

Accenture Media and Entertainment

Facing the digital reality: the path to future high performance in advertising

Accenture Global Digital Advertising Study 2007

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Three key takeaways from this survey:

1 The respondents agree unanimously that the advertising industry is facing a radical transformation – one that many participants are under-prepared for, in terms of its technological and cultural impact.

2 Those players already able to use technology to offer advanced customer interactivity, targeting and analytics are gaining real competitive differentiation.

3 Digital content and online business models have lowered barriers to entry, inviting new entrants and traditional entrants to compete for advertising dollars.

What your company must do now:

If you are a traditional media company — digitize all relevant and compelling advertising and content to sell on online, TV, IPTV, and emerging wireless platforms to drive revenue — and look to build, partner or buy end-to-end digital advertising systems to enable this.

If you are a telecommunications, cable, or satellite company — use your emerging platforms — such as video on demand (VoD), digital video

recorders (DVRs), and T-commerce (television-commerce) — to increase revenue by building advanced advertising products across all three screens, and leveraging the interactive capabilities of IP-based solutions.

If you are a new media company — build, partner or buy systems (sales, reporting, delivery) to support products across three screens and to deliver targeted advertising in privacy-compliant ways.

If you are a marketer — escalate your integrated marketing and advertising initiatives across three screens, keeping a critical eye on performance metrics.

If you are a technology company — focus on developing front-end and back-end systems specific to each medium's unique needs.

These are the headline messages from the Accenture Global Digital Advertising Study 2007, a seminal survey of more than 70 global advertising leaders – major advertisers, media companies, ad agencies and technology providers – on the future of their industry. Their overwhelming response – as the ones most threatened and with the most to gain – was clear.

Change will be decisive, it will be rapid and it will transform the industry. It will also impact the strategies and capabilities that contribute to high performance.

The key findings include:

79 percent of our survey participants agree that advertising will become more performance-based, as the industry moves towards precise measurement of results, rapidly delivered. This will impose a performance discipline on an industry that has rarely felt this kind of pressure.

87 percent agree that analytics will become more accurate and more critical to the business. This shift will drive a decline in the use of traditional success measures – total audience per advertisement – but will enable advertisers to gain increased return on investment through more accurate targeting of audiences.

97 percent agree that advertising relationships with customers will become more interactive, and the other 3 percent say they don't know, meaning that not a single respondent disagrees. As a result of this greater

interactivity, capabilities such as click-through buttons on TV will enable a two-way dialogue with the consumer all the way to purchase. These capabilities will also create a more meaningful feedback loop on advertising effectiveness.

43 percent of the respondents believe that digital media will become the primary form of programming and advertising content within the next five years, and a further 33 percent say this will happen in between seven and 10 years. The impact of this transition may be accelerated by the typical pattern that early adopters tend to be from higher-income demographic groups that are more attractive to advertisers.

Traditional advertisers are largely 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 in terms of customer analytics (25 percent), targeted advertising (21 percent) and customer interactivity (13 percent).

Largely as a result, the highest proportion of respondents (43 percent) believe advertising agencies have the most to lose in the transition to digital advertising, followed by broadcasters with 33 percent.

Correspondingly, 46 percent believe that online search companies have the most to gain, followed by digital advertising specialists with 19 percent.

77 percent agree that advertising will be viewed in an integrated way on three screens – television, computer and wireless handset.



Few industries dominate current business headlines more than online advertising. Remarkable industry growth, multibillion dollar acquisitions and record valuations make interesting reading about a true industry revolution.

However, these headlines mask an even greater emerging story – the extension of online rules and the power of digital content consumption to the rest of the advertising market. With all the attention given to the computer-carried advertising, it is easy to forget that this segment comprises less than 10 percent¹ of all advertising spend.

In fact, the average household spends more than eight times as much time in front of the television as online – and entrenched consumer habits like this will be difficult to change.² So the largest prize in digitalization is television. This focus on the commercial potential of digital interactive TV – often delivered over the internet as internet protocol television (IPTV) – brings extreme implications for the traditional advertising industry.

To investigate these implications, Accenture has conducted in-depth research among more than 70 global business leaders from advertising agencies, media, technology providers and major advertisers.

