

## Advertising in a changing media landscape: The role of consumers as players in the game of advertising

Patricio Simpson  
March 18, 2010

## Today's topics

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- **Changing customer needs are driving interactivity**

- Trends toward increased customer empowerment
- Demands for ease of use, personalization and choice

- **Traditional media is finally catching on**

- Repositioning and growing new media propositions
- Growth of alternative approaches and mediums

- **New world of media and advertising**

- New business models
  - Class Discussion
-

## Customers are taking control

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**Power shift:** Consumers are seeing more and remembering less – and they have taken control of when, where, and how they interact, via Web channels, interactive media and on-demand devices

### What They Want

- Ninety-four percent of shoppers conduct research online before purchasing a product<sup>1</sup>
- More than half of consumers' buying decisions are more influenced by consumer reviews and ratings than any other type of online advertising<sup>2</sup>
- A Web search for “Product Review” generates roughly 500 million pages of results
- Almost all consumers want to block unwanted ads, online and offline<sup>3</sup>

### When They Want It

- Sixty-six million U.S. digital cable subscribers will have video on demand by the end of 2015<sup>4</sup>
- Forty-two percent access the internet via their phone, an increase of 36% in the past year<sup>5</sup>
- The mobile web isn't just about phones - the Apple iPad is predicted to exceed all-time sales of the popular Amazon Kindle during its first 3 months on the market<sup>6</sup>

1 Compete Online Shopper Intelligence study – 2010

2 “State of the Media Democracy” 4<sup>th</sup> Edition. Deloitte (2010)

3 Forrester study with Intelliseek (May 2004).

4 Magna Global (January 2010)

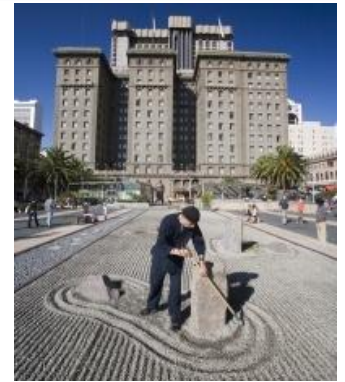
5 “State of the Media Democracy” 4<sup>th</sup> Edition. Deloitte (January 2010)

6 FBR Capital (March 2010)

## Talk about vying for attention!

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**Westin St Francis** – San Francisco's Union Square becomes Zen garden with 25 tons of rocks



**Starbucks** – coffee cup hitches a cab ride and fools Boston motorists

**Nike** – ball squashes BMW!!  
Thailand



# Consumers value personalization and convenience and are driving new commercial opportunities and more content choices

## Ease of Access

Ubiquitous IP networks will allow for hub centric content delivery, and content access cross-platform

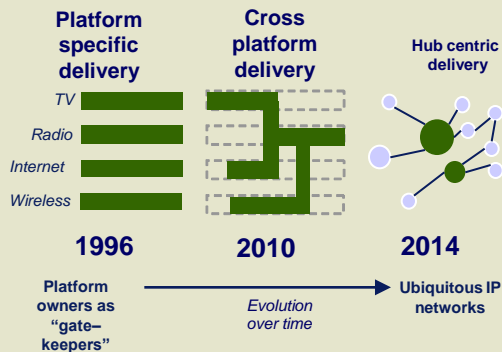
## Personalisation

The personalisation dimension adds complexity to the traditional content versus distribution competitive struggle

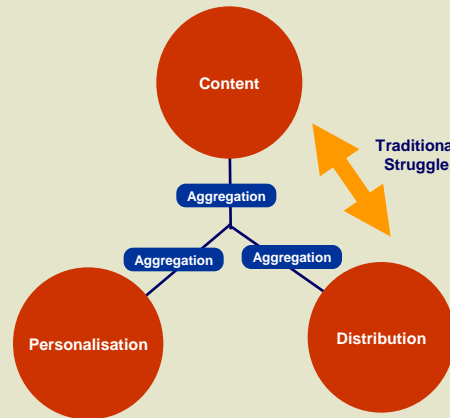
## Proliferation of Supply

Supply of content proliferates, consumer choice and commercial opportunities expand, and the powerful customer sits at the centre of all this

