DIGITAL ADVERTISING:
SOCIAL MEDIA

DATA AND ANALYSIS WITHIN THIS REPORT

Overview

DIGITAL ADVERTISING MARKET

Market focus: Social Media Advertising

Banner

Video

Social Media Advertising

Search

Classifieds

● Focus Segment   ○ Other Reports

PRECISE AD TARGETING AS KEY BENEFIT – US MARKET IS IN LEADING POSITION

Customer benefit

To understand the benefits of Social Media Advertising it is important to understand **the mechanics of social media networks**.

The key elements of social media beside its networking aspects are **communication and interaction** with other participants. Social media networks usually contain at least one of the following opportunities for action: The contribution of user generated content, comments on postings, sharing the contribution of others or direct communication with other members.

The interaction causes high involvement and personal recommendations gain immediate social proof.

Social networks usually work with newsfeeds where content and shared information are shown by relevance or in chronological order. These **newsfeeds are the leverage point for Social Media Advertising**.

We define Social Media Advertising as all ad spending to reach consumers within social networks or business networks. Ads in social networks can appear as sponsored posts within organic content or besides the newsfeed.

> *"The effects of the Cara Delevingne campaign on Facebook would not have been possible with programmatic advertising."*
>
> *Jérôme Chochet, SVP Sales Zalando, 2016*

Most social media networks allow advertisers very **precise ad targeting**. Ads can be displayed in specific areas, based on demographic data, user interests or even on the general user behavior within the network.

Spreading losses can be avoided as far as possible. In view of a direct customer approach, Social Media Advertising is even more powerful than established formats like television.

Market size

The global Social Media Advertising market size is about US$26.4 billion in 2016 and accounts for 13% of the total Digital Advertising market.

With a cumulated amount of US$22.8 billion, the US, China and Europe cover 86% of the global Social Media Advertising market.

The **US** market is by far the leading market in Social Media Advertising and generates revenues of about **US$15 billion in 2016.** That is a **19%** share of the total US Digital Advertising market.

The market in **Europe** is with about US$5 billion in 2016 **not even half the size of the US market**. Following this, the share is only 12% of the whole European Digital Advertising market.

In **China** this share is even lower. **8% of the Digital Advertising revenue comes from social media.** Expressed in absolute figures, Social Media Advertising generates US$3.7bn in 2016 in China.

A closer look on mobile and desktop shares confirms the **leading role of the US market** .

The mobile Social Media Advertising revenue in the **US** is with about US$11 billion **more than two and half times higher** than the corresponding desktop revenue (US$3.6 billion).

Mobile revenue shares in **China** and **Europe** are balanced and with 59% **significantly smaller than the US**.

Summary

The US market is by far the biggest of all three markets considered. With US$15 billion in 2016 it is bigger than Europe and China together.

The US has also a leading position in mobile Social Media Advertising.

MOBILE IS GROWING FAST – DESKTOP IS STAGNATING OR EVEN DECLINING

Future developments

The strong mobile Social Media Advertising market in the US indicates the future development of the global market.

We believe that the **mobile revenue share is strongly growing** over all regions.

The mobile share of global Social Media Advertising will be 81% in 2021.

A look at the current social media network landscape shows a **trend towards mobile social networks** like Instagram or Snapchat, whose usability concentrates on mobile devices. The whole design of Snapchat, for instance, is made for vertical screens. While Instagram is monetized moderately at the moment, Snapchat does not record any appreciable turnover yet.

Messenger applications like Whatsapp or Facebook Messenger must also be considered as mobile social networks.

No relevant messenger, except We Chat in China, is monetized yet. We expect that these kind of social networks have huge impact on the market and will drive the mobile revenue strongly once they are monetized.

Whatsapp and Facebook Messenger have about 1 billion respectively 0.9 billion users. Therefore the **mobile Social Media Advertising revenue in the US**, which is already high, is **still growing** to a share of 82% and **US$20 billion** is expected in 2021.

The mobile share in **Europe** is **also growing with the same rate as the US** with 12% CAGR[1] to reach a mobile share of 73% in 2021.

