DIGIDAY+

The DIGIDAY+ Video Report

2018

Table of contents

02 Summary

04 Key takeaways

05 The pivot to video continues

06 Video is a key revenue driver for publishers

07 Long-form video is in; short form is out

09 Not all platforms are equal for video distribution and monetization

12 Consumer appetites for online video

Summary

01

The pivot to video continues

The past year has seen a litany of publishers that pivoted to video fail to meet revenue expectations, get sold for a fraction of prior valuations, or collapse altogether. Video ad dollars proved scarce and publishers were forced to contend with a change in Facebook's news feed algorithm that previously favored publishers' videos.

But despite the turmoil, publishers in both the U.S. and Europe are continuing to invest in video content, with the vast majority planning to boost their video production this year.

The Bottom Line: Video isn't a cure-all, but publishers are still investing heavily.

02

Video is a key revenue driver for publishers

The pivot to video failed to provide the gold rush many publishers expected it to but advertising revenues from video continues to remain an important source of income for publishers. Forecasts predict spending on video advertisements to increase and several C-level publisher executives predict video to be their company's largest growth area.

The Bottom Line: Video revenues can support, not sustain, publishers' business models.

03

Long-form video is in; short form is out

The death of Go90 signaled to video creators the limits of short form video. Even after spending hundred of millions on short form video series, Go90 never gained audience traction. Few publishers now believe there's a sustainable market for short form video.

Instead consumer have displayed a clear preference for premium long-form video content. As a result a significant number of publishers are working on creative long-form video content for OTT video streaming services. OTT services have billion dollar budgets for original content that publishers are aggressively eyeing.

The Bottom Line: Publishers are creating content for OTT platforms to chase users and content licensing fees.

04

Not all platforms are equal for video distribution and monetization

In an effort to diversify the source of their video revenues, publishers have built out presences on multiple social platforms including Flipboard and Apple News. However not all platforms offer publishers equal opportunity due a varying ability to disseminate video to them. Platforms like Facebook and YouTube make it easy for publishers to repurpose their content whereas publishing videos to Snapchat often requires creating custom content.

Platforms are also perceived differently by European publishers than US publishers. For example: European platforms rated Facebook the third-best platform by in terms of video monetization, but U.S. publishers rated it the worst.

The Bottom Line: Publishers have clear favorite platform in owned sites and YouTube while its a race to the bottom for the rest.

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05

Consumer appetites for video streaming services

Americans have exhibited a strong appetite for OTT services. Two-thirds of American households use an OTT subscription service. Furthermore, concerns about a slowing demand could be premature. More than half of existing OTT subscribers plan to purchase an additional OTT subscription in the coming year.

The greater likelihood that consumers will purchase access to a video streaming service instead of a media subscription validates publishers decisions to create content for OTT platforms. Publishers need to put themselves where their audiences are. Although creating content for OTT platforms is a nascent trend, the licensing fees publishers make could be a powerful alternative to subscription revenues.

The Bottom Line: The pivot to subscriptions could become the pivot to OTT licensing

Key Takeaways

- Eighty-six percent of U.S. publishers and 92 percent of European publishers plan to increase the amount of video they produce in 2018.

- Forty-two percent of U.S. publishers and two-thirds of European publishers are creating more long-form video content for OTT services.

- Only 24 percent of publishers are optimistic in the market for short-form video

- Seventy-five percent of publishers recorded revenues from video advertising making it the 3rd most common revenue source after display ads and branded content.

- Only 14 percent of C-level publisher executives believe video advertising is the revenue channel with the greatest potential for growth in 2018.

- U.S. publishers rate Facebook as the hardest social platform to generate video revenues from.

- Both U.S. and European publishers rate their owned sites and the YouTube as the best platforms for video distribution and monetization.

- Fifty-nine percent of consumers with an OTT subscription plan to purchase a additional OTT subscription in the coming

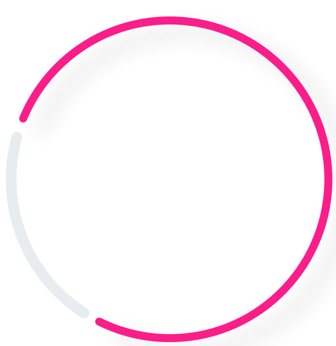
- Eighty-eight percent of consumers would rather by a subscription to an OTT service than a subscription to a publisher.

