

**Prepared Remarks by Tom Wolzien  
Chairman, Wolzien LLC  
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**SLIDE TITLE**

Good morning and thank you Chris...

Now to start this, Chris Rohrs was kind enough to let me borrow some of the research he will be presenting this afternoon. It is...you will be shocked to hear...extremely supportive of television. But while celebrating television, I also am taking it in a little different way.

(TV REACH Slide)

For example, TV reaches more adults every day than any other Medium, according to the TVB/Nielsen Custom Survey. But the warning sign here for me is the Internet, now reaching 60% of households, still well behind TV, but more than magazines and almost matching newspapers.

**ADTRACKER SLIDE 1.**

If you couple that with my Bernstein friend Michael Nathanson's ad tracker research based on the reports of 35 public companies, you may see something to worry about. Last year all television advertising saw a respectable 4.2% ad growth...

(ADTRACKER SLIDE 2)

... but Online grew a huge 41%...with its ability to provide accountability, lead generation and purchase interactivity...

**ADTRACKER SLIDE 3**

... bringing all advertising up to 6.2% growth last year. Here's where it gets sticky...

**ADTRACKER SLIDE 4**

Without Online, all advertising grew less than 3%. If you think about this in the context of television....6.2 total ad sales and 4.2% TV, Television effectively gave up 2 percentage points of growth to the web.

**TVB REACH SLIDE**

Another slide courtesy of Chris. Most adults learn about products and brands from TV...but yet advertisers are clamoring to put money into the internet. As content moves to the web, so do advertisers. Some agency folks in this room are suggesting

that advertisers put 5-20% of their budgets into new media...specifically online. Why? Eyeballs, accountability, and interactivity—hard leads if not outright sales. People are watching, advertisers know who is watching, and the consumer can ask for more info or can buy.

#### **SLIDE BIG GAP Chart**

I think there's a big gap growing here....one way media like TV is educating consumers, but consumers can't respond directly.

#### **SLIDE BIG GAP Text**

So after being taught and motivated, consumers go to the web, and when they do that, the web gets a big chunk of the advertising credit for the initial education and motivation provided by legacy media. As a result, the one way media...and that's the bulk of your business...one way media leave dollars on the table.

#### **SLIDE BIG GAP Finance 1**

And if this keeps on, it will become a very big deal. Lets see how big by mixing by mixing Nathanson's Bernstein ad estimates with the Internet Advertising Bureau numbers for last year. First, lets assume that we're not in a period of runaway inflation, and all advertising grows at roughly a 5% rate for the next decade.

#### **SLIDE BIG GAP FINANCE 2**

Now lets put the Web against that. Last year according to the IAB, the web reached 12.5 billion in ad sales, up 32% for the year, and 36% in Q4. That 12 billion is already in the range of national spot television. Now clearly its not going to keep growing that fast forever, but it will almost certainly grow rapidly for awhile...and if we figure that web ad growth ramps down from this level to about ten percent in ten years, it will be a business as big as all television is today—\$65 to 70 billions.

#### **SLIDE BIG GAP FINANCE 3**

What's got me worried is the story going forward... what happens to all other advertising if the web grows at anywhere close to this rate. If all advertising including the web is not going to grow much faster than its traditional levels, then dollars have to come out of existing media. In order to reach those estimated web levels, as much as two thirds of the incremental dollars—the new money-- coming to advertising will go to the web, not conventional media...which means that instead of averaging 5%, whats left for advertising growth for conventional media without the web drops to only about 2%.or so...not even keeping up with inflation.

#### **SLIDE WEB FINANCE 4**

Put another way, between half and two thirds of the incremental growth of one way media will shift to online...and a lot will come from TV.

#### **SLIDE THREE WEBS 1**

How will web video and advertising evolve? Besides search and display as we know it, probably in at least three ways.

