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B2B ad blocker study of the OVK

Presentation of the economic and social damage of ad blocking for companies in Germany on the basis of the feedback and mood of relevant market participants

Design of the study

Background:

- Uncertainty in the advertising market on current damage that companies in Germany experience due to ad blocking

Objective:

- Presentation of the economic and social damage of ad blocking for companies in Germany on the basis of the feedback and mood of relevant market participants

Methodology:

- Focus on assessment of experts
- Realization of qualitative individual interviews with 20 experts on the basis of guidelines
- Duration of the interview: 45 minutes
- Period: September - October 2015
- Service provider: PwC

Interview participants/group of experts:

- Publishers (n = 6)
- Marketers (n = 4)
- Media agencies (n = 4)
- Technology providers (n = 3)
- Advertisers (n = 3)

Content

- ➔ **Localization of ad blockers in the online advertising market**
- ➔ **Reasons for the use of ad blockers and their impact**
- ➔ **Expert opinions on mobile ad blockers**
- ➔ **Solution strategies**
- ➔ **Management summary**

Management summary

- Ad blockers, especially those that are funded via contributions of companies in the online advertising industry, are seen as not legitimate and massively curtail the design and funding freedom of other market participants.
- The market participants are self-critical when it comes to the causes of ad blocking. The respondents show an understanding for the fact that ad blockers are implemented - impairing the user experience significantly.
- Ad blocking has a negative economic impact on digital business models in general and the online advertising market in particular. Amongst other things, market participants refer to a loss in revenue of between 10% and 20% and of cuts in important expansion investments.
- The introduction of ad blockers on mobile end devices is currently the issue that respondents are most concerned with. Mobile ad blockers thus inhibit the necessary shift of stationary to mobile business models on the Internet.
- Solution strategies such as increasing the relevancy of advertising significantly could slow down the proliferation of ad blocking; however, they cannot stop it.



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Localization of ad blockers in the online advertising market

An overview of the mood in the industry.

"Ad blocking is a **business model at the expense of those** that want to provide a service on the market."
(Technology provider)

"Ad blocking will lead to our **value chain being interrupted.**" (Publisher)

"We are all **in this together.**"
(Media agency)

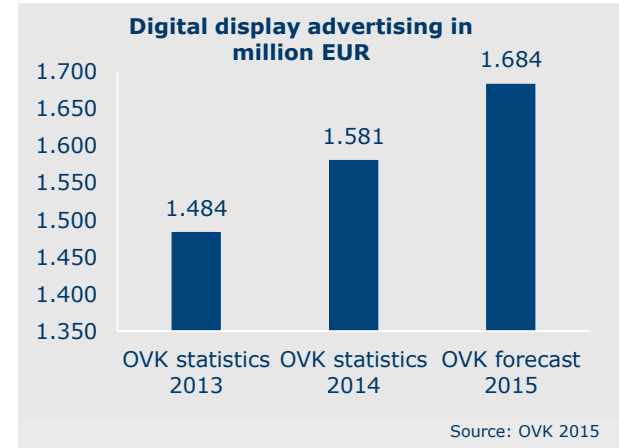
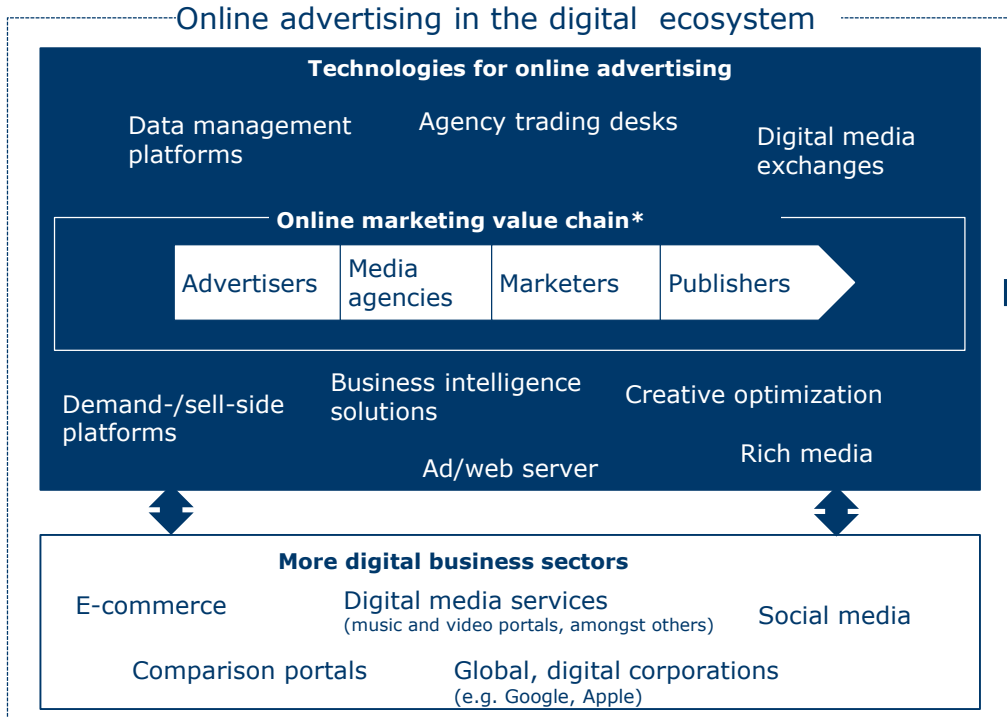
"The general digital market (e.g. e-commerce) **to a large extent lives on funding by way of advertising.** Providers want to reach consumers on a wide variety of web pages, which is limited by ad blockers." (Publisher)

