# ADVERTISING REPORT

ADOBE DIGITAL INSIGHTS

Most comprehensive and accurate report of its kind in industry

Based on analysis of aggregated and anonymous data

- Report based on analysis of over 1.7 trillion visits to over 16,000 websites (Jan 2014 to Jan 2017 with an emphasis in North America)
- Online video data based on 11 billion plays of TVE and 16 billion ad impressions
- Visits to 15 million job listings/gallery postings; 450 billion responses to paid searches
- ADI Summit Survey 2017: Between February 1-17, 2017 we talked to over 1,000 US consumers and over 300 US digital marketers about their views on digital advertising

Data from different Adobe solutions:

Adobe
Analytics
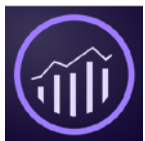
Adobe Media
Optimizer

Adobe
Primetime

Bēhance

Adobe
Marketing Cloud

Adobe
Creative Cloud

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Key Insights

|	
1	Digital advertising costs rising 5x faster than inflation
2	Competition for consumer eyeballs and new site visitors has become fierce
3	Digital channels are growing and emerging channels showing promise
4	Advertisers still not organized to deliver on consumer's advertising expectations
5	Data skills permeate creative community to unify experiences
6	Heightening pressure to protect loyal consumer base but need to efficiently steal from competition will win the game

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Digital Ad Channels Outpace Inflation by 5x

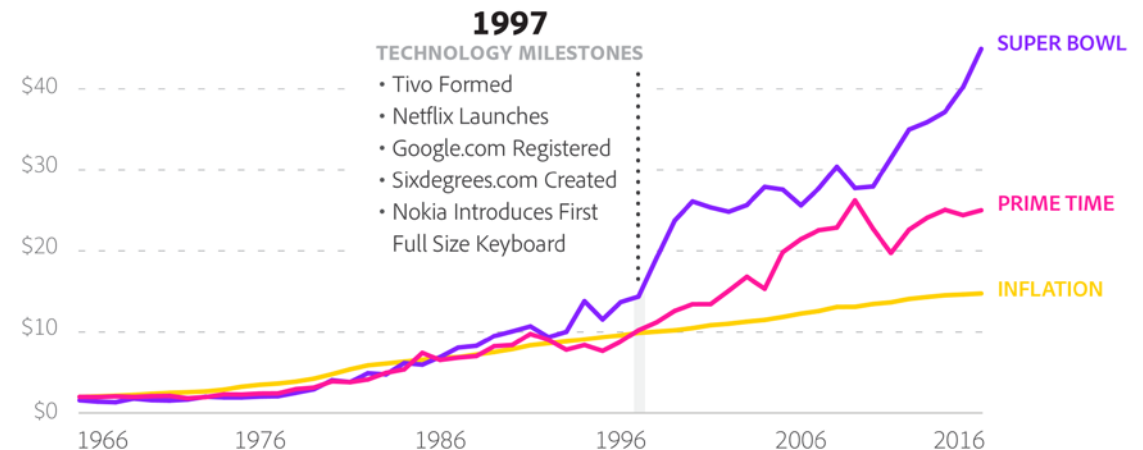## Costs of digital tactics rising faster than TV and inflation (+71% vs. TV and +500% vs. inflation)

▪ Channel average: +12% over last 2 years (Q4 '14 v Q4 '16)

▪ New Expanded Text Ads have a 50% CPC premium

▪ TVCD CPMs for video ads are 2x the cost of mobile
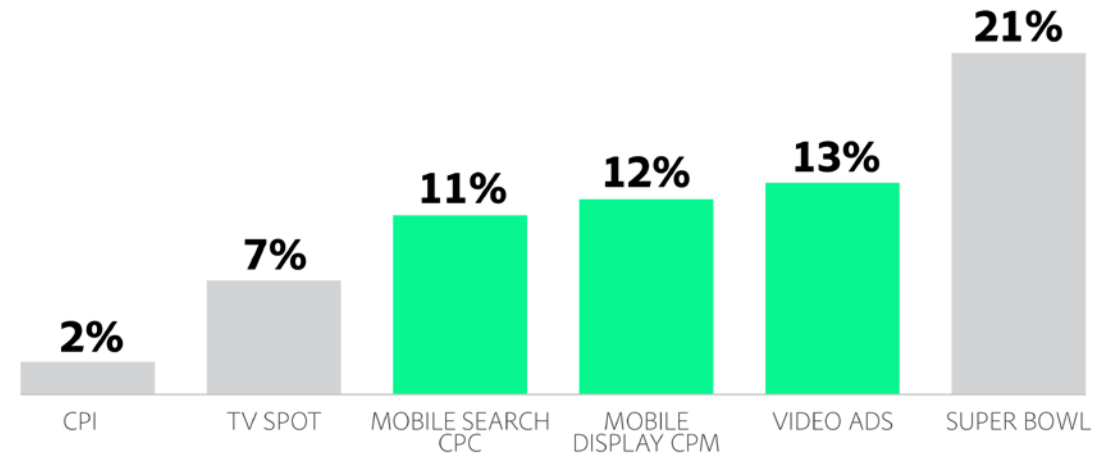
COST OF ADVERTISING INCREASE FROM 2014 TO 2016 (US)
SOURCE: ADOBE MARKETING CLOUD, VARIETY, SITEADWIKI, AND OTHERS

Advertising costs far outpace inflation since advent of digital

▪ The cost of reaching consumers on traditional TV began outpacing inflation in the late 1990's

▪ Traditional advertising costs for Primetime Television and Super Bowl advertising has increased 3x and 4.3x more than inflation since 1997
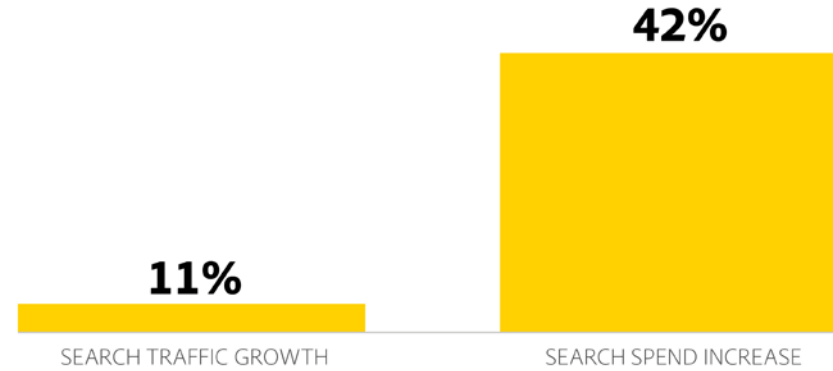

GROWTH IN TV CPM AND INFLATION
SOURCE: VARIETY, SITEADWIKI AND OTHERS

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Tried and True Channels May Be Losing Their Punch for Acquiring Site Traffic

Tried and true channels may be losing their effectiveness

- Advertisers have increased spend on search by +42% over the past two years

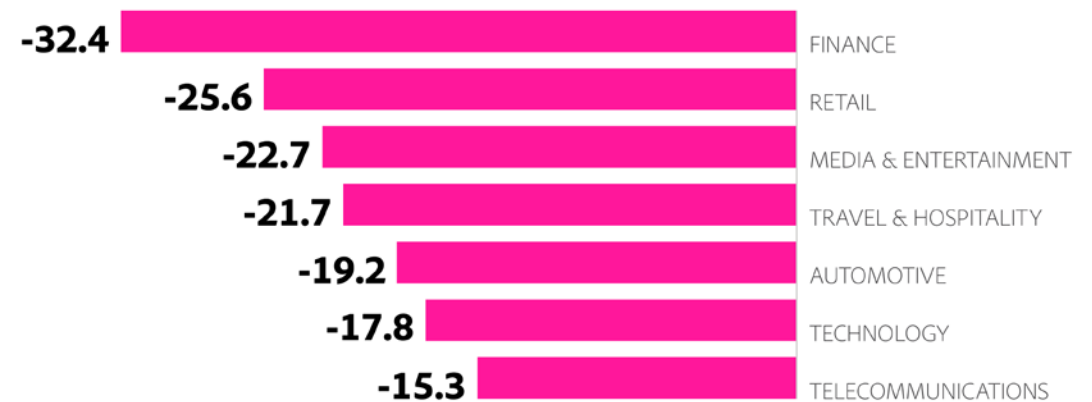- Site visits driven by search has only increased by +11%

