

Television advertising



Ongoing TV market fragmentation leads to more competition as well as specialisation

Multi-screen usage is challenging TV advertisers



Digital media platforms are challenging traditional TV channels



Segment definition

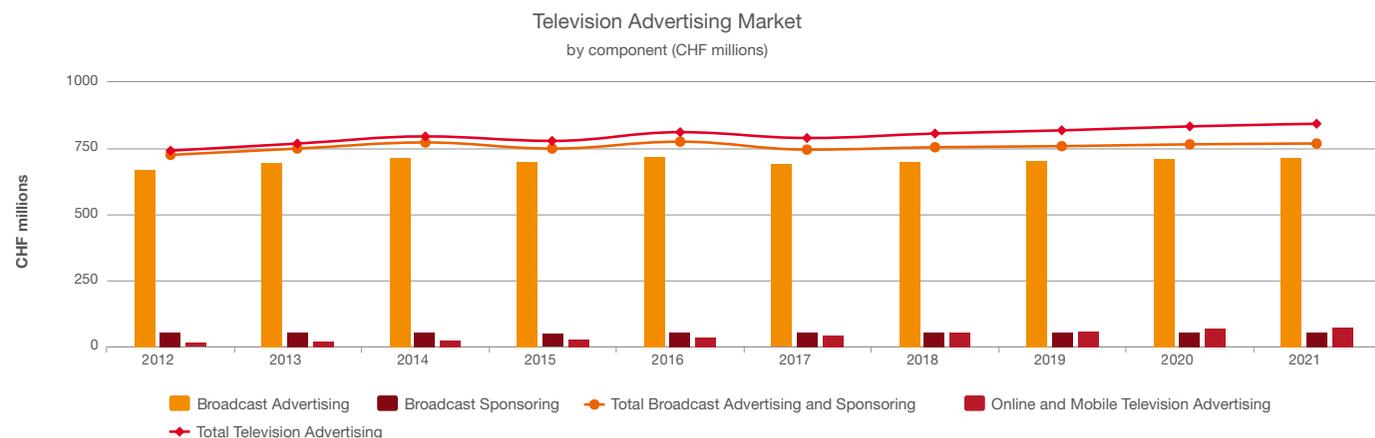
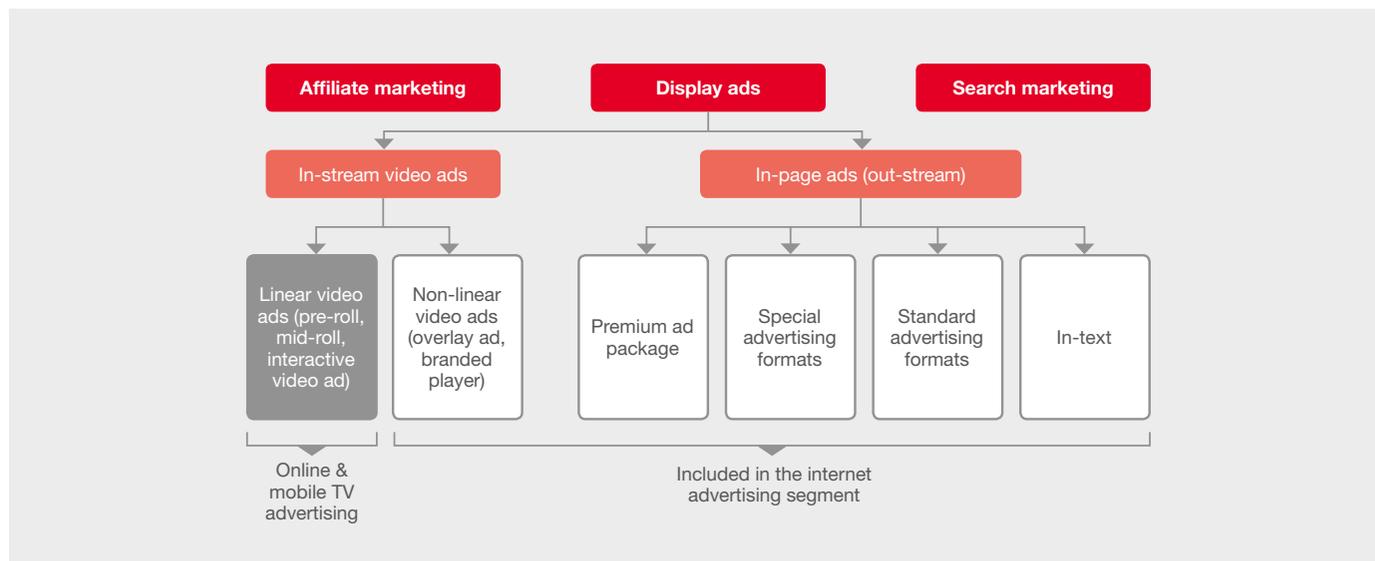
The television advertising market encompasses all advertising spending via broadcast or online television within, before and after TV programmes. **Broadcast advertising** comprises revenues generated by free-to-air networks (terrestrial), cable, satellite, internet Protocol TV (IPTV) and other distribution services.

