



Will Amazon Disrupt the World of Advertising?

Will Amazon become a leader in the world of Advertising, similar to what it has done in other businesses? What edge does Amazon have over others?

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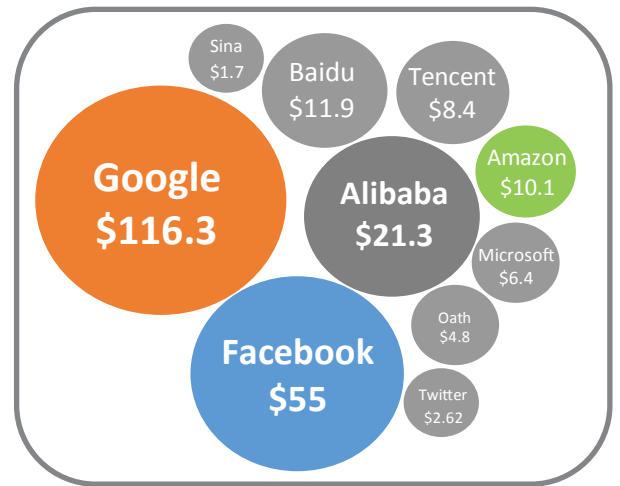
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Will Amazon emerge as a leader in advertising? In the short run, it is unlikely. Facebook and Google are way ahead at the moment and all players are expected to grow as a percentage of their current digital advertising spend through 2022.

Yet Amazon's offerings and capabilities are growing rapidly and, like Facebook and Google, Amazon will be grabbing share from smaller players as well as an incremental share from the offline-to-online transition. In October 2018, CNBC reported that some advertisers, particularly in the consumer packaged goods space, were moving as much as half their search budget from Google to Amazon¹. Brands are increasingly recognizing Amazon's vast customer reach, particularly to its more than 100 million Prime subscribers. Several big brands including General Mills, Hershey's and Unilever that sell their products on Amazon have increased their advertising on the site this year².

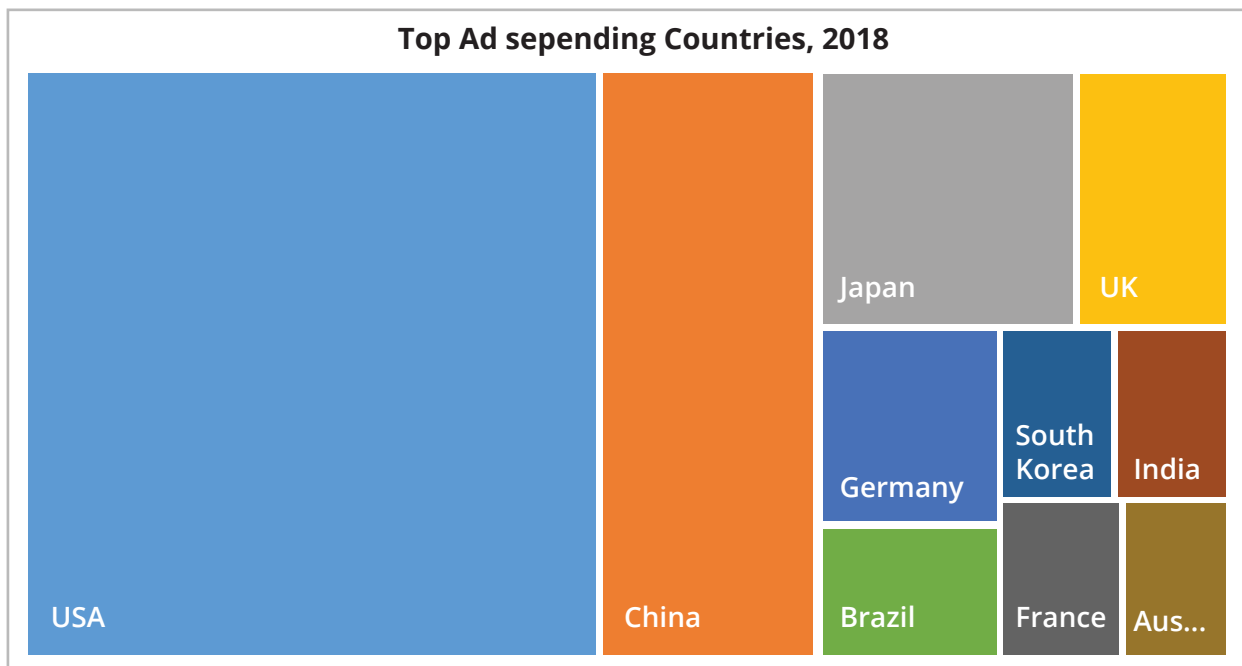
2018 digital ad-revenue (in \$ Bn)



Source: Latest Annual Reports

So, how big is the overall ad business?