The competition to acquire new traffic is fierce

- Total visits to US websites have declined -0.4% over the past 36 months *(Source: ADI Mobile World Congress Report 2017)*

Consumers spend less time on web sites

- Total time spent on site decreased by 22 seconds (-6% YOY)
  - Better, more efficient experiences (Finance)
  - Challenge for those dependent on advertising (Media & Entertainment)

42%

11%

SEARCH TRAFFIC GROWTH   SEARCH SPEND INCREASE

SEARCH TRAFFIC AND SPEND GROWTH (NORTH AMERICA, Q4 2014 - Q4 2016)
SOURCE: ADOBE MEDIA OPTIMIZER AND ADOBE ANALYTICS

-32.4   FINANCE
-25.6   RETAIL
-22.7   MEDIA & ENTERTAINMENT
-21.7   TRAVEL & HOSPITALITY
-19.2   AUTOMOTIVE
-17.8   TECHNOLOGY
-15.3   TELECOMMUNICATIONS

CHANGE IN SECONDS SPENT ON SITE (US, 2015 VS. 2016)
SOURCE: ADOBE ANALYTICS

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Digital Video Begins to Encroach on Traditional TV's Sweet Spot

Video viewing continues to rise

- TVE Video Plays: Increased +102% in two years

- TVE Users: Increased +110% in two years

- Monthly Video Ad impressions: Increased +3% in past year

Traditional channels are being challenged by the digital choice

- TVE viewing peaks during the evening at 9PM, precisely with traditional TV

- 50% of all TVE activity happens during the evening and Primetime (4-11PM)
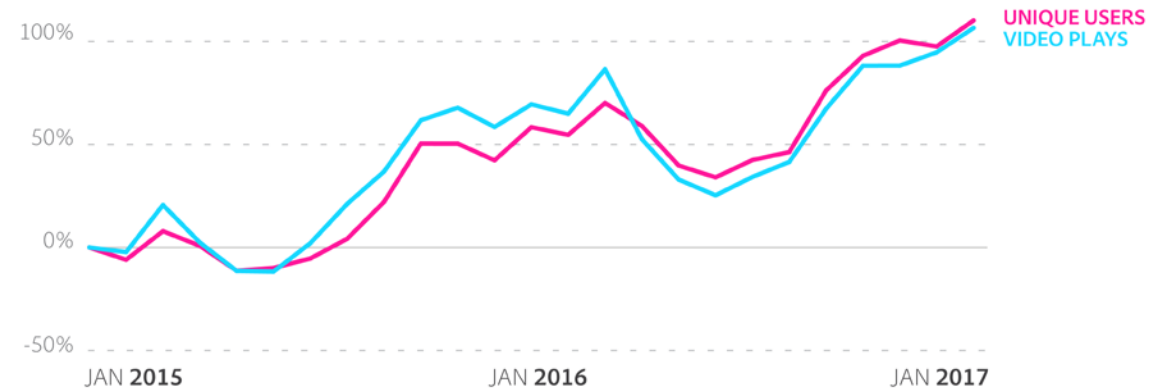
TVE VIDEO PLAYS AND USER GROWTH (NORTH AMERICA)
SOURCE: ADOBE PRIMETIME
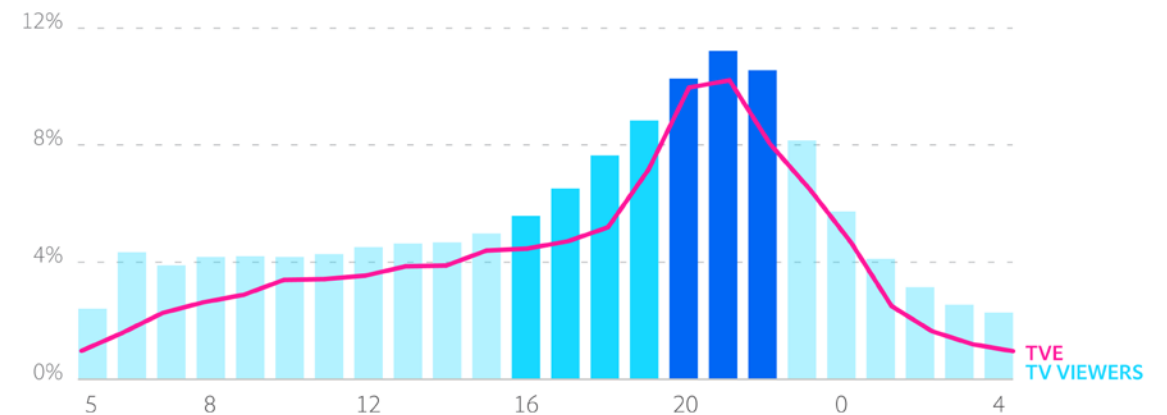
WEEKDAY TV VIEWERS AND SHARE OF TVE VIEWING (JANUARY 2017)
SOURCE: ADOBE PRIMETIME AND AC NIELSEN

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Few Marketers are Betting Big on Large Mobile Deployments

Advertisers aren't as active with video ad impressions

- Advertisers are active 25% of the time; avg. number of months: 3.7 out of 15
- Less than half the advertisers (44%) are in market half the time (8 out of 15 months)

Majority of advertisers testing with small campaigns, few are running very large campaigns

- Biggest advertisers deliver 3.0x (mobile) to 5.1x (desktop) more impressions than the typical advertiser

Large mobile clients deliver **3.0x more** impressions than the typical client.

Large desktop clients deliver **5.1x more** impressions than the typical client.

TYPICAL
LARGE

DESKTOP

MOBILE

ADOBE DIGITAL INSIGHTS 2017
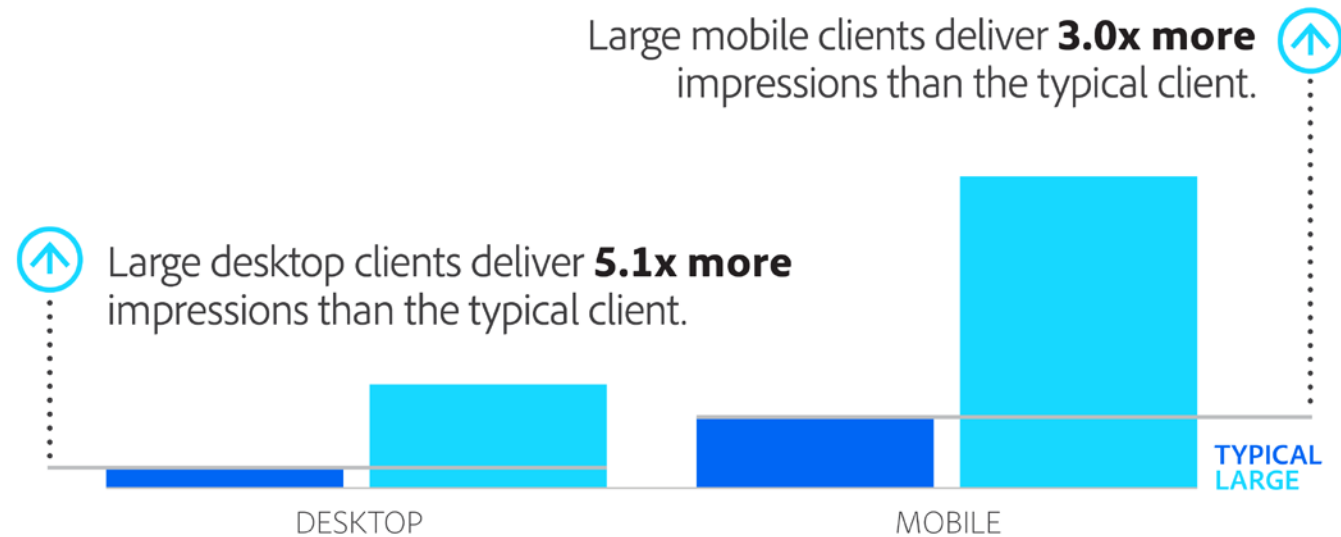
MONTHLY AD IMPRESSIONS BY SIZE (US, Q4 2016)
SOURCE: TUBEMOGUL

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New Customer Traffic Coming From Emerging Channels More and More

Social drives **2.5x** more non-customer traffic.

