STATE OF DIGITAL ADVERTISING: EUROPE

ADOBE DIGITAL INSIGHTS 2017

Methodology

Most comprehensive and accurate report of its kind in industry

Based on analysis of aggregated and anonymous data

- Report based on analysis of over 340 billion visits to over 6,000 websites (Jan 2014 to Jan 2017)
- 4.7 billion video ad impressions from France, Germany and the United Kingdom
- 188 billion paid responses to consumer searches in Europe
- ADI International Summit Survey 2017:
  - Email survey with 1,000 consumers over the age of 18 in each of the following countries:
    - France, Germany and the United Kingdom; conducted February 1 and 17, 2017
    - Netherlands and Sweden; conducted between April 4 and 6, 2017
  - Digital Marketing email survey in France, Germany and the United Kingdom (Feb 1-17, 100 per country) with those with influence over the purchase of digital advertising

Data from different Adobe solutions:

Adobe Analytics

Adobe Media Optimizer

Adobe Marketing Cloud

Adobe Creative Cloud

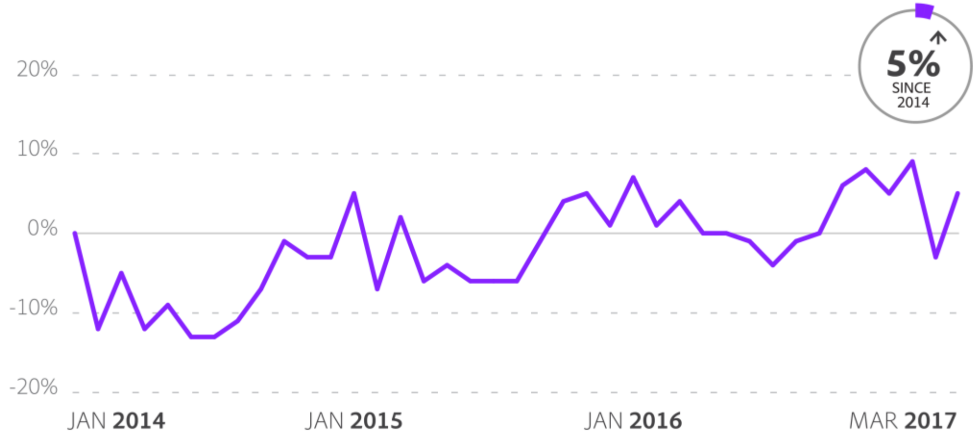
Key Insights

1. Digital advertising costs continue to rise; search costs increasing 4x more than inflation in the past two years.
2. In several countries, consumers spend less time on websites, making first seconds of engagement crucial for advertising effectiveness.
3. The digital disconnect persists. Marketers rate themselves better than consumers do for delivering relevant and interesting ads. Consumers desire personalization, but delivery and privacy issues exist.
4. Advertisers still not organized to deliver on consumer's advertising expectations and lag behind US counterparts in terms of programmatic spend.
5. Without growing markets pressure mounts on brands to protect the loyal consumer base and to steal from competition.

Slower Website Growth Creates Competition in Europe

Digital makes it easier to "shop around"

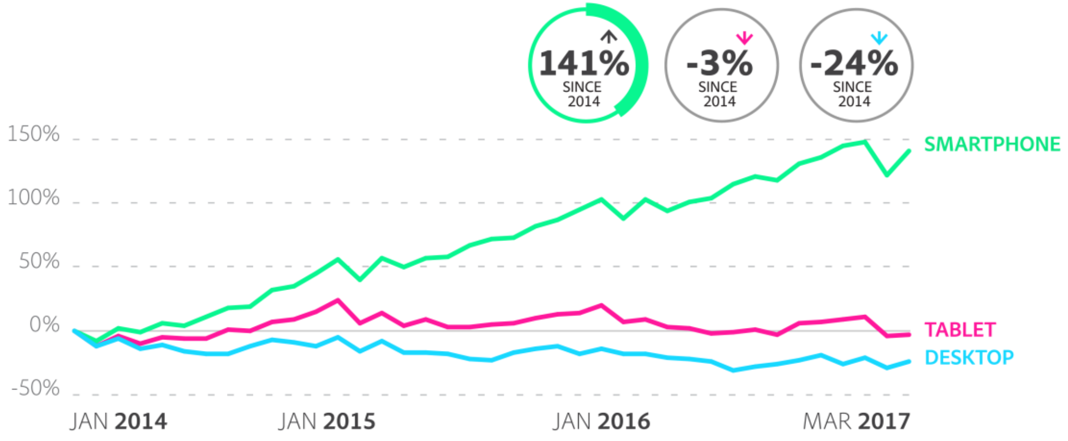
- Without organic growth, competition to gain and keep customers is fierce
- Visits to European websites have increased 5% since January 2014
- Europe experiences a cyclical pattern of growth, with visits rising during the fourth quarter then settling back down



GROWTH IN WEBSITE TRAFFIC (EUROPE)
SOURCE: ADOBE ANALYTICS

Smartphones now the device of choice

- Smartphone visits have increased +141% since 2014, as visits from desktops and tablets erode (-24%, -3% respectively)
- Total mobile traffic is approaching a higher share than desktop (49% in Q1 2017)



GROWTH IN WEBSITE TRAFFIC BY DEVICE (EUROPE)
SOURCE: ADOBE ANALYTICS

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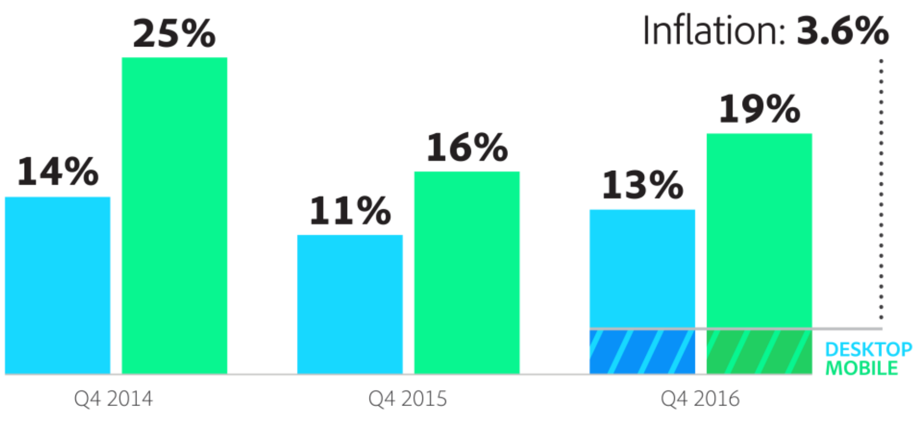
Search Costs Increasing 4x the Rate of Inflation

