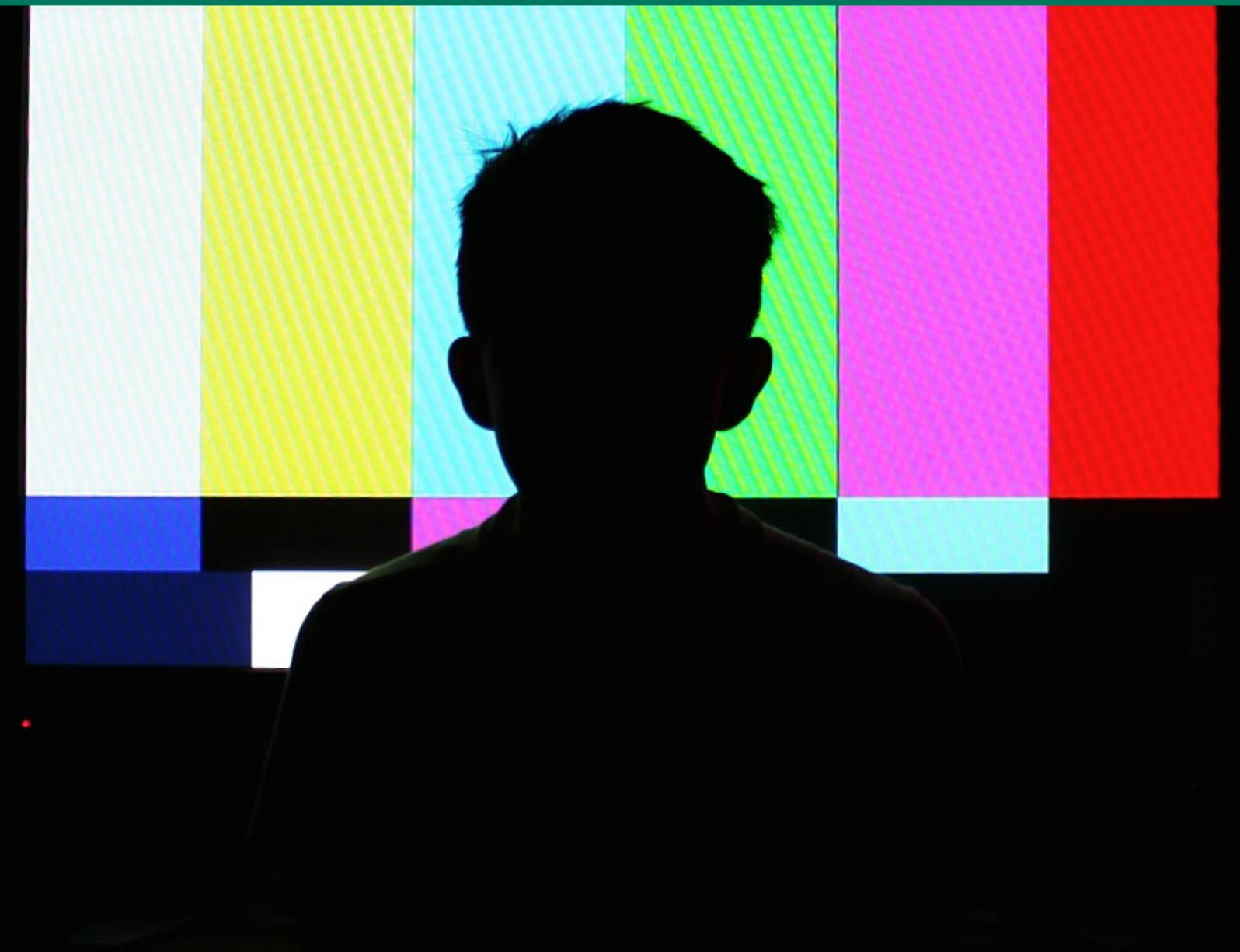


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Video Advertising

How the Battle of TV vs. Digital is Shaping Up



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How the Battle of TV vs. Digital is Shaping Up

