Standard Media index

Covid-19 Advertising Rebound Report

The U.S. Ad Industry Stages a Remarkable Come-back After the Pandemic Removed $17 Billion in Ad Spend from the SMI Pool

Lockdowns during the height of the pandemic were devastating to the U.S. ad industry, as they were for the economy and society as a whole.

But advertising has made a remarkable recovery with growth now nearly in line with spend projections from before the emergence of Covid-19.

Clearly, with delta and omicron, the pandemic is not yet over and may still have surprises in store for the ad industry before it's done with us. So, consider this a Covid Phase 1 report.

Standard Media Index (SMI) estimates that the first 19 months of the Covid pandemic cost the U.S. advertising industry at least $17 billion in money not spent by the biggest advertisers in the market. The worst impact was in the spring of 2020, which saw a 38% year-over-year drop from the same period 2019, as measured by the SMI Pool of invoice details from all major ad agency spending.

Resetting the Bar: Where would the ad economy be if Covid hadn't happened?

The SMI Pool provides a unique lens on the advertising economy. Comprised of complete invoicing details for all the largest global advertising agencies, it is strongly reflective of the spending behaviors of large brand advertisers. We project the total tally of the SMI Pool spending in 2021 to total over $90 billion.

Using this data set, we analyzed what the market lost in comparison to a projection of what the industry should have spent by 2021 had Covid not occurred.

To do so, we created a Covid Deficit Backcast. We call it a "backcast" because it provides a forecast of the past, a model to create a retroactive hypothetical alternative of a period without the pandemic. It uses a regression model, trending several years of SMI Pool ad-spend data, and is trained with media special tentpole events (Summer Olympics, regular sports schedule, awards shows, etc.).

Using this model, we estimate that for the period of March 2020 to September 2021, the pandemic removed $17 billion from the SMI Pool of "major brand" advertiser spending.

The backcast reveals the scale of 2020's second-quarter spend gaps, with a rebound catch-up at the end of that year. Into 2021, a gap from the projection remains, but in recent months the trend line of actual spend has nearly caught up to the projection.

Figure 1. The SMI Pool loses $17 billion from the media economy in Phase 1 of Covid

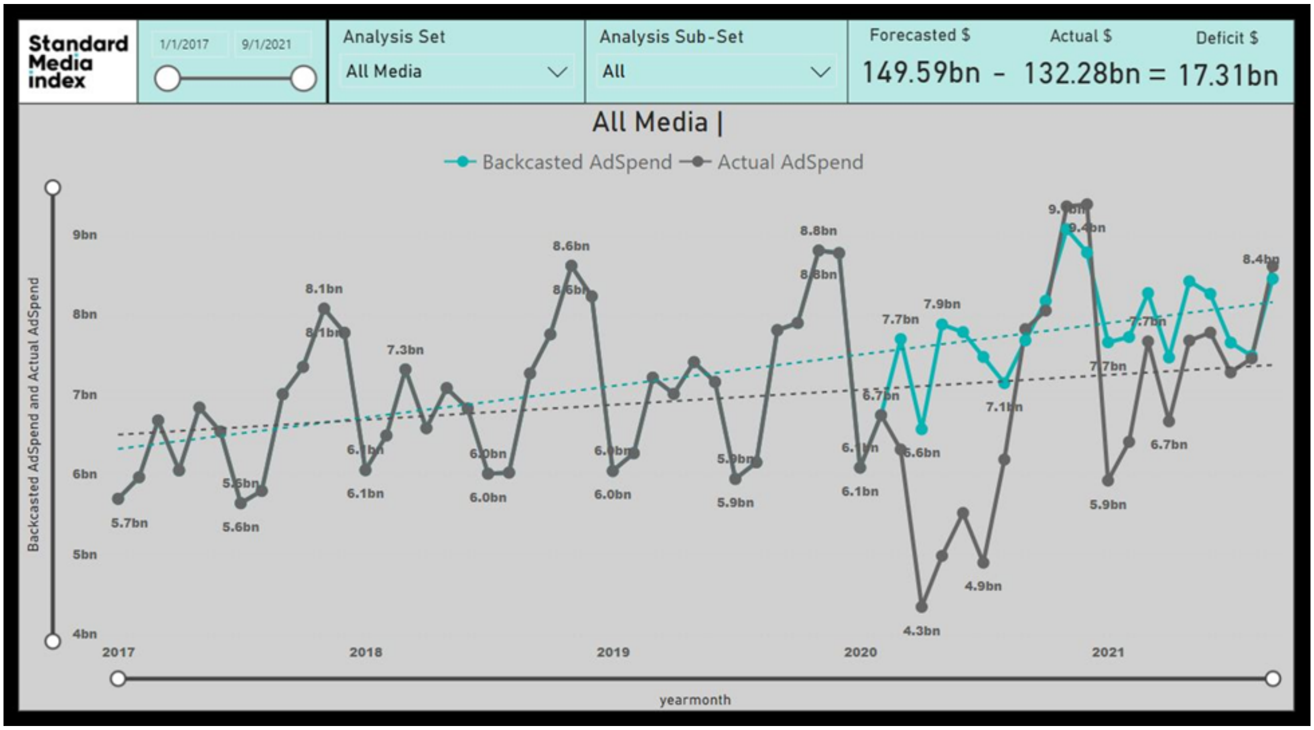


Figure 1 shows a black trend line of actual SMI Pool market spending back to Jan 2017, and, in blue, our model's projection of expected market spending had Covid not happened.

While $17 billion is a significant loss, in comparison to past economic crises, it could have been much worse.

For historical context, the downturn for ad spending during the Great Depression didn't hit bottom for four years (ultimately down 54%) and didn't return to 1929 spend levels again until 1945. The Great Recession of 2008 similarly took two years to reach its nadir, "only" 19% down from 2007, and took another eight years to recover. That the Covid ad recession fell by 38% in a single quarter YoY but rebounded to 2019 levels within one year is extraordinary.

By comparison, we estimate the total effect of the losses to ad markets in the Great Depression and Great Recession to be on the scale of hundreds of billions of inflation-adjusted dollars. In that light, the $17 billion hit to the SMI Pool from Covid so far seems like beyond a best-case scenario.

Our view is that the worst may be already behind us. This is based on the rapid recovery as shown by this analysis, along with the underlying health of the U.S. economy, vaccine rollout and the trajectory of media trends.

Covid flips script on TV, traditional media, as major advertisers shift majority of spend to digital media

The Covid Deficit Backcast model, which SMI clients can find as a featured applet on their SMI Apollo software dashboard, also drills into different advertising sectors and media types.

The analysis shows that, as we have seen in major economic downturns before, this recession coincided with a significant realignment of the advertising media mix.

The Great Depression saw radio go from a 1% share of ad expenditures in 1929 to 15% in 1945, according to McCann estimates. Direct mail, magazines, and outdoor also saw big growth in that period as well, mostly at the expense of newspapers' share. More recently, the Great Recession greatly restacked the mix, where Internet marketing went from 10% of ad dollars in 2007 to 41% in 2017, according to Pivotal Research estimates. Pivotal had TV's share grow slightly in that time, while all other major media lost share, newspapers most notably from 20% to 5%.

A similar reordering of media has occurred in the past year and a half. In 2019, linear television and broadcast radio still made up slightly more than half of the SMI pool at 51%, with all of digital media at 43%. In 2020, those shares respectively were 47% and 49%. In 2021, digital media made up 52% for the year through September, with TV and radio down to 44%.

That share shift has mostly to do with the severity of the impact of the pandemic on traditional media, primarily national television, as well as radio, print and outdoor. Digital media did not actually gain more ad spending during the Covid era than our model projected, it just didn't fall short nearly as much as traditional media has.

Digital media proved highly resilient

As seen in Figure 2 below, The Covid Deficit Backcast projected (in blue) steady growth for digital media spending in the SMI Pool of $70 billion for the period March 2020 to September 2021.

Instead, actual spend (in black) dropped precipitously in the spring of 2020, with the rest of the ad market, then overcompensated at the end of the year. By 2021, spending was well aligned again with the predictive model of where it should be. In all, it came in less than $2 Billion short of the projection. Note that the dotted trend lines on the chart nearly overlap, with the actual coming in slightly less steep than the projection. In fact, contrary to the common narrative that the pandemic turbo-charged digital media ad sales, most subsectors of digital media underperformed our model's projection. (Paid search was the one exception that outperformed the projection.) But overall, digital media was not clobbered in the way that traditional media was.

Figure 2. Digital Media spending overall was down slightly from SMI's backcast projection for the period

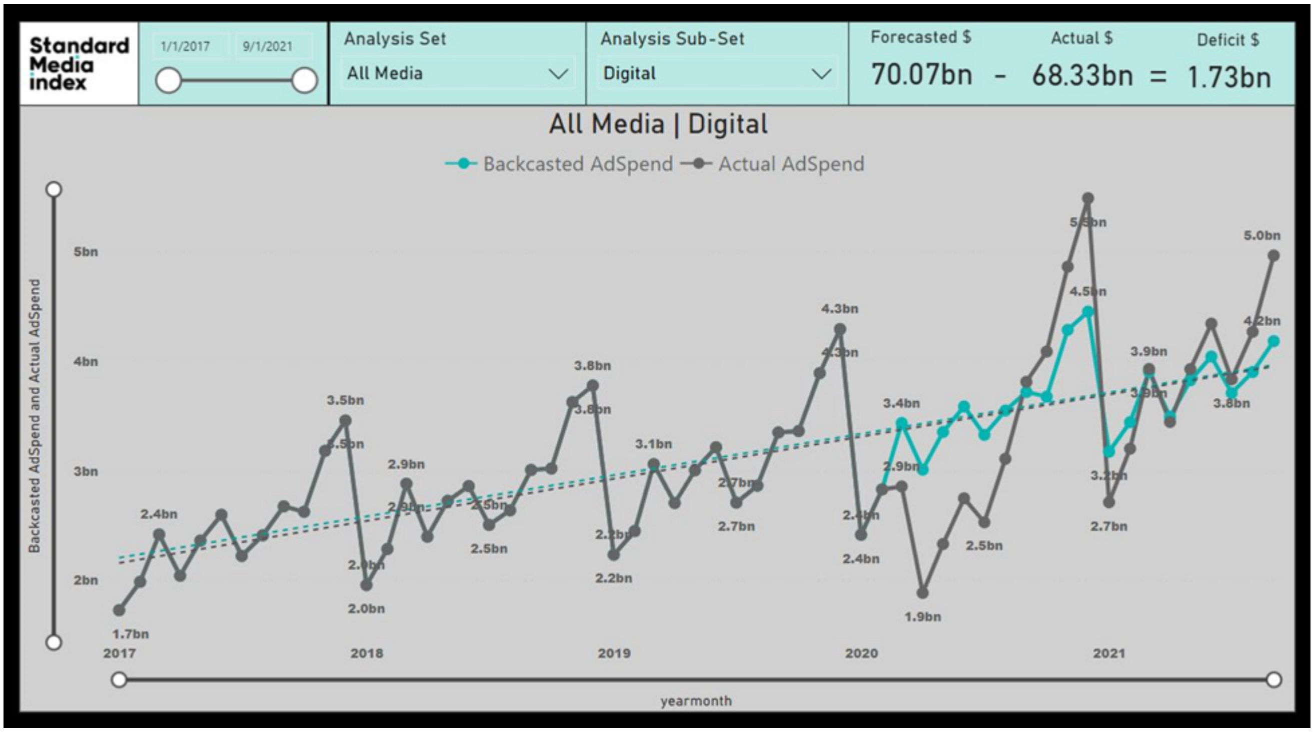


Figure 2 shows that, in aggregate, digital media were down $1.7 billion from the projection SMI made for the Covid period, just over 2% off the mark. Therefore, it is not accurate that the pandemic accelerated the ascent of digital; but it did not slow it much. Note the linear trend lines (dotted) for the projection and the actual data are nearly on top of each other.

Not so for traditional media.

Traditional media bore the brunt of impact to ad spending

As seen in Figure 3, the impact of Covid on Traditional Media was more severe and the recovery not as robust, making the category significantly underperform relative to the projection. The result appears to be an acceleration and heightening of the transition of dollars to Digital Media that was already underway.

Figure 3. Covid changes the trajectory for Traditional Media

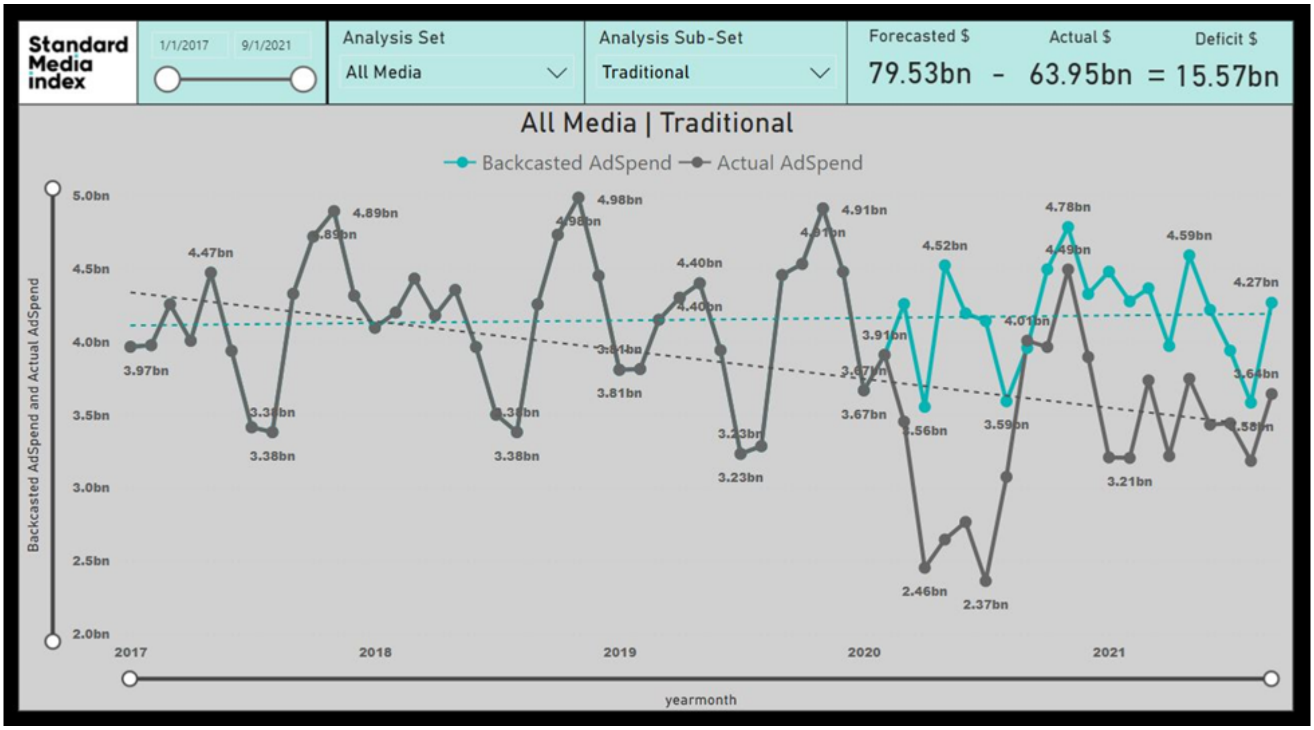


Figure 3 shows that most of the Covid deficit came from Traditional Media, where the fall was deeper and harder in the spring and summer of 2020 and has still not made nearly the recovery to the projection that Digital Media has.