They are unanimous that major disruptive change is coming – and that those who fail to respond will simply find themselves swept away. The flip side is that those wishing to achieve and sustain high performance in this new environment must invest now in innovation and new capabilities.

Overall, the research both confirms and strengthens Accenture's view that the encroachment of digitization of content and internet-originated business models into television will cause an even greater shake up than the online revolution. There will be two particular consequences for participants:

- A threat to the survival of incumbents – primarily traditional media companies and advertising agencies – that do not embrace new technologies and business models
- Huge new opportunities in the digital advertising sector for service and media providers with experience in delivering digital content and access to deep customer insight

These consequences will, in turn, create a wave of change in advertising models. This paper examines and explores this change.

1 ZenithOptimedia *Global Forecast*, December 2006.

2 U.S. Department of Labor, Bureau of Labor Statistics: *American Time Use Survey*, 2006.



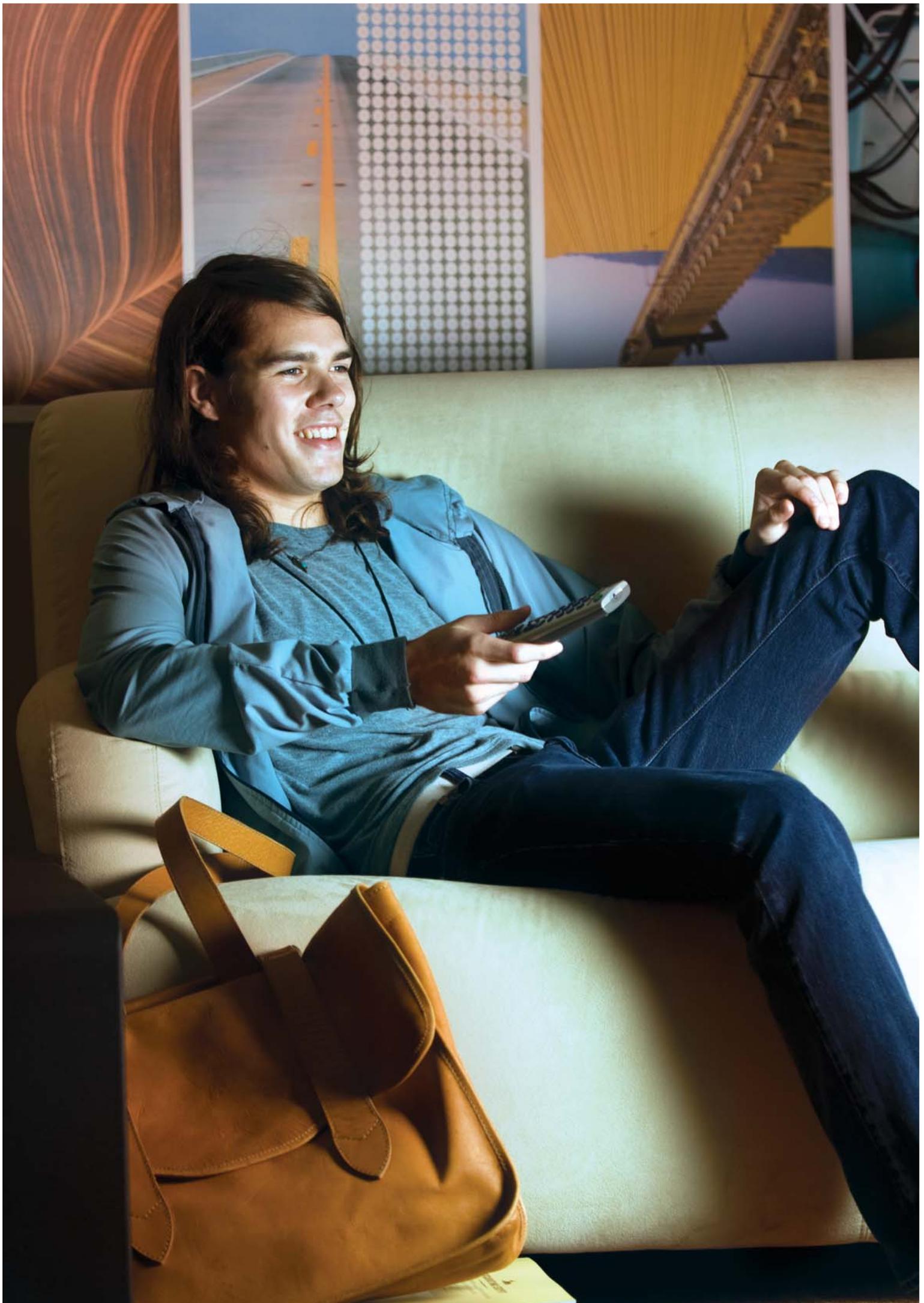
Methodology

The Accenture Global Digital Advertising Study 2007 is a groundbreaking initiative. It represents the first occasion on which we have surveyed advertising industry opinion regarding the impact of digital advertising in such detail and depth at board and senior executive level. We believe the findings are required reading for anyone with an interest in the future of the advertising industry.

The 70-plus interviews on which this study is based were conducted between February and April 2007, and focused on the hopes, fears and future plans of the global advertising leaders who took part. We thank them all for their time and insights.

Accenture asked these pivotal decision makers for their view of digitalization's impact on the way advertising will be sold, distributed and measured in the coming years. We elicited their perceptions of the impact on consumers' behavior and relationships with advertisers. We asked them how long this change will take. And, crucially, we got their views on the advertising industry's state of nonpreparedness for the digital future – and on who has the most to gain and lose as a result.

The following summary presents the key findings from our study, as well as highlighting the implications for all participants in the advertising value chain as they seek to achieve high performance in today's dynamic and evolving advertising marketplace.



Freeze-frame: the current state of play

In order to understand the magnitude of change facing the advertising industry and the scale of the transformation that is set to take place over the coming years, it is vital to understand TV advertising because of its dominant position in the marketplace.

Global annual spend on television advertising totals more than US\$150 billion³, making TV the largest subsector of the entire media market.* The television market is, therefore, almost 10 times larger than online advertising – by far the greatest prize in the media revolution.⁴

