

ADVERTISING AND THE NEW MEDIA

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June 30, 1982

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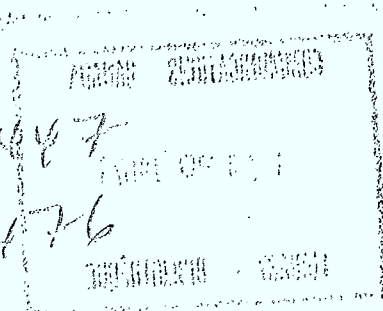
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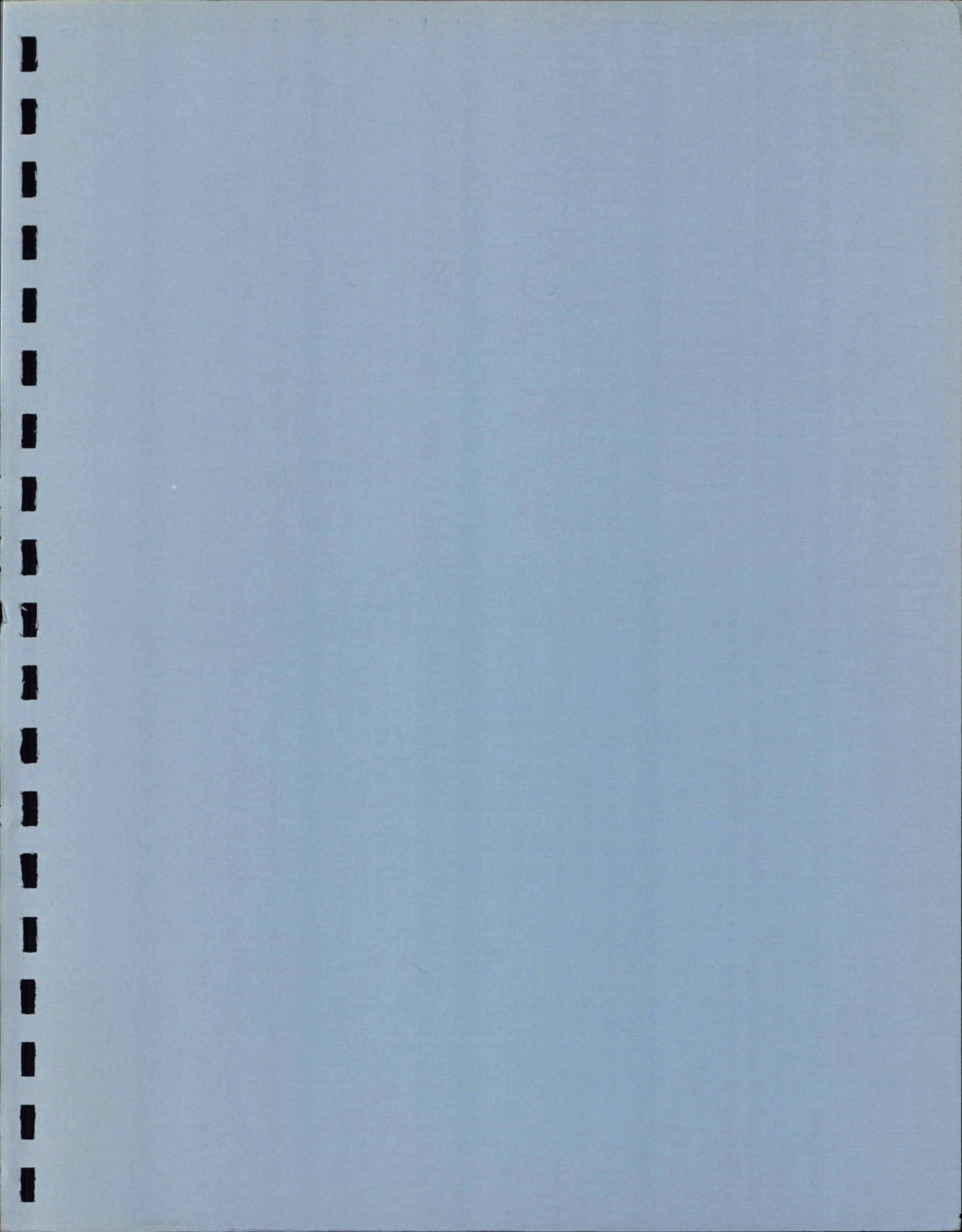
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EXECUTIVE SUMMARY

This report studies the implications for advertising posed by the New Media. While the New Media by our definition comprises several new technologies, the difference is made between means of transmission offered by new technology such as DBS and new forms of media. The research focuses on videotex/teletext as this is the New Media form which the participants in the marketplace have placed the greatest emphasis on.

The position of participants and their views with respect to advertising and New Media are established. The participants canvassed for their opinions include the broadcasters, cable companies, telephone companies, advertisers, publishers and government. The advertising and regulatory contexts are also researched in order to situate the main participants and formulate development hypotheses.

In the absence of any firm market data, economic scenarios are developed which make best and worst assumptions for the consumer, and lastly trends, conclusions and implications for advertisers are derived based on the expressed opinions, actions and intentions of the participants interviewed. The principal elements of the study are outlined below.

. The standard definition used in the study for New Media, is as follows:

- a source of information remote from the user;

- a connection to the source via a telecommunications link;
 - an information display which will normally be a standard black and white or color TV set;
 - the information's appearing at the express command of the user as part of a larger selection made available by information providers;
 - a service designed for the mass market rather than a few specialist users.
-
- . Means of transmission of a communications message are set in a separate context: new transmission technology such as fibre optics or DBS are considered as affecting the breadth and scope of consumer choice and thus, consumers and advertisers indirectly, through a greater potential proliferation of media and message availability.

 - . Programming and non-programming services available through the new media fall into four classifications: entertainment, information, transactions and diagnoses. The new media's interactive capability has opened up new consumer uses: So far, participants have indicated the emphasis to be on transaction and information uses of new media.

 - . The fit of advertising and new media is one which is yet to materialize, however, certain trends are crystallizing: advertising is adaptive to technological change but not conducive to it. The technological developments and the emergence of new media are significant for advertising as they bring to new media two qualities which set them apart substantially from predecessors: access and interaction.

- New media and technology will provide consumers with a proliferation of choice and consequently with audience fragmentation resulting in more specialized audiences.
- More specialized audiences imply a higher information content and more specialized advertising.
- The interactive capability of new media will require the modification of the advertising message to adapt to the consumer's ability to require and obtain a greater degree of information.
- . Interaction in new media will force a two tiered form of advertising with a continuation of the present general level of promotional advertising complemented by a different message which takes advantage of the interactive and transactional capability of new media.
- . The position of participants in the market has been one of "wait and see" spurred by the uncertain climate generated by a regulatory context which, so far, has been neither specific nor comprehensive and has not addressed itself to the development of a clear policy towards new media.
- . Specifically:
Broadcasters have expressed the concern that their revenue base may be seriously affected by new media and that the regulatory constraints to which they are subject render the development of new media a serious outside threat.

- Cable companies, while involved in the new media trials, have not placed a high priority on this. They are presently in a "hold" pattern on account of their belief that the technology is still too expensive to appeal to a mass market. They are monitoring closely developments in the U.S. market before making any commitments in Canada.
- Telephone companies have emphasized that they and not the cable companies are the common carriers which should play the predominant role in the development of videotex. Again in the absence of specific regulation regarding their role, they remained on the periphery.
- The advertising agencies have indicated that they are not completely convinced of the advertising implications of the new media because of the apparent lack of development of a mass market, of the nature of the media as they and their clients perceive it and of the regulatory context.
- Publishers have been active participants and see the new media as a natural extension of their present activities. They have indicated that much of the new media is in the nature of a two way telephone conversation requested by one individual and should not be subject to regulations. They have also expressed their emphatic belief and position in the new media as a transactional media. They expect that although some of their traditional newspaper advertising revenues may shift to new media, the apparent complementarity of the two forms will lead to a loss of newspaper revenues which is less than they had originally expected. In the end they expect the presence of new media will lead to an increase in aggregate advertising revenues in the next decade.

- . The regulatory context with respect to new media in Canada has been to avoid a general policy in favour of isolated decisions. The regulatory context presently has not provided the participants with a precise notion of the extent to which regulation applies or of the scope of its application. Decisions so far, while in essence remaining both tentative and presumably open, have tended to protect the broadcasters' revenue base.
- . By contrast the regulatory context in the U.S. does not consider advertising an issue and entails that the regulatory context should be broad, unrestricted and subject to normal market developments.
- . The consumer demand for new media is a function of the "content" or "convenience" of the media's capability as well as that of the hardware itself.
- . Consumer knowledge about the availability of content and about the capability of new media such as Telidon remains limited. Pricing is largely undetermined and consumers are operating under the popular expectation that future technological developments will reduce the cost of the media. Consequently, the wait and see attitude pervades the consumer sector.
- . The most obvious and immediate new media applications are in the transactional field. In that area, businesses rather than consumers have taken up the lead, with the majority of demand for new media originating in the business sector.

- . The combined price to the consumer of content/hardware is yet to be determined and this results in the lack of precisely formulated demand hypotheses. The reasonable range of demand for households and business users by 1985 lies between 26,000 and 150,000 units.
- . The manner in which the content/hardware costs may be split or absorbed by a third party is an essential determinant of demand. If advertisers were to absorb content costs, household demand would rise significantly, by the same token if government were to subsidize hardware purchasers considerably more interest in new media would result.
- . The tendency towards a transactional use of the new media will limit the advertising applications, as well as the advertising format.
- . The fragmentation of audiences will alter the format of advertising, its cost structure, and its content, with an overall tendency to more precise and informative advertising.
- . As long as advertisers do not perceive a mass market in it, or a particularly effective means of advertising, they will not express an interest in the new media. So far, potential fragmentation of audiences has mitigated against the development of mass markets and the effectiveness of new media as an advertising medium has not been tested.

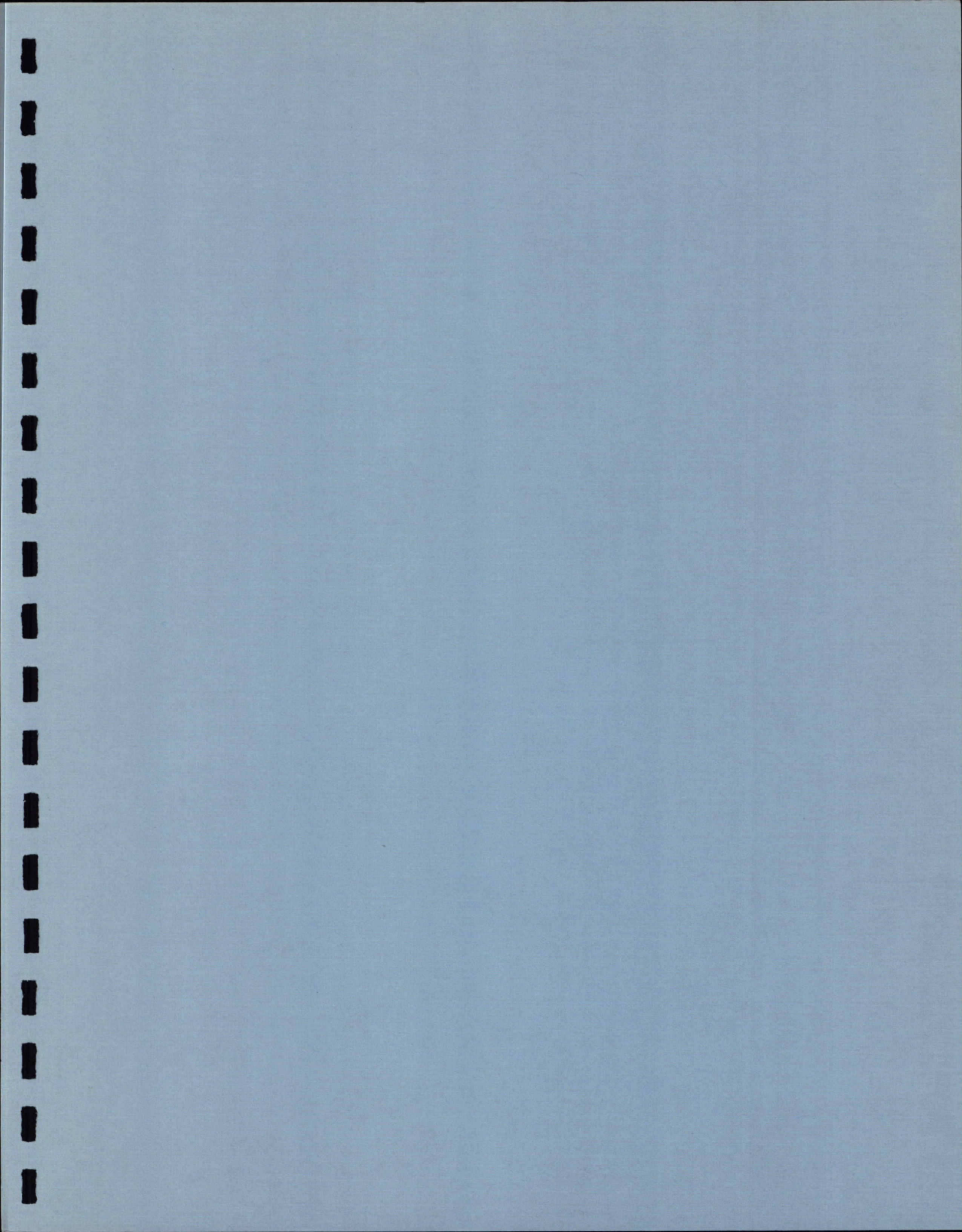
- . While under the current economic and regulatory climate there is no apparent reason for any one of the participants, or for consumers, to step forward and embrace the new media, there is no question that this general "wait and see" attitude will perpetuate the existence of the new media as a technology in search of a market.

- . The study has outlined the main parameters of the impact of new media on advertising. However, more questions remain than could be answered within the scope of this study. In particular, two questions, or hypotheses will need to be addressed in the near future:
 - . That the new media draws away from sources of revenue of others. A claim which has been put forward to the CRTC but strongly denied by others.

 - . That there is a potential to have the cost of hardware/content shared by interested third parties. The implication being that the cost sharing would reduce the direct cost of new media to the consumer and stimulate demand accordingly. The questions to be answered are who will split the costs, by how much, under what terms and conditions, and what would be the resulting effects?

<u>TABLE OF CONTENTS</u>	<u>PAGE</u>
Introduction	1
Overview	1
a) The New Media	2
b) Means of Transmission	4
c) Programming Services & New Media	6
Advertising	8
New Forms of Advertising	11
1) Access	12
2) Interaction	15
An Economic Survey of Advertising	17
The Participants	19
Broadcasters	19
The Cable Companies	23
The Telephone Companies	28
The Advertising Agencies	30
The Publishers	31
The Department of Communications	36
The Regulatory Context	37
Positions of CRTC	38
Most Recent Decision	39
Tentativeness of Present Context	40
The Regulatory Context in the United States	41

<u>TABLE OF CONTENTS</u>	<u>PAGE</u>
Implications for Consumers	43
Implications for Advertisers	49
Conclusion	52



Introduction

The present study was initiated as a result of the Department of Communications' interest in the impact of new media. In this particular case, we look at the interaction between advertising and the new media. Possibilities for advertising in the new media are broad and varied and the commercialisation of new media services may have potentially detrimental effects on current programming as well as on current cultural objectives. In addition, new media developments may themselves affect and shape advertising modes.

The study probes into the current situation and into the views, attitudes and actions of the participants in the industry with the objective of narrowing the range of possible future outcomes and of identifying the key determinants in the interaction between advertising and the new media.