Costs of search rose faster than inflation since 2013

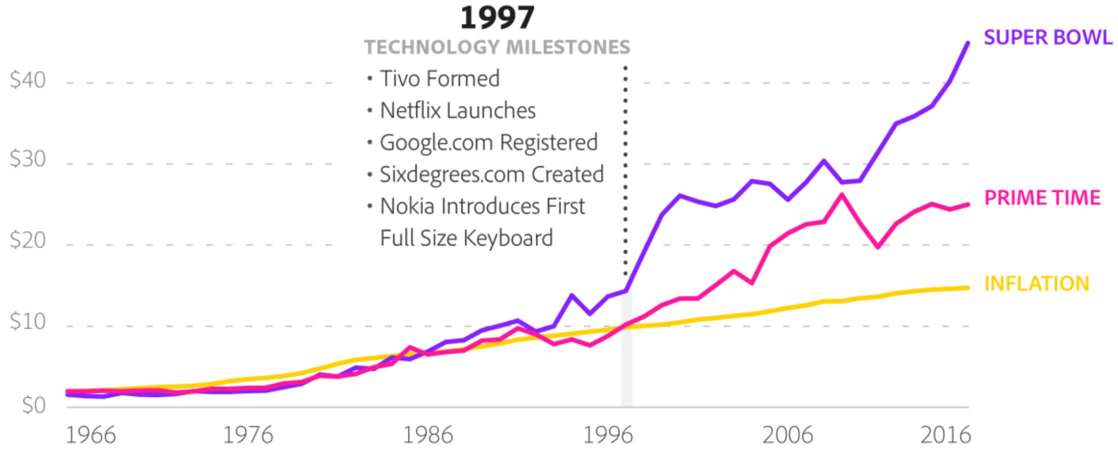
- Average Search CPC costs increased +13% desktop and +19% for mobile vs. +3.6% for inflation
- BT just won the broadcast rights to the UEFA Champions League for 1.2b GBP, up 33% from their last contract 3 years ago – 15x the rate of UK's inflation *(Source: Bloomberg)*



SEARCH CPC RELATIVE TO Q4 2013 (EUROPE)
SOURCE: ADOBE MEDIA OPTMIZER

Advertising costs have outpaced inflation since the advent of digital

- The cost of reaching consumers began outpacing inflation in the late 1990's when technology started to change our lives

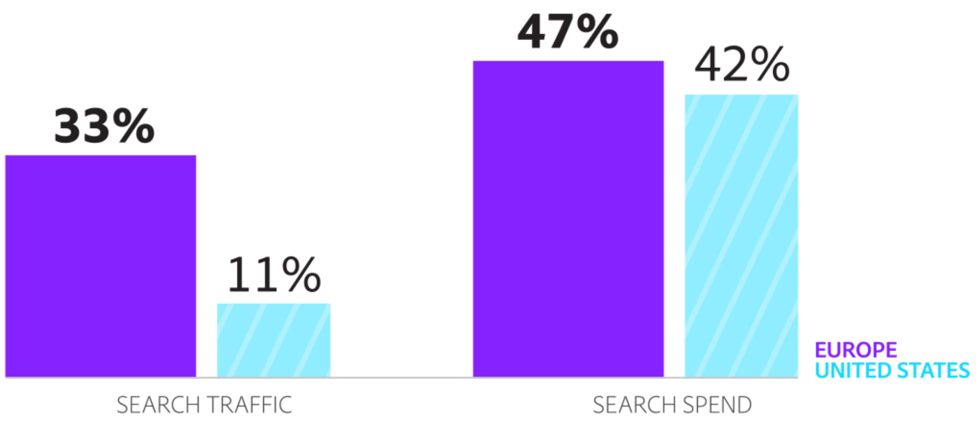


GROWTH IN TV CPM AND INFLATION
SOURCE: VARIETY, SITEADWIKI AND OTHERS

Tried and True Channels May Be Losing Their Punch for Acquiring Site Traffic

Search costs rising faster than their ability to deliver results

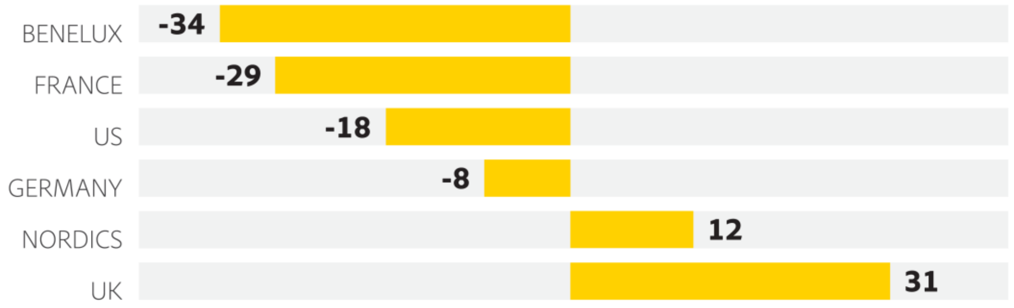
- Advertisers have increased spend on search by +47% over the past two years
  - Similar to what US advertisers (+42%)
- Site visits driven by search has only increased by +33%. While better than the US (+11%), it is indicative of the pressures being put on digital advertising



SEARCH TRAFFIC AND SPEND GROWTH (Q4 2014 - Q4 2016)
SOURCE: ADOBE ANALYTICS AND ADOBE MEDIA OPTIMIZER

Consumers in most countries are spending less time on websites

- The UK is an exception time spent on websites is up 31 seconds year-over-year
- Benelux and France saw the biggest decreases in time spent (-34 seconds and -29 seconds, respectively)

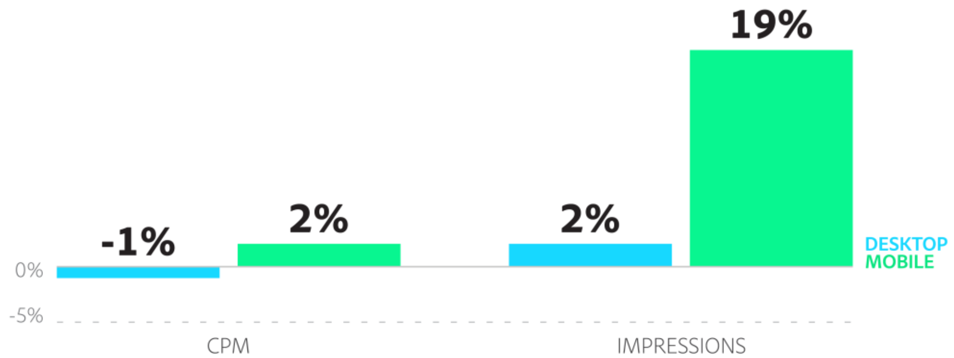


CHANGE IN SECONDS SPENT ON SITE (EUROPE, 2015-2016)
SOURCE: ADOBE ANALYTICS

Europe Marketers are Betting Big on Mobile Video Ad Deployments

Q4 2016 showed the most growth in mobile-formatted ads

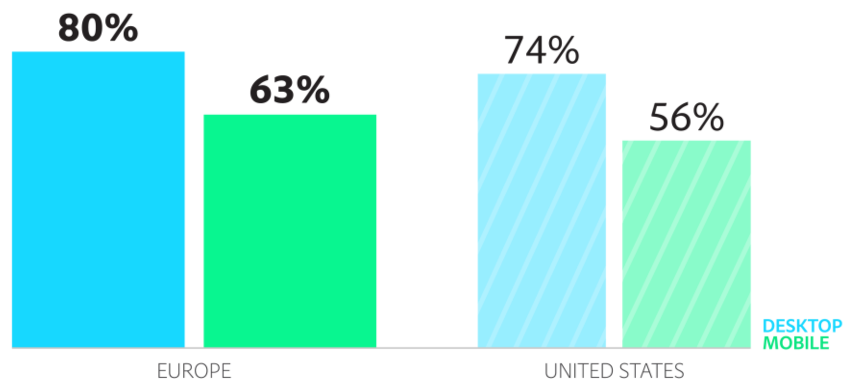
- Advertisers increased their mobile impressions by 19% YoY in Q4 while only slightly increasing desktop ads (+2%)



VIDEO AD CPM AND IMPRESSION CHANGE YOY (EUROPE, Q4 2016)
SOURCE: TUBEMOGUL

With the shift there's the risk of losing attention, video ad completion on a mobile device is 80% of that on a desktop (63% vs. 80%, respectively)

