

Internet advertising



Internet advertising is still one of the fastest growing sections in the entertainment and media industry with an ongoing increase in the complexity of the different advertising channels and instruments



Although the use of the internet with mobile devices is growing in Switzerland and outpacing classic computers, mobile ad spend still lags desktop



The increased integration of ad blockers as a standard function in commonly used web browsers is a major challenge for the internet advertising industry



Segment definition

This segment comprises spending by advertisers either through a wired internet connection or via mobile devices. It consists of paid advertising placed via search, **classified**, **banner/display**/video, **affiliate** and mobile channels.

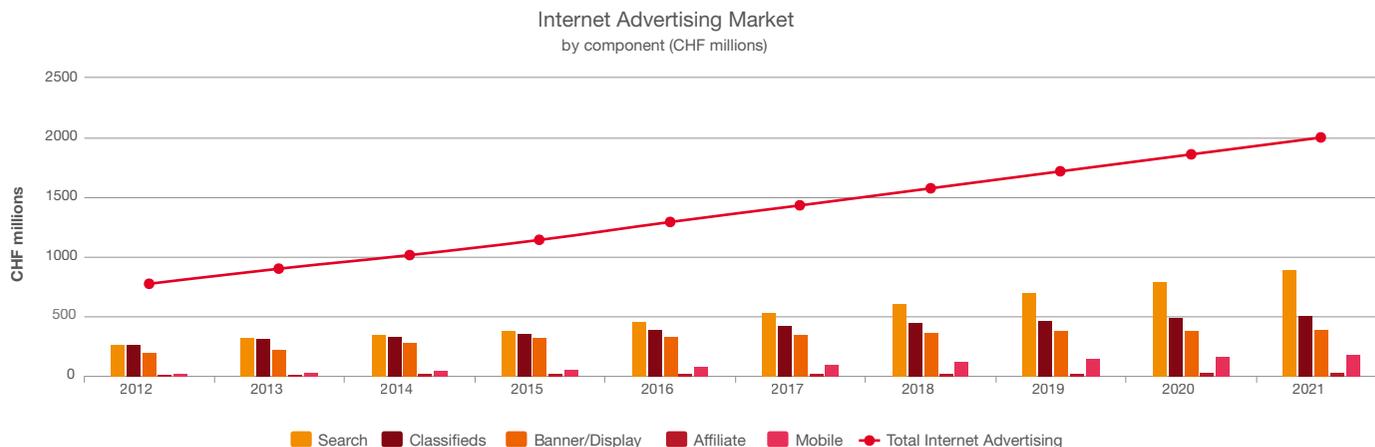
The video sector, which encompasses online television and video-on-demand advertising, is not covered in detail in this chapter, as it is already included in the Television Advertising segment. In-stream and in-banner video advertising are included in the banner/display channel and are not shown separately.

Business innovation

Since quite some time, online marketing is no longer just banners and videos that pop up while users surf the internet via the traditional desktop. The main traffic in the online space is coming from mobile devices. Consumers use them for many reasons, anywhere and anytime. The personal information gained from browsing activities on a computer is very limited, whereas modern mobile phones, tablets and smartwatches have a numerous sensors that provide additional important information about the individual consumer, data which are a valuable asset for advertisers.

Just how important mobile usage for the online advertising market will be in future is underscored by Google's 'mobile first' approach. There has been confirmation lately that the mobile index has replaced the browser index as main search tool.

With the increased functionality of apps and mobile websites, mobile searching as well as shopping has become even more popular in recent years. This will add to the importance of local-based services. Consumer will obtain valuable customised content while they are underway, and retailers can provide personalised, location-based online offers to potential customers in the vicinity.



Analysis by PwC

This will make online advertising more efficient and cost effective and also allow more local companies to participate in the online advertising market. Expansion of the advertising reach will no longer be at the heart of ad campaigns, as the reduction to an efficient targeting group not only results in higher turnover for companies, but also more relevant advertising to consumers.

And what else? Technology will improve even further and facilitate the achievement of these goals. Mobile phones are already very far advanced in terms of their technical capabilities and usability, but smartwatches and the upcoming commercial **VR** technology have tremendous potential for improvements and technical innovations. These gadgets will once again change the future course of the online advertising business and open up new ways of targeting.