The pivot to video continues

The tail end of 2017 and beginning of 2018 was a devastating time for video-centric publishers. Mashable and Oath were among a number of publishers that laid off staff as video CPMs proved insufficient to sustaining a business. Meanwhile Facebook's algorithm change represented a death sentence for publishers dependent on viral video views from its news feed like LittleThings and Cooking Panda.

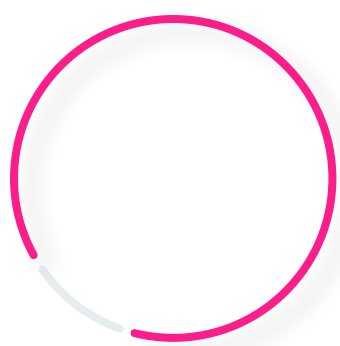
Nonetheless, the vast majority of publishers surveyed by Digiday in Europe and the U.S. plan on increasing their video production.

Europe experienced a continuation of its pivot to video (albeit more slowly) with fewer repercussions. European publishers are predominantly legacy companies with less VC investment and deeper pockets. As a result fewer publishers were forced to lay off staff as a result of the declining video marketplace.



86%

U.S. publishers will increase video production up from 84% in Fall 2017



92%

European publishers will increase video production down from 94% in fall of 2017

Source: 133 publishers surveyed at the Digiday Publishing Summit in Vail, CO and Monaco in Feb 2018

Video is a key revenue driver for publishers

Due to the failure that was publishers' pivot to video, 2018 is quickly being defined by publishers pursuing multiple revenue streams. But as a revenue source income from video remains almost essential.

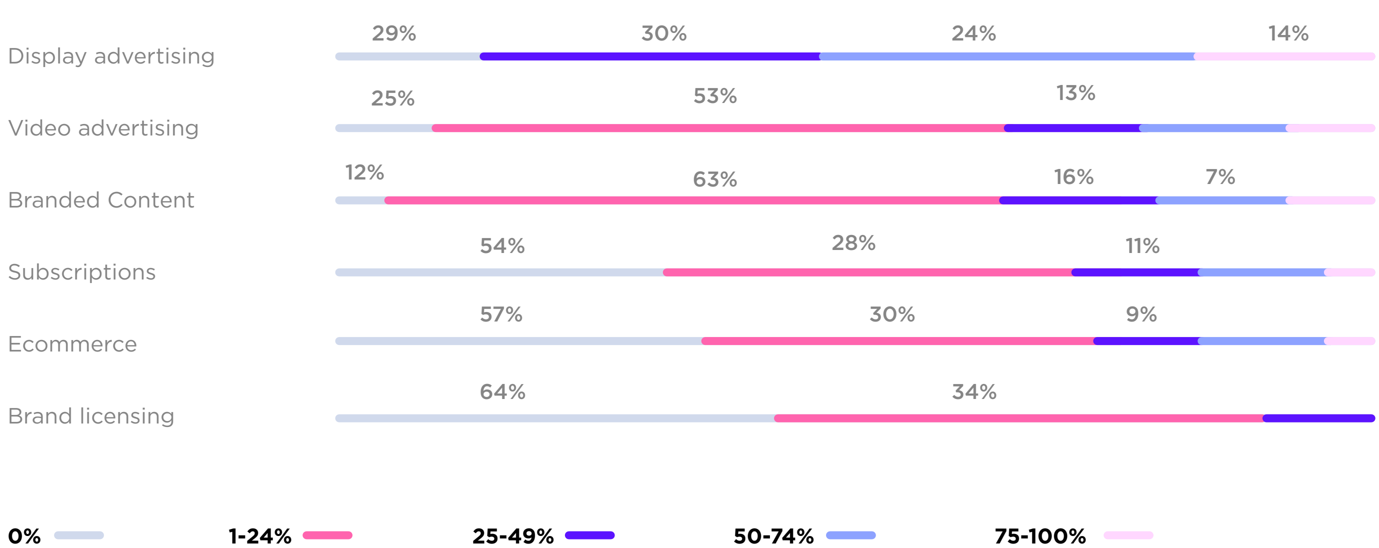
Video advertising is growing at almost three times the rate of the total US ad market. Forecasts done by eMarketer project the the amount spent on advertising in the US to grow 6.6 percent to $220.96 billion in 2018. Meanwhile video advertising will grow 16.5 percent in 2018 fueled by expansions in mobile advertising.

