

Assessing the
economic value of
online advertising-
based services for
consumers

Introduction

Online advertising is being debated around the globe, yet until now there has been little robust and independent research into the huge value generated by the free, advertising-supported web services that we use every day. Our key objective is to use the potential of online advertising to generate more value - and economic activity - in member states.

IAB Europe commissioned McKinsey & Company to provide research to value the advertising supported services that internet users currently receive for free. The findings were presented to a packed audience of IAB Europe members on 17th September in Brussels. They reveal that online advertising plays an important role in enabling new services and content distribution models as well as in supporting the creative industries.

The report also shows that today's consumers are able to make reasoned choices about when to use advertising supported services, and when to pay for them - and that tightening rules further is likely to have negative effects on internet usage in general.

Opened by Sir Martin Sorrell, CEO of WPP, European Commission Vice President Neelie Kroes gave a keynote speech outlining her views on the topic and joined the debate that followed. The event offered us the best opportunity to initiate a substantive discussion with the European Commission on its policies.

I hope you will find this summary document useful. Please contact our public affairs team at publicaffair@iabeurope.eu for further information.

Alain Heureux, President and CEO of IAB Europe.



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1 Alain Heureux, President and CEO of IAB Europe

2 Sir Martin Sorrell, CEO, WPP

3 Neelie Kroes, Vice President of European Commission

4 Q&A session



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Objectives of the event

- Prove the value of advertising-supported web services that internet users currently receive for free
- Provide a factual basis for the ongoing and often heated privacy debates
- Present the findings of the new report commissioned by IAB Europe from McKinsey & Company
- Provide a factual basis for the ongoing and often heated privacy debates
- Understand the trade-off between the value of free internet services and the 'disturbance' cost to the consumer of advertising interruption and privacy concerns
- Explain why Europeans place greater value on free services than on their online privacy
- Debate the question of the opt in vs opt out with the European commission.

Attendees

- IAB Europe members and high profile members of the digital industry
- Representatives from the EU Commission
- Senior members of the media.

Speakers

Welcome: Guy Phillipson, Board Chairman IAB Europe & CEO IAB UK

Industry Keynote: Sir Martin Sorrell, CEO, WPP

Policy Keynote: Neelie Kroes, Vice President, European Commission

Presentation of White Paper: Jacques Bughin, Partner, McKinsey & Company.

Roundtable discussion followed by Q&As:

Moderator: Stephen Fidler, Wall Street Journal

Panellists:

Neelie Kroes, Vice President European Commission

Jacques Bughin, Partner, McKinsey & Company

Stuart Colman, Managing Director, AudienceScience

Philipp Justus, CEO, zanox

Sir Martin Sorrell, CEO, WPP

Luc Tran-Thang, Vice President, Orange Advertising Network

Hal Varian, Chief Economist, Google

Paul Westhorpe, Senior Vice President, Prisa

Cyril Zimmermann, CEO, Hi-Media.

The Panel Debate



The Audience



Presentation of the Survey

The Consumer Benefits Study (CBS) calculates the value of online services to internet users in Europe, Russia and the USA. For every euro spent on online advertising, users benefit from three euro worth of services. Based on current growth rates and forecasts of the online advertising market, the amount spent on providing free services for consumers is expected to rise by 13% per annum to €190 billion in 2015.

The study also shows that the value users get from these free services far outweighs the importance they attribute to protecting their personal information from advertisers.

The value of free web services to consumers is estimated at €100 billion for Europe & USA

- In 2009, all money spent by companies for online advertising in Europe was valued €14.7bn in 2009 and €16.3bn in the US in the same period (IAB Europe AdEx)
- Online advertising largely funds the free web services used daily by billions of users. For every Euro spent on online advertising by companies, users get three Euros worth of services
- Online advertising largely funds the value consumers receive from free web products and services. The estimated value of these services will be €100bn in 2010. This figure is expected to grow by an average of 13% for the next five years
- The value consumers receive from the advertising spend in Europe is more than three times more than the amount spent on advertising in Europe and the US
- Whilst Europeans pay on average €30 per month to ISPs for their online access, these free web services have been valued at €40 per online household per month in this new research from McKinsey.

