

The Future of Television: from the boob tube to YouTube

Meritxell Roca-Sales

Keywords: Television, Advertising, Audiences, Fragmentation, Multiplatform media, Mass-media

In this paper we will evaluate the strategies that the major American broadcast TV networks have adopted in order to survive in a fragmented media environment where consumers now have unprecedented power over when, where and how they consume media.

The broadcast television industry and the ad industry in the United States are well aware that they are experiencing a seismic shift, and both have developed strategies to respond to the crisis. The advertising industry has struggled to transform itself, to invent new formats, and to find consumers on new platforms, while the broadcast networks have cut costs and created new revenue streams. Television networks face diminishing audiences and lower ratings, pushing them into a crisis that is having a powerful impact on content. According to our research the crisis is influencing content development mainly in four areas: Event programming, Variable-length programming, Narrative sophistication and Brand integration.

But... how did we get here?

A global crisis in the advertising industry, largely linked to the impact of the Internet, is transforming the business model of media industries, the content they create and distribute, and the audiences who consume that content. New technology has transformed the global media environment from one organized around passive media consumption to a far more complex environment – mobile, multitasking, on-demand – where consumers have more control over where, when and how they interact with media.

This paper focuses on the U.S. broadcast television market in particular because of the historical importance of this ad-supported industry and the profound impact its products and business practices have on global media culture. Once considered the most influential media industry in the world, U.S. broadcasters are losing their grip on their domestic and international audience.

Television is the most frequently used media in our daily lives. However, the business model of the US network television industry is in the midst of fundamental transformation. ABC, CBS, NBC and FOX are sometimes referred to as "free TV" because their revenue depends mainly on advertising and, unlike cable or satellite, they do not charge a subscription fee. Although their parent companies also own cable networks, whose revenues include subscription fees, a high percentage of the income of the big four US television networks comes from advertisers.¹

The primary problem facing television broadcasters today is the inability to guarantee advertisers large audiences with desirable demographics. In 2000, broadcasters had a 54 share of prime time viewers. In 2005 it was 43.5.² In May 2007, ABC, CBS, NBC and FOX had 25 million fewer people watching, compared to the same period in 2006.³ In fact, early figures for the 2008-09 season suggest that the networks' \$9.2 billion advertising revenue has not even kept pace with inflation, rising only 1%.⁴ This decline in audiences and ad revenues represents a fundamental crisis not only for the American broadcast television industry, but also for the advertising industry.

But... how did we get here? What are the reasons for this crisis? In our opinion, there are three major causes for this scenario⁵: more entertainment and media options for audiences; more widely available digital tools that empower audiences to take a more active role in media consumption and changing advertising metrics models. Let's take a deeper look at them one by one.

¹ There are five English-language commercial TV networks in the United States (ABC, CBS, Fox, NBC and CW). CW is not addressed in this paper. Unlike the other networks, it specifically targets young adults 18-34, and its ratings are far below the other broadcast networks. The last week of May (2008) the average ratings for the English-language commercial networks were: Fox (12.5 million viewers), CBS (8.5 million), ABC (8.5 million), NBC (5.3 million) and the CW (2.2 million). (HIBBERD, James. (2008). "Dance the night away" in *The Hollywood Reporter*, May 29, 2008, pp. 28-29.) In addition, because CW was created in 2006, there is a lack of longitudinal data available.

² Cabletelevision Advertising Bureau

³ CNBC <<http://www.cnbc.com/id/18571560/>> [February 27, 2009]

⁴ STELTER (2008a)

⁵ Viewership decline due to a decrease in quality in broadcast television is also an argument worth investigating. Although it can arguably be considered a fourth reason for the crisis in the TV industry, we believe that this issue is beyond the scope of this paper.

