The fragmentation of advertising

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1. Advertising-funded industries in transition

Media industries are undergoing a technology-prompted change led by audiences. This years' VSS Communications Industry Forecast 2007-2011 projects continuing growth in the communications industry over the next five years with Internet advertising, including pure.play websites and digital extensions of traditional media, replacing newspapers as the largest ad medium in 2011. And advertising follows audiences.

Audience usage patterns are in a transformation: advertisers' dollars and audiences are moving from advertising to targeted media. They are not willing to pay for broadcast TV advertising based on interruption. Dollars go to targeted media and they shrink because the targeted media is more effective.

The publishing, broadcasting and advertising scenes are more affected than other media and entertainment industries. In this context, "we must address the old saw that new media don't destroy old media. Radio didn't kill newspapers; television didn't kill radio, and so on. That is true... so far. But some new media are so disruptive that they force older media to change themselves radically in order to stay in business. Those that decide to circle the wagons and refuse to change, refuse to reinvent themselves, are almost certainly going to struggle to survive" (Cappo, 2003, 72).

2. The paradigm shift in advertising

In this "post-television Age" (Cappo, 2003), the way advertising works is changing (Auletta, 2005). Traditional advertising is said to be losing ground to "new marketing". The literature has been describing this crisis for a while. The idea itself of "advertising's death" is present in several major titles since Ries & Ries (2002) and Zyman (2002). Both books claimed that advertising agencies were selling clients short. Effectiveness is traded by spectacular ads that entertain but fail to sell. Al Ries and Laura Ries argue that the future for brands is in public relations and not in advertising. Zyman warns about spending too much on sponsorship.

New marketing techniques, including Internet, video gaming and product placement are the focus of works by Jaffe (2005) and Galician (2004). The synergies achieved between entertainment and advertising through product placement are also explained by Donaton (2003) while exploring the history of product placement, which is currently one of the most apparent alternatives to traditional advertising.

Advertising-funded media and entertainment industries are in transition (Farrell, 2007). Technological change breeds cultural change. Today consumers of media are more in control of how, where and when they receive their messages. A broadcasters' ability to dictate when certain shows are watched or heard is diminished. There will always be some need for live television and radio, to deliver breaking news, as well as sporting events, awards shows and so on, but the drive towards more consumer control will continue.An equally strong revolution is happening in content-creation. Blogs, cellphone movies and social networking sites are contributing to an explosion of user-generated content.

Bradley and Bartlett (2007, 1) mention some media strategy implications of the new landscape: "with the establishment of the Internet in the late 1990s, marketers began to use the Web to supplement their off-line campaigns. Eventually the convergence of widespread broadband, mobile technology, portable devices and user generated content created a world which propelled marketers to new outlets like rich media, podcasts, online videos and blogs".

According to Brand Channel's 2006 Reader's Choice survey the top five brands in the world were Google, Apple, You Tube, Wikipedia, Starbucks with Skype also in the top 10. Many of these salient contemporary brands

have been built with very little help from traditional advertising. In this context there is an increasing premium for innovation in media. Thanks to the Internet, advertising is going through its first true paradigm shift since the advent of television half a century ago.

Integration is a major driving force: "That simple solution to advertising doesn't exist anymore. Television is not as dominant as it once was. A whole world of cable and satellite channels is now available to smart marketers. One must devote more time to media evaluation and selection, and it can produce more effective advertising. That is exactly what clients are looking for –more answers to their marketing problems. And aside from the proliferation of television, cable and satellite signals, there has been substantial growth in all other forms of marketing –sales promotion, direct marketing, sponsorship, not to mention the Internet"(Cappo, 2003, 151).

Advertisers are indeed exploring many new avenues. Billboard advertising is being used in innovative ways: Out-of-home advertising, long considered a backwater on Madison Ave., is getting tougher to ignore as it branches out beyond the old-fashioned billboard. New technologies are transforming out-of-home ads, a sector which includes roadside billboards, ads on buses and trains and now even coasters in bars. As advertisers find it harder to reach consumers through television and radio, the increasing array of out-of-home ads is looking more attractive.

Another growth area is "branded entertainment", where advertisers and broadcasting executives thoroughly plan television shows and movies to achieve maximum brand impact. The stated goal is to avoid traditional advertising's pitfalls, tightly weaving a brand or product into content and to counter consumers growing habit of *zapping, zipping* or otherwise avoiding traditional commercial pitches.

