

# Generate New Advertising Revenue by Leveraging Network and Subscriber Intelligence

---

Supporting IPTV and beyond

By C. Bahr, L. Ciangiulli

## Introduction

A growing number of service providers are becoming aware of the new revenue opportunities associated with offering additional entertainment, communication and information subscription services. For example, IPTV subscription revenue for video content (including video on demand (VoD) and linear programming) is expected to increase from \$2.5 billion USD (€1.7 billion) in 2007 to \$22.4 billion USD (€15.2 billion) in 2013, according to ABI Research.<sup>1</sup> As the subscriber base grows, so does the opportunity to generate revenues from advertising over existing video and new entertainment services. Alcatel-Lucent analysis validates industry views that spending on traditional advertising media (including TV, radio, newspapers, direct mail and outdoor) is expected to grow at a compound annual growth rate (CAGR) of 5% over the next three years, while the digital advertising media spend (IPTV, Internet, mobile) will clip along at an 18% CAGR over the three-year period ending in 2011.

The ability to collect information on habits and behaviors that end users have opted into – including demographics, presence and content preferences – puts service providers in a very strong competitive position to attract the advertising budgets of consumer brand managers. Service providers can extract and aggregate information to offer advertisers targeted campaigns based on a number of important factors, including age, purchasing habits, personal settings – and even the types of delivery method, device, content, time and location contact the subscriber does not want.

They will need to have a very different conversation with ad buyers than the traditional mass advertising players. While service providers have an intimate knowledge of the subscriber base, the penetration of IPTV is still limited. This means that the best early opportunity for service providers is to approach advertisers with highly tailored, targeted and segmented marketing opportunities.

## Interactive advertising case study

An early example of interactive application delivery within a TV provider network comes from the UK's Sky satellite TV service, whose interactive platform generates approximately £90 million (\$168 million USD/€114 million) per year from applications and interactive advertising. Examples of applications include real-time TV voting, enhanced TV, gambling and advertiser microsites. Elements of the Sky Active portal service are enabled by the Alcatel-Lucent 5930 Interactive Media Manager, as are a number of other services from broadcasters such as the BBC, ITV and Channel Five.

<sup>1</sup> ©2008, *Global IPTV Markets*, ABI Research.

However, even in this new media environment, service providers face competition on a number of fronts. Traditional cable and satellite TV operators, for instance, have many of the same opportunities as IPTV operators. Indeed, cable TV shares many of the same capabilities as IPTV and claims a far larger market share in some regions. Advertisers will naturally want to invest in the media that maximize their reach.

Nevertheless, these competitors have their own problems. Established cable TV and satellite TV providers must wrestle with their own legacy equipment: older set-top boxes (STBs) generally have far less memory and extremely limited upstream bandwidth compared to even the first generation of IPTV STBs. IPTV technology, by contrast, supports interactive applications more easily, which makes it possible to provide a higher ad valuation on a cost-per-thousand (CPM) basis.

### **The Business Opportunity**

As a result, IPTV service providers have an opportunity to enhance traditional advertising models by enabling flexible, targeted and interactive experiences with each subscriber. This can be done by managing network and subscriber intelligence. However, to make this happen, service providers must understand how to establish and communicate the following value propositions to ad buyers:

- **Personalization of advertising.** Traditional advertising is incorporating aspects of direct marketing: there is now significant value associated with personalization. By harnessing specific subscriber data and correlating it with insights from pervasive presence, service providers can help advertisers maximize call-to-action response rates. This will, however, require service providers to broaden their reach across multiple media to enhance the brand messages.
- **Enhanced accountability.** The advertising industry has become accustomed to the instant feedback which Internet advertising now offers by capturing “click-through” and “page view” statistics. Consequently, ad buyers are no longer simply interested in simple CPM analyses – which are based on the number of viewers or readers delivered by a television program or magazine. Instead, advertisers are demanding the detailed accountability that is associated with the Internet and which is enhanced by IPTV. Service providers can offer granular metrics that offer advertisers deep insights into how marketing efforts reach and influence targeted consumers.
- **Hyper segmentation.** Carriers can offer advertisers “situational” marketing opportunities. For instance, advertisers can target consumers downloading MP3 files by creating campaigns that offer music-oriented advertising. This could include artist-specific ads or sponsored programming choices.
- **Permission-based marketing.** Instead of spamming people with 30-second commercials that are pushed to everyone, IPTV allows advertisers to deliver opt-in ad programs that enhance the relationship between the brand and the consumer.
- **Multi-platform campaigns.** Consumers are increasingly interested in an integrated experience across the different technologies and devices – such as TV, mobile phone and computer access to the Internet – that they use on a daily basis. Consequently, advertisers and their agencies are seeking cross-platform advertising strategies that combine the best new media channels, including IPTV, Internet and even mobile campaigns.