It is undeniable that nowadays audiences have more entertainment and media options than they used to. Cable and satellite television, the Internet and mobile platforms have opened up a wide range of possibilities that were difficult to imagine just ten years ago. As a consequence, the cable and satellite television viewing audience has been increasing steadily since this technology was first implemented. Cable television subscribers, for instance, increased from 50.5 million in 1990, to 65 million in 2007 (representing 58% of households).⁶ However, time spent on the Internet has dramatically increased as well, and mobile platforms – such as cell phones, mobile gaming devices and satellite radio – are also competing for entertainment consumption time from audiences. The latest figures show that 62% of households in the United States used the Internet in and outside the home in October 2007 (51% of these connections were broadband)⁷ with users logging 15.3 hours per week,⁸ while in 2001 just 54% of households accessed the Web regularly (an increase of 14.2% in only six years). Meanwhile, worldwide sales of mobile phones reached 294.3 million units in the first quarter of 2008 (a 13.6% increase over the first quarter of 2007.)⁹

Clearly, audiences have also more control over what they watch than ever before. Devices such as digital video recorders (DVRs) are becoming a popular tool, in fact, 22% of American homes now possess one. DVRs such as TiVo¹⁰, the most popular brand that has even resulted in a verb (to TiVo), enable viewers not only to time-shift programming, but also to easily fast-forward through commercials. They prefer to view programming on their own schedules, and are becoming more and more reluctant to the "appointment" viewing that network programmers have long offered.

Last but not least, another consequence of this new scenario that we are describing is the fact that audiences are becoming more empowered. They seek content on multiple platforms and this implies a re-evaluation of the measurement standards that were traditionally used as the currency to price media. In a digital environment, advertisers are expected to be able to accurately measure campaign performance, know precisely who is interacting with their ads, and track ad exposure to online purchases. The promise of accurate measurement engendered by digital technologies has raised expectations from advertisers, causing them to expect greater accountability from their media partners and agencies, and yet it has not been a panacea for advertising's ills. Rather, it has further exacerbated the crisis in the media and marketing industries.

Responses to the crisis

The immediate responses from the advertising and the broadcast television industries can be summarized in two statements. On the one hand, the advertising industry has struggled to transform itself, to invent new formats, and to find consumers on new platforms. On the other hand, the broadcast networks have cut costs and worked hard on developing new revenue streams. Since this paper mainly focuses on the television industry, let's make an approach to the effort that broadcasters have been making in order to monetize content, attract audiences and increase income. Six main strategies are being pursued by the networks:

⁶ National Cable and Telecommunications Association.

<<http://www.ncta.com/Statistic/Statistic/Statistics.aspx>> [February 27, 2009]

⁷ USA Government. National Telecommunications and Information Administration
<<http://www.ntia.doc.gov/reports/2008/NetworkedNation.html>> [February 27, 2009]

⁸ The digital future report 2008. *Surveying the Digital Future*. University of Southern California.

⁹ Gartner <<http://www.gartner.com/it/page.jsp?id=680207>> [February 27, 2009]

¹⁰ <<http://www.tivo.com>>

brand integration (1), online content (2), online and offline retail sales (3), acquisitions of digital content sites (4), experiments with ad formats (5) and programming adjustments (6).

1. Brand integration has existed since the beginning of television, but it is becoming more and more appealing to advertisers due to DVRs and other practices that enable viewers to time-shift programming and to skip commercials. TV placements, for instance, remain the dominant type of integration for brand marketers, accounting for 71.4% of global advertising spending in 2006 (\$2.40 billion). Film placements comprised 26.4%, (\$885.1 million) in 2006, while placements in other media account for only 2% of total spending. Growth will probably exceed 30% over the next several years due to increased demand for videogame and online placements aimed at the elusive and desirable 18-to-34 year-old demographic¹¹. However, brand integration faces some obstacles; it is harder to implement than regular 30-second commercials, more negotiation is needed because it can be expensive to execute, and administratively it is more difficult to implement due to writers' and actors' resistance. Moreover, the effectiveness of product placement is still mainly undocumented.

2. Offering content on-line is also a strategy adopted by the networks to increase revenue. The content currently offered falls into two major groups: TV shows, and content created specifically for online distribution. The first group includes previously aired TV shows and series. The second group refers to complementary content for offline properties (mainly video clips of outtakes, minisodes, or interviews) whose storyline is built around successful shows such as *Law & Order*, *American Idol* or *The Office*, and to new properties generated first for online distribution (ABC's *Squeekees*, NBC's Gemini Division).

As they struggle to adapt to digital technologies, fractured audiences and the threat of diminished revenue, media companies have begun to experiment with multiple distribution models. Each is fraught with unique legal, organizational and economic obstacles. Figure 1 provides an overview of the distribution models, motivations, obstacles and effects of these strategies for the content owner or media company. The issues explored apply both to television shows distributed online, and to Web content created specifically for that medium.

