



The Russian interactive advertising market 2017-2020

A survey by IAB Russia and PwC



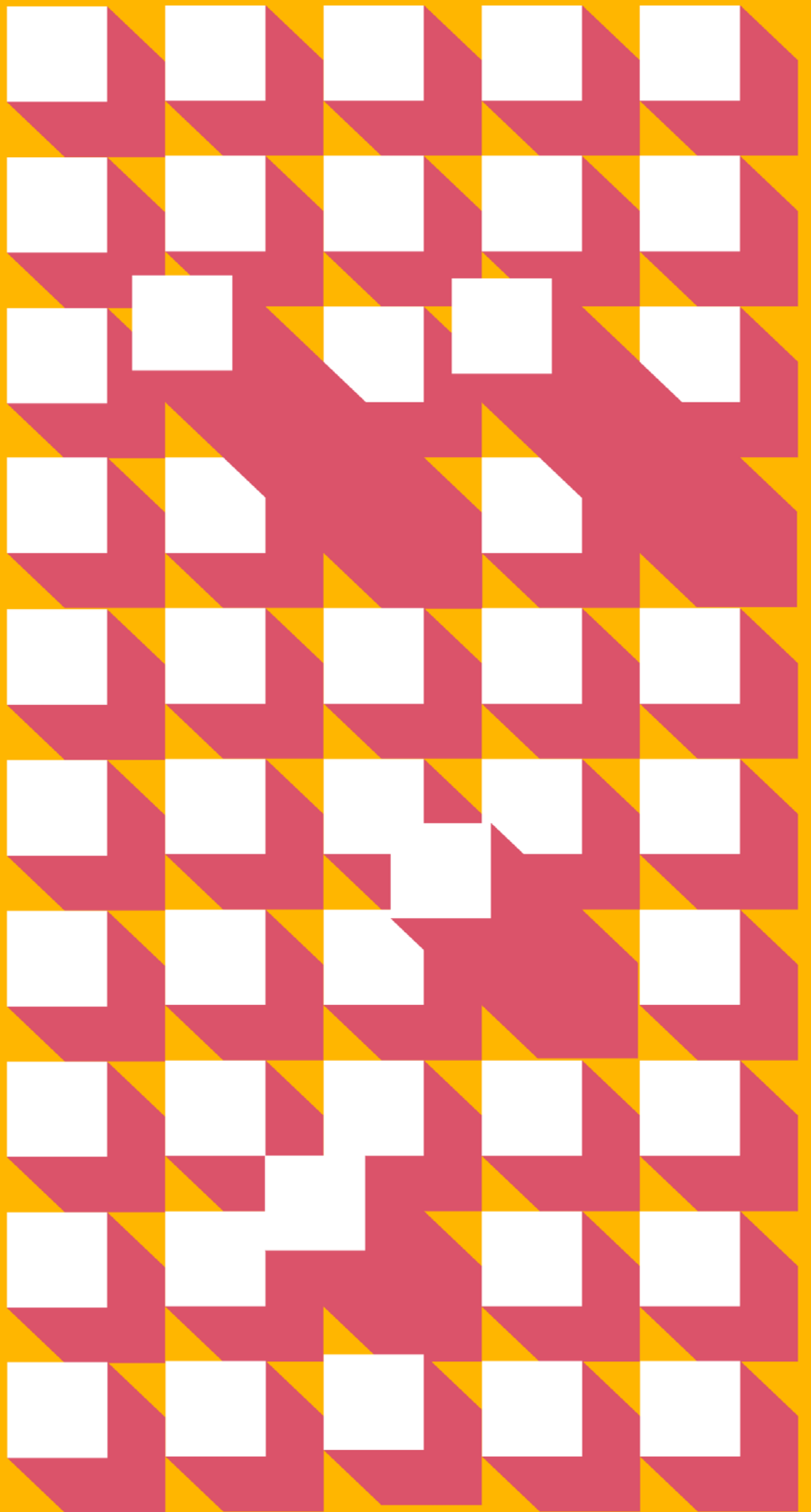


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1

Introduction

Introduction



Alexei Okishev

PwC Partner, Risk Assurance Leader

“The advertising industry...is experiencing significant changes in its methods and ways”

About this survey

We are pleased to present this survey of the Russian interactive advertising market for 2017-2020, which was prepared for the non-profitable partnership IAB Russia.

The key objective of the survey was to develop an outlook for the Russian interactive advertising market for the next three years based on independent evaluations and a survey of participants in the media market, including comparisons to other media segments (e.g. TV, out-of-home advertising [OOH], print media and radio).

As part of this survey, we outlined the most relevant trends that are impacting the development of Russia's interactive advertising market, as well as the challenges currently facing market players that need to be addressed to unlock the further growth potential of the market.

PwC actively cooperates with IAB US and IAB UK on research projects on the US and UK interactive advertising markets valuations. We believe that such cooperation in Russia will be beneficial for all of the market players and will contribute to the transformation of the advertising industry, which is undergoing significant changes in its methods and ways of advertising on the face of industry digitalisation.

2

Executive summary

Executive summary

1

The interactive advertising market **will continue to grow**, outperforming the average growth rates of the advertising market in general.



2

Most of the growth in the interactive advertising market **will be fuelled by the growth of mobile advertising**, and by the development and expansion of **new interactive formats**, while traditional interactive formats will demonstrate moderate rates of growth. The most notable growth among the categories surveyed is expected to be seen in the online video segment.



3

Personalisation and **access** to the end consumer define the development trends in the Russian interactive advertising market.



4

To remain successful, media companies need to learn how to adapt faster to changing market trends and make **investments in innovative technologies**.



5

The active development of **artificial intelligence (AI)** on the basis of **Big Data** makes the lack of relevant specialists a pressing issue.



6

Within several years, the market will face new metrics, technologies and principles of inventory acquisition. The aspiration of brands, consumers and regulators to increase **the transparency of the Russian market** will drive its operating principle in the nearest future.



7

The growing demand for using online and offline data integrated into a single system will continue to gain traction and will lead to the development of global partnerships between various companies to share information in order to identify the online and offline behaviour of users and calculate the effects of advertising campaigns.



3

The Russian interactive advertising market in 2017

The overall Russian interactive advertising market in 2017

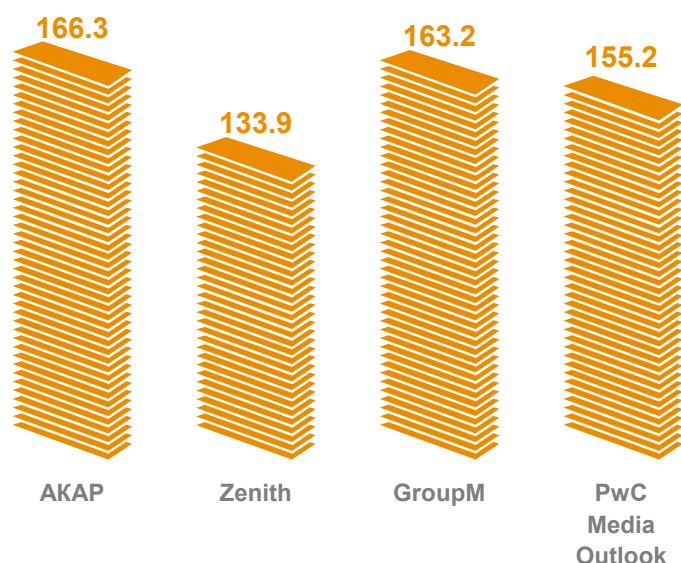
Notwithstanding the challenging economic situation, the Russian advertising market is continuing to grow. While the economy gathered momentum modestly in 2017 (1.5% growth, according to official data from Rosstat), the advertising market grew by 14.0%.¹

According to various estimations², the value of the interactive advertising market in 2017 ranged from RUB 133.9bn to RUB 166.3bn, which is equivalent to 20.0-24.0% growth in comparison to 2016.

The growth of the Russian interactive advertising market significantly outperformed the growth of the advertising market in general.

The graph below presents data from public sources on the value of the interactive advertising market in 2017. The differences in the estimates are the result of fluctuations in foreign currency exchange rates at the time of estimation.

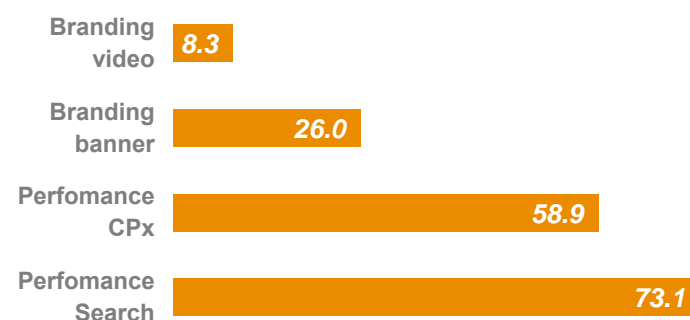
Russian interactive advertising market in 2017 (RUB bn)



The Russian interactive advertising market in 2017 by segment

In the key segment-breakdown defined by IAB Russia's experts – Branding (Branding banner/Branding video) and Performance (Performance Search/Performance CPx) – the allocation of revenues was carried out as presented below.

Allocation of the interactive advertising budget in 2017 (RUB bn)



The costs of performance advertising (Performance search and Performance CPx) continue to represent the largest portion of the total interactive advertising market (79.4% in 2017). The relatively young video segment only accounted for 5% of the total interactive advertising market in 2017; however, the growth rates in this segment over the next three years will be more significant.

That said, the allocation of interactive advertising revenues to desktop and mobile platforms is 76% and 24%, respectively (according to the PwC Media Outlook).

In monetary terms, the value of the mobile advertising market has already reached RUB 37.6bn, i.e. it is now comparable to other media segments.



AKAR

² In our research, interactive advertising was understood as ads posted on the Internet, including mobile ads, and ads targeted at communicating with Russian audiences (regardless of who the advertiser is or in which media platform or territory the advertising content was placed). All figures are presented before commission, partner fees and other traffic-acquisition costs, net of VAT.

