The State of Video

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WHERE WE STARTED

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Linear television is still perceived to be as effective as ever, despite the absence of granular measurement.

In the fall of 2017, GroupM published our first State of Video. In it, we described key trends:

- Declining in linear TV ratings, especially among younger audiences.
- Increasing data application to linear television.
- Continuing progress with addressable television.
- Growing OTT viewing.
- Increasing availability of skinny bundles from legacy and new distributors.
- The threat of "cord cutting" to TV economics.
- New competition in content development and acquisition, particularly in sports.
- YouTube, Facebook, Snapchat and Amazon challenging the video advertising status quo.
- The likelihood of one or more "landscape altering" megamergers.

A year later we ask, "what happened?" The answer is straightforward: more of the same but not much more of the same.

There are no new signs of life in linear television. Ratings continue to fall. Even mainstays like the National Football League have lost popularity for reasons upon which no one can agree, but everyone has an opinion. And, no new ad formats have emerged to suggest a sudden transformation for the better. The solace for those selling linear television lies with sustained advertiser demand even as audience supply has fallen; inflating unit costs are the silver lining of audience scarcity.

However, there is a difference between lack of new life and impending death. The ranks of television advertisers are swelling with new entrants, mostly direct-to-consumer businesses that have exhausted all the reach and awareness "performance" media afford them. It's reminiscent of the dot-com boom for television of the late 1990s. Maybe it will end better this time. One thing is for sure: Linear television is still perceived to be as effective as ever, despite the absence of granular measurement.

The application of data to television shows up in two ways: first, in how the medium is planned by advertisers; and second, by the way it's bought. It's abundantly clear use of data in the planning is most prevalent, and that real market transformation will only occur when advanced audiences become the currency of the medium, subordinating legacy metrics to valuable but circumstantial evidence.

This change seems inevitable, as "video everywhere/anywhere" would seem the only logical solution for advertisers. Inevitability and speed are not the same thing, however. In even in the most developed markets, the end game of unduplicated viewing measurement across all screens and channels is at least a couple of trading years away. Even in the UK, BARB's Project Dovetail, perhaps the world's most ambitious effort, has been delayed and will not be launched at the time of this writing. And still, Dovetail will not capture all video on all devices, only all television on all devices.

What is BARB's Project Dovetail?

BARB is the joint industry body that measures UK broadcast audiences for TV programs and impressions for TV ads. It has a sample of 5,100 homes that return daily data on viewing on the main TV screen. A rising proportion, currently reported as 60% of the sample, also returns PC and tablet viewing. BARB is exploring how to add panel members' smartphones. Separately, 30 online TV platforms carry code to send census-level data to BARB, revealing aggregate viewing (streaming and on-demand), top channels, and top programs.

"Dovetail Fusion" is expected to combine current panel and census data with data from smartphones when it launches this year. At first the fused measurement will aggregate program audiences. Commercial audience impressions are to follow in 2019. This will reveal separate and combined reach for linear and VOD.

Participating video distributors are measured according to BARB's "gold standard." However, no "walled garden" platform presently participates. There is no barrier though, as any content distributed on SVOD can be tagged for BARB to pick up on its panel – if the platform enables it. This would include such platforms as Netflix or Amazon. (Netflix has no ad impressions to measure, and doesn't need BARB program ratings.)

BARB does not currently measure viewing on smart TVs or via dongles, which is growing in importance as viewers demand more content on the "best available screen." Unmeasured video viewing is called "unmatched."

BARB is also investigating the possibilities for measurement of return-path data from set-top boxes. It already reports total impression volumes for Sky AdSmart addressable TV inventory (but not separate campaigns or spots).

WHERE WE STARTED

Supply and use of addressable television in the US continues to expand, but it remains a very small portion of the market.

Worldwide, TV measurement is improving, but not fast enough. By 2016, 39 countries measured time-shifted viewing, up from 31 in 2015. RTL's ambitions for what it calls "unified four-screen measurement" is qualitative (behavioral) as well as quantitative. Countries developing this include Denmark, France, the Netherlands, the UK, the US, Sweden and Singapore. Early results from France and the Netherlands showed 20% viewing online in a month and 50% in a year, with under-35-year-olds comprising 17% of the main screen audience and 50% of those online.

The young may yet return to the main screen. They are already saturated with smartphones, and screen size is a binding constraint. Big screens encourage viewing, particularly for SVOD, YouTube and sports.

In the USA, for the 2018 calendar year, eMarketer estimates that approximately 9% of the television advertising investment will comprise some form of "advanced TV." This may include addressable, programmatic and use of measurement currencies beyond demographics (we assume), but we are suspicious of this number.

Supply and use of addressable television in the US continues to expand, but it remains a very small portion of the market. Addressability first relied on the ability to deliver messaging to individual set-top boxes, but now it extends to the addressable inventory on connected or smart TVs, which are the clear majority of new device purchases. This massively increases the number of addressable households and individuals, but the binding growth constraint remains the proportion of total impressions that may be addressed. In the USA the sellers of addressable inventory are the distributors with two-minute local "avails" in each hour.

There are other throttles and bottlenecks around the world. The growth of VOD and ad-funded OTT is making very little difference. As we have commented before, there are few technical barriers to addressability, but many commercial ones.

It's possible, however, that AT&T 's acquisition of Time Warner, together with the 2013 acquisition of NBCU by Comcast, may catalyze change. These vertically integrated companies have a significant share of homes served and content viewed. Should they choose to make all their owned inventory addressable, the future will have arrived. Comcast's acquisition of Sky in Europe foreshortened this future.

WHERE WE STARTED

Last year, we defined addressability as inserting ads into linear or time-shifted TV ad breaks for specific households, as identified by subscriber data. Targeted advertising in OTT environments uses a different data trail, but serves much the same purpose. This wider universe may mean the video marketplace will reconfigure itself from serving a few hundred large advertisers to a few million small ones. We learned this lesson from Google and Facebook already. Buying at the impression or user level, especially at auction, democratizes access to media markets. What are the potential implications?

- Advertisers pay more for aggregated broad reach.
- Advertisers pay the same or less – but at a higher unit price – for better targeted inventory.
- Wide bifurcation of the market between hundreds of macro (national) advertisers and tens of thousands micro (local/regional) market participants.
- An enormous long tail creates severe upward pricing pressure in the market and television's traditional players lose market leverage.

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IT'S COMPLICATED

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The drive toward increasing the addressability of media's most powerful and largest scale advertising asset is fraught with perils and procedural quagmires, making it hard to see the road from the past to the future. This has been a problem in many industries and has often handcuffed the pace of innovation and investment.

That said, there is a lot to be learned from one of the world's oldest technical professions. Watchmakers, seeing themselves as the bridge between art and science, took the utilitarian timepiece measuring hours and minutes and festooned it with more intricacy, from chronographs to alarms and even moon cycles. Each addition required more parts, each designed to tick forever in unison. No element, no motion could be wasted, and every part was required to add accuracy and reliability to the whole. "Grand complications" were meant to unite every function purely mechanically, from astral precessions to individual seconds. Measuring hundredths of seconds would be welcome if it enhanced the accuracy and harmony of the existing myriad handmade parts.

Television's core function is still reach.

Herein lies the paradox of modernizing television advertising with addressability. Television's core function is still reach. Data adornments are welcome only if they make that reach more intelligent and more intimate, expanding television's relationship to sales and downstream financial and performance metrics, as any advertiser on earth would hope to achieve.

This entails two key points of balance (or grand complications). The first is knowing how to weigh the cost efficiency and scale of broadcast advertising in broad geographies with maximizing reach against highly-targeted subsets of a national population. If the greatest weapon in our arsenal is reach, then our priority must be developing new currencies, data pipelines and planning/measurement frameworks, "weaponizing" program or daypart-level activation inputs with a strategic view of the metrics that really matter to clients.

Most important, new functions must make desired media investment outcomes repeatable.

