



TV Advertising

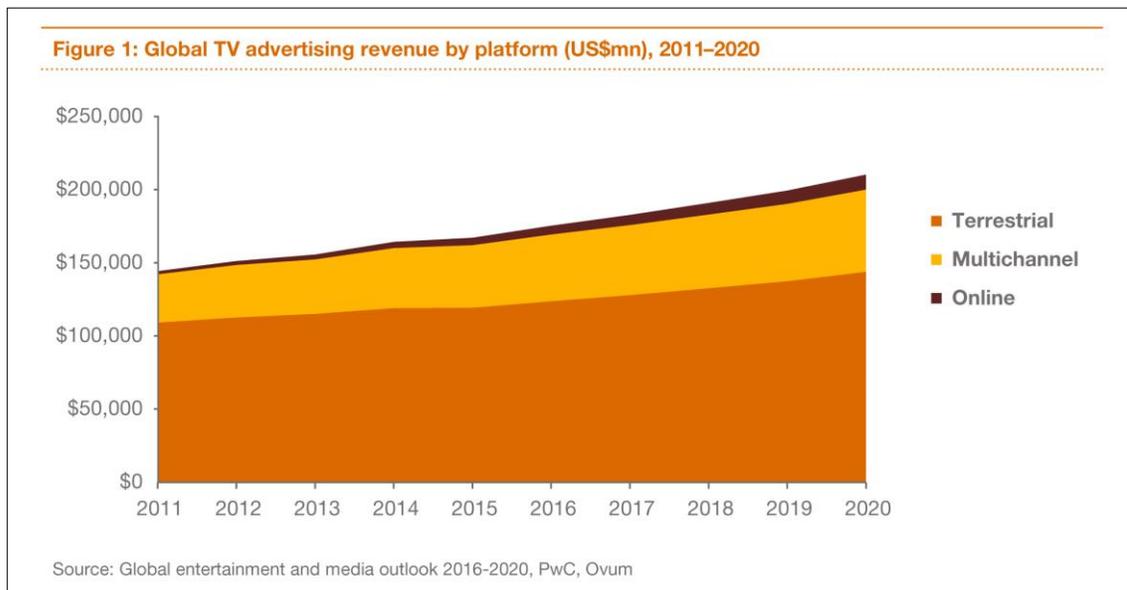
Multichannel cuts further into terrestrial's lead, as audiences and platforms continue to shift and fragment

In the “world of differences” that characterises today’s diverse and fast-evolving global media landscape, TV advertising stands tall as a segment that has been expected to implode frequently – but always prematurely. Today, overall TV advertising – encompassing terrestrial, multi-channel and online variants – remains the most popular advertising medium in many countries across the world, bolstered by its wide reach and opportunities for targeting an increasingly fragmented TV viewership. And the resulting resilience of TV advertising revenues is reflected in the projections in PwC’s Global Entertainment & Media Outlook 2016-2020.

Yet – in common with the TV & video market as a whole – this is also a segment where rapid change and disruption are constant and pervasive. Demographic shifts are combining with audience fragmentation across ever more channels and devices, and rising spending on online and mobile campaigns, to change the shape and nature of both TV consumption and advertising. For example, the research for this year’s E&M Outlook reveals an almost perfect correlation between markets with more youthful populations and those with higher E&M growth, reflecting younger consumers’ faster take-up of digital behaviours. TV advertising must adapt to such shifts, while also navigating challenges in areas like measurement – with media buyers and advertisers increasingly demanding credible, directly comparable cross-platform measures of ad effectiveness, and changes in the regulation of TV advertising, especially in emerging markets.

