THE RESHAPING OF THE TRADITIONAL TELEVISION ADVERTISING MODEL: AN ANALYSIS OF MEDIA AGENCY PERCEPTIONS AND DECISION-MAKING PROCESSES REGARDING THE EFFECTS OF DIGITAL VIDEO RECORDERS ON TELEVISION COMMERCIAL EFFECTIVENESS

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This research analyzes media agency executives’ perceptions and strategic decision-making processes when accessing the impact of digital video recorders (DVRs) on the traditional television commercial spot. Strategic decision-making models, as well as major industry research, forms the theoretical framework used to guide the study. The research takes a quantitative approach using a survey in order to obtain the perceptions and decision-making processes of the media agency executives’. The findings are presented while a discussion of the findings is detailed. The thesis concludes with a summary of the overall thesis research as applied to the field of study.
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CHAPTER 1
INTRODUCTION

“In this new age, DVRs are having a large impact, and we are seeing a tremendous amount of commercial avoidance,” states Lyle Schwartz, director of broadcast research and marketplace analysis for Mediaedge:cia (“Nielsen Will Post Data on Ad Viewing,” 2006, para. 20). Laura Desmond, CEO, Publicis’ MediaVest USA, says “We have to think more broadly about how we use these new forms of communication, and it’s not going to be a standard or scalable decision as buying a thirty-second spot” (McClellan, 2006, p. 6). Strauss Zelnick, CEO of Zelnick Media, adds “People will not stop watching television anytime soon,” adding “for years it’s been a one-size fits all medium, when advertisers want to reach targeted audiences more effectively. We are trying to look around the corner and benefit from where the media market is going in the future” (Elliott, 2006, para. 7-8).

Opinions among media agency executives vary when postulating the exact effect digital video recorders (DVRs) have and will have on the traditional television advertising model, or more specifically, the thirty-second commercial spot. DVR penetration and consumer usage is an immediate concern to media agencies that are responsible for planning and placing effective media campaigns for their respective clients. For decades, advertisers have relied on the traditional thirty-second commercial in order to deliver their marketing message to television audiences.

An analysis of the perceptions and decision-making processes of media agency executives in regard to DVR diffusion and usage is a relevant topic of research. As DVRs change the way viewers watch television programs, it is important for advertisers to reshape how advertising messages are presented to target audiences in new ways that adapt to new
technologies, such as the DVR. With so many technological innovations emerging that challenge the television-advertising model in delivering effective commercials, many media industry executives question the reliability of television commercials. It is equally important for media agency executives to assess the impact of DVR usage on the traditional thirty-second television commercial before DVR penetration reaches anticipated high levels.

Advertisement Avoidance

In order to understand why the traditional television-advertising model is in a state of flux due to DVR technology, it is important to discuss the phenomenon of commercial avoidance. While television advertising expenditures increase, so, too, do the issues of commercial-clutter that lead to ad skipping by DVR users. There are two trends that have taken place that have contributed to commercial-clutter thus leading to commercial avoidance: the use of shorter advertising commercial time and the increase in the number of commercials per program hour (Lowrey, Shrum, & McCarty, 2004).

Television commercial time has evolved from longer to shorter length commercials. The standard length of a commercial in the 1950s was sixty seconds. In the early 1970s, the television networks recognized the interest for shorter commercials and began to sell thirty-second commercial spots. The thirty-second commercial spot remains the standard. Unfortunately, the thirty-second commercial spot has created an environment where the television viewer feels bombarded by a constant stream of advertisements, which has led to viewer alienation and commercial avoidance (Lowrey, Shrum, & McCarty, 2004). Additionally, total commercial break time has increased over the last decade with the consequence resulting in commercial clutter and advertisement avoidance. The average time for commercials during the three prime time hours increased from 39 minutes in 1991 to 52 minutes in 2003. As the
commercial length decreased, the commercial break times lengthened, resulting in declines in the total number of commercial breaks (Misdom, 2004).

Advertisement avoidance is not a new audience trend in the advertising industry. Commercial avoidance is as old as the television business itself with viewers getting up off the couch to go to the kitchen or go to the bathroom. Measuring true audience engagement during commercial breaks is an impossible task for Nielsen Media Research as well as other private research firms. Adding to this phenomenon was the advent of videocassette recorder (VCR) technology.

In 1975, the VCR entered the television industry marketplace. By 1979, the new technology had diffused into one percent of U.S. television households (Lachenbach, 1983). Sapolsky and Forrest (1989) state that by the mid 1980s, VCR penetration reached the critical mass, a market penetration level of 33% or more. During this time, advertisers grew wary on the issue of advertisement avoidance by VCR consumers.

Sapolsky and Forrest (1989) suggest that for the first time in television history viewers had taken control of what they watch, when they watch, and how they watch television programs. Viewers were no longer constrained by network schedules and commercial interruptions. Many in the television commercial industry felt that the most crucial aspect of the VCR technology was its capacity to challenge the economic structure and purpose of the commercial television industry.

As a result of VCR innovation, diffusion, and usage, advertising executives responded with new creative strategies. One of the most well known creative strategies from the VCR age is product placement. Product placement involves including the advertisers product or service in the actual television program content. For example, Coca-Cola integrated its soft drink product
into FOX’s *American Idol* talent show by featuring Coca Cola cups on the table in front of each of the three *American Idol* judges. Product placement proves to be a successful marketing device for advertisers because the new advertising vehicle exposes viewers to a product or service in a way that cannot be avoided.

Unlike the VCR technology, which requires the user to purchase video cassette tapes, load the tapes into the video home system (VHS), program the VCR to record desired television programs, store the video cassette tapes, and then repeat this process for new program recording, the DVR technology has revolutionized the television viewing experience by offering turn-key operations. With the touch of a button the user can record, store, and playback programs onto a DVR hard drive with little to no effort.

Digital video recorders were introduced to the consumer market in 1997. TiVo, Incorporated, the creator of the first commercial digital video recorder, is the industry leader in television services for digital video recorders. Currently, TiVo has the highest market share of DVR service with 4.4 million subscribers (“Investor Relations,” 2006). The other main DVR manufacturer is ReplayTV. In addition to these two main DVR providers, many cable and satellite television services include DVR functions with their set-top box.

Until 2007, the television industry and media agencies were uncertain of exact DVR penetration figures. Industry research analysts forecast current DVR penetration from 8% to 15%. Magna Global, a media service firm, estimates DVR penetration at 7% of television households and predicts penetration to reach 30% of TV HHs by 2010 (“DVR Penetration Estimates and Projections,” 2006). Prior to 2007, Nielsen Media Research estimated DVR penetration to fall between 8% to 12% while projecting penetration to reach 13% to 24% by 2007. Keeping with the 2007 DVR projection while adding clarity to the issue, Nielsen
announced in May 2007 that DVR penetration has reached 17.2% of U.S. TV households (Steinberg, 2007).

According to the Television Bureau of Advertising (TVB), as of 2006 there are 110 million U.S. television households (“Media Trends Track,” 2006). Magna Global released a report in September 2006, showing that the number of DVR households grew 62% to 15 million TV households in the first half of 2006 over 2005. This represents a DVR penetration of 14% of U.S. television households (Goetzl, 2006). Forrester Research estimates that there are 10 million DVR subscribers with this figure projected to reach 30 million by 2010 (Consoli, 2006a).

In an attempt to address DVR penetration and usage, Nielsen Media Research announced that it would provide a new audience measurement system: national average commercial minute ratings. Currently, the advertising industry relies on a measurement and reporting system created three decades ago using average program ratings. Average program ratings have long been the currency for advertising transactions between television networks, local broadcast television stations, and advertisers. The new data reporting policy is an attempt to address DVR penetration and usage and is a timely issue as media agencies move forward in the decision-making processes regarding the impact of DVRs on their clients’ advertising messages (“Nielsen Will Post Data on Ad Viewing,” 2006).

Many concerns have risen from television networks, cable networks, and advertising executives in regard to this new measurement data. The main concern is whether the new commercial minute ratings will be based on “live” ratings only, or DVD playback of a particular program. Currently, the standard for advertising deals is live only data (Mandese, 2006). Live only data includes live viewing of a television program. DVR playback of a program includes live plus same day viewing and live plus seven day viewing of a specific program.
Understandably, television networks and advertising agencies are at odds when debating whether to utilize live only data in media negotiations versus DVR playback data. Television networks want to be paid for viewers who watch their program whether live or in DVR playback. Advertising agencies argue that when programs are played back at a later time, commercials are skipped.

Consoli (2007a) reports that effective May 2007, Nielsen Media Research will release six commercial ratings data streams to its clients. The six data streams include: live only, live plus same day, live plus one, two, and three days, and live plus seven day viewing. The release of the average commercial ratings has been delayed three times due to the growing debate among its clients on whether and how time-shifted DVR viewing should be included in the new audience metric system. At this time, the media industry is uncertain how Nielsen’s commercial minute ratings data will affect the advertising negotiation process or how media agencies will utilize this data.

As of March 2007, several major media agencies agreed that the soon to be released audience data will be utilized in the 2007/2008 upfront media negotiations (Goetzl, 2007). Another concern with commercial ratings data is that although Nielsen can provide minute-by-minute commercial ratings within a program, they are unable to provide data in regard to when a particular commercial airs.

In addressing average commercial ratings, the Association of National Advertisers (ANA) advocates brand-specific commercial ratings. The ANA encourages the television advertising industry to demand a more reliable audience measurement system regarding commercial television spots. Unlike Nielsen’s “average” commercial minute ratings, which provide data on how many people watch commercials on average within a commercial break,
brand-specific commercial ratings will show how many people view a specific commercial (Consoli, 2007b).

