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COMMERCIAL-RATINGS WHITE PAPER

HOW COMMERCIAL RATINGS CHANGED THE $70B TV MARKET

This paper examines the new currency's impact on marketers, agencies and networks

By CLAIRE ATKINSON
claireatki@gmail.com

IN 2007, AFTER DECADES of lobbying by marketers, what had long been considered the holy grail of TV ad measurement seemed to have become a reality: Commercial ratings became the currency of the $70 billion national TV market, replacing 65 years of program ratings.

Instead of measuring the number of people watching the programs and using that as a proxy for the total number of advertising viewers, the marketing world would finally find out how many people were actually watching each commercial. Or at least that was the general idea. As the 2008-2009 TV season gets under way, advertisers still are not exactly sure how their TV efforts are faring under the new currency. This is, in part, because last year's numbers were atypical, affected as they were by a broadcast business that was saturated with repeats of old shows, largely as a result of the writers strike.

For this paper Advertising Age conducted an exhaustive study into commercial ratings (a precise definition will come later) to ascertain whether the change worked out well for marketers, what challenges remain, and how commercial ratings have altered the business in ways both expected and unforeseen.

BIG CHANGE FOR TV

As upheavals go, this one was seismic. The move to commercial ratings—matched in scale only by the industry's switch from paper-diary collection of viewing habits to electronic people meters—has resulted in significant change for marketers. In broad strokes, the new currency has effectively reordered the entire planning and buying universe, put the focus on advertisers' own creative output, and greatly affected negotiations, as "audience retention" and "indexing" suddenly became the buzzwords du jour.

The change has been tougher for TV networks, which are no longer judged on the audiences they can attract to their shows. Traffic departments, which place ads in commercial breaks, have taken on new significance as differences among various breaks—or pods, as they're known—and ads' positions within them are analyzed to death.

The onus is on networks as well as marketers to scrutinize creative campaigns, though their quality is not, yet, a subject of price negotiation. The shift has been not only toward deeper data mining but in attitude. TV networks have been busy these past 18 months aligning their interests with marketers', shortening and lengthening breaks, implementing "pod busters," and generally becoming much more ad-friendly. Their lives now depend on it.

"The one thing that benefited the entire ad business was having every single video supplier look at the format and how they program commercials and where the promotions air with the goal to deliver the highest possible audience to commercials themselves," said Mike Shaw, ABC's president-marketing and sales. "That was a big benefit to the ad business, and that became our sole focus."

No matter how commercial ratings have altered the balance of power in the TV market, there is virtually no one who views the change negatively (although perhaps research departments might complain that they are overburdened and understaffed). The networks that have come out poorer for the change—some channels' ratings have fallen off significantly since they started measuring ads instead of shows—have simply sung harder for their supper, devising ever-more-innovative packages for their clients.

The branded-entertainment universe is very clearly expanding; multiplatform deals are more sought after than ever; and innovation is alive and well as everyone tries out new ways to boost their numbers, including live commercials and shows with fewer but more-expensive spots.

Most significant of all, the new currency is credited with keeping and possibly expanding the money in the TV system because of marketers' new insights into the return on their investments.

According to numbers from Nielsen Monitor-Plus for the first half of 2008, the big winners are cable, up 8.1% to $12.75 billion, and syndication, up 7.2% to $557.6 million. The broadcast networks suffering from the writers strike took a hit, down 6% overall to $11.37 billion.

The industry consensus is that the switch has been far from the calamity some feared in 2007. Commercial ratings are working well and can serve as the basic currency for TV trading for at least the next few years. Of course, there remain powerful agitators for this move to be the first of many steps toward more accountability. (Commercial ratings still measure only viewing of spots, and not behavioral changes such as increases in purchases of advertised goods.)

DEFINITIONS

Commercial ratings have had many definitions over the years, which is mostly the result of the limits of measurement. With some 23,000 prime-time ad units to track, Nielsen has not always been able to correctly identify the existence of a commercial as opposed to a promotion or a local ad; the company's expertise was in program ratings. The difficulty of picking up a commercial spot made it difficult for researchers to get to the precise number of viewers of a particular 30-second commercial.

But the industry has coalesced around a common commercial-rating definition: the average commercial minute per program. The cumbersome phrasing refers to all the commercial minutes contained within one show, averaged out across the six or so breaks.

That rating is then inflated by all the viewers who watch the commercials on DVRs within up to three days of their initial broadcast. The final calculation is what is known as C3, the buzzword for commercial ratings.

Some agencies—Magna, for instance—argue that more might be known about the performance of ad campaigns if the industry were to use an average across each commercial break. Others suggest a minute-by-minute calculation and still others a second-by-second measurement, the only precise rating for an individual spot. A broader measure has prevailed simply because of the sheer technological difficulties of going further.

HISTORY

For as long as TV has been measured, ad agencies have assumed a predetermined drop-off in ratings between a program and the commercial breaks. On average, it is thought that about 5% fewer viewers are exposed to commercial breaks as they change channels. For practical purposes, measurement companies can't know if viewers are attentive during breaks; researchers can only estimate that their targets are watching because their TVs are tuned to a particular channel.

When DVRs, provided by satellite and cable operators and TiVo retailers, emerged as mainstream consumer technology, advertisers started to see worrying changes in the way TV was consumed. DVR households were incorporated into the Nielsen Media Research sample in January 2006, when usage was less than 2%. Now it is 25% of the Nielsen sample and continues to rise. The result has been a falloff in what are known as live program ratings, as more people opt to watch their favorite shows when it suits them as opposed to at the times the shows are scheduled.

