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**SUBMISSION TO THE PRODUCTIVITY COMMISSION  
INQUIRY INTO BROADCASTING (DECEMBER, 1999)**

**COMMENT ON THE ROAD TO DIGITAL TELEVISION**

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- [1] This is the second of two submissions I make in response to the Commission's draft report on its inquiry into broadcasting. The first explores the implications relative to Australian cultural policy. This submission focuses on questions related to digital television advertising. Specifically, I write to comment on draft recommendation 6.2 as it relates to enabling multichanneling and interactive services by commercial and national broadcasters relative to advertising content. In the event that change in existing legislation is not possible, I would argue that under 'enhanced programming', all advertising be regarded as inherently incidental and directly linked to programming.
- [2] I head the Digital Television Advertising Research Group at Murdoch University where we are exploring the viability of a wide range of advertising services which become feasible through digital television. We are currently preparing for a series of studies which we'll be engaging in during the following year during which we will test such services through a range of simulations. This will include comparisons of ads produced in High vs. Standard Definition and wide vs. standard aspect ratio; advertising product integration; datacasting; web integration; multichanneled advertising as well as various interactive advertisement services. Six of our honours students will work on theses testing such services. These students have been uniquely trained for the task they now face, with a solid grounding in traditional marketing research as well as in advanced digital video production (including DVD authoring and 3D animation).

**Digital Television Advertising**

- [3] On the whole, I believe that the needs of advertisers represent the single largest blindspot in the Australian approach to Digital Conversion. The debate to date has primarily focused on the competing interests of broadcasters, datacasters and Pay-TV operators. Advertisers are an important part of the larger equation because in a free-to-air environment, they will almost inevitably play a crucial role in the economics of the digital television landscape. In the absence of more active participation by the advertising community, who for the most part appear to be largely unaware of the

potential opportunities in advertising associated with digital television, the needs of advertisers have been neglected. Even if it is essential to ask what types of programming consumers will demand, it is equally important to understand what types of services advertisers are willing to pay for.

- [4] Digital television enables a wide range of advertising services, the vast majority of which have yet to be discovered. Beyond better execution (whether through standard or high definition), it enables the delivery of supplemental content such as digital catalogs, coupons, and the like through datacasting services. This is particularly important to the television landscape because viewing is usually experienced in a low involvement environment where one of the central marketing objectives is to increase viewer involvement. Digital television will also enable the capacity to transmit ads in multiple languages, with viewers defining the language they wish ads to appear in where available. This enhances the capacity of marketers to achieve higher degrees of cultural resonance when constructing persuasive appeals. The addition of a backchannel, possibly through web integration, enables other possible services including direct response television, which again, in marketing terms is significant because it reduces the gap between attitudinal predisposition and consumer purchase. And the capacity to multichannel, or multicast, greatly enhances the ability of markets to better target ads resulting in more effective advertising. At its core, this involves allowing advertisers to transmit multiple versions of an ad in an attempt to optimize advertising impact and exposure distribution.
- [5] I use the term multicasting rather than multichanneling because I feel it denotes short bursts of multiple video transmissions rather than a continuous stream of programming such as subscription TV. I believe that multicasting represents one of the most exciting opportunities for advertisers in the digital age. The increasing segmentation of audiences and the expanding range of media available to advertisers will further erode the traditional use of television to reach the masses. Advertisers will demand smarter media placement opportunities – and it is here that multichanneling delivers best.

### **The Multichannel Prohibition**

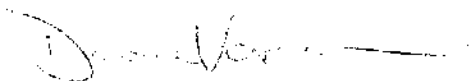
- [6] As the Commission is aware, however, the Digital Conversion Act prohibits multichanneling for commercial free-to-air (FTA) broadcasters. To a large extent, this was a compromise intended to protect the nascent pay-TV industry from direct competition by FTA broadcasters, particularly with regards to subscription services. An unintended by-product, however, is that advertising is treated the same as all other television content even though it may not pose a direct threat to pay-TV operators. As a result, the prohibition over multichanneling unintentionally casts itself over advertising as well. It is, consequently, unfortunate that broadcasters will have their hands tied relative to such multicasting - particularly when they must struggle to identify new financial models to underwrite the additional expense associated with digital broadcasting. Likewise, advertisers in Australia may experience a high degree of frustration if they are unable to use the technology in ways in which their counterparts in the United States and United Kingdom do.
- [7] The situation is further complicated because although broadcasters can pay an as yet undetermined fee for datacasting, multichanneling is outright prohibited. So advertisers, even if they are willing to pay more for the service, are barred from multichanneling services all together. As the FCC noted in the United States, FTA broadcasters need some degree of flexibility to develop viable models for digital television. As the primary objective of the Digital Conversion Act seems to be to

facilitate the smooth and speedy transition to digital television, it is essential to maintain some flexibility in the technology's economic viability, necessitating increasing attention to providing broadcasters with the capacity to attract new advertising support.

### **Enhanced Programming – A Solution**

- [8] However, I believe there is a solution that is workable even within the existing legislative framework. As the Commission is aware, special provision is made for 'enhanced programming' which is incidental and directly linked to programming. Much of the multicasting activity noted earlier can probably survive this test particularly as secondary streams remain 'inferior' to the main content stream. As it most likely will be the task of the Australian Broadcasting Authority to police this area, there is, most probably, some discretion in determining whether such advertising content qualifies as 'enhanced programming.'
- [9] I would even go so far as to argue that *all* advertising should qualify under the enhanced programming category because in itself, advertising is almost always incidental and directly linked to the programming it sponsors. Audiences, for example, do not watch programming for its advertising content but rather tend to tolerate ads so as to watch programs. In this way, maximum latitude should be afforded to advertisers.
- [10] This approach still delivers the government's objective of protecting pay-TV from subscription-type programming. But it also provides broadcasters with increasing opportunities to deliver new types of advertising services further enhancing the relative value of television advertising expenditures.
- [11] Thank you for the opportunity to comment. If I can be of any assistance in further elaborating on these or other issues associated with digital television advertising, please do not hesitate to contact me at (08) 9360-6035 (varan@murdoch.edu.au).

Sincerely,



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