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Emerging Applications and Challenges of Addressable Television Advertising

Turning the challenge of audience fragmentation into a powerful opportunity

Claudio Marcus and Tara Walpert

Abstract

The concept of addressable TV advertising has been around for more than a decade. However, it has only been in the past couple of years that a growing number of advertisers have begun to explore targeted TV commercials that deliver more customized ads for consumers. Growth has been, and will continue to be, driven by increased penetration of new technology and capabilities, combined with growing acceptance that traditional, static mass media no longer deliver the results they once did. Addressable TV advertising offers the opportunity to deliver more engaging ads that will enhance return-on-media investment without sacrificing the broad reach or consumer relevance required to effectively launch and promote brands, products and services. Capturing the addressable opportunity will require advertisers to deal with related analysis, creative, planning and people challenges. Advertisers that succeed in doing so will likely gain significant and sustainable competitive advantage.

For many years, local advertisers have been airing TV ads in refined geographies driven by local cable. Recently, major national advertisers have also begun to supplement designated market area (DMA) initiatives with more target-

ed and customized messages driven to specific local cable zones within the DMA.

These individual local geographies are generally the size of a large neighborhood or small suburb, e.g., Chicago has roughly 40 zones. Local cable zone TV ad targeting and customization capabilities are now available in 70 of the largest DMAs in the U.S. with an estimated reach of 60 million households (Visible World, 2006).

The technology to enable household-level TV advertising addressability has been selectively trialed in the past few years. Broad scale roll-out is emerging alongside the increased penetration of digital video recorders (DVRs) and video-on-demand (VOD). According to Forrester Research, more than 17 million U.S. homes will have DVRs and 34 million will have access to VOD by 2007 (Schmidt, 2006).

Between the fourth quarter of 2006 and first of 2007, Cablevision will pilot targeted and customized delivery of TV ads to more than 100,000 digital set-top box households in Long Island, N.Y. (TV Week, 2006) in what is likely to be one of several large-scale household TV ad addressability trials. Broader roll-out of household-level addressability is expected to begin in 2007. Steve Burke, Comcast's chief operating officer, has stated that he expects the necessary infrastructure for full-scale household-level addressability to be in place by 2008 (Comcast, 2006).

The ultimate promise of addressable video advertising is the convergence of high-impact video advertising with the precision, customization and measurability of effective direct marketing and

customer relationship management efforts. This creates wins for all constituents: media sellers have more valuable inventory, advertisers have the ability to optimize messaging and reduce waste, and consumers receive advertisements that are more entertaining and engaging. The implication is more enjoyable viewing and interactions as well as billions of dollars in increased revenues.

Emerging addressable TV advertising applications

The emergence of addressable TV ads comes at a time when advertisers face increased consumer,

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product and media fragmentation. Advertisers who have long been anxious about relying on a mass-marketing paradigm are now struggling to reach an even more distracted and fragmented audience, especially among attractive younger demographics. The challenge is how to effectively

communicate with the large audiences required to successfully launch and manage brands, products and services in a manner that is targeted, customized and fresh. Addressable TV advertising turns the challenge of fragmentation into a powerful opportunity.

Marketers today are required to buy TV ad insertions across a broad geographic area; buyers' first inquiry is typically whether they can buy some households and exclude others. Enabling this capability, however, would require the development and adoption of new ad sales and inventory management systems, along with considerable retraining of media sales forces, all for uncertain economic advantage to the media seller. As such, the ability to pick off niche segments is unlikely to be feasible for most ads delivered in the live TV content stream (versus VOD, DVR or online video).

Direct marketing experience suggests that as much as two-thirds of the value of addressable advertising comes from the message (i.e., creative and offer) rather than the media (e.g., the direct mail or e-mail list). The ability to target customized messages to individual households or niche segments, therefore, is extremely powerful even if household addressable TV ad inventory continues to require

advertisers to buy ad insertions at a DMA or national level.

Four key types of message customization are emerging: geographic, behavioral, demographic and event-driven.

