KPMG

Re-evaluate ad spend

The numbers behind the adblocking war

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kpmg.com/uk/adblocking

Re-evaluating ad spend

Our survey confirms media firms' fears: users don't want ads, but won't pay to get rid of them. We need new ideas or consumers, publishers and advertisers will all suffer.

Adblocking has been a feature available to web browsers since the mid-noughties. But over the past 18 months, it has become firmly entrenched as part of the media landscape. Publishers' responses to their consumers' determination to avoid seeing intrusive advertising when they view content may well be causing self-inflicted wounds. Their dilemma is that there is no clear business model that addresses the problem... yet.

Income under pressure

A look at the revenue make-up of even the biggest media brands shows that advertising alone, even without adblocking, can't sustain content generation at scale. Nevertheless, ad revenues are still important enough for adblocking to be material.

KPMG's findings for the UK echo recent results from other markets: digital consumers are increasingly deploying adblockers on their desktop web browsers and now on their mobile devices. A staggering 72% of UK households are now aware of adblocking; younger, more affluent users are the most ready to block commercial messages.

Young, wealthy and blocking ads

In the KPMG survey of 2,072 UK adults, 47% of high earners say they'll be using an adblocker on any device in the next six months, compared with 43% for low income groups. That's also true of 59% of 18-24 year-olds – while the lowest proportion of expected adblocker users is the over-65s, at 36%.

A recent Harris poll of 16-39 year-olds in the US showed that 74% object to brand advertising on social media – and 56% are rejecting sites because of news feed ads. So it's not just publishers who should worry.

In other words, the most important demographic groups for media businesses and advertisers alike are most prone to opting out of digital advertising. And that has prompted many media businesses to take drastic action to protect revenues.

More and more publications, such as *Forbes*, *City A.M.* and the *New Statesman*, are now turning off content for browsers where an adblocker is detected. Some of the biggest properties in digital media, including *the Guardian*, are also considering this step.

Against that background, KPMG's finding that users don't want ads but are reluctant to pay to avoid them suggests we need a new model.

Would you pay to browse with no advertising?

Sources: KPMG Adblocker survey, fieldwork Feb 2016

The ad conundrum

Our survey shows a disconnect between hard-pressed publishers and consumers tired of intrusive ads. But few would pay for ad-free content and more plan to block ads. We need solutions – urgently.

The findings of the KPMG survey are worrying: 44% of UK consumers say they will use an adblocker within the next six months (up from 29% who had done so in the past month), a fresh blow to publisher incomes. But the results also undermine the plans for those braver companies holding the line against revenue erosion. For example, our survey shows that 92% of UK households are unwilling to pay a fee for ad-free browsing.

Worse, among the 8% who are happy to pay for ad-free content, one quarter would be willing to stump up a mere £1 per month; 31% of respondents said they'd spend between £1 and £3 for an ad-free experience; and just 16% of people would pay between £3 and £5. That's barely enough to buy a quality newspaper over one weekend.

According to David Elms, UK Head of Media for KPMG, this is yet another dilemma for media companies as they seek to find a business model to successfully monetise their content.

"Turning off content for those that have adblockers is self-defeating for media owners and can, at best, only be a short-term strategy," he says. "And yet too many people still seem to think that they can consume content for free."

"But there's no such thing as a free lunch in content," he continues. "People are refusing to watch ads, but they show no inclination to pay for many forms of content – and that's clearly unsustainable. It also demands a fundamental re-examination of marketing strategy for major advertisers, and business strategy for media companies."

Advertisers and media businesses need to work closer together to solve this conundrum. But they also need to convince consumers that their interests best lie in well-funded content – whether that's better ads or some kind of payment.

Helping consumers pay

There are some causes for optimism. Micropayments – seen by many as a potential saviour for paid content online – finally seem to be coming to fruition with experiments such as Google's Contributor project. A new service, Atri, aims to help companies assign small payments to selected content creators (not necessarily the publishers) to support the kind of journalism that's increasingly reliant on advertising. And even Eyeo – the company behind the most prominent adblocking software, AdblockPlus – is teaming up on new service Flattr, which will distribute web user subscriptions to the site they visit.

The success of streaming video services such as Netflix, Amazon Prime and NowTV also holds out hope that consumers *will* pay for compelling content. But note: those video services are all ad-free, which presents a challenge for companies that need to put messages into the market. "The solution has to be for advertisers, their advertising agencies and technology providers to deliver ads in a more consumer-friendly way – less intrusive and more targeted," says Elms.

