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Kids Digital Advertising Report 2017

September 2017

Commissioned by

Our summary perspectives

- We estimate the kids digital advertising market could reach c.$1.2bn by 2019, supported by strong (and structural) tailwinds, including kids media consumption trends, the intentions of brands to grow digital spend and regulatory requirements

- Upsides include (i) a faster than expected transfer of spend away from bundled TV & digital deals, and (ii) a greater than expected impact of GDPR on non-compliant* platforms

- Additionally, increasing regulatory requirements and awareness of the benefits of compliance support a shift in spend towards dedicated 'kidtech' players

- The fragmentation of online viewing supports a transition in spend to 'marketplace' models, with further upside if declines in kids TV viewing lead to a reduction in digital inventory bought directly with kids broadcasters in bundled deals

- While the outlook for kids programmatic is inherently uncertain given how nascent it is, we expect adoption to grow, albeit slower than was seen for conventional programmatic advertising. This reflects the perceptions of buyers and partners, though there is still further education needed

- There are a growing number of companies giving increasing focus to providing the technology or buying services for kids digital advertising, which will further facilitate growth in this market

**Throughout this report, we use 'compliant' to refer to platforms or publishers that we believe to have achieved certification through an FTC-approved COPPA Safe Harbor Program (such as kidSAFE, TRUSTe, ESRB, etc.) at the time of writing*

Advertising to kids under 13 online is an increasingly regulated practice in the US and Europe

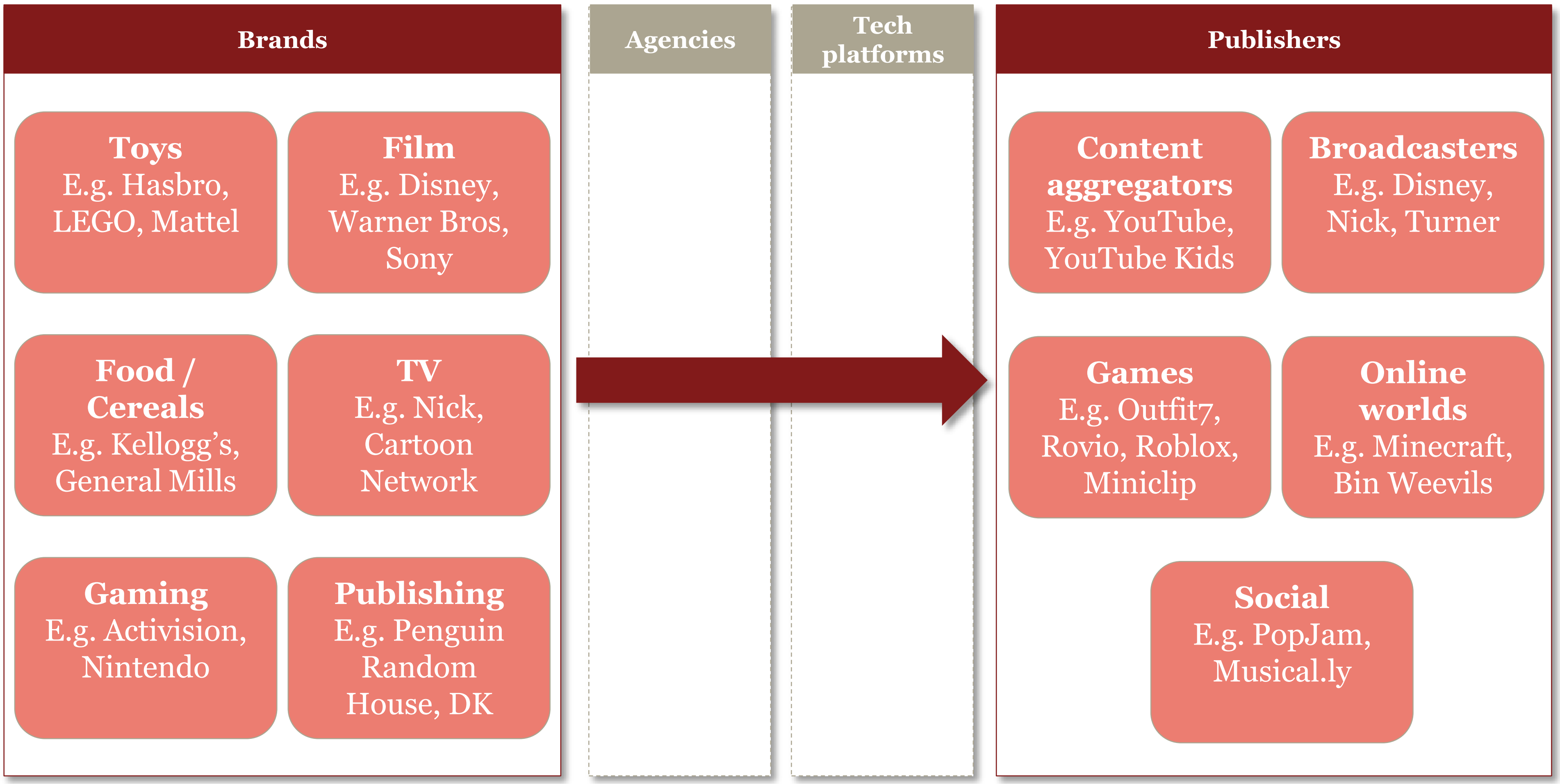
Overview of regulatory landscape for digital advertising to children U13 in the US and Europe

