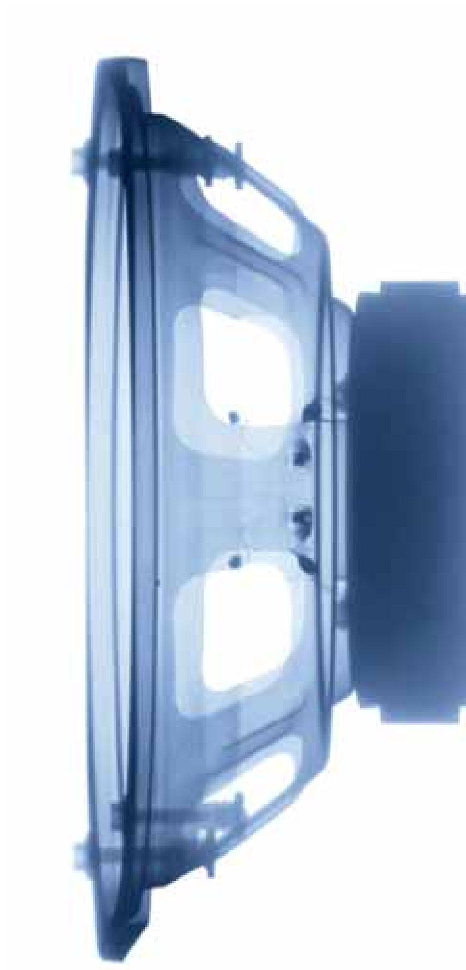
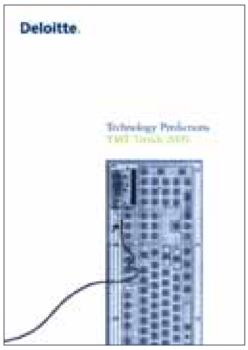
Media Predictions
TMT Trends 2009





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About TMT
The Deloitte Touche Tohmatsu (DTT) Global Technology, Media & Telecommunications (TMT) Industry Group consists of the TMT practices organized in the various member firms of DTT. It includes more than 6,000 member firm partners, directors and senior managers supported by thousands of other professionals dedicated to helping their clients evaluate complex issues, develop fresh approaches to problems and implement practical solutions. There are dedicated TMT member firm practices in nearly 45 countries and centers of excellence in the Americas, EMEA and Asia Pacific. DTT's member firms serve nearly 90 percent of the TMT companies in the Fortune Global 500. Clients of Deloitte member firms' TMT practices include some of the world's top software companies, computer manufacturers, wireless operators, satellite broadcasters, advertising agencies and semiconductor foundries – as well as leaders in publishing, telecommunications and peripheral equipment manufacturing.

About the research
The 2009 series of predictions has drawn on internal and external inputs from conversations with member firm clients, contributions from DTT member firms' 6,000 partners and practitioners specializing in TMT, discussions with financial and industry analysts, and conversations with trade bodies.

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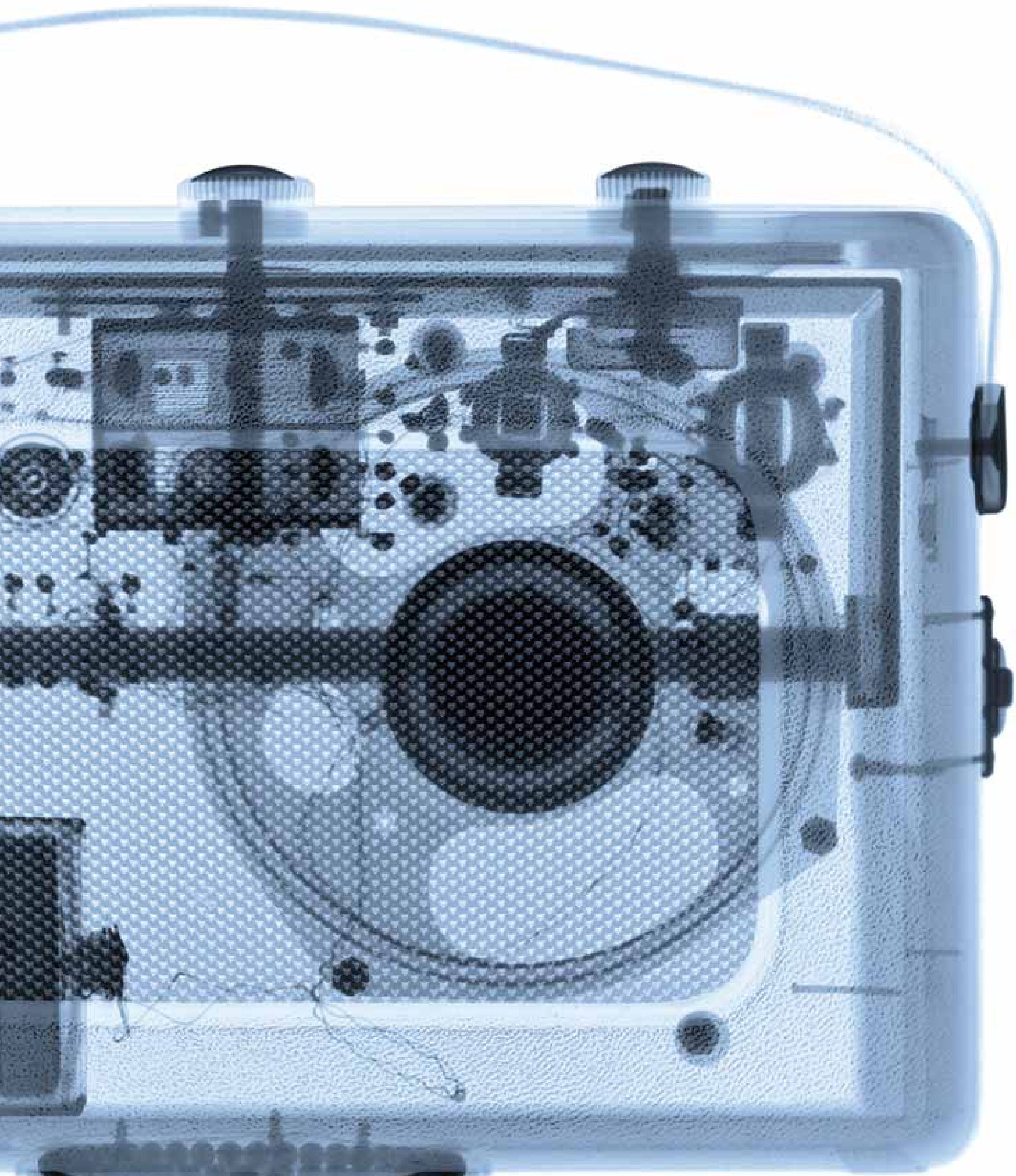


Foreword

Welcome to the 2009 edition of Predictions for the media sector.

