

ENDERS|ANALYSIS

TV advertising recovery – how far and how sustainable?

ASI European TV symposium 2010

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5th November 2010

- 1. European overview: 2000-2009**

2. The Big Five TV markets
3. UK structural change: Past, present and future
4. UK and ROI hyper-cyclical swings
5. Conclusions

European overview: 2000-2009

- Strong similarities, but also major differences between Western and Central/Eastern countries

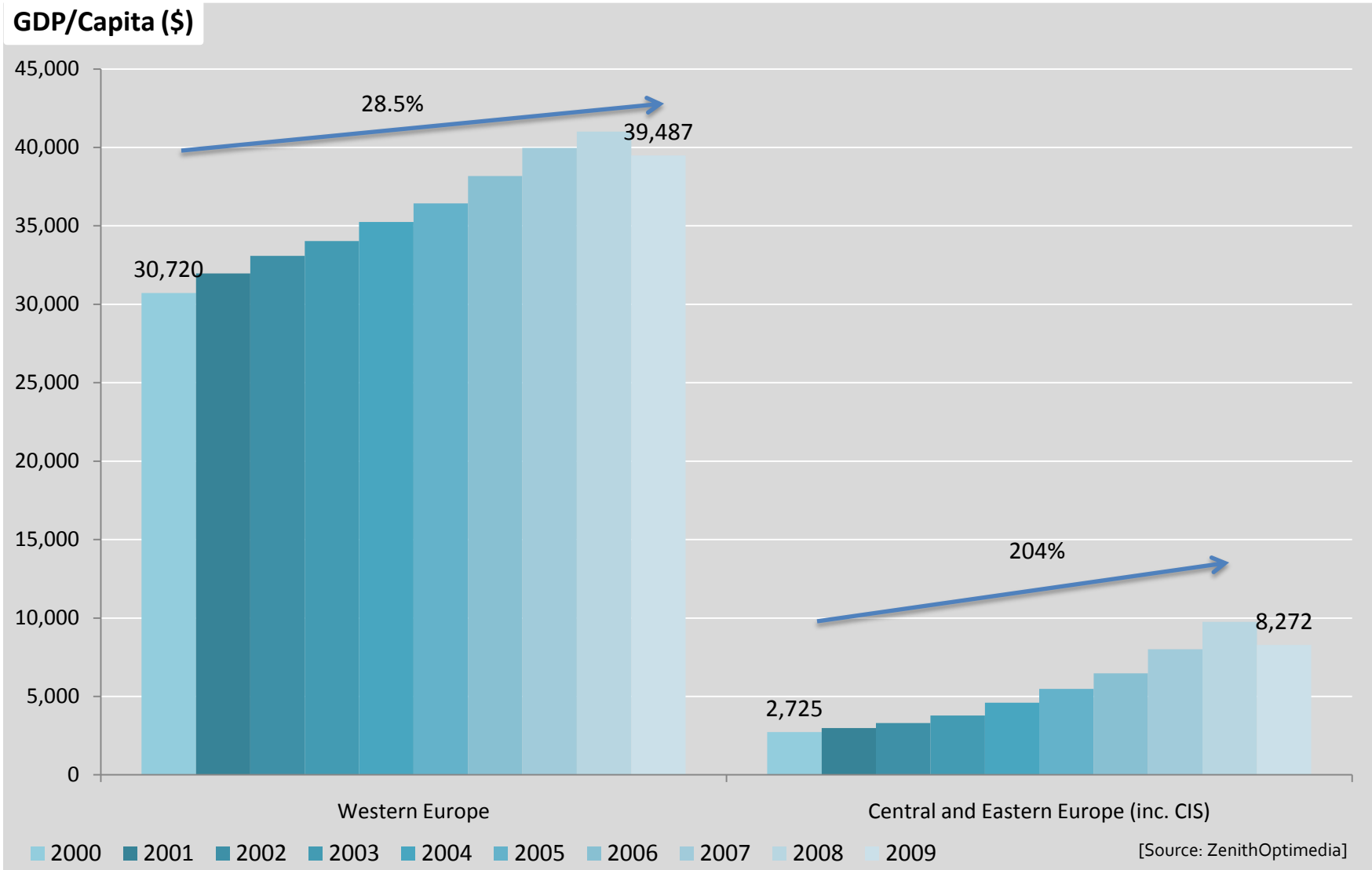
Similarities

- Steady GDP growth before the recession in 2008/2009
- Similar absolute growth in GDP per capita
- Strong multichannel growth across whole of Europe
- Strong increase in online share, chiefly at expense of print

Differences

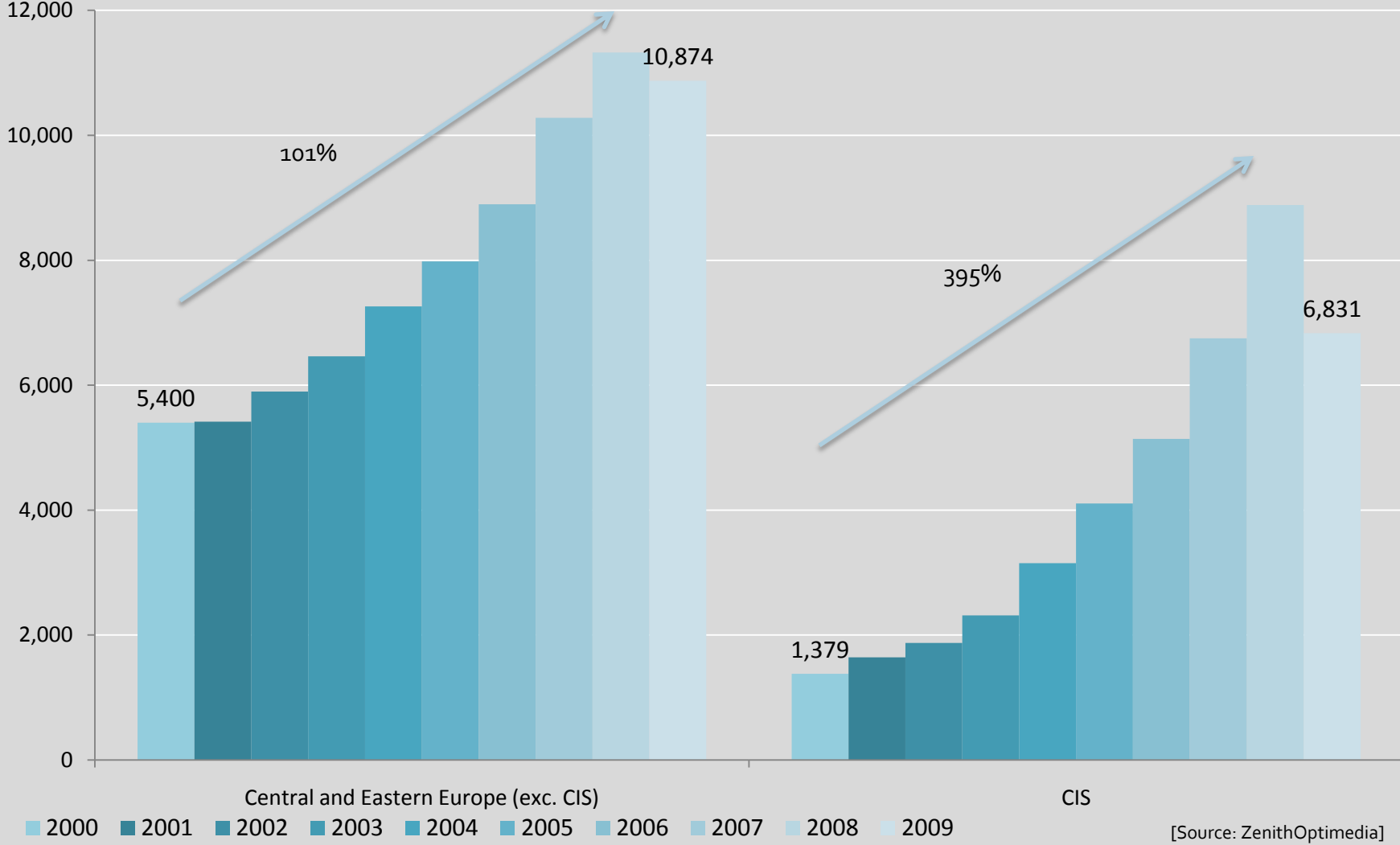
- Much faster relative GDP per capita growth in Central/Eastern Europe
- Static advertising growth in the West, but matching GDP per capita growth in the centre and East
- Within Central and Eastern Europe further differences between CIS countries (especially Russia) and remainder

European overview: GDP per capita (1)



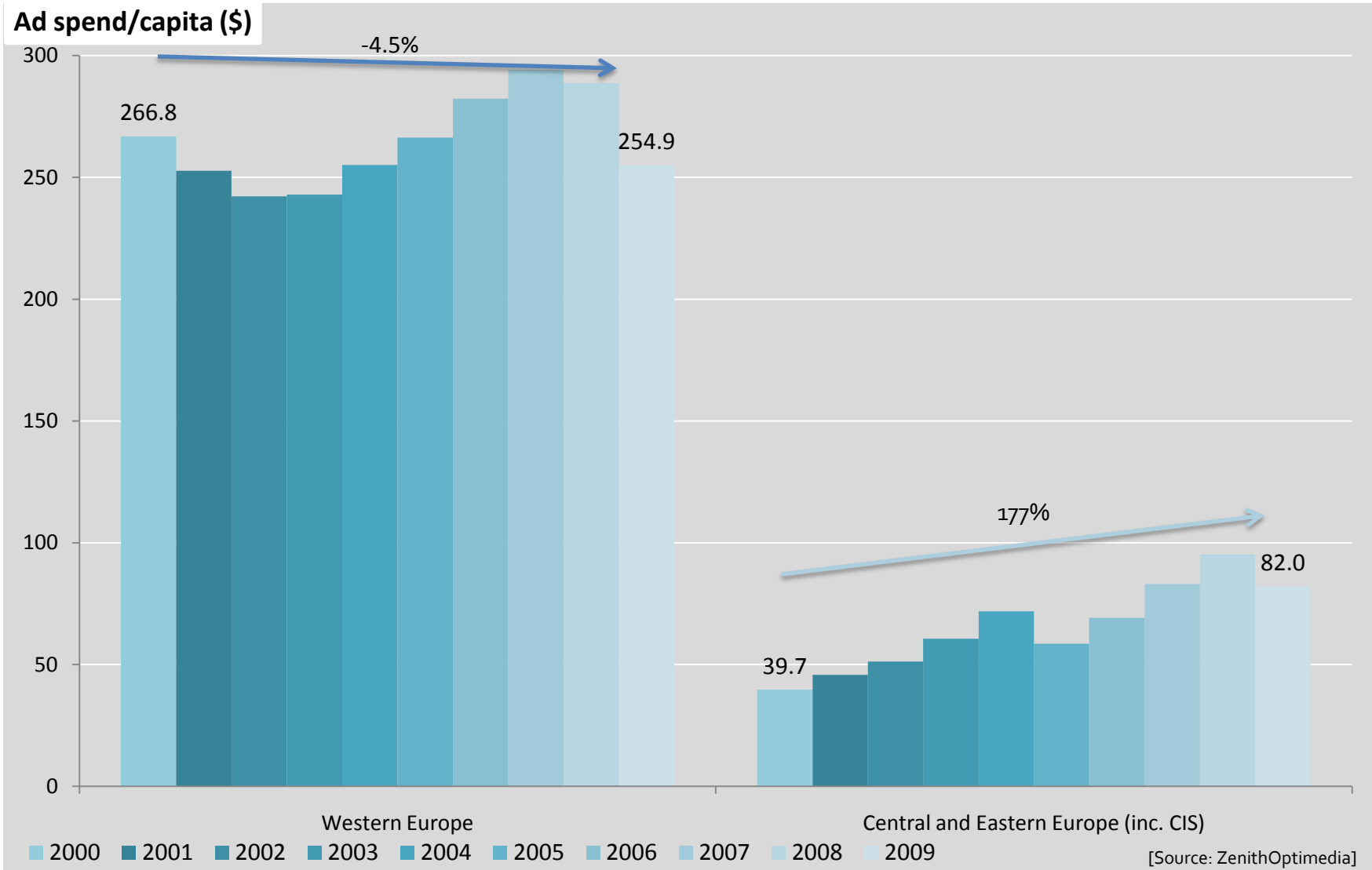
European overview: GDP per capita (2)

GDP/capita (\$)

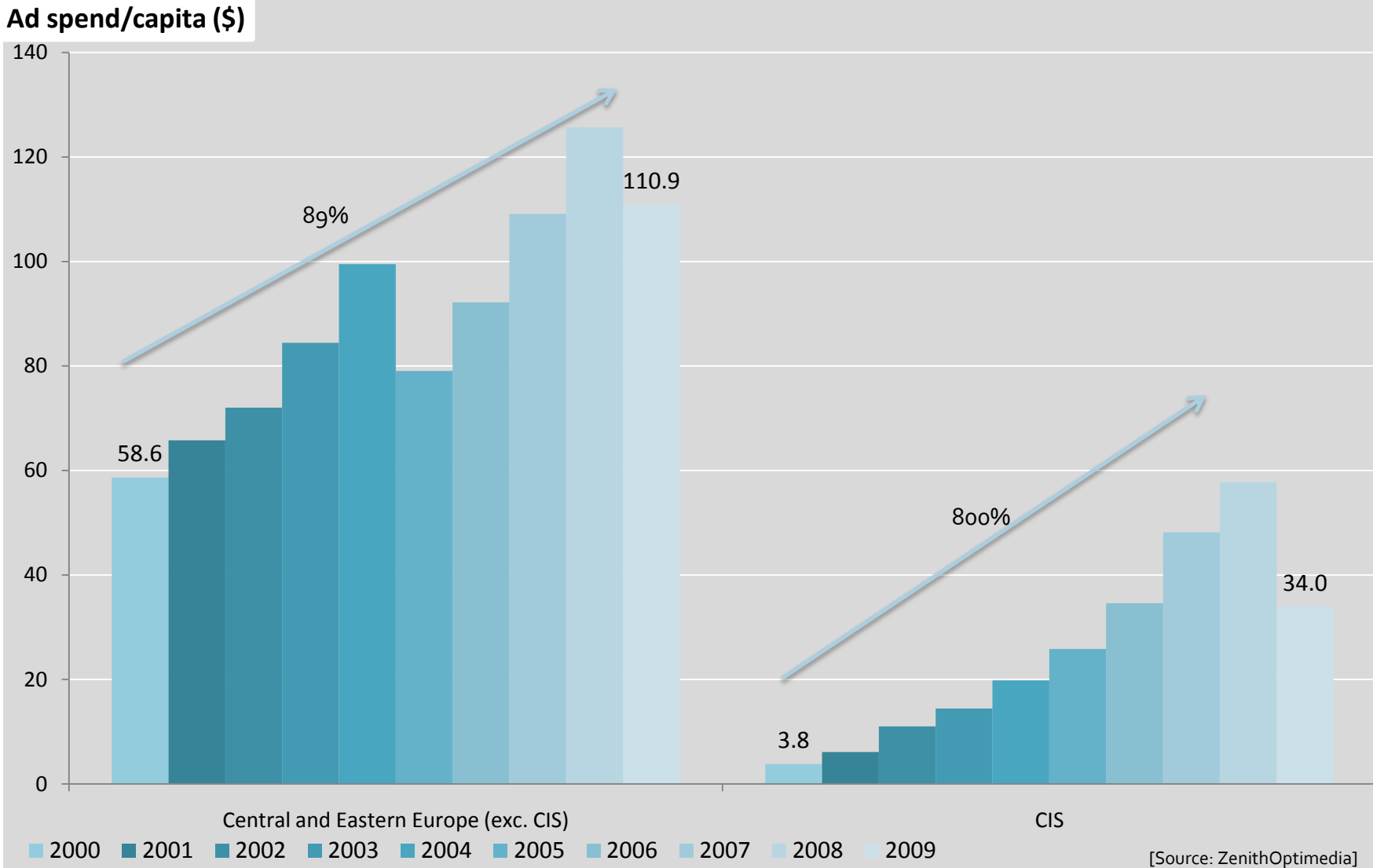


[Source: ZenithOptimedia]

