Advertising in an Online Audio Environment – The Consumer's View

A report by the Internet Advertising Bureau (IAB) UK in association with Coney and Somethin' Else

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Introduction
Stuart Aitken, Editorial Manager, IAB UK

"Britain is a digital music nation"
Geoff Taylor, chief executive, BPI - Digital Music Nation Report 2010

In the UK alone there are currently hundreds of digital music services - some obscure, some very well known indeed - all competing for our attention. This market is growing and evolving by the day. Not only are new, specialist players launching all the time, but more established traditional audio specialists from the radio sector for example are embracing the possibilities offered by digital technologies.

However, the birth of these bold new start ups heralding a vibrant new sector in the digital marketplace has not always been met with triumphalism. Rather these services have traditionally been seen as something of a threat. And it's easy to see why. The IFPI's Digital Music Report 2011 suggests that the music industry lost nearly one third of its total value between 2004 and 2010 - largely as a result of piracy.

However there are signs that things are changing and the record industry is embracing these new outlets for their products. As the BPI's Music Consumption in the UK report from November 2011 notes, "although paid downloads and premium music subscriptions are on the increase, free music on the web is growing even faster – hence the industry is doing more to convert music fans to both paid downloads and subscription services like Spotify".

As more music fans are being converted to using streaming services, especially where there is a free offering, the challenge becomes how to monetise this content. This is where advertising comes in.

The IAB / PwC Online Adspend Study showed that digital advertising in the UK was worth £4.784 billion in 2011. A conservative estimate puts the display advertising revenue figure for the online audio sector at between £25 million and £30 million. This is still a relatively modest amount in comparison to a sector such as online video advertising which has seen explosive growth in recent years and is now worth £109 million. This suggests that either the digital audio sector is simply punching above its weight in terms of national press column inches – or it is due to see some rapid growth in the coming years.

But this is not a simple area to succeed in. Recent research from the IAB in association with ValueClick sought to shine a light on consumers' attitudes towards online advertising and privacy. The results suggested there are certain challenges when advertising within personal spaces such as audio and social environments - 43 per cent of respondents said they are currently happy to receive advertising on radio stations, while the figure for social networking sites was 37 per cent. Within less personal, more traditional channels advertising was more readily accepted – some 48 per cent of respondents were happy to see advertising on TV while 52% were happy to see ads in magazines and print newspapers.

Difficult though it may be, the RAB's Radio Multiplier report from 2010 sought to show how impactful audio advertising can be – especially in relation to driving online brand browsing. The headline figure – that exposure to radio advertising boosts brand browsing by an average of 52% – shows not only that there is a huge potential to use audio advertising to drive digital activity, but that if done well there are huge benefits to be gained from attempts to synergise the potential of digital and audio.

Clearly then there is great potential in this market. But what is the next step?

This is a space that the IAB has a growing interest in, which is why we've undertaken a new piece of qualitative research.

The research

Purpose

The IAB wanted to better understand how consumers feel about advertising within an online audio environment. In particular we wanted to gain an insight into perceptions of current advertising models in the market place, and to understand consumer responses to being served advertising messages whilst listening to audio content online. We also wanted to gain an insight into the importance of creativity in advertising within this environment, whether there was a preferred mode or length of advert, and whether we could begin to make recommendations to improve existing advertising models to suit consumers' evolving needs.

We were specifically interested in the thoughts of two target audiences: 20 to 25 year old music fans and digitally savvy over 40s.

Methodology

To achieve our objectives we commissioned Coney (www.youhavefoundconey.net) to carry out creative qualitative research – and assemble two focus groups.

Next we approached a number of key players in the marketplace (Spotify, Last.fm, WE7 and Absolute Radio) and asked them to submit questions to our focus groups who were all regular users of free, ad-funded, audio services.

Group 1 was made up of 40-plus-somethings who were digitally-savvy and either had smart phones on which they regularly listened to music or the radio. Group 2 was made up of early-20-somethings who had smart phones and a strong interest in audio content.

Both groups were first asked to map out their musical listening habits and tastes, then record a vox pop describing a typical day's listening experience. A group discussion was then facilitated around a series of questions including: how people pay for music and speech content; how audio advertising works and doesn't work for them; the importance of creativity when considering the success or failure of a digital audio advert; the types of brands that could successfully advertise in this space.

Following these initial groups, two smaller groups then spent one week engaged with a personalised radio app pre-loaded with a selection of audio adverts of varying length. As part of this longitudinal survey we hoped to gain further insight into what works and what doesn't work in terms of online audio advertising – and whether factors such as length of advert are a key factor in assessing the success of a campaign.

Understanding our focus groups

Group 1 - digitally savvy over 40s

Our older tech-savvy audience tend to bookend their days by listening to audio content – especially radio content – when waking up in the morning and unwinding later in the evening. Catching the news is the soundtrack for the mornings for most.

At work they'll listen to audio content much less than the younger audience. They cite speech content much more than music; if they listen to music while working, it's to help them focus.

They'll listen online particularly for time-shifting purposes: catching up on programmes that they can't listen to at work.