The second point of balance to be considered, and arguably the more powerful complication, involves the fluid definition of "video" in an age of content ubiquity where viewership is atomized and investment is finite, but still expects a certain economic return.

If television is now defined as high-impact, premium video watched on a large screen, then advertisers should be indifferent to modes of delivery (assuming a market efficient at pricing, (sub)channel efficacy, placement reach and media quality). For incrementality, we must minimize duplication across linear, OTT, SVOD, and addressable, to achieve effective marginal impressions at the lowest opportunity cost. The marginal impression is not that of a vague national demographic,

IT’S COMPLICATED

but a precise cluster of behaviors and propensities we seek for clients. If there is an ideal frequency to deliver, perhaps to maximize brand recall or drive downstream actions (like retention, cross-sell, upsell and acquisition), then we must be able to fold our video audiences over each other – a goal beyond today’s simple currencies and measures of reach

Such grand complications invite the cautious to cling to the comparative safety of a highly process-driven legacy industry.

Think bigger. Rather than simply trying to make the proven television framework feel programmatic, we must aspire to on-board, overlap and simulate audience interaction with media viewership. This would solve the biggest hurdles in multifocal video.

In 2018, we are in limbo between the traditional and the modern. We have a choice: Force-fit digital video into linear mechanisms, systems and pricing structures, or modernize television to look more like digital – targeted, automated and optimized.

Taming the fragmented video audience with automation and technology is a good example of over estimating short term and under-estimating long term. The hype says most digital video inventory is already filled programmatically; the reality among large advertisers is an average of only 15%, with the most advanced at 30%. But long term, let us assume that everything that can be programmatic, will be, and that technology will power all transactions.

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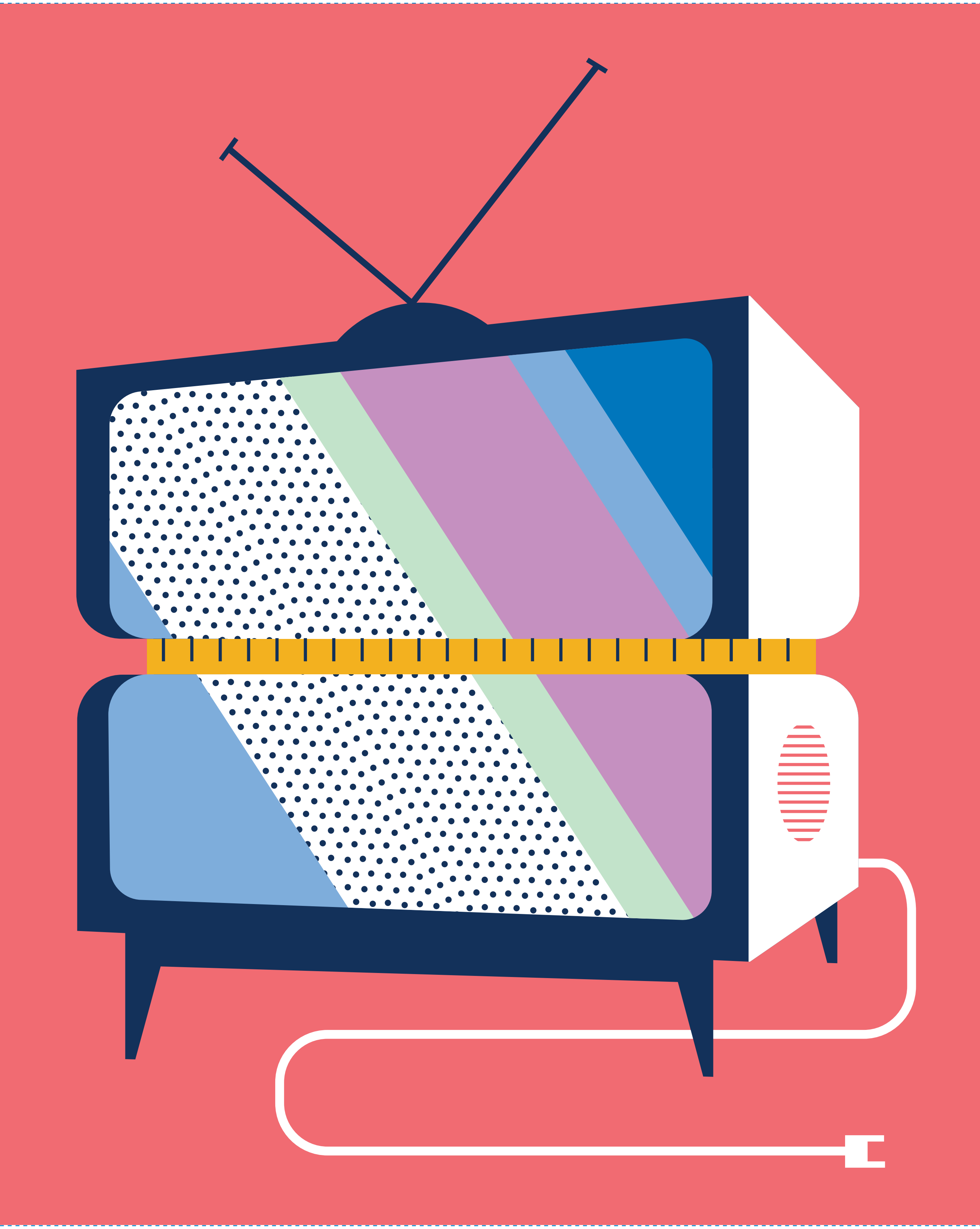
It is hard to stitch together video activation and measurement across linear and digital video, but tools do already exist to enhance proven legacy practice with sophisticated big data techniques in multifocal activity. There are tools enabling marketers to plan, buy, and optimize video investments across channels, formats and devices, keeping their core audience as close to the sole source of truth as possible in the platform era.

SKINNY BUNDLES & NEW COLLABORATIONS



SKINNY BUNDLES & NEW COLLABORATIONS

Amazon and Netflix now represent somewhere between one third and one half of the world's total production investment.

Cord cutting, the rise of skinny bundles, vMVPDs (virtual multichannel video programming distributors) and OTT are always in the news. It's interesting to note that the typical Comcast household in the US uses 150 gigabytes per month and has 11 connected devices. This is clearly not cord cutting. More accurately, it's a story of user-driven bundle personalization – what we call "Build-A-Bear EPGs" later in this document. Morgan Stanley estimates that there are 120 million individual subscriptions to OTT services in the USA alone.

Skinny bundles are a complication. Ad-supported skinny bundles are not only highly unprofitable, but wittingly so. If their real purpose is obscure cross-subsidy, they take little notice of advertising pricing signals – Amazon Prime being perhaps the most notable.

By some estimates, Amazon and Netflix will spend $18 billion on the creation and acquisition of content in 2018. There is no definitive external source for original TV production budgets. Even defining these is a challenge with the myriad overlapping forms investment takes. Total programming spend is made up of original TV production plus acquisitions, sports and movies. Available evidence suggests Netflix and Amazon's current programming spend splits roughly one-third into original production and two-thirds into acquisitions, sports and movies. It is hard to calculate the market shares Amazon and Netflix command in these spheres, but both are capable of moving any market or transaction they enter, if they wish.

The one third/two-thirds split is likely to equalize over time. Netflix has announced that 85% of its 2019 budget increase (vs 2018) will go into original content, making a virtue of necessity given that companies such as Disney have started to restrict Netflix' access to content libraries as they look to launch competing SVOD services. We said last year that these companies were likely to become the anchors of the "future bundle," and little suggests this will not prove true.

However, it is also possible that the disruptors may be disrupted. Disney's acquisition of many Fox assets creates, in theory at least, a competitor to Amazon and Netflix. It may also support collaboration between buyer and seller in the sports arena, although that it is far from certain.

