The Future of Advertising

Webinar with Christopher Vollmer and Randall Rothenberg

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strategy+business

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Presenters and Authors

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Over the Past Year, Booz Allen Has Been Developing a Perspective on Advertising

Introduction

- *The Future of Advertising* presents our view on the major shifts occurring at the intersection of consumers, marketers and media companies
- This discussion highlights that the *Future of Advertising* is now, given the dramatic shift in media control to the consumer and the groundbreaking actions being pursued by many leading CMOs
- Key inputs to this perspective include:
  - More than 100 interviews with CMOs, top agency representatives and leading media companies (interactive and traditional)
  - Booz Allen's ongoing study on the Role of the CMO with the Association of National Advertisers (ANA)
  - Our client experience in media and with major consumer marketers

Consumer Behavior

Major Marketer Needs

Industry Responses

Consumer Expectations for Advertising are Changing

From Impression…

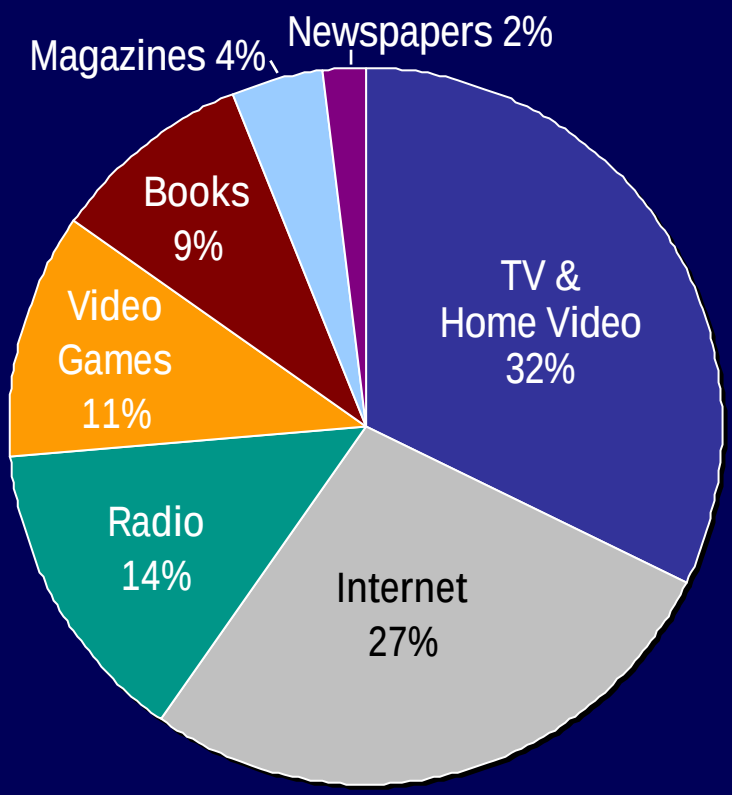
- Opting out of non-targeted broadcast advertising
- Annoyed with intrusive advertising
- Ignore non-relevant advertising (e.g., banner ads)

…To Relevance

- Allow non-intrusive messaging (e.g., branded entertainment)
- Prefer opting-in (e.g., e-mail newsletters)
- Require targeting to <u>their</u> needs and profile (e.g., purchase history)

Younger Audiences Are Leading The Shift In Consumption To Online

Weekly Share Of Media Usage
(U.S. Youth Aged 12-21, Online HH)



- Overall TV and video still leading
- Internet surpassing radio and total print
- Video games close to radio – and ahead among males in this demo

Source: Forrester Consumer Technographics, Q4 2005

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Attention is Eroding: 70% of Consumers are Multi-tasking with Multiple Media

While…

- …watching TV…
  - 74% read newspaper
  - 66% go online

While…

- …reading magazine…
  - 59% watch TV

While…

- …reading newspapers…
  - 52% watch TV
  - 50% listen to the radio

Implications

- **Increasing emphasis on "360 campaigns" that integrate across media**
- **Search for new metrics that move beyond audience size to engagement**
- **Focus on how traditional media drive traffic online**

