

Is Cable Able?

by Bill Wiener

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Columbia Institute for Tele-Information
Graduate School of Business
Columbia University
809 Uris Hall
New York, NY 10027
(212)854-4222

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Bill Wiener

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Speech By:

Bill Wiener
SR. V.P.
BBDO

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INTRODUCTION

Thank you Professor Glazer and thank you audience for such a warm welcome. It's a privilege to be asked to speak to you today and to be on the same program with some of the leading marketing academians and media industry professionals in the country today. I have been asked to speak to you today about the promises and opportunities as well as the problems and pitfalls of the cable medium today.

I will address the subject with real world experience with a focus on how cable television is really affecting the viewer and cable's ability to impact on advertising decisions being made today. I have chosen for the title of my talk "IS CABLE REALLY ABLE", since it addresses the question of whether or not cable has lived up to its potential with the promises and forecasts many industry leaders had predicted at the beginning of this decade. To begin this presentation, I have drawn material from the various presentations BBDO and other leading agencies had developed at the beginning of this decade. I have highlighted the key prognostications and observations and will review each one in detail.

An initial forecast.....

CABLE PENETRATION TO REACH 60% BY MIDDLE 1980'S

Cable Television growth has continued but at a declining rate over the last few years, due primarily to unwired large metro areas, more television competition, new video opportunities and a lack of distinctive programming to warrant the expenditure. Right here in New York, the rights to build in the various boroughs outside of Manhattan was granted years ago. However due to severe economic and legal problems being experienced by the companies which were awarded the initial franchises, the construction schedule has been delayed well beyond initial projections. Five years ago, when cable penetration was at 35% and growing at annual rates of over 33% many people forecasted penetration levels of close to 60% by 1985. (CHART 1). As you can see we are now projecting a 50% penetration rate by the end of this year and well under 60% by 1990. When you compare this data to the hottest new technology, the VCR (CHART II) whose record setting growth will have penetration almost equal to cable by the end of 1987, and far surpassing it by 1990, you get the feeling that the cable business may not be as healthy as once forecast. Many people feel that cable's price value relationship is beginning to make it more vulnerable to new technologies like the VCR and new broadcast networks and new programs delivered by the traditional broadcast networks. And, as some of you know, the movie studios are aggressively seeking advertiser sponsorship of some video releases.

PROGRAMMING INNOVATION TO ENSURE SUBSCRIBER GROWTH

Over two decades ago, Paul Klein, then of NBC developed the least objectionable programming theory (L.O.P.), which simply said that people will watch the television show which they felt was least objectionable to them; not necessarily the program they enthusiastically wanted to see. . Cable, because of its promise to deliver narrowcasted programming to small homogeneous audiences would be able to address the needs of many of the individual segments of the U.S.. While cable television has partially lived up to its promise of delivering unique narrowcast programming the networks which are most successful are those offering the least unique programming; programming for the masses just like broadcast television. While we have music channels, news channels, weather channels, travel channels, shopping channels, and soon to be fashion channels it is the broad-based networks like WTBS, CBN, USA and the mass ESPN which attracts the largest audiences.

Well, either because people feel that the broadcast fare coming into their homes is satisfying their needs or cable is not offering a good enough program value for them to start paying for tv; the numbers of rejectors of cable are staggering. The pay networks now have more former subscribers than current subscribers.

A few minutes ago I spoke about current and future cable television penetration figures. However, the key point to remember is that cable is currently, today available to more than three out of four American households.

While the wire runs past 75% of all homes, we only have 48% penetration. This rejection rate of between 35-40% has been with us for some time now. If the cable industry could only find a way of offering these potential customers enough value to warrant putting up their money each and every month, then we wouldn't be caught up in the need to forecast "blue sky" penetration levels in the future. In addition, the advertising revenues currently so critical to the financial well being of the industry would be of secondary importance.

BROADCAST NETWORK SHARE EROSION WILL CONTINUE TO DECLINE AS CABLE EXPANDS ITS COVERAGE

After many years of steadily declining audiences, overall network audience erosion was halted in the 1985-86 season. However, the erosion stoppage may have been temporary. The November '86 vs. '85 broadcast primetime ratings fell six rating points. And in the all important February sweep period the three broadcast nets' aggregate rating was 49.7, the first time in history the network audience fell below 50% for this period. The largest losses were on Friday and Saturday nights, the times when video cassette rental is the highest say the networks. Cable proponents however, feel that the unique cable programming opposite a "nothing new" primetime network schedule is the cause of the share erosion. There are several other important factors which have a bearing on broadcast network shares. Two of the most impactful will prove to be independent stations and new networks.

Emergence of Independent Television and New Networks

The growth of independent stations, nearly twice as many as there were seven years ago and the development and viewer receptivity of first run syndicated programming has developed a formidable competitor to both network tv and advertiser supported cable services. In addition to bringing more programming to television syndicated shows reach national audiences of ninety percent or more. A very, very important consideration for national advertisers. While the largest cable networks cover only 45% of all television homes, top syndicated shows like Wheel of Fortune and Jeopardy cover 97-98% of the US. with ratings equal to or greater than prime time broadcast network programming. The development of the FOX "Fourth Network" with coverage in over 80% of U.S. households and showing broadcast like original network programming fare adds further competition.

