

IHS TECHNOLOGY

# The future of mobile advertising is native

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## ADVERTISING INTELLIGENCE

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# The future of mobile advertising is native

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## Executive Summary

Mobile advertising has grown faster than any other medium in the last four years and is now a significant proportion of online advertising revenue. Initially, it struggled to match the success of mobile app usage and consumer spending. Early mobile advertising formats such as banners have been borrowed from other online media rather than built to best exploit the very different mobile medium. While older formats may have been relatively easy to implement at scale, they have not been built to address the challenges and take advantage of the opportunities that mobile provides.

This study, conducted by IHS and commissioned by Facebook Audience Network, provides the first market sizing and future projections of the in-app native advertising market across regions. While first party in-app native, like those seen on Facebook, will continue to be the largest revenue driver, third party in-app native will continue to grow, at an annual average rate of 70.7% and will account for 10.6% of all mobile display advertising at \$8.9bn by 2020. However, the paths to adoption of native advertising vary for different types of mobile publishers. A flexible approach which puts the user experience at the heart of the advertising strategy is crucial for the success of native.

## Key Findings

- By 2020, 75.9% of all online display advertising revenue will be mobile at \$84.5bn
- By 2020, 63.2% of mobile display advertising will be native, which will make up \$53.4bn in advertising revenue
- Third party in-app native advertising is growing quickly. It is forecast to increase at a 70.7% compound annual growth rate between 2015 and 2020, amount to \$8.9bn and account for 10.6% of mobile display advertising.
- North America is the leading region in third party in-app native advertising both in absolute and relative terms; APAC will record the largest increase in the next five years at a 177.0% compound annual growth rate between 2015 and 2020.
- Utilities, news and social apps are the champions of in-app native advertising, while games are more hesitant to adopt new ad formats.
- The key challenges to adopting native advertising by app developers and publishers are: 1) lack of awareness of native ad formats 2) restricted infrastructure and technology 3) limited scale 4) low sophistication of native ad formats 5) no universal pricing and measurement

## Defining native advertising

'Native' advertising is quickly becoming a buzzword used inconsistently in the advertising industry. The challenge in defining native advertising at a given point in time is that it is constantly changing and evolving to match the demands of advertisers and the capabilities of app developers. The Interactive Advertising Bureau (IAB), which provides the definitive guide to online advertising formats, has identified six different types of native advertising, of which one is a 'miscellaneous' category in its Native Advertising Playbook (see Appendix) providing a large breadth of advertising categories. The IAB definition of native has also been adopted by the Mobile Marketing Alliance.

Adopting a narrow definition risks excluding key native ad formats and may prove to be inaccurate over time. Using a broad catch-all approach limits the extent to which a meaningful analysis can be conducted.

For the purposes of this study, IHS has decided to use the IAB/MMA definition below:

*“Mobile native advertising is a format of advertising that takes advantage of the form and function of the surrounding user experiences, all of which are indigenous to the wide variety of mobile devices.*

*Native advertising is distinct from content marketing. Where content marketing aims to match content and format, native advertising, at least on mobile devices, is primarily an ad format that matches the style of the site or app where it serves. Moreover, native advertising can be bought programmatically, whereas content marketing usually requires editorial involvement.”*

This study focused on in-app mobile display native advertising and did not consider content marketing and mobile paid-for-search in its findings, market sizing and analysis. Native can be a customised standard format (e.g. a banner, interstitial, or video) which mimics the feel of the app in which it is served or a custom-made unit, native only to the content in which it appears.

## Method

As part of this study IHS conducted 70+ in-depth interviews with industry stakeholders in 25 countries. Responses were given by a broad range of companies:

- **Publishers, app and game developers:** among app developers, IHS interviewed companies that claim an aggregate audience of more than 3.2bn monthly active users (excluding Facebook’s audience) and that have served more than 12.0bn mobile app downloads. Among app developers IHS conducted interviews with companies representing the Entertainment, Games, Finance, News, Music, Social & Communications, Dating, Health & Fitness, Navigation & Travel, and Utilities & Tools categories.
- **Agencies and advertisers:** IHS interviewed key agencies and advertisers to explore brand attitudes towards native advertising and unravel the buy-side demands and capabilities for native advertising.
- **Trade associations, ad networks and technology vendors:** IHS interviewed third parties to better understand the context in which native advertising is being pursued from a revenue (trade associations) and structural perspective (ad intermediaries).

Based on qualitative and quantitative insights gained from interviews, company and industry reports, and IHS in-house data and models, native advertising was estimated and forecasted separately for North America, Europe and Asia Pacific (APAC). The global total was calculated by adding up the three regions included in this study.

All advertising revenue numbers in this report are the net advertising revenues (NAR) made by publishers and platforms. The regional splits are accounted for in the region in which the advertising revenue was booked. For example, if company A is a North American company, but it generated revenue in Europe, APAC and North America, its total revenue is split regionally according to where that revenue was generated.

## Setting the scene: native advertising in a wider context

### Consumer attitudes towards native advertising

The mobile banner is a format borrowed from the desktop world, which does not work as effectively on the smaller screen. This has generated much frustration and disengagement toward mobile advertising, decreasing the value of mobile display inventory and reducing user retention. Native advertising aims to eliminate obstruction to the user experience in a mobile app, through its seamless integration with the app content. Consumer research and case studies conducted by numerous native advertising companies (see references in the appendix) have shown that:

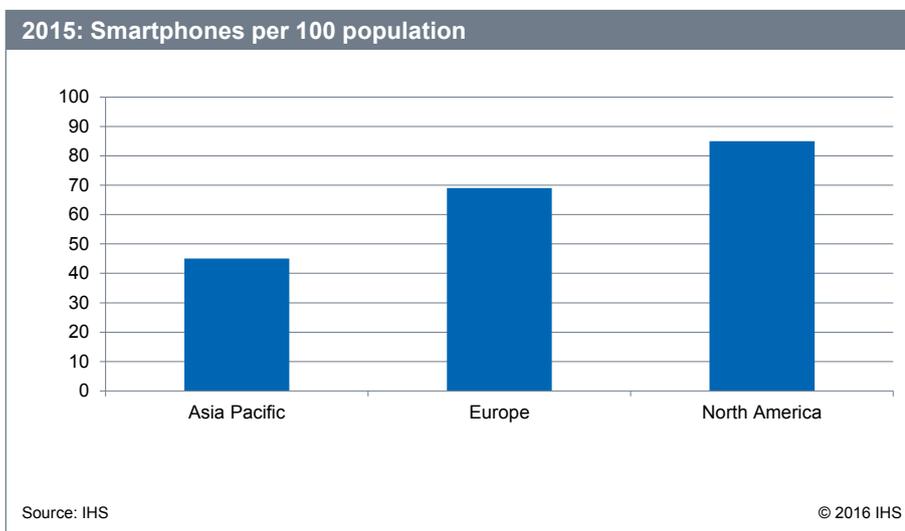
- Consumers engage more with native ads than standard banners. The uplift in engagement ranges between 20% to 60%