- European consumers may be more polite than their US counterparts in terms of completion rate, but several other factors exist that advertisers need to consider:
  - Skippable and auto-play preferences
  - Better targeting and fewer impressions delivered relative to size of the audience



VIDEO AD COMPLETION RATE BY DEVICE (EUROPE, Q4 2016)
SOURCE: TUBEMOGUL

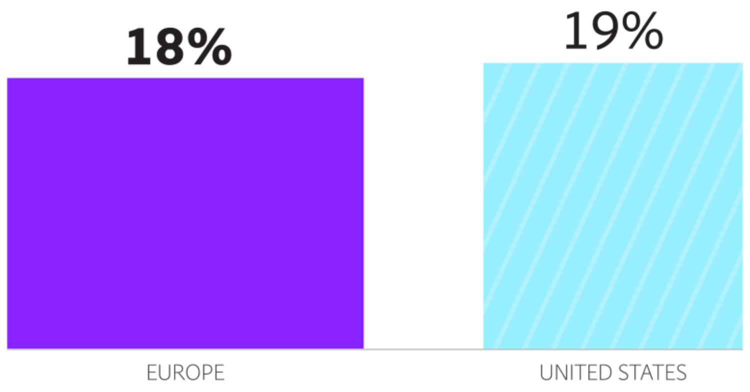
Advertisements Must Pique Interest During Critical First Few Seconds

Opening seconds are critical to capture attention on a mobile device

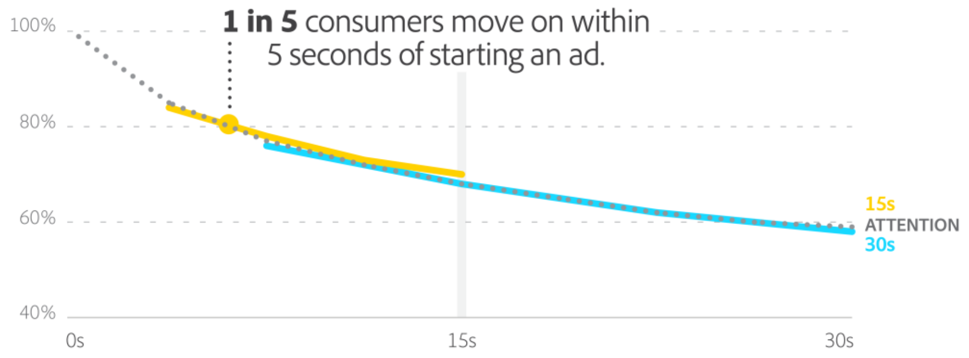
- 18% of viewers In Europe move on after an advertisement has played for five seconds
    - Similar to US: 19%

One-in-five consumers move on within five seconds of starting an ad

- Over half (58%) of 30 second mobile ads viewed to the end
    - Call to action may be completely missed if at the end raising the effective cost of mobile video ads



PERCENT OF CONSUMERS THAT EXIT A VIDEO AD WITHIN FIRST 5 SECONDS
SOURCE: TUBEMOGUL



COMPLETION OF MOBILE VIDEO ADS BY DURATION (EUROPE, Q4 2016)
SOURCE: TUBEMOGUL

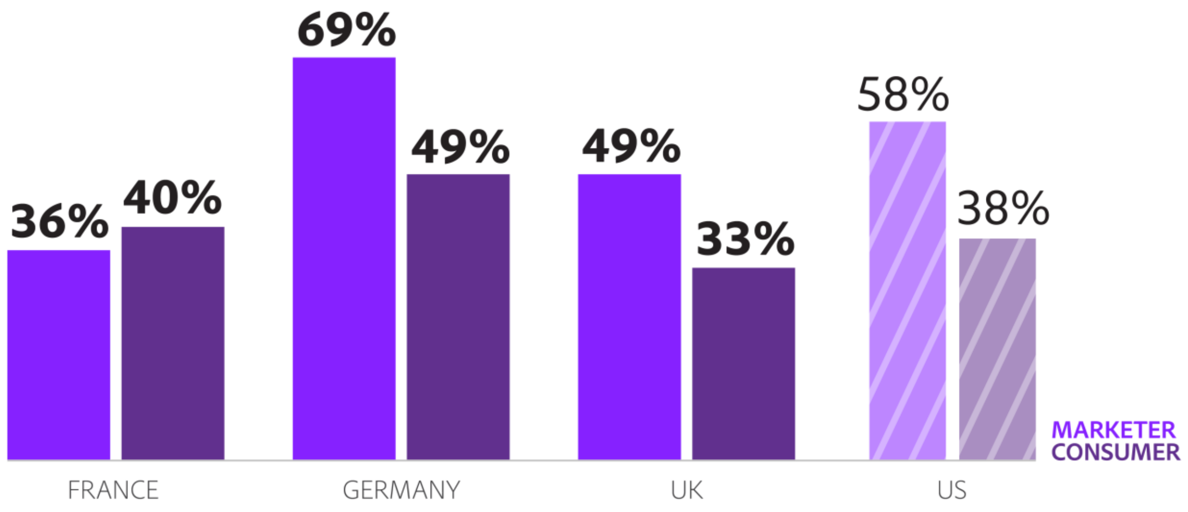
Advertisers Often Think They Are Doing Better But Consumers Don't Agree

In Germany and the UK, advertisers disagree with consumers on how well they are doing

- Marketers believe they are doing a better job at delivering relevant ads than consumers
  - Germany: 69% to 49%
  - UK: 49% to 33%
  - France: 36% to 40%

Similar opinions in the US

- Over half (58%) of advertisers believe they're doing better at serving valuable ads; only 38% of consumers agree



PERCENT OF ADVERTISERS DOING BETTER AT DELIVERING RELEVANT ADS OVER PAST TWO YEARS (EUROPE)
SOURCE: ADI INTERNATIONAL SUMMIT SURVEY 2017

Personalization Gap: Desire – Delivery = Opportunity

Desire is there.

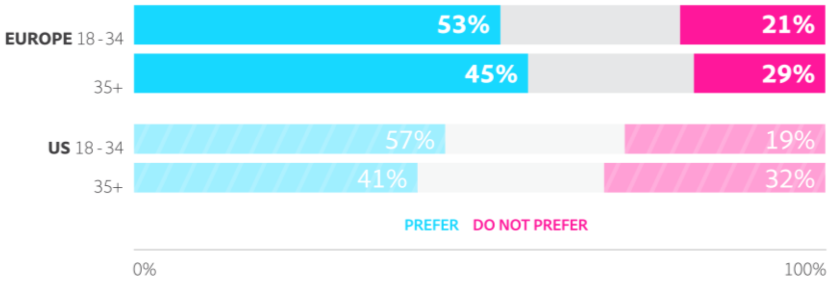
- Nearly half of all European consumers prefer to see some personalisation
  - The younger the consumer, the more likely to prefer
  - 53% of the 18-34 year olds; 45% of the 35+ segment
- Less than a third aren't interested in personalisation, leaving room for expansion

Delivery is mixed.

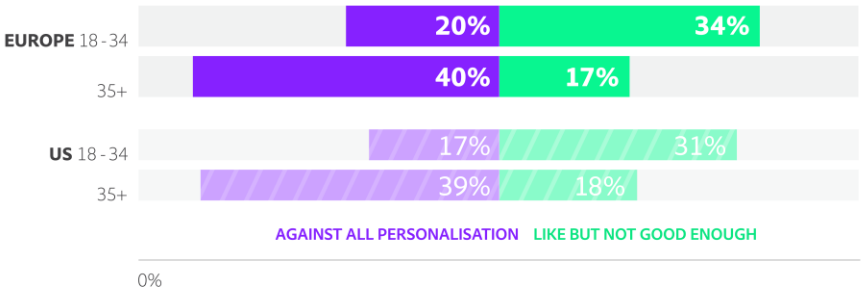
- More consumers in the younger group want more personalisation than believe it shouldn't be done at all
- Older consumers are more likely to be against any personalisation

Opportunity exists.

