

The Future of TV Advertising:

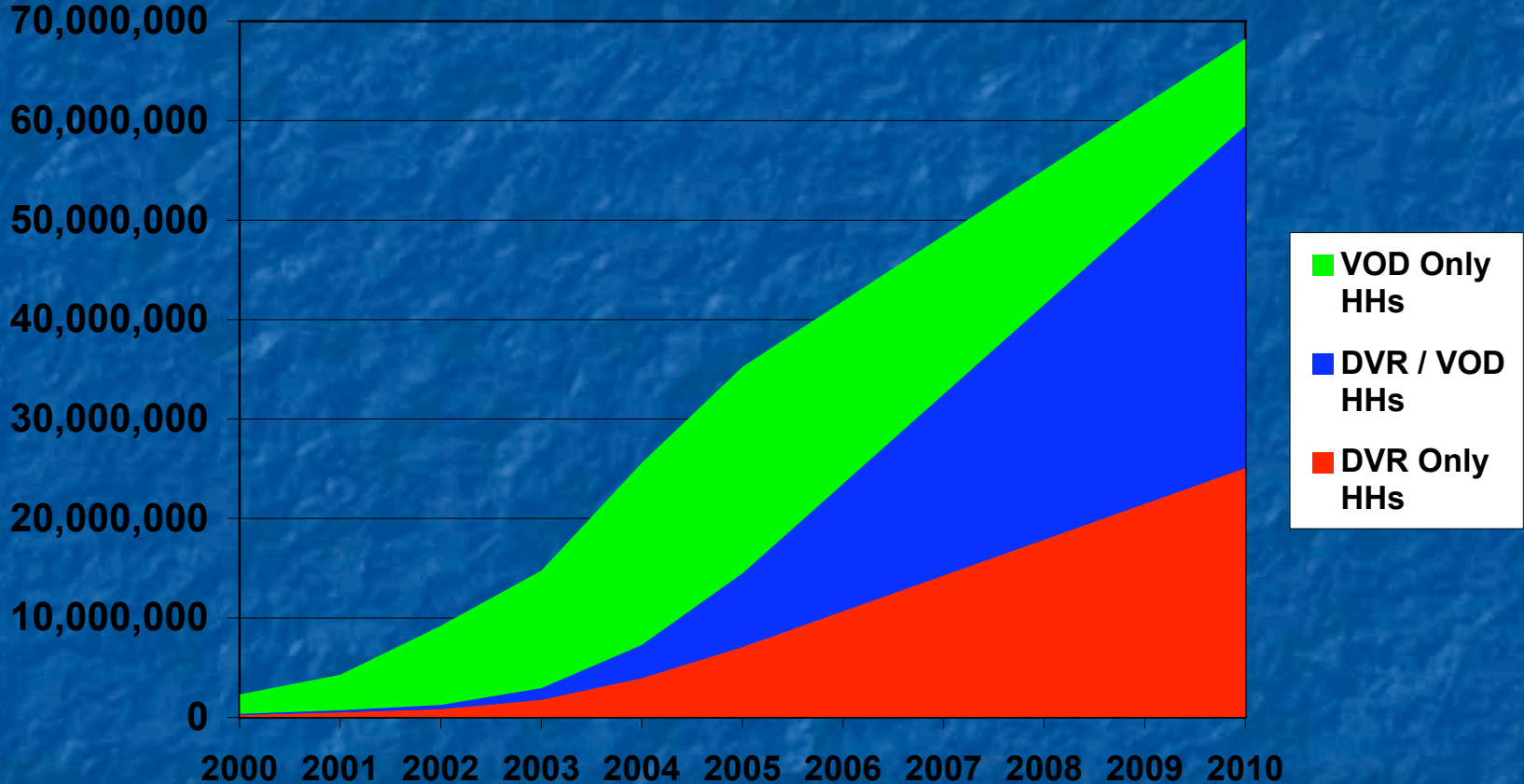
***The Business Issues of
Enhanced Advertising***

