



Targeting consumers in a multimedia world

How technology is transforming advertising delivery and giving consumers the ads they want

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Author biography

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Recent research topics include:

- The impact of channel/device convergence on advertising delivery
- Changing dynamics in the mobile search and advertising value chain
- Lessons from Asian social networking models
- Word of mouth marketing online and the importance of user recommendations

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Converging technologies are transforming the way we communicate and consume different media. All our communication and entertainment needs can now be served through a unified broadband hub. And this can be accessed through a personalised web interface via our PC, TV or mobile.

This trend is set to accelerate in the next five years, making it possible for virtual homepage providers to track consumers' habits, preferences and spending patterns. Such information is like gold dust for marketers, who will be able to tailor their advertising to the specific profiles of individual consumers.

This white paper analyses developments in the world of behavioural targeting and automated ad-serving. We consider the emergence of a new age of interactive advertising and how search engines, consumers and advertisers all stand to benefit.

An advertising utopia

You listen to a financial radio show every morning. You use an online ordering system to deliver your shopping each week. You watch property programmes on TV regularly. In the past month, you've begun logging onto property websites, and you've signed up with three online estate agents. You subscribe to a service from your bank that texts your balance to your mobile phone once a week.

A few years from now, you are likely to be receiving all these services through a single broadband connection and web interface. Call it your personalised Google homepage.

Google knows your preferences in all these areas. It matches your profile against others with similar preferences and checks what ads these people have responded well to (measuring clicks, page views and phone calls in response to ads, for example.)

Google sends you the ads you want to view, the ones that correspond to your known preferences. Its software deduces that you may be interested in adverts for mortgage lenders, surveyors or local removals businesses. It sends these ads to the websites you visit, the programmes you watch, the radio shows you listen to, and even the billboards you pass (it knows

where you are moment by moment, from the signals your mobile phone sends out.)

You're happy because the ads you receive are relevant and useful to you, and because receiving them pays for your broadband connection - covering voice, wireless, data and entertainment.

The advertisers are happy because they are reaching the right people, in the right place at the right time, thus increasing their return on investment and decreasing the hassle of dealing with multiple intermediaries. And Google is happy because it is taking a slice of a much bigger pie - total ad spend, rather than just online ad spend.

Both advertisers and search engine operators are driving towards this conclusion. Yet few in the media-buying and broadcasting industries seem to be acknowledging its imminence or preparing for its consequences.

The consumer perspective

From the consumer side, there are two key drivers: a trend towards making more informed purchasing decisions, and the uptake of high-speed broadband.

Consumers are no longer convinced by glossy marketing speak. According to a raft of surveys, they want detailed product information. Today, consumers

do more research online before buying offline, so that they can find the best of the best and the cheapest of the cheap. As a result, advertising is becoming more interactive, so that consumers can find more of the information they want. The red button on your TV and interactive Bluetooth posters at bus stops are just two examples of this trend.

The next step is to link this product research directly to a purchasing opportunity. You could click the red button to go to a website and make a purchase. You could click an equivalent button on your radio and pay to download a song to your PC. You could scan a barcode on a newspaper ad that catches your eye to call the company for more information. And this could be via a free Voice over Internet Protocol (VoIP) service on your mobile phone.

All these mechanisms give you more information more easily. But your responses also help anyone tracking your behaviour to build an increasingly detailed profile of what you want. With this they can target you with ads you want to see, which makes for more effective advertising.

You can imagine a recommendation engine, much like Amazon's book-recommendation technology, whirring away in the background serving you ads that others with a similar profile responded well to.

A single broadband hub

But how could one bit of software track your behaviour across so many different media and communication channels? As PCs, mobile phones, televisions, and radios converge into single devices, on a single hub, this becomes possible.

Consumers in the UK are clearly moving to adopt this kind of technology. The UK has seen a phenomenal uptake of high-speed broadband - broadband which is fast enough to cope with downloads of pictures, music, and video without making you wait too long. With 62% of the population now online, 71% of those connections are broadband¹. Internet service providers (ISPs) are drawing

¹ Digital Europe, tracking the growth of online marketing spend, Digital Insight Report with IAB Europe, February 2006

customers into triple and quad-play packages where they get broadband, TV and phone calls (plus wireless for quad-play) all through a single broadband connection.

location (through the IP address) and manually programmed preferences. With all of this information, highly targeted advertising becomes eminently possible.

