

The future of TV advertising

Produced by

DIGITAL **TV** EUROPE

In association with

 **zenterio**

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Introduction

Pay TV channel providers have long looked to advertising to provide a secondary revenue stream to supplement subscription income. For TV operators in the US in particular, advertising has long provided a solid business through the availability of advertising inventory that can be targeted to primarily local markets.

While the extent of advertising in a pay TV environment varies hugely between markets, advanced advertising – meaning targeting ads to specific groups or individual and engaging consumers with interactive functionality – has been seen by broadcasters and TV operators as an important opportunity. However, there is a lack of clarity and considerable confusion about the value of this opportunity and the kind of services and business models that make sense.

DTVE recently surveyed almost 200 video industry players from over 50 countries, 13% of whom identified themselves as triple or quad-play operators, 13% as free-to-air broadcasters, 12% as pay TV broadcasters, 11% as IPTV service providers, 7% as cable operators and 7% as content aggregators, to find out their views on the future of interactive and targeted advertising. (Other respondents included DTH operators, OTT providers, consultants, system integrators, content providers and technology providers).

The survey revealed that:

- TV operators overwhelmingly believe that interactive and targeted advertising is relevant to them, with a majority having considered offering a service. Respondents take a highly positive view of prospects for monetizing aspects of the TV experience including second screen apps, and they also believe that operators will be best placed to make money by teaming up with third-party channel providers.

- In terms of the available inventory, sponsorship and advertising around on-demand content is seen as offering TV operators the best opportunity to realize additional revenue from advertising. Offering sponsorship opportunities around free on-demand movies and providing pre- and post-roll advertising are seen as potentially delivering the best returns.

- Survey respondents view targeted advertising as having a huge potential impact on the advertising business, but opinions are divided as to what level of targeting is practicable. While some believe that highly personalized advertising will be most effective, others are of the view that broad-brush localization offers a more realistic prospect.

- While personalization is seen as valuable in theory, respondents are sceptical about how willing individuals will be to provide login details to identify themselves as the viewer. However, indirect forms of login such as via second screen apps or social networks are seen as offering possible solutions.

- In terms of viable advanced advertising business models, respondents to our survey are of the view that partnerships between TV operators and other industry stakeholders will be key to unlocking value. These could take the form of partnerships between TV operators and advanced advertising platform providers as well as partnerships with broadcasters. Within the framework of these partnerships, TV operators are seen as playing a key role in delivering value from advanced advertising

The interactive advertising opportunity

In global terms, interactive and targeted advertising interest service providers and broadcasters. Asked in broad terms whether they had considered extending their TV offering by providing interactive advertising, seven in 10 respondents replied in the affirmative, while three in 10 said they had not. Of those that had not considered developing interactive advertising, the majority – 80% – said it was not relevant for them (figs. 1 & 2).

We asked our survey sample to rate which parts of the TV experience they believed offer the best opportunity for operators to make additional money from TV advertising, certain aspects stand out while others are embraced less enthusiastically. The second screen experience stands out as a premium opportunity, with two thirds of respondents giving second-screen applications a very high or high score.

A significant proportion of respondents believe that the best way for TV operators to make money from advertising is to team up with third-party channel providers and add value by providing the technology platform to deliver targeted and/or interactive advertising. The ability of TV operators to enable targeting and localization of ads to existing broadcast partners is seen as a significant opportunity.

Behind second-screen apps and targeted/interactive advertising in partnership with channel providers, respondents had most faith that operators could make money from traditional linear ad breaks via channels that they themselves own and operate. This is an opportunity that is likely to appeal to large operators with significant content arms. However, respondents also looked favourably on advertising opportunities around operator-provided programme recommendations and advertising within TV player apps, as well as advertising around on-demand guides and VoD storefronts.

Advertising within the programme guide – whether at the top level or in other areas such as channel lists, PVR menus and so on – are seen as offering value, with the top level of the guide seen as offering significant more value than other areas. Respondents clearly see value in exploiting inventory around the part of the guide that is immediately presented to viewers, but they remain cautious about how significant an opportunity this actually is, compared with the appeal of the second screen and more established forms of advertising within linear broadcast channels.

