Toward Less Homogenous TV

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Telco TV providers can learn from cable's challenges, such as increasing homogeneity across the networks, to develop a competitive edge.

On August 6, 2005, Veronis Suhler Stevenson started shipping its *2005 Communications Industry Forecast* report. Within days, media types nationwide were engrossed in more than 500 pages of text, charts, tables, and spreadsheets detailing trends and forecasts on spending in industry segments as diverse as yellow-pages advertising, consumer coupons, public relations and broadcast, cable, and television advertising. Copyright law prevents verbatim reproduction of Veronis Suhler Stevenson's material in this space, but it's fair to say that the report resonates with stories in the popular press and anecdotal reporting on viewing and spending trends that are of interest to participants in the pitched battle between carriers, broadcasters, and cable operators for television subscribers.

One trend that comes to light, and also has been reported on in the *Wall Street Journal*, is the increasing sameness from cable network to cable network, channel to channel. Fox networks has been taken into litigation by the traditional broadcasters on accusations of out-and-out copying of certain reality TV program concepts. Putting aside the allegations of copying, certainly the average viewer recognizes similarities between two shows on different networks each concerning up-and-coming pugilists, or between *CSI* and *Law & Order*. Further, cable operators have been suing networks for breach of contract over format changes that blur distinctions between channels and foul the operators' lineup. Presumably such format changes and alleged copying are motivated by the pursuit of higher ratings and subsequently higher advertising rates. But as the multiple-system operators (MSOs) and satellite broadcasters increase the number of available channels, shouldn't viewers expect more varied content?

This situation presents an opportunity for traditional telephone carriers entering the IPTV space to differentiate their services from cable. And not just services for subscribers, but for advertisers too. It's worthwhile to consider the advertising case first—advertising spending in the United States across broadcast television networks, stations, and cable and satellite networks is forecast by Veronis Suhler Stevenson to exceed $65 billion in 2005, surpassing cable and satellite subscription fees, which are forecast to reach just above $60 billion. And growth in cable television advertising spending is forecast to significantly exceed GDP growth for the next several years.

The 18-to-34 Demographic

Much of the homogeneity of content across channels is due to advertising dollars chasing the free-spending 18-to-34-year-old audience demographic. The dilemma facing advertisers in recent years has been the development of advertising capabilities for new vehicles that naturally attract this demographic, such as Internet advertising (almost $10 billion in 2004) and video-game advertising (roughly $100 million in 2004.) How should the national multibillion-dollar-per-year advertiser allocate its dollars across television, Internet, and video-game venues? The broadcasters and networks try to 'help' the advertiser decide by developing more content that appeals to, or adjusting their format to reach, this key demographic. The result is the sameness from network to network than can turn viewers off.

Carriers deploying IPTV can leverage this state of affairs to their advantage by combining their experience in Internet services with powerful new IPTV technology that implements what has been learned about Internet advertising techniques. The technology of IPTV is grounded in the same technology as the Internet; it is inherently bidirectional between viewer and source; and there is every reason to believe that advertising tools will migrate from Web-based content delivery to IPTV multimedia delivery. The advertising targeting and tracking capabilities that were developed for the Internet—paid-search advertising, contextual ad placement, pay per click, conversion tracking, referral reporting, and so on—have been developed on Web-based platforms because, until now, it was *possible* there and nowhere else. Who would have refused these features for conventional linear television as development for the Web began 10 years ago, if it could have been done? In addition, the media experts continue to develop new ways to hold viewers' interest throughout the spot, such as shorter, smarter spots and in-context advertising, which attempts to closely match advertising content with the context of the program it's interrupting. Once again, IPTV is the ideal platform for the content and ad spot libraries and the associated meta data to make it work. And carriers need not start from scratch to secure trial participants for these new IPTV advertising models—they have an existing roster of sponsors for their Internet-based content to whom they can offer special programs for migration to IPTV models.

