Internet Advertising

Global growth and opportunities mask profound market shifts and divergences – and some key challenges for the future

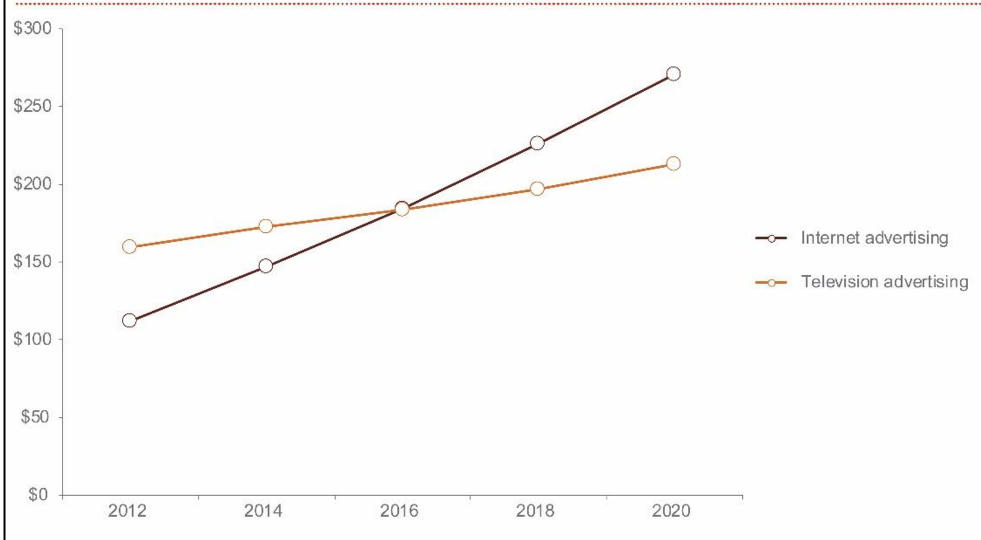
At a time when many other segments of Entertainment & Media are experiencing slowing growth, the global Internet advertising market continues to expand apace. Despite economic uncertainty in many countries and regions, spending on Internet advertising has maintained its momentum, as consumer demand for Internet access continues to grow globally, and high-speed mobile connections become increasingly available and affordable to ever-more consumers.

Understanding and reaching these connected consumers is increasingly important for brands in every market – and this is the underlying reason why Internet advertising revenue continues to grow, especially around video and mobile. Every single market – both mature and emerging – featured in PwC's Global Entertainment & Media Outlook 2016-2020 is projected to see Internet advertising revenue rise in the next five years, helped by above-average growth in mobile Internet advertising and video Internet advertising.

Overtaking TV advertising in 2016…

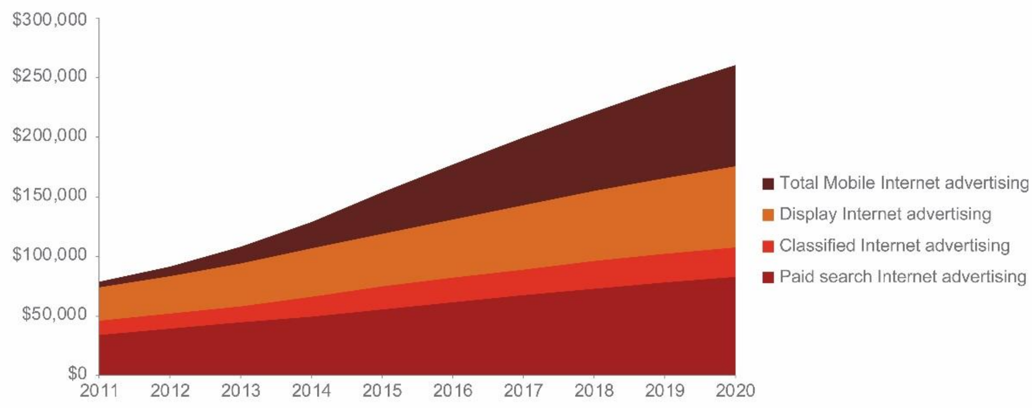
According to the projections in the Outlook, these factors are set to see total global Internet advertising rise at a CAGR of 11.1% over the coming five years, from US$153.65bn in 2015 to US$260.36bn in 2020. And relatively early within this five-year forecast period – in 2016 – global Internet advertising will likely pass a major tipping-point, when it exceeds global TV advertising for the first time (see Figure 1).

Figure 1: Global Internet advertising and TV advertising revenue (US$bn), 2011-2020



Source: Global entertainment and media outlook 2016-2020, PwC, Ovum

Figure 2: Global Internet advertising revenue by type (US$mn), 2011-2020



Source: Global entertainment and media outlook 2016-2020, PwC, Ovum

Within the overall global expansion in Internet advertising, mobile advertising – comprised of mobile display, search and video – will be one of the big growth stories through 2020, projected to rise at a CAGR of 19.6% to US$84.8bn in 2020 as mobile Internet becomes increasingly ubiquitous in consumers' lives. But while mobile Internet advertising will far outpace the rise in Internet advertising as whole, it won't come dominate the market during the forecast period, with mobile's share of total global Internet advertising still set to be just 32.6%, even in 2020 (see Figure 2).

Until the measurement and user experience of mobile ads improve, it seems that many advertisers will continue to stick with traditional media and other forms of Internet advertising. That said, advertisers also have wider concerns over the way the effectiveness of online advertising across all platforms is measured, notably around "viewability" and the issue of "invalid traffic". There'll also be specific dynamics within the mobile advertising space: for example, research shows that mobile users spend most of their time on apps from the tech giants – and we may see this "walled garden" accelerate the global tech companies' ability to capture a disproportionate share of mobile advertising revenues, a disparity also evident across Internet advertising as a whole.

…in a global landscape that's dynamic, diverse and fast-evolving

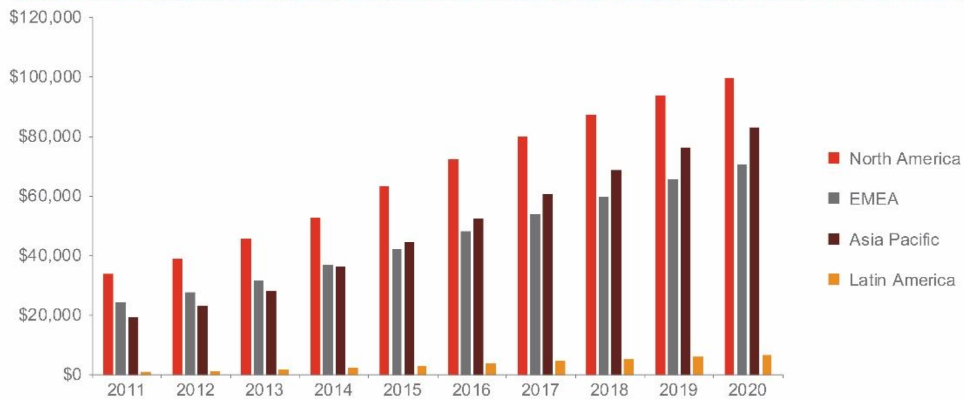
As these drivers underline, the Internet advertising market globally is likely to exhibit a number of common trends – notably the overall growth in revenues in virtually every market, the dominance of the tech giants in harnessing that growth, and the migration of revenues towards mobile-led campaigns. However, these overarching shifts are set to play out differently in each territory and region – a diversity that mirrors the core theme that permeates this year's E&M Outlook: 'A world of differences'.

Across all segments, the report paints a picture of a dynamic, diverse E&M industry that has steady and sustainable aggregate growth at a global level – but where this growth is not shared equally by all participants. As a result, drastic slowdowns in some areas and stagnation in others coexist with spectacular expansion in "hot" countries, regions and sectors, creating exciting pockets of growth and opportunity for those smart enough to spot and capitalise on them.

Different markets – contrasting performances

Such variations will manifest themselves clearly in the global Internet advertising market over the coming five years. The US accounted for 38.8% of global Internet advertising revenue in 2015, and while it will continue to be the largest region, and grow at a CAGR of 9.4%, it is projected to lose share by 2020, accounting for 35.9% of the global total in that year. Led by the booming Chinese market, Asia Pacific is positioned to claim most of the market share lost by the US, with our forecasts showing the region's Internet advertising revenues growing at a CAGR of 13.2% to account for 31.9% of total global revenue in 2020, up from 29.0% in 2015 (see Figure 3). And while the emerging regions of Middle East and Africa (20.2%) and Latin America (16.4%) are likely to see the highest growth rates in Internet advertising in the next five years, they will likely continue to generate significantly less revenue than the more mature markets.

