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The leading advocate for the global developer workforce and the companies that depend on them.

Ref. CMA Market Study Into Online Platforms And The Digital Advertising Market

Following CMA's call for comments on the issues raised in the Statement of Scope, please accept the Developers Alliance's contribution.

The Developers Alliance is the leading advocate for the global software developer workforce and the companies that depend on them. We support the industry's continued growth and promote innovation. The Developers Alliance team in Washington DC and Brussels work with policy makers to help them better understand industry and technological changes and to create an environment that promotes and rewards innovation.

A stable online advertising ecosystem is essential for application developer success.

Since the application economy emerged over a decade ago, it has delivered tremendous societal and economic value. Software developers are building innovative products and services which are highly appreciated by consumers. The ecosystem supported by online platforms is providing fertile ground for fostering innovation in the digital economy, creating social value and providing well-paid jobs. Developers are part of this ecosystem and they rely on a stable environment in which to launch their products. They rely on the digital ecosystem to reach consumers and monetize their work.

Online platforms have opened up the opportunity for advertising revenue to a wide range of companies, including software developers. The advent of new players in advertising has heralded greater competition and more opportunities for smaller online companies and individuals to profit from delivering advertising. For advertisers, running an ad campaign is cheaper and easier today than ever before, as the digital platforms have removed many of the barriers that previously existed. For small application companies, advertising has enabled a whole new way to support investing in new products and consumer services.

Online advertising plays an essential role in supporting the application software economy.

For instance, mobile app advertising comprised 62% of global digital ad spend in 2018, up from 50% in 2017 and it is expected that 60% more apps will use in-app advertising in 2019.¹ According to IAB Europe², the European digital advertising market grew 13.9 percent in 2018 to €55.1 bn, the fastest growth since 2011, driven by strong growth in video, mobile and social spend online. The UK is ranked first in Top 10 rankings (by market size), with €18.4 bn. Developers are some of the many beneficiaries of this spending growth. They rely on in-app / in-service marketing to help support their work and investment.

There are many ways to generate revenue for a new service or application delivered online, depending on context and the specifics of the app involved. For example, mobile games often use the freemium model, which creates revenue primarily from in-app purchases. In this case, the customers are willing to pay for especially valuable functionality and additional features as they progress through the game. The paidmium model relies on both up-front charges for consumers, but also on in-app purchases. But in many cases, a free model is more suitable for app developers that want to attract a large consumer base or to grow a brand when the app is unknown and barriers to early user adoption are high. The free and freemium price-models are the prevailing choice for start-ups, as this offers them the opportunity to reach an audience which is not open to pay for a new and unknown product, and also to put in place efficient marketing at a low cost to grow their user base. Popular consumer services can be offered for free and advertising is the key for monetizing such apps.

Developers are partnering with advertising networks for serving ads to users. They are often passive but critical participants in the ad delivery process. In many cases, they simply provide user identifiers and ad space and the advertising platforms in turn provide appropriately



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¹ https://www.appannie.com/en/about/press/releases/app-annie-releases-annual-state-of-mobile-2019-repor

² https://www.iabeurope.eu/all-news/press-releases/european-digital-advertising-market-exceeds-e55bn-in-2018/

targeted ads and manage other aspects related to the process. The quality of in-app advertising is crucial for its economic efficiency. Ads that are not appropriate and relevant to the target market risk reducing app engagement and increasing user defection and dissatisfaction with the hosting app. The advertising platforms play an important role in this sense - besides supporting developers with ad revenue, they help developers simplify operations, deliver a better user experience, and potentially surface insight into user behavior inside the app.

The application and service marketplace is highly competitive, with millions of apps available exhibiting a wide range features and monetization models. The online advertising market is an equally dynamic and complex market which has evolved over time as new innovations are tried and tested. Developers are just a part of this complex ecosystem involving many other interconnected actors. The overall user/app/platform/advertiser market must be assessed as a multi-sided ecosystem in order to capture the complexity of the many competitive forces at play. A simplistic approach, focusing only on two sides of the market or only on certain platforms considered to have "a strategic status", will result in a distorted perspective and will fail to consider the ancillary consequences of potential intervention. Beyond the structural complexity, the multitude of competing business models participating in the market and their continuous adaptation makes simple, static market models doubly inappropriate. In the end, consumer benefit remains the most appropriate measure of a functioning market, complemented by an assessment of the benefits for all the players involved including developers, content creators, and the platforms and networks that interconnect them.

With regard to the three themes proposed for assessing the nature of competition in the online advertising market we underline the following:

Theme 1: Market Power

As mentioned above, digital advertising is clearly a complex market with more than two sides. There are many layers between the marketers and the publishers, and multiple platforms which help them to interact. The digital environment enables different participants in the market to easily switch between channels. The market is also fragmented, so an assessment focused only on vertical integration will mischaracterize much of the ecosystem. Finally, platforms like Google and Facebook play a complex role in the digital ecosystem which goes far beyond their ability to target ads, and thus the impact of their market roles must take much more than advertising into account.