Word-of-mouth and viral marketing are also mainstreaming. They have become "an increasingly potent force, capable of catapulting products from obscurity into runaway commercial successes" (Dye, 2000). Dye has explained the anatomy of buzz: "people like to share their experiences with one another (...) and when those experiences are favorable, the recommendations can snowball, resulting in runaway successes". Gladwell (2002) explained this pattern in the same year. Brands experiment with the brave new world of the Web 2.0 and user-generated content, using blogs and "social networking" sites like MySpace. Virtual reality outlets like Second Life and the videogame industry seem also ripe for marketers.

Historically, communication has often been a one way street. Marketers advertised and disseminated messages and customers were a passive target. Major brands still spend billions telling customers what they don't want to hear. Joffe (2007) argues that marketers must adapt to the brave new world of the Internet, social networks, user-generated content, blogs and podcasts. It is a world of powerful conversations, were dialogue, participation and community are paramount and mass collaboration is in place (Tapscott and Williams, 2006). When marketing is a conversation, marketers get to know users as persons, not just as faceless and silent members of a demographic segment. The goal is promoting conversations to talk with consumers not at them and get them talking about products, services and issues.

Demand for big real live events remains strong, but this is precisely by a shortage of programs with large ratings.

3. New competitors: the advertising industry meets Silicon Valley

The purchases of MySpace by News Corporation and YouTube by Google extended to new scenes the battle for audiences and advertising. Around the year 2000 some brands achieved global stature and dimension without using traditional advertising media. Such brands gave rise to the academic and professional conversation about "word-of-mouth", "buzz" and viral marketing, Internet-based communication strategies.

April and May 2007 witnessed a new battle between the Internet giants headquartered in the U.S. West Coast (Microsoft, Google and Yahoo) and the Madison Avenue advertising companies (WPP, Publicis, Interpublic) that do not want to lose the train of the creative revolution that takes place on the web (Steel, 2007).

As the use of advertising strategies online by advertisers grows, the struggle for controlling the income generated is escalating. In May 18, Microsoft acquired by $6.000 million aQuantive, a company specialized in online advertising. The purchase was the greater in Microsoft's history at the time and followed similar acquisitions by Google, Yahoo and several advertising agencies. Microsoft traditionally did not want to play a role in the advertising business. Its technological culture resisted some previous initiatives in the online advertising space. However, in the last two years, it has increased its number of employees for this field and has turned online advertising into a priority. Top Microsoft executives believed that the company was losing market share to its more direct rivals, Google and Yahoo.

The online advertising market walks towards maturity around an oligopoly of companies that sell the ads users watch on the Internet. There is a business model based on search, online video downloads or banners in news and entertainment sites. But there is also a more novel form pioneered by Google using automated methods of advertising location that can play a determinant role also in the way advertising is planned in media like television, radio and newspapers.

Google bought online advertising agency DoubleClick by $3.100 million in April 2007. A day before Microsoft´s announcement, advertising "megagroup" WPP had announced a new acquisition 24/7 Real Media by $649 million. Industry experts considered that WPP was trying to counter DoubleClick's purchase. Meanwhile, Yahoo bought Right Media by $680.

In a similar operation, Digitas, a digital marketing agency was acquired by the giant advertising group Publicis by $1.300 million in January. Finaaly, Yahoo acquired online-advertising company BlueLithium for about $300 million in September 2007 (Delaney, 2007).

The implications of such movements for the agency business are huge. Advertisers have traditionally trusted agencies for their media placement and accepted their role as intermediaries. Google has started to change those rules placing ads next to online searches presenting an alternative model to advertising agencies.

The latest advertising expenditures figures show U.S. advertising spending poised to overtake radio advertising for the first time: "U.S. radio ad spending is expected to inch up 1.5% in 2007, to $20.4 billion, short of online ad expenditures of $21.7 billion, which will be up 22% from last year (...) Over the next several years, radio station Web sites and online audio advertising will be the principal drivers for radio advertising growth" (Hau, 2007).

In the last two years, the largest advertising agencies have increased their interest for the online world. Advertising budgets have migrated from traditional media to the Internet. According to TNS, a leading advertiser like General Motors has increased its Internet expenditures 16%, but has decreased a 60% in newspapers and a 15% in television.