**The first is derivative of conventional video distribution,**

**SLIDE THREE WEB 2**

**The second is consumer created content like YouTube and Google Video,**

**SLIDE THREE WEB 3**

**and the third voyeuristic content like that found at MySpace.**

**SLIDE WEB LOGOS FOR CONTENT**

**Video CPMs on the web appear to be running as much as 2 to three times conventional broadcast. Between those CPMs and transport costs declining, its not surprising to see shifting of content from existing media and the creation of derivative, interactive products. MTV with its Overdrive product, ESPN with its multiple web vehicles, Disney embracing an advertising model even after it began with a pay-VOD approach, ...CBS with Basketball, Golf, and CSI, and now Fox completing a deal to put 60% of its prime time content on the web and give affiliates about 12% of the revenue.**

**SLIDE DERIVATIVE CONTENT NOTHING NEW**

**In my mind, the shift of shows to the web, even with better accountability and interactivity, is not unlike shifting soap operas from radio to television shortly after World War II. Over time, advertisers paid a lot more for TV and TV surpassed radio because the content was more engaging, and the advertising more effective. Certainly video was a big change from audio only... but interestingly, the content format was roughly the same. There's another good example of the shifting of similar content formats besides the soaps.**

**Arthur Godfrey's Talent Scouts show was on radio for almost 15 years and then morphed to TV and became the number one show on Television in the 1951 season. And it stayed in the top 10 for most years until it was retired in 1958...**

**SLIDE AMERICAN IDOL**

**...but 45 years later the format reemerged with equal power under a new name you might recognize....American Idol. Who says old formats die...**

**SLIDE YOU TUBE/GOOGLE**

**A second type of internet is emerging in the consumer created area—If you haven't spent any time with YouTube or Google Video, make that your homework assignment for the weekend. The rise of consumer created content—or consumer selected content with portions copyrighted by others-- represents a confluence of very low barriers to entry in production—low cost video and cell phone cameras, notebook computer editing—and very cheap distribution using the web. With minimal capital costs and no barriers to distribution, the limitation on success becomes only the creativity of the contributor, or the fortune to be in the right place at the right time and capture the ten-thousandth guy get hit or bitten in the crotch.**

**SLIDE COCKROACH CONTROLLED ROBOT**

**Ask yourself what 52,208 viewers of the Cockroach Controlled Robot on YouTube are worth. At a \$30 CPM, maybe \$1500. With multiple aggregators, it is only a matter of time before money starts flowing to the amateur producers for content that is unusual and can help bring in viewers. And as this progresses, you just have to ask if the You Tubes will find themselves having to bid for the content shot by people who are now professional producers...who were previously known as amateurs?**

#### **SLIDE LOCAL COLLECTION SYSTEM**

**Speaking of amateur producers, I continue to be amazed that not one of the major television companies has used the capability of low capital cost for cameras and the web to institute a system wide content collection vehicle...building the world's biggest stringer system using middle school and high school kids, retirees, church groups, and everybody else with a camera. Using a web vehicle to tie people into their system today...to guarantee station and network access to the best stuff tomorrow.**

#### **SLIDE SOCIAL NETWORKING**

**And the third Internet video/multimedia form is targeted at the voyeuristic consumer through social networking. I think this is the first really new entertainment content on the web. MySpace and other networking communities generate use time—and therefore provide advertiser access to consumers who are searching to fulfill their dreams or desires...or just plain gossip.**

#### **SLIDE SOCIAL NETWORKING AD**

**And as they are gathering eyeballs...they are also beginning to gather legitimate advertisers...all of which explains why News Corp decided to diversify in this direction.**

#### **SLIDE STATIONS IN A TWO WAY WORLD**

**When I first wrote about the Internet Bypass while at Bernstein going on three years ago, it seemed to me that it would provide the big producers the ability to cut out the middlemen—both cable operators and stations—and go directly to the consumer.... And as consumers have the ability to access content directly, the advertisers follow that content...and those consumers. They get accountability, solid leads, and the potential for immediate sales. And so they put more money onto the web.**

**These twin issues...the move of advertising to the web because of its perceived better accountability and interactivity...and the move of video content to the web because of its perceived higher ad rates and definitely fewer middlemen...these twin issues bring me to the question of how a one way television station can operate in a two way world.**