across all the consumer research examined for this study

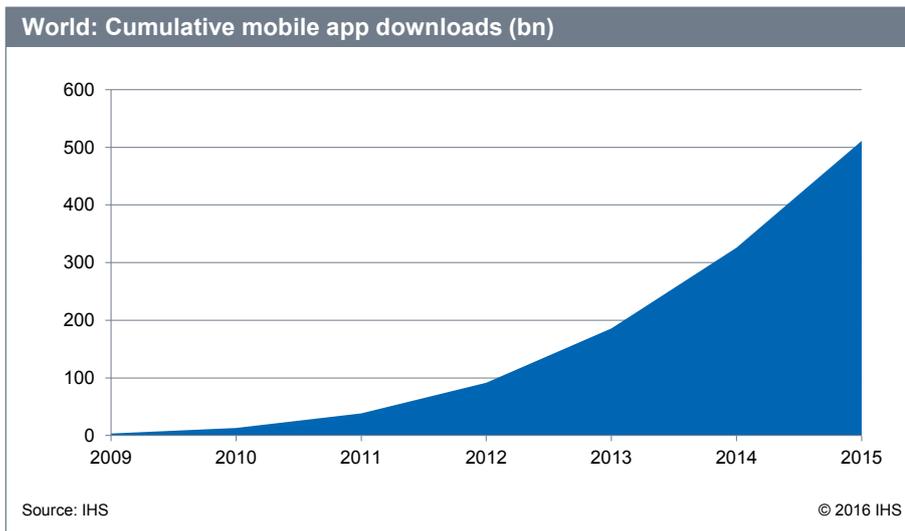
- Consumers are more willing to share native ads than standard banner ads
- Standard banner ads are more likely to result in user churn, lower retention rates, lower CTRs and eCPMs, and ad fatigue
- Native ads result in up to three times higher user retention
- Native ads were less likely to be subject to consumer ‘banner blindness’

## Mobile native advertising is enabled by the smartphone and app store revolution

- **The rise of the smartphone and app store business has shifted the media, advertising and technology landscape.** Since Apple launched its App Store in mid-2008, global smartphone and tablet application stores have served more than 500bn app downloads. Over 95% of these app downloads are free and monetised either through advertising, in-app purchases or a combination of the two. By the end of 2015 there were 3.3bn smartphones in use globally, and in the most advanced markets in Western Europe, North America, and mature Asian markets there were more than 85 smartphones in use per 100 people. There is still room for growth; the global smartphone installed base will pass 5.0bn in 2018. This growth presents opportunities for both app store revenues from in-app purchases and also in-app mobile advertising. Many of these markets will be mobile first in consumer adoption of online services and so mobile advertising will be the dominant online advertising channel.



- **Mobile app downloads continue to grow fast:** In 2015 there are more than 53 app downloads per active smartphone and total consumer spending on mobile apps has grown from \$9.0bn in 2012 to \$40.0bn in 2015. The rise of in- app mobile commerce, enabled by new mobile wallets and payment solutions has created new opportunities for both app developers and advertisers as mobile takes an increasing share of content, advertising and commerce.



- The challenge of the paid-for model:** The smartphone-enabled app store market has fundamentally changed how people use media and the role mobile devices play in people's lives. UK-telecoms and media regulator Ofcom reported that in 2014 more than half of UK smartphone owners checked their devices within fifteen minutes of waking. The same report showed how mobile devices are becoming important across different use cases. More than one-third (34%) of UK smartphone owners used their device to shop online at least once per week in 2014, in the US this was even higher at 38%. There are challenges for publishers and developers despite this growth. With more than 1m apps available on leading app stores, many developers struggle to monetise their content from just paid services. The dominance of the freemium business model has seen consumer spending on in-app purchases concentrated on a small selection of apps at the top of app store revenue charts which take the lion's share of consumer spending. These developers can spend vast amounts of money to acquire users and then drive revenues through repeat in-app purchases, but for the majority of developers, this is not the case. Conversion rates for paid users are low; two percent is typical even for a successful title. This broad tier of developers should consider a range of business models and be flexible in their approach to monetising their apps. IHS research has found that even for app categories that have historically been more reluctant to introduce advertising such as games, native advertising can have a positive impact on user engagement and monetisation.

## The new 'savvy' mobile advertiser

- As traffic shifts to the mobile, online and mobile budgets are coming not just from mobile-only advertisers, but increasingly also from larger brands. The participants in this study – including developers, agencies and advertisers – indicated that advertisers particularly in the telecoms, finance and travel sites categories are increasingly moving their ad spend to mobile and expecting novel, native formats to deliver their brand messages.

**“This is a format that lends itself to storytelling in a way that feels right for the brand.”**

– Media agency, Entertainment brand

- Mobile advertising innovation and advancements have traditionally come from the sell-side of the advertising ecosystem. For example, mobile programmatic was developed by mobile publishers, learning from the desktop-world to optimise yields. Similarly, native advertising has been primarily a publisher-led initiative. However, advertisers are increasingly savvy about online and mobile advertising and creating digital teams with mobile experts. Companies like Walmart, Target and Netflix now have in-house digital and mobile advertising teams, who although they still work with advertising agencies on their media plans, are making more decisions themselves on which companies to partner with and what formats best address their audiences. As large brands become more savvy, mobile app developers and

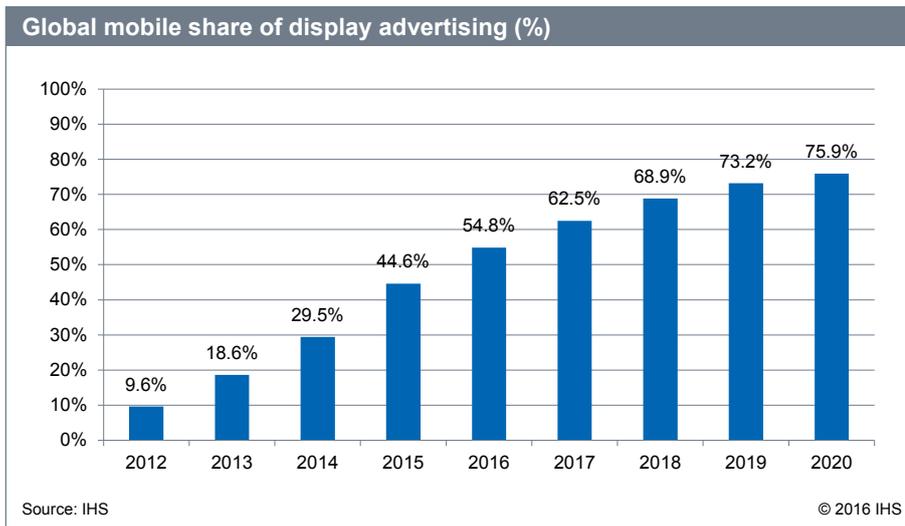
publishers will have to adapt their offerings and have the capabilities to serve these advertisers.

