



TiVo, TV your way.

Advertising is big business. \$140 billion big (the forecast global spend in 2005).

Household brand giant Procter and Gamble alone will spend most of its \$3 billion advertising budget on TV, according to TNS Media intelligence. But regular TV advertising is less and less the default option for major brands as they worry about audience fragmentation and new technology.

Advertisers and broadcasters are spooked because their audience is gaining unprecedented control over what to watch and what to skip. TiVo-like DVRs, VOD services, podcasting, and broadband not only cede control to consumers, they are fostering a new consumer attitude.

The mass market, mass audience campaigns of the past have already been nixed by the fragmentation of viewers over a vast range of media choices. The advertiser is paying for more media competition by having to expend more budget and a lot more creative effort in finding the audience at

them, they can just ignore you - and not passively but actively - they can, and do, switch-off or skip your message. Number One on the advertisers Public Enemy list is the DVR (or PVR, Personal Video

TV ads: skipping to a s

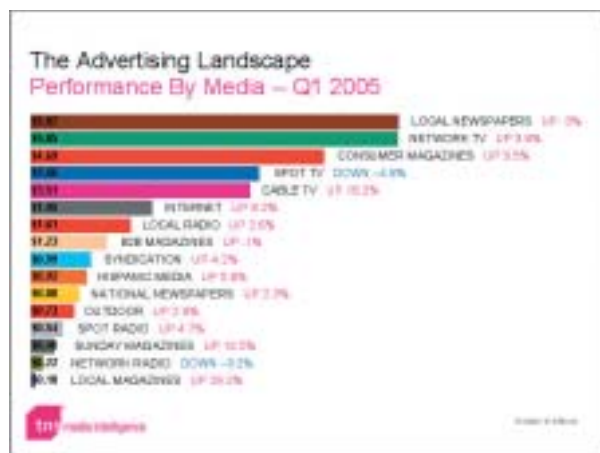
Industry Trends

Did You Know?

- Global Internet advertising revenue is expected to grow from \$3.8 billion in 2005 to \$4.4 billion by 2007 (Zenith Optimedia, 2005)
- Two-thirds of those with a PVR skip ads, with 75% of those individuals skipping over 50% of ads shown (eMarketer)
- For the first time, advertising on Google and Yahoo! will surpass prime-time ad revenues of America's three big television networks, ABC, CBS and NBC. (The Economist, April 24, 2005)

the many places they now reside. But now even when you locate

Recorder). It is supported by "an army of constituencies - from consumer electronics manufacturers to OEMs to retailers to cable and



satellite operators - all aiming to make PVRs a broad consumer market" according to Bernstein Research. But it is as a spoiler of the 30-second advertisement tradition, which lets the viewers easily bypass ads, that it is changing the playing field according to Leo Laporte, author of *Leo Laporte's Guide to TiVo*.

APPOINTMENT VIEWING. Laporte believes viewers are gaining command of the media programming experience. The notion of how they watch television, says Laporte, is shifting from being an appointment medium, where you would sit down with everyone else in the country and

watch the same shows all at the same time, to individual homes watching at their convenience.

This is a fundamental change because it resets audience expectations. "Consumers now have the expectation that media comes to them" suggests Laporte. "That's the secret success of pod-casting, why people turn to the Internet media more, and why on-demand media is so popular: We no longer tolerate going to the medium."

The effect this has on advertising, suggests Laporte, is to give people "more of the sense of owning the medium instead of me watching a broadcast from NBC. Admittedly it's the same broadcast on my hard drive - but I think there's this subtle shift in how I feel about it. I feel like it's now mine because I can move it (around), and I can watch it when I want. I control it, I can pause it and fast forward it." Laporte says resistance to advertising is growing because this 'once-tolerated enemy' seems more like an intruder now than the benevolent sponsor it once was.

With TV audiences in unprecedented control over what they watch or skip, advertisers are asking: "Where have all the people gone and where should my dollars go?" Howard Greenfield looks at the changing TV advertising model.

How then will advertisers respond to declining viewer attention? "We're in a real transition point and new media are cropping up quickly," says Laporte. "We were very passive consumers with media for years, for decades. And I think that those days are gone".

NEW DISRUPTERS. Less obvious, but equally dangerous threats loom over the standard video

Expected impact of DVR Technology on the 30-Second TV Ad according to US Advertising Professionals, 2003 & 2004 (as a % of respondents)

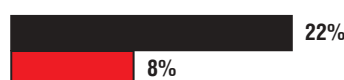
Significant growth of non-traditional ad formats, but 30-second spot will remain cornerstone of TV advertising¹



Death of the 30-second spot and dramatic transformation of TV advertising paradigm



Limited prospects for technology reaching critical mass of penetration, and therefore only limited impact



I honestly don't know but please call me when you do



No significant long-term impact, TiVo and DVR threat is overhyped



■ 2003 ■ 2004

Source: American Advertising Federation (AAF), November 2004

Chart © eMarketer.

advertisers realise the full potential of their online advertising campaigns, by helping them build highly creative and engaging ad spots," said Jeff Webber, SVP and publisher of USATODAY.com. USA Today has teamed with Internet ad company Point Roll (both part of Gannett Co.) to provide new advertising leverage on their website "without disrupting the user's online experience."

