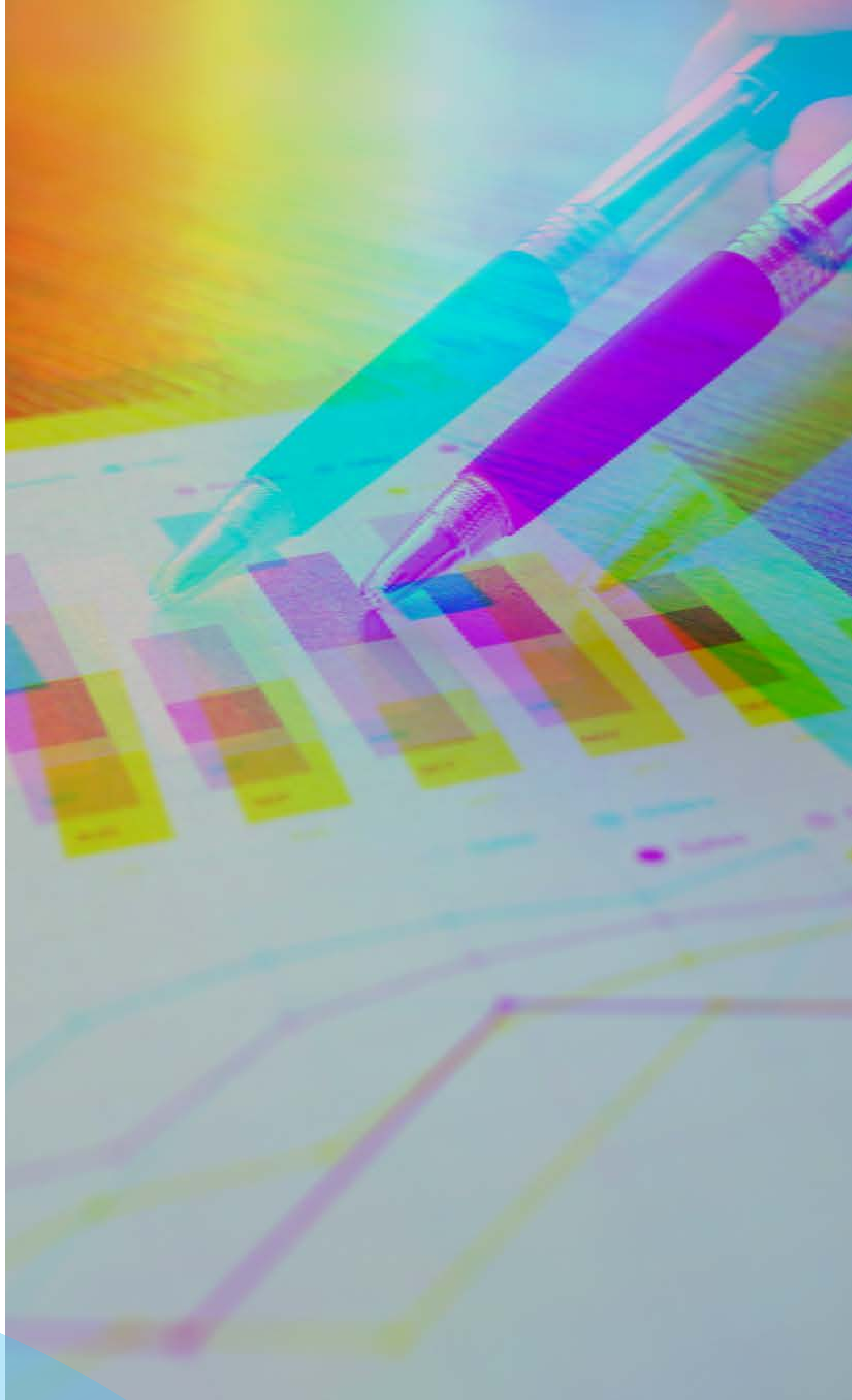
Mitigating media inflation in 2022

THE KITE FACTORY

As we exited 2021, one of the dominant themes in the media has been the return of inflation. House prices? Used car prices? Grocery prices? All up. Black Friday saw headline discounts, but these were much smaller year on year, averaging only 12% vs. the average 27% offered last year. Inflation is now so prevalent globally that the FT is tracking it across multiple countries.

Inflation in the UK, USA and Germany all higher than for the last decade

Source: FT/Refinitiv



Supply and demand

In the case of the Consumer Price Index, this is a perfect storm. Demand has been fuelled by consumers' pent-up savings, with an extra £128 billion saved throughout the lockdowns and a further £40 billion not spent on overseas travel in 2021 (and unlikely to be spent in 2022).

Supply chain issues have been well documented. Of course, each industry has its woes (think cars and the global crisp shortage), but they all have one thing in common. The price of shipping any form of goods from manufacturer to retailer is some 50% higher than during the last few years.

The Baltic Dry Index (essentially the daily measure of the cost of shipping goods by sea) is down from its ludicrous high in October but is rising again as we enter 2022. This is as good a bell-weather as any for the shortage of goods exacerbating the heightened consumer demand and spending power.