Nielsen Media Research, the granddaddy of television audience research information, which is used to price advertising and make programming decisions, has been slow, at least publicly, to jump on IPTV viewer measurement, tracking, and reporting. It seems there was nobody at the Nielsen booth at the National Cable and Telecommunications Association (NCTA) trade show in San Francisco, California, this past spring capable of 'speaking IPTV.' They may be forgiven for this as they have been battered recently by many camps for, among other things, under-representing certain ethnic markets in their measurements. So development of these tools will likely have to come from the IPTV vendors themselves. And, interestingly, the scalability of such systems, derived as they are from Web-server technology, may provide the means of overcoming the obstacles faced by Nielsen by continually tracking viewer behavior based on a virtually 100-percent sample size and storing massive amounts of data for post-processing, analysis, and reporting to advertisers. IPTV carriers have an opportunity to get a leg up with advertisers over their competition by using behavior tracking and metric reporting that exceeds the capability of conventional television and goes far beyond simple legacy demographic models.

Programs as the Center of Attention

If you haven't already heard it, here it is—the advent of IPTV technology enables virtually all content to be made available on demand, rendering the channel as we know it today obsolete. The Internet introduced the masses of the world to random access, on-demand content, and TiVo pioneered the digital video recorder (DVR) to apply the same concepts to linear broadcast television. The initial success of TiVo has prompted the cable and satellite operators to embrace DVRs as well, as they slowly come to grips with the 'evils' of ad skipping. It seems a certainty that consumers will adopt video on demand *en masse*, whether through IPTV or DVRs attached to traditional broadcast systems.

Telco TV providers then, can use IPTV video on demand as the basis for their television services, offering distinct content to niche viewer bases, and thereby avoiding the whole 'different channel, similar content' problem altogether. The 'sameness' problem that the cable operators are facing is rooted in the current organization of content around linear, real-time channels, and the presumed demographic groups that those channels appeal to. Remember that advertising dollars are used to fund, or rather, recoup costs for, program development. Better advertising reporting through IPTV as discussed earlier should provide for at least a couple of improvements:

1. Better matching of advertising dollars to target demographics and the content they consume

2. Identification of viewer groups with fine granularity and matching them with content that can be funded by advertising dollars directed at them

There's a subtle difference here. Advertisers in general are crying out for more effective targeting and reporting, demanding more bang for their buck, and that represents the first case. In the second case, it was the decline in advertising rates that drove the broadcasters to examine ways to wring as much cost out of production as possible, resulting in the fad of reality TV. Further, as production technology (cameras, editing tools, etc.) continues to decline in cost, there is more and more programming on the market of sufficient quality to attract advertising spending for narrow interest groups.

More effective advertising, combined with on-demand content, should translate to a richer programming package for IPTV viewers that is distinct from the blandness of the multichannel universe. Telephone carriers should pay careful attention here, as they develop their IPTV business models. To the extent that telephone carriers offer the same channel lineup as the MSOs, they'll suffer the same lack of distinction among channels as their chief competition. While carriers need to negotiate content license agreements with the branded networks to secure content for delivery today, they need to keep one eye looking forward to the migration toward content—not channels—as the center of viewers' focus. Consider the growth in recent years of the market for television programs available for rent on DVD from bricks-and-mortar video stores. This is evidence of consumers actively seeking out television *programs*, not channels or networks, for on-demand viewing, on their own schedule. The rental of television programs on DVD is the 'sneaker net' version of what IPTV video-on-demand services afford. IPTV providers that can accelerate the migration from a channel lineup to an all on-demand library of diverse content will be well positioned.

In Pursuit of Advertisers and Subscribers

If carriers simply negotiate for the same channel lineups as cable operators and stop there, they will look no different to subscribers or advertisers than their competition. However, if they build in to their networks today the capabilities for highly targeted advertising, on the basis of massive viewer sample sizes, in-context advertising, individual viewer profiling, and techniques gleaned from Internet advertising, carriers will be positioned on higher ground for coming battles with the MSOs. The top three national cable advertisers spent more than $1 billion on ads last year. The top 10 spent almost $2.5 billion, and that, in addition to subscriber dollars, should be the telephone carriers' target.

Fully exploiting the scalability and capabilities of the IPTV platform is the best way to keep viewers engaged with fresh, distinct programming that doesn't cause their eyes to glaze over. The combination of video-on-demand program-centric consumption with Internet-caliber targeting and tracking presents new opportunities for highly differentiated subscriber and advertiser services to give carriers an edge over cable and satellite.