European overview: Advertising spend per capita (1)

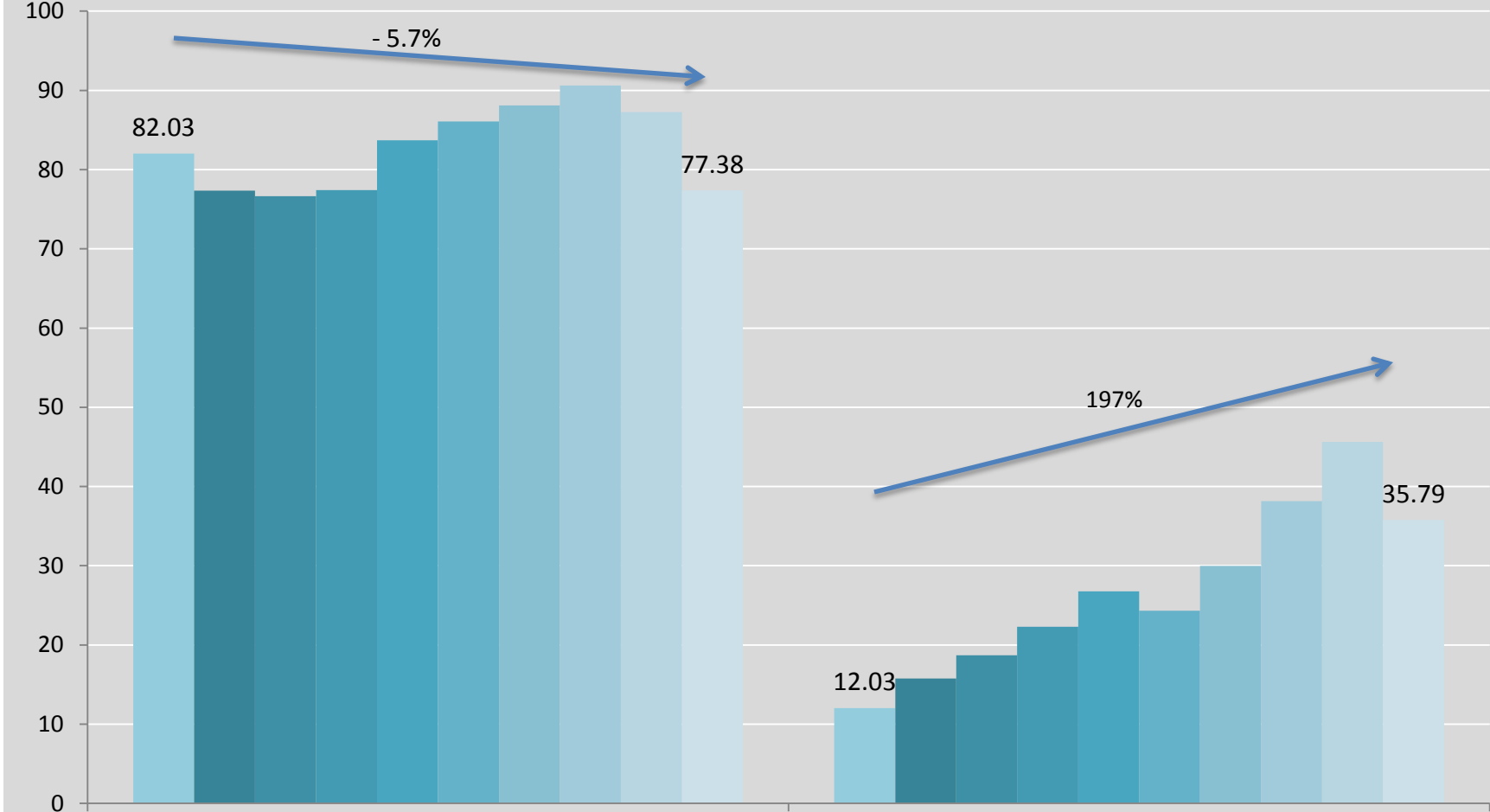


European overview: Advertising spend per capita (2)



European overview: TV advertising spend per capita

TV ad spend/capita (\$)

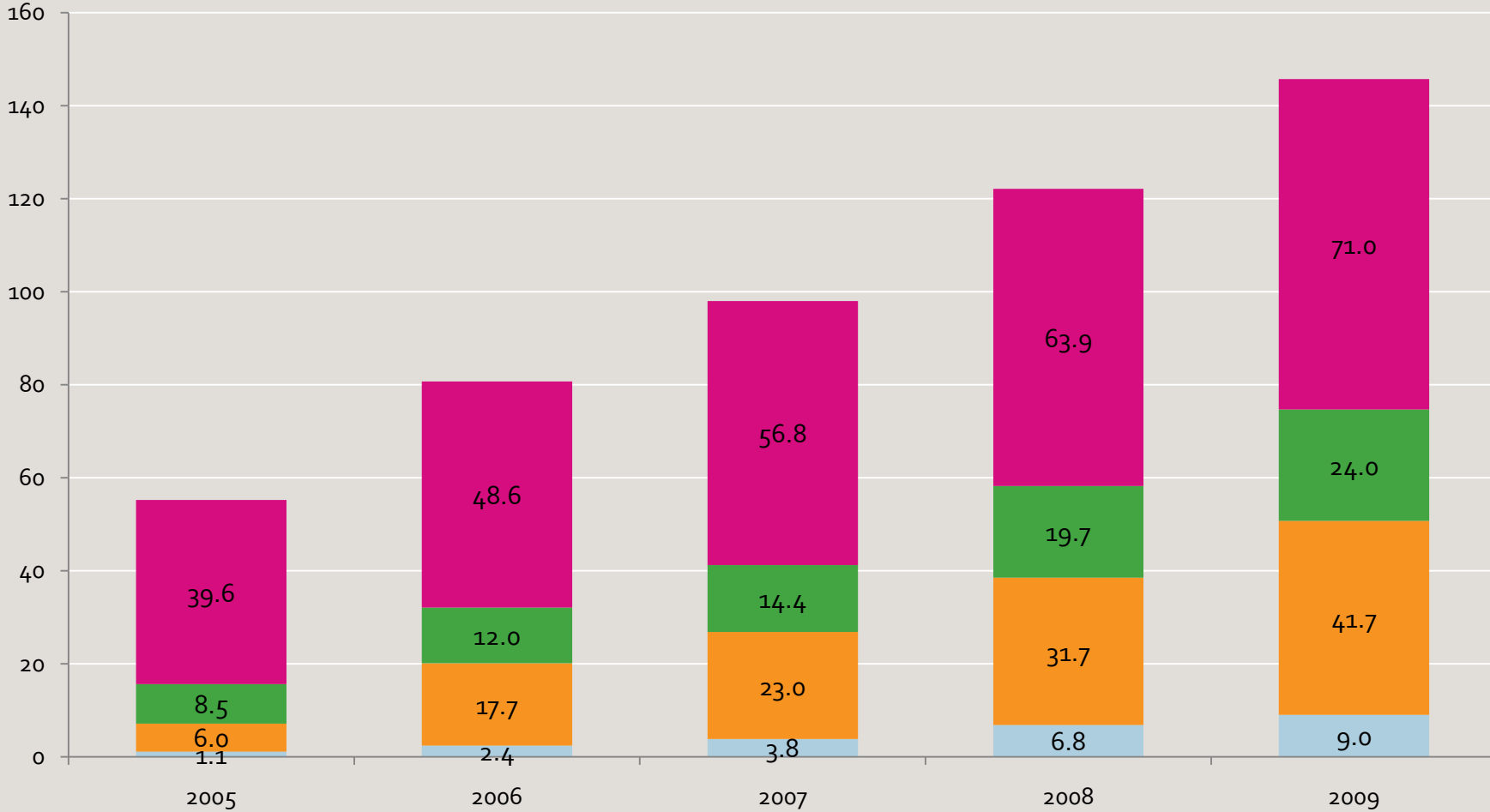


Legend: 2000 (lightest blue), 2001 (dark blue), 2002 (medium-dark blue), 2003 (medium blue), 2004 (medium-light blue), 2005 (light blue), 2006 (very light blue), 2007 (lightest blue), 2008 (lightest blue), 2009 (lightest blue)

[Source: ZenithOptimedia]

European overview: 60% now digital multichannel

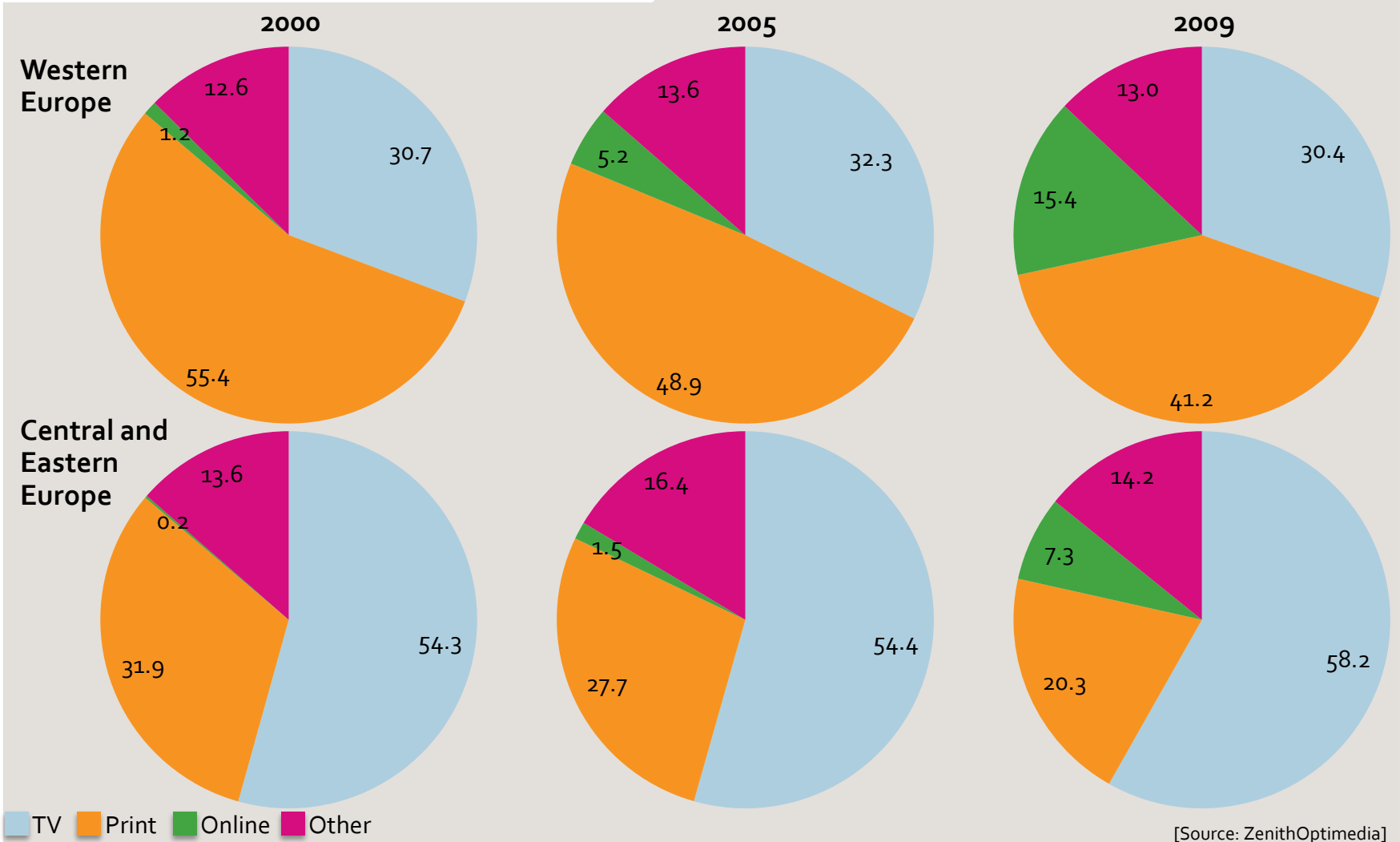
Digital homes (m)



Note: Bosnia, Greece, Norway, Portugal, Serbia and Sweden are not updated in the 2009 figures and are therefore based on the 2008 figures
 [Source: SES Astra, Satellite Monitors - 35 countries]

European overview: Structural change and online growth

Share of total advertising spend by medium (%)



[Source: ZenithOptimedia]

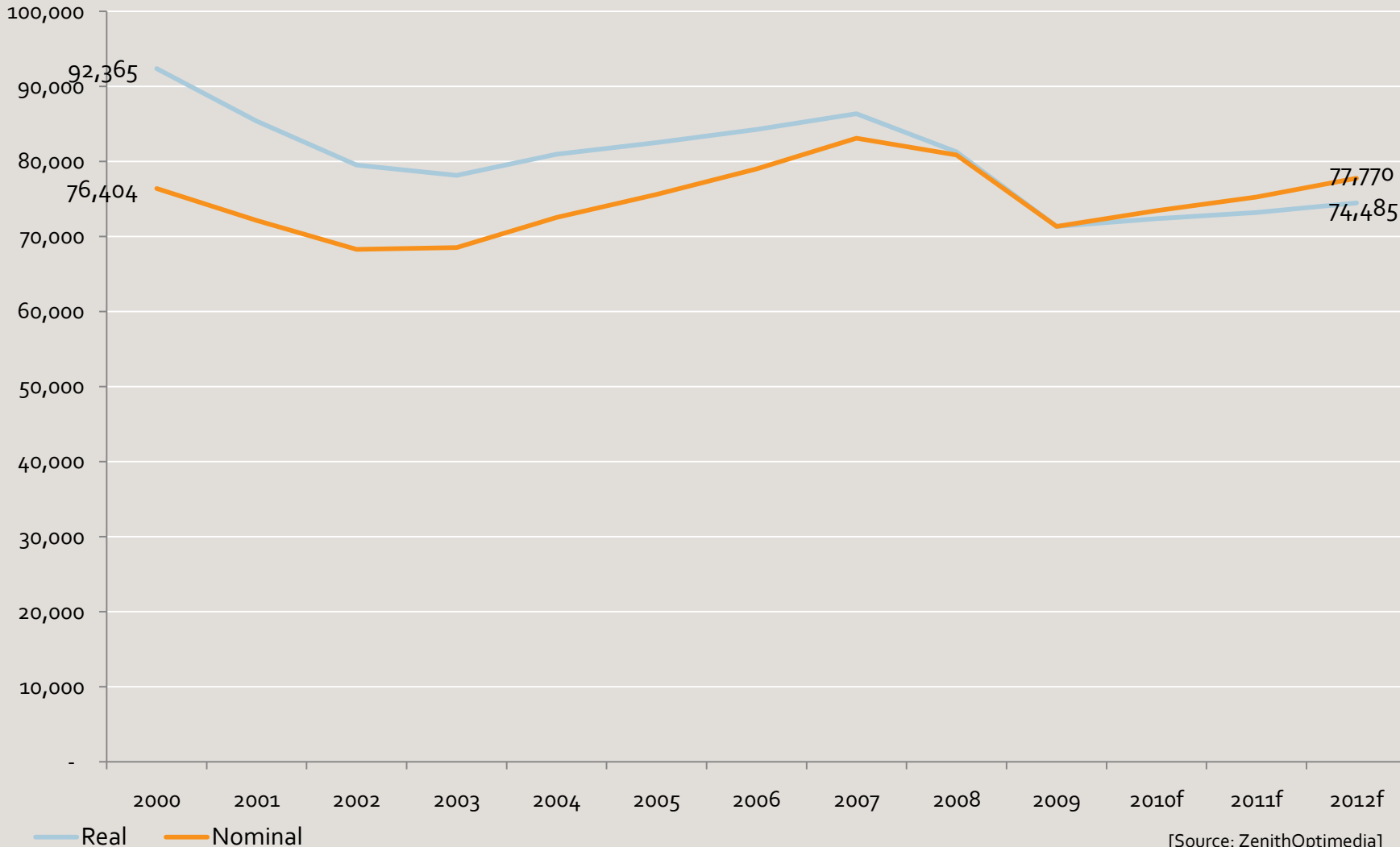
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Europe Big Five: 2000-2009

- Overall nominally static total ad spend, in real terms down 20%
- Decoupling of advertising from economic trends since 2000 also a feature
- All countries, total ad spend and TV ad spend losing ground against GDP → Strong negative downward pressures on ad spend
- Within downward total advertising trend, online gains ground – press worst hit
- Hypercyclicality a feature of TV trends
- Economic outlook still uncertain → most major commercial broadcasters seeking to diversify revenue streams

Europe Big Five: Total advertising spend

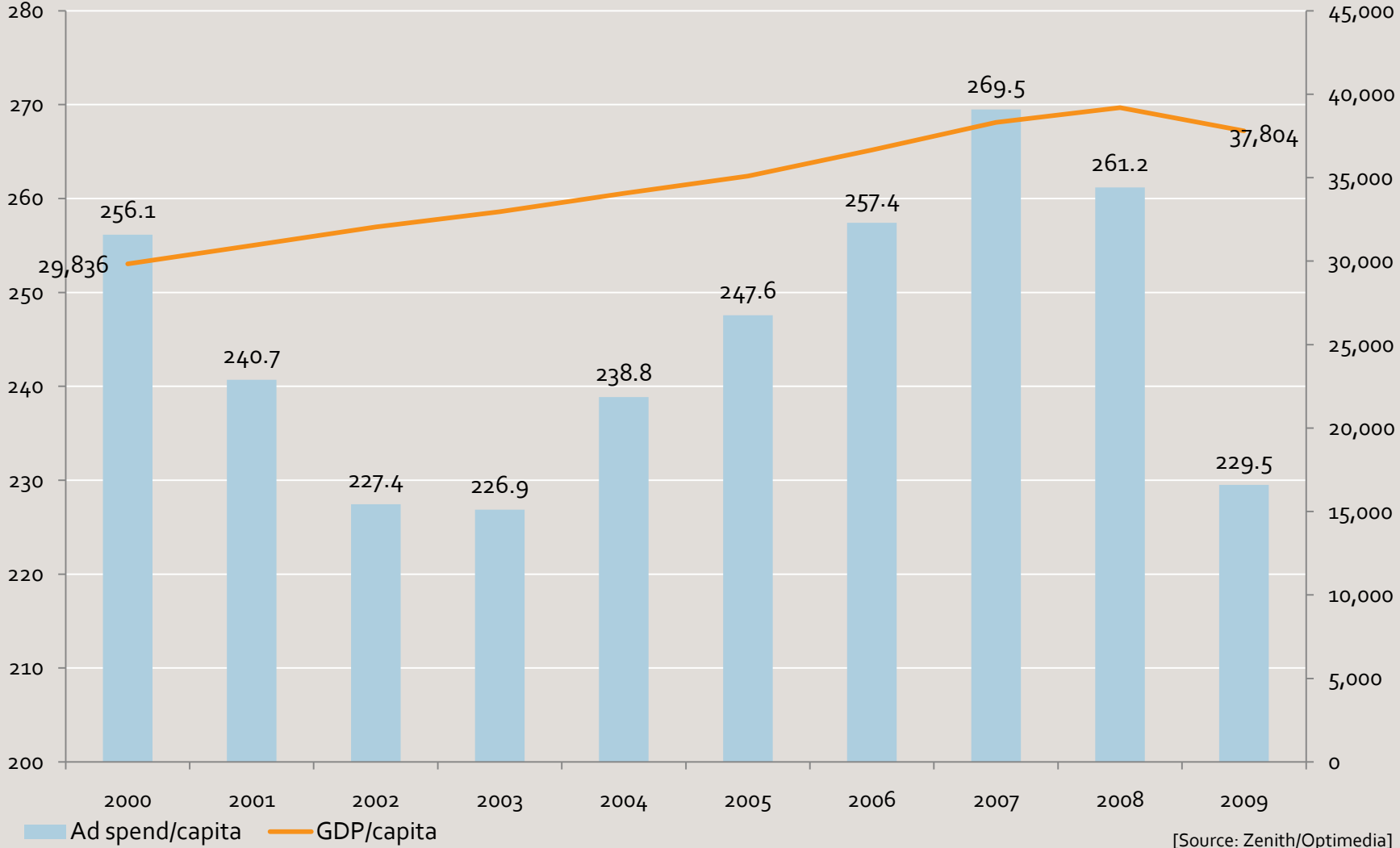
Total ad spend – real vs. nominal (\$m)



[Source: ZenithOptimedia]

Europe Big Five: Total ad spend versus GDP per capita

GDP/capita (\$) vs. ad spend/capita (\$)

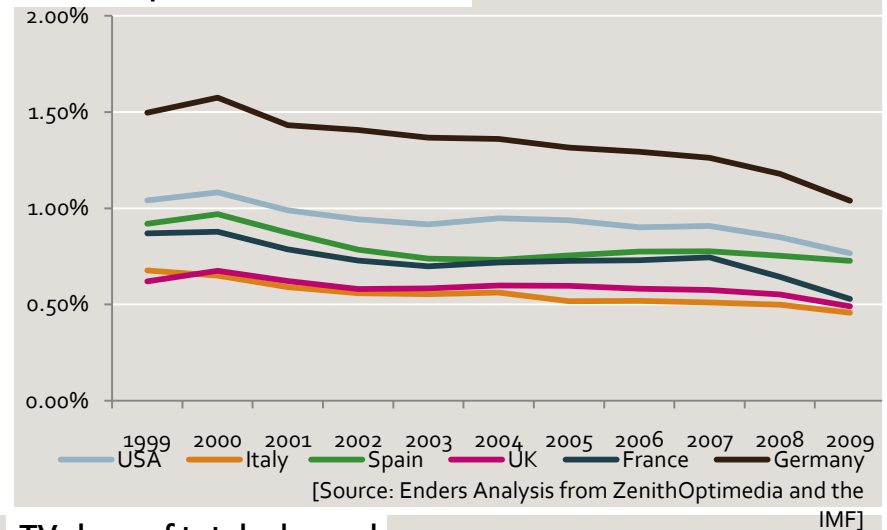


[Source: Zenith/Optimedia]

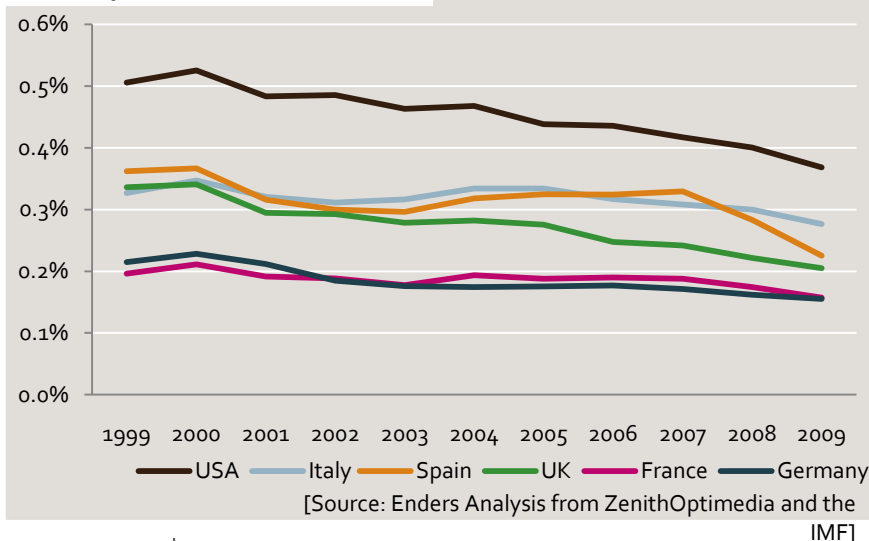
Europe Big Five and US: Advertising as share of GDP

- Advertising share of GDP everywhere in steady decline since dotcom bubble burst in 2001
- In general, TV maintained or increased share of total advertising spend
- Online hit UK hardest – highest e-commerce spend per capita in the world

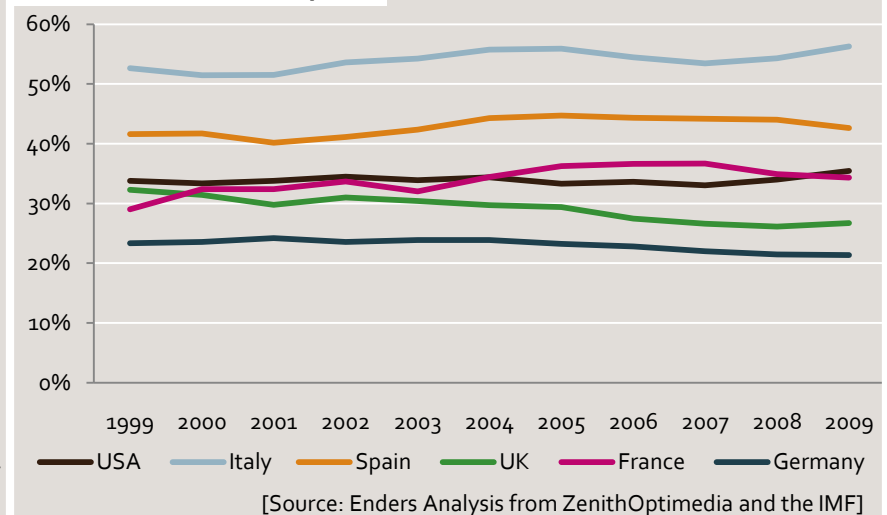
Total ad spend as a share of GDP



TV ad spend as a share of GDP

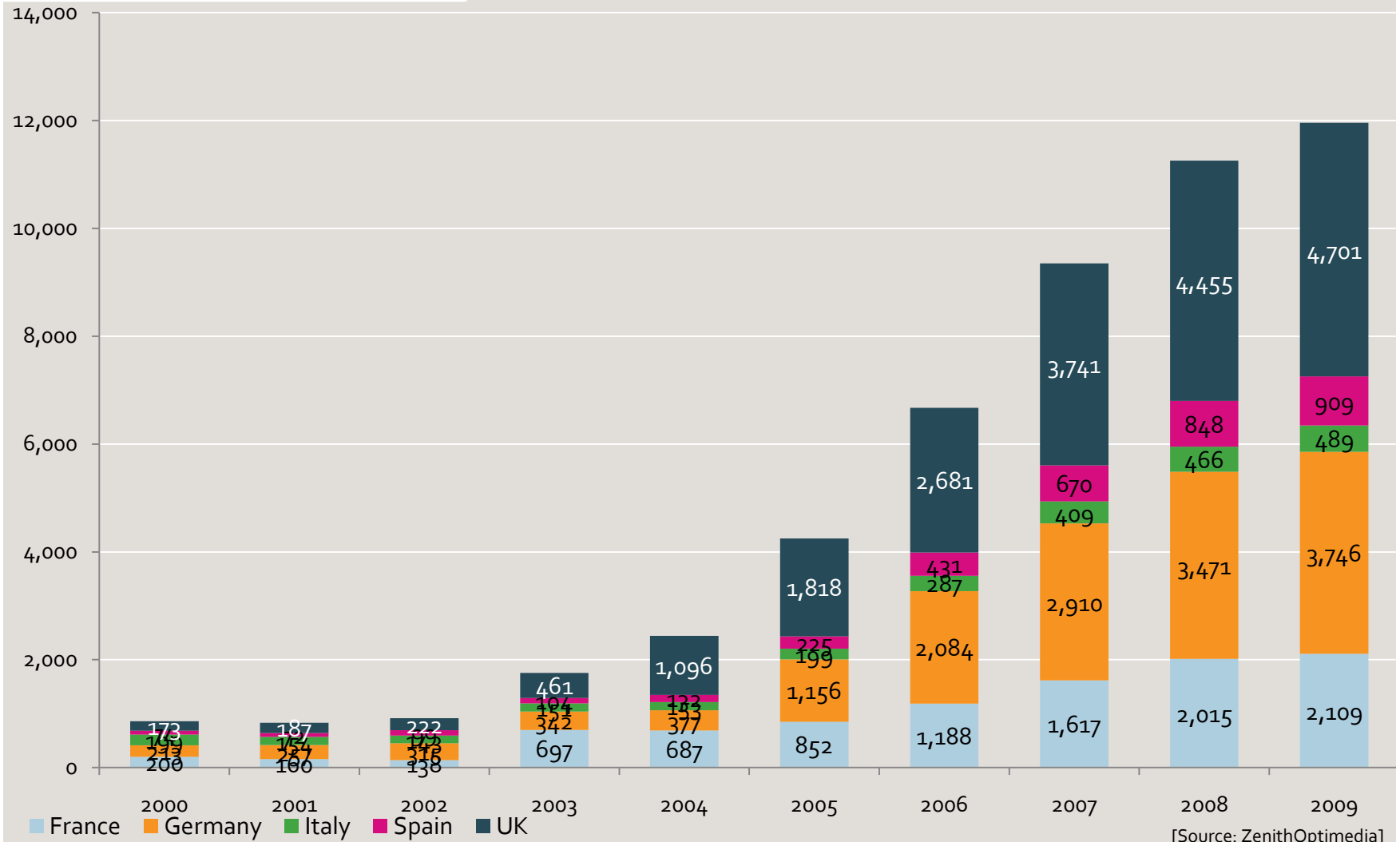


TV share of total ad spend



Europe Big Five: Online growth

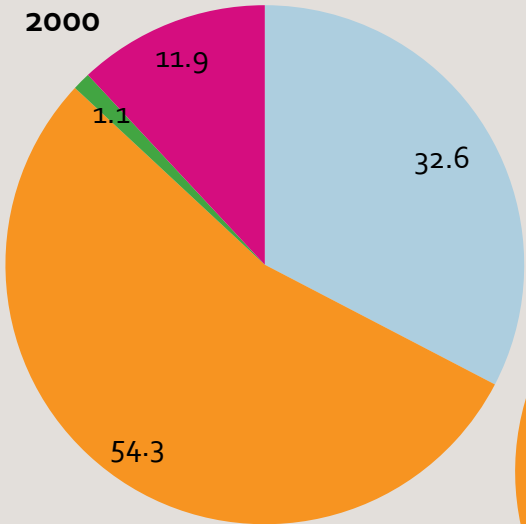
Total online advertising spend (\$m)



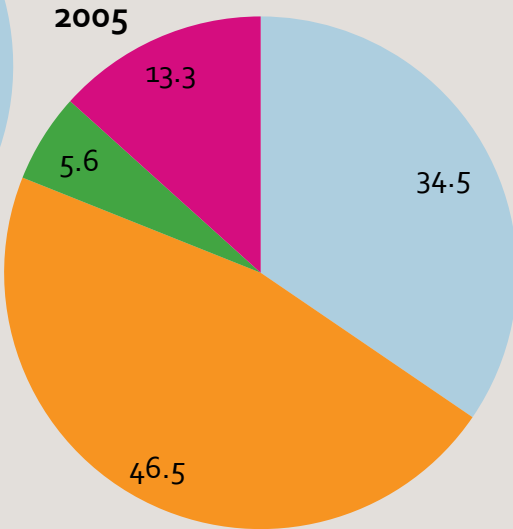
[Source: ZenithOptimedia]