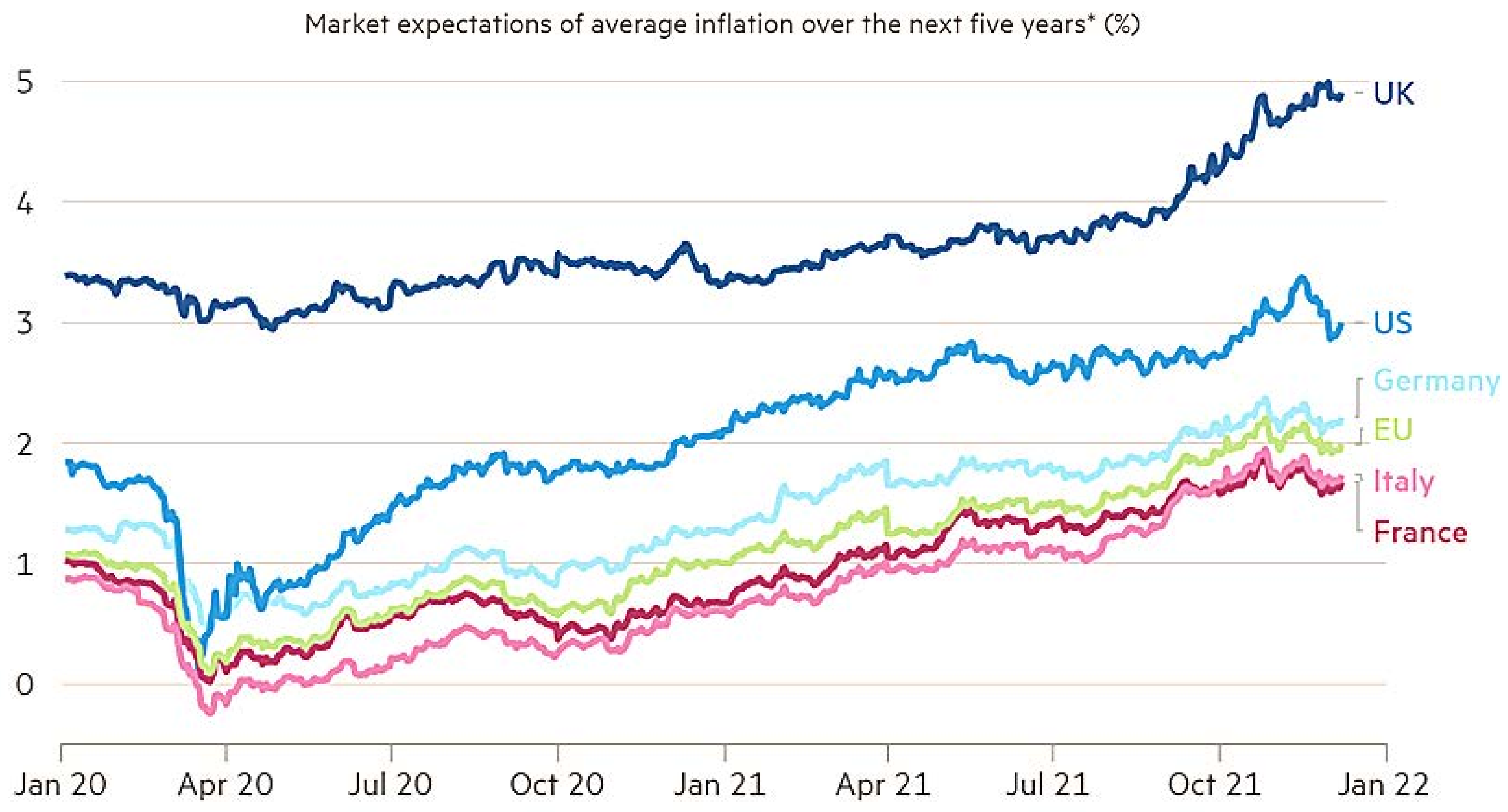
Baltic dry Index 2017-2021

Inflation is likely to be here to stay for the medium term

Apart from cause and scale, the other debated aspect of inflation these last few months is how long it will last. Initial assessments suggest inflation would be transitory - consumers would spend their savings, and supply chains would catch up. This is no longer the dominant view, with money markets hedging against future inflation using derivatives or swaps.

As the chart to the right shows, the market's expectation of inflation in five years has risen from 3% back in May 2021 to 5% by December. So if the financial markets are correct, then inflation is baked into the cost of goods and wages until the back half of this decade.