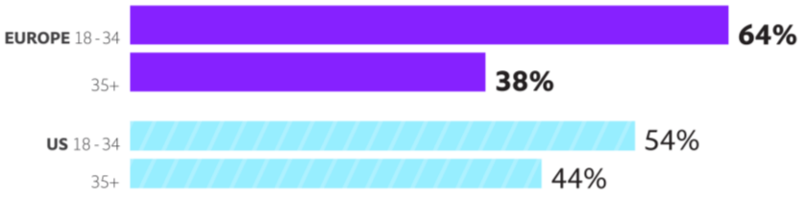
- The gap between "not good enough" and "want it" suggests room for improvement
- Younger consumers warrant a wide range of experimentation; older consumers require cautious steps



CONSUMERS' VIEW OF PERSONALISATION (EUROPE)
SOURCE: ADI INTERNATIONAL SUMMIT SURVEY 2017



CONSUMERS' VIEWS ON TODAY'S PERSONALISATION (EUROPE)
SOURCE: ADI INTERNATIONAL SUMMIT SURVEY 2017



CONSUMER PERSONALISATION INDEX (EUROPE)
SOURCE: ADI INTERNATIONAL SUMMIT SURVEY 2017

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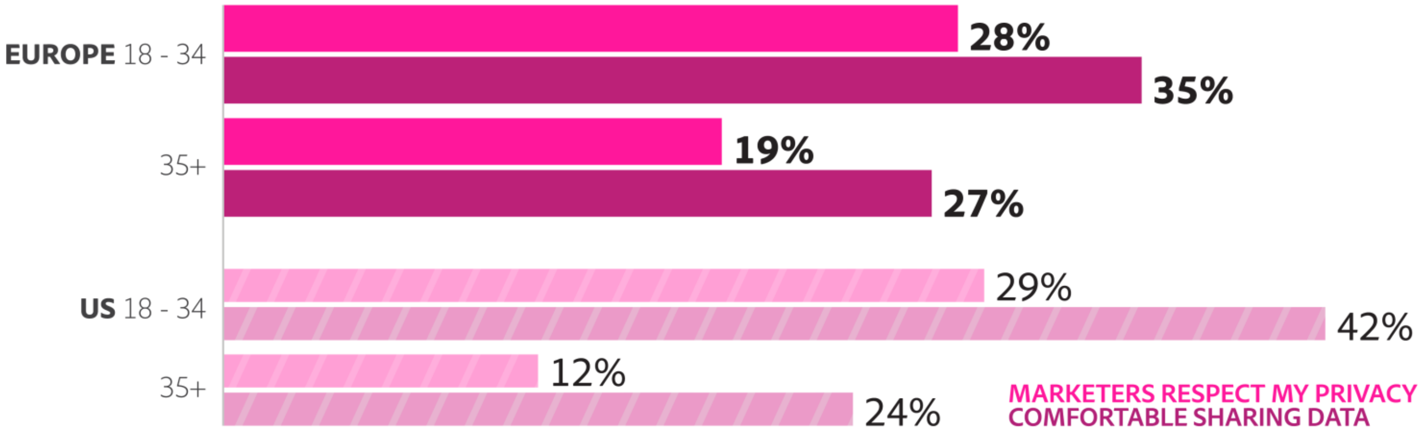
Privacy Issues Prove a Roadblock to Personalisation

If consumers believed marketers respected their privacy better, they'd be more willing to share personal data

- Less than 1 in 3 consumers are comfortable sharing their data (31%)
- Younger consumers are 1.3x higher than their older counterparts when it comes to being comfortable with sharing data

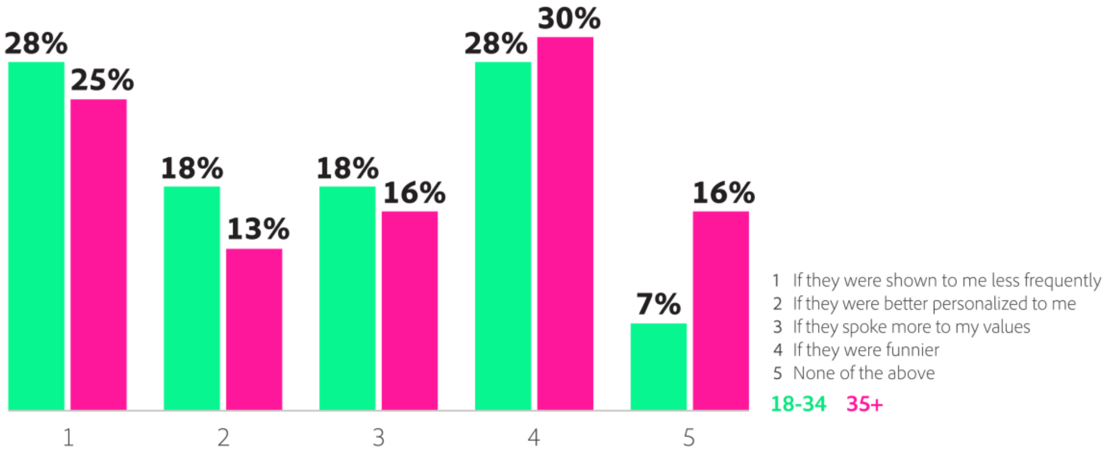
Consumer belief that marketers actually respect privacy is even lower – fewer than 1 in 4 (24%) agree with the statement

- 1.5x higher among younger consumers (28%) than older consumers (19%)

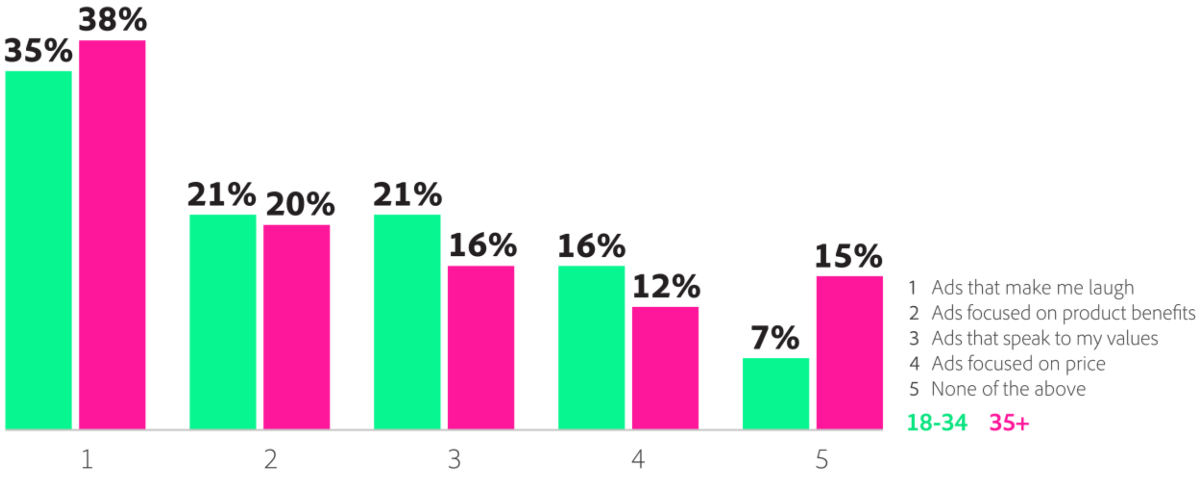


CONSUMERS' COMFORT WITH SHARING DATA AND VIEW OF MARKETERS' RESPECT FOR THEIR PRIVACY
SOURCE: ADI INTERNATIONAL SUMMIT SURVEY 2017

Consumers Love the Humor, Hate the Repetition



WHAT WOULD MOST IMPROVE YOUR AD EXPERIENCE ONLINE? (EUROPE)
SOURCE: ADI INTERNATIONAL SUMMIT SURVEY 2017



WHAT TYPE OF ADS ARE MOST LIKELY TO DRAW YOUR ATTENTION? (EUROPE)
SOURCE: ADI INTERNATIONAL SUMMIT SURVEY 2017

Make ‘em laugh!

