



The Power of Television

TV Drives Online Sales and Audience Expansion

Executive Summary

It might come as a surprise to marketers that television has lost little ground to the Internet, remaining one of the best ways to reach consumers. In 2Q 2009, watching TV in the home accounted for 77% of screen time among consumers age 2+, up 1.5% year-over-year. Rather than cannibalize television viewing, emerging video platforms, such as broadband and mobile TV, are complimentary, acting as audience multipliers.

While television viewing behavior is not changing as much as some had anticipated, advertisers' expectations certainly are. Increasingly, marketers want accountability from their agencies, demanding to see a return-on-investment (ROI) for their marketing dollar. Metrics like brand awareness, ad recall, persuasion and engagement, while useful, fail to provide sufficient insight into campaign performance. In the end, the job of advertising is to generate leads and drive sales. This is the criteria upon which all ad campaigns should be measured.

Additional findings from this report include:

- **Brand-building and sales are not mutually exclusive.** *Success or failure is judged not by the strength of a company's brand, but by top-line sales, margin, and profitability. Marketers must be caretakers for both sales and the brand, placing equal if not greater emphasis on sales in the marketing mix.*
- **Direct response creates brands.** *Regardless of whether it is a direct response commercial or a branding spot, every commercial brands. The challenge is leaving the right impression, and doing so on purpose. Direct response advertising influences all it touches, not just those who respond.*
- **Consumers want utility not glitz from ads.** *Consumers are not looking to be entertained by an ad, that's what programming is for. Rather they want ads that demonstrate the utility of a product or service or solve a problem. Ads should contain calls-to-action and give consumers the opportunity to engage with brands.*
- **Addressability comes at a cost.** *The downside of addressable advertising is higher CPMs (cost-per-thousand viewers). By definition, targeted ads are seen by fewer but more relevant households. This means that if CPMs remain the same, multichannel video providers and programmers are going to see less ad revenue. This is a situation they are not going to accept. To compensate for this, advertisers can expect to pay higher CPMs for addressable ads.*

As an advertising medium, television must continue to play to its strengths (reaches massive audiences, conveys sight, sound and emotion, establishes credibility and builds brands). But at the same time, marketers must also demand greater integration with other video platforms and accountability from television advertising.

This Mercury Media report examines the long-term viability of television as an advertising medium and what marketers should be doing to take advantage of it.

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About the Author

Michael Goodman is Senior Director, Research & Analytics at Mercury Media. In this role, he provides strategic vision, planning, and actionable recommendations for all areas of performance-based advertising, including response analysis, attribution, segmentation, media planning, and market research.

Prior to joining Mercury Media, Michael was Director, Consumer Research at Yankee Group, where he provided market research, syndicated reports, decision support tools, and consulting services to clients trying to understand and profit from the impact of technology on content distribution, advertising and consumer behavior. Before joining Yankee Group, Michael was a marketing representative for Nielsen Media Research, where he was responsible for the design, management, analysis, and marketing of custom research projects. In addition to television research, Michael was responsible for developing the Nielsen Home Technology Report, which is still in use today.

Michael is a frequent speaker and moderator at industry trade shows including CES, CTIA, NAB, Digital Hollywood and E3. In addition, his expertise has been sought out by many news outlets including the New York Times, Wall Street Journal, Washington Post, Business Week, CNN, CNBC and NPR.