Europe Big Five: Online share up 15 percentage points

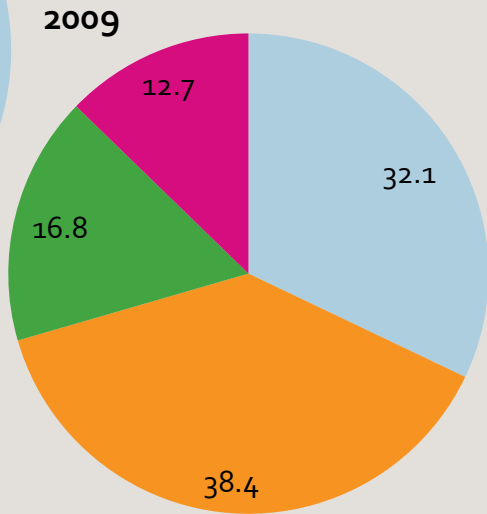
Share of total advertising (%)



Total ad spend: \$76.4 bn



Total ad spend: \$75.6 bn



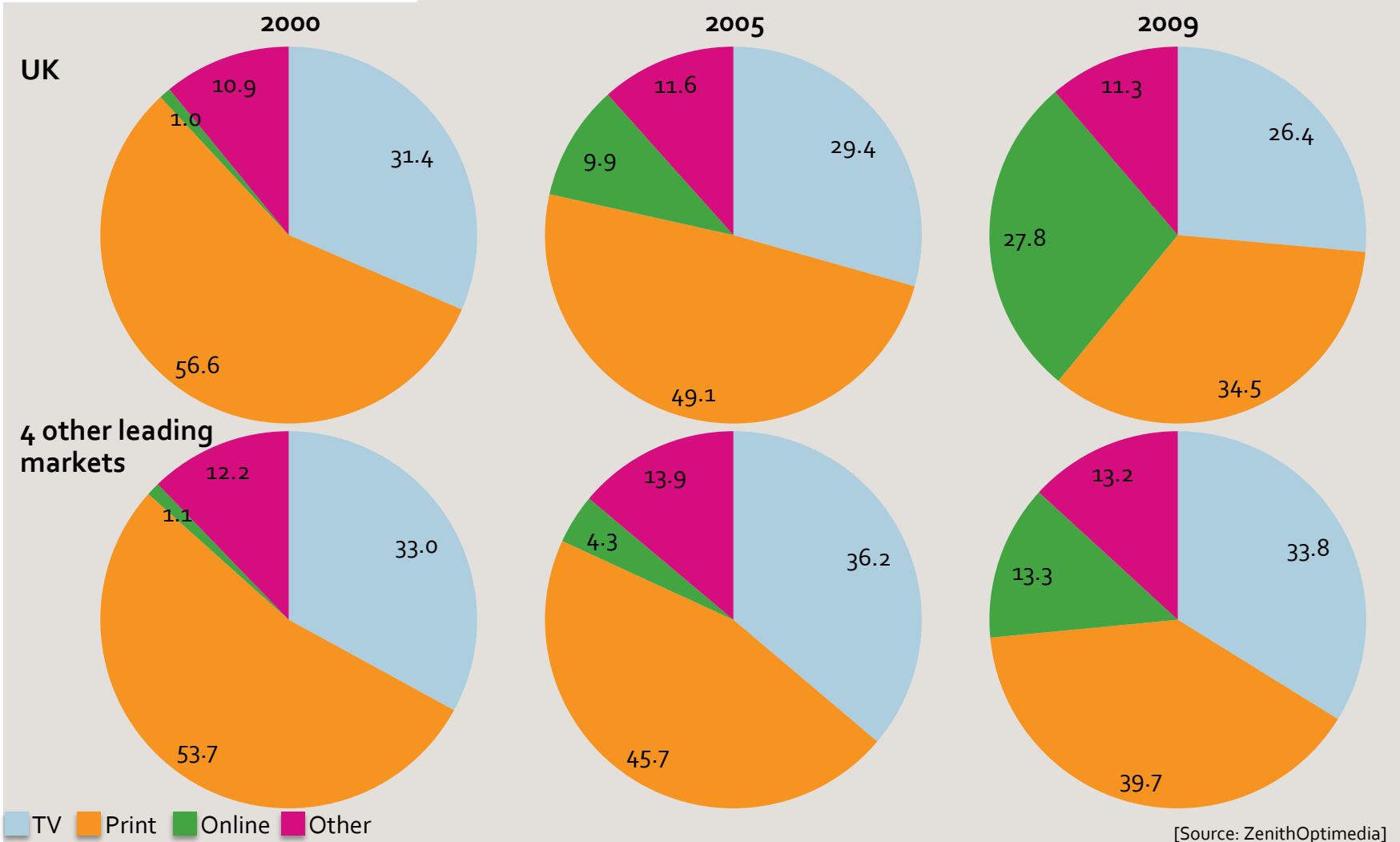
Total ad spend: \$71.3 bn

[Source: ZenithOptimedia]

TV Print Online Other

Europe Big Five: UK special case in online growth

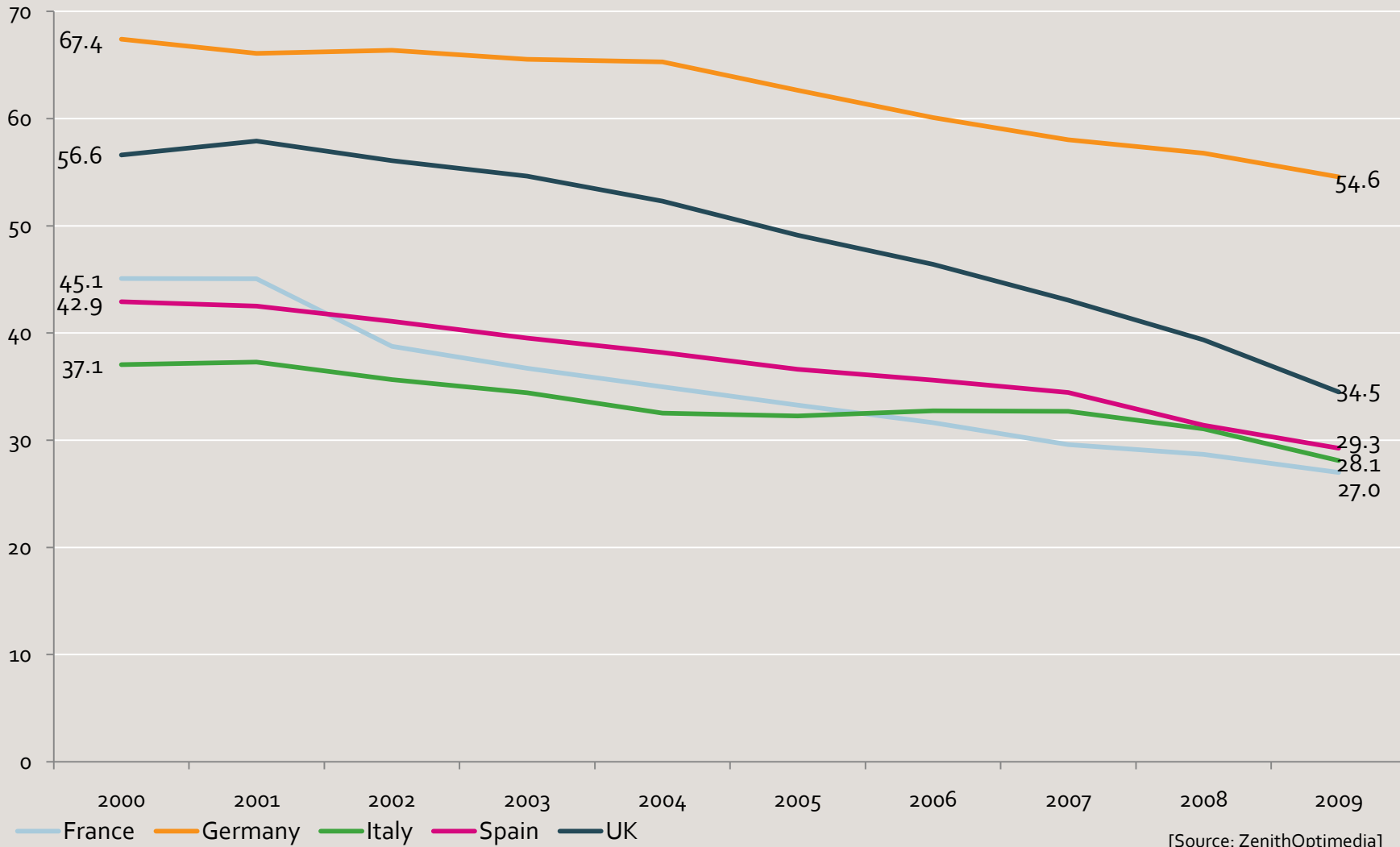
Share of total advertising (%)



[Source: ZenithOptimedia]

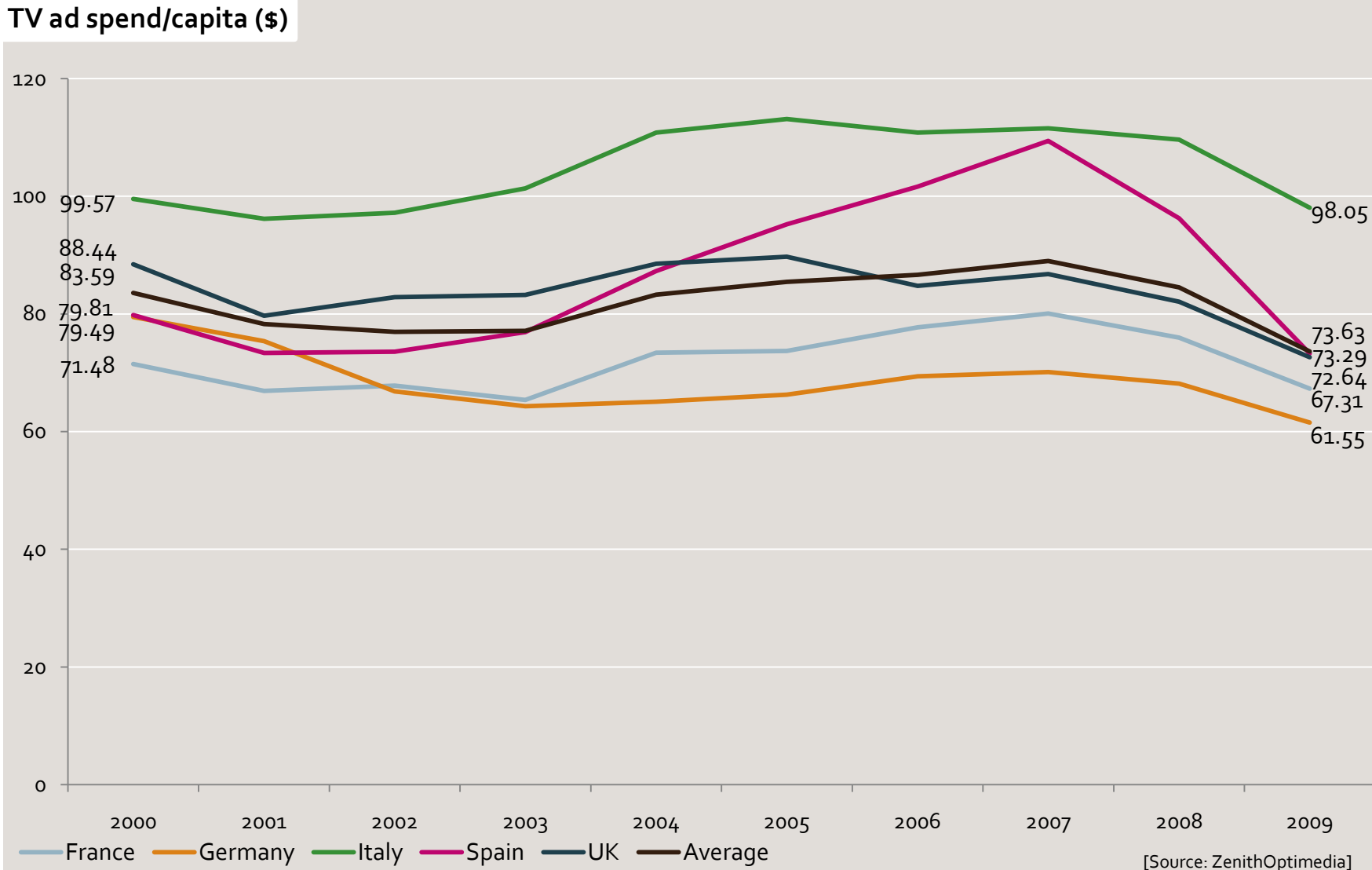
Europe Big Five: Press worst hit by online growth

Print's share of total advertising spend (%)



[Source: ZenithOptimedia]

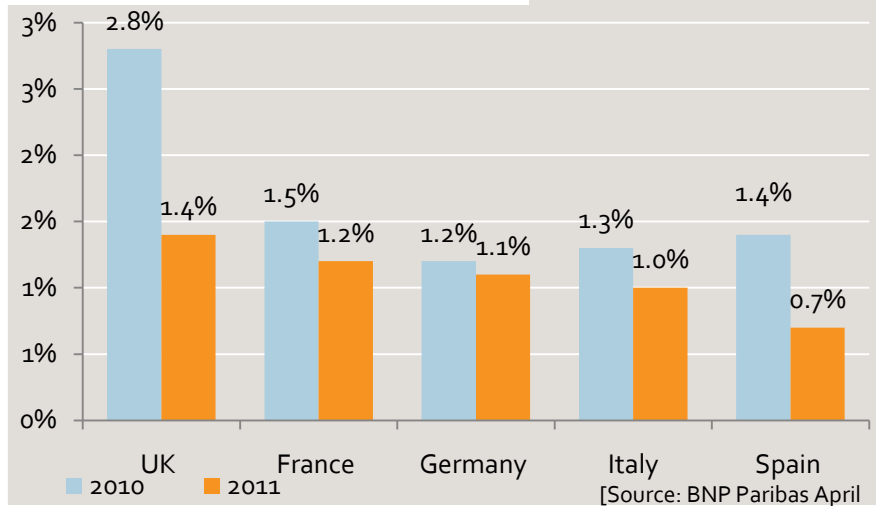
Europe Big Five: TV trends more hyper-cyclical



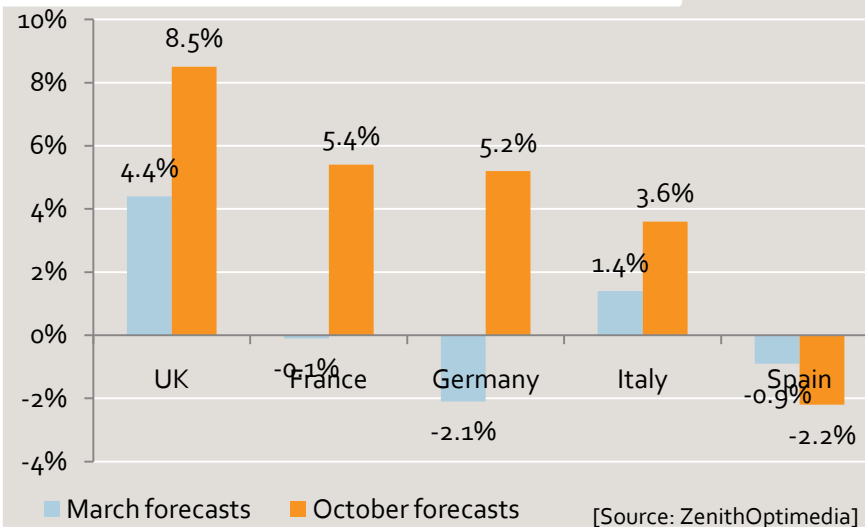
Europe Big Five: Bounce-back in 2010, 2011/12 still uncertain