- Consumers most likely attracted by ads that make them laugh – and they want more humor
- Making ads more infrequent and intermittent would improve their experience more than personalization

Fragmented Organizations and Technology Limit Advertising Progress

European advertisers deploy fewer platforms/agencies than their US counterparts, but still a lot of silos to manage.

31%

work with 3 or more analytics platforms (US 44%)

28%

work with 3 or more creative agencies (US 42%)

31%

work with 3 or more media buying platforms (US 41%)

24%

work with 3 or more attribution platforms (US 38%)

29%

work with 3 or more media planning platforms (US 40%)

24%

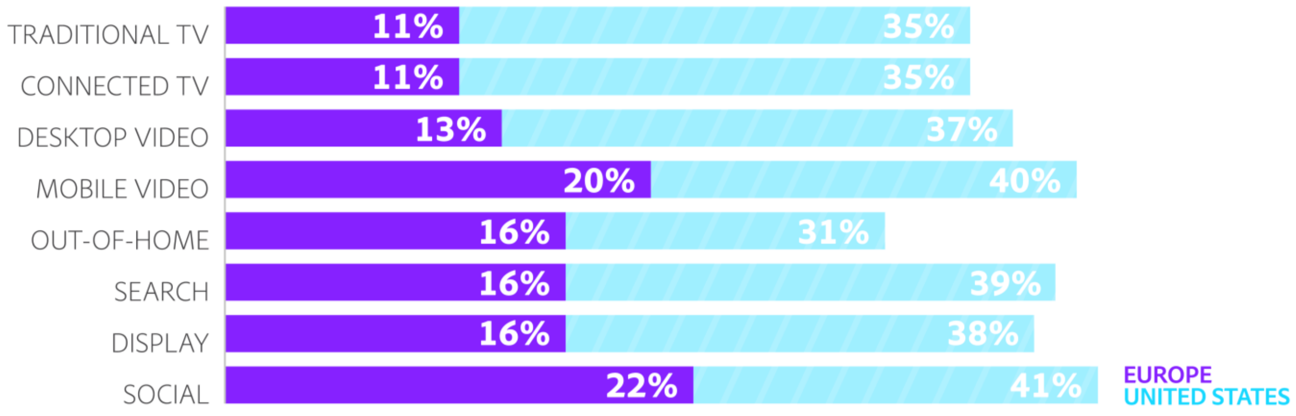
work with 3 or more data management platforms (US 37%)

(Source: ADI Summit Survey 2017)

Europe Lags Behind US In Automatic/Programmatic Ad Spend

Advertising is still a manual process for most European marketers

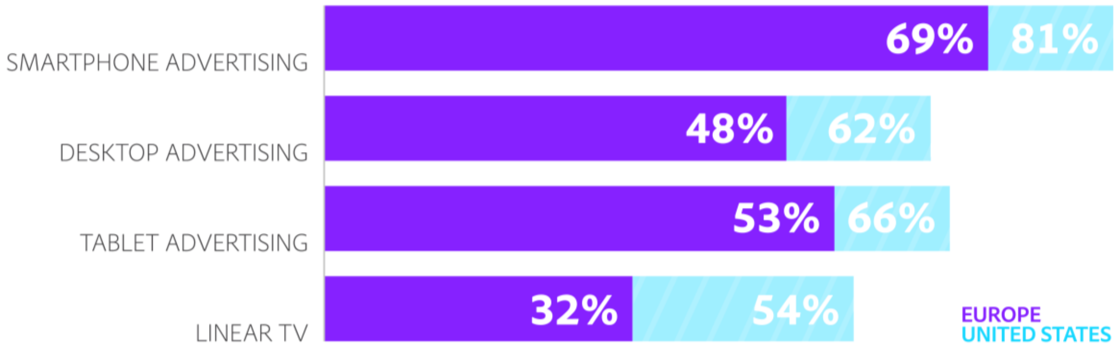
- Fewer than 1 in 5 European marketers spends more than 51% of their budget with automatic/programmatic channels
  - 1 in 3 US marketers spend more than 51%



PERCENT OF MARKETERS THAT SPEND 51%+ OF BUDGET ON AUTOMATIC/PROGRAMMATIC CHANNELS
SOURCE: ADI INTERNATIONAL SUMMIT SURVEY 2017

European marketers report an underinvestment in smartphones

- With nearly 70% of European marketers thinking they underinvested in smartphone ads, there's an opportunity to follow in the US's footsteps and grow their programmatic ad presence
- European marketers have an opportunity to learn from the mistakes that early adopters made

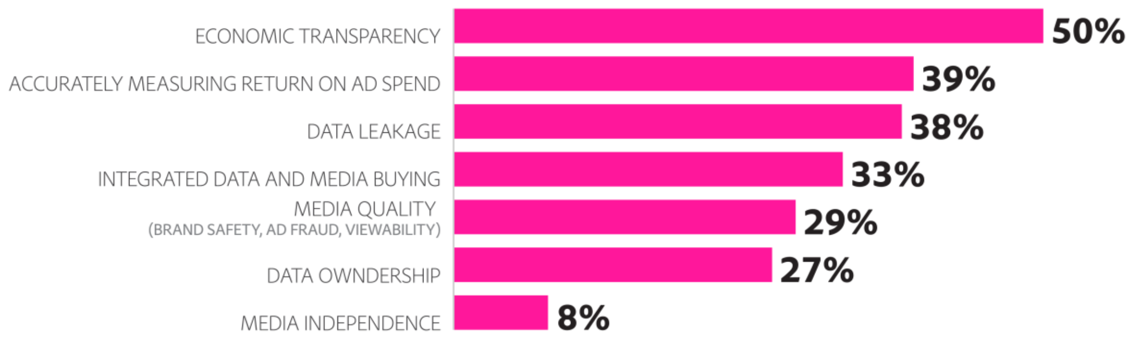


WHERE MARKETERS THINK THEY UNDERINVESTED IN 2016
SOURCE: ADI INTERNATIONAL SUMMIT SURVEY 2017

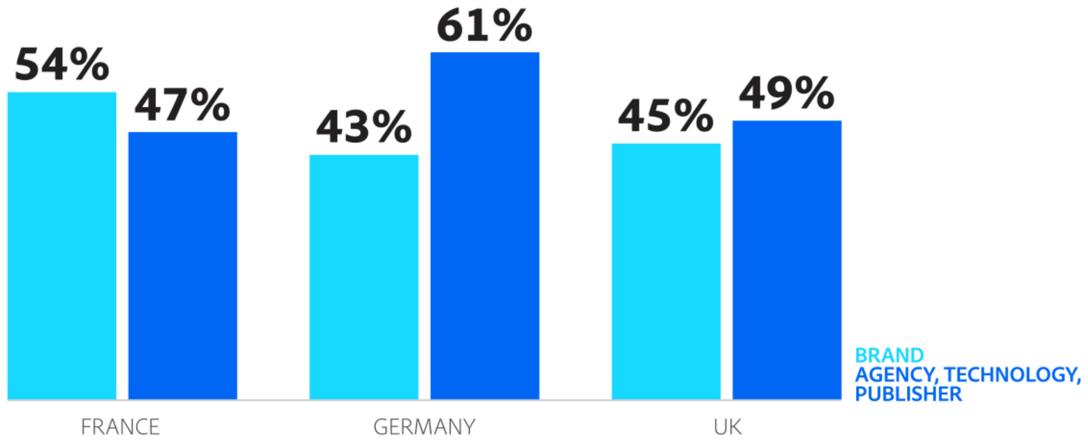
Advertising Supply Chain Most Concerned About Understanding How Money Is Spent