As ad skipping grew, the alarm bells started ringing at research departments up and down Madison Avenue. What use was an ad for Listerine that was supposed to air at night, when people were going to bed, if it was seen at lunch? Broadcast-network research departments quickly got the message. Hundreds of millions of dollars of ad dollars were potentially at stake if they didn't do something.

"The seminal event that started the move towards commercial ratings was the introduction of DVR technology," said Sara Erichson, exec VP-client services at Nielsen Media Research, "because the ability to fast-forward became a standard feature of anyone with a DVR, and that got buyers thinking: Why should I pay for a program that's played back" without the commercials viewed?

Association of National Advertisers President Bob Liodice had a different take: "The seminal moment came when TV networks started to realize that there was a run to alternative media such as [internet] search. The competitive environment changed, and changed rather dramatically."

Total U.S. ad spending in 2007 grew a measly 0.6% from 2006, according to Nielsen Monitor-Plus, but the internet as a category saw its share of ad revenue jump 18.9%. Network TV saw a decline of 1.5%, and national cable rose by 2.2%. (In a press release dated March 31, 2008, Nielsen said syndicated TV was excluded because of methodology changes.)

Anticipating the change DVRs would bring, two seasoned executives from WPP Group's Mediaedge:cia—Rino Scanzoni, then the agency's top buying executive, and Lyle Schwartz, its top research executive—began an in-depth analysis of just how well TV networks performed during their commercial breaks. What they found shocked them.

During prime-time hours, broadcast networks indeed retained about 95% of their audiences during commercials. But in early morning and late night, the drop-off during commercials was much higher, about 10%. On a multimillion-dollar ad buy, that was a significant number of eyeballs being purchased that did not appear to be getting delivered.

"When we looked at cable, the average was 90% [retention during breaks], but some networks had a 20% loss," Mr. Scanzoni said. Their research also discovered a distinct lack of regard for how national TV ads were scheduled. A spot during "The Tonight Show With Jay Leno" or "Late Show With David Letterman" might not appear until close to midnight. Also, more national ads than, say, local ads or network promos were running in the two lower-rated time periods, early morning and late night.

When the Mediaedge:cia executives initially brought their findings to the network and cable chiefs, no one seemed willing to do anything about it. "We're paying for exposures we're not getting, and we believe a lot can be fixed by changing the way you format commercials," Mr. Scanzoni recalled telling channel management. "They were cordial, and they listened, and nothing was done."

Other agencies, too, were taking a hard look at commercial breaks in an attempt to figure out the variables affecting commercial viewing, such as program type or position in a program. Steve Sternberg, exec VP-audience analysis at Magna, began conducting a widely recognized annual analysis of commercial minutes starting in 2005.

As the DVR sample grew from next to nothing to something approaching a mainstream level, executives sitting at network headquarters knew something had to be done. Their strategy was to try to persuade agencies to pay for time-shifting viewers, arguing, almost laughably at the time, that ad spots had value even if they were watched in fast-forward mode.

Mediaedge:cia again visited key network executives to press the case for a new way of measuring what gets paid for. Executives proposed an average of all the commercial minutes in a program. Mr. Scanzoni recalled that some said average commercial minute per program "wasn't good enough. But we said, 'This is a hell of a lot better than what we have, and we should test it and see.' It was very projectable."

Timeline

JANUARY 2006
Nielsen introduces DVR households into the national TV sample.

JUNE 2006
Upfront begins as networks back down on demands to be paid for time-shifting viewers. Agencies win debate, and live viewing remains the currency.

SEPTEMBER 2006
NBCU's Alan Wurtzel hosts "Camp David" meeting of senior industry figures to hash out how to proceed with commercial ratings.

NOVEMBER 2006
Starcom signs first deal for commercial ratings with TNS, which provides second-by-second data.

MAY 2007
Nielsen releases first average-commercial-minute data to clients.

JANUARY 2008
Nielsen begins providing commercial ratings for sports programming.

The data illustrated that there was little downside, it was stable and, most important, it was predictable. Shortly after that, the networks decided to make the change and get it made fast. They publicly requested the first set of commercial-ratings data from Nielsen in early 2006.

Alan Wurtzel, NBC Universal's president-research and media development, said: "We were getting zero credit and couldn't get into the conversation about who's watching on a DVR. This was the only way to get that back on the table, to give credit to time-shifted viewing. It was the reason it was adopted, and everybody got what they wanted." He added: "Our management totally understood it and embraced it. Change is never easy, but looking back, the transition was made seamlessly."

At the time, however, the debate was rancorous. The cable industry could see there was a major downside to measuring commercial breaks; many cable channels didn't do well on that metric compared with broadcast networks. Syndicators also were left behind because of a lack of Nielsen data. Both parties wanted to wait until the kinks were ironed out. That left Nielsen to decide whether it should wait to release its data for all parts of the industry rather than segment by segment. It decided to wait.

The 2006 upfront stalled for weeks as marketers and their agencies dug in their heels and held the line: They would not pay for time-shifted viewers.

Advertisers argued that their ads weren't being seen in playback. Mediaedge:cia data suggested that as many as 70% of viewers with DVRs were fast-forwarding the ads. For time-sensitive advertisers such as movie studios, and retailers and auto dealers with limited sale events, even ads that were watched were of limited value if they weren't seen in a timely fashion.

ABC led the broadcast-network charge for payment for shows watched within a full week of their broadcast. That measurement was referred to as live-plus-seven and counted all live viewing of programs, plus all the viewing of those programs during the next seven days. Nielsen was providing data for every single day of playback—for instance, live-plus-same-day, live-plus-two, etc.

