

Truths of the digital economy Trends marketers can harness

Digital Insight Report
January 2006

The world has changed radically, and we're still only part of the way on the journey to a society which is both digital and networked. Want to reap the spoils of the second digital decade? Look into the past to gain perspective on present trends driving the digital economy; the truths of how the networked markets behave quickly become clear. Understand them and accelerate your marketing and your firm.

The world has changed radically, and we're still only part of the way on the journey to a society which is both digital and networked. Want to reap the spoils of the second digital decade? Look into the past to gain perspective on present trends driving the digital economy; the truths of how the networked markets behave quickly become clear. Understand them and accelerate your marketing and your firm.

Speed read

- The new economic landscape has drawn digital communication technologies into its heart.
- Most firms have failed to respond adequately, indulging only in digital tokenism rather than placing these new truths at the core of their business.
- Trying to understand the maelstrom of markets in a time of such great change can be daunting, but beneath the noise there are many well established key trends that can give order to the chaos.
- Understanding these trends gives not only clarity to the present, it allows us to anticipate what will happen next.
- If you can anticipate effectively, then you can position your businesses to reap the rewards unfolding in the digital economy.
- You can also achieve a step-change in the effectiveness of marketing communications because they will be riding these trends rather than pushing against them.
- Most trends of the trends we've identified should be familiar. However we underestimate the scale of their impacts because in spite of the rapid adoption of the internet and other technologies, there is a time-lag until they fulfil their potential in people's lives. There is also a feedback cycle as the technical innovation becomes applied in ways not predicted by its architects; more feedback, more innovation, still more change.
- Truths of the digital economy include truths of technology, media, social behaviour, commerce and marketing.
- Rather than embracing digital and developing agile structures to move quickly through these new opportunities, most firms have displayed staggering lethargy in their response, or misread the trends and reacted poorly.
- Strategic marketers should be leading this process and for those who do, rich rewards await.

Understanding the digital trends

Devising great marketing campaigns in the new economy need not rely on guesswork. The truths of traditional marketing can be transferred comfortably into the new digital environment, allowing marketers to build on well-grounded principles.

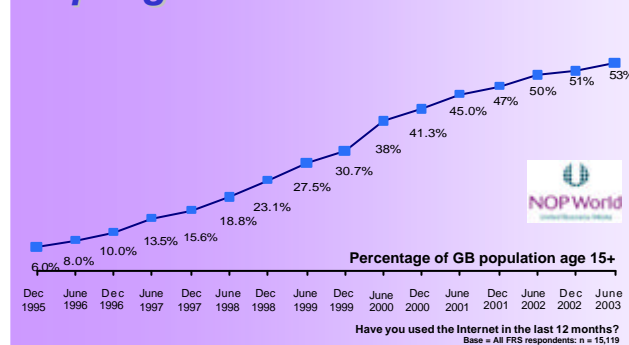
Unpack any successful case study or award-winning work and you'll find a series of common threads that run through them. Smart marketers are increasingly focused on trying to understand these common threads. A great creative idea will always be a great creative idea, but one that harnesses these themes will go further.

Ten years ago these themes were hard to spot, but throughout the first digital decade a vast range has emerged. Some are about how we use technology, consumer culture, the changes in the way firms use information, about supply chain structure, themes within marketing and some are the lessons we're drawing from the feedback cycles that develop as people respond to these innovations.

However none have fully played out. In terms of mass-market adoption of new consumer behaviour patterns, we are clearly just starting. Predictions are thus easier to make, because we can accurately anticipate an existing trend. The unknown factor is the speed of adoption. New digital channels have already established themselves as strong complements to the traditional media mix, but the real effects have are yet to be felt. Putting digital into the marketing mix is not about running banners or keywords not about being tactical; it's about business strategy and strategic marketing. It's about placing the trends in the digital decade at the heart of the company's thinking.

The trends themselves should feel familiar. By approaching the development of campaigns, harnessing these trends, the potential for marketing to ignite is unlocked. This paper collates

Rapid growth in access and use



Mass market medium

The main leap in online access in the UK took place between 1997 and 2002. Since then the key growth has been in the amount of time each person spends in the digital networked environment.

some of the trends we've been tracking throughout the first digital decade and can guide marketing strategy and campaign development.

Technology truths and trends

Things we knew would happen

Technology gets cheaper. The personal computer your family bought twenty years ago costs more today than a server now. Chips get more compact, devices get smaller, power gets more efficient, everything gets smarter. At the simplest level this means more devices able to do more things. Thus, many will become redundant: televisions play DVDs and CDs, mobile phones play mp3s.

The web would go mainstream

From 1991 the original web browsers appeared, and you can forgive any marketer for not having that on their radar. This was clunky technology in search of a home. It was on a network with only a few people connected and devoid of ordinary content. After 1993, simple-to-use consumer services launched in the US, and a year later in Europe. The rather conservative British Daily Telegraph newspaper was one of the first media groups to take these tentative steps: media was changing.

Access and bandwidth explode

The academic community's use of email and information-sharing was evidence that the tools and processes worked. Today access is everywhere for those who can afford it. But prices are plummeting and speeds are rising so the barriers to access are melting away. Bandwidth costs will continue falling and data storage costs seem to be halving every nine months. These trends have become solid rules underpinning this market. Implications? If bandwidth

costs are plummeting then your website will be able to use video and over time customers will expect this; if data storage costs are imploding then websites that feature data storage (Hotmail, Expedia, Napster) will maintain the ability to delight their customers.

Familiar devices gain new life

It was clear TV would go digital and interactive; and non-linear broadcasting would go mainstream. The market's decided to move on and over the next five years we'll see that box fused with the internet. Again, serious implications for the consumer marketer, but also a widely anticipated truth.

Convergence has led to the latest generation of mobile handsets like SPVs and Blackberries that are great for internet, diaries and word documents. The truly mobile internet has arrived. But that's just the start. The laws of IT are on the side of rapid progress. Applying Moore's law, we know that the cost of devices will plummet, their features will continue to grow, and from what we know of consumer behaviour, they'll stretch into untouched markets.

It's not about a few MSN banners, it's not about Google keywords, it's not about being tactical... it's about strategic marketing.

Wireless spaces

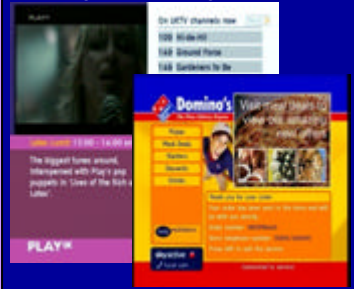
New places will become hotspots for internet access. Wireless access technology has been developing in the public domain since the mid nineties. Progress was slower than many predicted, but paradoxically the effects much greater – and the early effects are now being felt. Under the umbrella of wireless there are two separate strands of development: the freeing up of laptops and other devices to have network connectivity without cables, and the leap in functionality of mobile phone handsets as 'convergence' turns the phone into a web browser, email tool, music player and internet access point. Follow the logic of falling prices and the shape of the spread of adoption, and it's clear that the future of wireless PCs will be to free them from the office and enable them to roam on the high street and in the home. By the end of 2005 dozens of cities across Europe and North America were rolling out wireless access infrastructure, treating the internet as the new public utility.

The implications of wireless access for computers in the home and public spaces are profound, because it changes their potential role in people's lives.

Among many of the trends we've been tracking, these consistently emerge

- Consumers will have access more frequently
- Physical space will become more flexible

TV, longtime heading to interactive



Interactive television

The early models of interactive television were little more than simple online brochures; echoing the early commercial websites. Over time interactive television will deliver full internet access, including web, voice over IP and the media storage. Inside the home the television will be networked to laptops, radio players, and the range of smart devices that will become increasingly standard in households.

- The mindset of anchoring certain tasks to certain places will be challenged
- Service providers will have to cater to the different need-states of wireless customers

The Martini culture

“Anytime, anyplace, anywhere”, like the tagline from the Martini brand. The impact that convergence and wireless will have in the medium term is cultural, not technical. Faxes did little at first to change the way business communication worked, but as people and organisations became more comfortable with them, adopted and ‘owned’ them, their role changed.

It’s not about the technology; it’s about what we do with it. But the thing is we don’t know what we’re going to do with it until we’ve had it for a while. Did the marketers at Apple really foresee pod-casting? Did Microsoft even anticipate the potential of Hotmail? It’s the dialogue between people and technology that creates secondary innovation; social innovation.

And that’s what is about to happen with wireless.