Financial markets expect inflation to be at 5% in 2026



Source: FT/refinitive

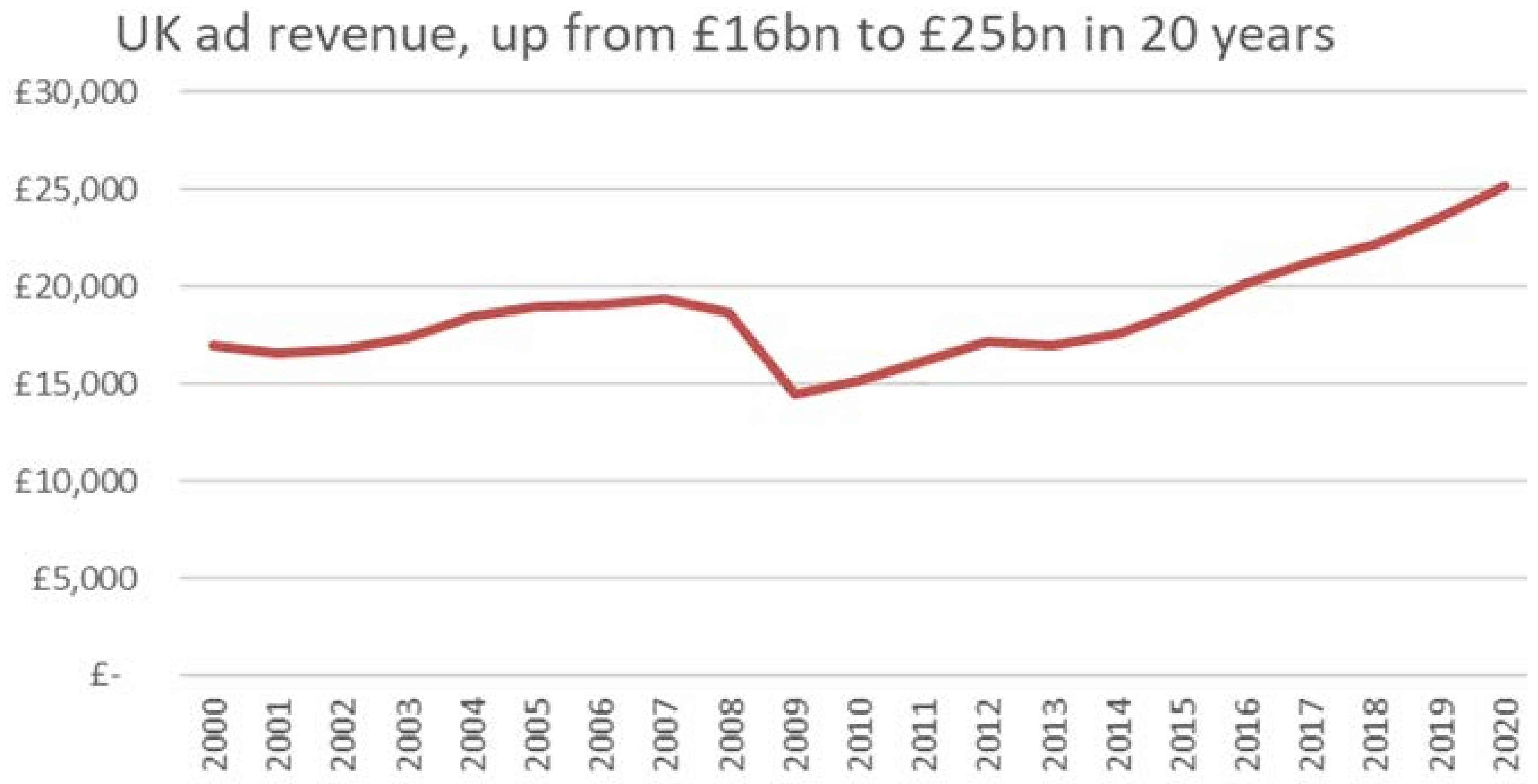
Media prices will also be subject to inflation this year

The price of media will rise significantly (>10% YoY) for the first time this century. Of course, like all other goods and services, it's determined by the interaction of supply and demand. But while we may be used to a rise in demand, supply shortages are a new experience for us.

With the exception of the Dot.bomb and the financial crisis when the market briefly reversed, demand for media has risen every year over the last two decades by between 1% and 8%. The graph to the right shows total UK advertising revenue across all channels reported by the Advertising Association and WARC each year. In just two decades, the demand side of the inflation equation has grown by 48%.

But the last twenty years have been a benign period for media inflation, much as in the wider world.

Two decades of growth in demand for media space & time



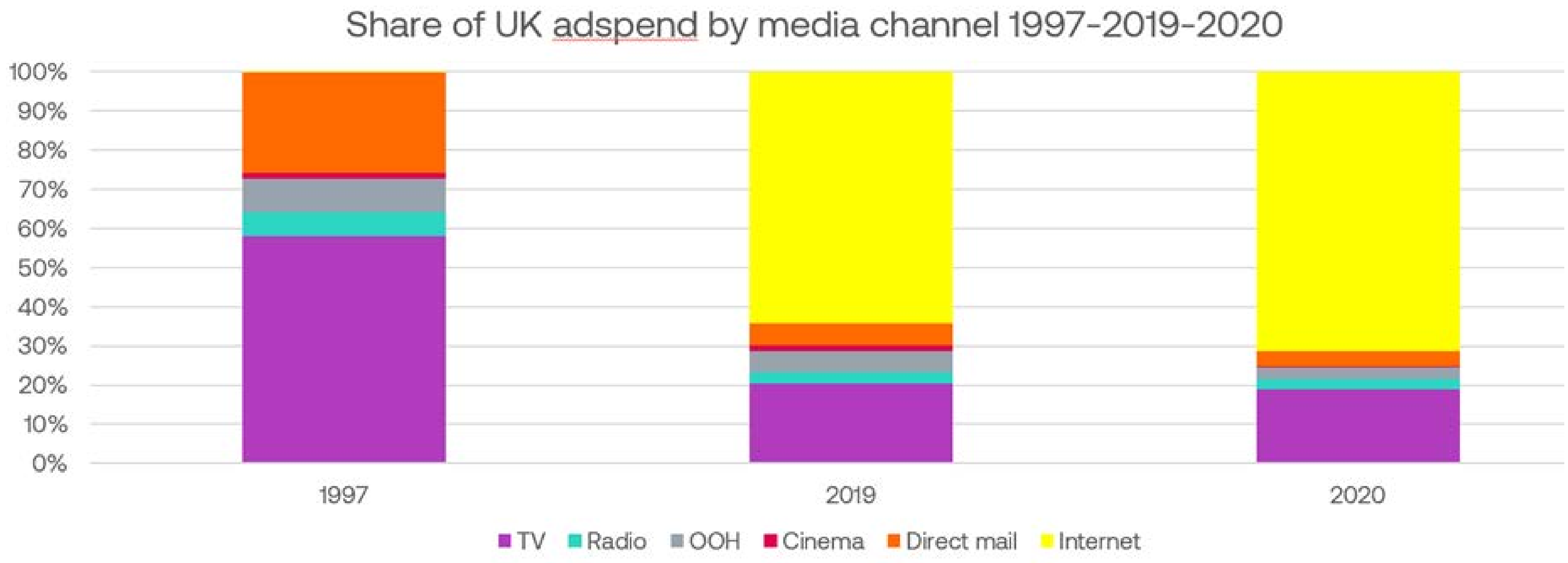
Source: AA/Warc

Media inflation has been mitigated by an increase in supply, until now.

