

The Business Relevance of the ePrivacy Regulation in Germany

Analysis of the economic impacts and the resulting scenarios of the ePrivacy Regulation for journalistic websites in Germany

Berlin, January 2018

VDZ

Verband Deutscher
Zeitschriftenverleger

Management summary

- The introduction of the planned ePrivacy Regulation will lead to **significant economic losses for online journalistic offerings** in Germany. The majority of the managers of publishers and marketers surveyed expect journalistic media to suffer losses **of more than 30 percent** in digital advertising sales.
- The **accumulated loss of sales on the entire digital display advertising market for all websites*** in Germany (without Google and Facebook) as a consequence of the Regulation is estimated be much higher than **€300 million net per year**. The impact on other forms of revenue will also be very negative.
- The quality of the **user experience** with journalistic content will suffer badly too due to less relevant content, non-filtered advertising and general restrictions on access to contents resulting from closed systems.
- **Smaller and medium-sized websites** along with niche offerings will be hardest hit because they will no longer be able to finance their online offerings as before and this will have an adverse effect on information diversity.
- Platform providers, most of whom are currently from the US, will benefit strongly from the planned Regulation, especially due to their continued access to their users' personal data which will additionally boost their relevance on the online advertising market.

Survey design and objectives

- Aim of the survey:
To assess and quantify the quality of the specific economic impacts of the planned ePrivacy Regulation on online journalistic offerings in Germany.
- Focus of the survey: Top 20 journalistic news websites in Germany
 - **Questionnaire-based survey** of the economic implications and anticipated changes for digital business (marketing, commerce, sales, paid content). Managers of publishers and marketers were surveyed.
28 questionnaires sent out, 24 returned (a rate of 86%).
 - **Eight interviews with experts** regarding an in-depth analysis of the influencing factors of the ePrivacy Regulation and the development of scenario descriptions. Managers were interviewed from publishers and marketers (ZEIT Online, Axel Springer, Media Impact, IP Deutschland, iq digital, dpv, Gruner + Jahr, IDG).
 - The survey conducted covers **more than 70% of the total range of digital services** (in unique users) **recorded by the AGOF** (Working Group For Online Media Research).
- Survey designed and conducted by: Oliver von Wersch, Founder & CEO, vonwerschpartner Digital Strategies

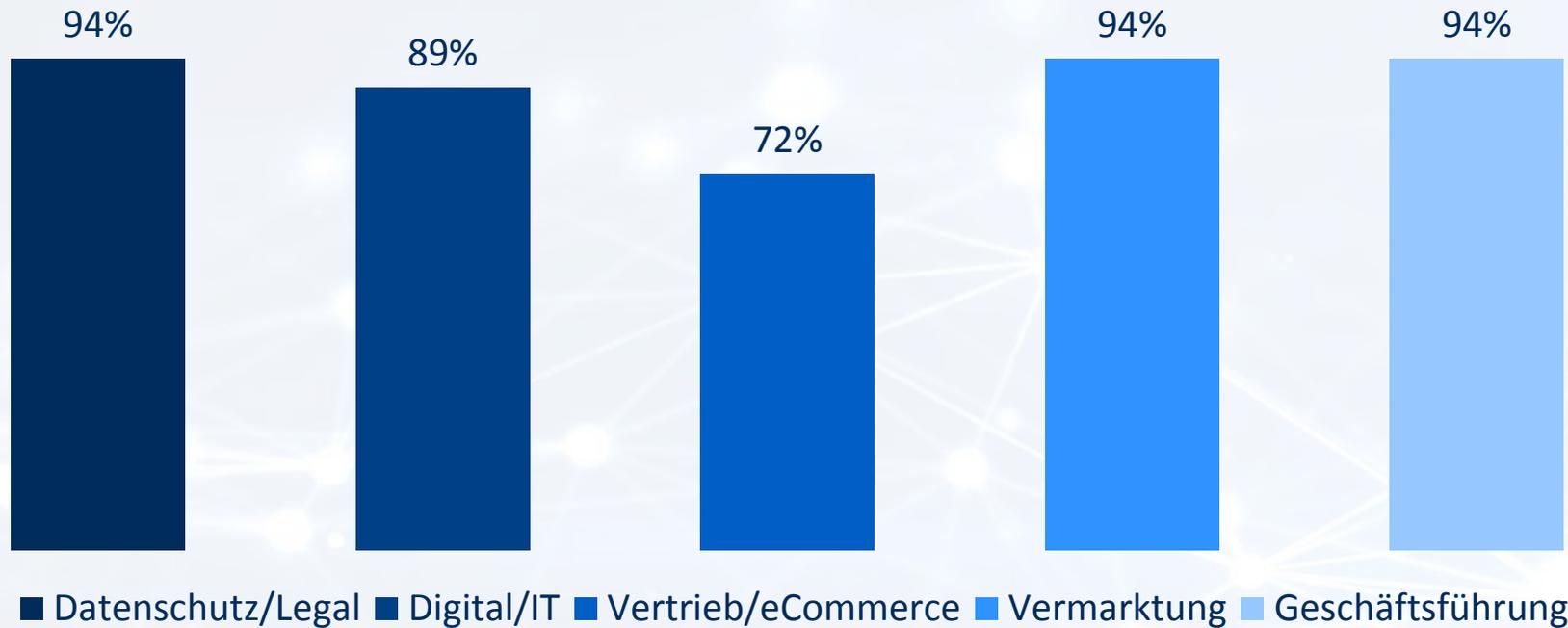
Survey results

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Relevance of the ePrivacy Regulation

Which of the following departments at your company are already working on the ePrivacy Regulation?



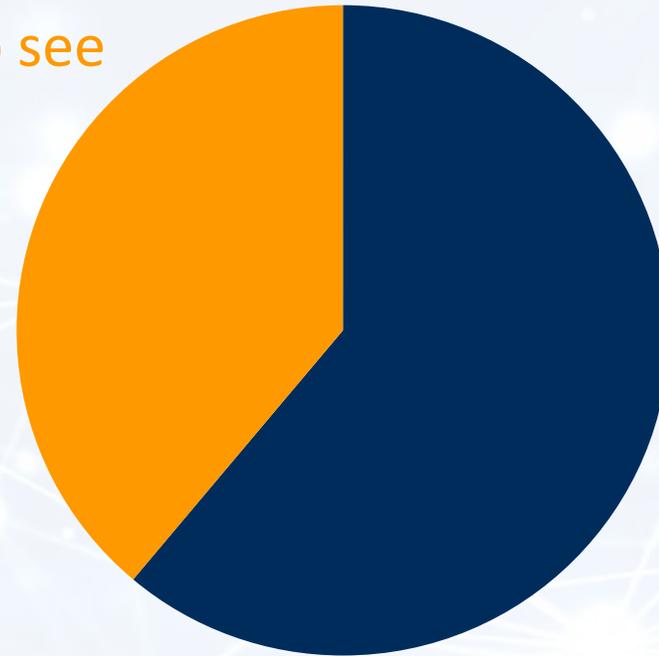
Working on the ePrivacy Regulation is an interdisciplinary task

81% of those surveyed say that they are monitoring the current discussion very closely

Relevance of the ePrivacy Regulation

Have you already taken active measures to prepare for the ePrivacy Regulation or are you waiting to see how things develop?

