The Future of Television?
Advertising, technology and the pursuit of audiences

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ADVERTISING, TECHNOLOGY & THE FUTURE OF MEDIA

Advertising, Technology & the Future of Media (ATFM) is a joint project of the Internet Interdisciplinary Institute of the Open University of Catalonia, the Barcelona Media Center at the University Pompeu Fabra, and the USC Annenberg Norman Lear Center. Annenberg Professors Manuel Castells and Martin Kaplan are leading the project, which analyzes how new technologies are transforming the advertising industry and the global media business.

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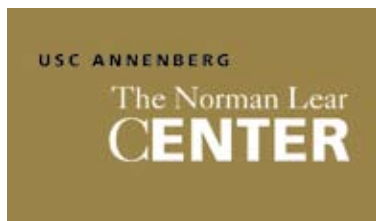
Marissa Gluck

As managing partner of consulting firm Radar Research, **Marissa Gluck** is a writer, speaker and consultant covering the marketing and media industries. Considered to be an expert on digital marketing and technology, Gluck has often been quoted in media outlets such as *The New York Times, The Wall Street Journal, Advertising Age* and *Business Week*. Additionally, she has appeared on CNBC, CBS Marketwatch, CNNfn, and NPR. Gluck earned a B.S. from Binghamton University and two Masters Degrees in Global Media and Communication from the London School of Economics and the University of Southern California. She also serves as adjunct faculty at the University of Southern California, teaching a course on virtual communities.

Meritxell Roca Sales

Meritxell Roca Sales came to the University of Southern California Annenberg School for Communication in 2008 as a visiting associate professor. She was born in Barcelona (Spain) where she currently works as a researcher at Open University of Catalonia (UOC), performing research on free software, media stereotypes and mass media in a digital environment. She also teaches journalism at Blanquerna School of Communication (Ramon Llull University). She received a B.A. in Journalism and a Ph.D. in Communication and Humanities from the Ramon Llull University.

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Executive Summary

A global crisis in the advertising industry, largely linked to the impact of the Internet, is transforming the business model of media industries, the content they create and distribute, and the audiences who consume that content. New technology has transformed the global media environment from one organized around passive media consumption to a far more complex environment – mobile, multitasking, on-demand – where consumers have more control over where, when and how they interact with media. As audiences shift from TV and print to the Internet, advertising revenues splinter across different segments of a media industry that is increasingly diversified in its platforms for content distribution. Since advertising is the predominant financial basis of the entire media industry, the restructuring of the advertising industry will have an extraordinary impact on the media landscape.

This impact will vary with context, in terms of cultural differences and distinct regulatory environments. Thus, an understanding of such a major global trend will require a comparative perspective in the analysis. In order to understand the potentially profound impact that these changes will have on the global media environment, the USC Annenberg Norman Lear Center, the Open University of Catalonia, and the Barcelona Media Center of the University Pompeu Fabra have launched a research project devoted to the study of Advertising, Technology & the Future of Media. *The Future of Television?* – co-authored by communication scholar Meritxell Roca Sales and media analyst Marissa Gluck – is the first research report to be issued by this project. It offers a systematic analysis of the crisis in the advertising industry in the United States

The restructuring of the advertising industry will have an extraordinary impact on the media landscape.

and its effects on the broadcast television business. This report includes information gleaned from in-depth interviews with executives in the media and advertising industries located in Los Angeles, and from the systematic collection of data on the crisis in the advertising industry, particularly the changes taking place in ad measurement.

The Future of Television? concentrates on the U.S. broadcast television market in particular because of the historical importance of this ad-supported industry and the profound impact its products and business practices have on global media culture. Once considered the most influential media industry in the world, U.S. broadcasters are losing their grip on their domestic and international audience. This research report evaluates the strategies the major networks have adopted in order to survive in a fragmented media environment where consumers now have unprecedented power over when, where and how they consume media. The broader aim of this project and its international consortium is to expand this analysis to other media industries in markets around the world; to help explain what the implications will be for both producers and consumers of media worldwide.

Introduction

The crisis in the television and advertising industries

Television is the most frequently used media in our daily lives. However, the business model of the $51.2 billion[1] US network television industry is in the midst of fundamental transformation. ABC, CBS, NBC and FOX are sometimes referred to as "free TV" because their revenue depends mainly on advertising and, unlike cable or satellite, they do not charge a subscription fee. Although their parent companies also own cable networks, whose revenues include subscription fees, a high percentage of the income of the big four US television networks comes from advertisers.[2]

The primary problem facing television broadcasters today is the inability to guarantee advertisers large audiences with desirable demographics. In 2000, broadcasters had a 54 share of prime time viewers. In 2005 it was 43.5.[3] In May 2007, ABC, CBS, NBC and FOX had 25 million fewer people watching, compared to the same period in 2006.[4] By the early 1990s, the cable industry, with aggregate revenues of more than $22 billion and operating cash flows in excess of $7 billion, had surpassed the commercial broadcasting industry.[5] In 1995, the broadcast networks had $12 billion in annual advertising revenue, while cable networks had $5 billion. But over the past ten years, advertising on cable networks has overtaken broadcasters ($18 billion versus $16 billion). Early figures for the 2008-09 season suggest that the networks' $9.2 billion advertising revenue has not even kept pace with inflation, rising only 1% from the season before.[6]

The primary problem facing television broadcasters today is the inability to guarantee advertisers large audiences with desirable demographics.

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[1] Jupiter Research Category Advertising Model, 11/07 (US)
[2] There are five English-language commercial TV networks in the United States (ABC, CBS, Fox, NBC and CW). CW is not addressed in this paper. Unlike the other networks, it specifically targets young adults 18-34, and its ratings are far below the other broadcast networks. The last week of May (2008) the average ratings for the English-language commercial networks were: Fox (12.5 million viewers), CBS (8.5 million), ABC (8.5 million), NBC (5.3 million) and the CW (2.2 million). (HIBBERD, James. (2008). "*Dance* the night away" in *The Hollywood Reporter*, May 29, 2008, pp. 28-29.) In addition, because CW was created in 2006, there is a lack of longitudinal data available.
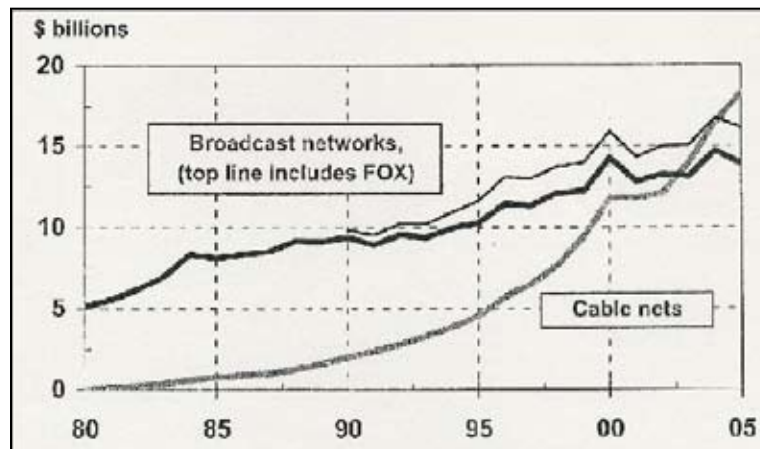[3] Cabletelevision Advertising Bureau <www.onetvworld.org/?module=displaystory&story_id=1372&format=html> [July 8, 2008]
[4] CNBC <http://www.cnbc.com/id/18571560/> [July 8, 2008]
[5] VOGEL (2007:315)
[6] STELTER (2008a)

**FIGURE 1 – BROADCAST AND CABLE NETWORKS
ADVERTISING REVENUES (1980 – 2005)**

This decline in audiences and ad revenues represents a fundamental crisis not only for the American broadcast television industry, but also for the advertising industry.

Source: VOGEL (2007:315)[7]

The past decade has been turbulent for the advertising industry. There have been massive technological upheavals, which have undermined the economic and cultural structure of the media and advertising industries as both content and distribution become digitized. Today, consumers produce their own forms of content and are able to distribute it widely through the Internet. The demand for this type of content has no analog offline; it generates its own demand. Professionally produced content that was previously available only on a single platform is now available online, on portable media devices such as iPods, and portable communications devices such as cell phones, as well as on TV. Media has fragmented in terms of audience, consumer time and attention, and the content itself.

The seismic shifts in audience consumption patterns towards digital media has resulted in turmoil for content owners and distributors, which has in turn affected the advertising industry. The ad industry, struggling in the past decade to maintain or grow profit margins, has experienced a period of intense consolidation. The major agency holding companies have reported sluggish growth and mediocre earnings performance in the past few years. More importantly, many of the underlying assumptions about what makes

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[7] VOGEL (2007:315)

great advertising have been heavily scrutinized. Measurement methodologies are questioned as digital technologies hold the promise of greater accountability and transparency. Traditional advertising agencies are in crisis mode as they struggle to remain relevant to advertisers. Marketers are competing in an ever more cluttered media environment. And ultimately, consumers are bombarded with marketing messages on every device, every platform and in every facet of their daily lives.

What are the reasons for this crisis? There are three major causes:[8] more entertainment and media options for audiences; more widely available digital tools that empower audiences to take a more active role in media consumption and changing advertising metrics models.

New technology has fundamentally changed the entertainment experience and is increasingly providing audiences with more entertainment options. Cable and satellite television, the Internet and mobile platforms have opened up a wide range of possibilities that were difficult to imagine just 10 years ago. As a consequence, the cable and satellite television viewing audience has been increasing steadily since this technology was first implemented. Cable television subscribers, for instance, increased from 50.5 million in 1990, to 65 million in 2007 (58% of households).[9] As cable viewership has risen, so have cable advertising rates. Total revenue gains at cable stations TNT, TBS and truTV, for example, reportedly reached 20%. Cable advertising advance sales for 2008-09 were $8 billion, up nearly 8% over the previous year. Time spent on the Internet has dramatically increased as well, and mobile platforms – such as

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[8] Viewership decline due to a decrease in quality in broadcast television is also an argument worth investigating. Although it can arguably be considered a fourth reason for the crisis in the TV industry, we believe that this issue is beyond the scope of this paper.
[9] National Cable and Telecommunications Association.
<http://www.ncta.com/Statistic/Statistic/Statistics.aspx> [July 8, 2008]

cell phones, mobile gaming devices and satellite radio – are also competing for entertainment consumption time from audiences, who can now decide not only what to consume, but also when and where. The latest figures show that 62% of households in the United States used the Internet in and outside the home in October 2007 (51% of these connections were broadband)[10] with users logging 15.3 hours per week,[11] while in 2001 just 54% of households accessed the Web regularly (an increase of 14.2% in only six years). Meanwhile, worldwide sales of mobile phones reached 294.3 million units in the first quarter of 2008 (a 13.6% increase over the first quarter of 2007.)[12]

Clearly, audiences have more control over what they watch than ever before. Twenty-two percent of American homes now possess digital video recorders (DVRs), which enable viewers not only to time-shift viewing, but also to easily fast-forward through commercials. They prefer to view programming on their own schedules, rather than the "appointment" viewing that network programmers have long offered. During the 2007-08 writers' strike, viewers rushed online for entertainment content – some of it generated by users like themselves, but much of it illegally uploaded to sites that content-owners don't control. According to ComScore Media Metrix, YouTube was the biggest beneficiary of the trend, as the number of videos streamed on the site surged 12% from November 2007 to December 2007, and the average time visitors spent watching videos online increased seven minutes to 111 minutes a month.[13] With higher broadband penetration rates, the TV industry now must face the same problems that the music industry confronted when audio files became quick and easy to exchange on the Internet.

One consequence of audiences becoming more empowered, and seeking content on multiple platforms, is a **re-evaluation of the measurement standards used as the currency to price media**. Advertising used to be relatively simple. Campaigns

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[10] USA Government. National Telecommunications and Information Administration
< http://www.ntia.doc.gov/reports/2008/NetworkedNation.html> [May 28, 2008]
[11] The digital future report 2008. *Surveying the Digital Future*. University of Southern California.
[13] CHMIELEWSKI (2008c)

were deployed and performance measurement was minimal, and optimization almost non-existent. But digital advertising is measurable, and thus accountable for its own success or failure. In a digital environment, advertisers are expected to be able to accurately measure campaign performance, know precisely who is interacting with their ads, and track ad exposure to online (and hopefully offline) purchases. The underlying assumptions about how to measure ads and what can be expected from advertising have been forever changed. There is a marked psychological shift that has taken place within the advertising industry that has bled over from online advertising to all forms of media. The promise of accurate measurement engendered by digital technologies has raised expectations from advertisers, causing them to expect greater accountability from their media partners and agencies, and yet it has not been a panacea for advertising's ills. Rather, it has further exacerbated the crisis in the media and marketing industries.

Responses to the crisis

The broadcast television industry and the ad industry are well aware that they are experiencing a seismic shift, and both have developed strategies to respond to the crisis. The advertising industry has struggled to transform itself, to invent new formats, and to find consumers on new platforms, while the broadcast networks (ABC, CBS, NBC and FOX) have cut costs and created new revenue streams. According to a FOX executive, interviewed specifically for this monograph and who asked to remain anonymous, "... audience fragmentation has increased the number of hours consumers are exposed to media, and consequently, the demand for attention is more valuable than ever. The future of television might be characterized by two main elements: network branding and content cut into small pieces."

> *The underlying assumptions about how to measure ads and what can be expected from advertising have been forever changed.*

In response to these and other changes in the media environment, the advertising industry has continued to consolidate, acquiring more nimble specialist shops that focus exclusively on digital media. The industry has also become more deeply embedded in the production of content, not unlike the early days of sponsored television. Spending on "branded entertainment" (which includes product placement as well as more integrated brand sponsorships into content) is projected to reach $25.41 billion in 2008, an almost 14% increase from 2007.[14]

To combat the perception that their services are essentially a commodity, the agencies have increasingly positioned themselves as "ideation centers" as they struggle to emulate profit margins more often seen at consulting firms.

Perhaps most significantly, the metrics and measures used to evaluate advertising success have become intensely scrutinized. The measurement industry is also in turmoil, as it struggles to redefine its metrics and methodologies to encompass a rapidly changing landscape. Agencies have been forced to reexamine their compensation models as they face increased pressure on their profit margins. The downward pressure on media pricing and agency compensation has also spurred the industry to look for cost-saving measures, such as reducing the labor-intensive and administratively complex systems currently in place to buy media. Finally, the agencies face a psychological barrier to greater profitability; namely, their clients have reduced their value to one of tactical execution. To combat the perception that their services are essentially a commodity, the agencies have increasingly positioned themselves as "ideation centers" as they struggle to emulate profit margins more often seen at consulting firms.

In the TV industry, cost-cutting is most evident in the increased use of unscripted or "reality" programming. CBS, for example, can be considered in many ways responsible for the recent growth of reality programming after the initial success in 2000 of *Survivor.* The amount of reality programming in prime time grew 350% in just five years, from about four hours in 2000 to 18 hours in 2005. The broadcast networks planned 27 hours

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[14] PQ Media, "Branded Entertainment Marketing Forecast: 2008-2012"

of reality programming for the first quarter of 2008.[15] As of 2006, reality programs cost around $875,000 to $1 million per hour versus three times as much for a scripted hour, and $1.2 million for a half-hour sitcom.[16] In addition, the networks have stated an intention to reduce the half-billion dollars they spend annually in commissioning scripts and producing pilots for new series; they will rely more often on direct-to-air deals with writer-producers, including adapting more non-US series for the American audience, rather than on the lengthy and expensive pilot development process.[17]

With a plethora of new platforms to exploit, the TV industry, and broadcasters in particular, have experimented with several new methods of increasing revenue:

1)   Using brand integration techniques, ranging from product placement to making a brand into a star or an essential element of a program

2)   Using the Internet as a platform to monetize and market content

3)   Selling content to consumers both online and on offline

4)   Purchasing digital media technology ventures in order to better compete on multiple platforms

5)   Experimenting with ad formats

6)   Adjusting programming content to the new realities of mobile viewing, sporadic viewing, program grazing, event programming and other niche audience patterns

[15] WYATT (2007)
[16] VOGEL (2007)
[17] <http://www.broadcastingcable.com/article/CA6528293.html> [August 19, 2008]

The future of television?

This monograph provides an overview of the transformation of the advertising and television industries caused by new consumption habits, galvanized primarily by new technologies, and with particular emphasis on the ways that ad-supported TV is adapting to the Internet Age.

This paper also examines the crisis the advertising industry finds itself in today as it responds to changes in the media industry. It looks at the origins of the modern advertising industry – the emergence of the full-service agency, the rise of the creative revolution, and the eventual severance of the media buying function from the rest of the agency services. It also examines how certain standards and practices were established, the prevailing logic behind these codes, and their stranglehold on the industry. An examination of the agency industry looks at cultural changes taking place as media becomes more measurable, and thus more accountable. In addition, the report examines some of the future developments and challenges facing the industry – the measurement crisis, attempts to streamline the standards and practices of media buying, and the emergence of new creative formats.

At the same time, this paper investigates the transformations occurring currently in the media industries, and the impact of those changes on the economics, organization and culture of the advertising business. The responses of the broadcast television and the ad industries to technological change and to subsequent changes in audience consumption do not necessarily correspond to each other, nor are they linear, unidirectional responses. While the fate of each industry is inextricably tied to the other, each industry

continues to favor business practices they believe will strengthen or maintain their position and market power. The digitization and diversification of the agency industry has also led to organizational disruptions as agencies struggle to realign themselves to better service clients' interest in digital media.

In order to increase revenues, all the networks are using a mix of each of the strategies listed above. This report illustrates how they are being pursued by the big four networks[18]; examines the impact of these strategies on the creative content of television; and provides a critical analysis of the potential of these strategies for contributing to the survival and transformation of the American television networks.

The digitization and diversification of the agency industry has also led to organizational disruptions as agencies struggle to realign themselves to better service clients' interest in digital media.

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[18] As we remarked before, currently there are five English-language commercial TV networks in the United States (ABC, CBS, Fox, NBC and CW). However, CW is not being considered in this monograph (see footnote 2 for further information).

Historical overview

In order to understand the transformations currently taking place in the television industry, it is useful to examine its history, development, practices and technological changes. At the same time, an understanding of the development of the advertising industry, from its early incarnation in penny press newspapers a globalized industry, provides insight into the standards and practices in use today, and the challenges that the digitization of media present to advertisers and agencies.

Television history: the boob tube?

FIGURE 2 - ORGANIZATION OF THE TELEVISION INDUSTRY
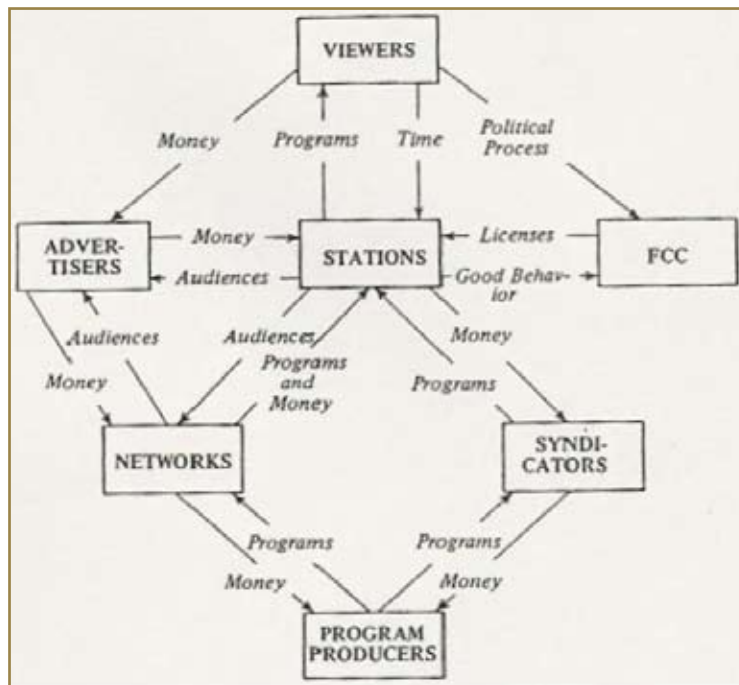
Source: VOGEL (2007:273)[20]

Broadcasting (radio and television) started the twentieth century as a laboratory *curiosity*, and it ended the century as a business that generated over $50 billion per year.[19] Not only do broadcasters distribute programs to audiences; they also deliver audiences to advertisers.

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[19] VOGEL (2007:267)
[20] VOGEL (2007:273)

Television networks were established in the late 1940s and early 1950s by attracting independently owned affiliates to carry regularly scheduled programming produced by the network itself or by outside contractors.[21] Broadcast networks in the United States fall into five main categories:[22] English-language commercial (ABC, CBS, FOX, NBC, CW); Spanish-language commercial (Telemundo, TeleFutura…), specialty (PBS,[23] Bloomberg…), shopping (HSN…) and religious (TBN, CTN).

There are two main types of stations that carry network television: network owned-and-operated stations, and "affiliated stations" (owned by a third party). ABC, CBS and NBC provide their affiliated stations an average of 22 hours per week of prime time programming, while the FOX network programs 15 hours per week for its affiliates' prime time schedules. Affiliation agreements are usually exclusive, and they provide affiliate stations with the right to air the network's programs and the obligation to air the network's advertisements.[24] (Unlike many other countries, the United States has no national broadcast programming services). Each of the major networks has approximately 200 affiliates and functions as audience assemblers. Networks operate by leasing the advertising time and signal distribution capa-

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[21] Main sources consulted for the elaboration of this section are:
The Paley Center for Media (formerly the Museum of Television & Radio).
< http://www.mtr.org/>
The Museum of Broadcast Communications.
< http://www.museum.tv/archives/etv/index.html>
Federal Communications Commission
< http://www.fcc.gov>
(CBS) <http://www.cbs.com>
(ABC) <http://abc.go.com>
(NBC) <http://www.nbc.com>
(FOX) <http://www.fox.com>
[22] VOGEL (2007:267)
[23] PBS was established as the video arm of the Corporation for Public Broadcasting, which Congress created in 1967 by passing the Public Broadcasting Act. Although educational television had been around since 1933, the establishment of the Corporation for Public Broadcasting signaled a statutory commitment to public and educational television. In 1978 PBS was the first network to deliver all its programming via satellite instead of landlines. PBS comprises more than 300 stations, more than any commercial network.
[24] ELBERSE and YOUNG (2007)

bilities of their affiliates. Affiliate compensation in the period 6 to 11 p.m. might generally be 30% to 33% of the station's hourly rate and lower in other day parts. But factors such as the area of coverage, number of competing UHFs and VHFs, and long-standing relationships also determine compensation rates.[25]

While networks were focusing on the transition into television, a battle to take over ABC had begun as the network was nearly in bankruptcy.

The broadcast television industry started with just two players, CBS (1927) and NBC (1926), which first began as radio networks. Later, ABC (1943) was established as a result of a Federal Communications Commission (FCC) investigation in 1941 that considered NBC's ownership of two radio stations (NBC Red and NBC Blue) a monopoly, and it was ordered to divest itself of one network. It was in October 1943 that Edward J. Noble, owner of the American Broadcasting System, bought the Blue Network for $8 million, and ABC was formally born. By 1948, the FCC had issued approximately 100 television-station licenses, and the following years were a period of industry transition comparable to the mid-1920s for network radio.

While networks were focusing on the transition into television, a battle to take over ABC had begun as the network was nearly in bankruptcy. In 1951, Leonard Goldenson and United Paramount Theaters bought ABC for $25 million. In 1954, Walt and Roy Disney approached Goldenson with the idea of building a new theme park in California. The brothers needed financing, and they offered to supply Goldenson with new programming. He lent them $15 million in return for 35% of Disneyland. ABC also agreed to pay $35 million in license fees over seven years for a new Walt Disney TV series. *Disneyland*, which premiered in the fall of 1954, was the network's first Nielsen top 10 hit. It took nearly another decade for ABC to be number one in the Nielsen ratings.[26]

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25 VOGEL (2007:275)
26 The Museum of Broadcast Communications. "The Encyclopedia of Television".
In 1964, ABC won the ratings race in the fifty largest U.S. markets with such successful series as *Peyton Place, Bewitched, The Addams Family, McHale's Navy, Combat* and *My Three Sons*.

Between 1945 and 1948 the number of commercial television stations grew from nine to 48, and the number of cities having commercial service went from eight to 23. Sales of television sets also increased by 500%, and by 1960, 85% of U.S. households had one.[27] What has been called the "Golden Age of Television" had begun, a period from the mid-forties to the early sixties during which many television accessories, such as remote controls and video recorders, as well as new methods of distribution, were introduced.

Meanwhile, CBS was the most-watched network, although the news division found itself subordinate to the entertainment divisions of the company, a trend highlighted at the end of the 1950s. This tendency was exacerbated in the 1960s when shows such as *The Beverly Hillbillies* and *Green Acres* became CBS's biggest hits. However, an abrupt shift away from these programs occurred in the early 1970s as programming executives Robert Wood and Fred Silverman launched a series of sitcoms that explored changing social and political mores (*All in the Family, The Mary Tyler Moore Show, M*A*S*H*…). These new programs won both audience and critical acclaim, and profits increased to such an extent that by 1974 the Columbia Broadcasting System had become CBS, Inc. Not only did it consist of radio and TV networks, but it also had a publishing division, a magazine division, a recording division and even, for a time, the New York Yankees (1964-73).[28]

Throughout the 1950s and 1960s, NBC generally finished in second place in the ratings behind CBS. NBC's prime time schedule relied heavily on two genres, drama and comedy-variety, with little emphasis on news.

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[27] Federal Communications Commission
[28] The Museum of Broadcast Communications. "The Encyclopedia of Television."

However, some of the programming and advertising innovations that were tested at that time came from NBC. Sylvester "Pat" Weaver, who was NBC's chief programmer (1949-1953) and president (1953-1955), is credited with introducing the *magazine concept* of television advertising. As a result, advertisers no longer sponsored an entire series but paid to place commercials within a program. Prior to the magazine concept, the advertising agencies believed that the most effective way to reach consumers with a strong message would be by creating shows that featured a single product, or a line of products, from a single company. From this concept arose the typical television shows of the 1950s including titles such as *Kraft Television Theater, Colgate Comedy Hour* and *Coke Time*. The magazine concept empowered the networks, which in turn gained more creative control over their programs. By 1960, the magazine concept dominated television advertising, as it has ever since. Instead of relying on audience identification with a specific show, sponsors now spread their messages across the schedule in an effort to reach as many consumers as possible. However, although the magazine concept is still alive (the 30-second spot being the primary example), product placement is becoming more and more popular. This marketing method is growing in popularity as technology—DVRs, VCRs, and remote controls—given viewers a power that has undermined the networks' ability to deliver audiences to advertisers.

From 1958 to 1965, NBC's former president Robert Kintner supervised the expansion of NBC News, the shift to color broadcasting (completed in 1965), and the network's diversification beyond television programming. During the late 1970s, after decades of battling CBS in the ratings, NBC watched as ABC, with a sitcom-laden schedule, took command of the ratings race, leaving NBC in a distant third place.[29] The financial impact was significant, because networks with the most popular shows, meaning the largest audiences, command higher advertising revenues. (Audience size and audience demograph-

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29 Ibidem

ics are used as tools to determine advertising rates; audiences are measured by "ratings points"[30] and "share.")[31]

One of the most recent events in the development of broadcast television was the establishment in 1985 of the FOX Television Network. The founding of the FOX Broadcasting Company by Rupert Murdoch took place during a time of general economic uncertainty and the decline of network television.[32] Moreover, just one year before the launch of FOX, Murdoch had purchased half ownership of 20th Century-Fox Film Corporation. The next year he acquired the remaining half of the corporation, and thanks to these moves (costing $575 million), he gained control over an extensive film library and rights to numerous television series like *L.A. Law* and *M*A*S*H*. Because of the enormous programming potential, he was in a good position to build a television network. For the first time since the 1960s, the major networks (ABC, CBS and NBC) experienced aggressive competition. The new network strengthened its position with several strategies, such as reducing the number of prime time hours offered each week, offering low-cost shows to its affiliates, giving affiliates more freedom to schedule shows (rather than counterprogramming against the networks) and more freedom to schedule ads and promotions, and providing no morning shows or soap operas in order to lower operating costs.[33]

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30 Ratings points are the percentage of all TV or radio-owning households tuned to a show.
31 Share makes reference to the percentage of all switched on sets tuned to a show.
32 The Museum of Broadcast Communications. "The Encyclopedia of Television."
33 Ibidem

Technological challenges

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As a consequence, viewers could effortlessly change channels when ads came on ("zapping"), making it harder for advertisers to depend on viewers consuming their commercials within a piece of programming.

In 1957 Zenith introduced the first practical remote control,[34] invented by Robert Adler and called the "Space Command." Unlike previous attempts (i.e., "Lazy Bones" and "Flashmatic"), this remote was wireless and ultrasound (beyond the range of human hearing) and improved upon wired remotes and systems that didn't work well if sunlight shone between the remote and the television. The original "Space Command" remote control was expensive because an elaborate receiver in the TV set was needed to pick up and process the signals. Although adding the remote control system increased the price of the TV set by about 30%, it was a technical success and was adopted in later years by other manufacturers. In the early 1960s, solid-state circuitry (i.e., transistors) began to replace vacuum tubes. Hand-held, battery-powered control units could be designed to generate the inaudible sound electronically. In this modified form, Adler's ultrasonic remote control invention lasted through the early 1980s, a quarter-century from its inception. More than nine million ultrasonic remote control TVs were sold by the industry during the 25-year reign of Robert Adler's invention.[35] As a consequence, viewers could effortlessly change channels when ads came on ("zapping"), making it harder for advertisers to depend on viewers consuming their commercials within a piece of programming. A 1985 study of zappers[36] sought the motives for frequent channel changing. The primary reasons were to see what else was on (a score of 2.4 on a scale in which 4 was "almost always" and 0 "almost never"), and to avoid commercials (2.1).