"I believe that the entire ad blocking topic is critical insofar as the parties do **not really communicate at eye level** how the issue could be improved for the entire industry."
(Publisher)

"If too much advertising influences the recipient, the ad blocker can be the last resort. The use of ad blockers is a **warning signal.**" (Media agency)

"To avoid negative effects **a brilliant implementation has to be on hand,** speaking to a broad group of people who also talk about it: then, the pressure to turn off or to not even turn on ad blockers is high. It is the intelligent, fascinating, creative response." (Media agency)

Online advertising revenue is an important driver of the digital economy.



Online advertising revenue is a central component of the funding of digital business models on the Internet.

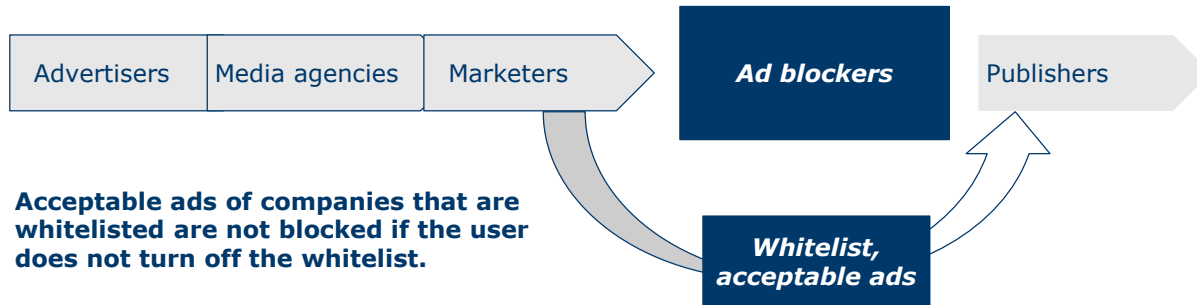
* Source: metrigo and wywy 2013

The value chain is interrupted by the ad blocker.



The business models of ad blockers comprise “whitelisting” and “acceptable ads.”

The value chain is interrupted by the ad blocker.
Many of the experts refer to this practice as “highway robbery” or “robber barony.”



Acceptable ads of companies that are whitelisted are not blocked if the user does not turn off the whitelist.

*“The offer of “whitelisting” corresponds to **medieval highway robbery** and is not legitimate.” (Publisher)*

*“I do not think that ad blockers are **the correct entity** to be the guardian and judge of acceptable advertising.” (Media agency)*

The experts are skeptical towards the business model of the providers.

The reasons for such a skeptical assessment are complex.