- Large spread of GDP forecasts, with downside risks of fiscal austerity in 2011-12
- Spain weakest- and Germany strongest-placed, though lacklustre consumption trends in Germany and France
- Deflation not a forecast risk for the major European economies, unlike the US
- 2010 versus 2009 outlook improved greatly in all big 5 countries except Spain, as bounce backs gained momentum

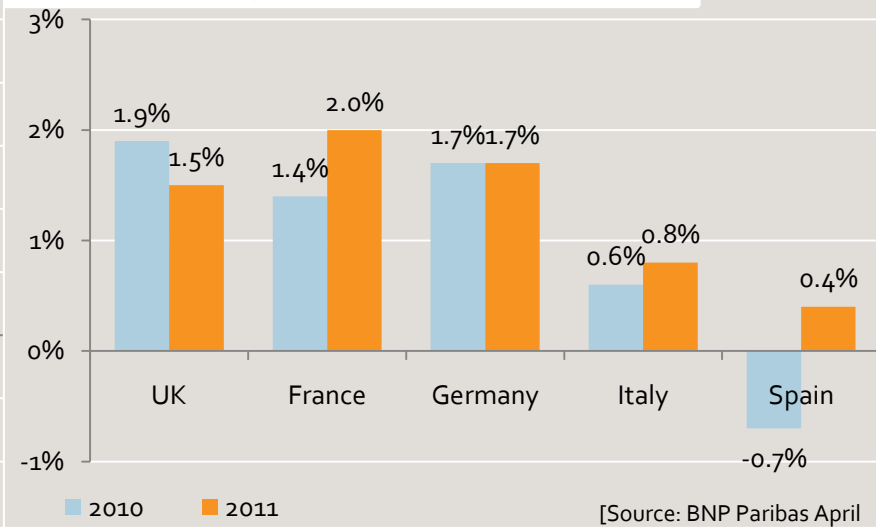
2010 and 2011 HICP growth forecasts



2010 vs 2009 % change in TV ad spend (at constant prices)



2010 and 2011 GDP growth forecasts (at constant prices)



Europe Big Five: Commercial broadcasters and diversification

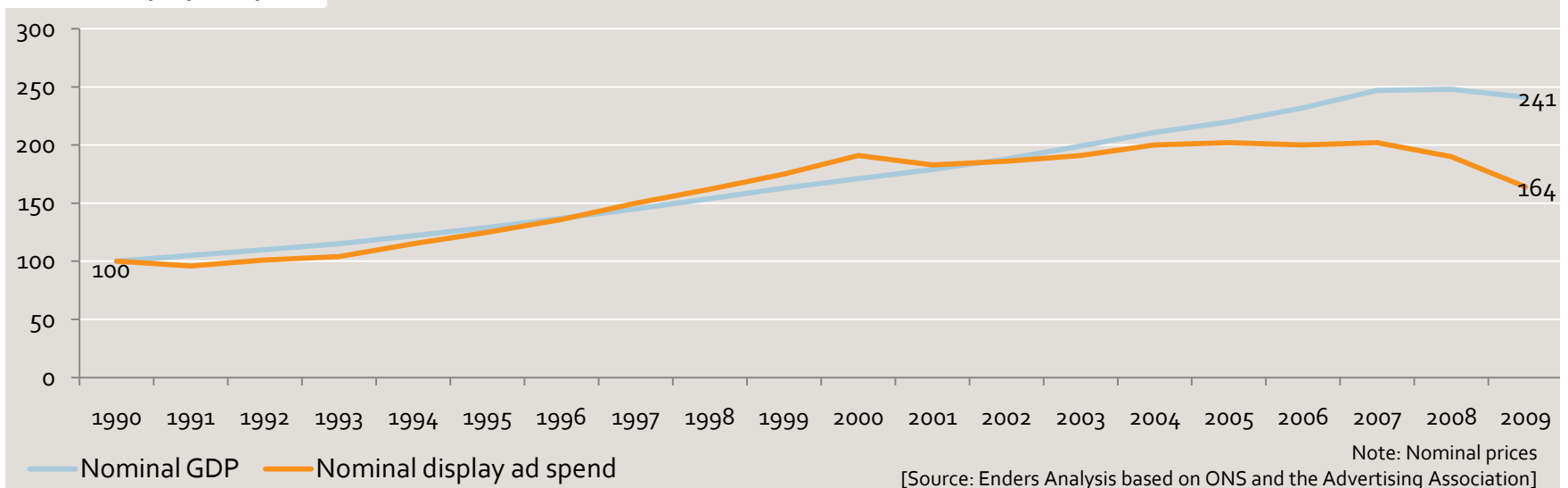
FTA operators					
	Market share prospects	New revenue streams	Diversification	Cash flow/revenues ratio, H1 2010	Revenue H1 2010/H1 2009
TF1	Towards stabilisation	Licence fees for catch-up TV	Eurosport	3%	14%
M6	Rising thanks to digital channels	Pay channels	Various, ecommerce has potential	12%	9%
RTL Group	Stable	Pay channels, licence fees for HD versions	International FTA TV, Fremantle Media brings programme expertise	8%	8%
ProSiebenSat.1	Stable	Pay channels, licence fees for HD versions	International FTA TV, internet	22%	7%
Mediaset (FTA TV Italy)	Stable	Pay-TV	Endemol brings programme expertise	23%	12%
Telecinco	Uncertain because of Cuatro restructuring	None	Endemol brings programme expertise	15%	44%
Antena3	Eroding despite digital channels	None	Ex-growth	15%	16%
ITV	Stable – slight growth in market share	Aim at transformation, emphasis on content and connected TV apps	SDN DTT multiplex operator	15%	9%

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UK structural: Current trends

- Decoupling of growth trends in nominal GDP and display advertising spend since 2000
- Decoupling has affected TV, press and radio, although the precise causes vary by medium
- Structural changes in TV include:
 - Online drift
 - Rise of auditors and procurement departments
 - Broadcast analogue to digital shift
 - Rise in commercial audience delivery (Commercial impacts (CI))

GDP vs. display ad spend



UK structural: Impact of online display on TV ad spend

- Online display advertising trends indicate negative impact on TV
- Top ten growth categories in online display:
 - 95% share of total in 2004
 - 93% share of total in 2009
- Top 10 online categories also represented 56% of TV ad spend in 2009
- Other 44% share of TV ad spend includes all FMCG sector
- Negative online impact shows in much greater TV ad spend decline across top ten online categories (-£403 million) versus other categories (-£208 million)

Top Ten online display categories – growth on internet versus TV, 2004 to 2009		
(£m)	TV	Internet
Telecoms	-108	54
Entertainment & Media	-86	48
Business& Industrial	7	42
Travel & transport	-2	38
Motors	-146	35
Finance	-111	28
Government/political /social	1	22
Online Retail	18	18
Computers	33	10
Retail	-9	5
Total Top 10 Internet growth categories	-403	300
Other categories	-208	31
Total all categories	-611	331

[Source: Nielsen, Enders Analysis]

UK structural: Rise of procurement and media auditors

- 40% of TV budgets up for re-pitch in 2009
- Levels unprecedented – international phenomenon
- Quantification of structural impact not possible/at the very least very difficult
- Commoditisation a core issue/fragmentation little help
- Has the trend reached its limit?

UK structural: (1) Leading channel viewing shares – 2002-2010

(1) Platform viewing shares

- 2002 - 11 channels had viewing shares of 0.5+%, making up 81% of total viewing
- 2010 - 28 channels had viewing shares of 0.5+%, making up 77% of total viewing

(2) Flagship PSB channel viewing shares

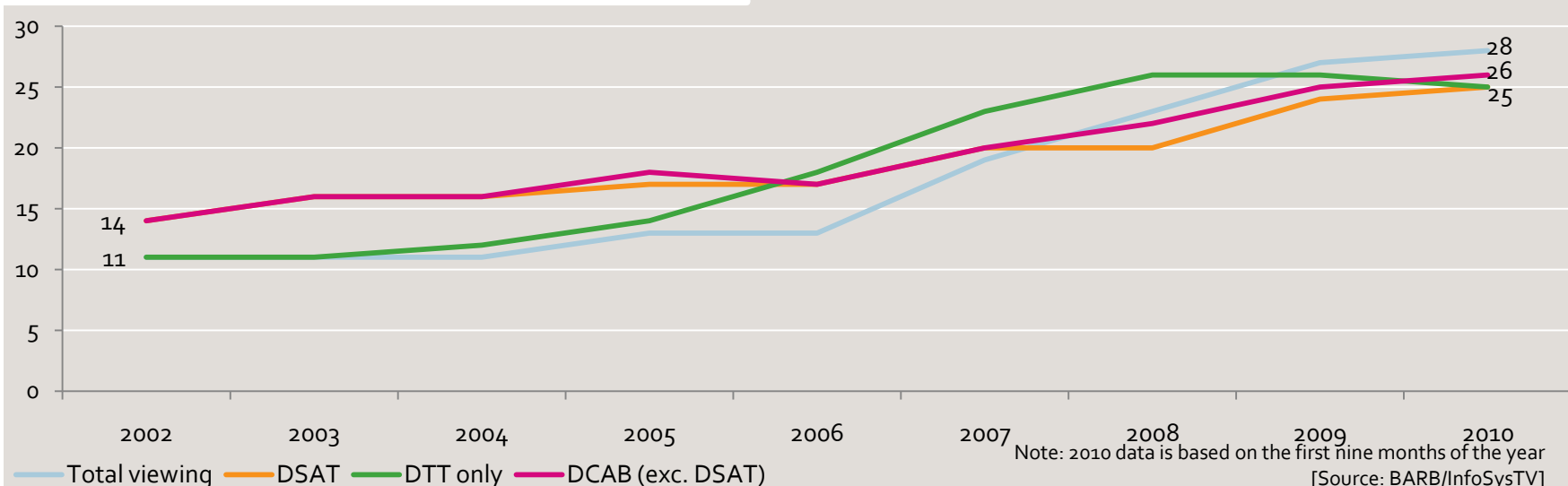
- Most affected are PSB flagship analogue channels as digital penetration rises from 48% to 95% of homes

- PSB flagship channel trends stable on DSAT and DCAB platforms, losing ground on DTT since Freeview launch in October 2002

(3) PSB family viewing shares

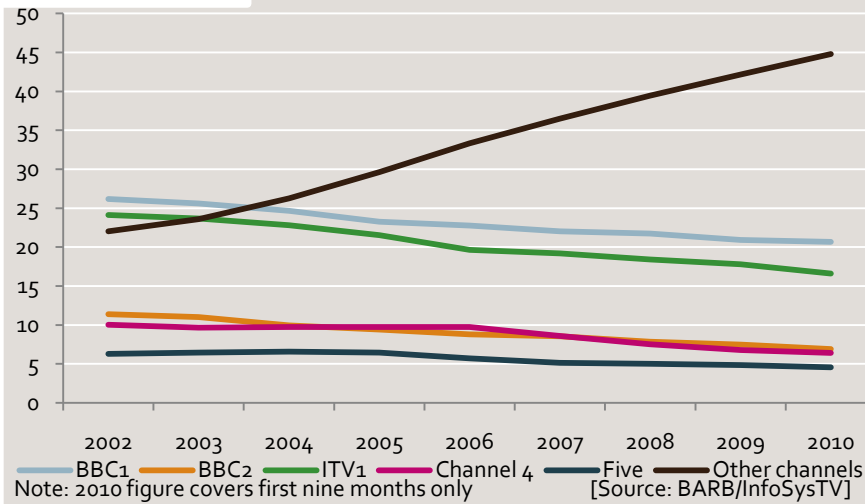
- Compensating PSB digital channel gains → family stability across each digital platform
- 11 of the of the 28 channel 0.5+% group did not exist in 2002 and 9 of the newcomers are PSB family offspring

Number of channels with 0.5+% individual 4+ viewing share

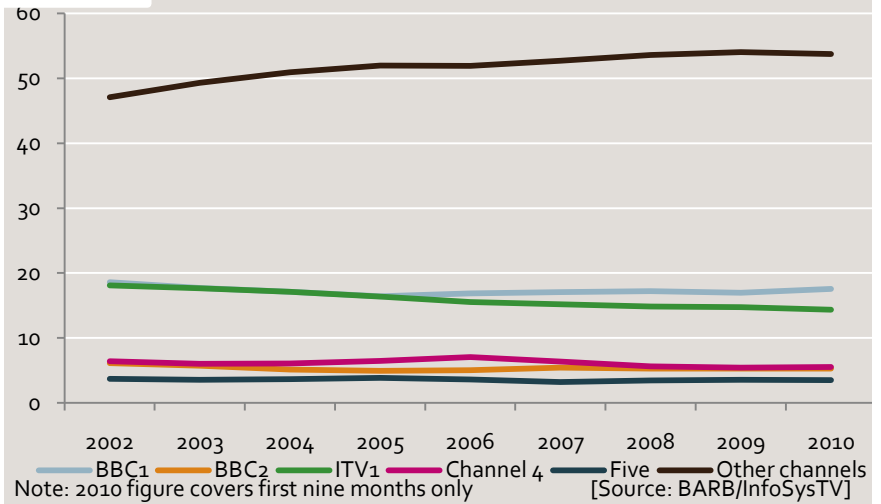


UK Channel fragmentation (2) Flagship PSB channel viewing shares

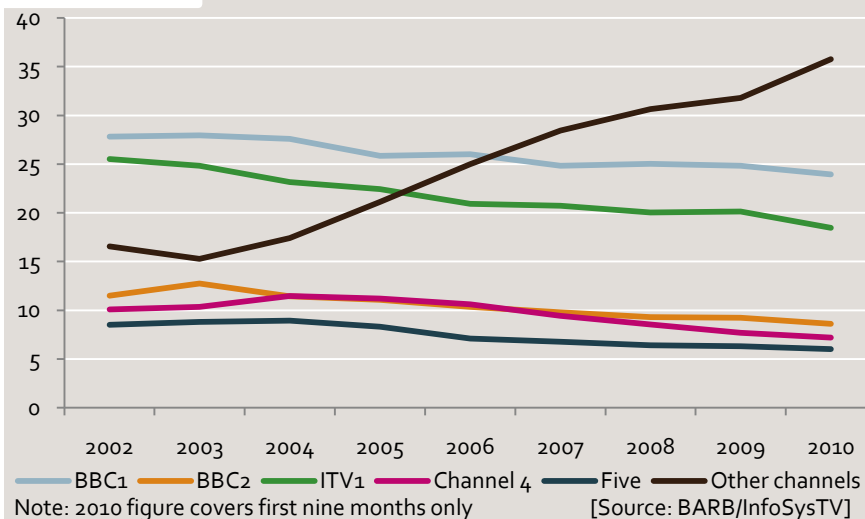
All platforms (%)



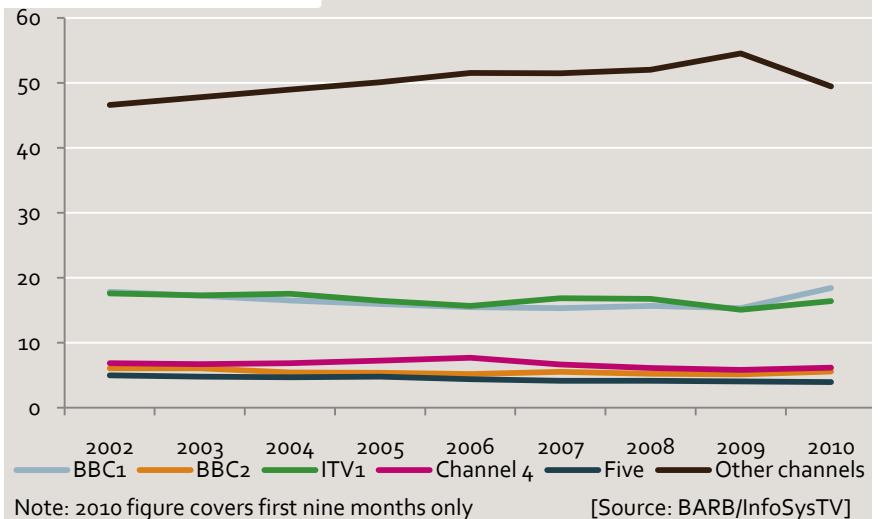
DSAT (%)