> *The Today programme and Test Match Special are the only things that I listen to live – Fergus, 59*

They'll also download podcasts for later consumption, especially BBC radio.

They spend on average £15-20 per month on music, and are much more likely to take subscriptions to platforms to avoid advertising. Audio book fans might spend up to £45 per month on their habits but otherwise avoid spending money on speech content; BBC radio sets the bar for free quality listening, as it's what they grew up with.

Group 2 - 20 to 25 year old music fans

Music is the soundtrack to the lives of our 20-somethings. They'll have it playing in the background of most activities that they are doing, from household chores to travelling to work, as well as studying and work. Sometimes they'll listen by themselves, but music in work environments is shared.

> *"It's important to have music loud at work" – Geraldine, 21*

If they listen to music online it's mainly because they feel it's the most up-to-date, and with streaming services they have access to a vast music catalogue without taking up space on their own hard drive. It feels like less of an investment and enables them to graze through music, sampling a little where they feel like it.

> *"It takes a lot more for me to download an album than it used to" – Theo, 22*

They listen online via sites like Youtube, Last.fm, We7, Spotify, Soundcloud, Grooveshark, iPlayer, 1Xtra, Rinse, XFM, Heatwave, Ustream.

Most of the younger audience group spent next to nothing on music per month. One participant said that in addition to using the free service she also spent £10 on Spotify Premium but only because she plays music in the hairdressers where she works; four of them borrow the username and password of other people's Spotify Premium accounts.

If they listen to music on their mobiles then it will most likely be via iTunes.

Many listen to podcasts of speech content; one fan of audio books spends up to £25 per month.

When asked how much they'd pay for a monthly subscription to a music service that removed adverts, £3-£5 was the maximum for most of the younger audience.

> *A point of reference is an App - £2.99 as a one-off, maximum £5 – Rich, 25*

Key themes

1) Attitudes to advertising – especially within an online audio environment

Most of our groups were sceptical about advertising in an audio environment, especially the older tech-savvy group who can more often afford to avoid adverts. This group tended to dislike advertising because adverts:

> • *compete for a bit of my head / soul*
> • *waste listening time*
> • *are often irrelevant*
> • *can be inauthentic*
> • *feature shouty voices*
> • *intrude on my personal space*

Almost all of them however accept that there is a trade-off between accessing free audio content and an advertising experience. There are various factors at play in this trade-off.

Key factors:

Listening is often a personal experience. If you're using headphones then it's a private space too.

> *I like listening to iPod touch in bed as I can do it when my wife's asleep – Jim, 43*

Part of the antagonism to audio adverts is then based on how intrusive these can be in a personal listening experience.

> *I have a more personal relationship with what I listen to than what I watch on TV - and I don't like ads there – Fergus, 59*

Audio is a pervasive medium; you'll most often be doing something else while listening to content. Audio adverts demand attention by disrupting the single stream of content you're engaging with.

> *Audio ads are more annoying than others because they interrupt - you can ignore other ones unless they grab your attention but with audio they directly interrupt – Jason, 23*

2) Listening on the move

Listening online while on the move is rare for both groups because of interrupted reception, concerns about limited data allowances and fears that such services eat up battery life.

A minority in both groups use their phone while listening to music, the older ones for checking emails and schedules, the younger ones for texting, both groups for playing games. But more will use it like a music player in their pocket, provided the battery lasts. So they won't typically be checking their screens.

3) Social media and listening behaviours

All of our younger audience are on Facebook and half of them are on Twitter. Having said this, many of them repeatedly stated that they like to control their social media environments and don't blindly consume social media content.

> *"I try not to be a slave to Facebook" – Ariadne, 23*

All of our older tech-savvy audience bar one were on both Facebook and Twitter.

Spotify argues that its integration with Facebook improves the service because music fans have the opportunity to discover more music. The music streaming company explains that its users connected to Facebook listen to more music of a wider variety. Therefore they conclude that because users are more social, they're more engaged.

Although generally the groups like to share and discover music through social networks, there was some reluctance to making musical tastes so publically visible. The act of sharing is usually considered carefully, because musical taste is seen as very revealing and personal.

> *"I'm aware that if I post a track someone will judge my social media identity – that's too high risk so I'll probably just tell them instead, which is strange because I'll use social media to recommend news or articles" – Jim, 43*

Sharing audio content in social media is like making a gift to someone in public then, and everyone is very aware of being judged.

4) Paying attention in different situations

In order to understand how and why people might respond to advertising, it's important to understand the different situations in which people are listening to content, and how people pay attention in those situations. Anything new and less predictable of course demands more attention from the listener.

Music might be the ambient soundtrack to work. If you choose music to help you focus while working, then you don't want anything that intrudes on your attention. You'll choose familiar and predictable music and programming, and you'll probably want to avoid advertising.

> *I don't mind randomness when doing manual tasks which will allow you to concentrate on what pops up on the radio. But anything other than manual work, I tend to choose what I am listening to – Alice, 51*

For more mechanical work that doesn't occupy the mind, users don't mind occasionally paying more attention.

