Paul Verna

The Daily: Has the ad market rebounded, the verdict on premium video-on-demand, and streaming's share of TV

Audio

On today's episode, we discuss what to make of the mixed signals surrounding the US ad market, how much the space will grow in 2023, what's driving it, and what's holding it back. "In Other News," we talk about whether Universal Pictures' premium video-on-demand success has reshaped the movie distribution model and what we spend our time watching on our TVs. Tune in to the discussion with our analyst Paul Verna.

Subscribe to the "Behind the Numbers" podcast on Apple Podcasts, Spotify, Pandora, Stitcher, Podbean or wherever you listen to podcasts. Follow us on Instagram

Episode Transcript:

Marcus Johnson:

This episode is sponsored by Verisk Marketing Solutions. As a marketer, there's too much at stake to ever have to guess at the who, what and when. Verisk Marketing Solutions enriches the consumer data for many of the top insurance carriers, mortgage lenders, banks, and media and ad tech platforms in the US. With the latest identities, attributes, permissions, and in-market behaviors you can confidently acquire, retain and grow your ideal customers. Visit marketing.verisk.com for more information.

Paul Verna:

That to me, speaks of a healthy market, even though again, the growth figures we had seen leading up to the last couple of years were obviously higher and spiked during the pandemic, so there's a lot to consider there, but I still see digital advertising as a more class half full picture.

Marcus Johnson:

Hey gang, it's Monday, July 10th. Paul and listeners, welcome to the Behind the Numbers daily, an eMarketer podcast made possible by Verisk Marketing Solutions. I'm Marcus. Today I'm joined by one of our principal analysts who heads up our digital advertising and media practice based out of New York, it's Paul Verna.

Paul Verna:

Great to be here.

Marcus Johnson:

Hello, sir. Today's fact, America doesn't in fact have an official language. So, a recent survey from the US Census Bureau found that over 350 different languages are spoken throughout homes across the United States. The top languages spoken in America are English, or some version of English I should say, 240 million people. Then it's Spanish, just over 40 million speakers, Chinese, including Mandarin, Cantonese, and others about 3 million. And the Philippine language of Tagalo comes in fourth with 1.6 million. Vietnamese in fifth has 1.4 million speakers in America.

Paul Verna:

Well, I think it's great that two languages are represented on this show and there are only two of us here. We have proper English and then we have ugly American. And I do have to say when I lived in France, the French really, really differentiate between American and English. They say [inaudible 00:02:15]

Marcus Johnson:

But they hate us both equally.

Paul Verna:

Yes. Yes, we are joined by that common bond of being disparaged.

Marcus Johnson:

We still love you, France. We still love you.

Paul Verna:

Absolutely.

Marcus Johnson:

Today's real topic has the ad market finally rebounded.

In today's episode, First in the Lead, we'll cover whether the US ad market is in fact out of the woods. Then for another news, we'll discuss premium video on demand, whether that's working and what people watch on their TVs. We start with the lead of course, and we're talking about the ad market. The US ad market spending grew in May for the first time in 11 months, notes our very own briefing's analyst Daniel Konstantinovic. He explains that standard media's US ad market tracker rose in May for the first time in 11 months, jumping 2.5% in a possible sign of the end of a nearly year long advertising calling period that began last summer as interest rates began to rise.

Paul, what do you make of this 2.5% positive figure from standard media's US ad market tracker?

Paul Verna:

Well, it's encouraging for sure, but it's part of a set of data that's very noisy in an environment where there's just not a lot of clarity. I mean, you almost wish that the economy and the ad industry would make up its mind and just go into a recession if it has to, and then come out as quickly as possible. Because it's really been quite a long time of just a lot of ambiguity and a lot of mixed signals. So this one is encouraging, but at the same time, the contrast between this two and a half percent increase in May and downgrades from some of the big agency holding groups, it's hard to square those things. There are some reasons and some details that we can delve into that might help explain it, but there's still not a lot of clarity in the market.

