Digital Upheaval Grips Cannes

Ad festival reflects big changes in industry as marketers shift budgets to online media outlets

By Suzanne Vranica
And Mike Shields

The Cannes advertising festival, which begins Monday, is known for self-congratulatory backslapping, talk of creativity and a steady flow of rosé. This year something else will likely be part of the mix as industry honchos party on the French Riviera: worry.

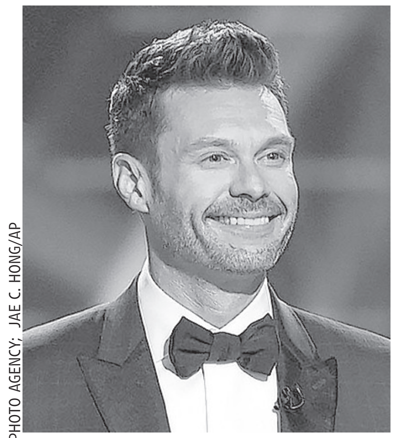
The ad industry is in the midst of wrenching change that is touching every piece of the business.

A long list of marketers such as **Procter & Gamble** Co., **Coca-Cola** Co. and **Mondelez International** Inc. have placed their media-buying businesses up for review as they look to cut costs and find agencies versed in the latest digital techniques. All told, over $26 billion in ad spending for companies is in play, according to Morgan Stanley.

Meanwhile, concern about alleged kickbacks in ad buying is fueling tension in the agency-client relationship. And the dark side of digital ad growth is coming into sharper focus. The Web's hooligans are creating exotic new flavors of fake traffic, ad-blocking software is, not surprisingly, blocking ads, and marketers and publishers are in a pitched battle over how "viewable" ads should be online.

"They are not the pretty issues but these are the issues that need to be addressed in order to help provide advertisers clearer return on their investments," said Mike Peralta, chief executive officer of Audience Science, an ad-tech firm that is hosting a seminar on Wednesday titled "Digital Ownership & Transparency."

Those topics are expected to be part of panel discussions and cocktail-party chatter at the 62nd Cannes Lions, where roughly 13,500 delegates are expected to attend, 12% more than last year.



(CLOCKWISE FROM TOP) CHRIS PIZZELLO/AP; JUSTIN LANE/EUROPEAN PRESSPHOTO AGENCY; JAE C. HONG/AP

Ryan Seacrest, Chrissy Teigen and Dick Costolo, clockwise from top left, are expected to appear at the annual ad festival on the French Riviera.

Advertising, technology and media heavyweights including **WPP** PLC Chief Executive Martin Sorrell, **Twitter** Inc. Chief Executive Dick Costolo, who is stepping down in July, and **Time Warner** CEO Inc. Jeff Bewkes are expected to be among the attendees.

Bigwigs will be pulling out all the stops to woo ad dollars, enlisting the help of celebrities such as Sting, Ryan Seacrest and model Chrissy Teigen to court deals with marketers such as **McDonald's** Corp., **Heineken** NV and **Visa** Inc.

Other topics expected to be explored on the Côte d'Azur include how technology and data are increasingly being used in marketing.

Panel discussions include one titled "Cinematic Virtual Reality and the Power of Deep Immersion" and "Scientists Vs Poets: The Art of Connecting Data To Storytelling."

The conference reflects the big changes taking place on Madison Avenue. The weeklong award show once meant to laud "Mad Men" for creative work has witnessed a steady invasion of tech giants such as **Google** Inc., **Facebook** Inc. and ad-tech firms such as **Rubicon Project**. Those companies have become power brokers as marketers shift ad budgets from traditional to online media. U.S. ad spending on digital ads is expected to increase 16% to $58.6 billion this year while spending on print ads is likely to slide 1% to $31.17 billion, according to eMarketer.

The reviews by big companies of their ad-agency business will "likely dominate the conversations," said Philip Thomas, the festival's chief executive.

The reviews are being fueled by the digital reinvention of all aspects of the marketing ecosystem, as well as the growing concerns about transparency and conflicts of interest. Some marketers worry whether ad agencies are morphing into media-selling entities that don't always act as objective agents for their clients.