Geographic

Sub-DMA (cable zone) addressable TV ads are already being leveraged to customize local TV ads to feature different creative, products and offers. In 2005, major advertisers used local cable television to execute more than 440 campaigns that leveraged sub-DMA TV ad targeting or customization. Between January and July 2006, the number grew to more than 800 campaigns (Visible World, 2006). In launching the Ted airline in Chicago, for example, United Airlines used local TV ad customization to call out individual neighborhoods and suburbs to enhance local awareness and support its personalized brand position. By the end of the launch campaign, Ted had achieved more than 75 percent awareness, as measured by Brand Monitor consumer surveys from Millard Brown (Wodarz, 2006).

Geography-based applications for addressable TV advertising include the ability to target and customize video messaging based on factors such as product availability, promotional push or market conditions (e.g., weather) in the local geography of the viewer. The customized messaging can also be used to drive traffic to local distribution channels such as the closest store, dealer or agent. In combination, advertisers can use local video customization to better generate demand based on pertinent local market or supplier conditions.

Behavioral

Addressable TV ad campaigns enable targeting and customization based on both viewers' propensity to buy and whether the audience is comprised of customers or prospects. Marketers can identify cross-sell or up-sell opportunities among customers based on existing products and services purchased or other criteria such as customer relationship stage or customer lifetime value. For prospect segments, customization can be driven by local aggregated behavioral determinants such as product affinity, availability or promotional needs.

Automotive companies are already using cable zone addressable TV ads to target and customize vehicle or promotional messaging based on local

audience composition and traits combined with local selling conditions. For example, instead of running a TV commercial for the same vehicle across an entire DMA, the commercial space on local cable TV is used to send spots that are targeted based on customers' propensity to buy as well as remaining inventory levels.

Household-level TV ad addressability will make it possible to further refine TV ad targeting and customization based on information specific to each household. For example, automotive marketers could target and customize campaigns based on when a vehicle is purchased or when a lease is coming up for renewal. Such data-driven message customization is simply an extension of many marketers' current database marketing and customer relationship management practices enabled in other media.

Demographic

Even without the availability of behavioral information, addressable TV advertising can be made more relevant by leveraging demographic data and related behavioral affinity. Most marketers already have a good understanding of the demographic composition of their customer base relative to the affinity towards its products and services. Such information is often used in market or product strategy, media planning and campaign development efforts. Demographic profiles can be matched to individual households and then used to develop, target and customize household-addressable TV ad messaging.

Below are examples of base demographic data elements for use:

- ◆ Adult gender/age
- ◆ Home ownership
- ◆ Household income
- ◆ Length of residence
- ◆ Presence of children
- ◆ Home market value
- ◆ Education level
- ◆ Car buyer behavior
- ◆ Ethnic group
- ◆ Investment holdings
- ◆ Language preference
- ◆ Computer/Internet usage

It is important to note the distinction between demographic affinity and behavioral data. Based on analysis of overall vehicle registration data, demographic affinity for car buyer behavior may indicate

that families with children are more likely to own mini-vans. Behavioral data such as the vehicles registered to a specific household would record exactly which vehicles they have. Demographic affinity data is generally a decent proxy but not nearly as reliable as actual behavioral data. However, since demographic affinity data is more readily available, it is often used as a starting point for targeting and customization of addressable TV advertising.

Early evidence suggests that addressable TV ads that rely on even basic demographic targeting and customization produce positive business results. In one of the very first controlled tests of cable zone addressable TV advertising in 2003, Forrester Research reported that online florist 1-800-FLOWERS was able to validate that orders in cable zones receiving targeted customized TV ads were double those in the control group, and that in the affluent communities that saw ads featuring more expensive items, the average order amount was 10 percent higher (Forrester Research, 2003).

Event-driven

Another interesting aspect of the 1-800-FLOWERS addressable TV ad campaign was that it featured a dynamic countdown of the number of days left until Mother's Day. Such a countdown represents a very basic illustration of how addressable TV ads can be targeted or customized based on key market, life-stage or customer-cycle events.