- The most proactive advertisers are increasingly focused on how to best exploit the specific mobile context. This can be achieved by integrating different app features depending on the category. For example, travel and logistics companies are looking at how to integrate their adverts within specific parts of mapping and navigation apps. Media and entertainment companies are not simply looking at where best to target their adverts. Native advertising provides them with an opportunity to utilise and adapt their existing content within new formats to drive deeper engagement.

## Native advertising: the big picture

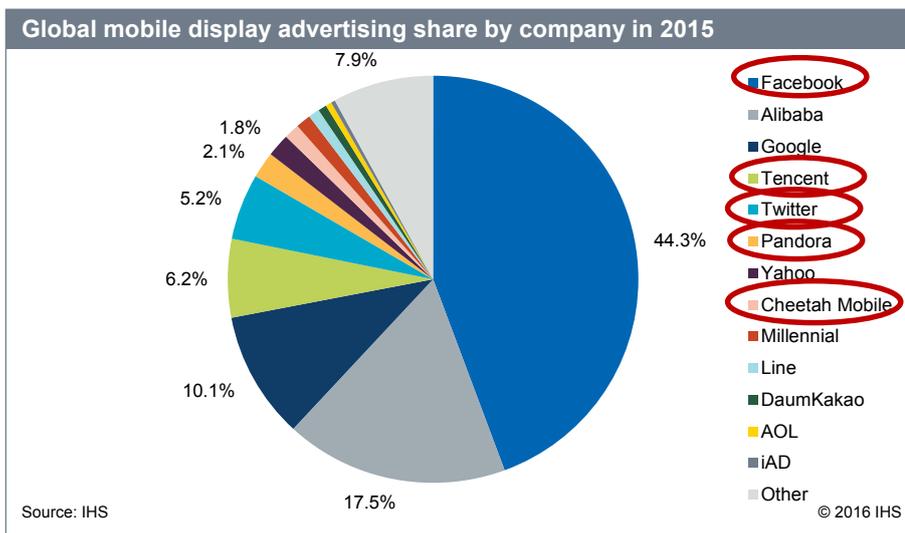
### Success in mobile advertising is success in native advertising

Mobile advertising has grown stronger than any other medium in the last four years and is now a significant proportion of online advertising revenue. In 2015, global mobile advertising grew 71.0% from the previous year and accounted for 44.6% of all online advertising revenue. IHS forecasts that mobile advertising will increase 42.3% in 2016 and for the first time generate more than half of all online advertising revenue (at 54.8%). By 2020, over three quarters of all online display advertising revenue will come from mobile and amount to \$84.5bn.



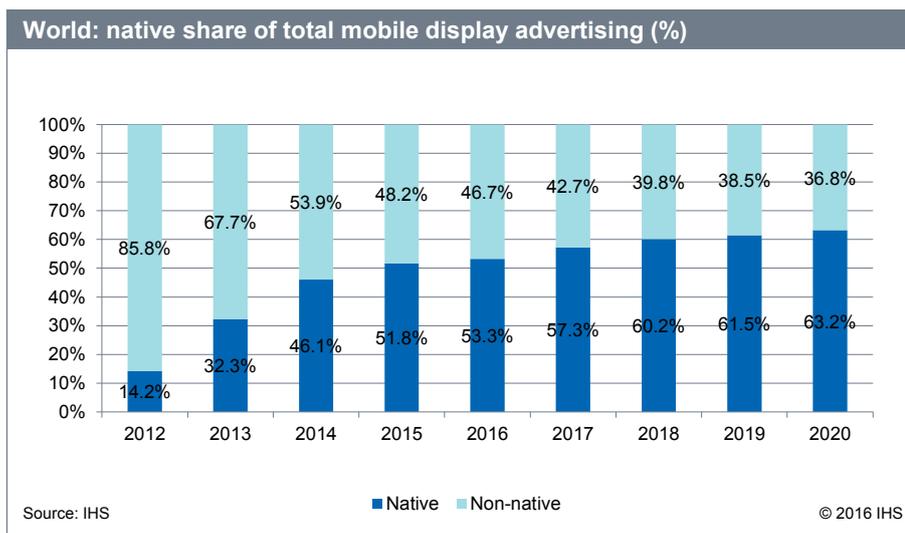
When analysing mobile advertising revenue by company, two patterns can be observed:

- 1) Companies which focus on mobile **in-app advertising** command the majority of the mobile advertising market.
- 2) Companies which focus on **native advertising** as a primary revenue stream are the most successful at monetising through mobile.



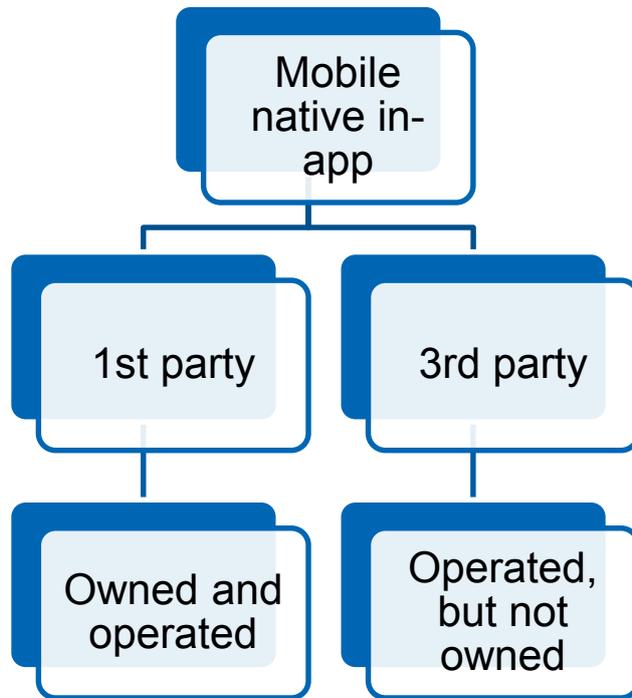
This does not suggest that non-native, mobile web advertising is not growing, but rather that native in-app advertising is outpacing all other mobile advertising formats.