Waiting to see
39%



Preparations
already
underway
61%

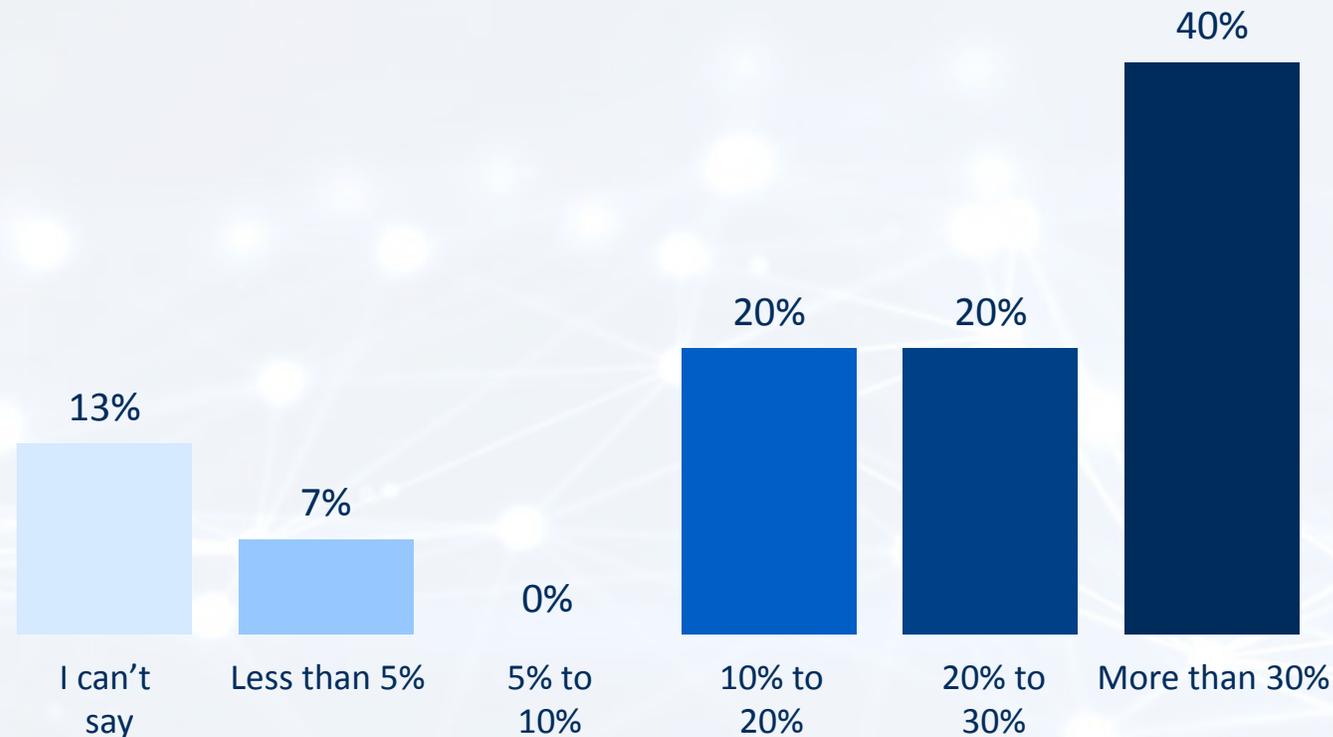
A clear majority of the companies surveyed are already preparing for the ePrivacy Regulation

Survey results

More than 30% of digital advertising revenue at risk

Question: "If you were to quantify the total annual loss of sales in percentage terms, what kind of range are we talking about?"

In terms of total digital advertising revenue



A relative majority of managers estimate that more than 30% of digital advertising revenue will be lost as a result of the Regulation

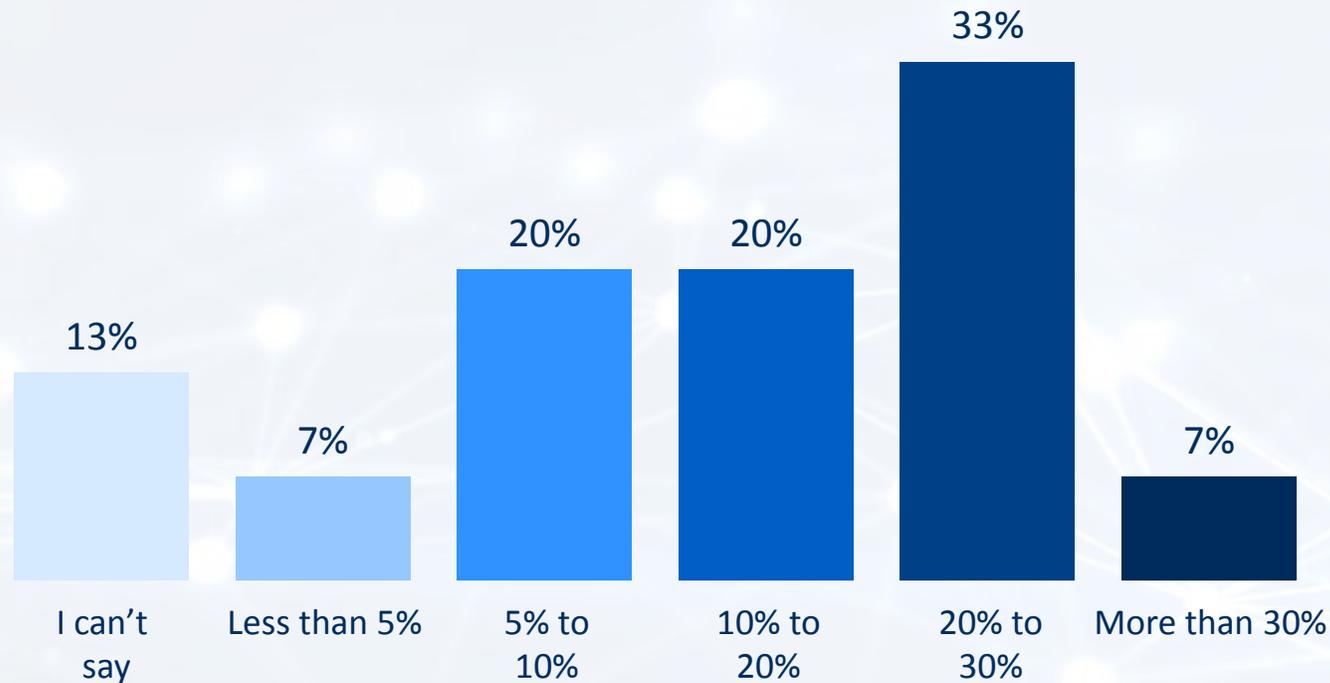
The average value for all those surveyed is a 31% loss of sales

Survey results

Direct-customer business will be badly affected

Question: "If you were to quantify the total annual loss of sales in percentage terms, what kind of range are we talking about?"

... including direct customer business



Although direct customer business will not be hit as hard, sales losses here will still be significant

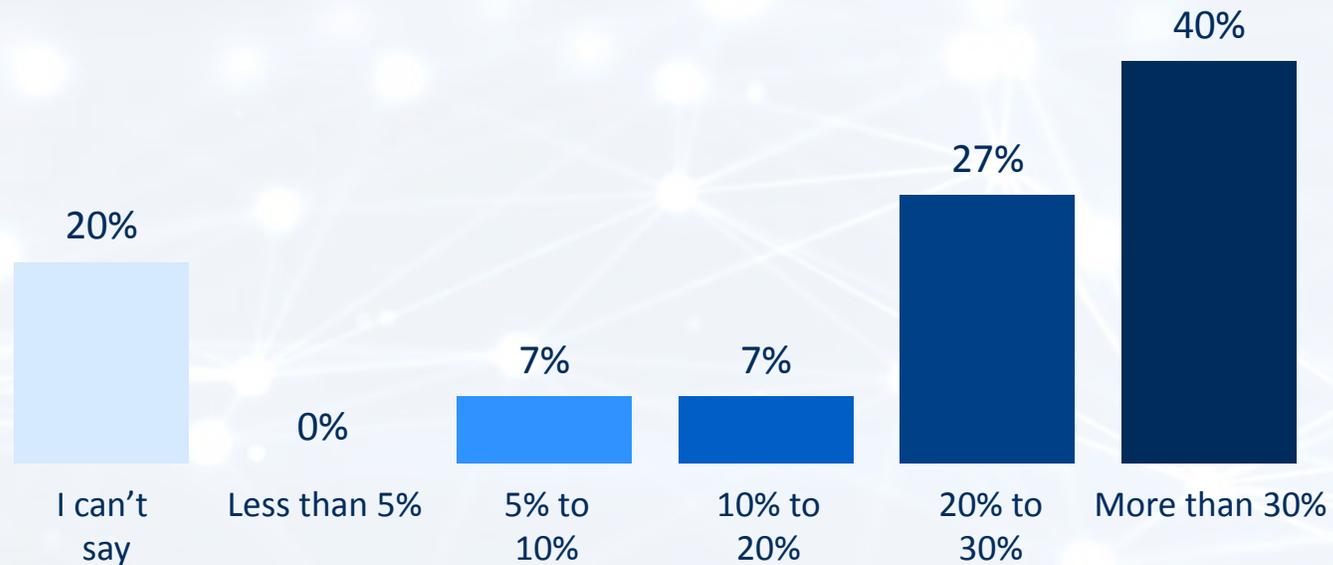
In this case, the average value for all of those surveyed is an 18% loss of sales

Survey results

Agency business will be heavily affected

Question: "If you were to quantify the total annual loss of sales in percentage terms, what kind of range are we talking about?"

