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THE ACTOR SET-UP OF TV ADVERTISING. A NEW PROCESS FOR HYBRID FORMATS¹

The paper introduces a basic description of the advertising process in TV advertising and discusses how this process might be altered when 30 second spots are replaced by hybrid advertising formats such as sponsoring and placements. For each actor in the process the potential benefit of hybrid advertising is identified and the respective interest in changing the process is deduced. A qualitative interview study with representatives from each actor in the process is used to illustrate that contrary to popular imputation the advertising principals are not the driving force behind the rise of hybrid advertising. Broadcasters and their media sales companies that rely on advertising revenues need hybrid advertising to compensate for declining revenues from spot advertising. Being the biggest beneficiaries they can be identified as driving force – or in normative terms as the ones to blame for blurring the boundaries between advertising and content.

Keywords: principal-agent, conflicting interests, product placement, advertising process, interviews, Switzerland.

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1. Integration of Advertising into Editorial Content

In communication science and media regulation advertising has long been regarded as relatively unproblematic. It was a means to finance the media, and thereby clearly separated from the editorial content (Schaar 2001: 23). Commercial communication could infiltrate the editorial content only by the means of public relations. However, with the declining efficiency and credibility of traditional TV commercials caused by technical advances in ad avoiding as well as the fragmentation of the market, marketers are said to be searching for alternative advertising formats (Donaton 2004: 1–23; Kloss 2003: 437; Kretchmer 2004). An integration of advertising into the program, so called hybrid advertising like sponsoring or product placement, might help rebuilding the advertising efficiency and at the same time allows closely targeting an audience that can not zap the advertisers' message (Siegert & Eberle 2004). However, the integration of advertising into the editorial content can also be understood as the consecutive next step in an attempt of the broadcasters to create an “ad-friendly” arrangement of the program in order to maximise advertising revenue. In the public debate hybrid advertising is usually framed as highly problematic, since it would deceive the audience and endanger the journalistic autonomy (see Niggemeier 2005; Platho 2000; Stolte 2005). Therefore this article shall help to clarify which actors actually have an interest in the spread of hybrid advertising, or – from a normative viewpoint – who's to blame for the blending of content and advertising?

2. The Actors in the Advertising Process

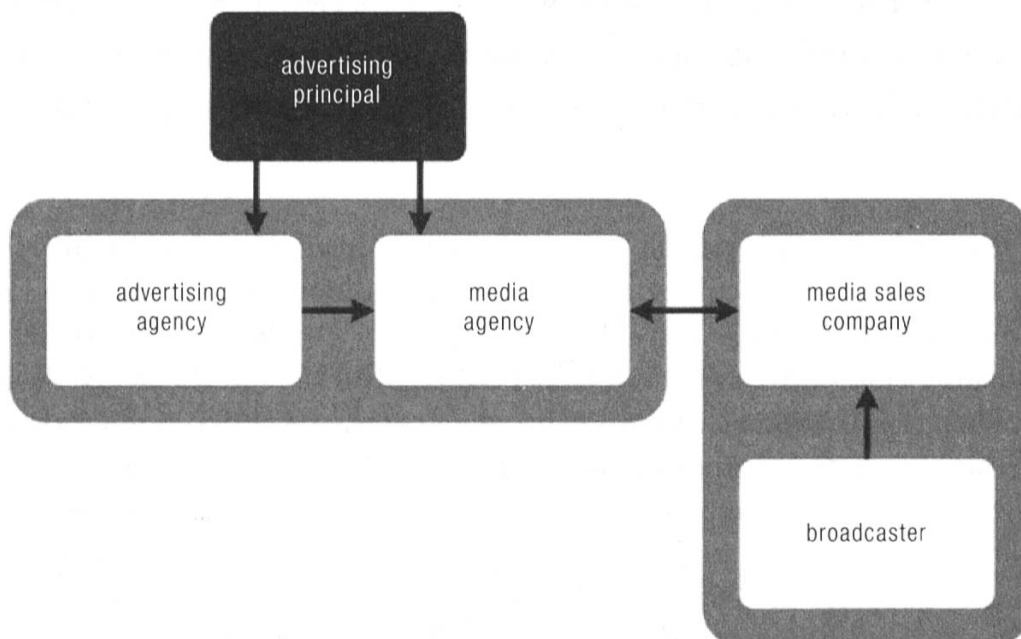
In the discussion about hybrid advertising most of the time a marketing perspective is employed: What is the best way to trick the public into believing an advertising message? The media is depicted as a victim of advertising strategies. This perspective seems to be simplifying the situation and neglecting the objectives of other actors involved. Modelling advertising as a process where several actors work together (a detailed description of this process can be found in Siegert & Brecheis 2005: 144–156) allows analyzing the actors with their different motivations and objectives and how they may or may not benefit from hybrid advertising.