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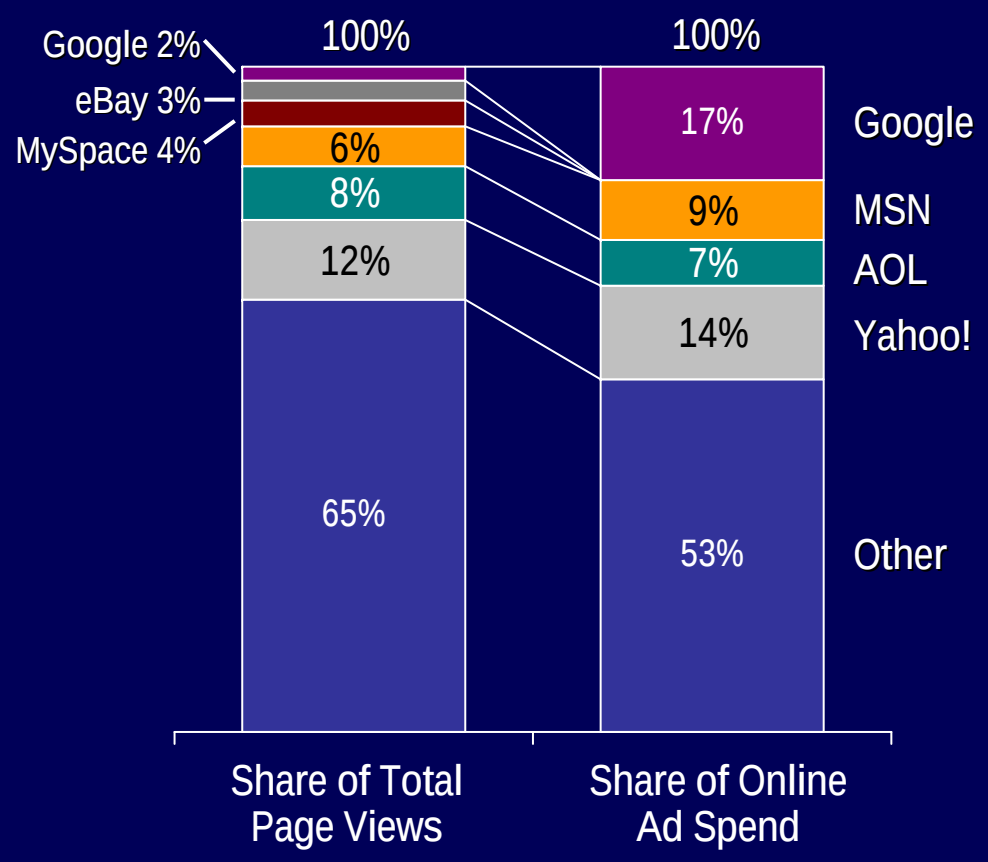
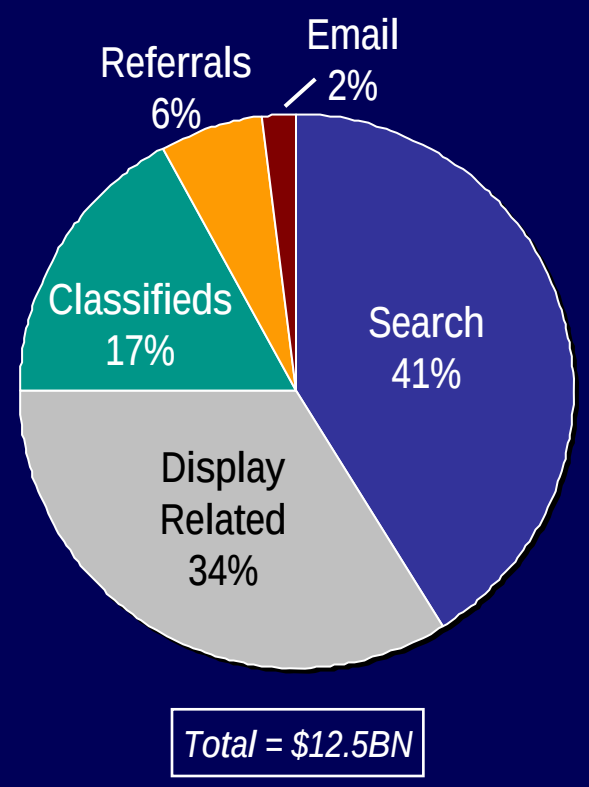
Source: Kaiser Family foundation, Simultaneous Media Usage Survey (SIMM) by Big Research

So Far, Online Advertising Has Been Driven By Search And The Major Portals

Share of Internet Traffic vs Advertising (2005)



Online Advertising Revenues By Type (2005)



Source: eMarketer, SG Cowen, Internet Advertisers Bureau, comScore MediaMetrix, Feb. 2005 & Oct.2005, Booz Allen Analysis