... including agency business



Managers in agency business expect to see a greater loss in sales

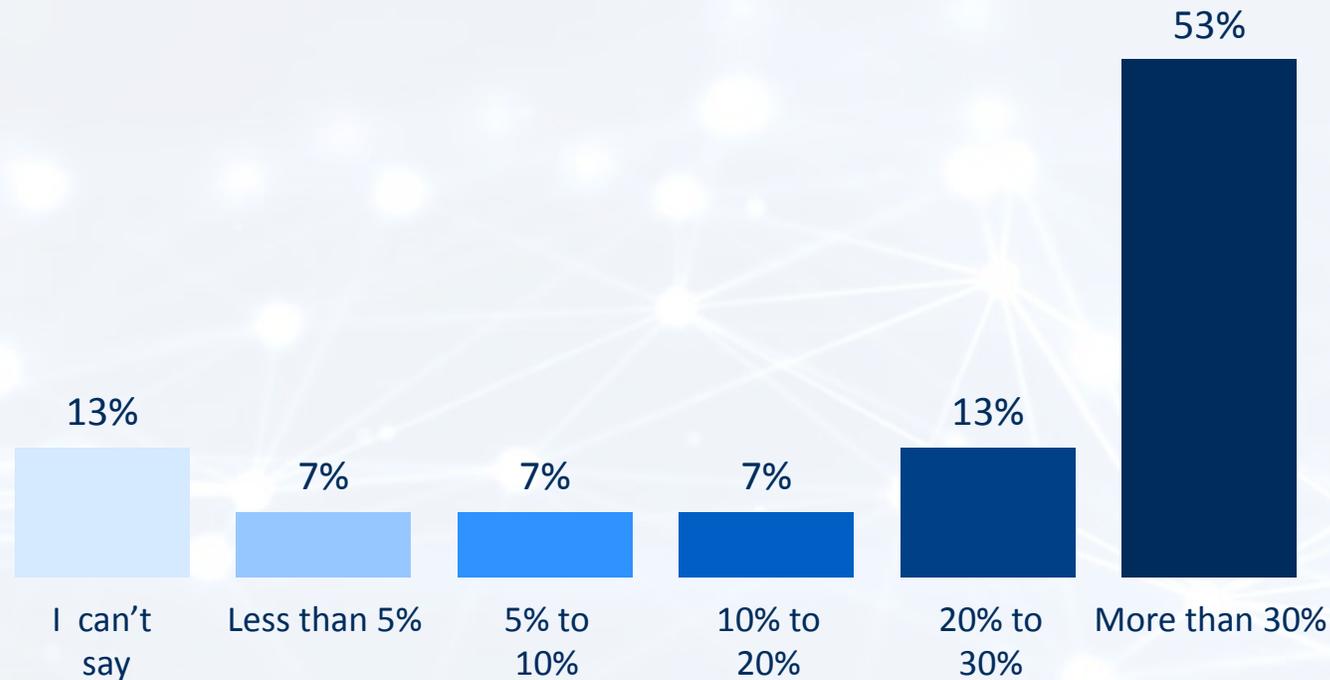
In this case, the average value for all of those surveyed is a 30% loss of sales

Survey results

Programmatic advertising will bear the brunt

Question: “If you were to quantify the total annual loss of sales in percentage terms, what kind of range are we talking about?”

... including revenue generated with programmatic advertising



The strongest negative effect is expected for programmatic advertising revenue – the strongest growth market up to now

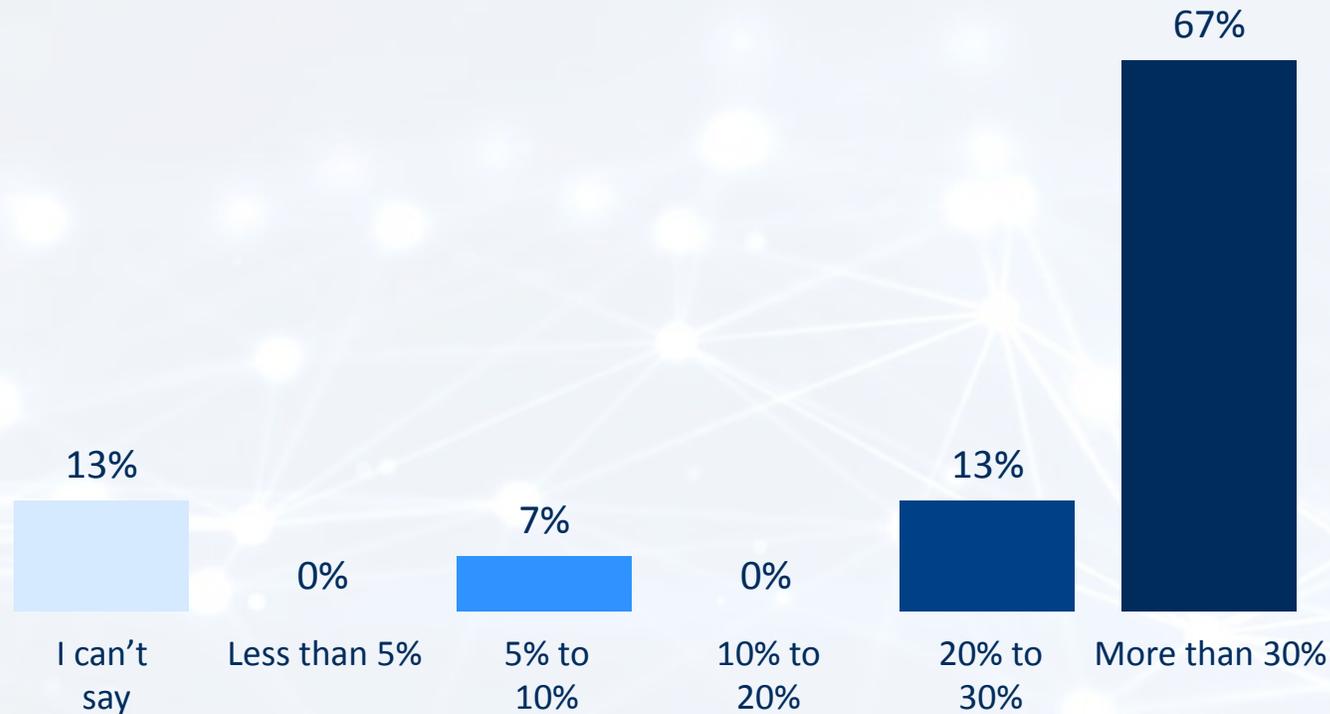
More than half of the managers surveyed expect annual losses in sales of more than 30%

Survey results

The end of targeting?

Question: "If you were to quantify the total annual loss of sales in percentage terms, what kind of range are we talking about?"

... including revenue generated with programmatic advertising when based on targeting/retargeting



Business based on targeting, as a sub-category of programmatic advertising, will virtually grind to a halt

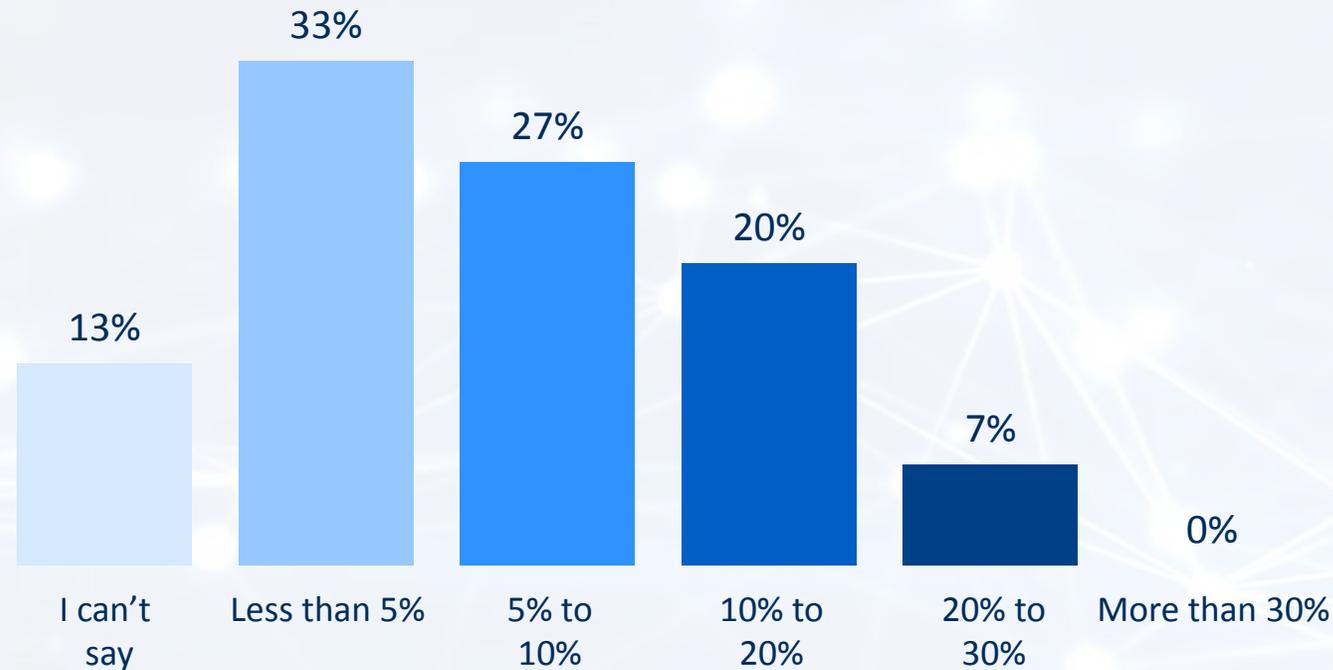
The average value for all of the managers surveyed is higher than 35% and off the scale of our survey

