

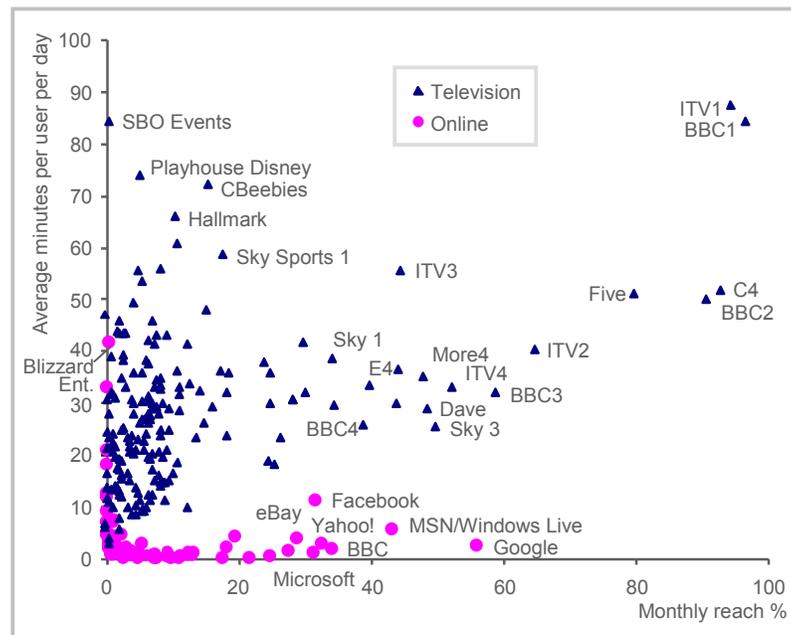
Converting audience hours to advertiser spend: the value of ad targeting

Key Points

- The effectiveness of targeted online advertising is a far more important threat to traditional television businesses than is fragmentation of audiences, the traditional bogeyman of old media
- Conversely there is a major opportunity for TV channels to improve their own yields through greater targeting
- The pieces are coming into place to make this possible - these include high speed broadband; smarter set-top-boxes; more consumption of TV via PCs; and increasingly rich information about individual households

In the UK, TV consumption is almost four hours per individual per day¹, compared to just under one hour online per individual in internet households². Since net usage is far more fragmented across sites, and only 68% of adults are online, reach and consumption of individual channels is far higher than that of sites (see Figure 1).

Figure 1: UK Individual reach and average daily usage for TV and online, April 2009³



¹ 3.74 hours per day. Source: BARB, Human Capital analysis

² 0.95 hours per day. Source: comScore, Human Capital analysis

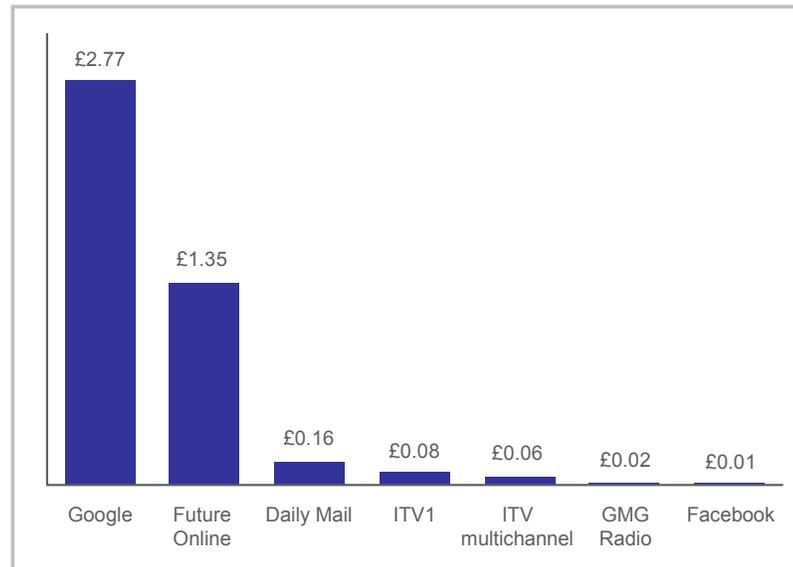
³ TV – 1 minute monthly reach, top 200 channels; online – active reach % for top 100 channels plus a selection of 100 others, reach scaled down to reflect penetration of internet access. Interesting cases labelled.