Introduced in 1972 by Phillips Corporation, home videotaping was another major technology that contributed to the empowerment of audiences. Sony introduced the Betamax format of VCR in 1976 at a suggested retail price of $1,295. A year later RCA

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[34] Federal Communications Commission.
[35] <http://www.zenith.com/sub_about/about_remote.html> [July 29, 2008]
[36] HEETER and GREENBERG (1985)

introduced the first VHS format VCR in America. By 1985 the VHS format dominated the US home market. VCRs not only were used to store films at home, they also represented an alternative to network-scheduled television, as viewers could time-shift programming according to their own needs and preferences. Moreover, VCRs also enabled users to skip through commercials using the fast forward button, prefiguring what DVRs do today. In 2007, 55% of households that own a DVR stated that fast forwarding commercials was an everyday practice.[37] Currently 25% of households have DVRs.[38]

The 1960s through 1980s represented a period of expansion and maturation for television, with the addition of new technologies like satellite delivery of programming (in 1962 the TELSTAR satellite broadcast the first transatlantic reception of a television signal). At the start of this period, color television had been introduced, but there was little color programming. By 1967, most network programming was in color, and by 1972 half of U.S. households had a color television.[39]

The introduction of efficient fiber optic cable in 1970 by Corning's Robert Maurer, Donald Keck and Peter Schultz improved the delivery of television programming to American homes and businesses. High defini-tion television (HDTV) was also introduced during this period. The advent of cable TV was seen both as a challenge and as a threat by the major broad-cast networks because it offered Americans the choice of dozens and poten-tially hundreds of channels. The first cable experiments were held in isolated towns, where large antennas were erected; by 1960 the United States had about 640 CATV (community antenna television) systems. In 1971 cable

The advent of cable TV was seen both as a challenge and as a threat by the major broadcast networks because it offered Americans the choice of dozens and potentially hundreds of channels.

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[37] Source: JACKSON, McQUIVEY and WIRAMIHARDJA (2008)
[38] STELTER (2008a)
[39] Federal Communications Commission.

had more than 80,000 subscribers in New York, and networks specifically designed to be

distributed by the cable system began to appear: Time Inc.'s Home Box Office (HBO) in

1975; Ted Turner's "superstation" (soon renamed WTBS) in 1976; C-SPAN (public affairs),

ESPN (sports) and Nickelodeon (children's programming) in 1979. Turner followed with

the Cable News Network (CNN) the next year.[40] Prior to cable TV there was one "mass

audience;" the three broadcast networks commanded over 90% of all prime time TV

audiences.[41] But with the introduction of this new technology, audiences fragmented and

splintered into "niches." The rise of cable penetration rates illustrates the health of the

business: while in 1980 there were only 17.5 million basic cable subscribers in the United

States, in 2007 there were already 65 million (58% of households). The increase in satel-

lite and telco TV penetration has resulted in 82% of the US population subscribing to

some form of pay TV in 2006,[42] further fragmenting the audience by network and distri-

bution platform.

In an effort to adapt to audience fragmentation, media companies have started to

rethink their business strategies in order to succeed in a multiplatform environment. Their

efforts have created a highly concentrated media ownership environment. Murdoch's

NewsCorp, for example, publishes more than 175 newspapers worldwide, owns FOX

Broadcasting Company (which reached 77% of households in 2007), Twentieth Century

Fox Studios, and MySpace. NewsCorp also publishes periodicals and books and controls

34% of DirecTV Group (satellite TV). According to *Advertising Age's* 2007 "Media Family

Trees," based on 2006 net revenues FOX only accounts for 36.3% of NewsCorp's annual

revenues: cable networks represent 27.3%, movies and home entertainment 21%, and

other media 10.9%. ABC, to cite another example, accounts for 32% of owner Walt Dis-

ney's annual revenues.

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40 STEPHENS (*sine die*)
41 WEBSTER (2005)
42 According to Gartner, the forecast is to increase to 84% by the end of 2011. <http://www.gartner.com/it/page.
jsp?id=527614> [July 29, 2008]

Advertising history: urbanization and the origins of the ad industry

The emergence of the advertising industry in the United States is closely tied to industrialization, urbanization and the mechanized production of commodity goods in the late 19th and early 20th century. As mass-produced packaged goods were distributed nationally and brands such as American Express, Coca-Cola, Colgate-Palmolive, Heinz, Eastman Kodak and others were founded, manufacturers needed to fuel desire for the goods offered in the emerging consumer economy. Not only did they need to stimulate demand, they also needed to persuade consumers to buy their goods repeatedly. It was in this emerging culture of consumption that a formalized advertising industry was born.[43]

The first advertising agencies were established as sellers of newspaper space. The first key revolution in the newspaper industry was the introduction of the "penny paper" in 1833. *The New York Sun* introduced a daily paper that cost just one cent an issue rather than the customary five or sex cents. The paper intended to subsidize the operational costs through advertising. Additionally, advertising cost a flat rate of $30 per year, but rather than sell unlimited space, as was common at the time, the Sun sold square, one-column-wide, ten line units on a daily basis. The format was similar to today's tabloids, featuring "human interest" stories and sensationalized crime. Subsequent penny papers modified this model by charging advertisers a daily rate and requiring ad copy to run no longer than two weeks in order to keep the ads fresh.[44]

The first advertising agencies were established as sellers of newspaper space.

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[43] SILVULKA (1998:46)
[44] SILVULKA (1998:27)

By the turn of the century, the newspaper industry had grown tremendously, and the selling of advertising space was becoming progressively more complicated. The number of daily newspapers increased almost nine-fold between 1850 and 1900, and the number of weeklies grew from 991 in 1838 to 13,513 in 1904. As circulation exploded, publishers made available more reliable readership statistics to encourage advertiser investment in the medium,[45] demonstrating the importance of reliable measurement early in the industry's growth. Magazines, such as the *Ladies Home Journal* and the *Saturday Evening Post*, also emerged as a burgeoning media platform with increasing readership around the turn of the century.

Within this environment, the early national advertising agencies emerged. Initially, the firms acted as agents of the print industry, selling ad space (or sometimes re-selling space they had purchased outright). Agencies that acted as brokers earned a commission from the sale of the ad space (typically 15% - a percentage that was still the dominant model in ad buying until very recently). Some of the early agencies that emerged from this model are today global firms, such as J. Walter Thompson, later renamed JWT (1871), Lord & Thomas, later DraftFCB (1871), and George Batten & Co, later BBDO (1891). These agencies did not have a copy or art department and instead were focused only on the buying and selling of ad inventory. However, the needs of national advertisers (particularly the department stores) required more sophisticated art, copy and layout.[46]

As mass production of consumer goods increased, businesses consolidated, and economies of scale were realized, the volume of ad spend grew exponentially, from $540 million 1900 to just under $3 billion by 1920.[47] As investment in advertising increased, the practice of advertising began to formalize within the agencies. The practices and services

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[45] SILVULKA (1998:81)
[46] SILVULKA (1998:81)
[47] SILVULKA (1998:93)

offered today, such as planning, research, creative development and implementation originated during this period.

In addition to the formalization of advertising practices within agencies, the industry itself began to formulate and adapt standards and codes. Professional organizations such as the Association of National Advertisers and the American Association of Advertising Agencies were founded in 1915 and 1917, respectively. These groups also formed the Audit Bureau of Circulation, which certified readership independently of the publishers and "standardized rate cards with forms for placing media orders and established uniform page and column sizes in both magazines and newspapers."[48] The codes and ethics established by the industry then were relatively unchanged and unquestioned for rest of the century. However, while the standards and practices of advertising became codified early on and sustained over the course of the century, the aesthetics and creative development have evolved greatly.

Advertising's creative revolution

The advertising industry was not immune to the cultural changes taking place in the US after the Second World War. The 1960's are often referred to as a period of "creative revolution" in the advertising industry. Prior to that time, most advertising focused on product features. The messages were fairly straightforward – "Tide gets clothes cleaner than any soap." "Guinness is good for you." "Wheaties is the breakfast of champions." However, in the 1950's and 1960's the work of several influential admen shifted the focus from product attributes to brand image and personality.

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48   SILVULKA (1998:117)

In the 1950's and 1960's the work of several influential admen shifted the focus from product attributes to brand image and personality.

Four men in particular – Rosser Reeves, Leo Burnett, David Ogilvy and Bill Bernbach – shaped contemporary advertising creative practices. Bill Bernbach, specifically, altered the way contemporary advertising was created. Whereas prior to his work most advertising messages were "brain-pounding hammers,"[49] Bernbach encouraged his copywriters and art directors to understand how his "client's products related to their users, what human qualities and emotions came into play. Then the challenge turned to deciding how best to communicate those elements, in TV and print, and capture the consumer's understanding and support."[50] Bernbach is also responsible for the art director/copywriter two-man (or woman) teams still prevalent in creative departments today.

What began as a network of two advertising agencies in 1960 became a network of 38 agencies, PR firms and communications services companies just six years later.

It is also during this period that many independent agencies are founded, at the same time that the larger agencies begin to form holding companies and consolidate multiple agencies under a single corporate owner. For instance, Interpublic Group of Cos. (IPG) was established in 1960 after founding agency McCann Erickson Worldwide had acquired the Marschalk and Pratt Agency and managed it as a separate company in order to maintain competing accounts within one network. What began as a network of two advertising agencies in 1960 became a network of 38 agencies, PR firms and communications services companies just six years later. (Today IPG owns 92 agencies including full service ad agencies, as well as specialists in youth marketing, Internet marketing, multicultural marketing, to name just a few).

In addition to allowing agencies under the same corporate umbrella to service competing accounts, diversifying marketing agencies also theoretically insulates the holding company from fluctuations in the marketplace. The common wisdom holds that in an economic upturn, advertisers are more likely to spend money on advertising, while in a downturn, advertisers cut budgets on expensive TV advertising and shift their spending

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[49] <http://adage.com/century/people001.html> [July 29, 2008]
[50] Ibidem

towards more cost-effective media and methods such as direct mail, public relations and viral marketing. According to this logic, while the fate of individual agencies (and their employees) may vacillate, the holding company (and its shareholders) can mitigate risk.

Today's advertising industry

Today there are very few independent agencies (although it seems every few years there is a wave of new specialist shops – creative, interactive, search marketing – that are eventually acquired by the larger holding company). The major holding companies, Omnicom, WPP, Interpublic Group of Cos, Publicis, Dentus and Aegis are global, diversified marketing services companies with revenues equaling almost $37 billion.

Increasingly, the past 15 years have seen not only greater consolidation within the agency space, but also a trend towards consolidated but separate media buying. There were several factors that encouraged this trend towards standalone media buying agencies. Again, the agencies could handle competing accounts without encountering a conflict of interest. Second, the consolidation taking place within the media industry meant the agencies needed to consolidate buying power centrally in order to maintain bargaining leverage. The buying of television, print and radio ad space and time had become dependent on a tonnage model – the more volume purchased, the greater the discount.

Additionally, advertisers began to manage their marketing differently. Many advertisers began to cherry pick their agencies – one for creative ser-

The buying of television, print and radio ad space and time had become dependent on a tonnage model – the more volume purchased, the greater the discount.

vices, another for media planning and buying, and yet another for sales promotion and/or direct marketing.[51] The last factor that contributed to the trend towards consolidated, standalone media agencies was the 1992 unification of the European Community. The elimination of tariff and trade limitations created a marketplace of 320 million people, a market a third larger than the US at the time.[52] The successful separation of European media agencies from their parent agencies served as a template for US-based agencies. Thus most holding companies have at least one (or several) standalone media buying agencies that purchase advertising inventory across media (TV, radio, outdoor, print and increasingly, Internet as well). The process of planning, buying and optimizing media has been rendered relatively discrete from the creative process.

For the past few decades, media has for the most part assumed a backseat position to the more privileged discipline of the creative process. The creative department "leads" the campaign, and media was quite literally an afterthought. The process of creating a campaign revolves around the creative brief, a document that outlines the campaign's objectives, target audience, and schedule. Traditionally, the placement of those ads is a secondary consideration.

In the past, the media buying process was relatively simple. There were only three major broadcast networks. Cable was a nascent broadcast medium. Radio was fragmented but primarily a local medium and a local ad buy. The same was true for print media. Optimizing media was also simple since media were primarily responsible for delivering ads to the audience, and there was no onus on the media owner to prove the effectiveness of its content at reaching that audience and persuading them to buy. For the most

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[51] BRIERLEY (2002:65)
[52] ROTHENBERG (1988)

part, after a campaign was launched, optimization consisted of minor tweaks to the placement or budget, but it was far from a scientific discipline. However, the digitization and diversification of media platforms and technologies has had a revolutionary impact on the practices of advertising, the organization of agencies and the optimization of media. In the next section, we will discuss the transformations the advertising industry is currently experiencing.

Reasons for the crisis

Thanks to the Internet's structure and its distributed architecture, access to information has been progressively relocated into the hands of its users.

Mass media have been based on a traditional communication process ever since the first newspaper was printed. According to this paradigm, a **sender** initiates the process by which a **message** is encoded and transmitted through a **channel** (also called a medium) to a **receiver** who **decodes** it; the possibility of providing **feedback** is very scarce or even nil. In this model, the sender is a *single entity* while the receiver typically embodies *millions* of people. However, new information and communication technologies, particularly the Internet, have transformed this model by enabling audiences to adopt an active role in the communication process.

In today's digital age, a single person connected to the Internet is capable of producing, distributing and consuming information bits and bytes, no matter where he or she is, as long as access to the network is provided. Thanks to the Internet's structure and its distributed architecture, access to information has been progressively relocated into the hands of its users. Receivers have evolved and adopted a more active role; Internet users not only read, listen and watch, they also express themselves and create their own content, becoming "senders," not just receivers. The consumer, who used to be at the receiving end of the communication chain, has been placed at the center of the process. This change has mainly been possible thanks to *social software*, a corpus of tools, services and technical devices that enable the user to produce (edit, copy, distribute) content that flows over the Net. Beginning a decade ago, services and tools such as wikis, blogs, social networks, podcasts, and peer-to-peer networks characterize what has been called "Web 2.0."[53]

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[53] Tim O'Reilly is considered the first person to have used the concept Web 2.0, in 2004. For further information we highly recommend an article published on his Web site where he describes it. <http://www.oreillynet.com/pub/a/oreilly/tim/news/2005/09/30/what-is-web-20.html> [April 2, 2008]

Blogs and wikis are no longer exclusively the tools of early adopters. Technorati's *State of the Live Web*[54] showed that in April 2007 they tracked over 70 million weblogs, and 120,000 new blogs were being created worldwide each day. The blogosphere also doubled its size (total blogs tracked) every five to seven months from 2004 to 2006. Perhaps Wikipedia best demonstrates the power of large-scale worldwide collaboration. According to the Wikimedia Foundation, in March 2008 there were 10 million articles in 250 languages in Wikipedia. The English Wikipedia has the largest number of articles, followed in descending order by the German, French, Polish, Japanese, Italian, Dutch, Portuguese, Spanish and Swedish Wikipedias.[55] A study conducted on the English Wikipedia in 2007 by the Hewlett Packard Information Dynamics Laboratory[56] showed that the best articles were those that had been edited the most frequently. Thus, the study suggested that there is a strong correlation between number of edits, number of distinct editors and article quality.

New technology has revolutionized media consumption habits. Two of the most fundamental changes are that consumers can now create their own media schedule, and they have the ability to easily revise, copy, produce and re-distribute content. Furthermore, the Internet and devices such as DVRs allow viewers to time-shift programming and skip through commercials. This radical change in the classic media consumption paradigm threatens the broadcast industry, which depends upon delivering passive audiences to advertisers. As a result, the relationship between advertisers, programmers and distributors has fundamentally changed.

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[54] Technorati. *The state of the live Web* (April 2007).
< http://www.sifry.com/alerts/archives/000493.html> [April 7, 2008]
[55] Wikimedia Foundation – Press releases
<http://wikimediafoundation.org/wiki/Press_releases/10M_articles> [April 7,2008]
[56] <http://www.hpl.hp.com/research/idl/papers/wikipedia/index.html> [April 7, 2008]

The time when the whole family sat together in front of a TV set has passed. The decline in audiences and advertising revenue has challenged the American broadcast network industry to reinvent itself. There are four primary reasons for this crisis:

1. More entertainment options

2. Empowerment of audiences

3. Changes in metrics and creative formats

More options for audiences

Cable and satellite television, the Internet, gaming platforms, mobile devices… What to choose? There has never been such a wide range of entertainment options for users. Moreover, technology's impact on consumers is widespread, from the way that they consume media to be entertained and informed, to the way they communicate and keep in touch with friends and family.

Household technology adoption in the United States has been steadily increasing since 2001. All personal media devices registered high gains in 2006 (Figure 3), with the only exception of PDAs, whose features are being adopted by mobile phones. Camera phones, MP3 players and digital still cameras led this increase in household technology adoption. Factors such as big price drops in plasma and LCD displays may have pushed HDTVs into an additional 7.3 million US households, while the new generation of video game consoles failed to attract a new audience as the number of US households with game players remained flat.[57] According to Forrester's forecast, the devices whose penetration rate will grow faster are tied to the digital home: DVRs and home networks.

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[57] Forrester Research. The state of Consumers and Technology: Benchmark 2007.

FIGURE 3 – US HOUSEHOLD TECHNOLOGY ADOPTION (2001 – 2012)
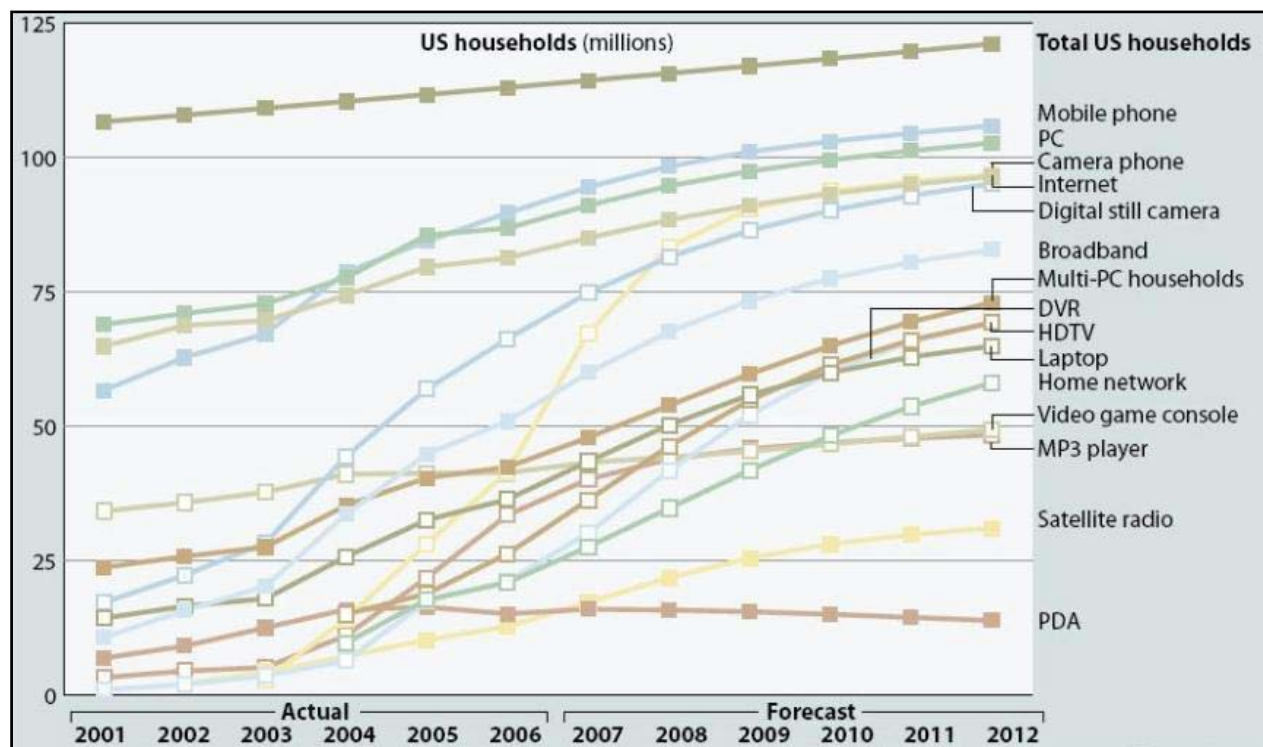
Source: Forrester Research. The state of Consumers and Technology: Benchmark 2007.[58]

The explosion in the number of television networks, particularly cable and satellite, along with the advent of time-shifting devices such as digital video recorders and the availability of content on the Internet, has fragmented audiences.

The explosion in the number of television networks, particularly cable and satellite, along with the advent of time-shifting devices such as digital video record-ers and the availability of content on the Internet, has fragmented audiences. At its inception, television had three major free-to-air broadcast networks. Even as recently as 1977, the three broadcast networks commanded over 90% of all prime time TV viewing by Americans.[59] Today, the National Cable & Telecommunications Association estimates there are 565 national cable networks, in addition to the major broadcast networks and their affiliates.[60] Fifty years ago, popular prime time television shows such as *Gunsmoke* and *Wagon Train* were able to exceed audience shares of 50%.[61] By contrast, FOX's *American Idol* season finale in May 2008, traditionally one of the most highly rated programs on the air today, averaged a 27% share.[62]

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58 Source: Forrester Research. The state of Consumers and Technology: Benchmark 2007.
59 WEBSTER (2005)
60 NCTA, 2008 Industry Overview
61 <http://www.high-techproductions.com/historyoftelevision.htm> [July 29, 2008]
62 <http://www.zap2it.com/tv/ratings/zap-ratings052108,0,1467015.story> [July 29, 2008]

The net result is that there is ever increasing competition for audience attention. One of the first theorists to recognize the shift in consumer attention and its subsequent effect on the economics of attention was Herbert Simon,[63] when he wrote:

"...[I]n an information-rich world, the wealth of information means a dearth of something else: a scarcity of whatever it is that information consumes. What information consumes is rather obvious: it consumes the attention of its recipients. Hence a wealth of information creates a poverty of attention and a need to allocate that attention efficiently among the overabundance of information sources that might consume it."

Prior to the digitization of media, both content and distribution platforms were relatively finite. Spectrum was scarce, and content creation and distribution were expensive. Digital media and cheap networking technologies changed that equation. Essentially, telecommunications bandwidth is practically infinite, but human bandwidth is becoming more and more scarce.[64] The very currency that advertising has always relied upon—audience attention—has become both more competitive to attain, as well as diminished in supply.

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[63] SIMON (1971)
[64] BECK and DAVENPORT (2002)

The explosion in the number of media outlets and content providers has contributed to the dynamic of fragmentation. But the fragmentation occurring today takes place along three dimensions concurrently:[65]

1. **Audience fragmentation:** The explosion in the number of media outlets, delivery platforms and content providers has meant an increase in niche programming. Whereas 50 years ago, the family would watch TV together, in the same place, at the same time, today's audiences are spread across a vast array of entertainment choices. As a result, finding mass audiences and the type of reach TV used to provide is becoming increasingly challenging to advertisers.

2. **Personal fragmentation:** Consumers' time, attention and media spending are distributed across a wider array of media than ever. They are spending less time with TV and magazines and eschewing "traditional" media for newer entertainment platforms such as video games and the Internet. In addition, there is increasing evidence that consumers tend to multitask their media consumption, such as surfing the Internet while watching TV. *BIGresearch* released a study[66] in 2007 that estimated nearly 70% of consumers are engaged in simultaneous media use. However data about multitasking are not unanimous; a study released in 2006 by *The Kaiser Family Foundation*[67] showed that TV is the least likely medium to be multitasked among youth.

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[65] Framework developed by Schatsky, D (2006). "The Fragmented Media Future"
<http://weblogs.jupiterresearch.com/analysts/schatsky/archives/012845.html>
[66] <http://www.centerformediaresearch.com/cfmr_brief.cfm?fnl=070201> [July 29, 2008]
[67] *The Kaiser Family Foundation* (2006). "Media multitasking among American Youth: Prevalence, Predictors and Pairings"

3. **Media fragmentation:** As media distribution becomes digitized, content itself has begun to fragment. Consumers can now create playlists, make their own mashups, watch a scene from a streamed movie or television show and create their own TV clips, which can then be embedded on their own site and shared with friends. Consumers can also create individualized feeds of their favorite news sites, blogs or individual keywords. With DVRs, consumers can cherry pick TV programming and skip over less desirable content and commercials.

As audiences for individual programming and networks continue to diminish in the face of increasing content competition, the media industry has consolidated to maintain scale, reach and profitability. Concentration of ownership doesn't just mean that media companies own more properties then ever before, it also necessitates that they control more properties that are delivered via diverse platforms.[68] Most of the major media firms are vertically integrated today; Time Warner, for instance, owns multiple cable networks such as CNN and Cartoon Network, cable operator Time Warner Cable, studio Warner Bros Entertainment, premium television network Home Box Office, web services company AOL and 125 magazine titles under Time Inc.

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While media firms have been aggressively acquiring and merging with other media firms, creating a greater concentration of ownership, there is a parallel trend towards increased diversification of media content and platform distribution. The digitization of media accelerates this trend, since media can now be "unlocked" from its originating platform. Consumers can now watch television content on their computer, on their cell phone and on their iPod. They can listen to music or watch a movie with their Xbox. They can read a book on Amazon's *Kindle*. A corollary behavior that results from the digitiza-

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[68] ARSENAULT and CASTELLS (forthcoming article)

tion of media is time-shifting. Audiences no longer have to wait for a par-

ticular day and time to see their favorite shows; they can create their own

schedule. The digitization of media leads to an empowered consumer, at

least as far as the consumer can dictate content, time and platform for

viewing.

Mobile phones are no longer just about voice.

Mobile devices such as smartphones are a good example of this new

trend in consuming. The use of cellular phones and computers equipped

with wireless cards for Internet access has been growing for the last five

years.[69] In 2007, going online by wireless computer more than doubled

(11% in 2006 compared to 27% in 2007), while the percentage of users of

cell phones with wireless access to the Internet rose to 13% (11% in 2006).

More than seven in ten adults have a mobile phone, and nearly half of them

are part of a family plan (the average mobile household had 2.1 cell phones

in 2007).[70] Worldwide sales of mobile phones reached 294.3 million units in

the first quarter of 2008, a 13.6% increase over the first quarter of 2007.[71]

Mobile phones are no longer just about voice. According to Forrester

Research, 41% of cell phone users send or receive text messages, more than

20% send or receive picture messages, and 15% send or receive email.

Downloading games, instant messaging, looking for information via browser

or SMS, and reading news are services that are used by around 10% of cell

phone users (Figure 4).

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[69] The digital future report 2008. Surveying the Digital Future. University of Southern California.
[70] Forrester Research. The state of Consumers and Technology: Benchmark 2007.
[71] Gartner < http://www.gartner.com/it/page.jsp?id=680207> [May 29, 2008]

FIGURE 4 – WIRELESS DATA SERVICES USED ON PORTABLE DEVICES (2007)
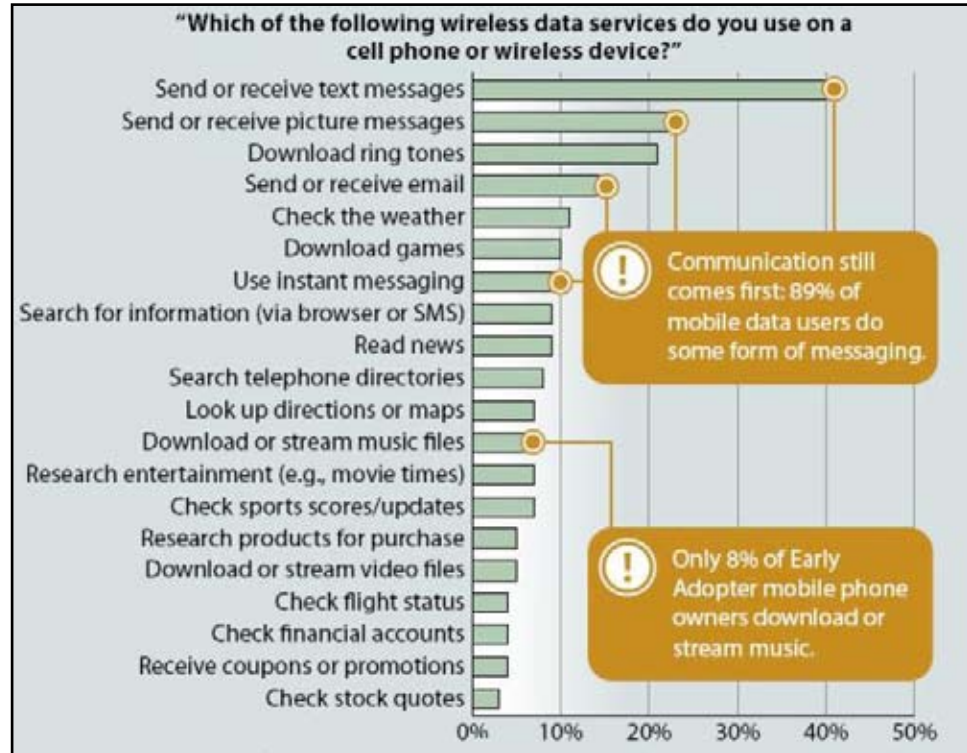
Source: Gartner < http://www.gartner.com/it/page.jsp?id=680207> [May 29, 2008][72]

Most handsets couldn't show video until recently, and so little had been done by the big carriers in order to promote it. However, sales of video subscription services have significantly increased, from $112M in 2006 to $308M in the last quarter of 2007.[73] Mobile phones with wireless access to the Internet, notably Apple's iPhone, have contributed to the spread of video-watching practices on portable devices. In fact, until mobile broadcasting technology appeared three years ago, cell phone operators had to send video as prepackaged clips to individual customers over their high-speed, third-generation phone networks. That proved to be costly to operators and consumers, and the large video packets slowed other voice and data traffic on these networks.[74] Thus the announcement in May 2008 that AT&T Wireless, with 71.4 million phone customers, would start AT&T Mobile TV in the United was not a surprise. (Verizon Wireless has offered mobile TV since

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[72] Gartner < http://www.gartner.com/it/page.jsp?id=680207> [May 29, 2008]
[73] Nielsen Mobile.
[74] Mobile Tech Today
< http://www.mobile-tech-today.com/story.xhtml?story_id=113002T0ZET6&page=1> [May 29, 2008]

March 2007.) The AT&T service, which costs an average of $15 a month, has ten channels, including *Pix*, which displays movies from Sony Pictures. AT&T, the exclusive carrier for Apple's iPhone in the United States, will also sell cell phones made by LG Electronics and Samsung that can receive TV broadcasts.