A changing revenue balance

Over the coming five years, TV advertising at a global level will weather these storms and cross-currents relatively well. As Figure 1 shows, total global TV advertising revenue is forecast to rise at a healthy CAGR of 4.7% between 2015 and 2020, reaching US\$210.29bn. This represents a higher growth rate than TV subscriptions, and will likely also narrowly outpace overall growth in total E&M revenues globally, at 4.4% compounded annually. Yet, reflecting the “world of differences” theme in this year’s E&M Outlook, this overall growth in TV advertising masks significant shifts between the three sectors that make up the segment. Terrestrial (or broadcast television) will see the slowest growth – at a 3.8% CAGR – through 2020, seeing its share of overall TV advertising revenues slide to 68.4% in 2020, down from 75.7% in 2011. This decline reflects rising subscription TV penetration and the increasing number of premium entertainment shows and live sporting events available solely via pay-TV channels.



At the same time, global multichannel TV advertising revenues will expand at a 5.6% CAGR to reach a new peak of US\$56.25bn in 2020, accounting for 26.7% of global TV advertising spend. Along with rising multichannel subscriptions, the shift away from terrestrial TV advertising will be further fueled by the rise of online TV services, with an increasing trend towards TV Everywhere and video on demand (VOD) platforms, and traditional 'live' viewing of scheduled TV programmes in decline. By 2020, online TV advertising revenues will be worth US\$10.19bn, compared with just US\$2.09bn in 2011. But despite this headlong growth, the prominence of subscription video on demand (SVOD) services that don't carry advertising means online TV advertising will still account for only 4.8% of global TV advertising revenues in 2020.

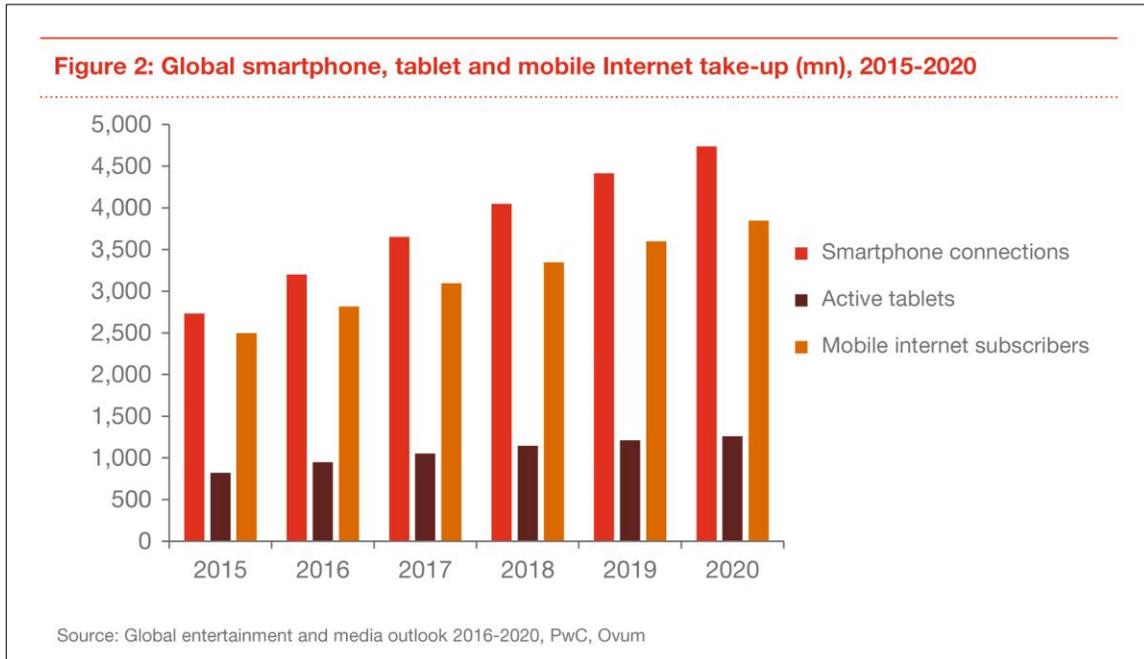
Evolving behaviours drive new competitive dynamics...

This steady but relatively gradual migration away from terrestrial TV advertising and towards multichannel and online platforms reflects a diverse array of behavioural and competitive shifts among both consumers and sellers of ad inventory. The largest linear TV (which is watched as scheduled) audiences are increasingly concentrated on live sports and premium entertainment – boosting the price both of sports rights and also the related ad slots. Multichannel TV advertising revenue is benefitting as these types of programming increasingly become the exclusive domain of pay-TV.

In response, sellers of TV advertising are increasingly competing on the basis of high-quality content capable of pulling in large and/or high-value audiences, especially for live events. Intensifying competition for sporting content saw record fees paid for the English Premier League soccer and NFL football in 2015. And in 2016, 30-second slots for advertisers in the Super Bowl reached a new peak of US\$50mn, with the previous year's event having reached 114.4mn viewers in the US, offering a unique mass-market opportunity for TV advertisers. The 2016 Olympic Games provided a further boost to TV advertising revenues and, looking forward, the 2020 Olympics will do the same.

...but the lure of live sport remains strong

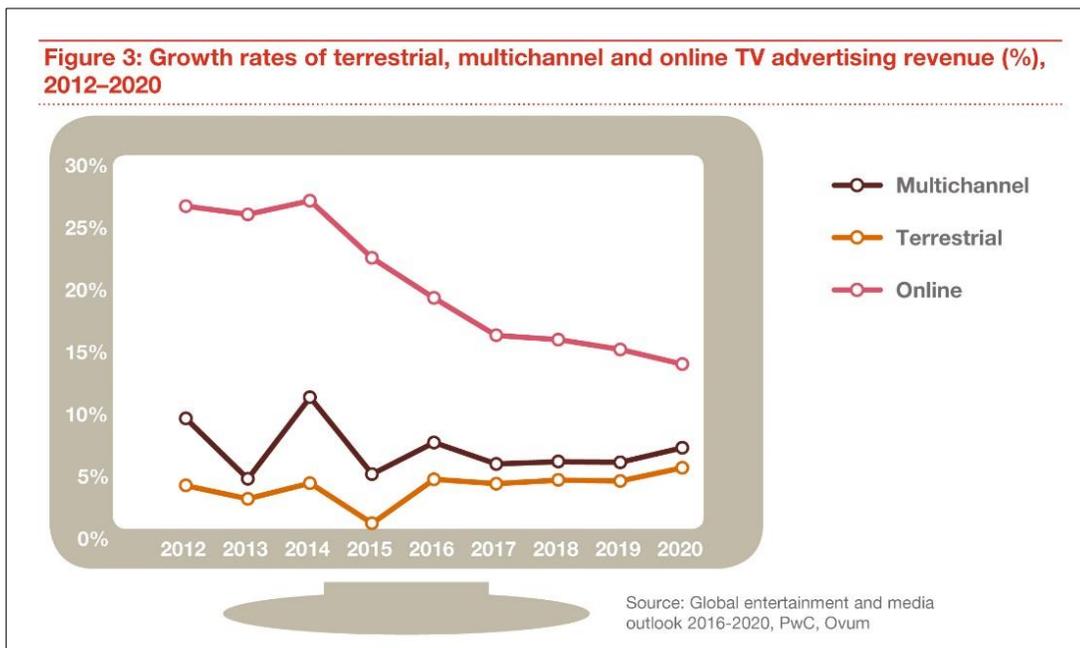
Yet, at the same time, a countervailing trend in consumption habits is a shift away from 'live' viewing of scheduled TV as it's broadcast. This is being fueled by the rising popularity of digital video recorders (DVRs), an expanding range of VOD services, and – as Figure 2 shows – rapidly-increasing global penetration of connected devices. More and more consumers now view content at a time and location of their choosing, while the availability of growing numbers of niche channels has fragmented audiences. This fragmentation presents some opportunities for advertisers in terms of targeting, but has increased competition for the largest audiences – generally those watching live broadcasts of premium sport and other events.



The attractiveness of live sports programming is one reason why, despite the trend towards time-shifted viewing across a range of devices and the availability of a growing range of over-the-top (OTT) services, linear TV remains the primary medium for consuming video globally. While this remains the case for the foreseeable future, linear TV's dominance is in decline – and the impact is most evident among younger audiences.