Jacob Rosenzweig, Anne Nguyen, and Rachel Eccleston

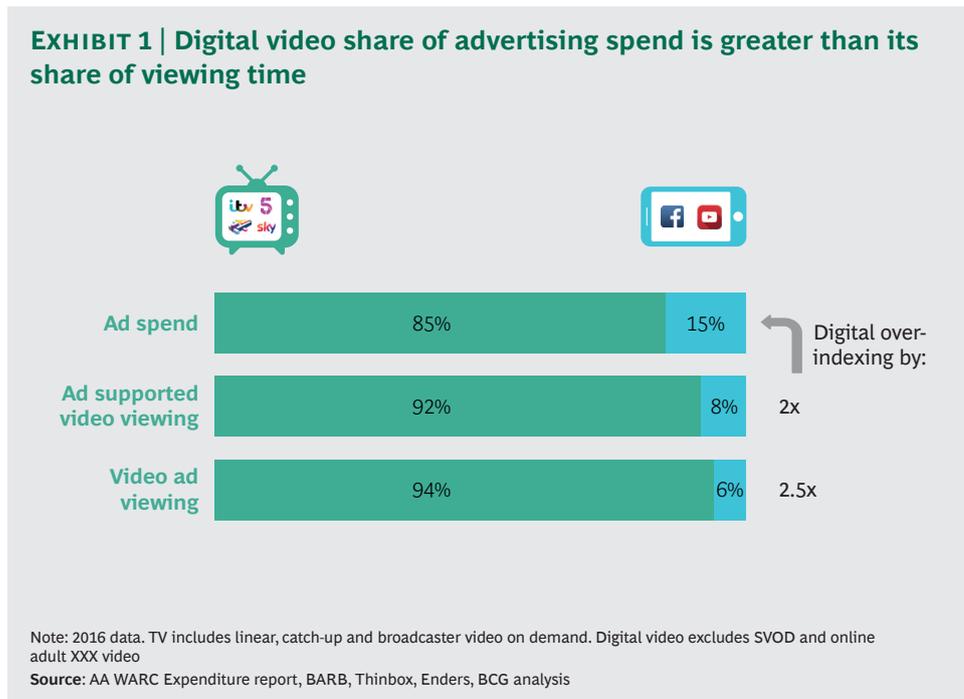
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Video Advertising: How the Battle of TV vs. Digital is Shaping Up

Our analysis shows that digital video may already be outperforming TV

The global video advertising industry is in the throes of a digital revolution. Digital video advertising is experiencing explosive growth in the UK – a 75% uptick in advertising spend since 2012, compared with television’s 4% increase. And yet, digital video still has a long way to go before eclipsing TV. UK advertising spend on digital video topped £900 million in 2016 – a fraction of TV’s £5.3 billion.

Our analysis shows that digital video may already be outperforming TV. While digital video has just an 8% share of video viewing time and a 6% share of video advertising viewing time, it has a 15% share of video advertising spend (see Exhibit 1). Looking at spend, advertisers appear to be placing their bets on digital video.



Yet important questions arise: Will digital video eventually surpass TV advertising spend much as search and digital display has done to print? Or will the pendulum swing back in TV’s favour? Is the advertising industry’s investment in digital video justifiable? What strategies will guarantee survival for TV players? What tactics will drive growth for digital players?

References to “TV broadcasters” include ITV, Sky, Channel 4, Channel 5, and their linear, catch-up, and video-on-demand (BVOD) services. References to “digital players” primarily include YouTube and Facebook, as well as SVOD players, such as Amazon and Netflix.

Lack of consensus

To answer these questions, BCG researched more than 100 reports, market studies and articles, and conducted multiple interviews with senior UK marketing professionals, including advertisers, agency employees, and industry representatives. This article sets out the key battlegrounds and potential scenarios to help players prepare for the future. We also recommend strategic moves to stay relevant amidst the current uncertainty.

Our findings, UK-centric yet globally relevant, reveal a clear lack of consensus around whether digital video or TV broadcasters will deliver the greatest return on advertising investment.

