DEVELOPMENT OF NEW ADVERTISING TECHNIQUES
ECONOMICAL FACTORS

3. Evolution of broadcasting techniques
The influence of digitisation on advertising format

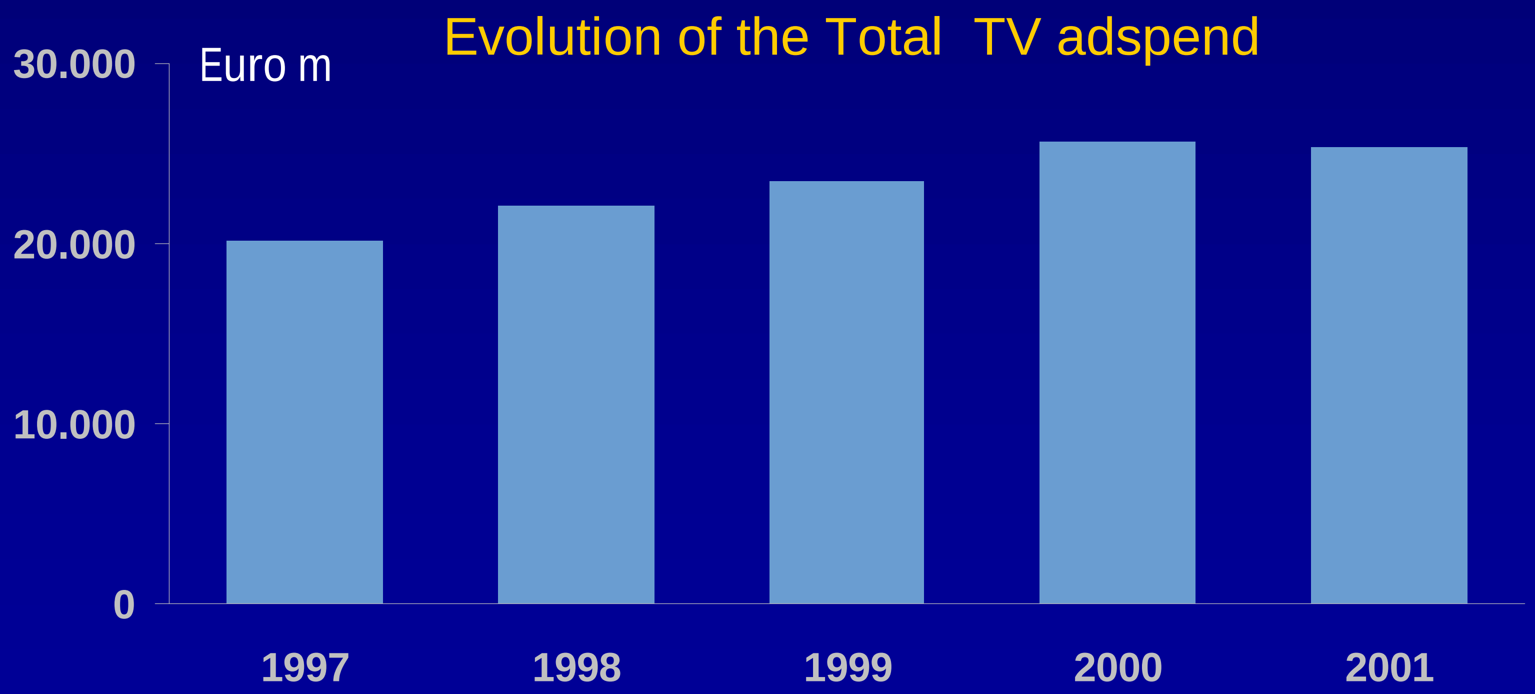
January 2002

Carat Crystal

1. Television – Some figures

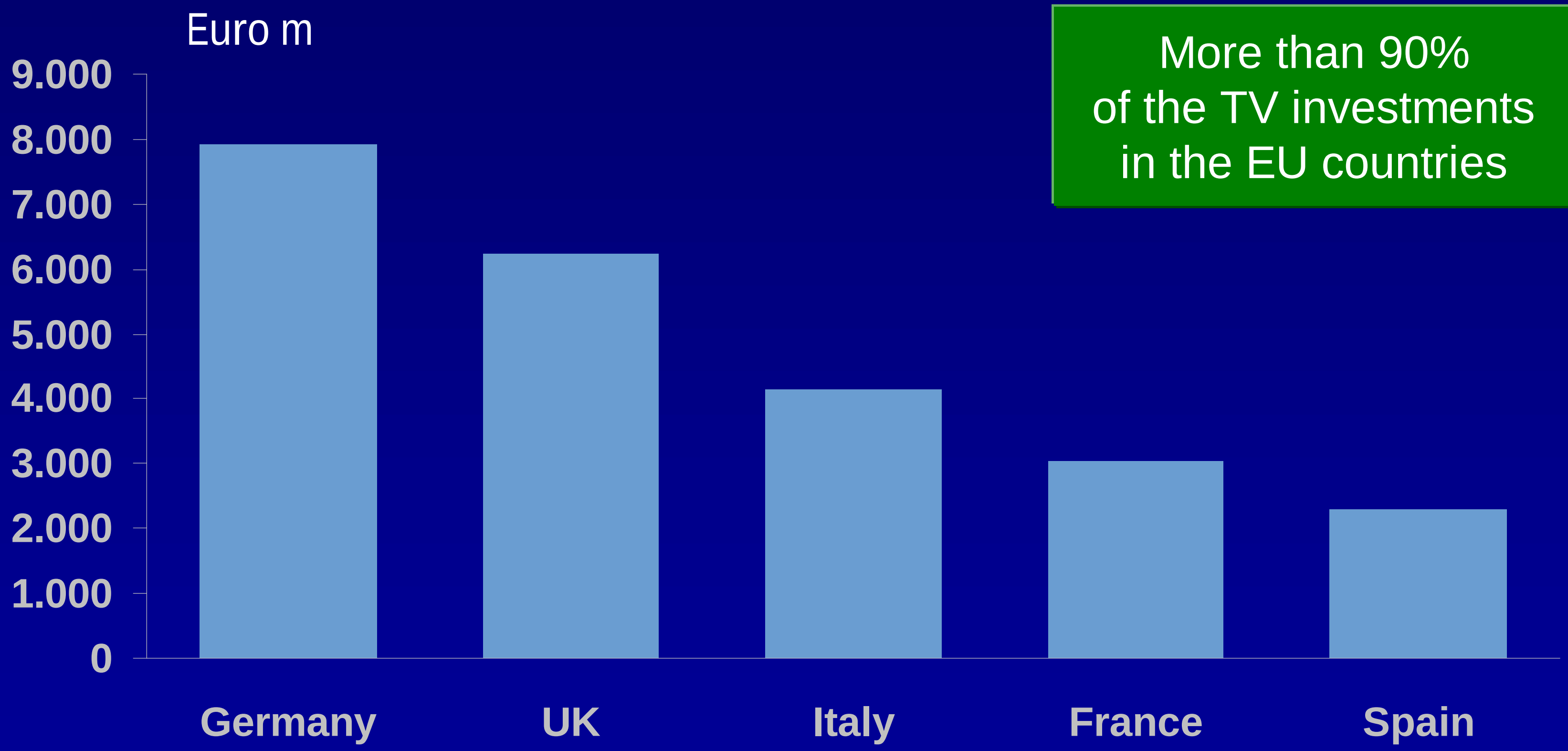
TV - Key Trends & Dynamics

European TV market worth euros 26.17 bn in 2000 : 37.5 % of the overall advertising market)
TV advertising has grown at an average rate of 9.2% over the past 5 years,
compared with growth of 7.4% for the overall market, and as a result its share of advertising has increased from 29.2% in 1994



Last Update: August 2001
Sources: Carat network, WestLB Panmure, Schroders, ABN-AMRO