"Agencies have long clearly been the representative of advertisers, but there is a little bit of a pendulum swing, where you might ask, 'Who is really paying their bills?' " said Jim Nail, principal analyst at Forrester Research.

Mr. Nail said agencies also face a threat from brands that are building out internal divisions designed to handle automated ad buying—which could potentially cut agencies out.

Still, Mr. Nail said that Cannes represented the "perfect time to get drunk and bury the hatchet" for ad executives facing so many questions about their businesses.

"There is turmoil in the industry, but people can set it aside for week and celebrate all the great campaigns that are happening," he said.

At Toshiba, Fukushima Still Drives Finance Woes

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chairman, made no secret of his lack of enthusiasm for Mr. Sasaki. At a news conference to announce the change, Mr. Nishida said he expected the new chief executive to improve the company's performance. Afterward, Mr. Sasaki shot back, telling reporters: "I played a role in putting the business on a stable path, and he had no right to say that I failed."

Both former chiefs continue to hold titles at the company: Mr. Nishida as adviser and Mr. Sasaki as vice chairman. Toshiba said neither man could comment.

Though the company has scheduled its annual meeting for Thursday, it says it won't be able to deliver its financial results for the year ended March 31 until later this year. Toshiba has completed its own probe into the irregularities and has appointed an outside panel to investigate further. Results of the independent probe are due by mid-July.

An initial round of disclosures in May focused on the energy and infrastructure units, finding that profit was overstated through the use of "percentage of completion" accounting, in which costs and revenue are booked incrementally as a project progresses, rather than when it is finished. Toshiba followed up in June by reporting additional irregularities in other units.

But the company hasn't named those responsible for the problems. Details of the biggest irregularity—the one involving the smart-meter contract—remain unclear. Tokyo Electric Power said the contract remains in place.

The accounting irregularities tarnished the introduction this month of a new corporate-governance code championed by Prime Minister Shinzo Abe that aims to improve transparency. Atsushi Saito, CEO of the company that runs the Tokyo Stock Exchange, described himself as "ashamed," saying at a news conference that he thought Toshiba should be one of the "mentors or leaders of Japanese industry."

Like most of Japan's other large electronics companies, Toshiba has been scaling back its consumer operations, which face tough competition from lower-cost producers in South Korea and China. It has stopped making or selling television sets in most areas outside Japan, licensing its brand to other TV makers. It has sold its mobile-phone operations to Fujitsu Ltd. And last year it said it would cut 900 jobs in its PC operations as it shifts its focus to high-end business customers.

PCs, TVs and appliance units made up only 18% of sales in the latest financial year, down from 46% in 2006. The division containing those businesses incurred a loss of ¥63.5 billion in the nine months ended in December 2014.

Toshiba has become increasingly dependent on its semiconductor arm. Mark Newman, an analyst at Sanford Bernstein, estimates that NAND flash-memory chips, which Toshiba supplies to Apple Inc. and other smartphone makers, will deliver 73% of the company's operating profit in the current financial year, up from an estimate of 60% before the accounting problems emerged.

—Takashi Mochizuki and Atsuko Fukase contributed to this article.

Apple Beats a Retreat on Music Royalties

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musicians such as Jack White and Madonna in allowing her music—except for the latest album—to be played on Jay Z's streaming service Tidal. Apart from Spotify, her catalog remains available on all other streaming services that require a paid subscription, with the exception of "1989."

Music-industry analyst Mark Mulligan said it isn't uncommon for streaming services to forgo royalty payments during a trial period, but those are typically startups struggling to get off the ground, not the most valuable company in the world. "This is less a case of the business practice being questioned, it's whether Apple itself, ideologically, should have that type of business benefit applied to it in the way some of the other services do," Mr. Mulligan said.