Funding

- Especially ad blocker models funded by contributions are not legitimate
- “Acceptable ads” merely allow simple and cost-efficient formats and thus restrict the monetary opportunities
- The payment model leads to the distortion of competition.

User needs

- Permitting “acceptable ads” is contrary to the needs of the user applying ad blockers
- Identification of criteria for “acceptable ads” is not transparent

Needs of the market

- Ad blocking interferes with the sovereignty of the publisher
- Ad blockers restrict the contract between the market participants
- Publishers are punished as a collective since advertising is blocked on all websites even though the user is potentially only disturbed by it on a few pages
- The offer of the “whitelist” corresponds to a censorship and limits the freedom of advertising
- Ad blockers are not the correct entity and not a real independent third party to determine and approve criteria for “acceptable ads”
- “Acceptable ads” restrict the freedom of design

Result of the expert survey regarding the topic of “localization of ad blockers in the online advertising market”

1

- Ad blockers, especially those that are funded via contributions of companies in the online advertising industry, are seen as not legitimate
- Many experts question the transparency of “acceptable ads” and see a contradiction to the interests of the consumers. In addition, such ads massively curtail the design and funding freedom of other market participants.
- Although a discourse in the industry regarding quality standards in advertising is generally supported, ad blocker providers are not the right entity to promote such according to the respondents.



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Reasons for the use of ad blockers and their impact

The bulk of disruptive advertising is the main reason for ad blocking.

According to the experts, various factors lead to the increase in the use of ad blockers:

- 1) Disruptive advertising (bulk, flashing, size)
- 2) Low quality and creativity of advertising
- 3) Sensitivity regarding privacy protection
- 4) Retargeting
- 5) Pre-installation and browser support of ad blockers; top rankings in searches and stores
- 6) Reduced performance
- 7) Germany as domestic market of Adblock Plus
- 8) Technical affinity of the Germans

*"The increase of ad blocking has its **origin** in how the **online advertising industry handles its advertising methods.**"
(Marketer)*

*"Some portals and providers have **ads** on their websites in an **inflationary fashion**; the user is no longer able to localize the **content between the ads.**" (Advertiser)*

The respondents assess certain website categories to be affected by ad blocking in an above-average fashion

- IT- and technology-affine pages for mainly young target groups
- Gaming sites
- Journalistic offers and social media in part
- Video portals and streaming sites in part

18 of 20 experts see a negative impact on the online advertising market caused by ad blocking.

Many respondents feel compromised in their entrepreneurial sovereignty.

*"It is an **unwritten law** in the advertising industry that the user can receive content or other services free of charge if he is willing in return to accept ads."
(Advertiser)*

*"Ad blocking has a **substantial negative impact** on the online advertising market: for advertisers as well as for publishers relying on the fact that they are being paid for their services." (Technology provider)*

The following was stated as an impact, for example:

Impairment of the monetary opportunities of digital business models

Threat to the quality and scope of free journalistic content

Establishment of generally valid and fair quality criteria is unrealistic

Objection against the implicit agreement that free content goes along with accepting ads

Threat to the diversity of content offered, especially regarding creative and experience-promoting forms of advertising

Collective "punishment" of all market participants via blocking of advertising on all websites

The entire digital market is affected by ad blocking.

In general, the majority of the experts sees a negative impact on the digital market, because the companies acting in this market are massively restricted in their scope of activities and development.

The following was stated as an impact, for example:

General restriction of the free Internet

Restriction of the marketing opportunities of companies

Negative effect on the entrepreneurial design opportunities and the diversity of opinion

Expectation of further consolidation and concentration of competition in the market

Necessity to avoid ad blockers hinders the economic activity and slows down the market

