

The Future of Digital Advertising in Asia Pacific



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Introduction

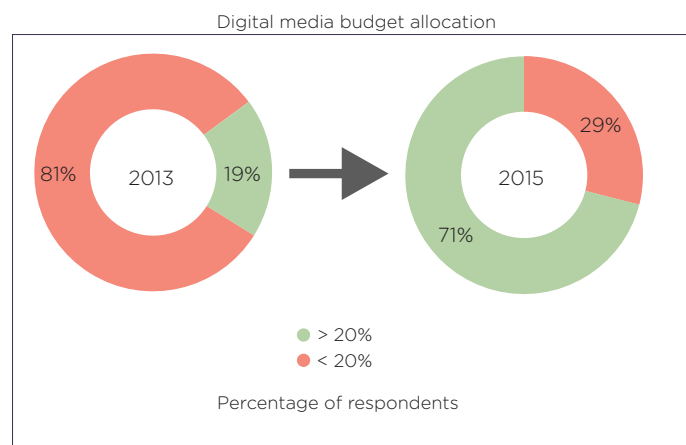
Digital advertising has been around for almost two decades and the industry has weathered a couple of boom-bust cycles. Digital advertising has gained momentum over the last 3 to 5 years and it is now posing a serious challenge to analog media vehicles. Marketers are paying serious attention to digital because of its increased penetration and usage across Asia-Pacific. Additionally marketers are searching for more efficient media alternatives as analog media costs are escalating and fragmentation is a real challenge.

In order to understand the future of digital advertising, Equinix partnered with Convergination to understand the current state of digital advertising, growth projections, key challenges, emergence of opportunities and importance of technology infrastructure in Asia-Pacific through proprietary research that included qualitative interviews with leading experts and quantitative surveys amongst industry professionals during August to November 2013 period. This whitepaper is a point of view based on insights and research data.

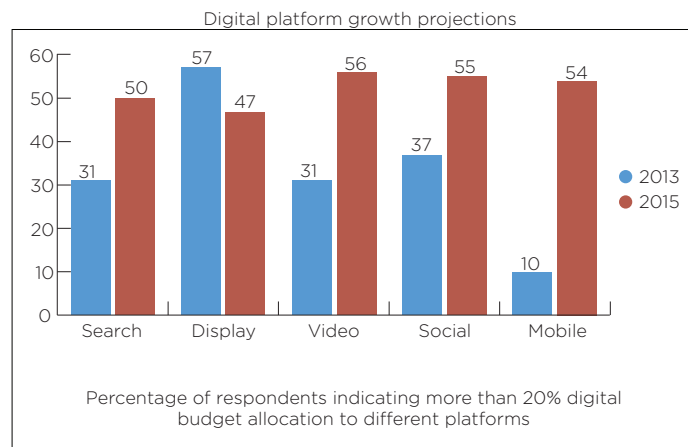
State of digital advertising

Asia-Pacific is not a homogenous region and it is difficult to generalize across markets. On one side, we have a market like Australia that is mature and usually mirrors developed markets like the United States and Europe. On the other, we have fast growing but still relatively underdeveloped markets in South East Asia or India. Japan and Korea lead the race in terms of digital penetration, usage and infrastructure but still lag behind in terms of digital advertising. China, as a market, is seeing huge and rapid growth with high demand and high digital spends. There is good quality display space and good quality inventory available in the market. It is also considered a balanced market with respect to spend on analog and digital media. There is definite shift of budgets from television to online video, actively driven by brand managers. China is also unique in terms of having a fully developed and highly competitive local digital ecosystem that makes it difficult for large global players to succeed in the market.

The Advertising and marketing industry in Asia-Pacific was television centric and digital was often used as a vehicle for lead generation or innovation. The dramatic increase in digital penetration and usage has changed that outlook and brand marketers are starting to leverage digital for strategic initiatives focused on brand building. Historically, the excitement for digital did not translate into substantial media allocations but the inflection point is just a year away. Quantitative research amongst industry professionals points to dramatic growth for digital media budget in 2015 with 71% of respondents expecting to allocate more than 20% of the media budget towards it. This is a significant increase from its current level with only 19% of respondents estimating it to be currently higher than 20% of the total media spend. In most Asia-Pacific markets, digital will overtake print, radio and out of home medium but still trail behind television. Marketers are expected to develop many more multi-media campaigns with television and digital working in concert rather than in silos.



