Why TV advertising will never be the same

By Theresa Wise

Changing consumer viewing habits and new interactive technology will affect all the players in the traditional TV advertising value chain. Here are some winning strategies for access providers, broadcasters and advertisers themselves.

"The 30-second TV commercial is dead," the advertising director at one of the world's largest consumer goods companies told Accenture recently. We disagree.

To be sure, the marketplace for television advertising is undergoing fundamental change, driven primarily by the advent and rapid growth of personal and digital video recorders, devices that, among other things, allow viewers to fast-forward through commercials. In fact, 40 percent of US homes are expected to have one of these recorders by 2009—up from 8 percent in 2004. We project—somewhat conservatively—that as a result, 9 percent of all commercials will be skipped by viewers in 2009.

This shift is indeed significant—but hardly fatal.

What is clear, however, is that changes in consumer viewing habits and advances in technology that are enabling new or improved delivery channels are set to transform the traditional TV advertising model. In this new model, commercials will continue to be alive and well. But they will be much more targeted and interactive.

Although viewers are indeed using their video recorders to watch TV shows later—and skipping the ads when they do so—some programs are more time-sensitive than others. Movies, dramas, sitcoms and children's programs, for example, can be watched at any time, but real-time viewing is an integral part of live sporting events or news.

In addition, there is a growing perception that viewers who skip most advertisements actually reduce the amount of clutter around the advertisements they do view. As a result, the first and last ads in a commercial break, together with program sponsorship messages at the start and end of each program segment, are all the more valuable because they are separated from the noise created by other ad messages.

Both of these factors are driving demand for program sponsorship, in which an advertiser pays to associate its brand with a particular program. But this has created a shortage of sponsorship inventory. In fact, the head of one major US network told us recently that this lack of available and suitable broadcasting means that although broadcasters will be able to sell program sponsorships for the foreseeable future, sponsored programs will not account for a significant portion of total broadcast advertising revenues.

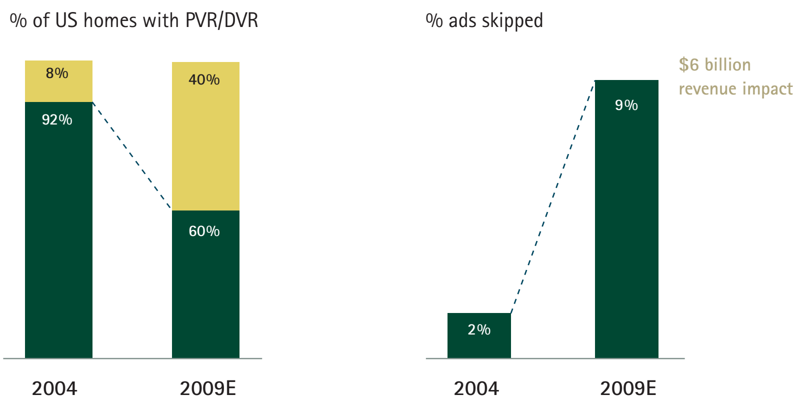
In the meantime, broadcasters and advertisers are using various tactics to combat ad skipping and neutralize its effect. Tactical reactions designed to make recording—and therefore ad skipping—more difficult include staggering program start times and shifting air dates. Among the more strategic responses are true, live video-on-demand services. Rather than approximations of the on-demand experience (currently available through digital or personal video recorders or pay-per-view within certain time slots), these services deliver content 100 percent controllable on demand by the viewer.

True, live video-on-demand services can also be packaged with tailored ads. For their part, advertisers and their agencies are using product placement and program sponsorship more aggressively, along with such technical tactics as inserting "speed bumps"—technology that slows down ad skipping—and logos that continue to display during fast-forwarding.

But restricting viewer behavior is at best a short-term solution. The only way to get people to watch

The $6 billion challenge

In homes with either personal video recorders or digital video recorders, one in four ads are skipped. Forty percent of homes are expected to have these recorders by 2009, which means that 9 percent of all ads—$6 billion worth—could be skipped by then.



SOURCE: BERNSTEIN MEDIA RESEARCH, MAY 2004; ACCENTURE ANALYSIS BASED ON YANKEE PROJECTIONS ads in the long term will be to make them want to watch. So, over time, these initial anti-skipping tactics will be superseded by strategic responses, including more compelling ads, more targeted ads and ads placed with the search engines through which consumers will increasingly seek out content.

Interactivity

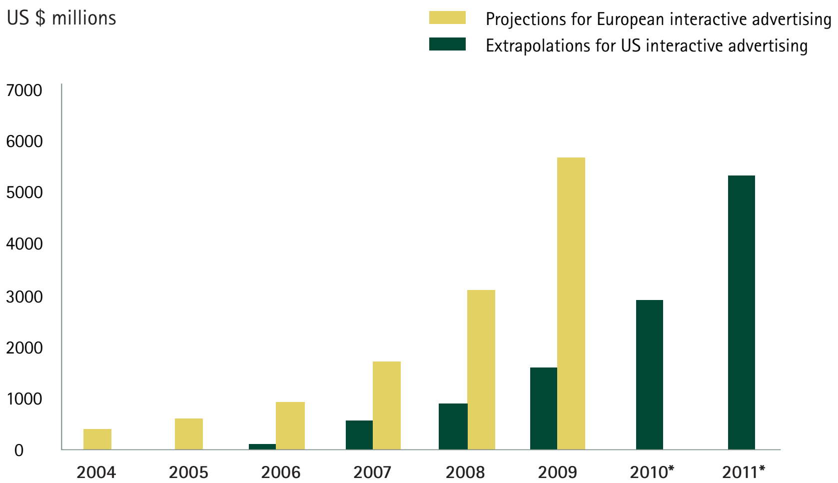
With each approach, interactivity will be key. And technology advances are playing an important role in enabling this phenomenon. For example, TV viewers in Europe can press a button on their remote controls to request further information or drill down to get more detail about the product being advertised. Interactive TV advertising is less developed in the United States than in Europe and Asia, though it is expected to be widespread in the United States by 2008 (see chart, below).

