

## Using mobile phones to boost tv ratings

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*To realize the benefits of interactive technology, broadcasters and mobile carriers must work on their own interaction.*

The advertising revenues of Europe's large free-to-air television broadcasters are beginning to recover after the declines of 2001 and 2002.<sup>1</sup> But owing to the proliferation of niche cable and satellite television channels, those revenues are still spread too thinly. The broadcasters' road to revenue growth thus remains far from smooth.

One way to boost ratings and advertising sales would be to marry TV broadcasting with the Short Message Service. SMS, which enables mobile users to exchange text messages, is quickly becoming more and more popular despite high prices. A survey<sup>2</sup> suggests that 42 percent or more of the mobile-phone users, and up to 70 percent of the teenagers, in a number of Europe's largest TV broadcast markets are interested in some form of interactivity between TV and their mobile phones.

At present, SMS-TV messaging accounts for less than 2 percent of the €22 billion in gross annual advertising revenues generated in the European TV broadcast market. But broadcasters could be underestimating the greatest strength of linking SMS to TV: SMS is an effective direct-marketing tool and can also increase ratings. McKinsey studies found that adding SMS interactivity to certain shows improved their viewers' loyalty. In some cases, the addition of SMS boosted the viewership of popular free-to-air television shows by up to 20 percent. Since advertising rates are directly linked to ratings, well-executed SMS-TV shows could at least preserve, and perhaps enhance, a broadcaster's bottom line.

### An accidental success

SMS wasn't originally intended for consumers: in the early 1990s engineers used it to communicate with each other. But it soon became clear that text messages were an efficient way to tell customers, for example, about network outages or to remind them when payment was due. From there, customers quickly figured out how to send text messages themselves—before mobile operators had even decided how to charge for the service. "Text" duly became a verb.

The real SMS boom, however, started in 1999, when it became possible for the first time for content providers and users to send text messages across most provider networks. Stock quote services, bank account balances, train schedules—all could be sent to subscribers, while customers could transmit text messages to each other whether or not they used the same mobile carrier. Since then, mobile users, particularly those aged 16 to 30, have adopted SMS as their preferred chatting medium. From the technology's inception through March 2002, almost 30 billion<sup>3</sup> SMS messages were sent in the world as a whole. By the end of 2003, mobile users were sending an average of 1 billion messages a day, and by 2006, Western Europe alone is expected to rack up that number of daily messages.<sup>4</sup>

### Texting and TV

It didn't take long for mobile operators and broadcasters to cash in. The first and most obvious SMS-TV application involves inviting viewers of music contests and reality shows—many of whom just can't let go of their mobile handsets—to vote for their favorite song or contestant by sending a text message rather than dialing in from a landline telephone. Currently, 65 percent of the interactions between mobile phones and TVs entail voting during these types of programs. SMS-TV shopping has also captured the viewers' attention; in Germany, for instance, CDs and concert tickets can be bought with SMS text codes on Viva, a domestic music-TV channel. Viva's

management claims that the service is more profitable than some established TV-shopping channels.

SMS-TV chat lines—a development reminiscent of Internet chatting—also show great promise. In Germany, RTL-teletext, which offers a TV broadcast message board, claims to host up to 220,000 text messages a day. Almost 70 percent of the broadcasters in Europe have now launched their own SMS chat lines and enjoy similar success.

SMS provides excellent indications of a show's popularity or potential, even though conversion rates (from viewer to active SMS participant) vary widely by application and by the content of individual shows. McKinsey studies demonstrate that if more than 5 percent of a show's viewers interact with it, its audience is extremely engaged—and more likely to tune in again, to tell friends about it, and even to spend money on show-related content or merchandise. Broadcasters can use their knowledge of SMS activity to accelerate their marketing efforts and to command higher prices for advertising slots.

The future is marketing

In 2003, the 900 million messages sent in the European SMS-TV market generated an estimated €400 million for broadcasters, mobile operators, and technology providers, or about 5 percent of the total SMS market included in our research.<sup>5</sup> If the system's operational effectiveness were improved and if new shows, chat rooms, and shopping applications were developed, this market could easily be worth €750 million by the end of 2005. Broadcasters could capture one-third to one-half of that sum—€250 million to €375 million.