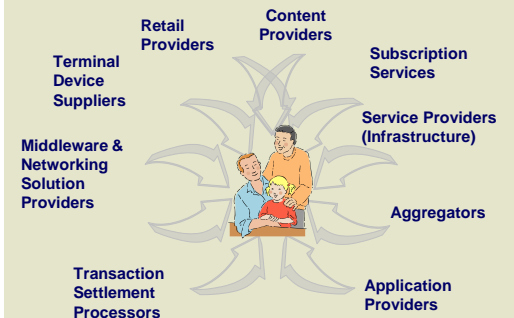
### Fragmentation of the value chain



### Three dimensions of competition in the digital age

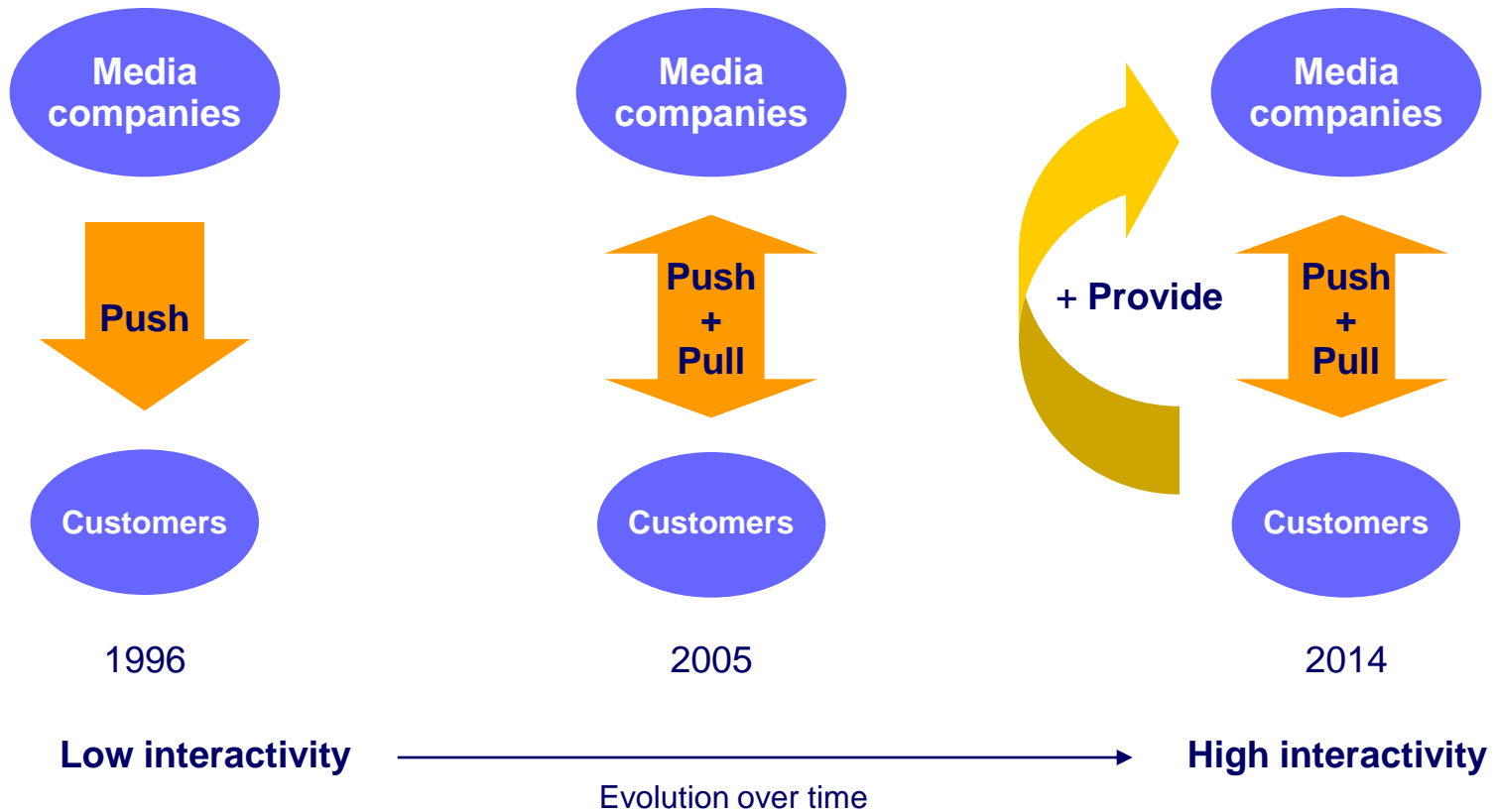


### More choice, more opportunities to exploit content on more platforms, and ultimately more consumer power

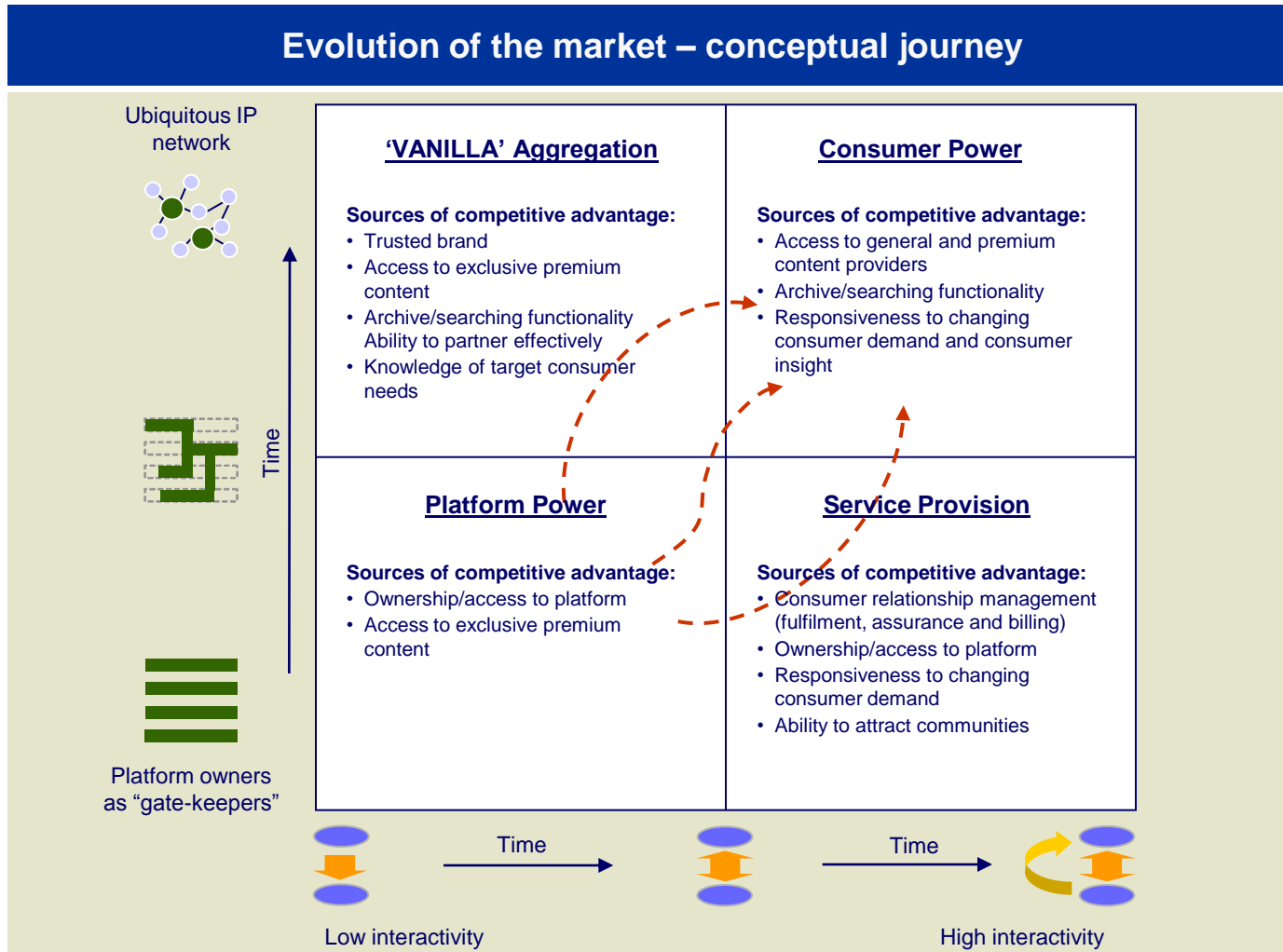


## ...and shifts towards enriched and interactive consumer experiences

### Enriched consumer experience and greater interactivity



# These shifts are driving towards a media environment where the consumer is a powerful decision-maker



Source: Deloitte analysis

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## Consumers also increasingly create and 'broadcast' content...

- People (especially Millennials and Xers) are increasingly creating their own entertainment
- Not only are they creating entertainment for themselves, but nearly one-in-three consider themselves to be "broadcasters" of their own media
  - Nearly half of Millennials feel this way too

Summary of Agree Strongly/Somewhat						
	1 <sup>st</sup> Edition %	2 <sup>nd</sup> Edition %	Millennials %	Xers %	Boomers %	Matures %
I am increasingly making my own entertainment through editing my own photos, videos and/or music.	40	<b>54</b>	<b>69</b>	<b>62</b>	45	30
With all the technology available to me today, I actually consider myself to be a "broadcaster" of my own media.	--	32	<b>46</b>	<b>38</b>	23	10

Generational Comparison by Survey Edition (Summary of Agree Strongly/Somewhat)						
