

# DoubleClick on iTV

## Improved TV Ad Effectiveness Through Internet-like Targeting and Reporting

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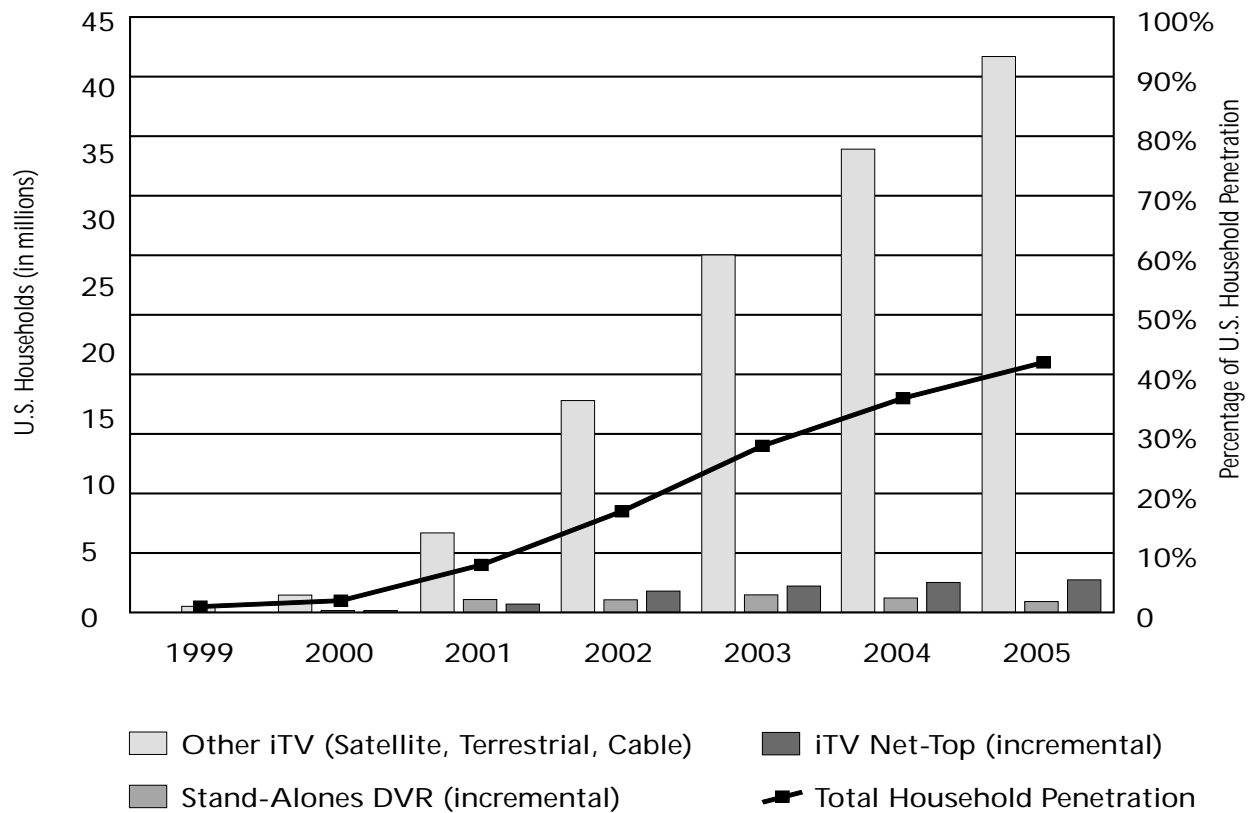
I nteractive television (iTV) promises a wealth of opportunity for both viewers and marketers. Many marketing companies have made iTV a top priority. With the iTV market slated to grow to nearly \$14 billion by 2005 in the United Kingdom alone, interactive television services have finally arrived. A new wave of customized and interactive offerings will soon be beamed into living rooms the world over.

The numbers for the United States are even more impressive: Jupiter Media Metrix predicts that iTV penetration in the United States will surpass European levels within the next few years—rising from eight percent of U.S. households today to 43 percent by 2005. This compares favorably with a 2005 average of 26 percent across Europe. Ovum predicts that one third of all U.S. households—a full 35 million—will receive digital TV services by 2006, nearly 60 percent of which will be using interactive services.