The last two decades have seen one of the biggest increases in the supply of media in history. Back in 2000, neither broadband nor smartphones were available to consumers. The explosion of digital media across search, social, and now transactional sites has increased the number of minutes we all consume media daily and, therefore, the number of commercial opportunities. For example, TV channels are limited to nine minutes of advertising per hour, whereas YouTube and Facebook face no such restrictions.

Advertising revenue has followed these new eyeballs. The internet accounted for only 0.1% of UK ad revenue in 1997. By 2019 that had reached 61%, growing at an average of some 3% points each year. In 2020 the growth rate more than doubled, adding 8% points to touch 70% of all ad revenue.

Revenue has followed supply: as a result keeping aggregate CPM's low



Source: AA/WARC UK advertising expenditure reports 1997-2020

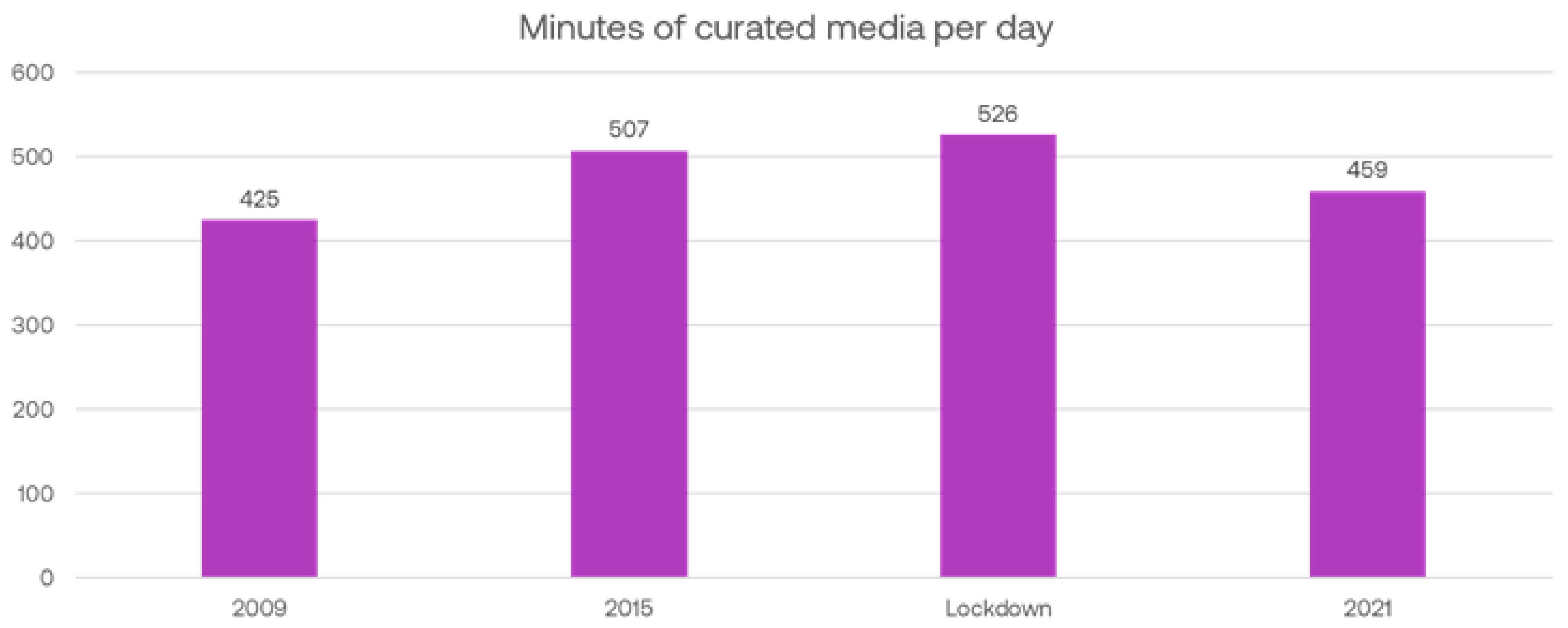
As with real world inflation, we have had two decades of Cinderella perfection. Revenue growth which has funded new content and innovation, which in turn attracted new eyeballs so that price inflation has been limited.

Unfortunately, the fairy tale seems to have taken a turn for the worst. The graph on the right shows the number of minutes per day the average UK adult spent with "curated" media channels, i.e., those with content, in 2009, 2015, during lockdown, and then in late summer 2021.

Both Ofcom and IPA Touchpoints have recorded a steady increase in the time we spend with media each day, both in real-time and in time elapsed. As more media becomes available across different devices, we have consumed multiple media simultaneously. The graph below shows the rise of minutes of media consumed per day up until this year. And then it shows a dramatic fall.