	Millennials 1 <sup>st</sup> Edition %	Millennials 2 <sup>nd</sup> Edition %	Xers 1 <sup>st</sup> Edition %	Xers 2 <sup>nd</sup> Edition %	Boomers 1 <sup>st</sup> Edition %	Boomers 2 <sup>nd</sup> Edition %
I am increasingly making my own entertainment through editing my own photos, videos and/or music.	56	<b>69</b>	46	<b>62</b>	31	<b>45</b>

Q. Please indicate how much you agree or disagree with the following statements



## And 'consume' content created by other users...

- There continues to be significant DEMAND for non-traditional media content – *and it is growing*
- Content creation also continues to grow

### Internet Activities (Summary of Frequently/Occasionally)

	1 <sup>st</sup> Edition %	2 <sup>nd</sup> Edition %	Millennials %	Xers %	Boomers %	Matures %
Watching/listening to content created by others (Web sites, photos, videos, music and blogs)	52	69	86	73	64	40
Creating personal content for others to see (web sites, photos, videos, music and blogs)	34	45	70	48	33	17

Q. How often would you say you are doing the following online activities in a typical 7-day week?

## Class discussion

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What are some examples of business models built on customer input and interactivity?



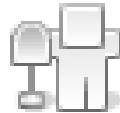
Wikimedia Foundation

facebook

twitter



del.icio.us



Digg this

CarGurus™

Technorati™



yelp

craigslist

## Today's topics

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- Trends toward increased customer empowerment
- Demands for ease of use, personalization and choice

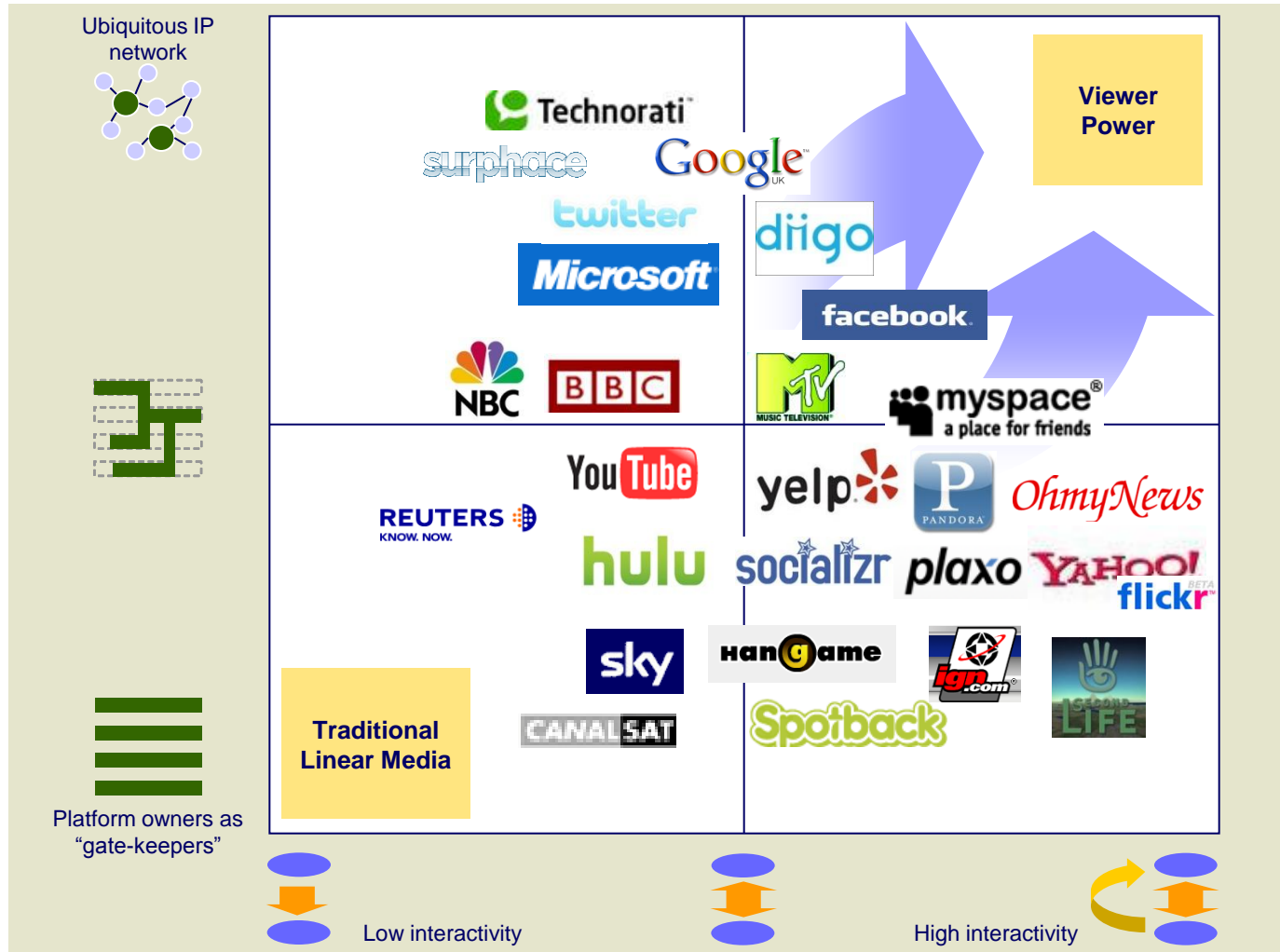
- **Traditional media is finally catching on**

