The Future of the 30-Second Spot

By LORNE MANLY
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EVOTEES of Home & Garden Television, sitting in the comfort of their living rooms on the 33rd floor of a Manhattan high-rise, probably could not care less about commercials for lawn mowers or snow blowers. If they have TiVo, they probably zap right through the ads; if not, they can just change channels.

Soon, however, viewers may no longer be assaulted by ads that all but demand to be ignored. Technology, cable and satellite companies are scrambling to offer advertisers the ability to learn enough about who you are and where you live so that the likes of Home Depot will be able to send a different, more suitable ad to an apartment dweller - say, an ad pushing a kitchen upgrade.

With the growing popularity of digital video recorders like TiVo, as well as video-on-demand, viewers are fine-tuning their relationships with television in ways that would have been unfathomable just a decade ago, watching shows when and how they want - not when some distant, towering network demands.

But the technology behind all that small-screen freedom cuts two ways. The same digital set-top boxes that turn your television into an ad-zapping, instant-gratification device also provide an opportunity for the advertising-dependent television business to rejuvenate and rejigger the time-honored 30-second spot.

The television commercial - a blunt instrument that often reaches as many disinterested people as desired ones - is beginning to behave like a smarter version of direct mail. Ads can be customized, not just by neighborhood, but ultimately by household and perhaps by viewing habits.

If you don't own a dog, you won't be bombarded by ads for...
Puppy Chow or Iams. If the technology determines that the man of the house has wrested control of the remote from his teenage daughters, he will not have to sit through feminine hygiene ads during the most popular network shows. And if someone watching a commercial for a Mercedes S.U.V. wants to go for a virtual test-drive, or set up a real one, all she will need to do is press a button on the remote.

To make that happen, a host of companies - including Invidi Technologies, Visible World, Navic Networks and OpenTV - are selling their technology and services to cable operators and satellite providers whose set-top boxes afford them direct access to viewers. While the companies' strategies may vary, their ultimate goal is the same: to make ads more relevant to the lives of viewers, so that they might just stick around and watch. Instead of commercials being an annoyance, they become information a viewer needs, perhaps even craves.

But this future will not come easily to an industry known for its reluctance to embrace change. It's also far from clear if typically passive viewers will want to interact with commercials. Privacy concerns loom, too, as advertisers could, in theory, come to know more about a viewer's habits than the viewer may be comfortable with.

For their part, marketers worry that a golden opportunity could be blown if cable and satellite operators keep the new technologies to themselves rather than share them with the networks, which control the bulk of advertising time.

"I hold the purse strings, and I need critical mass," said Jerry Dow, managing director for worldwide advertising and promotion at United Airlines. "If you, the cable operator, are not going to give it to me, I'm going to spend my money elsewhere."

IN every industry, there is a common unit of trade, a shared form of communication. "The 30-second ad is the lingua franca of the global advertising business," said David Verklin, the chief executive of Carat Americas, one of the major media services firms.

The television business did not start out that way. In the medium's early years, ad agencies often created the programming for their clients, resulting in shows like "Texaco Star Theater" and "Kraft Television Theater." Sponsors could plaster their messages into the programs, scatter them during the breaks or just run muted, tasteful nods to their products at the beginning and the end of the shows.

But the networks soon learned that they could make more money selling chunks of time to a number of marketers than by handing the full hour to a single sponsor. At the same time, sponsors were becoming harder to find as programming costs rose and Washington began scrutinizing their dual roles after the quiz show scandals in the late 1950's.

As the medium evolved and advertisers honed their skills at creating entertaining, persuasive television commercials, the industry embraced the 30-second ad. And for more than 40 years, the form has dominated the business.

While company mascots may come and go - then return in a warm bath of nostalgia - and deft camera work and computer-generated images dazzle the eye, the format has remained
"The advertising business is still largely the way it was when television first started to take hold," said Tom Hagopian, senior vice president and general manager for programming and advertising at OpenTV. "One ad goes to everyone and the ad is relatively passive."

Marketers recognize the need to tailor their messages to different, more finely calibrated audiences. But the lure of a relatively cost-effective way to reach millions of people quickly has kept them devoted to the medium. Last year, advertisers spent more than $70 billion on television, according to Nielsen Monitor-Plus. About $45 billion of that total landed in the coffers of the broadcast networks and their affiliates, even though viewers are spending more and more hours watching the growing number of niche cable networks.

But marketers' passion for the buckshot approach is waning. While the remote control has been with us for half a century, new technologies are giving people increasing power to shape and schedule their television viewing. A new study by Arbitron and Edison Media Research found that about 43 million Americans time-shift, using either their VCR's or the rapidly proliferating digital video recorders to watch shows when they want.