ABC's Mr. Shaw recalled: "The suppliers did not put up a uniform front, and some cut deals on live-only, and eventually we wrote [business] on live-only as well." But, he said, "we had to change. We lost tens of millions of dollars for commercials not seen." One broadcast network estimated that if advertisers continued to pay only for live viewers, it could cost the company about $600 million.

After the disastrous upfront, Mr. Shaw led a push to do commercial-ratings deals as early as the scatter market with any advertiser that wanted to do business that way. Program ratings had remained the currency in the upfront even though agencies were able to see commercial ratings for the first time. Broadcast networks were surprised, however, that after years of calls for a move to commercial ratings, few agencies were set up to process them, let alone trade on them. Their trading system was not set up to process the vast amount of minute-by-minute ratings. Nielsen also had some difficulty identifying some of the commercials and separating out promos between the breaks as it worked toward an average of the ratings for all the commercial minutes in a program.

By the following upfront, commercial ratings had been firmly established as the new way of measuring advertising exposure. All that was left was to haggle over how many days of recorded commercial viewing would be included. The networks hoped for a full week of viewing to be included in the measure, while agencies argued for same-day playback or, at most, live-plus-one-day. What the two sides settled on was calculating ratings based on live-plus-three-days, the time frame in which the majority of playback viewing happens. It wasn't the seven days the networks had hoped for, but it was still better than continuing to do deals on a shrinking pool of live-only gross ratings points.

"We had to do it very quickly, because DVR penetration was only going to become more significant," Mediaedge:cia's Mr. Scanzoni said. "It's very hard to change an industry to have everyone agree, but we were unique in that we represent a third of the market. What we needed to do was lead this, and we felt the rest of the market would respond. We had to change to commercial ratings."

Nielsen ironed out enough of the major problems, and the new commercial-ratings metric was born. "The reason C3 became so successful is because it didn't require a change in their systems," said Nielsen's Sara Erichson. "And we still produced a single number," rather than seven streams of commercial ratings along with existing program ratings.

By the start of the 2007-2008 season, C3 was established as the best way forward, and even holdouts for more-accurate data, such as Magna and Starcom came onboard—for the short term, at least.

"We made the change, and the world did not end," Mr. Scanzoni said. "What resulted was a better world."

WINNERS AND LOSERS

With one fell swoop, the entire TV universe was reordered. Agency planners suddenly saw some programs and networks retaining markedly higher numbers of viewers for their commercial spots than others. That gave some sales-side executives many more ratings points to sell.

"It changed the competitive set and how and what you bought," said ABC's Mr. Shaw. "If you delivered more commercial viewing than competitors, you looked better. It changed the landscape of how TV is sold."

The top performer in terms of viewer retention during commercials for the 2007-2008 season among 18- to 49-year-olds was Nick at Nite, followed by Hallmark Channel and the Weather Channel. The top-rated broadcast network was Fox, which ranked 17th among all outlets, followed by CBS (21st), ABC (23rd) and NBC (24th).

(See chart, P. 5: Top 50 Networks. Source: Nielsen Media Research)

Magna analyzed live program ratings compared with C3 ratings in the key advertiser demographic of 18- to 49-year-olds from October 2007 to May 25, 2008. The top broadcast network was Fox; its commercials were watched more than its shows when playback numbers were added to its live rating. That some commercials might be watched more than the live broadcast of a TV program has raised many eyebrows and offered surprisingly positive news for the ad industry.

Fox's index was 103 (its average live program rating for the season was 3.4; with C3 it was 3.5). A single ratings point in the 18-to-49 demographic equals 1.31 million viewers. ABC, CBS and CW had indexes of 100—their live ratings were equal to their C3 ratings—while NBC performed less well, at 96.

To give some idea how C3 might suddenly inflate a network's performance, the best-indexed show for the season wasn't Fox's ratings juggernaut "American Idol," which took 38th place, but the CW's "Beauty and the Geek," which had an index of 117. The show picked up a whole 10th of a ratings point when playback commercial ratings were added in. (It is not scheduled to return to the CW this season, according to the network.)

(See chart, P. 9: Top Programs. Information provided by Magna and based on Nielsen Media Research data.)

The CBS show in the No. 2 slot was not "C.S.I." but "Jericho," while NBC's "The Office" ranked third. ABC's top show was "Lost," with "Women's Murder Club" only a few places behind.

Of course, this reordering doesn't take into account the extent to which advertisers might still want to buy into shows that do well on their live broadcasts and are less likely to be played back—for instance, NBC's NFL analysis or water-cooler shows such as "American Idol."

Nor does it account for marketers' continued cravings for associations with shows that are riding high in popular culture. "Winners and losers all depends on which way you look at things," said Sam Armando, senior VP-director at Starcom. "Some clients say they don't want recorded viewing, some say they want sports, some just want the highest C3 rating they can get."

"Despite the varied ratings matrixes we now have, including C3, buyers are still most interested in associating with hot shows people are talking about and watching," said the CW's exec VP-network sales, Rob Tuck.

A similar picture emerged in cable. The new ratings offered surprisingly good news for Hallmark Channel, with its highly involving movies. The network's commercial retention for the season was 95.41, best in class. The cable network has seen a 20% jump in revenue this past year, according to Bill Abbott, exec VP-ad sales. "Clients drove the agenda, and the result will be positive for Hallmark. It's a win-win. … Our ability to drive price has increased."

