TV Advertising: Evolving the model – Executive Summary

Enders Analysis report commissioned by ISBA - April 2021

Background

The report was commissioned by ISBA following a mandate from our Council to play a proactive role in shaping a vibrant and sustainable media landscape post-COVID-19 in the interest of advertisers. In 2020 ISBA assembled a Broadcast Task Force, comprising senior members with strong media experience, focused both on short term broadcaster flexibility and longer-term evolution of trading models.

Advertisers have long harnessed the power of television to build their brands and drive immediate sales. TV is a highly effective medium for this due to its unrivalled mass reach, immersive programming environment, and long-form advertising formats. However, younger TV audiences are declining and reaching these cohorts has become increasingly expensive for advertisers. ISBA commissioned Enders Analysis to produce a report which reviewed the current strengths and weaknesses of the TV advertising market and to consider how it should evolve to the benefit of the wider eco-system. The report offers a knowledge base to allow for constructive discussion.

Executive Summary

Key findings:

Issues with the current TV advertising model: The information on which the findings are based includes interviews with senior industry experts representing broadcasters and sales houses, advertising agencies, advertisers, and advertising experts. While the TV advertising model may have changed at the margins, agency/sales house deals and trading mechanisms have not evolved to the same extent.

Deal structure: Linear deals are mainly based on Share of Budget (SOB), while BVOD is based on volume. There was widespread consensus that CRR binds linear TV into SOB and an unintended consequence of the mechanism has encouraged the flow of monies out of TV as agencies/advertisers are not penalised if they significantly lower their TV budgets as long as ITV's SOB is in line with its change in SOCI. Furthermore, it is believed that CRR reduces the level of product innovation. There is little incentive for trading groups to move away from share deals as there is no risk for them and they are easier to fulfil.

Pricing and currency: Linear is sold against a CPT relative to Station Average Price (SAP), whereas BVOD is a fixed CPM—both with their own merits. The fact that linear TV is fully sold requires some dynamic pricing mechanism. There was concern among some stakeholders that BVOD pricing was not transparent and could be manipulated so as to fulfil agency deals, or linear discounts. Several stakeholders were concerned that SAP was not always pure, as the revenue going into its calculation was often opaque. Advertisers were seeking greater transparency.

Measurement: The lack of an effective measurement system across linear and BVOD was of great concern to all advertisers and some agencies, with a common view that BVOD's value remains unproven. Those aware of CFlight, the nascent cross-platform, advertising currency metric, were very supportive. All advertisers interviewed wanted a measurement system that includes YouTube, with some a system covering all AV. Sales houses were less supportive of an AV-wide system arguing a Facebook view was not comparable to a fully viewed TV ad. Some saw the benefits of YouTube's inclusion but were concerned about its lack of transparency and differing viewability and attention metrics.

Flexibility: Advertisers wanted more flexibility in booking campaigns, while agencies recognised the complexity of achieving this given the programming, peak percentages and other variables that clients required to maximise the benefits of their campaigns

Advertiser/agency relationship and role of auditors: Advertisers and broadcasters were concerned about a possible lack of transparency between clients and their agency, and that this negatively impacted the likelihood of any changes to deals. Some advertisers expressed concern that benefits of share deals may not always filter down to the client. Auditors' roles were often questioned.

Video viewing trends: We forecast that by 2027 broadcasters will only account for 61% of total video viewing across all platforms (down from 72% today) and just two-thirds of all commercial video (down from 74%). In terms of time spent, the average person will watch just 1 hour 49 minutes of commercial TV per day in 2027 (on any screen), down from 2 hours 14 minutes in 2019. The split would be reversed among under-35s, with two-thirds of commercial viewing in 2027 to digital video and just one third to broadcasters (1 hour/day). In contrast, over-55s will spend 83% of their commercial viewing time with broadcasters (3 hours 15 minutes per day), accounting for 63% of broadcasters' total commercial impacts.

Impact on total advertising revenues: If there are no changes to the linear TV advertising model, based on the forecast viewing decline and the historic decline in demand, total TV ad revenues could be £364 million lower in 2027 than 2019. If SOB were to include YouTube, TV revenues may fall by a further £461 million, so potentially £825 million lower in 2027 than 2019. With a reliable cross-media measurement system in place we would expect the SOB allocation decline to be less than £461 million. However, absent this, if Share of AV Budget moved 1% faster than viewing the total revenue could be £1.35 billion lower in 2027 than 2019. If demand were to remain constant, the Station Average Price for 16-34s could increase to over £85, making it unjustifiable for many advertisers.

Conclusions and recommendations

Advertisers want a vibrant TV ecosystem that offers the following:

1. High quality programming, available on any device at any time
2. Innovative advertising products covering linear and BVOD with greater targeting opportunities
3. Greater flexibility than at present

If evolving the TV advertising model even marginally can result in a better advertising product and rebalance expenditure biases, it will help not just advertisers but will optimise an ecosystem for more sustainable and profitable product supply.

The report takes a deep dive into each of these areas offering recommendations for evolution across the ecosystem. **ISBA members can view the full report here.**