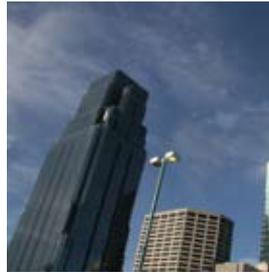
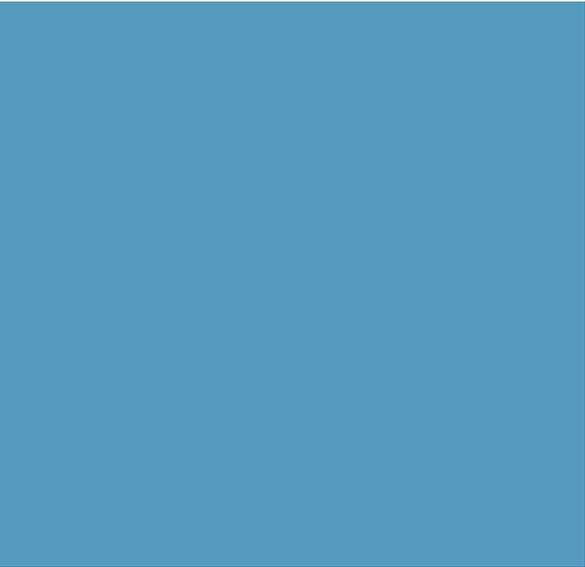


# For VOD Advertising, the Future Starts in Kansas

Independent cable company Sunflower Broadband is  
leading the way toward a TV advertising revolution



# The Story:

## Setting the Table for Dynamic VOD Advertising

*"It's (VOD advertising) a per-impression model where people get accountability and have the ability to target, like they do with Google. Except it's video, it's right in front of the TV, and you know that people watched it. The revenue potential is so large."*



- Patrick Knorr,  
General Manager,  
Sunflower Broadband

Patrick Knorr has always been one to embrace new technology. In February 2005, Sunflower Broadband's general manager guided the launch of the Kansas-based independent cable operator's on-demand service, roughly the same time frame operators with 10-100x more subscribers were beginning to introduce video-on-demand (VOD). Aggressive from the get-go, "Sunflower On Demand" debuted with over 1,000 hours of movies and television programs.

While the service continued to attract more interest and streams from the operator's digital subscribers, Knorr and Sunflower's management team weren't satisfied. Convinced there was more to Sunflower On Demand than simply reducing churn and staying ahead of the competition, the operator trialed SeaChange's AdPulse™ On Demand Ad Insertion System to determine if there was potential to increase ad inventory, generate non-traditional revenues and acquire new advertising clients.

"I wasn't sure initially if a system of our size, without network partnerships, could make it work," says Knorr. "It was a matter of scalability. I didn't think there'd be enough advertising possibilities, and I wasn't sure of the return on investment. As we went through that trial period and worked with local advertisers, I was amazed at how main street businesses embraced the concepts. They wanted to be a part of it."

Just 18 months after deploying VOD, Sunflower Broadband broke new ground in advertising when it launched the world's first dynamic VOD advertising insertion business.

Knorr says dynamic VOD advertising has allowed Sunflower to enjoy dramatic increases in CPMs (cost per thousand), as advertisers have paid Sunflower CPMs at least 10-50 times higher than rates prevailing in Sunflower's traditional linear TV-advertising inventory. Coincidentally, the operator has recorded incremental revenue gains of roughly 4 percent, year-over-year, from dynamic VOD advertising.

Sunflower has also elevated its advertising revenue through VOD both by recruiting new-to-cable advertisers – about 10 percent of its VOD clients are new – and by selling more inventory to existing advertisers. That inventory is expected to grow as the operator is negotiating with a handful of national cable TV networks to insert local commercials within network VOD programming.

Knorr is convinced VOD advertising will emerge as a game-changing attribute of the cable industry. Having experienced the benefits of highly targeted and highly measurable advertising on the Internet, advertisers are certain to demand similar quality for television, Knorr believes.

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[http://www.schange.com/Downloads/Advertising/AdPulse\\_BR.pdf](http://www.schange.com/Downloads/Advertising/AdPulse_BR.pdf)





## Operator Profile

- Independent cable operator based in Lawrence, Kan.
- Serves 31,000 subscribers

## Business Focus

- Looking to generate non-traditional revenue from its VOD service, Sunflower Broadband broke new ground in advertising in June 2006 after launching the world's first dynamic VOD advertising insertion business.

