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Streaming Was Supposed to Rescue the Ailing TV Ad Business. It Hasn't.

Brands turn to retailers, Google, Meta and TikTok for additional reach

By Suzanne Vranica Follow

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When Mondelez sought to promote a limited edition of its Oreo cookie earlier this year, it did something that would have been unthinkable not that long ago: It didn't spend a dime advertising on TV.

The snack company had a simple reason for that decision. The people it was looking to reach—Gen Z members, multicultural audiences and households with children—aren't watching enough television.

"You have no single shows pulling together a big enough audience like 'Friends' or 'Seinfeld' used to do," Jonathan Halvorson, Mondelez's global senior vice president of consumer experience, said of the current state of TV. And streamers such as Netflix aren't a perfect alternative: Their nascent advertising platforms charge too much and don't yet reach enough people, he said.

The maker of Ritz crackers and Sour Patch Kids candy is spending about 15% of its U.S. ad budget on TV this year, down from 42% three years ago. Halvorson said an additional 9% is going to streaming, meaning that more than three-quarters of its ad spending will go elsewhere.

To promote its new Oreo Space Dunk, Mondelez turned to social-media sites such as Instagram and TikTok, Halvorson said. It also relied heavily on ads that appear where people already are in a shopping mood: the websites of large retailers, including Amazon and Walmart.

'People think streaming might be a salvation'

The move marks an important inflection point. TV commercials have long stood as the cornerstone of modern advertising. This dominance was owed, in part, to TV's capacity to reach vast and diverse audiences through ads that leverage sound, sight and motion to evoke emotional responses.

These vast audiences aren't tuning in anymore.

"There is no longer that single lever you can pull," said Vinny Rinaldi, Hershey's U.S. head of media and analytics, referring to the role that television once played in advertising. The chocolate giant said the share of advertising dollars it spends on TV fell to about 30% from roughly 80% in five years.

Brands have been preparing for the inevitable decline of television for years, but many had held out hope that the rise of ad-supported streaming TV would plug the gap. So far, that isn't happening.

"A lot of people think streaming might be a salvation," said ad analyst Brian Wieser. "But no, all of TV is in secular decline." Excluding political advertising, marketers are expected to spend over $60 billion, combined on traditional and digital television in the U.S. this year, down from more than $64 billion five years earlier, according to Madison and Wall, Wieser's firm.

Despite the sharp drop in TV ad spending, Mondelez and Hershey remain far-bigger believers in TV advertising than the industry as a whole. The share of their ad budgets that the candy makers will spend on TV and streaming this year trumps the 17% that all marketers are expected to spend in the U.S. this year, according to GroupM data.

Today, companies "have to build reach across multiple platforms," said Rinaldi, who cited YouTube and Meta—the parent of Facebook and Instagram—as the next best ways to reach large audiences.

Live sports are ever more popular—and expensive

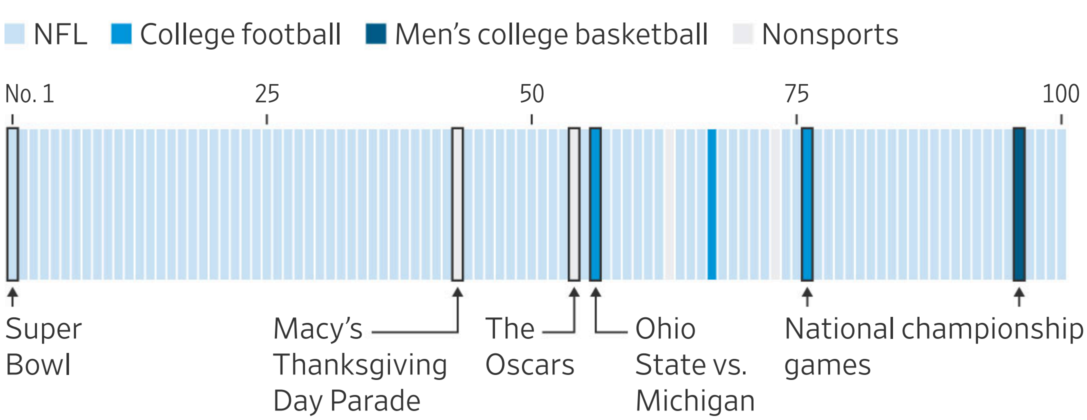
The scale of television's reach remains a major selling point for entertainment titans as they present their programming plans for the coming TV season to advertisers—a process known as the "upfronts," which begins in earnest on Monday in New York City.

Network owners will host star-studded presentations that tout their new TV shows and streaming offerings, while Billie Eilish is expected to star in YouTube's pitch to brands. Netflix will let advertisers participate in an interactive experience at New York's Chelsea Piers, and upfront newcomer Amazon.com will entertain brands at Pier 36.

