The Future of Advertising
The Future of Digital Advertising:
Overcoming the Challenges to Higher ROI and Revenues

Digital Advertising Is Now Mainstream

Once a novelty, digital advertising has taken the world by storm. According to recent Accenture research (see next page), the share of buyers’ budget allocated to digital and mobile advertising is now equal to their budget for television—and far surpasses that for print (Figure 1). And the surge is far from over: Nearly all ad buyers we spoke with expect digital advertising to comprise more than 50 percent of their total marketing budget in two years. A number of them said digital could account for as much as 60 percent.

Figure 1
But Both Buyers and Sellers Face Numerous Challenges in Making the Transition to Digital

Why the rush toward digital? The biggest factor is the lure of greater returns (Figure 2). Buyers believe the convergence of digital and traditional advertising, and the large amounts of data increasingly available, will help them more effectively target their audience. This will lead to greater returns on their ad investments. Sellers think convergence and data will help them maximize the use of inventory, thus boosting revenues.

About the Research

To shed light on what’s happening in the digital advertising market, Accenture initiated a research program that investigated the current state of digital advertising, key challenges faced by ad buyers and sellers, companies’ overall maturity in adopting digital advertising, and their future plans. As part of this effort, we spoke with executives at some of the largest and most influential ad buyers (representing major brands) and sellers (including programmers, Multichannel Video Program Distributors, publishers, agencies, and social/internet companies) in the U.S.

Our research findings show that despite increasing their focus on digital advertising, increased ROI for ad buyers and higher revenue for ad sellers remain elusive.
The desire for greater ROI and revenue is also driving increased use of programmatic. Today, buyers and sellers on average use programmatic for only 17 percent of their inventory. Within two years, that will more than double (Figure 3).

Yet neither side will achieve their digital advertising objectives if they don’t fix their disparate, patchwork technology environment. Most buyers and sellers in our research have not fully integrated their Data Management Platform (DMP) or Demand-Side Platform (DSP)/Supply-Side Platform (SSP) with other key systems and tools (Figure 4), which makes it difficult to improve campaign performance or ad conversion rates.
Data is another pitfall for both sides. Buyers and sellers are tapping into nine distinct data sources to gain insight into consumer preferences and behavior that can be used to segment audiences (Figure 5). This fragmentation prevents them from effectively aggregating data and ensuring data quality (Figure 6). A siloed organization and lack of analytical skills—which executives we spoke with said are big challenges for their company—also aren’t helping.

Different sources of data used to improve audience segmentation – buy and sell sides

Sellers face their own unique fragmentation challenge. They currently use several different sources of data to improve pricing—including audience data, third-party data, order data, and ad server data. But they can’t use this data effectively because it’s too difficult to aggregate it and ensure data quality, and because they lack appropriate analytical tools. Sellers also said they have trouble measuring the ROI of cross-channel advertising because disparate sources of data prevent them from creating a single view of customers.

Figure 5: Different sources of data buyers and sellers use to segment audiences
Challenges when using Customer Data for Better Audience Targeting

- Siloed organisation: 63%
- Data aggregation: 47%
- Quality of data: 44%
- Lack of appropriate analytical tools: 38%
- Lack of analytical skills: 25%
- Timeliness of data: 22%
- Granularity of data: 19%

Figure 6: Buyers’ and sellers’ challenges in using customer data for targeting
The Future Is Now

These obstacles, while formidable now, pose even greater threats in the near future. In fact, they’re already creating problems that will only get exponentially worse quarter by quarter if the status quo prevails.

What does that fast-approaching future look like? The executives we spoke to expect ads to be increasingly focused on the consumer—meaning more personalized, targeted, and valuable.

“Ad blocking is consumers’ response; it’s their way to say ‘enough’... enough of the barrage of unnecessary, unwanted, irrelevant messages.”