Native advertising generated \$14.1bn in 2015 and accounted for 51.8% of all mobile display advertising. By 2020, native will amount to \$53.4bn and 63.2% of all mobile display advertising. This is primarily driven by in-app native advertising, which recorded revenues of \$13.6bn in 2015. It is also important to note that the growth of native is also linked with the fast rise of Facebook in-stream ads.



### Third party native advertising will drive mobile display in the next five years

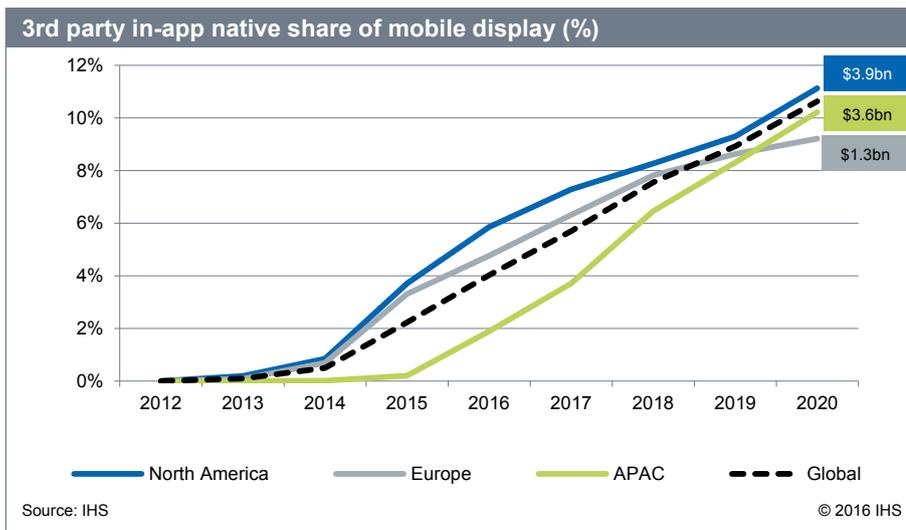
In order to understand the wider market dynamics, maintain the analytical value of the study and remove any single company biases, IHS has separated in-app native advertising into two categories: first and third party native mobile advertising.



**First party native advertising** is advertising that is operated and served within the company’s proprietary app (e.g. a Facebook in-stream ad or a promoted Tweet).

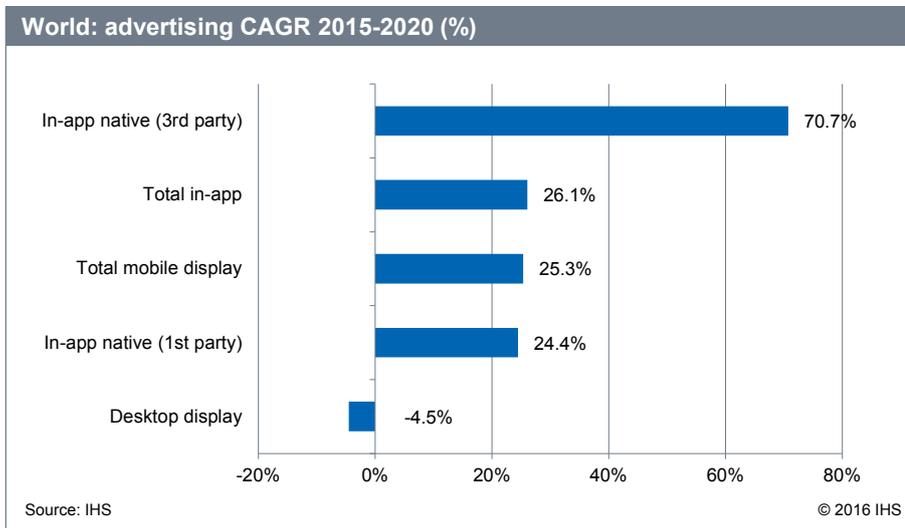
**Third party native advertising** is advertising that is operated and served by a third party onto a publisher’s or app developer’s inventory (e.g. an in-stream Guardian News or Wall Street Journal ad served by a native ad company).

Third party in-app native advertising will generate \$8.9bn in revenue by 2020 or 10.6% of all mobile display advertising. This will be largely driven by North America and Europe in the next two-three years, but will be accelerated by the APAC region in the latter part of the forecasting period (2019-2020).



Third party in-app native advertising is catching up to the market and will be the fastest growing format in online advertising, growing at an average annual rate of 70.7%, compared to in-app advertising (at 26.1%), mobile display (at

25.3%) and desktop display which will decline on average -4.5% a year between 2015-2020.



### Growth drivers of third party in-app native advertising

**1) Scaling demand:** one of the main hindrances to the deployment of third party in-app advertising is the lack of technology providers, who are able to accommodate third-party native ad formats. As they develop these capabilities, advertisers which would like to buy native advertising and publishers which are selling native ad units will be able to connect at scale and better leverage native ad offerings. Improvement in technology will make native advertising more scalable, growing revenue by generating a higher volume of native ads in the market..

**2) Shift in sales strategy by large mobile publishers:** large premium mobile publishers like Rovio have reduced their direct sales force and shifted their monetisation strategy to mediation and programmatic ad sales. As more publishers follow the Rovio strategy, there will be more premium inventory available through third party providers, driving higher native advertising revenue from both uplifts in price and increases in volume.

**3) Rise in m-commerce:** m-commerce is growing rapidly as consumers increasingly choose to complete transactions on their mobile device. The deployment of Apple Pay, Google Pay and other mobile wallet solutions to a wider geographical area will contribute to this growth across regions. As the point of advertising and the point of transaction come closer together, IHS expects more advertisers to increase their mobile ad spend and mobile publishers to take advantage of this with better retargeting capabilities. For example, the Japanese messaging company, Line has been successful in using native advertising to encourage users to complete transactions on their mobile. IHS anticipates more mobile publishers using native to generate in-app commerce and retail sales.