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*iTV's fragmented nature has been the biggest barrier to its adoption*

## United States iTV Market Critical Mass Achieved in 2002



Source: Jupiter Media Metrix

## Definition and Use

iTV is a catch-all term that includes services ranging from video-on-demand, and interactive program guides to real-time shopping (known as television commerce or T-commerce). It also includes customized news services, banner and overlay advertising as well as targeted, video ad streaming.

For viewers, iTV benefits come in the form of better choice and control over what can be watched, with an emphasis on interactivity, simplicity and flexibility. (See "iTV Advantages" on page 3.) Viewers, for instance, can zap between video streams to get different angles or watch

behind-the-scenes activity during a studio or live event. They also can use a TV handset to access interactive links that display information about products. And, they can enter quizzes and vote on a range of program topics, from the coolest snowboards to the hottest pizzas.

For advertisers, the addition of such interactive technologies and services brings to TV the possibility of Internet-like targeting and feedback. The immediacy of response plus consumer self-qualification aspects are impressive, too. These attributes enable marketers to better target messages and gauge effectiveness—along

with generating qualified leads for future sales efforts—while leveraging the powerful, engrossing qualities of television. All of this should materialize once iTV critical mass is achieved. (See “United States iTV Market Critical Mass Achieved in 2002” on page 2.)

The fact that users interact with the advertisements at all is a big improvement over the passive TV commercials. “You know they’re paying attention,” Mark Snowden, senior analyst with market research firm Gartner, says. “If they interact with your ad, you know they’re not getting a beer out of the fridge.”

### Advertising

Whereas iTV ads today are most commonly electronic program guide (EPG) banners, they will soon include screen overlays and inserted video. Eventually, they will include video ads targeted to individual set-top boxes.

With the increasing likelihood, however, that iTV-enabled viewing habits will include skipping past traditional 30-second TV ads—as anyone with a personal video recorder (PVR) already does—advertisers will seek modified ways of reaching consumers. These will include developing portal sites or virtual channels to display predefined content and selections and to encourage viewers to shop or make their desires known from within a “walled garden” environment. The success of Web portals such as Yahoo! and TerraLycos, along with the expertise they can bring to bear on iTV, will likely translate well to this emerging medium.

### iTV Advantages

**Better choice and control.** iTV offers more specialized channels, more movies, easier navigation and the ability to personalize views.

**Interactivity.** Trained by Internet use, today’s consumers are ready, willing and able to interact with their entertainment packages via enhanced broadcasts, e-mail or chat.

**Simplicity and familiarity.** iTV has the potential to deliver nearly as much information as the Internet in a format with which virtually every user is familiar and comfortable.

