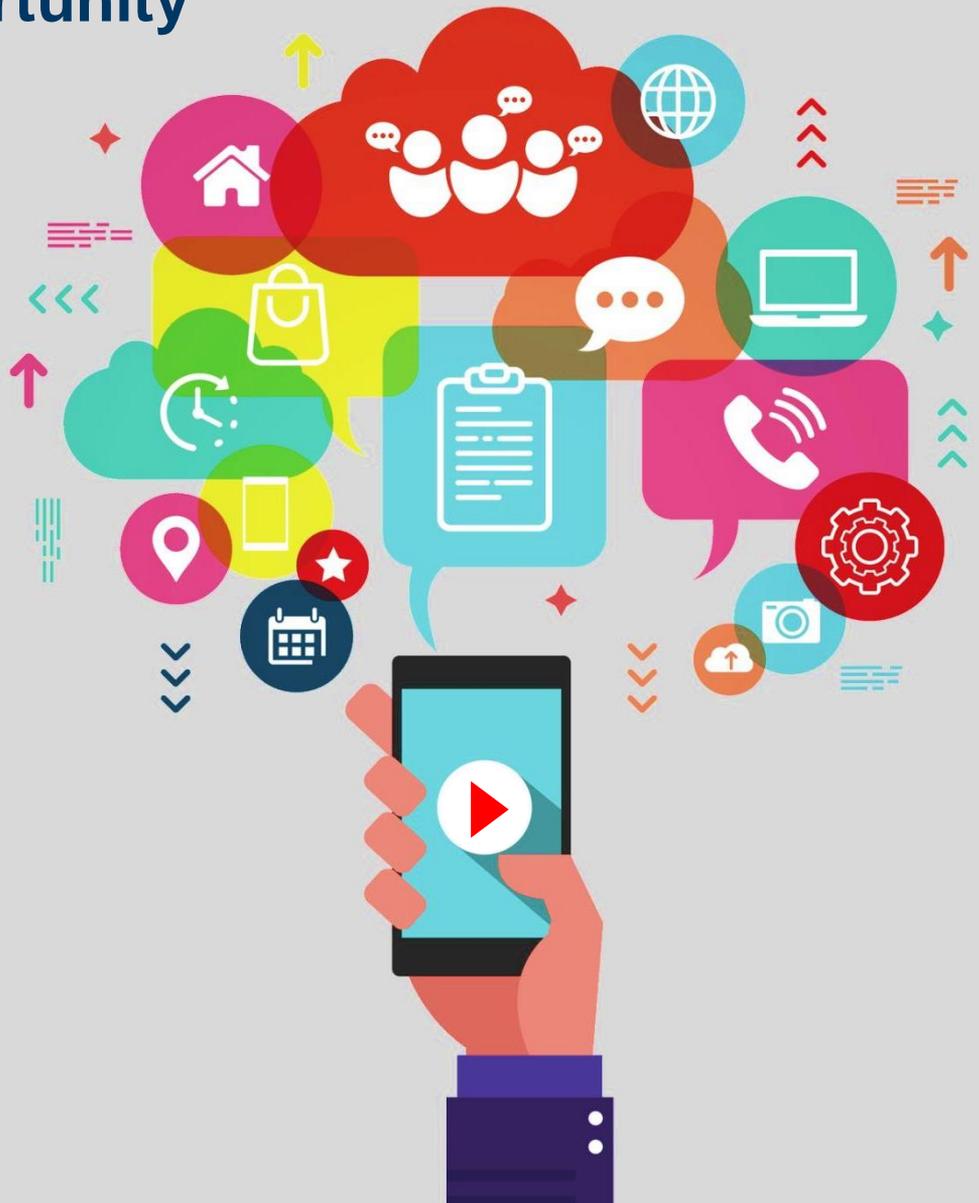


# INSIGHT

FTI Consulting

Telecom, Media & Technology Practice

## Digital Video and the Branded Content Opportunity



# Digital Video and the Branded Content Opportunity

Since Craigslist first began to win market share from classified ads over 20 years ago, advertisers have struggled to keep pace with the disruption caused by digital substitution. For years, television remained immune from the effects – but no more. While television ad market share (excluding Politics & Olympics) peaked several years ago, its decline is expected to accelerate due to digital disruption (Figure 1).

