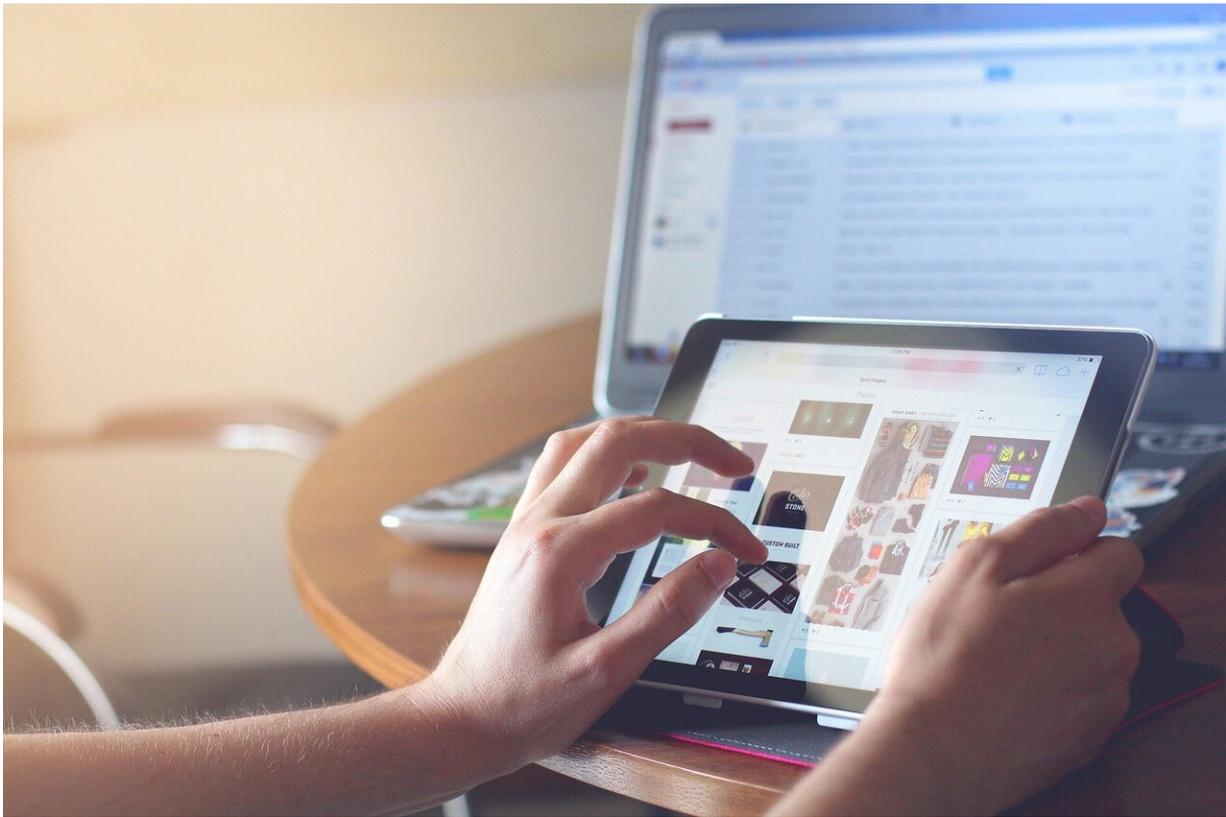


# Lack of competition and transparency: Challenges in the online advertising market

March 30 2021

---



Credit: CC0 Public Domain

The first online advertisement was a banner for AT&T that appeared on the HotWired.com website in 1994, when there were just 30 million internet users worldwide. Today, 57% of the world's population has

access to the internet and advertising technology has advanced to the point that by 2018 the digital advertising market in Europe alone was worth 55 billion euros. Of this amount, 16.8 billion euros is accounted for by programmatic advertising, which uses artificial intelligence to automate much of the buying and selling of internet advertising.

