Out-of-home advertising

Digital out-of-home drives the market and more than compensates for the decline in physical advertising

The non-digital OOH market in Switzerland is dominated by two players

Digital OOH has immense potential but will not exceed non-digital OOH in the next five years

Segment definition

Out-of-home **(OOH)** advertising comprises the net advertising spend (excluding agency and production costs) for non-digital OOH media, such as posters (billboards, paper placards of various formats), public transport (leaflet holders, lettering and painting on rolling stock, banners, etc.), sports and stadiums, and digital OOH **(DOOH)** such as ad screens, beamers and electronic billboards.

Business innovation

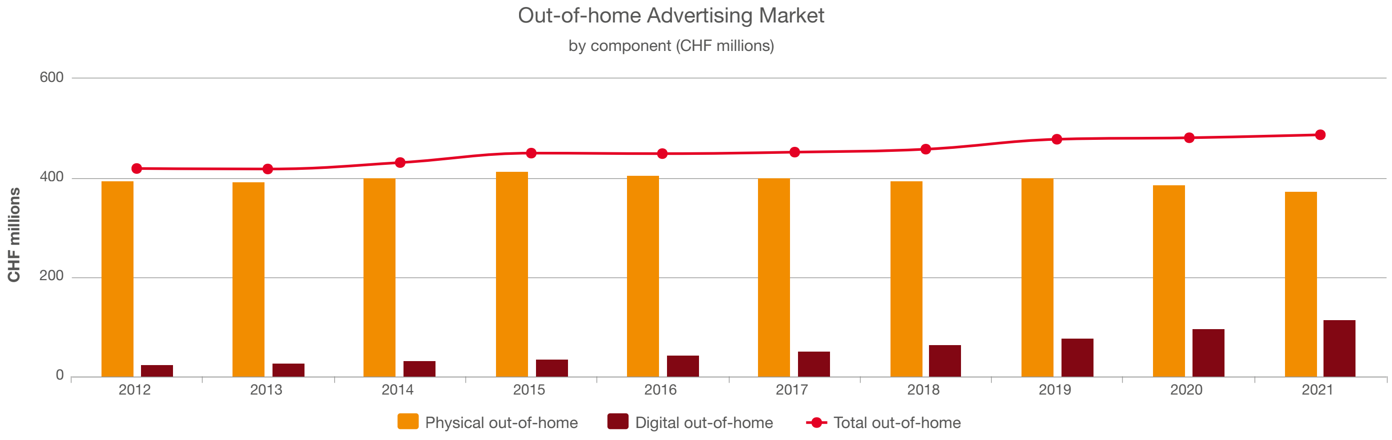
Many technologies, such as Beacons, **NFC** or **QR** codes, spread and encourage innovative interaction with OOH formats. Recently, Melanoma Institute Australia (MIA) launched a 'Stop the Spread' campaign with Disciple and JCDecaux: A LED F200 format displayed a slowly growing melanoma tumour which could only be slowed down or stopped through donations. The billboard was equipped with a PayPass terminal to facilitate small contributions. The tumour reacted quickly to any donations. The campaign was a success and spread across social media quickly.

Engaging the audience is an increasingly observed trend across the OOH industry. The costs of campaigns remain high, yet the reach increases through social media.

The Swiss out-of-home advertising market

Market overview

Switzerland's OOH market is dominated by APG and Clear Channel Outdoor. There are a number of smaller players in the market, especially in the DOOH segment, of which Neo Advertising, Goldbach and passengertv are the most significant players. In 2016, the OOH segment declined by 0.2%. This was



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an anticipated return to normalcy following the election-related strong growth recorded in 2015.

The entry barrier to the OOH market is high, due to the major investments and time needed to establish a meaningful network. Nonetheless, Neo Advertising and passengertv have demonstrated impressive growth in niche markets and are now starting to compete with the large players. Future development is heavily dependent on market leaders' investment capabilities and the small players' ability to identify and establish new markets.

In Switzerland and around the world, the OOH market is transforming from conventional poster advertising to digital billboards. Many conventional billboards are being augmented with backlit displays and later replaced by digital screens. Price reductions for large LCD screens support the growth, and many large screens are installed on private property. Due to the regulatory restrictions in public areas and the associated sizeable

"The willingness to pay for modern OOH advertising clearly exists in the market. If the means of targeting via OHH channels is improved even more, these channels will be an important conduit for delivering the best customer experience."