This is the eighth year in which the Deloitte Touche Tohmatsu Global TMT Industry Group has published its predictions for the year ahead. The volatility of the global economy in 2008 and the anticipated challenges ahead in 2009 have made this set of predictions particularly challenging, but also particularly important, to compose.

Some have questioned whether predictions are feasible amid such turbulence. Colleagues have asked how accurate they can be, given the uncertain outlook and many of the unprecedented conditions being experienced today.

Anticipating the course of the next 12 months is likely to be hard. But, in my view, that makes having a considered perspective more crucial than ever.

Predictions, by their nature, are not facts. But properly developed predictions should encompass a diverse array of views and inputs, which can kindle debate, inform possible directions and even identify necessary actions.

Every year, the methodology for Predictions is revisited, to assess how the approach could be made more robust. This year, our standard methodology has been bolstered through a program of in-depth interviews with 50 CXOs at some of the world's largest TMT companies. I am most grateful to all the respondents who offered up their insights and experience, at a time when their attention was particularly in demand.

2009 is likely to challenge all of us. But while the media sector is expected to be buffeted by grueling macroeconomic conditions in the year to come, we should not forget that the need for the media sector to inform and entertain us remains fundamental.

In short, while global growth may be cyclical, the need for media is and will remain constant.

I wish you all the best for 2009.

Igal Brightman.

Igal Brightman
Global Managing Partner
Technology, Media & Telecommunications
Industry Group

Putting print out of peril may require stopping the presses

The newspaper and consumer magazine industry is set for continued challenges in 2009, with developed country markets likely to be most affected.

The developing world market should grow along with increasing literacy, improving distribution infrastructure and rising incomes, but the spread of the economic downturn into developing economies in 2009 could slow or reverse print's growth even in these markets.

The challenged state of the print industry in developed world markets does not signal the demise of the sector. Rather, 2009 is likely to mark the emergence of a range of new business models, including shared backroom infrastructure and online-only delivery.

The need for new business approaches has become increasingly apparent. While publishers have reacted, this has not always been at a sufficient pace. Given this context, up to one out of every ten print publications could be obliged either to reduce print frequency, cease physical printing or, in some cases, shut down entirely in 2009[1].

The impetus for a change to the underlying business model for publishing has been gathering pace for some time. The rise of online advertising and falling readership across most demographic groups had already weakened the newspaper and magazine industries in North America and Europe prior to the financial crises of 2008[2].

The economic downturn of 2008 precipitated falls in advertising rates and volumes, as well a further decline in circulation, particularly among weaker titles and the local press. This exacerbated an already difficult industry outlook in developed countries[3].

The outlook in 2009 for some print titles in developed markets is likely to be uncomfortable. Some analysts have forecast an advertising decline as steep as 20 percent[4]. Classified advertising, historically one of the most lucrative elements of a newspaper, could be particularly badly hit, with a 30 percent fall in revenue possible. Circulation could decline a further 10 percent[5]. And costs, including newsprint, may rise too, albeit temporarily[6].

The publishing industry has been building an online presence to balance falling print revenues. But only a few online newspaper and magazine sites have managed to generate sufficient profit to offset declining margins from print versions.

Even in late 2008 the online contribution was at most a few percent of a title's revenues and most of these were tied to the print version in various ways.[7]

The drop in revenues and earnings could accelerate further in early 2009 if consumers retrench. Mid-market and free newspapers are all vulnerable, and entirely advertising-funded newspapers may be most exposed[8]. Even a few industry titans might have to take radical steps[9], such as undertaking asset sales in order to meet debt payments[10].

The global publishing sector is likely to have a painful 2009. But newspapers and magazines will retain their unique role in informing, entertaining and commemorating[11].

Bottom line

Print media companies need to accelerate steps to re-establish profitable business models again in 2009. The potentially parlous state of the global economy is likely to make change especially pressing.

While restructuring their business models, publishers should always remember that the public has a fundamental need for quality editorial, particularly during turbulent times[12]. While *paper* may be getting tattered, the desire for *news* remains as strong as ever.

Publishers should be aware that single measures, such as staff cuts, may not alone deliver salvation. Titles that have already shed more than half their employees may still struggle[13].

The array of money-saving approaches that publishing companies could consider ranges from reducing print frequency, to asking suppliers to reduce their costs. News titles could print half as often, only at weekends or even go online only[14].

The many titles that have gone online, but whose Internet revenues are not balancing falls from print, should evaluate why this is the case[15]. Publishers should understand how print and online customers vary. In many cases the readership for each version will differ. The variety in online readership is also typically far greater than for print, ranging from casual readers, directed to a site via a search engine, to in-depth readers, absorbing the day's news and scouring the archives. Different monetization approaches may be required for each segment: publishers should be ready to be as bold at raising prices, as in cutting them.

The sales force's incentive structure is also worthy of review: does it actively encourage all salespeople to promote online, in conjunction with print? While the most recent tendency for publishers has been to favor advertising, not subscription, for online content, they may need to reconsider. The advertising supported model, in its current form, does not appear to be working.

