Reaching the Unreachable Consumer: Advertising in the Digital Age

A Parks Associates White Paper

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1.0 Tuning in but Turning off

In the digital age, consumers are inundated with different types of advertising. A recent *Economist* article claims that a consumer is exposed to more than 3,000 advertising messages everyday, explicitly and subtly.[1] Are they all relevant and meaningful to consumers? Probably not, because consumers are running as far away from advertising and marketing as they can.

Anecdotal evidence and some hard data point to a consumer base that is engaging more in what we call "tuning in but turning off" behavior when it comes to traditional media advertising. We all know the experience of channel surfing while watching TV, and what we call "finger jabbing ad avoidance" while listening to the radio in the car. Hard data that come from Parks Associates' recently completed survey *Digital Entertainment: Changing Consumer Habits* (Q2 2005) also provide a sense of how emerging technologies are likely to shift the way in which consumer choose to interact with advertising, including the increasing option for them to ignore it altogether. In the survey of 2,084 U.S. consumers in households with Internet connections, 62% of respondents indicate that one of a personal video recorder's top benefits is its ability to "fast-forward through or skip commercials."[2]

Given these few examples of "tuning in but turning off" traditional advertising methods, it is no wonder that traditional media companies are feeling enormous pressure to retain advertisers. What consumers are running away from are probably intrusive, irrelevant, and unentertaining ads. After all, people still enjoy watching funny Super Bowl commercials, and car buyers usually pay close attention to auto ads for model and promotional information. In the digital age, relevancy has become the top quality of an effective ad because consumers are just one click away from turning off irrelevant ones.

[1] "The Future of Advertising, the Harder Hard Sell," *The Economist*, June 24, 2004
[2] Question 71, *Digital Entertainment: Changing Consumer Habits*, © 2005 Parks Associates.

2.0 Relevancy Requires Better Measurement

To understand consumers' needs and wants, advertisers and media firms first need to know where their targeted audience is and how they interact with different media content. For traditional media firms, this first step is a tremendous challenge. Today's audience is highly fragmented, and the tracking methods that media firms have relied on over the past 40 years are obsolete, ineffective, and prone to error.

Consider the television audience and particularly consumers with digital cable or satellite TV services. They have up to 300 channels to choose from, and they can watch TV online, from DVR boxes, on mobile phones, or now on video iPods. With more than 100 million TV households in the U.S., Nielsen's 5,100-household sample appears too small to be representative of the overall viewing patterns on a national scale. More disturbing to media firms and advertisers is the fact that Nielsen's People Meter, an electronic measuring device, requires viewers to manually push a button to identify them so Nielsen can link a TV program watched to viewers. And in local market measurement, a paper-based diary is still used to aggregate TV viewing data. These outdated or intrusive methods have significantly reduced the reliability of rating data. Low-quality viewing data in turn make delivering targeted ads a difficult, if not futile, task.

Unlike traditional media, the Internet can provide precise usage data to advertisers on a Census basis. Every ad impression generated, link clicked, or keyword entered is recorded on the server, and data collected can be divided and diced to the meticulous details as desired by advertisers. Even online purchases can be linked back to click-through data, providing the basis for cause-effect analysis by advertisers. With this level of measurability and accountability, the Internet quickly becomes the champion and enjoys the fastest advertising revenue growth. From 1998 to 2004, Internet ad spending mustered an annualized 28% increase, outstripping the growth on other media vehicles such as broadcast TV (4.8%) and newspapers (1.8%). In looking at the recent financial results from such Internet giants as Google and Yahoo!, it is clear that the Web's usefulness as a viable advertising vehicle has been legitimized. Google, for example, reported first-quarter2005 revenues of more than $1.2 billion, "reflecting in large part advertisers'

growing recognition of the Internet as an effective advertising medium."[3] In its 2004 Annual Report, Yahoo! noted that its revenue doubled between 2003 and 2004 (to $3.6 billion), also due in great part to the "extraordinary growth in acceptance of online advertising over the last year, particularly by the nation's largest advertisers."[4]