Iman Nahvi
Chief Executive Officer | Advertima AG

investments, widespread conversion is taking place slower than expected. Meanwhile, the non-digital OOH market remains lively and adverts are being presented in innovative settings.

DOOH is more eye-catching, and it meets the demands for better targeting and feedback. Each advert can be displayed at a time best suited to reaching its target audience; for example, at airports, in public transport vehicles or train stations (narrowcasting). DOOH billboards can change with the weather, e.g. from showing umbrellas and gloves, to sunglasses and ice cream. Or they can enhance interactivity with the viewer through the use of QR Codes, NFC, beacons or live screening of viewer content.

DOOH benefits location owners and advertisers alike, thanks to its ability to engage customers and/or audiences and extend the reach and effectiveness of marketing messages. The advertising industry is convinced that the broadcasting environment is becoming increasingly important, as it can have a favourable effect on customer perception.

Advertisers prefer to book campaigns with specified coverage across regions. Current DOOH networks allow this only to a limited, but growing, extent (e.g. at airports, train stations, bus stops or shopping malls). Many display boards at Swiss train stations are digitised – the largest boards are the eBoards of APG|SGA Rail, which are amongst the largest electronic, indoor advertising spaces in Europe. They display a mixture of animated adverts as well as news, business reports, sports and culture. APG|SGA Rail markets 44 eBoards at Swiss train stations.

DOOH's attractiveness is increasing thanks to its ability to make use of streaming video as an alternative to television (and there are online and cinema advertising formats as well). The only constraint is that DOOH normally cannot make use of sound, a disadvantage compared to TV or cinema. Current DOOH screens are being used (with limitations) to stream video broadcasts rather than allowing more frequent board rotations and 'light animated' images. Light animation, i.e. a certain amount of motion in a picture, appears less disturbing to the public and therefore might face lower regulatory restrictions.

Principal drivers

Transformation to digital billboards

The OOH market is being transformed by the deployment of digital billboards, other digital screens, as well as the expansion of captive video networks like those in public transport vehicles, retail space or railway stations. As well as being more eye-catching, DOOH enables each advertisement to be displayed at a time best suited to reaching its target audience and thereby enhances the cost-effectiveness for the advertiser.

"The OOH advertising market will be impacted massively by artificial intelligence. By using modern hardware and data-based software algorithms, advertisers have the ability to target the customer with much more personalised and relevant content."

Iman Nahvi
Chief Executive Officer | Advertima AG

Declining costs of DOOH infrastructure and technology

The cost of enlarging DOOH infrastructure continues to decrease, and larger DOOH networks broaden the reach of campaigns. This is why DOOH is growing, but it is also doing so because digital signage offers flexibility in displaying sequential ads, part-day bookings, pricing schemes based on effective audience, interactivity and the enhanced measurability of advertising impact.

OOH is high-value advertising

Advertisers are aware of the value of OOH advertising and improved measurement techniques provide accurate reach and frequency data comparable to other media. So, advertisers can measure the cost-effectiveness of OOH versus other media and integrate it into their media plans. Improved audience measurement usually increases spending, both in total and as a way of justifying price premiums. Due not only to the enhanced measurement possibilities, but also to the growth in DOOH, the cost-effectiveness of OOH is increasing.

Interactions within OOH media

OOH media in combination with the wide distribution of smartphones and technologies like Beacons, NFC or QR codes are leading to enhanced interaction possibilities with the audience. This will ultimately result in more engagement and the more effective stimulation of people to purchase products. Furthermore, it will provide valuable feedback to advertisers on consumer behaviour. Typical interactions are calls to action via votes, polls, sweepstakes and promotions, call-back requests and text-for-info, as well as mobile coupons and games via mobile devices.

Innovative advertising channel with wide possibilities

Compared to other media like TV, radio, newspapers and magazines, both digital and non-digital OOH advertising offer a range of possibilities to create inspiring, head-turning campaigns. In a world with an overabundance of information and amenities, it becomes ever more difficult to attract attention, be eye-catching and stand out from the crowd. Advertisers' creativity is inspiring, and what they have realised is indeed impressive: full-station branding, integration of billboards in surroundings, 3-D billboards, 4-D billboards with sound or smell, live-screening of viewer content and interacting billboards.

