

Is Video Preroll Dead?



AN INTERVIEW WITH:

Jaffer Ali
Co-Founder and CEO , Vidsense
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The online video ad network Vidsense calls itself a video snack network, delivering viewers, or “snackers,” directly to advertisers’ sites. Vidsense works with online publishers, content networks and advertisers.

Jaffer Ali, the company’s co-founder and CEO, entered the online video distribution business in 1998. He spoke with eMarketer about why the predominant online video advertising format, the preroll, is not economically viable.

eMarketer: What is “video snacking” with respect to consumption of online video content?

Jaffer Ali: Video snacking refers to the behavior of consuming video, in other words, video clips. They’re bite-sized morsels of video content that are anywhere from 1 minute to 5 minutes. Those are video snacks. It’s where people are going to YouTube or to their favorite news site and accessing video. You can snack anywhere and now you can snack with your mobile phone.

If you’re on the Drudge Report, there can be a link to a video and then publishers are embedding their players so that you can snack on publishers’ sites. The challenge is, how do you monetize these snacks? Right now the predominant way is through preroll advertising.

eMarketer: Preroll ads appear in front of the content.

Mr. Ali: Yes, they appear in front of the content and right now this format is preferred by the advertiser. The problem is the snacker doesn’t like them.

eMarketer: Why not?

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22% of the time.”

Mr. Ali: Well, a preroll is a commercial and people who are snacking on video while at work don't have time to watch it. The video snacker will abandon online video content 22% of the time.

If you make an analogy to cable TV, when the first commercial comes up, boom, you hit the remote and go to another channel. That's a problem if you're the cable channel and it's a problem for the video portal and the publisher, which becomes like a cable channel because it's losing 22% of its viewers.

The snacker is going to determine the success or failure, long-term, of the video snacking business. If the dog doesn't like the dog food, it doesn't matter how great it is. By the same token, it doesn't matter how great your marketing is, right?

eMarketer: YouTube has bite-sized, short-form content. What is the right ad model for short video content? If it's not preroll, what is it?

Mr. Ali: Let's first talk about a 15-second preroll rather than a 30-second preroll. If you use the 15-second preroll, the 22% abandon rate decreases to 8%. This is with millions of views, so it's statistically significant. Even if you reduce the abandon rate by using 15-second prerolls, this format doesn't engage the viewer enough and the click-through rate is going to be slightly under 1%. The click-through might be a little bit more than 1% for 30-second prerolls.

For example, say you spend \$20 per thousand impressions as an advertiser on a preroll ad. Take into account the industry average of 1% click-through for a 15- or 30-second preroll—it's a little bit less for a 15 and a little bit more for a 30-second preroll. At 1% click-through it's going to cost you \$2 to get a visitor to your site. If you pay \$20 per thousand at 1% click-through rate, it costs \$2 to get that visitor to your site. It's obnoxiously high for an advertiser.

It's not economically viable. If the advertiser pays \$10 per 1,000 views, he's going to pay \$1 to get that snacker to his site. If the publisher is getting \$10 per 1,000 and he has to pay broadband costs of 40% or an ad rep firm 40%, that leaves him \$6 per 1,000. But if it's premium content, he's got to give a royalty on the \$10 per 1,000 to the content owner.

Hulu, which is the darling of the industry, does not have an economically viable model because they're giving a 70% royalty to the content owners. They're getting a lot of traffic because the networks have bartered time for equity.

eMarketer: If prerolls don't really work, what do you suggest?

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Mr. Ali: The solution is to go back to the beginning days of radio and television when the brand, for example, Geritol, would sponsor a show. It was their program. They were the publisher. It's like when Procter & Gamble created the soap opera—they created it and sponsored.

eMarketer: The advertiser owned the content and it was their intellectual property.

Mr. Ali: Correct. An advertiser doesn't have to own it, but they have to be able to control it. The advertiser says, “I will engage the snacker on my Website. I will surround that snack with my brand and control that experience on my Website.” That is the solution. It's the only economically viable solution.

eMarketer: Your solution is to drive snackers or consumers back to an advertiser's Website?

Mr. Ali: Yes, to watch the video and consume the snack. When the snacker and the snack are bundled together on the advertiser's Website, that's the economic solution. Because now the advertiser is not only paying for a view, but the visitor is on their Website. The advertiser can engage the visitor much more intensely. The brand is surrounding the snack and offering visitors entertainment. There's no preroll. The advertiser becomes a publisher.

Now the advertiser is paying per visitor because it has the snack, which is the content. It could be a clip from “I Dream of Jeannie” or maybe a clip from a pet site but the visitor is on the advertiser’s site. When the snacker is done eating the video snack, he’s then on Pets.com or PetSmart. The snacker eats the snack. There’s no preroll and no postroll and because the visitor is on the advertiser’s site, there’s more opportunity for engagement.

eMarketer: Once the advertiser has the viewer on their site what happens?

“Once the viewer is on the advertiser’s site, the brand can ask for an e-mail address, offer an opt-in for a newsletter or a coupon to download. Just For Men did that when they launched a new product.”

Mr. Ali: Once the viewer is on the advertiser’s site, the brand can ask for an e-mail address, offer an opt-in for a newsletter or a coupon to download. Just For Men did that when they launched a new product. They offered a free coupon to try something called Touch of Gray. We offered video clips from “Bridge on the River Kwai” and “A Few Good Men” for the target audience of men age 45-plus.

Once they got to the site, they watched the video and engaged with the coupon offer. You can engage viewers with more than one clip, so that the time with the brand increases. It’s a chance to break through the clutter.

eMarketer: Are there others thinking about it in this way?

Mr. Ali: The advertiser needs to decide that the engagement must take place on its site. Coca-Cola understands this, if you look at some of their microsites. They have gaming sites that become destination sites. When advertisers say, “I want to engage consumers on my site,” once they cross the Rubicon on that, the advertising solutions become simple.

eMarketer: Do you see support for online video advertising growth coming more from TV and set-top boxes or from Web-based technologies?

Mr. Ali: The method of delivery is less important nowadays because you still have to solve the existential questions of the snacker’s relationship with the ad. It’s so tenuous and you can do research and polling to try to skew the numbers. We own a network and we buy so we understand the nature of engagement. The dog doesn’t like the dog food—the snacker doesn’t like that preroll no matter how it’s delivered to them.

eMarketer: In your vision, the advertiser essentially becomes the content provider.

Mr. Ali: Correct.

eMarketer: That scenario cuts publishers out of the equation, right?

“This scenario does cut out the video portal. They can’t sustain themselves the way they are now.”

Mr. Ali: This scenario does cut out the video portal. They can’t sustain themselves the way they are now. The social media networks are going to be essential, because they’re going to drive traffic to the publisher’s—the advertiser’s—site.

eMarketer: How do you envision online video advertising tying into the social media equation?

Mr. Ali: We created something called the video snack bar. It’s a collection of thumbnails that are invitations to snack on some video treats. Publishers will put the video snack bar up on their sites and we pay them for each snacker that’s delivered to the advertiser’s site. We stock the snack bar daily and change the snacks.

If you’re on a social media site like Facebook, does it matter if a new browser window opens and you’re viewing the snack on

Just For Men? No. You're choosing the snack you want. There's no preroll. There's no postroll.

Each Website can have a snack bar and they can offer as many snacks as they want. The snacker and the snack will be bundled together and delivered to the advertiser's site—then the economic equation works. Everybody in the system from the content owner to the social media site to the advertiser can make it work. In my opinion, that's the only economic equation that works.

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