Media Tracker

Testing times ahead

December 2016

kpmg.com/uk/mediatracker

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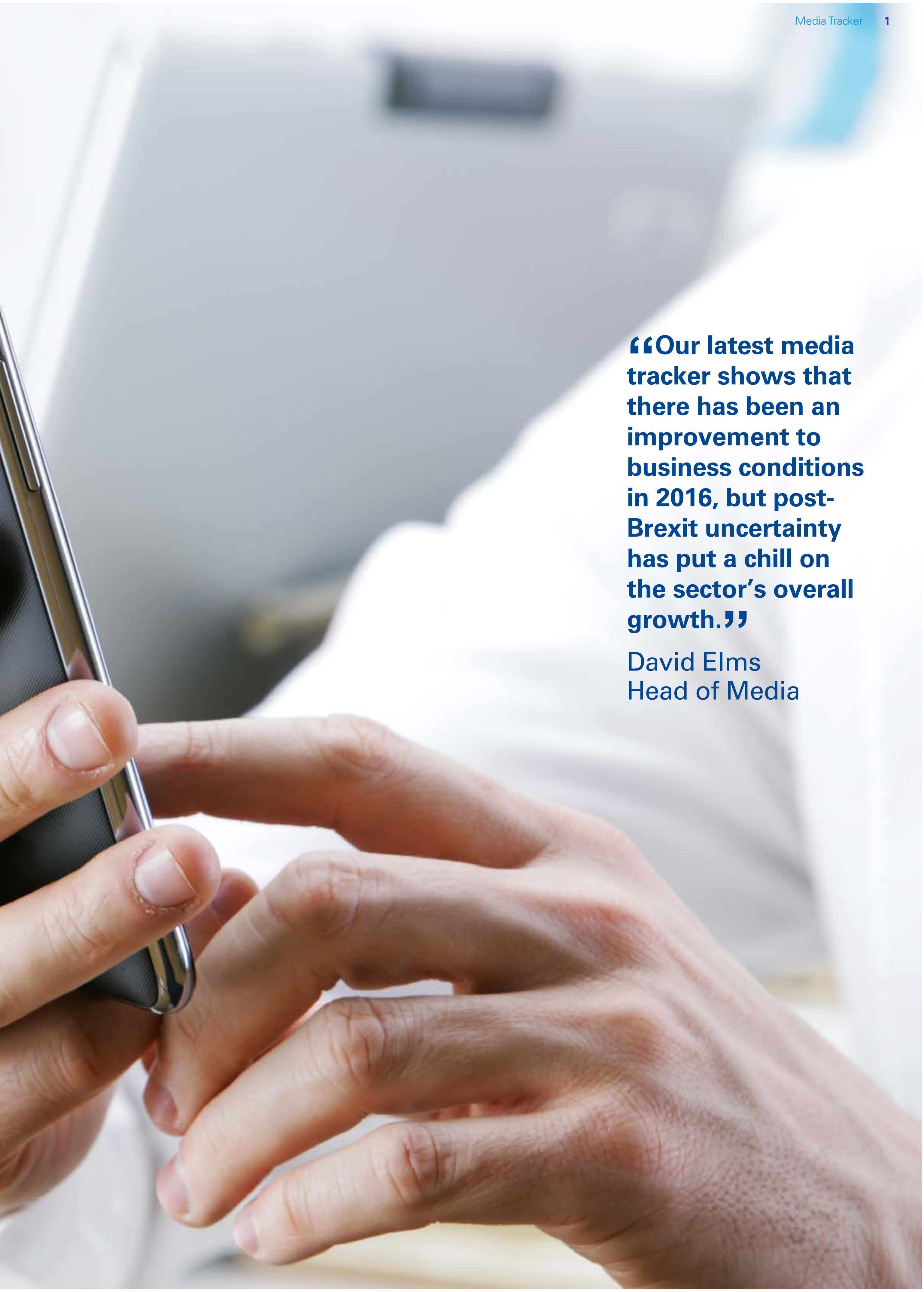
If adtech is so smart, why don't people love online advertising yet?



“Our latest media tracker shows that there has been an improvement to business conditions in 2016, but post-Brexit uncertainty has put a chill on the sector’s overall growth.”

David Elms
Head of Media

UK media sector insight

Rising economic uncertainty puts a brake on UK media sector.

UK media tracker

This is the autumn 2016 release of our UK media tracker compiled for KPMG by Markit featuring survey data from UK media companies, marketing executives and employees.

The UK media tracker is calculated by taking the combined momentum of two key areas; core business activity at media sector companies, and adspend budget changes among UK marketing executives. The index is a barometer of prevailing conditions in the media sector*.

Rising economic uncertainty puts a brake on UK media sector

Our latest report reveals that media sector business conditions have improved during 2016, helped by a sustained rise in consumer demand, modest adspend growth throughout the year, and a generally supportive economic backdrop.

However, most of the recovery was achieved in the first half of 2016. Post-Brexit we have seen a loss of momentum which has placed the media sector on course for its weakest calendar year of growth since 2012 (see chart 1).

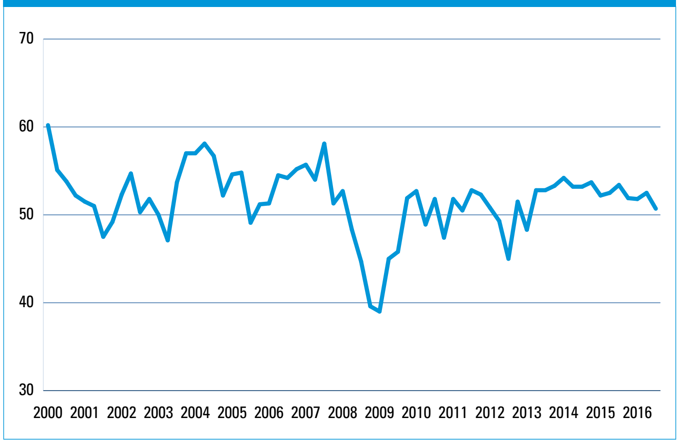
UK media sector companies indicated that core business activity in 2016 is set to expand at the slowest annual pace since the recovery began four years ago with the quarterly breakdown highlighting a stagnation in Q2, followed by only a slight uptick in Q3.

Alongside a growth slowdown in media sector business activity, the latest survey highlights a subdued contribution to overall business conditions from adspend budget revisions. UK marketing executives reported upward revisions to their adspend budgets on a calendar year basis, but the latest upturn remained much weaker than the 15-year peak seen in 2014 due to a clear loss of momentum for adspend budgets in Q3 2016.

The stagnation of adspend budgets in Q3 2016 saw the weakest performance since late 2012. UK marketing executives reported that rising economic uncertainty had weighed heavily on post-Brexit budget setting, leading to a wait-and-see approach to spending plans.

Survey respondents cited concerns about the UK's economic outlook and uncertainty about the longer-term implications of the EU referendum.

Chart 1: UK Media Tracker
Quarterly index, 50 = no change



"With uncertainty around Brexit causing a slowdown in the sector, it is important that media organisations ensure they are ready for challenging times ahead."

David Elms
Head of Media

*See methodology section on page 22 for full details

If adtech is so smart, why don't people love online advertising yet?

People don't realise how much data is being collected by advertisers

80%
would not be willing to give more access to personalised information for more relevant ads.

The younger demographic is the driver for change – more receptive to advertising on social

35% of
18-24 year olds are more likely to click on an online ad if it appears in their social feed

Tailored adverts will win out

67%
of UK households say they do click online ads

Price
(61%)
and relevance
(55%)
are the most important factors to clicking on an ad

Poor advertising and intrusive placing does significant damage to brands and increases the usage and awareness of ad blockers

Pop-ups are crowned the most irritating form of online ad

Around 72%
of consumers will not click on a 'bad ad'

49%
of consumers expect to use ad blockers in the next 6 months (up from 44%*)

*Compared to data from our adblocking report, May 2016

A single figure snapshot of media sector conditions

Overall growth has slowed so far in 2016.

