

an academic perspective

long-term issues for TV advertising

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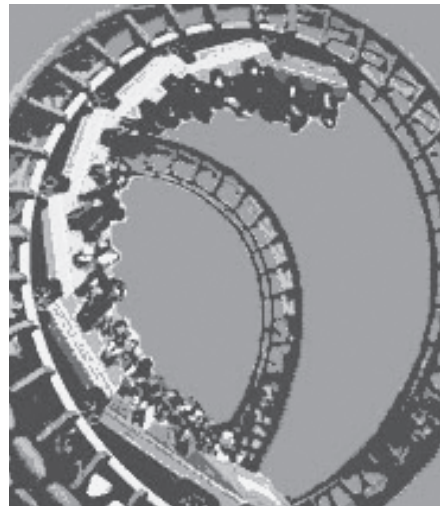


The health of multichannel TV stations is threatened by the stalling of TV ad revenues, the inherent drawbacks of niche channels and the impact of PVRs

This essay looks at three long-term issues for TV advertising. First, how much is the recent reduction in TV advertising revenue structural or cyclical? Second, can niche channels deliver niche audiences for which advertisers will pay a premium cost per thousand? Third, what will be the impact of personal video recorders (PVRs) and other digital technology? For each question, I give my personal answer with reasons. The endnotes refer to sources giving more detailed evidence and analysis.

is the reduction TV advertising revenue structural or cyclical?

The 40 years 1960-2000, from when ITV first achieved full national coverage until the start of the latest advertising recession, can be



TV advertising revenues: structural or cyclical?

divided into two periods. For the first 15 years, TV advertising declined as a proportion of GDP as firms gradually discovered that it was a lot less powerful than had been claimed by its wildest supporters – and by critics such as Vance Packard in his 1957 best-seller, *The Hidden Persuaders*. Then from 1975-2000 – and predicted by no-one – the trend turned upwards. With a few hiccups, most recently in the early 1990s, TV advertising grew faster than GDP for 25 years.

My hunch is that the decline in TV advertising revenue since 2000 is 80% cyclical, mainly a correction to the overheating of the market in the late 90s driven by the stock market bubble. Actually, the decrease in total TV revenue is not that great but it has happened in a context where broadcasters have been accustomed to year-on-year increases in what is largely, at least in the short-term, a fixed-cost business.

Beyond this cyclical swing, however, I think there is also a structural shift, although not as dramatic as in some pronouncements. Leaving to one side the PVR threat – discussed later – TV advertising is now a mature market. In the 1960s, most of its revenue came from fast-moving consumer goods manufacturers such as Procter & Gamble and Unilever. Today, almost every sector that sells to consumers – including the government – goes on TV. There are no

more untapped sectors, so there is less scope for further growth.

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Companies are continuing to invest in marketing, but traditional media advertising is a slowly decreasing proportion of the total budget. The biggest growth has been in direct marketing, driven by the pressure for accountability and the growing sophistication of database marketing, especially interactive marketing using websites, web advertising, email, and text messaging. PR, sponsorship, and sales promotion have also tended to capture share from media advertising.¹

Within media advertising, TV has performed pretty well, despite the growth of consumer magazines and more recently commercial radio, posters, and cinema. The long-term loser has been traditional print media, especially newspapers. Advertisers know that TV is usually the most effective mass medium both for fast impact (eg for a new product launch) and for long-term brand-building. But they now have more alternatives and, for several

reasons, they worry that TV advertising is less good value for money than in the past.

First, audiences are less attentive. They were never very attentive – television is a lean-back medium and it is programmes, not commercials, that people mostly like to watch. But in the early 1960s, with no remote switches and only two channels, their leaning back was a bit closer to the vertical.

Second, the number of commercial impacts has been somewhat reduced as total TV viewing has remained steady and pay-TV and, lately, the BBC have gained share. Of course, this depends on which time period you look at, but ITV's poor audience delivery over the last few years has certainly worried advertisers.



Third, channel proliferation has fragmented the TV audience without segmenting it. Audience fragmentation matters because advertisers are mainly interested in maximising the "reach" of a campaign – how many people see it at least once (or, maybe, 3 + times) – rather than having a

smaller number of heavy TV viewers see it over and over again. The most efficient way to build reach is usually by having a few high-rating spots, each of which delivers a large number of unduplicated viewers. But today, even a huge programme like Coronation Street has much lower ratings than when ITV and BBC1 were the only shows in town.

Finally, the cost of going on TV has increased over the years. This has been mainly driven by advertisers themselves bidding up the price in an auction with a fixed supply of airtime, but that does not make them any happier about it.

The overall effect is that companies will continue to invest in TV advertising – there are already signs of a cyclical recovery in the US and UK² – but they will gradually shift resources into other marketing activities. So, 80% cyclical and only 20% structural is my hunch – unless and until PVRs significantly reduce TV advertising effectiveness and revenue, an issue discussed later.

can niche channels deliver niche audiences?

For the last 25 years or so, there has been the notion that if you increase the number of TV channels, you will be able to target the programmes more accurately at specific types of audience in the same way that you can with print media. When Andrew Ehrenberg and I did the revenue forecast for Channel 4 in 1979, it was said to us: "It will be like the magazine counter at WH Smith. There will be something for everyone and C4 will be able to deliver much more targeted audiences than ITV." The idea was that C4 could then sell those audiences at a large premium in terms of

the revenue per thousand viewers. We told them, "No it won't,"³ and history has shown that we were right. What we did was not especially clever. You just have to look at the actual patterns of viewing – channel reach, audience duplication, demographics – to see that TV is not a strongly segmented medium.⁴

There are still those who launch channels in the belief that niche programming will deliver a premium niche audience. The evidence against is now overwhelming. In particular, it is almost impossible to deliver audiences which are a reasonable size and have a high proportion of high-value segments such as ABC1 males aged 16-34. The tendency is for small channels to deliver people who also watch a lot of mainstream network television, not hard-to-reach light or exclusive viewers. The reasons appear to be deep in the nature of television.

The economics of production are very different for television compared to other media. Take radio for example. In America it is possible for a community the size of Atlanta or Boston to support 30-50 radio stations, despite the fact that radio advertising revenue is only about one-third that of TV, because radio is an inherently cheap medium to programme. In addition, radio listening shows clear segmentation, with different stations delivering different audiences. The same is even more true of print media. A printed newsletter can be viable with a readership of 50 people. How (as well as where) people consume print is extremely flexible: you can re-read paragraphs with minimal effort; you skip sections; things catch your eye; you browse, etc.

Television is just not like that. It is usually

unsuitable for communicating anything complicated. Also, audiences are used to extremely high and expensive production values. There is a myth that competition and digital technology will enormously reduce costs. They can in some areas – news, for instance – where technology and multiskilling really have diminished unit costs. But for the most popular genres (which tend to be sport and entertainment) the more competition there is, the higher the unit cost because the price gets bid up and more and more of the rewards go to the top talent.

Recently there has been a short-term correction as content rights, especially some sport rights, had been bid up to a ridiculous level. There have also been some big successes in reality TV, lifestyle programming, etc, which can be relatively cheap and in some cases even generate new revenue streams such as premium-rate phone calls. But the cost per hour of the main audience-pullers – top movies, drama, entertainment, sport – seems likely to continue increasing. The main effect of new technology is to add value to the content, not to reduce its cost.

On the consumption side too, there are deep reasons why people watch hours and hours of television, mostly in the evening, mostly half asleep. TV viewing is an inherently relaxing, lean-back activity. Multichannel does not change that and I do not think digital will either.

The total amount of viewing has been fairly steady for the last 40 years. There have been predictions of change in both directions. In the 1970s, some economists were concerned about what we would do with all our leisure time in the 1990s. Whatever they were worried about, it did

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not happen. Especially in the Anglo-Saxon economies, women of working age have much less leisure time compared to 25 years ago. People watch television when they are not doing something else (and sometimes when they are, but only if it requires little attention). The main determinant of total television viewing is audience availability.⁵

Another trend which has not happened was predicted more recently, that the internet would cause people to stop watching television. Ten years ago, George Gilder published a book in America entitled *Life after Television*, which predicted that, soon after the year 2000, television would

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be of only historical interest. This, it transpired, was complete nonsense: people are watching a bit less television than before, more so in the case of younger people. They are also doing more things at once than they used to. For instance, they can happily watch television and text their friends at the same

time. But the overall level of viewing has hardly changed.

So the size of the total cake has been almost constant (and certainly not increasing) for at least the last 20-30 years, but the number of channels has increased even for most terrestrial-only homes, and dramatically for those in multichannel homes (now more than 50%). It follows, therefore, that viewing has been spread. The big, mass-market networks' share of viewing has not collapsed as fast as many people predicted, but there is no question that in general, the big networks are gradually losing their share of a fixed or slowly declining total amount of viewing. From the viewpoint of an advertiser, that makes it harder to get the single spot that reaches very large numbers of viewers in one go.