TV also has greater mind share. Despite recent gains by other media, it still dominates the consumer's day more than any other entertainment.⁵

The advertising value chain that serves this market has remained largely unchanged for more than 50 years. But it also suffers from three major vulnerabilities against new business models:

1. Intrusive content

The industry is remarkable in providing a product that the customer does not want. Watching a commercial is the historical price to be paid for watching your favorite program, which has always been subsidized by advertising revenues. *What will consumers do if they have a choice?*

2. Uncertain results

The industry is also exceptional in that its end customers – large consumer product advertisers – do not really know whether it is working or not. Traditional advertising requires an expensive act of faith by its buyers because the linkage between the broadcast of an ad and a consumer buying decision is unclear and uncertain. *What will advertisers pay to know their ads are working?*

3. It is enormously inefficient

Television ads are the ultimate shotgun media. While an advertiser pays to broadcast to millions, even an optimistic response rate is less than one percent of viewers. The balance is wasted money. *What will advertisers pay for ads that target only the segments they want?*

These unique industry characteristics have built an industry with glaring points of weakness. This has bred an artistic culture that is the antithesis of results driven. Its target audience will desert it if it can. And its customers, the large advertisers, are already forsaking it for alternatives that can give at least some verifiable proof of results. New digital technologies such as DVRs will exploit these vulnerabilities, driving an industry disruption on the scale of the one that hit the horse-drawn buggy industry in 1910.

³ ZenithOptimedia, *ibid.*

* Television spend includes advertising, subscription services, and Video on Demand (VoD).

Because these segments will converge in a digital world, Accenture proposes that all television spend will be subject to the digital revolution.

⁴ J.P. Morgan, *Telecom Services and Wireline: State of the Industry*, 2006

⁵ U.S. Department of Labor, Bureau of Labor Statistics: *American Time Use Survey*, 2006.

Our research: scoping the revolution

The digital media revolution is well under way — and gaining momentum. Major firms — telcos, cable operators, entertainment manufacturers, software companies and so on — are investing heavily in chasing the vision of delivering any content, on any device, at any time the consumer wishes. It is estimated that US\$12 billion has been allocated to the development of IPTV alone.⁶

The players making these huge investments are counting on digital advertising to be a major source of payback. Yet the future of advertising — its revenue models, its products and its relationships with consumers — are by all accounts highly uncertain.