Event-driven TV ad targeting and customization, often used in conjunction with geographic, behavioral or demographic addressable TV ad efforts, offers marketers the potential to link business and market factors with timely, relevant information for viewers. Event-driven business factors can include timely changes based on available inventory or competitive pricing, as well as limited-time trade or consumer promotion efforts. Market-based information can also be used for event-driven triggers such as local weather conditions or sports team affiliation and performance. A toy marketer could feature water toys on a hot, sunny day and indoor board games when it is raining. Marketers sponsoring sports teams could incorporate messaging related to a local team's upcoming games or results to make their ads more relevant to local viewers.

Event-driven dynamic TV ad customization offers exciting opportunities for national events as well. At least one advertising agency has already been

PRIVACY ISSUES

Addressable TV advertising offers the promise of enabling TV ads that consumers find more relevant than today's mass-marketing-oriented TV ads. However, as advertisers begin to learn how to leverage increasingly targeted customized TV ad messaging, it is possible that consumer advocacy groups will raise consumer privacy concerns. The industry has already begun to pay close attention to carefully manage any actual or perceived risks.

The industry approach to addressable advertising to date looks very much like the approach to direct mail or the Internet. Cable operators are partnering with trusted third-party data providers such as Experian to create a "blind-match" approach where no personal identifiable consumer or viewer information is exchanged with advertisers.

A multi service operator's (MSO) subscriber files are provided to the trusted third party who uses the file to match each household to its marketing database and associate it to a unique identifier or household-specific ID. Advertisers interested in conducting an addressable TV ad campaign are then able to use the trusted third party's vast consumer information database to determine counts and select consumer households based on a rich variety of criteria. Advertisers can also provide their own customer files with their related attributes of interest (including those available from other data providers) to be appended to the third-party hosted file.

Once advertisers select sets of consumers based on their matching to specific criteria, these segments are represented as sets of households, each with unique household IDs, to be targeted with specific customized TV ads. From a consumer privacy perspective, at no time is personal identifiable consumer information provided to the advertisers by either the MSOs or the third-party data providers.

The media industry certainly appears willing and able to put together a household addressable TV advertising platform that effectively guards consumer privacy. However, regardless of how well the system is designed to protect privacy, it is consumer perceptions as to potential privacy abuses that ultimately matter most.

As such, it will be up to advertisers, their agencies and related services providers to make sure that the household addressable TV ad campaigns not only comply with privacy protection best practices, but also deliver viewing experiences that consumers enjoy as more relevant and engaging without seeming improper or intrusive based on perceived use of personal information.

exploring the use of dynamically customized TV ads to create Super Bowl ads that adapt based on the actual performance of the teams on the field. The same ads could be designed to adapt further based on the geography in which they air. In the case of the Olympics, for example, dynamic TV ads could be used to keep track of medal counts, feature or congratulate the latest medal winners, and at a local level, place special emphasis on athletes from those respective geographies.

Challenges to overcome

The popularity of this journal among both marketing academics and practitioners continues to reaffirm the growing interest in integrated marketing communications (IMC). However, in many major marketing organizations, television advertising

remains disjointed from other marketing activities, despite often representing the largest portion of the marketing investment. Capturing the potential of addressable advertising will require companies to confront and overcome some considerable challenges in the re-engineering of video advertising development, management and organization. Experience among early adopters suggests focus on four key areas: analysis, creative, planning and people development. The good news is that the changes required align well with the theory, practice and rewards of effective IMC.

Analysis

Often an early stumbling block for TV advertisers looking to exploit addressable TV capabilities is a lack of data and analysis understanding or capabili-

ties. Without effective use of data, addressable TV advertising will not deliver to its fullest potential.

Most TV advertising organizations and their agencies responsible for TV advertising have little experience closely evaluating customer and prospect data. Even in cases where other parts of the marketing organization or agency holding group have relevant experience with data and analysis related to its use in targeted direct marketing or online marketing efforts, “turf” ownership issues will often get in the way of doing the right thing—asking for qualified assistance.