China will reach this share already in 2019. We expect an above average growth of mobile social media advertising in China with 35% CAGR to 2021. The mobile share will be 92% of the total.

Assumptions and sensitivity

Social Media Advertising includes all advertising revenue generated by social networks.

Some **Chinese** social media services allow users to customize their profile pages with paid content. The Chinese network Qzone, for example, can be individualized with so-called Qzone accessories, which are not free. Revenue generated by these kind of services are not considered as Social Media Advertising revenue.

First of all, we are expecting a constant growth of the social media user base. **One of our key assumptions on this point is a general shift from desktop to mobile.** Quick growth of mobile device penetration over all regions points to this assumption.

People usually spend more time on mobile than on desktop. Therefore we assume a higher average revenue per user for mobile advertisements.

Another factor for a higher revenue per user is a format shift towards more complex formats like video, which can already be realized with the current smartphone generation.

These issues are the **key drivers for the fast development of the mobile revenue**.

The advantages of mobile in this context make us believe that **messaging services**, which mostly do not include advertising at the moment, **will be advertised in the near future**.

Even if this monetization is very moderate, we assume a **significant impact** solely due to the large user base these services already have.

Besides a revenue potential itself, an integration of social media networks, messaging services with other services like commerce or payment, could **lead to a higher user engagement and even more advanced user profiling**.

1: CAGR: Compound Annual Growth Rate/ average growth rate per year.
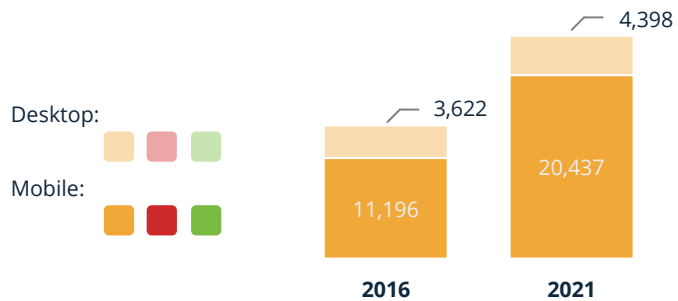
SOCIAL MEDIA ADVERTISING IN MAJOR REGIONS

Market KPI comparison by region

| United States | China | Europe |

Revenue forecast

in million US$ by region

Desktop:

Mobile:

United States + 10.9% p.a.

4,398
3,622
20,437
11,196

2016 **2021**

China + 23.7% p.a.

872
1,469
9,766
2,211

2016 **2021**

Europe + 7.0% p.a.

2,056
2,066
2,945
4,636
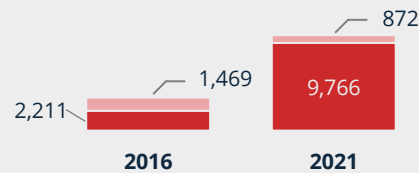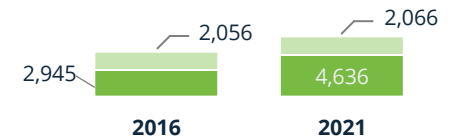
2016 **2021**

Revenue per Internet user

in US$ by region
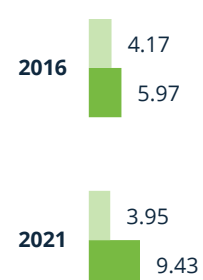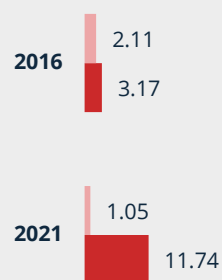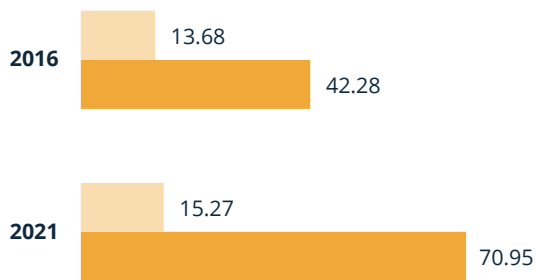
United States