Annual figures point to weakest UK media sector growth since 2012...

Whilst findings show the media sector is on course for another calendar year of expansion in 2016, the rate of growth has slowed to the weakest seen for four years.

Our UK media tracker is at 51.7, the annual index is above the 50.0 no-change value, but much weaker than the peak speed of recovery achieved in 2014 (index at 53.6) (see chart 2).

...With adspend budgets stagnating in Q3 2016

Recent quarterly data* reveals a clear loss of momentum in the third quarter of 2016 (See chart 3).

Our UK media tracker fell to 50.7 in Q3, down from 52.5 in Q2. The post-Brexit slowdown in UK media sector business conditions mainly reflected a subdued contribution from adspend in Q3 2016.

Marketing executives' reported that adspend budgets were broadly flat in Q3 (index at 50.2), which more than offset a slightly faster growth contribution from core media sector business activity (index at 51.2 in Q3).

Chart 2: UK media tracker annual index, 50 = no change

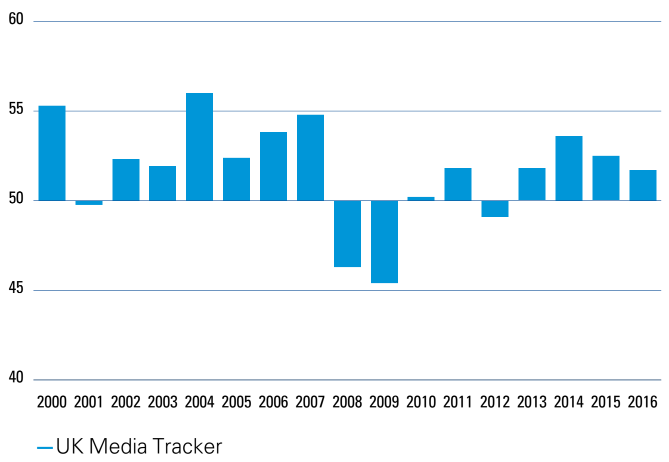
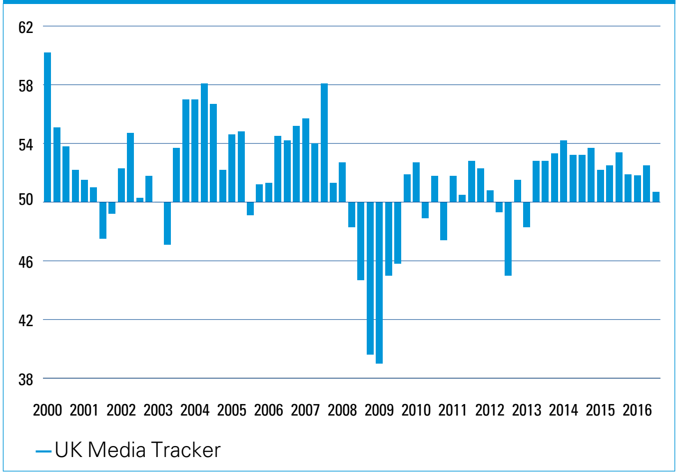
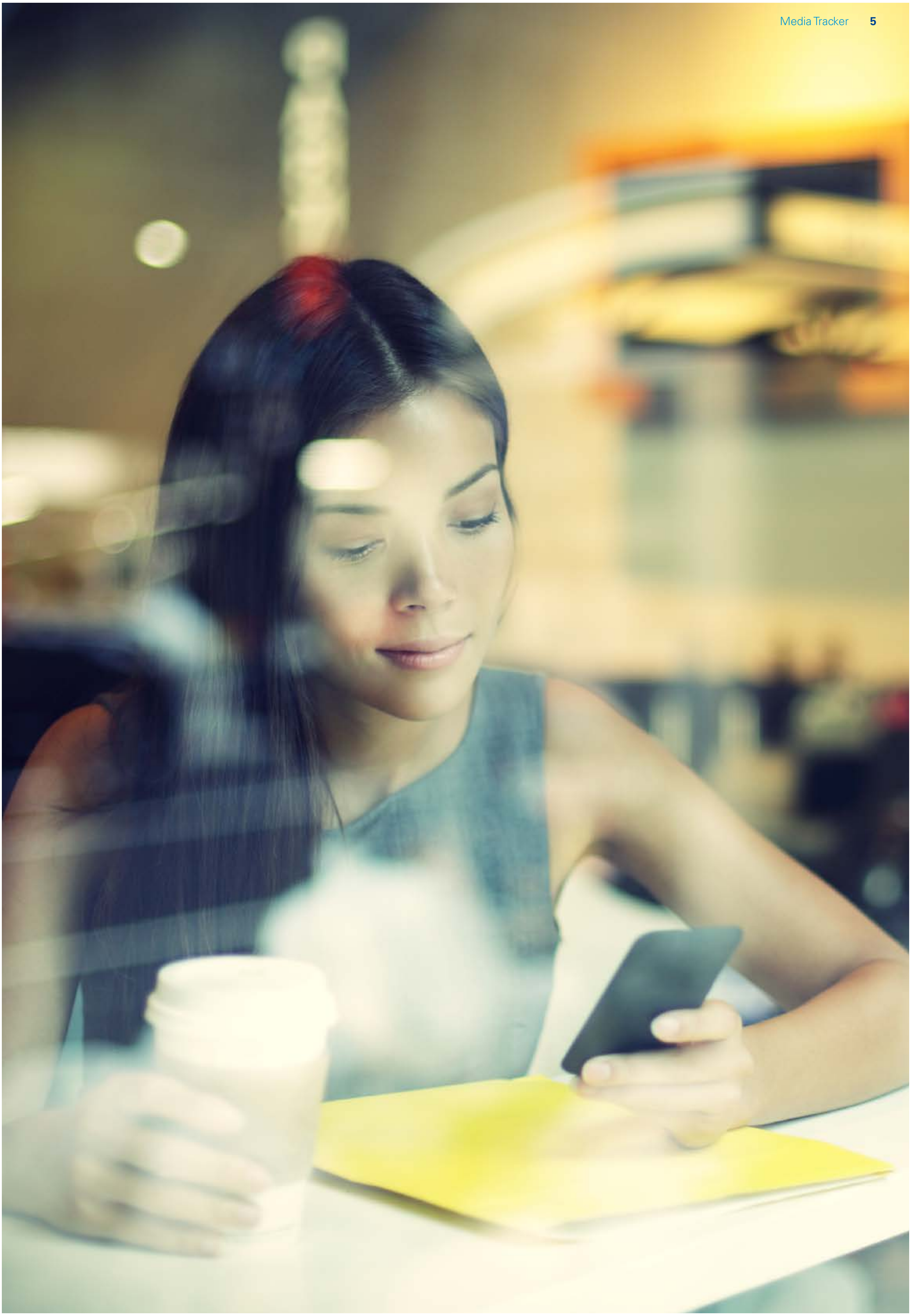


Chart 3: UK media tracker quarterly index, 50 = no change



Sources: Markit/KPMG, IPA
Index numbers vary between 0 and 100, with levels of 50 signalling no-change. Readings above 50 signal an increase, whilst postings below 50 indicate a decrease. The greater the divergence from 50, the greater the rate of change signalled by the reading.

*Data taken from UK media tracker index - See methodology section on page 22 for full details



Business activity trends: Brexit chills growth

UK media sector business activity index* on track to record slowest growth since 2012.

In this section we look at business activity trends across the UK media sector. These figures are drawn from Markit's widely-watched UK Purchasing Managers' Index® (PMI®) monthly business survey, and we compare the media sector findings to those recorded for the service economy as a whole.