## Digital Substitution Hits the Television Market

After many years of disrupting advertising in print media, digital substitution is now impacting the traditional advertising stronghold of television. Broadcast TV advertising (except during national election and Olympics years) hit peak ad market share at approximately 40% in 2012 and has declined slowly since. Today we forecast it to continue declining steadily through 2021 to a 12% share by the end of our projection period (Figure 1).<sup>i</sup>

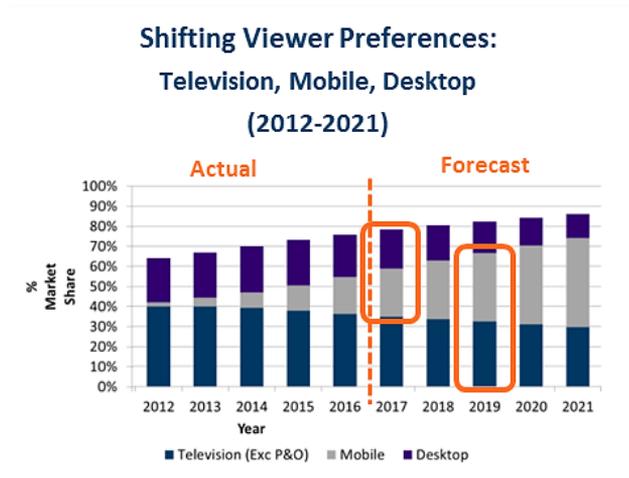


Figure 1

	2016	2021	'16-'21 CAGR
Broadcast TV Excluding Digital	36.5	28.1	(5.1%)
Cable TV Excluding Digital	30.6	32.3	1.1%
Core Digital	67.1	60.4	(2.1)%
Desktop Digital	36.3	24.4	(7.6%)
Mobile Digital	36.2	96.4	21.6%
Total Core Digital	72.4	120.7	10.8%
Total Ad Revenue	\$203.2	\$224.2	2.0%

Figure 2

In this *Insight* we explain the continuing shift of advertising dollars into digital video and the opportunity for branded content to capitalize on it. In an upcoming companion *Insight* we will provide an investment thesis for advertisers, production companies and private equity firms to invest in the production of branded content for consumption of digital video.

Today, digital has become the single largest class of advertising, as advertising dollars follow viewers in the shift from traditional to digital platforms. Looking ahead, digital is projected to grow through 2021 at a CAGR of 10.8% (Figure 2).<sup>ii</sup> In comparison, amid growth in digital advertising, the legacy cable TV is expected to grow at only a 1% CAGR through 2021.<sup>iii</sup>

**“Within 5 years, most of what people consume online will be video.”**

- Mark Zuckerberg, Facebook 2016 Q2 Earnings Call, June 2016 <sup>iv</sup>

The following tell-tale statistics about digital substitution today explain a lot about the impact of digital video advertising:

- ✓ **\$121 billion by 2021** -> Digital advertising totaled \$72 billion, representing 35% of total ad share in 2016 and is expected to grow to more than 10% annually to \$121 billion by 2021 (Figure 3).<sup>v</sup>
- ✓ **\$96 billion by 2021** -> Mobile digital is forecasted to explode at a 22% compound annual growth rate to a 43% share / \$96 billion, while desktop digital is projected to decrease 8% compounded annually to only 11% of total market share (Figure 2).<sup>vi</sup>
- ✓ **\$70 billion by 2021** -> Ad spending on US video streaming is \$30 billion today, but could reach \$70 billion by 2021, representing a CAGR of almost 100% per year according to Market and Markets.<sup>vii</sup>
- ✓ **\$16 billion by 2021** -> Size of branded video ad market is forecasted to equal \$16 billion by 2021 increasing from \$7 billion in 2016.<sup>viii</sup>

## What is driving the growth in digital ad spending?

**G**rowth in social and mobile advertising, which themselves are being driven by the increasing consumer attention to social media, the increasing number of mobile devices, shifting viewer preferences to new media alternatives and the rise of programmatic advertising. Social and mobile video are

forecasted to grow at a 18% and 41% compound annual growth rates, respectively, while digital legacy display is forecasted to decline at a 29% compound annual growth rate (Figure 3).<sup>ix</sup>

## Digital Video Has Fueled the Growth of Branded Content

**D**igital video environments provide several new opportunities for advertisers, namely:

1. **One-to-one data tracking and targeting between advertiser and viewer.**
2. **A viewing environment focused on shorter content segments and smaller screens.**
3. **The potential for interactivity and mass customization.**

Many traditional commercials of the kind shown on linear television don't cut it in digital video, however. The context of digital video viewing requires that advertisers create more and different ad content in order to deliver meaningful viewer engagement. Sometimes ads need to be shorter and edgier, and have a more personal tone. Other times, ads require customization and the production of multiple versions tweaked in order to target specific audiences. In either case, over the next several years creating content to monetize digital video both for the large screen and the mobile screen will challenge some producers of advertising, while advantaging others.

These opportunities have led to a proliferation of video ad innovations, including a variety of targeted and interactive ad units. Ad agencies have created entirely different creative units.

Digital video has particularly contributed to the tactic of "**branded content**," whereby a brand commissions a segment of content designed to engage viewers while also subtly promoting that brand. A 2017 survey by the Content Marketing Institute found that 73% of marketers believe that creating more engaging content is a top priority of their organizations.<sup>x</sup> Research continues to indicate that consumers engage more with content (even when infused with brands) than they do with traditional "commercials."