According to Zenith, global ad expenditure is expected to grow by 4.7% in 2019, reaching \$623 Bn by the end of the year and \$683 Bn by 2021, growing at a CAGR of 4%. The world's top seven advertising markets by size will remain stable between 2018 and 2021. In 2021, India will enter the top ten in eighth place, moving France and Australia down one place each and pushing Indonesia out of the top ten. Six of the ten largest contributors will be Rising Markets* (China, India, Indonesia, Brazil, Russia, and South Korea), which will contribute 34% of new ad spend over the next three years³.



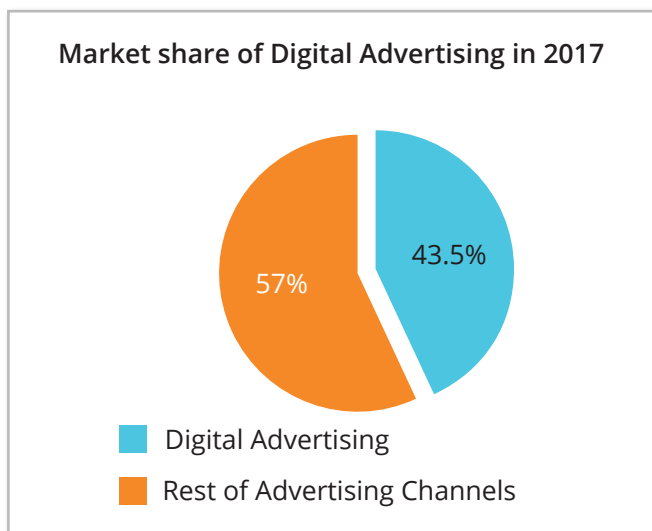
Source: Zenith, 2018

Technology is playing a big role in transforming modern-day advertising

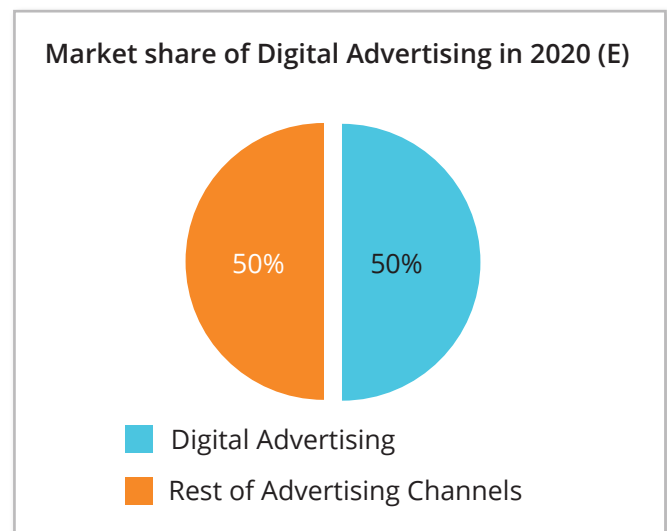
There is no area where technology has not brought about a change in the way something works and advertising is one of them. With the advancement in technology, many platforms are made available through which advertisers can reach out to their target customers. Technology has made it possible for advertisers to reach their prospective customers anywhere in the globe with the use of the internet. This is facilitated by the rising use of handheld devices such as smartphones, tablets, and laptops.

Digital advertising is the highest growing channel among various advertising channels and it is constantly gaining more share

As digital devices proliferate more and more into people's homes and lives, consumers' digital habits are changing at a very fast pace. They are spending more time than ever, hooked to these devices. These digital consumers crave experiences that are personal, unique and uncluttered. Companies are exploiting this opportunity to increase their bottom line through targeted advertisements and messaging using various digital channels. In addition, digital advertising is getting better day by day with the application of sophisticated technologies like artificial intelligence, machine learning, AR/VR, etc. As this trend continues, digital advertising is expected to thrive further in the coming days.



Source: eMarketer, 2018

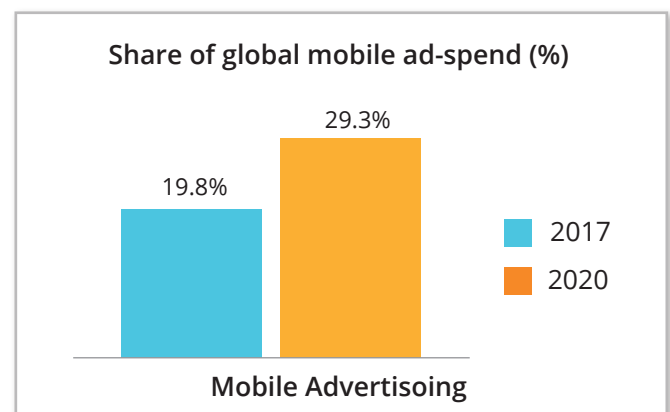


Source: eMarketer, 2018

Within digital advertising, mobile advertising is booming and is expected to grow further

According to various reports, mobile advertising is the highest growing advertising medium within digital advertising.

