THE DATA-DRIVEN FUTURE OF VIDEO ADVERTISING

by

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people ads want

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ABOUT THIS STUDY

To better understand the changing landscape of the cross-screen video marketplace—today's challenges and tomorrow's opportunities—Nielsen and Simulmedia brought together a core group of researchers, marketers and C-suite executives from all sides of the media industry for a series of dinners in New York and San Francisco. In bringing together these leaders of TV and online video, the goal was to develop a point of view on the potential revolution and evolution coming to the market over the next five to ten years.

This paper reflects some of the key learnings gleaned from their discussions.

WHAT IS THE FUTURE OF VIDEO ADVERTISING?

EXECUTIVE SUMMARY

Video advertising in the US is a massive, growing market undergoing a significant technology-driven evolution. Just ten years ago, streaming, on-demand video delivered wirelessly was a figment of science fiction; today it is a ubiquitous reality supported by a fully scaled industry. Technology is reshaping the way consumers engage with video and, in turn, how media and advertising companies do business.

Whether TV or online, a large component of the future of video is digital, which begs the questions: what tools will the industry need to support this movement? Will digitization do to television what the Internet did to print media? Will planning and buying for TV and online video advertising stay separate, or converge into a hybridized market, and how quickly?

The conversations that took place at the three industry dinners demonstrated that, for the time being, the online and TV video ad markets will remain separate as they are now—but the movement toward integration is real and accelerating. The general consensus among the roughly 40 dinner participants was that TV ad expenditures will continue to exceed online video advertising, which will grow as a segment of the online ad market.

TV as an ad platform has begun to absorb many of the characteristics of the digital ad world, particularly its abundance of rich data and audience metrics. This presents TV companies, which already have large audiences, valuable content and tens of billions of dollars in advertising revenue, with an early opportunity to be pivotal players in the future of video advertising.

For media buyers, the marching orders are clear: quickly marry the precision marketing, interactivity and measurability of online with the enormous scale and persuasive power of TV. At the same time, marketing and brand executives are desperately trying to move beyond procurement's shadow, where media investments are valued as cost centers rather than profit drivers.

Going forward, true cross-platform measurement, as well as the use of resonance and reaction insights tying media investments to business outcomes, will become critical in shaping the ad market for television. Web-style precision marketing and audience-based delivery has already set the stage for a future convergence between TV and online video; the question now is what will that future look like, and how quickly will we arrive there?

TECHNOLOGY ADVANCEMENTS ENABLE BETTER DATA

Collecting and aggregating accurate and projectable data about the consumption habits of US television viewers have historically been labor—intensive, time-consuming and expensive. Accurately scaling that data, then linking it to specific consumer actions has been an even greater challenge.

In comparison, online video content is inherently more measurable. Online video and “second screen” devices like smartphones and tablets generate massive amounts of valuable delivery and interaction data, as do set-top boxes and Smart TVs.

With affordable high-speed Internet now in three-fourths of American households[1] and advancements in TV measurement technology, better access and collection of insights across all devices are imminent.

Independent measurement companies like Nielsen are positioning themselves to leverage the digitization of the US television delivery infrastructure. This provides an opportunity to not only capture new data but also to deliver intuitive and efficient insights.

Integrated with similar open, syndicated or proprietary data sets—including Internet browser history, social data, as well as online and offline consumer purchases—this robust new information set will have a profound impact across the entire digital advertising ecosystem.

[1] 75% of American TV households (Broadcast or Cable) have Broadband internet access (Source: Nielsen Cross-Platform Report, Q1 2013).

AD PLANNING AND BUYING: THE TALE OF TWO SILOS IS NEARING ITS END

Video advertising in the US today dominates all other media in ad spend, driven primarily by television. According to Nielsen's Global AdView Pulse report, global television ad spend in 2012 was $350 billion, a 4.3% increase over 2011.

In the past seven years, video advertising on the web has emerged as a significant component to online advertising and is expected to generate over $5.72 billion in ad spend in the US in 2014.[2] Although the digital video ad market is growing more rapidly than the TV ad market, TV still exceeds the web's reach, with 283 million Americans tuning in each month, compared to 150 million watching video on the Internet, up from 136 million just three years ago.