A Presentation to TV-Anytime Forum
September 20nd, 2004

Two Years of Research & Industry Development

- ID!A Project – Inventing the ODTV Ad Units and Metrics
 - Industry group developing standard ad units, metrics and meta-tagging.
 - 45 Cable/Satellite Companies, TV & Cable Networks, Advertisers & Agencies, STB/CE/PC MFG's, Software and Data Analytics Companies
 - Industry Associations including ANA, AAAA's, CAB, CTAM TV-Anytime & IAB
- Ad Lab – Testing the New Ad Units for the ODTV World
 - Year long program testing consumer reaction to new ad units and functionality. Provides direct input on specific advertiser/agency needs
 - 8 Advertisers (GM, Coke, P&G, Kraft, BestBuy, Allstate, Kohler, Intel) represent roughly **\$4 billion** in TV ad dollar budgets
 - 6 Networks (NBC, ESPN, MTV, CNN/Tuner, Discovery, H>V)
 - 4 Technology/Nets (Gemstar/TV Guide, Scientific Atlanta, Time Warner Cable, Seachange)
- Field Surveys – Field interviews with Key Execs
 - DiMAS Report – Interviewed 45 Ad, Marketing, and Tech execs
 - Niemeyer Report – Quarterly newsletter based on analyst reports & exec interviews
 - BlackArrow/Mayfield Interviews – Nick Donatiello, Stan Shuman, Rick Mandler (ABC), Mike Windsor (Ogilvy One), Brandon Burgess/Jay Ireland (NBC/ValueVision)

On-Demand Capable Television Households (DVR Only, DVR / VOD and VOD Only HHs)

