IAB South Africa Internet advertising revenue report

2017 | 2018 | 2019 study – An industry survey conducted by PwC and sponsored by the IAB South Africa

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Digital growth momentum slows but still at double digit YOY increase

The IAB is thrilled to release the South Africa digital adspend report compiled by PwC for year-end 2019 and sponsored by IAB. This report delivers on the IAB's global mission to empower the media and marketing industry to thrive in the digital economy – and in terms of our local strategy to provide smart, actionable and motivating insights that enable better digital decisions.

The IAB is committed to delivering a report that is accurate and fair, and as such includes input from all the necessary stakeholders such as the Advertising Media Forum (AMF) and Advertisers. As per the 2019 annual report, the methodology entails questionnaire with input from buy-side (advertising agencies and clients) which is then cross-checked with information from research provider OVUM (research provider for the PwC Africa's *Entertainment and Media Outlook, 2019 -2023*) and is compiled by independent entity PwC.

"The release of this report is a major milestone for the publishing industry. It is of critical importance to be able to benchmark available ad revenues over time as a barometer of the health of and opportunity in the publishing environment. Given the significant challenges faced by local publishers in particular, this data is a powerful resource to manage forecasting and expectation setting. As many publishers review commercial models and monetisation strategies, this consolidated view of AdSpend is instructive. While there remain issues with sourcing a complete data set, with the support from PwC and IAB Global, this adspend report provides comparable information that allows for useful insights to be drawn."
Claire Cobbledick, GM Gumtree South Africa and IAB SA Vice Chair

Total advertising revenue and YOY growth

2017	17%	R3 billion
2018	19%	R3.6 billion
2019	11%	R4 billion

While South Africa has seen amplified digital adspend YOY growth over the last three years (2017 – 17%, 2018 – 19%, 2019 – 11%), COVID-19 will test our industry more than any other challenge faced recently. The rapid spread of the virus has resulted in a volatile and unpredictable environment for the economy, businesses, and consumers. Based on the PwC COVID-19 CFO Pulse Survey, 30 March 2020, 55% of respondents stated that implementing cost containment is one of the financial actions that they will implement to curb the effects of COVID-19 on their overall profitability. Most mediums are likely to get impacted by these business actions by the end of 2020 and possibly even beyond. However, with the stable Internet infrastructure we have in South Africa, perhaps there is an opportunity for people to benefit and consume more digital in-home media.

Consumer behaviour will change, digital players will need to adapt to this and use it as a window of opportunity to find new-born synergies with other in-home mediums such as TV in order to show an uplift in 2020. Most importantly though, digital media is known for not being the most trusted medium. In an unprecedented event like this the public are looking for trust and reliability. Hence another opportunity to become a reliable, trusted platform of choice during COVID-19.

"In order to provide ongoing digital adspend insights to South Africa, the IAB calls upon the industry sell-side and buy-side, to continue participating and engaging with PwC to ensure that this annual report delivers optimal output for the industry. While this report is on adspend, it is important to refer to IAB SA digital landscape report, which will highlight further insights on digital behaviour which drives digital spend direction" Ashish Williams – CEO MediaCom SA, Head of the IAB's Research Council.

Background to the survey

The online advertising revenue study is a survey based census of major South African advertising agencies and brands and includes mobile, tablet and desktop revenues. Information is collected annually from 2014 to 2016, but has been collected for 2017, 2018 and 2019 simultaneously for purposes of this study.

All revenues included in the information are on a net basis (after rate card discounts and agency commissions). Information is prepared based on survey responses received from participants (a full listing is attached at the end of this document).

Key trends

Total Internet advertising revenue – South Africa

	2016@	2017	2018	2019
	ZAR (billion)			
Net Internet advertising revenue (excluding paid search revenues)*	1.154	1.284	1.449	1.489
YOY Growth in Internet advertising (excluding paid search)		11%	13%	3%
Paid Search advertising revenue#	1.401	1.714	2.110	2.477
YOY Growth in paid search advertising revenue		22%	23%	17%
Total Internet advertising revenue	2.555	2.998	3.559	3.966
YOY Growth in total Internet advertising revenue		17%	19%	11%

@ – Relates to information per 2016 IAB *Internet advertising report*.

– PwC Africa's *Entertainment and Media Outlook 2019–2023*

* – Desktop and mobile Internet advertising (net of agency commission, discounts etc.)