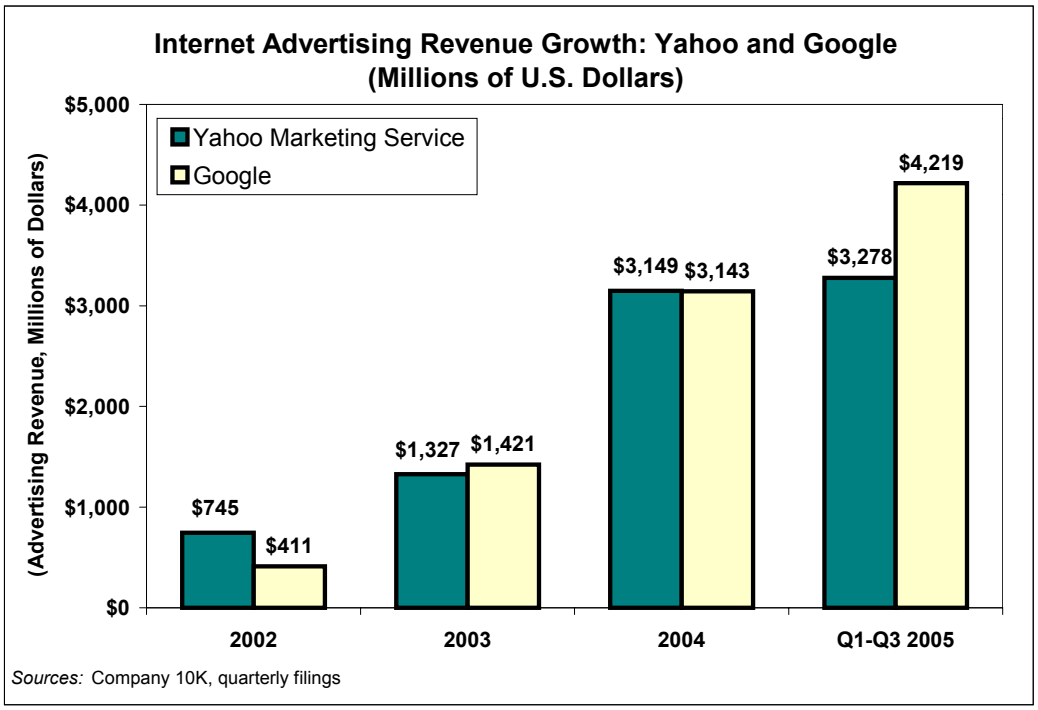

Figure 1 Internet Advertising on the Rise

Parks Associates' consumer data reflect the tremendous impact of Internet-based advertising. Twenty percent of consumers surveyed in a recent study (*Digital Entertainment: Changing Consumer Habits*) indicate that Internet-based advertising (including search-generated ads) provide the most relevant ads with which they interact on a weekly basis (**Figure 2**). The results as they relate to "Internet Links – Search Engine Ads" are quite telling in that the age segments are equally represented in terms of the percentage of respondents who rate this type of marketing messages as most relevant to them. Unlike other "digital living" solutions, this finding was one of only a few times in which older consumers matched (or even exceeded) younger consumers in their level of affinity toward one type of technology solution.

[3] "Google Announces Record Revenues for the First Quarter of Fiscal 2005," Google Inc. press release, April 21, 2005.
[4] Yahoo! Chairman and CEO Terry Semel's letter to shareholders, *Yahoo! 2004 Annual Report*, p.

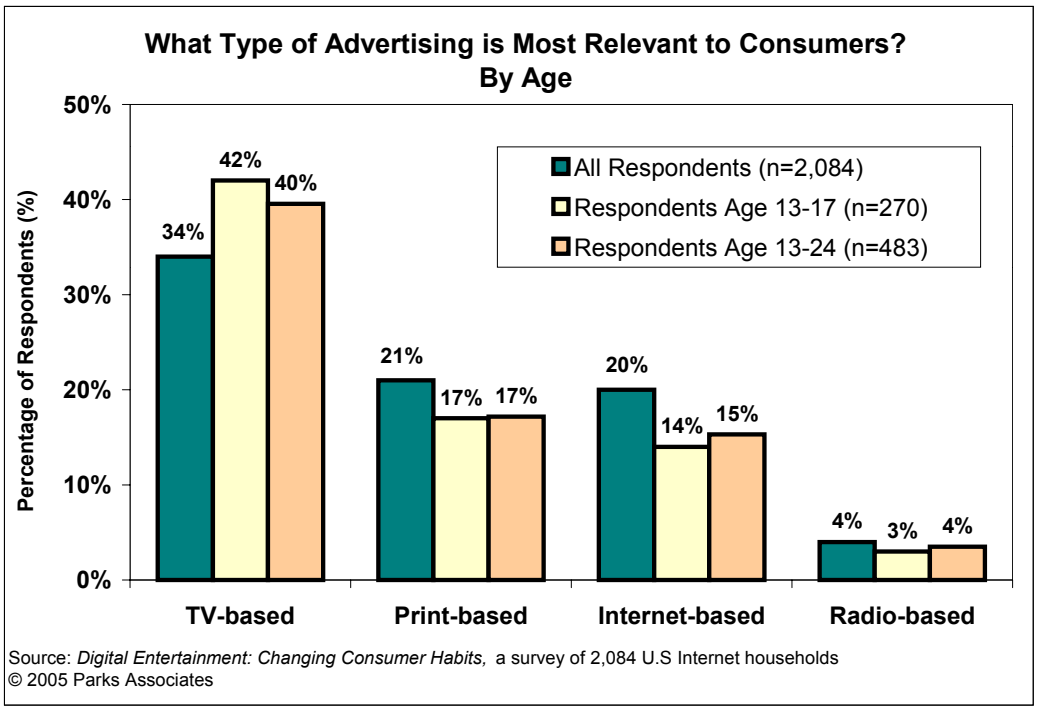

Figure 2 What Type of Advertising is Most Relevant to Consumers?

