

LLOYDS
BANKING
GROUP



LLOYDS BANKING GROUP PLC
Response to CMA Online Platforms &
Digital Advertising Market Study
Statement of Scope

Submission Date: 24th July 2019

Executive Summary

Lloyds Banking Group (LBG) welcomes the opportunity to support the CMA's market study into Online Platforms and Digital Advertising. Given the broad scope and complexity of the subject matter, we look forward to working with the CMA and would be more than happy to arrange a follow up meeting to discuss our response in more detail if it would be helpful. This response contains both LBG's response to the CMA's Request for Information as well as a response to the Statement of Scope. This document is set out as follows:

- 1) The Open Platforms & Digital Advertising Market
- 2) Ensuring the market is working effectively
- 3) Our approach to the Information Request
- 4) Response to the CMA's Statement of Scope
- 5) Annex I – Responses to the Information Request Questions

The Open Platforms & Digital Advertising Market

Digital markets provide numerous benefits to consumers and have played a key role in transforming and driving innovation in the economy. Technology, cloud-based systems and big data have led to the emergence of entirely new markets and platforms as well as creating a range of opportunities across existing markets. Within the digital economy, markets based on online platforms that connect a variety of user groups, have played a key role in this transformation, owed to their ability to reach audiences at scale.

Over time, online platforms have delivered a range of benefits including search engines, e-commerce and social media. The role of these platforms has been key in delivering benefits to consumers and businesses alike.

The digital advertising market provides a significant revenue-generating opportunity for online platform services. While consumers are usually able to use these online platforms for 'free', they provide the platforms with valuable consumer data which is monetised through digital advertising. Generating advertising revenue in these markets, and the subsequent competitive strength of firms operating in them, depends on the ability to obtain and use the most comprehensive consumer data possible. The digital channel provides significant opportunities for this due to:

- The amount of time spent online (approximately 3 hours per day for the average UK adult in 2018¹) and;
- The internet being a frequent starting point for a purchase decision for goods and services.

Although some stakeholders may argue that digital advertising accounts for a small component of overall advertising activity, it represents a valuable form of advertising

¹ Ofcom, Online Nation, May 2019

compared to traditional methods and provides numerous unique benefits. These include higher reach, lower costs, measurable results and the ability to personalise.

Ensuring the market is working effectively

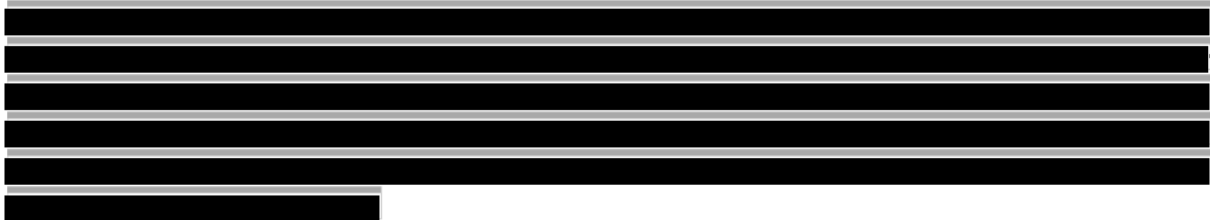
Despite their many benefits, **we recognise there are a number of potential areas of concern associated with online platforms and digital advertising.** These include (but are not limited to): concentrated market power, control over data and unintended consequences of legislation on the market.

Market power

Two of the largest suppliers, Google and Facebook (and their respective subsidiaries) currently constitute **54%² market share** in the digital advertising market, with the majority of revenue in the UK split between the two³. Google alone holds the leading position in paid and organic search, with over **92% share of the market⁴**. A successful platform will attract both advertisers and consumers and the ability of a platform to provide advertising services to advertisers depends on its ability to attract consumers. Both Google and Facebook have incredibly large audiences which, through multiple sources (e.g. Gmail, YouTube and Google Maps) have provided them with a valuable and extensive source of data and advertising inventory that can be used for highly-targeted advertising.

- Globally, **Facebook has over 2.3 billion** active users, and in the UK in 2018, it was **visited monthly by 95% of the adult internet audience**
- For Google, this figure was even higher at **99%⁵**
- In 2018, the UK population spent approximately 4 billion hours online a month, of which more than **1.4 billion were spent on sites owned by Facebook and Google⁶**

This provides Google and Facebook with a vast source of valuable customer 'intent data' which continues to be one of the biggest contributors to market power for these online platforms. In addition to this, these platforms also benefit from large networks, economies of scale and high switching costs for advertisers, all of which have contributed to high barriers to entry for potential competitors and has further contributed to their significant power over the market and supply of advertising inventory.



