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Telecom Operators' Competitive Advantage

Capitalizing on Digital Advertising

FTI DELTA

Why should you read this insight?

- Provides data on the growth of the digital advertising market and its expected future trends
- Discusses the role of telcos in digital advertising
- Addresses the regulatory landscape
- Offers insights for telcos looking to enter the digital advertising space

Telecom Operators' Competitive Advantage

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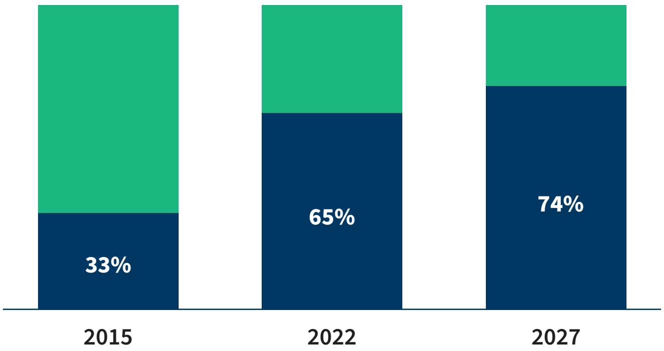
Telecom operators possess a valuable asset that can be used to strategically engage in digital advertising: data. With a wealth of consumer data available, including personal information, location, and user behavior, operators are well positioned to play a critical role in digital advertising. However, many operators have limited themselves to demand-side platforms, which may not provide the most value. Operators that have embraced the entire advertising value chain have generally outperformed their peers.

In addition, new regulatory interventions provide an opportunity for telcos to prove themselves as a viable option for advertisers.

By leveraging their data assets and playing a more active role in the advertising value chain, telcos can unlock significant potential and achieve greater success in

As global ad spending continues to grow and is on track to exceed USD one trillion in four years, digital advertising is experiencing a similar growth trend and is expected to account for 74% of total ad spending by 2027.

GLOBAL DIGITAL AD SPEND AS PERCENT OF TOTAL AD SPEND, 2015-2027



Source: FTI Delta analysis based on data from Magna Global

Over the past few years, telecom operators have sought to diversify their revenues and expand their offerings into adjacent services. Digital advertising was one of the propositions that telcos attempted to grow, both organically and through acquisitions, but like other areas that telcos have ventured into, this has not proved to be a major source of revenue generation for many. While it seems intuitive for telcos to engage in digital advertising efforts, they may not have fully exploited their most important asset - data. Leveraging and monetizing call details, network, and customer data have not been easy, but with the help of analytics capabilities, increased cybersecurity measures, regulatory alignment, and vendor partnerships, operators can leverage their data to strategically engage in digital advertising.

The data asset held by telcos and technology companies

With a wealth of data at their fingertips, operators are well-positioned to play a role in digital advertising. Consumer data available to telcos ranges from personal data to location information and user behavior:

— Location-based service (LBS) data: Subscriber location and mobility patterns

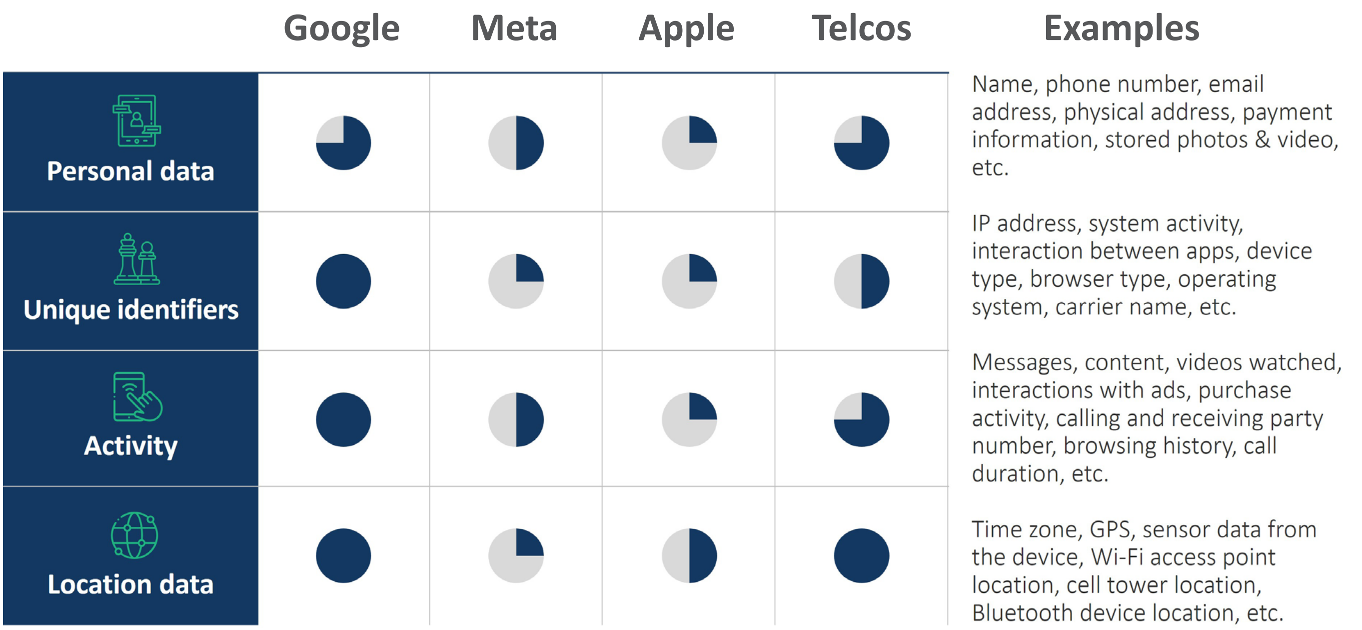
— M2M applications data: data from wearables, smart homes, and connected cars

