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Insights

Addressable TV ads: Targeting for reach

Addressable TV advertising can deliver targeted TV ads to different households—but its best use may be to extend reach, not to differentiate messages

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TELEVISION ADVERTISING, FOR decades the largest category of advertising in dollar terms, now has the technology to target specific consumer segments in the same way as online retailers and social media platforms have been doing for years. Deloitte Global predicts that addressable TV advertising, which allows different ads to be shown to different households watching the same program, will generate about US$7.5 billion globally in 2022.[1] This is about 40 times more than the revenue we forecast it would generate in 2012, when *TMT Predictions* last evaluated the format.[2]

Now for the caveat. Though 40-fold growth in 10 years may sound impressive, it is a small part of the global US$153 billion TV ad market forecast for 2022.[3] In short, addressable TV advertising has a long way to go before it's a major part of the TV advertising landscape. And what can get it there will be its ability to show the same ad to far more viewers, rather than targeting different households with different ads.

Targeting gets the hype, but reach delivers the value

An addressable TV ad is audiovisual, intended for viewing on a large screen—typically a television, but also a laptop or tablet—and inserted into a live TV broadcast or into streamed video content from any provider.

The view that addressable TV advertising was poised for takeoff has been prevalent for years, which is why *TMT Predictions* first wrote about the format back in 2012.[4] Ten years on, expectations are even higher, largely due to advancements in the enabling technology as well as seismic growth in targeted digital ad revenues in the past decade. Pay TV players have deployed a new generation of set-top boxes with ample storage to prestore ads that can be selectively played back during commercial breaks.[5] Meanwhile, broadband speeds globally have been steadily and significantly increasing, enabling and encouraging mainstream usage of video on demand (VOD). Average speed across over 200 territories globally reached 29.79 Mbit/s in 2021, up 20% year over year.[6] With VOD services of any type, customized ads can be inserted into the stream, targeted to each device's viewer or viewers—and the amount of data on those viewers to enable targeting has exploded since 2012.

The way in which addressable TV advertising will likely grow, however, isn't likely to be through individual advertisers making different ads with which to target different households. For the next five years, Deloitte expects major advertisers—which will continue to be the major buyers, in monetary terms, of TV ads—to value addressable advertising more for its ability to *extend* reach, and so spread their message to the majority of each market, rather than for its capability to *differentiate* messages by household or individual viewer.

The traditional TV ad offers three unique attributes: the size of the screen it is viewed on, the extent of its reach, and brand safety. In 2022, no other medium is likely to be able to match TV's ability to deliver high-production-value 30-second stories to 80% or more of the population within seven days.[7] Furthermore, TV ads don't give viewers the option to comment on the content, the outputs of which may require moderation. But TV ads also have fundamental constraints, the most prominent of these being the time and cost required to create a TV ad, especially one destined for prime time. This fundamentally limits the supply of ads at any point of time, diminishing the benefit of targeting.

For the traditional TV sector, addressable ads may enable higher revenues and may also help television advertising remain viable. Linear TV's reach, though still superior to other types of media, has steadily fallen over the past decade, decreasing by 2–3% per year in major markets globally.[8] The declines have been steepest among the youngest age groups, who are becoming increasingly expensive to reach. So far, declines in viewing hours have tended to be balanced out by increases in cost per viewer, enabling TV ad revenues to stay relatively stable in many markets. In fact, spend on TV advertising globally is expected to be up 1% in 2021 despite the decline in hours watched, because average price per impression has risen 5%.[9]

But this cannot continue indefinitely. This is where addressable TV ads come in—by adding in viewers on advertising-funded VOD (known as AVOD in North America and Asia, and includes broadcaster VOD in Europe), social media, or even video games whose content is watched mostly or wholly online. In this context, addressability would be deployed to show more people the same ad by aggregating audiences across multiple platforms, both broadcast and online.

If addressable TV ads thus benefit advertisers, broadcasters, and on-demand platforms, why haven't they yet taken the TV advertising world by storm? The answer is that, like many markets, addressable TV advertising needs a full-fledged supporting ecosystem to flourish, and that ecosystem has not yet developed. The necessary elements include the way addressable TV ads are measured, aggregated, sold, and created.

Traditional TV measurement should expand to include addressable ads delivered via any service and screen

Major advertisers are accustomed to robust, trusted measurement data for broadcast and digital video recorder views on TV screens. They will likely be reluctant to spend heavily on addressable technology until they perceive that they can combine this data with equally robust and trusted data for all other devices and services on which their ads are shown.[10]

As of 2022, we expect that in most markets, unified measurement of TV ads shown on any screen via any service will still be unavailable. This will likely be one of the major constraints on addressable TV advertising attaining its potential. Some headway will be made: The United Kingdom, for instance, is likely to be one of the first markets with unified measurement, via a system called CFlight.[11] But until unified measurement is widespread, advertisers will need to wrestle with one set of viewing data for broadcast and digital video recorder (DVR) views and a separate set for on-demand views, including those from broadcasters' online offerings, as well as additional sets of viewing metrics from social media with TV apps and TV set vendors.[12] What this means is that an advertiser cannot determine exactly who or how many people have seen an ad: A single viewer would be double-counted if they saw the same ad on broadcast and on-demand. This could be a deal killer for major campaigns—such as the launch of a major new car model or food brand—where accurately quantifying aggregate reach is of paramount importance. If measurement cannot be unified, the benefits of additional inventory across multiple platforms cannot be realized.

