



The Challenge of iTV Advertising

By Ben Macklin

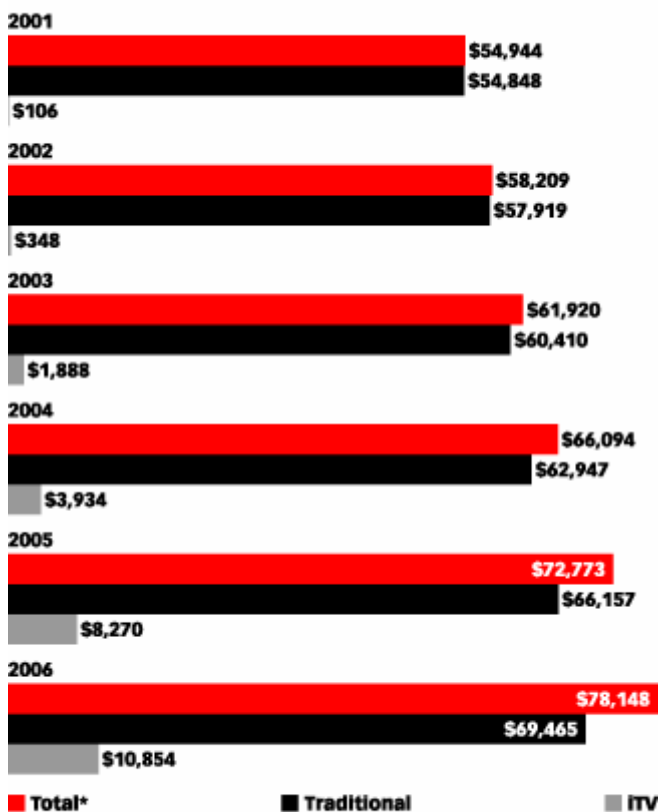
6 December 2001

All the elements necessary for significant adoption of interactive television (iTV) in the US are ready for the medium to finally take off next year. The technology's imminent arrival has been talked about for years, but early 2002 will actually see all the iTV 'planets nicely align.' Compelling offerings will finally reach the market. Why? There are a number of reasons:

- Sophisticated iTV services are now available (such as Cablevision's in Long Island, NY)
- The technology within the set-top box and the infrastructure are in some cases ready, and will soon be in others
- iTV has 'personality,' excitement and is about content -- not technology (at least it should be)
- Experiences learned in the dot-com world will ensure that services are suitably tailored to the particular platform, and that they have a genuine return on investment (well... it's a theory)
- Television commerce is already a proven success for TV shopping channels QVC and HSN; t-commerce is a logical next step
- Viewers don't necessarily want more channels or content to choose from, they want their favorite programs, when they want them; iTV can provide this.
- Those investors wary of the internet and the telecommunication sectors may find comfort in iTV's blend of "old" and new media
- Bundled services from multiple service operators (MSOs) that include high-speed internet, telephony, iTV and more will reduce churn
- Further adoption of broadband in 2002 will help iTV's ability to be an interactive platform look more attractive

Having said all that, there are also considerable challenges for the US iTV sector, not least of which is in the interactive advertising area. ABN AMRO's May 2001 forecasts are one of many in the market at the moment. They predict that the iTV advertising sector will be a \$10 billion industry by 2006. This equates to approximately 13% of all TV advertising in that year.

US Traditional versus iTV Advertising Revenue, 2001-2006 (In millions)



Note: *takes into account the adjustment for overlap between the two segments

Source: ABN AMRO, May 2001

034791 ©2001 eMarketer, Inc.

www.eMarketer.com

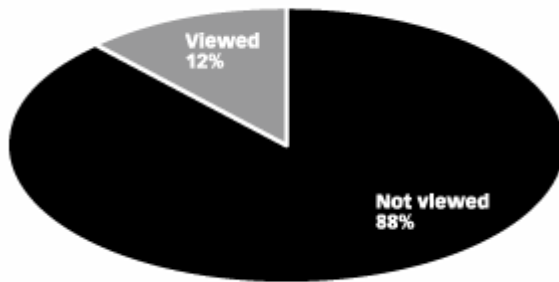
The major potential advantage iTV advertising has over traditional TV advertising is the ability to target messages to particular users based on their broad customer profiles. Addressable advertising, as it is called, can personalize advertising by each individual set-top box, and provide advertisers with a new way of tracking and accounting for the success of their advertising -- thereby giving them greater returns on their investment. For iTV advertising to reach its full potential, however, there are some significant barriers advertisers will need to overcome. They include:

- The emergence of personal video recorders (PVRs)
- The potential privacy backlash
- The problem of who owns the customer data, and who is going to sort and analyze it
- Technological incompatibility
- Whether one-to-one advertising is really more cost effective

These issues will be discussed in part 2 of this article next week. Here's a sneak preview:

The *New York Times Magazine* reported that 88% of all ads went unwatched when viewers recorded programs using TiVo and ReplayTV.

% of Ads Viewed by US Personal Video Recorder Users, 2000



Source: *New York Times Magazine*, 2000

023990 ©2001 eMarketer, Inc.

www.eMarketer.com

Ben Macklin is a Senior Analyst for eMarketer