Survey results

Native advertising remains a permanent fixture

Question: “If you were to quantify the total annual loss of sales in percentage terms, what kind of range are we talking about?”

... including native advertising revenue



Revenue generated from native advertising will not be as hard hit, but will still decline

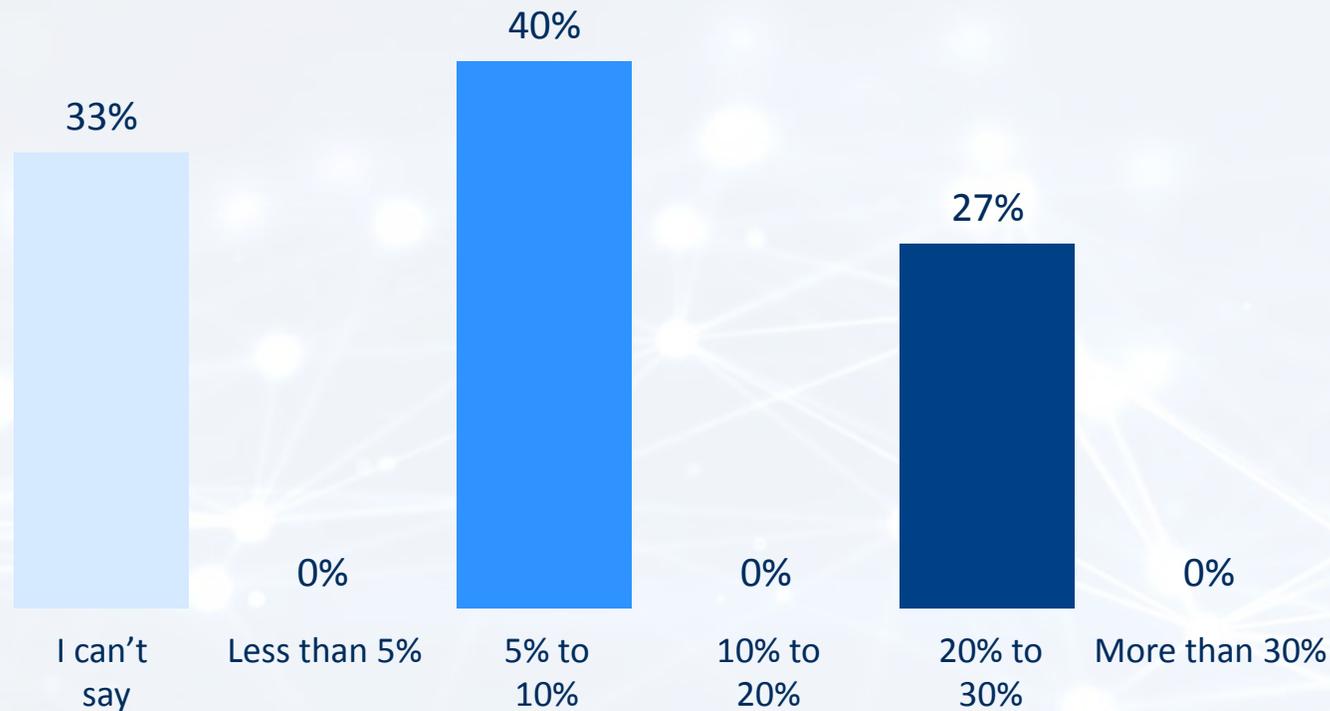
A loss of sales of “only” approx. 9% is the average value for all of those surveyed

Survey results

eCommerce revenue will become less relevant

Question: "If you were to quantify the total annual loss of sales in percentage terms, what kind of range are we talking about?"

... with a view to eCommerce revenue (digital subscription sales, merchandising and other eCommerce business)



The ePrivacy Regulation will have a negative impact not just on advertising revenue, but also on transaction-based revenue generated by journalistic news websites

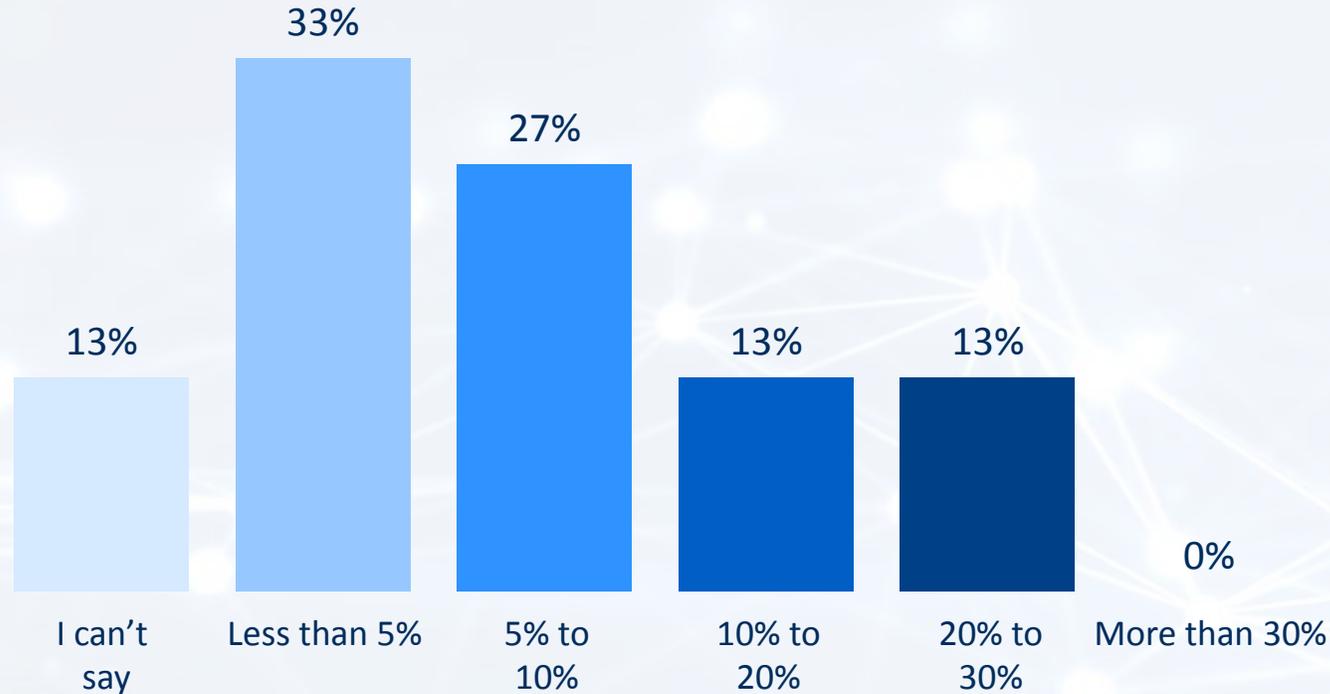
An average loss of sales of approx. 15% is expected here

Survey results

The upward trend with paid content will grind to a halt

Question: "If you were to quantify the total annual loss of sales in percentage terms, what kind of range are we talking about?"