Marcus Johnson:

Yeah, if the world was in the relationship with ad spending at the moment, it would definitely be sending mixed signals, and some of those mixed ...

Paul Verna:

It would be "complicated".

Marcus Johnson:

It's complicated. That is what we would select if we were early Facebook days setting up how you would describe our current relationship status. It feels slightly sustainable because, or at least as though this monthly ad market spending number can keep its head above water for the time being, because May was, as we mentioned, plus 2.5%. April was only negative 1.5%. And the five months prior to that it was like negative five to negative 12, so it was aggressively negative.

But that said, on the one hand, positive indicators inflation, it's been heading in the right direction, reaching 4% in May from the peaks of 9% last summer. On the other hand, you've got the conference board, their consumer confidence index in May hit a six-month low, they were saying a downturn is likely inbound. And then also the index of consumer sentiment from the University of Michigan peaked in February and has been falling since, slowly. This May figure as well, Paul, Daniel points out it's got some seasonal help, some ad spending around the corner and major events like Pride Month and Juneteenth helping to drive activity as well.

Paul Verna:

Yeah, it's also worth pointing out that these numbers are monthly numbers and their comparison is year over year to the same month last year. So there could be a lot of lumpiness and a lot of reasons why one month is up, one month is down. That's why we forecast on a longer term. I mean, we update our forecast twice a year, so it's more of a rolling sense of how the market is actually doing in a longer timeline. But for SMI, May of last year was up as well. So to your point about seasonality, I think there are clearly reasons why that happens.

Marcus Johnson:

That's a good point. We'll get to our numbers in a second for full year to zoom out and get more of a bird's eye view of the ad market in the US, but before that, Paul, Dentsu recently downgraded their global ad spending forecast slightly, arguing that ad spend growth is actually an illusion driven by inflation. What are your thoughts there?

Paul Verna:

Well, I think there's a lot to be said for that. With inflation being so high and even higher in many countries outside the US, these being global numbers, it will definitely drive up prices and give you almost like a false positive. So I definitely have to take Dentsu at their word when they come to that conclusion, and I think they even indicated how much of their growth is attributed to inflation, and it's quite a bit of the growth. So yeah, I think we have to put every one of these numbers through that filter. So, when you talk about year-over-year growth, if that growth is in the three, four, 5% range, that could just be inflation. Not necessarily, but it could be.

Marcus Johnson:

Right. Well, so let's zoom out now and look at total year. Group M, let's start with them. They expect 2023 US ad revenues to grow 5%, excluding political ads. Paul, where has our forecasting team landed on US ad spend for this year, full year 2023, and why?

Paul Verna:

Our full year 2023 growth target is 3.8%. With the caveat that we will update this forecast again in the fall, and at that time we'll issue still a year-end forecast for 2023. And I'm not in any position to signal what we're going to do with the forecast, it's ...

Marcus Johnson:

Well, I think the Q2 numbers in.

Paul Verna:

Yeah, yeah. But that 3.8% figure, it's actually higher than some of the agency groups, but it is the lowest growth figure we're going to see from, say 2021 through the end of this forecast, which is in 2027. So 2023, despite that 3.8% growth being a little higher than other forecasters are indicating, it's still kind of a trough in that longer curve.

Marcus Johnson:

Right. So yeah, it's down from 8% last year, so 8% last year, call it 4%, 3.84% this year. What are some of the things behind that?

Paul Verna:

Well, I think the back half of 2022 was a really tough time for the ad business, and a lot of that uncertainty carried over into this year. And there are so many factors behind that, not just the economic climate, but also all of the privacy issues and their downstream effect, particularly on social, and of course the ongoing attrition in traditional ad spending. But I think generally, just the sense that advertisers are more cautious. If you look across most of the tech and media and ad agency holding companies, so many of them have had big rounds of layoffs. So many of them are watching their budgets a lot more carefully. So that just feeds this mindset of just being more cautious with those dollars, and that ultimately reflects on spending. So I think that's what 2023 is about.