> *You can't read and listen to speech but you can do manual work – Fergus, 59*

> *Because I have the radio on in the background quite a lot I'm aware that radio advertising intrudes on my listening experience - and it has to for commercial purposes. But radio advertising has to get your attention and I make listening choices based on that – Alistair, 46*

There's a key variable here of familiar and predictable content vs serendipitous and unpredictable content. Familiar content you might have chosen to play, or be what you expect a radio station to play. Serendipitous content pops up in a shuffle, a stream or a DJ's whim.

> *With Tune In it's nice to browse – there's a chance or serendipity thing, so you end up with something which isn't preselected or pre-chosen by you – Jim, 43*

Sometimes listening takes place in a social space, but that changes the engagement and even how people will pay for music. The one 20-something who subscribed to Spotify did so in order to avoid sharing ads with people in her place of work. On the other hand, some 20-somethings used Spotify to soundtrack their parties and made the adverts part of a drinking game.

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When we have parties we sometimes play a game where everyone has to drink each time an advert comes on – Jason, 23

5) Why control is important, repetition is irritating and authenticity is key

Digital-savvy audiences enjoy making choices to control their listening experience, and actively navigate their interactive environment to find what they want. They'll dive into YouTube or Spotify if they know the info but want to hear the track. They'll Shazam or trawl the credits of a programme to find out the info of a track they've just head.

The challenge then for advertisers and platforms is that the more digital-savvy the audience, the more they can find ways to evade adverts.

I use muting on my Mac when an ad comes on – Kelly, 23

Even when trying to stream a film illegally online, I will spend the time finding a site that doesn't have ads – Ariadne, 23

Older digital-savvy audiences are more likely to be ad-evaders, and if platforms change their rules to inhibit evasion, then the rule change itself can cause disengagement.

I was annoyed when Channel 4 found a way around adblocker – Simon, 55

And advertising in an environment where you expect to have control is more intrusive.

Commercial radio is like TV so advertising is more annoying in streamed audio than on radio because you're resigned to it on radio – Geraldine, 21

Most content has a conventional punctuation and advertising that happens in those natural breaks and follows predictable schedules is more tolerable. Break the conventions of engagement, and it irritates an audience.

It's annoying when they use double adverts – you think your song's next – Kelly, 23

I'd have four ad breaks per hour – using the same structure as TV does – Joe, 21

It's really annoying when an advert interrupts an album – Gemma, 24

But the risk for the advertiser if messaging is predictable is that audiences learn how to evade them.

I'd prefer ad breaks to be longer so that I can make a cup of tea etc and not have to listen to them – Alice 51

Repetition is particularly annoying…

Ads that you hear too much, like more than 5 times a day, that's what drives me crazy – Rich, 25

This is not just because you get bored with the repeated adverts but because this reminds you of how little control you have in the matter.

The perception of authenticity is important. So don't patronise the audience.

> *Don't patronise or try to pretend you're not an ad and sneak into my psyche – get straight to the point and don't patronise – Theo, 22*

Rather assume that they are smart and resourceful, especially when connected to the internet. For this reason it's not necessary to spell everything out – for example by including long URL information in the audio messages.

> *Yeah we're not dumb, I don't need to be told where I can buy things from… I will just Google the product name – Jay, 21*

6) Relevance & personalisation – a complex issue

Your audience is more likely to engage with adverts when they are perceived as relevant, but that relevance is not about them as a person but what feels relevant and coherent with what they are engaged with.

> *Adverts should not be based on my listening tastes, but more coherent to what I'm listening to at the time – Alistair, 46*

> *When you're listening to Puccini you don't want ads for Burger King after the overture – the context of the ads is important – Alice, 51*

> *Adverts for tickets and tour dates would work but not adverts telling me to buy a track. If I knew the 'buy' button was there I don't need to be told – I like having the choice and I don't want to feel forced into it – Jay, 21*

So for our younger audience, advertising that is relevant and works within a digital listening environment would primarily be focused around the world of music - gig tickets, festivals and genre-related books. Advertising about new digital platforms, new tech possibilities and other cultural products like films were also seen to be relevant. Stylish brands will also be accepted - provided they are authentic to the artist and are not overexposed. However this does limit the opportunities in the space somewhat – for the sector to grow it has to move beyond this and feature a range of advertising from traditional big spenders online such as FMCG brands and the financial sector.

Attitudes towards personalisation of adverts are more complex. While there's clearly benefit to being served adverts that reflect your needs and taste, the mechanism for these needs to be transparent or risks unnerving the audience.

> *Customised advertisements where they scan your cookies freak me out - I feel invaded and find it intrusive – Ariadne, 23*

Control is critical here too. Personalisation is far more acceptable if rather than happening through a secretive process you are presented with clear and transparent choices that give you control over your advertising experience.

