
The Webb Patterson Report

An Ad-Free Future: A Look at the Latest Trends
in Advertising

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“**T**he faults of advertising are only those common to all human institutions. If advertising speaks to a thousand in order to influence one, so does the church. And if it encourages people to live beyond their means, so does matrimony. Good times, bad times, there will always be advertising. In the good times, people want to advertise; in bad times they have to.”¹

An Advertising Crisis

Most television as well as radio, print media and the Internet rely on advertising revenue to keep going. But advertisers today are concerned that increased viewer fragmentation and developing technologies are making it more difficult for them to reach their target audiences.

The crisis is most apparent in television advertising, where “nearly one in three [television executives] said they thought the 30-second TV commercial would be dead in ten years.”² New computer software is allowing Internet users to block banner and pop up ads for little or no money. Satellite radio threatens traditional radio by offering commercial-free programming at relatively low costs. And, the proliferation of new magazines and other popular print media requires advertisers to pick and choose from literally hundreds of publications to distribute their message.

These new obstacles have many advertisers rethinking their advertising strategies and the value of their advertising dollar.

The Good, the Bad, and the Ugly

The good news—advertising spending increased in television in 2002.³ Advertisers were busier than ever trying to spread their messages. Clearly, the 30-second ad is alive and well today.

The bad news—“ABC, CBS and NBC garnered 55 percent of prime-time television viewers ten years ago.” Today, the “Big Three” only claim about 33 percent of viewers.⁴ Cable and satellite television are flooding the market. “78 percent of Americans have cable,”

which means they have roughly 60 or 70 channels in their homes.⁵ With so many channels, viewers are increasingly turning to other options and consequently, the ads are being seen by fewer people.

And say hello to the ugly—introducing personal video recorders. Personal video recorders (PVRs), like TiVo and ReplayTV, are growing in popularity and are perhaps the most immediate technological threat to television commercials. “While the installed base is still small (around two million),” cites Forrester Research, a leading research organization, “it will grow to more than 30 million by 2007.”⁶ PVRs are making it easier than ever for viewers to watch commercial-free programming by fast forwarding through commercial breaks at 30-second intervals, creating seamless television program viewing.

When it comes to television advertising, those in the industry realize audiences are growing restless with the same old 30-second ad. Audiences are tuning out commercials more often than not with the flick of a remote control. So in an attempt to revitalize television advertising, some are taking a look at where advertising has been to help them figure out where it’s going.

The Advertising of Yesteryear

Early television and radio programming was synonymous with advertising. It wasn’t unusual for a single sponsor to purchase a time period, present a show and feature their products in its commercials.

For example, NBC’s “Texaco Star Theater” hosted by Milton Berle.

[Men singing] Oh, we’re the men of Texaco. We work from Maine to Mexico. There’s nothing like this Texaco of ours. Our show tonight is powerful. We’ll wow you with an hour full of howls from a shower full of stars.⁷

The comedy-variety show was so popular that it spurred a television buying frenzy. Berle also hosted “The Buick-Berle Show” on NBC from 1953-56 and the “The Kraft Music Hall” on NBC from 1958-59.

Early radio reflects the same blending of programming and advertising. Consider early radio soap operas, which were used as vehicles to market soap and laundry products. Sponsors would encourage characters to do scenes using their products to wash or clean while praising their superb performance.

Anticipating Commercials

Cable, satellite, PVRs—what can advertisers do to keep audiences from flicking stations during commercials or skipping them altogether?

One idea is to produce commercials so entertaining that audiences actually look forward to viewing them. Sound impossible? Consider Super Bowl commercials where it's actually become a positive cliché to say that the commercials are more interesting than the game.⁸

To make television commercials more like entertainment and less like advertising, companies have to change the way they think about making and presenting commercials to audiences. More frequently, advertisers are developing upbeat, mini music videos or quality, short films.

Pepsi, for example, has been trying its hand at music videos, teaming up with teen pop idol Britney Spears to promote "Pepsi Generations." More recently, Pepsi hooked up with steamy, Latin, pop singer Shakira. And Pepsi's latest musical endorser is Beyonce Knowles of R&B girl group Destiny's Child.