## Regional profiles

### North America: the native leader

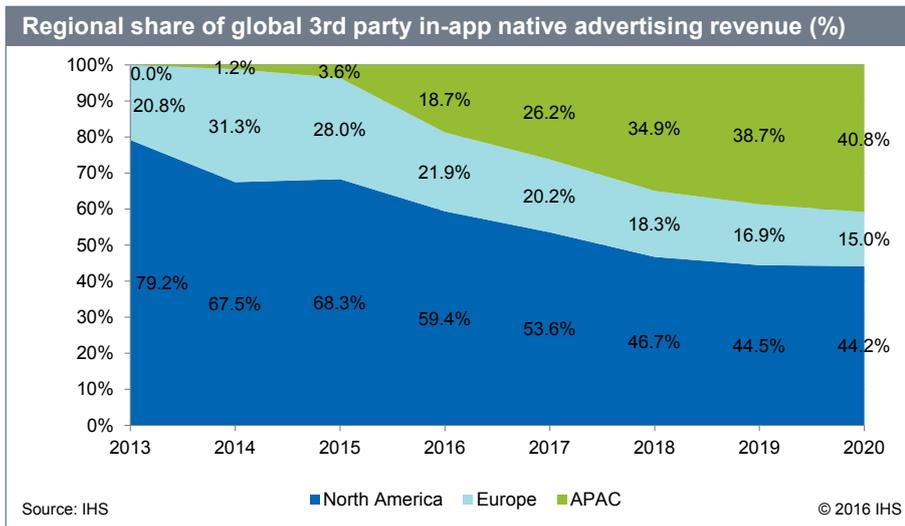
North America: advertising revenues (\$m)

	2012	2013	2014	2015	2016	2017	2018	2019	2020
Mobile display advertising	1,161	3,159	6,359	11,323	16,004	21,095	26,507	31,252	34,936
In-app advertising	695	2,115	4,690	8,516	12,120	15,988	20,090	23,818	27,132
In-app native advertising	341	1,488	3,977	7,533	10,894	14,234	17,811	21,011	23,750
of which 1st party	341	1,482	3,923	7,113	9,958	12,697	15,618	18,106	19,813
of which 3rd party	-	6	54	420	937	1,537	2,193	2,905	3,937

Source: IHS

© 2016 IHS

North America is currently the most advanced market for in-app native advertising at \$7.5bn in 2015. The majority of third party in-app native advertising is currently sold in the US with 68.3% of global third party in-app native advertising revenue generated in North America.

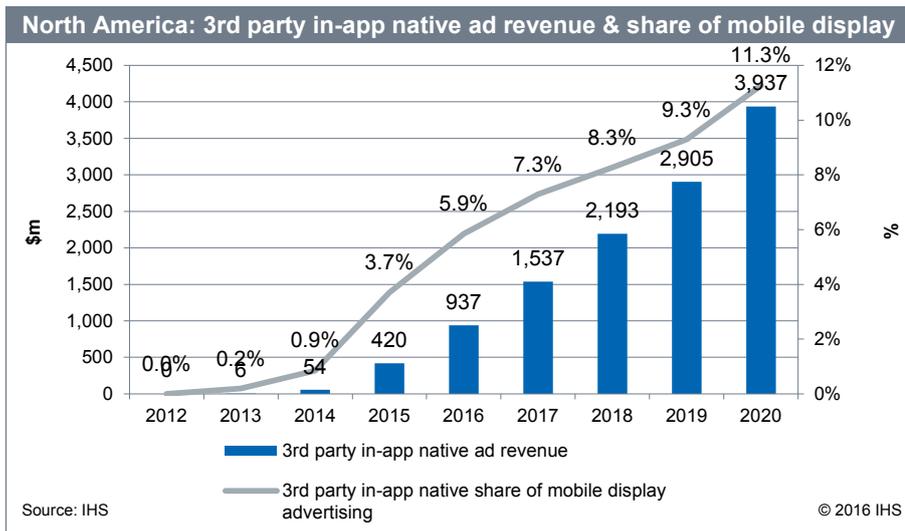


North America is the largest mobile advertising region at \$11.3bn and consequently mobile app developers and mobile publishers have more resources to experiment and innovate with new ad formats and trading mechanisms. Until now, repurposing desktop formats on the mobile screen has yielded:

- 1) Limited ad inventory due to the smaller screen size
- 2) Lower RPMs, RPCs and RPAs for mobile publishers

North American mobile already accounts for 43.0% of all North American display advertising and this figure will reach an 83.6% share in 2020. App developers and publishers in North America were the first to extend their ad formats beyond the traditional banner and are leading the efforts to improve the mobile advertising experience and increase native advertising.

IHS forecasts that North American in-app native advertising will amount to \$23.8bn by 2020, of which \$3.9bn will be third party in-app native advertising, accounting for 11.3% of all mobile display.



## Europe: the second-mover

### Europe: advertising revenues (\$m)

	2012	2013	2014	2015	2016	2017	2018	2019	2020
Mobile display advertising	582	1,977	3,660	5,207	7,228	9,179	10,978	12,763	14,242
In-app advertising	345	1,206	2,447	3,953	5,297	6,660	7,986	9,286	10,528
In-app native advertising	89	701	1,970	3,647	4,725	6,046	7,433	8,659	9,646
of which 1st party	89	699	1,945	3,474	4,380	5,466	6,574	7,557	8,309
of which 3rd party	-	2	25	172	345	580	859	1,102	1,336

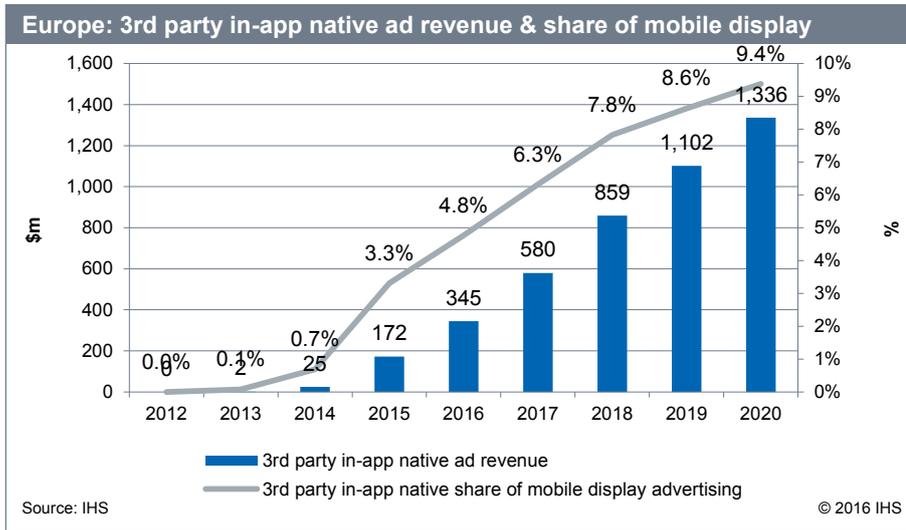
Source: IHS

© 2016 IHS

After the US, the most advanced native advertising markets are the UK and Germany, followed by other Western European countries. Europe has lagged slightly behind North America in moving into native advertising generating \$3.6bn in native advertising in 2015, of which \$172.0m was in a third-party environment.

