

## **A farewell to ads?**

### ***Personal video recorders should worry the big media firms.***

If YOU are a senior executive at a media company, you may feel that your industry is built on shaky ground. First, there was digital piracy, which could yet wipe great chunks of revenue. Now there is the personal video recorder (PVR) which allows people to watch TV programmes whenever they like more easily and, crucially, to skip rapidly through all the commercials. While the pirates can be chased, the PVR is more difficult to come to terms with, not least because powerful media groups like News Corporation, Rupert Murdoch's empire, and Time Warner, a conglomerate, are busily pushing them.

Fear of PVRs has stalked the industry since they appeared in 1999, but until now there have been relatively few users. In America they are in about 3.5m homes. In Britain, BSkyB, a satellite-TV company controlled by Mr Murdoch, expects that just over 300,000 homes will have them by June as part of its "Sky+" pay TV package.

Such promotions mean the use of PVRs will grow rapidly. The reason? Satellite companies think the machines will help them compete with cable TV's video-on-demand services. In turn, cable needs to compete with satellite. Both are selling PVRs cheaply-and in some cases giving them away. Customers tend to stay loyal to one provider once they have a PVR. And people who use them love the control and convenience they bring to viewing. By 2006 says Forrester, a research firm, nearly 25M American homes will have PVRs.

What people do with their PVRs is exactly - what advertising executives had feared. A study by TiVo, an American provider of the machines, found viewers recorded programmes 75% of the time and skip about find of commercials. According to the New York Times, a new survey by Yankelovich Partners, a market research firm, will show most people resent the quantity of advertising and marketing aimed at them. Some 70% said that they would be interested in products and services that help them to skip or block it out. They can do that with video-cassette recorders, but in practice people find them fiddly to use. With built-in electronic programme guides, PVRs make recording easy-with no need to set timers or buy cassettes. By 2007, Forrester expects TV commercials to be watched at least 15% less than they are now. The decline will be steeper if PVRs end up in most homes.

As more people skip past their ads, advertisers will refuse to pay what they now do for TV spots. A 20% drop in TV advertising in 2003 would have cut profits by one third at Disney and Viacom, which each own broadcast networks and stations, according to Tom Wolzien of Sanford Bernstein, an investment company. The home entertainment bit of the media industry also frets about PVRs. Because their owners can select what they want from a whole week's TV viewing, they are no longer at the mercy of schedulers, so they mightily fewer ovals.

For now, few top media or advertising executives will admit publicly that there is t big problem coming. The ad-avoidance numbers for early adopters are arresting, concedes Irwin Gotlieb, chief executive of Group M, a media buyer which is part of the WPP advertising group. But he says the mass market will be far happier to sit back and passively consume what is put in front of them, as they do now. Besides, people already skip ads by leaving the room, channel surfing and so on: pelts will make ad-avoidance more obvious and measurable, but little will really change. Another, rather desperate, hope expressed by some, is that consumers will be exposed to advertising even when fast-forwarding because they have to watch in order to pick the right spot to hit play.

The world's big advertising agencies are bound to underestimate the impact of PVRs, says Mark Ritson, a marketing expert at the London Business School. The agencies are "introverted and arrogant" organisations, he says, which find it hard to understand that many people dislike commercials. Much will depend on when big marketers such as Unilever and Ford figure out what is going on. That would require good data on PVR use. Nielsen, America's dominant TV-ratings firm, which profits from buoyant TV advertising, recently announced that it would start to monitor PVRs in 2005- but not in enough detailed show ad-skipping.

Glenn Britt, chief executive of Time Warner Cable, argues that, if levels do make a big impact, the media industry should adjust its business model. Most obviously, it could put more emphasis on print, radio and the internet, where people can also ignore ads but not always so obviously and measurably. One hope is that PVRs will allow firms to learn more about viewers so that they can be sent advertising that is appropriate to them: media firms will selfless anytime, but charge more for it. To stop people hitting the fast-forward button, says Sir Martin Sorrell, boss of WPP advertising will need to become more creative, powerful and informative.

There are all sorts of devious ways to get through even to hardened commercial-skippers advertisers already use product placement within films and TV shows, for instance. Sponsorship slots at the start of a programme (when fingers come off the fast-forward button) will matter more. The value of live TV-news and sport-will rise. BSkyB has also found that people with PVRs watch 20% more TV each week. Presumably, as they can select with their PVR the best from the schedule, their satisfaction with what they watch is higher too.

But if media firms cannot find creative new ways to sustain their television ad revenues, they will simply have to charge consumers more for programming. Rising subscriptions could make viewers think more kindly of commercials-especially if they were to be charged less for programmes if they agreed to sit through ads. With all the potential benefits that PVRs can provide for viewers, the entertainment industry is going to have to learn how to live with them-one way or another.