

# Broadcasters' Internet Engagement: From Being Present to Becoming Successful

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Digitization and globalization, deregulation of the telecommunications sector, opening up the broadcast sector to privately owned companies, and the emergence of new cross-media companies are transforming traditional broadcasting. Developments in technology, in particular, are the driving forces behind the transformation of media and communications. This analysis of Internet broadcasting will take into account both socio-economic and technological conditions.

## THE SOCIOECONOMIC AND TECHNOLOGICAL CONTEXT

Changing market conditions challenge the broadcasting sector's role and field of activity. Global players are investing heavily in information and communications technology (ICT) and the new media high potential growth markets. The economic significance of information technology and telecommunications is evident from the growing proportion of gross domestic product (GDP) that these markets represent. The turnover on ICT in 2000 as a percentage of GDP was 6.3% in Western Europe (4.9% in 1997) and 8.7% in the United States (7% in 1997) which shows the overall increase in the contribution of this sector to the national economics (FVIT, 1998; BITKOM, 2001).

The extraordinary economic significance of information and communications technology is also due to the fact that ICT is an innovative multifunctional technology enabling other products and services and representing a high proportion of the potential value creation in other markets. Increased process and product innovation and the ongoing convergence between ICT and media serve to reinforce the increasing significance of multimedia-related markets for overall economic development.

At the heart of the multimedia development is the Internet. The fact that the Internet is developing into a new vehicle for business to business (B2B), business to consumer (B2C), consumer to business (C2B), and consumer to consumer (C2C) communication has been seen as a major catalyst for achieving new profits in “old” and “new” economic sectors alike (A Survey of E-Commerce, 2000).

About 373 million people worldwide used the Internet on a regular basis in 2000. This number increased by 59% from 1999 (BITKOM, 2001). It is extremely difficult to measure the number of Internet users directly, because several people may use one individual account (business and private), and figures from Internet service providers (ISP) and online services cannot be verified with any degree of certainty. The increase in the number of Internet hosts between 1999 and 2000 in Europe and the United States provides a more reliable picture of the growing importance and intensity of Internet use in individual countries.

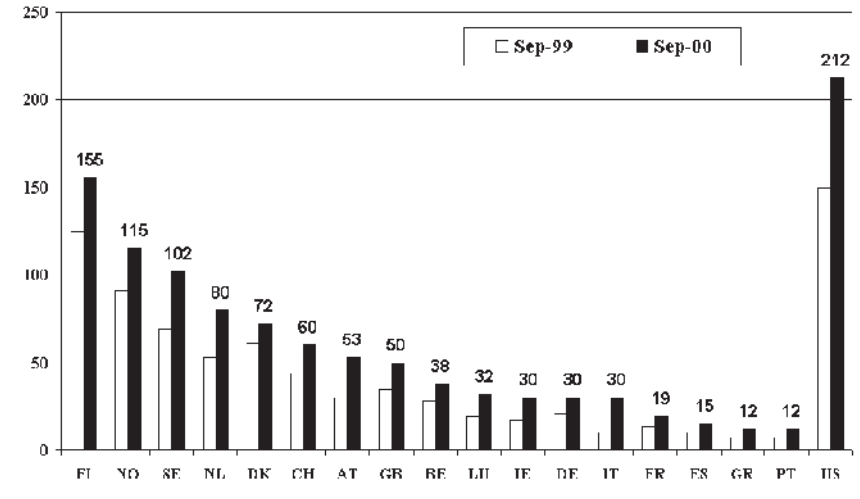


FIG. 6.1. Internet Hosts\* per 1,000 Inhabitants in Western Europe and the United States. From EITO (2001, p. 488).

The growth rates are very impressive and illustrate the large lead that Scandinavian countries have gained over other European countries. However, even in the Southern European countries where the Internet use and ICT investments have traditionally been at a lower level, the number of Internet hosts per 1000 inhabitants has increased more rapidly (see also Konert, 1999a).

In addition, the sociodemographic structure of Internet users gradually adjusts to the average population. Unlike the early years when Internet users tended to consist almost exclusively of young men with high incomes and high education, today women, the older generation, and people with average incomes and education are using the Internet more frequently. The Internet, especially in developed countries, is on its way to becoming a mass communication infrastructure.

So, what are the major reasons for the huge success of the Internet? Decisive “success factors,” especially of the World Wide Web (WWW), include a breaking up of geographical limitations and time delay, improvements in accessibility and user-friendliness, new services and content with “added value” to the user, interactive communication with direct links and feedback between supplier and recipient, and integration of multimedia applications. The increasing use of the World Wide Web in the business and entertainment spheres poses new challenges to traditional broadcasters. To meet this challenge, broadcasters will have to become more actively involved in new forms of media, rather than to rely on their mere presence.

A heated debate is currently underway concerning whether and to what extent TV and PC transmission methods, services, and terminals might fully merge in the future. There can be little doubt that the two areas will continue to move closer with increasingly combining functions, although differences in users’ preferences, social and cultural factors will slow down the trend toward a complete integration that could supplant existing systems. At present, Internet TV is used above all to present additional special interest niche programs, video-on-demand services, and complementary program-related offers.

When dealing with the relation between technology and society, cultural conclusions are usually derived from technological premises based on the assumption that social developments somehow follow technological achievements, and more or less adapt themselves to technological developments.

This view overlooks the influence of social and cultural factors on the development of technological innovations, on their success, and on the speed of their diffusion. The origin and shaping of new technology is essentially influenced by cultural models of its usage, and by cultural patterns of perception (Rammert, 1996). For a number of years, there has been an ongoing discussion about the individualization and multiplication

of lifestyles, and the fragmentation and segmentation of social groups. Fragmentation means also a decoupling of time structures in the world in which people live and work (more flexible working times, more weekend work, etc.) and a change in the distribution of leisure time throughout the day and week. These developments help create a demand for information and entertainment independent of time and place while intensifying the fight for recipients' attention and limited time.