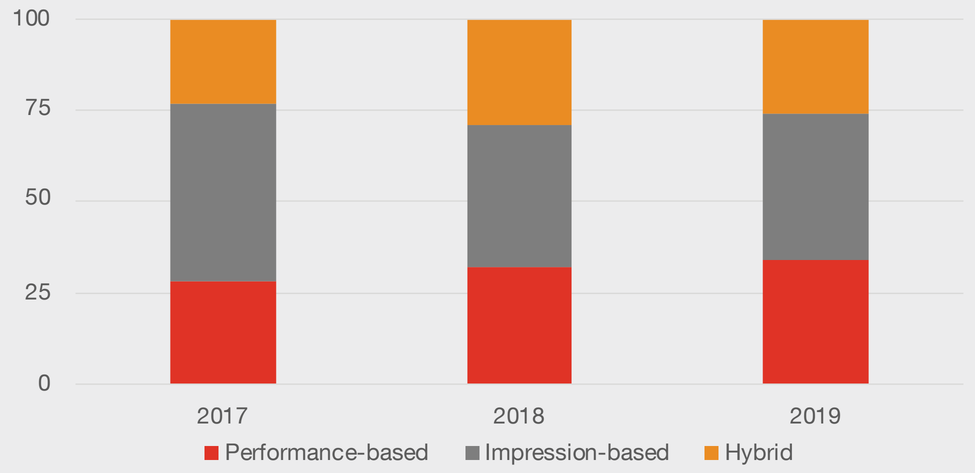
The market for Internet advertising in South Africa continues to grow, albeit at a decelerating rate, with overall market revenue expanding from R3bn in 2017 to R3.6bn in 2018 and R4bn in 2019, representing year-on-year growth of 19% and 11% respectively. According to IAB SA's 2019 adspend survey – which captures adspend through local agencies – Internet advertising revenue (excluding paid search advertising) showed year-on-year growth of more than 10% in 2017 and 2018 and slightly more modest growth of 3% between 2018 and 2019.

Total paid search advertising revenue (as per PwC Africa's *Entertainment and Media Outlook 2019–2023*, rebased since the 2018 edition), however, grew 17% between 2018 and 2019 to reach R2.5bn *(22% 2017, 23% 2018)*. This mainly reflects the fact that many brands are going directly to search engine operators' self-serve ad platforms, such as Google Ads, which took 97% *(99% 2018, 94% 2017)* of all South African paid search revenue in 2019. This reflects a broader trend towards in-housing, where brands and advertisers are setting up their own internal programmatic media buying teams. Vodafone, for example, brought biddable media in-house in May 2018 and subsequently set up a dedicated team in South Africa.

The question of trust in digital advertising has contributed to this trend. Despite democratising the ad ecosystem, programmatically delivered digital advertising has, due to concerns over fraud, led to many becoming skeptical about where their ads are being displayed and uncertain if a real person is actually viewing them. Continued concerns about brand safety over the past few years have also contributed to a slowdown in growth. Major players have sought to increase trust by opening their ad platforms to third-party accreditation – Google, for instance, opened its platform to brand safety verification from DoubleVerify and Integral Ad Science in June 2018. As such verification measures become more accurate, the metrics they cover more useful, and more widely adopted, trust and growth should return to the digital advertising space. Plus, while impression-based charging models remain most popular in South Africa, accounting for 40% of buys in 2019 *(39% 2018, 49% 2017)*, many advertisers are increasingly looking to boost visibility of return on investment by turning towards performance-based Internet advertising. The share of such advertising – which typically takes place on a cost-per-click, sale, lead acquisition or application basis, or through a revenue share – has grown from 28% in 2017 to 34% in 2019.

Internet advertising revenue (excluding paid search)

Figure 1: Ad campaigns by charging model in South Africa, 2017-19, % of campaigns

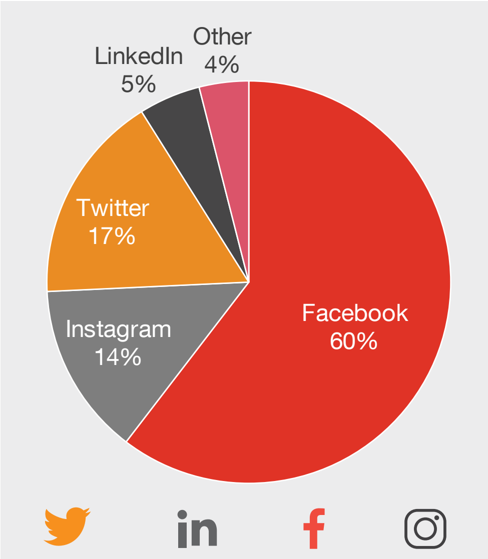


However, many players in the programmatic ecosystem are at risk due to recent regulatory changes, growing consumer concerns over privacy and the response of tech players. Specifically, the usefulness of third-party cookies, which track user activity across the Web and upon which digital programmatic advertising has largely come to rely, has been severely limited by regulation. The impact of the EU's General Data Protection Regulation (GDPR) has been felt across the globe – not just in Europe. This also coincides with changing consumer opinion – 62% of South African Internet users aged 16-64 delete cookies on a monthly basis, and 69% expressed concern over how companies use their personal data, per a Q3 2019 GlobalWebIndex survey.