Advertising arms race

Advertisers have other routes to market, of course. The Advertising Association reckons overall UK ad spend grew 7.5% to £20.1bn in 2015 – but newspapers and magazines saw their ad incomes fall dramatically, with aggregators such as Google and Facebook receiving the lion's share of the growth.

That's why, for traditional publishers, those new payment solutions might be so important. Advertisers are already seeking other routes. Consumers really dislike seeing ads when they're browsing – and the KPMG survey showed just how much. Two-thirds (65%) of households said they would not take up the option of being paid to view 50% more ads while browsing.

Bad news for publishers

Source: KPMG Adblocker survey, fieldwork Feb 2016

"What's needed is a deeper strategic look at the way brands and media properties engage with consumers and how that relationship is monetised"

The KPMG survey also confirms that consumers' biggest issue with online advertising is its obtrusiveness. (Screen-hogging ads also tend to consume computer resources, eat up bandwidth and collect personal data.) And this raises questions about whether simply pouring more money into search or social-based advertising will really help long term.

As well as facing the "won't pay via watching ads, won't pay for content" conundrum, advertisers and media owners are also trapped by an online environment where ads that *are* noticed are considered objectionable. Acceptable ads? It seems as though they're the ones we can ignore.

"This suggests that neither changing the nature of the ads nor forcing people to pay are, on their own, silver bullets," says Elms. "What's needed is a deeper strategic look at the way brands and media properties engage with consumers and how that's monetised.

"While this is a big issue for media owners," he continues, "it is also critical for the advertising agencies. How do they get simple, compelling messages for their clients to their markets as more channels are closed off to above-the-line advertising? We need more than short-term fixes."

Trust and brand are the keys

Based on responses to the survey, it looks like unique, consistently high-quality content is a far better way of securing users' attention (and hopefully cash) than simply reducing the amount of advertising.

This should also play well to those advertisers with strong brands producing non-salesy "native content" on their own sites. But even in this field, consumer attention cannot be taken for granted.

The performance of native content giant BuzzFeed – which in April halved its revenue forecast for 2016 to $250m, and according to reports in *the Financial Times* missed its 2015 sales target of $250m by $80m – suggest this is not the panacea many had hoped.

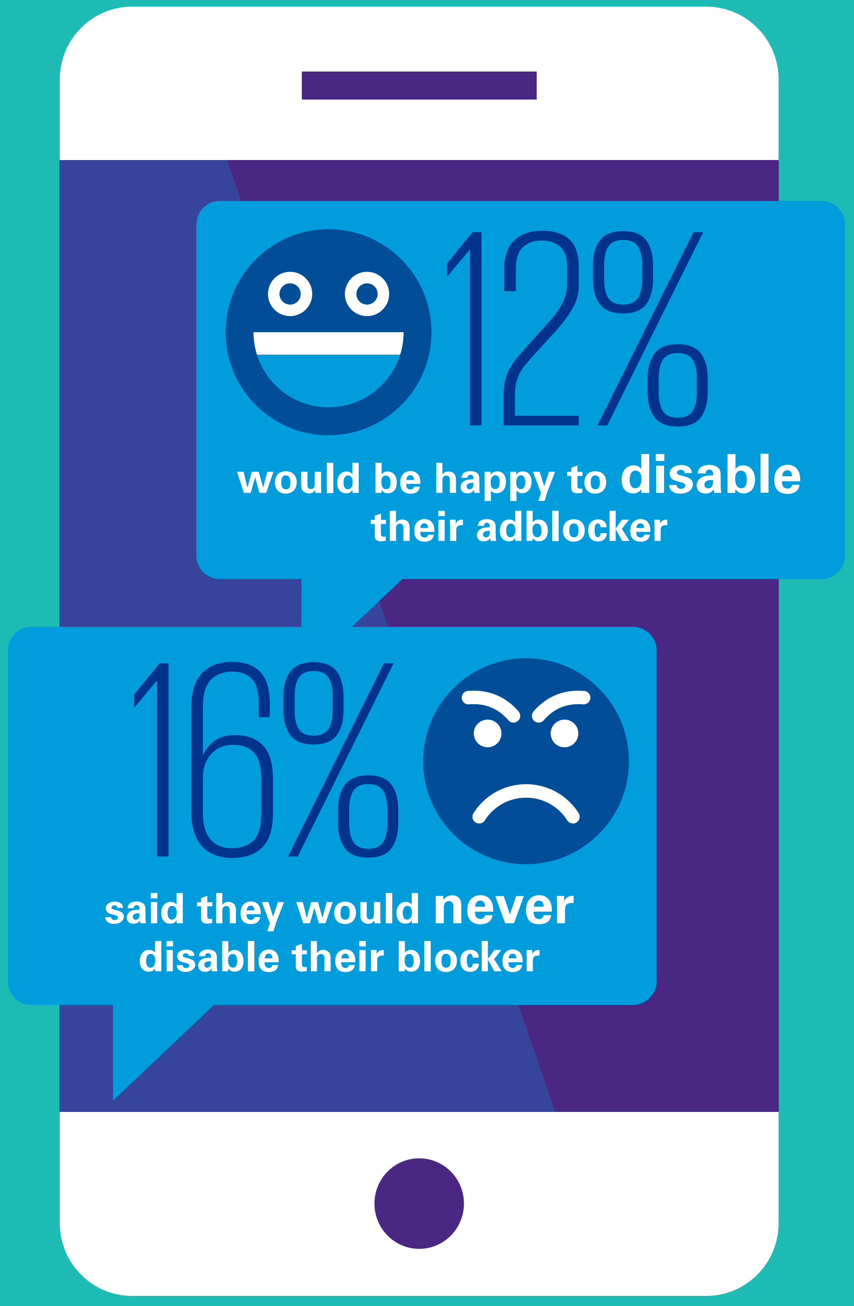
There is some good news for publishers that have already earned that consumer trust and are keen to adopt a quick fix while they work on long-term business model transformation.