The truth is that there is no shortage of data. The major third-party data providers that have historically served the direct marketing industry have already begun offering data products and analytic services aimed at addressable media. For example, Experian Marketing Services launched an emerging addressable media division and has already conducted a number of projects in the area of addressable TV advertising. Experian also launched Addressable BehaviorGraphics, which links television programming affinity to consumer behaviors and attitudes (Experian, 2005).

Overcoming the obstacle of effectively using data requires that senior advertising and marketing executives recognize the need to develop or collaborate on data collection and related capabilities. For some organizations this will mean reaching “across the aisle” to their direct marketing counterparts. Others that may be more reluctant to do so will need to rely on third-party data and service providers willing and able to lend a hand. The best approach will likely be a combination that incorporates and leverages talent and expertise from direct marketing practice while also taking advantage of emerging third-party offerings focused on addressable media.

Creative development

Addressable TV advertising makes it possible to target and customize messages based on the various consumer segments and related benefits most likely to entice them. However, efficiently doing so requires significant change in the way that TV ads are conceived and produced.

Technology has now made it possible to efficiently customize video messaging so that creative storylines can adapt according to the consumer segments addressed and the related featured benefits. History suggests that it is only a matter of time

before advertisers and agencies begin to take advantage of these capabilities—sophisticated use of direct mail grew dramatically as the invention of laser printing and affordable database software enabled quick, affordable customization.

The bottom line is that effective targeting requires efficient message customization.

The first challenge is for advertisers and their agencies to recognize that there is high potential value in customizing TV ads, such as the opportunity to enhance message variety and relevance, and in doing so, realize a higher ROI on the media investment. Since the media investment on any given campaign is typically five to 10 times higher than the related creative development and production costs, justifying some incremental costs is not that difficult. For starters, greater messaging variety can reduce message wear-out. And while the value of enhanced message relevance is more difficult to derive through the use of properly designed test efforts, advertisers can begin to get a good understanding of the relative value of creating more relevant TV ads.

The opportunity to create and deliver more relevant TV ads will require advertisers to re-examine the relative value of relying on few versions to deliver against an increasingly fragmented audience. Sooner or later, most advertisers and agencies will come to the conclusion that incremental investments in creative development and production can be justified to drive greater message relevance and a higher return on the related media investment.

Planning

In today’s fast-moving marketing environment, development of ad campaigns involves increasingly tighter deadlines, namely due to the need to deliver fresh, relevant content, especially when it comes to timely offers and promotions. Experience to date suggests that advertisers and agencies are so caught up in day-to-day execution of TV advertising efforts that they find it challenging to find the time necessary to incorporate a scenario-based planning approach.

Enhancing the value of addressable TV advertising requires advertisers and their agencies to go through a scenario-based planning process that addresses the following:

- ◆ *Key target audience segments:* Who are they, what do they believe and how do these beliefs differ across each segment?

INTERNET AND IPTV ADDRESSABLE VIDEO

TV ad addressability is important for advertisers because of television's ability to deliver large scale audiences. However, video delivery over the Internet and Internet Protocol Television (IPTV) are likely to be major catalysts for adoption of addressable video ads, as they offer unique advantages including: 1) individual-level video ad addressability, 2) potential to drive video ad customization based on user profile, website context or other available relevant data, and 3) an interactive user experience that can be used to drive and measure video ad response.

Research firm eMarketer estimates that advertisers will spend at least \$1.5 billion on online video ads by the end of the decade—up from an estimated \$225 million in 2006 (eMarketer, 2005). It is safe to assume that over time, a growing portion of Internet video ads will be increasingly targeted and customized. Addressable video ads served over the Internet will allow advertisers to quickly “test and learn” to then leverage the appropriate insights with large-scale addressable TV and Internet video campaigns.

Another important distinction is that unlike TV ads, online addressable video ads do not require advertisers to buy coverage of a specific geography. As such, online addressable video provides the opportunity to target highly refined audiences with targeted customized video messaging. Online addressable video ads will allow marketers the opportunity to deliver video messaging that adapts based on the context or behavior of the viewer. Contextual customization may be limited to the ad that the website is airing. However, beyond that basic capability, advertisers will in many cases be able to leverage behavioral information regarding the referring website, on-site behavior, or even profile information stored in user-specific cookies, third-party databases or the advertisers' own customer relationship management (CRM) systems.

