INFERENTIAL FOCUS

BRIEFING

IF 3702 January 13, 2016

THE RAGING BATTLE FOR CONSUMER TIME HAS CONSEQUENCES, PART II:

ADVERTISING'S IDENTITY CRISIS

CONTEXT & DYNAMICS

Pressures facing content providers *and distributors in the media industry, as discussed in Part I of this* Briefing, *have spread to the industry that delivers revenues to the media industry: advertising. Agencies are no longer in their Golden Age, when their ad creation and placement expertise was sought and compensated. Rather, they find themselves surrounded by new kinds of competitors in a market that is demanding new kinds of skills. Consumers, who have already been splintered into sometimes tiny and sometimes sizable audiences by more and more online options, are blocking ads altogether, mostly because ads are seen as intrusive, disruptive and slowing valuable bandwidth. Advertisers are finding other ways to reach consumers, and reactions of ad agencies have not always been forward looking. But a few have seen that the game has changed and that new skills (and markets) are needed. Parts I and II of this* Briefing *suggest that for content producers, channel distributors and ad agencies, crunch time is coming.*

OPPORTUNITIES

- *Ad companies that enable consumers to filter or eliminate ads and that do not slow the speed of online communications will be more likely to get their messages through to potential customers.*
- *Agencies that explore new areas of enterprise and that develop new skills will find a sustainable market.*
- *Data mining and algorithm-based delivery systems will become more critical. The need to be functional and entertaining (interactive, humorous) will challenge agencies' creatives.*
- *Advertisements inside apps, which cannot be blocked, will become more valuable.*
- *Native advertising – ads that seem to mimic in style and appearance a publication's content – will become more prevalent.*
- *New advertising-agency business models might surface.*

RISKS

- *Smaller enterprises – sometimes independent and sometimes part of something larger – with a narrow range of expertise are eating away at the traditional larger agency business, putting the giants on notice to change or see their revenues decline.*
- *Forcing ads on consumers and guzzling bandwidth will irritate consumers, who will only increase their capabilities for blocking all ads.*
- *Excessive efficiencies (e.g., increasing size to reduce overhead) can harm an agency's effectiveness.*
- *Adblocking and a restructuring of the ad-agency business will squeeze content providers, putting some of the smaller ones at risk.*

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No, Really, We're the Experts

Current ad-industry participants likely watched *Mad Men*, the popular television series about an advertising agency in the 1960s, with wistfulness for what now seems like a Golden Age, when "creatives" were geniuses and "agencies" were cash cows. In the late twentieth century, ad agencies were the highly paid guides walking highly dependent advertisers through the vagaries of effectively communicating mass messages to potential customers. Of course, back then, very few advertising pathways existed to reach the treasure trove of consumers, and the measuring systems for determining the effectiveness of any given ad seemed more akin to magic tricks than science.

> To help these boutique companies get a firmer grasp on consumer behavior, new kinds of measurement companies surfaced, some claiming they had new methods for tracking consumers' behavior across more and more devices, from televisions to computers and from smartphones to tablets.

One result of this Golden Age of advertising was an aggregation

"Wait. Let me have one more try."

of agencies into roughly three giant holding companies: Interpublic, Omnicom and Publicis. In what might seem like an historical irony, at the very moment when these agglomerations were taking shape, digital technology and the Internet were eating away at the ad kingdom's foundations, which once seemed so solid. For instance, digital technology greatly lowered the barrier of entry into advertising, reducing the cost of production and making more transparent the actual cost of creating advertisements. The Internet provided not just a few new ways of communicating with potential clients but seemingly an unlimited number of outlets, and those outlets demanded different capabilities than had been common in the Golden Age. These kinds of changes pointed toward a different era for advertising, one in which anyone could create ads, anywhere, anytime… and for a lower cost.

And soon, more and different kinds of competitors started entering the industry. Talent left large agencies to start their own shops, and new computer-centric talent started surfacing to make ads. Boutique agencies and new kinds of digital-communications firms formed everywhere to make a pitch for effectiveness in the digital era. One kind of such entity, the "branding agency," emerged to help companies retain the goodwill value of their brand in the face of rapidly changing consumers and a shifting economy. Ironically, the branding agencies were the traditional ad industry's consulting services that could have helped many of the agency units then getting gobbled up by the three giant holding companies.

