Internet advertising revenue report

2020 study – An industry survey conducted by PwC and commissioned by the IAB South Africa

May 2021

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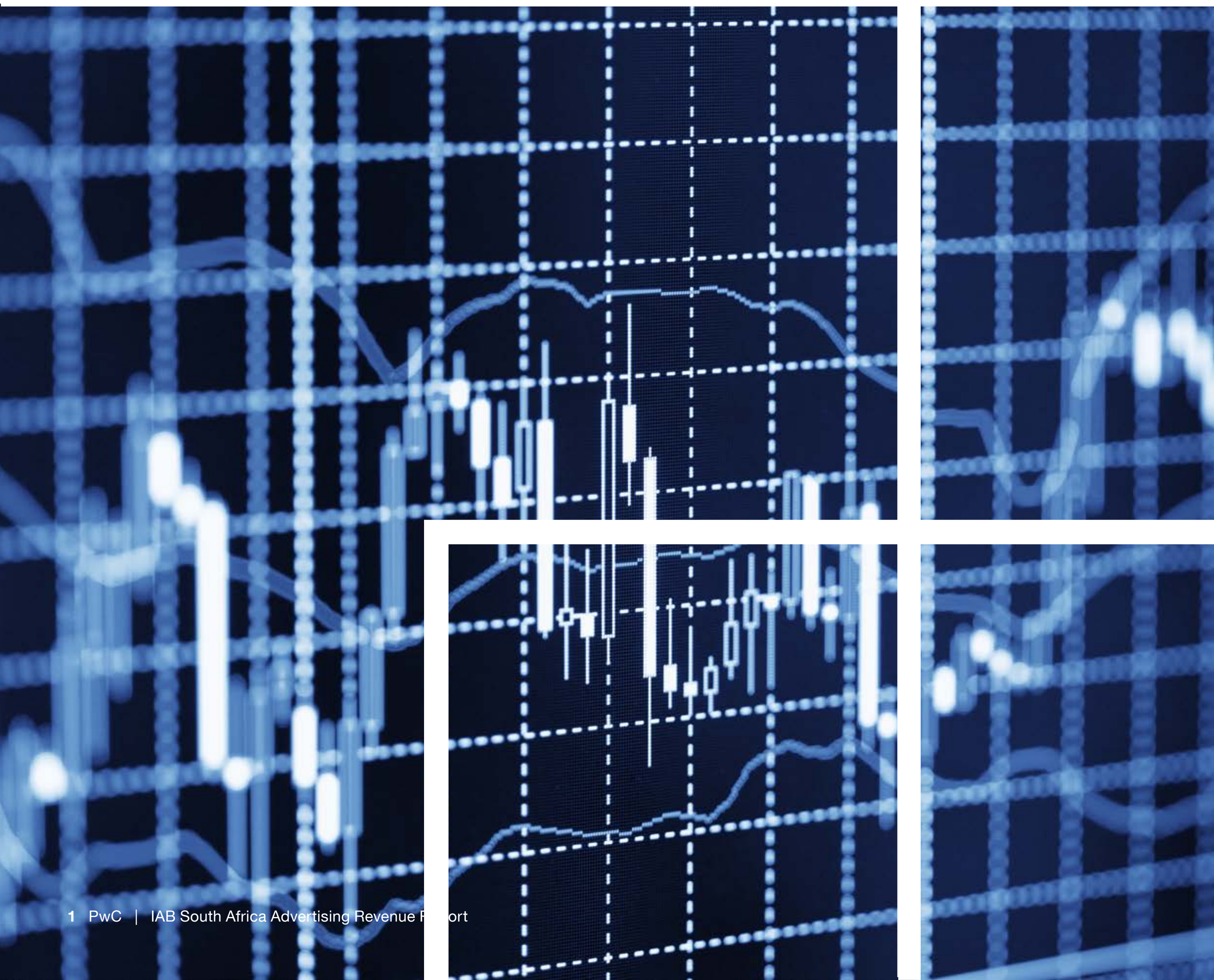


2020 Annual report

Demand for digital media during the pandemic results in accelerated growth

The IAB South Africa is thrilled to release the IAB South Africa Internet Advertising Report. Compiled by PwC for year-end 2020 and commissioned by the IAB South Africa, this report delivers on the IAB's global mission to empower the media and marketing industry to thrive in the digital economy and provides smart, actionable, and motivating insights that enable you to make better digital decisions and therefore better business decisions. The IAB South Africa is continuously committed to providing a report that is accurate and fair, and as such includes input from key stakeholders such as the AMF (Advertising Media Forum) and Advertisers. The questionnaire is responded to by buy-side (advertising agencies and clients), which is then cross-checked with information from research provider OVUM, and is compiled by independent entity PwC.