TV Advertising Expenditure
Top 5 European Markets - 2000

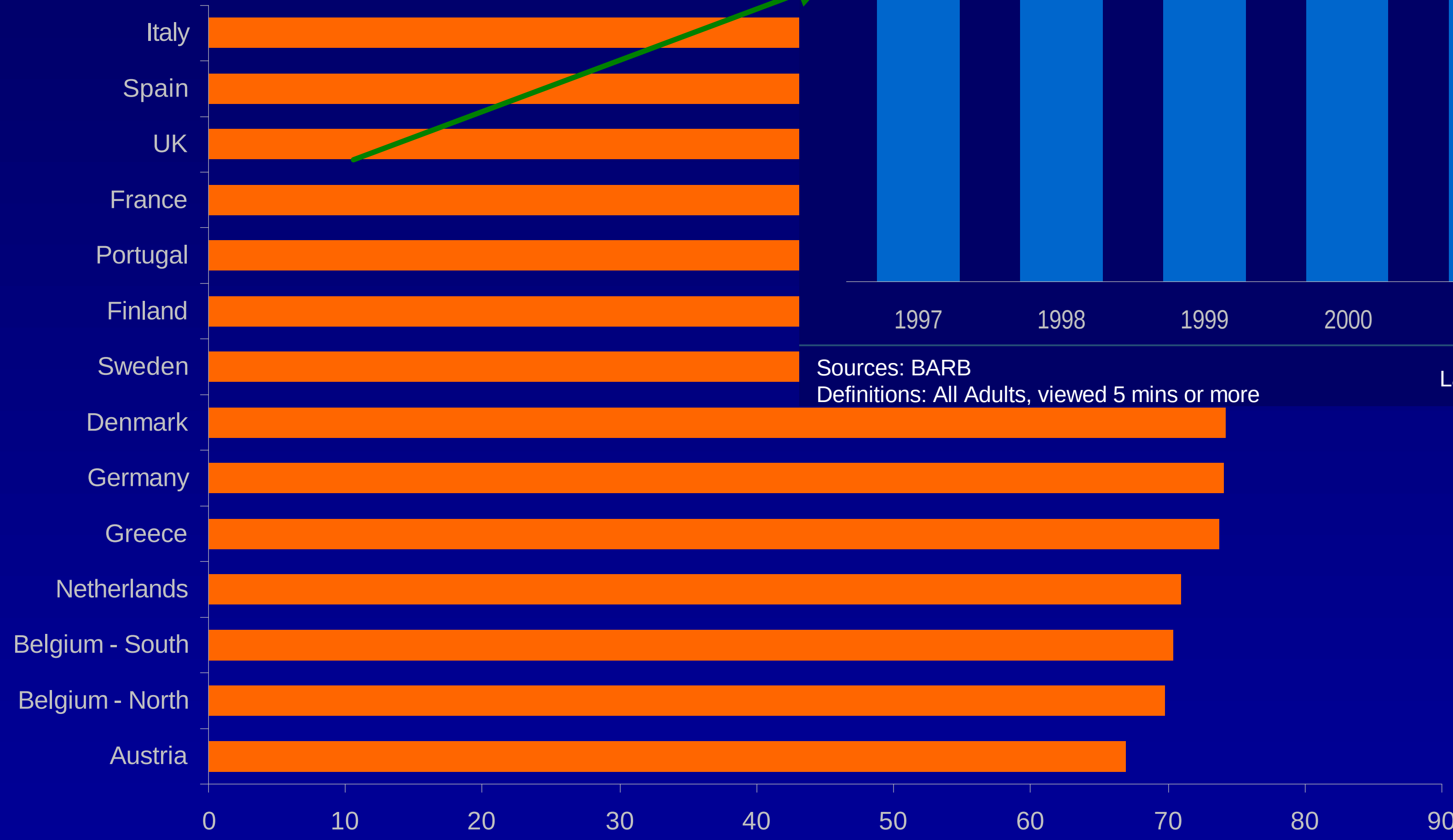


More than 90%
of the TV investments
in the EU countries

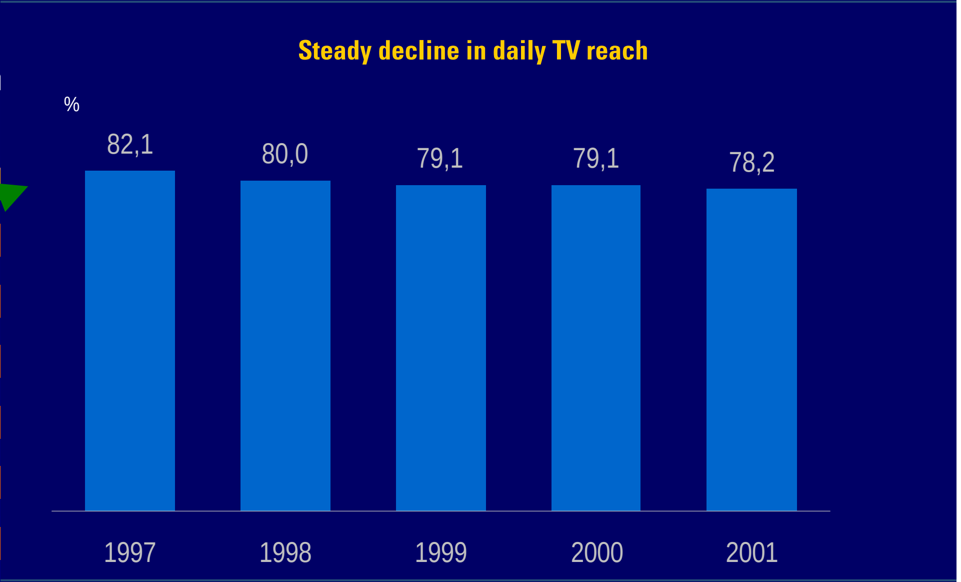
Last Update: September 2001

Sources: See individual country entries for details

Daily Reach - Total TV, A



UK Daily Reach - Total TV, All day



