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Australia

State of the Video Industry

2013

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Buyers and sellers poised for growth in digital video.

This report looks at the state of the digital video advertising market in Australia. It is the first report co-produced by Adap.tv and IAB Australia and is based on responses from over 160 media and marketing professionals.

Overall, the Australian market, like most markets globally, has seen a significant investment in digital video advertising over the last 12 months. Total revenues for FY13 totaled $112m, up 43.5% from FY12 ($78m), representing 12% of the digital display market.

The New Zealand and UK markets have similar market share levels, with video representing 13% and 12% of their display markets respectively. This is still someway behind the US market, where online video represents 19% of the display market.

Key highlights of the report include:

- **9 out of 10 of agencies and marketers indicated that their spend on video has increased in the last 12 months;**
- **the average increase in spend over the last 12 months was estimated at 31%;**
- **58% of buyers plan digital video alongside their TV plan, though buying responsibilities still tend to fall into the digital group within agencies;**
- **52% of the market feels that inventory is scarce, though this opinion is stronger with publisher/ad network representatives than with agency people; and**
- **mobile video seems primed to grow substantially in the next 12 months. 62% of agency respondents are currently buying some mobile inventory, and it is the most commonly nominated area of growth for the next year.**

Marketers indicated that their online video spend is coming from a range of channels, not simply a reallocation of their television budget.

Although the market is seeing strong growth in consumer online video consumption—13 million Australians watch online video every month—there is a strong feeling that premium, local and catch-up TV inventory is scarce. This lack of supply could explain why most publishers claim to have increased CPMs over the last year.

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Who participates in video buying?

Publishers, agencies and marketers were invited by IAB Australia and Adap.tv to take part in the survey. A wide range of mid- to senior-level industry professionals involved with digital video buying or selling responded to the survey and half came from agencies and trading desks.

Market size and spending patterns.

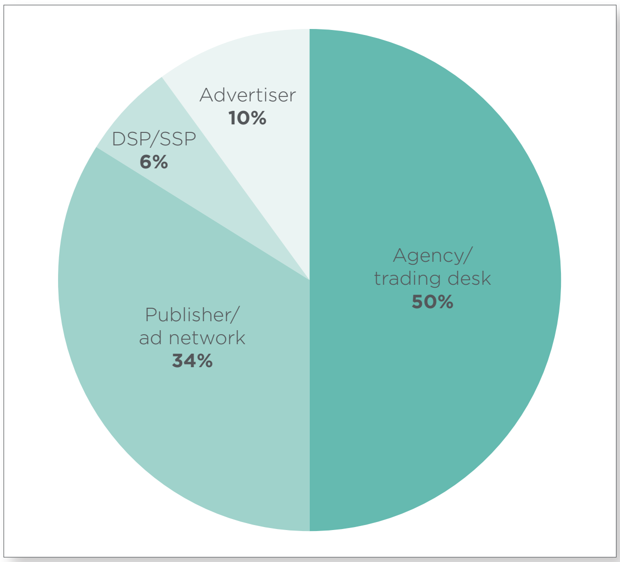
Nearly 80% of agencies and advertisers participating in the study purchased online video in the last 12 months, increasing their spend by 31% on average over this period. These are people with experience in digital video, so we can expect stronger growth as a broader base of players become involved in the market. Interestingly, 62% of buyers purchased mobile video inventory over the year, even though it is still a small part of the market.

Generally money for digital video is being reallocated from other media channels, although 11% of marketers say it is incremental spend. Most respondents said more than one other channel is being impacted, mostly digital display and print, closely followed by television—42 percent transferred funds from free-to-air & pay TV.

