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Cable Television Advertising: Is the Promise Being Fulfilled?

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Introduction

The promise of cable television has always been the delivery of diverse and innovative programming to three main beneficiaries: subscribers, who enjoy more entertainment and information with cable than without it; advertising agencies, which expand the media with which they do business; and advertisers, who gain a new outlet for their advertising. This chapter focuses on cable's promise solely from an advertising perspective.

Advertising on cable television comprises commercial insertions on national and local broadcasts. National advertising time is principally offered through basic programming services, and local advertising by cable systems. Both kinds of outlets face challenges in adapting to, and expanding, the advertising they carry. For basic programmers who seek advertising, the challenge lies in continually balancing the interests of the cable subscriber and the advertiser. For many local cable operators, generating advertising requires a new way of thinking, because advertising revenues represent a largely untapped but potentially lucrative source of funds. We examine how successful both have been in meeting the promise that cable television offers to advertisers and agencies.

The report on which this chapter is based relied on personal interviews with advertising agencies, advertisers, multiple system operators (MSOs) and cable programmers. These interviews were conducted to gain greater understanding of their attitudes toward national and local advertising on cable. Respondent feedback and analysis of basic programmers will be covered first, followed by a discussion of local advertising.

Basic Programming

It should be noted at the outset that cable television is moving quickly toward a more mature—and financially rewarding—phase in its evolution. At the system (MSO) level, growth in the industry has been dominated by acquisitions. Aggressive purchasers such as TCI have grown dramatically, to Wall Street's applause. Investors have recognized that, as in other communications businesses, cash flows, subscribers, and margins are valid criteria for analyzing cable companies. Rewards are given to more efficient companies that purchase a system and increase profitability through implementation of proven management practices. Deregulation of basic cable has also led to increased success as operators raised rates and customers paid readily. Not too long ago, one of the ten largest systems increased basic rates from $10.75 to $14.50, with less than one-tenth of 1% of its subscribers being churned, or lost.

For basic programmers, however, such maturity does not necessarily mean continued success. While basic programmers have been able to flex their muscles and demand higher subscriber fees (proportionate to higher basic rates) from the systems, their task in raising advertising revenues is more difficult. Their challenge lies in translating their success in building household viewership to success in attaining agency and advertiser support.

A key element in this challenge is the resolution of an identity crisis, which seems to be growing among basic programmers and the agencies and advertisers. Four basic questions need resolution:

1. Who really is the competition for basic programming?
2. What is the appropriate positioning for cable television advertising?
3. What are programmers' stances on narrowcasting and regionalization?
4. Finally, just how should basic programmers be pricing and selling advertising time?

Below, we examine each of these issues in turn.

Competition

To determine "who is the competition for basic programmers?" we put that question, simply and directly, to the executives interviewed. Four different perspectives emerged:

1. "Cable will always be a secondary programming supplier. Fellow basic programmers are the real competition." Given cable's original promise, this seemed a fairly narrow definition of who basic programmers are and with whom they compete. Surprisingly, this answer was given by some of the basic programmers themselves.
2. "Basic programmers compete among themselves for agency dollars and for eyeballs with the networks." This slight variation of the first theme

was the most common viewpoint. It underscores the fairly obvious observation that basic programmers' ratings do not just compete with each other, but have to be compared with those of networks, affiliates and independents. However, the more subtle and meaningful point made here was that, despite this comparison, agencies do view cable television quite differently than they view networks. Agencies place about 4% of their client's dollars behind cable right now, *but only 4%*. The programmers' challenge is to compete for their share of that 4%, showing why they offer a better way of spending *cable* dollars.

3. "Cable programmers must stop behaving like radio stations and promote the medium more than the service. They compete as a medium." Radio, which consists of many stations in a given market, typically experiences a high degree of infighting among stations. Basic programmers, it was argued, would be smart to avoid this infighting and concentrate first on increasing cable's share of media advertising plans from 4% to 10–15%. Then they could focus on their proportion of those shares. This strategy would try to increase the overall amount of cable advertising buys and thereby promote the medium—not just each particular programming service.