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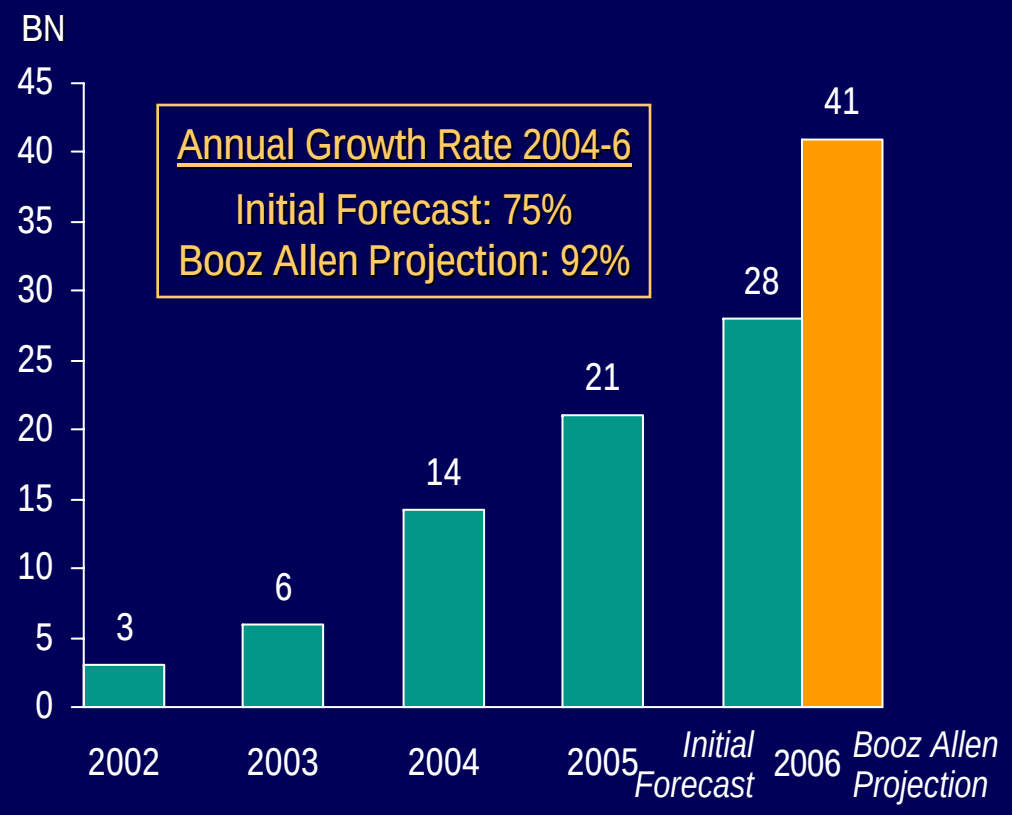
Video Consumption and Spending is Rapidly Moving Online

Online Videostreams Served Annually
(2004 – 2006E)



Drivers of Growth

- Rapid growth in broadband access – nearly 2/3 of US online HH
- Explosive growth in user generated content
- High advertiser demand for video inventory
- Networks releasing more content online

Note: 2006 Booz Allen forecast based on increase in YouTube traffic (accounts for 60% of online video streams)
Source: AccuStream iMedia Research; YouTube, BusinessWeek, MarketWatch, Yahoo, New Media Musings, Booz Allen analysis

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User Generated Content Has Become A Major Driver Of Media Engagement And Fragmentation

- 90MM+ registered users
- 11.6BN page views/month, 70 pages/user/day

- 65,000 videos uploaded daily in June
- 100MM clips watched daily

- 8MM Americans maintain own blogs
- 30% of internet users read them

- 92% of online youth (13-21) view user generated content
- 35% of all internet users have posted content (blogs, own web page, sharing photos or video)