Media truths and trends

The crisis in advertising effectiveness

It should be no surprise that television or newspaper advertising is less effective than it was ten years ago, or that ten years ago it was less effective than the ten before. This is the natural fallout of a series of key trends

- There is a massive sustained increase in the supply of media
- The balance of control in choice of media has switched in favour of the consumer

- Consumers have grown into the role of media editors; applying increasingly selective judgments about media choice

The bad news for traditional media is that another technological shift is on the way and will further undermine advertising effectiveness. Across all digital platforms, technology that places selection and editing power into the hands of the consumer is evolving. Tivo changed how we watched television, email filters manage the increase in communications, and newsreaders are now doing the same for RSS feeds. I call this approach personal media scheduling because we are taking ever-thinner slices of media in ever-more selective ways, then scheduling them to fit our needs. We will be the broadcast network directors of the 21st century.

The mass-market vehicles lose power

Media fragmentation on an enormous scale is here to stay. If you want to look at how fragmented media will be, watch a teenager zap between computer games and TV, while chatting or texting. Watch their attention span when the commercials come on. Watch them dance through the navigation as easily as you turn the page of a newspaper. Then realise that this is not youth market behaviour that will be lost as they grow older, but a permanent shift in the way media are consumed. This is an early adopter practice before it goes mass market; a truth of the new economy you can anticipate.

There is a profound shake-up heading towards all but a few of the mega-brands of mass media. MTV will have to battle with pod-casting, newspapers have to battle with the online news alerts and consumer magazines have to champion over blogs, Falling operating costs will tear apart the commercial models of many media empires built over decades.



Convergence and smart phones

The new generation of smart phones are one of the most tangible examples of convergence. Devices like the Blackberry or this SPV M2000 - which started arriving in European stores in late 2004 – combine internet access with email, diary and standard PDA tools. They include calculators and MP3 players, and will increasingly be used for digital editions of newspapers, magazines and television programmes. By connecting people to networks in new places – using Bluetooth, 3G, wireless radio internet access - they change the nature of the environment and our experience of it.

Media saturation: causing audience fragmentation

Even before the arrival of the internet is factored in, the explosion in the supply of media throughout the eighties and nineties radically changed the media landscape, saturating consumers and fragmenting audiences.

- More than 400 UK commercial TV channels – up from 50 a decade ago
- Direct mail pieces top 5 million - up from 2 million a decade earlier
- 250 commercial radio stations - doubled in a decade
- 3,100 consumer magazines out last year - up from 2,100 in 1990
- Cinema screens increased 80% between 1990 and 2000
- Even outdoor poster volumes are rising: 140,000 panels, with the huge 96-sheet super sites up 40% from ten years ago
- 1,300 regional and local papers, growing pagination in national press

New media; new behaviour

Not simply replacing traditional channels new media also questions the way we view media and the role it has in our lives. Thirty years ago families came together in the living room for the evening news in a shared behaviour that we would come to call 'appointment to view' television. Audiences fitted around their media channels.

In contrast the digital channels are giving us media when we want it. DVDs and Sky Plus make movies available on demand, mobile phones place the control for calling in our pockets, we answer email when we chose and we explore the web on our terms. On-demand media is a behaviour we're all learning, and in its wake, a reappraisal of why and how we use those traditional channels; another truth of the future we can now anticipate.

The same trend emerges within the media programme as well. These digital tools have given us the potential for non-linear media consumption. The viewer becomes program editor, deciding what, when and how to watch it. This is giving people the tools to question what they are consuming, the benefit they get from it, and the opportunity cost of their time. This is the death knell for the old disruptive model of advertising communication.

Social truths and trends

Not technology for its own sake

Web browsers only took off when there were great websites to browse, Bluetooth was useless until there were other devices to connect to, MP3s only took off once portable players arrived in the highstreet, websites for mobiles only got traffic once our mobiles could browse them. It's one of the simplest of truths, technology must fulfil a need.

Innovations gain lives of their own

Technical innovation is often only a starting point, real innovation takes place in application. When IBM pioneered the PC did they aim to get one in every home? When the first mobile phones - the size of briefcases - hit the market, was there an expectation that this would become the backbone of a teenager's social life?

Our generation is in a complex transition: we knew a world without computers, we learned to use them, then we had to swap letters for email and libraries for search engines. The next generation does not have our baggage. They're native to the digital economy and see things through different eyes.

The network is an extension of us

Our knowledge, our possessions, our social footprint; the web – and with time the other new digital networks – becomes an extension of many parts of our lives. In the networked economy, people need to access information efficiently. Like the Flickr photos or blogs. Now that we have Google Earth, why buy another atlas?