	What	*Where*	*How*
Key requirements	• Ads must not be unfair or deceptive (EU and US) – i.e. no promotions, endorsements, product placements, branded games without being labelled as an advert • Legal ban on ads for unhealthy or inappropriate products in the UK and EU to children. Additionally, many brands have pledged not to advertise unhealthy products to U13s globally	• Regulations apply to all publishers where the content is mostly aimed at children (i.e. children are over 25% of audience)	• COPPA – US, GDPR – EU (from 2018): No collection or use of PII[1] incl. cookies to target ads without parental consent and other conditions • No online behavioural advertising targeting U13s (EU advertising standard)
Enforcement	 Federal Trade Commission	 ASA / CAP	 Multiple regulators
Penalties	**YouTube Kids Faces Further FTC Complaints Related To Junk Food Ads Targeting Young Children** Posted Nov 24, 2015 by Sarah Perez (@sarahintampa) YouTubers ads for Oreo banned for not making clear purpose of videos **Disney sued for allegedly spying on children through 42 gaming apps** *Disney says 'we look forward to defending this action in court'*	**Viacom Targeted by Mom Suing Disney Over Kids Apps**	**$40k** per individual user violation - COPPA **€10m** or **2% of revenue** – GDPR (whichever higher)[2]

Note: 1. PII: Personally Identifiable Information 2. Maximum GDPR penalties are €20m or 4% of revenue, but offences relating to children's privacy appear to be subject to this lower threshold
Source: FTC, GDPR, Press Searches, PwC interviews

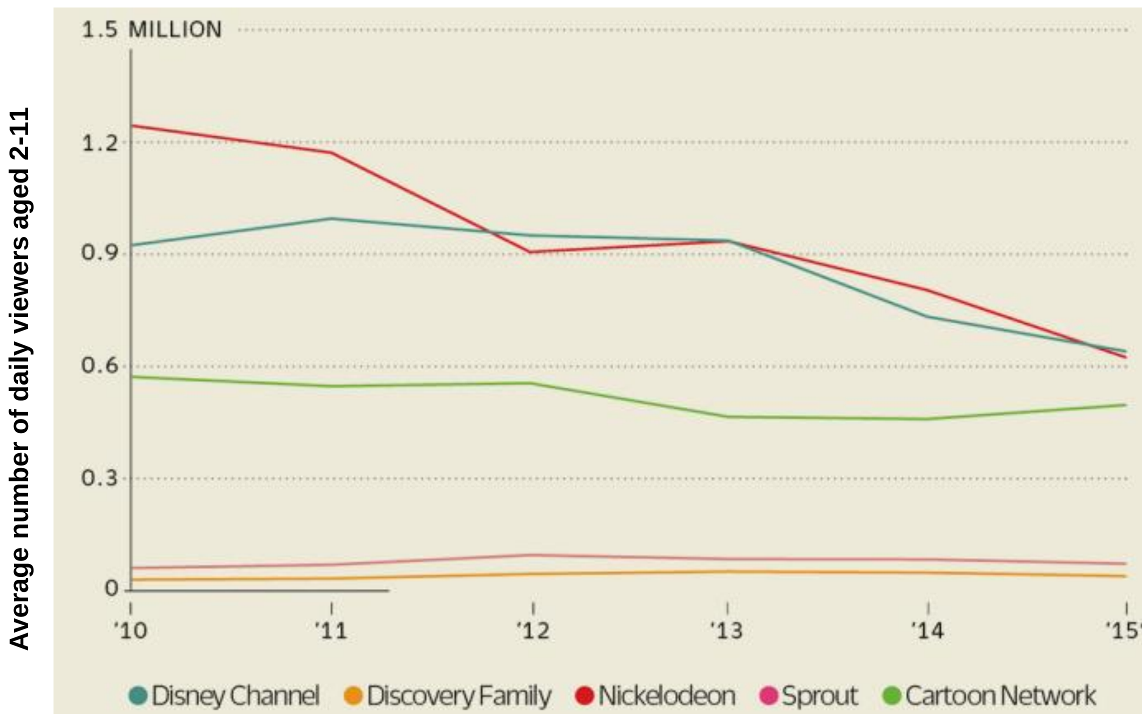
The market is characterised by major kids brands aiming to reach kids in the places where they spend time online

