

Dvr: a new challenge for commercial television industry

[Media](#), [Television](#)



Over the past a few years, digital television technologies have been developing rapidly. The new technologies can bring a world of luxury to audiences. Recently in USA, audiences can get as many as 14, 000 channels. On the other hand, some of the new digital technologies have also become a nightmare for traditional commercial television producers. The digital video recorders (DVR), Tivo and Replay television, for instance, 'can allow viewers to skip over the advertisement' and offer a pure entertainment environment 'when they watch recorded television' (Doyle, 2002: 27). Cable networks and satellite services also present to their customers so as to make higher subscriptions.

DVR will also be a revolution for weaker television advertisement market. The cost of television advertisement to reach a single viewer has dramatically increased since the 1980s. Most companies complain that their advertisement expenditure has become a heavy financial burden due to fact that they have wasted money buying more airtime so that as many people as possible can see their advertisement, even though most of audiences will not be users of their production.

Fortunately, the DVR can collect information about the habits and interests of viewers when they choose favourite programs for their personal schedule and analyse what kind of commercial ads they may like to see. Presently, some big brands are preparing their special ads and delivering to ideal audiences through Tivo and Replay television. Undoubtedly, future television advertisement market will be more activated with new digital technologies.

However, commercial television industry will keep developing with cooperation by DVR.

In a tentative effort, this essay analyses the main implications that have been brought to traditional commercial television industry.

The advantages of DVR

At the beginning of 1999, Tivo was launched in the US as the first digital video recorders (Tivo Press Release, 2000). It causes major media producers to panic like the videocassette recorders (VCRs) debuted in the mid-1970s. This new system-'a VCR with a brain and no tape' (Swain & Blustin, 2001) - makes a big advancement and can beat the old-fashioned VCR.

First of all, DVR record programs onto an internal hard disk instead of using tapes. Nowadays, this equipment, which is smaller than VCR, makes plenty of the video types that mess your sitting room disappear. Meanwhile, you will never worry again that the your video type whether it can record whole episode 'Friends'. Generally speaking, the DVR equipment offers up to 40 hours recording time. Accompany with the decline of computer hardware's price (75% down since Tivo launched), the cheap huge size hard disk which can be store hundreds of hours of television programs have been allowed to install into DVR.

Secondly, DVR makes navigation far simpler and quicker. Because of the cooperation of television schedule services, DVR lets you to use electronic program guide (EPG)- read the electronic version of television schedule on

your television screen-and decide which programs you want to keep into your magic box. For example, if your wife is one of the audience whose favourite is 'Who wants to be a millionaire' (A famous quiz program in UK ITV), you can just input the key word 'Who wants to be a millionaire' on the television screen then you get the separable schedule of 'Who wants to be a millionaire' which will be on in future weeks. After you press the button, your DVR will record 'Who wants to be a millionaire' automatically whenever prime time or midnight. Not only can viewers choose what they watch, they also can determine when. DVR can make a personal schedule for every viewer by his favourites from thousands television channels. Just like Sky PLUS advertising says on 'The Times', you can 'create your own TV channel'.

Thirdly, the most powerful function, DVR lets audiences skip through annoying advertisements. According to a research report by 'Forbes' (2003, 09), Americans spend an average of four hours a day watching television, an hour of that enduring advertisements. They all loathe the advertisements fritter away three years of their life getting bombarded with commercials. As the audiences wish, they just let DVR on and record the programs, then press a button which can skip ads so that they can enjoy the programs what have filtered 30 seconds commercials. The ability for viewers to skip advertising has been heralded by some as 'the end of commercial television'(Lewis, 2000: 2).

The intelligent DVR really attracts audiences due to their kinds of advantages. Tivo claims that in a recent survey, 96% of its users said they could not live without it; over 97% customers will recommend their friends or

neighbors to buy DVR (Scott Woolley, 2003). Audiences re-control the initiative at leisure time when they sit in front of television. Every audience never minds what programmes and ads are arranged by television stations when they can make their personal schedule in DVR's menu.

As the adorer of customers in DVR, some commercial television companies have changed their mind to support and invest DVR. As we are seeing, cable and satellite services are beginning to offer cheap VDR features to their customers in order to get valuable subscriptions. Cable companies show the biggest potential market for DVR since they have installed a DVR-like disk into their set-top boxes.

DVRs in US, UK and China

Since then DVR customers were beyond 1. 2 million by the end of 2001 in US, already 34 million US households choose which television channel to watch with the aid of interactive programme guides-a prerequisite for smart television viewing (Swain & Blustin, 2001). This autumn, Time Warner entered the fray, rolling out the new Scientific Atlanta 8000 box (Uses DVR-like technology) in New York and other cable markets. Because of this development, analysts now estimate DVRs will be in one-quarter of TV households within four years. Within a decade the majority of homes in the US could contain some DVR technology.