Accenture believes that the best way to project the future is to ask the individuals who are making that future, and then work out the real impact of what they say. This is why we conducted the research study, and then combined the executives' responses with our own industry insights and experience. This process has enabled us to create a comprehensive vision for the future of digital advertising. We will now present the key elements of this vision — together with the industry scenarios and challenges that we believe will arise as a result.

⁶ Multimedia Research Group: *IPTV Global Forecast, 2006-2010*

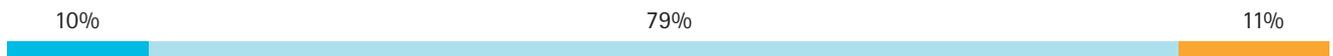
1

Advertising will move overwhelmingly to a performance-based revenue model.

Figure 1

Advertising will become more performance based

■ Disagree ■ Agree* ■ Don't know *Share of respondents who agree or strongly agree



Imagine that you are an advertiser in about five years' time. At the end of the week you review the results of your most recent TV ad placements. Some of the metrics you review are:

- Numbers of click-throughs on the product browser page that closed the TV show.
- Numbers of phone calls from viewer households to your customer sales line.

- Unique visitors via computer to the company's website.
- Number of searches for addresses of retail outlets made on wireless phones.

Each of these precise, documented viewer outcomes is subject to an individual pricing agreement — a different clicks per thousand for each action.

Our survey participants believe this scenario will come about, with 79 percent agreeing that advertising will become more performance based (see Figure 1). In effect, this change will put TV advertising performance on the same basis as the film industry's weekend box office — with accurate measurement of results, rapidly delivered. It will also impose a new and more rigorous performance discipline on the advertising industry as a whole.

2

Customer control: customers will be able to opt in and out of advertising, effectively casting their vote. Advertisers will be able to see how they're voting, and to respond in innovative ways.

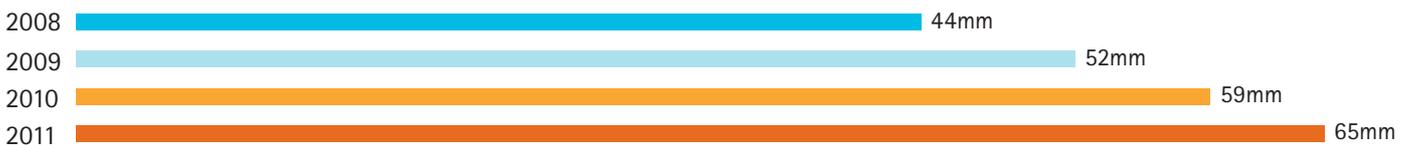
Figure 2

DVRs and ad viewing behavior: 2006



Figure 3

Growth of DVRs: 2008–2011



The digitalization of content – both programming and advertising – will effectively put the entire television customer base on digital recorders. As Figure 2 and Figure 3 show, historical customer behavior with DVRs looks set to force greater innovation in to TV advertising.

With digital advertising penetration levels (IPTV adoption plus DVRs) projected to reach almost two-thirds of the population in five years, almost

half of the population can be expected to regularly skip commercials they do not want to view.⁷ Consistent with historic adoption patterns, Accenture projects that this group will be heavily weighted towards the wealthier, more sophisticated buyers most prized by advertisers.

The good news for advertisers is that IPTV will allow them to see – in real time – any fall-off in advertising

viewership. When this happens, the priority will be to find innovative ways to get consumers to opt back in – such as “telescoping” (links to long-form advertising) and “poll overlays” (graphical, interactive enhancements designed to engage viewers while obtaining their interests and opinions through viewer self-segmentation). Equally, advertisers might simply invest in more interesting and creative ads, with characters and storylines that engage and entertain.

Figure 2 Source: Piper Jaffray & Co. Online Media Survey, 2007

Figure 3 Source: Forrester Research: *U.S. DVR Adoption Forecast, 2006–2011*

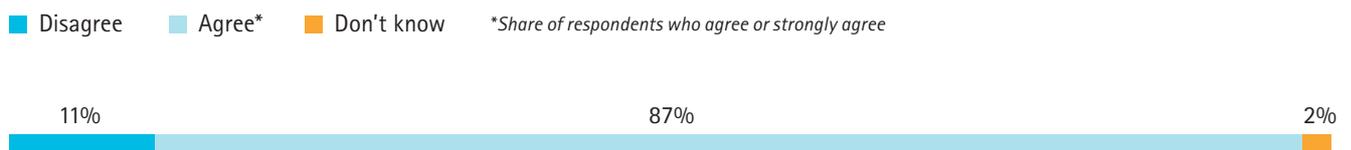
⁷ Approximately 52 percent of households will have DVRs by 2010, with 88 percent of those consistently skipping advertising. Household data from U.S. Bureau of the Census: *Projection of the Number of Households and Families in the U.S.: 2005–2010*.

