

Emerging Media Advertising Sources of Revenue

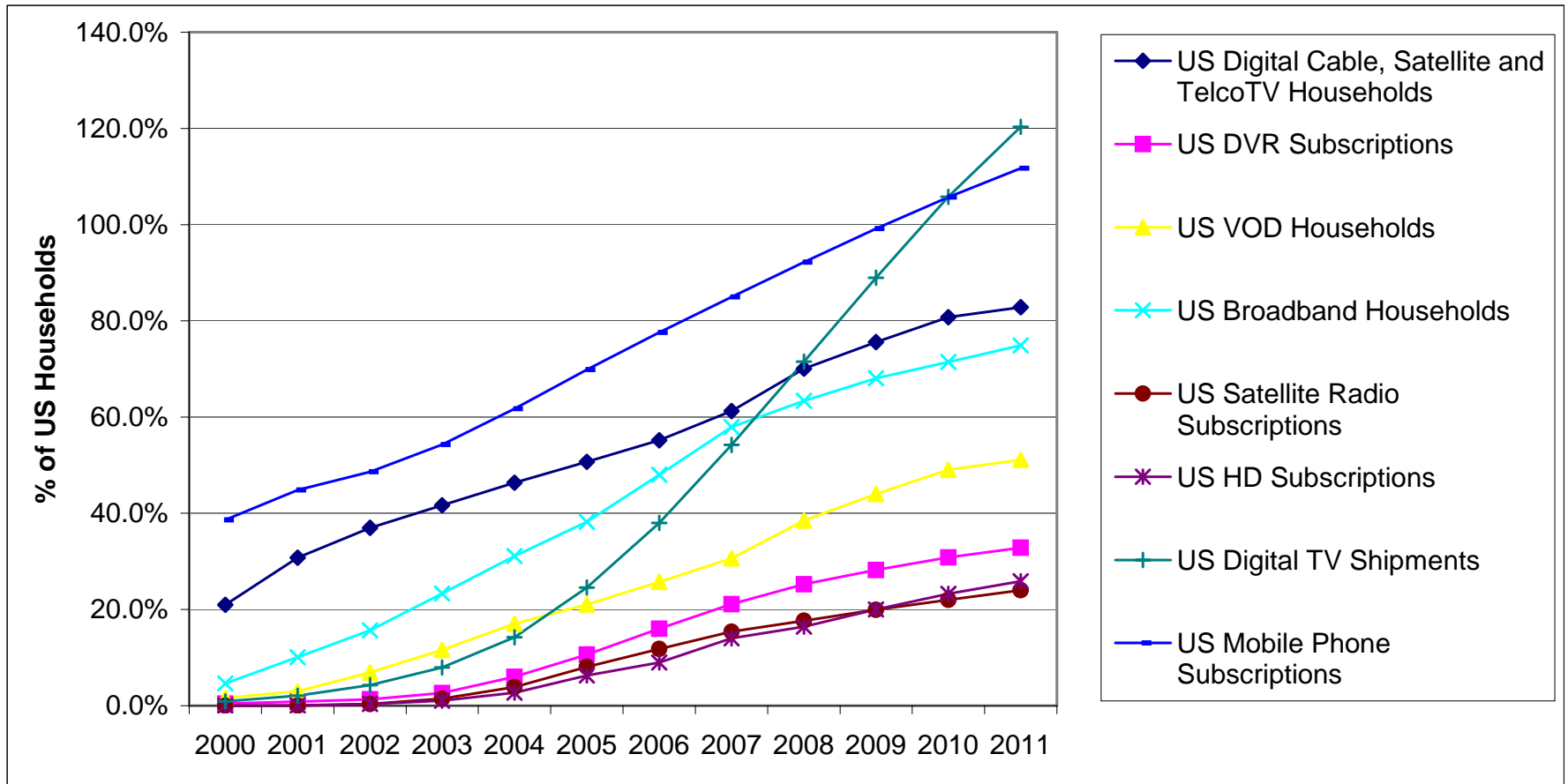
December 2007



MAGNA Global

Emerging Media Advertising: Sources of Revenue

- Despite proliferation of new media platforms...



Emerging Media Advertising: Sources of Revenue

- Resulting in hundreds of ways to move content...

PRODUCTION

- Professional
- Amateur/UGC



TARGETING

- Broadcast
- Unicast



THROUGHPUT

- Stream
- Download



ACCESS

- Push
- Pull



LAST-MILE

- Unwired
- Wired



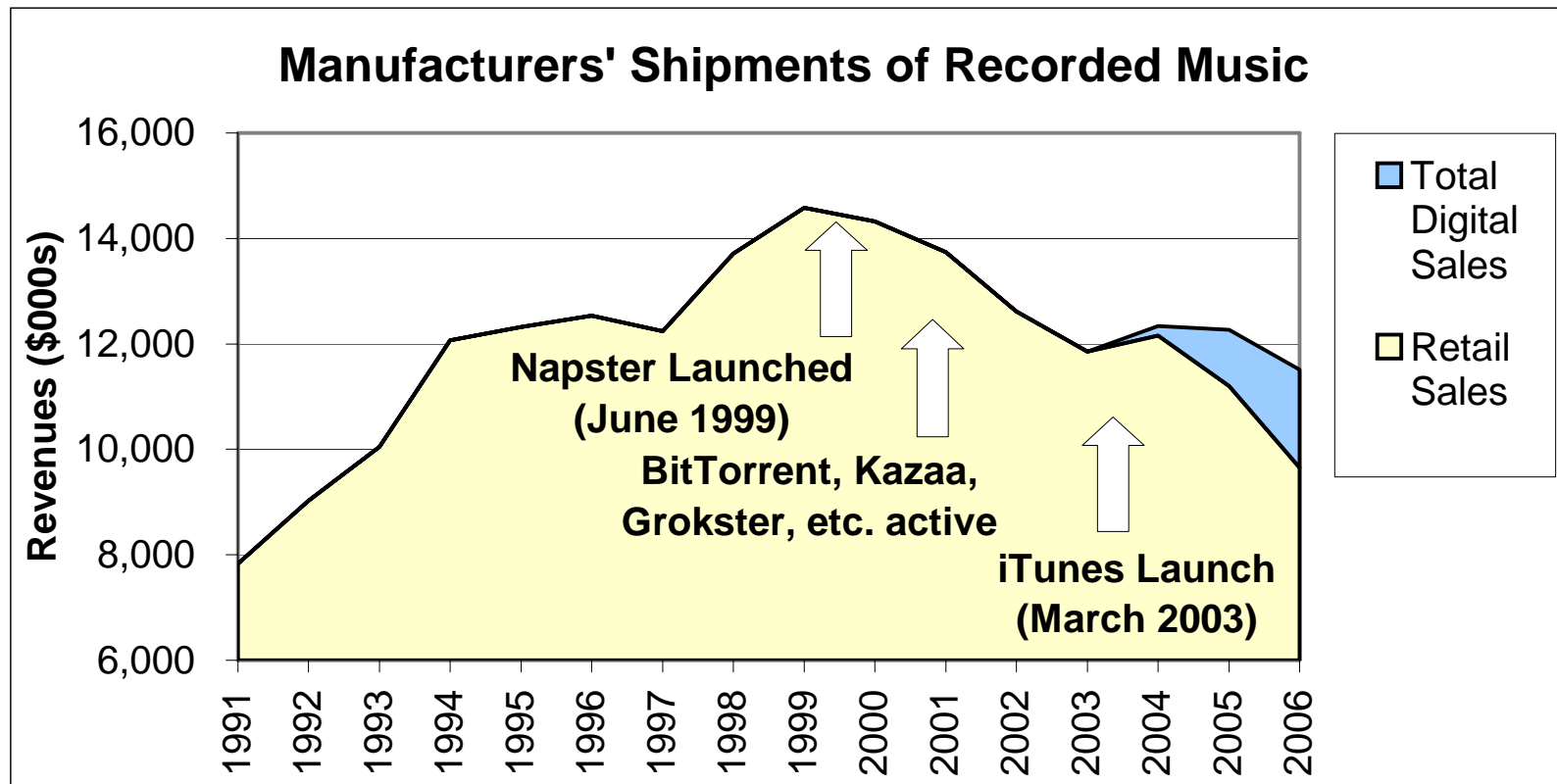
CONSUMPTION

- Home
- Portable



Emerging Media Advertising: Sources of Revenue

- And although new media *can* radically impact industries
 - Digitization drove music industry change
 - Affected production, distribution and consumption



Emerging Media Advertising: Sources of Revenue

- Wholesale change takes decades
 - For business model, consumer and technical reasons

	General Print	YP	Radio	TV											
<table border="1"> <tr> <td></td> <td>Yes for all people under virtually all circumstances</td> </tr> <tr> <td></td> <td>Often for most people under most circumstances</td> </tr> <tr> <td></td> <td>Yes for some most of the time or yes for all some of the time</td> </tr> <tr> <td></td> <td>Yes for some some of the time or no for most most of the time</td> </tr> <tr> <td></td> <td>No</td> </tr> </table>		Yes for all people under virtually all circumstances		Often for most people under most circumstances		Yes for some most of the time or yes for all some of the time		Yes for some some of the time or no for most most of the time		No					
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	No														
Sufficient Range of Content					Limited TV content available today										
Sufficient Technical Quality					Internet can't deliver high res video well										
Equipment Substitution					Print is tactile										
Sufficient Customer Service					IPTV: no STB integration										
Efficient Navigation					QoS is critical for video										
Cheaper to Substitute					Hard to navigate to find audio/video										
Increased Convenience					Online bandwidth=more cost than free media										
SUMMARY					Print and radio are typically portable										
					Prospects for online media substitution limited by drawbacks relative to traditional media										

Emerging Media Advertising: Sources of Revenue

- **What will cause advertisers to use more emerging media?**
 - For large advertisers
 - Traditional media must stop working (relatively) well
 - Change in focus from reach and frequency to behavior
 - Infrastructure must be improved
 - Organizations may need to be re-designed
 - For smaller advertisers
 - Narrow reach, narrow targeting are strengths
- **But even if emerging media grows, it may not necessarily occur at the expense of traditional media**
 - Pie-expansion!