4. The rise of online video

Online video advertising is turning into a viable alternative for the 30 second spot. Industry insiders believe it gives more depth and visibility to some campaigns, for half the price. According to them, the website is replacing the 30 as the central expression of a brand. In most cases, rich-video sites can be made for half the cost of a 30-second spot. Marketers are showing increasing sophistication in their use of online video to create not just linear presentations that look like TV commercials, but interactive, virtual experiences.

The lively interest for the online video scene was also highlighted by YouTube's acquisition by Google. Online advertising takes advantage of an increasing interest for advertising that travels along the Internet as good quality entertainment. The proliferation of broadband Internet connections make easier for computer users downloading or watching video clips, and that is enabling media companies, agencies and marketers to create Web sites devoted to commercials and other forms of advertising as entertainment or amusement. YouTube has also shown how popular are good commercials on the Internet. That is the reason behind the release of new all advertising websites like veryfunnyads.com (Time Warner's TBS cable network), didja.com (NBC Universal's USA Network), and honeyshed.com (Publicis advertising agency). People do not seem to be against advertising as such. What they do not like is bad advertising and "advertising-as-an-interruption".

Online video is still relatively small as an advertising revenue generator. It is true that viewership has exploded. Around 135.5 million Americans watch online video at least once a month, up 19% from last year according to eMarketer. The online video advertising market is expected to surge 89% this year to $775 million, but that will account for just 3.6% of overall Internet ad expenditures. By 2011, the market is expected to expand more than five-fold to $4.3 billion –which would still only add up to slightly less than 10% of total online advertising spending (Hau, 2007).

Web video has a long way to go before it rivals search marketing, much less the huge numbers achieved by television advertising. Besides, professionally produced programming remains the biggest potential draw for advertising dollars. It is also a different vehicle: "Most early attempts at online video advertising involved simply attaching a 30-second TV ad to the front of a video clip. But the industry quickly recognized that recycling and ad formatoriginally meant for half-hour or hour-long TV programming didn´t work well for online clips that were often barely longer than the ad itself" (Hau, 2007).

5. Social networking: Markets as conversations?

Social networks are another promising venue for advertising as the most relevant social networking sites try to monetize its huge and growing user base. They seem to offer an opportunity: unlike the decline in television viewership or newspaper and magazine readership, online networks enjoy massive increases in participation.

However, Clemons (2007) considers that there are still limits to replacing advertising with social network distribution of promotional messages: on one hand, putting up a social networking Web site does not guarantee loyal viewership. On the other, loyal viewership does not guarantee trust in promotional messages. The Internet is heavily transparent and attempts at manipulation will quickly become visible, quickly destroying trust and with it any value the web site could potentially enjoy as a means of product promotions.

In order to achieve the elusive loyalty, Clemons (2007) defines four conditions. Social networks have to be personal (interesting personally for any participant); participatory (opportunities for interaction); plausible and believable (online interactions have to follow some plausible rules); there has to be the possibility of physical transition (the ability to actually go from the online world to the real world is a plus). Three advertising venues are considered promising in this context: placing traditional ads on a web site; using paid content placement (for example, paying to have Second Lifers wearing certain clothes or drinking certain beverages); and word-of-mouth advertising (for example, paying a Facebook user to recommend your product).

6. How media shares are changing

Clutter and media fragmentation have long been serious hurdles for traditional media. There is a problem of "overmarketing" that overwhelms publics and undermines commercial communication efforts. Media plans are still too attached to the well-known classic approaches, but audiences do not seem to be listening as they used to. Profound transformations do not happen overnight but the need for fresh approaches is increasing.

Generally speaking, traditional media where advertising spending is highest are continually decreasing both in media audience and advertising share. Dailies are losing ground, threatened by free newspapers and online news outlets. Wherever there is a development in cable and satellite television, terrestrial television enters into a downward spiral. By 2002, cable advertising spending in the United States was already higher than in the networks. Their total advertising media share is just about *6.8% of the overall market*. In the United Kingdom, paid television development has provoked an even higher decrease for terrestrial television in the last decade, losing more than five share points in the overall advertising market.

Radio and outdoor advertising tend to grow and even more clearly direct mail and the Internet, even though actual figures for Internet advertising are probably higher than those measured.

In the EU-15 (see table 4), the 1994-2006 period has seen a retreat in print media share. Television has increased slightly because of deregulation of some broadcasting markets or increase in cable and satellite expenditures. Radio and outdoor advertising remain stable with a tendency to improve, and Internet has emerged as a significant player.