Overview

The new media constitute a diverse group of technologies and services which are characterized by their potential rather than proven desirability in the marketplace. In the broadest sense, the new media would include videotex/teletext, other cable non-programming services, home computer networks, videodiscs and cassettes, and cable-satellite and Direct Broadcasting Satellite programming networks. Taken together they share the following crucial characteristics which distinguish them from standard programming services: 1. Through either recording or non-programming services the scheduling can be determined by the consumer; 2. Programming is determined by the consumer in relatively unique packages, and

3. There is an incredible proliferation of services to meet a wide variety of possible needs and demands. In sum, the new media represent new lines of offerings which have their basis in new or modified technology, and to a large degree are designed to match the specific goals of the consumers. The new media arise from the application of new technology, particularly the computer, but in this report we will dwell but slightly on the technology itself. Rather, our purpose here is to analyze the implications of the new media as they are introduced into home and office. The new media promise a broad range of new choices and the manner in which they are adopted will affect not only the "old" media but quite probably a good deal of our current perception of the media and its utility.

a) The New Media:

As outlined below, in the opinion of those involved in this field with the greatest potential impact is what is commonly termed videotex/teletext. From our research it is clear that the new media with the greatest potential impact in general and regarding advertising is what is commonly termed videotex/teletext. This is due not primarily to the commitment on the part of the Government of Canada through the Department of Communications to promote the development and adoption of Telidon, but because it is the new media which is most different from the "old" media. Of the list of new media services on Page 1 we can see the following: Videodiscs and cassettes are primarily for either recording standard programming services or playing films, sports programmes, and

games. Advertising pertains to these in precisely the same terms it has pertained to standard programming services and rental films. Home computer networks are used for games and data analysis. In neither are the implications for advertising obvious and insofar as there will be advertising, our comments below on advertising in videotex/teletext are relevant. Cablesatellite and Direct Broadcasting Satellite programming networks, we would argue, deal exclusively with technology and transmission and not with content. More will be said below on the DBS and carriage. In any case, the most genuinely new services are videotex and teletext, particularly the former. These two services share the generic description provided by John C. Madden in his "Videotex in Canada":

- A) a source of information remote from the user;
- B) a connection to the source via a telecommunications link, such as a radio wave, a coaxial cable, a copper wire or an optical fibre;
- C) an information display which will normally be a standard black and white or color TV set. The information will normally be shown as a still frame, although some animation of the images is possible;
- D) the information's appearing at the express command of the user as part of a larger selection made available by information providers;
- E) a service designed for the mass market rather than a few specialist users.

The terminology is not consistent nor standardized but normally teletext is less interactive in that it is a one-way system which inserts digital data in the unused blanking interval of the television signal. In a teletext system the consumer receives the information which is broadcast and over which he exercises selection from a continuously broadcast series of frames. The consumer, however, does select the frames and thus even teletext involves some degree of interaction. Videotex (sometimes called viewdata) is fully interactive in that

the consumer is linked in a two-way relationship with the central data bank and the theoretically unlimited number of pages which have been stored in it. Further, as we will show below, the services are far broader than simply calling up already prepared data in that the consumer may interact with the computer to play a game, register an opinion, send a letter, make a transfer of funds, or buy merchandise. In theory, then, videotex is completely active and the services rendered through it are limited only by the imagination of the providers and the interest of someone to pay for them.

To restrict the definition of videotex to a mere information service in which there are alpha/numeric representations with some limited graphical and animation capabilities on the TV screen seems to limit prematurely the potential for this service and our thinking about it.

b) Means of Transmission:

Videotex and teletext are amenable to transmission through a number of means. Teletext is normally provided through broadcast where the textual and graphic information is superimposed on a TV signal in addition to regular programming. The additional information is transmitted in the vertical blanking interval of the video portion of the TV signal and can be viewed only on receivers that are equipped with special decoders. Videotex, being fully interactive, requires transmission which allows for two-way options. This implies use of the telephone system with its wires, microwaves, fibre optics or cable systems, some of which are two-way and others are not. Clearly, the cable systems can also carry teletext and this may be transmitted via satellite which is received on a community antenna or quite

possibly in time a rooftop antenna. The DBS systems are most likely to utilize cable for distribution in Canada and thus teletext via DBS will ultimately be distribution through cable. The comments below on cable, then, pertain as well to the DBS systems. The technical aspects of transmission allow for a wide variety of possibilities. The experiences in Great Britain, France, Canada and the United States suggest that the preference for one type of transmission over another remains to be determined. It should be noted that there are already proposals, such as "Teltrix", to adapt a number of national videotex/teletext systems and different transmission systems so that the user can interact with all through one system. This proposal or others would hold great implications for the current competition among systems such as Prestel, Antiope, and Captain, which at present are incompatible. The implications pertain to both the national efforts to have their systems adopted and to the ultimate marketability of any videotex/teletext systems. A review of the field trials of Telidon in Canada show that all of the above-mentioned transmission means are being used. Some reports assume or argue that the telephone line will prove to be most popular and others that it will be cable. This question of technology, however, tends to draw attention away from the main issues which in our view are economic and regulatory. Quite simply, the different means of transmission are owned in most cases by different enterprises and are regulated differently. A decision to utilize one means of transmission instead of another will, we would argue, be largely determined by the potential for profit and this in turn is in part determined by the context of regulation.

c) Programming Services & New Media

The services offered in teletext or videotex are normally contrasted to programming services. The latter are those which are familiar to all and comprise the current offerings from the off-the-air and cable. They include, of course, not only the public and private networks, programming in Canada, those programs brought in from the United States or anywhere else in the world through satellite and/or cable, but also the community channel on cable itself. Although these programs are scheduled through recording, utilizing cassettes and discs, their viewing can be re-scheduled according to the demands of the consumer. The non-programming services are far broader in scope and potential and each new report or field trial indicates some new possibility (see Appendix I from Institute for the Future, "Technical Assessment on Teletext/Videotex" with some 60 applications). Indeed, the applications are limited mainly by the imagination and finances of the potential consumer which in turn relate to the willingness of the provider to establish a service. As with so much concerning computers, however, the possibilities may not yet nor necessarily be implemented. We have thus formulated the following four broad categories which, while not exhaustive, are suggestive of those services which we feel to be most likely for relatively implementation within this decade:

1. Entertainment and games: which include video games, gambling, interactive games such as chess with others or the computer: and, through linking in the cable, movies and sporting events;
2. Information: which includes such varied services as consumer prices, government services, education, community bulletin board, and directories;

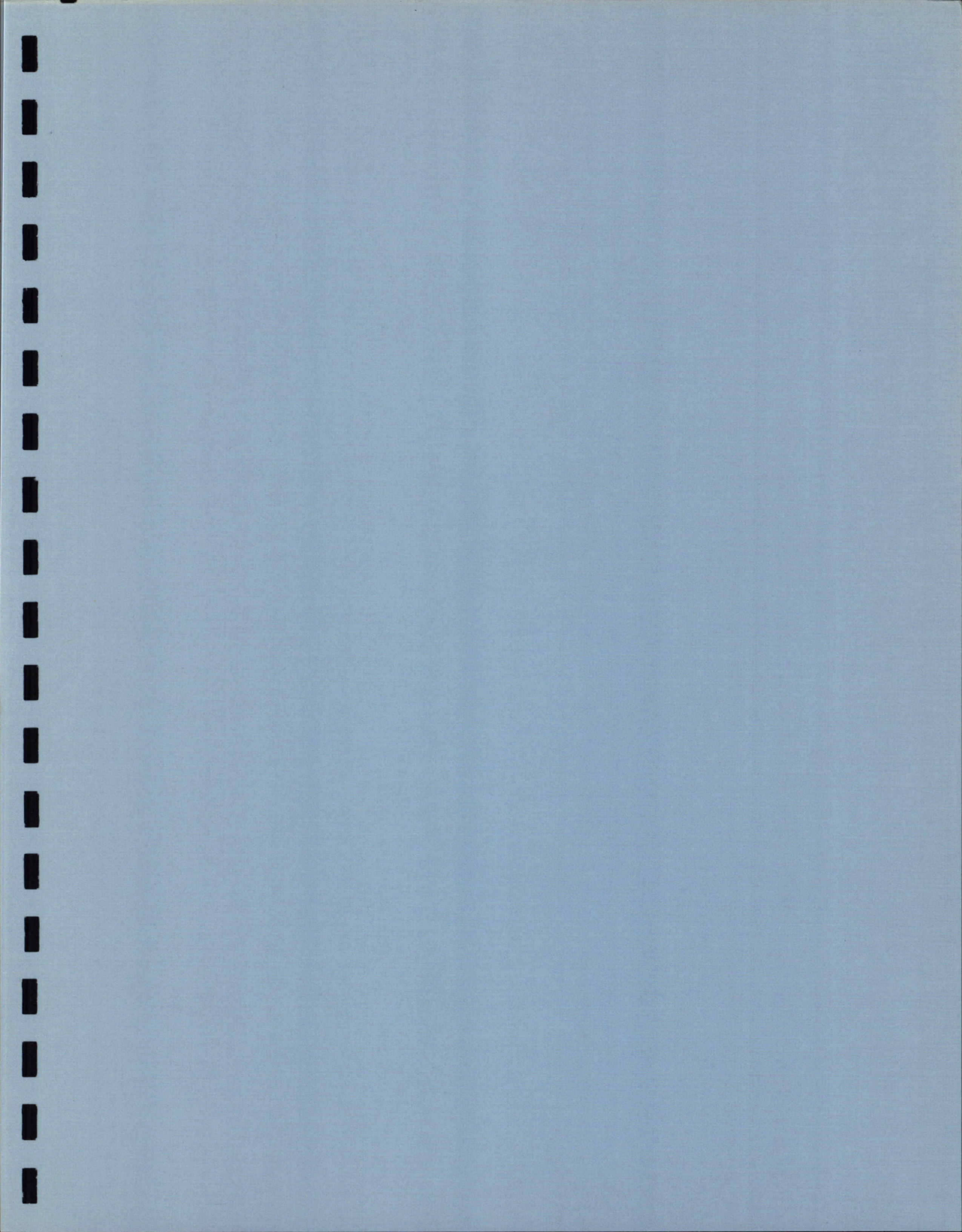
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3. Transactions: which would include banking, reservations, payments, purchases via cable or telephone line, polling, and communications such as electronic mail.

4. Diagnoses: including meter reading, security checks of the home or office, and various diagnoses of humans or family pets.

Clearly, the possibilities are great and seem farfetched only as we are not accustomed to such a broad array of services related to a television set. However, through the linking of the home or office with a computer which is geared up to these services, they become possible. At the present, however, the observation of one of our informants that videotex is a technology looking for a purpose seems pertinent, but this is not to conclude that the purposes finally hit upon are frivolous or inappropriate for modern society.

In this study, we attempt to examine the interaction between advertising and these new services. However, the new media which we know today only gives a partial insight into the future. We cannot consider the full impact of new media on advertising and vice-versa unless we consider the meaning of future technological developments in terms of audience convenience and choice. Presently, the consumer is limited by the videotex teletex systems to alpha numeric communications. In the future, however, the audience/media interaction will improve substantially, allowing for voice interaction and a wide range of program choice and scheduling by the audience. Thus, with the use of program libraries accessible by cable, recorders which delay viewing, a broad range of programming and transactional services available as well as interaudience communication, the market will likely become considerably more fragmented and heterogeneous. The question is: what happens to the industry's advertising revenue base when there is a multiplying of choices not only within the same media form as would be the case if more programs became available through broadcasting, but when the consumer has an equally broad choice among broadcasting related programs?



Advertising

Advertising is defined as a process of communicating, informing or promoting to the public the attested merits of goods and services available to increase their demand or to enhance the image of the producers.

The multitude of media forms used in the communications process where advertising can be used, stipulates that the advertising message may take numerous forms. The advent of new media will generate new ways of reaching the public and consequently the structure of the advertising industry. New media such as videotex-teletext provide a vehicle for advertising directly into the household or decision maker. This kind of selective coverage may also add another dimension to advertising. For example, the future full scale interactive capability of videotex systems enables advertising to be modified to adapt to consumer reaction and information needs, thus moving away from a one way promotion of goods and services to a more bilateral consideration of actual or perceived uses and benefits associated with the product message.

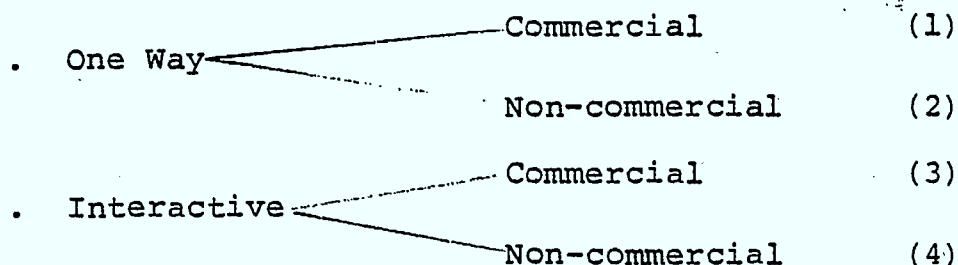
While the means of carrying an advertising message will evolve as new media are developed, the manner in which advertising interfaces with new media will definitely alter the course and development of these media. Typically, the amounts of money that are potentially available for channelling into one form of media or another are substantial. In Canada, gross advertising revenues were \$4.2 billion (in the U.S. \$38 billion) in 1981 and it is logical to assume that even a small shift of these resources into new media forms will result in two things, firstly, new forms of advertising will develop and demand for advertising itself should increase and, secondly, the economic impact of advertising on a new media form will increase the availability of this media form to the viewing public.

The impact of advertising on media is directly related to its perceived effectiveness and the effectiveness of advertising is a matter of basic economics. To the producer of goods and services marginal revenues generated by the advertising must ultimately exceed the marginal cost of advertising. Since advertising aims at increasing demand for goods and services, the gross profit margin which the producer earns by making additional sales must offset his additional costs. Unless this is the case, the advertising will be deemed ineffective and unprofitable.

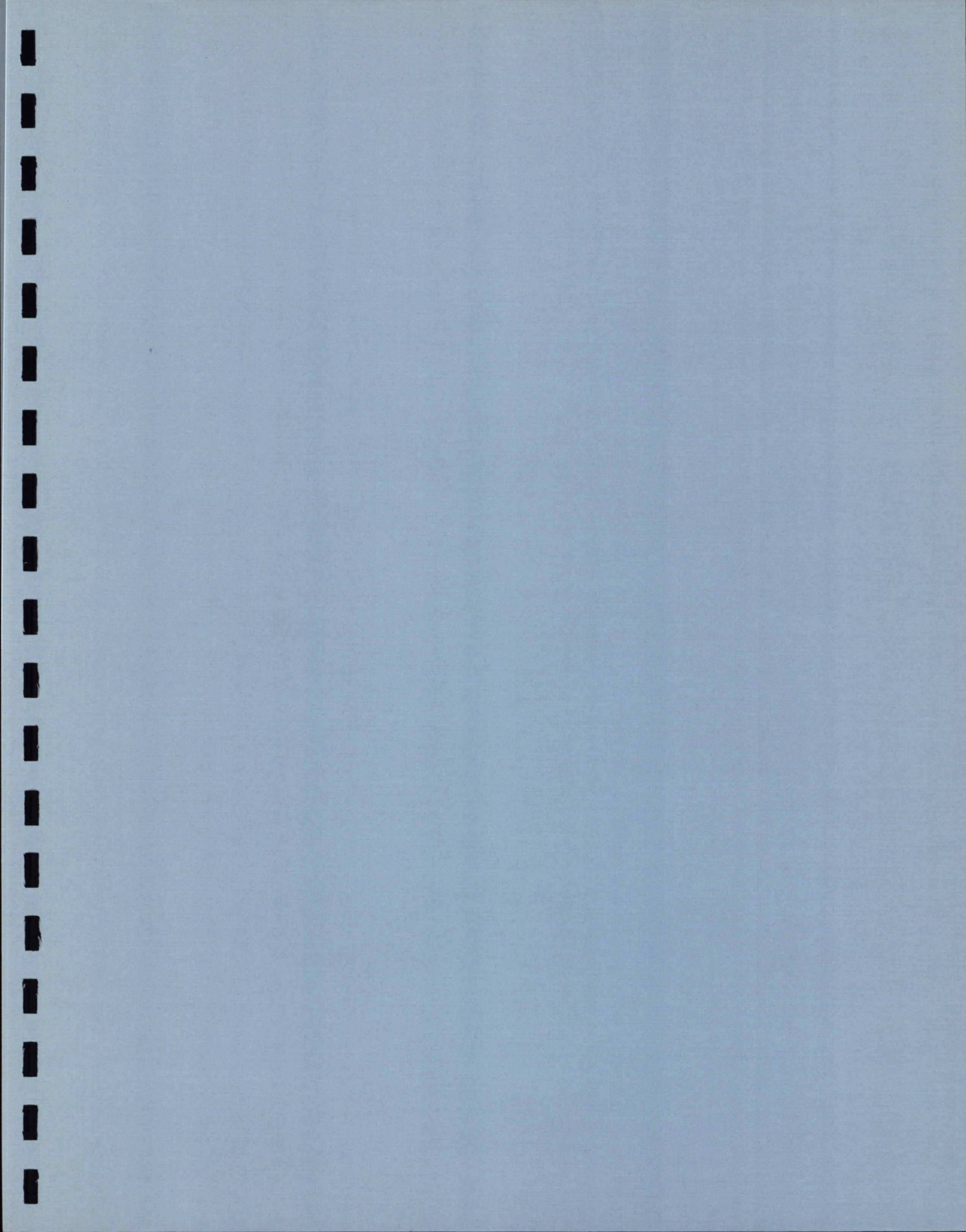
Advertising as pertains to new media takes on three basic forms, commercial, non-commercial and inter-active. These three categories are not necessarily mutually exclusive but they contain singular characteristics: commercial advertising aims at promoting a good or service to the consuming public, be it consumers in general or the trade. Non-commercial categories of advertising contain what are basically informative messages where the producer is not promoting a brand or product but, under his own name, provides information beneficial to the public. Thus, the government's program of advertising for water safety carries a message to the consumer by conveying information as a public service while not promoting a brand directly. Often, in this non-commercial category, the sponsor of the advertisement will provide his name so that the audience is made aware of his identity. Governments and non-profit organizations advertise in this manner on regular broadcasts while large corporations may sponsor programs on public television by means of a grant and with their identity only appearing as that of the donor. This form of advertising differs from the other in that it is not product specific but only the sponsor's identity appears.