Economic transparency more of a challenge than media quality

- Half (50%) of digital marketers rate economic transparency as a challenge while fewer than 1 in 3 (29%) list media quality (brand safety, fraud, viewability) as one of the biggest challenges
  - In Germany, and to a lesser degree the UK, those on the Agency/Technology/Publisher side see Transparency as a bigger issue than their Brand counterparts.
  - In France, brand marketers admit to the challenges more than Agency/Technology/Publisher

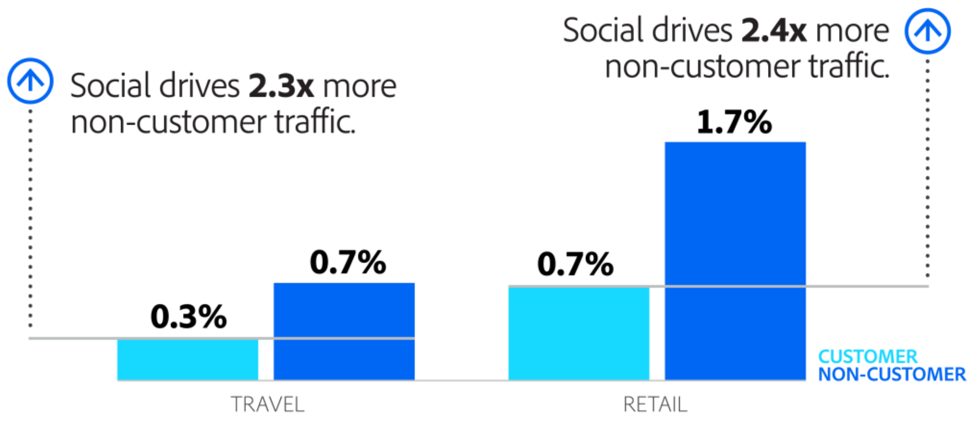


BIGGEST MEDIA BUYING CHALLENGES FACED BY MARKETERS (EUROPE)
SOURCE: ADI INTERNATIONAL SUMMIT SURVEY 2017

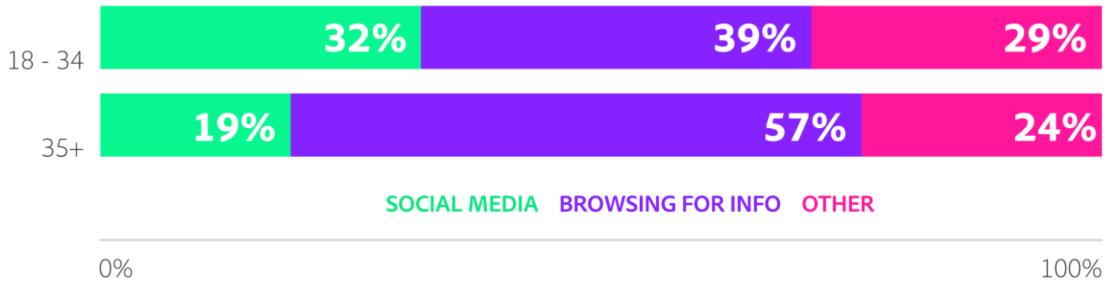


PERCENT OF MARKETERS WHO RATED ECONOMIC TRANSPARENCY AMONG TOP 3 CONCERNS (EUROPE)
SOURCE: ADI INTERNATIONAL SUMMIT SURVEY 2017

Emerging Channels are a Driver of New Customer Traffic



PERCENT OF TRAFFIC FROM SOCIAL BY SEGMENT (EUROPE, Q4 2016)
SOURCE: ADOBE ANALYTICS



WHEN DO YOU SEE THE MOST RELEVANT/INTERESTING ADS? (EUROPE)
SOURCE: ADI INTERNATIONAL SUMMIT SURVEY 2017

Emerging channels offer more potential to attract new customers more efficiently

- Social media is more likely to be the source of non-customers vs. returning customers
- Traffic directly coming from social networks is only tip of the iceberg given social's strength in branding

Generations recognize interesting and relevant ads in different environments

- Younger generations notice ads across all channels
- Older generations recognize ads mainly when actively browsing for information

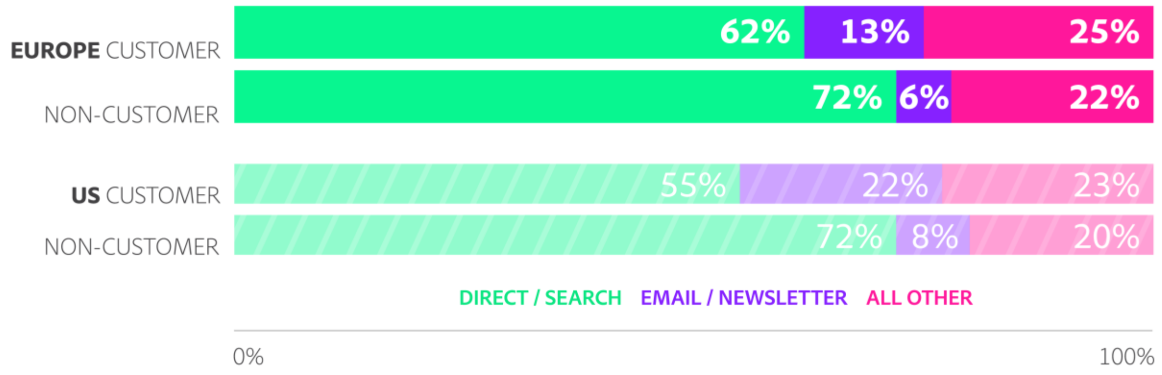
Omnichannel and Marketing Mix Differs for New and Repeat Customers

Keeping in touch matters, as customers leverage marketing communications more so than non-customers

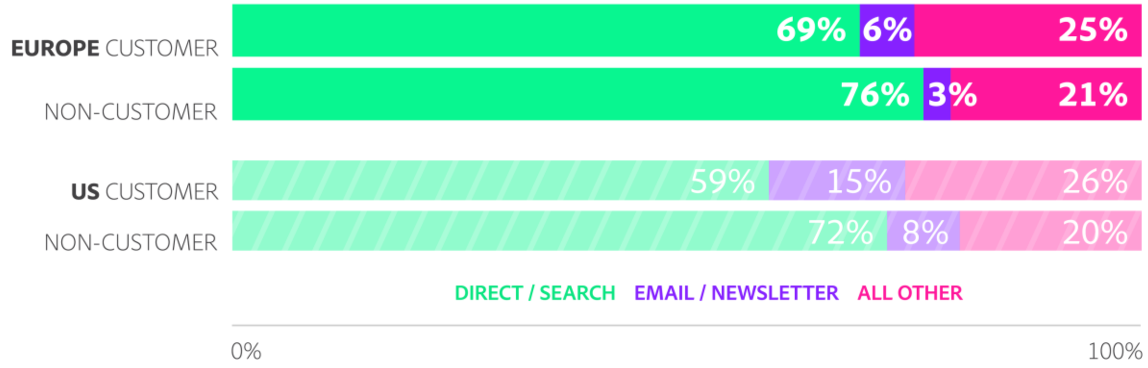
- In retail, nearly 4 of 10 (38%) reach sites via marketing channels vs. 28% of non-customers
  - In travel, the spread is 31% vs. 24%
- In both industries, email is twice important for customers than for non-customers
  - Retail: 13% vs. 6%; Travel: 6% vs. 3%