Traditional Media Works (Relatively) Well

- What if Churchill worked in marketing?

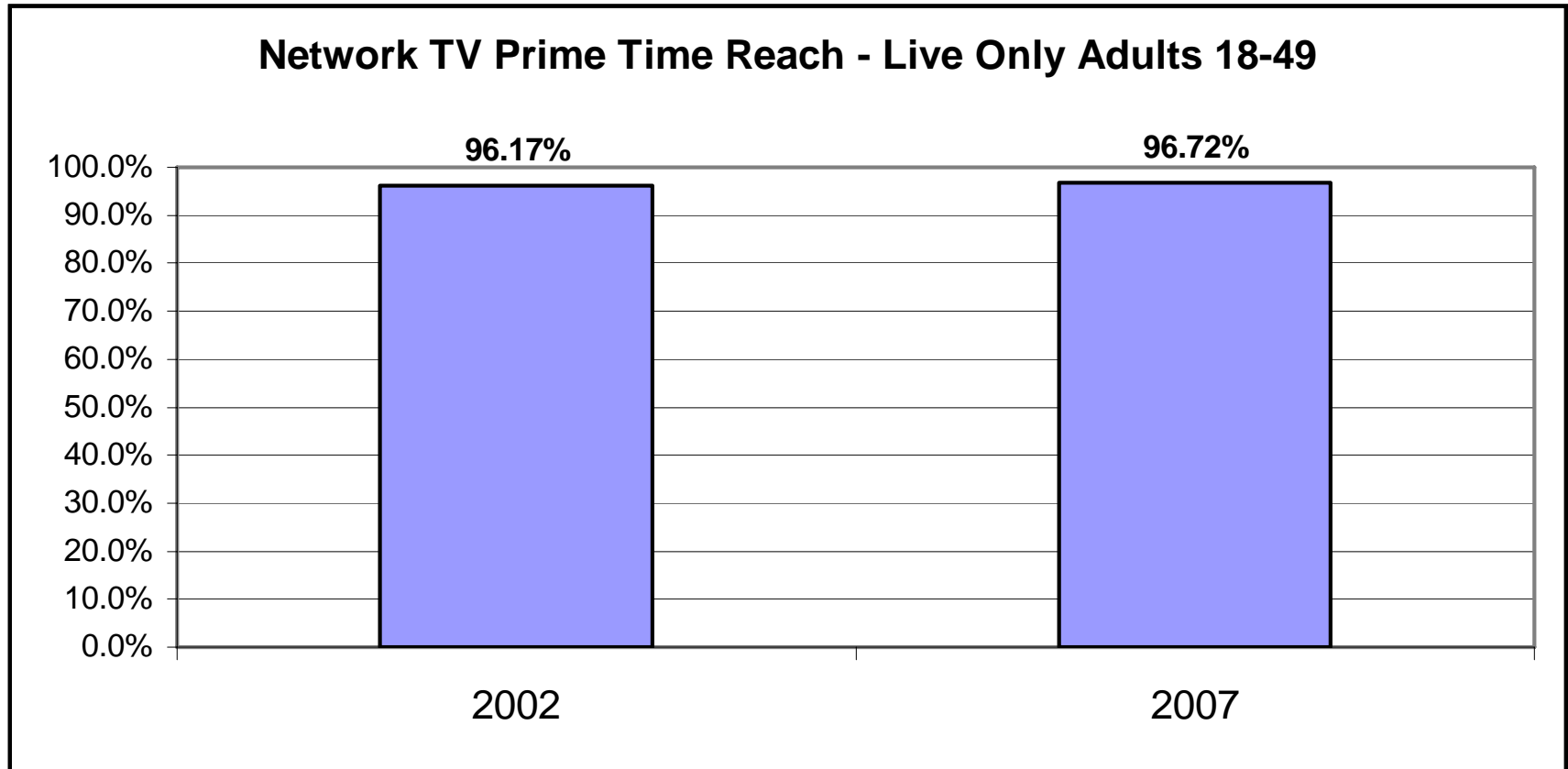


“Television is the worst form of advertising, except all the others that have been tried”



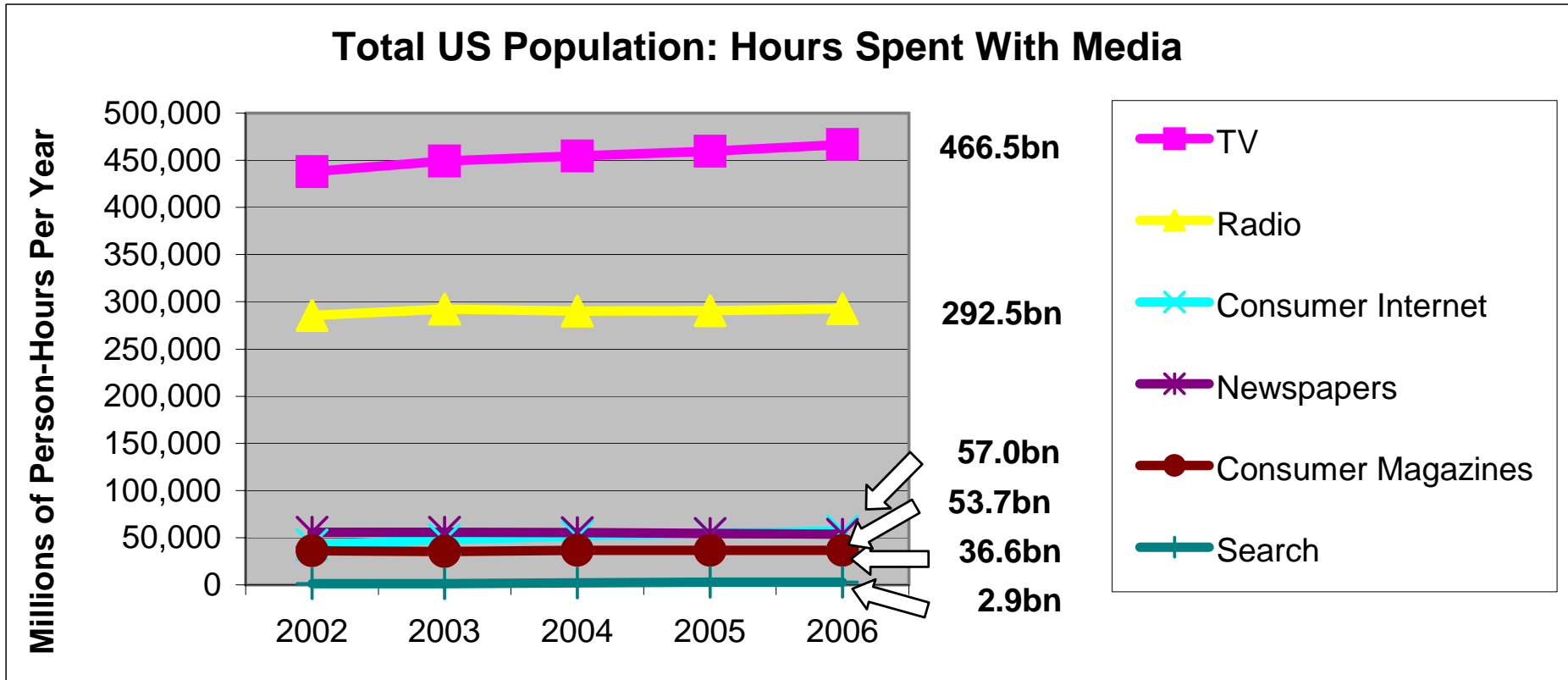
Advertisers Focus on Reach and Frequency

- Large brand-based advertisers: focus on reach...