Other opportunities, such as when the consumer presses the pause button when a call to action banner ad is displayed or within the welcome and goodbye screens before or after a set-top is booted or switched to standby, are seen as being of more marginal value (fig. 3).

Fig. 1. Have you considered extending your TV offering by providing interactive advertising?

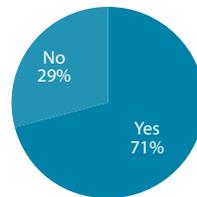


Fig. 2. If not why, why?

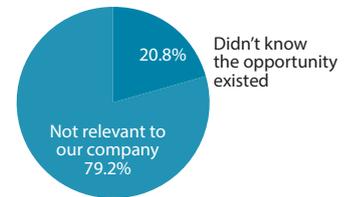
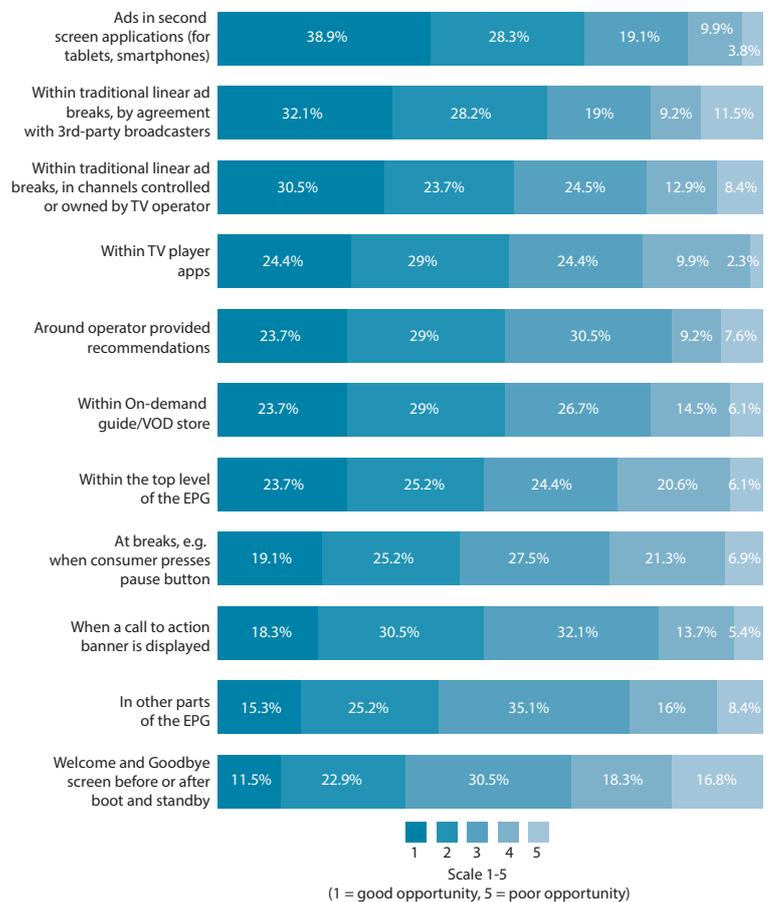


Fig. 3. Which of the following offers the best opportunity for TV operators to make money from interactive advertising?



Advanced advertising choices

The choices made by respondents asked to identify which advertising opportunities offered the best potential sources of additional revenue for TV operators reflect a desire for scale and reach to some extent. Advertising around visible parts of the user guide is clearly valued, as is advertising on linear channels, because it is likely to reach a sizeable audience.

Turning to the type of advertising campaign that is likely to work best in these environments, respondents to our survey showed a marked preference for sponsorship and advertising around on-demand content. Asked to rate 10 forms of campaign for relevance to their offering, over half of respondents gave a very high or high score to offering sponsorship opportunities around a free on-demand movie of the month, and three in five gave similar scores to pre-roll/post-roll advertising in VoD content.