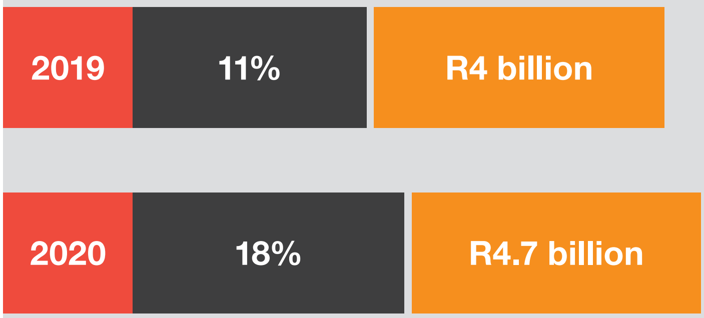
Whilst digital media has been growing over the last few years in South Africa, the 18% YoY growth that we see in this report is remarkable considering how the economy contracted in 2020, even though the respondent base was larger than the previous year. The big question going forward is, will the digital growth we currently see be sustainable as the economy recovers and consumer behaviour starts to "normalize"?

"When economic activity came to a halt at the peak of the COVID-19 pandemic in South Africa in 2020, most non-essential businesses could not operate. This had a massive impact on the economy and forced the advertising industry to very swiftly diversify the allocation of advertising investment to be more in tune with what consumers were doing during this time. We saw a big uptake in e-Commerce due to online shopping, increased in-home media consumption, and the rise of digital media in general," comments Claudelle Naidoo, Managing Director, Mediacom and IAB South Africa Research Council Chair

Digital will most likely continue to grow in double digits based on the trends over the last 3 years irrespective of COVID-19. What will be interesting to see is the percentage allocation of spend to digital compared to other media platforms over the next twelve to twenty four months. The distribution of spends shifted in 2020 in line with consumer consumption patterns which resulted in digital attracting a bigger piece of the pie in many planning scenarios. At the same time we have witnessed how the digital eco-system has become a lot more creative, driving performance, and connecting with audiences to build trust at a time where people were generally feeling down. If the digital environment can remain focused on these important pillars then we are most likely to see sustainable growth and greater allocation of advertising investment.

Digital growth increases in spite of Covid 19 pandemic

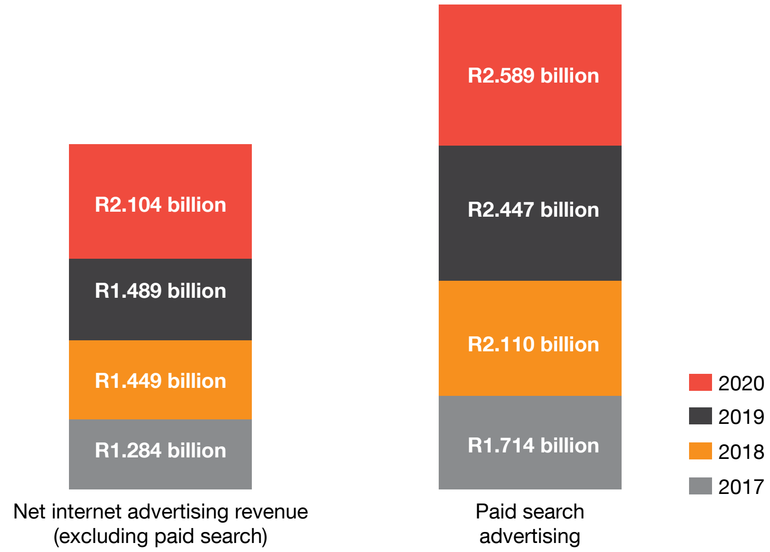
Total advertising revenue and YOY growth



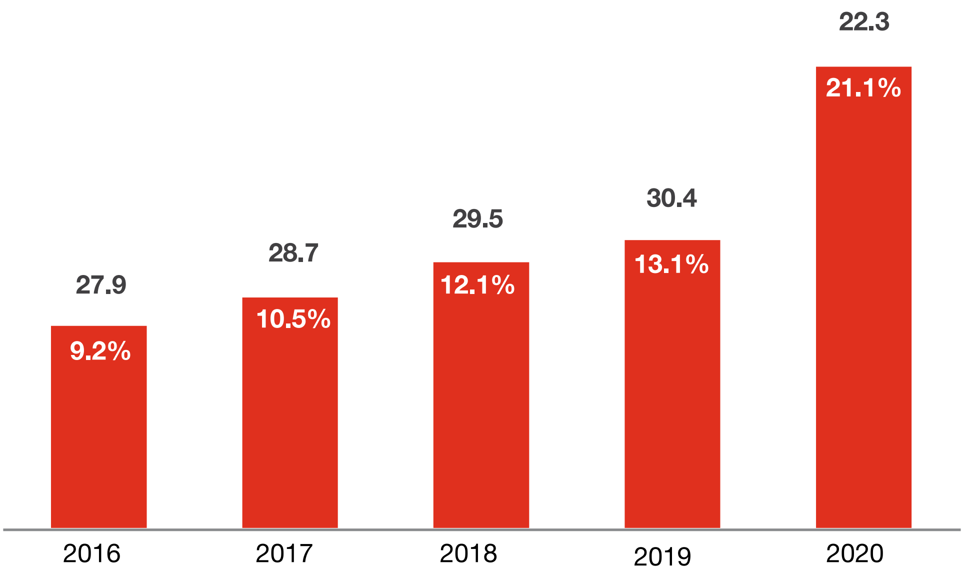
The South African Internet advertising market continues to grow, with total revenue worth R4.7 billion in 2020, up from R4 billion in 2019, representing 18% year-on-year growth. This is very healthy in the context of the overall South African advertising market, which contracted by -27% in 2020 as advertisers pulled back on spending because of the COVID-19 pandemic. The online advertising industry benefited from a surge in the number of digitally connected consumers during the pandemic.