**Flexibility.** iTV will provide programming and information at a time and in a format of the viewer’s choosing.

Source: Triangle Publishing Services

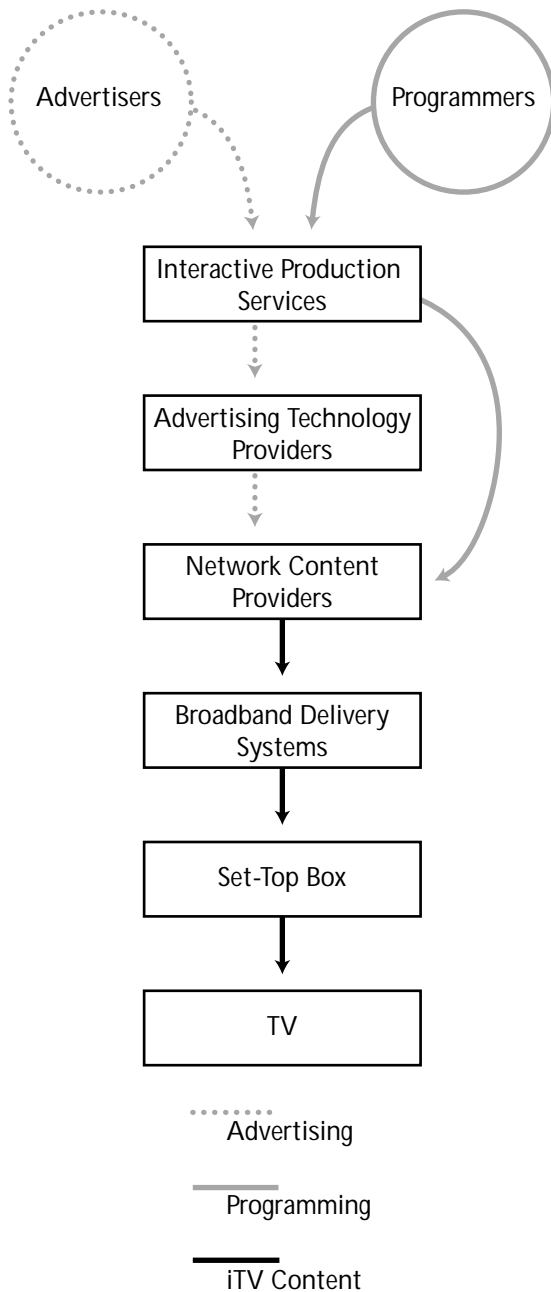
### Value Chain

The fragmented nature of the iTV landscape undoubtedly has been the biggest barrier to its rapid adoption. It’s impossible to talk about a single “iTV provider” entity because of the half-dozen or more organizations involved with delivering service. (See “iTV Content Flow” on page 4.) These range from content creators and deliverers to set-top box providers, software developers and others, all of which must have assets and agreements in place before iTV can be implemented in any given locale.

iTV can include a dozen different applications. Some have already gained significant traction, such as video-on-demand and on-screen program guides. Richard Frankel, vice president and general manager of the AdServer Business Unit at DoubleClick, points out that there are many more potential uses of iTV. Among them are interactive programs and commercials, real-time video shopping, virtual channels with information of unique interest for individual viewers and access to the Internet on TV.

Eventually, users will be able to play along with their favorite game shows, participate in opinion polls and customize the news they receive. In short, watch what they want, when they want. The majority of this interactivity is being built to work with the remote control—without the need for a keyboard. Simplicity is an important rule for iTV developers.

## iTV Content Flow



Source: Winterberry Group, DoubleClick

## iTV Ad Campaigns

To date, however, the roll out of iTV services has been modest in scope and limited to a few cities worldwide. It has mostly involved large advertisers, among them brands such as Domino's Pizza, Ford Motor Co. and Lands' End, according to Jupiter Media Metrix. When Nissan Motor Co. ran an iTV campaign last year, users could use their remote control devices to request additional product information and arrange for a test drive.

Once fully in place, iTV-enabled networks will offer several key benefits to marketers. (See "Click Through Banner Ads" on page 5.) "Marketing will become much more personalized," Graham Kinahan, director of emerging technology at DoubleClick, says. "Advertisers will be able to track, target and manage their campaigns much more effectively." Through the use of iTV campaign data to track and analyze consumer choices, marketers will be able to contact leads, profile customers, request feedback, refine product offerings and tighten the focus of media campaigns.

For iTV marketers, the ability to target and serve ads to viewers based on household profiles is very compelling. This data, in turn, can be sliced in numerous ways, based on the criteria used in today's Internet marketing campaigns. These include anonymous viewer profiles, campaign demographics, time of day, click-through rates and ads viewed. Other data sets available are unique to iTV, including geographic location, available bandwidth and program genre. Real-time reporting becomes possible on iTV, and the metrics generated will allow merchants to parse the resulting data in many different ways.

"Marketers want to be able to test different messages quickly," adds DoubleClick's Frankel. "They want to target messages and measure their response. In the current television environment, they struggle to do anything like that." With regular TV, marketers get feedback from the Nielsen ratings as well as brand and response surveys. With iTV, "they get immediate, non-sample-based responses and detailed user activity data." RespondTV, for

*Some of the most important iTV players are emerging downstream from broadcasters and content delivery networks*

### Click-Through Banner Ads Allow Consumers to Register Product Interest or Make a Purchase



Source: Wink Communications

example, last year enhanced a televised Melissa Etheridge concert so viewers in San Francisco could request a discount coupon for the CD of the concert. The interactive ad generated a 22 percent response rate—an order of magnitude better than the typical response to an online banner ad.