That said, video advertising is still only the third most common type of revenue source for publishers after display as and branded content.

Seventy five percent of publishers surveyed by Digiday this year claim some percentage of their revenues from video advertising. However, less than 10 percent of publishers depend on video advertisements for more than 50 percent of their company's revenues.

The relatively small percentage of publishers that are highly dependent on video advertising helps explain why the number of publishers that collapsed in the pivot to video were limited to the handful of companies whose strategies were almost entirely dependent on Facebook's news feed.

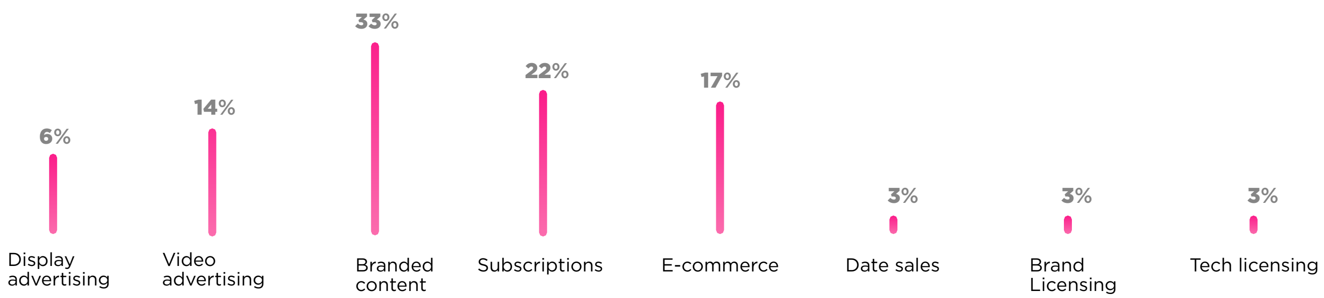
Where publishers get their revenues



Source: 129 publishers surveyed at the Digiday Publishing Summit in Vail and Monaco in March 2018

As noted, the amount advertisers plan to spend on video advertisements is projected to increase 16.5 percent to $15.4 billion in 2018. Despite that strong growth, C-level publishers executives believe alliterative revenue streams such as branded content, e-Commerce and subscriptions all posses greater opportunity in 2018. The fact that an increasing share of video advertising is transacted through programmatic exchanges — which are still fraught with transparency complaints — could explain why U.S. publishers are more bullish about non-video revenue streams. A test by The Guardian found that 72 percent of money spend on video inventory in a programmatic exchange without ads. txt was fraudulent. Industry vendors and middlemen erode over half of video ad spend before it reachers publishers. Research from Warc on U.S. programmatic spending found that only 40 percent of every advertiser dollar spent finds it way to the publisher. Given the high tech fees of programmatic, publishers are seeking revenue sources that are either more transparent or are recurring.

Which revenue channel provides the biggest business opportunity in 2018?



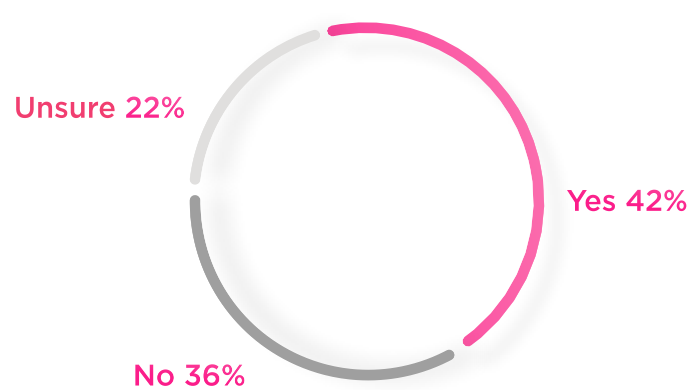
Percentage of respondents

Long form video is in; Short form is out

As publishers suffer from diminishing video CPMs, OTT platforms could offer a much needed reprieve.