The Swiss internet advertising market

Market overview

In Switzerland, internet advertising remains one of the fastest growing segments of the advertising market. In 2016 its revenues amounted to approximately CHF 1.3 billion, a 13.2% gain compared to 2015.

As internet use increases among consumers and advertisers, more and more industries are recognising the importance and impact of internet advertising, so they are boosting their spend and visibility in this segment. Internet advertising's share of the 2016 media mix grew by approximately 30%, with an ongoing shift of budget from the classic advertising channels like print and television to internet. Although advertisers are still willing to spend flexibly within the rapidly growing internet advertising market, a remarkably high level of concentration of international ad tech companies controlling that spend can be seen.





“There will be a further consolidation of online media service providers, and I believe that market players with relevant and qualitatively first-rate content from independent sources will be the survivors.”

Marco Gasser
Head of National Advertising |
20 Minuten | Tamedia AG

According to eMarketer forecasts, Google and Facebook will account for almost 50% of advertisers' total global digital ad spend in 2017.

Search advertising is still the largest channel in Switzerland's internet ad environment and accounts for about 33% of total volume. Google, the biggest market player, has enhanced the user experience in the past several years through machine learning and new technologies like voice search. This will further allow Google to improve their marketing tools, thereby giving brands the opportunity also to enhance the experiences of their potential customers. The fact is that less than one-third of internet users describe their brand experiences as helpful, but this also underscores the inherent market potential that still lies ahead not just in terms of search advertising. Brands will have more opportunities than ever before to offer value in people's daily life. Owing to the tremendous potential of programmatic advertising coupled with Google's strong market position, high stable growth rates in the next couple of years can be expected.

Classified advertising is now clearly behind search, but still number two in the online advertising segment. The most prominent websites are the same as in the past years: AutoScout24, ImmoScout24, homegate.ch, ricardo.ch, anibis.ch and jobs.ch. **Classified ads** comprise paid entries in databases with additional features such as highlighting, logos and



interactive content. The main driver of future growth will be the advanced features of mobile applications and mobile webpages. They will allow users to interact with all functions of the mobile platforms independently from a desktop computer. A further key element of market growth will be the transformation of roles: while nowadays users need to actively search for online classifieds, in future the relevant ads will be actively proposed by intelligent websites so the user receives customised content via realtime push notifications. Although classified ads will become more attractive, the related growth is expected to be lower than that of the overall internet advertising market for the next five years.

Banner/display advertising this past year was further impacted by increasing consumer adoption of ad-blocking technology.

In Switzerland, about 40% of all users have ad blockers installed on their computers. There are different options for dealing with these consumers, but at the moment users who apply the ad-blocking technology are essentially 'worthless' for media companies as they cannot be monetised. There is also a considerable diversity of marketing instruments in this segment, e.g. content marketing, programmatic marketing, influencer marketing, videos and classical banners/displays. For advertisers, things are becoming more complicated since they need to develop strategies to optimise their marketing activities and mix the different instruments in order to be successful in the market. Although mobile internet user time has overtaken desktop, ad spending on mobile is still lagging wired internet advertising. The reason for this might come from the fact that the Swiss advertising market is generally more conservative and sceptical



about the effect mobile advertising has on consumers. Given that coverage of mobile usage will increase further in the years ahead, a shift of campaign revenues will take place. Consequently, market growth in this area will be constrained to a 3% CAGR and its share of total internet advertising revenue over the forecast period will fall from 26% in 2016 to 19% by 2021.

Mobile advertising will be the growth driver through 2021. Although mobile will grow at a CAGR of 17.8% to reach CHF 183 million in 2021, its share of total internet advertising will still be just around 9%, even in 2021. Companies are struggling with the use of mobile campaigns and do not yet trust the advertising effectiveness of the devices, even when the coverage of mobile traffic is significantly higher than desktop traffic.

Principal drivers

More insights thanks to data analysis

The increased use of modern technologies like data analytical tools will enhance the quality and relevancy of internet advertising, since showing customised content in specific areas will become less difficult and costly. In combination with cross-device data tracking, the best-suited advertising can be shown and, in turn, consumers are more likely to be nudged into buying products or services. Additionally, new technologies like wearables and **AR** open new doors for even more advertisements on digital channels.