Comcast has prevailed in the acquisition of Sky. A new transatlantic power has emerged that is well distributed in rich countries and households and well integrated from infrastructure to content creation, with the free cash flow to be an aggressive rights bidder. Disney elected to sell its interest in Sky – effectively a call option on Fox's 39% - two days after Sky management recommended acceptance of the Comcast bid. Will collaboration ensue?

Finally, from the perspective of the bundlers-in-waiting…

It's clear Apple has designs on the video business, but this is playing out in super-slow motion, slow enough to imply that Apple may wait for the M&A musical chairs to stop – and then make a giant acquisition that re shapes the market. In market cap scale, Apple would spend a smaller proportion of itself to acquire Disney than Disney allocated to the Fox acquisition. This possibility is plausible, not probable.

Netflix amortizes its costs across vast populations. Hits are cheaper and so are misses. Mergers and alliances between publisher-broadcasters are a response to this, to create competitive economies of scale and standardization that attract big advertisers to Facebook.

Hulu is perhaps the best-known collaboration, though one wonders if today's harmony would survive Disney majority ownership. The Hulu model was designed for scale and market share in distribution. Programs with the most diffuse distribution have the youngest profiles. PCs generally have half the largest share of "other" viewing, but for younger-targeted channels, it is the handset. Wide distribution creates a feedback loop, so multi screen becomes a starting point for program proposals, especially in the unscripted genre.

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For European broadcasters to imitate Hulu (the so-called "Euroflix"), they would face big obstacles in regulation and copyright. However, other forms of alliance are emerging.

EBX (European Broadcaster Exchange) is a VOD network with a single access point comprising leading broadcast brands, Mediaset, TF1, Pro7 and Channel 4. It claims monthly deduplicated reach of 100 million across a portfolio of 55 channel brands. It offers TV-grade brand safety, completion rates and viewability, 100% big- or mid-screen display, predictable pricing and contextual targeting. Pan-regional demand has never been great, but perhaps the convenience of EBX will liberate it. It won't. Marketing is always local.

Along the same lines, RTL offers "Total Video Marketplace." This comprises north of 300 European TV channel brands, 30 audios and 300 platforms. It offers three private marketplaces, managed or automated: VOD, "digital audience extension" (a curated network) and whitelisted pre-roll YouTube. The VOD offer is 12 European countries, buyable separately; the digital is global; and YouTube is non-skippable, with high completion and brand-safe. RTL's VOD claims 100-million-plus monthly reach, like EBX, though presumably at higher average frequency.

Addressability stimulates collaboration too, to achieve scale in inventory and economies in the expensive technology. The US has OpenAP; in the UK, Sky's AdSmart is available to other broadcasters, and Finecast is a single outlet for many broadcasters' on-demand ad inventory.

CAUTIONARY TALES

UK video viewing online is typical of developed markets. By volume consumption it has more than trebled in five years, and the ad investment pursuing it has risen four times. In China, ad investment behind short-form video alone has multiplied six times in three years. The inflationary tension here is obvious, with “input” CPMs becoming more expensive and “output” CPMs varying hugely and often being poor signals of what is really driving effectiveness for advertisers.

Many editorial publishers have struggled to become scaled video creators, so they have augmented with outstream video. Sound on/off is an important consideration for advertisers, especially on mobile, but the growth of outstream investment implies it is working. Looking at the UK, we cannot quantify this from the IAB’s combined figure for outstream, in-read and mid-roll, but we note that in-stream investment grew a third from 2015 to 2017, though its share of all online video investment fell from 77% to 42%.

YouTube’s tribulations showed that reputable advertisers worry where their ads appear. Many from this marketing generation grew up in an era when editorial environment was of prime importance. Brand safety rightly remains one of the hottest topics of conversation between client and agency: measuring how safe activity is, and preventing it, from becoming unsafe in the first place. GroupM has always asked that media partners allow true third-party verification via a tag on the page. Our most concerned clients demand it and direct investment to partners who comply. Resisting independent verification creates doubt among planners and clients alike as to what’s really going on. Google, for one, has become more open in the last 12 months - as it had to.

One of the hottest topics of conversation between client and agency: measuring how safe activity is, and preventing it from becoming unsafe in the first place.

Vertical video on Facebook has exploded. As ad load maxes out, we see Instagram step up to fulfill demand. There is still much to do, given that the shortage of premium supply is affecting optimal planning for both precision and mass audiences.

We think the market undervalues TV in its ability to drive return on investment, especially when assessed on an output CPM with 100% completion, sound-on, and fully viewed by a human audience. A growing body of evidence shows that a fully viewed ad does a better job of improving brand recall, perception and purchase intent; this should be no revelation, but in today’s market it is, and that is staggering.

A welcome trend is the growth of fit-for-purpose, made-for-platform creative. In our experience, around two-thirds of video ads are now platform-specific, as opposed to the versioned or truncated TV assets that have permeated too long. This is progress, but there is still work to do. GroupM data suggests that fewer than 20% of Facebook videos sustain viewing for three seconds. Attention is scarce and increasingly expensive, so ads must make their point quickly, with tangible benefit for the viewer. To formulate an effective CPM reconciled to attention

CAUTIONARY TALES

and the full AV experience is to understand the value of video quite differently from either the mechanistic-served video market or the certainties of video media subject to reliable and consistent "gold standard" audience measurement.

Any publisher making the case for brand-safe, viewed, sound-on and user- initiated video positions itself well for growth in this area, but investment patterns suggest that message isn't always landing with clients and planners alike. Perhaps scale conquers all? If Google and Facebook are perceived to provide a rich and large source of supply, why concern yourself with those you perceive as rounding errors?

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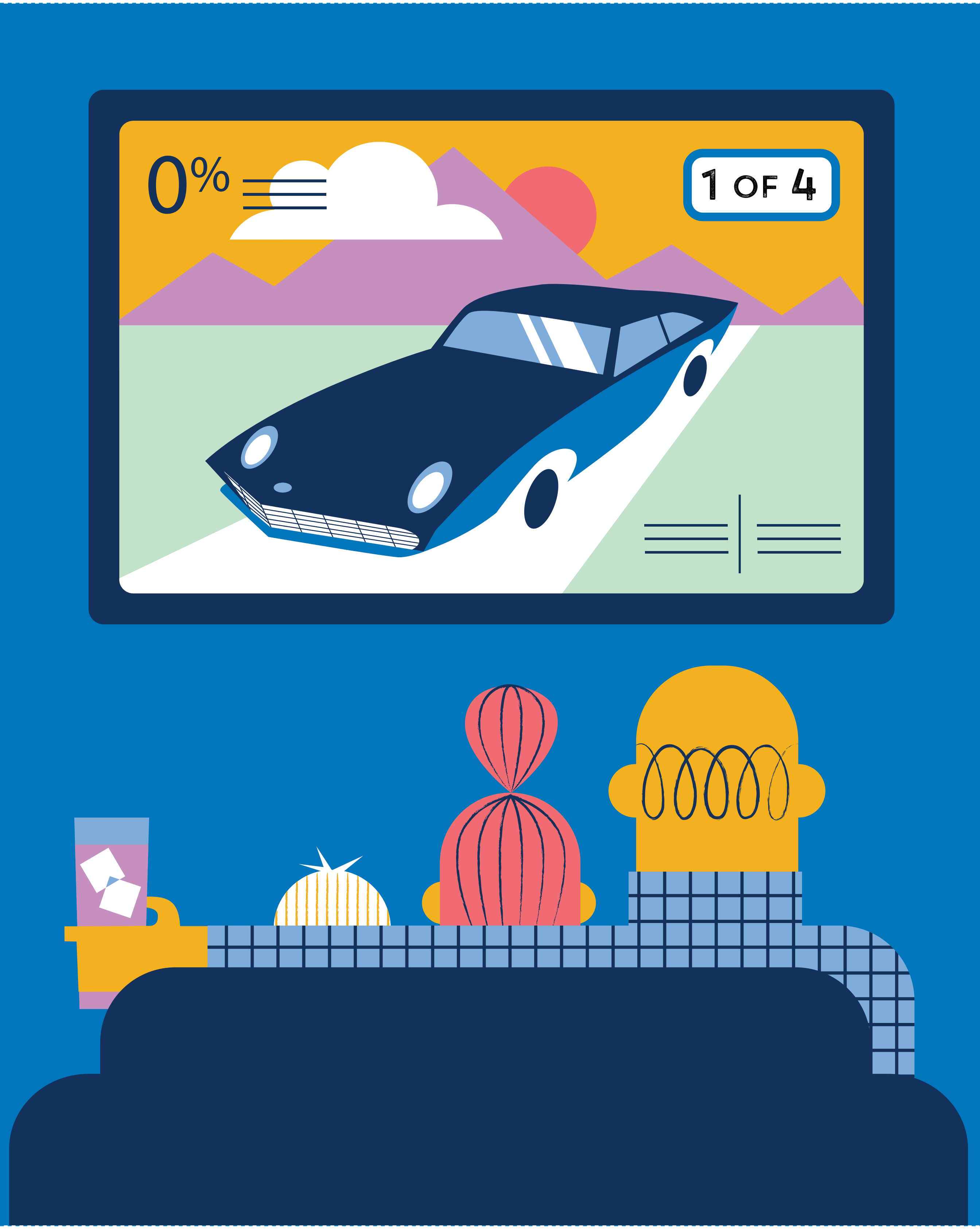
LIGHTENING THE LOAD