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# Traditional media companies, internet, and technology players are positioning/repositioning



Source: Deloitte analysis

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# 'Old' media is catching on... example of traditional content being aggressively exploited across channels



The original IP rarely receives all the revenue his/her idea generates today

# Major media entities are responding by establishing new business units and growing/acquiring new media propositions

## Motivations:

- Exploit existing IP
- Extend brand/ attract eyeballs/ customers
- Generate additional revenue
- Multiple platform ad bundling
- Be seen to be doing *something!*



## Challenges:

- Org structure
- Incentives
- IT systems (CRM, IPRM, Billing etc.)
- Processes
- Content and repurposing
- Cultural – B2B to B2C

## Internet will soon become the second most important advertising medium

- All consumers rate TV advertising as the most impactful
- Overall, online advertising is now in a virtual tie for #2 with magazines
  - Leading Millennials (born 1982-1989) most open to online advertising
  - Matures place print in the #2 and #3 spots – with newspapers in a virtual tie with TV for #1
  - Trailing Millennials (born 1989-1995) are more influenced by in-theater advertising than any other generation

### Advertising Types with Impact

	Total (4 <sup>th</sup> Edition) %	Trailing Millennials %	Leading Millennials %	Xers %	Boomers %	Matures %
TV	83	80	82	86	82	80
Magazines	50	44	45	45	53	67
Online	47	55	69	46	41	32
Newspapers	44	20	17	37	59	79
Radio	32	26	22	37	34	27
Billboards/outdoor advertising	13	11	12	14	13	8
In-theater advertising (pre-movie)	11	27	19	10	6	3
DVDs/Blu-ray	10	13	15	13	6	3
Mobile/Smart Phone	6	11	10	6	3	1
Video Games	5	12	9	5	2	-

Q. When you encounter ads in the following media, which three have the most impact on your buying decision?

## Alternatives to traditional advertising are multiplying and gaining traction...

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“The brand has to transcend all of the different platforms; our main goal is to reach the fans wherever they are on the best available screen”

– Renee Plato, Walt Disney Co.

"TV is still the only place where you can get 70 million eyeballs on an ad but now, if your message is engaging enough, you can get people to voluntarily spend 10, 20, 30 minutes, totally engaged with a brand.“

– David Lubars, BBDO New York

“The future of advertising is not about social, not about viral videos, not about mobile, not about any new medium or any new ad unit -- but about data.”

- Michael Andrew, Metrics Insider

But....

“The iPad is bringing sexy back to magazines”

-Wall Street Journal, March 2010

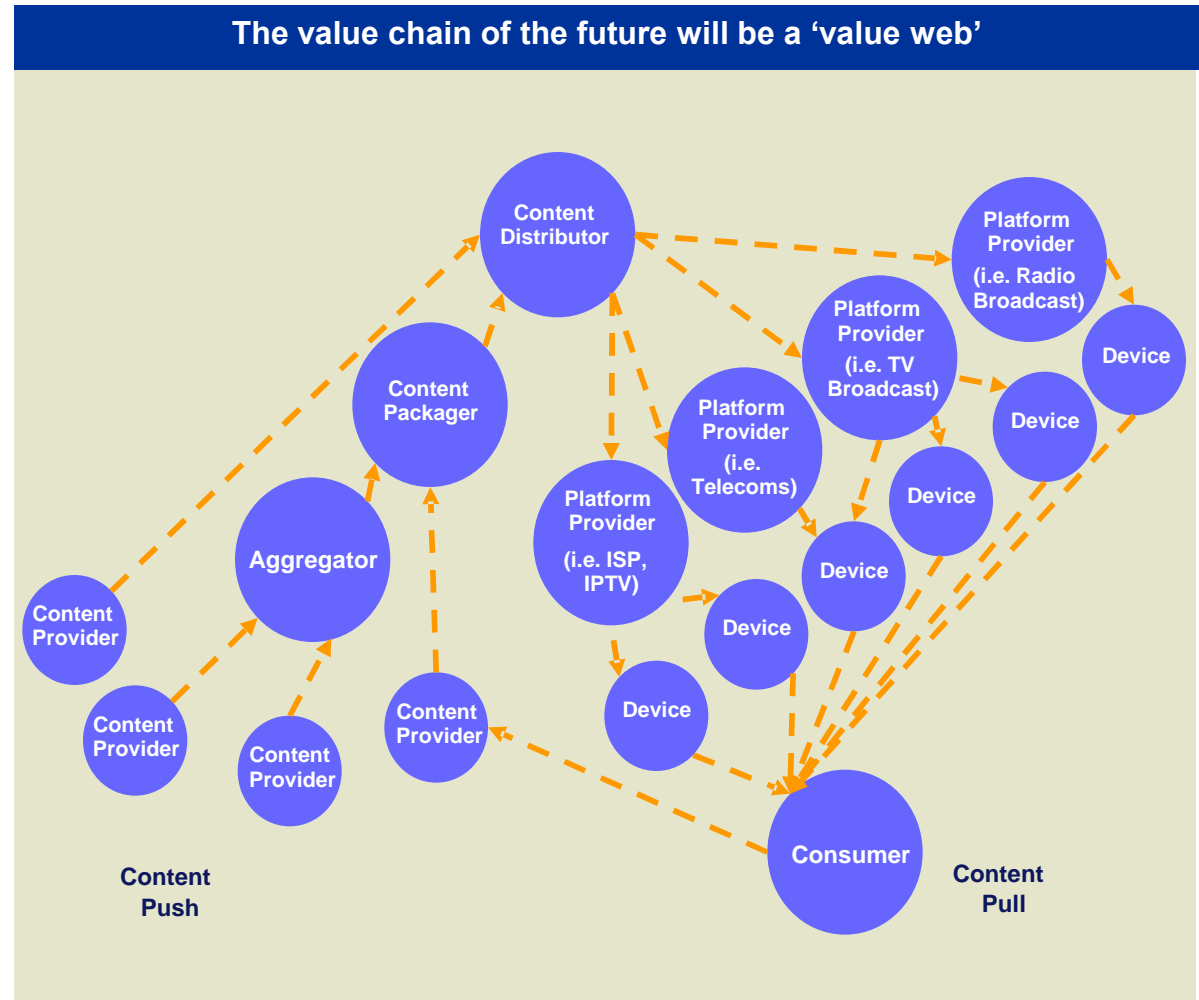
**Once again: What's Next?  
Everybody Loves a Comeback...**





