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Cable TV Advertising: A Strategic Overview

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Introduction

In this introductory chapter, we present a brief overview of how to think strategically about the issues confronting cable TV advertising. The authors are both professors of marketing, and the framework presented thus reflects the traditional marketing orientation to strategic problems: a perspective whose purpose is to help decision-makers best achieve their objectives in light of customer needs, competitive pressures, and their own resource constraints. The goal is to develop a unifying structure around which the host of specific issues associated with advertising and cable TV—selection of target audiences, design of appropriate programming and advertising, methodologies for collecting ratings data, etc.—can be organized and addressed.

While the contributors to this volume represent a number of distinct perspectives on these issues, the general consensus is that cable has not in fact lived up to its original promise and that system operators, programmers as well as advertisers, are collectively guilty of a myopic view towards the medium, which has resulted in the delayed growth. More specifically, despite almost two decades of lip-service to the idea that cable TV is indeed a fundamentally new and unique medium, the repeated decisions of all players involved suggest that the industry still *acts* as if it were an alternative to—and therefore competes with—traditional mass-audience broadcast television.

This inconsistency between attitudes and behaviors has been responsible for both the initially optimistic forecasts and the subsequently disappointing results. It is now clear that if the industry is to realize its promise—and this remins the most likely scenario—it will happen only in light of a fundamental reassessment of its strategic position within the overall communications and information-technology environment. Such a strategic reassessment can provide a framework within which operational and tactical marketing decisions can then be made.

In what follows, we begin by illustrating what the conclusions of a typical strategic situation analysis of the cable industry might reveal, where the situation analysis (which we do not present in detail) represents a systematic investigation into the consumer, competitive, product-specific and general environmental factors that guide decision-makers in formulating a particular strategic direction. We then describe how the remaining chapters in the book develop in greater detail the general themes and issues raised in this introduction. Finally, we present an outline of possible directions for future research.

It should be noted that the primary purpose of this book is to stimulate (or, in some cases, revitalize), on one hand, a formal interest by academics in the practical concerns posed by the introduction of the new cable technology and, on the other, an appreciation by industry practitioners of the theoretical contributions that the academic community can make to the industry. It is a curious, yet perhaps not coincidental development that, in an arena that has produced results far short of everyone's expectations, the degree of contact between industry and academics and the level of academic research have been disappointing given the importance of the problem. If this book can help to rectify this state of affairs, we will have accomplished our objective.

A Strategic Perspective

The history of media reveals that the form of the old becomes the content of the new; or that new technology and hardware are programmed with old software. Thus in this century, for example, the content of movies and radio has been theatre; the content of television, movies and radio. Often, it is not until relatively late in a medium's evolution—indeed, sometimes not until the emergence of an even newer technology—that it develops its own identity and displays the characteristics that make it unique. Typically this is so because, in the early stages of a medium's life cycle, everyone concerned tends to focus on the technology/hardware at the expense of the programming and software. Such has been the case with cable TV.

It is therefore not surprising that the content of cable TV has been broadcast television. At the same time, it is also not surprising that, in the absence of a unique identity, cable competes economically with broadcast. However, unlike, say, the differences between theatre and film, the distinctions between cable and broadcast television are easier to ignore; the two media *can* be considered, at least superficially, technologically equivalent. As a result, to the extent that the organization and content of cable programming mirrors that of the older broadcast form, the newer medium is bound to be at a competitive disadvantage. Whatever cable does, broadcast has been doing better and for a much longer time! Even if they have been unaware of the underlying causes, this fact has not been lost on advertisers as they have been making their media purchase decisions.

The strategic marketing perspective we present here recognizes that marketplace success reflects the interaction among three factors:

1. The differential advantages of the product or service being offered
2. The needs of a particular target group, or groups, of consumers for whom the advantages of the offering represent real benefits
3. The alternative offerings of an *appropriately defined* group of competitors

In effect, a good strategy represents the outcome of a situation analysis designed to ascertain: what is really being offered; who really wants what is being offered; and who else is really offering the same thing?

In the case of cable TV advertising, it is important to realize that there are two generic groups of consumers: program viewers and advertisers. As a result, there are also, in effect, two products: the programming/advertising, delivered to the program viewers; and the viewers themselves, who constitute the product for the advertisers, in the sense that the cable operator delivers an audience of viewers to the advertisers.

Product

There are essentially two dimensions which must be considered in assessing the differential advantages of cable TV as a communications medium: the *video* dimension, which cable shares with other technologies such as broadcast and videocassette, but which distinguishes it from other media such as print and radio; and the *cable* dimension, which is not shared by other video-based technologies.

