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On-Demand TV Will Increase Ad Revenue

By Eric Picard
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What does advertising look like in an on-demand TV world? Networks will see a huge jump in ad revenue. Ad agencies will have more billable hours, bigger creative budgets, and tighter integration with advertisers. Advertisers will have more accountable, more effective campaigns, allowing them to spend more, not less, on advertising.

There's been a lot of discussion about how digital TV technologies such as DVRs (e.g., TiVo) will destroy the TV industry as we know it. The biggest concern is consumers who use these technologies skip commercials, scanning ahead to the content.

But let me say loud and clear: these technologies are not a death knell to TV and TV advertising. (Much to the chagrin of many online ad industry insiders who want that budget moved in their direction.)

First, coming technologies and formats will make TV advertising operate very much like online advertising. The delivery mechanisms and, more important, media planning methodologies will be similar. Dynamic ad delivery will target in all the familiar flavors (geo-, demo-, psychographic, behavioral). Reporting will be better than online reporting is today.

The good news for the TV industry is traditional agencies are actively injecting expertise from the online industry into the rest of their business. The bad news is there aren't enough experts to spread around.

Second, TV ad budgets will grow. Despite the angst about the control people have over content, and especially their ad experience, it's the killer app. Control will increase, not decrease, ad value. Online content providers are embracing this thinking and offering more control to their users. It may take time before this epiphany occurs on the traditional side.

Third, you'll have to change your business model. The TV industry must get very smart very fast about non-linear content delivery and the business models that will come from it. So far, it's allowed the cable companies to control video on demand (VOD) advertising. If the industry's not careful, the entry point of ad dollars will shift away from the networks.

Today, much TV strategy focuses on the positioning of shows within the primetime grid. This thinking is based on scarcity of delivery time slots, not program quality. On-demand TV delivery will change this completely; there's no reason to battle for potential eyeballs that are limited to a 30-minute or one-hour slot. Yet change is frightening. TV isn't learning the lesson that's dished out in interactive every day: if you don't give users control, they take it. It's far better to cede control on your terms.

"The Hollywood Reporter" does a fine job illustrating the financial benefits of making content available on demand, focusing on the more targeted audience you can reach. Writer Diane Mermigas quotes a Bernstein Research analysis of women who watch soap operas online:

Bernstein analysts estimate that 20 million women 18-49 watching soaps on the Web through broadband access at work could yield from at least $150 million in additional operating income for the three broadcast networks (or as much as $380 million in operating income if Web cost-per-thousand, CPMs, double those of broadcast). In other words, this revenue stream alone would more than double television network profits given that the three broadcast networks have a combined annual operating cash flow of $100 million-$200 million.

And this is just one small piece of the picture. Let's say similar revenue opportunities came from all the different content offerings the networks make available. The increased ad revenue opportunity would be huge. Ultimately, on-demand content *will* cut into the ad revenue coming from the current linear broadcast model. But it will replace that existing model with much greater growth potential.

One reason on-demand TV offers better ad revenue opportunities is the formats are more compelling. Check out the work being done by the DiMA Group and its ID!A Program effort. They are codifying the next generation of TV ad formats.

Let me offer some scenarios in which these new formats would be used. You'll start to understand why advertisers will pay higher CPMs, agencies will charge higher production fees, and TV networks will bring in more revenue at higher profits:

Jim is an auto enthusiast watching NASCAR racing on-demand from a network. During the race, he notices an interactive Ford sponsorship. He selects it and is brought to a showcase of all the new Ford models. He's interested in the new Mustang convertible, so he watches a 20-minute presentation on it. During the presentation, the live race is shown in a picture-in-picture window. Jim can toggle between the two views. When the

Mustang presentation is over, he can jump into the race where he left off or pick up the live feed.

Sue's watching "CSI: Crime Scene Investigation" on CBS. Because her profile shows she's a working mother, an ad for Hamburger Helper is added to a pod of ads during the show. She begins to fast-forward over the pod. Each :30 spot is covered with a :05 teaser version of the spot (a "speed bump"). Sue isn't interested in most of the ads, but the Hamburger Helper spot catches her attention. She selects "play," is brought to the beginning of the ad, and watches it. At the end of the spot, she's offered a coupon for a free trial of the product, which she accepts.

The Evans family is planning a trip to Disney World. Mom is searching for programs about Disney; Orlando, FL; and area attractions. In the SERP (Search Engine Results Page) is an in-line search result ad for Expedia. As she scrolls across the results, she crosses over the (clearly labeled) paid result, which includes a small :15 teaser spot for Expedia. The text alongside highlights offers for Orlando vacation packages. Mom clicks to view the long-form content and sees a :60 Expedia ad, which ends with a series of video showcases of hotels Expedia offers in Orlando. Mom's given an option to have Expedia e-mail the packages to her so she can link directly to them. She accepts.

There are many more scenarios that illustrate the real opportunities available for much more compelling ad experiences for users. Things look anything but bleak for TV advertising.