In UK, DVR may be a driver for the adoption to pay-TV and digital TV services. By making a greater range of channels more manageable, DVR solutions should increase the quality of television as an entertainment

medium. Because the majority of UK households are used to five-channel television, the initial development was not as successful as we thought. Despite a high-profile marketing pact with BskyB, DVR has failed to take off in the UK, and had 30, 000 subscribers in 2001. But outlook still cheer up them, according to the potential users in 45 million subscribers of cable services. Forrester Research predicting 25% of UK TV homes will be using digital video recorder systems by 2005

China is the biggest television market in this world due to 0. 7 billion televisions in 300 million households and digital television technology has being developed for few years. In 2000, the cable television customers reached 80 million and continue to increase with the rate at 20% (Li mingqi, 2002). Every middle class family likes to buy a set-top box and manages hundreds of channels. Undoubtedly, China will be the biggest potential DVR market on the earth. This is not only reason why DVRs companies keep their eyes on Chinese commercial television market although DVRs only are sold in the few main cities. Another more important thing is: China which is called 'World factory', has the cheapest labour force price to attract most worldwide companies to build business in that country. DVR would share much bigger market than now if the price could be down to 20% from recent average price of 300 pounds.

Foe to Commercial television

Facing the challenge from DVR, Garth Ancier-oversees programming at CNN, the WB network, TBS and other AOL Time Warner outlets-warns, the digital

wave will be ' a brutal attack on the underpinnings of our business'.

Television industry as a 'dual product' market sold audiences to advertisers. The audiences that have been attracted by this content constitute a second valuable output, insofar as access to audience can be packed, priced and sold to advertisers. (G. Doyle, 2002) Over the last 50 years, advertising has paid for the production of most of the television shows what have graced the main broadcast network and run later on monopoly of local stations and cable networks.

Take Coke Cola for example, this success soft drinks producer spend huge expenditure in the advertising market. To build her famous brand, Coke Cola buy television primetime to show ads to audience. In the World Cup of 2002, Coke Cola paid 1. 2 billion to television channels to buy airtime. Every customer pays 6 pence for a can whose value is 40 pence (Coke Cola Annual Report, 2002). As Coke cola has done, the firms paid a big expenditure to broadcast their ads in the primetime (7: 00pm-10: 00pm) before DVR was launched. A 30-second spot during ITV's Michael Jackson documentary has been sold to advertiser for an average of $\frac{1}{2}$ 135, 000 (Deborah Bonello, 2003).

The major competition between commercial companies is that they attracts viewers to their programs (also advertising) at prime time when more people are in front of television. Since the appearance of DVR, there is no difference when ads show at 8: 00pm or 3: 00am. At the Guardian Edinburgh International Television Festival in 2000, Greg Dyke (BBC Director-General) stated: '... hard disc recording technologies which give the consumer

complete freedom to watch what they want, when they want it'. This technology undoubtedly has the potential significantly to change the television industry. If DVR enters every television household, the producers would find that customers are not paying attention to their favorite programs. The DVR owners watch little live television but rather get into the habit of just watching what they have recorded. The principle of recent television program schedule would be pulled down. There is no firm who wants to pay 'unfair' money to get chance to show their advertising at prime time period. Traditional advertising market structure will be shaken.

In addition, 85% of DVR viewers skip most ads according to the recent research report. The pessimism has forecasted that the audience for traditional television advertising would fall by over 10% by 2005 to over 50% by the end of the decade(Scott Woolley, 2003).

Advertisers have found that television viewers are harder to reach than anytime before DVR launched. As the figure1 (published in Forbes on 29th September 2003) shows, the cost to reach a television advertisement viewer reached approximately 286 U. S dollars before DVR launched in 1999 in US. Dramatically, the cost had declined from 1998 to 1999. After 1999, the cost significantly increased to over 340. Meanwhile, the average primetime viewership steady fell. In 2003 when DVR merged with cable set-up boxes and 'Video on demand' let viewers order television shows a la carte, the cost to reach a viewer reach peaked in 20 years and the average primetime viewership reduced to back the 1960s' position. Undoubtedly, DVR really made television industry structure have a big change will be bigger and

bigger. For this reason, 76% of advertisers say they will decrease the expenditure in the television advertising market, one in four these advertisers will reduce the budget by over 41% (Scott Woolley, 2003).