Celebrity chef Gordon Ramsay and Fox Sports analyst Michael Strahan appear during an upfront presentation. PHOTO: FRANK MICELOTTA/FOX

One of the few things that still brings large numbers of viewers in front of their TV is live sports, which accounted for 96 of the 100 most-watched broadcasts last year, according to Nielsen.

Most-viewed TV programs in the U.S., 2023



Note: Excludes repeats, programs lasting less than 25 minutes or airing without commercials, and live events requiring extended runtimes.
Source: Nielsen

That, in turn, has made advertising during live sporting events more expensive. And a larger amount of sports content is being watched on streaming platforms instead of TV every year, as tech giants such as Amazon and Apple nab exclusive rights to more games. Traditional TV conglomerates are preparing to launch a joint streaming platform dedicated nearly entirely to sports.

"It is now clear that outside of sports advertising, there should no longer be expectations of a recovery for linear TV advertising," analyst Michael Nathanson wrote in a recent note to investors.

Brewer Molson Coors said it went from spending about half of its TV advertising money on sports programming five years ago to roughly 80% this year, even if these ads are more expensive.

"Sports seems to be holding its own, and audience ratings in some cases are going up," said Brad Feinberg, Molson's North America vice president of media and consumer engagement.

The brewer said it spent about 40% of its U.S. ad budget on traditional TV in 2023, compared with 50% five years ago and about 85% in 2013. Although streaming services such as Paramount+, Peacock, Netflix and Hulu have picked up some of these TV-ad dollars, Molson Coors shifted a larger portion of that money to digital channels such as Instagram and Snap, Feinberg said.

Not allowing enough ads

The streaming landscape remains "too fragmented," Feinberg said. Another problem: Streaming audiences won't tolerate as many ads as they do on traditional television.

Seemingly every major streaming service launched an ads-supported tier over the past year and a half, vastly expanding the inventory of commercials that can run on these platforms. But many of them have promised to limit the commercial interruptions on their services. Wieser estimated that commercials take up about four minutes per hour on some premium streaming platforms, compared with about 14 minutes for some TV networks.

"No matter how much streaming grows, it can never make up for the lost linear ad inventory so long as ad loads remain light and consumers exhibit preferences for ad-free options," Wieser said.

In the U.S., only 7.5 million Netflix subscribers—or 10% of its U.S. customer base—paid for the ad-supported version of the platform in the first quarter, according to a joint analysis by Antenna and Wieser. The streaming platform with the biggest advertising reach currently is Amazon's Prime Video, which recently defaulted its entire user base to the ad-supported version.

Many brands have also been turned off by the high ad prices that many of the premium streaming services charge. Streaming ads often are three times as expensive and up to twice as expensive as ads running during entertainment programming on cable and broadcast TV, respectively, according to ad buyers and advertisers. The streaming prices are declining amid growing competition between ad-supported services, they said.

Complicating matters further for marketers: Some streaming platforms measure viewership and ad performance differently. What's more, advertisers often can't find out where their commercials ran, a risky proposition for brands that typically want to stay away from content they deem unsuitable.

The rise of 'retail media'

Digital players including YouTube, Meta and TikTok and retail juggernauts such as Amazon and Walmart have emerged as the main beneficiaries of streamers' failure to grab all the ad dollars that left traditional TV.

Fast-food giant Taco Bell has been shifting more of its TV-ad dollars toward social-media advertising, predominantly TikTok, because users on the platform engage with ads and content online.

The one-way communication of TV, where brands talk to consumers about something, doesn't work as well anymore, said Taco Bell Chief Marketing Officer Taylor Montgomery.

Taco Bell wants its ads to generate a two-way dialogue, with consumers going to social media to post and comment on videos about products they like or join in on the discussion.

Mondelez's Halvorson said the company will spend roughly 20% of its U.S. ad budget this year on "retail media," a category that includes the ad platforms of retailers. Their growing popularity is fueled by the troves of data that retailers have about their customers' shopping habits and their ability to easily measure when an ad has led to a sale.

Ad spending in the U.S. retail media sector is expected to overtake traditional TV ad spending next year, according to GroupM.

Microsoft significantly pulled back from traditional TV advertising last year, partly because the tech giant was seeking to save money to fund its expansion into generative artificial intelligence and decided to lean more heavily on digital ads that offer better ad measurement, according to people familiar with the matter. Microsoft declined to comment.

Halvorson said the decline in TV ad spending would happen even faster if longtime advertisers weren't getting significant discounts for their TV ads, the result of grandfathered agreements reached decades ago that give them an incentive to keep buying TV commercials.

If Mondelez was forced to buy ad time in the U.S. at current pricing levels, Halvorson said: "We'd be out."

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