— Data from Operations Support Systems (OSS): User behavior data such as web browsing history, gaming, app usage and preferences, and customer service interactions

— Data from Business Support Systems (BSS): Personal information, call details, bill information, and service subscriptions

When looking at the type of data that major tech companies controlling the advertising market (e.g., Google, Meta) capture, telcos seem to have a competitive advantage, as shown in the figure below.

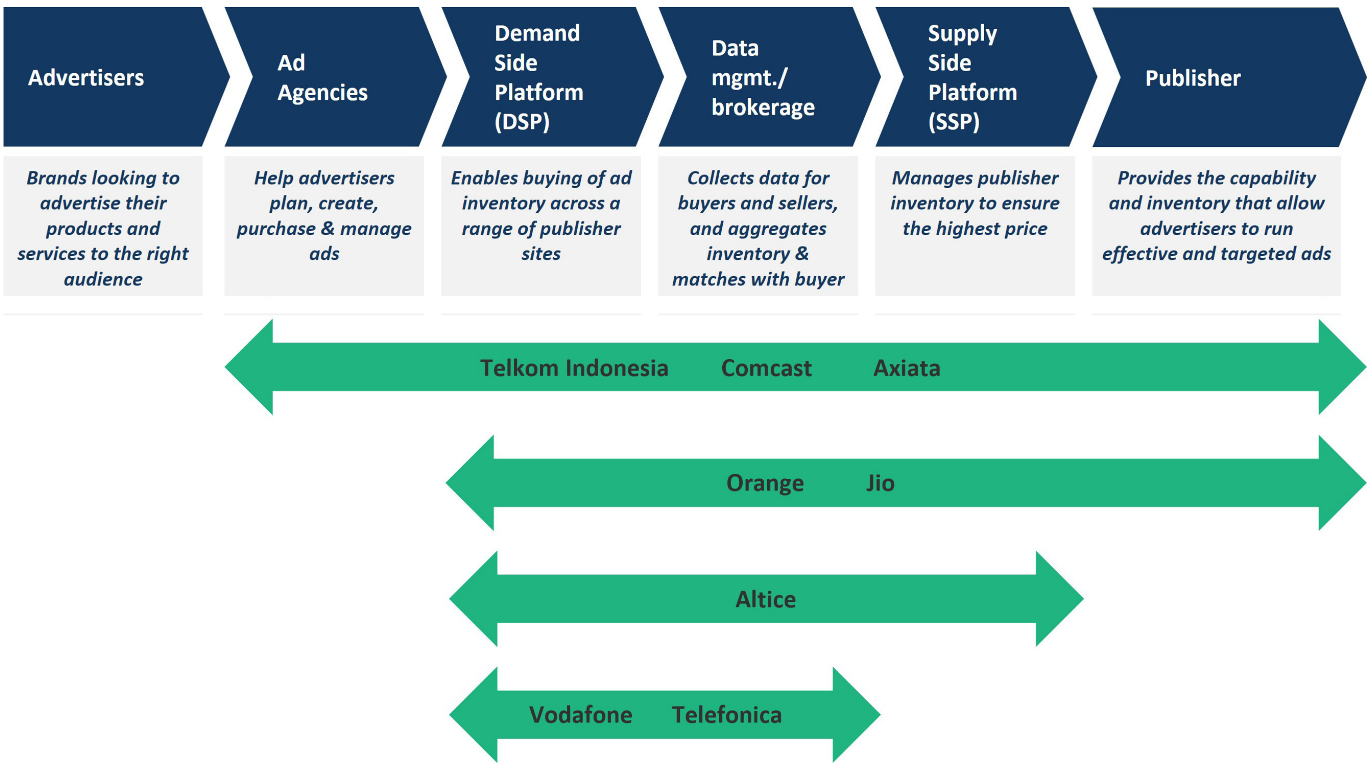
TYPES OF DATA CAPTURED BY TELCOS AND TECH COMPANIES



Source: FTI Delta analysis

With this data at their disposal, some telcos have expanded their service offerings to include digital advertising. However, most of them played a role in the demand-side platforms, which may not be where most of the value lies. Operators that have played across the value chain have seen better results.