Mobile accounted for 35.2% of online display advertising in 2015 and will not take a majority share until 2017 (54.1%). A smaller available pot of mobile ad revenue will translate into a lesser incentive for European app developers to test out new formats and mechanisms for mobile monetisation. Europe prefers to let its Western and Eastern neighbours innovate first and then benefit from a second-mover advantage. It is thus no surprise that many European mobile publishers partner with North American or Asian companies to deploy native advertising. The challenge with this scenario is that often the North American and Asian companies do not understand the cultural and structural specificities of each European market.

IHS forecasts that third party in-app native advertising will amount to \$1.3bn by 2020 and 9.4% of all mobile display advertising in Europe.



## APAC: the late bloomer

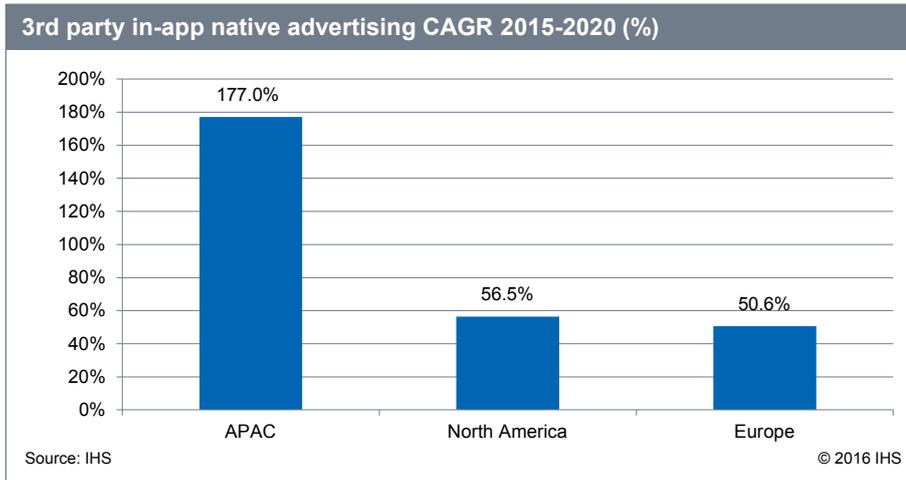
**Asia-Pacific: advertising revenues (\$m)**

	2012	2013	2014	2015	2016	2017	2018	2019	2020
Mobile display advertising	1,705	2,921	5,948	10,768	15,614	20,298	25,372	30,446	35,272
In-app advertising	908	1,844	4,253	8,839	13,261	17,191	21,468	25,867	30,176
In-app native advertising	53	383	1,135	2,387	3,925	5,901	8,383	10,740	14,158
of which 1st party	53	383	1,134	2,365	3,629	5,149	6,744	8,213	10,517
of which 3rd party	-	-	1	22	295	752	1,639	2,527	3,640

Source: IHS © 2016 IHS

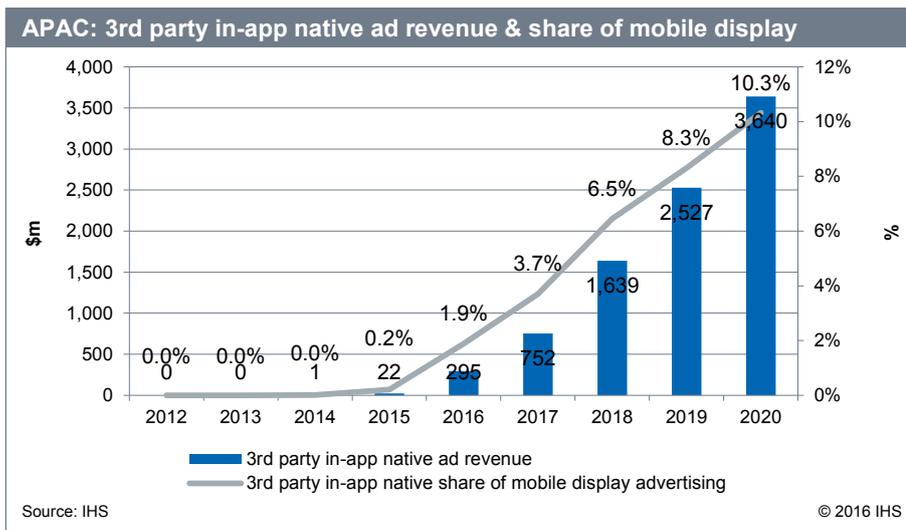
Native advertising is still nascent in the APAC region. In 2015, native advertising amounted to \$2.4bn, of which only \$22.0m was third-party native, corresponding to just 0.2% of all APAC mobile display advertising revenue.

The adoption of third party in-app native advertising in APAC has been slower than in the other two regions due primarily to the lack of infrastructure to facilitate selling native ads at scale. As the technology develops, APAC third party in-app native ad revenue will increase faster (at a 177.0% CAGR between 2015 and 2020) than in North America and Europe, recording triple digit growth rates until as late as 2018.



This growth will be further reinforced by the growth in smartphone penetration in ‘mobile-first’ countries, whose consumers will access the internet for the first time through their mobile device. As a result, the digital ad budgets in India, Indonesia, Malaysia and other high growth APAC markets, much like its consumers, will go straight to mobile, boosting mobile display advertising.

APAC will overtake Europe in terms of third party in-app native share of mobile display advertising in 2019 to reach 10.3% in 2020. IHS forecasts third party in-app native advertising to amount to \$3.6bn by 2020.



## Typology of mobile apps and publishers

App category	Business model	Adoption of native	Main obstacle to adopting native	Main benefit of adopting native
Games	Hybrid (paid , freemium and ad-funded)	Nascent	Difficulty of integrating ads within the game	Higher user retention (compared to other ad formats)
News	Mostly ad-funded	Advanced, but most revenue comes from mobile web	Little integration with publisher sales teams	Unlocking new inventory
Utilities	Mostly ad-funded	Advanced	Lack of awareness of native formats	CPM uplift
Music & entertainment	Mostly ad-funded	Intermediate	Less scale compared to other formats	Unlocking new inventory
Social & dating	Hybrid (paid and ad-funded)	Advanced	Sophistication of native ads is limited	Better user experience and CPM uplift

Source: IHS

© 2016 IHS

**Games:** gaming companies are the most reluctant to adopt native advertising because:

- 1) They are attached to the design of their app and hence hesitant to alter it, to accommodate for new ad formats.
- 2) Gaming users exhibit long time spent per session and high engagement when using the app, which makes them very sensitive to disruptions.

