



Testimony in Support of House Bill 695 - Digital Advertising Gross Revenues

Ways and Means Committee
February 28th, 2020 - 1:00 pm

Strong Schools Maryland supports HB 695 proposing to raise revenue from certain digital advertising services active in Maryland.

Strong Schools Maryland is a nonpartisan, nonprofit, 501(c)(3) organization whose sole mission is to establish a world-class public education system for every student in Maryland. We are composed of thousands of volunteers and supporters in nearly every county in the state. Our supporters consist of parents, grandparents, small business owners, religious leaders and their congregations, retirees, students, teachers, and Marylanders from every background and age. We have built support for implementing and fully funding the 10-year phase in of the Kirwan Commission's recommendations.

Of note, according to a 2018 report commissioned by the Interactive Advertising Bureau and completed by PriceWaterhouseCoopers¹, mobile digital advertising revenue grew to \$70 billion in 2018, up from just \$7 billion in 2013. It is estimated that this market will swell to over \$235 billion by 2024. This is in addition to the nearly \$40 billion from desktop digital advertising. Moreover, the 10 largest ad companies were responsible for 75% of all internet ad revenues in Q4 of 2018.

In addition, it has been suggested in public and private that many of these large tech giants who are opposing this legislation are already providing community benefits by running programs in schools or donating to nonprofits. While these are admirable efforts and we hope they continue, charity does not replace a system of taxation in which the citizens of the state of Maryland collectively determine how to best support our public schools. These companies are earning hundreds of billions of dollars, significant sums of that, utilizing personal data which they are acquiring for free while also using public resources the community has built. This is smart legislation and adapts to our evolving economy.

A strong public school system is critical to the long term success of our state. In order to build strong schools in every Maryland community, we must implement a new, equitable, accountable, and sustainable funding formula based on the Kirwan Commission's recommendations. We fully support HB 695 as a fair and measured response to the changing

¹ <https://www.iab.com/wp-content/uploads/2019/05/Full-Year-2018-IAB-Internet-Advertising-Revenue-Report.pdf>

economy. We have a compelling need to create a sustainable revenue source necessary to drive our state’s educational transformation over the next 10 years.

HB 695 recognizes the dramatic shifts occurring in our economy and tailors a modern solution to this growing inequity. This is good for Maryland schools, good for Maryland families, and good for Maryland’s economy. Recognizing that no one revenue source is sufficient, the strategy envisioned by HB 695 will make an important contribution to fully funding the 10-year phase in of the Kirwan Commission’s recommendations.

We cannot expect to fund a 21st century education system relying on 20th century ideas. **We urge the committee to issue a favorable report on HB 695.**

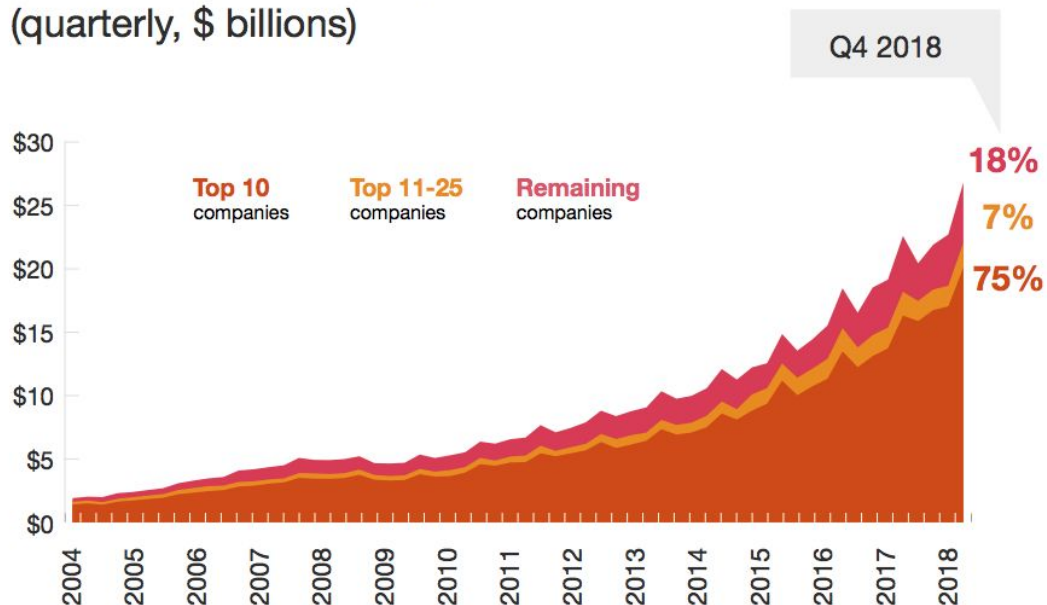
Supporting Graphs and Data (courtesy of the 2018 IAB report provided in footnotes):

Top 10 companies account for three-quarters of total ad revenues in Q4 2018

75% of internet advertising revenues in Q4 2018 remain concentrated with the top 10 leading ad-selling companies. This is 3% higher from the percentage reported in Q4 2017 (72%). Companies ranked 11th to 25th accounted for 7% of revenues in Q4 2018, a one percentage point decrease from the 8% reported in Q4 2017.