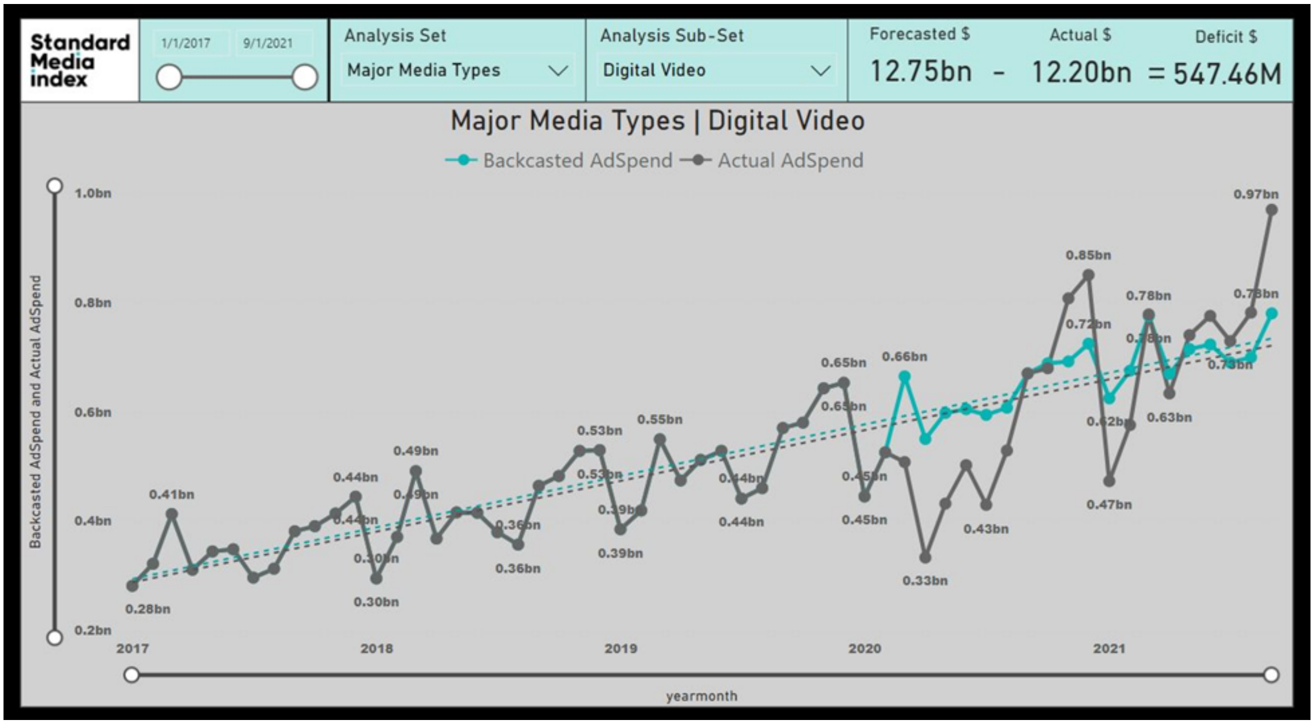
The linear trend lines show how the projection for traditional media spending was effectively flat until Covid knocked that off balance to a steep downward slope. What was projected to be nearly $80 billion in spending on Traditional Media from March 2020 to Sept 2021 came in at only $64 billion, nearly 20% below of the regression model's expectation. The result is a shift to a majority being spent on Digital Media. While that trend was already at play before the pandemic, this event has singularly expedited that transition in ways that may remain permanent.

Major Digital Media types perform strongly against projections

Digital media recovery was driven by a number of key media types not only recovering from the pandemic disruption quickly, but maintaining that rate of growth to the extent that spend is now above where we had projected it to be had lockdowns not occurred.

While Digital video, as seen in Figure 4, saw just $12.2 billion during the Covid period against a projected revenue of $12.75 billion. Into the third quarter of 2021, Digital Video was trending well above the projection for the period.

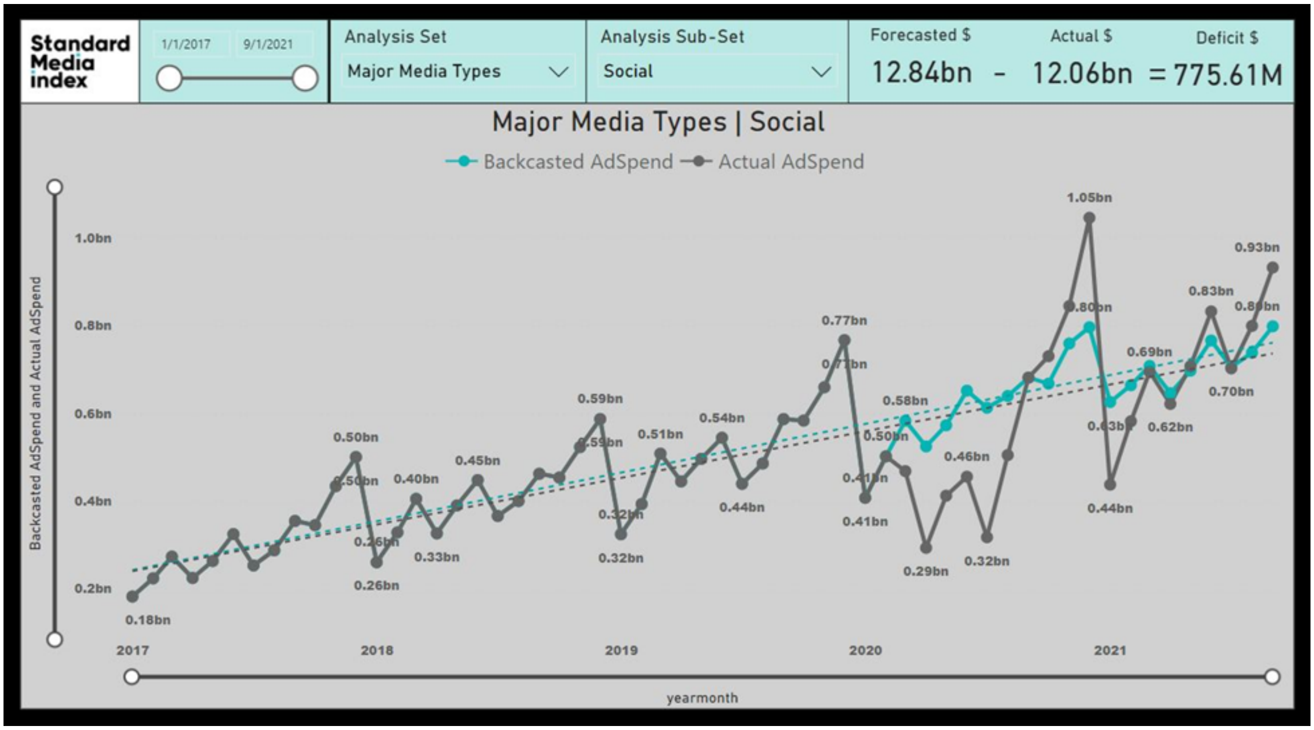
Figure 4. Digital Video continues its rebound.



Likewise, Social, which took a more significant hit of $776 million in lost ad revenue during the pandemic, also rebounded to outperform projections.

As detailed in Figure 5, ad spending on Social dropped significantly in the spring of 2020, had a big Q4 2020, fell again at the start of 2021 and then subsequently rebounded to levels above the projections for Q3 2021.

Figure 5. Social makes a strong advertising recovery

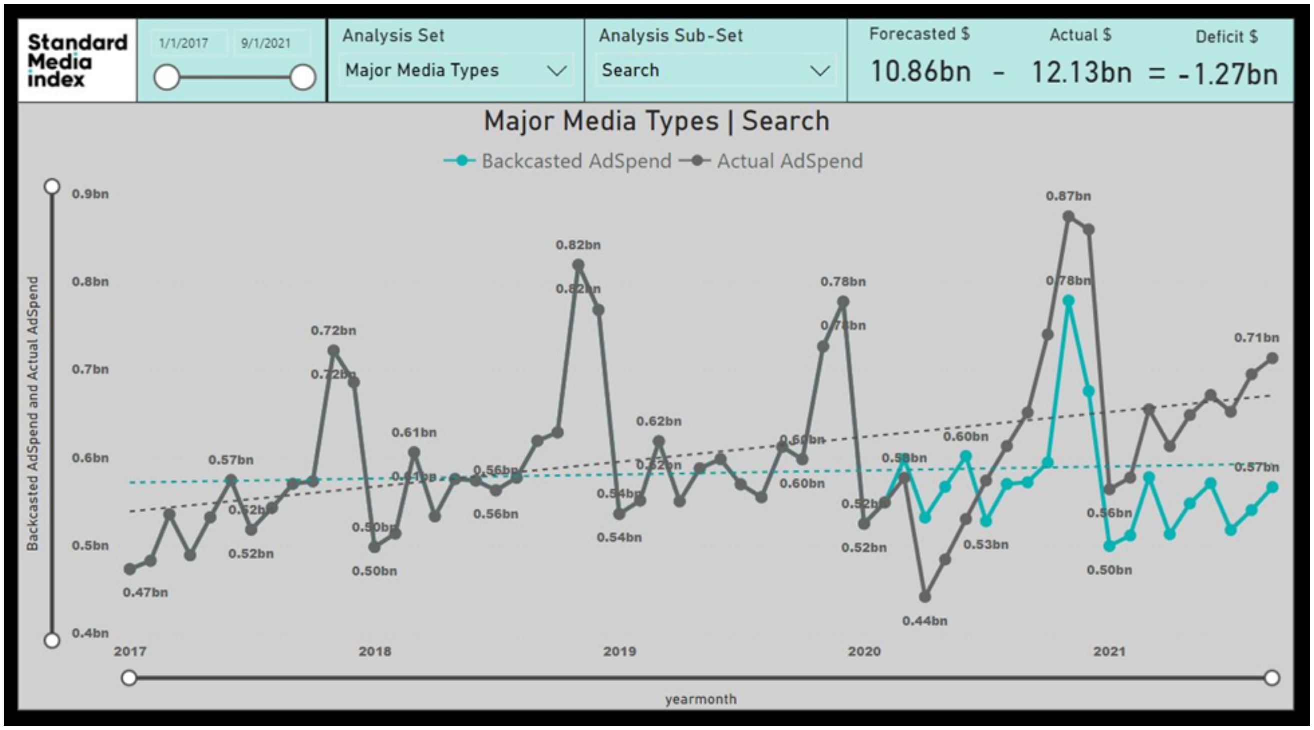


Search not only made a rapid recovery during the early pandemic period, it was actually the one media type to outperform its backcast projection.

