Transnational online advertising trading

An IAB Europe White Paper

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Introduction

20 years ago trans-national advertising was a minor part of total advertising activity, but the strength of online trading is changing all that. This timely report examines how global brands are spearheading a gradual rise in trans-national digital advertising and the benefits this can bring. It looks at how traditional working structures continue to keep most media buying within national boundaries and looks ahead to the market forces that are likely to break down these boundaries.

IAB Europe is pleased to work with Vincent Letang and his team at Screen Digest to bring you this report.

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Survey on Trans-national online advertising trading in Europe

Trans-national trading is the term used to describe inventory that is purchased in one country for campaigns to be executed in another country. The deal can be cross national, multi territory, featuring two or more territories (e.g. Germany and Switzerland or UK and US), pan regional, so featuring a group of territories in a region such as Europe, or global, featuring a selection of territories from multiple continents.

This process is of course only practical for media owners, publishers and advertisers that operate in multiple territories, but the ecosystem of digital advertising is well suited to trans-national trading, and it is therefore likely to become an increasingly important revenue stream for some market players.

This paper from IAB Europe and Screen Digest sets out to explain how trans-national trading works, to give an overview of the advantages and benefits, and to indicate the trends that will drive trans-national trading. It is based on the output of interviews conducted by Vincent Létang and Cyrine Amor on behalf of IAB Europe, March-July 2010, with representatives from key international advertisers, media owners and agencies.

Key findings

1. Centralized booking is a small part of digital media buying today, even for multinational advertisers. The bulk of digital media buying remains on a country-by-country basis, even when booked with international media owners.

2. Reasons include the legacy decentralization of marketing decisions and marketing budgets across European markets, and the multiplicity of media buying agencies working for multinational advertisers.

3. The amount dedicated to international trading is extremely variable depending on the nature of brands, their history and legacy marketing organisation. Luxury, travel, banking, BtoB brands do a lot of it. FMCG or automotive advertisers do very little of it so far.

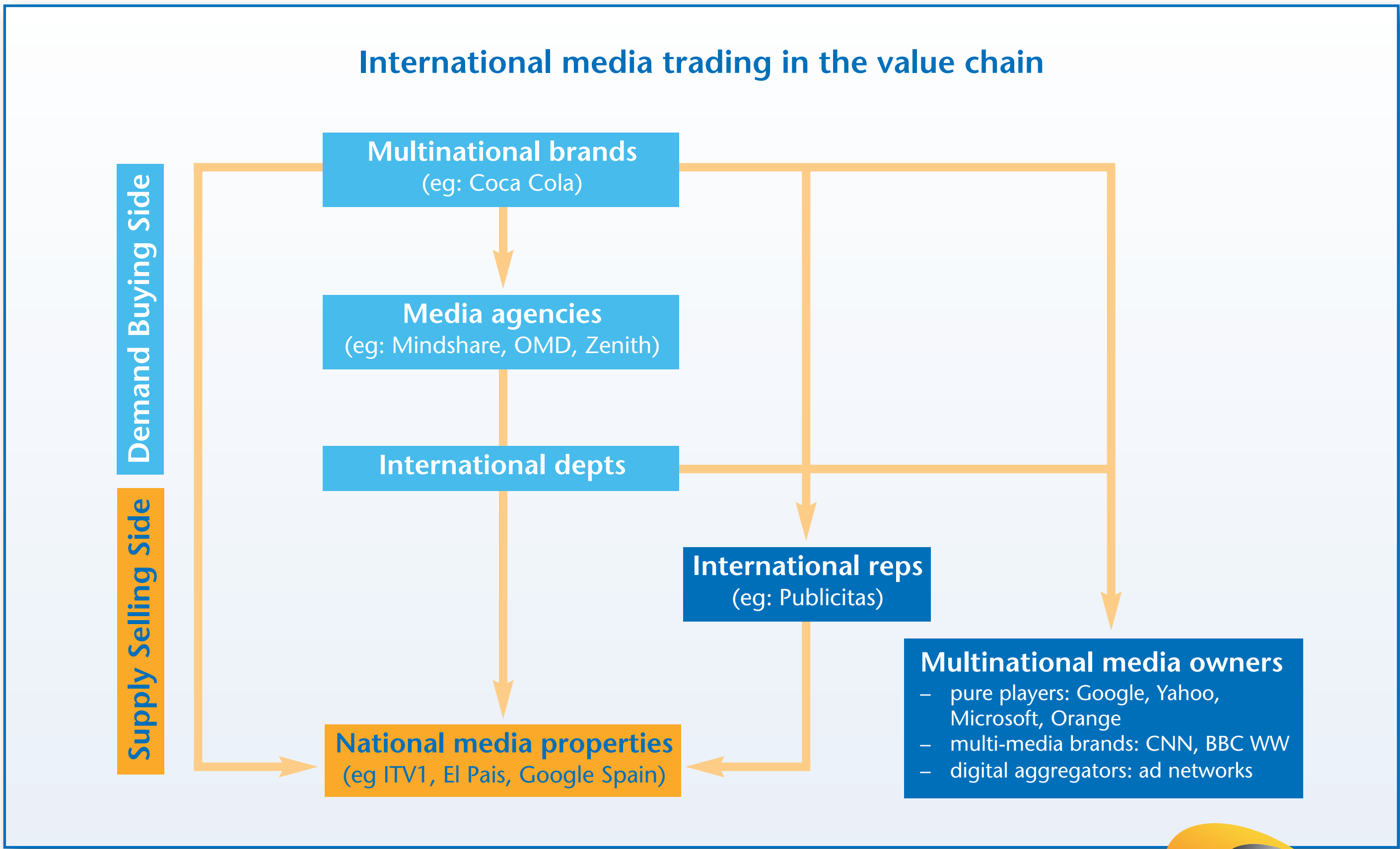
4. However there are signs and reasons to expect more international buying in the short and mid-term: centralization in marketing organisations and advertising contracts, rise of international media owners taking direct bookings, social media and automated trading platforms. Media agencies are increasing their international teams to face growing demand.