DIGITAL ADVERTISING VALUE CHAIN



Source: Operators websites, filings, and press clippings

GLOBAL TELCOS' EFFORTS IN DIGITAL ADVERTISING - LIMITED SUCCESS

	Year & Deal value ($)	Ad platform	Ad strategy	Ad strategy outcome
Singtel	• 2012 • $321m	**Amobee**	Acquired to complement existing geo-localization capabilities and to advance into the digital ad segment. It was then complemented with further acquisitions (Konterra, Adconion, Turn)	Singtel decided to refocus and reinvest in areas of the business with higher returns and sold Amobee to Tremor, an Israeli AdTech company for $239 million in 2021
Telenor	• 2016 • $360m	**Tapad**	Acquired with the aim of applying their cross-device marketing tech to improve digital capabilities by better understanding of customer behaviors, as well as to support in the building of an in-house ad platform	Failure to scale Tapad's assets and capabilities, combined with regulatory scrutiny, led Telenor to sell the platform to Experian for $280 million in 2019
Verizon	• 2015-2017 • $9.4b	**Oath** **Verizon Media**	After acquiring AOL and Yahoo, Verizon integrated their ad platforms and combined them to create Oath, which had a reach of 140 million subscribers. Oath was later rebranded to Verizon Media in 2019	The delays in integrating AOL and Yahoo's ad platforms and market share loss to the big tech players led to the sale of Verizon Media to Apollo Global Management for $5 billion in 2021
AT&T	• 2018 • $1.6b	**AppNexus** **Xandr**	AT&T acquired AppNexus and merged it with its internal advertising and analytics segment and later rebranded it to Xandr. The goal was to make use of AppNexus' machine learning and predictive analytics capabilities, integrating them with AT&T's first party data, premium video content and distribution functions	AppNexus' lack of video capabilities in addressable TV advertising along with integration problems that saw Xandr lose between $50-90m annually and was therefore sold to Microsoft in 2021 for $1 billion

Source: Press clippings, analyst reports

Diversified efforts, limited success for some

Some telcos' efforts to enter the digital advertising market were met with limited success. Some pulled the plug on their efforts as early as three years after launching their ad offerings.

As previously stated, operators who played across the advertising value chain have generally seen more success than their peers with a niche/limited role. Examples include Telkom Indonesia, Jio, and Comcast. Starting with emerging markets, Telkomsel's DigiAds offers an end-to-end solution, has a reach of 160 million consumers, a data management platform (TADEX), and is a cash flow-positive business[1]. Jio launched JioAds[2], allowing advertisers to promote their ads on Jio's in-house digital properties like JioChat, MyJio, JioMoney, and JioGames, capitalizing on a reach of more than 250 million users.

Moving to developed markets, Comcast launched Comcast Spotlight after acquiring assets of AT&T broadband in 2002, and later rebranded its advertising sales unit to Effectv in 2019, after having completed multiple acquisitions to strengthen its value proposition. Effectv is Comcast's customized ad solution offered across multiple screens and relies on Comcast's aggregated viewership data and third-party data insights. Comcast's advertising revenues contributed close to 13% of the operator's total revenues in the past 6 years.

COMCAST' AD SALES BUSINESS JOURNEY

Source: Company websites and news articles

[1] PT Telkom earnings call transcript

[2] Exchange4Media

Regulatory intervention and the impact on telcos

The use of customer data has become an increasingly important topic for regulators. Newly introduced regulations in the EU, such as the Digital Services Act and Digital Markets Act3, aimed at increasing user privacy through limiting online tracking and regulating the gatekeeper power of the big tech players (Google, Meta, Apple, etc.), are an opportunity for telcos to prove themselves as a viable alternative for advertisers by demonstrating compliance to these regulations.

In February 2023, four of the biggest telecom operators in Europe announced the launch of an advertising platform under a joint venture that was approved by the European Commission4. Deutsche Telekom, Telefonica, Orange, and Vodafone will each hold a 25% stake in the venture5. The two main differentiators that this JV claims to offer when compared to other tech companies are that they are European data protection policy compliant (e.g., GDPR, e-privacy) and that customers must opt-in rather than the generically known strategy of customers not objecting. Customers can also then opt out at any time, while their personal data is anonymously shared by a digital token which the operators claim cannot be reverse engineered. The platform will be providing a unique digital code derived from the user's mobile or fixed network subscription upon providing consent, allowing brands and publishers to recognize users on their websites or applications on a pseudonymous basis, group them under different categories, and tailor their content to specific users' groups. It is important to note that this initiative is in its trial stages in a few European markets and its long-term success is still far from obvious, but it could be a step in the right direction. Other moves have been witnessed in other parts of the world with T-Mobile recently launching its App Insights program in the US6, allowing third-party marketers to buy customer app usage data in an anonymized manner.

While many telcos don't have the audience reach of Telkomsel or Jio, the media empire of Comcast, or the necessary investments and expertise, they do have access to subscriber data that can be harnessed and evolved to adhere to privacy laws and regulatory checklists through unique IDs or digital tokens to help attract ad buyers and sellers looking for innovative targeted advertising solutions.

Success here can help telcos gain the trust of advertisers and create relationships that can be further solidified in new mediums and platforms such as the metaverse in the coming years.

[3,4] European Commission

[5] TechCrunch

[6] The Verge

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