If 'online only' cannot be made to work from a financial perspective, a paper's online presence may need to be reduced significantly to encourage people back to the physical product. Japan's newspapers have always restricted their online presence, and its titles have suffered a lower decline in readership and advertising than its North American and European peers[16,17]. It could be several years, however, before readers are prepared to pay for content that was previously free – putting the genie back in the bottle could be a challenge.

Industry consolidation should be considered a possible solution but only a partial one. It is unlikely to restore historical levels of profitability. Shareholders and lenders will need to be educated about more reasonable return expectations. Publishers should not expect mergers and acquisitions (M&A) to be a major source of capital or liquidity in 2009, as credit is likely to remain constrained.

If local markets cannot be grown, diversification overseas could be a solution. Newspaper titles were still growing in number in mid 2008[18].

Finally governments could be asked for support, for example in the form of more favorable regulatory regimes[19]. Unions may also offer greater flexibility and wage concessions to keep a title running.

Television rediscovers its self-belief

Recessions are rarely kind to advertising[20]. A major part of television's revenues is from commercials. Although the prospects for television in 2009 do not look great, the year ahead could prove to be a year of renaissance for the small screen.

One of the boosts that television is likely to receive is in viewing hours, which tend to be counter-cyclical. Indeed, in the latter half of 2008, average viewing hours were already rising in some major markets as consumers increasingly entertained themselves at home[21]. Viewing hours may be boosted by digital switchover, one impact of which is to increase the number of channels available to consumers. Overall, in 2009, viewing is likely to rise by 30 minutes per week per viewer.

The status of television in 2009 may also be boosted by its pre-eminent role in two of the major global events of 2008: the Olympic Games and the US Presidential Election. Both events also saw heightened use of a range of other media, from online video to mobile Internet, to distribute news. But television appeared to take the dominant role, from the perspective of viewing figures and revenues[22].

Both events demonstrated the unique attributes of television: its ability to inform and influence mass markets of viewers in ways no other medium can yet compete with.

While households in countries affected by recession are expected to pare down spending, premium television may prove resilient, and even enjoy growth[23]. While a subscription of $60 per month may appear to be a major outlay, it could still be rationalized as good value when compared to the cost of taking a family out to dinner at a mediocre restaurant. Television may offer a refuge from everyday challenges, in a similar way that the movies offered a temporary sanctuary from the Great Depression[24].

Counter to some recent forecasts, professionally produced content is reasserting its pre-eminence over user-generated content (UGC), both online as well as broadcast. This should provide a fillip to the television production sector, whose raison d'etre had come under challenge from amateur film makers.

Indeed, it is UGC that may become fundamentally challenged in 2009, as a growing number of sites restrict or decline to host it, given the difficulty in selling advertising adjacent to amateur clips[25]. For some online UGC, there was also the issue of viewing figures: some content, such as live streaming, is attracting only dozens of viewers – or scores on particularly good days[26].

Online sites that had specialized in hosting UGC may increasingly offer viewers regular television programming, as this seems to be more likely to attract advertising[27 28].

Bottom line
While advertising is likely to be tough in all countries affected by the downturn in 2009, the television industry should view its situation in context and consider how other media are doing. It may well find that its performance is relatively good. It may be a good time to take advantage of that and the concomitant stronger cash flows to put some distance between itself and other media. Now could be a good time for the strongest players to invest in content, contracts and an updated infrastructure. The current deployment of HDTV by local broadcasters should be slowed as little as possible, as HD further enhances and differentiates the television experience for consumers.

The television sector may also want to push for more freedom on its methods for raising revenues. For example in some markets, product placement is banned, but only selectively. Films with product placement may have been allowed for years, but locally produced programs may not yet be able to use this approach. The underlying economics may provide the opportunity to make a compelling case for the relaxation of such rules in 2009.

The television sector should ensure that its advertising impact is always given credit. The industry should, for example, provide a means to track instances where a consumer has seen a television commercial, then gone to a website to make a purchase. At present, most measurement systems would give all credit for the sale to the website, and television's vital contribution could get overlooked. One simple, but not failsafe approach, could be for the television commercial to cite a unique URL for those guided to the website via the advertising spot.

Television, like all other media, has ceded revenues to online advertising. It may not have been as affected as other media, such as local newspapers, but it still appears to have lost revenues. Online has claimed it is more accountable than other media. But television should counter this claim, where possible. For example it is unusual for advertisements from another country to be broadcast to a television viewer, yet the Internet Protocol address for a PC may be for a different country to that of its user, making some of the statistics on advertisements served irrelevant.

3D becomes an obligation, not an option, at the movies

The moving image has historically performed well in downturns. In the United States, in the Great Depression, individuals scraped together their meager earnings for the chance to spend some time at the movies[29].

But as the world's economic outlook pales, the prospects for the film industry are not necessarily bright. While the cinema did do well in the 1930s downturn, its appeal was driven by two factors. First, sound had been a recent innovation that added allure to the movies. Second, televisions, let alone home theater systems boasting screens of ostentatious dimension, were few and far between[30].

In 2009, the cinema is likely to need a 'must-have' factor that convinces audiences to continue to visit. The answer to that need might well be 3D, a technology that pre-dates the Great Depression, with the first 3D movie premiered in the early twenties[31].

In 2009, the 3D movie may have its first billion dollar year at the box office. A growing number of movie studios, in addition to Dreamworks, are likely to create all future outputs in 3D[32]. Some of the world's leading producers and directors, including James Cameron, Jeffrey Katzenberg and George Lucas are planning to premiere their first 3D movies[33]. 3D technology is expected to be used in a growing range of genres: it will no longer focus on horror and space travel. The number of post-production facilities that are 3D-ready is likely to increase. A new industry dedicated to the creation of durable 3D-glasses might even emerge.

While the supply of 3D content should grow strongly in 2009, the number of venues at which 3D movies can be seen is still likely to be limited[34].

Obtaining funds to convert analog venues to 3D digital ($70,000) or digital venues to 3D ($30,000), may be challenging, given the state of the economy[35]. But the better 3D movies perform at cinemas that have been converted, the better the prospects for investment[36].