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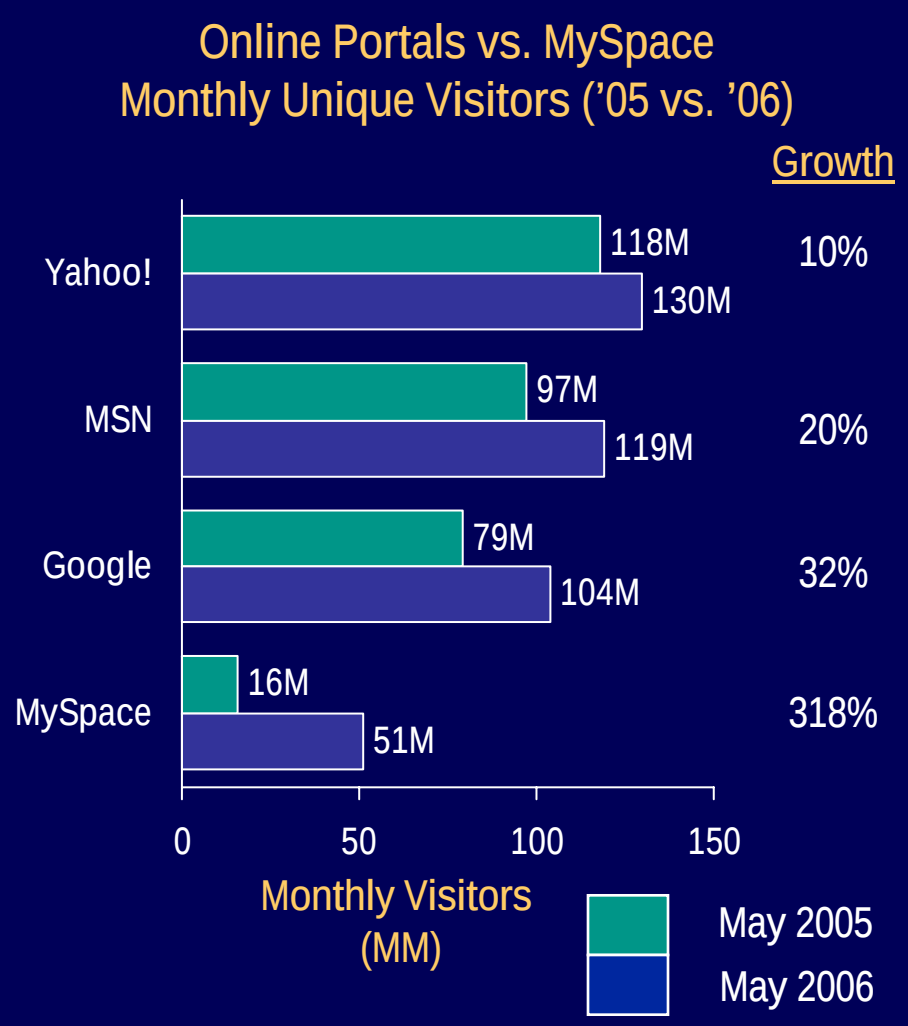
Source: PEW Internet and American Life Project, hitwise, Reuters

Together, Social Networking and Video Will Be Key Drivers of Online Advertising Growth



Source: comScore

- Huge traffic growth for social networks
- MySpace gaining traction with major marketers
- Standards/formats still developing
- Video content also driving traffic to new destinations (YouTube, iTunes)
- Potentially reduces long-term influence of portals (e.g., Yahoo!)

