Why there is still life in the old TV commercial

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It is all over for television advertising, apparently. Sky+ viewers are spooling through the ads at breakneck speed, advertisers are piling into the internet, and practically all the under-35s are so busy with their Xboxes, PSPs, iPods and blogs, they don't have any time left to watch TV. The traditional model for funding commercial television is collapsing, we are told. Run for the hills! (Or at least get Ofcom to allow product placement.)

As is its wont, the TV industry is getting its airwaves in a twist somewhat prematurely. To misquote Michael Winner slightly, calm down, dears. For a more balanced assessment of the long-term prospects for advertiser-funded TV, it's worth going back to basics, starting with the overall market for traditional media advertising - broadcast, print, posters and cinema.

Over the long term, total marketing expenditure is likely to grow at least as fast as, if not faster than, the economy as a whole: say 2%-3% a year in real terms, or perhaps a bit more. Because of the steady shift of resources into other marketing activities, especially interactive marketing, expenditure on traditional media advertising is likely to grow more slowly than this, but unlikely to decline in real terms - or at least, to fall significantly - any time soon.

What will happen to television's share of this roughly steady total advertising market? For many years, TV gained share at the expense of print media. More recently, its share has been fairly steady because of audience fragmentation and new competition from posters and radio. These threats were, if anything, decelerating - but now there's the new threat from PVRs like Sky+.

No one knows how much PVRs will reduce TV advertising expenditure. I'm working with Sarah Pearson of research consultancy ACB on a detailed qualitative study of second-by-second audience behaviour in eight PVR homes. This is still work in progress but it is already clear that viewers give partial attention to commercials both when they fast-forward (especially at low speed) and while watching them "live".

They also pay more attention to commercials they have seen before and to brands they consider relevant. We should be able to make much more informed judgments within six to 12 months, but my hunch is that the impact on TV advertising may be both slower and less dramatic than most people have assumed. I hope Thinkbox, the marketing body for commercial TV, also has this on its agenda. Traditional spot advertising is certainly a mature market, but it is unlikely to decline significantly in the next 5-10 years. And it's extremely unlikely to collapse in the way the digerati have long forecast.

At the individual business level, you also have to look at the performance of individual channels. Consider ITV. Right now, ITV is making a lot of money because of cost savings from the merger between Granada and Carlton, generous treatment by Ofcom and the Treasury, the good performance of new channels such as ITV2 (partly compensating for the weak performance of ITV1), and because ITV1 has managed to sustain its advertising price premium. The main threat it faces is the prospect of ITV1 continuing to haemorrhage viewers. But this is an ITV1 performance issue, not the underlying business model. Similarly, Channel 4 is making money because its channels are performing well and have relatively good demographics.

In considering future performance, the other factors to consider are costs, new revenue sources, and regulation. On costs, the picture is mixed: the cost of programmes and other content as a whole may be going down, but the cost of prime content (peak-time drama and entertainment, for example) seems likely to continue rising, although maybe not as fast as over the past 10 years.

On revenue sources, there are many opportunities. First, the terrestrial broadcasters are going multichannel, opening up new streams. (Interestingly, because of the success of Freeview, the trend is to start channels like ITV2, 3, and 4, E4 and More4 based on the traditional advertising business model, which is supposedly on its last legs). Secondly, there are potential opportunities through old media, such as premium-rate phone calls, and newer platforms, such as the internet, interactive television, and mobile. It will take time to discover which will generate worthwhile revenue above their incremental costs, but some applications such as gaming and gambling look promising.

Which brings us to regulation. There is no doubt that the regulation of commercial TV will need to evolve; the key question is how urgently. There were predictable howls of British press outrage when the EC information and media commissioner, Vivian Reding, announced a proposal to relax the product placement rules last week - although the wheels of European bureaucracy grind slowly and this is still an early stage.

To my mind, the case for urgent change is unconvincing. There is a lot of uncertainty about the long-term prospects for traditional advertising-funded television, but let's not talk ourselves into a crisis of our own making.

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