Figure 1 – Overview of online content distribution

Distribution models	- Ad-supported streaming - Downloadable
Motivations	- Consumer behavior - Maintaining relationship with viewers - Building audiences for new shows
Obstacles	- Contractual limits - Consumers' preference for open networks - Distribution and pricing monopolies
Effects and consequences	- Lower revenue - Cannibalization of TV audiences and ad revenue - Creating new properties

¹¹ PQ Media (2008) Global Product Placement Forecast 2006-2010 (Press Release)
 < <http://www.pqmedia.com/global-product-placement-2006.html> > [February 27, 2009]

Not every show that is being aired currently can be watched legally online. Every single network series has its own Web site with schedule information, biographical notes about the main characters, interviews with the crew and other information, but because each contract is negotiated separately, the networks cannot guarantee streaming for all of the shows. This can be a little bit confusing for the audience, particularly when some of the most successful shows (both scripted and unscripted) aren't officially available online.

1. In the Internet age, retail outlets have become increasingly popular because people want to consume content where and when they want. Broadcast TV networks, aware of this revenue opportunity, have started to implement strategies to promote this behaviour. Current TV shows are sold (single episodes or complete seasons), and older shows become popular thanks to remakes. We distinguish four types of retail outlets, depending on the platform used: third-party online retailers (e.g., iTunes, Amazon); DVD sales (online and offline); pay-per-play; and online retail on the networks' sites.
2. The primary motivations behind the acquisitions of digital content sites are threefold: acquire audience, increase scale and increase revenue. However, in a globalized environment, fewer large-scale independent networks and sites remain to be acquired today. In addition to the current dearth of potential acquisition targets for larger media companies, shareholder skepticism on the value of the acquisitions already completed looms heavily over these mergers. Media companies need to prove the value of their acquisitions, and integrating them into larger media companies is not always easy due to cultural and internal corporate differences.
3. Changing the frequency and number of commercials is only one of the experiments with ad formats that the networks are trying in order to keep the audience tuned in, defeating not only DVRs but also channel-surfing while commercials are being broadcasted. Fewer commercials mean fewer reasons for viewers to use the remote control and that's why some programming now has single company sponsorship. It is our belief that experiments like these will likely increase, because this may be the only way to convince advertisers to pay the high rates that broadcast TV demands. However, the networks face a dual challenge: on the one hand, audiences equipped with DVRs and remote controls; on the other, advertisers reluctant to change the formats for their commercials.
4. Programming strategies are not limited to the distribution of commercials; network programmers work both to select attractive programming, and also to organize and distribute shows in a way that will create loyal audiences. Throughout the history of television, different strategies have been deployed to adapt to the changing circumstances of the media environment. However, cable and satellite television, DVRs and the Internet have contributed to a change in consumption practices that has threatened to make appointment television obsolete. In order to attract and maintain audiences, the broadcast networks are also adjusting program content to the new realities of mobile viewing, sporadic viewing, program grazing and other niche audience patterns. Because audiences are moving to mobile platforms, the networks need to be everywhere consumers are if they want to survive, let alone increase their revenues.

The traditional September-to-May broadcast season ended in 2008 with audience decreases for all of the big broadcast networks except FOX. In the 18-to-49 demographic, ABC, CBS and NBC recorded double-digit declines, while FOX had a slight increase of 2%. What can the TV industry learn from this?

Some lessons to learn

As has been argued throughout this paper, broadcast television as we have known it is in crisis. New technologies such as the Internet, DVRs and portable devices are creating a new multiplatform media environment, and audiences are fragmenting into ever smaller segments. In spite of this scenario, television continues to be the most popular mass media (figure 2), which is why advertisers keep paying such high prices at the network's "upfront" sales event. Prior to DVRs, the Internet and lower-priced television sets, a whole family – and sometimes, it seemed, a whole nation—would sit together in front of a TV set to watch their favorite shows. Those times are essentially over, in fact, Deloitte's latest *State of the Media Democracy* estimates that the youth prefer the Internet to Television (according to that research people aged 14 to 25 spent in 2008 more time surfing the Web than watching TV¹²). In 2008 very few shows were strong enough to bring parents and their children together for the same programming; *American Idol* and sports events such as the Super Bowl are the rare exceptions.