2016
13.68
42.28

2021
15.27
70.95

China

2016
2.11
3.17

2021
1.05
11.74

Europe

2016
4.17
5.97

2021
3.95
9.43

SOCIAL MEDIA ADVERTISING IN MAJOR REGIONS

Market KPI comparison by region

United States **China** **Europe**

Revenue

Segment	Unit	2016	2017	2018	2019	2020	2021	CAGR[1] 16 – 21	2016	2017	2018	2019	2020	2021	CAGR[1] 16 – 21	2016	2017	2018	2019	2020	2021	CAGR[1] 16 – 21
Total	mn US$	14,818	17,814	20,220	22,133	23,645	24,835	+10.9%	3,680	4,902	6,331	7,828	9,285	10,638	+23.7%	5001	5411	5796	6221	6597	7002	+7.0%
Mobile	mn US$	11,196	13,862	16,090	17,891	19,317	20,437	+12.8%	2,211	3,616	5,190	6,800	8,346	9,766	+34.6%	2945	3332	3720	4112	4509	4936	+10.9%
Desktop	mn US$	3,622	3,952	4,130	4,242	4,327	4,398	+4.0%	1,469	1,286	1,141	1,028	940	872	-9.9%	2056	2080	2075	2109	2088	2066	+0.1%

Social media users

Segment	Unit	2016	2017	2018	2019	2020	2021	CAGR[1] 16 – 21	2016	2017	2018	2019	2020	2021	CAGR[1] 16 – 21	2016	2017	2018	2019	2020	2021	CAGR[1] 16 – 21
Total	m	195.7	200.9	205.6	209.7	213.5	216.9	+2.1%	514.5	546.9	579.9	613.4	646.7	679.2	+5.7%	332.3	342.9	351.5	358.3	363.5	367.4	+2.0%

1: CAGR: Compound Annual Growth Rate/ average growth rate per year.
Source: Digital Market Outlook 2016

KEY ASSUMPTIONS BY REGION

Market sizing subjects for Social Media Advertising forecast

	United States	**China**	**Europe**
Market size	› Pioneer market with at least 3 years lead, hosting relevant social networks › Corresponding to this the biggest market globally with US$14.2 billion in 2016 › Highest mobile share of total revenue with 75.6%	› Early stage of Social Media Advertising with a revenue of US$3.6 billion in 2016 › Despite China's status as mobile first country relatively low mobile share of total revenue (60%) › Small average revenue per user is hampering the growth	› With market size of US$5 billion in 2016 on a similar level as China › Mobile share of total revenue is with 62% slightly higher than in China › The European market is very diverse. The granularity and language barriers are limiting the growth
Growth rate	› Still growing with a CAGR[1] of 10.9% although it is a pioneer market › Highest mobile share will be still growing (12.8% CAGR) due to messaging services and other mobile focused services › Desktop revenue is growing moderately (4% CAGR)	› Highest average growth rate of 23.7% due to significant growth ARPU[2] and user base › Highest growth rate of 34.6% for mobile revenue › Desktop revenue is declining rapidly	› A reluctant attitude of European users and advertisers lead to relatively small growth with a CAGR of 7.5% › Desktop revenue is stagnating, while mobile revenue is growing with a CAGR of 12%
Trend signals	› Integration of commerce solutions (Buy Buttons), P2P Payments, better localization etc. will increase user engagement, conversions and allow advanced targeting › We do not expect significant impact of Virtual Reality in the short-term, whereas Augmented Reality might gain early traction	› Wide social media landscape may consolidate by 2021 › Highest user growth rate of 5.7%. There will be more than three times more social media users in China than in the USA in 2021	› More conservative approach of users and advertisers persists › Following this, the desktop share will still be relatively high in 2021 (27%) › Nevertheless, customer behavior must be kept in view