Last year, the definition for online & mobile TV advertising was aligned closer with industry standards. Therefore, online and mobile TV advertising consists of linear in-stream adverts only (combining pre-roll, mid-roll and post-roll revenues). Not included are the following components: non-linear adverts (such as overlay ads, where advertisers use a video overlay to deliver an ad unit) and in-page ads, as these are already included in the internet advertising segment.

Within linear in-stream adverts, only revenues from broadcast TV viewed on TV websites and internet TV platforms such as Teleboy or Wilmaa are taken into account; the type of device is irrelevant. Video content consumed via other platforms such as YouTube are not covered, as these revenue streams are part of internet Advertising. All TV Advertising figures are shown as net revenues, excluding agency commissions and discounts.

Business innovation

Traditional television and its advertising slots have been an integral part of the media and entertainment industry for decades. However, modern technological improvements and the corresponding lifestyle of younger media consumers influence the market and its revenue streams. Later in this chapter, the challenges and market trends within the industry will be addressed in more detail. In this regard, a modern way of improving marketing activities is described, since TV advertising has its difficulties getting the full attention of viewers nowadays.



Analysis by PwC





Due to the observed trend that people are paying attention to more than one screen when watching TV, a solution to this challenge is essential and the issue will become even more important. Companies like Goldbach Group in Switzerland help advertisers to measure the impact of an advertisement and spend their marketing budget in an optimised way. By selling their customers technologies like Goldbach's SynchScreen, they make it possible to combine TV advertising with online advertising via different channels in real-time. This way, a better cross-media experience can be delivered and the viewer's attention on the second screen might be recaptured. Necessary insights for this business concept are gained by detecting TV content across



“Big Data and analytical tools have a positive effect for us all – not only the relevancy but also the efficiency of advertisements will be improved massively. In the Swiss market, personalised targeting has much more potential to grow.”

Victor Masopust
Chief Executive Officer | Teleboy

a multitude of channels and analysing a variety of different data platforms around the world. Additionally, analytical tools are used to generate the maximum outcome of the client's advertisements in terms of targeting and efficiency. Thanks to the specialised technology provided by Goldbach and Co., online campaigns can be started and stopped synchronously within seconds and adapted to the specific target group, area or event. Through this, synchronised TV and online ads on webpages or social media feeds are possible. Thereby, companies can enhance the interaction with their customers. Adapting their marketing activities to real-time moments, including sport results, weather forecasts or emotions at live-events, has helped these companies to deliver commercials to the most relevant audiences and to increase their **CTR** dramatically.

However, without accurate data on the exact airing time, advertisement length and channel coverage, an efficient marketing outcome cannot be generated. One key indicator for measuring the performance of TV advertisement is website traffic, since website visits happen mostly within three minutes after a commercial. Consequently, with correct underlying data, an exact measurement of each individual TV advertisement airing is possible and the advertisers gain much more transparency

about their costs for a conversion or which spot on a certain channel works best. In the effort to optimise the ad spending, so-called Programmatic TV technology is becoming increasingly important since it enables advertisers to use the gathered data, automate TV buy and minimise costs. Goldbach wants to introduce such a programmatic placement tool in 2018 so agencies can book slots more flexibly and instantly on a variety of channels.

