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ADDRESSABLE ADS ARE SHAPING THE FUTURE OF TV MARKETING

New technological capabilities make it possible to use targeted advertising on television. This new form of advertising is referred to as addressable advertising. This paper provides an overview of how this technology works, how it impacts the current TV advertising ecosystem, and which players benefit from it.

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CONTEXT

This paper is the result of a joint research project by Vlerick Business School, Telenet and SBS Belgium. Local media companies, and by extension the entire local media ecosystem, are being pushed aside by international tech giants such as Google and Facebook. For various reasons, more and more companies are choosing to advertise through international digital companies. So, the creation and distribution of ads is shifting to players outside the local ecosystem, which results in value disappearing from this ecosystem.

Belgium, and especially its northern region Flanders, has a unique media landscape with a heavy focus on local quality content¹. To ensure strong, engaging content, media companies rely on revenue that comes from advertising. In order to shift some of this value back to the local ecosystem, Telenet and Vlerick joined forces in a strategic research partnership. This research aims to map out the TV advertising ecosystem, define threats and opportunities, and provide solutions focused on the role that data can play in TV advertising.

As one of the leading media companies in Belgium, Telenet constantly invests in research. The company strives to gain more insight into the ins and outs of the media landscape and changing consumer behaviour to ensure a future-proof, customer-centric approach. Following earlier studies focusing on the drivers of ad blocking² (among other things), this study extends our knowledge on

innovative advertising formats. The key goal is to develop a guide on the current state of addressable advertising technology on TV. Telenet provides experience, knowledge, and data to support this research project.

Vlerick Business School was approached by Telenet to conduct this research under a Knowledge Partnership. In this partnership, Telenet provides funding in return for various services, including having a full-time PhD student work on this topic. Vlerick is conducting this research commissioned by Telenet in an objective and academic manner. The school draws on its management and business expertise, as well as its academic track record, to provide Telenet with unbiased research output and guide them in solving business questions related to innovative advertising models and the value of data.

SBS Belgium, the first broadcaster in Belgium to roll out addressable advertising on TV, provides the third angle in this research cooperation. They offer valuable input in their roles as broadcaster and advertising sales house.

With this white paper, we provide a general framework of where the technology of addressable advertising on TV currently stands. We look at the TV advertising ecosystem as it has been for the last few decades, and we describe how addressable technology is impacting this ecosystem. We list the challenges and the new value proposition and then conclude with the benefits for the different stakeholders.

¹ Coeymans, J. (2020); Vlaamse regulator voor de media (2018)

² Joris, G., Poels, K., Mechant, P., Pabian, S., & De Marez, L. (2018)

EXECUTIVE SUMMARY

Addressable advertising is an innovative advertising technique on TV that brings together the benefits of TV advertising and those of digital advertising. TV advertising boasts some strong and unique features, such as: the unparalleled reach, the scale of attention, the freedom with which marketers can convey their messages on the big screen, brand safety and the sense of prestige that is still invoked by advertising on TV. Thanks to these characteristics, TV has been a trusted advertising medium for most brands and the TV advertising ecosystem has never really been challenged in a long time.

However, various factors are threatening the comfortable position that TV advertising has been in for the last few decades. Both consumers and marketers are changing their behaviour and expectations, and digital advertising is taking advantage of this new vacuum by answering their needs.

Consumers on the one hand are dividing their time between many different channels, expecting to get content whenever and wherever they want. Interactions with brands need to be relevant for them, and advertising avoidance is increasing.

Marketers on the other hand are adapting to this changing consumer behaviour by including digital channels in their marketing mix. On top of that, they are getting to know the power of data, using it both to target the right audience and personalise their message, and to report back to their superiors with clear insights and metrics. Meanwhile, lagging behind in campaign measurement capabilities, TV is pushing data-focused marketers away and into the arms of digital giants such as Facebook and Google.

Thanks to rapidly changing technology, TV is now able to offer new initiatives – such as addressable advertising – that provide an opportunity to combat the dominance of the digital giants. Addressable advertising enables TV to combine the best of both worlds by making it possible to target specific households via their set top box with TV ads and by offering opportunities to improve campaign measurement. However, there are still some challenges ahead before this new technique will be up to par with digital advertising on those capabilities.

If the industry can overcome these challenges, the benefits for the different stakeholders in the TV advertising ecosystem are manifold. Starting with the

THE CHALLENGES

DATA & MEASUREMENT

The TV industry should learn from their digital colleagues and integrate more data sources such as internet browsing data and purchase data, to match their level.

In order to get access to data, companies will have to give their customers enough value in return for their data.

COST

Firstly, a shift in mindset is needed, as campaigns should be evaluated on their effective CPM instead of their cost per GRP.

Increase in scale will be indispensable to bring the price of addressable advertising down.

SCALE & STANDARDISATION

Scale and standardisation will be necessary to increase the use of this new technology.

Scale is needed in two aspects: enough households must be reached, and enough inventory should be opened up for addressable ads. Standardization between companies, both locally and internationally, is paramount so advertisers know what to expect.

INERTIA

General inertia is a challenge for nearly any new technology. Addressable advertising technology is not as evolved in all countries around the globe, making it hard to convince international companies to start experimenting with it.

consumers, they will benefit from more relevant advertising and, in the long run, possibly a lower ad burden, as less ad waste decreases the number of ads needed.

For the advertiser, the benefits are probably most obvious. They can tell their story better, benefiting from the strengths of the big screen whilst targeting specific segments. They will have access to stronger measurement options and can adapt their message based on data and detailed insights. Furthermore, ad fatigue will most likely go down. And not to be underestimated: addressable advertising opens the floor to smaller advertisers that have never been able to afford advertising on TV.

For the broadcaster and the distributor, this translates into new customers. A study from Sky, one of the forerunners of addressable TV, shows that more than 50% of addressable advertising customers are new-to-TV brands³. Ad revenues can potentially go up, which will benefit the content offering, which will in its turn benefit the pay product of distributors as well.

³ Sky (2019)

INTRODUCTION

With the rise of digital media and the disruptive evolution of big data, the media landscape has gone through turbulent times. Technology is developing more rapidly than ever, and we are now able to collect and process data in volumes and formats that we never could before. Digital companies were the first to jump on this train of technological revolution and are now harnessing the power of data. Where the TV landscape had barely changed during the past decades, it is now feeling the heat of digitisation. Digital channels are offering interesting alternatives to linear TV in terms of content and experience, and digital advertising has been growing exponentially during the last decade.⁴ In turn, TV has reacted with digital initiatives of its own, blurring the distinction between traditional media and digital media. Nonetheless, there is still a long road ahead before they get to par with the tech giants and truly adopt a technology- and data-driven way of working. It is safe to say that digitisation has shaken the entire TV ecosystem to its foundations.

⁴ Loesche D. (2017)

In the past few years, TV technology has been evolving rapidly, preparing itself for the next step. With new and significantly improved set top boxes, TVs are now able to distribute content targeted at specific households. Although TV is traditionally seen as the best medium for awareness campaigns, this technological evolution could be an opportunity for TV advertising to also start playing a strong role further down the sales funnel (see Figure 1). Moreover, this technology could provide telco companies and broadcasters with an answer to the predominance of digital advertising giants such as Facebook and Google.

With that goal in mind, telecom companies are launching smart advertising initiatives beyond linear TV that allow advertisers to target their TV advertisements to the audience of their choice instead of having to launch campaigns for the whole population at once. This new technique is

called addressable advertising: a technique that combines precise targeting with the strengths of 'the big screen' and the unparalleled reach of television. Addressable advertising works in a way similar to most digital advertising. Instead of buying ad inventory within specific shows or on certain channels, marketers can now target segments based on socio-demographic data, region, lifestyle, and other attributes such as TV viewing behaviour. Ads will only be shown when this segment is watching – regardless of the show, channel, or timing. Addressable advertising is based on a 'pay per view' model, which is more in line with digital advertising performance measurement. These new initiatives go completely against the traditional way of advertising on television, where ad inventory is bought upfront based on the estimated exposure of a specific show on a specific channel.