Total advertising market

Four year (2017 – 2020) internet advertising revenue trend



Internet advertising revenue as a percentage of the total size of the advertising market (%) and total advertising market (R billion)



Survey participants indicate that digital advertising spend amounts to between 21% and 40% of total advertising spend.

Total size of advertising market per ovum (www.ovum.com) part of Informa Tech Group of businesses, service provider to PwC Global Entertainment and Media Outlook 2020–2024 (www.pwc.com/outlook).

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.

Internet advertising now represents 21.1% of the overall South African advertising market, up from 13.1% in 2019, and 9.2% in 2016.

Full year trends

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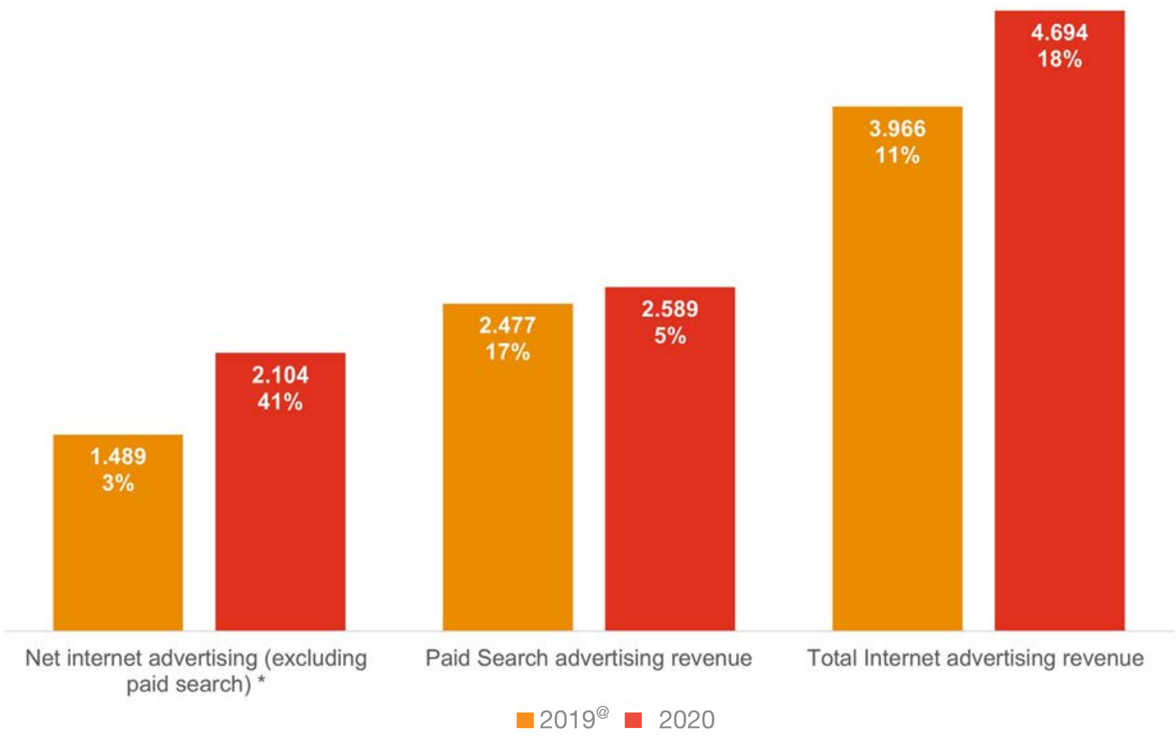
2020 Internet advertising market

Internet advertising revenue market (R billion)



@ Relates to information per the 2017 | 2018 | 2019 study – An industry survey conducted by PwC and sponsored by the IAB South Africa. Available online at https://bit.ly/IABSAmemberportal

