Market Share

Worldwide Digital Advertising Software Market Shares, 2017: Despite Intense M&A Activity, Still a Fragmented Market

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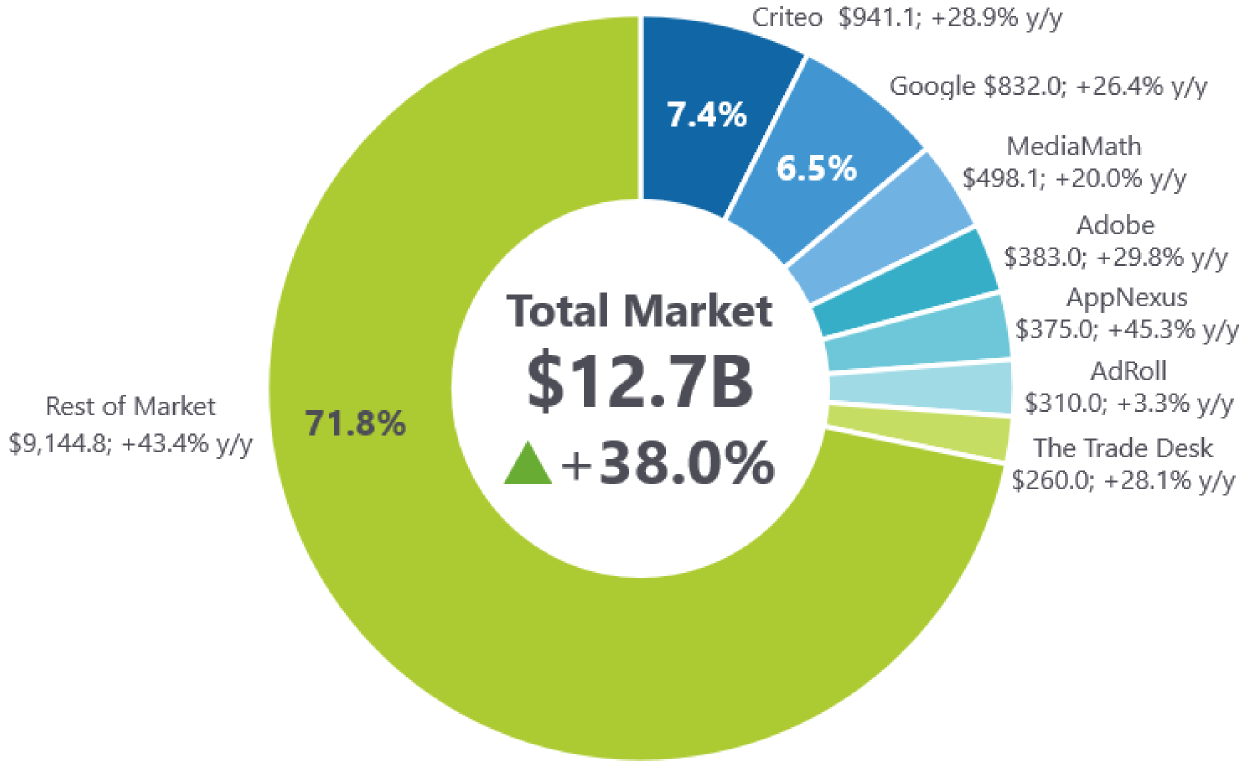
IDC MARKET SHARE FIGURE

FIGURE 1

Worldwide Digital Advertising Software 2017 Share Snapshot



Note: 2017 Share (%), Revenue ($M), and Growth (%)

Source: IDC, 2018

September 2018, IDC #US44240218e

IN THIS EXCERPT

The content for this excerpt was taken directly from Worldwide Digital Advertising Software Market Shares, 2017: Despite Intense M&A Activity, Still a Fragmented Market (Doc # US44240218). All or parts of the following sections are included in this excerpt: Executive Summary, Market Share, Who Shaped the Year, Market Context, Appendix and Learn More. Also included is Figures 1, 2, 3, 4 and 5 and Tables 1 and 2.

