

MediaGuardian Edinburgh International Television Festival, 2011

TV+



TV's relationship with advertising, social networks, shopping, technology and companion devices



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Foreword

In every generation, there is a super medium: the medium around which all others revolve.

The super medium is the one which most powerfully drives content creation in other media sectors. TV currently does this. It is a major driver of the book trade. Bestseller lists remain well represented by television celebrities and television chefs.¹ Millions of TV listings magazines sell every week despite the ubiquity of the Internet.² Sales of recorded music still pivot to a large extent on TV appearances.³ Social network conversations are often fuelled by what is on television.

The super medium is also a heavy influence on adjacent media. Thomas the Tank Engine is the number one pre-school toy for boys in China.⁴ The television manufacturing business remains a major component of the UK consumer technology sector.

The question is: can television maintain its super medium status?

In this year's report, we look at several key aspects of television to address this question. Can television viewing per person, which has risen in each of the last five years, continue to increase? Can television survive the threat from the rise of social networks? Is television disrupted or enhanced by technology? How will TV advertising fare given the alternatives, particularly those online? And finally, can television, already renowned for its selling capability, diversify into shopping?

We hope you enjoy our perspectives on the UK television market and wish you all the best for this year's Festival.



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TV+ proliferating portable screens = viewing+

TV viewing in the United Kingdom, measured by average viewing per person (AVP), has risen every year since 2006. In 2011 it is forecast to rise further, taking average daily viewing to more than four hours per day, equivalent to a quarter of our waking hours.

In May 2011, television viewing measured by aggregate viewing hours (AVH) rose by six per cent year-on-year. This is an increase of 364 million hours.⁵ To put this rather large number in perspective, it is equivalent to double the entire time the United Kingdom spent on Facebook, LinkedIn and Twitter in the same month.⁶ Not too shabby for a medium that has been, and continues to be, prophesied to disappear.⁷

The question is: can television viewing rise further? None of the dozens of industry executives we interviewed for this year's report thought AVH and AVP would rise further. The most bullish expected consumption to plateau.

A counter view is possible: there are several factors that could, in combination, drive TV viewing up. Some are supply-driven, such as a rise in the quality of television, quantified as the volume of television that the mass market wants to watch, rather than solely what TV critics rave about. Some are cyclical, such as the state of the economy, with television viewing possibly correlating with unemployment levels.

Some factors are indirect, most notably the expected growth in the number of portable screens among UK TV viewers.

Portable screens proliferate.

A steady growth in ownership of, or access to, portable devices with screens of sufficient quality to watch television, such as laptops, tablets and smart phones could drive increased TV viewing in the short term.

Tablets and smart phones are likely to see strong increases from their current installed base. Tablets are still relatively new to all markets – earlier this year about one million tablets had been sold in the United Kingdom. Tablet sales should remain strong through 2014 as a growing range, at a range of price points, come to market.

Our research found that tablet computers are as likely to be purchased as televisions over the next 12 months.⁸

Over the next four years, as existing owners of feature mobile phones (basic phones with small screens) upgrade their devices, Deloitte expects the UK smart phone base to rise from 30 per cent to over 60 per cent.

All laptops and tablets sold will be of sufficient quality to watch (mostly pre-recorded) TV. A growing range of smart phones sold today have screens of sufficient size, resolution, brightness and contrast to enable TV viewing. Screens have evolved significantly from the first days of mobile TV when watching football was an exercise in spotting the ball.

Demand for portable screens is likely to be strongest among younger age groups, which tend to be earlier adopters of technology and also place a greater emphasis on technology relative to other purchases. This is also the group which watches less television – so the opportunity for uplift is potentially higher.

More portable screens mean more opportunities to watch TV.

A growing number of portable screens should increase the opportunities we have to watch TV, in the same way that mobile phones give us more opportunity to make phone calls. The greater the opportunity, the greater the likelihood we might end up watching TV outside of the home.

Watching pre-recorded television on a portable device is likely to become increasingly commonplace, particularly during 'dead times' or otherwise unproductive gaps during the day, such as commutes, while waiting for people, during lunch breaks or to help pass the time.

Catching up on TV is likely to compete with reading free sheets or books, email and social networks, 'snacking' on video games, listening to music and calling up long lost friends.

For families with children, of any age, portable screens are also likely to be increasingly used to entertain back seat passengers on road trips.

As ownership of portable screens increases, the travel industry is likely to offer streamed video content, delivered over Wi-Fi or in-seat wired connections, from servers on the vehicle, train or plane.⁹ This enables transport operators to offer entertainment services without the capital expenditure of deploying screens to every seat. On long distances, the main content consumed is likely to be films; for shorter distances, TV is likely to predominate.

Portable screens are also likely to be used in the home, serving as temporary TVs whenever the main TV set is showing something else. Portable screens are unlikely to displace the main TV set. It will remain the default for watching any TV, as TV normally displays and sounds better on a bigger screen.

Portable screens will be used like PVRs.

The lack of a nationwide network of sufficient speed to support streaming of video to devices means that the majority of TV watched outside of the home will be pre-loaded.

A key challenge with many of the mobile TV offerings to date has been the lack of consistently good network quality to be able to stream video to a device. Today, and over the next few years, this is likely to remain an issue, except when stationary and within range of an uncluttered public Wi-Fi hot spot. Where cellular networks are of sufficient quality to support streaming, costs may be prohibitive. Watching an hour's TV streamed to a device via some of the UK's mobile networks could use up an entire month's data allowance.

Streaming is not a prerequisite to watching TV while out and about. Pre-loading content onto a portable device when at home, the office or wherever a good Wi-Fi network exists circumvents the need for network access. Pre-loading content could readily become a habit for those who want to watch television in this way.

It is a practice similar to setting a personal video recorder (PVR) to record. Downloading to a portable screen could become as easy as PVR recording has become.

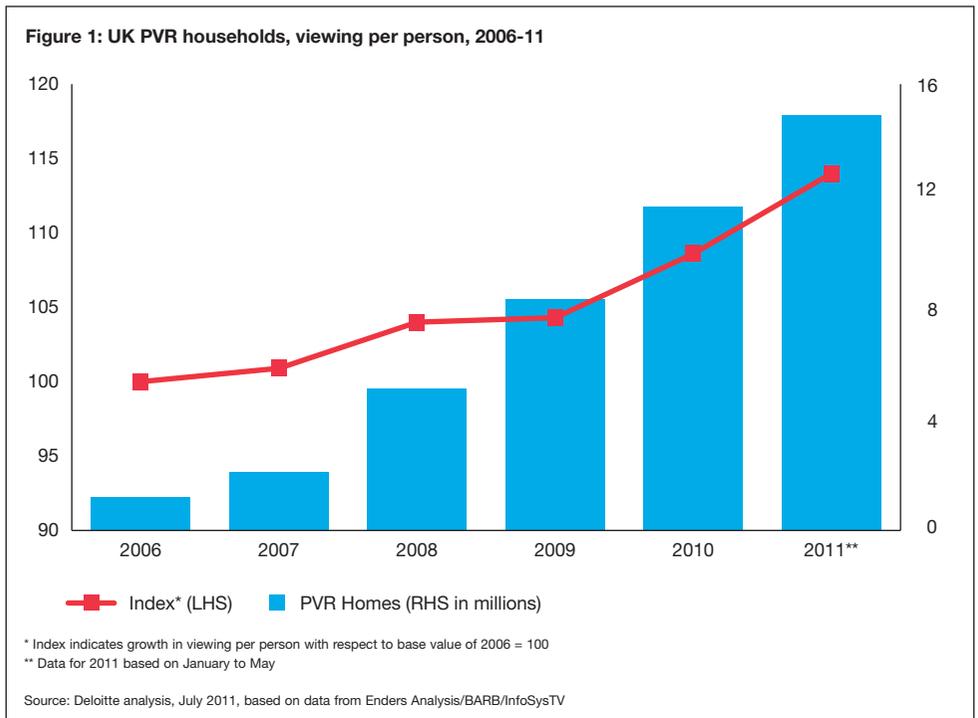
Falling memory prices – a memory card the size of a basic PVR is currently available for under £40 – already enable tens of hours of TV content, at a resolution optimised for mobile devices, to be downloaded and stored. Multiple applications are available that facilitate the recording of streamed video onto portable video.¹⁰ For smart phone owners, the phone can soon become the PVR in your pocket.

Portable TV viewing outside of the home is likely to be additive.

The TV-related technological advances that have had most success historically have typically increased television consumption. This impact is also likely with portable screens.

If the quality of TV content remains strong, portable TV viewing devices are likely to encourage more viewing, with on-the-go TV additive to regular in-home television.

One parallel that could be drawn is with PVRs, whose penetration has grown steadily over the past five years, as have aggregate viewing hours and average viewing per person (see Figure 1).



Advances in non-glare screen technology may enable viewing of TV outdoors by 2015.

Through 2015, the technology underlying portable screens should improve steadily. They are likely to get lighter, and thus more portable; they should get more robust too.

Screen technology should also improve, with one major possible innovation being the launch of colour screens that work in direct sunlight.¹¹ This would enable watching TV in a park on a sunny day, in the same way that eReaders with elnk allow electronic books to be read outdoors.