Figure 3: Global Internet advertising revenue (US$mn), by region, 2011-2020



Source: Global entertainment and media outlook 2016-2020, PwC, Ovum

A drill-down into the growth performance at a country level underlines the extent to which local factors are expected to shape the impact of global trends in each market – sometimes producing growth rates way ahead of the global average. By way of example, take Pakistan. With total Internet advertising revenue of just US$7mn in 2015, Pakistan has some of the lowest revenue per capita globally. Only 6% of Pakistani households had fixed-line broadband Internet access in 2015, while mobile Internet subscriber penetration stood at 8%. Yet from this apparently unpromising base, Pakistan's overall Internet advertising revenue is projected to grow at a CAGR of 30.5% over the coming five years, reaching US$26mn in 2020.

This growth will be enabled by surging Internet access, and led by the fastest growth anywhere in the world in mobile Internet advertising. In 2015, mobile Internet advertising in Pakistan grew at an impressive 59.4% – and this was no flash in the pan. Over the next five years we project that rising Internet usage via mobile handsets, reflecting growing smartphone ownership and cheaper mobile Internet access, will see the country's mobile Internet advertising revenue grow at a CAGR of 59.1%. As a result, mobile will account for more than one-third of total Internet advertising revenue in Pakistan in 2020.

In line with the "world of differences" theme, other markets exhibit starkly differing dynamics. For example, the US, as well as dominating global Internet advertising revenue as a whole, accounts for some 37% total global spend on paid search advertising – a position that reflects the US's sophisticated advertising ecosystem. Mobile paid search Internet advertising in the US has grown especially rapidly in recent years, and is forecast to keep growing at a 14.1% CAGR over the next five years, compared to a CAGR of 3.6% for wired paid search. This also reflects a wider shift towards mobile: by 2020, we project that mobile will account for 49.4% of all Internet advertising in the US – and will be poised to overtake fixed Internet advertising for the first time.

China, meanwhile, will remain comfortably the second-largest Internet advertising market after the US, with its total Internet advertising revenue set to grow at a 14.0% CAGR, reaching US$44.61bn in 2020. This projected growth rate reflects the fact that the market still has huge potential: the majority of households in China still lack fixed-line Internet access (broadband household penetration stood at 43% in 2015), and the growing middle class in China is embracing technology rapidly and enthusiastically. As in other territories, growth in China's overall Internet advertising will be led by mobile revenues, which we project will rise at a CAGR of 25.0% to reach US$7.12bn in 2020. Video will be the fastest-rising component of mobile Internet advertising revenue in China, at a 45.0% CAGR.

Ad-blocking may impede growth…

While the prospects for growth in Internet advertising revenues in the next five years look bright, there are clouds on the horizon – not least the rise of ad-blocking. Consumer adoption of ad-blocking technology on their devices has largely been driven by poor execution of ads, slowing down the loading times of webpages and increasing data consumption with little or no benefit to the end user. Ads on connected devices generally succeed when they are targeted, relevant and useful: hence the popularity of paid search. Ad formats that don't meet these requirements will struggle to deliver results for advertisers, so new formats – such as native advertising, which has the look and feel of content – will likely become more prevalent.

…while programmatic ads create new opportunities for advertisers and publishers

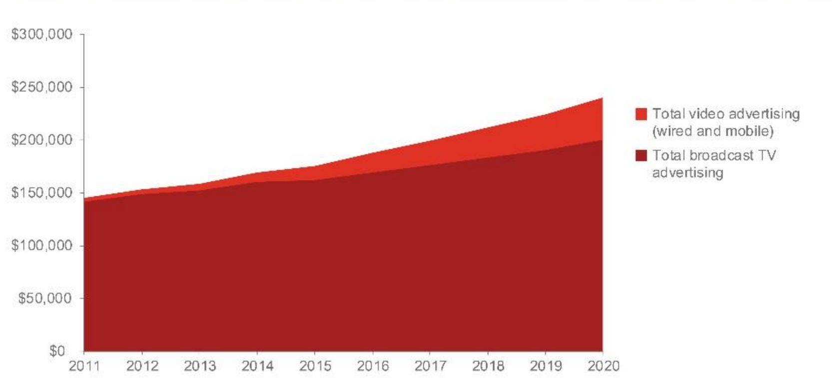
Alongside ad-blocking, another major story has been the rise of programmatic buying, with more than half of digital advertising inventory in mature markets now traded programmatically. Some critics sought initially to associate programmatic trading with low-value inventory and argued that the spread of programmatic technology would depress the market. But going forward, its higher efficiency should allow for better targeting of premium ads as well, creating further value. The notion of programmatic now goes beyond real-time bidding, which is just one sub-component – and it is emerging as a way of doing business that utilises technology and data to track, plan and trade digital ad inventory more effectively as well as more efficiently.

