

Video Advertising Outlook

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Growth Potential

According to a study released on November 21, 2006, Internet advertising reached a new high of \$4.2 billion in the third quarter, which is its eighth consecutive quarter of growth. Internet advertising accounts for only about five percent of all U.S. advertising revenues; however, with the development of new interactive advertising technologies, new ad inventory will be created over the coming years.

Although many of the experts in the online space typically over-hype their predictions for growth, spending trends seem to indicate that video advertising will become the dominant form of online advertising in the next two to three years. If we are to believe what advertisers are saying, we can expect video advertising to grow significantly in the near future. According to various surveys, upwards of 60% of national advertisers plan on creating video ads specifically to be run online in the coming year.

Television advertising, which is on track to be \$74 billion in 2006, is not likely to be affected drastically anytime soon; however, online video is becoming increasingly more attractive for certain products/services with particular target audiences. One interesting case is that of Foster's Beer which recently announced that they are moving all of its television ad spending online. Although this amounts to only \$5 million, it may be an indication of things to come.

Advertising networks and video ad solutions providers are scrambling to facilitate this growth. At this fall's Interactive Advertising Bureau conference in New York, online video-related vendors dominated the exhibit hall. Also, a significant number of the breakout sessions at this year's annual AdTech conference focused on video advertising.

Advertisers are starting to sit up and take notice of the potentials of reaching their target audiences online through video advertising given several trends,

including: (1) an explosion in the amount of video content (inventory) available online; (2) ever-increasing bandwidth penetration; (3) the demand for more visual experiences on the part of consumers; and (4) the emergence of marketplaces similar to Google AdWords for bidding on and targeting video inventory based on demographics, psychographics as well as geographically.

Consumers have been enticed by the on-demand viewing that the Internet enables. According to the Online Publishers Association, most Internet users have watched online video; 25 percent watch regularly, at least once a week; and 44 percent have taken some action after viewing an online video ad.

Obstacles to Growth

The main obstacle to rapid growth in this space revolves around the supply of quality inventory. Currently, the vast majority of online video is user-generated a la YouTube and thus many advertisers are not comfortable with ad placements next to potentially undesirable content. However, advertisers may have to become more open about where their ads run as demand for quality inventory increases.

According to a recent article in McKinsey Quarterly, the maximum supply of video ads is currently about \$600 million a year, which is far less than future demand. They expect the demand to reach from \$1.4 billion to \$3.2 billion in 2007. Consequently, technology solutions are being developed in order to increase inventory. For example, Burst Media, an online advertising network, and others are beginning to facilitate streaming video within banner ads.

Another obstacle which advertisers face is the ability to target and track the effectiveness of online video advertising, which thus far has been dominated by national advertisers looking for branding opportunities and reach. However, just as the dream of advertising accountability became a reality in the pay-per-click world, new technologies are adding a direct-response component to the online video advertising mix. Advertisers are experimenting with the concept of “telescoping,” which simply means providing the viewer with an opportunity to click through on a banner or other link adjacent to the video ad in order to find out more information and perhaps order a product.

One final obstacle of note is the growing intolerance of the online consumer to sit through pre-roll advertisements in exchange for viewing desired video content. Internet surfers have become accustomed to clicking away if their needs are not met immediately. Advertisers are addressing this concern by testing various formats for online video ads.

Online Video Ad Formats

A panel of Web executives at the Online Media, Marketing and Advertising (OMMA) conference this fall agreed that the most effective online video ads should be 15 seconds or less.

Many advertisers are moving toward 5 second pre-roll ads or rather equally short post-roll ads with, in some cases, a quick static pre-roll branding message. Also, as the demand for video advertising grows, banner space around the videos also is expected to grow.

The OMMA panel also recommended that advertisers create spots specifically for the Internet and other digital media rather than simply repurposing existing television advertisements so as to make the ads more interactive.