

**The 4 S's: Second by Second, Set By Set
Requiring And Funding Better Accountability**

**Tom Wolzien
Luncheon Speech
ANA 2007 TV Forum
Marriott Marquee
March 20, 2007**

Good afternoon and thanks to the ANA and our Discovery hosts—Scott McGraw and Evan Sternschein.

A few weeks back I passed my 60th birthday, and I spent part of the day at Second Life on the Web. Research. When you hit this age the idea of Second Life...actually A second life... looks pretty good. But with age on my mind, I couldn't help but wonder how many of those hot young avatars might really be the alter egos of octogenarian cross dressers. The point—you never really quite know what you're getting on the web.

But I'm not here to talk about avatars flying from island to island in search of whatever...I'm here to interrupt your day to talk about "one way media in a two way world." And in that context, I've been looking back a bit. Specifically, I've been thinking about the 40 years I've spent in and around the media business in local and network news, corporate management, on wall street and now as an independent working with senior executives.

I was thinking about the conversion to color, the conversion from film to minicams, from land lines to satellite to fiber, from three networks to hundreds, from mono to stereo, and now to digital. Like many of you, I've watched huge changes come over the classic, some call it legacy, television industry....changes in about everything except how we deliver and account for advertising. And that's what I'm going to talk about this afternoon, following up on this morning's comments by the agency duo of John Muszynski and Rino Scanzoni.

Certainly there are interesting players out there working hard to find viable improvements for the delivery of traditional TV advertising: the talented scientists at Cable Labs setting standards, the big cable and satellite companies, Visible World, ICTV's Active Video, seamless switching and customer response from OpenTV—the guys who bought my patents years ago, and new efforts in VOD advertising to name a few. But progress within television is sometimes excruciatingly slow, and the new competitor, the web, is moving, well, at web speed.

At the TVB winter conference last year I talked about my concern for legacy media companies. Since advertising traditionally grows with the economy, on

average, any sector that grows significantly faster than the economy reduces the incremental growth possibilities for the remaining media. That's what the web is doing to conventional media—basically taking away a third to half their incremental growth...in some cases much more. We've watched what has happened to classified. Now with the rapid evolution of-- lets call it the video web--the question is what will happen to one-way television advertising as well.

Shifting to the web is not necessarily the panacea for growth at the big media companies. Moving material online may be essential just to dog paddle in an effort to keep above water, but it doesn't necessarily foster actual growth. For example, newspaper ad revenues last year were roughly flat according to Newspaper Association of America statistics released last week. But to be flat—not to grow, just to be flat—the newspapers had to sell \$2.7 billion of advertising on the web.

At an impressive 31%, the growth of their web sales still lagged the overall growth of all online advertising. To get their total industry growth rates back into noticeably positive territory last year—say 5%--newspapers would have needed a web advertising growth rate of an unlikely 161%. So the newspaper industry, now well along in using the web to compensate for its losses to the web, is apparently only able to use the web to tread water.

And as we all know, the investment markets don't reward companies or industries that tread water. Survival may seem to be a great accomplishment when you're on the inside of a company, but its hardly worth paying attention to when you're on the outside investing. Unless, of course, you're a hedge fund looking for something to short.

We can only speculate what will happen to television with the advent of the video web. But we do know that for now, at least, television remains the strongest way to present brand and product. But, there seems to be a disconnect as TV builds brand image or product demand, and then consumers shift to the web to find out more. At that point the web gets the credit dollars.

But this isn't a discussion about who gets the credit. The ANA isn't focused on the problems of the delivery mechanisms, except as how they impact the efficacy of the advertising purchased by its member companies and the accountability and viability of those delivery mechanisms to achieve what you need to do. Advertisers want results, they want efficiency, they want to eliminate waste, and they want to be able to prove those results.

Measuring the efficacy of advertising has always been elusive. Historically, finding ways to tie viewing of an ad to an actual consumer response have been hampered by technology. Accountability of what is being spent on advertising versus who is actually seeing it has been hampered by technology and by money. How many times have there been calls...even plans to develop alternatives to the single television ratings systems, and how many times have

those plans been dropped for a myriad of reasons...but mostly money? When it came to a choice of making strategic investments in alternative ratings systems, or in maximizing short term earnings, the modern media companies have opted for the short term. That was then. There may be a chance for change now.

Now there are new and growing opportunities to measure television usage with far greater accuracy than in the past, and ways to fund those opportunities. The reason is the advent of digital boxes tied to a return path which not only provides the ability to understand usage by what I call the 4-Ss, set by set, second by second but also to fund the collection and processing of that viewing data by tapping into marketing revenues. Those marketing revenues are generated as consumers use the same return path that collects the data to ask for more information, ask for more video, or to purchase products.