Market growth

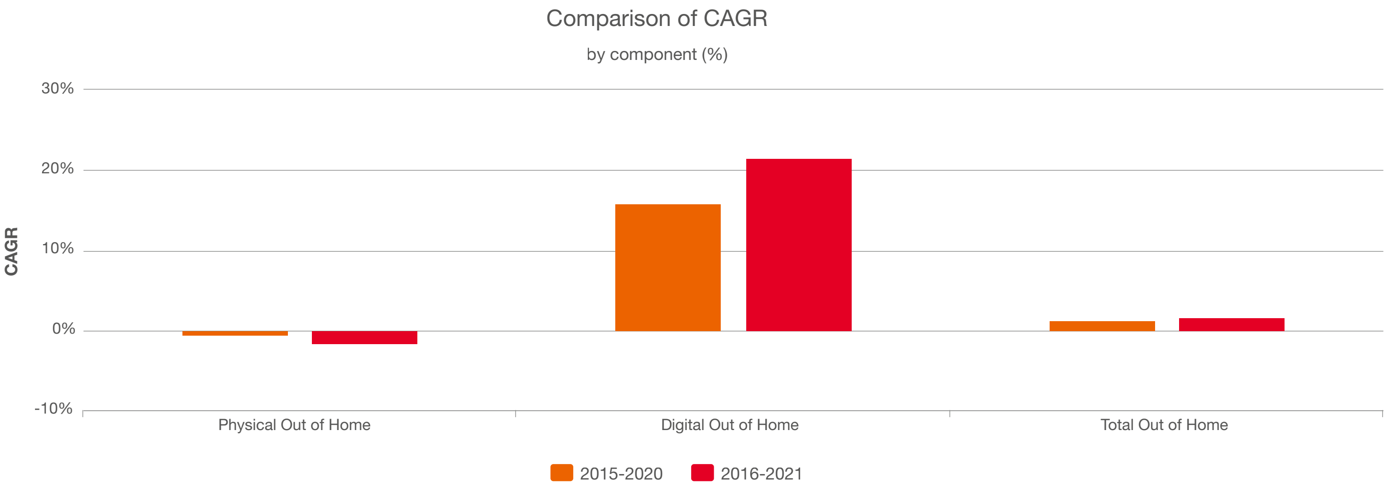
Switzerland's non-digital OOH market is saturated. Outdoor advertising instruments (poster panels, poster stands, advertising towers, and megaposters on buildings or other suitable public surfaces) are fully exploited and governed by regulations. OOH advertising companies are therefore very keen to acquire further space from private individuals or investors (e.g. on buildings, malls, business centres, ski areas, privately owned car parks and public transport vehicles), and are focused on efficient, profitable contracts. Swaps of locations, such as cities, transportation networks, airports or malls, between the advertising companies are taking place more frequently.

The non-digital OOH market segment is expected to decline by 1.7% over the next five years. Price pressure due to high capacities, changes in the market mix and replacements by digital products are the main influencing factors. Certain effects, such as federal elections or votes (e.g. parliament in 2019), will occasionally result in higher spending. The transportation market will remain stable, supported by increasing passenger volumes and lengthening commute times.

It can be assumed that the DOOH market segment has annual growth rates of more than 20%. However, regulatory restrictions, cost-intensive trial periods and the related investments could slow down the growth potential. Nonetheless, the development of interesting networks (e.g. bus stops), new formats and channels and declining costs should spur the transformation from non-digital to DOOH.

"Nowadays we are living in a world of constant stimulus satiation. Therefore, it has never been more important to show relevant and personalised advertising content. But the Swiss market is quite conservative when it comes to innovation and the implementation of new technology in this area."