Europeans place greater value on free services than online privacy

- The report aims to provide a factual basis from which to understand the trade-off between the value of free internet services and the 'disturbance' cost to the

consumer of advertising interruption and privacy concerns. Concerns and attitude often differs and result in a modest willingness to pay for their privacy concern

- As advertisers and marketers have increased their ability to process information on users and developed increasingly sophisticated ways to reach consumers online, concerns over privacy might intensify requiring more transparency from the industry
- The research shows that while 70% of consumers have concerns about privacy disturbance they attribute more value to the free ad-funded web services they use than they would be prepared to pay to protect from privacy disturbance
- Concerns and attitudes however do not translate into behaviour
- Avoiding advertising disturbance is not enough of a motivation for consumers to pay the market rate for the services they currently receive free. The report shows that for each euro an internet user is willing to spend to limit advertising disturbance, they currently receive six euros worth of value from ad-supported web services and products
- A niche of 1% of users value privacy higher than the consumer surplus ('consumer surplus' represents the economic value of free web services to users after deducting costs such as paid-for services, and after taking account of the concept of disturbance)
- Only 20% of internet users choose to pay for at least one online service such as media entertainment. The research suggests that the pay/free mix is already in equilibrium and only a price drop will increase the numbers of those willing to pay (i.e. surplus from paid-for-services is "0")
- Finally the study suggests that if those services that are currently provided for free were to be charged for (at a level that generates the same amount of revenue as ad-supported services), at least 40% of current users could stop using the internet. Ironically it is that 40% of users for whom privacy is hardly important.



Neelie Kroes, Vice-President of the European Commission responsible for the Digital Agenda

Towards more confidence and more value for European Digital Citizens

On the role of online advertising:

“From the view of the Digital Agenda, my first message to you is a simple one: I recognise the value of online advertising. As a growing market and one that delivers many benefits to European citizens, online advertising is very important, and targeted advertising is a particularly important part of this market.

Many of the “free” services now used by billions on the internet would not be possible without the income derived from the various forms of online advertising. Advertising revenues are the basis of a wave of innovative services that are transforming our economy and society.”

On behavioural targeting and privacy:

“Many online advertising techniques – display, contextual, certain search-related ads, etc. - do not involve any tracking of users’ behaviour (and they do not require personal data to be processed). These techniques are not a subject of major concern.

But on the other hand, there are techniques that match advertisements very closely to what a user has previously done on the internet. Users get uneasy when they get the feeling that all their movements on the web are observed, in particular if this is done without them knowing what is going on. By following clear rules on the tracking of user behaviour, we can minimise the chances of the conflict I just mentioned. And I firmly believe that it is essential to apply techniques involving user profiling in a manner that is respectful of user privacy.”

Call to action:

“The solution must be a driver, and not an impediment, to the growth of the digital economy. I believe that a self-regulatory solution is possible. But it will need to be one clearly based on the applicable EU legislation.”

Press Activity

Press Attendees

- Bloomberg
- Cinco Dias
- El Pais
- Financial Times
- Financial Times Deutschland
- International Herald Tribune
- La Tribune
- Le Figaro
- Publico
- ThomsonReuters
- Wall Street Journal.

Press Coverage

The research had a very positive response from the press and great coverage across Europe in the broadsheets and in the trade press including:

European titles

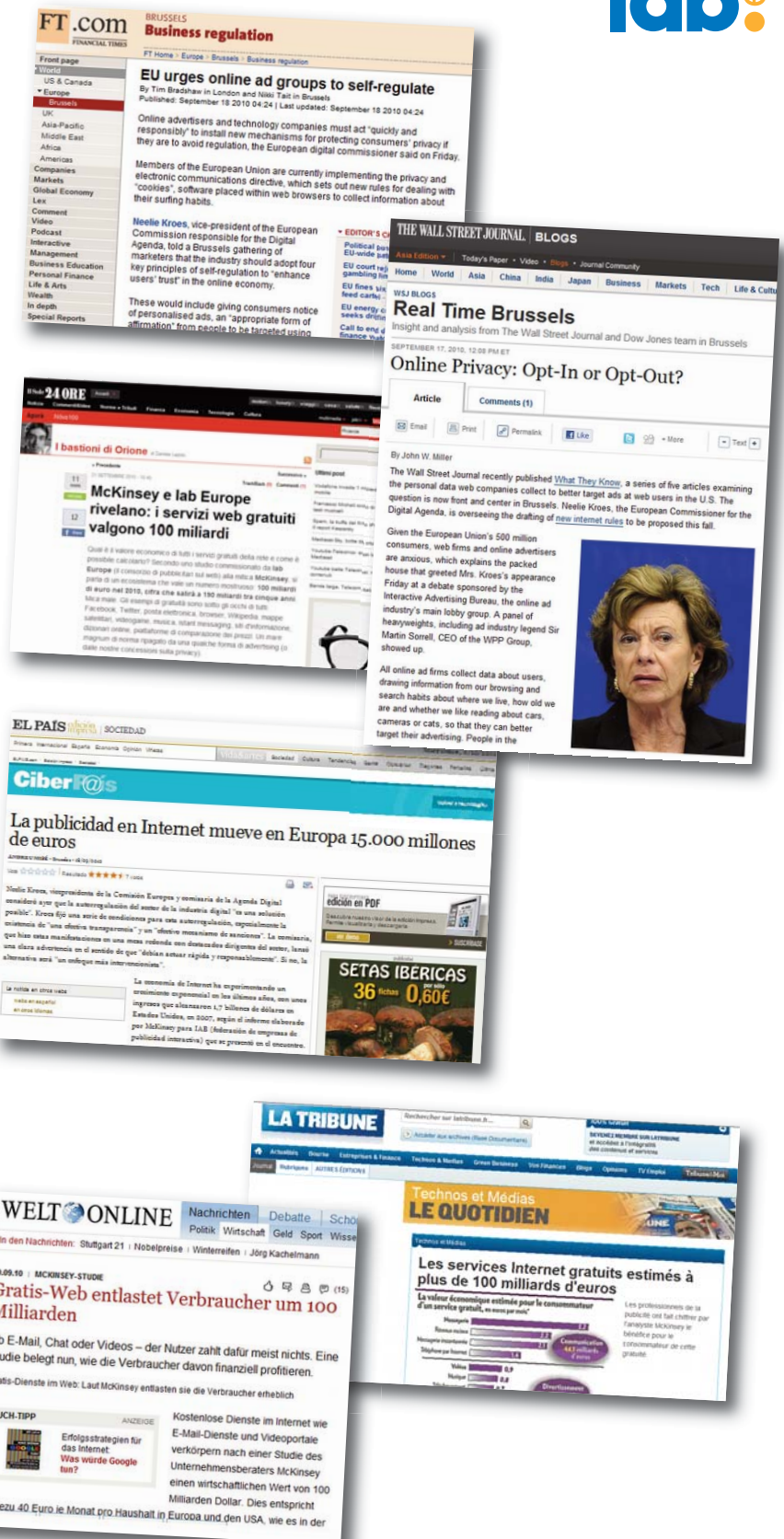
- Financial Times
- Wall Street Journal

Broadsheets

- Challenges
- Die Welt
- Il Sole 24 Ore.com
- La Tribune
- Les Echos

Trade press

- ADV Express
- Adzine
- Daily Net
- Digital Times
- Focus
- IT Espresso
- Journal du Net
- MediaKey
- Paidcontent.com
- Silicon Republic
- Warc
- W&V



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About IAB Europe

IAB Europe exists to promote the growth of Europe's interactive advertising markets through events, partnerships and communications activity, to protect the interests of the industry through an active programme of public affairs and to prove the value of the market through research and education.

The power of IAB Europe comes from its extensive membership at both country and corporate levels. Our national membership of 26 countries spans the entire continent - not only the mature markets of Western Europe, but also rapidly evolving markets including Croatia, Czech Republic, Romania, Russia, Slovakia and Ukraine. Our corporate membership includes advertisers, major media groups, publishers and portals, agencies, research companies and technology and service providers.

The only body that truly represents the interests of the European digital and interactive advertising industry.

Contact us

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