The last form of advertising can be either commercial or non-commercial but differs from the other only because it enables the recipient of the message to respond or request. This new form of advertising is made possible by the development of an interactive media. The new media, such as videotex and home computers, in fact, have created a new form of advertising which will enable the recipient of the message to respond qualitatively or to seek additional information about a product or a service. The two way electronic capability of new new media carries with it the potential for an entirely new dimension to advertising.

In summary, we see that there will develop four categories of advertising, as schematized here below:



At present the most widespread category is (1) with (2) applied to Public Broadcasting; categories (3) and (4) remain to be developed but are likely to experience a significant growth as interactive systems are becoming available. The basic economics of advertising however do not alter with the manner in which the message is carried or formulated, the advertiser must still ultimately recover the cost of his advertisement either in terms of additional revenues in the case of private firms, or additional social benefits in the case of governments.



Advertising comprises five distinct elements, and factors of production, all of which are involved in the process: firstly, the advertiser that is the firm or entity who is interested in having its message disseminated. Secondly, the agency, acting as a specialized agent it assembles the message as well as determines the most effective vehicle to carry it. Thirdly, the advertisement itself or message, and fourthly, the advertising medium or vehicle and lastly, the audience.

These all interrelate to bring the consumer and a product or service together. They interrelate in a manner which connotes that if advertising does not lead to incremental benefits, in the long run it will be considered as an unnecessary cost and eliminated as unproductive. The economic imperative rules the presence of advertising and consequently its importance in the new media will be solely dependent on its potential for generating economic benefits and increasing the efficiency of the advertiser.

When looking at new media, and veering away from conventional advertising forms by necessity, one must adopt a broader definition of advertising. For example, participants in the British Prestel system and in the Canadian Infomart field trials are referred to as "information providers". This broader terminology has been used in order to encompass all of the media's clients, some of which do not have a commercial message.

New forms of Advertising

New forms of advertising will flow from new forms of electronic communications. In fact, it is evident from the present pattern and from the opinions of participants that advertising is adaptive to technological changes and not conversely. Advertising

which is a specialized form of communication will shape itself to the technological changes in communications media. This concept is essential to our understanding of the impact of new media on advertising.

Let us, therefore, look at the technological qualities and development inherent to new media: what in essence has improved in the communications link so that we name it "new media". Two principal qualities of the "new media" set it apart significantly from its predecessors: access and interaction.

1) Access:

Firstly, access provided by new media forms, and hence by transmission means, implies that the consumer will have available to him a substantially broader range of communication capability in any of the four categories that we have listed earlier. For example, taking entertainment, it is likely that in the future, unless constrained by regulation, a consumer from his own home will be able to gain access via D.B.S. to programming services all over the world and record or schedule these at his own will. Thus, in the near future, we can expect a geometric proliferation of viewing choices. Similarly, in the pure information category, there already is a proposal to integrate the world's major videotext-teletext systems into one system through technical translation. In that particular case and for a fee, a consumer could gain access on his Telidon, to the Japanese Captain system, the British Prestel, the French Antiope and all the other major systems.

Access of this nature has one major connotation for advertising, it expands their reach but it also fragments their market. Let us look at these two factors in juxtaposition: for the advertiser, the expansion of the reach is only valuable if the target audience is a potential market, and in many cases the two are not synonymous. The advertiser who is looking for market penetration may not be served at all by an increased reach: indeed what good would it be for Molson's if the NHL games were picked up by a Polish audience.

Increased access leads to increased choice and when faced with an increased choice, consumers tend to choose those communication forms which serves them best. The same goes for entertainment: if an individual devotes on the average one hour per day to viewing and has a choice of five programs he will pick one to fill that hour (whether or not the program is cassette recorded or not is immaterial). If he now has thirty programs available and does not alter his viewing habits, he will still only choose one. By doubling his viewing time, he may choose two but that still changes his media exposure from a 1/3 probability to a 1/15th probability. The mathematics are simple and they point out an essential factor: where the proliferation of programs available exceeds the increase in viewing time, fragmentation will be inevitable.

Fragmentation has two implications for the advertiser: in the first place the probability of reaching the audience diminishes, creating smaller audiences. On the other hand, those individuals within the market area who are reached are a far better quality and more specifically targetable audience. The implication of this targeting improvement is that advertising will become program related to a greater

extent than in the past. For example, hypothetically in the past, if the Boston Marathon was sponsored on television by Seven-Up, it was largely because the audience was a general audience with a more limited programming choice who might be a suitable potential market. With audience fragmentation, those who watched the Marathon in the past may be more interested in other programs which had hitherto not been available. The Marathon audience would now be smaller, by a factor which is probalistically related to the total number of programs available. Thus, if the Marathon audience has shrunk down to avid joggers and runners only, Seven-Up may no longer be interested in the market but, for example, Adidas whose products and directly program related would be a more suitable and effective advertiser.

Audience fragmentation also implies a higher consumer familiarity with the advertised product and, therefore, would remold the advertising message. The increased audience expertise which is generally associated with audience fragmentation results in a reorientation of the message and clearly, a higher concentration on the technical merits of the product, or perhaps on status within certain sub-groups.

At this point all one can say is that increased access will lead to a broader dispersion of the message, sometimes outside the serviceable market boundaries, to a more fragmented audience. This audiende, however, being more specific in nature, and more homogeneous, will enable the advertiser to target and mold his message more precisely and, in general, more in parallel with the program content. Whether or not the advertiser will gain from a more specific audience what he loses due to the audience size shrinkage from fragmentation is a question which remains unanswered and which depends largely on individual circumstances.

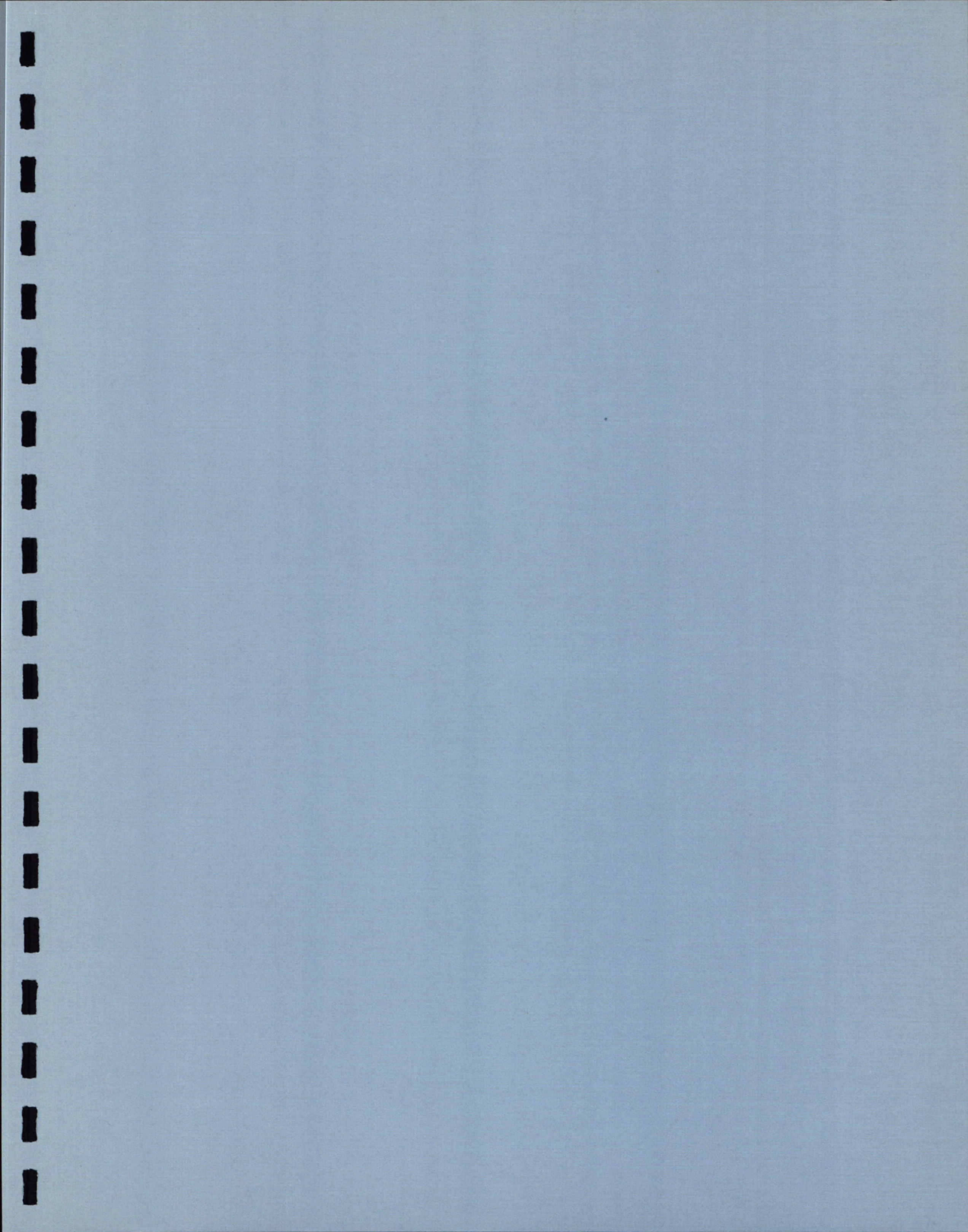
2) Interaction:

The second important aspect of the "new media" is its interactive capability. Technology on the market today provides us with a glimpse of what is yet to come and present day interaction remains mechanical and primitive. We cannot base our assessment of the impact of "new media" on advertising from what we see today but we should center it on what the market participants know to be around the corner. Full fledged interaction entails programmed answers to voice communication and a complete interaction capability within a global network or with any other individual. Economics permitting, the basic question and answer range of interaction presently known will be expanded in the future to a quasi-human conversation capability with a global range. Again, this form of evolution has two implications for advertisers: their message will change and their targets will now be at two tiers.

To speak of the latter first, as pointed out by one of the videotex executive, in an interactive system your first effort as an advertiser is to get the audience to use the interactive medium where your message appears. An example can illustrate this best: assume that the advertiser is a rent-a-car agency and that he has sponsored a message on a videotex system which provides directions for tourists. Clearly, to get that particular message across, the rent-a-car agency must first stimulate the use of the videotex. The same would hold, for example, for large department stores who have on videotex a full catalogue of regular goods and specials, their first line of duty is to advertise so that the consumer will make use of the videotex information.

Interaction generally implies that the consumer will no longer be a passive recipient of a unique message but will be in a position to seek additional information. This information must in turn be available. The major consequence of interactive media capability for advertising is that the message must now be more informative than in the past. The automobile displayed is no longer just an image because the interactive capability allows the consumer to ask the kind of questions that he would have obtained subsequently from an automobile dealer only. It also allows for substantially more comparative product evaluations: yes, it is a nice looking car but what is its mileage performance, what is the producer's guarantee and, importantly how does it compare with other automobiles. All this information will become available at fingertip as it will be a convenience to the consumer and, therefore, a service which advertisers will gladly provide.

This does not mean to say that the "pizazz" and the glamour will be removed from advertising and that an interactive system will produce a purely technical and impersonal medium. What it does mean, however, is that where there is an interactive capability the glamour message should be backed up by cold information just in case the consumer bites and decides to pursue his interest. The fact that interaction enables the consumer to pursue the interest triggered by advertising implies that the orientation of the follow-up message, while perhaps promoting the product subtly, should be largely informative in content. In this respect, future advertising messages will differ from present ones which are largely oriented towards developing an initial image or impression. In conclusion, the concept of "advertising" in the context of this study must remain com-



prehensive and flexible enough to adapt to changes in communications brought about by changes in technology.

An Economic Survey of Advertising

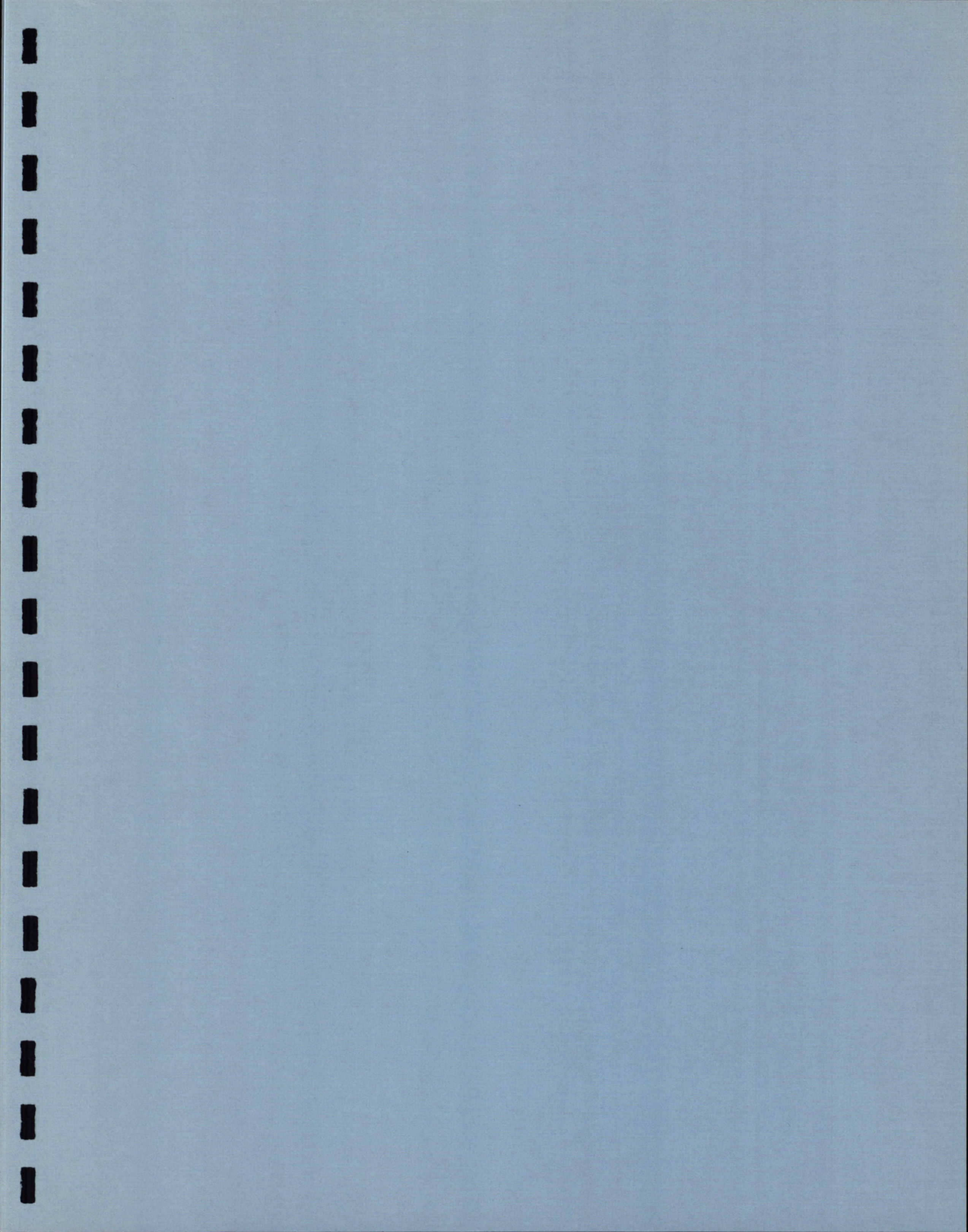
The implication of advertising in the context of the new media must be seen in relationship to the volume of advertising dollars currently being spent in Canada. A recent McLean-Hunter research report has examined advertising expenditures in Canada. While the information available is voluminous, only certain parts of it are relevant to our present study: in 1980 per capita advertising expenditures in Canada stood at \$106 per capita or 1.25% of GNP, or about 30% below advertising expenditures in the U.S. Advertising as a percentage of GNP in Canada has remained remarkably steady since 1960, fluctuating between 1.54 and 1.21% of GNP.

Meanwhile, there have been some significant shifts in the composition of advertising revenues of major media groups: broadcasters for example have gained steadily in their share of the market, rising from 11% in 1960 to 28% of total advertising revenues in 1981. On the other hand, all newspapers have gradually lost their share of a nonetheless growing market, dropping from 43% in 1970 and 38% in 1960 to 32% in 1980. Periodicals have maintained their share of the market at about 15% while direct mail and catalogues are down from 28% to 19% over the same period.

