

Advertising revenues: Understanding the Internet ecosystem

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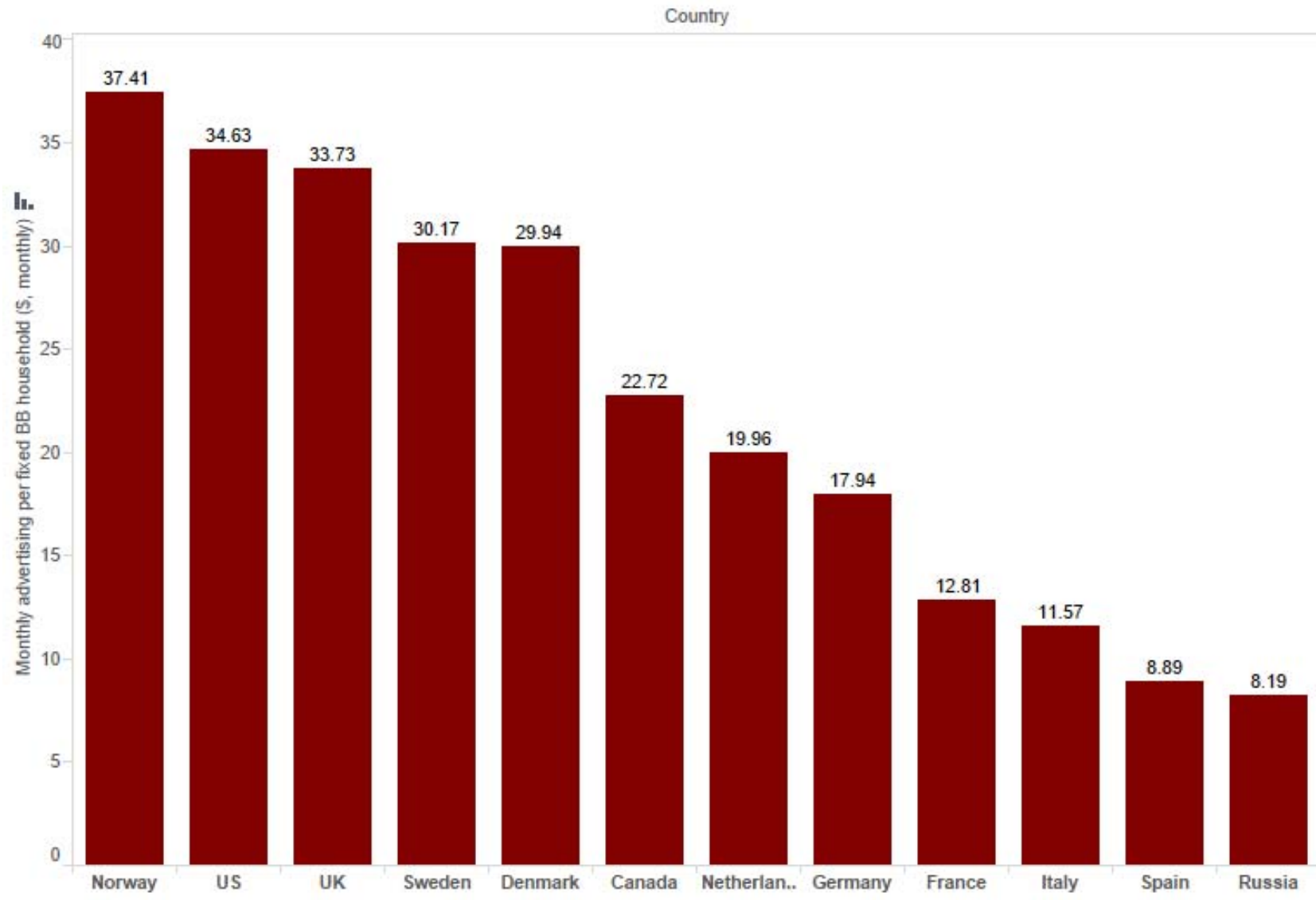
Ad revenue data