Figure 6 shows that Search had a "negative" deficit of $1.27 billion. The model projected $10.9 billion in paid search among SMI Pool advertisers. Instead, those advertisers invested $12.1 billion in the channel in the first 19 months of the pandemic, 12% higher than the model's expectation. The spring of 2020 delivered a shock even to search spending, but by the middle of that year spending in the channel already was outperforming the projection and spending has stayed steadily ahead of the model's projection ever since.

The immediacy and simplicity to react to changing conditions offered by the search ad channel is likely what has made it so popular with advertisers, a simple place to shift excess budget.

Figure 6. Search gains revenue through the pandemic.



Linear TV takes a significant hit

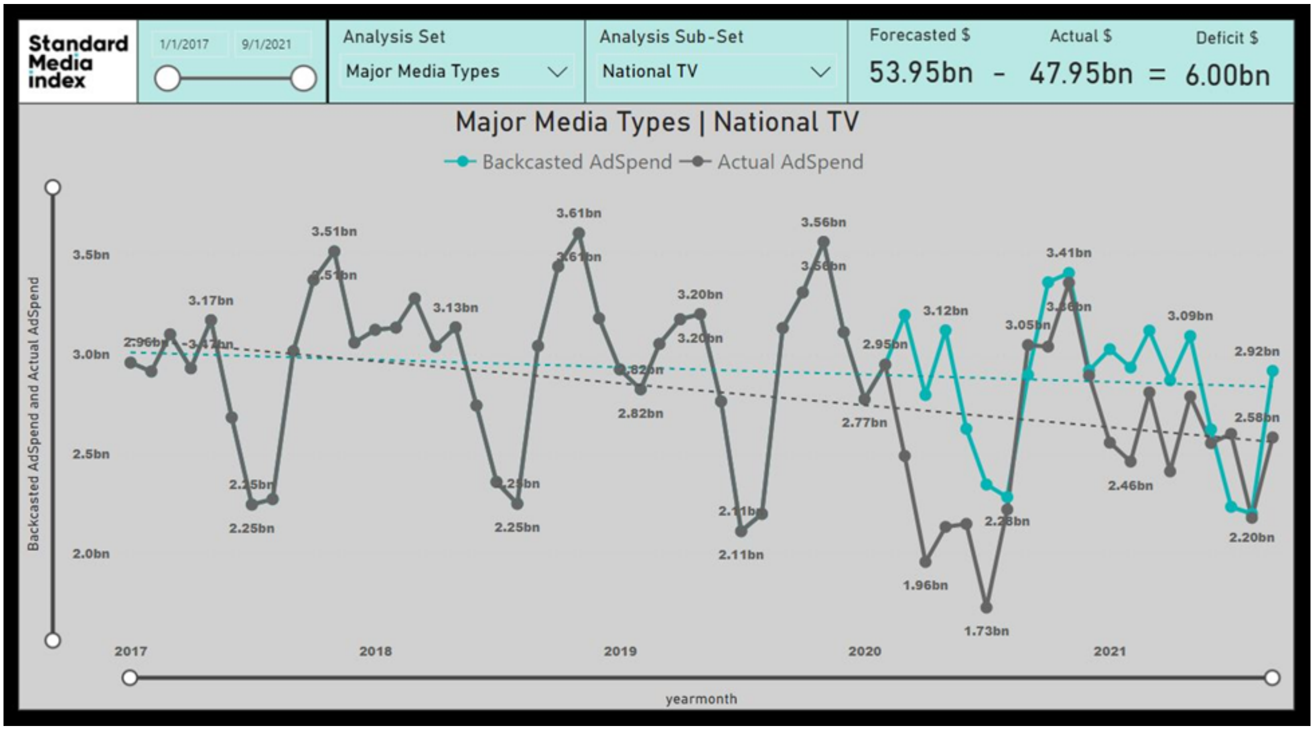
The contrast is stark between those digital media channels and the main vehicles of "traditional" advertising with respect to the backcast projections.

Both national and local television saw significant deficits as a result of Covid. But unlike digital media, their rebound has not been so robust, leading both to trail projected spend. Although both saw an increase in spend mid-pandemic, those gains were erased in 2021 and have not rebounded to the level anticipated by our model, suggesting perhaps a permanent change in allocation of ad dollars by marketers.

National TV, by far the largest share of ad dollars among traditional media types, saw the most significant decline of any media type in absolute dollars, a $6 billion deficit in the SMI Pool through the Covid period analyzed (Figure 6). The SMI Covid backcast model predicted $53.9 billion for the period March 2020 through September 2021, while Pool advertisers actually spent only $47.9 billion.

The blue linear trend line shows that projected spending for the national linear market was already on a downward trajectory. As recently noted in SMI's Fall TV Season report, the high-water mark for national TV ad spending was the broadcast calendar year of 2015/2016. Ad spending for the channel has been declining ever since, well before the pandemic.

Figure 7. National Linear TV struggles to recover.



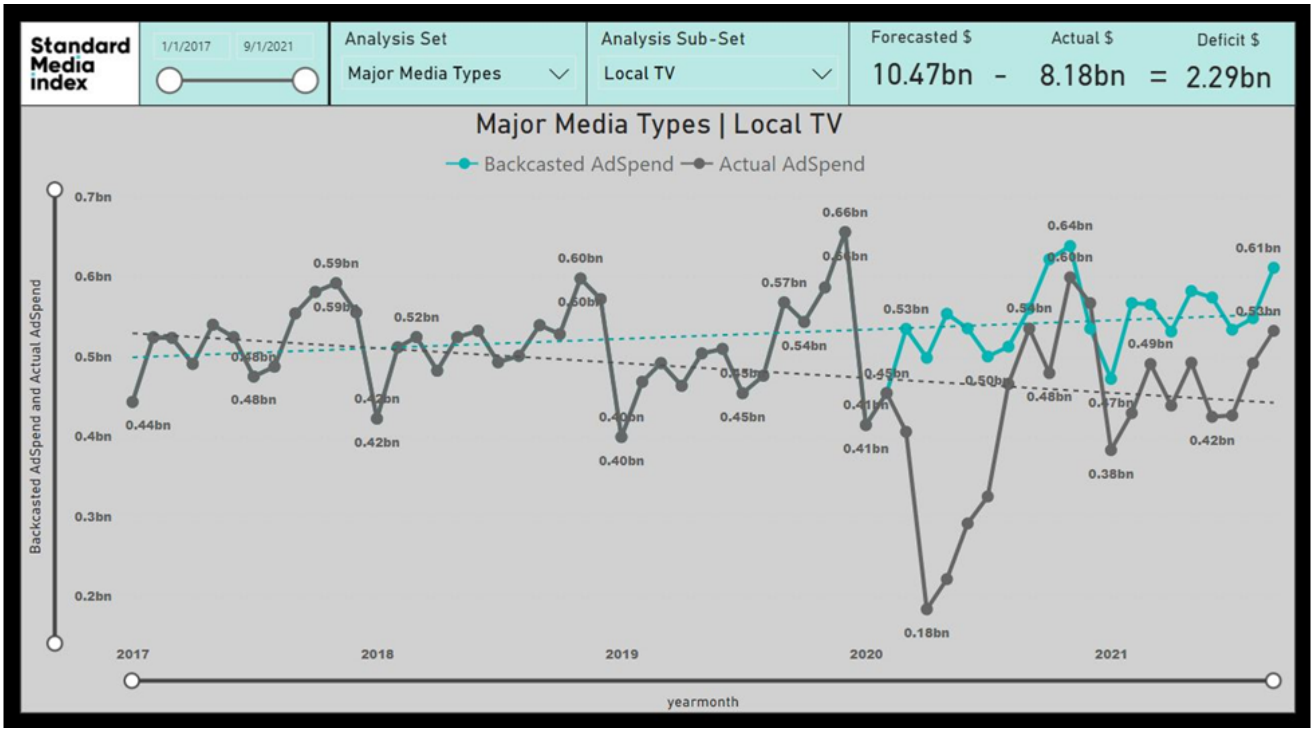
Note this is expressly a channel delivery challenge in that the same traditional television programming companies are meanwhile reaping the gains of the hot ad market for OTT and other non-linear form of digital video.

