FRAGMENTATION, DATA, AND THE FUTURE OF TELEVISION ADVERTISING

BRANDS ARE TUNING IN TO TV AGAIN, AND WHILE THE FORMAT IS STILL A PRIME WAY TO ACQUIRE CUSTOMERS, MARKETERS WILL NEED A NEW ALLOCATION STRATEGY TO MAXIMIZE REACH

CONTRIBUTED BY MICHAEL ZIMBALIST

WHEN THE CHARACTERS MARTY McFLY AND DOC BROWN SET OFF FOR THE FUTURE IN *BACK TO THE FUTURE PART 2* IT WAS OCTOBER 1985 AND THE MOST POPULAR PROGRAM ON TELEVISION WAS NBC'S *THE COSBY SHOW*, WITH A RATING OF JUST UNDER 34. HAD THE TWO TIME TRAVELERS FLICKED ON THE TV AT THEIR DESTINATION 30 YEARS IN THEIR FUTURE, THEY WOULD HAVE FOUND 2015'S MOST POPULAR SHOW, *THE BIG BANG THEORY* ON CBS, HAD A RATING OF ONLY SEVEN.

Old news to many of us is the precipitous decline in primetime ratings over the past three decades. New news, perhaps, is that this does not imply that viewers have abandoned TV. To the contrary, TV viewership remains rock solid, with the average adult logging 4.5 hours of live TV per week, down only 1 percent year-over-year, according to the "Q1 2016 Nielsen Total Audience Report." In fact, declines in ratings have been largely confined to the top-rated shows. What has unquestionably changed, however, is the underlying dynamics of TV viewing. There is simply much more to watch on TV than ever before. In talking to the *New York Times* about how coverage of the Olympics has changed over the years, Brian Roberts, CEO at Comcast NBCUniversal, made this point vividly: "Twenty years ago, there was something like 170 hours of live content on one channel. Now we'll have 6,800 hours on 11 channels, and up to 41 live streams. So that's effectively 52 channels with 6,800 hours versus one channel with 170 hours."

Think about it: There was only one TV network with one channel broadcasting the Olympics 20 years ago; this year there was still one network but with 11 channels. Between then and now there's been a blossoming of television channels and offerings that have dynamically changed traditional TV viewing habits, but marketers often overlook the fragmentation that has occurred within the walled garden of linear TV. Why? Because at the same time TV was expanding, digital media had burst onto the scene — first through PCs and then smartphones — diverting our time and attention, and fragmenting viewership still further.

Lured by the presence of young audiences, the innovative creative opportunities, and the promise of more precise measurement, America's top advertisers moved money into digital media, slowly at first, and then in a torrent. There was, to say the least, an irrational exuberance for the digital investment before its contribution to sales and business outcomes could be quantitatively assessed. And in that fervor of over-investment, digital advertising — especially for mobile — grew to become saturated. Not enough audience and too much demand had sent prices upward, diminishing the return on ad spend.

Now, the tables have turned.

On August 9, 2016 the *Wall Street Journal* reported that P&G is scaling back its investment on Facebook. As Marc Pritchard, the global marketing and brand building officer at P&G, told the paper, "We targeted too much, and we went too narrow, and now we're looking at: What is the best way to get the most reach but also the right precision?"

The fundamental issue is reach. Brands simply cannot reach enough people fast enough using digital media to drive the volume of sales that consumer brands need in order to grow. As Rich Lehrfeld, SVP of global brand marketing and communications at American Express recently remarked to *Ad Age*, "When we run a heavy TV schedule, we see a lift in sales and product awareness. We need to run two weeks of digital to get the reach of one day of broadcast."

THE TV BOUNCE-BACK

By all indications, America's top advertisers have woken up and realized that they have probably been under-investing in TV over the past few years. According to a recent analysis by Morgan Stanley, the top 100 marketers spent 1 percent more on TV advertising in the first quarter of 2016 compared to the same quarter last year. That compares to a 2 percent decline in their combined TV ad spend for all of last year.

And for those who have wisely shifted money back to TV, the results are impressive. In June 2016, Standard Media Index (SMI) and Bill Harvey Consulting released an Advertising Research Foundation peer–reviewed study of the relationship between media spend and sales among 29 of the top 100 advertisers. Their results showed a strong correlation between increased TV spending and increased sales. Specifically, advertisers with the fastest-growing sales in the study have been increasing TV spend an average of 25.8 percent since 2014, and their sales grew 14.6 percent over that period. The SMI study also showed that advertisers in the CPG category who increased their TV ad spend

Q&A WITH TRISH MUELLER

FORMER CMO AT THE HOME DEPOT

Q From your perspective as the former CMO of a big box retailer with a growing e-commerce business, describe all the different jobs TV advertising did for you.