- From Interactive Advertising Bureau (IAB) unless otherwise noted.
- Data gathering and analysis: Israel Valentin Vinagrero. (Grad student at MIT--thank you.)
 - Also doing some industry interviews.
- US interactive ad spend 2012: \$36.6B.
 - Per HH: \$34.63/month

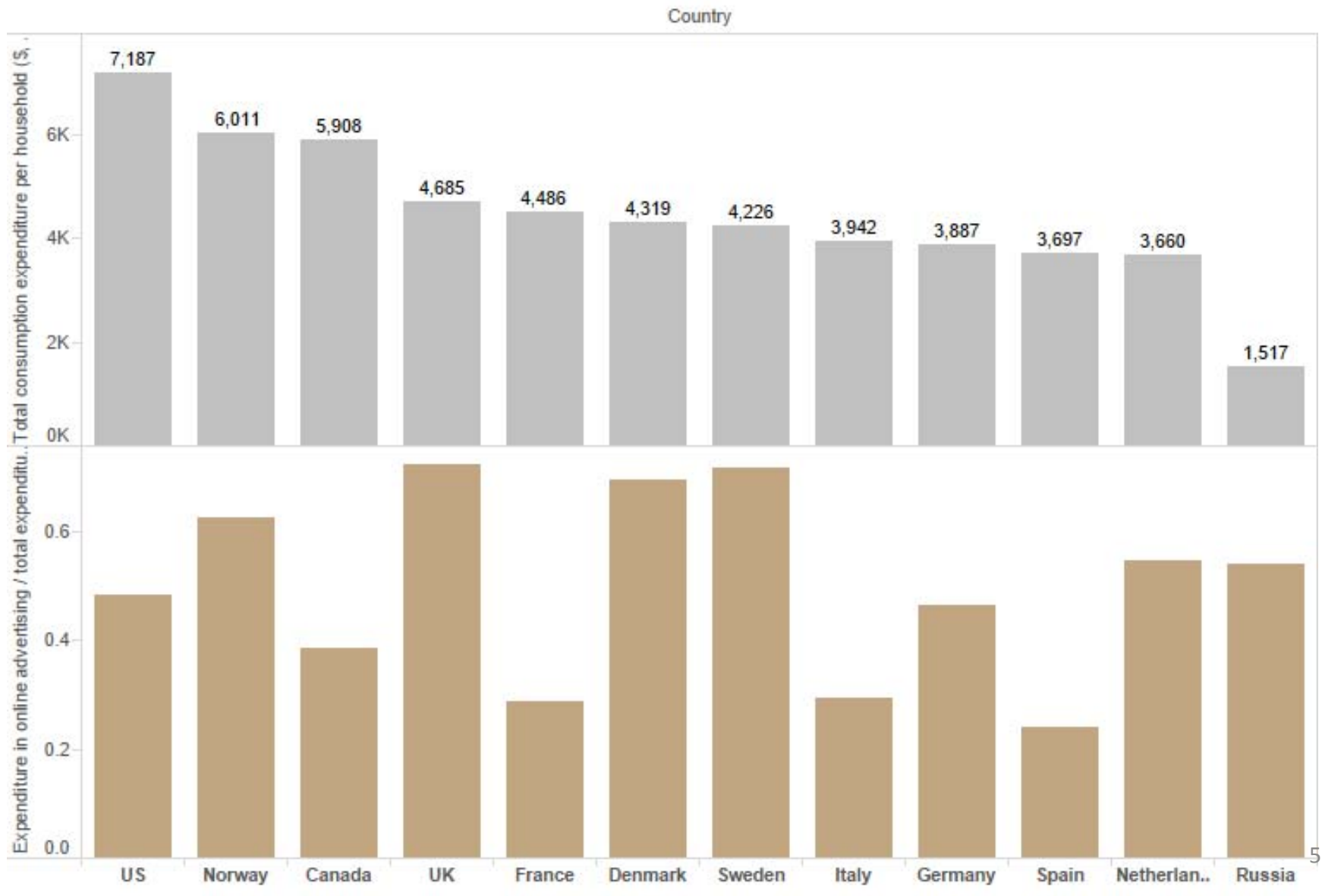
A lot or a little?

