70% of all digital ad revenue, are taking hits in their ad businesses.

Amazon, on the other hand, will see advertising revenue grow during the outbreak, as its ad operations are directly linked to the buoyant Amazon retail platform, meaning that they have been less impacted by the crisis than other ad-reliant companies. Tying advertising directly to purchases is destined to grow in importance as online’s share of retail continues to increase, and cash-strapped advertisers seek greater efficiencies in their campaigns.

Many advertisers have to rethink their position in light of the virus, especially those focused on travel, leisure and retail products and services, where logic rules that their spend needs to be reduced significantly. The agencies that do run campaigns need to adapt them in such a way that both the tone and content are appropriate to the situation and consumers’ plight.

The classifieds industry is taking a hard hit as key customers such as automotive firms are deemed “non-essential” businesses during lockdown periods. Digital classifieds platform Carousell, the market leader in Southeast Asia, offered some degree of relief to subscribers by letting them defer payments and collect advertising credits that could be redeemed after the lockdowns were lifted.

In some countries, advertisers block their content from appearing alongside news articles discussing the coronavirus. But the UK’s culture secretary has encouraged Britain’s largest brands to allow their adverts to appear next to news of this kind, as publishers struggle to monetise content, with display advertising particularly affected.

Switzerland

Internet advertising in Switzerland

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2019 - 2024 CAGR
Internet advertising in Switzerland (CHFmn)	1'658	1'878	2'114	2'476	2'870	2'863	2'983	3'305	3'599	3'903	4.68%
Mobile Internet advertising (CHFmn)	673	774	954	1'221	1'553	1'620	1'730	2'008	2'270	2'540	7.32%
Mobile display Internet advertising (CHFmn)	47	57	91	103	130	129	130	145	159	171	7.06%
Mobile other display Internet advertising (CHFmn)	39	45	72	78	99	99	99	109	119	128	5.42%
Mobile video Internet advertising (CHFmn)	7	13	19	25	31	30	31	36	40	44	10.62%
Mobile paid search Internet advertising (CHFmn)	627	716	863	1'117	1'424	1'491	1'600	1'863	2'112	2'368	7.71%
Landline Internet advertising (CHFmn)	985	1'105	1'159	1'256	1'316	1'243	1'253	1'297	1'328	1'364	0.21%
Classified Internet advertising (CHFmn)	335	358	379	417	452	449	452	478	499	520	2.29%
Display Internet advertising (CHFmn)	302	326	341	329	321	260	255	255	255	256	0.04%
Other display Internet advertising (CHFmn)	268	287	295	278	265	204	199	194	191	189	-3.33%
Video Internet advertising (CHFmn)	34	38	46	51	57	56	57	60	64	68	6.03%
Paid search Internet advertising (CHFmn)	348	422	439	509	542	535	546	564	576	587	-0.52%

Notes: Numbers shown are rounded. Totals may not equal the sum of their parts due to rounding.

Sources: PwC, Omdia, IAB UK, Interactive Advertising Bureau Europe

Switzerland's Internet advertising market is one of the largest in Europe, with revenue reaching USD 3.1bn in 2019, behind only the UK, Germany, France and Italy. Internet advertising is now one of the most important segments of the Swiss advertising market, but it is maturing and therefore ever-higher growth rates are becoming harder to sustain. Although its phase of rapid expansion is coming to an end, Internet advertising will continue to make substantial gains from other advertising media. We project that it will increase at a strong 6.3% CAGR despite the disruption to the market in 2020 caused by COVID-19. Total revenue is forecast to reach USD 4.3bn in 2024.

Despite the cooldown in the market as a whole, mobile Internet advertising revenue continues to grow strongly and was up by 27.3% in 2019, with the segment accounting for 54.1% of all Swiss Internet advertising revenue, a high proportion by regional standards. Mobile should continue to show the highest revenue growth rate over the forecast period. Landline revenue is projected to expand at a 0.7% CAGR, with mobile increasing at a much stronger 10.3% CAGR over the forecast period and contributing nearly two-thirds of total sector revenue by 2024.