In addition to the rise of mobile phones as entertainment devices, there are several companies entering the TV media device arena, including AppleTV, Netflix's "TV Box" and Slingmedia's SlingBox. These devices are built to bridge the divide between the TV and computer experience by allowing audiences to easily consume media from one platform on another. SlingMedia's first product, for instance, has been internationally acclaimed for enabling users to watch television anywhere at any time. (It won an Emmy[75] in 2007.) The SlingBox turns any Internet-connected computer or smart phone into an extension of one's home television; it allows viewers to watch and control their TV source from anywhere in the world. As a consequence, viewers can now watch their DVR, digital cable, satellite receiver or DVD player wherever they see fit.[76]

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[75] Emmy Award for Outstanding Innovation and Achievement in Advanced Media Technology for the Best Use of Personal Media Display and Presentation Technology (2007)
< http://www.emmyonline.org/emmy/advmedia_winners_release.html> [July 29, 2008]
[76] < http://www.slingmedia.com/go/slingbox-av> [May 31, 2008]

Audience empowerment

It's about the cosmic compendium of knowledge ' Wikipedia' and the million-channel people's network 'YouTube' and the online metropolis 'MySpace.'

In 2006 *Time* magazine surprised its readers when "the person of the year" was announced: "You" (Figure 5). This would have seemed inconceivable just a few years before, but the active role adopted by Internet users in remixing and building new content seemed to deserve mainstream recognition. "Look at 2006 through a different lens and you'll see another story, one that isn't about conflict or great men. It's a story about community and collaboration on a scale never seen before. It's about the cosmic compendium of knowledge 'Wikipedia' and the million-channel people's network 'YouTube' and the online metropolis 'MySpace.' It's about the many wresting power from the few and helping one another for nothing and how that will not only change the world, but also change the way the world changes."[77]

FIGURE 5 – TIME'S PERSON OF THE YEAR (2006)

Source: < http://www.ilstu.edu/~oakman/poty06.jpg> [May 30, 2008][78]

Consumers' time is a crucial resource for which all media compete.[79] The Internet has had a competitive displacement effect on traditional media as time spent with other media is reduced. People keep watching television (an average adult spends twice as much time watching TV compared to the second most consumed media, radio).[80] While the big three networks used to be the only options, viewers now have hundreds of channels to chose from, as well as virtually unlimited amounts of video content available online. The attention of viewers is more valuable than ever before, and advertisers will

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77 <http://www.time.com/time/magazine/article/0,9171,1569514,00.html> [May 30, 2008]
78 < http://www.ilstu.edu/~oakman/poty06.jpg> [May 30, 2008]
79 DIMMICK, CHEN and LI (2004)
80 Nielsen Media Research.

pay top dollar for programming that attracts large audiences. This explains why TV networks can still charge premium rates for programming like the Super Bowl, which people still watch live (opposed to time-shifted on the DVR). In 2007, 93.2 million viewers tuned in to the game, which aired on CBS, and marketers paid as much as $2.6 million for a 30-second spot. In 2008, FOX charged as much as $3 million per spot.[81] The Beijing 2008 Summer Olympics are also a good example of this trend; the average cost of a 30-second commercial during NBC Universal's coverage of the Olympic Games was about $750,000 and if the media company sells all of its ads, it could generate $1 billion in overall sales.[82] Part of the reason for the steep price is that NBC worked hard to make sure the most popular events of the Olympics were not available anywhere online, which forced viewers to tune in.[83]

Audience empowerment: online content

In March 2008 there were 78.3 million videos uploaded on You-Tube.[84] MySpace counts 110 million monthly active users; Technorati indexes 1.5 million new blog posts every day, and Wikipedia contains ten million articles.[85] Big media companies are increasingly concerned that all their viewers will move online, where advertising strategies are far less familiar, and models for monetizing content are untested. The Internet – compared to other media such as television (68%), radio (63%) and newspapers (63%) – has become the most important source of information among Internet users (80%).[86] The latest figures show that 62% of households in the United

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[81] "Who's Buying What in Super Bowl XLII" in *Advertising Age*, December 14, 2007.
[82] <http://www.hollywoodreporter.com/hr/content_display/news/e3ie1d250229aff043a1f6ea9b29f-b1c77> [August 19, 2008]
[83] HANSELL (2008)
[84] Kansas State University. *Digital Ethnography Working Group.*
< http://mediatedcultures.net/ksudigg/?p=163> [April 7, 2008]
[85] <http://www.nytimes.com/2008/01/21/technology/21myspace.html?_r=1&oref=slogin> [April 7, 2008]
[86] Ibidem

States had Web access in October 2007 (51% of these connections were broadband) [87],

with users logging 15.3 hours per week.[88]

FIGURE 6 – DAILY ELECTRONIC ACTIVITIES WHILE ONLINE (2007)

	Daily	Weekly	Several times a day
Check email	39%	15%	42%
Look for news	29%	22%	9%
Surf / Browse	28%	24%	19%
Play games	16%	14%	5%
Instant message	14%	12%	11%
Download/listen music	11%	15%	5%
Look for humorous content	10%	14%	1%
Read blogs	7%	9%	1%
Download/watch video	7%	12%	3%
Listen to an online radio station	5%	11%	2%
Look for health info	4%	16%	0%
Look for job	3%	1%	8%
Chat rooms	2%	4%	2%
Work on personal blog	2%	4%	0%
Look for travel info	2%	11%	1%
Purchase online	1%	11%	0%

Source: The digital future report 2008. Surveying the Digital Future. University of Southern California[89]

There is no general profile of an average Internet user: while some people just send e-mails and look for news, others are online all day downloading video and music files through P2P networks. The Internet access price has traditionally been the same for all users, but three of the largest Internet providers in the United States are threatening to place online activity monthly limits on their most active subscribers.[90] According to Time Warner, 5% of online customers use more than 50% of the network's overall capacity, and many of those people are assumed to be sharing copyrighted video and music files illegally. This is a serious obstacle for big media companies that are moving toward digital delivery of entertainment: the convergence of TV and computers, while perhaps viewed

[87] USA Government. National Telecommunications and Information Administration
< http://www.ntia.doc.gov/reports/2008/NetworkedNation.html> [May 28, 2008]
[88] The digital future report 2008. *Surveying the Digital Future*. University of Southern California
[89] Source: The digital future report 2008. *Surveying the Digital Future*. University of Southern California
[90] STELTER (2008b)

suspiciously by entrenched interests such as TV broadcasters, may be the only way that the TV industry can remain relevant.

The Internet has played a key role in the empowerment of audiences by giving everyone the ability to contribute to the free flow of content that characterizes the Web.

The Internet has played a key role in the empowerment of audiences by giving everyone the ability to contribute to the free flow of content that characterizes the Web. Video-sharing Web sites, which compete directly with broadcast TV, are among the most popular sites on the Web. A research report presented in January 2008 by the Pew Internet & American Life Project[91] showed that at the end of 2007, 48% of Internet users had visited video-sharing sites such as YouTube (Figure 7) in the United States. While younger consumers are more likely to visit video-sharing sites, between December 2006 and December 2007 there has been a 58% increase in users age 50 – 64, and 18- to 29-year -olds have

FIGURE 7 – DEMOGRAPHICS OF INTERNET USERS WHO HAVE EVER VISITED VIDEO-SHARING WEB SITES (2006-2007)

	Dec. 2006	Dec. 2007	% change from the previous year
Total internet users	33%	48%	Increased 45%
Men	40	53	Increased 33%
Women	27	43	Increased 59%
Age 18-29	55	70	Increased 27%
Age 30-49	35	51	Increased 46%
Age 50-64	19	30	Increased 58%
Age 65+	11	16	Increased 45%
Did not graduate from high school	29	39	Increased 34%
High school graduate	28	38	Increased 36%
Some college	36	54	Increased 50%
College graduate or more	37	54	Increased 46%
Live in households earning less than $30,000	32	43	Increased 34%
$30,000-$49,999	33	41	Increased 24%
$50,000-$74,999	28	53	Increased 89%
$75,000 or more	42	60	Increased 43%
Whites	31	45	Increased 45%
African-Americans	41	46	Increased 12%
English-speaking Latinos	42	55	Increased 31%

Source: Pew Internet & American Life Project. (2008). *Online video.*[92]

increased by 27%. What's more, online viewers belong to the high-income brackets that advertisers like to target: while 43% of households earning less than $30,000 visited video-sharing sites at the end of 2007, 60% of households earning $75,000 or more did so.

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[91] Pew Internet & American Life Project (2008). "Online video"
< http://www.pewinternet.org/pdfs/PIP_Online_Video_2007.pdf > [April 7, 2008]
[92] Source: Pew Internet & American Life Project. (2008). *Online video.*

Web sites such as YouTube, Metacafe and Yahoo Video are no longer niche destinations for young males. Internet users are hungry for online video content, both user-generated and professional, as Hulu's[93] recent statistics have shown. In the company's first full month of measurement since launching, Hulu has had steady growth in several key areas and has exceeded initial expectations. According to Nielsen NetRating's April report (2008), Hulu leads all network sites in total video streams and overall engagement time: monthly streams have increased to more than 63 million, and users are viewing more than two hours of content each month.

But not only do Internet users want to watch videos online, they want to do it for free. If Web sites such as YouTube, Metacafe or Broadcaster have succeeded, it is mainly because users don't have to pay to watch or upload videos. In July 2007, only 7% of online video viewers had paid to either access or download content.[94] In October 2007, YouTube started overlaying advertisements on some professional and user-generated videos. The ad disappears after about ten seconds if the viewer does nothing, and the featured clip automatically pauses if the viewer clicks on the overlay. YouTube also plans to offer some full-length TV shows that will feature advertisements strewn through the episodes.[95] Unlike Google's pay-per-click search ads, the rate card for YouTube CPM's has been reported to be $20 per thousand impressions, regardless of whether a user clicks on an overlay ad or not. However, given the de facto practice of discounting rate cards (in some cases drastically), it's highly unlikely any advertiser is paying a rate that high. Revenues are split with the video owner, although officials haven't said how they plan to do so.[96]

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[93] Hulu is a joint venture of NBC Universal and Fox that offers free, full-length TV episodes, movies and video clips from NBC, Fox and more than two dozen other sources
[94] Pew Internet & American Life Project. (2008). *Online video.*
[95] STETLER (2008k)
[96] < http://www.foxnews.com/story/0,2933,294062,00.html> [June 30, 2008]

New technology allows us to decide where and when we consume the content we want.

Not satisfied with the expected $200 million from ad sales in 2008, Google reported in July 2008 that it is ready to abandon YouTube's policy of banning pre-roll and post-roll ads.[97] YouTube has become one of the most successful video-sharing Web sites in terms of audience size, but executives have not figured out how to monetize its content. Although users of the popular video-sharing site view clips more than one billion times on most days, the site hasn't been as popular with big corporate advertisers; Google Chief Executive Officer Eric Schmidt has acknowledged that the company hasn't yet found the best formats for video advertising.[98] Copyright litigation—Viacom sued Google in 2007, arguing that clips of television shows and films had been posted without authorization—and the fact that there is not enough suitable content to run ads (80% of YouTube videos are user-generated)[99] are the two main complaints from mainstream advertisers.[100] While 82% of Web video viewers consider advertising reasonable in full-length shows, only 48% think it reasonable to advertise in homemade clips.[101]

New technology allows us to decide where and when we consume the content we want. Although a high percentage of YouTube videos are user-generated,[102] video-sharing Web sites usually have partnership agreements with professional content providers such as television networks and music labels. The networks have their own Web sites, but they have

[97] <http://news.cnet.com/8301-1023_3-9986202-93.html?hhTest=1&part=rss&subj=news&tag=2547-1_3-0-20> [July 8, 2008]
[98] The Wall Street Journal <http://online.wsj.com/article/SB121557163349038289.html?mod=rss_whats_news_us> [July 17, 2008]
[99] Kansas State University. *Digital Ethnography Working Group.* < http://mediatedcultures.net/ksudigg/?p=163> [April 7, 2008]
[100] The Wall Street Journal <http://online.wsj.com/article/SB121557163349038289.html?mod=rss_whats_news_us> [July 17, 2008]
[101] MINDLIN (2008b)
[102] Kansas State University. *Digital Ethnography Working Group.* < http://mediatedcultures.net/ksudigg/?p=163> [April 7, 2008]

established partnerships with sites such as YouTube due to their high popularity, often creating custom channels on these sites. In fact, a study developed by CBS Research and presented in January 2007 showed that as many as 56% of TV viewers in the United States were aware that they could watch streaming video of network TV shows online.[103] As discussed below, the networks are experimenting with several strategies for distributing content online. Hulu, for example, a joint venture of NBC Universal and FOX, offers free, full-length TV episodes, movies and video clips from NBC, FOX and more than two dozen other sources. While they decided to remove their clips from YouTube after officially launching the Hulu site, a few months later they opened a new Hulu channel on YouTube. Even though Hulu has been a success, these moves demonstrate how unsettled the networks' online strategies can be.

The success of social Web sites such as YouTube, Wikipedia, MySpace, Facebook and Second Life has led to big media acquisitions of online entities.

The success of social Web sites such as YouTube, Wikipedia, MySpace, Facebook and Second Life has led to big media acquisitions of online entities. NewsCorp's purchase of MySpace and CBS's acquisition of CNet are clear signs that TV broadcasters realize that much of their business is bound to move to online venues that they did not create organically but can instead acquire.

Audience empowerment: time-shifting experiences

Despite the Internet's growing popularity, television remains the number one medium in terms of hours spent: according to Nielsen Media Research the average time a household had a TV set turned on during the 2006-07 television season was 8 hours and 14 minutes per day. Individuals watched 4 hours and 34 minutes per day.

The introduction of DVRs has had a clear effect on viewers' practices and habits. Cumulatively 22% of households in the United States[104] had a DVR of some form by the

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[103] Pew Internet & American Life Project. (2008). *Online video.*
[104] According to Forrester Research, the DVR landscape in Europe is fragmented and its penetration by country. The United Kingdom, for instance, has a level of development similar to the United States (22%) but France, Germany, Italy and Sweden don't even reach a penetration rate of 10%.

end of 2007, which represents an increase in ownership of 50% in just nine

months; among those who didn't have a DVR, 13% planned to get one in

the next twelve months.[105] Moreover, 55% of households that own a DVR

say it is an everyday practice to fast forward through commercials, compared

to just 12% who never or rarely use it that way(Figure 8).

FIGURE 8 - HOW DVRS ARE USED IN THE UNITED STATES (2007)
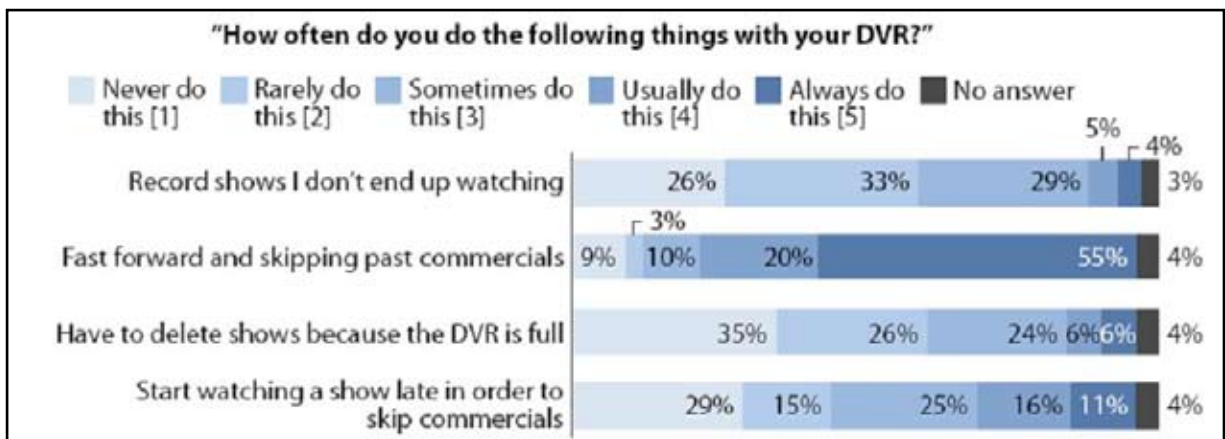
Source: JACKSON, McQUIVEY and WIRAMIHARDJA (2008)[106]

DVR users fall into three major groups: heavy shifters, medium shifters and light shifters.

DVR users fall into three major groups: heavy shifters, medium shift-

ers and light shifters.[107] Heavy shifters are usually middle income women,

aged 18-49, who record and later watch almost 26 hours of television per

week. Men aged 18-34 are less likely to be found in this group. Medium

shifters are mainly those who watch more television than the average per-

son; about a third of their viewing is time-shifted. Light shifters represent

about 70% of people who live in DVR households. They watch less televi-

sion than the average viewer, have incomes that exceed $100,000, and they

might have a high definition TV set. They spend only 10% of their television

time with time-shifted programming, watching shows that otherwise they

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105 JACKSON, McQUIVEY and WIRAMIHARDJA (2008)
106 Source: JACKSON, McQUIVEY and WIRAMIHARDJA (2008)
107 Nielsen Media Research (2008).

would have missed. Regardless of the type of time shifters, people prefer to watch news, movies and sports live, while general dramas and series are usually recorded and viewed later on. This practice accounts for one-third of all time-shifted content.

■ ■ ■

The traditional prime time period (from 8pm to 11pm) has been completely redefined due to DVR practices.

The traditional prime time period (from 8pm to 11pm) has been completely redefined due to DVR practices. One of the major benefits of these devices is that they enable users to plan their own TV schedules. According to Nielsen Media Research,[108] the closer the playback is to the original airdate, the more the audience is retained during commercials. This data show that among 18-34 year old viewers in DVR households, sports and news DVR playback usually occurs within the same day, as well as 85% of playback for daytime dramas, and 75% of playback for sitcoms and prime time dramas. Moreover, during the first 27 hours after being recorded, prime time broadcast commercials gain 16% in ratings among viewers aged 18 to 49, with the total increase reaching 22% after seven days (accounting for a 35% increase in ratings for broadcast programs during the first 27 hours after the original telecast, and a total increase of 47% after seven days).[109]

Traditionally advertisers did not pay for viewing that happened after the live air date, but as DVRs became more pervasive, the networks asked advertisers to compensate them for views that take place within 72 hours of the air date, what is commonly known as *live plus three*. In October 2007, Nielsen released ratings data that for the first time took into account viewers who played back shows on their DVRs up to three days after the original airing. According to this report,[110] CBS' sitcom *The Big Bang Theory* added 13% to its rating based on "time-shifted playback." This kind of adjustment has the potential to shake up prime time program rankings and the decisions executives make about which programs are kept or cut.[111] It is not so clear if playback viewers are as valuable as

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[108] <http://www.nielsenmedia.com/nc/portal/site/Public/menuitem.55dc65b4a7d5adff3f65936147a062a0/?x=10&show=%252FFilters%252FPress%252FNews%2BReleases%252FGeneral&vgnextoid=698fc958a35c0110VgnVCM100000ac0a260aRCRD&from=01%252F01%252F2007%257C12%252F31%252F2007&y=9&selOneIndex=0.> [April 2, 2008]

[109] < http://www.nielsen.com/media/pr_070215.html> [August 19, 2008]

[110] COLLINS (2007)

[111] COLLINS (2007)

real-time viewers, but advertisers and networks seem to agree that these viewers should be taken into consideration when calculating ratings, particularly because viewers who watch television on playback are younger and therefore, more appealing to advertisers. The median age of CBS' prime time viewers in 2007 was 53-years-old while those who watched CBS shows on DVR playback were 40-years-old. In 2007, for the first time, the combined prime time audience of ABC, CBS and NBC had a median age of 50, which is outside the 18-to-49 age range the networks usually sell to advertisers.[112]

Viewers skip through commercials differently when they are watching live versus watching on a DVR (Figure 9). According to the first round of commercial data for the 2007 fall season,[113] as much as one-fifth of the audience for broadcast networks' most popular shows avoided watching commercials.

In 2007, for the first time, the combined prime time audience of ABC, CBS and NBC had a median age of 50, which is outside the 18–to–49 age range the networks usually sell to advertisers.

FIGURE 9 – PERCENT OF VIEWING AUDIENCE FOR SELECTED SHOWS THAT SKIPPED (AVOIDED) THE COMMERCIALS WHILE WATCHING LIVE VERSUS ON A DVR UP TO THREE DAYS LATER (2007)
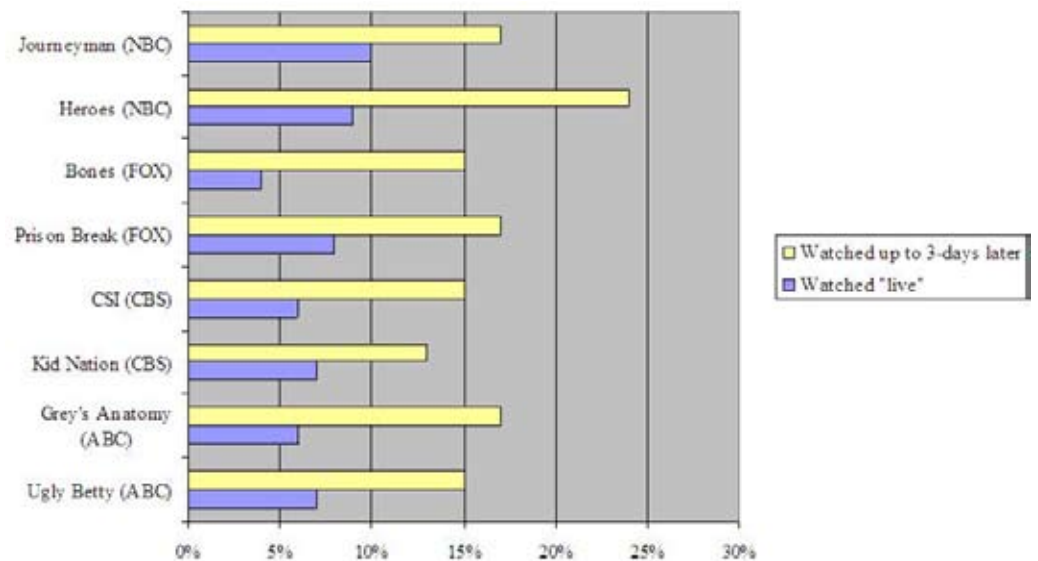
Source: Nielsen Media Research, cited in DANA and KANG (2007).[114]

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[112] COLLINS (2007)
[113] DANA & KANG (2007)
[114] Source: Nielsen Media Research, cited in DANA and KANG (2007).

The highest rates of ad skipping occur among the most high-profile network shows, such as NBC's *Heroes*. Almost a quarter of its audience skip the commercials when they watch an episode with a DVR, and more than 9% do so when they watch it live by flipping to other channels. Although these data reflect only the first week of the season, when viewership is considered to be irregular because of audience "sampling" of new programming, network executives contend that such ad skipping is not hurting revenues.[115] Though network ad sales are currently somewhat protected from lost revenue due to ad skipping, there will conceivably be a breaking point when advertisers are no longer willing to pay for consumers who are inevitably fast-forwarding through their commercials. Research is not conclusive about the effectiveness of commercials skipped on a DVR,[116] but "anchor positions"—the first and the last commercial of each advertising break—can conceivably become more valuable. They are less likely to be skipped because the user needs time to react and press the button on the remote control; as a consequence, advertisers might be willing to pay higher prices for them. As a result, the TV industry could adopt an advertising strategy similar to magazines, where the first pages are the most expensive because the reader has to go through them before getting to the table of contents.

Audience empowerment: piracy and unlicensed content

The music industry entered the digital arena long ago, providing business and technology lessons for the film and television industries. In the US, only five years after the commercial music download business first emerged, 30% of all recorded music is sold online or on mobile platforms.[117] However, some estimates say no less than 80% of all Internet traffic is comprised of copyright-infringing files on peer-to-peer (P2P) networks.[118]

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[115] DANA and KANG (2007)

[116] < http://techrepublic-cnet.com.com/TV+advertisings+DVR+challenge/2100-1024_3-6075233.html> [August 19]

[117] According to the IFPI (*Digital music report 2008*) digital sales in 2007 accounted for an estimated 15% of the global music market, up from 11% in 2006 and zero in 2003. In the world's biggest digital music market, the US, online and mobile sales now account for 30% of all revenues. The music industry is more advanced in terms of digital revenues than any other creative or entertainment industry except games. Its digital share is more than twice that of newspapers (7%), films (3%) and books (2%).

[118] IFPI (2008). *Digital music report: revolution, innovation, responsibility.* The International Federation of Phonographic Industry (IFPI) represents the recording industry worldwide with some 1400 members in 73 countries and affiliated industry associations in 48 countries.

Technology has enabled this evolution. Broadband penetration has been growing, while mobile phones and portable devices have become everyday gadgets. As a consequence, new digital music services have emerged, providing access to vast music catalogues that extend far beyond the reach of traditional retail stores. Portable digital players make possible an "always on, anywhere" music environment. Instant access and portability have become the norm, but these changes also embody a new challenge as piracy has become easier than ever before. Record companies' digital sales continue to grow, but they have not yet offset the sharp decline in CD sales, resulting in a worldwide overall market decline in 2007.[119]

Given the advancement of broadband technology, digital video compression and increased bandwidth distribution, users can easily download full feature movies and shows on their computer.[120] This is a turning point not only for the major movie and production studios, but also for the television networks. Four lessons may be learned by the television industry in order to survive the digital era and not face the same fate as the music industry: fair pricing, convenient distribution, availability and transferability.

Fair pricing

Initiatives such as Apple's iTunes have been successful not only because they sell single tracks instead of albums, but also because of the affordable prices. Some Internet users are willing to pay to consume music and other online entertainment—more than 2.5 billion songs and more than two million movies were sold by iTunes in 2007[121]—but the price has to be reasonable.

Four lessons may be learned by the television industry in order to survive the digital era and not face the same fate as the music industry: fair pricing, convenient distribution, availability and transferability.

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[119] Ibidem.
[120] ROUSSOS (2008)
[121] < http://www.apple.com/pr/library/2007/04/09ipod.html> [July 8, 2008]

In that sense, the TV industry is trying to be competitive by offering fair prices for their products. Individual television episodes are usually priced between $1.99 and $2.99. Buying an entire season is equivalent in price to buying a DVD, although the extras that come with the DVD are not included. Moreover, some retailers offer a discount when users purchase an entire season of a certain show or TV series.[122]

Convenient distribution

The Internet has enabled users to share content all over the world, from P2P networks such as *Napster* or *BitTorrent*, to online movie-sharing sites where no registration is required.

The percentage of music sales sold through digital channels rose 15% in 2007, while in 2003 that sales channel did not even exist. The most dramatic change is that in 2008, a music release can be packaged in multiple formats, including video downloads, ring tones or mobile full tracks. Justin Timberlake's sales of *Future Sex/Love Sounds*, for example, included 115 products, which sold a total of 19 million units, of which only 20% were in CD format.[123]

Television content is available in a variety of distribution channels today, some licensed and others unlicensed by the rights holder. The major networks all have an online presence with a selection of content available, such as streaming video, but there are also unlicensed sites that allow consumers to access television shows, legal sites that aggregate content such as Hulu, and online retail outlets such as iTunes and Amazon.

Availability

Record labels have created a digital music industry worth approximately $2.9 billion in just five years. Consumers are now able to shop at over 500 legal services. More than

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[122] < http://www.guardian.co.uk/technology/2007/sep/06/internet.digitalvideo> [July 29, 2008]
[123] Ibidem.

six million music tracks were offered through legal services in 2007, an
increase of 90% over 2003.[124]

FIGURE 10 – MUSIC INDUSTRY: EVOLUTION OF THE DIGITAL MARKET (2003 – 2007)

	2003	2007
Number of legal services	Less than 50	Over 500
Licensed tracks	1 million	6 million +
Value of digital music sales	US$20 million (USA estimated)	US$2.9 billion
Digital as a percentage of overall recorded music sales	0%	15%
Number of formats available per artist release	dominated by the CD and casette	Over 100

Source: IFPI (2008). *Digital music report: revolution, innovation, responsibility*.[125]

Though there are myriad options for audiences to consume televi-
sion content, the television industry is riddled with contractual barriers
to providing extensive libraries of back-catalogue shows online. Popular
shows currently on broadcast TV are easily available, but the "long tail"[126]
of television – shows that are no longer on TV, but may have dedicated
fans due to syndication and cable reruns – is more difficult to find. The
complex ownership structure of television production results in a piece-
meal online landscape, with some shows (such as *Lost*) freely available,
and others only available as brief clips (such as *Law and Order*). Many lack
any Internet presence at all.

The music industry has shown by and large how important it is
to build exhaustive libraries. Currently, there are no technological barriers
that prevent the television networks from making their catalogs accessible
online. Large video files can be compressed easily, and a high percentage
of Internet users have broadband connections at home.

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[124] IFPI (2008)
[125] Source: IFPI (2008). *Digital music report: revolution, innovation, responsibility.*
[126] This term was believed to have been coined in a *Wired* magazine article in Oct 2004 by Chris
Anderson and is used to refer to the niche strategy of businesses that attempt to monetize back cata-
logues of less popular items to larger markets. <http://www.wired.com/wired/archive/12.10/tail.html>

*The television
industry is riddled
with contractual
barriers to providing
extensive libraries of
back-catalogue shows
online.*

Transferability

Lawyers and legal consultants tend to be very conservative when it comes to assessments of new distribution strategies, particularly those related to distribution of content through the Internet. They prefer not to risk their copyrighted content circulating through peer-to-peer networks,[127] as tens of billions of illegal music files are traded annually worldwide at an estimated ratio of 20 illegal downloads for every track sold.[128]

The legal and regulatory framework built to protect copyright and to fight against piracy is being complemented by other means of content protection. Solutions such as digital rights management (DRM), fingerprints and watermarks are being promoted in order to help the content industry protect their interests. However, these initiatives and mechanisms usually work against consumers' rights because they result in a lack of interoperability. Piracy and the lack of interoperability are the main barriers to the development of a successful digital content business.

The introduction of DRM tools meant that instead of using technology to facilitate sales and uniformity across platforms, files became incompatible; people were asked to pay for a song that could only be heard on a specific player. Although the music industry claimed that CDs with DRM had a better sound quality, consumers didn't care and preferred MP3 files because they were free. In fact, FairPlay, Apple's digital rights management system, was declared illegal in January 2007 by the Norwegian Consumer Ombudsman. FairPlay allows consumers to play music purchased at the iTunes store on up to five computers at a time (and an unlimited number of iPods); to burn an unlimited number of individual songs to disc; and to burn play lists up to seven times each.[129]

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[127] IFPI targets P2P piracy in various forms. (1) Large-scale uploaders using networks such as *Gnutella*, (2) "Hubs" or servers which connect millions of file-sharers on services such as *DirectConnect* and *eDonkey*, (3)BitTorrent trackers such as the Sweden-based *Pirate Bay* and (4) pre-release piracy, where leaks often occur weeks before the official release date.
[128] IFPI (2008). *Digital music report: revolution, innovation, responsibility.*
[129] The iTunes Store also offers songs without DRM protection, from participating record labels. These DRM-free songs, called "iTunes Plus," have no usage restrictions and feature higher-quality encoding. There are no burn limits and iTunes Plus music play on all iPods, *Mac* and *Windows* computers.