This trend peaked in lockdown last year and in Q1 2021. Then the UK consumed the equivalent of 2.5 trillion minutes of media more than in 2009. That's a lot of advertising. Unfortunately, though, due to a combination of returning to real life (less television); less radio listening (as we aren't commuting); less time reading physical newspapers and magazines (we got out of the habit of buying them as we shopped less frequently); and less time in cinema, the vast majority of the anti-inflationary increase in supply has been reversed.

The time we spend with curated media is back to 2009 levels



Source: IPA Touchpoints

Increased demand and reduced supply mean higher prices for media

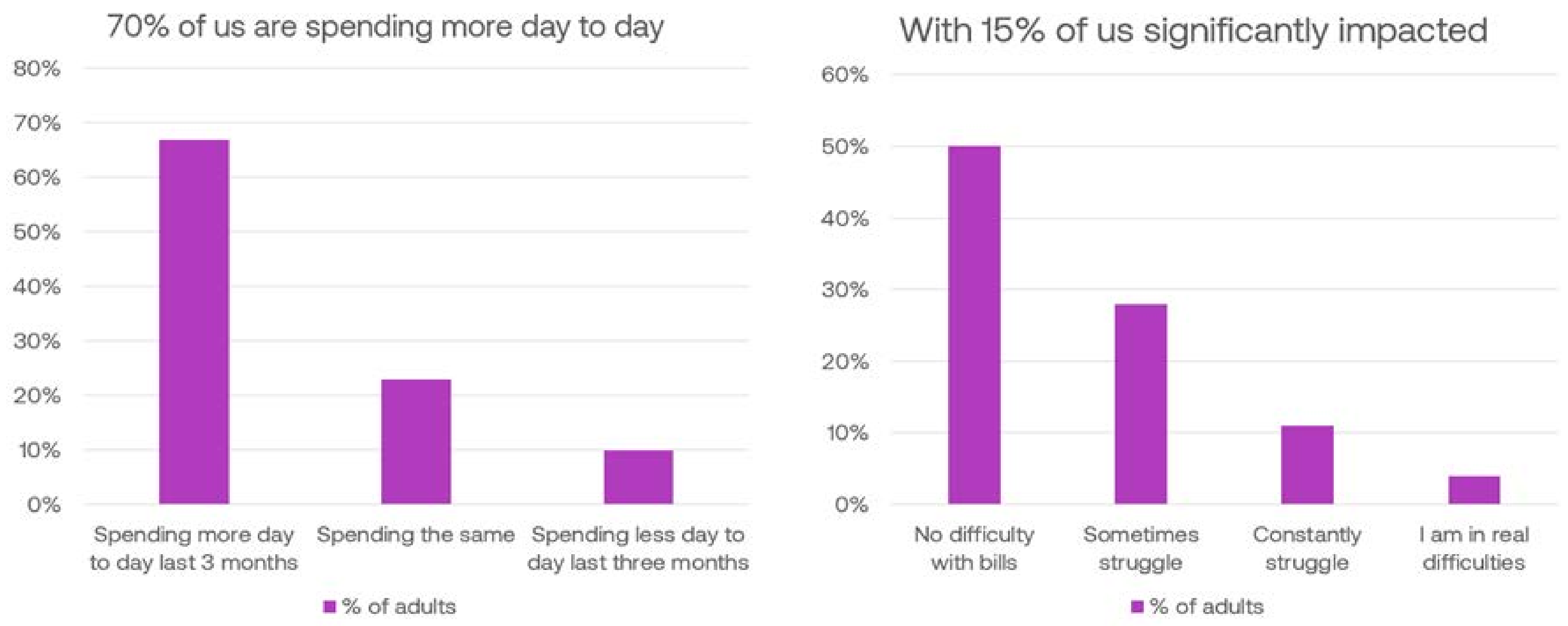
Price rises in 2022 are unavoidable. Media costs per thousand eyeballs increased in autumn 2021 and will continue to do so across all channels in 2022. Prices for impressions in search, social, display, television, newspapers, OOH, and radio will all rise year on year.

How worried should we be about this? This is a significant change for all marketers whose careers have lasted for twenty years or less, as it's the first time that media inflation has been a factor when planning investments in media. However, there are two good reasons why this is an irritant rather than a cause for alarm.

The first reassurance is that inflation is pretty evenly spread across channels and audiences, so no individual client or sector should be disproportionately affected. This is important as the key metric for long-term market growth is share of voice.

The second reassurance is that consumers accept spending more due to rising prices to date, and few of us are struggling with this. The graph below using YouGov data from November shows that 70% of adults reported having to spend more day-to-day over the last three months, with, as yet, only 15% of us significantly impacted by that.

Claimed impact of day-to-day spending demands September-November 2021



Source: YouGov profiles 28th November 2021

How can we mitigate the impact of inflation in 2022?

There is no one silver bullet that will magic away media inflation this year. However, there are several strategies that can be deployed across all channels and channel by channel.

Cross channel strategies that will mitigate the impact of inflation

We have seen two strategies drive up both ROI and volume of net revenue growth from media investments, the first being a review of measurement tools. Most performance advertisers have an overreliance on linear attribution. But with the advent of IOS14, Google's moves on cookies, and the reduction in phone response to advertising, using only linear attribution for measuring effectiveness is unwise. Adding tools such as mid-tier attribution and market mix models provide a breadth of insight that improves effectiveness. These allow cross-channel attribution in complex multichannel schedules and ensure that diminishing ROI returns are avoided channel by channel. They are also particularly useful in preventing over-investment at the bottom of the activation funnel.

