Paul Verna

The Daily: TV vs. CTV, the takeaway from this year's upfronts/NewFronts, and Peacock's extreme discounting

Audio

On today's episode, we discuss how much advertisers spend on traditional TV, whether connected TV (CTV) is stealing all of its dollars, and how much time Americans spend watching both. "In Other News," we talk about the one big takeaway from this year's upfronts and NewFronts and whether Peacock's new pricing strategy will work. Tune in to the discussion with our analyst Paul Verna.

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Episode Transcript:

Marcus Johnson:

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Paul Verna:

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Marcus Johnson:

Hey, gang, it's Monday, June 12th. For all our listeners, welcome to the Behind the Numbers Daily, an eMarketer podcast. I'm Marcus, and I'm joined by one of our principal analysts. He heads up our digital advertising and media practice. He's based just north of the city in New York. It's Paul Verna.

Paul Verna:

Great to be here.

Marcus Johnson:

Hey, chap. Today's fact, the largest inland lake in the world, Paul, is?

Paul Verna:

Baikal.

Marcus Johnson:

Is that a real thing?

Paul Verna:

Lake Baikal.

Marcus Johnson:

Oh, okay.

Paul Verna:

In Russia.

Marcus Johnson:

No, no.

Paul Verna:

When you tell me, I'm going to know it, but I can't remember it off the top of my head.

Marcus Johnson:

Can you picture it? That's a good guess.

Paul Verna:

It was the Black Sea? Oh, the Caspian Sea. The Caspian Sea. Yes. See, the name throws you off because it's not a lake if it's called a sea, right?

Marcus Johnson:

Oh, that's true. That's true.

Paul Verna:

They should call it the Great Caspian Lake, then we'd all be square with it.

Marcus Johnson:

That would make sense. Why is it called the Caspian Sea? What a terrible name. What's happening? Well, if it is indeed a lake, and now we're very suspicious, but if it is... It sits between Kazakhstan and Iran, so Kazakhstan to the north, Iran to the South. In terms of size, Paul, it would be half the size of Texas, or it would be the entire size of Montana, which is the fourth largest state in the US.

For folks who've been to the Great Lakes, if you add up all of the Great Lakes in America and put them into a big super lake, that super lake would be about two-thirds the size of what we should now call the Great Caspian Lake.

Paul Verna:

Exactly. Between you and me, Marcus, that's what we're going to call it from now on.

Marcus Johnson:

Yeah, I'm glad we ironed that out.

Paul Verna:

Everybody else will be lost at sea.

Marcus Johnson:

Today's real topic, TV versus CTV. In today's episode, first in the lead, we'll cover some TV things. And then for another news, we'll discuss the most important takeaway from the upfronts and new fronts and why Peacock is practically giving their service away for free as other streamers increase prices. Paul, we start with the lead and we're talking TV. You've just done some research on this looking at TV versus CTV, the relationship, the differences, the similarities.

Let's start by talking about the old version of television, traditional TV, linear TV, if you will. We'll use those terms to talk about old school TV, often known as cable, but includes cable, satellite, telco. That's what we're talking about first. Paul, where's the US TV market at? How much will advertisers spend on traditional TV today and over the next few years?

Paul Verna:

Well, this year it's going to be just north of 61 billion. And by 2027, that's going to fall to 56 plus billion. The market's going to lose about 5 billion in that time, and it has lost quite a bit over the past several years. It is for sure a market in decline. I mean, you can point to a couple of little bumps.

Every even numbered year we get a little bump because that's either US presidential elections and Summer Olympics, or it's US midterm elections and Winter Olympics and FIFA World Cups and things like that. On those years you get a little bit of a bump, but overall the trend line is just going down. It peaked at like 72 billion back I think in 2012. And from there, it's just a decline.

Marcus Johnson:

It has had some peaks and troughs. But by and large, Paul, as you point out in the report, TV ad spending this year is the same as 2008. Over the last, what, 15 years, basically it was about 61 billion then, it's about 61 billion today. I mean, you said it's going down and it is trending down now, even though it's going to go up and down a bit over the next four years, it's going to be going down to that 56, 57 billion.