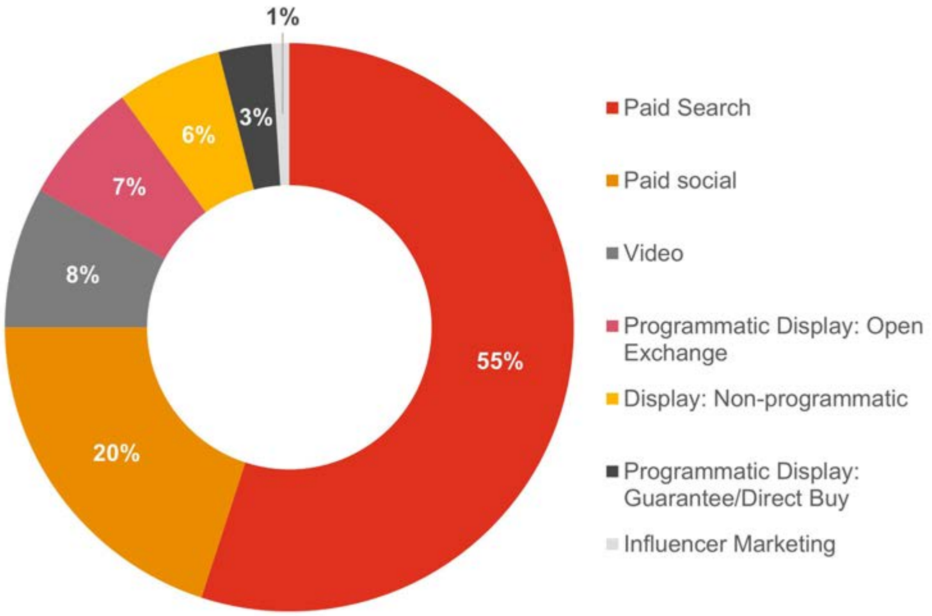
* Net advertising (including mobile) (net of commissions and discounts)

Per ovum (www.ovum.com) part of Informa Tech Group of businesses, service provider to PwC Global Entertainment and Media Outlook 2020–2024 (www.pwc.com/outlook)

Growth of 18% on total internet advertising revenue for 2020 to R4.7 billion.

Sources of internet advertising

Sources of internet advertising 2020 (%)

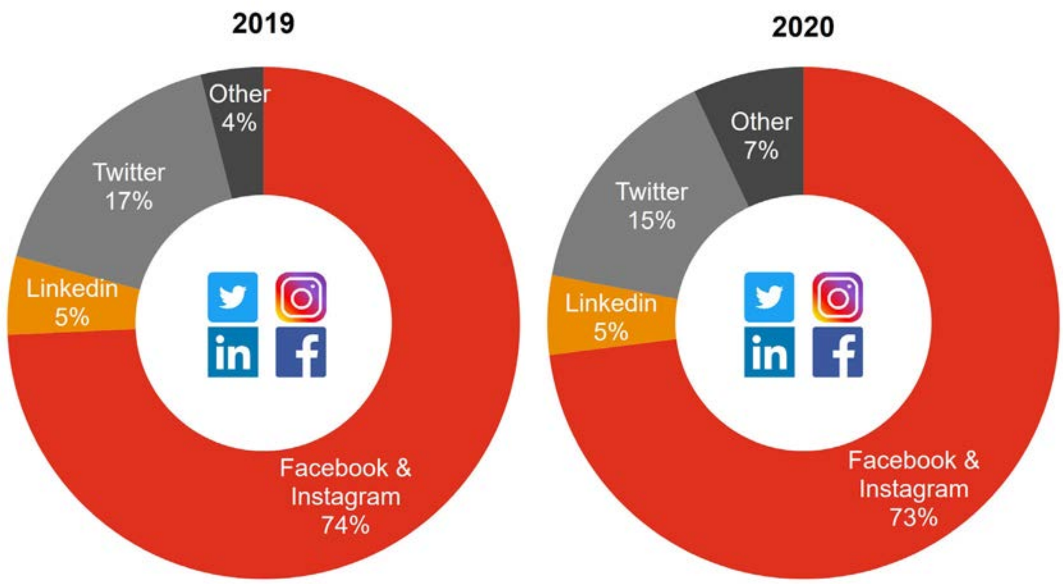


Paid search revenues account for a smaller portion of the overall online advertising market in 2020 at 55% (2019: 62%).

Paid search dominates the market, accounting for 55% (2019: 62%) of total revenue in 2020. Google takes the majority, accounting for 98.0% (2019: 97%) in 2020. This is no surprise, as the majority of revenue from Internet advertising globally is taken by Google and Facebook. Google's announcement that it will phase out third-party cookies on its Chrome browser from 2022 will present additional challenges for advertisers, who will need to find new ways of collecting and organising user data to help target ads.