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Technology providers are vying to produce the first and best broadband-supported media and communications hub for the home, on which users will surf the web, watch TV, make phone calls and listen to the radio. The customer's mobile will be synchronised with the same hub. BT, for example, has already launched the BT Home Hub for broadband, calls and wi-fi with remote updating to provide TV and VoD (Video on Demand) in the future.

Who better to provide the interface for such a device than the companies with whom we have already set up personalised homepages for our email, news alerts, blogs, weather, bookmarks and so on - in other words, search engines. Current investments in video search and VoIP show search engines are planning for this already. If search engines can make enough profit through advertising, they could offer TV, voice calls and even broadband access for free. FreshMinds' research shows that the majority of users are happy to put up with some advertising, even on their mobiles, in return for free services. More users will mean more traffic, more clicks or calls, more advertising revenue and more free services. Google has just set about building a free wi-fi network in San Francisco to explore exactly this scenario, and is working in partnership with Intel on its Viiv branded technology for IPTV.

A single interface of this sort could collect information on much of each user's communication and entertainment behaviour over time, mapped against

Cutting through the advertising clutter

For the advertiser, there are three major reasons why this personalised and automated ad-serving is an attractive proposition.

Firstly, it represents a solution to the fragmentation of media and audiences. It is not only getting harder to target the right people, but also harder to target them in significant numbers. Serving ads in a scattergun-fashion to places where they are merely likely to be seen by the relevant target audience is less and less successful.

MySpace, Faceparty and Bebo together have almost 13m members in the hard to reach 13-25 year group. They have attracted significant interest from advertisers and also from those anticipating increased ad spend. News Corp has acquired MySpace for £309.9m and Bebo has received £8m in funding from Benchmark Capital.

This interaction is all very well, but how much better for an advertiser to be able to choose the exact range of profiles of people they want to appeal to, and serve their ad only to these people across multiple media channels at relevant times of the day?

The result? Increased relevance should increase conversion rates (the number of sales generated by each ad) and thus the return on investment (ROI) - the holy grail for advertisers.

This issue of conversions leads on to the second reason: the need to cut through the advertising clutter by making ads relevant. Consumers are so bombarded with advertising that they go to great lengths to avoid it. Sales of personal video recorders (PVRs) which allow users to fast-forward

Figure 1: Delivering ads according to consumers' behaviour and preferences



Source: FreshMinds

People can now seek out the exact content they are interested in via search engines and social networking sites. They tend to filter out or get irritated by the rest. It has been estimated that advertisers waste \$220 billion worldwide on advertising that reaches the wrong/no audience, which is just over half of total advertising spend worldwide.²

So advertisers need to get cleverer about targeting - less like a shotgun and more like a rifle. Some are starting to recognise this and have increased spending on advertising that allows personalised interactions with users.

through ad breaks on commercial TV have grown exponentially. The market for email filtering to block spam is expected to grow from \$1.1bn in 2004 to \$2.87bn in 2008³. To get consumers to pay attention to ads, advertisers need to make them relevant and interesting. What better way to do this than to know your consumers intimately?

The third and final appeal for advertisers is that cross-media automated ad-serving solutions could represent a one-stop shop for much of their ad budget. That means cost savings and greater efficiency. Automated ad delivery would reduce the number of people

²"The ultimate marketing machine", *The Economist*, 6 July 2006

³"Demand for anti-spam products to increase", *ZDNet UK*, 15 June 2005



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that advertisers need in order to handle media buying. Automatic optimisation of the ad packages (serving more to those profiles or channels with higher conversion rates) would also mean more sales for the budget bucks.

Search engines - the cash incentive

From the point of view of search engines, the driver for change is simple - a chance to grow revenues.

dMarc. dMarc offers a platform which automatically schedules and places ads on radio stations, thereby simplifying the sales, scheduling, delivery and monitoring of radio advertising.