And broadband Internet is not the only threat. The \$10 billion video game industry is pouring millions into dynamic in-game advertising and product placements, changing billboard ads, and branded food, clothing, and other products – all showcased by battling video-game heroes.

Television cannot afford to sit on its hands as these developments transform even the evening newscast. Earlier in 2005 at the NAB (National Association of Broadcasters) annual conference, senior news celebrities, Charles Osgood (CBS) and Jeff Greenfield (CNN) declared the end of network news as we know it. "I think it's dead," opined long-time ABC News correspondent Sam Donaldson, when questioned as to whether the evening network newscast was threatened. This is truer than ever with the recent passing of ABC's Peter Jennings - the last of the triumvirate of American television news anchor legends following retirement this year of Tom Brokaw and Dan Rather.

SLOW COLLAPSE. In-Stat/MDR projects 2.9% growth in the US

W death?

advertising formula, such as an endless number of new channels, store-and-view devices, and the new Internet audience. With the growth of broadband has come online advertising and changing media consumption patterns. eMarketer predicts that by 2010 nearly 70% of all households will have broadband, up from 36% in 2005.

This is a breakthrough year for online advertising according to *The Economist* magazine. Describing 'The Online Ad Attack', it suggests that a 30-second prime-time TV ad was once considered the most effective - and the most expensive - form of advertising. But that was before the Internet got going."

This year is the first time that advertising on Google and Yahoo! will surpass prime-time ad revenues of America's three big television networks, ABC, CBS and NBC, predicts *The Economist*. Between 2003 and 2005, Internet Ad Spending is increasing by over \$2 billion dollars, according to TNS Media Intelligence.

NEWS AGENTS. Newspapers are beginning to provide alternative electronic ad outlets. "USATODAY.com is fully committed to helping



“If, by 2010, fifty per cent of households are avoiding fifty per cent of all TV commercials, tens of billions of dollars of TV advertising will miss the mark.”

**– Craig Moffett,
Bernstein Investment
Research and
Management**

electronic advertising market between 2005 and 2009 and reports that more than two-thirds of those with a PVR skip ads (with 75% of those individuals skipping more than 50% of ads shown). For many, this spells “an inevitable kind of slow collapse of the entire mass media advertising market,” as JD Lasica, author of *Darknet: Remixing the Future of Entertainment* puts it.

“Will advertisers shift their spending online as DVR users skip more TV advertising?” asks Ben Macklin, senior analyst with eMarketer. According to Macklin, “DVR users ‘skip’ the majority of advertising they are exposed to and watch 50% or more of their TV out of scheduled times” based on evidence presented from a variety of studies over the last few years. “A study conducted by the Myers Group in June 2004, for example, showed 62% of DVR owners skipped or fast-forwarded through all or most commercials.”

“TV viewers have been ‘zapping’ commercials for some time through dextrous use of the remote control,” reports Macklin, “but the significant increase in time-shifted TV viewing has major implications for traditional media buying, which tries to target particular audiences within particular times. DVR technology will spur significant growth in non-traditional ads, but the 30-second ad spot will remain a key format”. eMarketer estimates that the number of DVR households will grow to 47.4m in 2009, as the majority of those who trade up to digital TV in the coming years will do so with DVR functionality. The growth of digital TV households will be significant across geographies, with Asia-Pacific expected to expand more than four-fold between 2005 and 2010.

HABIT-FORMING. “In the future, you’re going to interact with your TV set like you do with Google,” predicts Craig Moffett, VP and senior analyst, Bernstein Investment Research and Management, suggesting that a new viewing habit will be a switch from TV browsing to TV searching. With consumer expectation for programming control, advertisers must adjust. There are too many channels to keep up with.

“When you browse through the channels to try and find something

DVR Owners in the US Who Skip or Fast Forward Commercials , 2004 (as a % of respondents)

Skip or fast forward through all commercials

37%

Skip or fast forward all or most commercials

62%

Skip or fast forward through most commercials but also stop and view selected commercials

14%

Skip or fast forward through only a few commercials

5%

Never or almost never skip commercials

5%

Source: Myers Group, June 2004

Chart © eMarketer.

Executive Forum:

What’s Ahead

“Video-on-demand libraries and Digital Video Recorders are training customers to expect what they want, when they want it.”

Bernstein Research, Cable and Satellite: Search versus Browse, July 14, 2005

“As for the advertising, broadcasters must be worried. Broadcast advertising suffers when its audience shrinks. New offerings on broadband will erode this audience, as will games and DVDs.”

-- Nic Fulton, Head of Media Technology, Reuters News



“I think it’s an inevitable kind of slow collapse of the entire mass media advertising market.”

