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## WHY INTERACTIVE TELEVISION HAS NO FUTURE

### A Look Back at Three Decades of Failed 'Convergence' