

**July 2007**

**Digital Signage...coming to a location near you**

The North American digital signage market [is expected to] grow from \$103 million in 2004 to \$3.7 billion in 2011, a CAGR of 67%.

Digital signage networks are sprouting up in practically any location you can think of that is “out-of-home”. Strategy Institute, a market research firm, estimates that 10 new networks are emerging every month! Digital signage is a segment of out-of-home advertising in which content is displayed on a digital screen rather than a printed sign. The content can range from text and still images to full-motion video. The out-of-home advertising industry including the digital signage segment is poised to benefit from marketers shifting their advertising spending from traditional (print, TV and radio) to new media. Frost & Sullivan forecasts the North American digital signage market, comprising advertising revenue, to grow from \$103 million in 2004 to \$3.7 billion in 2011, a compound annual growth rate of 67%. In this article, we look at how companies are competing in this new and emerging industry, and some of the challenges facing them.

Digital signage network operators build, manage and own the network infrastructure (including the digital screen), broadcast the content, and sell the advertising. Many operators focus on vertical markets such as supermarkets, restaurants and hotels, banks, bus, train and subway stations, gas stations, airports, information kiosks, schools, trade shows, employee corporate displays, etc. The typical business model is to share in the advertising revenue with the businesses where the digital signs are located.

The table below is a sample of various vertical markets using digital signage.

Vertical Markets using Digital Signage			
Big box retailers	Supermarkets	Restaurants and bars	Gas Stations
Heath Clubs	Healthcare	Movie Theatres	Office buildings
Outdoor Billboards	Tourist locations	Hotels	Shopping Malls
Sports Arenas	Transit	Airports	Banks
Trade shows	Information kiosks	Corporate displays	Schools

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A successful digital signage network requires a great deal of coordination between the network operator and the property owner. During network design and implementation, the operator must work with the internal IT department of the business to build a solution that is reliable, scalable, manageable and secure. The network operator must also understand marketing and content production, and needs to coordinate with the advertising agency or marketing department of the business to keep the content fresh, relevant and in-line with the overall brand strategy. (Poor content strategy is typically the cause of many unsuccessful digital signage deployments.) Finally, the network design and content strategy should support the advertising sales team so they can convince the advertisers that their message will reach the intended target market. The goal is to create a digital signage solution that is complementary to its surroundings while serving as an effective advertising media.

[Companies] add new and innovative capabilities to differentiate them from the competition.

Although the location of the digital signs is the biggest competitive factor, operators are beginning to add new and innovative capabilities to differentiate them from the competition. This includes:



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- **Content production** – All of the digital signage participants are still experimenting with the mix of content (video, images, text, and audio) and the frequency at which they are shown. Undoubtedly, this will depend on the vertical markets being targeted and the advertising message being delivered. Industry consensus suggests that producing content for digital signage is quite different than creating TV commercials. Digital signage content should reflect the difference in viewing habits in-the-home vs. out-of-home, proximity to the point-of-purchase, and call to action messages. Therefore, content production for this industry is very much a new and niche capability. As a result, some network operators have brought this capability in-house. For example, Channel M, a network operator focused on the retail segment, acquired the In-Store Division of ScreenPlay, Inc., a provider of in-store video content to retailers.
- **Location-based advertising** – Network operators are offering the ability to target a message to a single screen at a specific geographic location. This is particularly valuable when a local establishment has a well defined demographic that an advertiser would like to target. Ripple, a network operator based in Los Angeles, has digital screens in Coffee Beans and Jack in the Box restaurants throughout the West coast. Advertisers on their network can create, upload and manage their advertising campaigns all online. They can choose which locations will show the campaign and pay only for that location.
- **Interactivity** – Interactive technology in digital signage has the potential to be highly effective if done in the right way. A company in Sacramento, CA called SmartSign Media is using interactive technology to gather demographic profiles about passengers as they drive by and respond with advertisements tailored to their preferences. Data on how many cars listen to what FM radio stations is collected and ad messages are adjusted in response to the demographic profile of the cars' passengers. HumWare Media based in Colorado uses polling where consumers can respond to a question posed on a digital sign.

Many challenges still lie ahead for this industry: Size and economies of scale, role of advertising agencies, regulatory issues, and establishment of industry standards.

As this industry matures, we should expect more capabilities to be developed like the ones listed above that improve the effectiveness of this new media. However, many challenges still lie ahead for this industry. We list a few key challenges below:

- **Size and Economies of Scale** – The biggest media spenders are advertisers that need national or regional network coverage. Building and maintaining a national network is cost prohibitive for many small digital signage network operators. Unless the operator has an ideal location or a unique capability, national advertisers will lean towards the larger digital signage networks. The larger networks also benefit from economies of scale as they are able to spread their costs over a larger number of revenue generating screens. Therefore, we expect consolidation among operators in similar vertical markets to gain size and scale. For example, SignStorey, a digital signage operator to the grocery industry, acquired Captive Audience who operates in deli departments of ShopRite and Big Y stores.

SeeSaw Networks is using another strategy to compete in this fragmented industry. They aggregate available advertising inventory from small digital



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signage networks. This offers advertisers the ability to buy national, regional and metropolitan digital signage networks across multiple vertical markets from a single source. Last year, SeeSaw Networks raised roughly \$10 million from venture capital to implement this strategy.

- **Role of advertising agencies** – It is still uncertain exactly what role advertisement agencies will play in the digital signage value chain. As we discussed earlier, some network operators are producing their own content. We expect ad agencies to aggressively enter the market as opportunities get larger. For example, Publicis Groupe SA, the world's fourth-largest advertising agency, is partnering with Simon Property Group, the largest U.S. real estate company, to create the OnSpot Digital Network which will focus on shopping malls across the U.S.
- **Regulatory concerns** – There is an ongoing debate whether digital billboards increase the level of traffic and accidents above and beyond a traditional static billboard. Concerns of this type may lead to regulations on where digital signs can be installed. Currently, there are digital displays being developed for placement on sidewalks, restaurant trays and for 3-D applications. As digital signs proliferate, an obvious question is, "How much is too much?"
- **Industry standards** – Industry standards take time to develop and adopt, but once this industry adopts them it would be easier to sell advertisements, integrate systems, share content and manage disparate networks. POPAI, an international trade association, has a Digital Signage Group Standards Committee that spent part of 2006 writing technical standards. However, this or any other standard has yet to be widely accepted.

As shown, the digital signage industry is very much in the early development phase as companies experiment with various business models, content and capabilities. Technologies such as digital video recorders (DVR) will continue to drive marketers to find alternative ways to effectively reach the consumer. We believe that companies and investors interested in digital signage have reason to be optimistic about industry prospects, but reasons to exercise caution clearly remain.

Companies and investors...are optimistic about [the digital signage industry's] prospects to meet the needs of today's marketers... but reasons to exercise caution remain.

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