Sources: BARB
Definitions: All Adults, viewed 5 mins or more

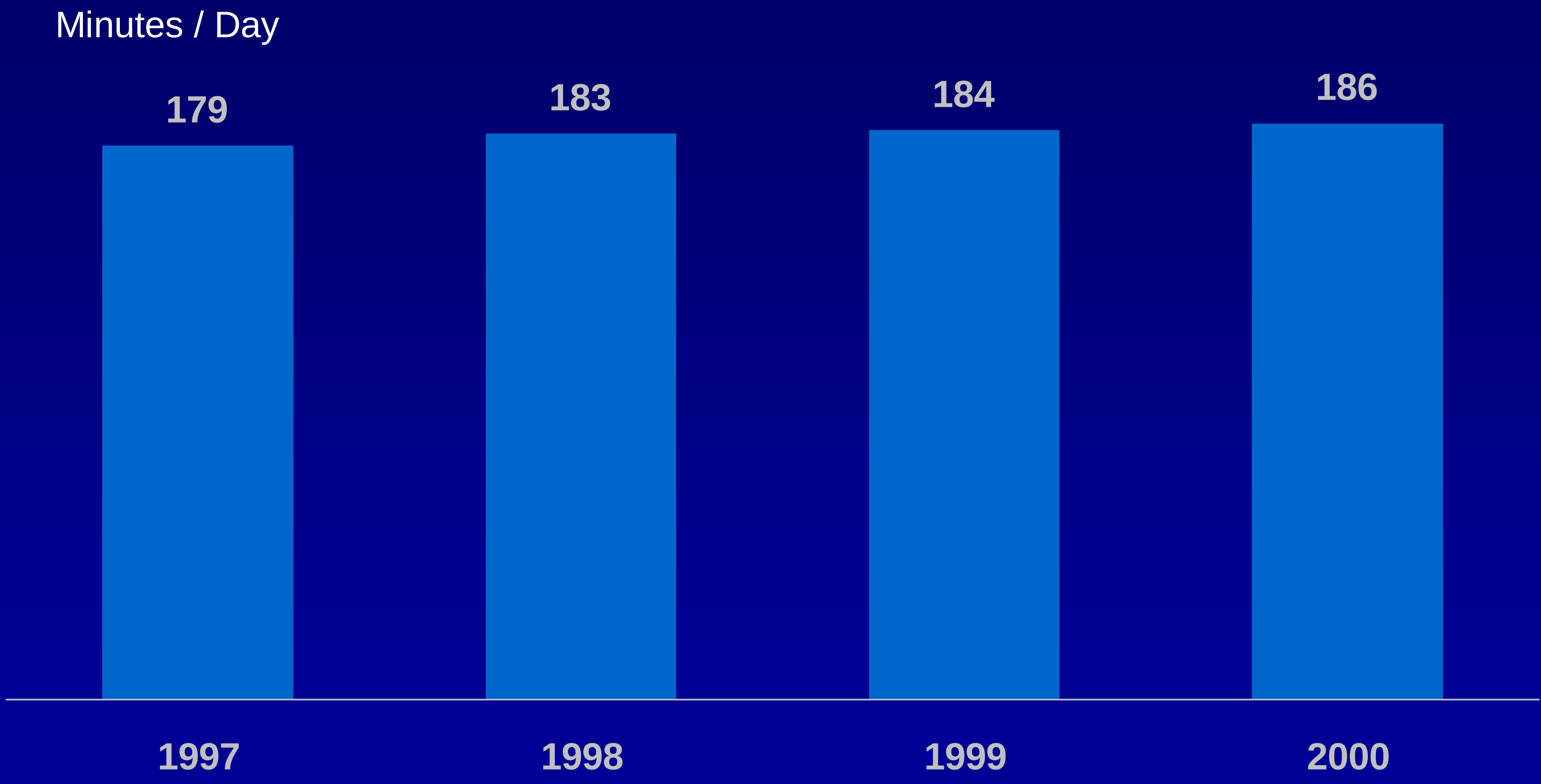
Last Update: May 2001

Definitions : Target: - Definition of Viewing

Last Update: August 2001

Sources: Carat Network. See individual countries for details

Daily Viewing time per Individual - Trends