Social drives **2.2x** more non-customer traffic.

2.3%

1.4%

0.9%

0.6%

TRAVEL

RETAIL

CUSTOMER
NON-CUSTOMER
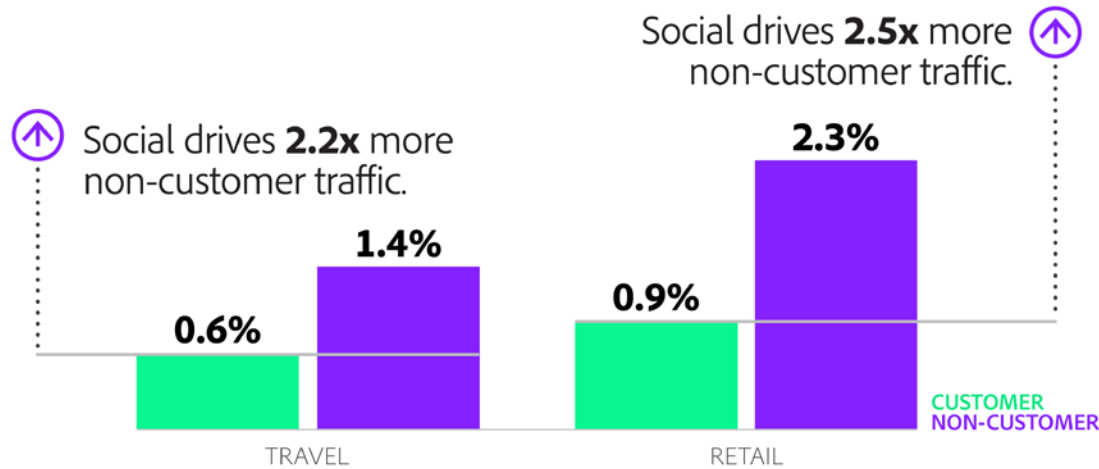
PERCENT OF SOCIAL SOCIAL TRAFFIC BY SEGMENT (NORTH AMERICA, Q4 2016)
SOURCE: ADOBE ANALYTICS

59% **58%**

43%

30%

15% **17%**

35%

50%

BROWSING FOR INFO

SOCIAL MEDIA

65+
50 - 64
35 - 49
18 - 34
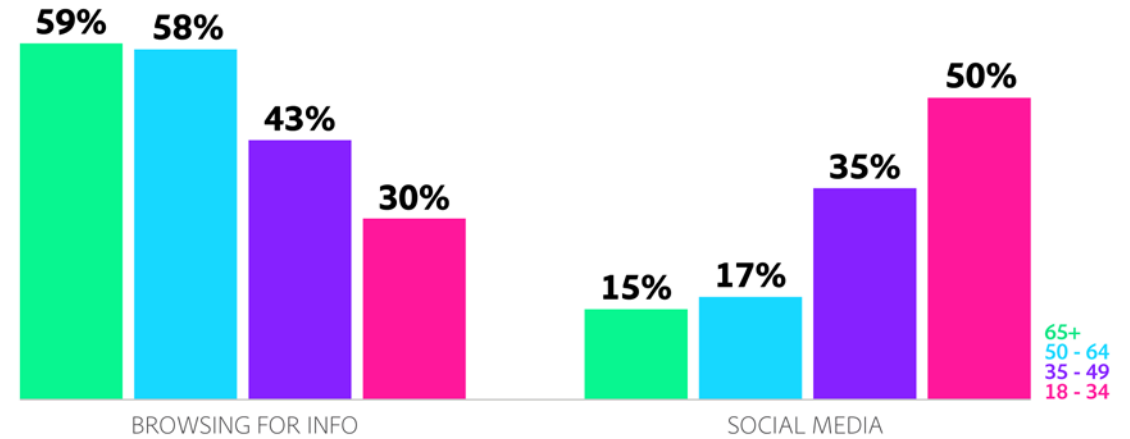
WHEN DO YOU SEE THE MOST INTERESTING/RELEVANT ADS? (BY AGE)
SOURCE: ADI SUMMIT SURVEY 2017

Emerging channels offer more potential to attract new customers more efficiently

- Social media is 2.4x as likely to be the source of non-customers vs. returning customers

Generations recognize interesting and relevant ads in different environments

- Younger generations equate social media as the source of new information

- Older generations still prefer to browse for information

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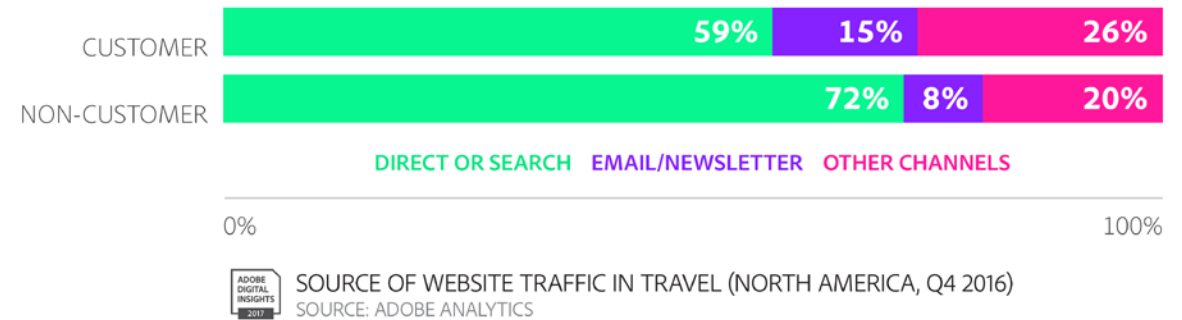# Omnichannel and Marketing Mix Differs by Acquisition and Retention

Non-customers reach sites through search or direct access and brand awareness

▪ Direct entry and search account for 7 out 10 visits from non-customers

	DIRECT OR SEARCH	EMAIL/NEWSLETTER	OTHER CHANNELS
CUSTOMER	55%	22%	23%
NON-CUSTOMER	72%	8%	20%

0%   100%

SOURCE OF WEBSITE TRAFFIC IN RETAIL (NORTH AMERICA, Q4 2016)
SOURCE: ADOBE ANALYTICS

Customers rely on marketing communications and channels

▪ Customers use memory or search about half the time (57%)

▪ They also leverage marketing communications to reach a website (19%)