As online video advertising matures and mobile video usage proliferates, marketer demand for online video advertising is sure to continue rising. Some in the marketplace believe this means an imminent and total convergence of TV and online advertising, but this ignores the way video ads are actually bought and sold today.

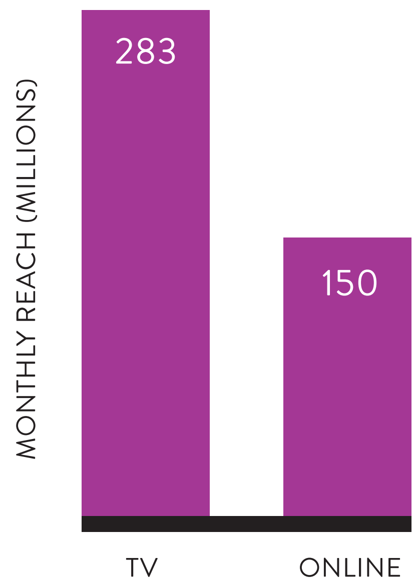
In the report "Digital Video and Traditional TV: Separate and Unequal" published in early 2013, industry analyst Brian Wieser of Pivotal Research, formerly head researcher at Magna Global, stated that television and digital video advertising will remain distinct for some years. To support his argument, Wieser pointed out that it's hard to imagine television-buying teams engaging in video-agnostic media purchases when agencies still build their personnel, workflows and pricing metrics around dedicated divisions for national or local TV, broadcast, cable or syndication.

Conversely, online video advertising is usually purchased by digital agencies or digitally focused divisions of agencies—the same people who buy online display ads, rich media, social media programs and search advertising, but are completely separate from traditional TV buying—as components of broader online media campaigns.

Given these disparate silos, a full merger of TV and online advertising isn't likely to occur tomorrow. Rather than merging with TV, Weiser argues that online video advertising will grow as a subset of the online advertising market, gaining significant share from online display. Some alternate sales are occurring, however, as traditionally TV-focused agencies incorporate digital video into their buys. This was reinforced

TV STILL DWARFS DIGITAL VIDEO REACH

TOTAL US REACH FOR VIDEO ACROSS TV AND ONLINE



Source: Nielsen Cross-Platform Report, Q2 2013

[2] eMarketer.

during our dinners, where agency participants indicated a strong interest in multi-screen video campaigns. Some agencies are even introducing a "head of buying" role that transcends platforms.

To that end, Wieser expects that a certain amount of TV and online video advertising will operate together in the short term, fueled by a limited number of advertisers purchasing integrated cross-media campaigns. Wieser suggests television networks will continue to bundle most of their online video inventory as added value with linear TV campaigns, or use digital inventory for TV make-goods.[3]

AUTOMATING TRUST: BRINGING TV TRUST TO ONLINE

The process of buying and selling television advertising is surprisingly efficient thanks to a stable, simple and accepted standard of measurement, as well as a high level of trust between critical market participants. Most senior TV media buyers know each other and have worked together for decades.

For many of the online executives who participated in our discussions, this emphasis on trust and human relationships was a surprise. A large and growing portion of online advertising is bought and sold 'programmatically,' according to pre-set or auction-based prices and transacted automatically, not unlike programmatic trading on Wall Street.

More technology and increased automation make digital media more profitable and scalable for agencies, but this shift toward automation is largely incompatible with the human relationships that underpin the TV advertising business.

As the TV ad market becomes more data-driven and integrated with digital media, it too will inevitably become more automated, but there's a prevailing sense of apprehension looming over the shift toward automation. As one marketer remarked, "Silicon Valley doesn't understand TV. They only understand digital. And, until they begin to understand both, there will be a disconnect." TV buyers and sellers will need to reach a level of trust in automation for adoption to occur.

Building and managing trust between buyers, sellers and third parties will play a significant role in determining the way television and online video advertising eventually come together.

[3] Digital Video and Traditional TV: Separate and Unequal, Brian Wieser, May 17, 2013.