During the NBA Playoffs, Nike aired a spot featuring guys and girls dribbling a basketball that sounded like a hip-hop beat. Nike even tried to get MTV to play a nearly three minute long version of the commercial as a music video, but failed to convince the network.⁹

Other advertisers such as Coca-Cola and Twix candy bars have followed suit, tapping into musical endorsements and creating mini music videos. Still other advertisers have gone a slightly different direction to catch the audience's attention by creating short films.

Those in the industry are buzzing over BMW's new advertising strategy. BMW's commercials direct viewers to their Web site where they can click a link to view short films. The films are directed by some of Hollywood's hottest including Guy Ritchie, director of *Snatch*; Ang Lee, director of *Crouching Tiger, Hidden Dragon*; and John Frankenheimer, director of *The Manchurian Candidate*.

"More than three million people have watched the first three of these five to seven minute minimovies ..."¹⁰ And, BMW is boasting that 2002 has been the "most successful business year," surpassing sales, revenue and profit records set the year before.¹¹

Back to the Future

Reflecting on the early days of television broadcasting, some advertisers feel the best way to revitalize sluggish ad viewing is to return to television's advertising roots. Rather than create separate 30-second commercials featuring their products, sponsors try to incorporate their products and messages into the programming.

Take for example, a youth-oriented variety show that is being developed for the WB Network. The show, still untitled, will be "a contemporary, hip Ed Sullivan Show," with no commercials.¹² Instead the "program will try to highlight the companies' products in various ways, like putting singers on a set dominated by a product's logo or building comedy routines around a product."¹³ Advertisers like Pepsi and Nokia phones have already signed up.

In the fall, ABC will be introducing a new show titled *The Runner*. Like the WB Network, ABC is inviting sponsors to consider how they can incorporate their products and messages into the programming.

Some might argue that the WB Network and ABC aren't trying anything new; claiming that these attempts to incorporate advertisements are nothing more than good ol' fashioned product placement. Well, not exactly.

The thing about product placement is that it underestimates television viewers. Viewers are savvier than they used to be and know when sponsors are trying to plug a brand via product placement.

Advertisers today are trying to go a step further by making the line between programming and advertising seamless. So seamless in fact, viewers don't even mind watching a few incorporated sponsor messages because they don't seem like annoying disruptions to the show.

Some television shows like *Who Wants to be a Millionaire* have already successfully convinced viewers to accept incorporated advertising messages, not giving it a second thought when the host asks the contestants if they would like to use their AT&T Lifeline to phone a friend. AT&T targeted its message in a way that did not offend viewers or disrupt the program.

Incorporated sponsor products and messages in programming are evolving into a new brand of television and big screen advertisement called "Advertainment."

“Advertainment”

Advertainment, or branded entertainment, seeks to craft programming that incorporates a brand seamlessly and sympathetically into customized films, television shows, music recordings and other advertising media.¹⁴ The underlying idea behind advertainment is that a product is ultimately more memorable if it is bonded to a viewer experience or emotion.

While perhaps not initially conceived as advertainment, some good examples are FedEx in the big screen blockbuster *Cast Away*, starring Tom Hanks, and America Online in the romantic Meg Ryan comedy, *You’ve Got Mail*.

Or consider FOX’s *American Idol*, where Coca-Cola is riding a wave of advertainment success. Instead of the traditional green room waiting area, FOX’s *Idol* has contestants wait in the red room complete with Coca-Cola related items everywhere, including a branded internet kiosk and pinball machine.

The concept is really catching on in Hollywood where movie production companies are looking for sponsors to help finance the increasing costs of filmmaking.