- Am I really worth that much?
- This pays for all of the “free” Internet experience.
 - All the web sites based on ads and behavioral profiling.
 - From this point of view, it seems like a little.

Online advertising per BB household (2012)



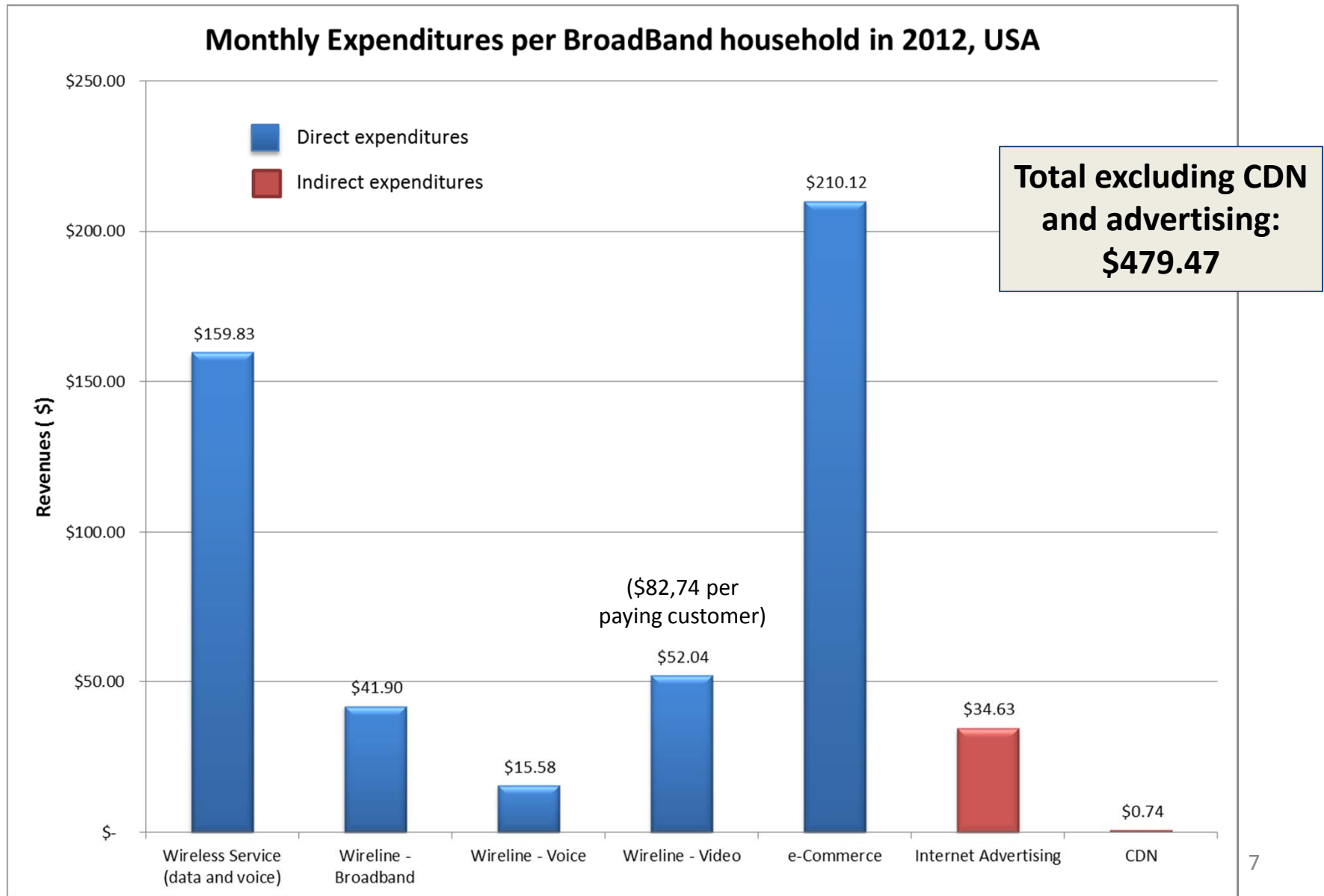
Total consumption and online adv/total ratio



Explanation?