Viewing+ requires a lot of co-ordination – but it is an opportunity worth exploiting.

Television consumption could rise to an average 253 minutes per day – even if we were to assume that living room TV consumption has reached a plateau – as long as the on-the-go service is made easy to use.

Higher TV consumption could benefit a number of players. It could make content more valuable – subject to content rights being in place. It could help television reach younger viewers, by placing TV wherever their day may take them, rather than requiring them to be in front of a TV set. It would allow more adverts to be viewed – albeit within shorter breaks – reflecting more staccato consumption patterns of TV on the move. Content offered via transport providers could be sold on a pay-per-view basis, exploiting the expected roll-out of built-in wireless payment systems (known as near field communications) into mobile phones.

The only way is up? We shall see.



TV+ social networks

Incumbent media quite rightly fear emerging media.

While newspapers have coexisted with radio since the latter's first broadcast, and radio has remained popular despite the arrival of television, both newspapers and radio have lost the pre-eminence they once enjoyed.

Today, social networks are considered the fastest growing medium. Social networks threaten to compete head-on with television for attention and, consequently, advertising spend. The ubiquity of social networks is already such that they can claim the reach of television and the depth of the Internet.

Some television executives worry about the competition for eyeballs; for others the concern is over whether their programmes are generating sufficient social buzz; others still strive to emulate social networks' ability to gather user data.¹²

While television should fear all emerging media, the depth of concern should be put in context. Fear is fine, if this prompts a pragmatic analysis of the extent of the threat. But fretting is counter-productive.

UK viewers spend far more time (35x) watching television than on social networks.

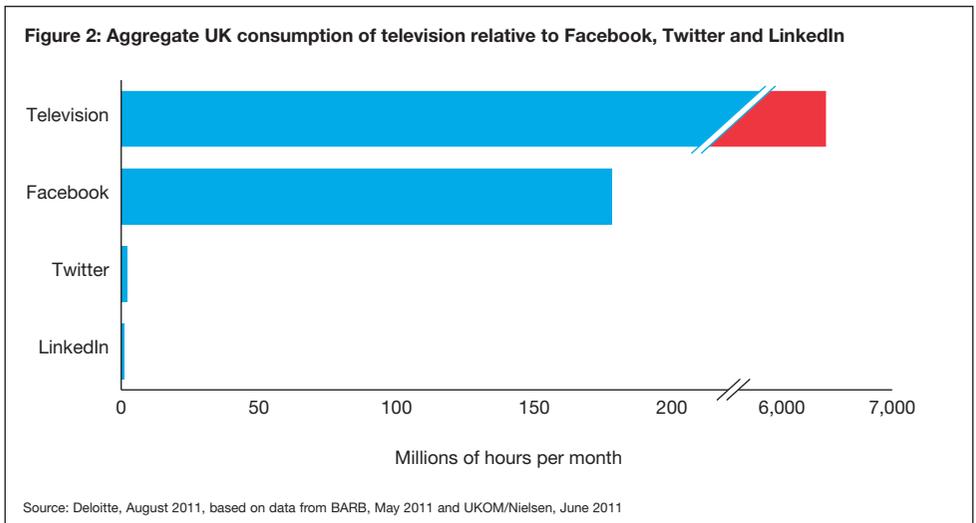
Social network usage remains dwarfed by television consumption.

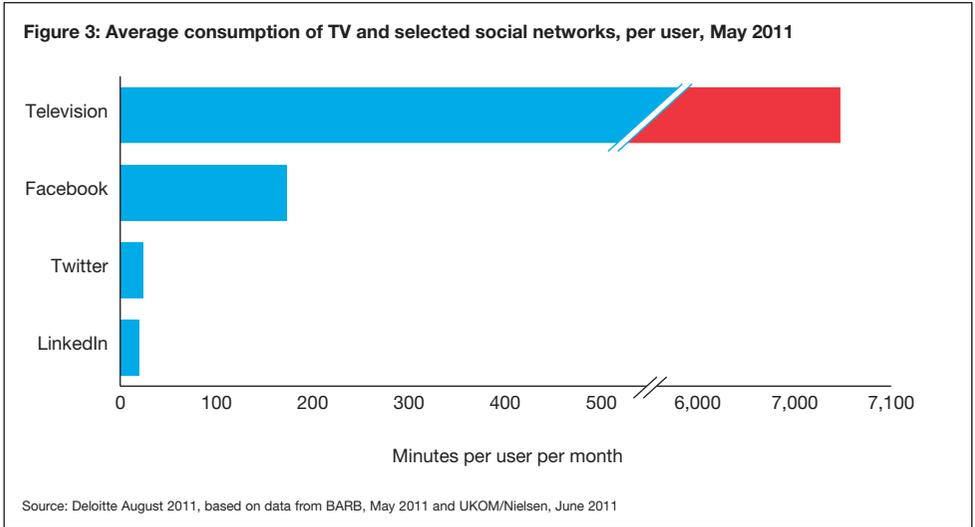
The UK's aggregate consumption of television in May 2011, among the 54.5 million people aged 2+ who watched TV, was about 6.4 billion hours, or 118 hours per viewer.¹³ In the same month aggregate consumption of three of the best known social networks, Facebook, Twitter and LinkedIn, was 182 million hours, or 6 hours 39 minutes, 24 minutes and 20 minutes respectively per unique user of each platform.¹⁴

By contrast, aggregate time spent on the UK's two most watched channels, BBC1 and ITV1, was over 12 times that spent on Facebook, Twitter and LinkedIn. Current aggregate consumption of Facebook, across all UK users, is equivalent to about half that for BBC2 or Channel 4. Time spent on Facebook across all users was 90 times greater than time spent on Twitter, and 178 times that spent on LinkedIn (see Figure 2).

The current gulf in consumption volumes between the two media is down to the fact that there are still far more people who watch television than are on social networks. And the average television viewer spends far more time watching television than the average social network user spends on their social networks (see Figure 3).

Advertising revenues are commensurate with time spent on each platform.¹⁵ In 2010, Facebook's UK revenues were estimated at just under £100 million.¹⁶ This compares to £3.42 billion for television in the same period.





Social networks' current ability to raise awareness of new products and services may also be a key reason explaining the gulf in advertising revenues between the two media. Six per cent of 18-24 year olds found out about (and subsequently purchased) a new product or service via a social network. For television, the proportion was one in five. Only two influencers were more powerful: coming across the product or service in a store and recommendations from friends.¹⁷

Time spent on Facebook, Twitter and LinkedIn is growing at a double digit pace. Television consumption is also rising – from a significantly higher base. Year-on-year growth in aggregate TV viewing is double the total time spent on social networks.

While there may be a gulf today, time spent on social networks is growing at a faster rate than for television. Can time spent on social networks steadily, inexorably catch up with television?

In one key respect, social networks should grow at a faster year-on-year rate relative to television – the medium is newer and current usage levels are thus far lower than for TV.

Facebook is certainly characterised by fast growth. Deloitte has calculated that aggregate time spent on Facebook rose by 13 per cent in the year to May 2011, to 178 million hours, driven by a six per cent rise in average time spent on the network and a seven per cent rise in unique users.

During the same time period, consumption of television rose by six per cent, to 6.4 billion hours, an increase of 364 million hours from May 2010, or double the total time spent on all social networks in May 2011.¹⁸

If television consumption were to stay flat as of May 2011, and if time spent on Facebook continued growing at the same pace as maintained in the last two years, in ten years' time aggregate UK time spent on Facebook would have reached ten per cent of TV viewing.

Total time spent on LinkedIn and Twitter has also increased, with growth rates far higher than Facebook's, but the bases are significantly lower. Time spent on Twitter per unique user declined over the period May 2009-11.¹⁹

Social networks and television complement each other. People use social networks as they watch television; social networks are used to talk about television.

The assumption that television remains flat as time spent on social networks rises could however be considered fallacious: television viewing should be crowded out by usage of social networks.

Growing consumption of television, rising time spent on social networks and a nation that is not foregoing sleep are not necessarily mutually exclusive. The first two activities are certainly complementary.

Our desire to discuss and comment among friends and families is constant. What has evolved and expanded is the available range of communications tools. Television programmes have long been the topic of the country's conversations. They are, not surprisingly, the theme for many conversations on social networks.

Commenting on social networks and watching television should be relatively easily combined. Television has for a long time been a medium that has suffered interruption. Some television programmes assume interruption: viewers are offered frequent recaps and summaries.

The volume of television related discussions on social networks is so high that Twitter publishes a specific index of the most popular television related tweets.²⁰ The percentage of those tweeting about a particular programme is typically tiny relative to the volume of viewers, but presently the community of tweeters can have a disproportionate influence on the buzz about a programme.

Indeed, the social buzz around programmes is now such that some producers design programmes to generate comment on social networks. This can encourage more people to watch live.²¹ Watching later would mean they would not be able to participate in the online conversation about the programmes with friends. The greatest intensity of commenting on programmes is during transmission, not before or after, when activity can plummet rapidly.²²

Television programmes in general don't require significant social buzz to do well. It is more likely that popular programmes are what drive social chatter.