## NEW COMPETITIVE ENVIRONMENT

Traditional broadcasters understand that the increase in digital programs and the Internet have opened a new competitive environment. As consumption time for media use is limited, traditional broadcasters fear the popularity of the Internet will have a negative effect in the long term on the number of people watching television.

Currently, hundreds of TV stations are already active on the Internet. The database of the "World Wide Internet TV" portal, for example, in May 2001 contained nearly 400 TV stations worldwide with live or recorded programs via the Internet.<sup>1</sup> However, at present this portal has only 73 programs listed with a bandwidth from 100 Kb/s up to 300 Kb/s for a better TV/video quality.

With this form of Internet broadcasting, individuals can select special programs and channels from the web as a service available "on demand." In fact, rather than having to download an audiovisual file completely to be played later on a multimedia PC, people can now receive sound and video images right from the beginning of the downloading process using software such as RealPlayer (RealNetworks), MediaPlayer (Microsoft), or Quicktime (Apple). This is known as streaming technology. At present, live or on-demand Internet TV services still have a poor quality due to the relatively small bandwidth of Internet access via normal telephone lines. However, increasing broadband high-speed data transfer rates will allow providers to offer interactive communication with TV quality. Future broadband delivery systems will be realized with competitive technological systems. At present, the most likely candidates to succeed are asymmetric digital subscriber line (ADSL), the digital transmission technology through copper telephone cable; digital TV cable (DVB-C), satellite (DVB-S), or terrestrial systems (DVB-T) for the transmission of audiovisual and data services according to digital video broadcast (DVB) standardization; and universal mobile telecommunications systems (UMTS), the future technology for mobile services.

There are three categories of Internet broadcasters competing on the supply side: *Traditional public service broadcasters* present their pro-

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<sup>1</sup><http://wwitv.com>

grams on the Internet along with new services and supplement their TV programs with specific additional services. *Commercial broadcasters* look for new opportunities to strengthen their customer relationship with additional and new services, particularly for special target groups. *New (cross-media) actors and producers* have, to date, avoided the technical, financial, and administrative expense of setting up their own broadcasting system. In this commercial context, which sees the players entering high-potential growth markets, an increasing integration of business activities (mergers, strategic alliances) at various stages of the value chain can be seen. Furthermore, the process of convergence in the media and communications sectors, accelerated by the rapid advance of the Internet, is stimulating far-reaching changes in the traditional stages of the media value chain (Fig. 6.2). The traditional media value chain is eroding as new opportunities present themselves to suppliers to create direct relationship and access to their customers from each point of the networking process. This creates new opportunities to produce, arrange, and post programs and services directly online circumventing traditional broadcast actors or authorities and without having to rely on traditional “intermediation.”

These changes allow new companies to produce and distribute new broadcast services directly for special interest groups via the Internet with a comparatively low budget. For example, the European Internet TV company Canalweb<sup>2</sup> aims at special interest television with a highly targeted

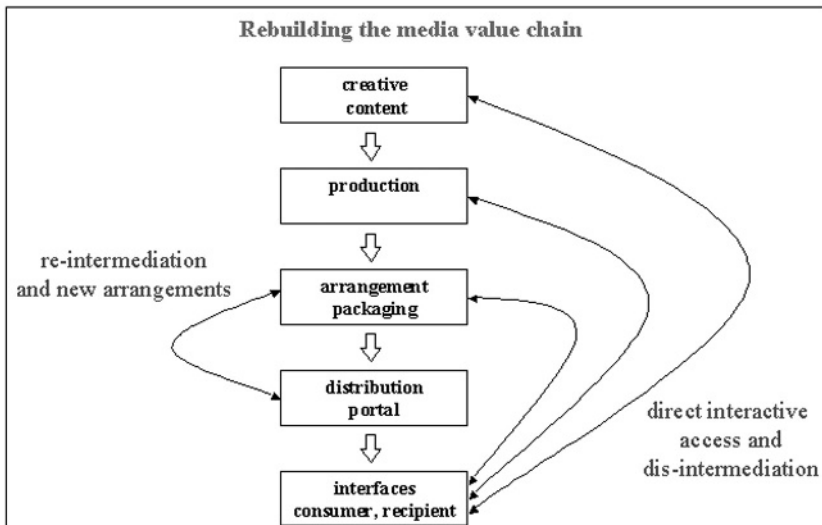


FIG. 6.2. Rebuilding the media value chain.

<sup>2</sup><http://www.canalweb.de>

content (“narrowcast approach”) and at fully interactive TV services via on demand services and interactive program guides (IPG).

New “re-intermediation” suppliers that select, arrange, and combine the audiovisual products and programs will be more important for those Internet broadcasters or producers whose brand name is not well known enough for them to attract an audience by themselves. At present, nearly all well-known Internet portals like Yahoo, MSN, AOL, or T-online offer special links to TV, film, and video resources. Furthermore, completely new portals like “WorldWide Internet TV”<sup>3</sup> and Internet TV List<sup>4</sup> (especially for worldwide TV programs) are active in the “re-intermediation” of Internet TV.

Internet TV content is not presently comparable to regular TV. Short films, documentations, news, or soaps are regarded as successful Internet TV formats, limited to a length approximately between 1 and 6 minutes (Becker, 2000; Hagen, 2000). MTV’s video clips especially inspire the producers of so-called Web-clips distributed via Internet. Due to the limited bandwidth and the different situation of Internet usage, producers of Internet TV must pay special attention to the time element. In the United States, for example, the term “Break TV” was coined to describe this format, because many viewers watch Internet TV and film clips during commercial breaks. Two examples of special short film portals are “The Sync”<sup>5</sup> and “absolutFilm,”<sup>6</sup> which offer video clips of various bandwidth speeds via the Internet.