Beyond the consumer-oriented applications, online addressable video ads will likely be a powerful new tool for business-to-business marketers who can now leverage the communication power of video ads with the addressability of direct mail and online marketing efforts. For example, an enterprise software application manufacturer can create an addressable video ad campaign where the message is tailored based on the industry and role of the prospect. Video customization can include which demonstrations or portions of a demonstration to feature as well as which user or expert testimonials to include in the video message. Items such as a welcome message from a senior executive can also be readily customized to enhance the relevance. Even the length of the message can be tailored to the appropriate target audience or role of the targeted customized video communication in the overall messaging plan.

Over time, interactive television may enable consumers to readily respond to addressable TV ads. However, online addressable video ads delivered through the Internet are far more likely to drive user interaction in the foreseeable future. The reasons are two-fold. First, the Internet offers a natural interactive environment that enables advertisers to accompany targeted customized video advertising with related interactive engagement or response mechanisms. Second, the consumer behavior for use of the Internet is that of active involvement or “lean-forward” relative to the more passive “lean-back” typical consumer behavior associated with traditional television viewing. Perhaps as the percentage of TV viewers that grew up with ongoing computer and video-game interaction increases, TV viewer behavior will become more interactive. Alternatively, we may find that as today's hyper-engaged kids and teens mature, they may find increased comfort in “vegetating” in front of the TV.

- ◆ *Main product benefit message, or promise:* What is the main product benefit message that carries across all target segments?
- ◆ *Reasons-to-believe:* By target segment, what are the most compelling support points to stand behind the overall benefit claim?
- ◆ *Offer and promotion:* By target segment, what are the offers most likely to induce the desired purchase behavior?
- ◆ *Geographic considerations:* How do these align by target group or shape the message potential even further?

- ◆ *Tailored response mechanisms or calls-to-action:* Is there something we want the target groups to do? How can these be customized by target segment or geography?

By using scenario-based planning to enable alternate creative, product, price and promotion combinations for addressable TV, advertisers can gain precious response time, flexibility and durability for their TV ad campaigns. The process of scenario-based planning can also help advertisers and their agencies tackle the need for tighter integration across advertising delivery channels and the various levels of message addressability and customization that these various channels afford. In short, scenario-based planning can be used to guide development of campaigns that adapt to target consumer groups and programming context, as well as marketing requirements and market conditions.

People development

To date, most of the industry attention with regard to addressable TV advertising has focused on the impact, readiness and deployment of technology. However, now that addressable TV advertising is emerging as a viable marketing tool, it is becoming increasingly obvious that effective use of addressable TV advertising will require changes in how TV ad campaigns are conceived and executed. At the end of the day, whether it is analysis, creative or planning, facing the aforementioned challenges comes down to dealing with people and leading changes in organizational behavior.

Advertisers and agencies must recognize that the established mass-marketing-oriented approach used to develop today's TV ad campaigns is simply not well suited for the effective use of addressable TV advertising. A reasonable first step is for advertisers to conduct a gap analysis between their current approach relative to the opportunities and challenges outlined in this article. Beyond attaining a basic understanding of the status quo, it is critical that advertisers who have the foresight to leverage addressable TV advertising match their vision with the recognition that orchestrating change requires their leadership and direct involvement. Advertising agencies can influence and contribute greatly to the process, but it is up to the advertiser to recognize that making the needed changes requires a mandate to take on the challenge as well as proper allocation or re-allocation of time and other resources.

Conclusion

Addressable TV advertising is evolving from concept to reality and over the next decade will become a key component of the modern marketing mix. Capturing the opportunity will require investment and focus on overcoming the identified challenges. However, similar to the historical evolution of any new media (e.g., cable TV or the Internet), organizations that move early and aggressively into the new medium will gain a significant and distinct competitive advantage from addressable advertising that will sustain for many years to come. □

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