Big Screen Advertainment

The big screen first became an advertising medium in the 1990s when “such pioneers as Screenvision began pitching advertisers as the cable and new media explosion shortened attention spans and siphoned readers and viewers away from print and TV destinations.”¹⁵ Per their crunching of numbers from Lieberman Research and Zenith Media, Screenvision claims that “consumers remember cinema ads better than TV ads: 43 percent of moviegoers recall ads they saw onscreen, unaided, versus six percent for TV ...”¹⁶

So, in addition to movie trailers, moviegoers are also exposed to a marketing partner’s product or message. Because advertainment is so expensive, sometimes costing upwards of \$1 million dollars, becoming a marketing partner is one of the most basic ways for sponsors to advertise while supporting the release of a movie or television show.

A marketing partner does not pay for production, but simply supports the movie or television show by running ads. For sponsors to exercise greater control, they would have to be willing to pay more.¹⁷ However, one of the biggest challenges

advertainment faces is that few companies set aside a budget for branded entertainment.

While some companies insist that the benefits of custom content are worth the price and encourage sponsors to become full or part owners, others feel this is not the best way to go, preferring instead to match up existing brands with existing films, television, or other entertainment media.

“Whether brands really need Hollywood is debatable, but there’s little doubt that Hollywood needs brands—or at least someone with pockets deep enough to pay the ballooning costs of film production.”¹⁸ Those in Hollywood argue that popular entertainment is an “epicenter of influence” and will benefit the brands as well as the films.¹⁹

Television Advertainment

Advertainment will become increasingly important in television advertising as technology, like PVRs that allow viewers to watch commercial-free programming, continues to threaten the life of the 30-second ad.

One of the biggest concerns about television advertainment is that “if a branded show becomes a ratings black hole—as Ford’s *No Boundaries* did last year on the WB Network—it can hurt the ratings of shows that surround it.”²⁰

On the other hand, some television networks are quick to point out that commercial-free programming actually benefits affiliates because the bigger the draw a premier has, the more likely it will be a success the rest of the season.²¹

Advertisers are motivated by fear to continue to search for new ways to reach their target audience. According to a survey conducted by Forrester Research, 76 percent of the national advertising executives they spoke with said that they believed advertisers would have to get into the “content-creation business.”²²

Working with Technology

Should advertisers be worried about technology like PVRs? What are these super machines that threaten to “rock the economic foundation of broadcast television?”²³

PVRs are, in some ways, similar to VCRs. PVRs digitally record programs, including commercials, and save them to a hard drive. Like VCRs, PVRs allow viewers to fast forward through the commercials. But, because PVRs fast forward at 30-second

intervals, the length of most television commercials, viewers essentially skip the commercials. Hence, viewers are able to watch commercial-free, on-demand television.

TiVo and ReplayTV are perhaps the most well-known PVRs, but there are others on the market. The biggest drawback about PVRs is their cost. They are expensive, sometimes costing several hundred dollars for equipment, not including monthly subscription fees. But despite their flashy price tags, researchers still expect the number of households with PVRs to grow significantly.

According to Forrester Research, many marketers plan to slash their TV ad spending by as much as half, as PVRs and on-demand programming become more prevalent.²⁴ Some of that money will be redirected into some form of branded entertainment. Forrester further estimates that half of all television services will be on-demand by 2007, absolutely changing the advertising-dependant television that we know today.

Advertisers who are ahead of the game are already looking into the technological future of television and big screen advertising.

Welcome Interactive TV

Some companies feel interactive TV is the solution to combating the demise of the 30-second commercial. Interactive TV is an integration of television and the Internet. It would allow viewers to interact with, or participate in a television program.

For instance, if a viewer was watching the Oprah Winfrey Show and really liked the dress Oprah was wearing, by activating his or her interactive TV, the viewer could click on Oprah's dress using a mouse and a small advertising box would pop up on screen. The screen would provide the viewer with detailed information about the dress like who designed it and how much it costs. Not only could a viewer get the information about the dress, but through e-commerce, the viewer could purchase the dress online.

The advertising possibilities are endless. Viewers could click on any product they see in a show and get more information about it. Or, imagine being able to participate in a professional sports game by voting in an online poll about a referee call. The social implications of interactive TV will reach far and wide.

The excitement building around interactive TV has many in the industry feeling more confident about the future of

advertising. While the concept is catching on, the technology is still a long way from being in every household.

