THE UK TV ADVERTISING MARKET: BATTERED, BRUISED...BROKEN?

The TV advertising industry was worth over £5bn in 2016. However a combination of economic, legislative and audience factors are likely to significantly reduce revenues over the upcoming twelve to twenty four months.

- **Brexit:** Economic headwinds
- **Legislative factors:** Increased regulation of gambling advertising
- **The Marketing Mix:** Shift of budgets to Digital channels
- **Declining audiences**: An ageing and less affluent viewership
- **Event programming**: A lack of high quality, revenue driving sports

EXECUTIVE SUMMARY

- To date, TV ad revenues have resisted the momentum of digital media
- The structure of the advertising pie and economic headwinds have now reached a tipping point
- Capturing growth in online video will be the battleground, sitting at the intersection of all media
- Linear TV advertisers will increasingly mirror TV's audience profile
- Spot revenues for all broadcasters look set to erode – albeit slowly
- However there is hope - digital ad spend is now under the microscope and is due a recalibration

BREXIT: ECONOMIC HEADWINDS

The second half of 2016 saw significant declines in TV advertising expenditure and marketing confidence following Brexit. The early signs for 2017 are negative.

TV advertising revenues showed clear signs of suffering in the wake of the Brexit vote. Advertising revenues from Jan-June 2016 had been resilient, up by around 2% YoY however they fell away in the second half.

September to November showed combined year-on-year revenue declines upwards of £60 million (fig. 1.). In the first two months of 2017 declines have been steeper with estimates suggesting 5% declines in January & February. March (which is admittedly impacted by the early Easter in 2016) is expected to show double digit declines.

Our analysis is based on more than market revenues. The TV advertising market is often referred to as a leading economic indicator & as we look elsewhere various economic signals suggest a challenging time ahead for the UK economy.

These include signs of instability in the UK housing market (a bedrock of consumer confidence) and increasing consumer inflation. The latter is likely to dampen retail spending as wages are stretched. It also risks creating a vicious cycle of instability as businesses, in the face of falling profits may look to reduce overheads, particularly as UK productivity is already significantly lower than many other leading economies. When viewed holistically this suggests a significantly weakened outlook for UK TV revenues.

LEGISLATIVE FACTORS: INCREASED REGULATION OF GAMBLING ADVERTISING

The UK Government is pushing for increased regulations around (and a reduction of) gambling advertising on television. These advertisers currently account for an estimated 4% of all TV advertising revenues.

In the TV advertising market one of the most highly demanded and profitable genres is sports programming - media owners are willing to spend large sums of money to win major sporting broadcast rights. Sport delivers a hard to reach and upmarket male audience, it is also typically viewed live meaning advertising breaks aren't skipped. Gambling advertisers currently purchase premium pre-planned packages within this programming.

If gambling advertisers were prevented from airing commercials pre-watershed (9pm) as is being proposed this will lead to reductions in their TV spend. A 2% reduction in spot income would lower the cost of all TV advertising, and many brands would be tempted to re-plan activity at slightly lowered budgets.

THE MARKETING MIX: SHIFT OF BUDGETS TO DIGITAL CHANNELS

Advertisers have finite budgets that are subject to significant internal and external pressures. Having attacked Print revenue (which has shrunk by over 50% since 2010), further online growth is likely to come from television budgets.

The UK is a major international advertising market however total media expenditure growth is modest. If the economy starts to stagnate the size of the overall expenditure pie is likely to plateau over coming years. At the same time advertisers are pressing relentlessly ahead with plans to increase their digital marketing investments.

In our view the continued rate of digital growth will be at the expense of television. Print has already shrunk to historically low levels, while cinema and radio account for only 5% of the total marketplace (fig. 1.). TV is the only platform which has the size and scale that the digital platforms need to sustain their current trajectory.

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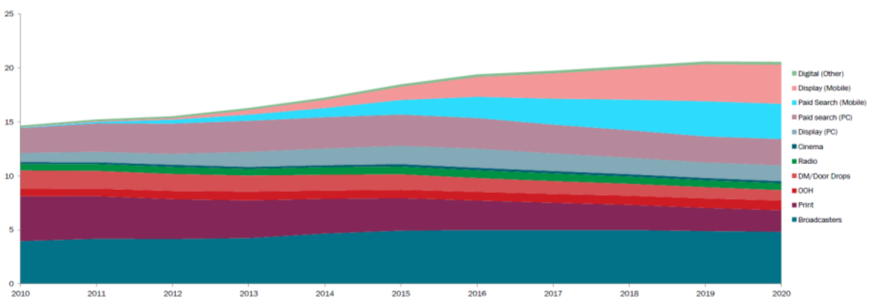
Fig. 1. Projected rate of media growth up to 2020