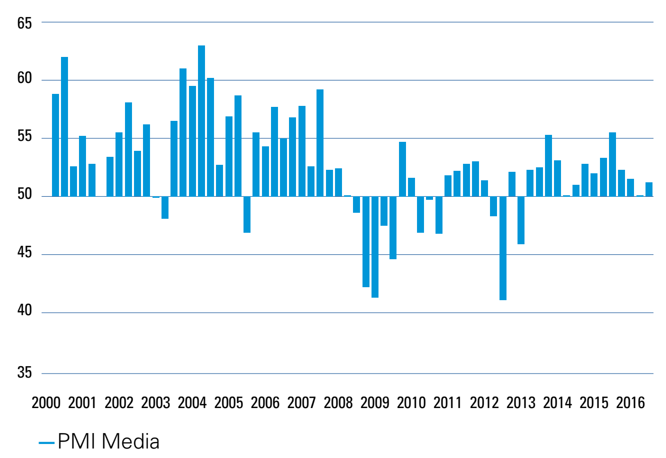
Annual breakdown; business activity

UK media sector companies have experienced a sustained expansion of underlying business activity so far in 2016.

Survey respondents cited generally supportive economic conditions, especially in the first half of the year, alongside successful new product launches and greater investment in digital content. Some firms also noted that the low inflation backdrop had helped boost consumer demand.

However, the upturn in business activity during 2016 has been notably weaker than in recent years. In fact, the UK Media Sector Business Activity Index is on track to register its slowest calendar year of growth since 2012. At 50.9, the average reading so far in 2016 is down an eight-year peak in 2015 (53.3) (see chart 4).

Chart 4: UK Media Sector: Business Activity Quarterly Index, 50 = no change

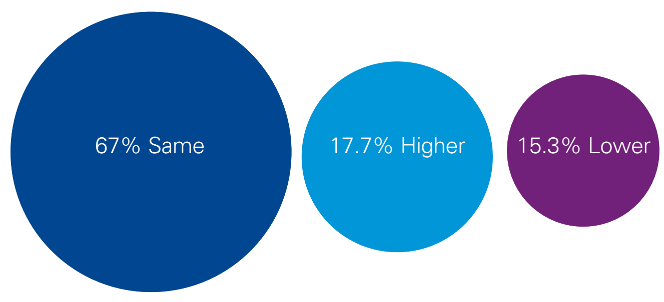


Heightened economic uncertainty, the run up the EU referendum in June and Brexit, have acted as a brake on spending among clients.

Quarterly breakdown; business activity

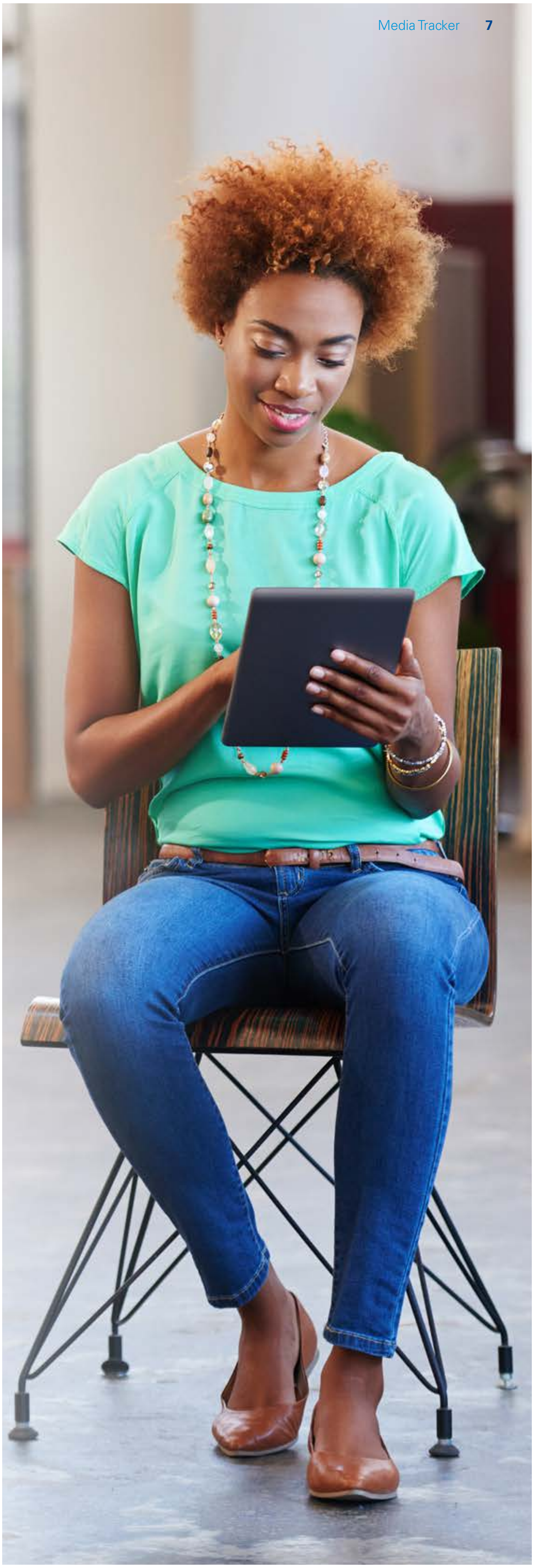
Quarterly data highlights that UK media sector business activity was close to stagnation during the run up to the EU referendum, but returned to growth in Q3 (see chart 5).

Chart 5: UK Media Sector: Business Activity Q3 2016 (seasonally adjusted)**



Source: Markit/KPMG
Index numbers vary between 0 and 100, with levels of 50 signalling no-change. Readings above 50 signal an increase, whilst postings below 50 indicate a decrease. The greater the divergence from 50, the greater the rate of change signalled by the reading.

*Figures are drawn from Markit's widely-watched UK Purchasing Managers' Index® (PMI®) monthly business survey
**See methodology section on page 22 for full details



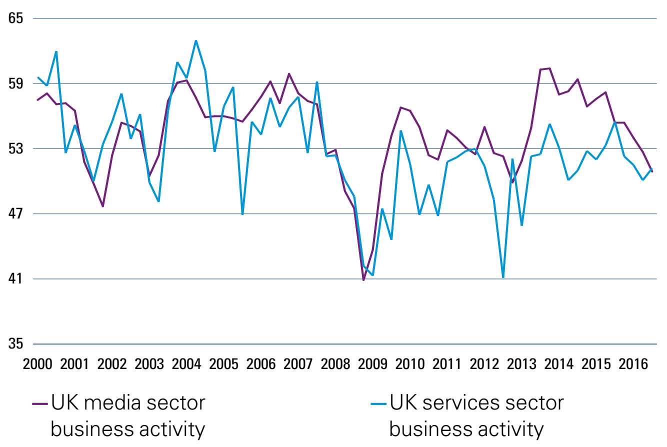
At 50.1 in Q2, the UK Media Sector Business Activity Index was close to the 50.0 no-change value and signalled the weakest growth conditions since mid-2014.

Q3 saw a slight pick up with the index rising to 51.2. However, this signalled only a subdued upturn in core business activity across the media sector, suggesting an ongoing drag from Brexit-related uncertainty.

Weaker business activity growth since the EU referendum mirrored a general slowdown seen across the UK service economy as a whole.

At 50.9 in Q3, down from 52.7 in Q2, the UK Service Sector Business Activity Index signalled the slowest quarterly growth since late-2012 (see chart 6).

Chart 6: UK Media Tracker and UK Service Sector **PMI Output Index**



Ad spend trends: Wait and see

Adspend peaked in Q2 and has broadly flat-lined in Q3.

To assess adspend we look at UK marketing executives' main media and internet budget revisions, derived from the IPA Bellwether survey by the Institute of Practitioners in Advertising.

Annual breakdown; adspend budgets

Increased adspend* has contributed to the overall upturn in business conditions across the UK media sector during 2016. Sustained improvements in adspend budgets have been recorded for the past six years, with the peak speed of recovery seen in 2014.

Survey respondents cited robust consumer spending patterns and a reasonably favourable economic backdrop as factors leading to upward revisions to their adspend budgets. Marketing executives also noted that resources had generally focussed on digital advertising, reflecting the ongoing transition away from print media.

At 52.4, the average adspend reading so far in 2016 is slightly stronger than that seen in 2015 (51.7)**. Moreover, the current index is one of the highest recorded since the 2008/09 global financial crisis (exceeded only in 2014) (see chart 7).

