

CMA Digital Markets Taskforce Call for Information: IAB UK Submission

Introduction

IAB UK is the trade association for digital advertising, made up of over 1,200 of the UK's leading media owners, advertising technology providers, agencies and brands. We have a Board¹ comprised of 25 leading businesses in the sector. Our purpose is to build a sustainable future for digital advertising, a market that was worth £15.69bn in the UK in 2019.

The IAB is actively engaged in working towards the optimal policy and regulatory environment to support a sustainable future for digital advertising. We also develop and promote good practice to ensure a responsible medium.

Responses

4. What future developments in digital technology or markets are most relevant for the Taskforce's work? Can you provide evidence as to the possible implications of the COVID-19 pandemic for digital markets both in the short and long term?

Future developments in digital technology or markets

Mobile Advertising IDs (MAID)

The CMA's Market Study identifies a key area of change for digital advertising relating to support for third party cookies. The Market Study specifically notes Google's proposals for Chrome, and its work to develop alternatives via its Privacy Sandbox.

Another proposed proprietary change that may be relevant is Apple's proposals for its IDFA (ID for Advertisers) which plays an equivalent role for Apple devices in a mobile environment as cookies do in a desktop environment (i.e. supporting ad delivery, user profiling, measurement and attribution).

Apple's proposal is based around requiring a per-app opt-in by users in order for IDFA to be used. It is unclear whether and how this approach is intended to fit with existing regulatory frameworks and market standards. Specifically, based on the available information, Apple's proposal does not appear to be compatible with the

¹ https://www.iabuk.com/member-directory?title=&company_type=All&company_badges%5B%5D=board_member

consent requirements under PECR and GDPR which could have a negative impact both for consumers and for businesses wishing to serve adverts on Apple mobile devices.

The CMA's Market Study states (M138, para 531) that, in the context of intermediaries sharing data, the impact of the proposed Google Chrome changes are less applicable to a mobile environment:

... This is especially true in relation to advertising in mobile apps, where publishers have access to stable ad IDs (see Appendix G). Therefore, the current proposals would leave an increasing fraction of digital advertising spend largely unaffected.'

The Taskforce should review the impact of the proposed IDFA changes on this assessment and the availability of 'stable ad IDs'. It is also possible that changes could be made to other proprietary MAIDs that would be relevant, and the Taskforce and, in time, any future Digital Markets Unit (DMU) should also monitor the market for such changes. The Taskforce should consider more broadly the impact on competition of browser control of cookies and other tracking technologies, and the adaptations that businesses in all digital markets are required to make as a result.

Project Rearch

As the Taskforce looks at these issues, it should also be aware that the global digital advertising industry has launched Project Rearch. Project Rearch is a global call to action for stakeholders across the digital supply chain to re-think and re-architect digital marketing to support core industry use cases, while balancing consumer privacy and personalisation. This work is likely to evolve quite quickly over the coming months and is focused on developing new ways of working that it would be beneficial for the Taskforce and any future DMU to consider.

More broadly, the DMU should be guided to consider industry standards and self-regulation as a means of delivering outcomes. While the codes of conduct need legal underpinning, the DMU should have more flexibility where pro-competitive interventions may apply to non-SMS firms.

More information about Project Rearch is available at <https://iabtechlab.com/project-rearc/> and IAB UK would be happy to discuss this work in more detail with the Taskforce.

The Taskforce should also consider the impact of regulatory changes in other policy areas, such as the Digital Services Tax – which includes advertising marketplaces in its scope – on the digital advertising market. The DST was introduced from April

2020 so its effects are yet to be seen and understood, but it could have negative impacts on the market and competition, and on competing ad intermediaries in particular which typically have higher costs and lower margins. Equally the impacts of the UK's exit from the EU on the digital advertising market (economically, competitively or otherwise) are yet to be fully understood.

Longer-term trends

The Taskforce should be aware of wider technological advances and related industry trends and review their implications for a future regulatory framework. Two that we would like to bring to the attention of the Taskforce are set out here.

