



Licenciatura en administración de empresas

Title: DVR's impact on advertising

Subtitle: DVR's influence on the terrestrial television
business model in the US and in Argentina

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Abstract

Since the year 1999, new technological devices named DVR's were introduced in the US market, changing the way people watch television. The devices allowed the consumer to control their own TV viewing experience by watching the shows they liked whenever they wanted. On the negative side, the DVR brought ad skipping because viewers now had the change to fast forward through the advertisements.

The objective of this thesis is to find out whether if the business model for terrestrial television is being threatened by such devices both in the US and in Argentina and study how the TV channels, cable companies and advertising agencies are adapting to this new scenario in each country.

In order to do this, I used information from academic search engines, books and newspapers so as to find out how companies were reacting to this new scenario in the US. With regards to Argentina I decided to interview relevant actors in the industry so as to have a better insight on the matter.

As a conclusion it was found that DVR's are not causing a significant impact in Argentina principally because people are not willing to affront its cost and cable companies are not willing to subsidize it. This means in turn that DVR's penetration is very low hence their impact is insignificant. Therefore the business model for terrestrial television in Argentina has not suffered changes due to DVR's introduction. On the other hand, penetration of the device in the US is a lot higher and it is clear that companies have started to adapt to this new environment by creating advertisements that are much more engaging, creative and targeted to the consumer.

Key Words: DVR, Bimodal Consumers, Terrestrial television business model, USA, Argentina

Index

Section 1: Introduction

The Problem.....	6
Questions.....	9
Objectives.....	9
Hypothesis.....	9
Methodology.....	10
Type of investigation	
Unit of analysis	
Techniques for the recollection of information	

Section 2: Theoretical framework

Views on the effects of media on audiences.....	13
The hypodermic needle theory	
Theories of selective influence	
Theory of uses and gratifications	
Bimodal Consumers	

Section 3: Effects of DVR's in the US

Background.....	19
The introduction of cable	
Television Networks and TV stations	
Different types of television	
What is a DVR?	
What is VOD?	
Who is most likely to own a DVR or use TV on demand?	
Are DVR's causing the death of commercial television?	
30 second Spots	
Television advertising of the future	

The US television Industry.....	25
Video on Demand.....	27
Threats	
VOD insertion of advertising	
DVR as a threat.....	29
Why is this a problem?	
DVR's opportunities.....	32
How can DVR's negative impact be minimized? How are companies reacting?.....	35
Sponsorship	
Product Placement	
Branded Entertainment	
Diversification of expenditure within TV ads	
Personalization	
Tivo's Pop ups	
Expo TV Infomercials	
Examples of how companies are reacting towards ad skipping.....	42
Consumer's bimodality.....	45
The future of the television industry and its advertising in the US.....	48
How is advertising going to be in the future?	
What should companies do to successfully adjust to this new scenario?	

Section 4: Impact of DVR's in Argentina

Introduction.....	55
The evolution of the Argentinean TV industry.....	55
What is happening today?.....	56
How is television financed in Argentina.....	58
The market of Cable Company's.....	61
Direct TV	
Cablevision	
Telecentro	
Antina	
Has there been a move towards advertising in digital media?.....	66
Are television revenues under threat?.....	68

Consumer bimodality in Argentina?.....71
What does the future hold for Argentina?.....72

Section 5: Conclusions

Final Conclusions.....74
References.....78
Appendix.....84



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Section 1:



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The Problem

I plan to study the effects that technological devices such as DVR's have on the business model of terrestrial television in the United States and the implications it will bring to Argentina.

Before I begin to explain the specific problems that the DVR's are causing to the over-the-air television business model, I will explain what the model consists of and how it has evolved over time.

In the early days of television, sponsorship was an important revenue source for the industry. Then, TV shows were produced and sponsored by companies and non-commercial broadcastings were financed by federal funds, which accounted for \$103 million in 1977 in the US (Leubsdorf, 1977).

Around the 1980's, television's revenue model changed. By that time, television's revenue was primarily obtained from network and spot advertising. Spot advertising, as described by Kleppner's (1983), is time bought by national or local advertisers from individual stations. Network advertising, on the other hand, is bought on a supply and demand basis and prices are negotiated between the network and the advertising agency. This meant that an advertiser could buy TV time through individual stations or through a network. Furthermore, TV networks also got revenue from clients who wished to sponsor certain TV shows.

Today, the terrestrial's television business model depends highly on advertising (Martino, 2005). Broadcasters earn money by selling air time to advertisers and the cost of the ad depends mainly on the amount of eyeballs (meaning the size of the audience) and also the demographic composition of the audience (Owen, 1999). In contrast, cable's revenue model differs in the sense that they have multiple revenue streams that include subscription fees (which account for 88% of their revenue) and spot advertising (which account for 12% of their revenue).

Terrestrial's television business model is currently under threat due to the introduction of new technological devices named DVR's. The first DVR was introduced in the

market in September 1999 under the name of Tivo. This technological device brought various implications to the revenue model of terrestrial TV because it changed the way people watch television. This was due to the fact that it allowed viewers to watch the programs they liked when they wanted to watch them. In this way, consumers were in control of their own TV experience, therefore taking the power away from the networks.

After Tivo was introduced, new devices such as Replay TV entered the market offering similar benefits to those offered by Tivo. Similarly, video on demand (VOD) was introduced by the digital channels offering a service that gives the viewers the opportunity to watch what they want when they want. In this way, consumers were no longer obliged to wait for the set time arranged by the networks to watch their shows. Nowadays, most cable and satellite companies offer DVR's such as Tivo or Replay TV to their viewers.

The mayor problem that was created due to the introduction of the devices was their capability to skip commercials. This caused a big concern to the networks since they project a decline in revenues due to the fact that companies would be willing to pay less money for the traditional 30 second spots. Also, research made by the Media Planning Group suggests that viewers do not just skip ads when they are watching recorded programmes; they also skip them while watching live TV. This can be done by pausing the screen while the commercial is starting and record it. Once that is done they can press play again and fast forward through it.

Moreover, it is worth mentioning that nine out of ten DVR owners say they always or usually skip commercials when they are watching recorded shows.

In addition, as Wilbur (2004) puts it "because viewers pay for programs by watching commercials, avoiding ads with a DVR is equivalent to a fall in price. This fall in price should produce a positive income effect (viewers will watch more TV because avoiding ads increases their total stock of free time) and a substitution effect (viewers will watch more TV because it takes less time than before, relative to other activities). However, as stated by Neff (2008), "Tivo households do watch more TV shows than

non DVR households. But that still isn't enough to eliminate the negative impact on sales from ad skipping".

Furthermore, according to Steinberg (2008), approximately 43.5 million subscribers would have DVR's by the end of 2012, accounting for about 37% of TV households overall. This means that 37% of the TV watching population have the power to skip through ads. This percentage is probably going to go up in the next few years because the DVR's cost is decreasing, therefore it is likely that sales will take off even more, giving more and more people the power to skip through commercials.

The main problem is that without advertising there will be no money to finance new shows. This means that new sources of revenues will need to be found in order to maintain the supply of new programming which is essential to television. Therefore, as can be seen, one of our main sources of entertainment may be suffering due to the undermining of their main revenue source: advertising.

Thus, as a consequence of the introduction of DVR's, changes in the business model of terrestrial television started to emerge and new ways to attract consumers were sought in order to reduce ad skipping. For instance, new strategies such as sponsorship started to emerge once again. This phenomenon has brought implications to the United States and I believe will affect Argentina too in the next couple of years.

I consider that the subject has acquired important relevance in the past few years due to the fact that it is affecting a huge industry and is undermining their main revenue source. I find it important to study the effects that the technological devices are bringing with them because the future survival and eventually success of the industry depends entirely on how well the networks, advertisers and producers respond to the new scenario.

Questions

Main question: In what way has the introduction of DVR's affected the business model of terrestrial Television?

Sub questions: In what way have companies reacted as a consequence of the new scenario? How is television going to be financed in the future? Is it already affecting Argentina? Which ones are the implications for the business model of terrestrial television in this country? What is going to happen in the future? Why are companies still advertising on television despite the reduction of eyeballs and increase in costs?

Objectives

Main objective: Analyze the new scenario that is taking place in the United States regarding terrestrial TV's revenue model and then study how this has affected and how it will affect Argentina in the next following years.

Specific objective: Explain the different ways that companies have reacted to this scenario in order to make sure they receive revenues from advertising. Furthermore, I plan to analyse advertising in Argentina so as to determine whether if the scenario found in the US is already affecting the country. If that's so, I wish to study the methods that companies are implementing to adapt to the new environment.

Hypothesis: New technological devices such as the DVR are questioning the terrestrial TV business model and provoking a move towards new models that satisfy bimodal consumers.

Methodology

Type of investigation

During my thesis two types of analysis have been used: descriptive and exploratory.

Firstly, in order to understand the American situation regarding DVR's impact on advertising, a descriptive analysis was used. I looked for information from articles and papers written on the subject so as to provide an explanation of the phenomenon in question. Once this was done, an overview was written regarding what was happening with advertising on television in the US. Then, a few examples were given regarding how companies are reacting to the new scenario. Finally, a section was written concerning what the future holds for television advertising in the US.

Then, in order to understand the Argentinean situation on the matter, an explorative analysis was used. The topic at stake is relatively new for Argentina and there has not been much discussion on it yet; hence in order to study it, I conducted a series of interviews to relevant actors of the industry. This gave me a better insight into what was actually happening with advertising on television in Argentina and whether if DVR's were having any impact at all. Moreover, newspaper articles were also utilized so as to have a better insight on the matter. At the end, there is a section that discusses what the future holds for television advertising in Argentina.

Techniques for the recollection of information

In order to obtain the information for this investigation, I began by looking into various newspapers and magazines so as to have updated data on the effects of DVR's on advertising. For the section on the US, I mainly concentrated on Television Week, Brandweek, Advertising Age and the Journal of marketing research. Furthermore, I used papers written by academics which were obtained from Ebsco or J-Store's database.

With regards to the section on Argentina, I used newspapers such as La Nación and Clarín. Additionally, I interviewed Carlos Zabalza, director of the Argentinean TV

network “Antina”, Juan Pablo Barbero from the TV network “Direct TV”, Silvia Ruas from the advertising agency “Ignis”, Germán García from the TV channel “Telefe”, Luciano Caputo from the firm “Arcor” and Marcos Gorban and Belén Igarzabal, professors of the course “television” at the “Universidad de San Andrés” so as to have more information regarding the effects of DVR’s in Argentina.

Moreover, I attended a class called interactive media marketing at the University of Pennsylvania which provided me with an important insight on the American situation regarding DVR’s. With regards to Argentina I attended some classes from the course “Television” so as to have a better understanding of the over-the-air television business model in the country.



Section 2:
Theoretical framework



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Views on the effects of media on audiences

In this section I plan to give a brief overview of the most important theories that started to emerge in the 20th century with regards to audience reception of media messages. Finally I will give an insight on how the mass media audience is composed today.

The hypodermic needle theory

The hypodermic needle theory, also known as the magic bullet theory, was the first theory to consider the effects of media on mass audiences and it emerged during the beginning of the 20th century (Williams et. al, 1996). The theory considered that the viewers received the information in a uniform way and that they gave a direct and immediate response to the stimuli of the media hence the audience would give a predictable result to a certain stimuli. In this theory, the intelligence, opinions and experiences of the individual did not affect the reception of the message. According to Belén Igarzabal, the theory basically assumed that people would believe and accept what they were hearing. Here the audience was viewed as passive, homogenous and isolated. As it can be seen, the hypodermic theory is highly deterministic.

Theories of selective influence

Towards the 40's new ideas started to emerge where the audience started to be recognized as heterogeneous, active and socially related. At this time, a new theory emerged taking into account individual differences. This theory recognized that there did not exist an homogenous response to the same stimuli and rather, individuals had a selective attention where they would focus more on those messages that they found more favourable. Moreover, by this time, another theory emerged which was named the theory of social categories. This theory recognised that individuals may have similar responses to mediums if they had similar social characteristics. This also meant that viewers would be conditioned by the social context in which the individual was in.