## In turn, relationships between media players are becoming more and more complex

- The characteristics of the future landscape are translating the value chain of today into a complex value web with the **need for flexible business models** to cater to the relationship complexities
- A new role of aggregator will emerge, to collate content from multiple sources, act as a content trader and manage rights
- The content packager will generate value through quality management and filtering
- The content distributor must be responsible for providing searchable and personalized content, priced appropriately and must differentiate their brand
- The platform providers, now commoditized as content can be distributed cross platform, will benefit through the ownership of consumer data



## And the race for online advertising dominance is becoming more intense

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**The battle heats up:** Advertising spending on digital media will top print for the first time in the US during 2010<sup>1</sup>, and online advertising industry is consolidating and evolving to capitalize on the shift through gaining the upper hand in size, capabilities, and information

<b>Scale</b>	<ul style="list-style-type: none"><li>• Traffic or unique number of visitors a site attracts - primarily determined by site content</li><li>• Google leads with 844 M, MSFT second with 691 M, Yahoo! Third with 581 M unique visitors in 2009 (global)<sup>1</sup></li><li>• Facebook is gaining quickly, ranks fourth (340 M) globally and sixth in US (77 M) in unique visitors – up 157 percent in 2009<sup>2</sup>; in a dead heat with Google for overall US web traffic<sup>3</sup></li></ul>
<b>Features</b>	<ul style="list-style-type: none"><li>• Applications and services a Web site can deliver</li><li>• Google is a clear leader with tools and applications released continuously in beta versions on its site</li><li>• Facebook is quickly becoming a full-featured “home base” for users and platform for advertisers</li></ul>
<b>Analytics</b>	<ul style="list-style-type: none"><li>• Google has superior analytics which started with search-based advertising and is now expanding into extensive data mining of millions of search patterns and user profiles</li><li>• Traditional advertising is focused on <i>content</i>, search analytics influences the buyer at the point of purchase <i>intent</i></li></ul>

Sources: <sup>1</sup> Outsell advertising & marketing survey, March 10, 2010

<sup>2</sup> comScore, January 2010

<sup>3</sup> Hitwise, March 2010

## Recent example: Wooing Yahoo!

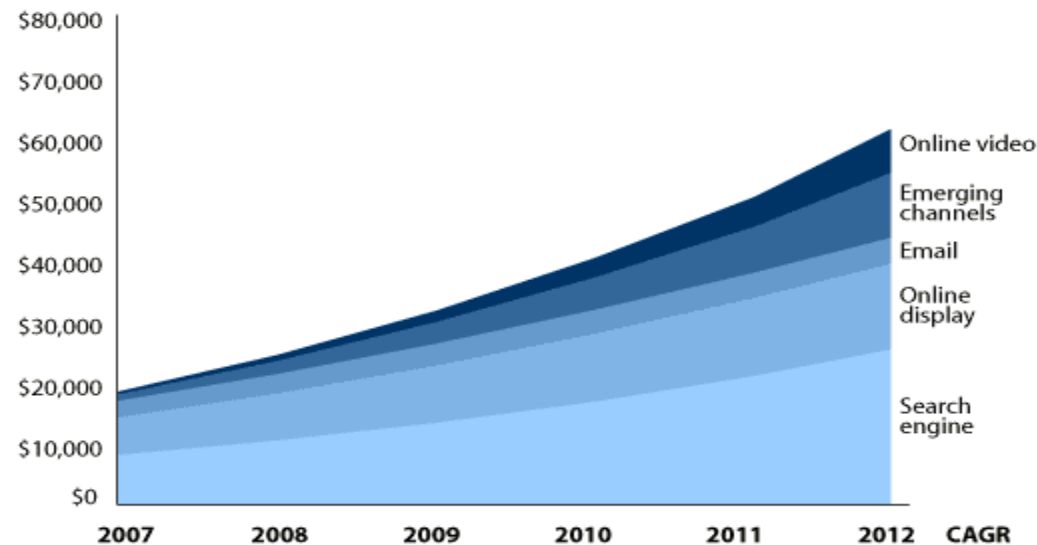
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- **Background:**

- Google is the leader in online advertising. It has 42% share of online ad revenues and 66% share in search related advertising
- Display advertising is expected to grow faster than search advertising
- Google bought Doubleclick in April, 2007 to become a leader in display advertising
- Yahoo is the leader in online display advertising (banner ads etc)
- Microsoft made an unsolicited \$31/share bid for Yahoo on Jan 31, 2008
- Yahoo rejected the offer as an undervalued offer
- Microsoft's options were to wage a proxy fight or raise the offer
- Google and News Corp proposed alternatives to Yahoo which allow it to continue as an independent entity

- **Question:**

- What should Yahoo have done?