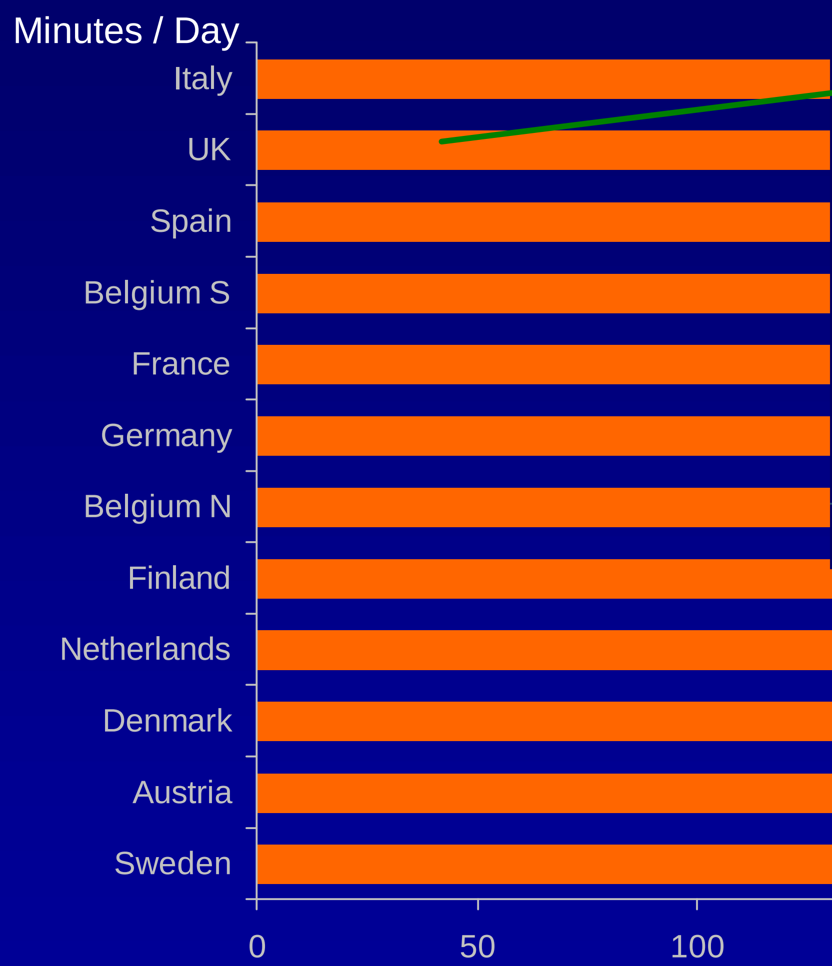


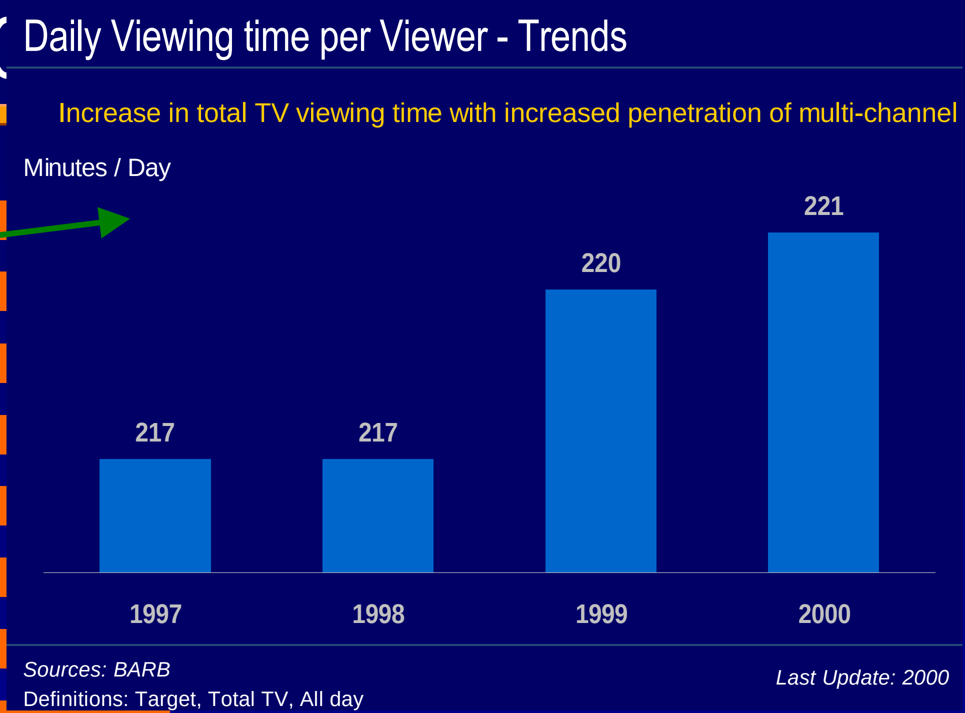
Definitions: Target, Total TV, All day

Last Update: August 2001

Sources: See individual country entries for details

Daily Viewing time per Individual
Market by Market - 2000



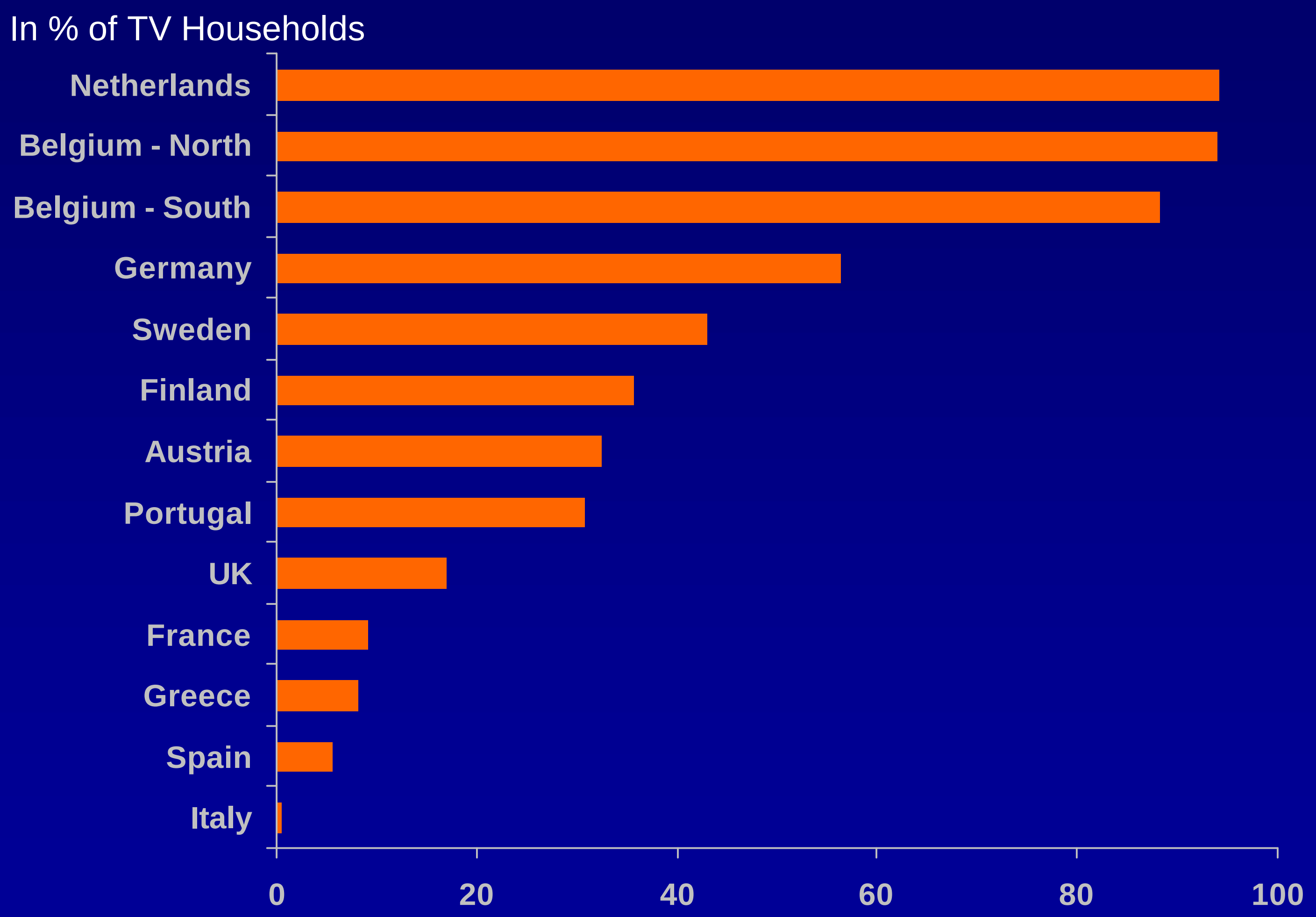


Definitions: Target, Total TV, All day

