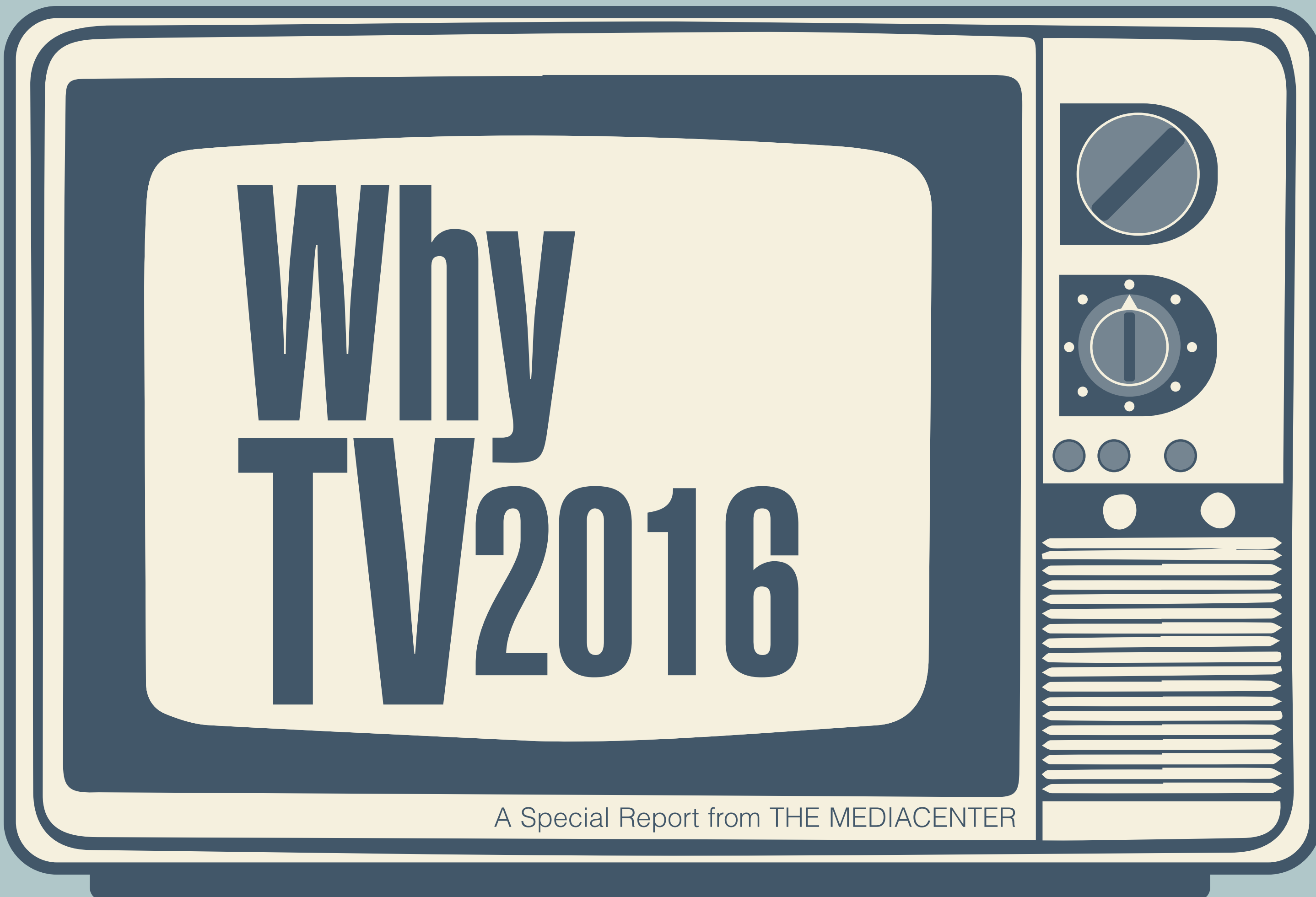

The TV:
The Most Dynamic Device

It's time to take a deep breath and stop all the hand wringing about the demise of TV, as a content and advertising medium, and the ascendancy of digital, as TV's replacement. It hasn't happened and is unlikely to occur like the "sky-is-falling" advocates claim it will.