TV continues to be a powerful communication tool for mass reach, brand building, and effective storytelling. And it remains a trusted advertising medium without the brand safety concerns and inconsistent metrics of digital video.

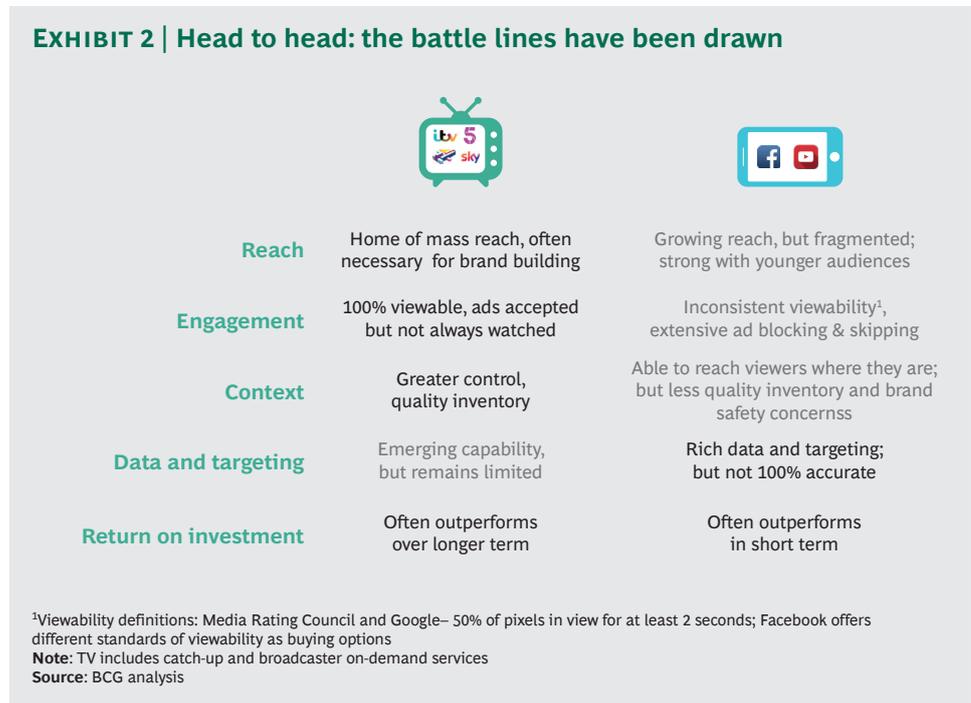
Based on our research (see Exhibit 2), broadcast TV holds an advantage over digital video in reach, engagement and context. For example, while digital video typically delivers short-term return on investment (ROI), broadcast TV often delivers better ROI on a longer-term basis once brand health metrics are considered. However, declining TV viewership, particularly among younger audiences, is a growing concern for advertisers.

Digital video, on the other hand, offers a number of advantages: targeted advertising, an affordable platform for smaller advertisers, ease of purchase, data analytics capabilities, and a wide array of metrics. Other draws of digital video are its more affordable inventory, potential for programmatic purchasing, and simple last-click attribution metrics – features that are particularly appealing to advertising agencies, many of which strongly advocate digital video to clients.

However, there are challenges to overcome if digital video is to maintain its impressive growth rates. Brand safety, consistent and accurate measurements, poor viewability, fragmented reach, and lower engagement are all factors threatening digital video's meteoric rise.

TV continues to be a powerful communication tool for mass reach, brand building, and effective storytelling

Perception plays an important role when it comes to shaping advertisers' buying decisions



While these are the facts, perception also plays an important role when it comes to shaping advertisers' buying decisions.

We detected three main types of advertiser thinking on the digital video vs. TV question. The first group of advertisers still favour broadcast TV as a fundamental component of any marketing mix with digital video providing incremental reach when TV inventory peaks. These advertisers typically favour the brand-building and storytelling nature of TV and are much more focused on the context within which adverts appear. Even these advertisers are beginning to demand from TV the kind of metrics and targeting capabilities easily provided by digital-only platforms.