Aside from the popularity of VOD formats, Linear TV's potential for ad revenue was limited by several pandemic-driven constraints to the medium's supply of monetizable inventory. The postponement of the Tokyo Summer Olympics from 2020 to 2021 (amid empty stadiums) was perhaps the most extraordinary. But the movement of other major sports finals, notably the NBA and NHL in 2020, along with restricted productions for new episodes of primetime programming, also made 2020 and 2021 highly anomalous years in television history.

Whether the expected resumption of normal sports schedules and other valuable TV programming in 2022 is enough to reverse the decline of ad spending on linear TV remains to be seen. (Even as we write this, the 2022 Grammy's and Golden Globes have been rescheduled or delivered online in light of omicron's impact.)

Similarly, Local TV saw dramatic declines as the pandemic hit, with a deficit of $2.29 billion during the period analyzed. Here, too, while Local TV saw a rebound in late 2020, it still fell behind the projected spend for the period and continues to do so, netting out at $8.2 billion against the backcast prediction of $10.5 billion.

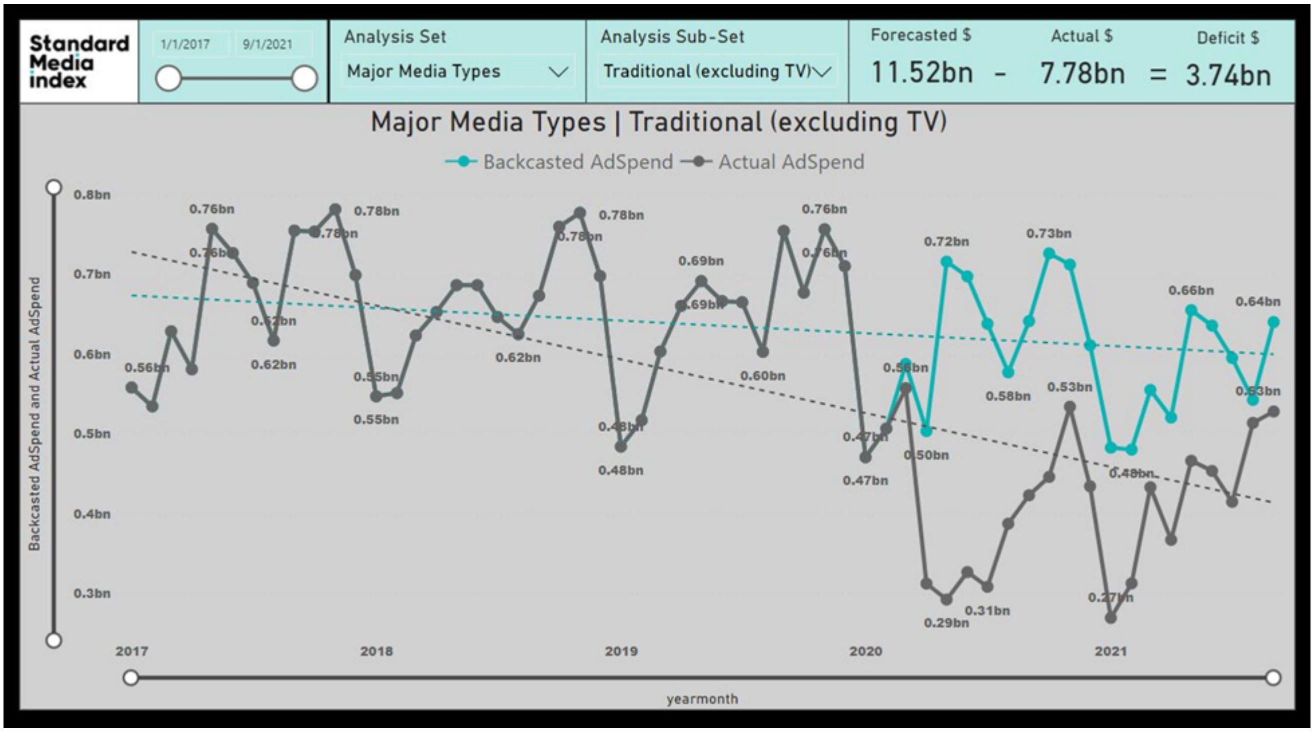
Figure 8. Local TV spending trend shifts from flat to down



Aside from National and Local Linear TV, the other media types in SMI's definition of "Traditional Media" – magazines, newspapers and outdoor – were collectively on a downward trend before Covid – made worse by the pandemic.

In total, these media types lost some $3.74 billion for the pandemic period and continue to underperform relative to the projection.

Figure 9. Traditional Major Media Types excluding TV see a significant downward trend.



Covid-Era Spend Trends by Marketer Category Reflected the Peculiarities of the Pandemic

As is well known by now, the impact of the pandemic has not spread equally across society, and the shock to the system had surprisingly different effects on various types of businesses.

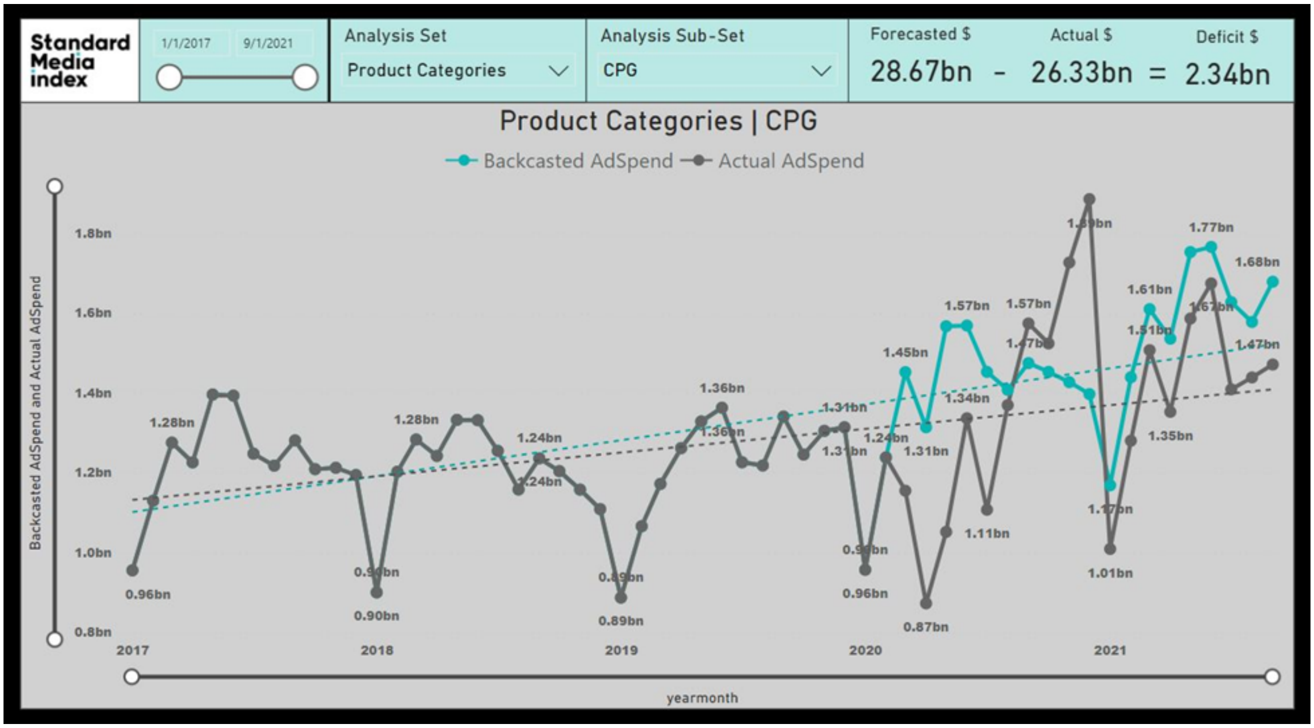
Retail and automotive stand out at either end of the spectrum of impact the pandemic had on ad spending.