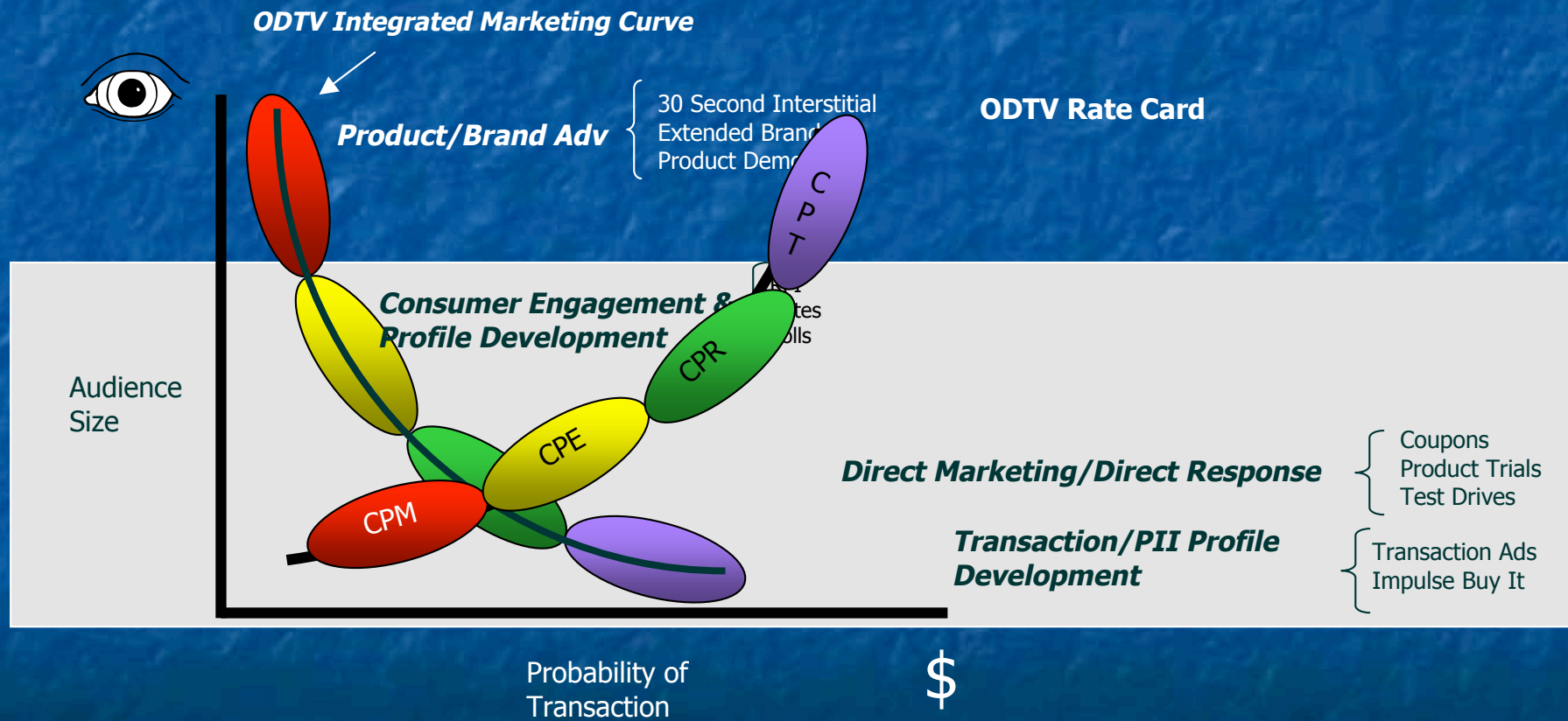


Based on reported data and DiMA Group estimates/projections

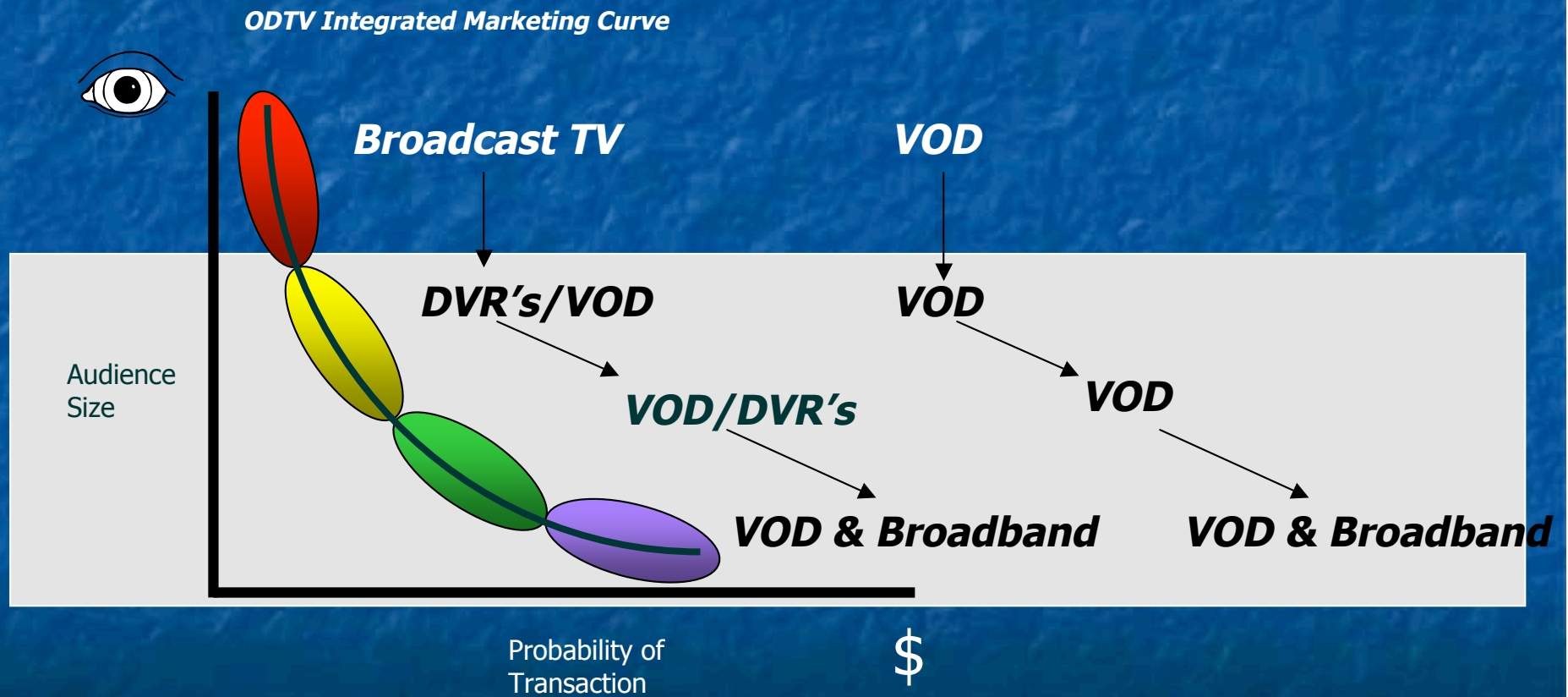
The Next 3 TV Selling Seasons

- Post '04 Upfronts marked by:
 - 17 million households have VOD
 - 4-5 million household penetration of DVR's
 - VOD Advertising options gaining traction within select markets
 - TiVo the only game in town on DVR's
- Post '05 Upfronts marked by:
 - 100% of Digital Cable having VOD
 - 10 – 15% DVR penetration
 - Diversified VOD ad options in large number of markets
 - Other DVR players offering limited Broadcast ad enhancements
- Post '06 Upfronts marked by:
 - DVR's scale past 20% of US household penetration
 - VOD in over 30 million households with full On Demand Ad
 - Combined VOD and/or DVR households reaching over 40% of American households