In 2008, some 3D movies earned more than conventional competitors on their opening weekends[37], despite being available in far fewer locations[38]. In 2009, the industry's hope is that this feat gets repeated.

As 3D grows in popularity at the movies, interest in the technology from the television sector will grow[39]. In 2009, a growing number of 3D television sets are likely to become available, adding to a small but growing installed base[40]. An increasing number of DVDs offering 3D content may also become available, although domestic television sets capable of displaying these are likely to be few and far between.

Bottom line

The movie theater is likely to face some of the toughest trading conditions in years during 2009[41]. To keep the box office busy, theater owners may need a new reason to convince consumers to spend their hard-earned income with them[42]. 3D may well be that difference.

The momentum behind 3D may force the industry to decide whether to continue backing development of super high definition. Lack of liquidity, combined with a general air of risk aversion, may make it far harder to back both development paths, at least in the short term.

Super high definition offers a greater degree of reality, with resolution of up to 8,000 lines, that is, 64 times the detail of the current best quality of televisions and 16 times the detail of the best cinema screens[43]. Prototypes of televisions and broadcast systems providing 8,000 line resolution and 22 channel sound were already being demonstrated in 2008[44].

The industry may have to decide if 3D or higher resolution is likely to have the bigger impact on the consumer.

The manufacturers developing 3D technology should also look at other applications, aside from entertainment, that could benefit from an added dimension. Medicine, teaching and peer-to-peer communications are all possible candidates.

The growing cost of free online content

The notion of free content has been central to the media sector for decades. Consumers have been willing to receive free content, via commercial radio and television broadcasts, in exchange for advertising.

The rise of the Internet in the 1990s was accompanied by a new debate on free content that was played out through experimentation with all forms of content, including business material that had previously been charged at thousands of dollars per document.

The continued, more vertiginous rise of the Internet this decade has also seen experimentation with free content models, but with one major change. As well as professionally produced material being offered free, the public has also been allowed, indeed encouraged, to make its content available to everyone.

Typically, amateurs who submitted their content have received little or no compensation. One online newspaper, *ohmynews*, which is based wholly on donated articles from the public, offers compensation in the form of tips donated by readers. A few tips have been significant, but the vast majority have been tiny[45].

While compensation has been meager, there has also been little or no charge for uploading content. As a result the world's data centers are now replete with exabytes of UGC that, in 2009, may become regarded a liability, rather than an asset[46].

The cost of storing an individual's video may be trivial. But the cost of storing millions of videos or billions of photographs is significant, as is the cost of their distribution. For the largest sites hosting UGC, the cost could be over $100 million per year[47].

Prior to 2009, the volume of participation in sites hosting UGC appeared to matter most[48]. A site with tens of millions of members, all submitting content, and viewing each others' digital offerings, was regarded as a good thing. During the coming year, that may well change, for the simple reason that while the absolute cost of creating the content may be tiny, the ability to realize any revenue from the content may be smaller still[49]. The major challenge – probably the fundamental one in 2009 – is likely to be how to generate advertising from UGC[50].

Advertisers are generally reluctant to place their clients' brands next to any material that may damage their clients' reputations[51]. But classification of content to the degree required for advertisers may be impossible to realize. The sites hosting UGC are unlikely to be able to sift manually through each picture, video or status update submitted, due to the volume of work this would involve. It may be too difficult to trust users enough to classify their content or current activity to the extent that advertisers would feel comfortable advertising next to them. And technology that can automatically classify content, and also vet it for general suitability, does not appear to have been invented yet.

Thus in 2009, sites that had focused exclusively on UGC may well have to scale back some of their offerings, and offer content that is more professionally produced, which can generate some revenue. Revenues will have to rise, costs will have to fall[52].

The rising cost of online content may mean that the public's opportunity for 15 minutes of online fame may be receding fast.

Bottom line

The approach to free content online is likely to have to change. Companies hosting UGC, particularly large format content such as video and high resolution photos, should evaluate how best to increase monetization of their offering.

One change would be simply to start charging consumers for the privilege of making their content available online. In recent years charging for video submissions has been abandoned in the pursuit of users. In 2009 users that refuse to pay may be dropped in the search for revenues. Individuals wanting to relay their status to their friends may have to start paying for this service, with fees possibly based on the number of friends each individual has.

Online content companies should be realistic about charging: customers are generally aware that free lunches cannot be sustained, and in most other markets, from energy to food, accept that quantity and quality are directly correlated to price. Those that really want to put their content online are likely to pay, and pay more for premium services[53].

Companies that invite readers' comments online should also weigh up the benefits and drawbacks in doing so. It does increase interaction and the additional storage requirement is relatively small. But the risk of the occasional unacceptable comment posted within an unmoderated forum may not justify the increased advertising or subscription revenue that this form of user participation delivers[54].

Rising stars take on the megastars

Live entertainment has enjoyed many years of sustained revenue growth. But it has been the major acts, the biggest teams, and the blockbuster shows that appear to have enjoyed the bulk of the growth.

The public has lavished its attention and its spending on the biggest brands in live entertainment[55]. In the United States, the top 1 percent of artists' share of live revenues rose from 26 percent to 56 percent between 1982 and 2003[56].

