TURN ON
TUNE IN
CASH OUT

Maximizing the Value of Television Audiences

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Chuck vs. Leno: The Inconsistent Business of Television

In April of 2009, a sandwich saved a television show. The sandwich was fairly large—12 inches to be exact—but the feat was extraordinary nonetheless. Here’s what happened. Fans heard that the NBC comedy Chuck might be cancelled at the end of the 2008-2009 television season and they took the usual actions fans take in these situations: they wrote letters to the studio and network responsible for producing Chuck and putting it on the air. Then they did something different—Chuck fans pled their case directly to Subway, one of the show’s prominent sponsors. On April 27, 2009, the day of Chuck’s season finale, fans went to Subway and bought foot-long sandwiches—a lot of foot-long sandwiches. They filled out comment cards, telling Subway managers that they bought the sandwiches to support Chuck. It worked. On May 19, 2009 NBC released a statement saying that Chuck had been renewed “due to an innovative advertising partnership with Subway.”

The campaign to save Chuck from cancellation, appropriately called “Finale and the Footlong campaign,” relied almost entirely on organization from the Chuck Internet community. The popular press eventually picked up on these fan efforts, but word spread primarily on Twitter and Chuck fan sites. The campaign was centralized on the fan website Zachary-levi.com, which is named for (but not run by) the actor who plays Chuck. A description of the campaign on Zachary-levi.com explains why the fans decided to buy sandwiches:

Lots of people want to help Chuck, but may not have the time or inclination to write letters, but the network will listen closer if we’re talking dollars…the intent is to let the network and their sponsor know that we’ve received their message. This is something a Nielson [sic] box can’t do…this is a translation of fan loyalty into real dollars that NBC & Subway can measure.
In this treatise, the fans behind the Finale and the Footlong Campaign make several assumptions about how the television business works:

• First, watching the show isn’t enough—to be heard by the network, these fans had to organize and take measurable action together to save Chuck;

• Second, Nielsen ratings could not quantify the fervor of Chuck fans’ devotion, but purchasing sandwiches could send that message;

• And third, the network (NBC) would be swayed more by monetary transactions—turning “fan loyalty into real dollars”—than by letters of support. These fans understood that the television industry had underestimated their value as audience members, so they went around the established system—to do “something a Nielsen box can’t do”—and took matters into their own hands.

The Finale and the Footlong Campaign didn’t only give us another season of a quirky dramedy; it also gives us a way to understand tensions around measuring and monetizing contemporary television audiences. By renewing Chuck based on fan activity, both NBC and Subway implicitly signaled their doubt about television ratings as an adequate measure of audience value. Of course, Chuck’s ratings weren’t terrible. According to a press release from NBC, Chuck averaged 7.3 million viewers each week in a “highly competitive time period.” Chuck also over-delivered with very desirable high-income households making more than $75,000 annually. Had the ratings been worse, the show would have probably suffered a different fate. Still, this is an important story because NBC and Subway took a risk: instead of only trusting ratings points to make a decision about Chuck, NBC and Subway listened to fans who were eager to prove that the system was not working. Chuck fans bought sandwiches to demonstrate that they were the people Subway was trying to reach—people who would buy foot-long sandwiches. If the ratings system could effectively measure the real value of the television audience, Nielsen would have been able to tell NBC that these sandwich-buying people were watching Chuck in numbers that justified Subway’s ad dollars. But they couldn’t or didn’t. And so, fans bought sandwiches and saved a show.

Meanwhile, on the same side of town...

While Chuck fans were buying sandwiches to save their favorite show, NBC was hatching an unconventional plan of its own, which showed comparable dissatisfaction with the way television audiences are monetized. In the fall of 2009, NBC changed the flow of its primetime programming, replacing an hour of scripted programming every weeknight with a talk show hosted by Jay Leno. Like Chuck fans, NBC executives attempted to get around the constraints of the television ratings system. But while Chuck fans circumvented NBC to prove that the system was not working, Chuck fans bought sandwiches to demonstrate that they were the people Subway was trying to reach—people who would buy foot-long sandwiches. If the ratings system could effectively measure the real value of the television audience, Nielsen would have been able to tell NBC that these sandwich-buying people were watching Chuck in numbers that justified Subway’s ad dollars. But they couldn’t or didn’t. And so, fans bought sandwiches and saved a show.
The Leno experiment was at once a success and a failure for NBC. Critics attacked NBC and The Jay Leno Show with a vehemence usually reserved for Charlie Sheen sitcoms. The New Yorker’s Nancy Franklin described Leno as a catastrophe and she ridiculed NBC’s decision to air the show: The forensic evidence so far indicates that a kind of death is taking place before our eyes; the only question is whether what we’re witnessing is an accident or a crime scene…NBC’s attitude toward ‘The Jay Leno Show’ signals a whole new level of indifference, resignation, and laziness.

The press continued to attack NBC even after Leno was pulled from primetime. In January of 2010, on the heels of an announcement that Leno would leave the 10:00 slot and return to 11:35, Entertainment Weekly ran a cover story entitled “TV’s 50 Biggest Bombs and Blunders.” The Jay Leno Show at 10:00 ranked number one. Still, even though Leno was ultimately cancelled, it was clear that The Jay Leno Show had accomplished what NBC had set out to do: Leno made money for NBC even without good ratings.

Leno was profitable because it cost next to nothing to produce and it was full of product placement. According to Nielsen data, Leno had the most product placements of any broadcast or cable series in 2009. Leno was eventually taken off the air because its low ratings hurt NBC news broadcasts at 11:00. With Leno as a lead-in, affiliates in major markets reported losing nearly half of their 11:00 news audiences. Leno was also among the least recorded shows of the 2009-2010 television season. When NBC executives pitched Leno in the spring of 2009, they claimed the show would be “DVR-proof,” meaning that people would want to watch it live. Live viewing would mean more ad revenue for NBC, but it turned out that people didn’t want to watch Leno at all.