Advertising is an important component of any successful IPTV-based business model. It is interesting to note that major cable companies derive only about 5 to 6% of their profits from advertising. The rest of the TV revenue is generated by subscriptions to premium channels, video on demand, pay-per-view and other, similar offerings – and a significant proportion of this revenue must be passed along to the content providers.

Advertising revenue comes from the sale of ads into 30-second TV advertising slots (commonly referred to as “avails”), which are inserted into a broadcast stream (also known as linear ad insertion). Revenue is limited by the number of avails. After all, there are only about two minutes of avails per hour for national primetime network programming for service providers, in contrast to about 14 minutes for TV network owners/distributors. We also find that today’s local ad market (corresponding to the two minutes per hour) is somewhat immature, with large inventories of undersold or unsold local avails.

### Implementation Analysis

Understanding market dynamics and properly interpreting current trends is a prerequisite to charting a course of action. As a result, a number of elements are crucial to avoiding operational pitfalls. Two of the most important risks – and the keys to mitigating them – revolve around:

- Removing internal barriers to innovation: Barriers can stem from inflexible processes and systems that lengthen time-to-market and contribute to high production costs for new services. They also include organizational issues. However, as operators move away from service stovepipes by incorporating innovative service delivery capabilities, they can find a way out of this potential trap.
- Misunderstanding end-user needs and their evolution: Intimate knowledge of the subscriber base is critical to providing the proper service mix and experience, and therefore avoiding user dissatisfaction and churn. However, by employing the right techniques and tools to identify and follow end-user preferences and changing behaviors, service providers can develop compelling offers and generate additional revenue.

### Technology

From a technological standpoint, the requirements for understanding the needs and preferences of a consumer revolve around collecting, storing and analyzing subscriber-specific opt-in data, and then sharing critical insights with advertisers or ad agencies to validate the value of the audience that can be reached.

The content that carries the advertising messages must also be effectively delivered to the selected subscribers at the time, place and medium of a consumer’s choosing (Figure 1). To address these requirements, highly “subscriber-aware” network infrastructures are required that can:

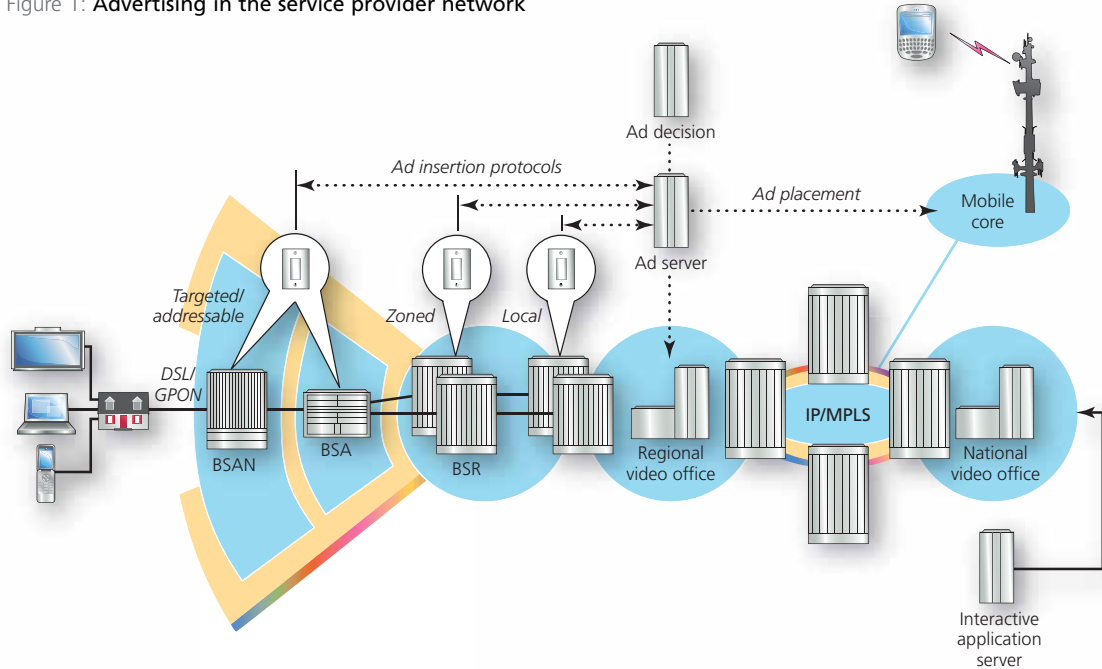
- Discover end-user behavior
- Understand subscriber preferences
- Measure demographics and location information
- Collate and categorize subscriber characteristics to form a consumer profile
- Protect consumer privacy

Furthermore, sophisticated analytics capabilities are needed to develop subscriber profiles from the diverse data stores. In addition to the analytics, an ad model is required to aggregate the subscriber profiles into desired ad inventories that can reach across multiple mediums in a way that allows the traffic to be measured and fed into the ad sales process.