The gain achieved by the broadcast media is entirely that of television, with radio maintaining its share of the market. The broadcast revenue share of television increased by more than 40% from 1970 to 1980. It is evident that the broadcasters have a strong vested interest in retaining their growing share of the market. In essence, with 17% of the advertising revenues going to television, in 1980, broadcasters have become the third largest recipients of advertising revenues. Daily newspapers led the group with 26% of the market and catalogues and direct mail had 19% of the total.

Other significant data pertains to the total advertising revenues of those media which can be considered to be most vulnerable to the intrusion of videotex-teletex and other new media. For example, the classified revenues of daily newspapers have grown to the point where in 1980 they were \$250 million while television advertising revenues were \$600 million in 1980. Hence, based on 1980 figures, approximately \$850 million would appear to be the prime target of the new media intrusion. In 1980, this amount represented 23% of total advertising expenditures. If one were to consider the catalogue direct mail market as an equally vulnerable target of new media advertising then the total share of the market which could be targeted by new media, based on 1980 figures, is 42% or close to \$1.6 billion.

The potential growth of advertising in new media will be examined with respect to the gain in share of the current market which could perhaps be better served with new media. This total has been broadly established at \$1.6 billion. In addition, it is quite conceivable that the presence of new media will create additional markets. If supply were to create its own demand, as is hypothesized by most, then the \$1.6 billion or 42% share of the market may have to be re-evaluated in the context of a larger market.

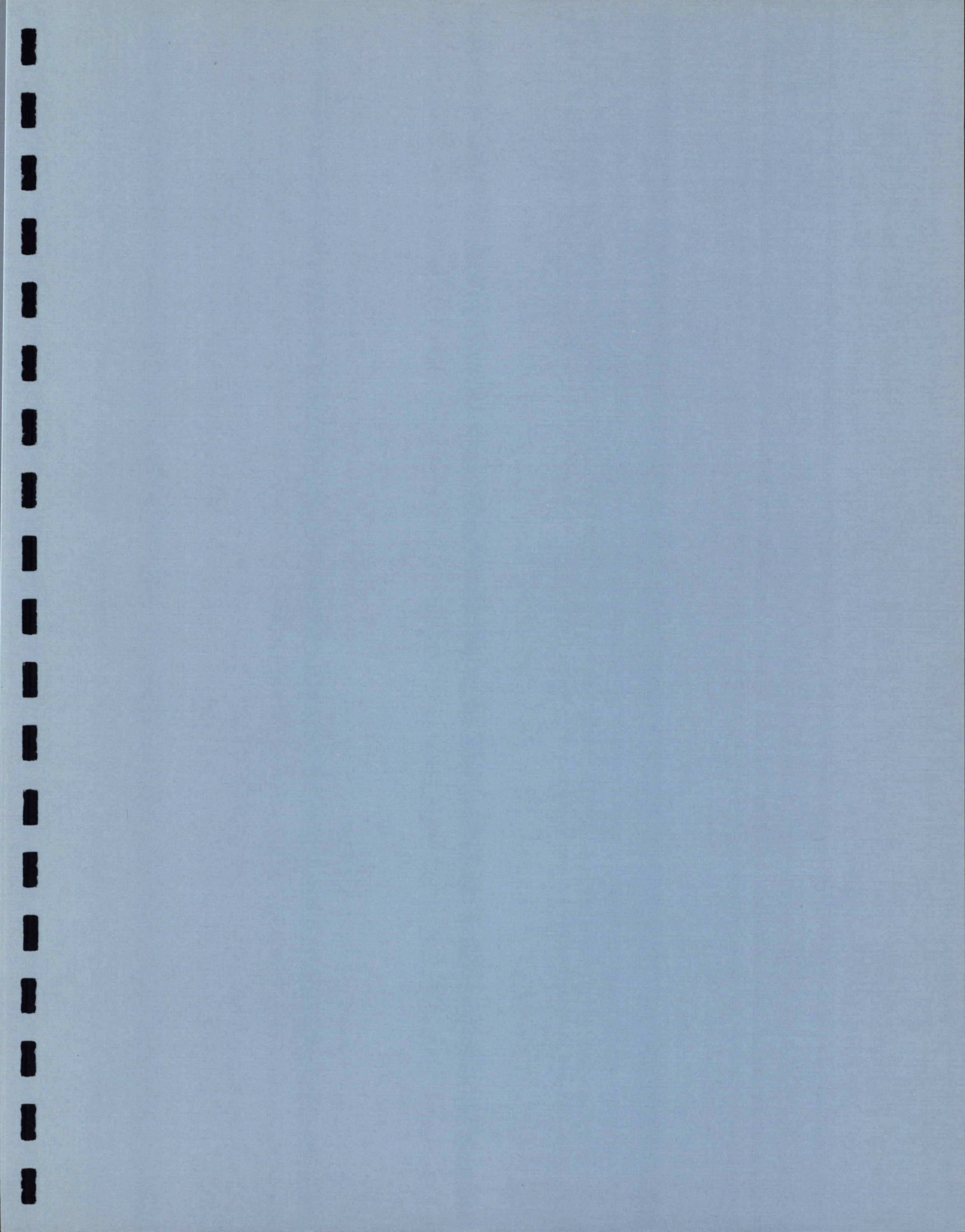


The Participants:

For purposes of analyzing the potential impact of teletext and videotex on advertising, we must go beyond a general discussion of transmission and services and focus on the specific participants and their positions. This technology will find its place in society and prove economically feasible only if these participants interact in such a manner as to allow services which might be desired to be offered and in a reasonable formulation and combination. We have selected the following participants after a review of the relevant literature and discussion with specialized informants. We then collected documents and position papers from these participants and interviewed a number of them to further clarify their positions and perspectives. We feel that our selection is sufficient for this introductory study particularly when so much is currently unclear and the prevailing mood is one of expectancy.

Broadcasters:

Broadcasters are a major force in the media in Canada, as well as the most regulated. The key to understanding the broadcasters in Canada lies in three important characteristics, firstly, the broadcast media is divided into two distinct groups, the government run broadcasting service which comprises the CBC's English and French programming services, and the private sector broadcasters, including such private concerns as C.T.V., Global T.V., etc. The major difference between the two sectors is that the Canadian Broadcasting Corporation is a publicly funded service which relies only partially on advertising



revenues (39.5% of the C.B.C's television production budget comes from commercial advertising revenue) and is guided by national and cultural objectives broadly defined in the Broadcasting Act. By contrast, the private broadcasters, while stringently constrained by regulations, have to rely exclusively on advertising revenues. Hence this first difference among broadcasters places the CBC and the private sector broadcasters in a different league with respect to potential advertising revenues available to new media. In essence, the CBC which sees the majority of its advertising revenues originating from the broadcasting of sports events, and which need not generate as much advertising revenues, is less partial to the issue of advertising and new media, and is only concerned with market fragmentation insofar as its audience ratings may diminish with the availability of a broader consumer choice. Specifically, however, the CBC is not concerned with the inclusion of videotex-teletex since new services available from these media do not affect its immediate market. The first difference, which can be described as the difference in ownership characteristic, is the root of the second difference.

The second major characteristic is that objectives of the CBC and private broadcasters differ radically with the private sector having to stress profit objectives to survive and grow. The difference is not subtle: the CBC has broad cultural and national objectives while the private broadcasters need to make a profit from advertising revenues which is their sole source of revenue. Currently, broadcasters are limited to 12 commercial minutes per hour of programming and are regulated as to the contents of the programming. In an atmosphere of increasing cultural regulation defined by the CRTC, the

private sector broadcasters are caught in an untenable dilemma: on the one hand, they have to satisfy the lofty motives of the CRTC by abiding to their content constraints in order to retain their license while at the same time they have to maintain revenues from advertisers who, looking at the audience ratings of domestic programming as opposed to those of some of the popular imported programs, are not overly enthusiastic about funding the CRTC's cultural objectives to a thin audience.

It is in this particular context that the position of broadcasters vis à vis advertising and new media can be understood: any potential reduction of their market is detrimental to what they consider to be an already eroding position. This, of course, is particularly true if the broadcasters failed to participate in any new markets that were generated by new media.

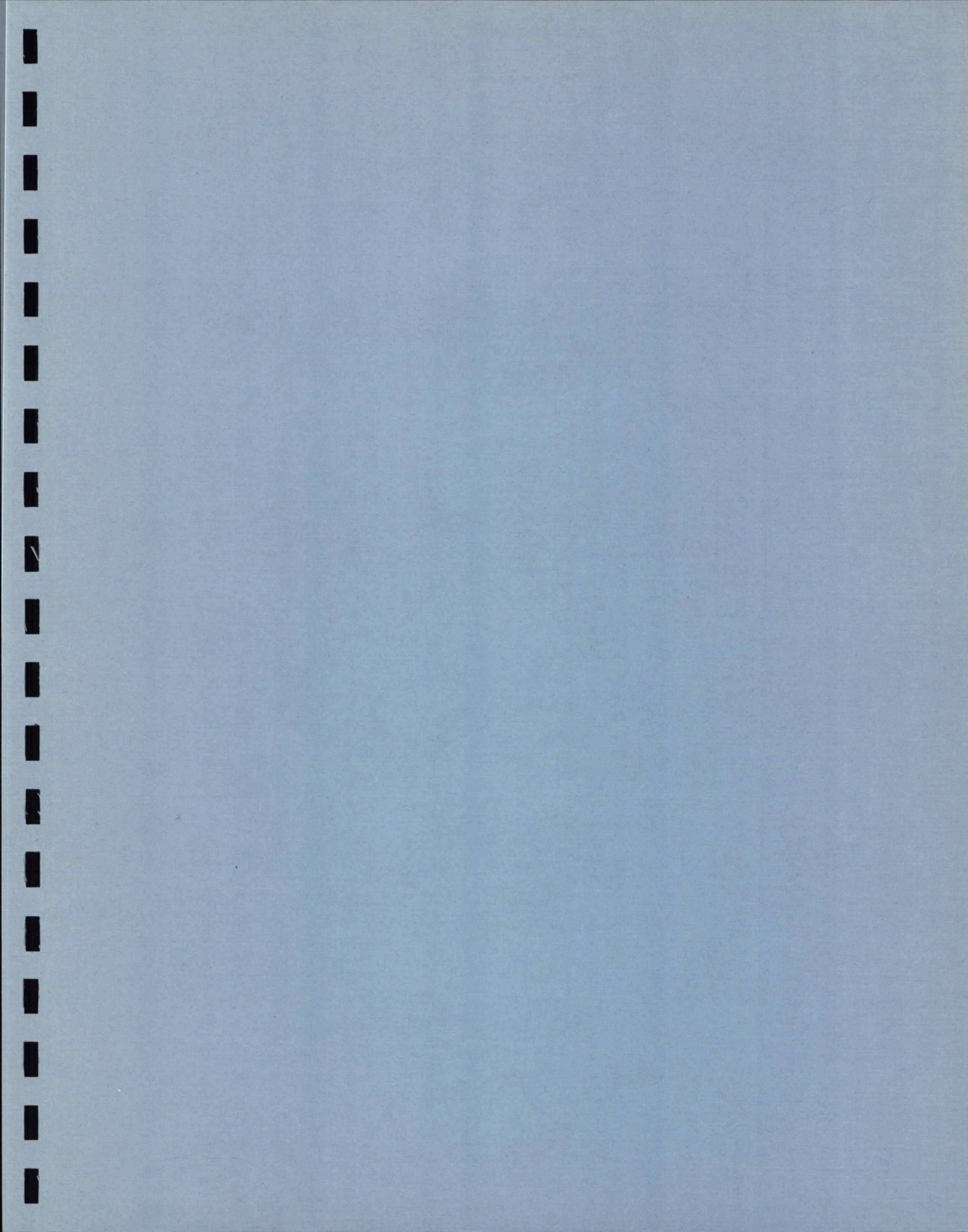
Broadcasters, in their representations to the CRTC have opposed the creation of new channels and have expressed the concern that any erosion of their own advertising base would reduce Canadian program production and perhaps program quality in general. In fact, the major concern is more basic and seen by some as a matter of survival: the proliferation of programming services is likely to fragment audiences and affect the amount of time allocated to viewing or interaction with broadcast programming.

Broadcasters see the licensing of advertising type programming services on videotex/teletex as a threat to their economic survival which, though not as great as that of cable and pay television at the present time, may rise to become the biggest threat. Indeed, while present new media allow only for alphanumeric interaction, in the future, photographic and voice interaction would provide such a market appeal that conventional broadcasting services could become obsolete.

What we are witnessing presently is the positioning of the broadcasters in the light of a potentially significant threat. Their strategy has been twofold, firstly, they are attempting to demonstrate that switching of advertising revenues to other media services would cause economic damage not only to themselves but ultimately to the industry at large. Secondly, they are attempting to argue that any new programming service should be brought into the fold of regulation, not because they consider regulation to be beneficial to themselves but because, in a competitive environment, any competition which is not constrained by regulation has, in their view, an unfair advantage.

These measures, and the vocal opposition demonstrated by broadcasters should remain of a short term nature equivalent to putting out brush fires. The future of broadcasting in fact looks much gloomier for the simple reason that the far broader choice provided by the new media now, and more so over the next decade, could turn broadcasting and conventional programming into a service which will have significantly limited appeal to consumers and hence to advertisers.

The advent of new media has not fully materialized and the economic impact of new media services still looms in the future. However, the participants in the industry, in anticipation of major structural changes, have placed themselves in two radically opposed camps. In one camp, the view is that if one of the participants is subjected to a set of rules so should all



the others. In the other camp, the view is that, in the absence of any precise knowledge about the structural impact of new media, the market environment and particularly advertising, should be left to evolve in free and unregulated form until such time as market distortions occur which need to be redressed. This latter view, as detailed in a later section, is precisely the view that has been adopted by the FCC in the United States. In the meantime, private broadcasters in Canada have opted for the first view and have successfully delayed licensing of new media services, in spite of the fact that no one has demonstrated how much of an impact these might have on broadcasting audiences and on advertising revenues.

The Cable Companies:

Cable is well advanced in Canada and some 85% of homes in the major urban centers can be linked into the system. One source estimates that the penetration rate will be 78% in 1990. The cable television business in Canada is highly concentrated. In 1980, the top five controlled over 50% of all subscriber homes.

<u>Operator</u>	<u>Major Markets</u>	<u>Subscribers</u>
Rogers/Premier	Tor., Van., Vic., Cal., SW Ont.	1,215,000
Cablevision-Nationale- Videotron	Mtl., Sherbrooke, Quebec	388,000
MacLean-Hunter	Tor., Ham., London	289,000
Cablecasting	Toronto, Calg., Wpg.	152,000
Selkirk	Ottawa, Winnipeg	148,000
CUC Ltd.	Tor., Barrie, Sud.-Timm.	138,000
Moffatt	Winnipeg	123,000
Cable TV Ltd.	Montreal	120,000
Capital Cable TV	Edm., Interior BC	97,000

Source: Foster Reports

In Canada cable is regulated as part of broadcasting with extensive stipulations as to functions, territories, and requirements. These regulations were summarized by the CRTC in its "A Review of Certain Cable Television Programming Issues" of 26 March 1979. The regulatory environment will be dealt with later in this paper. The cable companies want to expand their services into a wide variety of activities, including videotex and teletext. The Rogers' Cablesystems submission to the CRTC in 1981, for example, indicated the willingness of Rogers to provide seven classes of non-programming services:

1. Surveillance systems linking homes via cable into alarm and security companies;
2. Monitoring services such as opinion polling, energy meter reading, and viewers' program ratings;
3. Controlling and switching of utilities and the remote control of appliances;
4. Video games and home entertainment which at a future date will include interaction between two or more customers at different locations and a central computer;
5. Teleshopping via an electronic catalogue whereby the customer selects merchandise via a keypad in their home or business;
6. Information services such as packages provided by Infomart, Canadian Press, financial and government institutions;

7. Shared computer whereby a customer will have access to computer program storage, interactive courses, and a whole series of programs and data bases.