> *Having the ability to choose is a big thing – Lee, 20*

> *Yeah if I was asked it would be different – Joe, 21*

> *If I had control that would be better because that way it's honest and a fair exchange – Rich, 25*

7) The execution – size isn't everything

From feedback from users in the longitudinal study, the length of individual adverts whether 10, 20 or 30 seconds interestingly seemed less important, provided that the total advertising break remained a relatively brief pause in play.

>*I didn't notice they were different lengths until you mentioned it – Lee, 20*

But here it's important to stick to the conventions of the advert break as established - each break is one advert every so often, and then back to music.

There's also a trade-off understood between the length of adverts and the frequency of breaks. It's understood that shorter adverts will pop up more frequently, and that less frequent adverts will be longer. But different people have different preferences at different times for the balance of this trade-off.

>*I'd prefer frequent and short – establish a regular level – Simon, 55*

>*I would prefer long ads less frequently – Joe, 21*

Listening to sample audio ads of different treatments, the audiences in both groups vastly preferred a straight-forward voice speaking to them authentically and unpatronisingly about the product.

>*I hate the over the top excited voices - it's like panto – Geraldine, 21*

>*The tone of voice immediately says 'buy buy buy' to the extent I mentally switched off without even taking in what they were selling – Alice, 51*

A story is fine the first time you hear an ad, but frequent repetition makes this irritating.

>*It's ok but would get annoying if repeated – Alistair, 46*

If you're listening to music, then music in the background of adverts can be confusing and ultimately disengaging - especially if it's not coherent with what you happen to be listening to.

>*The music makes it confusing and it clashes with my playlist – Rich, 25*

And there's no need to push URLs or phone numbers.

>*If I do hear an ad, I will just google the product name – Kelly, 23*

8) Sound and vision

Online, visual adverts are preferred when listening to audio as they complement rather than disrupt the listening experience - all of our 40-something group chose this as the preferred option, and the 20-something group concurred. But the challenge is that people are not always looking at their screens or have hidden their browsers when listening to content.

>*I don't want anything to interfere with the audio – Jay, 21*

>*If music is playing then visual adverts would be better – Fergus, 59*

Any visual advert needs to be easy to understand at a glance while the audience is listening to audio. It is asking a lot for a listener to interrupt their listening experience to engage with a complex visual message.

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Two key trends emerged from both groups – the desire to be entertained by additional visual content, or to be given additional genuinely useful information on specific products or services that they are interested in.

Asked if they would prefer a slideshow of visuals to support an audio advert for example, the 20-something group liked the idea that the visuals gave further information on relevant products, e.g. visuals of different styles of Levi's jeans.

Having said this, a key challenge for multimedia is that many of the younger audience have older (cheaper or inherited) devices and they don't always have the necessary processing power.

> *My computer's slow already – Ariadne, 23*

And heavy media saps phone battery.

> *On a phone you think it will steal your battery – Kelly, 23*

9) Direct response

Few people, especially the older tech-savvy audience, will deliberately click on an online advert just out of curiosity.

Partly this is due to concerns about whether you can trust an advert to lead you somewhere safe…

> *There's a trust issue, which is why I don't click on ads on the internet – in case it's some kind of virus or something and the next thing you've signed up for Bingo! - Ariadne, 23*

…partly it's a judgement that there's only a minimal chance of any benefit.

But our younger audience said they would click ads sometimes because of direct incentives like offers, vouchers and competitions, especially if the product is relevant to their present experience.

Across both age groups, if an advert offers an experience that will be judged to be fun, especially a game, then it's more likely to be engaged with.

> *One thing that might work is if the ad is an interactive game of some kind then that's something I'd do whilst travelling… I remember the marketing for Men in Black 3 for example – a lady pops up and takes you to a game about zapping aliens – Fergus, 59*

Conclusions – adverts need to be like better people

Let's characterise the voice of an audio advert as a person. If that person shouts at you to get your attention when you're trying to relax, wants to talk about something totally irrelevant to you, is distracting you when you're trying to do some work, is embarrassing in front of your friends, keeps going on about the same thing again and again even though you got it the first time, patronises you, pretends to be your friend even when they're not, pretends to be doing something other than selling to you, has stalked you online so that they can 'surprise' you by knowing what you like… then you're not going to get along with them very well. But in another listening situation any of these might be ok.

Adverts need to be like better people and be able to be more responsive to the particular moment in which an audience finds themselves.

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How can an advert know how and when an audience is listening, to respond to what they want to hear? Only by allowing listeners an element of control and giving them co-authorship over their advertising experience.

The audiences in both groups want control over the numerous trade-offs in how advertising might be delivered as part over their experience.

We discussed a series of control panels – or "sliders" – which could be used to control various ad preferences as part of the users' listening experience.

These could be used to establish the "mode" of listening you are in. For example if you are going to bed to listen to music, you don't want "shouty" adverts or if you are listening to a whole album in one sitting you may rather have advertising served for longer sessions before and after the after – instead of interrupting the flow of the album.

These controls could also be used to refine the type of advertising you wish to receive by allowing users to set preferences for specific types of advertisements. This would in turn influence the advertising that is served so that adverts of specific interest could be served in greater rotation.