- Consumer wealth is not the (only) explanation.
- Perhaps it is privacy policies?
 - Hypothesis from Catherine Tucker, MIT Sloan.
 - One estimate is that removing behavioral tracking information cuts the value of an ad by 75%.
 - Gill et al., *Follow the money: Understanding Economics of Online Aggregators and Advertising*, IMC 13
- The value of tracking is *critical* going forward.
 - Who knows the mobile user?
 - What happens to TV ad revenues?
 - Who might the consumer trust?

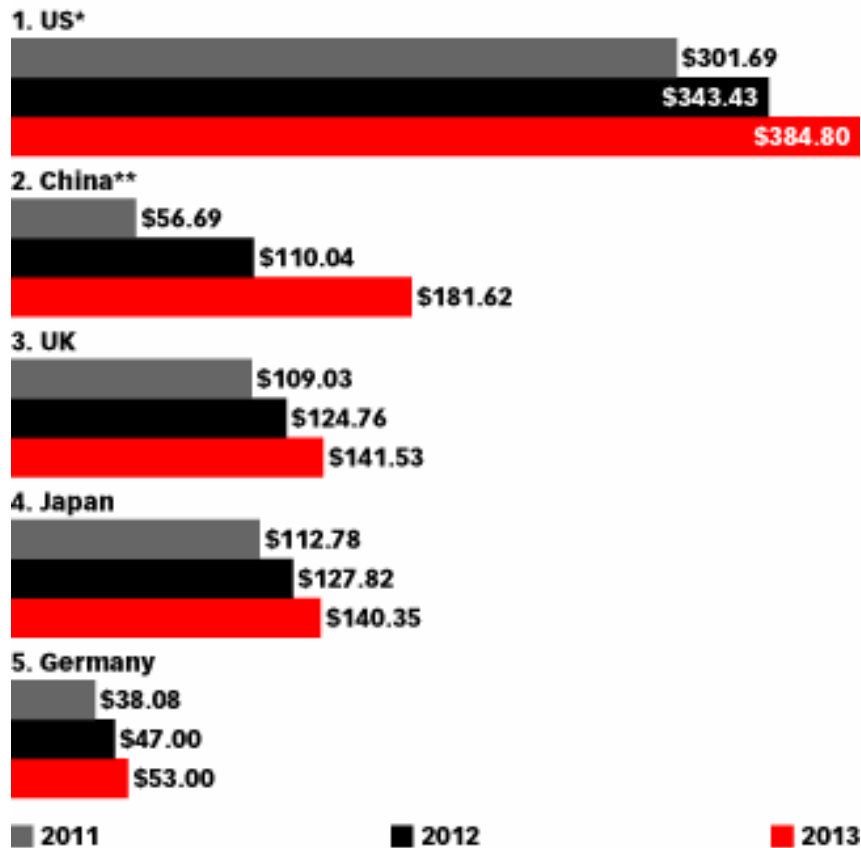
