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Marketing

Digital disruption Where have all the ads gone?

By Emily O'Halloran and Charles N. Symmons

Online, interactive and mobile technologies are challenging the traditional advertising model. The industry will never be the same.

Anyone who doubts that the advertising industry is on the cusp of a dramatic shake-up should consider a single figure: $12 billion. That's the value of the acquisitions in the online sector of the advertising business during one six-week period in April and May of 2007.

As the saying goes, follow the money: These acquisitions are emblematic of how the rise of the online and mobile worlds—and the changing communications, entertainment and television-viewing habits of consumers—will fundamentally alter the way executives from every industry plan, execute and assess advertising campaigns.

Meanwhile, the lineup of players ready to capitalize on new advertising opportunities in the digital world is changing, almost by the day—Microsoft Corp.'s bid for Yahoo! is only the most spectacular example. No wonder the CEO of a traditional advertising and communications company admitted recently that all the changes and jockeying by powerful new competitors had "unnerved" him.

Momentum

To be sure, online advertising (that is, on a computer-based Internet channel) at the moment represents only about 10 percent of total global advertising spending. And mobile advertising (on a handset typically connected to the Internet) is still in its infancy. But recent Accenture research—in particular, the comprehensive Accenture

Advertisers see an extremely attractive proposition: targeting customers across their so-called three screens—digital TV, computer and mobile service.

Global Digital Advertising Study 2007—points to a radical transformation on the horizon in terms of how advertising and marketing budgets will be spent, with whom and to what effect.[1]

Momentum has clearly been building behind digital advertising. Indeed, half of the executives we surveyed as part of the study expect digital media to become the primary form of programming and advertising content within five years; an additional third believe it will happen within a decade. Only 3 percent said it would never happen.

Traditional television and newspaper advertising still dominates the marketplace. Globally, annual spending on television advertising exceeds $150 billion, more than 10 times the market for online advertising. Newspapers constitute the second-largest advertising medium.

Yet several vulnerabilities in traditional advertising models, lurking in the shadows for years, have now emerged into broad daylight. With so many alternative forms of entertainment available, and as technology has enabled consumers to skip or speed through commercials, the advertising-based revenue model for television is changing.

Although global revenues for newspaper advertising have stayed strong, most of that strength is in emerging markets. Some of the numbers in mature markets, however, are troubling. Print advertising sales for US newspapers, for example, were projected to fall $2 billion in 2007. Year-on-year comparisons across major US newspapers are indicative of the industry as a whole: the *New York Times*, down 7.5 percent; the *Wall Street Journal*, down 10 percent; *USA Today*, down 14 percent.

What's behind such shifting revenue patterns? In part, it's the fact that companies are being drawn to a number of extremely attractive capabilities of digital advertising. The digital environment enables richer media forms, and provides interactive functionality that engages customers more effectively. Digital advertising also offers sophisticated measurement and consumer-targeting capabilities, which help companies reach exactly the consumer segments they want. It also helps them determine what effects their advertising is having on buyer behavior—and, therefore, what return companies are getting on their investments.

Again, following the money is instructive. The forecast for global online advertising spending in 2007 was approximately $50 billion, including about $20 billion in the United States and $17 billion in Europe. Some foresee $80 billion in online advertising in just a few years.

Mobile advertising is set to follow. The fact that mobile phones are now equipped with GPS technology provides an even more compelling value proposition: sending location-based ads ("Here's a coupon for a free latte—turn left at the next block") to willing consumers—that is, those who have opted in to such a service so they find it valuable rather than annoying.

In the United States, CBS Mobile recently announced plans for this kind of mobile advertising: cell phone ads that are tailored to a customer's location. Communications companies in other parts of the world, including Singapore and Japan, have also begun to test whether consumers would welcome such targeted advertising offers.

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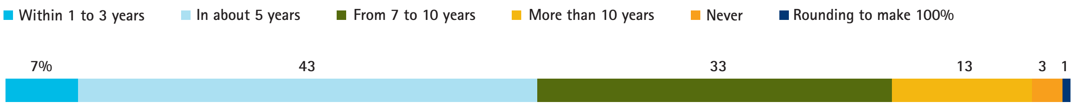
[1] For the complete Accenture Global Digital Advertising Study 2007, go to www.accenture.com/digitaladvertisingstudy.