Yet branding agencies were the least of the advertising industry's concerns. "Media agencies" started forming outside the ad agencies – although the giants were quick to shell out money to acquire these upstarts as well. Media agencies are companies that feature software engineers and financial statisticians (rather than sales and marketing personnel) to help clients work through the complexity of media buying – that is, determining when and where to spend advertising dollars, once the lucrative purview of ad agencies. Meanwhile, high quality (and less expensive) production houses proliferated and were easily accessible to the newly formed boutique agencies. Then came "online ad networks," "data providers" and "data exchanges," all part of a universe of small, highly efficient specialties that were less focused on image production and more focused on ad placement, data analysis and consumer behavior.

To help these boutique companies get a firmer grasp on consumer behavior, new kinds of measurement companies surfaced, some claiming they had new methods for tracking consumers' behavior across more and more devices, from televisions to computers and from smartphones to tablets. Some even blended those insights gathered online with offline data, such as spending habits, entertainment preferences, indebtedness and favorite stores or restaurants – that is, the measurement companies supplied more and more ways of profiling consumers to get ads directly to those who might be in search of the advertised product or service. **Soon, boutique agencies could choose from more than 65 different metric systems being offered by more than 40 different measurement firms.** (*Hollywood Reporter,* 10/4/15)

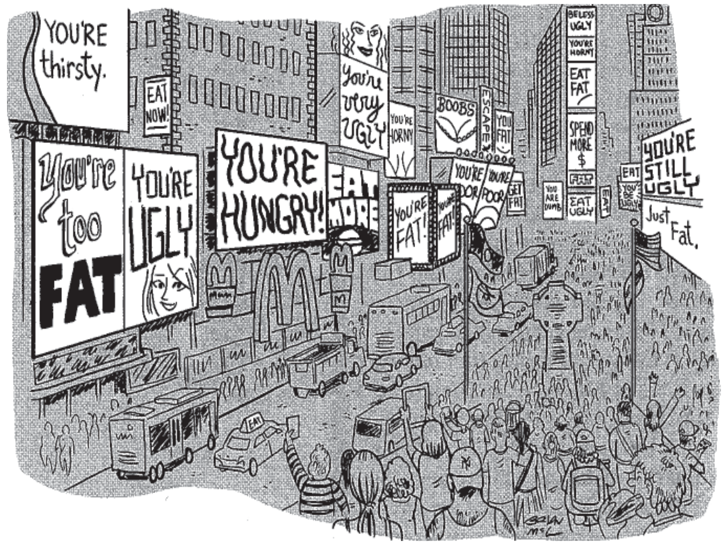
The Golden Age was dead, leaving its imprint on a popular television series but having little lingering effect on the contemporary ad market. New market realities required new skills, and the behemoths of advertising were struggling.

◆ In December, Publicis announced that it would turn its massive enterprise "upside down," taking apart the silos of specialties that marked the company's structure and putting its various entities into four groups: communications, media, digital/consulting and healthcare. Along with launching a "zero based" budgeting model, the company said it hoped to generate cross-company communications and assistance, in part to decrease competition among Publicis-owned agencies. (*Advertising Age*, 12/7/15; *Financial Times*, 12/3/15)

The digital world was making scale in ad production a detriment. Scale brought efficiencies, but it seemed to retard speed, flexibility, creativity and, eventually, change. In short, the efficiencies of scale seemed to be hindering the effectiveness of message.

Industry advocates are worried. A lobbyist for the Association of National Advertisers, Dan Jaffe, warned, "Potentially, this could change the whole economic structure of the Internet."

Twenty years ago, we took a look at the ad-agency business and suggested that cyberspace would trigger "a new definition of advertising." Ten years later, we added that "the user mindset," a perspective we had noticed developing among consumers because digital technology enabled them to access whatever they wanted whenever they wanted it, "will benefit advertisers who focus on giving consumers a choice of receiving their message and then delivering that message in an informative or entertaining manner. Advertisers who continue to 'preach' to the consumer will quickly become ignored" (see **IF 1505** and **2513**).