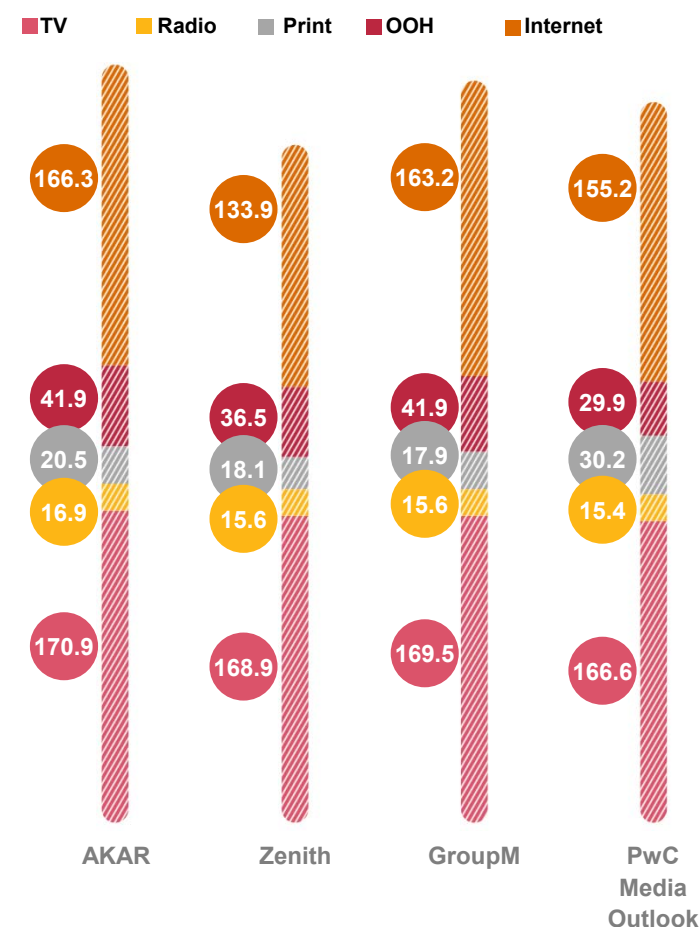
The Russian interactive advertising market in 2017

Comparison of the interactive advertising market with other media segments

By various estimates, the total Russian advertising market in 2017 ranged between RUB 373.0bn to RUB 416.5bn, or about 1.0% of the global advertising market.

The estimates for the Russian advertising market in 2017 by experts from AKAR, Zenith Optimedia, GroupM and PwC Media Outlook in 2017 are presented below.

Russian advertising market in 2017 (RUB bn)



Sources: 1-4.

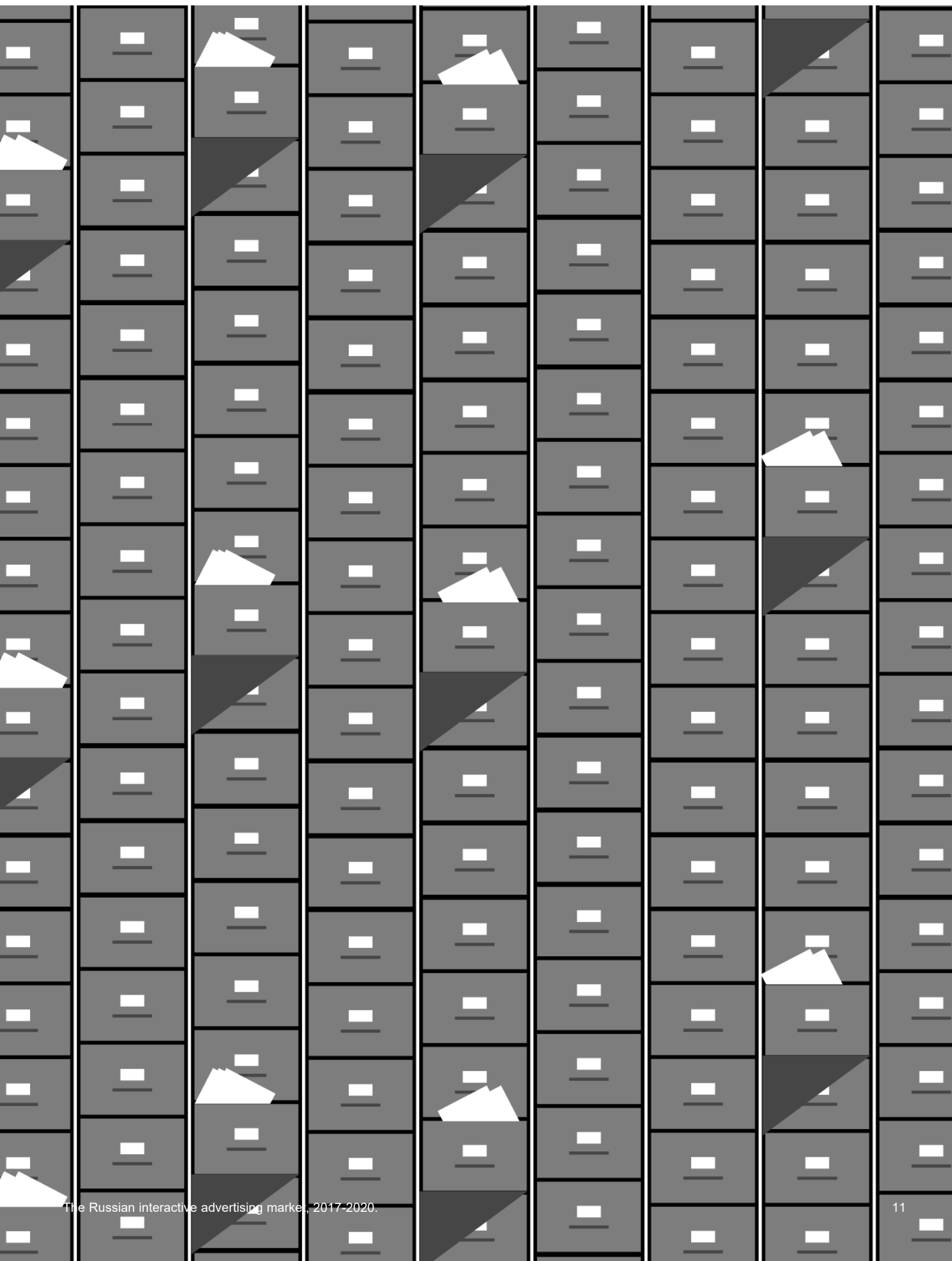
Based on various estimates, the share of interactive advertising market in 2017 accounted for:

- 39.9% of the total Russian advertising market, as estimated by AKAR
- 35.9% of the total Russian advertising market, as forecasted by Zenith Optimedia
- 40.0% of the total Russian advertising market, as forecasted by GroupM
- 39.1% of the total Russian advertising market, as estimated by the PwC Media Outlook.

Despite early projections of interactive advertising's predominance over traditional TV advertising, this trend was not sustained in 2017, and TV advertising continues to dominate the market.

Notwithstanding the increasing investments made by advertisers into interactive ads and the reallocation of budgets from offline (including TV) to interactive advertising (due to the higher attractiveness of opportunities for the latter), many advertisers remain committed to TV advertising. According to the market experts interviewed as part of this research, this is primarily explained by the lack of trust in the current measurement systems for online audiences, while TV audience measurement system appears more transparent and understandable. Another important constraining factor (which also has great potential for the growth of interactive advertising) is the national geography and regional specifics, i.e. the popularity of digital resources is mostly concentrated in the largest cities (e.g. Moscow and St Petersburg), while TV advertising is widely and evenly spread throughout Russia.





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Outlook for the Russian interactive advertising market, 2018-2020

Projected changes in the overall interactive advertising market for 2018-2020

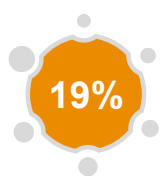
The advertising market in general is very sensitive to changes in the Russian economy, and after some downturn in 2015, it once again started demonstrating growth in advertising spending.

The projections for 2018 are optimistic and are already confirmed by the results of the first six months of 2018, as the market has grown by 13% compared to the same period in 2017.¹

The Russian market for interactive advertising will continue to grow, outperforming the growth rates of the overall advertising market.

According to our data, the expected growth of the interactive advertising market amounts to 22.7% in 2018, 19.3% in 2019 and 17.0% in 2020. The market for interactive advertising is expected to keep growing, although growth rates are expected to start slowing down.

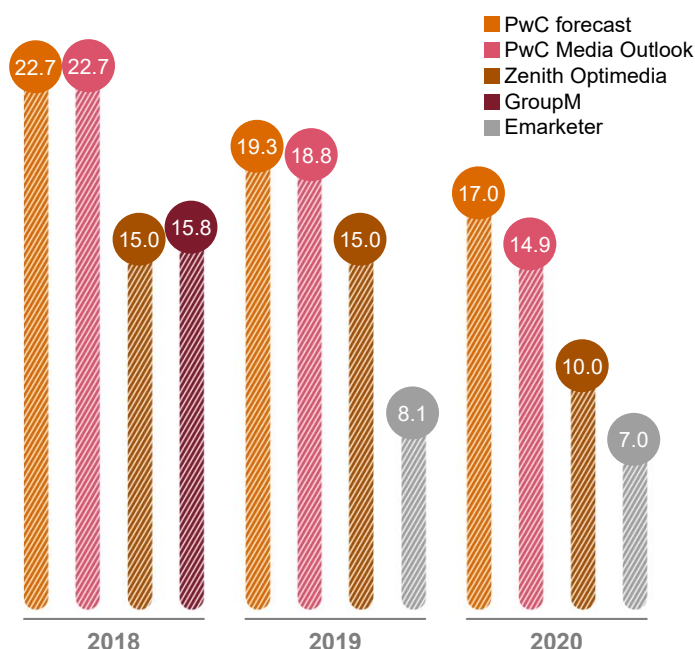
Forecast of growth in the interactive advertising market, 2018-2020 (%)



Growth rates (CAGR) from 2018-2020

The graph below projects the predicted changes to the interactive advertising market for 2018-2020 as determined by PwC, and these projections are compared to data from other public sources.

Comparison of projections for the interactive advertising market, 2018-2020 (%)



Sources: 1-4.

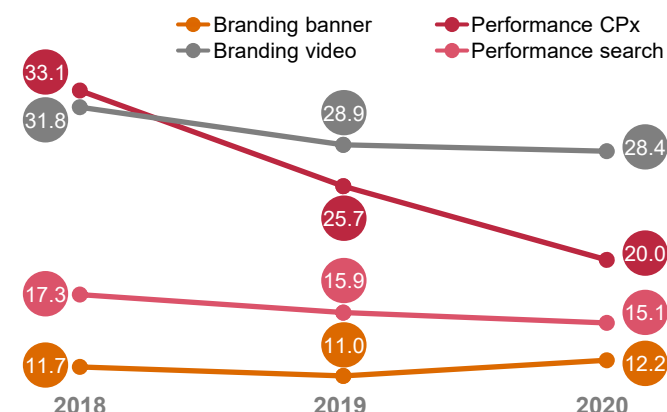
The forecast resulting from our survey appears to be more optimistic compared to other public sources, reflecting the opinion of survey participants regarding the key factors driving the development of the interactive advertising market.