SOCIAL MEDIA ADVERTISING

Social Media Advertising Global Segment Size and Growth Rates

Global Digital Advertising Revenue

CAGR[1] 16 – 21

in million US$ by segment
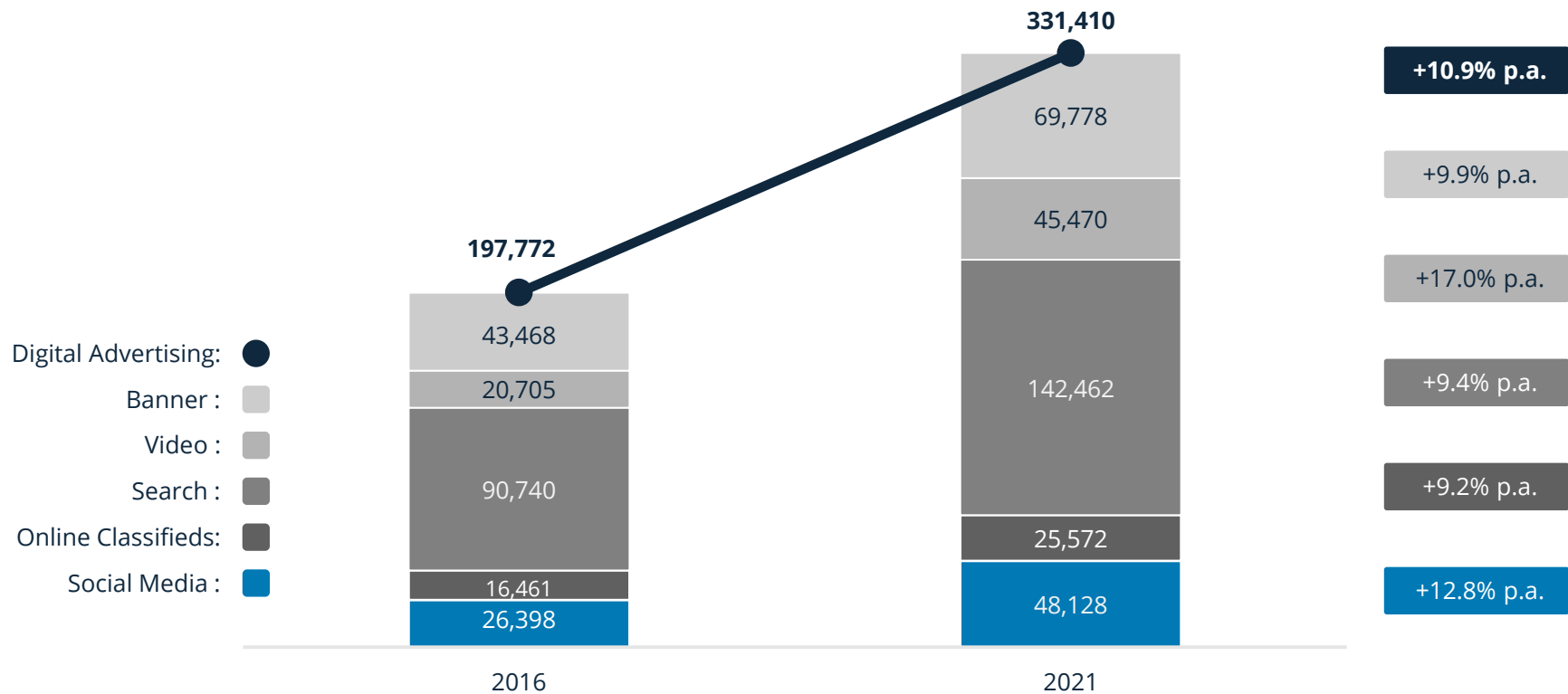
	2016	2021	CAGR 16-21
Digital Advertising:	197,772	331,410	+10.9% p.a.
Banner:	43,468	69,778	+9.9% p.a.
Video:	20,705	45,470	+17.0% p.a.
Search:	90,740	142,462	+9.4% p.a.
Online Classifieds:	16,461	25,572	+9.2% p.a.
Social Media:	26,398	48,128	+12.8% p.a.