Furthermore, at this time, the two step flow theory was also developed. The theory was created by Lazarfeld and Katz based on studies on how people were influenced by the media of an electoral campaign (Windahl et. Al, 1992). Belén Igarzabal mentioned that this theory recognised that individuals were influenced by the person that was transmitting the message, hence the response of the individuals would vary if the person that was communicating the information were different. Therefore, the message that was being transmitted by the media did not go directly to the audience since it was being filtered by opinion leaders that could have had influence on the audience thinking.

Theory of uses and gratifications

In 1974, Brumler and Katz developed another theory which was named the theory of uses and gratifications and they considered that consumers played an active role in the processing and selection of the media content (Williams et. al, 1996). It was not thought of the consumer as passive because they believed that the viewer did a conscious selection of what they wanted to hear, which was motivated by personal experiences and it was also goal oriented (cited in Katz et. al, 2003). The basic idea was that the consumer would select to watch what best fulfilled their needs. Those needs could be either the need to be entertained, to have company, or personal identity, amongst others (Cited in Williams et.al, 1996).

What is happening today?:

Bimodal consumers

According to IBM's institute for business value, the TV industry finds itself with bimodal consumers, ones that are passive viewers and others that demand a more interactive experience. They call it the "generational chasm" because whether if they are active or passive viewers is highly related to their age. So far, in numbers, more people are passive viewers (passive in regards to their TV viewing habits rather than on how they interpret media messages).

Passive viewers are the people who stick to the programming and are not interested in modifying their TV viewing habits; meaning that they are still not ready to embrace

the new technologies. They do not feel the need to understand the functions and advantages of DVR's and TV on Demand, therefore rarely utilising time shifting. Generally they are older than the active viewers and are therefore not too happy to change their usual television watching behaviour.

Moreover, consumer surveys found a decreased satisfaction with television from the passive consumers. Apparently the usage of the remote control and the fact that more choices are available have made the television experience somewhat less welcoming to these passive consumers that do not wish to make an effort in taking decisions constantly (Owen, 1999).

Furthermore, Belch (2004) considers that it is a fact that “for the majority of consumers, television is an entertainment medium that they want to watch as couch potatoes, not interact with”. Therefore, at least for this group, DVR's are not being utilised and are in turn not causing any disruptions to the advertising industry.

On the other hand, the active viewers enjoy time shifting and they like to control when they watch what they wish to watch. These active viewers have proven to be highly dissatisfied with regular linear television (sprangler 2008).

The active viewers are happier venturing into new platforms and accessing the content they want from whichever platform they consider more convenient, hence they are very used to space shifting (which refers to the fact that they select where to watch what they wish to watch). Furthermore, this group is more likely to watch video through the internet or a mobile phone than on TV. Moreover, they are used to fast forwarding, filtering and blocking advertisements much more than previous generations. This means that they like to use DVR's, VOD and are probably already active users of interactive television. In addition, they tend to watch less television than their parents did (Tapscot, 2008).

The author refers to this group of active viewers as the “Net Generation”. They are not willing to accept the traditional one way message where they hear what is on offer and then decide what to buy. Rather, they accept a two-way conversation and are therefore not passive consumers of the traditional television broadcast model. This

group generally likes to multitask, meaning that they interact with different mediums such as the television, mobile phone and the computer simultaneously. Therefore their attention is limited and in turn difficult to be captured.

Furthermore, the author mentions that active consumers are becoming a very powerful segment since students in the US earn around \$200 billion a year. Moreover, they tend to shop a lot and are very demanding consumers because they know how to access all the information available today. For the year 2006, the group spent \$190 billion worth of goods and are therefore a very important segment to take into account with regards to advertising.

In addition, Tapscot (2008) mentions that the net generation has an 81% of influence on their parents' cloths decisions and younger kids have a 78% of influence on groceries. What's more, this generation will eventually have more and more disposable income available and are therefore going to become an even more important segment to target.

Moreover, the author considers that the net generations will influence how products are being marketed. Firms will utilise new rules of marketing where the traditional ad will be replaced by a two way conversation and products will need to become available where the consumers want them and when they want them. Furthermore, this group will also help to shape the product and the brand.

As can be noted, the active viewer's group is therefore a cause of concern for advertisers since they are the ones that have the power and will to skip through advertisements.

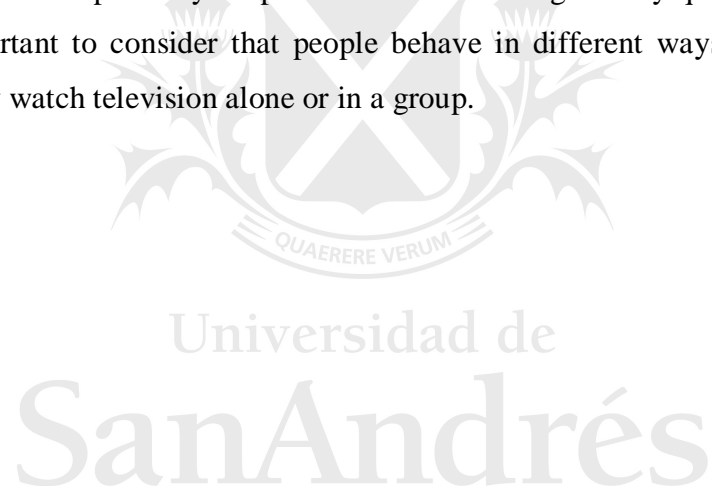
It is therefore essential to consider this consumer bimodality since advertisers will have to develop divergent strategies for divergent groups.

According to Belch (2004), "television is a passive medium and viewing habits will not change easily". Moreover, an author from "The Economist" (2010) also recognizes that behaviour may not be changing as much as it was thought of before because viewers still wish to watch television with their families and the fewer

choices they have, the easier it is to agree what to watch. The author considers that the social aspect of television has not been taken into account. Moreover, it was found that people first try to find something that is on show at the moment and if nothing interesting is found they would try to find something on their DVR's. Finally, they would move to the option of on demand.

However, it was also found that behaviour changes when viewers watch television on their own. In this scenario is when viewers use DVR's and TV on demand the most since they do not have to agree with others on what to watch (The economist, 2010).

Therefore, some people are already changing their viewing habits and it is probable that there will be a trend towards more active viewers in the future since the newer generations will most probably adapt to the new technologies very quickly. However, it is still important to consider that people behave in different ways depending on whether if they watch television alone or in a group.



Section 3:
Impact of DVR's and
VOD in the US

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Background

In this section I plan to describe certain concepts that will arise during the course of my thesis and briefly comment on the evolution of television in the US over the past sixty years.

The introduction of Cable

Between 1940 and 1950, cable television was introduced in the United States. Cable did not grow rapidly until the end of the 70's however; this was because during the 60's important regulations were introduced, limiting cable's growth. During that period until 1977, cable operators were not allowed to offer pay television (neither per channel nor per program) for sports programming that had been on free television over the past four years, for series, and for movies that were between two to six years old. These regulations were abolished in 1977 (Owen, 1999). From then on, cable television grew at high speeds and by the end of the 70's 16 million households were cable subscribers. Cable subscriptions continued to grow rapidly and by 2002, 68% of the nation's 106 million households had cable in their homes (Belch, 2004).

Since cable television was introduced in the US, their advertising revenues have increased dramatically and they reached \$12 billion in 2002. This changed the way advertising revenues were sliced because many of the cable stations became very popular, leading advertisers to modify the prices they were willing to pay for network and spot commercials on network affiliate stations. Moreover, since cable's introduction, a new business model was developed for its operators.

It is worth mentioning that cable companies have multiple revenue streams which include subscription fees (which account for 88% of their revenue) and spot advertising (which account for 12% of their revenue) (Martino, 2005). Owen (1999) also mentions that cable also obtains revenue from their pay per view services, from programming (which refers to services outside the basic channels offered) and from installation fees.

Television Networks and TV stations

A TV network is composed by a series of TV stations or affiliates that receive services and programming from the network. The TV stations give a certain time to networks for their programming and the advertisements within it (Belch, 2004). Generally, between 15 to 30 hours of programming are given to affiliate stations per week (Elberse, 2008). The revenue from the ads is shared between both the network and the affiliates (Belch, 2004). In general, most of the revenue obtained by the affiliate stations comes from local advertising sales (Elberse, 2008).

The TV stations can also sell their own commercial time during the nonnetwork times. Normally, the hours are filled by syndicated shows or by shows produced by the stations themselves (Elberse, 2008).

Therefore, as can be noted, advertisers can buy commercial time either through the networks or through each television station (Belch, 2004).

Different types of television

According to Owen (1999) there are four types of television:

- 1) Conventional Television: it consists of the traditional free television. The dominant networks in the US are ABC, CBS, NBC and FOX. In the case of Argentina, the mayor networks are channel 11, channel 13, channel 9 and America. Here the consumption experience is mainly passive since viewers watch television as “couch potatoes”. This means that they are happy to sit and watch was is on at that time.
- 2) Cable Television: In order to have access to cable, consumers must pay a subscription fee each month which gives them access to a much greater variety of channels. Cable channels allow for better targeting because they are watched by a specific portion of the population. On the negative side, the growth of cable has provoked an increase in audience fragmentation that has made it more and more difficult to reach a wide audience (Belch, 2004).
- 3) Interactive Television: This new way to watch television gives the consumer a greater control over what they watch, when they want to watch it. The use of

devices such as DVR's and also the introduction of VOD have made this possible. Viewers are mainly active in the way they view television since they are now in control of their own watching experience.

- 4) Internet Television: This is similar to interactive television in the sense that consumers have total control over their viewing experience. It gives the viewer the possibility to find videos on demand online, sometimes in exchange for a fee and sometimes in exchange for the viewing of ads. Internet TV has been growing fast in the last few years, especially amongst young kids that know exactly where to find what they want to watch. Viewers here are also active consumers. Similarly to cable, the internet allows the advertiser to reach very specific audiences, and as Owen (1999) puts it: "it will be easier with digital media to advertise golf balls and harder to advertise soup". This is because the digital medium delivers specific audiences hence advertising a generic product like soup will be best off in a medium that can deliver a mass audience, like traditional television.

As it can be seen, some people choose to watch traditional television or cable television whereas others pick a more interactive experience either from a television set or through a computer. We can see how a bimodality exists amongst consumers where some people are willing to passively watch television hence watch the advertisements that go with it; whereas others are content with a much more interactive experience where they select what they watch when they want to see it. These active consumers are also likely to skip through advertisements.

It is worth to note that interactive television and traditional television are not perfect substitutes since they fulfil different needs. The former does not satisfy the passive needs of the people that enjoy a traditional viewing. As Robinson and Godbey (1997) say "part of the allure of television is freedom from choice. It is a respite from an active world. Interactive television may actually be less appealing to people if they must invest more energy and imagination".

Both internet television and the introduction of technological devices such as the DVR have imposed threats to the traditional business model of terrestrial television. In the first case, the threat exists because more people are watching shows online

rather than on television. This means that the ads on TV have a lesser chance of being watched. In the second case, the threat lies mainly on the ability acquired by viewers to fast forward through the ads thanks to devices like the DVR.

What is a DVR?

According to Loebbecke and Radtke (2005), Digital Video Recorders are set-top boxes which allow people to record at least 15 to 200 hours of video. This device helps users choose and organize programs that they want to watch at the time they wish to watch them. DVR's permit the user to pause, rewind and fast forward programs. Furthermore, advanced DVR's offer viewers the possibility to skip commercials by offering 30 second jumps. Some other DVR's allow customers to redistribute copied programs to friends. Moreover, the last versions include recommendations to viewers regarding shows that they might like based on how other users have rated them.

In synthesis, due to these technological devices, consumers are now able to opt out of TV commercials by using a remote control (zapping), by fast forwarding through pre recorded commercials (zipping), to skip through commercials by using the PVR's quick skip button which skips 30 second periods, and finally by jumping over the entire commercial automatically by using the PVR auto skip button (Loebbecke and Radtke, 2005). This means that viewers control has increased enormously. The devices have deviated the control away from the networks to consumers.

What is VOD (video on demand)?

According to Lowrey et al, VOD “refers to the ability of networks to provide programming to individuals at any time, rather than at a specific scheduled time for a mass audience”.