Internet expenditures per BB household



eCommerce: Top 5 countries by B2C Sales

Top 5 Countries, Ranked by B2C Ecommerce Sales, 2011-2013

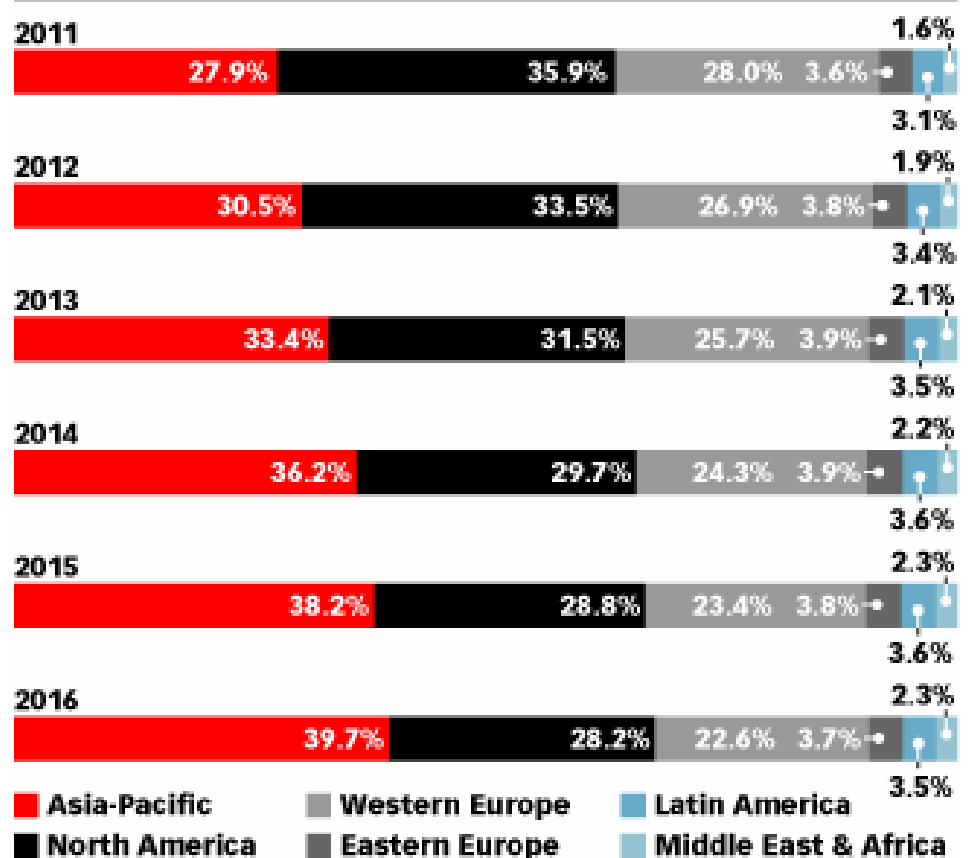
billions



Note: includes travel, digital downloads and event tickets purchased via any digital channel (including online, mobile and tablet); excludes gambling; ranked by 2013 figures; *excludes event tickets; **includes sales from businesses that occur over C2C platforms; excludes Hong Kong
Source: eMarketer, Jan 2013