Figure 2 – Media consumption based on hours per person (2003-07)¹³

<i>Filmed Entertainment</i>	2003	2004	2005	2006	2007	2007 Weekly Average	% Change vs. '06-'07 '03-'07p	
<i>Cable & Satellite TV</i>	886	909	980	997	1,010	19.4	1.3%	14.0%
<i>Broadcast TV</i>	729	711	679	676	676	13.0	0.0%	-7.3%
<i>Consumer Internet</i>	153	164	169	177	181	3.5	2.3%	18.3%
<i>Home Video*</i>	60	67	63	62	64	1.2	3.2%	6.7%
<i>Box Office</i>	13	13	12	12	13	0.3	8.3%	0.0%
<i>In-flight Entertainment & Mobile Content</i>	5	8	10	13	18	0.3	38.5%	260.0%
Subtotal	1,846	1,872	1,913	1,937	1,962	37.7	1.3%	6.3%
<i>Other Entertainment</i>	2003	2004	2005	2006	2007	2007 Weekly Average	% Change vs. '06-'07 '03-'07p	
<i>Broadcast & Satellite Radio</i>	831	821	805	778	769	14.8	-1.2%	-7.8%
<i>Recorded Music</i>	187	196	195	186	171	3.4	-8.1%	-8.6%
<i>Newspapers</i>	195	192	188	178	172	3.3	-3.4%	-11.8%
<i>Consumer Magazines</i>	122	125	124	121	119	2.3	-1.7%	-2.5%
<i>Consumer Books</i>	108	108	107	108	108	2.1	0.0%	0.0%
<i>Video Games</i>	76	78	73	76	82	1.6	7.9%	7.9%
Subtotal	1,522	1,520	1,492	1,447	1,421	27.3	-1.8%	-6.6%
TOTAL	3,368	3,392	3,405	3,384	3,383	65.1	0.0%	0.4%

As it can be seen in the previous figure, television (cable, satellite and broadcast) accounts for a weekly average consumption of 32.4 hours, while other media such as radio (14.8) and newspapers (3.3) are a distant second. Even the Internet (3.5) or recorded music (3.4) cannot compare to TV consumption rates.

¹² Deloitte's *State of the Media Democracy* (2009)

¹³ Source: Motion Picture Association of America (2007). *Entertainment Industry Market Statistics*.

The broadcast networks have a business model based on ad-supported content, both on television and online. Although Internet users find interruptive ads especially annoying while surfing the Web, people like to watch videos and to consume content for free. How do content owners monetize their product when audiences resist intrusive ads and refuse to pay for content?

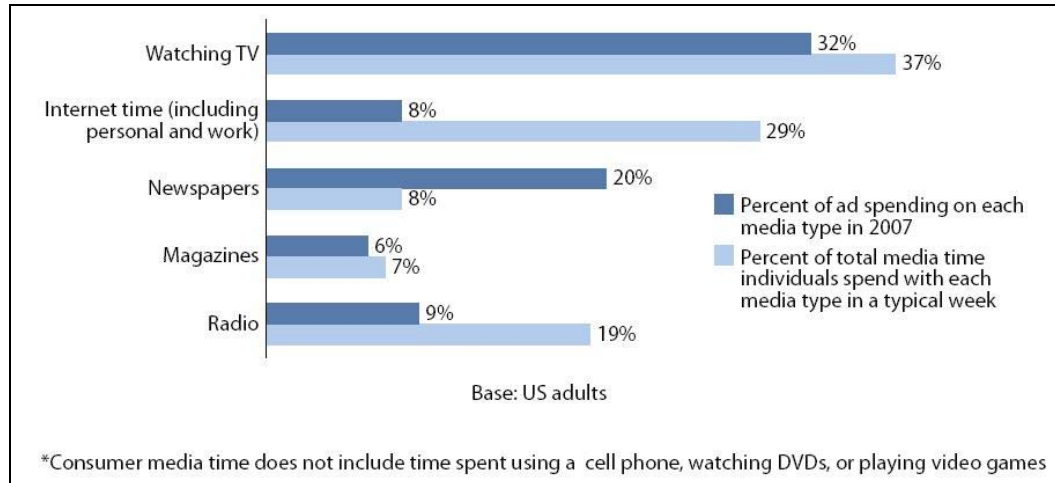
Pop-up ads are considered to be the most annoying (82%), followed by full-screen ads (73%) and animated ads that float around the page (70%). Ads displayed before a video are viewed as extremely annoying to 59% of users.¹⁴ However, in 2009, video ads are the primary revenue strategy for ABC, CBS, FOX and NBC. Every time Internet users try to watch video on these networks' sites, they are forced to watch commercials that cannot be skipped. While consumers inevitably claim they dislike intrusive ads and seek to avoid them, there is a social contract already in place between audiences and content owners or distributors. Ultimately, *someone* needs to pay for content, whether that is in the form of a ticket sale, a subscription, a direct purchase or advertising. Nonetheless, a survey conducted by NBC in 2008 found that NBC's online viewers liked online ads better than TV ads, and viewers had higher recall rates for products promoted in online ads.