### Applicability of Web Models

When speaking of response rates, there is a tendency to equate iTV with the Internet, especially with regard to the prevalence of portals. But it would be a mistake to assume that an iTV portal will command the same level of attention as a Web portal. The average AOL user spends about 30 percent of his time at the AOL Time Warner portal site, according to Jupiter Media Metrix research. The average iTV user will spend as little as a tenth as much time with any iTV portal site.

*Domino's has done one of the most successful ad campaigns yet on iTV*

## Comparison of Internet and iTV Portals

	Internet*	iTV
<b>Navigation</b>	Search and Directory	EPG
<b>Aggregation</b>	Content, services, utility applications	Limited
<b>Distribution</b>	Tenancy deals	Walled-garden potential
<b>Traffic</b>	Top three—50 percent reach	Five percent to 10 percent reach, limited by carrier
<b>Time</b>	AOL—over 30 percent; Yahoo!—over four percent	Potentially, three percent to five percent
<b>Ad Revenue</b>	Top four—39 percent; top seven—52 percent	Potentially, one percent to two percent

\*Internet only, not counting AOL

Source: Jupiter Media Metrix

Another condition familiar to Web marketers but new to the iTV arena is that users expect a certain basic level of service free-of-charge. Only certain sites on the Internet ask for payment in return for content—and even these are careful to provide some information free. Today's iTV providers often charge a monthly fee—even for the basic service that allows interactivity. Since the industry is still trying to build an audience, this effort is self-defeating. As a result, argues Jupiter Media Metrix, it is likely that a variety of services will necessarily be provided for free in the future.

Instead of charging for basic interactivity, however, the iTV industry will use advertising to offset the costs of providing free content and for any shortfall in subscriber revenues. Some Internet advertising techniques, however, transfer easily to iTV, especially advanced targeting. iTV set-top boxes can be addressed individually, while preserving viewer anonymity, so as to provide the right

content to the right household at the right time.

Web marketers have begun to learn what type of interactive programming works—and what doesn't. Interactive, participatory entertainment works well on the Internet. Games like Jeopardy and interactive Monday Night Football should work well on iTV, too. On the other hand, long-form storytelling probably will not work for iTV any better than it does on the Internet.

### Portals: A Mixed Record

With rich experience on the Web, Web portals are expected to be active in iTV developments. Levels of commitment vary widely, though. "Some Web market leaders are not really doing much at all with iTV," DoubleClick's Frankel says. "It might be better to say that they are waiting for iTV to come to them. Other, more forward-thinking market leaders are trying to take their efforts from the Web and re-tune them for iTV, when it comes."

Hence, on the one hand, Yahoo! may be the second largest Web portal, but it is largely ignoring TV as part of its distribution strategy—for now. (See “Comparison of Internet and iTV Portals” on page 6.) On the other hand, AOL Time Warner has made its intentions for iTV clear: Using AOL TV, the company expects to follow a roll-out strategy in three phases. First, it will make basic material available across three different platforms (PC, iTV and cellular telephone). Next, it will provide an iTV portal and program guide. Finally, AOL Time Warner will offer a variety of iTV products, such as audience polling and one-click shopping.

### **Poised for Growth**

With all the advantages that iTV is bringing to both viewers and marketers, coupled with the lessons the Internet has brought to this audience, why hasn't iTV caught on faster? According to Jupiter Media Metrix, unclear value propositions, a small audience and a lack of knowledge of advertising opportunities have all contributed to continued slow growth. Also, as mentioned above, the fragmented nature of the TV landscape is a very important factor. It takes many players to piece together an end-to-end iTV network.

Some of the most important players are emerging “downstream” from broadcasters or content delivery networks. These include middleware providers, which add important two-way functionality to cable and satellite networks. “The migration of technology away from broadcasters toward cable plants and service infrastructure represent a dramatic shift away from the network end of the spectrum,” DoubleClick's Kinahan says. “The distributors, or multi-system operators (MSO) as they are called, own the gateways and thus will initially own access to the customers. As this medium evolves, simply owning the pipes isn't enough. Ultimately, those firms that are most in touch with customers will prevail in the iTV space.”

Despite the barriers, it is beginning to look as if iTV will finally take off. The declining cost of infrastructure equipment, the competition for subscribers between cable and satellite operators, and the threat to broadcasters by PVR technology are all forces that will continue to spur the rollout of iTV services. Perhaps most

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importantly, the growth of the Internet—with its wealth of interactive services and hundreds of millions of interactive users—will spill over to create the critical mass necessary to make iTV a reality.