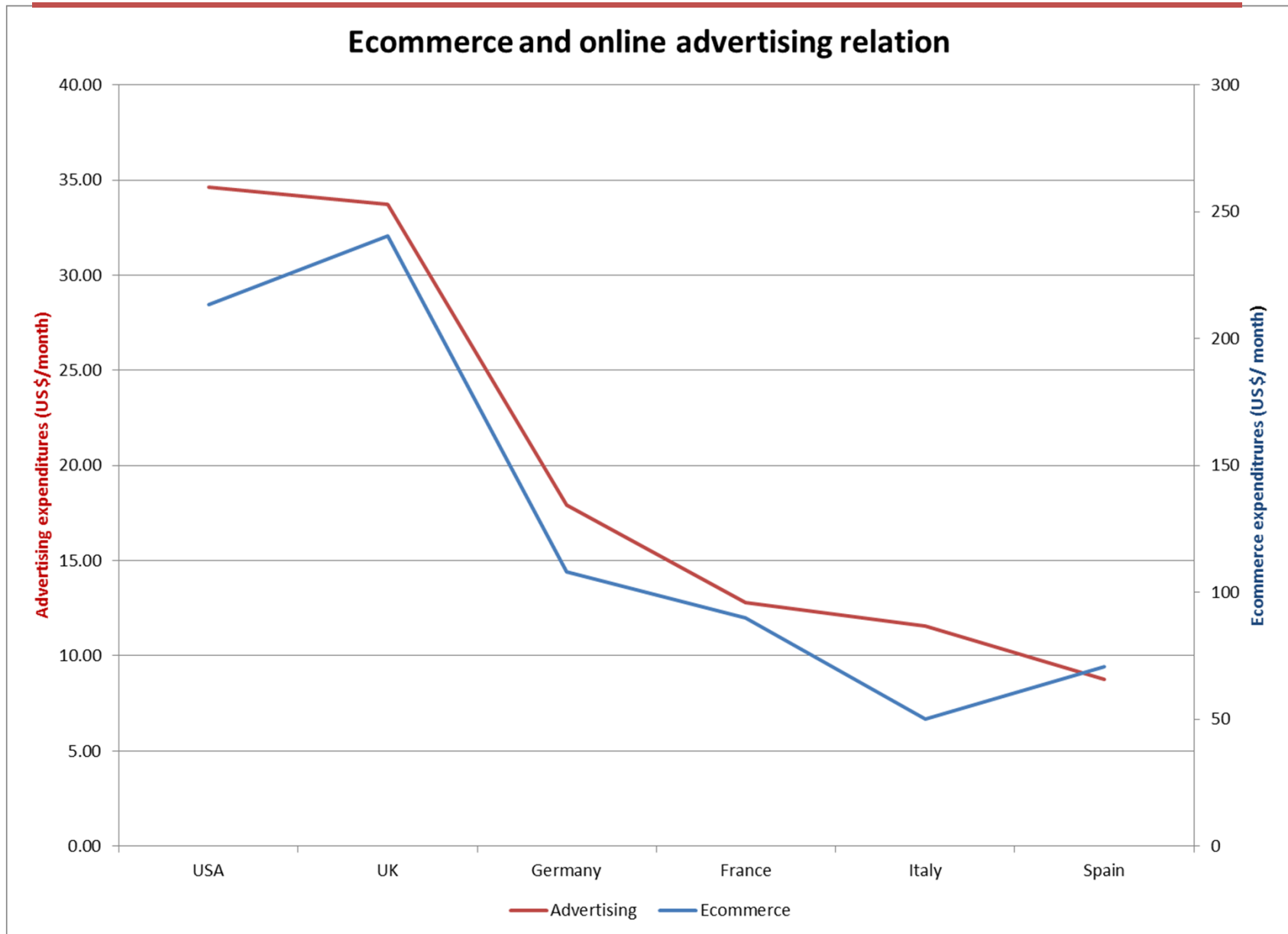
B2C Ecommerce Sales Share Worldwide, by Region, 2011-2016