² eMarketer, Digital duopoly to remain dominant in UK ad race, September 2017

³ Google 2018 10K, page 27, Facebook 2018 10K, page 44

⁴ Statcounter, GlobalStats data for UK search engine market share

⁵ Ofcom, Communications Market Report, 2018.

⁶ Comscore MMX Multi-Platform, June 2018

Control over data and the 'walled garden' effect

Another consequence of how the Online Platform & Digital Advertising market operates is related to the control of customer 'intent data' and the creation of what can be described as the 'walled garden' effect.

Large online platforms, in particular Google & Facebook, are able to capture vast amounts of valuable customer 'intent data' at an individual customer level. Such data is a critical component of effective targeted digital advertising, and the 'intent data' captured by Google and Facebook is arguably the most informative and valuable for advertisers. However, given the way the market operates, advertisers are only able to make use of this data for advertising on Google and Facebook's own platforms (i.e. as opposed to being able to make use of this 'intent data' for an advertising campaign on an independent website).

In addition, applications, content, and data from various sources is controlled by the supplier but only aggregated data is shared with partners. This restricted access to data, audiences and reporting outside of these 'walled-gardens' has resulted in the inability for advertisers to effectively and consistently measure the performance and manage the frequency of their advertising. This lack of transparency is particularly prominent in programmatic advertising, where limited auditable information is made available to advertisers.

[REDACTED]

Unintended consequences of legislation

The introduction of the General Data Protection Regulation (GDPR) in 2018 was a positive step in terms of setting the boundaries for legal treatment and safeguarding of consumer and personal data. However, this has inadvertently contributed to the increasing market share of larger online platforms due to their ability to capture enduring consents. In addition, GDPR and e-privacy compliant consent is easier to apply where users are routinely authenticated such as on Google and Facebook. There is increasing pressure from the Information Commissioner's Office (ICO) on the digital advertising market to operate under a consent only basis, which is likely to further drive consolidation and subsequent market share concentration of the incumbent platforms.

The arrival of GDPR has added another layer of complexity, resulting in a multitude of different approaches to cookie-based consent. The recent moves by Google to block third-party cookie targeting in Chrome has made it increasingly difficult for advertisers to reach consumers using data. This restriction on third-party cookie targeting forces marketers to work with first-party data either directly or with supply partners that can provide access.

This impacts the programmatic ecosystem which relies on third-party cookies for targeting, thereby restricting the ability to deliver relevant messages to individuals and measure the effectiveness of their campaigns.

[REDACTED]

[REDACTED]

Response to the CMA's Statement of Scope

The digital advertising market is a key component of the digital market ecosystem, providing the revenue-generating side of many platforms. Digital advertising is increasingly driven by the use of consumers' personal data for targeting, which in turn drives the competitive advantage for platforms that are able to learn more about consumer identity, location, preferences and intent.

The market operates through a complex chain of advertising technology layers, where subsidiaries of the major online platforms compete on opaque terms with third party businesses leading to ineffective competition in the market [REDACTED] LBG are therefore supportive of CMA's decision to conduct a market study into the sector and welcome the opportunity to respond to the Statement of Scope.

The study is broad and complex in nature and we are overall supportive of the CMA's description of the sector, proposed areas of focus and the key themes identified in the Statement of Scope. Our views, evidence and concerns in relation to the themes and areas of focus outlined in this study are discussed in our responses to the request for information in Annex I below.

We agree that the CMA, through the use of its investigatory capabilities and powers, should examine whether the digital advertising market is operating appropriately to deliver effective competition and consumer benefit. The issues discussed in this study overlap and are interlinked and therefore the CMA should consider a package of remedies that address the concerns identified across all three themes outlined in the study. A few potential remedies that we believe should be given consideration include:

- **Independent measurement & reporting**

[Redacted text block]

- **IAB framework compliance with GDPR**

[Redacted text block]

- **Centralised Marketing Preference / Digital ID**

[Redacted text block]

We recognise there will be a broad range of views that exist on this subject. LBG welcome the opportunity to discuss our response and the market study in more detail and look forward to working with the CMA with their ongoing work in this area.