Digital consists of many individual platforms and it is important to explore which platforms will gain further momentum. Data indicates that the relative share of current form of display banners will reduce by 2015 and marketers will allocate more budgets to search, social, video and mobile. Search will continue to grow at a high growth rate, with social and video following a similar trend. Allocations to social and video will include standard advertising and custom content creation. Mobile budgets will see dramatic growth and 2015 could become year of the mobile. It is enabling marketers to connect with younger audiences known for skipping the desktops and leap-frogging to mobile technology. Smartphone penetration and usage are predicted to grow rapidly and it is likely to help growth in mobile advertising.



There is an ever increasing supply of mass inventory but quality inventory is in demand and it is driving the costs up in certain verticals.

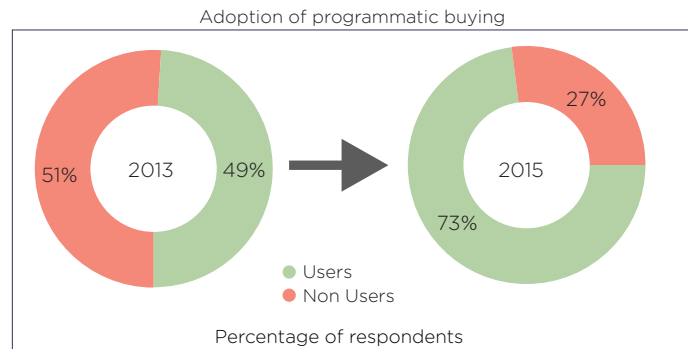
Capitalizing on the digital advertising growth potential will require the industry to evolve and come together to solve critical challenges in the areas of talent development, creativity, production, and data. New opportunities will emerge in the areas of programmatic buying and performance optimization. Technology will play a crucial role in this evolution, as it is integral to almost all aspects of digital.

Emerging opportunities

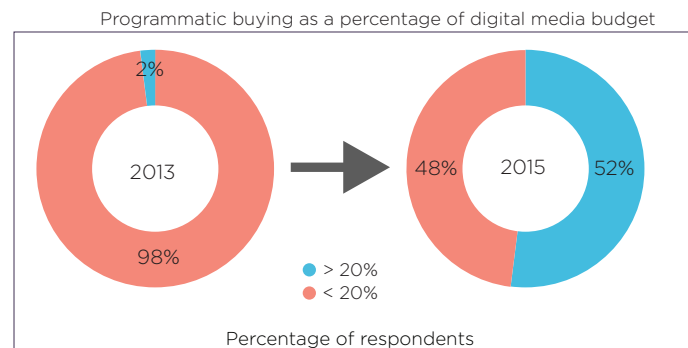
Digital media is evolving rapidly and opportunities are emerging in the areas of programmatic buying, audience targeting and performance optimization.

Programmatic Buying:

Programmatic buying is a relatively new trend in digital media and it is likely to play a crucial role in the growth of digital. Adoption of programmatic buying is high in developed markets like USA. Research data indicates that the Asia-Pacific region is in test-and-learn mode with programmatic buying as 49% of respondents are already using it in some form. The next 2 to 3 years are likely to be quite exciting with a further 24% of respondents indicating near-term adoption.



This, together with significant increase in budget allocation, means that the segment is set to grow. Research indicates that only 2% respondents currently allocate more than 20% of digital budget to programmatic platforms but it is promising to see that 52% are likely to allocate more than 20% by 2015. This significant shift indicates that the test and learn phase is getting over and programmatic buying will attract scale.