The television programmes that tend to dominate the top 20 in most months are represented predominantly by three genres: soap operas, talent shows and news programmes. Occasionally a major sporting occasion also breaks into the top 20. These programmes have for the most part existed for years, and in some cases, such as soap operas and news programmes, decades. They would most likely be watched regardless of whether there was social chatter about the programmes. A strong showing among social networks' conversations helps, but does not appear to be integral to the ongoing success of a top 20 programme.

The types of programmes where social chatter can make a difference tend to be new series being launched on digital only, non-Public Service Broadcaster (PSB) family channels. For such programming any form of promotion helps, and specific campaigns to generate social chatter, along with other promotional activity, are likely to be deployed.

Social networks currently have a relatively minor role in helping viewers discover new programmes – except among younger age groups. The most powerful form of recommendation is the trailer.

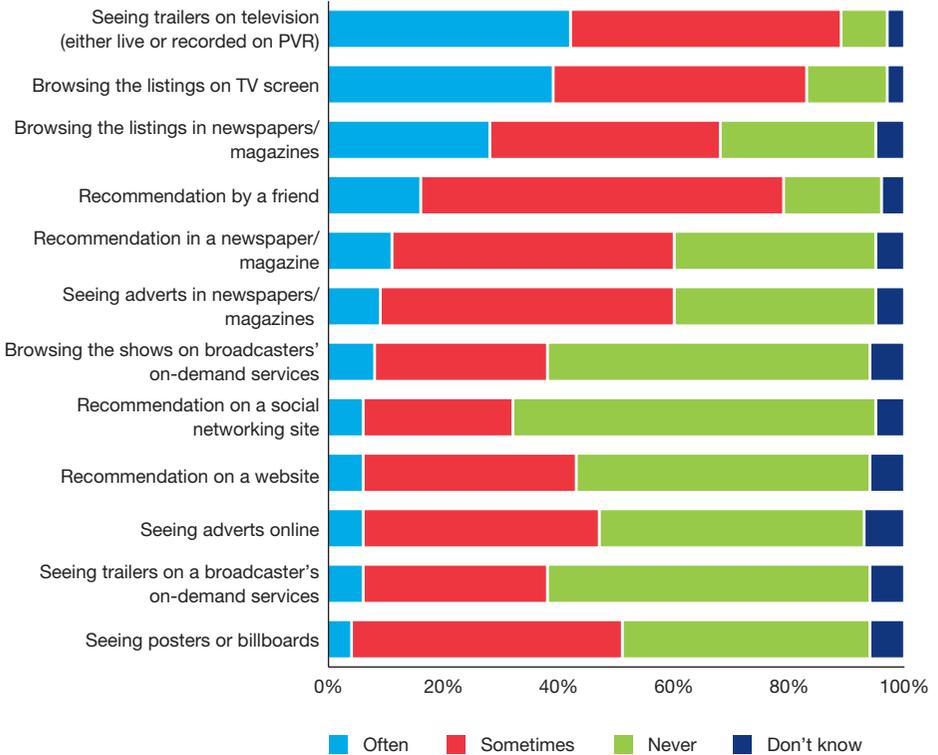
The fact that a trailer shown on television is the most powerful form of raising awareness for new programmes should not be surprising: television has always been a powerful and compelling advertising medium. So what better way to advertise what to watch on television than with television itself?

Today's emerging programmes are the potential blockbusters of tomorrow. So promotion is crucial. What role do social networks have in suggesting to UK viewers what new programmes they should be watching?

The role social networks play in recommending new programmes is, across all age groups, relatively small. But among 18-24 year olds, 19 per cent find out about new programmes through social networks "often" and 47 per cent do so "sometimes". This contrasts with one per cent and ten per cent respectively for the 55+ age group.

While younger viewers are the more active users of social networks to find out about new programmes, their most common discovery method is still the TV trailer: almost half of 18-24 year olds find out about new programmes this way.

Figure 4: Methods of discovery of new TV programmes



Question: How do you find out about new TV programmes which you want to watch?

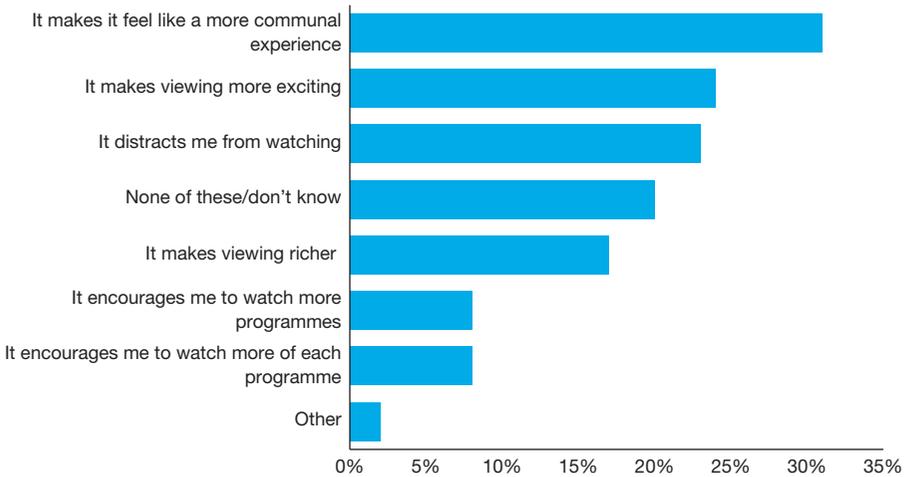
Source: Deloitte/GfK, June 2011. Sample: all respondents (4,000)

Television and social networks: mostly complementary, minimally competitive

A social network provides a platform via which individuals with similar interests, in any geography, can congregate. Television provides some of the raw material, such as programmes, presenters, televised events or genres, which unifies members of social network groups.

Television provides the topic of conversation while social networks, through enabling the conversation, amplify the appeal of television. They enable those with a common interest in a programme, separated physically but joined thanks to their broadband connection, to discuss the programme they are watching as if they were sitting on the same sofa. Among survey respondents who used the Internet to discuss shows while viewing, the most commonly noted impact was that it made TV viewing feel like a more communal experience.

Figure 5: Impact of using the Web to discuss shows currently being watched



Question: You said you sometimes use the Internet to discuss shows while watching them on television. Which, if any, of the following statements do you agree with? Please select all that apply.

Source: Deloitte/GfK, June 2011. Sample: all those who use the Internet while watching TV (733 respondents)

Television and social networks could each exist independently of each other. Television and social networks will compete for ad budgets, if the latter is able to compete for branding dollars. But today, the two media are strongest when working in parallel. This symbiotic relationship is likely to endure.



TV+ technology: The ‘noughties’ in review

Short-term change is typically overestimated, but long-term change is underestimated.

Television is one media that bucks this trend. Although many new technologies have been touted as a television-killer over the past decade, threatening to disrupt business models and consumption patterns, these purported threats have mostly not materialised.

Digital television, the personal video recorder, video-on-demand, social networks, Internet television and the Web per se have all had fairly little impact, relative to initial expectations, on the way in which or the amount of television we consume.

Change that has occurred has more typically augmented, rather than dissipated, pre-existing television behaviours – particularly with regard to the volume of television watched and the amount spent per head on television.

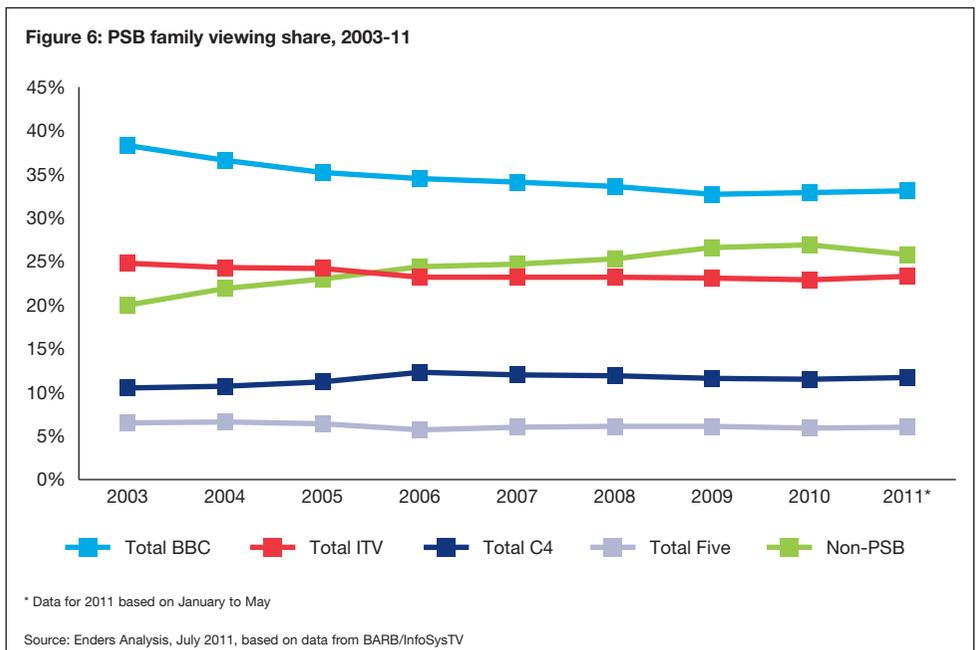
Technological advance has had a greater impact on underlying industry economics. Access to devices, particularly the PVR, and to superior services, such as HD content or high-speed broadband, are key catalysts that have driven demand for premium television.