Selected examples of brands and publishers in U13 digital advertising ecosystem



Declining kids TV viewership is placing pressure on TV ad budgets…

US viewership for children's TV networks, 2010 - 2015



Themes from PwC interviews with brands, agencies and tech platforms:

- ***Falling TV ratings** constraining the available inventory*
- *Marketing strategies that are becoming less reliant on TV, and **more focused on digital***
- *Prospect of **increasing prices for TV** as impressions fall, creating comparatively better value in digital*
- *Acknowledgement that TV ad revenue has been **resilient despite viewership declines**, though this may change going forward*

Source: PwC Interviews, Variety, Nielsen, eMarketer

...combined with a greater willingness of brands and agencies to invest in digital

Themes from PwC interviews with brands, agencies and tech platforms:

A significant transition to digital is already underway

- *Digital has **grown as a share of ad budgets** from almost zero to a substantial minority in most cases*
- *Some brands are now spending **c.50% of their budgets** on digital*
- *The UK market is **more digitally mature** than US spend*
- *The toys market, dominated by a small number of large brands, has been one of the **strongest early adopters of digital***

This is partly driven by new opportunities that digital provides

- *Digital allows brands to use more **engaging content** – videos and games, for instance – to connect with kids*
- *It allows the creation of **communities** through the use of social media and influencer marketing*
- *It can provide an **online destination** / presence for brands*

There are some short-term obstacles that may clear going forward

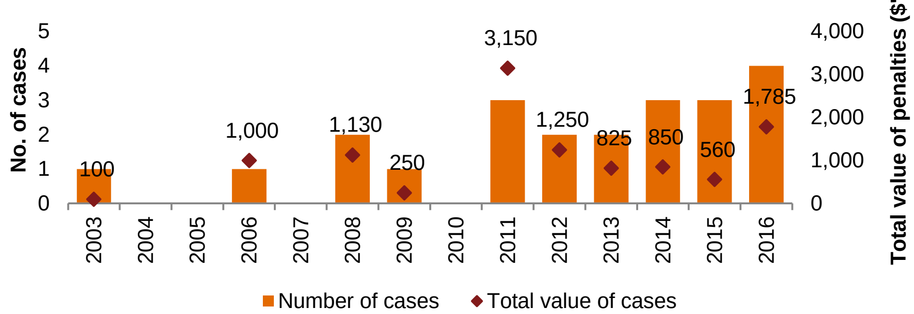
- *There is still more to be done to **grow awareness and educate brands** on the potential*
- *There can be **constraints on the availability of premium inventory***
- *Some brands are still exhibiting **caution** in relation to digital, regarding brand safety and compliance*

Source: PwC Interviews

Digital advertising in the kids space is increasingly being driven by the need for compliance…

Regulators have been increasing the pressure on brands, agencies and publishers to be more compliant

Number of COPPA-related cases and total value of penalties, 2003-2016



New York Attorney General

Operation Child Tracker – Since 2014, the AG of New York has been investigating and prosecuting violations of COPPA, successfully challenging big brands like Mattel, Viacom and Hasbro

- There appears to be mounting pressure and more resources focused on enforcing COPPA in recent years
- Regulators have successfully prosecuted organisations across the whole value chain
- Compliance is now a key requirement for kids brands and publishers, driving demand for compliant advertising
- Class-action lawsuits have recently been filed against Disney, Viacom and Kiloo for alleged COPPA infractions