	DIRECT OR SEARCH	EMAIL/NEWSLETTER	OTHER CHANNELS
CUSTOMER	59%	15%	26%
NON-CUSTOMER	72%	8%	20%

0%   100%

SOURCE OF WEBSITE TRAFFIC IN TRAVEL (NORTH AMERICA, Q4 2016)
SOURCE: ADOBE ANALYTICS

ADOBE DIGITAL INSIGHTS 2017
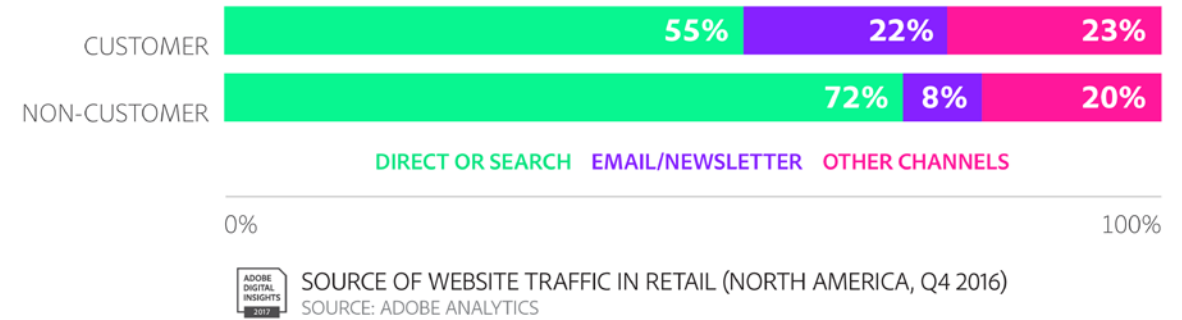
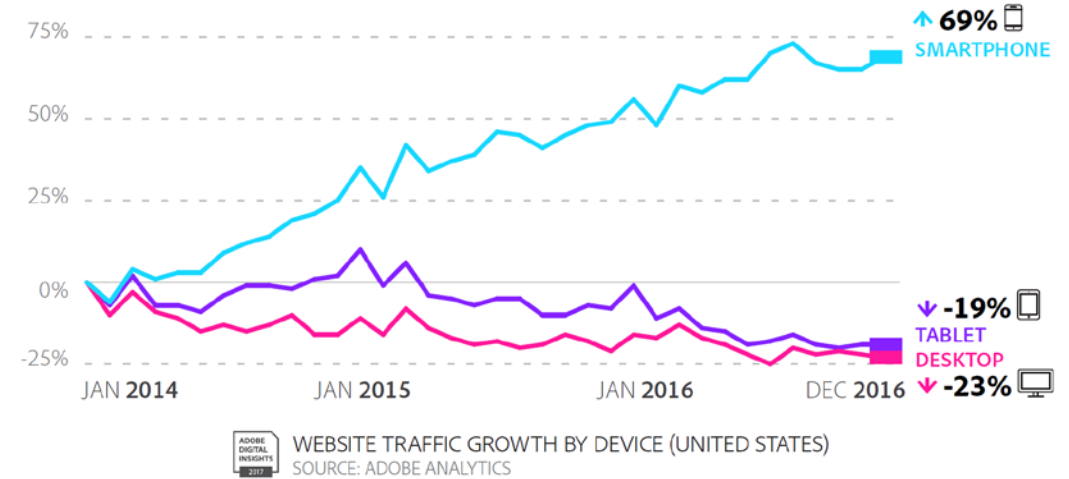# Digital Savvy Doesn't Mean Just Smartphones; TVE Rising Faster on Big Screens

Consumers use the device that makes the most sense to them

- Smartphone visits have increased +69% since 2014, driving total mobile share of traffic to 47% at the end of 2016

↑ 69% 📱 SMARTPHONE

↓ -19% 📱 TABLET

DESKTOP ↓ -23% 🖥

WEBSITE TRAFFIC GROWTH BY DEVICE (UNITED STATES)
SOURCE: ADOBE ANALYTICS

TVE shifting back to the big screen

- TV Connected Devices (TVCD) viewing growth increased +327% since January 2015, compared to browsers at +69% and mobile at +101%
- Holiday sales of top TVCD were strong: Revenue increased +17%, and sold +37% YOY

TVCD

MOBILE

BROWSER

TV EVERYWHERE VIEWING GROWTH (NORTH AMERICA)
SOURCE: ADOBE PRIMETIME

ADOBE DIGITAL INSIGHTS 2017
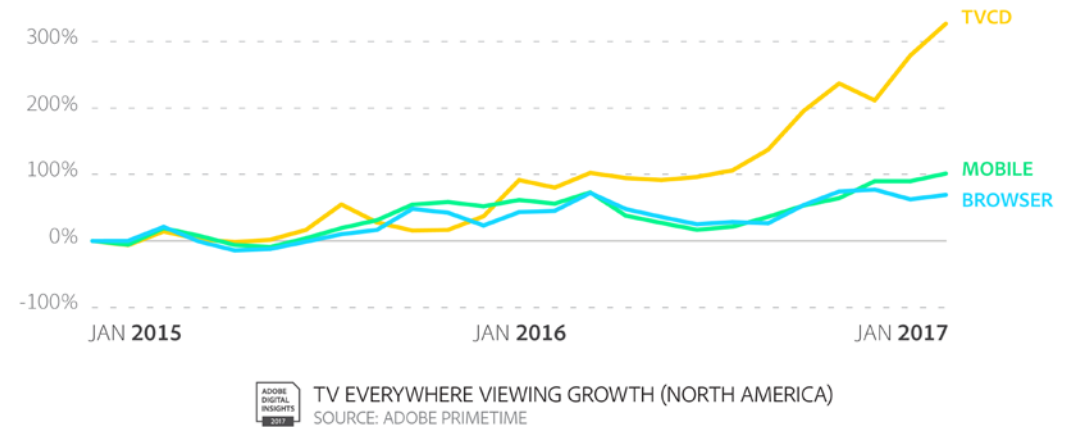
Video Starts on the Decline

Fewer unauthenticated videos are started on a per-visit basis

- Videos per visit has decreased -31% and -23% on smartphone and desktop devices, respectively

- Time on a phone is precious: Smartphone users start 42% fewer videos per visit than desktop users

Smartphone users start **42% fewer** videos per visit than desktop users.

↓ **-23%**
DESKTOP

↓ **-31%**
SMARTPHONE

OCT **2014**   OCT **2015**   DEC **2016**
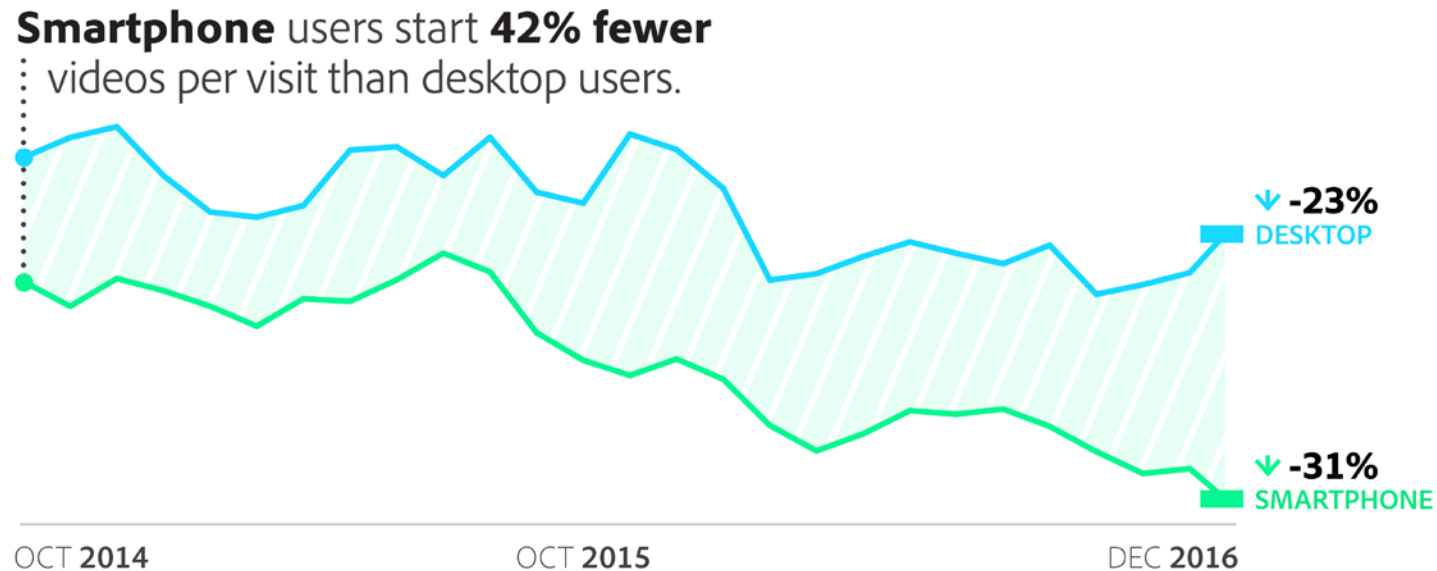
ONLINE CONTENT VIDEO STARTS PER VISIT (COMPARED TO DESKTOP, NORTH AMERICA)
SOURCE: ADOBE ANALYTICS