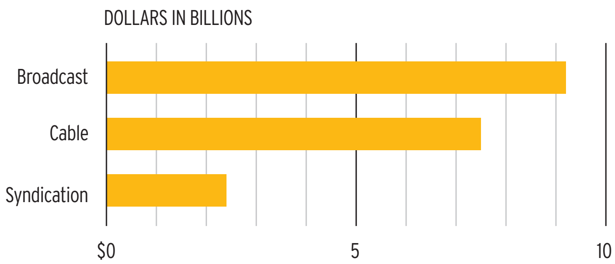
Other cable channels such as MTV, VH1 and TLC have had trouble retaining audiences through the breaks. Younger-skewing networks whose viewers are quicker to adopt technology such as DVRs have suffered (though Starcom research shows older people are leveling the playing field on DVR usage). Program formats such as half-hour entertainment shows also appear to have trouble keeping viewers involved during commercials.

"The losers? We knew right off the bat," said Chris Geraci, managing director-national broadcast at OMD. "Look at the demographic profile, and the younger they are, the harder it was to find them. What networks have done in terms of reformatting programs, they've just had to work a little harder."

As early as May 2007, MTV signaled it would not entertain the idea of commercial ratings. The network was showing only 88% retention in some instances. On a first-quarter-2008 conference call, Viacom CEO Philippe Dauman said MTV Networks had delayed writing business on C3 in order to better prepare for its arrival. "In those networks where there is some falloff, we've used scalable retention devices, such as increasing and shortening the number of pods," Mr. Dauman said. He went on to list other devices such as quizzes and program-related elements during the breaks. The Viacom stable of networks ranges from Nick at Nite, which was the No. 2 network for commercial retention, to Spike and Comedy Central.

HOW MUCH THEY SOLD

Upfront takes for the 2008-2009 season



Source: Advertising Age

Nielsen delivered some good news for the youth-skewing networks, however, with the arrival of college students into the sample, which helped improve their position somewhat. To compensate for C3 falloff, MTV Networks has worked hard to broaden its branded-entertainment offerings.

Hank Close, president of U.S. ad sales for MTV Networks, said: "We've done a good job delivering different executions, and at MTV and VH1 where we had a fall off we tried to do unique things in the commercial breaks." The networks tried a variety of new formats including picture-in-picture technology on shows such as TRL, or so called 'pitch and catch' techniques like offering prizes for texting the correct answer to on-screen trivia questions posed in breaks. Mr Close added: "There are much more exact measurements coming down the road with set-top-box metrics and engagement. C3 is just a rest stop on the way to something else. We are really aggressive about pushing that. We've done some unique deals not based on ratings data but on engagement metrics."

Overall, cable took ad dollars from broadcast, mostly because of both the writers strike and an increase in advertisers' search for better value plays. Cable was reported to have increased its ad dollars by between 10% and 15% to about $7.5 billion, up $1 billion from last year.

Syndicators have been thrilled with the change. Viewers of shows such as "Oprah" and "Dr. Phil" generally stick around through the breaks and also watch them live, with little playback. "It is a great thing for us," said Syndicated Network Television Association President Mitch Burg said. "Our top 15 programs, our index is in the 90s."

"Oprah" gains 7% more viewers with C3, according to Mediaedge:cia's Mr. Scanzoni, who added that the TV business might have been in danger of becoming economically unviable it had not moved to commercial ratings.

Another important positive for syndicated shows, Mr. Burg said, is that the number of available ratings points has barely changed. Thus, supply did not diminish, and prices weren't artificially inflated. "All our top 10 shows are within 1,000 gross ratings points," he said, adding that syndication has much shorter pods, and commercial loads can't be increased because of local TV contracts.

The market appeared to agree. Syndicators were able to command cost-per-thousand-viewers increases of between 5% and 7% and reported that their overhaul upfront haul rose to $2.4 billion.

THE COMMERCIAL BREAK GETS A MAKEOVER

In the brave new world of commercial ratings, every TV provider has been looking at myriad ways to boost the numbers and deliver much-needed eyeballs to agency buyers and their clients.

But even before the new currency took hold, the CW, began looking for ways to battle DVR-induced ad skipping. Its answer came in a series of two-minute shorts called content wraps. The concept involved brief programming interludes featuring such things as how to style hair with new products. The first batch came from a partnership with ad agency MediaVest and involved Procter & Gamble's Herbal

TOP 50 NETWORKS

Percentage of prime-time viewers 18 to 49 retained in 2007-2008

RANK	PROGRAM ORIGINATOR	% COMMERCIAL-TO-PROGRAM RETENTION
1	Nick at Nite	95.69
2	Hallmark Channel	94.03
3	The Weather Channel	92.70
4	TV Land	92.41
5	Cartoon Network	92.30
6	ESPN	91.22
7	HGTV	91.19
8	TruTV	91.18
9	TBS	91.12
10	Lifetime TV	90.74
11	USA Network	90.60
12	ABC Family	90.59
13	TNT	90.40
14	BET	90.23
15	Animal Planet	89.86
16	Comedy Central	89.75
17	Fox	89.29
18	Fox News Channel	89.02
19	A&E	89.00
20	Spike TV	88.42
21	CBS	88.13
22	Golf Channel	88.12
23	ABC	88.08
24	NBC	88.06
25	The History Channel	87.95
26	Sci-Fi Channel	87.73
27	Versus	87.66
28	Oxygen	87.64
29	Speed	87.47
30	FX	87.37
31	Discovery Channel	87.25
32	WGN	87.15
33	CNN	87.12
34	Travel Channel	87.09
35	ESPN2	86.99
36	WE: Women's Entertainment	86.96
37	Food Network	86.72
38	Headline News	86.45
39	CMT	86.18
40	AMC	86.03
41	TV Guide Network	85.87
42	TLC	85.63
43	MTV2	85.20
44	MSNBC	85.20
45	The CW	84.93
46	BRAVO	84.38
47	VH1	83.88
48	E! Entertainment TV	83.38
49	CNBC	83.21
50	MTV	82.82

