

Competition and Markets Authority (CMA) | Market Study of Digital Comparison Tools (Statement of Scope)

Submission by the Internet Advertising Bureau UK – November 2016

1. Introduction

1.1 The Internet Advertising Bureau (IAB UK) is the industry body for digital advertising in the UK. It represents over 1200 businesses engaged in all forms of online and mobile advertising, including media owners and advertising technology businesses.

1.2 The IAB's five key objectives are to:

- Prove the value of digital media by delivering 'best in class' industry research and breaking down barriers to advertising spend;
- Enable a trustworthy and responsible medium through cross-industry standards and self-regulation;
- Educate and inspire marketers through intensive learning programmes and thought-leading events;
- Improve ad trading efficiency through measurement guidelines and creative standards; and
- Advocate for an optimum policy and regulatory environment for the market to continue to thrive.

Further information is available at www.iabuk.net

1.3 The IAB welcomes the opportunity to respond to the questions raised by the CMA's Statement of Scope. We agree with the CMA that Digital Comparison Tools (DCTs) have played a significant role in improving the range of choices available to consumers when shopping for new products or services. At the same time, we also acknowledge that challenges exist that may prevent consumers from benefitting further from the use of DCTs (see more below).

1.4 As such, we would be happy to assist the CMA in finding appropriate solutions to address the concerns identified in the Statement of Scope insofar as they relate to the IAB's remit.

1.5 In this submission we loosely cover all four themes mentioned in the CMA's Statement of Scope to the extent that they relate to digital advertising and, in particular, affiliate marketing – a subset of digital advertising that works closely with DCTs across the spectrum, especially price comparison websites.

2. General points for consideration – facts and figures on the digital advertising market

2.1 Advertising – underpinned by consumer data – plays a hugely significant role in the internet and its development. It underpins the digital economy in the UK, EU and globally. As in traditional media, it is the primary business model for making (non-publicly funded) content widely available to UK citizens for little or no cost. It pays for much of the content and many

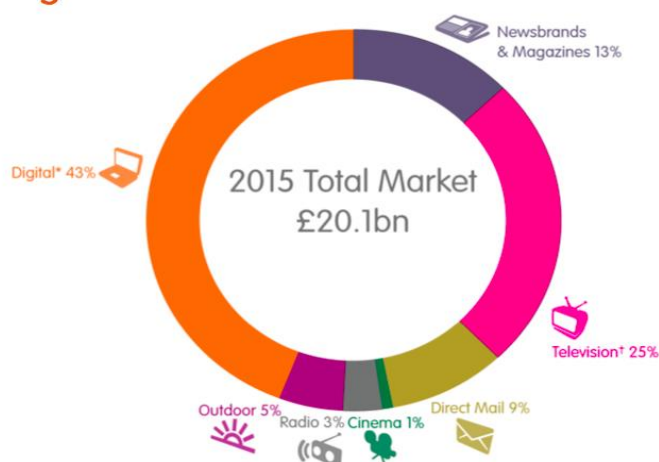
of the services online: from search, webmail, social networking websites, to productivity suites, blogs, video/photo sharing, the majority of news, information and video / entertainment sites and, of course, digital comparison tools.

- 2.2 The internet and digital platforms (including mobile and other connected devices) offer advertisers a wide range of different formats to market their products and services. We provided a detailed overview of how digital advertising and affiliate marketing work in our submission to the CMA's Call for Information on the Commercial Use of Consumer Data in March 2015 which is available at:

<https://www.iabuk.net/policy/responses/iab-response-to-the-uk-competition-and-markets-authority-cma-call-for-information>

- 2.3 Since our submission in March 2015 (which provided 2014 figures), the digital advertising market has continued to grow. In 2015, £8.6bn was spent on online and mobile advertising in the UK, an increase of 16.4% on 2014.¹ The UK leads Europe in digital advertising. Its £8.6bn digital advertising market is bigger than the French and German markets combined and only second to China's in terms of its share in proportion to the overall advertising market² – 43% of a total £20.1bn in 2015.³

Digital = 43% of a £20.1 billion market



- 2.4 In terms of advertising spend the three main formats are: 'search' (e.g. via a search engine); 'display' (e.g. ads that you see on a website) and 'classified' (i.e. similar to the listings in a newspaper).
- 2.5 The digital display advertising value chain is a complex one with many different players involved in the trading of advertising space. Very simply these players can be separated into a 'buy' (ie the advertiser or agency action on behalf of the advertiser) and 'sell' (ie the web publisher / app provider) side. Advertising intermediaries broker or facilitate the selling of