The introduction of GDPR will bring new requirements to Europe similar to the US COPPA regulation

General Data Protection Regulations
(effective from May 2018)

Specific requirements for children's PII:
- *Parental consent required for collecting and using data – this is a new requirement for EU businesses*
- *Definition of a child could be set at under 16s in some countries (still to be determined)*
- *Applies to people located within EU, so foreign businesses with EU users are also impacted*
- *Applies across the entire digital advertising value chain*
- *Significant fines of higher of 2% of revenue or €10m – however enforcement is yet to be clarified*

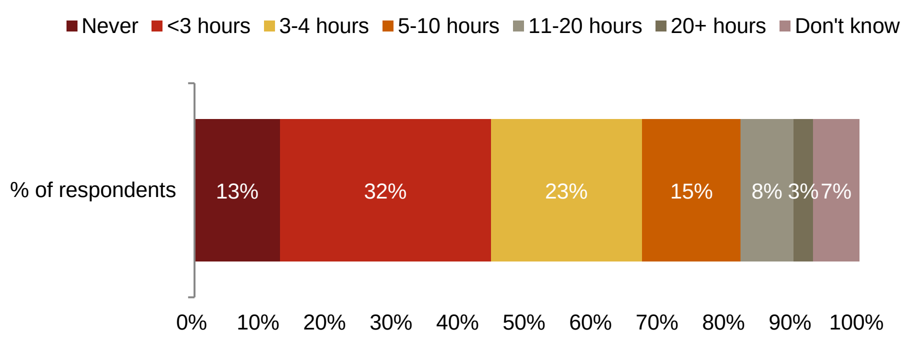
- Companies will not be able to collect and process children's PII without verified parental consent
- The size of penalties will force companies to robustly comply or avoid collecting and using PII altogether
- This will likely drive growth in compliant advertising and certification (across all parts of the value chain)

Source: www.coppanow.com, www.ag.ny.gov, Press searches, PwC interviews

...and a shift from publisher-centric to marketplace-centric advertising

We estimate that YouTube accounts for around 30% of kids' online time...

Weekly time spent watching YouTube, UK 3-16 year olds, 2016[2]

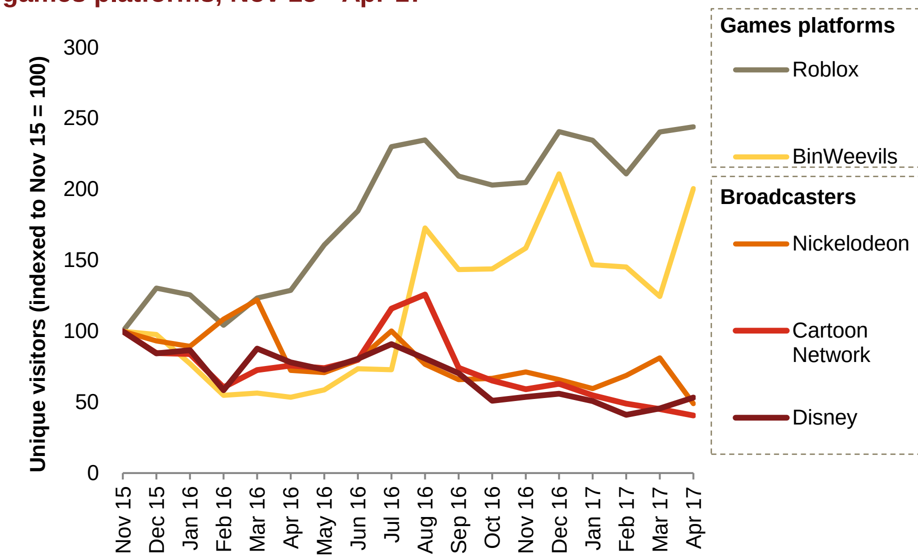


Average weekly time spent on YouTube: ***c.4.5 hours***

This would represent ***c.30%*** *of the c.15 hours kids spend with online media each week[1]*

...though beyond YouTube, online time is fragmented, with some traditional sites losing share

Total website traffic to selected kids broadcasters and games platforms, Nov 15 - Apr 17