Last Update: August 2001

Sources: See individual country entries for details

Cable Subscribers – By Market

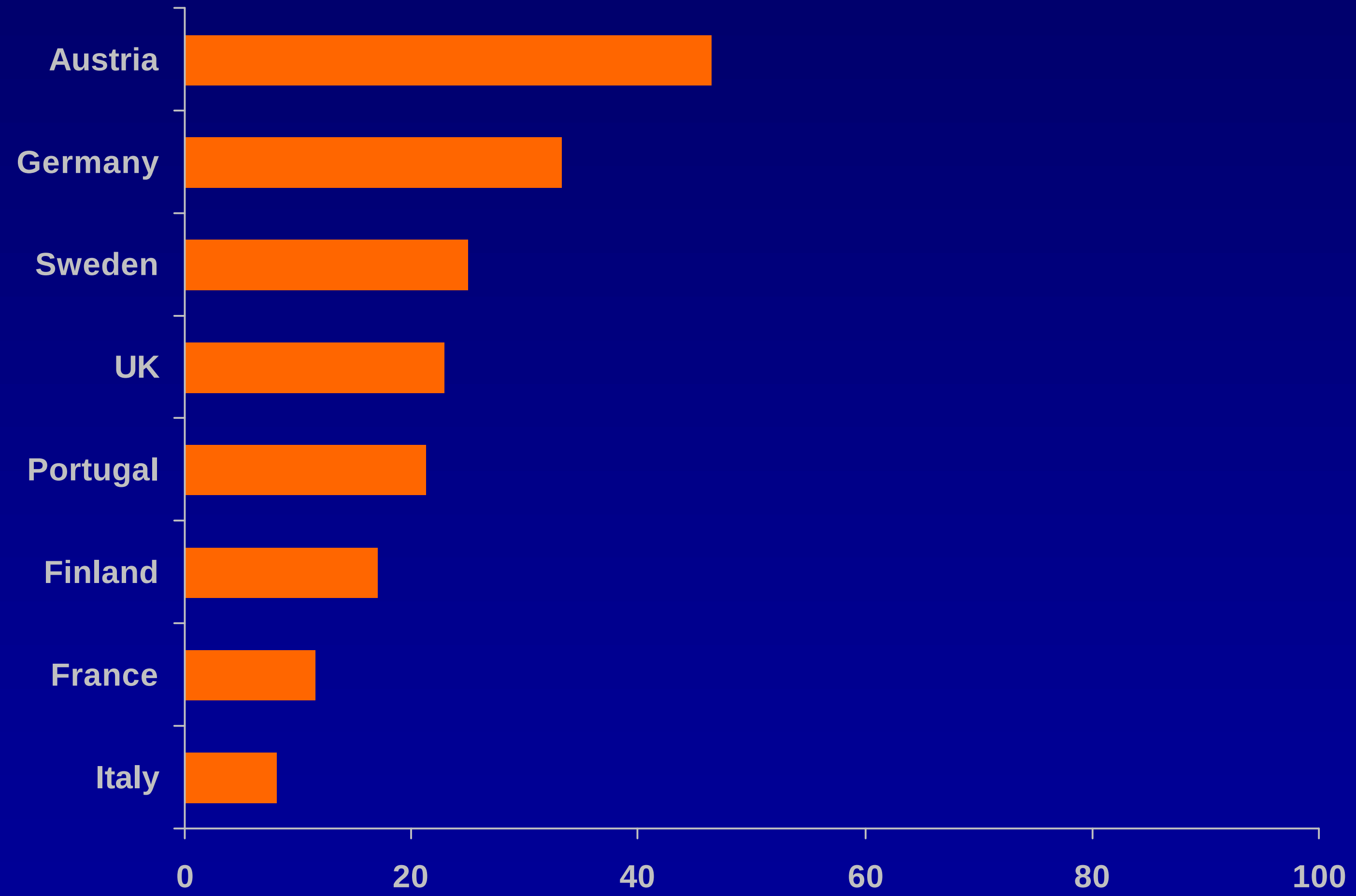


Last Update: August 2001

Sources: Carat Network. See Individual countries for details

Satellite Subscribers – By Market

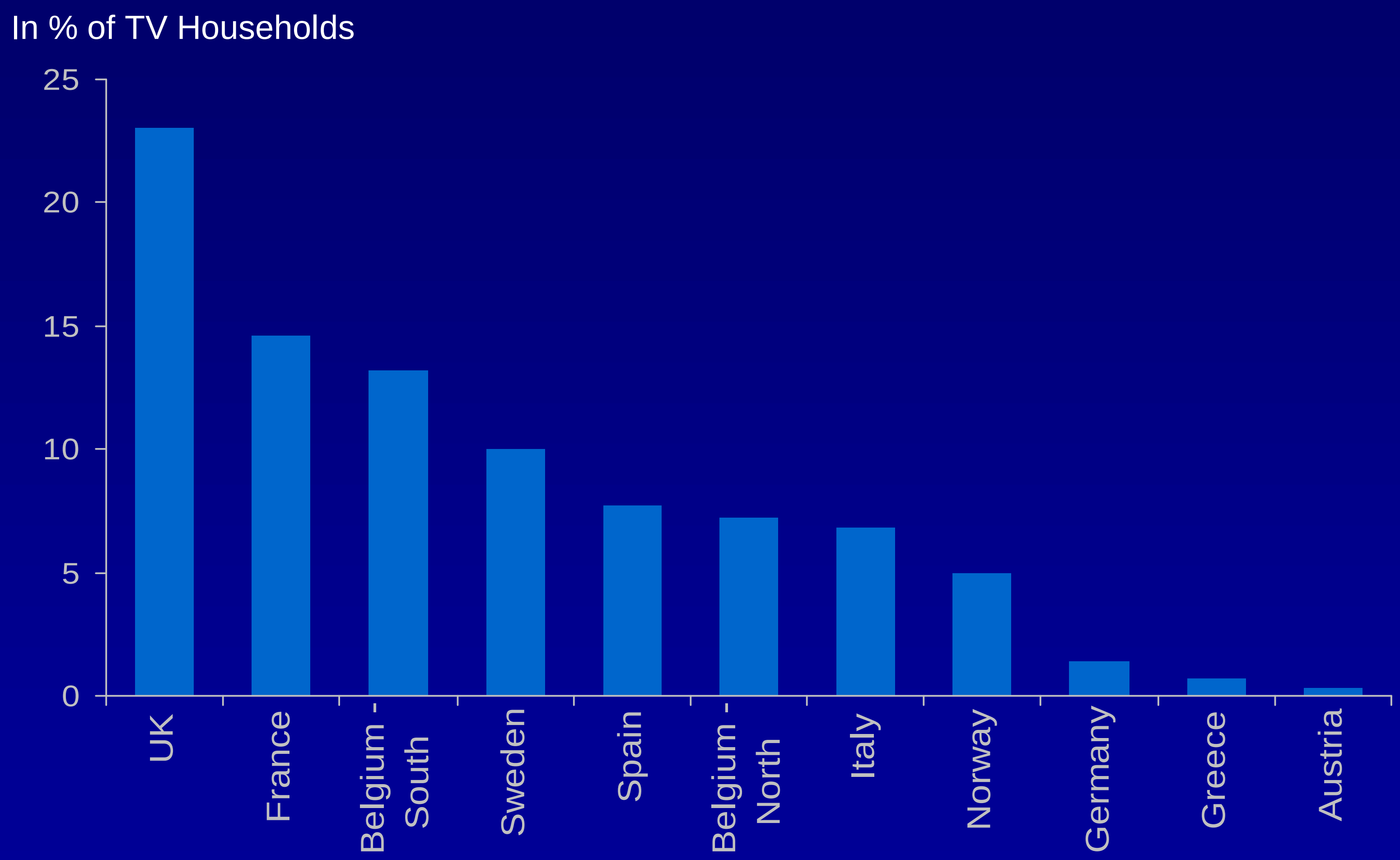