In 2018, Zenith projected that mobile advertising will account for 66% of Internet ad expenditure in 2020 and 29% of all advertisement expenditure⁴. Another study by AppsFlyer in 2018 states that the growing mobile advertising world has seen spend of \$38.9 Bn in 2018, with 34% growth over 2017 and is expected to reach \$64.1 Bn globally⁵.



Source: Zenith Report, 2018

Factors driving the growth of digital advertising



The duopoly of Google and Facebook dominate Digital advertising

Internet behemoths Facebook and Google collectively dominate the online ad market. Both the players are so big that they are squeezing the smaller players out of the market.

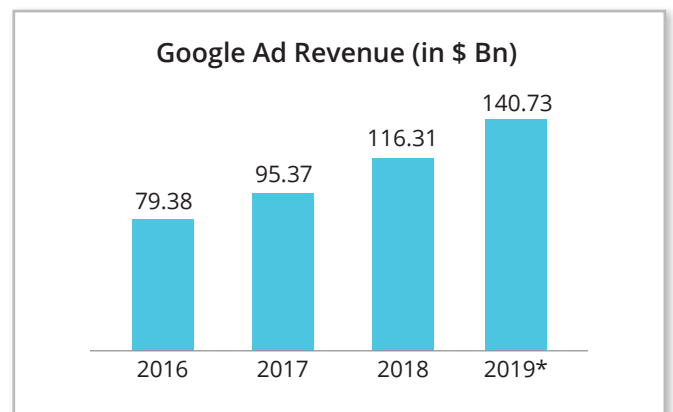
eMarketer has forecast that digital ad spending will rise 17.1% over 2018 to \$327.28 Bn in 2019, with Alibaba, Facebook and Google as the leading digital ad space sellers. The three companies will account for 61.2% of the total global digital ad market in 2019⁶. The future of other advertising platforms is challenging as the 3 players are dominating the market. Smaller players and new entrants will have to face tough competition.

The top three players in the digital advertising market have adopted different business models to capture the market



Google remains the biggest platform for online advertising across the globe. It holds the largest share of total US digital ad spend, with 38.2% market share⁷.

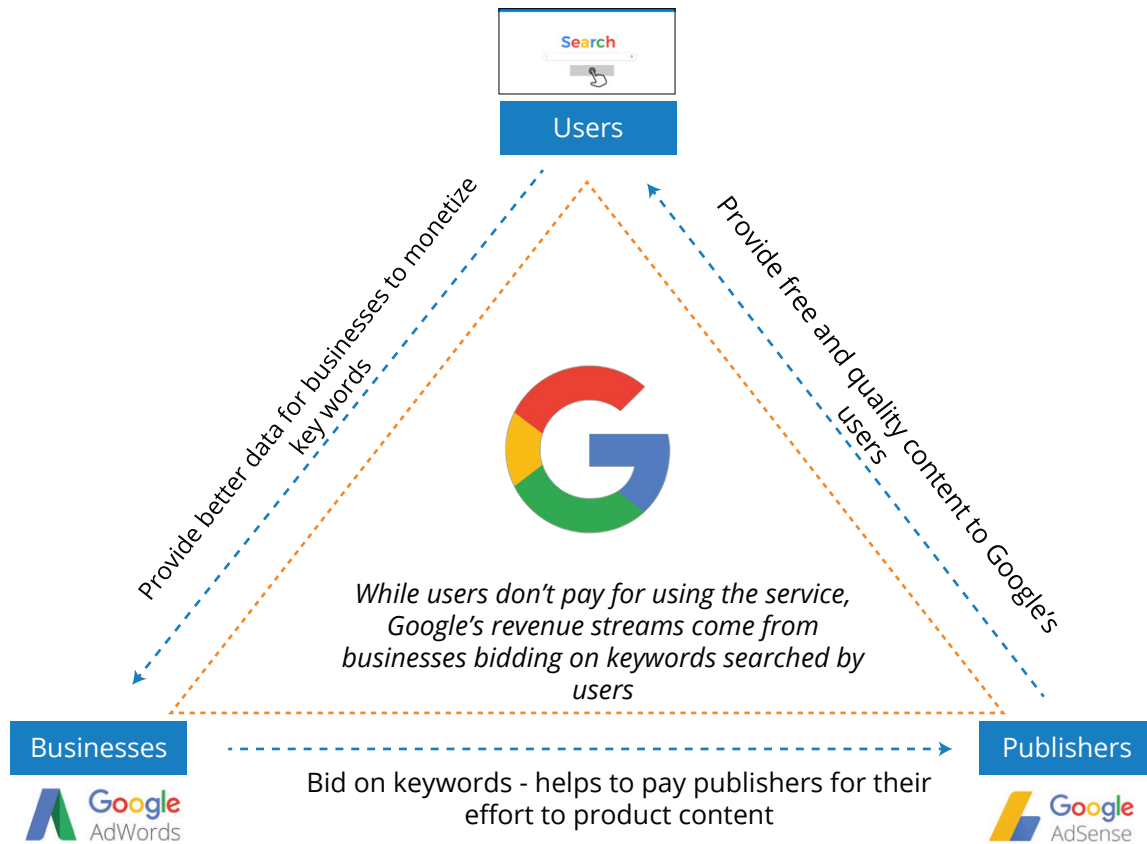
Google's business model is different from other advertisement platforms in terms of the insights and analysis of people's online behavior and is a great value proposition. Its services and offerings such as Gmail, Google Docs, Google Search, also have dedicated spots for advertisement.