Digital Marketing Manager, Sell Side

A digital marketing manager on the buy side said the widespread use of ad blocking is evidence that such tailored and meaningful ads are long overdue. “Ad blocking is consumers’ response; it’s their way to say ‘enough’... enough of the barrage of unnecessary, unwanted, irrelevant messages,” this person said. “Companies not wired to be thinking about personalization will really struggle going forward. Re-targeting is not the answer; consumers move on too quickly. They want the right message, at the right time, on the right device, right now.”

In other words, consumers will have to find something of value in ads for them to be effective—and that means companies must know far more about consumers than simply their age and gender. “Broadly speaking, offerings must be more holistic in relation to how humans behave,” said a buyer’s chief digital officer. “We need to find ways of relating on a more human level and that means creating things people want to engage with.”

For many, engagement will have to be tied to content. “I feel the future of advertising is all about content and figuring a way to weave the advertiser’s message into a compelling piece of content in a way that gets the brand message across and at same time serves some consumer need,” noted an executive director, digital advertising, on the sell side. The head of digital at a sell-side company emphatically took the concept a step further. “In general, [advertising] will evolve largely into content,” this person said. “What typically we see is content on a page and the advertising goes around it...but for advertising to work in the future, it will have to be the content—whether you call it branded content, native advertising, or advertorial. It will be about making advertising as interesting as the content it sits around.”

But it’s not just what’s in ads that will change. Executives believe how ads are delivered also will need to evolve. And that means taking an omni-channel, screen-agnostic approach. “It’s critical that offerings be integrated across media channels, and publishers need to look at media from a more synergistic place in terms of what they are offering,” said a buyer’s director of integrated marketing. One ad buyer is exploring just that approach. “We’re starting to look at a video-agnostic strategy—some call it a “screen strategy”—meaning it could be TV, tablet, etc.” noted this company's vice president of global media. “That's the notion of cross-device viewership and ability to track someone from device to device.”
Moving Toward Greater Maturity

A new business model

For sellers, change begins with a new business model. Just over half of participants in our research indicated their business model is a major barrier to addressing converged digital and traditional ads. In other words, the current advertising model can’t ensure sustained ROI, and the price versus cost ratio is not profitable. What companies have done to date is akin to re-arranging the deck chairs on the Titanic—applying the historical ad paradigm to a digital world. Until companies redefine their business model, other initiatives to address shortcomings in technology, data or skills will continue to fall flat.

What does this business model look like? It’s different for every company. True, every business model will include the same common elements. But what distinguishes them is how each company interprets and implements those elements. One can think about these elements as part of a spectrum. How a company chooses to emphasize each element across that spectrum will make its business model distinct. What’s the mix of content between original and syndicated?

How is content distributed? Is the business subscription based or ad supported? Which operations will be centralized versus decentralized?

The answers to these and other tough questions will shape the new business model. Then come a number of technology- and organization-related changes needed to bring it to life.

<table>
<thead>
<tr>
<th>Integration &amp; Understanding</th>
<th>Analysis &amp; Discovery</th>
<th>Action &amp; Optimization</th>
<th>Execution &amp; Delivery</th>
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<tbody>
<tr>
<td>Marketers gather and connect customer data from all available channels to develop</td>
<td>Fully understand multi-touch attribution, which assigns values to different touch points of the customer</td>
<td>Leverage insights to optimize spend and ensure customers are receiving the right offer via the right channel at the right time. Every time.</td>
<td>Understand the best channels to communicate and deliver personalized messages to the customer</td>
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**Figure 7: A comprehensive cross-channel approach to digital advertising will drive more personalized and effective marketing**
Technology changes

Technology changes will center on three key areas: data and analytics, systems integration, and salesforce automation.

Both buyers and sellers need a 360-degree view of the customer to improve ROI and increase revenues. But they can't get such a view because of widespread data proliferation. That's why a large majority of buyers and sellers in our research plan to build a centralized database to manage audience data, and to build more robust analytics capabilities to put that data to work for them.

Using data more effectively also requires tighter systems integration. Integrating internal systems, such as those supporting sales and operations, will drive greater ad sales effectiveness and visibility. Linking external ones, including DSPs and SSPs, will support greater use of programmatic.