Digital switchover has precipitated fragmentation. But ‘PSB family’ channels still have 74 per cent audience share.

The past decade has seen a steady migration from analogue to digital transmission of television signal. Analogue switch off, which will be complete in 2012, has provided millions of households with access to multi-channel television.²³ This means access to at least dozens of channels via Freeview and Freesat and hundreds of channels via digital satellite or digital cable. Broadband households have access to tens of thousands of broadcast-quality programmes-on-demand via their PC or, in some cases, connected TV.

Digital switchover was expected to catalyse a steady, inexorable fragmentation of channels, with the original PSB channels expected to be the biggest losers. Viewers were expected to spread their TV viewing across dozens if not hundreds of channels.

The past decade has seen a steady decrease in share of viewing for the PSB family (BBC, ITV, Channel 4 and Five). However despite this steady decline the PSB family’s channels still garner the majority of viewing, claiming more than seven in every ten hours of TV watched in the United Kingdom (see Figure 6).²⁴



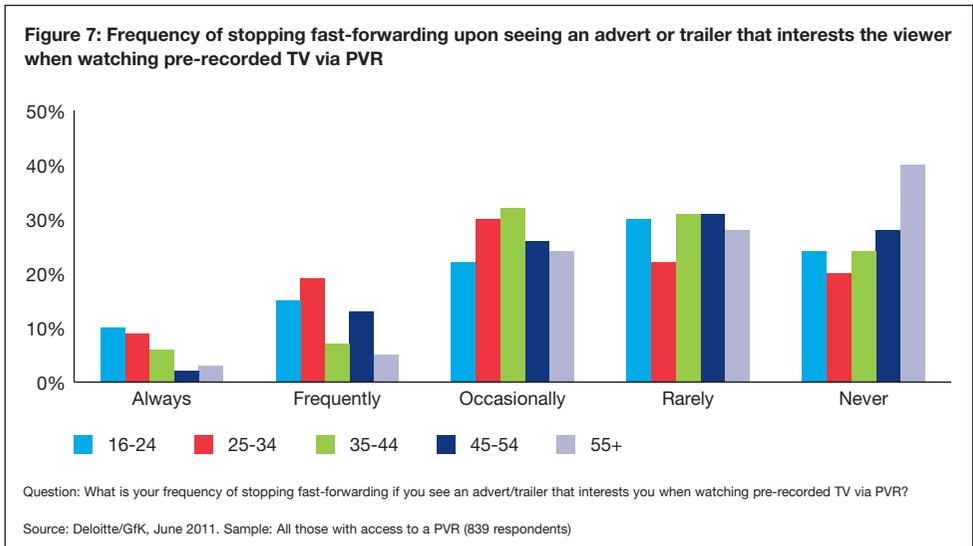
PVRs have encouraged ad-skipping and diminished the proportion of TV watched live. But, as PVR penetration surpasses 50 per cent of UK households, TV ad revenues are forecast to grow. Over 90 per cent of TV in the United Kingdom is still watched live.

The personal video recorder, first launched in the United Kingdom just over ten years ago, was expected to have a profound impact on advertising.²⁵ It was expected to encourage large-scale avoidance of TV advertising. Furthermore, by enabling viewers to watch just what they want to watch, it was expected to reduce overall consumption of TV and fundamentally change the requirement for there to be linear TV channels.²⁶

In 2011, PVR penetration is forecast to exceed 50 per cent for the first time. As the PVR reaches into the majority of UK homes, its actual impact has been largely counter to initial expectations.

The ad-skipping forecast has come true at least as far as PVR owners' perceptions are concerned. PVR users claim to skip over the majority of pre-recorded adverts.²⁷ However automated measurement in selected PVR households indicates that ad-skipping is significantly over-claimed.²⁸ TV advertising is being consumed in greater quantities than ever before, with an estimated 47 adverts per person viewed daily in 2011, up from 34 in 2002 (see Figure 15, in the chapter **TV+ advertising**).²⁹ TV ad revenues are forecast to grow this year.³⁰

Deloitte's research into ad-skipping behaviour has also found that fast-forwarding through adverts is itself subject to interruption: 47 per cent of 16-24 year old PVR owners "always", "frequently" or "occasionally" stop fast-forwarding through ads if they see an advert or trailer that interests them. Fifteen per cent of all PVR owners do this "frequently" or "always".

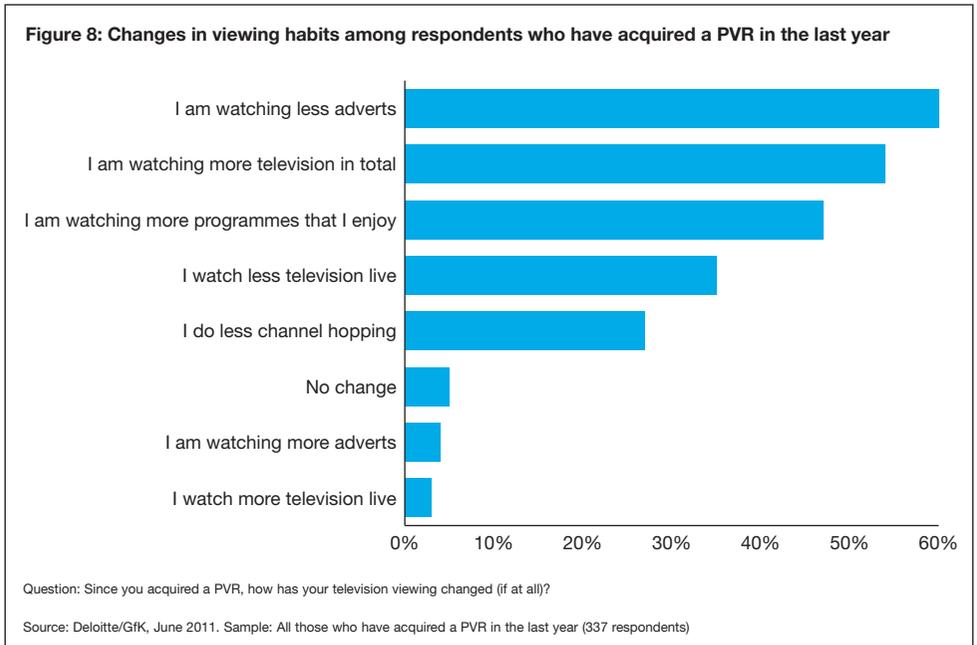


Our research also shows how the PVR may be changing the value of the position in an advertising break. Almost half of all PVR owners “always” or “frequently” stop fast-forwarding adverts when sponsorship appears.³¹

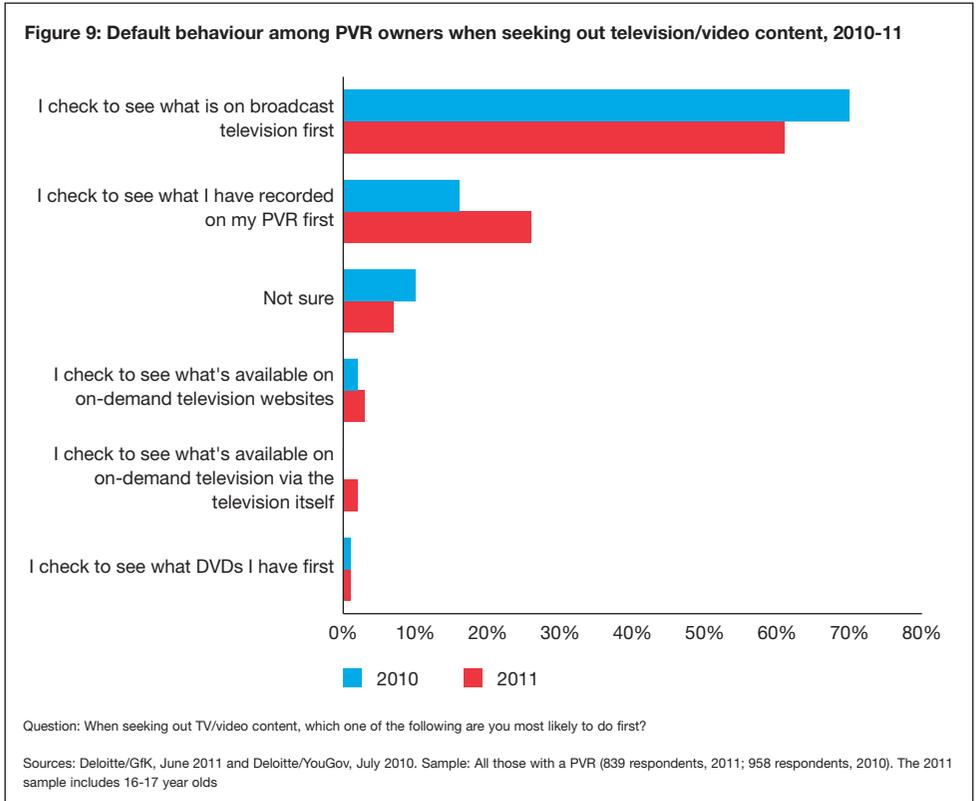
In cases where all advertising is fast-forwarded, there can still be an impact from advertising as viewers’ recognition of just a single image from the advertisement can aid recall.³²

As for the postulated shift to watching all TV pre-recorded, presently the average PVR household watches less than 15 per cent of its television pre-recorded. This proportion has increased only very slightly over the past few years.³³ In 2006, ‘live’ represented 88 per cent of all viewing in PVR households; in 2010 the proportion was 86.4 per cent.