   This opinion thus holds that cable television is not getting its fair share of advertising dollars. A recent Nielsen Television Index (NTI) Cable TV Status Report showed that basic cable television attracts 14% viewership among all television households and 24% viewership among cable households. Admittedly, these ratings must be adjusted to reflect that cable is subscribed to by approximately 50% of American households. If viewership ratings are reduced by half to reflect this fact, to 7% in all American households, the 4% of advertising dollars spent on cable clearly does not parallel viewership. This disparity is even more exaggerated when the upscale demographic profile of cable viewers is considered. Cable advertising placement should almost double to reflect levels of viewership.

4. "Cable must reckon with VCRs, which are here to stay; we have to make the best of it." This was a fairly universal view of the VCR and emerging technologies, reflecting the recognition that VCR penetration today is just about outstripping cable penetration.

   However, VCRs must be viewed as a complement rather than as a competitor to cable. Agencies, advertisers and cable respondents seem to have learned a lesson that pay programmers taught the motion picture industry. Initially, theatre chains protested the new competitive threat to pay TV; but at the same time they were experiencing some of the best box office years in history. Originally perceived as a threat, HBO ultimately increased the demand for entertainment products. Distributors' demand for exhibition screens rose. Similarly, cable programmers first feared VCRs and now believe they can stimulate television viewing.

These varied views illustrate the industry confusion about who cable television competes with for advertising dollars—and this confusion leads to positioning problems.

Positioning

We asked both basic programmers and agencies what it was that cable television was selling.

Most often, respondents felt that cable advertising was being sold as a solution to the problem of eroding network viewership. Agencies believed the networks no longer attracted the entire television audience, resulting in underdelivery of viewers to advertisers. Cable time is thus sold as a complementary vehicle to reach the total television audience.

Such underdelivery has resulted since competitors have emerged offering alternatives to major network viewing. Networks no longer deliver 100% viewer shares. An agency professional said, "I buy cable TV time as an insurance policy." Professionals believe the networks are getting maybe 60% to 70% share, and the agencies need to reach the other 40% to 30%. There was not a clear sense of exactly where the eyeballs were straying to, but a need was perceived for a more complete blanketing of television alternatives.

Cable was identified as a leading cause of network share decline. As such, advertising dollars have been expended on basic programming services to combat the underdelivery of viewers to the advertisers.

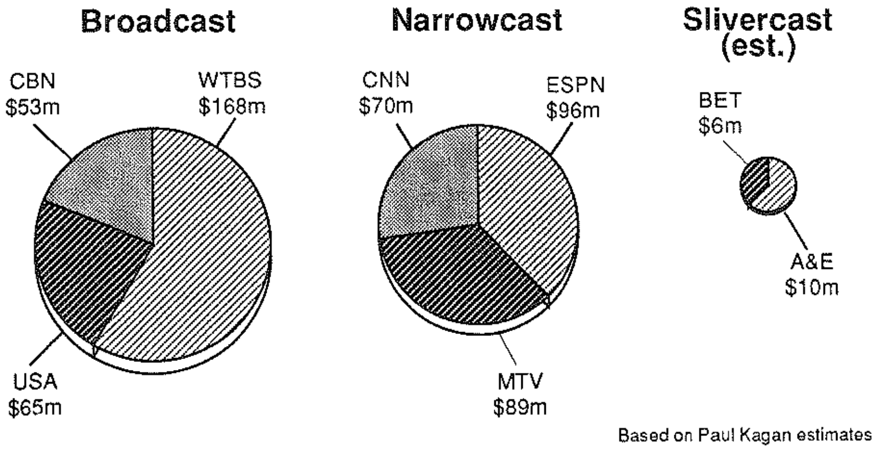
The strategy we most often heard to accomplish this objective is what people are calling "roadblocking"—that is, buying particular time slots or dayparts across cable networks. An example would be the purchase of an 8:01 P.M. time slot across the six major cable networks. The assumption is that if someone is watching cable, the commercial will be seen on one channel or the other. There is less concern about which particular service is watched. Roadblocking strategies implicitly view cable as a homogeneous collection of services.

A different ad positioning view, and one closer to the original promise of cable, sees cable as a vehicle for delivery of purer, higher-quality demographics than network television. The CableOne venture, originated by an ad agency, is a good example. CableOne tries to position the advertising buy demographically, considering each cable service as a different delivery vehicle. For instance, if a buyer seeks a certain female demographic profile, it might purchase a combination of particular shows on CBN, Lifetime or USA, as opposed to buying a daypart. (Cable has often been cited as the video medium most targeted to reach working women.)