Commercials play little part in this reconfigured landscape. About 6.5 million people own or rent DVR's or TiVo, and that number is expected to rise as cable operators and satellite providers aggressively market the technology to their subscribers. Some studies put the percentage of people who skip past ads at above 90 percent.

Internet advertising, meanwhile, having recovered from the industry's burst bubble, has become more enticing to marketers. They appreciate the ability to pinpoint their audience and to get instant feedback about how well their message has resonated.

"Time is running out," said Eric Schmitt, senior analyst at Forrester Research and the author of a recent report called "What Next for TV Advertising?" "At some point, it's going to be impossible not to acknowledge that the medium is overvalued as an advertising vehicle."

Mr. Schmitt says he expects that by 2007, time-shifting and ad-skipping will begin putting considerable pressure on the prices that television networks can charge for commercial time.

The pain can already be felt. Dozens of big marketers have expressed their frustration with the existing model of television advertising. For its recent reintroduction of Pepsi One, the Pepsi-Cola Company is shunning television completely. While spending on network television has risen in absolute terms, its market share of all advertising expenditures slipped from 2001 to 2004, according to TNS Media Intelligence.

"Clearly, there is a clamoring for proof that their dollars are working harder and better than before," said Tim Hanlon, senior vice president and director of emerging contacts at the Starcom MediaVest Group, one of the country's largest media-buying firms.

The technological dislocations have inspired a flurry of product placements, a return in some ways to the early days of television. Sears for example, pays substantial sums to integrate its Kenmore appliances and Craftsman tools into the action on "Extreme Makeover: Home Edition" on ABC, hoping that the message of uplift in the show translates into good feelings - not to mention sales - for its products. And the major media-buying firms have set up their own entertainment wings to create programming from scratch, the better to embed their clients' products into the heart of a show.
But there is little evidence that product placement has bolstered sales. If anything, measuring its success is even more difficult than gauging that of a 30-second ad. And few companies can afford an entire season of "American Idol" the way Coca-Cola can.

So traditional commercials remain important to both advertisers and networks, making the need to keep viewers from skipping past them all the greater. "If the ad message is more relevant, not just to the programming but to the viewer's mind-set, there's a greater receptivity," Mr. Hanlon said.

IN the last few years, dozens of advertisers have conducted experiments with cable operators and satellite providers to try to discover that elusive relevance. In introducing its offshoot airline, Ted, United Airlines worked last year with Comcast and Visible World to send different versions of its ad to Comcast subscribers with digital set-top boxes. To promote flights to Las Vegas, viewers in Des Plaines, Ill., were greeted with the following message: "Viva Des Plaines. Doesn't quite have the same ring to it. Let's go to Vegas. Des Plaines, say hello to Ted." Crystal Lake also got its own personalized message, as did many other suburbs in the Chicago area.

"We wanted to give Ted a more approachable, friendlier feel," said United's Mr. Dow. He said he was pleased with the results. "In the traditional way, we craft message, send message, measure message, rinse and repeat," he said. But now an advertiser can almost instantly change its ad, based on changes in its business; United, for example, could have swapped in an ad for a different destination if its Las Vegas flights were already full.

Comcast, the country's largest cable operator, used Visible World's software and expertise to enhance its own targeted ad program, which allows advertisers to home in on specific geographical areas and add a customized message in the last few seconds of an ad, according to Charlie Thurston, president of Comcast Spotlight, the cable giant's ad sales division. The company plans a larger test this summer in Miami with OpenTV.

Visible World's offering also allows advertisers to customize an ad. The Bermuda Department of Tourism, for example, could tinker with the music, the images, the package's cost, even the age of the frolicking vacationers - all tailored to the network being watched or how many days are left in the sale. An ad on the Food Network could play up the trip's dining choices while one on the History Channel could, naturally, touch on the island's history.

A commercial for the Nissan Murano, showing a husband and a wife going antique shopping only to come away with a vintage jukebox channeling Deep Purple's "Smoke on the Water," can become more personalized with locations near the viewers' home superimposed onto the ad. "Now all of a sudden I can relate to this," said Seth Haberman, president and chief executive of Visible World.

To keep viewers interested, cable operators and satellite providers are also tinkering with interactive advertising. EchoStar's Dish Network worked with OpenTV and the Turner Media Group to create a promotion that started this month for the 2006 Mercedes M-Class. As the 30-second commercial runs on cable channels, a prompt appears on the screen, asking viewers if they would like to learn more. An affirmative response takes viewers to an interactive channel on the Dish Network, where they can ask for a brochure, set up a dealer appointment and register for a M-Class road rally near them. Or if the mood strikes them, they can watch a 90-second video of the vehicle's interior and exterior on Turner's CatalogTV, one of its home-shopping networks.

