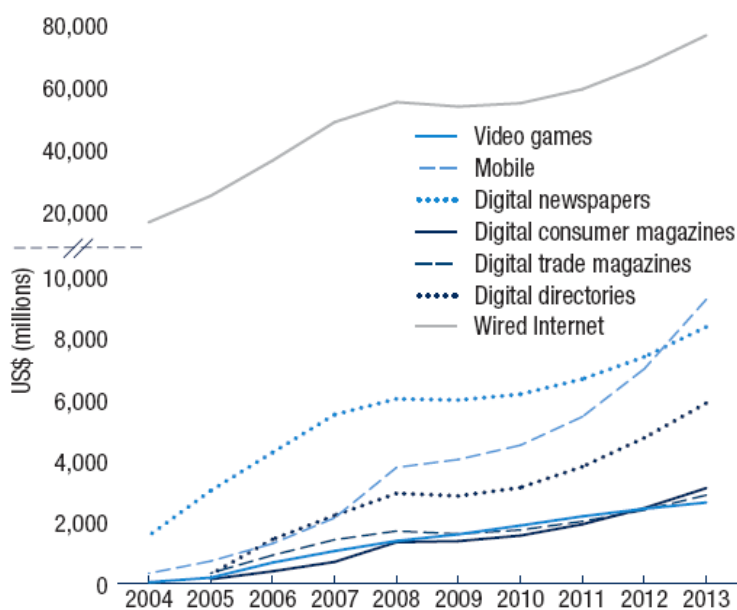


# Viewpoint

## Advertising: short-term decline masks deep structural shifts

Advertising revenues as a whole are facing a period of broad decline over the coming five years, with global advertising spend across all media projected to be still below its 2008 level in 2013. However, this apparently gloomy headline figure will mask a profound structural shift during the five years towards more targeted and cost-effective ad models enabled by digital. This in turn may result in a permanent reduction in total advertising spend, as dollars formerly “wasted” through inaccurate targeting are saved and reallocated to other priorities.

Advertising targeted to new consumer behaviors



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

These fundamental changes in the underlying market dynamics mean that E&M companies need to look behind the current headlines about an advertising recession. Instead, what will really matter throughout the forecast period is not the overall size of an increasingly fragmented advertising market, but E&M companies' ability to use the greater relevance and personalization of advertising enabled by digital to boost their share of overall ad spend.

Over the years to 2013, the drive to seize this higher share will see a new generation of ad-funded revenue models emerge. With consumers

receiving an ever-increasing proportion of their E&M through digital/mobile platforms, advertisers will shift their resources from traditional media to new digital media, seeking to reflect and capitalize on evolving media consumption habits (see accompanying chart).

This focus on new digital channels will drive a major reshaping of the global ad market, as it shifts towards new digital channels. Spend on digital and mobile advertising accounted for 12% of total global advertising in 2008, up from 4% in 2004. During the five years to 2013, advertising that targets new consumer behaviors will grow by a cumulative 7.8%, while spending on all other forms of advertising will fall by 2 % compounded annually. As a result, by 2013 advertising that targets new consumer behaviors will account for almost one-fifth of the total global advertising pie.

## The need for effectiveness -- and accountability

As this shift takes place, more accurate targeting and relevance of ads to the specific consumer -- thereby making advertising spend more effective -- will be critical to the success of the emerging generation of ad-funded models. However, to win ad spend successfully from traditional channels, the new models will need to prove to advertisers that the digital alternative really is more effective. So, alongside more accurate targeting, they will need to provide greater transparency over audience metrics, and even accept accountability for ad results.

These new industry dynamics will require E&M companies to use technology to its full potential and exploit consumer data to the fullest extent possible, while staying within regulatory and privacy restrictions. This will open up new opportunities in as-yet largely untapped areas such as personalized online video advertising. As well as seeking out such opportunities, companies will have to communicate the value of display advertising more clearly and effectively, demonstrating the valuable impact of advertising on brand and long-term sales performance.

However, the ultimate impact of these structural changes may be to put downward pressure on total global ad spend. The increasingly effective digital advertising offer of the future will enable advertisers to reach their target audiences more accurately, with lower levels of waste -- and therefore lower cost. This means advertisers will be able to achieve the same or better reach and performance for a relatively lower spend. The outcome may be a structural reduction in ad spend as a whole, with the savings reallocated to other priorities. We will track this thesis closely in future editions of the Outlook.