What are we talking about?

'Centralized international media buying' includes:

- Cross-national media buying. For instance: a French online publisher or a specialist international sales house selling display inventory on a French website to a German company, and billing a German address or a non-European address.

- Pan-European media buying: a brand centralizing part or all of its European internet media buying, either directly or through an agency, with a specific centralised budget and a dedicated team, on top of its country-by-country media buying activity and national marketing budgets. For instance, a global brand managing its online advertising budget from London through the international team of a media-buying agency.



Source IHS Screen Digest/IAB Europe

International media buying trends

Today centralised trading accounts for a small part of total digital media buying by multinational advertisers. This is mostly due to the prevalence of decentralised marketing decisions and organisations across Europe, and the multiplicity of media buying agencies working for multinational advertisers.

The amount dedicated to centralised trading is extremely variable depending on the nature of international brands, their history and legacy marketing organisations. Some industries are showing a lot more centralization in digital campaigns: luxury, travel, hotels, banking companies with brands such as HSBC or Rolex often mentioned.

L'Oréal combines local and international buying, especially for luxury brands, although planning remains local and campaigns are rarely simultaneous. But things are changing slowly. European marketing organisations are being simplified or revamped. In some cases, Pan-European headquarters by product categories or regional headquarters - covering for instance South Europe or Benelux - are now empowered with marketing and advertising budgets for multi-country campaigns.

On the other hand, most FMCG brands are historically decentralised in terms of operations and marketing. Marketing and advertising budgets are decided and managed locally for all media, and internet – even search – is no exception. There might be global framework deals with global media owners like Youtube on discount rates, according to annual volumes, but there is no centralised buying. Some international brands have no need of centralised international media buying policy because adspend is not big enough to generate economies of scale or because there is too much variation in advertising regulations across markets (e.g. alcohol).

Some multinational companies have a marketing and media team in each country and European co-ordination when it comes to digital marketing. Their focus is not only, or not primarily, to centralise media buying, but to provide co-ordination, guidelines and best practice.

Degree of media buying centralisation across industries

For a company operating over multiple territories, there are many levels of centralisation between fully local and fully centralised digital media buying. The degree of centralisation is closely correlated to the nature of the brand and the activity sector. In the table below, we split advertisers into three categories:

Degree of centralization	Description	Examples
LOW	Budgets, planning and buying are decided and managed by local marketers in each market where the company operates	FMCG and automotive companies, reflecting decentralised marketing organisations
MEDIUM	A part – often small - of total European advertising goes into centralised operations, often through the international team of a media buying agency. These budgets focus on 'corporate' or branding campaigns more often than products (making them more volatile) Does not always entail media buying Execution is still mostly localised (at least translated into local languages)	Banking, travel, technology, media-entertainment. BtoB and corporate brands (pharmaceuticals, energy etc.). Any brand targeting business executives on the move Some FMCG companies starting to reduce the numbers of marketing directions in Europe and creating regional (multi-territory) directions, or Pan European divisions for some product lines
HIGH	A large proportion of European advertising is centralised, with dedicated budgets for centralised buying (not only strategic planning or co-ordination)	Luxury. Tourist boards. Online retail. Direct Response. Non-European brands with little or no local marketing operations in Europe

Source IHS Screen Digest/IAB Europe

Pros and cons, drivers and obstacles

From an advertiser's perspective there are pros and cons associated with centralised media buying that are related to scale and transaction costs.