Additionally, TNS Media Intelligence, an independent research firm, hopes to solve the commercial ratings data problem by offering its services to the advertising industry. TNS Media Intelligence claims it can “pinpoint specifically when a commercial, by brand, airs within a show, even across minutes, while Nielsen can only offer minute-by-minute ratings without the other details” (Consoli, 2006c).

Media agencies will also have an additional source of DVR audience research. In mid-2005, TiVo announced the creation of TiVo Audience Research and Measurement (ARM). The DVR service plans to provide audience research and measurement data based on its 4.4 million subscribers (Bachman, 2006). In January 2007, TiVo announced an additional service, StopWatch, which will provide details on live and time-shifted viewing data on a second-by-second basis for specific commercials (McClellan, 2007).

Undoubtedly, media agencies will have to decide how they will proceed with the new audience measurement data on behalf of their clients while maintaining key relationships with television networks who provide access to valuable television audiences via its programming. This study will provide vital information from the key media agency decision-makers as the media industry moves forward with a better audience data collection method, one in which will benefit advertisers and aid in effectively targeting audiences. Media agencies and advertisers are in the beginning stages of strategic positioning through the development of new advertising formats in response to DVR adoption and usage. On behalf of its client, America Online (AOL), Interpublic Group of Cos. created the pod-puncher. A pod-puncher ad is a five second commercial spot positioned at the end of a commercial break. Honda has also experimented with
using pod-punchers. Phillips Electronic negotiated a deal to fully sponsor CBS’s 60 Minutes in late 2005. Kentucky Fried Chicken (KFC) aired a thirty-second commercial spot, which contained a subliminal message including a secret code that could only be viewed when played back in slow motion with a DVR. Viewers were then directed to go to KFC’s website and get a coupon for a free sandwich. Coca-Cola and General Electric (GE) have also experimented with DVR-ready ads that contain hidden messages within the ad content (Quinn, 2006).

In the effort to change its image within the advertising industry, TiVo is partnering with advertisers to assist with the DVR issue. In May 2006, TiVo launched a new service for advertisers called TiVo Product Watch. This service allows advertisers to deliver ads to TiVo subscribers who are actively seeking specific products or brands. Currently, 70 advertisers and 100 brands are utilizing this niche advertising service to reach target audiences. The advertisements are one-minute spots to hour-long instructional videos (Berger, 2006).

Additionally, in July 2006, TiVo formed a strategic partnership with Sprite. This partnership features interactive commercial content on TiVo Showcase. Sprite’s “subLYMONal” media campaign was the first interactive advertising to air on TiVo (“Sprite’s “subLYMONal” Advertising To Be Featured on TiVo,” 2006).

In November 2006, TiVO introduced yet another DVR feature to advertisers titled program placement. The service will allow advertisers to implant their ad immediately following a recorded program. Unlike other DVR-ready experiments, the advertisements will not play until the TiVo subscriber actively opts in to view the spot. Top advertisers are testing the program placement feature (Crupi, 2006b).

Not only is TiVo partnering with key media agencies, such as OMD, PHD, ITN Networks, and Interpublic Media, TiVo has also formed a strategic partnership with the CBS
Television Network. TiVo subscribers were allowed to sample four new CBS series for the Fall 2006 schedule: *The Class, Jericho, Shark,* and *Smith* (Elliott, 2006). In addition, CBS Digital Media has teamed up with TiVo to offer a CBS SportLine Fantasy Football interactive feature (“TiVo Teams Up With CBS SportsLine Fantasy Football,” 2006).

In addition to CBS’ efforts, ABC announced in March 2007, that the network is experimenting with a new ad format. ABC is considering adding commercials into program scenes. For example, in an ABC program a real commercial would appear on the living room television and then would run full-screen (Friedman, 2007b).

These initial efforts to address the problem of advertisement avoidance by DVR users are only a part of building a foundation of data. When applied to media agency executives’ perceptions and decision-making processes, a review of strategic decision-making theoretical models and major industry research provides additional insight on the issues that comprise the DVR problem.
Literature Review

*Strategic Decision-Making Models and Characteristics*

Strategic decision-making research is a subset of strategic management research. Schendel and Hofer (1979) define strategic management as “the management of strategy or the management changes in the relationships between the organization and its environment” (p. 306). Two distinct research topics are included in the understanding of strategic management: “content” research and “process” research. Content research deals with the content of strategies, while process research examines the strategic decision-making process and the factors that affect it.

Schendel and Hofer (1979) laid the groundwork of strategic management using six major tasks. These tasks encompass the strategic management process including goal formulation, environmental analysis, strategy formulation, strategy evaluation, strategy implementation, and finally, strategic control (p. 14).

Rowe, Mason, and Dickel (1982) formulated the strategic four-factor model to illustrate the relationship between planning, management, and control. The four-factor model includes strategic planning, organizational considerations, resource requirements, and strategic control. These four factors are all part of the strategic management paradigm.

Schwenk (1995) defines strategic decision-making as a “a study of the way executives conceptualize strategic problems, the way they develop their own rules and guidelines, the personal and organizational characteristics that influence this process, and the ways these rules influence their own decision-making” (p. 472). The following research deals with how strategic decisions are made within an organization.
Mintzberg, Raisinghani, and Theoret (1976) discovered three major strategic decision-making phases. These phases include the identification phase, the development phase, and the selection phase. In the identification phase, problems and opportunities are recognized and information is collected to clearly identify the problems and opportunities that lead to decision-making activity. In the development phase, decision-makers search for alternative solutions to particular problems and then design specific solutions for the problem. In the selection phase, the alternative solutions provided from the development phase are sorted and evaluated based on suitability. If the alternative is not suitable, a new alternative to the problem is selected through a process of analysis, judgment, or bargaining among decision-makers. Additionally, in this final phase, if a particular decision is made by an individual within the organization who does not have the authority to make such a decision, the process is moved up the organizational hierarchy until it reaches the level at which authority resides.

Hickson, Butler, Cray, Mallory, and Wilson (1986) conducted the most extensive strategic decision-making research by reviewing 150 cases of decision-making within 30 British organizations. The research formulated three ways of strategic decision-making: sporadic, fluid, and constricted processes. Sporadic decisions are spasmodic, drawn-out over time and involve many disruptions and delays. Fluid decisions are speedy, steady, and involve fewer delays. The constricted decision-making processes fall in between sporadic and fluid processes. Constricted decisions require more sources of information, fewer meetings and involve only high-level executives in the decision-making process.

Huff and Reger (1987) identified nine topics in regard to strategic process research. The topics were separated dealing with formulation and implementation. Under the formulation topic, the researchers recognized four topics: planning prescriptions, decision aids, planning
practices, and agendas. Systematic implementation, evolutionary prescriptions, structure-systems and outcomes, and contextual influences fell under the implementation heading. Additionally, the researchers identified a ninth topic known as integrative research.

Hitt and Tyler (1991) observed the decision-making behavior of top executives to determine which decision-making model (the rational-normative model, the external control model, or the strategic choice model), was most commonly utilized when processing key decisions within an organization. The researchers found that the rational-normative model was most commonly used. The rational-normative model involves basing strategies on internal and external environmental factors and is designed to include steps and stages of the decision-making process.

Hart (1992) reviewed existing research on strategic decision models and developed five styles of strategic decision-making processes: command mode, symbolic mode, rational mode, transactive mode, and generative mode. The command mode suggests that the top management team determines strategy in an organization. Symbolic mode strategy is based on the organization’s overall vision for the future. In the rational mode, strict structure and formal planning systems are the basis for strategic decisions. Transactive mode is driven by internal procedures and agreement for change. Finally, in the generative mode, organization actors influence the strategy of the organization.

Eisenhardt (1999) suggests four approaches in the strategic decision-making process. The first approach involves the building of collective intuition by the management team through frequent meetings and real-time metrics that forecast threats and opportunities sooner and more accurately. The second approach involves stimulating conflict by assembling diverse decision-making teams, and providing challenges to improve the overall strategic decision-making
process within an organization. The third approach focuses on maintaining a steady decision-making pace that drives the decision process to a timely conclusion. Finally, the fourth approach defuses political behavior, which leads to unproductive conflict.

**Biases in Strategic Decision-Making**

Upon review of the strategic decision-making processes, one must also examine how biases affect the quality of strategic decision-making. There are three main ideas when addressing biases in strategic decision-making: biases in casual attributions (Clapham & Schwenk, 1991; Huff & Schwenk, 1990; Lant, Milliken & Batra, 1992; Salancik & Meindl, 1984), strategic persistence (Duhaime & Schwenk, 1985; Finkelstein & Hambrick, 1990), and recollection prejudice (Golden, 1992; Huber & Power, 1986; Schwenk, 1985).

In casual attributions, executives credit good outcomes to their own decision-making process while attributing unfavorable outcomes to external forces. Salancik and Meindl (1984) suggest that biased attributions are used as part of a strategy for managing perceptions of key stakeholders in a company. These decision-makers promote the idea or illusion that management is in control of the firm’s outcomes. Clapham and Schwenk (1991) and Huff and Schwenk (1990) take an opposite position suggesting that biased attributions are an executive’s attempt to make sense of the changing environment for which the organization or firm operates.

