SBJ SBD STREET & SMITH'S SportsBusiness JOURNAL

SBJ/September 13 - 19, 2004/This Weeks Issue

Will rise of DVRs change sports TV?

By Bill King, Senior Writer

Published September 13, 2004

James Marsh is a displaced Pittsburgh Steelers fan, a stock analyst whose job has taken him away from the team of his childhood.

A father of four, Marsh says it’s difficult to break away from the family for three hours in the middle of a Sunday afternoon to watch a game. However, he still will shell out $219 for the NFL’s Sunday Ticket package this year.

And each Sunday, at about 6:30 p.m., Marsh will duck into the den, where his digital video recorder maintains a standing order to record all things Steelers. By fast forwarding through the pregame, the halftime show, the commercials and the occasional Bill Cowher replay challenge, Marsh can blow through four quarters in 90 minutes.

“When I’ve tried to carve out time to watch sports, it hasn’t worked,” said Marsh, a managing director and senior research analyst at S.G. Cowen & Co. “This way, by the time my wife gets suspicious, I’m already done with the game.”

Were Marsh simply another Steelers fan with a house full of children, his story would be amusing, and perhaps even enlightening, but not particularly relevant to the larger sports viewing landscape.

His is only one of an estimated 3.8 million U.S. households that owns a DVR, or digital video recorder, such as those marketed by San Jose-based TiVo and most cable systems. While TiVo and DVR devotees are a vocal minority, regaling the water cooler crowd with tales of time-shifting and commercial-skipping, they account for only one in 40 households. There are only slightly more DVRs in circulation in the United States than there are millionaires.

But Marsh’s job makes his habits noteworthy. His area of expertise at SG Cowen is in the communications sector. He follows the major media companies, including several television companies.

Late last year, writing under the provocative title “Will the Current Ad-Supported TV Model Be Zapped by DVRs?,” Marsh downgraded the four major broadcast groups that he covers — Hearst-Argyle Television, Univision Communications, Tribune Co. and Gannett Co. — and lowered performance estimates on three other media companies that he tracks. His premise: that with DVR penetration reaching 10 percent by the end of next year, and with DVR users skipping through at least 60 percent of commercials, ad buyers would soon realize that their message was reaching fewer consumers and cut their spending on traditional 30-second spots.

Marsh predicted that ad revenue growth over the next five years would be only 3.8 percent, barely ahead of inflation and well short of the 6.5 percent growth that otherwise would have been expected. With DVRs in 15 percent of homes by 2006, Marsh projects $6.6 billion of revenue to go missing from what would have been a $72 billion ad market.

Of course, that doesn't necessarily translate to a parallel decline in the ad market for sports programming. The sports properties like to hail their product as DVR-resistant, if not DVR-proof. The networks that air sports agree. Even the analysts who predict that the 30-second commercial will go the way of the Betamax concede that viewers are far less likely to time-shift sports and news than they are series television or movies. "You're looking LIVE" carries an undeniable appeal.

However, Marsh questions whether the networks will be willing to pay a premium for that appeal if their financial underpinnings begin to wobble.

"I don't mean to hype this too much, but if ad revenues start to decline, broadcasters have less to re-invest the following year [in programming]," he said. "Some would call it a death spiral. … I wouldn't be surprised if you see a decline in sports rights over the next few years as the networks try to figure it out."

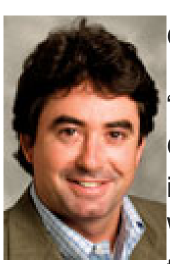
Network sports executives, ad executives and the leagues clearly aren't ready to accept that prediction. Those with the thickest skin harken back to the panic that accompanied previous gadgets that expanded viewer choice.

"Back in the 1970s a little thing called remote control happened," said Larry Novenstern, senior vice president and director of national buying at ad agency Deutsch. "I think that was far more devastating to the advertisers than this."

The more cautious say they're trying to keep their expectations in check until they've gotten more reliable readings on the ways that the relatively small number of DVRs already in play are affecting viewer habits.