Despite differences in absolute values, we have observed a common trend of declining rates of revenue growth from interactive advertising, which is explained by the fact that most advertising solutions and products in the interactive advertising market are currently transitioning from active growth stage to maturity, during which the size of the market and sales keep growing but growth rates slow down. The primary growth seen in the market is currently based on products that were non-existent three to five years ago.



Projected changes in the interactive advertising market for 2018-2020 by segment

Forecast of the growth of the interactive advertising market, 2018-2020 (%)



Note: Year-on-year.

As a result of the survey of market participants, the **Performance CPx** segment will account for the largest share of the advertising budget (33.1% growth in 2018). The Branding video segment will experience higher than average growth rates of 31.8%, 28.9% and 28.4% in 2018, 2019 and 2020, respectively.

The growth trend in the **Branding video** segment, according to market participants, is driven by a new generation of consumers who are much more “media engaged” than previous generations, and this generation consumes content differently.

At the same time, the **Branding banner** segment is shrinking, demonstrating the lowest rates of growth (11.7% growth in 2018). This can be explained by a drop in investors' interest in the desktop format and the shift to mobile advertising.

Interestingly, if the growth rate of the Branding video, Performance search and Branding banner segments remain the same (ranging between 1.5% and 2.0%), the growth of the Performance CPx segment is expected to decline from 33.1% in 2018, to 25.5% in 2019 and to 20.0% in 2020, which is approximate to the average growth rates of the interactive advertising market in general. **Such significant growth in 2018 is primarily explained by the changes in the segment that have occurred over the past years, the most important of which have been the emergence and active implementation of new products (native advertising) and the application of new technologies and analytical tools, including online and offline data analysis.**

Expectations of market players regarding individual company's growth

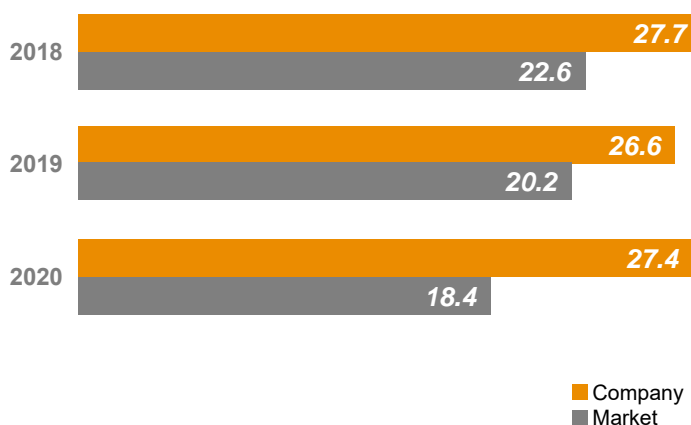
As part of our research, for the purpose of estimating revenues from interactive advertising, two types of questions were asked in the survey:

1. expectations related to the respondent's company's revenue growth
2. expectations related to market growth in general.

According to most respondents, the revenue growth of their company is higher than the growth of the market in general.

The difference between the expected growth of the size of the interactive advertising market in general and of individual companies amounted to 5.1p.p. in 2018, 6.4p.p. in 2019 and 9p.p. in 2020. This comparison can be used to illustrate the optimistic expectations of market players and the realistic expectations of market growth in general. It is clear that the average overall growth of the key market players cannot be higher than market's growth in general. In this case, either the market growth rates are understated or the growth rates of individual companies are overstated.

Estimated growth dynamics of the interactive advertising market, 2018-2020 (%)

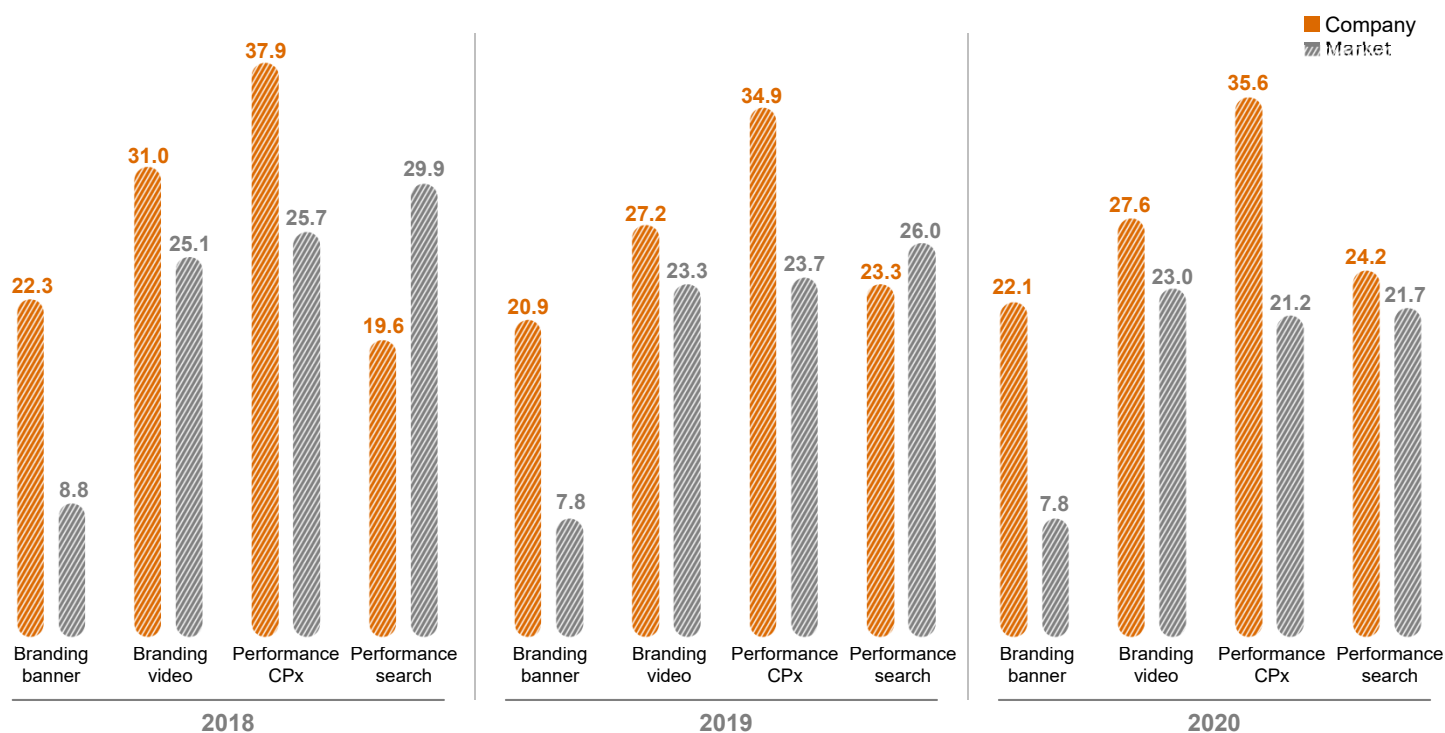


Outlook for the Russian interactive advertising market, 2018-2020

Interestingly for the market in general, growth rates are expected to slow down; for individual companies, growth rates are expected to remain flat for all three years.

The graph below shows the expectations of market participants by segment, comparing the performance of individual companies to the market in general.

Estimating trends in the proportions of advertising budgets (%)



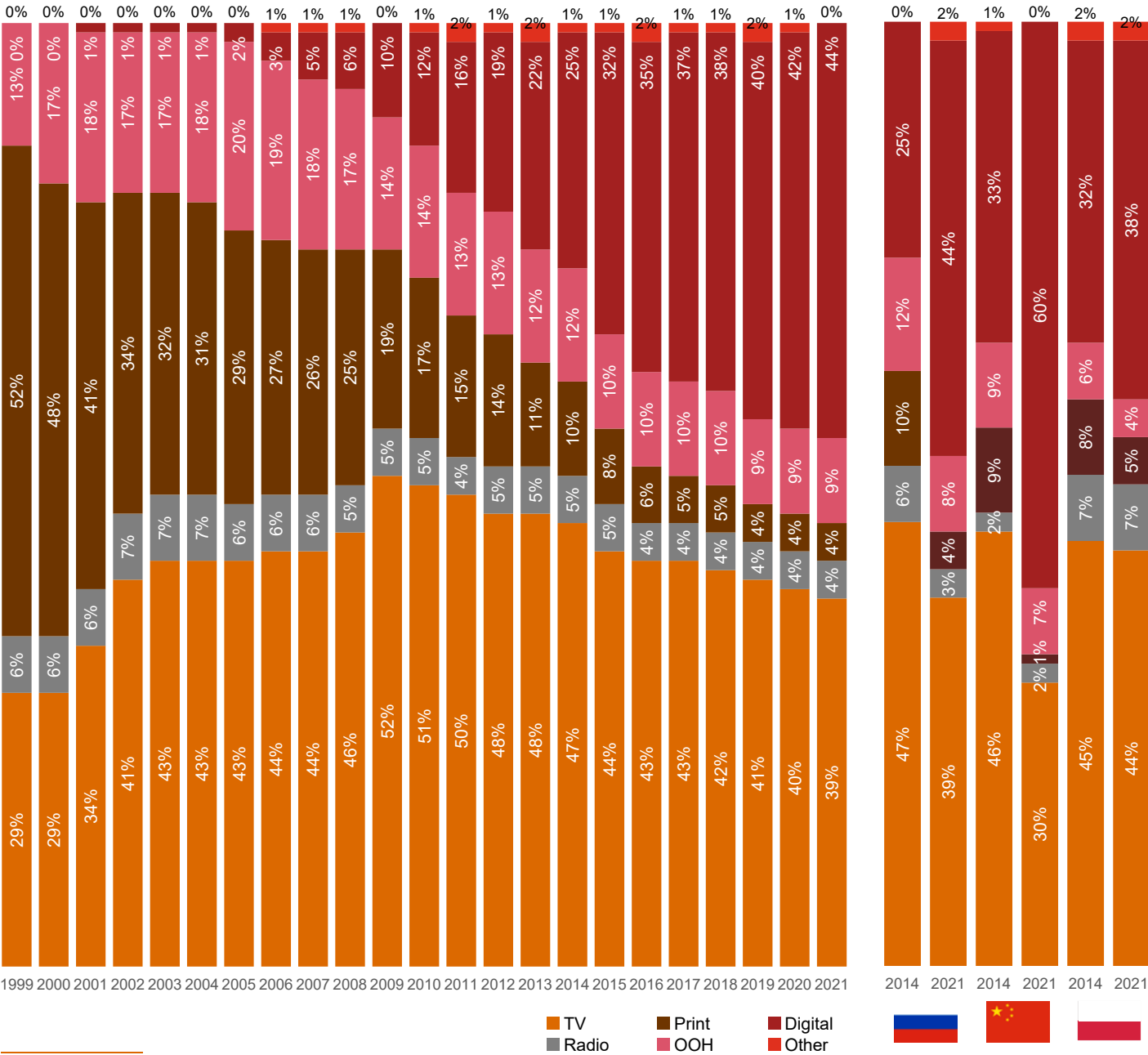
The largest gap between expectations for individual companies and for the market in general can be seen in two segments: Branding banner and Performance search. For Branding banner, the difference amounts to almost 300% in favour of individual companies, and it is expected that the market in general will grow faster than individual companies in the Performance search segment in 2018 and 2019.