In response, the tech giants also increasingly pivoted towards transparency and privacy in 2019. Google, Apple and Mozilla all made changes to their browsers and platforms to give users more control over cross-site third-party cookies and to block other methods of unwanted tracking. According to StatCounter, these three accounted for over 80% of Web usage in South Africa in February 2020. While other methods of tracking and targeting exist, particularly within in-app contexts, vendors and advertisers relying on third-party cookies will continue to face a challenging environment. As a result, the importance of regulatorily-sound, first-party data will continue to grow, as will AI-enabled, identity-based audience measurement, segmentation, and attribution solutions. Meanwhile, more media players and advertisers will need to focus on the context of Internet advertising, rather than granular personalisation and targeting.

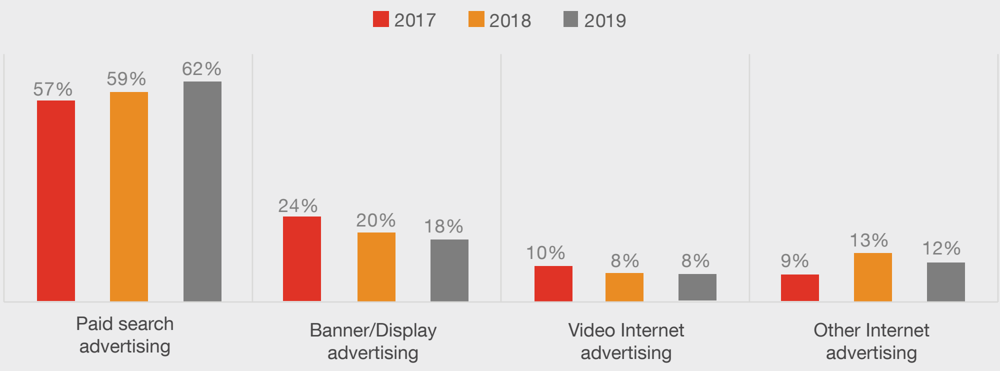
Notably, this move does little to impact the data collected within the 'walled gardens' of Google and Facebook, the latter of which is benefitting from a continued surge in the popularity of social media in South Africa which, along with search engines, are a key source of brand discovery. Indeed, Facebook and Instagram took a combined share of *74% (73% 2018, 66% 2017)* of South African social ad revenue in 2019.

Figure 2: South African social media advertising by platform, 2019



In fact, social media platforms are a key driver of digital ad spend in South Africa, while the ease of use of their self-serve ad platforms is opening the market to smaller advertisers and cutting out agencies' share of revenue. Indeed, the fact that such spend is not captured in the IAB survey is a key reason for the discrepancy between the revenues reported and the total revenue actually being accrued by Internet advertising. Meanwhile, online classified advertising – again, not captured in the survey – also continues to grow, with the segment attracting the interest of publishers such as Tiso Blackstar, which partnered with Gumtree to bring the latter's classified advertising to its online properties in August 2019.

Sources of Internet advertising as a % of total Internet advertising revenue



A further source of growth in the country includes video advertising – dominated by Google's YouTube which, according to a GlobalWebIndex Q3 2019 survey, is used by 87% of Internet users aged 16-64 on a monthly basis. Facebook's increasing focus on video is also driving video ad revenue, although high data prices in South Africa continue to limit the segment's overall impact. Despite this, the survey found that 98% of Internet users aged 16-64 consume online videos at least once a month – reaching these viewers with high-value video advertising will only become more important over the coming years as connectivity and online video consumption increases.

The fact that 38% of these Internet users also listen to podcasts, 71% play smartphone games, and 33% use voice search on a monthly basis also presents opportunities. While podcast advertising is still a very small segment of the market, it is set to grow strongly over the coming years, while more advertisers are becoming increasingly interested in reaching the valuable gamer demographic. Meanwhile, the rise of voice search is something of a double-edged sword for incumbent Google. Though it presents opportunities for greater user engagement, monetising voice search activity directly through paid search ads on devices like smart speakers remains extremely difficult. Voice search monetisation is, however, far more achievable on mobile devices on account of the presence of a screen which can display multiple results, some of which may be sponsored. For this reason, mobile currently represents the best monetisation opportunity for voice search in South Africa.