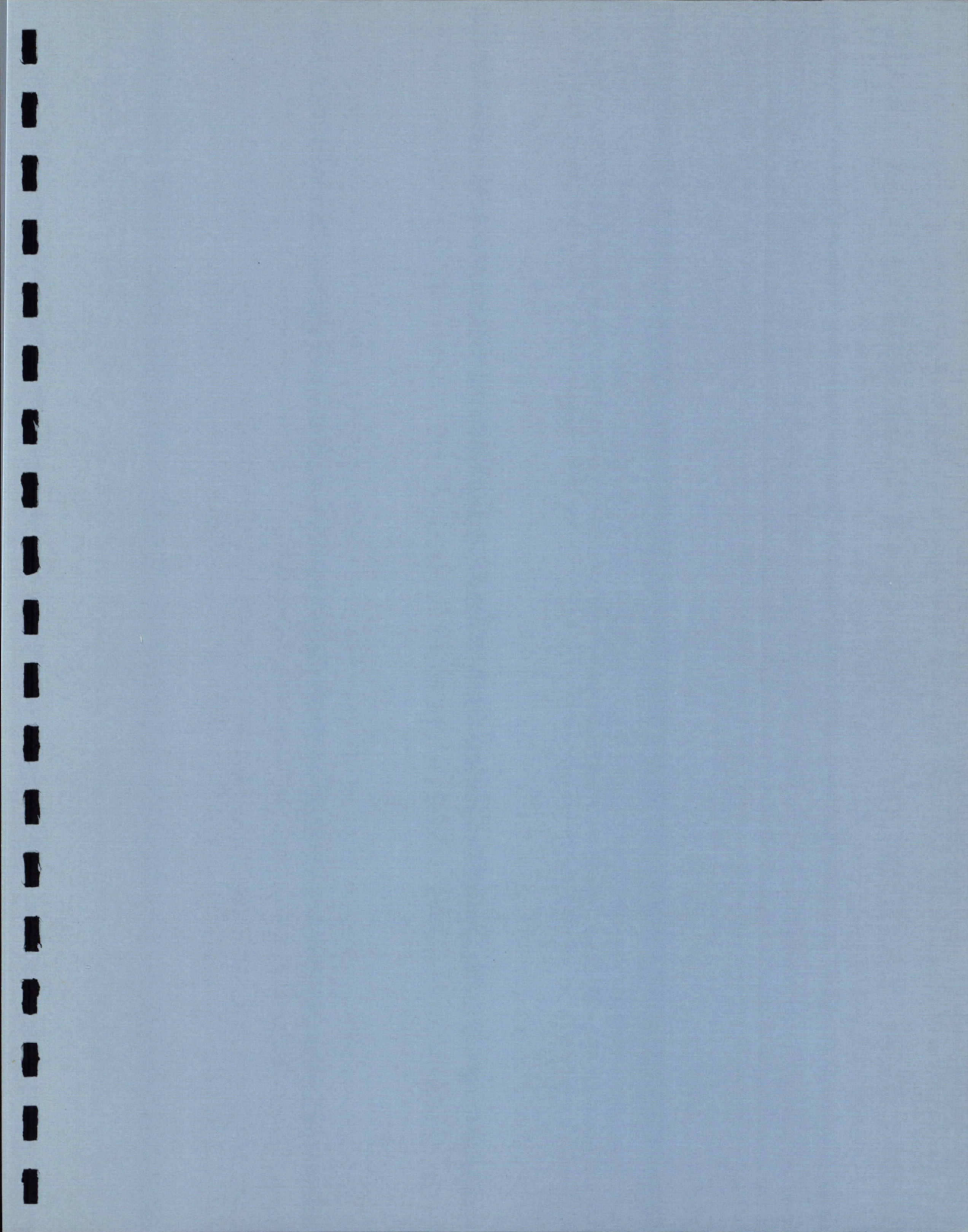
However, the cable companies argue that they require new sources of revenue, beyond the subscriptions and this in turn requires a very different regulatory environment which is less committed to protecting the broadcasters. The cable companies thus argue that some form of advertising must be allowed on cable which, as we shall see below, is at present specifically prohibited. The advertising need not be of the same nature as current in broadcasting, however, and the companies suggest other options such as tiered pricing structures. They argue that without a more flexible regulatory environment there will be a little experimentation with new services. Thus, they are requesting, in industry position papers and in submissions to the CRTC, flexibility to seek new forms of revenue such as classified advertising, sponsorship, tiered services on a user pay basis, leased channels, and other facilities rentals such as studio rentals. Over and over again in their position papers they emphasize the need for more flexibility in the regulatory environment if they are to provide the new non-programming services. The main question is, as we shall see, what constitutes advertising since in the new media as we have already seen above, the distinction between information and advertising is rather unclear. Videotex and teletext are but one class of the possible services that the cable companies are interested in providing. Through our interviews, we found that while some of the cable companies are indeed involved in the trials, this is not their greatest priority at the

moment. With the recent CRTC decisions on pay television, this is their main concern and the revenue generating possibilities would appear to be clearer than they are in videotex and teletext. Further, at least one of the companies indicated that for them a major problem is the technology involved at the consumer end. The cost of the terminals, estimated to be in the \$200-\$500 range is unlikely to attract a mass market and even at that they are not secure thus allowing for substantial leakage of services which at least in part would be paid for through subscriptions. In sum, for the cable companies there is a good deal of interest in moving into this area of non-programming services but it is not a high priority at the moment.

The cable companies are in what might be termed a "hold pattern" for the following reasons:

- 1) They are apprehensive as to the appeal to a mass market when the technology is still very expensive so that this initial investment, in combination with the ongoing subscription rate, may deter consumers in sufficient numbers to justify investment; then too; the technology so far is not secure, respectful of confidentiality or of proprietary rights of information;
- 2) There are presently a proliferation of new services, pay television being the most recent, most of which seems more promising for profit in the short run than videotex. The regulatory environment is uncertain in Canada in contrast to the U.S. so that without the funds drawn from advertising, as is currently the case here, it is not particularly interesting to invest in this area. Rather, it seems safest, in the light of other more promising possibilities, to closely monitor the development of new media in the more open U.S. market before making a firm commitment in Canada.

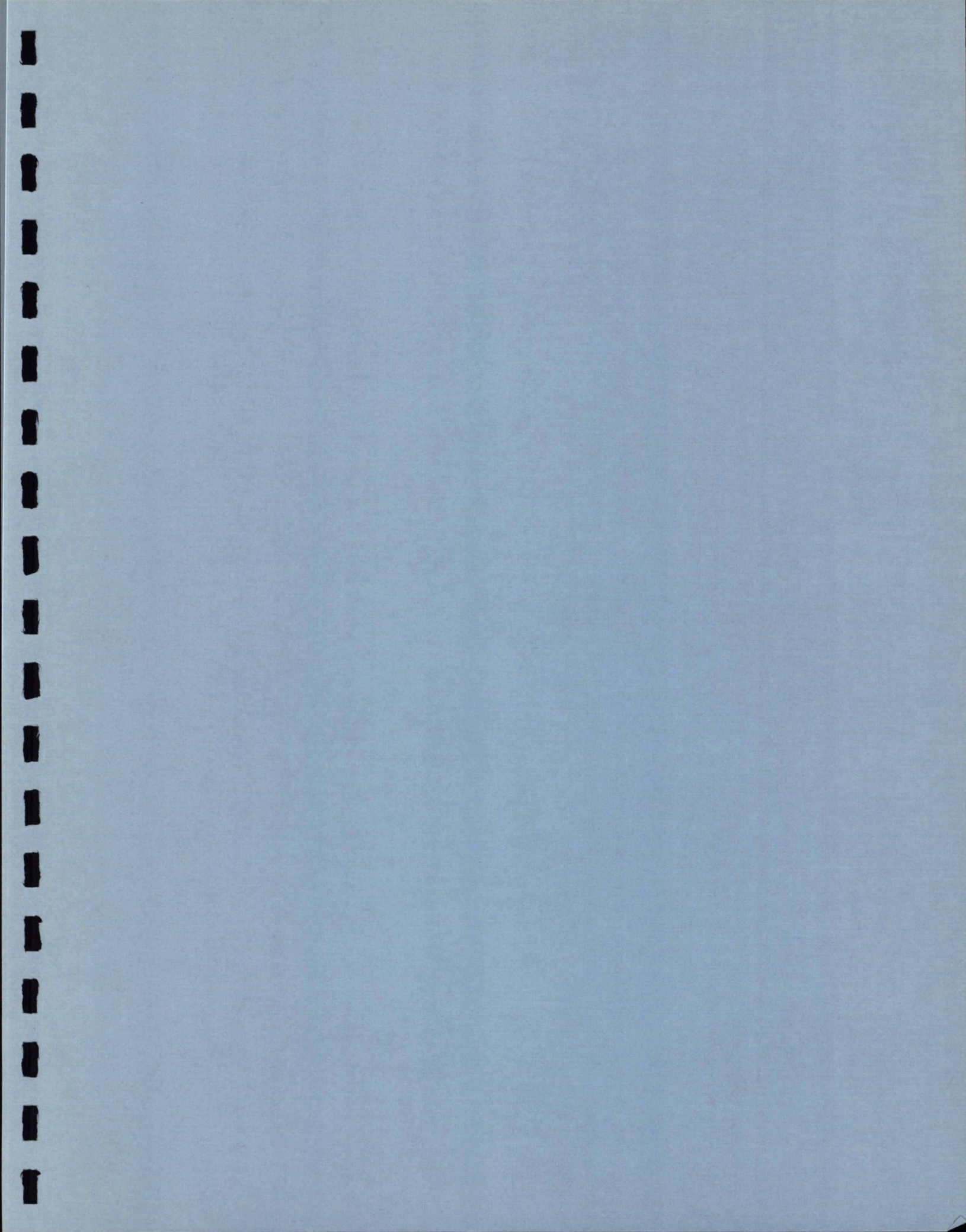
The potential, however, for cable seems particularly great not only due to their present technology and "wiring" of the urban areas but because it seems likely that the DBS systems will be distributed via cable. DBS systems utilize satellites to distribute the content. The configuration currently being discussed in Canada would use three satellites which would provide six regional beams with six television channels per beam. In some areas, particularly the North, each community could have its own dish antenna. In most cases, however, the signals would be received probably by a cable distributor which would then use its system to bring the content to the home or business. Some, such as Spiller, have argued that the DBS, coupled with cable, provides an excellent facility to introduce a variety of information and data services in the videotext mode. We would observe, however, that if with the new media there is the anticipated audience fragmentation then the economics may mitigate against the broad distributional potential of DBS.



The Telephone Companies:

Unlike a number of European countries, the telephone companies in Canada are not owned by the federal government. Indeed, there are eleven companies and some are owned by provincial governments whereas others are part of the Bell system. The telephone companies are of course regulated on a wide variety of aspects and undoubtedly most important for our purposes here is the fundamental distinction between carriage and content. As stipulated in the Bell Canada Special Act under Section 5(3) "Company to act solely as carrier. The Company shall, in the exercise of its power under subsection (1) act solely as a common carrier, and shall neither control the contents or influence the meaning or purpose of the message emitted, transmitted or received as aforesaid." Thus in a strict interpretation the telephone companies would presumably not be allowed to offer videotex services even though their technology appears admirably suited to this service. However, the regulations are ambiguous vis à vis computer-related services and some telephone companies already have established separate companies. It is clear from the participation of the telephone companies in the Telidon trials and their submissions to the CRTC that they are extremely interested in heavy involvement in videotex. In the trials, it appears that the single largest participant in Canada comprises the telephone companies. In the hearings held in the past, it is clear that the telephone companies want to emphasize that they, and not the cable companies, are the telecommunications common carriers which should play the predominant roles in the development of videotex.

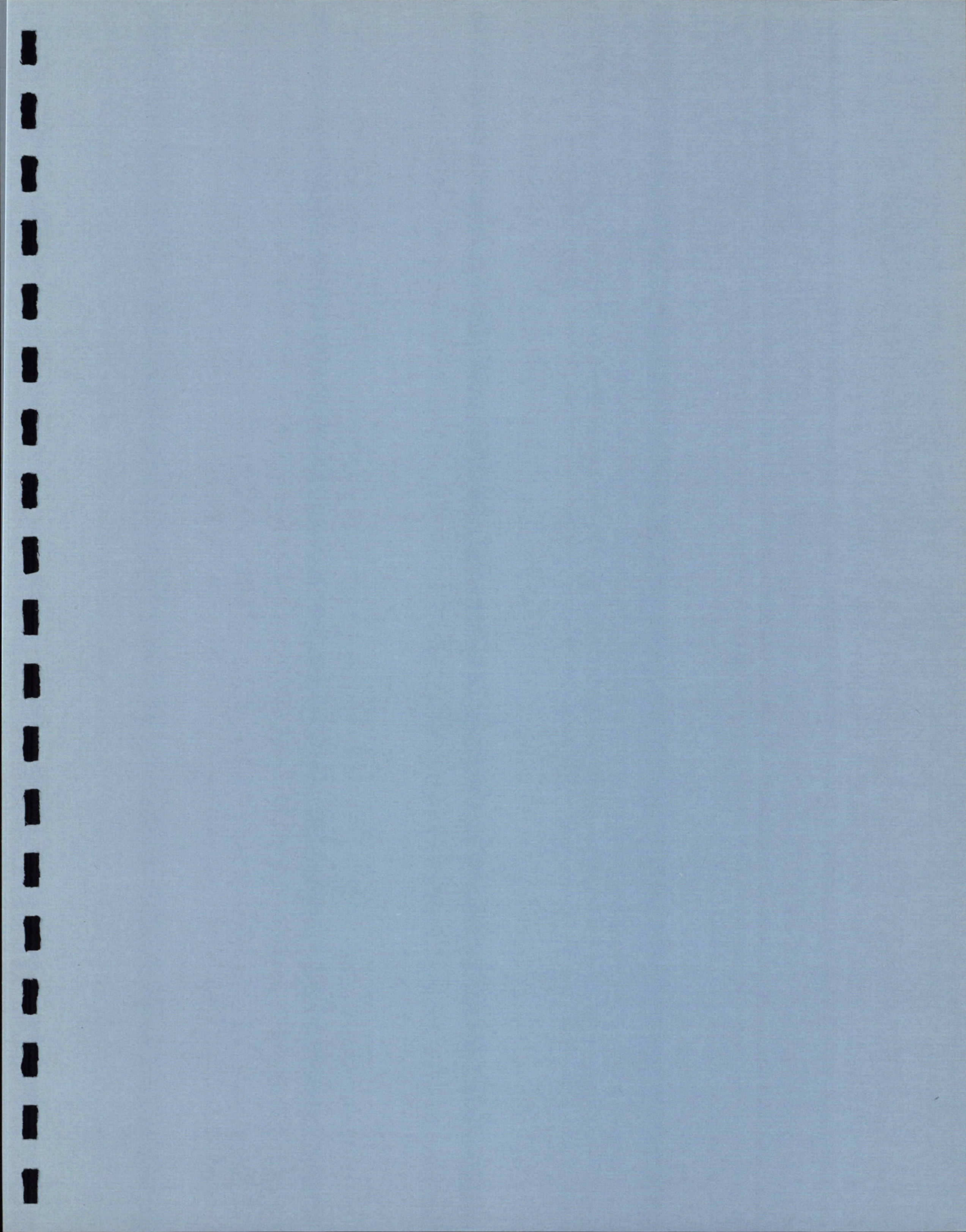
They have the infrastructure in place throughout the country which appears admirably suited for videotex-teletext as it currently exists but which is limited regarding pictures. They can make a good case for avoiding duplication, and have been quite forceful in opposing the competition of the cable companies. Technologically, they may have a case but the regulations will play a very large role in determining whether their heavy involvement in the Telidon trials carries into the ongoing provision of services to consumers.



The Advertising Agencies:

The main advertising agencies in Canada are involved in the Telidon field trials and in other ways monitoring very closely the development of videotex and teletext. At least two of them have done large reports on the new media and its implications for advertising and at least one other has established a task force to study the possibilities for the future. Other advertising agencies have apparently done little and are waiting to see how the market develops before become involved. Those that are involved have encouraged their clients to experiment in the field trials in order to get a sense of how the market is forming. These same companies are currently preparing pages for the trials and in at least two instances, they have formed new companies for both the preparation of pages and possibly general involvement in this area. However, monitoring, particularly in Department of Communications subsidized trials, is one thing and active involvement is another.

In our interviews with the advertising agencies and in reviewing the documentation on their involvement, it is clear that they are not completely convinced of the advertising implications of videotex and teletext. This is due not only to the matter of regulation to be dealt with below but also to the very nature of the new media as they understand it. Since the new media is in the process of being defined and is thus rather ambiguous, it may or may not be an advertising medium. If it is "pure advertising" where the consumer turns for shopping information and classified ads, then the role, if any, of the advertising agencies is rather different from a role in which



the content is public information with a few ads thrown in. In any case, the role of the advertising agency will be different from current practice and this requires monitoring more than active and committed involvement. What is more, the common estimate (probably based on the experience with Prestel in Great Britain) is that Telidon will be used 85% in the office and but 15% at the most in the home. Further, some of the advertising agencies have concluded that the facet of videotex which is most likely to develop will be the transactional. This being the case, advertising possibilities have a more limited scope than for example on entertainment oriented media. The market will be extremely fragmented and indeed their clients may well bypass them in providing information which was once considered advertising and within their domain. The predictions commonly accepted by the advertising agencies are of the slow growth scenarios which do not require their active involvement at the present time. The more active and innovative firms are observing the development of the new media but there is a nagging question whether what one of them termed "a technology in search of a purpose" will in fact catch on at all. If it does, they will be ready but if it does not, they will have lost little in these subsidized field trials.