There's also the fact that it's a odd numbered year and even numbered years tend to have higher growth rates, because you have the elections and big sports events.

Marcus Johnson:

Good point. And the big [inaudible 00:09:43]

Paul Verna:

All of those factors, I think, drive 2023 down. But I think there is a general sense with us and with the other forecasters, despite whatever differences in the actual growth numbers, there is a sense that this is a tough year, coming off of a second half of a tough year last year carrying over into this year. And then there is going to be some recovery, hopefully starting later this year, but if not, then certainly in the next couple of years.

Marcus Johnson:

So digital, we've got that growing 8% this year, so 4% for total, 8% for digital in the US, I must down slightly from 11 last year. In fact, our principal forecasting writer, Ethan Cramer-Flood, was pointing out, digital ad spending will increase by less than 10%, as I mentioned, 8%, which is less than 10% for the first time in 14 years. So that figure definitely depressed from what we're used to.

Paul Verna:

That's significant, but it also needs to be said that digital is now huge when you look at how it compares to other forms of advertising. It now has vaulted over things like traditional TV and definitely print and out of home.

Marcus Johnson:

Just about three quarters I think of the total.

Paul Verna:

Yeah. So digital is everything, so you just can't grow off of such a large base indefinitely. And the fact that digital will grow at double-digit rates from 2024 through 2027, that to me speaks of a healthy market, even though again, the growth figures we had seen leading up to the last couple of years were obviously higher and spiked during the pandemic. So there's a lot to consider there, but I still see digital advertising as more of a glass half full picture.

Marcus Johnson:

Yeah. Yeah, definitely. Digital, yeah, 8% this year, but rebounding to 11 next year and then 10'ish each of the next year is going forward. And kind of zooming in on that digital number, was going to add 19 billion this year. So, still definitely going up, which is driving the total US ad spending figure the most, as I mentioned. Yeah, 75% of total is digital at this point. And breaking digital down further display will add 11 billion to searches, eight and a half display largely driven by video. Video ad spending will grow 14% this year, accounting for 32%, video accounting for 32% of all US digital ad spending.

Another big driver, retail media ad spending, will grow 20% this year, accounting for 17% of all US digital ad spending. Paul, you were telling me before the show it's about a two to one ratio in terms of search to display for retail media in the US.

Paul Verna:

Exactly, yep.

Marcus Johnson:

The one drag here, Paul seems to be TV. TV will lose 5 billion dollars this year, dragging total US ad spending down the most. But kind of recovering, it's going to be pretty much, is it flat, I believe next year? Because as you mentioned, election year, sporting events, things like that.

Paul Verna:

I think you can say it's flat'ish for next year. It will grow by less than a percentage point, but considering that it is an election year and a big one, that's not really healthy growth. And when you look at TV over a longer time span, it is on the decline, I don't expect it to recover. I know there are some voices out there that are still waving the flag for traditional TV, but I just see that those dollars increasingly will migrate to CTV. Not instantly, and there's still reasons why if you're planning a campaign, you want to consider both traditional TV and CTV, but overall this is a declining ad format.

Marcus Johnson:

Yeah, it's definitely holding its own, but the writing is on the wall with trend lines going in the wrong direction. It's managed to sustain itself as a 60 billion dollar business for years, or ever since 2008, it's been ebbs and flows, but by and large, it's been hovering around that 60 billion dollar mark up until, yeah, very, very recently. That's it for the lead, time of course, for the halftime report.

Paul, what's worth repeating from the first half?

Paul Verna:

We talked about digital in relation to traditional, and I was struck by group M forecast that covers from 2014 to 2024. And in that time, digital went from being basically 20, 21% of the market to 66. So it went from being a fifth to about two thirds. So that just gives you an idea of the scale. And TV dwindled from a third of the market to less than a fifth, less than 20%.