Jupiter Media Metrix estimates that critical mass will be achieved when the adoption level reaches 15 percent to 20 percent of households. By the end of 2001, there will be just over six million iTV users, a penetration rate of eight percent. That number will grow rapidly, as Jupiter Media Metrix projects 42 million households will be capable of interactive services in the United States by 2005.

“The United States is a funny market because of the lack of uniformity,” DoubleClick's Kinahan says. “There's a lack of uniformity in the set-top market, in the gateways and in satellite/broadcast standards.” Until these technical standards can be sorted out, any single iTV enhancement is only likely to be seen by the individual subscribers of individual companies supporting a particular enhancement.

### Strong U.K. Presence

In contrast, iTV is doing quite well in Europe: 15 percent of all viewers whose homes can be configured to use iTV are indeed using it. In the United Kingdom, nearly one-third of households have access to interactive services on their TVs. Observers expect the percentage of European households with access to iTV to exceed 26 percent of all households by 2005.

Among those who have SkyDigital set-top boxes in the United Kingdom, almost half use the interactive service at least once a week. "In Europe, it's a much more

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monolithic media industry, with the United States having seven to nine major cable companies in addition to broadcasters. It's a very fragmented industry," Gartner's Snowden says. "In the United Kingdom, there are only a few providers, so if one of them makes a decision, it pretty much affects the whole country."

Domino's Pizza has been able to take advantage of the large footprint of several U.K. operators and achieve some significant early successes with advertising on iTV. Domino's arranged a deal such that every time consumers order a pay-per-view video, a small screen would pop up on the TV to ask if they cared to order a pizza for prompt delivery to the house. According to some reports, five

percent of all Domino's orders in the United Kingdom come from this iTV deal.

The Domino's deal is certainly one of the most successful advertising campaigns on iTV to date, but it's also only the harbinger of bigger deals to come. In the long run, the business opportunities for iTV are immense, and that will draw businesses both here and abroad into the market.

The advertising market for iTV may grow upward of \$14 billion by 2005, according to some reports. Even in 2001, advertisers will spend more than \$200 million on iTV.

### The Need for Priority

Despite the obvious opportunities, most advertisers and publishers have not yet focused on iTV. In a recent Jupiter Media Metrix Executive Survey, for example, 96 percent of executives ranked set-top boxes as their third or fourth development priority against four other emerging platforms.

Early adopters stand to gain big, however, when this market begins to gain momentum toward the end of next year. If content owners and advertisers focus on educating themselves today—by opening lines of communication with existing customers and partners, and by taking advantage of existing opportunities to test media forms and technologies now on iTV—they will be well positioned to reap the benefits that iTV will soon bring.

"It's clear that interactive television will be a very important piece of the digital advertising mix in the near future," DoubleClick's Kinahan says. "We want to make sure that we're taking the opportunity today to learn as much as we can on behalf of our clients." ■

## **About this Report**

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## **About DoubleClick**

DoubleClick is building the infrastructure that makes marketing work in the digital world. Combining media, data, research and technological expertise, DoubleClick allows marketers to deliver the right message to the right person at the right time, while helping Web publishers maximize their revenue and build their business online. DoubleClick has Global headquarters in New York and maintains 37 offices around the world.

One division of DoubleClick is DoubleClick TechSolutions, which provides comprehensive service and software products for interactive marketing management, including DART for Advertisers, DART for Publishers, AdServer and DARTmail. These products are finely tuned to the unique and rapidly evolving needs of each interactive marketing segment—advertisers, agencies, Web publishers and merchants. DoubleClick TechSolutions brings an understanding of the digital advertising mix and relationships with key partners along the iTV delivery value chain. By combining the AdServer and DART system architectures and business object frameworks with cable television infrastructure and iTV enabling technologies, DoubleClick can provide highly targeted ads to individual television viewers today.

If you are ready to launch interactive TV services and advertising, or simply have questions about how it can work for you, please call Brent Horowitz at (415) 844-1764 e-mail him at [bhorowitz@doubleclick.net](mailto:bhorowitz@doubleclick.net) or visit <http://www.doubleclick.net>