To exploit this opportunity, ads will need to blend compelling creative content with sophisticated targeting, and then use these attributes to focus on what interactive ads do best: generating cost-effective sales leads for bigger-ticket, relatively complex and/or programming-related products.

The three key factors that determine whether interactive ads will work are the product itself, the type of show the ad is placed in and the purpose of the ad. Experience shows that these three determinants can be combined into a number of best

Drawing on the European experience

While the United States leads the world in the rollout and use of personal/digital video recorder technology, markets in Europe—especially the United Kingdom—are forging ahead in exploiting the potential of interactive advertising, with total annual interactive advertising revenues in Europe projected to reach $6 billion by 2009. Extrapolating from that projection, Accenture sees interactive TV advertising in the United States as a $5 billion-a-year market by 2011.



*Data for Europe not available

SOURCE: MORGAN STANLEY DATA FOR EUROPE; ACCENTURE EXTRAPOLATION FOR UNITED STATES BASED ON MORGAN STANLEY DATA practice guidelines to predict whether a particular interactive ad will be viable and cost-effective.

Big-ticket items are generally more appropriate for expensive interactive ads, since they offer a higher return on the marketing investment. Interactive advertising is also well suited to reasonably complex products such as automobiles, which require more information and involve more complicated purchase decisions.

Advertising that is tied to programming, such as the ads for golf clubs that run during the US Open and the Masters, are also a good fit. Because viewers are already engaged in the kind of programming, they are more likely to respond to an effective interactive ad by either saving the information for later viewing or by playing along in real time.

The next important decision to consider is when the ad should run. For example, viewers are less likely to interact with advertising when they're watching a suspenseful drama than they are during daytime talk shows, music programming or a break in a sports broadcast. It is also important to run an interactive ad as the last ad in the break, or other advertisers will complain.

Finally, it is important to consider the intent of the ad. Interactive TV ads are more appropriate and cost-effective for generating sales leads than for building brands. They can complement the launch of a complex product or service, and support promotional activities to drive time-specific purchasing.

The cost-per-click approach used on the Internet provides a reasonable proxy for the measurement methods used to assess the impact of traditional TV advertising.

As advertisers assess the potential of interactivity, they face a wider conundrum—one whose solution will affect everyone else in the value chain. At root, they need to find a new way to reach, engage and interact with large numbers of people through ads that harness the full power of TV-quality video.

The answer lies in two developments: the rapid rise in broadband subscriptions and the massive con-

What's next?

Long-standing dividing lines between access providers, broadcasters and advertisers are fading away. The future presents opportunities and challenges for each group.

	Opportunities	Challenges
Access providers	• New revenue stream Cost per click Micro sites Customer data • New viewer data for programming/services	• New infrastructure • New skills/capabilities • Integration with existing systems • Coping with peaks
Broadcasters	• New revenue stream Premium for interactive airtime Revalue poorly watched day parts New viewer data for program refinements	• Readiness of access providers • Technical and measurement standards
Advertisers	• Emotive power of TV • Tracking/measurement • Ad effectiveness of interactive media • Improve consumer insight • Lead generation	• Complexity in dealing with multiple access providers • Review their budget mix for advertising • Technical and measurement standards

SOURCE: ACCENTURE ANALYSIS

sumer penetration of Internet search engines, such as Google, Yahoo, AOL and MSN Search. With the advent of broadband, search engines are now extending their scope from being the search tool of choice for Internet content to providing the same function across games, music and video.

The search engines' massive consumer base makes them an attractive advertising environment. Add to that their ability to track users' identities and preferences, deliver video over broadband and support interactivity, and the case becomes even more powerful. The major search engines are already running video profiling trials; Accenture predicts they will emerge as major players in the Internet protocol television (IPTV) delivery space within the next few years.

As long-standing economic assumptions and boundaries are fading away, access providers, broadcasters and advertisers find themselves facing an array of opportunities and challenges (see chart, opposite). How do they maximize their chances of success in this new world?

Both access providers and broadcasters have opportunities for new revenue streams—although from different sources—while advertisers have the opportunity to provide more powerful advertising by engaging their targets. At the same time, each group faces challenges—from the need to develop new skills to managing multiple channels.

Contrary to some premature reports, the 30-second slot is not dead, although the way advertisers fill it will change. The content they offer will be compelling. It will be interactive. It will move to broadband as audiences move to broadband—for search or for entertainment like IPTV. And it will be closely targeted to the viewer, perhaps via the search engine through which he or she finds the content. For all the players in the traditional TV advertising value chain—access providers, broadcasters and advertisers themselves—the world is changing. And now is the time to develop new strategies and solutions for the interactive world.

About the author

Theresa Wise is a London-based partner in the Accenture Media & Entertainment operating group. Her recent focuses include digital and interactive television (especially video-on-demand and interactive advertising) as well as broadband strategy and content. Ms. Wise has worked across Europe, in Japan and in the United States for global cable companies, media conglomerates, public service broadcasters and commercial broad-casters. Her comments on developments in interactive television, broadband, sports rights, advertising markets, and the music and publishing industries have appeared in the *Financial Times* and *The New York Times,* CNN, the BBC, and on CNBC and Bloomberg Television.

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