However, this paints a misleading picture of current outlook for adspend as budgets peaked during the second quarter of 2016 and have broadly flatlined since the EU referendum.

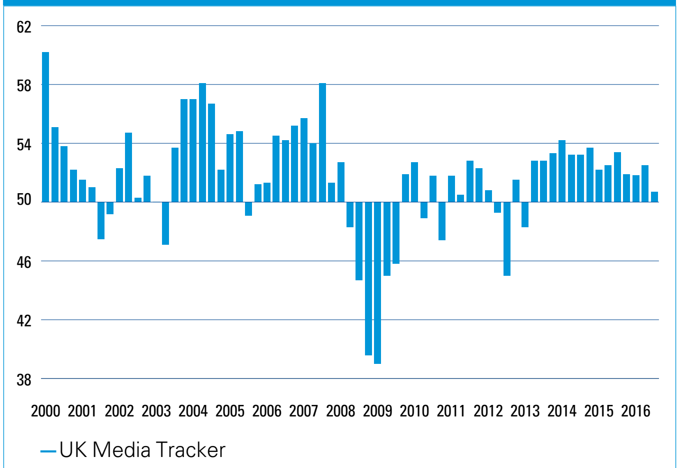
Quarterly breakdown; adspend budgets

Broadly similar numbers of marketing executives (16%) recorded an uplift to their media adpsend budgets in Q3 2016 as those that reported a downward revision to spending plans (see chart 8).

At 50.2 in Q3, the adspend reading was in line with the 50.0 no-change value and was the lowest figure recorded since just after the 2012 London Olympics when adspend budgets experienced downward pressure.

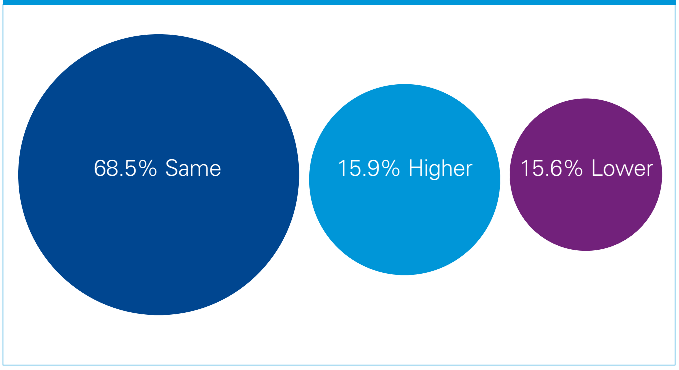
Some survey respondents noted that the Brexit vote had increased the need for organisations to communicate and engage with stakeholders, in turn boosting adspend budgets (and online activity in general). However, there were broader and more widespread concerns that the UK economic outlook had deteriorated in comparison to the first half of 2016, with the EU referendum resulting in more cautious business strategies and a wait-and-a-see approach to adspend budgets.

Chart 7: UK Media Sector: Marketing Budget Revisions Quarterly Index
Quarterly Index, 50 = no change



Source: Markit/KPMG
Index numbers vary between 0 and 100, with levels of 50 signalling no-change. Readings above 50 signal an increase, whilst postings below 50 indicate a decrease. The greater the divergence from 50, the greater the rate of change signalled by the reading.

Chart 8: UK Media Sector: Marketing Budgets
Q3 2016 (seasonally adjusted)***



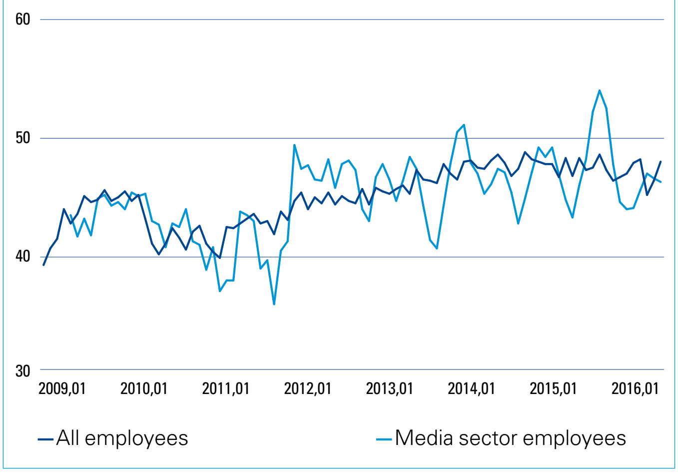
*Data derived from the IPA Bellwether survey by the Institute of Practitioners in Advertising.
**Any figure above 50.0 signals a positive uplift for adspend budgets.
***See methodology section on page 22 for full details.

Job market trends: Insecurity rises

Media sector employees report sharper post-Brexit fall in job security than UK-wide trend.

Media sector professionals reported a sharper drop in job security than the average UK employees* over the third quarter of 2016. Meanwhile, income from employment increased only marginally across the media sector, with the rate of pay inflation weaker than seen during the first half of 2016. Nearly twice as many media employees (19%) reported a deterioration in job security as those that indicated an improvement (10%) in Q3 (see charts 9 and 10).

Chart 9: HFI Job Security
Quarterly Index, 50 = no change, SA



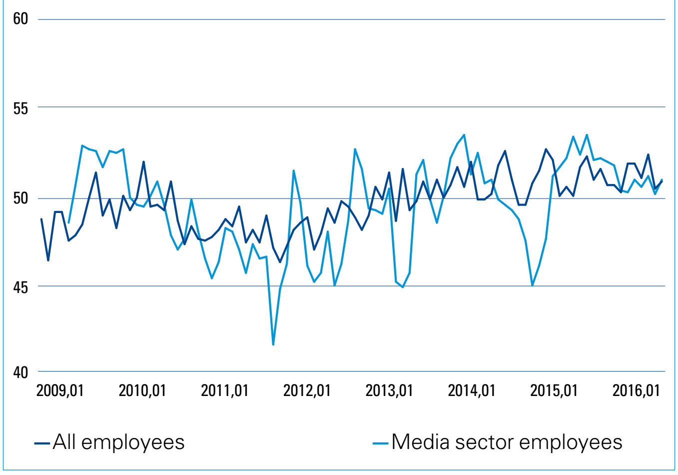
Decreasing levels of job security

At 45.8, the resulting index reading was below the neutral 50.0 value and signaled a greater degree of job insecurity when compared against all UK employees (47.5). The only other sector to report a sharper decline in job security during Q3 2016 was education/health/social services.

Overall pay inflation remained subdued in Q3 2016, with media professionals reporting only a marginal rise in income from employment.