It can then be deduced that those actors benefiting the most are supposedly the driving force behind the spread of hybrid advertising.

Figure 1 presents the basic advertising process of TV commercials, consisting of five distinct actors. The advertising principal needs the attention generated by the media to reach (potential) customers. To do so she hires an advertising agency to translate marketing objectives into a convincing campaign (Rogge 2004). To get the campaign on air a media agency is hired to buy the necessary slots. The media agency is bundling the interests of several clients (Unger et al. 2002) to unite the bargain power of the demand side.

On the other end of the process, the broadcaster is financing its program indirectly by selling the aggregated audience attention that is advertising breaks. To separate the editorial and the financing aspect and again in order to unite the bargain power of the supply side the media sales department is outsourced to specialized media sales companies. These companies shall sell the complete air time of the marketed media to generate revenues for the broadcaster but also try to mediate between buyers' interests and program constraints.

Figure 1: Advertising Process of TV Commercials



The actors in this prototypical process each have different and partially conflicting objectives and their relation can be described as a succession of principal agent problems¹ (Schachtner 2002; Schierl 2003: 97–134). However, over the years a set of control institutions and a common “currency” has evolved and renders the existing problems of adverse selection and moral hazard manageable (Siegert 2006: 146).

The actors co-operate in a network-like structure of advertising production and distribution, whereby the respective interests materialize in standard procedures with typical constellations of conflicting interest. The differentiation of advertising formats and the introduction of hybrid advertising put established relations to test and might require new procedures in altered constellation of actors. Moreover new intermediaries might appear early in the advertising process, for instance production companies who develop formats as program context optimized for the inclusion of product placements.

3. A Different Advertising Process for Hybrid Advertising

Broadcasters that do not benefit from license fees might be tempted to open up their editorial content to advertisers when the revenue from traditional commercials is declining. However the scandals about illegal “Schleichwerbung”² in the program of German public service broadcasters in 2004 and 2005, and the everyday experience with the program illustrates that public service broadcaster seem to be just as interested in marketing hybrid advertising formats.³ Hybrid advertising formats seem

¹ The principal agent problem is part of the new institutional economics framework. It focuses on the difficulties that arise under conditions of incomplete and asymmetric information when a principal hires an agent. For a sound introduction see Pratt & Zeckhauser (1985), Arrow (1985), Göbel (2002: 98–128) and Richter & Furubotn (2003). For an application on media organizations see Napoli (1997); a discussion from a marketing perspective can be found at Bergen, Dutta & Walker (1992).

² Metaphoric German term for sublime advertising, literally sneaking advertising.

³ Koberger (1990: 160) and Müller (1997: 213–214) suggest that placements became a commonplace in German television both in the commercial and the public service sector, with a fuzzy legal framework opening up opportunities (Bente 1990: 236; Schaar 2001: 140–142).

to be well established in the market place as it is illustrated by the fact that all relevant media sales companies in Germany have harmonized their offerings in 2006. They try to allow for an easier handling similar to traditional commercials and thus lure agencies and advertising principals into this market section (Hegner 2005).