Source: **Google 10K report, 2018**

*2019 figure is estimated considering similar growth rate as last 2 years

AdWords: The bulk of Google's revenues in 2018 came from its proprietary advertising service, Google AdWords, which are at the heart of the company's model. AdWords advertisements integration touches almost all of Google's web properties. To gain the top spot in Google advertisements, advertisers have to outbid each other. Higher bids move up the list, while lower bids may not even be displayed.

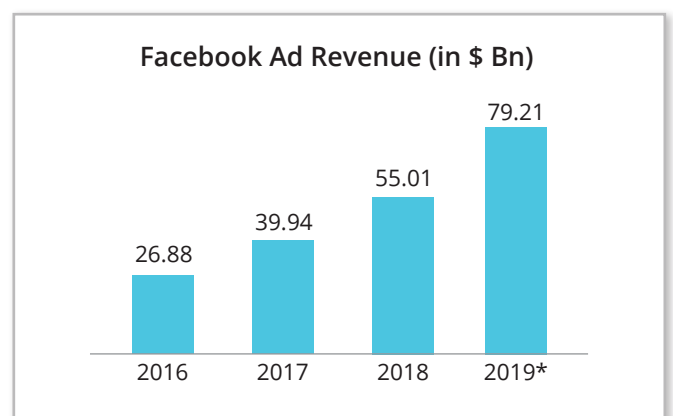


Source: FourWeekMBA.com



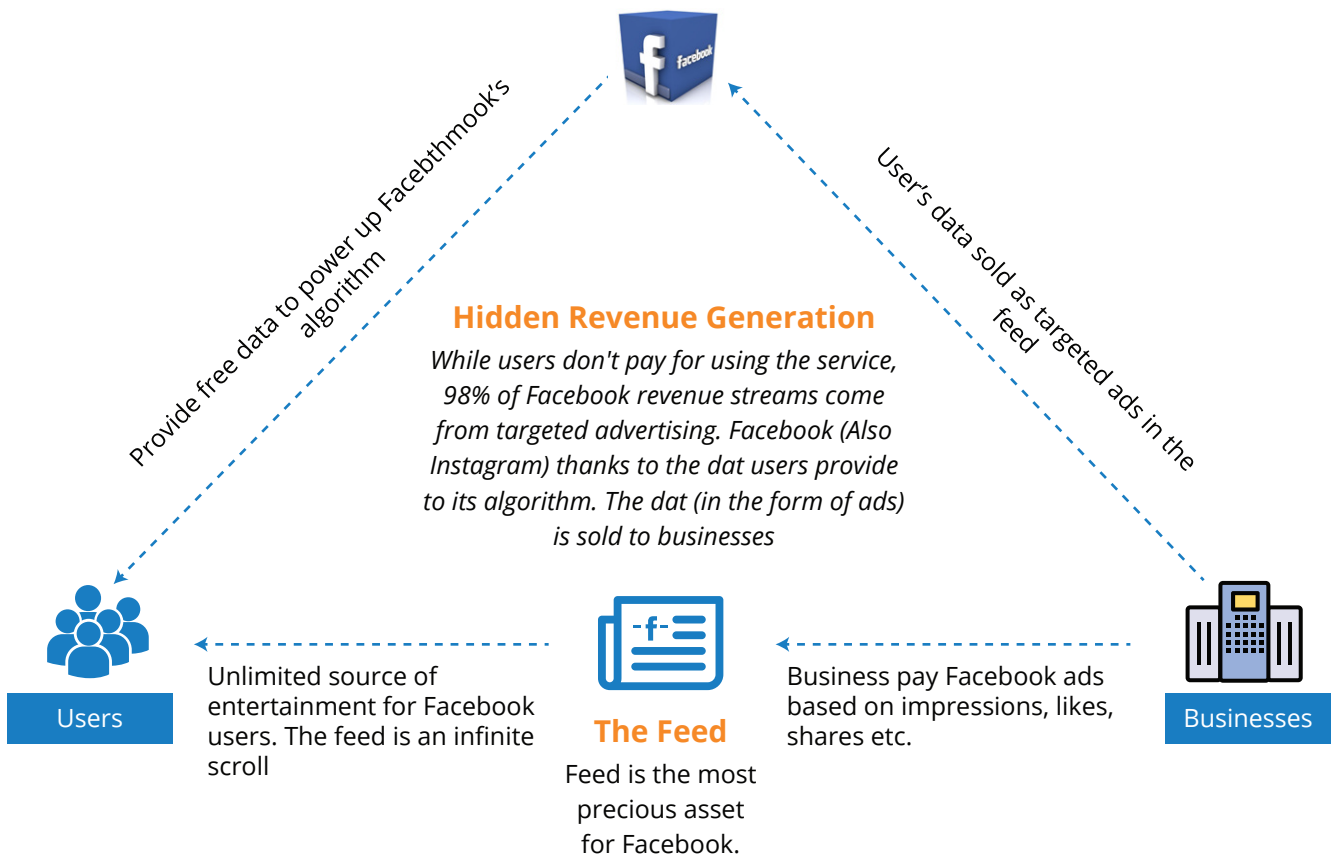
With a 21.8% market share, Facebook holds one of the largest shares of total US digital ad spend⁸. The Facebook Business Model was designed to generate revenue primarily from its unique ability to provide targeted advertisements⁸. They generate substantially all of their revenue by selling ad space on their platform to marketers and third parties, offering the ability to target ads to specific types of consumers.

Advertisers can use the wealth of personal data about users from Facebook's product ecosystem for ads.



Source: Facebook 10K report, 2018

*2019 figure is estimated considering similar growth rate as last 2 years

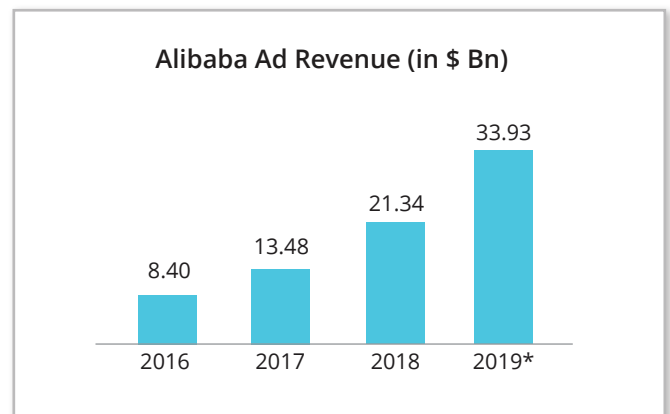


Source: FourWeekMBA.com



Alibaba is the market leader in China in ad sales, and will account for around 32% of the total net digital ad revenue in this market in 2019⁹. Alimama, the advertising platform of Alibaba, plays a significant role in Alibaba's business, with 60% of the company's revenues being derived from Alimama.