A good place to start is THE MEDIACENTER's August 2016 Online Newsletter. Yes, digital's share of total ad spending is forecast to surpass TV's share during 2017; however, the newsletter also reveals more compelling findings. Strata (a media buying and selling software provider) surveyed 84 US agency professionals, who were either media directors or held higher positions at a cross-section of ad agencies.

"What the survey revealed is that 49% of those agency professionals said 'their clients are most interested in advertising on spot TV or spot cable.' Digital was a distant second, at 31%."

Another revealing bit of information comes from THE MEDIACENTER's Consumer Electronics Stores 2016 Profiler. TV, as a device, is the only "mature" CE product that also appears on the list of new, "emerging" CE products that will be in the spotlight during 2016 and beyond.

The 5 "mature" CE products – smartphones, desktop and laptop computers, tablets and LCD TVs – have almost reached total saturation. The next generation of devices that will attract the most attention from consumers are fitness activity wearables, smartwatches, smart home, drones, virtual reality headsets, digital assistant devices, 3D printers…and 4K Ultra HD TVs.

By the way, 4K Ultra HD TVs are forecast to generate the most revenues during 2016 of all these "emerging" technologies/ devices and the second most units, with fitness activity wearables first, which are hardly a threat to TV.

These are just two of the salient points to share with your prospective and current clients who think TV advertising should be relegated to second place behind digital advertising. This MEDIACENTER Special Report contains many more.

Unmatched Emotional Association

Because most humans are emotional decision makers and TV's primary strength has and will continue to be its capability to create an emotional association with viewers, the author of a Percolate blog post (Percolate "creates technology that builds the world's best brands.") made two major observations:

1. "Advertising is most valuable when it builds long-term brand value.
2. "TV is still the strongest brand-building medium to build long-term brand value and sales."

The "thrill" of the digital age and its technologies have caused a very short-term perspective. Content and information online or on a smartphone must be immediate, and then quickly "trashed" for the next immediate piece of content.

This perspective and resulting advertising approach does have value for advertisers, with email campaigns as an excellent example. A database for email campaigns, however, is often recent customers or those who have opted-in; and they do generate sales. Advertisers, however, should be focused on attracting unknown or new consumers and that requires emotional campaigns, which is where TV is pre-eminent.

Emotional campaigns on TV take much longer, typically years, but the rewards in brand effects and business effects are much greater.

Comparison of Emotional TV vs. Rational Digital Ad Campaigns Effects

	Brand Effects		Business Effects	
Campaign Duration	Emotional Campaign	Rational Campaign	Emotional Campaign	Rational Campaign
One year	1.3	1.0	1.1	1.0
Two years	1.8	1.1	1.5	1.3
Three years	2.1	1.1	2.1	`1.6

Percolate (IPA), February 2016

The "Fame" Emotional Campaign

Research has revealed that fame campaigns deliver the most powerful emotional associations. Their value is not just to strengthen the bond between consumers and a brand, but also they are more likely to share how they feel with others through social media or traditional word-of-mouth. The following table shows how fame campaigns provide a lift in all the listed metric categories.

Fame Campaigns' Lift of Important Brand Metrics, 2016

Metric	Fame	Other
Sales	55%	47%
Market share	32%	29%
Price sensitivity	8%	3%
Loyalty	14%	9%
Penetration	34%	28%
Profit	35%	21%

The Percolate Blog (IPA), February 2016

TV Ad Revenues Are Advancing

According to data in a May 2016 article on MediaVillage.com, the six major broadcast networks measured – ABC, CBS, NBC, Fox, Univision and Telemundo – experienced a collective 11% increase in ad revenues from October 2015 through March 2016. NBC was the only one of the six that recorded a decline, but it had achieved an increase by March.

CBS and Fox had the largest gains, double digits, and Univision and Telemundo's ad sales increased in the high single digits. During March, the two Hispanic networks elevated their sales increases to approximately double of the 2014–2015 broadcast year to date.