# Bargaining in coalition formation

## Rules

- 3 Players – A, B, C
- Goal is to join a coalition that maximizes payoff
- Only 2 parties are allowed to negotiate at a time with no interruption from the other player

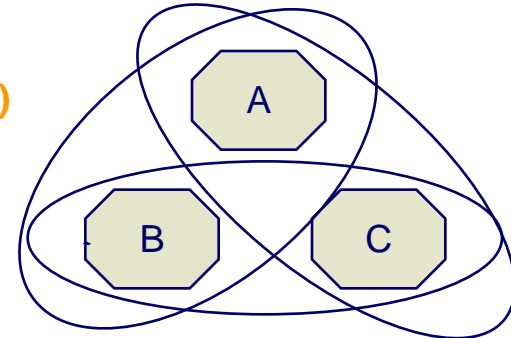
## Possible Outcomes

- Negotiation power of a player in a coalition depends on the value they bring to that coalition and the value they can bring elsewhere
- C is the weakest player – or is it?
- **A offers B 40 - Should B accept the offer? (78, 40, 0)**
- **B can enter into agreement with C (0, 46, 4)**
- **A can try to break the agreement by forming a coalition with C (79, 0, 5)**

## Offers that cannot be refused

- (76, 42, 0), (76, 0, 8) or (0, 42, 8)

Coalition	Payoff
A alone	0
B alone	0
C alone	0
A, B, C	121
A, B	118
B, C	50
A, C	84



$$76 + 42 + 8 = 126$$

(Note :  $126 > 121$   
Grand coalition value)

# Yahoo's bargaining options

- Yahoo will outsource search advertising to Google
- Yahoo will give up search revenue
- Yahoo will remain independent

- News Corp will buy 20% stake in Yahoo

## What Happened?

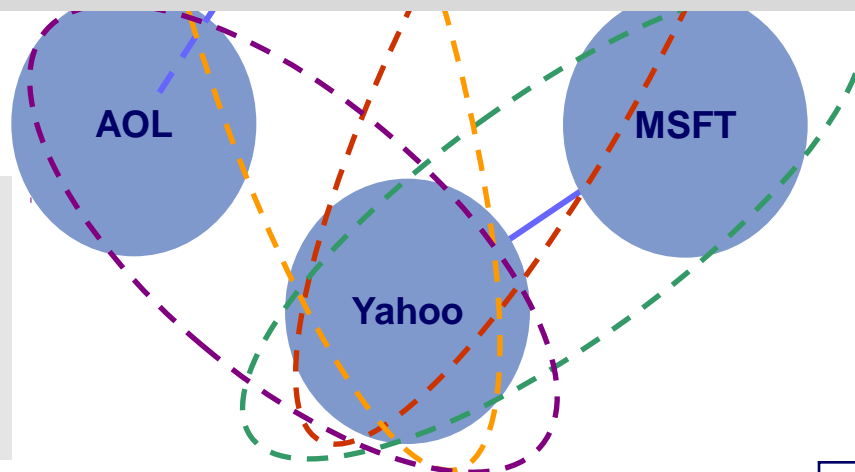
### Microsoft wins by losing, Google loses by getting what it wanted

- Google alleges anti-trust to merger which, along with Jerry Yang's stubbornness, likely saved Microsoft billions
- MSFT doesn't get Yahoo!, doesn't have to pay \$45 billion and absorb 13,000 employees, gets access to 28% of search market and 80% of Yahoo! Search ad revenue through partnership, has no financial risk
- Google's anti-trust allegations inspire Microsoft to accuse Google of the same, resulting in multiple ongoing investigations

dependent  
 face  
 access to  
 news

share  
 combined will  
 ted portals,  
 & largest

- MSFT will get Yahoo's online display advertising



- Time Warner would sell AOL to Yahoo
- Yahoo will remain independent
- Time Warner gets a stake in the combined company

### What Happened?

**Microsoft wins by losing, Google loses by getting what it wanted**

- **Google alleges anti-trust to merger which, along with Jerry Yang's stubbornness, likely saved Microsoft billions**
- **MSFT doesn't get Yahoo!, doesn't have to pay \$45 billion and absorb 13,000 employees, gets access to 28% of search market and 80% of Yahoo! Search ad revenue through partnership, has no financial risk**
- **Google's anti-trust allegations inspire Microsoft to accuse Google of the same, resulting in multiple ongoing investigations**

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## We are seeing more creative and flexible advertising models...

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- Advertising is integral to virtually every business model. The traditional business models are being challenged by the development of new platforms, cheaper digital content technologies and the growing demand for user generated content and interactivity
- In an attempt to shift from the fixed fee arrangement that currently exists with today's agency (instead of the 15% of marketing spend of the past), the cost pressure is forcing agencies to pursue the following emerging business models:

Emerging Ad Models	Description
Subscription to advertising services	Continuously updated advertising, requiring meta-tagging and demand quasi intelligence of the storage devices
Advertising and consumer marketing consultancy	Share information, market research on consumer preference, cultural preferences and how to appropriately target
Content development, part ownership of IP	Agencies to develop content to target a niche demographic. Content can take the form of music, video clips (short or long and engaging), photos
Product sponsorship and placement	Advertisers pay a fee in order for branded products to be prominently displayed in a media production, or for sponsorship to be advertised – TV, films, music, games and editorial
Interactive advertising	Mini-website behind broadcast screen for consumers to interact with
Mobile advertising	Broadcasted ads over mobiTV, advertising on mobile click-through, geographic position-based ads



## Pricing in Advertising

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As business models evolve, so has pricing:

- From the traditional CPM (cost per thousand impressions) amount, we now have
- CPC (cost-per-click) – or prices for each click-through... or even
- CPA (cost-per-action) – price paid when a user completes a certain action
  
- Now... where should you go if your blog or MySpace is generating a lot of traffic?