Opportunities including general promotion of an operator's own content, channels and packages within the available inventory, 'in-app' advertising – for example on second-

screen applications – sponsorship around cloud DVR services and – a more traditional campaign – sponsorship around active live TV channels, attracted support.

Less popular was the idea of offering multiple sponsorship packages within the programme guide – seen as marginally less effective than a single dedicated campaign site. (fig. 4)

While generating less enthusiasm than on-demand sponsorship and linear channel advertising opportunities, the programming guide was seen as offering good value as an area with potential to generate advertising revenue for operators, and in particular as an area where calls to interactive action could attract a degree of responsiveness. Asked specifically what level of interactivity they believed was appropriate for advertising tied to the programming guide, three in 10 respondents said that a high level of interactivity – defined, for example, as a dedicated campaign site with many options for the consumer to interact with the advertisement and consume rich content including audiovisual content – would be appropriate. A further 50% of respondents said that a medium level interactivity would be appropriate. (fig. 5) However, a majority of respondents believe that it is more acceptable to have the operator's own content promoted in key places such as the EPG than brand advertising (fig. 6).

Fig. 4. Which of the following best complement your interactive advertising offering?

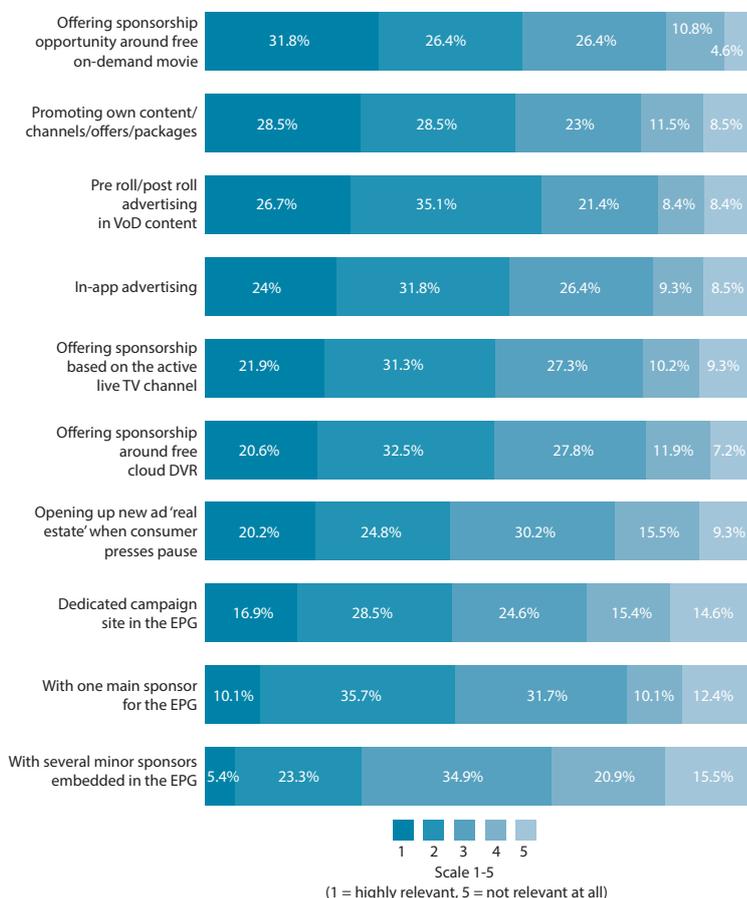


Fig. 5. What level of interactivity is appropriate for advertising tied to the programming guide?

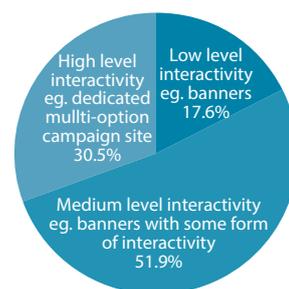
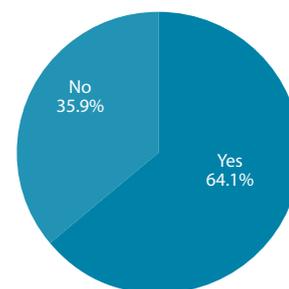


Fig. 6. Is it more acceptable to have the operator's own content promoted, rather than brand advertising in key places such as the EPG?