It's okay to let go and have the network provide the solution to a need. Information which could never be shared before suddenly is available. Personal home pages may have been derided when they began, but the new personal spaces that are emerging online reflect another mass market trend we can anticipate. It should be no surprise that there are new tools to navigate this. With the growing role of digital networks in people's lives, one thing's for sure: we've only seen the surface of how people will use digital space to define identity.

Commercial truths and trends

Online shopping: just the beginning

Looking at the early screens of Amazon.com it seemed clear that the web would become a powerful shopping platform. Clearly there would be some major teething problems: the perception of security risks, clunky screen designs, fulfilment challenges and nervousness of new consumers.

In the longer term, the combination of better customer service, wider ranges of goods, the convenience of 24hr opening and price comparison tools would all shine through. Books and CDs would be a natural first to move because the cash cost is relatively small; serial numbers make for easy database management, and many purchases are based on a customer's existing knowledge of the product – no need to touch and feel.



New business models for a new era

Napster became part of the establishment, bringing new licensing models into mainstream music publishing, but in a world where there is no marginal cost in the creation of digital copies – copies that are as good as the original - the challenges of copyright have not been resolved. Advances in compression technology have now moved the battleground to videos, and plans to digitize book content have shown that no media format is immune.

When buying a new house or new car researching starts with the web. Researching online provides broad access to information on the customer's terms; when, where and how they want it. By summer 2005 about 7% of consumer retail spending in the UK had moved to the web, but the amount that the web is instrumental in influencing is clearly many times that.

Customer expectations leap

Customers armed with more data have different expectations. Customers have the potential to know almost as much about the product and the market as the firm they are buying from, shifting the balance of power wildly in their favour. Car buyers are walking into showrooms with a print out of the most detailed elements of the spec they've selected before even speaking to the dealer. Again, this is just the start of a trend triggered by a truth of the new economy.

Familiar business models get challenged

If one of the core truths in the new economy is that access to information becomes more efficient, then it follows that for intermediary businesses offering information, the world would change rapidly. Early casualties were the print encyclopaedias, their customers' needs satisfied by Yahoo, Alta Vista and the other early search engines?

'Disintermediation' is the removal of intermediaries from a commercial value chain. People still need help to understand the world around them so new 'infomediaries' occupy some of these spaces (re-intermediation). LastMinute, EBay, Amazon and Google are examples of how new spaces can be colonized. For the marketing community these are new opportunities and communication partners to work with.

When I was the publisher of the UK's leading online newspaper I remember that as a newspaper our thinking rooted us in the idea of the paidfor access to content.

The rationale is simple: there is virtually no marginal cost in the creation and distribution of a copy of digital material. Then there's the network. The way the internet allows seamless movement of data and unrestricted access to information.

This forced digital publishers to rethink the business model. Charging for advertising instead of subscription.

Marketing truths and trends

The battle for customer ownership

New digital channels are giving firms new access to customers, and new ways to channel this knowledge into meaningful relationship management.

New channels also allow many brands to touch their customers in ways not possible before. These are media spaces which the brand owner can control.

Permission is key

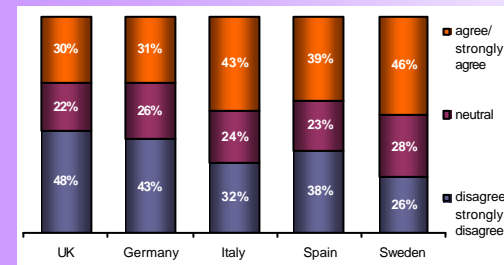
The growing value and importance of personal data is another key truth in the new economy. As consumers become savvier about data, choosing who they share data with and what rights they give the company. Consumers can vote with their feet if they feel the spirit of their agreements are not being met.



New level of customer expectations

The transparency of information that networked technologies enable creates a permanent shift in customer expectations. Firms of all sizes and sectors need to respond to this. Within a short space of time the prices for most products, the details of those product, and information about related services such as delivery or guarantees will be easily accessible and readily comparable. This will give many buyers near-perfect knowledge of the market and create a radical shift in purchase behaviour. Buying books on Amazon, or MP3 players through Kelkoo was just the start.

"Price is the only reason for buying anything on the Internet"



Nielsen//NetRatings Christmas Retail survey Dec 04

Online retail matures

As markets across Europe mature, and customers become experienced online shoppers, 'convenience' and 'choice' replace 'price' as the drivers behind why people shop online. Ecommerce becomes a routine part of daily life, regularly replacing many of the trips to the high street.