... with a view to paid content revenue



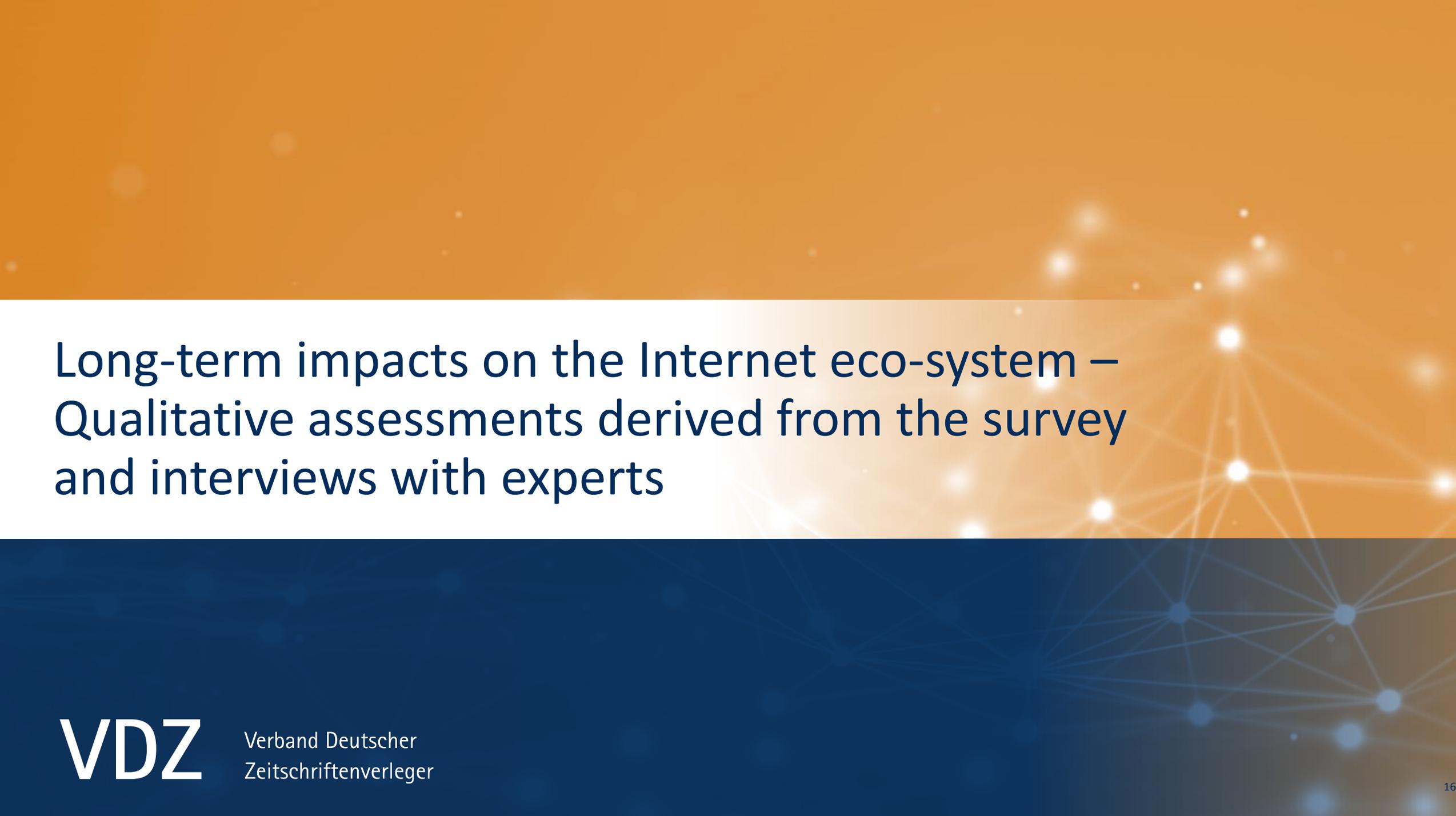
Ultimately, website owners also expect to see a negative impact on paid content sales

On average, the loss is estimated to be approx. 10%

Economic loss – digital advertising market

The accumulated loss of sales on the entire digital display advertising market in Germany as a consequence of the ePrivacy Regulation is estimated to be much higher than €300 million net per year. This corresponds to more than 30 percent of the market segment.*

* Basis: VDZ Steering Committee – Digital media sales forecast for 2017 of around €1 billion net for display advertising in Germany (without Google and Facebook)



Long-term impacts on the Internet eco-system – Qualitative assessments derived from the survey and interviews with experts

Key message 1

A perceivable and permanent deterioration of the user experience for consumers

Assessments in detail

- Due to the ePrivacy Regulation, users will have to be confronted with a whole series of opt-in requests so that the required consents can be obtained. These requests will have a perceivable adverse effect on the user experience.
- The personalisation of journalistic content will decline significantly due to a lack of consents or difficulty in obtaining such consents so that content will become more difficult for users to find.
- The delivery of online advertising and transaction goods, such as digital subscriptions, print subscriptions sold online and merchandising items, will be less tailored to user interests, if at all. Users will receive much more information that is not relevant for them.
- Online editorial offices have less data on their users' interests and preferences. This means that more and more content will bypass the target group and will be less relevant for users.
- Newsrooms at editorial offices can no longer be managed on the basis of key figures due to a lack of data.

Key message 1

User experience

Excerpts from the interviews with experts

“We certainly understand that consumer rights have to be protected. But cookies improve the user experience on our websites. This argument should be put forward more in the discussion. By setting cookies, we can provide personalised and hence more relevant content.”

“The industry has to describe what affects us. That the Internet will not be better when this Regulation is introduced. We are creating an Internet that will not be better for the user.”

“We depend heavily on being able to provide the user with use-specific offers. This will now only be possible to a very limited extent.”

“If it comes about in its current form, what the user will experience will be more like a walled garden.”

Key message 2

Content that up to now
was freely accessible will
disappear behind login
systems and walled
gardens

Assessments in detail

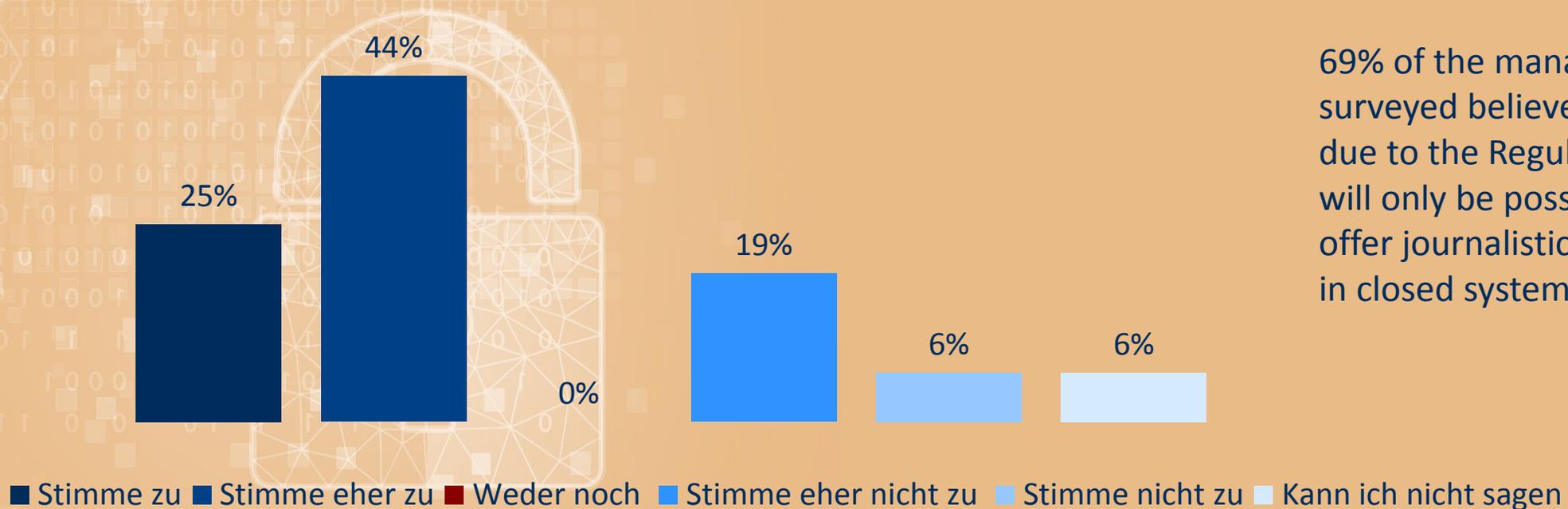
- Much of the content will only be available after registration and login because operators can only obtain the user's consent to process data if the user previously registers and hence establishes a contractual relationship. Large login alliances will be formed that will centrally control access to content.
- Although pay-with-subscription or pay-with-data can provide users with an alternative, the user will have to register with the operator for both before being able to use them. The use of journalistic content on the Internet will become much less barrier-free.
- The large platforms, most especially Facebook, Amazon and Google, will benefit from this development thanks to their huge registration basis. They will offer portal operators "registration-as-a-service", once again boosting their market dominance.
- Users will have to login for information that does not really require this due to its structure (e.g. news or weather).