We observe that the Statement of Scope is emphasizing the role of data. The implication that large datasets necessarily offer unfair competitive advantage is highly debatable. In reality, there are a wide variety of data sources which can be used to derive consumer insight. Consumers' digital footprints are everywhere, both online and offline, and consumers' data are found in more than one or two companies' databases. Moreover, when assessing the role of data in the digital market one should consider the fact that the economic value does not reside in the data itself. Data has no inherent value; it is abundant and continually created, and any use of a particular data point has no impact on another's use of the exact same data point. Data is infinitely replicable. Data becomes valuable when it is organized, cleaned, analyzed, and utilised in order to provide the necessary knowledge and understanding and achieve productive outcomes. Extracting real value from datasets requires investment, innovation and experience accumulated over time (innovative technological solutions complemented by marketing insights). This is a specific aspect of the competitive potential in digital markets, including online advertising, which shouldn't be overlooked.

Overall, the costs and benefits to and from platforms, advertisers, publishers, and consumers should be collectively considered by the study, at a minimum. Furthermore, advertising is a much larger market than just digital advertising. Advertisers have many channels with which to reach consumers, and an assessment of the advertising market cannot exclude parallel competing channels. We thus recommend the study address both the benefits and the costs of the current market structure - including a competitive assessment of other advertising channels vs digital ones. This assessment should consider the tangible advantages brought by digital advertisement in terms of advertisement efficiency, compared to the analog sector of the market.



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It is our belief that targeted advertising lowers the costs and increases the availability of goods and services to consumers³ and the availability of mobile apps represents a clear example.

Theme 2: Consumer Control

Developers believe that user trust is critical to their long term success, and thus take the responsible use of user data very seriously. Trust is predicated on transparency, appropriate controls, and appropriate security safeguards. Developers are continuously searching the optimal solutions to provide the best user experience, paying substantial attention to implementing data protection and privacy legal requirements. Developers are keenly aware that special categories of consumers (eg children) require specific measures to ensure the necessary protections (e.g. privacy by design solutions). In the end, the market value of user data is best inferred from how the market behaves in the face of value trade-offs.

We completely agree that consumers benefit from the convenience of certain business models, which are providing easy access to a variety of products and services in a personalized way.

Serving poorly targeted messages has a net negative effect on user satisfaction with a service. The goal of providing relevant ads has value to consumers as well. Limiting the ability to provide well targeted ads will force developers to seek alternative ways to monetize their work, will drive developers out of the market, will reduce developers investment and innovation, and ultimately will increase consumer costs for even hard goods by driving up advertisers costs.

Theme 3: Competition In Digital Advertising

The highly dynamic nature of the entire digital economy demonstrates that competition and innovation already play a significant role in how the market works.

Limiting the scope of the study to only digital advertising, versus all advertising, ignores the fact that virtually all consumers receive advertising through multiple channels, and that advertiser's revenues are allocated across all channels based on the market value of the expected investment return.

In a multi-sided market, focusing exclusively on the costs and benefits to one side misses the system-wide effects which might create overall efficiencies for other players and markets. For instance, the effective targeting of advertising made possible by consumer data could enable free services, but it might also reduce the prices of the goods advertised (efficiency) and eliminate the annoyance of unwanted ads (to name two obvious things).

The exclusive focus on two large platforms ignores the fact that there is constant churn in the overall ecosystem facilitated by an absence of barriers to entry - especially when compared with other industries. The rise of platforms such as TikTok, Pinterest, Twitter, Amazon and Snap appears to be ignored altogether and yet it is a fundamental part of the competitive dynamics. Generic interventions will have unintended impacts on a far larger population, many of whom directly compete with the large platforms the study is designed to focus on. Therefore, a careful but comprehensive consideration of all of these aspects is recommended.

Potential remedies should consider the collateral impacts.

The online platforms which the market study is focused on have offered the opportunity for thousands of app developers to launch their own products and innovate in their own right. This significant contribution to the digital economy should be acknowledged. We notice that the Statement of Scope doesn't capture this essential aspect. Before formulating proposed remedies, a proper examination of these economic advantages is recommended. This will allow a comprehensive knowledge of how developers have benefitted from the open source nature of the services provided by digital platforms.



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Interventions which target large platforms almost always have a serious impact on developers. Developers rely on an ecosystem of partners to deliver their products. When any part of the ecosystem undergoes significant change, the entire ecosystem is impacted. The advertising market is a clear example. The collateral impact must be taken into account in balancing the costs and benefits of any intervention. In the case of an intervention that could lead to a limited/no access to advertising advertising revenues, developers will need to find alternative ways to monetize their efforts. This could have the unintended effect of, for example, encouraging data collection for profit. Alternatively, this could require developers to charge consumers directly for previously cost-free services. It's easy to anticipate that the consumers will be affected in the end.