Facebook, Web 2.0 poster child and supposed scourge of traditional media, has lower reach and half the individual usage of BBC4. Google has reach lower than each of the top seven TV channels, and total UK consumption of 10m hours per week, far less than ITV1's 270m hours.

What then is all the fuss about? Part of the answer is that some online properties are far better than TV at converting consumption into revenue. Put another way, advertisers see far more value in at least some forms of online media than they do in TV, and, as advertisers become increasingly category-agnostic, this is a challenge for TV. Search advertising and 30-second TV spots are clearly different beasts, but that doesn't mean that the former can't substitute for some of the latter as advertisers seek the best RoI.

Advertisers are awarding Google a revenue per user hour that is roughly 35 times that of ITV1⁴ (see Figure 2), so the revenue impact of changes in consumption can potentially be far greater than the time shift.

Figure 2: UK advertising revenue per hour of consumption for selected media channels⁵



The reasons for these different yields are many. Online advertising has the obvious advantage of interactivity, and potentially greater targeting. Google in particular has the ability to target tiny niches (say, those interested in bee-keeping), at precisely the moment when they are thinking about that very topic.

⁴ Google sites only – excludes Google Ad Sense revenues

⁵ Source: Human Capital analysis of Annual Reports and Company House filings, plus data from BARB, NNR, RAJAR, ABC, the Newspaper Readership Survey and Billetts Media Monitoring. Data for hours of consumption is the most recent available, revenues are 2008

Few web businesses can match Google's precision. However, Future (a print and digital publisher with titles ranging from *PC Gamer* to *What Mountain Bike*) does well with its portfolio of targeted special-interest websites.

Figure 3: ITV1 and Google UK revenue build

	Rev per hour	Weekly viewer hours	UK annual revs
	£0.08	273.7m	£1,127m
	£2.77	9.8m	£1,418m
	35x	1/28	1.26x

Note: Excludes Google AdSense

Thus we have two quite different models – a high volume, low yield TV model (exemplified by ITV1), and a high yield, lower volume model (exemplified by Google). However, audience hours are increasing for websites. The question is whether TV can grow yields to offset this, presumably through greater targeting⁶.

Targeting does not come cheap. Unlike TV, which broadcasts exactly the same programme to millions, Google creates in real time a specific page in response to each search. It is creating custom content for a niche comprising an individual visitor. As a consequence, its cost per viewer hour is £1.05, compared to 7p for ITV1⁷.

Moreover, targeting is not the exclusive domain of content creators. Online numerous ad networks act as intermediaries between advertisers and wide portfolios of websites. Because they can aggregate and track many small audiences, they are in a position to offer far higher reach than any one site (except Google itself). For instance, in the US there are 12 ad networks with reach of over 70%⁸. This threatens the historic advantage of large broadcasters, namely their unique ability to reach very large audiences.

⁶ In the UK CRR is also a factor in yields, though they are out of the scope of this note

⁷ Source: Human Capital analysis of annual reports. Excludes SG&A costs for Google

⁸ Source: Comscore

What then are the lessons? Broadcasters generally focus on programming choices to deliver incremental gains in audience. However, we believe there is the potential for transformative gains through more targeted advertising.

We don't pretend this is easy (or that Google yields per hour are possible), but the pieces are coming into place to make this possible - the elements include high speed broadband; smarter set-top-boxes (such as Canvas); more consumption of TV via PCs; and increasingly rich information about individual households. In combination these should allow TV advertising to be specific to the viewing household, rather than shown to all viewers of a particular programme.

Sky and Virgin are already working on such an approach, and their set-top boxes certainly give them an advantage. Ultimately though the winner will be the company or group that can assemble a combination of content with reach, the technical and platform capability to deliver specific ads and the audience information to target them. The opportunity is an order-of-magnitude uplift in TV advertising revenue. The threat to broadcasters is that this value is captured by those with technical skills, rather than programming skills.

Human Capital is a strategy, research and development consultancy. We work with companies who are interested in media, entertainment and telecommunications. Our clients including leading UK and international companies, regulators, investors and trade bodies. We are part of the Ingenious Consulting Network

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