Who is most likely to own a DVR or use TV on demand?

According to Pulse magazine (2008), DVR penetration has reached 23% of US households and DVR owners tend to be married, with children and have higher incomes in comparison to people that do not own a DVR.

Regarding TV on demand, it tends to be used by people who are around 30 years old, and they tend to have lower income levels than DVR households.

Households that do not have either of them tend to have the lowest income, are less likely to be employed full time or have children.

How is this relevant?

It is worth noting that DVR owners tend to have more disposable income and hence advertisements are more likely to be addressed to them; and since they are the ones with the ability to skip through commercials, it is worth studying how advertisers will get to reach these consumers.

Are DVR's causing the death of commercial television?

According to Kenneth Wilbur (2004) this question arose years ago with the introduction of the VCR (video cassette recorder) and the remote control. Since the introduction of remote controls in 1982, the viewer had the possibility to “channel surf” and hence not watch the advertisements by changing channels (Owen, 1999). Furthermore, people can also avoid a commercial by ignoring it or by leaving the room (Speck, 1997); hence the ability to “skip” commercials was already in place.

Furthermore, Moriarty (1991) found that solely 7% of viewers gave commercials their full attention whilst 53% reported divided attention. Therefore, even before DVR's introduction, viewers already had the possibility to ignore commercials and many of them were already doing so.

DVRs are causing the same concerns that arose in the past with VCR's and remote controls and it is a fact that they are causing advertising avoidance. However, US broadcast networks advertising revenues rose from \$9.96 billion in 1990 to \$15

billion in 2002 (Wilbur, 2004). Furthermore, DVR's have caused advertisers to look for innovative ways to reach consumers so that they are not tempted to skip through ads. It is unlikely that DVR's will cause "the death of television" but it is a fact that it has brought a lot of changes to the industry.

30 second spots

According to Rossiter and Percy (1997) about 65% of TV commercials are 30 seconds long, 31% are 15 seconds long and the remaining 4% is longer than 30.

One of the main questions which arise as a consequence of DVR's introduction is whether if these "30 second spot" commercials will still exist. This is not a minor issue since advertising is one of the key revenue sources of television, funding 50% of the market (Rossiter and Percy, 1997).

According to Belch (2004), 30 second spots were the norm in the 1970's. However, in September 1986, certain networks began accepting 15 second spots. One of the reasons why 15 second spot became popular was due to the fact that they were exactly half the price of 30 second spots. Furthermore, certain advertisers started to think that shorter commercials could deliver very effective ads too (Belch, 2004). Despite this, 30 second spots are still the dominant length for a commercial as can be seen from the figures above.

Television advertising of the future

It was already predicted by Kleppner's (1983) that the audience for a single TV show would be smaller and more costly to reach on a CPM (cost per thousand viewers) basis. In order to offset this trend he believed that advertisers would need to start tailoring their advertisements to certain programmes. An example of this was Coca-Cola that designed a commercial for the 1980's SuperBowl that was called "Mean Joe Greene Coke".

The U.S Television Industry

By 2006, nearly all households in the US owned a television in their home, with the average American watching approximately 4.5 hours of television daily. Most of the people had access to television content by subscribing to their local cable network or a satellite distributor. Furthermore, the US television industry earned \$90 billion in annual revenues which came from advertising, subscriptions and licensing fees (Elberse, 2008). Cable networks, in the year 1999, earned \$8,934 million from their advertising and \$9,043 million from the cable licence fees whereas broadcast networks had a revenue of \$14,558 million (Electronic Media, 2001).

The television industry's main actors consist of studios and production companies, affiliate stations, cable and satellite providers, broadcast and cable networks, and finally advertisers (Elberse, 2008).

The major cable operators in the US are Comcast, Time Warner Cable, Charter Communications and Cox Communications. Regarding the satellite distributors, the major providers are Direct TV and EchoStar (Elberse, 2008). With regards to the major networks for viewers, these include ABC, CBS, NBC and FOX (Belch, 2004).

In regards to advertising, by the year 2006, the broadcast and cable networks, which rely mainly on the selling of air time to advertisers, had generated around \$40 billion in advertising revenues annually.

Generally every 1 hour of television, 15 minutes are dedicated to advertising. The advertising rates depend on CPM (cost per thousand viewers) and for the year 2006, a CPM rate for a 30 second spot could cost between \$30-\$40 (Elberse, 2008). According to Belch (2004), many of the most popular prime time shows charged \$200,000 or more per TV spot (if bought through a network), and very famous shows such as Friends and ER could charge up to half a million dollars.

Elberse (2008) also mentions that advertisers had shifted some dollars away from TV advertising towards digital platforms such as the internet, because the latter offers access to a more specific market. In response, cable networks started to look for ways

to offer services to niche markets and therefore manage to attract advertisers back.
One of the ways they did this was by inserting advertisements into VOD.



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Video on demand (VOD)

Threats

According to Lowrey et al (2005) the main threat that Video on Demand imposes in regards to advertising is that the availability of commercial free programming could drive away viewers from advertising supported programming. VOD's also impose other threats such as the potential elimination of DVD's. However, VOD's dynamics have changed over the last few years and they have now incorporated advertising.

VOD: insertion of advertising

Traditionally, advertisers who wanted to have their ads on VOD had to prepare them and decide where to place them months in advance. If an ad had to be replaced, the process could take weeks. Today, however, there is a new approach towards dynamic ad insertion. This means that when a consumer selects the programme or movie they wish to watch, a campaign manager will select the ad or ads that go with it. In this way, ads reach a much more segmented audience and the cost per thousand (CPM) of the ad can be a lot higher than for linear channels.

Ad agencies are happy with this new idea because they have the possibility to know who is watching the ad, how much of the ad they watch and what type of household they live in. This information can help them to then modify campaigns in accordance to consumers' preferences. This idea of targeted advertising has a lot of advantages because, as has been previously mentioned, consumers are more likely to watch ads that are targeted to them because they are more interested in them. However, this idea raises certain privacy issues because not everyone wants advertisers and networks to have so much information of their viewing habits; and the truth is that the technology can track down to the individual consumer (Patterson 2007).

However, viewers must take into account that in accordance with the cable TV privacy Act of 1984 "a cable operator shall not use the cable system to collect personally identifiable information concerning any subscriber without the prior written or electronic consent of the subscriber concerned". Patterson (2007) mentions

that the operator is the one that decides how much of the information is shared to advertisers and they mention that they would do so in accordance with the TV privacy act. They note that what they do is to access the information in an anonymous format so as not to disclose personal data and then assign attributes to subscribers so as to be able to target ads to them. This is a way to make use of the information without violating the privacy act.

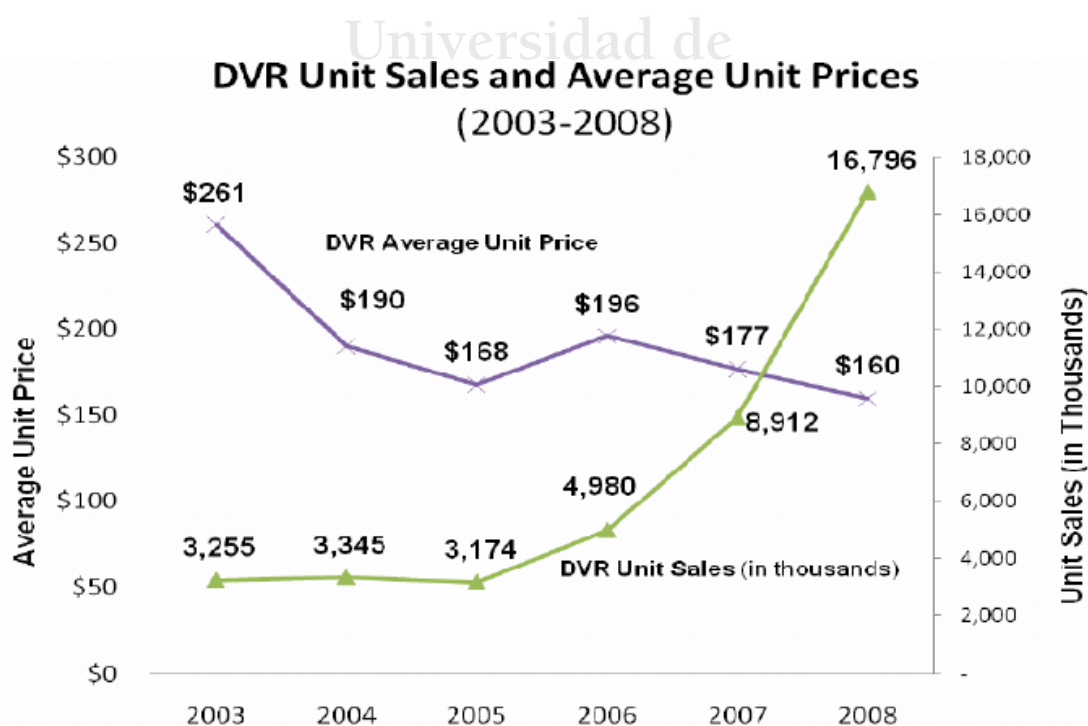
It is also mentioned that “dynamic ad placement offers a way to defeat ad skipping, it maintains the advantage that cable has over internet distribution, and it provides new convenience to the viewer” (Jonathan Bokor, VP of business development for Tandberg TV).



DVR as a threat

According to Steinberg (2008), 26 million homes (23.4 % of all TV households) owned a DVR by the end of the first quarter of the year 2008. From those 26 million homes, Oliver Wyman found that 85% report to be skipping at least three quarters of ads. Furthermore, as stated by Interpublic Group Magna (2008), they forecast that approximately 43.5 million households will own a DVR by the end of the year 2012 (37% of US households). These numbers show how DVR's ownership and use is increasing and this means that more and more viewers will be skipping through commercials.

Moreover, access to a DVR is getting easier each year since prices are going down, making them more affordable. Thierer (2007) mentions that DVR's price fell from \$261 in 2003 to \$177 in the year 2007. Furthermore, channel operators are also subsidizing part of the DVR's cost so as to make it even more affordable. Therefore it is likely that more DVR's will be bought in the next couple of years. Below we can see this trend in more detail.



Source: Consumer Electronics Association

Why is this a problem?

It is really becoming a problem because more money needs to be spent on advertising to reach a much smaller audience. This is not only due to the fact that viewers skip ads but also because fragmentation is occurring rapidly due to the vast amount of channels available today. Therefore, TV ratings are decreasing rapidly. As an example, Fortunato and Winders (2005) state that “the number one prime-time entertainment show for the 2003-04 season, CSI, had an average rating of 15.9, while the program in 1983-84, Dallas, had an average rating of 25.7, and the top show in 1963-64, The Beverly Hillbillies, had an average rating of 39.1”. As can be seen, in the past it was much easier to get a message through to a great number of people; today it is very difficult and very expensive.

During the 2005 Superbowl, advertisers paid up to \$2.4 million for a 30 second spot available. This happens because reaching a big audience is getting more and more complicated.

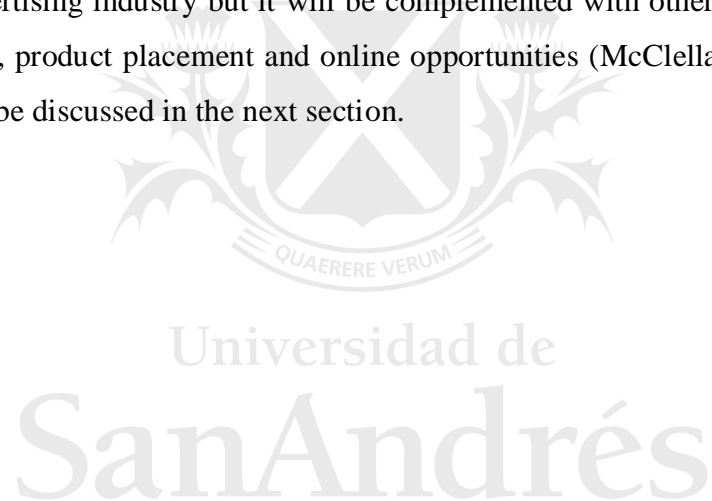
Due to TV audience fragmentation, advertisers can now hope to reach only 15% of the prime time market, in comparison to 40% in 1980 (Foust and Grow 2004). However, Woolley (2003) mentions that despite losing 30% of their prime time market in the last 10 years, the networks per viewer rate has actually gone up 110%. Networks are therefore less concerned than the companies that advertise on TV because even though TV ratings are declining, advertising fees are increasing. Wolley (2003) mentions that if the advertisers demand less advertising fees for loss in viewership, networks will find a big impact on their revenues. So far, since that does not seem to be happening, networks are not being highly affected by DVR's introduction.