Furthermore, interactive use will be more important in the future. Internet TV opens new possibilities to present complimentary background information, interactive advertising, or even new opportunities for the user to influence story lines. It could also mean that the traditional passive viewer develops into an active participant, a “viewer” (viewer and user) taking part in the production and story telling.

Within this new competitive environment, one of the main challenges for traditional broadcasters is and will be related to Internet content copyright and ownership. When using broadcasting material on the net, it is necessary to get additional distribution rights. High-quality audiovisual content is very important for successful competition in the area of Internet broadcasting, but it is also a very scarce and expensive product. In this area, media players or conglomerates and their considerable financial backing are creating a form of competition that carries with it no little risk: They seek to use alliances, mergers, and cooperation agreements with content producers to obtain digital multimedia content and withhold these from competitors through marketing rights (Konert, 1998).

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<sup>3</sup><http://wwitv.com>

<sup>4</sup><http://www.internettvlist.com>

<sup>5</sup><http://www.thesync.com>

<sup>6</sup><http://www.absolutfilm.de>

## STRATEGIC OBJECTIVES

The fight for consumers' time and attention, that valuable and rare commodity, will continue to intensify. Because traditional TV viewer rates are falling as Internet use increases, there is an urgent need for compensation strategies. In principle, there are three strategic objectives broadcasters attempt to realize online: First, they have to secure their future market share; second, they should transfer their brand images and traditional core competencies to Internet services; and, third, they should strengthen an online position that distinguishes them from competitors.

### Securing Future Market Share in the Long Term

Securing market share in the long term is one of the main challenges facing traditional broadcasters, even if their activities in the new media market are "cannibalizing" their traditional business (European Communication Council Report, 1999, p. 178). As the Internet will grow and not only become a mass communication network (which it not yet is) but also a competing media form for new audiovisual and TV-oriented services, traditional broadcasters have to secure their future. This is only possible if they take part in technical up-to-date developments in the area of new media and if they acquire the expertise and experience needed to be successful and competitive.

### Transfer of Brand Images and Core Competencies

The transfer of brand images and core competencies is especially necessary in this relatively unstructured and intricate Internet environment as users frequently chose brand names and services familiar to them from other areas. Companies compete with other web portals, but the effectiveness of broadcast programs makes it easier to position their brands on the Internet.

Broadcasters who are, for example, renowned for their journalistic professionalism and/or viewer-oriented programs have a definite competitive advantage even in the area of new media. One example of this is BBC Online. BBC Online is the most popular site in Britain and the most visited nonportal Web site outside the United States.<sup>7</sup> In the United Kingdom, the Web site receives approximately 200 million page impressions every month. Latest figures give it a 25% reach, which means one quarter of the Internet-using population in the United Kingdom visits this site (Cozens, 2000).

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<sup>7</sup>Frankfurter Allgemeine Zeitung, February 15, 1999.

## Strengthening of Distinctive Online Position

Broadcasters have to strengthen their online position and make sure they distinguish themselves from their competitors. Adapting technological up-to-date developments, launching online services with a specific “added value” or offering thematic contents for target groups are all ways to establish a distinctive online position. New forms of “mass customization” and personalized portal sites (see [chap. 3](#)) are used to launch efficient and competitive services. Although the realization of competitive advantages related to technological developments and new services may be successful in the short term, it is less likely to prove a success in the longer term. In this fiercely competitive environment, companies would do well to build up a unique sales proposition (USP) in their online presence. For public service broadcasters, this USP is to be found in their public service mission. Public service broadcasters’ Internet engagements could compensate for some Internet specific disadvantages such as lack of filters, reliability, and orientation for the general public in an intricate environment by concentrating on their core tasks and transferring those to the online area.

## INSTRUMENTS

### Exploitation of Internet Specific Success Factors

Broadcasters should not only rely on their brand name and core competencies to achieve online success. They have to anticipate and exploit the main “success factors” of the Internet if they are to realize their strategic objectives. Comparative research has shown that the following criteria should be taken into consideration to get sustainable attention and visits by Internet users (Konert, 1999b).

**Up-to-Dateness.** One of the main advantages of the Internet over more traditional media is its immediate access. Other media forms (e.g., newspapers) are constantly faced with geographical limitations and time delays. The Internet is potentially faster and more up-to-date. Having said that, it is vitally important that Web sites be kept up-to-date to provide Internet users an incentive to visit the site more frequently.

**Content Presented.** Content is “king,” and web pages that provide the user with real added value receive higher attention and will be sought out repeatedly as reference points. Internet broadcasting content can enrich programs with additional background information and new services for special target groups, not least by using interactive multimedia capacities. Furthermore, on-demand access to digitized program archives at all times



appeals to nearly all online users. The resources and the expertise in presenting high quality audiovisual material are among the main advantages traditional TV and radio broadcasters have over their online competitors.

**Interaction.** Being online offers new possibilities for broadcasters to intensify their links and communication with their audience. Meanwhile, most suppliers offer interactive services, including e-mail, news, chat-rooms, and guest books. Those areas related to specific TV programs are particularly well suited for interactive communication due to a common thematic agenda (e.g., soaps, documentation, adviser, and serial programs). However, the success and quality of these services are dependent on the level of interaction between suppliers and users.

**Presentation.** Functionality of the technical interface has been adapted to users' needs. Clarity, consistency, transparency, and easy access are the main requirements for clearly arranged web pages and user-friendliness.