Comparing the forecast for the Russian interactive advertising market to other media segments

The distribution of the media mix in the advertising budget in the Russian market follows the development of other large markets, when the competition is mostly exists between TV and interactive advertising.

However, interactive advertising is expected to dominate the market in the near future and overtake traditional TV advertising.

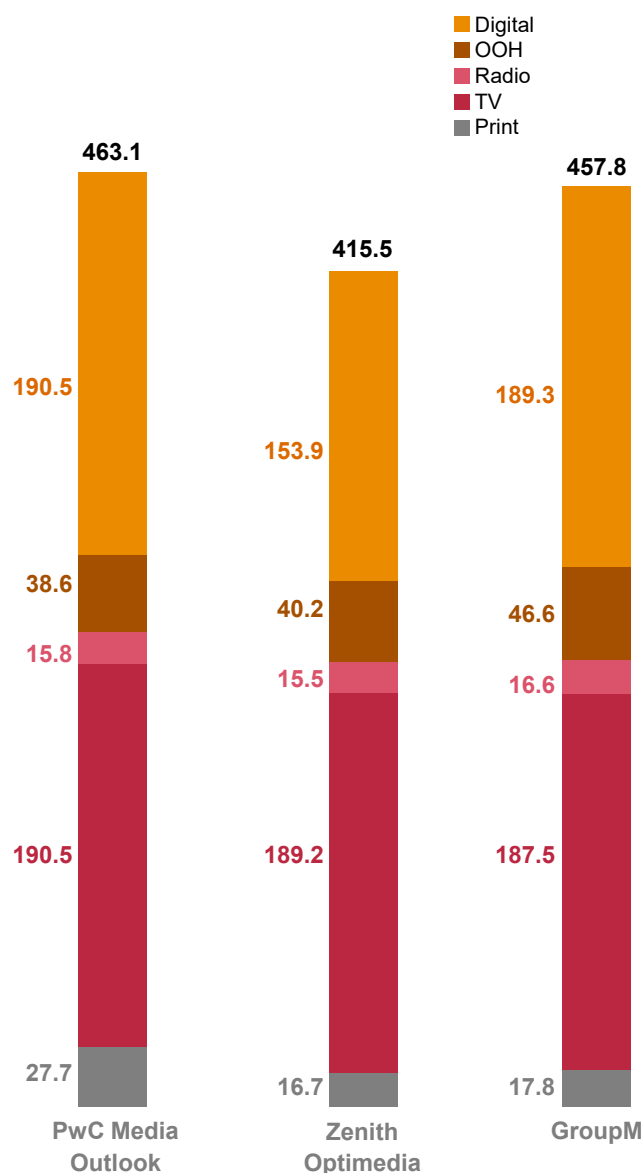
Media mix development, 1999-2021F



Outlook for the Russian interactive advertising market, 2018-2020

The total forecast for the Russian advertising market for 2018, according to various sources, ranges from RUB 457.8bn to RUB 463.1bn.

Forecast for the total Russian advertising market, 2018 (RUB bn)

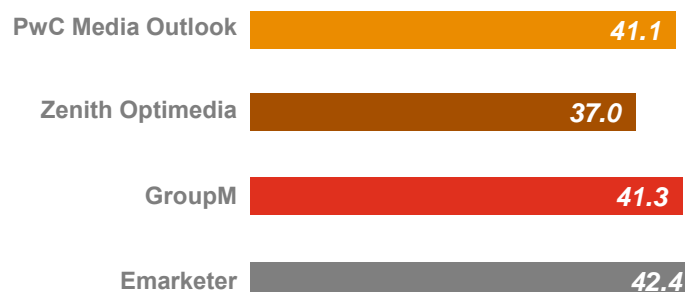


Sources: 1-3.

Based on various estimates, the share of interactive advertising market in 2018 will account for either:

- 41.1% of the total Russian advertising market, as estimated by the PwC Media Outlook
- 37.0% of the total Russian advertising market, as forecasted by Zenith Optimedia
- 41.3% of the total Russian advertising market, as forecasted by GroupM
- 42.4% of the total Russian advertising market, as forecasted by Emarketer.

Forecast of the share of interactive advertising in the total Russian advertising market, 2018 (%)



According to the projections of the PwC Media Outlook, the CAGR for interactive advertising will amount to 15.0% in the next five years and will outstrip the CAGR of the advertising market in general, which is forecast to reach 8.8%. The TV advertising segment is expected to demonstrate a moderate CAGR of 6.1%, while the CAGR for radio and OOH will amount to 2.0% and 0.5%, respectively. Although there are no growth dynamics in the OOH sector, no decline is expected either, as OOH is characterised by a unique combination of its vast reach and its hyper-local communication in specific regions, addressing tasks that other advertising market segments are unable to cope with.

The only sub-segment (within the print segment) where further decline and market share shrinkage are expected is newspaper ads, with a negative CAGR of -8.5%. It should also be noted that this trend reflects global practices, and the only countries where a positive CAGR is expected for the next five years are India (4.4%) and Vietnam (2.2%), which is explained by the historical habits of their populations.



5

Drivers of the outlook for the Russian interactive advertising market, 2018-2020

Transformation of society and ways of content consumption

The era of digital transformation has led to dramatic changes in our everyday lives and has impacted our social development, the transformation of society and our ways of communicating and of consuming content.

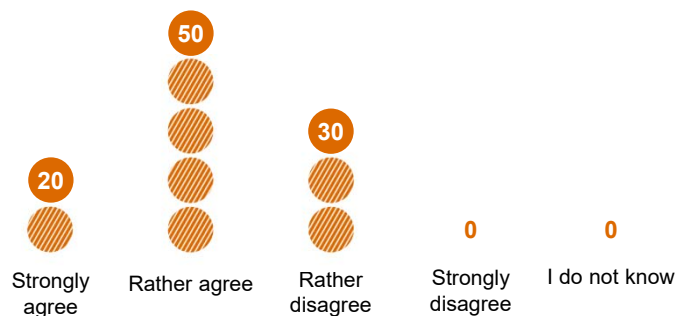
The extensive growth of the Russian interactive advertising market is closely related to increased Internet penetration. According to GfK, the level of Internet penetration at the beginning of 2018 grew from 70.4% to 72.8% and from 47.0% to 56.0% for mobile Internet. The level of penetration will keep growing as smartphones become ubiquitous and older people become more engaged in the online environment. In 2017, the proportion of Internet users among people older than 55 years increased by a quarter, and their proportion of mobile Internet users has doubled.¹ Looking ahead, this trend will strengthen thanks to the spread of social media, entertainment content, mobile online shopping and the evolution of Internet of things (IoT).

The consumer generation is changing too as millennials (born from 1981-1998) and generation Z (born after 1998) become the key consumers. These new generations have grown up online and they are far more “media-engaged” than previous generations. Together with the new generation, content consumption is changing as people become used to consuming content “here and now”, which is an obvious driver of growth in interactive advertising in general and development of such sub-segments as video formats and voice searches.

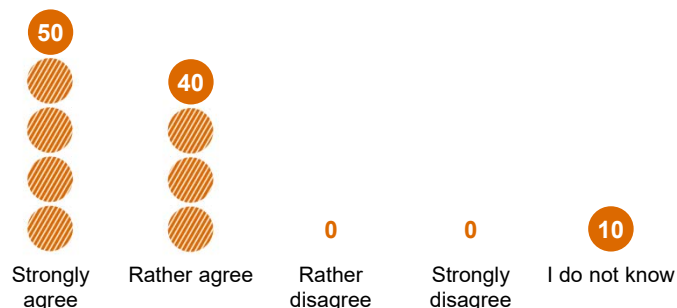
Survey participants noted that the interest of advertisers in the desktop format has declined, resulting in the growth of mobile advertising, another important driver of interactive advertising growth.

Accordingly, 70% of respondents agreed that interactive advertising will primarily be on smartphones and tablets in the near future, and 80% of respondents were confident that mobile advertising will be comparable to desktop advertising when considering the size of advertising budgets. However, along with the growth of mobile inventory and budgets, the division between mobile and traditional advertising will gradually disappear, with 90% of respondents expecting that there will be no such division in the foreseeable future.