Escalating commitment is the tendency to increase further decision-making commitments to a failing course of action (Schwenk, 1995). Miller (1991) and Finkelstein and Hambrick (1990) determined that executives with longer tenure in a company were less likely to make drastic decision-making changes and were persistent with existing strategies developed under their management.
Hambrick, Geletkanycz and Fredrickson (1993) confirmed these findings and added the effects for tenure in an industry were more valued than tenure within a particular company, although the two are directly related. The study also found that commitment to the status quo by executives was higher in organizations with favorable past performance as well as in companies in which the executives or managers had higher discretion in the decision-making process.

Biases in recollection deal with the decision maker’s ability to learn from the past. Golden (1992) found evidence that executives’ recall on past strategic decisions were often full of prejudice. Huber and Power (1986) and Schwenk (1985) contend clear biases in executive reports on past performance of key decisions further suggesting that the executive’s memory of past strategies is distorted, executives are unable to learn from past mistakes, and key decision-makers are more likely to repeat previous mistakes.

Strategic decision-making research dealing with the way executives define strategic problems, competitive situations, and internal and external environmental factors influencing their business is of importance in this literature review. This research is described in terms of cognitive mapping and cognitive maps. The work of Huff (1990) explains such analysis by suggesting the importance of how individual and organizational minds work, thus leading to the idea and nature of maps of minds and the purposes that these cognitive maps serve.

Huff (1990) posits five approaches to understand managers’ decision-making processes. The first has to do with cognitive maps that assess attention, association, and the relevance of concepts. The second approach demonstrates the dimensions of categories and cognitive classification. In the third, there are maps that illustrate influence, causality, and system dynamics. The fourth approach demonstrates the structure of arguments within the manager’s
cognitive thinking. Finally, in the fifth approach, the maps specify schemes, cognitive frames, and perceptual codes.

Narayanan and Fahey (1990) examined changes in cognitive maps and causal relationships from 1960 to 1975 within the television manufacturer industry. The researchers focused their study on Zenith and Admiral television manufacturers. The researchers concluded that differing kinds of linkages are realized during differing conditions, and highlight the role of top level executive’s belief systems in the strategic decision-making process of firms.

Review of the strategic decision-making theoretical framework provides a solid base for which to formulate and build quality data as applied to media agency executives’ decision-making processes in regard to the DVR usage and commercial avoidance. It is equally important to assess existing media industry research as these studies provide statistical data regarding current DVR use as well as insight regarding media agency executives’ sensitivity to the DVR issue.

**Major Media Industry Research**

*Audience Centered Research*

MAGNA Global USA, one of the world’s largest media service firms, conducted a DVR study based on custom data collected by Nielsen Media Research. MAGNA Global’s main finding is that there are differences among DVR viewers who have had a DVR for less than one year versus those who have owned the device for a year or longer. Other findings include DVR owners watch more television than non-DVR owners, half of all DVR users record five or more programs a week, and 56% of those with a DVR for less than a year say they always fast-forward commercials (“Current DVR/Time-Shifted Research,” 2005).
Forrester Research conducted a survey of 588 DVR users in September 2004. Among the findings, the study found DVR users spend almost 60% of their time watching recorded or delayed programs, less than two percent of people who own DVRs have stopped using them, three of four DVR users watch some ads occasionally, and DVR users watch less than one in 10 ads about credit cards, long-distance carriers, car dealers, and banks (“Current DVR/Time-Shifted Research,” 2005).

CBS Television City, a Las Vegas research facility owned by CBS, conducted a study of the impact of DVRs. The study involved 734 DVR owners and was conducted from October 31 through November 14, 2004. Some of the findings included 21% of DVR users skipping advertisements reported recalling one or more skipped commercials, broadcast networks had 80% share of programs played back, and time shifting could increase ratings for top-ranked programs (“Current DVR/Time-Shifted Research,” 2005).

ABC/ESPN conducted a study on the adoption and impact of the DVR on television audiences and their viewing habits. Nearly 1000 hours of observation were recorded during February 2004 through August 2004 in the New York and New Jersey areas. The study focused on the viewing patterns and behaviors of the whole household as they became accustomed to DVR technology. The key findings were cost is a barrier to DVR ownership, there isn’t a particular age or technology bias in DVR usage, usage leads to more programs being viewed in less time, one-third of the households claim they watched more TV because TV became more interesting, and more time was set aside for TV viewing. Another key finding was that commercial skipping was the main attraction to DVR ownership rather than time management of when programs will be watched (“Current DVR/Time-Shifted Research,” 2005).
Based on actual DVR usage obtained from portable people meter data from a 2005 Arbitron test in Houston, Texas, the researchers found only 8% of television viewers watch programming via a DVR. The audience research data also showed a 12% increase in television viewing for households that own a DVR device (Consoli, 2005b).

A CBS survey involving the ad recall of television viewing conducted at CBS’s network research center, CBS Television City, in mid-2005 found that 58% of DVR users and 66% of non-DVR users had similar commercial recall of four different commercial spots. The study also suggests that viewers claimed that even when they fast-forward through commercials they still had some commercial recall (Consoli, 2005b).

In a March 2006 study sponsored by the four big networks, New York-based researcher Millward Brown says ad recall and ad recognition is the same between DVR and non-DVR owners. The study concluded that 61% of DVR viewing is live. Additionally, the majority of DVR households have only one DVR device but multiple television sets. This suggests that most viewing takes place on television sets that do not allow the ad-skipping feature (Wurtzel, 2006).

Nielsen Media Research released an executive summary of its initial DVR audience research conducted from March 27, 2006 through April 30, 2006. This study found 95% of the DVR households time-shifted their television program viewing; DVR users watch more television with five hours added on average in DVR playback; DVR households are younger and more upscale; overall television consumption was comparable to non-DVR homes; and finally, two-thirds of all DVR playback occurred on the same measurement day with earlier dayparts showing same day playback as high as 74% (“Nielsen Media Research,” 2006).
Mediamark Research Inc. (MRI) released data from a Spring 2006 report regarding DVR adoption and usage. The report concluded that 11.2% of U.S. television households own a DVR, 36.8% of DVR owners have a college education, and 17.2% have an average household income exceeding $150,000. The report found that DVR users are 43% more likely to be heavy readers of magazines and newspapers. Additionally, the study concluded that DVR households use the Internet more than households without the DVR device and DVR households watch less television than households without a DVR (“Adults With Digital Video Recorders Upscale And Print-Oriented,” 2006).

Data released in 2006 by The Leichtman Research Group found the following statistics among DVR households: 12% of U.S. television households own a DVR; time-shifting of programs increased by 23% in 2005 to 11.3 programs recorded per week; and 62% of DVR subscribers watch recorded programs when there is no regularly scheduled television on that they are interested in watching. This survey included 1,350 households throughout the U.S. (Loechner, 2006b).

In a follow-up analysis of DVR households in November 2006, Nielsen Media Research published the following key findings on DVR households within their national sample: 78% of recorded television programs are replayed by the DVR user within two days; 84% view the time-shifted programs within three days of the original broadcast; nearly 23% of all prime time programs are viewed via DVR playback; and finally, viewers tend to watch recorded reality type programming sooner than scripted programming (Crupi, 2006a).

The most recent Nielsen DVR research conducted during the month of January 2007 found that 100% of DVR viewers from 18 to 34 years old watch sports and news programming
within the same day of the original telecast. Additionally, 85% of daytime dramas and 75% of prime-time dramas and sitcoms are playback back during the same day (Friedman, 2007a).

Finally, Magna Global released findings in April 2007 for a commercial pod study conducted by the media agency. The study, entitled Magna Global’s Commercial Pod Index (CPI), measured the percentage of viewers who stayed tuned to a commercial pod versus the average program segment. According to the study, syndicated programs have the highest CPI with a mere 2% commercial drop-off. Broadcast networks had the second highest CPI, followed by cable. Additionally, the study concluded that two-thirds of all commercials are skipped on DVR playback of broadcast shows and the strongest live DVR viewing ratios came from reality based programs (Hampp, 2007).

*Industry Focused Research*

O’Neill and Barrett (2004) conducted a study of the top 25 media agencies and their views on the impact of TiVo. The study involved in-depth interviews of 15 senior level executives. At the time of the study, DVR diffusion was in its infancy with an estimated one to three percent penetration of television households. Among the key findings were all interviewees believe the increased diffusion of the DVR device will have a profound impact on television advertising models; the majority of the respondents deem DVR technology to be too expensive and complicated to use; and most consider DVR technology to be only one of many new technologies in the consumer marketplace requiring only minor alterations to their media plans.

In addition, advertisers represented in the survey expressed concerns in regard to how DVR technology will impact the advertising model and overall advertising effectiveness. At the time of the study, most agency executives had not yet developed DVR ready advertisements
aimed at the growing DVR population. Additionally, many of the respondents called for a more effective audience research method that differentiates between programming and advertising content. The study concluded respondents were adopting a wait-and-see attitude while DVR diffusion increases to critical mass (O’Neill & Barrett, 2004).

The American Advertising Federation (AAF) conducted a survey in 2005, entitled *Survey of Industry Leaders on Advertising Trends 2005*. The survey included 75 executives from advertising agencies, media organizations, advertiser-clients, and other media related firms. The key highlights in regard to DVR adoption and usage were 80% believe DVR technology will have a significant long-term impact on the traditional thirty-second commercial and 58% have already altered or expect to alter their media buys in direct response to DVRs. When asked what adjustments to media plans are anticipated due to DVR technology, 42% reported that they have not or will not make any changes, 28% reported that changes have been made, while 30% said they would do so in the immediate future (Atlantic Media Company, 2005).