LIGHTENING THE LOAD

Viewers rarely complain about heavy video ad loads; they just vote with the remote. Ad loads are often regulated. Content quantity is not, however, and linear schedulers still like junctions at the top or bottom of the hour. US content cut for 40 minutes an hour leaves regulated foreign markets to fill in with on-air promotion. Viewers therefore self-regulate.

The US has witnessed pronounced, persistent replacement behavior with Netflix versus traditional TV.

A few countries – the UK, Austria, Japan – have popular ad-free terrestrial services. Most countries have pay TV, mostly with ads, but with ad-free havens and big EPGs to browse in overly long breaks. By mid-2018, Netflix was global and had more than 130 million homes, so presumably nearer to 500 million sign-ins. And no ads. Sky's Sky Q interface tempts users away from interruptive linear by prioritizing on-demand, possibly exacerbating ad cost inflation.

The US has witnessed pronounced, persistent replacement behavior with Netflix versus traditional TV. Aside from ad load, which in the US is unregulated, factors favoring Netflix include price, zero exit cost, HD as standard, and a sprawling back catalog.

In Europe, it is commonly assumed that Netflix (and Amazon Prime) complement more than substitute existing TV, but this needs scrutiny. In its June 2018 note "Letter from America," Morgan Stanley showed 20% Netflix penetration marked the peak of linear TV viewing in the US, which then decayed in near-perfect correlation to Netflix's rising penetration.

Netflix is reported to have passed 20% penetration in the UK, Germany and Sweden. Citing Ampere Analysis data, the report showed that in Netflix homes, UK linear viewing was 16% below the national average; in Sweden, 18%; and Germany, 30%. These homes may well already have been light linear viewers. If so, this linear loss rate could improve as Netflix penetration grows. But for now – this was Q1 2018 – all are well ahead of the 10% linear loss in the US, where Netflix reported 56 million members at midyear (representing roughly half of all US households). This is before considering other dynamic variables, such as the relative quality of competing content.

Where will this go? There are several ways to mitigate ad load: hybrid revenue, for example, or more addressable advertising to tame the diseconomies of broadcast campaigns – "waste" is too pejorative.

Another path is simply to reduce the load. Neither advertisers nor broadcasters seem willing to take the financial hit. In February 2018, NBC Universal announced its intention to reduce spot count by 20% in prime-time breaks ("pods") in original prime-time content (50+ titles across several of its own channels) starting Q4 2018, and to reduce by about 10% the amount of ad time in this content. In addition, it proposed enhancing going-in and going-out breaks by restricting them to two 30" spots, with artificial intelligence to help match execution to editorial. The effect was not dramatic.

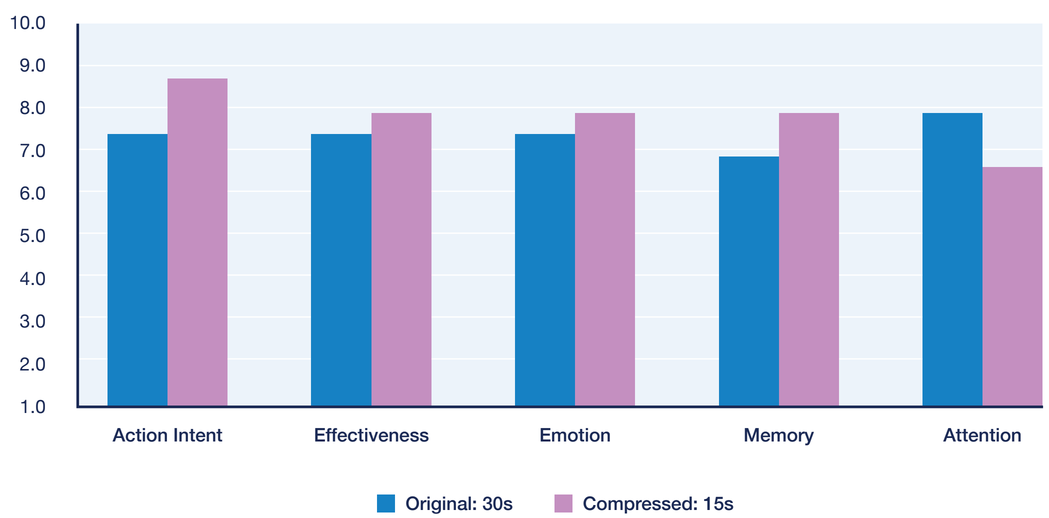
Other US broadcasters who have experimented with lower ad load or considered it include WarnerMedia's TNT, Viacom, and Fox. Meanwhile, total US ad load keeps rising.

Network Group	P18-49 C3 Commercial Share		Ad Loads (Minutes/Hr)	
	Aug 17	Aug 18	Aug 17	Aug 18
Grand Total	100.00%	100.00%	10.9	11.2
AETN	5.62%	5.60%	12.6	13.8
AMC	2.97%	3.25%	12.5	12.9
CBS	4.22%	4.35%	12.6	12.8
Discovery	12.46%	13.71%	11.0	11.7
Disney	7.36%	7.12%	7.6	8.0
Fox	7.37%	6.99%	10.6	10.6
NBCU	14.53%	13.94%	11.3	11.4
Viacom	17.25%	16.80%	14.7	14.9
Warner Media	12.59%	11.58%	9.1	8.9

Source: Pivotal Research analysis of Nielsen data

Shorter ads could help lighten the load. Japan's standard length has been 15" for decades. The average in Europe is 22". In the USA, 61% of ads were 30" in 2014, falling to 49% by the first half of 2017, while at the same time 15" copy rose from 29% to 36% and 10" from 2% to 5%. In June 2018, Nielsen published results from its "neurological ad compression" study of 80 US TV ad campaigns, finding 15" spots can work as well or better than 30" for certain messages and objectives.

Neurological ad compression results



Source: Nielsen Consumer Neuroscience Ad Compression study. Average results of 80 campaigns.

LIGHTENING THE LOAD

Nielsen recommends sticking to 30” for new, complicated messages or when seeking high awareness; 15” is recommended for simpler messages, familiar campaigns (e.g., already flighted six months), and generalized or top-up branding. This passes the test of reasonableness, but “generalized” is an important qualifier.

The digitization of video seems likely to accelerate any trend toward brevity.

Fox experimented with YouTube-style six-second ads in the 2016 Teen Choice Awards and with nine six-second spots in an NFL game on Thanksgiving 2017. AMC has put six-second bumpers at the front of “The Walking Dead.”

The digitization of video seems likely to accelerate any trend toward brevity, both for the imperative to make an impression in as few as two seconds and to remain in proportion to shorter-form content.

AND THEN THERE WERE THREE

AND THEN THERE WERE THREE

Amazon, Facebook and Google were explored in some detail in last year's reports as "challengers to TV's advertising crown." Facebook and Google have continued to grow apace, but not as fast as some expected in linear video. We add further commentary later and apologize to readers and the platforms alike if they change faster than we can get to print.

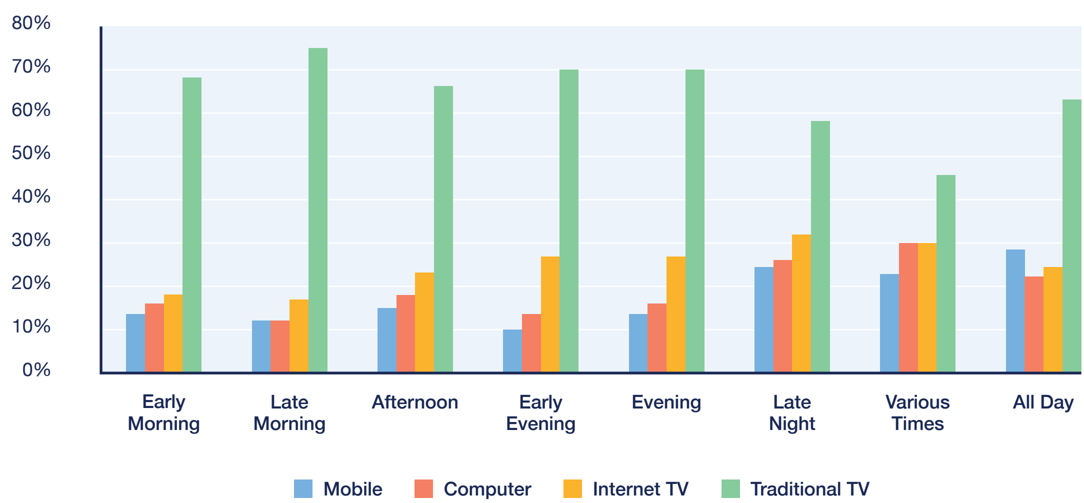
YouTube has forged ahead, driven not so much by the big brands still faithful to TV as by the mid- and long-tail. Facebook has a dual strategy for video. Facebook Watch, a year old in the US, is now available globally. There is no data available with respect to its scale or effectiveness from an advertising point of view.

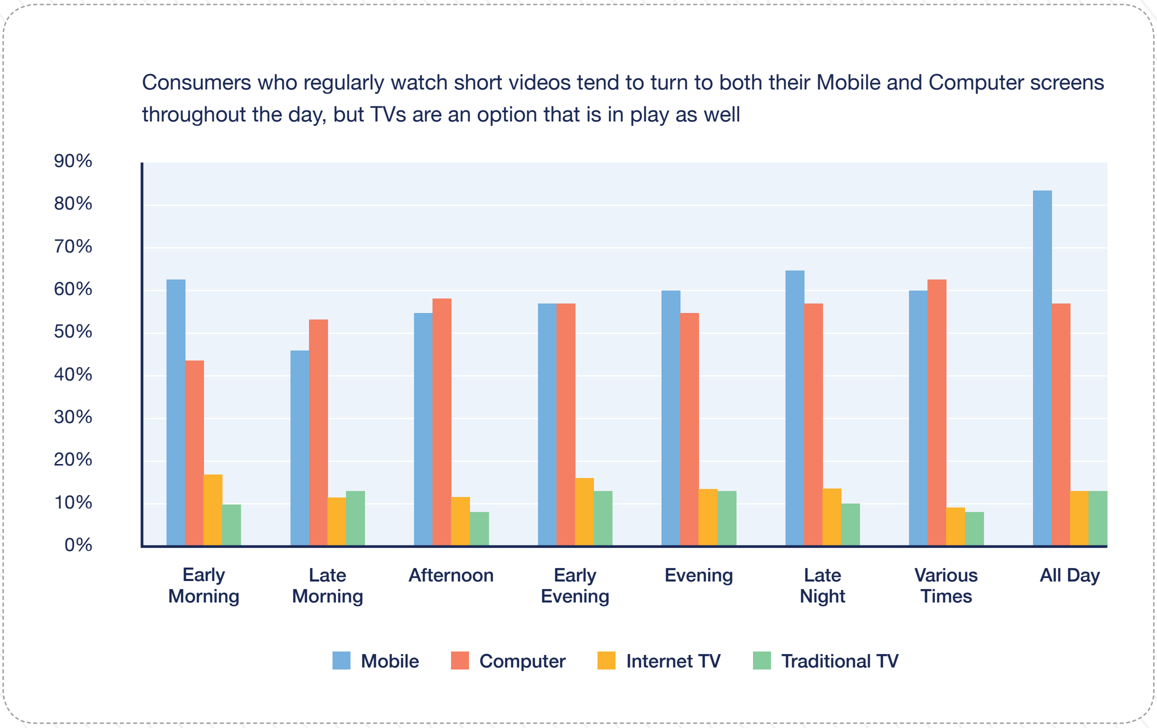
Our colleague, Stuart Bowden of Wavemaker, thinks the show "SKAM Austin" shows promise for its real-time, realistic, chaotic storytelling. It's certainly native to its environment and that's usually a good thing. Facebook has also launched IGTV on Instagram, a direct challenge to YouTube and likely Facebook's biggest opportunity to attack "traditional" video advertising investment. Its vertical format may even help Snapchat; advertisers like to amortize assets across platforms and channels.

As we predicted last year, Facebook, like Amazon, is becoming a player in the acquisition of sports rights. Both are taking relatively tentative steps given their economic ability to do otherwise. Amazon is assessing "conversion to Prime" as a key metric and dealing with the technical issues of mass streams of live sports. Facebook is dealing with related issues, most likely the value of sports on the platform to users, especially when they are not the "owners" of the best available screen.

For its February 2018 report, "Personal Prime Time," the US IAB investigated viewing patterns of various TV genres. For "TV shows/episodes," 84% chose the big screen (TV or connected TV), averaged across the whole day. For "short videos," 82% preferred mobile versus 26% to the big screen.

Traditional TV (including cable/satellite, broadcast, live or VOD/DVR) is still the main way the majority of people say they regularly watch shows/episodes, but significant audiences are regularly leveraging digital screens throughout the day as well





Amazon

Amazon has emerged as the most likely “third force.” In 2018, its revenues from advertising in all forms will likely exceed $10 billion.

The “total addressable market” of trade marketing investment can only be estimated in scale of magnitude. If we suppose CPG is a quarter of measured media advertising investment ($140 billion) and that CPGs spend three times as much in trade marketing as they do in media advertising, then global trade marketing could be $420 billion. For scale, an independent estimate of US trade spending is $180 billion. This would appear to be Amazon’s opportunity.

Amazon sells advertising on its owned and operated properties. In so doing, it competes with Google and Facebook in converting demand. It additionally sells advertising on properties owned by others, betting that its purchase data can make it the strongest bidder to third parties. In any form of exchange or auction, it’s logical that the buyer that creates the most value for itself from the transaction will also create the most value for the seller. Here we review Amazon’s increasingly varied portfolio of ad products, prior to a specific discussion of Amazon Prime Video, which has altogether different implications for the video industry.

Sponsored Products and Sponsored Brands (formerly Amazon Marketing Services - AMS). This performance-minded option offers advertisers keyword-targeted positions and sponsored ads in Amazon real estate designed to increase traffic to Amazon product pages (which have no competitive paid advertising). This is only available via self-service. “Sellers” (third-party marketplace) and “vendors” (wholesalers to Amazon) can both use sponsored ads (described on next page), but vendors have more

The Amazon advertising suite is not just for pure branding so much as to sustain awareness over time through retargeting.

options for what consumers are known to pay attention to, such as creating enhanced content for product detail pages, promotions such as Subscribe & Save, and advance reviews on Amazon Vine.

