



# *m u l t i m e d i a* **MONITOR**

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## ***Advertising: Why add it to your success equation? Part 1– The money just might be your life line.***

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Multimedia is on a collision course with economic reality and the first casualties are likely to be the profits people like you have struggled months, even years, to achieve.

The scenario starts something like this: a medium is invented and demonstrated to the public. Several years later commercialization begins and a few, expensive receiving sets are sold to the “early adopters.” Demand for better programming soon puts upward pressure on talent and production costs as the supplier pool for these resources is limited, and producers turn to advertisers to offset some of their financial risks. Soon, everyone on the block has a receiving set, because it is now affordable and programming is available, and the medium takes on a life of its own as part of the larger culture. A number of individuals make tidy profits serving the public’s insatiable appetite for new, original content.

An oversimplification? Perhaps. We’ve seen this cycle happen with radio in the 1920s, television in the 1950s, and—if multimedia producers and content creators are but another branch on the electronic media tree—it will probably happen here too, in the current decade. Advertiser support is an eventuality. But advertising, as we’ve been inured to it, won’t hack it in the digital, on demand, world. The structure of a good interactive multimedia presentation is built from a user’s perspective. Sequential, purely linear structures—the only frames of reference most advertising directors and product managers understand today—are the very things that consign a multimedia production to the ranks of mediocrity. If a subject is better presented linearly, why not use video? On the other hand, there are

aspects of interactive multimedia that open up fascinating opportunities for marketers large and small to connect with individuals in ways they couldn't imagine before.

I hope to offer an up-to-date snapshot of where advertising stands today in new media in this two-part series. Is it right for your project? How can you, the developer, find opportunities to offset some of the costs and risks of development? Advertising—or more accurately, thoughtfully integrated sponsorship opportunities—can be a godsend if you're in this to make money. And you must be if you're reading this.

### *Different economics*

There are a number of important distinctions between programming delivered via CD-ROM, or online for that matter, and programming designed for television. First, and foremost, multimedia programming carries a daunting risk/return ratio. This has as much to do with the business model under which television production studios operate as it does with the comparatively miniscule numbers of people in the audience for typical multimedia productions.

Let's look at CD-ROM to illustrate the multimedia side, because it is the dominant multimedia delivery mechanism today, and because we can gauge the dimensions of the market pretty well. We know that the total installed base of multimedia capable computers is in the 15 million ballpark, based upon data published in Morph's Outpost. We also know that success in the general consumer titles marketplace today usually translates into 75,000 - 100,000 units sold at an average retail price in the \$35 range. Most titles, even some very fine ones, sell far fewer units than that. Depending upon your deal with your publisher and your distributor(s), you'll see perhaps 40 percent of that in gross income. Factor in a total typical development and marketing budget of, say, \$500,000 and a picture emerges. It isn't very pretty.

In return for those months of sleepless nights and near zero personal life, there's the general anxiety that comes from seeing serious money—too often

it is your own money—pouring into projects whose profit potential is limited unless they achieve monster hit status. (Forget about bundles when calculating profits: only a very few CD-ROM titles have ever broken the half-million consumer units sold mark.) And if you can't consistently produce titles that sell the 30,000 units required to break even... Well, there's an old Queen song I'd like you to hear!

Even a cursory review of the numbers shows television to offer much more favorable economics. A typical half-hour of episodic network television costs \$600,000 to produce. To recoup their investment, the television production company needs to make exactly one sale--usually to a network but there are other viable outlets--to recoup their investment in total. Should that series be a hit and get renewed, the studios stand to very well indeed because they own the rights to these programs. Lucille Ball (Desilu Productions) was a genius for recognizing the market for re-runs in syndication: that show airs somewhere in the world at every hour of every day.

Of course, the TV nets are getting into this action too now. It is not uncommon for an NBC, CBS, or FOX to contract out to a studio--read: work for hire--to develop a script and perhaps a pilot. The developers risk even less here and they still stand to benefit handsomely on the upside through sales to international markets, off-net series, etc. Now, it's true that studios do hatch their own ideas to pitch at the various markets for television and video, but rarely will they invest in producing an actual pilot episode "on spec."

And what of the risks the media outlets incur for bringing these programs to you? Their risks for airing these shows is minimal since they're selling 8 commercial minutes of airtime per hour at six figure rates per :30 segment. Income flowing in at those rates is enough to paper over a plethora of poor programming decisions. When was the last time the broadcast nets actually *lost* money on a slate of prime time entertainment programming bought from outside production companies? Also, ponder this slice of reality: More people view a single installment of "Baywatch" than all the consumer CD-ROM titles purchased in the entire year of 1994.

## ***The Paradox of Multimedia Success***

Of course, I am simplifying and dramatizing here as I didn't intend to analyze the television program provider industry. I think I have made my point, though, which is that there really are too few shoulders on which to support the costs and risks of original multimedia content development. The grand paradox is that as multimedia grows, so will expectations of great sound, great graphics (with or without a heavy video component) and, great stories. To deliver, costs will actually go up in a marketplace that will become increasingly price-sensitive.

