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The end of advertising as we know it

The next 5 years will hold more change for the advertising industry than the previous 50 did. Increasingly empowered consumers, more self-reliant advertisers and ever-evolving technologies are redefining how advertising is sold, created, consumed and tracked. Our research points to four evolving future scenarios – and the catalysts that will be driving them. Traditional advertising players – broadcasters, distributors and advertising agencies – may get squeezed unless they can successfully implement consumer, business model and business design innovation.

Imagine an advertising world where... spending on interactive, one-to-one advertising formats surpasses traditional, one-to-many advertising vehicles, and a significant share of ad space is sold through auctions and exchanges. Advertisers *know* who viewed and acted on an ad, and pay based on *real* impact rather than estimated “impressions.” Consumers self-select which ads they watch and share preferred ads with peers. User-generated advertising is as prevalent (and appealing) as agency-created spots.

Based on IBM global surveys of more than 2,400 consumers and 80 advertising experts, we see four change drivers shifting control within the industry:

Attention – Consumers are increasingly in control of how they view, interact with and filter advertising in a multichannel world, as they continue to shift their attention

away from linear TV and adopt ad-skipping, sharing and rating tools. Our survey suggests personal PC time now rivals TV time, with 71 percent of respondents using the Internet more than two hours per day, versus just 48 percent spending equivalent time watching TV.

Creativity – Thanks to technology, the rising popularity of user-generated and peer-delivered content, and new ad revenue-sharing models (e.g., YouTube, Crackle, Current TV), amateurs and semi-professionals are now creating lower-cost advertising content. Our survey suggests this trend will continue – user-generated content sites were the top destination for viewing online video content, attracting 39 percent of respondents. Further, established players, like publishers and broadcasters, are taking on traditional agency functions and broadening creative roles.

Measurement – Advertisers are demanding more individual-specific and involvement-based measurements, putting pressure on the traditional mass-market model. Two-thirds of the advertising experts IBM polled expect 20 percent of advertising revenue to shift from impression-based to impact-based formats within three years.

Advertising inventories – New entrants are making ad space that once was proprietary available through open, efficient exchanges. As a result, more than half of the ad professionals polled expect that open platforms will, within the next five years, take 30 percent of the revenue currently flowing to proprietary incumbents such as broadcasters.

To envision four possible scenarios for the industry in 2012, we juxtaposed two of the most uncertain change drivers – the propensity for consumers to control marketing; and the openness of advertising inventories (see Figure). Because industry players will progress at differing rates, these scenarios will likely coexist for the foreseeable future.

Continued evolution: In this scenario, the one-to-many model still dominates, but the industry evolves in response to DVR penetration, the popularity of user-generated content and new measurement



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Route 100
Somers, NY 10589
U.S.A.

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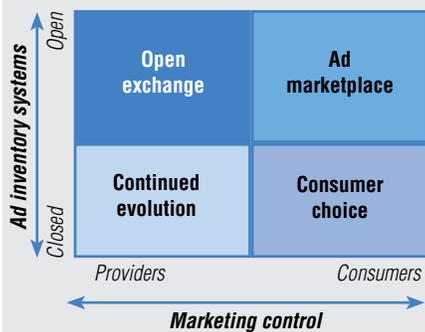
Authors

Saul Berman, Global Media and Entertainment Strategy Leader, IBM Global Business Services

Bill Battino, Communications Sector Managing Partner, IBM Global Business Services

Louisa Shipnuck, Global Business Development Executive and Andreas Neus, Managing Consultant, Communications Strategy and Change

The future of advertising is largely dictated by the outcome of two disruptive variables.



capabilities (albeit for “old” formats). Advertisers therefore allocate a greater portion of dollars traditionally spent on direct marketing to channels typically used for brand-oriented advertising.

Open exchange: Here, the industry morphs behind the scenes, with little to no additional consumer influence. Advertising formats largely remain the same, but advertising inventory is bought and sold through efficient exchanges, bypassing traditional intermediaries.

Consumer choice: Tired of intrusions, consumers exert more control over the advertising they view and filter. Formats evolve to contextual, interactive, permission-based and targeted messaging to retain attention.

Ad marketplace: Consumers choose preferred ad types as part of self-programming their media choices and are more involved in ad development and distribution. Advertising is sold predominantly through open, dynamic exchanges, allowing virtually any advertiser (large or small) to reach any consumer. With new consumer monitoring technologies in place, consumer action drives bids on inventory up or down.

As the advertising value chain reconfigures, broadcasters, advertising agencies and media distributors in particular will need to innovate in three key areas:

- 1. Consumer:** Drive greater creativity in traditional ads, while also pursuing new ad formats across media devices to attract and retain customers. For example, consider tactics like campaign bleeds where short and long commercials are linked, micro-versioning, short ad teasers / “flickers”, pod management and ad-supported content creation to limit ad-skipping.
- 2. Business model:** Pioneer changes in how advertising is sold, the structure and forms of partnerships, revenue models, advertising formats and reporting metrics. For example, broadcasters, agencies and distributors can pursue opportunities such as agency gain sharing, more sponsored shows, impact-based pricing models, user-generated advertising revenue-sharing models and open inventory sales.
- 3. Business design:** Support consumer and business model innovation through redesigned organizational and operating capabilities across the advertising lifecycle – consumer analytics, channel planning, buying/selling, creation, delivery and impact reporting.

There is no question that the future of advertising will look radically different from its past. The push for control of attention, creativity, measurements and inventory will reshape the advertising value chain and shift the balance of power. For both incumbent and new players, it is imperative to plan for multiple consumer futures, craft agile strategies and build new capabilities before advertising as we know it disappears.