Contextual and Profile-Based Advertising - Distinguishing between the Two

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Introduction

Contextual advertising is a type of advertising that advertisers can use to address specific target groups. In the case of contextual advertising, there is no one-to-one identification of the user - and no advertising is displayed based on the user's profile. Instead, advertising is displayed in an environment where the content corresponds to either the target group or the product.

Politicians often argue that contextual advertising in the Internet offers an alternative to profile-based advertising - providing a solution for the future that will not only allow advertisers to reach their target audiences but also enable marketers and website operators to monetise their (free) content and services.

Although it is correct that the digital economy also views contextual advertising to be an important pillar for generating revenues and refinancing digital offerings going forward, it is also felt that contextual advertising cannot be the one and only solution. In this Background Paper, we not only want to explain the differences between contextual and profile-based advertising and present our findings regarding how these are perceived by the users in the Internet but also answer the most common questions associated with contextual advertising.

Defining these two types of advertising and distinguishing between the two

"Contextual advertising" incorporates all forms of advertising that systematically display advertising to the visitors of a website corresponding and relevant to the content they are currently viewing. This means that, in the best case, this contextual advertising addresses exactly those topics that the user is interested in at that particular moment in time. The

advertising material displayed is not supplied based on the user's prior surfing behaviour in the Internet.

For example, advertising is displayed when the terms/names used and their contextual interaction on a webpage correspond to a specific theme/topic which has been pre-defined by the advertiser. When Internet users surf on an automobile website, for example, they are shown advertisements from a car manufacturer because these advertisements correspond to the content of this particular website.

"Profile-based advertising" incorporates all user-based targeting options. This method of delivering digital advertising is based, among other things, on the user's previous surfing behaviour and on knowledge gained from the direct relationships between this user and the respective offers.

For example, advertising for a car model may also be displayed on a website that has nothing to do with cars if the respective Internet user has visited an automobile environment often enough within a specific period of time. From this behaviour it can be deduced that the user is significantly interested in car-related topics.

The term "retargeting" is also frequently heard in this context. In this case, an advertising medium is delivered to a target group that was already registered within the scope of a certain activity in the past (e.g. through clicking on a specific advertising medium, online order etc.). Consequently, this target group has already expressed an interest in or visited the advertiser's website, is presumably already known to the advertiser and has also demonstrated a greater willingness to buy.

Level of consumer interest

Back in 2017, the European Parliament already discovered in a survey of over 27,000 consumers in the European Union that a majority of 67% felt that digital technologies added value to their quality of life.[1] Further studies have shown that almost 80% of all German consumers wish to have a digital experience that is of relevance to them personally and which respects their

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[1] https://www.europarl.europa.eu/news/en/headlines/society/20170627STO78425/consumer-protection-how-parliament-safeguards-your-rights

individual desires and needs.[2] Furthermore, IAB Europe also found that most European online users agree to their data being used for personalised advertising purposes in order to be able to access free content.[3] In the light of this, companies need to demonstrate an added value if consumers are to share their data - only if they actually benefit themselves will they be willing to do this. One of their key demands is for transparency regarding how their data is used - and to be able to control this accordingly.[4]

Against this backdrop, the digital advertising industry is currently pursuing and supporting several initiatives and projects aimed at ensuring that data is handled correctly by the digital economy and at achieving greater transparency and a higher level of data control for the users.

Frequently asked questions

There is much prejudice around where contextual advertising is concerned. We would like to answer the most frequently asked questions on contextual targeting in the following.

What are the advantages and disadvantages of contextual advertising?

At first glance, contextual advertising offers numerous advantages:

- **High relevance** - Since contextual advertising is geared to the content of a particular website, it is often perceived as being relevant and appropriate and usually reaches users at a time when they are already looking at the topic which matches the product or are in the right mood to embrace this product.
- **No use of digital identifiers** - The relevant groups to be targeted by the advertising can be reached independently of third-party cookies and other ID solutions.
- **Reduced processing of personal data** - Compared to profile-based advertising, less personal data is processed. One of the other points is that advertising is not displayed based on the website visitor's previous surfing behaviour. Therefore, with respect to reducing data, contextual

[2] https://www.marketing-boerse.de/news/details/2212-studie-was-fuer-verbraucher-in-deutschland-2022-wichtig-ist/184325; https://www.thinkwithgoogle.com/intl/de-de/zukunft-des-marketings/datenschutz-und-nutzervertrauen/studie-datenschutz-und-kundenerwartungen/
[3] https://iabeurope.eu/blog/iab-europe-policy-update-digital-services-act-avoiding-the-risk-of-a-broken-promise/
[4] https://edaa.eu/wp-content/uploads/yov_infographic-1.pdf

advertising is actually a good alternative, although this may involve sensitive environments, such as special medical conditions or religious leanings, that need to be dealt with individually.