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**“Our primary concern is user engagement. We have avoided advertising because we don’t want to annoy our users.”**

– Games developer

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However, native advertising offers games publishers the least obtrusive ad format and if targeted correctly can enhance the mobile gaming experience for users. Gaming companies which have adopted native formats have declared that native advertising has resulted in higher user retention compared to standard banner ads.

**News:** most news publishers are usually desktop-first and mobile-second and hence tend to gravitate towards mobile web. On average between 75.0% and 90.0% of news companies’ mobile advertising revenue comes from the mobile web. They are very advanced in adopting native advertising, but it is mostly in mobile web and primarily focused on in-stream ads. Expanding their capabilities to in-app native advertising can unlock new revenue opportunities for news publishers and help them compete for mobile-first budgets, from which they are currently mostly excluded.

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**“Consumers are very comfortable with native advertising so we will continue to invest in developing native ad formats.”**

– News publisher

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**Utilities:** utilities apps are primarily ad-funded and the most advanced in adopting native ad formats. They have recorded the highest CPM uplift from native advertising of all publisher categories and understand the importance of pairing good targeting capabilities with customisable ads. The challenge for utility app developers going forward will be to expand their client base from mobile-first advertisers to larger brands, which want to see higher engagement from utility apps. IHS expects utility apps to develop content with longer dwell times (e.g. a navigation app developing information pages for certain locations) to attract brand budgets to their inventory.

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**“We are quite small and don’t really know what we are doing with advertising. We just do something simple and hope it works”**

– Utilities app developer

**Music and entertainment:** music and entertainment companies often have hybrid monetisation models, partly ad-funded and partly paid-for, however they tend to make most of their revenue from advertising. The music and entertainment category exhibits the most range in terms of sophistication of native ad offerings with some publishers in this category very advanced in adopting native and others having little understanding of the benefits of native. For example, ad-funded music streaming services generate the majority of their revenue from native advertising formats (e.g. native audio are in-stream ads), whereas TV broadcasters are still mostly repurposing 30 second spots from traditional TV and moving them to the mobile screen. The challenge with music and entertainment companies will be fitting native in their wider advertising strategy which requires a realignment of sales teams across their organisations.

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**“We would consider it, but don’t really know where to start.”**

– Entertainment app developer

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**Social and dating apps:** social and dating apps are similar to utilities and are very advanced in native advertising, citing user experience as the main factor in their implementation of native ad formats. These companies are often mobile-first (even if they have roots in the desktop world) and understand that repurposed desktop ads are not as effective for mobile advertising. Moving forward, social and dating apps must expand the sophistication of their native ads by:

- 1) Leveraging their first party data to improve targeting
- 2) Partnering with the right companies to access larger brand budgets

## Challenges and opportunities of implementing native advertising

In this study, IHS has identified five key challenges today which hinder the implementation of native advertising:

**Lack of awareness of native ad formats:** for many, particularly smaller developers, there is still a lack of awareness of native advertising as a format, the benefits it can provide and how to implement native formats into their apps. App developers that are focused on acquiring users rather than monetisation may not have invested resources in developing a comprehensive advertising strategy and will often settle for the standardised scalable advertising formats. Other publishers may be aware of native, but are unsure about how to implement it.

**Restricted infrastructure and technology:** in some cases, particularly in Europe and the APAC region, there is still a deficit of infrastructure that can support the trading of native advertising at scale. There may be demand from the advertiser and available inventory from a publisher to trade native, but the pipes to support this transaction are not enabled. As stronger mediation technology develops, IHS expects more publishers to move into native and for the quality of native advertising to improve.

**Limited scale:** the lack of awareness of native ad formats and elementary infrastructure translate into the limited scalability of native advertising. Even if mobile publishers are fully native ad-enabled, they may not be able to generate significant revenues from native, forcing them to divert to banners and interstitials to achieve scale in ad sales. This makes some app developers hesitant to invest in native advertising capabilities as the return on investment will not be immediately apparent.

**Sophistication of native ad formats:** the sophistication of native ads is still quite basic in many cases, which provides little incentive for advertisers and agencies to pay extra to buy native advertising. IHS expects this to improve over time as publishers invest more in their native ad offerings.

**No universal pricing and measurement:** as with all new online ad formats, it is challenging to measure ROI on native advertising. There is no single currency for brand and performance-based advertisers to understand how their ads have performed, forcing advertisers and publishers to assess their ad spend on a campaign-by-campaign basis. This will require a degree of experimentation with measurement in the initial stages of implementation, however as native gains scale, certain standards, even if not codified by the national trade associations, will be adopted.

## Publisher advantages from adopting native

**Improved user experience and higher engagement:** adopting a well-integrated, native ad format in an app will improve the user experience and increase engagement of the consumer with the advertisement and the content.

**Higher user retention:** all app developers and mobile publishers' primary concern is retaining their users. One of the main reasons cited by users for neglecting or uninstalling their apps is obtrusive ad formats, which do not complement the user experience. Customising the ads to make them more relevant and more immersive increases the likelihood of users maintaining their engagement.

### Increased advertising revenue from:

**1) Price – CPM uplift:** in this study, IHS found that a native ad unit commands between an 18% and 200% higher CPM than a standard banner ad, boosting mobile advertising revenues for the publisher.

Mobile publisher type	Average CPM uplift from a standard banner
Games	+18%
News	+50%
Utilities	+200%
Music and entertainment	+120%
Social and dating	+32%

Source: IHS

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**2) Volume – unlocking new inventory:** banners and interstitials are limited in the space that they can occupy on the mobile screen. Introducing native units which are often embedded in the app content provides a new source of ad inventory for mobile publishers, expanding their potential revenue opportunities.

## The road to adoption: key recommendations for mobile publishers

**Focus on the user experience:** native advertising can and has been implemented across a broad range of app categories – but successful strategies must focus first on how the advert fits with the overall user experience. Done well, native advertising can offer a superior user experience, but it must provide a benefit over other formats.

**Work with partners to enable better targeting:** native advertising may promise a better experience but its true potential can be fully unlocked with the right data strategy, either through making better use of first party data or by working with third parties. Providing an innovative ad format is not sufficient on its own – it must also be well-targeted to be relevant to the user.