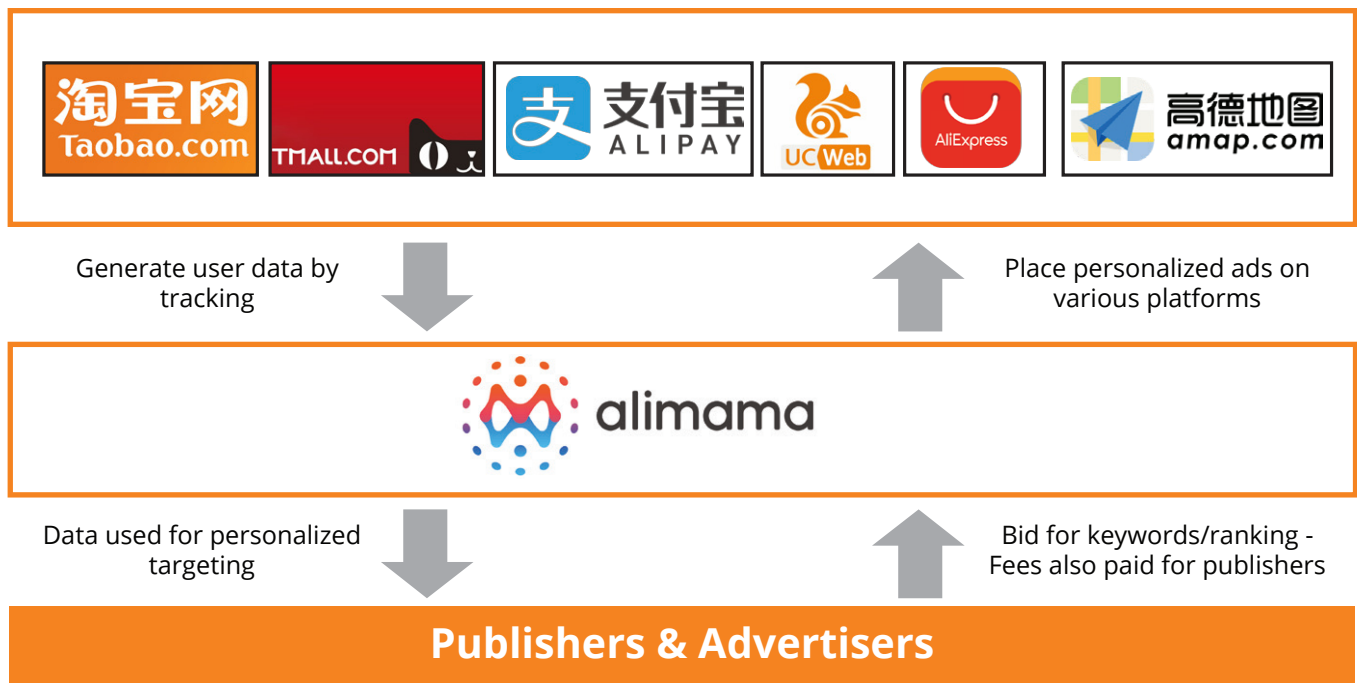
Well ahead of Baidu and Tencent, Alibaba has built one of the most dominant advertising businesses in China, simply because of its scale and access to data of nearly 500 million shoppers across its marketplaces¹⁰. The data generated through their platforms has attracted advertisers who are looking to obtain greater insights into potential customers. Alibaba's online marketing technology provides merchants on its platform with marketing services on desktop and mobile.



Source: Alibaba Group 10K report, 2018

*2019 figure is estimated considering similar growth rate as last 2 years

Alimama: Alimama is the biggest open marketing platform in China. It acts like AdSense in China. Alimama has the ability to track