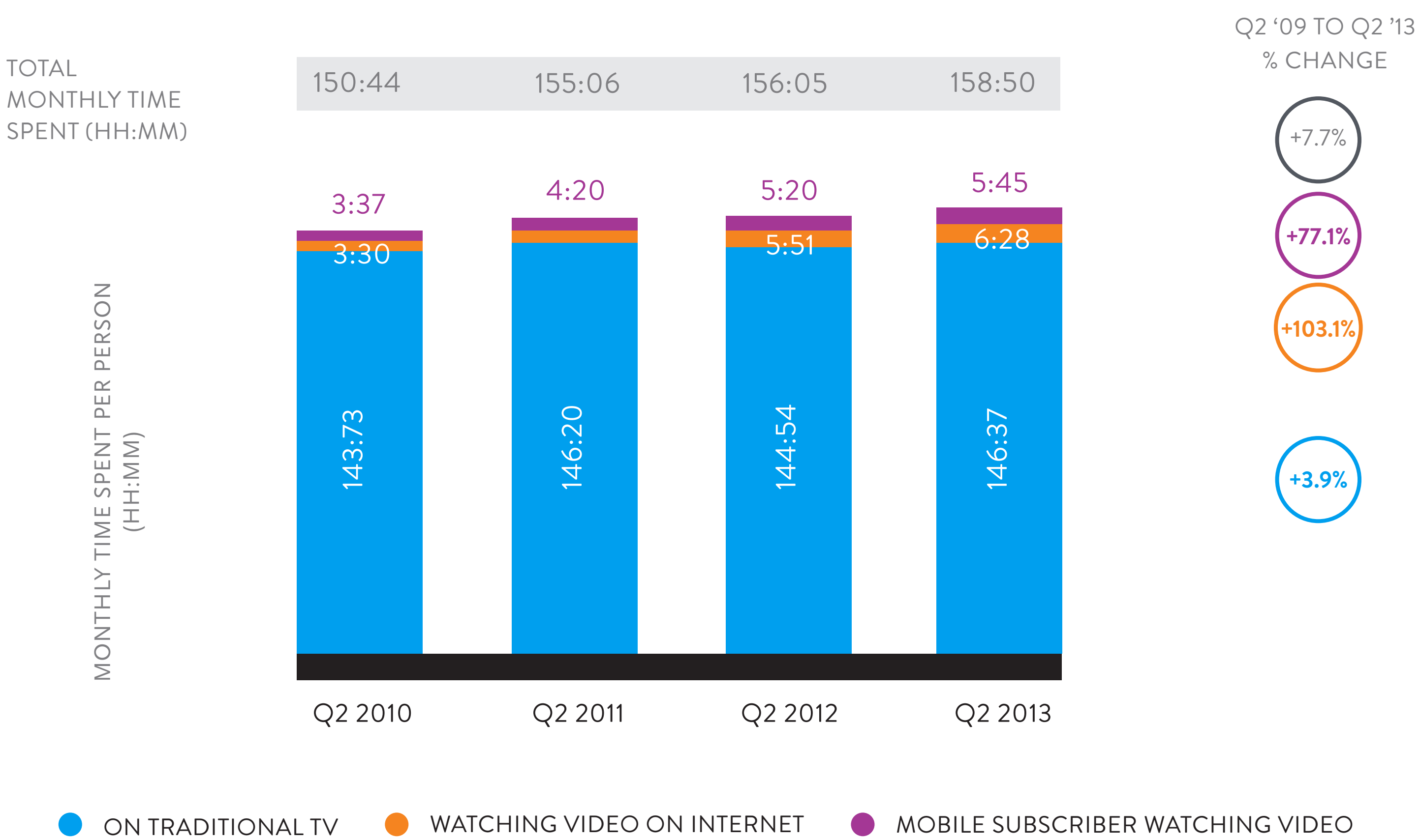
TV MAINTAINS SUPREMACY WHILE EMBRACING CHANGE

Consumers are increasingly turning to the web as more and better content—including premium content traditionally considered "TV programming"—becomes available on-demand everywhere. For the foreseeable future though, a confluence of factors guarantees the continued first screen dominance and importance of TV.

Television sets have extremely high penetration. TVs have been in US homes since the 1950s. Today, 283 million Americans spend more than 146 hours on average watching TV each month.[4]

DIGITAL STREAMING ON THE RISE , THOUGH TV STILL DOMINATES VIDEO TIME

TIME SPENT VIEWING VIDEO ACROSS TV, ONLINE AND MOBILE



Source: Nielsen Cross-Platform Report data, *Online streaming data for Q2 2010 –Q4 2010 are smoothed for a consistent trend line as data were not available for this time period. TV and Online based on Persons 2+, Mobile 13+

[4] Nielsen Cross-Platform Report, Q1, 2013.