EXECUTIVE SUMMARY

The most interesting finding that has come out of this study, considering the ongoing intense merger and acquisition activity in the digital advertising software segment, is how fragmented it still is. Even the top 15 vendors represent not even 40% of the market, with a multitude of small, specialized vendors with limited revenue making up the rest.

The two top vendor categories are demand-side platforms (DSPs) or DSP-like offers – Criteo, MediaMath, AppNexus, AdRoll, The Trade Desk, dataxu, and Centro – and one-stop shops – Google, Adobe, and Oath (AOL and Yahoo!). These are followed by supply-side platforms (SSPs) – OpenX, Rubicon Project, and PubMatic – with revenue volumes about half the size of that of the DSPs.

Criteo is the top vendor, followed by Google; each has market shares above 5%. A little farther behind is MediaMath, with an almost 4% share, after which – still a little more removed – begins the long tail with Adobe at 3%.

The overall market for advertising software grew at 38% year on year, from $9.2 billion in 2016 to $12.7 billion in 2017. At these spending levels, advertising technology sales stood for 4.7% of total ad sales (2017), up from 4.0% (2016). We expect this share to grow to 7.8% by 2022 as the industry's push for advertising automation continues and the overall volume of spending on advertising continues. The transition from traditional TV advertising to digital video advertising, specifically connected TV advertising, will be the one major driver of future growth. The other characteristic of the market is the ongoing intense merger and acquisition activity, which will, however, not lead to major consolidation in the ad tech sector yet – as opposed to publishers and the media segment.

This IDC study provides worldwide market share data for the digital advertising software market for 2017.

"The ad tech segment is still very fragmented," said Karsten Weide, VP of Media and Entertainment, IDC. "This means there is a lot of opportunity for acquisitions, but also for growth."

ADVICE FOR TECHNOLOGY SUPPLIERS

Advertising software vendors should consider the following:

- Buyers will continue to shift media purchases from traditional channels into ones optimized by automation via the use of advertising software. Advertising software will therefore continue to see steady growth with a CAGR of around 24% for the next five years, twice that of the growth of overall digital advertising.
- A primary driver is the adoption of programmatic platforms (demand-side platforms, supply-side platforms, data management platforms, ad exchanges, and dynamic creative optimization), which will see the fastest growth at a CAGR of around 26%. Social media

advertising will grow as fast. Ad servers and search engine marketing (SEM) platforms, being fairly mature, will see the slowest growth (in the low-double-digit CAGRs). Attribution, because of the difficulty of implementing it, will also see slower growth.