"There's a War on Advertising"

Technology has been useful in advertising in the recent past, providing insights into consumer behavior, identifying where consumers are located to enable advertisers to deliver messages at just the right moment and reducing the cost of production, all while facilitating communications among participants and with clients. This has made advertising ubiquitous and flashy, but evidently, it has become too ubiquitous:

◆ Adblocking software, which, as the name implies, enables those with the software to keep ads from appearing on their screens, has spread to more than 200 million people worldwide. While the number of U.S. consumers with installed adblocking software has been in question, the Reuters Institute Digital News survey put the number at nearly half of all Internet users. Whatever the actual number, Adobe's research concluded that more than $22 billion in ads was blocked in 2015. (*Columbia Journalism Review,* 9/15; *Financial Times,* 10/5/15; *Advertising Age*, 9/14/15)

Industry advocates are worried. A lobbyist for the Association of National Advertisers, Dan Jaffe, warned, "Potentially, this could change the whole economic structure of the Internet." AOL President Bob Lord added a menacing note: "Technology will get to the point where those with an adblocker are not going to get free content," meaning that they will have to pay websites directly. Adblocking threatened, Lord was saying, the viability of free-content sites. For instance, Buzzfeed, an online pop-news source, attracted more than $100 million in ad revenues in 2014, but was just 25 on a list of top 50 sites, likely not high enough to attract a sufficient subscription base to support its operation, thereby putting its business at risk. One ad-industry trade magazine expressed the industry's defensiveness directly: "Is it too much to call it a war on advertising?" (*Advertising Age,* 9/14/15 and 9/28/15)

Adblock Plus, the most downloaded ad-blocking software, has more than 60 million active users, and its creator, Germany's Eyeo, claims it just wants to free up the broadband channels that are being clogged and slowed by the "data hogs" that some ads have become. Indeed, researchers at Purify, a company that created a piece of software that measures how fast sites load, discovered that their adblocking software reduced data usage by roughly one quarter. And one study revealed that 79 percent of the time it takes to load a site on a smartphone is time spent simply waiting for ads to load. Adblock Plus will let through ads that are text-only, use no animation or popups and keep ads separate from content. Eyeo charges advertisers to be "whitelisted," meaning acceding to the criteria to get their ads through to the consumer, and 700 large corporations, including Google, Microsoft and Amazon, have admitted to doing so. (*Columbia Journalism Review*, 9/15; *MIT Technology Review*, 7/22/15; *Scientific American*, 1/16)

Many in the industry thought advertising on mobile systems would be immune to the adblocking "menace," but then Apple added the capability to use adblocking software to its new phones, promising faster Web browsing, safer browsing (no cookies or malware delivered via ads), longer battery life and lower data bills, all because a user has adblocking software. This kind of capability could put wireless providers in the situation where they might want to offer users lower rates if they download an adblocker, because it would free more bandwidth, which the wireless provider could then sell. (*MIT Technology Review,* 7/23/15; *Columbia Journalism Review,* 9/15)

Adblocking, while a significant challenge, is not the only concern the ad industry needs to address:

◆ Since 2009, the minutes of advertising per hour increased among cable stations from roughly 14 and a half minutes to more than 15 and a half minutes, while the same measure on broadcast stations increased from roughly 13 and a half minutes to 14 and a quarter minutes. Now, that seems to be reversing. Viacom has reduced its prime-time ad-minutes-per-hour rate from 18 to 14. Meanwhile, Fox announced a cutback in its Hulu ad time, replacing two and a half minutes of ad time with just one 30-second ad. TimeWarner announced that TruTV would cut its advertising time in half. (*Digital Trends*, 11/12/15; *Advertising Age*, 9/28/15)

◆ Google announced a new video site, YouTube Red, which will eliminate ads entirely, replacing them with a $10 per month subscription fee, which will enable users to view YouTube videos without ad interruptions. (*New York Times,* 10/21/15)

◆ In November, The Lion King, Broadway's most successful musical, released online a free-to-view virtual-reality (VR) video of its entire first number, "Circle of Life." While no causal connection has been established, in the weeks following release of this VR product, the show broke its holiday-season record for ticket sales. In essence, no ads were needed to get attention to the show. (*Variety,* 11/24/15 and 12/29/15)

◆ Botnets – that is, networks of robot computers controlled surreptitiously by nefarious hackers – have become more involved in skewing advertisement numbers, with some of them running up huge numbers for online advertisers, fraudulently suggesting a program on which an advertiser bought time had delivered more eyes than it actually had. One such botnet, called Xindi, produced 78 million fraudulent impressions from fictional viewers. The result is that the advertiser's costs would rise considerably, something that would please its competitors. (*Social Media Today*, 8/17/15)

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"We've got the disruptive part down, now we just need to innovate."