Content still reigns. Consumers continue gravitating toward premium content, which is mostly created by broadcast and cable TV networks. The networks license the first-runs of their shows exclusively to multi-channel video programming distributors (MVPDs), who in turn guarantee carriage fees across their expansive distribution networks. Consequently, consumers maintain multi-channel subscriptions and neither media owners nor MVPDs have incentive to proactively change this lucrative circle. Due to existing content agreements, it is unlikely that anything will significantly disrupt the ecosystem in the next half decade.

Broadband infrastructure is not ready for primetime. The broadband industry is not equipped to support the current level of video viewing in terms of infrastructure or penetration. One in 4 Americans does not have access to broadband Internet, but virtually all Americans have access to some form of multi-channel or over-the-air television.[6]

That's not to say that the television industry is standing still. Our conversations indicated that the television industry will increasingly take advantage of web-based advents in precision marketing.

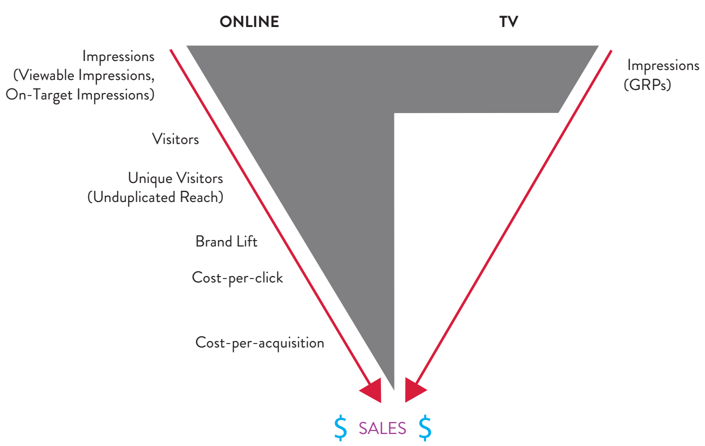
[5] Nielsen Cross-Platform Report, Q1 2013.
[6] Nielsen Cross-Platform Report, Q1, 2013.

INDUSTRY THOUGHT LEADERS PREDICT AUDIENCE-BASED DELIVERY COMING TO TV

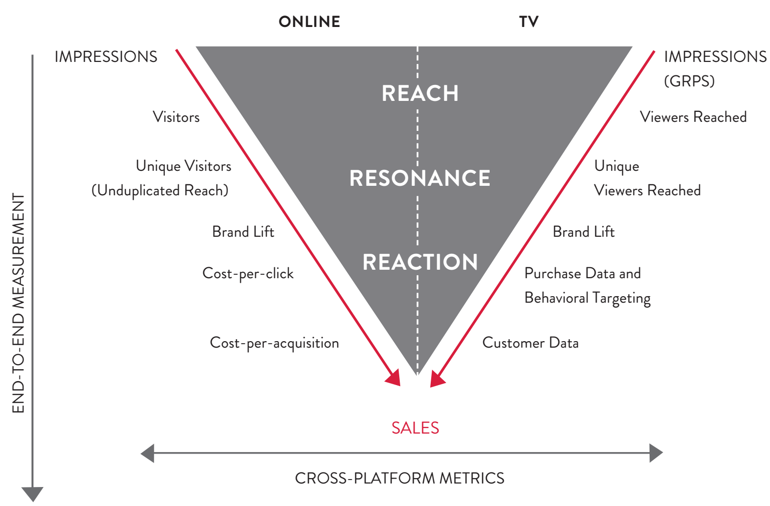
Although the accuracy of web-based marketing isn't likely to be replicated for television any time soon, many advertising industry leaders said they'd still like to see better precision marketing than what has existed in the past.

Participants discussed a robust, end-to-end measurement system that captures activity across platforms and links media beyond audience reach to resonance of the message. There was also broad agreement that the measurement of ad impact (sales lift) should be a critical driver of the ad spend.