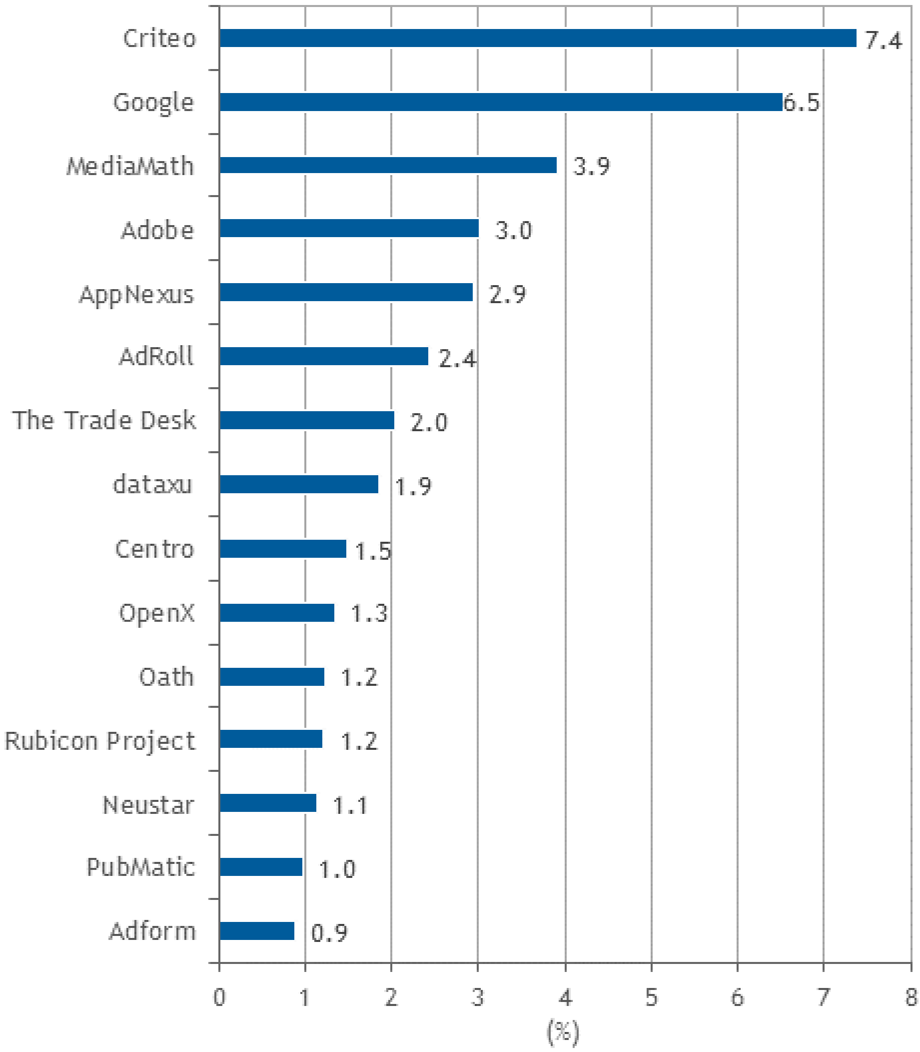
- Most of these platforms are fueled by data. Expect more difficulty using data due to increasing privacy protection initiatives. This in turn could decrease advertising ROI, which could translate into a minor slowdown in ad tech sales.
- The application of artificial intelligence and machine learning may, however, easily more than make up for that decline in ROI.
- One major driver of change is the transition from traditional (linear) TV to digital video. Users are continuing to shift their video consumption from traditional TV to digital alternatives. While this shift has been steady but slow in the past, there are signs for an acceleration of that trend.
- The Google and Facebook duopoly will continue its reign. Buyers are growing increasingly wary of the growing might of the duopoly. For that reason, some of them have begun to shift budgets into Amazon. However, Amazon's ad sales are probably still only 1/20 of the size of Google. This means that, even if sales develop in the most favorable way for Amazon, it would still need four to five years to catch up to Google and Facebook.
- The growth of Google and Facebook — but also of tier 2 players such as Amazon, Verizon's Oath (the combination of AOL and Yahoo!), AT&T, Comcast, and Adobe — means that we will see a phase of continuing mergers and acquisitions, reducing the number of smaller independent vendors. Even Adobe may eventually be acquired (e.g., by Microsoft) or perhaps Facebook.
- The duopoly and the consolidation of the independent ecosystem mar independent vendors' growth prospects. They can still expect growth but perhaps at lower-than-segment rates. Slower growth and the reduction in the number of independent vendors, more integration between platforms, and buyers pushing for more market transparency will all increase competition for them.

MARKET SHARE

The most interesting finding that has come out of this study, considering the ongoing intense merger and acquisition activity in the digital advertising software segment, is how fragmented it still is. Even the top 15 vendors represent not even 40%, with a multitude of small, specialized vendors with limited revenue making up the rest. And even the biggest vendor does not crack the 10%-of-market threshold. Figure 2 and Table 1 outline these top vendors.

FIGURE 2

Worldwide Digital Advertising Software Revenue Share by Top 15 Vendors, 2017



Note: This data excludes data vendors.

