

The anatomy of on-demand television

The explosion of digital media

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At every agency, cable operator, publishing house and at the advertiser's headquarters; water cooler conversations have turned to the explosion of digital media. From the evolution of digital platforms to the impact on a brand's business, we find ourselves in similar discussions week after week with little progression and a lot of confusion.

The press readily writes about each new piece of technology and every advertiser's new media initiative but often fails to help us separate myth from reality. To make it even more confusing, each maintains a different view of whether new media is a threat or an opportunity, with all members of the digital ecosystem struggling to find a niche. CMOs of major brands lean on their ad groups to be innovative and explore new communication tactics. Publishers push content wherever they can, through any and every screen possible, and agencies strive to provide clients with a comprehensive evaluation across all platforms to support new strategies for engaging consumers in this advanced digital landscape. There is one area that has begun to take shape in the industry and holds promise for the future. That is television-based Video-On-Demand (VOD).

VOD is the digital television product that allows viewers to select and watch video on their own terms, with the full functionality of a recorded program. Pause. Fast Forward. Rewind. Depending on the service provider (Cable, Satellite, IPTV), the menu of content and means of distribution can vary by local US market. Primarily distributed through cable television, current VOD penetration is approaching 30 million households across 151 DMAs nationwide. This number is expected to jump to 46 million by 2010 as more analog households convert to digital.

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VOD is a home run for consumers. Enabled households have access to a robust library of free content with minimal advertising. To be exact, there are 50+ linear cable networks that support a free VOD tier and over 60 start-up networks of which VOD is their primary or only means of distribution (and revenue). And consumers use it. Recent studies suggest that over 70% of digital households have used VOD within the past 3 months with 20% actively using the service at least 3 times per week. That equates to over 150 million free program views in a given month with active households watching over 20 programs. Not surprisingly, more than half of all monthly on-demand traffic comes from Music, Kids, and Men's Lifestyle content.

For marketers, VOD is both rich in opportunity and extremely complex in nature. Agencies and advertisers struggle to navigate through the rules, regulations, processes and terminology of 5 major multiple system operators (MSOs), 115 networks and a list of committees and subcommittees aimed at creating a working business model. But the problem is just that. The perfect model, one that satisfies the appetite of all parties involved, has not yet been refined. VOD, in its current state, lacks standards and consistency, making it a challenge for agencies to plan and implement campaigns. Nationally, each VOD network (MTV, CNN, Anime, Exercise TV, etc) has a separate pricing structure, creative guidelines, materials deadline and format for reporting data. At the local level, each



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operator has a successful offering; however, they are not always consistent with one another or with participating national networks. This results in frustrated media buyers who are more likely to think twice before allocating those emerging media budgets to VOD. Wait, emerging media budgets, what are those?

Regardless, this outwardly chaotic industry offers vast opportunity in three areas of utmost importance to the media industry: exclusivity, creativity and accountability. VOD allows advertisers to cherry-pick from an extensive list of relevant programming and exclusively "own" that content over the course of a flight. On a smaller scale and with a significantly smaller price tag, a brand can have the equivalent of Ford's association with Primetime hit series *24*. For example, Paramount Pictures promoted the movie *Heart of Gold*, portraying the life of classic rock artist Neil Young, by turning to Concert TV and Music Choice. In partnering with these music-focused networks, Paramount exclusively attached their message to concerts, videos, interviews and performances by Neil Young, Crosby Stills Nash and Young and other classic rock groups of that era. Sears/Craftsman took a similar approach during NASCAR season as a charter sponsor of Octane TV, a new network dedicated to the NASCAR and automotive enthusiast. Despite the absence of demographic verification by Nielsen, these examples perfectly illustrate the marriage of content and brand. Most importantly, each campaign over-delivered versus the guarantee, deeming the campaigns to be a success.

In today's fragmented marketplace advertisers continue to seek out new ways to shine through the clutter, particularly in the television space. Although VOD doesn't offer the mass reach of national broadcast (and won't for several years) it does present an array of interesting, non-traditional messaging tactics. The absence of standard commercial pods presents advertisers with the opportunity to communicate a message above and beyond those feasible with linear television. Brands can run nine-second spots, ninety-four second spots and a laundry list of in-program integrations and immersive messages that become part of the program and are virtually DVR proof. An excellent example of creative integration was Cingular Wireless's presence on TV Guide's Music/Entertainment VOD tier. As viewers ordered each video, channel host Kimberly Clark promoted the matching ring tone and encouraged viewers to purchase it online or from their handset. Mattel took a different approach to VOD when promoting their new Barbie DVD. They created a ten-minute special feature that ran as stand-alone VOD content in select Comcast markets. Viewers were directed to the entertainment through co-branded navigational units on the Comcast digital platform. Both campaigns performed extremely well in terms of delivered impressions, creativity and ROI.

And naturally, measurement is the one element of VOD that continues to remain top-of-mind for all parties involved. The transmission of digital video has radically altered the capabilities and speed of data collection. For the first time in a television environment we are able to support campaigns with "actual" metrics through data points collected via the set-top box. Approximately 30 days after the month's end, advertisers receive data that quantifies the value of their respective campaigns. Most VOD campaigns are purchased on a cost per thousand delivered views (CPV) however, a view can and

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usually does contain multiple messages or impressions. Pending that monthly report, advertisers pay only for delivered views and usually enjoy a slight over-delivery due to a network's inability to flight inventory with 100% accuracy, although this will change. Current data points do not scratch the surface in terms of what truly exists within that set-top box, but we are off to a great start towards bringing the accountability of the Internet to Broadcast TV.

Aside from an easier planning process, standard ad units and better data, what other elements are critical to ensure the growth and survival of video on-demand as an advertising medium? Other than coverage within all 112,374,784 television households, many would argue that Dynamic Ad Insertion is the end solution. Of the 55 plus brands actively engaged in VOD advertising, all look forward to a future when they will be able to provide materials the day before, rotate messaging on the fly, geo target and manage data through a single dashboard customized to their individual needs. Dynamic Ad Insertion will permit all of the above with ease and is currently being tested in select markets with participating operators and networks. MTV and Sunflower Broadband were first to market with Charter Cable immediately following. The larger operators are obviously exploring their own options as well. Another desperately needed component is the complete integration within an agency's traffic and billing system (Donovan, Datatec, etc). On-demand media must have a home in these systems so that clients get invoiced, publishers get paid and media teams can accurately account for delivered messages. This is a critical step in closing the loop in the VOD ad space.

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In 2006, agencies and advertisers spent approximately \$50 million in television-based on-demand advertising. Communications planning teams are beginning to incorporate VOD into the overall strategy and budgeting for it accordingly. A large portion of the linear VOD inventory will sell in the upcoming Upfront along with a smaller cut of available nonlinear weight. The bulk of the niche, nonlinear inventory will likely trade in scatter format as it is not completely necessary to purchase all at once. In fact, few will claim it is wise to invest 100% of a client's new media dollars a year in advance. The emerging media space in general, and VOD particularly, is not going away. The technology is here. Consumers are using it and marketers are learning to effectively embrace it. 2006 was a year of experimentation, but 2007 will be the year of evolution both in the technology and the implementation of comprehensive, strategically planned, emerging communication initiatives.

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