**Multimedia.** The use of new multimedia technologies expands the broadcasters' ability to shape and present complementary or new services. Digital recording and playing of video and audio streams (live and/or on-demand), and the integration of animated graphics within complex issues are examples of ways in which new multimedia possibilities make the online offers more attractive. The use of broadband transmission will increase the technical quality of video streaming and thus respond to users' interests. Internet TV content will not be the same as present-day TV programs.

### Promoting Synergy Between TV and Internet Services

Broadcasters must use synergy. TV programs use their brand name to draw viewers' attention to supplementary Internet services, and their Internet activities add additional value to their TV programs.

Endemols' *Big Brother*, a reality TV program shown in Europe and the United States, is an example of how this kind of synergy between the traditional and new forms of media can work. The German *Big Brother* Web site (Fig. 6.3) offered viewers the opportunity to stay up-to-date around the clock, giving them access to webcams all over the *Big Brother* compound (including infrared cams for the sleeping rooms).

By providing news and stories about the candidates and their environments, on-demand archives, chat-rooms, merchandising, and voting opportunities, online services leverage synergy with the TV programs. As a result, visits to the RTL Web site increased by about 30% between December 1999 and May 2000.

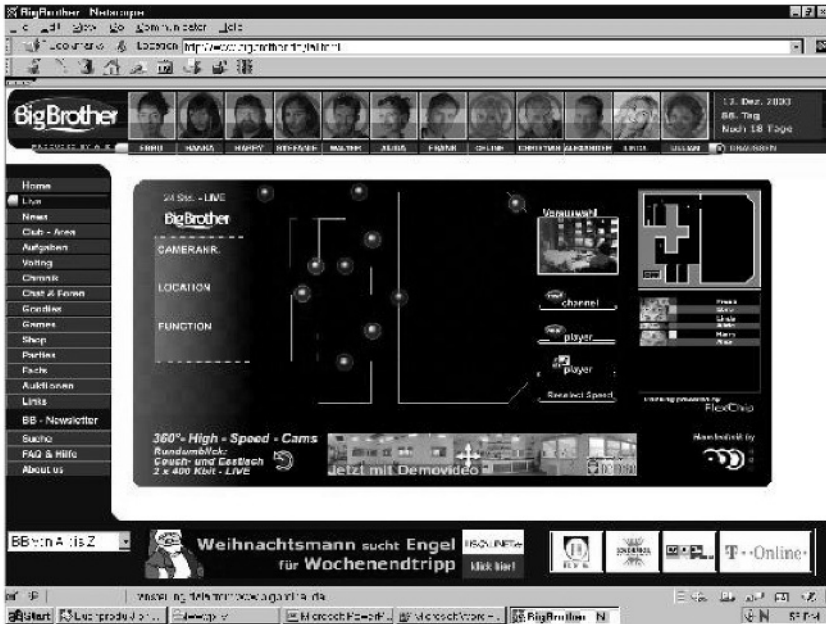


FIG. 6.3. Synergy between TV and the Internet: *Big Brother* home page.

Furthermore, combining television and the Internet opens up new ways of reusing existing digitized content. Broadcasters like the BBC, CNN, or ARD have at their disposal huge resources of video material, which can be delivered over the Internet. The German broadcaster ARD, for example, offers an online edition of its main news program “tagesschau,”<sup>8</sup> which is a very successful on-demand service in Germany. Copyright, ownership, and the costs of additional distribution rights are key concerns when repurposing content via Internet.

### *Localized Content Via Global Media*

By its very nature, the Internet is a global medium. But, as with traditional television stations, the Internet broadcast services require a strong emphasis on local and regional content. Content providers that do not lose

<sup>8</sup><http://www.tagesschau.de>

sight of the regional context in which people exist have a better chance of launching interactive and lively services.

Even in well-developed information societies, from 80% to 90% of public communication services will continue to be domestic or national (van der Meulen, 1999). This implies that coverage of domestic news, events, and regional services will remain important. The CNN online service, “CNN interactive,” for example, in expanding regional services spreads into Europe, Africa, and Middle East with local language sites and strong local partnerships.

Furthermore, growing regionalization applies to commercial activities where trust, for example, is an important aspect of e-commerce. With regard to points of payment and reclamation, regional Internet suppliers have a better chance than international suppliers.

### Mass Customization

Thus far, small special interest groups have not been economically interesting to traditional TV and media companies. A different cost structure, however, means that Internet services can target smaller user groups far more cost-effectively (Goldhammer & Zerdick, 1999). Thematic channels or special interest portals offer new possibilities to meet users’ specific needs. The mechanism of “mass customization” can be used to increase users’ loyalty to specific Web sites and can facilitate target advertising and launch special pay services (see [chap. 5](#)).

### Personalized Portal Sites

Successful portal sites such as Yahoo! or AOL offer selective and structured services and provide their operators with lucrative advertising opportunities. The midterm strategy of broadcasters aims at setting up portal sites to bring more traffic to their Web sites. However, portal sites with a huge variety of content and services make it more difficult for users to find the content they are really interested in quickly and easily. Therefore, the installation of special interest portals or personalized portal sites with more possibilities for individual arrangements will be increasingly important in the future.

CNN.com,<sup>9</sup> for example, offers a personalized service called “myCNN,” which allows users to select specific news areas and services (e.g., sports, world news, lifestyle, etc.) and use them to create their personal CNN portal sites ([Fig. 6.4](#)). Access to these personalized portal sites is organized via password and user name.