It is worth mentioning that ad skipping has taken place due to the possibility of time-shifting of shows in conjunction with the ability to fast forward. Another problem of time-shifting according to Bauder (2008) resides on the fact that advertising rates are calculated based on people that watch the show within three days of its original air time. This means that if a consumer tapes a programme and watches it four days later, the network is not getting any money from that viewing.

Bauder also mentions that DVR's could cause people to get out of the habit of watching shows because they no longer have to worry about watching them at a certain time and they may forget to watch the recorded version.

It is true; however, that DVR households watch more television than non DVR households, but Neff (2008) considers that this increase is not enough to eliminate the negative impact on sales brought by advertising avoidance.

According to a 2004 survey of 121 advertising experts of the American Advertising Federation, 21% consider that the DVR will make the 30 second spot disappear, whilst 55% believe that the 30 second spot will remain being important for the television advertising industry but it will be complemented with other strategies such as sponsorship, product placement and online opportunities (McClellan 2004). These strategies will be discussed in the next section.



DVR's opportunities

As has been previously described, the main problem revolving around DVR penetration has to do with ad skipping. However, in this section I plan to provide an insight regarding the opportunities that arose due to DVR's introduction.

According to Jack Neff (2008) research shows that Tivo households watch more TV shows than non Tivo households. Furthermore, some brands saw slight sales increases amongst DVR households. The last study wishes to show that not all brands will be affected by DVR's introduction.

Moreover, Mandese (2004) mentions that DVR users have actually proven to be more satisfied with the TV viewing experience. The study shows that DVR owners were much less irritated by TV commercials (43% of DVR owners VS 49% of non DVR owners) and were more prone to find TV ads informative (13% vs. 9%). The main reason why users feel more satisfied with the overall TV viewing experience is due to the fact that they consider that ads are no longer being imposed. Viewers believe they have control over what they see, including advertising.

Furthermore, it is also worth mentioning the study described in Joe Mandese's article which highlights the fact that fast forwarders actually happen to notice advertisements while they are zipping through them. It is mentioned that since they are constantly concentrating on when the ad finishes in order to stop fast forwarding, they are actually looking at the ad; and if they are interested enough in what they see, they will eventually rewind it and watch it properly.

In the past, viewers would generally get up and go to the bathroom, get a snack, talk on the phone or even switch channels during commercial breaks. As Chanko (2006) says, at least now they are getting a glimpse of what the ads show and therefore advertisers should take advantage of it by using creative frames that at least display the brand logo so that it is recalled.

It is worth mentioning however, that this depends on how fast viewers fast forward. If DVR's fast forwarding becomes faster, it will no longer provide this benefit.

On top of that, it is also a fact that DVR's have proven to be highly successful in regards to obtaining information on consumer's viewership. This can turn out to be very useful to the advertiser since they get a good insight into consumer's preferences in terms of ads. The information available through a DVR can help advertisers design ads which are more likely to be seen by consumers; and will therefore allow for personalization to occur. People will stop getting ads that are not interesting to them and rather find ads much more suited to their preferences.

Moreover, Tivo can not only obtain information on people's preferences but they can also observe how effective certain ads are. For example, The Weather Channel designed an ad for their show "Abrams & Bettes" and Tivo could detect not only how many people viewed the ad but also how many of those recorded the program after viewing the ad.

Moreover, it is worth noting that due to DVR's introduction, viewers have the option to watch their shows, no matter what their air time is. As a consequence there is a higher chance that viewers will watch more television than usual. This is because, in the past, viewers may have missed certain shows due to their air time; today, however, viewers can watch TV programs at the time they want therefore rarely missing a show they really want to watch.

Similarly, DVR's have permitted some shows to survive since they no longer compete with other shows offered at the same time and it could be the case that the consumer is interested in seeing both. It can therefore be noticed that the DVR allows TV shows that are currently suffering due to their time schedule and competition, to potentially be successful. Furthermore, due to the fact that these shows are being recorded, the advertising now has the opportunity to be seen. An example of a show that survived due to the DVR was "the office" since it was competing directly with "CSI" and "Grey's Anatomy". The DVR allows the consumer to watch the three of them if they wish since their set scheduled time is no longer relevant.

On the positive side, According to Pulse magazine (2008), DVR's and On Demand have motivated viewers to sample new shows. They found that "almost six out of ten

DVR+On Demand households and half of On Demand only Households report that they were more likely to try new programs because of On Demand. In Addition, two-thirds of DVR users also found new programming by recording it on their DVR's". However, Carter (2008) mentions that weak shows suffer from DVR penetration due to the fact that big shows are being watched during their air time and they are not generally recorded. As The Economist (2010) puts it, big shows are crowding out small ones because DVR's are now giving viewers the opportunity to watch only hits.

It is also worth mentioning that due to the fact that users have the opportunity to fast forward through the ads, those commercials that consumers do stop to watch are more noticed by the viewer and are for instance much more likely to be recalled (Kilby and Foote, 2005).

Another idea that is worth to be considered is the fact that DVR's also offer the possibility of watching an ad several times. McClellan (2009) states that there has been an increase in viewers watching ads in playback mode.

DVR's have also allowed parents to have more control over what their kids watch. This is because they allow libraries to be created, where parents can pick which shows they want their children to watch and even determine when they will be viewed. As the Federal Communications Commission (2006) mentioned, "through the use of advanced set top boxes and digital video recorders, and the introduction of new mobile video services, consumers are now able to maintain more control over what, when, and how they receive information". This control is bound to increase overall TV satisfaction too (Thierer, 2007).

How can DVR's negative impact be minimized? How are companies reacting?

As stated by Kerwin (2006), “almost 70% of advertisers believe DVR's and VOD's will reduce or destroy the effectiveness of traditional 30-second commercials. Instead they are looking at alternatives such as branded entertainment within TV programs (61%), TV program sponsorship (55%), interactive advertising during TV programs (48%), online video ads (45%) and product placement (44%)”.

Sponsorship

According to McAllister (1998) sponsorship can be described as “the funding of an entire event, group, broadcast or place by one commercial interest in exchange for large amounts and special types of promotion connected with sponsored activity”. This basically means that certain companies wish their products to be associated with certain shows or events.

As has been previously mentioned, during the early days of television, sponsorship was widely used in television shows. Examples of the use of sponsorship include that of Texaco Star Theatre and The Colgate Comedy Hour. As can be seen, shows generally received the name of the sponsor and they were all produced by them too. Today, however, shows are either produced by networks or by companies that sell them to networks (Belch, 2004).

A more recent example of the use of sponsorship is that of Vauxhall in the year 1998, who won the ITV's coverage of the World cup finals in France. Their objective was to use sponsorship to promote their range of cars Vectra.

Another example of sponsorship is Pepsi, who has signed deals with The Warner Bros cable to sponsor a live music show called “Pepsi Smash” and the program “Play for a Billion”.

Ford Motor Company has also made use of sponsorship for the film “Schindler's list” and it brought the company a lot of favorable publicity (Belch, 2004).

Furthermore, Philips Electronics NV paid \$2 million to be the only national sponsor of “60 minutes” from CBS (Good, 2005).

Sponsorship’s main advantage is that it allows companies to access targeted niche markets. Furthermore, it helps shape consumers attitudes towards the brand and eventually create a positive reaction. It also increases company’s credibility, image and prestige. For example, Coca Cola sponsors events that they consider will influence their consumers’ opinions of the brand and products in a positive way. In addition, sponsorship allows for competitor differentiation. It is very useful if a small company wishes to stand out over a larger competitor who has access to a bigger advertising budget (Friedman).

Product placement

Product placement occurs when companies pay so as to get their product used or displayed in a TV show or movie. This strategy is already being used in various shows in the US such as Survivor and American Idol. In the latter, not only does each episode contain coca-cola ads; they also make appearances of the brand by for examples drinking from a coca-cola glass. This is a perfect example of product integration.

More examples of product placement can be seen in the talent series “Nashville Star”, where Chevrolet and Mc Donald’s have made an agreement with the USA network which consists of them displaying their brands in the show. For instance, the official transportation on the series is a Chevrolet Silverado and whenever contestants look for a place to eat they go to MC Donald’s.

Product placement has proven to be very successful in various cases such as for Ray Ban Wayfarer sunglasses, whose sales triples after Tom Cruise wore them in the film Risky Business. Similarly, Ray Ban aviator sales went up 40% after Tom Cruise wore them in the movie Top Gun (Belch, 2004).

According to Hudson and Hudson (2006), movies contain great deals of product integration. For example, the film “hitch”, features no less than fifty two brands which include Citybank, Fritos, Altoids and Yoga Magazine.

The strategy makes sure that their brand is not ignored. The main disadvantage that it brings is that they do not allow for communication about product features. This is why it is important that this strategy is utilised in conjunction with commercial time, so as to combine both brand recall and description of product features (Fortunato and Windels, 2005). TV sponsorship strategy deals with the same issue since they simply display the brand, giving no space for the description of product features. These strategies will be more successful if they are complemented with commercial air time or by providing an internet website.

It is worth mentioning that not all brands consider product placement to be useful. Ephron (2003) considers that product placement only works for established brand names than can be easily detected. This could explain why the brands that use product integration the most are generally consumer goods manufacturers such as Coca-Cola, Nike and Motorola, between others (Hudson and Hudson 2006).

Furthermore, Belch (2004) considers that “product placement has become so common that some advertisers are concerned that the novelty of the brand exposures has worn off, leading them to be less effective, or even worse, that they are so common and so obvious that viewers are getting turned off by them”.

On the other hand, he does recognize that with the growth of DVR’s such as Tivo and the tendency to skip through ads that they bring, it could be the only way to make sure that a product and brand are shown in the future. Therefore, this could mean that there will be more product placement in the future (Belch, 2004).

In addition to these strategies, Fortunato and Winders (2005) also mention that TV networks might allow advertisers to use the bottom corner of the screen while shows are on, to display a brand or logo and even an internet site address. This is a way of combining the strategies mentioned before with the internet, which allows for product features description in detail.

Branded entertainment

According to Balasubramanian (1991) “branded entertainment is the planned entries of products into movies or television shows that may influence viewers’ product beliefs and or behaviors favorably”. A more recent definition is that of Hudson and Hudson (2006) where they describe branded entertainment as “the integration of advertisement into entertainment content, whereby brands are embedded into storylines of a film, television program, or other entertainment medium. This involves co-creation and collaboration between entertainment, media and brands”.

Branded Entertainment examples include that of BMW with their series “the hire”. They incorporated famous actors and celebrity directors producing a series of 8 film shorts. The objective of using branded entertainment is for consumers to associate good experiences with the brand.

Another example of branded entertainment includes the talent show “hottest mom in America” which was produced in association with Medicis Pharmaceutical cosmetic injection brand Restylane. Other examples consist of P&G’s “home made simple” and Nikes documentary on Lance’s Armstrong tour de France.

Furthermore, Colgate-Palmolive used branded entertainment in the reality show “The Apprentice”. What they did was to provide each team of the reality show with 50 thousand dollars so that they could fulfill the task of launching Crest’s latest flavored toothpaste.

It is worth mentioning how regulations work with such things as brand placements. Hudson and Hudson (2006) mention that even though product placement and branded entertainment is allowed in the US, many other countries have strict rules regarding the subject. In France, for instance, brand placement is illegal. Similarly, Italy contains laws that restrict product placement. On the other hand, Asian countries like India, China and the Philippines have weak regulations which have led to a great increase in branded entertainment.