Like Chuck fans and their sandwiches, the Leno experiment indicates the shifting value of television audiences. Both Chuck fans and NBC wanted to outsmart the ratings system: Chuck fans did it by appealing directly to sponsors and NBC did it by making a show that didn’t need ratings to make money. Though these actions seem diametrically opposed—one the act of loyal fans who loved a TV show and the other the money-saving ploy of a large corporation—they both reveal a fundamental tension in the audience research industry. The audience has monetary value to publishers and advertisers, but content has cultural value to viewers.

The struggle between the financial value of the audience and the cultural value of television content has played out over the decades, but it’s an increasingly critical issue because digital networked culture has given us the chance to see exactly how poorly television ratings reflect actual audience behavior. In this white paper, we’ll see that the ratings system is ultimately responsible for this growing division. As long as ratings exist in their current state, publishers and advertisers will miss out on innovative revenue opportunities and audiences will not get their fair share of culturally relevant programming.

Fortunately, audience behavior across television platforms is networked, instantaneous, and visible like never before. To discover sites of audience value, the industry needs to recognize and quantify the cultural value of content—they need to evaluate the reasons people watch TV in the first place. By looking at visible audience expressions, we can learn how to reach engaged audiences.
Project Overview

Chuck fans were right—the system isn’t working. Ratings are meant to make audiences valuable to publishers and advertisers, but ratings are too narrowly constructed to represent the diverse sites of value embodied in the contemporary television audience. This white paper explores sites of tension raised by Chuck and Leno and suggests three key areas that should be re-imagined to maximize the value of the television audience for the digital age.

PART I: Structural Relationships Among Industry Players

This section addresses how the legacy economic structure of the television industry has prevented industry players from maximizing the value of increasingly fragmented television audiences. We’ll see that industry players are caught in a codependent relationship that privileges the status quo to the detriment of true innovation. These relationships functioned best when audiences and programs were aggregated because there was only one way to watch TV—when it was on.

Today, there are many ways to watch TV—live, recorded on a DVR, online, downloaded—but audiences are still measured like linear television audiences. This method of audience measurement fails to leverage the affordances of the medium and allows a lot of viewers to slip through the cracks. Sometimes, as in the case of Chuck, viewers take it upon themselves to make sure this doesn’t happen, but most of the time networks and advertisers are guided by their dependence on outmoded conceptions of audience value.

PART II: The Changing Value of Television Audiences

The second section argues for a system of audience measurement that maintains the value of audience exposure while accounting for the value of audience expression. Audience measurement firms have consistently created passive methods to measure the audience, reasoning that measurement becomes more accurate as the audience becomes less involved. For this reason, the television industry trades in “exposures,” which simply means the number of people exposed to a program or ad. Chuck clearly made an impact on sandwich-buying fans, but the fans didn’t believe that measurements of exposure—in the form of Nielsen ratings—could adequately quantify their devotion to the show. Rather than rely on a system that allegedly counted exposure, the fans chose to express their devotion to Chuck. The problem is that the television industry doesn’t trade in expression. This section explores the mindsets that will allow us to make digital viewer expressions valuable.
PART III: Leveraging Digital Affordances to Maximize Audience Value

Publishers, advertisers, and measurement companies have historically been able to get around the limitations of their codependency, but they are faced with increasing competition from digital companies that understand how to make fragmented audiences valuable. Both the methodologies and corporate ethos of successful online companies like Netflix and Google can serve as a model for the television industry, or they can be its undoing. The last section explains how the logic of successful digital companies can be applied to the television business. This section uses mini-studies of several Internet companies to argue for the increasing importance of experimentation, networking, taste, organization, and interface in the television business for the purposes of better understanding audience engagement and audience value.

What follows is an attempt to make sense of how the television audience can remain valuable to all these players while emergent systems challenge long-held beliefs. We’ll consider what the television audience has been, what it is, and what it could be. The shortcomings of the current ratings industry don’t have to obfuscate the real value of television viewers. The industry needs to understand the weaknesses of its residual practices and embrace emergent systems in order to maximize the value of television audiences.

PART I: Structural Relationships

As we saw with Chuck fans and their sandwiches, Nielsen ratings weren’t able to measure an important economic characteristic of the Chuck audience: the fact that they would support Subway, the show’s sponsor. Fans took it upon themselves to make their consumer proclivities known. NBC, Nielsen, and Subway may have been able to tell that Chuck fans were engaged with the show online, but that knowledge didn’t contribute to whether Chuck was seen as a profitable show, or even a show that was worth keeping on the air. Nielsen ratings are the primary currency used to sell commercial time on television, and the organized, networked behavior of Chuck fans wasn’t being counted by the ratings system in a way that could be used to sell commercial time. The audience measured by Nielsen is the only audience that really counts within the system of the television industry because Nielsen ratings are used to determine ad negotiations for linear TV, which are by far the largest source of advertising income for publishers.

Of course, we saw that people can go around the system to be counted, but we shouldn’t have to count on zealous audience members to do the counting for us. We also shouldn’t have to rely on programming like The Jay Leno Show that keeps cost down but doesn’t attract an audience. The way we watch television is outgrowing the way we valuate audiences, and we now have the opportunity to create a system that tries to better account for the real value of audiences.
The challenges facing the industry can be partially attributed to the way that relationships between industry players shape audience value. The relationships formed between publishers, advertisers, measurement firms, and MVPDs in television’s first decades still bear heavily on the industry today. These relationships reveal that publishers, advertisers, measurement firms, and MVPDs are not a collection of self-interested players, but are rather an interconnected system where the livelihood of each depends on the existence of the others. These crucial dependencies have remained relatively unchanged even though they were formed at a time when television audiences were far less fragmented than they are today. This section will deal with how these relationships formed, why they’re getting in the way now, and what we can do to reconfigure them to better serve the digital landscape.