Consumer Behavior

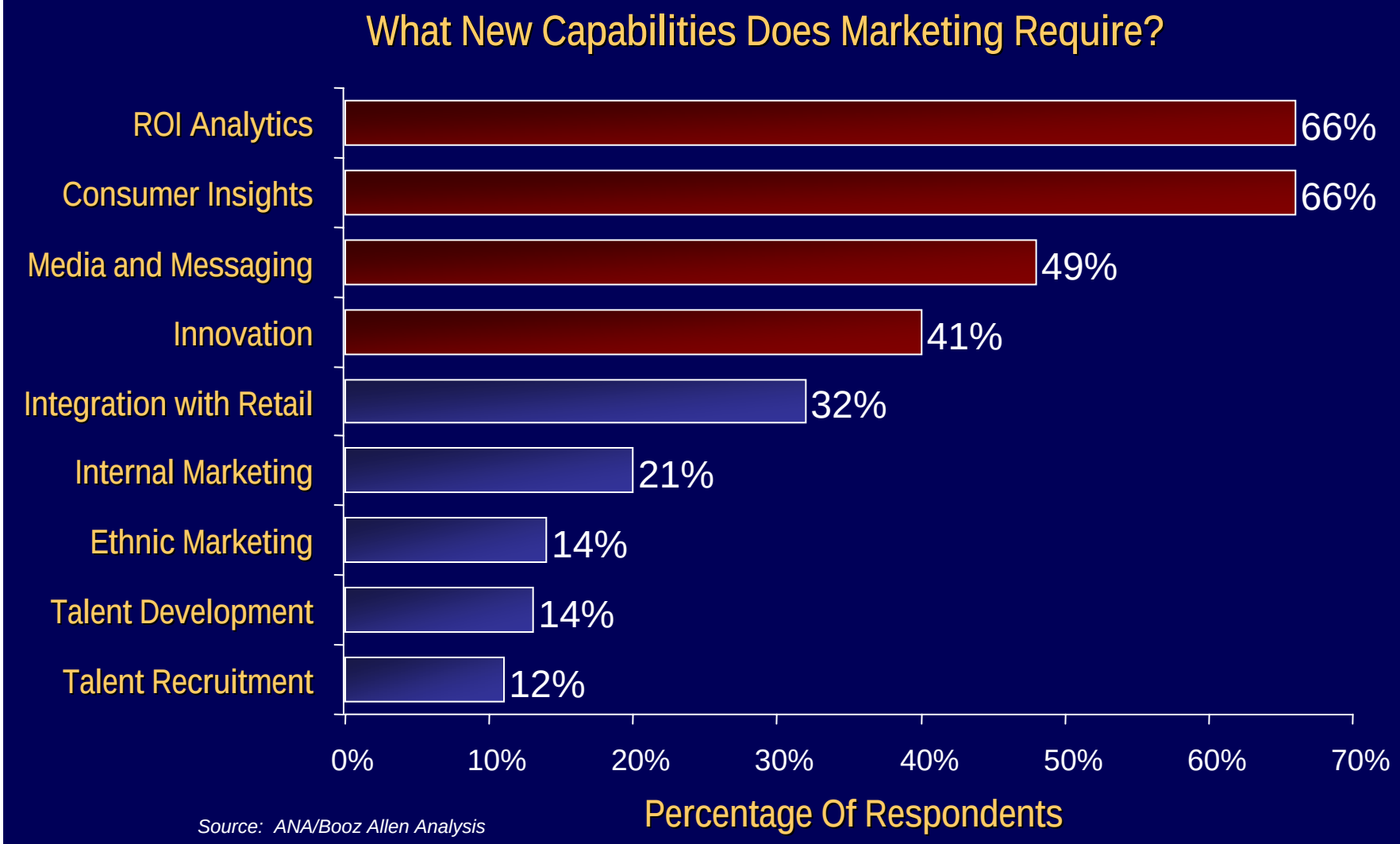
Major Marketer Needs

Industry Responses

Marketers Are Increasingly Focused On Measurable Results

- New strong-form CMOs emerging as change agents
- Shifting more spending down the “purchase funnel” – away from pure brand building
- Huge premium on finding “in-market” consumers through search and other new ad models
- Shifting metrics from cost per impression to “cost per action”
- Investing heavily in new consumer insight capabilities to better measure marketing impact

For Marketers, the Lack of Performance Metrics is the Greatest Pressure Point



Source: ANA/Booz Allen Analysis

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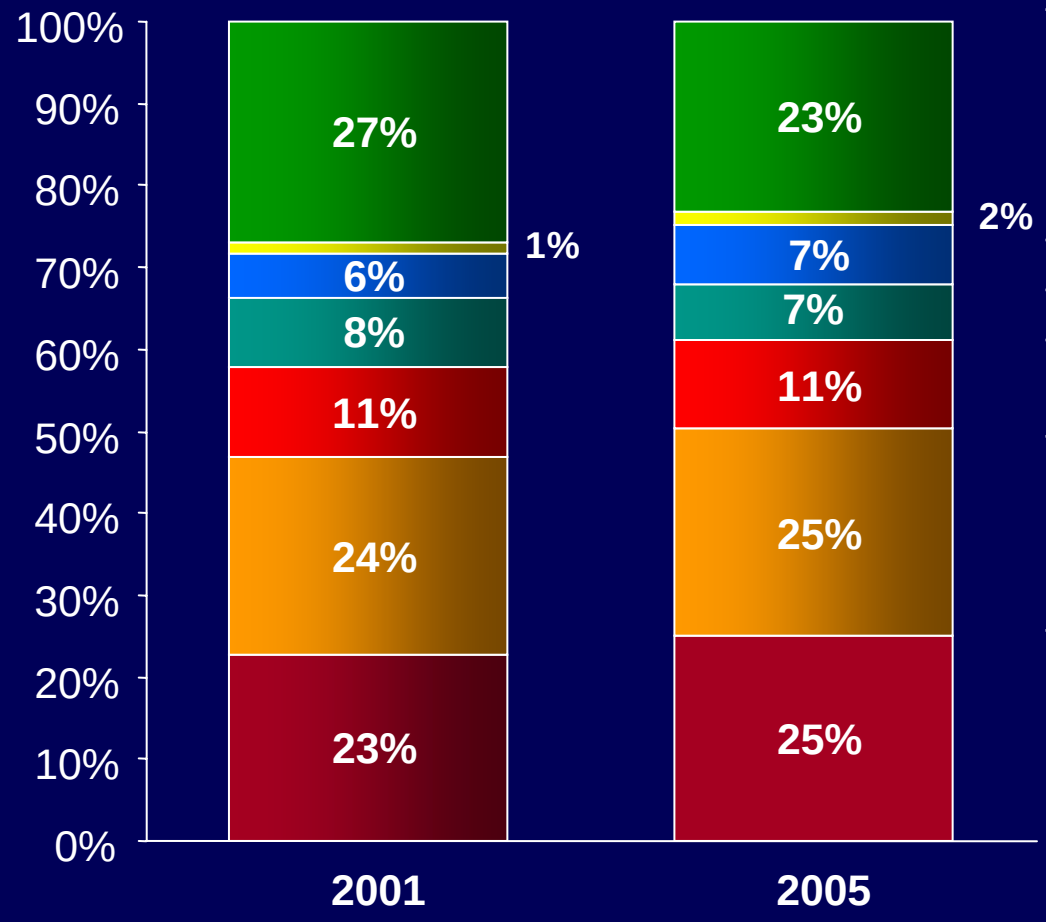
Focus on Measurability and Engagement Also Driving Shift to Below the Line Marketing