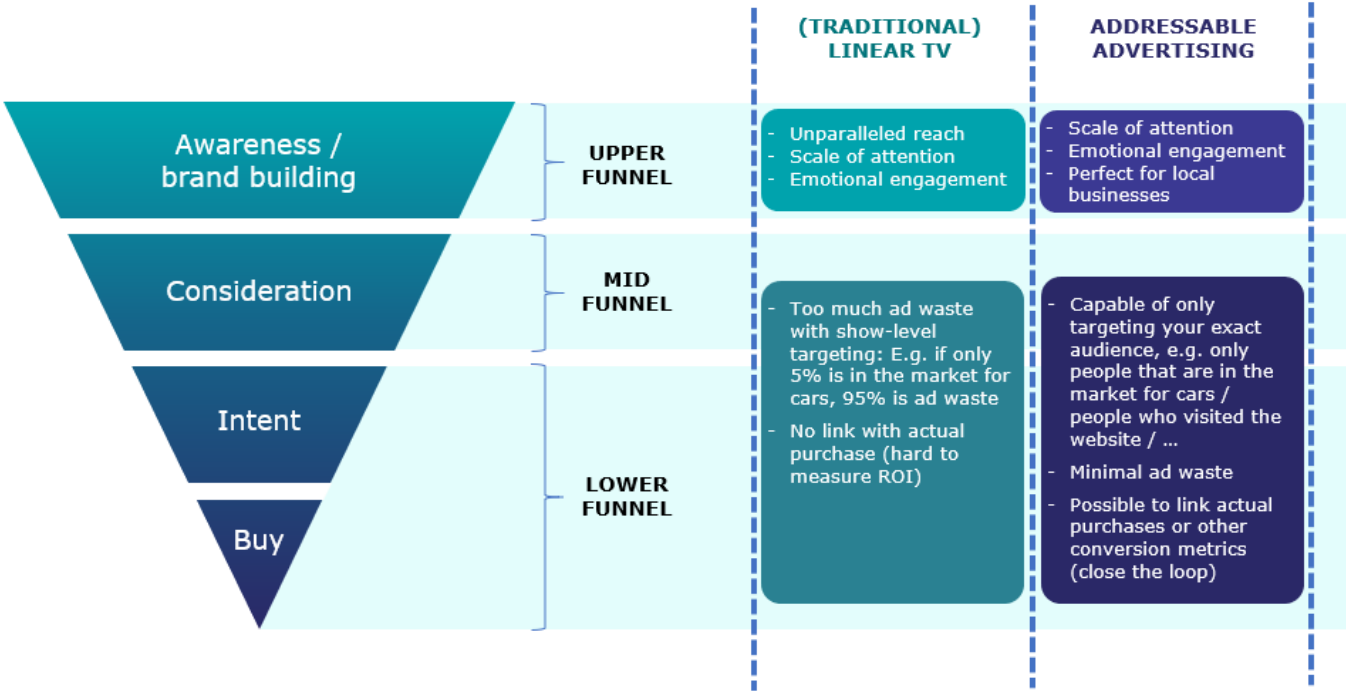


FIGURE 1: THE ROLE OF TV ADVERTISING IN THE SALES FUNNEL



Addressable advertising creates possibilities for the smaller advertisers, who are typically not able to run large TV campaigns targeted at the whole population.

Addressable advertising has many benefits. It allows you to target very specific audiences, thus increasing the relevance for end-consumers and reducing ad waste dramatically. Furthermore, it opens the door to more detailed campaign measurement and reporting. And last but not least, addressable advertising creates possibilities for the smaller advertisers, who are typically not able to run large TV campaigns targeted at the whole population.

However, there are still some uncertainties and risks involved with addressable advertising. To reach its full potential and get up to par with digital advertising, it must still undergo a big evolution. Gartner, for example, positions programmatic TV advertising⁵ in the first phase of its 2018 Hype Cycle in marketing and advertising technologies, claiming it will only reach its plateau in 10 years.⁶

Scale and standardisation, issues related to privacy, data capabilities and industry inertia in general are just some of the challenges ahead. We cover the main challenges further in this paper.

Although addressable advertising is still in its infancy, a new report argues that “addressable TV advertising will leap from \$15.6 billion (€13.9 billion) in total worldwide revenue in 2019 to almost 6 times that value at \$85.5 billion (€76.3 billion) by 2025.”⁷ As there is still much confusion and doubt around this fast-growing technology, this paper explains in detail how addressable TV advertising works, how it could change the current TV landscape, and how it affects the different stakeholders in the TV advertising ecosystem.

⁵ Programmatic TV advertising = an automated and data-driven approach to buying and delivering ads against video content on television. In programmatic TV advertising, TV ad space is bought

automatically in real-time via bidding, similar to real-time bidding for display ads, for example.

⁶ Gartner (2018)

⁷ Anasia D’mello (2020)

HOW DOES IT WORK?



FIGURE 2: 3 STEPS OF ADDRESSABLE ADVERTISING

The idea behind addressable advertising is to stop guessing what content your audience is watching, and instead target your audience regardless of what they are watching. Broadcasters or ad sales houses join forces with TV distributors, who in their turn work together with software and technology vendors of addressable advertising technology.⁸ The latter offer the tools to deliver targeted advertisements and measure campaign effectiveness and ROI. In short, addressable advertising consists of 3 steps.

1. Addressable advertising is audience-based. This means that the first step for advertisers is to define their target segment. Typically, broadcasters offer advertisers a range of basic

attributes to choose from, based on socio-demographic and viewing data. Additional data such as lifestyle data (hobbies, pet-owners, ...) or more detailed information on housing or neighbourhoods (type of house, owner or tenant, garden, degree of urbanisation, percentage of highly educated people, ...) can be used to refine segments even further. This data can come from the telco companies as well as from open data sources or third-party data companies.⁹ Data is collected in compliance with privacy regulations such as the GDPR in the EU and the Privacy Act in the US.

One of the most used attributes in the early stage of addressable advertising is the consumer's address: UK telco operator Sky, one of the forerunners of addressable

⁸ Among others: Invidi, Cadent, Visible World, YCD, Spot Runner, ...

⁹ E.g. Experian, Bisnode, ...

advertising in Europe, claims in their 'AdSmart' report of 2019 that 1/3 of all their addressable campaigns use geo-targeting as one of the attributes.¹⁰ The same percentage holds true for Belgian broadcaster SBS.¹¹

In addition, advertisers can use their own data to enrich their target audience. This way, they can target, or avoid targeting, their own customers; specifically target customers that haven't been in contact for the last 5 years; or, for example, reach specific groups such as potential movers.

2. After defining the audience of choice, the network distributor delivers the addressable spot (which can be tailored to the specific segment) to the set top boxes of the defined audience through cable, satellite or IPTV, after which the spot is inserted in a certain slot. It is thus perfectly possible that your neighbour sees a different ad than you do while you are watching the same show. Contrary to linear TV, the ad will only be shown when the audience is watching, and pricing is based on actual views instead of estimated exposure. The advertiser will only be charged when a certain percentage of his ad has been watched.¹²

With regard to how addressable ads are distributed, different techniques exist. Vendors of addressable advertising technology typically offer different addressable ad 'delivery modes' that the distributor can choose to use. The Aggregation technique comes closest to programmatic advertising. In this non-schedule-based delivery mode, multiple channels are combined in order to offer the largest possible inventory and

audience. Addressable ads can then be delivered to the relevant audience at any time and in any of the shows that are part of the inventory. Other techniques include Dynamic Zoning, where advertisers can divide the marketplace geographically, and Multiple or Single Advertiser Spot Optimisation, a schedule-based delivery mode, by which addressable ads (either from multiple advertisers or from one advertiser) are delivered at the same time as a default ad that is scheduled through the traffic and billing system.¹³

3. The last step of addressable advertising is to get detailed campaign metrics and measurable ROI. On top of precise numbers on reach and effective CPM, addressable advertising vendors offer solutions that allow closed loop reporting, leveraging test vs. control methodology.¹⁴ These solutions either directly link CRM data provided by the advertiser to ad exposure data from the distributor, or, if no CRM data is available, they work with transaction data from third-party measurement providers¹⁵ or use geo-location data from partners¹⁶. Other data sources, such as web traffic on the advertiser's website, could be linked as well to provide a full picture. This way, addressable advertising can show you not only who was exposed to your brand's message, but also who took action, be it online or offline, as a result of it. Moreover, these measurement capabilities allow you to A/B test and gain invaluable insights into the impact of your ads.

¹⁰ Sky (2019)

¹¹ Coeymans (2020)

¹² E.g. SBS Belgium uses 50% as the cut-off point, in accordance with common practice for linear TV, whereas Sky UK uses 75% as the cut-off point.

¹³ Invidi

¹⁴ For example: <https://www.cadent.tv/data-analytics/>

¹⁵ E.g. Autometrics, Polk Automotive, ... for car brands.

¹⁶ Acxiom (2018)

THE CURRENT TV ADVERTISING LANDSCAPE

The TV advertising landscape has barely changed over the last 70 years. Advertising agencies buy ad inventory upfront on behalf of their clients, without exactly knowing who will watch their ads. Typically, agencies buy ads in specific shows or on channels whose audience they think will have a good fit with the target audience of their client. Anyone reached beyond their target audience is ad waste. Pricing in this traditional practice is based on estimated exposure. Estimated exposure in its turn is influenced by audience size and the timing of the slots: prices are higher during TV peak season¹⁷, you pay more for popular shows, prime time is more expensive than shows outside peak hours, and live sports events will cost more due to their large audience and low likelihood of zapping¹⁸ or zipping¹⁹.