users across Alibaba's multitude of digital platforms — Taobao, Tmall, AliPay, UCWeb, AliExpress, GaoDeMap – developing a deeper understanding of users' journey and buying behavior. This enables them to provide targeted ads.



Amazon will likely steal advertising business from the duopoly

Amazon couldn't have chosen a better time than now to enter the advertising business, when public perceptions of Google and Facebook have soured due to privacy and other issues. Additionally, some advertisers are yet to return to YouTube, a growing ad channel for Google, after brands like AT&T were found appearing adjacent to videos that promoted racism or terrorism.

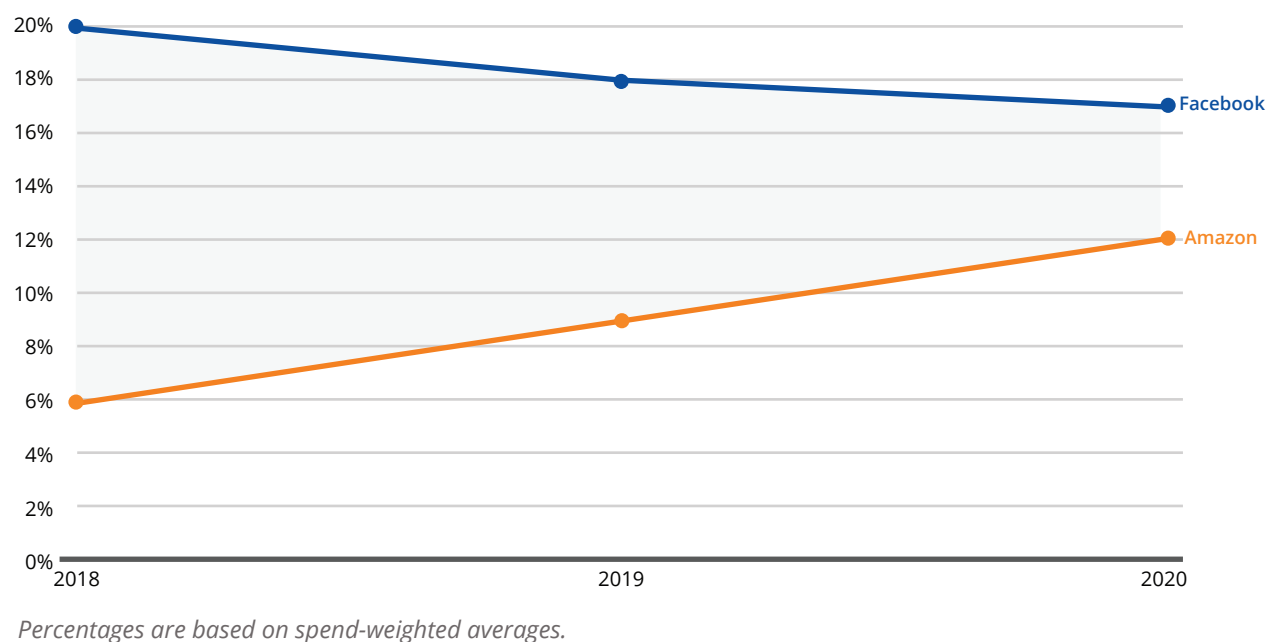
Facebook could lose some ad business, amid privacy concerns

