

An Analysis of the Digital Signage Market: Challenges, Opportunities, Econometrics, Market Drivers, and the firmCHANNEL™ Solution

A Frost & Sullivan Study Sponsored by firmCHANNEL™

Analyst & Author: Michael Burns, Industry Analyst, ICT

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Frost & Sullivan
2400 Geng Rd., Suite 201
Palo Alto, CA 94303-3331, USA

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Introduction – Executive Summary

This study is focuses on the challenges and opportunities faced in the digital signage systems industry from both the end-user and system provider perspectives. In addition, econometrics such as market potential in terms of total annual revenues and market growth are presented and indicate the digital signage industry can expect a period of outstanding growth. Factors that provide the impetus for growth in the digital signage industry are discussed and the potential of the firmCHANNEL™ digital signage solution is described.

Challenges

Merchants and other business-to-consumer organizations continually pursue strategies to enhance the consumer's experience and thereby affect consumer perceptions, impressions and behaviors. These strategies are devised to:

- shape consumer behaviors.
- achieve differentiation from competitors in the minds of customers.
- increase the average size of transactions.
- realize the maximum potential of each customer visit.
- encourage impulse purchases.
- increase brand awareness.
- improve the perceived image of the company.
- drive sales of high gross margin or other promotional products or services.
- deliver detailed and critical product or service information.
- reduce perceived wait times in the office or at the point of sale.

Advertisers and media companies whose revenues are driven by advertising are experiencing difficulties in the current market environment. The advertising industry is increasingly fragmented (e.g. TV, Cable/Satellite, Radio, Newspaper, Magazines, Yellow Pages, Billboards, Direct marketing, digital media, websites, etc...). Competition for the attention of consumers and for advertising revenues within and among each of these verticals is intense, affecting the ability of advertising medium providers to attract and retain advertisers, and to prevent a decline in advertising revenues. Gone are the days when TV was dominated by 3 networks and reaching a significant proportion of the population with an ad campaign was a straight-forward task of media buying. This erosion of any one medium's dominance in advertising is met with other difficulties, such as:

- Busy American's watch less TV.
- Circulation of print media is decreasing in every demographic.
- Consumers have many more media options to choose from than just a few years ago.
- TiVo like systems give consumers unprecedented control the viewing experience.
- On-demand programming.
- Capacity to edit out commercials.
- Younger audiences are proving difficult to reach through traditional advertising models.

The question becomes, what is the best way to reach a targeted audience with a timely message in an environment where the audience has many choices between media and increasingly controls the content of the media?

Opportunities

This document suggests that digital signage can provide an answer to this question and, at the same time, maximize the consumer's in store experience and influence consumer behavior. Frost & Sullivan defines digital signage as a network of displays that can be remotely managed and whose business model revolves around merchandising or advertising. Although remotely managed digital displays are employed to communicate schedules, flight information, corporate communications such as training, specialty cable channels for hospital waiting rooms, and security applications to name a few, this document focuses on merchandising and advertising business models.

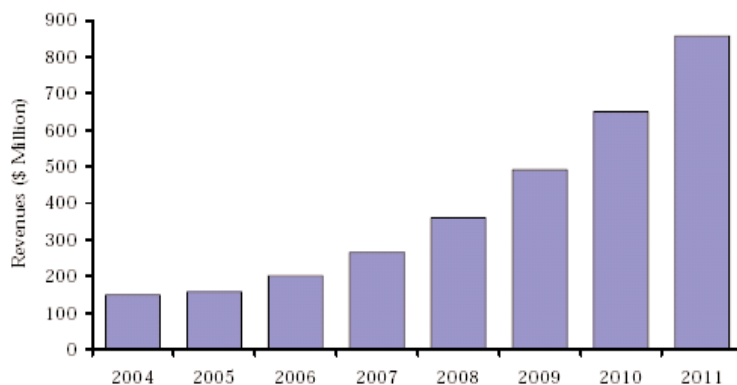
Getting your message in front of the consumer at the right time in the right place is advertising's answer to just-in-time inventory. With the erosion of advertising's reach and continued competitive squeeze on traditional advertising mediums, we are beginning to understand that it is not the quantity of the advertising impressions, but the quality (in terms of target audience and timing) of the impression that is important. In other words, did the message reach the intended audience at the right moment?

A primary benefit of digital signage is that an advertiser's message is presented to a captive audience. Customers waiting for service often have distorted perceptions of elapsed time. A strategically placed digital signage display targets an advertiser's message to this captive audience while simultaneously reducing the negative perception cause by even short periods spent in line, ultimately improving the consumer's in-store experience. Other important benefits of digital signage systems include increased sales, increased product knowledge, increased brand awareness, and the ability to influence consumer behavior. Perhaps most importantly, digital signage systems present advertising campaigns and other messages at the critical point of decision; at the right place, at the right moment, to the right audience.

Market Potential

Frost & Sullivan estimates the size of the North American Digital Signage Systems Markets comprising of revenues from sale of digital signage systems including displays, software, software maintenance, media players, design, installation and networking services at \$148.9 million in 2004 and forecasts the market to reach \$856.9 million in 2011 at a compound annual growth rate of 28.40 percent. This does not include revenues from the digital signage advertising, display, or software markets.