¹ https://www.iabuk.net/system/tdf/research-docs/IAB_PWC_AdspendOnePager_full%20year%202015_Pdf_Final.pdf?file=1&type=node&id=27815

² AA/WARC 2016

³ IAB/PwC Digital Adspend Study, Full Year 2015

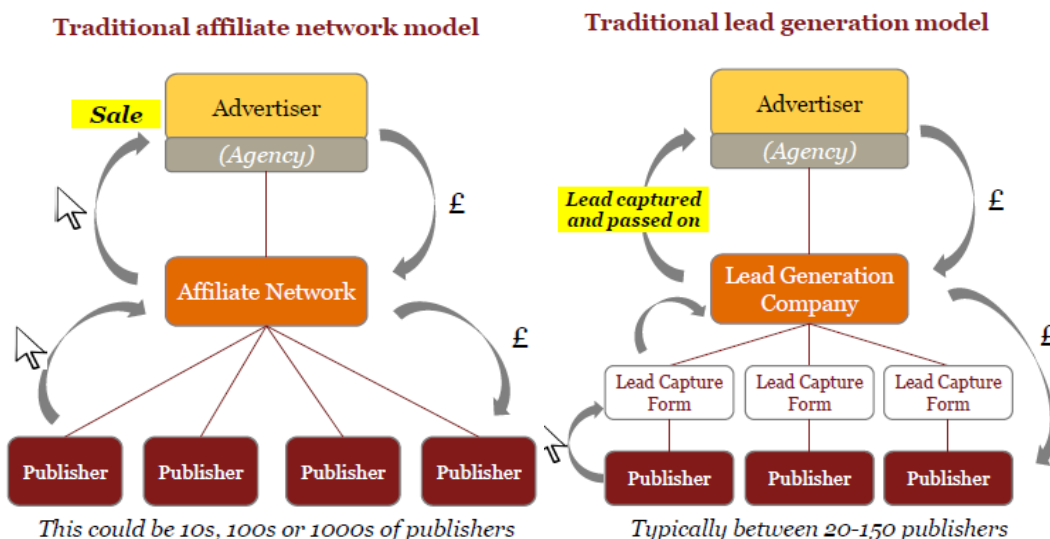
media and operate under contract to the advertiser / agency, increasingly often in automated form and in real time.

- Further information on the evolution of buying and selling display advertising is available at https://www.youtube.com/watch?v=1C0n_9DOlwE
- The IAB also offers a 'Jargon buster' to explain the most commonly used terminology in the industry. The 'Jargon buster' can be accessed at <http://www.iabuk.net/resources/jargon-buster>

3. Online Performance Marketing

3.1 Online performance marketing is a form of digital marketing which allows advertisers only to pay for the advertising once an outcome has been achieved (e.g. a consumer completed a purchase or filled out a form) rather than paying for advertising impressions (i.e. an ad that is served and displayed) which are usually measured in cost per thousand (CPM). There are two principal forms of performance marketing:

- Affiliate Marketing:** This is where a consumer who, when clicking on an advertisement (e.g. a link), is redirected to the advertiser's website to complete the transaction, following which a fee is paid to the content owners who directed the consumer to the advertiser once the transaction is completed.
- Lead Generation** (see below): This is when a consumer enters details into a form which are then passed onto the advertiser following which a fee is paid to the content owners (payment is on a per enquiry or lead basis).



- 3.2 The IAB has developed a site to help explain how performance marketing works in detail. This can be found at www.iab-performance-marketing-explained.net
- 3.3 Research by the IAB and PwC found that 4,500 advertisers spent £1.3bn on performance marketing (both affiliate marketing and lead generation) across 12,500 publishers in 2015, generating sales of £17.7bn (up from £16.9 in 2014).⁴ Of that £17.7bn, £16.5bn was spent on affiliate marketing and £1.2bn on lead generation.
- 3.4 Looking at sectors more specifically, finance attracted the largest share of spend with 31% (90% of which relating to price comparison sites), followed by travel & leisure with 18% (60% of which relating to major travel aggregators).⁵ The other sectors in order of share were: retail (16%), gaming (16%), telecoms & media (11%), B2B (4%), energy & utilities (3%), auto (1%), other (1%).