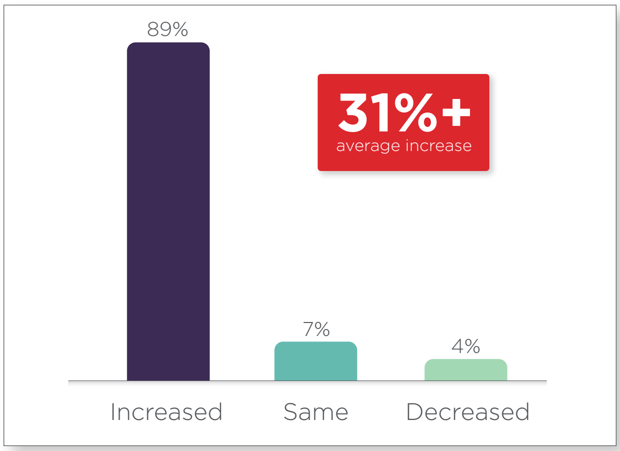
In other words, rather than simply directing budgets from their TV spend, agencies and marketers are allocating in three different ways:

1. optimising their existing digital display spend;
2. reallocating money from declining media channels, such as newspapers and magazines; and
3. redistributing a section of TV spend to add cost-effective additional frequency, particularly for light TV viewers.

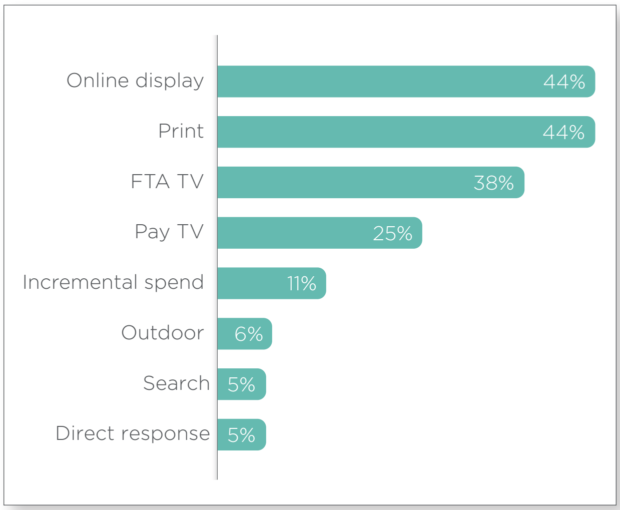
Company type.



Agencies and advertisers: change in spend since 2012.



Where is the money coming from?



Barriers to Growth

Although the market has been growing rapidly, there is still a number of elements impeding larger investment in digital video advertising.

Publishers and agencies believe the lack of premium inventory is the chief factor and that this will improve as new platforms and consumer devices provide viable viewing environments.

As with any emerging and fast-growing platform, providing the necessary education and training for both buyers and sellers is a challenge. This adds additional importance to communication between marketers and publishers, making sure staff understand industry best practices.

It's a similar story in the mobile video market. Lack of premium inventory is, again, the major issue (41%), but education and training needs are much stronger, with 40% of the market seeing this as an area that needs development.

Not surprisingly, measurement and reporting was the main area where publishers and agencies differed. Nearly four times the amount of buyers than sellers indicated that there needs to be more done around standardising measures for tracking campaign effectiveness and their clients' return on investment.

Measurement of online video audiences and campaign reach is a major focus of the industry. Research firms such as Nielsen and comScore, along with an impressive 68% of agency respondents, plan to review reach using a ratings service, such as Nielsen's Online Campaign Ratings (OCR) or comScore's validated Campaign Essentials (vCE). With online video often planned alongside TV campaigns, the urgency is increasing to have cross digital and TV measurement.

Barriers to increasing video spend.

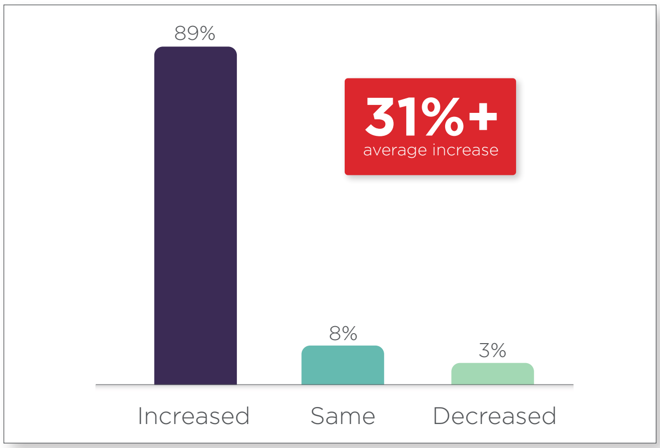
Inventory and yield.