Ad-Free Internet

One of the most astonishing features of the Internet is how "in spite of its kinks and sloth," it has easily "been assimilated into daily American life."²⁵ This is also the reason some sponsors are surprised that advertising "has not taken hold [on the Web] the way it has in print and television ..."²⁶

Though not what it was during the technology boom of the late 1990s, Web advertising is still alive. Some Web users might even argue that it seems more alive, reflecting on the bombardment of banner and pop-up ads littering some Web sites. Pop-ups actually "represent less than five percent of the total online advertising revenue," but "they are so effective, in part, because they are so intrusive."²⁷ Their intrusiveness is also what makes them annoying to Web users.

Frequent Internet users will be happy to learn that they don't have to put up with it anymore. Many companies are developing software that will help eliminate the clutter of Web advertisements. Not only do these programs make the sites easier to view, they also help the sites load faster. Programs like AdSubtract, Guidescope, Mozilla and Webwasher are making it easier than ever for Web users to have more control over what they view.

For example, AdSubtract by interMute, Inc. is one of the "longest-lived and most popular ad blockers ..."²⁸ In addition to blocking banner ads, AdSubtract software can also be configured to block pop-up windows and manage cookies. It can eliminate animated graphics, background images and music that sometimes starts playing automatically when you visit a Web site. AdSubtract can even block some Web sites from forcing your browser to refresh repeatedly.

The capabilities of the software vary from program to program but none of them are perfect. Some common glitches in these software programs include inconsistent blocking of ads, as well as difficulty installing and configuring the desired features. In addition, much of the software cannot accommodate Macintosh users, though developers are working to improve that.

The cost isn't outrageous—ranging anywhere from free to \$50 a month depending on the software's capabilities. Some companies even offer free promotional

months for trying the software. Other Web users may find that their Internet provider offers similar software free or at a reduced cost.

While it is unlikely the Internet will ever be completely free from advertising, some sponsors realize Web users are annoyed by the bombardment of ads. Some Internet users even avoid sites they know clobber them with ads. But one of the reasons Web advertising is appealing is that, unlike television or print, advertisers can quickly evaluate the effectiveness of their ad by monitoring the number of viewers who click on the ad and following up with how many viewers act on the information. In other words, the effectiveness of Web advertising is measurable.

Web advertisers, like television advertisers, are trying to find ways to make ads less intrusive but still reach their targeted audience. "MSNBC, for example, sinks ads into stories but also lets you click past them. At CNet's News.com site, the page layout changes periodically, to provide different looks so that ads are less likely to be tuned out as being part of a static background."²⁹ These are just a few examples of Web advertisers making efforts to annoy viewers less while still accomplishing their advertising objectives.

Commercial-Free—Radio's Digital Future

Television and the Internet aren't the only advertising media threatened by technology. Sirius and XM, two competing satellite radio services, are now available nationwide. And because satellite radio transmission is digital, Sirius and XM both boast high quality, static free sound.

Sirius, which allows motorists to listen to over 100 channels from rock to Latin to talk radio, is completely commercial-free. XM also offers more than 100 channels featuring a mix of music but airs six minutes of ads an hour on news and talk stations.³⁰

While the radio equipment can be a little pricey, many new cars now offer satellite radio as part of an options package. Sirius already has agreements to install AM/FM/SAT radios in Ford, Chrysler, BMW, Mercedes, Jaguar, Volvo, Mazda, Dodge and Jeep vehicles, while Kenwood, Panasonic, Clarion and Jensen are developing satellite radio receivers that can adapt to any car stereo.³¹

Unfortunately, satellite radio does not leave many options for radio advertisers. The only drawback to satellite radio for consumers, is the cost of equipment and

monthly service. XM satellite radio's monthly service costs around \$10 while Sirius will run motorists slightly more at around \$13. So, are motorists willing to pay for monthly radio service to avoid commercials? Research says they are, leaving many advertisers wondering where do we fit in?