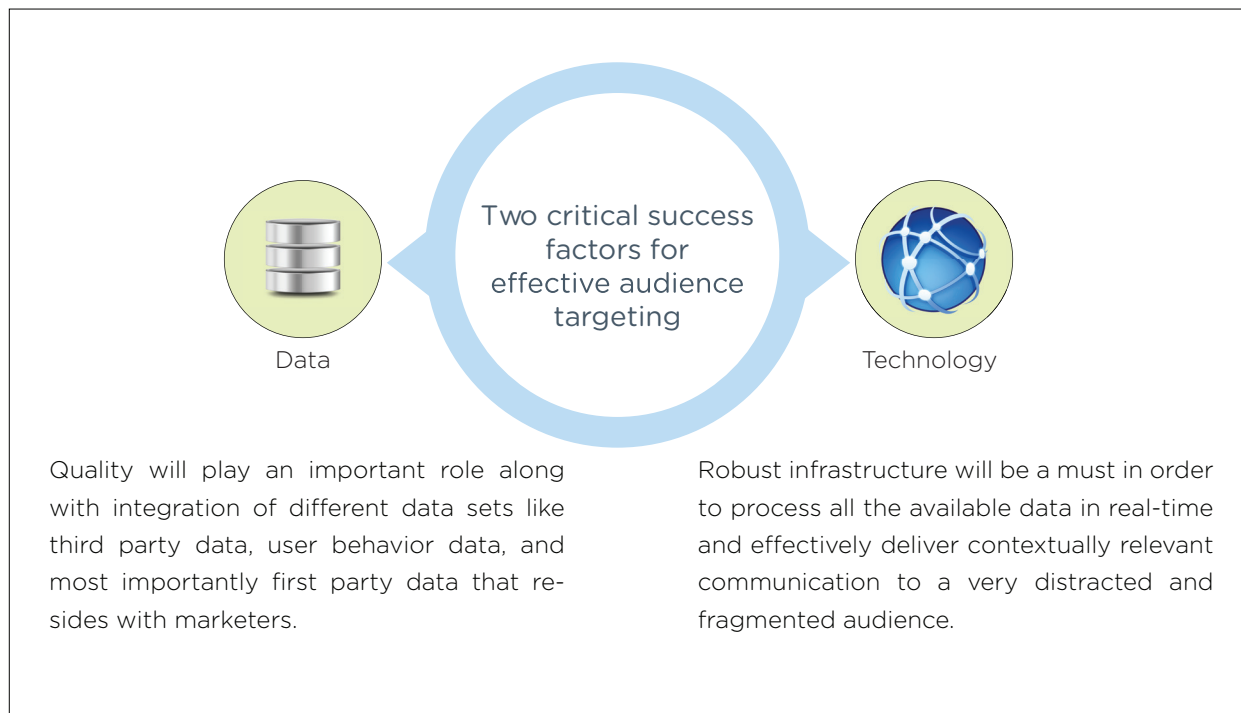
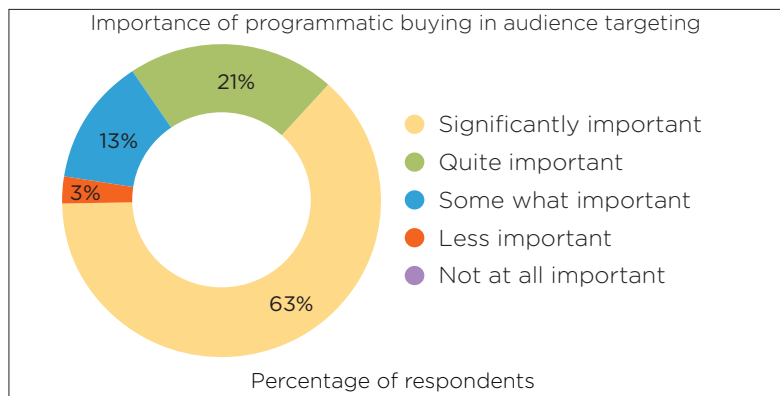


Programmatic buying is on a growth trajectory but ecosystem players need to evolve and deliver better satisfaction across different critical success factors like cost efficiency, price standardization, and ecosystem interconnectivity.

