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TV Advertising: The End of the Beginning

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Is the advanced TV 'trick play' technology such as Commercial Skip in SONICblue's ReplayTV beginning to knock the legs out from under commercial TV advertising? Specifically, will ad skipping a la TiVo, ReplayTV and UltimateTV herald the end of lucrative TV advertising in its present form? We certainly have been subjected to rather wild points of view on this subject of late. The well-known media personality Jamie Kellner in charge of Turner content at AOL Time-Warner has recently been quoted as saying that it might be okay after all for a TV viewer to go to the refrigerator while a TV commercial plays unwatched on his or her TV. [Are we allowed to go to the bathroom? — Ed.] However, he went on to note that, beyond the granting of such limited rights, any unattended TV commercial is pretty much equivalent to the stealing of content. Such a frame of mind illustrates the current madness associated with TV advertising and the technological dilemma it now faces. No wonder AOL Time-Warner has problems and keeps reorganizing. Such ludicrous statements coming from the remaining executives make us wonder if the pending Department of Justice investigation of alleged accounting irregularities is the lesser of two evils? Accounting systems and investor confidence eventually can be repaired. On the other hand, the failure by AOL Time-Warner executives to investigate, understand and serve the reflexive needs of the consumer could irreparably damage their market position and could constrain the stock price to single digit territory for some time.

"Such extreme positions on both sides of an issue portend a troubled and turbulent future…"

At the other end of the ideological spectrum, various consumer electronics firms and their customers have expressed a strongly held opinion that we should all be allowed to opt-in (for free) to any mode of TV content viewing that technology enables, perhaps even including 'Napsterization'. Let content rights management and property rights be damned, seems to be their battle cry. Such extreme positions on both sides of an issue portend a troubled and turbulent future for TV advertising as well as various forms of on-demand content.

In this article we examine the emerging confrontation that could be characterized as: the destabilization of TV advertising. We do so by prodding the key issues in search of a more reasonable and equitable way forward for all parties concerned to

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follow than the ones articulated by ideologues on both sides of the key issues. Urgently required is a middle course for TV advertising to pursue in order to once again have the prospect of a successful future that is unencumbered by seemingly self-serving dogma.

To those who may want to cry out: "the sky is falling, the sky is falling," we concur that a crisis appears in the making. Therefore, it is high time to invigorate the ongoing dialogue and attendant analysis in a way that leads us away from the brink toward an equitable and practical compromise among the TV networks, MSOs, advertisers and their viewers. Asking the federal government to regulate away the rights of its citizens to exercise their freedoms for the benefit of the TV industry is not a viable or practical answer — and it will never happen.

The Uninvited Guest at Risk — Let's begin by characterizing the appropriate role of the TV advertiser visiting the American home. Even when arriving with a freshly baked apple pie, the uninvited guest participating in the sanctity of the home is granted little room to complain or make demands. He is not expected to delay the proceedings, change the menu or dictate the terms and conditions of the meal. He certainly would have difficulty getting away with bad manners, low humor or complaints regarding the meal or the attention he receives. In fact, he has little call to make demands of any kind of his host or the other invited guests. This also applies to the TV advertiser who shows up on a cable or DBS subscriber's screen. This limited role is the natural fate of any advertiser who wedges himself into the TV entertainment experience in the home.

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This point of view may appear to be in stark contrast with the unabashed promises and representations sometimes made to advertisers by their ad agencies, the networks and various service providers. Acting on self-interest, it is natural for the latter groups to attempt to puff up advertisers with exaggerated expectations regarding their importance and the vitality of the role they play. In reality, to the home viewer the advertiser is but an uninvited guest, who interrupts and delays the proceedings. Yet, when he stays in the background he is often tolerated. All the while it remains the viewer's unalienable right to ignore any advertising he chooses — at will.