The second is adding (or expanding) a zero-party data set to your acquisition strategy. With all acquisition investments, there is a degree of wastage. Broadcast media targeting builds awareness but generates response from the few in market. By building a zero-party data set and using this with addressable media partners, ROI can be built, and conversions to sales improved.

By-channel opportunities to mitigate the impact of inflation

Social

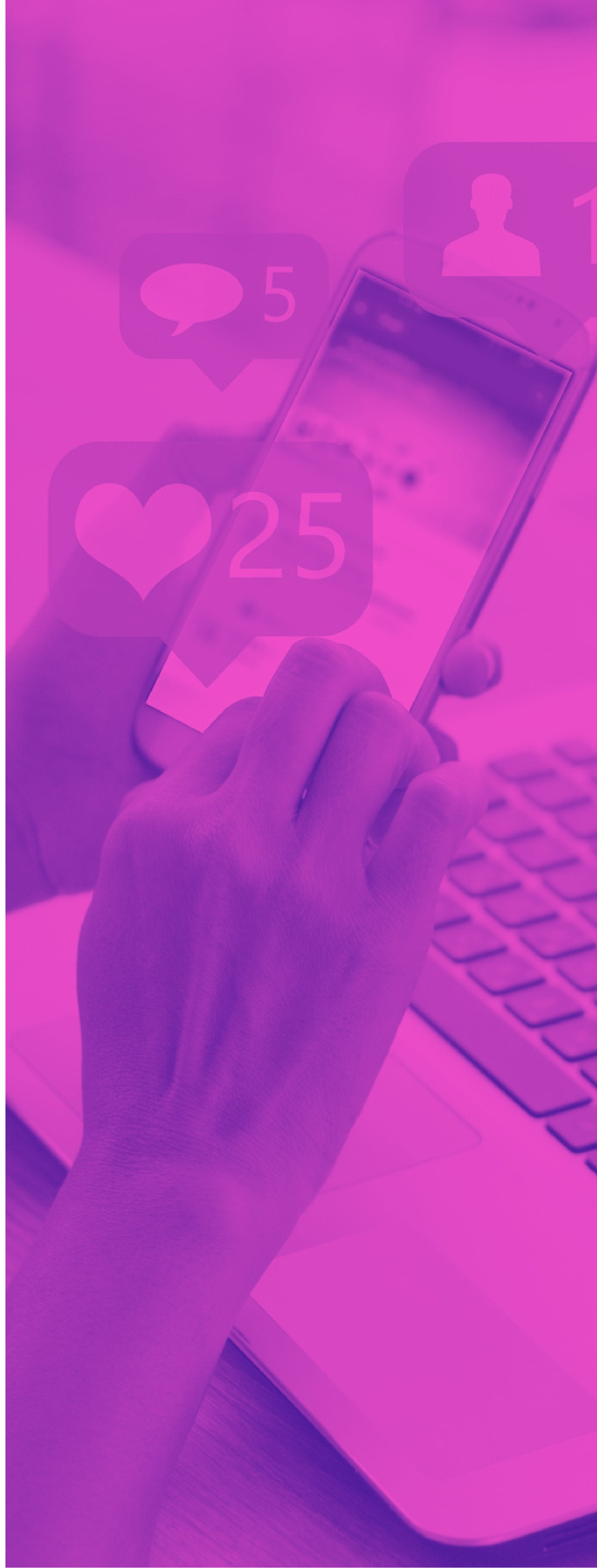
Facebook has the double whammy of demand and effective supply. Demand has risen sharply, with the number of advertisers using Facebook tripling from 3 million in 2016 to 10 million in 2020. However, the effectiveness of Facebook following IOS14 has also fallen. Some 90% of FB's ad revenue comes from mobile, with Apple having a 46% share of users. In Q3/Q4 2021, this is estimated to have driven some $8bn or 13% of ad revenue away from Facebook to other platforms. And that's just what we recommend. Don't cease advertising on FB, but reallocate a proportion of your investments. We saw greater returns from programmatic display and YouTube as 2021 came to a close.

Search

Demand for paid search is at an all-time high. Googles reported ad revenues were $37.9 billion in Q3 2021, up 44% on the same period in 2020. However, the concept of supply is a trickier one as; clearly, it's driven by consumer interest, often due to traffic-driving investments in other media.

Mitigating inflation in Google requires geeky focus on ever-changing micro hacks. Here are this month's three:

- For the next few months focus less on impression share and more on ROI generating key words, unless you are using search to build your brand.
- Focus on routing keywords and the use of exact match negative keywords when using near variants.
- Finally, avoid ECPC's, especially now the 30% bid limit has been removed.