DTT Only (%)

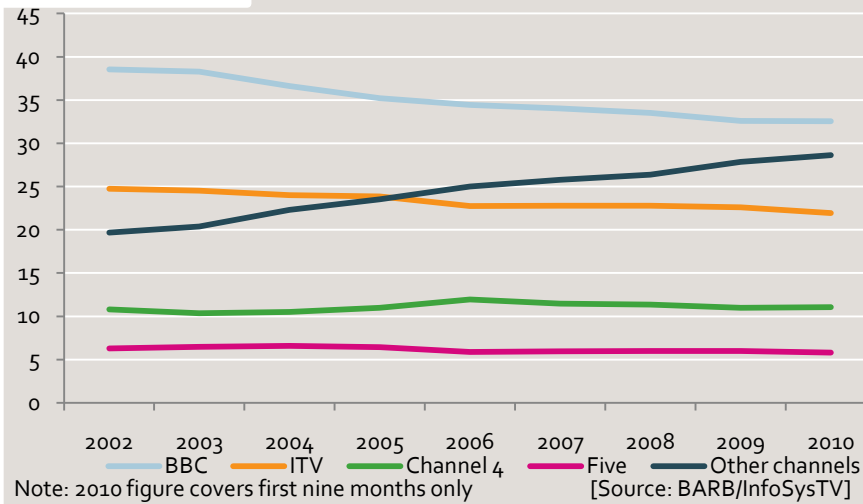


DCAB (exc. DSAT) (%)

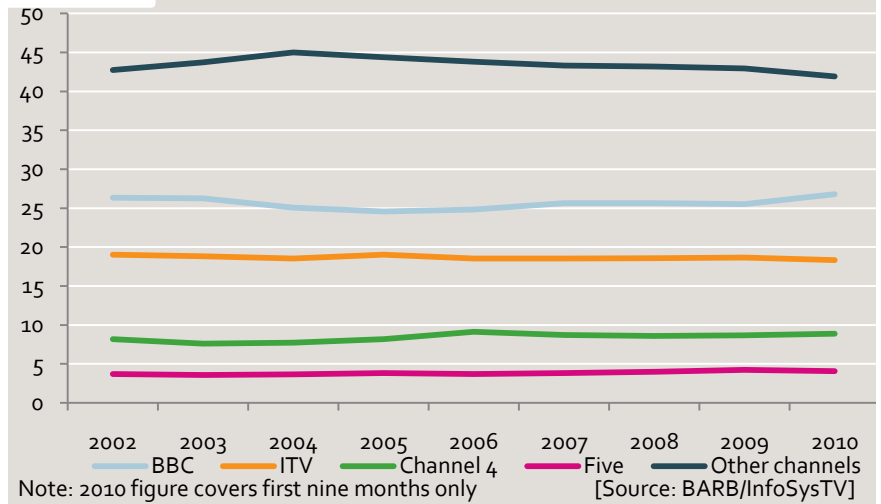


UK Channel fragmentation (3) PSB family viewing shares

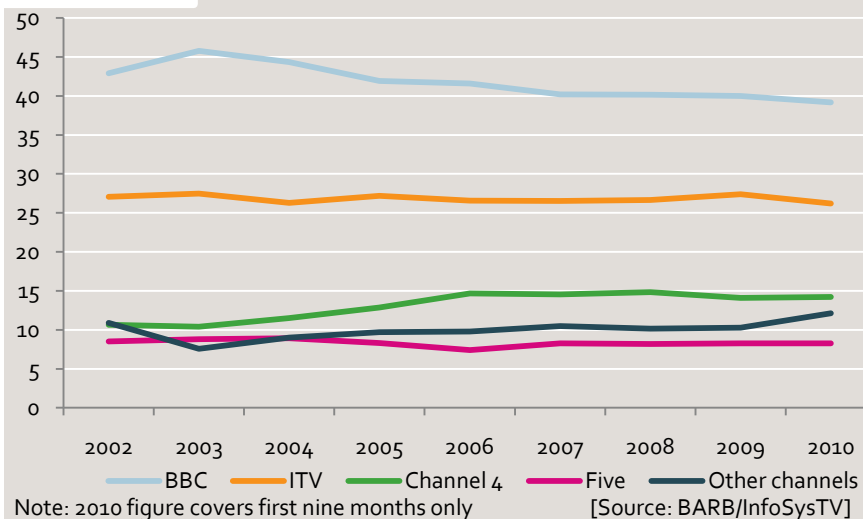
All platforms (%)



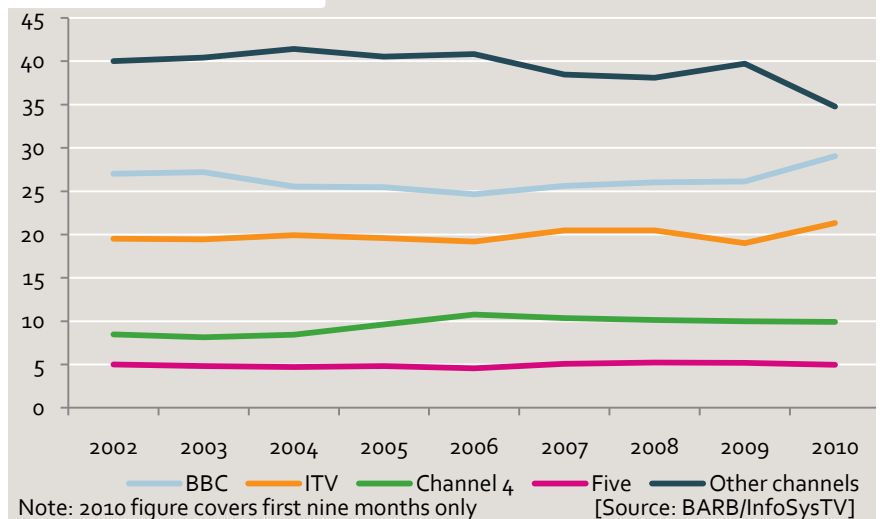
DSAT (%)



DTT only (%)



DCAB (exc. DSAT) (%)



UK structural: Flight from more expensive to cheaper media

- ITV1 and Channel 4 price premium rose from about 65% in 2003 to 75% in 2009 despite share of commercial impact (SOCI) fall from 59.2% to 40.8%
- Deflationary impact on Net Advertising Revenue (NAR) gauged by 2009 “hypothetical” by which:
 - Adult 16+ CI delivery held constant
 - NAR per '000 adult 16+ CIs held constant by selected groups
 - Only input change is the share of adult 16+ CI delivery → change in the weighted NAR per '000 adult 16+ CIs → change in total TV NAR
 - NAR per '000 adult 16+ CIs falls by 8.2% → average annual decline of 1.3%

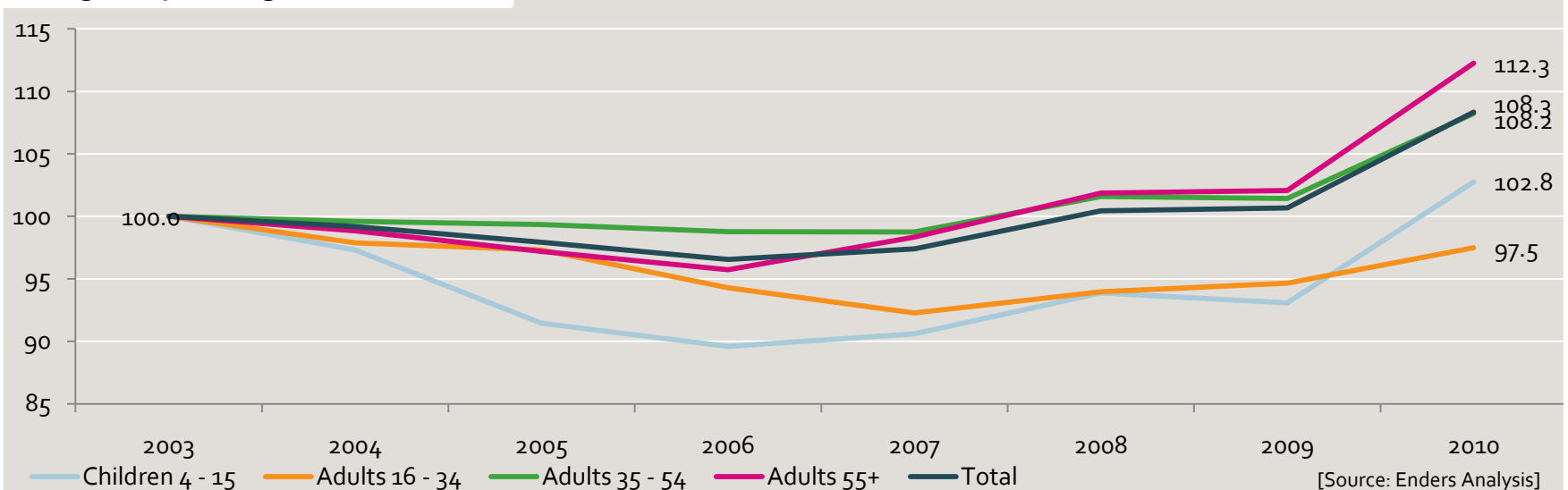
Year on year growth (%)	2003 adult 16+ Commercial Impact (CI) delivery profile (%)	2003 NAR per '000 adult 16+ CIs (£)	2009 adult 16+ CI delivery profile (%)	2009 hypothetical NAR per '000 adult 16+ CIs (£)*	Decrease in total NAR per '000 adult 16+ CIs due to profile change (%)	Actual 2009 NAR per '000 adult 16+ CIs (£)
Total broadcast	100.0	4.9	100.0	4.5	-8.2	3.6
ITV1	42.7	5.8	28.5	5.8		4.7
Channel 4/S4C	16.5	5.9	12.3	5.9		5.4
ITV + Channel 4/S4C	59.2	5.8	40.8	5.8		4.9
GMTV	2.9	3.2	2.0	3.2		3.2
Five	11.1	3.5	8.1	3.5		3.1
Other digital	26.9	3.6	49.1	3.6		2.7
Total other digital	40.9	3.5	59.2	3.5		2.8

*Hypothetical NAR values assume the same in 2009 and 2003 for individual TV channels, resulting in a different overall average owing to the different profiles of commercial impact delivery [Source: BARB/InfoSysTV; GroupM; Enders Analysis]

UK structural trends: TV never so popular

- Initial online impact of online was to lower viewing levels, especially among teens and younger adults
- Downward trends have stabilized and partially reversed since 2006/07
- Recent upward trends reflect improving TV main set experience – more channels, bigger screens, HD, growing connectivity with other devices and so on
- UK trends similar to other countries
- Expect stable viewing trends across all groups to persist over next five years

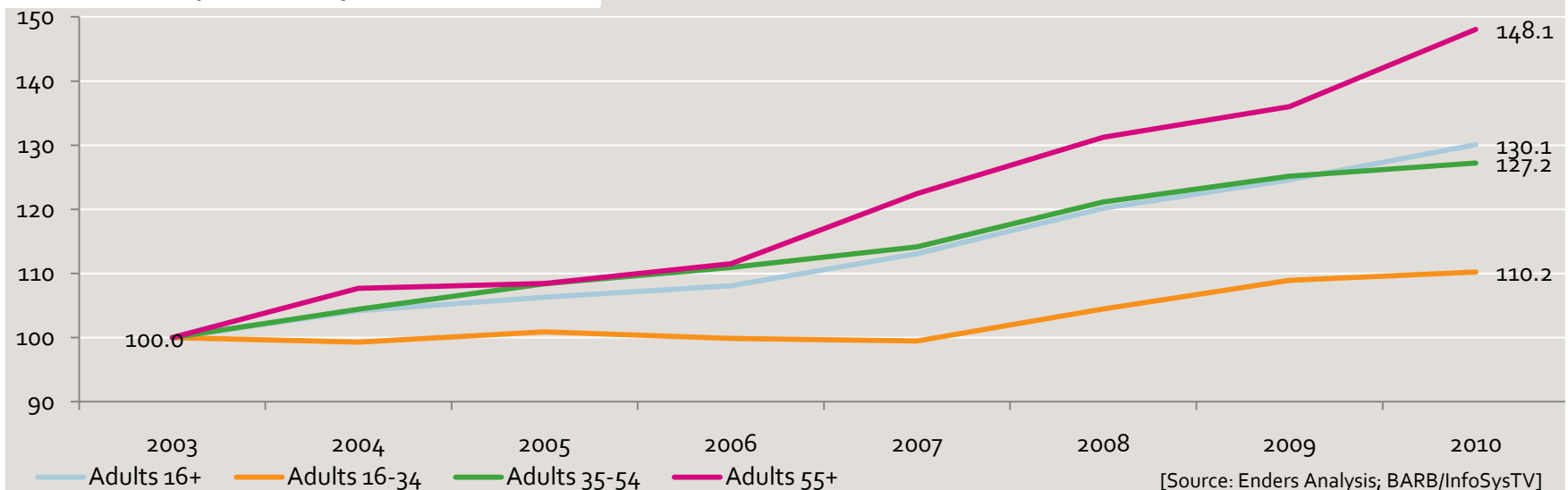
Average daily viewing index (2003 = 100)



UK structural: TV viewing up, CI delivery even more up

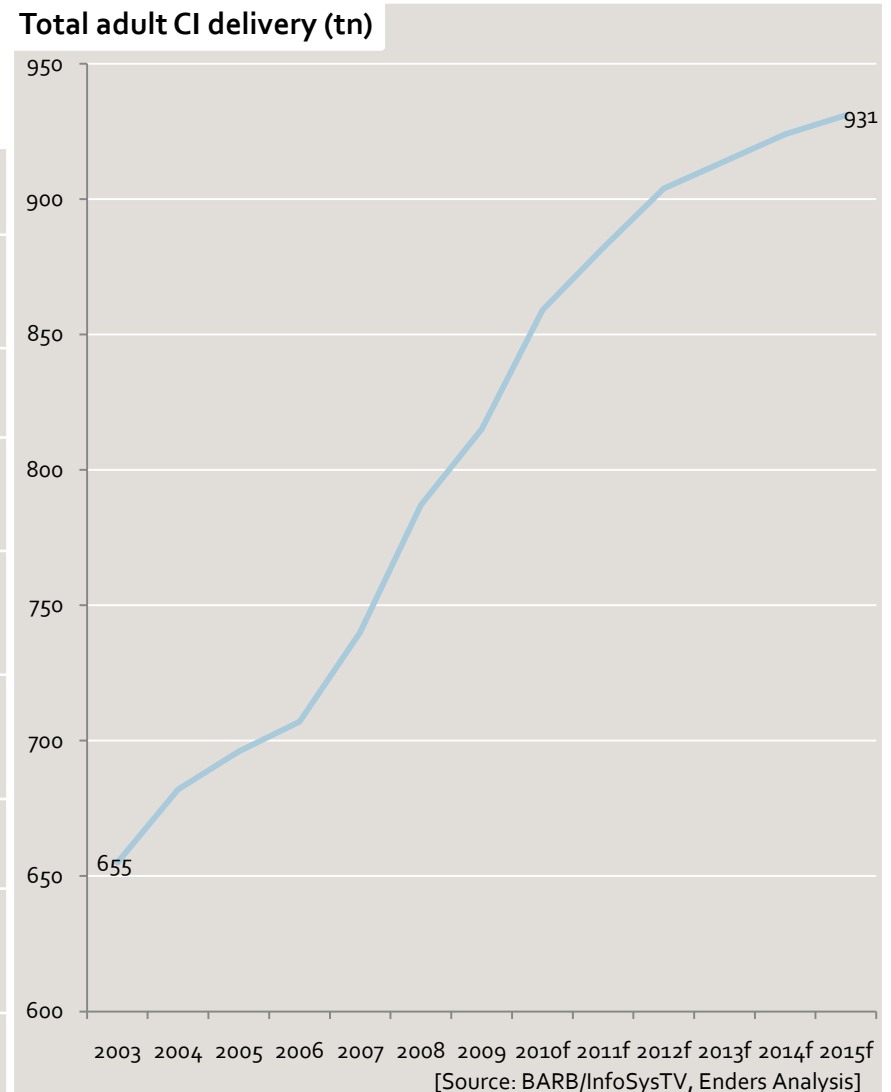
- Marked increase across all adult groups
- Overall increase results from the interaction of around a dozen variables, nearly all positive
- Special factors, including Contract Rights Renewal (CRR) remedy imposed on ITV1, may have caused especially high CI growth in the UK
- Major factor is analogue/digital switch :
 - Increase in viewing due to expanding multichannel choice
 - Higher combined commercial channel viewing shares on digital platforms
 - Increase in combined viewing share of non-PSB digital channels higher commercial airtime quotas