Based on U.S. government statute and the practices of the FCC, the public communication channels including television are regulated for the public interest. Within this framework and with the public interest first and foremost in mind, the FCC recognizes various commercial interests including advertisers. However the advertisers and their agents: the Networks and the MSOs, are in no position to dictate who goes to the refrigerator, or visits the bathroom during these commercial breaks.

Within this context, what rights does the advertiser who paid good money to a third party to wedge himself into the game really possess? Common sense would tell us that he has about the same rights that an advertiser has when he places an ad within a magazine or periodical. He has purchased a position within the medium, nothing else. The subscriber can view the ad at will, or ignore it. He can even rip the page out of the magazine. The trick is to be a good guest, to respect the host and to make oneself liked.

Getting Attention and Making an Impression — Any good book on elementary psychology may cover this key aspect of human behavior. As you may recall, the process of getting attention and making an advertising impression typically goes something like:

- First, obtain a placement that gets the advertisement NOTICED.
- Second, the viewer must elect to actually FOCUS on the ad.
- Next, he or she decides whether or not to pay any ongoing ATTENTION.
- Then with viewer attention, an IMPRESSION is made.

When conditions are favorable and a prospective viewer is in the right frame of mind, a TV advertiser has an opportunity to gain this viewer's attention and thereby win an impression. The economic basis of media advertising, cost-per-thousand (CPMs), are based on demographics and on making impressions on chosen target populations, little else. If TV viewers lack interest and do not choose to cooperate and give advertisers their attention, no advertising impressions are likely. What advertisers must do is make their advertising and the way it is presented more compelling and thereby achieve the greatest possible numbers of real impressions.

Technological Devaluation of TV Advertising — By means of illustration, let us consider magazine advertising and see what it has to teach us regarding TV advertising. Suppose there existed a service to which a magazine reader could subscribe that would remove or cover-up the advertising in a magazine as the reader flips through the pages? What then? Does the consumer have a right to reprocess the content of a magazine in such a manner as to avoid the possibility of any advertisement ever making an 'impression'? Of course he does, and such a service would indeed be terrible for the advertisers yet perfectly legal.

However, common sense would tend to negate such a destructive approach to advertising. In fact the consumer can be the beneficiary of advertising — it helps point the way to products and services he or she may wish to acquire. Advertising helps to create brand images that, in large part, make the consumer experience more effective and at times even more enjoyable. After all, an advertisement about a product or service in which we may have a real interest is valuable content to us. At the very least, such advertising brings with it useful information about the product or service — information that we crave.

Thus one secret to the success of magazine advertising lies in the fact that it is indeed an elective attention getter. The ads are there for the viewing, yet they do not materially interfere with the rest of the magazine in terms of the reader's experience. That is not the case with linear TV where time and the hour move sequentially from content to advertising back to content and so on with little option to stay with the material of interest. The fact that linear TV has been the order of the day was upset a generation ago by the advent of the VCR. The television industry responded aggressively and took Sony to court citing unfair business practices but lost the case. A viewer may indeed fast forward through any program he or she elects to record and view later on in so called 'trick play' mode, where pause, fast forward and rewind are elective activities by which a viewer chooses to attend to a program in a more or less direct-access nonlinear mode. The viewer has now entered a mode within which 'time is

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elastic' when it comes to TV programming and its wedged-in commercial messages.

Of course the VCR is a clumsy gadget and not a particularly user-friendly device, so it is infrequently used for much more than watching prerecorded movies. Although the VCR is a [user] directed access device, it is not a random access tool with which to readily jump around within and among various pieces of recorded content. While time-shifting for later viewing and fast-forwarding through uninteresting content is a convenient mode for most content, certain programs such as awards specials, news and sporting events beg to be consumed in the 'live,' but not necessarily linear mode. Unfortunately, VCRs are powerless to enhance consumption of a live broadcast — if the phone or doorbell rings and you choose to answer, the interruption will rob you of enjoying that segment.