Facing the digital reality

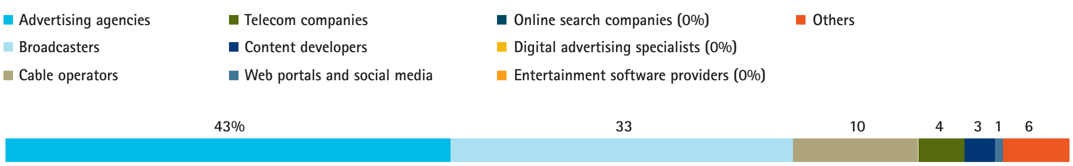
In 2007, Accenture surveyed 70 leaders—from major advertisers, media companies, advertising agencies and technology providers—about the impact of digital media and technologies on the industry. The results were published in the *Accenture Global Digital Advertising Study*. Here are some highlights.

When will digital media become the primary form of programming and advertising content?

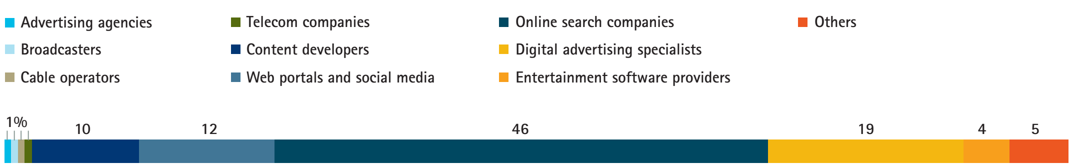


Is the industry technologically prepared for the following? (Results are % of respondents answering "Yes")

Who has the most to lose in the transition to digital advertising?



Who has the most to win in the transition to digital advertising?



Source: Survey conducted in Europe and North America during the first quarter of 2007 by The BPRI Group on behalf of Accenture, which analyzed the results.

(Continued from page 2)

A company looking at the future of advertising thus sees an extremely attractive proposition: targeting customers across their so-called three screens—digital TV, computer and mobile device.

In short, companies are intrigued, to say the least, with a form of advertising that can be:

- results-based and measurable;
- richer, more varied and interactive;
- more effectively targeted; and
- more attuned to the desires of the consumer to control the media experience.

Our research points to a number of important trends marking the move to digital advertising.

Advertising will move to a results-based revenue model

Imagine that you are an advertiser in, say, 2012. When you contracted for your advertising program, you and the advertising provider agreed to a pricing scheme based on precise, documented viewer outcomes. So, at the end of the week, as you review the reports from your most recent ad placements, you see data that includes:

- number of click-throughs, not just from web pages but from mobile phones and from a product browser page that closed the TV show you advertised on;

- number of "impressions," or how many times a page was seen by someone surfing the Internet;

- discrete visits via computer to the company's website resulting from each of the media you used—computer-accessed web page, mobile portal and television; and

- number of searches for addresses of retail outlets made on wireless phones.

This admittedly futuristic scenario is, in fact, based on the assumptions of an overwhelming majority of the executives surveyed by Accenture, about 79 percent of whom agreed that advertising will become more performance based.

Accenture projects that pricing structures such as cost per click, cost per product research and even cost per purchase, will come to dominate an increasingly performance-driven industry. These changes will also create a more meaningful feedback loop on advertising effectiveness. While this will force the rapid cancellation of ads where there is no follow-through, it will also create the potential for vastly greater value—something for which the buyers of advertising will, presumably, be willing to pay more.

In effect, this move to results-based pricing will put advertising performance on the same basis as the film industry's weekend box office numbers, with the fast and accurate measurement of results. It will also impose a new and more rigorous performance discipline on the advertising industry as a whole.

In 2004, the Interactive Advertising Bureau, for example, established a global standard for how to count online ad impressions. The measurement guidelines were developed with the input of major companies, including Google, DoubleClick and the Walt Disney Internet Group.

According to Sir Martin Sorrell, CEO of WPP, the world's second-largest media communications group, measurability is an area of growing importance to customers, who, he says, are "increasingly unwilling to pay for the rising cost of television." About 33 percent of WPP's current revenues come from Internet-based advertising, where effectiveness can be more readily measured. Sorrell believes

Advertising, communications and media companies will compete more than ever on the basis of their technology capabilities.

that number will be closer to 50 percent within five years.

Advertising relationships with consumers will become more interactive

An overwhelming 97 percent of our survey respondents believe that relationships between advertisers and customers will become more interactive. Interactive formats—click-through buttons for more information, connectivity with the Web, individualized special offers and so on—will replace the traditional one-way broadcast with a new running dialogue with consumers as they move to final purchase.

Interactivity can also be designed across the three consumer screens. For example, broadcasters like British Sky Broadcasting, CBS Broadcasting and the BBC are partnering with social networking sites such as Bebo to dynamically push video content to targeted consumer segments, especially the increasingly competitive youth demographic.