Source: Nielsen Media Research. Provided by Hallmark Channel

10

Original Movie

Hallmark Channel is the leader in original movie production,

Ladies of the House
Florence Henderson
Donna Mills
Pam Grier

Generation Gap
Edward Asner
Rue McClanahan
Alex Black

Mail Order Bride
Greg Evigan
Daphne Zuniga

Accidental Friendship
Chandra Wilson
Kathleen Munroe
Ben Vereen

An Old-Fashioned Thanksgiving
Jacqueline Bisset
Ted Atherton
Tatiana Maslany

Moonlight & Mistletoe
Tom Arnold
Candace Cameron Bure
Christopher Wiehl
Barbara Niven

The Christmas Choir
Rhea Perlman
Jason Gedrick

The Most Wonderful Time of the Year
Henry Winkler
Brooke Burns

Our First Christmas
Dixie Carter
Julie Warner
John Ratzenberger
Steven Eckholdt

A Kiss at Midnight
Faith Ford
Dyan Cannon
Hal Linden

Hallmark CHANNEL

Premieres in 4Q

airing an original movie every Saturday night at 9/8c.

Essences line. Such segments were sprinkled throughout the schedule and were an instant hit.

Fox also tried out some new ideas aimed at keeping viewers' attention during breaks. It created an animated taxi driver named Oleg who was featured in a series of eight-second spots.

This past upfront, Fox laid claim to a marketing catchphrase for the ages, "Remote-Free TV," perhaps hoping to replace NBC's now-defunct reference to its Thursday-night program lineup as "Must-See TV."

The News Corp. network said it would apply the remote-free concept to two shows by dramatically reducing their commercial breaks. The idea was that less clutter and shorter interruptions might lead to higher commercial ratings. The two shows, "Fringe," from "Lost" creator J.J. Abrams, and "Dollhouse," from Joss Whedon, carry only five minutes an hour of commercial time; a typical load is between 10 and 15 minutes.

"It's a simple concept and potentially revolutionary," Fox entertainment chief Peter Liguori said at the time. "We're going to have less commercials, less promotional time and less reason for viewers to use the remote. We're going to redefine the viewing experience."

One buyer who bought into the show for a client said agencies are still waiting on C3 ratings, which require almost three weeks to process, to see whether the format had any effect. Advertisers who bought the show were charged high premiums for the few available slots. The buyer, who did not wish to be named, would say only that the premium was upward of 10%.

Late night has been the area of greatest experimentation in the interest of keeping viewers awake as long as possible.

CBS's "The Late Late Show," hosted by Craig Ferguson, even had an opening monologue that referenced commercial ratings and warned that a break would arrive much sooner than expected. CBS moved two breaks closer to the beginning of the show in the hope of catching viewers before they turned in for the night and earning a better rating. When one of the breaks ended, Mr. Ferguson appeared to be ending a joke the audience had just missed.

The rush to re-engineer commercial breaks has been more urgent in cable. Turner Entertainment has been on the cutting edge of innovation, said ad-sales president David Levy. This past upfront, it launched the idea of TV in Context, which involves ad placement that relates to a show's content. For instance, when a program features an allergy, an ad for an allergy medication might pop up. The company's Bitcom concept involves comedians telling jokes about a product, followed by a traditional commercial for the brand. "C3 was in some ways helpful in that it accelerated innovation across the board," Mr. Levy said. "It got everyone to think differently."

Discovery Channel also has started to embrace the idea of bringing people through the breaks. Joe Abruzzese, ad-sales president at Discovery Communications, cited ideas such as posing questions during shows. In "Lobster Wars," the network asked viewers the size of the world's biggest lobster.

Some marketers are testing the effectiveness of live commercials, which feature entertainers extolling the virtues of brands during shows. Toyota worked with syndicated comedienne Ellen DeGeneres, who spoofed the old '60s-style promotions as she shilled for Toyota's Highlander. NBC's "Tonight Show" featured a live spot for a Garmin satellite-navigation device. Their success depends, of course, on how subtly or humorously the promotion can be woven into the show.

Other methods of keeping viewers tuned in during commercial breaks are proliferating on cable news channels. Fox News Channel, CNN and MSNBC have kept their news crawls going to deliver breaking news during the commercials. Broadcasters are seeing the potential to sell ads on the lower part of the screen as programs air, another indication of the continually blurring line between commercial and program content.

CREATIVE ACCOUNTING

Just as TV networks have been forced to readjust to C3 commercial ratings, so too have marketers and their creative agencies. While they're not subject to negotiating over the quality of creative campaigns, they are being scrutinized in new ways by TV networks that are now concerned with how well their commercials, not just their shows, perform.

CBS's chief research officer, David Poltrack, said movie ads and a handful of amusing commercials do better than other types of commercials. He cited the TBWA/Media Arts Lab spots for Apple that feature caricatures of a PC user and a Mac user.

Shane Ankeney is executive director-audience planning at TBWA/Media Arts Lab, the unit set up by the Omnicom-owned creative agency to handle Apple's marketing. In a world driven by commercial ratings, he said, "we have to be what the audience is interested in and not interrupt what they're interested in." He said the mission is to make consumers want to watch. "If they're fast-forwarding, they go back. Or if they're watching a show, they're not hitting the fast-forward button because the creative is compelling, and commercial ratings help us quantify that."