One is the increase in the prevalence and use of connected devices and human interaction with those devices through voice and video. These devices can provide data and insights that can be used for advertising purposes, and may give rise to more 'walled gardens' or device-/OS-controlled ecosystems in future. Examples include connected TVs and smart home voice-activated devices.

Another, related example is machine learning and AI, which the digital advertising ecosystem increasingly relies on. Machine learning requires large data sets. The more data, the faster/better the learning (and related insights, features, benefits, etc.). This is a relevant consideration that may have competition implications as industry adoption of these technological capabilities grows.

Evidence of impact of COVID-19 on digital markets

Digital advertising in the UK

Figures from the Office of National Statistics showed the UK's economy contracted by 19.1% in the three months to May 2020² as a result of the COVID-19 pandemic and its repercussions and, along with almost all other industries, this impact has been keenly felt by the digital advertising industry.

The digital advertising industry is cross-border in its nature and therefore highly susceptible to global economic trends. Advertising spend in the UK has plummeted, meaning companies within the digital advertising industry – many of them operating with low margins – are facing severe difficulty and anticipating a long advertising recession. Dr. Daniel Knapp, chief economist at IAB Europe – the European-level association for the digital marketing and advertising ecosystem, of which IAB UK is a member – explains in his May article on the impact of COVID-19: 'It will take the

²<https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpmonthlyestimateuk/may2020>

overall ad market about three years in total to recover from this downturn, with a 12 to 14-month time-frame for digital.³

As Daniel Knapp notes, all three advertising recessions in Europe over the past 20 years (the dot com crash and 9/11 in 2001, the financial crisis in 2008/2009 and the Eurozone crisis in 2012) showed that advertising expenditure does not just follow economic trends; it amplifies them, particularly if economic growth is flat or negative.⁴

Significantly reduced demand for advertising is being caused by a range of factors that include: many advertising sectors have reduced their operations significantly or stopped them altogether (e.g. retail, travel, hospitality, entertainment); demand for/supply of other products has plummeted (e.g. automotive); advertisers are having to rethink and repurpose their advertising creative to adapt to the current circumstances which means spend is either paused while strategies are redeveloped or stopped if it is no longer appropriate to market the brand, product or service.

As well as factors affecting supply and demand for products and services, there are of course business impacts of the economic crisis and associated uncertainty: marketing budgets are often the first to be cut in such circumstances, as brands/advertisers make difficult decisions about expenditure on advertising and marketing; lead times for digital marketing campaigns are short and therefore campaigns/spend online can be reduced/pulled/stopped more quickly and easily than in some other media; the digital advertising sector is also highly exposed to SMEs, who are particularly hard-hit (see following information).

UK digital ad market: reduction forecasts

Data published in April by the Advertising Association (AA) and WARC forecasted UK digital advertising spend dropping by over £2 billion in 2020 due to the pandemic, with the majority of that drop being seen in paid search advertising and display advertising, which includes things like standard display banners, native advertising, sponsored content and pre-roll videos. Search investment is expected to fall by 12.1% to £7.0bn this year versus a previous forecast of 10.1% growth, and for online display, the market as a whole is forecast to contract by 12.7% to £5.5bn this year, with social media down by 6.3%. As with paid search, this would be the first recorded fall in the online display market and equates to a total £1.16bn lower than that forecast in January.⁵

³ <https://iabeurope.eu/blog/iab-europes-chief-economist-features-on-warc-impact-of-COVID-19-on-ad-expenditure-and-the-digital-new-normal/>