3

Advertising – like programming – will fragment into highly targeted niche campaigns.

Figure 4

Analytics will become more accurate and more critical to the business



IPTV technologies will allow much more detailed definition of customer groupings by important criteria – programming choices, viewing history, recent Web behavior, time of viewership and so on. It will also provide the technical basis for serving up ads on an almost individual basis to households.

As Figure 4 shows, fully 87 percent of the executives in our survey believe analytics will become both more

accurate and more central to decision making. This technology-driven change will force important changes on the traditional advertising business:

- A significant increase in the absolute number of advertising spots to be produced
- A decline in traditional success measure – total audience per advertisement
- A rise in advertisers' return on investment through better targeting of micro audiences.

A fourth impact will also be felt. Huge technology investment, new analytic skills and operational flexibility to react to data as it comes in – will require a whole new mindset from an industry not known for being technology savvy.

4

Customer relationships will become more interactive.

Figure 5

Advertising relationships with customers will become more interactive

■ Disagree (0%) ■ Agree* ■ Don't know *Share of respondents who agree or strongly agree

97%

3%

In its early days in the mid-20th century, TV advertising had many of the dynamics of American football's "hopeful punt" – a long, speculative kick downfield that you hope someone will catch and run with for a touch-down. Even today, it is an industry that is remarkable in that its effectiveness – and the real returns it generates for the people who pay for it – are often called into question.

As Figure 5 shows, 97 percent of the respondents believe these patterns will change in the IPTV world, as customer relationships become more interactive. Interactive formats – click-through buttons for more information, connectivity with the Web, individualized special offers and so on – will replace traditional one-way broadcast with a new running dialogue with the consumer as they move to final purchase. Accenture projects that new 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 advertisers will be willing to pay more.

5

All this will happen sooner rather than later.

Figure 6

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



Huge players across the converging telecoms, cable/satellite, entertainment and technology sectors are investing heavily in the vision of IPTV. This is not theory – this is future reality.

The survey respondents are the strategy and technology officers of the companies that are creating the revolution. They project a relatively rapid adoption of the new formats – with almost half projecting that digital media will

become the dominant media form within five years, and the vast majority believing it will happen within 10 years (see Figure 6). The impact of this transition may be accelerated by the typical pattern that early adopters are from higher-income, more desirable demographics.

This presents an in-your-face challenge to the incumbent advertising industry. When one considers the kinds of

change that will be required – changes in culture, in business model and in technology adoption – firms currently focusing on traditional forms of advertising must begin their transition now. If they fail to do so, it could well be too late.

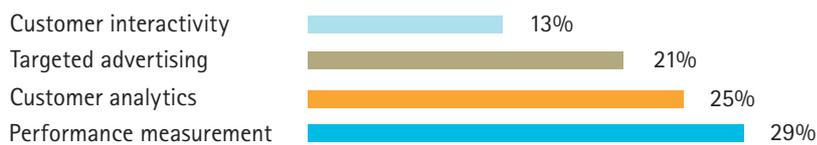


Revolutionizing advertising: the challenges to the business

Rarely has a major global industry faced such disruptive challenge. Accenture foresees two segments with different challenges: the incumbent traditional advertisers and the new entrants to the advertising market.

Figure 7

Is the industry technologically prepared for...



The incumbents: traditional advertisers

As Figure 7 shows, our findings indicate that the advertising industry will be challenged in virtually all aspects of what it does — its business models, its culture, its customer relationships and even how it is compensated. At

the same time, the respondents (many of whom come from the advertising industry) believe that traditional agencies are singularly unprepared for the change that is coming their way. Only 29 percent believe the industry is technologically prepared for the changes to performance measurement — and the perception of readiness in other areas is even worse.