Also available through Amazon advertising is **Amazon DSP** (formerly Amazon Advertising Platform - AAP). This is a demand-side platform that serves display ads programmatically to the Amazon estate and to Amazon-defined audiences arising on premium third-party sites and open exchange inventory. Formats can be full screen, standard sizes or video. They can link to user reviews and include an Add to Cart button. DSP Mobile serves onto premium apps on Android, Kindle Fire and iOS.

Amazon Advertising encompasses tools for buying, search, and display formats.

Though grouped under the one brand, these are separate systems operating independently of each other.

Sponsored Ads and Sponsored Brands cover cost-per-click display ads and analytics across the Amazon owned and operated estate (Amazon.com, IMDb, Digital Photography Review, Kindle, Echo, Fire tablet and Fire TV). Ad formats include static, video, tablet lock screens, the top of the Fire TV home screen, custom ad units and voice.

The Amazon advertising suite is not just for pure branding so much as to sustain awareness over time through retargeting. In e-commerce, the user experience of media and transaction is complex. Brands might see Amazon Advertising analytics as a retail health check helping attribute the contributions made by assets such as product detail pages, third-party placements, and stock availability. Amazon is not geared up to offer much media management and prefers to sell inventory in bundles and with minimum investment thresholds, with behavioral data for the advertiser to pick apart.

Advertiser Audiences (first-party data onboarding) are advertisers' customer lists matched with Amazon customers. This is a free add-on to Amazon ad campaigns. Amazon can amplify the campaign to look-alikes if required, or to audiences excluding those on the hashed list. Advertisers do not have to sell their wares through Amazon.

August 2018 brought news that Amazon was allowing certain sellers to test its Amazon Analytics Pixel, which captures data points such as page views, purchase rate and sales on non-Amazon display, search or video placements, to reveal, among other things, how Amazon-powered placement performs relative to the likes of Facebook and Google.

In the second half of 2018, reports were emerging about Amazon's planned ad-funded free video service, reportedly called Free Dive, on its Fire TV dongle. This is likened to Roku's free recruiting sergeant Roku Channel. Ad sales arrangements are yet unconfirmed but could combine order-insertion with automated placement to exploit Amazon's data but avoid brand clashes in ad breaks. Audience measurement is also unknown.

Amazon video - the new Prime time, but not for advertisers

Amazon Prime is almost entirely free of spot advertising, but Amazon does offer ad inventory in Twitch and IMDb, as well as natural breaks in NFL games on Prime in the US and on its website and app. Not all is available on the self-serve DSP. Video advertising is scarce, so Amazon Prime should not be viewed as a significant competitor in the supply of ad inventory. Consequently perhaps, tools for optimizing and reporting lag behind what is available for Amazon's non-video formats.

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Prime Video is a subscriber acquisition business that thrives on hits and buzz. The business of ad-supported video is in contrast consistent reach that turns viewers into shoppers and thus takes share from Google, Facebook and trade marketing.

Amazon Channels, a feature of Prime Video, is a cord-cutter's portal to largely ad-free subscription channels such as HBO and Showtime, latterly with the ad-supported hybrid CBS All Access. It makes a material contribution to subscriber numbers for most services and has low churn. In contrast to the deep vertical libraries, of say, Hulu or Netflix, Amazon Channels is in effect a Build-A-Bear EPG. Amazon Channels' Europe bouquet includes ad-funded services such as Discovery and Eurosport.

According to a 2018 Citi survey of US customers, Prime Video was the most-used Prime benefit (67% of Prime subscribers). It found 76% of Prime homes subscribed to Netflix, but only 10% to Hulu and other SVOD services. It is therefore possible that US Prime households are "self-regulating" a large amount of interruptive TV advertising out of their lives. Nielsen records end-of-August US household penetration as Netflix 59% (70 million, +10% vs. prior year period); Prime Video 41% (41 million, +23%); and Hulu 20% (23 million, +37%).

Amazon Prime, Netflix and Hulu are often portrayed as similar, but they have fundamental differences. Netflix is a distribution platform for original and licensed content. Hulu is a hybrid of live, catch-up and skinny bundle. Amazon Prime is part Netflix and part portal to most other premium TV (notably excepting Netflix Originals and Hulu Originals).

Finally, a word on Twitch. In January 2018, the average Twitch audience was 962,000, comparable to CNN, MSNBC, ESPN and Fox News. At the same time, Twitch claimed "two million plus" people broadcasting on Twitch at least monthly. The platform is expanded beyond its gaming origins and it, along with Instagram's IGTV, may at last, provide a challenger – not to TV, but to the short-form dominance of YouTube.

In August 2018, WARC and SuperData estimated there were 843 million gaming video viewers worldwide, of which 545 million watched on YouTube – so about a quarter of all YouTube users – and 249 million on Amazon's Twitch (with duplication). SuperData estimates attributable advertising revenue at $2.6 billion.

Newzoo estimated brand investment (sponsorship and advertising) to eSports at $518 million in 2017. MTG, which owns the ESL eSports brand, estimated the 2017 eSports audience at 386m o/w 80% 18-34 and 80% male, with female spikes in some games.

Facebook - the arrival of Watch and IGTV and the pursuit of sports

Viewing of original "made for Facebook" video comprises a small minority of users' time with Facebook. For advertisers it is incremental, and for Facebook, expensive, as it invests in infrastructure, management and content. Executives at legacy media companies may look on with grim satisfaction as Facebook faces heavy investments in professional content, rising compliance costs, and as user growth slows. This would, however, underestimate Facebook's long-term prioritization of quality over quantity: "time well spent." In the immediate term Facebook's ad business appears stable if not invulnerable, and while the millions of long-tail advertisers extract results from more than a billion users, it will prosper.

Key to that prosperity is Instagram. It reached a billion active monthly users in June 2018, with some predicting this will double in five years, in contrast to core Facebook's shrinkage in the US. Daily average dwell-time per user on Facebook, Instagram and Snapchat seems to be roughly equal.

In July, Facebook said Instagram now has 25 million business profiles, of which two million are advertisers (a tenfold increase since March 2016), and that four out of five Instagram users follow at least one business. The company had previously noted the customer-acquisition potential residing in the finding that two-thirds of visitors to business profiles were from non-followers.

The e-commerce potential is plain. Shoppable, organic brand/business posts with up to five tappable tags arrived in March 2018. In

September, reports emerged of an Instagram shopping app. In June 2018 it launched IGTV, which runs longer-form (60" plus) user-generated full-screen vertical video in its own app, or from a button in the Instagram app or website. It has no ads – yet.

Instagram Stories had 300 million daily average users in May 2018. In April, Facebook said 60% of its ads were viewed with sound on.

Facebook Watch – for premium publisher and other original programming (i.e., 16:9 aspect ratio) – is watched horizontally, so ads should match. Ad breaks were available in 26 countries at the time of writing, with more coming on stream all the time. Its video inventory is currently sold only as a package with News Feed video, so advertisers cannot toggle-optimize between the two. Relative to Facebook's own enormous numbers, the user base is small. In its most recent public statements, Facebook reported 50 million 60" + MAUs in March 2018. This means that two percent of its universe of users reach the 60" point of a Facebook Watch video. This is relevant, as an ad is not allowed to interrupt a video prior to that point. Facebook has previously said videos should be at least three minutes to qualify for mid-roll ads. If average dwell-time is closer to 60", short ads would seem to be the order of the day.

With interruptive video (as opposed to in-feed), brand safety issues are certain to arise for both Watch and IGTV. The former would seem easier to police than the latter. Brand safety controls are currently only manual (to exclude certain subject categories or to blacklist specific sites). Already the issue of inappropriate video recommendation, a long-term challenge for YouTube, has surfaced at IGTV. Facebook is currently considering allowing third-party automation using tools such as IAS or DoubleVerify.