This media plan recognizes the special attraction of particular services and shows on cable television. In this respect, cable is seen as more closely resembling magazines than other television-based media.

It becomes clear that basic programmers have not conveyed a clear image to advertisers or agencies. Do they represent a way to combat the underdelivery of the eroding network television share? Or, do they deliver a

Figure 2.1
Categories of Service



differentiated set of viewers? Resolution of this image problem is critical to future advertising growth of basic programming services.

Services Provided

The services offered by basic programmers can be divided into three categories: broadcast, narrowcast and slivercast, based on the homogeneity of programming within a service. As can be seen in figure 2.1, different programmers fall within these three categories.

The broadcast group (WTBS, USA, and CBN) closely resembles independent television stations, offering a wide variety of programming. Typically, this programming is dominated by syndicated shows. Original programming usually consists of newscasts, variety shows, and local sports (with superstation sports going out on a national basis).

Narrowcasters center their service around a particular theme, such as news (CNN), sports (ESPN), or music (MTV). Narrowcast services tend to attract a fairly well-defined demographic group of viewers. For example, MTV's audience skews heavily to the 12–34 age group (88%) with many of these 18–34-year-olds (57%). Both groups represent a predominantly metropolitan audience (82% in urban "A" and "B" counties, the most populated sectors).

Slivercasters attract the most homogeneous group of viewers. Their services can be thought of as niche narrowcasters. Examples of these are A&E and BET.

The six largest basic cable networks, defined by both ad revenues and subscribership, are evenly split between broadcast and narrowcast services, with TBS the largest single service. This dichotomy underlines some of the positioning confusion. When buying cable, is the advertiser simply employing another independent outlet or is it buying a different type of viewership?

Basic programmers themselves seem unclear about which way their services will evolve. Narrowcast services likely will have a clearer image and position in the long run. Clarity of image and delivery will certainly help attract advertising dollars. As for broadcast services, the recent shakeout of numerous independent stations suggests a tougher period ahead, in which program suppliers face an increasingly difficult task of differentiation. The rule of "the first one in wins" may still hold, but a relatively high attrition rate is also likely.

The slivercasters must address another fundamental question: should they attempt to attract revenues from advertising support or from affiliate fees? All cable services face the issue of substantiating significant audience share size; and for the slivercaster this problem is compounded. Currently, slivercasters aren't attracting large enough shares to attract many agency dollars, and they will not do so in the foreseeable future. Yet slivercast services can be a valuable part of the basic cable package. They tend to attract the hard-to-sign cable customer and, therefore, are quite valuable to the local system operator. The slivercasters may have to position themselves as a complementary service offering to the subscriber, filling out the basic package. If this occurs, attraction of affiliate fees becomes the primary revenue objective for them.

Regional Networks

Great hopes were placed on regional programming in the early eighties. To date, however, the notion has not lived up to initial expectations. Many of these networks were formed after the success of regional magazines. Adopting narrowcast niche marketing techniques, regional networks sought to attract like communities of interest. Unfortunately, a number of pricing and selling problems have curtailed growth—and often led to failure. In 1985, a number of notable companies, such as Spectrum of Minneapolis, SportsVue Cable Network and Sports Time went out of business. But regional networks do have a future if they address certain issues.

Regional broadcasters have been uncertain whether to position the product on pay or on basic. Our research shows that these services should be positioned on basic even though many started out on pay. MSG, the largest regional programming service, is a good example. MSG was initially offered as a pay service but now has shifted most of its subscribers to basic. Likewise, SportsVision in Chicago has shifted all of its subscribers to basic. SportsChannel recently shifted over to basic in New England. Each of these regional networks is facing the problem that confronted pay programmers: justification of a premium charge.

The problems that pay networks are having in proving their price/value relationship are well-documented. If the pay networks are having trouble justifying an \$8–\$10 fee per month, most having 24-hour programming, original production, and significant investment, it is hard to imagine sports networks showing seven or less major live sports events a week attracting that same type of value perception.

Regional broadcasters would be wise to focus more on advertiser support and affiliate fees and less on direct subscriber charges. It would allow all parties to benefit, as system operators strengthen the portfolio of basic services, advertisers find an outlet for targeted geographic marketing with larger reach, and consumers' price perception of cable service improves.