The most salient attribute of video, of course, is the ability to convey simultaneously both moving-image and audio information, thus distinguishing the medium from print and radio. If desired, information can be transmitted in "real-time" (i.e., live) or, via tape, immediately after recording. It is this "real-time" feature that technically distinguishes video from film, since both communicate audio visual information.

With regard to the social, as opposed to technological, viewing environment, video tends to be seen at home—often privately—and film in public theatres; though, as noted, a good deal of the content of television programming is film. (Some media theorists and artists also call attention to the aesthetic concerns associated with the "texture" or "feel" of electronic-based videotape as opposed to chemical-based film. These issues are beyond the scope of the current discussion.)

A sometimes negative attribute of video—which it shares with other "continuous" audio and audio visual media, but *not* with the printed page—is the inability to control the pace and sequence of the information presented. (To the extent that video technology acts merely as an electronic storage for printed material, with random access capabilities, this difference is negated.)

In contrast to other video media (broadcast television in particular), cable's distinguishing attributes are a dramatic increase in overall channel capacity and two-way communications capability. The first feature serves to move television away from being a mass or centralized information vehicle towards being a more personal and decentralized one. (Videocassette technology represents, of course, the extreme case of individualized program delivery, though only with respect to pre-recorded material.) The second feature introduces the possibility of truly interactive or bi-directional audio-visual communication, thereby replacing the typical patterns—of linear information flow and passive audiences—with feedback loops that allow active audience participation.

The differential advantage of cable TV, then, when compared with other communications media, is this: once relieved of the necessity to satisfy the needs of a relatively homogeneous audience, television programmers are free to provide dramatically greater levels of variety in both program content as well as format (e.g., length); therefore, programming decisions can be made within a substantially reduced regulatory environment.

The social implications of the so-called "wired nation" and the "television of abundance" (as opposed to the older broadcast-induced "television of scarcity"), resulting from significant penetration of cable networks free of technological and regulatory constraints, have been understood for several decades. However, what has apparently not been as well understood are the strategic implications of the inherent differential advantages of the cable TV medium, particularly as they impact the generation of advertising revenues.

In particular, it is becoming apparent that the defining characteristic of cable is what has come to be called "narrowcasting:" the delivery of specialized programming to specific interest groups—which implies the delivery of these specific target audiences to specialized advertisers. At the same time, it should be clear that the appropriately defined *competitive* group for cable is not broadcast television, but those media whose strategic focus is also narrow target markets. This group, of course, is largely concentrated in the print media—notably, specialty magazines—a development which fortuitously allows cable to capitalize on those differentiating attributes associated with video media in general. The appropriate positioning of cable TV as such a specialized medium is discussed later.

The strategic challenge facing the industry is thus how to create a climate in which cable TV is looked to by both audiences and advertisers as *the* medium for specialized targeted communications. In industry after industry (largely as a result of the explosion in telecommunications and data processing), the homogeneous mass market is giving way to smaller fragmented submarkets characterized by heterogeneous consumer preferences. Indeed, the tremendous success of targeted media such as specialty magazines (and, more recently, direct mail and radio) is evidence of the growing trend towards segmented communications markets, but it also indicates that both consumers and advertisers look to media other than cable for the satisfaction of their specialized information needs.

Consumers

The fact is that, today, individuals expect cable television to provide what broadcast television provides; they look to other media instead for those benefits that cable should provide. This suggests that the real strategic task facing the industry is one of consumer education, or *investment in market development.* This is radically different from investing in the technological infrastructure, or even in programming as such, particularly if the progamming is intended to attract the largest possible audience and is therefore essentially familiar to the viewers.

While a fair amount of theoretical work has been done—by communications scholars, sociologists, and other academics—concerning the diffusion of cable television (and other media) throughout society, there is little evidence that these studies have played any formal role in the strategic marketing decisions of the industry. Instead, the industry seems largely to have followed the path of least resistance: by positioning cable television as simply an extension of broadcast television it has obtained short-term returns from those who were most accepting of such a positioning. The "long-term" challenge—more difficult initially, but probably more profitable eventually—of finding those consumers desiring specialized video programming seems to have been ignored.

Perhaps the major implication of the preceding discussion is that the cable industry as a whole must become dramatically more marketing research–intensive, though with an orientation somewhat different than typical audience-measurement exercises. The focus on size of audience alone should be abandoned in favor of concerns with the potential depth of interest generated by particular program offerings.