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<sup>9</sup><http://www.cnn.com>

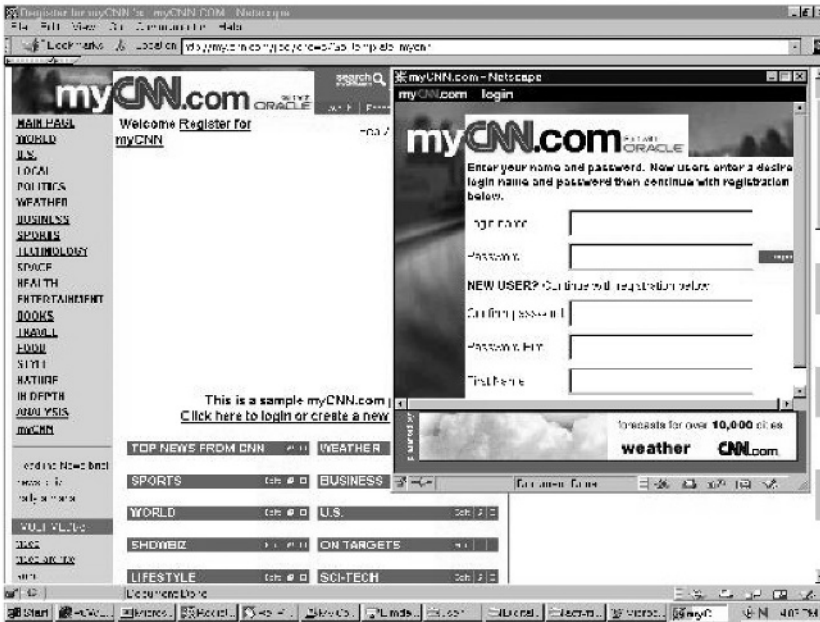


FIG. 6.4. Personalized portal sites: “mycnn” homepage.

## NEW REQUIREMENTS

In order to achieve the strategic objectives and use the online instruments effectively, broadcasters must understand the requirements for success in this new media market.

### Cross-Media Activities and Partnerships

Broadcasters need competent partners to obtain online expertise. The German public service broadcaster Zweites Deutsches Fernsehen (ZDF), for example, started a strategic partnership with Microsoft as early as 1996 to get technical support for the launch of its Web site “www.zdf.de” (Jarras, 1997). Cross-sector partners profit from broadcasters’ brand names and high-quality content to generate online traffic. In March 2001, the German Internet provider T-Online concluded a new partnership with the ZDF to use the content of the news program “heute” exclusively on its portal by paying a licensing fee. As a result, the corresponding web address “heute.t-online.de” will be shown in the respective news program (T-Online Wählt ZDF als Nachrichtenpartner, 2001). This new partnership

brings the previous cooperation between ZDF, Microsoft, and NBC ([zdf.msnbc.de](http://zdf.msnbc.de)) to an end.

Cross-media cooperation is also occurring between commercial TV companies and newspaper publishers. Examples of this are N24<sup>10</sup> (cooperating with *Frankfurter Allgemeine Zeitung*) and n-tv<sup>11</sup> (cooperating with *Handelsblatt*). This type of cross-media cooperation poses new questions about possible and potentially problematic joint ventures and alliances, particularly for the public service mission of public service broadcasters.

### Organizational Restructuring

Technical restructuring measures are not implemented in isolation. Embedded in internal organizational changes, broadcasters' online success depends on a professional and independent business organization that relies on cross-subsidization as little as possible. Broadcasters need to become more flexible, and to speed up their decision-making processes to compete in this highly competitive environment (BBC, 2000). For that reason, broadcasters have started to establish joint business units, where all Internet and new media activities are assembled. These trends can be seen within commercial as well as public service broadcasters. Public service broadcasters try to establish an online presence in addition to their traditional activities (third pillar beside television and radio) and commercial broadcasters particularly set up new affiliated companies responsible for all Internet and new media activities (e.g., Kirch New Media, RTL New Media).

### Skills

Broadcasters have to make sure that they have the skills needed to compete effectively in the digital world. Growth in new services and programs at this level highlights, for example, the need for professionalism, effectiveness, and journalistic reliability. The expansion of traditional broadcasting to interactive and multimedia online services presents new challenges for those working in this sector on two levels: First, they require new Internet technologies and online material to get the information that they need for their daily work. Second, they have to know how to use these new technologies and sources for additional services offered to Internet users and recipients. This applies not only to technical knowledge, but also to the presentation of online services and the interaction with recipients before, during and after programs (e.g., via e-mail, chatrooms etc.).

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<sup>10</sup><http://www.n24.de>

<sup>11</sup><http://www.n-tv.de>

**MODELS OF FINANCING**

This chapter discusses the main question of the source from which the money to finance the online strategies, the instruments, and the new requirements will come. It will not be possible for broadcasters in the long run to subsidize business activities in the area of new media with revenues from their traditional activities. Broadcasters must strive for online success, not mere presence defined as web page impressions and visits, but as return on investment (ROI).

Internet technology promises for new revenue streams. New revenue models (Fig. 6.5) include direct and indirect proceeds. Direct proceeds are revenues that are paid directly by the customer to the supplier. Indirect proceeds are revenues that are mainly paid by third parties or the general public. This chapter outlines the main possibilities and combinations of these proceeds to increase revenues for Internet broadcasting.