Marketing Spending Breakdown
(Percent of Total, 2001-2005)



	CAGR 2001-05
Non-Internet Media Advertising	3.6%
Internet	12.8%
Direct Mail	15.1%
Incentives	2.7%
Consumer Promotion	6.7%
Trade Promotions/ Slotting	8.8%
Event Marketing	10.2%

Below-the-Line Marketing

CAGR 2001-05 8.8%

Source: Morgan Stanley, Zenith Optimedia, PriceWaterhouseCoopers, Veronis Suhler Stevenson, Booz Allen analysis

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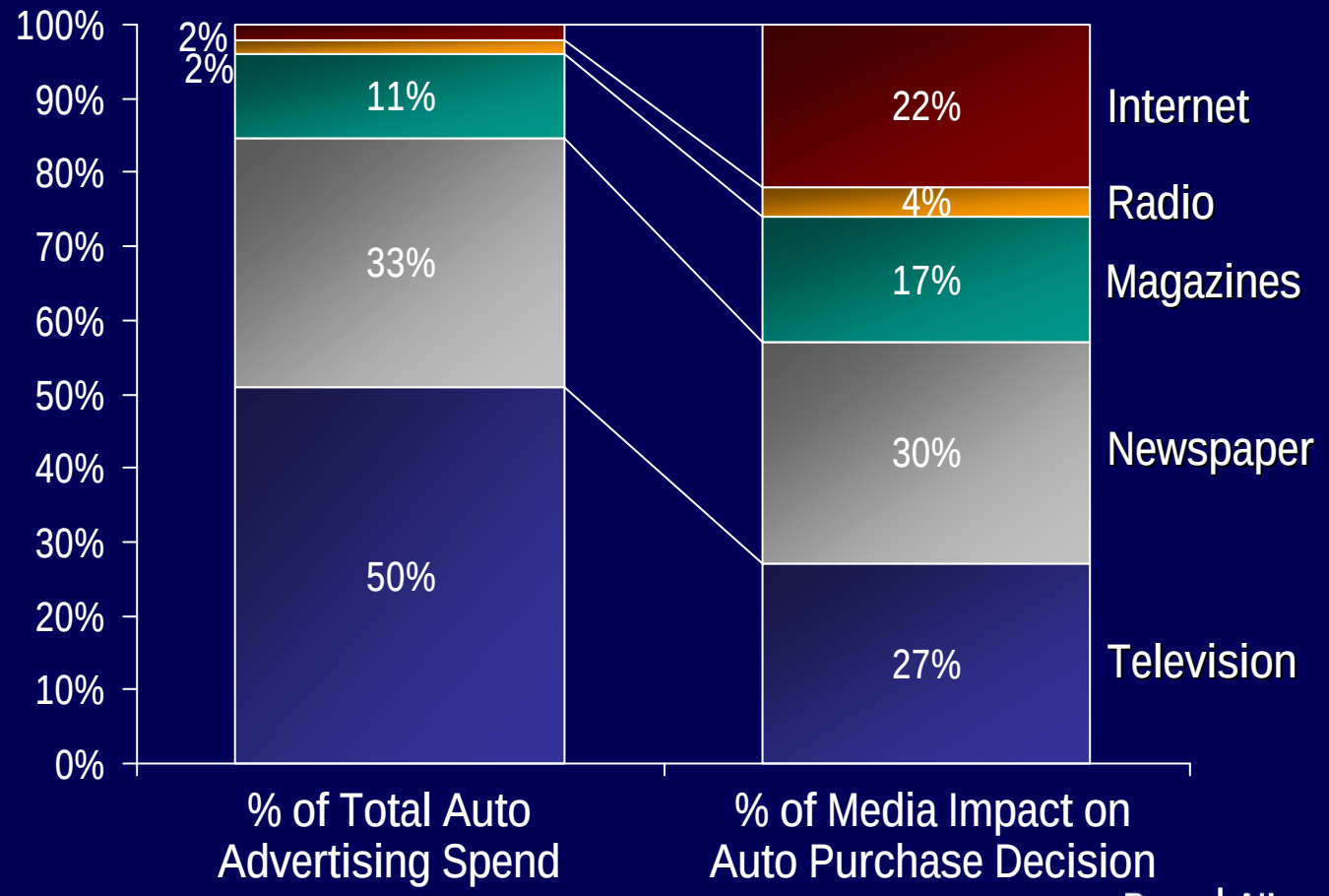
Ad Spending Has Not Yet Caught Up With Consumer Time And Traffic