New ODTV Enhanced Ad Types



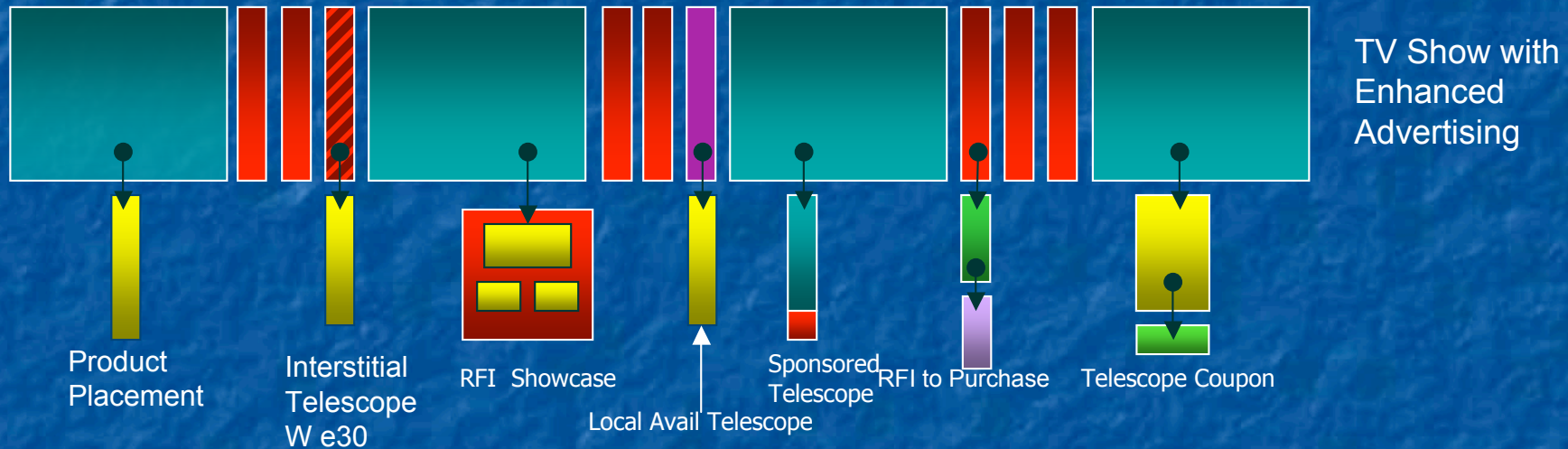
Mapping ODTV Technologies



What Advertisers Look For from Enhanced Advertising

- Increased Ad Effectiveness – As consumers have control over which ads they watch, increasing the effectiveness of individual impressions is critical
- Campaign Integration – Ability to easily integrate Enhanced Ad functionality into existing campaigns
- Consistency and Uniformity – An Enhanced Ad must look and behave the same way across all ODTV platforms
- Scale & Manageability– Ability to reach a critical mass of DVR & VOD enabled households with one action and one ad – make diverse technology options transparent
- Targeting - Ability to target the correct message to the correct consumer, both opportunistically by programming adjacency and by audience op-in based demographics
- Tracking and Measurement – Knowing when and which ads are watched
- Timeliness - Keeping ads current even when programming has a longer shelf life
- ROI – Demonstrable value from driving the consumer closer if not directly to the point of purchase