According to that research, viewers said that ads streamed online with full-length episodes were less disruptive than on television, and that they had a strong motivation to interact with the commercial. Is that a consequence of the fact that a single advertisement is showed in each break, while on broadcast television each break is up to five minutes long? What cannot be denied is that interactive marketing spending is still out of sync with consumer behavior. As it can be seen in the next graph (figure 3), while individuals spend 29% of their media time on the Internet, the percentage of online ad spending is just 8%. And although only 8% of total media time is spent reading newspapers, ad spending for newspapers is 20%.¹⁵ One significant trend is that the largest advertisers are shifting more of their budgets from traditional media to the Internet. Advertisers appear to be decreasing their spending share on the four traditional media (television, radio, newspapers and magazines), and increasing the share going to the Internet. But there is still a deep chasm between consumer behavior and spending on advertising.

¹⁴ LI (2006)

¹⁵ *US Interactive marketing forecast, 2007 to 2012*. Forrester Research, 2007.

Figure 3 – Comparison between ad spending and total media time individuals spend with each media in a typical week (2007)¹⁶



Impact on content

Television broadcast networks are making great efforts to adapt to this new reality in which technology (mainly the Internet but also DVRs) has empowered audiences. This new reality is having a dramatic effect on people's media consumption habits since they not only have more entertainment options, they also have more control over what they consume. Television networks face diminishing audiences and lower ratings, pushing them further and further into a crisis that is having a powerful impact on content. According to our literature review and interviews we believe that the crisis affecting the broadcast television industry is influencing content development mainly in four areas:

1 – Event programming (shows that audiences anticipate and watch live, rather than delayed on digital video recorders, are scarce but profitable for the networks. We believe that there will be an increase in big event programming, much of which will be directed at consolidated niche audiences)

2 – Variable-length programming (altering the length of TV shows will also be a trend if the broadcast networks want to adapt to an average consumer who owns not only a TV set, but also an MP3 player, and a smart phone or some other mobile devices. Our lives are filled with little screens, and therefore the television industry has to become flexible about the appropriate run-time for video entertainment)

3 – Narrative sophistication (this strategy needs to co-exist with shows that are deeply layered, complex narratives that ask the audience to invest emotionally in its characters week after week and season after season – *The Office*, *The Sopranos*...)

4 – Brand integration (it continues to be seen as a cure for the television advertising crisis. Product integration is a practice that has been used since the very beginning of television. One of its main characteristics is that because it is embedded and so it is inescapable. It seems inevitable that its use will continue to increase in spite of recent efforts to regulate that practice and to protect consumer rights)

¹⁶ Source: *US Interactive marketing forecast, 2007 to 2012*. Forrester Research, 2007.

Conclusion and Discussion

The future of television is uncertain, but popular sites such as *Hulu* and *YouTube* show that the broadcast networks are aware of the huge opportunity that the Internet represents. How are they reacting to this new environment? We have identified six strategies as the networks' main responses to this new scenario: brand integration, online content, online retail outlets, pay-per-view solutions, acquisitions of online companies, experiments with ad formats and the creation of Web content. A mix of these strategies is being tested by each of the networks, but it is too soon to tell whether these strategies will be successful. What is clear, however, is that the broadcast networks are doing whatever they can to avoid irrelevance, defend against diminishing ad revenue, and remain central to consumers' entertainment experiences.