In % of TV Households



Last Update: August 2001

Sources: Carat Network. See Individual countries for details

Digital Television Penetration

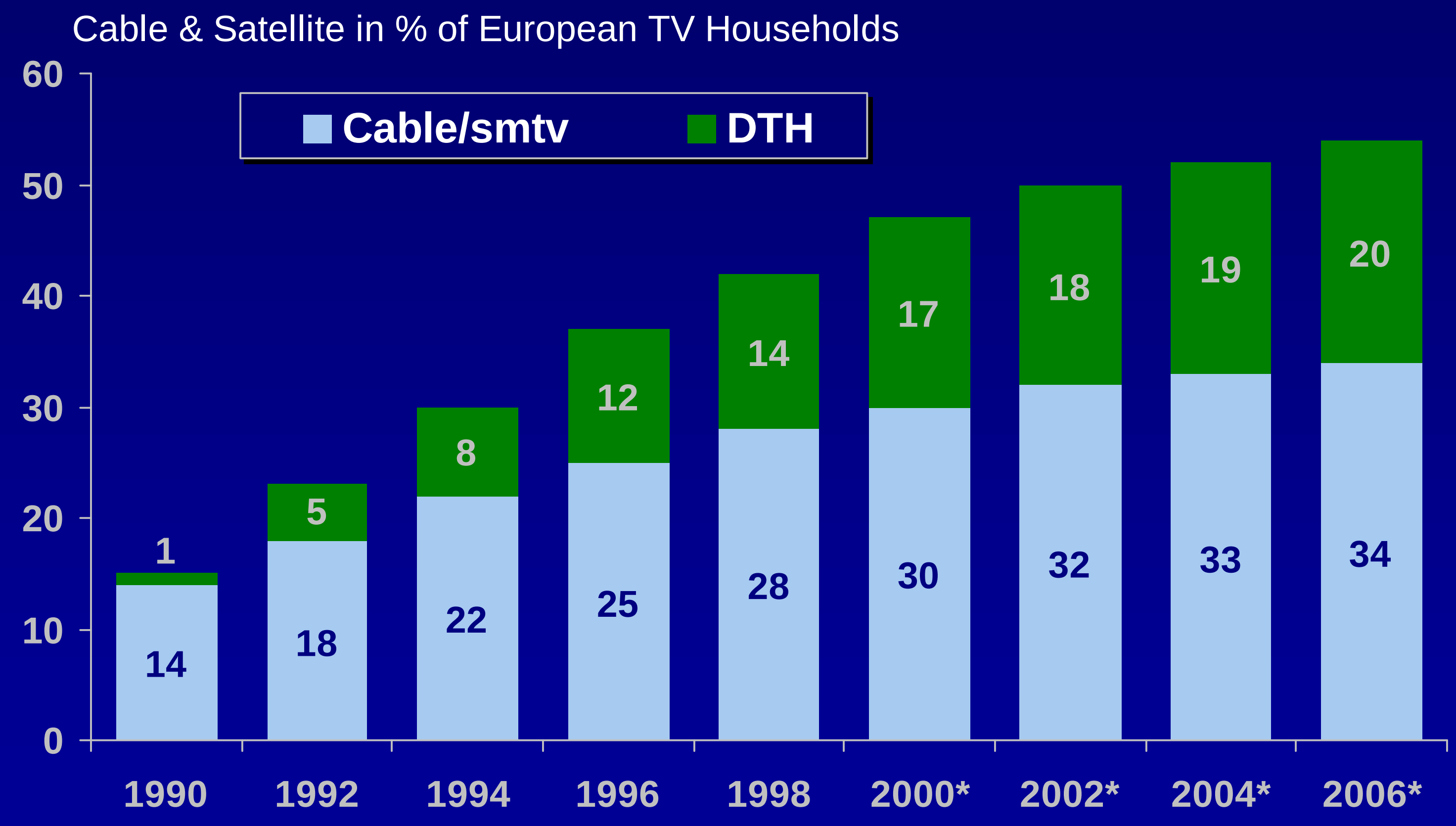


Last Update: August 2001

Sources: Carat Network. See Individual countries for details

Cable & Satellite Equipment - Europe (Total + Non UE)