Such an approach, ironically, represents a return to the issue that initially dominated the public discussion over cable TV, and that has since been relatively ignored: the availability of local access or community-oriented programming. The failure of the cable industry to develop significant levels of local-origination programming (supported by local advertising) would be seen more as a curious phenomenon than as a serious manifestation of the industry's strategic misdirection, were it not for the fact that, during the same period, community and regional print media have been booming!

There are, of course, some notable examples of specialized targeted programming (MTV, Nickelodeon, ESPN), but they are the exception rather than the rule in the overall cable schedule; and even these channels define their audiences in broad terms, despite the emphasis on specialized programming. Indeed, beyond a few obvious candidates (news, sports, rock videos), the real lesson of the content-dedicated networks may be that segmentation by channel is less desirable than segmentation by programming, or programming-audience interface.

The discussion so far has placed responsibility for development of the appropriate strategic direction for the industry on the cable system operators. However, it would appear that the advertising community, too, must take more responsibility than it has for the creation of a healthy cable viewing environment. Although, as noted, advertisers are, in one capacity, the cable industry's customers, they also gain if cable television develops as a major marketing medium, thereby reducing the negotiating clout of the broadcast television networks.

The situation in cable today reflects the chicken-and-egg paradigm with respect to advertising and programming, or advertisers and audience. Until there is a sufficient audience, advertisers wait; but until there is sufficient advertising, there is not enough programming to build the audience, and so on. While such a model may have been relevant for the mass-market-oriented broadcast environment, it may not apply to cable, since it ignores the differential advantages of the new medium.

The constraints associated with mass-market–oriented broadcasting limit the amount of detailed information that can be communicated about products advertised, so that the content of broadcast television advertising is typically subsidiary to stylistic or format issues. It has also become increasingly difficult for a given advertiser to match a particular ad to the editorial context (i.e., programming) in which it is embedded. By contrast, the greater freedom afforded the advertiser in the cable environment opens up a world of creative possibilities and flexibility with respect to both content and format.

Perhaps the most significant consequence of this expanded flexibility is the ability to communicate substantially more information about the product. Furthermore, the opportunity exists to develop and display advertising that is appropriate for specific editorial climates. As a result, the information content of commercial messages assumes renewed importance, until the advertising itself becomes a form of programming.

One of the most dramatic implications of the idea of cable TV narrowcasting is that the boundary between editorial or programming material and advertising begins to dissolve. However, this notion challenges the assumption that the audience for programming must be in place prior to advertiser participation. On the contrary, perhaps advertising—properly designed as *information*—should be used to create the audience in the first place, under the premise that people will watch a particular program as much for the advertising they expect to find there as for the editorial content.

Competition

We mentioned earlier that a strategic analysis of cable television as an advertising medium must necessarily give prominence to the ways in which it can distinguish itself from competing advertising media. Some of these advantages have already been mentioned: the interactive, audiovisual nature of the medium, the reduced degree of regulation, and the ability to tailor advertising to the editorial content. Yet clearly the most distinguishing feature of cable TV as an advertising medium—the capability to narrowcast to specialized audiences—is an area in which it has clearly failed to establish itself.

In our opinion, the crucial question facing cable television advertising is this: how should it position itself as an advertising medium? It seems fair to say that the dominant thrust thus far has been to position it as an alternative to network television. This effort has been only partly successful. We think there are at least two reasons for this failure.

First, big advertisers and their advertising agencies have always used network television for mass reach. By positioning itself as an alternative to network television, cable television has found itself judged with network television's criteria of mass reach and low cost-per-thousand. With only 60% household penetration, and extremely small individual channel ratings, cable TV has failed to deliver on such a perceived promise.

Second, in trying to acquire mass reach, cable has either tried to out-network the networks, with mass and undistinguished programming—and failed to generate large audiences—or has, with some exceptions, offered specialized programming on a 24-hour basis to audiences that are only willing to view a few hours of it. (The exceptions, of course, are channels like MTV, ESPN, etc.) One wonders whether the strategy of segmenting by special interest channels is too ambitious. Viewers do read and view specialized material, such as most magazines, but most of their hours are spent on general-interest pursuits.

A way to please both advertisers and viewers may suggest itself from the following analysis. Advertisers *do* use specialized media, such as magazines and direct mail, and perhaps cable should position itself against them, rather than against network television. The question then will not be whether cable can deliver mass audiences on an efficient cost-per-thousand basis, as network television can, but rather how cable can reach specialized audiences more effectively than magazines and direct mail.