The Good, The Bad, and The Ratings

Television ratings are at the center of the television industry’s business model, and they benefit advertisers and publishers in two ways: first, they provide a neutral currency for transactions; and second, they simplify negotiations between advertisers and publishers. Keeping this structural relationship in place has been a priority for the industry because it makes negotiation possible. Under these conditions, uniformity of ratings can be achieved if a single ratings firm measures every audience, and the company that provides that large-scale measurement to the entire industry is then positioned to be a ratings monopolist. Since 1950, AC Nielsen has been that monopolist in the US market. Nielsen has been challenged several times, but ultimately the benefits of having a ratings monopolist have outweighed the cost and the hassle of having to balance, negotiate, and exchange between multiple ratings systems. This structural relationship has not made it easy for the ratings industry to innovate because the power dynamics of the television industry have put ratings providers in a reactive position. While publishers, advertisers, and distributors compete to attract audiences, ratings providers typically only react to the changes that become part of the dominant system—and most of those changes come on the distribution side. As distribution technologies change, publishers and advertisers desire data that reflects the new ways of reaching and constructing audiences. But because there is no competition, the ratings provider has little incentive to innovate its technology until advertisers and publishers demand a new way to measure the audience. For example, as cable reached acceptable levels of saturation, advertisers became more interested in cable and consequently, both networks and advertisers wanted ratings data. Nielsen, however, didn’t start providing cable ratings until Turner Broadcasting System became the first cable network willing to pay extra for Nielsen data. Unfortunately, the entire system has become so slow to change that it’s no longer able to keep up with new opportunities to create audience value.
Facing Fragmentation

The rise of digital distribution has disrupted the tenuous equilibrium that the television industry has achieved. Since the rise of cable television in the 1980s, the industry has become used to dealing with audiences fragmented across many different channels, but now the industry is faced with the added challenge of intermedia fragmentation as well. Intermedia fragmentation, a term from economist Philip Napoli, describes the way the audience has become fragmented across platforms. Napoli explains that the “addition of new media technologies to the media system…expands the range of cross-media content options available to the typical media consumer.” People are not only watching TV programs on different channels—they’re now watching programs on devices other than linear television. We’re no longer dealing with an expansion of what’s available on television; we’re dealing with an expansion in the definition of television. And the definition of the audience is changing, too. Digital video recorders (DVR), video-on-demand (VOD), online television aggregators, network online television sites, connected devices, download services, and streaming mobile video are all “television” now, and they’re all vying for the attention of what was once just a linear television audience.

Even though intermedia fragmentation has become commonplace, the legacy relationships and logics created during the broadcast era still govern the television industry. The value of the large, aggregated audience measured watching linear television is still greater than the value of an audience on any other distribution platform for three reasons:

- First, the relationships among advertisers, publishers, and Nielsen have created a clear business model for advertiser-supported linear TV;
- Second, the same clarity doesn’t exist online, with DVR playback, or with VOD;
- And third, publishers are still learning to translate their core competencies from linear TV to the new digital space.

The Role of the Mediator

Nielsen, as the mediator, holds a lot of the power because they create the currency for transactions between advertisers and publishers. The television industry has a system for measuring linear TV, but now they also have to measure DVR playback, VOD, and online streaming. If publishers want to distribute their content on a new platform, they have to convince Nielsen to measure that platform or they need to find another reliable third-party to measure it. Both these options come with serious drawbacks: first, finding another measurer is difficult because Nielsen has made itself conveniently ubiquitous; and second the structural relationship between advertisers and publishers becomes unstable in the digital space without a clear mediator like Nielsen in place.
The current dependencies in the industry may not be ideal, but it’s important to remember that this system is not natural. This structure was created by the broadcasting industry, and if the ratings system isn’t working it can be re-configured to preserve the benefits it provides without incurring the costs and confusion. An overhaul of television ratings wouldn’t be easy. Before we can change the ratings system, we have to do a simple cost-benefit analysis: we must determine what value, if any, the ratings system provides in its current configuration, and weigh that value against the costs to overall effectiveness that publishers and advertisers incur by keeping the ratings system.

**Meeting Measurement Needs**

To reevaluate the role of the mediator in the television industry, we must consider all the needs that are fulfilled by the current system. A re-imagined mediator must meet these needs while leveraging new sites of value.

**The Need for a Common Currency**

As we’ve seen, a monopolistic ratings provider gives advertisers and publishers the ease of a common currency. Now with intermedia fragmentation, publishers and advertisers are struggling to make sense of different audience metrics on each distribution platform. This isn’t necessarily a bad thing because, as we’ll see in the next section, the industry still needs to figure out how to determine the value of audiences on different platforms, and a one-size-fits-all metric might not account for the diversity of viewership represented by linear, time-shifted, online, and mobile viewing. Still, most attempts to deal with intermedia fragmentation have focused on replicating linear television’s measurement system, and accordingly, the relationships between players fostered by that system. Nielsen, for example, is in the process of adding online viewing to its linear TV panel. While this initiative will simplify negotiations between advertisers and publishers, it treats all modes of viewership the same across platforms, and that kind of thinking may preclude new revenue streams on emerging platforms.