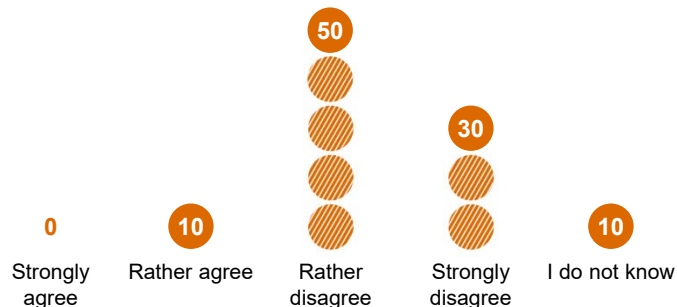
In several years, the main part of interactive advertising will be on smartphones and tablets (%)



In a number of years, any division between traditional and mobile advertising will practically disappear (%)



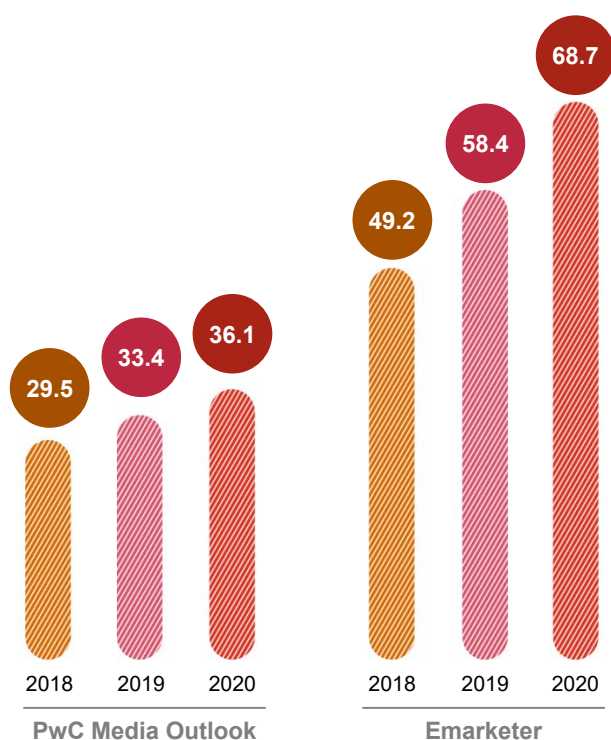
Mobile advertising cannot be compared to traditional advertising in terms of advertising budgets (%)



Drivers of the outlook for the Russian interactive advertising market, 2018-2020

The graph below represents the forecast of the share in revenue of mobile advertising for 2018-2020 from public sources:

Forecast of the share of mobile advertising in revenues, 2018-2020 (%)



Sources: 1-2.

According to the PwC Media Outlook and Emarketer, the mobile advertising share is expected to grow rapidly.

The PwC Media Outlook predicts a growth rate of 3.9% by 2019 and 2.7% by 2020. According to Emarketer, the growth rate will be 9.2% by 2019 and 10.3% by 2020. It should be noted that Emarketer forecasts are more positive not only for the growth rates but also in relation to the shares' size. Emarketer believes that by 2020, the share of mobile advertising will amount to 68.7%; however, the PwC Media Outlook estimates that the share of mobile advertising will be 36.1% in 2020.

This trend will continue to define the development of the advertising market for the next several years. The proportion of mobile Internet users keeps growing at a record-breaking pace. According to GfK, it amounted to 67m people in 2017 and will continue to grow. The increasing popularity of smartphones and the attractive sales terms under interest-free loan plans, as well as the increased number of subscribers with mobile access to the Internet, have contributed to this trend. According to the PwC Media Outlook, there were 97m mobile Internet subscribers in 2017 (or 68% penetration rate). This figure is expected to amount to 117m people (or 82% penetration rate) by 2022.

The further growth of mobile advertising in Russia will also be driven by the development of social media. According to the PwC Media Outlook, around 100m people log on to social media every day in Russia. Mobile phones are the preferred method for browsing social media, and it has been reported that 70% of visits to social media sites are done through mobile phones. The market has gradually started looking at social media as a mature media source, with the amount of time spent on content consumption comparable to traditional communication channels. However, advertisers have not set mobile advertising as a separate line in their marketing budgets and continued to buy inventory jointly for their mobile and desktop audiences. **The constraining factor here is the difficulties in measuring of audience in mobile apps. As mobile Internet develops, the share of advertising campaigns for the mobile audience alone will keep growing.**

The world is becoming digital, and the hype around the transformation of society and business is growing. The significance of this factor as the main driver of growth in interactive advertising is also strengthened by the priorities of the government, one of which is the digital economy.



Emarketer



PwC Media Outlook

New technologies unlock new opportunities

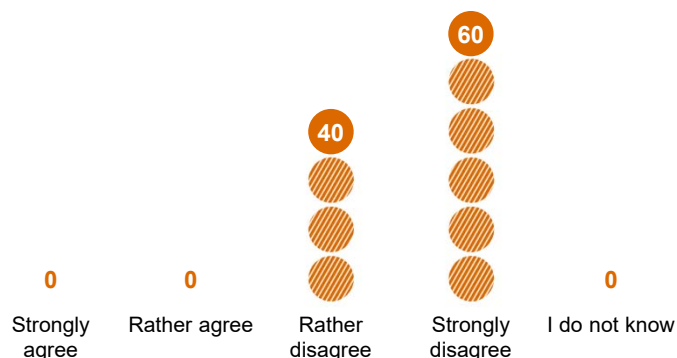
Technologies have always been the basis for growth in the interactive advertising market. However, the acceleration of the pace of technological change today and the development and affordability of technologies lead to the emerging of new products and mechanisms of interactive advertising, which in turn fuel the demand and interest of advertisers and brands. Because of this, not only are inventory sale mechanisms changing, but communication as such is changing too. Data-driven marketing is already the market standard, defining the quality of brand communication with consumers. The use of data obtained as a result of advertising campaigns gives brands an opportunity to analyse their consumer better, become more customer-centric and reduce marketing costs.

New technologies unlock new opportunities for the development of interactive advertising. The functionality of interactive advertising as hyper-segmentation or targeting makes it very attractive for advertisers.

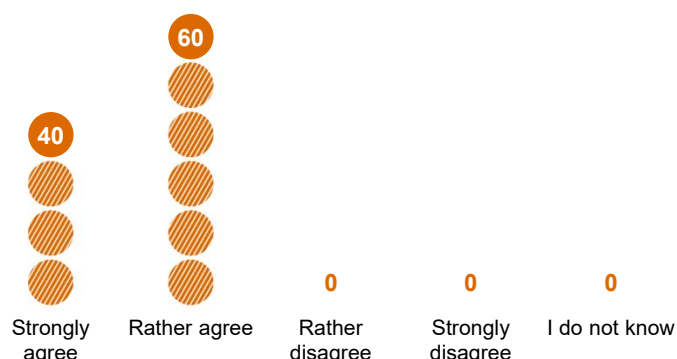
Hyper-segmentation shows the demand of advertisers for audience segmentation (e.g. by consumption and look-alike), which becomes possible due to the accumulation and leverage of Big Data and deep interactions between advertisers and media platforms. Interacting through creativity is replaced by the trend of applying native formats that will define the trend of industry development for the next several years.

Targeting effectiveness does not raise any doubts among survey participants: not a single respondent agreed with the statement that targeting is just a fad, while an efficient advertising campaign needs a vast reach. Moreover, all of the respondents agreed that all interactive advertising will be targeted advertising within the next several years.

An efficient advertising campaign needs a vast reach; targeting is just a fad (%)



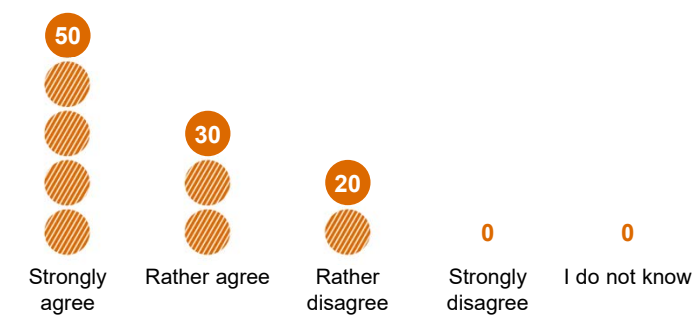
In the next few years, all interactive advertising will be targeted (%)



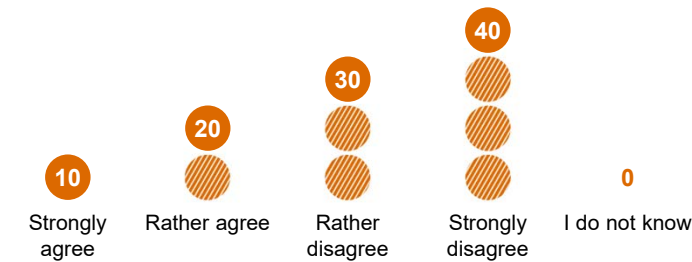
... because of advanced technologies, interactive advertising is the most efficient method of advertising.

Most survey participants (80%) agreed that because of advanced technologies, interactive advertising is the most efficient method of advertising. Moreover, over two-thirds of respondents believe that all advertising will eventually become interactive, and the division of interactive and traditional advertising will become notional.

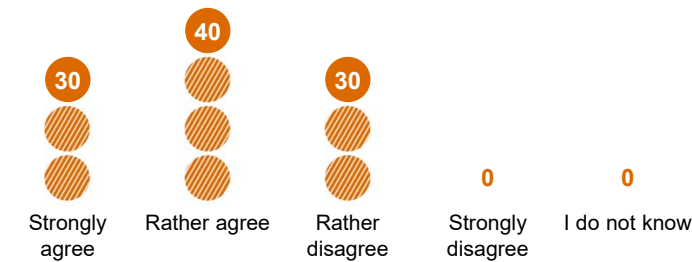
Interactive advertising is the most efficient method of advertising (%)



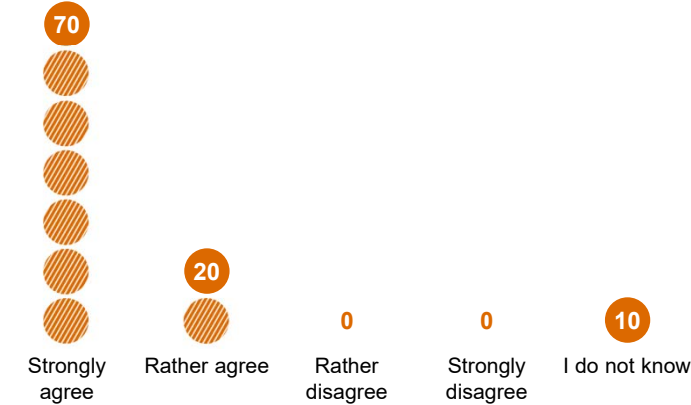
Interactive advertising will lead to the abandonment of all other types of advertising (%)



All advertising will eventually become interactive (%)



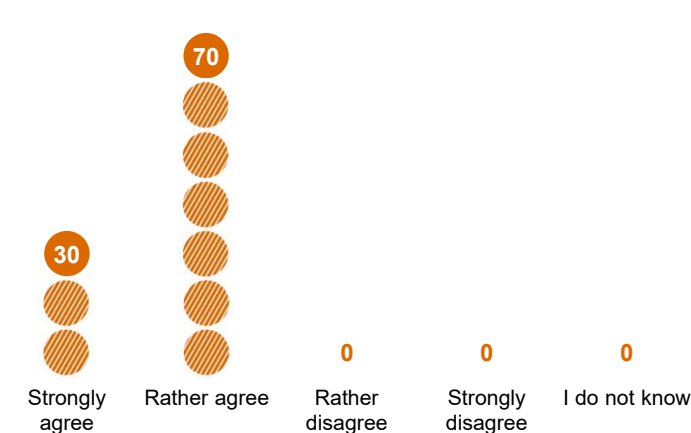
Interactive advertising is more efficient in combination with other types of advertising (%)