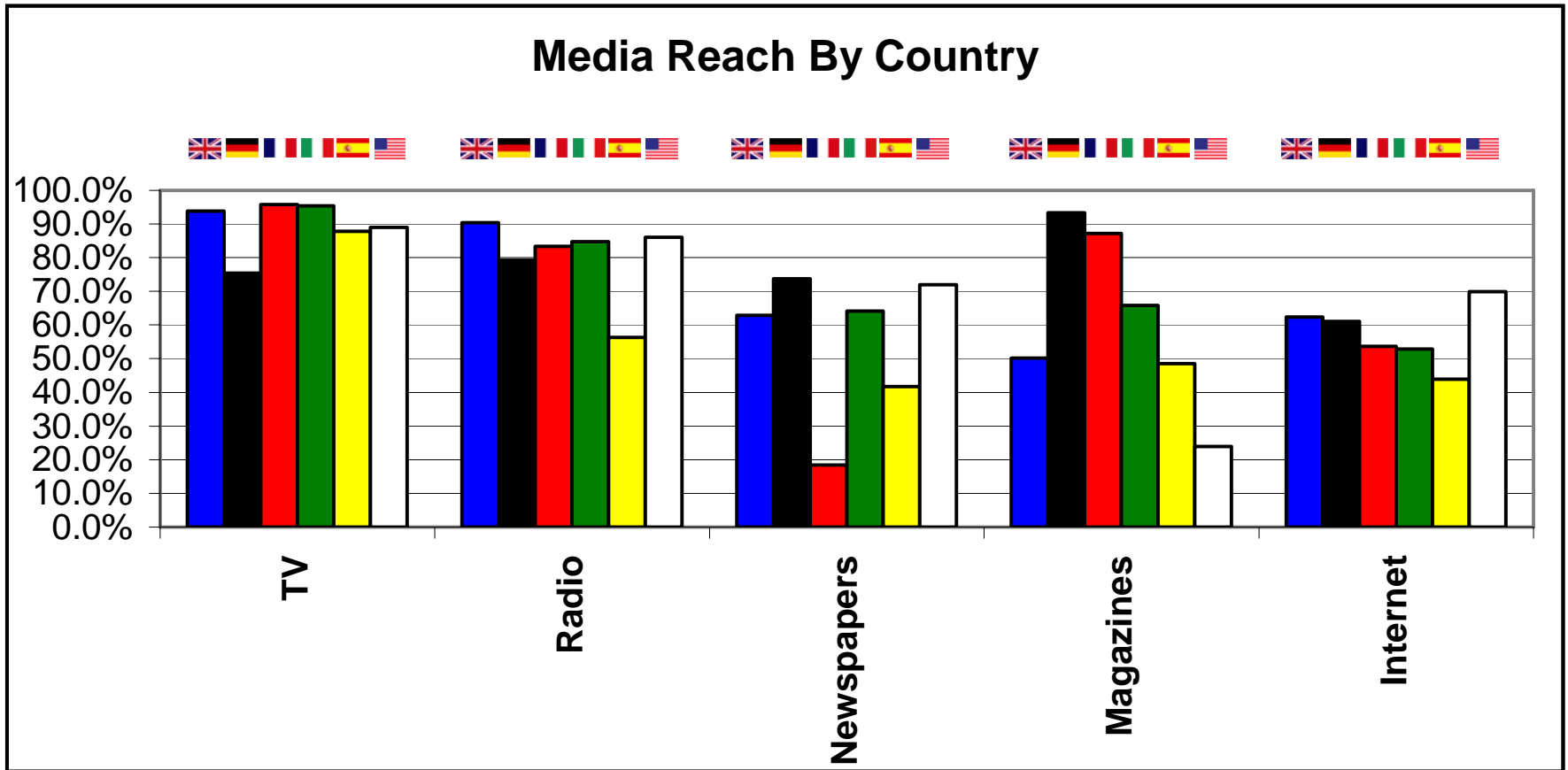
Advertisers Focus on Reach and Frequency

- ...And frequency



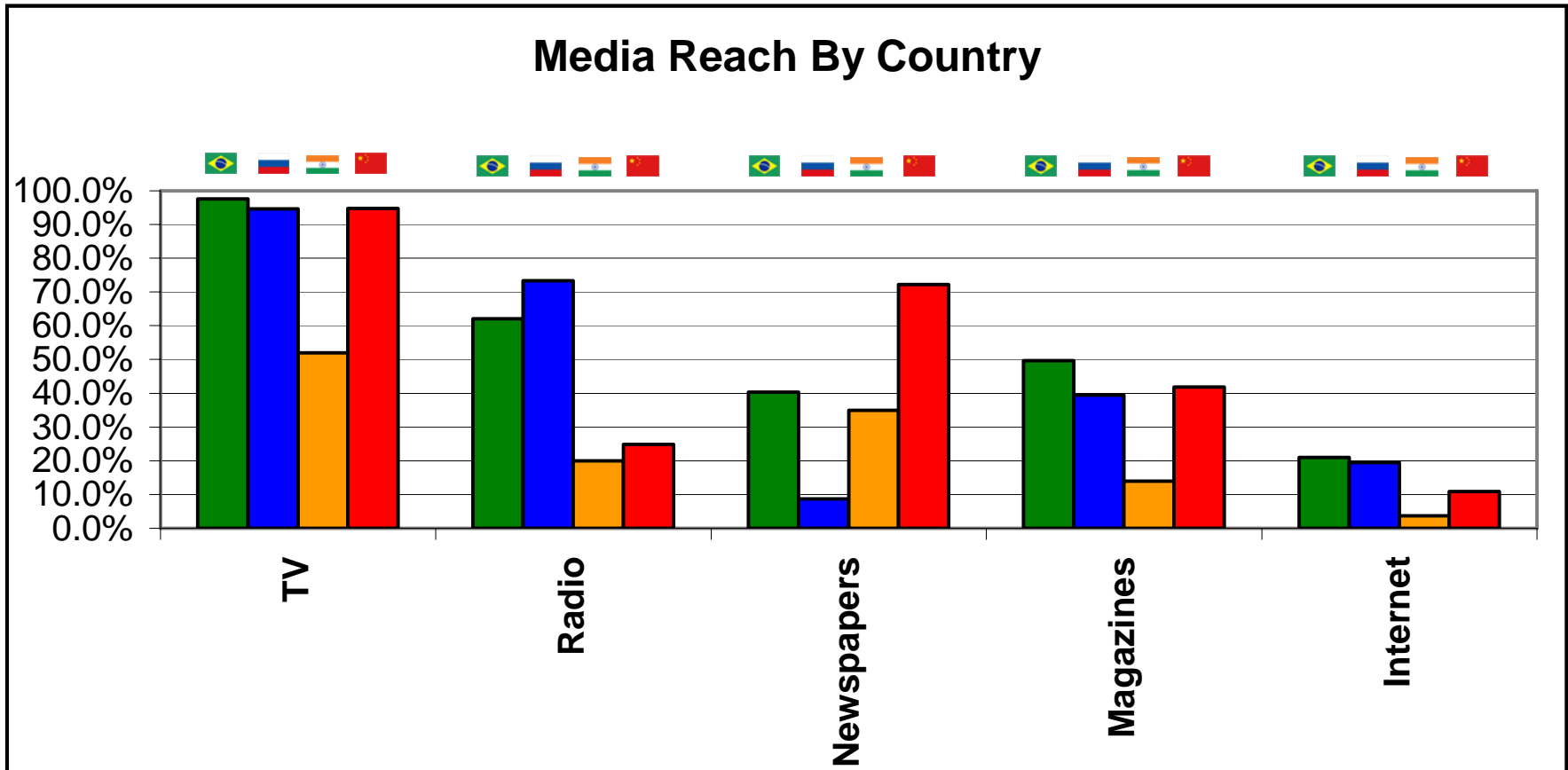
Advertisers Focus on Reach and Frequency

- This is true in established markets...