Reaching non-customers means being top-of-mind

- Direct entry and search account for 72% of visits from non-customers in retail; 76% in travel



RETAIL WEBSITE TRAFFIC BY SOURCE (EUROPE, Q4 2016)
SOURCE: ADOBE ANALYTICS



TRAVEL WEBSITE TRAFFIC BY SOURCE (EUROPE, Q4 2016)
SOURCE: ADOBE ANALYTICS

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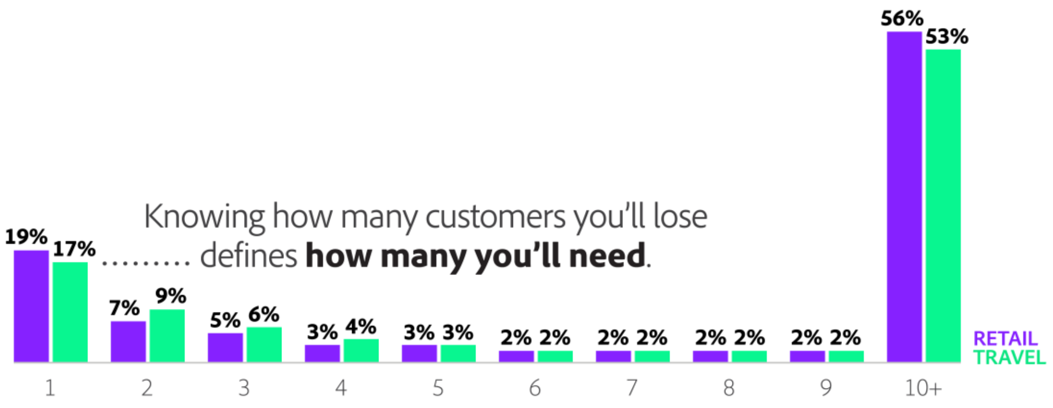
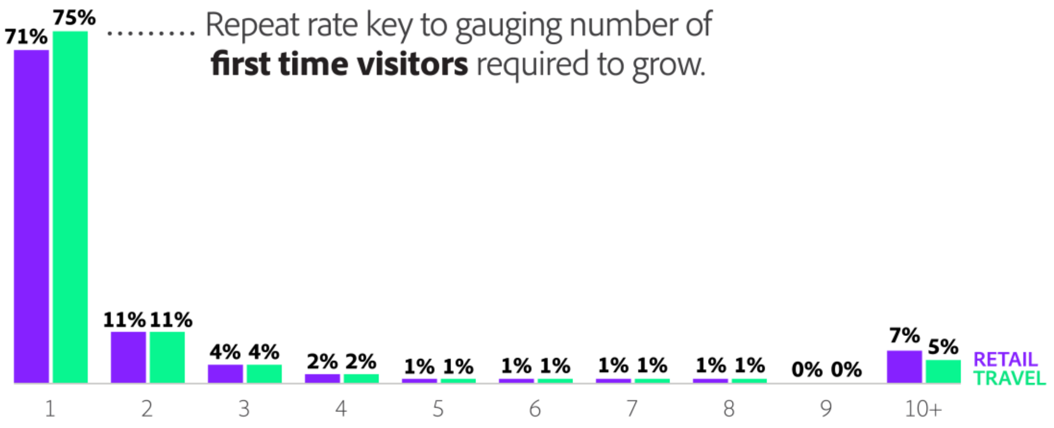
Make Sure to Protect the Base of Loyal Customers; Plan to Steal from Others



CUSTOMERS BY NUMBER OF LIFETIME VISITS (EUROPE, Q4 2016)
SOURCE: ADOBE ANALYTICS



NON-CUSTOMERS BY NUMBER OF LIFETIME VISITS (EUROPE, Q4 2016)
SOURCE: ADOBE ANALYTICS

Customers more long-term, steady play

- 8 out of 10 customers are likely to return
- Large loyal base of customers with 10+ visits (56% in Retail and 53% in Travel)
- Protect your base: Due to internet saturation, your competition is likely trying to steal your base

Visitor drop off harder to tackle

- 1 out of 3 visitors (non-customers) will come back, with 2 out of 3 choosing not to
- Ensure targeting attracts the right customer and that the experience creates the desire to return

Glossary

1. **CPM**: Cost per thousand impressions
2. **CPC:** Cost per click
3. **Completion Rate:** Ads completed (100%) divided by impressions
4. **Growth:** Percent change from base period
5. **Customer**: Visitor who has made one or more purchases in retail and booked a reservation in travel
6. **Non-Customer**: Visitor who has not made a purchase or booked something
7. **Frequency**: How often someone visits a website
8. **Web Traffic or Visits**: Visits occurring to a website via any device

Appendix and Data Tables

Data Tables

Marketer: For the following ad channels, what portion of your total advertising budget is allocated towards automated (programmatic) channels? (Percent answering 51% or more)

	Traditional TV	Connected TV	Desktop Video	Mobile Video	Out-of-home	Search	Display	Social
US	35%	35%	37%	40%	31%	39%	38%	41%
France	9%	12%	15%	15%	11%	12%	19%	21%
Germany	14%	8%	11%	25%	16%	19%	18%	25%
United Kingdom	11%	12%	13%	19%	16%	17%	11%	20%

(Source: ADI Summit Survey 2017)

Data Tables

Marketer: Compared to two years ago, how would you rate your ability to effectively reach consumers with ads they find valuable or compelling? (Data table shows those who rate themselves as "better than 2 years ago")

	Brand	Advertising agency / Technology provider / Publisher
France	46%	32%
Germany	73%	67%
United Kingdom	49%	49%
US	59%	56%

(Source: ADI Summit Survey 2017)

Data Tables

Marketer: Biggest challenges in media buying

	France		Germany		UK		US	
	Brand	Advertising agency / Technology provider / Publisher	Brand	Advertising agency / Technology provider / Publisher	Brand	Advertising agency / Technology provider / Publisher	Brand	Advertising agency / Technology provider / Publisher
Media quality (brand safety, ad fraud, viewability)	32%	18%	37%	27%	25%	33%	50%	49%
Integrated data and media buying solution	36%	33%	40%	31%	27%	31%	40%	51%
Accurately measuring return on ad spend (ROAS)	25%	21%	47%	34%	51%	59%	46%	39%
Economic transparency	54%	47%	43%	61%	45%	49%	44%	51%
Data leakage	46%	40%	33%	44%	37%	29%	31%	34%
Data ownership	32%	32%	40%	14%	22%	20%	31%	30%
Media independence	7%	12%	13%	3%	8%	6%	7%	5%

(Source: ADI Summit Survey 2017)

Data Tables

Marketer: In terms of 2016 media spend - where marketers think they underinvested in 2016

	France		Germany		UK		US	
	Brand	Advertising agency / Technology provider / Publisher	Brand	Advertising agency / Technology provider / Publisher	Brand	Advertising agency / Technology provider / Publisher	Brand	Advertising agency / Technology provider / Publisher
Desktop advertising	48%	38%	61%	48%	49%	39%	64%	61%
Smartphone advertising	52%	56%	78%	75%	81%	70%	83%	80%
Tablet advertising	33%	56%	61%	52%	60%	55%	58%	71%
Linear TV	44%	24%	22%	27%	30%	43%	56%	52%
Other	4%	0%	0%	0%	0%	0%	3%	0%

(Source: ADI Summit Survey 2017)

Data Tables

Consumer: What types of ads are most likely to attract your attention?