Social media

Social advertising by platform in South Africa (%), 2020 & 2019



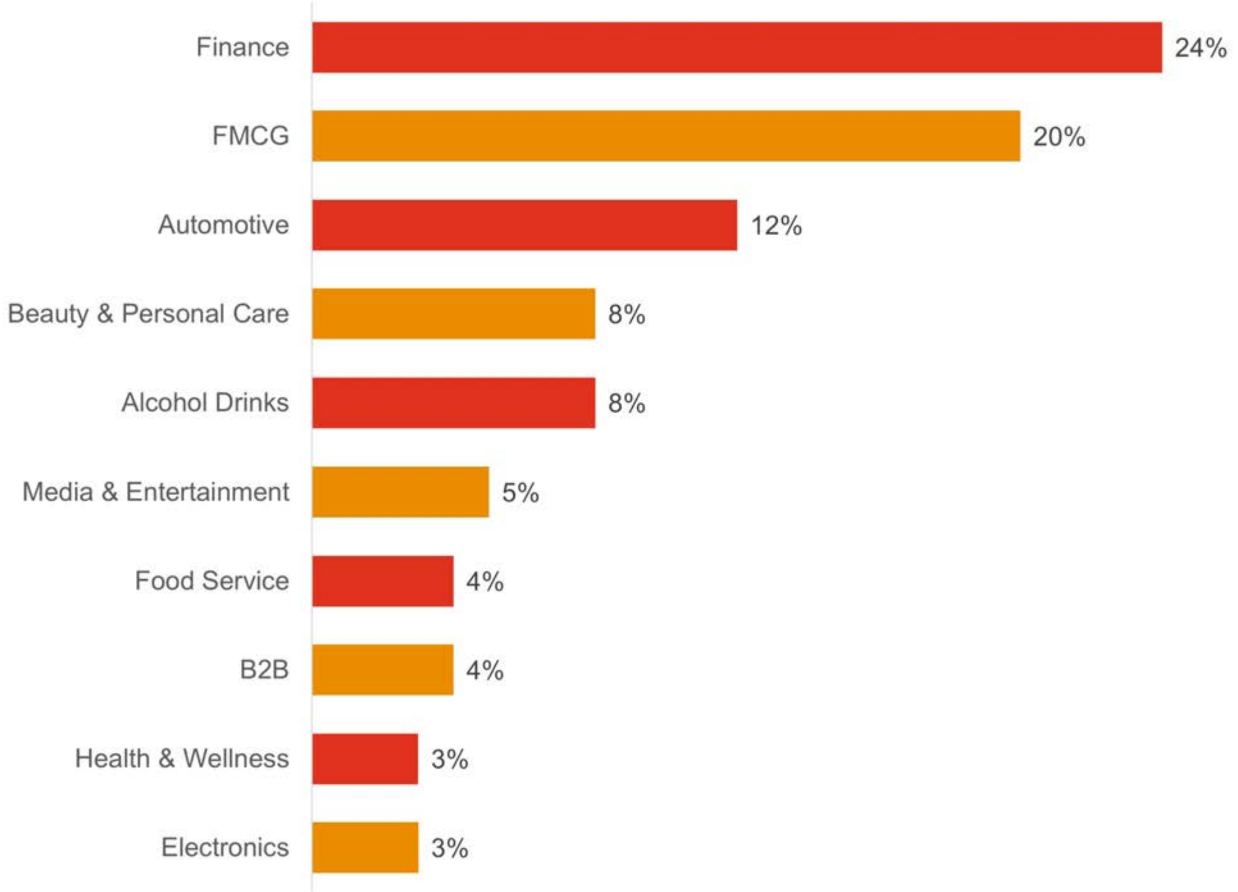
Social media reported by survey particpants amounted to R938 million.

Social media is popular in South Africa, and social media platforms are an important part of the Internet advertising market. Revenue from paid social was R938 million based on survey respondents. Paid social is the second-largest segment of the South African Internet advertising market, accounting for 20% of total revenue. Facebook and Instagram take the largest share of revenue from this segment at 73% (2019: 74%). As with search advertising, the revenues reported by survey respondents does not fully capture the paid social revenues as a lot of this is purchased independently and directly.

According to the Q3 2020 GWI survey, 99.5% of South African Internet users aged 16 to 64 said they had visited a social media site in the last month. WhatsApp is the most-used platform, with 93% of Internet users saying they'd used it in the past month, followed by YouTube at 92% and Facebook at 87%. In addition, 47% of South Africans said they followed brands they like on social media, and 46% said they had discovered brands or products after having seen social media ads. This is higher than the global average (28%).