Addressable TV ad inventory should be aggregated to simplify buying

In 2022 and subsequent years, the number of platforms that could house addressable ads should rise steadily. More and more ad-funded VOD platforms will arise; TV hardware vendors are likely to increasingly sell space on their home screens as a means of generating recurring revenue;[13] and social media platforms may create apps specifically for TV.[14] However, for addressable TV ads to thrive, advertiser access to the market should be rationalized to minimize the number of commercial negotiations required to place ads across the growing number of platforms. This will most likely occur via aggregators that act as intermediaries for the growing number of content suppliers.

The cost of creating a TV ad likely needs to fall to enable more advertisers to participate

Addressable technology enables companies to experiment with smaller campaigns reaching selected audiences, an approach well suited to smaller advertisers and larger companies new to advertising. But besides buying space, advertisers need to pay to create the content. One approach to making TV ads affordable is for ad agencies to offer a library of video content that can be used to assemble some parts, or all, of a commercial.[15] This may be good enough for advertisers targeting less discerning daytime viewers.

THE BOTTOM LINE

Addressability is important not only for TV, but for advertising in general. But attaining its potential requires its application to be tailored to what TV advertising—and the entire TV ad ecosystem, including media planners—is best at.

Advertising serves many purposes. TV advertising excels at telling a majority of consumers about brands, products, and services they did not realize existed, or did not realize they needed. In contrast, the important but different function of driving immediate sales from a single device is less suited to TV. While TV ads can prompt this behavior, smartphones or laptops, which may hold prestored credit card data and offer one-click buying, are far more cable of generating on-the-spot transactions. But no smartphone can replicate the impact of a beautifully shot ad shown in high definition on a 65-inch TV screen with surround sound on, not muted.

What's more, advertising is not, never has been, and likely never will be predicated solely on precision. Consider that a couple with a newborn may well prefer to be shown an ad for a sports car, and not a sensible sedan, precisely because it is aspirational, rather than functional. TV could be the way of planting that seed of an idea specifically because it is *not* driven by context. Indeed, it may well be that most people prefer their ads without customization. According to one Deloitte survey, only one-tenth of respondents strongly preferred ads to be tailored, while two-thirds did not want customized messages or were indifferent.[16] Extending the reach of these types of ads—novel and unanticipated rather than contextualized and expected—will likely be addressable TV advertising's most effective use.

Endnotes

1. Harry Harcus, "What does addressable TV mean for advertisers?," *The Drum*, April 30, 2021.
2. Paul Lee and Duncan Stewart, *Technology, Media & Telecommunications Predictions 2012*, Deloitte.
3. MAGNA, "MAGNA global advertising forecasts—June 2021," press release, June 13, 2021.
4. Lee and Stewart, *Technology, Media & Telecommunications Predictions 2012*, p. 18.
5. Sky Media, "How AdSmart works," accessed October 27, 2021.
6. Globally, based on measurement in 224 territories, average broadband speeds increased to 29.79 Mbit/s, a 20% increase. Speeds are far faster in individual countries: in 2020, downstream broadband speeds in the United Kingdom, measured at the router, increased by 25% downstream (from 64 Mbit/s to 82 Mbit/s) and by 54% upstream; Cable.co.uk, "Worldwide broadband speed league 2021," accessed October 27, 2021; Scott Bicheno, "UK broadband speeds increased by 25% last year—Ofcom," *Telecoms.com*, May 13, 2021.
7. In the United Kingdom, as of July 2021, TV's reach was 85.5% in a week; Thinkbox, *Monthly TV viewing report: September 2021*, October 13, 2021.
8. Nielsen, "Tracking the evolution of global TV viewing," August 10, 2021.
9. Zenith, "Ecommerce and online video to fuel 11% recovery in global adspend this year," July 26, 2021.
10. As of Q4 2020, YouTube was being measured by Nielsen in the US market; Megan Graham, "YouTube reaches 120 million people watching on TV screens per month," CNBC, March 10, 2021.
11. CFlight is a single measurement system that spans viewing for multiple broadcasters, across all devices, and provides a de-duplicated count of viewers across live, time-shifted, and on-demand platforms. At its launch, its scope is age 18+ viewers, but it needs to be able to measure younger viewers to be fully effective. It would also need to include social media viewing on TV sets. For more information on methodology and scope, see: Thinkbox, "CFlight FAQs," June 9, 2021.
12. Some TV equipment makers, such as Vizio, Roku, and Samsung, have started to sell advertising directly. For instance, Vizio sells advertising space as well as viewing data to advertisers. Net revenues from this business were US$51 million in the first quarter of 2021; Vizio, "Vizio Holding Corp. reports Q1 2021 financial results," press release, May 11, 2021.
13. For more information on what hardware vendors are offering, see: Roku, "Start with streaming," accessed October 27, 2021; Vizio, "Vizio offers media buyers fresh look at TV ad innovations in its first IAB NewFronts Presentation," May 3, 2021.
14. TikTok is one of the more recent arrivals on TV sets; YouTube is one of the longest established, with 100 million views in the United States in March 2020; TikTok, "TikTok on Google TV and Android TV is here!," February 4, 2021; Gina Shalavi, "More people are streaming YouTube on their TV screens. Here's what they are watching," Think with Google, September 2020.
15. Other approaches include trading airtime for equity, enabling budget to go on creative. Startups wanting to scale users quickly need TV to attain national reach fast. Broadcasters or investment firms may trade a stake in the company for airtime. For an example of airtime for equity in the United Kingdom offered by ITV, see: ITV Media, "ITV AdVentures Invest: A unique media for equity opportunity with ITV," accessed October 27, 2021.
16. Paul Lee, *Digital Consumer Trends: The UK cut*, Deloitte, September 2021; based on fieldwork undertaken from June–July 2021, conducted on 3,974 respondents, aged 16–75. The question asked was about "ads you see when using the internet and using social media. To what extent do you prefer these to be tailored to you based on your interests or online search?"

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