3.0 New Ad Strategies by Traditional Media

Traditional media providers have responded to the Internet challenge with their own innovative strategies. In a recent article, *The Wall Street Journal* noted the major television networks are examining unique methods to drive new advertising revenues, including fan-based Websites (ABC's *Alias* is a good example) or blogs from reality TV show participants.[5] Cable networks are aggressively rolling out digital video services in which interactive advertisements can be placed to generate more reliable viewer data to advertisers. Printed media has gone a step further by offering timely "infotainment" online for readers.

Radio broadcasters are facing similar ad-related woes in light of consumers' increasing use of commercial-free (or at least "commercial-reduced") satellite radio services and portable digital music players. Clear Channel Radio launched an initiative called "Less is More" in January 2005 intended to reduce the amount of advertising minutes and promotional interruptions per hour.[6]

[5] "Networks Rush to Keep Advertisers," Brian Steinberg, *The Wall Street Journal*, June 27, 2005.
[6] "Clear Channel Radio Moves to Improve Value of Radio to Listeners and Advertisers," Clear Channel Radio press release, July 19, 2004.

To date, the company is reporting significant growth of both listeners and advertisers from the previous year.[7]

As these examples indicate, there are ways in which traditional content vehicles can make advertising smarter by reducing volume and driving consumers to more targeted Internet sites where their behavior can be better measured and where goods and services can be sold with greater efficiency.

4.0 Motivating the Audience

Getting viewers and listeners motivated to visit a Website should certainly be part and parcel of tomorrow's advertising strategies. However, what will be the benefits to both content producers and advertisers when the transition between content and advertising is as seamless as possible? We speak not necessarily of placing "pop-up" advertisements or other intrusive advertising on a viewer's television screen; recent data from *Digital Entertainment: Changing Consumer Habits* indicate an extremely low preference for such advertising schemes. However, if viewer tracking were made less intrusive and if consumers were given more flexibility in how they view programming – in exchange for broadcasters and advertisers knowing a little bit more about who is watching specific programming at a designated hour and then providing more targeted ads and marketing messages via other vehicles such as the Internet– then consumer response would be far more positive. These results show that consumers are willing to trade some viewing information and receive more-targeted advertising in exchange for their ability to bypass TV advertising that isn't as relevant (**Figure 3**).

[7] "'Less is More' Success Continues on All Fronts," Clear Channel Radio press release, May 17, 2005.