Regarding the anticipated reduction in TV viewing among PVR owners, often the converse has occurred: PVR owners end up watching more. A PVR household is now able to watch talent shows broadcast simultaneously in sequence; previously only one of the shows could have been watched. The only decision required is who gets to watch their preferred programme first. Over half the respondents we surveyed who had acquired a PVR in the last year were watching more television (see Figure 8).



PVRs, in enabling viewers to control what they watched and when they watched, were also expected to render the professional scheduler irrelevant. The outcome has been markedly different: the schedule remains integral to television consumption and the vast majority of PVR owners default to the schedule when they turn on their televisions, as they did in 2010 (see Figure 9). However the proportion of those checking broadcast first fell nine percentage points year-on-year. If there is a further fall of equivalent size in 2012, this would suggest a change in behaviour.



The content most commonly recorded and watched typically aligns with the most popular programmes on the schedule.

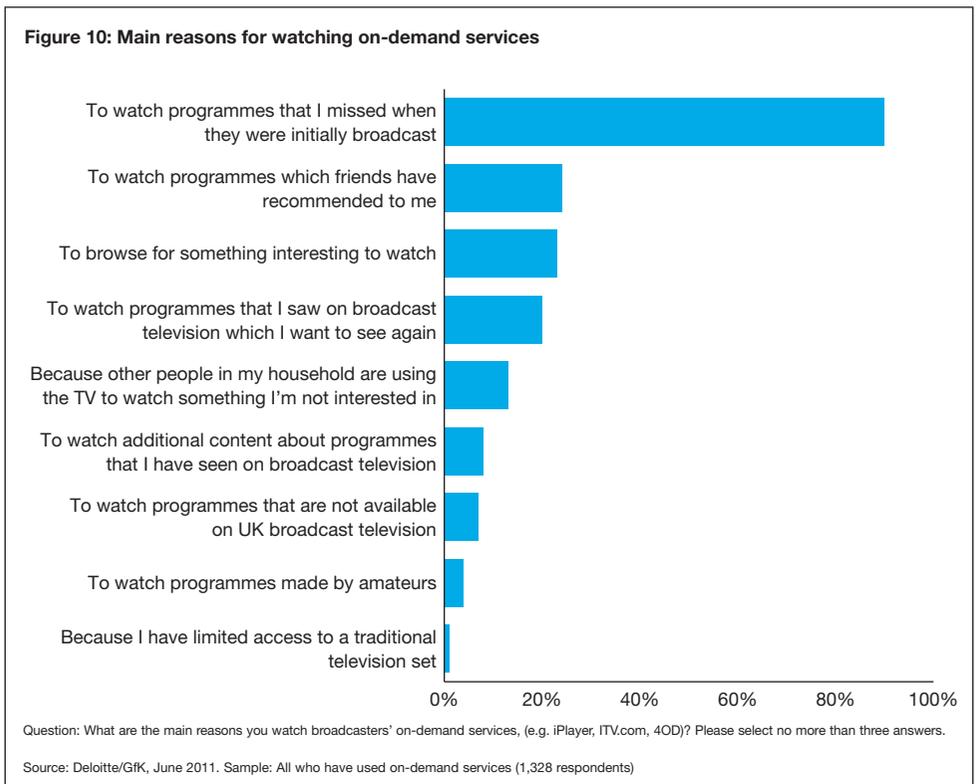
Online video sites promised an infinite palette of user-generated content. Today, they're focused on professionally produced content, with television programmes featuring prominently.

In 2006, the emergence of online video sites, most significantly in the form of YouTube, represented a challenge to television that combined the PVR's ability to avoid the schedule and virtual worlds' offer of user-generated story lines. Over the latter half of the last decade, dozens of online video sharing sites emerged.

By 2010, YouTube had diversified its approach, with its home page highlighting its wide portfolio of TV programming. It had also announced its first major investment in content – to the value of \$100 million.³⁴

Currently the amount of TV watched on-demand in the United Kingdom remains a small proportion of the total. On an average day, about four hours of broadcast TV and about ten minutes of on-demand online TV is watched. Of the latter, the majority is adult content; on-demand viewing of broadcasters' content averages less than a minute a day.³⁵

As with PVRs, the key motivation for using on-demand services – common to 90 per cent of users – is to watch programmes missed when initially broadcast (see Figure 10).



Social networks promise the reach of television and the depth of the Internet. That promise has yet to manifest – but it's still early days for social networks.

Social networks are also expected to compete with traditional television for eyeballs and for advertising revenue. In May 2011, aggregate consumption of television in the United Kingdom was 6.4 billion hours, or 118 hours per viewer.³⁶ By contrast, aggregate consumption of three of the best known social networks, Facebook, Twitter and LinkedIn, was 182 million hours across all users, equivalent to about three per cent of the time spent watching television.

As for the fight for advertising budget, in 2010 Facebook's UK advertising revenue was estimated at about £100 million. This is significant, but minor compared to the £3.42 billion generated by television in that year.³⁷

What matters far more is social networks' trajectory – if advertising and eyeballs continue to grow rapidly they could at some point make a significant dent in the traditional television model. (For a further analysis on TV's relationship with social networks, see the chapter **TV+ social networks**).

The Web was perceived as vying with television for eyeballs; the outcome so far has been more complementary than competitive.

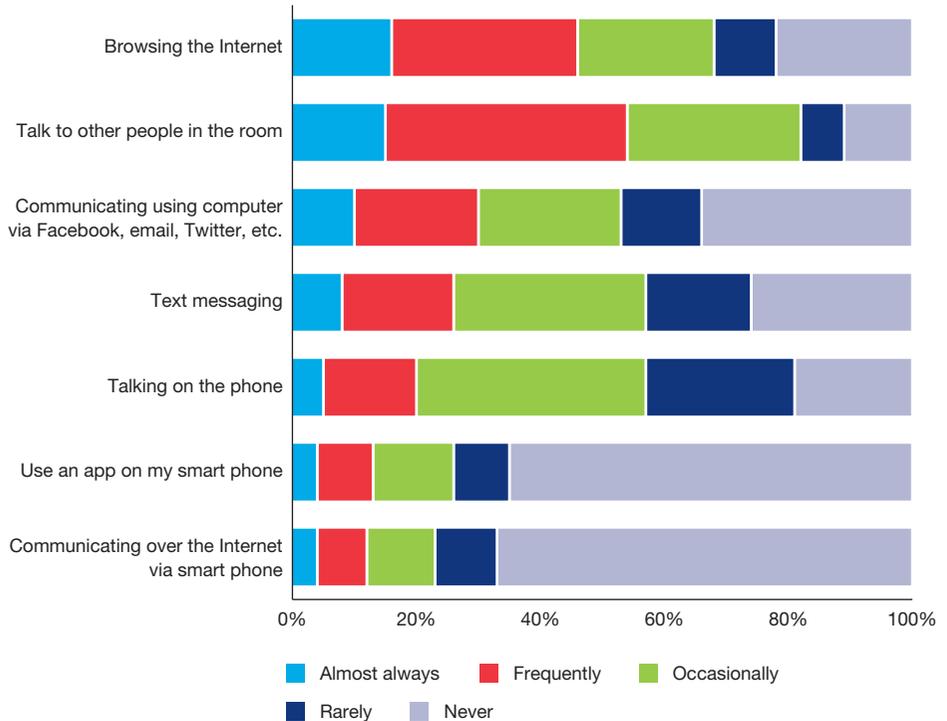
At the start of the last decade, broadband penetration was virtually zero.³⁸

Broadband presents two major potential threats. Firstly it offers, via many devices, access to an infinite range of content, delivered over ever faster broadband connections. Secondly broadband-connected TV sets enable broadcast TV to be usurped by Web content. Both threats imply reduced TV viewing.

Broadband reaches about three quarters of UK households.³⁹ It has been in excess of 50 per cent for five years.⁴⁰ According to our survey, at least 40 per cent of respondents have the capability to access the Web via their television sets, through a games console, BluRay player or integrated capability. Presently over ten per cent of TV sets sold in the United Kingdom are Internet ready.⁴¹

The UK public already seems an avid consumer of the Web while watching TV. Almost half of all respondents claimed to browse the Web "almost always" or "frequently" (see Figure 11). And while it is true that the UK public has for years blended TV viewing with other activities – and indeed over half the respondents surveyed for this report talk to other people in the room "almost always" or "frequently" – chatting to someone else doesn't (necessarily) require eyes to be taken off the screen.