One of the clearest keys to mastering the digital age is mastering the technologies. However, fewer than one in four respondents believe that their company is prepared or is preparing itself for technology transition.

Figure 8

What will be the challenges to transition to a digital advertising business?

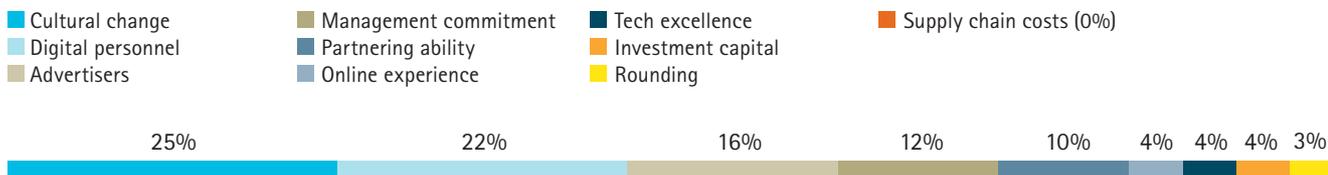


Figure 9

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



As is so often the case, a significant challenge lies in people. As Figure 8 demonstrates, the respondents consistently cite the cultural and people challenges for an established business facing rapid disruptive change.

This problem is compounded by the fact that human transition can be one of the most difficult and prolonged forms of change management that a company can undertake, a fact that Accenture understands based on our experience with clients and our own company over the years. However, the move towards performance-driven compensation will force change early, and intensify the need for people change programs.

The dual challenges of technology and cultural adoption create a pessimistic perspective on the fate of the traditional advertising agency. Some respondents are so pessimistic that they believe incumbent firms are incapable of making the transition, and that the digital space may become entirely occupied by new market entrants.

Respondents were also asked to project which companies had the most to lose from the digital transition. There was a clear consensus: traditional advertising agencies are in more peril than any other participant in the advertising business (see Figure 9).

In Accenture’s view, the danger to the agencies that cannot adapt comes at each stage of their value chain. If outside firms develop superior technology analytics, the agencies will lose their *client relationships* to competitors who know their client base better than they do.

Likewise, they will lose the *customer research* segment of the chain to their 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, and they were never contenders to win the new *reporting and feedback* loop that will develop in the industry.

Figure 10

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

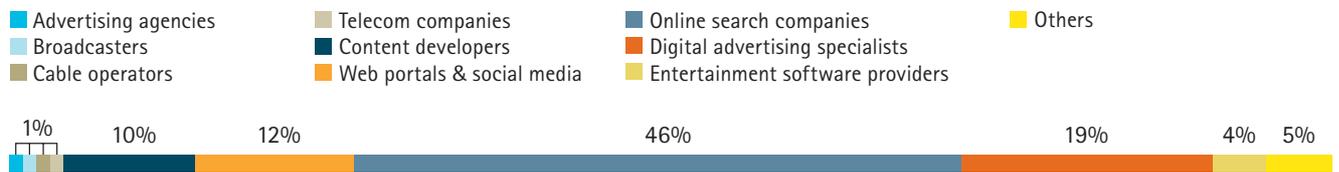
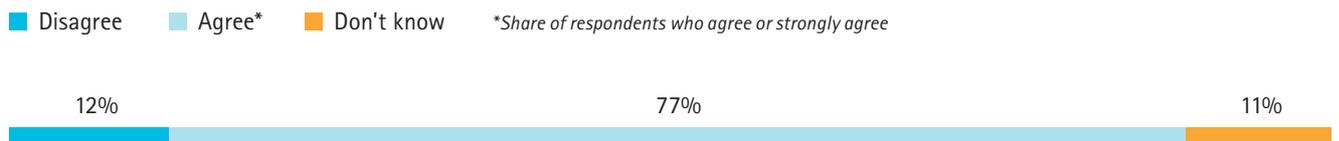


Figure 11

Advertising will be viewed in an integrated way on three screens – television, computer and wireless handset



There will still be a market for quality *creative and production*. The risk is that once-strong agencies will be relegated to this function alone, basically becoming on-demand studios at an increasingly commoditized end of the market.

The new entrants to the advertising market

Those who win the race to provide truly integrated advertising across the three screens – with the ability to own and track customer data, transactions and experiences across different platforms – will seize the high ground in the marketplace. For tech-savvy new entrants this could be a much larger business than standard Web advertising to date.