To this day, TV is still a highly valued advertising medium and is regarded as the best medium for reach and impact. Advertisers tend to agree that no other medium has the same level of attention and engagement, and academic research confirms that TV is the most effective channel in terms of upper-funnel metrics.²⁰ In a case study for a leading international social network, Pfeiffer and Zinnbauer (2010) found that the same budget in TV brought in 42% more

registrations, flagged as an upper-funnel metric in the study, than search engine marketing. In a case study on car manufacturer Ford, Briggs, Krishnan and Borin (2005) reported that TV outperformed other channels for ad recall and brand image. Contrary to popular belief, TV viewership has still been growing in recent years, with 1.67 billion households worldwide in 2018 compared to 1.64 billion in 2017.²¹ Despite frequent claims that digital is taking away time from traditional channels such as TV, the contrary is true as most traditional channels remain more or less stable in reach and consumption time.²²

Nowadays, TV advertising space is mainly bought by big blue-chip companies, who are looking for the unparalleled reach and impact of TV to increase awareness about their brand or product. Unlike what is happening in the print industry, for example²³, TV ad spending remains more or less stable. However, the broader advertising landscape is changing at a very fast pace, driven by a strong increase in digital ad spending. Digital advertising surpassed TV advertising in global ad spending in 2016²⁴ (see Figure 3), while reports²⁵ predict TV advertising to decline further in the years to come. 5 years ago, such decline was not yet forecasted²⁶: only in 2016 did forecasts start to re-

¹⁷ Coppens (2005): In Belgium, peak season is typically from March till May and from September till December

¹⁸ Zapping = the behaviour of changing channels when the ad break begins

¹⁹ Zipping = the behaviour of fast forwarding through ad breaks in recorded shows or during time shifted viewing

²⁰ Pfeiffer and Zinnbauer (2010); Briggs, Krishnan, and Borin (2005)

²¹ Watson A. (2019)

²² Global Web Index (2019)

²³ Guttman A. (2019): advertising spend in magazine ads is predicted to drop from 26,8 bio US dollars in 2018 to 21 bio US dollars in 2021

²⁴ Loesche D. (2017)

²⁵ eMarketer Editors (2019); Lafayette J. (2019)

²⁶ Statista Research Department (2016)

Digital killed the TV star

Worldwide digital and TV ad spending (in billion US dollars)

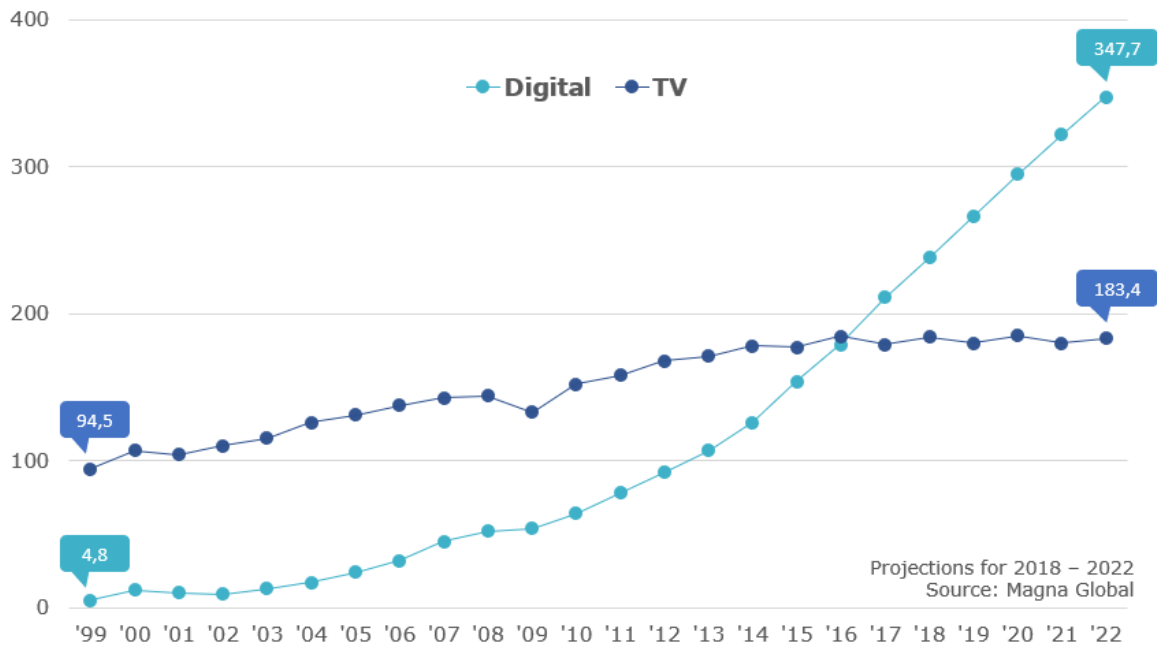


FIGURE 3: GLOBAL DIGITAL AD SPENDING SURPASSED TV AD SPENDING IN 2016 ²⁴

evaluate the predicted growth in TV ad spending because of the sharp rise of digital ad spending.²⁷

The TV advertising sector will have to reinvent itself in order to stay competitive in the broader advertising landscape. TV has benefits that no other advertising medium has, but the TV advertising technology will have to answer the needs of its different stakeholders if it wants to keep its position as one of the most important advertising media.

One of the biggest challenges for TV is the changing consumer behaviour over the last few years. The audience is

increasingly shifting away from television as its main source for content consumption. Although the total reach of TV in terms of households is not dropping, people are dividing their time as content can now be consumed through many different channels and on many different devices. Getting content on demand is becoming the new normal – on TV with various on-demand initiatives for watching movies, TV shows and sports events, and via many other channels.

²⁷ Feldman D. (2018)

This makes advertising on channels other than TV more attractive to marketers. Moreover, phenomena like cord-cutting²⁸ and binge watching²⁹ have significantly increased in popularity during the last few years. On top of that, advertising avoidance behaviour has been increasing as well. Where digital advertising is afflicted by ad-blockers³⁰, TV has a very similar problem with the phenomenon of time-shifted viewing and zipping. Although Wilbur claims that zipping might not be all negative³¹, it certainly poses a challenge to reaching your audience on TV. A study on ad blocking by Joris et al. suggests that there are opportunities for media companies to discourage ad blocking by attaching consequences to the use of ad blockers such as loss of free access to content. Similar creative solutions might be possible for zipping behaviour.³²



People are dividing their time as content can now be consumed through many different channels and on many different devices.

From a marketer's perspective, direct accountability and precise ROI insights have become invaluable. Digital channels tap into this need and offer extensive off-the-shelf analytics and campaign measurement options, allowing marketers to report back to their superiors with clear figures on the ROI of their campaign. TV, however, is still unable to deliver clear insights on campaigns. TV campaign measurement is typically limited to audience measurement by a Joint Industry Committee (JIC)³³, which collects panel data on TV viewing. Broadcasters sometimes organise impact surveys, but the vast majority of those are meant to look at the overall effectiveness of TV campaigns and they are rarely commissioned by one specific advertiser.

From the advertiser's side, digital advertising has a much lower threshold than TV advertising, thus also attracting smaller advertisers that could never afford linear TV campaigns. Although the higher threshold adds to the trustworthiness and the image of brands that are present on TV, it also means that TV is still very much reserved for the lucky few and has a smaller base of potential customers than digital advertising. Addressable advertising has the potential to provide an answer to almost all of the above needs.

²⁸ Cord cutting = the practice of cancelling or forgoing a pay television subscription or landline phone connection in favour of an alternative Internet-based or wireless service. (lexico.com)

²⁹ Binge watching = the practice of watching multiple episodes of a television programme in rapid succession, typically by means of DVDs or digital streaming. (lexico.com) Google Trends shows a peak for the topic "binge-watching" in January 2019.

³⁰ Shiller, Waldfoegel, and Ryan (2017) concluded that "ad blocking poses a substantial threat to the ad-supported web"

³¹ Wilbur, K. C. (2008)

³² Joris, G., Poels, K., Mechant, P., Pabian, S., & De Marez, L. (2018)

³³ Nielsen: Joint Industry Committee = Form of survey organisation in which a joint industry grouping of TV station, advertiser and media buyer representatives holds a contract with one or more data suppliers for a fixed time period. The functions of the JIC generally include contract specification, supervision of the TAM service, ownership of data copyright and determination of the conditions of data release. Examples: BARB (UK), CIM (Belgium), Médiamétrie (France), GfK (among others in Germany), ...

THE TV ADVERTISING ECOSYSTEM

The TV advertising ecosystem is a clear example of a business ecosystem. In academic literature, Moore has described a business ecosystem as “a network of organisations and individuals that co-evolve their capabilities and roles and align their investments so as to create additional value and/or improve efficiency”.³⁴ Simply put, the concept of an ecosystem is to create a network of partners that helps make your business more successful, and thus increases the total value created. That value should then be distributed among the different stakeholders, so that everyone is motivated to ‘grow the pie as a whole’.

The TV advertising ecosystem is a rather complex ecosystem with multiple stakeholders. Figure 4 shows a simplified version with the most prominent parties involved. The brand or the advertiser on one side wants to get his message across to the consumer or the audience on the other side. In between, multiple entities play a role in how ads are delivered from the advertiser to the consumer. Inherent to the concept of an ecosystem, each stakeholder shares in the value in one way or another. This is illustrated in Figure 4 by the streams of goods and services, money and credits, and information.