Cable & Satellite market continues to grow



Last Update: August 2001

Sources: Carat International

1. Television - Trends

1. Television

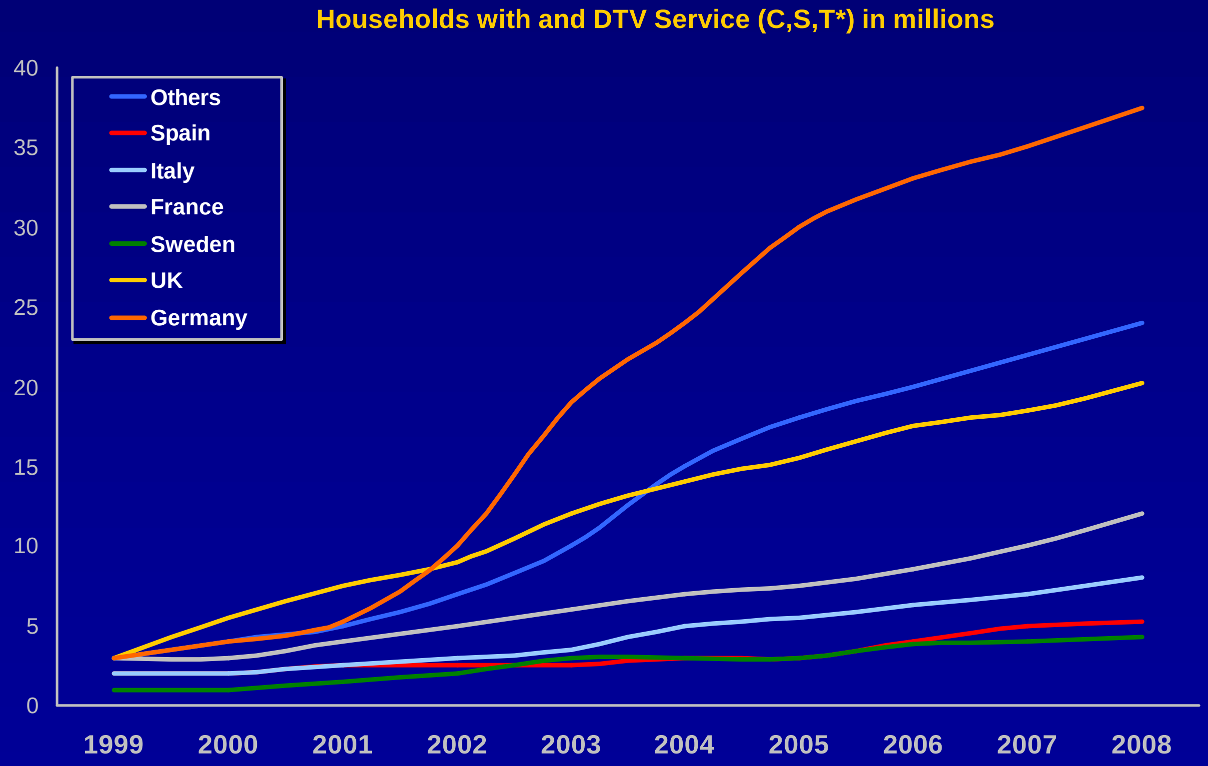
Development of interactive digital TV, pay TV or not

- **Number of subscribers**
  - Foreseeable development by 2005 is deemed Moderately High to High (see chart)
  - No true consensus: splits up between two concepts
    - The technology is ready and the transmitters are in place (and in some cases there is a moderate to strong increase in the number of transmitters). Cf. UK, Sweden and Spain.
    - Such developments appear «slower» in both offer and demand.
- **Key observations :**
  - The content of these channels and the profile of addressees (the viewers) are apparently specialized and not potentially general-interest (despite counter-examples)
    - Fragmentation of the audiences
  - Depending on markets and subscriber profiles there would be a demand for
      - Digital pay-TV
      - Specific programmes
    - The number of subscribers 3 to 4 years from now will depend on the consumers' cost/expectation ratio, and will strongly vary from country to country.
    - Figures cannot be forecast as changes in subscription fees are essential and not known at this moment in time.

1. Television

Development of interactive digital TV, pay TV or not

- **Number of subscribers / The progression (source : Jupiter)**



1. Television

Development of digital TV, pay TV or not

- **Key observations :**
  - Those working in the advertising sector are interested in the possibility of better targeting their campaigns = reduced advertising volume compared to traditional broadcasters, but will be more “personalized” and virtually more interactive.
  - A majority of the public is apparently satisfied with currently accessible free to air TV = failure to act from the market, which is faced with added value not recognized for the moment.
    - Worth pointing out is the increase in the number of free specialty channels, in addition to existing general-interest channels; saturation in some countries
  - The current economic crisis, which hinders and may continue to hinder progress in the coming 24 months for pay iDTV or not.
  - The satellite-based offer as well as the digital terrestrial network show specific advantages. It is not possible to predict which will become the dominant mode.
    - In any case, the increase in the number of distribution channels makes access easier to these new programmes

1. Television

Development of digital TV, pay TV or not

- **Number of subscribers :**
    - Cost for the Households (TV sets and subscription fees)
    - Whether free or paid, the key concern of iDTV's will be financial equilibrium
    - See also the Internet bubble.
- **Number of digital broadcasters offering interactive services**
    - This must be strongly qualified, as increase of offer >< demand
    - A small number of broadcasters will offer state-of-the-art interactive services
    - Consumer expectations: a large proportion of households = satisfied with current offer
    - If digital broadcasters offer online services free of charge since they are subsidised by advertising (and not by subscriptions) = major success
    - Two opinions stand out:
        - Delivering specific services/information to a few groups of targeted consumers
=> with a likely profitability problem
        - Delivering a very wide range of services and information
=> with a practical competition problem with the other existing means

1. Television

Development of online interactive services

- **Pay-per-view broadcasting**

  Evolution Will depend on
- Attractiveness of content
- Changes of household and individual equipment. ADSL connections are deemed slow and gradual, still restricted to a profile of consumers who are relatively well-off and «innovative»
- This is short term: 2 to 3 years.
  - The true expansion: in 5 years or more, when the price of equipment and services will become accessible. This is a reference to the Internet
- Stalling factors:
  - (1) household’s ability and motivation to invest and upgrade equipment
  - (2) differences in cable layout in each country and the operators’ ability to make attractive and competitive offers: variable / slowing down process
- Telecom operators = act as intermediaries; must consider service as profitable before investing / current «sensitivity» to profitability

1. Television

Development of online interactive services

- **Market intelligence and purchasing products and services on line, exclusive of video stream**
- Pessimistic consensus from experts: moderate developments within the next 3 to 4 years
- Technology = not ready yet
- No possibility of any definite progress as long as networks (the "platforms") fail to change extensively / but : more or less significant potential over time
- Benchmark = e-commerce: was able to demonstrate that some potential existed for purchases made online, although primarily apparent in a small number of sectors only
    - Sectors involved in purchasing products through DTV = different from the Web
- If the penetration and use of the Internet in households continues to develop in countries of the European Union, despite slow-down = will enjoy a lead difficult to catch up with by iDTV willing to bank on such services
- Advertisers = sceptical and careful with regard to advertising on DTV
- Advertising techniques exclusive of video stream: not concerned by TVSF directive