**The Need to Measure the Un-Measurable**

The business of media ratings evolved out of a need to quantify the audience for broadcast programming. It would be nearly impossible to figure out exactly who is listening to the radio or watching TV in millions of households across the country, so the ratings industry developed to measure the media consumption of a statistically significant sample of the entire media-consuming population. The digital audience is now un-measurable like the broadcast audience once was. Media companies are struggling to define what constitutes a relevant digital audience member in terms of how long a user watches a streaming video or how long she leaves a web page open. The innovative mediator will be able to create a definition of the audience, or the user, that is adequate for the purpose of negotiation.
The Need for Demographics

Nielsen has a tremendous advantage over competitors because of its demographic data. Nielsen knows the race, gender, income, and household composition of its panelists because Nielsen panelists agree to provide that information. Successful mediators will need to clarify their relationship not only to advertisers and publishers, but also to users. Because analyzing the behavior of people who have not explicitly agreed to provide personal data, as is often the case with the Internet, comes with some serious privacy concerns. Perhaps behavioral targeting will continue to be enough for digital advertisers, but chances are they’ll want more sophisticated demographic data. A successfully innovative mediator will need to be able to provide demographic data while staying on the right side of privacy concerns. There are several models for dealing with privacy. Google has been most successful by providing services in exchange for data. For example, in exchange for free email service with Gmail, Google users agree to allow Google to run key-word advertisements alongside their inboxes. Digital companies can also make explicit opt-out agreements for data sharing, or even better, opt-in agreements. These agreements make users aware of the data they’re sharing, and allow them to prevent their data from being shared.

A New Kind of Mediator

To get perspective on how the role of the mediator can change to better accommodate the digital landscape, we need to look no further than Google. Google has a different relationship to content than those in the business of linear television. While Google serves as a mediator between publishers and advertisers, Google is neither advertiser, nor publisher, nor MVPD. Instead, Google is a portal that allows users to discover content while serving ads. Like Nielsen, Google creates a currency based in user data, but unlike Nielsen, Google provides publishers and advertisers with real-time campaign analytics and a platform for buying, selling, and serving ads. Of course, it’s important to remember that Google doesn’t have a monopoly on search. Accordingly, they’ve had to innovate to stay ahead of the market.

We’ll get into specific strategies for improving the efficacy of the mediator in the following sections, but for now it’s important to realize what Google is doing online that Nielsen isn’t doing for linear television. As the mediator, Google is adding value to the online advertising ecosystem. Both Nielsen and Google create a currency by measuring audiences, and both Nielsen and Google effectively sell audiences. Yet while Nielsen only provides data in the form of ratings, Google makes sense of the digital data it provides by creating a marketplace where its currency has an established value that advertisers can to pay to reach their desired customers. Of course, Google is able to track the millions of users that interact with its domain while Nielsen can only track the behaviors of its panel. Still, Nielsen has an advantage over Google in one respect. Google can use clickstream analysis and cookies to create an impression of a user based on her previous behavior, but even Google can’t provide the demographic data Nielsen has.
The Google model isn’t necessarily right for the television industry, but it does provide a useful way to consider the way a mediator could add value in the television industry. Too often start-ups are able to add some kind of new value without addressing the needs of the industry. Despite all its problems and complicated interdependencies, or perhaps because of them, the ratings system still makes transactions between advertisers and publishers easier. A worthwhile reconfiguration of these relationships should strive to simplify the complicated multi-platform media landscape. The next section will further explore what exactly a reconfigured television industry should be measuring.

PART II: The Changing Value of the Television Audience

Attention is a personal, subjective concept that the television industry has tried to make into something that can be bought and sold. The television industry has historically measured TV viewer attention as “exposure.” Exposures are simply the number of eyeballs that are exposed to a program or ad. To gloss over the slipperiness of its object, the audience research industry relies on the concepts of exposure and passive measurement to make the audience valuable. These logics were once bound by the conditions of the television industry, but they are no longer adequate to describe the current television environment. We’re now left with a system of audience measurement where human behavior gets in the way of measuring human behavior and where the industry privileges the audience that Nielsen can create rather than the audience that’s most relevant to advertisers and publishers.

This section argues for a paradigm shift: instead of letting the outmoded concept of “exposure” or the Internet misnomer “impression” dictate the value of the audience, we need to understand TV viewing as an expressive process. The following section will explain the shortcomings of the current system of television audience measurement and describe a few strategies for qualifying and quantifying viewer expressions.

Passive Measurement

Measurement technologies are made to avoid human interaction because subjective variables make the system less reliable. Right before Nielsen rolled out its people meter in 1987, CBS’s head of research David Poltrack described the ideal measurement system in a Washington Post interview: “We all agree that the best technology is a totally passive system that doesn’t require any interaction with the viewer.” The people meter did require interaction from the viewer, but it required less interaction than diaries, so it was a step in the direction of totally passive measurement. Because of this focus on unobtrusive measurement, the audience research industry has been able to produce adequate quantitative estimates of attention, but hasn’t really incorporated the quality of attention into ratings.
The focus on passivity has prevented the industry from trying to understand audience behavior. The measurement industry has created a vicious cycle by trying to limit interaction with the viewer: since Nielsen can develop passive technologies, publishers and advertisers become accustomed to programming for audiences measured by passive technologies; and because publishers and advertisers are used to passive measurements, Nielsen continues to develop passive technologies. As a result, the industry rarely questions the assumption that audience measurement systems shouldn’t require human input. The value of passivity needs to be redefined as networked digital culture makes viewer activity more visible, more measurable, and arguably more valuable.

From Exposure to Impression

While television industry trades in “exposures,” online advertising trades in “impressions.” In practice, the distinction between exposure and impression is mostly semantic, but it indicates different assumptions held by television and online advertisers. Both these terms describe advertising in relation to the viewer or user. While TV ads are measured in viewer exposures, an online advertisement is measured each time it loads and produces an impression on the user’s screen. Just because it makes an impression on the screen, however, does not mean that the advertisement has also made an impression on the user. Impression, like attention, is a subjective concept—it’s very difficult to tell what a person takes away from an advertisement at the level of digital data, but online advertising doesn’t only measure impressions.

Several different advertising models exist in online marketing and they allow advertisers to target their ads and measure consumer behavior. At the most basic level online advertising looks a lot like television advertising. CPMs (cost per thousand viewers exposed to an ad) are sold to advertisers. Cost per Click (CPC) and Cost Per Action (CPA) represent a divergence from the typical television model. CPC and CPA allow advertisers to pay to place online ads based on how many people click or take a specific action related to their ad. A CPC or CPA ad on television could make television into a direct-response medium.

Television has not been able to effectively leverage web-advertising technology, even though television is distributed digitally. The gulf in measurable ROI between online advertising and TV advertising has been widening for a while. Back in 1995, Nielsen’s Barry Cook anticipated the difference in standards between online measurement and TV measurement: “Traditional media may face accountability challenges from the information superhighway which may be beyond today’s audience measurement methods.” In fact, the “information superhighway” of 1995 was probably ahead of 2010’s television audience measurement methods. Part of the reason for this can be attributed to the interactivity of online media. Consumer behavior is easier to measure online because browser cookies can track users from ad exposure to point of sale. Further, recommendation engines like those used by Amazon and Netflix can predict what users will be interested in based on their previous behavior. The same technology doesn’t exist for TV on a mass scale yet, though not for lack of technological capacity.
Expression

Audiences can make their preferences known to publishers, advertisers, and raters through their interactions with digital content. Interaction can range from simply changing the channel on a digital TV to creating fan fiction online. These interactions can be quantified and incorporated into the value of the audience. Instead of just measuring based on age, gender, and geographic data, the industry can use digital data to better understand use patterns—when people watch, how they watch, where they watch, and how they interact with content on other platforms. There are layers of granularity in the use patterns of digital viewers: the first is the simply interacting with digital interfaces; and the second is interacting with content across platforms. Interaction with digital interfaces is a fairly straightforward measure. We can measure how people change the channels on a digital TV, when they fast-forward with their DVRs, and how long they watch videos. Let’s explore the digital sites of value that the television industry can use to make the use patterns of viewers more visible.

Fans

The Internet has allowed fans to create networks and share content in a space that’s visible to publishers and advertisers who know where to look. Online, networked activity has made it much easier for fans to create and circulate value within communities. Publishers are turning to fan activity to learn about audience behavior and to gauge the interests of audiences. Where fans were once a small subset of people who actively interacted with content, they are now seen as “lead users” who can help publishers understand the behaviors of more viewers who choose to participate in network culture. Joshua Green and Henry Jenkins explain the shifting role of fans in the network age:

Fans have been redefined as the drivers of wealth production within the new digital economy: their engagement and participation is actively being pursued, if still imperfectly understood, by media companies interested in adopting Web 2.0 strategies.

Though Green and Jenkins are correct about the industry’s recent valorization of fan activity, we have to understand that fans don’t necessarily predict how other people will behave. Their willingness to interact with content is, and has always been, unusual.

Most of the activity that takes place within network culture isn’t about fandom—it’s about people trying to make connections within their own networks. Fans, then, should only be seen as a first point of intervention for publishers and advertisers. Fans can create interest and momentum for content within their own networks by sharing, praising, and convincing their friends to watch certain TV shows, but it’s important to remember that fans are not necessarily representative of the entire audience and that most casual members of the audience are probably not interested in getting even peripherally involved in fan communities.
Everyone Else

Luckily, even non-fans are more visible, and they’re arguably more economically valuable than fans are. Not everyone participating in networked culture creates content, but even spectators can still be valuable as audience members. José Van Dijck and David Nieborg cite a study showing that “the average income of passive spectators of user-generated content sites is significantly higher than the median income of content creators.” The challenge becomes figuring out how spectators use content so we can assess their value as audiences.

We can see how people use content within their social networks to an extent, but it’s difficult to put a measure on use value. Green and Jenkins argue that when people share information within their networks, they are actually working to bridge the financial value of the audience and cultural value of content:

We need to recognize the ways that these two notions—assessing economic value and determining cultural or sentimental worth—are increasingly connected, as the artifact...travels through different kinds of exchanges involving groups who are applying different systems of evaluation and who may be pursuing fundamentally divergent goals and interests.

Like Chuck fans who were able to prove their value to advertisers, the audiences that Green and Jenkins describe are deftly moving between the cultural logic of audiencehood and the financial logic of the television industry. This work of evaluation and appraisal shouldn’t be left only to audiences. To harness the value of networked culture, publishers and advertisers must similarly evaluate and appraise the ways audiences engage with content. Audience research should ultimately position engagement and participation as sites of value alongside estimates of exposure. Measures of attention should be combined with measures of engagement to form a more complete representation of the audience.

Context

Publishers and advertisers are also faced with the extra challenge of having to extend their core competencies into the digital space. As previous C3 white papers have discussed, the strategies and tactics that worked for attracting linear audiences don’t always work for attracting digital audiences. Instead of finding the varied value of audiences in each viewing context, publishers have decided to assemble aggregated audiences from fragmented distribution channels. David Poltrack of CBS explains this strategy in an Advertising Age article:

An ad might run in “CSI,” the TV episode, but also in all streams of the show online for one week...[In the future] we’ll sell you ‘CSI’ across platforms. You will get your advertising in the episode that goes on TV that week, and you’ll get your ad running in all streams of any episode of ‘CSI’ online for that one week. Now you’re building up more of a significant amount of internet coverage and then the same thing could apply to mobile.
This strategy makes things easier for networks and advertisers who would theoretically be able to place a single ad on three platforms. Advertisers gain a degree of consistency by associating their brands with CSI wherever CSI appears, be it on TV, online, or on a mobile phone. This approach seems to neatly replicate the monetization model for linear television, but it ignores the opportunity to explore new revenue streams.

Different viewing platforms allow us to add another dimension of value to the audience product: context. People choose to watch a television program on a certain platform for a reason. There are also different behaviors associated with different platforms and different content. Understanding the implications of viewing context makes the television audience even more valuable to advertisers and publishers (see appendix). Context provides an opportunity to expand advertising strategies beyond showing the same ads on every platform.

**Active is the New Passive**

When we can eventually leverage digital expressions, we have to decide how to valuate them. The audience has the potential to become more powerful than it’s ever been and, this time, audience power doesn’t just rest in the hands of those intrepid Chuck fans buying sandwiches. Everyone with a remote could effectively tell publishers and advertisers what they like, what they hate, and what they want. For now, digital television measurement is missing out on rich insights and innovative data that could apply to ailing business models. Still, it’s only a matter of time until the television industry figures out a way to leverage digital data in audience measurement. The outcome will either involve waiting for Nielsen to change or coming up with something new.
PART III: Leveraging Digital Affordances to Maximize Audience Value

Digital distribution presents opportunities for publishers and advertisers to discover new revenue streams and business models. While the challenges of digital distribution and measuring digital audiences are relatively new for television, Internet media companies have lots of experience dealing with the challenges of digital data. The television business shouldn’t adopt Internet norms wholesale, but there is a lot to learn from the way successful Internet ventures are run. The networked nature of digital distribution allows for near real-time experimentation and measurement, and savvy digital companies have learned to make sense of digital data to maximize the value of their products.

This section will focus on how the television business can learn from the culture of the Internet to improve digital television offerings both online and offline. We’ll explore how three companies have been able to leverage three key concepts: experimentation; network culture; and taste, organization, and interface. The businesses in this section have become successful because they focus on constant, proactive innovation and improvement. These models are antithetical to the measurement industry’s reactive strategy and the television industry’s desire to maintain the value of aggregate audiences through ‘stable’ relationships, no matter how outmoded. Digital business models exist in a different ecosystem, but they’re becoming increasingly relevant as television distribution continues to change. For these companies, success in the digital space has meant understanding individual users and fostering a culture of innovation—two notorious shortcomings of television research.

Google, Data, and Experimentation

The online advertising market is an especially relevant example of how competitive digital markets have been able to adapt to changing technology while creating valuable audiences. Rather than trying to aggregate disparate users into a saleable whole, online ad platforms allow advertisers to set their own terms and target the exact users they wish to reach within the ecosystem of the advertising network. Though this technology is hardly emergent in the web sphere, the thinking behind it challenges the logics that guide the television market. And no company is better poised to challenge TV advertising than Google.

Google has become a leader in online advertising sales by leveraging networked data rather than improving hardware. Google’s search business model is structured around quantifying and predicting user behavior. Every time Google serves an ad or observes a user’s behavior, that knowledge is fed back into the system, making Google’s platforms better at predicting the behavior of future users. Google uses proprietary algorithms to create value. Algorithms give Google users the best possible search results, and Google uses algorithms to organize its ad serving platforms.
We’ve seen that Google has a different approach to its role of mediator than we’ve seen in the television industry: Google is able to deliver personal, targeted ads while television still delivers advertisements to mass audiences. But Google’s business outlook is different from the television industry’s as well. Google proactively tries to improve its methods instead of simply reacting to industry pressure. To stay ahead in the search market and minimize security threats, Google conducts anywhere from 50 to 200 experiments at a time on its search results. The results are then analyzed in real-time and used to make the algorithm more efficient. Google’s algorithm is a secret, but they probably change it at least daily. Google started to translate its digital leadership into the television marketplace because Google understands how to make behavioral data valuable on a mass scale. In 2007, Google made a deal with Echostar, which sells local ad inventory for 100 channels on Dish Network. Google also sells local ad inventory for more than a dozen other networks including CBS College Sports, CNBC, MSNBC, and SyFy. At the time of writing, Google claims to have served over 100 billion ad impressions on television. Google has also formed strategic partnerships with TiVo and Nielsen to combine their expertise in behavioral targeting with Nielsen and TiVo’s demographic data. Mike Steib, the director of Google TV ads, believes that Google can use its online expertise to “help make television ads more relevant to viewers.” Google doesn’t seem to be trying to compete with Nielsen, and Google isn’t measuring television ads—or it’s at least not providing a measurement product—instead Google is targeting and serving ads. Still Google’s expertise and way of thinking about the audience as user could be instructive to the television industry, which is still trying to create an aggregated whole from fragmented parts.

**Netflix, Corporate Culture, and Network Culture**

Online DVD rental company Netflix provides another example of innovative digital strategies that can apply to the television industry. Like Google, Netflix used the power of networks to find a solution to one of its key business challenges. Netflix had a problem similar to that which the television industry could face with digital set-top-box (STB) data. Netflix recommends hundreds of millions of movies to its users every day. Executives believed that their recommendation algorithm could be improved. In 2006, Netflix offered a $1 million prize to anyone who could come up with a movie-recommendation algorithm that was 10% better than Netflix’s algorithm. The winning team was comprised of three teams who combined forces to improve the algorithm. Though it took more than three years, Netflix was able to substantially improve its business by allowing its data set to be “crowdsourced.” Netflix correctly guessed that its corporate culture was limiting the potential of the recommendation engine. By opening its data to outsiders, Netflix ultimately came away with a better way to do business. The television industry may not be able to similarly “crowdsource” its data issues, but they could learn to leverage the advantages of network culture.
Even if the television industry doesn’t see The Netflix Prize as an instructive example, they now have to understand Netflix as a competitor. Like Google, Netflix is also innovating on traditional television distribution models. Netflix has leveraged the networking capabilities of digital technology to change the delivery of DVD content. By brokering deals with movie and TV studios for rights to their back-catalogs, Netflix streaming service has created a robust on-demand content environment that sidesteps the licensing issues that typically stall online TV distribution. Netflix offers standard-definition and high-definition streaming movies and television shows to its subscribers on PCs and a variety of over-the-top connected devices including Roku, TiVo, Xbox 360, and certain Samsung and LG Blu-Ray DVD players. Viewers cannot watch recent episodes of television shows because Netflix only offers content that has already been released on DVD, but Netflix’s online library rivals any VOD menu. Both Netflix and Google have been able to innovate so significantly in the digital space because they have been able to combine two key affordances of the digital environment. First, they’ve been able to invest in infrastructure and leverage the falling costs of digital distribution. Google, for instance, has pushed the limits of processing power by offering real-time ad auctions. Netflix is able to deliver streaming, high definition content because the marginal cost of distributing this content has fallen so significantly in the past few years. Processing power and digital delivery mechanisms are important to these business models, but Netflix and Google are exponentially more successful because they’ve been able to make sense of the vast amounts of digital data available from their users.