What is Enhanced Advertising

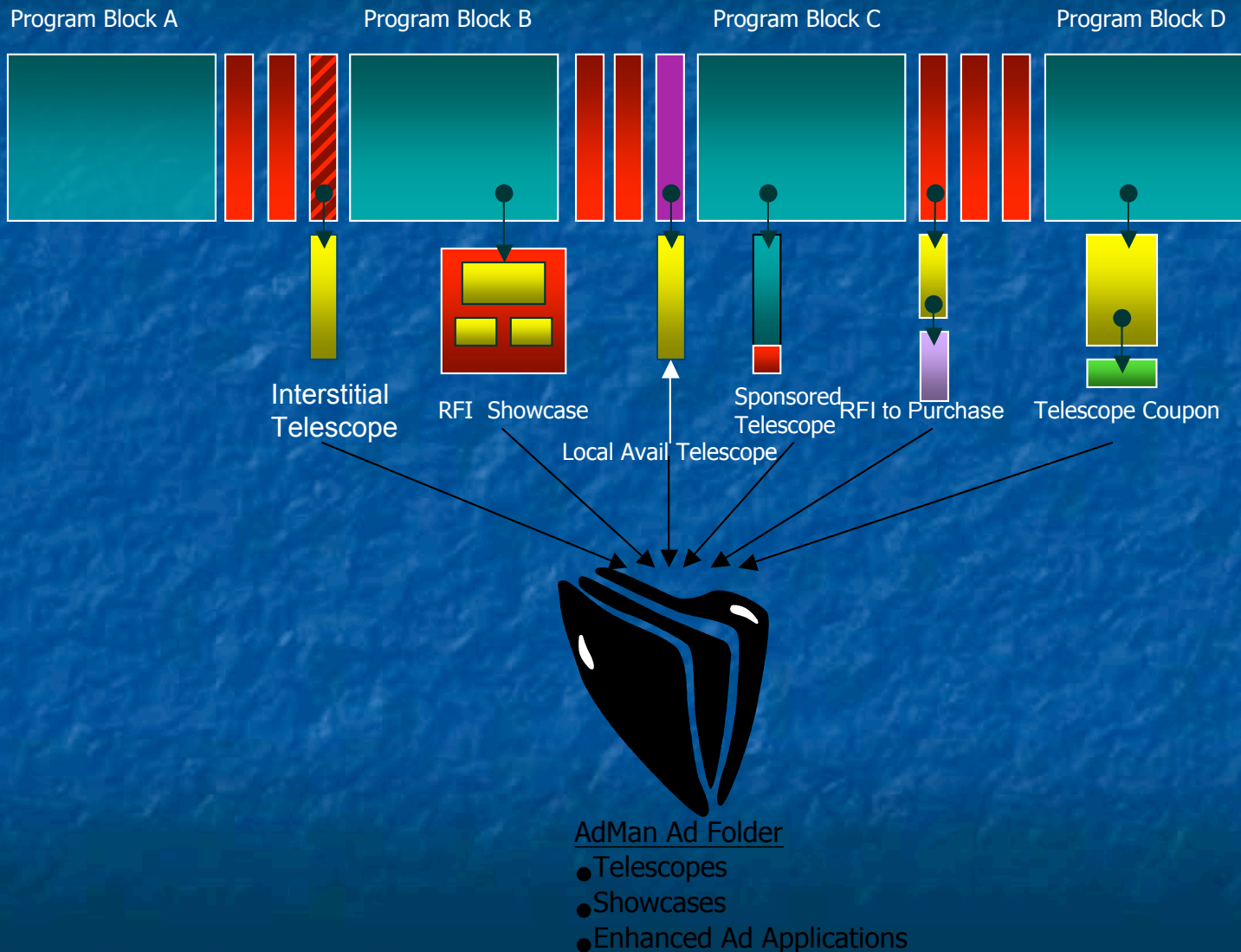


The Value of i30 DVR Ads

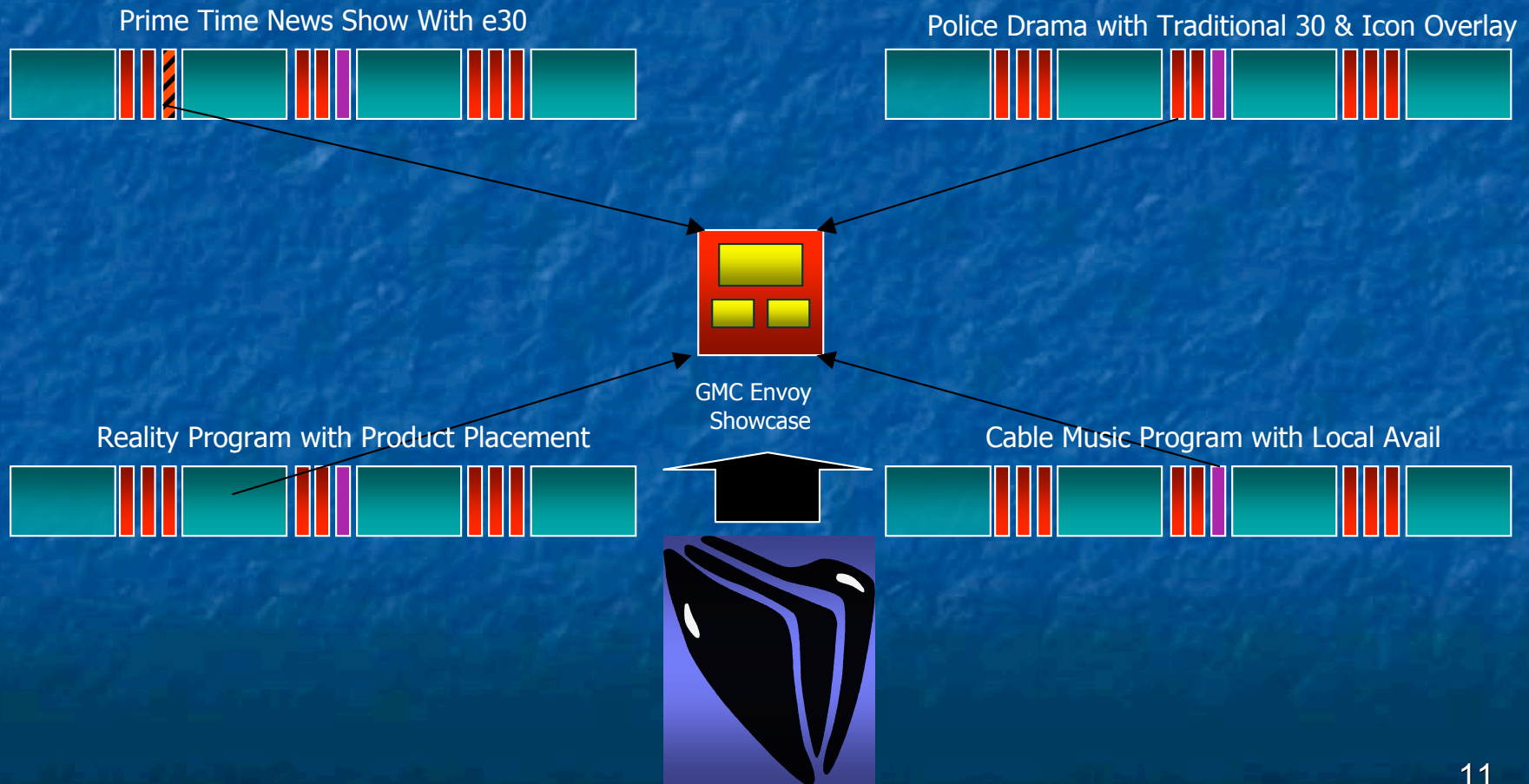


- DVR's Automatically Record and Time Shift all shows the consumer watches by 1-2 seconds
- For any ad properly tagged, not only can we extend them with consumer choice telescope's, but we can actually replace the broadcast ad with a DVR friendly ad that can only be seen by DVR Households. The DVR household never notices the local replacement
- For these Enhanced 30 Second Ads (e30), advertisers can include audio or visual calls to action directly within the creative of the ad... the object being that the efficacy of the ad should dramatically improve with a direct production link to the enhanced ad.

How Enhanced Ads Work



Traffic Building to Showcase in Universal Campaign Folder



The Economics of Enhanced Ads

- In 2009, 58m²* households will have DVR's/VOD or both.
- If merely 40% of the top 100 National TV Advertisers "enhance" just 16 of their 30 sec spots with Showcases there will 8,784 long form ad units on DVR's and/or VOD servers.
- If the average duration of each unit is 3 minutes & 1 week of avail time per enhanced ad
- If the Average viewership utilization of Enhanced Ads is 6% then 1.44 enhanced ads per day per household will be viewed.
- If the Average Cost Per Engagement of each enhanced long form ad played is \$0.05, then:
 - The total Media Revenue under these assumptions is:
 - \$1,528,416,000
- And that does not include local spot, scatter, Co-op, or any other significant new form of Advertising. It does not model any "storage" or data/metrics fees that result from distribution of these ads.
- But the most significant question of all still remains:

* = Consensus forecast based on IDC, Kagan, & DiMA Group

Who Pays What to Whom?
And for What?
And How is this Decided?

Needed to Make this Work

- Operator Agreement to Deliver Enhanced Ads