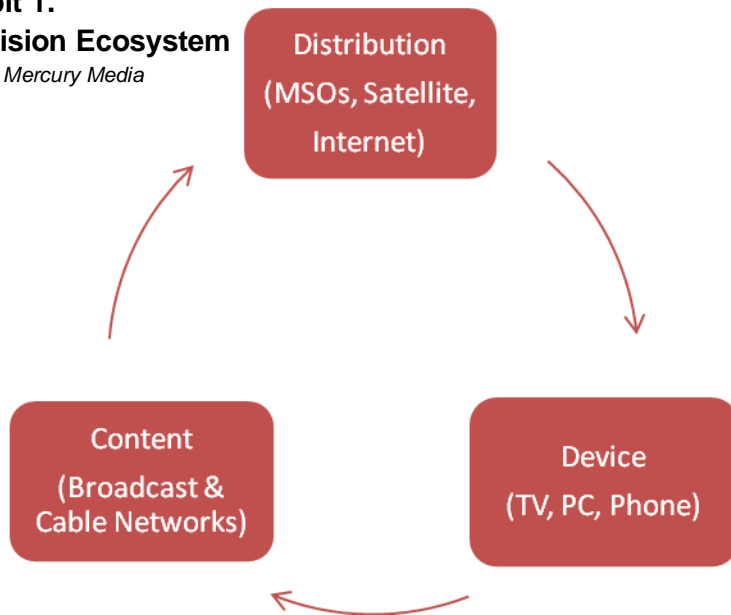
Changing Viewing Habits

To understand how television viewing is changing, you have to start with an understanding of how pervasive technology is impacting the television ecosystem. This ecosystem is comprised of three main elements (see Exhibit 1).

- Content.** Content includes movies and TV shows produced by studios and airing on broadcast and cable networks. Much of this content is also available via the Internet and on mobile phones.
- Distribution.** Distribution is defined as how viewers access content. Over-the-air broadcast networks dominated distribution until the late 70s and early 80s when cable and satellite began to fragment the market. Today, the Internet and mobile networks provide alternative means for consumers to access movies and TV shows.
- Device.** Finally, viewers require some kind of device to watch video. In the past, this has been the TV but today alternatives such as PCs, mobile phones and tablets have emerged and they are here to stay.

Exhibit 1.
Television Ecosystem

Source: Mercury Media

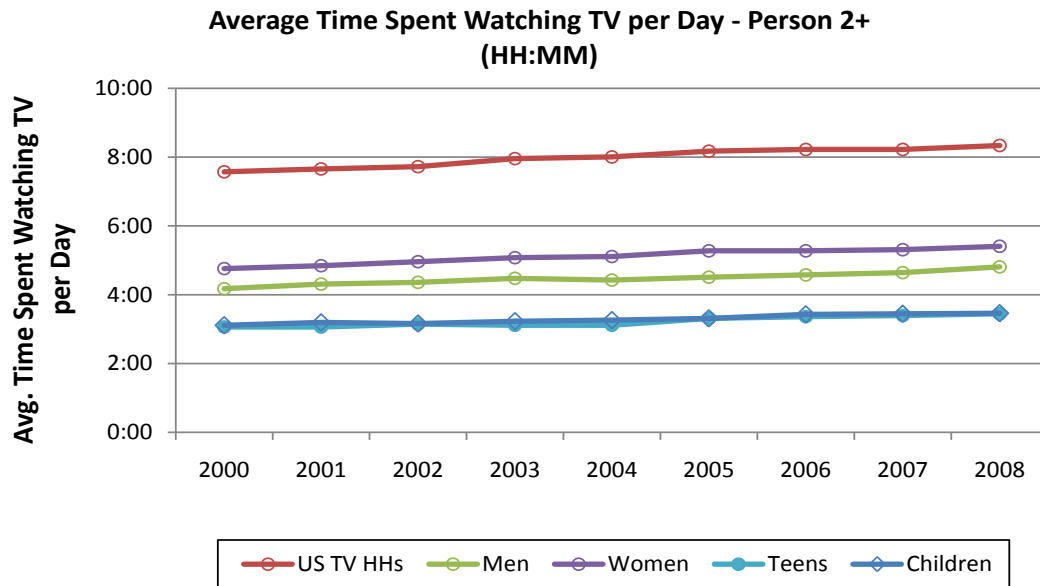


Historically, broadcast and cable networks (e.g., content providers) have been at the center of the television universe. These companies control how, when and where consumers access the programs they want, thus controlling marketers' access to consumers. The Internet (e.g., an alternative distribution channel) threatens to break this control, with connected consumers demanding access to movies and TV shows regardless of device, network, time of day or geographic location. The key to succeeding in this changing environment is to understand the forces driving this change.

Despite numerous reports to the contrary, television continues to be a ubiquitous presence, accounting for 77% of consumers screen time monthly. According to the Nielsen Company, 2008 saw the highest viewing levels recorded in nearly 60 years and indications are that this trend continued in 2009. On average, U.S. TV households spent 8 hours and 21 minutes a day watching TV (see Exhibit 2). This growth is not limited to any single demographic group. Men, women, children and teens are all watching more TV than ever before.