Diversification of expenditure within TV ads

Furthermore, according to Jack Neff (2008), studies show that shifting money within TV can significantly reduce ad skipping. This is due to the fact that time shifting of shows varies according to time of day, day of the week, show type and network. The study found that 42% of the programming on CBS was being time-shifted, in comparison to only 10% on the food network. This could be due to the fact that younger people tend to be the ones to watch TV series whereas perhaps older people watch the food channel. As has been mentioned, time shifting is more accentuated in younger viewers.

Similarly, only 15% of shows on Sunday experience time shifting, whereas on Friday 34% do. This could be because viewers tend to be at home on a Sunday and can therefore watch the shows at practically any time; Friday however is a working day and it is more likely that shows will be time shifted to a more convenient time.

Personalization

Personalization is another way of increasing the probability that consumers will watch the ads. It basically consists on designing an ad that is best suited to the consumer's preferences. The advantage is that, in theory, consumers would solely see ads which they find interesting. However, on the negative side, consumers may not feel comfortable with advertisers having so much information about them.

Nevertheless, personalization has actually proven to be very successful. A 16 month study which started in the year 2006 by cable company Comcast and Starcom MediaVest found that households that received targeted ads were 56% more efficient than ads that weren't targeted. Also, the study found that the targeted households that were sampled changed the channel 38% fewer times than those households watching traditional ads.

As an example GM utilizes targeted advertisements and wishes to attract only 1.5% of the people in the US per month. GM uses mainly demographic characteristics like age and income level to make sure they target the right people (Kang and Kumar 2008).

Tivo's pop up's

Tivo has also tried to find ways to make sure consumers get to watch some advertising. For instance, they have developed the possibility to have pop up icons on the screen while viewers fast forward through the commercials. The idea is that consumers have the choice of selecting one of the pop ups and watch an ad or get information mailed to their home.

Furthermore, ads can also be found on Tivo's main screen and within the photos, music and showcase menu. In addition, in December 2008, Tivo started to offer ads that came into sight as a small piece of text and they appeared when viewers paused a show. Companies that wished to advertise in such a way had the option to select the specific show or genre in which they wished their ad to appear. For example, Mercedes Benz made use of this type of ad to promote one of their new cars during football games.

Similarly, a new interactive tag feature was developed and it appears when TV shows are on pause. One of the first interactive tags was for Lexus which had a feature that allowed viewers that clicked the tag to build the 2007 Lexus ES 350. Viewers could also request and eventually schedule a test drive of the car from their own Tivos.

Expo's TV infomercials

According to Balasubramanian (1994), "infomercials are a program length paid advertisement that promotes an organization's product or image through information and persuasion".

Expo TV is the television's first on demand video marketplace and is distributed in more than 90% of VOD cable markets, as well as on broadband and through partners like buy.com, yahoo and AOL. The infomercials are long form marketing shows and they can be accessed whenever the consumers wants. Expo TV wishes to give the consumers what they want when they want and they have provided with updated infomercials that can be accessed at any time (Hildebolt 2007).

Moreover, the infomercials have proven to be successful since they found that five of the top 10 most requested shows on VOD were the infomercials. Furthermore, according to Hildebolt (2007), there has been a surprising finding regarding advertising engagement since they found that the highest levels of engagement were for viewers of paid programming. With regards to full half hour format advertisements almost 85% watch for longer than 5 minutes (with an average viewing of 14). When it came to shorter ads of one to three minutes, 75% are seen on average. They also found that VOD advertising engages viewers 28 times more than the traditional 30 second spot. This proves that VOD advertising seems to be working and it could be seen as a good way to defeat ad skipping.

The infomercials are just another way of trying to avoid the ad skipping trend and get viewers to watch commercials.



Examples of how companies are reacting towards ad skipping

The first example is KFC. The company decided that in order to avoid TV ad skipping, they would design a commercial in a way that provoked consumers to be tempted to watch the ad.

What they did was to utilise a code word which was inserted in the ad that could only be seen if they slowed the commercial. The advantage of finding that code was that they could claim a coupon for a free “Buffalo Snacker” KFC Sandwich. According to Vranica (2006) approximately 103 thousand people claimed the Buffalo Snacker and the ad also brought an increase of 40% in traffic on their web site while the ad was running.

This example shows how companies are trying to use creative ads so as to make sure consumers watch them despite their option to skip through them.

Another way of reacting towards DVR’s impact was to disable viewers’ ability to fast forward. This was the case of Walt Disney’s ABC with their show “Desperate Housewives”. The deal was that they would offer the show to cable’s providers for video on demand but only in exchange for the assurance that they would disable the possibility of fast forwarding.

Time Warner has also reacted towards DVR’s by introducing features that only allow viewers to watch a show again if they watch the ads that go with it.

Another example of how to make good use of the new technology is Hellmann’s. One of their ads was designed to be played utilising the slow motion features. The idea was that, if the ad was viewed at normal speed, the spot would appear as if it were being fast forwarded. The spot featured a recipe demonstration which could only be watched properly in two and a half minutes, but they obviously only paid for 30 seconds. This is another example of how companies are taking advantage of the new technology for their own benefit.

Tourism Australia is also a good example of a creative commercial that was designed for Tivo's new pop-up ads. The icon showed a photo of a girl on the beach with the text "Don't tell me I just skipped the Australia ad!". In case that viewers wished to watch this ad, they would have had to press the thumbs up button to watch it and also get more information. This was just another creative way of getting people to notice ads and tempt them to watch them.

Another example has to do with a game called "Gold Rush" which was designed between AOL and Mark Burnett Productions. The idea was that players had to watch TV shows and their ads in order to get clues to find \$2 million in gold. The game lasted approximately two months and the clues were distributed around the CBS's ads, TV shows and also on AOL's website.

Coca-Cola has also deviated away from 30 second spots towards a more innovative way to reach their consumers. Coke spent solely \$188.7 million during the year 2003 on television advertisement, which in comparison to 2001's \$268.1 million is a sharp drop (BusinessWeek, 2004).

In 2004, Coke created what they called "Coke's red lounge" which is an area in shopping centers where young adults can gather up and watch movies, listen to music and play games. What Coke wants is to infiltrate consumer's daily routine and the good thing is that young adults seem to like it (Business Week, 2004). Coke's representatives mentioned that they are moving towards new ways to reach consumers due to the increase in media fragmentation and the growing use of technological devices such as Tivo that get people to skip through commercial breaks. They have accepted that they will not be able to reach more than 15% of the population with an ad in prime time, which is less than 40% of what could be reached in 1980's. As Coke's president Steven J. Heyer puts it: "the days of mass, homogenous marketing are behind us" (BusinessWeek, 2004).

Coke has also increased its use of product placement so as to start depending less on advertising on television spots. They actually paid \$20 million to get judges from FOX's show "American Idol" to have coca cola cups throughout the show. Coke's representatives mention that product placement can also have its risks if the show

eventually gets cancelled, but they consider it a good option right now due to the increase in people's ad skipping behavior (Business Week, 2004).



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Consumer's bimodality

As has previously been mentioned, the television industry is currently under a consumer bimodality where some viewers are passive consumers of television and others demand a more interactive experience. Passive viewers are happy to maintain their usual TV watching behaviour which implies that they stick to the programming and are not interested in learning what DVR's and TV on demand can offer. Moreover, they are also not interested in trying to find television online since "TV watching couch potatoes tend to be lazy" (The economist, 2010). In contrast, active users are happy to venture into platforms to find what they want and they are also interested in what DVR's and TV on demand have to offer.

What does this mean?

It means that companies need to take into account the fact that a big proportion of the population is still not ready to change their viewing patterns. Therefore, advertisers should take this bimodality into consideration and create strategies accordingly.

So far, passive viewers are great consumers of 30 second spots and traditional TV viewing and this means that not everything has to change right now. Rather, strategies should be designed for each group so as to keep them both satisfied.

How are companies looking to satisfy active viewers?

Interactive Television

According to Belch (2004), the television is being transformed into an interactive tool that gives viewers the chance to access movies on demand, make purchases, play games and even access the internet. It has permitted a more direct communication between the advertiser and the viewer and has also allowed for personal targeting (Kingsford-Smith, 2003). Belch (2004) also considers that in the future, most viewers will access the internet from the televisions rather than from their computers.

Certain companies are already making use of iTV (interactive television) for their own benefit. For instance, Virgin Mobile has used it to ask potential clients what annoyed them about their current providers. The responses were then utilized to create a database and change Virgin's services to adapt better to customer's needs (Belch, 2004).

Furthermore, other companies are using iTV for their television commercials. Nissan used interactive TV to provide details on a new 4x4 that they had recently launched. The consumer could, by the click of a button, find information about the car, request brochures and even book a test drive. In addition, P&G also used interactive television to advertise their Fairy liquid dishwashing detergent and Fairy non-bio washing powder. They found that it drove brand awareness, advertising awareness and purchase intent higher than what had been generated by their 30 second commercial alone (Kingsford-Smith, 2003).

However, it is worth mentioning that not everyone is ready to take this next step and embrace interactive television. In fact, a study that took place in the summer of 2001 found that 72% of respondents were not interested in interactive TV just yet. It could be the case that most people still want to sit back and just passively enjoy television (Belch, 2004).

Interactive TV games

In order to attract new sources of revenues, TV operators have designed easy to play games which can be accessed through their set top box. The games are monetized by the use of monthly subscriptions, day passes and sponsorship or by paying per game. According to Swings (2007), games are a good way of building consumer loyalty and creating gamers communities.

Interactive TV Shows

During the year 2009, an interactive TV show was produced. The show was called Dubplate drama and it was a music series which followed a group of young musicians in their careers. It is considered to be interactive because the storyline of the show was

influenced by the viewer's votes; hence the finale was adjusted to what viewers wanted to see (Music Week, 2009).



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The future of the television industry and its advertising in the US

As stated by Belch (2004), “the advent of digital television, mobile phones, and the internet has led to the belief that the traditional means of watching television will be a thing of the past”. These technologies have allowed consumers to have control over their own streams of information, entertainment and content, where and when they want them. As a result, Belch considers that media planning in the future will have to change drastically to adapt to the new environment. Advertisers currently have many more options regarding where to place their ad message due to the proliferation of platforms that are now available.

Moreover, some authors also consider that since so much content will be available through a great variety of platforms, audiences will become very small hence making it very difficult to afford good TV shows (The economist, 2010).

So, what does the future hold for the television industry?

According to IBM’s institute of business value, they believe that the two key drivers that will define the future of the TV industry are open content access and highly involved media consumers. Viewers will become more and more involved while they navigate through various platforms and channels. Content will no longer be limited to a service provider; rather it will become more easily available either from the TV, the internet or even mobile phones.

Regarding the advertising, IBM’s institute in conjunction with Bonn University consider that there are four change drivers that will modify control within the industry. They call the first change driver, attention. By this they mean that viewer’s attention is shifting away from linear TV and moving towards ad skipping and ad sharing. They consider that TV is becoming a secondary background medium since viewers are moving more towards the internet. They state that it is essential that the advertising industry follows their audience into the new channels that are shifting their attention: internet, mobile and games.

The second driver, creativity, has to do with the fact that amateurs and semi professionals have started to create their own advertising versions, bypassing agencies. This has been facilitated due to the fact that there was a decline in production costs since tools are more easily accessible. This has allowed for a lot of user generated content that is attracting consumers just as much as agencies are; therefore agencies must find a way to develop highly creative advertising that attract consumers even more.

The third driver is measurement. Advertisers need to find better measures to capture how involved consumers are with the advertisements which should also be more specific to the individual. Since consumer's attention is becoming more and more fragmented, it is essential that measurements allow for the detection of finer segments and even individual viewers. Previous measurements do not seem to be enough under the new circumstances.

The fourth and last driver is advertising inventories. The authors anticipate that inventory management systems will eventually become more open, involving a bigger number of smaller buyers and sellers, therefore moving from private to open markets. They state that market forces are pushing the industry towards more dynamic platforms that allow the advertisers to follow consumers to each one of those platforms. It is important that they create messages that adapt to the different channels.

Future scenarios

In order to determine how the future may be in the next following years, IBM's institute for business value in their article "the end of advertising as we know it" has selected two variables that create four different future scenarios.