NEW CURRENCY, NEW DEAL

The most immediate effect of commercial ratings on the market was to push down the number of ratings points in the market, and as supply fell, demand increased along with prices.

As TV providers saw their ratings go down, most compensated simply by pushing up their CPMs accordingly. If a channel saw its rating drop 5%, it simply compensated by raising the price of reaching those thousand people additional 5%.

"It changed the inventory available, and inflated pricing maybe more than necessary," said Brett Dennis, director-media and sponsorship, promotions and events at telecom T-Mobile, who described his company as being at the forefront of efforts to move to commercial ratings. "I'm glad we made the move to C3, but looking back and the impact it had on pricing, I'm not convinced it was the best thing for the industry." He now advocates a more-precise measurement of ads.

Happy or not, most advertisers accepted there had to be a trade-off. The problem on the sales side came when networks such as MTV saw falls of about 15% between their program ratings and commercial ratings. A 15% hike would have been an impossible sell. According to both sellers and buyers, some of those affected agreed to make deals at around the 7% mark. MTV tried to make up the difference by exploring other revenue generators such as branded entertainment.

CBS research chief David Poltrack explained how financial negotiations between buyer and seller might begin to change as a result of C3. "There's a real focus on measuring the actual communications power of commercials," he said. The ability of spots to retain viewers will be very much part of the negotiation in the future. "If I have a high-appeal commercial, I can hold the audience, should I get a discount or a primary position because I'm going to increase retention power? Conversely, networks are going to look at commercials that are not appealing and say, 'You're killing our commercial breaks; we'll have to charge you more.'"

While positioning appears an attractive negotiating point, the industry isn't quite there. Most networks say they still don't negotiate positioning of spots given the difficulty of making sure thousands of ads run where they are supposed to.

"Both parties will have a vested interest in ensuring that the commercial is effective," Mr. Poltrack said. "There will be a lot more collaboration on execution." Indeed, TV companies are being tapped to a greater extent to help marketers get their messages heard. Dove, MindShare Entertainment and MTV worked together to produce a microseries called "Fresh Takes," featuring Alicia Keys, which aired during "The Hills."

Have commercial ratings changed the shows agencies buy? It appears C3 ratings are only one of any number of variables media buyers pour into their databases to get to their target markets. In many cases, C3 has been a bigger deal for the sales side, as one buyer said C3 ratings simply tell marketers they are getting what they paid for.

"It hasn't reordered a lot of things we think about. When you talk about hot shows and buzz shows, they're the ones that are more DVRed, but they don't necessarily have bad C3 ratings," said Kris Magel, exec VP-director of national broadcast, Initiative.

At Initiative, Mr. Magel said, many important factors besides high C3 ratings are on buyers' wish lists. "There are other measures such as engagement, such as the IAG numbers." IAG is a firm that measures how well consumers recall a commercial as a way to gauge the ad's effectiveness. "I can't say it's changed the way we analyze shows," Mr. Magel said. "It just makes us worry less about commercial [audience.]"

The extent to which certain shows are time-shifted is something the broadcast networks are watching much more closely. While it's a problem for advertisers with timely messages, some agencies are starting to think that viewers watching commercials played back are more attentive and engaged and potentially worth more.

"It's a more valuable audience if you are watching something that you recorded," Magna's Steve Sternberg said. "That's the definition of appointment viewing, and you're probably more attentive. There are a lot of things we are trying to quantify."

Engagement indicators are suddenly on everyone's watch lists. Media agencies look for loyalty factors such as how many episodes of a particular show viewers watch, whether they have seen saw two of the past three shows, whether they are watching the full show and not flipping around.

TOP PROGRAMS

Leaders in C3 ratings vs. program ratings in broadcast prime time among adults 18 to 49 from Oct. 1, 2007, to May 25, 2008

		RATINGS		
	NETWORK	LIVE PROGRAM	C3	INDEX
Beauty and the Geek	CW	0.6	0.7	117
Jericho	CBS	1.8	2.0	111
Office	NBC	3.0	3.3	110
House (Mon. 9 p.m.)	Fox	4.4	4.8	109
New Amsterdam	Fox	2.3	2.5	109
Smallville	CW	1.2	1.3	108
30 Rock	NBC	2.5	2.7	108
Bones	Fox	2.6	2.8	108
Bones (Mon. 8 p.m.)	Fox	2.6	2.8	108
Lost	ABC	4.1	4.4	107
Big Brother (Wed. 9 p.m.)	CBS	1.6	1.7	106
Women's Murder Club	ABC	1.7	1.8	106
October Road	ABC	1.7	1.8	106
Big Brother (Sun. 9 p.m.)	CBS	1.8	1.9	106
Dexter	CBS	1.8	1.9	106
Terminator: Sarah Connor Chronicles	Fox	3.6	3.8	106
Las Vegas	NBC	1.9	2.0	105
The Price Is Right (prime time)	CBS	1.9	2.0	105
Boston Legal	ABC	2.1	2.2	105
Extreme Makeover: Home Ed. (7 p.m.)	ABC	2.1	2.2	105
Heroes	NBC	4.3	4.5	105
Dirty Sexy Money	ABC	2.3	2.4	104
My Name is Earl	NBC	2.5	2.6	104
Ugly Betty	ABC	2.5	2.6	104
How I Met Your Mother	CBS	2.7	2.8	104

Source: Magna based on Nielsen Media Research data

SPORTS: COMING INTO LINE

One major exception to the new-currency rules has been the sports arena, which has seen a huge influx of ad dollars given the propensity of viewers to watch sports live. Some say sports is TV's strongest sector right now.