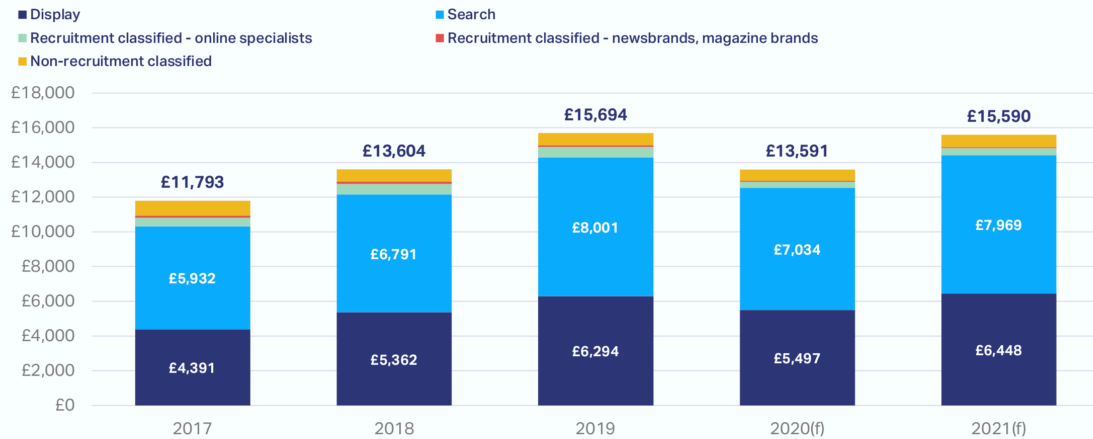
⁴ *ibid.*

⁵ <https://expenditurereport.warc.com/media/1219/q42019pr.pdf>

Internet advertising expenditure by type, 2017–2021

ADVERTISING ASSOCIATION WARC[^]
BY ASCENTIAL

£m, Current prices



Note: Sum of all components equals the IAB total for internet advertising expenditure.

SOURCE: AA/WARC Expenditure Report, April 2020

The AA/WARC Quarter 1 expenditure data published on 30 July⁶ indicated that UK advertising spend as a whole (for all media) would decline by 15.6% in 2020 followed by 16.6% increase in 2021. The latest IPA Bellwether report for Q2 2020, published 15 July 2020⁷, shows that the pandemic has driven a record decline in marketing budgets⁸. The net balance of firms cutting marketing budgets fell to -50.7%, with almost 64% of respondents having registered a decrease in spending compared to the first quarter. Accordingly, 72.4% of businesses said they were pessimistic about financial prospects, compared to just 6.4% that were optimistic. However, the report's authors, IHS Markit, suggest 'a robust recovery in macroeconomic conditions during 2021 as businesses move closer to operating at full capacity'.

The latest IAB Europe modelled forecasts⁹ based on available data suggest there will be a decline of 11.9 % in the UK digital ad market specifically in 2020. Dr. Daniel Knapp believes that the speed of recovery from this is likely to differ across different media (see graph below), 'but any stabilisation is built on quicksand' and if current company outlooks falter 'we may be approaching a -20% ad market scenario for Europe'. Online advertising businesses are anticipating a prolonged contraction in spend, leading to a smaller industry with a reduced workforce when the industry does recover. This situation will be further exacerbated if the economic recovery