**Exhibit 2.
Average Time Spent Watching TV**

Source: Nielsen Company



While overall television viewing is up, individual networks must fight for share. In the 60s and 70s broadcast networks defined traditional television, accounting for 90% or more of all television viewing. But the broadcast networks have not defined television for many years. According to CNET’s *Future of TV* report, since 1994 ratings to the broadcast networks have declined 42%.

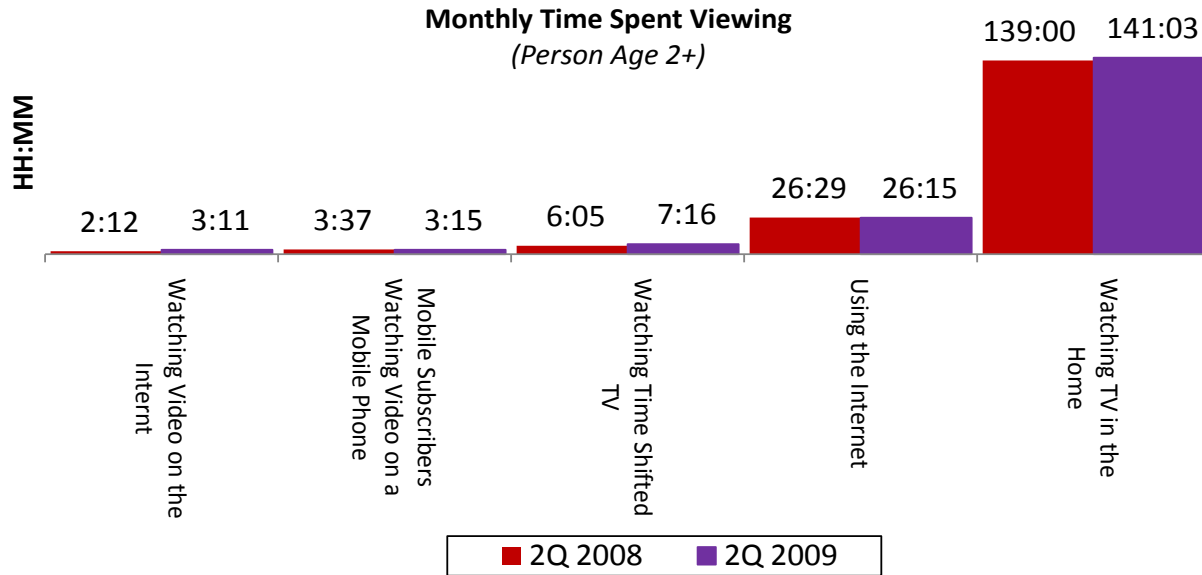
According to the Cable Advertising Bureau (CAB), at the start of the 2009/10 television season the broadcast networks accounted for less than half (44%) of total TV viewing. Traditional television now includes all linear channels (e.g., ABC, NBC, ESPN, MTV, Discovery, HBO) delivered via cable, satellite, Telco or over-the-air. Based upon this definition, Americans are watching more TV than ever before. This is contrary to the beliefs of many.

Technology is further changing how we watch TV. Increasingly, we are watching more video via PCs and mobile devices. But even as these devices emerge, plain old television continues to dominate. In 2Q 2009, watching TV in the home accounted for 77% of consumers’ screen time, with consumers age 2+ spending an average of 141 hours a month watching TV in their homes compared to 26 hours using the Internet and 7 hours watching time shifted TV (see Exhibit 3). Among adults 18-24, the shift away from linear TV is only slightly more pronounced, with 71% of their screen time dedicated to watching TV in the home.

Exhibit 3.

The TV Continues to Dominate Consumer Screen Time

Source: The Nielsen Company



Rather than cannibalize television viewing, consumers are using emerging video platforms to supplement existing viewing. In essence, emerging video platforms are audience multipliers. According to a Nielsen Company survey conducted in January 2009, forgetting to watch a specific episode when it aired on TV (54%) was most common reason for watching TV shows on the Internet, this was followed by catching up on the current season of programming (47%), catching up on a past season of a program before the next season airs (33%), and forgetting to record a program on the DVR (32%). Rather than threaten television viewing, emerging video platforms seem to be a bigger threat to DVR subscriptions.

The continued strength of television is a result of several factors.