Since Nielsen didn't have the ability to track the C3 ratings of sportscasts because of such factors as regionalization of games, among others, few pressed for playback numbers. Since January 2008, however, broadcasters of sports programming have been able to get C3 ratings along with the rest of the industry.

Some buyers said they were willing to pay premium rates for live sports but wanted to pay based on C3 for analysis and commentary programming, which is much more likely to be viewed in playback than games. According to buyers, ESPN has ceded some ground on that front.

DEAL MAKING OUTSIDE OF C3

While C3 is the industry standard, some networks are cutting deals based on alternative measurements. One influential broadcast buyer reported making a major deal based on C1 commercial ratings, or commercials played back within one day. The buyer, who did not wish to be named, said the deal kicks in on only a handful of dates but has netted additional dollars for the network.

Cabletelevision Advertising Bureau chief Sean Cunningham estimated that among the smaller cable networks, about 90% of ad-sales deals are done on C3 and the remainder on a hodgepodge of other metrics such as program ratings or data from TNS Media Research. HD channels, for instance, have a hard time gaining precise measurement data from Nielsen.

TNS Media Research aggregates data from 300,000 Charter Communications subscribers in the Los Angeles markets and spits out second-by-second viewership numbers that are used by big agencies such as Starcom in Chicago. MTV Networks also agreed in a 2007 deal to start using census-based information.

Starcom acquired Discovery HD Theater inventory during the May upfront, and by using TNS data, the company could see just how well its clients' ads were working. The agency's research showed that brand recall was three times higher for HD than for standard-picture TV channels.

DVR company TiVo has stepped out in a major way in 2007, shopping its ability to track what people watch in its 4 million homes. The company has deals to track commercial viewing with both Starcom and Interpublic Group's agencies, which include Initiative and Universal McCann.

GROWTH OF MEASUREMENT

As ratings measurement has become more sophisticated, so, too, has research on the performance of commercials themselves. A whole host of companies are arriving to help guide marketers on what's working and what's not. One of them, Glendale, Calif.-based Advertising Rating Company, established in 2006, helps the industry understand the effectiveness of creative spots.

Another mentioned by TV executives is New York-based TRA, which has secured first-round investment and is marrying census data with product-usage information to come up with a more-sophisticated viewer profile for networks and agencies.

Recognizing advertiser interest in their set-top-box viewership data, cable operators including Time Warner Cable, Comcast, and Cablevision have joined to form Canoe Ventures. The company, headed by former Carat CEO David Verklin, aims to speed up efforts that would provide agencies viewership data and help them track their spots second-by-second. The entity has $150 million in funds from the cable operators.

Set-top-box data on viewership is potentially a big improvement on the sample offered by Nielsen. However, it does not provide statistics such as demographics, which are key for determining target markets. Some argue there won't be any need to know how old a consumer is if the marketer is able to ascertain that the viewer is, say, a Coke drinker or shops at Old Navy.

Nielsen isn't being left out of the picture. "I've been in this business 25 years, and I've seen more change in the last three years at Nielsen than in the previous 20," said Jess Aguirre, senior VP-research at Hallmark Channel.

The company is talking about how the two entities might work together. "We are very actively engaged with [cable multiple system operators] and telecoms companies on set-top-box data," Nielsen's Ms. Erichson said.

Each sector of the TV market is working hard to kick its research operations into a higher gear. CBS's futuristic research center, Television City in Las Vegas, has state-of-the art eye-tracking equipment that tracks which parts of the brain light up when a person sees certain ads.

ABC announced in May that it is also establishing a TV research center and has created an Advertising Value Index to help advertisers drill down beyond simple demographics to help advertisers evaluate their buys.

NBC Universal, which owns a broad stable of cable channels, has invested not only in engagement metrics but in helping advertisers get to exposure levels across multiple platforms. Data from NBC Universal's Total Audience Measurement Interactive was unveiled for the first time following NBC's stellar cross-platform experience at the Beijing Olympics this summer.

CHALLENGES REMAIN

The new commercial-ratings currency has been in use for more than a year, and still the body charged with ensuring its accuracy, the Media Ratings Council, is yet to sign off on its validity. MRC members will not say when that will happen, since C3 is still experiencing some hiccups. Whatever its status with the council, C3 has been appropriated by the industry with relative ease.

Perhaps the biggest debate going on right now involves the definition of "commercial." ABC's Mr. Shaw said some networks are embroidering the truth when it comes to defining their commercial load to Nielsen. He said some are unfairly inflating their average commercial ratings by adding in program time.

Mr. Shaw wouldn't name offenders but gave an example of how it works. A single minute might contain 50 seconds of "Grey's Anatomy," and a further 10-second billboard for a marketer. Some would report the entire minute as a commercial, when it's more accurate to report it as a program minute.

Nielsen asks networks to self-report a percentage of their spots when it isn't clear what they are. While self-reporting of commercial inventory might seem like asking the fox to watch the chicken coop, Nielsen said it's impossible for it to know about the deals that have been agreed upon.

Turner's Mr. Levy said he doesn't believe an advertiser's billboard is part of the commercial. However, "there is a question of whether the 'Dinner and a Movie' franchise is considered commercial or programming," he said. "I say they're part of the commercial, with branded entertainment and product placement."

Nielsen's senior VP-national sales and marketing, Catherine Herkovic, said the issue is limited to 2% of all commercial activity. "There is a small amount of content that can't be captured. Because clients are trying to retain audience, they are blurring the lines between when a program starts and ends. We've been asking them to provide logs of nontraditional programming, and we are including anything they give us up to three minutes. We review them, and if they look unusual, we'll question it." She said Nielsen will be prepared to do things differently as the issue evolves.