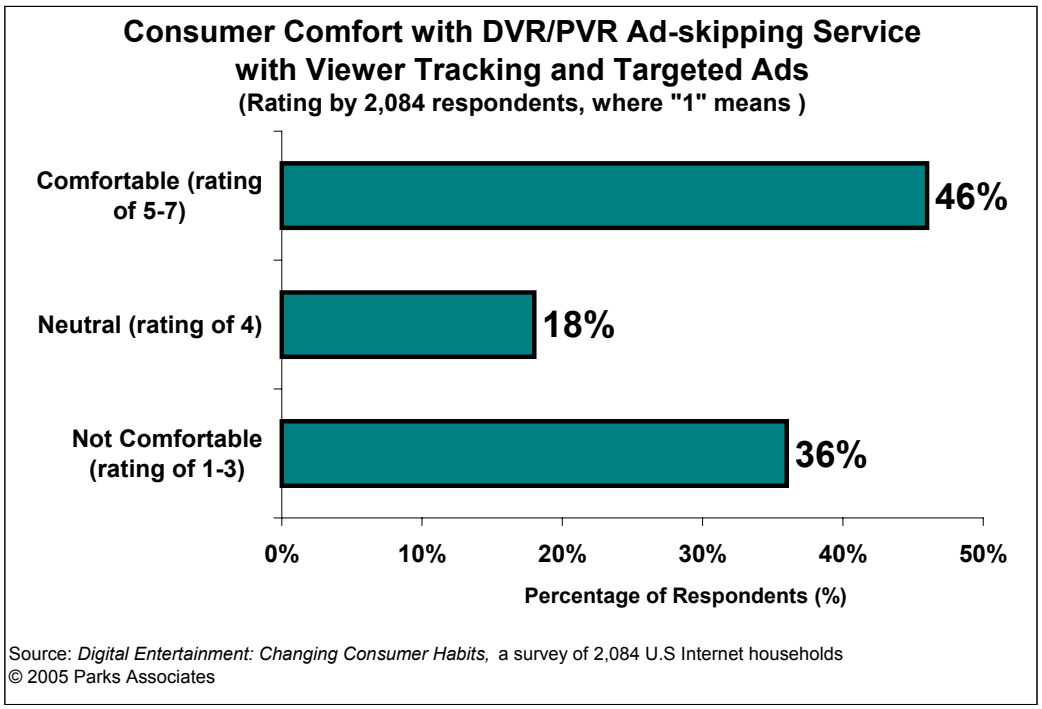

Figure 3 Consumer Comfort with DVR/PVR Ad-skipping Service

The attitude of the youngest generation surveyed in *Digital Entertainment: Changing Consumer Habits* (the 270 teens aged 13-17 surveyed in this study) indicates the urgency at which television advertising need to shift to a more targeted approach. For example, enthusiasm among these teenagers for an ad-skipping solution that provides fewer overall ads but more targeted marketing messages is strong (62% of these respondents indicate comfort with this solution; 42% rate their comfort at a 6-7 level). As young consumers exchange television viewing for more time on the Internet, playing online/console games, and engaging in other activities, both television broadcasters and their marketing partners have to develop means to get the most efficient return for their advertising dollars. The solution described to our survey participants in this study is quite crude in comparison to the techniques and marketing solutions likely to augment traditional advertising methods. However, the results hint at the importance of new ways of thinking and of reaching out to an increasingly distracted group of potential buyers.

5.0 Putting it all Together: Where Advertising May Fit in an IPTV World

The integration of Internet- and television-based advertising is likely going to arrive sooner rather than later as a result of the impending battle between the traditional television providers and the satellite companies and telcos. Delivering video via IP methods has such obvious benefits as reducing bandwidth constraints for on-demand programming and providing consumers with more of an *a la carte*, or customized, feel in their television viewing. One key benefit that has not been discussed to a great degree thus far is the potential impact of IP delivery on the relationship between TV providers and their advertisers. Consumers, on the subject of switching to a telco for a bundled service package, insist the package must be priced competitively (and among certain consumers, significantly lower than a comparable bundle from a cable company). The thought of selling a package, although needed to stem the loss of landlines, at a significantly lower (or no) margin is incredibly unappealing to the telcos, which do not want to price themselves "like the airlines" (actual commentary we've heard back from them). They'd like to make margin on their services.

One thought about how the telcos (or any competitive IP video player) could recoup revenues is by charging a premium for the advertising they carry. By providing a truly interactive video and advertising environment to their customers and advertisers, they would enjoy the benefit of having dynamic audience measurement capabilities and a vehicle through which consumers could (if desired) investigate an item further via the television or a customized Web portal. In Europe (France and the United Kingdom), both traditional and emerging IP video providers have had some early success in TV-based interactive advertising and commerce applications, and carriers in the U.S. could follow that model to boost ad revenues. Again, the looming questions remain about how much commerce-based interactivity is too much in the eyes of U.S. consumers, and the video providers and their advertising partners should deploy such applications carefully, without overwhelming and turning off their subscribers.

As Clear Channel Radio has already learned, the relationship between a broadcaster, the advertiser, and the listener is a precarious balance, where variables such as advertising rates, the amount of ads per hour, and the listener's attention span are often in conflict with each other. Television advertisers have learned that the advertisement itself does not have to be the

beginning and end of the relationship with a viewer. Tools such as the Internet should be leveraged to provide more of the interactivity and commerce activities associated with product research and purchase. These tools can also reinforce the messages that consumers receive via traditional advertising methods and give both content producers and advertisers more effective ways of measuring their audiences. As service providers consider subscription pricing schemes for television services, they need to look beyond such factors as "ARPU alone" to a more holistic approach that brings into account the role of advertising revenues in their business models.

About Parks Associates: Parks Associates is a market research and consulting firm focused on all product and service segments that are "'digital'" or provide connectivity within the home. The company's expertise includes home networks, digital entertainment, consumer electronics, broadband and Internet services, and home systems.

Founded in 1986, Parks Associates creates research capital for companies ranging from Fortune 500 to small start-ups through market reports, multiclient studies, consumer research, workshops, and custom-tailored client solutions. Parks Associates also hosts two executive seminars, both part of the Fall Focus series, and co-hosts CONNECTIONS™ (in partnership with the Consumer Electronics Association) each year. www.parksassociates.com.