1: CAGR: Compound Annual Growth Rate/ average growth rate per year
Source: Digital Market Outlook 2016

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KEY PLAYERS IN SOCIAL MEDIA ADVERTISING

Selected Key Players in Social Media

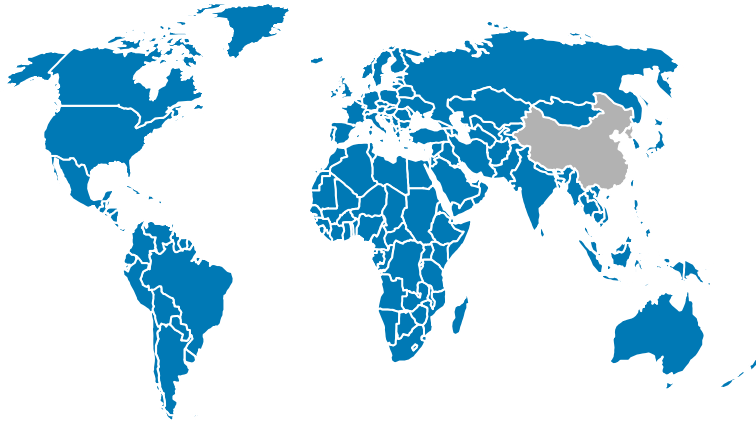| Product	Description	Company	Relevant Regions	User (in mn)		Ads?
Facebook	Leading social network service with a generalist approach.	Facebook Inc.	United States, Europe	1,650	(1Q2016)[1]	Yes
Whatsapp	Mobile messaging service without noteworthy additional features.	Facebook Inc.	United States, Europe	1,000	(Feb 2016)[1]	Not yet
Messenger	Facebook's mobile messaging service. Replaced the chat function.	Facebook Inc.	United States, Europe	900	(Apr 2016)[1]	Not yet
WeChat	Messaging service with an all-in-one approach. Profiles, Payment etc.	Tencent Inc.	China	760	(1Q2016)[1]	Yes
Q-Zone	Social network with usual functions and customizable profile pages.	Tencent, Inc.	China	650	(1Q2016)[1]	Yes
Instagram	Mobile photo- and video-sharing network.	Facebook Inc.	United States, Europe	500	(June 2016)[1]	Yes
LinkedIn	Business-oriented service for professional networking.	LinkedIn	United States, (Europe)	433	(1Q2016)[2]	Yes
Twitter	Microblogging service that allow "tweets" limited to 140 characters.	Twitter Inc.	United States, Europe	310	(1Q2016)[1]	Yes
Weibo	Microblogging service in the style of Twitter.	Weibo Corp.	China	236	(Dec 2015)[1]	Yes
Pinterest	Mobile photo- and video-sharing network.	Pinterest Inc.	United States, Europe	100	(Sep 2015)[1]	Yes
VK	Similar to Facebook. Small worldwide user base, but dominating in Russia.	Mail.Ru Group	Europe (esp Russia)	87	(Dec 2015)[1]	Yes

1: Monthly active user
2: Registered user
Source: Company Information

BEST PRACTICE: FACEBOOK

Company profile

Footprint

Background

Facebook is the leading social network service based in Menlo Park, California, United States.

Facebook is currently the biggest social network worldwide with 1.09 billion daily and 1.65 billion monthly active users.

The network is available worldwide, but is blocked in China and North Korea.

Besides Facebook as a network itself, Facebook Inc. acquired several other social networks or messaging services (Instagram, Whatsapp) in the recent past.

Another noteworthy acquisition is Oculus VR, LLC. Oculus is a virtual reality technology company with a focus on hardware at the moment.

Overview

Global Advertising Revenue:	US$17.08 billion	*(2015)*
Daily Active Users:	1.09 billion	*(March 2016)*
Mobile Daily Active Users:	0.99 billion	*(March 2016)*
Growth (MAUs):	14.2% YoY	*(2015)*
Growth (Revenue):	43.8% YoY	*(2015)*
founded:	2004	

Analyst opinion

Facebook succeeded in monetizing their core business with advertising.

However, the implementation of advertising on mobile has to be understood as a breakthrough.