The TV sector is currently in turmoil and is only gradually sizing up the challenges and opportunities presented by the rise of IPTV; the growth of VOD services, the emergence of TV services distributed on a P2P basis via the Internet; the phenomenon of video podcasting and user-generated content, the success of DVRs and multimedia PCs (Media Centers), and the launch of commercial mobile TV offerings. Although we cannot predict exactly how TV will look in ten years, some studies¹⁷ argue that the industry is evolving towards a new paradigm in which television consumption will be less linear and more interactive, personal and nomadic.

Last but not least, media consumption patterns have also changed and as a consequence the broadcast networks are also trying to adjust the way they program content to this new reality. Patterns have changed mainly when it comes to "how" and "where" we watch TV, for example, as programs are available to be watched not only on a TV set but also on a computer or a cell phone. Maintaining audiences means that mobile viewing has to be taken into consideration and the networks need to be everywhere the audiences are. However, one of the main obstacles any mobile content distribution strategy faces is that telecommunication companies tightly control mobile handsets. With mobile providers creating their own walled gardens, content owners need to negotiate separate deals with each wireless provider. These negotiations are notoriously fraught with technical difficulties; even more dispiriting, there is not yet a strong demand for mobile video content in the U.S.

¹⁷ MEYER (2006)

References

- BECK, J; DAVENPORT, T. (2002) *The Attention Economy: Understanding the New Currency of Business*. New York: Harvard Business Press.
- BLUMENTHAL, Howard J.; GOODENOUGH, Oliver R. (2006). *This business of television. The standard guide to the television industry*. New York: Billboard Books.
- BOUCHER, Geoff. (2008). "Virtual bleed to TV". *Los Angeles Times*, June 2, 2008, p. E11.
- CARR, David. (2008) "Golden age for TV? Yes, on cable". *The New York Times*, June 9, 2008, p. C1.
- CARTER, Bill. (2006). *Desperate networks*. New York: Doubleday
- CHMIELEWSKI, Dawn C. (2008a) "Disney takes big plunge into online video". *Los Angeles Times*, February 28, 2008, p. C1.
- CHMIELEWSKI, Dawn C. (2008b) "Disney's latest gig, The media giant, with its eye on another potential franchise, marshals its media assets to promote the Jonas Brothers band". *Los Angeles Times*, April 1, 2008, p. C1.
- CHMIELEWSKI, Dawn C. (2008c) "Strike's over, but viewers may be looking elsewhere". *Los Angeles Times*, February 13, 2008. <<http://articles.latimes.com/2008/feb/13/business/fi-habits13>> [February 27, 2009]
- DIMMICK, J.; CHEN, Y.; LI, Z. (2004). "Competition between the Internet and traditional news media: the gratification – opportunities niche dimension". In: *The Journal of Media Economics*, no 17 (1), p. 19 - 33.
- Global Entertainment and Media Outlook: 2007 – 2011. Internet advertising and access spending*. PricewaterhouseCoopers (2008)
- HIBBERD, James (2008). "Dance the night away". *The Hollywood Reporter*, May 29, 2008, pp. 28-29.
- JACKSON, P.; McQUIVEY, J.L.; WIRAMIHARDJA, L. (2008). *Consumers and the DVR. Continued device adoption hides the coming device "Virtualization"*. Forrester Research.
- LI, Charlene (2007). *Creating good online content experiences*. Forrester Research.
- MEYER, Laurence (2006). "Three scenarios for TV in 2015". *Communications & Strategies*, no. 62, 2nd quarter 2006, pp. 93 - 108.
- PAYNE, Gregg A. (2008) "Structural and social forces. Restricting media news content in democracies: a critical perspective". *Journal of humanities & social sciences*, vol 2, n°1, p. 19 - 33.
- SAYRE, Shay; KING, Cynthia. (2003). *Entertainment & Society. Audiences, trends, and impacts*. Thousand Oaks: Sage Publications

STELTER, Brian (2008a). "Court Ruling Could Make DVRs More Pervasive". *The New York Times*, August 4, 2008.

STELTER, Brian (2008b). "Cable channels gain on broadcast networks". *The New York Times*, June 24, 2008.

STELTER, Brian (2008c). "Charging by the byte to curb Internet traffic". *The New York Times*, June 15, 2008, pp. 21.

The digital future report 2008. *Surveying the Digital Future*. University of Southern California.

US Interactive marketing forecast, 2007 to 2012. Forrester Research, 2007.

VOGEL, Harold L. (2007). *Entertainment Industry Economics. A guide for financial analysis*. New York: Cambridge University Press.