For big campaigns conducted in several countries at the same time, it might be cost-effective to buy media market-by-market because local buyers can leverage their purchasing power and expertise locally. Besides an advertiser can have international framework agreements with international media owners like Yahoo, Youtube or Facebook on volume and pricing, while still decentralizing advertising decisions and campaigns. These deals are becoming more common.

On the other hand, when an advertiser runs rather small campaigns in each market (perhaps big Europe-wide but thinly spread across multiple territories), the economies of scale made through international buying become significant, as opposed to the addition of local transaction and operational costs for a relatively small media value. Then the support of international buyers like Mindshare or OMD and the role of international ad sales houses like Publicitas or World Web Networks can make a lot of sense.

There is no certainty as to whether multinational advertisers are going to spend more trans-nationally in the future. Until now, international media buying has been volatile, characterized by stop-and-go fluctuations. This is because international campaigns are frequently 'corporate' ones, aimed at building brand awareness or company profiles, rather than selling products, and that type of communication is the very first to be cut in tough times – like 2009 when online display advertising growth was flat across Europe.

However it is more likely to happen for digital media simply because there are Pan-European and global media owners to deal with. By contrast, to launch large co-ordinated international campaigns across traditional media is a logistical challenge: an advertiser generally has to rely on the international team of an ad agency – Mindshare, OMD and Zenith have such teams in hubs like London and Paris– and the agency will often deal with an international sales house like Publicitas to do it in a cost-effective way.

In traditional media, few properties are offering multi-territory reach. These are international TV brands (CNN, MTV, BBC Worldwide, Eurosport), international business news publications (The Economist, International Herald Tribune). Several of these international properties are already making the majority of their sales centrally (including with non-European clients) and their digital sales represent more than 15 per cent of total ad revenues.

Pros and cons of centralised buying

PROS

- Economies of scale
- Maximise bargaining power with international media owners
- Time-to-market

CONS

- Some brands and agencies have leverage locally
- Significant local specificities
- Not all agencies are equipped
- Logistical & organisation costs

Source IHS Screen Digest/IAB Europe

Looking forward

There are signs and reasons to expect more centralised international buying in the mid-term. On the ***supply side***, three factors provide a better environment and more incentives to centralise international media buying:

- The rise of automated trading platforms for display (Ad Exchanges) may deliver further display cost optimization and incentives to centralise for large advertisers and large campaigns. More generally, display media buying is becoming more data-driven and the growing use of behavioural targeting justifies larger scale campaigns. However, perhaps counter-intuitively, the most automated form of media buying – paid search – is not very centralised either. This is due to the fact that search behaviour varies a lot from country to country and there are less obvious opportunities for international deal with media owners.

- The rise of international media properties is providing reach and the ability to target in every European market. Although international publishers like Yahoo, Microsoft and Youtube do have local sales teams, there are more opportunities for centralised bookings too. Besides the coming of age of social media advertising now increasingly used by mainstream brands allows them to target demographics, national or linguistic communities across borders efficiently.

- More international advertising agencies are setting up international departments to offer centralised European services to multinational clients, typically in London. However there is still a chicken-and-egg situation between agencies offering such services to their clients and agency customers deciding to centralise budgets and campaigns. Some advertisers told Screen Digest that their agencies – and their online publisher partners - were not fully equipped to deal with centralised planning/buying anyway. Among the advertisers that have an account with one of the international departments in agencies, the international support is often limited to strategic planning and co-ordination. At present, only a few have a definite budget for centralised buying, although agencies are sensing a growing trend in that direction.

On the ***demand side***, some categories are already increasing media buying on a trans-national or Pan European level: online betting (recent liberalisation in various markets such as France allows European operators to advertise across multiple territories), direct response (insurance, price comparison engines).

FMCG brands are not moving so fast but many of them are engaged in re-centralising some marketing decision and budgets – sometimes at regional level rather than country-by-country. Besides there is a general trend towards consolidating accounts and budgets among fewer advertising agencies among multinational companies. Finally, a number of iconic multinational advertisers (P&G, Unilever, L'Oréal, ABI) have recently and publicly pledged a significant shift to digital advertising.

These convergent trends and expectations from supply side and demand side will create the right conditions and opportunities to dedicate more budgets to centralised, Pan-European or Pan-regional mediabuying, but it will be gradual and limited.

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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.

About IHS Screen Digest

Screen Digest is the pre-eminent firm of industry analysts covering global media markets including film, television, broadband media, mobile media, cinema, home entertainment, gaming, and advertising.
Screen Digest was recently acquired by iSuppli Corporation and together iSuppli and Screen Digest offer the most complete and insightful analysis of the global technology, media and telecommunications (TMT) sector.

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