CABLE TO HAVE DRAMATIC IMPACT ON ADVERTISING DECISIONS CABLE ADVERTISING TO BE A BILLION DOLLAR BUSINESS BY 1985

First off, I'd like to put into perspective the issue of advertising investments in cable television. We look at cable as an advertising medium which is only seven years old. On its seventh birthday cable television advertising revenues will generate over 1 billion dollars in advertising revenues. (CHART III) Not bad for a youngster.

In the early 1980's when network television was having banner years by charging and getting double digit CPM increases year after year, larger cable networks were able to grab off pieces of the advertising pie by pitching their networks as CPM inflation fighters, and as a cost effective alternative to broadcast network TV. This past year, due to severely reduced demand for network television time, increased syndicated time and the new Fox Network the broadcast networks had limited if any price increases. And as a result agency buyers did not have to turn to cable as a CPM inflation hedge. And despite the hype you read about concerning major increases in cable advertising spending, it will not happen according to top agency executives. A recent survey in Marketing and Media Decisions asked the cable decision makers at the top 20 agencies to forecast their 1987 expenditures versus 1986. These agencies planned on increasing their cable investments between these two years at an aggregate rate of only plus 7%. At that rate, cable advertising investments would increase approximately 70 million dollars in 1987 over 1986. To put this into perspective, broadcast television advertising volume rose \$1.6 billion in 1986 to a total of \$21.6 billion. This dollar increase far exceeded the total cable advertising volume of less than 1 billion dollars a year.

While agencies see cable television as getting the advertising revenues it deserves, there are others on the cable side who feel that cable deserves a lot more advertising dollars than it is currently generating. Let's look at some of the arguments. The cable people ask, "If advertiser supported cable services generate around a 15% share of the total daily viewing done to television, why doesn't it account for more than 5% share of the advertising dollars being spent on television. The advertising agencies justify their expenditures by citing that those fifteen share points are dispersed over thirty different advertiser supported networks, and that they would be foolhardy to chase these viewers by placing advertising dollars on all thirty networks, particularly when the audience sizes are so small. Even the heavy cable viewers spend most of their tv viewing time

watching non-cable programming. This brings us to the erroneous concept that once ratings/research are up to speed, cable investments will grow. Too much has been written and spoken about regarding inadequate cable rating research data. There is no doubt that current methodology seriously understates the real cable usage levels. Whether or not the industry move to people meters helps or hurts cable remains to be seen. However, accurate rating data will not significantly benefit cable in regard to increasing advertising investments. Who really cares that a cable network's rating was mistakenly identified as a .3 but actually does a .4 rating? And all that within a cable network's own universe. Many cable networks expect their advertising revenues to go up 33% if their rating goes up from .3% to a .4% figure. No way. Another strong argument from advertisers against more use of cable centers on geographic coverage. Many advertisers feel that not only is the pie being sliced into so many small pieces, but also that these pieces are very unequal, since cable networks are not truly national in scope. This is true. Cable television is not a national medium. While we have close to 88 million television households in the country today, the largest cable networks cover only 39-40 million subscribers, or only 45% of all television homes. Many of the other networks are one-half the size (CHART IV). As mentioned earlier top run syndication and the Fox Network cover twice the universe of the largest cable networks. It is for this reason that the top five cable networks in household coverage account for 3/4 of the total advertising volume.

Another theory that has been offered for cable's underdelivery in cable decision maker offices, is one of visibility. If you believe in the advertising theory of out of sight-out of mind, it's very possible that because cable television is physically out of sight of the advertising decision maker, it becomes out of mind for media consideration. The top three advertising decision centers in the country today are in the markets of New York, Los Angeles, and Chicago where cable penetration is respectively at 39%, 38%, and 31%, all under the national average.

When something is not accessible to be viewed, explaining it's benefits, it's interaction and involvement with viewers' very often falls upon deaf ears. In addition, whatever bad press cable television gets in the trade periodicals tends to be magnified when it could not be seen or defended.

CABLE TELEVISION 's GOLDEN OPPORTUNITY TO BE ON THE LOCAL LEVEL

For many years local cable operators were run by engineers whose sole purpose was to construct and maintain working systems. That was followed by the era of marketing where the emphasis of most systems was to sign up as many subscribers as possible. With increased penetration getting tougher and tougher to accomplish, and pay levels falling system operators are looking at additional sources of revenues like home shopping, pay per view and advertising. Local systems are now beginning to place the basic services on highly watched, low numbered channels. The ability of sight, sound and motion in advertising's most impactful medium to be available on a local level is a tremendous benefit for local retailers and national marketers who are using geodemographic marketing to zero in on prime prospects on a region by region or neighborhood by neighborhood basis. For my money, the local media options currently available to the local retailer or marketer cannot compare to cable on an efficiency or impact basis. Competing with the local pennysaver, suburban newspaper, outdoor billboard or suburban radio station, local cable should be able to generate significant advertising revenues. When more system operators realize the potential of substantially increased revenues generated by insertion of local commercials within satellite delivered network programming, local cable advertising revenues will grow at a substantially greater rate than national advertising. (CHART V). Currently only about 25% of the systems

representing about 60% of the cable universe sell local advertising. A wasted financial opportunity if all the local system operators don't jump on the bandwagon by either individually selling their systems or by associating themselves with an interconnect.