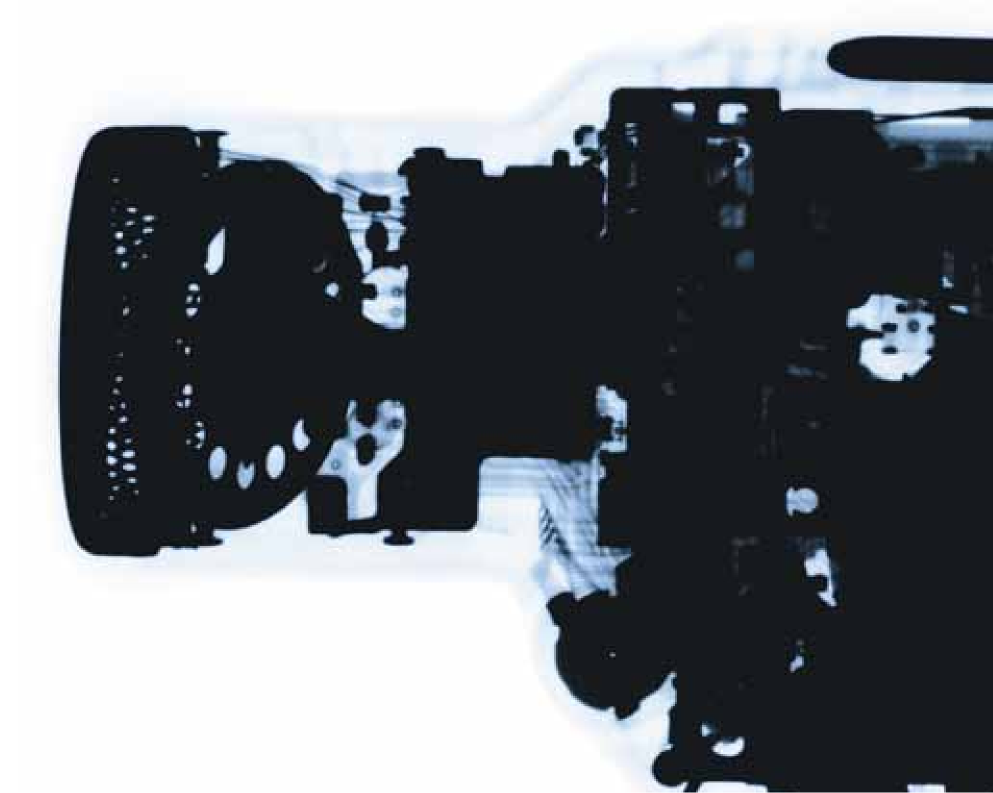
Match day revenues for the English Premier League football clubs rose to £41 per attendee in 2006/2007, more than double the levels of a decade before and the average crowd for a home league match at Manchester United was 75,826, making it the best attended club in that season[57]. Overall revenues for the top 20 European soccer teams rose threefold between the 1996/1997 and 2006/2007 seasons[58].

But the combination of falling real income, inflation, rising unemployment and falling consumer confidence may change this dynamic. The public is still likely to want live entertainment, but in many developed countries, may not be able to afford the prices paid in recent years[59]. As consumers focus on value, the 'premium' paid for the biggest stars, seen in the best locations, may well erode[60].

Sponsorship revenues may also dip, with a resultant impact on live entertainment[61]. In sports, lower revenues for everything from naming rights at stadiums to logos on shirts, may slow the building of new, large venues, and the growth in match-day and commercial revenues.

Lower sponsorship revenue could also affect concerts. With less sponsorship around to bankroll major concert tours, there may be less appetite for larger, riskier, more extravagantly staged tours[62].

Falling merchandising revenue may affect the ability of smaller venues to host major acts in 2009. Smaller arenas normally provide a large share of the box office to major artists and aim to make profit from merchandising sales. But if consumers become reluctant to purchase souvenirs as well as tickets, megastars may become less attractive to small venues[63].



The best brands in the business may prefer to reduce capacity rather than cut prices[64]. Multiple dates at a stadium may be reduced to a single night, or else an arena might replace a stadium.

Those not able or willing to pay premium prices may divert their interest in lesser known talent, from theater currently on the fringes, to upcoming bands.

Bottom line
Managers of live stars should be ready to vary their offerings to meet changing demand. Megastars may have to play arenas, not stadiums, to retain their reputations as premium products. The highest paid stars may have to be part of a longer bill, playing longer sets, or offering additional acts, to provide better value for money.

Managers of the best talent should also be willing to try and defy expectations: good product, allied to strong marketing, could convince some consumers to drop everything else but premier live entertainment[65].

Record companies should use this opportunity to familiarize audiences with scores of new acts. Labels have tended to focus on big stars in recent years, but in a downturn, creating a deep pool of indie bands may be the new road to riches. However, this strategy may require a different artists and repertoire (A&R) set of skills.

Consumers may now be more willing to attend relayed versions of concerts, transmitted to smaller, cheaper, local venues. The trend towards greater emphasis on 'armchair' sports fans may also continue. And they may also seek out other less expensive live entertainment experiences that provide the same 'bang for the buck'. Live theater, emerging bands and folk music festivals may all benefit.

"Good morning, good afternoon and good evening listeners": the dawn of WiFi radio

Analog radio makes a tough competitor. Most media is steadily going digital. But radio has remained resolutely analog.

There are 2.5 billion analog radio sets in circulation worldwide[66]. The majority of radios produced are still analog. The majority of the world's 44,000 radio stations broadcast predominantly in analog[67]. Most new cars built in 2009 are likely to incorporate analog radios.

Radio has tried going digital. Digital terrestrial and satellite radio services exist in various countries around the world, although they remain the poor relation to analog in terms of listeners[68].

Radio has also gone digital online. Indeed, radio broadcasts have been available online since the early days of the Internet. Audio and the Web are a good fit, as audio requires little bandwidth. However, while there are more than 10,000 online radio stations[69], demand is niche compared to traditional radio.

But in 2009, Internet radio, particularly in the form of WiFi-based, portable sets, could take off, in terms of audience and revenues.

Internet radio's addressable market could increase 20 percent in 2009, drawing from a base of almost 1.5 billion Internet users worldwide, of which two-thirds have broadband access[70 71]. Furthermore, people listening at work represent a growing audience for Internet radio[72].

The dedicated Internet radio set should also fall further in price, with portable WiFi radios already available for under $100 at year-end 2008[73]. More significant could be the growing installed base of smart phones, equipped with WiFi, that are able to act as radio Internet radio sets[74].

Retailers may push WiFi radios in 2009 as service is mostly subscription free, making it easier to sell than a device requiring a subscription[75].

But the largest factor driving the adoption of Internet radio may be the integration of the three axes of audio offered by the format. It spans geographies, through enabling access to stations around the world; it spans time, by providing access to archived audio around the world; it affords continuity, through allowing listeners to remain tuned into local radio stations.