4. Consumers' perceptions, use and experience of DCTs

- 4.1 Research carried out by YouGov for the IAB shows that 40% of adults online (weighted to be representative of the GB general adult population) had accessed price comparison websites between August 2015 and February 2016.⁶ A further 6% had requested a call back following the use of an online website (e.g. an insurance website).
- 4.2 Earlier research by YouGov for the IAB reveals that of those consumers that use price comparison sites, 23% use them once every six months, 22% once every two to three months, 16% once a year, 14% once every four to five months, 11% once a month, 6% once a fortnight, 3% once a week or more often, another 3% less than once a year and 2% don't know.⁷
- 4.3 The same study also suggests that the vast majority of consumers understand how price comparison sites generate revenue, with 81% reporting that they are fully or partially aware that sites either receive a commission based on directing a user to a provider (e.g. an insurance company) or through clicking on display (banner) advertising on the site.⁸
- 4.4 Consumers also display little appetite in paying a monthly access fee to use price comparison services with 63% saying that they would be unwilling to do so and only 4% reporting to be ready to pay £1.⁹
- 4.5 The use and popularity of DCTs across sectors varies. We believe that there are a number of reasons for this, including the size of the market and the numbers of providers in any given sector. Convenience and the simplicity to sign up to new providers have also become increasingly important factors to consider. Many DCTs have invested significant resources into improving user-friendliness. However, the characteristics of a product play an important role, too. The more burdensome and less lucrative and incentivised the process (e.g. by offering cashback), the more likely consumers are put off from looking for a new deal.

⁴ IAB/PwC Digital Adspend Study, Full Year 2015

⁵ Ibid

⁶ IAB/YouGov, 2016

⁷ IAB/YouGov, 2015

⁸ Ibid

⁹ Ibid

5. Affiliate Marketing and DCTs

- 5.1 As mentioned above, DCTs usually get reimbursed – in the form of a commission – for directing consumers to providers, such as insurance companies. Some DCTs also make advertising space available for sale on their website which can further generate revenue either on a cost-per-thousand (CPM) basis or via a cost-per-action (CPA) deal, e.g. once a consumer clicks on a banner ad. In reality, DCTs often employ both approaches in combination.
- 5.2 DCTs regularly manage their commercial relationships with providers (advertisers) through so-called affiliate networks. In this scenario, DCTs become publishers and use affiliate networks as an intermediary to act as both an acquisition channel to reach out to advertisers (and potential customers) as well as a technology provider to record any subsequent transaction to ensure a commission is paid out (see graphic above).
- 5.3 In other words, affiliate networks serve as a ‘one-stop-shop’ between advertisers (e.g. telecoms providers) and publishers (e.g. DCTs) to support trading, reporting and payments. Working with affiliate networks can therefore provide significant efficiencies for DCTs, making it easier to have commercial relationships with numerous advertisers at once without the need to approach them individually, on top of outsourcing technology solutions. That said some DCTs do have individual commercial arrangements in place with providers without making use of affiliate networks.
- 5.4 Certain DCTs, particularly some of the more established sites, have become advertisers themselves in an attempt to attract users to their sites, using a variety of formats from advertising on TV to buying advertising space on publishers’ websites (e.g. banner advertising) or search engines.

6. Competition between DCTs

- 6.1 We believe a large number of consumers conduct research across multiple DCTs before reaching a purchasing decision. In some cases, consumers may use DCTs solely as research tools in order to engage with their existing providers and seek a better deal. In other cases, consumers make use of the full range of options available to them and complete the entire process digitally.
- 6.2 The main mechanism enabling the recording of a successful transaction from a DCT through to a supplier’s (advertiser’s) site is the dropping of a non-directly identifiable cookie on the consumer’s browser when they click on an offer or advert on the DCT. The consumer’s subsequent visit to the supplier’s site and purchase is registered via this randomised string of code which sends a signal that there has been a successful conversion, for instance via the ‘Thank You’ page.
- 6.3 The use of cookies allows advertisers to directly assess their return on investment (ROI). However, not all transactions have to be completed online for a successful conversion to be recorded. Calls to a number displayed on the advertiser’s site can also be monitored for the

purpose of deciding whether directing the consumer to an advertiser has resulted in a sale, and would therefore merit a performance payment to the publisher.

- 6.4 Consumers are usually exposed to a number of marketing 'touchpoints' before a desired outcome is achieved (e.g. a sale is made). Assigning fair credit to those touchpoints is known as 'attribution' in the digital advertising industry. For advertisers, attribution is important in order to be able to assess which aspects of their marketing campaigns are working. For publishers, attribution is important so that they can be rewarded fairly for contributing to the advertiser's marketing efforts.
- 6.5 Traditionally a 'last click wins' approach has been used which means that all of the credit for a fulfilled objective (e.g. a sale) goes to the last event in the journey before the sale occurred, discounting the other digital marketing activities the same consumer may have been exposed to as part of the campaign.
- 6.6 Over the years, new attribution models have come into existence to better apportion credit to all the elements of a digital marketing campaign, including timing and other steps taken by a consumer. This development also has an impact on DCTs, particularly in the scenario where consumers visit a number of DCTs before purchasing a product or service, or where DCTs are primarily used as a research tool but are nevertheless instrumental in the consumer's purchasing decision.