Key message 2

Walled gardens

We will be forced to offer our content with a login

Additional information about the diagram



69% of the managers surveyed believe that due to the Regulation it will only be possible to offer journalistic content in closed systems

Key message 2

Walled gardens

Excerpts from the interviews with experts

“We will generally move more and more towards login offerings. The user must be seen more as a customer and customer loyalty will become a stronger value. To ensure that a user is “my” user, I myself have to win him over for my offering. The question will be to what extent this can be achieved with login alliances.”

“Diversity will decline. The free Internet as we know it today will change. Content will disappear behind login barriers.”

“Trying to convince the user regarding the login is very time-consuming and we will lose many users as a result.”

“This will mark a departure from the free Internet. We will reach a stage where users are forced to login.”

Key message 3

The journalistic diversity and quality of content on the net will decline

Assessments in detail

- Smaller and medium-sized websites will be hardest hit by the changes that result from the Regulation. While big websites are frequently able to generate advertising revenue through direct customer business, smaller websites depend more on programmatic advertising revenue. Much of this revenue will disappear, so that operators will face the risk of going out of business.
- Access to login alliances will also be primarily reserved for large operators due to the related expense.
- As a result of this, smaller websites, e.g. those of regional newspaper publishers or special interest offerings, will no longer be able to finance themselves. Information diversity will decline.
- Users will increasingly only be able to find specialised information either on big platforms or not at all. Even on platforms like Facebook, this kind of specialised content will be lost in the flood of information. The reality experienced by the user will be marked by a loss of quality and poorer retrievability and will become more mainstream.

Key message 3

Journalistic diversity

Excerpts from the interviews with experts

“Small websites will suffer more in different areas; their marketing model will be affected more because it has a higher programmatic share.”

“Small websites do not really have any more alternatives. They will become completely dependent.”

“The Regulation will also have journalistic consequences because diversity of opinion will become restricted.”

“Policymakers are probably also not fully aware that the ePrivacy Regulation will restrict diversity. That can hardly be in the interest of policymakers.”

Key message 4

For users, digital advertising will become less relevant, much less personal and more intrusive

Assessments in detail

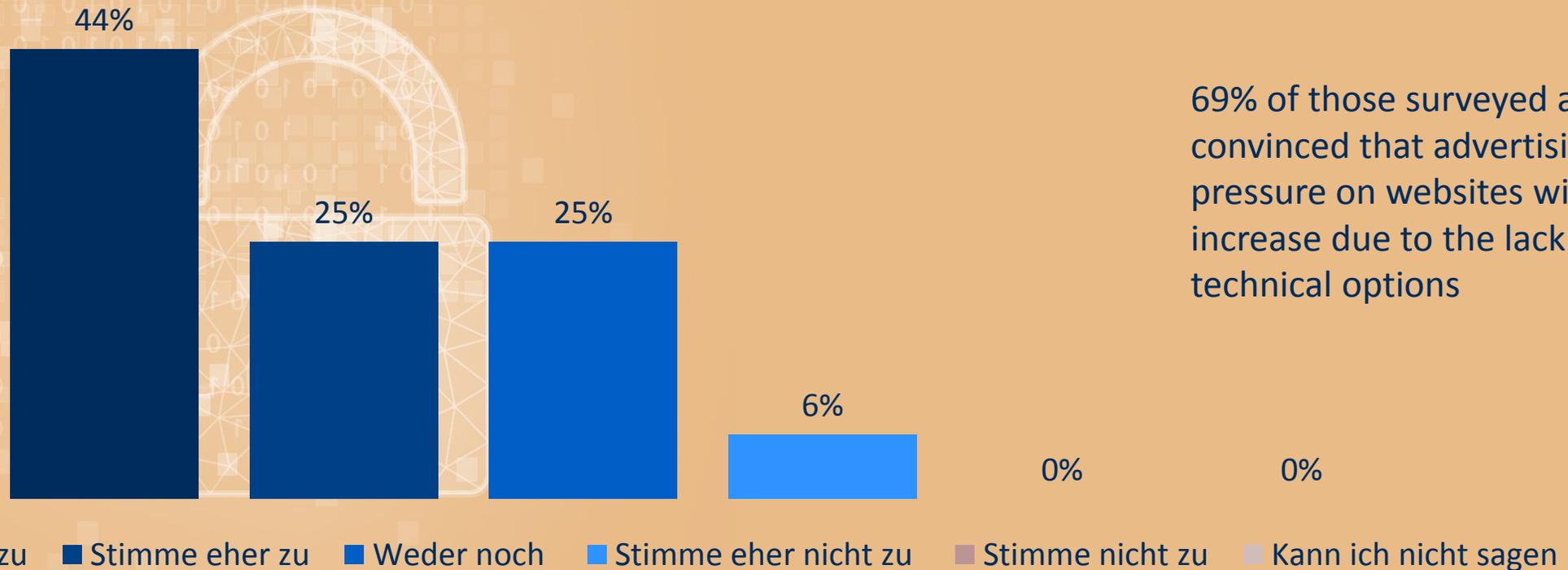
- Once the Regulation has been implemented, digital advertising can no longer be targeted to the same extent. Frequency capping or targeting, for instance, will no longer be possible.
- As a result, advertising pressure will increase on websites because advertisers will have to place more ads in order to achieve the same contact frequency.
- The user experience will be dominated by impersonal advertising. The frequency of online advertising will increase significantly, however, so too will the feeling of irrelevant advertising.
- Rather than using cookies set by third parties, providers will do this under their own domain in order to be able to continue placing advertising and transactions on a use basis. Rather than improving transparency, this kind of tracking will have the opposite effect for the user.
- The reality experienced by the user will be that something is “not right” with Internet use.

Key message 4

Digital advertising

... since advertising cannot be targeted, ad pressure on our websites is likely to increase (e.g. due to more ad placements)

Additional information about the diagram



69% of those surveyed are convinced that advertising pressure on websites will increase due to the lack of technical options

Key message 4

Digital advertising

Excerpts from the interviews with experts

“Uncertainty will be the biggest problem. Example: I can no longer user frequency capping so that I end up over-saturating the campaigns and am only willing to pay a small sum. This means that trust in the online medium will decline further.”

“All the current Regulation will do is result in many 3rd party cookies being diverted to 1st party cookies and hence “hidden”. That can’t be the intention.”

“The daily user experience will be marked by more advertising on websites and fewer relevant ads.”

“Context advertising will not benefit because at present context is always booked with data. Just because one element is cancelled doesn’t make the other one more valuable. Advertising budgets will be distributed differently and advertising pressure on us will increase.”