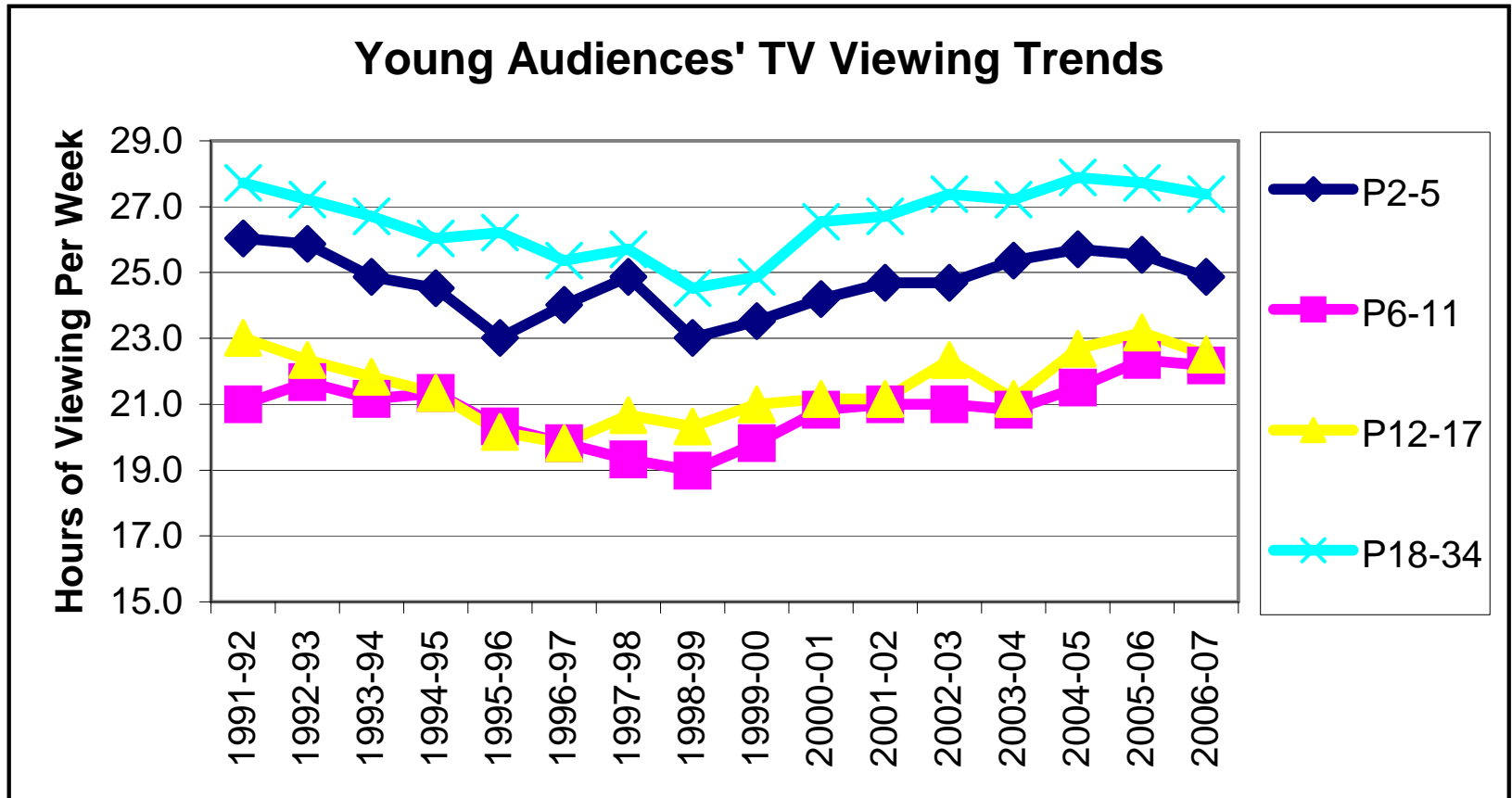
Advertisers Focus on Reach and Frequency

- ...And emerging ones



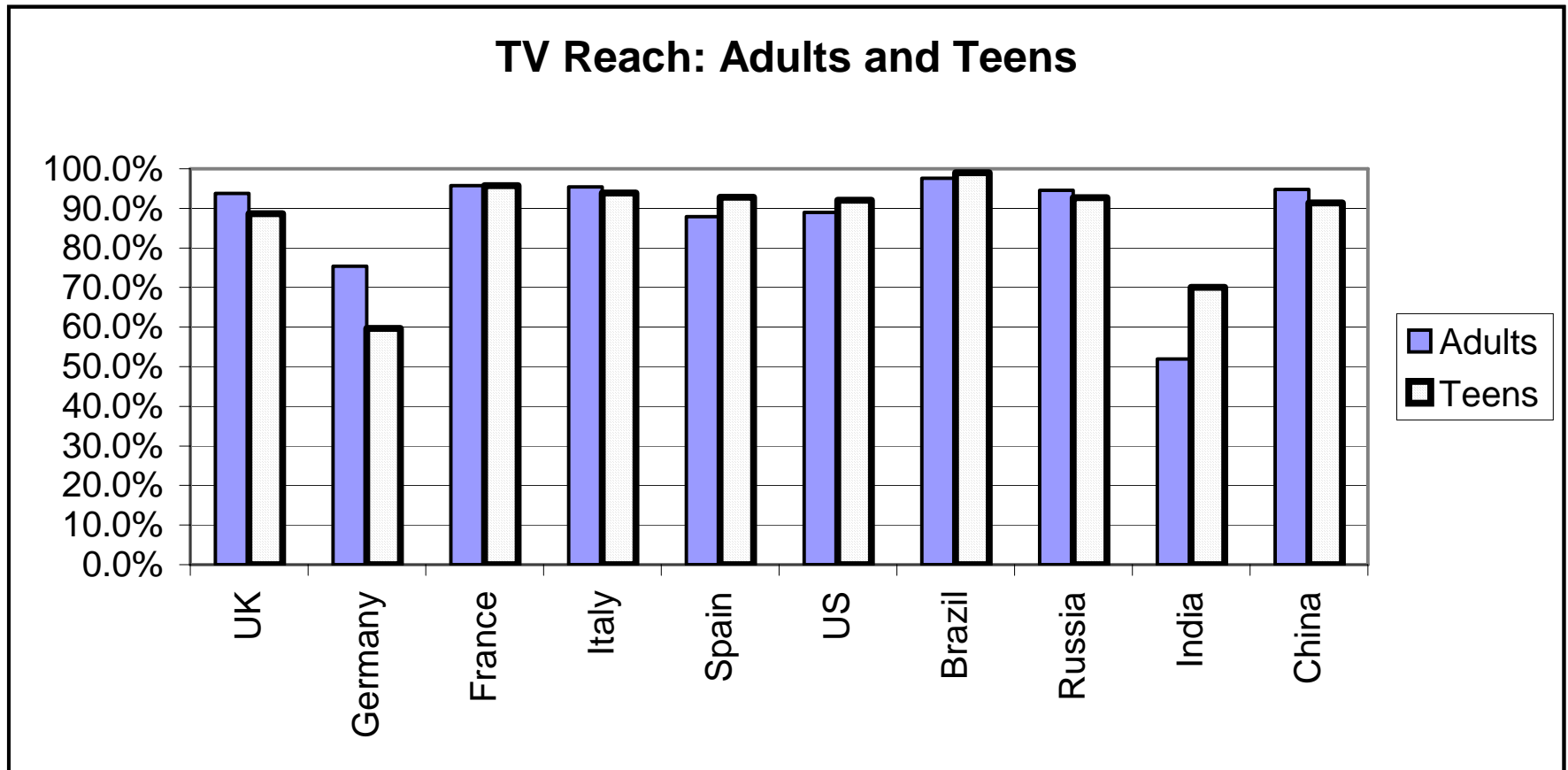
Advertisers Focus on Reach and Frequency

- It also holds for young audiences...



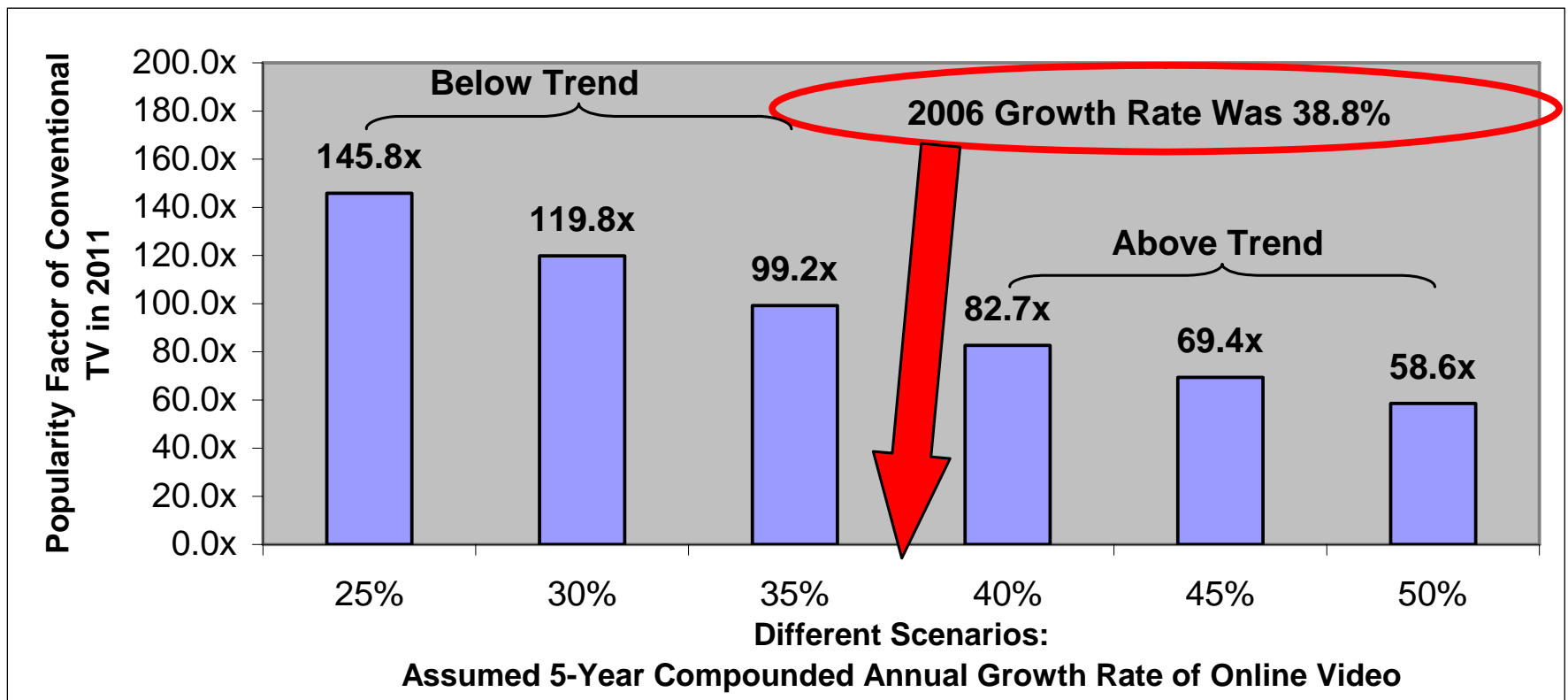
Advertisers Focus on Reach and Frequency

- ...In the US and around the world



Advertisers Focus on Reach and Frequency

- Contrast online video vs. traditional TV
 - Conventional TV popularity: 90x vs. Online in 2011?