Media spend per category

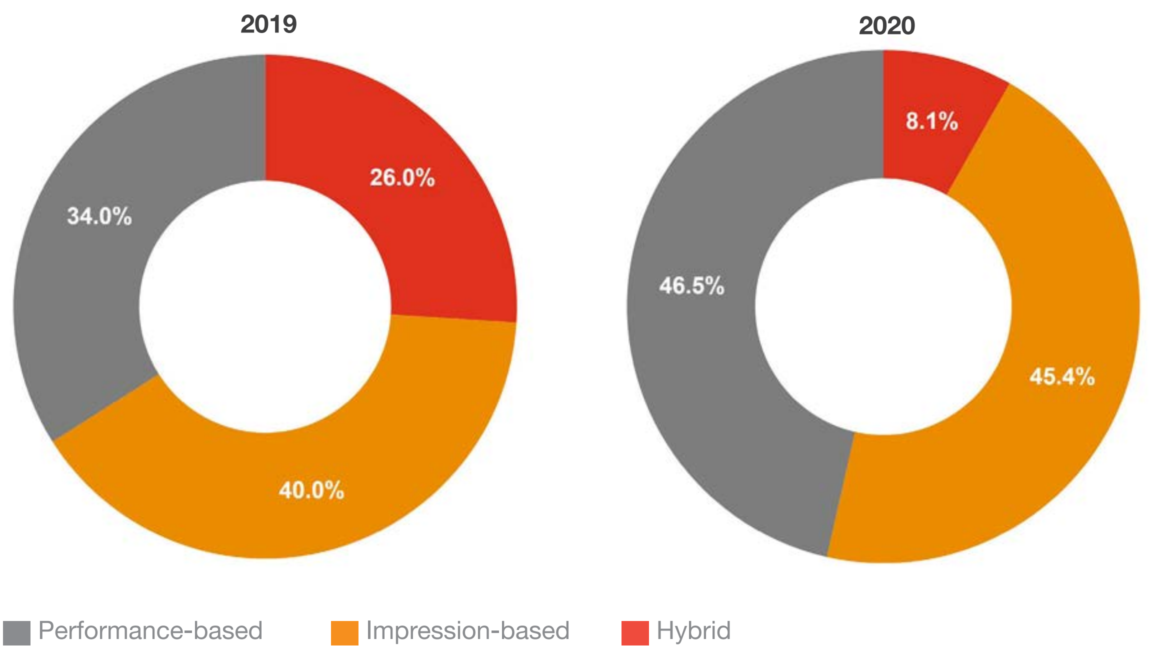
Top 10 media spend per category (% of total media spend)



Revenues by pricing model

The most popular pricing model in South Africa is performance-based advertising, which typically takes place on a cost-per-click, sale, lead acquisition or application basis, or through a revenue share. This charging model has grown from 34% of buys in 2019 to 46.5% in 2020, overtaking impression-based charging models 45.4% (2019: 40%), which were the most popular in 2019. The growth of performance-based advertising shows that increasing numbers of advertisers want a demonstrable return on their investment that is more meaningful than pay-per-click.

Figure 1: Ad campaigns by pricing model in South Africa, 2019-20 (%)



> Performance-based pricing, with its promise of reducing ineffective advertising spending continues to gain traction.

What's next: 3 key trends from the IAB South Africa Research Council

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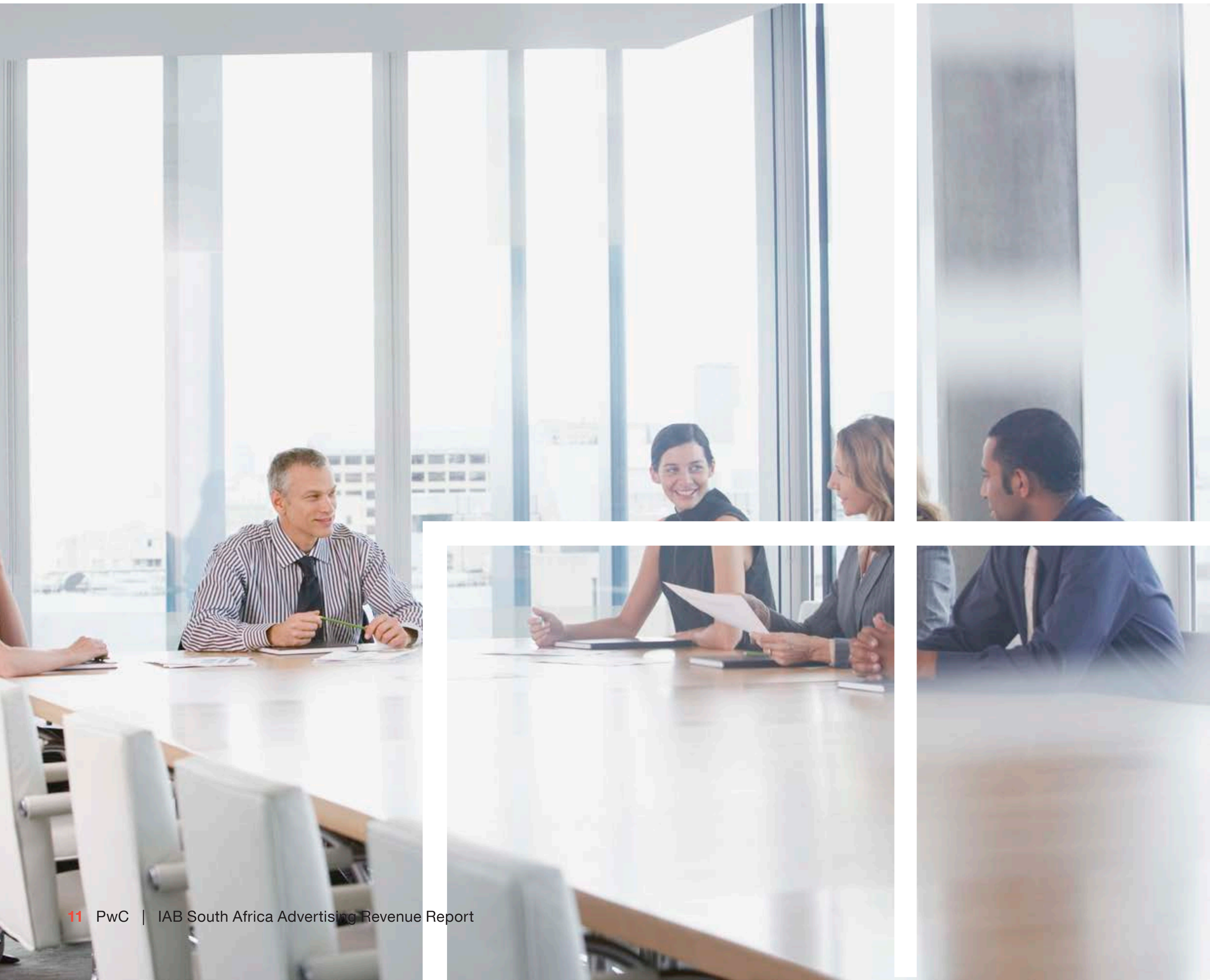