In the KPMG survey, only 16% of households said they would never disable their adblocker. Many users told us they would disable their adblocker or whitelist a site from publishers that are well known to them (48%), appear trustworthy (32%), show less obtrusive ads (c.20%) and publish content that would otherwise be paid-for (30%).

True, only 12% of respondents told us they would be happy to disable their adblocker "under most circumstances", versus 29% who said they'd do so "under really rare circumstances". So the decision to deny content to those using adblockers is still risky – and is unlikely to be a long-term fix.

"Ultimately, consumers need to either learn to accept an advertisement or pay not to see it," says Elms. "When advertisers become more sophisticated, less intrusive and even more targeted, adblocking will become far less significant. Until then the picture will only worsen for media owners, advertisers and even consumers themselves."

When forced to view ads...



Sources: KPMG Adblocker survey, fieldwork Feb 2016

The content solutions

With newsstand sales in steep decline and adblockers just the latest blow to publishers' commercial revenue streams, what options do they have? Several, it turns out.

The KPMG adblocking survey paints a bleak picture for media owners desperate for revenue as hard copy sales continue to decline. We are yet to see a clear winner in terms of alternatives, but several models are currently being trialled by companies that, even before the adblocking phenomenon, were generating a fraction of the income needed to sustain online newsgathering and content creation.

As one insider told *Re/code* about BuzzFeed's current monetisation efforts, "They're driving in the dark at 60 miles an hour, without headlights. But that's better than standing still."

It's a comment that might be applied to most publishers at the moment. But even if the optimum solution that satisfies publishers, advertisers and consumers isn't obvious yet, each of these business models is working for at least some media owners.

Print-only

Some publishers have stayed off the web in an attempt to keep control of their revenues. *Private Eye* (circulation 230,000 and rising) is a notable example. But few brands have the reputation, market position or bravery to stay resolutely in the print world where revenue can be protected.

Paywall

Many major newspapers, such as *The Wall Street Journal*, have chosen to shut themselves off from the open web. The best-known UK example of a pure paywall is *The Times*, which purports to break even for its online activities (although detailed figures are not publicly available).

But the paywall for sister title *the Sun*, launched in 2013, was taken down again in November 2015 after it attracted a fraction of its readers to the paid model and lost share of the national conversation as a result.

Metered access

The Financial Times was an early proponent of metering. In 2007 it started allowing registered users three articles per month before requiring a subscription. That changed last year, and it now uses a more sophisticated, layered access approach for non-subscribers. But metering – adopted last year by *Slate* and the US news giant Tribune Publishing – is still a viable way of luring in readers then monetising them via subscription.