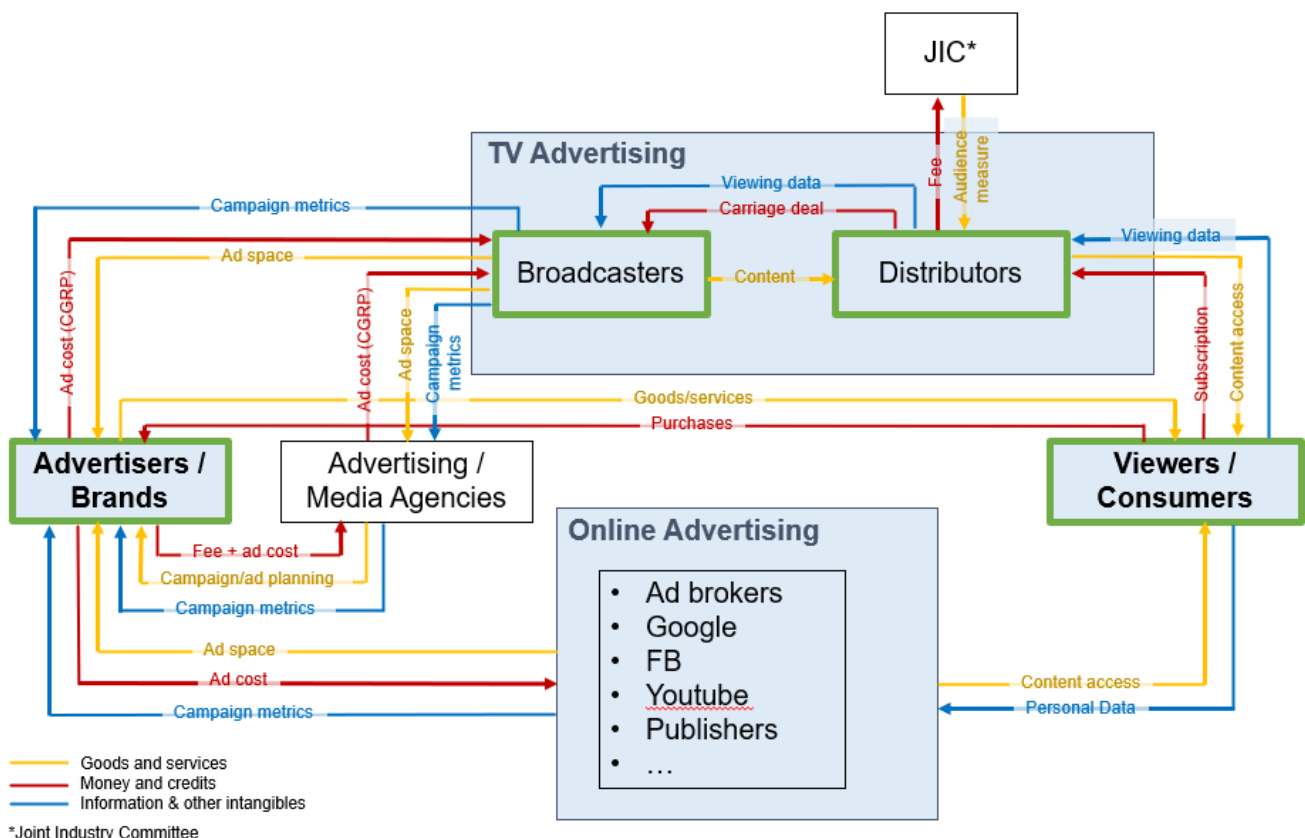


FIGURE 4: CURRENT TV ADVERTISING ECOSYSTEM

³⁴ Moore, J.H. (1993)

The roles in the ecosystem are pretty similar across most countries. Advertisers either go through media agencies or, in some cases, have a direct contact with broadcasters. Media agencies offer media campaign planning services, including reservation of ad inventory, to advertisers in exchange for a fee. In linear TV advertising, the role of the media agency is crucial as it is typically the one buying ad inventory, collecting audience measurement data from the JIC, and aggregating all insights afterwards.

The broadcaster's main role is to provide a varied range of programmes for different groups in society. TV content is typically delivered by content providers in exchange for payment. Within those programmes, they provide ad slots that advertisers can buy according to their target audience. The broadcaster (or the ad sales house³⁵) is the point of contact for advertisers and/or media agencies. They sell the ads to the advertisers or media agencies and negotiate ad inventory deals. Advertisers, through their agencies, pay the broadcaster a cost per GRP (CGRP). The GRP (gross rating point) quantifies estimated impressions as a percentage of the target population and is based on panel-based audience measurement.

The distributor, which is often a telecom provider, provides the platform. Distributors have a carriage deal with the broadcasters that use their platform to distribute TV content. The distributor also collects viewing data and communicates insights on market share to the broadcaster, as this is typically the basis for the carriage deal. The end-consumer normally has direct contact only with the distributor: the distributor charges the consumer a monthly fee for their TV

subscription, which is often combined with other connectivity services such as

internet, telephone or mobile. Typically, the distributor also provides the hardware that the end-consumer needs to watch television. Moreover, the distributor is often also one of the biggest advertisers. Especially on TV, telco companies are consistently in the top 5 of the biggest ad spenders.³⁶ Thus, they will benefit from innovative advertising models from 2 different angles.

Since online advertising is the strongest competitor of TV advertising, online advertising channels are added to Figure 4 as part of the ecosystem. As in TV advertising, advertisers can either be in direct contact with digital ad brokers, Google, Facebook, or other digital ad vendors, or they can commission media agencies to plan and carry out their online advertising campaigns on their behalf. In digital advertising, detailed campaign metrics are often available in a self-service platform that can be accessed by the advertiser and/or the media agency.

³⁵ In some cases, ad sales houses are the point of contact for advertisers and/or media agencies. Broadcasters then use ad

sales houses to sell their ad inventory in exchange for a commission fee.
³⁶ Gutmann, A. (2019)

THE IMPACT OF ADDRESSABILITY ON THE TV ECOSYSTEM

The ecosystem might be even more important for addressable advertising than for linear TV. In an attempt to combat the dominance of the digital giants, the different stakeholders will have to join forces to grow the addressable advertising market as a whole. Standardisation in audience segments, data access, and how addressable ads are traded – as well as scale in reach and inventory³⁷ – are needed to assure that advertisers know what they are getting when they buy addressable ads. Numerous executives in addressable advertising say that cooperation with all parties in the ecosystem is indispensable if addressable advertising is to succeed.³⁸

³⁷ Peterson T. (2019): A lack of addressable inventory is one of the reasons that many advertisers in the US say they don't use the technology. However, in countries with a limited number of competitors in the

ecosystem, like Belgium, addressable initiatives are able to reach nearly 100% of all ad blocks. (SBS Belgium)

³⁸ Pidgeon B. & Moulding J. (2019)