**Be flexible:** native advertising can help unlock new advertising inventory and sit alongside other forms of monetisation including existing display ad formats and in-app transactions. Adoption of native advertising must always happen within a wider, well-defined monetisation strategy with clear goals to work best for each category of publisher.

**Mobile context matters:** utilising features such as location information and integration with services such as mobile payments and commerce can further enhance the value of native advertising. Integrating with other mobile data, services and content is key to best leverage the power of native advertising.

## Conclusion

Native advertising already accounts for 51.8% of mobile display advertising driven by in-app native advertising; native advertising will generate 63.2% of mobile display advertising and amount to \$53.4bn by 2020. Third party in-app native will grow strongly at an annual average rate of 70.7% and will account for 10.6% of all mobile display advertising at \$8.9bn by 2020.

North America mobile publishers are currently the most advanced in adopting native ad formats, however APAC is on good stead to overtake it beyond the five year forecasting period.

With the rise of banner blindness and user frustration, mobile publishers must consider new customisable ad formats, native to their app and suited to the content and user experience. All participants in this study unequivocally agreed that the adoption of native advertising generated uplift in CPMs from traditional banners and many were able to unlock new inventory.

As the advertising market goes mobile, those who will benefit the most will be those who go native.

## Appendix

### Definitions

**Net advertising revenue:** All figures are net advertising revenues (NAR). They denote the revenue generated by a media owner from advertising, and do not refer to the volume of investment by an advertiser. ‘Net’ means after deduction of discounts and agency commissions.

**Display advertising revenue:** includes all display-based advertising, such as banners, video, affiliate, integrated content, newsletter advertising, tenancies, sponsorships, native ad formats.

**Mobile display advertising revenue:** Any display advertising viewed or read on a mobile phone including rich media advertising. This could be browser-based as well as in-app.

**Native advertising revenue:** Mobile native advertising is a format of advertising that takes advantage of the form and function of the surrounding user experiences, all of which are indigenous to the wide variety of mobile devices. Native advertising is distinct from content marketing. Where content marketing aims to match content and format, native advertising, at least on mobile devices, is primarily an ad format that matches the style of the site or app where it serves. Moreover, native advertising can be bought programmatically, whereas content marketing usually requires editorial involvement.

**First party native advertising:** advertising that is operated and served within the company’s proprietary app (e.g. a Facebook in-stream ad or a promoted Tweet).

**Third party native advertising:** advertising that is operated and served by a third party onto a publisher’s or app developer’s inventory (e.g. an in-stream Guardian News or Wall Street Journal ad served by a native ad company).

**CPM:** cost per mille or cost per one thousand impressions, a common pricing metric for display advertising

**RPM:** revenue per mille or revenue per one thousand impressions

**RPC:** revenue per click

**RPA:** revenue per action

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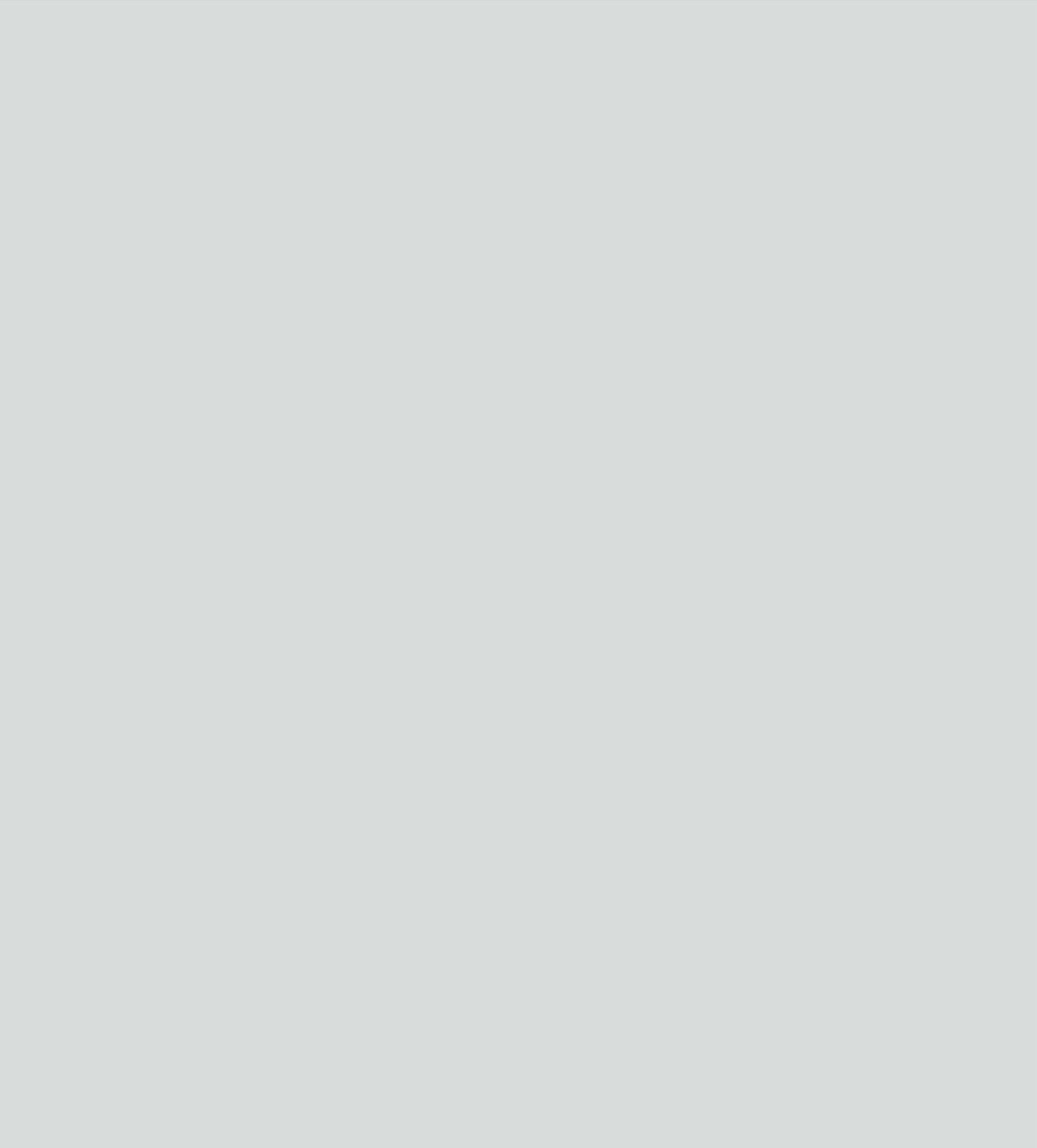
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