Dish has also done similar but simpler ads for Meineke and American Express, working
with Navic, said Susan Arnold, vice president for programming and interactive television at Dish. The Navic technology allows viewers to take action at the end of the commercial. Time Warner, the country's second-largest cable operator, has tested it in its Honolulu and Albany systems.

"The 30-second ad pretty much becomes a navigational tool at that point," said Chet Kanojia, chief technology officer of Navic.

A visit to Invidi's headquarters in Princeton, N.J., offers another glimpse of where targeted advertising is headed. There, executives and engineers are trying to perfect a system that goes beyond using existing census and available marketing data to divine the age and the sex of the audience by their television viewing habits.

Bruce Anderson, Invidi's chief operating officer and chief technology officer, said that the software could even help determine who controls the remote in a household. While there are no guarantees of complete accuracy, Mr. Anderson calls it "pretty accurate guesswork." Men, as anecdotal evidence attests, tend to change channels much more quickly than women, he said.

Invidi executives argue that this level of data will help cable overcome a discrepancy in the marketplace: broadcast television's disproportionate share of advertising dollars. Knowing enough about the demographics of their system's viewers, they can package enough 18- to 49-year-old women or 18- to 34-year-old men across many cable networks to provide the instantaneous reach an individual broadcast network can, and satisfy advertisers' demand for scale. And when that happens, the cable and satellite operators will, theoretically, be able to charge higher rates.

The technology also allows commercials to be swapped into shows taped on the DVR, in case viewers get to the program days or weeks later. "When you watch it on Thursday, the commercials you see will be fresh," said David M. Downey, chief executive and president of Invidi.

Without any live tests under its belt, Invidi lags behind competitors like Visible World, OpenTV and Navic. But Time Warner Cable expects to use Invidi's software in one of its markets, possibly Green Bay, Wis., or Charlotte, N.C., later this year, said Larry Fischer, president of Time Warner Cable's media sales division.

As with any new technology and a bunch of true-believing media entrepreneurs, a word - or more - of caution is necessary. "It sounds great," said Alan Wurtzel, president of research at NBC Universal, "but I just think a lot of time what can sound great on paper, in the crucible of everyday life doesn't always pan out."

For starters, grafting the software companies' applications into a cable operator's set-up isn't easy. Cable companies are also trying to accommodate video-on-demand, DVR's, and even phone service over cable modem lines, in markets that may have a half-dozen or more different set-top boxes, according to Paul Woidke, vice president for technology at Comcast Spotlight.

AND then there are the privacy concerns. Yes, marketers already know quite a bit about you, as the avalanche of direct mail attests. But receiving personalized messages through your television somehow seems more intrusive.

"The ability to address advertising inevitably smacks of Big Brother the first time you hear of it," said Craig Moffett, an analyst with Sanford C. Bernstein. It serves as a reminder that the cable operator could theoretically monitor what you are watching at any
given time. "There's a lot of people watching a lot of things they'd rather not be known," Mr. Moffett added.

The software companies as well as the distribution outlets say that private information will remain just that.

Interactivity may also be ahead of its time. Focus groups showed little interest in buying items the stars of the shows may be wearing or in drilling down for more information on a new show, Mr. Wurtzel of NBC Universal said. "It flies in the face of how people watch television," he said, "which is essentially a passive medium."

And lastly, the fact that the technology companies have entered the battle for the future of television advertising on the side of the cable and satellite operators could hinder the widespread adoption of their wares. The companies may have had little choice; the set-top boxes that are the facilitators for all these applications belong to those operators. But the cable operators, in particular, want to use the advent of addressable advertising as way to win what they see as a more equitable split of advertising dollars. And they are in no mood to share.

For now, advertisers and their agencies show little inclination to overhaul the ingrained ways they buy advertising for a local cable market that accounts for about 8 percent of television spending, according to Mr. Moffett of Sanford C. Bernstein. He, Mr. Dow of United and Mr. Hanlon of Starcom MediaVest all suggested separately that national networks, particularly the cable ones, sell these targeted ads across the country. In return, the cable and satellite operators would get a chunk of the revenue.

If not, online and other media will gobble up television's share, they warn. "Unless the ad sales folks and distribution people get together in a harmonized conversation, it will be very challenging for advertisers to step up," Mr. Hanlon said. "While they rearrange deck chairs on the Titanic, advertisers may be building another boat."

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