Across seven leading product categories (CPG, Retail, Automotive, Pharmaceuticals, Financial Services, Entertainment & Media, Restaurants), ad spend saw a deficit of nearly $11 billion against the SMI Pool backcast projection, as key advertiser groups reigned in campaign activity in the face of uncertainty and business disruptions. While our backcast model, separate from the pandemic reality, anticipated healthy spending in the first half of the 2020, the market registered a loss of $3.3 billion in the second quarter. And while spend on the whole began to resemble anticipated spending patterns by Q4 2020 and into 2021, total expenditures on the whole fell short.

Consumer Packaged Goods (CPG) advertisers, the single biggest-spending ad category in the SMI Pool and one on the ascent in recent years, reduced spend by $2.34 billion relative to the backcast model over the first 19 months of the pandemic, as shown in Figure 9. While spending rebounded in Q4 2020 to surpass projections, overshooting of the model by the category has not continued into 2021. On the whole, however, the hit taken by the category was less than 10% of its projected spending, at $26.3 billion instead of the projected $28.7 billion for the period.

For CPG advertisers, the impact of the pandemic on their sales was a mixed bag. On the one hand, demand for many grocery products surged, as people first hoarded, then cocooned their way through the pandemic, with comfort food indulgence and cleaning frenzies. On the flip side, with demand out-stripping supply, especially in the face of panic-buying runs on products and shipping logistics in turmoil, spending more on advertising became one problem many CPG advertisers could afford to deprioritize.

Figure 10. CPG recovers, but at a lower trend line



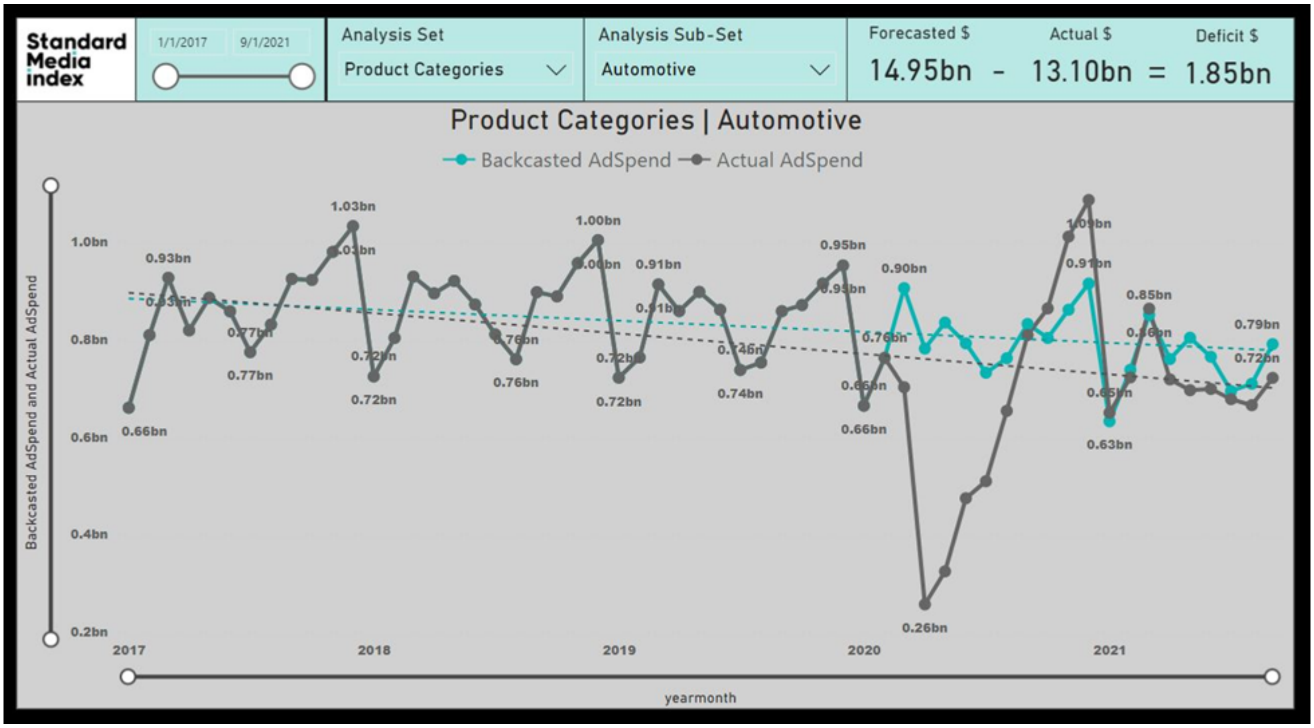
Automotive manufacturers, another top ad category, was knocked off track not by a decrease in consumer demand for their products (rather, the opposite), but due to well-publicized supply-chain crises, started by pre-pandemic chip shortages then greatly exacerbated by rolling global lockdowns with a domino effect on manufacturing and distribution.

As a result, ad spending for the category dropped dramatically as the Covid period began. It did rebound in Q4 2020 to exceed projections, but not enough to erase the large deficit that year, and spending in 2021 had not yet exceeded the projection through Q3.

In all, the $1.9 billion deficit is more than 12% short of the $15 BN in spending projected for the SMI Pool in the first 19 months of the pandemic, as projected by the SMI backcast model.

It should be noted that the trend of ad spending within the SMI Pool was already on a downward trend in recent years, as illustrated by the linear trend line in Figure 10; the pandemic only steepened that decline.

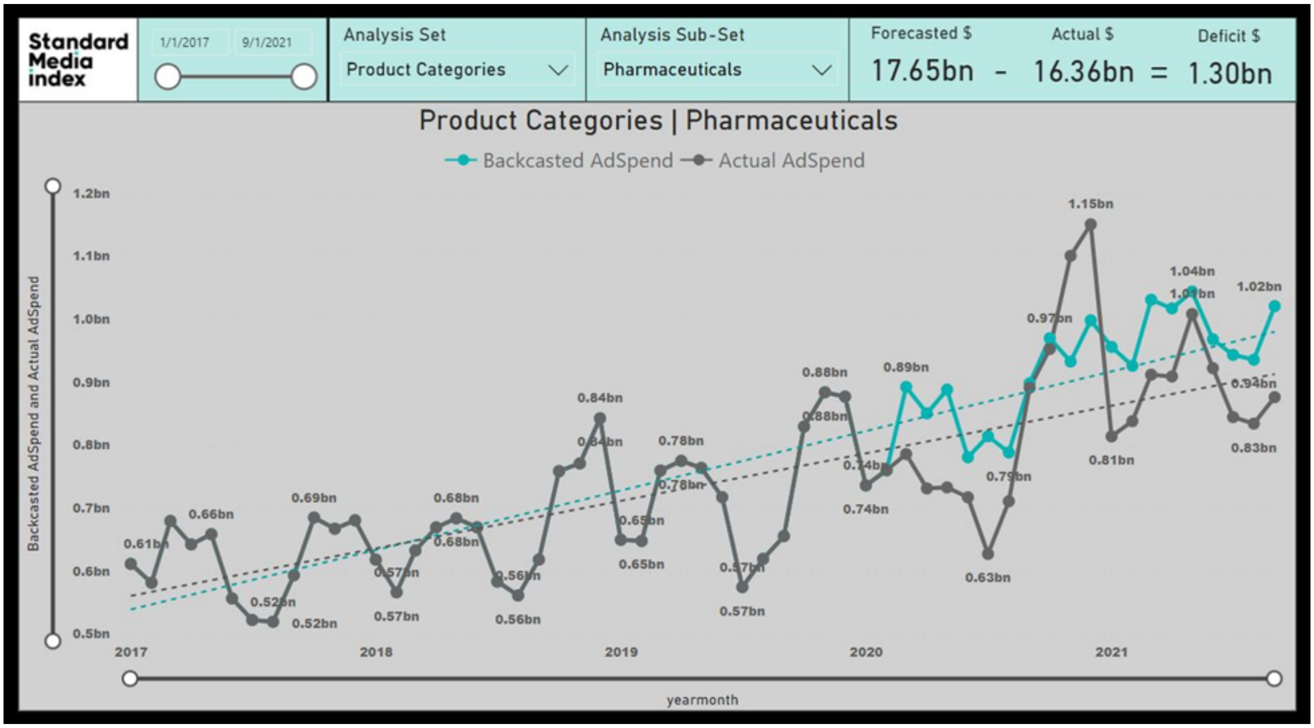
Figure 11. Automotive ad spend declines as inventory tightens



The Pharmaceutical ad category, another of the industry's largest spenders, was $1.3 billion short from the SMI backcast projection for the SMI Pool. That constitutes less than 10% of the projected $17.7 billion for the category.