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ADOBE DIGITAL INSIGHTS 2017

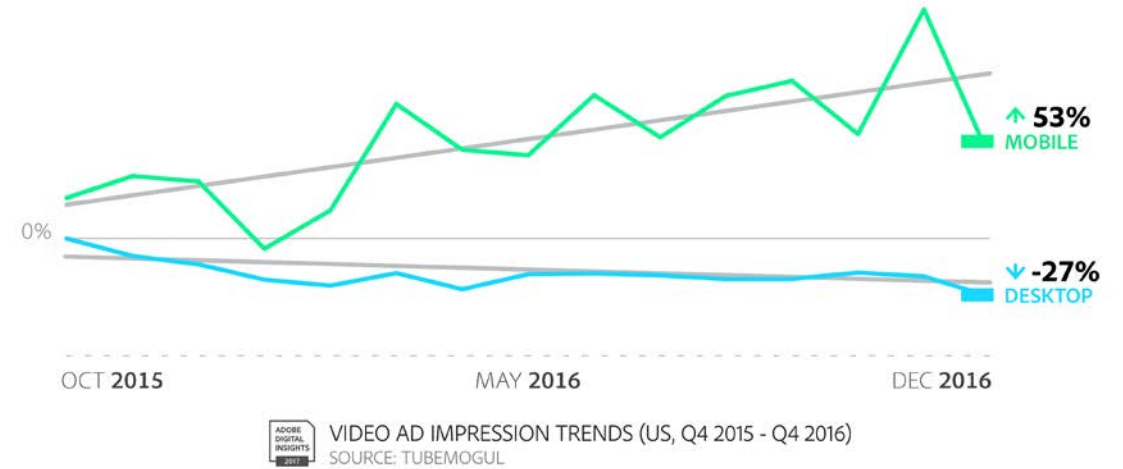# Advertisers Still Not On Par with the Mobile Digital Video Opportunity

Video ad eyes shift from desktop to mobile

- Mobile video ad impressions: +53% YOY

- Desktop video ad impressions: -27% YOY

Gaps in the video experience result via delivery methods

- Mobile formatted ads served on mobile see a 60% completion rate

- Desktop formatted ads served on mobile see a 47% completion rate
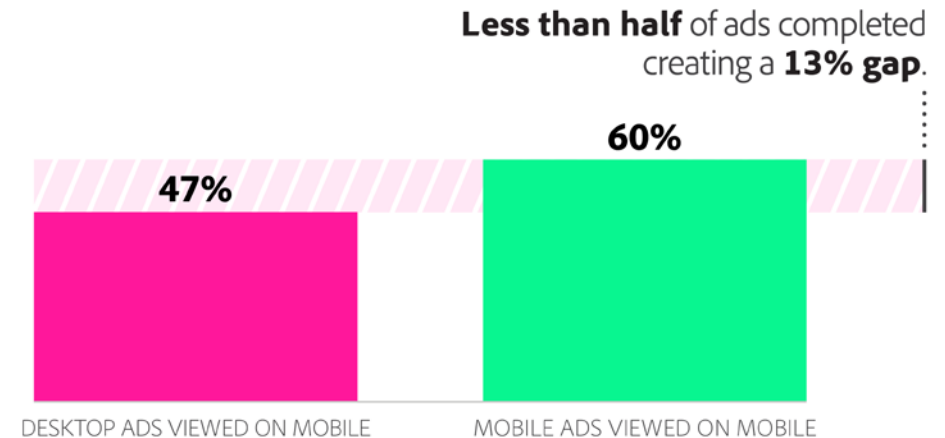
Gaps in the video experience also affect cost

- 2 out of 3 video ads are completed, effectively raising costs 48%

↑ **53%** MOBILE

↓ **-27%** DESKTOP

0%

OCT **2015**   MAY **2016**   DEC **2016**

VIDEO AD IMPRESSION TRENDS (US, Q4 2015 - Q4 2016)
SOURCE: TUBEMOGUL

Less than half of ads completed creating a **13% gap.**

60%

47%

DESKTOP ADS VIEWED ON MOBILE   MOBILE ADS VIEWED ON MOBILE

VIDEO AD COMPLETION RATE BY DEVICE FORMAT (US, Q4 2016)
SOURCE: TUBEMOGUL

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Advertisements Continue to Pique Interest During Critical Seconds
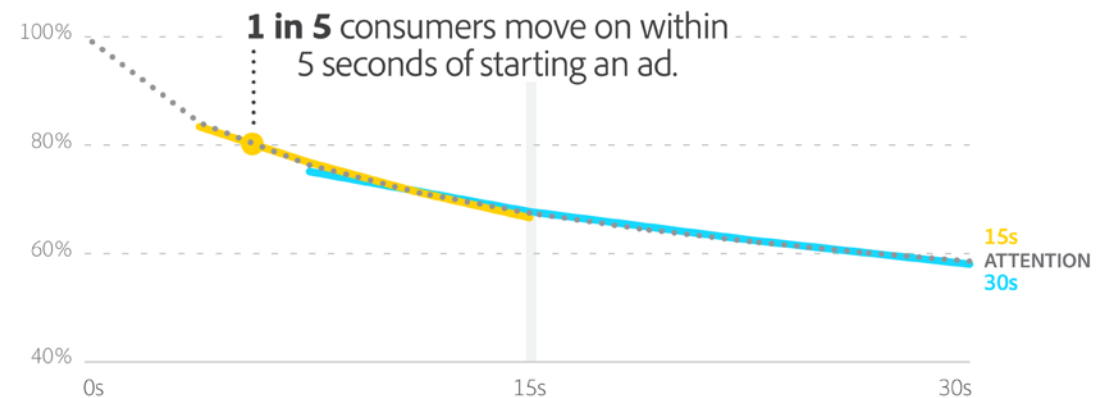
Consumers still tune in to advertisements

▪ The 2017 Super Bowl briefly drove traffic

  ▪ 2.3x more traffic during the hour an advertisement was broadcast

  ▪ Traffic returned to normal within 3 hours of airing

2.3x visits

No Change

| 3 HOURS BEFORE | -2 | -1 | SUPER BOWL HOUR | 1 | 2 | 3 HOURS AFTER |
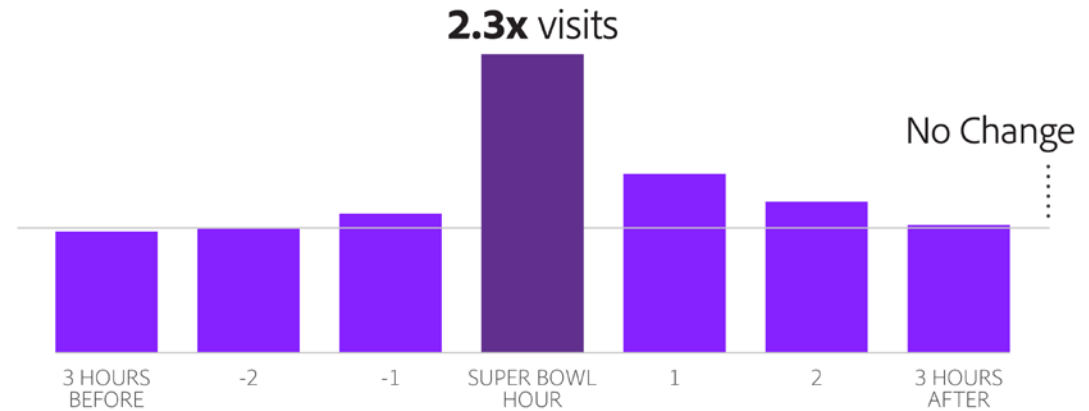
IMPACT OF SUPER BOWL AD ON WEB TRAFFIC (RELATIVE VISITS BY HOURS AROUND AIRING, 2017)
SOURCE: ADOBE ANALYTICS

Opening seconds are critical to capture attention

▪ 1 in 5 viewers move on after an advertisement has played for five seconds

▪ 15 second ads see a 67% completion rate, and 68% of viewers are still watching a 30 second during the same timeframe

1 in 5 consumers move on within 5 seconds of starting an ad.