A second group of advertisers define themselves as “digital first”. These advertisers are drawn to digital video advertising for its appeal to younger audiences and the desire to build digital capabilities. In some cases, advertisers established digital spend quotas, often set by executive teams that view digital video advertising as the “shiny new thing”. As one executive we spoke to said: “No one is going to get fired for spending more on digital.”

We also found a growing number of “channel agnostic” advertisers – careful to select whichever platform can most effectively deliver a targeted message to as many viewers as possible at a reasonable price. These advertisers are generally less concerned about the differences in viewability metrics and brand safety and are more focused on ROI and cost-per-view. As another UK advertising executive told us: “A view is a view regardless of where it is seen.”

In this absence of consensus, an opportunity arises for TV broadcasters and digital-only players to develop innovative capabilities, test new markets, and enhance their content offerings. But it's not enough to simply leverage assets. They must also invest to build advertisers' perceptions about what is the most powerful way to reach consumers in this new digital era of entertainment.

The shape of things to come

Based on our research and in-depth interviews, we have identified six key battlegrounds where TV broadcasters and digital-only players can stake their claim and attempt to shape the future state of video advertising.

HIGH-QUALITY CONTENT ALWAYS ATTRACTS EYEBALLS

Broadcast TV still reigns as the content king and the most effective channel for providing unprecedented reach for brand-building campaigns with an 85% share of UK video advertising spend. But digital-only players are investing in content: the press has recently reported that Apple will spend \$1 billion on original TV series and films over the next year and Facebook is willing to pay up to \$3 million per episode; and Amazon recently won the rights to NFL Thursday Night Football and the ATP tennis tour. These unconfirmed global spend figures are however significantly less than the annual £6 billion combined spend of Sky, ITV and Channel 4. Nevertheless, the landscape would shift considerably if YouTube or Facebook were to win the rights to TV blockbusters such as Britain's Got Talent or the Premier League.

THE ROLE OF CONTEXT

Typically the goal of any advertiser is to reach the right audience, at the right time, in the right context. But with the rise of sophisticated targeting and programmatic buying in digital video advertising, the balance has shifted towards reaching consumers wherever they are, while context may be lessening in importance.

In fact, most advertisers we spoke to expressed concern over reputational issues driven by programmatic open-auction buying, particularly as unsuitable amateur videos and illegal/immoral content reaches unregulated online channels. "It's taken a huge scandal for Facebook and Google to do anything [about inappropriate content]," we were told by a senior marketing executive of a global drinks company. "They're still waking up to the consequences of being a huge media house."

Advertisers want to be assured that reaching audiences will not come at the cost of brand reputation. In addition, there is a belief that there can be a positive 'halo' effect from adverts appearing next to well-loved programme brands. As we better understand and measure the role context plays in video advertising, will the pendulum shift back in TV's favour?

The landscape would shift considerably if Facebook were to win the TV rights to the Premier League

“We’re not just standing up to Facebook and Google with [addressable TV]. We want to go and take their market.” – TV Executive

CONTROL DICTATES HOW CONTENT IS CONSUMED

Content is becoming increasingly dispersed across a wide array of ad-supported and subscription video-on-demand (SVOD) services. In addition, broadcasters, particularly pay TV players, are attempting to surround customers with multiple products to attract eyeballs. As fragmentation continues, audiences will want an easier way to manage their viewing experience. This sets the stage for digital video infrastructure to become heavily concentrated in the same way search and social are dominated by Facebook and Google. The result: digital video advertising revenues may be controlled by a small number of platform giants.

TARGETING CAPABILITIES ARE CRITICAL TO COMPETITION

Understanding consumer behaviour and preferences is a competitive advantage in today’s crowded entertainment market. So it makes sense that data-rich platforms are a huge draw for advertisers accustomed to having information at their fingertips. Digital video, with its built-in analytics capabilities and ability to micro-target and AB test advertising content, has a clear advantage.