COMMON MEDIA METRICS USED IN THE PAST



COMMON MEDIA METRICS OF TODAY AND TOMORROW



BEYOND REACH: THE THREE "R'S"

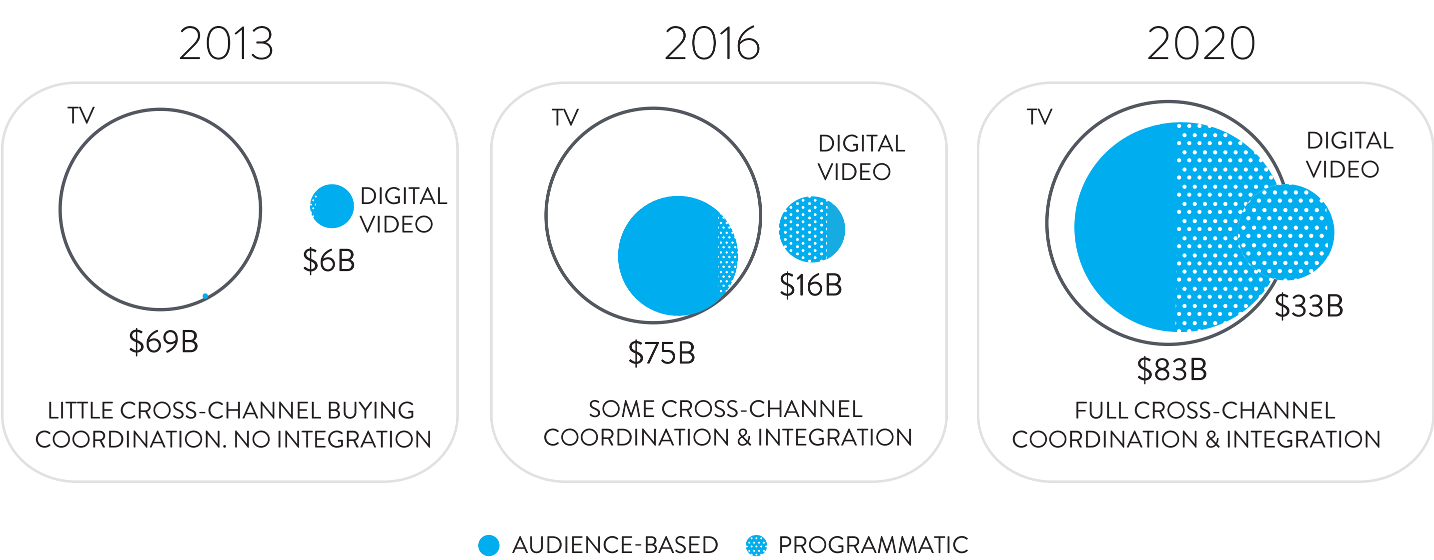
Reaching specific audiences will remain a core strategy for advertisers—focused on reaching the *right* consumers, not simply the *most* people. Indeed, the need for impact-based rather than reach-based advertising mechanisms will be a principle factor leading the convergence of TV and online.

From our discussions, we gleaned that TV media owners will primarily continue to sell against classic GRP and cost-per-thousand (CPM) metrics in the near future, but enhanced measurement opportunities will open the door to other metrics as well. Participants indicated that some in the industry will start making "secondary promises" about the total cross-media video reach they deliver. This will also extend into providing a level of true returns on the spend.

If that should happen, marketers would likely begin to build performance-based incentives into their agency contracts with bonuses for attaining designated benchmarks across key metrics. For creative agencies, performance could be measured by resonance levels with their video creative. It's even possible that media agencies could be goaled towards driving preset sales levels (reaction) attributable to their TV and online video spend.

SIMULMEDIA'S FORWARD VIEW OF CONVERGENCE

TV ONLINE-VIDEO | AUDIENCE PROGRAMMATIC
2013 - 2020



Source: MyersBizNet Media and Marketing Investment Data and Forecasts, January 30, 2013.

However, according to the dinner participants, TV advertising sellers and buyers are beginning to utilize the data platforms and analytical tools to significantly shift the way they package and deliver TV and video campaigns. Media sellers also require new tools like better inventory management systems to efficiently deliver cross-media audiences.

Nielsen is actively developing solutions to more accurately predict and deliver controlled reach against specific audiences, enabling video ad sellers to maximize the value of their audiences against the new media metrics that are just around the corner.

Reach. Many thought leaders voiced the need for campaign-specific ratings standardized across platforms.