Microsoft® adCenter



- You should sign-up at Google AdSense, or Yahoo! Search Marketing or Microsoft adCenter, and determine if you should get paid by:
  - Content (typically on CPM basis)
  - Search (adding a search tool within your site)
  
- Now... where would you go if your startup company needed a little targeted advertising?



- What if you wanted to target specific demographic groups?



quantcast



- Google's Double Click, comScore, and Quantcast deliver demographically targeted advertising, at higher CPM rates but at significantly lower total cost due to narrow user targeting

## Mobile devices are becoming valuable platforms for media revenue generation

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**Advertisers are driven to mobile by its interactivity, ubiquity and locality as they seek to engage with rather than interrupt consumers**

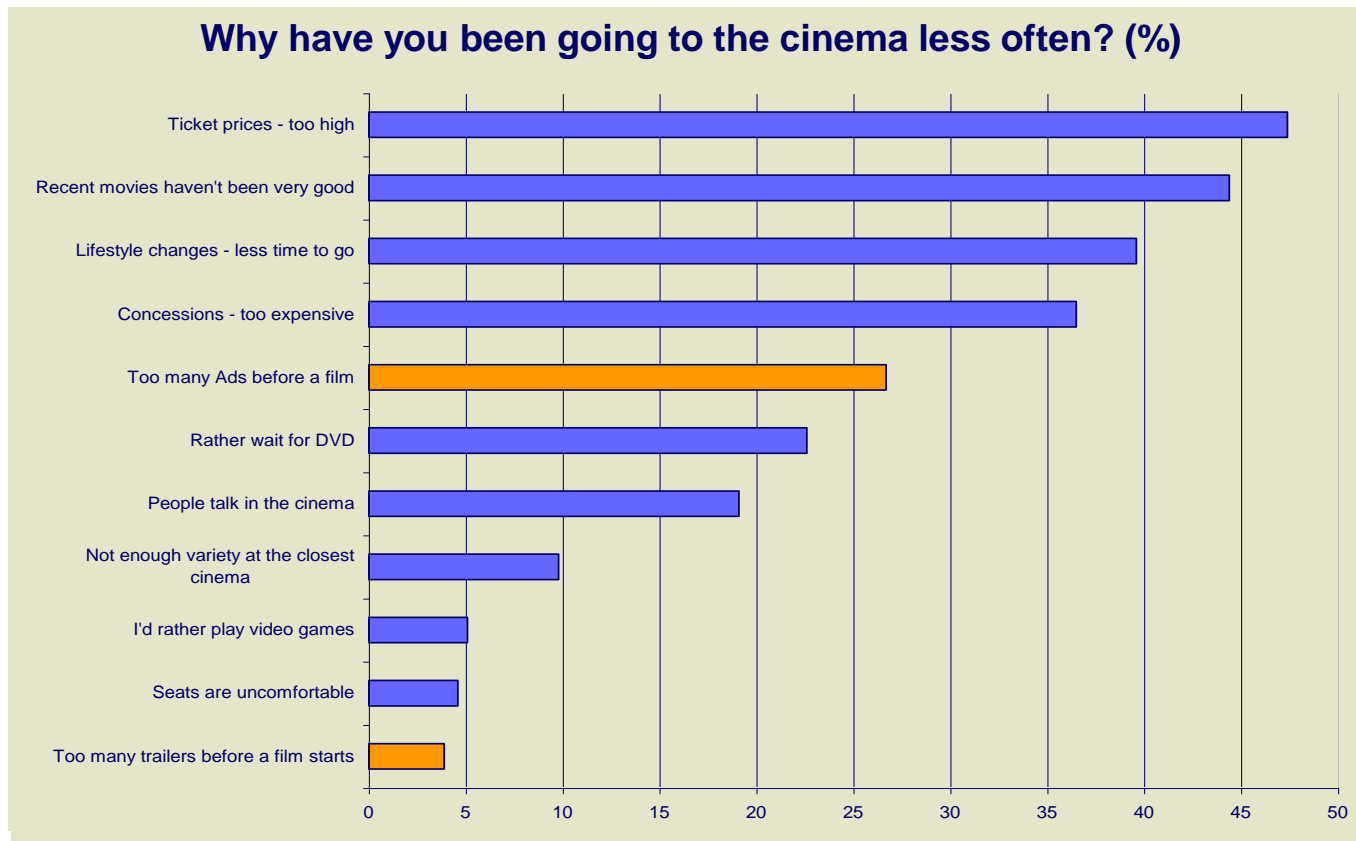
Model	Examples
<b>Free (with Ads)</b>	<ul style="list-style-type: none"><li>• Yahoo! Daily weather update</li><li>• Google (AdMob) and Apple (Quattro) acquisition of mobile advertising firms</li><li>• AOL's role as platform connecting agencies and publishers</li><li>• Location based coupons</li></ul>
<b>Subscription</b>	<ul style="list-style-type: none"><li>• VeriSign's Jamster content plans</li><li>• mobiTV</li><li>• HBO GO on Verizon (available only to HBO TV subscribers)</li><li>• NCAA March Madness on Demand (Premium)</li></ul>
<b>Purchased a la carte</b>	<ul style="list-style-type: none"><li>• Wireless carrier-originated ringtones</li><li>• iTunes mobile, iPhone app store</li></ul>

**Message: People ARE willing to pay for the kind of convenience and accessibility that content via mobile provides**

## The key is the right message, at the right time, in the right place. Mixing paid for content with advertising can be unpopular...