Targeted advertising

The ability to target groups and ultimately individual TV viewers is the most widely discussed aspect of advanced advertising and is seen by many industry participants as offering greater value than the ability to engage viewers with interactive features.

The importance of targeting is reflected in the results to our survey. Asked to choose one of five statements that best describes their view of the likely impact of targeted advertising for the TV industry, a quarter of respondents selected the statement “Very high – it will have a huge impact”, and a further 52% chose “High – it will have a significant impact”. No respondents at all said that the statement “Very low – it will make next to no difference to the industry” best reflected their opinion. (fig. 7)

Opinion is more divided when it comes to deciding which level of targeting offers the best or most realistic opportunity for TV operators to deliver value. Asked to rate five options – geolocation, socio-demographic-based geolocation, social-demographic targeting, targeting based on consumption patterns and targeting at the level of the individual – on a scale of one to five, respondents were fairly evenly divided in their embrace of each, with enthusiasm for high degrees of personalization more or less evenly matching support for more broad-brush approaches.

Targeting households based on household-level consumption patterns (providing different ads to households based on opt-in data related to previous consumption of goods and services) was marginally the most highly rated option, followed closely by the broadest-brush approach – targeting based on geolocation (providing different ads to different localities, offering an opportunity to target local advertisers or to take advantage of regional preferences).

The most specific form of targeting – targeting individuals (providing different ads at the level of specific individuals based on their individual logins) – and targeting based on socio-demographic geolocation (providing different ads to localities based on the socio-demographic profile of those areas), were both embraced with modest levels of enthusiasm.

The model seen as offering the least promise, by a small margin, was targeting households based on socio-demographic profiling (providing different ads to households based on opt-in data related to the socio-demographic profile of that particular household) (fig. 8).

The deployment of targeted advertising is closely dependent on the emergence of new forms of buying and selling advertising space. Programmatic buying – where ad campaigns are ordered according to algorithms, as is already the case with internet advertising, rather than purchased manually on the basis of presentations of content by broadcasters to potential advertisers – is likely to become ever more predominant in this environment. Asked which of four statements best expressed their view on the relevance of programmatic buying to the TV industry, almost nine in 10 respondents agreed that it will either determine the future of TV advertising, or that it will play an increasingly significant role, with about a third of respondents endorsing the statement “Programmatic buying is the future of TV advertising, which will become indistinguishable from the internet model” (fig. 9).

Fig. 7. What is the likely impact of targeted advertising for the TV industry?

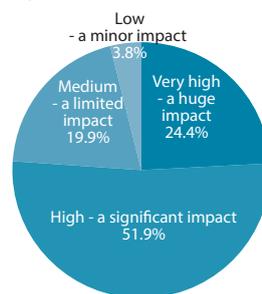


Fig. 9. What is the relevance of 'programmatic buying' to the TV industry?

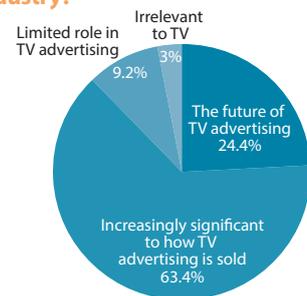
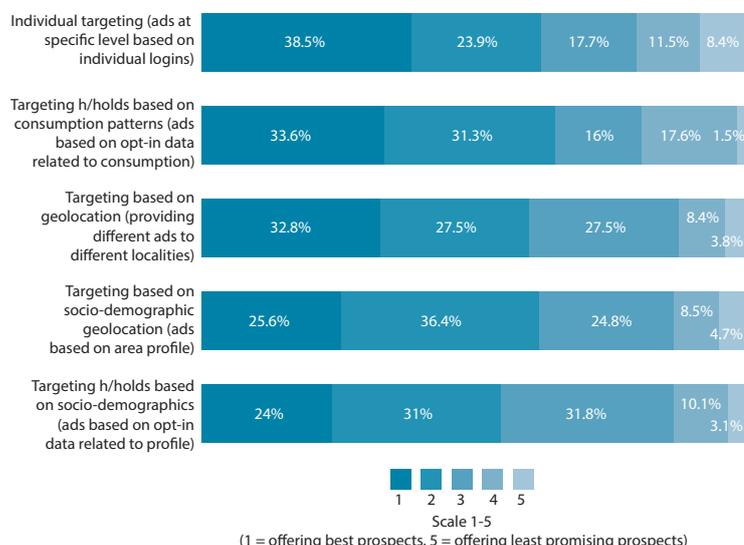