A traditional commercial must be based on a creative idea, is comparatively costly to produce and usually only represents one component of an advertising campaign crafted by an advertising agency that supervises the whole creative process and the production. Buying air time and positioning the commercial on the right program again implies expert knowledge and thus is usually done with the help of further intermediaries such as media agencies and media sales companies (Schierl 2002). In contrast a product placement does not necessarily require a complex production process to get it into the editorial content of a broadcaster (Pühringer et al. 2004). Likewise a simple sponsoring billboard is easy to produce and does not call for the consulting of specialized intermediaries. Therefore it cannot be assumed that the advertising process of hybrid advertising does include the same actors working together in the same setting as with the traditional commercial. Some actors might be skipped, others might gain or lose relevance. It is easy to image a direct link between broadcasters and advertising principal whereas advertising- and media agency are not consulted when selling hybrid formats like program sponsoring or product placements. Therefore we assume that hybrid advertising does not follow the prototypic process of traditional advertising

3.1. Winners and Losers

Analyzing the different actors in the traditional advertising process separately reveals how each of them benefits or suffers from changes induced by hybrid advertising and how these advertising formats address the divergent interests. Some existing conflicts of diverging interests are solved; others might evolve with new institutional arrangements. The question which actor can be regarded as the driving force behind the spread of hybrid advertising can be answered quite simple by identifying which actor stands to benefit the most from a different advertising process.

3.1.1. Advertising Principals

Advertising principals always face a principal agent problem when they offer a mandate for an agency and start spending money (Schachtner 2002). Traditionally this principal agent problem is addressed predominantly by the use of control measures since an alignment of objectives is hard to realize when there is no precise definition on what is successful advertising. In the context of TV commercials advertising principals can employ an established set of standardized methods how to measure advertising impact and effect. However, in the context of hybrid advertising there are no comparable research tools that would match up. Research on the effectiveness and efficiency of hybrid advertising is in its infancy (Mandese 2004; Russell & Belch 2005: 83). There is no standard of comparison and no established “currency” like in the field of commercials.

The first studies on the efficiency of product placements date back to the mid nineteen eighties (Steortz 1987), but practitioners still remain skeptical whether the effect of a product placements can be measured in a way that matches with the industry practice (Karrh et al. 2003: 145). The supposed advantage of an improved advertising effect within the editorial context is put into perspective by comparatively high booking and transaction costs for hybrid advertising formats. However, the biggest downside is the loss of control on how the product is presented and put into context, and how the advertising message is conveyed. As long as there is no institutionalized, continuous and systematic measurement of the use, impact, effect, and success of hybrid advertising – which cannot be established as long as hybrid advertising is conducted in a fuzzy legal setting – the advertising principal will not push the decision for these formats. The popular contracts where the advertising agency is compensated according to the achieved advertising impact (Amirkhizi 2006) cannot easily be employed. In the short run the division of labor as it is evident in the current structure of the advertising process could be reduced, leading to a less professionalized setting, where there is a higher level of uncertainty and actors have to rely on factors like imagination, experience and intuition (Bente 1990: 103). Advertising principals cannot use the same established measures to control adverse selection and moral hazard with hybrid advertising. Modeling the relation between advertis-

ing principal and the agencies or the media as a principal agent problem cast doubts over the common assumption whereby the marketing departments of advertising principals would be the driving force in the establishment of hybrid advertising. Unsolved problems about how to control the advertising message suggest a more reluctant attitude.

3.1.2. Advertising- and Media Agencies

It has been said that in some instances the creative aspect of the advertisement is more important than the economic (Schierl 2003: 108). Again we can use the principal agent theory to explain this fact. In the relation between advertising principal and the advertising agency the problem of moral hazard emerges when the agency undertakes hidden action to achieve objectives other than those agreed on in the contract. Especially the creative employees in the agency might not only want to serve the principal, but also to devote their time and talent to create outstanding commercials. By doing so they can impress their peers, and at the same time evoke the image of a creative agency in the minds of potential customers. Those customers of course face the problem of hidden characteristics when choosing an agency based on their innovativeness rather than on their effectiveness. Taken together creativity is the crucial factor of information asymmetry that puts the advertising agency in an advantageous position in the principal agent setting.

However, when it comes to hybrid advertising the possible creative input is often quite small: A sponsoring billboard or the placement of a branded prop can easily be realized without the work of creative directors. On the other hand the creativity which would be necessary for elaborate placements embodied in the script of a show is usually not readily available in an advertising agency that used to produce commercials. They might initiate new advertising formats on behalf of their customers (Unckrich 2006), but to do so they need to build knowledge and experience to compete with upcoming new actors such as placement agents and -consultants and branded props warehouses (Bente 1990: 82; Müller 1997: 150–155).