In other words what we are doing here is setting up an advertising profile for an individual who is choosing to receive tailored, suitable adverts in much the same way as he or she would put together a musical playlist.

The enabling of control itself makes people accept the trade-offs more.

> *Having choice is a big thing, if you can choose you accept it a bit more - Lee, 20*

The rules of engagement for an advertising experience have to be transparent and give full control over changing settings at any time. Giving control transparently reduces the motivation for the audience to become ad-evaders.

Treating adverts in much the same way as other content was welcomed. When our two smaller groups spent one week engaged with a personalised radio app pre-loaded with a selection of audio adverts of varying length, users liked how ads were shown within their playlist as it gives transparency and predictability in terms of when to expect advertising, but also because it enabled them to repeat listen to adverts that interest them. This is a model more like magazine advertising where readers can skip an ad whenever they like but also refer back to it.

> *I was surprised the adverts came up on the playlist like Bon Iver, Bill Bailey, then the name of the ad. This made it seem like part of the show. Other ads just appear and interrupt what you're doing. Whereas if it's built in it feels like you've been told so it's ok. It's more upfront – Jason, 23*

Another feature welcomed in the co-authored advertising experience was a 'like' button for an advert in the same way that streaming services give you these buttons to shape your musical taste.

Overall, both audiences understand the trade-offs around the delivery of content, but there is no one-size-fits-all pattern. Understanding how audiences pay attention to their listening experience in different situations allows advertisers and platforms to shape better the delivery of an engaging rather than an irritating advertising experience. Key factors are transparency, relevance and authenticity. The rules of engagement and conventions of advertising need to be presented transparently to the audience, and if they are allowed to have control, then they can co-author their advertising experience to suit their mood, present situation and lifestyle, and the better for everyone.

Creativity driving engagement in online audio

David Cooper, Agency Group Head at Spotify, looks forward to a bright future for the online audio sector – driven by creativity.

Today, online audio advertising presents brands with an opportunity to be more interactive with audio than ever before. Brands seeking high engagement through interactivity are wise to make creativity and knowledge of the target audience the top of their agenda when creating an online audio campaign. Spotify's extensive targeting abilities and combination of audio with digital display offers brands the chance to do exactly that.

Therefore, Spotify is encouraged by the IAB's foregrounding of the importance of creativity in its research into the online audio sector. The findings mirror much of our work to promote the importance of the right messaging in online audio campaigns since the launch of Spotify. Alongside creative partners such as Red Apple Creative and Maple Street Studios, we have developed a comprehensive checklist of what makes an engaging and effective audio advert on services such as Spotify.

Both our research and this IAB report also reflect on the importance of recognising the different situations in which people listen to audio online. Getting the tonality right is key and often different times of day calls for different tones in order to achieve breakthrough but not irritation. Clipper Tea achieved this very well on Spotify with a soft, personable tone asking users to sign up to receive ten free tea bags. At the other end of the scale, Paranormal Activity 2 shocked people with their jumpy messaging. Both campaigns were successful in providing high levels of engagement, showing that the best results can be gained by ensuring the tone is authentic and well suited to the audience and brand.

Acknowledging that advertising interrupts people's listening is also foregrounded in the research. At Spotify we are committed to keeping our advertising at a level where users are willing to engage with campaigns in the knowledge they'll be returned to their playlists soon. As a result, we are very proud to say that click-through of ads on Spotify consistently outstrip industry averages.

The future-facing part of the research highlights some potential areas of targeting that the industry could consider. We're constantly trying new things and always listen to our users so it's great to see this feedback in the research that we, and the rest of the audio advertising industry, can consider going forward. We recognise the importance of developing our advertising product to make sure we continue to deliver informed, unobtrusive messaging to the right people at the right time.

Overall we look forward to seeing the impact the IAB's research has on the industry and how this drives creativity forward in this burgeoning sector. The IAB have left us with plenty to support our work but also much food for thought as we look to continue to lead and grow the audio online market.

The future is mixed…

Chris Wistow, Commercial Director at Last.fm, looks at how sound and vision together is the right combination.

Monetising today's online audio experience can take many forms. From On Demand to Online Terrestrial Radio and Internet Radio, the current crop of services have varying streaming (and cost) models and user engagement models, and thus a one size fits all approach to online audio advertising is far from where the sector is heading.

We're pleased that the IAB has invested in this research with the aim to garner better insight and understanding into consumers' expectations when it comes to advertising within an online audio environment, as this will not only help grow the profile of the sector, but ultimately help drive a better experience for users and better results for advertisers.

Over the years Last.fm has rolled the dice on both On Demand and Terrestrial Radio (Last.fm DAB radio station in the US) and ultimately settled on offering personalised and guided music discovery through something we like to call Visual Radio – a complementary mix of both sound and vision that's accessible both within the browser and on TV via Xbox in the living room.

Personalised Visual Radio offers a different user engagement experience compared to the other UK streaming services, and because it's accessible on both the Last.fm main site and on TV via our Last.fm Xbox application, this has meant we've taken a mixed approach to monetisation rather than simply running traditional online audio advertisements.