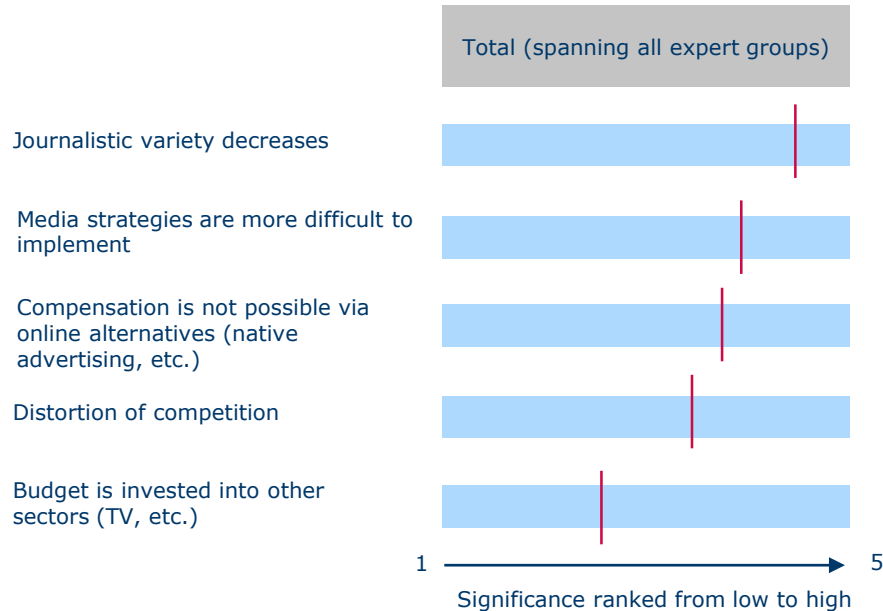
More offers of paid content models on the Internet

*"Anyone trying to create a sales funnel in the digital economy is concerned, especially e-commerce companies. In many aspects, ad blocking will **slow down the digital economy.**" (Publisher)*

*"Ad blocking is **unacceptable and an unbelievable invasion** into the content of Internet users. We will see **massive cuts** in the digital economy." (Marketer)*

Many see the journalistic variety endangered by ad blocking.

Regarding ad blocking, the expert survey shows effects that vary in significance.



- In total, two-thirds of the described effects of ad blocking are seen as (very) significant.
- On the other hand, there are differentiated opinions when it comes to the compensation via online alternatives and distortion of competition.
- Something that should be highlighted is the consistently shared perception of the threat to the journalistic variety through the use of ad blocking.
- In addition, some participants stressed the reduced variety of offers in the online advertising market.

Publishers and marketers already notice a decrease in revenue.



One-fourth of the surveyed publishers and marketers states a loss in revenue potential or revenue of 10-20% caused by ad blocking.



Some market participants confirm the loss of clients because of ad blocking.

More than half of all experts see their jobs threatened.



Less is invested in the quality and creativity of content or the technical development of websites and forms of advertising, since costs have to be reduced due to less revenue being generated.



Result of the expert survey on the topic “reasons for the use of ad blocking and its impact”

2

- The market participants are self-critical when it comes to the causes of ad blocking. Online advertising is often pushy and annoying.
- The respondents show an understanding for the fact that ad blockers are implemented - impairing the user experience significantly.
- Ad blocking has a negative economic impact on digital business models in general and the online advertising market in particular.
- It jeopardizes a vital form of funding of digital content on the Internet, worth approx. EUR 1.6 billion. Market participants refer to a loss in revenue of between 10% and 20% and of cuts in important expansion investments.
- In the medium term, there is a noticeable risk for jobs to be cut. As a consequence this means that the variety of offers on the Internet is limited and that consumers have to get used to more paid content models online.



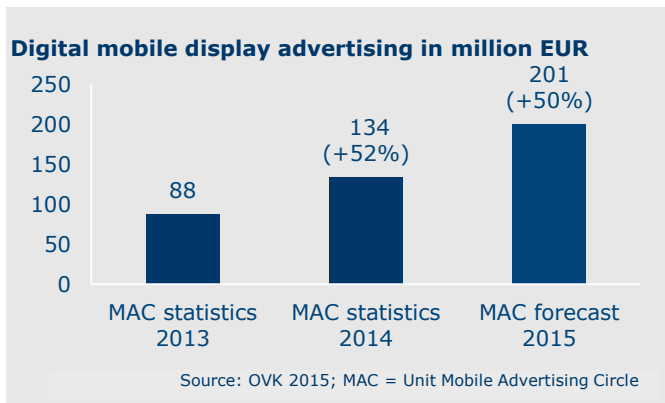
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Expert opinions on mobile ad blockers

According to the experts, mobile ad blockers will establish themselves on the growing market of mobile advertising.