	2016	2017	2018	2019
	ZAR (billion)			
Total Internet advertising revenue	2.55	3.00	3.56	3.97
Total advertising revenue ^	27.87	28.70	29.51	30.35
Internet advertising revenue as a percentage of the total size of the advertising market	9.2%	10.5%	12.1%	13.1%

^ – Total size of advertising market per PwC Africa's Entertainment and Media Outlook 2019–2023

Includes advertising revenues from Business-to-Business, Cinema, Internet, Magazines, Music and Podcasts, Newspapers, Out-of-home, Radio, TV and Video, Videogames and E-sports. Please note that the Internet advertising revenue as included in PwC Africa's Entertainment and Media Outlook 2019-2023 has been included in the total advertising revenue and not the Internet advertising revenues as per this report.

Total advertising revenue in South Africa rose by 2.8% in 2019 reaching a total of R30.35 billion. Internet advertising is further cementing its status as the key growth story in the country, increasing its portion of the total advertising market to 13.1% in 2019 (12.1% 2018, 10.5% 2017, 9% 2016). Internet advertising revenues showed an increase of 11% in 2019 making it one of the fastest growing segments in the advertising market, with higher growth only seen in relatively 'new' segments such as Videogames, E-sports and Music and Podcasts. Although Internet advertising has not yet overtaken TV, if South Africa follows the global trends, we expect TV's long-time lead to be over within the next few years.

Advertising will become more 'shoppable' in new and compelling ways as a growing number turn to YouTube and Instagram to window-shop while they watch tech enthusiasts unbox the latest gadgets, beauty vloggers show off their latest 'hauls', and celebrities walk the red carpet. Making it easier for viewers to buy those items will be the logical next step. The opaque nature of some parts of the value chain, concerns over the accuracy and transparency of measurement, and repeated high-profile controversies over consumer privacy and brand safety still inhibit Internet advertising growth. However, new interactive, dynamic, and actionable formats and contexts, such as location-specific mobile search ads in map apps, and interactive and dynamic personalisation, will continue to improve the appeal and value of Internet advertising to both consumers and advertisers.

Impact of COVID-19 on 2020 revenues for the media industry

The media industry is facing a major fall in advertising spend as businesses adapt in order to respond to changing consumer demands. Although it is too early to predict what the value of that impact will be, it is clear from the past few months that COVID-19 will not leave the industry unaffected. A significant reduction in sales for major industries such as the travel and hospitality industry, automotive industry, and technology providers (such as Apple, Samsung, Hauwei) is expected to result in a decline in advertising spending from these industries. Further, with major sporting and live events across the world being cancelled, TV advertising revenues are expected to be significantly impacted. Certain sectors of advertising such as e-commerce and related advertising as well as social media advertising are expected to benefit from billions of people being in some form of lockdown and thus spending a significant amount of time on their mobile / desktop devices.

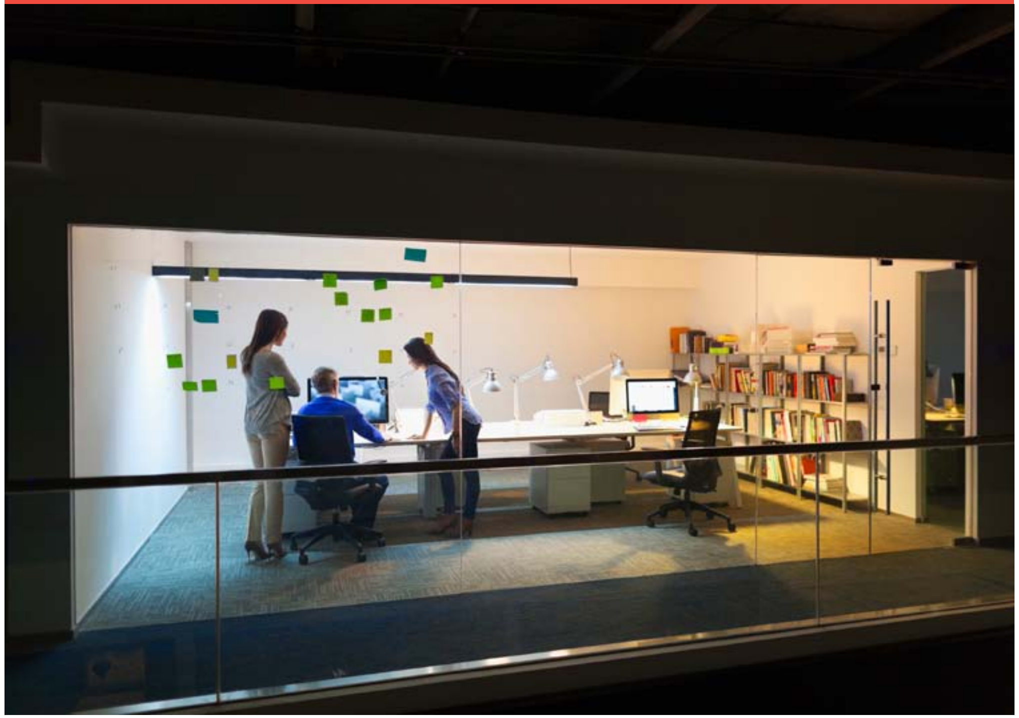
Based on the PwC COVID-19 CFO Pulse Survey, 30 March 2020 (*access through the following link (PwC COVID-19 Pulse Survey*) 60% of respondents expect to see a financial impact including effects on results of operations, future periods, and liquidity and capital resources as a result of COVID-19. Further, 55% of respondents stated that implementing cost containment is one of the financial actions that they will implement to curb the effects of COVID-19 on their overall profitability. The longer-lasting effects of the outbreak on consumer habits are difficult to predict, but some companies are already updating strategies in the face of temporary – and potentially permanent – changes in some markets or business models. The pandemic has led some to amplify plans to give customers 'seamless' access to their services, whether that's direct-to-consumer, home delivery shipments, or in-store interactions.