At Last.fm we've chosen the value exchange model for advertising within our radio environment – that is the user is required to listen/view an advertisement in return for audio playback from their chosen station. This allows us to drive maximum advertising engagement at that lean forward moment of station start both via the web and in the living room on Xbox.

Because of the browser and on TV experience, we've found video advertising has been most effective format in this context, and thus we were particularly interested to see surfaced in the report the consumer desire for a mixture of sound and vision when it comes to their preferred advertising experience.

While we don't (yet) offer in-stream audio advertising, we believe that, thanks to Spotify and creative agencies such as Red Apple Creative and Maple Street Studios, the online audio format is now reaching a level of maturity whereby buying agencies and brands are better understanding the need to plan online audio ads as part of their campaigns and also the need to supply the correct formats to ensure best results.

We agree that introducing ad choice into the advertising experience would be an interesting proposition and great from a user perspective, but in reality may be difficult to scale and standardise due to varying ad serving platforms and technologies used by each service. It will be interesting to see how this might evolve.

In line with the conclusions of the IAB report, we agree that the future for online audio advertising is indeed mixed. With the broad range of user engagement and audio consumption models on Last.fm, we'll continue to offer a mixture of monetisation models and advertising formats based on the environment and user experience that makes the most sense for our users and advertisers.

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How data is redefining commercial radio

James Wigley, Director of Digital Sales at Absolute Radio, outlines how online audio providers can reap rewards through the intelligent use of data.

The recent plethora of cookie-related pop-ups across websites scurrying to adapt to the new cookie laws is yet another reminder on how our online lives are increasingly influenced by information mined from registration data and logged-in behaviour, and from 'traditional' media companies, too. Channel 4 CEO, David Abraham, has called audience data the "new oil, or soil, of television" and since his arrival at the broadcaster he has introduced a login interface to 4oD and appointed a Director of Audience Technologies & Insight.

One music brand that's been particularly successful at expanding the opportunities to its IP audience is Pandora, a music streaming service which dominates the North American market, commanding a 4% market share for all US Radio listening (Source: Edison/Triton), with advertising comprising 88% of their total revenues in the three months leading up to November 2011. This success can largely be attributed to two things 1) being readily available to their audience across multiple platforms and 2) being able to target advertising based on their users data.

Of course, Pandora isn't broadcast. Unlike the shared listening experience of radio, Pandora's focus is on personalised music content, so the challenge for radio has been how to maintain the one-to-many shared listenership which makes broadcast radio so special, yet at the same time provide a platform for more advanced, one-to-one commercial opportunities for brands.

In February this year Absolute Radio began to address this challenge by becoming the first radio broadcaster to launch a new advertising model to target online logged-in listeners based on their exact demographic and active location information – the first time a Spotify/Pandora based model had been brought to commercial radio.

This advance stemmed from the creation of the Absolute Radio account, where listeners were asked to share their age, gender and active location in return for higher quality audio, less (and more relevant) advertising, more music and exclusive content.

From a commercial perspective, the Absolute Radio account also serves a benefit in allowing the station to use listener's data for targeted commercial messaging, with newly available ad-injection technology ensuring that the broadcast content stream is maintained – and in-sync – across all platforms and listening devices, whilst replacing the three minute broadcast ad-log with two tailored spots to those listeners logged-in through an IP-connected device. Suddenly we have content centred on community combined with advertising focused on the individual.

This, of course, is all about data, and Absolute Radio's strategy to make better use of the opt-in information it collects. The results so far have been very promising; bespoke research conducted with for the launch partners in conjunction with Entertainment Media Research showed that InStream increased unprompted brand recall from 32% (airtime) to 61% (InStream).

At present, Absolute Radio's IP listening accounts for around 10% of all listening (source RAJAR) – an amalgamation largely of desktop and mobile. But the future of InStream isn't limited to those two platforms alone; it's about targeted messaging on any web-connected smart device (hybrid DAB, in-car cloud-connected radio, IPTV, gaming entertainment hubs etc) where the internet - by enabling an

audience to log-in and listen – begins to redefine radio, helping to ensure that a traditional medium can continue to thrive in the digital age.

At the moment, Absolute Radio is the only commercial station to be live with this technology; the challenge now resides with the rest of the radio industry to embrace the future, in the same way that TV broadcasters have adopted VoD as a future-facing model to support its existing airtime business. RadioPlayer has set a great example of what can be achieved when all stakeholders collaborate for the benefit of the sector and with InStream there again lies an opportunity to propel radio to the forefront of digital innovation.

Friends, internet citizens and mobile users, lend me your ears

Steve Purdham, CEO & Founder Investor of WE7, argues that digital audio advertising is a sound idea in the right context.

The Internet is now pervasive in everyone's life and the economic models for content access are either free or paid, with free dominant.

We all know 'free' means 'free to the consumer' and that requires someone to pay, which means the medium we all love and hate: Advertising.

This can be demonstrated by the recent growth in the Internet Advertising sector which now contributes $503bn/annum to the US Economy, supporting over 5m jobs.