Advertisers follow their audiences onto online platforms...

As well as helping to wean consumers off traditional 'live' viewing of scheduled TV, trends such as the rise of online viewing, increased use of connected devices, and the resulting ability for audiences to view TV content whenever and wherever they choose, are driving changes in TV advertising business models. Despite slowing slightly from its formerly explosive growth rates (see Figure 3), growth in online TV advertising revenue is continuing to far outpace that of other platforms, albeit from a relatively low base.



Advertisers are following their audiences and increasingly looking towards a multi-platform approach, with the traditional TV commercial being increasingly accompanied by social media, live links to websites and time-specific information. Add to this the increasing ownership of connected devices, and the result is that advertisers are now vying for audience attention more than ever, with the emphasis on delivering engaging and relevant content. This has led to the rise of new technologies which tailors advertising based on content watched and demographic information via a pay-TV subscription. Advertisers will pay more for this information, and in turn would expect a higher payback for their investment.

...and demand new techniques to measure effectiveness

A further impact of the rise in online viewing and use of connected devices is that existing audience measurement techniques and services have been left struggling to keep pace. Among initiatives to fill this gap, Nielsen has been working on its Total Audience Measurement tool for several years, offering data across TV, DVRs, VOD and connected devices, while BARB in the UK has responded to changing viewing patterns with its Project Dovetail system. The resulting intelligence is aimed at providing advertisers with vital information on where to target their campaigns, and opening up opportunities to monetise changing consumption patterns for TV content.

However, going forward, the increasing complexities of the TV market and online video will make it difficult for a comprehensive measurement tool to be implemented. New methods of consuming content are being adopted at a faster rate than audience measurement products, while some TV providers simply don't want their audience data made public. Netflix – which, as mentioned above, does not carry ads – has stated it will not make its viewing figures public¹. A new product from Symphony Advanced Media in the US claimed to have recorded viewing figures, but Netflix described the data as inaccurate². In short, the issue of audience measurement remains very much a live one for the industry.

A multispeed world: varying impacts in different markets

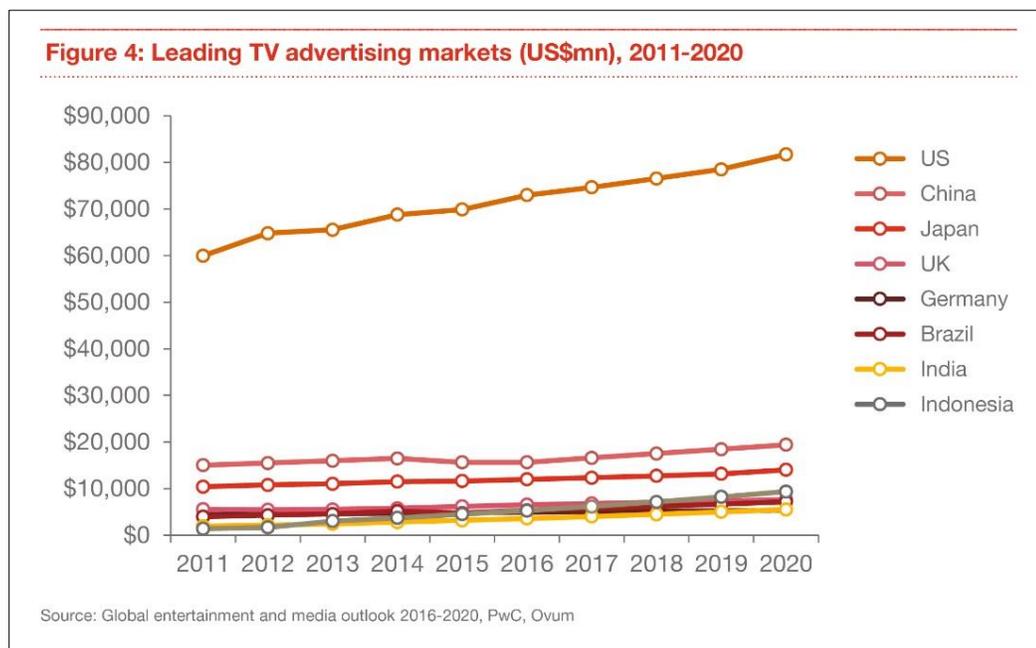
So, how are these various trends and dynamics in TV advertising playing out in different territories worldwide? One significant factor in a growing number of territories – especially growth markets – is a loosening of the regulations on