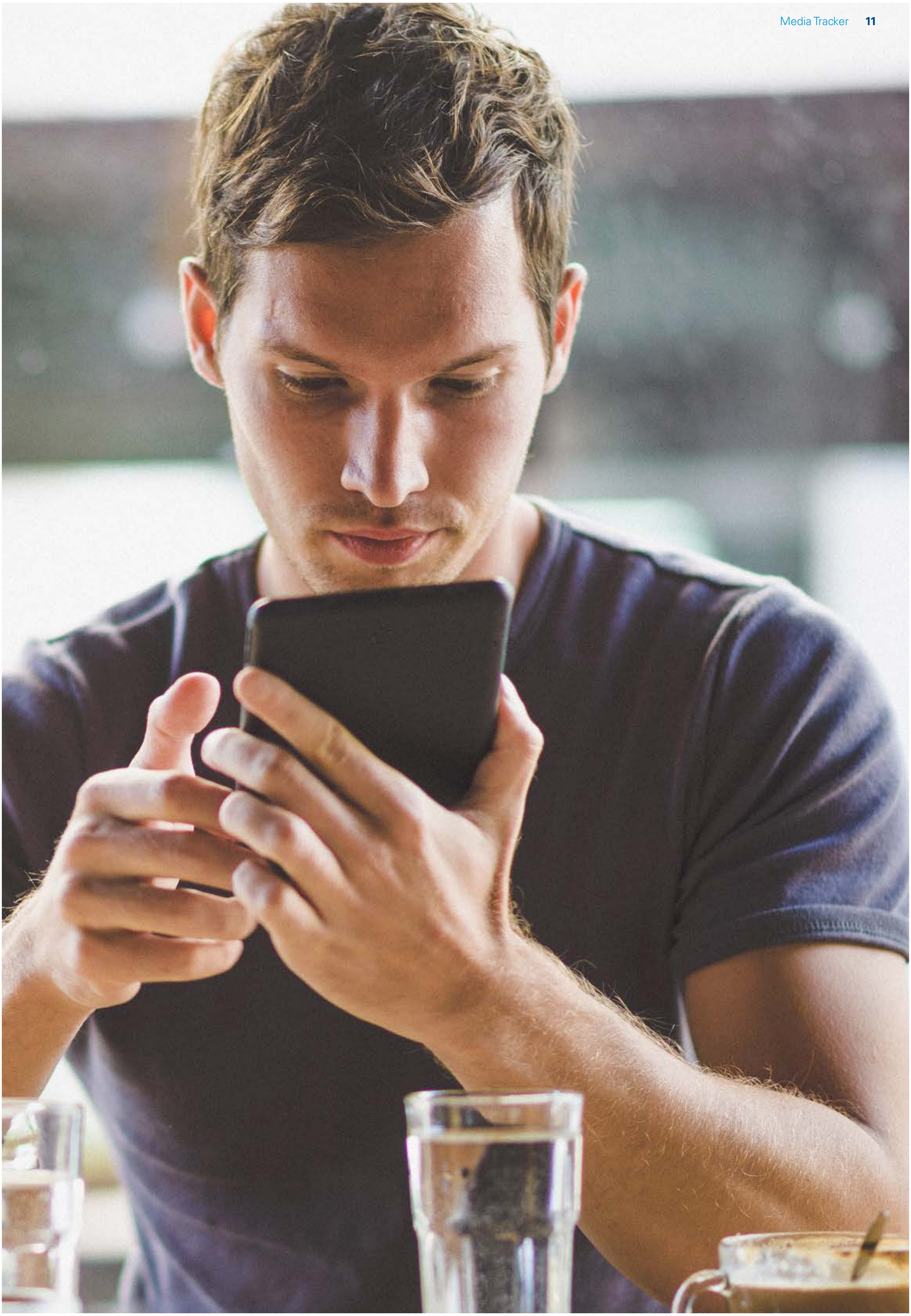
At 50.7 in Q3 2016, the index was slightly above the 50.0 no-change value. This compared favourably with the post-crisis average (48.7) and was broadly in line with the UK-wide trend (50.6).

Chart 10: HFI Income from Employment
Quarterly Index, 50 = no change, SA



Source: Markit/KPMG
Index numbers vary between 0 and 100, with levels of 50 signalling no-change from the previous month. Readings above 50 signal an increase since the previous month, whilst postings below 50 indicate a decrease. The greater the divergence from 50, the greater the rate of change signalled by the reading.

*Comparisons draw on Markit's Household Finance Index (HFI) survey, to give a timely indication of media sector job market conditions.



UK household trends: Spending slumps

Higher inflation and lingering job insecurities among households act as a growth headwind in 2017.

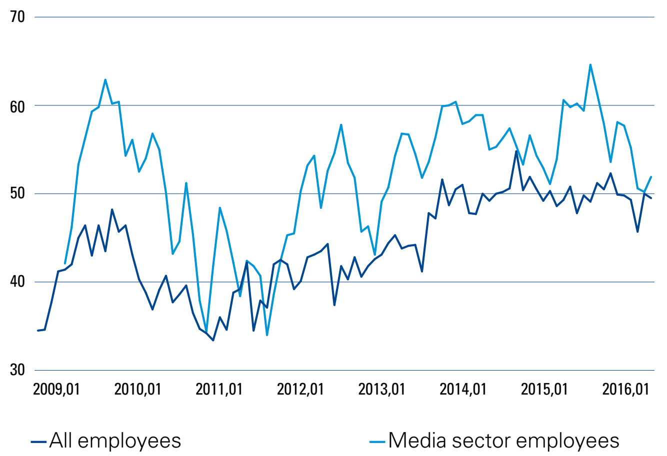
Outlook for UK household finances

UK households generally appear to expect their finances to deteriorate over the next 12 months, albeit only slightly. This was illustrated by the future finance index for all employees posting below the no-change 50.0 mark at 49.5 in Q3 2016.

Media sector staff bucked the overall trend, forecasting a modest improvement in their financial wellbeing. However, at 51.9 in Q3, the respective index was down sharply from 55.2 in Q2 and is one of its lowest levels recorded since mid-2013 (see chart 11).

Concerns about the UK economic outlook, stronger inflationary pressures, and uncertainty about the longer-term implications of Brexit appear to have weighed on sentiment among media sector employees over the summer. Around 69% of media sector employees anticipate a rise in living costs over the next 12 months.

Chart 11: HFI Future HFI 50
50 = no-change, SA



Source: Markit/KPMG
Index numbers vary between 0 and 100, with levels of 50 signalling no-change from the previous month. Readings above 50 signal an increase since the previous month, whilst postings below 50 indicate a decrease. The greater the divergence from 50, the greater the rate of change signalled by the reading.

What do the household finance survey trends mean for UK media companies?

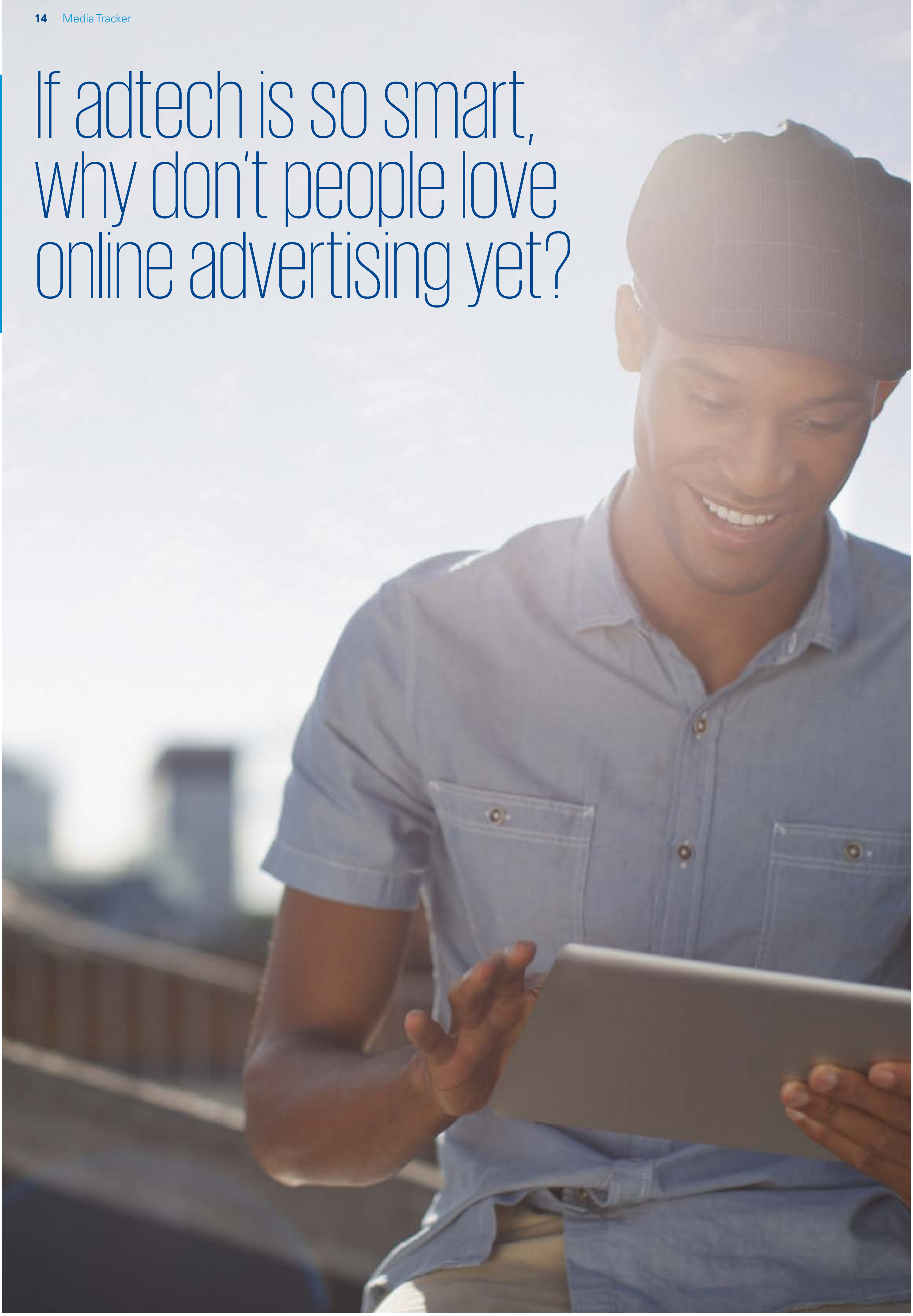
The latest set of results could affect the media sector in a number of ways, largely in terms of the outlook for UK consumer spending in 2017.

