



From the Magazine | Business

Prime-Time Peddling

The 30-second spot is under assault. But advertisers and TV producers have a solution: make the brand an inseparable part of the show

By **DAREN FONDA**

Posted Tuesday, May. 24, 2005

When the creators of a new sitcom called *The Loop* pitched their show to executives at the Fox television network, the broadcast moneymen liked the idea of a sitcom about young guys living in Chicago. But what they loved was the fact that products on the set wouldn't be an afterthought brought in by a prop master. Instead, viewers would see the same products every week, cleverly woven into the plot throughout the season, and characters would discuss the brands—a bit like a 13-week ad campaign. Sure enough, the network picked up the show. Co-creator Will Gluck says he wanted to capture the way guys really talk, discussing cool gadgets and brands in everyday life. Loading up on product placement was a "happy by-product."

Gluck's product-infused formula is rapidly becoming a model for network TV's survival. Thanks in part to technologies like TiVo—which growing numbers of folks are using to blitz past commercials and watch TV on their own schedule—the ad-driven prime-time business model that has existed for decades is under assault as never before. In New York City last week, broadcast execs showcased their best hopes for luring viewers back this fall, unveiling dozens of new dramas, sitcoms and reality shows. If history is any guide, most of them will flop, with shows aimed at young guys facing tough competition from video games, and cable channels eroding ever more of the networks' share. As advertisers increasingly chase audiences through nontraditional outlets as well, the major networks may be in for a lousy year. A recent report by Goldman Sachs concluded that the networks will generate \$9 billion in up-front ad revenues for the 2005-06 season, the first decline in absolute dollars

in five years. And that assumes the networks can raise ad prices 5% despite losing 3% of their audience to cable this season.

While the gloomy financial picture may have something to do with a lack of must-see TV, it's hard to overestimate the challenges posed by ad skipping. At least 6.4 million households now have digital video recorders (DVRs) like TiVo. Cable and satellite providers are pushing the technology hard—40% of households are expected to have DVRs by 2009—while the cable guys are also pitching video on demand (VOD), another technology consumers use to watch content on their own schedule. "VOD is the ultimate worry for us," says Jon Mandel, chairman of the ad-buying firm MediaCom US. "If 25% of people watch TV totally randomly, it becomes much harder to buy, sell and target ads."

No wonder some advertisers are turning off the tube. American Express has slashed the TV share of its ad budget from 80% a decade ago to less than 35%, replacing commercials, in part, with online mini-films. Pepsi recently relaunched Pepsi One without any TV advertising, which execs at the firm say wouldn't have been the case five years ago. Reebok has also shifted marketing dollars to new media, partly at the expense of the TV budget. "If you look at youth and how they consume media, TV is still an important part of the mix, but especially for young males it's becoming a smaller part," says Brian Povinelli, vice president of integrated marketing for Reebok.

All the more reason advertisers want to TiVo-proof their message. Since 1999, television product-placement deals have surged in value from \$709 million to \$1.9 billion, according to the research firm PQ Media. Already, marketers have burrowed into reality shows like Survivor and The Apprentice. This season also brought us a Desperate Housewife fawning over a Buick, Bernie Mac popping Roloids, a character in According to Jim declaring she only wants "the shrimp at Red Lobster" and an episode of Arrested Development set in a Burger King. "We needed as much support for the show as we could get," says Steven Melnick, a senior marketing executive at 20th Century Fox Television, which produces Arrested Development, defending Burger King's starring role. (Typically, media buyers negotiate product placement as part of a package deal with regular ads.)

Madison Road Entertainment, a self-described "advertiser-driven television studio," is one of several new companies that specialize in matching the interests of Madison Avenue and Hollywood. "This is a new creative space," says Tom Mazza, president of the Los Angeles start-up, which conceives and plots shows with ad clients in mind and pitches the resulting "advertainment" to the networks. Mazza's firm was behind the Roloids plug in The Bernie Mac Show and brought Levi's, Crest and Mars to The Apprentice. His company also co-developed a reality show called The Treasure Hunters that NBC

picked up last week—sure to be crammed with brands. "We look to marry brand messaging with individual episodes and series storytelling," he says.

If muscling in on the development of scripted shows sounds scary, get ready for the next wave. While the networks were presenting their fall lineups last week, media buyers for Sears, for instance, were working up product-integration deals as part of their traditional ad buys. Already a big presence in ABC's *Extreme Makeover: Home Edition*, Sears was eyeing new sitcoms like the WB's *Supernatural*, and the company isn't interested in providing an appliance as a background prop. "That's not enough to make people shop at Sears," says Perianne Grignon, vice president of media services for Sears. "It's easy to use merchandise as a prop, but we have higher standards."

But how much product integration will audiences tolerate before turning off, realizing they're essentially watching an advertorial? No one can say for sure, though ratings for one of the heaviest product-placement vehicles, *The Apprentice*, fell 20% this season. Mazza claims that as long as products appear "organically" in TV shows, audiences won't mind. Under pressure from advertisers and facing rising costs for scripted shows, network execs say they have scant choice but to develop new revenue streams.

No one is predicting the demise of network television, which brought in an estimated \$16.5 billion in advertising last season. As ABC demonstrated, it takes only a few hits like *Desperate Housewives* to orchestrate a rebound. But network execs are already dreaming up ways to resell content on platforms like video on demand, cell phones and the Internet. "You gotta figure out a way to make money," says Alan Wurtzel, president of media development for NBC Universal. "We know the consumer is changing and expectations are changing." Question is, will the networks change fast enough too?

—With reporting by Jeanne McDowell/Los Angeles