## SeaChange Solutions

- SeaChange AdPulse™ On Demand Ad Insertion System Results
- In less than one year, Sunflower's adoption of next-generation ad technology dramatically increased its local ad revenues and client base.

# 80

80 percent of VOD viewers are watching ads all the way through

**A** slumping U.S. economy and rising consumer worries about gasoline prices have created big challenges for U.S. domestic auto dealers. Yet in the picturesque college town of Lawrence, Kansas, the locally owned Crown Automotive dealerships have managed to dodge a downturn that has lingered over the entire retail auto category. "Don't tell anybody, but we're having a great year," says general manager Dale Backs.

Backs isn't certain why his Crown Chevrolet and Crown Toyota dealerships are outperforming the sector at large, but he does know at least part of the credit goes to a novel new advertising approach that has helped to bring buyers into his dealerships, where a longstanding tag line promises that it's "Always 70 degrees and sunny."

Since early in 2007, Crown Automotive has been among the Lawrence-area advertisers that have begun to showcase their products through a video-on-demand (VOD) advertising platform offered by the city's cable telecommunications provider, Sunflower

Broadband. One of the first full-scale VOD advertising deployments in the U.S., the Sunflower service lets advertisers like Crown Automotive take advantage of a cable television technology that has achieved significant presence across the nation.

According to research from the investment firm Merrill Lynch, more than one-fourth of U.S. households now have access to VOD platforms that let viewers choose to watch from hundreds of TV shows and movies whenever they wish, and to apply a full range of VCR-style controls, like pause, rewinding and fast-forwarding (but without the VCR). While VOD is increasingly popular as a program-delivery service, its availability to advertisers has lagged its broader presence as a consumer offering. But that's beginning to change as forward-thinking cable companies like Sunflower Broadband and partners like SeaChange International figure out ways to integrate advertising into the promising and aggressively growing VOD medium.

In Lawrence, VOD advertising is taking shape in two different and complementary ways. One feature Sunflower Broadband has introduced well before many of the nation's larger cable companies is "dynamic" VOD advertising. It's a technique that allows commercials to be stitched on-the-fly into the programs selected by VOD viewers at home. Advertisers and media planners are excited about the potential for dynamic VOD ad-insertion because it changes fundamental qualities of TV advertising in ways that could benefit advertisers.

For example, one possibility tied to dynamic VOD advertising is to place different versions of commercials into requested program feeds (or "streams," in industry parlance) depending on which household is requesting them. A young family with children might see a commercial for a mini-van, for instance, while across town a different household that has requested the same VOD program might get a commercial for a luxury sedan. Advertisers also like the fact that with dynamic VOD insertion, they can change the content of their commercials based on viewer reactions or market circumstances.

Imagine an airline that decides to promote sunny beach destinations the moment the weather turns cold. With dynamic VOD advertising, it's possible to change the rotation of commercials appearing in VOD streams across selected locales almost immediately.

The second adjunct to VOD advertising is an increasingly familiar option that allows ad-

vertisers to present longer-form commercials within a VOD platform. By pressing a few buttons on their TV remote controls, viewers in Lawrence can select and watch any of the dozens of videos Crown Automotive has produced about its line of Toyota and Chevrolet vehicles. Lasting about three minutes and hosted by Crown's own salespeople, the videos offer lingering, detailed mini-tours of cars Crown sells. Unbound by the traditional 30-second limits around most TV commercials, Crown lets the cameras roam freely around the exterior and interior surfaces of its vehicles.

But the unique production values are only part of what makes the advertisements effective, says Backs. He says the VOD ad campaign works because it turns the tables on the traditional TV advertising equation: Rather than intruding without invitation into the programs viewers happen to be enjoying, Crown's advertisements are seen only by viewers who willfully choose to watch them. That means Backs can be relatively certain the people watching his VOD ads have a keen interest in knowing more about the vehicles – and potentially coming in for a test-drive. "These are people who are actually interested in your product," he says. "You're not trying to overwhelm them with a commercial."