- Programmer agreement to tag ads and integrate Enhanced Ads
- Permission & Process for measurement & metrics data flow
- Reconciling the media model and cash flow.

Enhanced Advertising Business Scenarios

■ Scenario I – Thousand Flowers Bloom

- Enhanced Advertising Program is purchased as part of existing television ad program.
- All ads, including enhanced, are distributed through traditional channels
- Media Organizations arrange for storage of Enhanced Units, and negotiate a fee structure for linkage to showcase/telescope.

■ Scenario II – The Two Step Tango

- Traditional Advertising Program with Ad Tags and other enhanced messaging is developed by with the Media Organization
- Enhanced Ad Folder is developed separately and distributed by Media Organization to the DVR/VOD systems.
- Advertisers buys ongoing traffic and link points from diversity of media organizations on both an integrated marketing and scatter basis

■ Scenario III - You Tell Us

Smart Tags & Dumb Ads

VS.

Dumb Tags & Smart Ads

Smart Tags vs Smart Ads

Smart Tags

- Each tag carries context and rules of extension.
- DVR/VOD platforms simply delivers the video asset called for by the tag
- Simple use of DVR or VOD as a field cache of long form
- Requires advanced insertion system at broadcaster to ensure the right tag is inserted at the right time
- Difficult to implement “rules based” extensions and keep these rules confidential

Smart Ads

- Each Enhanced Ad (or folder) contains application logic and rules on when it is to be played.
- Each 30 second Ad is tagged with UAdID
- Local rules engine on VOD & DVR determines how to react to the specific Ad.
- No Advertiser Confidential Info is included in broadcast, Rules are controlled directly by advertiser. Only advertiser can act upon its ad or link from it.
- Smart Ad self report basic traffic data back to centralized campaign system to allow for payments & rules modification.