While Ms. Swift was the biggest star to push back against Apple's strategy, other influential industry groups also had spoken out. **Beggars Group**, an independent music company whose record labels include **XL Recordings**, home to singer Adele, posted a message on its site last week saying the company hadn't yet reached an agreement with Apple. "Whilst we understand the logic of their proposal and their aim to introduce a subscription-only service, we struggle to see why rights owners and artists should bear this aspect of Apple's customer acquisition costs," the company said.

With Apple Music, launching June 30, the company will challenge early streaming entrants **Spotify** AB, Pandora and others. The company is betting that it can once again push its giant customer base to a new way of listening to and paying for music. In 2003, its iTunes service transformed the music landscape, and it now accounts for an estimated 80% to 85% of music downloads worldwide. Following upstarts such as Spotify into the recurring subscription model offers the prospect of more revenue for the company and for the largest music labels.

Apple Music will cost $10 a month, but won't include a free tier, unlike Spotify, which offers an ad-supported access in addition to its paid subscription.

"I realize that Apple is working toward a goal of paid streaming," Ms. Swift wrote. "I think that is beautiful progress. We know how astronomically successful Apple has been and we know that this incredible company has the money to pay artists, writers and producers for the 3 month trial period...even if it is free for the fans trying it out."

Some artists and smaller labels have complained about low royalty rates for streamed music, over which they have little control. Last December, a single play on Spotify's paid service generated 0.68 of a cent in royalties, according to Audiam, a company that helps music publishers collect digital royalties. Post trial-period, Apple is paying slightly more than Spotify to music owners. Apple is paying 71.5% of revenue vs. 70% from Spotify (premium tier).

How much of that royalty revenue actually gets paid to musicians varies, depending on the deals they have with the record labels that distribute their music.

Jay Frank, founder of DigMark, a music consulting company that specializes in streaming music, says some independent acts he works with are considering delaying summer album releases until the fall, when the first wave of early adopters of Apple Music will be emerging from their free-trial period. Because the bulk of an album's streams typically happen during the first week or two of its release, these acts worry that they will miss a big chunk of potential streaming royalties from Apple.

"In the independent world especially, the issue of the free trial has overshadowed the fact that there would be a slightly higher royalty payment [from Apple]," Mr. Frank said. "Because the trial period takes so much money off the table, the conversion rate [of free users to paid subscribers] would have to be significantly high for artists or labels to make money in the long run."

Underscoring that notion, Ms. Swift said in her letter: "These are not the complaints of a spoiled, petulant child. These are the echoed sentiments of every artist, writer and producer in my social circles who are afraid to speak up publicly because we admire and respect Apple so much. We simply do not respect this particular call."

In an article in The Wall Street Journal last year, Ms. Swift wrote that she remained optimistic about the music industry, saying "In my opinion, the value of an album is, and will continue to be, based on the amount of heart and soul an artist has bled into a body of work, and the financial value that artists (and their labels) place on their music when it goes out into the marketplace."

—Daisuke Wakabayashi contributed to this article.

U.S.-China Dialogue Pays Dividends

By Wang Yang

I have the honor of co-chairing the U.S.-China Strategic and Economic Dialogue in Washington, D.C., this week. This meeting is of particular significance as it lays the groundwork for President Xi Jinping's state visit to the U.S. in September. We look forward to engaging in candid discussions with U.S. colleagues to achieve broader consensus, better solutions and mutual success.

Chinese companies' direct U.S. investment since 2009 has increased fivefold, adding more than 80,000 jobs.

The role of this dialogue has been commended by many, but unfortunately also criticized by some who see it as producing more accusations than results. The facts clearly prove otherwise. The dialogue has helped both countries identify and expand common interests and achieve mutually beneficial outcomes.

For example, the talks were critical in kick-starting negotiations on a bilateral investment treaty that had been stalled since 1982. This breakthrough came in 2013 during the fifth round of the dialogue with the adoption of a pre-establishment national-treatment clause, which means national treatment will apply to U.S. businesses as they establish a presence in China. We also adopted a "negative list" approach, which clearly details which sectors aren't covered in the treaty.