-While I have addressed the business side of cable tv, I would now like to spend a few moments on the creative opportunities which cable was offering the advertising community.

UNIQUE ABILITIES OF CABLE TO OPEN NEW CREATIVE FRONTS

With the squeeze on advertising budgets brought about by network television inflation rates, cable offered advertisers the ability of running not only their broadcast commercials, but offered flexibility and economies which encouraged the development of different length commercials in compatible program environments. In reality, what happened was that advertisers were so enamored with broadcast television, that rather than being forced to look at alternative media vehicles like cable because the :30 second broadcast network costs were getting so expensive, the advertisers decided to switch rather than fight. Switch, not into cable with unique, economic commercial lengths, but switch from :30 second broadcast commercials to :15 second broadcast commercials, just to stay within the broadcast television medium.

With few exceptions, like General Foods, Levi Jeans, and G.E. companies who ran long form commercials called infomercials, advertisers were not convinced that cable television was worth it to begin to explore specific long form commercials. The CAB and the individual cable networks missed a golden opportunity to seize on the broadcast economic climate, and call on agency creative directors to encourage them through logic, reason, and research that long form commercials placed within a compatible program and uncluttered environment was a strong compliment to regular thirty and fifteen second commercials being placed on broadcast television.

Instead, the CAB devoted their energies to prove cable television has larger ratings than reported. This past January, estimates as high as one-third of network television commercials were fifteen seconds in length and growing. Cable's uncluttered environment, homogeneous audiences and economics permit advertisers to explore the possibilities of creating long form commercials (:60 seconds+) to enhance and complement their broadcast efforts.

CREATIVE AWARD DEVELOPMENT WILL ENCOURAGE INNOVATION

According to a recent article in the Wall Street Journal there are over one hundred and twenty different advertising awards given yearly. In order to foster the development of creative uses of cable television, the CAB announced a competition in 1985 for outstanding achievement in Advertising on Cable. They were giving a \$25,000 cash award. Of the ten finalists, less than half of the entries were efforts developed specifically for cable television. The other half were campaigns and executions primarily developed for broadcast television.

Thank goodness the winning entry for the American Sewing Association was a cable original. It was a terrific example of using cable's strengths-economies of long form commercials, compatible programming editorial and targeted audiences. The American Sewing Association had a need to reach upscale women who no longer sewed out of necessity. With their million dollar advertising budget, which wouldn't go far in broadcast television, they developed a :90 second campaign which ran exclusively on MTV. (show video clip I).

Luv's Diapers produced a :90 second Milestone Moments segment to run on the cable program called "What Every Baby Knows" (show video clip II). Crest used an animated character by the name of Philip Molar who encouraged good dental practices on children's cable programming.

The advertising community was thrilled that the CAB was giving these awards for excellence, and quite a bit of enthusiasm was generated. So what happens as a follow-up to the excitement and interest generated from the 1985 awards, the CAB abandoned giving this award on an annual basis. No more reason for creatives to go out of their way to develop unique made for cable creative material.

The CAB should reestablish this award for 1987 and should consider hiring top level creative talent to consult with agencies and advertisers on how to best use the cable medium from a creative standpoint.

CONCLUSION

In summary, cable television has fallen short of industry expectations forecasted just a few years ago. It's penetration, programming value to the consumer, its ratings, its share of the advertising pie, and its creative uses fall short of expectations.

Its moderate success in Programming innovation, its current and future advertising revenue potential, its impact as a local advertising force are on the plus side of the cable equation. However, with the current economic climate generating larger revenues, with MSO's taking equity positions in programming and cable networks, and with better marketing and promotional efforts currently being undertaken, cable has taken significant steps in its expansion of coverage and will make itself more attractive to consumers and advertisers. The acquisition of the NFL games on ESPN made possible by joining forces with the system operators is a milestone for cable.

The industry must recognize that cable should be sold as an extension of broadcast television, not as an alternative to broadcast. The ability of cable to deliver frequency of message communication, in an environment loaded with creative opportunities, at economical rates is an attractive sell to advertisers. It should not be bought or sold on an "eyeball" basis since ratings will never replace the value of sponsorship or compatible commercials within targeted programming. Let's listen to the message delivered by one of the most unique, quality oriented cable networks today and follow their lead (Discovery Channel AD).

The industry must become more aggressive now before other new technologies begin to encroach on the gains already made and before the broadcast networks regroup and reposition themselves to win back lost audiences.

Thank you for your attention.