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Movie goers complained about being subjected to intrusive adverts in cinemas – 54% of respondents said they “disliked them a lot” but only 27% said adverts had kept them from going to the cinema



Source: Nielsen Analytics

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## Traditionally, the internet is considered 'free' and few are willing to pay for Ad-free online experiences

- A significant minority indicate a willingness to pay for an ad-free online experience – and for ad-free TV shows
  - Millennials are far more likely than any other group to pay to avoid advertisements or provide information to receive more targeted ads
  - Males are more likely than females to pay to avoid advertisements and provide personal information to receive more targeted ads

### Summary of Agree Strongly/Somewhat

	Total 4 <sup>th</sup> Edition %	Millennials %	Xers %	Boomers %	Matures %
I would rather pay for online content (news, information, sports, games, social interaction sites, movies, music, and TV) in exchange for not being exposed to advertisements.	<b>26</b>	<b>32</b>	26	22	24
	Total %	Male %		Female %	
	<b>26</b>	<b>29</b>		24	
I would pay an annual subscription fee for my favorite TV shows to watch them without advertisements.	<b>28</b>	<b>37</b>	29	23	21
	Total %	Male %		Female %	
	<b>28</b>	<b>30</b>		26	
I would be willing to provide more personal information online if that meant I could receive advertising more targeted to my needs and interests	24	<b>32</b>	28	17	18
	Total %	Male %		Female %	
	24	<b>27</b>		22	

Q. Please indicate how much you agree or disagree with the following statements

## The Internet has introduced several powerful Ad Platforms: Social Networks, Online Recommendation Forums, and Blogs

- Social networking is on the rise
  - Matures use of social networks has increased from 10% in 2<sup>nd</sup> edition (2007) to 36% today
  - Boomers use of social networks has risen from 36% to 46% since 2<sup>nd</sup> edition
- Millennials create and are influenced by online reviews far more than any other age group

### Summary of Currently Do & Agree Strongly / Somewhat

	2 <sup>nd</sup> Edition %	4th Edition %	Millennials %	Xers %	Boomers %	Matures %
Maintaining a profile on a social networking site (MySpace.com, Facebook.com, Classmates.com, Friendster.com, Linked-in.com)	45	57	77	61	46	36
Online consumer reviews and ratings influence my buying decisions more than any type of online advertising	NA	55	69	56	49	43
% Who have recommended a product through a blog entry, message board posting, or online review	NA	33	45	37	27	15

Q. Please indicate your experience with each of the following

Q. Please indicate how much you agree or disagree with the following statements

## However, all online ads are not created equal...

- The type of Internet ads that provide the greatest amount of targeting and relevance, do the best
  - Boomers and Matures most influenced by the “top 3”
  - Millennials most influenced by content embedded within games and video
- Influence of interactive advertising is declining

Internet Advertising Influences						
	2 <sup>nd</sup> Edition %	4 <sup>th</sup> Edition %	Millennials %	Xers %	Boomers %	Matures %
Search engine result ads	78	75	68	76	78	83
Banner ads	60	53	55	55	52	48
Ads interact with that provide information/entertainment	62	46	43	42	49	55
Pre-roll ads (ones you must view first before viewing a video)	31	29	35	30	23	26
Ads associated with games played on websites	15	21	29	20	19	11
Ads embedded in videos (on the screen while a video is playing)	17	17	25	19	13	9
Pop-up ads	-	16	10	15	21	19
Post-roll ads (additional information that is provided after a video)	19	16	14	16	17	15

Q. Thinking now about advertisements you encounter online, which type of online advertising influences you the most?

## In-game advertising is predicted to generate significant revenue for games developers

The emergence of in-game advertising is beginning to provide an important new revenue stream for game publishers and will be a significant contributor to total revenues and margins by 2014

### Product placement: In-game advertising

- Gaming audiences target the young – and audience is growing; the audience is attractive to advertisers
- Gaming is becoming increasingly multiplayer/multi-channel
- Choices and preferences can be tracked and monitored real time – e.g. which pair of jeans or which brand of cola....
- Online gaming allows advertising to be tailored to geographic location, time of day, and even time-criticality of the offer



## Customization of characters – Real-time information



**Tiger Woods, Need for Speed, Second life are all examples of character customization with choices of clothing, eyewear, jewellery, cars, land, etc.**



## Emerging revenue models for video game advertising

Annual revenue from in-game advertising is growing exponentially, from \$78 million in 2006 to an estimated \$1 billion by 2011<sup>1</sup>

Model	Examples
<b>In game advertising/product placement</b>	<ul style="list-style-type: none"><li>• Shanda (Chinese game provider)</li><li>• IGA Worldwide (in-game advertising network for Sony PS3)</li><li>• Greystripe</li><li>• Microsoft xBox – Burger King Game</li></ul>
<b>Click through monetization</b>	<ul style="list-style-type: none"><li>• Sony's Station Exchange, making transactions of virtual goods for real money a direct part of EverQuest</li><li>• Facebook "Mob Wars", earn points by entering contests, answering surveys, clicking ads (or purchasing with PayPal)</li></ul>
<b>Luring traffic to targeted websites</b>	<ul style="list-style-type: none"><li>• ABC's "Lost"</li><li>• NBC's "The Office" Dunder Mifflin Infinity</li><li>• Onstream Media/Auction Video – social networking</li></ul>

**Message: There is tremendous activity and positioning in the video game advertising space, by large and small players alike**

## Class discussion

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“We’re the only ones holding this back...Advertisers want in, we know they want in, we just need to think about it. And if we do, I know with the level of brilliance and talent in all the teams out there, it can be easily accomplished.”

– Ubisoft, a game developer

**Yet...**

“When ads become ubiquitous, do they undermine themselves?”

– New York Times Magazine, Feb 07

## Some parting thoughts/ questions

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### Key challenges faced by media companies and advertisers preparing to embrace a more interactive media environment

#### For Media Companies

- How much to invest and when
- How to structure to best take advantage of and enable digital/ where to play in the value chain
- How to exploit and protect IP
- Which content over which channel/ device and cost of repurposing
- Who to partner with
- Cultural, organizational and people challenges

#### For Advertisers

- Optimal marketing mix
- Appropriateness of advertising across platforms
- Effective and accurate audience measurement
- Onus of effort for bundling across platforms, and for assessing ad effectiveness

- **If they have not yet developed a robust digital strategy they might not have missed the boat yet, but they need to develop one and begin experimenting soon**
- **There will be less tolerance for experimentation and failure in the future than there is now**

## Questions/Comments?

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