In theory, there is no reason why the same technology could not be applied to serving ads to cinema screens, and screens on public transport or in shopping malls.

personalised advertisements tailored to the viewing habits of the person in the room. By combining this with data on surfing habits, ads can be targeted more precisely than through the TV broadcast itself.

The search engines have a relationship with advertisers already. They would merely need to cross-sell, offering huge cost savings through their one-stop ad-shop.

In theory, there is no reason why the same technology could not be applied to serving ads to cinema screens, and screens on public transport or in shopping malls. These communal ads would be based on the average or most frequently occurring customer profile within the audience, by identifying people from their mobile phones.

Hurdles to overcome

Like all technological utopias, however, there are some significant challenges. Four in particular:

1. Overcoming privacy concerns

Up to now, search engines have delivered ads mostly in response to actions by users, refining the selection according to the search terms entered by users and sometimes by location or time of day.

Tracking behaviour and building profiles to serve intelligently targeted ads is far more subtle. Convincing users to allow this level of individual tracking is personally and politically sensitive and has even been referred to as a 'big brother' style invasion of privacy.

FreshMinds' research, however, has shown that many users are happy to have their online behaviour tracked if they are asked first and if they trust the site that is tracking them.

It is clear from supermarket loyalty card schemes that users don't mind behavioural tracking if there are financial rewards in return. Users are also happy to be tracked if doing so provides them with useful information. Amazon's personalisation engine drives repeat usage in precisely this

The AdWords, Overture and AdCentre models are making huge amounts of cash for Google, Yahoo! and MSN. But, as George Reyes (Google's Chief Financial Officer) observed in February 2006, the new models are bumping up against 'the law of large numbers'. Thus their current growth rate is not expected to continue indefinitely.

It has, however, by no means reached the end of the road. Google can be driving traffic by subsidising free wireless, for example, in the San Francisco project and by working on cheap, web-enabled computers for developing economies. It can also be encouraging Internet use via mobile phones through partnerships with the likes of T-Mobile. This can be monetised with AdWords for mobile, by adding location to AdWords' bid criteria. Another tactic is to grow the number of small businesses advertising on AdWords by helping them to develop websites. But it's all a slow process.

How much better to start taking a slice of the TV, radio and outdoor advertising pies? Together these three are forecast to be worth £10.72bn in 2006⁴. So even a small portion would be mouthwateringly attractive. Indeed, Google has already begun to nibble, with its acquisition of

Rather than targeting individuals, these communal ads would be based on the average or most frequently occurring customer profile within the audience, by identifying people from their mobile phones.

Google has also developed an interactive television application that analyses audio TV emissions to determine what show the user is watching⁵. The analysis then offers up:

- Personalised content
- Ad hoc social communities
- Real-time popularity ratings
- Virtual media library services

So even if the user is not accessing media content from a broadband enabled PC, a PC screen may be able to deliver

Figure 2: Drivers for automated, behaviourally-targeted ads

Group	Consumers	Advertisers	Search engines
Internal drivers	Desire to make informed purchasing decisions	Ease of a one-stop-shop for ad budgets	Desire for a slice of the offline advertising pie
External drivers	Uptake of high speed broadband	Fragmentation of media and audiences	
		Cut through advertising clutter by making ads relevant	

Source: FreshMinds

⁴"UK adspend to grow by 3.6%", *Mediaweek*, 15 May 2006

⁵Google Research Laboratory Paper presented at Euro Interactive Television Conference, June 2006

way. Both examples indicate that if Internet users were offered super-fast broadband for free, serving all their communication and entertainment needs, and tailored relevant ads, they would happily have their every virtual move tracked.

2. Distinguishing between multiple users

It has also been claimed that online behavioural targeting is not possible owing to the difficulties of identifying different users from the same IP address.

In answer to this point, how many of you have set your homepage to a relevant news site or your email inbox? Most I would imagine. Increasingly our email providers are encouraging us to set up personalised virtual homepages that we can log into from any computer to access our email, IM, blog, news feeds, weather, stock information and bookmarks.