The variables include marketing control which refers to the amount of consumer control over ad skipping and the blockage of messages; and advertising inventory system control which has to do with whether the inventory will be highly controlled or available at open auctions and exchange platforms.

Based on these two variables, they create four different scenarios that will be discussed separately.

Scenario 1: continued evolution

Under this scenario, media consumption control is still in power of providers: content owners and distributors. However, as the authors mention, DVR's introduction and the ad skipping they enable can not be ignored. These will provoke consumers to demand more control, hence forcing some minor adjustments. In this scenario, there will be a bimodality where some consumers are still happy with their traditional viewing experience of television whereas others are more interested in obtaining control of what they watch and where they watch it. With regards to inventory systems, they will mainly remain private.

Scenario 2: Open Exchange

In this scenario, advertising inventory becomes more open and readily available in the open market. Inventory is now available to small buyers too and through the open exchange they bypass intermediaries. According to the authors, the process of buying, selling and delivering advertising becomes much more efficient. On the other hand, marketing control remains in the provider's hands with consumers passively incorporating marketing messages. Viewers in this scenario, as well as in the previous one, have little control over the filtering of marketing messages.

Scenario 3: consumer choice

In this scenario, advertising inventories remain close and there is therefore no open exchange. However, we find that consumers exert more control over which marketing messages they want to watch. In this scenario, due to the fact that consumers have a lot more control, advertising changes to adapt to what consumers want. The authors mention that personalization would be utilised so as to get customers to watch the ads. As has been previously discussed, ads that are targeted to the individual have a greater chance of being watched. Moreover, advertisements would become more interactive to get consumers to become more involved with them. In addition, the authors mention

that in some cases, consumers could even be given a choice of what advertisements they would rather watch.

Scenario 4: Ad marketplace

In this scenario, not only do viewers have control over what they watch; advertising inventory also changes towards an open platform where big and small buyers can participate in the exchange. The authors mention that in this scenario, any advertiser can reach any individual consumer across any advertising platform. Consumers select the advertisements they want to watch, from the platform that they wish and generally demand a more interactive experience. They therefore have total control regarding what they watch. Consumers are also very interested in ad development and user generated content becomes very popular.

In this scenario, advertisers would need to become very creative and adapt to the consumer entirely. On the positive side, advertisers will have feedback on their ads quite instantly due to the new measurements that would allow them to know whether if the ad is being watched or not. In this scenario, the traditional 30 second spot would have no place since the traditional way of viewing television would no longer be accepted by the consumers.

How is advertising going to be in the future?

According to Patterson (2007), ads are going to be more engaging and actionable. The idea will be that the viewer will interact with the product so as to increase their knowledge on its features and use.

Moreover, Swings (2007) states that even though the 30 second spot is still the dominant format of TV advertising, interactive advertising ads are becoming increasingly important. It is worth mentioning that they provide a series of advantages that can not be obtained from 30 second spots. For instance, advertisers can capture viewer's interests instantly and react accordingly. Furthermore, the campaign effectiveness can be easily determined and advertisements can be tailored to each type

of consumer. As has been previously discussed, the ability to target consumers tends to make advertisements much more effective.

What should companies do to successfully adjust to this new scenario?

According to IBM business consulting services, in their paper “the end of television as we know it”, they suggest that there are six actions that executives should follow in order to most effectively respond to the new scenario. The following are:

- 1) **Segment:** Invest in divergent strategies and supply chains to adapt to bimodal consumers. It will be important to develop user profiles and tailor content, advertising and pricing to each of them. There will be a need to develop divergent product and delivery strategies but also have different communications and sales strategies. Here data plays a very important role since it will be essential to help discriminate between the passive and active consumer group preferences.
- 2) **Innovate:** Innovate business models, pricing, distribution and packaging so as to create a wider consumer choice. It is essential to take risks with innovative content form functions and new delivery models for that content. According to IBM’s consulting services, “content will have to be divorced from its traditional platform or schedule in order to open new revenue sources”.
- 3) **Experiment:** Conduct experiments to study consumer preferences. It is mentioned that companies must test consumers on service options, product attributes, pricing schemes, brand perception and user friendliness. Companies should be guided by consumers preferences which can be found looking into how much attention, retention and acceptance viewers show for each new advertising model. Moreover, new measurement systems that adapt to the new environment need to be found.
- 4) **Mobilize:** Ensure synchronization across devices so that content can be accessed through any of them without complications.
- 5) **Open:** Drive open and standard-based content delivery platforms to optimize content and revenue exploitation.
- 6) **Reorganize:** It is important to identify the core competences needed for future competitive advantages and it is recommended to isolate non core business

components to outsourcing or partnering. The authors believe that the period will be characterised by disaggregations and reaggregations between companies that will merge or acquire new firms so as to build competitive advantages.



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Section 3:
Impact of DVR's in
Argentina



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Introduction

The trend previously described for the US has not had a massive impact in countries like Argentina yet. However, some networks have started to introduce DVR's and TV on Demand very recently. I will mention the Argentinean TV networks that have introduced DVR's so far and explain how television is financed in Argentina. Moreover, there will be a section explaining whether if advertising on television is being affected by DVR's introduction and finally there will be a brief commentary regarding what the future holds for the television industry in the country.

The evolution of the Argentinean TV industry

The Argentinean's first TV station was inaugurated by the president Perón in the year 1951. The industry began to grow, however, in the 60's when the military government allowed for commercial TV licenses to be sold. In the 1980's the Broadcasting Law was introduced. This law established limits on station ownerships, it banned the creation of broadcasting television networks, it imposed content regulations, it prohibited newspaper-TV cross ownerships and it did not allow foreign investments to take place in the industry (Galperin, 2002).

According to the author, in the 80's, the industry consisted of an oligopolistic structure with an important degree of state control with regards to the number of players in the industry. The Argentinean government controlled the most important television networks and the market was totally closed. By this time, the industry's principal actors were the government, the programmers and the advertisers. The latter provided the industry with their main source of revenue: the selling of advertisements.

With regards to cable television, it began to grow around the 1980's due to the fact that they enjoyed a great freedom from the regulations imposed by the military government and because at that time, TV licenses had frozen. However, as the author mentions, cable companies could not use satellite transmissions until the year 1986. This meant that until that time, channel supply was limited hence cable companies did not grow as much. Once this restriction was abolished in 1986, cable penetration grew

rapidly. Nowadays, cable television has a 58.5% of household penetration (Sistema Nacional: Consumos Culturales, 2004).

Galperin also mentions that in the year 1989, the law of state reform changed the structure of the television industry. Firstly, TV stations would no longer be in the hands of the government, thus they would be privatised. Secondly, cross ownership of newspaper and TV was now permitted.

During the 1990's, more changes helped transform the television industry. Firstly, content regulations were softened. A presidential decree was issued in the year 1991 which allowed national networks to be formed and it permitted product placement to be used as a means of financing for networks. Furthermore, in the year 1993, a new decree was sanctioned which allowed advertisements created abroad to be seen on the Argentinean television screen. By this time, the market was open to foreign investors and locals could also participate in foreign markets.

As stated by Galperin (2002): “the nationalist model of television predominant up to the mid-1980's has given way to a competitive, internationalized market environment”.

What is happening today?

Today 96.6% of households own a television set and each family has approximately 2.4 television sets. In addition, people watch an average of 3.4 hours a day of television, still representing the most important cultural entertainment medium. On the other hand, the computer has a penetration of 33.5% of whom only 50% have access to the internet (Sistema Nacional: Consumos Culturales, 2004).

According to García from the TV channel “Telefé” (Interview), people currently watch more television than in the past and this is mainly due to the wide variety of content available on television. Moreover, now more people have access to a television at home, hence it is expected that the number of eyeballs has increased. This means that it would be supposed that more people are watching advertisements since they did not have the opportunity to do so before. However, due to the

introduction of DVR's the question is whether if these devices have in fact decreased the amount of advertising that is being watched.

With regards to the TV industry as a whole, the most important TV networks are now private and competition is very high amongst the different networks (Galperin, 2002). The most important Argentinean networks are channel 11, channel 13, channel 9 and America.



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How is television financed in Argentina?

According to Gorban (Interview), television in Argentina is financed in 3 different ways. First and most importantly, television is supported by companies that wish to advertise on TV spots. These spots are sold by each channel and their price is very volatile due to the fact that it depends on a wide variety of variables. The variables include the show that is on at the moment of the advertisement, the time of day, the day of the week, the TV rating, the channel, and the target market that the show attracts. Moreover, the advertisements that come straight after the show are more expensive than those that appear in the middle of the commercial break. Furthermore, Ruas from the advertising agency Ignis (Interview) mentioned that the price per second is more expensive during the night in comparison to the day and week days in comparison to week-ends because it is expected that consumers watch more television during that time. In addition, she mentioned that spot prices vary in accordance to the state of the economy and rates of inflation also affect its price. Moreover, the longer the commercial, the more expensive the spot will be.

Therefore, as can be seen, there are a lot of variables that can affect the advertising spot price, which is finally determined through a negotiation between the companies and the TV channel. Normally, a reference price does exist but it is not fixed and it is considered a point from where the negotiation initiates.

Companies usually negotiate with the channels during the months of October and November and provide them with an important sum of money that will then be distributed throughout different times and shows during the year. In Argentina, according to Gorban, around 165 companies advertise on television and the number is not higher due to the high price of the spot commercials.

Regarding TV spots length, Ruas mentioned that on average the spots in Argentina are approximately 25 seconds long; however spots are also sold for 10, 20, 30 and 40 seconds.

It is worth mentioning that channels are allowed, by law, to sell up to 12 minutes of advertisements per hour. Normally 9 minutes are dedicated to advertisements from

companies whereas the other 3 are used to advertise their own television shows. In contrast, in the US, 15 minutes per hour are allowed for advertising.

As mentioned by Gorban, the second revenue stream for television is product placement. As has been previously mentioned, this non traditional form of television consists of advertising within the television shows. There is no legal limit as to how many brands can be displayed or mentioned during the show, but producers need to bear in mind that a show can become extremely boring if they are used in abundance. They therefore try to find an equilibrium that gives them income without affecting the viewer too much.

As it has been mentioned, product placement used to be banned by the military government but it is now widely accepted. Each mention of a product is charged either by the television channel or by the producer. Normally, if the producer is the one that makes the deal, the revenues are then distributed between both the channel and the producer.

Finally, Gorban mentioned that television can also gain revenue from derived businesses. For instance, some television shows have earned money from their merchandising which includes cloths featuring the characters, CD's, sticker albums and magazines. Others have obtained a good revenue source by producing music shows in theatres that were very successful.

Moreover, Gorban said that another way of earning revenue is by partnering with famous musicians or even businesses. For example, TV channels can sign deals by giving the musicians the possibility to have their show on television and also advertise them. In exchange, the channel normally asks for a certain percentage from the tickets sold for the show.

In regards to partnerships with companies, in the past, the Argentinean TV channel "Telefé" signed a contract with a small food chain. The idea was that the TV channel would give the company air time for advertisements (which were too expensive for the small company to afford) and in exchange, the channel would get a percentage of

the chain's profits. The deal turned out to be good for both companies and the small food chain grew incredibly rapidly.

Furthermore, with the increase of reality shows, television channels have acquired a new revenue stream which is the one obtained from mobile phones. Programmes that ask consumers to participate by sending a text message or by calling have increased in the last number of years and have become very successful. For example, Gorban mentioned that big brother 2007 received 12 million votes (either from sms or through the phone) during the 4 months that the show was on. The money is then distributed between the channel, the Mobile Carriers (Mobistar, Claro, etc), the producers and the organizer of the Game (which in the case of Big Brother it was the company "Telinfor").



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The market of Cable Company's

In Argentina, the cable segment is composed of various players: Direct TV, Telecentro, Antina, Supercanal (Which belongs to Grupo Vila in a 51%- Becerra, 2009), Telered, AVC Videocable, Cableservicio SRL, Cable Hogar, Cosmovisión, Unicable and Cablevision. The latter has now merged with Multicanal and they belong to "Grupo Clarín".