The biggest impetus for Internet radio in 2009 may be the combination of all three dimensions in a portable, easy-to-use unit that resembles a typical household radio set, but which offers far more choice.

In 2009, Internet radio may not just reinvigorate the medium of radio. It may reinvent it.

Bottom line

Broadcasters should determine whether Internet radio is a strategic imperative for them and if so, which content, schedules and functionality can exploit its power. A station's online version should not be a carbon copy of the existing channel.

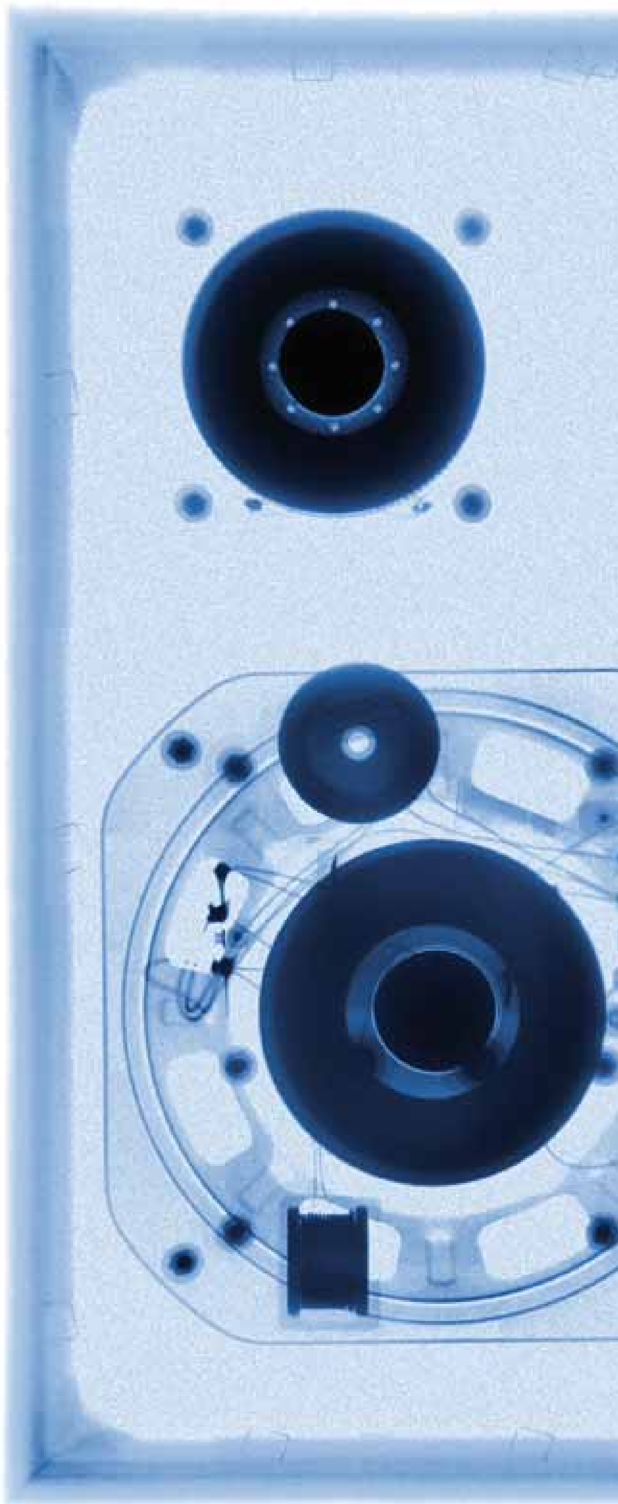
Broadcasters should ensure that channels are widely available via aggregators, and are appropriately formatted for the various devices that may relay content, for example PCs, standalone Internet radio sets or even smart phones.

They may also want to consider offering spoken word content via Internet radio. Talk shows are already a popular Internet radio format[76] and they do not expose broadcasters to possible variation in the royalty fee[77].

The industry needs to make the growing volume of stations easy to search and select. A combination of an electronic program guide and a recommendation engine could be required to make sense of the vast choice of stations.

Internet radio manufacturers could consider how user information, in aggregate or individually, could be useful for advertisers. Internet radios have the potential to allow accurate monitoring of what, when and how often consumers listen to different forms of content. The listener's location, suggested by the IP address, would be required to serve local advertising.

Advertisers may benefit from monitoring the growth of Internet radio closely. Radio's advertising spend has fallen in recent years, but online spending has risen. As radio becomes a more established medium online, it could become a powerful platform[78].



Mobile advertising finds its meaning

Mobile advertising has so far been a disappointment – to advertisers, advertising agencies, cellular carriers and especially industry pundits who have been touting it as 'the next big thing' for the last five years.

But in a global advertising environment characterized by double-digit decreases, mobile advertising may be one of the few growth areas in 2009. Its market share may more than double, albeit from a small base, and there are likely to be thousands of large advertising campaigns, costing over $2 billion[79].

Its lack of impact, compared with traditional and online advertising, has been deeply frustrating for the industry, and with reason. The mobile phone is one of the most ubiquitous devices in the world. Only radio and television could claim to have equivalent reach.

But unlike radio or television, mobile phones boast several key attributes. They are personal devices. They offer two-way communications. The mobile network typically knows where its subscribers are.

Yet, despite its initial promise, at the end of 2008, the potential of mobile advertising remained unfulfilled, with global spending at only $1 billion[80], or 0.4 percent of global advertising revenues[81].

Mobile advertising campaigns so far have fallen mostly within the experimentation category. And unproven and possibly unprofitable 'experiments' seem unlikely to attract significant investment in 2009, in an advertising industry that is expecting to be hard hit by the downturn.

But in 2009, the need and therefore the potential for mobile as an advertising medium is likely to be stronger than ever, and some of the most powerful advertising campaigns are likely to be via mobile media. There may be only a few, but in the long term, they could have significant impact.

Several developments enable mobile advertising. First, the technology is now more able than ever before to carry advertising. Second, mobile phones are ubiquitous. And third, and most important, the understanding of what mobile can and cannot do to deliver advertising will be at its most mature.