The issue is on the agenda at the next meeting of the Commercial Ratings Commission, a body spearheaded by the Cabletelevision Advertising Bureau. The group is expected to meet several times in the next quarter to iron out such debates, said CEO Sean Cunningham.

Another problem with C3 is the delayed delivery of ratings. While live program ratings are available the next day, it takes Nielsen 19 days to produce commercial ratings. The increased time partly reflects the time allowed for viewers to play back their shows. "As of mid-August, we've been able to reduce delivery time by three days," said Nielsen's Ms. Herkovic. "From the time of the live rating to the C3 rating, we've brought it down three days to 19 days. To take it further, we're working on ways to do that, but it requires some trade-offs."

The delay makes financial accounting more difficult. Networks have simply had to do guesswork, projecting future delivery until the numbers come in.

C3 was expected to give broadcast networks a big edge over cable, yet cable won out, increasing its upfront take significantly. "Cable is up so much in impressions and delivery year to year, I wonder if some of that growth would have been more significant even without C3," said Hallmark's Mr. Abbott.

THE FUTURE

The industry appears split on how long C3 will remain the currency for TV. On one side are agencies and sellers who agree that moves to change the currency again would be pointless.

Group M's Mr. Scanzoni said he thinks the industry does a pretty good job counting eyeballs, and the focus now ought to be getting better data. "We need more engagement metrics, attention levels. We need to move beyond demographic data and income levels." His mission is to push the addressable advertising model and improve potential customer profiles.

NBC's Mr. Wurtzel said C3 will be in place for some time. "The next set of conversations are: Shall we start to move away from average program ratings to exact commercial ratings? That's where I feel we'd go too far." Another agency executive said he sees little point in continuing to "count all the angels on the pinhead." He said greater value lies in pushing for better metrics at other video providers.

Magna's Mr. Sternberg recommended moving to measurement of at least an individual commercial pod. "The real question is what will happen going forward, and there are a lot of different opinions. Some might think C3 will be the currency for a long time; I see it as a transitional currency until we can do something better."

For some the quest for true commercial ratings from the first second to the last is far from over. "The main question I have is: What's being done to move on?" said Starcom Senior VP-Director Sam Armando. "The industry has got complacent. They're saying, 'Let's use it for a while.' Well, I don't want to look three to four years from now and say, 'It's time to move on.' We need to keep the ball rolling, asking: How is Nielsen expanding the sample? How are you changing the reporting systems to report minute-by-minute? It seems like it's been too quiet for too long."

The ANA's Mr. Liodice said the future will arrive quickly. "There had been resistance to change from program ratings, so let's give a round of applause, and we shouldn't lose sight of its hugeness. Nothing said that it shouldn't evolve. We now have to evolve."

For those who are doing well on C3, it's hard to get behind another change in how they perform in the market. "I don't think 2010 will be consummated with any other metric," said Hallmark Channel's Mr. Abbott.

Even Nielsen said the currency will remain in place for the foreseeable future. "My speculation is that for the next two years, it will probably stay in place. As we talk to clients privately, I don't see a tremendous appetite for change," said Nielsen's Ms. Erichson.

That is not to say Nielsen isn't preparing to forge ahead. Many major marketers are talking to the company about putting codes in their ads that might enable the individual ads to be identified. Those on the forefront would like to ensure that more-precise data would show enough of a difference to warrant a huge investment.

Perhaps even more significant change is on its way, however, as marketers and their media buyers continue to move away from measuring effectiveness in terms of total audience numbers and instead want to see engagement metrics and even tangible shifts in behavior among those exposed to an ad. While they may focus on such things more in theory than in practice, there is no doubt that the overall trend is a shift away from eyeballs as the endgame for an advertiser. As that shift continues, TV sellers will have to do more than simply provide accurate data on how many people are watching the commercials that they air. The advertiser of the future, most buyers agree, is going to want to know who is watching and how they react to what they see. That'll take the business far beyond an argument over whether you can count a viewer watching your show one or three or seven days after it airs.

Sources: Shane Ankeney, executive director-audience planning, TBWA/Media Arts Lab; Rob Tuck, exec VP-network sales, the CW; David Poltrack, exec VP-chief research officer, CBS; Alan Wurtzel, president-research and media development, NBC Universal; Mike Shaw, president-sales and marketing, ABC; Kris Magel, exec VP-director of national broadcast, Initiative; Chris Geraci, managing director-national broadcast, OMD; Brett Dennis, director-media, sponsorship, promotions and events, T-Mobile; Bob Liodice, CEO, Association of National Advertisers; Sean Cunningham, president-CEO, Cabletelevision Advertising Bureau; Mitch Burg, president, Syndicated Network Television Association; Steve Sternberg, exec VP-audience analysis, Magna; Sam Armando, senior VP-director, Starcom; Rino Scanzoni, chief investment officer, Group M, and chairman, Mediaedge:cia; Joe Abruzzese, president-ad sales, Discovery Communications; Bill Abbott, exec VP-ad sales, Hallmark Channel; Jess Aguirre, senior VP-research, Hallmark Channel; David Levy, president, Turner Entertainment Sales and Marketing and Turner Sports; Sara Erichson, exec VP-client services, Nielsen Media Research, North America; Catherine Herkovic, senior VP-national sales and marketing, Nielsen Media Research; Hal Vogel, Hal Vogel Capital

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Original Movie Premieres in 4Q

Hallmark Channel is the leader in original movie production, airing an original movie every Saturday night at 9/8c. Among the new titles in 4Q, look for Candace Cameron Bure in MOONLIGHT & MISTLETOE.

Hallmark CHANNEL