- Programming.** While individual channels may struggle to attract viewers (as exemplified by the decline of the broadcast networks), broadcast and cable networks overall are producing programming that consumers want to see. In particular, cable networks are now producing original programming whose quality rivals that once seen only on the broadcast networks.
- Windowing.** We don't often think of television as having release windows the way that movies do, but in reality it does. To minimize cannibalization and to protect their cash cows, programmers first air programs on their linear channels, then release them to secondary channels such as cable video-on-demand, online, and mobile. As a society, we don't grasp delayed gratification well, so the bulk of an audience watches the initial airing with secondary channels providing incremental viewing opportunities.

- **The television set.** The TV is, and will continue to be, the dominate screen for video content as long as there is programming to support it. Sitting in the comfort of one's living room, family room or bedroom watching a large screen TV trumps the experience of watching video on a PC or handheld device. Adding to this experience is the growth of high-definition TVs. According to Forrester Research, 71% of U.S. households will own a HDTV by 2014 and more than half of them will have two or more.

While linear channels are not going away anytime soon, consumers are demanding greater control over what they watch and when they watch it. As seen in Exhibit 3, watching video on the Internet is up 47% year-over-year and watching time-shifted TV is up 18%.

Another example of consumers' desire for greater control over their viewing environment is Hulu, a website that offers commercial-supported streaming of TV shows and movies from NBC, Fox, ABC and other networks and studios. Launched in March 2008, Internet users now watch more video on Hulu (nearly 924 million videos in November 2009 according to comScore Video Metrix) than any other site other than Google (YouTube).

The primary factors currently limiting broadband TV are monetization and bridging the gap between the PC and TV.

- **Monetizing broadband TV.** Cable and broadcast networks generated approximately \$68 billion in advertising revenue in 2009. As a result, programmers are reluctant to embrace any distribution channel that cannibalizes ad revenue on their linear channels.

Fortunately, the tools are emerging to allow content owners to aggregate viewers across platforms while centralizing the buying process. Technology vendors like FreeWheel, Auditudo, and DoubleClick's In-Stream enable broadcast and cable networks to serve video ads into full TV shows or clips cross-platform. Simultaneously, Comcast's Xfinity.tv and Time Warner Cable's TV Everywhere are integrating broadband TV into you pay TV and broadband subscription.

Rather than fragmenting viewing, cross-platform distribution is an audience multiplier, aggregating viewers across multiple platforms. The downside to cross-platform distribution is that it further erodes the networks' brands as viewers become even more program-centric. In turn, advertisers must become more program-focused as they chase their target audience across multiple platforms.

- **Bridging the PC/TV divide.** As noted previously, the TV is, and will remain, the primary screen in consumers' households for the foreseeable future. However, significantly more TV shows and clips are available online, therefore bridging the gap between the PC and TV is necessary.

A number of technology vendors and device manufacturers are accelerating this shift to broadband delivered TV. Xbox 360, Playstation 3 and Wii owners can now stream movies and TV shows from Netflix and Hulu to their console and new Internet connected TVs from Sony, Panasonic, and Samsung are beginning to offer a similar capability.

Advertising and Accountability

Despite many complaints about advertising (many justifiable), consumers do find it helpful. In a survey conducted by AdWeek and Harris Interactive, 37% of respondents said television ads are most helpful in making their purchase decision (see Exhibit 4). This is followed by newspaper ads (17%), search-engine ads (14%), radio ads (3%) and banner ads (1%). TV ads tend to have the greatest impact on adults age 18-34 with 50% saying that they find TV ads to be helpful in making their purchase decision.

Consumers also said that they were less likely to ignore or disregard ads on TV. Thirteen percent (13%) of respondents in the AdWeek/Harris Interactive survey said that they ignored or disregarded television ads compared to 46% for banner ads and 17% for search-engine ads.