The Publishers:

Publishers in Canada include publishers of one or more newspapers, books, and magazines. The most powerful groups economically in this category are the major newspaper chains such as the Thomson and Southam chains. These two virtually control all but a few major daily newspapers and their consolidating moves have recently been the subject of a Commission of enquiry entitled the Kent Commission.

Newspapers rely heavily on advertising for their revenues, with subscriptions lagging a distant second. The advertising sections of newspapers such as the classified, the real estate market and the weekly grocery specials are not only a significant part of the newspapers revenues as indicated below.

AVERAGE SHARE OF CLASSIFIED ADVERTISING LINEAGE

BY CLASSIFICATION FOR THREE LARGE DAILIES

	1973	1974	1975	1976	1977	1978	1979
	100%	100%	100%	100%	100%	100%	100%
Commercial Real Estate	10.0	11.3	10.6	11.7	9.8	7.6	7.6
Residential/Real Estate	30.0	32.4	32.8	36.7	36.4	43.1	38.9
Merchandise for Sale	9.9	8.6	8.9	9.2	10.9	6.0	6.1
Automotive	8.8	7.6	8.5	7.3	7.0	6.0	7.5
Employment (Excluding "Careers")	29.3	29.7	27.5	23.1	20.1	28.4	28.9
Financial	3.4	3.0	3.4	3.8	3.3	3.4	3.9
Sundry*	8.3	7.5	8.1	8.2	12.5	5.5	6.9

*Largely Births/Marriages/Deaths
Source: Data Laboratories

Are all information services which may be duplicated by videotex-teletex given the current technology. In addition, the transactional services which are potentially available through videotex would seem to make this form of advertising far more efficient than that of newspapers. In the light of this major threat, it is interesting to note that major chains, as well as individual newspapers have not reacted as adversely to advertising on new media as for example, the broadcasters. The reasons, and there are two major ones, stem not from ignorance or indifference but rather from a specific understanding of the future evolution of the new media.

In the first place, publishers, particularly newspaper chains have been involved actively in the new media since its very inception. They have worked to develop it and have diversified into it and consequently are not likely to be caught unaware of both technological and market developments.

Secondly, one major newspaper chain indicated that it considers the new media and its advertising potential more as a threat to broadcasters than to themselves. While the latter may be seriously damaged, this particular chain expects that by 1990, only 4% of their own advertising revenues would be lost to videotex. This estimate was revised downwards from an earlier one of 6%. Publishers see the attraction of new media as being more concentrated in the transactional services available and have stated to us that they would expect videotex to get as much as 10% of the total advertising revenues by 1990 with aggregate advertising expenditures rising so that the dent made by videotex would be seen as a loss of market share by other rather than as a drop in their nominal revenues.

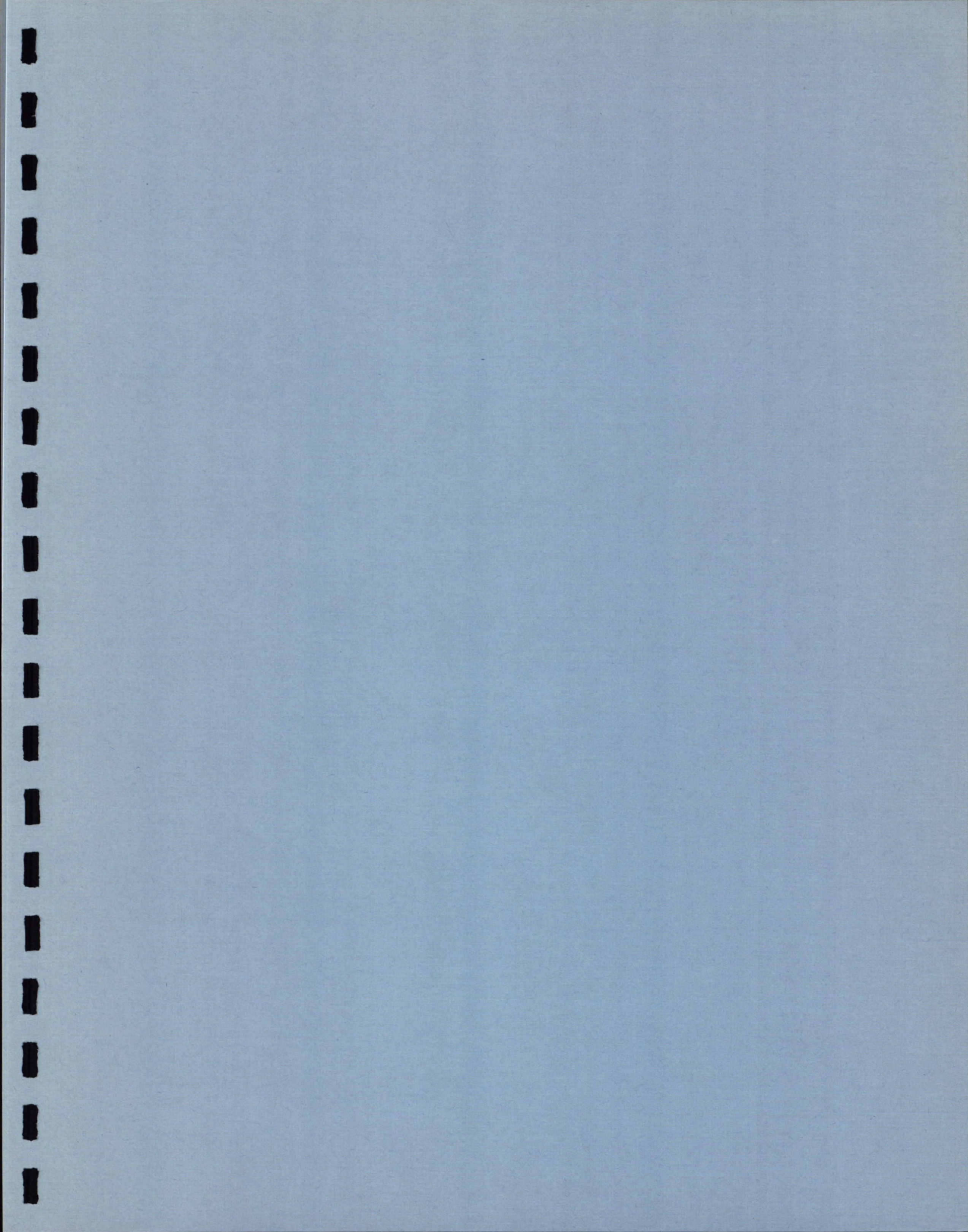
Regardless of their expectation about future developments, it is quite clear that publishers have now positioned themselves to be prepared for any opportunity in the new media market, should it arise. They have done so, initially by participating in some of the field trials and then by evolving with their own adaptations. A good example of this is Informart, a joint venture between Torstar and Southam. This videotex (Telidon) service links over 1,000 clients to more than 70 "information providers". The latter comprise a full range of interests from governments, to real estate, travel information, airlines, medical information, as well as a catalogue of goods available at Hudson's Bay stores.

These "information providers" may or may not advertise their own goods and they pay the cost of the message. Any one may become an information provider and there are no conditions which might allow one information provider with exclusivity. For example, "Grassroots" customers may retrieve information paying on a subscription basis, which amounts to \$47.50 per month. The Thomson group, specifically the Globe and Mail, is also involved in this area through Info Globe which is a service allowing for the online retrieval of more than 350,000 articles appearing in the Globe and Mail during the last four years. The charges are based on a \$2.50 a minute computer fee with a search fee of \$80.00 per hour.

In essence, the publishers' reaction to the progress of Infomart, Info Globe, and more generally to advertising on new media has been as follows: firstly, these services, as a video service is the same as the telephone and since it is a two way conversation requested by one individual it is not, and should not be, subject to regulation as to content. Secondly, their success appears to be mostly as a transactional medium, a convenience to retrieve information and act upon it. In the third instance, publishers seem to believe that the large majority of the new media population will initially be business, with only 20% being used by home computers. This factor is attributed primarily to the cost of the service but also to the range of information services currently available.

A problem of a different nature was identified by publishers, the screen size is a severe limitation for the potential advertiser. Unless the client can pinpoint exactly his request and unless this information is available in that format, he must watch through reams and reams of video pages which are not as compact as for example a newspaper. In addition, the viewer cannot flip back and forth to compare information and a greater number of lines on the screen would make it unreadable. The technological constraints which prevent an electronic newspaper from being an accepted fact are still extremely important and not likely to be resolved in the near future.

With respect to the role of advertising and the impact the new media may have on it, publishers made two points which deserve our attention: firstly, even though for example, a commercial enterprise may use a network to advertise its goods and services, as for example, the Hudson's Bay does on Infomart, the viewer and potential consumer still has to tune into that particular information. The viewer, instead of being the passive recipient of advertising, as he currently is on conventional broadcast programs, must request the information. Thus two problems face the advertiser insofar as his competition cannot be precluded from providing his message and insofar as the demand for the information must still be generated. What the publishers have correctly identified is that the switch to new media where messages are requested rather than received has resulted in a split in advertising. The first advertising effect must be aimed at the consumer, in a traditional manner, to incite him to

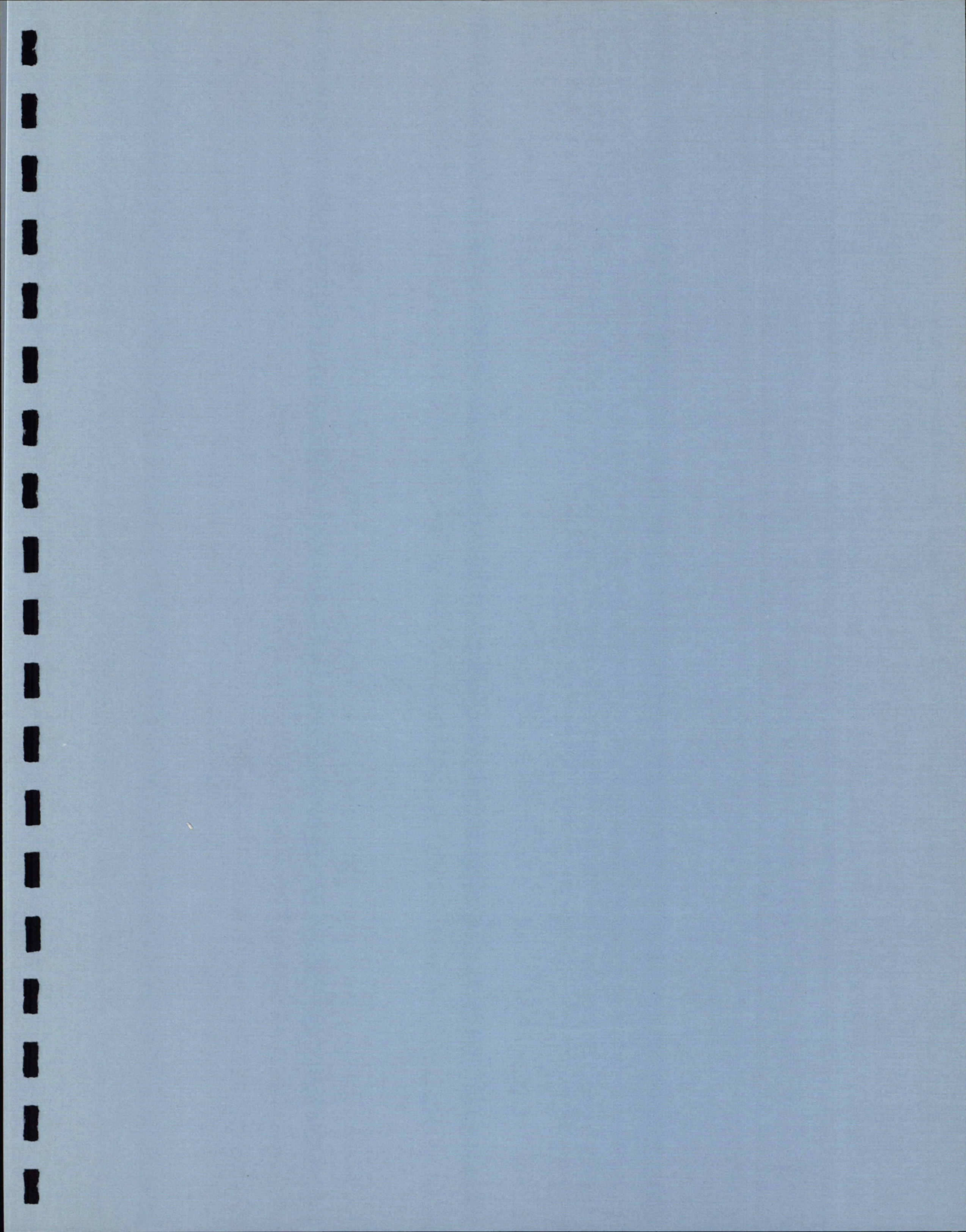


request the information, and the second level effect which is to get him to buy specific brands, must be contained within the program available on the new media.

Publishers, though optimistic about the breadth of services in the future, have placed their bets for the short term on the transactional viability of the new media in the business sector, with the home consumer lagging behind. While they have developed a certain expertise and some video services such as Infomart, Info Globe and a page setting service, they still believe that video-teletex is a new technology looking for a market and they have not indicated that they consider this market to offer above average potential. Instead they are playing a wait and see game, while gaining expertise and experience, so that if the market should develop, they may take advantage of it without having to have incurred the investment and the risk of being the catalyst.

The Department of Communications:

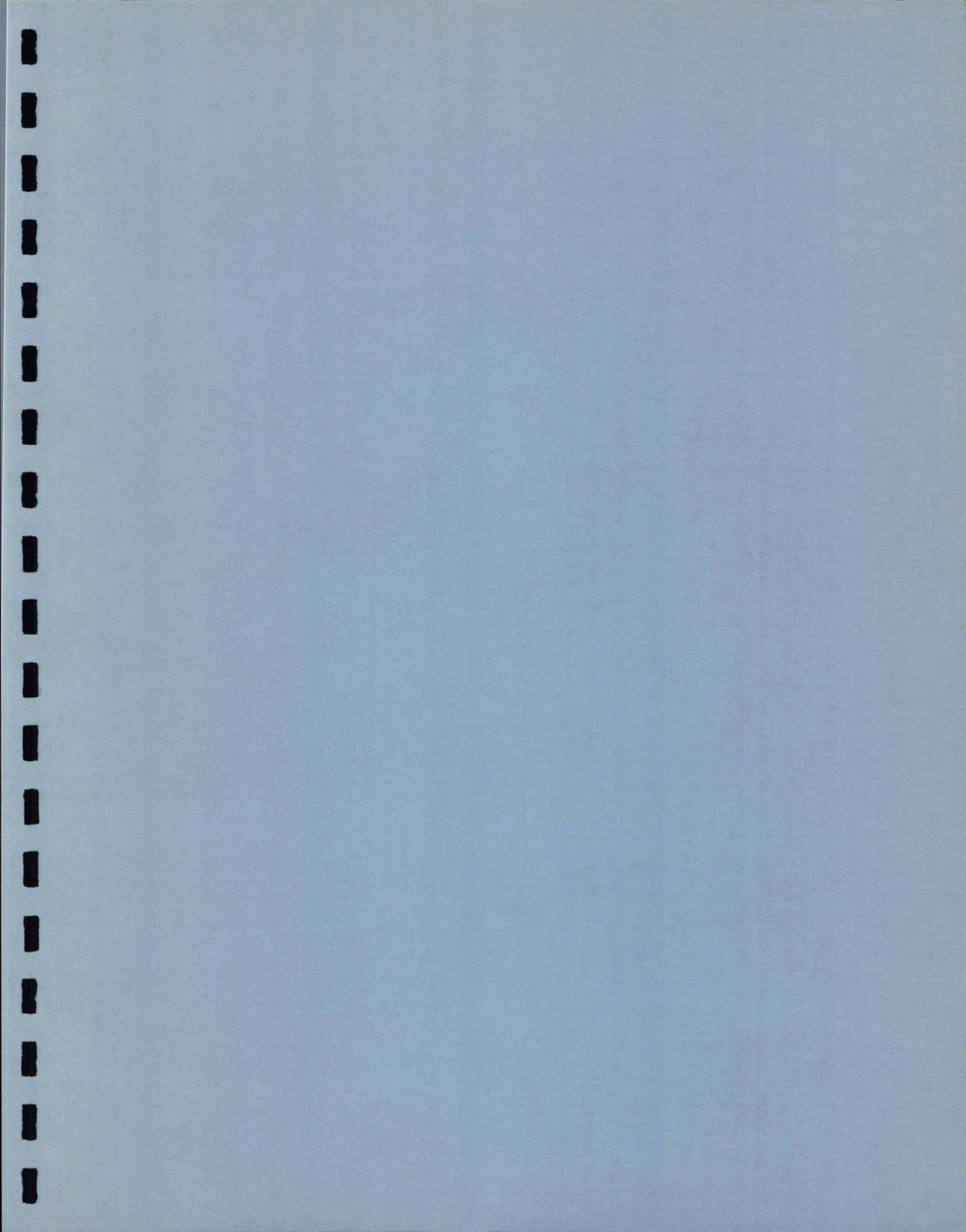
In our outline we did not intend to deal with the Department of Communications since there is little we can tell the DOC about itself. However, it is necessary to merely note that the DOC is committed to promote the development and adoption of the Telidon system both in Canada and elsewhere. The Telidon system would appear to have the edge in technical terms over the French and British systems and is making good progress in the U.S. market. The commitment in Canada itself is most obvious through the injection of large sums of money into the development of Telidon. In his statement of 23 November 1981, Deputy Minister of Communications Pierre Juneau reported that in the period 1979-83 the government has committed \$45 million to Telidon and most of this money has been channelled



into the private sector to assist in field trials, research, development and promotion. In January 1982, the Minister, Francis Fox, announced that 52 Telidon projects were qualified to receive a total of \$9.5 million in assistance under the Telidon Industry Investment Stimulation Program. From the news releases, the documentation and indeed the very nature of the trials and the submission to the FCC in the United States, it is clear that the DOC wants to get the edge over other competing systems. It is of some concern, therefore that teletext and videotex, presumably in the Telidon format, become economically viable.