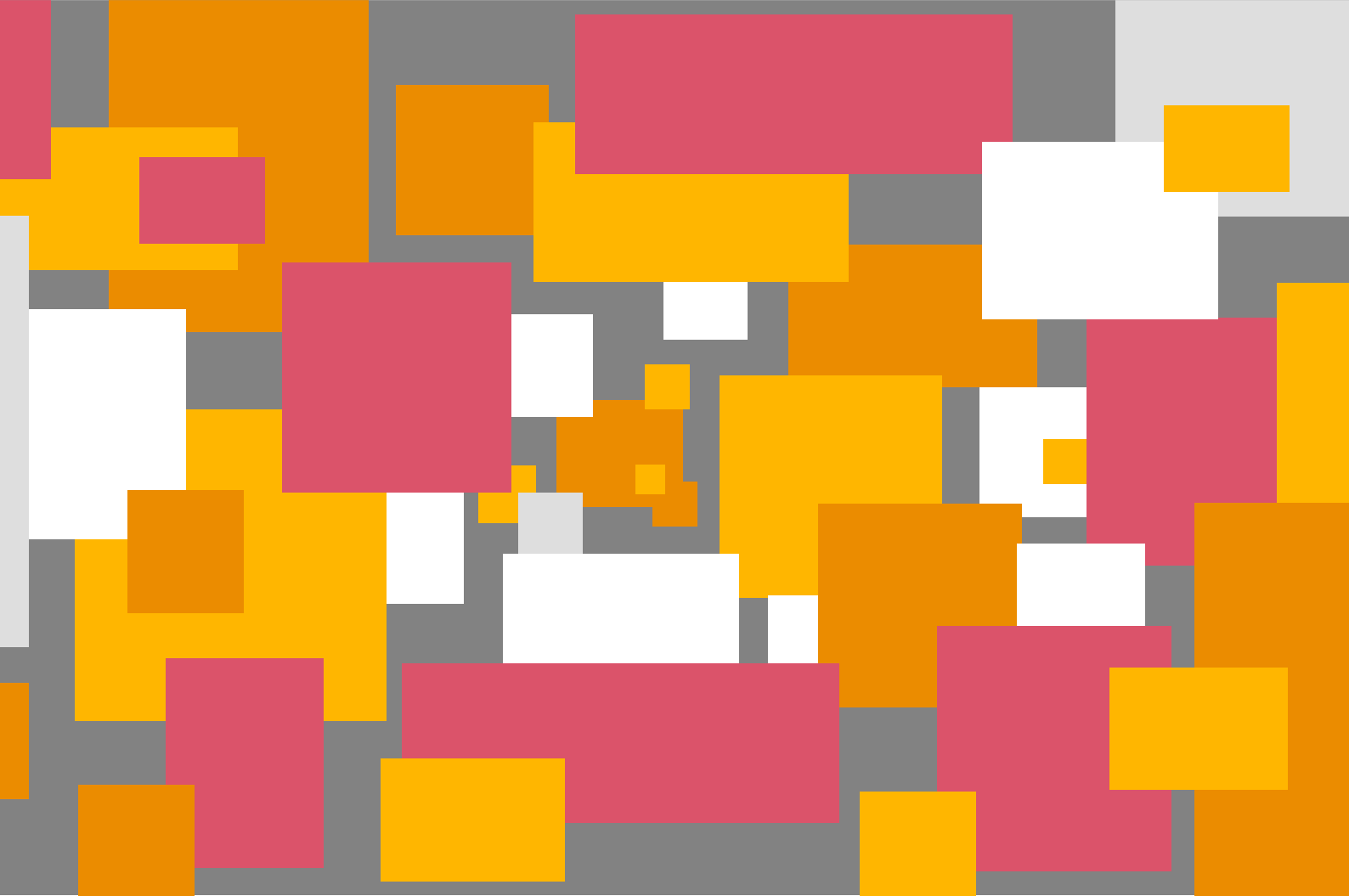


However, market players did not yet think that interactive advertising would replace all existing media segments. Only 30% were ready to state that interactive advertising will lead to the abandonment of other types of advertising altogether, while almost all of the respondents (90%) stated that interactive advertising is more efficient if combined with other types of advertising.

Also, all of the respondents without exception agreed that without using end-to-end consumer analytical services, interactive advertising campaigns are ineffective.

Without end-to-end consumer analytical services, interactive advertising campaigns are ineffective (%)

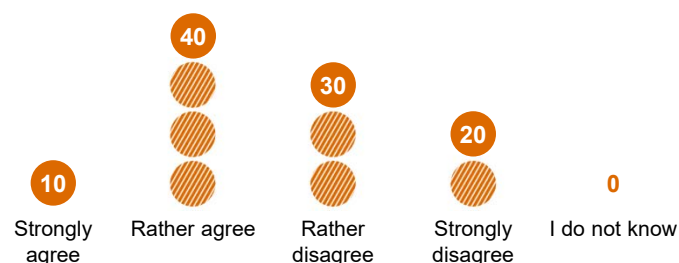




Assessing how complicated advertising technologies are could serve as an indicator for readiness of the interactive advertising market for further development: **most factors driving the market growth are directly related to the development and use of new technological solutions, e.g. Big Data, targeting, cross-platform measurements, audits of advertising campaigns, the application of machine-learning algorithms and the development of new advertising products.**

When answering questions about how difficult it is to understand or apply technologies in interactive advertising, opinions vary. Half of respondents expressed their inclination to agree with the statement that advertising technologies are complicated, while the other half believed that interactive advertising technologies are not so difficult to understand or apply.

Technologies for interactive advertising are very difficult to understand or apply (%)



... over two-thirds of respondents believe that all advertising will eventually become interactive, and the division of interactive and traditional advertising will become notional.

Focus on transparency

Both a constraining factor and, at the same time, an opportunity for growth for the Russian interactive advertising market is the diversity of metrics for assessing the effectiveness of marketing campaigns. The efforts of all market participants are concentrated on searching solutions for creating single cross-platform metrics what represents huge potential for the market. It is critical that Russian advertisers increase both their end sales and media budgets. Unified assessment on the effectiveness of advertising campaigns and shift to offline performance drive transparency of the market, which, in turn, also lead to increasing in budgets allocated to interactive advertising.

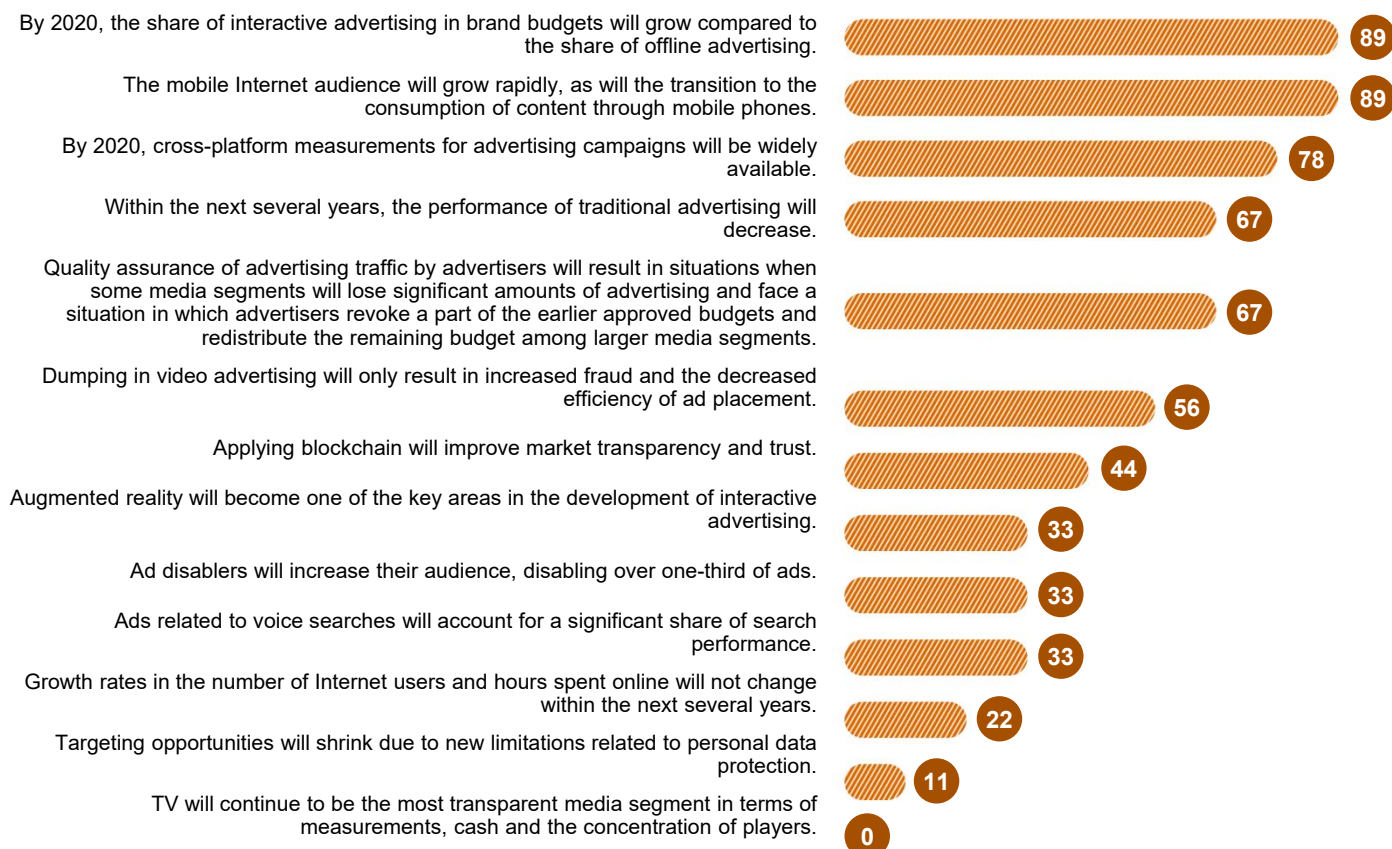
Survey participants agreed that two key drivers can increase the share of interactive advertising, and they are:

- 1) increased inventory (most respondents (89%) expect the mobile audience will grow and the audience for ad disablers will decrease) and
- 2) the development of cross-platform measurements for advertising campaigns is aimed to enhance confidence in interactive advertising.