For reference, please imagine a circle of accountability, consumer response, and fulfillment. Put the media company transmitting programming and advertising on one side of the circle...and draw a line directly across the diameter to the consumer.. One way media sends content and advertising straight across this line the consumer...and today it dead ends there. One way media or dead end media, your pick. But now visualize a return path for accountability looping up in a half circle, around and back from the consumer to the media company. That return path permits full knowledge of how the media product is used, and the collected data can be branched off to agencies and advertisers. But if that half circle also allows the consumer to ask for more information, to buy products, to provide information for lead generation, then the circle can be completed back around the bottom to the consumer as the requested material or products are delivered by email, a web link, a phone call, additional video, or physical transport. With that request and fulfillment process the dead end media line has become a full circle encompassing the consumer, the content company, the agency, the advertisers, and, of course, the transport company that is the missing link in making it all happen.

Everything becomes connected when advertisers require large scale usage measurement, numeric measurement, not just estimates based on 5 or 10 thousand users.

Lets talk about accountability and elimination of waste, because that's what drives the need for measuring effectiveness, and after full testing the best systems of accountability will ultimately provide the technical foundations for marketing and commercial relationships that will pay for improved measurement.

I would like to suggest how the discussion may evolve over the next five years to one with much more precision, if that's what advertisers require. We know several things:

First, assuming the current schedule holds, by two years from now the shutdown of local analog television transmitters will be a month past. With an average of almost three sets per household, consumers will be coming to grips with how to get their old analog sets...and their new digital sets that came without digital tuners... to see the digital transmission streams. Some may view over the air with government subsidized converter boxes, others may add more digital cable boxes, and, if cable operators don't down-convert the new digital transmissions to analog in the clear, others may just quit watching over the air television on the old analog sets which may reside today, box free, in their bedrooms, kitchens, or garages. There will be upheaval, but it won't last long for a second thing is occurring:

Cable operators are pressing to get more and more customers off the old analog transmission pathways and onto bandwidth-efficient digital platforms. Already my cable provider, Cablevision Systems, has made a digital box a prerequisite for, first, premium movie channels like HBO, and more recently, some expanded basic channels like Turner Classic Movies.

I need a box on every set where I want to watch HBO or TCM. And that's just the beginning. Cable operators need more of their plant's bandwidth for their very successful data and telephone services, as well as the increased bandwidth required by HDTV. To get that additional bandwidth, they need to recover the old analog pathways. For standard definition transmissions, they can jam up to ten digital picture pathways in the same bandwidth capacity that one analog channel required before.

The combination of the fallout from the analog shutoff and the bandwidth demands of HDTV, phone, and data will likely push the larger cable operators to put digital tuners on every set in the homes of every customer over the next five years or so. And where it makes sense, cable operators will adopt a system of centralized switching of video.

Third, satellite operators. Echo Star and DirecTV have used dialup return paths since the beginning, but now are moving to tie broadband circuits into their digital boxes as a way of directly downloading video. But an Ethernet connection will also allow instant return of second by second, set by set information from the consumer to the satellite operator. And of course, if they are able to win the upcoming wireless auctions, they may be part of a national wireless system which would provide their boxes with a wireless return path as part of a much larger data play.

And fourth, we know that increasingly individuals rather than family groups are watching television. We often watch alone, in our favorite spots. And after careful testing, this makes it easier to identify a set and its digital box with a specific viewer demographic.

When you put these four changes together, it suggests that within three to five years there could be a viable system in place to collect massive amounts of data on usage on a set by set, second by second basis. The total number of digital households will be approaching the total number of multichannel households, and the total number of sets capable of receiving digital signals will be approaching the total number of all sets in digital households. And this will allow a more numeric view of usage, rather than one based on as much on sample groups and estimates.

And that should be great for accountability and bad for waste. It should make ad buyers happier because they'll better know what they're buying. It should make company purchasing managers happier because they'll know what they're getting. And it should help pacify those who specialize in the arcane requirements of Sarbanes Oxley, because they'll be able to justify better how their companies are spending their shareholders' money. That's what should happen. But not necessarily.

Not necessarily because the cable and satellite operators may not be placing use of their facilities for better accountability to benefit national network advertisers high on their priority list. They may have other priorities, including their Video on Demand, Phone, and Data services. In fact, it is possible that they will want to withhold the use of data and the return path from everyone except a sales advantage for advertisers on their local systems—certainly that's what the sales people for local cable ads will want to do. After all, for right now, at least, the satellite, cable and phone companies don't share revenues or get a direct cut in any additional services provided by the national programmers whose signal they transmit. Right now at the corporate level they don't get a break on sub fees for providing return path services to networks. Simply put, they are not incented to care who sees your ads on national networks—broadcast or cable.

And the cable operators aren't the only ones that may not particularly want to push for high levels of accountability. Some content companies may worry they'll lose a sales edge. Some years back I asked the CEO of a major network company about using the return path for better information about viewing, he looked at me and said in his famously disdainful way, "Tom, why would I ever want that?," Mel said, "With better accountability, I couldn't sell the sizzle." But maybe he saw what was coming. He's now selling the sizzle of satellite radio.