Cable TV's scorecard wasn't as positive, as just 8 of the top 20 networks realized increased ad revenues. ESPN, HGTV and the Freeform Network (formerly ABC Family) all registered double-digits increases. Of particular note was BET's Q1 2016 results, which were almost twice as much as the year to date. TNT, MTV, Comedy Central and History were a few of the most popular cable networks that had decreases in advertising revenues.

The Internet's Effect on Ad Revenues

Forecasts from Pivotal Research Group certainly confirm the continued growth of Internet ad revenues, with a 5-year compound annual growth rate (CAGR) for the period 2017–2021 of 10.8%. The 5-year CAGR for total national TV including the Olympics is +2.1% and total local TV including political is -2.6%.

Advertising Forecast, 2016–2021

Medium	2016	2017	2018	2019	2020	2021	CAGR
Total national TV including Olympics	$46.1 B	$47.1 B	$48.2 B	$48.5 B	$50.4 B	$51.3 B	+2.1%
Annual increase/decrease	+4.6%	+2.1%	+2.5%	+0.7%	+3.8%	+1.9%	
Total local TV including political	$23.8 B	$20.8 B	$24.4 B	$20.9 B	$25.2 B	$20.9 B	-2.6%
Annual increase/decrease	+12.8%	-12.8%	+17.4%	-14.5%	+20.6%	-16.9%	
Total Internet (including all online video)	$69.2 B	$77.3 B	$86.6 B	$95.6 B	$105.2 B	$115.2 B	+10.8
Annual increase/decrease	+17.1%	+11.8%	+12.0%	+10.4%	+10.1%	+9.9%	
Total newspapers	$12.4 B	$10.6 B	$8.9 B	$7.3 B	$5.7 B	$4.2 B	-19.6%
Annual increase/decrease	-12.3%	-14.6%	-16.0%	-18.3%	-21.7%	-26.8%	

Pivotal Research Group, June 2016

You Can Go Home Again

Standard Media Index (SMI) data presented during the June 2016 ARF Audience Measurement 2016 Conference clearly showed the growth in digital media's share of ad dollars spent for the 2010–2015 period.

Five-Year Market Overview of Ad Spending by Medium, 2010–2015

Medium	2015 Share	Points from FY 2010	CAGR for Period
Television	53%	-8	+4%
Digital	33%	+14	+20%
Print	6%	-4	-4%
Radio	4%	-1	+4%
Out-of-Home	4%	-1	+4%

ARF Audience Measurement 2016 (Standard Media Index), June 2016

Despite the rapid and large growth of digital ad spending, an interesting and truly startling trend was reported during the conference:

A significant number of the top 100 TV and digital advertising spenders during the 2014–Q1 2016 period who had been shifting ad dollars from TV to digital were "coming home again" to TV.

- Of the 15 of 39 advertisers who had shifted ad dollars from TV to digital, and then reversed course during Q1 2016, automotive, financial, technology, telecom and travel advertisers returned the most dollars to TV.
- Six categories of advertisers continued to allocate fewer ad dollars to TV: consumer electronics, consumer packaged goods (CPG), entertainment, fashion, retail and prescription pharmaceuticals.
- Just one category was unchanged – quick service restaurants (QSR) – allocating, on average, 79% of their ad dollars to TV.
- Declining ROI with digital advertising was a major driver in bringing many of these advertisers back to TV because additional research revealed that "the optimal mix of TV and digital is 78% TV and 22% digital."
- Of the 100 advertisers measured, 12 had an average sales increase of 14.6% during the 15-month period. This average increase was significantly larger than the other 88 – AND all 12 increased their TV advertising spending by an average of 25.8%.
- These findings support what THE MEDIACENTER has been stating for a number of years: TV and digital are likely to be the best complementary advertising media mix EVER!

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A Closer at CPG Advertisers

Although most CPG advertisers continued to shift dollars from TV to digital, three that did return to TV achieved an average sales lift of +4.8%.