**We have some examples of excellent starting points in the television station universe.**

#### **SLIDE GANNETTWEB/WRAL**

**Roger Ogden will be talking about the Gannett web efforts which he was extremely instrumental in starting back in Denver. WRAL and Decisionmark are working on limiting web use to local markets to solve some of the rights issues. Similar approaches would permit networks to put their material up on the web in real time or VOD time, and let consumer only link in through the local affiliate's site. Want to watch General Hospital live in New York, you'd connect through 7online.com. There is a way for affiliates to control video in their own markets...the question is whether deals can be reached with the networks.**

#### **SLIDE IBC and WORLD NOW**

**Internet Broadcasting and World Now both are making huge strides in helping stations bring their content to the web while building a very important national spot approach for advertising.**

**But any way you cut it, these are derivative diversifications on a new distribution platform. They don't solve the basic problem of how to protect, maintain, and prosper with the existing one way television transmission medium. How does one-way TV match the web's accountability, hard lead generation, potential for immediate sales, and, soon, zoning? In addition, since we've already seen that the web took two points of ad growth away from TV last year, can broadcasters diversify the core business fast enough to avoid serious damage.**

**In short, how do broadcasters with the greatest brand-building and selling medium in history collect what's due them, rather than just prepping the consumer to move off to another medium, the web? ...**

#### **SLIDE RATINGS: Rentrak, ERINMEDIA & Touchpoints**

**There are ways that have been discussed for some time, and now with the power and challenge of the web apparent, broadcasters may be motivated to negotiate ways to use them. Remember that some 85% of broadcast television households are connected to cable or satellite...and both cable and satellite receivers are connected by return pathways which could carry information that identifies what's being viewed in every household second by second—with appropriate guarantees of privacy. Companies like Rentrak, Touchpoints ROI Audit, and ErinMedia (Nielsen lawsuits aside) along with others are beginning to show that extremely precise ratings approaches can be had by working with the cable plant. Today's ratings sample of 5000 to 10,000 households may become 50 million, or more... and tracking almost every set in the home.**

#### **SLIDE ACTIVE RETURN PATH (SLIDES ANIMATE 1,2,3 on 1sec)**

**There is a circle that occurs with a return path. That Return Circle is initially passive, delivering viewing information back to a central point for improved accountability. The circle continues with Active selection of content and information choices by the consumer and a return to the consumer of additional information or products. The technology for these processes is available today, from companies like the very creative VisibleWorld ...with its ability to assemble**

spots on the fly in your digital set top box...or middleware provider OpenTV, which acquired a lot of interactive intellectual property including my own and in which I continue to own stock.

Some of the processes actually let the primary television station push viewers across to a virtual channel where they can see extended stories or commercial messages without losing them out on the web..

#### **SLIDE WORLDNOW/ICTV**

That's the basis of a recent deal between World Now and a company I've done a bit of work with, ICTV. Its called Active Video...and it lets a station make all of its news or weather or additional advertising available on a virtual cable channel right within the cable system, only one click away from the station's programming. Sort of broadband choice with television quality...and the switching speed consumers are used to with their remote controls rather than having to crawl through slow VOD menus. The ICTV--World Now deal is a creative way to begin to bring web advertising home to TV, but, like Visible World and the accountability systems, it also requires the television station and the cable operator to work together.

#### **SLIDE REASONS TO WORK TOGETHER**

So are there reasons for cable and broadcasters to put aside what sometimes seems to be a blood feud and work together?

On the cable side, there's the financial value of applying the industry's huge \$70-billion plus capital outlay to build a return path instead of paying cash for content. Of course, this plays to cable's rule of ABCs..."anything but cash." But after some consideration, some stations may decide there are reasons to work with cable that may deliver more value than immediate cash. Two reasons come to mind. First to be positioned for the longer term with a viable two way system that can hold on to advertising cash flowing to the web, and second, if necessary, to buy time for corporate diversification by protecting the core business.