In March 2006, Forrester Research and the Association of National Advertisers (ANA) released a study of 133 national advertisers and their perceptions of how new technologies, such as the DVR, will change their television budget allocations for future advertising spending. The key highlights from the study include 78% believe traditional television advertising has become less effective in the past two years, 70% of the sample believe DVRs and video-on-demand (VOD) will damage the effectiveness of the traditional thirty-second commercial, 60% of advertisers will spend less on television advertising when DVR diffusion reaches 30 million households, and 55% claim that their top executives are closely watching the overall trends in television advertising yet have not experimented with DVR ready advertisements (Loechner, 2006a).
Research Questions

Upon review of strategic decision-making theory and audience centered and industry focused research, it became evident that no other research focuses on the decision-making processes of media agency executives in regard to DVR diffusion and usage. In order to address the need for further understanding, the following seven research questions were formulated. The research questions will guide the analysis of media agency executives’ perceptions and decision-making processes in relation to DVR usage and television commercial effectiveness.

RQ1: What impact has DVR proliferation and usage had on the effectiveness of the traditional thirty-second commercial spot?

RQ2: Who within the agency is responsible for addressing the impact of DVRs on the traditional thirty-second commercial?

RQ3: Does current and projected DVR penetration figures influence advertising dollar allocation decisions for media placement?

RQ4: How will media dollars be allocated in the future due to DVR use?

RQ5: What steps in terms of specialized commercial placement or format has the advertiser or media agency utilized towards combating ad skipping by DVR owners?

RQ6: Do media agency executives believe DVRs provide more targeted messaging of commercials or at least have the potential to target the consumer more effectively?

RQ7: What position is taken in regard to the new audience measurement system: national average commercial minute ratings?
CHAPTER 2

METHODOLOGY

Survey Rationale

This study employed a quantitative research approach. The measuring instrument selected for this research study was a descriptive survey. It is necessary to understand the current decision-making procedures and perceptions of the media agency executives in order to provide practical and applicable results of the research. According to Wimmer and Dominick (2006), a descriptive survey “attempts to describe or document current conditions or attitudes - that is, to explain what exists at the moment” (p. 179).

Wimmer and Dominick (2006) also state the advantages of utilizing a survey questionnaire as survey data collection is inexpensive, requires significantly less time to complete, and does not have geographic limitations (p. 180). The media agency executives selected for this study were located mainly in New York, New York, and Los Angeles, California. Therefore, a survey data collection method was deemed to be the most practical of the existing research methods.

Additionally, the survey data collection method was standardized so that all of the respondents answered the same questions. The results of a survey can also be collected and analyzed with greater ease by the researcher as opposed to an in-depth personal interview or telephone survey. An in-depth personal interview requires the researcher to be located geographically near the survey participant or to travel to a particular location in order to conduct the research. In-depth interviews and telephone surveys also require a significant amount of resources, time, and money. Moreover, a telephone survey would prove too impractical in terms
of the time commitment required of the sample as the media agency executives are subject to time limitations due to their demanding work schedules.

Upon exploration of a research method, the researcher decided that this study would use an online survey. The distribution method for the online survey to the media executives was an electronic mail (email) distribution system. The email included a link to the online survey. An email, with a link to the online survey, was the most efficient and effective data collection method for this study as opposed to a mail survey, which is one of the slowest data collection methods. The online survey allowed the respondent to participate with greater ease resulting in only a minor interruption in the workday. Another key advantage of an online survey included immediate data collection and organization of the survey results for further analysis.

Sample Selection

A purposive sample was necessary for this particular research. Wimmer and Dominick (2006) describe a purposive sample as the method by which subjects have been selected based on specific characteristics. Due to the fact that the sample population for media agencies in the U.S. is relatively large, data collection would be complicated, and recruitment would be laborious. Therefore, the researcher selected only the top media agency specialists to participate in this study. Initially, the sample size was limited to the top 10 U.S. media specialist companies according to 2004 advertising billing as indicated in Advertising Age’s Fact Pack 2006. The sample size was expanded to include the top 15 media agencies, and expanded further to include all key media agencies with broadcast and cable television billing of $1 million or more. The details of the expanded sample will be discussed in greater detail.

For the purpose of this research, the initial top 15 media agencies were identified as the major decision-makers regarding the impact of DVR technology on television commercial
effectiveness. The top 15 media agencies control the majority of total television advertising expenditures in the U.S. The initial sample comprised the following media agencies: OMD Worldwide, Mindshare Worldwide, Starcom USA, Mediaedge:cia, Initiative Media, MediaCom, Carat USA, Zenith Optimedia, Universal McCann, MediaVest, PHD, MPG, Optimedia International, Horizon Media, and Active International.

Survey Questionnaire Design

In preparation for the survey questionnaire design, several considerations were regarded when constructing the survey questions. First, only questions specific to the research questions and strategic decision-making theory were inquired upon. Secondly, the questions were clearly worded, as clarification of the questions could not be possible. Finally, the questionnaire needed to be brief. The length of the survey was intended to provide the highest possible response rate, allowing the respondent to complete the survey in a relatively short amount of time.

The survey included 28 questions. Twenty questions required a response from the survey participant. The remaining six questions did not require a response as these questions pertained to confidentiality of the sample. There were two questions in the survey that were filter questions and therefore, although not sensitive in nature, did not require a response from the respondent. Nineteen of the 28 questions were closed-ended and four questions were open-ended. The four open-ended questions were required in order to provide in-depth responses. The open-ended questions also allowed answers that were unforeseen in the questionnaire design. The survey questionnaire included a mix of single-choice ranking scale, multiple-choice, and checklist questions. The relevance of the content of the survey questions was directly related to the seven research questions and strategic decision-making theory as presented in Chapter
One. In addition, there were two questions posed that aimed to obtain demographic information from the media agency executives. The final survey questionnaire is found in Appendix C.

Upon review of existing online survey services via the Internet, the researcher chose to use the online survey editor, surveymonkey.com (“Surveymonkey.com Because Knowledge Is Everything,” 2007). The researcher opted to pay for a professional subscription totaling $19.95 per month. The advantages of utilizing surveymonkey.com’s professional advance features included the creation of the survey with an unlimited number of questions and responses, ability to mandate a response to essential questions, ability to design a custom survey theme, turn-key distribution of an online link to the survey, and finally, collection of the research data in downloadable form to a personal computer or Microsoft Excel® format.

Once the online survey questionnaire was designed and edited, an informed consent email was generated. The purpose of the informed consent email aimed to introduce the researcher and provided a detailed explanation of the purpose of the study. The email informed consent was carefully planned in order to increase the response rate therefore providing a persuasive introduction to the research, including the potential benefits of the research. The email introduction included the estimated amount of time required to participate in the study, link to the survey, as well as contact information for further inquiry. The informed consent email is found in Appendix B.

Following the completion of the survey questionnaire and informed consent email, an application for the continued pursuit of the study was submitted to the University of North Texas Institutional Review Board (UNT IRB). On April 9, 2007, final UNT IRB approval was granted, allowing data collection to begin. A copy of the UNT IRB approval notification is found in Appendix A. Prior to the distribution of the survey to the final sample, the survey was pre-tested
on two local media agency executives. There were no major problems with the survey as determined by the pre-test participants.

Recruitment and Survey Distribution

In order to get access to the sample for the recruitment phase, the researcher obtained a list of the top media agency specialists from Advertising Age’s Fact Pack 2006. Individual agency contact information used in the recruitment stage of the research was collected from tvnewsday.com and redbooks.com. Tvnewsday.com provided contact information for the top 11 media agencies, including the media agency headquarters address, main phone numbers, and list of key media executives. Redbooks.com provided all U.S. media agency contact information that was used for recruitment of the expanded sample. Redbooks.com allowed the researcher to collect the expanded recruitment tools in order gain access to the contact information of all media agency specialists in the U.S. The recruitment tools and information contained therein are public information. Although tvnewsday.com does not require a subscription to access the agency database, redbooks.com is subscriber-based. A seven-day free trial offered by redbooks.com was made use of in order to gain access to the media agency contact information.

In the first recruitment phase, the top 10 media agency specialists were recruited. Using the media agency contact information as provided by tvnewsday.com, the researcher determined that the Executive Vice President of National Broadcast would be contacted to participate in the survey. The executives of National Broadcast are directly responsible for media planning and placement of television schedules for their respective clients. These individuals are in charge of national media related issues for the client as opposed to local media. Three of the recruited individuals were the agency’s chief executive officer (CEO) as these individuals had been
previously identified in various media trade publications as responsible for addressing DVR technology on behalf of their agency and clients.

Once each media agency executive was identified, a telephone call was made to the media agency headquarters and a request was made to speak to the assistant of the potential participant. The purpose of the study was explained to the assistant and a request for an email address was made. Once the researcher obtained the media agency executive assistant’s email address, the informed consent email and link to the online survey was sent. The media executive’s assistant was asked to forward the survey to the media executive.

Critical limitations were immediately recognized during the initial distribution phase of the research. Of the 10 media agency executives recruited, three immediately refused to participate in the study citing that the survey contained information that was proprietary to the agency. Upon further reflection of the limitations of the sample size and the immediate refusal of 3 of the 10 potential respondents, the sample size was expanded to include the top 15 media agency executives. It became evident that the expansion of the sample size was imperative to the overall validity and reliability of the research. The contact information for the additional five media agency specialists was obtained from redbooks.com and the recruitment process was repeated as previously detailed.