Audience Targeting:

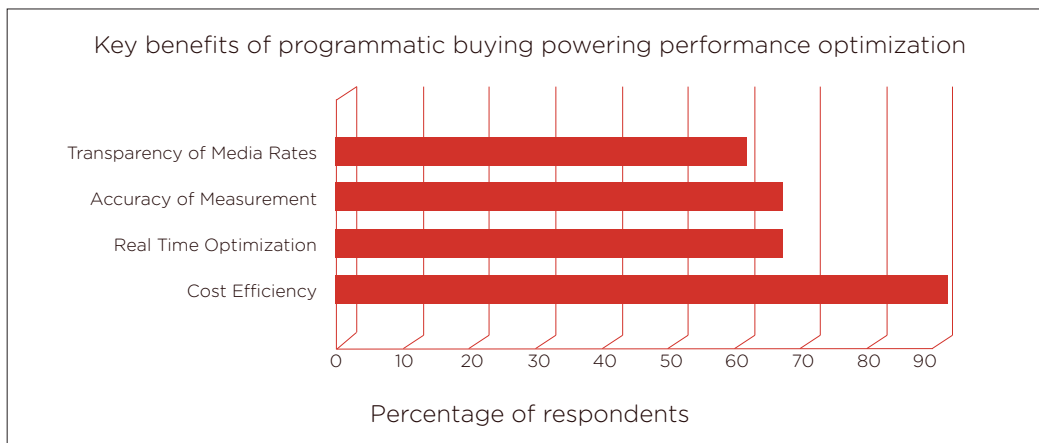
Audience fragmentation is a reality across all forms of media as people in Asia-Pacific have significantly more media choices than ever before. Additionally, it is well established that people are in a constant state of distraction and it is difficult to get their undivided attention. This phenomenon is magnified with numerous connected devices in our lives. Path to purchase is no longer linear and consumer journey on the Internet is quite fuzzy. This poses a significant challenge for marketers and their agencies as they seek to connect with the most relevant audience in a cost effective manner.

Emergence of programmatic buying is starting to change the dynamics of audience targeting. Research indicates 84% of respondents agreed that programmatic buying plays a significantly important or quite important role in effective audience targeting. Interestingly, brand marketers seem to be realizing the power of targeting through programmatic buying as 100% of brand marketers interviewed placed it at a significantly important level.



Performance Optimization:

Every marketer wants to connect in real-time and optimize based on results. Digital in general and programmatic in particular helps in achieving both, which is quite unique compared to any other form of media. As every advertising element is measurable in the digital world especially when traded through a programmatic platform, all marketers would want this visibility to improve accuracy of measurement and evaluate their return on investment. For both real-time optimization and accuracy of measurement, 64% of respondents agreed on the benefits being significantly important or quite important. Most industry professionals desire better transparency on the media rates and 59% of respondents placed transparency as significantly important or quite important.



Key challenges for the ecosystem

Talent challenge:

Talent remains the most crucial challenge for the industry. According to leading digital experts in Asia-Pacific, organizations are finding it difficult to recruit, nurture and retain talent in digital. High turnover coupled with unrealistic salary expectations will create problems for the industry. Focus on skill building is important and the industry needs to retrain existing talent in the ever-evolving digital domain.

Creative & production challenge:

Creativity is very important in breaking the clutter and creating impact. Leading experts in the region expressed disappointment over the creative output of the industry. It was observed that digital creative is often an afterthought and usually adapted from either television or print creative. Additionally, traditional advertising creative directors often lack knowledge of digital technology and how it can be leveraged for developing engaging creative campaigns. Production of digital assets is proving to be complicated and sometimes more expensive than the cost of media as resizing of creative assets to suit different advertising units increases time and costs. Brand marketers are keen to explore production solutions that are more efficient and cost effective.

Data challenge:

The importance of data in digital advertising is well understood but the industry in Asia-Pacific still lacks consistent third party data that can be used for effective targeting. Additionally, first party data from brand marketers resides in silos and is extremely difficult to obtain because of privacy and legal issues.

Measurement challenge:

There are concerns about lack of standard measurement and conflicting data points leading to confusion in the market. Additionally, digital measurement keeps evolving thereby making it difficult for marketers and agencies to keep pace with it.

Role of technology infrastructure

The evolution of ad technology towards more real-time targeting is leading to a heavy dependency on performance of the underlying technology infrastructure. Additionally, with rapid innovation in this space, the digital advertising ecosystem is getting increasingly more complex and requires streamlined interworking between different players to be successful.