Fig. 8. Which of the following forms of targeting offers the best/most realistic opportunity for TV operators to deliver value in the medium term?



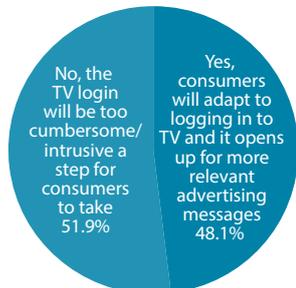
(1 = offering best prospects, 5 = offering least promising prospects)

Identifying the viewer

While our survey sample said that targeting advertising to the individual viewer is relevant, enthusiasm for this concept is muted by a widespread scepticism about how willing those viewers will be to identify themselves. Our sample was notably divided in its opinion on the willingness of consumer to identify themselves in a TV environment. Just over half of respondents – 52% agreed with the statement that “the TV login will be cumbersome or intrusive a step for consumers to take”, while the remainder endorsed the contrary view that “consumers will adapt to logging in to TV and this opens up more relevant advertising messages” (fig. 10).

Views on the viability of identifying specific viewers can of course depend on the type of identification required. Asked to rank various ‘TV log-in’ options in terms of their acceptability to viewers and their usefulness to advertisers, the responses of our survey sample were more nuanced.

Fig. 10. What best represents your view of the feasibility of tying interactive advertising to consumer profiles through some kind of login procedure?



Asked to rank five options based on how acceptable they would be to consumers, our sample confidence in the option of selecting a specific profile for each user on the TV, without any further step such as entering a PIN or password. They also took the view that entering basic login details via a second-screen devices such as a tablet or smartphone that can be paired with the TV and used to control the TV experience would be broadly acceptable, followed in order of acceptability by login via an established social network such as Facebook or Twitter and entering a PIN via the remote control. Least popular by a large margin was the option of entering details on the TV screen via the remote control in the form of a username and password (fig. 11.)

In terms of the relevance of how useful these modes of identification would be to advertisers, the most popular options were, first, entering basic login details via a second screen and, second, login via an established social network.

Somewhat less popular with our sample, but still judged to be practical and relevant, were the option of selecting a specific profile for each user on the TV, and the option of entering a PIN via the TV remote.

Least popular – once again by a large margin – was the option of entering login details on the TV screen via the remote control (fig. 12).

Fig. 11. How would you rank the listed login options in terms of how useful to advertisers they will be?