100%

80%

60%

40%

0s   15s   30s

15s
ATTENTION
30s

COMPLETION OF MOBILE ADS BY DURATION (US, Q4 2016)
SOURCE: TUBEMOGUL

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Advertisers Think They Are Doing Better But Consumers Don't Agree

Advertisers and consumers show a disconnect in perception

- Over half (58%) of advertisers believe they're doing better at serving valuable ads

- Only 38% of consumers agree

58%

38%

ADVERTISER

CONSUMER
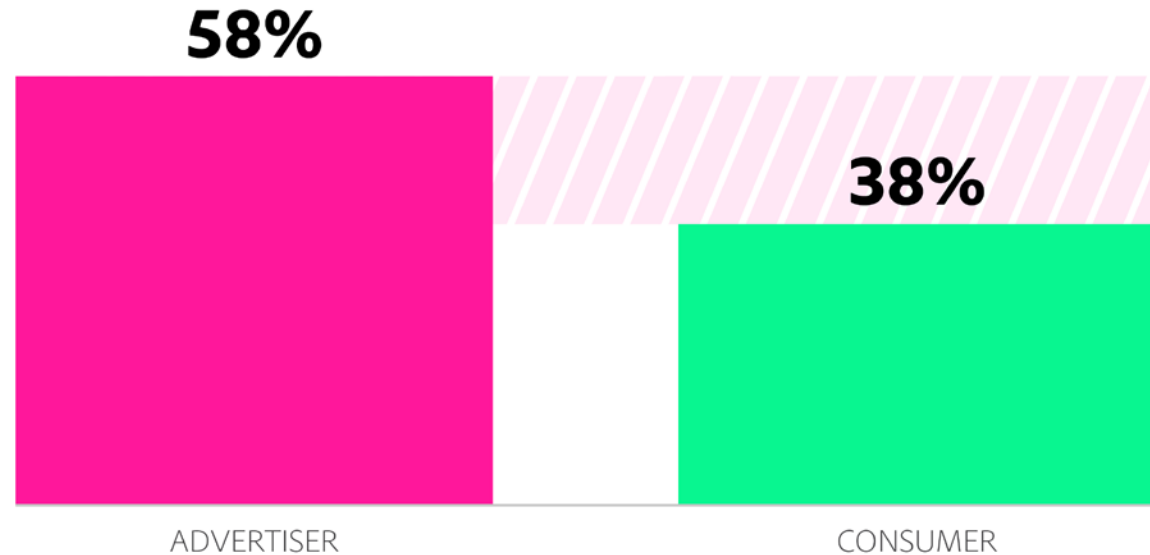
PERCENT OF ADVERTISERS DOING BETTER AT DELIVERING RELEVANT ADS OVER PAST TWO YEARS
SOURCE: ADI SUMMIT SURVEY 2017

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Personalization Gap: Desire − Delivery = Opportunity

Desire is there.

- More than 1/3 of all age groups prefer personalization.
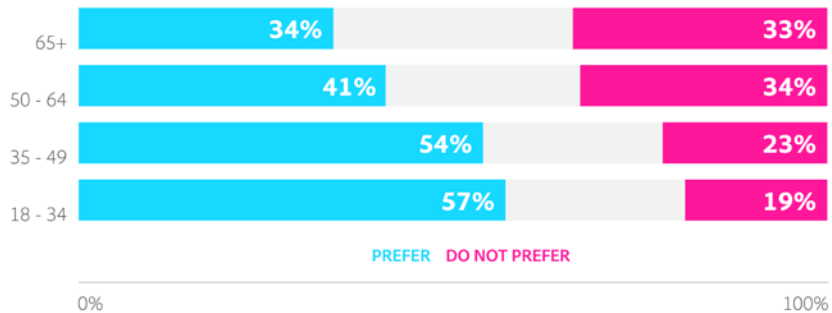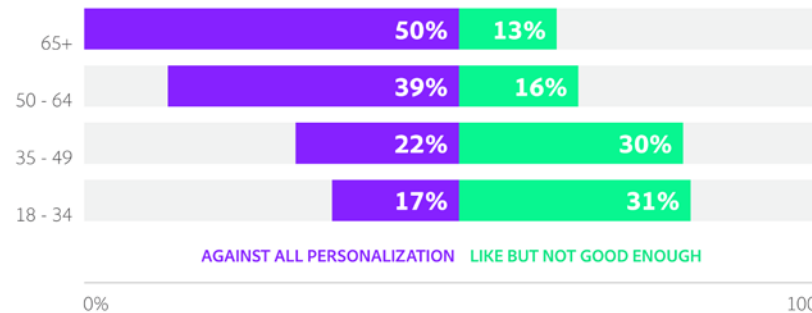- Over 50% of the younger age groups prefer ads based on their interests/preferences
- Even the oldest segment is equally split.

Delivery is mixed.

- More consumers in the two younger groups want more personalization than believe it shouldn't be done at all
- Older consumers are more likely to be against any personalization.

Opportunity exists.

- The gap between "not good enough" and "want it" suggests room for improvement
- The gap among younger consumers is large enough to warrant a wide range of experimentation

CONSUMERS' VIEW OF PERSONALIZATION
SOURCE: ADI SUMMIT SURVEY 2017

Age	PREFER	DO NOT PREFER
65+	34%	33%
50 - 64	41%	34%
35 - 49	54%	23%
18 - 34	57%	19%

CONSUMERS' VIEWS ON TODAY'S PERSONALIZATION
SOURCE: ADI SUMMIT SURVEY 2017

Age	AGAINST ALL PERSONALIZATION	LIKE BUT NOT GOOD ENOUGH
65+	50%	13%
50 - 64	39%	16%
35 - 49	22%	30%
18 - 34	17%	31%
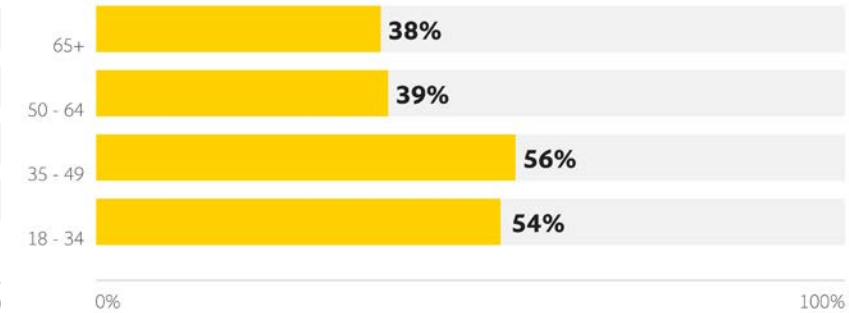
CONSUMER PERSONALIZATION INDEX
SOURCE: ADI SUMMIT SURVEY 2017

Age	
65+	38%
50 - 64	39%
35 - 49	56%
18 - 34	54%

q5 - I prefer to see ads that are personalized based on my interests, shopping habits, and preferences.
q1 - Which of the following statements best describes your current attitude toward the personalized ads you receive today?

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Fragmented Organizations and Technology Limit Advertising Progress

44%
work with 3 or more analytics platforms

42%
work with 3 or more creative agencies

41%
work with 3 or more media buying platforms

38%
work with 3 or more attribution platforms

40%
work with 3 or more media planning platforms

37%
work with 3 or more data management platforms

(Source: ADI Summit Survey 2017)

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Data is the New Black in the Creative Community

Individual marketing, personalized creativity

- Interest in creative jobs requiring data and technology skills saw 54% more visits per job in 2016 vs. 2014

- Interest in traditional creative roles saw 27% more visits per job

- Jobs requiring data and technology skills account for 32% of creative job listings in Q4 2016
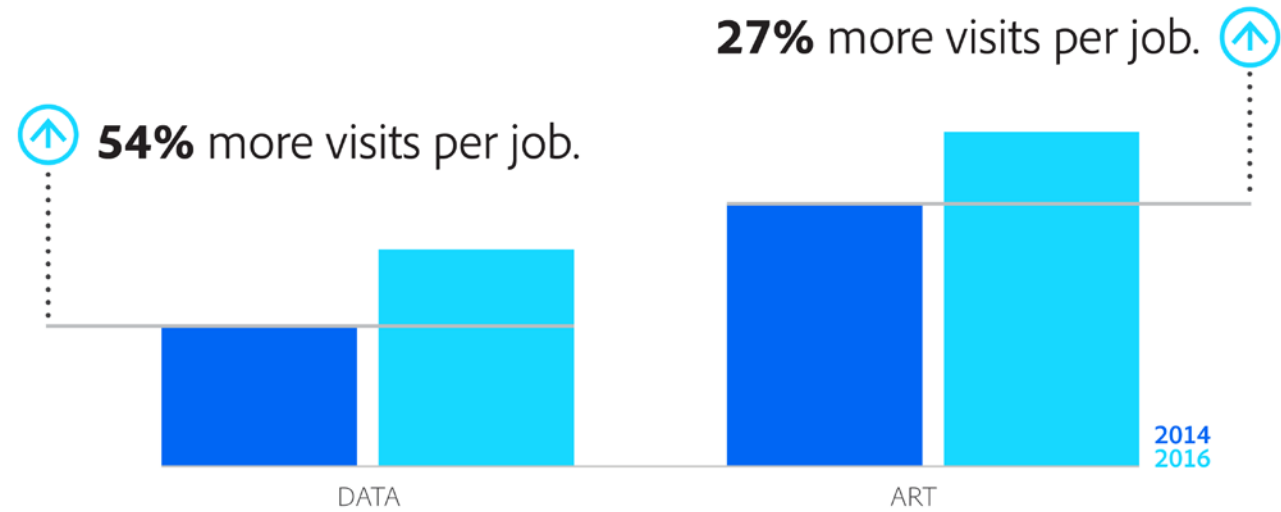
INTEREST IN DATA & TECH VS. CREATIVE & ART JOBS (US)
SOURCE: BEHANCE