**Direct Proceeds**

*Transaction (Pay-Per-Use).* As is the case in digital television, pay-per-view services offer suppliers the opportunity to increase their sources of

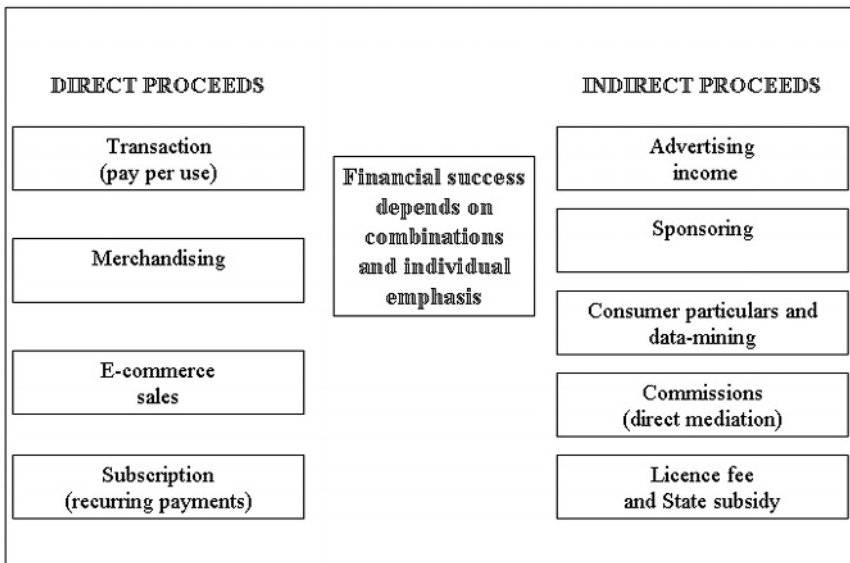


FIG. 6.5. Revenue models for broadcasters' online activities.

revenue. It is made technologically possible by the direct link online broadcasters have with their recipients via back channel (point to point). The impetus for offering pay services comes from an interest in serving specific niche markets of those users willing to pay a premium for high-end services or specific content.

Pay-per-use models are not new in the online area. They are currently being used by some newspaper publishers, for example, that offer online archive search services, whereby the user has to pay for each article found. Similarly, Internet broadcasters can offer special interest content (e.g., documentaries, film festivals, live concerts) or the access to their video and audio archives as an exclusive pay-per-use service. Other models of financing include access time-related extra payments for special high quality services (e.g., online games). It is, however, far from easy to persuade users to pay for these services, as long as they can access similar services elsewhere free of charge. This situation would presumably change if a supplier had “exclusive” content that could not be accessed from other sites free of charge.

Presently, public service broadcasters, who get their income mainly from license fees or state subsidies, are largely prohibited from offering pay-per-use services. Such services, aimed as they usually are at special target groups, contradict their societal core tasks of free access for the general public. In addition, public service broadcasters face considerable resistance from commercial broadcasters and politicians, who fear unfair competition.

**Merchandising.** Online merchandising is a potential additional main source of revenue. Merchandising products, offered by broadcasters over the Internet, are generally specific to programs or to the broadcasting station itself. These products, such as coffee mugs, T-shirts, caps, videos, books, and CDs can be ordered online. [Figure 6.6](#) shows the BBC shop, offering merchandising products such as videos, games, and books related to the successful children program *Teletubbies*. In addition to increasing companies' sales revenues, merchandising helps strengthen the brand name of the program or station in question.

**E-Commerce Sales.** Another way online broadcasters can increase revenues is through expanded e-commerce sales that are not directly linked to their programs. E-commerce sales concern not only products such as books, videos, or CDs, but also other cross-marketing products or services, including electronics and travel services. [Figure 6.7](#) shows a clipping from the commercial German broadcaster ProSieben (<http://www.prosieben-shop.de>), offering, for example, computer games, modems, and telephones, all of which can be ordered online. At present there is no data available on the commercial acceptance of these new services.

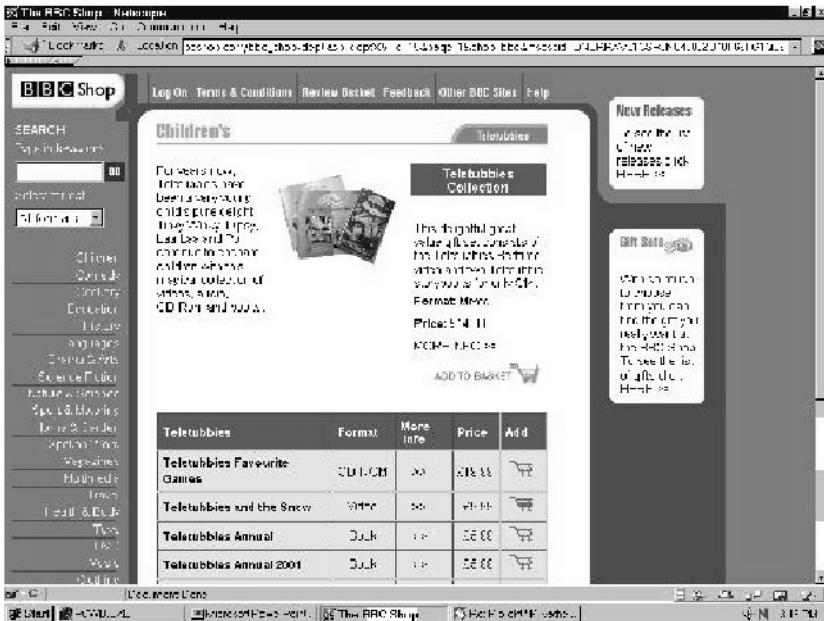


FIG. 6.6. The BBC shop online.