Clearly, cable will score higher here on its audiovisual capabilities; but it is not currently positioned as geographically targetable in comparison with direct mail and the geographic editions of many magazines. This is where cable perhaps should innovate. For example, it can develop a time-selling framework that lets advertisers buy cable not only on a special channel basis, but also on a local cable system basis. It might be useful to enable advertisers to buy certain cable households by zip code and census block group, much like direct mail names are rented. It could then be a viable competitor to magazines and direct mail, and to local and spot, if not network, television.

In order to be able to offer such advertising opportunities, of course, cable television must first attract local audiences. This is the programming side of the fence. Amazingly, most cable systems have not attempted to develop their own local programming, in the manner of newspapers. It would be interesting to see if, for example, New York cable systems could offer programming (their own, or syndicated) aimed at young Yuppie parents living on the upper west side of Manhattan, and then sell advertising time to advertisers who have no other audiovisual means of reaching these specific consumers. For this to happen, of course, the multiple system operators must take a far more active role in the creation and selling of advertising time. A recent news item (*New York Times*, September 5, 1988) suggests that this may have begun to occur: the dominant system on Long Island in New York has now started a 24-hour regional broadcast of Long Island news reaching 540,000 homes in Nassau and Suffolk counties. Apparently it is watched at least once a day by 42% of Long Island's cable households, outranking Home Box Office (HBO) and several independent New York City stations. More such local programming is obviously required.

The Chapters

The individual chapters in this book can be organized with respect to the overall perspective just presented. In "Cable Television Advertising: Is the Promise Being Fulfilled?" William Battino and James DePalma, both of Coopers and Lybrand, expand upon the strategic framework and situation analysis presented in this introduction. In particular, based upon a series of in-depth personal interviews with cable TV system operators, programmers, advertising agencies and advertisers, they discuss the implications for cable of general media trends towards narrowcasting, regionalization and direct marketing. As part of their analysis, they also provide an economic overview of cable advertising revenues.

To the extent that targeted programming is the appropriate strategic direction for cable to take, the next chapter, "Programming Holes: Opportunities for Cable Networks," by Professors Roland Rust and Naveen Donthu, presents a methodology by which the positioning of potential cable networks can be achieved. The chapter describes the application of the increasingly popular marketing research technique of multidimensional scaling to map the perceptual space of the cable viewing audience relative to broadcast networks. The result is a picture of the marketplace in which a given cable channel can identify a unique market niche that maximizes either audience size or revenue potential. Chapter 4 presents comments by two industry practitioners, based on the premise that narrowcasting is the appropriate methodology, and comments on some strengths and weaknesses of the model.

We then move to Part II of the book: Implications for Advertising. The fifth chapter, "The Television Viewing Environment: Implications of Audience Change," by Professor Dean Krugman, explores the theme that knowledge of the consumer decision-making process, particularly an appreciation of how innovations are adopted, is crucial to marketplace success. The chapter reviews a number of research studies which place cable in the broader context of the appearance of new video technologies and the attendant shifts that are emerging in viewing habits. Among the important implications for the cable industry, and cable advertisers in particular, is an understanding not just of who watches cable, but of how they watch cable, and therefore of how cable can weave itself into local-oriented/targeted viewing patterns.

Continuing the exploration of issues raised by cable concerning consumer analyis, the sixth chapter, "Collecting Ratings Data for Cable Channels," by Professor Seymour Sudman, discusses the all-important question of audience measurement, on which most advertising decisions are based. In keeping with the strategic theme developed, the implication here is that high ratings as such may be misleading, in that they divert attention from *who* is watching to *how many*. The chapter reviews a number of different methodological alternatives for collecting ratings data for low-rated cable channels and presents a forecast of methods that might be used in the future. One important point that comes out (which, ironically, is also emerging with respect to the people meter issue for broadcast television) is that active-interview-based data should not be expected to match the numbers obtained from typical diary panels, where the response bias tends to overrate popular shows. This may be one reason why cable has not succeeded in siphoning off advertising dollars from the broadcast networks. In chapter 8 three industry practitioners comment on the viewer habit and ratings methodology issues raised in chapters 5 and 6.

Turning to the perspective of advertising effectiveness, the seventh chapter, by Professor Rajeev Batra, discusses some hypotheses on how cable television advertisers can more closely tailor their ads to the nature of the program context.

These two sets of chapters in the book focus on cable's role as a provider of traditional one-way advertiser-supported television programming. However, no volume on the future of cable communications would be complete without a discussion of some of those more novel services associated with the medium which call attention to its unique capabilities. The last section in the book deals with two of these services.