Interest in Freelance Outpaces Other Jobs to Fill the Increasing Demand for Creative
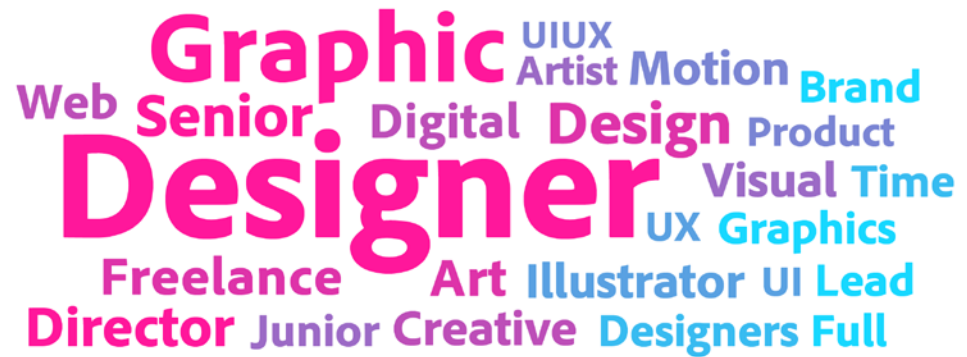
MOST POPULAR TERMS IN JOB TITLES (US, 2016)
SOURCE: BEHANCE

Freelance jobs see **2.3x** more interest.

2014   2016

FREELANCE
OTHER JOBS

INTEREST IN FREELANCE VS. OTHER JOB TYPES (US)
SOURCE: BEHANCE

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States Most Likely to Use Smartphones More Likely to See Creative Growing

States with growing interest in creativity also highest in smartphone use

▪ States with the most interest (highest proportion of citizens looking at projects) tend to be the usual suspects – large states with major "creative" cities

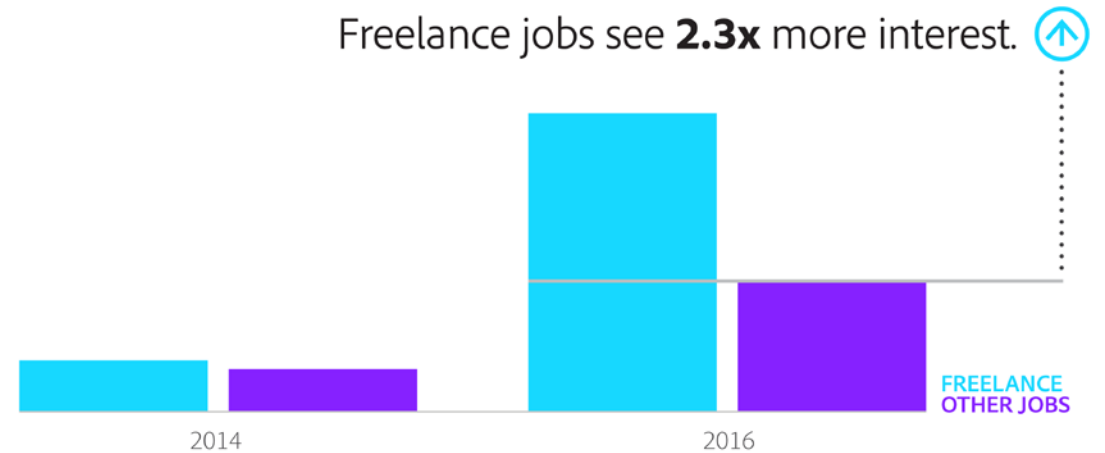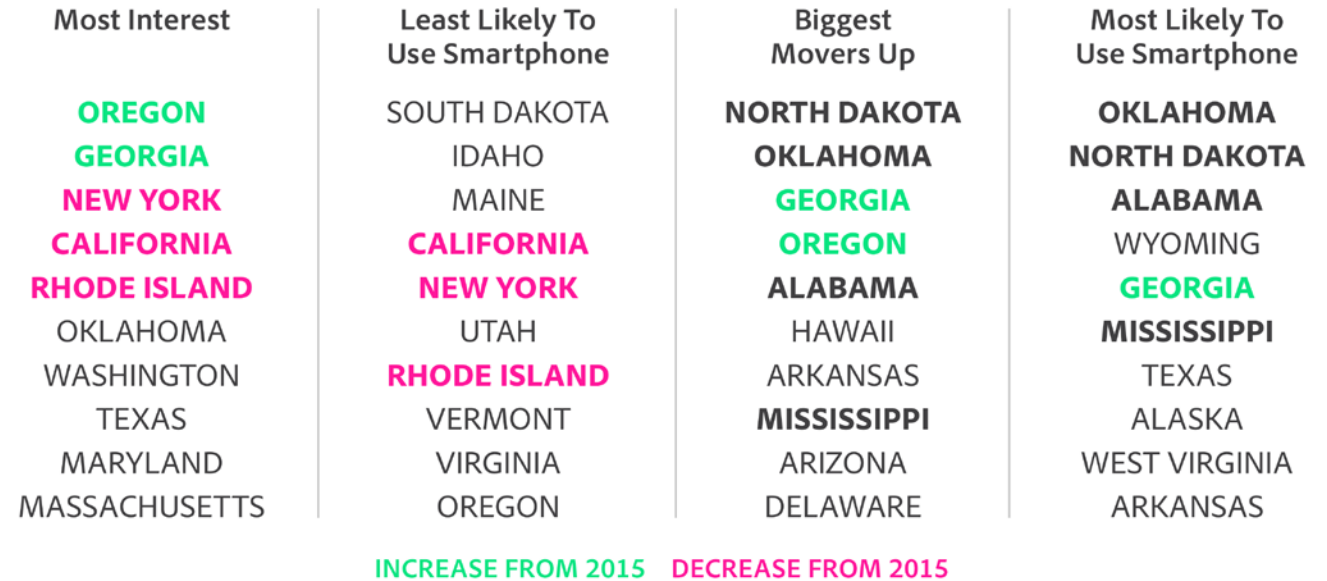## Creative is branching out

▪ States like Oregon and Georgia are on the upswing with large interest and positive growth

▪ Traditional markets like New York and California show signs of waning as penetration decreased

    ▪ They also among the least likely to use smartphones

Most Interest	Least Likely To Use Smartphone	Biggest Movers Up	Most Likely To Use Smartphone
OREGON	SOUTH DAKOTA	NORTH DAKOTA	OKLAHOMA
GEORGIA	IDAHO	OKLAHOMA	NORTH DAKOTA
NEW YORK	MAINE	GEORGIA	ALABAMA
CALIFORNIA	CALIFORNIA	OREGON	WYOMING
RHODE ISLAND	NEW YORK	ALABAMA	GEORGIA
OKLAHOMA	UTAH	HAWAII	MISSISSIPPI
WASHINGTON	RHODE ISLAND	ARKANSAS	TEXAS
TEXAS	VERMONT	MISSISSIPPI	ALASKA
MARYLAND	VIRGINIA	ARIZONA	WEST VIRGINIA
MASSACHUSETTS	OREGON	DELAWARE	ARKANSAS

INCREASE FROM 2015   DECREASE FROM 2015

INTEREST IN CREATIVE JOBS BY STATE AND DEVICE (US, 2015-2016)
SOURCE: BEHANCE

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Make Sure to Protect the Base

36% ...... Knowing how many customers you'll lose
defines **how many you'll need**.