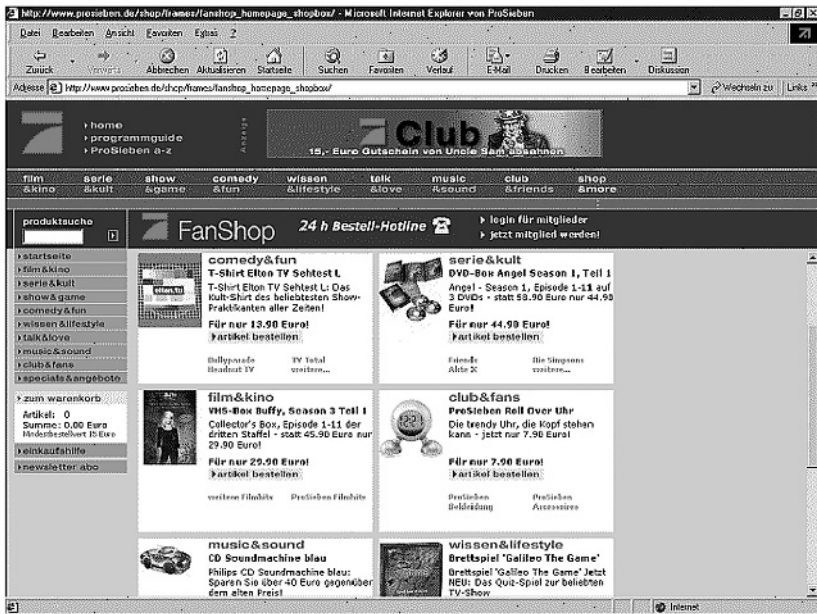


FIG. 6.7. The “Pro 7 Club” online shop.



It is important that the back office functions required for the e-commerce are handled efficiently. Broadcasters usually work with competent partners from other areas, who know the online business well and are equipped with the appropriate technological and personal infrastructure for processing volume online sales. Of course, transaction and payment systems must be easy to use, transparent, and secure against fraud.

**Subscription.** Subscriptions as recurring payments for the access to special online services could be one of the main sources of generating proceeds for online business. As in the case of pay-per-use models, commercial success depends on users' willingness to pay for the services. Users must have a compelling interest in particular content that motivated them to pay for it when they are accustomed to getting online content for free. At present, this revenue model is mainly successful with professional business services such as online databases, and can be compared to digital TV subscriptions in the areas of sports and erotica (European Communication Council Report, 1999, p. 171). A current attempt to realize an efficient subscription-based service on the Internet is the music file exchange system offered by Bertelsmann and Napster.

Internet broadcasters who are primarily general interest suppliers may find it difficult to be successful with this model of financing in a highly competitive environment. In addition to a more content-oriented subscription model, broadcasters might attempt to launch new services through partnerships with telecommunication companies and Internet service providers, who already use subscription models such as flat rates and basic fees.

### Indirect Proceeds

**Advertising.** Thus far, viewer rates and page visits are the main criteria used to measure the success and attractiveness of online advertising in-

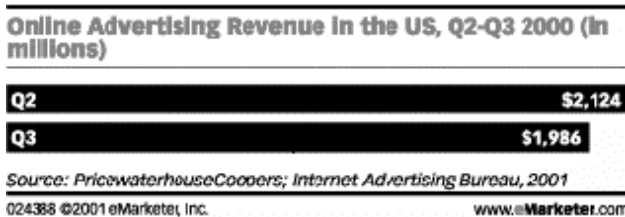


FIG. 6.8. Online advertising revenue in the United States: Q2–Q3 2000 (in millions).

vestments. Third-party advertising is a leading source of revenue. An increase in advertising revenues for online broadcasters largely depends on the economy. Advertising revenues will continue to be one of the main revenue sources for online services in the near future. The Internet Advertising Bureau (IAB) reported total online revenues for the year 2000 of \$ 8.2 billion in the United States (Interactive Advertising Bureau (IAB) Reports \$8.2 Billion Online Ad Revenue in the United States, 2001).

But this hypergrowth might be over. The Internet Ad Revenue Report shows that online advertising revenue decreased slightly, by 6.5%, between second quarter and third quarter 2000. According to IAB and PricewaterhouseCoopers, this decrease from Q2 to Q3 and the comparable lower increase with historical levels of 9% to Q4 2000 (\$ 2.2 billion) are a reflective of the overall slowdown in ad revenue across all media sectors. Banner advertisements continue to be the dominant form of online advertising with 47% of overall online advertising in 2000. According to these current figures, relying solely on advertising revenues is not a good long-term strategy.

Many Internet users find advertising banners a nuisance because they tend to slow download times and their content is unwanted. The latest figures suggest that click-through rates for banner ads are dropping (Markt für Online-Werbung wächst auf 300 Millionen DM). Advertising companies try to solve these problems with special interest advertising, adapting to the unique characteristics of online users. To do this, they need to develop individual user profiles and more “intelligent” interactive banner ads. These developments make Internet privacy a paramount concern.

The importance of banner advertisement revenues will cause problems, especially for those public service broadcasters who are not allowed to generate this kind of income. Politically speaking, online advertising is viewed more critically in European countries than television advertising. For example, according to “ARD- and ZDF-Staatsverträge,” public service broadcasters in Germany have been explicitly prohibited from engaging in online advertising since April 2000.<sup>12</sup> In the United Kingdom, this political dilemma has brought about a situation in which the BBC has two different online presentations: the “public service site,”<sup>13</sup> which does not use advertising, and the e-commerce-oriented site “beeb.com”<sup>14</sup> by BBC Worldwide, which does use it.

Public service and commercial broadcasters with a professional journalistic mission should distinguish between commercial and noncommercial items in the same way this distinction is made between program and advertising on TV. That this is not always the case is visible, for exam-

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<sup>12</sup><http://www.artikel5.de/gesetze/rstv-4.html>

<sup>13</sup><http://www.bbc.co.uk>

<sup>14</sup><http://www.webguide.beeb.com>

ple, on the commercial Web sites of CNN<sup>15</sup> and RTL,<sup>16</sup> neither of which clearly marks the web banners as advertising.