However, the migration of advertising across new technology platforms will not only create new opportunities for tech-driven players, but will also provide new revenue sources for traditional industries such as telecommunications and cable/satellite.

As Figure 11 shows, the respondents feel strongly that future advertising will be seen across multiple convergent technologies. To date, much of this growth has been zero-sum: for example, online advertising has been stealing market share from television, radio and print.

Accenture projects that with full digitalization of media, convergent media will create true multimedia campaigns. If effective, dollars will shift from those companies that can only support one medium to those that can support a fully integrated experience.



A final perspective: a balance of threats and opportunities

At a headline level, the findings of our Global Digital Advertising Study 2007 represent a resounding call to action for participants throughout the advertising value chain. The survey also shows that the challenges facing them should not be taken lightly. Change is coming, and businesses will have to invest and change radically to get in or to stay in the game. But Accenture believes that the rewards will justify the effort. The long-term future of the advertising business — if we will even be calling it that a decade from now — is bright.

What will happen is that an industry with a long-standing and deeply-embedded culture will face a tough period of adjustment. At a macro level, the industry is facing a zero-sum game: advertising dollars will migrate to where they are most effective. At a micro level, those players who fail to respond to market demand will suffer. But the underlying change will be a greater ability on the part of advertisers to reallocate their advertising investment more responsively in line with performance. As a result, those that deliver the right performance will — quite rightly — win out.

Accenture believes that consumers will still be interested in accurate, well-presented advice that helps them make purchasing decisions. If the industry can determine the right formats and formulas for supporting consumer choice, they will be richly rewarded by larger and higher return on investment from audiences.

The journey to high performance

This also means performance and price will be more closely linked in the industry than ever before. In cases where advertisers have been overpaying, greater accountability means they will find out — and push prices down. By the same token, we also believe that advertisers will start to pay a premium for advertising that is proven to be working. So performance-based advertising actually creates a potential route to a net increase in advertising budgets.

This opportunity presents today's advertising industry with a clear route to high performance through the digital world. Our High Performance Business research — including our Marketing and Customer Management mastery work around developing and delivering the branded customer experience — demonstrates consistently that high-performance businesses know how to harness technology to

create the right customer experience, and that they make appropriate investments with a clear focus on long-term success as well as short-term cost efficiencies. These capabilities require a recognition that innovation is at the core of a company's ability to create and achieve high performance. Today, traditional advertising agencies are at an inflexion point where they must innovate now to achieve high performance — or face the consequences in a few years' time.

In summary, we believe that the current industry is set to face one of the most disruptive periods in the history of any large business sector. But we also believe that those companies who get it right — primarily through the mastering of technologies and culture change — will enjoy an opportunity to participate in a larger and more rewarding advertising industry than they have ever known before. That is the opportunity on offer. It is time to seize it.

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About the survey

The Accenture Global Digital Advertising Study 2007 is based on in-depth, questionnaire-led interviews conducted between February and April 2007 with more than 70 advertising leaders from across the world. The survey participants include CEOs, chief strategy officers and key business unit heads from agencies, media, technology providers and major advertisers. All efforts were made in good faith to secure a balanced and representative sample of respondents. Quantitative outputs from the interviews were analyzed by Accenture and combined with our industry insights to develop the points of view expressed in this paper.

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About Media & Entertainment

Accenture helps entertainment, broadcast, publishing, printing and portal companies adapt to the realities of the digital evolution and capitalize on new opportunities to improve business performance. Its dedicated professionals provide media and entertainment companies with a distinctive combination of business and technology consulting, systems integration and outsourcing capabilities. Accenture has worked with 19 of the 20 largest media and entertainment companies in the world.

For more information on this study and what Accenture can do to help you reach high performance in your business, please contact:

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About Accenture

Accenture is a global management consulting, technology services and outsourcing company. Committed to delivering innovation, Accenture collaborates with its clients to help them become high-performance businesses and governments. With deep industry and business process expertise, broad global resources and a proven track record, Accenture can mobilize the right people, skills and technologies to help clients improve their performance. With approximately 170,000 people in 49 countries, the company generated net revenues of US\$19.70 billion for the fiscal year ended Aug. 31, 2007. Its home page is www.accenture.com.