The essence of advertising is to get a message across. The message can be rich, as with film and television, and as online aspires to be. But a message does not necessarily have to be based on HD video to be effective. A few words may have the required impact.

In 2009 a growing number of campaigns will use the minimalism of mobile – compared with other media – to powerful effect. These initiatives will take direction from the use of the text message[82], mobile's simplest form of information, as a rudimentary but potentially highly effective tool in one of 2008's largest campaigns – the US Presidential Election[83].

Minimalism is likely to be a prerequisite in mobile advertisements. But the smart phone's growing market share, as well as the improving specification of standard phones, and the rising ability of mobile browsers should allow advertisers to run mobile campaigns that boast better graphics, use of presence information and, for the smartest of the smart phones, video.

Bottom line

The mobile phone, given its status as the most ubiquitous two-way personal communications device, has tremendous potential. But its real capability has been compromised by a tendency to try to jam 'round peg' PC online campaigns into 'square hole' mobile phone screens, processors, operating systems and lower connection speeds.

The potential of mobile as an advertising medium can only be realized once the industry becomes aware of its strengths and accepts its limitations. Mobile advertising cannot succeed, for example, if it requires users to download large video files that may cost a couple of dollars in data usage charges. Nor can it work if there is little to offer the consumer, such as money off vouchers that require users to know how to switch on Bluetooth functionality.

Advertisers should work harder to create campaigns that are targeted for mobile and work within its limitations, typically as part of an integrated campaign that also uses broadcast and online.

Carriers should help out – successful advertisement campaigns will drive traffic, enhance the mobile experience and potentially even allow carriers to participate in revenue sharing. Carriers should be also aware of the need for standardized platforms and operating system support – one of the current barriers to rich mobile campaigns is the need to customize the content for each carrier.

And if carriers may need to help more, handset manufacturers need to double their efforts. The current profusion of screen resolutions, CPUs, operating systems, and so on requires advertisers to spend more time translating for the cellular 'tower of Babel' than they do in producing the advertisement in the first place. Mobile advertising will really take off when advertisements can be published to the entire mobile community with a single click.

But campaigns based on mobile's lowest common denominator, text messaging, can be highly effective even now. Campaigns do not require an implicit marketing message: the provision of timely information can be as effective an advertisement for a company as a good experience with a call center, or a memorable meal at a restaurant.

The markets get anti-social with social networks

Social networks have for several years been the toast of new media. Their principal strength has been an ability to gather tens of millions of unique users[84]. Their main shortcoming, however, has been the inability of several social networks to monetize their volumes of signed-up users.

Average revenue per user for some of the largest new media sites is measured in just cents per month, not dollars[85]. This compares with a typical average revenue per user of tens of dollars for a cable subscriber, a regular newspaper reader or a movie-goer. Social networks may need more than 100 users to generate the equivalent revenue of every traditional media customer.

Social networks have so far been afforded the benefit of the doubt, with monetization being regarded as a long-term objective[86]. The focus has very much been on growing the subscriber base, which is where investors perceive the value to be[87].

This ethos has been accepted, even encouraged, through 2008. However, a fundamentally harsher financial outlook in 2009 and beyond, combined with an expected contraction in online advertising, is likely to make the managers of social networks and their investors pause for thought. The likely response is that social networks will focus more on monetizing their subscriber bases, than maximizing their size[88].

Social networks are therefore likely to be under increased financial scrutiny in 2009, particularly for sites offering video hosting and streaming, which may require significant operational expenditure[89].

Social networks whose future looks uncertain may suffer a debilitating outflow of senior management. The book value of some social networks may be written down. Some companies may fail altogether, if funding dries up.

The challenges of social networks may also be exacerbated by litigation. Owners of some of the content hosted by social networks may pursue payment for use of their material more rigorously as media creators look for additional sources of revenue[90].

Some attempts at differentiation, for example by formerly consumer-oriented social networks seeking business customers, may prove to be too little, too late[91].

Bottom line

Social networks need to consider how to transform themselves in 2009. They should articulate and deliver on a clear, credible route to revenues. Management at social networks must be able to demonstrate a desire and an ability to monetize subscribers. It should also effect a change of culture within the workforce so that it focuses on revenues, not just subscribers. Management should also be able to motivate staff in an environment in which workers are being laid off, perks cancelled, and where share options are heading underwater[92].

Social networks that are profitable should ensure that they differentiate themselves from their less well-placed equivalents. As with the dot com bust earlier this decade, investors may swing from exuberance to pessimism within a few quarters[93].

Investors should take a hard line, but be radical in their thinking on the monetization issue. Monetizing social interaction, particularly when it used to be free, is hard. But if members are hard to monetize, the focus may need to shift to generating revenues from the aggregated value of their actions and behavior[94].

Further, social networks should consider how elements of their technology could be applied in an enterprise context[95]. Social networks have developed information-sharing functionality across PC and mobile platforms that could be deployed to help teams within companies work together better, or encourage knowledge management. Social networks should hire individuals with strong experience of the business sector, who could identify which functionality would assist in each core business process.

Social networks should move carefully. Those currently reliant solely on advertising for funding may find that advertisers sharply reduce the amount they spend with them in 2009[96 97]. Some advertising may have been boosted by guaranteed deals and experimentation by advertisers[98]. Usage and users may also fall as the economic outlook encourages workers to reduce time spent – and often time tracked – on social network sites[99].

Social networks may need more than 100 users to generate the equivalent revenues of every traditional media customer.

Reinventing mobile television

Mobile television seems to have been perennially 'about to take off'. For several years, analysts and commentators have forecast huge imminent growth. So far, their projections have proved to be overly optimistic. Consumers have failed to tune in, but the medium has been given the benefit of the doubt.

However the economic outlook for 2009 may require media companies to take a firm decision on mobile television. Many mobile television initiatives may therefore be shelved.

Mobile television's momentum in 2009 is likely to be dragged down by disappointing performance in 2008. Major sporting events, which can be a catalyst for adoption of new media formats, largely failed to affect mobile television. While two-thirds of the world's population watched the Beijing Olympics on television[100], there was scant demand for the event via mobile television[101 102].