Infrastructure For Emerging Media Is Often Poor

- **Standardized infrastructure must be present**
 - Critical mass of unduplicated / unique reach
 - Uniform technological standards
 - Research into optimal creative formats
 - Smooth buying process
 - Provision of robust user data
 - High-quality service and product standards



Infrastructure For Emerging Media Is Often Poor

- Canoe: Cable now understands from experience

CableLabs®

Best Business Information
Multichannel News

CableLabs Scopes Out ITV Standards

By Todd Spangler -- Multichannel News, 9/24/2007

CableLabs has privately requested information from dozens of cable-technology vendors and others as the initial step of a project, code-named Canoe, to develop interactive-advertising standards.

The goal is to create a technology platform that will allow cable to increase advertising revenues and "put forth a united front" to marketers, according to a cable-industry executive familiar with the project. With the Canoe project, CableLabs is also reaching out to "communities outside of cable," including ad agencies and major advertisers, the executive added.

CableLabs declined to comment on the proposed project.

"The goal is to create a technology platform...and put forth a united front to marketers"

Emerging Media Revenue From Large Advertisers

- **Targeting's value realized by few with traditional media**
 - Example: limited use of local and multicultural
- **Measurability is great, but few do anything with the data**
- **Why has this happened?**
 - Lack of integration between brand activity and sales data
 - Sales, product and brand may be separate
 - Few advertisers control customer's retail experience
 - National activity makes difficult assessing impact from other media
 - Requires testing that few advertisers undertake

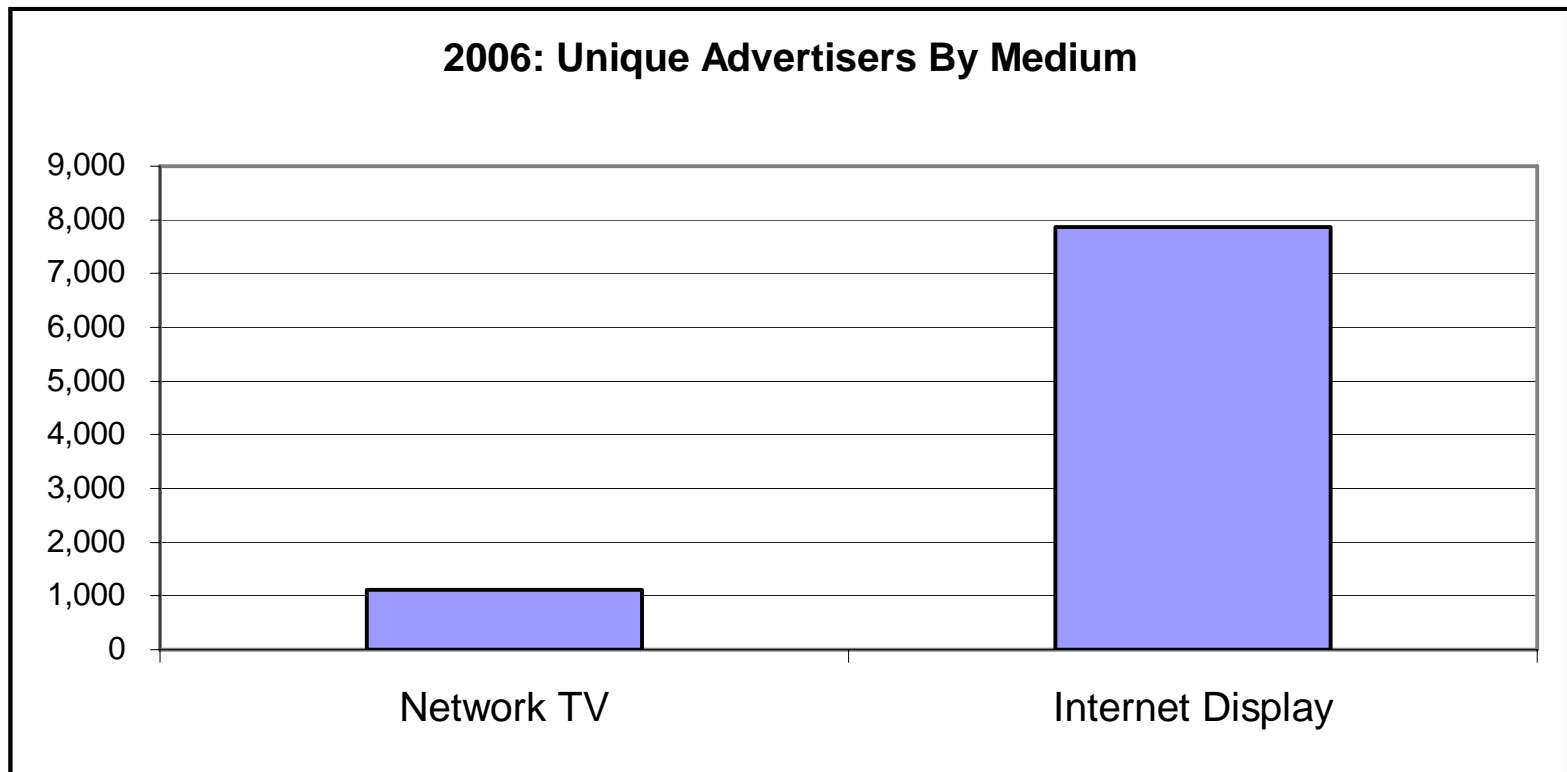
Emerging Media Revenue From Large Advertisers

- **So when is emerging media used?**
 - Niche-focused brands or marketing objectives
 - Reaching consumers across multiple touch-points
 - Experimentation / internal learning / preparation for the future



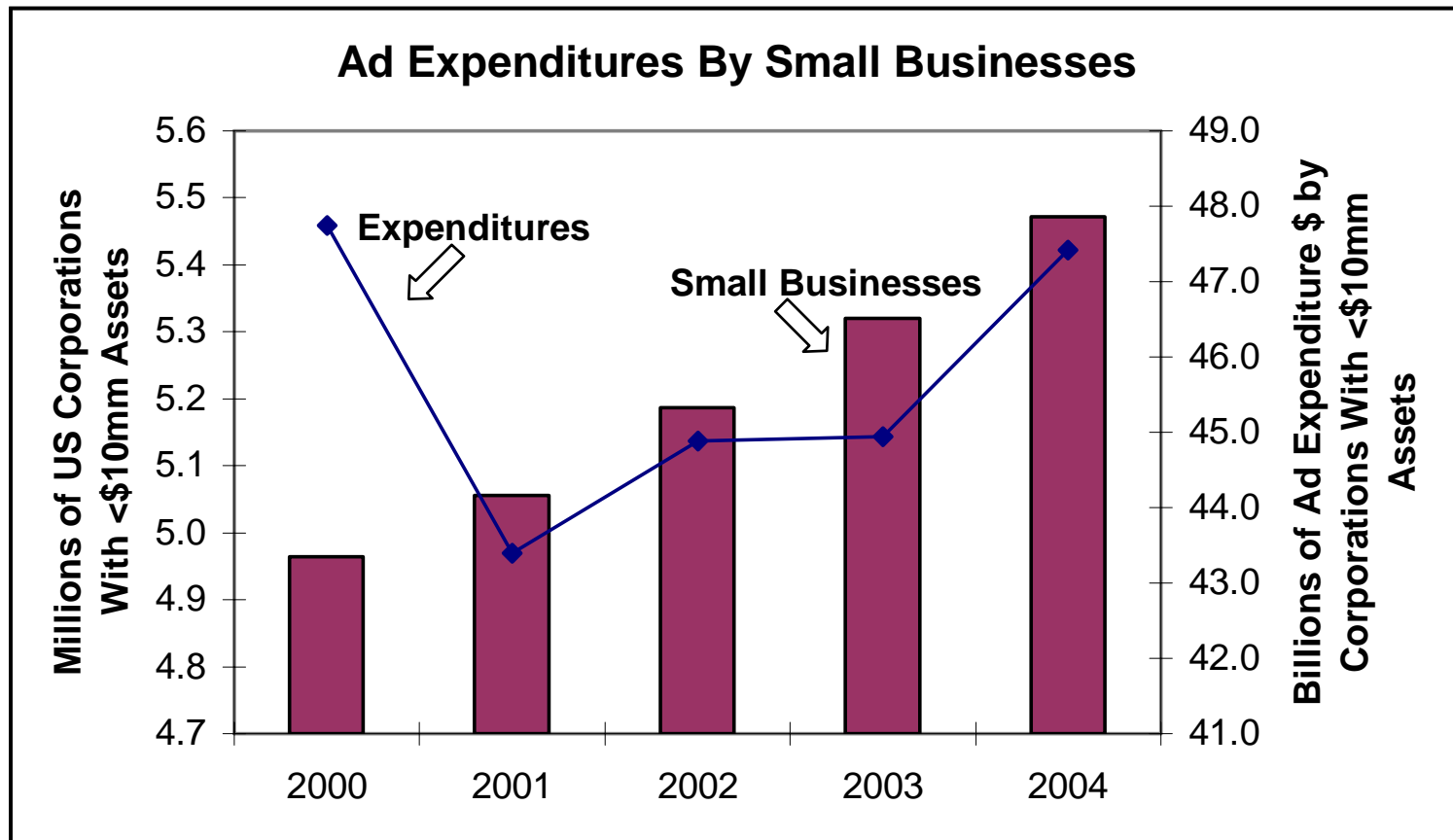
Emerging Media's Advantage for Smaller Advertisers