CPG Advertisers That Switched Back to TV

Advertiser	Quarters TV Ad Spending Increased YOY	Q1 2016 Sales vs. Q1 2014	Immediate Incremental Sales Return on Incremental TV
CPG A	Q4 2015	+3.0%	$4.71
CPG B	All except Q2 2015 and Q1 2016	+4.0%	$5.67
CPG C	Last 2 quarters	+7.3%	$3.67
Average		+4.8%	$4.68

ARF Audience Measurement 2016 (Standard Media Index), June 2016

A comparison of CPG and non-CPG advertisers according to ARF-SMI's 5 categories of digital/TV advertising spending shows that the CPG advertisers who increased their TV dollars (categories, A, C and D) achieved better Q1 2016 sales on average. Among non-CPG advertisers, only those in category A recorded an increase, and even greater than CPG advertisers.

Comparison of CPG and Non-CPG Advertisers' Dynamic Ad Spending Pattern

	CPG Advertisers		Non-CPG Advertisers	
Advertising Type	Q1 2016 Sales vs. Q1 2014	Results	Q1 2016 Sales vs. Q1 2014	Results
A: Having decreased TV, increasing it again	+4.8%	Increase for all 3 advertisers	+8.8%	Increase for all 4 advertisers
B: Continuing to move TV dollars to digital	+4.7%	Increase for 2 advertisers, decrease for 2 advertisers	-3.1%	Increase for 1 advertiser, decrease for 2 advertisers
C: Increasing TV and digital	+4.0%	Increase for 3 advertisers, decrease for 2 advertisers	-0.1%	Increase for 2 advertisers, decrease for 1 advertiser
D: Decreasing digital, increasing TV	+7.9%	Increase for all 3 advertisers	NA	
E: Reducing both TV and digital	+1.1%	Increase for 2 advertisers, decrease for 2 advertisers	NA	

ARF Audience Measurement 2016 (Standard Media Index), June 2016

Understanding and Managing Advertising Churn

As a local media representative, retaining current SMB advertisers has been and continues to be a major challenge. This is often described as “churn,” which the December 2015 report from the Local Search Association (LSA) defines “as the percentage of total advertisers who terminate (or fail to renew) within a designated period of time, which can be monthly, quarterly or yearly.”

There hasn’t been much definitive research as to an acceptable churn rate, although a 2009 Borrell Associates report stated that it was probably 50% to more than 80%, especially for digital paid-search advertising. LSA estimated during 2015 that local churn rates were still 50% to 60%, depending on the advertising vendor.

Google has investigated this concept too and claims 52% of churn is preventable, but local advertising vendors are probably unable to control the other 48%.

According to the LSA report, there are many reasons why advertisers don’t renew. Some you can’t control, such as a business failure; others are in a gray area, such as advertisers’ dissatisfaction with the sales lift of the advertising; and others you are more likely to be able to control, such as customer service.

The 2009 Borrell Associates report focused on two primary causes for churn: no measurable ROI and SMB advertisers failing to budget enough dollars to the appropriate media.

Sources of SMB-Advertiser Dissatisfaction, January 2015

Source	Percent
Poor program results	60%
Poor service levels from providers	55%
Price is too high for the product/service	45%
Too many errors made	30%
Other	25%

Local Search Association-Thrive Analytics, December 2015

Vendasta, a local marketing automation platform, studied data from its digital advertising accounts for the March 2014–March 2015 period. Although some of its findings relate almost exclusively to local digital advertising vendors, TV had the highest churn rate and digital media was primarily in the mid-range. The difference may have more to do with the fact that seasonal or other cycles have little or no effect on digital media spending as they do on TV and other traditional media.

Annual Churn by Media Category, March 2014–March 2015

Medium	Churn Range
Television	51%–64%
Agency	38%–48%
Internet Yellow Pages	32%–54%
SEO/SEM	33%–44%
PurePlay	28%–38%
Newspaper	25%–36%
Vertical	26%–35%
Radio	14%–37%

Local Search Association (Vendasta), December 2015

Digital Advertising's Growing Pains

As any commodity, product and/or service experiences rapid growth, it also suffers from a number of growing pains – and such is the case with digital advertising.