Digital Signage Systems Market: Revenue Forecasts (North America), 2004-2011



Note: All figures are rounded; the base year is 2004. Source: Frost & Sullivan

Market Drivers

- Retailers shift focus to in-store experience as a differentiator in the market.
- Media conglomerates are entering the digital signage market
- Decline in prices (displays, networking, servers, storage, etc...) coupled with technological advances (hardware, wireless connectivity, compression, content delivery, software, etc...) eliminate the cost justification concerns of the past.
- In-store digital signage has been shown to have significant impact upon consumer behavior, final product selection, brand awareness and brand perception.
- In-store digital signage at the POS increases customer satisfaction by reducing perceived wait times.
- Impulse buying increases with advertising at the POS and throughout the store.

The firmCHANNEL™ Solution

Frost and Sullivan identifies firmCHANNEL™ as a digital signage systems provider that is poised to exploit the emerging opportunities in the digital signage market. The firmCHANNEL™ system provides a huge value to end-users by providing turn-key, “out-of-the-box”, user-friendly digital signage systems to business-to-consumer companies at a remarkably reasonable price. The value firmCHANNEL™ indoor and outdoor digital signage systems provide permits businesses of most any size to cost justify the investment in a digital signage system. Digital signage also provides business owners with a potential revenue center. The firmCHANNEL™ solution can pay for itself long before the end of the optional lease program.

The firmCHANNEL™ solution is completely scalable from both the number of screens per location and the number of locations perspectives. The enterprise version of the firmCHANNEL™ solution provides the end-user unprecedented control of distributed digital signage systems from a central location. Content can vary by store location and by the location of the display within the store. Content creation is made incredibly easy and straightforward because graphic and content templates are professionally designed, produced, and provided by eliquidMedia™ and are included in the firmCHANNEL™ solution. These templates are specifically designed for the High Definition displays provided with the firmCHANNEL™ system. Through firmCHANNEL™, end-users have access to eliquidMedia™, a professional multi-media advertising company that understands what makes digital signage unique and how to tailor content to maximize the effectiveness in the digital medium. Customized content creation, professional graphics, editing, and even video production are just a few of the services eliquidMedia™ provides.

Additionally, the firmCHANNEL™ system can serve as the platform for distribution of all digital media content, whether it is created at the store level, corporate level, or by an outside advertising agency. Now, even store personnel with little training can create professional looking, customized, and locally targeted digital content in minutes. Timely, relevant messaging, greetings tailored to specific customers, and the ability to react immediately to identified opportunities in the market with specialized promotions are representative of a few innovative applications inherent in the firmCHANNEL™ template design. No longer is it necessary to employ dedicated “super-users” or a team of highly trained graphic artists to create and distribute high-quality digital media content. What used to take hours or even days to complete can be accomplished in a fraction of the time by end-users with minimal training, reducing total cost of ownership and providing a real tangible value. The templates provided with the firmCHANNEL™ system empower users with the resources they need to create customized and professional looking digital signage content at will. The versatile firmCHANNEL™ solution possesses agility and ease of use beyond many competitors in digital content creation and distribution management segments of the digital signage industry. As a result, Frost and Sullivan is of the opinion that firmCHANNEL™ has an opportunity to exploit a competitive advantage, and, with the release of Enterprise version capable of controlling over 10,000 screens, has the potential to become a prominent player in the industry. The inherent ease of use of the

firmCHANNEL™ system and the speed to market advantage afforded by the eLiquid™ templates combine to form an unprecedented, elegantly simple, yet powerful solution in the digital signage marketplace.

Currently, the growing digital signage market is highly fragmented with many players from disparate industries providing the necessary services and components to integrate, install, maintain, and service a complete digital signage system. This is where firmCHANNEL™ provides a valuable service in the market. The firmCHANNEL™ organization is poised to exploit this opportunity with the affordable and complete end-to-end digital signage system they have bundled together to form an easy to use, easy to maintain, out-of-the-box solution. End-users no longer have to contact several companies for displays and content control systems, choose between software, hire an advertising firm for content, and arrange for affordable financing. The firmCHANNEL™ system provides a real value; a powerfully complete, flexible, end-to-end, easy to use, and extremely affordable digital signage system.

CONTACT US

Bangalore

Bangkok

Beijing

Buenos Aires

Cape Town

Chennai

Delhi

Dubai

Frankfurt

Kuala Lumpur

London

Mexico City

Mumbai

New York

Oxford

Palo Alto

Paris

San Antonio

Sao Paulo

Seoul

Shanghai

Singapore

Sydney

Tokyo

Toronto

Palo Alto

2400 Geng Road, Suite 201
Palo Alto, CA 94303
Tel 650.475.4500
Fax 650.475.1570

San Antonio

7550 West Interstate 10, Suite 400,
San Antonio, Texas 78229-5616
Tel 210.348.1000
Fax 210.348.1003

London

4, Grosvenor Gardens,
London SW1W 0DH, UK
Tel 44(0)20 7730 3438
Fax 44(0)20 7730 3343

877.GoFrost

myfrost@frost.com
<http://www.frost.com>

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