European broadcasters stand to benefit even more from direct-marketing opportunities created by well-executed SMS-TV shows. Viewers who use SMS-TV to vote for contestants on the hit *Big Brother*, for example, buy more show-related merchandise than do other viewers, and 70 percent of the teenagers who purchase *Big Brother* merchandise vote by text message, according to McKinsey estimates. The technology enables broadcasters to collect viewers' names, to compile a database of engaged customers in order to market more show-related and other merchandise, to offer them special privileges on pop artists' Web sites, and to advertise early previews of new episodes. FlyTxt, a UK-based mobile marketer, has been engaged by many broadcasters in Europe to store contact information for their SMS voters in a customer relationship database. Certain broadcasters claim conversion rates of up to 15 percent for their marketing programs.

Europe is clearly the world leader in SMS-TV, and the market is growing. Studies of more than 60 SMS-TV shows in Western Europe suggest that, depending on the show's format, 5 to 15 percent of the total audience is converted from viewer to active SMS participant. The results of traditional marketing campaigns pale by comparison: the best-targeted ones might yield participation rates of 3 to 8 percent, while click-through rates for Internet advertising average from 1 to 4 percent.

More viewers will mean more advertising revenue. In a recent survey, about 58 percent of advertisers said they would allocate a larger proportion of their ad budgets to channels with attractive ratings growth resulting from the use of SMS (Exhibit 1). In addition, 46 percent of those advertisers would bring new money to TV, either by reallocating the money from other media or simply by making new investments. Our studies show that SMS interactivity can encourage ratings growth of 50 to 100 percent for niche cable and satellite channels. Advertising provides 20 percent of the revenues of the average thematic pay broadcaster, which can reasonably expect one out of every five shows to be interactive. SMS interactivity can therefore boost the total revenues of a niche pay-TV broadcaster by 1.5 to 2.5 percent.

EXHIBIT I

**More viewers = more ad revenue**

% of respondents (n = 124)

**Would you allocate more ad spending to a channel offering attractive ratings growth—for example, via new technologies such as SMS?<sup>1</sup>**



<sup>1</sup>Short Message Service.

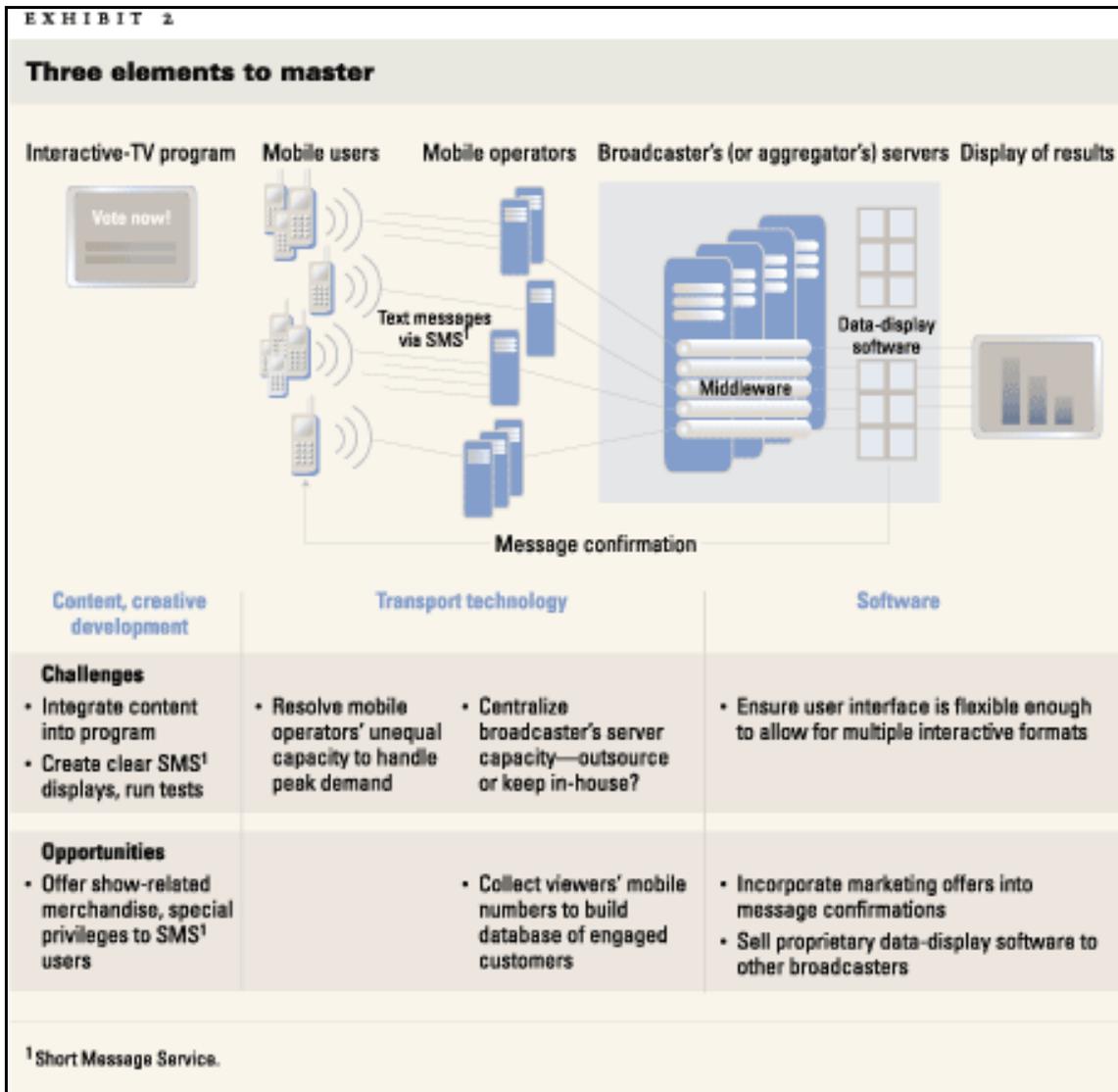
Source: 2003 McKinsey survey of 124 advertising executives from 39 companies in Belgium, France, Netherlands, Scandinavia, Spain, and United Kingdom