**Demand Media, Taste, Organization, and Interface**

Monitoring audience taste and curating content are two major opportunities for innovation in the coming years. In the past, as we saw with Chuck, audiences have expressed taste on an ad hoc basis by engaging in letter-writing campaigns to make their taste known to networks when ratings weren’t accounting for them. Demand Media claims to have gotten around the problem of taste by reducing consumer desires to an algorithm. While TV producers try to create content they think people will like, Demand Media creates content based solely on the search terms of anonymous Internet users. Here’s how it works: Demand’s algorithm combs through bulk search results; then it calculates key word rates for popular search terms; next the algorithm generates search terms that will be profitable. Then another algorithm figures out what people specifically want to know about the search terms and then generates an estimate of the lifetime value of each search term. Demand Media posts the search terms to a giant database of filmmakers and writers who produce instructional pieces on the search terms. Finally, Demand publishes the completed videos and articles to its own sites and to aggregators like YouTube. Demand Media profits from this content through several advertising revenue sharing models. And they’ve been very profitable. In November 2009, Demand was valued at $1 billion and is expected to bring $200 million in revenue in 2010.

Interestingly, Demand Media was far less profitable when humans decided what content would be produced. Before Demand developed its algorithm, human editors would comb through search terms and decided what content to produce. The algorithm is now able to generate more ideas than the human editors were and it’s able to generate more profitable ideas: pieces suggested by the algorithm are 20-25 more profitable than pieces suggested by human editors.
Demand Media runs on the premise that media companies should lower the costs of production until they make a profit, but Demand isn’t concerned with producing relevant insights or attracting loyal fans. People like Chuck fans are willing to go to great lengths to express their affinity for television content, and there’s almost no chance anyone would be as passionate about Demand’s cheaply produced instructional videos on topics like “Outdoor Grilling Tips” and “How to Buy and Care for Chinchillas.” In that respect, Demand Media is profitable, but not culturally salient—like NBC’s decision to air Jay Leno five nights a week. Of course, as the company’s name suggests, there is a demand for video tutorials on banal subjects, and Demand Media has successfully met that demand. It’s also important to note that Demand Media doesn’t try to apply its model to every type of content. Demand doesn’t use its algorithm to produce news or entertainment content because it’s not profitable enough. Seems that news and entertainment can still be left to trained professionals.

The TV industry should avoid Demand’s approach to content unless it wants another repeat of the Jay Leno fiasco, but there’s also a way to use the principles of demand’s marketing to reach customers. And that brings us to another key area for innovation in digital television: organization and interface. Digital data has tremendous potential to organize, curate, and target programming. This concept isn’t new to anyone in the industry. In an April 2009 Ad Week article NBCU Chief Research Officer Alan Wurtzel said as much: “We are virtually drowning in data…It’s not the amount of data that is the problem; it’s the quality and utility.” Publishers and advertisers need to make sense of the data at their disposal to reach audiences. That’s where the logic of information systems like Demand Media’s algorithm can be helpful. The business of television is now subject to the organizational logics that govern digital information. C3’s own William Uricchio argues that neither the viewer nor the programmer control television flow in the digital era. Instead, he poses that the way content is organized—through metadata protocols and interface design—ultimately decide what gets seen. Uruguay is absolutely right to emphasize the importance of data organization: user interfaces—whether on TV or online—are the first point of contact viewers have with content. Viewers now search for, discover, watch, and interact with television programming through digital interfaces. And digital information can flow two ways. Viewers leave traces of their taste every time they use a digital interface. The trick is figuring out how to make sense of that behavior and create a better viewing experience. The intervention here is subtle but powerful. We need to combine the work of publisher-side curation with the work of viewer-side appraisal, as discussed by Jenkins and Green. These two processes should become a symbiotic whole where audience behavior directly affects the way publishers organize programming. We have the opportunity to let the audience have its say. If we don’t listen, we risk deepening the divide between the cultural value of content and the financial value of the audience.
As Google, Netflix, and Demand Media have shown, willingness to experiment and understanding of network culture are excellent ways to make sense of digital data. Though Nielsen ratings will probably dominate television measurement for the next several years, publishers and advertisers have the opportunity to start afresh in the online space. The stakes are currently lower online since most revenue still comes from linear TV. There’s a tremendous opportunity to make online audiences more valuable. While linear television distribution is inflexible because of complicated contracts with MVPDs and myriad incompatible delivery protocols, online experiments can be conducted, analyzed, and adjusted in near real-time. Instead of treating streaming TV sites like an extension of the broadcast space, the industry should view online TV as a testing ground. Their findings will be extremely valuable in the long term because television distribution technology and broadband penetration rates suggest that TV will be delivered primarily through Internet protocol in the coming years.