Cable TV in Argentina has a 58.5% of household penetration which is very high in comparison to countries such as Brazil and Spain which have less than 40% (Sistema nacional: Consumos Culturales, 2004; Zabalza, interview). Furthermore, in 2007 the area that obtained more money in the entertainment industry in Argentina was cable TV with incomes of 5,700 million Argentine pesos and their main revenue sources came from advertising and carriage fees (Reinoso, 2009).

Direct TV

The First company in Argentina that introduced the DVR was Direct TV, which is the country's leader on satellite TV. The DVR was introduced the 18th of April 2007 and the service was available to all of the firm's clients under the name of Direct TV Plus DVR.

Direct TV's DVR Plus also introduced an area of customer service which aims at aiding customers in the use and installation of their DVR's.

The DVR allows for 100 hours of shows to be taped and stored, it permits two programs to be taped at once and it can pause and rewind live TV. Furthermore, the DVR allows previously taped programmes to be fast forwarded at four different speeds. It also enables films to be taped so that they are paid once but viewed however many times the client wishes.

With Direct TV Plus, the viewers will find on their DVR menu the possibility to change languages, block channels according to age and scheduled time, and have access to a pay per view system, between others. These services were already

available previous to DVR's introduction but they are now accessed using their DVR's.

The firm also allows their clients to select which TV shows they want taped by using their computer and even their mobile phones.

In order to have a DVR, customers not only need to pay for the device but they also have to pay a monthly fee which is 20% more expensive than the common fee. Moreover, Barbero (Interview) mentioned that there is an installation cost which is higher than the one paid for the basic service. According to Zabalza from the cable company "Antina" (Interview), Direct TV is subsidizing 70% of the device because people are not willing to spend so much money on it.

Furthermore, Barbero mentioned that to date, 300 thousand households own a DVR and it is expected that 50% of Direct TV sales for 2010 will be for the DVR's.

According to Zabalza, Direct TV decided to incorporate the DVR as a way to differentiate from their competitors. Barbero commented that the reason why they introduced DVR's before anyone else in the Argentinean industry was because their unique selling point is that of offering the newest technologies before the other competitors do. As has been mentioned, Direct TV was the first in introducing DVR's, TV on demand and digital television.

Cablevision

One of Argentina's most important TV network, Cablevisión, has started a new service which is called "Cablevisión Max" that includes the possibility to purchase a DVR which can tape up to 150 hours of shows. Cablevision's DVR can record two programs that are scheduled at the same time whilst clients are watching a third one that has previously been taped. As any other DVR it allows viewers to pause live TV and also rewind it.

The "Deco Digital DVR" has 250 GB and has been designed by the English enterprise "Pace". Cablevision mentions that introducing the DVR at a decent cost has required

a lot of effort from the company and so far they will be subsidising part of it. Today the cost of the DVR is of 250 Argentine Pesos but it will rise up to 600 pesos when the introductory promotion ends. Moreover, so as to be able to use the service, clients will have to pay a fee of 50 pesos monthly (on top of what they are already paying for their basic service which is 106.8 pesos).

The service has been available since the first of December 2009 and only clients that use Digital Cablevision will be able to enjoy it. The service will be available in Buenos Aires, La Plata, Zárate, Rosario, Córdoba, Santa Fé and Mar del Plata.

DVR's, including this one, normally allow for the extraction of the material that has been taped. However, Cablevision has had to cancel this option because it goes against local laws regarding author's rights.

The company estimates that 30 thousand DVR's will be sold during the year 2010. So far, Cablevision has 40 thousand clients using the Digital service and they expect that it will go up by 30% during 2010.

Telecentro

Telecentro has recently offered their clients the possibility to obtain a DVR. The service is called Telecentro HD and in order to have access to it clients must get the DVR, pay 600 pesos as an installation cost and 60 pesos per month to maintain the service. Telecentro's DVR allows the user to tape up to 100 hours of TV shows.

Moreover, Telecentro offers digital television which gives the company the possibility to offer more channels and a better definition. Furthermore, Telecentro now offers a pay per view system aswell.

Antina

With regards to Antina, I decided to interview Carlos Zabalza, director of the company, who gave me a better insight as to why they do not give their clients the possibility to have a DVR or TV on demand. He mentioned that DVR's and VOD require a set top box which is 45% more expensive than the traditional one that they

have been using so far. This set top box does have some interesting features thought, such as the ability to pause live TV but it does not allow for the skipping of ads.

Another reason why they are not planning to introduce the DVR is the fact that their target market is the Argentinean middle class and they consider that their clients will not be willing to pay for one. Zabalza said that it would cost the company too much money because the DVR's tend to be subsidised by the cable companies. The poorer the target market, the more expensive introducing a DVR becomes, because more will need to be subsidized.

Antina started three years ago and they have now 120 thousand subscribers. They generate 10 million Argentinean pesos per month and 43% of their revenue goes to paying for the TV signals.

With regards to the advertising, Zabalza said that he does not believe people are watching less commercials and he considers that if the advertising is targeted it will be watched. He does believe, however, that clients are getting more and more selective each day regarding what they watch.

Regarding DVR's penetration, he does not consider that they are causing any threat at the moment and they will not do so in the near future; a big proportion of the Argentinean population are not aware of the advantages that the DVR can offer and therefore it is highly unlikely that they will skip the ads.

Zabalza explained that even if they were a threat, it wouldn't affect them in particular because cable companies survive solely from the carriage fees. The ones that earn money from advertising are the TV channels and they would be the ones that could suffer if advertising companies decided to pay them less or even drift money away from TV advertising towards other mediums. However, it could be true that ad agencies will suffer more than the TV channels since they have less negotiating power, hence forcing them to be more creative with their ads so that they make sure that people watch them.

In some cases, like Cablevisión, because of the fact that they own a TV channel (Canal 13), they have both sources of revenue and they could therefore be slightly affected. However, so far, DVR penetration is way too low to be significant.

The main threat may not be the DVR's; rather the fact that advertising spots are way too expensive and ad agencies try to drift advertising dollars towards other mediums like print and the internet. Zabalza mentioned that in Argentina, advertising spots are generally 10 seconds and 30 second spots can be as expensive as one million Argentinean Pesos. Antina, for instance, has never paid for an advertising spot and most of their marketing is through print. With 60 thousand pesos per month, they managed to put up 7000 signs around the outskirts of the city, which is the equivalent to one TV spot.



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Has there been a move towards advertising in digital media?

Ruas from the communication's firm Ignis (Interview), considers that more money is being spent on other mediums such as the internet in comparison to the past. In fact, the AAAP shows that online advertising has gone up by 31.44% between the years 2008 and 2009.

Furthermore, Caputo from the firm Arcor (Interview) considers that social networks in particular have become increasingly important as an advertising medium in the last few years. He said that it is sometimes much more effective to give the consumers the possibility to become fans of the product on Facebook than to have a static ad on television.

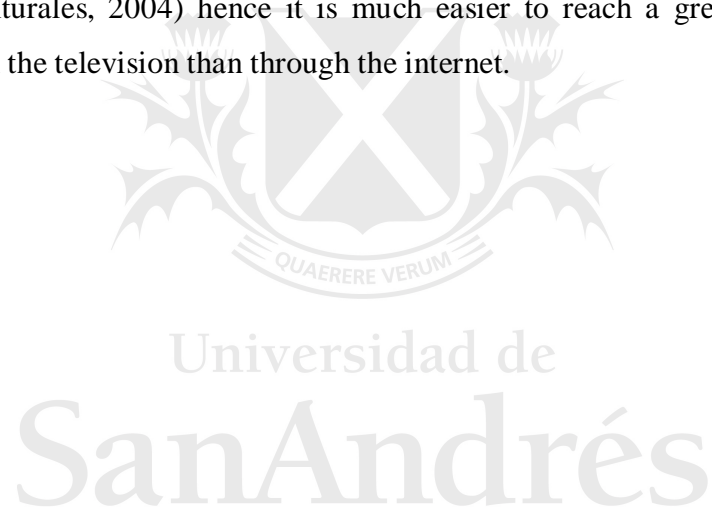
In addition, Caputo mentioned that it is very important to determine the target market before the beginning of an ad campaign because not all mediums attract all target markets. For instance, if the target market is composed by young people, Caputo suggests that it would be more effective to use the internet and in particular social networks instead of using television; This is because the young are online a significant amount of time hence it is more likely that the message will get through in this way. Moreover, young consumers are happier with a medium that they can interact with; television is still considered to be static in the sense that consumers just sit and watch a commercial and do not have the opportunity to interact with it.

However, he did mention that television is still the most important advertising medium for consumer products. Moreover, it is true that digital mediums have increased in importance mainly for the young target group but those that do not belong to that group will be best addressed through the television.

As we can see, television is still a rather important medium for consumer products but it is also true that new mediums such as the internet have started to emerge, giving companies more choice. The internet has brought the companies a wide variety of opportunities since they can now advertise their products on Facebook, Myspace, Google, or any other internet website. It is true, however, that the web is not the best medium to attract older target groups because they do not use social media as much

even if at all and they spend more time on television rather than on the internet. According to the newspaper La Nación (2009), Argentinean adults only spent 150 hours on the internet whereas youngsters spent 900 (during the year 2009).

Moreover, it is important to mention that in Argentina, only 12.3% of households have access to the internet (Sistema Nacional: Consumos Culturales, 2006). Therefore, it is very unlikely that the remaining 85.7% of the country's population will have the possibility to see an advertisement online (I say unlikely because it is possible that those that do not have internet access may be able to navigate the internet from some place else). This shows that even though the digital mediums are starting to grow in importance, television will still be the most important advertising medium since 96.6% of households have access to a television (Sistema Nacional: Consumos Culturales, 2004) hence it is much easier to reach a greater number of people through the television than through the internet.



Are television revenues under threat?

According to Ruas (Interview), there has been an increase in expenditure on TV advertising over the last few years and she considers that this has to do with the fact that television spot prices have risen.

This is aligned with information from the AAAP (Asociación Argentina de Agencias de Publicidad), since it shows that advertising expenditures have been increasing in the last few years. For instance, during the year 2007 advertising investment for television was of 2,650,061.35 thousands of pesos and the amount rose to 3,189,592.74 thousands of pesos in the year 2008. Therefore, TV advertising expenditure rose by 20.36% between the years 2007 and 2008. In comparison, advertising in the US in the year 2008 was approximately \$412 billion according to Outsell Inc.

Moreover, in the chart below we can see that advertising investment in the country is still going up since there has been an 18.51% increase between the years 2008 and 2009.

Advertising investment in Argentina (2008-2009)

	2007	2008	2009	Variation "09/08"	
Television Total	2,650,061.35	3,189,592.74	3,783,058.07	593,465.33	18.61%
1) Over the air television	2,225,939	2,655,329.16	2,980,283.05	324,953.89	12.24%
2) Cable television	424,123	534,263.58	802,775.02	268,511.44	50.26%

Source: AAAP (Information is in thousands of Argentine pesos)

In addition, the AAAP shows that advertising investment has gone up each year since 2003. At that time, advertising investment had reached 1,037,581 thousands of pesos which is a third of the investment that took place in the year 2009. As Ruas mentioned, the fact that more money is being invested in advertising has also got to do with the increase in cost of the advertising.

It is also worth noting that advertising investment for cable television has gone up a lot more than for terrestrial television and it could be that some of the advertising investment that was previously destined to over-the-air television is now invested on cable. One of the reasons could be the fact that cable television charges less money for advertising spots than over-the-air television.

These numbers from the AAAP are also aligned with the ideas expressed by Caputo from the firm “Arcor” (Interview). He mentioned that the television is still the principal medium that they use to advertise their products and this is mainly due to its ability to attract a wide audience. García from the TV channel Telefé (Interview) also believes that spot commercials are still the best way to obtain a good positioning in the market.

It could be supposed that if firms such as Arcor still consider television to be the most effective medium to attract wide audiences, TV channel revenues should not be suffering. In fact, García mentioned that they are not; spot commercials are still the most important source of revenue for the channel, conforming 55% of their revenue stream. Hence it does not seem that DVR’s are affecting the channel’s revenue that is obtained from the selling of spots for advertising.