- Drivers of emerging/new media = smaller businesses



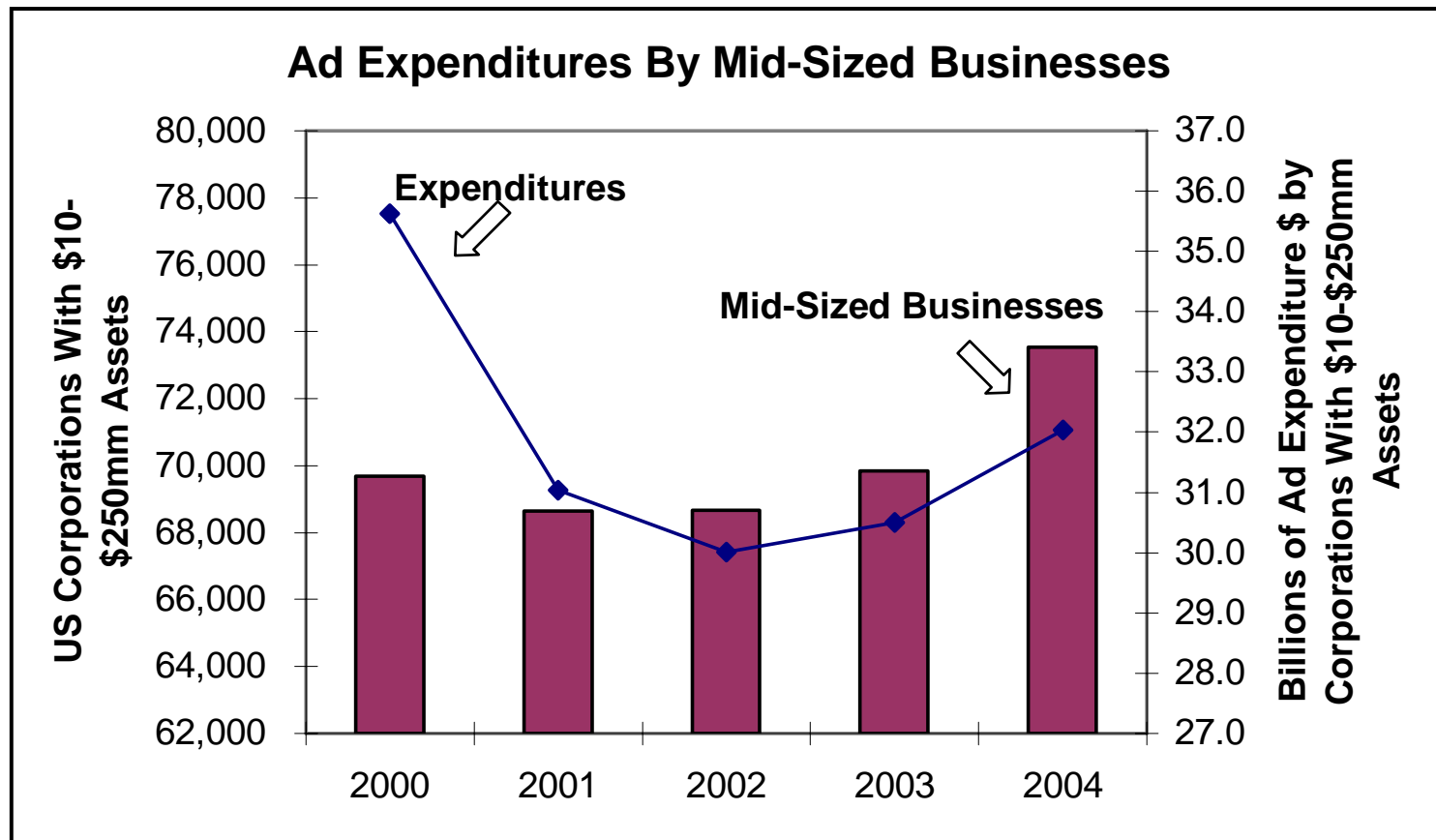
Emerging Media's Advantage for Smaller Advertisers

- Small businesses = >\$48 billion advertising market
 - Very small out-of-pocket budgets
 - Products are – by definition – narrow-reaching



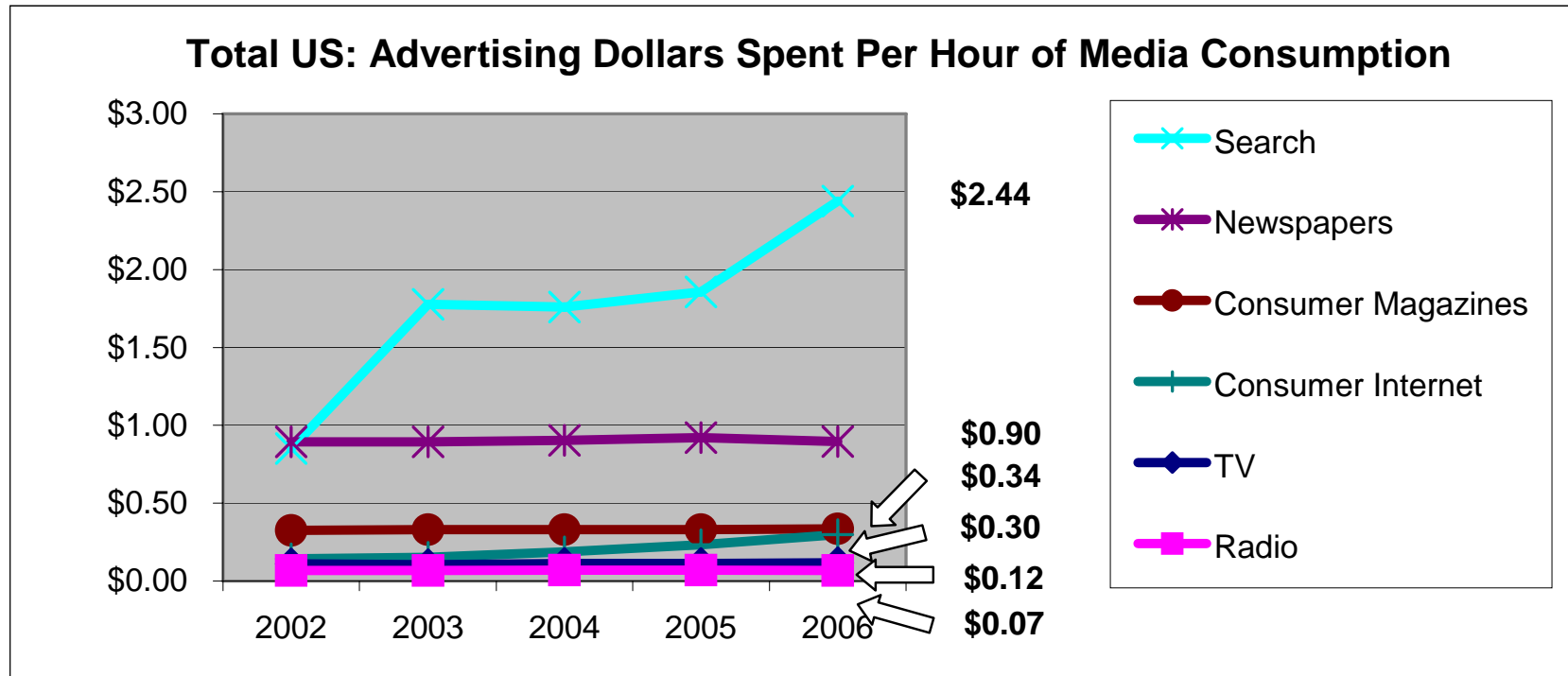
Emerging Media's Advantage for Smaller Advertisers