In the case of free-to-air channels, which depend on advertising sales for as much as 80 percent of their total revenue, McKinsey research shows that SMS interactivity can attract up to 20 percent more viewers. If 20 percent of the shows in a broadcaster's prime-time schedule won these increased ratings, TV advertising revenues would rise by €250 million across Europe—a significant amount, equaling the broadcasters' share of the viewers' text-message fees.

Launching the SMS loop

Adding SMS interactivity to TV programming presents broadcasters with technological and creative challenges. Typically, once a standard TV show is produced, it is packaged in an appropriate length and time slot and then distributed. An SMS-TV show adds an extra loop to this cycle: after it has been distributed, SMS users must be able to send information to the broadcaster, and this information must somehow be integrated into the show. To achieve the full

benefit of the technology, a broadcaster must therefore master three important elements (Exhibit 2).



### Content and creative development

In the early days of SMS-TV, every production house—and even some software providers—pitched SMS-interactive concepts to broadcasters. But situations in which a broadcaster should outsource the creative development of an SMS-TV show are rare. Because broadcasters have so much less control over shows produced by outsiders, it is often impossible to ensure that proper standards are met. In addition, the broadcasters themselves must conduct the technical orchestra that, in the end, executes SMS interactivity.

An analysis of 20 SMS-TV shows that failed to increase their ratings suggests that poor content development was to blame. To achieve the best possible result from SMS interactivity, a broadcaster must have the following strengths, listed in order of importance:

Well-integrated content. Voting suggestions or SMS displays must be synchronized with the show's content.

A show host with "push." Among other things, a host's role is to prompt SMS interactivity. Research demonstrates that the host's suggestions should always be timely and subtle; viewers don't want to feel obligated.

Clear SMS displays. A broadcaster must ensure that on-screen numbers and SMS displays are large and clear.

Sufficient rewards. Unless a broadcaster offers tangible rewards—prize money or a moment of fame, for example—viewers won't be interested.

Surefire SMS interactivity. To avoid common problems of the technology and to gain the full benefit of SMS-TV, early in content and production processes, the broadcaster's production and technical departments should work together, under the same roof, and test the planned SMS interactivity.

Transport technology

Although SMS digital technology can manage more data than fixed lines can, SMS transport technology is still in its infancy. Most mobile operators lack the server capacity to accommodate the traffic that a blockbuster prime-time show will generate.