As we have noted before, CPM billing occurs as soon as one pixel is in view. The audience type is not guaranteed, but Facebook has a reputation for reliable selection. Anecdotal evidence supports Facebook's claim of 70%+ completion for mid-roll up to 15". That is a big improvement on the more ephemeral News Feed, but there's not enough of it to move a campaign average much. Advertisers opting to pay cost-per-view will pay a premium and be billed at 10 seconds, without regard to the amount of the ad in view, so this makes the most sense for more persistent audiences. Watch sells in-stream static ads too, which appear below the editorial content.

After initial quality problems and consequent viewer and advertiser indifference, Facebook is still refining Watch to find the right balance of content supply, user demand and ad load, performance and safety. More control, higher quality and longer content will take Watch nearer to the TV-like environment it aspires to be, but may also take it nearer to the TV-like cost base Facebook wished to avoid back in

After initial quality problems and consequent viewer and advertiser indifference, Facebook is still refining Watch to find the right balance of content supply, user demand and ad load, performance and safety.

There are no infrastructure-related barriers to market entry for OTT businesses with access to funds to license content and pay for bandwidth.

2017, when it envisaged content would self-fund on a 45% revenue share to creators.

Facebook Stories launched in March 2017. These are pods of perishable, camera-generated user content uploaded to a section at the top of a user's News Feed, which can be sent to appear in Timeline or News Feed if desired. Each pod is addressable to one or many sharers and expires after 24 hours. "Direct sharing" extends only to specified people and expires when any consequent conversation ends. Users are shifting from main Facebook, where ad load is higher, to Stories, where it is lower. This creates a potential price inflation problem for advertisers, especially if these are premium, pedigree social users. We might expect Facebook to raise the load as advertiser demand picks up. On its July earnings call, Facebook cited lower monetization of Stories as one of three reasons revenue growth could decelerate, suggesting Stories' audience and advertiser performance are a management priority.

In our last edition, we commented on Facebook's first forays into acquiring sports rights. Following 2017's non-exclusive deal to show MLB games, in April 2018 Facebook Watch (US) started carrying 25 exclusive games weekly, also shown in the rest of the world on the MLB Live page.

In August, Facebook announced it had the rights to show three seasons of Spain's top-flight La Liga soccer in the eight countries comprising the Indian subcontinent. This deal starts with the present season.

On the great battle field for sports video, these represent minor skirmishes. It's not just Facebook and Amazon competing for rights with incumbent sports programmers. Perform subsidiary DAZN is accumulating a significant portfolio of territory rights in sports as diverse as soccer, boxing, rugby, tennis and the NFL. This patchwork is interesting, as it illustrates that there are no infrastructure-related barriers to market entry for OTT businesses with access to funds to license content and pay for bandwidth.

YouTube

It is unusual to find a market characterized by a dominant distributor and massive fragmentation of suppliers so disparate that none has a market share of individual economic significance to the distributor. Such is the case with YouTube.

As Amazon is the "Everything Store" (you can find anything there), YouTube is its video analog. Almost all producers of professional video content distribute on YouTube in some form, most often clips intended to generate traffic and make a few dollars from YouTube on the way through. However, it is the tens of thousands of nontraditional premium producers bundled into channels that provide the volume of audience that has been embraced to varying degrees by major advertisers.

YouTube's usage follows the distribution and penetration of both devices and bandwidth. The company's own data for 2017 suggest mobile handsets represent over 70% of YouTube's global watch time. Smaller screens are far less of a compromised user experience for short-form viewing. The same pattern is reflected in the usage of China's massive mobile video services.

No professional content producer has yet created a large, dedicated short-form business. AwesomenessTV attempted it but found itself sold for parts to Viacom in recent months. NewTV (sharing a founder with AwesomenessTV) is the latest to express this ambition via an alliance of Hollywood studios and the UK's ITV. The EU does not like European broadcasters combining.

However, according to YouTube's Neal Mohan, the big screen is YouTube's fastest growing, albeit from a small base. In April, it was reported that premium service YouTube TV was available in 85% of US TV households, and that the main screen was showing 70% of total YouTube TV hours. With YouTube buttons becoming standard on TV remotes, by mid-2018, core YouTube's 1.9 billion users were watching 180 million hours of content on CTV daily, up from 100 million at the start of the year. Just when the market thinks that Google will fall foul of the law of big numbers, it doesn't.

In April, it was reported that premium service YouTube TV was available in 85% of US TV households, and that the main screen was showing 70% of total YouTube TV hours.

In an interesting advertising development, Google is taking aim at audiences increasingly disengaged with "traditional" linear TV. YouTube will offer a new AdWords segment, "light viewers," and CTV screens will be sold stand-alone on DoubleClick Bid Manager and AdWords. Nielsen defines "light" as the lowest third by average minutes viewed, and over half of US 18-49s fall into this third. YouTube reaches 90% of them.

YouTube TV launched in April 2017; by mid-2018, 70% of YouTube TV hours were consumed on the main screen. Compounding the effect (and supercharging incremental reach for advertisers), light viewers are also more likely to be what Turner Ad Lab calls "ad rejecters" (43% of 18-24s, vs. only 23% "ad accepters"; and conversely, 58% of 45-54s are accepters and only 18% rejecters).

TrueView for Reach is a CPM variant of YouTube's skippable ad pre-roll intended to build incremental reach. It is cheaper than standard TrueView, but the advertiser carries the skip risk.

AND FINALLY...

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Digital video completion rates are poor in social media feeds. Performance advertisers can control problems like this because they can reconcile cost to value. This is not easy for brand advertisers with less tangible, more abstract objectives.

Brand advertisers therefore have an incentive to use shorter time-lengths or switch to performance – but we do not see much evidence of either happening. This is despite our advocating "effective" CPMs, that is, attaching no value to substandard impressions. This reveals the true cost of branding on these media by holding them to something more like the standards advertisers expect on linear TV. However, if brand advertisers really are raising performance and lowering brand in their marketing mix, they are placing an ever-bigger bet on performance. The financial crisis showed what can happen when you lose track of risk in the search for yield.

It is uncommon for feed users to watch all of a 30-second or even 15-second ad. The effective cost of capturing such views is therefore tens or even hundreds of times more expensive than TV. In the vendor worldview, the fault lies with advertisers' truculent reluctance to use six- or even two-second copy.

Many brands persist with digital video and put up with its obvious risks. One reason may be that digital safely delivers old-school reach-and-frequency curves – if you aren't too fussy about details. Another is probably because convenience trumps performance. Social media are evidently too big, and their CPMs too superficially cheap, to fail. They are ubiquitous and consistent. They offer easy penetration, profile, and price, as well as copy standards, self-service and dazzling targetability (albeit landing light punches). There are few, if any, alternatives.

Compare this to buying TV, where every sales point in every country generates an invoice, and behind every invoice is often a complicated deal comprising commitments, penalties and incentives. Even while its audience shrinks, ages and atomizes, TV remains outstandingly safe and effective. But this is evidently enough only to sustain present levels of TV investment, at best. It is hard to imagine how TV will ever grow its share of advertising investment again.

GroupM constantly tests advertising hypotheses around the world. The notes that follow summarize one that has resonated across markets.

Where should you show which video assets? Lessons from a 2018 GroupM Asia-Pacific study conducted with Millward Brown.

One of many such routine exercises, this study pursued the idea that video can help harvest demand as well as create it. In-feed video views are notoriously short – vendors would have us optimize to three

Even while its audience shrinks, ages and atomizes, TV remains outstandingly safe and effective.

AND FINALLY…

seconds – but advertisers have good reason to continue flighting longer copy into vendor systems. Duration matters – a lot.

For the purposes of this study, we defined 1- to 10-second copy as "short," and 16+ seconds as "long." The study found long works appreciably better than short at the top of the funnel, generating more unaided awareness than both short form and non-video. In this instance, a third more.

