Harnessing the Power of Video Ads

In digital advertising, video ads as a top-of-funnel function have a longer-lasting effect than display and search ads on a consumer's consciousness.

by Linyi Li

According to consumer data firm Statista, digital advertising in Asia, valued at US$207 billion, will account for nearly 68 percent of total advertising, which is estimated to be worth US$305 billion, in 2022.[1] Of this, 30.6 percent (US$63 billion) will be spent on video ads, while search ads worth US$74 billion will account for the highest proportion of digital advertising spending (35.9 percent). However, video ad spend is predicted to grow at a rate of 16.4 percent in 2022, compared to 12.5 percent for digital advertising as a whole.[2]

The numbers are consistent with those in the US, the world's largest advertising market, where online advertising accounts for over 50 percent of total ad spend. While video advertising represents just 18.7 percent of total online ad spend, its 20.6 percent annual growth rate in 2021 exceeds the 12.2 percent expansion posted by digital advertising as a whole.[3]

Despite the clear trend towards online video advertising, marketing executives are sometimes ambivalent about allocating funds for it. Search advertising has been shown to harvest the demand that drives consumers to search for a specific product or service, such as noise-cancelling headphones or ski vacations. Even the much-maligned display ads have been shown to positively affect purchases, both online[4] and offline.[5] However, unlike search or display ads, video ad spend has a longer link to sales, which results in clicks leading customers to (most probably) the official website right away. Managers often use cost per click versus revenue/profit per click as justification for which ad format option to choose. For video ads, more often than not, no clicks will be produced, thus managers are hard put when they seek justification for them.

In this article, I highlight the merits and promise of online video advertising based on a study that I conducted with two other researchers, which compared the cost effectiveness of online video, search, and display ads. By looking at the complete advertising and sales dataset from an American personal care brand spread over three years, our research examines the accumulation and decay of advertising AdStock, which is the cumulative value of a brand's advertising at a given point in time. Additionally, our study also examines the resulting impact of AdStock on sales through the brand's website, as well as the e-commerce platform Amazon.

STUDY ON VIDEO AD EFFECTIVENESS

Our study tracked the metrics of video ads delivered in the YouTube/Google TrueView skippable ad format, which can be skipped after a minimum of five seconds. Advertisers pay for an 'interaction' when the viewer either clicks on the ad, or the ad reaches a 'view' at 30 seconds or its entirety if the video ad is shorter than 30 seconds. The skippable video ad is the most common online video ad format. It is the default and most popular option for YouTube and Facebook (including Instagram) ads, with the two Silicon Valley giants accounting for more than half of the online video ads market.

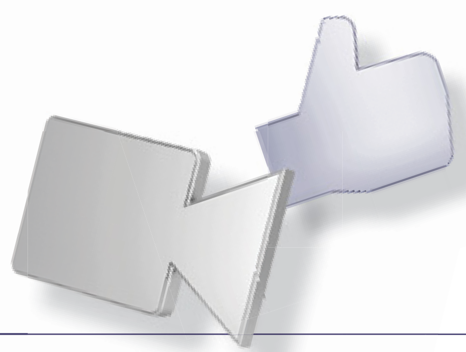
The personal care brand we studied provided us with weekly data for all its advertising activity covering 180 weeks–a three-and-a-half-year period. On top of sales data from both the brand's website and its Amazon channel, we also have data on the number of impressions delivered through each advertising channel, which allows a fine-grained understanding of the impact of impressions, views, and clicks.

Video ads are cost-effective and stay in the mind longer

Our modelling examined the decay of video AdStock as compared to search and display AdStock. More advertising exposure adds more AdStock, but it also decays over time due to consumer forgetting. Our modelling shows that video AdStock decayed at a much slower rate than both search and display AdStock. This suggests that video ads stay in the minds of consumers longer, helping brand recall that would contribute to sales over a much longer period of time.