90% of the experts believe that the impact on the German advertising market through the use of mobile ad blockers will change ranging from significantly to very significantly.

85% of the experts believe that mobile ad blockers will prevail.

*"Ad blocking will attract a lot of interest in the mobile area. Many websites are **still not optimized for mobile use** and use outdated advertising technologies that are very disruptive for the user." (Media agency)*

*"If mobile ad blockers are to significantly reduce the marketable inventory of websites in iOS9, we have to focus **a lot more** on the **marketing of in-app advertising**." (Publisher)*

*"The implementation of mobile advertising **still has a low level of maturity**. Much experimenting is going on in this regard, and I imagine that most of what the user sees on his tiny screen he does not like." (Marketer/association)*

With mobile ad blocking, the user experience is of even higher importance.

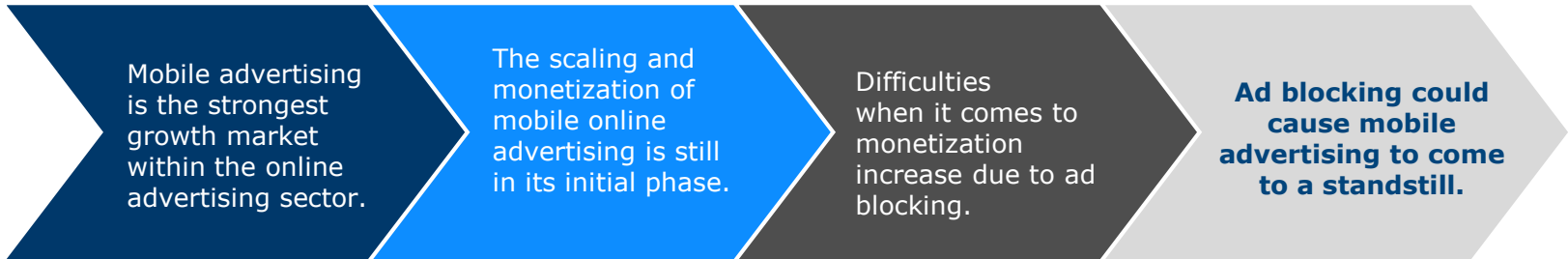
Expert opinion on the question: Why do users implement mobile ad blockers?

- There is a higher sensitivity on the side of the consumer since the mobile end device is a very personal device and since there is more demand to protect privacy.
- Given the small screen, mobile advertising is even more disruptive.
- Limited battery life, longer charging times and limited data volume play more a role for mobile end devices.

Expert opinion on the question: Which market conditions promote ad blocking?

- The challenge to make mobile advertising user-friendly or “less disruptive” is greater.
- The market is still in a stage of development: during an “experimental phase” optimal solutions are not always found.
- Browser providers (e.g. Apple iOS9) offer ad blocking expansions.
- Pre-installed ad blockers increase availability.

The introduction of mobile ad blocking is particularly critical in this growth market.



According to the experts, the potential assertiveness of mobile ad blockers depends on several factors:

- Rank of the ad blocking apps in the app store
- Download times and volume-based rates
- Higher prominence of advertising on smaller screens
- Increased public attention
- Simplicity of downloads of a mobile ad blocker (browser, plugin) or pre-installation
- Activities of market participants such as Apple in line with iOS 9, having a major impact on the market with mobile end devices

Result of the expert survey on the topic of "mobile ad blockers"

3

- The introduction of ad blockers on mobile end devices is currently the issue that respondents are most concerned with.
- The market for mobile online advertising is in a growth phase in which new formats are being developed that monetize innovative business models on the basis of the increased use of mobile, Internet-enabled end devices.
- In this phase, the introduction of ad blocking is especially critical: It hinders the necessary change of stationary to mobile business models on the Internet.