Amazon could double its ad revenue among top US ad buyers in the next two years, giving it 12% of total digital ad spending in 2020. Meanwhile, Facebook's main social network platform is expected to lose 3% of the market share in 2020. Facebook is more vulnerable to lose business due to its various privacy breaches¹¹. Privacy concerns would result in decreased ad spend on Facebook, more than on any other platform.

A new Cowen survey among 50 senior US advertising buyers in December 2018 revealed that Amazon is expected to gain more digital ad market share by 2020, compared to any other platform. Google and YouTube are expected to lose a modest amount of ad revenue share as well through 2020. Facebook-owned Instagram is expected to see a 2% increase by that time, helping to offset or reduce the parent company's loss. Amazon will grab share from Facebook ads because many marketers just use FB ads to sell products and books on Amazon.

Expected allocation of major US digital ad spending

Among 50 senior US ad buyers representing \$1.4 billion in ad budgets in 2018

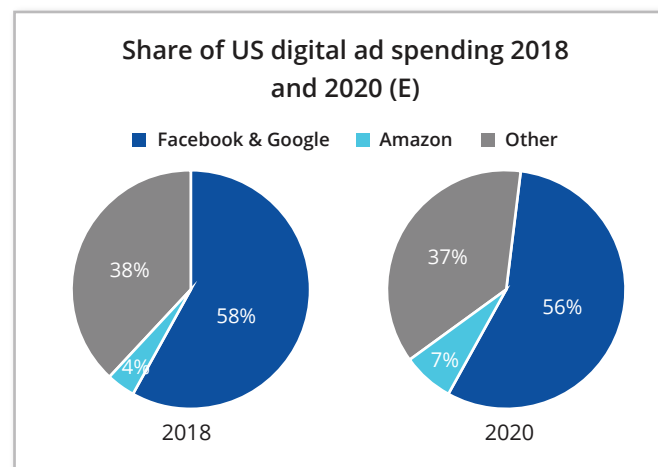


Source: Cowen

Google will lose some revenue too

While Amazon gains market share, market leader Google is expected to lose 1% market share, dropping from 38.2% to 37.2%¹².

The research group, eMarketer, finds that consumers are increasingly searching for products on Amazon rather than Google, enabling it to charge a higher premium. With such an infrastructure and many e-commerce platforms hosted on Amazon infrastructure, more and more entrepreneurs and marketers are willing to pay for Amazon's advertising services.

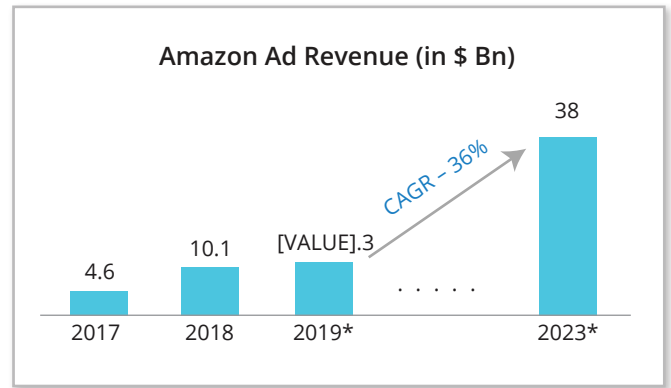


Source: eMarketer, 2018

A study published by Suvatra, ad and market research firm, in December 2018 states that 49% of customer product searches start on Amazon when they are planning to shop online. It also stated that approximately 31% of consumers felt that Amazon's ads were better for locating trusted brands, compared to a near 22% for Google¹³.