Source: IDC, 2018

TABLE 1

Worldwide Digital Advertising Software Revenue by Top 15 Vendors, 2016 and 2017

	2016 Revenue ($M)	2017 Revenue ($M)	2017 Share (%)	2016–2017 Growth (%)
Criteo	730.2	941.1	7.4	28.9
Google	658.0	832.0	6.5	26.4
MediaMath	415.1	498.1	3.9	20.0
Adobe	295.0	383.0	3.0	29.8
AppNexus	258.0	375.0	2.9	45.3
AdRoll	300.0	310.0	2.4	3.3
The Trade Desk	202.9	260.0	2.0	28.1
dataxu	200.5	236.0	1.9	17.7
Centro	152.0	190.0	1.5	25.0
OpenX	143.3	172.0	1.3	20.0
Oath	104.0	156.0	1.2	50.0
Rubicon Project	278.0	155.5	1.2	-44.1
Neustar	105.1	145.0	1.1	38.0
PubMatic	89.7	123.8	1.0	38.0
Adform	83.0	112.0	0.9	34.9
Other	5,220.1	7,854.6	61.6	50.5
Total	9,234.8	12,744.0	100.0	38.0

Note: This data excludes data vendors.

Source: IDC, 2018

The two top vendor categories are demand-side platforms or DSP-like offers – Criteo, MediaMath, AppNexus, AdRoll, The Trade Desk, dataxu, and Centro – and one-stop shops – Google, Adobe, and Oath (AOL and Yahoo!). These are followed by supply-side platforms – OpenX, Rubicon Project, and

PubMatic — with revenue volumes about half the size of that of the DSPs. SSPs tend to be smaller because it is harder for them to add value than for DSPs.

Criteo is the top vendor, followed by Google, and each has market shares above 5%. A little farther behind is MediaMath, with an almost 4% share, after which — still a little more removed — begins the long tail with Adobe.

The overall market grew at 38% year on year, from $9.2 billion in 2016 to $12.7 billion in 2017. Top vendors' growth rates tend to be smaller due to their greater size and maturity. At these spending levels, advertising technology sales stood for 4.7% of total ad sales (2017) and 4.0% (2016). We expect this share to grow to 7.8% by 2022 as the industry's push for advertising automation continues.

Almost all vendors grew at or around market growth rates. Rubicon Project is the only vendor that lost revenue, and significantly so, because the company was slow to adapt to two key trends — the shift from desktop to mobile advertising (in particular to mobile app-based advertising) and the introduction of header bidding.

The consolidation of media spending (not ad tech spending) on the walled gardens — Google, Facebook, Oath, and Twitter — has two consequences. One, it increases competitive pressure on independent ad tech vendor as this diverts spending on tech in the independent ecosystem. And two, overall spending on ad tech — on independent vendors and walled garden offers — decreases because much ad technology that comes to bear in the walled gardens is not sold as standalone offers but is priced into the media purchase.

WHO SHAPED THE YEAR

This Excerpt was prepared for Criteo but also included the following vendors: MediaMath, Adobe, AppNexus, The Trade Desk and others.

Companies that were some of the top movers in the advertising technology segment last year are discussed in the sections that follow.

Criteo

Criteo remained the leading ad tech provider worldwide with a 7.4% market share in 2017. It is interesting that Criteo's mindshare in the industry does not match its size, especially in the United States. The company continued to grow significantly last year; but the impact of increased privacy constraints in Apple's Safari browser — affecting the company's ability to target the delivery of ads via its core retargeting product — only hit the company very late in the year. More than 90% of the company's total business still depends on its retargeting product, and in 2017, about 17% of the total was Safari-based retargeting business. This explains why — given the previously mentioned greater privacy protections in Safari — the company had originally estimated 2018 annual growth to be 3–8% (down from 28% in 2017). But it lowered that forecast to between -1% and 1% in its 2Q18 earnings call, owed to the introduction of a subscription-based pricing model, which leads to a temporary revenue shortfall (as has been the case for other transitioning companies). It presumably introduced the subscription-based model precisely to dampen the impact of short-term events such as Apple's privacy move last year, but the price it has to pay is transitional pain.