25% | 36% | 10% | 12% | 8% | 7% | 6% | 5% | 5% | 4% | 4% | 3% | 3% | 3% | 3% | 2% | 2% | 2% | 32% | 24%

RETAIL
TRAVEL

CUSTOMERS BY VISIT NUMBER (NORTH AMERICA, Q4 2016)
SOURCE: ADOBE ANALYTICS

72% 75% .... Repeat rate key to gauging number of
first time visitors required to grow.

12% 12% | 5% 5% | 3% 2% | 2% 1% | 1% 1% | 1% 1% | 1% 1% | 0% 0% | 3% 2%

RETAIL
TRAVEL

NON-CUSTOMERS BY NUMBER OF LIFETIME VISITS (NORTH AMERICA, Q4 2016)
SOURCE: ADOBE ANALYTICS

Customers more long-term, steady play

- 7 out of 10 customers are likely return

- Protect your base: Due to internet saturation, your competition is likely trying to steal your base

Visitor drop off harder to tackle

- 3 out of 10 visitors will come back, with 7 choosing not to

- Ensure targeting attracts the right customer and that the experience creates the desire to return

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But Efficient and Effective Delivery of New Customers to the Site Wins the Game

Growing companies increased visitors to their sites

- Companies who grew in the past 2 years saw +30% growth in visitors vs. those who shrank at -25%

Frequency doesn't change

- Companies who grew saw no change in visitor frequency, companies who shrank saw a -7% decrease
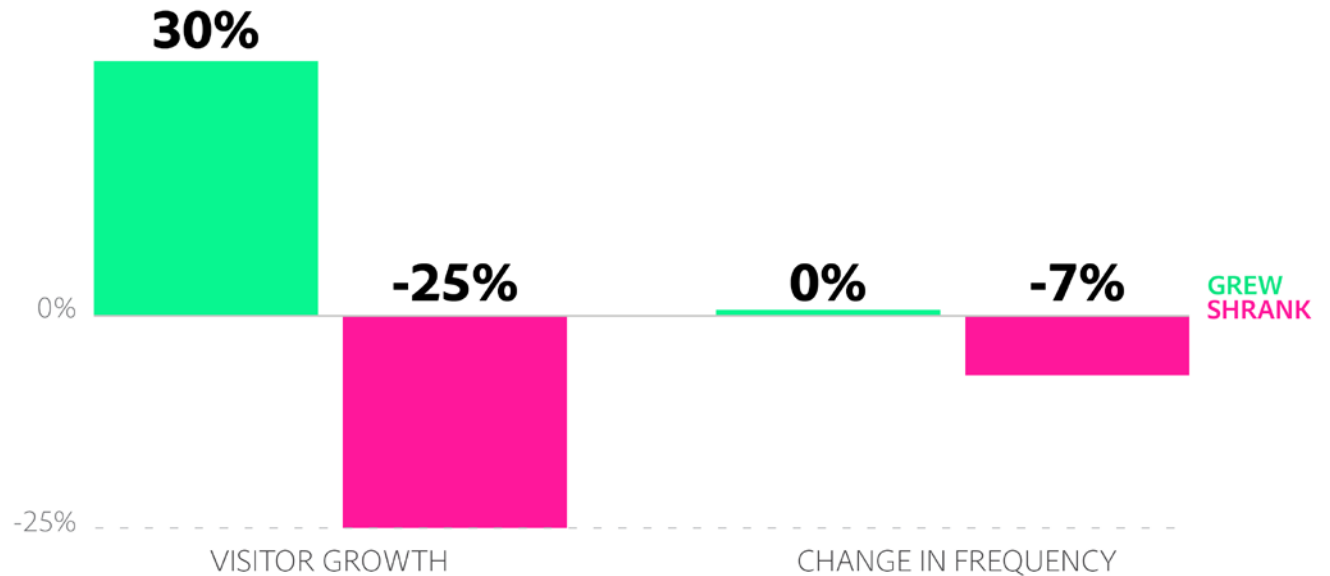
GROWTH DRIVERS IN RETAIL SEGMENT (Q4 2014 - Q4 2016)
SOURCE: ADOBE ANALYTICS

Glossary

1. **Click Through Rate (CTR):** Clicks divided by impressions
2. **CPM**: Cost per thousand impressions
3. **CPC:** Cost per click
4. **Completion Rate:** Ads completed (100%) divided by impressions
5. **Growth:** Percent change from base period
6. **TVE:** TV Everywhere
7. **TVE Video Plays:** Start of a show from a programmer
8. **TVCD:** TV connected device. Used to access content via an app (Example: Roku, Smart TVs)
9. **Customer**: Visitor who has made one or more purchases
10. **Non-Customer**: Visitor who has not made a purchase
11. **Visits per Job:** Total visits divided by number of jobs
12. **Frequency**: How often someone visits a website
13. **Web Traffic or Visits**: Visits occurring to a website via any mobile device; exclusive of app traffic

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Consumers & Advertising

- Make 'em laugh! Consumers most likely attracted by ads that make them laugh.

- Consumers want to see online ads less frequently, and also would appreciate more humor

- Millennials:

  - 83% like personalization, but 55% say that the personalization of today's ads could be improved or less creepy/intrusive

  - 57% of those 18-34 agree they prefer to see ads that are personalized based on their interests, shopping habits, and preferences (vs. 41% of those 35 and over)

  - 54% of those 18-34 agree that social media channels are getting better at giving them relevant content and advertisements (vs. 25% of those 35 and over); 61% of Millennials say they often see relevant ads on social media (vs. 22% of those 35 and over), with 58% saying Facebook is the social media site doing the best job of showing them interesting and relevant ads

q12 - What types of ads are most likely to attract your attention?

	Total	18 to 34	35 to 49	50 to 64	65 or above
Ads that make me laugh	35%	37%	40%	37%	29%
Ads focused on product benefits	25%	22%	21%	27%	28%
None of the above	14%	9%	9%	16%	22%
Ads that speak to my values	13%	15%	17%	11%	12%
Ads focused on price	12%	17%	13%	8%	8%

q13 - Which of the following would most improve the ads you see online?

	Total	18 to 34	35 to 49	50 to 64	65 or above
If they were shown to me less frequently	37%	29%	34%	38%	45%
If they were funnier	21%	24%	29%	20%	13%
None of the above	15%	9%	8%	20%	19%
If they were better personalized to me	14%	22%	15%	11%	9%
If they spoke more to my values	13%	16%	14%	10%	13%

(Source: ADI Summit Survey 2017)

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Fraud & media quality top list of marketer concerns

- Media quality (brand safety, ad fraud, and viewability) is the most cited concern when it comes to media buying, with 50% saying it's an area in which they face the biggest challenge

- 58% of digital marketers say their concerns about digital ad fraud have grown since last year

- More than half (54%) say they underinvested in Linear TV in 2016

- Traditional TV has room for growth when it comes to % of spend via programmatic, with only 35% of digital marketers saying they spend the majority of their total Traditional TV ad budget via programmatic

- 80% of digital marketers see significant value in centralized ad planning, buying and reporting and optimization, acknowledging that Millennials tend to see the more relevant ads on social media

q21 - Of the following aspects of media buying, please select the three in which you face the biggest challenges:

	Total
Media quality (brand safety, ad fraud, viewability)	50%
Economic transparency	48%
Integrated data and media buying solution	47%
Accurately measuring return on ad spend (ROAS)	42%
Data leakage	33%
Data ownership	30%
Media independence	6%

q4 - In terms of your 2016 media spend, in which of the following areas do you think you underinvested?

	Total	Brand	Advertising agency / Technology provider / Publisher
Smartphone advertising	81%	83%	80%
Tablet advertising	66%	58%	71%
Desktop advertising	62%	64%	61%
Linear TV	54%	56%	52%
Other	1%	3%	0%

	Traditional TV	Connected TV	Desktop Video	Mobile Video	Out-of-home	Search	Display	Social
51% or more programmatic spend	35%	35%	37%	40%	31%	39%	38%	41%

(Source: ADI Summit Survey 2017