- Mid-sized businesses = >\$33 billion advertising market
 - Limited out-of-pocket budgets
 - Products are – by definition – narrow-reaching
 - Sweet-spot = data-intensive and sophisticated mid-sized companies



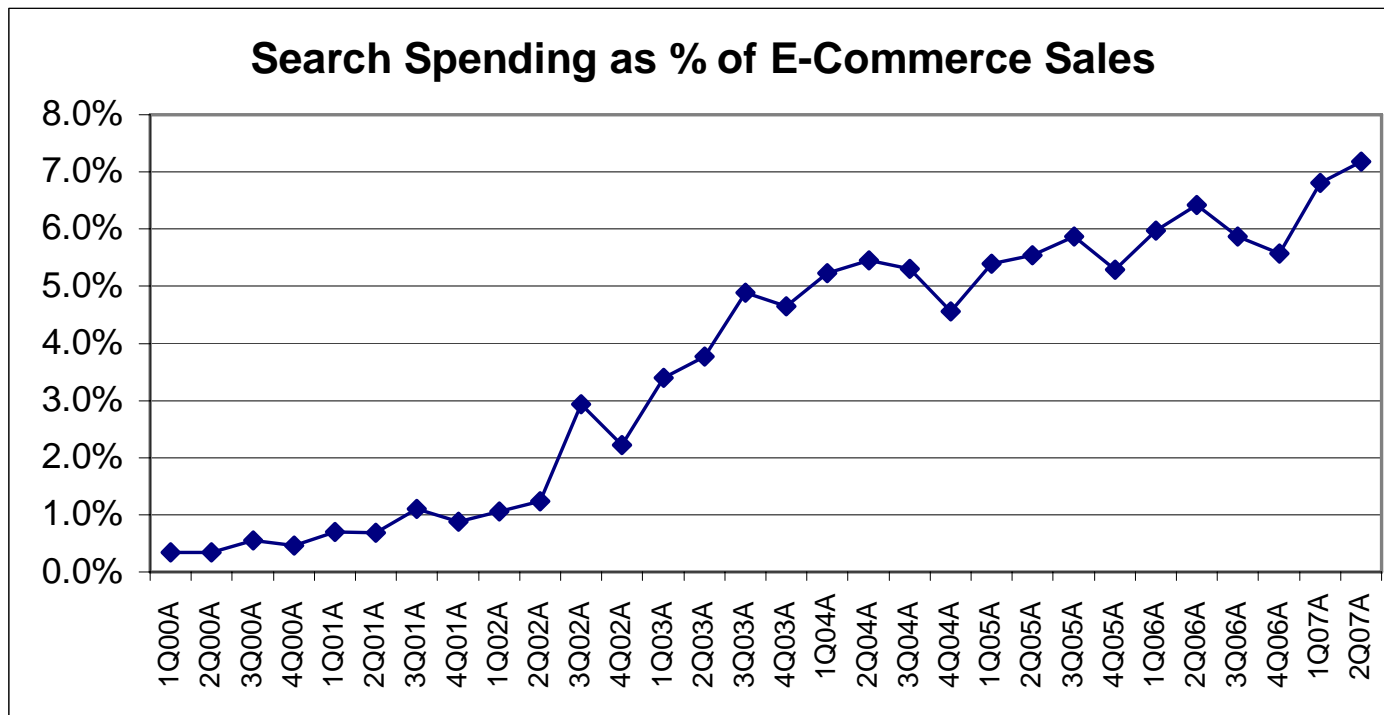
Emerging Media's Advantage for Smaller Advertisers

- Search spending reflects effectiveness for SMEs...
 - Search has exploited **new market** (smaller advertisers!)
 - Marketing/media/brand often the same function as sales
 - Few mass marketers spend much on search today



Emerging Media's Advantage for Smaller Advertisers

- ...And represents large share of e-commerce sales
 - Search will be driven partially by e-commerce growth
 - Impact of search and branding? Mobile search?



Emerging Media's Advantage for Smaller Advertisers

- **Sub-scale media: effective for sub-scale advertisers**
 - Emerging media requires ad hoc processes and workflows
 - Most or all processes in smaller advertisers are ad hoc!
- **Advertisers' org design impacts marketing emphasis**
 - Silos aren't necessarily bad – nor are existing structures
 - Where to realize economies of scale?

AdvertisingAge

Trade Marketing Finally Gets Some Respect (Well, at P&G)

Brand Managers, Not Sales Force, to Now Oversee Retail Strategy

By [Jack Neff](#)

Published: June 18, 2007

BATAVIA (AdAge.com) -- Talk about the moment of truth: Procter & Gamble Co. is preparing to give some \$2 billion in retail-marketing funds a seat at the same table as advertising.

COMPANION STORY
[Who Wins?](#)

The company is partially consolidating its marketing groups to put retail-marketing strategy under the same marketing directors who oversee brand teams instead of under the group that manages the sales force. Once the new system is introduced, general managers or marketing directors who find a brand responds better to trade marketing than consumer marketing will be able to shift more funds in-store. This should make for a more genuinely discipline-agnostic P&G.

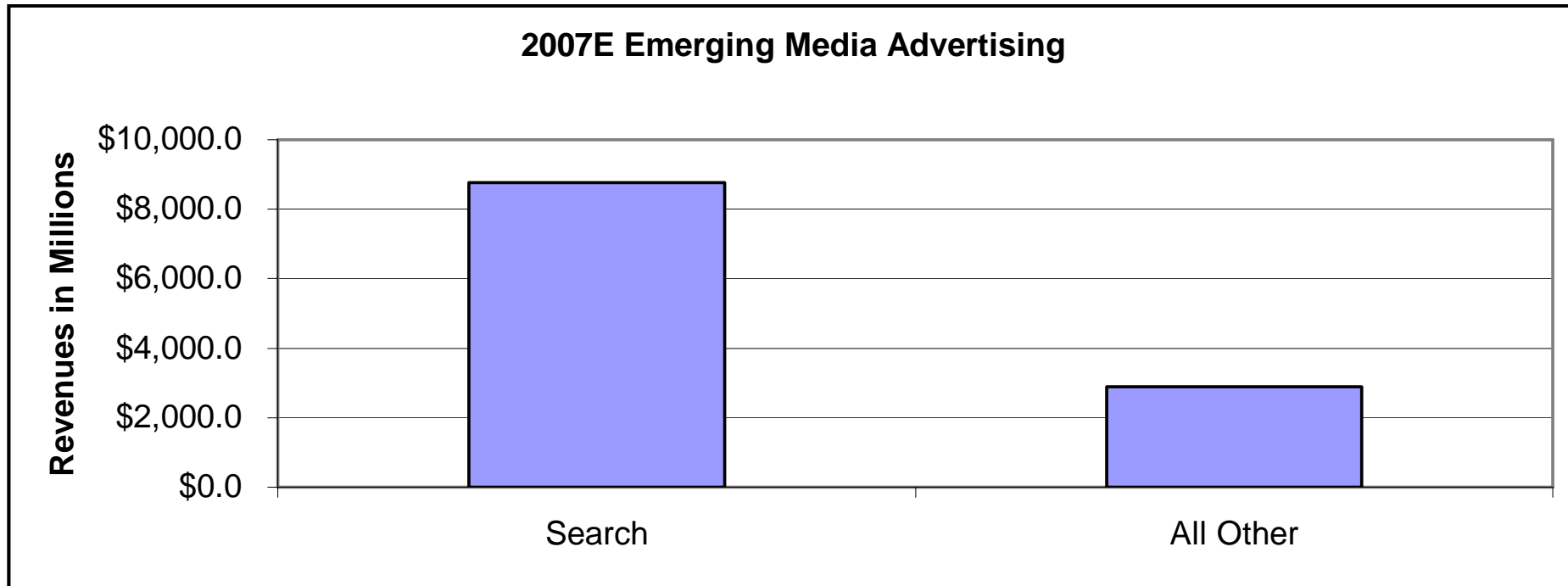
P&G

“The company is (putting) retail marketing strategy under the same marketing directors who oversee brand teams



