

From Offline to Online? – An Empirical Analysis of Video Advertising Spending Behavior

Abstract

Video-on-Demand (VoD) – both advertising financed (AVoD, e.g. YouTube) as well as paid-for-by-users (PVoD, e.g. Netflix) – show tremendous growth in consumption. In various countries, there seems to be a movement away from linear towards non-linear service providers, particularly driven by the young(er) consumers. This makes it attractive for new services to enter the VoD market (e.g. Disney+, AppleTV+). Additionally, traditional television players expand their activities (e.g. in Germany TV Now, Joyn), focusing on hybrid (PVoD+AVOD) forms of financing. A large part of the VoD research so far has particularly focused on the user side and their shifts from linear towards non-linear video providers à la YouTube and Netflix.

To the best of our knowledge, little research so far was conducted on the advertising side. However, since advertising-financed business models represent platform markets, the advertising side represents the major revenue source here (e.g. free commercial TV, AVoD). In line with platform economics, changes on the user side cause effects on the advertisers. Due to users' shift towards online video platforms, advertisers have an incentive to follow their target group ("follow eyeballs"). Additionally, advertising on online video platforms enjoys advantages over traditional television (e.g. better targeting opportunities, performance-based payment). Both developments threaten the traditional revenue model of the television industry with decreases in advertising spending already observable – in contrast to increases in digital media. This article contributes to filling a research gap by addressing the following research questions: 1. Which video platforms do marketers use for video advertising and why? 2. What are the actual changes in spending behavior and what is the projection? 3. Do advertisers have different communication objectives for different channels? 4. Which KPIs are relevant to measure the performance of the video platforms?

The paper is based on an empirical analysis drawing on a quantitative online survey among 65 marketing experts (B2C+B2B) in Germany, conducted in February 2020. Among others, the findings reveal that over 80% of the respondents regard video advertising as highly important to indispensable and that spending for video advertising already has and is said to further increase in the upcoming 5 years. Though the majority of the companies still advertises in traditional television, almost 40% do not consider this advertising channel (anymore), with shifts in spending being observed from television towards digital platforms. The greatest importance is put on digital channels, particularly Social Media (e.g. Instagram), digital video portals (e.g. YouTube), and own websites. Furthermore, the study reveals both similarities in communication objectives across different channels and differences, especially between television and digital platforms (e.g. digital platforms: reaching a younger target group, higher personalization and interaction opportunities vs. television: conveying emotions, sales promotion and reaching an older audience). The findings provide helpful insights for media managers and economists. Next to a better understanding of the video advertising market, this includes actionable knowledge on how to design video platforms – online and offline – attracting both users and advertisers, thus responding to changing demands of these players, who often represent a major revenue source for media companies.

Keywords: video platform markets, video advertising, YouTube, platform economics, media economics