In the battle for 'eyes' and 'clicks' there has been a surge in search, display and video - all with the promise of granular targeting that means getting to that blonde male, aged 34, living in Banbury who loves skiing, fishing and chocolate and would definitely buy brand x. Or so the agencies would like us to believe.

This has meant that a lot of traditional learnings from TV and radio about reach, awareness and context have either been disregarded or simply ignored.

Audio advertising is a good example. In the exciting digital world, audio means radio which is boring, old fashioned, not accountable/targetable and you don't win great awards!

But are we missing a trick? Is there a role for digital audio? Is the power of sound about to come back in vogue?

'Context is King' and understanding context provides the basis to drive engagement with an audience and define what are the right media forms - and more importantly what are the wrong ones.

Take Google search for example. Introduce an ad form such as adwords where relevance is paramount then we see billions of dollars in business.

In Facebook, the initial advertising drive was such that with a billion pairs of eyes then display ads had to be a success. The reality has shown the opposite because the context is "I want to engage with my friends". So engagement with ads is minimal. Facebook's Brad Smallwood, said "ad impressions, rather than clicks, drive sales". So the real value to Facebook is its reach and awareness – which is almost equivalent to TV.

By understanding context it can be shown that there is a big role for audio, as increasingly the device that people are using to access the Internet is the phone or the tablet. This also means that the time that they are NOT engaged with the screen is increasing. Display forms of advertising may be right at certain times but not always and it is in those gaps that audio can assist significantly.

Audio can provide benefit in two areas: First by using the ears to create awareness to bring the eyes back to the screen. Secondly, being the main advertising mechanism in the absence of interaction with the display.

At WE7, we have found appropriate use of short audio segments can increase awareness and engagement with display forms by as much as 10-20 times compared to only display forms.

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Also when display is inappropriate due to other environments such as work, commuting or being in the gym, then selected audio can provide the basis for strong engagement. This can be demonstrated in the US by the growth of Pandora, the Internet Radio service, which is now in the top five mobile advertising services.

Good use of audio can support existing campaigns as well as being the core to others. It can also now be targeted and accountable as much as display.

But there are some areas of caution:

- Audio does not mean radio ads but Digital Audio is a new form of advertising and the best results come from creative that recognize this.

- Sensitivity is big, especially via mobiles. Advertisers need to understand that they have been invited into an intimate zone normally restricted to friends and family. So frequency, tone, repetition, relevance are critical.

- Short is sweet during interaction but longer is fine outside interaction - especially if relevant/entertaining.

- Shorter can be more effective than longer. For example at WE7 one global brand with an outstanding sonic logo of 1 second performed better just playing the sonic logo than playing the logo with full narrative.

Moving forward, clearly understanding context will continue to be critical for brands looking to use audio advertising effectively. By understanding that, it is clear that the power of audio has its place and so the ears can become equally as important as the eyes.

Creative challenges in the streamed audio environment

Jessica Smith, Creative and Client Services Manager at Red Apple Creative, offers some key insights for making great streamed audio adverts.

Radio and Streaming both have great opportunities for brands to advertise within. But the difference and similarities between the two needs to be clear – just because they both accept audio advertising doesn't mean it should be the same audio message.

Radio is a public environment. You're engaging in a group broadcast that suits your particular mood (Classic FM, Jazz, Kiss) or for general entertainment and information provision (Heart, Magic, Smooth). Listeners are accepting of the interruptions that occur – the DJ announcing the songs, travel news, commercial breaks, etc. Radio has a well reputed zone in, zone out effect on the listener and the zone in can occur during music, a news item or a commercial – dependent on what has caught that listener's attention.

Streaming on the other hand is personally selected by you the user. The tracks are exactly what you want, when you want with the only interruption being the audio commercials.

Streaming actually is one step ahead of radio in that you can't turn the volume down or skip away from the commercials. Our task as creative producers is to make the user want to listen and engage.

Radio commercial breaks are a little like a high street parade of shops. You have to travel past them on a regular journey. In order to grab your attention they will try to make their brand distinctive, bright, showcase offers in window displays, place A-boards in your path and so on.

Streaming commercials are more like a personal butler who announces a guest and offers you the chance to invite them into your home. No shouting, no jazz hands – more a polite knock at the door.

Are there similarities?

Audio messages need to connect quickly in a personal way in order for the listener/user to give it due attention and feel like the message has resonance with them
Even though visuals are usually available during a streamed commercial, the audio message is what will draw the eye – not the other way around.

The difference is that streamed messages can have an instant user action (the golden click-through function), radio requires the message to be memorable to the listener in order for an action to be carried out at a later time.

Top tips for making great streamed audio commercials:

- Do think about the how the environments differ for radio and streaming. What are people doing when they are engaged with each and how does a commercial message interrupt this engagement?

- Make the same message differently if you're using both radio and a streamed audio message. Streaming allows you the chance to invite users to do something now – so tell the user to "click here" if you can, ask them half way through and at the end of your commercial for maximum impact.