Overall the advertising agencies would need to adapt substantially to the challenges posed by hybrid advertising formats. They would lose their

competitive advantage in a principal agent setting and therefore they are not likely to push the introduction of a hybrid advertising process where they play a minor role.

Hybrid advertising formats require much consulting effort, but at the same time the volume of each unit is rather small, thus they have a limited potential for standardization. However, the business model of the media agencies is based on batch processing of standardized units (Kloss 2003: 217–226). In a principal agent setting with the advertising principal or its advertising agency they benefit from their hidden information about tariffs and especially discounts for combination deals. With the special handling for hybrid advertising they can still capitalize on the information asymmetry, however the margin with hybrid advertising is hard to calculate and the volume of the deals is small. If the media agencies face a strong competition they might include hybrid advertising in their media plans, but as long as the funding of the media agencies is based on proportional commissions, the handling of individualized advertising formats is of little interest to them. Since hybrid advertising needs special handling when it comes to media planning, there is a trend that reverses the emerged distinction between creation and media planning. In the context of hybrid advertising media planning is also a creative business, suggesting a reintegration of creation and planning in one agency (Ax 2006). A new type of agency might emerge as intermediaries combining creation, media planning and possibly also the conception and production of editorial contents in own company. In contrast mere planning agencies will play a minor role in the process of hybrid advertising since their business model is not compatible.

3.1.3. Media Sales Company and Broadcaster

Hybrid advertising can be defined as a purposeful integration of branded contents into editorial contexts, irrespective of script-wise necessity or indication. The payment can be made in cash as well as in kind, usually in terms of branded props. The latter form of payment cannot be compared with income from advertising, but rather results in reduced production costs. If the deal is limited to providing and presenting props, hybrid advertising can be realized very economically for both the broadcaster and the client.

Parallel to the differentiation of advertising- and media agency, the actors supplying advertising space have also been differentiated: Production companies have outsourced special branches catering for product placement in an attempt to bypass and replace existing intermediaries (Bente 1990: 83). As a result the production- and the distribution sphere in the advertising process are admixed: advertisement, advertising environment and advertising medium converge in one. In the context of movie production the situation can be described as follows: "Today, a much more orderly industry involves two primary groups of professional-placement agents and program producers. Agents function as middlemen between marketers and producers, typically working on a retainer basis. The major movie studios have their own departments for handling product placement opportunities and work with placement agencies as well" (Karrh et al. 2003: 139). Among these new actors standards of professional conducts have not yet emerged, and measures to address the information asymmetries still need to be established. A product placement offered by a specialized agency compared to a commercial in a campaign offered by an advertising agency is even more an individual service customized to cater for the special needs of the client but hard to control for hidden characteristics and hidden action.

In contrast to the indifference of media agencies, media sales companies do have great interest in selling and promoting hybrid advertising formats. One reason might be that the special handling and the one-off character of these deals usually do not imply large discounts as they have become common or standardized commercials (Fösken 2005). The primary function of a media sales company is to maximize revenue from the selling of the air time of the contracted broadcaster. Since revenues from traditional advertising are stagnating or in decline it becomes a necessity for media sales companies to establish new revenue streams. Thus media sales companies are the actor that benefits the most from hybrid advertising: On the one hand they are well informed about those programs which might host placements or sponsoring messages, on the other hand they are not involved into the editorial development and thus do not need to worry about their journalistic or creative integrity. Since they promote a service which is neither demanded by advertising principals nor fits in the established business procedure of agencies it can be

assumed that media sales companies are the initiative driving force in the establishment of hybrid advertising formats.

From a business perspective the broadcasters find themselves in the same position as the media sales companies. The more a broadcaster relies on advertising income, the more actively it might be promoting hybrid advertising formats, and the more it will be ready to adjust its editorial content to create an ad-friendly context. However it can be assumed that a broadcaster will limit hybrid advertising to a level where it does not deter the viewers from tuning in. The broadcaster has to face conflicting objectives: Even more than advertising agencies program producers, editors and journalists insist on their creative and editorial freedom and the relevance of these aspects in the final program. In the context of hybrid advertising this accentuates the principal agent problem, since the advertising principal cannot control how the promoted product is actually staged and presented, since the factual integration into the program is done by people who are not bound to the marketing objective of the principal but to their own creative vision (Karrh et al. 2003: 146). Just like in the advertising agency there might emerge different orientations within the broadcasting company with different objectives in the sales force and the management opposed to talent in the creative production. Therefore on a company level where normative claims have to be addressed, too, the broadcasters do not as explicitly benefit from hybrid advertising as media sales companies. Nevertheless they might still be one of the driving forces in the establishment of these advertising formats.