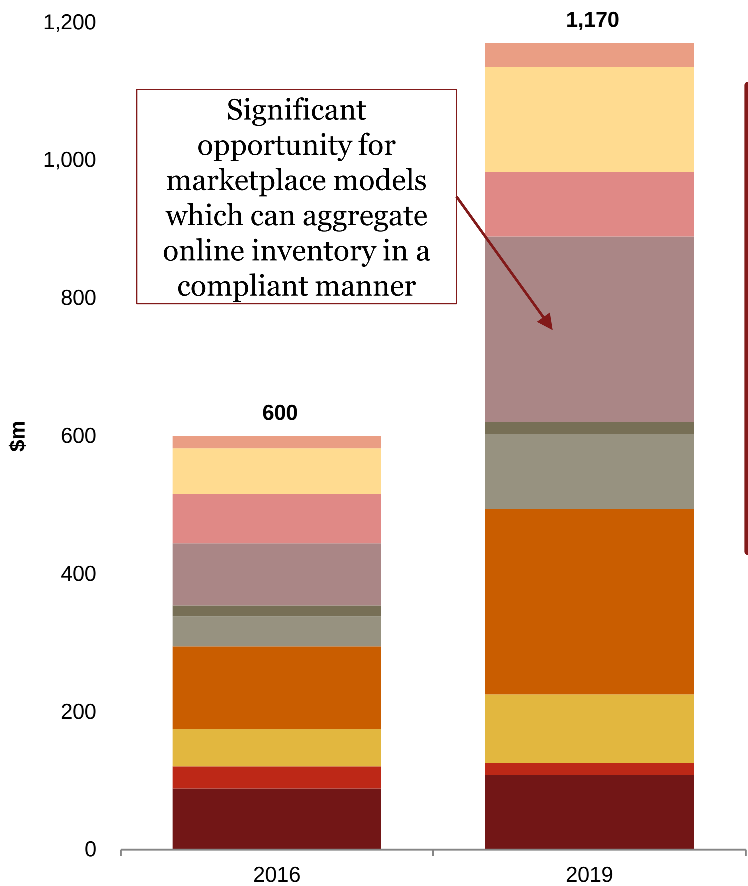


This reflects a need for a marketplace-centric approach rather than a publisher-centric approach, allowing brands to find their audience across a disparate set of inventory

Note: 1. Based on Ofcom study; 2.Based on eMarketer (Sep 2016)
Source: Ofcom ('Children and parents: media use and attitudes report', Nov 2016), SimilarWeb

Platforms/ networks that can aggregate compliant inventory are likely to be well placed

Kids digital advertising market by channel, 2016-2019



	CAGR 16-19	Compliant?
Total	25%	
Social	25%	Varies
VOD	32%	Varies
Other (non-compliant)	9%	✗
Other (compliant)	44%	✓
Kids broadcasters (non-compliant) - digital only	3%	✗
Kids broadcasters (compliant) - digital only	35%	✓
YouTube	31%	✗
Search	23%	N/A
Kids broadcasters (non-compliant) - TV bundles	-18%	✗
Kids broadcasters (compliant) - TV bundles	7%	✓

In the future, many of these inventory sources are likely to be aggregated by platforms

Advertising packages sold as digital-only

Advertising packages sold as part of a bundle with TV ads

Source: PwC Analysis, PwC Interviews

There are a number of favourable (and structural) tailwinds which we expect to drive strong rates of growth in the digital kids ad market