The large majority of publishers saw strong growth in inventory over the past 12 months as people consumed more video and became increasingly comfortable watching long-form video, particularly on PC and tablet devices.

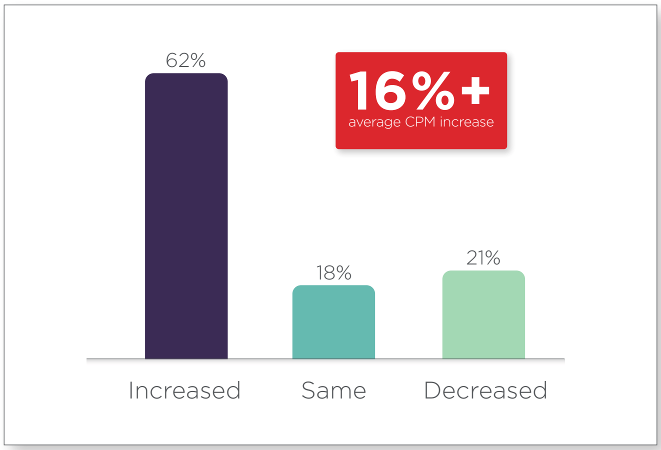
Along with those inventory increases, nearly two-thirds of sellers said their CPMs increased by an average of 16%. As more premium inventory flows into the market and consumers become increasingly screen agnostic, it is expected that CPMs will continue to increase. This is especially true as more marketers plan their TV and digital video alongside each other.

The last year has also seen 79% of publishers increasing their sell-through rate. All these factors, along with new marketers entering the fray, explain the growth for the sector.

Publishers: inventory change since 2012.



Publishers: change in CPMs since 2012.



Buying and planning.

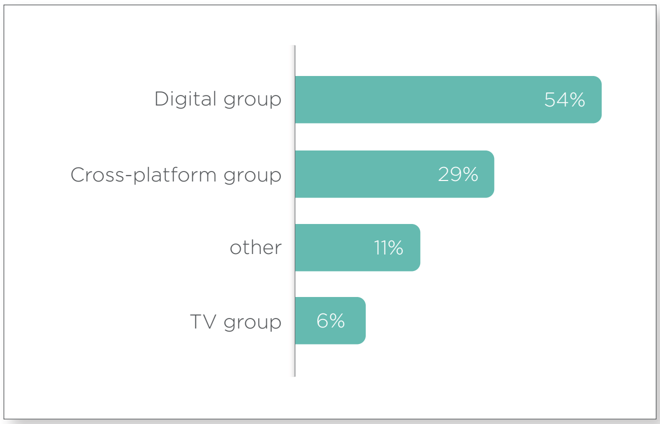
Whilst video is quickly going cross-screen, the same silos that exist in other global markets are prevalent in Australia. Digital video buying responsibilities largely reside within agencies' digital departments, although nearly a third of buyers surveyed said that cross-platform groups are now responsible for digital video buying. We can expect the latter to become the norm as workflows are streamlined across individual agencies.

TV-specific media buyers tend to understand the important of digital in their media plan and are, at the very least, discussing how best to integrate their efforts. In fact, 58% of sellers said they have dealt with TV buyers in the last year, and 58% of agencies are planning TV and online video together.

Understandably, buyers are diversifying their media mix to maximize the value they get from their video ad spend. While they acquire inventory from a range of source, the most popular are:

1. Direct from a publisher 77%
2. Ad network 64%
3. Agency trading desk 56%

Buying responsibility.



Scarcity.