Iman Nahvi
Chief Executive Officer | Advertima AG



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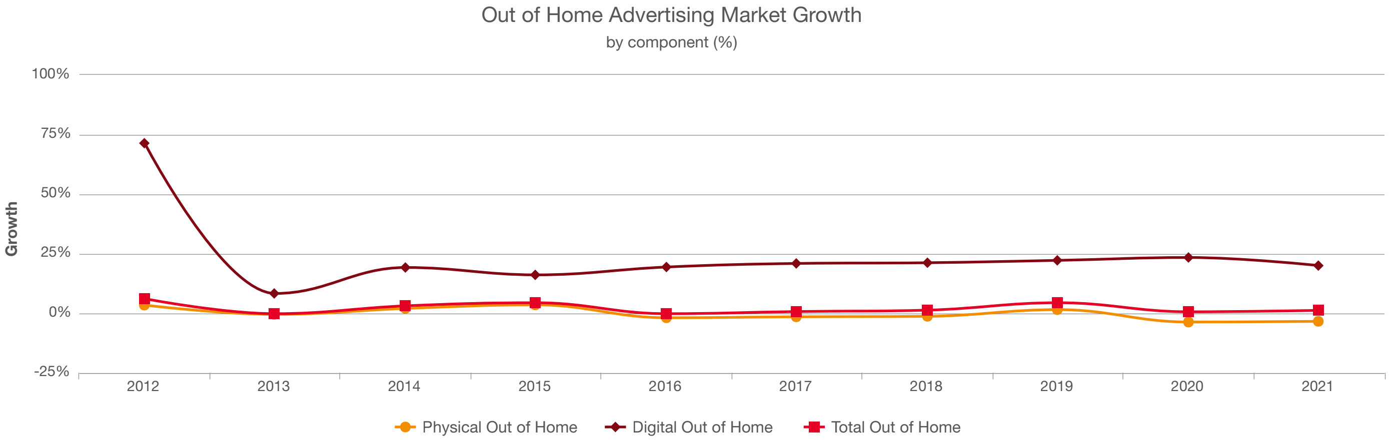
Comparison to Western Europe

The highly developed Swiss OOH market is the fourth largest in Western Europe. It is expected that Switzerland will show lower annual growth rates compared to Western Europe.

The UK is the largest OOH market in Western Europe, with revenues of CHF 1.6 billion, followed by France with CHF 1.3 billion in 2016. The UK also leads in DOOH advertising with approximately 25% of overall OOH spending. We expect to see continued robust growth in DOOH and a modest decline in non-digital OOH across Western Europe.

Germany, the third-largest market in Western Europe, is expected to grow between 2 and 3% per year and reach CHF 1.3 billion by 2021. Compared to Switzerland, the German market is decentralised and focuses on the big cities and the Rhine-Ruhr region. Ströer is the market leader with more than 300,000 billboards and is continuing to expand its network across the country to provide more comprehensive coverage.



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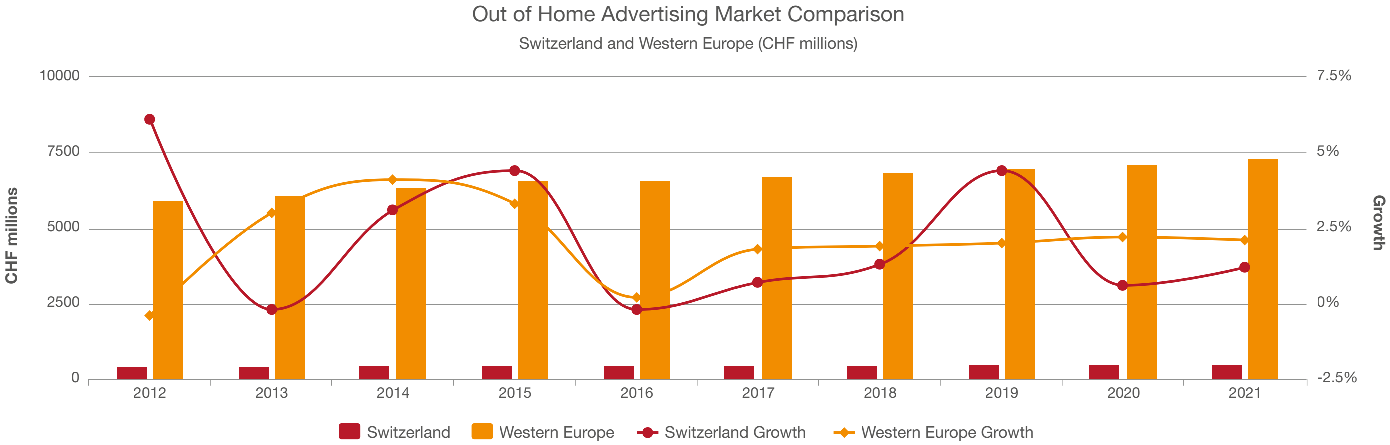

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