That same realization has led dozens of Lawrence advertisers to latch onto the new VOD advertising platform offered by Sunflower Broadband, an independently owned cable operation that has beaten larger cable



# 60-90

All programs sold out 60-90 days in advance;  
 Programs sold out through 2008 as of June 2007

companies to the dynamic VOD advertising punch. Since it first began a trial deployment of VOD-enabled advertising in June 2006, Sunflower has turned the riverside town of Lawrence into one of the nation's first commercially deployed markets for a form of TV advertising some experts believe will transform the medium.

In launching its VOD advertising service, Sunflower Broadband has done more than just showcase the possibilities of the platform. It has also produced a solid return on investment and earned fresh profits from incremental ad-spending derived from local advertisers that are sold on the new medium.

## Dynamic CPM gains

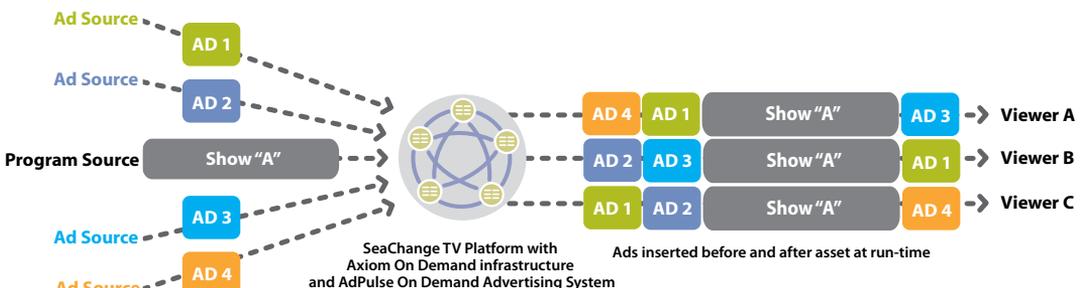
Patrick Knorr, the general manager of Sunflower Broadband, says the VOD advertising capability has allowed Sunflower to enjoy dramatic increases in CPMs, or the rates Sunflower charges its advertisers to reach viewers. Advertisers ranging from the auto category to home-improvement retailers

have paid Sunflower CPMs that are at least 10 times higher – and in some instances 50 times higher – than rates prevailing in Sunflower's traditional linear TV-advertising inventory, Knorr says. That's because the VOD presence affords them a unique attribute in television advertising: certainty that the audience is interested in their products.

Knorr, a former salesman for a Kansas Internet service provider, believes the VOD ad platform marries the targeting capabilities of modern-day Internet advertising with the persuasive appeal of full-motion, big-screen television. "It's a per-impression model where people get to target, like they do with Google.com, and get accountability, like Google offers. Except it's video, it's right in front of the TV, and you know that people watched it," he says.

Sunflower Broadband combines on-demand access to commercial messages with a behind-the-scenes database that churns out precise information about how many times advertisers' messages are requested by viewers.

## Workflow of the SeaChange AdPulse On Demand Advertising System



*“These (long-form on-demand ad viewers) are people who are actually interested in your product. You’re not trying to overwhelm them with a commercial.”*

*-- Crown Automotive GM  
Dale Backs*

That takes much of the guesswork out of TV advertising. Rather than rely on ratings calculations that estimate audience levels for traditional TV channels, Sunflower’s VOD infrastructure tells advertisers exactly how many people watched. “I can tell you exactly how many people watched, and how many people fast-forwarded through your commercial. The good news is that 80 percent watch them all the way through. We’re just scratching the surface in terms of targeting and reporting,” he says.

Knorr is also getting results for his own company. In a trying year for television advertising nationally, Sunflower Broadband has recorded incremental revenue gains of roughly 4 percent, year-over-year, from dynamic VOD advertising. Based on the higher income levels and cash generation associated with them, Knorr expects to pay back his capital investment in the technology required to offer advanced VOD advertising capability within 12 months, despite operating in a relatively small media market where the pool of local advertisers is limited. “We feel very comfortable even with a system of our size that ROI exists,” he says. Sunflower has elevated its advertising revenue through VOD both by recruiting new-to-cable advertisers – about 10 percent of its VOD clients are new – and by selling more inventory to existing advertisers. Crown Automotive’s Backs, for example, says he reduced the

amount of advertising money he spends with newspaper and radio outlets in order to allocate more of his budget to local cable, and to VOD advertising in particular. “We’re like most other people; we’ve had to shift our budgets based on what we think we should be doing,” says Backs.