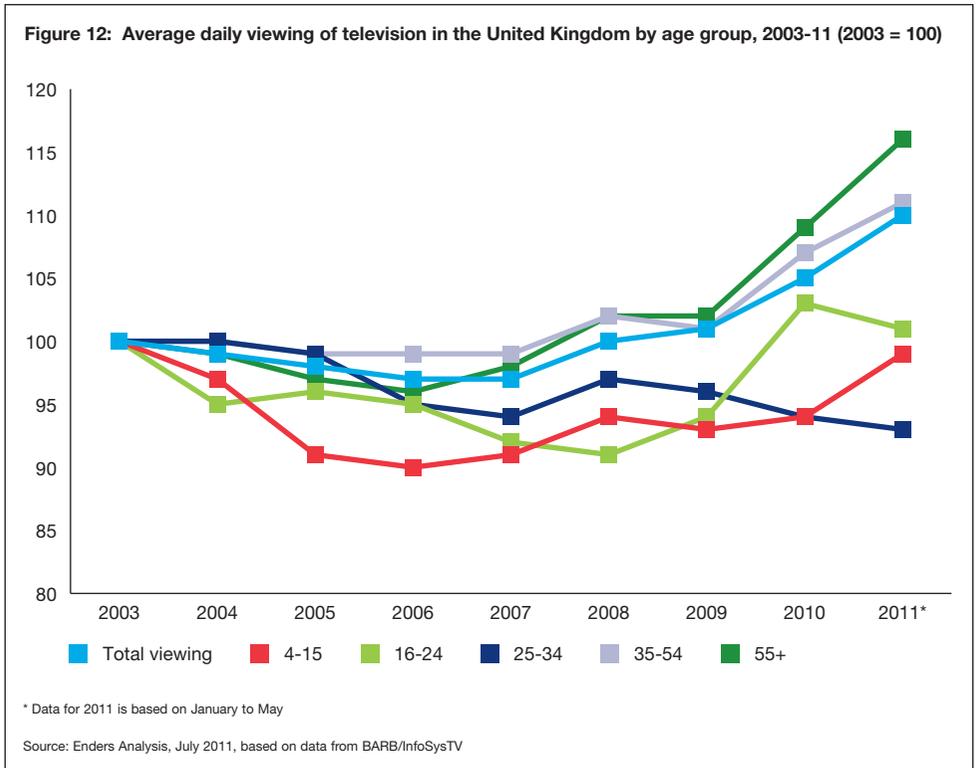
Figure 11: Frequency of doing other things while watching television



Question: How often do you do the following while watching programmes on your television set?

Source: Deloitte/GfK, June 2011. Sample: 2,000

Given the frequency of usage of the Internet one would expect that television viewing figures should suffer accordingly. In 2003 over two-thirds of Internet subscriptions were on dial-up; broadband penetration was 17 per cent.⁴² It is now over 75 per cent.⁴³ Over the same period overall consumption of TV has risen by ten per cent (see Figure 12). Among some age groups, consumption of television has declined, but only moderately. This would suggest that watching TV and browsing the Internet can take place concurrently.



Technology has been neither nemesis nor panacea. Overall it has been positive for the industry.

The one constant for the television industry, as with other media sectors, is that technological advance will unrelentingly evolve the way in which we consume television, as well as influence the underlying business model.

However profound changes, from TV screen technology to 3D production, will be additive as long as they enhance what TV excels at: delivering world-class audio visual content.



TV+ advertising

The viability of the television advertising model is perennially called into question.

Yet over the past five years its share of all advertising revenue has grown, despite its absolute value falling in 2009.

Television advertising suffers, arguably, from a perception crisis. It is categorised as a traditional medium, alongside newspapers, magazines, music and radio. For some, being traditional signals that it is ripe for disruption. And disruption has already occurred in various sectors of traditional media, such as recorded music and classified advertising.

Technology is the most common instigator of disruption. Much of the technological progress that has occurred over the past few years might impact, in some ways, television and one of its three main sources of funding – advertising.

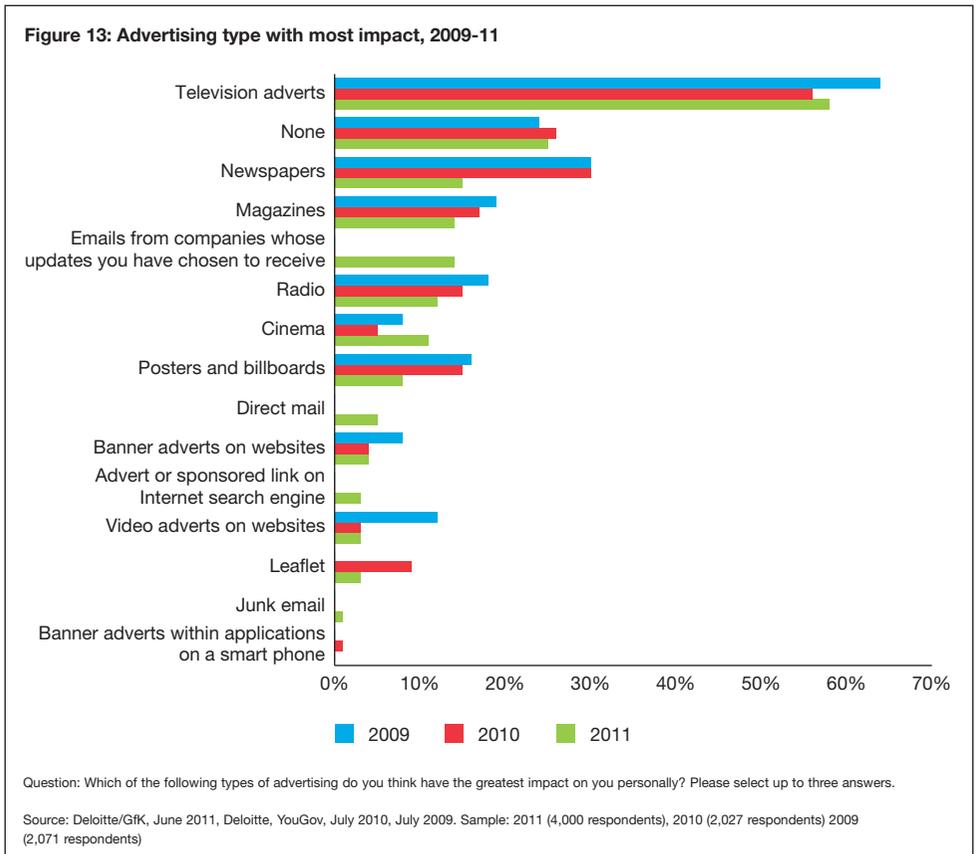
The Web competes with television for attention, it is perceived. Online advertising competes for marketing budgets, it is alleged. Moore's Law – an observation of the steady decline in the cost of technology – enables devices such as PVRs to become ever more affordable and thus television adverts, in theory, to become ever more avoidable.

And to compound the challenge, technology is adopted most quickly by the youngest age groups – often those most sought after by advertisers.

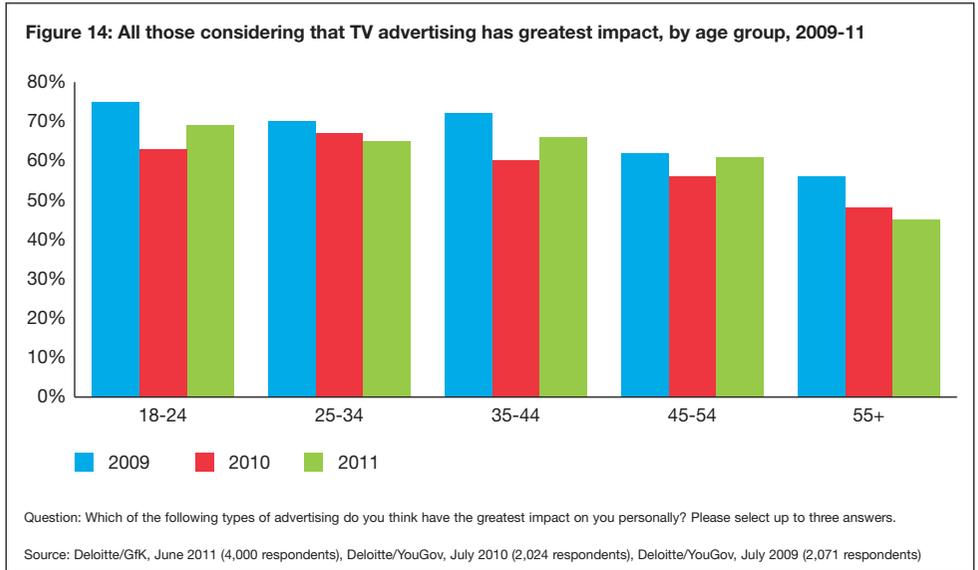
Yet television advertising, in a post World Cup year in which TV advertising revenues grew 14 per cent, in an economy which is showing moderate growth,⁴⁴ in a market in which PVR penetration exceeds 50 per cent and half of whose owners claim to fast-forward through all pre-recorded ads,⁴⁵ is still expected to grow in 2011.⁴⁶

TV advertising's continued strength in 2011 can be attributed to three main factors: companies need to advertise; television excels at the brand-building and awareness-raising component of this and in general, most of us are accepting, if not (quietly) appreciative, of television advertising, with younger age groups being TV ads' strongest protagonists.

