

Accenture Analysis

On Demand and TV Advertising Issues and Opportunities

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Key Facts

U.S. PVR/DVR Adoption: Today and Tomorrow

- Today, 8 percent of U.S. homes have PVR/DVR devices (Tivo, Echostar, DirecTV)
- PVR/DVR owners are already skipping some 70 percent of TV ads
- By 2009, 40 percent of U.S. homes are expected to have PVR/DVR devices

But Ad skipping is not solely related to PVR/DVR adoption...

Ad Skipping in all U.S Households

- 2 percent of all TV ads are skipped today
- By 2009, 22 percent of all TV ads will be skipped

What does all of this mean...

Challenges to Linear Television Advertising

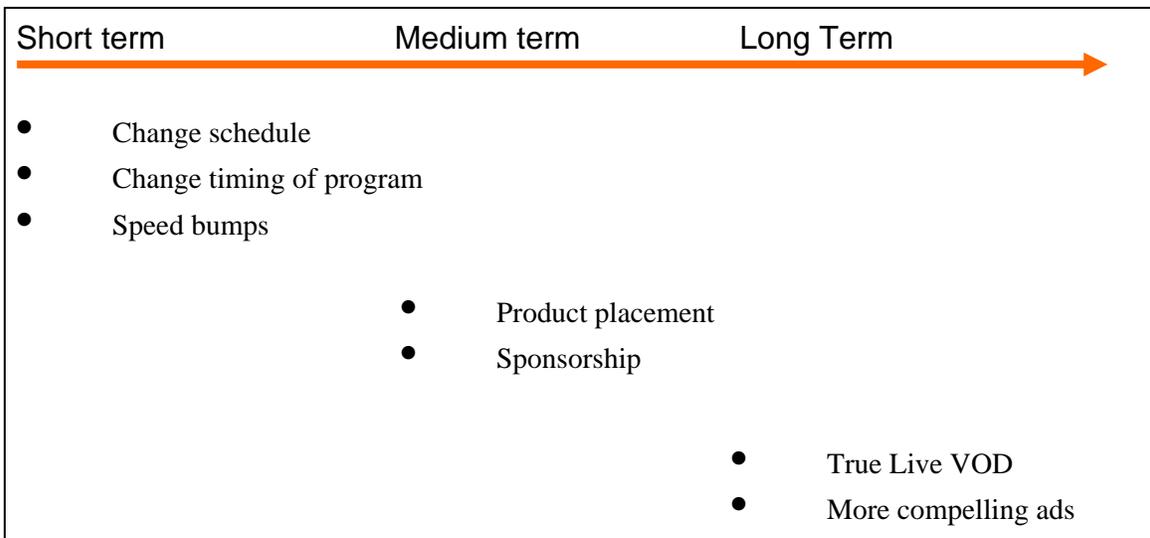
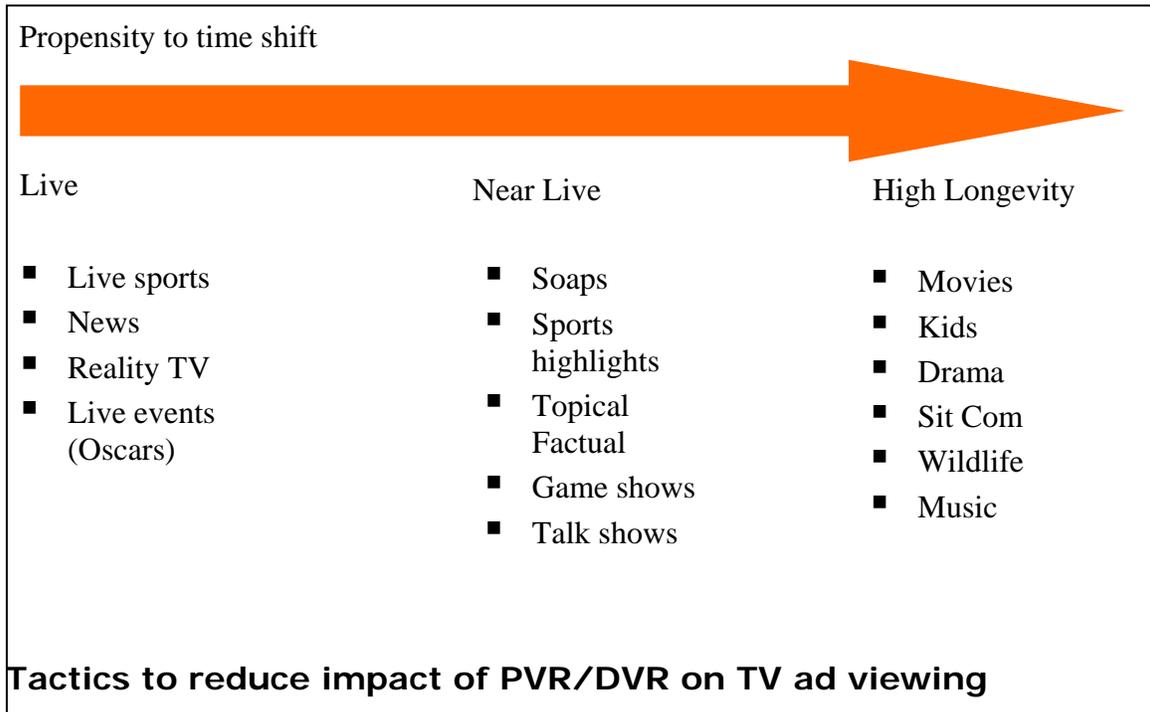
- Fragmenting media, convergence and uptake of on-demand technology - Personal Video Recorders (PVRs) and Interactive TV - means TV will have less ability to reach mass audiences.
- Smaller audiences can constrain leverage to increase advertising rates.
- On-demand viewing may put additional downward pressure on linear advertising rates.
- Because of this, advertisers are demanding lower CPM and better return on ad spending.
- Advertisers are demanding greater accountability, therefore greater measurement...but On Demand will be able to provide that
- This will create considerable challenges for the growth of linear TV advertising.