The challenge for advertisers is ensuring that their ads fall into the helpful category. John Wanamaker, considered by many to be the father of modern advertising, once said, “half the money I spend on advertising is wasted, the trouble is I don't know which half.” In the 75+ years since John Wanamaker uttered this statement, little has changed. Mercury Media

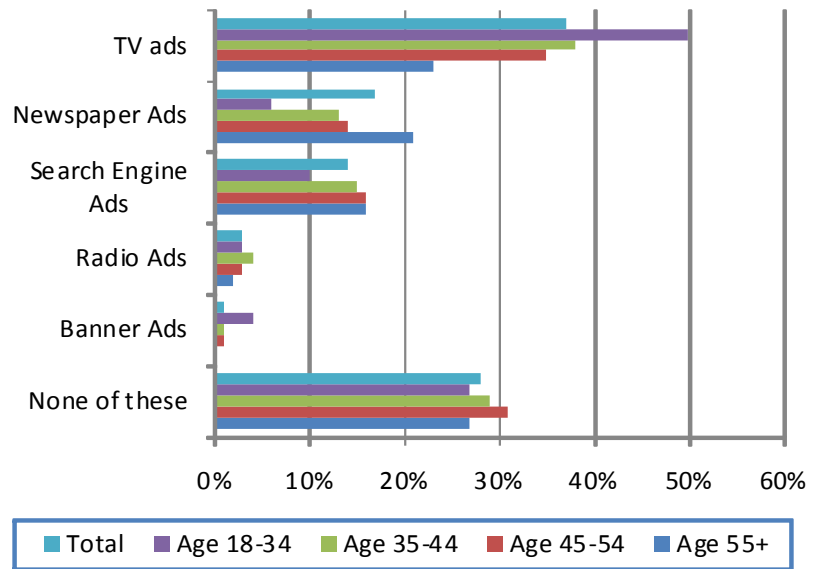
estimates that advertisers spent approximately \$68 billion on television advertising (broadcast and cable) in 2009. But which part of that \$68 billion drove sales and which part followed you and I out the door when we went to the kitchen to get a snack during a commercial break?

In an effort to be accountable, traditional ad agencies use metrics like awareness, recall, persuasion and engagement. But while these metrics are certainly useful, it is the job of advertising to drive leads or sell products. Shouldn't this be the success criteria upon which all ad campaigns are measured?

If your advertising is not driving leads or sales, what are you paying for? Now that is not to say that branding does not have a role to play in the marketing mix, but in an era of accountability, marketers must demand that their agencies are enhancing their bottom line.

It is not surprising that marketers are questioning their TV ad expenditures. In a recent survey of 104 national advertisers conducted by the Association of National Advertisers (ANA) and Forrester Research from December 2009 to January 2010, 62% thought that TV ads have become less effective in the past two years. And nearly all advertisers who responded to the survey think that the TV industry needs new audience metrics beyond reach and frequency.

Exhibit 4.
Television Ads Are Considered Most Helpful
 Source: AdWeek, Harris Interactive



By comparison, direct marketers, unlike their more traditional brand oriented brethren, know when their advertising is working and when it is not. Metrics like sales-per-spot, cost-per-lead, and cost-per-sale are used every day to measure the efficiency of media buys and adjust them accordingly based upon their ability to drive sales.

Consumers are not happy with the state of advertising either. They want more utility and less glitz from the ads that they see. Rather than entertained them, consumers want ads that demonstrate the utility of a product or service or solve a problem they have (see Exhibit 5). While the results in Exhibit 5 specifically reference online video ads, these same principles apply to TV ads.

In addition, consumers are looking for calls-to-action and want to have the opportunity to engage with brands. Regardless of whether an ad is delivered to a TV, online, or to a mobile phone, it must contain either a URL or phone number (or both) that allows the consumer to interact directly with the brand.

Exhibit 5.

What Consumers Want From Online Video Ads

Source: eMarketer, 2009 Cone Consumer New Media Study

	Solve my problems/ Provide product/ service information	Offer me incentives	Solicit my feedback on product/ service	Develop new ways for me to interact w/brand	Entertain me	Market to me
Apparel/Footwear	30%	32%	28%	26%	23%	23%
Automotive	31%	28%	24%	24%	21%	21%
Food/Beverage	26%	39%	29%	28%	21%	26%
Financial Services/ Banking/ Insurance	32%	25%	25%	24%	20%	20%
Consumer Products	28%	35%	26%	25%	24%	25%
Healthcare and Pharma	31%	31%	26%	25%	19%	19%
Retail Stores	31%	33%	25%	27%	25%	28%
Telecommunications	32%	28%	23%	27%	25%	20%

Technology's Impact on Advertising

As technology changes the way we watch television, it also presents advertisers with an opportunity to connect with consumers in new ways. Just as on-demand viewing affords consumers the opportunity to take control of their viewing environment by fast-forwarding, pausing and searching, it also creates new opportunities for advertisers, including full-motion ad pop-ups when viewers pause or sponsorships of fast-forwards and rewinds.