Without getting too deeply into the technicalities, it is obvious that this modern targeting has potential to grow. Although it is used mainly by well-known companies with larger marketing budgets, there is room for improvement and more investments for the majority of advertisers in this area. Technological advances and our digitised society make it more predictable for advertisers to convert the money they spend on TV advertising into new customers.

The Swiss television advertising market

Market overview

In the broadcasting sector, ad revenues are generated by offering advertising slots either for a certain programme or with a focus on a specific target group. This sector includes Swiss TV channels in all domestic regions, as well as TV companies from abroad with dedicated Swiss advertising windows. In the online and mobile television sector, there are certain online or over-the-top (**OTT**) providers such as Teleboy or Wilmaa, as well as traditional broadcast channels that feed video content to laptops or mobile devices by means of open internet networks. Advertisement slots are sold to finance their business.

Switzerland's broadcast TV advertising revenues were reported by 55 channels in 2016, several more than in the previous years. In total, these broadcasters earned net revenues of CHF 775 million, an increase of CHF 26 million over 2015. This indicates





a growth of 3.5%, a clear improvement after the 3% decline in 2015. Broadcast advertising generated CHF 722 million, while the broadcasting sponsorship revenues increased to CHF 53 million in 2016.

The largest share of TV advertising revenues in Switzerland was contributed by public TV channels, in total 47%, followed by foreign private channels with 42% and private Swiss channels with an 11% revenue share. However, private Swiss channels were able to increase their advertising sales significantly by 11.8% compared to 2015, while foreign channels' sales grew by 3.8% and public channels suffered a 0.8% decline.

Within the online and mobile television advertising market, the positive revenue trend continued: in 2016, a total of CHF 36 million was generated, a 24% gain yet a slightly slower growth pace than in the previous year.

After a period of growth in previous years, 2015 was characterised by declining numbers in advertising as well as sponsoring. However, in 2016 a further drop was avoided in both segments. This can be explained by the additional ad revenues generated during the European Championship in France last year and the Olympic Games in Brazil. Furthermore, the presidential election in the US was an important TV event, and the shock about the Swiss franc exchange rate has cooled down and is no longer a hindering factor for companies.

Even though SRG acted as an official broadcaster of the major sport events, its TV advertising revenues decreased by a total of CHF 12.6 million in 2016. There are two main reasons for this. Mainly, revenues from TV advertising decreased in reflection of an advertising market that is getting more competitive and channels other than TV that are now being sought. Additionally, higher commission fees had to be paid to Admeira, which sells the advertising slots of the public broadcaster.

In 2016, Goldbach Group managed to increase its revenues by CHF 33 million, more than 8%. This growth was mainly driven by the expansion of a more target-specific channel portfolio, which now includes a variety of niche channels. Also, marketing agreements with RTL Germany and SevenOne Media were extended prematurely.

These numbers show that not only reachability and size are important for an attractive TV channel, but also new concepts on how to engage with the viewer in line with the change in media-consumer behaviour. Not only public TV channels face these challenges; even the successful numbers in the private sector should not detract from the fact that technological developments and changed consumer behaviour are affecting television and thus the advertising industry in a disruptive way – the successful business concept of the past decades is threatened.

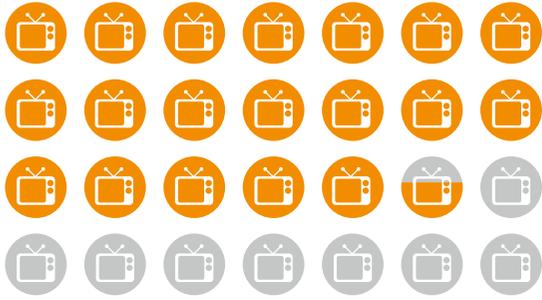
TV market fragmentation

An ongoing development to be seen in Switzerland is the further fragmentation of the national TV market. The number of available channels has risen continuously in recent years: according to Mediapulse, there are more than 400 channels alone in Switzerland nowadays and more are about to enter the market. By the end of 2017, new channels like Swiss1, Teleclub Zoom and MySports will have gone live in Switzerland. This heated battle for the airwaves means that market shares are getting smaller and more difficult to keep, channels are becoming more and more specialised and, consequently, they reach fewer people. The end result: TV is suffering losses from declining ad revenues and attractiveness as a marketing tool. Mass media TV, with its nationwide reach, is weakened by this development. However, if this trend continues and TV channels become more specialised over time, in the medium term TV as a whole will remain a powerful medium with the ability to reach many people in an effective way.