However, it is worth mentioning that TV channels also have other revenue streams which are important. For instance, 25% of Telefé’s revenue comes from the selling of content to international markets and from the revenue obtained from text messages and phone calls to the different TV shows. García mentioned that the revenue stream that has grown the most in the last few years was the one obtained from text messages and phone calls from the viewers.

Furthermore, the remaining 20% of the channel’s revenue is obtained from product placement. García said that product placement use has increased but this has been mainly because companies consider them to have a more immediate response from the consumer, because there is a direct link with the artist and because the cost of production is much smaller. He mentioned that product placement tends to be used more often during the advent of economic crises’ due to the reasons described

previously. Therefore we can see that the increase in the use of product placements may not be strictly related to companies looking for a way to avoid ad skipping.

Here it can be noted that even though spot commercials represent a great portion of their revenue source, it is also true that the channel has diversified their risk by obtaining money from different places. Therefore, even if DVR's do end up causing an impact on the viewing of ads, which so far does not seem to be the case for Argentina, the channel would still have other sources to count on and they could try to develop those further.

So far we can see that TV revenues have not suffered due to DVR's introduction and in fact, advertising investment on over the air television is actually increasing.



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Consumer bimodality in Argentina?

According to the newspaper La Nación (2009), Argentines spent 1,500 hours watching television during the year 2009. On the other hand, adults only spent 150 hours on the internet whereas youngsters spent 900. As can be seen, Argentines still spend much more time watching television than navigating on the internet. However it is worth noting the great difference regarding internet usage between adults and youngsters.

It could be that a consumer bimodality is taking place in Argentina as well, where youngsters are more inclined to watch television online whereas adults keep their traditional viewing habits on television. In this case the passive viewers are the adults whereas the active viewers are the children. The latter are more inclined towards the concept of watching what they want when they want because the internet also offers that option. They try to find websites that offer shows on demand without any advertising. Adults however, are rarely aware of this option and those that are, still prefer to watch television the traditional way.

It is worth mentioning however, that only 33.5% of Argentines had a personal computer by the year 2004 hence not everyone can have access to the internet world and watch TV online. In fact, only 12.3% of the Argentinean population has access to the internet from their homes (Sistema Nacional: Consumos Culturales, 2006). Therefore, the threats imposed by the internet are not as important as they are for the US.

Moreover, it is worth mentioning that the bimodality is different to that in the US since there is not really a diversification within TV habits, and rather between television and the internet.

What does the future hold for Argentina?

With regards to DVR's impact in Argentina, Zabalza, Ruas and García (Interviews), do not consider that the device will cause any problems in the near future because so far the penetration rate is very low to be significant. Furthermore, Zabalza mentioned that a great number of Argentinians will not even be interested in paying for the device or even find out what it offers and learn how to use it. On the other hand, Barbero from Direct TV (Interview) believes that DVR's will affect the industry's advertising business model in the long run but he does agree that so far the effects of DVR's are insignificant because the penetration rate is too low to create any impact.

According to Gorban (Interview), it is possible that if Tivo does end up having a significant impact (which so far seems unlikely), the partnerships between TV channels and other companies, and the use of product placement could end up being the main sources of revenue for television.

Zabalza believes that in the long term, viewers will be able select which channels they wish to watch and where. He considers that consumers will have the possibility to select between watching the shows online, on TV or even on their mobile phones. He considers that the industry will give the consumers more and more control over their viewing experience. This means that, in the long run, companies will have to adapt to this new trend and the advertising will have to be flexible with regards to where it is screened and interactive so as to make sure they attract the viewer.

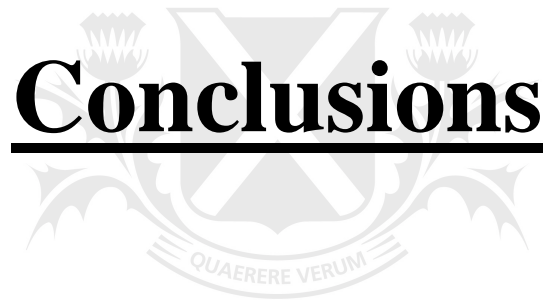
Hence, it is possible that advertisers will have to become more innovative to attract consumers. So far, Ruas mentioned that advertising agencies are already trying to create more innovative ads so as to attract viewers attention. For instance, the firm "Mamá Luchetti" has designed a series of different 3D advertisements in conjunction with a very catchy song that has been very effective in attracting consumers. However, it is worth mentioning that so far, the willingness to design more attractive advertisements is not positively correlated with DVR's introductions since they have not created an important impact just yet.

In fact, as has previously been mentioned, it does not seem that the business model for terrestrial television will be threatened by the DVR in the short run.



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Section 5:



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Final Conclusions

As we can see, the Argentinean situation is very different to that of the US. We do find some similarities in the sense that both countries have a bimodal consumer tendency where younger kids are more willing to try new technological devices and older viewers are happy to keep their traditional viewing habits. It is true however, that devices such as the DVR have not affected Argentina much even if at all.

Argentina is a much poorer country in comparison to the US and this affects consumer's willingness to pay for the product. Not all the cable companies provide the opportunity to purchase the device due to the fact that the DVR needs to be subsidized and most companies are not willing to affront that cost since they consider it unlikely that it would bring any economic gains to them. So far, only a small percentage of the Argentinean population own the device and very few even know what it consists of, or the benefits it brings with it.

So far the phenomenon is too new and the penetration rate too low to be significant; therefore it is hard to determine whether if companies are reacting in certain ways to attract consumer's attention due to viewer's ability to fast forward. As it has been described, even those users that own a DVR do not know how to use all the features and most people are not even aware of what a DVR is.

It could be the case that the Argentinean market will never get used to devices like the DVR either because they do not know how to use them and are happy with traditional TV viewing or because TV networks are not ready to invest so much in their introduction and therefore not a great number of people will ever have access to them. Moreover, most Argentines have solely access to an analog system and this means that until digitalization occurs, DVR's will not have the opportunity to grow.

Furthermore, it is not only about buying the device which is already too expensive for the average Argentinean, it is also about paying for the extra fee that the networks are charging for its use. As has been mentioned before, Argentines do not seem to be willing to make such an investment and therefore the DVR business model would not work massively.

So far, cable companies and TV channels do not seem to be worried about the impacts that the DVR could cause to their traditional over-the-air television business model. Moreover, firms are still spending a great part of their budget on television hence cable companies and TV channels' revenues are not being affected by DVR's introduction.

It is worth mentioning as well, that the terrestrial television business model in Argentina is not only supported by advertisements sold during the commercials breaks but also by product placements that are not affected by DVR's at all. Moreover, as has been mentioned, TV channels have made partnerships with different sorts of companies that are becoming an important revenue stream.

If DVR's do start to have a big impact, which so far seems unlikely, it is probable that TV channels will look for new revenue sources from new partnerships and there will also be a great use of product placement

It is still uncertain whether if DVR's will be as popular as they are in the US. So far it seems that unless the cost of the device goes down dramatically, a big portion of the population will still not have access to it.

As a conclusion we can see that the terrestrial television business model in Argentina has not been affected by DVR's introduction and it is probably not going to change much in the near future.

In contrast, the US finds itself in a completely different situation where DVR's penetration is a lot higher and consumers are much more willing to affront its cost and learn about its features. It is clear that some changes are already occurring in the industry and even though the 30 second spot still exists (especially because passive viewers still want them to exist), some new models of advertising are starting to emerge and ads are becoming much more targeted and creative so as to attract consumer's attention. It seems that the future will move towards more and more creative advertising that engages consumers in a way that was not previously thought of before.

However, not everyone has been affected by its introduction and it could be true that DVR's negative impact has been slightly exaggerated. It is also worth considering the positive aspects that the device has brought with its introduction such as the increased freedom viewers have regarding when they watch what they want to watch. This has in turn increased the overall "TV viewing experience", getting people to watch more television than they used to.

The future is uncertain but in the case of the US it is likely that new business models will continue to emerge so as to adapt to the new environment. Moreover, since passive viewers will reduce in size, more and more people will be demanding an interactive experience, hence companies will probably induce in more interactive TV shows, TV games and also advertising that gives the consumer a choice where they can select what they want to watch.

It is also worth mentioning that the bimodality discussed before still needs to be taken into account in the near future because some viewers are not ready for engaging advertising and time or space shifting. Therefore, because businesses need to take both target markets into account, 30 second spots should not disappear in the near future. It is possible that in 40 years time, most consumers will be ready for the new experience and the need to have diversified strategies will no longer be necessary

Therefore, we can see that the US needs to act fast and accommodate to the new surroundings whereas Argentina can still lay back and enjoy their traditional business model for terrestrial television.

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Appendix 1

Interviews

Interview 1

Name: Carlos Zabalza

Date: 12/02/2010

Company: Antina

Questions asked:

- 1) Do you offer a DVR with your service or TV on demand? Why? Why not?
- 2) Have you noted a decrease or increase in advertising viewing in the past two years?
- 3) Has the introduction of DVRs affected your revenue model? Which ones are the main sources of revenue for your company?
- 4) How much money do you charge per spot? How much money do you gain per year on advertising? Are you still charging the same amount of money for advertising spots?
- 5) How do you think that DVR's will change the advertising market?
- 6) How long are your advertising spots? (30 seconds or is there variety?)
- 7) Has there been a decrease in revenue coming from advertising? Is it more difficult today to find company's willing to pay for advertising spots?
- 8) Do you feel threatened by DVR's? Has there been any kind of impact for you since its introduction?
- 9) Is there an organization that regulates how much advertising can be streamed? Would it protect you if DVR's become a threat?

Interview 2

Name: Silvia Ruas

Date: 03/03/2010

Company: Ignis

Questions asked:

- 1) Do you know whether if viewers are watching fewer commercials due to devices such as DVR's?
- 2) Are clients willing to pay less for advertising spots?
- 3) Are you deviating money from television to other channels such as the internet?
Has there been less investment for TV?
- 4) Do you consider that there has been a tendency towards creating more creative advertisements? If so, could you give me an example?
- 5) Which other means of advertising apart from the 30 second spot are you utilizing?
- 6) Has the spot price varied a lot in the past few years? Which one is the most common spot in Argentina?
- 7) What does the spot price depend on?
- 8) How many minutes of advertisements are allowed per hour?

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Interview 3

Name: Germán García

Date: 16/04/2010

Company: Telefé

Questions Asked:

- 1) Which advertising medium gives you more revenue? Spot commercials? Product placement? In what percentage?
- 2) Apart from product placements and spot commercials, what else is a source of revenue for your company? Has it changes much in the past few years?
- 3) Has there been an increase in the use of product placement in the last few years? By how much?
- 4) Are spot commercials still the most important source of revenue for Argentina? Is it more or less profitable than in the past? Why?
- 5) Do you think that people watch more of less television than in the past?
- 6) Do you find that DVR's could affect your advertising business model in the future? Why? Why not?
- 7) Is there a tendency to advertise less on TV and more on other mediums?

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Interview 4:

Name: Luciano Caputo

Date: 20/04/2010

Company: Arcor

Questions asked:

- 1) Which advertising mediums do you use more to commercialize your products?
Why?
- 2) Do you consider the television to be an efficient advertising medium? Why?
- 3) How much money do you spend on advertising on TV per year? Has it increased or decreased in the last years? Why?
- 4) In percentage, how much does advertising on television represent in comparison to the other mediums? What is the percentage for each one of them? Has it varied significantly over the last few years? How?
- 5) Do you consider that the company has felt the need to have more innovative TV campaigns so as to attract consumers?

Interview 5

Name: Juan Pablo Barbero

Date: 21/04/2010

Company: Direct TV

Questions asked:

- 1) How many households have a Direct TV DVR?
- 2) What is the penetration rate of DVR's in Argentina?
- 3) How many households do you expect will have a DVR by the end of 2010? Are sales increasing?
- 4) Why did you decide to offer DVR's when no one else was doing it?
- 5) Do clients need to pay more for the service if they own a DVR? How much?
- 6) Do you believe that DVR's introduction is affecting the television's advertising business model in Argentina?
- 7) Have you had any complaints from TV channels or advertising agencies due to its introduction?

