

10. THE BUSINESS CASE

In the world of digital television, only the BBC can afford to create interactive programming for philanthropic reasons.

For everyone else, there's the cold hard reality that, unless you prove the business case for a service, it will be dead before it's even born.

Interactive applications on digital TV can only be economically justified if they generate ratings, retain an audience, create new revenue streams, create new ways to advertise or increase subscriptions.

Lets look at each of these:

1) RATINGS and RETENTION

More eyeballs on the screen means you can charge increased advertising premiums. A program would hope to achieve this by:

- a) Getting more viewers or 'increasing the percentage of available audience'. Some enhanced TV has been able to do this. Usually it is big event TV. Big Brother, Great Britons, Test the Nation and Wimbledon are fine examples of this.
- b) Keeping the Viewers glued to the screen during the show or 'audience retention'. Examples of this are 'MTV Tennis time' where you play pong on screen during the broadcast of music videos, but your running scores are lost if you change channels. This was used in Banzai and other game shows as well.
- c) Demonstrating long-term customer retention. Its costs less to keep a customer that to get a new one. Subscription TV providers must keep a customer for 2 years to pay for the free set top box.

Measuring ratings and retention

Current techniques for measuring audience ratings and audience retention for interactive TV are rudimentary and leave a lot of room for improvement. (See ratings in 'How to make enhanced TV' chapter 6)

Perhaps they are deliberately vague to disguise the poor ratings performance of interactive services to date. However poor ratings may be as much a factor poor marketing as they are of poor execution of an idea.

Until iTV can accurately demonstrate its ability to attract more ratings or hold an audiences attention this aspect of iTV will fail to attract traditional advertising dollars.

2) NEW REVENUE STREAMS

Interactivity is generating new revenue streams in the following ways. And the list is growing:

- a) Transacting through your TV or 'T-Commerce'. This can range from 24 hour shopping channels to ordering take away. Minimising the distance between the ad and the transaction is a powerful thing.

- b) SMS voting, messaging and entering competitions. These generate high volume micro revenues. And there is an existing infrastructure to handle this volume via the mobile networks. The popularity of SMS continues to grow.
- c) 'Pressing the Red Button' or interacting through your remote control. A modem connection is needed if you do not have cable TV. Games, gambling, voting, messaging, entering competitions, requesting recipes or information can all be provided for a small charge. The trick is not to overuse this, or overcharge, or people will become wary of using the red button.
- d) Pay Per View sports, events, movies and adult content.
- e) Gambling, sports betting, horse racing and lotteries.
- f) Pay per play games. Simple but addictive TV games have proven that, like the 20c video game arcades of old, people will pay small amounts to play these games.

CASH MAKERS

So which of these services are making money?

T-Commerce has had mixed success. Viewers do not generally like to browse through their TV's. Trawling through endless menus is a very dry experience and not what we sit on our couches to do.

As Matthew Tims, CEO of Two Way TV says, "Shopping malls on TV aren't working. People don't like to browse on the TV, it's not the right medium for it. And the same can be said for banking or other financial services. It's not a TV experience. The shopping experiences which do work are those 'prompted' by the TV show or those compatible with TV culture. There may be a call to action to order a pizza now, or order a brochure, or call now to buy this kitchen whizz. These are simple propositions that the viewer can understand immediately. The TV talks to you, shows you, and you can decide whether or not to act."

A service which does prompt viewers to make a purchase is QVC – The Shopping Channel. I went in to see the QVC studios in London. All day they film this talking shopping catalogue, where each product is demonstrated live by a host and an 'expert' in the studios kitchen, the bedroom or wherever. Viewers wishing to purchase the item may do so on the website, by telephone, or through their remote control. 20% of QVC's sales are now made through the remote control.

*QVC shopping channel
generated net sales in 2001
of 186.8 Million pounds*



T commerce may become a more attractive proposition in future. At the moment, there's not much reason to do banking through the TV when it's a text driven process? Maybe banking through TV will work as a proposition when you can 'visit' sales assistants virtually through a videophone on your TV. iSeeTV is a new company offering this type of service with video call centres (where you can even

record the conversation) This is a great Saturday morning couples proposition, so you can stay at home and mind the kids while you apply for a mortgage.

SMS and voting through the red button

Compelling audiences to vote using SMS is continuing to prove profitable, as SMS can generate large amounts of micro-revenue. Red button interactivity can also attract micro revenue, but SMS has the advantage as it does not need the infrastructure required for red button interactivity. Programs like Big Brother, Fame Academy, Help I'm a Celebrity Get me Out of Here, Pop Idol all use SMS interactivity to generate large supplementary cash flows for the broadcasters.

Gambling and betting

SkyBetVegas, AVAGO, Fancy a Flutter and a number of other operators provide casino-style games such as Roulette, Blackjack and Dice on the Sky Digital platform.

In 2002 SkyBet Vegas generated £72 million in revenues.



The UK Gaming Act specifies that gaming must take place on licensed premises (this restriction does not apply to so-called "fixed-odds betting," the term used to denote betting on sports or chance events, where bettors are aware of the odds of their winning and of the amount of money they stand to win each time they place a bet), and so it is a possibility that ITV gaming, which by definition is conducted remotely, is therefore illegal.