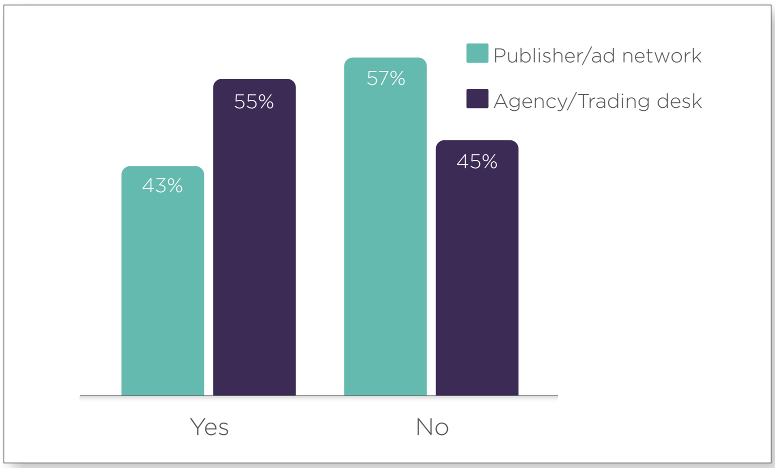
Although the market has been growing rapidly, More than half of all respondents said that video inventory is scarce compared to standard display inventory. More sellers (57%) than buyers (45%) consider scarcity to be a significant issue.

It should be noted that inventory shortage differs dramatically by content type. Publishers said that scarcity predominantly exists within long-form video. Buyers agree, but also point to a shortage of available Australian content.

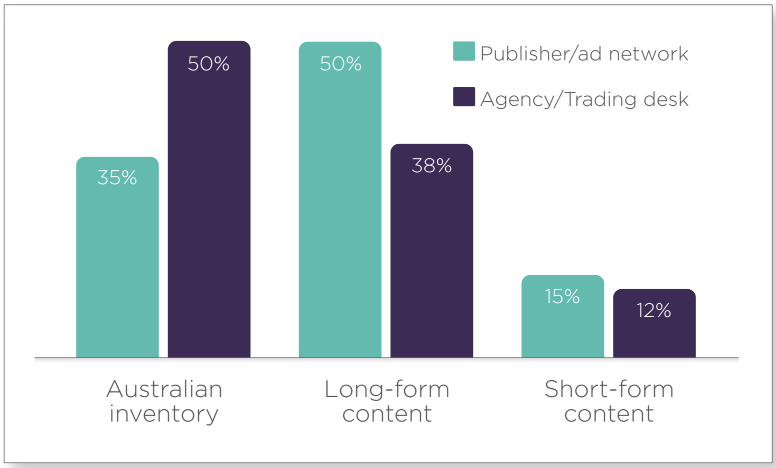
There was also a perceived shortage of catch-up TV inventory, and also a tendency by buyers to align the word 'premium' with 'catch-up'. With better audience and engagement data, the definition of premium should expand to a broader range of quality content environments.

Regardless, the majority of both buyers and sellers said that locking up video inventory 6-12 months in advance was moderately to extremely important.

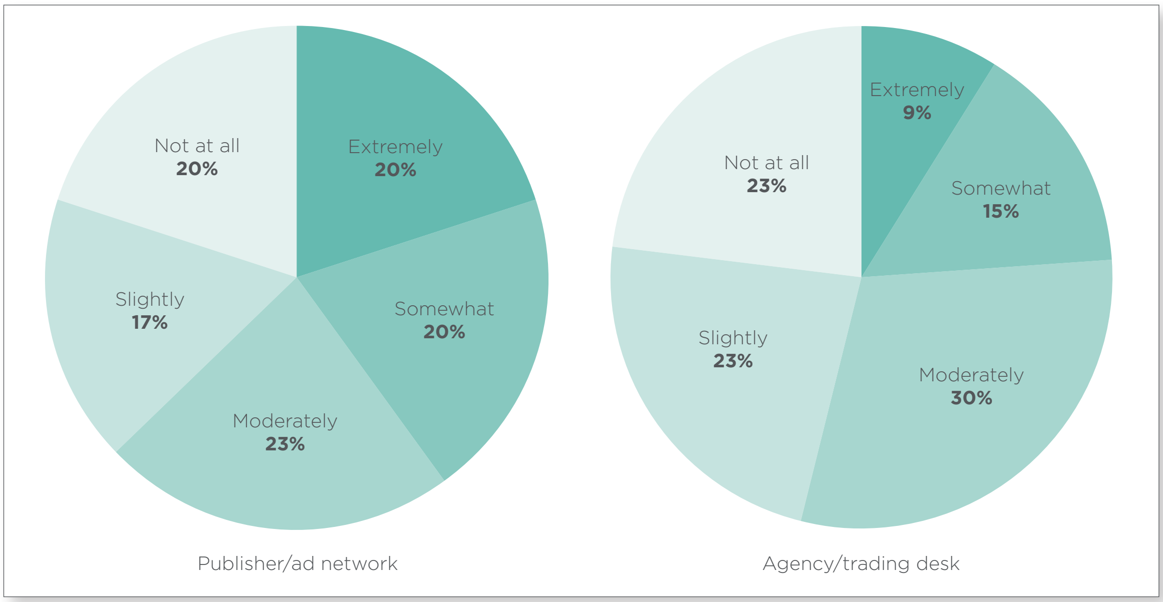
Is inventory scarce?