UK households' expectations of reduced financial wellbeing, alongside worries about rising living costs, may lead to weaker consumer spending patterns in general during 2017. In particular, a marked fall in the value of the pound since the Brexit vote has driven up the cost of imports and is expected to stoke domestic inflation through 2017.

Any renewed squeeze on real incomes will encourage cutbacks to discretionary household spending, including purchases of digital services, diminishing consumers' willingness to make major purchases. Higher UK operating costs and consumer uncertainty will act as a brake on marketing budgets in the year ahead.

These trends indicate a heightened risk of squeezed margins across the media sector, as firms will be limited in their ability to pass on higher operating costs to customers in 2017.

If adtech is so smart, why don't people love online advertising yet?



How can advertisers make smarter use of ad tech?

We asked over 2,000 UK households what drives them to engage with online ads, how they feel about the use of their personalised data and which type of ads do they find most annoying.

Over the past few years, the ad tech boom has enabled unprecedented access to consumer data and given rise to a far more personalised online advertising experience. However, there is a fine line between a successful targeted marketing strategy and an ineffective one.

Our research helps to shed light on consumer preferences, and we also look at issues such as Brexit and how economic uncertainty is impacting the digital advertising industry.

Key findings:

People don't realise how much data is being collected by advertisers

- Only 38% of respondents correctly noted that advertisers typically know what device they are using
- 80% would not be willing to give more access to personalised information for more relevant ads

Tailored adverts will win out–67% of UK households say they do click on online ads

- 67% of UK households say they do click online ads
- Price (61%) and relevance (55%) are the most important factors to clicking on an ad

The younger demographic is the driver to change – more receptive to advertising on social

- 35% of 18-24 year olds are more likely to click on an online ad if it appears in their social feed

Poor advertising and intrusive placing does significant damage to brands and increases the usage and awareness of ad blockers

- Pop-ups are crowned the most irritating form of online ad

Usage of adblockers is continuing to rise

- 49% of consumers expect to use ad blockers in the next 6 months (up from 44%)

> **“It's clear there is a fine line between effective personalised ads and those considered intrusive. There is a clear correlation between intrusive advertising and the use of adblocking.”**
>
> David Elms
> Head of Media

People don't realise how much data is being collected by advertisers

Our research shows that people appear to under appreciate the amount of information known about them by advertisers, and remain worried about how they can control it (see chart 12). Only 56% of respondents correctly noted that advertisers typically know their geographic location, and only 38% thought that their device type was usually known.

Despite most respondents expecting advertisers to know some level of information about them, an overwhelming majority (80%) would not be willing to give access to their anonymised personal information for advertisers to create more relevant and timely online ads (see chart 13).

Chart 12: When browsing the web, what personal information do you believe is typically known by advertisers?

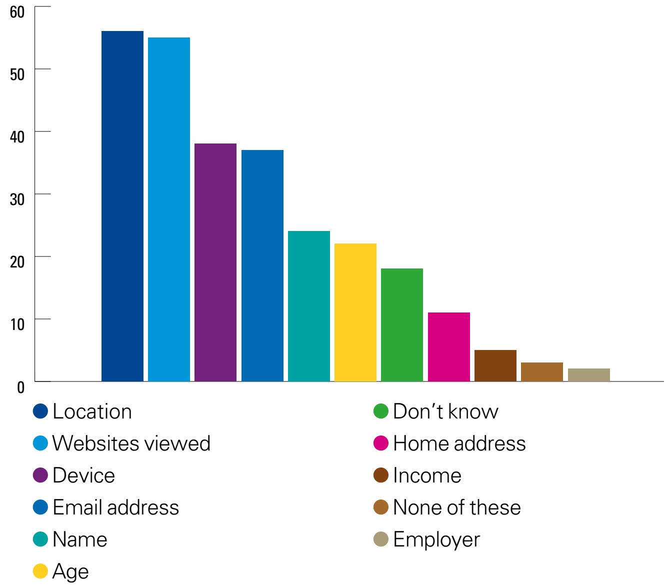
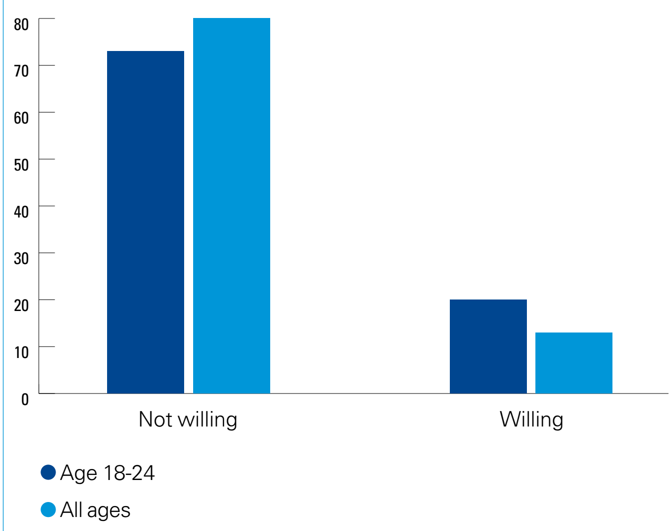


Chart 13: Would you be willing to give online advertisers more access to your anonymised personal information, if it meant they could create more relevant and timely adverts for you?



So how much data do third parties hold on you?

Third parties have a wealth of data they can collect and use to target ads. Facebook, for example, uses 98 personal data points* to strategically target ads. For example:

- Location
- Ethnic affinity
- Users who have new jobs
- Users who recently acquired a smartphone or tablet
- Time of year user's household shop mosts

By tracking browsing behaviour,it is possible to build extensive user profiles and deliver highly targeted ads. Facebook is transparent about data collection and allows users to opt-out of advertising. Our survey shows a mismatch between what consumers think is being collected and the reality.*

Mobile provides more data

PubMatic, a marketing automation software company for publishers, supplies up to 70 data points on desktop users and about 100 data points on mobile users. This gives advertisers many more personal details as well as location data which can ensure users receive more relevant personalised ads.**

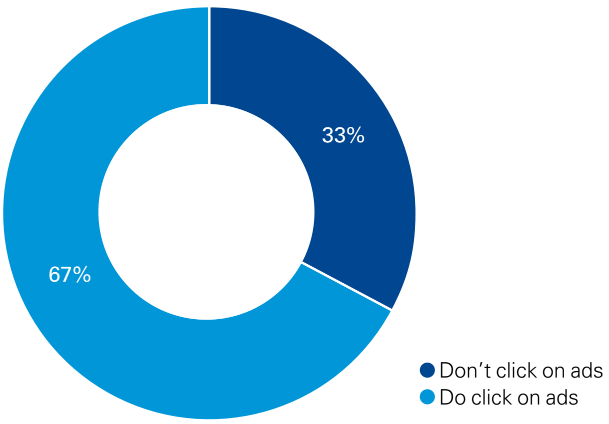
*Source: https://www.washingtonpost.com/news/the-intersect/wp/2016/08/19/98-personal-data-points-that-facebook-uses-to-target-ads-to-you/?utm_term=.10e29be98475
**http://www.economist.com/news/special-report/21615871-everything-people-do-online-avidly-followed-advertisers-and-third-party

What makes an online ad effective?