Within one week of distribution of the 15 surveys, no surveys were returned. A follow-up email was sent to the top 15 media executives. At that time, a decision was made to expand the sample size even further in order to increase the response rate, therefore increasing reliability of the study. Consequently, the researcher deemed it necessary to expand the sample to include all media agencies with annual gross broadcast and cable television billing of $1 million or more.
Redbooks.com’s agency database was utilized in the expansion of the sample size. The sample population included 277 possible media agency contacts. Upon further examination of the agency database, 82 media agencies were determined to generate over $1 million in annual gross broadcast and cable television billing. From the sample frame, including the original 15 media agencies, the final sample size finalized at 97. Informed consent emails with a link to the online survey were delivered to the 97 potential participants. Following the final recruitment phase, 12 emails were returned undeliverable. Upon receiving the undeliverable email notifications, the final sample size included 85 potential respondents.

A follow-up email was sent to the recruited media agencies. Subsequent to the follow-up email, five surveys were returned representing a 6% response rate. A final follow-up notification was delivered to the sample one week after the follow-up reminder. The final follow-up reminder requested participation and informed the close date for the survey. Upon delivery of the final follow-up email, five surveys were returned bringing the final response rate to 11.7%.

Once the data collection was completed, the data was converted to a Microsoft Excel® format and analyzed for final results. Chapter Three details the results of the research data.
CHAPTER 3

RESULTS

In this chapter, the results and data analysis collected from the survey questionnaire are presented and examined in detail. The key findings of the research study as applied to the seven research questions set forth in Chapter One are reviewed. Furthermore, the highlights of the findings including trends and patterns contained therein are discussed.

As stated in chapter two, the research yielded 10 usable surveys from a sample of 85 that were distributed to key media agency executives. The final response rate was 11.7%. Due to the low response rate, as well as the limited number of surveys returned, statistical data analysis is impractical. Therefore, the key findings are presented in terms of frequencies while underlining the trends, patterns, and differences among the results. As described, the researcher employed an online survey editor allowing the final results to be efficiently downloaded to Microsoft Excel® format for final data analysis.

Originally, the research aimed to obtain the perceptions and strategic decision-making processes of the Top 10 media agency executives in the U.S. Due to the low initial response to the survey, the sample size was expanded to include all key media agencies with annual gross broadcast television and cable billing of $1 million. Therefore, it is important to note that the researcher was able to confirmed that at least 2 of the 10 surveys returned were from the Top 10 U.S. media agencies. Two of the survey respondents chose to remain anonymous while the remaining six represent key media agencies not positioned in the Top 10.

The survey sample included only top media executives. The individual executive titles include President, Executive Vice President (EVP) Audience Analysis, Senior Vice President (SVP)/ Director of Local and Direct Response Media, Media Director, Director of Broadcast,
and Associate Media Director. Sixty percent of the sample is male and the remaining 40% are female. In terms of tenure in the media industry, 5 of the 10 survey respondents have worked in the industry for more than 20 years. Four of the 10 are 11 to 15 year media veterans. None of the media agency executives represented in the survey have been employed in the media business for less than 10 years. Even so, 4 of the 10 respondents have held jobs with their current media agency for 11 to 15 years. Of the five 21+ year media veterans, three have had a long tenure (11 to 15 years) with their current employer.

Clearly, the sample includes individuals with vast experience. The media executives participating in this survey are also the key media decision-makers within their respective media agencies and are more than qualified to provide further insight into the perceptions and strategic decision-making process regarding the impact of DVRs on the traditional thirty-second commercial spot. The research aimed to obtain only the opinions of the key media agency decision-makers and the results prove that the goal was satisfied.

The assessment of the individual within in the agency who is directly responsible for addressing the impact of DVRs on television commercials produced mixed results. The responses ranged from “every planner and broadcast buyer” to only the top media agency executives, such as SVP of Media Planning, SVP/Media Director, Director of Media Research, EVP and Director of Media Resources and Planning, and President/Owner. The results are varied, although of the 10 media executives, 80% responded that only the top executives are the decision-makers addressing DVR technology while the remaining 20% responded by listing lower level executives, such as media planners and broadcast media buyers.

The results indicate that for the most part only the high-level media executives are responsible for addressing the impact of DVRs on television commercial effectiveness. The top
media agency executives make the final decisions for the broadcast planning and buying departments who then negotiate and execute media plans on behalf of their respective clients. Additionally, based on the titles of the survey participants, the researcher was able to confirm that the media executives participating in this study were the individuals within the media agency who are the key decision-makers regarding DVR technology.

When inquiring about the perceived impact that DVR proliferation has had on the traditional thirty-second commercial spot, 6 of the 10 agencies surveyed reported that DVRs have a negative impact on television commercial effectiveness. Two of the 10 survey participants reported a positive impact while the remaining two respondents took a neutral stance. The inquiry was based on a rating scale ranging from extremely positive, positive, neutral, negative, and extremely negative. Overall, the majority of the media executives concur that DVR diffusion in the media marketplace is harmful to the effectiveness of television commercials. Janice Suter, Associate Media Director of GSD&M Advertising, proves further insight stating, “DVRs aren’t single handedly changing the media landscape, rather the emergence of DVRs was simply the catalyst to a transformational shift in the way consumers’ media patterns started to shift in the last 7 years to a more on-demand mindset.” Suter adds, “The first question on whether DVRs will have a positive or negative impact on the 30 spot can be looked at in many ways. For agencies, it presents a unique challenge to effectively communicate with consumers in a more in-depth, meaningful way, which is positive. It has opened limitless opportunities to tailor delivery and messaging to a more targeted end user (Received from question 23 of survey questionnaire).”

Current and projected DVR penetration figures do not appear to influence advertising dollar allocation for media placement. According to the research findings, 5 of the 10
respondents reported that current media dollar allocation is not influenced by DVR penetration percentages. Twenty percent remain neutral on the subject while 30\% state that current DVR diffusion does influence advertising budget allocation. The participants who represent the Top 10 media agencies (according to annual gross broadcast billing) stated that advertising dollars are not influenced by DVR penetration figures. Three of the media executives stated that advertising budgets are manipulated to account for DVR proliferation while four disagreed and two remained neutral on the topic. The results were unclear with respect to the nature of the influence as the question posed only asked if there was an influence rather than whether the influence was positive or negative. Consequently, the results may be interpreted in a variety of ways making the findings somewhat ambiguous.

In order to address the uncertain verdict of the aforementioned results, the following key findings can be applied. When addressing future DVR penetration projections and correlation with television media budget allocation, 40\% of the survey participants responded that somewhat less media dollars will be spent on television media buys and 40\% claimed the same media dollars will be allocated. These findings show a fairly neutral stance on future media budget allocation for television with respondents reporting either the same or slightly less. The question was based on a ranking scale ranging of more, somewhat more, same, somewhat less, and less. The study demonstrates that while the survey respondents believe DVRs are negatively impacting television commercial effectiveness, media agencies do not plan to reduce television media budgets significantly to account for the unenthusiastic outlook of the DVR impact.

In regard to the use of specialized commercial placement and employment of new advertising formats to combat ad skipping by DVR users, 80\% of the media agencies have experimented with DVR-ready ads. Experiments range from specific commercial pod
placement, product integration, and utilization of TiVo showcase features. Four of the 10 respondents stated that specific pod placement measures are being used, such as isolation of commercial pods and requesting first pod or last pod position. Additionally, 3 of the 10 reported that more traditional means, such as product placement, are being used. Pod punchers, content wraps, and TiVo showcase features were also reported as methods used to combat ad skipping by DVR owners. These findings support research presented in the introductory section of chapter one when presenting the various strategic positioning development, including new advertising formats which are being applied to address DVR usage.

When questioning whether the DVR-ready ads are effective in combating ad skipping, 50% claimed the affirmative while the other half were unsure if the various methods employed were successful. While none of the respondents believed the specialized commercial placement or new ad formats were ineffective, the results suggest that media agencies will continue to use such methods and will strive to obtain additional research metric systems to evaluate the usefulness of DVR-ready ads.

Even though the vast majority of those surveyed are currently experimenting with specialized commercial placement and new advertising formats, 60% are either neutral or disagree that DVRs provide an opportunity to target television audiences more effectively. The results of this inquiry were diverse with 20% strongly agreeing and 20% agreeing that DVRs aid in enhancing audience targeting. The findings suggest that the media executives view DVR-ready ads as merely a pro-active defense against DVR ad-skipping rather than a new tool to improve audience reach which in turn creates a high return of investment for the advertiser.

The conclusions drawn from current and future media allocation and utilization of DVR-ready advertisements suggest that while the media executives embrace new ad formats to combat
advertisement avoidance by DVR owners, there will not be a major change in ad spending due to DVR proliferation, even though a majority of the survey respondents believe DVRs have negatively impacted television commercial effectiveness.

With the current release of the highly reported and debated new audience measurement system, Nielsen’s national average commercial minute ratings, this study aimed to determine what ratings data streams media agencies currently employ and what will be used in the future. Currently, 90% of the respondents use Nielsen’s program ratings while many use additional research measurement services to supplement Nielsen’s audience measurement data. Four of the total survey sample use TiVo’s StopWatch service in addition to Nielsen’s program ratings data. Only one of the media agencies subscribes to TNS Media Intelligence second-by-second commercial ratings.