The Two Sides of Enhanced Ads

Media Basic Units (DAL)

- Icon Ad (Overlay on 30)
- I30 – 30 Second ODTV Ad
- Product Placement
- Navigation Banner
- Bumpers (VOD)
- Long Form Insert (VOD)

Platform Basic Units (T²*)

- t300 - Simple Telescope
- s450 - Showcase
- a475 - Application Based Ad
 - Coupon – C490
 - RFI – R275
 - Contest/Promo – P245

T² = Type and Time based unit ₁₈

Examples of Enhanced Ad

Basic Rules

- On/Off – Is the ad extension in Force – yes/no
- Context - In what setting is the ad being enhanced – Network Position, POD Position are possible variables.
- Frequency – How many times the enhancement has been viewed in the household.
- Time of Day – Ad enhancement rules based on when it is being played, not recorded
- Date – What day is it and is the enhancement still in effect
- Location – From what location is this ad being viewed

Supporting Slides

The Positive Side of DVR's & VOD

- **David Verklin, CEO, Carat North America** --"I think that we stand on the verge of tectonic change in the advertising business. ... PVR is coming,... I actually think it's going to be an enormous boon for the people in this room, if we look at it with some creativity and some innovation, I think, that Tivo is, for example, going to allow us to target our advertising to people that are interested in it. I think that's fantastic. "The 30 second TV commercial's going to be here for a long time. But you know what I am predicting? I'm predicting the rise of the 60 second TV commercial. And the two minute TV commercial. And the five minute TV commercial. And the eight minute TV commercial, and the 90 second TV commercial, and the ten second TV commercial. We are going to have a lot of options in the future. It's going to be fantastic. It's going to be great."
- Senior Automotive Ad Exec: in 3 years 5% of total ad spend will be on demand; 15% in 5 years
- Senior Ad Planner for key Packaged Goods Co: In 3 yrs --3-5% of total ad spend will be on demand, in 7 yrs: 10% of total ad spend will go that way.
- Industry Development Officer: Media Agency: in 5 yrs, 20-25% of total spend will be for emerging tech, and on demand will have substantial piece
- Senior Dev Officer, Media Agency: over time 10% of ad spend will go to long form – its just hard to forecast the exact timing.
- Senior New Media Programming Exec: in 5 years, on demand will be 25% of total TV ad spend.

ODTV

A Cluster of Disruptive Technologies

- Key technology based solutions focused on consumer controlled, Advertiser Supported, On Demand TV
 - VOD – Centralized VOD servers now evolving to show stored ad supported shows
 - DVR's/EPC/Media Center/DVD RW– including both embedded and CE stand alone
 - Broadband – Direct distribution of Video via broadband either through streaming, or on a download to local storage basis.
- ODTV represents Ad supported, video based “TV programming” that is developed for and/or distributed to these platforms.
- Advertising on ODTV platforms SMG calls “All things Video”, or what is now called Enhanced Advertising.

TiVo viewing habits
(Starcom Media Vest Group study)



“Must see”

=

“Must skip”

American Idol

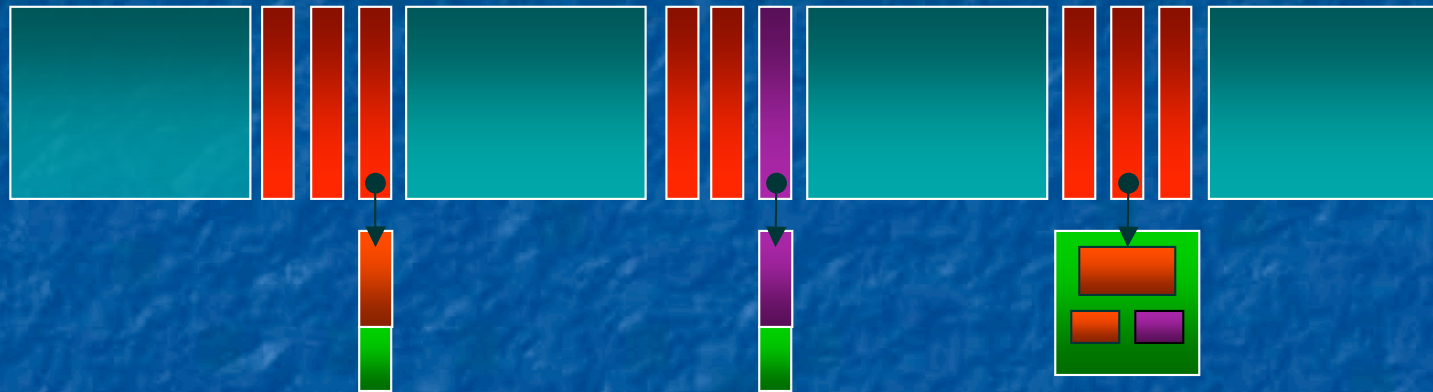


17%
skip ads

AdLab – Understanding the Consumer

- 8 Advertisers working with 6 networks and tech partners in a team to create applied examples of new ad types and functionality
- Qualitative research with individuals and small groups understanding what works and why.
- Shared learning through quarterly meetings
- Seeing some very promising reactions of how to advertise in a world where the consumer is in control
- <http://dima.edgeworx.com/track1/>

Enhanced Advertising Cost Components: How Does a National Advertiser "Buy"