In the next year, Nielsen will begin to release data that it is compiling on DVR users, the first time that such data has been gathered and distributed by an independent source. Like advertisers, the networks are eager to see how frequently viewers are time-shifting programs, what sorts of programs they're moving and, most important, whether they're skipping commercials.

"I think there's a lot of speculation out there, but until we see some hard data, I think we all need to take a step back," said Bill Wanger, senior vice president of research for Fox Sports and Fox Sports Net. "Big-time network sports is least likely to be affected by the new technology. When there are effects, we'll adjust. The sky is not falling, by any means."


McGovern

One of the leading buyers of commercial time during sports agrees.

"I think the entire collapse is exaggerated," said Tom McGovern, director of sports marketing at OMD, the media-buying arm of ad agency BBDO. "Yet I think there's an ongoing evolution. First it was remote and then the VCR. There's an evolution that affects the way we view television. We're going to continue to be faced with that. It can be embraced as an opportunity, although there are certainly those who will resist."

From curiosity to concern

While some dispute Marsh’s predicted outcome, there is no denying the premise behind it.

DVR and its cable-driven cousin, pay-per-view video on demand, are coming at a rate that is escalating rapidly. With satellite services and cable providers set to include DVRs in all set-top boxes, the companies will have deployed recorders in 23 million homes by 2006 and 50 million homes by 2010, according to industry analyst Brian Wieser of Magna Global Research.

Putting DVRs in customers’ homes doesn’t guarantee that they’ll pay the $5 to $13 a month that it typically costs to use them. But Wieser estimates that 23.4 million homes will subscribe to DVR services by 2008. His is among the more conservative estimates.

In 3 million households, DVRs are a curiosity. In 30 million, they’re a concern.

A recent Forrester Research survey of 55 national advertisers found that 76 percent of them plan to cut TV spending when DVRs eclipse 30 million households, with 63 percent saying they would pull back by at least 20 percent.

The Association of National Advertisers recently asked 141 members about their use of DVRs as an adjunct to a broader survey. Eighteen of the 32 who own DVRs use them to skip commercials. These are the people buying network ad time. Larger studies of mainstream viewers place the ad-skipping rate as high as 80 percent.

“I would say it’s a transformative device,” said Ed Desser, executive vice president of strategic planning and business development for the NBA. “It absolutely does change what you watch and when you watch it.”

In a recent Forrester survey of 588 DVR users, half said the device “improved their enjoyment of life.”

Desser, formerly president of NBA TV, said he owns four DVRs and uses them regularly.

“But,” Desser said, “I watch my sports live.”

The sports property pitch is that their content should actually become more valuable to advertisers as DVRs become more prevalent. If advertisers shift dollars away from prime time, they will put that money somewhere. A decline in prime-time spending could translate into an increase in spending during sports and news.


Brosnan

“We as a live entertainment content provider think that we enjoy an enormous advantage over a lot of other product on television,” said Tim Brosnan, executive vice president of business for Major League Baseball. “There’s a compelling reason to watch sports live that isn’t there for comedies or realities or other programming.”

The NBA offers a similar argument.

“At some point in the future we’ll be looking back and we will see that these devices have changed viewing habits for filmed programming in ways that are perhaps difficult to project today,” Desser said. “What I think it means is that the relative value of sports programming — which will gather a sizable audience that will be experiencing programming as it takes place and is more likely to see the commercials — is going to be disproportionately even more valuable to advertisers, to networks, to cable and satellite operators.”

Analysts and researchers say there’s a good chance most people do watch sports live. But there’s also a compelling argument that says that people will learn to use technology to fit their lifestyles, and that their viewing habits will change once they understand the possibilities.

Sports viewers can flip the channel during a commercial. But what do they get out of it, really? A couple of minutes of another game that they're less interested in. By skipping commercials, the DVR user buys back time. That's why the DVR shouldn't be compared to the remote.