The demise of the cookie

Google originally announced its third-party phase-out in February 2020, but followed this up with a March 2021 announcement in that it was not going to build alternate identifiers to track users, nor use them in its products. Google has explained that this move is to protect users' privacy and give people more control over how their data is used. Other browsers, like Safari and Firefox, have already made this move, but Chrome is by far the most-used browser, accounting for more than half of all Web traffic. Indeed, in South Africa, Chrome took a market share of just under 69% in April 2021 according to StatCounter. Marketers who rely on robust data for online advertising, especially if they want to track users' behaviour across the Web and not just on their own website, will need to be prepared for the change.

Google says it is implementing the change slowly so that it does not have negative consequences for the Internet advertising industry. The tech giant is planning a 'Privacy Sandbox' as an alternative to third-party cookies. This is a set of application programming interfaces that will anonymise user data and move it into the Chrome browser, where it will be stored and processed. Browser-based machine learning will track user behaviour and organise users into groups with similar interests that can be targeted by advertisers. While competitors are also planning to develop similar technology as an alternative to cookies, there is concern in the industry that this move will further extend Google's dominant position and give it more control over the digital advertising ecosystem; antitrust probes have been launched in the UK and the US. There is further concern that if the move to block third-party cookies leads to increased reliance on first-party cookies, this could still benefit Google, as well as Facebook, since both firms dominate first-party data collection on the Internet.

The move to drop third-party cookies comes at a time of increasing consumer awareness of privacy issues.

According to a Q3 2020 survey by research firm GWI, 44% of South Africans said they worry about how companies use their personal data online – this compares to a global average of 33%. In addition, 49% said they had used ad-blocking tools in the past month and 57% said they had deleted cookies from a Web browser in the past month.

The privacy-conscious consumer

The Protection of Personal Information Act (POPIA) is South Africa's data protection law, similar to the EU's General Data Protection Regulation (GDPR). POPIA came into force in July 2020. In January 2021 South Africa's Information Regulator – the custodian of POPIA – met with Facebook to discuss the revised privacy policy announced by WhatsApp. Under the new policy, the Facebook-owned platform will be able to share user data with Facebook, Instagram and Messenger.

WhatsApp is popular in South Africa and is used by the government to communicate with citizens, including as a platform through which citizens can book COVID-19 vaccinations. But the policy change sparked a backlash amongst users, with some people switching to rival services like Signal or Telegram. Facebook faces further questioning in the South African parliament over privacy concerns. In May 2021 the Information Regulator asked WhatsApp to revise its privacy policy in line with the EU's, concerned that EU citizens will receive higher privacy protection than users in South Africa.

The WhatsApp discussion illustrates a growing consumer awareness of online privacy issues and shifting attitudes towards how personal data is used. In the future, advertisers will need to be mindful of these preferences in the way they collect and exploit user data to target ads effectively. New models of gathering and using data from people are emerging, like AdFreeway, which launched in South Africa in 2021. The platform invites users to engage with, and vote on, ads – gathering data about their preferences in return for rewards like discounts or vouchers. User votes are translated into data about preferences, which AdFreeway uses to sell targeted ad campaigns.