The recent emergence of Nielsen Online Campaign Ratings™, offering metrics comparable to TV ratings, is a step in that direction. All parties have the ability to observe an audience in real-time and compare data across devices and platforms.

Resonance. Understanding how an ad resonates with consumers is still a relatively recent development in advertising effectiveness. Thought leaders agreed that a consistent, standardized measurement of ad resonance across creative treatments, content, screens and viewing-behaviors is critical to understanding what works and improving marketing strategy. This metric needs to be available in real-time to all parties involved with the advertising to allow everyone to act on the same data. Furthermore, there was a consensus among marketers that the availability of resonance measures should extend beyond media advertising, and should cover programming as well.

Reaction. The need for a metric that directly links bottom-line sales outcomes to advertising exposure and marketing investments was a frequent need raised in our conversations. Essentially, the industry requires a metric that evaluates and measures the strong connection between advertising and sales.

Among participants, it was clear that robust reaction measurements—some of which Nielsen can already provide—are an important “want” for media buyers and marketers.

CROSS-PLATFORM MEASUREMENT AND ROI

Given the explosion of available viewing data and the ability to connect TV viewing with offline behaviors and attributes, attendees felt that web-like advertising measurements would be coming to TV.

Ad resonance, as well as a viewers' subsequent actions, quantify the success or failure of an ad campaign. For a marketer, crediting sales to a YouTube ad, primetime TV spot or Facebook post shouldn't be guesswork, nor does it need to be.

Virtually all video advertising, including television, will soon be directly measurable in near real-time. This will be coupled with the ability to cross-reference viewing data with online activity and recent purchases. These new capabilities will greatly enhance the way marketers conduct sales attribution and ROI analysis.

As media becomes more measureable, placements can be more accurately identified, valued and leveraged. This focus on accountability will ripple across the ad ecosystem, from creative effectiveness, to earned and owned media, to media owners and marketing service providers. There was clear consensus that success in media advertising's future will be about connecting and engaging the consumer with the right content on the right screen at the right time.

CONCLUSION

TV and online video advertising are large, growing markets that will remain separate for now, though walls are breaking down—and quickly. For both markets, technological innovation, new infrastructure and the availability of rich audience data will power new and objective measures of resonance and reaction. The convergence of TV and online video advertising will create a more streamlined market where media can be better evaluated against a standardized set of cross-platform metrics.

For this convergence to take place, the advertising industry will need to embrace video as a platform agnostic medium. The TV and online video ad markets exist today as disparate silos with unique infrastructure and processes. This obstacle requires a concerted effort from both sides to overcome.

TV and online executives alike have spoken. To arrive at a solution, the online industry will need to evolve not only new technology, but also new trust, while the television industry must become more comfortable with automation and new data sets. Both will benefit from the development of universally-accepted metrics that properly value advertising across the 3 "R's."

APPENDIX OF QUOTES

Paul Marcum, Head of Global Digital Innovation, Bloomberg Media Group

On automation in online advertising:
"There's a serious problem with trust online with programmatic."

Dean Denhart, CEO, BlackArrow

On the need for a bridge between TV and digital advertising:
"Silicon Valley doesn't understand TV. They only understand digital. And, until they begin to understand both, there will be a disconnect."

Ellie Off, Director of Marketing, Diamond Foods

On obsolete metrics:
"It's no longer just about reach. It's about reach and engagement."

Randall Beard, Global Head of Advertiser Solutions, Nielsen

On synergy between television and digital ads:
"Television plus digital scores much better in resonance than two TV or two digital ads."

Randall Beard, Global Head of Advertiser Solutions, Nielsen

On the need for predictive analytics:
"We need to build a system that allows you to input your media plan and determine reaction."

ABOUT SIMULMEDIA

Simulmedia is a NYC-based ad technology company bringing web-like ad targeting and measurement to linear television advertising. The company predicts TV behavior across all US viewers with its a^7 platform and then packages and sells targeted TV campaigns to advertisers on its audience network.

For more information, visit www.simulmedia.com.

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ABOUT NIELSEN

Nielsen Holdings N.V. (NYSE: NLSN) is a global information and measurement company with leading market positions in marketing and consumer information, television and other media measurement, online intelligence and mobile measurement. Nielsen has a presence in approximately 100 countries, with headquarters in New York, USA and Diemen, the Netherlands.

For more information, visit www.nielsen.com.

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