A Television is a brand builder, an awareness builder, and a traffic driver, even with the growth of digital advertising and online video. Television viewing continues to change, but within key programs, targeting specific audiences, it is still a great way to get your brand and products in front of the customer. In addition, that awareness also drives search behavior and further engagement with the brand across multiple devices after seeing the TV ad.

One area that is often overlooked for leverage of TV ads is your internal customers. TV advertising can become a rallying cry for store associates and stakeholders inside your corporate offices. Sharing it with them before the ad runs publicly can generate tremendous excitement and engagement, as well as adoption of new product launches. Giving internal stakeholders an advance look at TV ads and related content helps make your front line more knowledgeable and engaged to drive success in the aisles.

Q In what ways have digital media and marketing changed the way you think about traditional TV advertising?

A I now expect TV ads to work much harder than I did even a couple of years ago. Content in TV spots should be expandable for an online experience, particularly as we see set-top TVs moving to smart devices — and ads moving onto digital platforms as pre-roll or digital video placements on key platforms. If the customer wants more information or to engage with the brand, TV ads must be able to connect and deliver a deeper experience. This takes planning when ads are produced.

In addition, formatting of TV ads has to be thought through. TV spots served on a handheld device are smaller and are often viewed in a vertical format, with the sound off. The spots have to tell the story without sound, and without the ability to read small type — and they also need to be interactive to allow deeper engagement on the mobile device, in particular. We used to put URLs in ads years ago — can you imagine trying to interact with one of those on your phone today?

I think the days of the network upfront are numbered. With the options available to target effectively in real time, why would anyone commit substantial resources that far in advance and pay a premium to do it? The big networks have a problem they're happy to let marketers pay for, and it's time to hold them responsible for being better partners, with rational CPMs and up-to-date targeting techniques.

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Q Marketers have access to more customer data than ever before. How can we use that to become better marketers?

A We should be using data to avoid serving irrelevant content to consumers, and to avoid wasting money serving those ads. Leveraging what we know expands to partnering with others to source the right audiences who are most likely to be interested in the messages we want to share. I would never answer the door today to someone if they were trying to sell me something I wasn't interested in, so why would any marketer want to spend money to do that digitally, and risk annoying customers?

The power of using our own data and partnering with others to target messaging allows us to close more sales by being useful to our customers, as opposed to disruptive. Data should also be used continuously after the fact to optimize which customers are responding, to fine tune the messages, how they are delivered, and where. If people don't engage with online video in specific formats and on certain platforms, we should test and learn why — is it the platform, the format, or the content? In each case, we can do a better job if we study the test results.

Data should be used to remove "gut" from spending on nonproductive platforms. If your returns are low in a channel, cut it loose and get those dollars working somewhere else.

Q Audiences are fragmented across more channels and devices than ever before. What's the best strategy for reaching through all this complexity?

A I always start with the customer, and determine the best way to make the brand and product useful to them, in the places — channels and platforms — they frequent. I remain passionate about following the behavior, not a segment label, and believe it's important to go deep versus broad in targeting. In 2016 it's irresponsible to use adults 25 to 54 as a target audience.

Marketers must have a clearer understanding of who is most likely to be interested in their product. Merchants want their message in front of as many customers as possible, but not those that don't need or want the product. This requires marketers to be more thoughtful when writing creative briefs for ad agencies and creatives. Imagine how different your message would be if you moved from broad to sniper-sharp targeting.

It's also important to understand the platforms and channels you plan to reach those customers on, so you're not producing content that will never be needed, or missing key content that would help customers convert to a sale. I think the digital world has us running so fast we don't always take the time to stop and think through the desired outcome, what the messages ought to be, and where we need to put them to effectively achieve that. I prefer to thoughtfully begin with the end in mind and work back from there.

Finally, you don't need to be everywhere every day to reach your audience. I have seen some siloed channel communications be as effective as multichannel campaigns — it all depends on what you have to say and who you need to say it to.

— M.Z.

saw a return of $4.68 for each dollar added back to TV.

Conversely, a March 2016 study by TiVo Research and 84.51°, a customer engagement consultancy, found that when 15 random CPG brands lowered TV spend, 11 saw sales decline. For every dollar removed from TV ad spend, those 11 brands suffered $3 in lost sales, the study found.

The verdict is in. Digital media simply does not have the capacity to reach enough people fast enough to satisfy the needs of most mass marketers, and that's why there's been a return to television advertising. But the TV bounce-back will be short-lived if marketers do not acknowledge that fragmentation within the linear TV ecosystem requires a reappraisal of how they allocate their TV budget.