The concentration of top 10 revenues has fluctuated between 69% and 77% over the past ten years.

**% share of total revenues
(quarterly, \$ billions)**



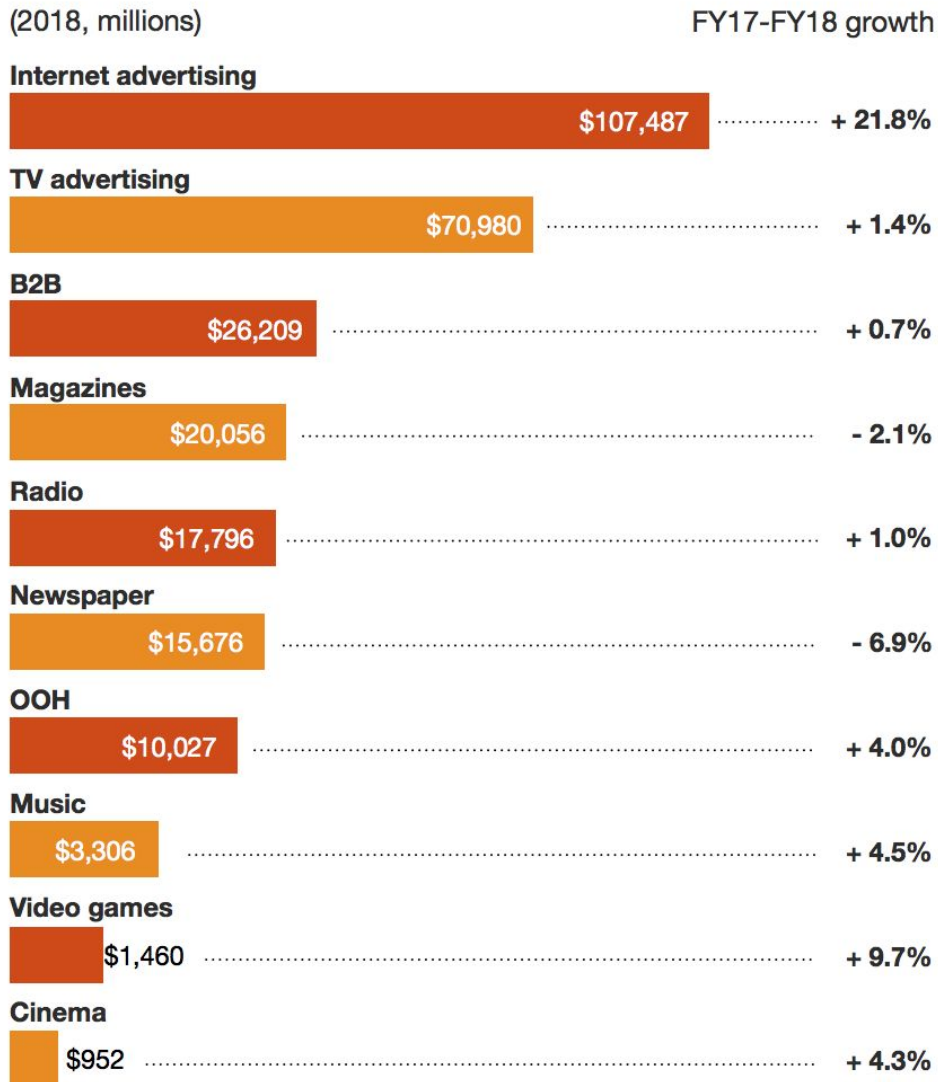
Note: Totals may not equal 100% due to rounding.

Source: IAB/PwC Internet Ad Revenue Report, FY 2018

Internet advertising passed the \$100 billion mark for the first time in history

Internet advertising continues to grow its share of the total advertising market. Internet advertising leads TV advertising by \$36.5 billion in FY 2018.