Apple's response to this and other critiques was a letter by Steve Jobs, CEO, chairman and co-founder of Apple, entitled "Thoughts on Music"[130] published in February 7, 2007 on Apple's Web site. Jobs explored three alternatives for the future. The first option, according to Jobs, is "to continue on the current course, with each manufacturer competing freely with their own 'top to bottom' proprietary systems for selling, playing and protecting music." The second alternative is for Apple to license FairPlay to current and future competitors. By doing so, consumers would gain interoperability between different company's players and music stores. Jobs' main concern about this hypothetical scenario is that "licensing a DRM involves disclosing some of its secrets to many people in many companies, and history tells us that inevitably these secrets will leak… Such leaks can rapidly result in software programs available as free downloads on the Internet which will disable the DRM protection so that formerly protected songs can be played on unauthorized players." The third alternative is to abolish DRMs so that any player can play music purchased from any store, and any store can sell music which is playable on all players. Jobs states that this is the best option for consumers, and according to his letter "Apple would embrace it in a heartbeat."

Instead of stopping illegal downloading, DRM has promoted it. A year after this letter was published, the worldwide music marketplace is not interoperable yet, and no actions have been taken towards this scenario. EMI was the first major record company to adopt a DRM-free strategy, with the launch of DRM-free superior quality downloads in May 2007. Universal also announced DRM-free download trials in 2007. Warner Music launched DRM-free offerings in late 2007, while Sony BMG

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130   <http://www.apple.com/hotnews/thoughtsonmusic/> [May 30, 2008]

landed its DRM-free Platinum Music Pass series of digital album cards in January 2008. The music of all the majors and a number of independent labels now feature on several non-DRM services, including Wal-Mart and Amazon.[131]

The Internet and particularly its evolution to what has been called "Web 2.0" has resulted in a technical and behavioral revolution that will have major legal implications.[132] New services are being created and as a consequence business models are being modified; there are four main categories of players involved in the domain of online video sharing[133] – *pure-players* such as YouTube, who only have an online presence; *search engines* such as Yahoo! Video, which index video across the Web; *peer-to-peer networks* such as BitTorrent, which utilize the most efficient distribution technology, and, finally, *traditional media companies* such as News Corp, who have developed their own video sharing platforms in an attempt to monetize and control the online distribution of the content they own.[134] Despite the profound differences among all these players, many of them exchange the same content – much of it owned by traditional media companies who, arguably, have the weakest foothold in the online video space.

In the past ten years, the music industry experienced a historic decline driven mostly by technology-enabled piracy. According to Forrester Research,[135] TV networks, newspapers and radio can be considered "Industries at Risk" because when technology threats become severe, these industries have trouble facing them, just as music labels did. However, movie, satellite, and cable companies are "Flexible Survivors" because companies in this category face severe threats, but have the resources to deal with them.[136]

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[131]   IFPI (2008). *Digital music report: revolution, innovation, responsibility.*
[132]   BARBRY (2007)
[133]   MABILLOT (2007)
[134]   Ibidem
[135]   BERNOFF(2005)
[136]   BERNOFF (2005)

Regardless of whether a company falls under the rubric of "Industries at Risk" or "Flexible Survivors," the Internet ultimately represents a challenge to established business models. The reaction of the music industry to the digital environment has provided at least four lessons that other media sectors can learn from. Fair pricing, convenient distribution, availability and transferability are key elements to be taken into consideration when developing strategies for online content distribution.

Changing metrics and creative formats

Accountability creates expectations

The impact of the digitization of media extends to cultural changes within the advertising industry. The most significant shift is that advertising is now measurable, and thus accountable for its own success or failure. Retailer Sam Wanamaker's old bromide—"I know half of my advertising is wasted. I just don't know which half"—was expected to finally be put to rest with the advent of online advertising. (Marketing consultants Rex Briggs and Greg Stuart estimate the number is actually closer to about one-third wasted.)[137] Advertisers expected to be able to accurately measure campaign performance, and to track consumers from ad exposure to sale across their Internet surfing and even to offline purchases.

It was this supposed accountability that spurred the adoption of untraditional, performance-based buying models that are now popular for online media buying. However, the complexity of online advertising has also engendered massive amounts of data that need to be analyzed, preferably in real-time, in order to optimize efficiently and minimize wasted

Advertising is now measurable, and thus accountable for its own success or failure.

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[137] BRIGGS and STUART (2006)

impressions. Additionally, a single ad impression may pass through multiple hands before it's delivered to a viewer, including the publisher's Web server, the publisher's ad server, and the advertiser's or agency's ad server.

Given the multiple points of contact between servers before an ad impression is delivered to a viewer, there are also multiple possible failure points. It also raises the question of how to define an impression – at what point is an impression counted as "delivered." The industry trade group the Interactive Advertising Bureau delivered a set of guidelines in 2002 (years after promising rules for counting impressions) that is still extremely confusing and ultimately a compromise, allowing a bi-partite rule on measuring impressions.[138]

The technology that decides which ad gets delivered to which viewer at a particular time is incredibly complicated. It needs to enforce campaign business rules, tie into yield optimization and inventory management systems, align with behavioral targeting information on the consumer, and integrate into the reporting and billing systems. And it must do all of this in a fraction of a second. Additionally, there is often a discrepancy between the publisher's data and the third-party ad server data (a 20% difference is not unusual).

While the promise of absolute and accurate measurement on the Internet ultimately remains unfulfilled, the fundamental assumptions about how to measure and what can be expected from advertising (both online and offline) are forever changed due to the shift towards digital delivery. There is a conspicuous psychological change that has taken place within the advertising industry that has emerged from online advertising and now applies to all forms of media.

The promise of absolute and accurate measurement on the Internet ultimately remains unfulfilled…

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[138] <http://www.clickz.com/showPage.html?page=955091> [July 8, 2008]

The prospect of better measurement tends to create unrealistic expectations for advertisers from their media partners. While the Internet tended to overpromise and underdeliver in terms of the platform's ability to measure performance, the expectation for television to provide this type of data on audiences and performance has been relatively low to date. This has already started to change. As all media becomes digital, but especially television, advertiser expectations will begin to exceed reality. The multiple system operators (MSO's) and satellite companies are already beginning to experiment with addressable advertising through the cable or satellite set-top box to deliver highly targeted advertising that considers criteria such as viewership history, zip code, demographics and income. As a result, content owners and media distributors will make promises that will remain unfulfilled for the most part. Yet the advertising industry is a long way off from the accountability it continues to beckon. Agencies and advertisers are not aligned to process the data into actionable intelligence. Measurement will remain disputed and contested. Optimization will continue to be a challenge until marketers and agencies invest in larger, more knowledgeable analytics departments.

The issue of measurement, for the planning and buying phase as well as the reporting and optimization stage, is both critical and complicated. For decades, the measurement currency for television advertising has been a sample-based diary compiled by Nielsen Media Research. The digitization of television offers the hypothetical possibility of much more accurate measurement of audiences, in real-time, rather than based on a relatively small sample projecting audiences for shows that will air six to twelve months later. However, the Internet still does not have a single standard currency for audience or advertising measurement. Every other medium has

The prospect of better measurement tends to create unrealistic expectations for advertisers from their media partners.

had one for decades (albeit not without intense advertiser and content owner scrutiny that tends to erupt into plans to develop a challenger to the predominant currency or lawsuits every few years). It's likely that the digitization and diversification of media will create more challenges to measurement methodologies.

Measurement overview

Mature media industries, particularly industries that depend on advertising as the primary revenue model, are highly reliant on third-party measurement companies. These companies provide the currency that both media buyers and sellers rely on to agree to advertising rates based on audience size or traffic. As Jon Gertner explains in *The New York Times*, "Change the way you measure America's culture consumption, in other words, and you change America's culture business. And maybe even the culture itself."[139] However, the measurement industry is fraught with methodological ambiguity, dissatisfied clients and contested reporting. There are periodic allegations of monopoly, unfair competitive practices, and biased methodologies and yet, despite widespread dissatisfaction, the measurement companies continue to evolve and even thrive. Simply put, even if no one believes the numbers, everyone has to use something to set ad rates.

While it may be possible to develop better and more accurate measurement methodologies, the collective inertia of the industry usually tramples nascent businesses trying to offer alternatives.

While it may be possible to develop better and more accurate measurement methodologies, the collective inertia of the industry usually tramples nascent businesses trying to offer alternatives. The need for an industry-standard is just too great. As a result, each media platform typically has one audience measurement company that both buyers and sellers use to determine pricing. Historically, each new platform had competing measurement companies vying to become the standard, but within a decade or two, the industry has settled into a singular source for audience measurement. The exception to this rule is new technologies and platforms such as the Internet or mobile phones that have several competing companies still battling for dominance. Within those platforms constitutive forces from incumbents such as Nielsen are fighting for supremacy with start-ups.

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[139] GERTNER (2005)

The universe of media measurement is far more complex than simply attempting to project the number of eyeballs (or eardrums) directed at a given medium at a given time.

The universe of media measurement is far more complex than simply attempting to project the number of eyeballs (or eardrums) directed at a given medium at a given time (although that is one part of it). There are companies that specialize in audience measurement that report on audience size and program ratings, such as Nielsen Media Research and Arbitron. There are companies that specialize in impact measurement for advertising campaigns, such as IPSOS-ASI and Millward Brown, which try to predict brand engagement and affinity. There are also companies that measure media usage, purchase behavior, and lifestyle attributes, such as Simmons and AC Nielsen. There are companies that focus on the needs of media planners and some that offer competitive analysis directed towards media sellers. And there are some that attempt to serve many masters.[140]

Measurement monopolies[141]

As mentioned, most media have a singular measurement "currency," that is the agreed-upon standard by both advertisers and media owners. In television and radio, Nielsen and Arbitron, respectively, represent examples of how to erect and maintain sustainable competitive advantages (and MRI to a lesser extent). Nielsen's staggered contracts, for example, make it just about impossible for any competitor to unseat them as the TV currency. For a competitor to convince Nielsen's clients to switch measurement currencies, no less than a logistical and economic miracle would need to take place. A competitor would need to convince all of Nielsen's clients to switch at the same time, while they're still paying for their (extremely expensive) Nielsen contracts. It's estimated that companies such as NBC Universal and Viacom pay Nielsen approximately $50 million a year for their long term contracts.[142]

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[140] Appendix A offers an overview of the measurement industry.
[141] The following two sections are based on an interview conducted with Chris Modzelewski of Emerging Analysis, Oct 2007.
[142] GERTNER (2005)

As a result, a lot of well-financed and highly professional organizations have tried to provide an alternative and failed. In the 1990's, as Arbitron considered challenging Nielsen with its portable people meter (PPM), a device invented to passively measure all media exposure, its CEO decided against waging a costly competition. As its CEO, Steve Morris was quoted in *The New York Times*, ''We looked at this and saw that there's a long history of people taking runs at the incumbent. But there's no halfway here. If we were to go after Nielsen, it would be war, and at the end of the day there would be one person standing. And believe me, there are skeletons littering the trail."[143]

This begs the question—can a media measurement currency ever be unseated? The short answer is, while it is possible to provide an alternative measurement system, to unseat an incumbent would require a "perfect storm" of disruptive changes to provide real opportunity to a competitor. In the major media platforms, we have not experienced these changes at one time, although there are indications each is beginning to take place:

1. Shift in media consumption patterns that invalidate the current measurement methodology (such as massive audience fragmentation, ad-skipping and time-shifting made possible by DVRs)

2. A technology consumption shift that incumbent vendors are not prepared to address, such as Internet or mobile video (however, in most cases, the incumbents will buy measurement companies in those spaces)

3. Macroeconomic or industry-specific economic downturns that apply margin pressure on the incumbent measurement provider.

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[143] GERTNER (2005)

There are several other factors that can also help unseat an in-cumbent measurement "currency" including major lawsuits, government regulation or a management shake-up at a critical juncture. However, for a competitor to have a genuine opportunity to provide an alternative mea-surement system, it would need to not only time its entry into the mar-ketplace precisely, it would likely have to finance a full-scale national pilot until the roll-over of Nielsen or Arbitron contracts expire. This would require essentially giving its data away for a year or more. Companies that could actually furnish the type of capital necessary to fund this type of operation are likely to find more profitable, less risky places to invest it. A new entrant into these marketplaces will likely face not only a price war but also an IP infringement lawsuit from Nielsen or Arbitron, putting even greater pressure on margins.

Revolutions in digital technologies are putting further pressure on incumbent measurement currencies. The rapid adoption of digital video recorders, which allow viewers to not only time-shift their media habits but also skip advertising, has presented the latest challenge to Nielsen. Coupled with advertisers' insistence on greater accountability for their ad expendi-tures, the networks and Nielsen are under increased pressure to provide reli-able data on live versus DVR-enabled TV watching. When Nielsen launched its DVR tracking product, it did so with just 60 households in the panel[144]. Facing industry criticism for the size of that panel, Nielsen has quickly ramped up its DVR-enabled households in the panel. According to Kevin Kil-lion of SHS Media, a client of Nielsen, by February 2008 the national Nielsen NTI panel had 16,789 households, 4,081 of which had DVRs.[145]

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[144] Mc CLELLAN (2006)
[145] Killion, K. 2008, email, May 27.

As media platforms begin to converge, or more accurately, content becomes detached from its original distribution platform, Nielsen is expanding its service offerings and partnerships in order to effectively meet the demands of its clients. For instance, Nielsen recently announced it was going to begin to record online video consumption directly from panelists' PC's in late 2008. Advertisers, agencies, networks, and content owners need to know how consumers interact with both their televisions and computers and what effect each platform has on the other.

These questions become even more pressing as the two platforms begin to more strongly resemble each other, with set-top DVRs offering more integrated services. However, it still remains to be seen if consumers are willing to allow their online video consumption to be tracked, and to what extent. Nielsen Media Research has been developing several video ratings services aimed at measuring video consumption across all platforms, including TV, Internet, iPods, and other devices. Nielsen conducted a preliminary study and found that of the 98 eligible households the company approached for a video measurement pilot project, only 44 agreed to participate.[146] Nielsen stated in a letter to its clients, published in *Advertising Age*, that the households that refused "told us that although they trusted Nielsen to maintain their confidentiality with TV measurement, they felt computer data is more personal and personally identifiable than TV data."[147]

Currently, Nielsen also offers a product called VideoCensus that reports on streaming video consumption (but is not able to offer any insight on cross-media consumption). The VideoCensus panel currently includes about 14,000 homes encompassing 32,000 individuals, and Nielsen hopes to grow the panel to about 20,000 households encompassing 60,000 people by the end of 2009. Nielsen is also quietly experimenting with building a "convergence panel." In order to maintain a steady and random flow of panelists, households in the television panel, with installed Nielsen set-top devices that measure TV

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[146] STEINBERG, B. (2008) "Nielsen to Track Online Video Use Through Its TV Panel" *Advertising Age*.
<http://www.commercialalert.org/news/Archive/2008/02/nielsen-to-track-online-video-use-through-its-tv-panel> [May 27, 2008]
[147] Ibidem

viewing habits, are typically only allowed to remain a "Nielsen family" for up to two years. Nielsen has recently begun to siphon off a portion of the TV panelists who are due to leave the panel into its convergence panel (currently about 1,000 households and 2,500 individuals), measuring both TV viewing and some online video viewing.[148] Thus, NBC could potentially measure the ratings for *The Office* on television as well as online. The project is still in beta and has not yet launched to Nielsen's clientele.

More recently, a joint venture between Nielsen Media Research and Arbitron to develop a closed-loop system for measuring media consumption and tying the data to consumer product purchasing information, dubbed Project Apollo, was shuttered. The project was a three-year joint experiment between the two companies that was finally discontinued when the companies announced there were not enough clients to make the venture a viable business.[149]

Nielsen has also begun to expand its partnerships as it tries to retain its dominance in an increasingly digitized environment, where the possibility of creating census-based ratings systems is far more likely than it was in an analog world. Nielsen, and most other measurement currencies (with the exception of print), uses a statistically significant sample-based methodology because it is both predictive and much less expensive to develop for a mass medium like television. However, the digitization of media content offers the tantalizing possibility of developing census-based measurement methodologies, facilitating a server-side approach to measurement. While sample- or panel-based measurement methodologies tend to favor sites with large

Nielsen has also begun to expand its partnerships as it tries to retain its dominance in an increasingly digitized environment, where the possibility of creating census-based ratings systems is far more likely than it was in an analog world.

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[148] Based on several interviews with Kenneth Cassar, Nielsen Netratings VP of Custom Analytics in May 2008.
[149] EGGERTON (2008)

audiences, a census-based system would be more inclusive, allowing for more precise measurement of sites with very small audiences. Nielsen has begun to explore relationships with MSO's to deliver this type of data, most notably in a deal struck in March 2008 with Charter Communications to analyze set-top box data from 330,000 homes in Los Angeles.[150]

Within the television industry, a census-based measurement system is theoretically possible with the advent of digital set-top boxes.

Within the television industry, a census-based measurement system is theoretically possible with the advent of digital set-top boxes. However the myriad stakeholders, including the MSO's, telcos, networks and content owners create a landscape that would make this type of measurement complicated to execute, and would likely face resistance from consumers based on privacy concerns.

Nielsen's recent partnership with Google highlights another possible future path. Since May 2007, Google has been selling ads in an online auction format on the 125 national satellite channels distributed by EchoStar Communications' DISH Network. Google is providing advertisers and agencies that have bought airtime with detailed reporting, including exactly which ads were skipped or watched, and a second-by-second breakdown. What Google had been missing until it partnered with Nielsen was detailed demographic information on audiences.

While Google's foray into television advertising is still relatively nascent, it has been met with cautious enthusiasm by advertisers and media buyers. For the past 50 years, TV advertisers and their agencies have had to rely on program ratings to determine advertising success. Google and Nielsen are now beginning to offer the possibility of commercial ratings for the ad itself. Google is offering advertisers not just better measurement than what has been previously available, but it is also addressing the issue of how media is bought and sold, in an attempt to eliminate some of the friction in the process.

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[150] McCLELLAN (2008)

While mature media platforms have a singular measurement "currency" to evaluate the size of audiences, the ratings and methodologies are often disputed. However, the capital as well as political and organizational will necessary to provide alternatives is lacking. The companies that provide audience ratings enjoy a comfortable monopoly in the U.S. Yet, there are chinks in the armor of these previously indestructible organizations. New technologies, new media consumption patterns and new startups attempting to plant a stake in the ground of new platforms contribute to a sense of increasing fallibility in the measurement industry. The emergence of new digital ad platforms means that many of the measurement debates from the past 20 or 30 years will be magnified and more intense as stakeholders struggle for dominance.

Media marketplaces

One of the consequences of the digitization and diversification of media is that there is now a lot more advertising inventory available across all media, much of it considered less-desirable "remnant" inventory. As a result, media and distribution owners are challenged to maximize their "yield" on available inventory. Media inventory, much like airline inventory, expires. In other words, media owners need to sell as much airtime as possible for the highest possible price. At the same time, agencies are looking to find the best possible CPM and targeted audiences for their client's advertising.

To date, most media buying is highly dependent upon real-life relationships between the buyers and sellers. It is a business culture that encourages socialization – sales dinners, basketball tickets, a few rounds of golf, even a trip or two. The cliché of the three martini lunch, while somewhat

While mature media platforms have a singular measure– ment "currency" to evaluate the size of audiences, the ratings and methodologies are often disputed.

outdated, still holds sway in an industry that conducts most of its deals via personal relationships. Advertising rates, and the rationale they are based upon, are far from transparent to either party. "Bundling" media tends to obfuscate how inventory is actually priced. There are myriad inefficiencies built into the opaque business of buying and selling media.

Yet, despite a business culture that has been built around personal relationships, Google and companies such as Right Media, Spotrunner and others are attempting to build new advertising exchange platforms that eliminate much of the inefficiencies built into current media buying models and offer greater transparency on pricing. Not unlike an eBay for advertising inventory, these exchanges provide an online auction format for buyers to bid on airtime or impressions.[151]

While media marketplaces offer the promise of increased transparency and "market rate" CPM's determined by an auction format (a format that Google has already proved effective with online text ads), there are significant obstacles to its widespread adoption in the advertising industry. Aside from the inertia that industry has demonstrated over the past few decades, there are other factors contributing to resistance. Agencies fear being disintermediated by the marketplace format. Publishers and media owners resist the notion of their inventory becoming commoditized in an exchange, and to a certain extent, fear more transparency in pricing rationale. Buyers fear the possibility that an auction model for media may lead to an irrational marketplace. Online, competitive bidding on certain search keywords has become problematic, as companies attempt to artificially drive up prices beyond their competitors' budgets. It sometimes devolves into a war of attrition between competitors, who attempt to inflate bid prices until competitors can no longer afford those keywords, or wind up overpaying for keywords that might underperform. Buyers fear the same dynamic may enter into these marketplaces. Lastly, both buyers and sellers fear the power any company could potentially wield if they can

Google and companies such as Right Media, Spotrunner and others are attempting to build new advertising exchange platforms that eliminate much of the inefficiencies built into current media buying.

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[151] In fact, eBay also launched a media marketplace in 2006. With little support from the cable industry, and essentially none from the broadcast industry, eBay shut down the marketplace in June 2008.

control the marketplace. There is the fear that a company that controls the marketplace, and is able to capture meta-data on pricing for both buyers and sellers, will also be able to set market rates.[152]

Another challenge to automated marketplaces is the issue of convergence. While the exchange platforms currently under development are intended to be cross-media marketplaces, for the most part, the inventory available is online advertising impressions, with some TV. Content owners and networks are not yet aligned to sell cross-media bundles. Inventory is decentralized, sales teams are compensated differently for online and offline media and there are internal organizational barriers to cross-media selling. While buyers are eager for a solution that addresses convergence, and many mid-sized publishers (such as *The New York Times*) are integrating their sales staff, true cross-media marketplaces are still a long way off.

Changing creative formats

As mentioned previously, with media evolving from a linear, analog paradigm to a networked, digital model, consumer attention is increasingly scarce. As advertisers struggle to make themselves visible in a progressively more cluttered and fragmented media landscape, the question arises: what form will advertising begin to take? How can advertisers reach consumers in environments where they are engaged with the media itself and less likely to accept being interrupted or disturbed? How does an advertiser or agency overcome resistance to commercial messages in an environment that is "pull" (such as the Internet), rather than "push" (such as TV)?

> *With media evolving from a linear, analog paradigm to a networked, digital model, consumer attention is increasingly scarce.*

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[152] eBay has struggled with the same issues. The wealth of data eBay has access to would be incredibly valuable to manufacturers and retailers interested in secondary markets. However, eBay has strategically avoided releasing meta-data on sales prices, number of bids, premium on reserves and number of days on the market to avoid influencing prices.

Online video

While it is difficult, if not impossible, to predict the aesthetic forms advertising will take in the future, there are certain trends emerging that hint at the way creative formats will evolve. With the rise in online video consumption, marketers are experimenting with new formats, many of which are familiar to audiences from television. Advertisers are deploying 15- and 30-second spots pre-, mid- and post-roll, as well as inserting graphic overlays into the video itself[153] (similar to the pop-up overlays inserted into programming on TV). The length of ads, the format, and the content are all still in flux, unlike traditional measured media, which has standard specs for every advertiser.

Marketers are inserting ads into RSS feeds, pod-casts, blogs, games, and essentially any other content available to them.

There has been a recent explosion in the number of companies aiming to service the online video advertising marketplace and to explore new models. Google and others are investigating ways to deliver contextually relevant advertising based on the content of the video. Alternatively, BroadRamp is developing a technology that allows program-mers and advertisers to tag every element of a video clip, enabling viewers to simply click on a part of the video to purchase the sweater a character is wearing. While technologies like this may prove too costly to scale effectively for some time, the underlying goal is to deliver non-intrusive, relevant marketing messages, often within the content itself.

Social media

Advertisers and agencies are also investing in social media, particularly for prod-ucts aimed at younger consumers. Marketers are inserting ads into RSS feeds, podcasts, blogs, games, and essentially any other content available to them. Some of these efforts have been relatively lackluster (such as setting up a social networking profile and simply

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[153] The Interactive Advertising Bureau, which represents over 375 leading interactive companies that actively engage in and support the sale of interactive advertising and are responsible for selling over 86% of online advertising in the United States, recommends including just one commercial per break in online video streaming, rather than the offline analogue of several commercials per break. However, in spite of this recommendation, Disney-ABC Television Group has started researching the possibility of inserting multiple commercials into ad breaks for prime time series on its broadband player.

judging success by the number of "friends" the profile has) and some are complex, creative campaigns that encourage consumer participation and "viral" sharing. For instance, McDonald's hosted an elaborate online game, The Lost Ring (http://www.thelostring.com), tied to its Olympics sponsorship. HBO, when it was trying to build excitement for the last season of *The Sopranos*, built an immersive, chronological map tour of every site where a scene took place, to remind viewers of previous seasons' plots.[154] Toyota has inserted its cars into a machinima video using the video game *World of Warcraft*, which "generated enough buzz on its own to at least quadruple its media buy in terms of value,"[155] that itself parodied an earlier Internet phenomenon, the Leeroy Jenkins video.[156] Last year, Anheuser-Busch launched a hub for original video programming, Bud.TV, in the hopes of targeting younger male consumers and generating a viral video hit.

Brands as diverse as Doritos, Heinz, Chevy, Skittles, Folgers, and countless others have run online contests inviting consumers to create their own ads for their brands (with varying levels of success). GM's Chevy Tahoe, for instance, allowed consumers to create and post their own ads using pre-selected Tahoe video assets and music. However, while the campaign proved popular with consumers, the results were unexpected for Tahoe. Rather than extolling the benefits of the truck, consumers created ads critical of the Iraq War, President Bush's energy and environmental policies, and the effects of global warming.

Branded entertainment

Television advertising is also likely to change, due to time-shifting technologies, the ability to skip ads, and audience migration to other plat-

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154 <http://www.hbo.com/sopranos/map/> [May 27, 2008]
155 DUMONT (2008)
156 <http://en.wikipedia.org/wiki/Leeroy_Jenkins> [May 28, 2008]

forms. The number of product placements inserted into television shows is soaring. For

instance, in season six of *American Idol* (Jan-May 2007) Nielsen counted 4,349 product

placement occurrences. Then in just the first three months of the seventh season, Nielsen

counted 3,291 placements.[157] Likewise, Nielsen reported a 13% increase in the number of

product placement occurrences in prime time broadcast programming in 2007, compared

to the year before.[158] According to *USA Today*, marketers spent $941 million in 2005 on

product placements, up 70% from the year before. About $350 million of the total was

spent on scripted entertainment.[159]

While branded entertainment appeals to marketers, who are afforded greater control over the context and placement of their messages, most networks have remained somewhat resistant.

Television's commercial origins can be traced back to single-sponsor programming

such as the Hallmark Hall of Fame and Texaco Star Theater. Ironically enough, over 50

years later, the concept of sponsored programming is once again gaining a foothold in

the advertising industry. OfficeMax created a back-to-school reality series with ABC Fam-

ily called *Schooled* in 2006.[160] Procter & Gamble produced a show for TLC, *Home Made*

Simple, featuring home-making tips available on the company's Web site.[161] Nike has

produced several documentaries, including one that ran on CBS about Lance Armstrong's

training for the Tour de France.[162] Soft drink Mountain Dew produced a movie that ran

in theaters in late 2005 about snowboarding, yet the product was not overtly featured in

the film.[163] While branded entertainment appeals to marketers, who are afforded greater

control over the context and placement of their messages, most networks have remained

somewhat resistant. However, as branded entertainment continues to grow, it creates an

additional onus on agencies to not only produce great advertising, but also to produce

great content.

[157] "American Idol Product Placements." *Product Placement News.*
<http://www.productplacement.biz/200805262313/News/Television/American-Idol-Product-Placement-Nielsen-Counts.
html> [May 28, 2008]
[158] "Product Placement Spend Increases On Networks But Down On Cable." *Product Placement News.*
<http://www.productplacement.biz/200804012299/News/Television/Product-Placement-Spend-Increases-On-Networks-But-
Down-On-Cable.html> [May 28, 2008]
[159] LEVIN (2006)
[160] "OfficeMax Launches Groundbreaking Back-to-School Campaign." *Office Max Site*. <http://officemax.mediaroom.com/
index.php/press_releases/377> [May 28, 2008]
[161] STORY (2006)
[162] Ibidem
[163] LAWTON (2005)

Mobile advertising

There is also growing interest in advertising on mobile devices. While mobile advertising is perhaps a bit more developed outside of the U.S., today it is one of the most complicated potential marketing platforms, due mostly to the diverse network of stakeholders involved. Unlike the Internet, which is essentially an open network, mobile advertising is hindered by the carriers, who control access to their handsets and customer base. "The dream of geo-relevant, targeted advertising on mobile platforms can only be unlocked by carriers agreeing to share that information, which is highly unlikely in the short-term given the privacy issues involved."[164] However, given the rising cost of content development and data delivery for mobile platforms, it is likely the carriers will want to offset those expenses through advertising. Today, the challenge to building a mobile advertising industry is centered on proving the value proposition to agencies and their clients. In other words, is it worth it for them to invest in a nascent advertising platform, with its inherent complexity, to reach consumers on their phones?

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[164] GLUCK (2007b)

Response of the advertising industry
Agency transformation

The digitization and diversification of media, and the concomitant consolidation of ownership has affected the advertising agency business economically, organizationally, and culturally. All of these issues are intertwined and interdependent, with changes in one affecting the others.

Economic Changes

Budget Cannibalization

The most obvious change, and perhaps the one that has struck the greatest fear in the hearts of traditional media ad sellers is the shift in advertising budgets from mature platforms such as TV, radio, magazines and newspapers towards the Internet and other digital platforms. Looking at *Advertising Age's* analysis of the budgets for the 100 Leading National Advertisers, marketers are increasingly allocating more of their budgets towards the Internet at the expense of other measured media.[165] According to *Advertising Age*, "Big marketers, facing a weakening economy and pressure to control costs, clamped down on spending. In fact, ad spending for these top-tier marketers collectively failed to keep pace in 2007 with real gross domestic product (up 2.2%) or with inflation (up 2.8%)."[166] According to Universal McCann's Robert Coen, who has been tracking the health of the US ad industry since the 1950's, ad spend in 2007 showed a 0.7% decline, only the fourth time there's been an annual decline since 1950 (Figure 11).