→ Local Station/Local MSO Media Fees for Local Enhance Spot



→ Media Fees for National Ad Enhancement Program Negotiated as part of TV Media Buy or in Aftermarket Scatter



→ Enhanced Ad Distribution Cost of Storage & Network Distribution Paid Directly by Advertiser to ODTV Distributors

AdLab & xDVR Project

- 8 Advertisers in AdLab, develop linked campaigns designed to be xDVR by mid-'05
- BA AdPro Team work with key advertisers in AdLab, to define key functionality of AdPro. AdPro 1.0 ready for field trial Q4 '05.
- BA AdMan Team works with DVR vendors to support common tagging, DVR Cache rate card, and support for xDVR field trial Q4 '05 – Q1'06. Target is support of a minimum of 2-3 of the following:
 - SA 8000 & TWC
 - Motorola DVR & Comcast/Cox
 - Echostar (OpenTV)
 - DirecTV (NDS/MediaHighway)
 - TiVo (Both DirecTV & CE Devices)

The Enhanced Ad Campaign Folder



- A Repository of enhanced ad units, or other video assets that allow the enhanced campaign to be consistent across ODTV Platforms. Can reside on either the DVR Cache or the VOD Server or both.
- A local rules engine that controls when and where these linkages are performed based on rules provided by advertiser
- Universal Ad Applications to which Traffic building units can link.
- A Traffic reporting mechanism that can report basic traffic information back to the Advertiser &/Or Agency to facilitate payment.

Size of Broadcast Ad Market

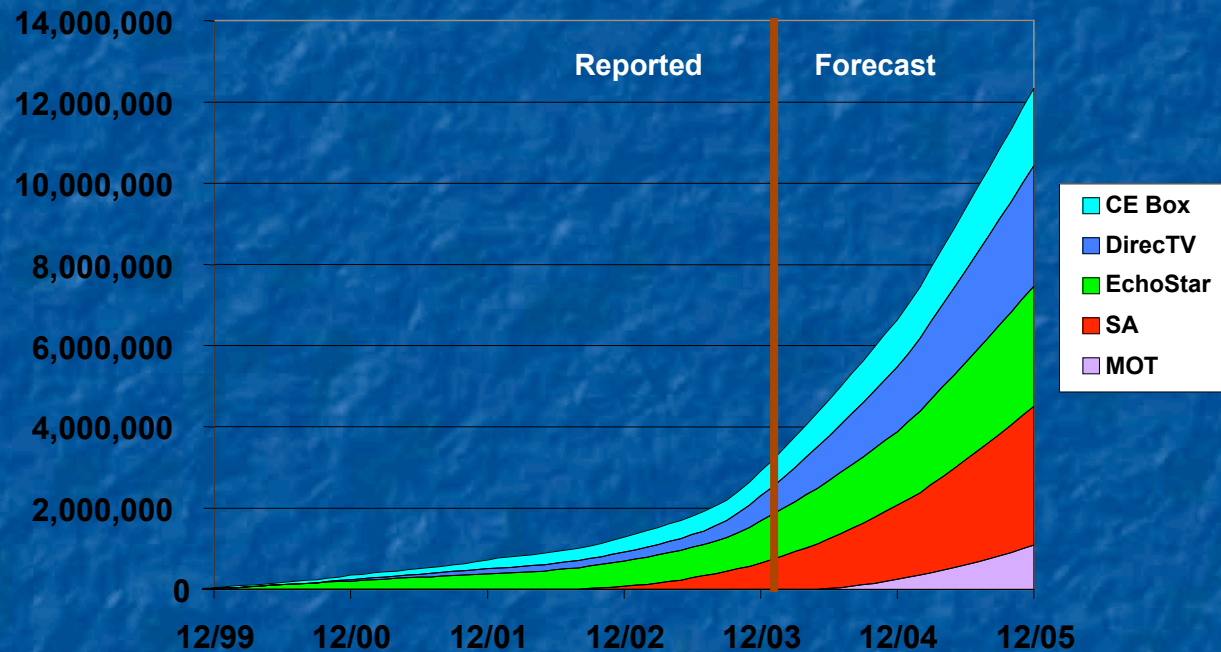
National syndicated ads per day	24,192
Total number of buyable local station avails per day	69,120
Total number of buyable local cable avails per day	844,246
Total number of buyable DBS avails per day	14,400
Total number of buyable TV ads per day	951,958
Total number of buyable TV ads per year	347,464,699

Based on conservative view including:

- top 80 DMAs (of 210)
- top 6 TV stations in a market
- top 50 national cable networks

DVR* Critical Mass

Estimated Net DVR Subscribers



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10% household penetration is the first "magic number" for Advertisers, Agencies, and TV Networks. We hit it mid-year 2005

* This graph represents growth of free standing and Set top Box DVR's. The DirectTV and CE Boxes are primarily TiVo.