Advertising market share by media

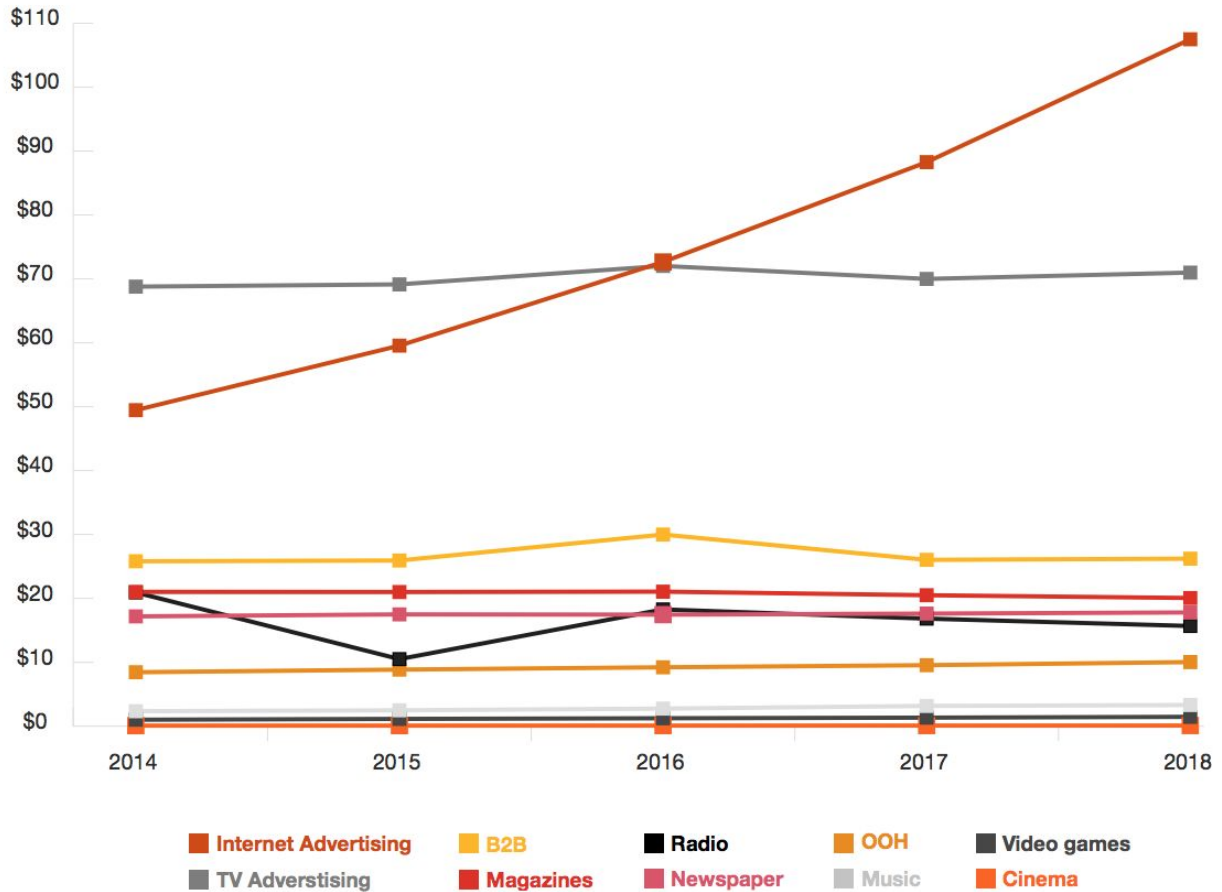


Source: PwC, IAB/PwC Internet Ad Revenue Report, FY 2018

Internet advertising is the only media type that has experienced double digit growth year-over-year

Besides internet advertising, the year-over-year growth rate for all media types is in the single digits. Internet advertising has sustained its growth in part by the mainstream emergence of existing digital formats.

Historical advertising market share



Source: PwC, IAB/PwC Internet Ad Revenue Report, FY 2018

Advertising revenues from mobile devices continue to grow faster than the overall market, with mobile increasing its revenue share to 65.1% in 2018.

As consumers continue to shift their viewing behavior, advertisers have followed them. On a year-over-year basis, mobile internet advertising revenues increased 39.7%, increasing its share of total revenues from 56.7% in FY 2017 to 65.1% in FY 2018. Reflecting the industry's overall growth is a compounded annual growth rate (CAGR) over the past 10 years of 16.8% which over the past few years has been largely driven by the growth of mobile. The rapid growth of the mobile advertising platform has resulted in a CAGR of 53.8% over the past five years. Mobile revenues continue to benefit from advancements in single-click eCommerce, creative ad formats and placements on social media sites.

Desktop vs. mobile internet advertising revenue
(Full year results, \$ billions)