Chapter 9, "In-Home Shopping: Impact of Television Shopping Programs," by Professor Wayne Talarzyk, compares the issues surrounding the phenomenon of in-home shopping in cable, broadcast and videotex media. In-home shopping, perhaps more than any other development, represents the extreme case of product advertising and programming merging into a single form. Focusing on those aspects of electronic retailing that facilitate the steps in the consumer shopping process, the paper discusses both what has been learned so far about television shopping programs as well as future scenarios for the industry and the strategies for dealing with them. In chapter 10, DongHoon Kim (a doctoral student at Columbia) presents a mathematical analysis of how long a product on such in-home shopping services should be on the air to maximize the probability that a viewer might buy it, but not be bored enough to switch channels.

The final chapter, "The Pay-per-View Experience: Insights from a Field Experiment," by Professors Dean Krugman and Terry Childers, treats another aspect of interactive cable television technology: pay-per-view programming. To the extent that pay-per-view becomes a dominant form of cable programming, the implications for advertising are obvious, particularly if advertising is excluded from pay-per-view networks. The chapter first presents a conceptual framework for understanding how groups of consumers differ with respect to their propensity to adopt a new service like pay-per-view; and then it presents the results of a field experiment designed to elicit consumer reactions to the innovative technology.

As mentioned, following most chapters are the comments of a number of distinguished industry professionals whose experience enables them to evaluate the relevance of conceptual or theoretical issues to the practical aspects of the areas under study. We found these comments to be extremely provocative, and hope that you will too.

When taken as a group, the chapters in this volume suggest the range of topics that are appropriate subjects for research aimed at a general understanding of cable television advertising. In concluding this chapter, we present the outline of a research agenda based on the strategic orientation presented in this introduction. It should be noted that the areas suggested supplement specific research agendas that are part of several of the chapters in the book.

1. The advent of a new medium like cable television, and therefore of an associated new type of advertising, calls attention more than anything else to the need for research on the form of media, and media advertising itself, and not just on the content of particular progams or ads. The goal is to develop a precise understanding of those properties which distinguish one medium—for example, cable advertising—from others, and to develop testable hypotheses about the effects of the medium on human behavior—particularly consumer behavior.

We should emphasize that the focus here is on research conducted by individuals—typically business school academics in departments of marketing and advertising—who are interested in the commercial application of their work to the practical problems of the cable industry. We emphasize this point because some of the research needed echoes research done by persons in other disciplines. Perhaps because the academic disciplines of marketing and advertising matured after most traditional media networks were already in place, scholars in these fields never developed the habit of studying the formal properties of the media as such. This is in contrast to their counterparts in communications theory, sociology, and related areas, who have addressed some of these issues but have ignored their commercial import, most notably the advertising implications.

2. In a related vein, the study of how commercial media—for instance, cable advertising—diffuses through a society should become a research priority. The more general area of the diffusion of innovations has been well-developed, but the focus (as noted above) tends to be on technology or hardware. What is required is a better understanding of how software—codified types of information or programming—gets adapted by a culture, with respect to the timing as well as the patterns of adoption. Of particular interest is the extent to which the prior research is relevant to the new domain, or if information/software products and services have different characteristics with respect to the diffusion process than have been observed with more traditional technologies.

3. Since both operators and advertisers have seen cable as an alternative to broadcast television, they have also assumed that consumer behavior towards the new medium is the same as towards the old. As a result, little is known about how individual viewers actually behave with respect to cable. A research stream that focused on an understanding of the decision-making process regarding cable would help both operators/programmers as well as advertisers to respond to market needs.

Among specific research questions to be addressed are: what role do individuals see cable playing in their overall communication activities? How do individuals decide to watch a cable program? What criteria do they use? How do families deal with the multi-person decision-making issue in regard to cable viewing? Who in the family influences the viewing process?

4. Assuming that the strategic goal of cable advertising is narrowcasting, research is needed in how to collect better data where audience size is not the primary criterion. On one hand, techniques need to be developed that are accurate—that is, the measures produced are reliable and valid—in the absence of large sample sizes. At the same time, methodologies must be discovered that produce information about market quality, as opposed to quantity. As noted above, this is becoming a major concern of marketing in almost all product categories, but the particular strategic requirements of the cable industry make it crucial to the industry's long-term survival.

5. Indeed, in general, research is needed on how to develop measures which accurately reflect the investment in long-term audience building—in the creation of what the marketing community calls the establishment of a "consumer franchise"—upon which most successful cable strategies will depend. In the final analysis—and this is something that cable TV shares increasingly with other industries in the information economy—the ability to place a value on an individual viewer and to see that viewer as the firm's primary asset will differentiate the leaders in the industry from the rest of the system operators.

We look forward to development of this and other research, and are pleased to have facilitated the presentation of the analysis and recommendations contained in this volume.