Programmatic marketing leads to relevance

Programmatic marketing will be one of the key drivers in the online advertising segment, since it enables advertisers to buy advertisement slots or placements that are based on sophisticated



“Nowadays it is a must to offer programmatic advertising in tandem with the classic banner display channel.”

Marco Gasser
Head of National Advertising |
20 Minuten | Tamedia AG

algorithms and take into account consumers’ needs at a specific moment in time. By targeting consumers on a variety of touch points with interactive and device-adapted commercials, the effectiveness of targeting activities is increased dramatically, with the result being that this advertising channel will gain even more importance within the industry.

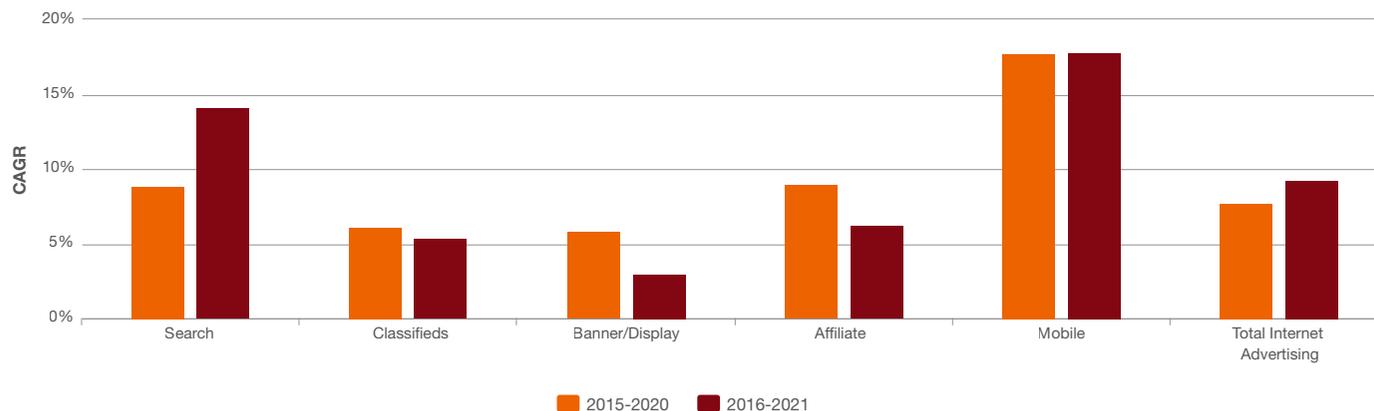
Influencer marketing has a persuasive impact

Influencers on social network sites or video bloggers are already a powerful instrument for internet advertising, but they will gain even more significance. Due to the fact that especially younger people trust their followers on social media platforms way more than commercial advertisements, this channel constitutes a potentially lucrative means for companies to show target-specific content on social media profiles that people can identify with due to similar interests, lifestyles or environments.

Mobile video advertising still has room to grow

Even though text advertising combined with pictures is valuable, the video format continues to grow. Internet users are already accustomed to seeing videos on websites or applications, but this way of targeting will become even more integral to companies’ advertisement strategies. By combining sound, sight and emotions, people are more likely to feel engaged and convinced. Reduced production costs for this type of advertisement and improved internet coverage are driving the growth.

Comparison of CAGR
by component (%)