However, TV players are beginning to challenge global digital-only players by developing their own targeting solutions, such as Sky AdSmart, which has run over 9,200 campaigns since it launched in 2013. One TV broadcast executive admitted: “We’re not just standing up to Facebook and Google with [addressable TV]. We want to go and take their market.” Will they be able to provide the level of data and targeting advertisers have come to expect from digital?

RELIABLE AND ACCURATE METRICS BUILD TRUST AND DRIVE REVENUE

Demand for reliable and transparent video advertising metrics continues to grow. Yet incidences of inflated average viewing times contribute to diminished confidence. In fact, the advertisers we spoke with cited the lack of transparency and reliability of digital video metrics as chief concerns. “We’ve been giving a pass to [digital-only players] in the spirit of learning,” we were told by one chief brand officer of a consumer goods drinks company. “We’ve come to our senses. We realise there is no sustainable advantage in a complicated, non-transparent, inefficient, and fraudulent media supply chain.”

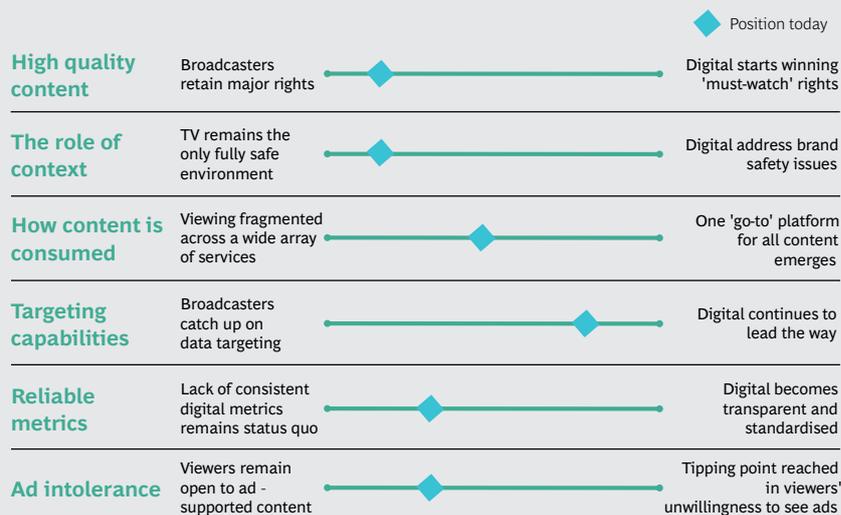
Nevertheless, there are opportunities for redemption, as some advertisers consider these issues to be temporary. “This is an industry in its infancy, still experiencing some growing pains,” we were told by a senior marketing executive of a global communications company.

AD INTOLERANCE IMPACTS BOTH DIGITAL AND TV PLAYERS

Intrusive advertising on digital channels is already driving greater use of ad-blocking and ad-skipping technology. eMarketer estimates that the number of ad-blocker users in the UK tripled from 5 million in 2014 to 15 million in 2017. We are also witnessing a dramatic rise in viewing on ad-free SVOD services, which could negatively impact both TV broadcasters and digital-only players as consumers acclimate to ad-free content. Will more sophisticated personalised advertising help to re-engage viewers with digital video advertising? Or will the entire advertising model have to shift?

Change is afoot and opportunities abound for TV broadcasters and digital-only players to stake their claims. New business models are emerging, testing the legacy of TV broadcasters and the ambitions of digital-only players. Survival hinges on anticipating what's next, and developing strategies to stay relevant.

EXHIBIT 3 | Where are these battlefields likely to end up?



Source: BCG analysis.

Who will vanquish – and who will vanish?

The future is uncertain: digital video's erosion of TV advertising's market share could gather momentum. On the other hand, mounting frustration with digital video's shortcomings could spark a TV advertising renaissance. Or the market could keep going along a similar path as today, with digital video continuing to slowly eat into TV's share.