Not only does the advertising industry need to deal with: (1) adblockers that essentially erase the industry's product; (2) every kind of digital upstart competitor (who just might be better and cheaper); (3) fewer minutes of advertising on television; (4) more and more ad-free sites online; (5) direct-to-consumer displays that bypass the industry entirely; and (6) suspicion of fraud in the metrics, it now needs to watch its products get defaced:

◆ In China, software called Bullet Screen enables users to write on and alter advertisements appearing online. Started in Japan and migrating to China and into the mainstream, the system is forcing brands being advertised to tolerate negative comments on their own ads or irrelevant thoughts scrawled across the screen. Often, the messages fly across the screen so rapidly and in such quantities that the ad itself can barely be seen. (*Advertising Age,* 9/28/15)

"You have to be very open-minded and accepting," a Shanghai representative of BBDO said about the ad over-writing practice. "The key thing is they are talking about you." This is where the advertising industry finds itself: accepting defaced ads as a positive outcome.

"NOBODY IN HIS RIGHT MIND WOULD BUY OUR PRODUCT? THEN WE'LL TARGET OUR ADS AT THE INSANE POPULATION."

No, Seriously, We're the Experts

Digital technology and the Internet have created massive problems for the content and distribution sides of the video-media industry, which we discussed in Part I of this *Briefing*. In turn, such radical changes in that industry have moved downstream to the advertising industry, which has been facing problems of its own created by digital technology and the Internet. Many of the problems the two industries face are similar: proliferation of competition, cheaper alternatives and a need to stabilize and (they hope) increase revenues.

As of now, consumers are starting to block ads and even write over them. This adds up to an industry identity crisis: What do we do? How do we do it? What is our value? What, if anything, can or should we actually control?

Yet the ad industry has some deeper problems. For one, the industry's placement of ads online is increasingly being seen as a hindrance to Internet usage, slowing speed and disrupting the user's focus. For another, it seems misaligned with the contemporary market, one in which consumers want to control their media environments, while agencies want to control the message and where and when it is delivered. As of now, consumers are starting to block ads and even write over them. This adds up to an industry identity crisis: What do we do? How do we do it? What is our value? What, if anything, can or should we actually control?

Industry reactions have been interesting. The Digital Advertising Alliance has been putting a small (some say way too small) logo, a turquoise triangle in the upper right corner of an ad, which enables users to opt out of seeing such ads. The number of consumers finding the button and clicking on it has been surprisingly small (triggering the question about its size). Another response has been to deny access to a site's content if the user has adblocking software. In addition, companies are trying to write adblocking **blocking** software that outmaneuvers the adblocker and gets ads through. In a less aggressive trial, *Forbes*, a content provider worried about losing advertising revenues, has offered some of those with adblocking software installed a chance to have an "ad-light experience," although what exactly that entails has yet to be revealed. (*New York Times*, 12/21/15; *Scientific American,* 1/16; *Forbes,* 1/4/16)

In China, software called Bullet Screen enables users to write on and alter advertisements appearing online.

At the recent Association of National Advertisers conference, a different kind of response surfaced. One speaker suggested that jargon such as “strategic boutique,” “full-service advertising business” and “disruption company” and terms such as “advertising agency” and “digital marketing” all need to be buried and left behind. Yet the speaker praised a new company, RTO+P, for calling itself “a full-service ad agency that makes brands unforgettable.” That could be a quote from *Mad Men.* (*Adweek*, 11/6/15)

The current “bright shiny thing” in advertising is programmatic ads, and that has spawned another wave of specialty companies, such as Flashtalking, which counts Walmart and Kohl’s among its clients and which enjoyed a 50 percent increase in revenues in 2015. Programmatic systems use software to identify which potential online consumer should receive which particular ad, at what time, thereby competing directly with the media agencies that emerged to help advertisers place ads. Last year, roughly 60 percent of programmatic ad spending went toward mobile customers, totaling $9.33 billion for that segment. (*Adweek*, 10/25/15; *Quartz*, 11/8/15)