Netflix, Hulu, HBO, and their competitors have allocated billions of dollars in order to purchase original long-forms video content for their services. Combined, budgets for acquiring new content are set to top $14.3 billion in 2018, roughly 87% of the $19.3 billion spent on video ads in 2017 in the U.S. and Europe.

Will you look to produce more long form TV/OTT video content in the coming year? (U.S. publishers)



Source: 84 publishers surveyed at the Digiday Publishing Summit in February 2018

Major windfalls from selling and licensing content proved significantly motivating for publishers to create content specifically catered to TV/OTT audiences. More than four in ten US publishers are producing content for OTT platforms and two-thirds of European publishers are doing the same.

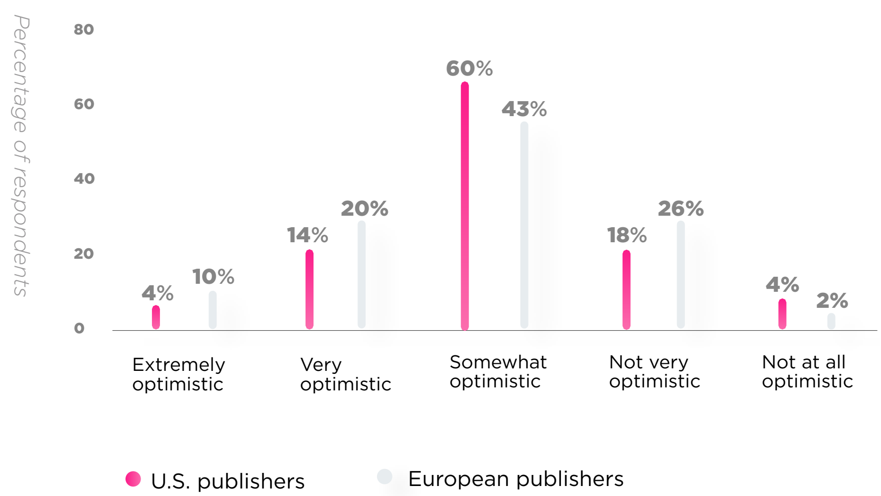
Not all publishers will succeed. CEO of Ozy Media, Carl Watson told Digiday "It's not easy to go from producing cat videos, to high quality content." What made companies successful in developing audiences across social platforms won't directly correlate to producing long-form video content of OTT services. While a clearly defined appetite for publishers' long-form video content exists, the market for short form video is less convincing. Two platforms that were major buyers of publishers short-form video series, Watchable and Go90, have folded in the past year. Both had worked with publishers like Refinery29, PopSugar, BuzzFeed, and Vice, to fund exclusive video content only to be unable to gain mass followings. As a result publishers have few companies willing to purchase their short-form video content.

The overall decline in the market for short-form video has left publishers lukewarm over its future. Publishers are almost as likely to say are optimistic as they are to say otherwise as seen below.

One trend giving cause for optimism has been the tepid entrance by Netflix and Amazon into the market for short-form video. Netflix recently signed a deal with BuzzFeed and Amazon with Funny or Die. If either services find success with shorter videos, OTT platforms could go a long way to replacing the void in demand left by alternative services.

How optimistic are you about the market for selling or licensing short - form vIdeo content?