The creation of mobile-specific content also failed to make an impression, aside from a hit to the bottom line[103]. Customized content in some cases attracted audiences measured in their hundreds[104] in markets where conventional television attracts millions.

Even services in Asia Pacific, which are often cited as mobile television success stories, struggled. In Japan, a mobile television service provider closed down after attracting only 100,000 subscribers since its launch in 2004[105]; in neighboring South Korea mobile television services suffered mounting losses[106], and in Germany, a new mobile television broadcaster closed down before service was initiated[107].

During 2009, lower liquidity and a focus on cash generation may make investment in broadcast systems such as DVB-H, and even systems based on existing 3G intrastructure, less likely[108]. The desire – or in some cases need – of operators to lower handset subsidies may mean a slowdown in adoption of high-end phones capable of supporting mobile television[109]. Depressed consumer confidence is likely to make the public less likely to buy add-on services to their mobile subscriptions[110].

Media companies may want to focus on traditional platforms that offer known returns. Advertisers, who have tended to regard mobile largely as an experimental format, may also rein in advertising for non-core formats[111].

In 2009, it is five times more likely that mobile television services will be closed than launched[112]. Subscriber numbers may fail to reach even the bottom range of analysts' forecasts: mobile television's total global audience may fall short of 30 million[113].

Bottom line
Content companies should adopt a wider view of the mobile phone.

While television pictures may one day become ubiquitous on phones, it is unlikely to occur in 2009 or 2010.

In the nearer term however, there are many valuable roles that mobile devices and services could play in the wider television market. Mobile telephony can be used to help consumers control television, as well as enhancing their loyalty to and enjoyment of the medium.

The mobile phone could be used more extensively to enable consumers to program DVRs remotely[114]. Suggested programs could be sent in the form of messages to phones – and then a single click could be used to record the program.

The mobile phone could also be used as a back channel. It could be used to order and pay for on-demand programming. The phone could also be used to provide customer relationship management (CRM). Broadcasters and content providers could use basic text messaging – available to most people with a mobile phone – to distribute reminders and trailers for upcoming programs, or to alert customers to the imminent arrival of a new series of a favorite show. Mini-trailers could be sent to owners of smart phones.

Mobile could also enable a new approach to the measurement of television viewing. Integrating or adding mobile capability into set-top boxes and televisions would allow information on television viewing to be relayed automatically to measurement bureaus.

The mobile phone may yet still end up as the broadcasters' best friend.

The rise of malvertising and its threat to brands

Most Internet users now know better than to open emails from unknown senders or to download software from untrusted sites. Many count on software filters to catch the really harmful stuff, whether email or browser borne.

But a new breed of carrier for malicious software dubbed 'malvertising' is spreading. Malvertising uses online advertisements, typically placed in reputable online publications, to distribute malicious software. In 2008 one piece of malvertising reached 2 percent of all US Internet users[115].

During 2009, malvertising may infect hundreds of reputable sites and be seen by millions of users, many of whose computers are likely to end up infected. Users who have suffered damage from malicious advertisements may even sue the owners of websites where the malware appeared.

These false advertisements are typically placed on trusted, reputable, well-trafficked sites. When clicked on, they immediately take the user to a harmful site. In some cases, without any further action, users' data can be stolen from their clipboards or browsers[116].

Other examples falsely inform users that they have a malware infection to encourage them to install fraudulent software[117]. Others use flash software to infect the PC with spyware or viruses.

Malvertisements are likely to be found not just in the bad neighborhoods of the Internet, but also among prime Web real-estate. In 2008 some of the Web's most popular sites were inadvertently bearers of malvertising[118]. It has usually been discovered quickly and removed, but can be a significant risk to companies, whose brands may be compromised through unwittingly serving untrustworthy or dangerous advertisements.

Advertising is integral to the Internet. Automation helps keeps costs low. And advertising networks are a growing part of that system. For well-organized, well-funded criminals, this process has become an easy target.

By taking advantage of poor quality control mechanisms for some advertising networks and placing advertisements on trusted sites, the incidence of malvertising is likely to increase in 2009.

Bottom line

Anything that makes large numbers of Internet users decide that clicking on online advertisements could be a bad or dangerous thing threatens the current business model of almost every company that does business online.

Website publishers should ensure that all relevant employees are aware of the malvertising threat. Better detection and remedies are imperative. Otherwise publishers may not know about the malign nature of advertisements until the first complaints come in, by which time their reputations may already have been damaged.

Website administrators should have better control of their third-party suppliers – especially those who supply advertising inventory. They should have legal agreements with their advertising networks that cover and prohibit malvertising, and define appropriate coding practices and disclosure of destinations for click-through advertisements. It may even become necessary to have a full code review of all advertisements, especially as malvertising becomes more common and more dangerous.

Another possible solution may be to stop using some advertising networks entirely, as certain large websites have already done[119].

Software suppliers should develop tools to automate the process of screening third-party advertisements so that trusted sites do not need to do it manually[120]. Software that rapidly identifies malvertising when it does make it onto the Web should also be developed.

The Internet advertising community should work together and create a system or a standard that would prevent malvertising – it is in their interests to keep the current advertising-funded Internet model viable[121].

During 2009, malvertising may infect hundreds of reputable sites and be seen by millions of users, many of whose computers are likely to end up infected.

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While the global media sector is expected to be buffeted by grueling macroeconomic conditions in the year to come, we should not forget that the need for the media sector to inform and entertain us remains fundamental.

Glossary of technical terms

3D	Three dimensional
3G	Third generation mobile network
CPU	Central processing unit
DVB-H	Digital video broadcasting – handheld
DVR	Digital video recorder
EBITDA	Earnings before interest, taxes, depreciation and amortization
HD(TV)	High-definition (television)
UGC	User-generated content
URL	Uniform resource locator
WiFi	Wireless fidelity

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Previous years' predictions are available from www.deloitte.com/predictions

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