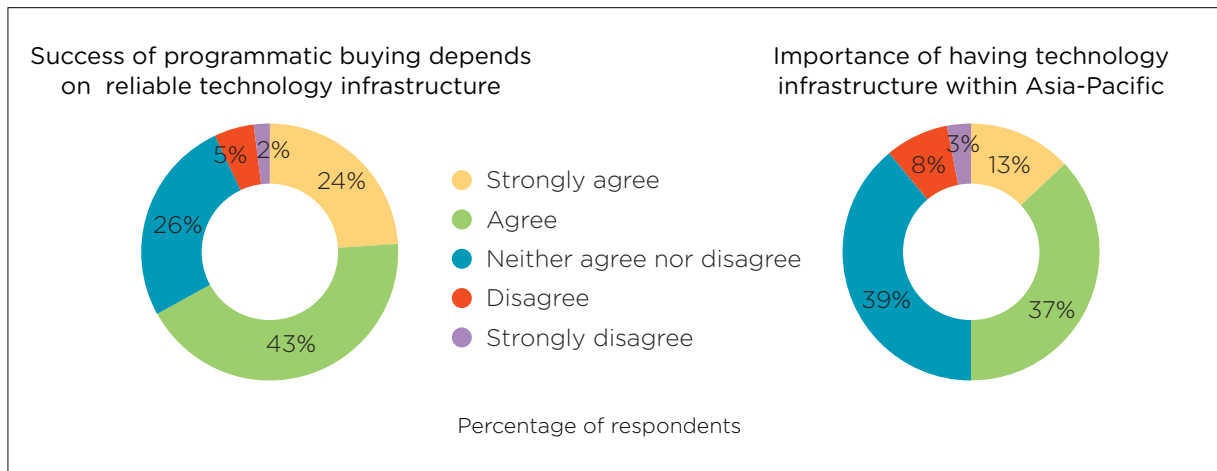
The real-time bidding (RTB) process in Programmatic Buying focuses on delivering the relevant advertising to the appropriate target audience through a bidding model. To be most effective, RTB allows for only a few milliseconds to complete the entire process starting from a viewer requesting a page on a publisher website, the ad exchange sending information on availability of the inventory, invitation to bid, RTB placing a bid, ad-serving platform deciding which ad unit to show and finally delivering advertising through the publisher website. Any lag in this process would result into non-delivery of the ad and loss of revenue for the publishers.

Further, RTB has the potential to target the right ad to the right customer, using a combination of data points, yielding more relevant ads to the customer. All participants in the ad tech value chain agree that improving the ad relevance drives up customer engagement and helps with monetizing the entire ad tech value chain.

The digital advertising ecosystem is getting heavily reliant on the performance of technology infrastructure and it plays a crucial role in successful campaigns in general, and programmatic campaigns in particular where a large volume of data processing is required to take actionable decisions. The industry is undergoing a transformation and increasingly realizing the need to have a stable, reliable technology infrastructure.

Majority of the respondents surveyed in this research agreed that there is heavy reliance on technology infrastructure for effectively executing programmatic buying initiatives as it helps in improving ad bid rate, quality of targeting, minimizing downtime and ultimately driving cost efficiency.

Further, location does matter. Half the respondents polled in the survey agreed that deploying technology infrastructure within the Asia-Pacific region has significant advantages, including access to local support, low latency connectivity, quality of service, and cost reductions as everything is kept at a regional level.



Future growth drivers

The future of digital advertising in Asia-Pacific looks bright in terms of budget levels and ecosystem development. Emergence of programmatic buying and audience targeting has changed the industry dynamics and marketers are actively exploring ways to improve content, optimize media and standardize measurement. Content marketing, contextual creative data management, and unified measurement will play a crucial role in driving and sustaining the growth of digital.

Content marketing:

Historically, brand marketers have been happy buying media space and engaging audiences on a temporary basis. The ever-evolving digital space has changed that equation and in the future, marketers will be actively investing in creating, curating and distributing content. The role of marketers will change and some of them will become publishers and create captive audiences. It will allow brands to communicate continuously and build long-term relationships. Mindset change will be required apart from investments in the areas of talent and technology. It will be an interesting opportunity for media buyers where they will create new media assets rather than just renting them from publishers. It will also create content syndication and distribution opportunities for publishers.