For most users, the DVR is not about skipping commercials. That's merely a byproduct. In a study of 600 DVR owners, Lyra Research found that 43 percent of the viewers who recorded programs began watching them before the show ended. "This behavior is clearly oriented to time-saving," wrote researcher Steve Hoffenberg, "with commercials constituting the expendable time."

A Phillies fan who gets home from work at 6:30 can record a game that starts at 7:05, start watching at 7:45, and catch back up to real time by game's end simply by skipping the commercials.

That's a key distinction between the DVR and the VCR. The benefit is in watching a favorite show, or satisfying an insatiable sports jones, in the way that best fits into the rest of your life.

The casualty is the advertiser who bought a spot between segments of a sitcom — or innings of a game.

"I think it's going to change the whole television business, forcing it to morph into a whole new model," said Geoff Meredith, a former senior vice president at ad agency Ogilvy & Mather who now runs the consulting company Lifestage Metrix Media. "It won't kill TV advertising because it's still the most powerful medium ever invented. But it will have to change and change significantly."

That assertion, gaining acceptance in advertising circles in recent months, has some of the more proactive types in sports television searching for information that will help them contemplate the fallout.

"It gives me headaches," said Artie Bulgrin, senior vice president of research and sales development at ESPN. "But, sitting where I am at ESPN, I feel pretty good about things."

Bulgrin points to all the intuitive reasoning presented by others in the industry, bolstered by observations from research conducted in conjunction with parent ABC. Earlier this year, the network began charting the viewing habits of about 100 DVR households.

Though he said the samples have been too small to draw definitive conclusions, Bulgrin made several intriguing observations about sports fans. For one, DVRs are not a factor for sports fans who buy high-definition televisions. Most DVRs are not compatible with high-definition sets and broadcasts. Given the choice between time-shifting or watching in high definition, consumers choose high def.

Sports fans also will cast aside the DVR remote if it limits their ability to surf from game to game. Often, it can. Recording a show on one channel makes it impossible to both surf and skip through commercials on another.

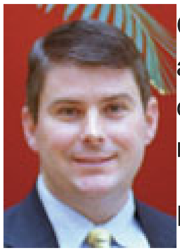
"We're trying to look beyond the raw numbers and understand what happens with a family that gets a set-top box," Bulgrin said. "Is it for everybody? What do they like or dislike? Who uses it and how?

"We're examining the survival of advertising in a DVR world."

Here to stay

The advertiser that is running one of the more visible sports-themed campaigns ever says he won't consider commercial-skipping “a big threat” to mass marketers, even when DVRs are in 30 million homes.

“But,” said MasterCard sports marketing head Bob Cramer, “at 30 million, it’s getting there. At some point, there’s going to be an impact. You can’t ignore it. This stuff is here to stay and it will take on other shapes and forms and be integrated into the way you consume media.”


Cramer

Cramer says he’s intrigued by the chance to deliver an extended message to a captive audience that opts to watch a long-form MasterCard spot. MasterCard was one of the first companies to run a test program with TiVo and will consider trying more when DVR use reaches critical mass.

For now, though, most sports sponsors seem comfortable with the traditional model of counting on fans to stick with them during breaks in the action.

“[The DVR] is not changing the way our sponsors are purchasing media right now,” said John Brody, senior vice president of corporate sales and marketing for MLB. “It’s not. But they do want to see what the impact is going to be in the future. If the customer starts to flock away from the commercial, as a sports property we’ll have to react to stay competitive.”

For those who find peril in the possibility that viewers like Steelers fan James Marsh will time-shift their way out of every last Budweiser ad, Desser, the DVR-friendly NBA exec, has this story of hope:

One Sunday night last month, Desser flipped on the TV after dinner, settling in to watch that night’s episode of “60 Minutes,” which he had set his TiVo to record. He was unaware that the PGA Championship ended in a playoff that ran well into CBS’ 7 p.m. ET window.

Seeking Morley Safer, he got Vijay Singh.

“I ended up with the extra holes on my TiVo, and I watched it,” Desser said. “There’s some bonus sports viewership for you.

“So there.”

Desser said he watched all the network promos.

And most of the commercials.

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