Looking forward, Criteo has proven remarkably resilient. The European Union's General Data Protection Regulation (GDPR), which came into effect in May 2018 and was seen as potentially further affecting

Criteo's retargeting business, has had no significant impact on them so far (September 2018). Criteo's future will depend on its ability to address the issues potentially affecting retargeting as well as its ability to continue to grow its business beyond retargeting.

MARKET CONTEXT

Significant Market Developments

Overall, the digital advertising software segment was shaped by six trends in 2017:

- Worldwide spending on digital advertising (e.g., media purchases) continued to rapidly grow by 19% from $228.4 billion in 2016 to $272.5 billion in 2017, increasing the volume of advertising that needs to be transacted and thereby growing spending on advertising technology.
- Intense efforts on advertising automation continue, benefiting programmatic advertising technology vendors.
- Greater awareness for the need of privacy protection began to dampen programmatic growth but has in most cases had no material impact on business. (But note the impact of Apple's privacy protection measures in Safari introduced last year on Criteo, as mentioned previously.).
- As most new digital advertising spending went to Google and Facebook, most of whose ad technology is priced into media purchases (e.g., is "free"), ad tech grew slower than it would otherwise have. This has led to a more difficult business climate for independent vendors and increasing competitive pressure among them.
- Intense merger and acquisition activity continued.
- The shift of advertising budgets from traditional TV into video accelerated creating opportunity – especially in connected TV – for those that provide relevant technology and threats for those that don't.

METHODOLOGY

All vendor numbers are based on vendor revenue estimates from *Worldwide Advertising Software Forecast, 2018–2022* (IDC #US43940218, June 2018). All vendor numbers are net revenue, excluding media sales and professional services. Estimated numbers are based on public filings, public company statements on revenue, acquisition valuations, and other considerations. This vendor market share document does not take into account data vendors as they are not technology vendors in the strict sense of the word, even if they were part of the underlying ad technology software forecast. It should be noted that a lot of advertising technology that comes to bear in transacting digital advertising is not paid for, but is priced into media sales, and is therefore not represented either in the advertising software forecast nor in this document.

Note: All numbers in this document may not be exact due to rounding.

MARKET DEFINITION

IDC defines *advertising software* as any software program or platform that enables the business of advertising – specifically, media or advertising campaign planning, buying and selling advertising inventory, and ad operations (e.g., trafficking or physically inserting an ad into media, targeting an ad at specific demographics or individual users, automatically modifying an ad creative for better impact, and tracking or measuring and reporting on an advertising campaign). Ad software includes ad servers, ad exchanges, ad verification, attribution, data management platforms (DMPs), demand-side platforms (DSPs), dynamic creative optimization (DCO), search engine marketing (SEM), and social advertising and supply-side platforms (SSPs). Data vendors, while part of the advertising software taxonomy and the related forecast, are not included in this document since they do not offer advertising software in the strict sense of the word. Advertising software is typically a web-based, software-as-a-service (SaaS) platform but may also be a software locally installed on-premises (see *IDC's Worldwide Advertising Software Taxonomy, 2017,* IDC #US42372217, March 2017).

RELATED RESEARCH

- *AT&T's Acquisition of AppNexus Will Help Make AT&T a Major TV Ad Player* (IDC #lcUS44090618, June 2018)
- *Worldwide Advertising Software Forecast, 2018–2022* (IDC #US43940218, June 2018)
- *Criteo: From Retargeter to Commerce Marketing Ecosystem* (IDC #lcUS43152917, October 2017)
- *IDC's Worldwide Advertising Software Taxonomy, 2017* (IDC #US42372217, March 2017)
- IDC's Digital Advertising Market Model, 2Q18

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