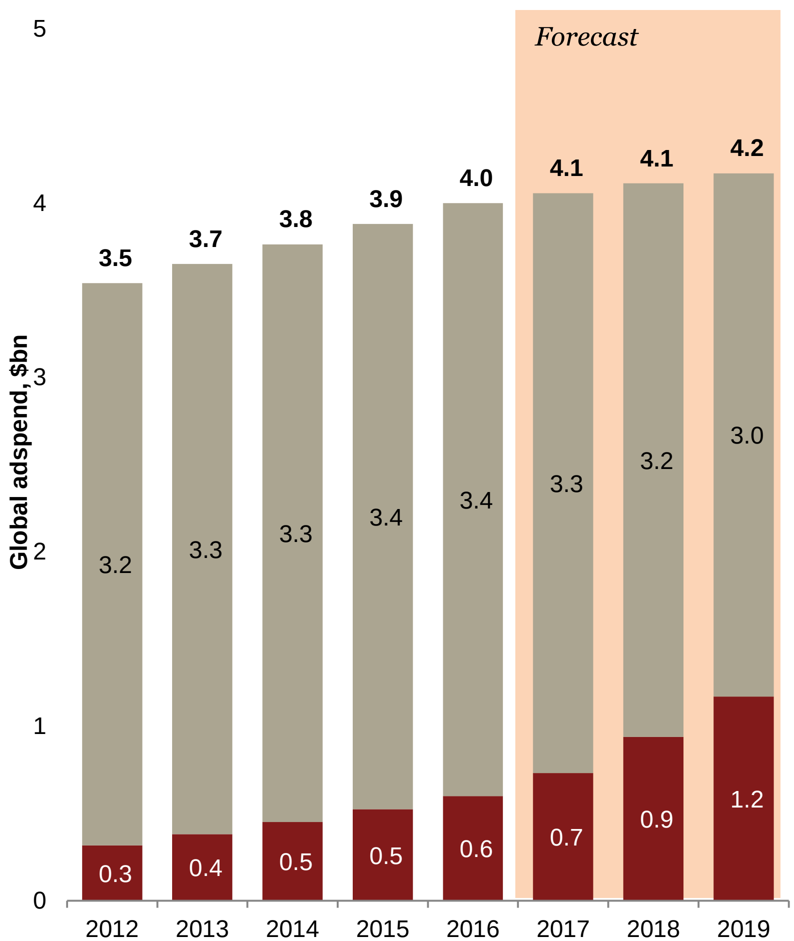
	1. Total U13 kids' ad spend	2. Digital U13 kids' ad spend	3. Compliant sites ad spend	4. Compliant programmatic ad spend
Drivers of growth / attractiveness for advertisers	• **Industry growth** c.5% p.a • Increasing global U13 **population** c.1% p.a. • Audience with **rising "pester" power** and **spending power** • Strong **competition** among kids brands	• **Rapid consumption shift** from TV to digital • **More efficient /cost effective marketing** vs. TV • **Increasingly targeted, innovative and engaging** advertising	• Growing **regulatory pressures/ penalties** • Increasing **awareness** of benefits of compliance • **Increasing supply** of compliant inventory coming to market	• **High (and rapidly increasing) programmatic penetration** within the mainstream digital ad market
Potential threats to growth	• Rate of **TV decline** may offset digital growth • **Political uncertainty** • Public pressure surrounding the **moral implications** of advertising to minors	• Growth of **subscription (ad free)** platforms • **Lack of** quality/ comparable **video inventory** for advertisers (and hence remain tied to TV deals)	• Some **(short-term) complexity** for brands/ publishers navigating new regulations • Sales often done **in-house** by large publishers	• **Limited knowledge/ awareness** of programmatic technique to target children • **New/ unproven** sales model in this market
Growth Outlook p.a.	**c.1%**	**c.25%**	**c.30%**	**100+%***
% of U13 kids' market (2016)	**100%**	**c.12-15%**	**c.5%**	**c.0%**

Source: PwC Analysis, Euromonitor, E&M Outlook, WorldBank, IAB/PwC Adspend study, WARC

*From a small base

We estimate that spend on kids digital advertising could reach $1.2bn by 2019, representing 28% of all advertising to kids

Global kids advertising spend, 2012-2019



	CAGR 12-16	CAGR 16-19
Total u/13s ad spend	c.3%	c.1%
Non-digital ad spend	c.1%	c.-4%
Digital ad spend	**c.17%**	**c.25%**

Source: PwC Analysis, IAB/PwC Adspend study, WARC

There are a number of considerations which might impact the rate of transition to digital