Out of Home

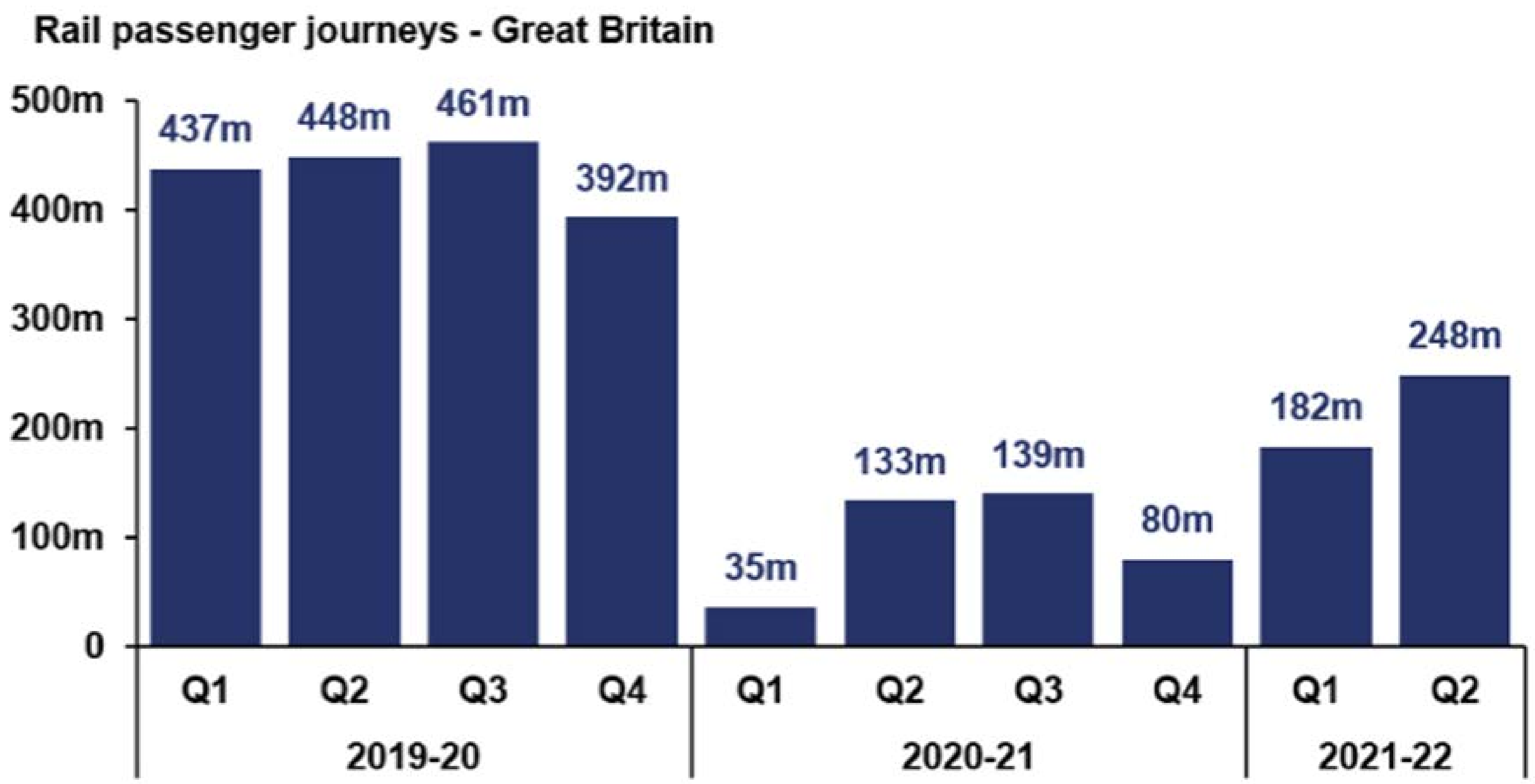
Inflation in OOH is very similar to second-hand cars - it's a supply chain issue. Back in 2019, c40% of OOH revenue went to transport. Remember when we all took trains and tubes and buses? The graph on the right uses rail journeys to exemplify how eyeballs available to advertisers on transport have diminished.

With c20% of inventory removed from the market, even with reduced demand (Q3 2021 is down by c15% vs. 2019), inflation still bites in CPM terms.

We have three mitigating inflation strategies for OOH. The first is slightly counterintuitive - invest in transport media. Demand has fallen even further than supply, and there are some (about 50% of normal levels) eyeballs. So buy them at less than 50% of historical rates, and Bob's your uncle.

The second is to use near-time granular mobility data to spot arbitrage opportunities. Buy the audience ahead of the broader market, spotting it.
The third focuses on the primary value that OOH adds to a mixed media schedule, namely quick reach build. Buy the reach and sacrifice long-tail frequency. Using video on OOH is one way to do this effectively. We can buy specific days and dayparts, minimise capital cost of the investment, and minimise long-tail frequency that analogue sites can generate.

Rail passenger numbers are c 50% down on 2019 levels this autumn



Source: Office of rail and road

Newspapers & Magazines

Newspapers and magazines in their printed form suffer from the same supply-side shortage that has hit OOH. Our habits changed, particularly our travel and shopping habits, and opportunities to buy newsstand copies of papers and magazines fell sharply, with circulations and readership numbers following suit. For the few national press titles that still publish their ABC data, we can see that circulations are down by 30% to 40% vs. two years ago. Demand has fallen, but as with OOH, there is a risk of CPM inflation.

To mitigate inflation, focus on the core role for print on a schedule. If it's for response, then it's likely that the media owner has a classified destination section, where consumers still browse for a specific product or service. Typically, one media owner will dominate a vertical market (e.g., cruises), so it may well be worth consolidating print budgets into that lead player and using digital performance media to replace the minimal reach lost by dropping other titles.

If the primary role of print is for dwell time and consideration building, then look beyond pure page advertising. Again, consolidate budgets and build a deeper partnership with a small core group of titles. Look for content creation, joint promotions, real-life events, and the use of their zero-party data assets.