Market Research

Programmers, agencies, and advertisers face a number of market research hurdles. Quantitative data on cable viewership and demographics are difficult to use, especially for agencies. Each of the 15 major basic cable programming services provides the agencies with reports of varying timeliness, daypart division and reporting by show. The inconsistencies have caused confusion at the agencies, often creating a bias against younger audiences. MTV has already conducted significant customized research, including special Nielsen phone surveys.

Ratings interpretation is another problem. The confusion stems from trying to integrate the different information resources that advertisers and agencies must use to purchase time. To buy cable, they must combine the 1,700 household Nielsen Television Index meter samples, National Station Index sweeps and National Audience Composition diary reports. It is a logistical nightmare to find a quantitative justification for buying cable time. The upcoming increased sample size of people-meter surveys is eagerly awaited. It is in the cable programmers' best interest to hasten the process of generating more simplified, quantified, and integrated market research.

Packaging

The basic programmer must decide whether to market to agencies or go directly to advertisers. If programmers feel there is an agency bias against cable, then marketing directly to the advertiser should be considered. Many feel agencies view cable as a time-consuming, difficult buy and, therefore, de-emphasize it in their media plans. Marketing to the advertiser may be one way to combat this problem.

Cable time is sold by programmers by show and in packages of shows. Bundling or unbundling sales will emerge as a critical topic. It is a debate which some people are calling "run-of-system" versus "fixed-position" selling.

The consensus is that run-of-system—or bundled sales—is fine for a service like MTV, which has slightly less differentiated programming throughout the day. Programmers like MSG or ESPN, which clearly have certain shows with higher profiles and interest, cannot continue to bundle sales in the future. Frequently, MSG purchasers want to buy time on the New York teams, the Knicks and Rangers, but are forced to buy a mixed package of programming that often includes older syndicated shows. This is equivalent to asking an advertiser who wants to have a commercial placed during the Super Bowl to buy a bundled package of network times across dayparts, weeks and even months. If programmers like MSG and ESPN are going to become mature and independent advertising vehicles, they must prove the merit of each individual program.

Pricing

Basic programmers initially hoped to sell advertising time at premium rates per viewer. The more targeted, upscale cable audience was thought to be a prime deliverable to the agencies. This more affluent audience and its higher-than-average spending was seen as the answer to advertisers' prayers.

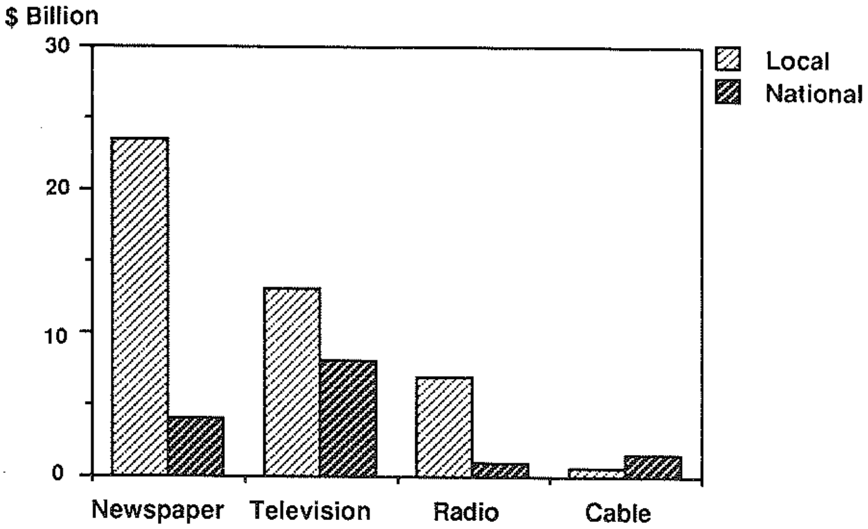
While reports from Mediamark Research Inc., the market research firm, confirm the higher-grade demographics on cable, advertising time continues to sell at a discounted rate or, in advertising jargon, "cost per thousand minus (CPM –)". Many of the people interviewed cited the lack of reliable, quantitative reporting about cable television as the prime hurdle confronting programmers, though help seems on the way. A. C. Nielsen's new Cable Audience Profile is the first recognized market research analysis to provide demographic information on a system-by-system basis. Those we interviewed questioned the report's timeliness and sampling technique, but generally applauded the effort and were optimistic about future refinements.