We can still see high growth rates although Facebook's mobile messaging services with up to 1 billion users have no advertising on it yet. These
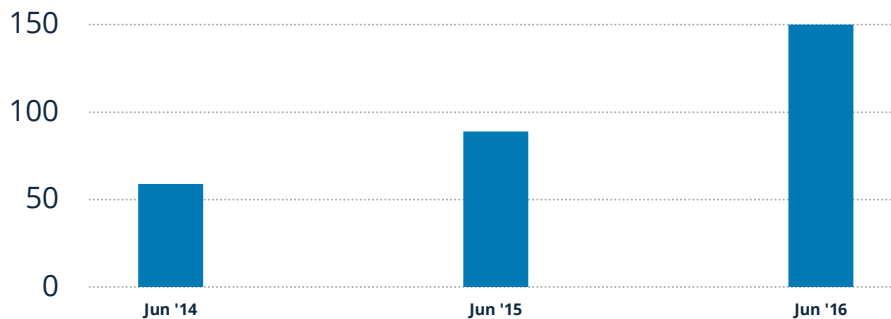
services and the constant development of existing formats promise a huge potential for future growth of Facebook.

In contrast to that, the impact of Oculus and Virtual Reality on the advertising market is questionable and depends on how a conversion into Social-VR turns out.

Source: Digital Market Outlook 2016, company information, Crunchbase

RISING STAR: SNAPCHAT

Company profile

Daily Active Users (in million)

Chart showing Daily Active Users: Jun '14 ≈ 60, Jun '15 ≈ 90, Jun '16 = 150 (y-axis 0, 50, 100, 150)

Background

Snapchat is a photo messaging app that allows users to send photos or videos to recipients (Snaps). It differs in offering various image editing tools and an auto-delete function.

Besides the messaging function, Snapchat added a significant new feature called "Stories" in October 2013, which allows users to put together single Snaps in a narrative way. Theses stories are available for twenty-four hours after being posted and are public to all followers.

According to company information Snapchat has over 100 million daily active users and reaches 41% of all 18 to 34 year-olds in the US.

Overview

Full Name:	Snapchat Inc.	
Headquarters:	Pacific Palisades (CA)	
Daily Active Users:	150 million	*(June 2016)*
Funding:	US$2.65 billion	*(2016)*
founded:	2011	

Analyst opinion

Functionality and formats - like vertical videos, augmented reality inspired lay overs or filters – are very suitable for mobile advertising.

Despite these functionalities, Snapchat is in a very early stage of its monetization process. We believe Snapchat could have huge impact on the Social Media Advertising market once monetized properly.