Commercial Impact delivery trends (2003 = 100)



UK structural: CI delivery forecasts to 2015

	2003	2009	Comments
	–	–	
	2009 (%)	2015 (%)	
Commercial TV share growth	5.2	0.6	Slowing broadcast analogue to digital shift
PSB/digital viewing share trends/airtime quotas	2.4	0.7	Slowing broadcast analogue to digital shift
Drift to non-linear IPTV	0.0	-3.0	No evidence so far, but likely to involve increases in CI delivery
Adult viewing growth	0.9	5.1	Recent strong growth points to TV set product enhancements (e.g. HD, wide screens, etc.)
Population growth	3.6	1.9	BARB Establishment Survey trends suggest gradual slowing of growth
Leap year effect	0.0	0.0	Every four years 0.3% increase balanced by 0.3% decrease in following year
Change of BARB panel effect	0.0	4.0	One-off, mainly due to improved measurement of 2ry sets
Other (PVR, CRR effect on quotas, etc.)	10.8	4.3	Main difference is CRR effect from 2003, with all pushing to sell 100% of inventory
Increase in CI	24.7	14.2	

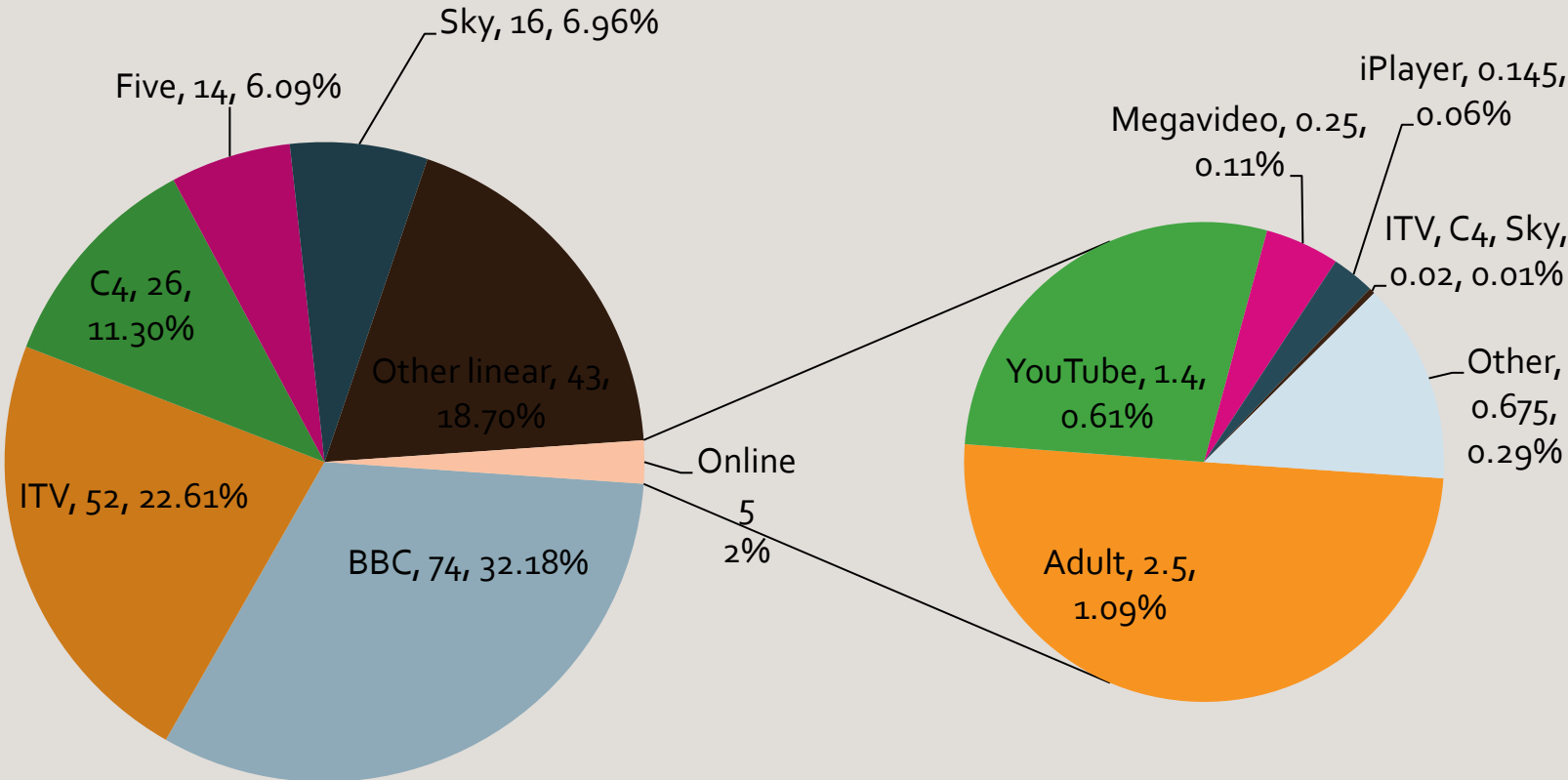


UK structural: Looking to the future

- Still some way to go with the four structural factors so far identified, though downward pressures expected to moderate
- Big issue in UK today is re-regulation post digital switchover which could involve equalisation of commercial advertising quota and distribution rules
 - Big question
 - More advertising space on ITV1, Channel 4 and Five → more CIs
→ deflationary effect on cpts - all agreed → deflation on NAR - all worried over supply-demand inelasticity
- For future, next big question is the impact of connected TV via broadband

UK structural: Online still small and non-mainstream viewing

UK broadcast and online video consumption, December 2009 (minutes/day)

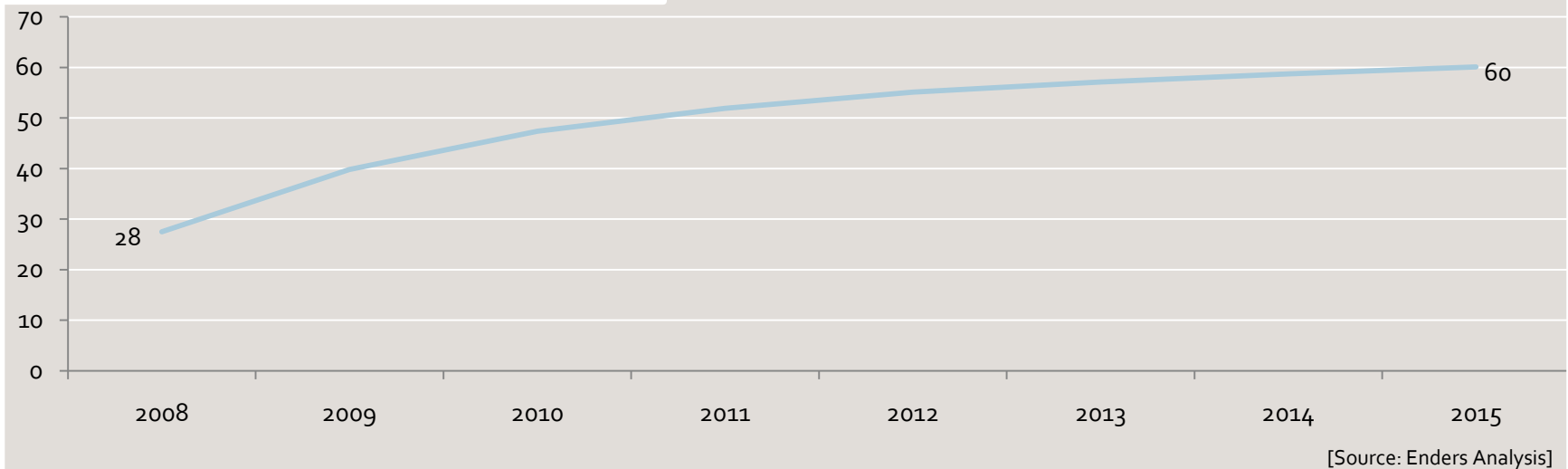


[Source: BARB, Enders Analysis based on ComScore]

UK structural: Connected TV on the way

- **Games consoles**
 - Household penetration of now 50% - forecast 70+% by 2015
 - Project connection to internet to rise from 18% of homes to 40% by 2015
- **Internet-enabled TV sets**
 - Major manufacturers all busy with developing internet-enabled TV sets – internet functions still quite limited
- **Stand-alone STBs/PVRs**
 - Stand-alone set-top boxes designed to connect the TV to the internet (e.g. YouView, Sky Anytime+, Virgin Media TiVo) in very early growth stages
- **DVD/Blu-Ray players**
 - Limited functionality and cost still prohibitive for mass market, with devices currently £150-250

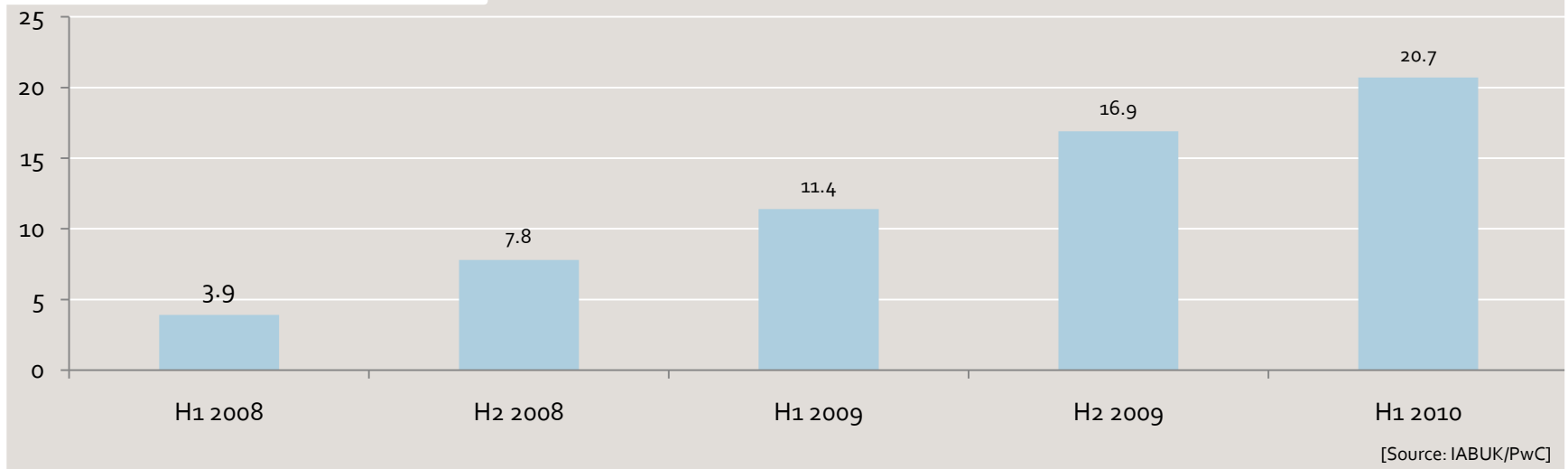
Household penetration of IP-enabled TV devices (%)



Internet video advertising spend

- Video streaming still mostly user-generated/short-form/adult content
- Despite rising use of catch-up TV (e.g. BBC iPlayer), we estimate that only 34% of internet users (25% of population) watches shows online
- Online video advertising remains nascent
- Pricing for in-stream ads remains high relative to TV spots (estimate x2.5 on average for comparable programming), due mainly to limited supply, but is falling quickly
- Low volumes of sellable inventory, lack of accepted audience measurement systems and a fragmented market remain obstacles to faster growth

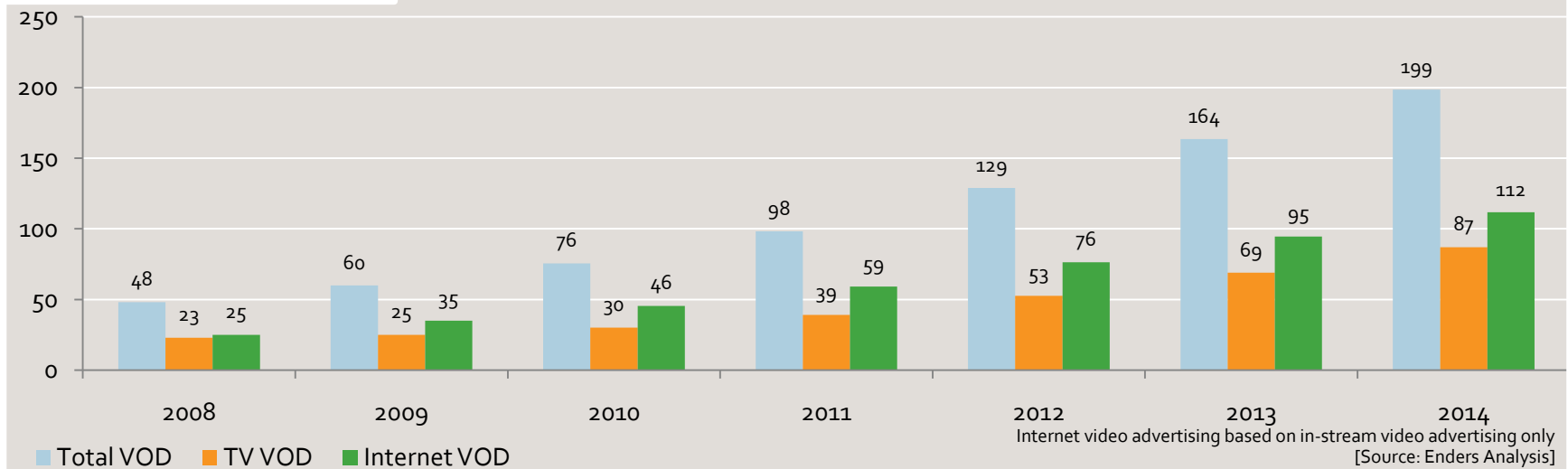
Internet video advertising spend (£m)



UK structural : Video-on Demand (VOD) advertising forecasts

- By 2014, we expect total advertising associated with VOD will be worth c.£200 million or just over 5% of TV NAR advertising
- Total in 2014 to be split between:
 - TV VOD - 45%
 - Internet VOD – 55%
- TV VOD growing faster and expected to take lead in 2016/17
- However, only a share of internet VOD advertising will go to traditional broadcasters and channel operators, with new players such as Google taking a substantial cut

VOD advertising forecast (£m)