The most obvious change, and perhaps the one that has struck the greatest fear in the hearts of traditional media ad sellers is the shift in advertising budgets from mature platforms such as TV, radio, magazines and newspapers towards the Internet and other digital platforms.

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[165] JOHNSON (2008)
[166] Ibidem

FIGURE 11 - TOTAL US AD SPENDING
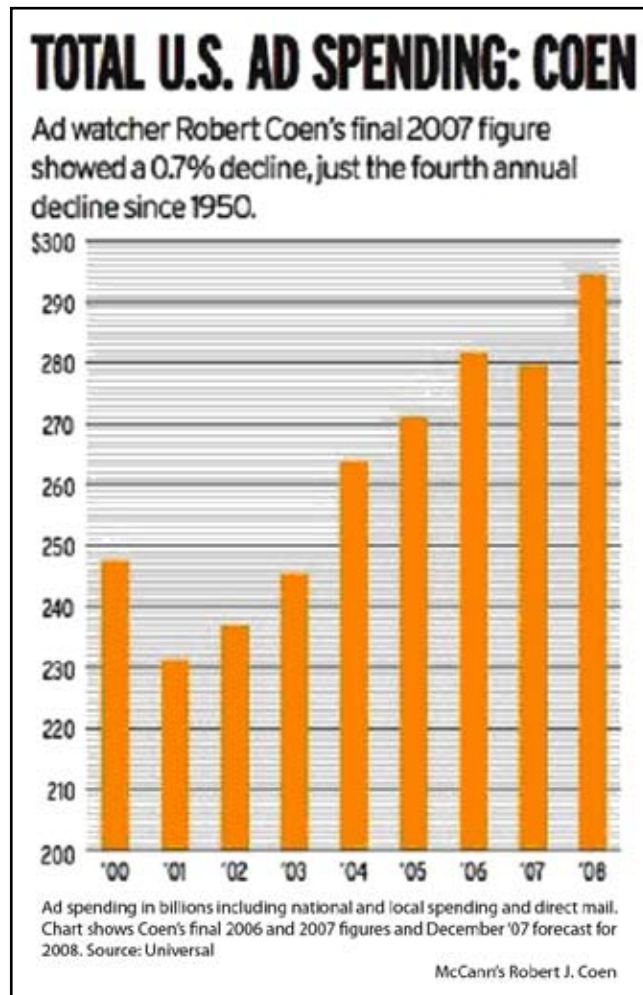
More significantly, there is a continued shift away from media measured by ad tracker TNS Media Intelligence—such as print and TV—which accounted for 58.1% of top marketers' U.S. ad spending, down from 58.9% in 2006. While marketers are reining in their overall ad spending, they are simultaneously increasing their budget for online advertising:

> Measured spending on Internet display advertising last year surged 33% for the 100 LNA, according to *Ad Age* DataCenter's analysis of data from TNS Media Intelligence. Web display ads—banner ads and the like—accounted for 6.8% of LNA measured spending in 2007, up from 5.1% in 2006 (and more than double 2003's 3%).[167]

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[167] Ibidem

While spending on the Internet is increasing, traditional media platforms are los-
ing ground, with the top 100 national advertisers slashing spending on newspapers 8.5%
and TV by 1.2%.[168] Research by consulting company Booz Allen Hamilton and the trade
group Interactive Advertising Bureau supports this data. According to their study, "Mar-
keting & Media Ecosystem 2010" a majority of advertisers plan to increase spending on
marketing platforms such as digital media, mobile and public relations, while simultane-
ously decreasing their budgets towards TV, print and radio (Figure 12).

FIGURE 12 - MARKETERS GET IT: THE NEED TO CATCH UP TO WHERE THE CONSUMER IS
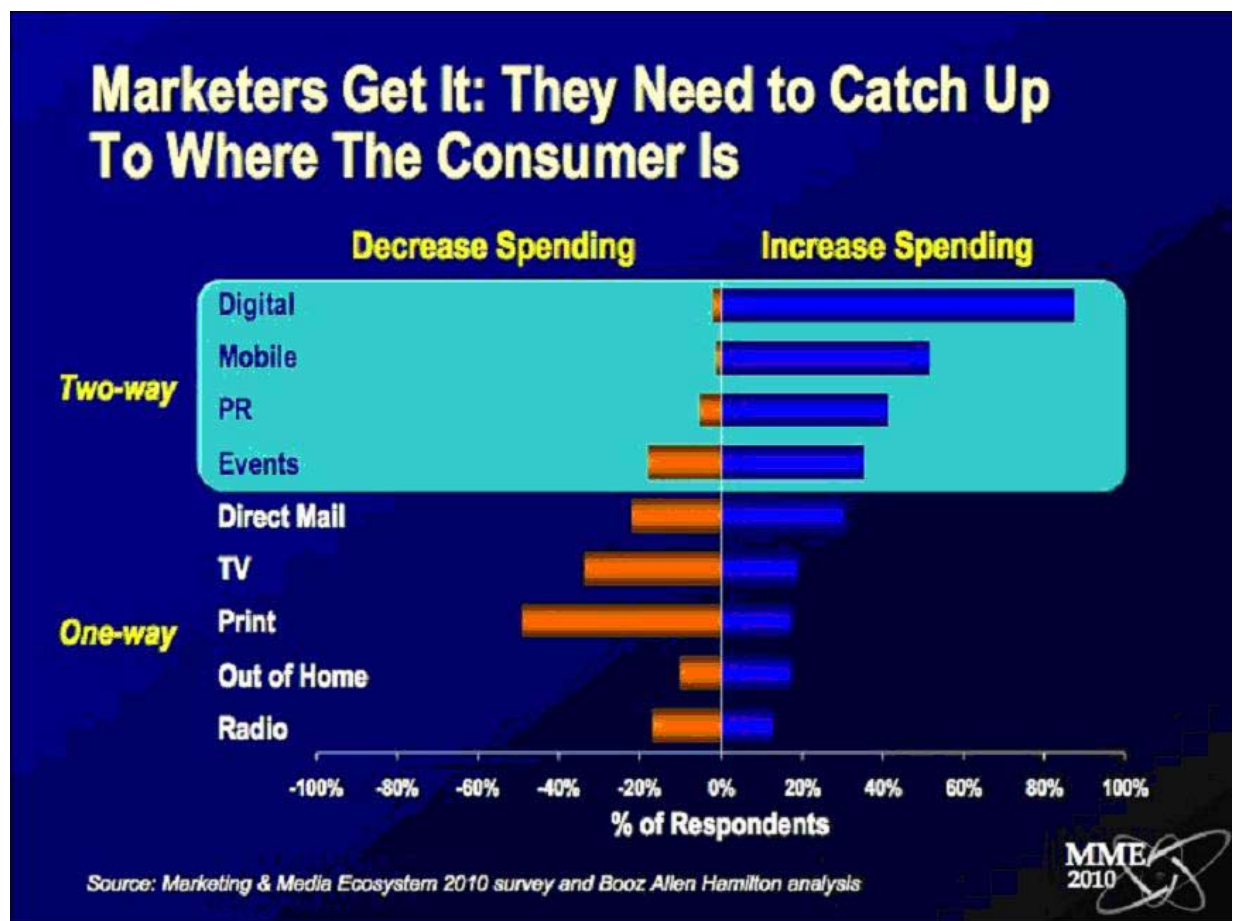
As companies allocate more of their budget towards the Internet, much of that
spending is not incremental to already established budgets, but rather cannibalizing other
platforms. While traditional agencies have either built departments to manage online
media or bought specialist shops, the cost of deploying online media to those agencies is
much higher than for offline media, putting further pressure on profit margins.

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[168] Ibidem

Compensation models

The industry's traditional compensation model, virtually from the inception of the agency business, has been commission-based. For about a century, agencies gave away their creative ideas for virtually nothing, and kept 15% of the overall spend from the media budget. (Today creative services tend to be revenue-generating). While this compensation structure is falling out of favor rapidly as campaigns become more complex, as media becomes cheaper and as media buying agencies become discrete entities, it still serves as a "guideline" for agencies.[169] While the commission percentage may have changed, about "10% of the major agencies still charge some percentage of spend."[170] When an agency does charge a commission on media spend, the percentage has typically shrunk to low-single digits. This downward pressure on compensation models, with razor-thin margins, is one of the key drivers towards standalone media buying firms. In addition to the increased bargaining power a larger firm maintains, the only way for an agency to remain profitable with such low margins is to increase its buying volume.[171]

There are other compensation models that are becoming more prevalent. One is pay-for-performance, a model that enjoyed some popularity a few years ago. Agencies are compensated on their ability to generate a lift in sales or brand awareness and perception. However, the model places the entire onus of sales responsibility on the agency, with no acknowledge-

The industry's traditional compensation model, virtually from the inception of the agency business, has been commission-based.

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[169] MESKAUSKAS (2007)
[170] Ibidem
[171] One of the dirty secrets of the agency business is that many agencies will not pay their media invoices until long past the due date. By holding invoices the agency is able to keep their clients' funds in escrow longer, thereby earning extra income on the interest. In agency parlance, this is referred to as making money on the "float."

ment of the client's role in generating sales or brand equity. As Jim Meskauskas of Omni-

com agency ICON International Inc. points out

> The advertising for a new candy bar with extra doses of arsenic might be excellent advertising, but the product leaves quite a bit to be desired. The agency can only be held responsible for bringing the audience to the Rubicon; the product or service being featured has to at least meet the audience on the banks of the river.[172]

■ ■ ■

Digital media tends to be less expensive than traditional measured media such as television and radio.

As a result, the pay-for-performance model is usually part of a hybrid

compensation model, used as an incentive rather than the underlying basis for agency

remuneration.

Another model gaining popularity is the fee-for-service, based on FTE (full-time

equivalent) and hourly rates "set to mirror a desired total compensation that itself reflects

a percentage of spending."[173] While this may be one of the more just compensation mod-

els for the agency, it tends to stir suspicion on the part of the advertiser. It requires the

advertiser to trust their agency is honest about hours worked, and that the campaign will

be effective even before it's launched.

The shift towards digital media further complicates these models. Digital media

tends to be less expensive than traditional measured media such as television and ra-

dio. With CPMs (Cost Per Thousand households) usually lower than TV (although there

are indications this may be changing) and fractured reach, the absolute dollars spent on

Internet advertising is still much lower than TV. Untargeted television advertising for a

30-second spot usually costs between $6-$12 CPM's. More targeted inventory, such as

men 18 and older or women ages 25 to 54 are priced around $18-$35 CPM's and harder

to reach audiences such as men ages 18-34 are priced as high as $75 CPM.[174] In contrast,

untargeted online inventory is often priced below $1 CPM, and its not uncommon to find

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[172] MESKAUSKAS (2007)
[173] Ibidem
[174] SACERDOTI (2008)

targeted inventory for less than $20 CPM. According to market research firm JupiterResearch, total spending on television in 2012 in the U.S. (both broadcast and cable) is projected to be over $103 billion. In contrast, total spending on online advertising in the U.S. (including display advertising, paid search and classified advertising) is projected to be about $38 billion.[175] While this dwarfs spending on radio and magazines by 2012 (at $19 billion and $17 billion, respectively) it is still far from the massive budgets spent on television.

Additionally, a significant portion of online advertising (particularly paid search on sites like Google[176] and Yahoo) is not bought or sold on a CPM basis at all, but rather on a CPC, or cost per click model. Even a great deal of online display advertising is based on a performance metric, either cost per click or cost per acquisition (or sale). While "premium" inventory – highly desirable, branded – is still sold mostly on a CPM basis, the majority of "remnant" inventory is sold on a performance basis. Both the paid search and classifieds portion of the Internet ad model, while substantial ($24 billion combined), require minimal creative services, essentially eliminating a significant revenue generating service from the agencies. With a virtually limitless supply of inventory, and limited demand, CPM's for online media are depressed.[177]

The myriad models for media buying increase the complexity of the negotiating price, and *greatly* increase the complexity of optimizing ad campaigns. Ultimately, the pricing model is somewhat irrelevant since an

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[175] JupiterResearch Category Advertising Model, 11/07 (US)
[176] Disclosure: client of Radar Research
[177] There are categories that are exceptions to this general trend. In particular, automotive-related inventory has consistently high CPM's. Other categories with strong CPM's are business-to-business, technology, and financial services.

agency will calculate a benchmark metric across the entire campaign. An agency or adver-tiser should be able to calculate a CPM (or conversely a CPC) regardless of how a deal is structured with a publisher. What is more salient to this issue is the increased complexity required to steward an ad campaign online, the much lower volume of spend, and the decreased dependence on creative services.

One of the main pressure points for agencies is the cost of buying online media.

Ironically, the administrative costs to steward online advertising – a paperless medium – can be staggering. To achieve significant reach, an agency needs to negotiate with multiple sites, which then generates a paper trail of approval forms from the client, insertion orders, reporting on delivery and performance and billing. Within each of those functions, there is the strong possibility of error or failure. Billing problems are common-place. Sites are still unable to accurately project inventory due to volatile traffic patterns. It's also taken for granted that there will be significant discrepancies between publishers, third party ad servers and advertisers' data on performance.

Essentially, the supply chain for online media planning, buying, delivery and op-timization is broken. According to Dave Morgan, former CEO of behavioral targeting ad network TACODA, "it frequently costs agencies more money to run campaigns than they can ever hope to recoup from their clients."[178] There are multiple products and companies in the marketplace who have built online, automated systems to combat the administra-tive complexity, but none have created an end-to-end service that meets all of the needs of agencies and integrates fully into older systems.

One of the main pressure points for agencies is the cost of buying online media. While the process is more labor-intensive and administratively complex than offline media, one of the major factors contributing to its cost is the discrepancy in salaries for online media buyers versus offline buyers. While a media buyer with two to four years experi-

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[178] MORGAN (2008)

ence offline can command a salary of approximately $60,000-$70,000 in the US, for online buyers with similar experience, salaries range from $80,000-$100,000.[179] The salary premium attached to online media is the greatest capital expense most buying shops face. Additionally, with high turnover at the agencies as junior executives climb the salary ladder rapidly by leaving for a competing agency, the cost of hiring and training is another pain point. Finally, unlike offline media, marketers typically tailor creative and strategy to specific media online, producing multiple iterations for different platforms, sites, and technology solutions.

As a result, agencies have struggled to find a profitable model for online advertising. As traditional agencies grappled with these problems, and labored to adapt to this new medium, smaller and more nimble startups were able to launch in the mid to late 1990's. As these agencies weren't weighed down with the baggage of archaic systems and compensation models, they were able to grow and thrive (at least until the first dot com bust in 2000). Many of these agencies were acquired by larger agencies and holding companies eager to gain a foothold in the digital sector and avoid irrelevance.

The problem with all of the compensation models discussed above is that an agency's value is essentially reduced to tactical execution. The services rendered by agencies have become commoditized in the eyes of their clients. Yet agencies are increasingly attempting to position themselves as "ideation centers" and not simply one-stop shops for media execution. The profitability of the agency holding companies is directly tied to their ability to change client perception and subsequently, compensation models. In 2007,

Agencies have struggled to find a profitable model for online advertising.

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[179] Based on multiple agency interviews.

two of the largest holding companies, Omnicom and WPP had net profit margins of about 8%. Interpublic Group Companies was at just 2.7%. While an 8% profit margin is in line with the average profit margin of the world's top 20 corporations, it is far from the robust profit margins seen at consulting firms (where 20% is on the low end and 50% at the high end).[180] As Sarah Fay, CEO of agency holding company, Aegis, North America explains, "the model is shifting. The traditional commission model is not working. We have to get to a model that brings more strategic value, beyond FTE, that layers in the consultative nature of the work we're doing."[181] Doug Weaver, President of Upstream Group echoes this sentiment when he claims "agencies need to recapture the high ground of strategy. They need to become great at solution mapping."[182]

Capital structures

While consolidation in the agency sector has allowed the larger firms to maintain a negotiation advantage and scale their business to remain profitable, the capital structure of the holding companies is antithetical to investment in the competencies called for by clients. The holding companies are not unlike merchant banks, operating off the cash flows of their subsidiaries. As Dave Morgan writes, "This makes it very hard for them to make heavy capital investment in strategic areas, and virtually impossible for them to run unprofitable businesses in the hope that someday they might become profitable."[183]

Media sellers, on the other hand, rely heavily upon a model that requires significant investment in content and distribution assets and expects some of those investments to pay out in the future. As a result, their capital structures encourage large debt loads to accomplish those goals. Agency holding companies are not designed to amass substantial debt, and as public companies, it is almost impossible for them to restructure their capital

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[180] Ibidem
[181] Phone Interview, March 11, 2008.
[182] "Agencies address the pressure to change." *iMedia Connection*. (May 1, 2008). <http://www.imediaconnection.com/content/19196.asp> [May 28, 2008]
[183] MORGAN (2008)

structures in that way. Morgan and others foresee the need to restructure and predict many of them will go private in order to accomplish that (driven mostly by the private equity and leveraged buy-out market).[184]

Organizational disruptions

The digitization and diversification of media has meant agencies also need to re-examine not only their compensation models but also their organizational structure. After a period of intense merger and acquisition activity in the late 1990's, as well as increased capital investment from larger agencies in their own digital departments, agencies are now struggling to figure out the most effective organizational structure for digital work. Should the creative department for digital media reside within the creative teams for traditional media campaigns? Should the digital media buying function be integrated into the buying team or does the complexity of executing digital campaigns require enough specialization that the function remains separate? How do the creative and media buying teams for digital media work together?

These are not insignificant questions, and agencies seem to be answering them on a case-by-case and agency-by-agency basis. In some cases, digital media is treated as a discrete and highly specialized function, similar to public relations or promotions, and remains separate from the traditional advertising agency or teams. Increasingly, agencies like to speak of striving for "media agnosticism" when conceptualizing ad campaigns. Essentially, within this paradigm, the media platform a campaign will be distributed through should remain irrelevant to the creative conceptualization process.

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[184] Ibidem

The problem with this framework is that Internet advertising tends to be much more closely tied to the media it's displayed within. While television commercials in prime time shows often have nothing to do with the content, contextual relevance is critical for online advertising. While it's clear that the demographic and psychographic profiles of audiences on Web sites are beginning to matter much more to advertisers, today the content of a site is the advantaged targeting metric. Automotive advertisers pay a premium to buy advertising on Kelly Blue Book's Web site. Financial services companies buy inventory on the *Wall Street Journal Online*. Electronics retailers bid high for keywords like "digital camera" and "DVD player" on Google.

It's clear that the demographic and psychographic profiles of audiences on Web sites are beginning to matter much more to advertisers; today, the content of a site is the advantaged targeting metric.

So how does an agency integrate its digital department into its overall services to ensure consistent messaging across platforms? Should it even integrate? What are the advantages to integration? While agencies continue to grapple with these questions, the industry seems to be turning a corner on treating digital media as the redheaded stepchild of the agency business. During the late 1990's, during a bullish era in the stock market, many of the digital agencies that were acquired were managed as standalone businesses, with their own P&L, with the hopes of an eventual IPO. So too were the digital departments that were built within larger agencies. Many of these were spun off at one time to prepare for an IPO. Not only did the parent companies hope to make money on an initial public offering, but also planning for an IPO was seen as a competitive advantage to avoid employee attrition. With so many other agencies going or planning to go public, the only way to compete for talent and retain these hires was by offering the carrot stick of stock options. One of the major problems with this model is that agencies with separate P&L's are not incentivized to work together to create cohesive, imaginative campaigns.

More recently, there seems to be a trend towards integrating digital advertising into the overall agency. The media buying agencies seem to be particularly aggressive about integration attempts. Some have built strong digital practices such as ZenithOpti-

media and MediaCom. One of the more telling developments has been the promotion of Sarah Fay from her role as CEO of online media buying agency Carat Fusion to president of Isobar (a global specialist holding company of full service digital marketing agencies) to CEO of Aegis Media North America, Isobar's parent company.

Fay is one of the first marketers tasked to run both the offline and online components of an agency network who was essentially "groomed" within the digital marketing sector. Why is this significant? It demonstrates a strategic shift in priorities for the agency and holding companies. It's a tacit admission that the way digital media is bought and sold, with its increased complexity and high expectations for accountability, has begun to seep into traditional media. As Fay explains "The scales are tipping towards digital [media] today. The way digital media is being bought and managed will eat its way into traditional [media]. By 2009 there will be no more analog TV. The delivery platform is digital. The world is veering towards the long tail model."[185]

As Fay argues, the television model for advertising is breaking down. TV ratings have been in a steady decline and the most recent sweeps period (the period when ratings are measured to set rates for future advertising buys) hit a historic low. *TV Week* reports "on average the networks are off the mark by 10% from last year in total viewers and off 17% in the 18- to 49-year old demographic."[186] With ratings in decline, audiences migrating towards other platforms which are still struggling to measure viewership, and prices consistently *rising*, in spite of the some-

> *TV ratings have been in a steady decline and the most recent sweeps period hit a historic low.*

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[185] Phone interview, March 11, 2008.
[186] KRUKOWSKI (2008)
The 18- to 49-year old demographic is traditionally considered to be the most desirable by advertisers.

what dire statistics, Fay wonders at what point advertisers will resist. Despite the decline in viewers, ad prices on a CPM-basis increased during the 2008 upfront season.[187] Fay foresees advertisers increasingly shifting their budget away from upfront TV buying, and towards the "long tail" of media – buying remnant television inventory, spending more on the Internet, and investing in online video.

The marketers and agencies interviewed predict an industry-wide realignment to better position digital agencies and departments as the engine behind cross-platform campaigns.

Fay is not the only executive who foresees the rising prominence of digital advertising as the future focal point for advertising campaigns. The marketers and agencies interviewed predict an industry-wide realignment to better position digital agencies and departments as the engine behind cross-platform campaigns. In order to accomplish that, agencies need to adapt to their client needs. According to the Association of National Advertisers, Interactive Advertising Bureau and American Association of Advertising Agencies' 2008 Study, *Marketing & Media Eco-System 2010*, written by Booz Allen, brand marketers report their most vital needs are acquiring consumer insights, better behavioral targeting and brand strategy. While these requirements certainly elevate the role of the agency beyond execution, it also necessitates a significant devotion to building these competencies, investing in technology and hiring data and digital savvy talent.

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[187] LAFAYETTE (2008) The upfront is a two-week period in May when the broadcast networks present their fall schedules to media buyers and agencies purchase ad time in advance for shows broadcasting in the fall.

Response of the television industry

On the expenditure side, cost-cutting has been the main response of the broadcast networks to the roiling changes in media markets and the decline in audience share. Unscripted and reality programming has been increasing because it is cheaper to produce and reaches broader audiences; the number of expensive pilots ordered has been reduced; the number of direct-to-broadcast deals, which skip the pilot stage, has increased.[188]

On the revenue side, six main strategies are being pursued by the networks to monetize content, attract audiences and increase income:

1. brand integration
2. online content
3. online and offline retail sales
4. acquisitions of digital content sites
5. experiments with ad formats
6. programming adjustments

Brand Integration

Product integration has existed since the beginning of television, but it is becoming more and more appealing to advertisers due to DVRs and other practices that enable viewers to time-shift and to skip commercials. TV placements, for instance, remain the dominant type of integration for brand marketers, accounting for 71.4% of global advertis-

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[188] VOGEL (2007)
<http://www.broadcastingcable.com/article/CA6528293.html> [August 19, 2008]

ing spending in 2006 ($2.40 billion). Film placements comprised 26.4%, ($885.1 million) in 2006, while placements in other media account for only 2% of total spending. Growth will probably exceed 30% over the next several years due to increased demand for videogame and online placements aimed at the elusive and desirable18-to-34 year-old demographic.[189]

But according to the FCC and trade organizations such as the Writers Guild of America (WGA), brand integration (mainly product placement) is a double-edged sword. On the one hand, free TV networks need to increase advertising revenues, and product placement and branded entertainment may compensate for losses in potential ad revenue; it is already a $3 billion revenue stream for broadcasters, and it is growing at more than 30% a year.[190] On the other hand, consumers' rights are at risk. In June 2008 the FCC proposed tighter regulation of product placement because of the risks to consumers, who are often unaware that marketing content has been covertly inserted into entertainment fare. However, although the WGA applauded that initiative, it insists on the need to disclose when product integration occurs via real-time notification, in order to make viewers fully aware at that moment that they are watching a paid advertisement; currently, most product placement disclosures are in the closing credits.[191]

The WGA insists on the need to disclose when product integration occurs via real–time notification, in order to make viewers fully aware at that moment that they are watching a paid advertisement; currently, most product placement disclosures are in the closing credits.

What do TV viewers think about brand integration? A survey by media agency MindShare showed that in 2005, 80% of American TV viewers had a positive view of product placement in television and movies.[192] Almost half of the interviewees (46%) said that "it depends on how it's done," when asked their impression of product placement, and another 37% said "it is generally okay with me." According to that study, about two-thirds of those polled said that they noticed more product placement in TV shows and movies

[189] PQ Media (2008) *Global Product Placement Forecast 2006-2010* (Press Release)
< http://www.pqmedia.com/global-product-placement-2006.html> [July 8, 2008]
[190] National Public Radio. *Marketplace* (June 23, 2008).
< http://marketplace.publicradio.org/display/web/2008/06/23/ad_disclosure/> [July 8, 2008]
[191] A similar debate is taking place in Europe where the European Parliament's Committee on Culture and Education is working on a directive on advertising. This directive, which has not yet been approved, will probably allow brand integration on TV only if such programs carry a special signal in their titles.
[192] <http://www.mediaweek.com/mw/esearch/article_display.jsp?vnu_content_id=1000854881&imw=Y> [July 8, 2008]
Mindshare, as an advertising agency, clearly has a vested interest in promoting a positive view of marketing initiatives, thus *caveat emptor* – the incredibly high percentages of consumers who embrace product integration are somewhat suspect.

than they used to. Moreover, younger viewers are more likely to respond positively to product placement; 70% of respondents aged 18-49 said they were willing to try a placed product, while only 28% of those over age 50 agreed.

The cable sector tends to be far more active in the product integration arena than the broadcast networks. According to Nielsen, there were 136,078 occurrences during the first three quarters of 2007 for cable, versus 22,046 for broadcast, although it should be kept in mind that there are hundreds of cable networks compared to the four major broadcast networks. However, the effectiveness of product integration is not an easy issue to analyze. *iTVX* is one of the very few companies devoted to quantify what has traditionally been considered a "qualitative advertising practice." *iTVX* has a proprietary system that uses a range of gauges (from the amount of product shots to the level of story-line integration in scripted shows) to determine performance for a brand integration or product placement. The effectiveness is measured by Q-Ratio, a score measuring 50 criteria such as whether a character is holding the product or if the logo is clearly shown on screen. As seen in the next chart (Figure 13), the highest ratios are those in which the product is clearly part of the plot. The "Guitar Hero" placement on *South Park*, for example, involved a story in which two of the main characters (Stan and Kyle) achieved high scores on the video game and gained entry into the rock 'n' roll world. Likewise, contestants on *The Apprentice* had to create a commercial for "Renuzit."

FIGURE 13 – EFFECTIVENESS OF PRODUCT INTEGRATION IN TELEVISION (2007)

PRODUCT (SHOW)	Q Ratio
Guitar Hero (South Park)	18.63
Jaguar XK-R (America's most smartest model)	16.04
Renuzit (Apprentice: Los Angeles)	13.63
Secret Scent (Pussycat Dolls)	11.29
Scrabble (Ace of Cakes)	9.69
Etch-A-Sketch (Late Show with David Letterman)	7.06
Home Depot (New Adventures of Old Christine)	5.24
Live (Sarah Silverman Program)	2.58
Dirt Devil (Reaper)	2.44
Cadillac (Burn Notice)	1.96

Source: *The New York Times* (January 21, 2008) based on iTVX.[193]

The appeal of brand integration to advertisers is that it is unskippable.

Another study on product integration released in 2006 by Nielsen showed that 57.5% of TV viewers recognized a brand when viewing a product placement in combination with a commercial, compared to the 46.6% of viewers who recognized a brand exposed only on a commercial. One-third of all viewers expressed high interest in brands they were able to recognize.[194]

The appeal of brand integration to advertisers is that it is unskippable; it doesn't matter if you are watching your favorite series on a computer, on a DVR or on a live broadcast. Brand integration is expected to grow 23% in 2008 to $3.6 billion. Boosting the number of paid product placements in shows is a practice that will increase in coming years, particularly since technology enables consumers to skip TV commercials. However, brand integration faces some obstacles. First, it is harder to implement than regular 30-second commercials. More negotiation is needed because it can be expensive to execute, and administratively it is more difficult to implement due to writers' and actors' resistance. Second, the effectiveness of product placement is still undocumented; although there are some studies, such as the iTVX research mentioned above, it is not clear

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[193] Source: *The New York Times* (January 21, 2008) based on iTVX.
[194] < http://itvx.net/2006/11/18/nielsen-product-placement-boosts-brand-awareness-by-20/> [July 8, 2008]

that branded integration translates into sales. Third, implementation can also be complex because of the complicated ownership structure of some shows (i.e., is it owned by the network or an outside production company?).

The line between entertainment and marketing is being gradually blurred by the growing use of product integration. The result may be more regulation and more contract negotiation.

On the one hand, government regulation is a possible outcome since consumer rights risk being ignored. The distinction between content and marketing is becoming more and more difficult to parse (particularly for children's entertainment), and in this context it seems reasonable that regulation is needed. However, there are alternatives to a law, including industry-imposed self-regulation guidelines. This is a much more likely scenario, given the government's past reticence to regulate marketing, and labor groups' involvement in defining principles for brand integration which could be incorporated into a voluntary code. WGA and the Screen Actors Guild (SAG) already proposed a code of conduct in November 2005 which contained four main guidelines.[195] First, it would require full, clear disclosure when viewers see commercial products or hear them mentioned in the program. Second, there should be strict limits on the usage of product integration in children's programming. Third, storytellers, actors and directors' opinions about how a product or brand is incorporated into the content should be taken into consideration. Lastly, cable TV should adhere to these regulations as well.

The line between entertainment and marketing is being gradually blurred by the growing use of product integration.