A new report, published by Open Evidence, a spin-off of the UOC, whose authors include Francisco Lupiáñez, a member of the UOC's Faculty of Information and Communication Sciences and a partner and director of Open Evidence, examines the current situation and the challenges for online advertising. The results reveal an online market that is increasingly dominated by just a few companies (e.g., Google, Facebook) which occupy strategic roles throughout the advertising chain, affecting free competition. Among these challenges, the authors point to "the opacity and lack of transparency" in the market and the need to tackle this issue by combining self-regulation in the sector with domestic and international regulatory measures.

### **The personalization of advertising**

The automation of the advertising market has enabled a better fit between supply and demand, allowing digital media publishers to sell advertising space and advertisers to easily reach large audiences on many websites. The system is based on users' data which is collected by browsers and cookies, i.e. small fragments of code that are stored on devices and record information including demographic details and online behaviour, such as the type of website visited and purchases made. This data is sold to advertisers, who can then use it to personalize advertising messages and show them at the best time and place.

This personalization of advertising activity has gone hand-in-hand with the growth of Google and Facebook, which headed the sector in 2017 with 33% and 16.2% of global revenues, respectively. "Both companies,

and, to a lesser extent, Amazon, profit greatly from users' data and from providing a vast inventory of advertisements through their websites and services that can be monetized, generating most of their advertising revenues". The researchers note that "83.9% of Facebook's revenues and 98.5% of Google's revenues in 2019 were generated from advertising services".

### **Potentially anti-competitive practices**

The report also states that this market leadership allows Google and Facebook to benefit from economies of scale and network effects, thanks to the interdependence of their services. It also details how a single company can operate "simultaneously as both buyer and seller". Google, for example, is involved on both the demand side for advertising space, through its DV360 campaign manager, and on the supply side, through its AdX exchange platform. At the same time, it also has a key role in support technologies such as website analytics and as a shopwindow for advertisements via its search engine.

All these advantages, argue the researchers, mean these platforms may potentially engage in "anti-competitive practices" such as favouring their own products, using their market power in new sectors, or acting as a barrier to access, by charging higher rates to advertisers, publishers or providers of complementary services, for example.

### **Technological complexity, opacity and fraud**

The report highlights the opacity of the [online advertising](#) market as one of the gravest issues among the consequences of this type of practice. This lack of transparency is due "in part to the complexity of programmatic advertising, but also to the practices of the online platforms". Within these platforms, so-called "walled garden" companies like Amazon and Facebook can use their dominant positions to limit the

release of information on the cost, revenues and effectiveness of advertising placement. These activities make it "very difficult to know how the money is spent and where the advertisements appear, leading advertisers and publishers to question the effectiveness of the online advertisement and hindering decision-making".

Fraud is another effect of this opacity in the value chain of [advertising](#) technology, including dependence on algorithms and the large number of intermediary businesses. According to 2017 figures published in the report, fraud cost advertisers around 13.6 billion euros globally.

### **International cooperation between regulatory authorities**

The study's conclusions also set out a number of solutions to these issues, including responses at public policy level and at the level of the sector and the companies involved. With regard to the issues of competition and transparency, these include measures such as "the creation of units within the [regulatory authorities](#) to deal specifically with digital platforms, with control and executive powers; the establishment of codes of conduct; regulatory reforms on disclosure and interoperability, and, if necessary, anti-trust measures". Given the transnational nature of the platforms, the researchers also recommend "cooperation between regulatory authorities to share learning, improve cross-border regulation and coordinate measures".

The report also examines various self-regulatory initiatives within the industry, such as the development of standards and practices for measuring and ensuring the quality of advertisements, guidelines for improving transparency on tariffs and programmes governing users' privacy and consent. Finally, it emphasizes that no measure is sufficient "in itself", but "a better implementation of existing initiatives and a combination of the proposed measures could be effective in tackling the problems identified in this sector".

**More information:** [platformobservatory.eu/app/upl...\\_agency-B2B\\_final.pdf](https://platformobservatory.eu/app/upl..._agency-B2B_final.pdf)

Provided by Universitat Oberta de Catalunya (UOC)

Citation: Lack of competition and transparency: Challenges in the online advertising market (2021, March 30) retrieved 1 April 2023 from <https://techxplore.com/news/2021-03-lack-competition-transparency-online-advertising.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.