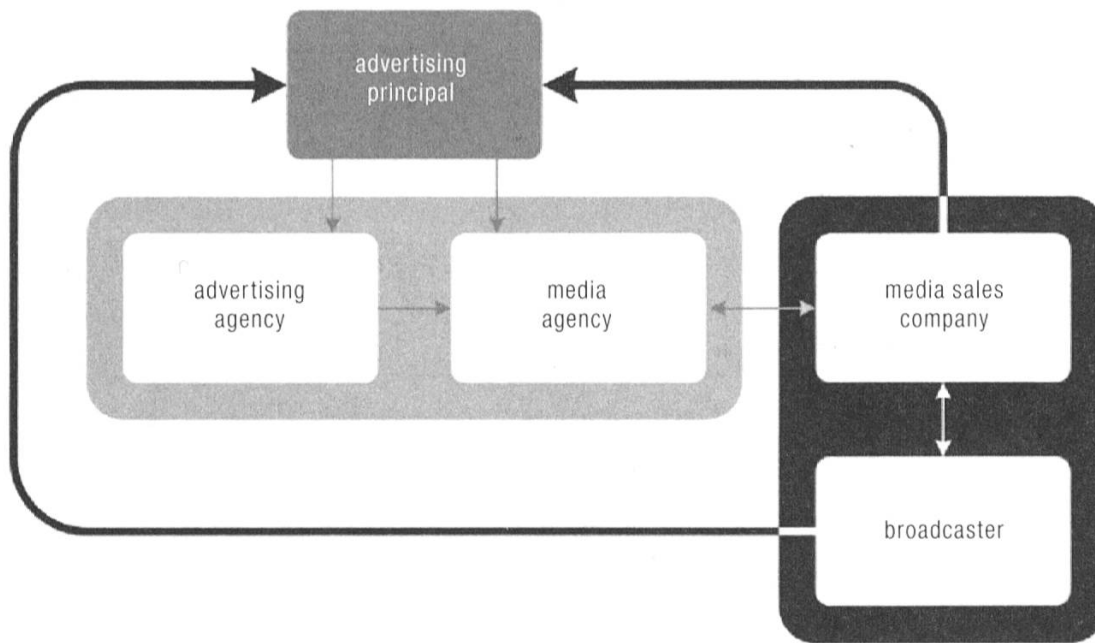
3.2. The Advertising Process of Hybrid Advertising

Analysing hybrid advertising from a process perspective rather than a marketing perspective allows understanding the advertising process as a result of the objectives of the involved actors. Table 1 provides a breakdown of the respective interest to introduce and promote hybrid advertising as they can be derived from the theoretical discussion.

Three theses can be deducted from here: (1) the agencies lose their role as important intermediaries. (2) Cutting out the middle man results in a market of just two players: the advertising principal dealing directly with the actors selling airtime. (3) Since the sellers are more clearly benefiting

Table 1: Evaluation of Hybrid Advertising by Different Actors

| Actor | Benefit | → | Resulting interest |
|-----------------------|--------------|---|--------------------|
| Advertising principal | Incalculable | → | Moderate |
| Advertising agency | No | → | Low |
| Media agency | No | → | Low |
| Media sales company | Clear | → | High |
| Broadcaster | Ambivalent | → | Relative high |

Figure 2: Advertising Process of Hybrid Advertising

from hybrid advertising the starting point of the advertising process is reversed, now beginning with the broadcaster and its media sales company (compare Figure 2).

4. Research Question

If we model the advertising process as a series of principal agent relations with the respective problems attached we come to the assumption that the initiator of a hybrid advertising deal is most likely the media sales

company or the broadcaster itself. Thus our research question is twofold: First we have to clarify, whether our description of the advertising process and the respective objectives of the different actors is accurate and corresponds with reality. In the second step we try to verify whether our assumptions about the interest in and the promotion of hybrid advertising holds true.