The television advertisement market is 'reaching the top of the curve,' and digital technologies will accelerate the coming decline, says Peter Sealey, a former Coke Cola marketing chief who now teaches at the University of California at Berkeley. He recently leveled this warning to a group of advertisers: 'Folks, this is a tidal wave. It is happening, and it is profound. And we have got to figure out a way to deal with that.'

Average primetime viewership and television advertisement's cost to reach a viewer in US

(Figure 1, published in 'FORBES' on 29th of September 2003)

Prospect of television advertisement market in DVR era

Looks like the day may finally be near when DVR destroys a \$60 billion advertisement business, (Total television advertising sales in US in 2002, excluding cable), if DVR develops rapidly like everybody thought. In fact, as Sekhar Krishnamoorthy (the strategist of P&G Interactive television) said, not 100% ads will be skipped at all, but the uninterested and scurvy ads must be killed by new digital technology. Actually, not every audience hates watching advertisement and not all advertising is avoided by viewers.

Some DVR users have complained that DVR do not need to filter all of advertising without any choice at all. Judy, a customer who used DVR for 2

months, said: 'I like watching some good ads, like some movies trailers, but I cannot watch from my DVR because they all are filtered.' From fundamental of advertising, we know the advertising market must be run if customer and producer are here. Customers want know some information about production, firms are also pleased introduce their goods to potential users. So, television ads will not vanish from the television screen of DVR users.

Mr Thomas, chief executive-designate of the UK agency, said: 'It will not be the end of advertising as we know it. Advertisers always find a different route for advertising," he said. DVR did not ruin the business model, it changed it.' Undoubtedly, television producer will try their best to make audience to enjoy their ads. For example, services who promise to audiences can get e-coupons or e-money that can pay the pay-channel if they watch ads. In addition, advertising directors will make their commercials more interesting and excited than some television programs. They also compose advertising into television programs,

Some optimistic television producers think DVR solves the problems that they are now facing. DVRs change the marketing-entertainment dynamics in a way that can benefit both marketers and consumers. Because DVR can collect information from viewers when they choose their favourite programs and transfer to the computer of DVR service companies. Advertiser can know audience's habits, interests, gender, age and family background by the professional analysis. For instance, Vauxhall would like to know that if 'Fifth gear' (A car program in BBC channel 5) is recorded in your DVR; Disney will not ignore you when they know you record a lot of cartoons; travel agencies

will send letters to you if you record 'Holiday' (A travel program in BBC 2) regularly. Using this new broadcast method, the commercial can effectively deliver to audience's television screens.

Currently, some firms have paid for ads to deliver direct to a DVR user hard disk. The Coca-Cola company's first long-form advertisement program, a showcase of exclusive video and music content, is set to launch in the TiVo system on October 3 2003. Geoff Cottrill, group director of music for Coca-Cola North America, said the project allows the beverage marketer to "team our brand up with the Universal Music Group and their artists in a way that provides TiVo viewers exclusive contentment." Coke Cola's television spots will be tagged to enable TiVo subscribers who see them to click on an icon that allows them to download the program, or viewers can get it through a trailer on the TiVo Central screen (Nigel Walley, 2002: 14).

Such DVR programming (first posited in this space on Oct. 16, 2000) has advantages broadcasting cannot match: It is measurable - Coke Cola knew the effect of how many viewers they had reached as soon as the advertisement was showing. Big advertisers are experimenting with using digital technology to provide optional ads to viewers, typically packaged in longer formats. Lexus, Best Buy, New Line Cinema can Sony Pictures have linked up with Tivo to create 'Video Showcases' that viewers can choose to watch. Movie trailers are an especially popular form of 'voluntary' ads; two-thirds of Tivo viewers watched the Austin Powers in Goldmember preview. (Scott Woolley, 2003)

Conclusion:

DVR is a revolution for commercial television industry. In the perspective of traditional commercial television industry, you would not want to see such an unexpected situation which will threaten the economics of most television programming. This technology changes not only audience's behaviour, but also television program scheduled for disposal, the advertisement broadcast methods. By giving the viewer more control over scheduling, viewers will potentially spend more hours watching TV. Television producers also will be encouraged to make quality programs to audiences. Furthermore, some advertisers get more effect from advertising direct deliver. Advertising sponsorship will not spend their expenditure into uncertain broadcast behaviour.

It is not a nightmare for every television producer. On the other hand, it makes commercial television to face the biggest challenge in this half century after television was launched in the 1950s. A new DVR era in commercial industry is coming. I would like to forecast audaciously commercials will be more powerful and make audience more satisfied. The implications of this technology will be felt throughout the television industry. The spring of commercial television industry will be in commercial television industry in the not too distant future.