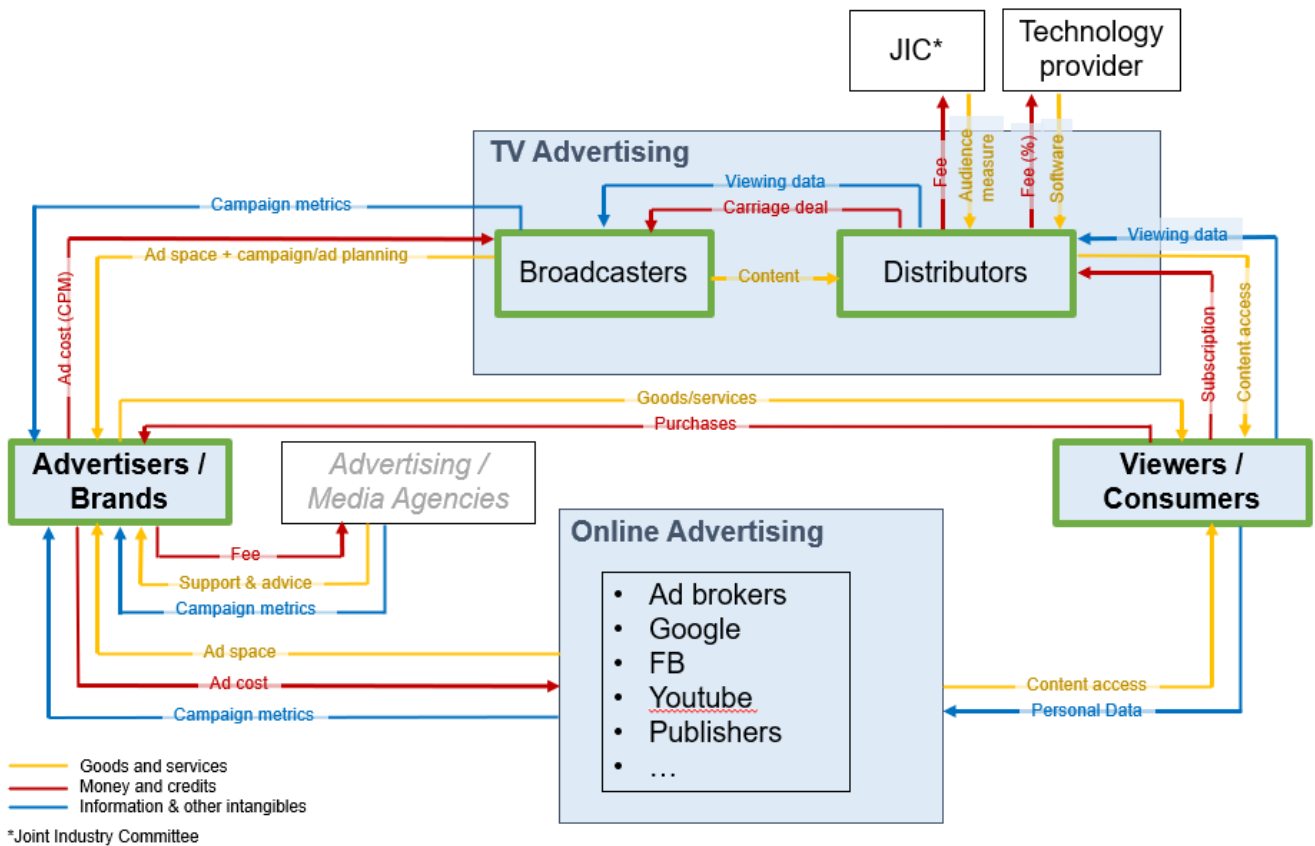


FIGURE 5: ADDRESSABLE TV ADVERTISING ECOSYSTEM

The new technology of addressable advertising has some implications for the different roles within the ecosystem. For starters, the broadcaster will be responsible for planning and carrying out the campaign in addressable advertising, whereas, in linear TV advertising, this is usually the sole responsibility of the media agency. The role of the media agency will thus become less paramount as campaign planning becomes more straightforward. Media agencies will likely take up a more administrative and facilitating role in addressable campaigns. However, there might still be added value in media agencies. As an executive puts it: "They

are the guardians of effectiveness for client campaigns across the whole communications ecosystem. Agencies can look at the holistic picture, working out how best to use the different media and media owners together."³⁹ The media agencies that are quick to adapt could still play a supporting role for advertisers by offering specialist advice in addressable advertising campaigns. Especially in the first years of the new technology, many advertisers risk getting lost in the numerous possibilities. A media agency could help decide on the exact target audience, determine what exactly should be measured, and make sure it becomes

³⁹ Moulding J. (2020)

one consistent product for their clients, even though every vendor does addressable advertising slightly differently. Specialised media agencies could help determine for which campaigns addressable advertising makes most sense, and for which it makes most sense from a cost perspective to stick with linear TV advertising. Moreover, they could play a role in processing and enriching the campaign measurement data, as much more data will be available. Smaller marketing teams might be better off delegating some tasks to media agencies, as many of them already do today for planning digital advertising campaigns. Similar to digital advertising, however, in the near future advertisers will most likely be able to plan their campaigns themselves through self-service platforms, if they wish to do so, bypassing media agencies all together.

In terms of pricing, broadcasters will charge the advertiser or media agency a fixed price per 1000 impressions (CPM). In contrast to the CGRP in linear advertising, CPM will not be based on estimated exposure, but on actual exposure. Thus, the currency is completely different from that of traditional TV advertising.

To prevent making pricing an issue, executives in addressable advertising plea for using the same CPM for every target segment, rather than charging more as segments become more granular.⁴⁰ In the starting phase of addressable advertising, this makes sense from a transparency perspective. However, in the long run this might not be a sustainable model. Asking for the same CPM for each campaign, regardless of the granularity, will likely result in over-targeting of certain 'high value' groups, such as people with a certain income. Hence, addressable

advertising might ultimately evolve towards actual programmatic advertising, characterised by auctioning systems similar to the placement process of online advertising.⁴¹ These might be less transparent, but they can guarantee an even distribution of addressable ads among all households. Some are even looking into the possibility of programmatic creatives, where AI algorithms decide in real-time which creative should be shown to which household.⁴²

The distributor still provides the platform and usually works together with a third-party software provider that offers the addressable technology. Usually, the distributor charges the broadcaster a fixed price per 1000 impressions, a certain percentage of which they give up to the software provider as a license fee. For custom audiences or closed-loop reports, they often charge a fixed price. Moreover, their role also entails control over the data. Both their own data and open or third-party data from data & analytics companies can be used for developing profiles. The data usually stay with one trusted entity, in this case the distributor. The broadcaster has access only to the developed profiles (e.g. young family, pet-owner, sports lover, ...) in order to propose these to the advertiser but has no access to the underlying data. The distributor also collects viewing data and translates this to reports about impressions and reach to share with the broadcaster, who in its turn shares (some of) these insights with the advertiser.

⁴⁰ Pidgeon B. & Moulding J. (2019)

⁴¹ Malthouse E. et al (2018) ; Guitart et al (2019)

⁴² Chen G. et al (2019)

THE CHALLENGES

DATA AND MEASUREMENT

The use of data is one of the biggest opportunities – yet, at the same time, one of the biggest challenges – related to addressable advertising on TV. Technology has been evolving at an incredible pace, and we are now able to collect and process data in huge volumes and countless formats. This offers opportunities both for targeting and for measurement. Tech giants such as Facebook and Google lead the way in how data can be used for these purposes, and media companies should learn from their pioneering work in order to offer their customers an innovative, data-driven advertising experience.

In terms of targeting, many media companies have been developing profiling attributes similar to those offered by Google and Facebook. As described earlier, distributors use their own data, open data and third-party data for this. In order to truly optimise their predictive models and targeting capabilities, they should aim to integrate more data sources, such as internet browsing data, or purchase data for consumers who are willing to disclose this data in return for a better customer experience or even for other benefits. This return on data will become an important question for companies to resolve. One benefit could be a more personalised experience, but one could also imagine monetary benefits or a reduced ad load.

The fact that digital advertising comes with advanced measurement and reporting capabilities and TV does not, is another important reason that marketers are shifting advertising budgets away from TV. Companies like Facebook and Google have put a lot of focus on providing marketers with metrics and ROI, thus responding to the need of marketers

to report back to their superiors with facts and figures. TV, on the other hand, has relied on panel-based audience measurement for decades. The metrics offered by these audience measurement providers are not nearly as granular and rich as those offered by digital advertising vendors. Moreover, audience measurement providers are limited in their ability to take into account the impact of addressable advertising. The various parties in the ecosystem will have to share their data in a transparent way to resolve these issues.

Especially when TV advertising starts to be used for lower funnel campaigns – thus competing directly with digital advertising channels – the need for good measurement capabilities will increase dramatically. Awareness is measured with metrics such as impressions, reach and reach-on-target, which are covered perfectly by traditional TV. For the consideration and conversion phase, however, more detailed metrics – like click-through rate, bounce rate, time on content, downloads, and purchases – are needed. Improved set top box technology makes it possible to collect and share data on household TV ad exposure; but, in order to gather the metrics mentioned above, systems should be put in place to close the advertising loop by adding website traffic and purchase data from advertisers. As screens are becoming smarter, one could even imagine immediate interaction with the TV screen (for example, “send me this offer via e-mail”) in the future. For addressable advertising to truly become a force to be reckoned with, it is paramount that measurement capabilities improve and become at least as good as they are in digital advertising.

A problem related to this is the fact that set top boxes can only target and measure on a household level, whereas digital advertising is done on an individual level. In addressable TV, there is currently no way to distinguish who is watching an

ad. More focus should be given to solutions that can detect which family member is watching at which time, both in order to target the right person and to collect data on individual ad exposure.

PRIVACY AND ETHICS

Closely linked to the need for consumer data is the challenging topic of privacy and ethics. In a fast-changing world, consumers have become increasingly aware of their data and privacy. In a 2019 study, 78% of consumers worldwide claimed to be concerned about their online privacy, 53% of whom were more concerned than a year before.⁴³ In digital advertising, in particular, there have been numerous stories about data leaks and misuse of data, causing consumers to be sceptical about the privacy standards in online advertising. Two concepts merit our attention: consumer privacy on the one hand, and data ethics on the other.

Consumer privacy is related to collecting, using and storing personal data in a responsible and legally correct manner, in line with your customers' expectations, regulations and laws.⁴⁴ In addressable advertising, data is gathered both for targeting the right consumers and for measuring whether the right audience saw your ad and took action as a result of it. By default, this makes addressable advertising a sensitive topic in terms of privacy. Distributors have the responsibility to not only protect their consumers' data, but also to educate people about the use of their data and

how disclosing their data can harm or benefit them.

In terms of data protection, there are several measures in place. First of all, the data is generally kept and managed by one trusted party. In Europe, the distributor, who usually already has a trusted relationship with the consumer, is typically the only entity with access to all of the customer data. They take all of the necessary measures to comply with regulations, and many try to go beyond these requirements to preserve their good relationship with the consumer. Moreover, consumers always have the opportunity to withdraw their consent for receiving addressable advertising. In that case, they only receive linear advertising. This doesn't mean they will receive less or no advertising: consumers will still receive broad, untargeted ads. In the US, it's more common that a reputable data company in the middle manages the data, similar to what happens with data used for direct mailing. The broadcaster, advertiser and technology vendor don't have access to the raw data. The data that is shared with them is either aggregated or encrypted and hashed along the way.