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[195] Are you SELLING to me? Stealth Advertising in the Entertainment Industry (2005).
<http://www.wga.org/uploadedFiles/news_and_events/press_release/2005/white_paper.pdf> [July 27, 2008]

On the other hand, due to resistance from the labor guilds such as WGA and SAG, additional contract negotiation may be necessary. An actor hired as a spokesperson for Brand X may understandably be reluctant to promote competitor's Brand Y within the constraints of his or her show's storyline. Actors and writers are also resistant to speaking or writing ad copy without additional remuneration. These are issues that are likely to become more pronounced as the practice becomes more common, and it is unclear how they will be resolved.

There are three major motivations for distributing content online: consumer behavior, maintaining a relationship with viewers, and building audiences for new shows.

Online content

A second strategy adopted by the networks to increase revenue is offering content online. The content currently offered falls into two major groups: TV shows, and content created specifically for online distribution. The first group includes previously aired TV shows and series. The second group refers to complementary content for offline properties (mainly video clips of outtakes, minisodes, or interviews) whose storyline is built around successful shows such as *Law & Order, American Idol* or *The Office*), and to new properties generated first for online distribution (ABC's *Squeegees*, NBC's *Gemini Division*).

All of the Big Four broadcast networks offer free content on their own Web sites; Internet users can find ad-supported shows, both old and new, to be watched online, and sometimes even downloaded. However, due to copyright law and corporate agreements, these videos are not legally available outside the United States.[196] The fact that this online content cannot be easily accessed from outside the U.S. stands in contrast to the Internet's global, decentralized nature. The borders that technology failed to build are instead created by bureaucracy and business deals. In theory, television executives want to reach

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[196] If a viewer tried to access it outside of the US, one of the messages copied below would appear:
ABC: "Only viewers within the United States can watch these full-length episodes"
CBS: A voice message announces that the service is not available.
FOX: "Thank you for your interest in Fox. This service is currently available to viewers living in the United States"
NBC: "We're sorry but the clip you selected isn't available from your location"

as big an audience as possible, because this implies more revenues from advertising, but individual sites do not easily aggregate a mass audience that can be sold to advertisers. Instead, the Internet provides a platform for advertisers to micro-target niche audiences by geography, demographics and behavior. The size of the audience is somewhat irrelevant if the content owner can't sell that audience. That is to say, advertisers aren't going to pay for consumers who can't buy their product. There is also a desire not to cannibalize audiences overseas who often watch American shows six months after they have aired in the U.S.

As they struggle to adapt to digital technologies, fractured audiences and the threat of diminished revenue, media companies have begun to experiment with multiple distribution models. Each is fraught with unique legal, organizational and economic obstacles. Figure 14 provides an overview of the distribution models, motivations, obstacles and effects of these strategies for the content owner or media company. The issues explored apply both to television shows distributed online, and to Web content created specifically for that medium.

FIGURE 14 – OVERVIEW OF ONLINE CONTENT DISTRIBUTION

Distribution models	- Ad-supported streaming - Downloadable
Motivations	- Consumer behavior - Maintaining relationship with viewers - Building audiences for new shows
Obstacles	- Contractual limits - Consumers' preference for open networks - Distribution and pricing monopolies
Effects and consequences	- Lower revenue - Cannibalization of TV audiences and ad revenue - Creating new properties

Distribution models

Online content, both TV shows and content created specifically for the Internet, is being distributed by the networks via two technologies: streaming and downloading.

Video streaming is usually ad-supported, meaning that each clip has commercials at the beginning of the show (pre-roll), in the middle (mid-roll), and in the end (post-roll). Commercials cannot be fast-forwarded, but consumers might have the option to choose which ad to watch (as sometimes happens on Hulu). Streaming can take place on either the network sites or on third party sites (Hulu, YouTube, Netflix).

Free Downloadable content is not usually offered by the networks. In fact, only NBC provides this—users have to download specific software to proceed—and it is only available for certain shows.[197] Pay-per-download is the most common option, and Apple's iTunes is the largest retailer of this content.

Motivations

There are three major motivations for distributing content online: consumer behavior, maintaining a relationship with viewers, and building audiences for new shows.

Since audiences are moving online *en masse*, the networks want to control the consumer viewing experience. The television and film industries have closely observed the foibles of the music industry as its products became digitized and freely distributed. Essentially, the music industry is considered the "canary in the coalmine" for other entertainment industries, who are eager to avoid the same mistakes. They have good reason to fear; research shows that a high percentage of consumers download unlicensed content, and a vast majority of Internet users visit video-sharing Web sites regularly. This demon-

The music industry is considered the "canary in the coalmine" for other entertainment industries, who are eager to avoid the same mistakes.

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[197] *30 Rock, American Gladiators, Celebrity Circus, Celebrity Family Feud, Fear Itself, Late Night with Conan O'Brien, The Office, The Tonight Show with Jay Leno* (updated July 30, 2008)

strates that Internet users want to consume professionally made content, and that content providers have a huge opportunity to sell space to advertisers.

Moreover, the networks want to maintain their relationship with viewers by building fan loyalty for existing shows and in some cases even building audiences for new shows. By providing B-roll content such as behind-the-scenes interviews, or by debuting show premieres online before they are broadcast on TV, a network can catch audiences' attention and interest. In most cases, the network's intention is to guide audiences back towards their TV set, where ad revenue still outstrips the Internet.

Content developed specifically for online distribution enters into a legal "gray area," as the networks consider it ¨promotional," while the Writers Guild of America argues that its members should be compensated just as they are with any other piece of content. In fact, this was one of the major negotiation points during the 2007-08 WGA strike. In the end, the networks capitulated, and writers received guarantees that any guild member hired to create original shows for the Web would be covered under a union contract.

Obstacles

The availability of licensed content online is inhibited by contractual barriers. One of the reasons that most unscripted reality shows are available for streaming on network's sites and on partner's sites is that these shows are usually network-owned. There are fewer contractual obstacles to distributing entire seasons online. Likewise, scripted shows are often produced by independent companies, and the complicated production and distribution structure often limits the availability of these shows online to just a few of

Content developed specifically for online distribution enters into a legal "gray area," as the networks consider it ¨promotional," while the Writers Guild of America argues that its members should be compensated.

the most recently-aired episodes. This is typically done on a case-by-case basis, thus making it almost impossible to discern macro-trends amongst all five broadcast networks. To the viewer, there are essentially no objective criteria for what is available online and what is not; it *seems* arbitrary, because it *is*. For some shows, an entire season may be available online, while for another only the last three episodes that aired on broadcast are available. This is not due to regulatory issues or technical barriers, but instead derives from individual show and network contracts. However, while the networks face contractual and organizational resistance to distributing shows online, consumers don't feel the same constraints. As a result, while legal streams of certain shows may be difficult to find, it is often laughably easy to find entire seasons of series available for streaming or downloading that have been uploaded by fans and are unlicensed.

Consumers prefer open networks such as YouTube, which allows them to upload content spontaneously and with no commercial purpose.

As a consequence of the limited availability of licensed content, consumers prefer open networks such as YouTube, which allows them to upload content spontaneously and with no commercial purpose, and to share it with other viewers. Although entire TV shows are hard to find and, due to size constraints, are split into several pieces when uploaded, YouTube and video-sharing Web sites in general have become very popular because a huge amount of video clips can be found there, and the site is accessible worldwide.

Pressure on distribution and pricing exercised by *de facto* monopolies such as Apple's iTunes can also be considered an obstacle. According to NBC Universal executive Jeff Zucker,[198] new digital business models are turning media revenues "from dollars into pennies." Zucker used that justification to explain NBC Universal's decision not to renew its current iTunes deal, which expired in December 2007.

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[198] LEARMONTH (2007)

Effects and consequences

Lower revenue for content owners compared to TV advertising revenue is one of the main consequences of the digitization and diversification of media. The networks have not yet figured out a revenue model, and they are still experimenting with pricing on third-party retailers such as Apple and Amazon. Additionally, they are testing different advertising formats and pricing models. There are not yet any conclusive data on what online ad format is most effective, so sites are deploying ads that replicate offline models (such as the 15-second and 30-second spot), as well as formats unique to the medium (such as overlays on top of the content). With a lack of conclusive data on effectiveness, pricing advertising for online video is also a challenge, and the wide range of CPMs (from under $5 to over $75 depending on targeting) underscores the networks' confusion and lack of pricing standards.

The cannibalization of TV audiences is another possible consequence of distributing television content online. While the goal for the networks in distributing content is to retain audiences for existing shows and build audiences for new ones, there is the fear of an unintended result: shifting their viewers to a medium that does not earn as much advertising revenue as TV. To combat this, networks are experimenting with the availability of their streaming content. In many cases, such as FOX's *House*, the show is not available online until one week after it is aired. A more extreme example is the CW removing its much-hyped but low-rated series *Gossip Girl* from its Web site entirely in order to drive audiences to watch it on TV. Leaving aside the irony of removing a show that features digital technologies as a core narrative component, the CW seems blissfully ignorant (or perhaps is purposely ignorant) of the show's availability on unlicensed sites and P2P

The acquisition of digital content sites by big corporations results in the possibility of an oligopoly that resembles television.

networks. The younger viewers this show targets are probably members of the most technologically sophisticated audience; they are knowledgeable enough to consume the show outside the legal confines the CW has created.

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The rise in the popularity of the Internet and improvements in streaming video technology have encouraged broadcasters to use the Web as a place to develop and distribute content cheaply.

Another possible consequence of digital distribution is the cannibalization of offline ad revenue. Currently, television revenue still greatly outstrips online ad revenue, and networks justifiably fear that audience migration to the Web will translate into lower ad income. However, the Internet offers greater interactivity in the ads themselves, and this will increase ad revenue eventually. According to Albert Cheng,[199] executive vice president of digital media at Disney-ABC Television Group, the key to sustaining viewer interest in ads is tailoring them for the Internet; although most Web ads simply are reformatted 30-second video from on-air, ABC research indicated dramatically higher results for commercials that encouraged interactivity like casual gaming. The past decade of online advertising has proven that advertisers will pay more for targeted consumers that engage with their brands. The success of Google's search advertising has shown that contextually relevant, well-targeted advertising is effective and valuable both to advertisers and consumers. In theory, this trend will continue as audiences for online video content achieve scale and reach critical mass.

The networks are also creating new properties on the Web that will be distributed via TV networks. The rise in the popularity of the Internet and improvements in streaming video technology have encouraged broadcasters to use the Web as a place to develop and distribute content cheaply, both for their online sites and their broadcast divisions. It is in this context that Web series were born. A Web series is a series of programs released on the Internet or by mobile phone. A single instance of a Web series program is called a webisode, a term which caught on after the 2006 launch of the Web series *Battlestar Galactica: The Resistance*, which was set between season two and season three of the TV show.

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[199] <http://www.adweek.com/aw/content_display/news/media/e3i0957c24fac3b9de1cf50c6d6f7da75434> [June 19, 2008]

Prom Queen, The All-For-Nots, Roommates, and *Quarterlife* are among the most successful Web series. High penetration rates for mobile devices such as smart phones, MP3 and MP4 players, wireless laptops and PDAs have created an opportunity for independent producers who can now reach large audiences without distributing their content through the broadcast networks. Although there are several independent and low budget Web series, major television production companies have recently started using the Internet as a means to promote their TV shows and develop discrete content for the Web. Compared to scripted TV programming, Web series are extremely cheap to produce ($2,000 to $10,000 per minute, while TV budgets average $2.5 million per hour), and their potential audience is unlimited.

ABC and NBC are experimenting in this field by releasing some ad-supported productions. *Squeegees*, produced by Stage 9 Digital Media, is the first Web series created, produced and distributed by Disney-ABC Television Group. The new media studio develops, produces, markets and distributes original short-form online programming for all new media platforms. *Squeegees* is entirely original. The plot and storyline have no relation with other shows and series broadcasted by ABC. *Squeegees* premiered on five Web sites in April 2008, and its second episode was viewed over 300,000 times on YouTube, but just three episodes later, it only received 3,000 views.[200] NBC Digital Studios has started working on a sci-fi Web series thriller entitled *Gemini Division*. Partly live action, partly animation, *Gemini Division* premiered on NBC.com in August 2008, featuring 50 four-minute episodes, along with a partner series entitled *Wake Up Dead*, a comedy about zombies.

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[200] STELTER (2008j)

If these Internet series are successful—*Quarterlife* had seven million views in less than four months—and if the broadcast networks are desperately pursuing audiences, why don't they just adapt this content for prime time TV? Indeed, they are trying to do so. ABC and NBC are again pioneers in this arena. In March 2008 NBC aired *Quarterlife* but only reached an estimated audience of 3.1 million viewers. According to NBC the show garnered the network's lowest ratings in 17 years and therefore the series was quickly cancelled. What went wrong? According to co-creator Marshall Herskovitz,[201] "... bringing *Quarterlife* to broadcast television was a bad idea because TV and Web audiences are so different ... people who sit in front of a TV are different from those who surf the Web; they look for different things, and that's why the initiative failed..."

In spite of that failure, ABC announced in June that they plan to develop a TV midseason comedy based on the Web series *Motherhood*. Sponsored by Suave and Sprint, *Motherhood* features the stories of real mothers; it has had 21 million video streams on MSN.

Is there a fundamental incompatibility between TV and Web audiences? What are the ramifications of this? Currently, the experience of watching content on TV and surfing the Web are fundamentally different. TV offers viewers a passive "lean back" experience, while the Web encourages an active "lean forward" mindset. As the two platforms resemble each other more and more – the much longed for and heralded "convergence" that has been predicted for the past 20 years – the audience experience will likely be altered. With the invention of the DVR, the development of addressable TV, and the digitization of delivery, televisions are already becoming more interactive. Likewise, as computer processing speeds increase, screen resolution improves, and bandwidth is more widely available, the experience of watching video online becomes closer and closer to television.

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[201] Marshall Herskovitz was interviewed for this monograph in May 2008.

How these changes will ultimately affect audiences and content is unknown. However, content owners need to prepare for the day when it will be impossible to discern the difference between these audiences. The audiences will become fluid, necessitating an organizational, economic and legal structure that embraces this evolution and its subsequent challenges.

Comparative analysis of the networks' online strategies suggests that ABC, CBS, FOX and NBC rely on free online ad-supported content as the main tactic to promote their shows and programs to Internet users. Downloading is only offered by one of them, NBC, although the clips are optimized for a computer rather than for mobile devices such as MP4 players and cell phones. Pay-per-view or video on demand models cannot be found on their Web sites, which is not surprising, given how antithetical this is to their offline revenue models. Pay-per-view is not part of the broadcast networks' core competency. And there is no indication consumers would be willing to pay for what they have always received for free—a challenge many newspaper and magazine Web sites ran into when they decided to try to charge subscriptions for what was previously free online content.

Not every show that is being aired currently can be watched legally online.

Not every show that is being aired currently can be watched legally online. Every single network series has its own Web site with schedule information, biographical notes about the main characters, interviews with the crew and other information, but because each contract is negotiated separately, the networks cannot guarantee streaming for all of the shows. This can be a little bit confusing for the audience, particularly when some of the most successful shows (both scripted and unscripted) aren't officially available online.

The broadcast networks are using the Internet (both their own Web sites and content aggregators such as YouTube and Hulu) as a platform to monetize content originally developed for broadcast by selling online space. However, there seems to be no singularly successful strategy to exploit the possibilities offered by the Web. Online distribution is perceived as a huge opportunity by each of the four big networks, but their strategies are very different. Each network is experimenting with multiple online programming and distribution strategies as they try to discover what works. Clearly they believe that the Internet offers the potential for incremental revenue for the networks, but to date, none has figured out the best way to accomplish that goal.

One of the issues the networks must consider is whether to distribute their content through an aggregator like YouTube or by themselves.[202] There seems to be evidence that great branded content behind the walled garden of a network site reduces its value dramatically. Traditional media companies remain extremely proprietary about content, and they have failed to legislate, litigate or propangandize the problem of user uploaded content away. Given the decentralized nature of the Internet, this will continue to be an uphill battle for big media.

YouTube allows democratically-created channels, creates loyal communities, and draws in users for extended viewing sessions (via related content and response videos for instance). No other video vendor—either network-owned or third-party—has been successful at offering those features, though many have tried. Content owners may need to accept they no longer own their audiences. Additionally, there is a substantial catalogue of online content for which there is no offline analogue—it is completely distinct from TV. There is a huge supply of user generated content that is generating its own demand. Rather than reject this type of content, media owners and advertisers may need to embrace it.[203]

The broadcast networks are using the Internet (both their own Web sites and content aggregators such as YouTube and Hulu) as a platform to monetize content originally developed for broadcast by selling online space.

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[202] GLUCK (2007a)
[203] Ibidem

Online (and offline) retail sales

In the Internet age, retail outlets have become increasingly popular because people want to consume content where and when they want. Broadcast TV networks, aware of this revenue opportunity, have started to implement strategies to promote this behavior. Current TV shows are sold (single episodes or complete seasons), and older shows become popular thanks to remakes (e.g., *Get Smart, Knight Rider*) and cable reruns (e.g., *Family Matters, The Cosby Show* on Nick at Nite).

There are four types of retail outlets, depending on the platform used: third-party online retailers (e.g., iTunes, Amazon; DVD sales [online and offline]; pay-per-play; and online retail on the networks' sites).

Third-party online retailers

ABC was first among the networks to experiment with new platforms to deliver its programs. It was the first network to offer shows on iTunes, where highly-rated shows such as *Lost* and *Desperate Housewives* have been available since November 2005. Other TV hits, such as FOX's *American Idol*, can be found at iTunes as well (in this case, exclusively). In April 2007 Apple announced that the iTunes Store had sold more than 2.5 billion songs and more than 2 million movies, making it the world's most popular online movie store.[204] Apple thus demonstrated that the Web is not synonymous with lost revenue, piracy and cannibalized audiences.

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[204] <http://www.apple.com/pr/library/2007/01/09itunes.html> [August 19, 2008]

iTunes, the number-one music vendor in the United States, has not only proven the viability of online music sales; it has also shown that consumers are willing to pay for digital content that they can find for free elsewhere. Consumers have demonstrated that there is a price point at which they will willingly pay if they can download content quickly and with guarantees that they will receive high quality, reliable content, rather than the fake copies common to peer-to-peer networks. In fact, research conducted by the IFPI[205] debunked a myth about illegal P2P services: fans actually get more search results on legal sites. This research, based on a sample of 70 musical acts on the legal site iTunes and on the copyright infringing service *Limewire*, showed that in 95% of searches, the artists requested had more songs available on iTunes than on the leading U.S. P2P service. (This finding may be limited by the daily variability of what is available on P2P networks.)

iTunes has also demonstrated that consumers prefer atomized, individual pieces of content, rather than entire albums; they want to create their own "playlists." This trend is also becoming common in TV consumption patterns. That is why single episodes can be purchased, not only the whole season of a certain show. The popularity of short clips on sites like YouTube and Hulu also indicates consumer preferences for short-form video. Even Netflix, when it introduced online movie streaming, charged consumers by time spent, not per movie or episode, encouraging consumers to cherry pick their favorite movie scenes or moments.

DVD sales

DVD sales and rentals account for a crucial stream of revenue as the format's penetration has doubled over the past five years, reaching 87% in 2007.[206] According to the MPAA, ticket sales for 2006 in North America reached $9.49 billion, while DVD sales were worth $9 billion. As DVDs have become a mainstream consumer electronic product, VCRs

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[205] IFPI (2008). *Digital music report: revolution, innovation, responsibility.*
[206] Motion Picture Association of America (2007)

have steadily declined over the same span, hitting 79% in 2007. Sales of Video on Demand have also increased during the last five years (Figure 15).

FIGURE 15 – SALES OF VIDEO ON DEMAND (2003-07)

	2003	2004	2005	2006	2007
VOD HH (MM)	9,5	17,1	27,3	28,9	31
VOD HH % Change	58,3	80	59,7	5,9	7,3
VOD Penetration	8,8	15,6	24,8	26	27,5
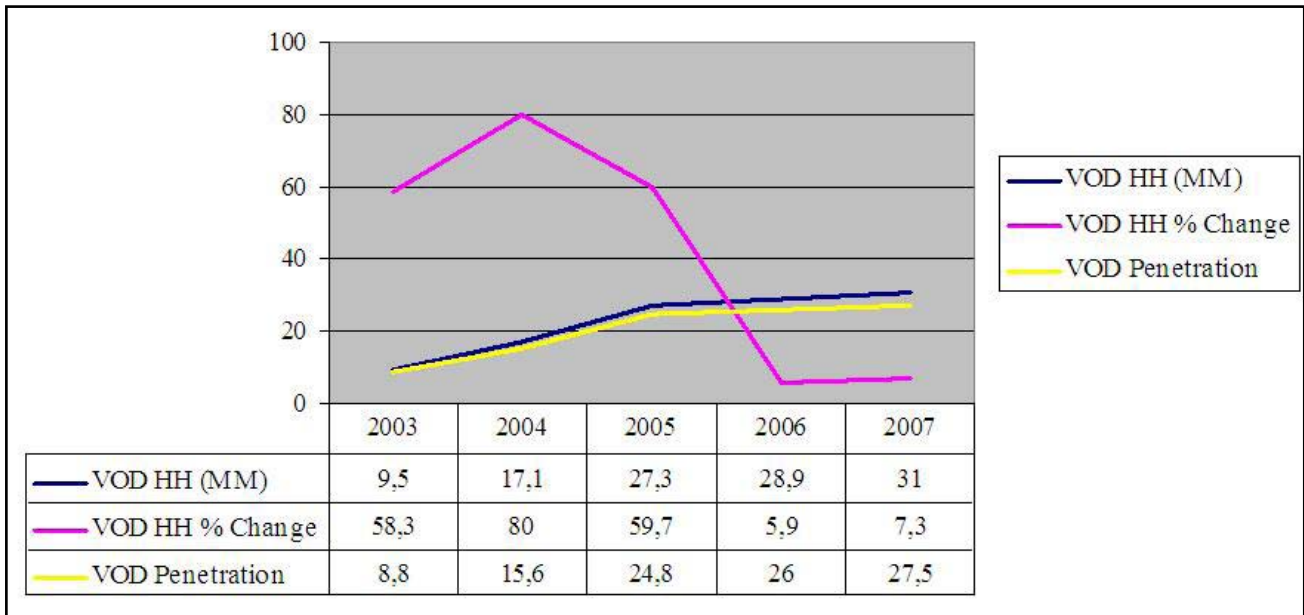
Source: Motion Picture Association of America (2007)[207]

According to the Entertainment Merchant Association,[208] the home video market is the largest segment of consumer movie spending by far ($24 billion), accounting for 49% of all consumer movie spending in 2007. Home video generated $15.9 billion in sales and $8.2 billion in rentals in 2007, with traditional rental stores such as Blockbuster accounting for 73% of the rental business. Home video spending is projected to increase to $25.6 billion in 2012, and the broadcast networks are responding. In fact, ABC, CBS, FOX and NBC have their own shops online where fans can find DVDs of their favorite series and shows, although prices are usually more expensive compared to other retail outlets such as Amazon or Wal-Mart. The higher price point is most likely due to a desire to avoid any channel conflict with their largest retail outlets; by keeping prices somewhat higher, they can avoid undercutting their retail partners.

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207 Source: Motion Picture Association of America (2007)
208 Entertainment Merchant Association. 2008 Annual Report. <http://www.iema.org/annual_reports. html> [August 19, 2008]

Pay-per-view

The rise of video on demand (VOD) and pay-per view (PPV) technology appear likely to dampen the growth of home video unit demand, to reduce the importance of video chain retailers, and also to alter the sequential release patterns for certain types of films. VOD through all sources grew 7% in 2007, reaching 30 million households (Figure 16). Video superstores such as Blockbuster and retailers such as Wal-Mart have long been Hollywood's major customers. Wal-Mart, for instance, accounted for 40% of home video and DVD sales (more than $3 billion at wholesale) in 2006. These stores compete on service by carrying thousands of titles and having lots of copies.

FIGURE 16 – SATELLITE AND VOD PENETRATION IN U.S. HOUSEHOLDS (1997-2007)
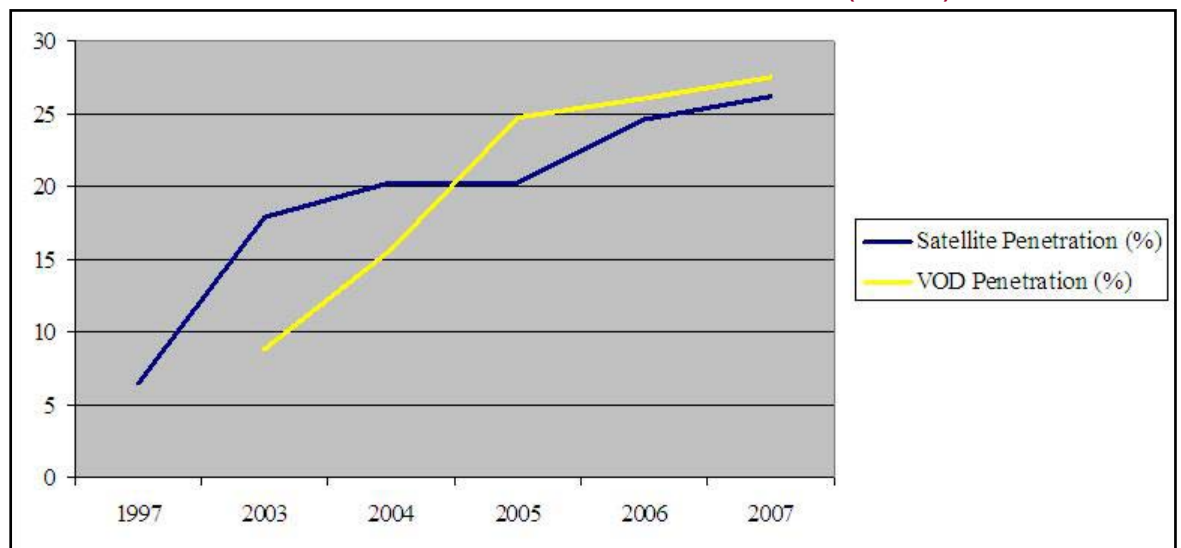
Source: Motion Picture Association of America (2007)[209]

With PPV and VOD, the broadcast networks are trying to compete with cable and satellite television in order to deliver audiences what they seem to demand: *a la carte* choices. For example, ABC, its affiliated broadcast stations and Cox Communications' cable systems are establishing an on-demand video service that will allow viewers to watch ABC shows any time they choose. This would not be revolutionary, except that they

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[209] Source: Motion Picture Association of America (2007)

plan to use a technology that will disable viewers' ability to skip through commercials; the number of ads that will be displayed in the shows will be far less than the over-the-air broadcast version of the show.

Whereas consumption of media supported predominately by consumer purchases has been growing for the last five years, consumption of media supported by advertising has been decreasing (Figure 17).

FIGURE 17 - MEDIA CONSUMPTION (HOURS PER PERSON PER YEAR) – (2003-07)
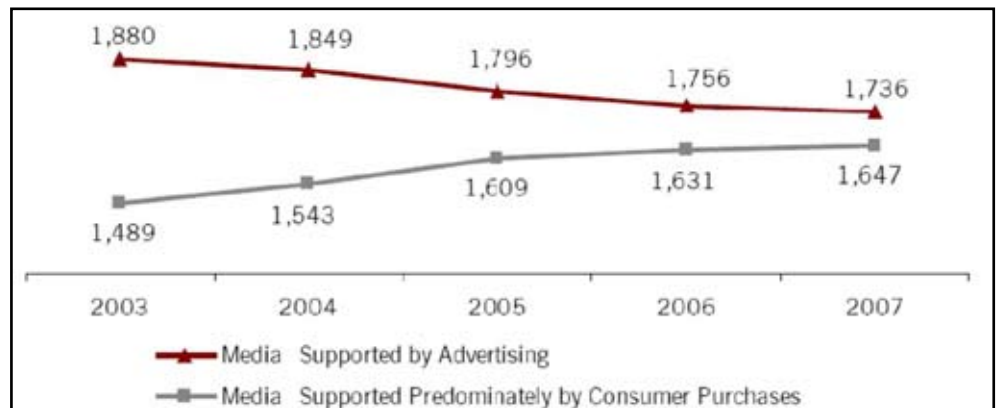
Source: Motion Picture Association of America (2007)[210]

In Figure 17, the "Media Supported by Advertising" numbers include broadcast television, broadcast and satellite radio, daily newspapers and consumer magazines. "Media Supported Predominately by Consumer Purchases" include cable and satellite television, box office, home video, recorded music, video games, consumer Internet, consumer books and mobile. These numbers reflect the wider availability of consumer-purchased media such as VOD and video games, and they demonstrate consumers' growing willingness to pay for tailored and a la carte content (an 11% increase in four years). SNL Kagan predicts that average on-demand revenue per user will exceed $5 a month by 2010 and $6.56 a month, or about $79 annually, within 10 years.[211] According to that study operators must expand the depth

[210] Ibidem
[211] <http://www.informationweek.com/news/internet/showArticle.jhtml?articleID=204805175> [July 8, 2008]

and scope of their offerings and spread out network capacity in order to promote growth in the on-demand market.

Online retail on networks' sites

Shows' distribution rights can be owned either by the TV network or by a production company and this situation complicates any network's retail sales strategy.

Each of the Big Four broadcast networks has an online shop on its Web site. They offer a very similar range of products (DVDs, CDs, books, merchandising, etc.), but none of them offers the possibility of purchasing digital files; for those, iTunes and Amazon are the main vendors. The average cost is $1.99 per episode or show, but some of them can be watched online at no cost (Hulu) or downloaded for free (a feature only offered by nbc.com). The need to increase revenue is again the primary motivation behind this strategy. However, retail sales (online and offline) face obstacles such as show ownership, piracy debates and retail monopolies.

