

The use of personalised advertising is under scrutiny by EU policymakers

Policymakers have in recent years been concerned with **invasions of user privacy** and/or **misuse of data** in online contexts. This has resulted in legislation such as the General Data Privacy Regulation (GDPR).

Recently, there has been an increased focus on the use of data for **'personalisation' of online content and advertising.**

There are **valid concerns** associated with online privacy and the potential misuse of data for personalisation of online content and advertising.



However, policymakers must be **aware of the trade-offs** associated with reducing the ability or incentive to use personalised ads (as there could be **knock-on effects** on the broader economy).



Key question to ensure proportionate regulation:

Do the benefits of specific regulation that reduces the ability or incentive to use personalised ads outweigh the harm?

Benefits

Harm



We are not aware of any impact assessment which has considered the **potential harm** associated with reducing the use of personalised ads.

To start filling this gap, Copenhagen Economics has developed a research note (which has been commissioned by Google).

We find that the harm associated with a reduced use of personalised advertising could be **severe.**

An initial assessment of the order of magnitude suggests that reduced personalised advertising due to the DSA (draft text, December 2020) could reduce EU GDP by **EUR 76-106 bn per year***, corresponding to:

- 0.22-0.30 per cent of GDP
- EUR 171-237 per capita per year

For more information on the quantification exercise, see Technical Annex to the research note.

* Estimates reflect an average of yearly effects estimated over a ten-year period, 2021-2030.

Reduced personalised advertising could harm EU businesses and consumers

Advertising plays a very large role in the economy.

In 2019, EU businesses spent **EUR 65 bn** on digital ads, corresponding to EUR 146 per capita.

Many digital ads are '**personalised**' based on user data.

Personalisation provides an **effective** way for companies to reach the audience that is most likely to have an interest in their products.

Reduced personalised advertising would change the way the internet works and have **widespread impacts** across the economy

Affected stakeholders

Consumers of online content

Publishers

FIRM A

FIRM B

FIRM C

...

Intermediaries

- Ad agencies
- Online platforms
- ...

Firms that advertise

FIRM A

FIRM B

FIRM C

...

Consumers of goods and services

Impacts of reduced personalised ads

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- Potentially more privacy and/or reduced risk of misuse of data
 - Less content (if publishers charge for content or go out of business)

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- Reduced ability to generate revenue

- ↓
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- ↓
- Reduced ability to retain and increase volumes
 - Reduced ability to enter new markets
 - Increased advertising expenditures

- ↓
- Less able to make informed decisions
 - Less competitive product markets (less choice, higher prices)

Many markets across the economy would be affected (any market where firms otherwise use personalised ads):
Fast-moving consumer goods, cars, luxury goods, services, ...

Even less explicitly restrictive regulation could reduce the use of personalised ads

Not only an outright ban on personalised advertising would reduce the use of personalised ads. Also less explicitly restrictive rules **could disincentivise the use of personalised ads and thus reduce their use.**

The DSA (draft text, December 2020) could reduce the use of personalised ads

- The EU's Digital Services Act (DSA) proposes extensive transparency obligations (Articles 24 and 30) in relation to digital ads.
- While the regulation might provide consumers with a better understanding of how their data is used online, it would also share commercially sensitive information about advertisers' marketing strategies.
- This would make the use of personalised ads less attractive for EU businesses seeking to market their products (see cartoon below).

The strategy of a company – the way in which it aims to win and retain customers – is a **secret that it wants to keep from its competitors.**

By imposing transparency obligations, the DSA would **reveal the content of firms' advertising strategies to everyone**, including the competitors of individual advertisers.

The **effectiveness of personalised ads would be reduced** if competitors could immediately observe the details (because differentiation and first-mover advantages would be undermined).

By reducing their effectiveness, the DSA could disincentivise the use of personalised ads