Multimedia has many compelling aspects: Multiple views, on demand. The ability to interact differently on each "play." The joys of ownership. Far higher information retention. A marketplace that is viable. (Look; 15 million + of anything qualifies as a viable market.)

Yet, considering today's installed base of multimedia capable computers, the number of titles per machine remains very, very low. Poor distribution mechanisms are a factor, to be sure, but not to the extent some other writers have expressed. Consumers are tuning out due to a lack of compelling, original content and because prices remain too high.

## ***More and better original content is our business***

I believe that a sufficient quantity of original, well-conceived and executed content, *delivered at affordable prices*, will ignite consumer interest in interactive multimedia. I wouldn't shed too many tears for the major publishing houses and media companies who lived through the first generation of multimedia by "repurposing" assets from their vaults, though. Any perceived early advantages they had was short-lived and largely an illusion. They enjoyed success for the same reason Pong became a phenomenon a quarter century ago; it was the only game in town. Soon, people grew tired of watching a dot move back and forth across a screen and the arcade industry moved forward with more exciting graphics, sound and animation. Titles became more expensive to create. The comparison

to television and radio I stated earlier applies.

Why don't we take all that is compelling about multimedia, including its ability to let users explore topics of interest *in depth*, and offer up a way for advertisers to buy in.

The rest of this article considers how advertisers can become participants in your success equation. Advertising provides these immediate benefits to multimedia developers. First, it offsets costs and lowers the risk of entering the market. Second, it enables publishers to buy quality talent and maintain high production values, while keeping retail prices at levels that attract a broader audience. Third, advertising opens up some new distribution options for multimedia products-indeed, creates some entirely new opportunities for producers-by allowing marketers to apply the merchandising power of interactivity to promote a whole range of products.

### ***What constitutes a niche?***

How many units of a given title need to be sold in order to consider that title a success? That depends on development and production costs. However, if present patterns continue to hold, the number of titles on the market will continue to expand even more rapidly than growth in multimedia-capable computers. Success might mean creating titles that can be profitable with sales volumes of as little as 20,000 pieces. (While there will be more titles selling in larger quantities in the future due to growth in the installed base, I hardly think that sales in the multi-hundred thousands is necessary for a profitable title.) Even today, the most compelling non-game titles are those that grew up around interests and inclinations-or lifestyles.

Lifestyles? Interests? That sure sounds like target market talk to this advertising person. Advertisers just love target markets. Thanks to advertiser support, many special interest magazines exist profitably on circulation below 20,000. Without advertiser support, most probably wouldn't exist at all.

Although already a few years old, a title San Francisco-based Books That

Work did several years ago called “Building Your Deck” remains an excellent example of advertising supporting a niche multimedia title. “Building Your Deck,” a diskette-based product which sold approximately 50,000 copies at \$49.95 retail was notable for its sophisticated use of advertising to support the overall editorial mission of the title. (Note: the product has also been distributed in a CD-ROM version with some additional multimedia content.) Getting the advertising to work required that it be tightly coupled to the content, and also be context sensitive. Kelly Anthony Rodrigues, formerly of BTW and presently with Novo Communications, considered the nature of the information being presented, in this case a “how to” guide that could generate plans and calculate a bill of materials down to the number of nails required. “When a customer picks up (the “Deck”) product, it’s pretty clear they’re going to build a deck. Any title in a lifestyle category that leads to a specific behavior, in this case it’s the building of a deck, has an appropriate connection for advertisers who can provide additional information related to the activity,” says Rodrigues.

### ***Advertising (gasp!) What will the user think?***

All indications are that as long as the advertising content is context sensitive, user selectable, and related to the main topic of the title, consumers don’t object. Particularly if advertising is perceived as holding the costs of access down.

According to Books That Work president, Dan Levin, customers are “overwhelmingly positive to neutral” about having ads included on some of their titles. This is because “we go out of our way to integrate these ads into our product in a noninvasive way. The customer doesn’t have to look at it if they don’t want to look at it. It’s not in their face; it’s not like Prodigy, where part of the screen is always taken up by an ad,” Levin adds. Most importantly, advertising on the title by sponsors including Flood Company, California Redwood Association and Black & Decker, was a clear departure from what they were using in print and other media.

Moving more aggressively on the advertiser-supported front are so-called “digizines”; periodical CD-ROMs and online “magazines.” Titles such as “Nautilus,” “Blender,” “just think (an interactive),” and “Medio” were conceived from ground up as vehicles for original content. Many are heavily advertiser subsidized. User reaction is in step with Levin’s experience; overwhelmingly positive to neutral.

Next time, some suggestions for grooming your title ideas for advertiser support and, likewise, for determining whether or not sponsorships are desirable for your projects. The experiences of industry leaders, who have experimented with multimedia advertising-both online and on CD-ROM-will be presented. Finally, the criteria on which company advertising and marketing directors make a decision to go, or not to go, will be reviewed.