Source: 111 Publishers surveyed at the Digiday Publishing Summit in May and June of 2018



Not all platforms are equal for video distribution and monetization

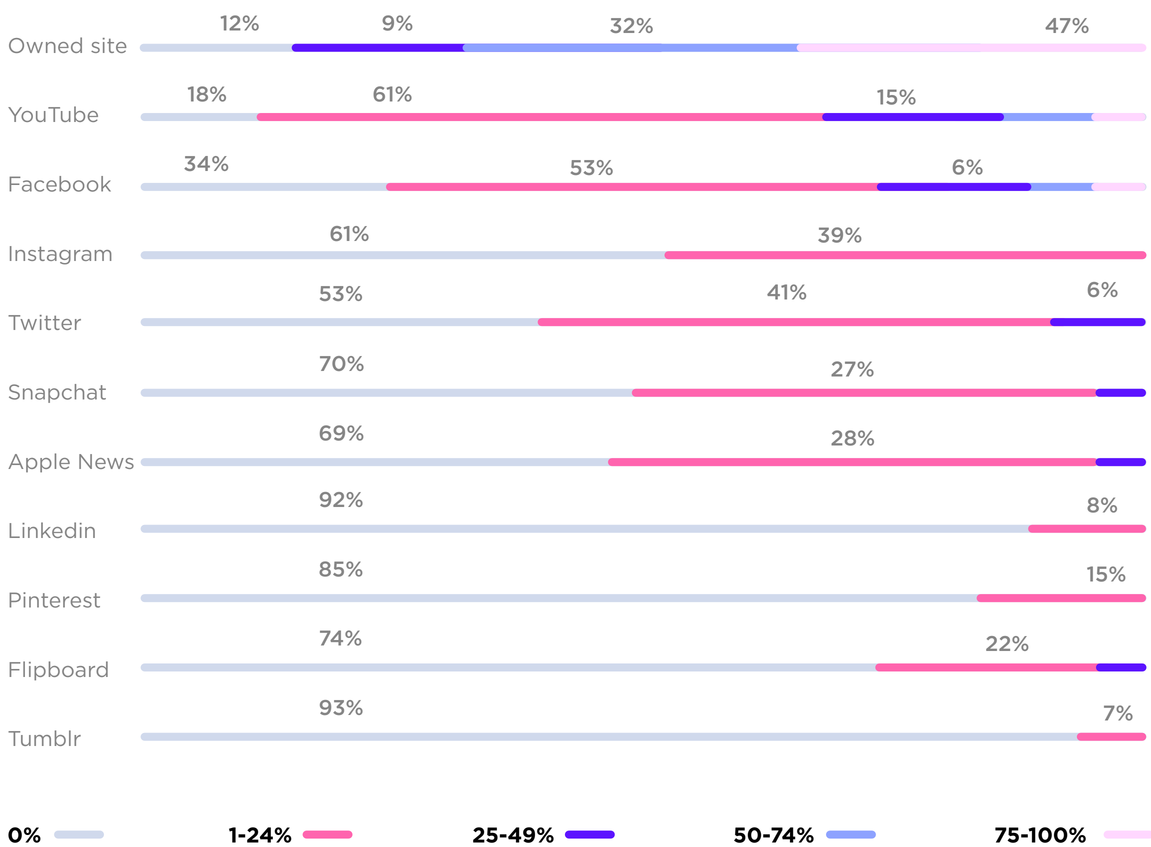
Owned and operated sites are publishers' second most-used platform for video distribution behind YouTube according earlier Digiday research. But owned sites contribute significantly more than YouTube to publishers' revenues. While 82 percent of publishers make money off YouTube, just 6 percent of that group makes at least half of their video revenues there.

In contrast, 79 percent of publishers attributed at least half of their video revenues to their owned and operated sites.

Fewer publishers earn revenue from Twitter than from Facebook, according to the survey from Digiday's video summit. That could change if more publishers, like The Weather Channel, stop distributing videos on Facebook.

Since Facebook de-emphasized publishers' posts in its news feed, publishers have seen a boost in video views coming from Twitter. As Twitter tries to capitalize on Facebook's retreat from publishers' video, Twitter's Amplify program has increased the ways publishers can monetize videos on the platform to include sponsorships with standard pre-roll ads.

How much of your video revenues come from the following platforms?



Source: 50 publishers surveyed at the DVS in may 2018 in Scottsdale AZ

Monetization vs Distribution on social platforms - U.S.

YouTube nearly equals publishers' O&O sites in terms of distribution and far outpaces other social platform in its ability to provide revenues. But YouTube takes a 45 percent cut of ads on publishers videos.