Key message 5

The impact on the potential for refinancing beyond ad marketing, such as eCommerce and subscription sales, will be negative

Assessments in detail

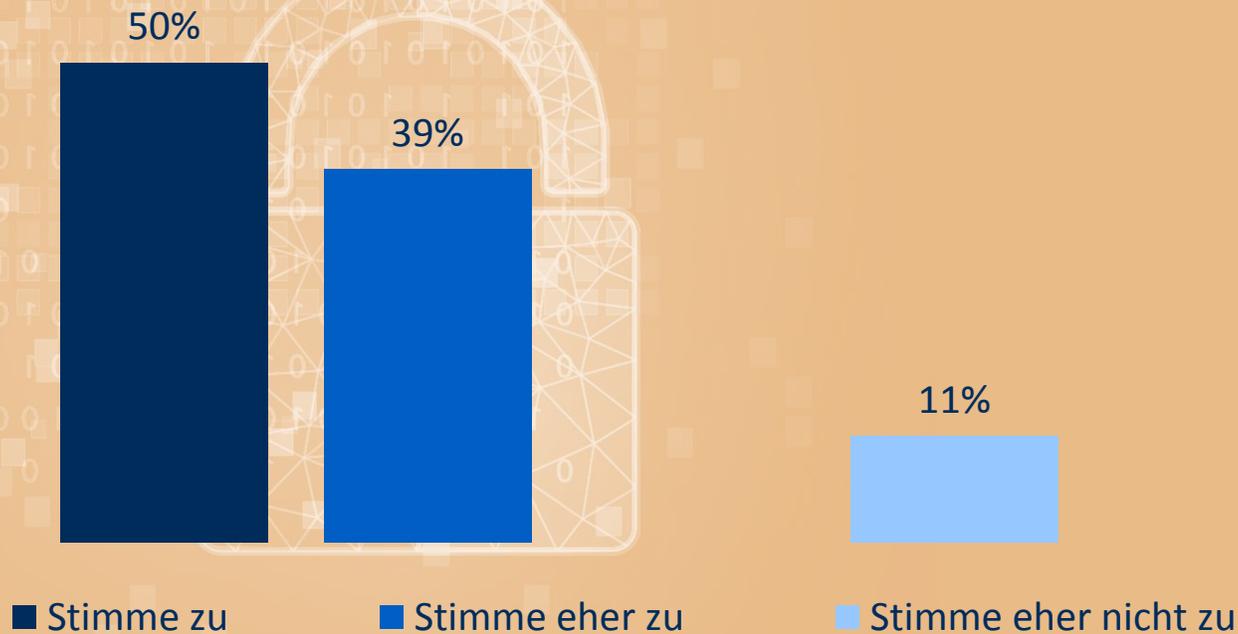
- The Regulation is expected to have a negative impact on sales revenue because website operators are also advertisers and will find it more difficult to reach users via the marketing channels used. This will mean spending more to buy advertising reach because operators, for instance, on the platforms, will have to invest more in order to reach the same target group.
- Users can only be addressed to a very limited extent in the different stages of a transaction process. This will reduce the probability of such transactions being concluded and will lead to negative effects on sales, even in traditional publishing revenue channels, such as the print subscription sales via websites.
- This can be expected to lead to a stronger concentration of eCommerce-based types of revenue, especially at Amazon because thanks to its high number of registered users, Amazon will be able to target advertising in a way that operators of journalistic websites will no longer be able to. Amazon is also expected to move more into the digital sale of print publications.

Key message 5

eCommerce and subscription sales

eCommerce will become more difficult because users can no longer be addressed individually

Additional information about the diagram



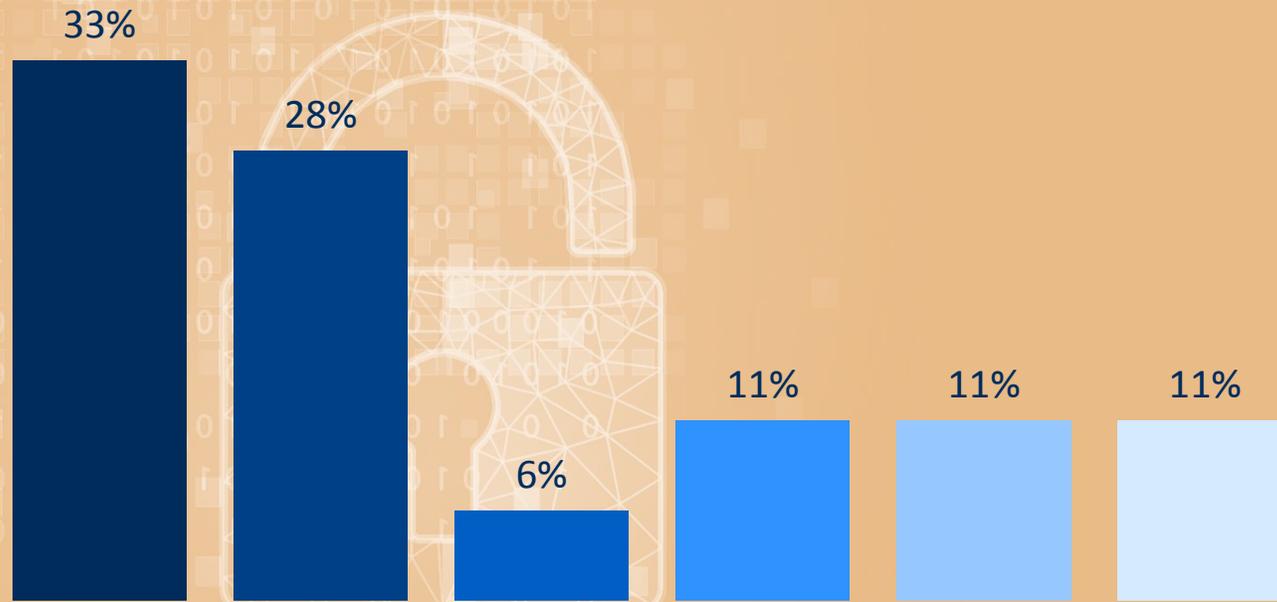
The impact on revenue channels based on eCommerce will be negative. Up to 89% of managers expect to see a negative impact

Key message 5

eCommerce and subscription sales

Selling merchandising products and subscriptions through our websites will become much more difficult

Additional information about the diagram



■ Stimme zu ■ Stimme eher zu ■ Weder noch ■ Stimme eher nicht zu ■ Stimme nicht zu ■ Kann ich nicht sagen

Other transaction-based business, such as subscription sales and merchandising, will become much more difficult. More than 50% of decision-makers expect very negative consequences.

Key message 5

eCommerce and subscription sales

Excerpts from the interviews with experts

“This will mark a departure from the free Internet. What will happen is that users of eCommerce processes will be forced to login even for transactions where this was not needed up to now.”

“Cookie opt-ins by users, for retargeting, for instance, will be almost non-existent. This poses a real risk to revenue because between 60% to 80% of subscription revenue is generated digitally.”

“What has been laid down in the Regulation poses a threat to the sales sector also.”

“All shops in subscription generation work to a very large extent with guest users. In other words, a login-free shop area; all restrictions on cookies will curb options for targeting.”

Key message 6

 The ePrivacy Regulation will prevent the breakthrough of paid content

Assessments in detail

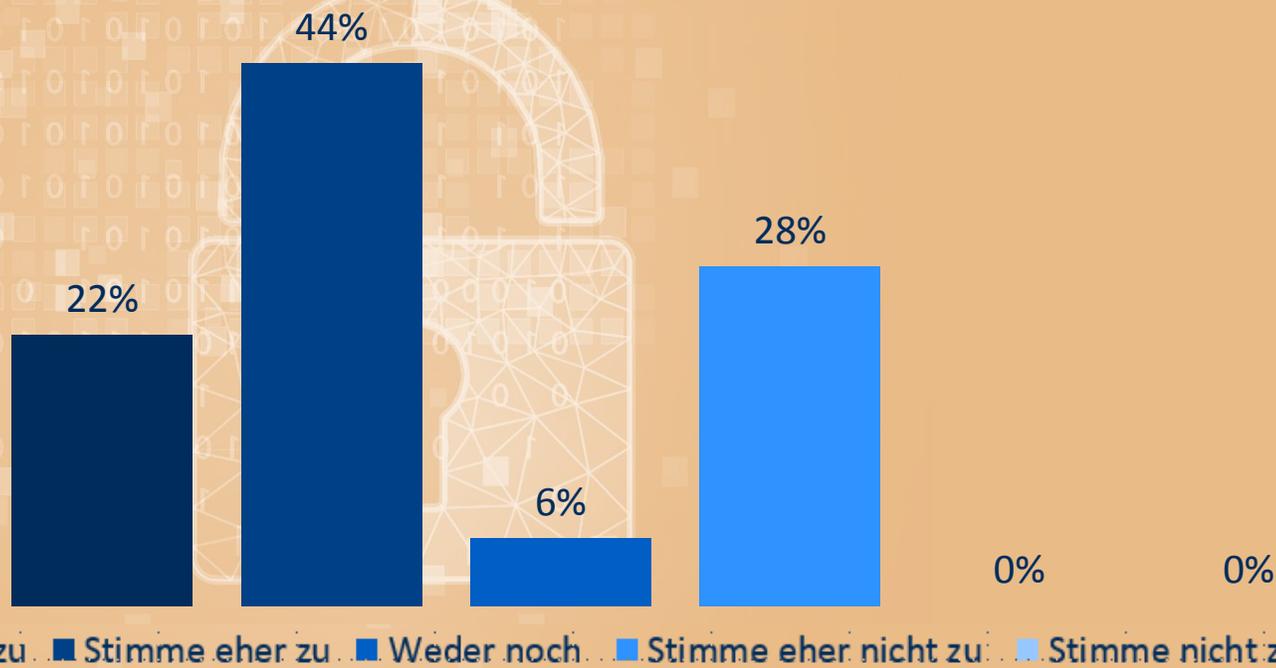
- The Regulation is also expected to have strong negative effects on paid content because website operators will find it more difficult to reach the potential users of certain content in the marketing channels used for this purpose.
- Tracking is also used as part of customer journey optimization in order to convince customers to subscribe to paid content. This tried-and-tested method will no longer be possible in this manner and this will have an adverse impact on both the user experience and the revenue potential.
- Generally speaking, revenue from paid content could also be promoted, however, at the expense of advertising revenue. The resultant costs of user acquisition will completely outweigh revenue because there are also far fewer options here under the Regulation.
- As a result of these developments, Google and Facebook could attain a dominant position in the field of paid content, allowing them to assume a gatekeeper function here.