As we move a little further into the realm of emerging advertising technology, we come to addressable advertising. Loosely defined, addressable advertising is about getting the right ad to the right viewer at the right time. Addressability enables multiple ads to be delivered simultaneously during a single timeslot, with each ad tailored to a discrete audience. Personalization can be based on demographics or geography so that viewers see more relevant ads. In a test conducted by Comcast, homes receiving addressable advertising tuned away from the commercials 38% less than homes that received non-addressable advertising.

Addressability brings many of the capabilities of Internet advertising to the TV. As a result, advertisers who might not have previously advertised on TV should consider doing so. This includes luxury brands that historically have used print ads to reach their high-end customers and real estate agents who are only interested in advertising within their own city or town. And because multiple advertisers can appear in the same 30-second space, networks are able to sell the same spot multiple times, increasing inventory and revenue.

The downside of addressable advertising is higher CPMs (cost-per-thousand viewers). Multichannel video providers and programmers are not going to accept less revenue for addressable ads. But targeting means an ad is seen by fewer households/persons. If the CMP remains constant, then the multichannel video provider or programmer delivering the ad receives fewer dollars. To compensate for this, multichannel video providers and programmers will charge higher CPMs.

Once a consumer has been targeted, it is important to engage with them. This leads to interactive advertising. Television has traditionally been evaluated using metrics that measure the reach and frequency a show delivers to an advertiser, and advertisers buy time based upon a CPM (cost-per-thousand viewers). This, however, gives little indication of the impact an ad has on viewers or if they even were in the room when an ad aired.

Unlike traditional brand advertising, which uses soft metrics like awareness, recall, and persuasion to attempt to measure ad effectiveness, interactive advertising is more closely aligned with direct response advertising and online advertising. Direct marketers have long known how to optimize their media spend to generate leads and drive sales. Metrics like conversion, sales-per-spot (SPS), cost-per-acquisition (CPA), cost-per-lead (CPL), and cost-per-sale (CPS) are used every day to measure the efficiency of media buys and adjust them accordingly based upon their ability to generate leads and drive sales.

Initially, interactive ads are best suited to lead generation. An advertiser will run a spot that displays an on-screen prompt. Viewers then use their remote control to request samples or a long-form video with more product information that they can watch at their convenience.

Cablevision recently ran an interactive ad campaign for Colgate-Palmolive promoting a toothbrush. In the spot there was an on-screen prompt and viewers used their remote control to request a sample. To ensure viewers wanted to receive the sample, they had to go through a double opt-in process, clicking twice. Colgate-Palmolive saw a 70% conversion rate as defined by the percentage of people who clicked once then did so a second time to request the toothbrush. Neither Cablevision nor Colgate-Palmolive is providing actual numbers on how many people responded to the offer.

Conclusion

As any market evolves, it does so off the base from which it originated, keeping the parts that work best and improving on the ones that don't. Television is no exception. While advertisers and programmers alike are buffeted by the winds of change, in time we will see a harmonious video delivery ecosystem arise from this transition. In the meantime, there are certainties which remain.

- **TV will remain the #1 screen.** As seen in the first part of this report, television is the medium of choice for consumers, far surpassing all other mediums for its ability to reach massive audiences. TV conveys sight, sound and emotion, establishes credibility and builds brands. Considering that TV viewership remains at hundreds of hours per month while viewership of broadband and mobile video remains in the low single digits, it is reckless to proclaim that any great revolution is taking place.
- **Content is king.** While individual channels may struggle to attract viewers (as seen by the decline of the broadcast networks), broadcast and cable networks overall are producing programming that consumers want to see. Building a wall around it will only lead to piracy. By providing consumers with the opportunity to view content on different platforms (e.g., Hulu, cable VOD, FLO TV) but still controlling when viewers can access the content (e.g., windowing), programmers can protect their linear channels, meet consumer demand and create new revenue streams.
- **Broadband and mobile video are audience multipliers.** Rather than cannibalize television viewing, consumers are using emerging video platforms to supplement existing viewing. This increases the audiences for individual programs.
- **Brand-building and sales are not mutually exclusive.** Success or failure is judged not by the strength of a company's brand but by top-line sales, margin, and profitability. Marketers must be caretakers for both sales and the brand, placing equal if not greater emphasis on sales in the marketing mix.
- **Advertising must be accountable.** Metrics like brand awareness, ad recall, persuasion and engagement are insufficient measures of campaign performance. These metrics, while useful, fail to provide sufficient insight into campaign performance. In the end, the job of advertising is to generate leads and drive sales. This is the criteria upon which all ad campaigns should be measured.
- **Direct response creates brands.** Regardless of whether it is a direct response commercial or a branding spot, every commercial brands. The challenges are leaving the right impression and doing so on purpose. Direct response advertising influences all those that it touches, not just those who respond.