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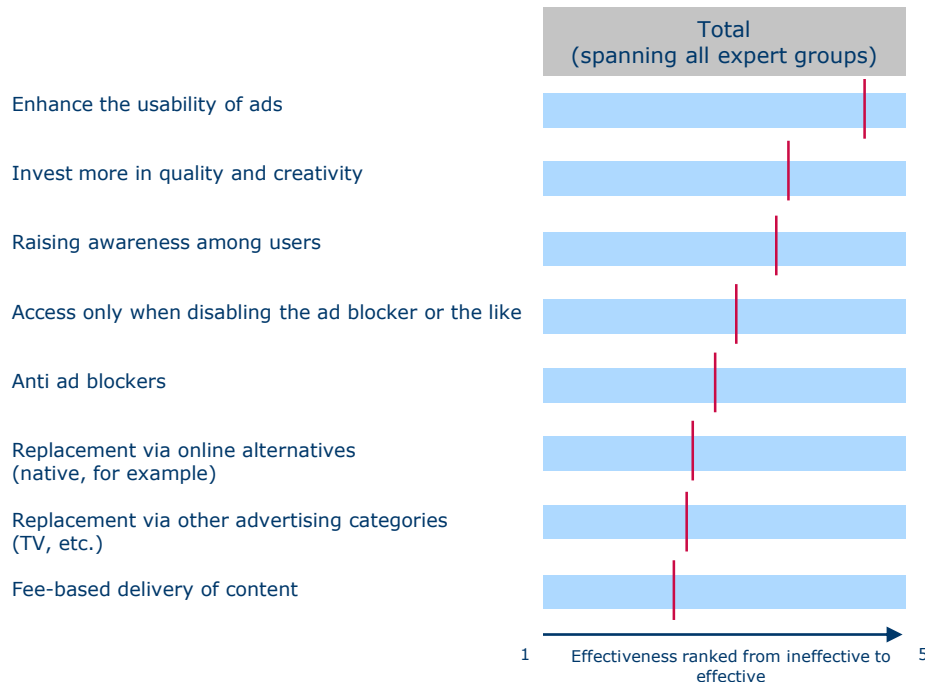


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Solution strategies

The consumer has to be the focus of the industry's measures.

This is how the experts assess the effectiveness of measures.