Do consumers really want interactivity? Certainly, the take-up of things such as interactive TV in Europe is an indication of the possibilities. Although technology and business constraints are keeping the US interactive TV market behind Europe, US consumers appear to be interested as well. A Harris Interactive poll released in early 2008 showed a strong level of interest by US consumers in interactive TV. Respondents indicated a desire to interact with a range of programming—particularly reality shows but also sports and dramas. Fully two-thirds of respondents wanted to interact with commercial advertising. (For more information, see " 'Infinite Possibilities' television?" *Outlook*, May 2006.)

Companies will be able to target advertising to specific customer segments

Online and mobile technologies (and digital TV as well) enable advertisers to identify users of digital media services, at a particular time and place, and link them to their preferences, interests and—as we have now seen with mobile advertising—location.

This ability will provide the technical means for delivering more targeted ads to individuals and households. Advertisers' return on investment will increase through better targeting of micro-audiences—smaller segments whose interests and behaviors can be defined more precisely.

There is a big "if" here, however. Companies are going to be hit by a flood of data about customers. All companies, therefore—not just those in the advertising industry itself—need to determine whether or not they have the requisite information technology capabilities—the business intelligence and customer analytics skills—to react to data quickly as it comes in and use it to target customers more effectively.

The executives in our survey are aware of this challenge: 87 percent noted that more accurate customer analytics will be critical to decision making about ad campaigns. Advertising, communications and media companies will compete more than ever on the basis of their technology capabilities. If companies have the analytics capabilities in place, they will be able to compete. If they do not, they will fall behind.

Increasingly, companies will deal with this technological challenge by cooperating with companies that are also competitors. WPP's Sorrell calls such a relationship one among "frenemies." WPP and companies such as Google, for example, are both friends and enemies: Google sells services to companies like WPP but now competes against them as well, even to the point of setting up a creative services division to rival the established advertising agencies.

Increased control over advertising by consumers will challenge companies but also give them more information

Today, the percentage of consumers watching a television program at the time it is broadcast is rapidly decreasing. Homes with digital video recorders, for example, watch real-time TV broadcasts only 36 percent of the time—down from 45 percent just a year ago. These trends point to the demise of the traditional 30-second advertising spot, since users can simply skip over them. One study found that if DVR households were to practice commercial skipping every time they watched television, it would represent $15 billion in wasted spending on advertising.

Online advertising faces similar obstacles. Blockers installed on major Web search engines, for example, are increasingly being used to interfere with pop-up ads. One such product, Adblock Plus, a free browser plug-in, now has more than 2.5 million users, and an additional 300,000 to 400,000 download the product each month.

One important response here is to recognize the value of data about blocking or the falloff of advertising viewing. TiVo, for example, can also use its second-by-second data to determine viewership of commercials among its subscribers. So advertisers have the potential to track any the falloff in advertising viewership, and then use that information to guide the development of new, innovative ways to get consumers to opt back in.

Interactivity lends itself well to such consumer-engaging activities as live polling—the ability to ask television viewers questions as a show is in progress. Ustream.TV offers a service called the Shout Meter, which lets users vote for television content they like by clicking on a "shout bar." More clicks from more users causes the bar to rise, letting Ustream know that something especially popular is being shown on that channel.

Technology is only part of the answer, of course. Certainly, advertisers of both traditional and new media will need to invest in more interesting and creative ads—for example, commercials with char-acters and storylines that engage and entertain.

The rise of digital advertising brings with it a number of critical implications for those in the advertising industry, and for all companies seeking to use digital advertising to increase market share and develop long-term relationships with customers.

Traditional advertisers must prepare for a technology revolution

According to 43 percent of our survey respondents, traditional advertising agencies have the most to lose in the transition to digital advertising, followed by broadcasters, which were named by 33 percent. Online search companies, respondents said, have the most to gain.

One concern: Many traditional advertisers are unprepared for the wave of digitally driven change about to engulf them. Only 29 percent of executives believe the industry is technologically prepared for the resulting changes in performance measurement. The proportions are even lower when it comes to customer analytics (25 percent), targeted advertising (21 percent) and customer interactivity (13 percent).

Advertising agencies that cannot adapt to this change will be seriously challenged at each stage of their value chain. As newer entrants to the ad agency business develop superior technology-based analytics, these older agencies' client relationships will suffer, and they will risk losing those clients altogether. They will likely be surpassed in customer research by more technically adept rivals. They will also soon be losing the media placement function to companies that can target advertising to just the right customer group. It's hard to see the older agencies competing successfully in the new reporting and feedback loop that will develop in the industry.

As wireless players make plans to offer more data services on their networks, they are realizing that advertising could be a significant source of revenue.

Meeting this challenge is, in large measure, a cultural one. Respondents to our survey consistently cited the cultural and people challenges for an established business facing rapid disruptive change.