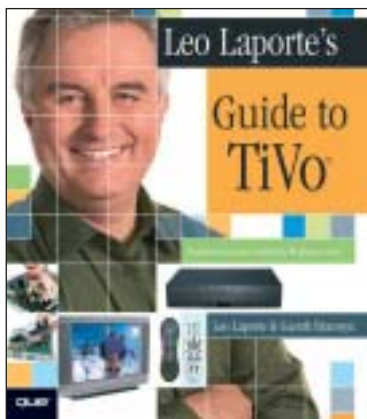
- JD Lasica, Author, Darknet: Remixing the Future of Entertainment.

“There’s an old joke [in advertising]: I know 50 per cent of my ad dollars are wasted. I just don’t know which 50 per cent”.

George Zachary, Partner, Charles River Venture Capital

interesting to watch and you make it to channel 135 (because you still haven’t found anything interesting), you really have to wonder whether that consumer behaviour will survive,” he asserts. “Will the channel 135s of the world simply disappear, given the sufficiency of quality pre-recorded and downloaded, (on-demand) content at consumer’s fingertips.”

Audiences increasingly assume it is their inalienable right to skip ads. But “with VOD, it’s fairly easy to force customers to watch advertising,” says Moffett. Moreover, there is a new push by the technology



“Consumers now have the expectation that media comes to them. That’s the secret success of pod-casting, why people turn to the Internet media more, and why on-demand media is so popular”

- Leo Laporte, author, *Leo Laporte's Guide to TiVo*

their commercial spots, eliminating the need for long-form advertising. According to TiVo, this leads to a better response rate over traditional direct-mail campaigns. TiVo is leading the advertising industry “in technological advancements and innovative advertising solutions by enabling advertisers to reach the most interested and highest value consumer,” claims Dave Courtney, TiVo EVP, corporate products and services.

“These new features allow TiVo to partner with leading pharmaceutical and financial companies with significant experience in the direct response space,” he

adds. Advertisers such as Tylenol and Novartis are jumping on the bandwagon, but it is an open question as to whether branded tags and pop ups are enough to retain viewer attention.

Targeting may help retain increasingly fragmented

community “to create new, viable advertising modes for VOD.” Two examples that use demographic and viewing habit data to target advertise are Visible World and OpenTV. In Visible World’s model, advertisements are broken into modules that can be sequenced in real time to customise commercials for each individual profile.

OpenTV, on the other hand, sends parallel streams, and then selects the right commercial based on the demographic pre-set. “Visible World is a slightly more flexible technology,” says Moffett, “while Open TV has the advantage that it is already installed in a number of cable operators”.

TARGET PRACTICE. Will ad-skipping and fragmenting audiences make it an advertising-free world? Not if TiVo can help it. Not to be outfoxed by the changing consumer habits, TiVo revealed that it has enabled advertisers to insert customised calls to action or branded ‘tags’ in

audiences. TiVo is delivering “an interactive lead generation programme,” says Courtney, by providing its advertisers with the information they need to know about what type of content their target audience is voluntarily viewing and what types of interactive advertising features can enhance their advertising messages.

REACT OR DIE. It is questionable whether such new DVR features will save advertising. The technology or ad industry must react or die. “Studies of DVR and VOD users already indicate that TV viewing behaviour

changes with these new technologies,” says Moffett. “They are more likely to watch TV outside of scheduled times and avoid more commercials. If, by 2010, fifty per cent of households are avoiding fifty per cent of all TV commercials, tens of billions of dollars of TV advertising will miss the mark. But of course, that would assume the advertising sector remains static over the next five years.”

For many, there is no longer any measure of the consumer television experience. “We whistle past the graveyard to keep our spirits up,” says Roger McNamee, Silicon Valley venture capitalist and author of *The New Normal*. “We pretend it’s something we can ignore, [but] the reality is that everyone knows ratings now bear no correlation to reality.”

“One of these days somebody’s going to figure this out using a web-based mechanism to target people more closely,” predicts McNamee. “And when they figure that out, the ball game is going to change. One of the big opportunities is to give Proctor and Gamble a way to reach households around the things they care about. That’s all they want to do. They don’t want to spend two billion a year on network television.”

Coincidentally, TiVo was honoured this year by the United States Patent Office as one

of the most important breakthrough patents of the last 200 years. Along with the light bulb and other historic inventions sits the TiVo box in a special exhibit - a tribute to how TV ‘time shift’ and ‘ad-zap’ have impacted on society.



“ Network news is dead. ”
- Sam Donaldson, ABC.

EXECUTIVE OP-ED: THE END OF TELEVISION ADVERTISING?

“The threat to the advertising supported model is something that is very sobering, so we’re investing more in dual revenue stream programming.”

-- Robert Iger, CEO, Disney (right)



“One of the key drivers for online advertising and changing media consumption patterns is the growth of broadband. eMarketer predicts that by 2010 nearly 70% of all households will have broadband, up from 36% in 2005.”

--Ben Macklin, Senior Analyst, eMarketer