Recall that in 1996 the Olympics was broadcast on a single linear channel. This year it was broadcast on 11 channels. The dramatic change in TV viewing dynamics is fueled by other factors, too: The number of households with three or more TVs has nearly tripled since 1985, according to Nielsen; in the U.S., more people work from home than have in past decades, according to U.S. Bureau of Labor Statistics, and thus have more occasions to watch in dayparts other than prime time; and, of course, there are many more channels to watch, meaning audiences are spread like peanut butter across hundreds of networks and thousands of shows. Today, 65 percent of TV viewing takes place on shows that have a rating of 0.5 or less. There are 156 networks measured by Nielsen and an astonishing 133 so-called "dark networks" that aren't measured at all.

So, what's the right way to think about allocating TV budget amid all this fragmentation? The key for marketers is to adopt an audience strategy on television.

Audience targeting on digital has become axiomatic. When advertisers invest in digital, they recognize that context matters, but audiences matter even more, so digital planning focuses on maximizing reach against the target audience and continuously optimizing based on observed results.

TV investment isn't quite the same. Advertisers are more focused on containing costs than they are on reach and results. Taking the digital approach to television, and targeting audiences rather than buying context is a relatively new idea. Advertisers still rely on contextual buying and negotiating for a lower cost per point. It's telling that even though there are 289 networks, the most advanced media plans today use 25 to 50 networks, and some use even fewer. Reach becomes the victim of this old fashioned approach.

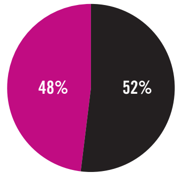
How best, then, to maximize reach in the fragmented landscape of linear television?

WASTE NOT WANT NOT

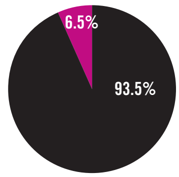
Reach-based planning dramatically improves the outcomes of any campaign. This is especially true for TV, where advertisers still plan and evaluate their campaigns based on gross rating points (GRPs). To illustrate this point, Simulmedia analyzed two different media schedules for the same product, the optimal frequency for which was determined to be 10.

In the first schedule, based on contextual buying using targets identified by age and demographic information, only 52 percent of impressions fell within the optimal frequency. Forty-eight percent were wasted impressions.

In contrast, the other schedule utilized reach optimization and used a predictive model to estimate the probability that any viewer in the target audience would tune in to a particular spot and then algorithmically selected placements that maximized the sum of those probabilities. Built to buy the target audience — proven users of the product — across all TV, irrespective of context, only 6.5 percent of the total impressions were delivered outside the range of optimal frequency. A full 93.5 percent of impressions for the reach-optimized schedule fell within the optimal frequency. — *M.Z.*



CONTEXTUAL OPTIMIZED



REACH OPTIMIZED

● OPTIMAL IMPRESSIONS
● WASTED IMPRESSIONS

OPTIMIZING REACH

The gross rating point (GRP) still stands as both the currency for transacting TV buys and the measure of delivery, but so much has changed. The product of reach times frequency, GRP is a simple equation. What is not so simple is to understand how audience fragmentation has affected the GRP. To illustrate its effect, assume that "rating" is equivalent to "reach," that we are targeting one show, on one network, and that the audience watches that show from beginning to end. Suppose that an advertiser was seeking 100 GRPs. They could buy a spot in a show with a rating of 10 and reach each of its viewers 10 times (frequency of 10). But in the age of fragmentation few shows have a 10 rating. To get 100 GRPs in a show with a five rating, they'd have to deliver a frequency of 20. When the reach of the spot goes down to two, the frequency is a whopping 50 for those same 100 GRPs.

Granted, the assumptions in this calculation are fantastical, but they are similar to the assumptions marketers make when conflating reach goals with GRP goals. TV planning methodologies based primarily on delivering GRPs will all suffer from this problem: They'll deliver too much frequency at the expense of reach. And less reach means fewer customers, plain and simple.

The key for TV advertisers today is to maximize the reach to a target and minimize unwanted frequency. This requires new and better planning tools — tools that can take advantage of predictive analytics to find where audiences will be in the future, not just where they've been in the past. Big data holds the key. With accessibility to set-top boxes, second-by-second viewing patterns can be analyzed across millions of homes. Observed behaviors can feed machine learning models to predict where viewers will be watching with greater precision than ever before. These predictions can range across all networks, measured and unmeasured. (See "Waste Not Want Not," above.)

TV does a variety of jobs for a marketer. One of the most important jobs is to reach as many prospective buyers of the marketer's product or service as possible. More reach equals more customers.

Audience targeting on linear TV is a strategy designed for the fragmented media ecosystem of today. It's a complement to contextual buying, designed to optimize the reach of the total media plan. One doesn't need a time-traveling DeLorean to know the past is not where we need to go for answers. All we need are data, software, and science to bring TV advertising into its future. ■

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