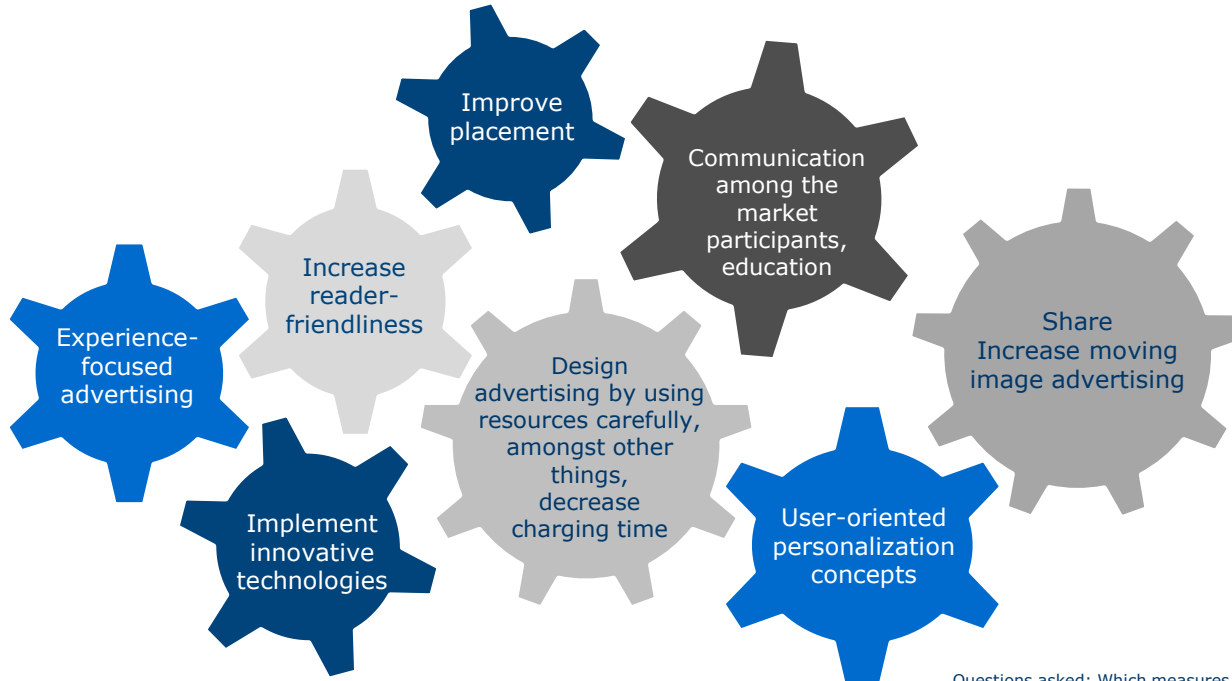


- Overall, over 50% of the described measures are considered effective. However, the participants also agree that no solution is the ultimate one. In addition, several factors restrict the effectiveness of individual measures.
- All expert groups agree that advertising must be made more user-friendly, more creative and better when it comes to quality.
- There are different opinions regarding the targeted use of anti-ad blockers and replacing classic online advertising with new formats.

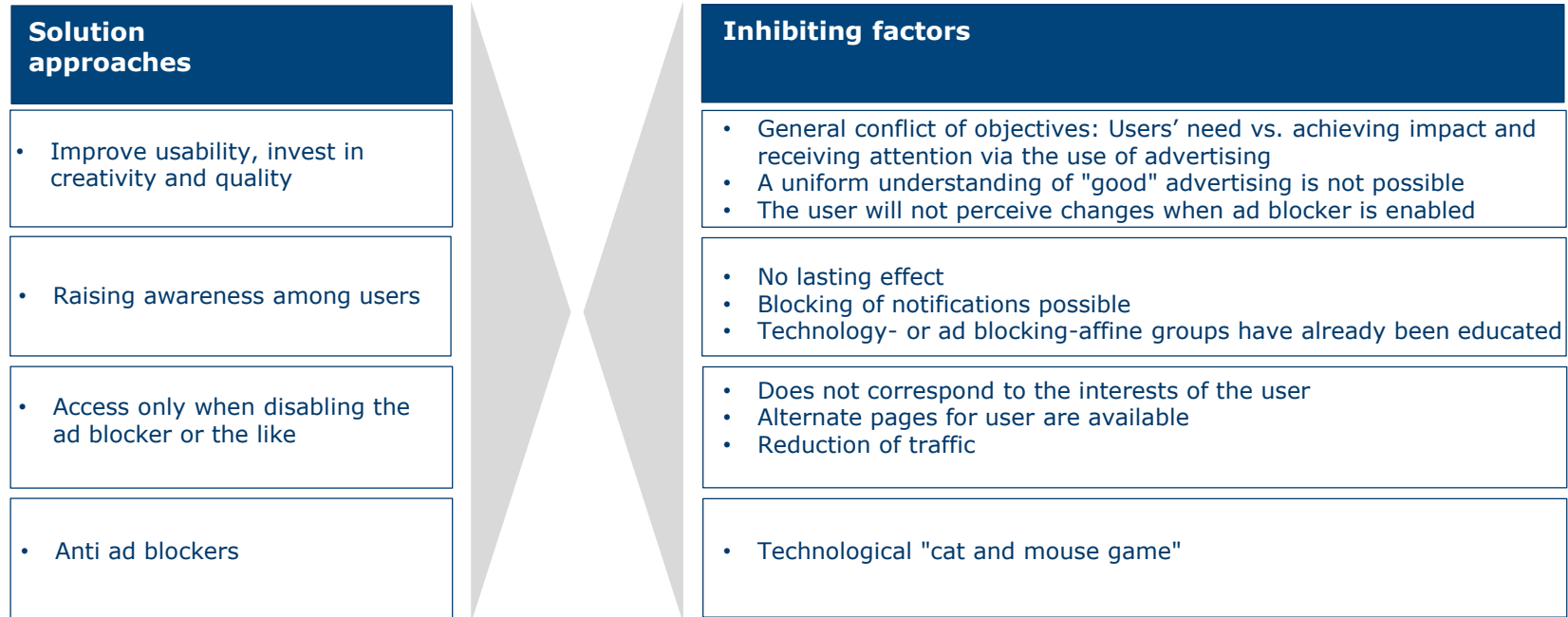
Questions asked: On a scale of 1 (little effectiveness) to 5 (high effectiveness), to what extent do you rate the following measures as effective to minimize the negative effects of ad blocking?