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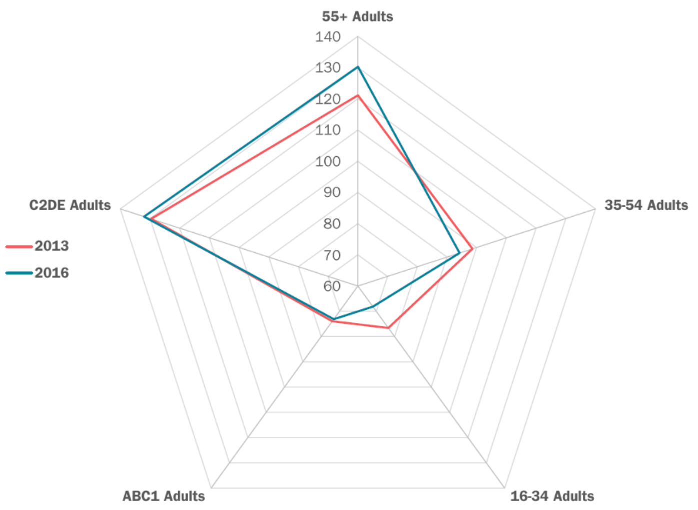
DECLINING AUDIENCES: AN AGEING AND LESS AFFLUENT VIEWERSHIP

TV's total audience is not falling significantly (a decline of 3% between 2012-2016 according to BARB). However evidence suggests advertisers in some categories are likely to see decreasing ROI as TV's viewership are becoming significantly older.

It's not only technology companies which are spending more on TV ads. There has also been an influx of TV spend from price-focussed brands in recent years in response to TV's shifting viewing profile.

During 2013-2016 the likelihood of a commercial being viewed by someone over the age of 55 increased by around 8%, and the likelihood of a viewer being under the age of 35 fell by over 10% (fig. 2.). A continued decline in audience quality is likely to place pressure on media owners' ability to deliver broad upmarket audiences and rapid mass reach for advertisers.

Fig. 2. Viewer demographics by social and age classification, 2013 v 2016



EVENT PROGRAMMING: A LACK OF HIGH QUALITY, REVENUE DRIVING SPORT

ITV lacks a global sporting event until the summer of 2018. Traditionally tournaments have driven advertising revenue across the rest of the year.

ITV lacks a major sporting tournament in 2017 that would allow it to deliver hard to reach, light-viewing male audiences. Historically each event (Euro Championships, Rugby World Cup, Football World Cup (fig. 3.)) is worth approximately 2% in direct additional spot revenue to ITV annually. They also contribute to spend across the year; consistently 'supportive advertisers' are given preferential access.

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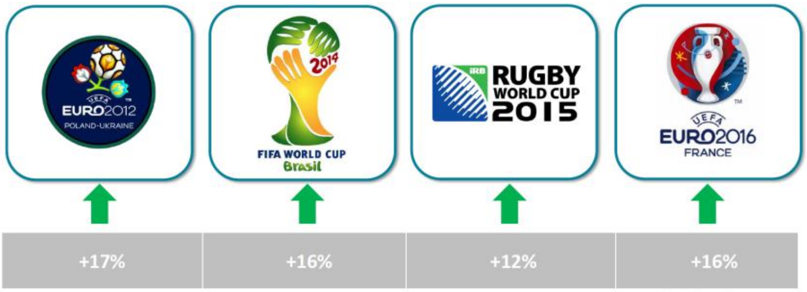
Fig. 3. ITV year-on-year revenue increase during sporting events



Our analysis also shows that ITV's price premium compared to the rest of the marketplace has risen in years where they broadcast major sporting events. Without this ITV appears to be facing a potentially turbulent 2017.

SUMMARY

There can be no doubt that TV broadcasters face challenging prospects. When the factors above are viewed together there is significant downside potential in the TV ad sales market. If audiences remain stable a deflationary spiral could emerge as planning costs are revisited.

TV advertising is facing its first significant challenge since the 'Great Recession' of 2007/8. Only a reverse or brake on digital investment trends is likely to transform the TV picture, where brands move money away from the "murky at best and fraudulent at worst" world of digital marketing (according to Marc Pritchard of P&G).

ABOUT

MediaSense advises marketers on how to take more control of their media, across owned, earned and paid channels.

Our services fulfil a growing need among clients for impartial support, evaluation and oversight of their media infrastructure.

Greater control allows brands to be agile, flexible and autonomous in their media decision-making. It gives brands greater certainty that strategies developed and investments decisions made on their behalf are aligned to their best interests and are held accountable.

ANDY PEARCH
DIRECTOR, CO-FOUNDER

Andy co-founded MediaSense in 2009, having built his reputation as a leading figure advising brands on media value management, performance analysis and agency oversight. He has over 30 years of experience in UK and international media.

JAMES GLENDENNAN
ANALYST

James joined MediaSense in 2015, having previously worked in the commercial management team for the UK's largest TV media owner ITV. As Media Analyst his role encompasses a cross-section of projects from qualitative market research to media pitch management.

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