Advertising encounters resistance

Besides that, advertising itself remains a key challenge. Frankly speaking, almost nobody wants to watch an advertisement, especially one that is neither relevant nor exciting. On average, a person is confronted with up to 10,000 marketing impressions per day – which is why we get even more resistant to advertising. So developing an even sharper target-specific spot with relevant content is more important than ever. Consequently, the use of modern data analytics tools and investment in spot placement analysis is necessary to provide at least an advertisement the audience can relate to. Today, TV channels have difficulties providing relevant and more target-group oriented advertisements, so the probability of having no relevance is high. Showing advertising only on a TV screen will no longer be sufficient as people become even more resistant to ads in the long run.





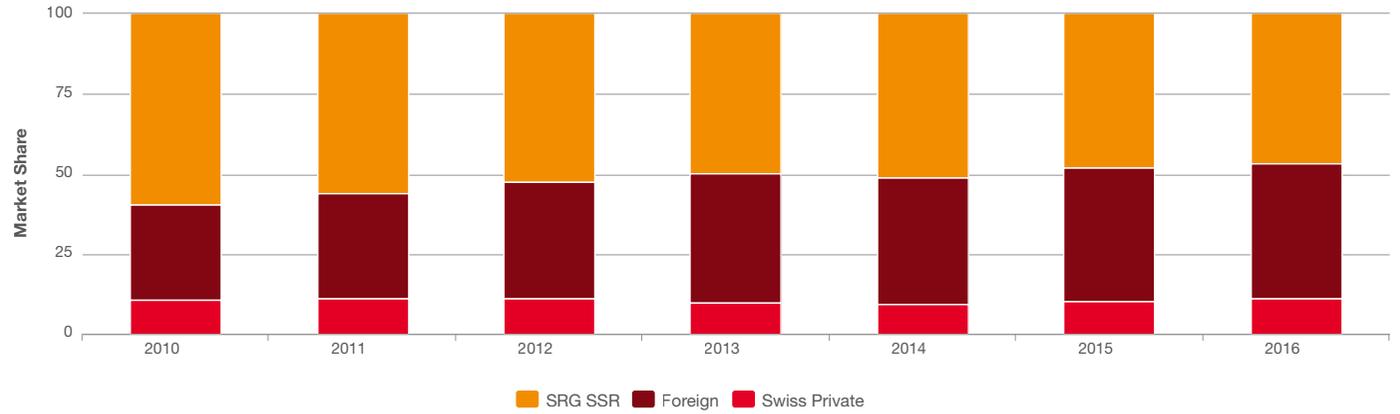
A rising number of people are using their smartphone while watching TV.

70% of the people use it in no way that relates to the TV for Switzerland.

Multi-screen users

Another development which is diminishing the effectiveness of TV advertising is the ongoing trend in society to use more than one device when watching TV, especially during advertising blocks. Paying ad money but not getting full audience attention is lessening the attraction of TV ad campaigns. Recent statistics from 'IGEM-digiMonitor' confirm the trend that a rising number of people are using their smartphone while watching TV. According to the latest findings, 70% of the people use it in no way that relates to the TV programme. However, the fact that still more than 60% of the Swiss population watch TV on a daily basis is definitely a reason why advertising on TV remains an attractive channel for targeting people. Considering these numbers, multi-screen user behaviour might be a call to action to adapt

Broadcast Advertising Market Share
by channel origin



Analysis by PwC

advertising and improve the way of gaining attention as well as insights about the target group and the preferred time slots that have to be available. Analytics for a better multi-screen strategy is still in its infancy in Switzerland, but projects such as the 'Swiss Media Data Hub' are promising steps towards a successful future.