With better integration, companies can use salesforce automation solutions to streamline workflows and improve decision making across the ad sales process. These solutions make the sales team more efficient: Sales professionals can manage the whole process in a single solution instead of across disparate emails, spreadsheets, and other tools. And a closed-loop system encourages everyone to work from the same up-to-date, accurate data—i.e., they have a single version of “the truth.” Thus, they can make better decisions about where and how to place their ads to generate the greatest return.

“For advertising to work in the future, it will have to be the content.”
Head of Digital, Sell Side
Organization changes

But new technology will founder without a more contemporary organization structure and important new skills.

Sellers will need to break down the organizational siloes that are stifling both traditional and digital advertising effectiveness. Those in our research know that and are working to integrate a variety of functions. At the top of the list are sales and packaging and pricing. But close behind are campaign delivery/measurement, reporting, and finance/billing. A number of sellers also said they will invest in a new convergent organization in the next two years to manage both digital and traditional advertising. Figure 8 illustrates what a convergent organization could make possible.

The people factor also is critical. In fact, training and hiring people are among the top areas in which sellers plan to invest in the next two years. Such efforts are crucial to infusing the digital skills—especially marketing analytics, customer analytics, and web analytics—that are necessary to excel in digital advertising.

However, new digital skills can’t flourish in the current culture of most ad sellers. In fact, culture was the most commonly cited barrier to successfully dealing with the convergence of the digital and linear ads business. That’s not surprising. After all, increasing use of technology and automation won’t change the fact that advertising will always be a people business. At least for the foreseeable future, individuals will still be responsible for making business decisions and serving audiences and customers. They’ll just be using more sophisticated technology to dramatically improve the way they do it.

This biggest culture change for sellers is in how they deal with data and analytics. Responsibility for data, analytics and research has typically been relegated to small teams in the back office. But today, analytics must become much more prominent. In some companies, for instance, analytics has been added to a broader center of excellence (CoE) that supports multiple functions. Advertising should be a part of this CoE. But what’s a company to do with the longstanding research group, whose charge has always been understanding data and audiences? Integrating this research group with a role or function that delivers analytics that support ad positioning, inventory management, and pricing is a cultural change that can have an enormously positive impact. But it’s also an effort that’s rife with potential landmines.

Beyond these technology and organization moves is another critical change that’s out of buyers’ and sellers’ individual control, yet must be made nonetheless: measurement. Measurement was the second-biggest obstacle to thriving in a converged world among all the executives we spoke with. And the lack of standard cross-platform measurement was, by far, the biggest challenge for sellers in gauging advertising ROI. The advertising industry is still waiting for new metrics that include traditional and digital viewing. That’s why collaborative action is needed now to craft an agreement on a new total content ratings platform for buying and selling. Without it, digital advertising will never live up to its potential.
Figure 8: Sellers must break down their siloes to enhance digital ad effectiveness

### ACTUAL < Vertical Media Planning >

- Ad Campaign focused on Media (position)
- Sales Force organized per Media
- Digital Video often sold in bundle with Display at low price

### TARGET < Audience Focus > Media Planning

- Ad Campaign focused on Audience
- Sales Force organized cross-media per Product
- Digital Video sold in bundle with TV for improving Target Reach and inventory monetization
Conclusion

The digital advertising wave continues to wash across the advertising landscape and will only gain momentum in the coming years. And for good reason: Done right, it can be a huge win for both ad buyers and sellers.

Digital advertising opens a whole new world of opportunity for buyers: a way to more precisely, and in exciting new ways, reach and engage with consumers. For sellers, it dramatically expands their advertising inventory and creates significant new sources of revenue. Yet both sides have only scratched the surface of digital advertising's benefits.

It's clear from our research that many issues remain for both buyers and sellers. Some are relatively straightforward to address, such as mastering the right tools. Others present a thornier challenge, such as transforming an entrenched culture that resists innovation. But collectively, they prevent digital advertising from realizing its massive potential.

Individual companies and the industry at large face a choice: Change their ways and reap the rewards, or muddle along as they have and be content to underachieve.
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