What type of inventory is scarce?



Importance of locking-up inventory 6–12 months in advance.



Looking ahead.

Although there is almost universal consensus that online video is primed for substantial growth over the next year, there are some major differences in opinions on how the market will look like.

Some suggest that there will be further fragmentation on the buyer side, with others believing that consolidation is inevitable. Some see consumer usage growth coming from long-form video, others from short-form. It's difficult to know who is right, but it is clear that buyers and sellers are quickly investing and preparing for the inevitable digital revolution.

Here is a quick snapshot of how buyers and sellers believe the future of video will play out:

Areas of Consensus

- ✓ Overall market growth.
- ✓ Mobile as a major driver of growth.
- ✓ Further alignment of TV.
- ✓ More measurement and ROI reporting demands.

Areas of Debate

- ? Fragmentation vs consolidation.
- ? Increase vs decrease in programmatic buying.
- ? Long vs short form as strongest.
- ? Niche vs high reach opportunities.

Increasing alignment with TV planning and marketing objectives is a common theme with most buyers, which will probably accelerate spending on video advertising in Australia.

Looking ahead continued.

Quotes on changes the market will see in the next 12 months:

> "Normalisation of integrated online/TV buying and cross-channel audience optimisation and reporting."

> "Screen activity (TV, online video and cinema) will be planned as one. With one overall reach and frequency worked out across all channels, rather than independently."

> "Huge growth in availability of high quality streaming content and more opportunities to place video advertising."

About the Interactive Advertising Bureau.

The Interactive Advertising Bureau (IAB) Limited is the peak trade association for online advertising in Australia and was incorporated in July 2010. As one of over 40 IAB offices globally, and with a rapidly growing membership, IAB Australia's principal objective is to increase the share of advertising and marketing dollars that interactive media captures in the marketplace.

IAB Australia's board includes representatives of AIMIA, Carsales.com, Fairfax Media, Google, Mi9, Network Ten, News Australia, REA Group, SBS, Telstra Advertising Network, TressCox Lawyers and Yahoo!7. It has four objectives:

- ✓ To develop, coordinate and promote industry standards and guidelines that make interactive advertising a simpler and more attractive medium for agencies, advertisers and marketers.
- ✓ To prove and promote the effectiveness of interactive advertising to advertisers, agencies, marketers, and the press.
- ✓ To be the primary advocate for the interactive marketing and advertising industry.
- ✓ To expand the breadth and depth of IAB membership while increasing direct value to members.

For further information about IAB Australia please visit: **www.iabaustralia.com.au**

About Adap.tv

Adap.tv, a division of AOL Networks, is transforming the way video advertising is bought and sold. Adap.tv's video intelligence platform, Pathway, helps many of the world's largest brands, agencies, publishers and ad networks intelligently, effectively and safely plan, buy/sell and measure billions of video ad trades programmatically every month across web, linear TV and mobile video.

Adap.tv was acquired by AOL in September 2013.

Headquartered in San Mateo, California, Adap.tv has US offices in Chicago, Los Angeles and New York, and international offices in Australia, India and London.

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Facebook at **facebook.com/adaptv** and LinkedIn at **http://www.linkedin.com/company/adap-tv**.