Time-shifting and streaming platforms

Thanks to modern technologies, the way people watch TV has changed over the past few years. The growing number of options for how and when to consume TV content, such as online movies or series, means that people are no longer solely reliant on TV programmes. New competitors such as Amazon, Netflix and YouTube are much more attractive for many viewers. The main advantage of these digital platforms is their personalised offerings as well as the flexibility to demand the content anywhere and

anytime. By paying a monthly subscription fee or just the rental fee for the desired content, it is possible avoid being confronted with advertising and instead simply watch your personalised programme. But these technological improvements not only facilitate modern business concepts, they also allow the option of time-shifted viewing or fast-forwarding through TV advertising blocks. Skipping advertisements is not an age-related trend; it can be observed in all age groups. Hence all these innovations pose threats to the TV industry and its advertising; the linear consumption could become an endangered species over the long run. However, this challenge could also be seen as an opportunity to keep the relevance of linear TV in times where media content is constantly available. The answer for traditional TV channels is to offer more online services, improved on-demand availability and greater integration of online platforms.





Costs for advertisements

A key point of crucial importance to the advertising business model is the expense involved in distributing advertising via traditional TV channels. Compared to other options, TV advertising requires more money and capacity in terms of research, planning and execution. Especially new channels such as social media make it relatively easy to reach a similar number of people via so called influencer or company accounts. Considering the various challenges, such as the necessity for extensive research on spot placement or channel coverage, many companies opt to spend their marketing budget on other activities. Even though the prices for TV advertising increased only modestly in Switzerland during the past year, the price level per thousand contacts is already quite high. Within the coming years, TV will still benefit from missing measurement practices within the online advertising segment. As of today, premium brands are rather reluctant to take on the perceived risks inherent in concentrating more of their advertising in digital mediums, resulting in TV ad spendings despite higher costs.

Principal drivers

Entertainment offerings on social media platforms

As the aforementioned challenges have underscored, consumers will become even more digital, connected and interactive; technological innovations are prompting new ways of consuming media content. As a consequence, marketing budgets will be spent on digital platforms and supported by their increasing importance. Not only are series and movies being viewed more often on media platforms, but also live sports events. As the deep dive segment of this study points out, several business partnerships with sport clubs have been negotiated and include the associated rights packages. The question is, how fast can these platforms offer an attractive portfolio of videos, movies and sport entertainment packages to their users.



“The 7-day replay function, which in this form is only available in Switzerland, brings a lot of value to the viewer, helps to keep the relevance of linear TV in times of On Demand streaming services and offers broadcasters and platform operators the chance for new monetisation models, especially in combination with new ad formats and technologies.”

Jörg Meyer

Chief Officer Content & Consumer | Zattoo

One thing is certain: the competition between television channels and social media platforms is going to have an impact on TV advertising revenues, and even more intense competition lies ahead.

Story-telling as a differentiation factor

Another important topic with an impact on future revenues in the TV advertising segment is the question as to how best to advertise and interact with the audience. In that most people are able or at least trying to avoid advertisements on TV, a differentiation factor is necessary for this form of advertising to remain a powerful marketing tool. By offering the audience a short clip of a story-telling nature or an emotion-provoking video instead of only putting the product or service in the foreground, people might be more inclined to watch the clip rather than any other kind of advertisement on TV.