% of total

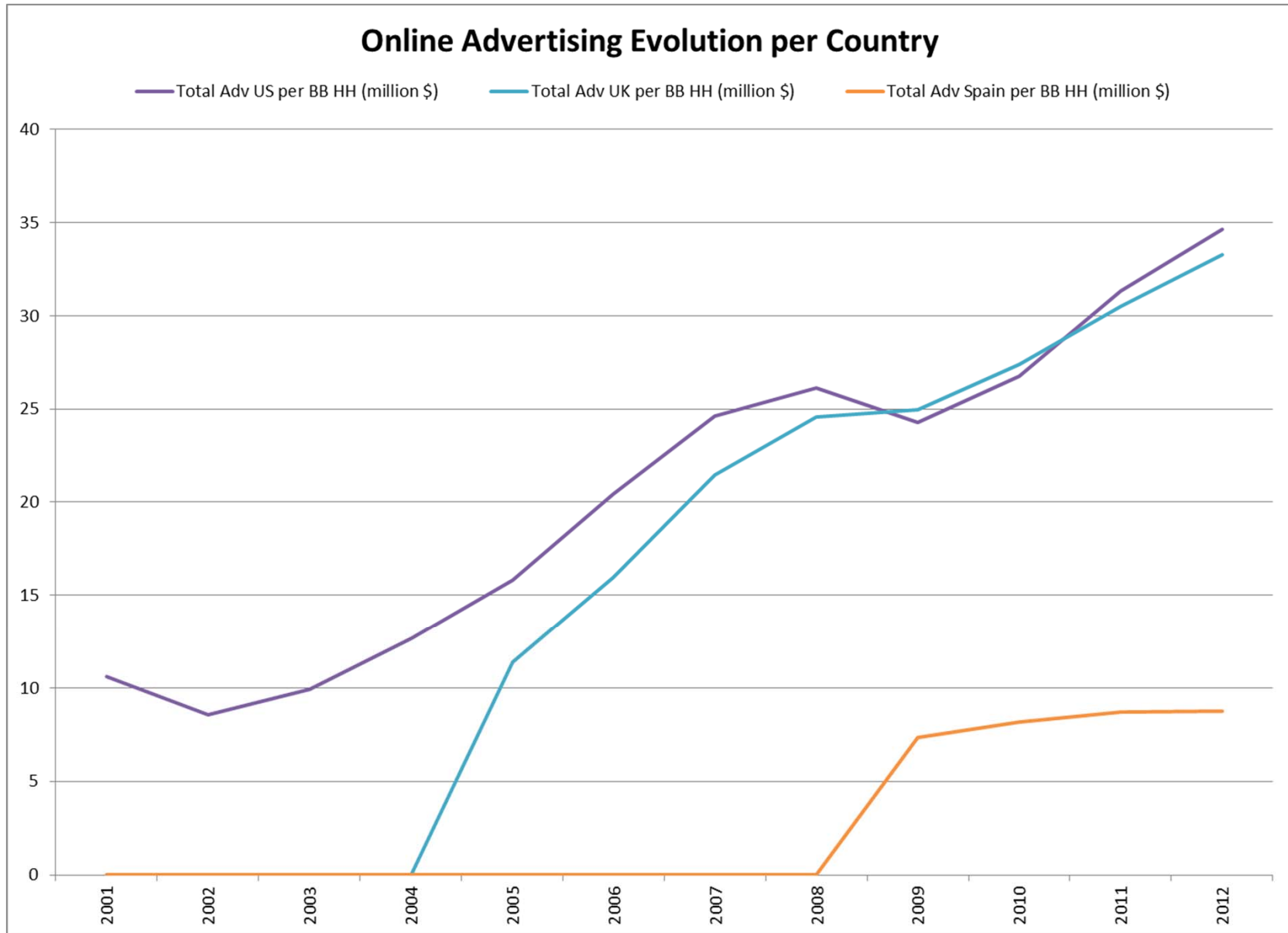


Note: includes travel, digital downloads and event tickets purchased via any digital channel (including online, mobile and tablet); excludes gambling; numbers may not add up to 100% due to rounding
Source: eMarketer, Jan 2013

Ecommerce and online ad per BB HH



Online ad per country evolution – S shape



Revenues

- A recurring conversation centers on the sources of revenues for ISPs.
 - Today the consumer pays essentially all the costs of the access provider.
- Is there an alternative frame in which other parts of the ecosystem contribute to the cost of access?
 - Advertising?
 - Paid content?

In the press...

Financial Times

April 9, 2010

Google accused of YouTube 'free ride'

By Andrew Parker in London and Richard Waters in San Francisco

Some of Europe's leading telecoms groups are squaring up for a fight with [Google](#) over what they claim is the free ride enjoyed by the technology company's YouTube video-sharing service.

[Telefónica](#), [France Telecom](#) and [Deutsche Telekom](#) all said Google should start paying them for carrying bandwidth-hungry content such as YouTube video over their networks.

- <http://www.ft.com/cms/s/2/8f5d6128-4400-11df-9235-00144feab49a.html#ixzz2l92zeRnM>

Speculate about Italy

- Per-household ad spend: \$11.57/month.
- Speculate that Google is 41% -> \$4.75
- What could an access ISP manage to extract as a share? 5% of top line? -> \$.23/month.
- Now think about the developing world.