If cable programmers are going to become more than just secondary suppliers, they must improve on selling at CPM – and try to come nearer to parity with the stronger competitors. Programmers have to resist the temptation to market services at discounted rates in the short run if they are to break the "cheap channel" perception.

Local Advertising

Another recent study by Coopers and Lybrand, *Fine Tuning Cable Television*, identified local cable advertising as a leading source of revenue growth at the system level. In the opinion of 100 cable system managers,

Figure 2.2
1986 Advertising Revenues



there are almost no more home runs to hit. They feel cable has become a singles and doubles game where advances come from incremental improvements to current activities. Cable advertising and pay-per-view programming were the only areas considered legitimate big-payoff candidates.

Local cable advertising is potentially the largest untapped revenue source for the MSO. For cable's competitors, local advertising is significantly more prevalent than national advertising; yet in cable the reverse is true. In 1986, national cable advertising ($760 million) represented about 80% of all cable advertising. Compared to newspaper, radio, and television, cable's penetration of local advertising markets is low (see figure 2.2).

The situation depicted in the figure becomes even more favorable for cable operators considering the trends toward local advertising placement. In 1986, network sales grew at 3% compared to local broadcast's 14% growth. For cable, national sales increased 21%, compared to a 35% increase in local advertising sales. Leading advertisers such as McDonald's and Pepsi have voiced their growing preference for local placements.

These trends suggest a changing role for the cable system manager, who has traditionally focused on quality of picture reception and billing. The system manager now will have to act more like a television station general manager, with greater emphasis on advertiser support. To encourage local advertising sales, the system manager will have to overcome the demographic quantification problems and must also overcome the education hurdle.

Most local advertisers are familiar with newspaper, local television, radio, and yellow page offerings, and are less acquainted with cable television. Very often cable is perceived as a source of movies and sports, but there is little recognition of specific stations and viewer groups. The cable system manager must increase awareness of cable attributes. An effective selling technique is marketing to specific product/service categories (e.g., banks, car dealers). Frequently, the presence of one company on cable will attract its competitors to the medium.

An Extreme Case

A few respondents felt that local cable advertising growth could take a quantum leap with the support of the major networks. They believed local cable systems could supplant the role of the local affiliate. Two incentives for the networks to consider new distribution partners were cited:

1. Affiliate compensation. In aggregate, the networks now pay approximately $500 million a year to affiliates to carry programming. This is in contrast to independent television stations, which have to pay for programming at ever increasing rates.
2. Programming preemption. Tension between networks and affiliates over preemption of network broadcast is at an all-time high. Affiliates have increasingly substituted original programming, for which they can insert their own advertising, for late-night and late-morning shows.

Respondents felt that if cable penetration could rise from its current level of approximately 50% to 65%, it would be viewed as a "mass market" distribution alternative. In some markets—most likely not the largest cities—the cable operators or a consortium of operators could be strong competition for local affiliates.

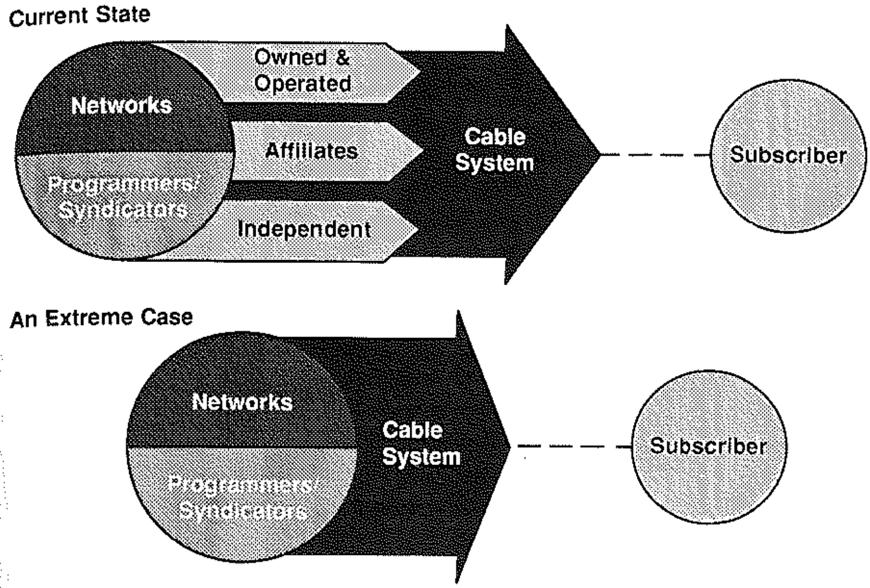
For instance, a Phoenix cable system could become the local distribution point in network programming, replacing the current practice of rebroadcasting affiliate feeds. A contract could be structured to meet the needs of the cable operator and the network. The cable operator most likely would get a number of valuable advertising slots, and the network could receive assurance of programming carriage and the elimination of compensation payments. Implementation of this type of arrangement would be technologically simple because most networks are now broadcasting via satellite.

