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Targeted TV Ads Set for Takeoff

DirecTV to Pioneer Commercials Keyed to Each Household; Concerns About Privacy, Technology Linger

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After years of promises and false starts, TV commercials targeted at individual homes may finally be ready for prime time.

DirecTV Group Inc. is planning the biggest rollout yet of "addressable ads," allowing advertisers to reach close to 10 million homes with commercials tailored to each household. Dog owners, for instance, could see ads for dog food, not kitty litter, while families with children could be shown minivan spots.

The satellite-TV service provider has struck a partnership with Starcom MediaVest, a unit of Publicis Groupe SA that buys ad time on behalf of heavyweight marketers such as Procter & Gamble Co. and Coca-Cola Co. Starcom has committed to spend \$10 million to \$20 million on the new service next year.

Targeted TV ads are the latest manifestation of a fast-growing phenomenon: the gathering, repackaging and trading of personal data. Driving this move is the fact that targeted ads command much higher prices than regular ones. The practice of online data-gathering has been featured in The Wall Street Journal's What They Know series.

DirecTV plans to roll out its targeted ad service in August or September next year.



Associated Press

A new service from DirecTV will target individual homes with advertisements using third-party data providers. Above, DirecTV logos are seen on flyers in Massachusetts.

"We are finally at the tipping point," said Laura Desmond, chief executive of Starcom Media Vest. "Advertisers' biggest complaint so far has been that many tests of this service haven't been big enough in terms of scale."

The DirecTV service, she added, is "national and scalable." In total, DirecTV has about 19.1 million subscribers.

In the DirecTV setup, an advertiser would specify the kinds of homes it is interested in. DirecTV will tap third-party data providers to find households in its subscriber base that fit that profile. That data could include information such as income and gender to whether a household recently purchased an advertiser's products or had a baby.

The data will be loaded onto the household's DirecTV box and when it is time to run the ads, the box "votes" for the most appropriate commercial for that household from a spectrum of ads preloaded onto the box's digital video recorder.

The third-party data providers will include companies such as data-collection group Experian. DirecTV said it is working out details of the service and declined to offer examples of other possible data providers.

DirecTV said the information used to target ads won't include viewing habits. The technology DirecTV is using in its set-top boxes is from Invidi Technologies. Invidi offers a variety of targeting technologies, some of which have been used by other operators. These include targeting by age, gender or geography. Invidi makes inferences about the age and gender of the viewer based on Nielsen data on the viewership of the channels the set-top box has been tuned to.

A test conducted by cable-TV operator Comcast Corp. and Starcom in 2009 that reached 60,000 households in Baltimore showed that homes receiving targeted ads changed the channel 32% less of the time than homes that received nontargeted spots.

Set-top boxes increasingly are being tapped for data on viewing habits, as advertisers demand more precise measurement of who is watching their ads. In 2008, Nielsen started receiving some second-by-second viewing data from cable-system operator Charter Communications Inc.—information it sells to advertisers and media agencies.

Addressable ads will total \$11.5 billion in the U.S. by 2015, according to projections from Bank of America Merrill Lynch. "We believe the U.S. television industry is finally on the cusp of transforming advanced advertising into meaningful reality," wrote BOA analyst Jessica Reif Cohen in a note to investors. (Advanced advertising includes both targeted ads and interactive ads). Still, Ms. Cohen said, targeted advertising "is still a few years away from wide-scale deployment."

Although the technology has long been sought by marketers, progress has come slowly.

Canoe Ventures, a consortium of the six largest cable operators including Comcast, Time Warner Cable Inc. and Cablevision Systems Corp., has delayed creating a universal ad-targeting product after running into technological issues, including aging infrastructure. While some of the individual cable operators are offering the service in certain markets, the group is currently focused instead on rolling out interactive ads, which enable viewers to request more information, such as a brochure.

DirecTV said it has been working on its rollout for three years. Bob Riordan, DirecTV's senior vice president of ad sales, said up to 25% of DirecTV's ad inventory will be sold as addressable. (DirecTV gets two minutes of ad time an hour on over 105 cable networks its system carries.) He adds that the partnership with Starcom isn't exclusive and other media-buying firms will be able to buy targeted ads.

Widespread use of targeted ads still faces hurdles, including convincing marketers to pay a premium. Another hurdle is privacy. Lawmakers are growing more concerned about the privacy implications of ad-targeting, although much of their focus has involved online ads.

In soliciting information about households from third parties, DirecTV said households will be assigned a code, which won't be the set-top box ID. All household attributes will be sent back to DirecTV as a blind match, meaning DirecTV won't know what characteristics a household has.

DirecTV and Starcom say the data will come from "reputable third-parties," information that direct-mail companies have used for years. DirecTV also said it will notify its customers that the data are being placed in the set-top boxes and give households the opportunity to opt out.

Early tests of targeted ads have fueled marketers' interest. Best Buy Co. a Starcom client, has agreed to buy targeted ads on DirecTV because it will allow the retailer to reach people with more "relevant messages," said Drew Panayiotou, Best Buy's senior vice president of marketing.

Mr. Panayiotou said if the technology works, his company's ad investment could be "significant." He envisions ad dollars for targeted TV spots coming from the company's direct-mail budget or even its Internet budget because "it's still difficult to emotionally engage consumers" with online banner and search ads.

—Jessica E Vascellaro contributed to this article.