The jury is still out on the ability of the giant platforms to deliver on long-duration ad experiences at enormous scale.

Towards the bottom, longer video can cement purchase intent better than shorter or non-video: Here, it was twice as effective. At this point, we should note "funnel" is just a convenient metaphor: Wavemaker's "Momentum" model depicts instead a virtuous circuit of awareness and satisfaction.

We used DoubleVerify or Moat to certify viewability. In terms of viewability-per-dollar, Facebook's fortunes characterized the results most clearly. It was easily the cheapest for the very shortest exposures. At 2-seconds, YouTube became more cost-effective. From 5-seconds, Facebook's effective price became a rising multiple of cheaper alternatives.

If an expensive venue still adds essential reach, it is a hard choice to drop it from a campaign schedule. The recommendations from this study are therefore not to exclude but cascade from the best value to the least, according to copy duration (if this is what matters), and adding only what you need from successively more expensive vendors. In practice, this cascade is of course likely to include local inventory sources. Another recommendation is to consider using your best-performing short-form sites (here, Facebook) to drive your static ads, too.

This exercise was in the one dimension of optimizing for viewability value. In the real world, other vectors matter. Facebook's superior targeting might easily make it a contender for a 2-second value. Every platform has potential benefits to be weighed, from insight generation to brand lift to brand safety. Numbers don't lie, but they can't do your thinking for you, either.

The jury is still out on the ability of the giant platforms to deliver on long-duration ad experiences at enormous scale. That's what made TV the Rolex of half a century or more: Long-form content framing long-form ads.

The platforms know advertisers value adjacency to professionally-generated content. Snapchat's Discover and Facebook's Watch offer this; Google Preferred often does; Amazon has made baby steps, but Prime is staying ad-free. Watch, US-only from August 2017 and global a year later, has struggled. It is highly automated, which can lead to clunky ad placement, but this is fixable.

AND FINALLY...

We have long been excited about the potential for Amazon video to complement its proven strengths in product search and e-commerce. It's sparing with ads on Prime to preserve its user experience, but may develop free and themed channels where advertising sits more naturally. Expanding advertising, however, is probably not Amazon's highest priority. In the UK we have been waiting a year to hear how advertisers might participate in its Premier League coverage. In June, Amazon announced plans to allow other channels onto Fire TV (and, we optimistically infer, leverage Amazon data).

As we write, ad-supported long-form programming remains the preserve of less fashionable market participants. By next year it may be different.

Around the world, a few things are certain:

- Linear viewing of ad-supported TV is not going to grow.
- The economics of ad-funded OTT are questionable.
- Subscription fatigue is inevitable.
- Advertisers will, as we have said for some time, get used to making video that is relevant to the user and the platform use case. This is essential if they are to benefit from a data-rich, multi-platform world.
- It is only going to get harder to get audiences to sit through interruptive ads.

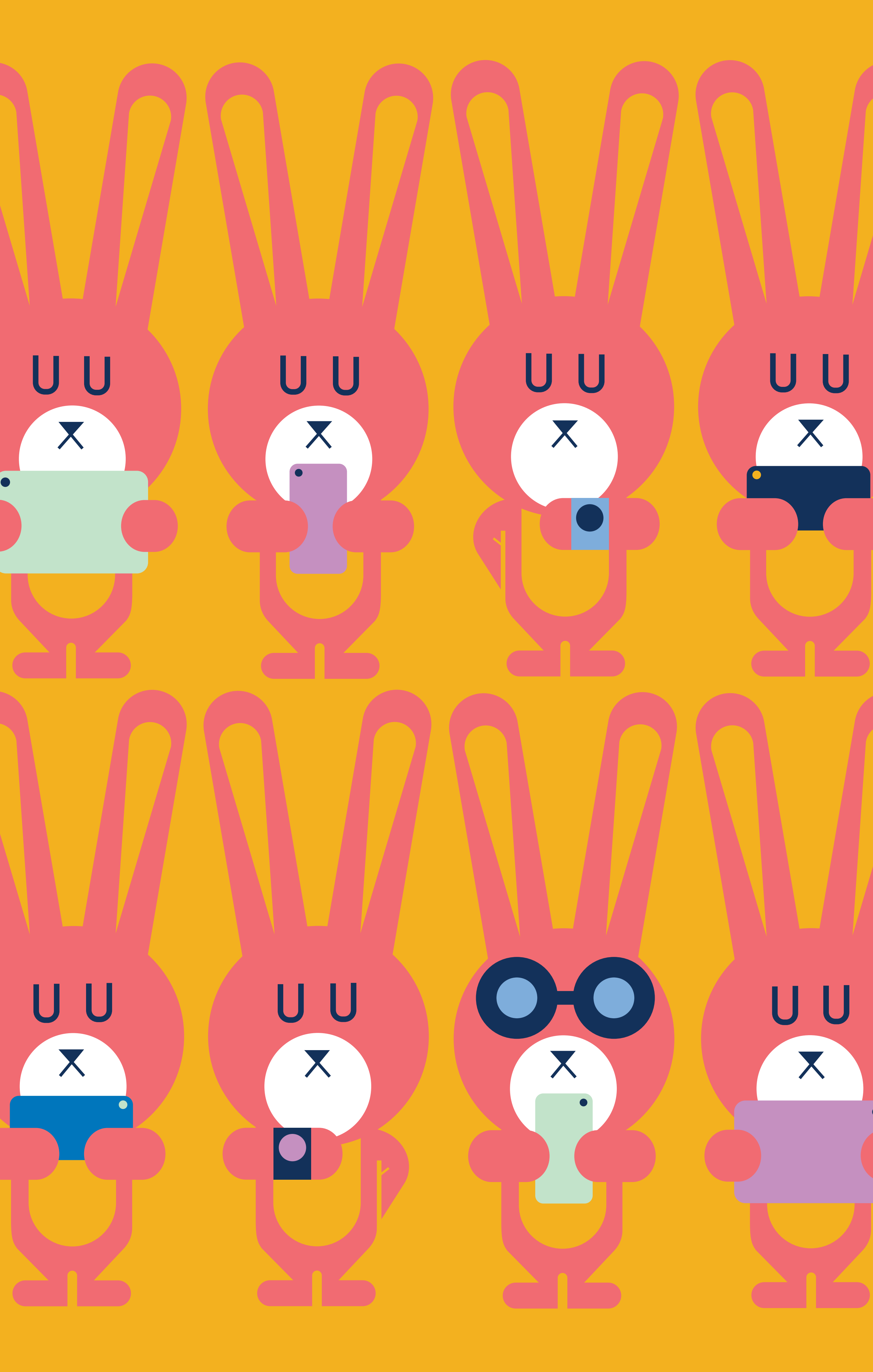
Video (television particularly), is overly associated with top-of-the-funnel, "faith-based" marketing that contrasts with fact-based alternatives in digital environments. As data becomes applied to TV in its linear, OTT, VOD and addressable manifestations, the "fact gap" narrows.

As data becomes applied to TV in its linear, OTT, VOD and addressable manifestations, the "fact gap" narrows.

Perhaps it's better to get back to basics. The purpose of advertising is to create demand and then harvest it. All channels have the potential to contribute to both. They do that best when they create a great user experience for both viewers (users) and advertisers.

As markets have become fractured, too much time has been spent in pursuit of single-channel metrics ("my search budget performed better than your programmatic spend"), and not enough time has been focused on cross-channel allocation, optimization and attribution. This is the only way the market stands a chance of correcting the interruptive deficit.

The marketer's incentive is to make more money by selling more stuff more efficiently. That's a holistic goal requiring holistic strategies and tactics. This is where media agencies continue to deliver value to their clients.



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GroupM colleagues from around world make these reports possible; many will recognize their own words. We thank them, and we thank all who proofread, produced and distributed the final version. We hope readers find a mix of interest and provocation and continue to engage us in a healthy debate about the future of video advertising, which is the mainstay of advertising's past and present. Please address any queries to:

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