Amazon and its advertising business

It is well known how Amazon threatens the world's retailers, but the world is waking up to see the prowess of Amazon in the advertising business, which until recently was controlled by the duopoly of Google and Facebook. For this, Amazon is leveraging its existing platforms where it charges its sellers to advertise and promote their brands and products by listing them on top of search results (and on the homepage).



Source: eMarketer

*2023 estimation is from Pivotal Research

Pivotal Research has estimated that Amazon's advertising sales will reach \$38 Bn by 2023, and that it will grow faster than any other Amazon business during the forecast period¹⁴.

Amazon is continuously building and buying new sources of data on people's tastes and consumer behavior, from its acquisition of Whole Foods and the build-out of its cashier-less Amazon Go stores, to the invasion of its low-cost, voice-powered speakers, and the rapid increase in its library of streaming video.

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It is a “strong” quarter for advertising, which is quickly becoming one of Amazon's most lucrative businesses, in addition to its e-commerce engine and cloud computing

Brian Olsavsky
CFO at Amazon

“

Amazon is richer than any other player out there in terms of purchase and behavioral data

Collin Colburn
a researcher at Forrester

Amazon's advertising business model

Amazon is the only company that is a direct advertiser, unlike other companies that use an exchange or an ad network. Many of Amazon's features are similar to those of Google or Facebook, like offering ways to target users based on their interests, searches, and demographics. Over time, Amazon has given more advertisers and their agencies access to the self-service system to run their own targeting campaigns on and off Amazon's websites, and at a variety of spending levels¹⁵.

Amazon has consolidated all its advertising business under Amazon Advertising, and it operates as a single point of contact for all types of advertising on Amazon websites, apps, and devices, as well as sites and apps not owned by Amazon.

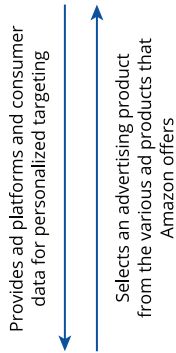


Amazon provides various advertising delivery products from which the businesses can choose to advertise their products/services, which includes - Sponsored Products, Sponsored Brands, Amazon DSP, Display ads, Custom ads, Video ads, and Stores.

A typical model that is followed by Amazon:

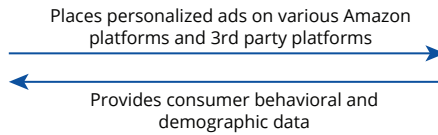
amazon advertising

provide platforms for advertisers who want to target Amazon consumers either on Amazon sites and apps or across the web, mobile apps



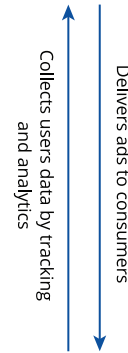
Business/Advertisers

uses the various Amazon platforms to showcase their products. They can select from the range of advertising products that Amazon offers and get access to the rich source of audience which includes genuine buyers



Amazon and its platforms

displays the ads in various Amazon owned-and-operated sites and apps such as Amazon.com, IMDb etc. and 3rd party platforms



Customers/Audience

views the ads on various Amazon websites, apps, and devices, as well as sites and apps not owned by Amazon. There are multiple platform and multiple ad delivery models

Double revenue generation of Amazon

Sellers-cum-advertisers benefit from sale of goods through right placement, while Amazon benefits twice - it earns revenue for displaying (and from click-through on) the ads, as well as a commission on each sale.

So what are Amazon's key advantages?



Could voice search/shopping be the next battleground?

According to a report by Zenith, 21.2% of marketers worldwide say that voice search is the next big marketing trend¹⁶. Voice and home assistants are poised to become part of everyday shopping, and this has huge implications for brands. Nearly one in five US adults today claim to have access to a smart speaker, according to research from Voicebot.ai¹⁷. Voice assistants are even being integrated with appliances such as microwaves to make everyday life easier for consumers.

However, major players like Amazon and Google have held back from introducing any kind of paid search advertising for voice. For now, they are working on establishing and maintaining user confidence. As smart speakers become even more prevalent, advertising giants are sure to start selling ads to businesses looking to access voice users in their homes¹⁸.

Amazon is a leader in this space and has penetrated many homes through its Echo line of speakers and its partner ecosystem with Alexa built-in. Google recently slashed prices for Google Homes in an effort to saturate the market and compete more closely with Amazon.

The strategy of both is to increase the number of users which in turn provides more consumer data to analyze and leverage to figure out the next step in advertising. It will be interesting to watch how each market leader navigates the digital customer buying journey and delivers the winning proposition to advertisers.

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