In an era of heightened concerns about health in general, not to mention the strain on the mental health of the populace, it should be no surprise that the Pharmaceutical contracted spending less than other industries.

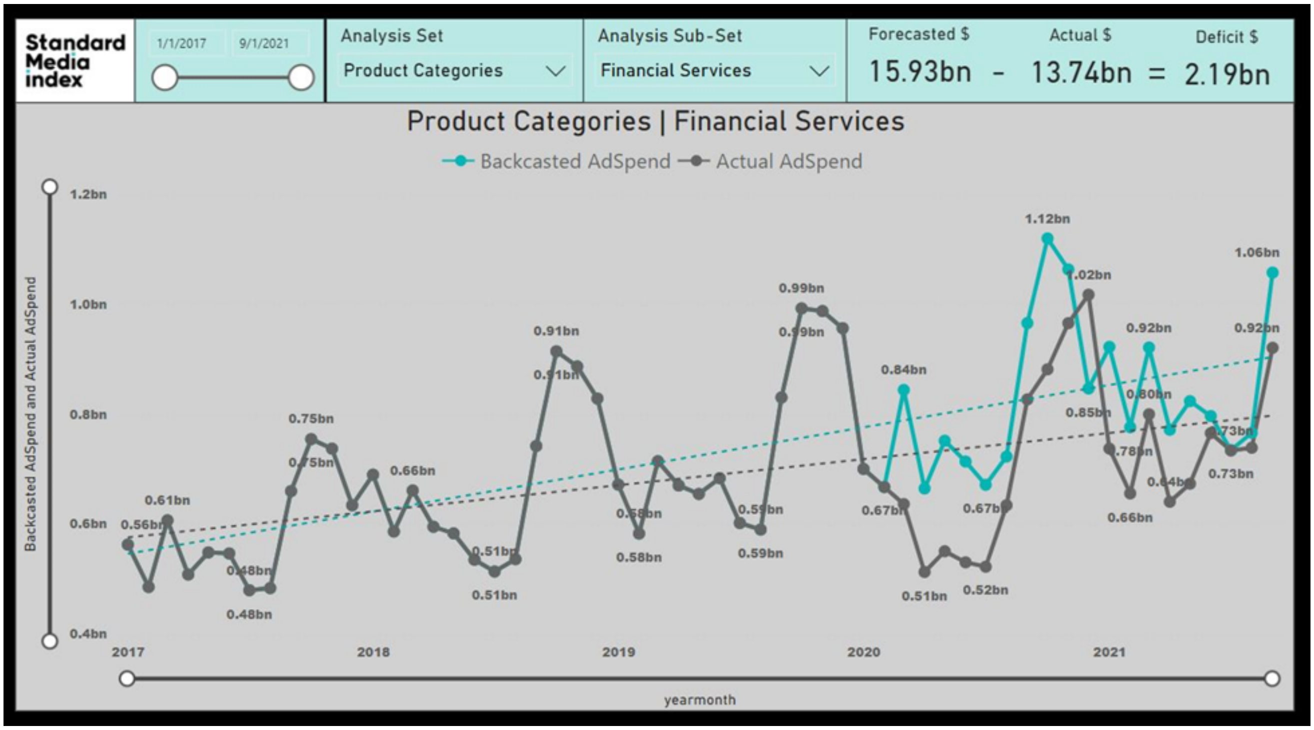
Figure 12. Pharmaceuticals have not recovered to forecasted levels but show continued strong growth



Financial Services, another of the biggest and fastest growing categories for ad spending in the SMI Pool, slowed substantially during the pandemic. SMI's projected deficit of $2.2 billion represents nearly 14% less than the projected $15.9 billion for the category in the first 19 months of the pandemic.

SMI's analysis shows that the credit card sector of Finance pulled back spending the hardest during this period. Perhaps this owed to a de-emphasis on mainstay credit-card promotion strategy of loyal points in restaurants and travel, while those activities were off many people's activity lists for the period.

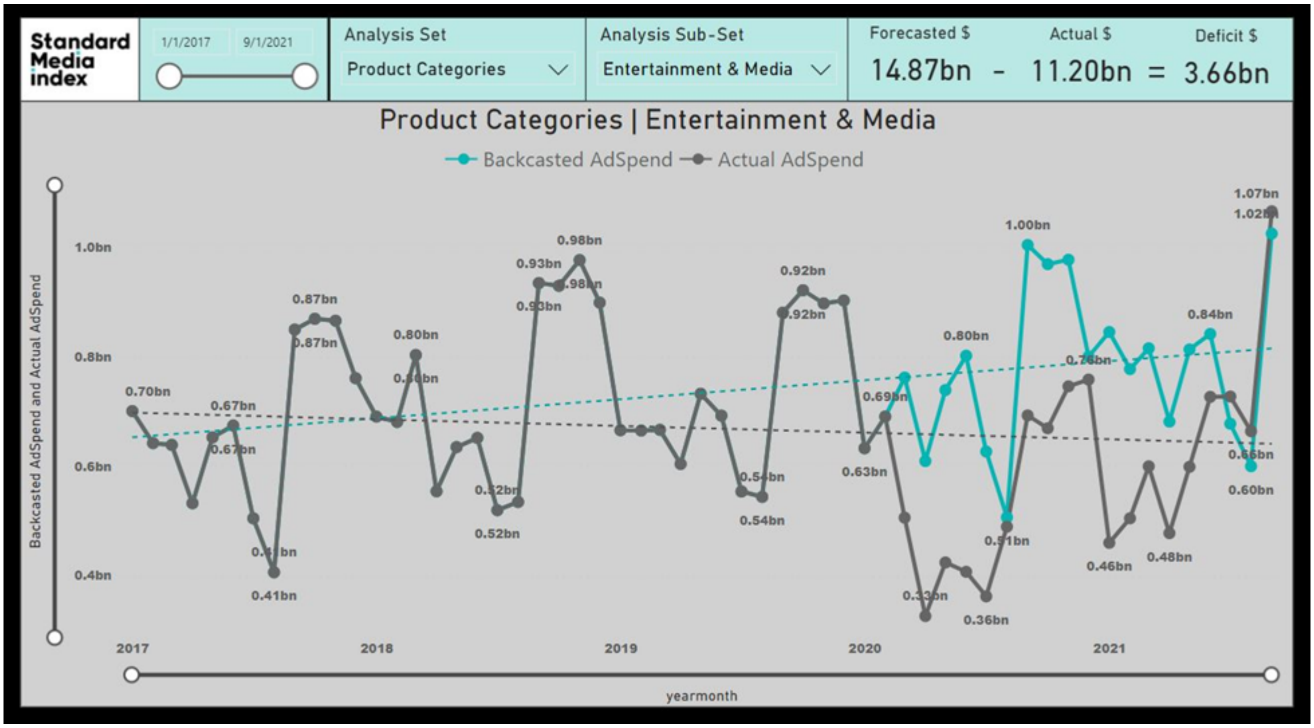
Figure 13. Covid slows growth in Financial Services ad spending



Entertainment & Media, another of the largest categories for advertising spending, took a big hit from the pandemic, with spending for the sector down nearly 25% from the $14.9 billion projected for the period by the SMI backcast model.