Contextual creative:

Creative development and distribution process will go through a significant change. Contextual relevance is very important in breaking the clutter and creating impact. Programmatic buying will enable marketers to deliver contextually relevant advertising. It will increase receptivity of digital advertising and allow marketers to serve custom messages and offers based on user profile, behavior, purchase history and intent. Marketers are likely to embrace dynamic creative development tools and platforms. It will help in improving contextual relevance and reducing cost of production. It will also allow marketers to test different messaging strategies and optimize creative based on performance across different screens (computer, mobile, tablet, television, gaming).

Data management:

Contextually relevant advertising through programmatic platforms will both generate and leverage tremendous amount of data. Marketers and agencies will require tools for data management and mining so that they can turn data into actionable intelligence. To capitalize on the full potential of digital, marketers will have to integrate different data points and create a single view of the customer.

Unified Measurement:

Design and development of unified measurement will be crucial for the entire industry. Marketers will have to drive the industry and demand a move towards developing and using a common currency. Digital measurement is complex and often misunderstood by the wider advertising and marketing community. Ecosystem players make it even more complex by providing conflicting data. Additionally digital measurement data needs to integrate with other mediums because marketers need to know how different mediums work together to achieve the goals. Therefore, unified measurement will play a crucial in driving the growth of digital.

Summary

Digital advertising is evolving very fast in Asia-Pacific. It is at an inflection point where a significant shift in budget allocations will happen within the next 12 months. The shift in budgets will create new challenges and opportunities.

The industry will have to address challenges in the areas of talent, creative, production, data and measurement. It also needs to tap emerging opportunities such as programmatic buying, audience targeting and performance optimization to fuel the growth. Programmatic buying platforms will have to evolve and deliver on high expectations specifically in the areas of cost efficiency, interconnectivity with different ecosystem players and price standardization.

Technology will play a crucial role in the evolution and growth of digital in general and programmatic buying in particular. Reliable technology infrastructure is a critical success factor in programmatic buying. Leveraging reliable infrastructure located within the region will create a competitive advantage.

Content marketing, contextual creative, data management and unified measure will be the key growth drivers that will enable the industry to harness the full potential of digital.

Further reading:

For additional insights from this research and case studies of real-life RTB deployments, please visit <http://www.equinix.com/ad-ix>

What you will find:

- Point-of-view datasheets with survey results based on key themes identified in the Asia-Pacific region
- Insightful industry reports on the digital advertising space
- Role of technology in delivering effective solutions to players in the digital advertising ecosystem

Research methodology:

Convergination conducted the future of digital advertising research in Asia-Pacific using qualitative and quantitative techniques. Qualitative research was conducted through one-to-one interviews with leading experts from the digital advertising industry in Asia-Pacific. Quantitative research was conducted through the Internet using a multiple-choice questionnaire. Respondents were selected from different areas of the digital advertising industry including marketers, agencies, publishers, and technology providers. The research exercise was conducted during August to November 2013.

About Convergination

Convergination is focused on solving real-life problems by leveraging convergence and stretching imagination. Convergination offers services in the areas of research & knowledge building, strategy consulting & analytics, and platform & technology development. Convergination helps organizations to navigate through the complex digital world. It is headquartered in Hong Kong.

Convergination Ventures Limited

Room 238, 2/F, Shui On Centre,
6-8 Harbour Road, Wan Chai, Hong Kong
Telephone: +852-28248977
Fax: +852-27365115
Email: info@convergination.com

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www.equinix.com

Asia-Pacific

Equinix Hong Kong Limited
Suite 6504-07, 65/F Central Plaza
18 Harbour Road, Wan Chai, Hong Kong
Main: +852.2970.7788
Fax: +852.2511.3309
Email: info@ap.equinix.com

EMEA

Equinix Group Ltd.
80 Cheapside London
EC2V 6EE United Kingdom
Main: +44.845.373.2900
Fax: +44.845.373.2976
Email: info@eu.equinix.com

Americas

Equinix, Inc.
One Lagoon Drive
4th Floor Redwood City, CA 94065
Main: +1.650.598.6000
Fax: +1.650.598.6900
Email: info@equinix.com

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