And there's other category that includes everything else that also drops, so really just the growth of digital, which I'm not telling anyone anything they don't know, but I think when you see it laid out that way, it explains a lot. And some of that resiliency or some of that positivity in the market, just comes from the fact that the growth of digital, which we just talked about, it continues to outpace the growth of everything else and it's kind of like helping drive the market.

Marcus Johnson:

Yeah, 75% share today of total ad spend for digital and growing to 80% in the next couple of years. All right, that's all we've got time for for the first half, time for the second. Today in other news. Has Universal Pictures premium video on demand reshaped distribution model? And where people spending their TV time?

Story one, Universal Pictures premium video on demand success reshapes the distribution model, suggests a senior director of briefings, Jeremy Goldman. He explains that Universal Pictures says the Super Mario Brothers movie made over 75 million dollars in premium video on demand, PVOD revenues since its mid-May release. PVOD is when you give viewers early access to newly released content for a fee. If you remember, Universal made a controversial move back in 2020 when they did away with the traditional 90-day theater exclusivity period for new films, instead making movies available for PVOD after as little as 17 days.

If you remember, Mulan, I believe was one of those early movies that took that approach. This strategy has apparently generated over a billion dollars in less than three years, with minimal negative effect on theater sales. But Paul, the most interesting sentence in this article is what and why?

Paul Verna:

The most interesting part is that this is a win-win situation in that you don't have to sacrifice the theatrical business by creating an opportunity for people to watch at home. Both boats can rise from this scenario, and it reminds me of the very early days of the home video industry when video cassettes came out and there were fears that it would kill the movie industry. It did not, it actually had the opposite effect. A similar thing happened with recorded music with the cassette where there were fears that it would kill the industry, and it did exactly the opposite. So I think we're in a scenario now where this kind of approach makes a lot more sense. It's more in keeping with how people want to view and it may actually boost the entire business, not just home viewing.

Marcus Johnson:

Yeah, Jeremy's note of box office sales often increased when films were made available for home viewing, suggesting a beneficial relationship with premium video on demand advertising and positive word of mouth.

Story two, streaming now accounts for 36% of our total TV viewing time. According to Nielsen's May Gauge report, 31% of our TV time is spent with cable, that's in second place, and 23% with broadcast. So cable plus broadcast is linear TV. That is 54% together to streaming's 36. But when you break them apart, broadcast and cable streaming is ahead of those individual pieces. If you zoom in on streaming, YouTube tops the list with 8.5%, Netflix eight, Hulu four. Nielsen also said that they now break out the Roku channel with an around 1% share of total TV time. Other folks with about 1% share of TV time are Tubi, HBO Max, which was still a thing back in May, which is why they still call it HBO Max, Peacock and Pluto TV. But Paul, the most interesting sentence in this article about streaming accounting for 36% of our total TV time is what and why?

Paul Verna:

Well, one of the really interesting data points to me is that when we say that streaming is a greater part of the market than say cable, there's maybe a natural reaction to say, "Duh, that's how people are watching." But you don't have to go back that far. Actually, October of last year when that wasn't the case, and cable was still bigger than streaming. So, even though there's a captain obvious aspect to this data, there's still an interesting tipping point happening here, particularly with streaming over cable. At some point we're going to get to where streaming surpasses cable and broadcast combined. Right now that's not the case, but it probably won't take that long.

Marcus Johnson:

Yeah. Yes, since overtaking cable's share to claim the top spot back around October, November, streaming's share of total TV time has gone from 32 to 36%, cable share stuck at 31, it's flat. Broadcast is the one that's suffering, that's been going down.

That's all we've got time for this episode. Thank you, Paul, for hanging out today.

Paul Verna:

Always a pleasure.

Marcus Johnson:

Thank you to Victoria who edits the show, James who copy edits it, and Stuart who runs the team. And thanks to everyone for listening in. We'll see you tomorrow hopefully for the Behind Numbers daily and eMarketer podcast made possible by Verisk Marketing Solutions.