The upside is apt to broaden as Sunflower works to increase the range of its VOD advertising inventory. Beginning in 2007, the Kansas cable company began negotiating with a handful of national cable TV networks to allow Sunflower rights to air local commercials within some of the VOD-enabled programs those networks offer. As more of those rights contracts are completed, Sunflower will have more VOD advertising time to sell. That will help solve a problem that many cable companies would love to have: more demand than there is supply. “In most cases we’re selling out all of our VOD,” says Knorr. Some programs have been sold out through 2008, more than a year after Sunflower introduced the advertising capability.

The dynamic-insertion capability allows Sunflower to match selected commercials with VOD programs selected by viewers using a highly nimble, on-the-fly marriage of digital video storage and intelligent

## Other Sunflower Broadband Dynamic On-Demand Ad Highlights:

-- 4 percent ad sales revenue increase

--10 percent client base increase



AdPulse On Demand Advertising System

# 75,000

More than 75,000 ads placed January to April 2007

software. When a viewer at home requests an episode of a particular on-demand cable program, for example, the Sunflower systems instantaneously stitch into the requested episode a TV commercial that appears just before the program begins. Again, the appeal of the dynamic-insertion approach is that it allows advertisers to explore matching up different ads with different genres of programming, or even varying demographic attributes associated with households where the program will appear. Also, Sunflower is exploring interesting marriages of dynamic VOD insertion with the sort of long-form advertising showcase Crown Automotive employs. In that scenario, dynamically inserted VOD ads invite viewers to roam over to the longer-form messages for more information. Sunflower Broadband made headlines in national business publications in 2006 when it staged one of the industry's first trials of dynamic VOD insertion in association with MTV Networks Inc., the movie studio Paramount Pictures, and the advertising agency Mediaedge:cia.

Supporting the 2006 dynamic insertion trial, and the ensuing commercial introduction

of on-demand advertising, is SeaChange International Inc., which supplies to Sunflower an enabling technology called AdPulse. It's a bridge between a cable company's core VOD platform and its advertising insertion infrastructure. Historically, the two systems have operated independently: VOD technology has been devoted mainly to delivering TV programs and movies to viewers on request. Separately, cable companies for years have used digital-video ad systems to store and insert TV commercials into linear cable channels like ESPN or USA Network. SeaChange's AdPulse system harmonizes the two platforms so that local advertisements can be woven seamlessly into VOD programs, with the transitions between program content and advertising virtually indiscernible.

## New flexibility

Over time, the vision is that highly targeted advertisements can be identified, selected and instantly stitched into VOD program streams in the same way that banner and text advertising currently is inserted into Web pages requested over the Internet. Dynamic VOD insertion also promises to deliver new flexibility to advertisers. Based on

*"It's (VOD advertising) a per-impression model where people get to target and get accountability, like Google offers. Except it's video, it's right in front of the TV, and you know that people watched it." -- Sunflower's Knorr*

precise indications of viewership or consumer responses to commercial offers, advertisers can change out their commercial content for VOD streams nearly instantaneously by using campaign management software that integrates with cable VOD operations. In the Paramount Pictures trial, for instance, media buyers could use a secure Web interface to provide instructions on which advertisements for a current movie they wanted to air within upcoming VOD program requests. "They changed copy literally every day," says Sanjiv More, the SeaChange director who works shoulder to shoulder with Sunflower Broadband. According to Michael Bologna, senior partner and director of Emerging Communications at Mediaedge:cia, the trial broke new ground. "This technology allows us to adjust our messaging strategy pre- and post-release, as well as monitor viewership on a daily basis – which greatly improves the utility of VOD as a media vehicle," he said.

The Sunflower Broadband deployment proved not only that dynamic VOD insertion works, but that the right technology can weave appropriate advertisements into VOD program streams regardless of the brand of underlying technologies cable companies use. In Sunflower's case, for instance, SeaChange's AdPulse system was integrated with a linear ad-insertion platform provided by a competitor.

To SeaChange's More, Sunflower Broadband represents a small cable company that thinks big. "They were probably a little ahead of the curve," he says. "Sunflower has always been on the cutting edge. Thinking and acting bigger than they truly are in order to compete."