Market experts also expect a gradual shift from traditional metrics (e.g. CTR) to performance measurement of advertising campaigns through the attribution of end purchases.

Within the next several years, the demand for analytics for the full technological (automated) tracking of the performance of an advertising campaign, from a first website visit to a final purchase and calculating the return on investment (ROI) from advertising campaigns, will only grow.

Respondents' answers (%)



TV will not continue to be the most transparent media segment in terms of measurements and budget concentration

100% of respondents

The functioning of the interactive advertising mechanism is now changing in response to the demand of advertisers for transparent processes. Building up competencies among market participants in the area of digital marketing activates the qualitative transformation of the entire market. The new standard emerges due to the development of a measurement system aiming to spot fraudulent actions, as well as the development of ad viewability measurement and the increased transparency of purchasing traffic. The practice of systematic and independent audits of the quality of traffic provided by media platforms is already widely spread.

Development of such technologies as blockchain may enhance the transparency of interactions between market participants, provide an opportunity to trace the chain of transactions and ensure data reliability (no such examples have been seen in Russia yet).

According to the survey, respondents fully agreed on the statement that TV will not continue to be the most transparent media segment in terms of measurements and budget concentration, with all of the respondents agreeing on this. This will be fuelled by an increased share of interactive advertising in the budgets, which 89% of respondents supported.

The desire to improve market transparency is perceived realistically by market players, as two-thirds of respondents expect that the quality assurance of advertising traffic, on the one hand, may result in decreased revenues for some media platforms due to unsatisfactory quality of advertising inventory with the requirements of advertisers; on the other hand, it will have a positive effect on the interactive advertising market due to the growing confidence among advertisers.

However, although everybody is interested in high-quality inventory and transparent figures, certain resistance is seen in the market from some market participants. For instance, not all media platforms willingly accept verification by the third parties, and one unique certification system has not yet been developed in Russia.

In Europe, the practice of applying one unified certification system has been used for a long time: any media platform may be certified if it is willing to apply its own metrics, alternatively, it may apply to those already verified. The experience of European countries shows that the existence of one recognised measurement system leads to a significant increase in advertisers' investments in advertising. **Many market experts believe that establishment and development of such a certification system would have a positive impact on the Russian advertising market.**

This statement is relevant for other advertising segments as well. Thus, a new advertising agency was set up in TV advertising segment in 2016, great event in the Russian advertising market. In July 2016, the largest Russian media holdings, including Channel One, VGTRK, Gazprom-Media Holding and National Media Group, created a new company - the National Advertising Alliance (NAA) for TV advertisement sales, effectively controlling over 70% of Russia's TV advertising market. In December 2016, a new structure and participants were confirmed for the Industry Committee for TV Audience Measurement, and the NAA was included therein. The key objectives of the Committee's structure modification were the creation of a TV audience measurement model that is transparent and understandable for the market, as well as the formation of industry measurement standards and efficiency indicators for the measurement systems.

In the OOH segment, market experts also agree that the key barrier to using OOH is its weak measurability, and the efforts of market participants are aimed at addressing this issue.

The focus on transparency is a strong trend that will change the market over the next three years.

Competition with traditional TV advertising

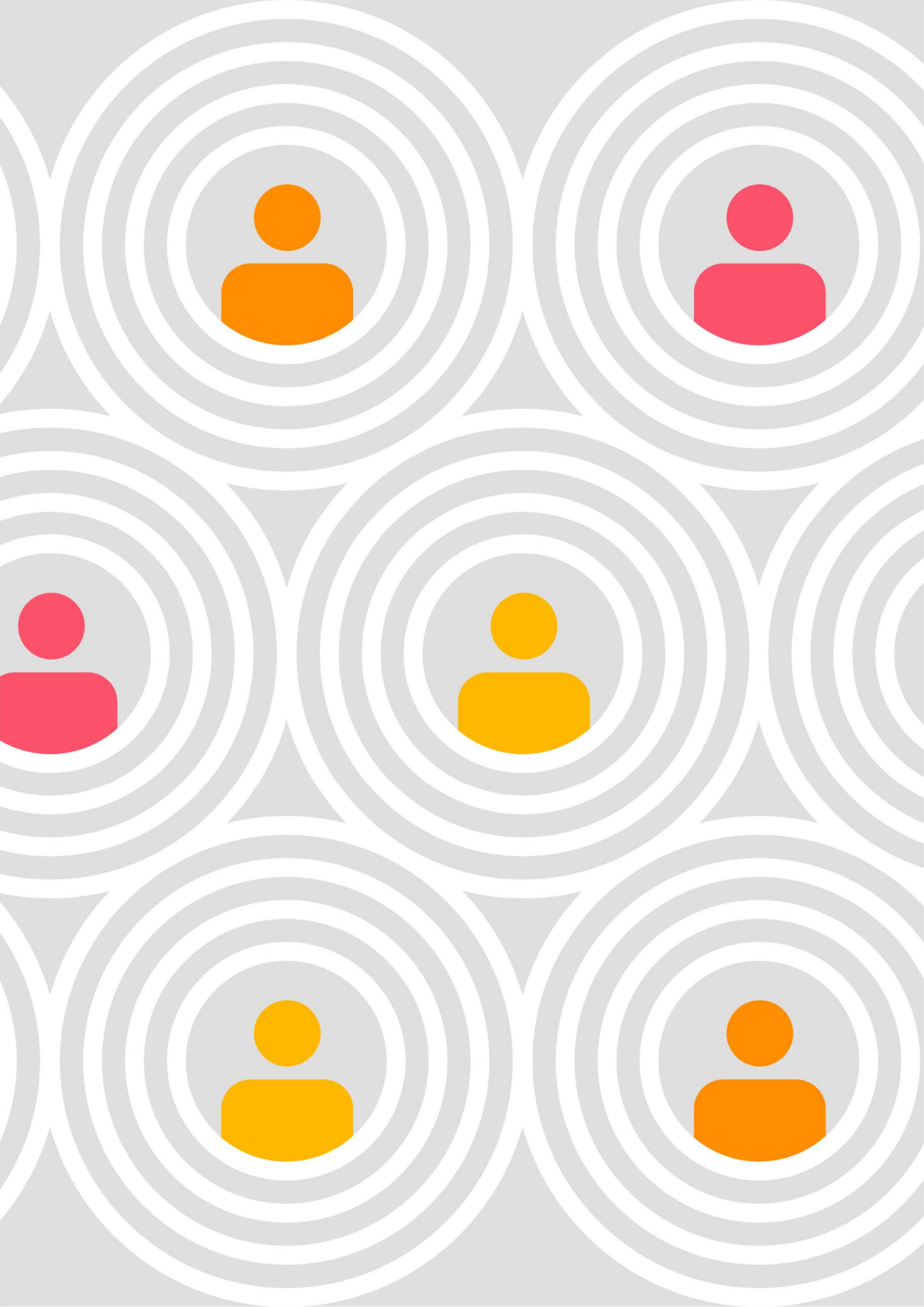
One of the constraining factors for the growth of interactive advertising is strong competition with the TV advertising segment. Although TV advertising is much more sensitive to the Russian economy changes than interactive advertising (which explains the reduction in spending on TV advertising in 2015 by 13.7%, according to the PwC Media Outlook), the market for TV advertising rebounded after the decline and is demonstrating growth once again. In 2017, revenues from TV advertising increased by 11.2%, and these positive dynamics will continue in 2018. According to the available data, this segment of advertising increased by 13.0% (according to AKAR) or by 12.3% (according to the PwC Media Outlook) from January to March 2018.

An obvious driver with a positive impact on the growth of TV advertising in 2018 was the FIFA World Cup, a large-scale sporting event hosted by Russia.

As part of preparation for the FIFA World Cup 2018 in Russia, some changes to advertising laws took place in the Russian legislation when the rules on beer advertising were eased until after the event. That decision allowed for the promotion of beer on TV, provided it was done so a sporting context. The full effect of the FIFA World Cup broadcasts is still to be evaluated, but we can already say that thanks to the unpredictable outcome of matches, Russian TV channels must have performed well. The growth rate of 12.3% in TV advertising projected for 2018 is underpinned in particular by the impact of hosting the 2018 FIFA World Cup, with growth rates set to fall back significantly from 2019.

Another factor with a more prolonged effect on the development of the TV advertising segment could be the establishment of the NAA in 2016. Additionally, as requested by the NAA, Mediascope and NSK launched the Big TV rating project in late 2017 to measure the content of cross-media consumption through TV and the Internet. These steps are designed to enhance the transparency of the TV advertising market and to develop conditions that would be more attractive for advertisers when using Big TV rather than buying advertisements for the same content online.





6

Development trends in the Russian advertising market

Development trends in the Russian advertising market

Industry emphasis

The two key industry emphases that will define further development of the Russian advertising market could be formulated as follows:

1. **Customer personalisation.** Shifting to a unique product for each consumer in the B2C market establishes the importance of building end-to-end, 360-degree analytics around a concrete person (customer-centric), meaning that priority is given to the interests of a specific user.
2. **Access to the end-consumer.** Content producers are willing to have the ability to “follow” the end user, this opens up opportunities for the transformation of traditional business models.

Artificial intelligence (AI) and machine learning

Using AI technologies is undoubtedly one of the primary trends in all aspects of life and business, in music, cinema, etc.; naturally, the advertising industry is no exception. Technologies based on AI become more and more popular for automating solutions for all kinds of tasks for media planning, starting from creative solutions and continuing up to the analysis of big data on the behaviour of consumers. AI combined with Big Data analysis (for which, among other things, machine learning is used) can identify consumers and determine their habits, behaviour and interest in certain type of content. Further, AI aids the delivery of specific information to a particular user through the most suitable distribution channel.

Therefore, these technologies will become an integral part of the advertising market, as they will help in responding to the challenges that brands are facing today, such as the personalisation of goods and services offered and building the right communication channels with consumers to meet their needs.

Online and offline integration

The development of cross-media interaction when placing ads will have a strong impact on the Russian advertising market over the next few years. The boundaries between online and offline space are gradually disappearing, and the focus will be on using online and offline data together. Pools of data will be interesting only from the point of view of their integration in one system (e.g. within a data management platform (DMP)) and their correlation with fiscal and other data from offline purchases.