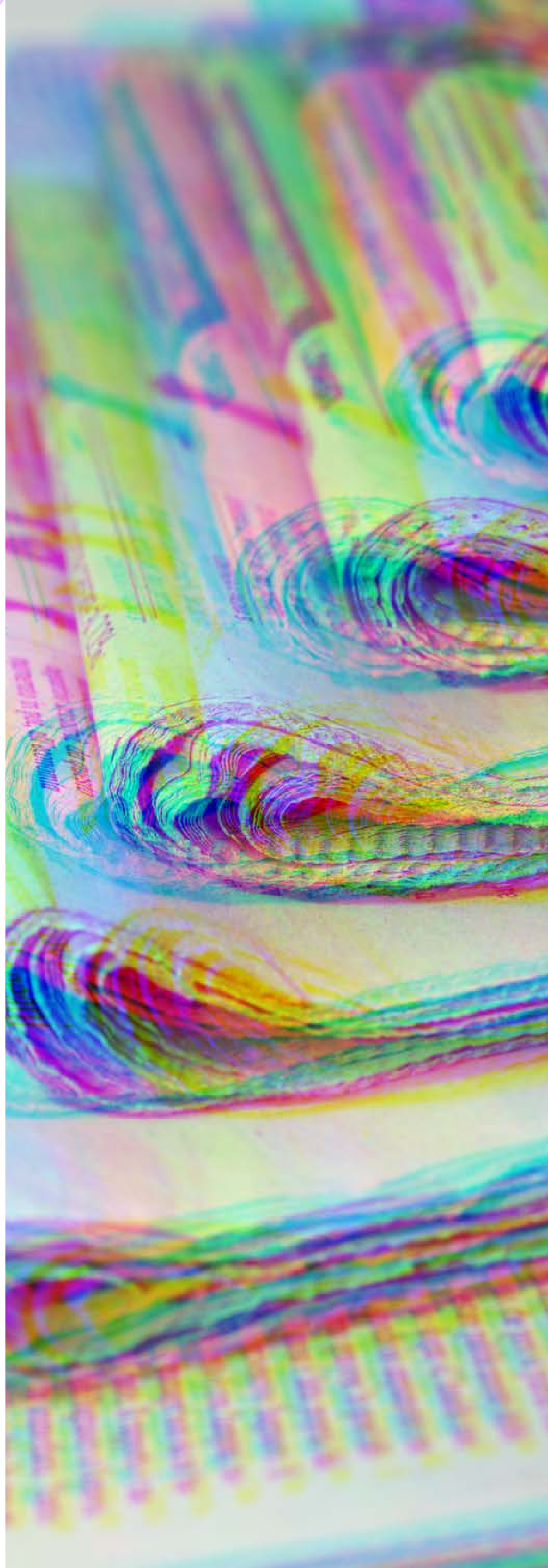
TV

Inflation in television will be second only to that seen in social and search. Demand has risen dramatically in the second half of 2021, with revenue growth of more than 28% Sept-Nov 2021 vs. 2019. That's not just recovery against 2020 losses, but a great leap forward.

Add the fall in commercial impressions as we all (pace Omnicrom) go out again, and inflation could be running as high as 30% in 2022. We recommend four actions you can take to enable the AV team to reduce the impact of these market forces on your investments this year:

- Commit budgets early. The earlier, the better and the more of the year you can commit, the better. The last two years have enabled us to give great value for short-term commitments. This year the reverse is true. Early commitment will also help ensure your audience is delivered in the phasing and profile most effective for your campaigns.

- Explore the multiple trading options and third-party platforms that are available. Barter, programme financing, Advertiser Funded Programmes, and partners such as MCap & Infinitum all can be used to gain price advantages with media owners.



- As with print media owners, explore deeper partnerships beyond straight spot buys. Sponsorships, product placement, use of Zero party data all enhance both value and effective returns from a TV investment.

- This is the year to explore moving significant budget to VOD and CTV. These have come of age in terms of reach, volume of audiences offered, and data matching. Most importantly, the price differentials with linear TV have been eroded. Audience availability means that VOD can be bought for a minimal premium against 2021 linear TV prices. This may well be a value play in 2022.

Radio

Radio has struggled over the last twenty months. Audiences fell at the start of lockdowns as fewer commuters were on the road and the trains, hitting the core drive time peaks. Unfortunately, Rajar (the audience measurement for radio) is paper-based and failed to provide audience data during the lockdowns.

Demand for local station airtime, driven by hospitality, entertainment and events, fell off a cliff. But, as with all other media bar cinema, revenue has come roaring back. Radio reach is at an all-time high, probably driven by audiences settling down to new working patterns. Demand for national station availability is outstripping local and regional demand.

Revenue for 2021 will finish c 5% up on 2019, modest compared with other channels. To mitigate this minimal inflation challenge, consider three strategies:

- Place less emphasis on drive time. With less supply, rates have risen sharply. With higher reach across other dayparts, this traditional peak is less critical in a balanced schedule.
- Review your historic station/group mix. There may be better value to be had by playing the majors off against one another.
- Book ahead. Don’t rely on the traditional short lead times in radio. These are likely gone for 2022.

TODAY'S KEY TAKE OUTS

We appreciate that this is a lengthy analysis of the market (well done if you made it through to the end), so to avoid having to repeat the read, here are the three things to remember to ensure your growth at this time:

1. Media is going to be significantly more expensive in 2022.
2. Stopping spending will put you at risk of losing your share of voice and thus share of market. Our most successful clients (and their most successful competitors) increase their media investments as consumers continue to spend and absorb price rises.
3. You can take steps to mitigate inflation on a channel-by-channel basis and across an integrated multichannel investment. To discuss the right strategies for you, please get in touch.