We have developed four disruptive scenarios for the future state of advertising. These scenarios may overlap, and elements of more than one may come to fruition. Two of our scenarios highlight a clear winner – and loser – in the quest for greater market share and advertising spend and two are up for grabs. All four scenarios offer insights as players ponder how to prepare for the unknown.

Survival hinges on anticipating what's next, and developing strategies to stay relevant

For digital to triumph, widespread concerns over transparency, reliability, and brand safety will need to diminish

SCENARIO 1

TV ENVY: HIGH QUALITY CONTENT CROWNS A WINNER

In this scenario, TV broadcasters continue to develop and deliver must-watch content and maintain their significant reach and share of viewing. To improve advertising targeting capabilities, and better compete against digital media's trackable engagement metrics, they embrace addressable TV, providing advertisers with deeper insights into viewing behaviour and advertising performance.

Frustration with opaque and inconsistent digital video advertising metrics grows, as does the use of ad blockers and incidences of digital ad fraud. Non-broadcaster-owned websites and apps remain unregulated. Rather than risk brand reputation, advertisers refocus long-term brand building – and video advertising spend – on safer broadcast TV and on-demand platforms.

SCENARIO 2

DIGITAL RULES: NEW POLICIES AND PRACTICES WIN OVER AUDIENCES

In this scenario, ambitious digital natives supplant bite-size videos with longer-form content. By commissioning significant hours of exclusive shows, and investing heavily in must-watch programmes and live events – and accepting the potentially lower margins and complexity of being a content commissioner – they become a prime destination for advertisers eager to attract the eyeballs of younger audiences. The more these major brands shift advertising spend from TV broadcaster platforms to digital-only players, the greater the investment by these players in data-driven, highly personalised, targeted advertising for a wide variety of campaigns including brand building.

For this scenario to play out, widespread concerns over the transparency and reliability of digital video metrics, as well as brand safety, will need to diminish and ad fraud will need to be factored into advertising ROI. Digital-only players must work together to build trusted, one-to-one relationships with advertisers and implement greater self-regulation to ensure safe environments for advertising. Greater self-regulation would also eliminate the need for new legislation and circumvent a much more restrictive regulatory environment.

SCENARIO 3

ONE-STOP-AD-SHOP: THE MAKING OF A 'WALLED GARDEN'

In this scenario, a single, unified platform emerges from a crowded ecosystem – a one-stop-shop for video content. No more toggling between multiple accounts and recalling long-forgotten passwords. Instead, this highly intuitive platform, with advanced navigation, search, and recommendation capabilities, serves as a singular portal to high-quality, long- and short-form content.

The platform owner controls the relationship with the viewer, acting as a data gatekeeper and converting details on viewer activity into consumer behaviour insights – petabytes up for grabs to the highest bidder. Were such a player to invest in advertising and data technology, it could create a 'walled garden' around video advertising content, generating advertising revenue indirectly, much as search and social media platforms have.

Players on both sides are already vying to become content super-aggregators. Examples include TV companies with large established customer bases and extensive video experience such as Sky in the UK and Comcast in the US, and digital-only players with significant advertising technology capabilities and deep pockets like Amazon, Apple, and Google.

**SCENARIO 4
NATIVE ADVERTISING: SPONSORING THE FUTURE**

In this scenario, consumer tolerance for video advertising across TV and digital platforms reaches an all-time low, accelerating the use of ad-blocking and ad-skipping technologies, as well as driving greater adoption of SVOD services for those who can afford it. Faced with plummeting revenues, major brands turn to native advertising formats, such as sponsored content, in-feed social adverts and recommended content.

By taking on the look and feel of surrounding content, native adverts are a perfect fit for digital-only players, many of which are early native advertising evangelists and have experience converting high-quality data into personalised experiences. On the other hand, TV players with deep content production expertise could play a significant role in creating and integrating native advertising. Broadcasters that are unable to quickly adapt to these new advertising formats risk being left behind.

EXHIBIT 4 | Future scenarios: Who are the likely winners?