In Europe, the GDPR increased the legal requirements for data collection and processing as of May 2018. All personally identifiable data can legally be collected only with the consumer's consent. The US works with an opt-out mechanism instead of an opt-in mechanism such as Europe's.

Companies should take caution, especially when it comes to collecting and processing sensitive types of data. For example, it would undoubtedly be very interesting to capture consumers' surfing behaviour in order to link certain online actions to ad exposure. This would enrich the measurement options of addressable advertising substantially and would allow

⁴³ CIGI-Ipsos (2019); Clement J. (2019)

⁴⁴ Lawler (2019)

reporting of the same detailed metrics that digital advertising already offers. However, because of the intrusive character of these data, they should only be gathered from people who have explicitly allowed this. In order to put automated measurement options in place, companies will have to invest in informing consumers and establishing a win-win situation where consumers get enough value in return for their data.

Privacy and the issue of willingness to share data has received a lot of attention in academic literature in the last few years. As discovered by academic research, transparency⁴⁵ and personalisation⁴⁶ can positively influence consumers' willingness to share data. However, Awad and Krishnan⁴⁷ have also discovered what they call the personalisation-privacy paradox, which states that people who value privacy features most have a low willingness to be profiled for personalisation purposes. Thus, consumer willingness to share data for personalisation purposes or otherwise is very dependent on their own values and attitudes. Nevertheless, consumers' privacy sensitivity might also be overstated by consumers. Norberg describes this as the 'privacy paradox': the discrepancy between individuals' intentions to disclose personal information and their actual personal information disclosure behaviours.⁴⁸

The concept of data ethics, on the other hand, is related to doing the right thing with data, considering the human impact from all angles, and making decisions based on your brand values.⁴⁹ Gartner

defined digital ethics as one of the main challenges for 2019.

The shift from privacy to ethics moves the conversation from 'are we compliant?' toward 'are we doing the right thing?'. In its report, Gartner describes this shift as the hierarchy of intent (see Figure 6).⁵⁰ Companies can either do the strict minimum to be compliant, or they can go beyond regulations and define their data strategy in accordance with their own brand values.

From an ethical point of view, companies need to think carefully about the data strategy that they want to follow. As Gartner fittingly articulates it: "Following your values comes down to being able to look yourself in the mirror and feel convinced you are doing the right thing. Are you treating customers, employees, or citizens as you would expect to be treated? The successful use of technology is not to maximise its utility for the

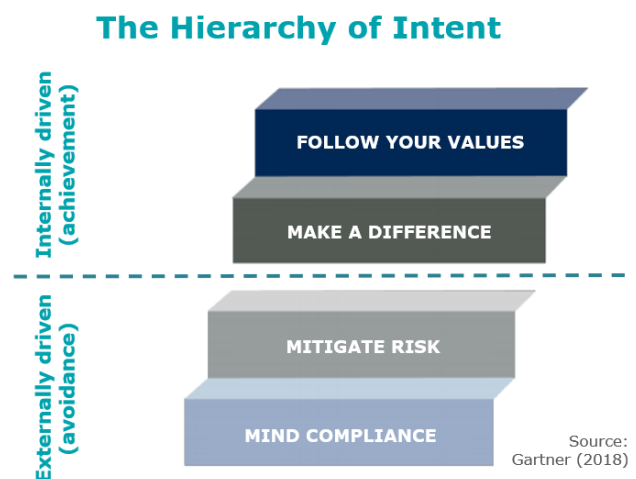


FIGURE 6: HIERARCHY OF INTENT ⁵⁰

⁴⁵ Xu H. et al (2009); Zimmer et al (2010)

⁴⁶ Thirumalai S. and Sinha K.K. (2013); Benlian A. (2015); Karwatzki et al (2017)

⁴⁷ Awad N.F. and Krishnan M.S (2006); Karwatzki et al (2017); Aguirre et al (2015)

⁴⁸ Norberg (2007)

⁴⁹ Lawler (2019)

⁵⁰ Gartner (2018)

organisation at the expense of the customer, rather it is to figure out how to get the most value out of it for both the organisation and the individuals it depends on.”⁵¹

Instead of trying to gather as much consumer data as possible, companies should make distinct choices about what data they want to collect and use, why and how they do this, and how they communicate about it to their customers, all in line with their brand’s mission and values. Companies have the opportunity to take up the role of ‘data heroes’, promising their customers that they adhere to strict principles concerning the collection and use of their personal data, going beyond legal obligations.

Academics have been discussing ethical behaviour in data collection since the phenomenon of big data emerged over 10 years ago. In the procedural justice literature, Wirtz and Lwin found that “fair information policies effectively alleviate consumer privacy concerns and provide maximum benefit to companies. Consumer perceptions that a firm’s privacy practices are fair promote trust and enhance willingness to provide information, while simultaneously reducing negative behaviours, including falsifying information and negative word-of-mouth”.⁵² However, complex privacy policies that are more difficult for consumers to understand are viewed as being less fair and, accordingly, diminish confidence and trust in the firm.⁵³ Some of the literature has hinted at privacy as a company strategy, but research on this matter remains underdeveloped.⁵⁴ In a study that dates back to 1999, Culnan and Armstrong already found that consumers are more willing to grant marketers

permission to use their information when the company’s procedures for information use are fair. In return, they argue that these firms will obtain greater access to

rich user data, giving them a competitive advantage over peers with consumer information procedures that are perceived as less fair.⁵⁵

INERTIA

As is always the case with new technologies, inertia is one of the biggest challenges to overcome. People like to stick to what they know and are used to. TV advertising has barely changed since the first TV ad aired in 1941, so the enormous evolution that addressable advertising is, becomes even bigger in the context of this industry. Moreover, the technology is not as mature in all countries, making it hard for big international players to convince international headquarters to start using it in certain local markets. It will come down to some forerunners that start experimenting with addressable advertising, in order to provide success stories and cases that can convince other companies.

⁵¹ Gartner (2018)

⁵² Wirtz and Lwin (2009); Martin and Murphy (2017)

⁵³ Vail et al (2008)

⁵⁴ Martin and Murphy (2017)

⁵⁵ Culnan and Armstrong (1999); Martin and Murphy (2017)

EXAMPLE: PURINA DOG FOOD

You're buying television for Purina Dog Food, a brand only interested in reaching dog owners. Let us illustrate how the **eCPM** calculation works for **linear TV advertising**:

- Purina uses a target demographic of Women 18-49 (W18-49) on linear television, since their research indicates that's mostly who buys dog food.
- They've been paying \$10 per thousand (CPM) to reach W18-49 on television, using whatever additional research is available to them in picking out the best programs for reaching dog owners.
- And finally, 10% of W18-49 actually own dogs.

For linear campaigns, Purina's current effective CPM (= the cost per thousand they're paying to reach dog owners on linear tv) is $\$10/10\% = \100 .

Now, Purina is interested in running a campaign with **addressable advertising**:

- They acquire a list of people who own dogs, regardless of age or gender.
- 100% of their target audience owns dogs, so their total reached will always be equal to their target reached.

However, traditional linear advertising has the potential of reaching people beyond the target that might one day own a dog. For these people, the ad message might have some brand-building value. Therefore, the **eCPM** of addressable should be lower than that of linear TV.

FIGURE 7: eCPM VS CPM (PURINA CASE) ⁵⁶

COST

On the advertiser's side, the most difficult hurdle to overcome is the perception about the cost. Addressable advertising involves a higher investment per individual ad view, which leads to the perception that addressable campaigns are more expensive than linear campaigns. Nonetheless, providers of addressable campaigns state that the effective cost per mille (eCPM) is lower – and ROI is higher – than that of linear campaigns because ad waste is so much lower. An example by technology provider Invidi is illustrated by Figure 7 and Figure 8.⁵⁶

As the scale of addressable advertising increases, price will most likely decrease. At this stage, campaigns with a broad

target group still gain most from linear TV advertising. However, when the price comes down, it would make sense in the end to deliver all campaigns with addressable technology via the set top box.