- Consumers want utility not glitz from ads.** Consumers are not looking to be entertained by an ad, that is what programming is for. Rather, they want ads that demonstrate the utility of a product or service or solve a problem. Ads should contain calls-to-action and give consumers the opportunity to engage with brands.
- Addressability comes at a cost.** The downside of addressable advertising is higher CPMs. By definition, targeted ads are seen by fewer but more relevant households. This means that if CPMs remain the same, multichannel video providers and programmers are going to see less ad revenue – an unacceptable situation. To compensate, advertisers can expect to pay higher CPMs for addressable ads.

Recommendations

- Engage with the consumer.** Regardless of whether an ad is delivered to a TV, online, or to a mobile phone, it must contain either a URL or phone number (or both) that allows the consumer to interact directly with the brand.
- Focus on quality of leads.** Cost-per-lead is a common marketing metric but it is highly dependent on all responses having the same value and conversion potential. This is rarely the case.
- Make ads relevant.** When consumers are in decision-making mode, they want to get beyond the sales pitch to explore features and benefits in order to determine whether a product or service meets their needs. If you fail to meet needs for deeper information, you will lose viewers' interest and the opportunity to turn them into customers. Your ad should demonstrate products, features, and expertise in a manner that compels viewers to learn more by taking an action such as going to a retailer, your website, or picking up the phone.
- Track Marketing ROI.** Market ROI is driven by four primary factors.
 - 1) Incremental customer value
 - 2) Lead-to-purchase conversions rate
 - 3) Cost-per-sale
 - 4) Total sales volume
- Take care when measuring lift.** Key steps for measuring lift include the following.
 - 1) Minimizing the impact of seasonality with a comparison to prior-year sales.
 - 2) Determining the amount of time during which the average is most predictive of the baseline sales and using that time period consistently.
 - 3) Removing high-variance data that may include select markets, products, customer segments, or sales channels that can distort the pre-post sales comparisons.
 - 4) Running Analyses of Variance (ANOVA) tests on your pre-post campaign results to determine whether your measured sales lift is above or below your margin of error.

- Set clear objectives.** Having clear objectives sets the tone for an advertising campaign. Objectives are the standard by which proposed concepts should be evaluated and a campaign's success measured.
- Match your media to your objectives.** If you are marketing a broad-based product, direct mail is probably not the way to go. It is too expensive on a per-thousand basis and takes too long to execute. Television and digital are better mediums. Once you have created and produced the spot, the cost of buying television can be as low as \$10 per thousand. For niche or micro-markets digital, direct mail, the telephone and print advertising will yield better results.

About Mercury Media

Mercury Media is the largest privately-owned, full service direct response media agency in the country, headquartered in Marlboro, Massachusetts with offices in New York City and Santa Monica, California. The agency launched the first full service Hispanic direct response specialty practice, Mercury en Español, in 2009. Established in 1989, Mercury Media specializes in long form, short form and digital direct response advertising and is committed to providing its clients with best-in-class measured media solutions across multiple platforms to achieve their strategic objectives and maximize their return on investment. By leveraging its unparalleled experience in direct response media and cutting edge analytics, the agency develops and executes innovative media campaigns that deliver superior results. For additional information regarding Mercury Media's clients, services and expertise please visit: www.mercurymedia.com For original articles, please visit The Mercury Index Blog at www.mercurymedia.wordpress.com. Follow us on Twitter: www.twitter.com/mercurymediadr