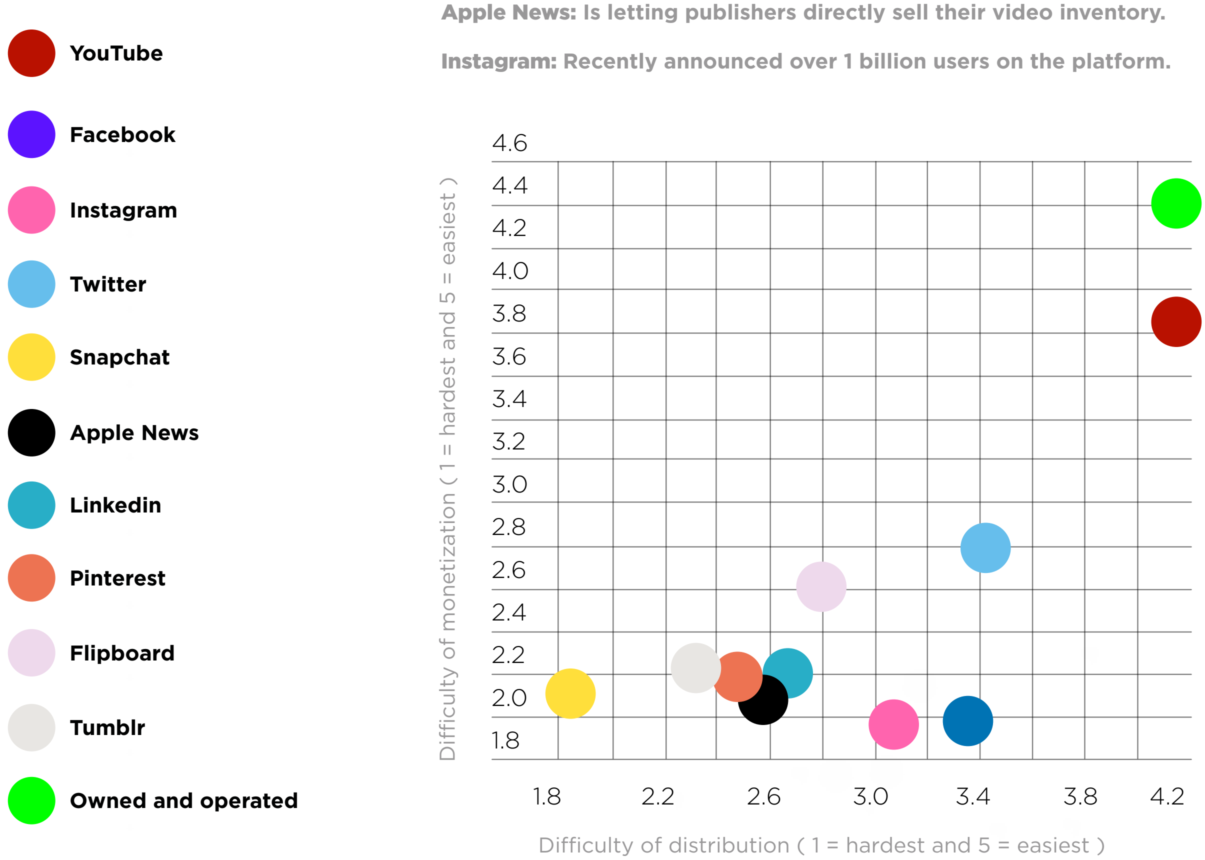
Snapchat is clearly the most difficult to distribute video to and ranks poorly on its ability to be monetized. In recent month CNN and Mashable have canceled programs on it. The challenge for many pubs is that content they produce for Snap requires its own team and can't be easily shared across other platforms. Moreover rock bottom prices on Snap's CPM's due to the introduction of programmatic buying could be hampering publishers ability to monetize it.

Twitter has been on the verge of a comeback with publishers, prioritizing publishers video views, as it seeks to capitalize on Facebook's retreat from publishers video.

YouTube: Creators have lamented some of YouTube recent algorithm changes as the platforms pursues brand safety objectives.

Apple News: Is letting publishers directly sell their video inventory.

Instagram: Recently announced over 1 billion users on the platform.