Table 1, 2, 3. Advertising expenditures by medium in United States, United Kingdom and Germany (1995-2006)

Table 1. United States

	1995	2000	2006	%Change 1995-2006
Dailies	34,1	29,8	24,9	-9,2
Magazines	11,2	10,3	9,1	-2,1
Broadcast TV	30,2	25,3	23	-7,2
Cable TV	5,3	8,6	12,3	7
Radio	10,2	11,2	10,5	0,3
Outdoor	1	2,6	2,9	1,9
Internet	0	4,2	7,4	7,4

Source: The European Advertising and Media Forecast, October 2005, July 2006.

Table 2. United Kingdom

	1995	2000	2006	%Change 1995-2006
Dailies	38,4	37,6	30,9	-7,5
Magazines	16,2	15,1	12	-4
Terrestrial TV	28,2	25,5	18,9	-9,3
Cable/Sat. TV	2	41	6,8	4,8
Radio	3,1	4	3,2	0,1
Outdoor	4,3	5,2	6,1	1,8
Internet	0	1,1	13,3	13,3

Source: The European Advertising and Media Forecast, October 2005, July 2006.

Table 3. Germany

	1995	2000	2006	%Change 1995-2006
Dailies	45,9	43,2	39,9	-6
Magazines	18,5	17,7	16,6	-1,9
Television	20,9	24,.1	24,6	3,7
Radio	3,7	3,7	4,1	0,4
Outdoor	3,3	3,8	4,7	1,4
Internet	-	0,8	3	3

Source: The European Advertising and Media Forecast, October 2005, July 2006, September 2007.

Table 4. EU-15 Media Share 1994-2006

Medium	1994	2006	Change %
Newspapers	37,8	31,4	-.6,4
Magazines	17	14,5	-2,5
Television	27.8	29,5	2,1
Internet	-	5,7	5,7
Outdoor	4.6	5,4	0,8
Radio	4.3	5	0,7

Source: The European Advertising and Media Forecast, Vol. 20, no 5, July 2006.

The fact that free newspapers already account for 11.8% of total advertising spending in Germany or 9.6% in France can no longer be ignored (see Table 5). Internet is already a significant player in the overall market. Table 6 lists the countries where Internet advertising's share is above 2%.

Table 5. Free papers advertising expenditure as a percentage of total advertising expenditures, selected countries (2006)

	Free papers total advertising share (%)
Germany	11,6
France	10,1
Sweden	6,2
Finland	4,9
Denmark	2,5

Source: The European Advertising and Media Forecast, Vol. 21, Number 6, September 2007.

Table 6. Countries where internet advertising is above 2% in overall expenditures (2006)

	Internet advertising as % of overall expenditures
United Kingdom	13,3
Denmark	12,8
Sweden	12,4
United States	9,5
Norway	9,3
Japan	7,8
Canada	7,8
Netherlands	6,1
Hungary	4,7
Finland	3,5
France	3,2
Germany	3
Belgium	2,8
Czech Republic	2,8

Source: The European Advertising and Media Forecast, Vol. 21, Number 6, September 2007.

Audiences do not listen as they used to. There is a relevant degree of media overlap and multitasking. The best brands are conscious of the classic commercial's crisis and look for fresh opportunities in media contents using product placement, viral marketing and sponsoring. Corporate communication also acquires greater relevance.

7. Discussion and preliminary conclusions

The advertising industry is undergoing a momentous time of change worldwide. The crisis of the 30-second spot and the lackluster performance of traditional media like terrestrial television, print and radio are having a profound influence in advertising-supported media. In a way, the advertising industry is disrupted by technology. So are terrestrial broadcasting, publishing and radio.

Advertising follows consumers. And consumers are talking loud. They like good ads, which travel increasingly around the Internet. But they do not like excess. Technology makes increasingly difficult for advertising to appear as an interruption: consumers are more in control. This is the situation brands should read correctly: it is not the end of advertising, but it is a whole new context with significant implications in the way media space is sold and planned.

A better audience understanding will help companies in those industries to develop advertising strategies that are relevant to consumers. The emergence of online advertising, innovative out-of home solutions and "branded entertainment" will continue to draw researchers' and industry attention. This situation calls for a revamp in the way advertising media plans are laid out.

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