The IAB recently released a video to explain attribution in more detail. This is available at <http://www.iabuk.net/video/what-is-attribution-in-digital-advertising>

- 6.7 DCTs also compete on the basis of negotiating deals with suppliers to allow listings to appear in certain pre-defined spaces on the DCTs website or following a search initiated by the consumer. These premium listings may be exclusive to one DCT or several DCTs.
- 6.8 Those DCTs that offer advertising space on their website akin to other website or app operators in the form of banner ads or similar formats may also compete for revenue on the basis of being able to attract a large or desired audience to the site in order to expose that audience to an ad.

7. The regulatory environment and future trends

- 7.1 In search for new customers, advertisers closely follow consumer behaviour and usually redirect their advertising spend to those media that attract the largest number of people.
- 7.2 The IAB regularly publishes research on time spent online with the help of [UKOM](#) and data provided by [comScore](#). The latest iteration of this study reveals that users effectively spend 2 hours and 59 minutes a day online.¹⁰ Whereas in the past, users would primarily use their desktop PC or laptops to go online, nowadays most time spent is on mobile (1 hour 17 minutes), followed by desktop/laptop (1 hour and 14 minutes) and tablets (28 minutes).
- 7.3 The growing use of apps may mean increasing competition between DCTs. Whilst apps are typically used in the research phase (with transactions more likely to be completed on a

¹⁰ IAB/UKOM (data provided by comScore), 2015

desktop), the app environment is also characterised by an even greater incentive to provide the best possible service as a result of its closed platform nature.

- 7.3 Regardless of the digital screen they interact with, consumers are protected from misleading and irresponsible advertising practices by the [The UK Code of Non-broadcast Advertising and Direct & Promotional Marketing \(CAP Code\)](#), administered by the [Advertising Standards Authority \(ASA\)](#).¹¹ The CAP Code requires all advertising to be legal, decent, honest and truthful. Rule 2.1 of the CAP Code explicitly makes clear that all marketing communications must be obviously identifiable as such, including preferential (or premium) listings on price comparison sites (see Introduction, Part I).
- 7.4 However, the IAB acknowledges that in certain instances, better disclosure and greater transparency could be given to consumers in order to allow them to have all the information they require to make the right choice for them.
- 7.5 As for future developments, the IAB fully believes that the collection and use of consumer data will grow in volume, accuracy and granularity assisted by the increasing use of smartphones and the Internet of Things (IoT), including smart meters and other IoT devices.
- 7.6 Better and more granular data will allow both advertisers and DCTs alike to offer more personalised and tailored experiences, reducing waste and creating greater efficiency. For example, we can envisage a scenario whereby DCTs filter unsuitable offers and display only the most appropriate results for consumers based on analysing granular data (provided by both the user data and suppliers). DCTs may also evolve into more active recommendation engines advising consumers on the right time to switch providers through the improved use of data. In both cases, this could significantly save time and money for consumers and allow for faster switching and purchasing processes.
- 7.7 In this environment, consumers are increasingly likely to expect more from DCTs, leading to more competition between them on the basis of innovation to improve usability and utility. Collective buying and switching or negotiating better offers for collective switchers is one area where we can see room for innovation in the future.
- 7.8 At the same time, consumers will seek greater control over their data and how it is used which will be further strengthened once the General Data Protection Regulation (GDPR) is applied in the UK and across Europe from 25 May 2018.

8. Recommendations to the CMA

- 8.1 Taking our views above into account, the IAB believes that:
1. DCTs have been good for competition and consumers. We would welcome growing availability and use of them, particularly in sectors where current take-up is low.
 2. The CMA should not start from an assumption that consumers do not understand advertising or are unaware of it.
 3. That said, the issue of providing greater transparency to consumers around commercial agreements between suppliers and DCTs could nevertheless be discussed further. The

¹¹ see also the ASA's recent changes to broadband price claims: <https://www.asa.org.uk/News-resources/Media-Centre/2016/Changes-to-broadband-price-claims-in-ads-comes-into-force-today.aspx#.WCXVBJOLSqA>

Committee of Advertising Practice (CAP) could also be a valuable partner in these discussions. However, we note the need to take care over recommendations that might require overly prescriptive and detailed information provisions about the nature of individual agreements, since this could reduce the ability of parties to reach specific competitive or innovative agreements and undermine usability.

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