Although a reach of 41% of all 18 to 34 year-olds in the US sounds impressive and very interesting for advertisers at first glance, the overall size of this target group could possibly affect the user development and limit it to this amount.
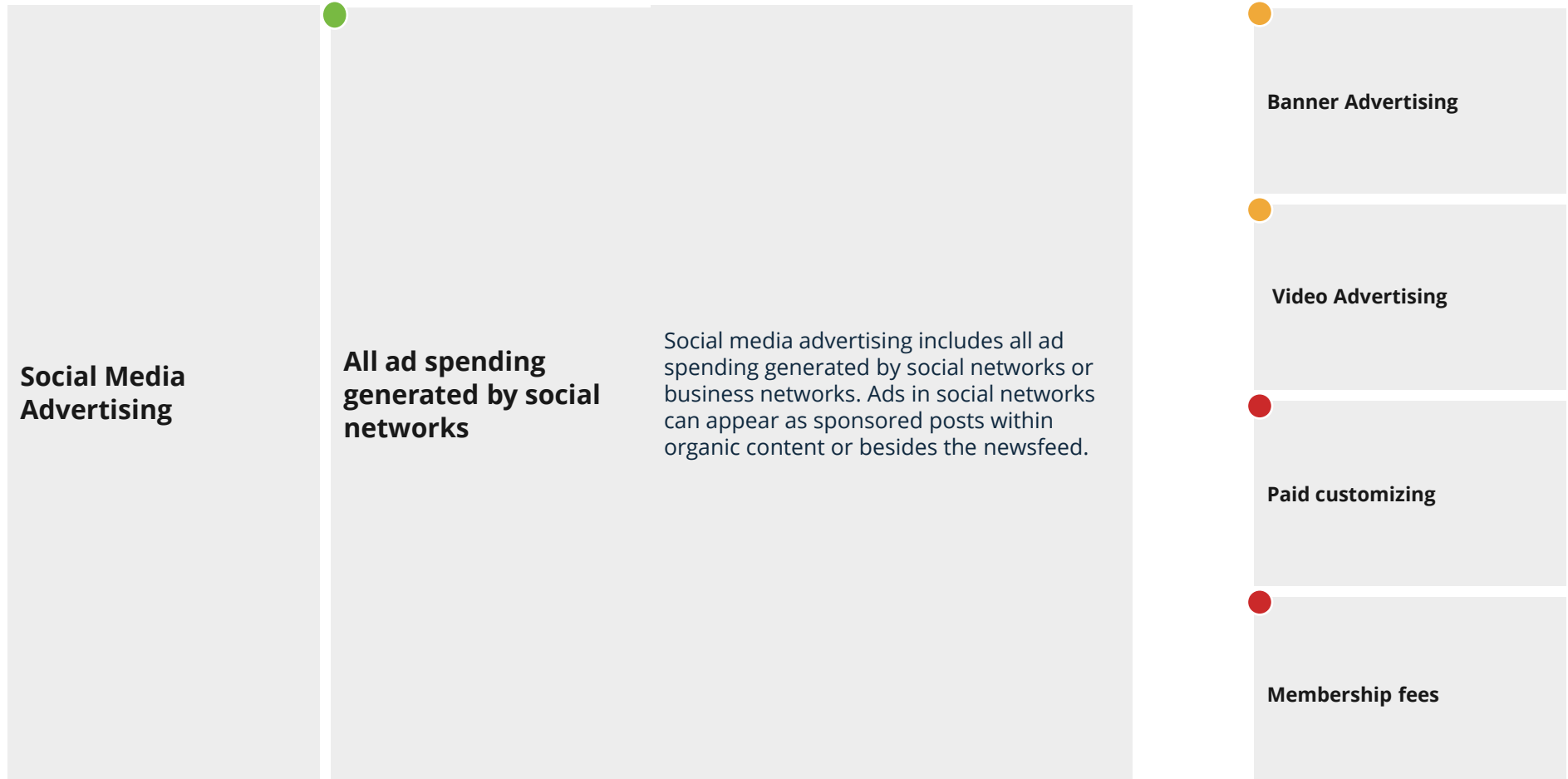
SOCIAL MEDIA ADVERTISING REVENUE STREAMS

Market Structure and definition

Segment	*Revenue stream*		*Out of segment*
Social Media Advertising	🟢 **All ad spending generated by social networks**	Social media advertising includes all ad spending generated by social networks or business networks. Ads in social networks can appear as sponsored posts within organic content or besides the newsfeed.	🟠 **Banner Advertising** 🟠 **Video Advertising** 🔴 **Paid customizing** 🔴 **Membership fees**

🟢 In scope   🟠 Other segment   🔴 Out of scope

ABOUT DIGITAL MARKET OUTLOOK

8 Markets, 34 segments & 81 sub-segments

Digital Media
Video-on-Demand, Digital Music, Video Games, ePublishing

e-Commerce
Fashion, Electronics & Media, Food & Personal Care, Furniture & Appliances, Toys, Hobby & DIY

FinTech
Digital Payments, Business Finance, Personal Finance

eHealth
Fitness, Diabetes, Hypertension, Heart Failure

Digital Advertising
Banner Ads, Video Ads, Search Ads, Social Media Ads, Classifieds

Smart Home
Home Automation, Security, Home Entertainment, Ambient Assisted Living, Energy Management

eServices
Online Travel Booking, Mobility Services, Event Tickets

Connected Car
Content & Services, Safety & Driving Assistance, Navigation Services, Diagnostics & Maintenance, Connectivity

Details

› **50 countries**
› **Direct access & downloads**
› **7-Year coverage: 2014 – 2020**
› **Revenue forecasts**

› **User count and demographics**

› **Comparable data**

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