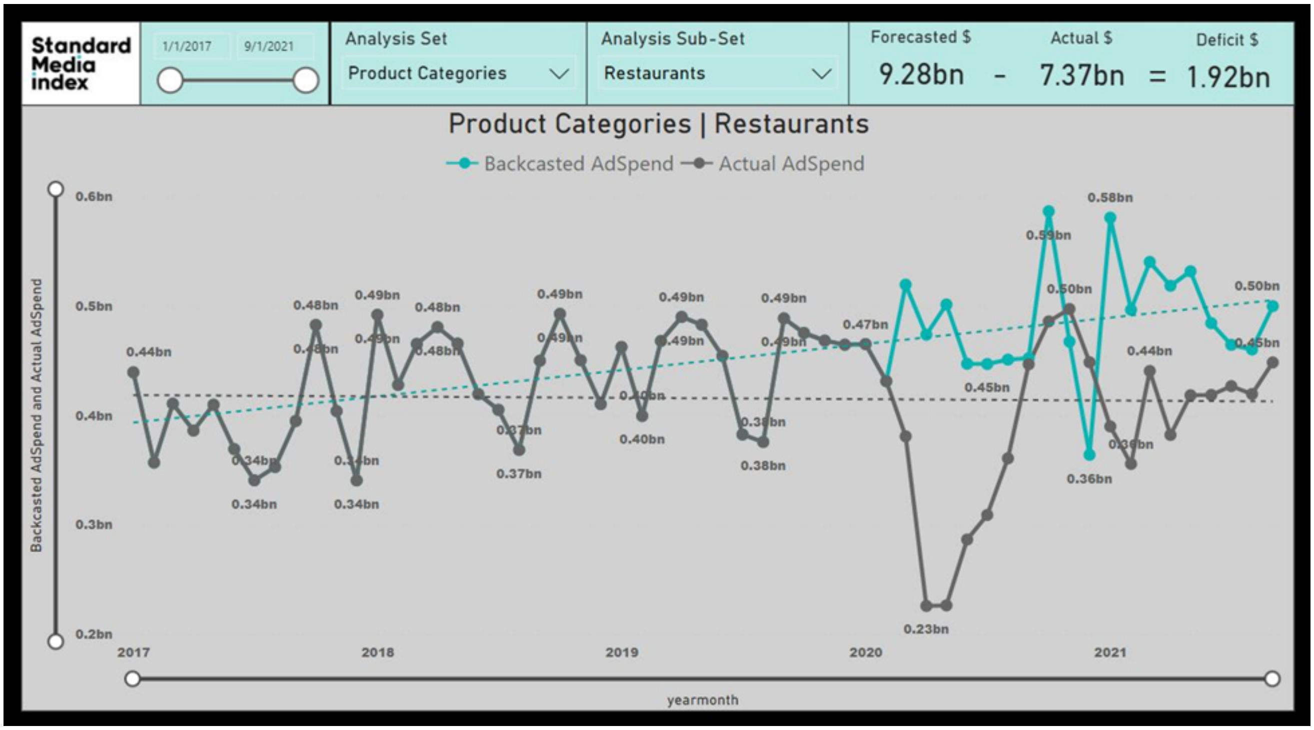
Prior to the pandemic, Entertainment & Media was a growing category in the SMI Pool, with the landgrab of new streaming media players vying to build brand equity and share of voice. Despite the fact that Covid lockdowns accelerated consumer adoption of streaming media, that was not enough to offset the tremendous damage social isolation and fear of indoor events did to most of the entertainment industry. From cinema to theme parks, sports, concerts and comedy, all forms of entertainment that relied on gatherings of people got clobbered like few other industries by pandemic-driven changes to consumer behaviors.

Figure 14. Entertainment & Media ad spending was 25% lower than SMI projection for Covid period



Not surprisingly, Restaurants was another category that reduced ad spending substantially against SMI's backcast projection, down more than 20% from our $9.3 billion expectation for the SMI Pool. It hardly bears explanation how hard the pandemic hit the food services industry, but to see the depth of the crater into which ad spending for the category fell in the worst of 2020 and even through 2021 is simply staggering.

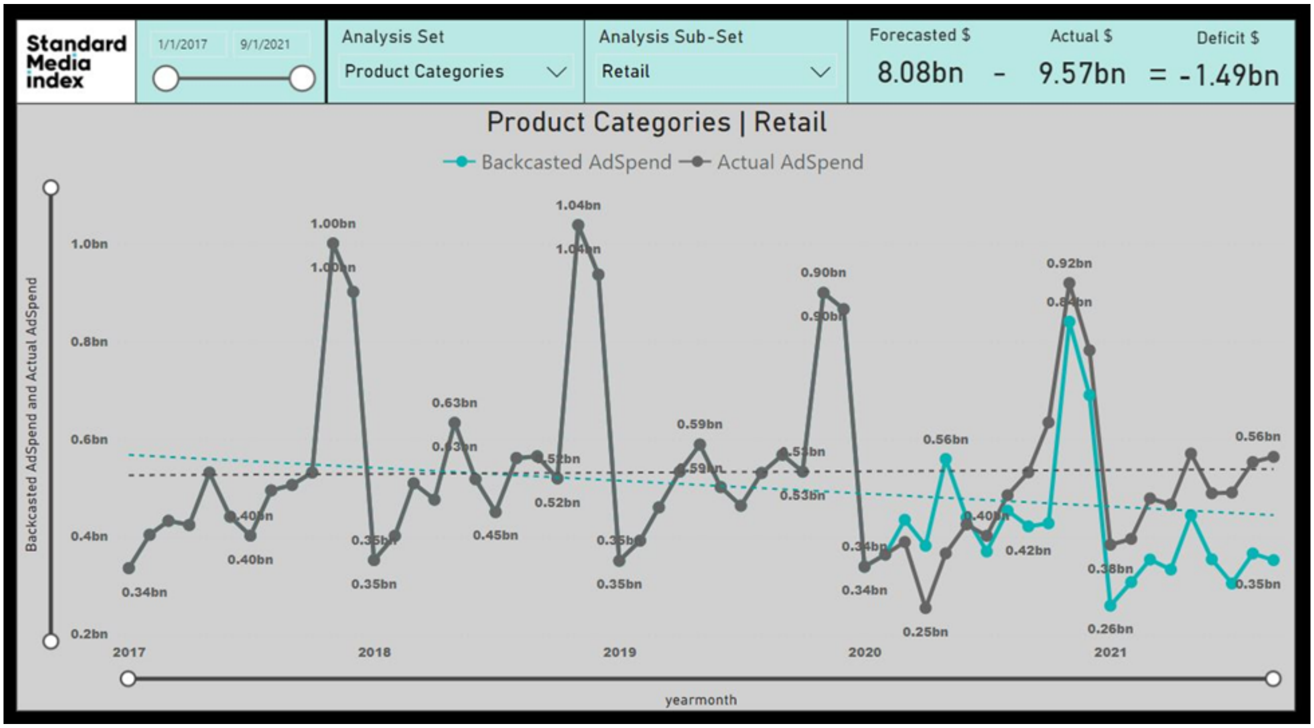
Figure 15. Steep decline in Restaurant ad spending flattens otherwise upward trend



Finally, Retail, like the Search media category, also experienced a surprising “negative deficit” in our model, merchant advertises spending collectively $1.5 billion more than our model projected, up nearly 20% from our expected $8.1 billion to an actually $9.6 billion in the first 19 months of the pandemic.

This was a case where a category projected to continue declining spending (considering that merchants in the SMI Pool, using major ad agencies, are weighted to traditional brick-and-mortar retailers), the pandemic boost particularly to e-commerce shopping, was enough to straighten out the trend line for the category.

Figure 16. Retail increases its ad investment by $1.5 billion as ecommerce accelerates



A Permanent Re-direction

While the potential for future disruptions due to the omicron variant (and whatever new variants might emerge) remains uncertain, what is apparent is that the initial Covid period gave fuel to the changes in allocation of ad dollars already underway. It also forced a reconsideration of how key categories spend on advertising as consumer purchase habits changed in relation to restrictions.

Certainly the rebound as seen in our analysis looks less like a correction and more like a resumption of advertiser events that were put on hold, such as the Olympics, shifting the 2020 losses into gains for 2021. But opportunities for growth will be available in 2022, most notably for linear TV as key advertiser events such as The Super Bowl, March Madness, the Beijing Olympics and FIFA World cup make available attractive inventory. And with the solidifying of OTT consumer behavior, advertisers and media companies alike have a healthy new channel to reach audiences.

But with the redirection of growth trends for Major Media Platforms caused by Covid, it may well be that the shift of balance to digital will remain permanent.

About SMI

SMI reports on census-level, complete billing records for placement-level detail of all media transactions in all media types as supplied by the world's largest media buying groups, as well as leading independents, and organizes that data to create a clear, granular, and easy-to-use database for our clients and agency partners.

SMI captures 95% of all spending by national brand advertisers in the U.S market, and a similar scale in other international markets, as well. By aggregating it, SMI offers detailed ad intelligence across all media types, including Television, Digital, Out-of-Home, Print, and Radio. Depending on the market, data can be broken down by unit cost, media owner, ad type, buy type, advertiser product category, and other dimensions.

Clients use SMI data to determine media mix models, create competitive benchmarks, and gain visibility into pricing level data. The data also allow them to understand marketplace trends on a product category level, evaluate ROI of tentpoles and sporting events, and break out ad formats by media type to highlight the effectiveness of different kinds of placements.

Our data supports insights covering 34 countries around the world.

Reach out to learn more about how SMI can help your business!

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