The Regulatory Context:

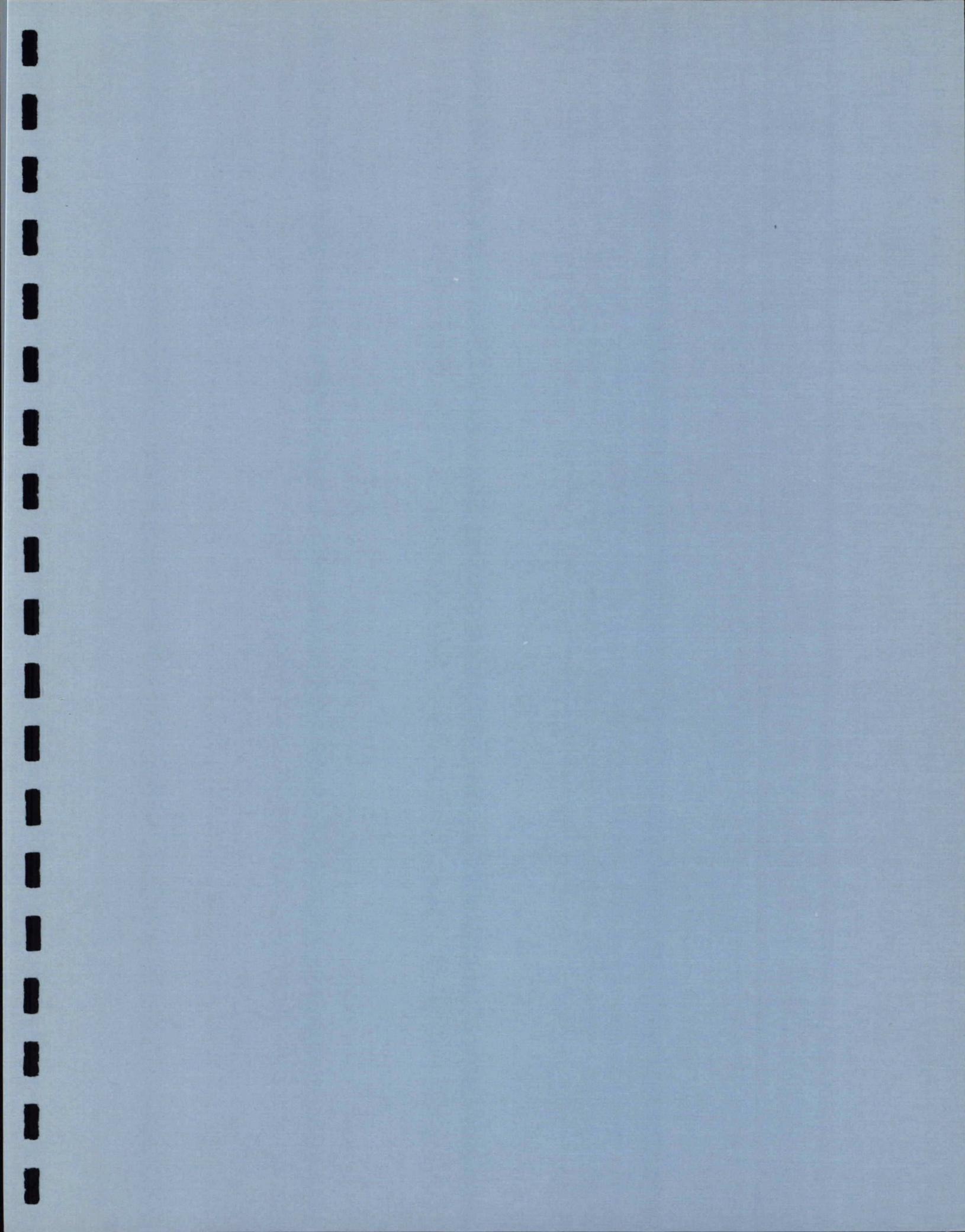
In our review of the documentation and in the interviews, the question of regulation arose constantly. Indeed, in the Tamec report it is simply assumed that the regulatory environment will be favorable for if it is not then there is no point to the report. A few comments have been made above regarding regulation of the telephone companies and while there is considerable ambiguity in interpretation and implementation, the distinction between carriage and content is the key point. In the strict interpretation, the carrier cannot determine content and on the key issue of advertising they are not allowed to do so except for the yellow pages. For those, such as the Payment Systems Inc., who believe that the telephone



companies will predominate in delivery of videotex and teletext then the issue to be faced is regulation and its interpretation regarding the distinction of carrier and content. This, we are told by the CRTC, is currently under discussion. It is our view, however, that the cable companies have, if anything, the pole position for any competition related to the new media and following on their expansion and growth with pay television will be in a favourable position to compete in the non-programming market. The main issue here, however, remains regulation and the main issue within regulation is advertising. In our comments above on the cable companies, we noted that they require new sources of revenue for the new services, including teletext and videotex and advertising, in some form, looms large.

Position of CRTC

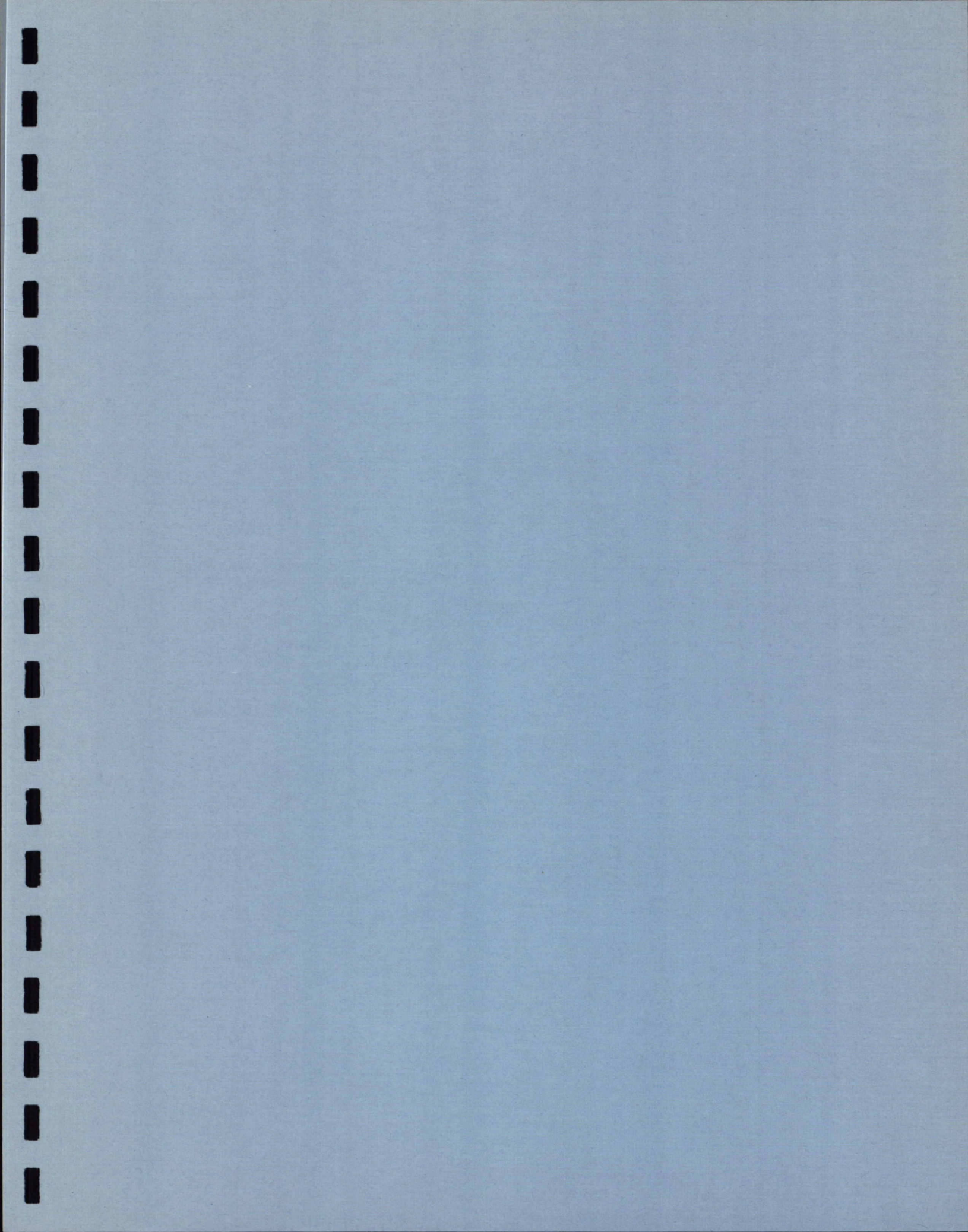
In the CRTC policy statement of 26 March 1979, the Commission specifically prohibited advertising on cable. "Commission regulations do not permit cable television systems to distribute advertising material on cable-originated audio and video channels." And, "The Commission believes that cable television systems should not compete with conventional commercial broadcasters for advertising revenues and contemplates no change in this policy." Their argument in this policy statement still in force was that the introduction of advertising on cable systems would significantly affect the overall broadcasting system with its requirements of meeting the cultural and broadcasting policy requirements of the Broadcasting Act. Further, the community channel would likely be adversely affected. Therefore, the introduction of advertising would have negative effects on both the broadcasting systems and on the cable systems as currently established.



This point on the negative effects on the broadcast systems is emphasized in the CTV submission for the 1981 CRTC hearings in Vancouver where they point out that while cable companies can rely on subscriptions the broadcasters must rely exclusively on advertising revenue. Thus whereas the CRTC has usually given approval to the cable companies for non-programming services, the key issue of advertising has not been approved. The private broadcasters argue that advertising in the non-programming services of the cable companies would have negative effects on their services which are extensively regulated.

Most Recent Decision

In the CRTC decisions issued 30 December 1981 concerning non-programming services this orientation as noted in the 1979 policy statement, was generally upheld. In this decision, the CRTC allowed further trials for the period terminating on 31 December 1983 which would include the following services: security surveillance, energy meter reading, controlling and switching, video games, information services, viewership rating, opinion polling, and teleshopping. The teleshopping service allows the interested subscribers an electronic catalogue retrieval service which permits selection and ordering directly from the home or business. The CRTC allowed this service provided that it is financially supported by the information providers and the subscribers who choose to receive the service. There is no mention here of advertising but in some sense the teleshopping can be considered advertising in the same sense as classified advertising would be. The CRTC did not allow, however, a classified real estate advertising channel. This offer to provide such a service, which was withdrawn prior to the Toronto hearing, would provide on a universal basis to all subscribers free of charge to be

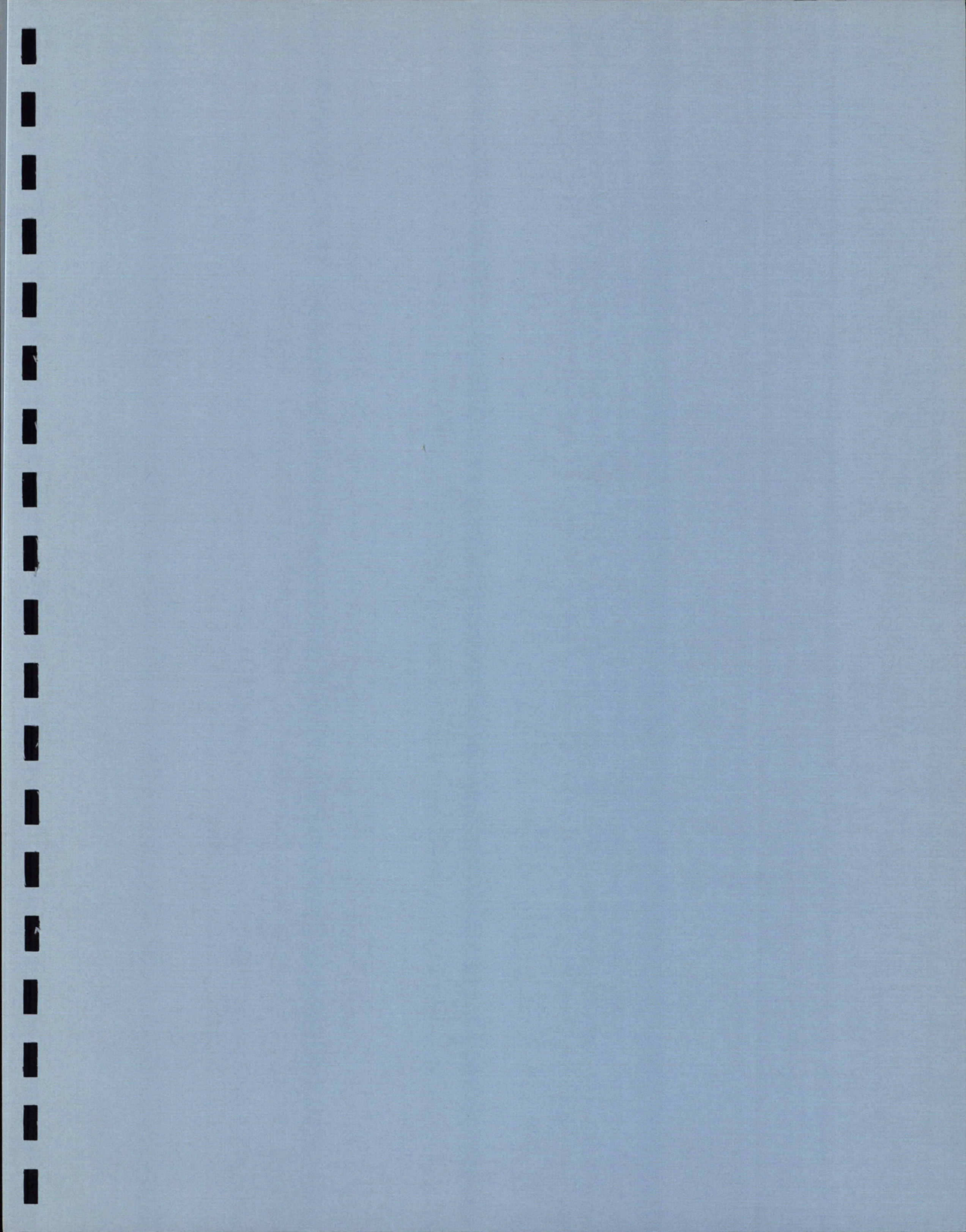


paid for by the real estate companies, a series of listings and descriptions of properties available on the market from real estate companies. The CRTC apparently decided that the arguments of the broadcasters were reasonable and this was clearly a classified advertising service.

This, then, is where the issue of regulation rests at the moment. Advertising on the non-programming services is not allowed. However, with teleshopping there are some elements of advertising and thus the crucial question is what is or what is not advertising. Further, the issue of advertising must be seen in light of the rationale for the CRTC decisions which is that the advertising pie is somehow limited and to allow the cable companies in with the non-programming services would have negative results for the broadcasters. An issue concerns whether this is the case or not and this is currently being questioned in public and within the CRTC. Further, if it is the role of the CRTC to protect the broadcasters is it also some other agency's role to protect the newspapers and magazines. But this raises the larger question, touched upon above in the discussion of the advertising agencies, whether or not videotex or teletext are in fact advertising media and if so, would they be drawing from the same sources as the current advertising revenues.