Data from: [Nielsen//NetRatings](#)

One-to-one: at last within our grasp

In the nineties, direct marketing was still only one-to-many or at best one-to-few, but the new era offers a change. Look at amazon.com. Log on and you'll find a list of previous purchases, a wishlist for your friends to select from, and some intelligent agent software that recommends books or films to you.

This is a one-to-one message. A complex set of profiling tools draw upon the collective experience of all customers and look for patterns and probabilities in the purchase data.

Integrated marketing is about more than matching luggage

'Integration' is more than getting the online work to match print. Each media channel has its own key tools, and smart marketing draws upon each of these to deliver communications that play to these strengths. What can email do which justifies more than simply moving print mailing pieces into an inbox? What can the web do with video?

The truth about integration is that cross-media campaigns should be exploring the uniqueness of each channel.

Reflections

Anticipating trends

By understanding and dissecting these trends it becomes possible to confidently anticipate many elements of the future.

At Digital Strategy Consulting during the first digital decade we identified twenty key trends impacting on the industry. All these trends have yet to play out fully. We are only a short part of the way along a massive innovation curve, and although as individuals the media, marketing and technology communities may be among the early adopters, the mass-market effects have not started to be properly felt. The trends and truths of the first decade continue. They all carry on and are joined by the new truths now emerging.

The further backwards you look the further ahead you see.

Customers taking ever greater control of their relationships with firms, data becoming the engine of business decision-making, growing internationalisation of trade and growing mobility and outsourcing; this is all underway. The scale of the changes to come remain vast

and even language as a barrier is changing.. Web portal Lycos launched a free translation service called 'Babel Fish' making translation algorithms accessible to a mass market. Now with Google's more advanced tools language is no longer a barrier.

Marketers are failing their firms

As a marketer it hurts me to say this. But looking back across the last ten years – the first digital decade – it's clear that many changes should have been no real surprise. Yet what did most firms do? Nothing. Cowardice!

Getting ready for the digital economy is not about just having a website. What it's about is taking digital seriously and re-orientating the whole firm towards the new way customers want to work with you. It's not about being tactical, it's not about being piecemeal and it's certainly not about being a technologist; it's about strategic marketing.

'New media' is no longer new, the digital economy has become part of the main economy; The most radical of changes is well underway and those who continue to pay only lip-service to digital will have to watch their business disappear.

Further shifts we're tracking

Convergence: Paradigm shifts in thinking

- 90s: Convergence changes the way we work
- 00s: Convergence changes the way we think

Information: Paradigm shifts in thinking

- 90s: Data [Management information] is a critical tool for business decision-makers"
- 00s: Digital nervous systems drive the business, people shape it

Customers: Paradigm shifts in thinking

- 90s: The customer is right
- 00s: The customer is in control

Expectations: Paradigm shifts in thinking

- 90s: Customer expectations rise
- 00s: Customer expectations shift to even higher levels as customer knowledge becomes near perfect, making brand the new battleground again.

For more information about the further trends we're tracking and the implications they have for retailers, media groups, consumer marketers and business-to-business suppliers, contact the Digital team to ask about our management workshops and executive coaching programme.

Our company support programmes includes

- Coaching and mentoring for senior management
- Customised in-company training programmes
- Management clinics for critical issues
- Workshops for staff at all levels
- Research briefing services
- Training and development

If you found this Digital Insight Report useful then join our briefing service for more

About the author

Danny Meadows-Klue has been a commentator on the digital networked industries since 1995. He managed the UK's first online newspaper and has helped run web businesses ranging from mass market



portals and consumer magazines, to online stores, search and email services. Among his industry roles he is the co-founder and former chairman of the UK and European Internet and Interactive Advertising Bureau, and has been lecturing on digital marketing for more than a decade. He set up Digital Strategy Consulting in 2000 to help firms accelerate their own digital networked media strategies.



Making sense of a digital world

Digital Strategy Consulting Limited

Tel +44 (0)20 7244 9661

Fax +44 (0)20 7168 2659

Email TheTeam@DigitalStrategyConsulting.com

Company 4342606

The Digital Hub, 34 Kenway Road, Kensington, London SW5 0RR, UK

Copyright, marks and small print

Copyright 2005 Digital Strategy Consulting Limited. Digital Insight Reports are occasional reports and opinions that form part of our briefing service. All rights and marks are our property. Our clients have a licence to distribute this material unedited and without any charges to the format to their own staff. While every effort has been made to ensure the accuracy of this paper, we offer no guarantee or warrantee on the information contained herein.