



Advertising-supported web services to deliver €100 billion in value to consumers in 2010, rising to €190bn by 2015

McKinsey & Company study commissioned by IAB Europe demonstrates the value internet users receive from free services for the first time

Brussels 20th September 2010: Europeans now spend an average of 24 hours on the internet every month*. Once we've paid for our internet access, almost all of the services that we use regularly – from email, instant messaging and maps to social networks, gaming, music and video sites, and to search and price comparison – are free, funded largely by online advertising.

A new report commissioned by IAB Europe from McKinsey & Company examines the so-called *consumer surplus* that advertising-supported web services generate for internet users in the UK, France, Germany, Spain, Italy, Russia and the US. The *consumer surplus* represents the economic value of free web services to users after deducting costs such as access to the internet and paid-for services, and after taking account of the concept of *advertising disturbance*.

Consumer surplus valued at €100 billion with annual double digit growth

Online advertising largely funds the value consumers receive from free web services. For every euro spent on online advertising by brands, users get three Euros worth of services. McKinsey & Company estimate that in 2010, the *consumer surplus* generated by online advertising in the Europe and the US will be €100 billion, which equates to around €40 per household per month. This is nearly as much as consumers spend for their annual internet access subscriptions (€120 billion). McKinsey & Company anticipates that the surplus will grow on average (CAGR) by 13%, to €190 billion by 2015.

Value of free services five times greater than cost of paid services

For three quarters of the users surveyed, the value of using free services is at least two times larger than any advertising disturbance (e.g. pop-up ads, privacy concerns) that they may experience. In general, the average user attributes over five times more value to free

web services than the amount they are willing to pay to avoid any disturbance. The study also confirmed that 20% of internet users pay for some services..

Consumers derive very significant benefit versus producers

The report also compares the *consumer surplus* to the *producer surplus* (i.e. profit earned by the provider of the service). McKinsey & Company estimates the producer surplus for 2010 to be €20 billion. This means that consumers have been taking the majority - around 85% - of the total available surplus generated by web services. Similarly, the value realised by consumers is three times greater than total expenditure on online advertising in the IAB Europe countries and US, which in 2009 was €31 billion**. Online advertising accounts for 17.65% of total main media advertising spend in the six IAB Europe countries surveyed by McKinsey & Company***.

Limiting free services

Finally, the study indicates that if those services that are currently provided for free were to be charged for (to compensate service providers for the loss of advertising revenue), 40% of current users might choose to limit their internet use. In economic terms, this is described as a *negative consumer surplus*.

Alain Heureux, President and CEO of IAB Europe said: "Online advertising is being debated around the globe, yet until today, there has been little robust and independent research into the huge value generated by the free, advertising-supported web services that we all use every day. McKinsey & Company's research shows that online advertising plays a strong role in enabling new services and content distribution models, as well as its traditional role in supporting the creative industries. The report also shows that today's consumers are able to make reasoned choices about when to use advertising supported services, and when to pay for them - and that tightening rules further is likely to have negative effects on internet usage in general. We look forward to a substantive discussion with the European Commission on policies that will help Europe use the potential of online advertising to generate more value - and economic activity - in member states."

Summary of key findings:

- Online advertising largely funds the value consumers receive from free web services. For every euro spent for online advertising by companies, users get three Euros worth of services. The estimated value to consumers (*consumer surplus*) is €100 billion in 2010 and is expected to grow at a sustained CAGR of 13% to €190 billion in 2015

- In contrast, the producer surplus from delivering those services is estimated at €20 billion for 2010. This means that (outside of advertiser surplus) consumers have to date been taking the majority (85%) of the total surplus linked to web services
- More than 80% of internet users enjoy significantly more value from using the web than they would be willing to pay to eliminate disturbances from advertising and privacy concerns. In practical terms, each euro an internet user is willing to spend to limit advertising disturbance equates to six Euros worth of value from current ad-supported web services
- Protection against advertising disturbance is valued at €10 per month per household. A niche of one percent of users value privacy higher than the consumer surplus that accrues to average users through the use of free services
- The research also assesses the value of paid services. Only 20% of internet users also choose to pay for at least one service such as online communications and entertainment. The research suggests that the pay/free mix is already in equilibrium and only a price drop will grow numbers of those willing to pay
- Finally the study indicates that if those services that are currently provided for free were to be charged for (at a level that generates the same amount of revenue as ad-supported services), 40% of current users could stop using the internet.

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Note to Editors

* Source: comScore Media Metrix

** Source: IAB Europe AdEx report published September 2010. IAB Europe online ad spend was €14.7bn in 2009 and €16.3bn in the US in the same period.

*** Source: WARC/IAB Europe AdEx report published September 2010. 17.65% represents internet's proportion of main media spend in the six European countries surveyed. 'Main media' includes TV, Newspapers, Magazines, Outdoor, Cinema and Radio.

Methodology

The user value of online services has been assessed through the concept of *surplus* via conjoint analysis. This approach derives (rather than asks directly) the importance of online services to internet users by creating a hypothetical bundle of attributes describing the usage of online services and asking respondents to rank their usage preference. Statistical methods are then applied to estimate the relative importance – or disturbance – of attributes. The disturbance effect is measured by calculating the amount a consumer is willing to pay to avoid being exposed to advertising formats or to limit use of personal information to provide more relevant advertising. For the user, *consumer surplus* is the difference between the value of each of the online services, minus any costs associated with using those services (i.e. paid services, advertising interruption etc). McKinsey & Company carried out 4500 nationally representative online interviews covering the UK, France, Germany, Spain, Italy and Russia (750 in each market). The research was sponsored by Audience Science, Google, Hi-Media, Orange, Prisa and zanox, and IAB France, IAB Italy, IAB UK and IAB Europe.

About IAB Europe

IAB Europe is a federation of national Interactive Advertising Bureaux (IAB) across Europe. Its mission is to promote the growth of the interactive advertising markets on behalf of its members and national members. Supported by every major media group, advertisers, agency, portal, technology and service provider, its voice represents the interest of more than 5000 company members. IAB Europe coordinates activities across the region including public affairs, benchmarking, research, setting standards and best practices. The member countries are Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Netherlands, Norway, Poland, Portugal, Romania, Russia, Serbia, Slovakia, Slovenia, Spain, Sweden, Switzerland, Turkey, Ukraine and the UK. Our corporate members include Adobe, ADTECH, Alcatel-Lucent, BBC.com, CNN, comScore Europe, CPX Interactive, Ernst & Young, Expedia Inc, Fox Interactive Media, Gemius, Goldbach Media Group, Google, Hi-Media-AdLink, InSites Consulting, Koan, Microsoft Europe, NETLOG, News Corporation, Nugg.ad, Nielsen Online, Orange Advertising Network, Publicitas Europe, Right Media, Selligent, Truvo, United Internet Media, ValueClick, White & Case, Yahoo! and zanox. Our associate members include Banner, Business Week/Bloomberg, Dynamic Logic, Emediate and OMD.

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