5. Method

Since we cannot access the contracts on actual advertising deals we have to resort on the willingness of the actors to share information about the work conduct and their motives. Thus we carried out a series of in-depth interviews with twenty senior executives in the advertising industry⁴. In our sample we incorporated representatives from all major actors involved in the advertising process: four companies that act as advertising principals, three advertising agencies, two media agencies, four media sales companies and finally seven broadcasters, commercial as well as public service. The survey period was from January to March 2005. The interviews were part of a larger research project which had a wider objective concerning changes in TV advertising. Research was carried out in Switzerland but since the advertising process and the respective constellations of objectives are the same in most countries the findings can be considered to be meaningful in other markets as well. Furthermore it should be noted, that by the time the interviews were conducted the legal framework in Switzerland resembled the regulation supposed for the revision of the television without frontiers directive. Thus the respondents were talking about hybrid advertising as a factual not about a fictive or semi legal option which would have been the case when doing the same study in Germany. However, the comparatively small advertising market share of TV (about 12 %) reduces the generalizability because Swiss advertising principals and agencies are used to employ other media on a regular and

⁴ The method of qualitative in-depth interviews allows us to reflect the judgments only of the interviewed persons. However, with a prudent selection of the experts, the statements can be generalised to a certain extent. Therefore we should consider our findings not as facts, but as well-founded trends.

ample basis. Anonymity has been guaranteed to the interviewees in order to allow for overt answers, since some experts were concerned about competitors gaining insight into confidential strategies. Thus we indicate the individual experts with a two digit code only (see Table 2). The first digit provides the respective industry actor; the second is a running number.

Table 2: Mapping of the Interviewed Experts

| Code | Actor |
|-------------------|----------------------------|
| 11 12 13 14 | Advertising principal |
| 21 22 23 | Advertising agency |
| 31 32 | Media agency |
| 41 42 43 44 | Media sales company |
| 51 52 53 | Public service broadcaster |
| 54 55 56 57 | Commercial broadcaster |

6. Findings

Following our research question, we have to clarify whether our theoretical description of the advertising process and the respective objectives of the different actors correspond with reality. Furthermore, we try to verify whether our assumptions about the interest in and the promotion of hybrid advertising holds true.

To do so, we asked the industry professionals about the experiences with hybrid advertising. The interviews show that the perceived capability to exert influence on the editorial content varies considerably between demand and supply side: on the demand side advertising principals identify less influence capabilities than most advertising sales companies on the supply side. This contrast can be illustrated with the quotes of two experts: whereas one interviewed advertising principal says “If you engage in a sponsorship, you want to act as a sponsor, and you don’t necessarily want to communicate an advertising message”(13), an expert from an advertising sales company puts it like this: “Sure, you always have this

ideal of journalistic expertise. But eventually it's the client who pays [...]. Each hybrid advertising format is an agreement with the client. If you don't respect this, the client is not interested in working with you" (44). In general, hybrid advertising tends to be perceived more effective by the media sales companies and the broadcasters than by the advertising principals. While a sales media company believes "with hybrid advertising you stand out from the crowd," an advertising principal is worried about losing control over his advertising messages. "With the advertising spot you can wrap up your message precisely as you like it. However, with the product placement you don't have the same level of control" (13). Moreover, media sales companies and broadcasters also tend to be better informed and more active in marketing hybrid advertising formats.

In the next step, we asked the experts which actor they consider to be the driving force of the development of TV advertising and new advertising formats, as it is likely that this development is being forced by the actor who benefits the most. Several experts state that foreign advertising markets and advertising principals acting on an international level would be driving the evolution of TV advertising. "The bigger part is borrowed from abroad, especially the US, and then adopted to the Swiss market" (51). Advertising principals are said to keep track of developments in foreign markets: "Advertising principles keep their eyes peeled and monitor the developments abroad" (11). Furthermore, several experts consider their own peer group as innovator determining the development of TV advertising. A media agency clearly identifies the media sales companies as driving force: "They are interested in offering new formats and try to raise interest among the advertising principles and media agencies. They try to generate higher spendings or sell new formats as an add-on to advertising spots" (31). However, the most interesting result is that broadcasters often directly collaborate with advertising principals when using hybrid advertising formats, without consulting an advertising agency or media agency. The reason for this is a lacking know-how among the agencies. One expert puts it as follows: "We are very often successful, when we directly approach a client about hybrid advertising formats, but we have very little success, when we approach an agency" (55). Another expert confirms this point of view when saying that all her experiences with media agencies ended in disappointment, since they kept talking about