Source: 50 publishers is surveyed at the DVS in may 2018 in Scottsdale AZ

Monetization vs Distribution on social platforms - Europe

Despite the changes Facebook made to it's news feed European publishers still thought it was the third-easiest social platform to monetize. A stark contrast to U.S. publishers. That could be because 30 percent of European publishers haven't altered their Facebook strategies and some are recording record revenues from Facebook mid-roll ads.

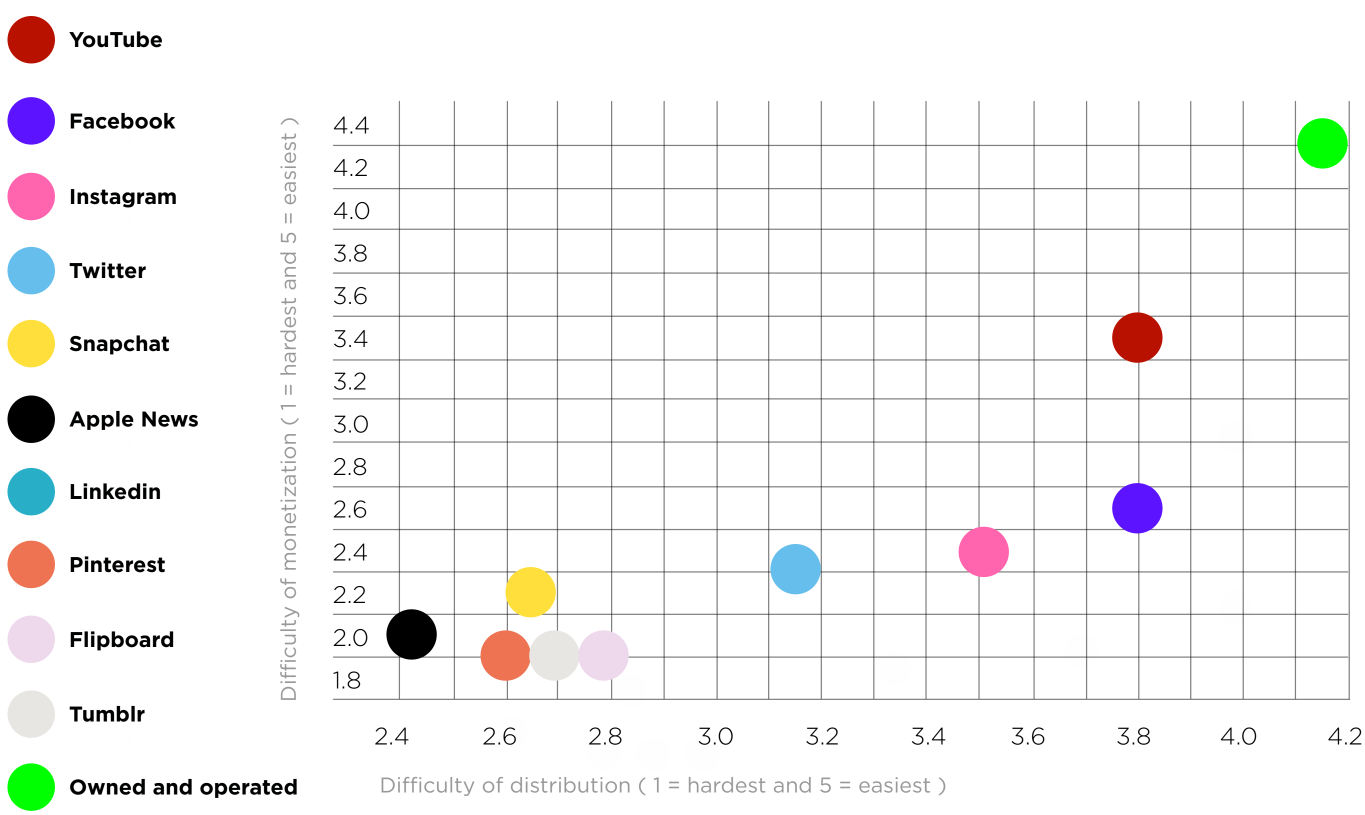
Meanwhile the success of Twitter has yet to translate to European markets. Evidence from ITN productions suggests attitudes regarding the platform are changing. The publisher has seen the platform become more important in last 5 months, just about the time Facebook retreated.

