Coming Soon: A Horror Show for TV Ads

TiVo's digital recorders indicate that viewers don't necessarily watch the ads, even on hit shows. Agencies and networks are still in denial

"I know that 50% of my advertising is wasted. I just don't know which half," retail guru John Wanamaker famously quipped in 1886. Things haven't improved much since then. Magazines and newspapers still sell ads based on circulation, and TV networks have sold ads based on viewer ratings for the last 50 years, even though no one knows whether anyone actually watches commercials. More than a century after Wanamaker's lament, advertising remains as much an art as a science.

Yet the world of TV advertising is about to become a lot more scientific. On June 2, personal-video-recorder outfit TiVo (TIVO) unveiled an analytical tool that can tell advertisers, agencies, and networks not only how many people tune in for a show but whether they're watching the ads. Unlike a Nielsen rating, which relies on surveys filled out by viewers, TiVo's system tracks what a viewer records and tunes into, even when the channel is changed -- although, thankfully, it still doesn't know if you head for the kitchen for something to eat.

UNWELCOME FINDINGS. TiVo can also pinpoint where and when ads are watched the most. For example, a commercial for breakfast cereal might be skipped through less often in the morning on the West Coast than during pricey prime-time slots in the East. "This is the beginning of the end of that drunken orgy of dollars spent on broadcast TV as the ultimate 'reach' vehicle," says Tim Hanlon, vice-president for emerging contacts at Starcom MediaVest, an ad agency that helped TiVo design its new service.

Perhaps. But the ad industry's response has been anything but ecstatic. In the weeks since TiVo threw down the gauntlet, it has become clear that the burning question of which half of advertising is wasted isn't something that ad giants, such as Interpublic (IPG) or the big three networks necessarily want answered -- especially in the network-TV market, where ad prices continue to rise, despite falling viewer ratings. "This kind of information is the holy grail for marketers. But it's not the holy grail for advertising agencies and media companies, which have built an industry around the idea of getting a shallow message to a broad audience rather than a tailored message to a narrower one," says Mike Galgon, chief strategy officer at Seattle-based interactive ad agency Avenue A (AON).

Galgon would know. Over the last seven years, Avenue A and other interactive agencies such as DoubleClick (DCLK) have struggled to legitimize online advertising -- the ultimate in accountable media. In the heyday of the late 1990s, successful Web portals such as AOL and Yahoo! (YHOO) sold inventory based on the number of unique users visiting their sites. That model mimicked TV: The more "viewers" you could deliver, the more you could charge.

Then, in 2000, the bubble burst. Advertisers stopped caring whether 2 million or 20 million people visited a site. Instead, they demanded to know how many people clicked on their ads -- or how many saw the ad and subsequently bought something. "Accountability is a huge challenge for everyone who's buying TV," says Galgon. Now, "all of a sudden [TV] looks a lot like the Internet."

SMALLER, "STICKIER" VIEWERSHIP? Indeed, just like clickable ads, TiVo's initial data reveal some trends that ad agencies and networks might prefer to bury. For one, a program's rating -- the number of people saying they watched a TV show at a given time -- appears to have an inverse relationship with the proportion of ads viewed. On April 11, 2002, ABC's popular TV drama The Practice drew a TiVo rating of 8.9, meaning 8.9% of TiVo owners watched the show live or recorded it and watched it later. But those viewers watched just 30% of the ads shown. Meanwhile, quiz show The Weakest Link, drew a rating of 0.9, but viewers watched 78% of the commercials. TV news magazine 60 Minutes got only a 2.2 rating, but its viewers sat through 73% of the ads.
Certain genres are "stickier" than others, TiVo's research shows. Big-budget situation comedies and dramas tend to have the lowest retention and commercial-viewing rate because couch potatoes tend to record them and skip through the commercials rather than watch them live. Reality TV, news, and "event" programming such as the Oscars do significantly better at getting viewers to see the commercials. Just 39% of viewers watched ads during the highest-rated network TV show, *Friends*, vs. 75% for the *45th Annual Grammy Awards* and 58% for Fox reality show *Fear Factor*.

These trends don't threaten to kill TV advertising, but they're sure to change how ads are produced and sold. Today, media buyers purchase TV ad time based on program ratings and demographics. When 2 million people turn in to watch *Friends* on Thursday night at 8 p.m., advertisers assume 2 million people see their ad. Tomorrow's ad buyers might choose to bid higher for 30-second spots on programs such as *60 Minutes*, which has an older audience less prone to channel surfing.

**RESHUFFLING AD DOLLARS.** Advertisers trying to reach younger people will shift their spending to more appropriate channels. According to Forrester Research, when personal-video-recorder (PVR) technology reaches 30 million households in 2006, 76% of advertisers say they'll cut their TV ad spending -- one quarter of them by more than 41%. Instead of buying TV ads, 65% plan to spend more on program sponsorship, 46% will increase budgets for product placement, and 36% say they'll rechannel their dollars to online advertising.

TV's transformation will surely take time. Right now, most ad agencies and network execs are in a state of deep denial about the wrenching change on the horizon. Ad execs by and large dismiss TiVo's data, saying the sample size is too small -- TiVo has just 750,000 customers -- and arguing that these users represent an early-adopter set, not the mass market. "You pour money in where it's going to work," says Lisa Seiwers, director of national broadcast at New York agency Tucker, Hampel & Stephanides. "TV still remains the most mass reach you can get in terms of advertising."

Or is it? Data collected by TiVo and other PVR outfits are certain to challenge the prevailing wisdom and the status quo. Forrester predicts that by 2007, half of American households will have either a PVR or other on-demand services that allow viewers to watch TV programs at their convenience. As PVRs become more prevalent, the data will become increasingly difficult to ignore.

It's easy to sell ads when advertisers don't know which half of their money is being wasted. But if the technology exists to figure it out, you can be sure they'll demand to know.

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