SCALE AND STANDARDISATION

Linked to that is the challenge of scale. Scale comes down to two things: a large number of households that can be reached on the one hand, and the amount of addressable inventory, or shows and channels in which linear ads can be

⁵⁶ Invidi (2020)

Target audience: Women 18-49 who own dogs (10% of women 18-49)

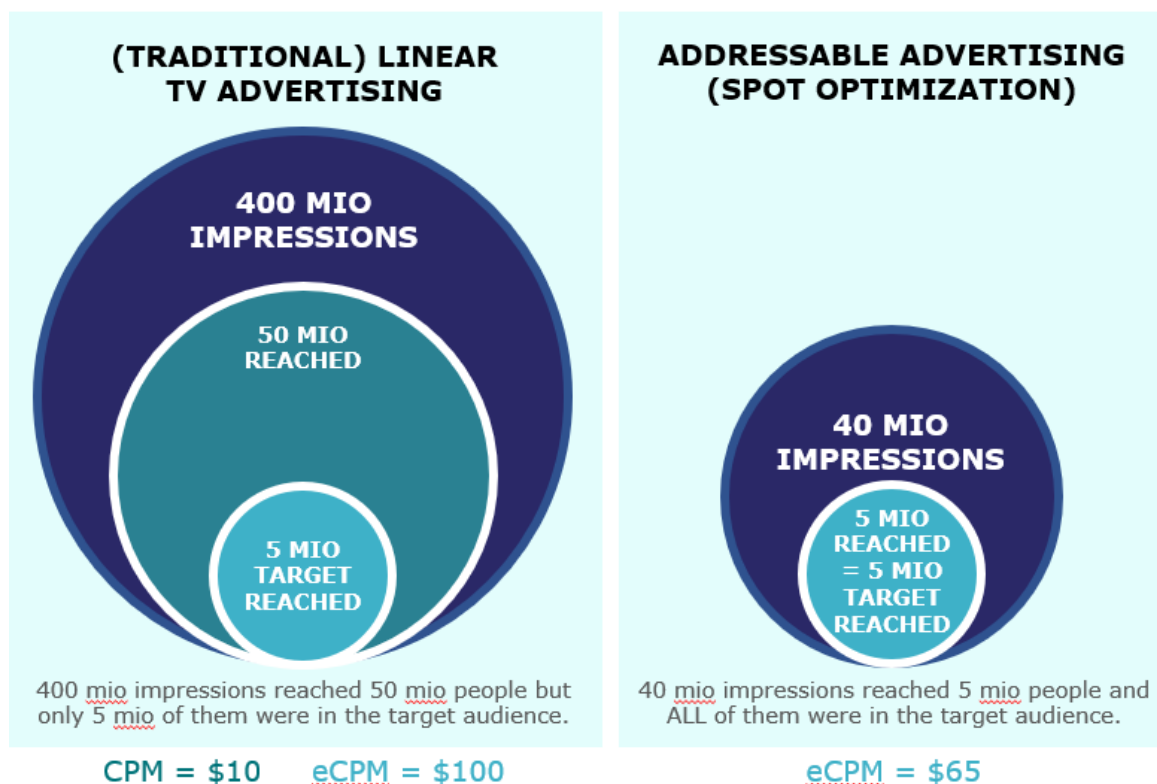


FIGURE 8: eCPM vs CPM IN NUMBERS (PURINA CASE) ⁵⁶

replaced by addressable ads on the other hand. As long as there is limited inventory or reach, it will be hard to convince companies to work with addressable advertising.⁵⁷ However, in countries with a limited number of competitors in the ecosystem, like Belgium, addressable initiatives are already able to reach nearly 100% of all ad blocks.⁵⁸

An additional challenge is the fact that addressable advertising should ideally be a multi-platform initiative. In most cases today, it is implemented via set top box only, although some distributors offer addressable advertising on other platforms as well. In the future, however, it should be implemented on all devices, apps or websites through which people can watch video content. People consume

content through many different channels and, in order to truly deliver on its promise to reach the audience whenever and wherever they're watching, addressable ads should be possible on all customer touchpoints.

Furthermore, industry experts assert that standardisation is needed to grow the use of addressable advertising. Everyone does addressable slightly differently today. To compete with large players such as Facebook and Google – where it is easy to compare audience segments, pricing, and so on – addressable advertising will need to be as clear and standardised as possible for advertisers, not only between local players but first and foremost between international players.⁵⁹

⁵⁷ Peterson T. (2019)

⁵⁸ SBS (2019)

⁵⁹ Pidgeon B. & Moulding J. (2019); Coeymans J. (2020)

ADDRESSABLE ADVERTISING: THE BEST OF BOTH WORLDS

There is much to say for TV advertising, as well as for digital advertising. Both channels have their advantages and their disadvantages. Addressable advertising is a way of combining the best of both worlds. It brings together the unparalleled scale of attention and emotional engagement of linear TV with precise targeting and advanced campaign measurement.

TV advertising is still considered to be the most effective – both in conveying the message and in reach.⁶⁰ Therefore, it is still the medium of choice for upper funnel campaigns. As Les Binet and Peter Field, gurus in advertising effectiveness, famously decided: the most effective advertising campaigns spend 60% of their budget on brand advertising, and 40% on activation.⁶¹ For the 60%, no other medium is more effective than TV. First and foremost, TV has undeniably the largest reach of any advertising medium. Moreover, it reaches people from all ages and all backgrounds. Although there is a clear age gap in daily TV consumption, with younger people spending far less time on TV than the older generations, TV still remains the most effective medium for reaching a broad audience in a short time.⁶²

Secondly, TV allows a lot of freedom in how brands convey their message. By using 30-second videos, brands can tell their story better than in a static ad or a shorter video. The TV ad format has the

ability to evoke an emotional response, and emotional triggers drive sales and long-term profits.⁶³

Thirdly, TV messages are picked up better by the audience than any digital ad. People watch TV in their leisure time, which makes them more open to stimuli than they are in a work environment or while commuting, for example. On top of that, TV is characterised by low noise. Whereas, on digital channels, people are being flooded with advertisements and content, on TV you see only one ad at a time without any other immediate distractions on the screen. In an Australian study, academic professor Karen Nelson-Field found that 58% of TV viewers are actively watching, whereas this is only 31% for YouTube and only 4% for videos on Facebook. Moreover, she found that screen coverage is strongly correlated to attention and sales.⁶⁴ The phenomenon of second-screening or multi-screening, in which people use multiple screens at the same time to consume media, does affect the scale of attention on TV⁶⁵, but it also provides opportunities for marketers, as TV ads can trigger an immediate online response.⁶⁶

Another advantage of television that is often brought up by industry experts is brand safety.⁶⁷ The context in which an ad is shown can evoke associations in the minds of the viewers. Whereas in digital advertising it is extremely hard to control the environment in which your ad is

⁶⁰ Young K. (2017); Heath R. (2009)

⁶¹ Binet L. & Field P. (2009); Pidgeon B. & Moulding J. (2019)

⁶² Nielsen (2019); Richter F. (2019); Global Web Index (2019)

⁶³ Think TV (2017); Binet L. & Field P. (2012)

⁶⁴ Think TV (2017)

⁶⁵ Van Cauwenberge, A. et al (2014); Segijn C. (2016); Young K. (2017)

⁶⁶ Du R. et al (2019); Liaukonyte J. et al (2015); Joo M. et al (2016)

⁶⁷ Tallariti C. (2020); Think TV (2017)

shown, TV advertising holds fewer such risks.

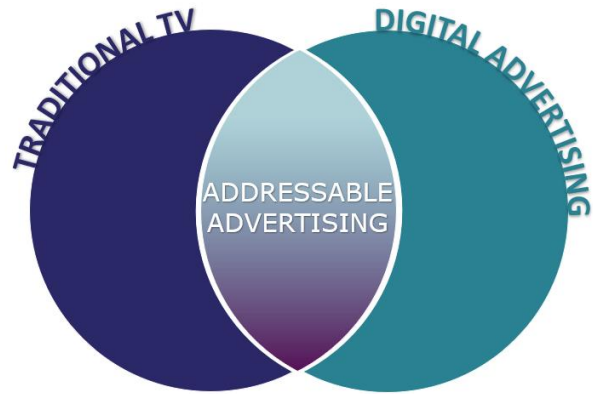
And finally, being on TV has always conferred a sense of prestige and trustworthiness.⁶⁸ Although 'as seen on TV' is no longer as strong a statement as it used to be, simply being on television still endorses the company and gives a boost to the brand image.

Despite these strengths, there are also some unanswered needs in TV advertising. First of all, TV is still regarded as an upper funnel medium, ideal for brand building and creating awareness. When marketers want to launch activation campaigns, however, TV is rarely the medium they choose, due to the very limited targeting options.

Furthermore, TV is lagging behind on measurement and reporting capabilities. In the past, marketers simply trusted the power of TV advertising and knew by experience that it worked. As mentioned above, the story changes when TV is used for lower funnel campaigns. The advanced measurement and reporting capabilities of digital media have raised the bar. With open rates, bounce rates, click-through rates, cost-per-click, and many more metrics, marketers are getting used to detailed campaign reporting and reportable insights on ROI. TV still relies on the same limited techniques that have been used for decades, which no longer fulfil the needs of the new, much more data-driven generation of marketers. Digital advertising answers many of those needs, thus diverting advertisers from TV to digital advertising.

Addressable advertising could be the missing link, bringing the advantages of linear TV and digital advertising together. It has all of the aforementioned benefits

that TV has, but offers opportunities to also implement some of the unique selling points that digital advertising has.



Firstly, addressable advertising will make it easier to use TV advertising for campaigns further down the sales funnel. Addressable advertising allows you to target specific audiences, which is indispensable for campaigns aimed at boosting consideration and conversion. With good target segments, addressable advertising can avoid ad waste almost completely.