But is video advertising worth it? The answer to this literally billion-dollar question is ‘yes’. Our model shows video ads do have a positive return on investment (ROI). Video ad clicks and video ad views, the two actions by consumers that platforms charge for, generate more AdStock than video impressions. Managers can rest assured that they are not wasting their money on video views, even though these are not taking consumers to their websites. Additionally, it must be noted that video impressions under 30 seconds add to AdStock *for free*. Given the vast number of people who choose to skip a video ad after five seconds, advertisers should bear in mind how much exposure they might be getting at no charge, instead of fretting about the lack of a direct link between video ads and the bottom line.

Perhaps more importantly, skippable ads can help ‘capture’ the right profile for further action. For instance, from the skippable format, you can now tell who are more likely your ‘true’ fans who sat through more than 30 seconds of your ad. While some may have let these videos run without paying any attention to the ad, marketers can still trace and attribute future searches or visits to their product sites via digital ‘crumbs’ such as cookies.



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TAKEAWAYS FOR MARKETING EXECUTIVES

Our study provides several insights into the performance of paid video ads using the TrueView format. We note that such ads drive AdStock at a higher level than the standard display ad despite being skippable after five seconds. They are also much more impactful when viewed for up to 30 seconds or more, and have an effect that lasts longer than search or display ads. Additionally, these video ads improve the performance of search advertising by increasing the number of search impressions generated. They also have strong cross-sales-channels effects.

Marketing executives should thus bear in mind the video ads’ ability to generate extended exposure in the form of views and the slow rate of decay in video advertising effects despite the short duration of most video impressions. The TrueView format also generates a large number of free impressions for each paid view or click, and these free impressions that accompany each paid view contribute more to AdStock than the view itself. Executives should therefore evaluate the performance of video advertising as a brand-building tool, and it appears that its performance has not been correctly gauged when click-conversion data is used as the measuring yardstick. The power of video advertising is clearly aided by video views, which produce much stronger effects than video impressions, and comes close to search impressions as a contributor to AdStock.

Unlike search queries and clicks, video views are passive, especially if a customer does not perform an action, i.e., click on ‘skip’. This lack of involvement makes it hard for executives to anticipate the effect of a view, even though typically only those people who are interested in the ad or product would spend 30 seconds or more on the video, instead of skipping it after five seconds. However, it is impossible to ascertain whether the viewer is paying any attention or just

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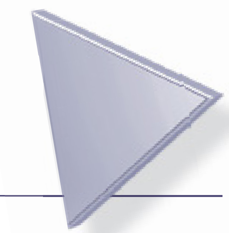

letting the video run for more than 30 seconds. If this occurs, the effect of a view might be even worse than a (non-view) impression since the customer must pay at least some level of attention in order to decide to skip it. This study provides evidence to show that the ROI on a TrueView view can be positive and substantial.

Sophisticated video advertisers could take advantage of the TrueView model, providing a ‘hook’ to keep viewers from skipping an ad immediately after five seconds and then ‘qualifying’ viewers at the 25-to-30-second mark to encourage them to opt out prior to recording a paid view at 30 seconds. Returns on video advertising are maximised if impressions last as long as possible, but only prospects who are likely to make immediate or long-term purchases would view the video past 30 seconds. Of course, viewers may click through at any point of the ad, which is also desirable.

Video advertising can also be seen as a way to improve the performance of advertising as a whole. Our results suggest that as a brand-building tool, video advertising is superior to its display counterpart mainly due to room for creativity. Video ads have moving pictures and sounds, making them much more memorable than search or display ads. Video is also very effective at improving search ad performance by increasing brand-related search queries and search ad click-through rates.

Generally speaking, executives should also spend more money on video ads at the beginning of the product’s life cycle, as its effect is long-lasting and will boost the performance of subsequent search ads. At a more general level, executives should also take note to appropriately model the effects of online advertising within frameworks that allow for the persistence of advertising effects.

