



The Top Six Myths of Online Television

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Unplug your TV set, cancel your cable, and throw out your remote control, because television as we know it is gone – at least that’s what everyone seems to be telling us. But is traditional TV really a technological dinosaur pathetically competing against a sophisticated and nimble online television model? Is all this hype true? Will online media dominate television as it has in music and news, taking away our television just as it has robbed us of CDs and newspapers? We’ll attempt to debunk many of the myths and mistaken ideas.

Myth #1 – The Online Television Technology Is Ready: FALSE

Consumers are drawn to Internet TV’s ease, diversity, and flexibility – and the numbers are impressive. ABI Research, a market intelligence company specializing in global connectivity and emerging technology, suggests that the total consumer base for Internet video will be nearly one billion people by 2012,¹ resulting in a total online video market (pay and ad supported) of \$15.6 billion. But with such strong demand, is technology really ready? Presently, broadband technology – the primary way consumers access online video, around 88%² and an estimated 94% by 2012³ – may not have the bandwidth or capacity to meet the growing demand for video (including TV, video on demand, and peer-to-peer). And as the ever-growing demand is expected to be over 91% of global consumer traffic by 2013⁴, capacity may be stretched beyond its limit in the coming years.

However, it’s not only the volume demand of online video traffic, but also the added issue of quality (and its requirement of more bandwidth) that will strain broadband

capabilities. The problem is that online television consumers will increasingly require picture quality, like the high definition images in movie theaters and on their television sets, and will have little tolerance for low-grade video. Already, many consumers are unhappy with the slow starts, limitations in devices, and difficulty navigating through specific programs, i.e., fast-forwarding, audio syncing, or restarting. If these problems persist and if technology doesn’t keep up with demand, the potential market may turn away.

With all the investment and interest in Internet video, why do these problems still exist? Many of them are based on the structure of the Internet itself. While there is significant investment for growth, capacity investment is finding it difficult to keep up with demand. In April 2008 Jim Cicconi, AT&T’s Vice President of Legislative Affairs, cautioned that the current systems would not be able to handle the increase of video and user-generated content being uploaded saying, “In three years’ time, 20 typical households will generate more traffic than the entire Internet today.”⁵

At the time, AT&T was already investing \$19 billion to upgrade its backbone network, but that was only a fraction of the \$130 billion needed to improve worldwide networks; \$55 billion of which is needed for the next three years in the US alone.

The gap between Internet capacity and consumer demand is estimated to happen as early as 2011⁶. Although it’s not expected to “break” the Internet, the disparity between capacity and demand may have the effect of an Internet “brown out,” further constraining market growth and business opportunities.



Myth #2 – Online TV Ads Will Support Operating Costs and Bring in a Profit: Most likely FALSE

One of the big hopes of online television (for both consumers and providers) is that it will successfully copy the consumer, content producer, and advertiser *trifecta* of traditional broadcast television – a three-legged stool where networks produce content that attract consumers, advertisers are attracted by the consumers, and networks are attracted to the advertiser's checkbook. Ideally, consumers will be drawn to the free online television programs; producers will be able to build audiences with distinct interests and expressed states that advertisers will pay to reach. This, however, has yet to materialize as free television sites like Hulu generate less profit than initially projected.

Having considerable growth in the past year, Hulu is projected to bring in \$120 million in revenue in 2009. Although up considerably from 2008's estimated \$65 million, it is below the \$180 million predicted by *Screen Digest's* Arash Amel in November 2008⁷. Having only sold about 60% of its ad inventory, Hulu has seen considerable growth in consumption in the past year, but the expected ad revenue has not followed this growth.

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But how is this possible if nearly a quarter of US interactive marketers plan to run pre-roll ads (online video ads that you have to sit through before you can watch what you really want to see) this year – almost twice as many as last year?⁸ As agencies are diverting dollars to advance digital media

(abandoning traditional print and radio), it appears that these ad dollars are not being directed to online video as previously anticipated.

Jonathan Miller, head of News Corp's Digital Media Group, believes this revenue may never fully materialize online. He says, “Marketing is on an arc to become more efficient. My dollar should go further. And that says the advertising pool may not grow at the rate that it's traditionally grown at, even out of this recession.”⁹

Jean-Paul Colaco, Senior Vice President of advertising at Hulu, defends their strategy. By running only one ad per program break, Colaco believes that Hulu increases the “effectiveness” of the ads. This in turn gives the ads a greater premium value, which is reflected in Hulu's online ad rates. For the time being, Colaco prefers to concentrate on improving the “effectiveness” of the online ads and the amount of revenue they produce rather than increasing the number of ads per commercial break.¹⁰ This “value added” sentiment is accepted by many ad buyers who pay higher rates per viewer for online video ads than conventional TV rates. A 2008 eMarketer study found that the average CPM (cost per *mille* or thousand) for a conventional primetime television show was about \$25, while the online rate for online programming ranged from between \$35 to \$50, with some sites charging up to \$100.¹¹ But as the inventory of ads increases, the benefit of low ad clutter will likely depreciate, fading the “value added” advantage of online video ads over traditional television ads.

Furthermore, in 2009 online video advertising only accounted for 4.3% of total online ad dollars – and only 1.6% of television ad dollars.¹² According to eMarketer, video will account for 11% of online ad spending and 5.5% of TV ad budgets by 2013. At least for the next few years, it appears traditional TV is not losing much of its ad dollars to online video advertising.

Myth #3 – Consumers Will Pay for Online TV: Probably TRUE

Getting consumers to pay for content they have become accustomed to getting for free is tricky – just look at the newspaper and music industry.