⁶ <https://expenditurereport.warc.com/media/1267/q1-2020-pr.pdf>

⁷ <https://ipa.co.uk/news/bellwether-report-q2-2020>

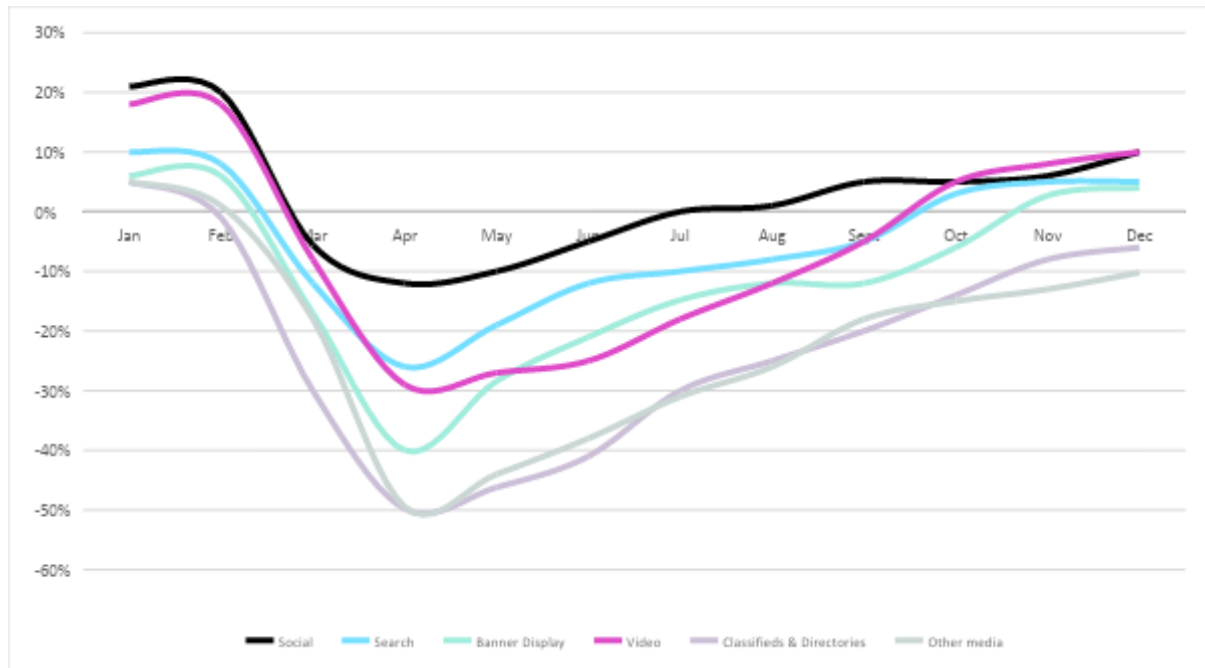
⁸ For more information about the Bellwether report see

<https://www.markiteconomics.com/Public/Home/PressRelease/bae48b418c224556b78fcb05a5432fe0>

⁹ <https://iabeurope.eu/knowledge-hub/economicstrendsCOVID19/>

proves to be slower than anticipated or if the UK suffers a second wave of the pandemic.

Europe: Ad Spend growth forecast by month (2020)¹⁰



The latest forecasts from the IMF¹¹ are that the UK economy will return to growth in 2021, and the UK digital ad market is also currently forecast to return to growth in 2021. However, external factors such as rises in employment and business insolvencies (predicted to increase by 37% in the UK from the end of 2019 to the end of 2021¹²) are likely to have an impact both on the economy and on ad spend, as consumer and business spending is squeezed – particularly bearing in mind the relatively high proportion of UK ad spend that comes from SMEs (see next section) who are likely to be hard-hit by the current crisis. The Taskforce should monitor the forecasts and actual data for the market, and we recommend that it should also advise the Government to continue to monitor them as it considers the Taskforce’s advice and develops its future competition policy.

¹⁰ <https://iab europe.eu/blog/iab-europes-chief-economist-features-on-warc-impact-of-COVID-19-on-ad-expenditure-and-the-digital-new-normal/>

¹¹ <https://www.imf.org/en/Publications/WEO/Issues/2020/06/24/WEUpdateJune2020>

¹² Coface:

https://www.coface.com/content/download/182478/3009947/file/PR+COFACE_Barometre+Q2+2020.pdf

IAB UK: member survey

In April 2020 IAB UK surveyed its member companies on the immediate impact that the COVID-19 pandemic was already having on their business, and the short-to-medium term impact they were anticipating.

The headline figures from the survey suggested the following picture of the UK's digital advertising industry (**average** figures):

- -11% revenue decline in March 2020 vs March 2019
- -32% revenue decline in forecasts for Q2 2020 vs Q2 2019
- Businesses with a 2019 turnover of less than £20million forecast a greater impact
- Sales houses, media agencies and other suppliers were reporting a greater impact than media owners and ad tech companies
- Some areas of advertising have seen increases (Direct to Consumer brands were cited by members), but overall those increases have not made up for the areas that have decreased.

Please note that these results are based on the 53 IAB member companies who participated in the survey and are therefore indicative, not representative of either the IAB UK's members or the industry as whole.

The IAB re-ran this survey in July 2020, with a smaller number of participants (41). The headline results showed (average figures):

- -9% actual revenue decline for Q2 2020 vs Q2 2019, among the 29 companies that responded to this questions
- +4% revenue forecast for Q3 2020 vs Q3 2019
- Ad Tech companies and those turning over less than £20 million appear to have suffered more in Q2

The average figure for projected growth in Q3 based on the 29 companies that provided information masks the range of responses: of those who responded, 14 are forecasting a return to year-on-year growth for Q3 2020 whereas 12 are forecasting a downturn (the remainder expect revenues to be static).