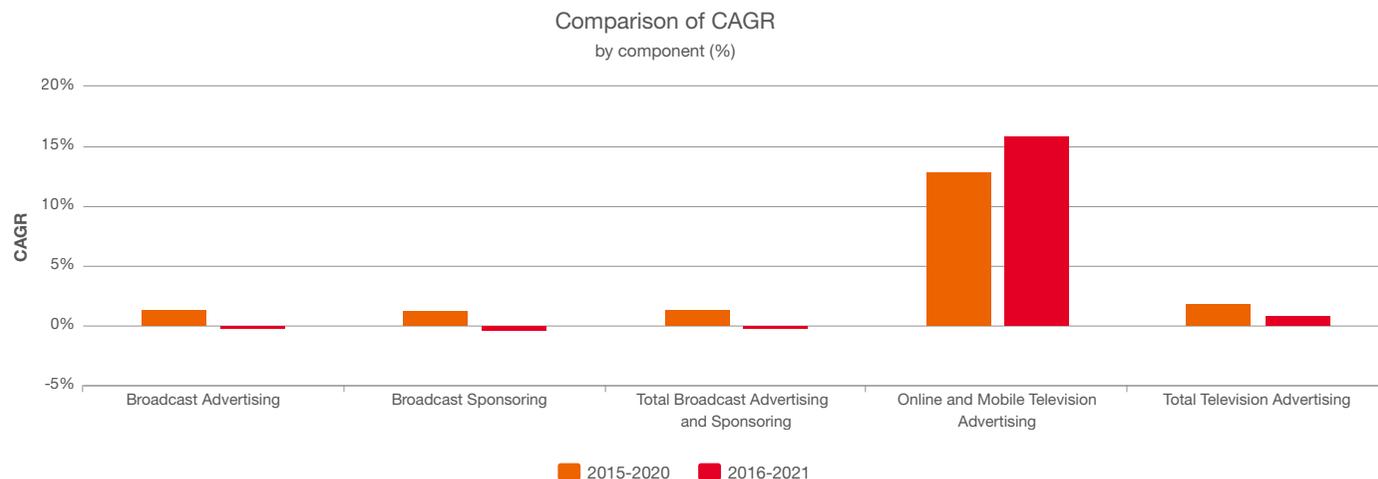


Data analytics is key

The overall key to success is to be found in the realm of data analytics and targeted improvements. Investments in this field are vital for future market growth and TV advertising demand. Especially in comparison to social media or streaming platforms, TV channels barely know who is sitting in front of the screen at any particular time. In order to convince potential clients who invest in TV marketing campaigns and use this medium as one component of a holistic marketing campaign, modern tools that generate specific insights about the viewers or options for state-of-the-art targeting are essential. In this regard, niche channels have a competitive advantage due to their broadcast programme and more specialised content, as well as the fact that information about these viewers and their preferences are more predictable. In light of all the aforementioned challenges, ongoing trends and the modern way of consumers' media behaviour, data analytics is crucial to achieving more targeted marketing and personalised content.

Market growth

Over the forecasted period, we expect a slight growth in the broadcast advertising and sponsoring market. Owing to the previously discussed developments, challenges and ongoing technological improvements, forecasting what lies ahead in the next five years has become even more difficult. Hence, we are projecting a modest annual growth of 0.8% through 2021 in total TV advertising and sponsoring revenues, mainly driven by online and mobile advertising growth. However, its market share should remain below 10% during the forecast period. Major sports events across Europe, such as the UEFA European Championship in 2020, will provide the usual cyclical boosts, and live sport programming remains absolutely vital for the segment. The



public TV channels continue to garner the advertising revenue share, but private local channels are increasing their market share, and foreign private channels as well as internet providers are challenging the market.

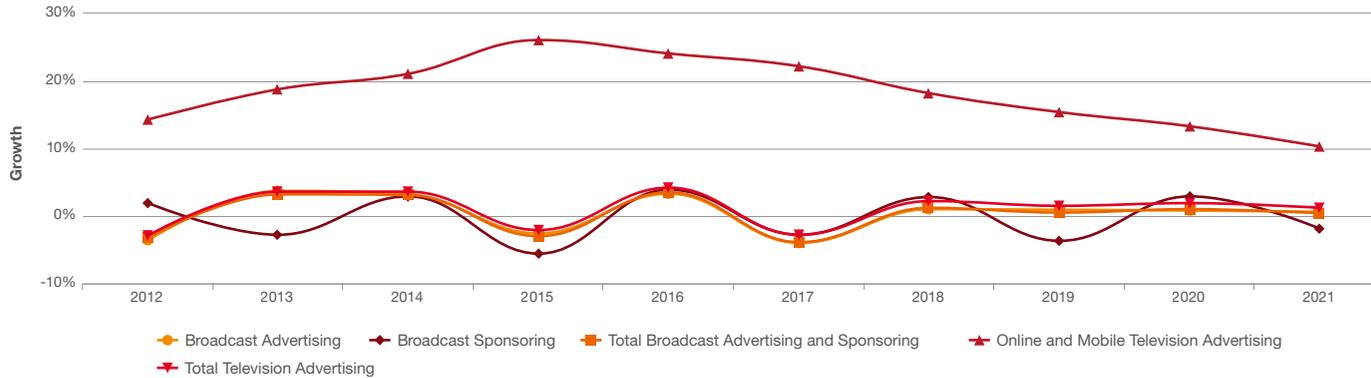
Drivers for growth are new inventory (growing channel portfolio) and innovative advertising methods. Classic advertising, such as linear broadcasting in existing channels, shows little potential for growth and is expected to stagnate by a -0.2% CAGR over the next five years.