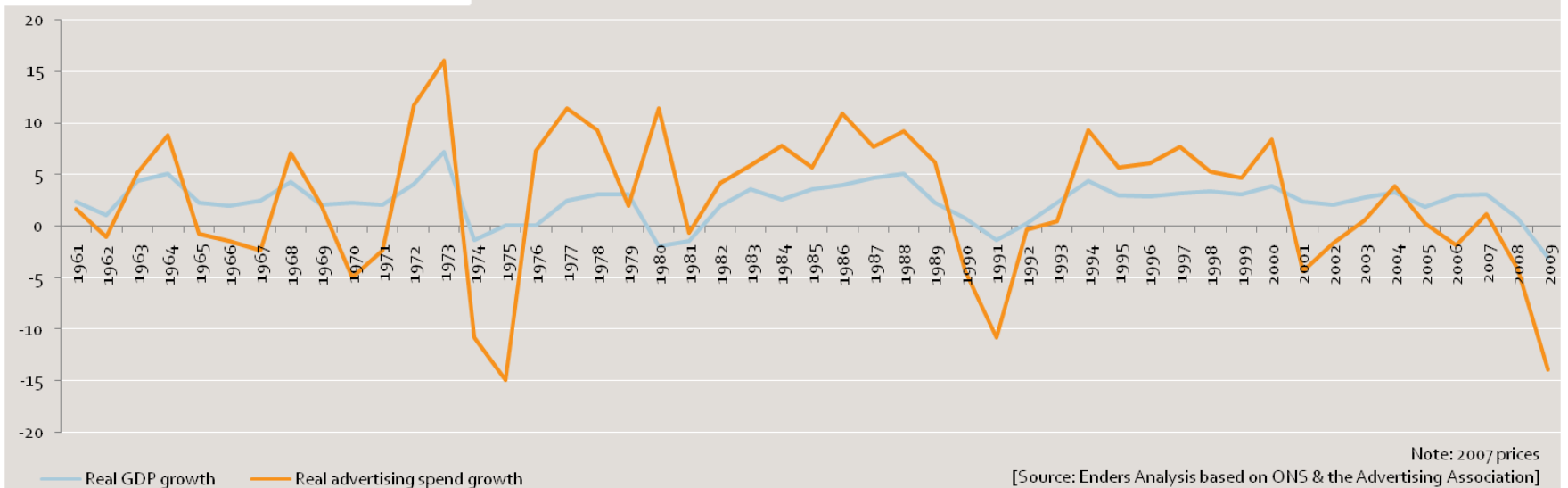


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Trends in advertising and the broader economy

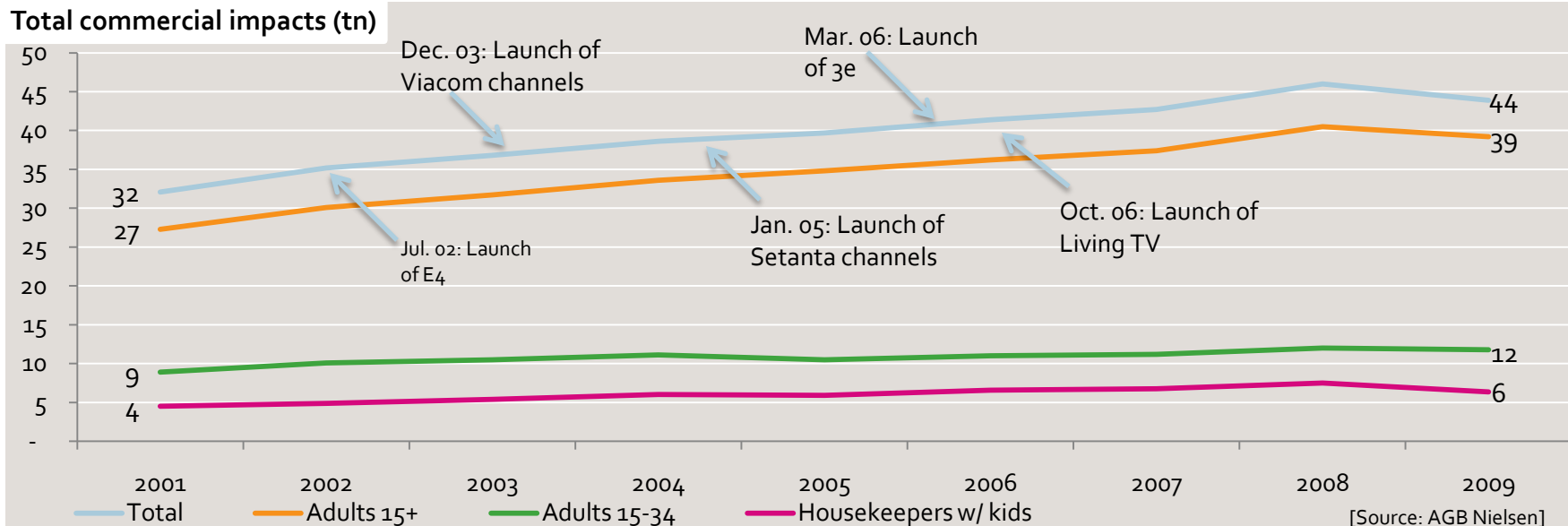
- Advertising trends continue to show a strong hyper-cyclical relationship with changes in the growth rates in the broader economy
- The hyper-cyclical relationship is most apparent in TV NAR, with UK TV NAR showing especially strong bounce-back in 2010, expected to end the year up by circa 14.0% - 14.5% (NB nominal prices), restoring all the losses of 2009 and part of those in 2008
- The causes of hyper-cyclical bounce-back are not well understood
- With UK TV, they appear to relate to trading practices associated with floating rates:
 - Great, as in an auction, when times are good
 - Truly painful when times are bad
- In a floating system it is vital to keep one's nerve, or if breaking practice to get timing right... ROI perhaps

Total advertising spend vs. GDP growth (%)



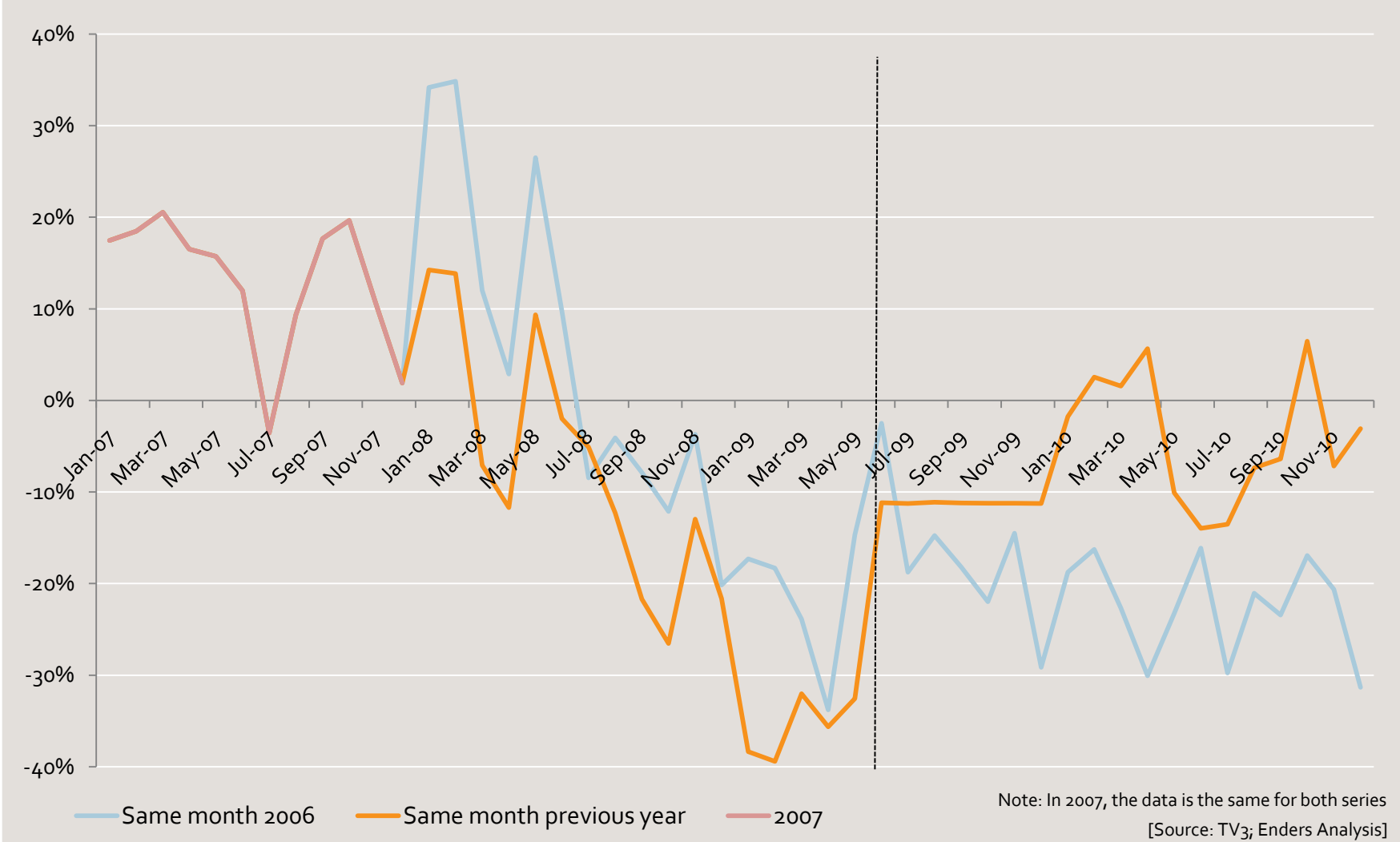
UK and ROI hyper-cyclical: ROI experience (1)

- ROI TV market split into three main sectors:
 - RTE, licence fee and 60+% TV NAR share
 - Other ROI commercial TV, largely TV3
 - Dedicated UK terrestrial/satellite overspill
- ROI has seen similar growth to UK in CI delivery relating to Irish advertising budgets
- Dip in 2009 likely to chiefly reflect RTE decision not to sell its full inventory
- RTE sets the benchmark for ROI airtime prices
- RTE move from floating to fixed rates in June 2009 occurred at the depth of advertising crisis:
 - Monthly costs of 30%-40% down year-on-year
 - TV ad market on “edge of the abyss...”
- The RTE switch to fixed rates may have worked for the summer... But did it also remove the bounce-back?



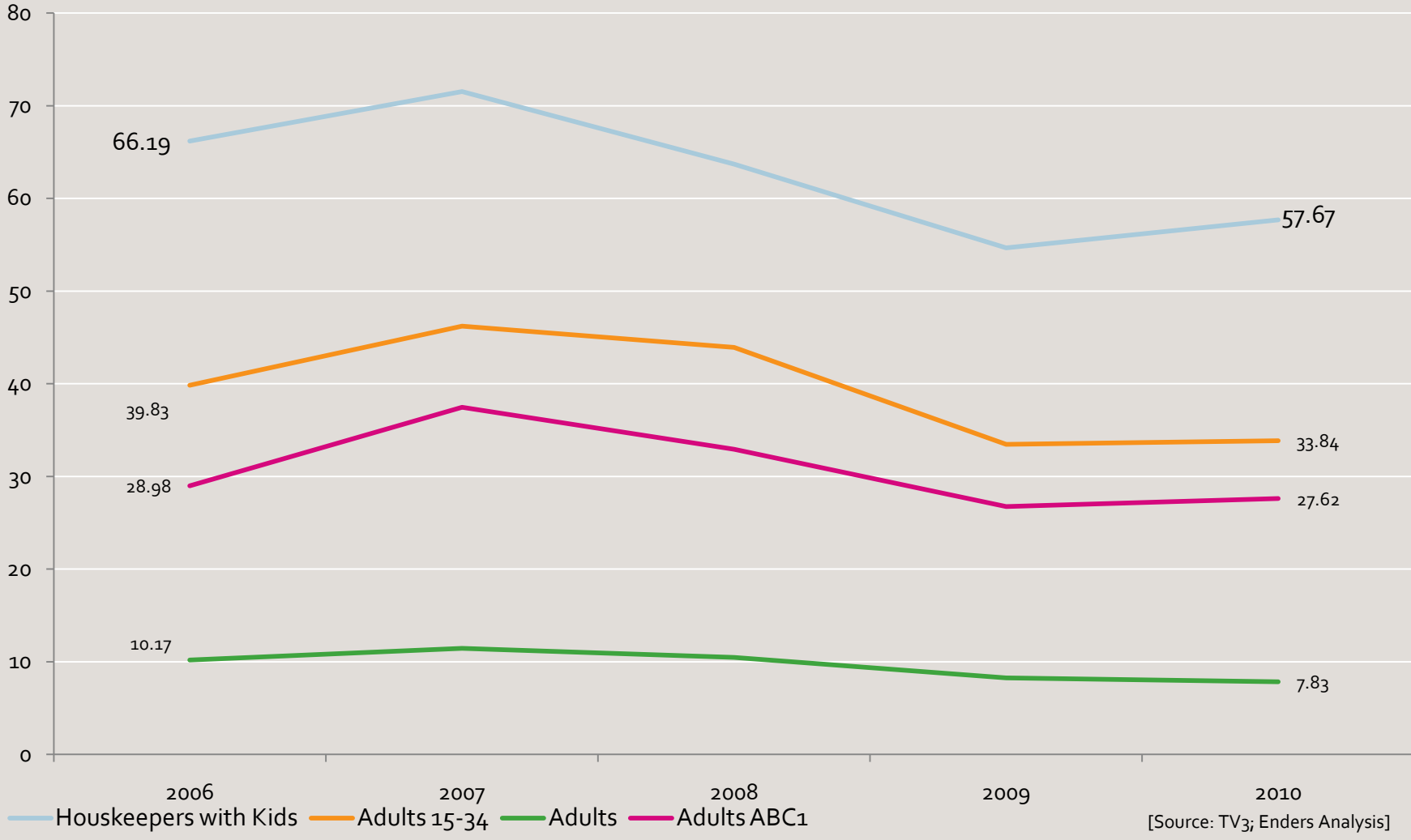
UK and ROI hyper-cyclical: ROI experience (2)

Relative change in RTE advertising costs per thousand adults 15+ (%)



UK and ROI hyper-cyclical: ROI experience (3) – L-shaped

Average annual advertising costs (Euros per thousand)



1. European overview: 2000-2009
2. The Big Five TV markets
3. UK structural change: Past, present and future
4. UK and ROI hyper-cyclical swings

5. Conclusions

Conclusions: Main UK forecast assumptions

- Real GDP growth about 1% in 2010 and 2011, around 2.0% per annum by 2012, roughly 0.5% below OBR (Office of Budget Responsibility)
- Annual inflation runs at 3% from 2010, while flat consumption trends offset by fairly robust retail sales
- Structural factors subdue
 - Total viewing trends remain stable
 - Little further online advertising growth at TV expense
 - Connected TV, still well into future
 - Deflationary pressures due to the broadcast analogue to digital shift subside post digital switchover in 2012
 - Increasing use of portable devices for viewing video content has no impact on TV audiences and NAR

	Nominal		Real	
	2009 v. 2000	2009 v. 2003 (Since CRR)	2009 v. 2000	2009 v. 2003 (Since CRR)
TV NAR growth (%)	-11.6	-7.6	-26	-20
GDP growth (%)	41.3	21.1	17.8	4.9

Conclusions: UK TV NAR sustainable at/around current levels

Upside assumptions

- GDP growth up by an extra percentage point per annum from 2011
- Faster maturation of online display and video advertising
- Quicker stabilisation of total viewing shares of premium-priced ITV1 and Channel 4
- Favourable re-regulation of advertising rules, against no change in central case

Downside assumptions

- Double dip recession
- Stronger than expected growth in online display and video advertising
- Failure of ITV1 and Channel 4 to stabilize decline in viewing share...
→ Further programme budget cuts, further loss of share... the downward spiral
- Accelerated drift to pay-TV platforms

Advertising spend forecast - upside and downside scenarios (£m)