Owned platform: GDPR might also be a boon for Europe's publishers as advertisers look to purchase more programmatic-guaranteed deals for video ads because of publisher access to first-party data.

Instagram: The introduction of IGTV is already providing European publishers a new home for their longer video content and presenting new monetization opportunities.

Snapchat: After cutting the fees it paid to Discover publishers, the platform is working with U.K brands to prove the efficacy of their ads.

YouTube: Has proven itself impervious to brand safety scandals due to advertisers necessity for a scaled video platform that provides high engagement and premium inventory



Source: 60 publishers surveyed at the DVSE in June 2018 in Scottsdale AZ

Consumer appetites for video streaming services

Due to the potential importance of OTT companies to publisher revenues, there was cause for concern when Netflix missed its 2018 second-quarter projected subscriber growth. It raised the possibility market for OTT services was reaching a saturation point with little room for growth.

However a recent survey of U.S. consumers by Digiday suggests otherwise. Roughly 60 percent of consumers polled that own an OTT subscription intend to add another while 23 percent of those without plan to buy access to one.

Given that there are are 193.3 million OTT users in the U.S., this suggests ample room for growth for OTT among existing subscribers.

The caveat for OTT providers is finding the right price range for consumers. Seventy percent of those without a subscription would only be willing to pay $10 per month maximum for a subscription. Among those with a subscription, there's also room for price flexibility among consumers who already own an OTT subscription.

If consumer with subscriptions plan on adding subscriptions without increasing monthly spending on OTT services it could mean a search for ad supported services such as PlutoTV.

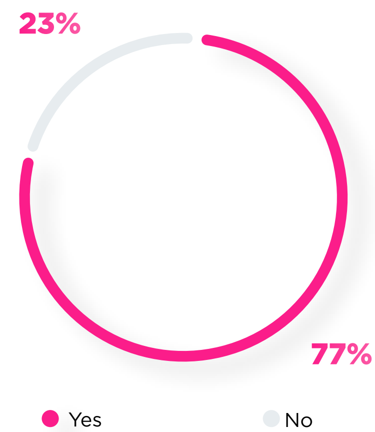
The pivot to video shifted to the pivot to subscriptions in 2018 as publishers sought recurring revenue. An issue for news publishers specifically that betting on subscriptions is that consumers aren't likely to pay for news at a time when so much is freely available. While several publishers saw early success boosting their subscriptions as a result of their coverage of Donald Trump, that initial surge has died down.

The news gets worse for publishers when their asked to choose between a video streaming subscription and a publishers' subscription. Eight-nine percent of consumers would rather purchase a video OTT subscription according to a poll done through Suzy.

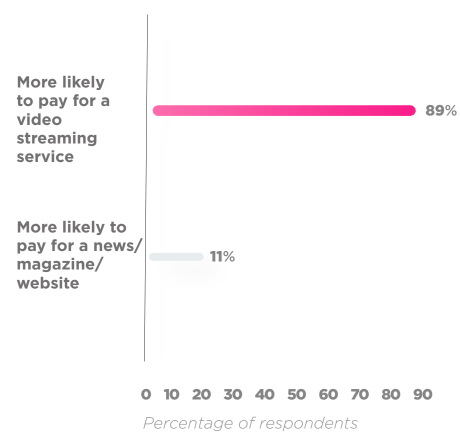
If consumers would rather purchase OTT subscriptions and two-thirds of Americans are using them then its understandable publishers like NowThis and Vice are producing content exclusively for them. If they can no longer reach their audiences on Facebook's news feed then OTT platforms could be their next best bet.

Will you purchase an additional subscription to a video streaming service in the coming year?

Source: 1033 U.S. consumers aged 22+ surveyed by Digiday via the AskSuzy platform in July 2018.



Are you more likely to pay for a subscription to a video streaming service or for a subscription to new / magazine/ website like The New York Time or People?



Source: 1033 U.S. consumers aged 22+ surveyed by Digiday via the AskSuzy platform in July 2018