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- Don't clutter your streamed audio commercial with unnecessary information like URLs – the object of the exercise is the get the user to click through for further action.

- With streaming you don't know what someone has been listening to prior to your commercial. Your brand or product may be vibrant, but their playlist may have been sedate. Don't scare the user with a slap in commercial reality's face. Likewise, if your streamed message is leading your radio campaign remember that you need to stand out within a busy ad break. Radio listeners are used to a bigger, bolder sound – make sure you don't sound like the background - be the foreground.

Get it right and you'll be rewarded with click throughs, engagement and useful data. Get it wrong and you'll be the commercial that someone has to endure – and within the environs of a controlled climate like an audio stream a minor irritation can become a massive bug bear because the user can't control you.

The opportunities within the streamed audio environment for brands are enormous. Users are now engaging with streaming devices in a similar way to traditional radio in that they can enjoy their playlists while they listen around the house getting on with tasks. This means that you don't need to rely on display space to reach these people, you can become part of their personal playlist and enjoy (usually) solus advertising to a person who has been determined as possibly interested in what you have to say.

Be a personal message, announced by the personal butler – it's more likely that you'll be invited in than the market trader shouting offers at strangers.

What's the future for streaming music services?

The future of music is here and it is streaming, says Keith Jopling, Music Industry Consultant and Chairman of the BPI's Innovation Council.

With more and more consumer focus on devices and a reducing desire for packaged media product and 'ownership', streaming will start to make more and more sense to consumers as the way to go. It's really just a question of time.

Streaming is on the up and up. In the UK, premium music subscriptions grew by 50% in the first half of 2012 and now represent 10% of music industry revenues – roughly £100m. Put another way, streaming is now one third of digital music revenues and at this rate it won't take long for it to become the majority business model for digital music.

Not only that, but the much debated commercial model seems to be working too. In late September Spotify released financial results (for 2011). The company reduced its operating losses to just €2 million – thanks to premium subscriptions growth of 60% to €72.5 million. Three quarters of Spotify's revenues are premium subs – which is right where the company wanted to be. Advertising revenues also rose– by 24%.

There's no doubting Spotify's rip-roaring success. And, like iTunes back in the early noughties, the company has inspired any number of other players into the market including Deezer, Rdio, MOG and RaRa. Not to mention the big electronics brands of Sony, Samsung and most recently Microsoft all offering premium subscription music streaming services (so far with more limited success).

The question is however, like the downloads market before it, is streaming likely to be dominated by the first major player successful to market with the others all clambering towards a distant second place? In the digital space, what is second position worth – is it enough in revenue terms to be worth the effort? Deezer certainly thinks so and so does it new investor Access industries, chipping in with $100m of investment to prove it.

It's hard to tell at this stage though. Again it's down to timing. For the next year or two it is perfectly possible that streaming's growth will actually slow down – putting pressure not only on the market leader but particularly on all those services jockeying for second and third.

The analyst Mark Mulligan recently alluded to this when he announced (at The Future of Music Conference, Barcelona) last month the idea that demand for premium streaming was both finite and niche.

Mark has a point. For all those fans active in music buying and familar with the technology, many have already converted to premium subs. The natural growth curve for 'pure-play' subs is therefore limited. Hence Spotify and others – notably Deezer – have built their future growth roadmaps around bundling their services into mobile and ISP subscriptions (essentially a B2B service).

It's the 'bundling' market that holds the key to streaming growth – since this reaches the mass market of users with smart phones, data plans and some interest in music – if not quite the appetite for spending £120 per year.

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But bundling has its challenges. For one thing, mobile operators and ISPs don't share in the revenue value chain, more or less 'subsidising' the service depending on what their end-user tariff charges are. This is great for short-term goals like customer acquisition and churn reduction – but it isn't a recipe for long-term viable service delivery necessarily.

The other challenge for streaming is the customer experience. While streaming is designed to comply perfectly with the inexorable march of technology, not all music fans will be convinced that streaming is the way to go – even as the long term plays out.

We've recently done a major study into the key area of 'format shift' (jointly undertaken by the BPI and ERA) to understand consumers' behaviours, attitudes and future needs around music. It's pretty clear that plenty of music consumers still want to own, collect and 'buy' music as a product – many of them preferring physical formats for as long as they are available.

While the long-term future plays well for streaming – the mid-term (certainly a 3-5 year timeframe) will continue to see a multi-format, 'mixed' economy of music consumption. And while streaming will only grow, the presence of You Tube as a 'free to user' streaming experience will be plenty good enough for the mass market.

And not all streaming needs to be 'on demand' of course – Pandora demonstrating the success of the radio streaming model in the US even if licensing rates in the UK put the service off launching here. Many services that started as 'on demand' streams have since reverted their models to something more akin to radio - Last.fm and WE7 being prime examples. With Apple heavily rumoured to be releasing its own radio streaming model very soon, there is a reducing addressable market for premium subs, not an increasing one.

So, streaming is the future – but we'll see a plethora of delivery and payment models emerging and the shift to streaming over time will be slower than it currently looks.