About the survey

To help identify the business and economic impact of COVID-19, PwC is conducting a biweekly survey of finance leaders globally. Of the 153 surveyed for the multi-territory report during the week of 23 March 2020, respondents were from a cross-section of industries and based in Bahrain, the Netherlands, the Philippines, Portugal, Qatar, Switzerland, Thailand and the United Arab Emirates. Concurrently, we surveyed 55 finance leaders in the US and Mexico. The next set of results will be released on 13 April 2020.

About the IAB South Africa

The Interactive Advertising Bureau (IAB) South Africa, formerly the DMMA, is an independent, voluntary, non-profit association focused on growing and sustaining a vibrant and profitable digital industry in South Africa. The IAB South Africa represents the digital industry across all sectors including the media, the marketing community, government, and the public, and also acts as the channel through which international bodies can enter the South African digital market. The IAB South Africa currently represents over 200 members including online publishers, creative, media and digital agencies, brands, and educators, between them accounting for more than 39 million local unique browsers. The IAB South Africa strives to provide members with a platform through which they can engage, interact, and address digital issues of common interest, thereby stimulating learning and commerce within the South African digital space. To find out more about the IAB South Africa, visit its website, like its Facebook page and follow @iab_sa on Twitter.



About PwC South Africa

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Survey participants:

- Joe Public Connect • Initiative Media
- Havas Media • Jellyfish • Group M
- Wavemaker (Group M)
- Mindshare (Group M)
- Mediacom (Group M) • Reprise Digital
- King James Digital • Dentsu AEGIS Network • Mark1 Media
- Gumtree • Etiket • Digital Solutions Group • OneDayOnly
- Limbik Media • Wunderman Thompson • VMLY&R • MetaMedia
- Hollard • Vodacom • ABSA • M&C Saatchi Connect
- The Media Shop • 24.com

Supplier to the IAB South Africa Internet advertising revenue report and PwC Africa's *Entertainment and Media Outlook 2019–2023*

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To access this report, please email hello@iabsa.net

Methodology and disclaimer

All revenues included in the information are on a net basis (after rate card discounts and agency commissions). Information is prepared based on survey responses received from the participants. Figures are based on the information submitted and have not been verified. Search revenues were obtained from PwC Africa's *Entertainment and Media Outlook 2019–2023*. Both brands and agencies have participated in the survey. The revenue figures included above online advertising are based on the responses from agencies.

The research is conducted by PwC on behalf of the IAB. PwC does not audit the information and provides no opinion or other form of assurance with respect to the information. Only aggregate results are published and individual company information is held in strict confidence by PwC.

Figures are adjusted for double counting based on information provided by survey submitters (e.g. a brand owner's reported revenue overlaps with an agency also submitting to the survey). No adjustment has been made for survey submitters that have not consistently submitted in the previous (2016 and earlier) IAB surveys and the current survey. A full list of survey submitters is included in all reports.

Information based on PwC Africa's *Entertainment and Media Outlook* in previous IAB reports has been restated, where needed, to offer the most accurate data available. Restatements happen when new data points are available to help refine modelling.

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