One reader of the *Financial Times* is worth up to eight readers of a red-top tabloid for the same amount of space, because the FT delivers a highly segmented readership of people with high spending power, both as consumers and in most cases professionally as well. Advertisers would love a TV channel whose audience profile matched the FT readership but it just cannot be done, because the segmentation of TV audiences is so much weaker.

In contrast to print media, with television, small channels get less than proportional revenue. In other words, they not only have far fewer viewers, but the revenue they generate per viewer is usually a lot less than for a big network. The reason for this is that they are not delivering strongly segmented audiences and they are not particularly helpful for an advertiser who is primarily interested in maximising

the reach of the campaign within a target market.

This is partly because the niche channels have limited coverage. For instance, an advertiser who wants to reach ABC1 males aged 16-34 may well be attracted by a sports channel whose audience is skewed towards this much sought-after demographic group. This makes good sense, but with two qualifications. First, most of the viewers of even the best-targeted sports channel will be outside the specific target group (ie older men, women, C2DEs). Second, only a little over half of the target market are in multichannel homes and many of these may not have the particular channel. So once an advertiser moves away from the universally available channels ITV, C4, and Five (almost), his maximum potential reach is dramatically reduced.

Niche channels will doubtless continue to be launched in the mistaken belief that they can deliver targeted audiences for which advertisers will pay a higher price per viewer than they will pay for ITV. These channels will continue to go bust unless they are subsidised. Some of them will do so because they are badly managed. They may also argue that sometimes the people who buy advertising are too lazy or too busy to bother with the complications of the small fry. So there are some "frictional" aspects to consider. But even if the market is working perfectly and such a company is perfectly managed, the fundamental problem is in the way people watch television, by spreading their viewing across multiple programme types, rather than being devoted to specific genres.

At the same time, these channels cannot afford to spend much on programming so they have low-budget schedules which they then have to repeat often, which again reduces the viewer's commitment to those channels. Therefore, in most cases the business model simply does not add up.

This does not mean that niche channels are never viable. They can generate subscription revenue from consumers, cable/satellite companies, or even airlines. They may be able to get high-quality content below cost or even for nothing if it is, say, a music video. But the pure "narrowcast advertising" model based on advertisers fully funding a niche channel by paying a premium price per viewer is extremely hard, if not impossible, to make work.

PVRs and digital television

A recurrent pattern with new developments in television is that it is predicted that they will change everything – and then they do not. One example was the television remote. Another was multichannel television, which many people thought would lead to strongly segmented audiences. Another was the VCR, which some commentators said would totally liberate viewers from the schedule; but as everyone knows the VCR is an extremely awkward, inflexible and infuriating piece of equipment. The net effect is that the VCR accounts for at most 3-4% of viewing, and much of that is of bought or rented videos, not time-shifted TV programmes.

The PVR, however, is a very different kettle of fish. It is easy to use for anyone who has used an electronic programme guide (EPG). Crucially, those with PVRs say they now cannot imagine watching television

without it. Consequently, the churn is very low. The PVR offers a set of real consumer benefits, unlike a lot of what we have heard in the context of new media, which are often things that excite technologists but provide no real consumer benefits.

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The number one benefit of a PVR is the ability to time-shift flexibly and easily. It is smart enough to record every episode of your favourite programmes. With some systems, it will record them for you even if you have not remembered to ask it to at that time. More dubiously, it can record things which it thinks are similar. I suspect it will take a long time for it to become smart enough to guess the other programmes you like, because people's tastes are less predictable than the technologists assume. But it will happen over time.

The PVR can also do some new, creative things in advertising – it can download commercials (for example, a long-form commercial) and then broadcast a short version, enabling viewers to retrieve the long form from the disk if they are interested. But of course the big threat for advertisers is that it enables viewers to fast-forward through commercials. The early indications are that most of what people watch is off the disk rather than live

– maybe 50%-70% versus less than 4% for a VCR. This is not time-shifted over a very long time period; often, it is time-shifted within the same day, perhaps by only a few minutes.

If I start watching the 8 o'clock movie at 8.27pm and then fast-forward whenever there is a commercial break, by the end of the movie I may be watching almost in real time. Having a PVR will not necessarily change what I watch that much, but if viewing off the disk and fast-forwarding through the commercials becomes a general pattern, much of the audience for commercials during that movie may have been lost.

Amazingly, there is still (to my knowledge) no proper published research on this in the UK – and little even in the USA.⁶ My personal view is that PVRs (or something similar – there are several options) will take off in a big way over the next two years, starting in the US and UK. Big players – cable and satellite operators, consumer electronics manufacturers – will invest in large-scale marketing to make this happen. The technology will continue to develop, for instance with even bigger disks, and the price of the box and the service will fall. I think it is going to be very big. Having said that, in the absence of proper research we have little idea of the scale of the threat posed to advertisers.