Proliferation of Print

More than 500 new popular print titles were launched in America last year. With so many print publications, advertisers are feeling the pressure of having to pick and choose between literally hundreds of titles to promote their products. Considering the multitudes of print titles, as well as radio and Internet media, targeted advertisement in the middle market, as opposed to the mass market, is difficult.

It seemed like a match made in heaven—early print media and advertising. The popularity of print created an ideal vehicle for advertisers to promote their products and services while the extra financing helped to drive circulation and reduce costs. The benefits trickled down to readers, monetarily, by reducing subscription costs, and by exposing them to products they might not otherwise have seen.

Today, most national magazines contain about 60 percent advertising and only about 40 percent editorial.³² Many advertisers are taking advantage of cheaper print alternatives in light of the rising costs of television advertising, which is up about 70 percent due to airtime shortages.³³

For example, "the December 2nd issues of several American magazines were heavier—with ad pages 70 percent up on a year ago in Newsweek, 27 percent in Time and 13 percent in Business Week."³⁴ These sorts of numbers bring to mind two very important questions. One, is content lost to the reader when a publisher relinquishes power to please an advertiser? And two, are print publications getting carried away with the "gloss" or aesthetic qualities of a piece and cheating readers out of the real meat of a publication?

Surprising Success

The publisher and readers of Cook's Illustrated, a cooking magazine, would likely have something to say about this topic. Cook's Illustrated, first published in 1993, is a completely ad-free publication which has grown from 25,000 paying readers in 1993 to 520,000 with 150,000 of those in the last two years.³⁵ And the magazine sells a modest

80,000 copies off the newsstand.

Some argue that today is an age when “non-advertising-supported editorial has real resonance” with readers.³⁶ For ad-free publications, knowing your readers is key, as well as honing in on the “inherent magnetism” of their interests to motivate them.³⁷ In addition to cooking, Cook’s also does product testing and because advertisers do not influence the magazine, some readers feel the information is more reliable and trustworthy.

Cook’s has taken advantage of what most magazines would consider a weakness and made it one of their strengths. In doing so, the magazine has developed an intensely loyal relationship with subscribers who are willing to pay \$24 a year for six issues. The magazine also boasts an 82 percent renewal rate. In addition to the magazine, Cook’s Illustrated charges for Web site subscriptions. Nearly 21,000 members pay around \$25 a year for Web subscriptions, but those members who are also magazine subscribers only pay about \$20.³⁸

Reader’s Digest Association recently purchased “folksy and advertising-free” Reiman Publications for \$760 million.³⁹ Six Reiman Publications “rank among the top 100 in national circulation,” including Taste of Home, the largest food magazine in the world.⁴⁰ Furthermore, Reiman has successfully published ad-free magazines for over 30 years, proving that there is a supportive market for ad-free publications.

Moving Forward

Advertising will move forward, as all things do. But advertisers should be prepared for the future. As media becomes more fragmented and technology develops, advertisers will need to produce aggressive and creative strategies to achieve client goals.

With so many media outlets, advertisers will likely feel the impact fragmentation is causing very soon if they are not feeling it already. It will cost advertisers more time and effort to reach their target audience. Creative strategy will be key for advertisers who are trying to make their products stand out from the rest.

Technology will continue to challenge advertisers by making it more difficult for them to expose audiences to their messages. Those who want to be successful will learn to work with technology, adjusting their tactics to take advantage of opportunities created by new possibilities.

Whether the hurdle is media fragmentation or new technology, it looks as if most advertisers will have an uphill battle coming their way soon. While these new obstacles will inevitably force many to rethink their advertising strategies and the value of their advertising dollar, the outcome will strengthen their capabilities to direct targeted messages to specific audiences and achieve the desired results.

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Webb Patterson Communications, Inc., for the private use of our clients and associates, prepared this white paper about ad-free media and related technology. It is intended to be a publication of general use in understanding an important aspect of the business environment that generally has not been covered in depth by the mainstream news media. For more information on this subject, or to learn how to create and manage a successful communications program, please contact Webb Patterson Communications, 112 West Parrish Street, Durham, NC 27701. Telephone (919) 680-6111. Or, visit us online at www.webbpatterson.com.