The beauty of this system is that it allows easy distinguishing between multiple users at the same IP address because each person logs on through their own personalised homepage. This challenge as well can, therefore, be overcome.

If internet users were offered super-fast broadband for free, serving all their communication and entertainment needs, and tailored relevant ads, they would happily have their every virtual move tracked.

3. Accessing broadcast content

Particularly in the case of TV, if broadcasters and production companies do not put their content online, then users will have to keep their digital TV as well as their search engine VoD services. This will mean less traffic for the search engines, so less revenue for them and a more fragmented audience for advertisers.

Whether the media buyers will succeed remains to be seen. But for search engines and advertisers, the evolution of advertising will bring about a new collaboration from which both parties stand to profit.

On the other hand, search engines could pay production companies for programme rights - if they can make enough money from advertising to justify the investment. The search engines then become rather like traditional broadcasters, except that they allow users to dictate their own programming schedule. AOL Time Warner - which has a huge supply of content - would then of course be in an extremely strong position. The fight for a share of AOL between Yahoo, Google and MSN is proof that search engines see the market moving in this way.

4. Tailoring ads to each consumer group

Advertising agencies are already used to creating campaigns that operate across media channels, tailored to specific target groups. Yet an increased availability of consumer data available and more complex targeting opportunities mean that agencies will need many more permutations of each ad.

Creative staff will also need to break new ground, moving away from classic banners and pop-ups - from intrusion to engagement. And, if consumers are listening to the radio through a broadband-supported hub, then there are opportunities for 'radio' ads to have a visual manifestation or a wireless adjunct.

Taking this one step further, if all ads are encouraging the user to interact with them to find more information or make a purchase, then these ads need to be far more sophisticated than just giving users a number to call or a website to visit.

The dawn of a new era

These challenges will be difficult, but not impossible to overcome. So it would appear that only the media buyers have real cause for concern. But will the death of one industry actually spell the birth of another?

The search engine marketing industry has grown in line with the rise of automated ad-serving to help advertisers navigate the complexities of the ad-serving systems and get the best ROI. This industry was valued at almost £600m in 2005⁶. A similar industry helping advertisers spend their budgets across all media channels through the likes of AdWords is not hard to imagine. Media buyers will be able to develop the technologies and expertise in-house to lead the way if this happens.

Whether the media buyers will succeed remains to be seen. But for search engines and advertisers, the evolution of advertising will bring about a new collaboration from which both parties stand to profit. It's also likely that consumers will learn to appreciate ads a lot more than ever before.

About FreshMinds

FreshMinds is a research consultancy. We're great for tracking the hottest developments in new media, mobile and converging technologies. Our fresh thinking let's you see tomorrow's future today, keeping you one step ahead of the game.

Our outlook is global. Fluent in 45 languages our research spreads far and wide. We'll delve into the most advanced markets in the world for information and inspiration. We'll then show you exactly what all this means for you.

We'll evaluate new markets, keep tabs on your competitors and analyse trends. We'll conduct desk research, telephone interviews, focus groups and online panels. Whatever it takes to reach the gems of insight to drive your business forwards.

To find out how our fresh thinking can help you, give us a call.

Happy clients

Active advertising

Our global FMCG client could see that advertising was getting personal and asked FreshMinds to update them on the latest developments in interactive marketing. We reviewed competitors' campaigns across Europe, conducted desk research and got on the phone to industry experts. We also provided detailed analyses of the top ten most innovative campaigns. Our research inspired new creative approaches for our client's interactive strategy.

Marketing worth talking about

Being talked about pays dividends, as our client, a leading online portal, knew full well. They needed some help planning and implementing an international word of mouth marketing campaign. FreshMinds analysed past campaigns, trends in the market and also profiled the key offline WOM marketing agencies. We developed a set of guidelines for implementing the campaign which our client has found invaluable going forward.

“FreshMinds produced excellent results, providing insightful analysis throughout. Their research has helped us to make important business decisions.”

Mobile Business Manager, Microsoft

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