The advertising industry is required to implement measures on a broad scale.

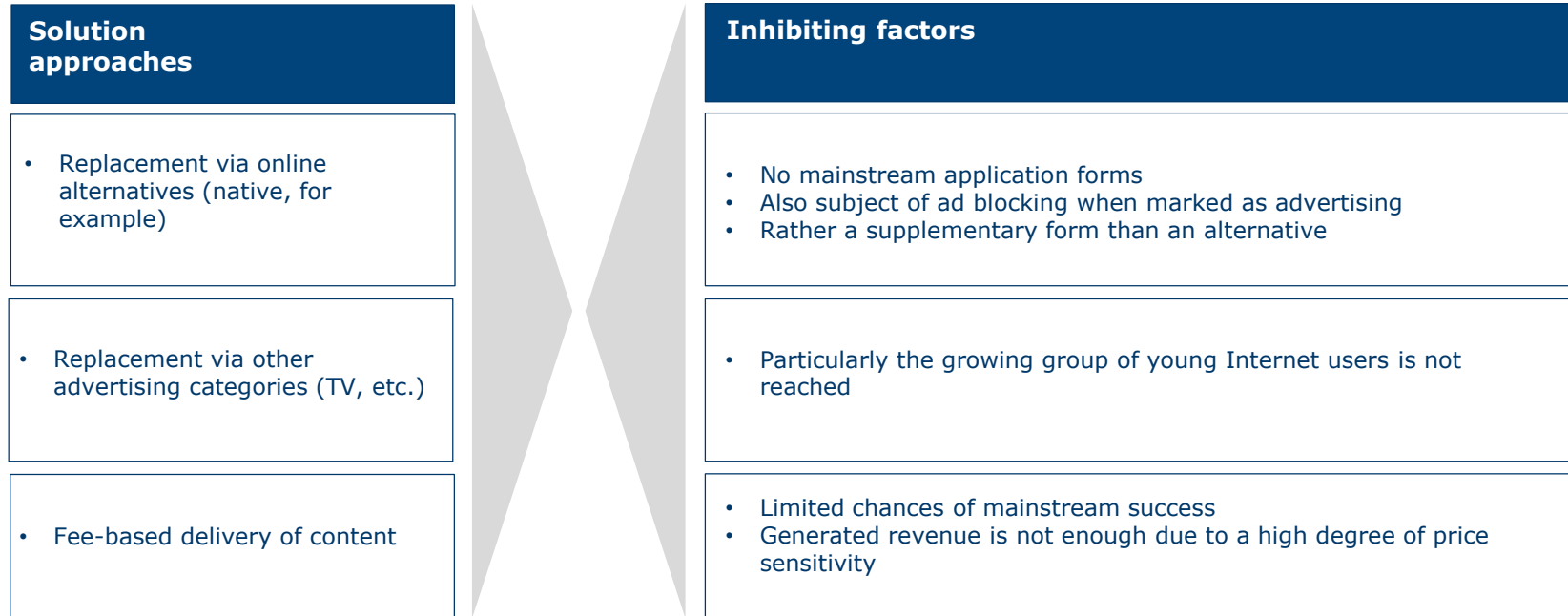
By improving the relevance of advertising, spreading of ad blocking can be slowed down. However, it cannot completely be prevented.



Effectiveness of the measures is restricted by various factors.



Effectiveness of the measures is restricted by various factors.



Result of the expert survey on the topic of “solution strategies”

4

Solution strategies, such as the significant increase in the relevance of advertising, can slow down the significant proliferation of ad blocking, but they cannot stop it.



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Thank you for your attention.

Bundesverband Digitale Wirtschaft (BVDW) e.V.
Berliner Allee 57 | 40212 Düsseldorf
Fon +49 211 600456-0 | Fax +49 211 600456-33
info@bvdw.org | www.bvdw.org