

INNOVATION: THE FUTURE OF ADVERTISING

How the Web Will Save the Commercial

The fusion of TV and the Internet is coming. For marketers, this revolution can't arrive soon enough.

FORTUNE

Wednesday, July 27, 2005

By Stephanie N. Mehta



Imagine an evening at home a few years from now. You and your family have staked out your usual spots in front of the TV. Make that TVs. Upstairs your teenager, who has a report due on the history of television, is skimming through whole seasons of comedy shows from the 1950s, all available at the touch of a few buttons on his remote. Your youngster is in the kitchen watching four pennant-race baseball games simultaneously—all on one screen—while pulling down player stats from the web and sending instant messages. You and your spouse are settling in to watch a documentary you read about at lunchtime—thank goodness you were able to use your cellphone to program your set-top box.

If all that seems overwhelming, also keep in mind that none of you is watching any channels, which means marketers can't easily reach, say, the teen by buying airtime on MTV. The kid watching baseball is multitasking so furiously she can't possibly focus on the ads. If there's an apocalypse-case scenario for TV advertisers, this would be it.

Except that it's not. Your family isn't necessarily skipping the ads, because they're targeted toward your specific interests. In fact, chances are the ads are digitally integrated in the shows themselves. The very technology that will make possible these radically new viewing habits—Internet Protocol TV, or IPTV—could well be the savior of television advertising.

As its name implies, IPTV marries TV to the Internet. It transforms video content—movies, sitcoms, commercials—into digital files and makes TV a two-way experience that lets viewers chat on their screens or use their phones to program their DVRs remotely. The technology can also deliver to consumers just the video content they want, when they want it, rather than broadcasting every program to millions of homes. And to advertisers' delight, IPTV has the very Internet-like capability to serve up targeted advertisements based on users' preferences and viewing habits. (Think "cookies," those files on your computer that store information about your recent searches.) "IPTV is going to open up the opportunity for more dialogue between the marketer and the consumer," says Peter Sealey, a former marketing chief for Coca-Cola and Columbia Pictures who now teaches marketing at the University of California at Berkeley. For marketers who want to target specific consumers—and what advertiser doesn't?—"IPTV is going to be a godsend," he says.

Early versions of IPTV are in a handful of homes in the U.S., and SBC, the phone company, says it will begin rolling out the service in earnest later this year or early next year. That will be none too soon for the beleaguered ad business. Despite the hype surrounding network hits such as *Desperate Housewives* and *American Idol*, big advertisers are looking for new places to push their wares, including product placements in videogames and text messages on cellphones. The advertising research group TNS Media Intelligence expects network TV ad sales overall to grow a tepid 1% this year; it expects Internet ads, in comparison, to grow close to 8%.

There are several reasons for TV's stagnation—viewers using TiVos and such to skip commercials, for example, and the proliferation of channels competing for viewers' attention. But what's really rocking the TV ad world is what we'll call the Yahoo Factor. When marketers advertise on a big online property like Yahoo, they can actually reach the people they want to reach—consumers researching vacations, say, or an investor checking stocks—and measure the results. (For more on Yahoo, see previous article.) With television, on the other hand, especially network television, advertisers are spending vast sums of money to reach shrinking audiences. (A 30-second spot on the Super Bowl this year cost \$2.4 million and reached 88 million viewers; 20 years ago \$900,000, accounting for inflation, bought 115 million viewers.)

IPTV addresses the Yahoo Factor by promising advertisers the same targeting and measurement capabilities they get from the web. Since IPTV is a point-to-point service, not a broadcast, every home—even every TV within a home—could potentially receive a different advertisement based on the shows the viewer has watched and other demographic information. The interactive nature of IPTV opens all kinds of e-shopping opportunities too. Do you like those sunglasses on Nicole Richie? Click on 'em to buy.

Mostly, though, marketers see IPTV as a way to direct viewers to longer-form ads. Dell, for example, finagled product placements in more than 30 prime-time shows this year. "It would be much more powerful if we could get viewers to pause the show, click on an icon, and get more information about the features and price points, right on their televisions," says Michael Farello, vice president of consumer marketing. Dell plans to increase its spending on online advertising 35% this year.

If pausing a show to watch a really long ad sounds like your idea of hell, consider this: TiVo, the Alviso, Calif., company, says its "showcase" ads—mini-infomercials that viewers volunteer to watch—attract anywhere from 5% to 15% of its 3.3 million subscribers during a typical one-week promotion. In other words, at least some Americans like to be pitched. That's why on Super Bowl Sunday people take their bathroom breaks during the football game but stick around for the ads, or why moviegoers arrive early to watch the trailers.

IPTV may sound like a 21st-century version of the Interactive TV trials the cable and phone companies ballyhooed back in the mid-1990s, and many of these ad-friendly features won't be available for years. But this time the technology is more real, the stakes are much higher, and major telcos like SBC are far more strongly motivated to act. These giants, facing competition from cable companies selling phone service, will use IPTV to get into cable's video market. Microsoft, meanwhile, has spent about 12 years developing software for TV; its executives are betting heavily on IPTV. The cable and satellite companies aren't sitting still, though; many are accelerating efforts to serve up targeted and on-demand ads using technology embedded in viewers' set-top boxes. And TiVo just announced plans to make it easier for subscribers to interact with advertisers.

All this new advertising activity is going to force marketers and their ad agencies to be more creative—it isn't enough to come up with a single 30-second spot that gets run over and over again. When Reebok filmed a recent ad featuring Philadelphia 76ers star Allen Iverson, the shoemaker shot some five hours of footage of the basketball player riffing on life while shooting pool. After Reebok put together its 30-second and 60-second spots, it assembled some of the best scenes for a minidocumentary it made available "on demand" for customers in Philadelphia using an interactive service from Comcast. This new breed of commercial "really needs to be factored into the marketing plan from the beginning," says Marc Fireman, director of advertising and interactive marketing for Reebok. "As these programs get more sophisticated, we'll want to provide content that's more sophisticated."

So the bad news is that advertising people have to think harder. The good news for this \$278.8 billion industry is that IPTV and other kinds of interactive marketing could end up pumping even more money into the ad business. Marketers would gladly pay a premium for advertising that actually reaches its intended audience—a 2003 Forrester study suggests companies might pay at least ten to 12 times more. There's a lot to like about IPTV for consumers too, and not just the fact that this jackpot of on-demand entertainment will give them even less need to bestir themselves from their sofas. SBC—the major U.S. telco furthest along in its plans to deploy IPTV—says prices for the service will at first be competitive with what cable companies charge now. But given the extreme customizability of advertising using IPTV, pricing could vary radically from customer to customer as well. Look at the web: Sites such as Salon are free if readers are willing to view banner ads; those who don't want the pitch can view the content for a fee. The same logic could apply to IPTV: Customers who hate ads might pay a premium to have them blocked. Pay a little less, suffer a few more ads. There could be an infinitely graduated scale all the way down to those with a high tolerance for marketing bombardment, who would pay nothing. Imagine: Television could be free again.