That's still relatively close to 60. I guess my question is how has it been able to stay so relevant, and how is it also able to be so resilient over the next couple of years, because we're not seeing it drop off a cliff the way we're seeing viewership of linear TV fall?

Paul Verna:

Yeah. Well, first, just a very quick note on the figures that you cited from 2008 and now that those don't take into account inflation. If you priced in inflation, we would actually be quite a bit lower than the equivalent value in 2008. But to your point about the fact that this is still a very large market and is not going to suddenly become a small one, attrition is slow. I think that's simply because it works. It has challenges, and I think it's being superseded by other forms of advertising that have better targeting, better measurement, better attribution.

But overall, TV still works and it's something that we have been as consumers watching since before you and I were born and probably most people listening. I mean, going back to the 1940 and '50s. The formula really hasn't changed that much. You're telling a story in 30 seconds. You're using sound and video. A lot of people don't love ads and they skip them, but that is the currency that we've been used to. It's not changing. Even when we get later into the podcast and we start talking about CTV, CTV brings a lot to the table that TV doesn't have, but the basic creative unit is similar.

The type of stories that advertisers are telling are similar. They're just delivered via different mediums. I think that's why we see that advertisers continue to spend because it's tried and true. It's worked for all these years. And despite its problems, there's still value there.

Marcus Johnson:

I mean, you're still hitting a lot of people. I mean, you mentioned, Paul, that this year is pretty significant because of the drop we're expecting, which we've just not seen in previous years. 8% dropped this year, the third largest since we started tracking TV ad spending in 2008. And then you note the Great Recession, 2009, was the year after everything went crazy in 2008, so 2009, and then 2020, pandemic year, of course. Those are the only two years that saw bigger declines than this year, and this year is falling 8%.

The thing that is dropping, Paul, is TV share of total, right? In 2008, a third of all ad spending went to TV. Today it's 17%. In four years it'll be 12%. That is declining even if the dollars haven't fallen off a cliff. Fewer dollars are being spent on linear TV. Is that being made up on CTV? We should say, Paul, when we talk about CTV, we're talking about a lot of things here, connected tv, obviously. SVOD is regular Netflix. AVOD, advertising video on demand, is Netflix with ads.

Then you've got the FAST that we talked about in an episode last week, the Roku Channel, Tubi, those free ad supported streaming services. Then you've got YouTube that's been watched on a TV. You've got streaming TV services like FuboTV and Hulu with live TV. A lot of different things are caught in that CTV definition. But Paul, is CTV as a whole recouping all of those ad dollars that were disappearing from linear?

Paul Verna:

It is. When you look at CTV since we started tracking ad spending, it literally has increased every year. There are no exceptions to that. When you look at the total market, so that would be the addition of TV and CTV, you also have a growth story. In that case, there are a couple of years when it didn't grow. 2020 being one of them mostly or all because TV just did fall off a cliff that year. And then this year in 2023, that 8% decrease you talked about in TV is going to be too much for CTV to make up for. But over time, that combined market, so that is TV plus CTV, if you take a long view from say 2017 to 2027, it grows at a compound annual rate of about 3%.

It's going to approach 100 billion by the end of our forecast period in 2027. Yeah, I think it is making up for the losses. I mean, if you go back to a time when TV was king, I haven't done this, but if you were to look at a compound annual growth rate of any 10 year period, say in the early 2000s or late '90s, you would probably see something similar to what we're seeing in this combined market now. Sustained growth. I mean, 3% doesn't sound like a lot. But on a compound annual basis over 10 years, that's pretty good growth.

Marcus Johnson:

Right, right. If you look today, we're basically seeing linear TV plus CTV added together is an $86 billion space. CTV today is about 30% of the total. But in four years time, it'll be 40% of the total. That is growing. Regular TV is shrinking. But when you add them both together, their market overall is still ticking up, to Paul's point, getting close to $100 billion combined by

2027. Paul, you note CTV is the fastest growing major ad format that we measure, and it's a pretty crowded space at this point, Paul.