Technology is currently available to deliver ads in a variety of ways, such as:

- 30-second spots on TV, for broadcast or VoD distribution
- Rolled out as interactive applications in a TV environment
- Inserted as SMS, MMS or ring-back tones on mobile telephony, or as graphical or video ads on mobile TV
- Ads inserted into Internet sessions

Figure 1: Advertising in the service provider network



Thirty-second TV spots can be provided using video ad-insertion technology that intercepts TV streams and replaces content that has been agreed upon by content originators/owners and detected by ad-insertion equipment. Ads can be inserted into either broadcast-style TV or VoD applications.

Interactive TV advertising is enabled by applications layered on the IPTV middleware client. Mobile advertisements are enabled through application servers integrated into the mobile service delivery network.

The delivery of personalized ads across multiple media requires the integration of the ad inventory through subscriber profile measurement and categorization. Compatible communications protocols allow an integrated ad selection process that connects advertisers with their audience and delivers ad effectiveness to the media agencies.

A success-based strategy must introduce more intelligence into service provider networks. The subscriber intelligence has to be deeply embedded into the network, in the network elements, in the network management and in subscriber provisioning and management. This means that specific network elements must be linked to integrated management systems so that diverse media (TV, mobile, Internet) can have a common and interoperable perspective of the subscriber data. Finally, the ad placement opportunities should be aggregated across the different media to enable effective ad sales.

## Mobile advertising

Mobile advertising awaits the demonstration of clear and effective business models. For example, in the UK the MVNO Blyk operates as an ad-supported mobile network and claims to have advertising campaign response rates of up to 29%, which is far above the typical "good" advertising response rates of 1%.<sup>2</sup>

## Bringing next-generation IPTV to market

Alcatel-Lucent is developing advertising solutions that help service providers understand the value that next-generation networking technologies can bring to the new media environment. At the core of this value is knowledge of the subscriber and the ability to control the last mile of the connection to end users.

Alcatel-Lucent offers linear ad insertion for its IPTV customers in which the service provider can replace content and ads, through contractual agreements with content owners, while complying with regulatory requirements. Linear ad insertion can be integrated into the network elements, offering a system that maximizes value with minimal cost and provides integrated QoS across a proven platform.

Alcatel-Lucent also enables the delivery of interactive content, including advertising, over supported middleware platforms. These advertisements can be targeted to specific subscriber profiles. Traditional media agencies are not accustomed to working with middleware-based interactive content; therefore Alcatel-Lucent enables uniform access and support of the media interface.

Alcatel-Lucent couples its equipment and applications with an industry-leading services and integration team. Network design is optimized for the service provider's needs, and network components are selected to match. The IPTV network can be managed completely by the Alcatel-Lucent team or built for service provider management. Aspects of the advertising solution can be delivered in a low price, revenue-sharing model to de-risk the service provider investment.

## Putting it All Together

The technologies, business strategies and market opportunities are now in place for service providers to play a major role in the new media environment. What remains for the industry to do is to put all the pieces together and develop a sophisticated dialogue with brand managers and advertising agencies so that they can better understand the benefits associated with the accountability and focus that IPTV can bring to marketing campaigns. ❄

Charles Bahr is Solutions Marketing Director, Carrier Group Marketing, Alcatel-Lucent, Murray Hill, NJ, USA.

Lisa Ciangiulli is Solutions Marketing Director, Carrier Group Marketing, Alcatel-Lucent, Murray Hill, NJ USA.

To contact the authors or request additional information, please send e-mail to [enrich.editor@alcatel-lucent.com](mailto:enrich.editor@alcatel-lucent.com).

Acknowledging contributions from

Patrick McCabe, Triple Play Marketing Manager, IP Division, Alcatel-Lucent, Ottawa, Canada.

Stephane Vergnault, Strategic Marketing Manager, Applications Division, Alcatel-Lucent, Lannion, France.

Nash Parker, Americas Strategy, Alcatel-Lucent, Mountain View, California, USA.

Alcatel, Lucent, Alcatel-Lucent and the Alcatel-Lucent logo are trademarks of Alcatel-Lucent. All other trademarks are the property of their respective owners. The information presented is subject to change without notice. Alcatel-Lucent assumes no responsibility for inaccuracies contained herein. © 2008 Alcatel-Lucent. All rights reserved.