Climate change is another area where dialogue has achieved success. This is an issue where both countries have enormous shared interests and face daunting common challenges. The past three dialogue rounds focused on this issue and produced extensive common ground that paved the way for the historic Joint Statement on Climate Change announced by President Xi and President Obama during the latter's visit to China last November. Such progress also gave a strong boost to multilateral negotiations.

Maintaining a strategic dialogue has helped the U.S. and China effectively manage differences and minimize their impact on our relationship. Some may recall the motion in the U.S. a decade ago to impose a 27.5% punitive tariff on Chinese imports. Fortunately, both sides chose dialogue over confrontation and worked together to forestall a looming trade war.

Over the past decade China has been committed to market-based currency reforms, and the yuan has appreciated 35% against the U.S. dollar. The International Monetary Fund recently released a report stating that China's currency is "no longer undervalued." Currency reforms have also helped reduce China's current-account surplus from a high of 10% of gross domestic product to 2% today. All of this means a big improvement in China's economic structure.

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But trade is a two-way street. Many Chinese companies have long been frustrated by the high barriers the U.S. has imposed on investments from China, such as stringent security reviews. They've also found it difficult to obtain business visas. It is through dialogue that some of these concerns have been addressed by Washington. We look forward to more such positive steps.

Over the past six years, direct investment from Chinese companies to the U.S. has increased fivefold, creating more than 80,000 jobs across the country. With fewer obstacles to Chinese investment, imagine how much more can be achieved. A recent study by the National Committee on U.S.-China Relations and Rhodium Group found that Chinese investments in the U.S. now total nearly $50 billion and will increase to between $100 billion and $200 billion by 2020, creating between 200,000 and 400,000 jobs for U.S. workers.

An online survey conducted in China last November showed that the majority of respondents believed that "greater understanding" is the best means toward "harmonious coexistence between China and the U.S." Through dialogue, we gain a better understanding of the concerns and expectations of the American people and deeper insight into the way the U.S. political system works.

Dialogue has also helped U.S. leaders and the public learn more about 21st-century China. For example, the fact that more than 95% of Chinese businesses are privately owned or controlled, and that state-owned enterprises are responsible for their own operations, rather than being simply dictated to by the state.

Dialogue has thus been a two-way process of learning and adapting, which enables the two sides to approach issues in a more collaborative and effective manner. There are different ways of resolving differences and frictions, and dialogue is certainly the most cost-effective means for doing so.

The Strategic and Economic Dialogue is a sign of the growing maturity of China-U.S. relations. Bilateral trade has doubled over the past nine years. China has become one of the fastest-growing export markets for the U.S. and the U.S. an important investment destination for China. The convergence of interests has gone beyond many people's imagination. It is now such that neither could afford noncooperation or confrontation.

China-U.S. relations are facing a rare opportunity for development. Yet many challenges remain. Let's work together to strengthen bilateral relations for the benefit of our peoples and the world.

Mr. Wang is China's vice premier.

A Nudge in the Opposite Direction

[Bookshelf]

The Greening of Asia
By Mark L. Clifford
Columbia Business School
320 pages, $29.95

By Razeen Sally

Mark Clifford begins his book on a note of environmental alarm: "Asia is approaching a moment of systemic—in some cases, existential—crisis. How Asian countries react to the environmental challenges of pollution, resource shortages and climate change will determine whether the region will continue along its unmatched path of growth or descend into an increasingly unlivable dystopia."

The author then adds, much more optimistically: "Governments play a critical role in setting and enforcing rules, but it is companies that bring government policies to life in the real world. Individual firms have the resources—the money, the people and the technological know-how—to most effectively implement change. Asia already has countless companies that are, in ways large and small, making the transition to a greener, less resource-intensive, lower-carbon world."

"The Greening of Asia" is full of detailed stories of companies responding to environmental challenges in all sorts of imaginative ways. The companies come from a range of sectors—energy, city design, construction, transportation, water and plantation crops—and are all based or have a significant presence in Asia. These accounts make Mr. Clifford's book worth reading.