#### **SLIDE THE BIG QUESTION**

That leaves a big question, what creates more value for the station—using retransmission consent leverage to gain cash for carriage or access to a return path and the improved accountability, interactivity and lead generation, and zoned delivery that working with cable would bring.

Its an emotional issue for both stations and cable—stations since cash for carriage has been the goal ever since the 1992 Cable Act, and not paying cash has been the battle cry for cable since retrans was forced into the Act in the Conference Committee, without any debate in Congress...and then passed over a presidential veto.

The first post-Act compromise—new channels for station carriage-seems to have run its course. So the discussion has turned back to cash. Ten cents, twenty five cents...maybe 50 cents a month per subscriber...even more. But cash for carriage is only for a one way medium. It doesn't address living in a two way world.

### **SLIDE MODEL 1**

**While I have covered both cable and broadcast companies, and I've worked on the content side of both, coming to grips with the idea that there may be valuable alternative to a war over cash payments has been difficult. So I did what I often do, I built a model to help me understand the question, which is, I think: ...if broadcasters really see the web as a threat, is there more value to be created by a station's getting cash sub fees, or having access to a return path for ratings, lead generations, interactive sales, and access to cable's zoning ability? I've got some screen shots to show how the model it works.**

### **SLIDE MODEL 500k HOMES**

**Lets use an average market—though we can insert data from any market in the interactive version. The average market size is about 500 thousand homes, probably growing around 1% with 85% multichannel penetration.**

### **SLIDE MODEL \$16mil**

**Using the BCFM data for an average station's revenue and margins for three net affiliates, we have about \$16 million in revenues....at a 38% margin. Assuming equal revenue and cost growth, we have a station that produces a net present value of about \$120 millions in revenue and \$45 millions in operating cash flow, present value, over ten years.**

### **SLIDE 25Cents**

**Now, what if you're able to get 25 cents a sub per multichannel home? That's terrific...it delivers a huge, 25% OCF growth in the first year and a 23% improvement in Net Present Value over ten years when compared with taking no action at all. But there may be a problem in this... as we've learned from watching most cable networks, subscriber fees generally don't grow very much beyond inflation, year after year.**

### **SLIDE 4% PREMIUM**

**But now, what if there is additional value in using the return path for accountability, interactive sales, lead generation and zoning? Experience will tell us the value, but for the purposes of our discussion say these benefits of adding a return path would add, say, 4 incremental percentage points to the long term revenue growth rate you would see if you did nothing to the base business. The impact of compounding the higher rate becomes obvious...as the net present value of the operating cash flow created over both five and ten years exceeds the value created by the subscriber fees by 28% and exceeds the value created by taking no action at all by almost 60%.**

### **SLIDE 50cents**

**Now if you think you can actually get a sub fee to \$0.50 a month, then there is slightly more value created by the sub fees over five years, but over ten years there is more value created using the estimated return path premium.**

### **SLIDE WOLZIEN.COM**

**There's no apparent right answer for the industry here—companies looking for a near term earnings boost will want to go for cash, while those that see value in being able to compete for dollars going to the web may want to try the return path approach. Like me, the model may help you get a better understand of the issues and the points of leverage and strain. You can download the interactive version of the model for free from wolzien.com and enter the specific numbers for your station.**

### **SLIDE \$1**

**By the way, if you think you can get a buck a sub per month...you'll do 20% better than what you'd get with a 4% return path ad premium.**

### **SLIDE FINAL QUESTIONS**

**So as we shift into the next part of our program, some questions to leave you with...questions that we'll all be struggling with over the next few years:**

**Is web ad growth a threat to conventional television?**

**Can stations diversify their core businesses fast enough to avoid being squeezed by the web?**

**Does the core business need to be protected at all?**

**If it does, is a return path one of the best way to provide that protection?**

**And should stations and multichannel distributors work together?**

**And if a station doesn't do anything at all, does it raise a very ugly question...have the owners have decided that its time to Harvest and Redeploy capital.**

**And that is not a very pretty picture for anybody in this room.**

**Thank you very much.**

**(Background information and downloads at [www.wolzien.com](http://www.wolzien.com))**