As it happens, an independent committee set up by the UK government to review the country's gaming laws has proposed legislation that would take new digital TV and Internet gaming technologies into account; however, the UK parliament recently postponed a vote on that legislation until 2004. This means that the new legislation, if passed, will not take effect until 2005.

The saving grace for these Casino style games will come from a pending case which is deciding whether random number generated casino games might amount to 'fixed odds betting'.

(www.itvt.com 'New Sky Policy Prohibits ITV Gaming Services on SkyDigital' July 2003)

Regardless of this outcome, the sports, lotto and horse betting are likely to remain legal and have huge revenue generating potential.

Games

Interactive Games played through the TV have proved to be a money earner, though revenues are not at the level of gambling.

These games are simpler than the Playstation, Nintendo or Xbox style games. The STB's can only handle games at the complexity of gameboy level.

Playjam, a dedicated games channel on Sky gets 250,000 views a day on average, peaking at 500,000 on Friday and Saturday. Many games are pay to play. (www.opentv.com, 2003)

These iTV games are good for 'quick hit' satisfaction, and players are willing to pay small amounts (10 to 50 p) for the privilege to play them.

Martin Batten, Managing Director Minds Eye Productions, an iTV games developer for the Sky platform says: "The industry in the UK is doing quite well, but the question is how much below 7 million homes could we break even? If it's less than half of that I have to say it's probably not worth my while! In many cases we're looking at less than a quarter with no return path!"

Batten is keen to find a route into these markets, but the business model seems unclear at this stage. "We can only probably create a market if we throw a lot of investment capital at it, which is what our competitors have done before, however I'm not sure how long they can hold out with that level of investment. Its just a huge cost to deliver for other platforms, already we have to integrate our applications across 28 different Sky boxes, this requires a huge amount of resources in terms of management, time etc, it's a phenomenal piece of work." (www.broadbandbananas.com news July 2003)

Adult Content

The porn industry in the USA turns over 3 times more than the film industry. It has been and always will be a profitable business. Enough said.

Pay Per view movies , sport or events

This has been available for a long time on analogue cable services and will continue on digital TV. Video on demand and Near VOD technologies are said to be the 'holy grail' for interactive TV. I'm not convinced.

VOD is expensive to operate and may be superfluous once PVR's are introduced. The advent of the PVR and broadband will mean that most people will be able to capture a number of films to their hard drive to watch when they want, regardless of scheduling.

3) NEW WAYS OF ADVERTISING

Another economic justification for iTV applications is if they create new ways to advertise. Some effective ways of reaching the consumer include:

- a) Interactive advertising –impulse purchases prompted by interactive ads allow you to order at the press of a few buttons on your remote. This is not new (remember the late night ab master commercials) but iTV makes it easier. The context of the ad within the TV experience affects how likely it is the audience will react.
- b) Direct Marketing can be more effective by impulse requests for information. Eg press the red button now for a free brochure or test drive or to enter a competition.
- c) Targeted Advertising – advertising can be tailored to better fit the profile of the viewer, based on their viewing habits. PVR's are being designed which can do this even better.
- d) New advertising real estate is being created, such as moving banner ads on the EPG's. Dedicated Advertiser Locations (DAL's) are on their way. These are new broadcast spaces, where the viewer can be taken for deeper content, samples or transactions.

- e) Sponsorship - Enhanced content in support of a scheduled broadcast, or stand alone services, such as games, weather, info listings etc provide sponsorship opportunities which can build brand association.

Although iTV advertising is in its infancy, its importance is expected to grow. IDS is Flextech/Telewest's advertising business in partnership with Sky. Their report (IDS Landscape Report 2003) shows that in 2002, 17% of Sky Digital viewers had interacted with an interactive advertisement, double the figure of the previous year. The report also shows that 55% of those who have interacted are aged 16-34, an attractive group to advertisers.

90% of media professionals in a poll in the UK (April/May 2002) commissioned by weapon7 and Chinwag expect interactive advertising to become an essential part of the marketing mix. There is no doubt that iTV presents significant opportunities to reach audiences in new ways. I also believe that in this endeavour, iTV will work hand in hand with PVR's to more accurately target consumers with advertising that is relevant to them. The theory is that people won't mind watching ads if they are more relevant to their lifestyle.

4) DRIVING SUBSCRIPTIONS

For subscription TV, Sky Satellite is the leader in the UK. Research shows the main drawcards for Sky subscribers are more channels, more sport and better picture quality. However movies are what they spend most of their time watching, followed by sport. Interactivity registers as a lower priority for these subscribers. (BBC New Media, Sky Digital Homes, Jan 2001)

Although Sky is the recognised pioneer of these services, it cannot afford to create the rich multi streaming applications the BBC can, such as Wimbledon, Walking with Cavemen and Pyramids. Sky has invested a lot of money into the infrastructure for interactive TV. But interactivity for Sky is not demonstrably increasing ratings or subscribers. I would suggest that Sky are hoping to recoup this money through new revenue streams and new ways of advertising.

Guy Gadney, Manager of Interactive development at Foxtel said that Foxtel assesses each interactive application based on a matrix of how it:

- Gets subscribers
- Keeps them
- Generates revenue

(Gadney 2003, pers comm. 9 Apr 03)

So it seems any new iTV applications on Australian pay TV will have to pass the scrutiny of the business development executives.