However, the disadvantages of contextual advertising must not be ignored:

- **Larger providers would be at an advantage compared to smaller ones -** Website operators with well-known websites and a broad range of different topics are clearly at an advantage compared to smaller providers as they are able to make the advertisers the most diverse offer.

- **News sites would be at a disadvantage -** News environments, in particular, which are so important when it comes to forming independent opinions, are not really suitable for contextual advertising as such content is often not desirable from a brand perspective (e.g. war, Covid, environmental disasters etc.).

- **Curbing the customer potential of special interest websites -** A company operating a recipe portal, for example, would only really be of interest to advertisers from the food sector and would have a hard time attracting customers from other sectors - resulting in decreased turnover. It is quite probable that the advertising budgets of the customers that place the advertisements would then be shifted to other formats, i.e. would no longer benefit the special interest website concerned.

- **Less revenue from users who opt out of usage-based, online advertising -** Professor Garrett Johnson et al. found that publishers receive 52% less revenue from users who opt out of usage-based, online advertising.[5] The BVDW has learned from its members that, in Germany, the prices paid for retargeting campaigns are almost six times higher than those paid for purely contextually-based campaigns (that do not use IDs) so that the respective revenues of the latter are significantly lower.

- **It is not possible to map out all the relevant groups to be targeted by the advertising -** It is only possible to model socio-demographic target groups, which form the main building blocks in the strategy of many advertisers, in an extremely vague fashion using contextual advertising -

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[5] https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3020503

or through including profile data. The socio-demographic profile data stored at the major content hubs remains available for targeting purposes and is not subject to any restrictions. A share of the advertising budgets is pushed in this direction so that it is no longer available for refinancing content in the open web.

Is it possible to display contextual advertising without touching personal data and without consent?

In the case of contextual advertising, no personal data is processed for profiling purposes. However, the frequently-voiced statement that no personal data at all is processed where contextual advertising is used is simply not true. Although displaying contextual advertising needs less personal data than profile-based advertising, it also involves, for example, processing the IP address - and it remains necessary to measure the success and effectiveness of this advertising - which right now is still done using cookie technology across all the websites.

What are the current approaches with regard to tying advertising more closely to data and privacy protection?

a) New privacy-friendly technologies (APIs)

In the business world, innovative approaches are being made towards significantly improving the level of data protection through new technologies whilst simultaneously providing advertisers and website operators with opportunities for displaying relevant advertising. These new approaches are aimed at meeting the increased expectations and demands of the users and politicians with respect to data protection in connection with online advertising, such as those set out in the recent statement of the British data protection regulator, ICO, on data protection and privacy expectations for online advertising proposals.[6]

This is the approach adopted by Google's Privacy Sandbox initiative, for example. One of the objectives is to prevent tracking across webpages by

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[6] https://ico.org.uk/media/about-the-ico/documents/4019050/opinion-on-data-protection-and-privacy-expectations-for-online-advertising-proposals.pdf

third-party providers, which is common practice today, whilst at the same time preserving applications that are relevant to advertising, such as personalised advertising, through new, more privacy-friendly APIs. These tools are designed to better protect the privacy of the consumers whilst continuing to provide access to free online content funded by advertising.

b) <u>Identity login solutions</u>

For a long time, the predominant method of identification and displaying profile-based advertising was based on cookie technology. Currently, the method of addressing advertising is changing so that login solutions are now being offered alongside advertising IDs. This is aimed, on the one hand, at creating persistent options on the server side for displaying advertising whilst giving users full control over their privacy preferences, often in a centralised system, on the other.

What would be the macroeconomic impact of losing personalised advertising?

According to the study published in February 2020 by Professor John Deighton of the Harvard Business School, a ban on personalised advertising would result in independent companies and content providers who are reliant on open web technology losing between US$ 32 and US$ 39 billion in annual revenues by 2025.[7]

As a result of declining revenues, publishers and website operators have to find other monetisation opportunities. In this case, there is a risk of offers disappearing from the market or behind paywalls. This would have the effect of limiting the free access to digital information and services that society has come to expect.

Conclusion

As the digital world is changing and consumer expectations regarding data protection in the Internet are increasing, it is totally understandable that political decision-makers and the regulators want to ensure that the rights of the citizens are amply protected. The digital economy also backs this

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[7] https://www.iab.com/insights/the-socioeconomic-impact-of-internet-tracking/

concern 100%. In the future, contextual advertising will be an important pillar not only in the digital marketing area but also with respect to refinancing free content and services. Contextual advertising on its own, however, is not the universal solution to all data privacy and market challenges. It is also in the interest of consumers to have data-driven and interest-based types of advertising accompany contextual advertising methods, as well as new approaches to data protection interfaces, in order to ensure plurality, informational diversity and, thus, democracy itself in the Internet.

Further information

- https://edaa.eu/wp-content/uploads/yov_infographic-1.pdf (Summary)
- https://edaa.eu/wp-content/uploads/YOV_external-report_27.06.pdf (Full report)
- Data protection and privacy expectations for online advertising proposals