**CBS Makes It Work**

This section has made the case that the Internet can teach TV how to use digital data, but we haven’t looked at any TV-based examples yet. Unfortunately, outmoded licensing agreements too often keep publishers and advertisers from experimenting online, but there are exceptions. CBS’s deal with the NCAA for March Madness broadcast rights is a prime example of how well distribution could work without archaic licensing agreements.

CBS’s deal with the NCAA included no restrictions on live web streaming, so over the past few years, CBS was able to experiment to find out which models were most profitable. In 2003, CBS charged $15 for access to online games. In 2006, they stopped charging, but didn’t show certain games in certain markets in an attempt to drive viewers to linear TV. In 2008, CBS decided to make all 64 March Madness games available online without restrictions. And in 2010, CBS sold as many ads for live web coverage as it did for linear TV coverage of March Madness. Online ad revenue for the tournament alone brought the network $37 million, which was a 20% increase over 2009. With March Madness, CBS was able to find an ad-supported model that worked. Distributors rarely have the chance to do that kind of experimentation because of their rigid agreements with producers, but experimentation clearly benefited CBS enormously. Flexible licensing deals need to be part of the equation going forward if publishers and advertisers want to remain profitable.

To find the kind of success CBS did with March Madness, publishers need to work with distributors and advertisers to create the best environment for content across platforms. Those who can experiment online will learn what works best, as CBS did, and business models will begin to emerge.
Conclusion

This paper has been about far more than the stories of Chuck and Leno, though they do provide evidence of the industry’s current ambivalence. This white paper has tackled some of the transitional issues facing the American TV industry. From the stagnant relationships between television industry players, to the anachronistic construction of the audience, to the ways we value the audiences, it’s become clear that the industry’s residual logics of aggregation, passive measurement, and commoditized audiences no longer serve the emergent media landscape. Conceptions of the audience formed in the era of linear TV have had too great an impact on the way the industry has determined the value of the digital, networked, cross-platform television audience.

Nielsen may not come off well here. I don’t mean to condemn their organization as much as I mean to criticize the structure that allows their organization to exist in its current formation. Monopoly has been a luxury and a burden for Nielsen. It’s made them the only game in town, but it’s also made them too conservative to meet the industry’s needs. As a mediator between publishers and advertisers, Nielsen has used its structural position to restrain meaningful change, but all parties are complicit in this problem. As long as publishers and advertisers demand a single mediator to measure audiences, they will have to deal with the problems that come with an under-regulated monopoly. The solution to these problems could come partially through increased Federal regulation, but I don’t believe government intervention can effectively update the TV industry’s business model. The industry can move beyond its problems by embracing emergent sites of audience value. Digital distribution affords significant opportunities for the television industry to make audiences valuable. By continuing to explore digital data, targeted advertising, behavioral use patterns, and audience engagement, the television industry can revolutionize its ailing business.

Research is more important than ever for the television industry. Changes in distribution partnered with the uncertain future of government regulation means that publishers, advertisers, and MVPDs need to invest in research. Further, the changes happening in the industry should be informed by the deep understanding of the television audience provided by those working in cultural studies, audience studies, economics, and communications. In the television industry, short-term tactical approaches too often get in the way of sustainable long-term strategies. Academic inquiry finds patterns and historical antecedents that can provide the industry with both new ideas and cautionary tales. The reverse should be true as well: academics need to pay attention to the contemporary realities of the objects they study, and the TV industry is no exception.

The television industry isn’t a naturally occurring phenomenon. TV took years of negotiation, legislation, and experimentation to evolve into its current form. We are now faced with the exciting opportunity to shape how television grows into its next iteration. Here’s hoping we can avoid repeating the mistakes of the past and usher in a great new era of television.
Appendix

Previous work for C3 dealt with both context and viewership in depth, establishing several frameworks for viewing television content that are worth repeating here. These four types of viewing can help us think about how to appeal to viewers in different contexts.

Viewing Frameworks

1. **Event Viewing**

   • Event viewers engage with culturally relevant content that reaches a large audience and offers a shared cultural experience. The Superbowl, The Oscars, and presidential addresses are examples of programs that attract event viewers.

   • Event viewing is not a new concept, but becomes more significant in a post-network era when audiences are fragmented across many channels and platforms. Where once all TV was temporally bound, event viewing is now the last vestige of content that nearly all viewers watch live.

   • Viewers will watch Event TV because it is important to them, but select the platform on which they watch Event TV based on the benefits of that platform.

   • Supplementary content like live chat, and social network integration will drive event viewers to online platforms because these features allow viewers to engage in a larger community while watching a culturally important event.

2. **Subcultural Viewing**

   • Subcultural viewers watch TV in order to participate in niche communities both online and offline.

   • Subcultural viewing is motivated by participation in interest-driven networks, meaning viewers participate in subcultural communities because of an affinity for particular content.

   • The availability of duplicate content is key for subcultural viewers, since they want to catch-up quickly so they can participate in communities. They also want to be able to repeat content to participate in deeper conversations.
3. **Social Viewing**

- Social viewing is motivated by participation in friendship-driven social networks, meaning viewers watch content for the purpose of sharing it with their existing social networks.

- Social viewing thrives on supplementary content. Embeddable clips are supplementary because they’re not identical to broadcast content. Social content is typically a short clip of something that’s been broadcast.

- Social viewing is good for attracting new viewers as content spreads through social networks.

- Making spreadable supplementary content available is key to motivating social viewing.

4. **Incidental Viewing**

- Incidental viewing refers to viewers who happen upon programming—we call this channel surfing and it can also happen in the online space.

- Incidental viewing can happen on network websites and on aggregator sites like Hulu and YouTube.

- Incidental viewing can ultimately lead people to become regular viewers, or to use content for social purposes.

- Availability of duplicate content is key for incidental viewing because it allows viewers to discover new content when they come across it either in broadcast or online.
Works Cited