TV envy: high quality content crowns a winner



TV broadcasters continue to own and win rights to must-watch content

Digital rules: new policies and practices win over audiences



Digital natives race ahead in targeting advertising capabilities and sort out measurement issues

One-stop-ad-shop: the making of a walled garden



Could be either depending on the strength of TV distribution players in each market

Native advertising: sponsoring the future



Digital advantage in innovative ad formats, TV closer to content creation

Source: BCG analysis.

Broadcasters that are unable to quickly adapt to new advertising formats risk being left behind

Survival strategies to stay relevant

—
We have identified
the key steps
organisations must
take to stay
competitive as the
industry evolves

While it's impossible to predict which scenario will come to fruition, we have identified the key steps organisations must take to maintain present-day market share and stay competitive as the industry evolves.

STEPS FOR TV BROADCASTERS

RETAIN CONTENT CROWN

Despite increasing revenue and cost pressure, robustly defend rights to “must-watch” premium content and major live events to maintain existing reach advantage. Proactively develop content to appeal strongly to younger audiences to bring them back to the TV viewing experience.

EMBRACE DIGITAL

Enhance existing AVOD platforms and services with best-in-class playback, search and recommendation technology to better compete against SVOD providers. Explore partnerships with, or acquire, competing content providers to build a one-stop platform for premium long- and short-form content. Accelerate investment in and development of data capabilities to create a compelling addressable and targeted advertising proposition with greater flexibility.

PROVE YOUR WORTH

Build more direct relationships with advertisers and push them to develop marketing mix models which showcase long-term TV return on investment. At the same time, adapt relationships with agencies to incentivise them to sell more TV advertising. Provide compelling evidence of how a wide variety of content performs across multiple platforms and channels, ensuring advertisers reap maximum return on spend.

BUILD YOUR OWN ‘WALLED GARDEN’

Own or invest in more sections of the value chain such as SSPs and DMPs to provide the full suite of digital services within your own ‘walled garden’ to avoid disintermediation.

STEPS FOR DIGITAL-ONLY PLAYERS

BECOME THE PLACE FOR PREMIUM CONTENT

Invest heavily in premium “must-watch” long-form content to cannibalise the TV viewer base and improve reach. Develop a clear production strategy, building partnerships with production houses and studios.

ACCELERATE DEVELOPMENT OF YOUR ONE-STOP-SHOP

Utilise all available resources for first-mover advantage in becoming the “go-to” one-stop content shop. Keep hold of your advantageous position with younger audiences who are watching more diverse content across a number of different platforms.

SELF-POLICE

Proactively self-regulate to reduce risk of legal or industry intervention: openly share data with advertisers and independent verification partners, agree to industry standard measurement definitions, and closely monitor content to reassure advertisers that digital-only platforms can be a safe environment for their brands.

BOOST CONSUMER CONFIDENCE

Continue to innovate in unique, creative, and more engaging advertising formats such as native and virtual reality to build a differentiated proposition for advertisers.

BIG BETS = BIG REWARDS

TV broadcasters face significant risk from fast-moving, deep-pocketed digital-only players. As competition grows, they must preserve access to the best premium content and deliver a competitive targeted advertising product. The status quo is no longer acceptable; nor is resting on one’s laurels a viable game plan.

Fuelled by market momentum, digital-only players continue to capture more advertising spend, especially as eyeballs move online. A standard set of metrics around viewership is emerging. And digital-only players are already doing a better job of policing questionable online content and introducing more engaging advertising formats. Next steps: figuring out how to move up the content value chain, continuing to attract younger audiences, and leveraging technology expertise to become a one-stop platform for content.

But assets alone won’t win the battle. Both sides need to keep their eyes on advertisers. Perceptions of the media are evolving and can be inconsistent . TV and digital-only players alike must shape perception to convince top advertisers that they are best suited to build brands and provide the greatest return on advertising spend today – and in the future.

TV and digital-only players alike must shape perception to convince top advertisers that they can provide the greatest impact

Research conducted by BCG for the 2017 Royal Television Society Cambridge Convention

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