Projected Growth in Digital Ad Spending (\$B)  
(2016-2021)

	2016	2021	'16-'21 CAGR
<b>Direct Digital</b>			
Search	35.0	57.8	10.6%
Social	16.4	37.5	18.1%
Other	5.7	2.3	(16.5%)
<b>Digital Video</b>			
Desktop Video	4.5	6.7	8.2%
Mobile Video	2.5	13.7	40.7%
<b>Digital Display</b>			
Desktop Display	6.9	1.3	(28.8%)
Mobile Display	1.5	1.4	(0.1%)
<b>Total Core Digital</b>	<b>72.4</b>	<b>120.7</b>	<b>10.8%</b>
<b>Total Ad Revenue</b>	<b>\$203.2</b>	<b>\$224.2</b>	<b>2.0%</b>

Figure 3

Market Size of Branded Videos vs. Television Ad	
(\$ in M)	
2015 US Television Ad Market Size	\$63,872
2015 TV Commercial Production Revenue	\$5,020
Production as % of Market Size	8%
2016 US Branded Video Ad Market Size	\$7,000
2016 Est. Branded Video Production Revenue	\$550
Production as % of Market Size	8%

Figure 4

Branded content has become a critical part of the ad mix alongside of traditional ads. Findings from Ad Age suggest branded content complements performance of traditional commercials. Branded content “increases viewer engagement by 20% and brand awareness by 56%.”<sup>xi</sup>

In digital ad-supported environments, content producers have a particular incentive to pursue branded content. Content producers typically have to share as much as 50% of ad dollars with the digital platform (such as YouTube or FB) for traditional ads. However, content producers typically can retain 100% of ad dollars generated from branded content campaigns, largely because digital platforms have difficulty distinguishing branded content from regular entertainment content.

Authors:

**Dan Punt**, *Managing Director*

**Roger Scadron**, *Managing Director*

*Views expressed here are those of the authors alone, and do not represent the views of FTI Consulting, Inc. or any of its other employees.*

**In an upcoming companion *Insight* we will provide an investment thesis for advertisers, production companies and private equity firms to invest in the production of branded content for consumption of digital video.**

Marketers spent more than \$10 billion on branded content in 2016, according to Forrester Research.<sup>xii</sup> The Boston Consulting Group expects spending on branded content to rise to \$25 billion by 2019<sup>xiii</sup> while our own FTI Consulting forecast estimated that the market for branded video will be \$20 billion by 2020.<sup>xiv</sup> Using both BCG’s and FTI Consulting’s and estimates we forecast a total addressable market size of approximately \$20 –\$25 billion by 2019 – 2020.

FTI Consulting’s forecast estimates that production spending (\$550 million) accounts approximately eight percent of the \$7 billion US branded video ad market in 2016 (Figure 4).<sup>xv</sup> We expect spending to increase as ad dollars shift focus to storytelling and to experimenting with new ad formats and capabilities, while spending continues to shift away from traditional advertising. Such growth is expected to lead to \$18 billion branded video ad market in 2020; and production spending on branded video of \$1.4 billion.<sup>xvi</sup>

As the title of this brief insight states, the continuing shift of advertising dollars into digital video has created an opportunity for branded content to become one of the most effective types of advertising to monetize this fast growing part of media.

## Content Sources:

- i. Magna Global Advertising Forecast – 2017
- ii. IBID
- iii. IBID
- iv. Facebook Earnings Call, June 2016
- v. IBID
- vi. IBID
- vii. Market and Markets, May 2016
- viii. Magna Global Advertising Forecast – 2017
- ix. IBID
- x. Content Marketing Institute / MarketingProfs, February 2017
- xi. Ad Age, June 2017
- xii. Forrester Research, January 2017
- xiii. The Boston Consulting Group, July 2015
- xiv. FTI Consulting Advertising Forecast, September 2017
- xv. FTI Consulting Advertising Forecast, September 2017; eMarketers, March 2016; AICP, June 2016
- xvi. IBID

## Figure Sources:

1. Magna Global Advertising Forecast – 2017
2. IBID
3. IBID
4. FTI Consulting Advertising Forecast, Ad Age, Boston Consulting Group, eMarketer, Forrester Research, Percolate Industries

### Experts with Impact

FTI Consulting is a global business advisory firm dedicated to helping organizations protect and enhance enterprise value in an increasingly complex legal, regulatory and economic environment. FTI Consulting professionals, who are located in all major business centers throughout the world, work closely with clients to anticipate, illuminate and overcome complex business challenges in areas such as investigations, litigation, mergers and acquisitions, regulatory issues, reputation management and restructuring.

[www.fticonsulting.com](http://www.fticonsulting.com)