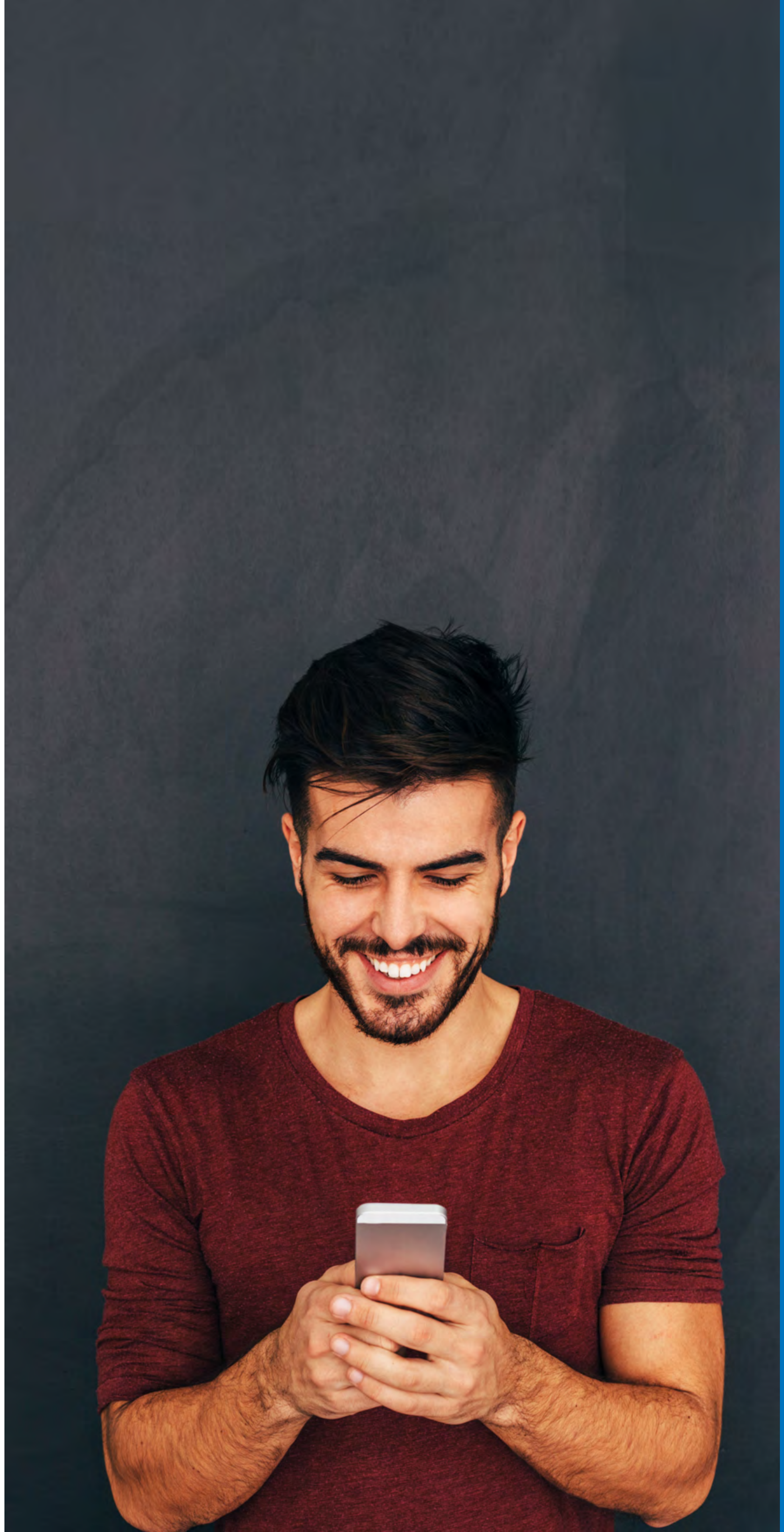
Bundled access

Amazon has become a true diversified brand: retail, logistics, internet services and content provision. Amazon Prime reflects this, bundling free delivery with special offers, a streaming video service and even subscription to the (Amazon CEO Jeff Bezos-owned) *Washington Post*. Bundling raises questions about which services subsidise the others – but it undeniably works.

Membership

The Guardian has one of the most successful websites in the world – it attracted 8.9m daily browsers this March. The same month, it recorded a £58.6m loss for the year, proving raw numbers alone will not bring in enough ad revenue for a mass media operation, even without adblocking.

It is now promoting a paid service, Guardian Members, with access to special content, events, classes and "to support our journalism." This model is increasingly attractive to publishers, augmenting meagre ad income with ticket sales, sponsorship, data services and marketing solutions. Guardian Media Group hopes membership income will be one-third of total revenue within three years.



Content aggregators

The most successful content providers – not, importantly, creators – are platforms such as Google, Facebook and Apple. Each generates massive advertising revenue, and each has become a critical channel for content creators. Google helps consumers find content; Facebook presents it to them.

But it's Apple that gives hope to many publishers. Its iTunes Store has long been a key defence against disappearing revenues for the music industry. Even as consumers shift to streaming, Apple Music generates around $1bn a year, 71% of which goes to content creators. (Spotify has also seen strong up-take for paid, ad-free, streaming subscriptions.)

If Apple can exploit its growing expertise in handling subscriptions and, through Apple Pay, smaller one-off payments for content offered via existing services such as the still-evolving Apple News, publishers might yet generate viable subs revenue streams.

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