As the executive director of the Hong Kong-based Asia Business Council, Mr. Clifford in his book brings together more than 60 CEOs, as well as senior managers in environmental services operations and "sustainability units." He visits corporate campuses, factories, power plants and plantations all over East and South Asia.

He looks at companies in Singapore, for instance, where the government, long used to receiving international accolades, gets one more from Mr. Clifford for its far-sighted policies on transportation, water use and urban planning. These policies have spawned companies that now export their expertise in environmental services, water and city design.

Singbridge, a state-owned company, is building eco-cities in China. Hyflux, an international player in water treatment and desalination, is a rare Singaporean example of rags-to-riches entrepreneurial success in the private sector.

In Manila, it wasn't too long ago that many households didn't have running water and had to pay exorbitant prices to have containers of water delivered by trucks. Here Mr. Clifford tells the story of the company Manila Water, which since the privatization of the water sector has provided near-universal access to tap water and has slashed user charges. The company also invests heavily in sewage treatment.

In Hong Kong, Mr. Clifford writes about the MTR Corp., which operates one of the world's biggest subway systems cleanly, cheaply, punctually and profitably. Revenue from the land that MTR develops around its subway stations—commercial offices, shopping malls, apartment buildings—subsidize its rail investments and operations. Yet the company also regularly appears at or near the top of global sustainability rankings.

There are plenty of opportunities for green entrepreneurship in Asia without the need for industrial policy and 'nudge' economics.

Hong Kong also provides Mr. Clifford with his favorite case study. CLP, known to locals as "China Light," may seem an odd choice for a green success story. It has been vilified for the pollution it emits from its coal-fired power plants in Hong Kong and elsewhere in Asia.

But CLP has pledged to reduce the carbon intensity of its electricity production by more than 75% by 2050, with a target of 30% non-carbon-emitting sources by 2020. The company is on track so far, and has even expanded into nuclear, wind and solar projects.

For all these corporate success stories, however, Mr. Clifford insists that companies cannot tackle Asia's environmental challenges alone but need to be directed by government rules and incentives. At first he stresses that public policies should be market-oriented rather than top-down edicts.

Water and carbon should have market prices. Fossil-fuel subsidies should be abolished. He also recommends tighter building standards, urban restrictions on vehicles and government-industry-academia R&D partnerships. So far so good.

But then he veers down the wrong track. He seems to be a fan of "nudge" economics. He wants governments to continue tightening the standards for building, vehicle and appliance efficiency, in partnership with businesses and "civil society."

This presumes that elite collective wisdom is superior to the knowledge generated by consumers and producers through their market interactions. And that such elite cartels can be free of interest-group capture and rent-seeking.

Worse, Mr. Clifford advocates industrial policy to promote renewable energy, with vigorous use of subsidies and mandates. He tries to dress this up in pro-market language, distinguishing between "good" subsidies (wind and solar power, electric cars) and "bad" subsidies (fossil fuels).

He cites as an example China's industrial policy for renewables, which have driven down prices and expanded global market coverage. As a result, he says, wind and solar power are now more "cost competitive."

Yet in Europe, renewable-energy targets, feed-in tariffs and direct subsidies have increased the tax burden, hiked up electricity prices, added layers of bureaucracy, triggered trade conflicts and created bloated industrial-policy champions addicted to subsidies.

The U.S., by contrast, has had a shale-powered energy revolution based on freer markets and clearer, stable property rights, resulting in real (unsubsidized) energy input costs that are a fraction of what they are in Europe and Asia. Moreover, one has to be skeptical of Mr. Clifford's stories of entrepreneurial success in renewables and electric cars, given the dependence of these companies on government subsidies. They often have a stronger whiff of Elon Musk than Steve Jobs or Bill Gates.

"The Greening of Asia" is a paean to practical green entrepreneurship. Asia needs more of it—not only from large, established companies but also from venture-capital startups. Governments should set and enforce the rules of the game. But nudge economics and industrial policy for fashionable sectors should not be part of the package.

Mr. Sally is an associate professor at the Lee Kuan Yew School of Public Policy at the National University of Singapore.