Such projects as placing ads on digital structures through the Yandex.Direct single platform, using data from city Wi-Fi networks and attributing visits to offline locations (e.g. points of sale, events, auto dealers and restaurants, etc.) allow for the integration of all pools of data in a single platform for their further processing, segmentation and usage as a basis for targeting and attribution. Thanks to attribution, brands will be able to address their specific tasks, such as tracking the interactions with consumers from the first online contact to the offline purchase. Online and offline integration will lead to the transformation of the market overall.

Convergence and synergy

The advertising industry is now entering a new stage of the development, with borders between market players gradually disappearing. Major content producers are becoming vertically aligned and integrating with distribution platforms, allowing them to access end customers efficiently. Online and telecom giants are also expanding into content and building localised integrated ecosystems.

The traditional segments of the advertising market are also undergoing transformation, with distinctions between traditional and digital segments becoming notional. Even now the distinction between these markets is notional. For example, when the consumer watches TV through the Internet, what content are they consuming: Internet or TV? Should we classify digital publications as print or digital?

Expanding communication channels and defining a user's intentions even before they are formulated is currently the most relevant and efficient part of communication, and it is achieved through the synergy of various segments of advertising and by using a mechanism of multi-channel communication with the consumer. Market experts are confident that TV and Internet advertising will eventually stop being viewed as alternatives and will instead supplement each other in delivering content. Such a trend is already being seen in OOH, where they are starting to actively use the “offline-to-online”/“online-to-offline” method, such as when the consumer has seen a teaser for a new film and gets an offer online to buy a ticket to see it.

Traditional and interactive advertising formats stop competing with each other and start offering brands combined advertising products that complement one another to achieve the maximum effectiveness of an advertising campaign.

Finally, while working with content, advertising agencies and producers of traditional content understand the importance of access to the audience and the ability to influence it. Therefore, they are increasingly seeking new opportunities to establish partnerships with media platforms and to research the motivations and mechanisms focused on customers.

Adaptation and investments in innovative technologies

The media industry is one of the few in which consumers, tempted by evolving technologies, tend to quickly change their behaviour and preferences. Therefore, to remain successful, companies in this field need to learn how to adapt faster to changing market trends and to make investments in innovative technologies.

Media companies have to not just follow new trends but must be one step ahead of the consumers' expectations in order to retain and expand their audience.

However, not all market participants understand the importance and need of investments, which is the factor limiting the growth. All brands want to have their own digital ecosystems to obtain 360-degree analytics from their consumers and to build clearer and more accurate profiles. However, the development, maintenance and adaptation of such digital ecosystems requires significant investments. Nevertheless, the investments and costs related to collecting, analysing and using data to increase one's business are still not viewed by many companies as a method for generating additional income. By way of comparison, European advertisers closely follow new technologies, so a part of their budget is also actively spent on testing even the newest and most innovative advertising channels, such as virtual reality, voice and visual search.

Technologies as such mean nothing, and expertise is required

The general trend of operating efficiency in business processes, the simplification of their administration, the reduction of the chain between producers and suppliers, and the need for intermediaries, as well as new opportunities for using data in all industries with the minimal engagement of humans and the automation of advertising, generates demand among brands for experts with the analytical skills and knowledge on how to operate Big Data. Over the next several years, neural networks will be integrated into companies' marketing processes, from the development of advertising products, communications with consumers and the evaluation of performance.

The media industry is one of the few in which consumers, tempted by evolving technologies, tend to quickly change their behaviour and preferences.

The trend of applying technologies based on Big Data makes the lack of relevant specialists a burning issue. When working with Big Data, certain difficulties arise, such as when data by itself is not enough to conduct an efficient advertising campaign. Brands want to apply an approach that would take into account their specific tasks, and it is commonly known that there is no such thing as two identical tasks; the same tools and technologies are used in the market, while the functionality differs depending on the task. Therefore, there is a high demand for specialists working with Big Data-based technologies that are knowledgeable in data and can correctly set or evaluate the required parameters, formulate specific tasks for data application and can set the correct functionality for using one or another tool to ensure that the data would be useful for brands and that the brands would be able to address their tasks on this basis.

Companies accumulating data do not usually have necessary knowledge on how to deal with Big Data (as it is not their key business area), as such they are not able to use the information obtained properly, hence there is a need for partnerships with other market players. Such partners could be advertising agencies who know their customers well and technology vendors who has data specialists with relevant experience.

According to market experts, the lack of big data specialists is a pressing one not only in Russia but in Europe as well, and this undoubtedly is a limiting factor. However, two years ago, the situation in Russia was even worse. Now, some analysts and experts working with big data are appearing and such business areas as data consulting are developing.

... the trend of personal data protection will not have an adverse impact on the market.

Readiness to cooperate

The cross-platform approach to an advertising campaign is the most valuable in terms of propositions for brands, as it enables brands to offer their consumer a tailored unique product, collect the maximum information about their consumers, understand the content they consume, etc.

The combination of offline and online information about users will help advertisers understand the behaviour of their consumers and their habits better, and it will open up new opportunities for the personalisation of products and services.

Many market players define their key task for the next several years as offering technologies, tools and solutions developed to achieve the individual objectives of brands. This should become the basis for transitioning to the work with data, and it is not only about applying new technologies but also about emerging of an entirely new product. There are some pioneers in this direction, and so-called interactive dashboard systems are arising in which all online and offline data for specific advertising campaigns and users is accumulated in real time. This could be immediately used, aggregated and analysed, and decisions could be made to set specific KPIs and change certain parameters.

However, the wider practice of cross-platform measurements in Russia is not yet present, and the market is only starting to move towards cooperation between media platforms and measuring devices providers. Market experts note challenges arising in this direction, as not all market participants are ready to cooperate and many media platforms do not rush to grant access to their data.

Market participants are rather at the stage of searching for solutions and mechanisms for such cooperation regarding the shared use of data, which would allow them to maintain the status quo of data owners. **The market players are optimistic about the development of cross-platform approach, as there is a demand for it and brands are ready to pay for and invest in it; therefore, the market will ultimately arrive at a model of cross-platform supply.**

This belief is also confirmed by the experience of European countries that are already seeing a more active combination of offline and online information about the user. There are examples of successful joint projects when, upon the collection of information about a user's search history and his/her offline transactions using credit cards (some advertisers may obtain such information based on cooperation with companies engaged in tracing them), advertisers are able to understand better which ads should be placed in stores and which online ads should be shown to users shopping in those stores.

It should be noted that the collection of information about users is hindered by the trend of personal data protection, so information on many users could not be obtained without permission. However, market experts believe that any limitations related to personal data are of a temporary nature, as companies always need time to adapt to something new, including fixing the process of appropriately handling personal data. Market experts are positive about the changes to personal data protection, as this initiative at the end of the day is aimed at ensuring user safety, and users will be more willing to give their data to a brand they trust. If brands apply reasonable policies on personal data handling, users loyal to such a brand should not object, as they will get the advertising and propositions they need. **Therefore, market experts believe that the trend of personal data protection will not affect the market; to the contrary, it will be useful for the market, as the brands will respectfully treat their consumers' personal data while unfair operators of personal data will have to leave the market.**

In conclusion, we would like to note that the Russian advertising market does not significantly differ from or lag behind the trends seen in the European market. The gap is closing due to the validation of tools and technologies of global brands that are widely represented in the Russian market. Some tools have immediately become a part of the Russian market, while other technologies keep waiting for their time.

7

Methodology

Methodology

This research included information about the actual size of the Russian interactive advertising market in 2017, with the breakdown of the key segments and the forecast of the changes to the market for 2018-2020 based on a survey of the key market participants and interviews with market experts.

For the purpose of our research, the data obtained during the survey and the interviews were processed, aggregated and anonymised by an independent third party represented by PwC specialists.

The research contained a forecast for three years. The choice of this specific period is related to the fact that the advertising market is changing extremely fast, not only in terms of technologies but also in terms of customer preferences, communication channels, advertising products and budget allocations. Therefore, the three-year period was chosen as the period within which the analysis of current and emerging trends could be sufficiently informative for developing a forecast.

In the context of our research, the scope of the Russian market for interactive advertising on the Internet refers to the amount of cash spent on communicating with the Russian audience, regardless of who the advertiser is or in which media platform the advertising content is placed. The research applies figures of gross advertising revenues net of VAT.

The actual size of the interactive advertising market and its forecast were measured for four segments, which were:

- Performance search
- Performance CPx
- Branding video
- Branding banner.

Branding is advertising designed to deal with image-building tasks, sold based on the "payment for the issue of an advertisement message" model.

Branding campaigns are divided into two sub-segments:

- Branding banner, which focuses on traditional banner formats
- Branding video, which is the video advertising segment.

Performance is an area of interactive advertising in which the measurement of users' target actions is fundamental, with payments for the result.

The performance segment is split into two sub-segments:

- Search, e.g. ads in Yandex, Google and Mail.ru Group and search results
- CPx, e.g. context ads in social media, apps and advertising networks, including MyTarget, the Yandex advertising network, Google Doubleclick, etc; in other words, all of the advertising formats where payments are based on designating a price for a target action (e.g. click, follow the link and registration).

Data collection

The actual data for 2017 obtained from market players and open sources were used in the research.

For a more accurate analysis, the market players surveyed were split into:

- Advertisers
- Advertising agencies
- Media platforms
- Sales houses
- Ad tech vendors

Forecasting

All forecasts include the historical data from a variety of sources and are prepared as part of an integrated process that involves both quantitative and qualitative analyses. The forecasts were the result of a rigorous process of scoping, market mapping, data collection, statistical modelling and validation.

The forecasts were prepared based on an analysis of multiple factors, including economic, demographic, behavioural and technological ones; competition and government regulation ecosystems; and a number of specific drivers that impact the market.

The forecast for market changes for 2018-2020 was carried out by:

1. asking the representatives of all market players about their expectations for their companies' growth and the market's growth in general for the next three years
2. calculating the average expected growth of companies, weighted according to their revenues and purchase amounts, by using the information received
3. calculating the expected market growth by using the average values of segments
4. interviewing advertisers, market experts and representatives of other media segments (e.g. OOH, TV, print and radio) to discuss key trends and obtain expert estimates of the market development forecast
5. comparing and adjusting the figures received during the third stage to obtain the final projected values, subject to factors such as:
 - information received from interviews
 - retrospective data for previous periods
 - general economic trends and their potential impact
 - projected data from the PwC Media Outlook
 - industry trends and their impact on companies' financials, as demonstrated by foreign markets.

Other indicators

Among other things, our research also included comparative data on other segments of the Russian advertising market (e.g. TV, OOH, radio and print) from 2017-2020. The comparative data was obtained from public sources (e.g. PwC Media Outlook and AKAR).

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