Shows' distribution rights can be owned either by the TV network or by a production company and this situation complicates any network's retail sales strategy. Moreover, there is a dispute between Guilds (WGA, SAG) and the networks over royalties for multiple distribution platforms.[212] This debate was crucial in the recent Writers' Strike (2007-2008), when the Guild not only wanted to renegotiate DVD royalties, but also fought to receive a percentage of the revenue coming from online streaming (ad supported content). The new contract, although it fell short of what writers initially sought, gives the WGA residual payments for shows streamed over the Internet and secures the union's jurisdiction for programming created for the Web.[213]

De facto monopolies can also be considered an obstacle to increasing revenue on new distribution platforms. The main problem consumers have to face when it comes to retail sales monopolies is pricing. Apple (essentially an online monopoly through iTunes)

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[212] <http://articles.latimes.com/2006/mar/01/business/fi-ipodabc1> [July 29, 2008]
[213] < http://articles.latimes.com/2008/feb/13/business/fi-strike13> [August 26, 2008]

and Wal-Mart (a *de facto* offline monopoly with 40% of sales) have suffi-
cient control over online and offline retail content to determine the terms on
which most consumers have access to it. This lack of competition is arguably
unfair to consumers, as well as to content owners. A recent disagreement
between NBC and Apple resulted in an impasse that led to NBC's decision
not to renew its current iTunes deal when it expired in December 2007.

Acquisitions of digital content sites

One of the consequences of the digitization of media is the blurring
of the dichotomy between producers and consumers. For the past decade
there have been two simultaneous trends in digital content – the explo-
sion and eventual acquisition of so-called "professional" content, and the
rise of user-generated content. While the distinction between the two may
matter less and less, companies that created the first wave of professionally
produced independent sites which have built sizable audiences, have for the
most part been acquired by larger media companies. The same trend is now
occurring for sites that feature user-generated content, such as Google's
acquisition of YouTube in 2006, and NewsCorp's acquisition of MySpace in
2005.

In May 2008, CBS bought CNET Networks, home of CNET.com
(technology), BNet (business), GameSpot (video games), TV.com (television)
and CHOW (cooking). CBS had been buying smaller Web sites in 2007 (such
as Last.fm, Wallstrip and Dot-Spotter), but CNET is, by and large, the biggest
Internet expansion and investment ($1.8 billion). Two months later, an inves-
tor group led by NBC Universal and two private equity firms signed a deal to
buy the Weather Channel. Though the parties did not disclose the price, the

*For the past decade
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professional"
content, and the rise
of user-generated
content.*

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purchase may be worth $3.5 billion. The Weather Channel is the leading brand for weather information on television (it reaches 96 million households on basic cable), but the deal also included the Web site, which attracts nearly 40 million unique users a month.[214]

Thanks to these deals, CBS and NBC Universal have a much bigger Web presence, although it will take some time to evaluate the financial impact of these acquisitions. NBC Universal and its affiliated Web sites claim to have a total unduplicated reach of nearly 70 million visitors per month, ranking seventh against all U.S.-based Internet properties; they also claim to be the leading provider of news and information on the Web.[215] CBS has said its acquisition of CNET makes it the eighth largest Web network. However, because NBC Universal only owns one-third of Weather Channel, it is not clear if metrics agencies such as Nielsen or ComScore will consolidate its online audience. Similarly, CBS won't move in the rankings at all if CNET is counted separately.

The primary motivations behind these acquisitions are threefold: acquire audience, increase scale and increase revenue. In some cases, such as FOX/MySpace, another benefit is the ability to cross-promote News Corp-owned properties to the MySpace audience. Nonetheless, in a globalized environment, fewer large-scale independent networks and sites remain to be acquired today. In addition to the current dearth of potential acquisition targets for larger media companies, shareholder skepticism on the value of the acquisitions already completed looms heavily over these mergers. Media companies need to prove the value of their acquisitions (there is considerably more scrutiny after the disastrous AOL/TW merger in the late 1990s), and integrating acquisitions into larger media companies is not always easy due to cultural and internal corporate differences.

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[214] < http://www.nytimes.com/2008/07/07/business/media/07weather.html?ref=television> [July 8, 2008]
[215] <http://www.nbcumv.com/release_detail.nbc/corporate-20080706000000-nbcuniversal44b.html> [July 8, 2008]

In spite of that, the possibility of reaching larger audiences seems to be the main motivation, as it will conceivably result in more advertising inventory. However, simply gaining more advertising inventory is no guarantee of higher advertising revenue. The early enthusiasm of media companies as investors and acquirers of smaller online ventures was driven by a fear of losing the "land grab" taking place as their competitors bought other companies. There was also the desire to be seen by investors as Internet-savvy and forward-thinking. The fundamental economics of a site's business plan was a secondary (or tertiary) consideration as the major media companies purchased these sites. Some of the same dynamics are in place today as user-generated sites are now acquired or attract investment.

The acquisition of digital content sites by big corporations results in the possibility of an oligopoly that resembles television. The potential homogenization of content is a fear often voiced[216] as the Internet is looking more like television in terms of ownership, power and concentration of resources.

Experiments with ad formats

FOX announced in May 2008 that it will run as many as 50 minutes of story each hour-long episode. (Standard dramas average a program length of 42 to 44 minutes.) The network expects that with this strategy, viewers won't flip to another channel or fast forward through the ads while watching episodes on digital video recorders. As a result, advertisers will be willing to pay more for the fewer available spots. This strategy isn't necessarily new. In November 2006, NBC announced that viewers of the *NBC Nightly*

The potential homogenization of content is a fear often voiced as the Internet is looking more like television in terms of ownership, power and concentration of resources.

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216   PAYNE (2008)

News with Brian Williams would be able to watch more news and fewer commercials. This was the result of a sponsorship deal with the Philips Electronics North America Corporation.[217]

Fewer commercials mean fewer reasons for viewers to use the remote control and that's why some programming now has single company sponsorship.

By changing the frequency and number of commercials the networks are trying to keep the audience tuned in, defeating not only DVRs but also channel-surfing while commercials are being broadcasted. Fewer commercials mean fewer reasons for viewers to use the remote control and that's why some programming now has single company sponsorship. The "Boston Pops Fireworks Spectacular" offered by CBS in 2008, for instance, had no commercial breaks; a message overlayed periodically announced that the show was being sponsored by the Liberty Mutual Group. Experiments like these will likely increase, because this may be the only way to convince advertisers to pay the high rates that broadcast TV demands.

The networks face a dual challenge: on the one hand, audiences equipped with DVRs and remote controls; on the other, advertisers reluctant to change the formats for their commercials. As networks continue to experiment, they will have to minimize the impact on advertisers and acknowledge the considerable power that consumers currently exercise over their entertainment experience.

Programming adjustments

The Internet and DVRs may have killed "appointment television," but sporting events such as the Super Bowl and the NBA playoffs, and unscripted shows like *American Idol* and the *Academy Awards*, can still bring a whole family together in front of a TV. In 2008,[218] 30 million Americans watched the *Oscars* live, while an additional two million people viewed the telecast later in the same evening on DVR. Although total U.S. adver-

217 ELLIOT, Stuart (2006)
218 Nielsen Media Research. *The Nielsen Company's 2008 Guide to the Academy Awards*

tising expenditures have slightly decreased from $80.7 million in 2006 to $79.9 million in 2007 (a decrease of 1%), the average cost per 30-second commercial has been increasing over the past 14 years with the exception of 2001-2002 period (Figure 18).

FIGURE 18 – EVOLUTION OF THE AVERAGE COST PER 30-SECOND TV COMMERCIAL (1993 – 2007)
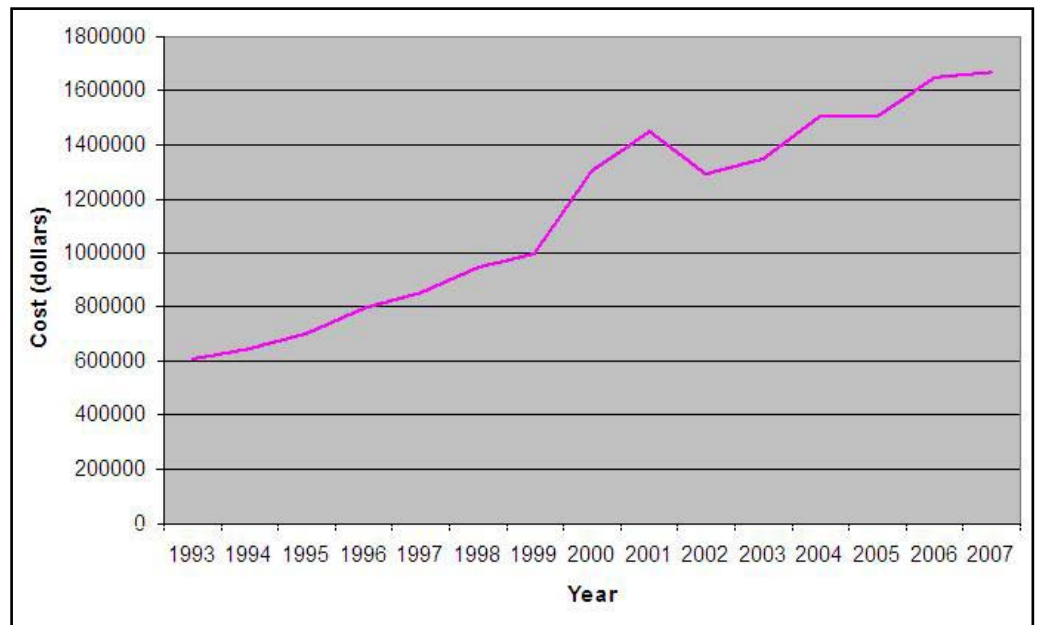
Source: *The Nielsen Company's 2008 Guide to the Academy Awards*[219]

What has been called "the duel between the Davids" – the *American Idol* finale in which David Cook and David Archuleta fought to become the 2008 Idol – brought an estimated 31.7 million viewers to FOX, a million more viewers than 2007's competition between Jordin Sparks and Blake Lewis.[220] Moreover, 2008's finale will also be remembered for setting another record: 97.5 million votes delivered via SMS message.

In addition, the NFL's Super Bowl is known as much for its commercials as it is for the game. In 2007, a 30-second commercial cost $2.6 million due to an extremely large audience of more than 90 million viewers.[221] In

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[219] Source: *The Nielsen Company's 2008 Guide to the Academy Awards*
< http://www.nielsen.com/media/2008/pr_080221a.html> [April 3rd, 2008]
[220] Associated Press < http://www.msnbc.msn.com/id/24777615/> [May 30, 2008]
[221] < http://money.cnn.com/2007/01/03/news/funny/superbowl_ads/index.htm> [July 8, 2008]

2009, the cost of a 30-second commercial on average is projected by NBC to be $3 million.

Programming strategies are not limited to the distribution of commercials; network programmers work both to select attractive programming, and also to organize and distribute shows in a way that will create loyal audiences. Throughout the history of television, different strategies have been deployed to adapt to the changing circumstances of the media environment. However, cable and satellite television, DVRs and the Internet have contributed to a change in consumption practices that has threatened to make appointment television obsolete.

In order to attract and maintain audiences, the broadcast networks are also adjusting program content to the new realities of mobile viewing, sporadic viewing, program grazing and other niche audience patterns. Because audiences are moving to mobile platforms, the networks need to be everywhere consumers are if they want to survive, let alone increase their revenues. However, one of the main obstacles any mobile content distribution strategy faces is that telecommunication companies tightly control mobile handsets. With mobile providers creating their own walled gardens, content owners need to negotiate separate deals with each wireless provider. These negotiations are notoriously fraught with technical difficulties; even more dispiriting, there is not yet a strong demand for mobile video content in the U.S.

Conclusion

The traditional September-to-May broadcast season ended in 2008 with audience decreases for all of the big broadcast networks except FOX. In the 18-to-49 demographic, ABC, CBS and NBC recorded double-digit declines, while FOX had a slight increase of 2% . What can the TV industry learn from this?

As has been argued throughout this monograph, broadcast television as we have known it is in crisis. New technologies such as the Internet, DVRs and portable devices are creating a new multiplatform media environment, and audiences are fragmenting into ever smaller segments. In spite of this scenario, television continues to be the most popular mass media, (Figure 19), which is why advertisers keep paying such high prices at the network's "upfront" sales event. Prior to DVRs, the Internet and lower-priced television sets, a whole family – and sometimes, it seemed, a whole nation—would sit together in front of one TV set to watch their favorite shows. Those times are essentially over. In 2008 very few shows were potent enough to bring parents and their children together for the same programming; *American Idol* and sports events such as the Super Bowl are the rare exceptions.

New technologies such as the Internet, DVRs and portable devices are creating a new multiplatform media environment, and audiences are fragmenting into ever smaller segments.

FIGURE 19 – MEDIA CONSUMPTION BASED ON HOURS PER PERSON (2003-07)

Filmed Entertainment	2003	2004	2005	2006	2007	2007 Weekly Average	% Change vs. '06-'07	% Change vs. '03-'07p
Cable & Satellite TV	886	909	980	997	1,010	19.4	1.3%	14.0%
Broadcast TV	729	711	679	676	676	13.0	0.0%	-7.3%
Consumer Internet	153	164	169	177	181	3.5	2.3%	18.3%
Home Video*	60	67	63	62	64	1.2	3.2%	6.7%
Box Office	13	13	12	12	13	0.3	8.3%	0.0%
In-flight Entertainment & Mobile Content	5	8	10	13	18	0.3	38.5%	260.0%
Subtotal	1,846	1,872	1,913	1,937	1,962	37.7	1.3%	6.3%

Other Entertainment	2003	2004	2005	2006	2007	2007 Weekly Average	% Change vs. '06-'07	% Change vs. '03-'07p
Broadcast & Satellite Radio	831	821	805	778	769	14.8	-1.2%	-7.8%
Recorded Music	187	196	195	186	171	3.4	-8.1%	-8.6%
Newspapers	195	192	188	178	172	3.3	-3.4%	-11.8%
Consumer Magazines	122	125	124	121	119	2.3	-1.7%	-2.5%
Consumer Books	108	108	107	108	108	2.1	0.0%	0.0%
Video Games	76	78	73	76	82	1.6	7.9%	7.9%
Subtotal	1,522	1,520	1,492	1,447	1,421	27.3	-1.8%	-6.6%
TOTAL	3,368	3,392	3,405	3,384	3,383	65.1	0.0%	0.4%

Source: Motion Picture Association of America (2007). *Entertainment Industry Market Statistics.*[222]

As it can be seen in Figure 19, television (cable, satellite and broadcast) accounts for a weekly average consumption of 32.4 hours, while other media such as radio (14.8) and newspapers (3.3) are a distant second. Even the Internet (3.5) or recorded music (3.4) cannot compare to TV consumption rates.

If we look at spending on entertainment per person per year (Figure 20), we see that there is a direct correlation with the previous trend. TV and home video have grown steadily since 2003. However, advertisers spend less money on printed media such as newspapers and magazines. This decrease occurs in parallel to a rise in hours spent on the Internet, and although the Web is not a substitute, we have seen in previous sections that the amount of people who blog regularly, post comments and look for news on the Web is growing every year. Days may still have 24 hours, but entertainment options have increased, and therefore our time is more valuable to advertisers than ever.

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[222] Source: Motion Picture Association of America (2007). *Entertainment Industry Market Statistics.*

FIGURE 20 – SPENDING ON ENTERTAINMENT PER PERSON PER YEAR (2003-07)

Source: Motion Picture Association of America (2007). *Entertainment Industry Market Statistics.*[223]

Meanwhile, the advertising industry is also undergoing a period of uncertainty. Media consumption is changing rapidly as content and distribution platforms are digitized and diversified. While these changes offer opportunities to the advertising industry, the more immediate effect is turmoil and instability.

Agencies are struggling to adapt to new technologies; they are unsure of how to organize themselves to better service client needs, and they are under increasing financial pressure from diminishing margins. Additionally, there is a great deal more clutter in the media environment, and audiences have fragmented across networks and platforms, making it much more difficult for marketers to reach a large target audience. The impact

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[223] Source: Motion Picture Association of America (2007). *Entertainment Industry Market Statistics*.

of changes in the media industries affects the advertising industry, but the responses of the two industries to technological change (and subsequent changes in audience consumption) do not necessarily correspond to each other, nor are they linear, unidirectional responses. While there is significant overlap between the two industries, each continues to act in the interest of maintaining their position and market power.

The turmoil occurring in the advertising industry today has consequences beyond the relatively insular walls of the top ad agencies. The digitization and diversification of media exposes the weaknesses of incumbent media and advertising companies, as well as the challenges to third-party providers that support that industry (such as the measurement companies). The circular logic of the media industry (creating content for certain demographically significant groups, to attract advertising investment, to develop more content) means that who is addressed by programming, and who is ignored, are wholly dependent on accurate measurement.

The issue of reliable, accurate measurement is critical to the future of advertising.

The issue of reliable, accurate measurement is critical to the future of advertising. Methodological weaknesses have adversely affected smaller, niche-based media and ignored audiences (typically ethnic minorities in the U.S.). With the increase in audience fragmentation, it is becoming more difficult for traditional sample-based methods to reliably estimate data for smaller populations on niche media. The temporary solution has been for these companies to invest more capital – either by expanding sample sizes or by building new panels dedicated to minority audiences (such as Nielsen's Hispanic panel).

As audience fragmentation increases, there will inevitably come a time when these companies will face diminishing returns and sample-based methods will stop making financial sense. As explained by Chris Modzelewski of Emerging Analysis,[224] "Costs rise almost linearly in the quest for granularity." When that happens, the traditional use

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[224] Email Interview, Oct 2007.

of sample-based methodologies may become antiquated. At that point,
alternative methodologies, such as census measurement or digital set-top
measurement, will finally become much more relevant. If a small population
is too granular to be reported accurately in ratings systems, the decisions
of both media companies and advertisers become skewed according to the
results of those methodologies. One potential avenue for investigation is
the impact these measurement methodologies will have on niche audiences,
particularly for ethnic media. How does measurement impact what kinds of
media are produced and distributed? How do digital technologies expand or
constrain these opportunities?

There are several possible avenues of investigation for future re-
search. The aesthetics and formats of digital advertising deserve more thor-
ough explanation, and the impact of those changes on the economics and
culture of the ad industry has not yet been calculated. How can an industry
remain relevant if the economics of digital distribution necessitates that me-
dia revenues move "from dollars into pennies?"[225]

There has also been a lack of empirical research on the effect of in-
teractivity on the dynamic between advertising's creators and its intended (or
unintended) consumers. While much has been written about the semiotic
influence of advertising on consumers (most notably by Roland Barthes),[226] it
has primarily been seen as a unidirectional form of communication. The im-
pact of interactive and user-generated advertising has yet to be explored in
depth. Does interactivity change the very nature of persuasion? If so, how?

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[225] LEARMONTH (2007)
[226] See *Mythologies*, 1972.

The issue of cross-media integration is another possible avenue of exploration. As content is divorced from its physical platform, both content producers and advertising agencies struggle to devise a profitable framework to produce and increase revenue. Advertisers are faced with multiple challenges in creating an integrated cross-platform campaign. Coordinating the creative and message, deploying a unified campaign across media (often using several agencies to do so), finding the target audience in multiple platforms, and understanding the efficacy of cross-media campaigns are just a few of the obstacles a marketer faces. Additionally, how does the creative process change when an advertiser intends to deploy a campaign across multiple media platforms? Is it possible for an advertiser or agency to create a media-agnostic campaign that will work in any media environment?

As content is divorced from its physical platform, both content producers and advertising agencies struggle to devise a profitable framework to produce and increase revenue.

The broadcast networks have a business model based on ad-supported content, both on television and online. Although Internet users find interruptive ads especially annoying while surfing the Web, people like to watch videos and to consume content for free. How do content owners monetize their product when audiences resist intrusive ads and refuse to pay for content? Pop-up ads are considered to be the most annoying (82%), followed by full-screen ads (73%) and animated ads that float around the page (70%). Ads displayed before a video are viewed as extremely annoying to 59% of users.[227] This last figure is particularly significant if we consider the fact that in mid-2008, video ads are the primary revenue strategy for ABC, CBS, FOX and NBC. Every time Internet users try to watch video on these networks' sites, they will be forced to watch commercials that cannot be skipped. While consumers will inevitably claim they dislike intrusive ads and seek to avoid them, there is a social contract already in place between audiences and content owners or distributors. Ultimately, *someone* needs to pay for content, whether that is in the form of a ticket sale, a subscription, a direct purchase or advertising.

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[227] LI (2006)

One significant trend is that the largest advertisers are shifting more of their budgets from traditional media to the Internet.

A survey conducted by NBC in 2008 found that NBC's online viewers liked online ads better than TV ads, and viewers had higher recall rates for products promoted in online ads. According to that research, viewers said that ads streamed online with full-length episodes were less disruptive than on television, and that they had a strong motivation to interact with the commercial. Is that a consequence of the fact that a single advertisement is showed in each break, while on broadcast television each break is up to five minutes long? What cannot be denied is that interactive marketing spending is still out of sync with consumer behavior. As can be seen in Figure 21, while individuals spend 29% of their media time on the Internet, the percentage of online ad spending is just 8%. And although only 8% of total media time is spent reading newspapers, ad spending for newspapers is 20%.[228] Nonetheless, one significant trend is that the largest advertisers are shifting more of their budgets from traditional media to the Internet. Advertisers appear to be decreasing their spending share on the four traditional media (television, radio, newspapers and magazines), and increasing the share going to the Internet. But there is still a deep chasm between consumer behavior and spending on advertising.

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[228] *US Interactive marketing forecast, 2007 to 2012.* Forrester Research, 2007.

FIGURE 21 – COMPARISON BETWEEN AD SPENDING AND TOTAL MEDIA TIME INDIVIDUALS SPEND WITH EACH MEDIA IN A TYPICAL WEEK (2007)
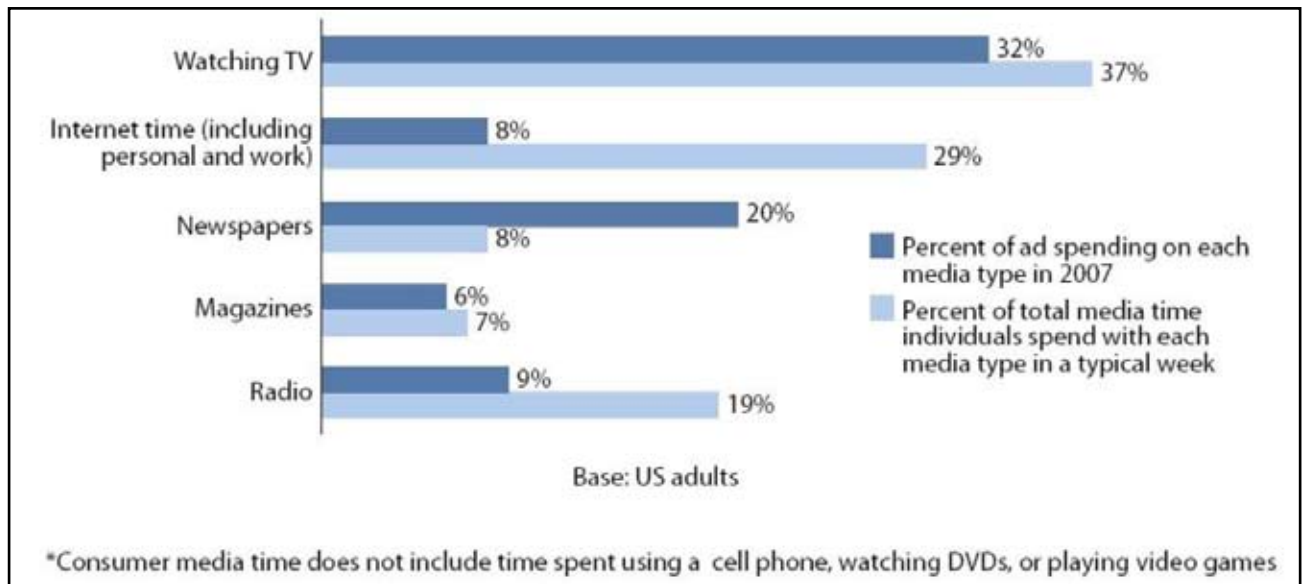
Source: *US Interactive marketing forecast, 2007 to 2012. Forrester Research, 2007.*[229]

The global Internet advertising market is growing steadily, and although the United States is not the world region with the highest increase, it is the one that spends the most (Figure 22). In 2006 global spending on Internet advertising was $31.6 million – an increase of 37.9% compared to previous year.[230] While growth has been steady, there are challenges the industry must face in order to continue to increase spending on the Web. One potential obstacle is "click fraud," though most legitimate Web sites have addressed it, and it is not a significant problem for the advertising industry as a whole. While there is a very small, unscrupulous percentage of sites that will pay people to click on certain Web sites or ads—and there is also software that does that automatically—most publishers have instituted software that recognizes these patterns and will not charge an advertiser for those clicks. The Search Engine Marketing Professional Organization (SEMPO) conducts an annual survey of advertisers that also tracks their concern about click fraud. For the past three years there has been a steady decline in the percentage of advertisers who report it as a significant problem that they track, down to 8% in 2007, from 16% in 2005.[231] Other potential challenges include the measurement issues discussed above and

229 Source: *US Interactive marketing forecast, 2007 to 2012. Forrester Research, 2007.*
230 *Global Entertainment and Media Outlook: 2007 – 2011. Internet advertising and access spending.* PricewaterhouseCoopers (2008)
231 SEARCH ENGINE MARKETING PROFESSIONAL ORGANIZATION (2008)

the ongoing uncertainty that advertisers face when attempting to gauge the relative success or failure of their online ad campaigns

FIGURE 22 – THE GLOBAL INTERNET ADVERTISING MARKET (US$ MILLIONS)

Region	2002	2003	2004	2005	2006p
United States	6,010	7,267	9,626	12,542	16,800
% Change	−16.6	20.9	32.5	30.3	33.9
EMEA	1,650	2,356	3,850	5,672	8,275
% Change	8.0	42.8	63.4	47.3	45.9
Asia Pacific	1,146	1,666	2,522	4,013	5,567
% Change	19.5	45.4	51.4	59.1	38.7
Latin America	86	90	132	195	245
% Change	7.5	4.7	46.7	47.7	25.6
Canada	155	209	321	495	706
% Change	82.4	34.8	53.6	54.2	42.6
Total	9,047	11,588	16,451	22,917	31,593
% Change	−8.3	28.1	42.0	39.3	37.9

* 2006 data are preliminary

Source: *Global Entertainment and Media Outlook: 2007 – 2011. Internet advertising and access spending.* PricewaterhouseCoopers (2008)[232]

Internet advertising rose at annual rates in excess of 30% during each of the past three years, including a 33.9% increase in 2006 in the United States.[233] Sponsored keyword search is the largest category ($6.7 billion, 40% of the total), although video advertising is emerging strongly; in 2006 it only represented 2.6% of total ad spending, but it has increased 45% in just one year.

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[232] *Global Entertainment and Media Outlook: 2007 – 2011. Internet advertising and access spending.* PricewaterhouseCoopers (2008)
[233] *Global Entertainment and Media Outlook: 2007 – 2011. Internet advertising and access spending.* PricewaterhouseCoopers (2008)

Continued growth in the online audience, as well as advertisers' growing recognition of the opportunity offered by the Internet as a massive global distribution platform, is helping to consolidate the online advertising market.

Continued growth in the online audience, as well as advertisers' growing recognition of the opportunity offered by the Internet as a massive global distribution platform, is helping to consolidate the online advertising market. The popularity of Hulu and YouTube are proof that Internet users are hungry for video content. Even online social networking has become mainstream and the bytes flow unceasingly. Some analysts claim that there has been a shift from top-down models for entertainment and news (corporate media) to bottom-up models.[234] Certainly, technology enables this change, but do people prefer user generated content to professional content? Clearly, there is an appetite for both. Eighty percent of YouTube's videos are created by users, but Hulu, with 100% of its content professionally produced, is becoming more and more popular. Are they competitors? Some might argue that they are, particularly for still-elusive advertising dollars, but they remain two very different initiatives. The popularity of YouTube proved that Internet users were willing to watch videos on their computers, and executives at NBC and FOX took note of that, drawing the resources and corporate support necessary to launch Hulu as an unprecedented joint initiative. The idea of two competitive networks aggregating their content into a single, properly licensed consumer destination was almost unthinkable a few years ago. The success of these initiatives with consumers has sparked new debates about platform convergence and audience preferences. The current investment in initiatives like Slingbox, Apple TV and the recently announced Netflix "TV Box" can be traced to the success of online video sites and the emerging consumer appetite for entertainment everywhere, any time.

As we have argued throughout this monograph, the future of television is uncertain, but popular sites such as Hulu show that the broadcast networks are aware of the huge opportunity that the Internet represents. How are they reacting to this new environment? We have identified six strategies as the networks' main responses to this new sce-

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[234] < http://www.cmw.net/cmw2008/conference_dms.asp> [August 19, 2008]

nario: brand integration, online content, online retail outlets, pay-per-view solutions, acquisitions of online companies, experiments with ad formats and the creation of Web content. A mix of these strategies is being tested by each of the networks, but it is too soon to tell whether these strategies will be successful. What is clear, however, is that the broadcast networks are doing whatever they can to avoid irrelevance, defend against diminishing ad revenue, and remain central to consumers' entertainment experiences.

The broadcast networks are doing whatever they can to avoid irrelevance, defend against diminishing ad revenue, and remain central to consumers' entertainment experiences.

The cable scenario for TV is very different. Most made-for-cable programs are not available online, mainly because cable and satellite systems pay large fees to cable networks for what they consider "exclusive rights." However, since the broadcast networks are streaming full episodes of most of their shows on their Web sites, the cable networks are beginning to put some of their content online as well. Viacom-owned network Comedy Central has uploaded full episodes of *The Daily Show* and *The Colbert Report* on MTV-owned sites, on the Fancast site from Comcast, and on Hulu. This marks a significant about-face in Viacom's strategy, which had previously made available short clips from these shows. By testing the waters with Hulu (which serves the concurrent purpose of furthering its animosity toward YouTube), Viacom is open to the possibility of putting more of its cable shows online, although it runs the risk of alienating the cable operators. In January 2008 HBO, the most popular cable premium channel, started a service that allows subscribers to access about 400 hours of movies and original programming each month; the content expires four weeks after being downloaded. This test, which is being conducted in Green Bay and Milwaukee, Wisconsin, might spread to other parts of the country. "There are a lot of people, particularly young people, who are watching TV through

the PC. We wanted to create a product for them," said Eric Kessler,[235] a co-president of HBO. In the meantime, the SciFi Channel is working on a franchise that will be both a television series and a multiplayer online videogame; the fans who play the game will help shape the series' story arc. According to Dave Howe, president of the SciFi Channel,[236] "a television show that is on once a week is not enough. The fans today want the experience to go beyond that."

Shows that audiences anticipate and watch live, rather than delayed on digital video recorders, are scarce but profitable for the networks.