Slower Growth of US TV advertising revenues

- In 2004, TV ad revenue topped \$60B
- Industry analysts are predicting 6-10% growth by 2009
- *Accenture analysis suggests only 3% growth!*
- A difference of potentially \$27B in TV ad revenue

Ad Skipping Behavior and Mitigation Tactics

Not all skipping is the same



Future Areas for Growth

The TV Value Chain

- Fragmenting media, convergence and uptake of on-demand technology - Personal Video Recorders (PVRs) and Interactive TV - are changing the way consumers watch TV and providing more opportunities for players in the TV Value Chain: advertisers, ad agencies, programmers, broadcasters and access providers.
- On-demand viewing and alternative media (e.g., digital TV, fixed broadband and mobile platforms) are creating attractive ways to grow revenue.
- **On-demand content channels** (VOD) will likely expand advertising inventory and capabilities, and allow a wave of highly targeted and measurable advertising campaigns.
- **Programmers** (NBC, TLC, Discovery Channel, etc.) will gain access to a broader set of advertising budgets, working with advertising agencies to create compelling content and campaigns that leverage interactive capabilities.
- **Broadcast television** (NBC, ABC, CBS, FOX, etc.) has the most to gain from offering interactive advertising (over on-demand services) – as numbers of viewers are the most critical variable in the business case.
- **Access providers** (Comcast)
 - Will assume a strong gatekeeper role in the emerging on-demand value chain and can offer valuable services around customer insight and data mining which will be necessary to exploit interactive advertising opportunities.
 - Will take advantage of on-demand and interactive advertising technologies to build customer loyalty, while consumers will want better tools from device manufacturers to help manage viewing options and preferences.
- **Advertising Agencies**: Develop new strategies, using better data analytics, better targeting, better demographics, and better creative (e.g., Interactive advertising)
- **Advertisers**: Use targeted and creative advertising to more profitably!