On a related note, advertisers need to cast away their experience from traditional TV/programmatic advertising (e.g., 30-second spot advertising) and embrace online advertising, including skippable ad formats and other future innovations. The inability to see past previous paradigms restricts marketers’ ability to harness the power of digital technology. Platform owners such as YouTube are all still learning the best way to exploit the technology, as should consumers and advertisers.

RUNNING VIDEO ADS IN ASIA

The company we studied also used video, search, and display advertising in a few international locations such as Japan, Hong Kong, Macau, the UK, Canada, and Australia. When we applied our model to its Asian data for the same 180 weeks, the results highly resemble the findings for the US market, except that the ROI for video ads is much higher in this region. We do not have enough data to draw conclusions but we suspect the ROI is higher, because first, the Asian market comes up earlier in the product life cycle for the company, and second, the average cost for video ads for the international market (US$0.029 per transaction) is about half that for the US (US$0.067 per interaction).

Another interesting aspect of Asia is the remarkable growth it has enjoyed in broadband coverage. For this region, mobile 4G and 5G broadband coverage is a hygiene factor–that is, people don’t even think about it unless it breaks down. Almost everyone can watch videos seamlessly on their mobile devices, particularly in urban settings. According to the telecommunications industry organisation GSMA, 96 percent of the Asia Pacific population has mobile broadband coverage, with over 400 million 5G connections expected by 2025.[6]

While skippable ads offer companies multiple options to manage their advertising budget, many Asian websites, particularly those in China, do not have skippable ads. For example, except for isolated instances, Alibaba’s Youku (优酷) does not offer them, and neither does Baidu’s iQiyi (爱奇艺), nor Tencent’s QQ Video (腾讯视频). While the three companies are often referred to as “The Big Three” video streaming providers by most Chinese Internet users, some might have a different opinion.

For those observing the Chinese market, it is video-sharing and video streaming website Bilibili (哔哩哔哩) that is catching their attention. The Shanghai-based company is a favourite amongst the ACG (Anime, Comics, Gaming) crowd. In Q3 2022, it boasted monthly active users (MAU) of 332 million, a 25-percent increase from the same period last year, with net revenue jumping 11 percent year-on-year to US$814.5 million.[7] How could a video website that is targeting only a segment of the market have an MAU of 332 million? The answer is simple: Bilibili does not have video ads at all. This superior experience makes it popular among all segments of the market, and it appears Bilibili could be taking over the market soon.

While it may not be possible for "The Big Three" to adopt a no-ad-at-all strategy, skippable ads might be an option. Media platforms can balance the conflicting demands of viewers who do not like to watch ads and advertisers who do not like to pay for skipped ads. One obstacle to this might be that advertisers are not sure about the effect of the skippable ad format. We hope our research can shed light on this and make advertisers more comfortable with using the skippable format, especially when paying for views.

Finally, for online advertising, creativity is the name of the game. The advent of TikTok and its short-video format has changed the way video ads are made, making advertisers rethink the suitability of specific types of advertising for a certain point in the media/branding campaign, be it awareness-building, demand harvesting, etc. It is not feasible for advertisers or platforms to place traditional non-skippable 30-second or even 60-second video ads among a sea of 10-second to 15-second videos.

CONCLUSION

Our research shows that video ads stay in the consumers' minds longer than search ads and display ads, which can subsequently lead to sales. Skippable ads that are skipped before they reach 30 seconds are free of charge, yet they can contribute to sales. Viewed video ads indeed have a greater impression on consumers and make them more likely to purchase the product over a longer period of time. The same can be said for video clicks. With a comprehensive and lengthy data set, we find evidence that online skippable video ads have a positive ROI, and the ROI is higher in the international market outside the US, including Asia.

Executives should evaluate the performance of video advertising as a brand-building tool instead of gauging an ad campaign based on click-conversion data. As shown in the analysis, video ads have a positive ROI, and including them in the marketing campaign would improve the outcome. AMI

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Dr Linyi Li

is Assistant Professor of Marketing at Lee Kong Chian School of Business, Singapore Management University

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