I mean, you know that Disney owned Hulu leads the pack, about $4 billion in US CTV ad revenues this year. YouTube's in second with nearly 3 billion. Roku is third with nearly two. We don't see any other streaming services making it into that billion dollar CTV ad spending club this year. But you point out that several folks will gain entry to that club by 2025, Pluto TV, Tubi, Peacock, Netflix. Do you see the landscape changing too much in the next couple of years in terms of Hulu first, YouTube second, Roku third?

Paul Verna:

I don't think so. I think even the platforms that are going to scale pretty quickly and become really big players like Disney+ and Netflix, it's going to take them several years to get to that point, whereas I think Hulu does have a pretty solid lead. I think that Roku Channel is up there as well. When we talk about CTV, YouTube has a growing percentage of their time spent on CTV now. It went up by a factor of about 50% in three or four years. It's a sign that they've pivoted or they are pivoting from being a mobile first format to a very home-based, CTV-based one.

I think it's showing up in their ad numbers. No, I don't think the leaderboard is necessarily going to shift, at least not dramatically. But there are a lot of players that are coming into the ad supported space. I mean, there's just been news that Amazon is considering an ad tier for Prime Video. Apple TV, of course, has been licensing sports content against which they sell advertising. The same is true of other platforms that we don't yet break out individually, but they're part of that long tail.

There's also a lot of revenue that flows to players like the TV manufacturers that sell ads and adtech middlemen are really getting in on the CTV action because most of it is sold programmatically. It's a very dynamic and fluid space. But in terms of the platforms that are out there competing for those ad dollars and those views, we're probably not going to see that much that we don't expect in the next couple of years. I think those places in that rank order are going to stay somewhat the same.

Marcus Johnson:

YouTube's an interesting one because I think about half of viewership on YouTube now happening on television, and it's just shifting our thinking in terms of where YouTube is consumed. No longer majority of it being on the smartphone. Paul, today, and we talked about the dollars, 2023, most of the dollars is still coming from regular TV, some of the dollars coming from CTV, but the viewership, that's a very different story.

Today, two-thirds of Americans are CTV viewers, so over 200 million people, but less than half of US households have cable. In four years time, a third will. There are more CTV viewers than regular TV viewers. But Paul, what does time spent look like for TV versus CTV?

Paul Verna:

Well, the gap in time spent still favors TV, but that's changing. It's changing pretty fast, and I think we're going to see a tipping point. The chart that I showed in the report goes from 2019 to 2024. In that time, TV goes from about three and a half hours to about two hours and 45 minutes. It's losing about 45 minutes per day on average in that space of four or five years. CTV is gaining about an hour, so it's getting from close to one hour to close to two hours. Right now there's like a 45-minute delta between TV and CTV.

Marcus Johnson:

Right. It used to be two and a half hours.

Paul Verna:

Yeah, it was two and a half hours in 2019. Those lines are going to keep narrowing, and eventually we are going to see them cross over. When it's going to happen, I couldn't tell you, but I don't think it'll be more than three or four years down the road, maybe less.

Marcus Johnson:

You note as well, average daily time spent with TV peaked at four hours and about 40 minutes in 2012. It's been going down every year since then, except 2020. A gap of just 45 minutes between TV, which is two hours 45 minutes, and CTV, which is about two hours, but that gap was closer to two and a half hours now down to 45 minutes.

Paul Verna:

A very quick note, you mentioned that 2020 and time spent on TV going up. Interestingly, that was also a year when ad spending took a big nose dive. There's a big disconnect between time spent and ad spending on TV. We don't have time to get into it now, but it's a really interesting dichotomy, at least at that time. It's normal doubt since then, but it really shows that the TV market, linear TV, has been in disarray. Because whenever you see time spent and ad spending go in opposite directions, that shouldn't be. Those two things should track somewhat in parallel.

Marcus Johnson:

Final question, Paul, real quick, what's the takeaway here for marketers?