Academic literature suggests that addressable advertising could decrease per exposure cost and raise incremental profits. In a cost-based, advance-buy scenario, Deng and Mela (2018) estimate that addressable advertising could reduce costs by up to 92% for the same target views.⁶⁹ Case studies from Sky, one of the forerunners of addressable advertising, show that these targeting capabilities can increase ad engagement by no less than 35%, spontaneous recall by 10%, emotional response by 13%, and word-of-mouth by 14%.⁷⁰

⁶⁸ Herhold (2017)

⁶⁹ Deng, Y. and C. F. Mela (2018)

⁷⁰ Sky (2019)

Just as important, however, is the fact that the technological evolution in TV, which led to addressable advertising, offers the opportunity to get up to par with digital advertising in terms of measurement capabilities. From a technological point of view, the improved set top boxes make it possible to gather data on ad exposure. If addressable advertising vendors find ways to structurally link this exposure data to data on conversion – such as purchase data or web traffic data from advertisers – addressable advertising could answer this need as well.

Last but not least, addressable advertising also has the advantage that smaller campaigns can be run and smaller companies now also get the chance to play in the big league of TV, where before they had to stick with regional advertising or digital advertising. Both Sky from the UK and SBS Belgium claim that more than 50% of their addressable advertising customers are new-to-TV brands.⁷¹

In the end, addressable advertising combines the benefits of the big screen with precise targeting options and advanced data capabilities.

However, the initial belief that addressable advertising would replace linear TV advertising completely is no longer shared by many executives.⁷² A lot of people in the industry believe that the power lies in the combination of both. Where broad, linear advertising is still expected to be important for brand building, addressable advertising is the perfect solution for campaigns with lower funnel goals or for local companies looking to build their brand on TV. Although they did not focus on lower funnel metrics, Sky found in its aforementioned report that, coupled with

linear TV advertising, addressable ads could boost awareness by 25%. While pure addressable advertising only increases ad recall by 10% compared to pure linear advertising, ad recall is boosted by no less than 49% when addressable ads make up at least half of the ads shown to someone, with the rest being classic linear TV ads.

Nonetheless, this is not really an issue of ad technology, but rather of reach. It goes without saying that the combination of both brand-building and activation-focused campaigns will be the most beneficial for driving long-term profits, as stipulated by Les Binet and Peter Field⁷³. Thus, both broadly targeted and narrowly targeted campaigns will be necessary. The cost of addressable advertising is the main reason that it still makes most sense to use linear advertising for broadly targeted campaigns today. Besides that, the TV business model is a very old one and changing it will require some time and patience. Once the cost of addressable advertising can be brought down and we see a shift in the mindset of the stakeholders, one could imagine a scenario whereby ads are traded through an auctioning system comparable to Google's, and all ads in the end would become addressable. But for now at least, addressable advertising in combination with linear advertising appears to be a stronger weapon than addressable alone.

⁷¹ Sky (2019); SBS (2019)

⁷² Pidgeon B. & Moulding J. (2019); Coeymans J. (2020)

⁷³ Binet L. & Field P. (2009)

BENEFITS FOR STAKEHOLDERS

THE CONSUMER

For the consumer, the main benefit is of course the increased relevance of the advertisements shown. If you do not have a pet, there is no point in seeing ads for dog food. Getting a more personalized, relevant ad offering increases the overall experience of TV. Sky showed in its AdSmart report of 2019⁷⁴ that there is 48% less channel switching during addressable ads compared to standard ads in the first three positions of a commercial break. Enjoyment of TV advertising is said to have raised by 10% for viewers that were exposed to addressable ads.

Opening up the floor to smaller players as well, consumers might get more varied ads of brands and products that have a better fit with their own preferences and tastes instead of always seeing the same big blue-chip companies.

Moreover, the new technology could also reduce the ad burden in the long run. When relevance is increased and ad waste is reduced, less ads will be needed to reach the right audience. On online video platforms⁷⁵, where ads are targeted, we see much shorter ad breaks than on TV. This should result in an even better customer experience with a bigger focus on content, rather than on advertising.

THE ADVERTISER

For the advertiser, the benefits are perhaps most obvious. First of all, addressable advertising will allow marketers to improve their marketing story. The targeting capabilities will make it possible for brands to reach very specific audience segments, allowing them to better connect with them by personalizing ad creatives. Brands will be able to adapt their message according to different target groups, test responses to ads and adjust future messages accordingly.

Secondly, more relevant ads will improve the customer experience and lower zapping and zipping. Advertising fatigue is one of the biggest issues in the current advertising landscape as consumers are constantly flooded with ads from every possible angle. Consumers will be less inclined to avoid ads when they are more relevant to them and will likely be more open to the advertisements shown. As mentioned before, Sky claimed in its report from 2019 that channel switching could be cut by half by deploying addressable advertising.

⁷⁴ Sky (2019)

⁷⁵ For example, on broadcaster websites such as vier.be or VTM Go (Belgium)

Thirdly, improved data capabilities will allow marketers to measure their campaign results and optimize ROI. Today, marketers are tempted to choose for digital advertising above TV advertising because of its extensive analytics and reporting possibilities. Addressable advertising will give marketers the ability to measure attribution and sales lift. Clear insights on performance and ROI will allow marketers to make an informed choice about their media mix, based on actual performance of the different channels instead of their respective reporting options.

And last but not least, TV advertising will no longer be reserved purely for the blue-chip companies. Sky's director of advanced advertising Graeme Hutcheson claims that, while clients include a healthy range of big blue-chip companies, over 70% of its customer base is new-to-TV.⁷⁶

THE BROADCASTER

First of all, addressable advertising brings new customers to TV. Sky states in its 2019 report that 75% of its addressable advertisers are either new-to-TV or new-to-Sky. Similarly, SBS Belgium claims that more than 50% of their addressable advertising customers are new-to-TV brands. This is no wonder, since they benefit the most from addressable advertising: against all brands measured in Sky's report, new-to-TV brands can expect a 20% higher boost in purchase metrics. With a 70% return rate for addressable advertising⁷⁷, this provides a very interesting new customer base.

Another advantage for the broadcaster is the reduced channel switching. More relevant ads will improve the TV experience, causing less consumers to change to competitors' channels because of advertising avoidance behaviour.

THE DISTRIBUTOR

The distributor shares in the benefits for the broadcaster. A larger customer base and increased revenues are as interesting for the distributor as they are for the broadcaster, since broadcasters pass on part of their revenues to the distributor. Deng and Mela (2018) calculate that prices for addressable advertising could be 44%-68% higher than for linear advertising.⁷⁸ This incremental value is to be divided between the broadcaster and the distributor.

Moreover, advertising revenues are paramount to ensure a high-quality content offering. Knowing that 60% to 80% of content production stands or falls with advertising revenue, distributors need to invest heavily in guaranteeing these revenues. By maintaining or improving the quality of the content, the pay TV product that distributors offer to consumers will increase in value as well.

⁷⁶ Corvin A. (2019); Sky (2019)

⁷⁷ Sky (2019)

⁷⁸ Deng, Y. and C. F. Mela (2018)

THE MEDIA AGENCY



By repositioning themselves and focusing on data capabilities, media agencies could still be of great value in a supporting and advising role.

The role of the media agency will probably be the trickiest one in the addressable scenario. As they will no longer be the ones buying ad inventory, contrary to what is the case for traditional TV advertising, their role will change drastically. However, there might be benefits for them as well. Addressable advertising will increase and improve the available data for campaign measurement. Instead of the limited data provided by the JIC, companies now get a full data view. By repositioning themselves and focusing on these data capabilities, media agencies could still be of great value in a supporting and advising role, or act on behalf of their customers as some media agencies already do for digital advertising. Their role can consist of campaign planning but also of bundling, processing and enriching the available data for companies. With stronger data capabilities, media agencies can improve their current offering and better prove their worth to their consumers.

CONCLUDING COMMENTS

Addressable advertising could benefit nearly all stakeholders in the TV advertising ecosystem. It combines the strength of TV with the advantages of digital advertising and thus offers interesting opportunities for advertisers and consumers. Broadcasters and distributors can charge higher prices and more targeted advertising can decrease advertising avoidance behaviour.

Challenges that need to be overcome are the perception about cost, inertia in the industry and overall complexity of the new initiatives. More research has to investigate the incremental value that addressable advertising can bring to the table, in order to justify the higher CPM. Although the effective CPM (eCPM) is lower for addressable advertising than for linear TV advertising, a shift in advertisers' mindset is needed to start looking at eCPM instead of CPM. Inertia needs to be fought both on the advertisers' side and the broadcasters' side. Advertisers need to start experimenting and building up experience in addressable advertising to discover its full potential. Distributors and broadcasters need to invest in evolving the technology further, opening up more addressable inventory, and setting up collaborations across the ecosystem. The latter should also help to decrease complexity by improving transparency and creating a standardized approach to addressable advertising, both in target audiences, measurement options and the way addressable ads are traded.

While there are still challenges, addressable advertising is a very promising technology. Unlike any other technology, it will allow advertisers to develop a full funnel media strategy with the unique characteristics of TV.

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