Most newspapers today provide their content online for free – a practice adopted under the belief that free would generate traffic that would generate ad revenue. But the ad revenue was never fully realized, and now many major papers, like *The Boston Globe*, *The New York Times*, and *The Wall Street Journal*, are looking toward returning to online subscriptions to generate revenue – an unexpected strategic move as many newspapers saw little to no success with the first incarnation of subscription models. Plus, there's now the added obstacle of convincing consumers to pay after years of free content.



Like many newspapers, some TV networks have decided to make their content available online for free on premium ad-supported video sites like Hulu. But as advertising budgets take a hit during the economic downturn, networks are now

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looking towards consumer paid content. But will consumers be willing to go from free to paid content?

Strategy Analytics, a Boston-based research firm, believes that consumers may be more willing to pay for video content than news or music. They forecast worldwide consumer spending on online video to \$3.8 billion, exceeding the \$3.5 billion expected in online video ad revenue¹³.

And in one field, they are right – the success of Major League Baseball’s online television platform MLB.TV demonstrates that consumers are willing to pay for specialized content. In 2008, MLB.TV had 500,000 subscribers paying up to \$20 a month to access games online.¹⁴ Although image quality may be lacking, subscribers are still eager to pay for the content, which includes interactive material and regional games (that traditionally fans outside of their preferred team’s home base would find difficult to access). But is the success of this niche content site a sign of consumer development and acceptance of paying for online content? Or is the success only due to the content-specific nature?

Comcast Corporation, a cable operator and media content provider, has also started developing a subscription model, *TV Everywhere*, which would offer video online to cable subscribers. The strategy for Comcast is more defensive than profit-driven, preventing people from canceling their cable subscriptions for free online content.

And the initial response has been positive. According to a survey by the Toronto-based Solutions Research Group,

73% of Comcast and Time Warner cable subscribers approved of the idea. The main perceived benefits by consumers are the convenience of remote viewing, better value from a cable TV subscription, watching programming without a television, and the ability to catch up on missed programs.¹⁵

The real question is: will the existence of ad sponsored video sites like Hulu jeopardize the attempt to charge for content? Are newspapers a good model to judge what’s to come – consumers will get used to “free” TV and refuse to pay? Or is the growth of subscription TV proof that when it comes to television, online or off, people are already willing to pay?

Myth # 4 – People are Leaving Traditional TV for Online Viewing: FALSE

As TV networks see double-digit drops in ratings,¹⁶ and the number of people watching online television grows, nearly a fifth of Internet users are watching video online daily. It is easy to conclude that consumers are moving from traditional television for online TV. But it’s just not happening.

Although more people are watching online videos, an average of 189 minutes in May 2009 – up 49% from 2008,¹⁷ Forrester Research has found that time spent online remained unchanged at 12 hours a week. So, although online audiences are increasing, the online viewing time is most likely just an increase in that slice of the user’s online time.

Furthermore, consumers who watch online television still spend 13 hours a week in front of the traditional television set. Any additions to time spent online hasn’t been at the expense of television viewing, but rather that of other traditional media: radio, down 18%; newspapers, down 17%; and magazines, down 6%.

Contrary to popular belief, TV still commands the greatest amount of viewing – consumers spend 67% of their daily media time with the good old tube. Even more surprising, traditional TV also dominates media consumption of 18-24 year olds,¹⁸ whose average of 209.9 minutes a day watching TV surpasses their total amount of time online of 169.5 minutes a day.



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In fact, television is still the dominant video choice for Americans with nearly 99% of all video watched in the US done on the television.¹⁹ And it’s not just cable television that people are tuning into. Even though 89% of TV households have cable, no individual cable network tops 40% of the cumulative audience by the end of an average week. In contrast, three

of the major six broadcast networks (ABC, CBS, and NBC) reach over 70%.²⁰ Thus, even though broadcast television is seeing their share in the media consumption pie shrink, it is still the largest slice.

Myths #5 – Teens are the biggest consumers of online, broadcast, and cable TV media: FALSE

Some may assume that *millennials* (the demographic of those born between the early 1980s and late 1990s) and teens – having grown up with new media – are online TV’s primary consumers. But at nearly 80 million strong, it’s the baby boomers who are the primary consumers of all forms of media.

According to the Nielsen-funded Council for Research Excellence (CRE) data, younger baby boomers (45-54 years old) consume the most video media – just over 9.5 hours a day!²¹ While the types of devices and time spent on each one varies between generations, the majority of video consumption time was still spent on a traditional TV.

Myth #6 – Consumers Avoid Most of the Advertising in the Programming They View: FALSE

With the advent of TiVo and other digital recorders, advertisers feared that consumers would simply skip through television ads. But the recent Council for Research Excellence study found that only a small fraction of consumer’s video time was spent watching time-shifted TV – just over 12 hours a month for the largest consumers of time-shifted TV (25-34 year olds), which accounts for only 8% of the average amount of time that demographic group spends on traditional TV.

Consumers are also watching the ads from free online television. With ads that are typically shorter and less frequent (such as only one commercial during each program), consumers are 44% “more engaged” with the online ads than their television counterparts. Furthermore, consumers are more willing to sit through these ads as “compensation” for the convenience of online viewing.²²

Even offline, with traditional TV, viewers are staying put and watching commercials. According to the Council for Research Excellence study, TV users were exposed to 72 minutes per day of TV ads and promos – debunking the belief that traditional television viewers avoid ads by channel surfing to avoid the ads in their programs.

Conclusion

With dwindling ad budgets and the continued pressure to “reach the digital demographic,” many assumptions have led to false conclusions that simply aren’t supported by data. It appears consumers aren’t jumping the ship to be fully online just yet, nor, it seems, have they chosen to fully escape advertisers’ reach. It’s likely that these consumer trends will continue to develop, but most likely not at a pace predicted (and feared) by many content producers and advertisers.



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