1. Television

Development of online interactive services

- **Market intelligence and purchasing products and services on line, exclusive of video stream**
- Content
  - Range of services offered
  - Possible applications
  - Scope of available information

  = significant role to play in development of services but still unsuccessfully completed today, with only a few exceptions
- Producers and distributors will invest in applications when networks have been adequately implemented and when audience is large enough (not the case at present)

1. Television

Development of online interactive services

- **Other modes of communication and purchasing: dominant in the long run and more competitive, according to several opinions**

- Even with viable technology, added value is still needed in the mode of operation compared to existing modes
- Experts call to mind the significant development of tele-shopping programmes and channels in the past few years, as well as their rate of success
- Experts believe it goes without saying that such services must be accessible free of charge in order to have a chance of being viable + offers must exceed those delivered through other communication channels

1. Television

EPG and PVRs

- Have built-in storage capabilities that can currently store up to 40 hours of programming and have intelligent software personalising the viewing experience : pause programmes, replay and Fast forward. Can automatically record favourite programming, learn viewing habits and potentially avoid advertising
- 2 principal players – TiVo and Replay networks
- Initial take-up has been slow (high cost : euro 440-650)
- Pay TV operators could offer set top boxes with storage capacity (Sky, Canal +) ; US experience suggests that viewers watch more TV, record more, watch a greater range of Programming and watch fewer commercials when they have a PVR
- **Concern over this :**
  - Costs for households / limited to pay-TV-upscale families ?
  - Ability to skip advertising
  - Measurement of the advertising quota's

1. Television

Changes in convergence of television and the Internet

- **Web access through TV set**
- Views hardly positive: progress is deemed Moderately High in the mid-term.
- Based on available information: no genuine demand for equipment already available for this application
- Structure of Web content: not organised to be switched over to televisi**on :**
    - Linking the two media does not seem to be intended
    - Technology is still largely ineffective.
- Possible cross-overs = rare, do not make for a significant market
- Both terminals remain clearly separate, fulfilling equally separate needs
    - Few believe in convergence, even less in a merge of the two terminals
    - Exceptions may possibly emerge in the medium term, such as connecting video game consoles to the Web. But: advertisers' interest; what about off-stream regulation ?
- Tests and studies have confirmed the basic interest of mass audience for this technology
    - Problem posed by the (relative) low proportion of households fitted with two or more television sets : viewing a programme together does not easily allow switching over to off-stream

2. The other media

Internet, Radio, Cinema and Mobile applications

1. The Internet

Development of the convergence of Television and the Internet

- Changes in broadcasting audiovisual programmes through a Web platform
- Moderately High to High development
- Integration will rely on household and office access to broadband technology
- The viewing pattern of TV programmes (through video stream) via the computer is specific and would involve only a few types of programmes
- In the short term: no significant changes in the scope of this pattern (competition and inadequate network), not within the next 3 or 4 years at least
- Alternative means (i.e. the traditional TV set) remain more than competitive
- Such development will require high bandwidth along with a complete upgrade of domestic hardware
- The issue of regulating advertising: intensely quoted, along with the consequences of handling programme rights
- The convergence of radio and the Internet is also mentioned : this is a more urgent reality

1. The Internet

Development of advertising techniques on the Web

- Advancement of advertising techniques within 3 to 4 years
- Development here is deemed High to Very High (and currently under way…)
- Aim to be efficient : this is connected with interactivity, originality and visibility
- Strong and present will to diversify these modes of operation (and their content) in all EU countries
- Modes of operation are therefore different in “classic” and passive advertising (with the exception of off stream interactive TV techniques)
  - The gap between a product’s pricing and the purchasing process has virtually disappeared.
  - «Bannering» has lost its benchmark technique status: made way for more interactive and complex techniques – see also workshop # 3
- **Assessing the self-regulation of advertising techniques**
  - Mixed opinions

1. The Internet

Web access through mobile devices

- **On the development of such modes of operation within 3 to 4 years**

- Deemed Moderately High to High, a genuine increase but somewhat temperate
- Several countries = penetration rate of 20 to 30% of Internet access by the population through the existing GSM protocol. The same countries mention the noticeable delay in implementing GPRS technology, expected at the earliest at the beginning of 2003
- The inadequacy of hardware currently used by end-users (as was the case for television and ADSL or digital TV's, or broadband for the Internet)
- Will require a complete change of devices
    - Modifying consumer equipment = slow down of access to new Web applications on mobile telephone screens
    - Cost factor = priority issue. Nevertheless, many manufacturers are currently in the operational production stage of these new devices

2. Radio

Text message advertising on receiver screen

- **On the development of advertising techniques within 3 to 4 years**
- Development here is seen as Insignificant , as
  - Technology appears to be ill-adapted to advertising strategies
  - Platforms and configurations of receivers (see also GSM, Web and DTV) are insufficiently completed to allow such broadcasts in the countries of the European Union
- The broadcasting method for this kind of advertising technique suggests a paradox :
  - Reading texts on a receiver fitted on a vehicle would be both difficult and dangerous for drivers and would only be viewable for front passengers. Specialists have no doubts the legislator is likely to act on this in the coming years
  - The way people listen to the radio at home or at the office does not include any wishes on the listener's part to look at the receiver's screen; radio is based on listening, not on viewing
- Few experts opinions, which further supports the non-significant aspect in developing this type of advertising technique in the mid-term
- Interactive services and other advertising techniques through digital receivers

3. Cinema

Off screen advertising

On the development of this advertising mode of operation within 3 to 4 years

- Development deemed primarily Moderately High or High depending on the market
- Those in the advertising business see in this technique an interesting alternative to promotional modes of operation implemented in (mass) distribution, with a view to offering selectivity and efficiency
- Modes of operation relatively unstructured => should not be considered as a media
- Some markets seem to be getting organised: potential appears significant, but development of this activity is slow
- Distributors and theatre owners would find new sources of advertising revenues here, such as marketing applications (commercials authorised by telecom operators for third-party advertisers). Since cinema business conditions in Europe are deemed “weak”, distributors’ motivation for off screen advertising is believed to be strong

- **Development of film releases in movie theatres in digital format**

4. Mobile Telephony

Business or advertising modes of interaction between users of a mobile telephony device and the operator or a company acting through the operator's service

- **On the development of these advertising techniques within 3 to 4 years**

- 1) Advertising messages sent by SMS on the operator's own behalf
- 2) Advertising messages sent by SMS on behalf of an advertiser
- 3) Fixed or temporary banners on the device's screen
- 4) Other forms of advertising animation on device's screen

- **Assessing the self-regulation of these advertising techniques**