If the people that adopt PVRs – who will tend to be money-rich, time-poor consumers of high interest to advertisers – really skip half or more of the commercials, the impact within 6 or 8 years could be huge. But if – as broadcasters such as CBS and BSkyB have argued – most PVR owners still watch most commercials, TV advertising revenue should continue to

grow almost in line with total media expenditure.

If the doomsayers do turn out to be correct, advertisers will need to find ways to counter the skipping of commercials. We are still at a very early stage of developing responses to this potential problem. I think there will be pressure on the regulators to relax some rules. I expect to see a larger number of shorter commercial breaks and, possibly, shorter commercials that work even harder at making themselves relevant to the particular audience – perhaps by

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looking for more synergy with the particular programme. I expect to see stronger visual branding so that a viewer who fast-forwards through a commercial while watching the screen is aware of which brand it is for. Equally, there will be more pressure for programme sponsorship and advertiser-funded programming, more pressure for product placement and other unobtrusive ways of including the brand in the context of the programme itself.

interactive TV advertising

Digital television is television with the capability for addressability and interaction and, like many media innovations, that

factor was over-hyped and there were excessive expectations of audiences' interest in interacting with commercials.

My view of the main opportunity of interactive digital television advertising is that it is 'phone-less' direct response television. A significant proportion of commercials now are direct response, in the sense that the main aim of the commercial is to get the viewer to ask for information, or perhaps to go to a store or make a purchase. But the viewer will make a purchase only if it is for a low-ticket item such as music and pizzas. If it is a holiday or a car, they will need more information before committing to a purchase. With digital television, we have the ability to make the response to a DR commercial much more convenient for the viewer. One of the great things that the industry keeps forgetting is that you must not stop viewers watching programmes they like. So the notion that you can take them off to your website is not usually attractive or effective. People watch television because they like watching television. If you can make the response really easy – just pressing a couple of buttons on the keypad – I think people will do so much more than they will respond by phone or by going on the internet. With young viewers, SMS can also be a convenient response medium.

DTV is also, however, increasingly being used for longer-term brand-building via a dedicated advertiser location (DAL) reached by clicking the remote. The DAL is a purpose-built interactive environment which can show products in more detail, include games or quizzes to involve the viewer, and still have DRTV mechanisms for information requests, special offers, or impulse purchases. Provided that viewers' expectations are managed, this approach

has the potential to extend interactive TV to be a brand-building medium as well as a direct response medium.

The key thing to remember about interactive digital TV is that it is mainly television with a bit of interactivity. It is not the internet on your TV and it is not something completely different.

conclusions

In this essay, I have looked at three issues for advertisers. I have argued that:

1. The current TV advertising recession is 80% cyclical, 20% structural.
2. Niche channels cannot deliver strongly segmented niche audiences for which advertisers will pay a premium price per thousand viewers.
3. PVRs may represent a serious threat to TV advertising revenue over the next 6-8 years. There is time for advertisers and broadcasters to plan their response to this threat, but it would certainly help if someone published some proper research on it. ■

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notes

- 1 Patrick Barwise and Alan Styler, The MET Report 2003: Marketing Expenditure Trends 2001-04, London Business School, December 2003 (www.london.edu/marketing/met).
- 2 Barwise and Styler 2003(see Note 1)
- 3 Patrick Barwise and Andrew Ehrenberg: "The Revenue Potential of Channel Four", Admap, November 1979
- 4 Patrick Barwise and Andrew Ehrenberg, Television and its Audience, Sage, 1988.
- 5 Juliet B Schor, The Overworked American: The Unexpected Decline of Leisure, Basic Books, 1992. The role of audience availability is discussed in Barwise and Ehrenberg 1988 (see Note 4).
- 6 The best US research to date is in the CNW Marketing Research Media Reference Guide 2003, (cnwmr@msn.com) Professor Duane Varan at the Interactive Television Research Institute in Perth, Australia (varan@central.murdoch.edu.au) is doing current experimental research. The results are summarised in Peter Mercier and Patrick Barwise, Digital Television in the UK: Consumer Responses to Interactivity, London Business School working paper, January 2004 (see www.idtvconsumers2.com)

consumer contradiction

“Consumers are in a constant flux between how they behave and what they value...We work the longest hours in Europe, but the majority would prefer a leisurely, rural way of life. The population is collectively ageing, but remains obsessed with youth.

Rapid changes in behaviour often create contrary values.”

Source: Media Imperatives Initiative - WPP Group