Auto Example: Marketing Spend vs. Influence On Consumer Behavior (2005)



Note: Excludes outdoor advertising (approx 1.5% of spend)
Source: CNW Research, TNS, Booz Allen Analysis

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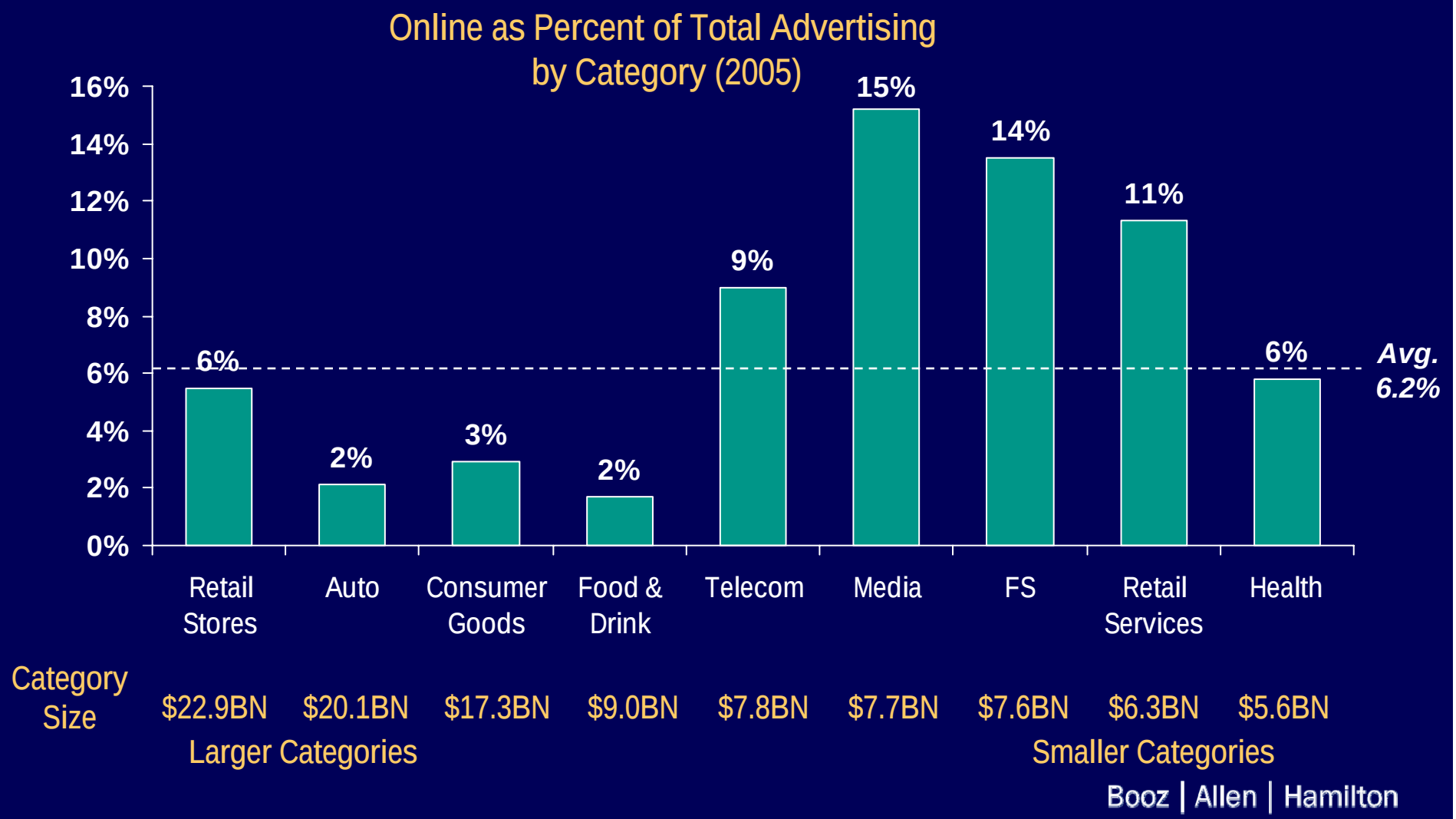
Many Leading Brand Advertisers Have Yet To Migrate A Large Portion Of Spending Online