Intervention alternatives should be defined following fact finding. It is worrisome that the interventions have been pre-defined before the facts have been gathered. The proposed process risks the appearance of being politically driven and can be viewed as a flawed regulatory approach. It is our community's experience that pre-ordained outcomes that focus exclusively on large platform players inevitably cause considerable collateral damage to other ecosystem players. We cannot overemphasize this point.

Potential Remedy 1: Open Data, Data Mobility

As explained before, data is infinitely replicable and essentially valueless without additional added value. The insights gained from organizing and analyzing data are valuable. Any intervention which takes the analytical effort of an independent company and transfers it to others at below market value represents a rent seeking approach. We assume that any forced sharing of data would be done inside a competitive for-profit marketplace.

We absolutely disagree with the forced sharing of organized and processed data with competitors without appropriate compensation. While consumers have rights in the data they generate, these rights are not exclusive once the raw data is cleaned and organized. Any analysis, organization, or processing of raw consumer data creates intellectual property rights within the collecting organization as well. Only "raw" data should be available for forced sharing - and the effort to re-organize and re-analyze should be borne by market competitors.

Where shared access is happening on a voluntary basis, there should be a competitive pricing mechanism to compensate collectors for the value they add. Examples of inter-service compatibility exist throughout the digital economy - where there is a competitive advantage in doing so. Markets develop naturally in this way where the benefits are compelling. There is no need to intervene unless there is a clear market failure and behavior that is clearly beneficial to the ecosystem is prevented from occurring.

There is a real societal value to data. Any intervention which discourages the collection and analysis of data is a net disservice to society. The analysis of large datasets is at the heart of advances in communication and transportation systems, healthcare, and environmental protection. Using data as a proxy for market power is inapt. App developers compete primarily on the attractiveness of their products. Their main aim isn't collecting massive amounts of data, but to build a compelling product that consumers like which will then allow them to collect useful data for improving the products. This indicates that the competitive incentives for innovators in the digital economy are intact.

There is no difference between ecosystem partners that agree to share data (with appropriate user consent) and a single company that does the same within its corporate structure.

Any attempt at the forced sharing of data could have undesired anti-competitive effects, and at any rate must allow for an exchange of value in proportion to the added value of the original data collector.

The imposition of data standards would reduce data innovation by forcing data processors to either maintain two systems when they attempt to look at data in a new way, or encourage a stagnant frame of reference that would reduce insight and innovation. Furthermore, the implementation of standards tends to perpetuate incumbent power to the detriment of startups.



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Treating data like property is inappropriate, considering its non-rivalrous character. It is more suitable to consider contractual arrangements involving data. While some data is clearly owned and controlled by the consumer (eg. original works), rights in the observation of online behavior are less easily defined. GDPR, which confers consumers certain rights, is highly relevant when tackling any possible approach, especially on access or use restrictions. Privacy requirements should be always observed when assessing compulsory data sharing. In any case, mandatory data transfers pose serious problems, including from a broader perspective, as any imposed sharing of assets deters future investments, with clear negative effects on innovation and growth. We reiterate the need to consider all the actors involved in a market, especially those whose future investments are tied to its long term health.

Potential Remedy 2: Consumer Data Protections

Data practice transparency is a critical component of consumer trust, and should be promoted strongly. Developers are in strong support of efforts in this area, including on respecting the legal requirements concerning data protection and privacy.

The impact of certain remedies on the business models used by app developers should be considered. Developers should not be put in the situation to provide services for free - and obviously they cannot afford to do so. While charging a fee is an alternative to ad-sponsored service, many startups would fail without the ability to quickly scale their service by offering it "for free" to deliver the network value that eventually allows them to charge. Ad revenue is often a low-cost entry mechanism to test or develop a future, paying market.

The assessment for identifying potential remedies related to consumer data access should take into consideration the diversity in how data is used by various applications. Access to certain data is sometimes intrinsic to the service itself (an app providing a solution for car parking needs location data). Particular attention should be paid to avoid confusion between this kind of situation and the collecting of data strictly for advertising purposes.

Consumers' empowerment to deny access to their data when downloading apps should be assessed against the efficiency and the 'user-friendliness' of any mandated process.

Potential Remedy 3: Limiting Market Power

This is the traditional role of competition authorities. We have no specific comments from the developer community perspective.

Nevertheless, we reiterate that any interventions must be tailored to avoid secondary impacts to the other critical roles platforms play. Preserving a balanced approach in applying competition tools is a guarantee for identifying the optimal solutions in addressing market failures.

Potential Remedy 4: Ad Economy Transparency

No particular views, as developers are indirect participants.

Potential Remedy 5: Institutional Reform

No comments on this topic.



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In Conclusion

We appreciate the broad approach proposed for evidence gathering, taking into account the necessity to have a comprehensive oversight of the advertising sector. Developers Alliance remains at CMA's disposal for further information.

The present contribution doesn't contain confidential information and can be made publicly available.

Respectfully submitted,

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