POPIA came into force in July 2020.

Headless ecommerce

The rise of "headless" architecture for ecommerce, where the back-end of an ecommerce site is separated from the front-end, is opening up opportunities for brands. Through ecommerce software-as-a-service providers, smaller brands without development capacity of their own can still offer customers an online shopping experience. This could also help these brands compete with giants like Amazon (which uses headless commerce to give customers a seamless experience across multiple platforms).

Headless commerce has attracted more attention as a result of COVID-19, which has driven more consumers to shop online, leading to brands looking more carefully at their ecommerce offerings as a result.

Headless commerce allows brands to offer a more seamless shopping experience to users across a variety of channels, allowing information to be optimised for a range of devices and contexts. This means consumers can engage with a brand in a number of ways, including Facebook and Instagram shops. According to a survey by World Wide Worx, online retail grew by 66% in South Africa in 2020. A 2020 survey by Mastercard also found that 68% of respondents said they were shopping online more as a result of the pandemic, and 71% said they would continue to shop online after the pandemic was over. This explosion of online retail has implications for advertisers, who can exploit the potential of headless commerce to capitalise on new interest and willingness from consumers to buy online. But brands need to use these ecosystems and headless commerce carefully and in a way that makes the user experience seamless.

A 2020 survey by Mastercard also found that 68% of respondents said they were shopping online more as a result of the pandemic, and 71% said they would continue to shop online after the pandemic was over.

Appendix

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About the IAB South Africa Online Advertising Revenue Report

Methodology and disclaimer

About the IAB South Africa Online Advertising Revenue Report Commissioned by the IAB South Africa ("IAB") and conducted by PwC South Africa ("PwC") on an ongoing basis, with results released annually, the IAB Online Advertising Revenue Report was initiated by the IAB in 2012. Both brands and agencies have participated in the survey. The revenue figures included above online advertising are based on the responses from agencies. All revenues included in the information are on a net basis (after discounts).

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

The results reported are considered to be a reasonable measurement of online (including desktop and mobile) advertising revenues because it is compiled directly from information supplied by companies buying advertising online.

The report is conducted independently by PwC, including research by their in-house market research team, on behalf of the IAB South Africa. PwC does not audit or verify 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.

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Survey participants

dentsu SSA

iProspect

Group M

Mediacom

Mindshare

Wavemaker

Joe Public Connect

Joe Public United

Mediamark

Kagiso Media Radio

Jacaranda FM

East Coast Radio

East Coast Gold

AME Ltd

Publicis Media

Starcom

Zenith

Popi Media

ABSA

99 cents

Ogilvy

VMLY&R

Primedia

DSG

Jellyfish

Metamedia

Mediashop

M&C Saatchi Connect

Gumtree

Hive Digital Media

24.com

Initiative Media

Roger Wilco

Vodacom

Limbik Media

Multichoice

Mark-1

Discovery

Unilever

PHD Media South Africa

Hollard

About the IAB South Africa

The Interactive Advertising Bureau (IAB) South Africa empowers the media and marketing industries to thrive in the digital economy. Its membership is comprised of more than 150 leading media companies, brands, and the technology firms responsible for enabling excellence in digital marketing focusing on identifying and targeting audiences, delivering and optimising campaigns to these audiences and the innovation and selling of such activities. The non-profit, non-government, trade group fields critical research on interactive advertising, while also educating brands, agencies, publishers. and the wider business community on the importance of digital marketing.

The IAB Global Network brings together 45 national IABs and three regional IABs to share challenges, develop global solutions and advance the digital advertising industry worldwide. IABs are located in North America, South America, Africa, Asia, Asia Pacific and Europe. Each association is independently owned and operated, functioning under bylaws consonant with local market needs.

PwC's technology, media and telecommunications practice

About PwC Africa

At PwC, our purpose is to build trust in society and solve important problems. We're a network of firms in 157 countries with over 276,000 people who are committed to delivering quality in assurance, advisory and tax services. Find out more and tell us what matters to you by visiting us at www.pwc.com.

PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity. Please see www.pwc.com/structure for further details. Our clients often tell us that what they value most is our strong global network, which allows us to collaborate across the world and bring knowledge and expertise from one country to the next. PwC offices across the continent operate as a single, unified PwC Africa Region, learn more about our African footprint and leadership.

About PwC's TMT Practice

PwC industry professionals deliver consulting, tax and audit insights and advice to the world's leading TMT brands. Managing evolving value chains, creating compelling customer experiences, managing risk, generating new revenue streams, executing your next deal – our experienced teams stand ready to help.

About PwC's Entertainment & Media Outlook

Global:

Please click on the following link for the Global Entertainment & Media Outlook 2020 – 2024.

Africa:

Please click on the following link for the Africa Entertainment & Media Outlook 2019 – 2023.

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