Key message 6

Paid content

Paid content offers will become much more difficult

Additional information about the diagram



Paid content will also become much more difficult due to the Regulation

Key message 6

Paid content

Excerpts from the interviews with experts

“Tracking, evaluating and analysing which content is particularly important for users of paid content are all an integral part of enhancing content in order to achieve optimum customer loyalty.”

“Without today’s customary tracking models, it will no longer be possible to operate a journalistic business with a pseudonym that is paid by the reader. The proposed ePrivacy Regulation would therefore threaten the existence of the most important growth market for publishers.”

“Today, editorial offices optimise paid content at article level to meet the needs of target groups. Without user-specific data, editorial offices will be lost. It will be impossible to target content to the target group.”

“Today, the publisher is also always the advertiser and can only pursue these activities (acquiring users for paid content) to a limited extent.”

Key message 7

The protection of personal data is essential and necessary, however, in reality the Regulation will miss the mark

Assessments in detail

- All of the experts interviewed believe that the protection of personal data is an important topic. At the same time, the draft ePrivacy Regulation is not considered to be a suitable instrument to achieve these goals.
- The managers are convinced that the new Regulation will not provide users with transparency regarding their data. The disclosure of personal data is merely shifted to another place such as closed systems or browsers where an attempt is made to obtain the lion's share of consents using general contracts.
- There is general consensus that there is too much tracking and that something needs to be done here. But that does not mean that entire digital business models should be questioned, which is something that is expected with the new Regulation.
- One possible solution could be a substantial simple opt-out that is permanently present in everyday use and which could, for instance, be visible in the browser.

Key message 7

Protection of personal data

Excerpts from the interviews with experts

“The ePrivacy Regulation should focus on finding a selected technological means of reducing tracking to a sensible level while allowing services to continue. This is not the case with this current approach.”

“The new Regulation will not provide users with greater transparency regarding their data; releasing personal data is simply moved elsewhere.”

“The browser with privacy logic only leads to more market control and not to more user transparency.”

“We see that it makes sense to talk about privacy and data protection and to take this topic seriously. We also know that there is a need for action and regulation. We also understand the legislator. However, we have to find the right balance that also takes economic interests into account.”

Market dominance of the big platforms will increase significantly once again

Key message 8

Assessments in detail

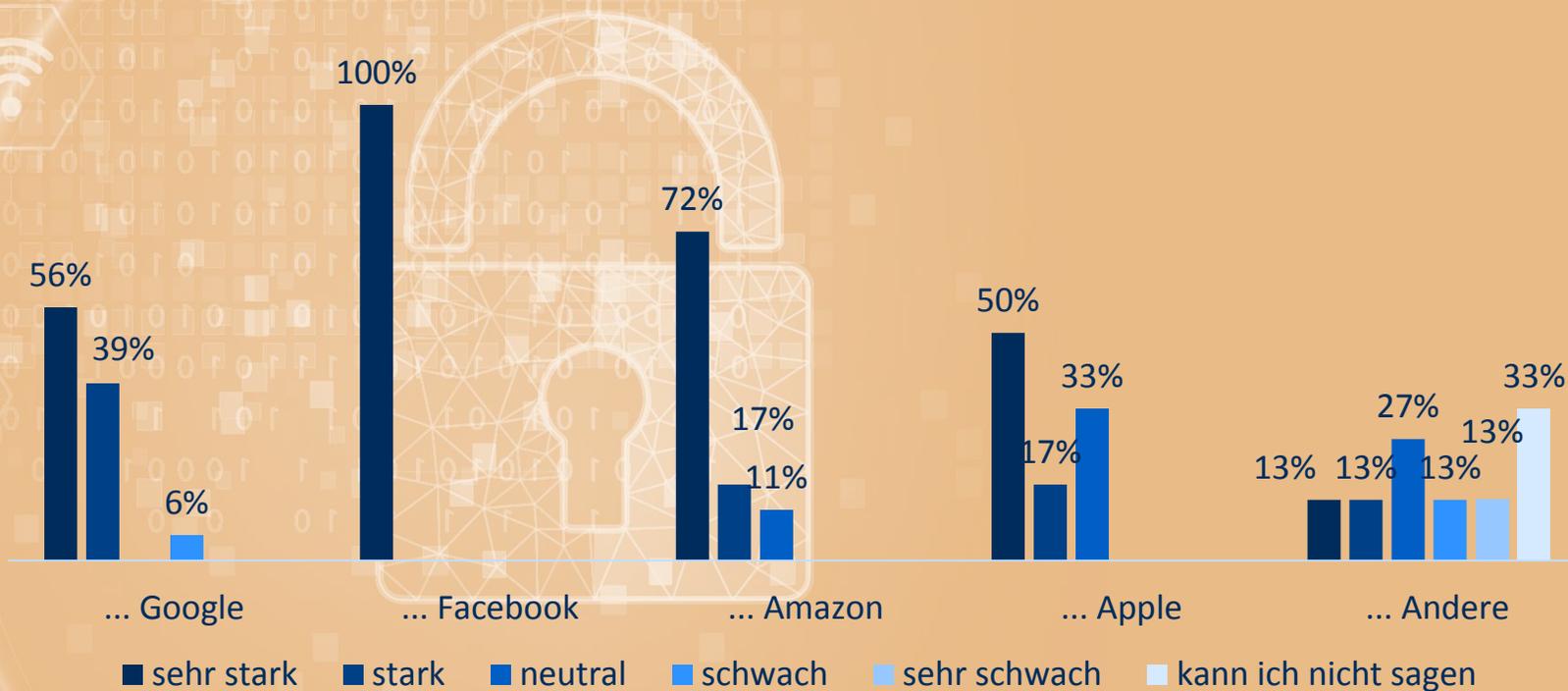
- All of those interviewed expect to see a further significant increase in the strong market dominance of the platforms as a result of the Regulation. Due to the high number of registered users, the Regulation will have less of an impact on the platforms.
- When it comes to programmatic advertising, Google is also expected to soon face problems, but these can be solved in the long run. Facebook, on the other hand, has 100% logged-in users; thanks to this and user consents, Facebook is expected to be the absolute winner in advertising.
- Users will continue to want content targeted to them. That's why platforms will benefit because they will still be able to offer this service; first and foremost Facebook, followed by Google and Amazon. All of those surveyed expect that Facebook could benefit more than all the others.
- As this dominance grows, the distribution of journalistic information will depend more and more on the algorithms and monetisation possibilities of these platforms.

Key message 8

Platforms

Facebook will be the platform that benefits the most

How strongly do you believe that platform operators will benefit from the new Regulation?



All of those surveyed believe that Facebook will benefit the most from the Regulation, followed by Amazon and Google. Generally speaking, all of those surveyed believe that the GAFAs companies will benefit from the Regulation.

Key message 8

Platforms

Excerpts from the interviews with experts

“The Regulation will not help independent premium publishing in any way. Even now, almost all growth is being claimed by the big platforms. This trend will increase even further.”

“Facebook, as a complete closed offering, will have the biggest advantage. In a worst-case scenario, the digital advertising market, which is data-based, will be located entirely on Facebook.”

“If you no longer login to Google, many services can no longer be used and that's the advantage the big platforms will have.”

“Thanks to their high login rates, Facebook and Amazon will benefit the most.”

“Google and Facebook will become more involved in consent management. While this may reduce direct economic losses, long-term dependence will, however, increase.”

Thank you very much for your attention!

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