Emerging Media Advertising: Sources of Revenue

- Beyond search, emerging media = small business in aggregate today



Advertising as a Key Media Company Driver

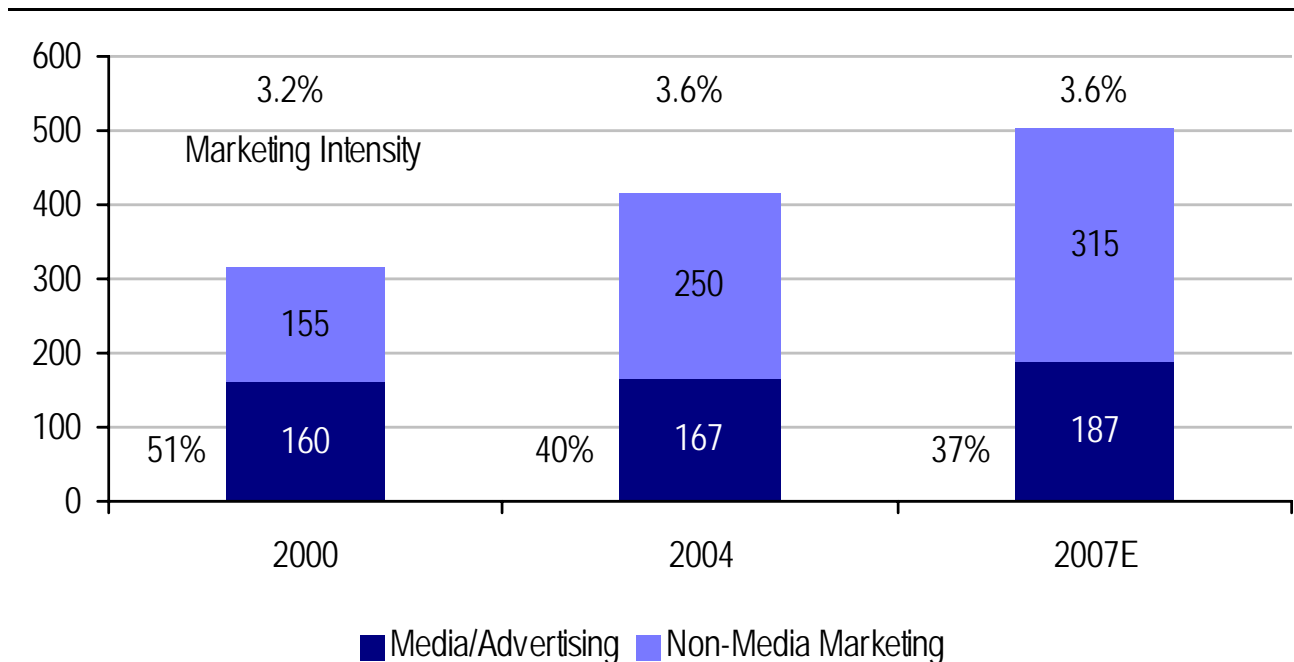
- **Focus on three advertising-related themes:**
 - The growing role of non-media marketing
 - Increasing divergence between advanced and emerging markets
 - Shifting sensitivity to advertising



Advertising as a Key Media Company Driver

- 1) It is clear that non-advertising marketing spending is now growing materially faster than advertising expenditures globally and that the trend is here to stay

Chart: Estimates of US Overall Marketing Spending (2000-2007E, \$billion)

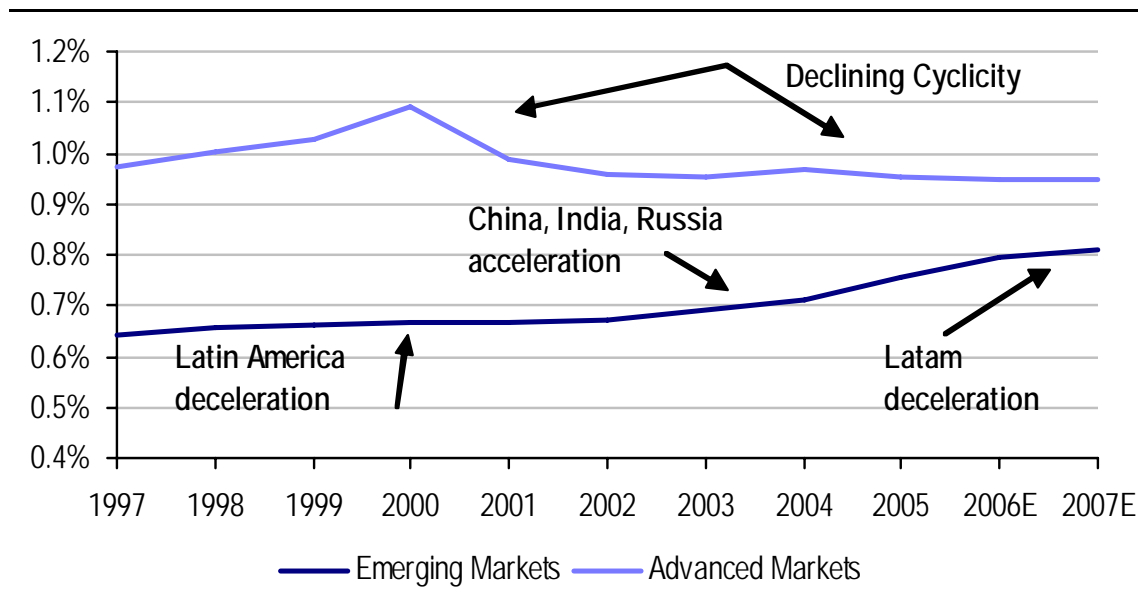


Source: UBS, MET, and company reports

Advertising as a Key Media Company Driver

- 2) Emerging markets and the Internet are driving global advertising, representing 70% of all 2008E incremental growth
 - We believe growth in traditional media (print, television, radio) would likely migrate to emerging markets

Chart: Global Measured Media (broadcasting, print, outdoor) Advertising Intensity (as % of GDP)



Source: UBS estimates

Advertising as a Key Media Company Driver

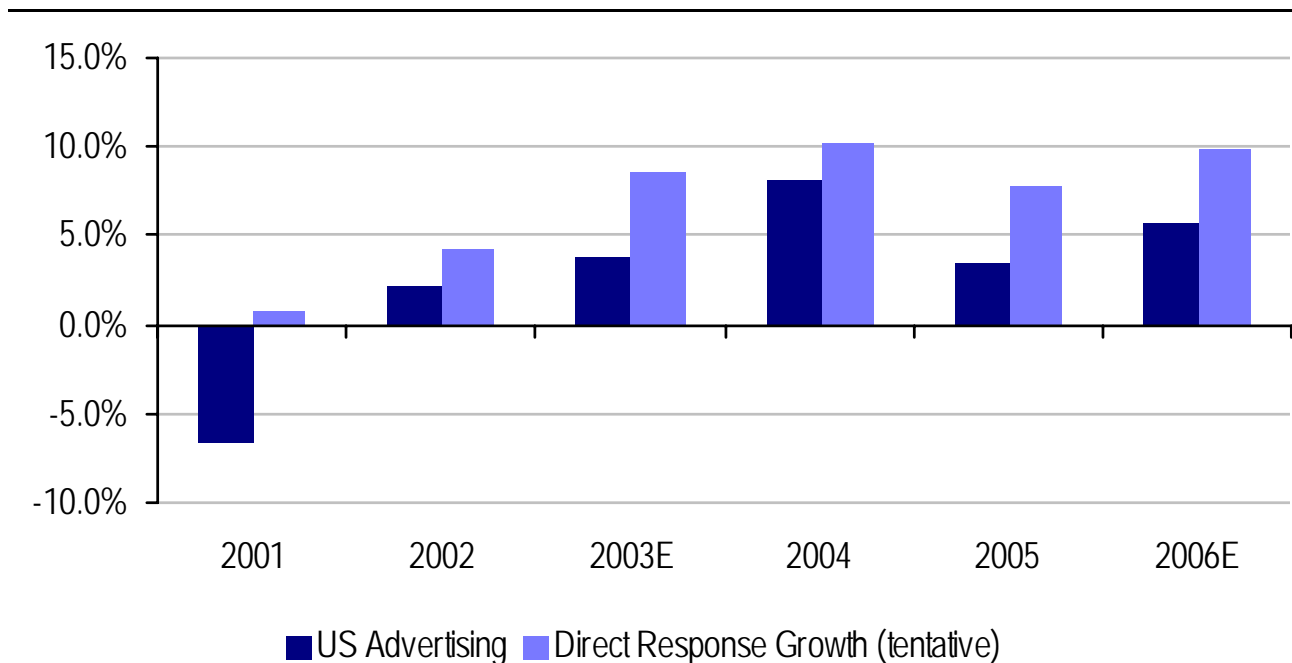
- **3) New methods needed**
 - Bottom-up aggregation does not work
 - A model using overall marketing is better



Non-Media Marketing is Taking Share

- Using proprietary data, UBS was able to demonstrate that non-media marketing is diverting resources from measured adspend (including branded-ad Internet) at a growing pace, hurting companies depending on fundamental advertising.

Chart: Assessing Direct Response vs. Overall Advertising Market Growth in US



Other Risks for Advertising

- **The increasing supply of advertising ad impressions (or eyeball interaction) should further fragment the market**
 - For instance, LCD-based targeted ad systems in supermarkets should increase the allocation for co-op spending (boosting promotion budgets, now more likely to be integrated with the overall advertising and marketing allocation)
 - Wireless, interactive gaming, digital outdoor and indoor or digital radio would drive fragmentation
 - We have already experienced mild pricing compression in the online video-ad market as new entrants are launched
- **Targeted and accountability-based media should allow premium pricing for ad suppliers but could also lead to a de-rating of non-targeted advertising value in many industries**
 - This is a risk we expect in the mid-term because budgets may not be able to match some of the online CPM/CPA growth



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