classical advertising and did not open their mind to alternatives (53). Our theoretical assumption of a different advertising process for hybrid advertising, leaving out the agencies, thus seems to be confirmed by our interview partners.

Finally, we asked the experts about the potential consequences of hybrid advertising resulting from the blending of editorial content and advertising. Almost all experts from the demand side worry about an increased blending or integration, as it would endanger the credibility of the media – and subsequently also the credibility of the media as an advertising vehicle. “If the editorial context loses credibility, this rubs off on my own advertising message” (23). From the supply side perspective the evaluation is not that explicit: Media sales companies are willing to use hybrid advertising formats, some of them even in the context or within newscasts. These experts expect hardly any negative consequences for the audience, assuming that the consumer would be sufficiently mature in order to distinguish between advertising and editorial content, and that “this is an issue where journalists should be more open-minded” (43). In contrast, most experts from the broadcasters keep up the separation of editorial content and advertising. However, there are also some broadcasters that seem to be open-minded about hybrid advertising formats, from both private and public service. Or as one expert puts it: “That’s why hybrid advertising formats have to be realised attentively, cleverly, and at the right position” (57).

Summing up, the theoretical assumption of a different advertising process for hybrid advertising can be supported. Moreover the interviews show that the respective objectives of the actors involved lead to an inversed starting point with the broadcasters and their media sales companies as the initiators.

7. Discussion

According to our theoretical assumptions and our results, both advertising and media agencies do not function as intermediaries in the context of hybrid advertising formats the way they do in the advertising process of TV commercials. When it comes to new formats, the advertising principals are apparently dealing directly with the actors selling airtime.

However, this development should be interpreted as an intermediate step within the conversion of the advertising industry.

To this day, hybrid advertising is still lacking established, professional and institutionalized actors who organize and facilitate the whole process. Even if advertising agencies manage to be active as brokers of hybrid advertising they are likely to lose the job of implementing the creative strategy and the actual production of the advertising material. In the long run, two developments seem possible: The first option is that the established advertising and media agencies acquire the relevant know-how for hybrid advertising and broaden their business activities. The second option is that new placement agencies will emerge and therefore take over the role as intermediary for hybrid advertising.

However, it should be noted that the alternative advertising process we are discussing in this paper refers to hybrid advertising only. The depicted traditional process consisting of five distinct actors will remain unaffected concerning the TV commercial. Thus the agencies will not be rendered obsolete altogether, since the TV commercial is far from being substituted by new advertising formats and will keep its dominant position in commercial communication (von Rimscha et al. 2008).

8. Conclusion

The starting point of our paper was the advertising process of traditional TV advertising that has been consisting for a long time of five different actors with partially conflicting objectives. With the growing importance of hybrid advertising the question arises whether the hitherto well-known advertising process will persist or what changes will be likely. Our theoretical assumption is that the established actors benefit variably from hybrid advertising formats and that this situation will result in an altered advertising process for hybrid advertising.

Our findings based on in-depth interviews with industry professionals give reason to assume that hybrid advertising formats actually do not follow the traditional advertising process. With regard to those new advertising formats, advertising and media agencies may not act as important intermediaries. According to the interviewed industry professionals the driving forces of hybrid advertising are internationally operating advertis-

ing principals, advertising sales companies and broadcasters. However, the demand side (advertising principals) is to some extent more concerned of the potentially negative consequences for the audience caused by hybrid advertising than the supply side is (media sales companies, but also some broadcasters), fostering our assumption that the starting point of the advertising process for hybrid advertising could be reversed, putting the broadcasters and especially their media sales company at the initial point – at least as long as the conversion of the advertising industry is in progress and new intermediaries have not been established yet.

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