The IAB UK/PwC Adspend¹³ half year report for H1 2020 will be published in October 2020, and will provide a more robust and representative picture of how the digital advertising industry has fared in the first half of the year. We would be happy to provide this information to the Taskforce once it is available.

¹³ <https://www.iabuk.com/adspend>

IAB UK: SME research

A survey of 1,200 UK SMEs carried out by MTM in March 2020 for the IAB¹⁴ sought to understand the role that digital advertising plays for SMEs and the support that businesses need to maximise results. The results show that six in ten SMEs use paid-for digital advertising and our calculations, using IAB UK/PwC Adspend data, indicate that SMEs contribute up to 45% of all digital ad spend in the UK.

Our survey demonstrated that COVID-19 has hit SMEs particularly hard. 64% of SMEs surveyed said they were concerned about their future, and 70% said they believed communicating with their customers is more important than ever in the current circumstances, bringing the need for effective advertising into sharp focus.

Encouragingly, nearly two thirds (64%) of the SMEs surveyed said that although the first few months were expected to be difficult, they expect to recover in the long-term. Additionally, half of the SMEs surveyed said digital advertising is more important to them during a crisis.

These surveys and studies show that the impact of COVID-19 on the digital advertising market has been great and that recovery remains unpredictable. The market may change as a result. A foreseeable and predictable future becomes crucial in this climate. The Taskforce should monitor this carefully consult with relevant stakeholders as it develops its recommendations for Government.

11. What factors should the Taskforce consider when assessing the detailed design of the procedural framework – both for designating firms and for imposing a code of conduct and any other remedies – including timeframes and frequency of review, evidentiary thresholds, rights of appeal etc.?

The CMA's market study notes potential areas for future exploration by the envisaged Digital Markets Unit including further transparency in the digital advertising ad tech supply chain. In relation to such specific potential interventions by the proposed DMU, the procedural framework should require wide industry engagement and consultation on whether and how to implement remedies of this nature, reflecting the diverse nature of market and the companies within it. Fresh evidence-gathering should also be required. The DMU should also be required to consider the existence or potential for new industry-led approaches that may meet the desired objective. For example, the cross-industry programmatic supply chain task force's work that is exploring how to build on the existing transparency in

¹⁴ <https://www.iabuk.com/poweringup> (n.b. the full report can be provided to the Taskforce on request)

relation to transactional data and costs and fees in the supply chain discussed in the market study report.

12. What are the key areas of interaction between any new pro-competitive approach and existing and proposed regulatory regimes (such as online harms, data protection and privacy); and how can we best ensure complementarity (both at the initial design and implementation stage, and in the longer term)?

The CMA's market study concluded that the design and implementation of policy in other areas can have poor competition outcomes and identified GDPR as an example. In order to avoid these outcomes in the future, competition impact assessments should be adopted by government as a routine part of digital policy-making in the future. Robust processes should engage early with stakeholders on new policy ideas, with a particular focus on competing firms. Like the market study, these processes should be underpinned by detailed evidence-gathering. This way, both the DMU and government will be driving towards shared competition goals.

We welcome the coordination and close working between the CMA, ICO and Ofcom which should help to identify links between different regulatory regimes, whether existing or new, and to examine how to give effect to the principle of "competition neutrality". In terms of achieving complementarity, this goal would be best supported by the CMA (together with the ICO) providing more information about the privacy-related workstreams they are taking forward ahead of a DMU being established, particularly in terms of process and plans for industry engagement. This will enable industry stakeholders to identify areas of regulatory interaction in practice, and help the Taskforce in its goal to develop regulatory proposals that are complementary to other regimes.

Additional note

We have focused on the questions from the call for information that appear to us to have most relevance for the digital advertising market. If there are specific questions on which the Taskforce would welcome more input or engagement from us and/or our members, we will be very happy to assist.

IAB UK
July 2020

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