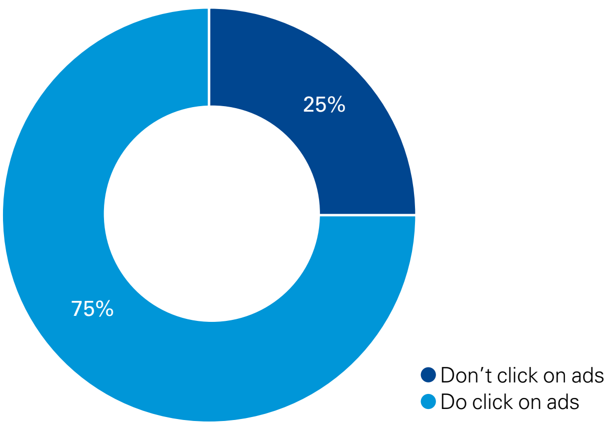
For advertisers who get it right, there are handsome rewards. Around two-thirds of UK adults report a willingness to click on online ads, and a clear majority appear in favour of more relevant ads and tailored discounting.

Chart 14: Online ads engagement

Proportion of UK households that engage with ads



Proportion of 18-24 year olds that engage with ads



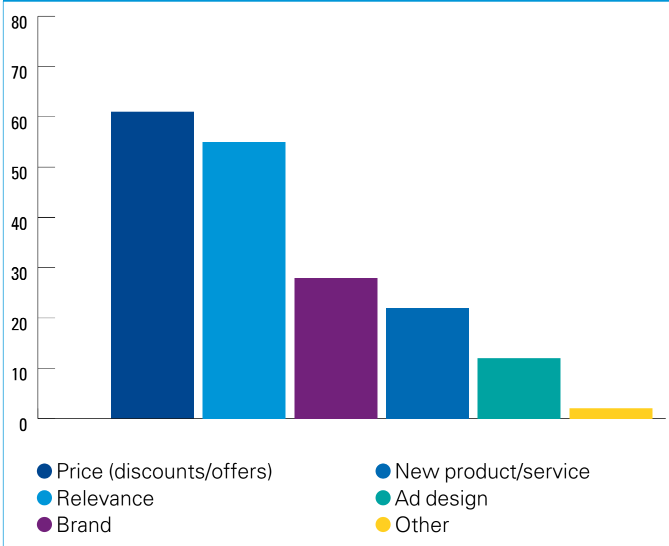
Key factors leading people to engage with online adverts were:

- Price (i.e. a discount or offer) (61%)
- Relevance (55%)
- Brand (28%)
- Ad design (12%)

One-third of adults claim never to click on online ads. Of those who claim never to click on ads, reasons cited were concerns over security, the relevance of an ad, and irritating advert displays.

Those aged between 25-34 years old were the most likely to engage with an online ad (79%) while, at the other end of the scale, 65+ year olds were the least likely to click on a web ad (51%).

Chart 15: What drives people to click on an online advert?



Personalised ads on social media feeds

The increasing prominence of ads on social media platforms has also raised questions as to whether this tactic increases the effectiveness of online advertising. It is typically far more tailored to individuals based on their personal information, as the platforms tend to track more data.

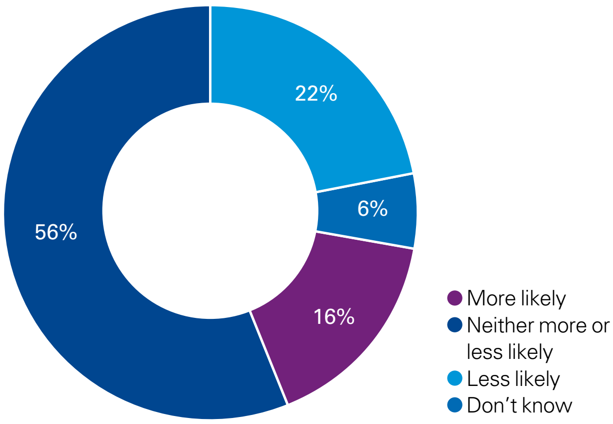
Compared to the majority of people (56%) who indicated that personalisation made no difference as to whether they engaged with an online ad, 35% of 18-24 year olds indicated that they are more likely to click on a personalised social media ad. This shows that the younger demographic is far more receptive to ads on their social media feeds.

In contrast the older demographic are far less likely to engage with an ad on their social media feed with only 5% of those aged 65 years or older saying they were more likely to click on an advert that appeared whilst they are on their social networks.

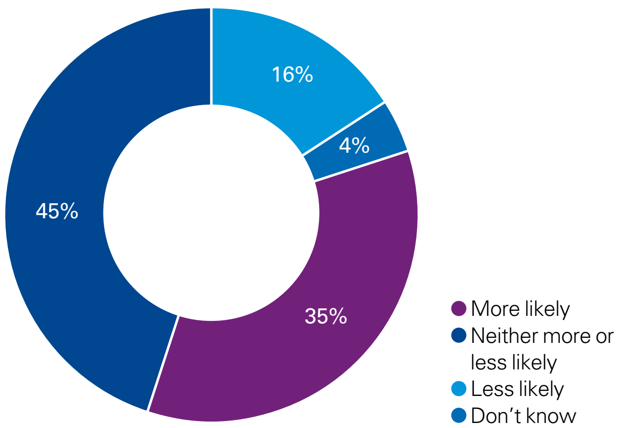
In fact a higher proportion of the older demographic (29%) reported that they were less likely to engage with an ad if it appeared on their social media feed than overall (22%).

Chart 16: Are you more likely to click on an online ad if it appears in your social media feed than if it appears elsewhere when browsing the web?

All ages



Aged 18 – 24

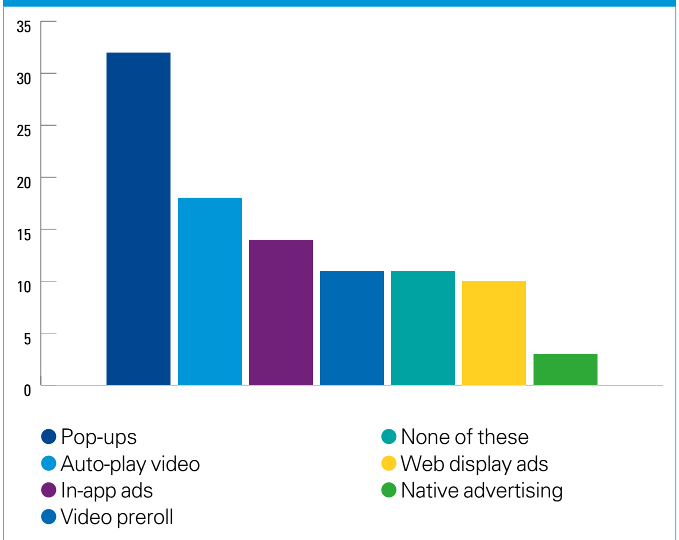


Which types of online ads are most intrusive and what are the consequences?

Our survey reinforces that strategies for serving personalised ads appropriately should be high on the agenda for both brands and publishers.