The television advert has, since 2009, been rated consistently by respondents as the advertising type with the most impact (see Figure 13). It has led throughout by a significant margin. The results from the surveys run for the Festival have been commensurate with other surveys undertaken over the past three years in the United Kingdom and other countries around the world. Television adverts' number one ranking reflects two key factors: high production values for many TV ads and the fact that we spend a quarter of our waking hours watching television.



As in previous years, the impact of TV advertising was highest among younger age groups – and lowest among older age groups (see Figure 14).



Among those with a favourite advertising campaign over the past year, 80 per cent said this was a TV-based campaign.⁴⁷ No other medium polled more than three per cent. The response to this question was similar to that seen in 2010.

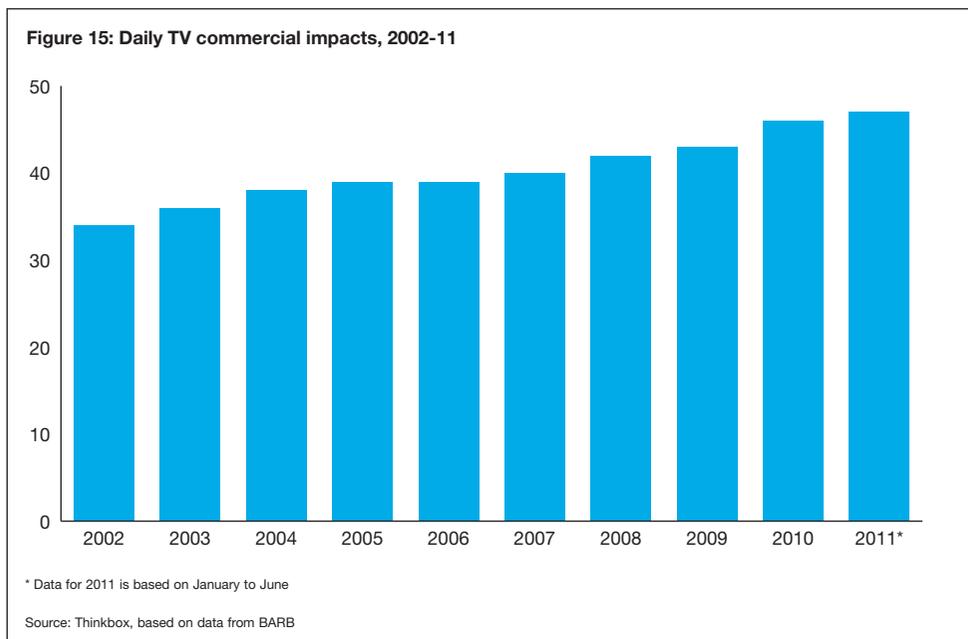
Television advertising is by no means invincible: it will have to keep on competing for ad display budgets with existing and emerging competitors. But neither does it appear to be in terminal decline, nor is it incapable of improvement or even reinvention.

Critically, for now, it remains competitive at delivering the key attributes of display advertising: highlighting, persuading and influencing. While online advertising has grown strongly for a decade, it has largely been at the expense of other traditional media.

Advertisers using television ads, media agencies selling TV commercials and broadcasters' sales houses need to have a pragmatic, considered view on what each advertising medium can do on a per campaign basis. Multiple advertising media exist and are sustained because they are diverse: each medium is optimal for a specific marketing objective. This is why the most successful campaigns tend to run across multiple media – each complementing the other, each reaching the target audience in a different context, but all conveying the core message.⁴⁸

Therefore it should not be a question of, say, Internet or television: for some campaigns this may be akin to determining whether to paint a colour portrait with either black or white paint.

Looking to the future, as television production techniques improve, the audiovisual impact of ads should increase commensurately. If the quality of ads rises, and if hours viewed maintains its upward trajectory, the number of commercial impacts per person per day, up over a third since 2002, could continue to grow (see Figure 15). The best TV ads are, arguably, more akin to songs than to programmes. If brief and memorable, they can be consumed dozens of times without wearying the audience. In short, watching more commercials per day is not necessarily an issue if the ads are watchable.



New forms of television advert are likely to emerge, including the revival of interactive ads and the arrival of targeted ads. This is, in principle, a good thing: the TV advertising offer should always be iterated and enhanced. All innovations can have an impact, but these will be on the cost as well as the revenue side. The industry needs to ensure that it evaluates the true potential and likely investments of each new advertising format before taking major strategic decisions, or projecting major new revenue streams.

TV+ shopping

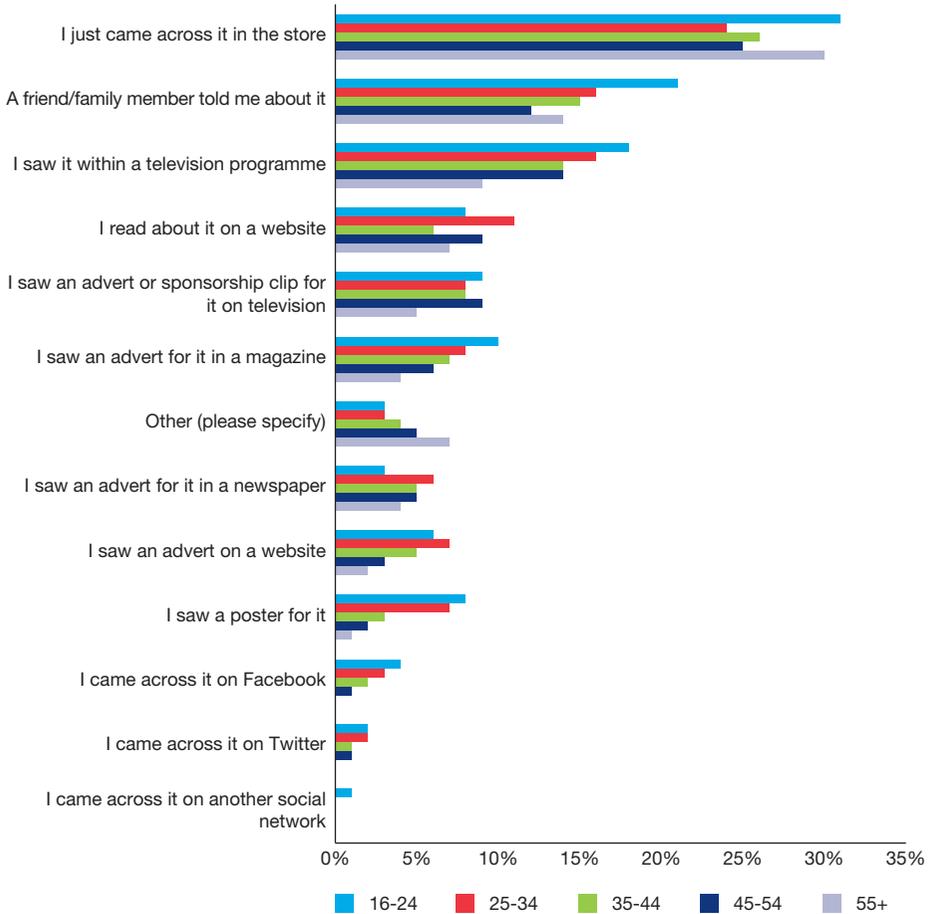


Television has long been recognised as a potent marketing tool, not just for its advertising slots, but for the impact that a person's or product's appearance on the platform can have. The music we own, toys in our children's bedrooms, ingredients in our fridges, the way we dress, the vernacular we use, the look of our living rooms: all of these are likely to have been influenced by what we have seen on television.

One in five 18-24 year olds found out about and then purchased a new product or service because they had seen it on television. There were only two more powerful influencers: coming across the product or service in a store and recommendations from friends.

Television's ability to raise awareness is stronger than all other forms of media. Even social networking, which is the most common specific activity people undertake while on the Internet and viewing TV, does not appear to be anywhere as influential on purchasing behaviour as television. Few of our respondents, across all age groups, have discovered and then purchased a new product or service via a social network relative to those who saw it on a television programme (see Figure 16).