To be sure, Sunflower's move into VOD advertising has been fostered in part by the company's access to a rich array of locally produced programming. Locally produced TV shows like "Jayni's Kitchen" and "River

**Sunflower CPMs are at least 10 times higher – and in some instances 50 times higher – than rates prevailing in Sunflower's traditional linear TV-advertising inventory**

*“This technology allows us to adjust our messaging strategy pre- and post-release, as well as monitor viewership on a daily basis - which greatly improves the utility of VOD as a media vehicle.” -- Ad Agency Director Michael Bologna*

City Weekly” are produced for Sunflower by an affiliated TV production outlet, and give the cable company ready access to VOD content that doesn’t require difficult rights negotiations. Even so, as Sunflower is proving through its alliances with national cable channels, it’s increasingly possible to secure rights to integrate local VOD advertising within cable TV programs provided by national networks.

In fact, the growing range of content available for VOD ad-insertion, plus favorable ROI calculations associated with the underlying technology, have left Sunflower’s Knorr puzzled. He says that if the 30,000-subscriber Sunflower Broadband can produce profits with local VOD advertising, larger cable companies ought to be able to do even better. “I totally agree we have a head start in terms of systems our size, but I remain baffled larger operators have not blown this out in a major way,” says Knorr. “We feel very comfortable even with a system of our size that an ROI exists.”

Even so, Knorr is convinced VOD advertising will emerge as a game-changing attribute of the cable industry, one that dovetails with growing advertiser demands for measurable, accountable results. Having experienced the benefits of highly targeted and highly measureable advertising on the Internet,

advertisers are certain to demand similar qualities from television, Knorr believes. He says cable’s two-way networks are perfectly suited to deliver them – with some help from technology innovators that support the VOD advertising revolution.

“We’re still a couple of years away from that full vision, but I think it will occur. And SeaChange is well positioned for that next evolutionary step in pulling all those elements together into one experience,” Knorr says. “That’s the ultimate goal for consumers and advertising: a unified platform that’s serving to the Web, serving to VOD, and providing an interactive interface through all those channels. That is the future of advertising.”

## Dynamic Ad Insertion into VOD

Feature	Benefit to Operator	Benefit to Advertiser
Separate ads and content	<ul style="list-style-type: none"> <li>• Ingest, manage, and update ads independent of content</li> <li>• Update ads by only re-ingesting the ads</li> </ul>	<ul style="list-style-type: none"> <li>• Lead times are dramatically reduced, from weeks to minutes</li> <li>• Refresh is fast and easy</li> <li>• Update on the fly or on a schedule</li> </ul>
Ad placement decisions at payout	<ul style="list-style-type: none"> <li>• Support ad targeting and copy rotation</li> </ul>	<ul style="list-style-type: none"> <li>• Rotate copy with no limit to the number of different executions</li> <li>• Target by geographic, demographic, and viewing characteristics</li> <li>• Refresh quickly and easy</li> <li>• Update on the fly or on a schedule</li> </ul>
Ads spliced into content using smooth-splicing	<ul style="list-style-type: none"> <li>• Users see no disruption in the viewing experience</li> </ul>	<ul style="list-style-type: none"> <li>• Transitions into and out of ads look great</li> </ul>
Ads tracked separately and precisely	<ul style="list-style-type: none"> <li>• Offer detailed reporting on ad viewing and ad trick mode usage</li> <li>• Track ads without interpreting timecodes to identify them in a stream</li> </ul>	<ul style="list-style-type: none"> <li>• No gaps in measurement</li> <li>• Better data to analyze effectiveness</li> </ul>

*“I can tell you exactly how many people watched, and how many people fast-forwarded through your commercial. We’re just scratching the surface in terms of targeting and reporting.” -- Sunflower Broadband GM, Patrick Knorr*



## Look Back: Sunflower Broadband and MTV Networks' Dynamic Ad Campaign

In September 2006, Sunflower Broadband and MTV Networks launched a market-leading campaign to dynamically insert national advertisements into on-demand cable television. The first campaign, created and managed by the agency Mediaedge:cia, promoted the theatrical release of Paramount Pictures' and MTV Films' major motion picture "jackass number two." Ads for the movie were inserted into Comedy Central On Demand programs at the moment viewers requested the free on-demand shows. Using integrated on-demand and advertising technologies from SeaChange International, ad copy was changed out at various times before and after the film's premiere, ensuring the content remained fresh and delivered maximum impact.



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