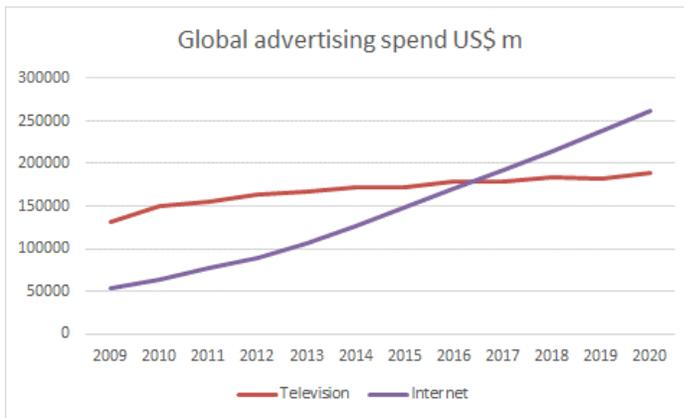


## THE SHIFTING BALANCE OF POWER IN THE ADVERTISING INDUSTRY

By Mark Butler, Portfolio Manager, Perpetua Investment Managers

The balance of power is shifting in the advertising industry to the digital platform owners. Advertisers’ have long wanted to influence our behaviour. From the “serpent” in the Garden of Eden to an online retailer enticing a prospective customer to act. Historically advertising has been done on radio, in various print formats: billboards on the side of the motorway, magazine or newspaper, sponsorship of a sports team or concert, in the cinema or on television. Advertisers want their adverts to have a high impact and, ideally to track that impact on their customers. In the digital world, they have followed customers online. Initially it was on a desktop but the advent of mobile devices has further enabled them to segment the market. Search remains the largest category, display as a category is declining being replaced by social media and online video.



The global television advertising market at US\$180bn<sup>i</sup> is the largest advertising segment in the world, a thirty second slot on television during the Super Bowl will set back the advertiser US\$5 million. It is difficult to measure the impact of these adverts and the additional revenue from

advertising during the Superbowl final. The digital advertising market is growing at a faster pace than the television advertising market. and it is estimated that it will

surpass the size of the television market within two years. The size of the digital advertising market during 2015 was US\$149bn.<sup>ii</sup> The country with the highest digital advertising spend is the United States (US\$80bn) followed by China (US\$32bn). The dominant players, outside of China, are Google and Facebook controlling close to 70% of the digital advertising market. Google is the larger of the two, which is not surprising because it is the Western World's preeminent search engine and their ownership of YouTube. Facebook's brands include Facebook, Instagram and WhatsApp. Verizon's, a US fixed and mobile telephone company (think Telkom in South Africa), acquisition of Yahoo is an attempt to build a third player using Yahoo's customer base and AOL's (which Verizon owns) technology.

One of the reasons for the success of Google and Facebook is the ability of these platforms to reach out to specific market segments and the ability to track the conversion ratio. In the last year the second largest UK online retailer, Shop Direct, used a cinemagraph video to build awareness of their Black Friday sale. An ad campaign was built around people who had not only clicked on the video but had watched the majority of it. This is known as a warm lead and these are potential customers who are genuinely interested in the advertisers value proposition. In the week prior to Black Friday, Shop Direct retargeted a series of "one day only" sales to a select audience of people who had watched the video. On Black Friday, Shop Direct's campaign paid off with 4.2m visits to their website and 339% increase and their single largest day of sales ever.

Companies which use Facebook's carousel ads have reported as much as a 20% increase in conversion rates. Facebook has recently updated the configuration of their app-install adverts because people download apps and then often don't use them. According to eMarketer only 6% of people still use an app one month after

downloading it, so you want to make sure that your target audience includes those in the six percent. Advertising on Facebook is not only for corporations with large advertising budgets or capabilities, they also target the small business. An example is a new swimming school. They could target a specific catchment area and focus on parents with toddlers e.g. those who purchase nappies. Without the data which platforms such as Google and Facebook are able to gather from their users' shopping / browsing / location patterns it would be impossible to offer such targeted advertising and be able to provide reliable conversion data for their clients. All of this improves their value proposition and their attractiveness to advertisers.

In my opinion, it will be difficult for Verizon to reach the scale to be able to compete meaningfully with Google and Facebook which have a significant advantage and deeper pockets. The rate of change in technology is rapid and at times it may not be clear as to who the winner will be. Cast your mind back to 1998 when Yahoo wanted users to spend more time on their own platform and did not acquire a start-up which would send a user to the most relevant site using a soon to be patented PageRank system. The owners Larry Page and Sergei Brin, the company is now called Alphabet but is more commonly known as Google. In my opinion, the clear winners are Google (Alphabet) and Facebook as they benefit from the network effect and users shift away from traditional media to digital mobile devices. When last did you check your mobile device? Depending on your age, you may even be reading this on a mobile device. How the balance of power has shifted!

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<sup>i</sup> Source: Bloomberg - Magna

<sup>ii</sup> Source: Bloomberg - Magna