The answer is, in part, strong leadership but also attention to the details of managing change and putting new performance measures in place. A different approach to recruiting and hiring is also important. Agencies need to actively recruit Internet-savvy younger people well versed in critical aspects of the digital advertising world, including Web 2.0 principles such as social networking.

Newer entrants must focus on the operational capabilities to truly capitalize on the advertising-supported business model

Media and entertainment companies with a significant online portal presence, as well as telecommunications and cable companies expanding into digital video and other content areas, are realizing that their success depends on meeting a number of technology, business process and human challenges.

Hurdles include the inability to monetize online assets and the poor visibility of online advertising performance. Companies often suffer from a lack of integrated ad management systems and processes that support new advertising formats, delivery channels and business models. Efforts are needed in at least two areas.

- **Operations optimization** can help a company run a better advertising business, delivering more efficient digital advertising operations through improved information access, advertising insight and automation.

- **Yield management** initiatives can drive more revenue per consumer, increasing return on each of those consumers through optimized targeting, packaging and pricing.

Companies should pursue an advertising presence across the three consumer screens

A large majority of executives we surveyed—77 percent—agreed that advertising will be viewed in the future in an integrated way on the three most popular consumer screens—television, computer and mobile handset.

Online advertising is poised for tremendous growth—one analysis foresees a $42 billion market in online advertising in the United States alone by 2011. Mobile marketing is another area where companies are at least tentatively testing the waters, and that market is forecast to exceed $11 billion by 2011. This latter development could revolutionize the telecommunications industry. Operators could be positioned to take up to 50 percent of this advertising revenue as they negotiate deals with content owners. As noted above, players like CBS Mobile are already positioning themselves to tap this market.

Major carriers are proceeding with plans for mobile advertising with some justifiable caution, for fear of violating what consumers may view, in the words of Lowell McAdam, president and CEO of

Verizon Wireless, as the “personal space” of their mobile phones. “If they get an ad they don’t want to view, they see that as a violation,” McAdam told an industry conference.

But as wireless carriers make plans to offer more data services on their networks, they are realizing that advertising could be a significant source of revenue—something sorely needed to support new creative content and services and to offset declining voice revenues.

All companies must include wireless advertising in their planning. The reason is simple: Consumers do not have their televisions with them all the time, and may or may not have their computers with them. But they are more likely than not to have their mobile phones nearby. A study by China Mobile found, for example, that 91 percent of mobile users in its market keep their phones within a meter’s reach 24 hours a day, seven days a week.

Advertising could be planned and executed in a wireless environment in a way that is seen as a valuable service—for example, by alerting a person on the move about nearby stores that are offering sales on items the user has stated an interest in. Advertisers will also need to wend their way through a complex arrangement of privacy laws around the world if such targeted ads and services are to be a significant source of revenue.

Begin moving advertising investments to channels and media that create an ongoing relationship with consumers

Differentiated targeting and relationship building are key components of success in the world of digital advertising. The traditional emphasis on advertising as brand “awareness” has had its day. Today, advertising is more about establishing a relationship with a targeted consumer that creates an interest in ongoing communications.

Respecting the user experience with advertising that is not intrusive, and that does not disrupt that experience, will become increasingly important. Again, recognizing that users are now in control will be a key to success.

One interesting model is made possible by VideoEgg, a video ad network for online communities. VideoEgg enables video ad segments that users view on their command. Such a user-initiated and user-controlled approach is important if advertising is to have an online and mobile presence that does not inadvertently alienate people, causing traffic or usage to drop. Offering consumers choice and control will continue to be a key success factor when it comes to pushing digital advertising, or digital content of any type.

It’s also important to bear in mind that any relationship is based largely on trust, and that trust, once broken, is very difficult to reestablish. Security or privacy breaches, for example, can be extraordinarily damaging to a company’s reputation.

Social networking websites that incorporate advertising and promotional capabilities pose unique challenges. The very kinds of viral qualities that advertisers look for in such websites can run afoul of privacy restrictions if adequate controls are not put in place. Some recent high-profile cases of information being shared outside of users’ control—generating mass protests—have starkly demonstrated some of the risks. The problem of guilt by association will be something for any company to bear in mind, so verifying the security and privacy capabilities of an advertising channel will be critical.

The advertising industry—and, indeed, any company that purchases advertising—is about to enter one of the most disruptive periods in the history of any large business sector. But companies that get it right—through the mastery of technology trends, through the adoption of more sophisticated analytics, and through understanding the user experience that is the context for the advertising experience—will enjoy an opportunity to participate in higher-impact and more rewarding advertising initiatives than ever before.

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