As of May 2007, Nielsen is releasing six commercial ratings data streams to its clients. When asked what audience measurement data will be used in the future, 90% confirmed the use of Nielsen’s commercial minute ratings. Six of the nine will also evaluate Nielsen’s program ratings in conjunction with the new commercial minute ratings. Five of the nine will use TiVo’s Stopwatch and three plan to add TNS Media Intelligence second-by-second commercial ratings data in order to more accurately assess television commercial effectiveness due to DVR usage.

Figure 1 and Figure 2 illustrate the changes that will be made by media agencies with the availability of new audience measurement systems. The figures highlight the shift from program ratings to commercial ratings including the addition of third-party research ratings including the addition of third-party research.
While there has been a great deal of speculation in the media trade press regarding if and when media agencies will use Nielsen’s commercial minute ratings data, 80% of the respondents confirm that the new commercial ratings data will be used to take DVR playback into account.
with 50% claiming to begin using the ratings data in 2007. The remaining 50% will wait to use the data in 2008 or later. The data shows that the survey participants remain split. While half plan to assess commercial ratings for the 2007/2008 upfront media negotiations, the other half will maintain a more conservative approach to the commercial ratings data assessment. With that being said, the majority of the media executives plan to use both program ratings and commercial ratings data streams in lieu of choosing only one source over the other. Additionally, the media executives reported that incorporating independent research resources is necessary alongside the standard Nielsen ratings data. The media agencies also stated that they are open to as many reliable audience measurement sources and are willing to allocate the necessary financial resources in order to obtain the most valid and reliable audience measurement data available.

The results investigating which of the six ratings data streams will be assessed for future media negotiations produced extreme variations among the survey participants. Two of the 10 respondents reported that live only commercial ratings will be reviewed, one reported live plus one day, two were undecided, four claim a combination of the data streams, and two stated that the decision would be based on various individual situations. Clearly, the media agencies are uncertain how they will proceed with the commercial ratings data as well as the other independent research resources available due to the fact that the new ratings data streams were not available for analysis at the time that the survey questionnaire was administered. Adding further insight, Steve Sternberg, EVP of Audience Analysis for Magna Global stated the following:

Nielsen cannot measure commercial ratings. Nor can they accurately measure fast-forwarding (or even VCR playback). If we wind up using average commercial minute
ratings, it’s only a first step to what we really need—second by second ratings – the only real way to measure individual commercial performance. Sternberg adds, the major advantage of using average commercial minute ratings, is that the networks will be forced to continue searching for ways to keep viewers tuned to ad messages (Received from question 23 of survey questionnaire).

As a result, no definitive significant findings can be postulated regarding whether one ratings data stream is preferred over another. The data analysis implies no clear answer on which data streams will be assessed until the media agencies are able to thoroughly evaluate the new audience measurement information. It is clear that media agencies will continue to search for the most accurate measurement data available allowing them to make the most sound decisions on behalf of their clients.

In order to generate links between the strategic decision-making theory and decision-making processes of the media agency executives, the survey asked respondents to identify time spent per week addressing new media technologies, such as the DVR. The key findings include 60% spending 1 to 5 hours per week addressing new media technologies and 30% spending less than one hour per week. The results suggest that the media executives do not spend a large amount of time evaluating the effects of DVRs on television commercials.

When making key decisions regarding the impact of DVRs on television commercials, a majority of the respondents use various sources and methods to aid in the decision-making process. Nine of the 10 media executives utilize external research, 7 of 10 use internal research, 4 of the 10 rely on top management directives, and 7 must consider client directives. These findings run slightly counter to the data that shows that 80% of the respondents rely on top management directives when assessing DVR technology. Even so, only four of the survey
respondents stated that top management directives are considered. The data analysis suggests that while top management directives are important, external and internal research were more heavily relied on in order to formulate key media planning decisions.

As of May 2007, Nielsen Media Research reports that DVR penetration has reached 17.2% of U.S. TV HHs. When this survey was launched, the new DVR penetration estimate had not been released. In order to obtain the DVR penetration perceptions by the survey participants, the researcher asked each respondent where they believed the current DVR penetration stands.

Ninety percent of the media executives perceived DVR penetration to be 15% or below. Fifty percent believe DVR penetration stands between 11 to 15 percent, 30% answered between 6 to 10 percent, one answered between 1 and 5 percent, and one answered between 16 to 20%. If Nielsen’s DVR estimates are assumed to be the most accurate information available, then the majority of the media executives in this study are underestimating DVR diffusion in U.S. TV HHs. Even though perceived DVR penetration estimates are reported relatively low, 60% believe DVR proliferation will reach critical mass (33% or more) by 2010. The remaining 40% assent that DVR penetration will not reach 33% or more by 2010 or they were unsure.

Based on these results, the major findings of this research will be summarized and linked to existing theory and research. The discussion of the findings are included in the final chapter.
CHAPTER 4

DISCUSSION

Discussion of the Findings

While the final research findings are detailed in the previous chapter, this chapter will provide a discussion of the results, present the contributions the study offers to existing literature and research, as well as explain the limitations of the study. This chapter will also provide suggestions for further study while imparting a meaningful conclusion to the overall study of media agency executives’ perceptions and strategic decision-making processes with regard to DVR usage.

The researcher interpreted the final results in the most objective manner while providing a collaborative base with existing literature and industry-focused research. The study’s goal was to provide answers to seven research questions set forth in chapter one. RQ1 intended to determine the current impact DVR proliferation has had on the traditional thirty-second commercial spot. A majority of the media executives believe DVRs have negatively impacted television commercial effectiveness. While the results were not overwhelming, a few of the respondents believe that DVRs have had a positive impact largely because DVR technology serves as a tool in targeting television audiences.

This research directly supports a 2005 study conducted by the AAF when examining the significant long-term impact of DVRs on the traditional advertising model. In this study, 90% of respondents agreed that a long-term impact exists, while the AAF study reported that 80% agreed. This research compliments O’Neill and Barrett’s (2004) study, which reported that all of the interviewees believe DVRs have negatively impacted the value of television commercials. In addition, the research also corroborates the findings of Forrester Research and the ANA (2005).
The results of this study substantiate existing industry research when reporting the perceptions of key media agencies regarding the effects of DVRs on television commercial spots.

RQ2 sought to determine which individuals within the media agency are directly responsible for addressing DVR technology. The study showed that primarily only top-level media executives are the decision-makers. These findings support the main strategic decision-making models and characteristics presented in the literature review. Top-level executives are involved in the various processes found in strategic decision-making theory. For example, Rowe, Mason, and Dickel (1982) suggest a four-factor model that forms the strategic management paradigm. The four-factor model management levels dictate overall strategic decision-making processes of an individual or organization. In addition to the collaboration of the four-factor model, this research supports the command mode model in Hart’s (1992) study. Media executives follow the command mode in that only the top management team determines overall strategy within an organization. The data, however, does not corroborate the symbolic, rational, or transactive strategic decision-making styles suggested by Hart (1992).

RQ3 and RQ4 endeavored to determine current and future budget allocation in relation to DVR penetration figures and usage. The data found no correlation between the two. The findings of this research contradict existing research by AAF (2005) and Forrester Research and ANA (2006). Each of these studies reported that a majority of media agencies have or will alter media plans in response to DVR technology. The existing research does not indicate to what level changes will be made. It is important to note that the studies of AAF (2005) and Forrester Research and ANA (2006) were conducted before real statistical DVR viewing data was available. Additionally, the existing research contained a larger sample than this study; therefore the results may be slightly skewed to the individual responses of the survey respondents.
participating in this study. Even so, the existing research did not identify the executive level of the respondent, which may suggest that this study lends increased validity of the data because only key decision-makers were selected for response.

Additionally, the results of this research provide additional insight not shown in O’Neill and Barrett’s (2004) study. O’Neill and Barrett (2004) reported that only minor adjustments to media plans had been made in response to DVR penetration and usage. The results of O’Neill and Barrett’s (2004) study run parallel to this research because the reports showed the same or slightly less media dollars were reported would be allocated in the future.

RQ5 solicited information on the methods being used to combat ad skipping by DVR owners. Nearly all of the media executives are experimenting with DVR-ready ads. The data suggest that the media executives believe specialized commercial placement and new ad formats are a necessary step in order to more effectively reach DVR users. In addition, the results reveal that a majority of the survey participants believe their preventative measures have been effective.

The results of RQ5 produced conflicting evidence with research conducted by Forrester Research and ANA (2006). The existing research reported that more than 50% of the respondents had not yet experimented with DVR-ready ads, while this research reported that 80% of the surveyed are experimenting with new ad formats and specialized commercial placement. Although the findings are not corroborative, the existing research was conducted in early 2006 when many media agencies had not yet begun to experiment with DVR-ready ads. By the time this research was conducted, many media agencies were developing and initiating alternative solutions to the DVR issue.

Regardless of the fact that research reports a majority of media executives disagree DVR-ready ads provide a new approach to target audiences more effectively, media agencies are being
pro-active and developing and utilizing the new advertising methods. These findings are drawn from RQ6, which validates research conducted by Mintzberg, Raisinghani, and Theoret (1976). Mintzberg, Raisinghani, and Theoret (1976) identified three strategic decision-making phases: identification phase, development phase, and selection phase. The data demonstrates that media agency executives participating in this study have recognized the DVR problem, searched for and developed alternative solutions (such as specialized commercial placement and new ad formats) and finally, selected the most appropriate method and tested the method in order to address the DVR problem.

The research was unable to identify similar industry focused research inquiring whether or not new advertising methods used to combat advertisement avoidance by DVR consumers were effective. Therefore, this research provides new data not existing in the field of study relating to media executives’ attitudes toward the new advertising strategies.

