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CTV ads look to be one of the advertising channels hit hardest by marketers' economic concerns

Article

The news: In response to rising inflation, one in five marketers have cut their spending, per new Advertiser Perceptions data. Budgets decreased by **an average of 16%**.

- Upper-funnel campaigns have seen the biggest cuts, with 47% of marketers surveyed suspending connected TV (CTV), 44% halting digital video, and 42% pausing linear TV.
- **Nicole Perrin**, VP of business intelligence at Advertiser Perceptions, says she believes the expense of CTV advertising is a major reason why it is one of the ad channels most at risk of being paused or cut (another reason could be the recent study that found that 17% of ads on CTV devices air while TVs are off, costing advertisers $1 billion).
- By the conclusion of the fourth quarter, four out of five respondents expect to reactivate their budgets, but their strategies will shift: 50% of marketers will change their message tactics, and first-party data will become more important as they prioritize keeping current clients over acquiring new ones.

While inflation is an issue across sectors, the study suggests the pinch from it differs by category. Although 90% of consumer-goods and retail marketers have been affected by rising prices, just 42% have shifted their messaging strategy, compared with 70% of fashion and apparel marketers and 56% of marketers in the finance sector.

Zoom out: The study polled 300 marketers at the end of April. Since the research was conducted, macroeconomic conditions have gotten worse, and it's a safe bet that the patterns taking shape have intensified.

- Perrin said she would be surprised if advertiser concerns have lessened since April, given this week's inflation report coming in higher than expected. She expects more advertisers to cut back "as consumers face a bigger squeeze on their discretionary spending and increase to their cost of living."

In recent months:

- US consumer spending has cooled on account of inflation.
- The Consumer Price Index accelerated 9.1% year-over-year in June, the largest such gain since the end of 1981.
- With rare exceptions (beer, we're looking at you), demand for many products, especially gas and groceries, is softening thanks to inflation, making it understandable that advertisers pull back in anticipation of selling less.

Funnel foibles: Many marketers are cutting back on expensive upper-funnel operations that are crucial to creating brands. That dampening has affected CTV and digital television, which had previously benefited from the pandemic-driven trend toward streaming and social media.

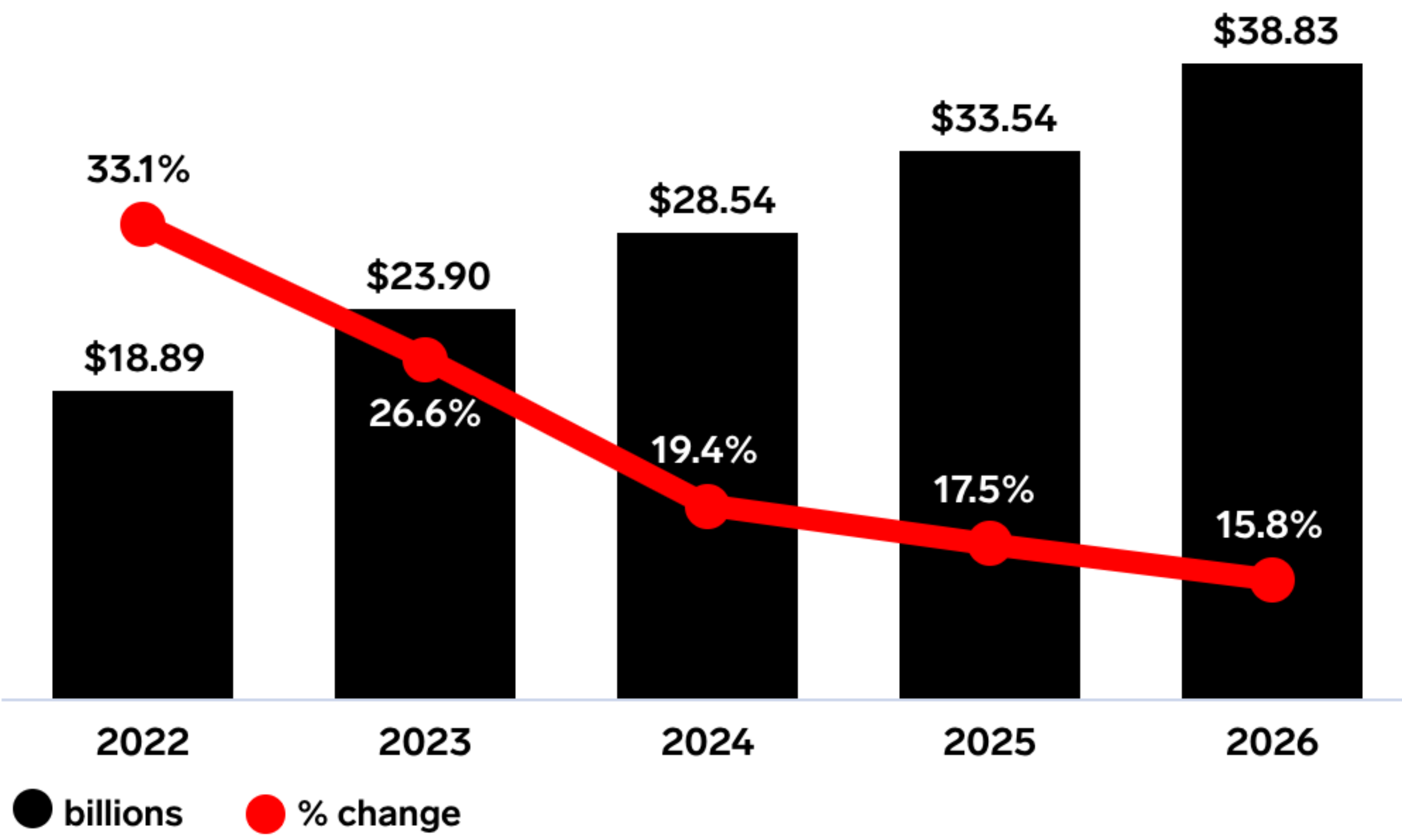
There's often a "flight to retention" as budgets get cut, and a corresponding focus on profitability of specific customers, explains principal analyst **Dave Frankland**. In the short term, it makes sense; in the longer term, it can hurt.

"You'll also find some marketers that will zig while everyone else zags and double down on acquisition when everyone else is pulling out of top-of-funnel activity," said Frankland. For companies that can sustain the investment, it's a great time to grow—albeit likely unprofitably."

What's next: Three in 10 respondents in the study indicated they would turn their CTV ads back on if inflationary pressures waned. Given June's inflation data, though, that doesn't seem likely to happen soon.

Connected TV Ad Spending

US, 2022-2026



Source: eMarketer, March 2022

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