Some agencies are trying to locate new places where ads can be inserted. For instance, a few ad companies are trying to convince retailers to place ads on their websites – not just ads for products the stores sell but totally unrelated ads…say, an ad for new cars on a department-store site. According to agencies offering this service, margins for regular retail sales on e-commerce sites average just three percent, while margins for ad sales on those same sites can be as high as 70 percent, essentially converting retailers into ad-content distributors and competitors for consumers’ time with traditional advertising venues. (*Advertising Age,* 11/9/15)

As part of industry efforts to retain traditional expertise in the new era, some agencies are working with major brands, such as JetBlue, Moët & Chandon, American Girl and Johnnie Walker, to produce long-form movies – long for advertising but still less than 30 minutes in length, most being less than 15 minutes. These films are posted on company websites and seek to tell a more complete story about the brand. According to agency research, online visitors spend 88 percent more time on sites that have video displays available. (*Adweek*, 11/30/15)

Some of these examples are of agencies retaining their old skills and hoping to find new places where they can be applied. Some agencies, however, are trying to enter an entirely new market. For instance, Huge, an agency in Atlanta, has moved toward a different kind of client assistance, rolling out an entire coffee shop to test various digital tools that can make retailers more efficient. At the café, AppleWatch alerts baristas when clients enter the shop to pick up drinks they ordered online, but it also watches employee stress levels, which managers can use to adjust workloads and tasks. Huge also facilitated the launch of Lowe’s “omnichannel” store in New York City, where, for instance, customers can shop for appliances using a large interactive display depicting 3D images of all available appliances and where sales associates use sales apps and mobile checkout systems designed by Huge. Meanwhile, Barbarian Group created a sales platform called Cinder that enables Samsung to open a shop that lets customers try out the company’s entire range of products, thereby helping companies such as BestBuy to reduce store space and staff. SapientNitro, which is one of Publicis’ stable of agencies, created an in-aisle checkout system that uses RFID tags and in-bag readers to facilitate easy customer purchases and eliminate long lines at the traditional checkout counters. (*Advertising Age,* 11/9/15)

These agencies recognize that the ad game has changed and that they need new skills. If agencies wish to be seen as the experts who can guide advertisers through the jungle of ad opportunities and risks, they will need to change their skillsets. In a world still nostalgic for the days of *Mad Men,* that will be difficult…but necessary.

“Oh, great, more innovative variations on things.”

A Changing Market and Changing Needs

The Battle for Consumer Time, as we have outlined it, involves the ever-expanding realm of choices that consumers can access to fill the hours in their day and the resulting escalating efforts of media providers to capture consumer time. While multitasking has made that day seem longer – up to 31 hours – the steady expansion of time might be coming to a close. Yet the number of choices keeps increasing, further splintering the consumer market and further eroding the ad value once aggregated in a few options during advertising's Golden Age. Meanwhile, dependence on advertising for funding continues to be important in the digital online world. As a result, content providers, who have enjoyed filling consumers' time with expanding options, now must find revenues from their splintered audiences, charging would-be advertisers enough to keep their production houses going. Meanwhile, the proliferating means of distribution are putting financial pressure on traditional distributors, who face competition from more and more online options.

The splintering of consumers among a wide-ranging set of options has dispersed audiences and thereby lessened the value of any program to advertisers, adding margin pressures to ad agencies, who seek to complement nearly every piece of content with an ad. New competitors and new capabilities are troubling to the industry, and some consumers are now seeking to simply get by without ads of any kind.

Any content producer, channel distributor or ad agency that can get consumers to spend time with their products or services – especially if their ads hold consumers' attention – will be highly valued. Given the growing numbers of competitors for content producers, distribution-service providers and advertising agencies, these areas could be facing a crunch time, as the Raging Battle for Consumer Time continues.

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"Keep in mind, this all counts as screen time."

Some of our previous looks at this topic:

eF 615 Display Ads Flash a Warning Sign, 8/18/11

eF 608 Sadvertising, Gladvertising and More Precisely Targeted Ads, 5/11/11

eF 504 Take It Personally: Emerging Ad Technology, 2/26/10

eF 317 Ad Spenders Seek More Bang For Their Buck, 11/21/08

eF 302 You Can Run But You Can't Hide: Ad Screens Everywhere, 2/29/08

eF 218 A Bright New Year For Advertising?, 12/31/07

IF 2826 Big Media Online: From Trying Anything And Everything To Developing A Market Strategy, 11/9/07

IF 2513 Viewer-to-user Mindset Takes Over: Alternative Media and Advertising Become Mainstream, 6/17/04