RQ7 was designed to determine which audience ratings data will be used in the future as Nielsen Media Research has recently released new audience measurement data, the national average commercial minute ratings. Nearly all of the media executives will assess the new commercial ratings data while supplementing the data with the traditional program ratings. The findings also reveal that media agencies plan to use third-party research sources and are willing to allocate the necessary financial resources in order to obtain the most reliable data available in the marketplace. No other existing industry research provides data regarding this subject, as the release of the new audience metric system was not available until the end of May 2007 (the time of this writing).
This research substantiates research conducted by O’Neill and Barrett (2004). O’Neill and Barrett (2004) reveal that media executives called for more effective audience research methods, including ratings data that differentiates programming and commercial content.

When drawing stronger links between the findings and existing strategic decision-making theory, this research confirms the work of Schendel and Hoff (1979). Schendel and Hofer (1979) form the basis for strategic decision-making management, including the six major tasks completed by key decision-makers within an organization. As evidenced in the data analysis, all of the media agencies process goals, analyze the media environment, create and evaluate the strategies, implement the solutions, and place strategic controls on the outcome of the solutions. This study also supports the strategic four-factor models illustrated by Rowe, Mason, and Dickel (1982).

Relational links to research conducted by Hickson, Butler, Cray, Mallory, and Wilson (1986) regarding the timeliness of decision-making is strongly supported in this study. The researcher postulates that media agency executives follow the sporadic and constricted approaches when addressing DVR technology. The research discounts the fluid approach. Due to the fact that it has taken nearly a decade for the media industry to address the impact of DVRs on the traditional thirty-second commercial, the research suggests that the major decisions focusing on the DVR issue have been drawn out over time, delayed numerous times, require more sources of information, and require fewer meetings among the high-level executives. These relational links are evidenced throughout the results section of the thesis research.

The findings contained in this research also validate three of the four strategic decision-making process approaches presented by Eisenhardt (1999). The results suggest top-level management executives frequently evaluate and forecast the external threats of the DVR,
assemble specific individuals to address the impact of DVRs, and have maintained a steady
decision-making approach in order to address the problem. However, the fourth approach is not
supported in this research, as political bias was not queried in the survey questionnaire.

Disparity was found between the studies of Miller (1991), Finkelstein and Hambrick
(1990), and Hambrick, Geletkanycz, and Fredrickson (1993) regarding escalating commitment
among executives with longer tenure in a company. While this study produced results from
long-time media executives—a majority are 21+ year media veterans—the research does not suggest
that executives with longer tenure with a company are less likely to adapt to change and
therefore are unlikely to perform drastic changes. Nearly all of the respondents in this research
report changes made in order to address the DVR influence on television commercial
effectiveness.

Contributions to the Literature

This research study imparts many contributions to strategic decision-making theory and
industry-focused research outlined in previous chapters. Even so, no such identifiable literature
exists specific to the strategic decision-making processes of media agency executives regarding
the impact of DVRs on television commercial effectiveness. In view of the fact that the media
industry operates in the entertainment and business fields, there is little evidence of existing
research linking media-related decisions and strategic decision-making models. While many
correlations and confirmations were drawn from this study and strategic decision-making theory,
the research findings confirm the fact that media executives operate and formulate strategic plans
in the same manner as any business executive. Subsequently, applying strategic decision-making
models to the media executive decision-making process provides beneficial theoretical support to
the strategic decision-making models and characteristics.
With respect to existing media industry research, this study lends more recent evaluation of the perceptions and decision-making processes of the media executives regarding the DVR issue. Plenty of audience-centered research exists reporting the effects of DVR use; yet, no current research reveals media agencies’ strategic plans moving forward in the future. The latest industry focused research referenced in the literature review was conducted in March 2006. A great deal has changed since March 2006, most importantly, the release of Nielsen’s commercial minute ratings, as well as updated DVR diffusion figures. This research contributes new data as many changes are occurring in the media industry with regard to the influence of DVRs on television commercials.

Furthermore, gauging current perceptions and decision-making processes of key media agencies is essential in order to understand how DVRs have altered the traditional advertising model. This research lends to the better understanding of where the media industry stands to date and how the key media executives anticipate future decision-making processes. The study also documents key media agency executives’ attitudes and strategic plans that exist at the moment, which is essential when addressing the DVR problem as the topic is constantly evolving.

Limitations of the Study

While the study provides the most current data regarding the topic, the low response rate and subsequent small sample size is recognized as the primary limitation of the study. The study aimed to gather information from only the Top 10 media agencies as these agencies account for the majority of broadcast billing in the U.S. As noted, the final sample size of this research finalized at 11.7% with 10 returned, usable surveys. Unfortunately, the inability to obtain data from the select Top 10 media agencies lessens the validity and reliability of the study.
During the planning stages of this thesis research, the author was acutely aware of the possibility that the Top 10 media agencies would be resistant to participating in the survey. As the survey finalized, the researcher’s anxiety over non-response was realized. Consequently, the survey sample was expanded beyond the Top 10 media agencies as a result of the initial non-response issue. As stated, three of the Top 10 media agencies refused to participate in the survey, which suggests that the media executives were uncomfortable providing proprietary information regarding their current and future strategic media plans. Even when the sample size was expanded to include all key media agencies outside the Top 10, response proved to be challenging.

The low response to the survey could indicate that media executives neither have the time nor inclination to engage in academic research. The low response rate also leads the researcher to believe that the recruited individuals not taking part in the study were simply too busy to take time of out their hectic day to participate. Unfortunately, divulging what some may consider highly confidential information is a low priority for the top-level media executives. Although the survey participant could remain anonymous, the immediate refusals to take part in the study by three of the Top 10 media agencies conveyed the idea that the media executives did not wish their strategic decisions to be known to the media industry or, for that matter, in a publishable research study. One of the aspects of media planning and negotiation involves keeping the industry, more specifically the television networks, in the dark regarding the next strategic move. Perhaps the intentions of the agency are highly guarded since the media agency’s responsibility is to negotiate the best possible deal with broadcast television networks.

In spite of the fact that the researcher contacted each individual agency by phone in hopes of establishing a personal connection with the potential participant, the response rate was low.
Again, despite the fact that the researcher meticulously created a persuasive introductory email with a turnkey online survey in hopes to ease the daily disruption – the response rate was still limited. Clearly, successfully obtaining only the opinions and strategic decision-making processes of top media executives proved to be difficult. Even so, the 10 respondents to this research represented key media agencies and were also the key decision-makers addressing DVR technology for their respective agencies. While the original recruitment plan aimed to obtain only 10 surveys, the final results of this research yielded the same amount although the survey respondents were not representative of the Top 10 media agencies.

Another limitation of this study included the inability to create links to the biases in strategic decision-making theory. Due to the fact that the survey questionnaire needed to be brief in order to stimulate the highest possible response rate, several strategic decision-making theories were unable to be tested. Therefore, little data was produced relating to biases in decision-making processes.

Suggestions for Further Study

Up to this point little research has been conducted regarding the strategic decision-making process of media agency executives. The perceptions and strategic decision-making of such individuals warrants further study. The researcher recommends more detailed research specific to decision-making models and theory as related to media executives. Although the recommendation might prove to be difficult as evidenced with the limitations of this particular study, further research would prove to be useful when understanding the strategic positions taken within media agencies when addressing new media technologies, such as the DVR.

Suggestions for further research also include opening up the scope of the topic to include other new media technologies affecting the traditional advertising model. The researcher
recognizes that DVRs are not single-handedly changing the media landscape. Internet video, mobile television, Internet protocol television (IPTV), video-on-demand (VOD), and many other new media devices should be examined as these technologies have also impacted the effectiveness of the traditional thirty-second commercial spot.

Examining the perceptions and decision-making processes of television network executives regarding DVR use also presents an opportunity to contribute valuable knowledge in the field of advertising research. The topic is not only relevant to media agencies that control media expenditures, but is also of concern to television networks economically supported by advertising. What are the strategic plans of the television networks when addressing DVR technology? What new advertising formats are being utilized in order to keep DVR users tuned in to ad messages? What position is taken in regard to the new audience measurement system: national average commercial minutes ratings? All of the tested research questions contained in this study can be applied to television network executives.

While the low response rate and small sample size attest to the fact that quantitative survey research is difficult to conduct on media agency executives, the researcher suggests that replication of this study include all key media agencies in the U.S. This approach would require a great amount of time and resources, and this research study demonstrates that obtaining data from only the Top 10, or even Top 15 media agencies, is an impractical task. Perhaps replication of this study during a different period of time, such as during the last half of the year, would yield a higher response rate as the media executives would not be consumed with the upfront negotiation process for the upcoming year.
Conclusions

This thesis research aimed to discover current perceptions as well as the strategic decision-making processes of key media agencies in the U.S. While the sample size was small in addition to the fact that the researcher was unable to obtain the opinions and decision-making undertakings of the Top 10 media agencies, the research successfully produced key findings, which brings forth new knowledge in media research. Furthermore, the data extracted from this research contributes to both the strategic decision-making models and major industry-focused research as detailed in the discussion of findings. The research collaborated with existing strategic decision-making literature and, at the same time, provided research that did not already exist.

This research confirmed that current and future DVR penetration figures and consumer usage are an immediate concern to media agency executives. The media executives participating in this analysis concur that DVRs have negatively impacted the traditional advertising model; an industry that for years has been the most effective medium when delivering marketing campaigns to television audiences. The research demonstrates that media agencies are taking a proactive stance rather than a reactive one by developing and utilizing new methods in order to reshape how advertising messages are delivered to television audiences. The media executives are also committed to obtaining the most reliable audience measurement data in order to assess the effectiveness of their media messages.

