MediaSense

Welcome to MediaMinds/May 15

KETCHUP MOMENTS

Last month, France Télévisions' director of future media, Eric Scherer, spoke about the TV industry facing a 'ketchup' moment, likening the pace of industry change to banging a bottle of tomato sauce for a while before it suddenly pours out. This got us thinking. It's not the only place where that analogy applies, so, in this edition of *MediaMinds*, we look at ketchup moments in Video on Demand (VoD), the spicy topic of media agency governance and the UK's TV sales map.

Tech at the up-fronts table?

Last month, YouTube celebrated its 10th birthday and announced itself well and truly as the lead player in the battle for OTT (Over The Top) eyeballs and a credible dis-intermediator of the traditional TV industry.

The video platforms think now is the time to roll out their reach story: whilst Google Preferred is being positioned as a high quality environment for brand reach, Facebook claim to have overtaken YouTube on video views (Zuckerberg announced that video views had reached three billion per day, versus YouTube's one billion). Amazon's Twitch gaming channel has been delivering viewing sessions which YouTube would die for (amongst millennial men, the average user session is 106 minutes, according to Twitch) and Netflix has continued its global expansion, moving into Russia and Australia, and is rumoured to be invading China.

According to Zenith Media, TV's share of global ad spend peaked in 2014 and will decline from here by one share point per year, whilst online video is forecast to grow at 29% a year for the next three years to reach $23.3 billion in 2017. The stats are compelling: YouTube reaches one billion visitors per month, Facebook 800 million, WhatsApp 700 million, Instagram 300 million, Twitter 300 million, Buzzfeed 200 million.

The OTT manifesto is that TV is losing its millennial appeal and the tech giants deserve their place in the broadcast up-fronts (despite this clarion call, Facebook tried and failed to secure a seat at the table at the Australian up-fronts this year). Jeff Bewkes, Chairman of the Board and CEO at Time Warner Inc., calls it a "secular shift to on-demand consumption". With 33 companies involved in the US new fronts, that's a lot of companies looking to secure a place on the commitments bandwagon.

The stats war between OTT and linear TV is well and truly underway. Overall, US primetime broadcast and cable viewing fell by 7% among 18-49s in the most recent quarter. Viacom's viewership is down 18% and the once choice of a generation, MTV, is down 14%. In the UK, PWC/IAB recently reported that online video advertising is now worth £442 million, which means it's on course to overtake radio in 2016 and out-of-home in 2017.

At a time when the TV market is consolidating, choice in video is actually exploding for advertisers. This represents a spectrum of choice for advertisers, a massive opportunity for agencies to differentiate and rewrites the lexicon of media metrics. Bring it on!

Governance is a two-way street

When the former US CEO of Mediacom, John Mandel, addressed the ANA last month, the suggestion that rebates in the US are endemic yet hidden (through various offshoring and avoidance techniques) made quite a few ripples in client circles.

At the same time, on this side of the pond, AB InBev and other advertisers were accused of making outrageous demands of agencies pitching for their account, including an alleged requirement for in excess of a 150-day payment window.

It's tempting to think that these two unrelated incidents are in some way symptomatic of a deeper malaise. Are media agencies buyers or vendors? Do clients want their agency to operate as a value 'bank'? If so, can it really come as a surprise if agencies start to operate private exchanges or undertake financial engineering schemes? Clearly, we are moving to a critical phase in the evolution of client/agency commercial relations.

Advertisers wish, inevitably, to de-risk media delivery as far as their agencies will let them, and want to guarantee "savings" to stakeholders. Agencies need to manage risk too, and a response to advertiser pressures has been group trading, private value pots and inventory re-pricing. This has caused consternation in some circles, but in many respects agencies are simply re-orientating their business around their clients' requirements.

CONTINUED OVERLEAF

MediaSense

The "private exchange" is a modern phenomenon. Originating in the digital trading world, agency private exchanges are about to roll out across all display channels and with them the old concept of a dynamic, open media "marketplace" will shortly evaporate. This re-positions the agency as a "vendor" in the supply chain, a concept which makes many advertisers understandably uncomfortable.

Irwin Gotlieb, Chairman of GroupM, questioned recently whether the term "agency" now fits, stating, "you cease to be an agent the moment someone puts a gun to your head and says these are the CPMs you need to deliver". He went on to say that client demands were affecting agency neutrality and changed agencies' buying behaviours.

In Gotlieb's world, clients wishing to stretch their suppliers by asking for "preferential" payment terms or a bigger share of rebates are contravening the principle of "proportionality" that group buyers need to apply across their client portfolio. No vendor wants disproportionality to go public, as it rocks the boat for other customers, undermines the agency trading book and encourages clients to be more promiscuous.

Now that the respective agency CEOs have called the Mandel affair out in recent earnings calls, the issues around agency trading are out in the open. It is time there was a sensible and mature public debate around the realities of modern-day trading and the evolving client/agency commercial contract.

The Sky's the limit?

Closer to home, Viacom chose to partner with Sky for its TV sales representation in the UK. Viacom are betting that Sky, with its addressable solutions and highly developed VoD offerings, represents the best home for its future.

It's easy to make an argument that Sky and other subscriber-based video platforms have the world at their feet. In the UK, Sky Media are now the largest provider of commercial impacts (36% of the market) but have the lowest market share at 26% of ad revenues, that's a power ratio of only 74. Compare this to ITV World, with 47% share of revenue and the same, but declining, 36% share of impacts – a mighty power ratio of 130.

ITV is yet to find an adequate replacement for its imminent loss of Champions League rights and continues to lose audience share. With a Five/Omnicom deal allegedly back on the table and a unique addressable sell, as well as audience growth and an investment pipeline of drama, the wind is in Sky's sails and the price gap between these two giants is sure to close.

Blocking Sky's trajectory are the legacy hurdles of agency share deals and the growth ambitions of BT, whose ad revenues are represented of course by Channel 4, itself a rather large piggy in the middle. ITV will doubtless be preparing for its most challenging negotiation season for several years.

.

Balancing risk and opportunity

We are living through a period of seismic change and volatility in the global video (and media) landscape. How ironic, then, that the majority of advertisers and their agencies are moving rapidly towards a commercial model which seeks to eliminate risk altogether.

Advertisers which are sufficiently confident to blend risk and certainty into their contracts, metrics and relationships are most likely to be the winners in the new landscape. Advertisers which persist in commoditising and de-risking media should take a moment to consider whether this risks making their media planning too rigid or outdated.

To extract real and sustainable value from media investments, advertisers, agencies and the media owners need to engage in a more sophisticated, collaborative and imaginative dialogue.

To find out more...

MediaMinds is the latest commentary from MediaSense – the advisors helping advertisers engineer greater value from their media investments. If you would like to find out more about the topics discussed, get in touch with us:

©2015 MediaSense, all rights reserved: no text may be reproduced without the author's permission. *MediaMinds* is a publication from MediaSense.