Television broadcast networks are making great efforts to adapt to this new reality in which technology (mainly the Internet but also DVRs) has empowered audiences. This new reality is having a dramatic effect on people's media consumption habits since they not only have more entertainment options, they also have more control over what they consume. Television networks face diminishing audiences and lower ratings, pushing them further and further into a crisis that is having a powerful impact on content. According to our literature review and interviews we believe that the crisis affecting the broadcast television industry is influencing content development mainly in four areas:

Event programming

Shows that audiences anticipate and watch live, rather than delayed on digital video recorders, are scarce but profitable for the networks. Events such as the Super Bowl, the Oscars, the Olympics or the *American Idol* finales are watched by large audiences that not only pay attention to the content but also to the commercials. As we mentioned previously, skipping through commercials has become a regular practice, and in that context "big-event TV" seems to be one of the last opportunities to catch and retain very large audiences. Every network dreams of having a show that is capable of keeping audiences' interest and attention. Although we live in a highly fragmented media environment, we believe that there will be an increase in big event programming, much of which will be

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235 Cited in STELTER (2008e)
236 Cited in BOUCHER (2008)

directed at consolidated niche audiences. In the absence of new event TV, networks will continue to stunt-cast their shows, create outrageous cliff-hangers and program dramatic "mini-events" within their series. For instance, *Grey's Anatomy* produced a multi-episode arc about an explosion, and NBC promoted a weeklong "green" event across its shows (including such diverse programs as *The Today Show* and *30 Rock*) to raise awareness of environmental issues. Clearly the goal of these stunts is to create appointment viewing or produce new "events" that will draw in viewers.

Variable-length programming

Altering the length of TV shows will also be a trend if the broadcast networks want to adapt to an average consumer who owns not only a TV set, but also an MP3 player, and a smart phone or some other mobile devices. Our lives are filled with little screens, and therefore the television industry has to become flexible about the appropriate run-time for video entertainment. People prefer to download singles from their favorite music group instead of buying albums, and something similar is already beginning to happen to television content. TV networks that offer premium content at variable lengths may have a better chance of capturing small screen viewers. In addition, it's likely that content producers will produce more stand-alone programming that makes little demand on the audience to follow complex storylines from episode to episode. Stand-alone programming is particularly appealing in an environment where audiences have almost unlimited entertainment options and their loyalty can no longer be taken for granted.

Stand–alone programming is particularly appealing in an environment where audiences have almost unlimited entertainment options and their loyalty can no longer be taken for granted.

Narrative sophistication

However, this strategy needs to continue to co-exist with programming such as *The Sopranos, Mad Men* and even comedies like *The Office* that are deeply layered, complex narratives that ask the audience to invest emotionally in its characters week after week and season after season. Just a decade ago, most prime time programming consisted of self-enclosed episodes – a viewer didn´t need to watch from week to week to understand the plotline. Today, most series ask the viewer to tune in each week to follow the lives of characters, whose problems are not resolved in a half-hour or hour-long episode. In some ways, programming and audiences have become much more sophisticated, incorporating greater narrative complexity and complicated storyline structures. These shows generate loyal followings, critical acclaim and high DVD sales. Thus programming strategies become bifurcated in this environment, with self-standing programming on one hand, and serialized, emotionally layered programming on the other.

Brand integration

Brand integration will continue to be seen as a panacea for the television advertising crisis. Product integration is a practice that has been used since the very beginning of television. One of its main characteristics is that because it is embedded and so it is inescapable. It seems inevitable that its use will continue to increase. The FCC's recent efforts to regulate product placement in order to protect consumer rights will no doubt continue, and consumer advocates will become increasingly concerned about unacknowledged advertising content infiltrating programs seen not only by children, but by all audiences. There is a new generation of production companies emerging today whose purpose is to integrate advertising into new content from not just developing content, but integrating advertising into new content from its inception. Additionally, the number of unscripted and reality shows will likely increase in forthcoming years. Not only are they cheaper to

Programming and audiences have become much more sophisticated, incorporating greater narrative complexity and complicated storyline structures.

produce, but product integration is also much easier to do compared to a scripted show.

Running towards an interactive, personal and nomadic paradigm

The TV sector is currently in turmoil and is only gradually sizing up the challenges and opportunities presented by the rise of IPTV; the growth of VOD services, the emergence of TV services distributed on a P2P basis via the Internet; the phenomenon of video podcasting and user-generated content, the success of DVRs and multimedia PCs (Media Centres), and the launch of commercial mobile TV offerings. Although we cannot predict exactly how TV will look in ten years, Laurence Meyer, in a much-cited paper, argues that the industry is evolving towards a new paradigm in which television consumption will be less linear and more interactive, personal and nomadic.[237] Meyer proposes the following scenarios[238] for television in 2015:

Scenario 1: "TV in complete freedom"

In 2015 consumers will have the possibility of watching a news bulletin, an episode of their favorite series or a live show in any location and at any time, provided that they have a piece of digital receiving equipment, preferably mobile. This scenario assumes no major upheavals to existing business models. The model for mobile pay TV is similar to that of fixed pay TV via cable and satellite and the most significant change involves TV advertising, which sees the rise of interactive and mobile advertising.

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237 MEYER (2006)
238 These three scenarios have been originally studied and developed by Laurence Meyer (IDATE – Institut de l'Audiovisuel et des Télécommunications en Europe). Although the original paper is based on the results of an IDATE multi-client report entitled "TV 2015: the future of TV financing in Europe" we consider that the main findings also apply to a U.S. context.

Scenario 2: "Welcome to the age of egocasting"

This second scenario is based on the assumption that the Internet has become the favorite medium of a large section of the population by 2015. They will switch to blogs, personalised TV platforms, and online VOD services, which not only deliver more original content, but also allow viewers to contribute and participate. In that sense, TV will have entered the *Age of Egocasting*. In terms of business models, this second scenario assumes a few major upheavals mainly linked to the emergence of the "alternative universal TV" offering on the Internet.

Scenario 3: "The reign of TV portals"

This third scenario is based on the hypothesis that over the 2005-2015 period, a large number of television viewers have been attracted to the concept of personal TV enabled by DVR and VOD services. Television consumption has therefore become largely non-linear and as a consequence the mobile TV market should be structured on the basis of two models: the iPod model (based on the use of portable DVRs) and the real-time broadcasting model (mainly cellphones or special devices equipped with a hard disk). Scenario 3 appears to follow the trajectory of current trends, but it still requires changes in terms of market structure and related business models. At the initiative of major media groups and TV channel operators, the fixed digital TV offering should be restructured around interactive television portals that create a unique environment for each major TV brand. These portals should enable viewers to access a range of services, supported by relational marketing campaigns and interactive advertising.

The changes demanded by Scenario 3 not only imply the development of new business and financial relations between advertisers and TV channels, they also involve

rapid changes to the competencies of the main protagonists in the television sector. With the generalization of VOD offerings, the business of broadcasting in particular should steadily evolve towards that of a "TV program aggregator or distributor." It will no longer be a question of linear TV programming, or of maximizing audience share throughout the day, but of maximizing TV program "sales" through a television portal that is recognized by TV viewers. TV channel operators should evolve into non-linear content vendors.

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Appendix A

The following pages provide a brief summary of the major players and methodologies in the measurement industries. It is by no means exhaustive, as small contenders emerge suddenly (and usually fade just as quickly), but itshould provide an overview of the critical companies in this space. It should also be noted that most of these measurement vendors are platform-specific. One of the major complaints voiced by both media buyers and sellers is the lack of cross-platform measurability. In fact, a recent report by the Advertising Research Foundation found that "many respondents included comments about the lack of multimedia comparability and difficulties that they experience in integrating data from the measurement of various media for which they provide integrated planning support."[239]

PRINT

The newspaper and magazine industry is dependent upon an audit model to ensure the accuracy of a company's circulation claims. At the turn of the 20th Century there was no oversight in the newspaper industry. Publishers tended to inflate their circulation claims to attract a greater share of ad spend, and advertisers had no alternative to combat publishers' claims.

In order to stop dishonest and misleading industry practices, advertisers, agencies and publishers worked collectively to establish an independent industry watchdog, charged with circulation verification. The first auditing organization, the Audit Bureau of Circulations (ABC) was founded in 1914. Publishers voluntarily submit to circulation audits and the results are made publicly available to advertisers and agencies.

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[239] Advertising Research Foundation [ARF], 2005

Vendor: Audit Bureau of Circulation

Founded: 1914

Methodology: Provides independent, third-party circulation audits of print circulation and readership. An ABC audit is an in-depth examination of a publisher's records that assures buyers that a publication's circulation claims are accurate and verifiable. Advertisers and agencies use ABC reports and analyses as the basis of media buying decisions. Publishers use ABC-audited data to manage circulation and develop competitive marketing strategies.

Ownership/Funding: As a tripartite non-profit association, ABC is funded by dues and service fees paid by the three groups it serves: advertisers, advertising agencies, and publishers.

Primary Measurement Platform: Newspapers

Notes: While ABC provides Web site auditing, its digital products have yet to gain much of a foothold.

Vendor: BPA Worldwide (formerly Business of Performing Audits (BPA) International)

Founded: 1931

Methodology: Provides independent, third-party circulation audits of print circulation and readership. A BPA audit is an in-depth examination of a publisher's records that assures buyers that a publication's circulation claims are accurate and verifiable. Advertisers and agencies use BPA reports and analyses as the basis of media buying decisions. Publishers use BPA-audited data to manage circulation and develop competitive marketing strategies.

Ownership/Funding: As a tripartite non-profit association, BPA is funded by dues and service fees paid by the three groups it serves: advertisers, advertising agencies, and publishers.

Primary Measurement Platform: Newspapers

Notes: While BPA provides Web site auditing, its digital products have yet to gain much of a foothold.

Vendor: Mediamark Research Inc.

Product: Survey of the American Consumer

Founded: 1979

Data Collection: Conducts approximately 26,000 in-person interviews to assess the media consumption, buying habits, product usage, and psychographic attributes of American consumers.

Recruitment Methodology: Random selection, most likely via Random Digit Dialing (RDD)

What It Measures: Avg Issue Audience, recency, place of reading, time spent reading, interest in advertising, actions taken, others.

Ownership/Funding: GfK Group

Primary Measurement Platform: Magazines

Vendor: Simmons

Product: National Consumer Studies

Founded: 1950

Data Collection: Survey-based studies of approximately 27,000 consumers to assess the media consumption, buying habits, product usage, and psychographic attributes of American consumers.

Recruitment Methodology: Random selection, most likely via Random Digit Dialing (RDD)

What It Measures: Avg Issue Audience, recency, place of reading, time spent reading, interest in advertising, actions taken, others.

Ownership/Funding: Experian Marketing Solutions

Primary Measurement Platform: Print but also provides data on network and cable television, radio, and the top 75 Internet sites.

Vendor: Scarborough Research

Founded: 1975

Data Collection: Scarborough employs a two-step process to collect consumer data: a telephone interview followed by a self-administered questionnaire and television diary.

Recruitment Methodology: RDD recruited from individual DMAs

What It Measures: Scarborough measures demographics, lifestyles, media patterns, and shopping preferences. These measurements are made available locally, regionally and nationally.

Ownership/Funding: Joint venture between Arbitron and Nielsen

Primary Measurement Platform: Newspapers, local media

Vendor: The Media Audit

Founded: 1971

Data Collection: The Media Audit uses a single-phase telephone data collection process.

Recruitment Methodology: RDD recruited from individual DMAs

What It Measures: The Media Audit is a multimedia survey measuring the audience levels and audience characteristics of radio stations, local TV news programs, cable TV channel viewing, daily newspapers and other selected local and regional print publications. The Media Audit also collects socioeconomic information, product buying plans and purchasing activity for numerous products, services, retail stores and financial institutions that can be used to define the quality of individual media audiences or to define the market, customer profiles and consumer market shares for the many products, services, retail establishments and banking institutions that are covered in the survey.

Ownership/Funding: Privately owned

Primary Measurement Platform: Newspapers, local media

RADIO

While some of the print measurement companies bleed into other media formats, including radio, the radio industry was the first medium to truly develop a single measurement "currency." To this day, the platform measurement is dominated by one vendor, Arbitron.

Vendor: Arbitron

Founded: 1949

Data Collection: Arbitron's core businesses are measuring network and local market radio audiences across the United States; surveying the retail, media and product patterns of local market consumers. Prior to the introduction of its Portable People Meter (PPM), which is currently in test markets, Arbitron collects data by selecting a random sample of a population who are asked to maintain a written diary describing each radio program listened to. Each selected household agreeing to participate is provided a diary for each member of the household over the age of 12, for one week, typically beginning on Thursday and ending the following Wednesday. At the end of the week, the completed diaries are returned to Arbitron by mail. Beginning with the 2006 fall rating period, respondents are paid three dollars for each survey diary. A new random sample is selected to participate each week.

Recruitment Methodology: Random selection

What It Measures: After collection, the data is marketed to radio broadcasters, radio networks, cable companies, advertisers, advertising agencies, out-of-home advertising companies and the online radio industry. Major ratings products include cume (the cumulative number of unique listeners over a period), average quarter hour (AQH - the average number of people listening every 15 minutes), time spent listening, (TSL), and market breakdowns by demographic.

Ownership/Funding: Publicly Traded (NYSE: ARB)

Primary Measurement Platform: Radio

Notes: The Portable People Meter™ (PPM) is a portable, cell-phone-sized device that electronically tracks exposure to radio, broadcast television and cable media as consumers wear it throughout the day. The PPM service is currently in use in the Houston, New York City, Middlesex-Somerset-Union (New Jersey), Los Angeles, Nassau Suffolk (New York) and Philadelphia markets, with a target for deployment in the "top ten" American markets within a few years. The deployment of PPM's has had some surprising results. For instance, according to the AP, "Morning drive" isn't as important as it previously seemed; more people are listening on weekends than previously believed. And some formats are faring better than others, contributing to several stations switching to higher-rated genres such as rock."[240]

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[240] SUTEL, 2007.

TELEVISION

Vendor: Nielsen Media Research

Founded: Early 1940s

Data Collection: Nielsen Television Ratings are gathered in two ways. First, by extensive use of surveys, where viewers of various demographics are asked to keep a written diary of the television programming they watch throughout the day and evening, or by the use of Set Meters, which are small devices connected to every television in selected homes. These devices gather the viewing habits of the home and transmit the information nightly to Nielsen through a "Home Unit" connected to a phone line. Set Meter information allows Nielsen to study television viewing habits on a minute by minute basis, seeing the exact moment viewers change channels or turn off their TV. In addition to this technology, the implementation of individual viewer reporting devices (called People meters) allow the company to separate household viewing information into various demographic groups. In 2005, Nielsen began measuring the usage of digital video recordings (TiVo, for example) and initial results indicate that time-shifted viewing will have a significant impact on television ratings. The networks are not yet figuring these new results into their ad rates.

Much of the ratings system, however, still consists of the completion by viewers of ratings diaries, in which a viewer records his or her viewing habits, generally for a week, in exchange for being advanced a nominal amount ($5 in the United States.) These diaries play an especially important role during the four sweeps periods conducted in February, May, July and November in an attempt to measure smaller local market audiences in markets that are not covered by People Meter samples already.

Recruitment Methodology: Random selection

What It Measures: Nielsen Television Ratings are reported by ranking the percentage for each show of all viewers watching television at a given time. As of August 27, 2007, there are an esti-

mated 112.8 million television households in the USA. A single national ratings point represents 1%, or 1,128,000 households for the 2006-07 season. Share is the percentage of television sets in use tuned to a specific program. These numbers are usually reported as (ratings points/share). For example, Nielsen may report a show as receiving a 9.2/15 during its broadcast, meaning 9.2%, or 10,377,600 households on average were tuned in at any given moment. Additionally, 15% of all televisions in use at the time were tuned into this program. Nielsen re-estimates the number of households each August for the upcoming television season.

Nielsen Media Research also provides statistics on estimated total number of viewers, and on specific demographics. Advertising rates are influenced not only by the total number of viewers, but also by particular demographics, such as age, sex, economic class, and area.

Ownership/Funding: The company is part of the Nielsen Company, formerly known as VNU and owned by a consortium of private equity firms including Blackstone Group, KKR and Carlyle Group.

Primary Measurement Platform: Television

Notes: In June of 2006, Nielsen announced a sweeping plan to revamp its entire methodology to include all types of media viewing in its sample. Some of the critiques of Nielsen's methodology include potential bias since viewers are aware they are part of the Nielsen sample. This criticism is common to any and all survey research. Audience counts gathered by the self-reporting diary methodology are sometimes higher than those gathered by the electronic meters, which provide less opportunity for response bias. This trend seems to be more common for news programming and popular prime time programming. Also, daytime viewing and late night viewing tend to be under-reported by the diary methodology.

Another criticism of the measuring system itself is that it fails the most important criteria of a sample: it is not random in the statistical sense of the word. Only a small fraction of the population is selected and only those who actually accept are used as the sample size. Compounding matters

is the fact that of advertisers will not pay for time-shifted (recorded for replay at a different time) programs rendering the 'raw' numbers useless.

Nielsen has also been accused of under-reporting ethnic minorities with its new People Meter system. In 2004, News Corporation retained the services of public relations firm Glover Park to launch a campaign aimed at delaying Nielsen's plan to replace its aging household electronic data collection methodology in larger local markets with its newer electronic People Meter system. The public relations campaign charged that data derived from the newer People Meter system represented a bias toward underreporting minority viewing, which could lead to de-facto discrimination in employment against minority actors and writers.

Nielsen countered the campaign by revealing its sample composition counts. According to Nielsen's nationwide sample composition counts, as of November 2004, African American Households using People Meters represented 6.7% of the Nielsen sample, compared to 6.0% in the general population. Latino Households represent 5.7% of the Nielsen sample, compared to 5.0% in the general population. Nielsen hoped by offering greater transparency into its sample population, it could refute News Corporation's charges.

Another criticism of the Nielsen ratings system is its lack of a system for measuring television audiences in environments outside the home, such as college dormitories, transport terminals, bars, and other public places where television is frequently viewed, often by large numbers of people in a common setting. Recently, however, Nielsen has announced plans to incorporate viewing by away-from-home college students into its sample. Internet TV viewing is another rapidly growing market for which Nielsen Ratings fail to account for viewer impact. Apple iTunes, atomfilms, YouTube, and some of the networks' own Web sites (e.g. ABC.com, CBS.com) provide full-length Web-based programming, either subscription-based or ad-supported.

In early 2006, Nielsen also started to track the affect of DVRs on media consumption. Initially, there were only 60 households included in the DVR tracking service (out of approximately 9,000 households in the Nielsen panel). Based on an interview with Kevin Killion of SHS Media, a client of Nielsens, by May 2007 the national Nielsen NTI panel had 15,173 households, 2,610 of which had DVRs.[241]

INTERNET

Vendor: Nielsen//Netratings[242]

Founded: 1997

Data Collection: If a household agrees to be included in Nielsen//Netratings' sample, a CD with the meter software and information kit (along with the details on incentive) is mailed to the household, or meter is available for online download. Different technologies are deployed (Operating System level meter, Central Proxy or Local Proxy) to track online behavior. Although the technologies are different all meters should collect both Web and digital behavior. Via separate login, the meter tracks each person in the household. Therefore, the service can report person's level data.

Recruitment Methodology: Online recruitment, calibrated to an RDD sample

What It Measures: Size of Web site audience, engagement levels based on time spent, frequency and recency, transaction tracking.

Ownership/Funding: The company is part of the Nielsen Company, formerly known as VNU and owned by a consortium of private equity firms including Blackstone Group, KKR and Carlyle Group.

Primary Measurement Platform: Internet (includes media players and software clients such as IM)

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[241] Email interview with Kevin Killion, Stone House Systems, Inc. Oct 10, 2007.
[242] Based on several interviews with Nielsen//Netratings executives over the course of 2006 and 2007 and 2008.

Vendor: comScore[243]

Founded: 1999

Data Collection: comScore maintains a sample of approximately two million users who have moni-toring software (with brands including PermissionResearch and OpinionSquare) installed on their computers. In exchange for joining the comScore research panels, users are presented with various benefits, including computer security software, Internet data storage, virus scanning and chances to win cash or prizes.

Recruitment Methodology: Online recruitment, calibrated to an RDD sample

What It Measures: The data is used to generate reports on topics ranging from Web traffic to video streaming activity, and consumer buying power.

Ownership/Funding: Publicly traded (NASDAQ: SCOR)

Primary Measurement Platform: Internet

Vendor: Alexa

Founded: 1996

Data Collection: Alexa collects information from users who have installed an "Alexa Toolbar," al-lowing them to provide statistics on Web site traffic, as well as lists of related links.

Recruitment Methodology: Self-selected, opt-in sample

What It Measures: Web site traffic, reach, page views, traffic trends

Ownership/Funding: Subsidiary of Amazon.com

Primary Measurement Platform: Internet

Notes: There is some controversy over how representative Alexa's user base is of typical Internet behavior. If Alexa's user base is a fair statistical sample of the internet user population, Alexa's rank-

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[243] Based on several interviews with comScore executive Lynn Bolger in 2006 and 2007.

ing should be quite accurate. In reality, not much is known about the sample and possible sampling biases. A known source of bias is the self-selecting, opt-in nature of Alexa traffic tracking software installation, but the significance of this bias on rankings is not reported.

Vendor: Compete, Inc.

Founded: 2000

Measurement Methodology: Compete has a multi-source data collection methodology, including licensing consumer data from national ISPs, online recruitment, as well as "numerous sources." According to the company, "Our proprietary data methodologies and patent-pending technology aggregate, transform and normalize this data and ensure it is representative of the entire US online marketplace."

Recruitment Methodology: Multi-source

What It Measures: Measures the impact of marketing campaigns on consumers' research and purchase behavior. The service is used by marketers to improve their sales and marketing performance in industries including automotive, financial services, telecom & media, pharmaceutical and travel.

Ownership/Funding: VC backed including Idealab, Charles River Ventures, Commonwealth Capital Ventures, North Hill Ventures, Split Rock Partners (co-manager of St. Paul Venture Capital), and William Blair Capital Partners VII, LLP

Primary Measurement Platform: Internet

Vendor: Hitwise[244]

Founded: 1997

Data Collection: Collects data directly from national ISPs

Recruitment Methodology: ISPs-level relationships

What It Measures: Hitwise bands the aggregate usage information into commercial verticals (travel, finance, retail, etc). The Hitwise product is a commercial platform whereby customers pay Hitwise a premium to access data reports for their vertical. A common use of Hitwise is to measure

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[244] Based on several interviews with Hitwise president Chris Maher over the course of 2006 and 2007.

market share on the Internet.

Ownership/Funding: Acquired by Experian in April 2007

Primary Measurement Platform: Internet

Notes: Hitwise doesn't actually report on audience data or traffic. Rather, Hitwise provides a competitive ranking system to evaluate market share.

Vendor: Quantcast

Founded: 2005

Data Collection: Collects data through partner affiliations including advertisers, publishers, ISPs and ad networks.

Recruitment Methodology: Multi-source

What It Measures: Audience composition, demographics, reach, audience share, search keywords

Ownership/Funding: Privately funded

Primary Measurement Platform: Internet

Notes: Very similar to Compete, Inc. The advantage of using services that have a multi-source data collection methodology is that these services provide insight on smaller sites that may not be covered by panel-based methodologies.

IMPACT MEASUREMENT

For the most part, measuring the impact of advertising campaigns is more art than science. With the exception of the Internet, its impossible to track a consumer from ad engagement through to purchase (and even online its extremely difficult to do accurately). With television's high production costs, as well as ad rates, most advertisers invest significant capital in pre- and post-campaign testing to assure they are receiving a return on their investment. There are several companies that specialize in measuring brand metrics for advertising campaigns. This is far from a comprehensive overview of the companies that provide these services, as there are simply too many to cover in the scope of this report. It's important to note that many advertisers also maintain their own normative databases in order to benchmark their advertising performance longitudinally.

Vendor: Ipsos-Asi

Founded: 1962

Data Collection: Panel-based

Recruitment Methodology: RDD

What It Measures: Copy testing, in-market assessment, post-testing, brand equity assessment

Ownership/Funding: Subsidiary of Ipsos Group, a public company listed on the Paris Stock Exchange

Primary Measurement Platform: TV

Notes: [Disclosure: client of Radar Research]. Ipsos has struggled to develop a compelling online solution but has been a leader in offline ad effectiveness measurement for 50 years.

Vendor: Millward Brown

Founded: 1973

Data Collection: Panel-based

Recruitment Methodology: RDD

What It Measures: Copy testing, in-market assessment, post-testing, brand equity assessment

Ownership/Funding: The company is the largest company member forming part of the Kantar Group, which is a division of the WPP Group.

Primary Measurement Platform: TV

Notes: Also owns Dynamic Logic, the leading online brand measurement company.

Vendor: ARSgroup

Founded: 1968

Data Collection: Panel-based

Recruitment Methodology: RDD

What It Measures: Copy testing, in-market assessment, post-testing, brand equity assessment

Ownership/Funding: Privately owned

Primary Measurement Platform: TV

Vendor: TNS Media Intelligence

Founded: 1926

Data Collection: Employs more than 600 data collection specialists who organize data. The company tracks TV, print, radio, OOH and Internet advertising.

Recruitment Methodology: n/a

What It Measures: Tracks ad expenditures by media, provides competitive analysis

Ownership/Funding: Privately owned

Primary Measurement Platform: TV

Notes: Slightly different from the others in this category. TNS tracks competitive spending, rather than testing individual campaigns for brand effectiveness.

NEW PLATFORMS

The explosion of digital media platforms, increased audience fragmentation and new advertising opportunities has led to an explosion of startups striving to become measurement "currency." New platforms such as mobile handsets, social media and video games has opened up new marketing opportunities. With new platforms comes the need for new measurement systems. The following section provides a brief overview of some of the companies looking to capitalize on new platforms.

MOBILE

Vendor: M:metrics [245]

Founded: 2004

Data Collection: Mobile subscriber survey of approximately 500,000 consumers (age 13+) per year.

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[245] Based on interviews with m:metrics executive Evan Neufeld in 2007.

Recruitment Methodology: Online recruitment

What It Measures: Mobile content and application consumption, performance benchmarking for mobile operators, handset OEMs, platform vendors and media companies.

Ownership/Funding: Venture Capital-funded

Primary Measurement Platform: Mobile

Notes: [Disclosure: client of Radar Research]

Vendor: Nielsen Wireless

Founded: 2006

Data Collection: Mobile subscriber survey and also uses information culled from Nielsen's existing National People Meter TV sample

Recruitment Methodology: RDD

What It Measures: Reports on media behavior and audience demographics segmented by wireless carrier.

Ownership/Funding: The company is part of the Nielsen Company, formerly known as VNU and owned by a consortium of private equity firms including Blackstone Group, KKR and Carlyle Group.

Primary Measurement Platform: Mobile

Notes: Nielsen Wireless is designed specifically for the wireless industry and also complements Nielsen's Anytime Anywhere Media Measurement (A2/M2) initiative, which will measure television usage on all television and video platforms, including personal video devices such as mobile phones.

VIDEO GAMES

Vendor: Nielsen Games

Founded: 2006

Data Collection: Panel-based, using Nielsen's existing National People Meter TV sample

Recruitment Methodology: RDD

What It Measures: Reports on media behavior and audience demographics segmented by wireless

carrier.

Ownership/Funding: The company is part of the Nielsen Company, formerly known as VNU and owned by a consortium of private equity firms including Blackstone Group, KKR and Carlyle Group.

Primary Measurement Platform: Video Games

Notes: Nielsen has historically had a difficult time measuring video game usage. In fact, this is Nielsen's third attempt to launch a service covering games, after two aborted previous attempts.[246]

"BUZZ"

Vendor: Nielsen BuzzMetrics

Founded: 1999

Data Collection: Combines brand and consumer expertise, proprietary data-mining technology, and the parent company's experience in media measurement.

Recruitment Methodology: n/a

What It Measures: Tracks consumer-generated media such as blogs, message boards, consumer ratings and reviews, etc to identify key marketplace influencers. Nielsen BuzzMetrics has developed specific expertise in five key industries: Automotive, Consumer Electronics, Nutrition, Pharma-Health and Television.

Ownership/Funding: The company is part of the Nielsen Company, formerly known as VNU and owned by a consortium of private equity firms including Blackstone Group, KKR and Carlyle Group.

Primary Measurement Platform: Internet, specifically consumer-generated media

Notes: While there is a great deal of interest in proving the power of "word of mouth" marketing, it is still largely unproven. It is also not entirely clear is marketers will be willing to pay for quantifiable research on something as ethereal as "viral" marketing.

Vendor: Cymfony

Founded: 1996

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[246] HYMAN (2007)

Data Collection: Combination of automated analysis and human interpretation.

Recruitment Methodology: n/a

What It Measures: Tracks consumer-generated media such as blogs, message boards, consumer

ratings and reviews, etc to identify key marketplace influencers.

Ownership/Funding: Owned by TNS Media Intelligence

Primary Measurement Platform: Internet

Notes: See above

Appendix B

Interviews conducted

CASSAR, Ken. *Nielsen NetRatings*. (May 2008)

DOMINGUEZ, Neva; LYONS, Brett; MAZZA, Tom; ANTOLA, Chris. *Madison Road Entertainment.*
(May 2008)

FAY, Sarah. *Carat.* (March 2008)

FRANK, Rich. *Ex-Disney executive*. (May 2008)

GRAHN, Rudy. *Zenith Optimedia*. (March 2008)

HERSKOVITZ, Marshall. *Quarterlife Project*. (May 2008)

KILLION, Kevin. *Stone House Systems*. (May 27)

KOCINSKY, John. *Writers Guild of America – East*. (April 2008)

LI, James. *Nielsen Research.* (April 2008)

LOWRY, Brian. *Variety*. (May 2008)

MODZELEWSKI, Chris. *Emerging Analysis Corporation*. (October 2007)

MURPHY, Mary. *University of Southern California; Senior Writer TV Guide.* (May 2008)

PAPADOPOULOS, Anna. *EuroRSCG*. (March 2008)

REIDER, Suzie. *YouTube*. (March 2008)

TREFFILETTI, Cory. *Catalyst SF.* (March 2008)

YOUNG, Mark. *University of Southern California*. (May 2008)

ZAMANIAN, Kiumarse. *Glam Media*. (May 2008)

* FOX (*Digital Media FOX Entertainment group*) executive who asked to remain anonymous. (May
2008)

* NBC (NBC Digital Media Sales) executive who asked to remain anonymous. (May 2008)