The media landscape is continually evolving with new media technologies being introduced into the media marketplace on a daily basis. Although this research narrowly focuses on DVR technology, it is a relevant topic to address as DVR diffusion and innovation presents an
immediate threat to television commercials. The findings of this research provide new data from
the media agency’s perspective as the media industry experiences a plethora of change.

While the media agencies believe DVRs have a negative influence on television
commercial effectiveness, no agencies represented in this study project major budget changes.
Even so, the media executives are embracing the idea of new advertising strategies to combat
advertisement avoidance by DVR consumers. Additionally, the data reveals that media agencies
will proceed with caution when examining the new ratings data and plan to incorporate third-
party research (outside of the standard Nielsen ratings data) in order to more accurately assess
television commercial effectiveness in the future. Still more research needs to be conducted
providing further insight to what ratings data streams will be used as the new audience data was
not available for assessment at the time the study was administered.

As DVR penetration reaches critical mass, media agencies are forced to make key
strategic decisions on behalf of their clients in regard to the trends and audience behavior
resulting from DVR usage. If DVR owners are fast-forwarding commercials, then advertisers
must address the overall effectiveness of their commercial spots, as well as the media campaigns
delivered to them by their agency of record.

The strategic decision-making process, including the general perceptions of media
agencies, is an important and timely issue due in large part because television is an ad-supported
medium. In 2005, the television industry generated over $70 billion per year in advertising
revenue in network, spot, and syndicated television (“Ad Revenue Track,” 2006). The
perceptions and decision-making processes of media agencies acting on behalf of their clients
will determine the economic future of the television industry. Furthermore, as the media
industry moves toward a new audience measurement system, national average commercial
minute ratings, additional research regarding the opinions and decision-making processes of media agencies is warranted.

This study aimed to provide new knowledge relating to the traditional advertising model and how it is transforming due to new media technologies, specifically the DVR. In the quest for additional research specific to the perceptions and decision-making processes of media agencies, this study provides insightful data while appreciating the fact that more research in this area is needed in view of the unceasing transformations occurring in the media industry. The researcher concurs with the following quote provided by Cathleen Campe, SVP/Director of Local and Direct Response Media at RP Media. Campe states:

There is still much research and learning to be done on the use of DVRs, the impact on commercial effectiveness and how they will change the viewer’s experience- and the resulting effect on advertising. However, it is for sure that the delivery platforms are going to keep changing, and must do so, if an ad-supported model for content delivery is to continue. It is incumbent upon the broadcast owners to come up with solutions that meet consumers needs (Received from question 23 of survey questionnaire).
April 9, 2007

Heather Way  
Department of Radio, Television and Film  
University of North Texas

RE: Human Subjects Application No. 07-1-7

Dear Ms. Way:

In accordance with 45 CFR Part 46 Section 46.101, your study titled “The Reshaping of the Traditional Advertising Model: An Analysis of Media Agency Executives Perceptions and Decision Making Processes Regarding the Effects of Digital Video Recorders on Television Commercial Effectiveness” has been determined to qualify for an exemption from further review by the UNT Institutional Review Board (IRB).

No changes may be made to your study’s procedures or forms without prior written approval from the UNT IRB. Please contact Shelia Bourns, Research Compliance Administrator, ext. 3940, if you wish to make any such changes.

Sincerely,

Scott Simpkins, Ph.D.  
Chair  
Institutional Review Board

SS: sb
APPENDIX B

INFORMED CONSENT INTRODUCTORY EMAIL
From: Heather Way  
Subject: THESIS RESEARCH: Media Agency Executives and DVR Survey  
Date: March 14, 2007 11:47:21 AM CDT  
To: Heather Way

Hi, my name is Heather Way. I am a graduate student at the University of North Texas, Denton, Texas. I am conducting my thesis research on the opinions and decision making processes of the Top 15 media agencies regarding DVR use. Your participation in this thesis research is very important and extremely valued.

I realize your time is limited, but I ask that you please take a brief moment to complete the survey. The survey should take 10 to 15 minutes to complete. The preliminary results and final thesis research will be made available to you by request in the survey. This is your chance to find out what your colleagues are thinking regarding the impact of DVRs on the traditional television commercial!

Participation in this study is completely voluntary. Your response will be anonymous. All records will be kept confidential. No individual responses will be disclosed to anyone as the data will be reported on a group basis unless otherwise indicated in the survey.

This research has been reviewed and approved by the UNT Institutional Review Board. Please contact the UNT IRB at 940-565-3940 with questions regarding this research. If you have questions regarding the purpose of the survey, please contact my major professor, Dr. Alan Albarran at 940-565-2537 phone or albarran@unt.edu.

Please see attached link to the survey. I appreciate your participation and thank you for your time!

http://www.surveymonkey.com

Heather Way  
MS Candidate/Teaching Fellow, University of North Texas  
901 Wood Duck Way  
Flower Mound, Texas 75028  
972-333-2512 phone  
h_way@mac.com
APPENDIX C

SURVEY QUESTIONNAIRE
PLEASE NOTE: YOUR RESPONSE WILL BE ANONYMOUS. INDIVIDUAL RESULTS WILL NOT BE DISCLOSED UNLESS OTHERWISE INDICATED. AGENCY, NAME, & TITLE ARE OPTIONAL.

1. Which media agency do you represent?

2. Digital video recorder (DVR) usage has had the following effect on the traditional commercial spot.
   - Extremely positive
   - Positive
   - Neutral
   - Negative
   - Extremely negative

3. Current DVR usage influences advertising dollar allocation for media schedules.
   - Strongly agree
   - Agree
   - Neutral
   - Disagree
   - Strongly disagree

4. In the future, ___________ media dollars will be allocated to TV media buys in response to DVR usage.
   - More
   - Somewhat more
   - Same
   - Somewhat less
   - Less

5. Has your agency experimented with specialized commercial placement or new advertising formats specific to combating ad-skipping by DVR users?
   - Yes
   - No
   - No, but plan to in the future

6. If yes to question 5, please list the experiments that were utilized.
7. If yes to question 5, were the DVR-ready ads effective?
   - Yes
   - No
   - Unsure

8. If no to question 5, please provide a brief comment why your agency has not experimented with DVR-ready ads.

9. DVRs provide an opportunity to target audiences more effectively.
   - Strongly agree
   - Agree
   - Neutral
   - Disagree
   - Strongly disagree

10. Who within your agency is directly responsible for addressing DVR technology on behalf of your clients? (List ALL titles that apply) Example: CEO, Executive Director of Broadcast

11. Which of the following audience ratings data does your agency use to assess DVR use? (Check ALL that apply)
   - Nielsen program ratings
   - TiVo Audience Research and Measurement Service’s StopWatch
   - TNS Media Intelligence second by second commercial ratings
   - Other (please specify)
* 12. In the future, your agency will utilize the following audience ratings data in order to assess DVR use. (Check ALL that apply)
  - Nielsen commercial minute ratings
  - Nielsen program ratings
  - TiVo Audience Research and Measurement Service’s StopWatch
  - TNS Media Intelligence second by second commercial ratings
  - Other (please specify)

* 13. Will your agency utilize Nielsen commercial minute ratings to take DVR playback into account?
  - Yes
  - No
  - Undecided

* 14. If yes to question 8, please indicate when you will begin.
  - 2007
  - 2008
  - 2009 or later

* 15. Which ratings data stream will your agency use for future media negotiations? (Check ALL that apply)
  - Nielsen program ratings
  - Nielsen “live” only commercial ratings
  - Nielsen “live” plus one-day commercial ratings
  - Nielsen “live” plus two-day commercial ratings
  - Nielsen “live” plus three-day commercial ratings
  - Nielsen “live” plus same day commercial ratings
  - Nielsen “live” plus seven-day commercial ratings
  - Undecided
  - None of the above
  - Other (please specify)

* 16. How much time per week do you spend analyzing new media technologies such as the DVR?
  - Less than 1 hour
  - 1-5 hours
  - 6-10 hours
  - 11+ hours

* 17. When addressing DVR technology, your agency relies on the following: (Check ALL that apply)
  - Internal research
  - External research
* 18. DVRs will have a significant long-term impact on the traditional commercial spot.
   - Strongly agree
   - Agree
   - Neutral
   - Disagree
   - Strongly disagree

* 19. Do you think DVR penetration will reach critical mass (33% or more) by 2010?
   - Yes
   - No
   - Unsure

* 20. Based on your opinion and/or research what is the current DVR penetration in the U.S.?
   - 1-5%
   - 6-10%
   - 11-15%
   - 16-20%
   - 21+%

* 21. How many years have you worked in media?
   - Less than 5 years
   - 6-10 years
   - 11-15 years
   - 16-20 years
   - 21+ years

* 22. How many years have you worked for your current agency?
   - Less than 5 years
   - 6-10 years
   - 11-15 years
   - 16-20 years
   - 21+ years

23. Please provide comments in regard to DVRs and television commercial effectiveness. These comments may be used as direct quotes in the thesis research. Your comments are greatly appreciated. THANK YOU!
24. Please provide a forwarding email address to receive preliminary results of this survey as well as the final thesis.

25. Name:

26. Title:

* 27. What is your gender?
   - Male
   - Female

28. What year were you born?

Next >>
REFERENCES