Health of the ecosystem

- All of the “free Internet experience” is being sustained by ad revenues.
- Where do they go?

Google

- The x00 pound gorilla in advertising.
- Revenues (worldwide 2012):
 - Google sites: \$31,211
 - Ad partners sites: \$12,465
 - Partner share: \$10,956
 - Net Google: \$1,509
 - Total Net: \$32,720
 - US share: 46% \$15,051 41% of total

Mobile ad Situation

- Before a standard solution is accepted, **Facebook** is already bringing advertisers on board with its tracking solutions:

Facebook mobile ad sales drive 60% boost in revenue

Staff reports, CNBC.com

Oct. 30, 2013 at 6:32 PM ET

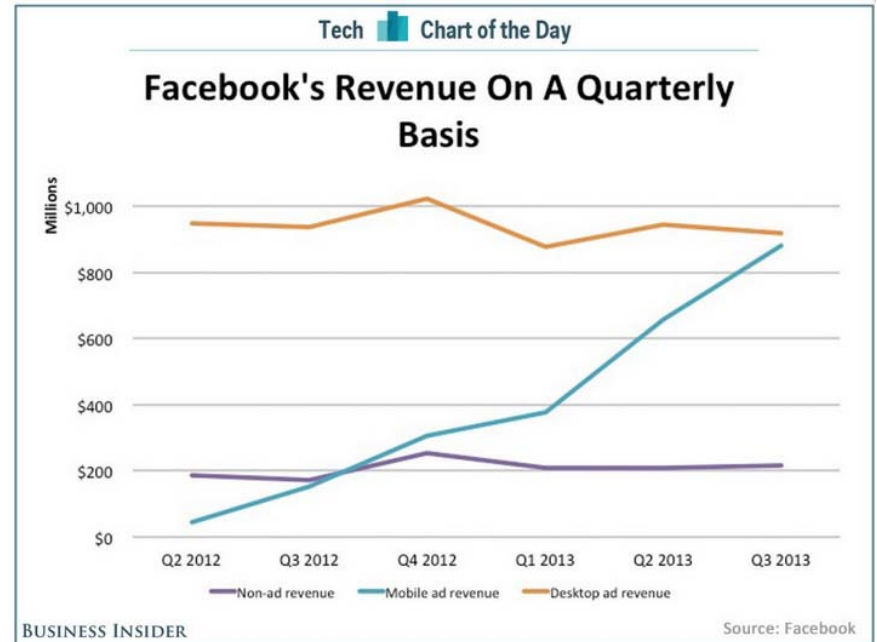
Facebook topped Wall Street's sales targets on Wednesday, as robust growth in its mobile advertising business drove a 60 percent increase in revenue.

Following the earnings beat, shares shot up 15 percent in after-hours trading before dropping back below their closing price.

"Investments made over the last couple years are paying off," said Facebook Chief Financial Officer David Ebersman. He said the results are seen in



ROBERT GALBRAT



FAST FEED

FACEBOOK MOBILE AD REVENUE ROCKETS 478% YEAR-OVER-YEAR

TODAY, FACEBOOK RELEASED ITS RESULTS FOR THE THIRD QUARTER, AND WITH \$2.02 BILLION IN REVENUE, THE COMPANY BEAT EXPECTATIONS. BUT ITS MOST IMPRESSIVE GROWTH WAS IN MOBILE.

BY AUSTIN CARR



Today, Facebook released its results for the third quarter. With \$2.02 billion in revenue, the company beat expectations and its share price surged, rising at least 10% in after-hours trading.

A lesson here about ads

- If an ISP tries to extract value from Google, by charging by the byte,
- And Facebook gets good at ads,
- Since Facebook does not deliver video (traffic volumes are minimal),
- ISP gets no value from Facebook.

- But a direct partnership with Facebook (like 0.facebook.com) is a great deal.
 - Don't think “enemy”, think “strategic partner”.