To manage peak volume, a broadcaster must first work closely with mobile operators to ensure that there is enough over-the-air capacity to transport the messages. Second, to ensure that all incoming ones are received, the broadcaster should consider buying its own server; otherwise, the fragmented nature of server capacity, with message data being collected from many mobile operators, could cause some operators to fall short of capacity while others have it to spare. Alternatively, a small broadcaster with limited interactive-TV programming might hire a kind of technology provider known as an aggregator to collect SMS data from a number of mobile operators, to combine the data on a single server, and to provide a user interface enabling all parties to access and manipulate the data.

Software technology

SMS data are received over the Internet, interpreted by middleware, and integrated into a TV show through software overlays. A show host might, for example, pose a question to viewers and instruct them to answer by typing 1-2-3 into their mobiles for "yes" and 4-5-6 for "no." The middleware translates the numbers, aggregates the results, and passes the data to another software application, which creates a graph that is overlaid on the broadcast screen (or on a related Internet site) to show the voting results.

Should a broadcaster buy the software technology or develop it in-house? In-house development has advantages such as greater control over the end product, but they must be weighed against outsourcing's benefits, which include access to upgrades. Since analysis indicates that costs are similar either way, the decision should rest on the type and complexity of the SMS application. If a broadcaster needs only a simple voting application—for a music video show, say—off-the-shelf software will suffice. TV broadcasters have used middleware for fixed-line voting since the early 1980s, and middleware providers, mainly small software companies that were early players in the fixed-line market, have already developed excellent off-the-shelf products. Moreover, these providers are well versed in interactive voice recognition and understand the broadcasters' needs.

If it is vital to integrate an SMS application tightly with distinctive broadcast content—for example, in a live talk show—the broadcaster might choose to have more control over the process and would thus develop its own technology. But even when middleware and other kinds of software are developed in-house, broadcasters should make the technology flexible enough to use in a number of interactive applications: a voting application, for example, could be reused for a game show format. Many large, first-mover broadcasters, such as Norway's TV2, have developed software solutions in-house and then sold them to other broadcasters.

The vexing question of revenue sharing

SMS-TV programs offer potentially substantial rewards, but broadcasters and mobile operators can get distracted by which of them takes the larger slice of the pie, instead of concentrating on how to bake a bigger one. The most common point of contention between broadcasters and mobile operators is revenue sharing. This alone might have stunted the growth of SMS-TV.

Broadcasters facing revenue-sharing negotiations are often wedded to the ways of fixed lines. In those days callers dialed into interactive voice-recognition software to place their votes, and the broadcasters routinely earned 80 percent of the fixed-line fees that were billed to customers. At the time, European telecommunications companies suffered little or no competition, so call volumes were high and variable costs were low.

Mobile operators, however, face tough competition (up to five networks compete in some areas) and have high fixed costs. They argue that because they absorb the cost of transmitting SMS traffic over their mobile networks, and often the cost of billing as well, they deserve the lion's share of messaging revenue—now usually about half of every euro billed to customers. After paying technology providers and government taxes, the broadcasters' usually keep about 35 to 50 percent of the revenues.

An added complication is the fact that prepaid customers, paradoxically, are riskier to serve than their fixed-line counterparts. When fielding messages from the many young SMS users with prepaid mobile cards, operators can either send signals back to check if the on-card balance is sufficient before letting the messages go through or let them go through immediately and hope for the best. Both approaches are expensive and make mobile operators reluctant to give broadcasters a bigger share of the revenue.

Revenues from messaging itself, however, are small compared with the potential gains from direct-marketing activities and higher ratings. Broadcasters would be smart to understand that it is unrealistic to hark back to the days of fixed-line revenue sharing. They should accept this less favorable revenue split for what it is and focus on arenas where larger wins are possible.

Ten years ago, industry experts saw unlimited potential for interactive TV and for broadcasters that could execute it well. To date, progress in Western Europe has been hindered by the slow penetration of digital TV. But in the meantime, more than 75 percent of all Europeans own SMS-enabled mobile handheld devices, and SMS-TV, which doesn't require digital broadcasts, is giving broadcasters and mobile operators an important first lesson in interactivity. Thus prepared, they will be able to take full advantage of the new medium by advancing to the next generation of technology—Enhanced Messaging System—and then to Multimedia Messaging Services.

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