Figure 2.3 depicts the current distribution system and the "extreme case" just discussed.

Interconnects

Whether cable becomes a network program distributor or not, interconnects are crucial to the success of local advertising sales efforts. While

Figure 2.3
The Cable System



survey respondents were not clear about the profitability of interconnects, there was consensus support for linking cable systems via interconnects to attract advertising placements. Cable operators strongly favored "hard" interconnects to "soft" interconnects. (In "hard" interconnects, systems are directly linked by cable or microwave relays, and the signal is fed to the entire interconnect by one head-end (computer). In "soft' interconnects, there is no direct electronic connection between systems. Instead, commercials are inserted at approximately the same time by each participating system.) Hard (sometimes called "true") interconnects were considered more reliable and able to provide greater comfort to advertisers. All respondents felt that interconnects were a leading method to increase local advertising sales to major advertisers, the group most concerned with audience reach. One advertiser said, "Interconnects are like a godsend, because they enable you to go from dealing with ten cable operators to one entity."

MSO Programming

Unlike the networks, MSOs can participate in unlimited program development and distribution. Ownership of programming services enables the MSO to enjoy local *and* national advertising revenues along with local advertising revenues from external programming services.

Figure 2.4
Evaluation of Cable Systems

THE PROMISE
The table below summarizes where the promise is being fulfilled:

Promise	Excellent	Good	Fair
MSO Support	X		
Education	X		
Program Quality		X	
Basic Ad Sales		X	
Industry Positioning			X
Local Market Research			X
Local Ad Sales			X

MSO involvement in programming ranges from sponsorship through affiliate fees to program ownership. MSOs have acted as sponsors but increasingly are taking equity positions. Some say equity stakes in a programmer allow the MSO better control over the product it receives. For instance, Time Inc. (owner of ATC, HBO and Cinemax) recently took an equity position in Turner Broadcasting, the owner of WTBS and CNN. Many feel that Time's ultimate motive is control of CNN.

Summary: Where the Promise Is Being Fulfilled

Figure 2.4 summarizes where the promise is being fulfilled.

MSO Support—Excellent.

MSO support refers to dealings with basic programmers. MSOs have encouraged programmers to reinvest money in the services to increase the quality of programming and the viewer/advertiser attraction.

Education—Excellent.

Trade groups have made much progress in recent years to promote cable to agencies and advertisers. In particular, the Cable Advertising Bureau's Tune-In Kits have helped cable systems attract local advertising sales, and the Cable Planning System has supported agency analysis.

Program Quality—Good.

The promise of more innovative and diverse programming is being fulfilled. Frequently, programming originates on cable and migrates to the network. Examples are the big splash made by the "Max Headroom" show aired on ABC and the success of the comedian Gary Shandling, who started on cable and now guest hosts "The Tonight Show". ESPN's purchase of NFL games has also enhanced cable's image.

Basic Advertising Sales—Good.

The growth rate of national cable advertising sales is quite significant considering the flattened growth in network sales. Survey respondents express some concern about whether high growth rates will persist.

Industry Positioning—Fair.

The debate on mass appeal versus targeted marketing continues. Industry image consensus will help spur future growth.

Local Market Research—Fair.

Local market research seems to be the major hurdle for reaching the untapped market. Progress has been made but has yet to have a significant effect.

Local Ad Sales—Fair.

In part, this is a cultural issue, as many systems simply are not marketing local availability. The maturation of cable systems should lead to increased emphasis on this revenue stream.

The advertising hope for cable was still strong in our survey; programmers and MSOs must fulfill that hope. They must continue to increase the awareness of cable attributes, provide better quantitative support of claims, unify the selling image and deliver higher quality programming.

In summary, cable advertising has experienced great growth, but it has yet to fulfill its promise completely. Greater attention to positioning, research, and local advertising issues is necessary in order for that to happen.