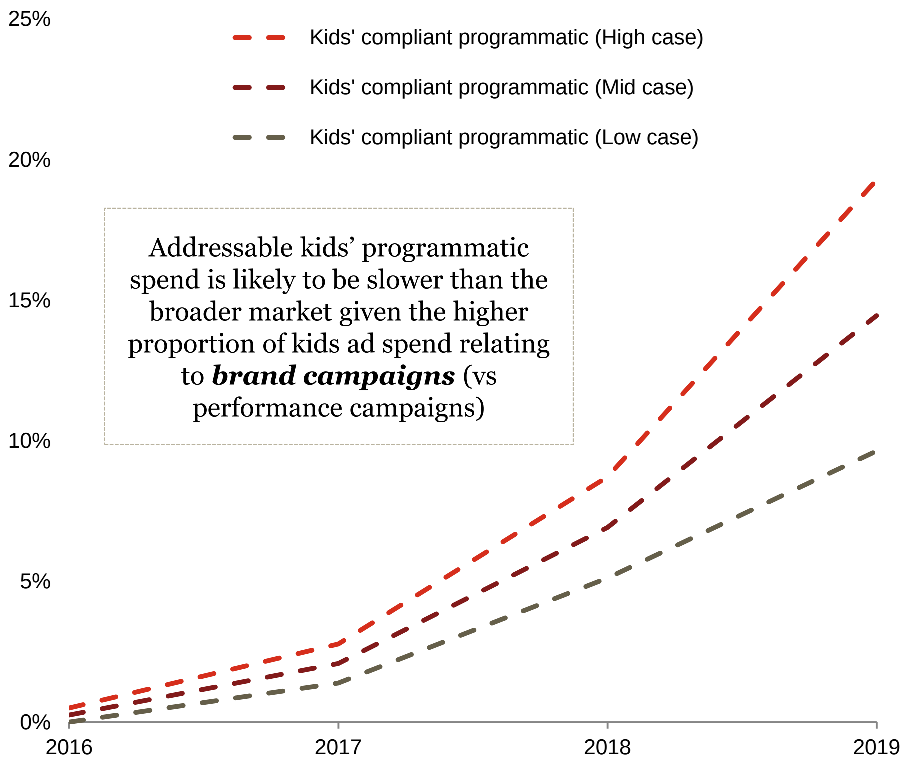
Market consideration	Digital growth rate impact
Kids shift away from TV and adoption of digital is faster than the adult segment (where TV viewing has been more resilient)	
Ad agencies are already experienced with the digital landscape (though kids-specialists perhaps less so)	
Adult segment shift to digital was primarily led by performance marketing whilst kids' marketing has **greater focus on brand** and hence may be slower to transition (or will transition to different types of digital inventory **e.g. video**)	

Key: Accelerator Decelerator

Programmatic advertising to kids is a new development that should also support growth in spend

We estimate that 10-20% of adspend on compliant inventory ($50-100m) may be programmatic by 2019…

Programmatic adspend as proportion of total kids digital adspend on compliant inventory sites, 2016-2019F



…supported by the views of media buyers and partners

Themes from PwC interviews with brands, agencies and tech platforms:

- *Early indications have been positive, with a **strong uptake of programmatic** buying in some brands*
- *There is potential to reach kids in a more **sophisticated and tailored** fashion*
- *It is ultimately seen as **beneficial for ROI** / conversion to sales*
- *The obstacles at present are the relatively **low awareness** of kids-specific programmatic products, and the **more limited attribution** capabilities compared to ordinary programmatic*

Source: PwC Analysis, PwC Interviews

There are also a number of social media platforms emerging aiming to offer compliant kid-safe environments

Social media platform	Description	Compliant?	U13s policy	Ads?	Proposition			
					Creative	Messages	Games	Photo / Video
PopJam	Kids-focused creative community app	✓	Core audience	✓	✓	✗	✓	✓ (with controls)
KidMix	Kids social network (feed, messaging, channels)	✓	Requires parental consent	✗	✗	✓	✓	✓
Marimba	Protected messaging app	✓	Requires parental consent	✗	✗	✓	✗	✓ (messages)
Padlet	Creative collaboration app	✓	Allowed, but not directed at U13s	✗	✓	✓	✓	✓
Houseparty	Group video chat app	✗	Excluded in ToS	✗	✗	✓	✗	✓
Musical.ly	Lip-sync video-sharing app	✗	Excluded in ToS	✓	✓	✗	✗	✓
Mainstream social media (e.g. Facebook, Snapchat)	Social feed, photo & video-sharing	✗	Excluded in ToS	✓	✓	✓	✓	✓

Source: Company Websites, kidSAFE, Common Sense Media, Press, Protect Young Eyes

New 'kidtech' companies have emerged in a market with relatively high barriers to entry for mainstream players

Challenges for mainstream players to operate compliantly in the kids digital ad market

Traditional media ad agencies

- Expertise required to ensure compliance with COPPA / GDPR
- Lack of in-house kidtech expertise
- Kids a relatively small part of overall business