Figure 16: Drivers of discovery that lead to purchase of new products and services by age group

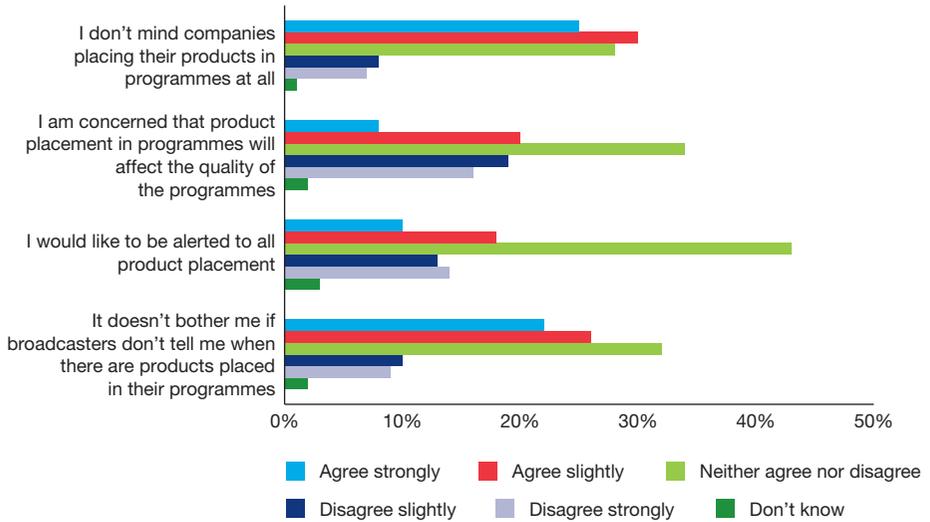


Question: Please think about the last product or service you bought that was not a routine purchase. By this we mean the product or service was new to you. Which, if any, of the following best describe how you found out about this product or service?

Source: Deloitte/GfK, June 2011. Sample: all respondents (2,000)

Product placement, still relatively nascent among UK originated television productions, may further bolster the ties between what we see and what we buy. The UK public appears quite accepting of this marketing technique. Over half of respondents do not mind products being placed in programmes they watch and only 15 per cent object.⁴⁹ Just under half are not “bothered” if the use of product placement is not signalled. More respondents do not believe product placement affects programme quality than those who do (see Figure 17).

Figure 17: UK attitudes to product placement



Question: Using the following scale, please tell us the extent to which you agree or disagree with each of the following statements?

Source: Deloitte/GfK, June 2011. Sample: all respondents (2,000)

Today, television informs and persuades our purchasing decisions. But it does not transact.

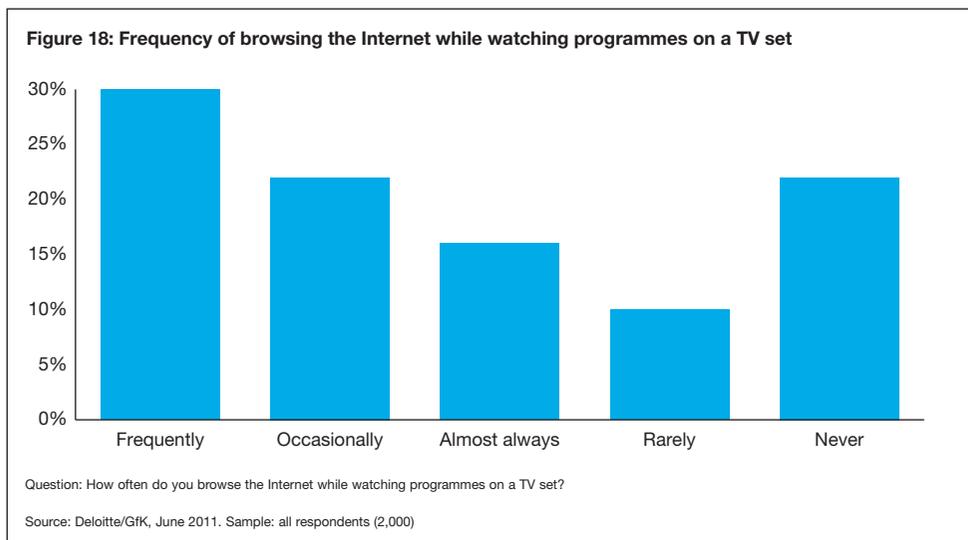
There have long been concepts of how television and purchasing might be more tightly integrated. One vision foresees us pointing our remote controls at the TV screen to select and buy the news presenter's tie. The majority of the technology required to deliver on this concept has existed for several years. But this approach to blending TV and sales is unlikely ever to be manifested. It would be complex to deploy, cumbersome to use and expensive.

While the convergence of TV and shopping may not occur within the television set, it is quite likely to happen in the living room. Three trends are likely to drive this.

First, there is the UK's fondness for connected computing devices: MP4 players, computers (tablet, laptop and desktop) and smart phones. In some UK living rooms, connected screens already outnumber scatter cushions. Among survey respondents, tablet computers are as likely to be purchased as HD televisions over the next 12 months.⁵⁰ A connected, browser-equipped device – even one the size of a smart phone – is akin to a digital till sitting in our laps.

Second, consumers are increasingly likely to watch TV while browsing the Web at the same time. Almost half of survey respondents now browse the Web while watching programmes on a TV set “almost always” or “frequently” (see Figure 18). Just under a quarter never do; among 18-24 year olds, the proportion falls to three per cent. A year ago, 38 per cent of all respondents never blended the Web and TV,⁵¹ and of those who did, about half did so only occasionally.⁵²

Third, there is e-commerce, which in the United Kingdom is among the highest per Internet user in the world.⁵³ E-commerce currently represents about ten per cent of all retail sales and is growing at almost 50 per cent year-on-year.⁵⁴ Growing connectivity speeds, increasing capabilities of websites and rising fuel prices may all drive further e-commerce revenues.⁵⁵



In fact, among those who browse the Web while watching television, shopping is the second most common specific activity, undertaken by 45 per cent of this group and 50 per cent of all women. This matters given one of the major new trends in shopping practice, Internet-based research prior to purchase, as well as a more established behaviour: the impulse buy.

Television, via a programme or an advert, can provide the impulse. Connectivity allows consumers to search for positive reviews, a reasonable price and a reliable supplier, and to complete the transaction itself – all within the space of an advertising break.

Today television appears to exert a significant influence on purchasing decisions made within the living room (as well as on the high street). The value of that influence may well grow over time, in line with e-commerce revenues.

The industry should be considering how best to react to this opportunity; however the optimal response is not straightforward. Taking a share of the transaction value may precipitate an undesired wholesale shift to commission-based advertising. Given television's role in brand-building, such a move could be counter-productive. Making programmes that are perceived as overtly created to sell merchandise may trigger a viewer backlash.

However the reality is that television is highly persuasive, e-commerce is vibrant and the TV sector should always be open to new revenue opportunities.

About the research

Deloitte has produced this report as part of its continuing support for the MediaGuardian Edinburgh International Television Festival (MGEITF). This is the fifth year in which Deloitte has supported the Festival.

Deloitte's roles and responsibilities have entailed the research, writing and publishing of this report. The principal research inputs include:

- discussions between March and July 2011 with executives, investors and analysts working in and with the television industry in the United Kingdom, the rest of Europe and North America.
- an online survey of 4,000 respondents, undertaken by GfK and based on a question set written by Deloitte and GfK reflecting inputs from industry executives. Fieldwork took place during June 2011. The survey was modularised and the sample split in half so that a representative sample of 2,000 respondents answered each of the two sets of modules. This modularised approach was implemented to ensure quality of response throughout the entire questionnaire. Respondents were sampled/weighted to reflect the UK adult population (16+).
- copious consumption of television.

Existing analyses of the television industry, including previous years' reports for MGEITF, are available from www.deloitte.co.uk/television or please contact paullee@deloitte.co.uk

The research themes were determined through consultation between Deloitte, executives from the television, general media, technology and telecommunications industries, GfK and the MGEITF.

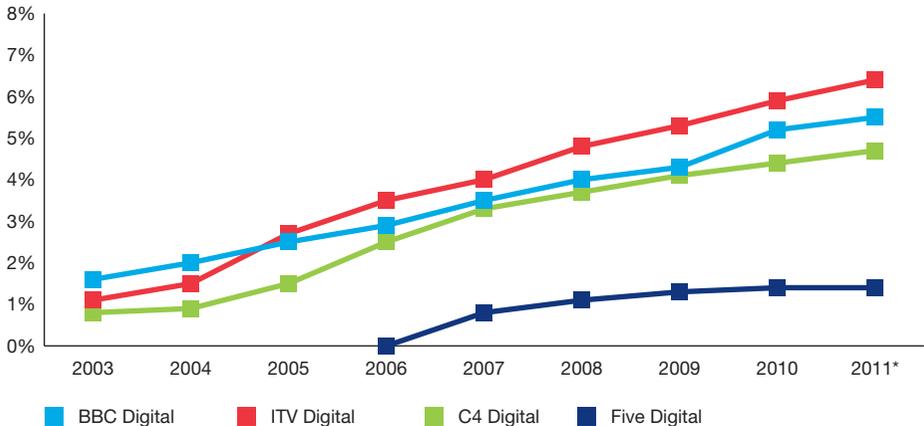
Views expressed by third parties providing input for this report are not necessarily those of Deloitte.

Notes

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Figure 19: PSB digital channels share of viewing, 2003-11



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Source: Enders Analysis, July 2011, based on data from BARB/InfoSysTV

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Can television maintain its super medium status?

In this year's perspectives we look at several key aspects of television to address this question. Can television viewing per person continue to rise? Can television survive the threat from the rise of social networks? Is television disrupted or enhanced by technology? How will TV advertising fare given the alternatives? And finally, can television enhance its direct impact on shopping?