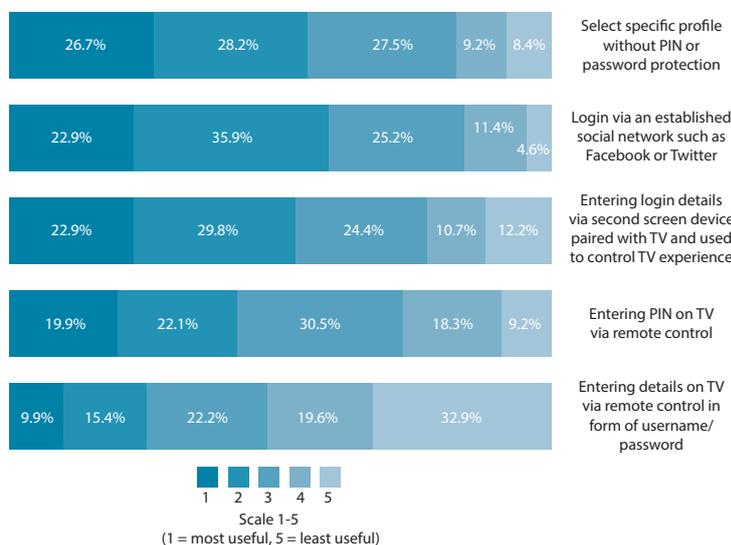
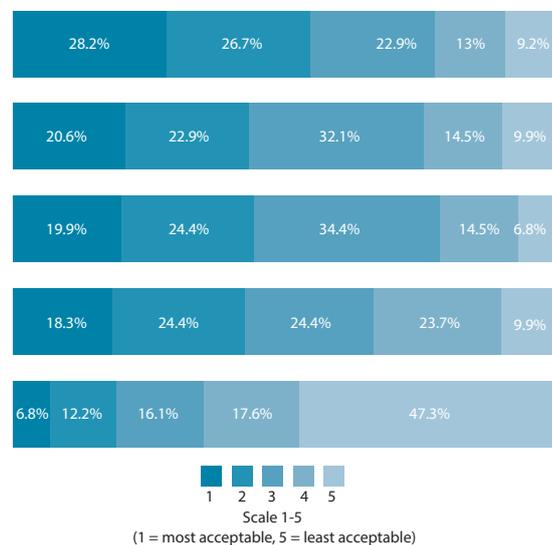


Fig. 12. How would you rank the listed login options in terms of how acceptable to consumers they will be?



The advanced advertising ecosystem

Overall, our survey sample consider broad forms of targeting to offer more promise than a high degree of personalization – at least for now – and see partnerships between operators and content providers as key.

Asked to rate four different business models in terms of the promise they hold for TV operators to make money from advanced advertising, survey respondents were most favourable to a model where TV operators offer a platform for targeted advertising, and return channel data on consumer engagement, based on specific demographic groups and then share revenue with broadcasters.

Respondents also looked favourably on the model of TV operators forming partnerships with third-party companies to provide enhanced interactive functionality, such as advertising within the EPG and the creation of dedicated campaign sites, and offering this as a service to advertisers direct.

Somewhat less popular with the survey sample were the concept of TV operators monitoring consumer behaviour through the set-top box and then selling target group data to third party customers, and a model where TV operators sell the inventory they control, for example around the EPG or on-demand guide, or in second screen applications, direct to media agencies and advertisers (fig. 13).

Survey respondents’ preference for collaborative models was even more pronounced when they were asked about the kind of relationship TV operators will most likely have with brands in the world of advanced advertising.

Asked to choose which of four statements best reflected their view on this, over 40% of respondents chose the option “TV operators and ad agencies will forge new collaborative relationships in order to deliver interactive advertising to brands”, considerably ahead of the one in four who chose the next most popular statement – “TV operators will mostly have direct relationships with providers of the interactive advertising platform”.

While partnerships with technology platform providers are likely to be central to the deployment of advanced advertising, most respondents believe that operators will play a key role. Just under one in five respondent think that “advertising agencies and others will take the lead in delivering services to brands and TV operators will mostly be restricted to providing technical infrastructure”.

However, the operator is, in the view of our sample at least, only likely to fully realise the benefits of deploying advanced advertising platforms in partnership with others who will continue to manage the relationship with the advertisers themselves. Only one in eight respondents endorsed the view that “TV operators will mostly have direct relationships with the brands in delivering interactive advertising” (fig. 14).

Fig. 13. Which business model holds most promise for TV operators to make money from interactive advertising?