Enter the personal video reorder (PVR) — essentially an application specific computer disguised as a digital VCR that records video on a hard disk drive. The real magic here is the ability to manage multiple streams of content, and record and playback simultaneously, thus creating the ability to pause 'live' TV. PVRs take the consumer beyond directed access to random access and also allow live TV to be consumed in a nonlinear fashion. Nobody wants to tape a ballgame [with a VCR] and when loading the tape for playback several hours later, be told the final score by a family member returning home. On the other hand, using a PVR to record and slightly delay a live broadcast, enabling commercial skipping and pausing for interruptions — becomes a very compelling feature for consumers. They can finish a live broadcast nearly on time, with significant convenience. Advertisers have every right to be worried.

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Let's not forget a technology that predates even the VCR. The remote control also came along to potentially interfere with TV advertising via convenient 'channel surfing', and suddenly a new phrase was added to the couch potato's lexicon: "hand me the clicker." The handheld device's seemingly mechanical buttons, initiated ultrasonic signals causing the TV to change channels. The 'clunk' and the lethargic response were unmistakable, still, advertisers were concerned viewers would quickly surf away from their message. What they neglected to remember is that TV viewing is primarily a leanback activity. Quite often, a viewer is too tired or too ambivalent to find and reach for the remote and press the correct buttons — instead he allows the advertiser's message to drone on and on. With the remote control as with the VCR, even today, it is still inconvenient to 'tune-out' and attend to other wants and needs, without missing some of the programming.

The problem now confronting TV advertisers is the insidiously advanced means of 'ad skipping' enabled by the PVR. With a very high degree of convenience and ease of use, the PVR and other technologies such as video on demand (VOD) and DVD players forever change consumers viewing modes. Via these new gadgets, the TV becomes an on-demand, highly nonlinear and empowering device for the consumer. With such electronic marvels, the viewer can shuffle any unwanted advertising or content out of the way. Have you ever watched a prerecorded sporting event in 'trick play' mode? If you have, you probably skipped much of the content along with some of the advertising and viewed the whole proceedings in a fraction of the total, perhaps as little as 50-percent of the linear time it took to record the program in the first place. The amount and the usage of our discretionary time will be irreversibly changed by these empowering devices.

Facing the Reality of New Technology — While some may want to rage against the business obstacles new technology has placed in their path, the best alternative is more often than not to adjust to the changes such technology brings to bear. Fighting new technology seldom amounts to more than an unsuccessful holding action.

We can all come up with good examples of failed attempts to block the implementation of compelling new technologies and the economic consequences faced by those who tried. Think of Honeywell, Xerox and U.S. Steel as former powerhouses who are now in steep decline. The most notorious such case today may be the fight over so called 'GM' products or genetically modified foods. There is an ongoing uproar throughout the EC or European Community to block US exports of GM soybeans and GM corn and such into Europe. Their citizens are up in arms to such a degree that the EC is boycotting such 'improved' agricultural products from their markets. Needless to say, the biological revolution and its impact on agribusiness cannot be stopped, only temporarily delayed.

Yet, in counterpoint, in a US society that is (contrary to some opinion) becoming increasingly producer versus consumer dominated, there is a tendency on the part of business at times to forget its proper role and overlook the limitations the Bill of Rights places on them. The privacy issues relating to e-commerce and other aspects of the Internet come to mind as powerful current examples. The excessive wedging-in of advertising into TV fare is also becoming such an issue. Have you watched a PGA Tour golf event in linear TV mode lately, or for that matter a good movie on a network channel. In the second half of the program, near its climatic end, the commercials on major networks such as ABC, CBS, NBC or FOX come on every few minutes and last up to 3 or 4 minutes. Even the most dedicated viewer or fan has trouble maintaining attention or interest.