So there are two potential blocks to getting the best accountability possible for advertisers. One is finding a way to incent the carriers to participate. The second is causing the traditional media companies to want to do a better job. The group with the most to gain by eliminating waste...and therefore the most incentive to require improvement...that group is the advertisers.

In the past it was easy to deflect such advertiser demands by saying that asking for better accountability was a waste of time, because the technology didn't really

exist. Today every major cable company is testing return path technology, so claiming a the lack of a way to achieve better accountability is no longer valid excuse.

Beyond the requirement for better accountability is how to pay for it. Certainly the cable and satellite providers have every right to be paid for providing return-path data services. Some might think that payment to the operators should fall within the normal overhead of a broadcast or cable network. Yet the natural audience fragmentation that we have been seeing is also fragmenting margins of the largest services. And the smaller services, particularly many of the digital networks, are running on the edge of profitability, if they're lucky. So a new pool of money would make this margin problem easier to solve.

There is a pool of money new to much of the media industry which the return path could access. Media companies could add a third revenue pool--marketing dollars—to the current revenue pools of advertising, and subscriptions. By moving to open up this third revenue pool, which may be as large as two thirds of all advertising, the media companies can also fund a process of providing better accountability for advertisers. And at the same time, the content companies and their carriers also increase efficiency for advertisers and marketers because there can be a direct tie between the content--the commercial, as it is viewed, and the generation of leads or actual transactions.

But a question: If the return path is so important, why not just push TV viewers over to their computers to access and respond on the web. Many are trying to do that today, certainly with some success. But there is an inefficiency—an interruption, a loss of thought, a need to do something else—when viewers have to go to their computers rather than simply following up on an ad with their remotes.

Another question: Then why shouldn't we just shift all video transmissions—all content and advertising--over to the web? Certainly that may make sense one day. At CES this year we saw the ease in which video can be moved from the computer or modem to big screens around the house. In fact, the video transmission processes of AT&T and cable switched video are based on Internet Protocol approaches.

But the core of the internet itself—the transmission pathways across the country—is not currently engineered for the hundred million plus individual, simultaneous, and near continuous very data intensive connections that would be necessary to serve video to all current TV viewers as they watch and zap their way through prime time. Additionally, the current shared architecture of cable's neighborhood distribution system cannot handle that sort of prime time video data distribution today.

Fact is, the technical broadcast model used by over the air transmitters and by cable and satellite operators is the most efficient model to make the same content available to many users simultaneously. The establishment of multiple separate connections so that you and I can view the same stuff at the same time is inherently inefficient. But if I want to view it when I want to—watch in a non-linear arrangement-- then a combination of VOD—by internet stream, within the cable walled garden, and/or by download to local storage like TiVo makes the most technical sense.

As consumers increasingly look to control their own lives, there will be increases in web or cable VOD. And, over time, it could be argued that the linear networks will evolve into marketing platforms for on demand programming and other information related to sales and marketing. But that is then...and this is now. And the problem now is finding a smooth transition from here to there; one that maximizes the waste-saving benefits to the advertiser paying the bills while minimizing the destructiveness of the transition to the content and transport companies. Yes, content and transport are related because strong content guarantees strong demand for strong distribution, and allows distribution to mark up its services, not just be a commodity carrier.

And strong content guarantees advertisers an appropriate and environment in which consumers can learn about brands and products. And that suggests that to keep mass audiences—even audiences of a smaller mass—in a known place where advertisers can safely reach them, there needs to be more money available to make better shows—rather than cheaper shows. Yet audience and advertising fragmentation work against putting more money on the screen these days. The only place to find that money, it seems to me, is by opening up that marketing revenue pool to legacy television.

If, as a television consumer, I see an ad for a car I like and I can click for more information or to see an extended video, then that's easier for me, and good for everyone up the food chain—cable company, content company, agency and advertiser. If I see an ad for a new drug and I can click for more information, I can better understand whether its right for me or not, and its good for everyone up the food chain, as well. If I see a movie trailer and I like the movie and I can click to watch it right then...or get the DVD or download...then, if the money's right, its good for everyone up the food chain. Good, even if the network loses its 35 cents per prime time household hour...but they split the \$5 VOD cost with the cable company and the studio, who may be willing to cut the network in because of the increased volume.

All of these options become part of a broad system that opens up a huge new revenue pool to content companies and their carriers, a revenue pool that can allow for improved content, increased revenues, and most importantly, to pay for better accountability for the billions in the ad dollars those of you in this room handle each year. But since this blueprint may not be seen as being in the short

term interest of some content companies or carriers, it really is the advertisers who are in a position to require it, to demand it, to test and prove it out and, in doing so, move to solve their own needs for accountability, and by doing that, improve their bottom lines while complying with new regulatory and accounting realities.

Thank you very much for your time this afternoon.