Analysis by PwC

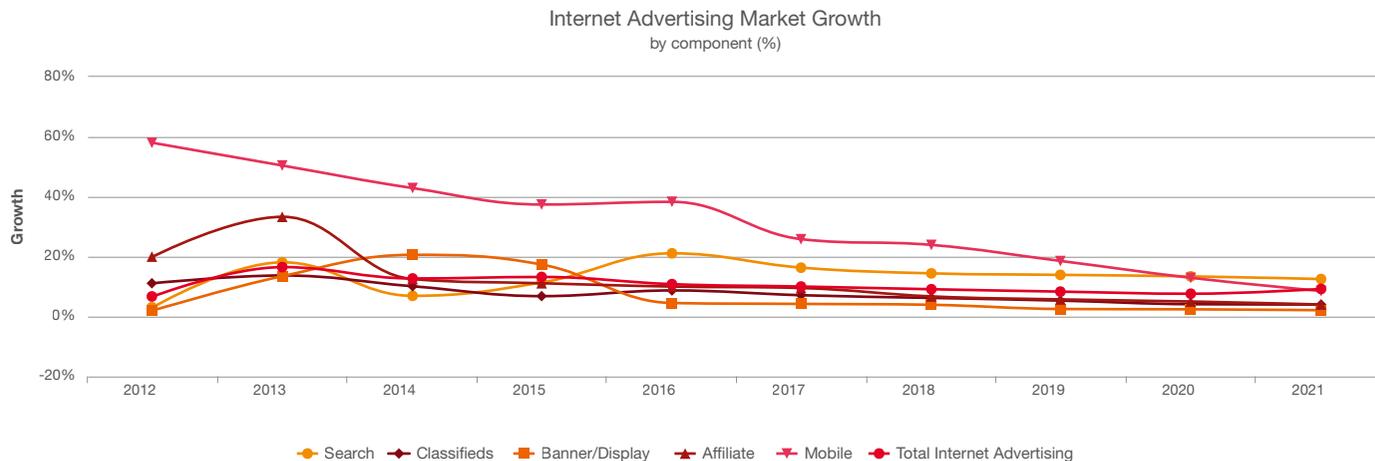


Market growth

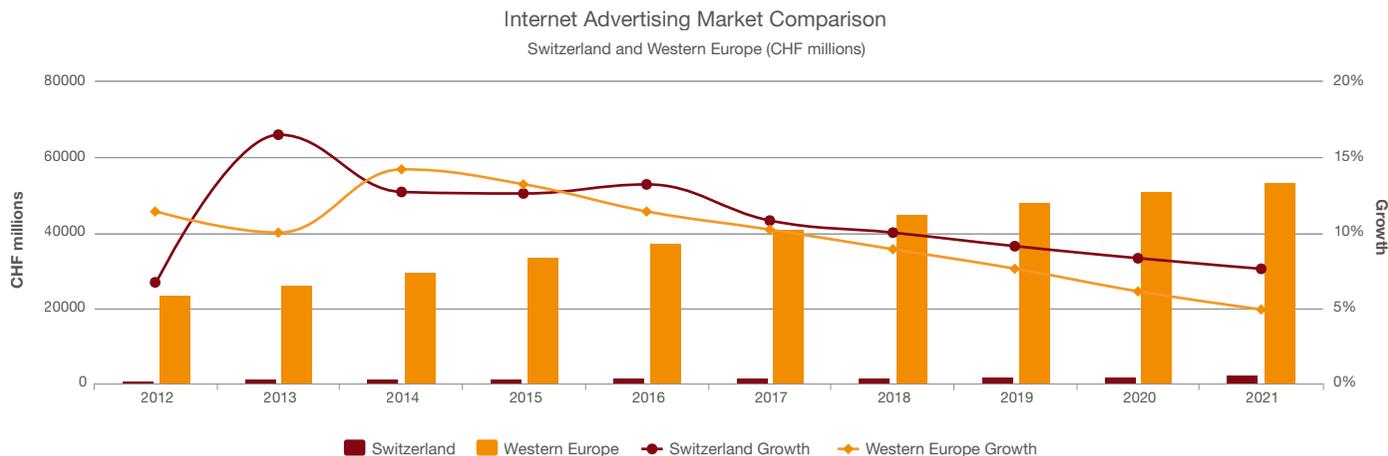
We expect Switzerland's internet advertising market to grow 9.2% annually over the next five years. This growth will be mainly driven by a double-digit CAGR (14.1%) in the search segment, as well as by the mobile advertising segment with a CAGR of 17.8%. Both segments are leading the online advertising business thanks to innovations and technological developments.

Comparison to Western Europe

Internet advertising in Switzerland has outpaced the growth rates in Western Europe. We expect Switzerland's growth to remain stable over the next several years. Whereas Western Europe has higher potential for short-term growth, given that most of its national markets are not as saturated as in Switzerland, Switzerland is very attractive for business because of its excellent infrastructure, education and international ties, which in turn entice talent and investment from all four corners of the world. This will drive the growth of internet advertising in Switzerland even faster than in other strong markets like Germany (CAGR of 5.9%) and Sweden (CAGR of 8.1%) in the coming five years.



Analysis by PwC



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