Past a certain point, the citizenry is very likely to overturn the trespasses of an AT&T, Microsoft, AOL and the rest via constitutional and other means. When that happens, everyone may lose out, for TV advertising is one of the critical underpinnings behind cost-effective TV content being created and made available to the public. Without it, much valuable programming might never be created. At the very least, the funding of some quality productions would be significantly reduced.

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So it all gets down to facing the reality of new TV technology and its natural impact on such things as advertising. The advanced set top box is here, so too is the PVR, also the game console, the advanced remote control and the DVD player. They all offer better ways for the public to be entertained. When a viewer pays for the service he is receiving by means of a monthly subscription, the purchase of an advanced machine and the like, he has rights that the TV industry must honor. The industry can only proceed to wedge in excessive advertising and restrict content, that blocks the effective use of new technologies, at its own risk.

In economic terms, as new electronic devices come into the market, their pricing is ultimately controlled in large part by the value they provide to the consumer. Neither the FCC, nor fancy 'watermarking', encryption or other means will limit the ability of viewers to move on to nonlinear TV viewing in a time-is-elastic and on-demand mode. It is TV advertising that has to change in ways other than artificially constraining the behavior of the TV viewer. In the end, when it comes to the TV industry commercially surviving the new technology, it comes down to a gut check and a reality check as well. It's a matter of change or perish when it comes to the future of TV advertising.

New TV Advertising Success — In the brave new world of on-demand TV, of PVR and the rest, the economic model has changed and so too must advertisers and their service providers. The infomercial is an example of a success story, so too is QVC. They both represent paradigm shifts that take advantage of the consumer's freedom to opt-in. More recently, TiVo, began offering advertainment — advertising that is also entertainment as another possibility. Putting the viewing choice in the hands of the consumer and providing relevant content will determine if this is a big winner for advertisers. One thing is for sure; targeted advertising is likely to earn far greater CPMs. They are far more impactful on their audience's future behavior as they are tailored to fit a specific target public. Such advertising only fails to meet the mark when it comes to classical 'banner waving' type advertising to a mass audience. The general public will soon be using PVR and other new electronic means to opt-out of such now old fashioned logo and general brand awareness advertising.

In a world where an ever-increasing percentage of purchases are made by catalog, e-mail or the Internet, the importance of brand equity will continue to grow. Therefore, it behooves the advertisers to invest in brand building via targeted advertising that seduces the right audience. Some years from now, varieties of interactive TV, that include an attractive elective form of advertising and information transmission, is very likely to replace much of the spoon-fed, down-your-throat, form of TV advertising prevalent today. But this is likely to occur by evolution not revolution. As corporate ad managers study new metrics that gauge the success of their advertising campaigns and begin to recognize the utility of advertising that is meaningful and valuable to targeted audiences, they will increasingly shift their budgets toward these narrow market segments. Good preliminary indicators of the potential value of such ad campaigns can be spied in the phenomenal success that the Lifetime channel and the Golf Channel are presently enjoying.

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Television Advertiser: Change or Perish — As hard as it may be for some of us to accept, it is the advertising industry and its advertisers that must now adjust their thinking and make the necessary changes. It is for them —and their art — to seek out the new advertising patterns that will impose effective new forms of persuasion onto the rising world of nonlinear on-demand television.

Over the past 50 years or so, the ability to reach a mass audience via broadcast network television has indoctrinated advertisers, advertising agencies and service providers to believe that a vast heterogeneous audience is the main target for a successful advertising campaign. How false is that? As a result, many to this day have failed to grasp the fact that new technology now makes it possible for them to greatly increase the efficacy of their TV advertising campaigns by targeting smaller but more focused audiences. Based on the established catechism that states a preference for mass audience type advertising, many in the TV advertising continue to resist change.