An interesting example is 2015 data from BIA/Kelsey for the top 10 advertising billers in the Boston, MA market. Google was the clear leader, topping any of the SINGLE local broadcast groups; however, add Facebook's, Bing's, Yahoo's, Pandora's, AOL's, Yelp's and Twitter's totals (which aren't in the top 10) to Google's and the grand total of $355.0 million is $20 million less than the total of the four Boston TV broadcast groups in the following table, or $375.3 million.

Top 10 Advertising Billers in Boston, MA During 2015

Company	Media Type	Total	Market Share
Google	Online/ Digital	$237.8 million	7.34%
Hearst Television	Local TV	$110.5 million	3.41%
Sunbeam Television	Local TV	$107.5 million	3.32%
CBS-TV	Local TV	$96.7 million	2.98%
John Henry (Boston Globe)	Local newspaper	$96.4 million	2.98%
iHeart Media	Local radio	$91.9 million	2.84%
CBS Radio	Local radio	$77.2 million	2.38%
Cox Media Group	Local TV	$60.6 million	1.87%
GateHouse Media	Local newspaper	$53.2 million	1.64%
Greater Media	Local radio	$48.9 million	1.51%

BIA/Kelsey, April 2016

A May 2016 report from Pivotal Research Group of a survey of 360 digital video advertising professionals found that these marketers expect to spend twice as much on digital video advertising during 2016 than they did during 2014. The report also concluded that although digital video advertising was increasing rapidly, it was receiving "a beneficial contribution to advertisers' campaign reach when used in conjunction with traditional TV."

Consumer Pushback

Another pain point for digital advertisers is consumers' increasing use of ad blockers. According to information in a July 2016 HubSpot article, global usage of ad blockers increased 41% from Q2 2014 to Q2 2015. In addition, ad blocking was estimated to cost the advertising industry $22 billion during 2015, and will reach $35 billion by 2020.

HubSpot conducted a survey during Q2 2016 in the US and Europe and found that 83% of mobile online browsers would like to block ads.

Why Consumers Install Ad Blockers, Q2 2016

Reason	Percent
Ads are annoying/intrusive	64%
Ads disrupt what I'm doing	54%
Security concerns	39%
Better page load time/reduced bandwidth use	36%
Offensive/inappropriate ad content	33%
Privacy concerns	32%
Reduced data usage (for mobile plans)	22%
I don't like contributing to a business making money from my browsing	18%
Ideological reasons	8%

HubSpot Adblock Plus Research Study, Q2 2016

Still the Clearest Signal

In a world where computers and smartphones are now considered "traditional" devices and wearables, virtual reality headsets and 3D printers are emerging to attract more of consumers' attention, the TV is still the most dynamic device.

This MEDIACENTER Special Report has also presented data that firmly establishes TV's superiority for creating an emotional association with the audience – when advertisers commit to its long-term use to build a stronger brand connection with consumers.

Maybe, the most salient point you can share with your prospects and clients is that many major advertisers have come to realize that TV must be the major component of their media mix – and are returning digital ad dollars to TV.

The Vendasta study was unable to provide a definitive reason why TV advertising has a high churn rate, but a major cause is likely to be advertisers' search for short-term results instead of making a long-term commitment to TV. You also have it within your power to reduce the churn rate with improved customer service.

Finally, consumers continue to exercise their increasing power over the marketplace by actively blocking digital ads. By contrast, TV spots have been part of the viewing experience for more than 60 years. As Nigel Hollis, executive vice president and chief global analyst at Millward Brown, stated in a May 2015 essay,

> *TV "mostly remains a passive viewing experience…We may not attend to the ads much, but we are still exposed to them because there is no imperative to do otherwise. I believe the true power of TV lies in the very indifference of viewers because they watch ads for brands that would not otherwise attract their attention."*

Sources: eMarketer Website, 8/16; Consumer Technology Association Website, 8/16; Percolate Website, 8/16; MediaVillage Website, 8/16; BIA/Kelsey Website, 8/16; Digital Market Depot Website, 8/16; HubSpot Website, 8/16; MediaPost Website, 8/16.

Updated: July 2016