¹ Source: <http://www.dailydot.com/upstream/netflix-audience-numbers/>

² Source: <https://www.wired.com/2016/01/meet-symphony-the-company-that-tracks-netflixs-elusive-ratings/>

TV advertising, helping to spur revenue growth outside the mature markets of North America and Western Europe. For example, Turkey is in the process of relaxing the restrictions on comparative advertising from the end of 2016, and Argentina is extending the duration of the ad slots permitted in programming such as sports events. Indeed, over the next five years Argentina is set to enjoy the world's fastest growth in TV advertising revenue, rising at a 16.6% CAGR to reach US\$3.59bn in 2020 – with its multichannel and terrestrial TV ad revenues rising at CAGRs of 19.0% and 16.0% respectively.

Looking elsewhere, a drill-down into various markets worldwide fully underlines the “world of differences” theme. The US continues to dominate the global TV advertising market, accounting for 41.8% of the segment's total revenues in 2015 (see Figure 4). However, the rise of emerging markets – particularly in the Middle East/Africa and Latin America – will see the US's share of global TV advertising revenues decline to 38.9% by 2020. Asia Pacific's performance will be underpinned by China, the second-biggest TV advertising market globally and the largest in the Asia Pacific region since overtaking Japan in 2011.



Another significant shift is the rapid emergence of Indonesia, which will become the fifth-largest TV advertising market globally by 2020, with its total TV advertising revenue surging at a CAGR of 15.7% to US\$9.38bn – the fastest growth rate in Asia Pacific and the third-highest globally. With the lowest pay-TV penetration in the region at around 10%, Indonesia's terrestrial channels will continue to dominate Indonesia's TV advertising revenue – but multichannel TV advertising will see much faster growth, with a CAGR 36.1% driven by its upmarket subscriber demographics.

By contrast, TV advertising in Japan will lag well behind the global CAGR of 4.7% over the next five years, rising at 3.9% compounded annually to US\$14.04bn in 2020. Despite Japan's high pay-TV penetration, and growth in multichannel and online TV advertising revenue outpacing TV advertising as a whole, terrestrial TV will continue to dominate Japan's TV advertising revenue, and is projected to account for 87% of its total TV advertising revenue in 2020. A crucial driver of TV advertising in Japan is sports: TV Asahi's most popular content of 2014 was Japan's match against Colombia in the FIFA World Cup. And future growth will be assisted by the 2020 summer Olympic Games, which will be held in Tokyo – a year after Japan hosts the Rugby World Cup.

Overall, it's clear that in TV advertising – as in others segments of E&M – powerful global trends are overlaid on a diverse patchwork of local markets, content offers, advertiser strategies and consumer behaviours, creating a complex landscape of opportunities. The direction of travel may be towards multichannel and online TV advertising, but these shifts are happening at varying speeds and in differing forms in different markets. This underlines that to win out in

the battle for TV advertising revenues, there's no substitute for the traditional virtue of understanding the local marketplace, supported by the newer ability to leverage customer data and analytics to generate deep, data-driven consumer insight.

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Global entertainment and media outlook

PwC's Global entertainment and media outlook 2016-2020 provides a single comparable source of five-year forecast and five-year historic consumer and advertiser spending data and analysis, for 13 entertainment and media segments, across 54 countries. It's a powerful online tool that provides deep knowledge and actionable insights about the trends that are shaping the E&M industry. Subscribe to the Global entertainment and media outlook at www.pwc.com/outlook

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