Tentativeness of Present Context

In our review of the documentation and interviews at the CRTC, a number of points became clear. The approval noted in the decision issued on 30 December 1981 was for another two years of experimentation. The approval, then, just as the new media in general are very much in the experimental stage. The terminology in this decision is somewhat tentative and open. It states "Based on the evidence presented at these hearings



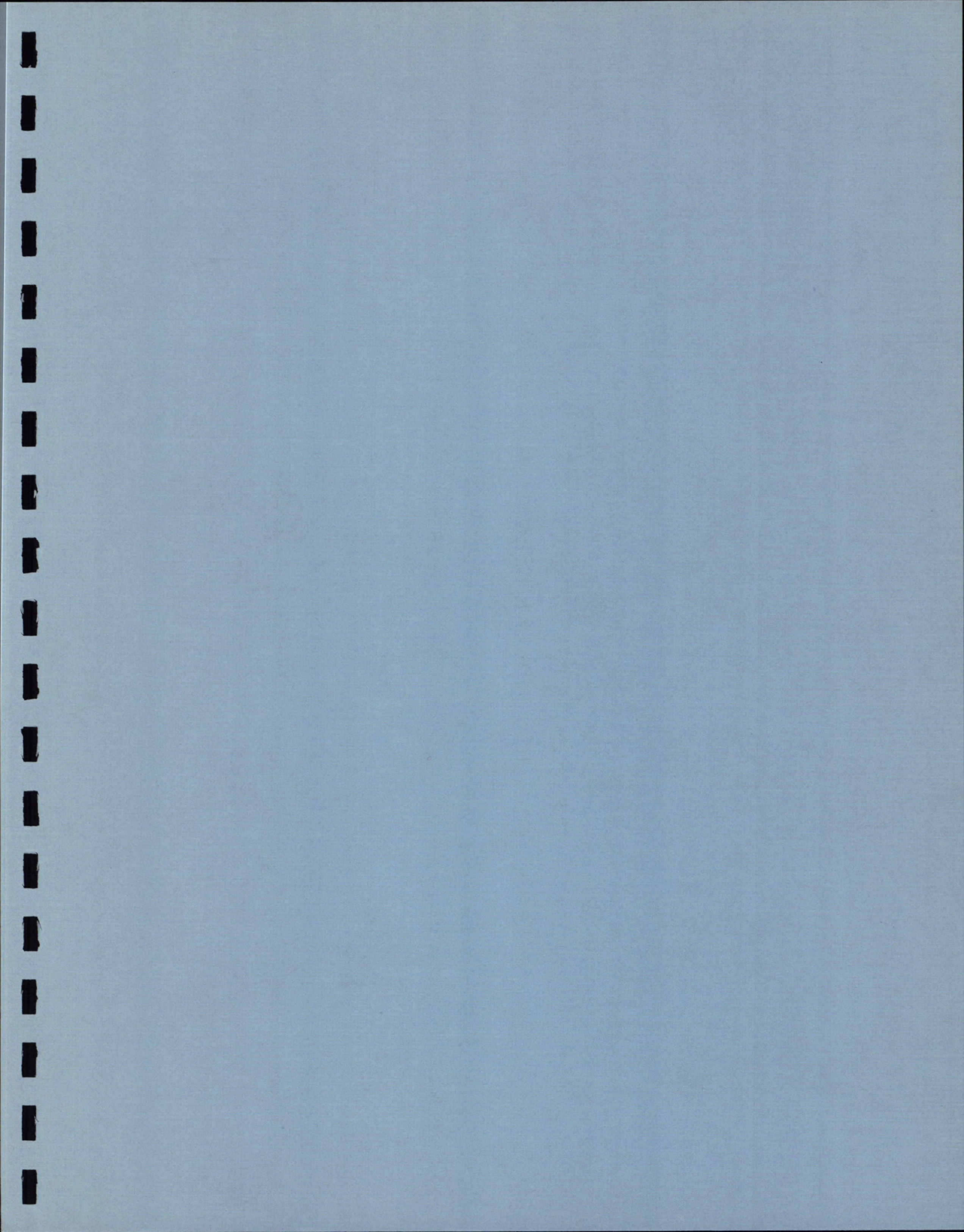
and in the absence of an overall policy review, the Commission is not prepared at this time to permit the proposed distribution of the classified real estate advertising service." Presumably, with other supporting or facilitative evidence and with an overall policy review, they might be inclined to allow some form of advertising. The policy, we have been informed, can be changed based upon a particular application or decision. Since the variety of services in teletext and videotex is so bewildering, this is quite possible. Finally, there will have to be some clarification as to who loses, if anyone, with advertising, in some yet to be specified form, and how this loss can be proven by the broadcasters or whether the mere claim that there is loss a significant relative involved is sufficient to halt advertising.

The Regulatory Context in the United States

In the United States, the regulatory environment is very different. In our review of the documentation and interviews at the FCC, we were amazed by the difference in regulatory contexts. In the United States, cable and telephone can engage in services such as videotex and teletext without going to the FCC and there are extensive field trials, including Telidon, taking place at present. Broadcast teletext, however, which occupies the vertical blanking interval of the video portion of the TV signal, requires the approval of the FCC. The FCC is currently considering rulemaking in this area and has issued documents giving their general views on the matter. Reviewing the dockets on file in the FCC indicated that the submissions are largely technical and do not deal with social implications let alone advertising. The interviews indicate that advertising is not an issue. Maybe a few statements from the FCC news release will serve to illustrate the mood. "The

FCC proposed an open environment in which licensees could choose both the kind of service to offer and the technical system that would best meet their operational requirements. This approach would essentially shift the determination of service and technical matters from the government to the private sector, thus eliminating the expenses, delays and value judgments associated with an FCC selection.

In order to offer the widest possible opportunity for the development of individual facets of teletext service, the FCC said the range of services authorized under the open market plan should be broad and unrestricted." (Emphasis added) In the later documents, they indicate that the service may be subscriber or advertiser supported and commercial data and messages may be communicated over the teletext services. Their view is that if the service is thought to be useful it will be supported in the marketplace. The decision is likely to be made in the Summer of 1982 and it is hard to imagine that the decision will do anything but allow advertising on teletext. The orientation in general is one-let the market decide. If people want the service, the consumers and/or the advertisers will pay for it and it will be the marketplace which will decide.



Implications for Consumers

The consumer of new media is the user of the service or information provided by the media. Thus, one must understand that consumer demand is centered on the information and convenience available through the new media and not on the hardware itself. Demand for new media is, therefore, a function of the consumer's perception of the service, information, entertainment or convenience provided to him. As for any other normal good, demand increases as the price decreases. Clearly, for new media services such as video cassettes, pay T.V., etc. the price demand relationships are relatively simple as there are substitutes available such as programming services, movie theatres and other close substitutes that have fairly well established pricing on demand patterns.

On the other hand, the problem with identifying the demand for new media services such as videotex/teletex, or more precisely Telidon, is that it provides a wide range of services which currently have no close substitutes and which will be used in a different manner by those who possess the hardware facility. Typically, business concerns will emphasize transactional and information demand while home consumers may have an entirely different pattern of demand, presumably based more on entertainment demand or diagnosis.

Once we understand that the consumer is buying the information "content" or the "convenience" rather than the hardware itself, the price demand relationship becomes more a function of the content, than of the hardware. At the present time, the contents available through Telidon are firstly undefined, and secondly, are expected to increase dramatically in the future. Consequently, as has been well indicated by all those interviewed, the consumer is not rushing into it and the other participants are also playing a waiting game.

a) Consumer expectations - We have been told repeatedly that consumer expectations about videotex media will be a major determinant of demand. In general these are:

- i) Consumers consider the price of the hardware to be high;
- ii) Consumers do not know what level of convenience information or use they might get from the media;
- iii) Consumers do not know what contents will be allowed/disallowed and how much regulation may curtail their choice;
- iv) Consumers, from previous experience with most other electronic media or instruments, including calculators, know that technological advancements and mass marketing bring prices down dramatically, and expect the same to happen with new media;

- v) In Canada, consumers have not seen any breakdown of cost sharing between carriers, information provider, government and themselves. By contrast, a mere definite pattern is emerging in the U.S. with the advertiser/information provider carrying much of the economic load.

The above indicates that the consumer in general expects his position to improve by waiting for events to unfold, in turn, as we have indicated earlier, advertisers, potential economic participants are "experimenting" with no one obviously launching into a wholesale campaign to build a large market based on marketing today's new media. As a result, videotex-teletext is still a technology looking for a market. While this market may become better defined as a result of the numerous field trials co-sponsored by the federal government and industry, the atmosphere remains uncondusive to any business investment by any of the participants as long as the question of content/carrier jurisdiction is not clearly and definitely stated.

b) Consumer scenarios - The best manner to explain the consumer demand for new media is to outline the scenarios which represent the worst and the best possible combinations for the consumer. The variables at work are as follows:

- the transmission charge;
- the hardware or terminal cost (whether purchased or leased);
- the presence of advertisers to support the contents and defray the consumer's direct cost;
- the degree of interest the consumer may have for the contents;

Thus, for the consumer, the most costly scenario and possibly the worst would be:

- i) the consumer bears the full cost of the transmission charge, that is, for example, in the event the consumer would access the new media by cable he would bear the full cost of the service. If he already subscribed to a cable service he would be subject to tiered charges. Tiered charges imply that any additional use beyond the "basic" subscription service would be charged to the consumer. This would resemble the telephone system which has tiered charges for any additional service, such as long distance, extra telephones, touch tone dials, etc. In the U.S., this method of charging on a user pay basis has already been established, as it has been on a trial basis by the Info-Globe teletext trial in Canada.
- ii) the consumer has to purchase the hardware with no one else sharing in this cost;

- iii) the information contents and transactional services are charged entirely to the consumer with no outside support from the information providers;
- iv) contents are heavily regulated, limiting the amount of programming or services available to the consumer and possibly running against his tastes, and preferences, thus limiting considerably his interest in the output provided by the new media.

The worst possible scenario for the consumer while not altogether plausible would indicate that the provision of videotex teletex services would find a limited market and experience a slow growth. The best possible scenario for the consumer would be as follows:

- i) The consumer would bear no, or only a token additional charge for the availability of the service. This would imply that the carrier would absorb most of the incremental cost, possibly in the expectation of increasing his market considerably.
- ii) The cost of the hardware would be made available to the consumer on a considerably reduced basis. This could come about either through a form of governmental or carrier subsidy, from technological developments or from economies of scale in the production of the hardware.
- iii) The contents are fully financed and supported by the information providers. In this case, the consumer has

to bear the presence of advertising on the contents but does not have to pay for the use of the service.

- iv) Regulation is absent with respect to content and delivery modes and the choice of information, entertainment or transactional facilities is as broad as possible.

In this scenario, the consumer who bears none of the direct costs and has the broadest possible choice may be expected to demonstrate a high demand for new media. The greater the consumer demand, the broader the base for advertising and the greater the interest that information providers/advertisers will have in the audience.

- c) Demand hypotheses - While still highly speculative, it is useful to hypothesize on the demand characteristics which correspond to the opposite scenarios. Based on current estimates, it appears that if consumers were to bear the full cost of videotex, it would amount to about \$25.00/month per subscriber. The Hough report indicates that based on current household expenditure patterns, this cost of new media would find its market only in households with an income of \$69,000+. In 1985, the total potential market would only be 26,000 households with a possible 50% penetration or 13,000 households.

By contrast, if the best scenario were to materialize, and a cost of \$6.00 per month realized, all households with income of \$15,000+ would be the potential market. Out of a total potential market of approximately 5,000,000 households in 1985, a 3% penetration would provide an actual consumer demand of over 150,000 households.

The real cost of the new media services undoubtedly lie in the vicinity of \$25 per month, however, the out-of-pocket cost of such services to the consumer could be substantially reduced when borne by advertisers, carriers, government or any combination thereof. Concurrently, the interest of advertisers in the market will rise substantially as their market expands. The elasticity of demand is very positive and the potential market rises dramatically in response to a drop in price, namely from 26,000 to 650,000. In the Hough report, the market penetration rate is conservatively reduced as the market expands, though this may not necessarily be the case, and has not been proven to have a price dent in the field of other media. In the U.S. at the present time, A T & T is predicting a 7% videotex penetration by 1990. Given a deregulated environment, there is no reason to believe that Canada, which is far more cabled than the U.S. should differ, and this would imply that nearly 400,000 terminals or 7% of the potential market could be in existence in 1985.

The CVCC has predicted that 250,000 terminals will be in the market by 1985 and that the market will expand at the rate of 30% per annum to reach 925,000 terminals by 1990. Although all these projections are totally hypothetical, the general opinion seems to indicate that, given the current climate of uncertainty about cost and about regulatory constraints, the number of terminals in existence by 1985 will range somewhere between 100,000 and 250,000.

Implications for advertisers - It is believed that in Canada, in 1985, the residential penetration will account for 15% of the total videotext market, with business users taking up the balance. The demand for media services will, therefore, be highly fragmented and certainly results in a transactions oriented media. The pattern and

fit of advertising in this context is undetermined: in the words of McCann Erickson, one of the leading advertising agencies: "It's our belief at the moment that it is premature and perhaps pointless to attempt videotex penetration or revenue forecasts." Nevertheless, important hypotheses and implications may be developed with respect to advertisers and the efforts should concentrate on defining the boundaries rather than on attempting to forecast exact figures:

- i) Fragmentation of the viewer market will imply that advertising on new media will have to be, in turn, much more precisely targeted. Fragmentation has its strong points and its weak points: while it is far more effective to reach a pre-selected audience, the cost per consumer reached is much greater and the effort required in making the advertising effective for a small audience is almost as high as to reach an overall audience. On the other hand, the development of an advertisement for a small pre-selected and informed audience is a more precise and less speculative task.

- ii) The great proportion of business users in the market places the emphasis on certain types of services such as transactions and information which may not necessarily be prone to advertisements. The business use of new media is not as compatible to traditional advertising as for example on entertainment mode and will not stand much in the form of promotional advertising. In the face of a vast proportion more skeptical and results oriented business users, the enthusiasm of advertisers may be dampened.

- iii) The presence of advertising on new media such as videotex/teletex may be very effective but it still remains that in order to touch the consumer through videotex, he must still be motivated to use the particular videotex service on which the advertisement appears. The implication of this is that advertising will split into two components, with the first one aimed at getting the consumer to tune in on a specific service and the second one advertising directly.

The need for this two-tiered advertising approach is the major reason why most advertisers anticipate that, in the future, the introduction of new media will not only modify advertising modes but the total advertising pie will have to increase. A leading advertising agency has indicated that it anticipated that by 1990 videotex would enjoy a 3% share of advertising dollars and that of that 3%, 25% would come from areas not usually included in the advertising budget while 75% would come from standard sources.

- iv) A certain contradiction exists at the present time: the cost of the new media makes it available to higher income households, the kinds of service available is largely informative and transactional. The majority of these services such as teleshopping, community information, etc. are of little interest to those in the higher income bracket, as they usually provide an information content which is of limited interest to them or which is already available to them through other means. Advertisers or information providers have been quick to perceive this and reluctant to support services which do not appeal to the income levels which can afford the media. This contradiction would abate, the more the price to the consumer is reduced and the broader and lower-income the user market becomes.

- v) The switch in consumer role from a passive recipient of advertising as is current in broadcast programming services, into a selective and interactive model will cause advertising to be reoriented in content and format. For example, a consumer may wish to tune in to the weekly specials at leading grocery stores, as indicated above he would first have to be motivated to tune into a specific store's ad, and secondly, while he is confronted with the goods available the promotion must be subtle. As the consumer now requests the service, he must be guided in his selection and then exposed to advertising. The obvious divergence from today's advertising and media market has deep implications for the advertisers and while they are currently researching and experimenting with this change, no advertising agency or advertiser has yet developed a stance or a formula to fit into the new media market.

The degree of uncertainty about prices, consumer demand, and regulation make it that at the present time new media remain without a doubt, a technology in search of a market.

Conclusion:

In this study of Advertising and New Media, we found that the new media constitutes both new or improved methods of transmission as well as a wide variety of services. The primary characteristic of all these new media is the potential for scope and diversity of applications in the home and business. However, the marketing to the consumer and thus the implications for the major participants remains limited. At the present there is a general "wait and see" attitude regarding the consumers and other participants. The consumers, insofar as they know about videotex/teletext know about it through trials. The full economic implications for their purchase/

rental of a unit and the service itself remain to be seen. Judging from other technological innovations, however, it seems likely that prices will drop and thus it is not attractive to be the "first on the block" with this new technology.

While the data are not all in, it seems likely that there are certain problems with attention and retention associated with videotex/teletext. Due to this, and judging from the experience in Europe, it seems most likely that these specific media will not catch on quickly as entertainment media but rather as transactional. In this case, the immediate implications for advertisers will be strictly limited and it will take a great deal of ingenuity and new forms of subtle promotion to influence potential consumers who are using the media for business and transactional uses.

This being the case, the present "tight" regulatory context over new programming services in Canada seems unduly severe. The new media which we have looked at in particular here are not likely to compete in the near future with the present broadcasting services and thus, the regulatory environment hinders the development and marketing of a technology which Canada is seeking to promote. Rather than including videotex/teletext within the rubric of classification according to transmission it seems more reasonable to formulate an overall policy based on their nature and content and distinguished from whether they are carried on cable, telephone, or off the air.

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