Video Internet advertising is likely to continue to surge – but from a low base…

Video will be everywhere over the next five years, with consumers accessing video content across a range of devices beyond the TV, and multichannel/multiplatform networks (MCNs/MPNs) increasingly tapping into additional revenue streams beyond the cut they get from the video platforms, by expanding in areas like product placement and "unboxing" videos. But even as consumers spend less time with linear TV and more time watching on-demand video, TV advertising revenues will remain resilient, and continue to grow at a global level.

While video advertising – both wired and mobile – is projected to rise rapidly at the same time, it will still remain a fraction of TV advertising revenue (see Figure 4). Even by 2020, total video advertising revenue is likely to be just US$39.94bn, compared with US$200.42bn for total TV advertising. This partly reflects a degree of confusion and frustration during the transition to a more diverse video advertising landscape, reinforced by concerns over online measurability and the way many buying teams remain siloed between digital and TV ads. The arrival of credible cross-platform measurement will be key to addressing these issues. And for incumbent broadcasters, video advertising is one area where they can take on the tech giants head-on, leveraging their strengths in long-form content.

Figure 4: Global, total video advertising revenue (wired and mobile) vs total TV advertising (US$mn), 2011-2020



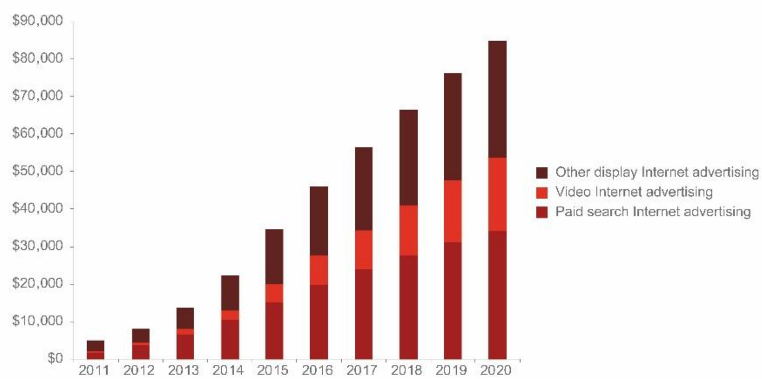
Source: Global entertainment and media outlook 2016-2020, PwC, Ovum

…while challenges remain in realising the full potential of mobile

Alongside rising demand for video, growing mobile adoption is another factor that's having a radical impact on the way content is consumed, impacting the market for advertising. Mobile will be one of the big growth drivers of the next five years, with total global revenue from mobile Internet advertising projected to expand at a CAGR of 19.6% through to 2020, outpacing global fixed Internet advertising revenues at an 8.1% CAGR. But despite this wide growth differential, mobile's share of total global Internet advertising is projected to be just 32.6% in 2020.

Going forward, the industry faces a major challenge in fulfilling the potential of mobile advertising. While the opportunity to communicate directly with consumers through their own personal device remains significant, there is still some way to go in improving the measurement and user experience of mobile ads. And until advertisers really understand how their end-customers consume and respond to mobile advertising, its full promise won't be realised. As they seek to gain this understanding, the shift of paid search from wired access (via laptops and PCs) to mobile means search will be the largest single component of mobile Internet advertising in the next five years, projected to grow at a CAGR of 17.7% (see Figure 5) – underlining the leading role of the tech giants in capturing the overall growth.

Figure 5: Global mobile advertising revenue, by type (US$mn), 2011-2020



Source: Global entertainment and media outlook 2016-2020, PwC, Ovum

In a world of differences, our projections suggest that Internet advertising will continue thrive globally. But there remain pockets of hot growth to aim for – and potential pitfalls along the way for the unwary.

Contacts

For additional information about this topic and how PwC can help, please contact:

Deborah Bothun

Global entertainment and media leader
+1 (646) 471 9048
deborah.k.bothun@pwc.com

Emmanuelle Rivet

Partner, Assurance, PwC US
+1 (408) 817-3835
emmanuelle.s.rivet@pwc.com

Megan Brownlow

Executive Director, PwC Australia
+61 (2) 8266 7548
megan.brownlow@pwc.com

Matthew Hobbs

Partner, Assurance, PwC US
+1 (206) 398-3326
matthew.d.hobbs@pwc.com

Global entertainment and media outlook

PwC's Global entertainment and media outlook 2016-2020 provides a single comparable source of five-year forecast and five-year historic consumer and advertiser spending data and analysis, for 13 entertainment and media segments, across 54 countries. It's a powerful online tool that provides deep knowledge and actionable insights about the trends that are shaping the E&M industry. Subscribe to the Global entertainment and media outlook at www.pwc.com/outlook