	France		Germany		UK		Neth.		Sweden		US	
	18-34	35+	18-34	35+	18-34	35+	18-34	35+	18-34	35+	18-34	35+
Ads focused on product benefits	23%	21%	21%	20%	20%	18%	20%	21%	20%	19%	22%	26%
Ads focused on price	18%	11%	14%	11%	15%	14%	23%	17%	21%	14%	17%	9%
Ads that speak to my values	21%	16%	26%	19%	16%	10%	20%	14%	21%	21%	15%	13%
Ads that make me laugh	33%	39%	36%	40%	39%	39%	29%	26%	22%	27%	37%	35%
None of the above	6%	14%	4%	11%	10%	19%	9%	22%	16%	18%	9%	17%

Consumer: When do you tend to see the most interesting, relevant online ads today?

	France		Germany		UK		Neth.		Sweden		US	
	18-34	35+	18-34	35+	18-34	35+	18-34	35+	18-34	35+	18-34	35+
While using social media (website or mobile app)	28%	16%	32%	17%	36%	20%	33%	27%	41%	25%	50%	20%
While web browsing for information	39%	57%	41%	63%	35%	54%	40%	47%	41%	51%	30%	55%

(Source: ADI Summit Survey 2017)

Data Tables

Consumer: Which of the following would most improve the ads you see online?

	France		Germany		UK		Neth.		Sweden		US	
	18-34	35+	18-34	35+	18-34	35+	18-34	35+	18-34	35+	18-34	35+
If they were shown to me less frequently	28%	23%	28%	20%	29%	30%	28%	29%	31%	30%	29%	40%
If they were better personalized to me	20%	14%	14%	12%	20%	11%	24%	15%	18%	14%	22%	11%
If they spoke more to my values	17%	16%	23%	18%	15%	16%	14%	12%	16%	19%	16%	12%
If they were funnier	28%	34%	31%	36%	26%	24%	26%	22%	21%	20%	24%	20%
None of the above	6%	13%	5%	14%	10%	19%	8%	23%	14%	16%	9%	17%

Consumer: I agree that marketers today are usually respectful of my digital privacy (Net Agree)

	France		Germany		UK		Neth.		Sweden		US	
	18-34	35+	18-34	35+	18-34	35+	18-34	35+	18-34	35+	18-34	35+
Net Agree	31%	20%	27%	21%	25%	16%	24%	15%	16%	13%	29%	12%

(Source: ADI Summit Survey 2017)

ADOBE DIGITAL INSIGHTS 2017

Data Tables

Consumer: For brands I use regularly I am comfortable with them using my personal data to customize website content, emails, and advertising (Net Agree)

	France		Germany		UK		Neth.		Sweden		US	
	18-34	35+	18-34	35+	18-34	35+	18-34	35+	18-34	35+	18-34	35+
Net Agree	38%	24%	29%	32%	41%	27%	29%	21%	20%	20%	42%	24%

Consumer: Compared to two years ago, I agree that advertisers are better at showing me ads I find valuable or compelling (Net Agree)

	France		Germany		UK		Neth.		Sweden		US	
	18-34	35+	18-34	35+	18-34	35+	18-34	35+	18-34	35+	18-34	35+
Net Agree	35%	44%	54%	46%	34%	32%	50%	40%	35%	28%	43%	36%

(Source: ADI Summit Survey 2017)

Data Tables

Consumer: I prefer to see ads that are personalized based on my interests, shopping habits, and preferences

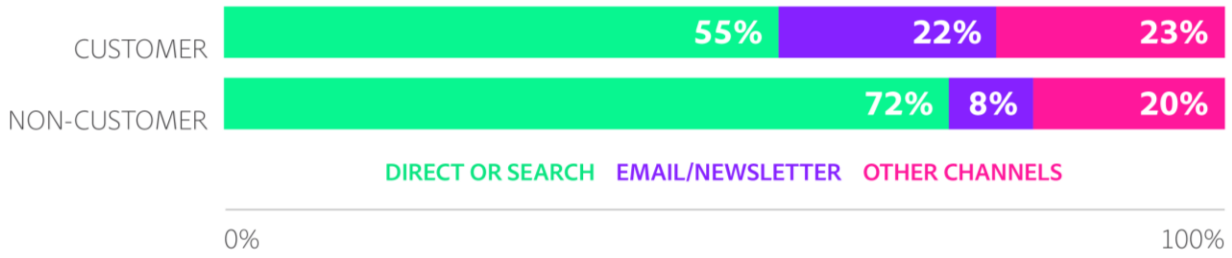
	France		Germany		UK		Neth.		Sweden		US	
	18-34	35+	18-34	35+	18-34	35+	18-34	35+	18-34	35+	18-34	35+
Net Agree	59%	53%	53%	49%	51%	37%	41%	36%	45%	37%	57%	41%
Net Disagree	18%	23%	24%	27%	22%	34%	24%	34%	27%	30%	19%	32%

Consumer: Consumers' attitude towards the personalized ads they receive

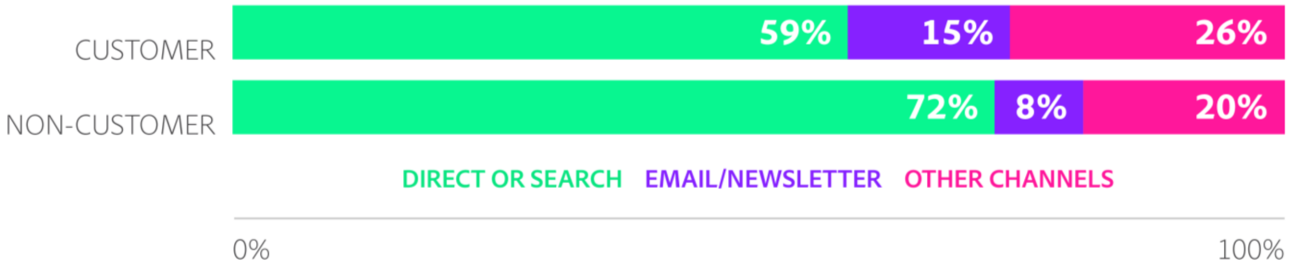
	France		Germany		UK		Neth.		Sweden		US	
	18-34	35+	18-34	35+	18-34	35+	18-34	35+	18-34	35+	18-34	35+
I don't think ads should be personalized	16%	33%	18%	39%	25%	48%	20%	38%	28%	43%	17%	39%
Ads are not personalized well enough	38%	15%	33%	18%	31%	13%	30%	23%	29%	22%	31%	18%

(Source: ADI Summit Survey 2017)

US Sources of Website Traffic



SOURCE OF WEBSITE TRAFFIC IN RETAIL (NORTH AMERICA, Q4 2016)
SOURCE: ADOBE ANALYTICS



SOURCE OF WEBSITE TRAFFIC IN TRAVEL (NORTH AMERICA, Q4 2016)
SOURCE: ADOBE ANALYTICS

(Source: ADI Summit Survey 2017)