Online and mobile television advertising is expected to be the motor of the advertising market's growth. An average annual growth rate of 15.8% over the next five years is a realistic assumption due to the global trend towards doing everything on mobile.

In addition to these circumstances, macroeconomic factors such as GDP growth are projected to be a positive influencer by helping to revive domestic demand and underpin growth in the advertising market.

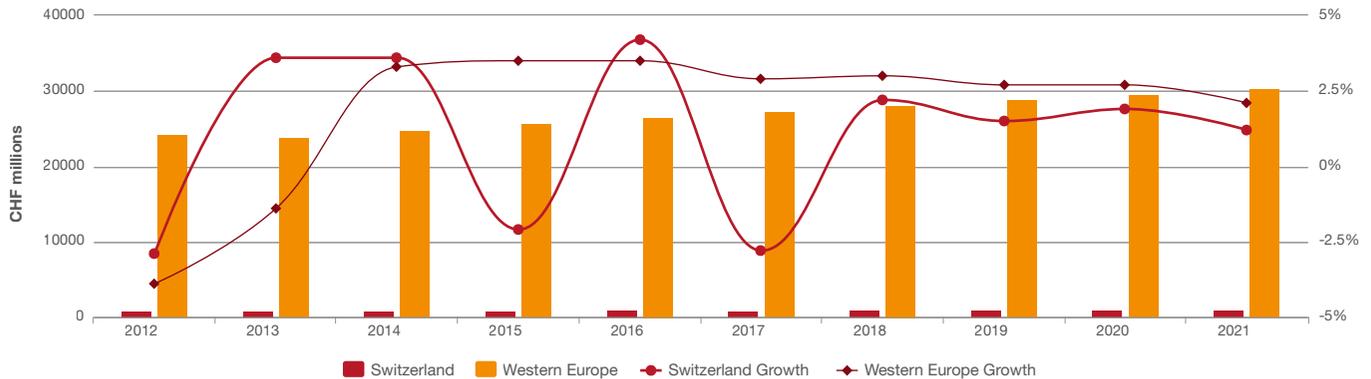


Television Advertising Market Growth
by component (%)



Analysis by PwC

Television Advertising Market Comparison
Switzerland and Western Europe (CHF millions)



Analysis by PwC

Comparison to Western Europe

In contrast to the TV advertising market in Switzerland, the Western European counterpart should continue to grow gradually at an average annual rate of 2.7% through 2021. Due to the fact that the Western Europe market is one of the most mature, television advertising growth will rely on the online and mobile segment. Whilst traditional television advertising growth rates remain low, the online segment should record double-digit growth in many Western European countries.

The UK remains the biggest player in the television advertising market with more than £6.5 billion revenues in 2021, followed by Germany and France. In absolute numbers, the Swiss market generates more revenues than the Swedish and less than the Netherlands market.

Driven by the same challenges, competitive environment and market trends as in Switzerland, traditional TV stations in Western Europe must reconsider their business concept and adapt it to the new market circumstances. International media platforms with live-sport packages will expand in further countries and claim market share; major sports events in particular remain one of the most important arguments to lure people in front of the screen. However, more and more of these events will be shown exclusively on Pay-TV within the next couple of years, and public channels have lost some of the important betting venues in the major Western European TV markets.