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Source: TNS – includes all advertisers spending $200K or more on TV advertising

Many Marketers Are "In-sourcing" Their Own Direct to Consumer Entertainment Assets

Companies	Examples
P&G	◆ Homemadesimple.com homecare destination targeting women ◆ Extending into monthly e-newsletter and cable TV property (Discovery Networks) ◆ Capessa women-targeted social network produced for Yahoo Health
Unilever	◆ Created "Evan and Gareth" web series targeting men 18-24 ◆ Attracted ~10MM viewers; contributed to maintaining 80% share of male body spray market ◆ Unilever/Axe planning to take "Evan and Gareth" cross-platform into video games, TV, and mobile
Anheuser-Busch Companies	◆ Online broadband network for men 21-27 ◆ Focal point of AB's online marketing effort: ~$60MM ◆ Reducing prime and late night national TV spending
	◆ Joga.com: online social networking community for football/soccer – Nike provides content; Google the technology

Others Represent the Build-out of New Capabilities in Direct to Consumer Marketing …

Example: Procter & Gamble

- Helps P&G and other companies bypass traditional media (awareness, consideration, trial)
- Online panel leveraged to build consumer insights and drive trial of new products
- Spans entertainment, fashion, beauty and food
- Initial effectiveness demonstrated through Tremor network of ~250K teens, since expanded to ~600K moms via Vocalpoint
- Half of clients from outside P&G

… and Experiments With New Advertising Platforms, e.g. In-store Media

Example: Wal-Mart TV

- Available in 2,600 locations – 85% of Wal-Mart
- Potential reach of ~80-100MM shoppers each week
- Shoppers watch ~7 min/week with higher brand recall than in-home TV
- CBS has competing offering with SignStorey -- Albertsons, Pathmark, etc.

In-Store Appeal for Marketers

- High level of ROI measurability
- Links TV to retail response and sales at the store level
- Increasing marketer focus on trial – moving down the purchase funnel
- Ability to leverage scale and existing high levels of trade spending
- Less media clutter, potentially higher engagement levels

Consumer Behavior

Major Marketer Needs

Industry Responses

Major Agencies Are Attempting to Build New Capabilities to Address Marketer Needs

Capability Focus	Agency	Discussion
Building Consulting Services	denuo *(Part of Publicis)*	◆ Transforming into more of a solution provider/ strategic consultant ◆ Aiming to develop more comprehensive creative marketing solutions – particularly around digital media
Integrating Traditional and Below the Line	DRAFT fcb	◆ FCB, a traditional agency, combined operations with Draft, the direct response and promotions specialist ◆ Draft's CEO will head the new venture
Developing New Sources of Consumer Insight	INTER PUBLIC GROUP	◆ Invested $10MM in Facebook in return for a 0.5% stake ◆ Seeking to mine Facebook community for research trends and consumer insights
Creating New Engagement Metrics	Carat	◆ Launched "Fortel rating system" with the goal of developing a standard currency for "engagement" ◆ Leverages a hybrid mix rating that captures favorite show (Q score), time spent and frequency of viewing

Media Companies are Driving Multiple Initiatives in Response to the Rapidly Changing Environment

1. Developing sales capabilities and solutions to better serve marketers' needs (e.g., ESPN)

2. Developing stronger consumer insights capabilities (e.g., Yahoo!)

3. Driving product innovation to maintain leading brands and build deeper relationships with target consumers (e.g., Scripps)

4. Collaborating directly with marketers, often displacing the agency (e.g., Discovery, Conde Nast, Warner Bros.)

Some Final thoughts

- Media mix guidelines being re-written in virtually every industry
- Many new platforms to entertain and engage the consumer
- Marketing/advertising is more measureable, targeted and "two-way/interactive" than ever before
- Big new requirements emerging around media and marketing innovation, go-to-market skills, organization and metrics
- New opportunities for growth and market leadership being created

Further Resources

To read the article, “The Future of Advertising is Now,” please use the following link:
http://www.strategy-business.com/press/article/06204?pg=0

Slides and recording: A recording of the event and slides will be posted at:
http://www.strategy-business.com/webinars

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