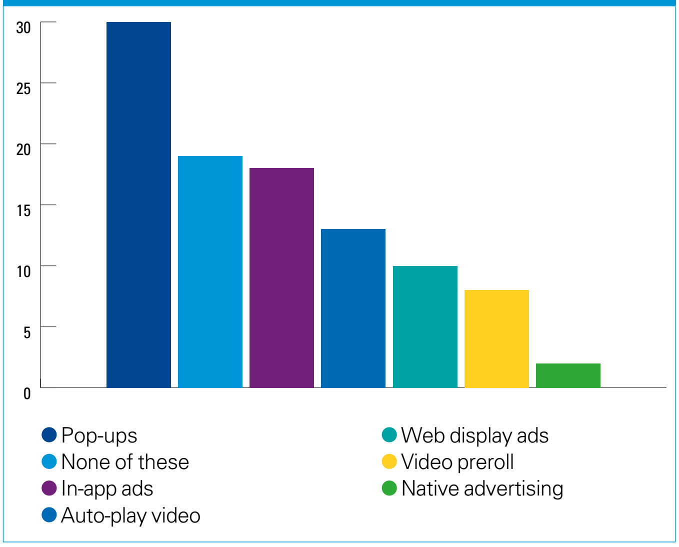
Pop-ups were found to be the most irritating form for desktops, smartphones and laptops. Auto-play video and in-app ads also featured prominently as the most annoying types, whereas native ads were considered the least annoying.

Chart 17: What types of online advertising do you find most annoying on your tablet?



Nearly a third of consumers would use an adblocker in reaction to a 'bad ad*' appearing whilst browsing the web, almost one-in-five would change website and one-in-eight would refuse to buy the product outright.

Chart 18: What types of online advertising do you find most annoying on your smartphone?



*A 'bad ad' is an advert that is served to you which you do not want to engage with

Ad blocker awareness

While targeting audiences effectively through smarter use of ad tech is a growing opportunity for advertisers, a looming threat is the increased uptake of ad blocking software.

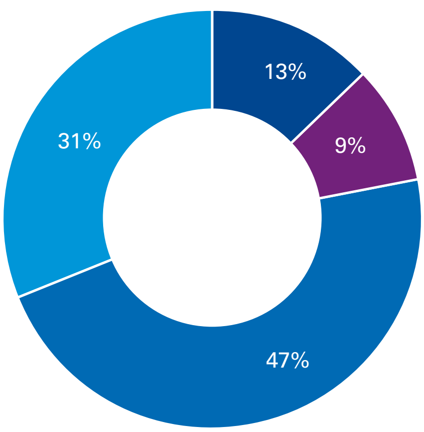
In the last year:

- Half of desktop/laptop users have tried an ad blocker
- One-in-five desktop/laptop users have used an adblocker on their smartphone or tablet
- 77% of households are aware of ad blocking software for desktop/laptop (up from 72% at the start of 2016)
- Ad blocker awareness has also increased for smartphones (70% of households, up from 63%) and tablets (72%, up from 63%) in the final quarter of 2016.

In the next six months:

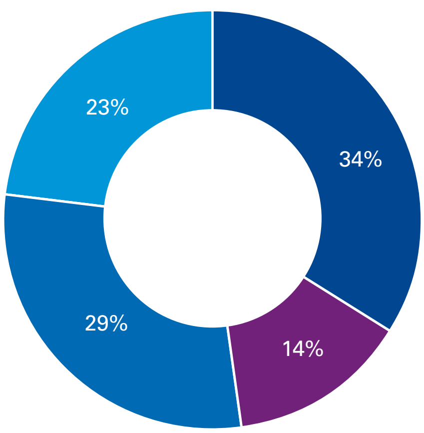
- 49% of consumers expect to use ad blocking software on any device (up from 44% earlier in the year)
- 60% of 18-24 year olds are most likely to use an adblocker compared to 44% of over 65 year olds

Chart 19: Have you ever used an ad blocker on a smartphone?



- Yes - in the last month
- Not in the last month but in the last year
- Never - but I am aware that advert blockers exist
- Never - I wasn't aware that advert blockers existed

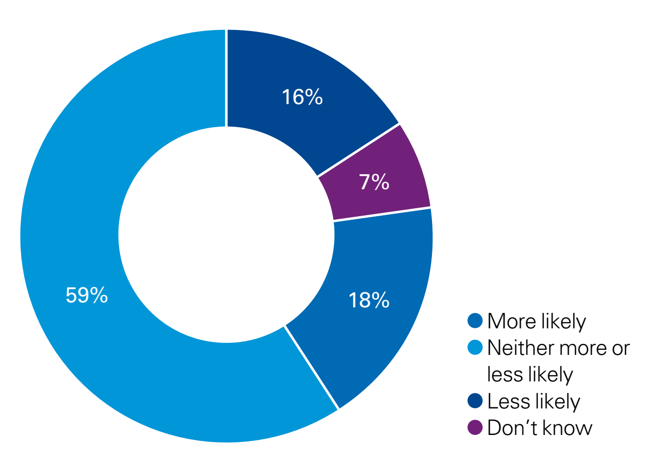
Chart 20: Have you ever used an ad blocker on a desktop/laptop?



- Yes - in the last month
- Not in the last month but in the last year
- Never - but I am aware that advert blockers exist
- Never - I wasn't aware that advert blockers existed

Just under a fifth of respondents (18%) indicated they would be more likely to use an ad blocker if faced with more personalised ads. However, around 59% signalled that more relevant online adverts would not affect their choice of using an ad blocker, while around 16% would be less likely (see chart 21).

Chart 21: If online ads were more personal and relevant to you, would this make you more or less likely to use an ad blocker?



Ongoing risks for marketers

It is important to note that according to the results of our ad tech survey, consumers of all stripes have an inherent dislike of sharing their personal data. Eight out of ten respondents would not exchange their personal data for more relevant and timely ads. Among people that said they never click on online ads (33%), worries about viruses, data security and ad design were the most commonly reported reasons. Utilising this survey feedback can enable marketers to avoid the pitfalls of ineffective targeted advertising strategies.

“Millennials hold the key to new advertising revenue. If advertisers act quickly and deliver a desirable online experience then everyone will benefit.”

David Elms
Head of Media

Methodology

The headline UK media tracker index is calculated by taking the combined momentum of two key areas; core business activity at media sector companies and, secondly, adspend budget changes among UK marketing executives.

Our analysis begins by looking at the overall media tracker, on both an annual and quarterly basis. We then examine the momentum of its two components (business activity and adspend budget revisions), as well as the reasons for change provided by survey respondents.

UK media sector Purchasing Managers' Index® (PMI®) survey data

UK media sector PMI data has been derived from a sub-category of companies within Markit's regular surveys of UK service providers and manufacturers. The media sector is defined in this report as advertising & marketing, programming and broadcasting activities, motion picture, video and other media production activities, publishing activities. All figures are seasonally adjusted and smoothed using a three-month moving average, to better highlight underlying trends in the data.

UK media sector; marketing budgets data

The Bellwether survey is researched and published by Markit Economics on behalf of the Institute of Practitioners in Advertising. Data are drawn from a panel of around 300 UK marketing professionals and provides a key indicator of the health of the economy. The survey panel has been carefully selected to represent all key business sectors, drawn primarily from the nation's top 1000 companies. The indicator derived in the Media Barometer is based on the following questions within the IPA Bellwether survey (this index is a moving weighted average of main media and internet budget revisions):

i) In the last three months, has your main media advertising budget for the current financial year been revised up or down, or is it unchanged? (Largest adspend weight in the UK media tracker).

ii) In the last three months, has your internet marketing budget and your internet search/search engine optimisation (SEO) budget for the current financial year been revised up or down, or is it unchanged? (Smallest adspend weight in UK media tracker).

About the Institute of Practitioners in Advertising

The IPA is the industry body and professional institute for leading UK advertising, media planning and buying, and marketing communication agencies. It provides a full range of services to its members: from advice (legal, sector and management), awards and events, best practice, information, research studies and training as part of an extensive CPD programme. It is also the agency industry spokesman.

UK media sector labour market sentiment section; technical details

Ipsos MORI interviewed 1500 adults aged 18-64 across Great Britain from its online panel of respondents. Interviews were conducted online during October 2016. A representative sample of adults was interviewed with quota controls set by gender, age and region and the resultant survey data weighted to the known GB profile of this audience by gender, age, region and household income. Ipsos MORI was responsible for the fieldwork and data collection only and not responsible for the analysis, reporting or interpretation of the survey results.

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