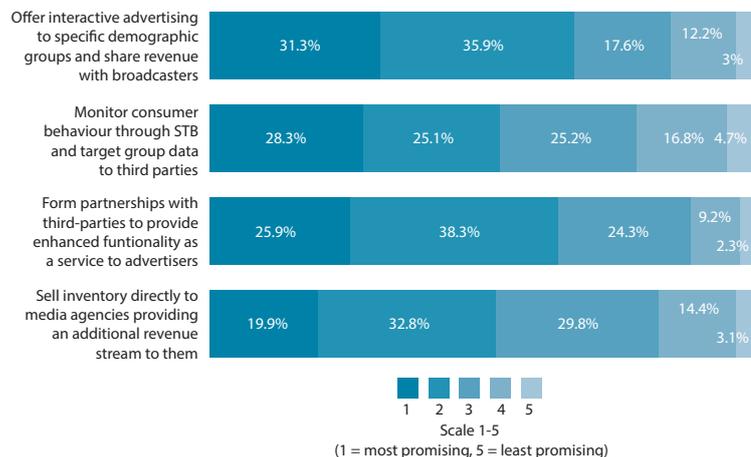
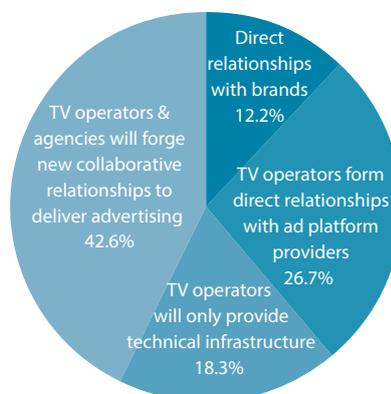


Fig. 14. In delivering interactive advertising, what kind of relationship will TV operators most likely have with brands?



Conclusion

TV operators and broadcasters believe that advanced advertising offers an opportunity to gain additional revenues, but are less clear on the best way to realize the potential benefits. Survey respondents recognize that TV operators own or control assets that could be monetized in the shape of the programme guide they provide along with other aspects of the user experience such as operator-controlled second screen applications.

In terms of the types of advertising campaigns that work, the industry executives surveyed have most faith in sponsorship and advertising around on-demand content, such as sponsorship linked to promoted content offerings, such as a free on-demand movie of the week, along with pre- and post-roll VoD advertising. Respondents also believe that the operator programming guide offers a good platform around which to develop interactive advertising.

Respondents believe strongly that targeted advertising will play an increasingly important role in the advertising economy overall, but are divided over how deep a level of targeting is appropriate and achievable. Opinion is broadly divided between those who believe that broad-brush targeting (to localities or broad demographic groups) is more realistic and those who favour deeper personalization of advertising (to households based on their pattern of consumption, measured through the opt-in collection of data, or even to individuals within households based on their personal logins). Truly personalized advertising is seen as challenging, due to the reluctance of individuals to identify themselves, but straightforward forms of logging in to TV services (such as via personal profiles stored on the set-top box or social networks) are seen as more likely to be adopted.

Overall, partnerships between TV operators and other industry stakeholders are seen as the key to unlocking the value of interactive and targeted advertising. Operators are likely to realize the greatest benefits by creating an enabling platform for interactive or targeted advertising and by sharing revenue with broadcasters that use that platform, or possibly by providing interactive advertising functionality via a third-party company that can manage the platform.

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Zenterio provides Zenterio OS, an independent software platform for interactive TV that is positioned to become a global standard. Zenterio partners with global system integrators, set-top box suppliers, CA/DRM providers, chipset manufacturers and providers of interactive services. Zenterio has more than 200 employees (25 nationalities). Zenterio has offices in Stockholm, Linköping and Atlanta. Zenterio is owned by private investors and private equity firm Scope. The chairman of the board is former Nokia CEO Mr. Olli-Pekka Kallasvuo.

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About Zenterio OS

Zenterio's operating system works with most types of hardware available on the market. For TV operators, Zenterio's software enables fast harmonization of operators' fragmented software bases, and it can be used on new and already deployed hardware. With a harmonized solution, operators can quickly and cost-effectively deliver new interactive services to end customers. Besides unrivalled hardware support, Zenterio's software offers market-leading performance and a flexible way to add new features. For system integrators, Zenterio's products facilitate uniform support for their new solutions that enable TV operators' interactive services. For TV viewers, this means improved experiences, an increased range of services, and greater access to new applications.

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