Paul Verna:

The takeaway is that the future is now for CTV. It's not three years from now. It's not five or 10 years from now. It's right now. But there's still a lot of value in linear TV. Given the demographics and how different they are for both formats, the best approach in my opinion is to use both to supplement and compliment each other. I think we still have that runway for a few more years to do that.

Marcus Johnson:

For me, the takeaway for marketers from your report was as of last year, so it's already happened, advertisers were spending more on digital video ads, digital video, than linear TV ads, which is a pretty significant milestone.

Paul Verna:

Yeah, that says a lot.

Marcus Johnson:

That's what we've got time for for the lead. Time for the halftime report. Paul, of everything we talked about in the first half, what's worth repeating?

Paul Verna:

I think actually the data point you just cited, Marcus, about digital videos surpassing linear TV, it bears repeating. It also bears some perspective because a lot of that digital video is coming from things like social. It's not just CTV related, but the fact that all those dollars are going to digital and not linear is a pretty big deal.

Marcus Johnson:

Yeah, good point. That's what we've got time for for the first half. Let's do the second today in other news. Some takeaways from the upfronts and new fronts and Peacock's extreme discounting. Story one. In the recent piece from Reimagining Retail Podcast host Sara Lebow, she cited a few of your takeaways, Paul, from the upfronts. The upfronts and new fronts being when TV networks every year present their upcoming lineups of shows for advertisers to buy ads against.

Some of the takeaways you mentioned in Sara's piece included ad buyers having a lot of leeway for negotiations, the writer strike being palpable at the upfronts, and Netflix continuing to push into advertising video on demand, AVOD. But Paul, the most interesting takeaway from you of all of them from the upfronts and new fronts this year was what and why?

Paul Verna:

All those things you mentioned I think are big takeaways. Also, the NBCU event was particularly tumultuous because of Linda Yaccarino's sudden exit from the ad part of that business. But one thing that I would highlight that was not in that article is the measurement side of it and the currency. This is basically the last year where Nielsen is going to have its panel-based system as the defacto currency.

Now, advertisers have been transacting on alternative currencies as an experiment, but starting next year, I think that's going to really kick into high gear because Netflix has said that it will be moving away from that panel-based system for the upfronts in particular.

Marcus Johnson:

Story two, Peacock's extreme discounting. As streaming competitors like FuboTV, Paramount+, YouTube TV, Disney+, and others are hiking prices, Peacock is lunging in the other direction. Over the past few weeks, the streaming service owned by NBCUniversal has been offering consumers the chance to buy a year of Peacock access for 20 bucks. Today might be your last opportunity to actually get that deal.

That's basically a buck 50 a month. But Paul, the most interesting sentence in this article on Peacock's extreme discounting, this piece being from Daniel Konstantinovic, one of our analysts on the briefings team, is what and why.

Paul Verna:

To quote verbatim, "Peacock has already generated tremendous losses for NBCUniversal, which expects to lose $3 billion on the service this year."

Marcus Johnson:

Exactly what I wrote down. Yep.

Paul Verna:

That's really the crux of it. Obviously, Peacock is making a play to increase its subscriber base at the expense of revenue. But with that kind of loss already on your ledger, it's a really risky gambit because they're going to come to a point where they're going to need to completely reverse course and not just go back to charging what they were charging, but actually raise it from there. Because I think that even before the steep discount, their subscription prices were probably not sustainable to drive revenues. It's a bandaid over a gaping wound.

Marcus Johnson:

That number again, NBCUniversal expecting Peacock to lose $3 billion this year, and they've just cut the price from five bucks to a buck 50. As Paul's saying, it's not going to help them make much money, but they're trying to get as many subscribers as they possibly can and make money later. That's all we've got time for. Paul, thank you so much for hanging out.

Paul Verna:

Always a pleasure.

Marcus Johnson:

Thank you to Victoria, who edits the show, James, who copy edits it, Stuart, who runs the team. Thanks to everyone for listening in. We'll see you tomorrow hopefully for the Behind the Numbers Daily, an eMarketer podcast.