**Sponsoring.** On the one hand, sponsorship is being used as an additional source of income for online services. On the other hand, well-chosen sponsorship might give the sponsors a higher profile than normal banner advertisements would. Sponsors hope that users will more closely associate online services and content with the advertiser. Sponsored online activities could be related, for example, to special chat meetings with stars from entertainment and sports or to live streaming events. In 1999, the German Telecommunications Company T-Online sponsored, for example, the launch of the German “n-tv” on-air broadcasting program via the Internet. Like event sponsorships, support of well-chosen online activities might help to heighten brand name awareness more efficiently than other kinds of advertising. Sponsoring is the second most important source of online advertising revenue (after banner advertising), accounting for 27% of the \$4.6 billion in advertising revenues in the United States over 1999.<sup>17</sup>

Some public service broadcasters are faced with the same online advertising dilemma. In Germany, advertising and sponsoring is explicitly forbidden as an additional source of income for public service broadcasters’ online activities. The theory is that advertising and sponsorship revenues supporting PSB Web sites would be unfair competition for commercial Web sites.

In addition, there is a risk that income from sponsorship might alter the balance of online services by putting pressure on public service broadcasters to offer more services that are attractive to sponsors. Nevertheless, there are obvious gray areas in online advertising. Is the reference to streaming software (e.g., Microsoft’s media player or RealNetworks’ RealPlayer) advertising or sponsoring, or is it merely a technical necessity? And what is to be made of a Web site telling its users that it is “Best viewed with Internet Explorer version x.x”? In addition to the problem of ad marking, these few examples show that more clarity and harmonization in the field of online advertising and sponsorship is needed throughout Europe, particularly in the area of broadcasting on the Internet.

**Consumer Particulars and Data-Mining.** Online marketers are extremely interested in high quality demographics allowing them to target specific user groups. Advertising partners are interested in page visits, effective user time, and individual users’ sociodemographic data. In addition to

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<sup>15</sup><http://www.cnn.com>

<sup>16</sup><http://www.rtl.com>

<sup>17</sup><http://www.iab.net>

traditional television measurement methods, such as Gesellschaft für Konsumforschung (GfK) in Germany, two rival agencies, Media Metrix Inc. and Net Ratings Inc. in the United States, are developing spot-checks of user behavior on the net (Messung der Internet-Nutzung ist umstritten, 1999).

With today's sophisticated Internet technology companies have an efficient instrument to collect, store, and analyze online activities with user profile data. For broadcasters, this data is very useful. When users introduce themselves providing their name and address, personal data can be used to present detailed user profiles to sponsors and advertisers, for target advertisements. The potential for providing valuable tailor-made services that can be offered, observed, and changed quickly is rapidly increasing.

Furthermore, this valuable information can be sold to interested third parties. The mere fact that companies are able to make a profit using very specific user-related information means there is a major privacy issue. At present, there is a privacy debate being held in Europe, as well as the "safe harbor" dialogue with the United States. It is uncertain what impact these developments will have on the growth of online advertising and users' online behavior. In principle, it should be guaranteed that without users' explicit agreements, systems are not allowed to collect information that can be traced back to individual users. This is often framed as an "opt in" versus an "opt out" debate. The issue is whether consumers are protected from privacy violations unless they voluntarily provide (i.e., opt in) this information or whether information can be collected unless a consumer specifically state (i.e., opt out) that they do not wish them to do so.

**Commissions.** Commissions or affiliate programs seek a new revenue model to integrate advertising concepts and participation in the sales revenues (Goldhammer & Zerdick, 1999). The concept is based on a pay-per-sale mechanism, in which a Web site supplier, a broadcaster for example, places his business partner's banner on the broadcaster's site and receives a fixed percent share for each product sold by the business partner through the banner. In this way, Internet broadcasters can increase their income, and sellers can increase their e-commerce customer base. The online bookstore Amazon.com and the CD seller CD-Now are pioneers in this area, paying revenue splits between 3% and 15%. For broadcasters, this model is particularly appealing as special programs have the potential to generate additional buying incentives for customers linked via banners to appropriate sellers.

**License Fee and State Subsidy.** Public service broadcasters in Europe are primarily financed by a mixed system of license fee, direct subsidies from the state and advertising (European Institute for the Media, 1998). The main difference between public service broadcasters who rely mainly on license fees and those who rely on direct government grants is that the

former enjoys the more stable and predictable system of license fee funding (McKinsey & Company, 1999).

Due to commercial competition with private broadcasters, the increasing costs of purchased programs (e.g., films and sport), and the high investments for digital technologies and online services, the economic situation of public service broadcaster is becoming ever more difficult. Political initiatives and measures to increase license fees and state subsidies are almost universally unpopular, especially among those who prefer private broadcast services (TV and Internet). Public service broadcasters realize that their traditional sources of income will gradually disappear. However, if public broadcasters are not able to attract younger audiences, potentially with complementary online services, their public service role may be compromised in the long run. As already stated, public service broadcasters have to become more actively involved online. This means that they have to find a way to make their online activities commercially viable. This can be achieved through traditional means such as license fees or public funding. If these prove insufficient, public service broadcasters should be allowed to exploit other ways of financing their online activities. Having said that, these alternative finance models could call into question the public service broadcasters' very legitimacy.

## CONCLUSIONS

The increasing use of the World Wide Web in the business and entertainment spheres poses new challenges for traditional broadcasters. To meet these challenges, broadcasters will have to become more actively involved in using the new forms of media. These new online engagements must generate their own revenues and produce profits. It is not possible in the long term for new media business activities to be subsidized with revenue resources from traditional broadcast activities. Traditional broadcasters' Internet engagements must succeed not only in terms of web page impression numbers and visits, but more importantly, in terms of return on investment (ROI). In principle, it will not be possible for broadcasters to rely solely on one or two sources of revenue. Should hypergrowth decrease, as seen in the third and fourth quarters of the year 2000, then broadcasters' online investments and activities would be endangered. In the long run, financial success will depend on broadcasters' abilities to combine various new and lucrative direct and indirect proceeds from new media engagements.

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