Mainstream adtech companies

- Expertise required to ensure compliance with COPPA / GDPR
- Data/profile-driven technology incompatible with technical compliance requirements of U13 space
- Kids a relatively small part of overall business
- Trust issues to overcome

The emerging kidtech landscape

Example providers by product offering area

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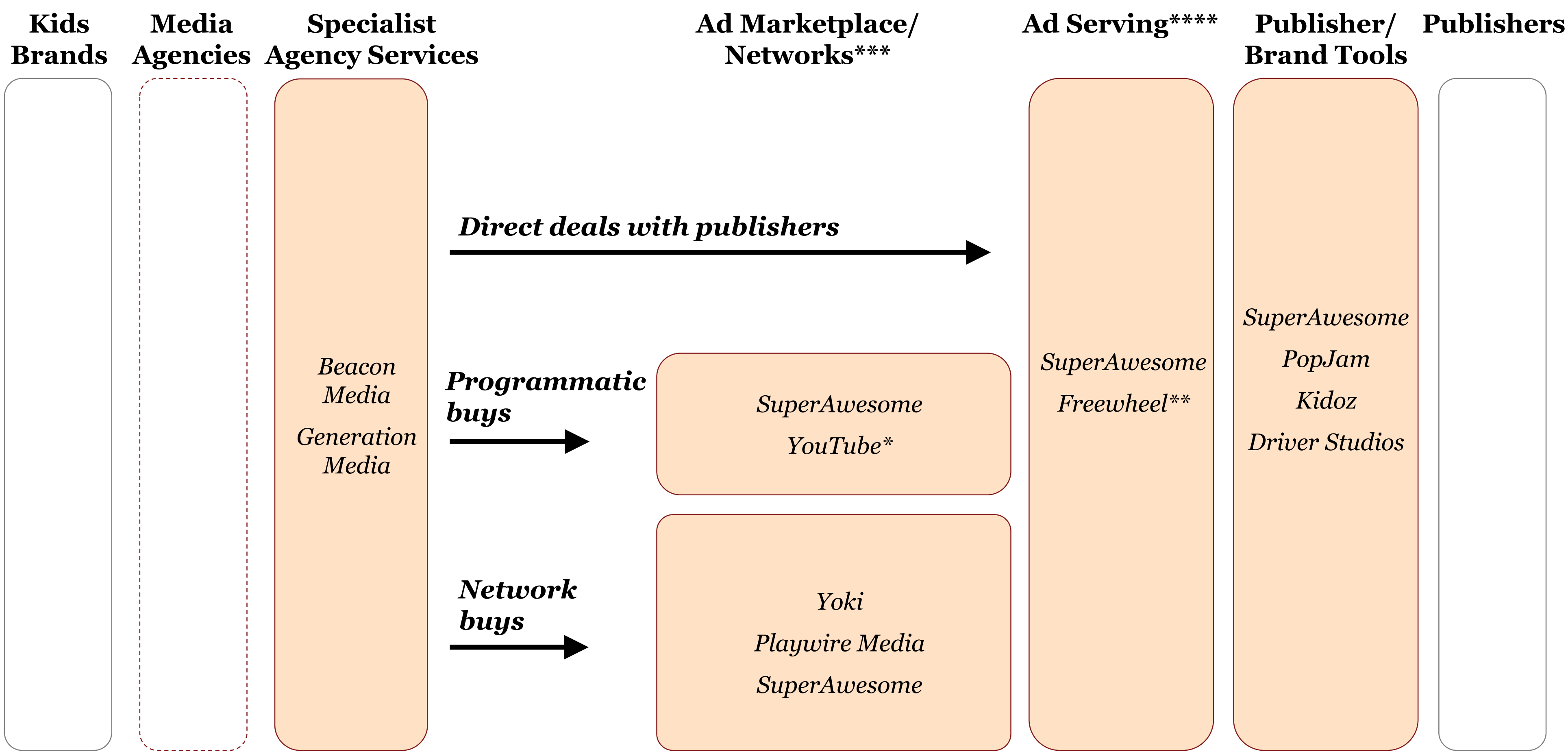

Notes: *YouTube is not a COPPA-compliant platform; **Freewheel (owned by NBC Universal) is used for ad-delivery for certain kids VOD platforms; ***Network buys exclude non-compliant, non-kids networks such as Venatus Media; ****Ad serving excludes non-compliant, non-kids solutions such as DFP

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