More Seduction less use of the 'Wedge' — As technology continues to empower the masses, the power elite has learned to shift from the application of force to more persuasive means of maintaining control. Henry Ford was in a position to enforce his idea that all automobiles should remain black. Today Ford Motor Company is at the forefront of choice and variety of product. As a consequence, after more than fifty years of chasing General Motors, it is Ford that is the more innovative and profitable enterprise. In the meanwhile, General Motors in the US has dropped from an over fifty percent market share to about thirty percent — while resisting the desire on the part of the public for change every step of the way. If you wanted an ergonomically comfortable adjustable driver seat, you had to buy a foreign car, and so on. Recently, GM upgraded the Oldsmobile car line to a more modern design and functional capability. But, as they had waited too long to modernize Oldsmobile, loses mounted and they got cold feet, so they reversed their field and cancelled the entire Oldsmobile product line. Will this tiger ever change its stripes?

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TV advertising cannot afford to follow a similar disastrous pattern of governance, it must adjust its methods while there is still time. The idea of wedging-in the most advertising that the public will temporarily tolerate — before they opt-out via new technology is a mistaken ideology that is doomed to failure. While a few very popular network shows, such as Friends and Frasier, can hold their audience no matter what they force their viewers to tolerate, these are the exceptions that make the rule.

The End of the Beginning: Conclusions — As is usual in complex human affairs, it is quite evident that reason acting in isolation cannot by itself anticipate, what experience alone can begin to reveal. There are lessons yet to be learned about new forms of TV advertising and much that is novel yet economically viable in these new forms yet to be discovered. While the future of TV advertising may be unclear, it will surely survive as a vital economic factor behind television.

Even with the current economic crisis in the high tech world, and its supporting financial markets, the pace of change quickens. Technology will continue to drive entertainment toward a more personalized experience tailored to the needs and wishes of a more sophisticated public. Therefore, it compels the advertisers and the technologies that support their efforts to go along with the process and make it work better for everyone. Ultimately, it is to their own benefit to provide the consumer with tailored advertising that transmits useful information about products and services to targeted audiences. All the while continuing to gently propagandize the public regarding selected products, services and brands.

With a foggy horizon ahead, here are a few points for you to ponder, digest and include in your strategy.

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At CMS NewsLine we specialize in providing industry professionals and corporate clients with in-depth analysis of technology and business news that enables a competitive advantage. Our focus is on broadband, convergence products, on-demand services, new media and emerging technologies and markets.

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In no particular order they are:

- The TV industry and the viewing public are likely to find a new accommodation that accepts some forms of ad skipping and the like and such technology will soon be implemented in a large percentage of US homes.

- New technologies will force the TV advertising industry to change its approach to molding the public mind in fundamental ways.

- Multi-tier elective advertising will eventually become the order of the day.

- With on-demand nonlinear TV, new types of TV advertising will be invented and will gain ground.

- In the future 'live' TV viewing will be limited to genres such as the weather, the markets etc., that require it. Prerecorded studio content that can be recorded off-line onto client home devices such as a PVR will primarily be viewed on a delayed basis.

- As targeted advertising begins to make real headway and gain massive valuable targeted impressions with an interested public, the CPMs for these ads will rise significantly. Soon thereafter the TV industry will shift in this new direction.

- Replacement advertising inserted into re-recorded content may also gain a foothold.

- Multi-directed ad insertion at head ends and within client boxes may also find a place.

- Mass audience directed TV advertising will become ever less prevalent.

- The level of advertising a cable or DBS subscriber is subject to may, in the future, depend on the tier of service to which he or she subscribes.

By these means and others not yet imagined the electronic media and many of its players and advertisers will continue to prosper and to grow. No, the sky is not falling Lucy, but a new Atlas will soon be needed to help shore up the TV advertising sky.

In the beginning, advertisers wrestled with the notion that consumers would control the placement of their ads. This is the end of the beginning. Only time will tell if this industry can adapt to the reflexive needs of the consumer — or, if they have chosen the beginning of the end.

With billions of advertising dollars at stake, we can only say: "hand us the clicker." [And if you are watching content from AOL Time-Warner, make my 'clicker' a PVR — Ed.]

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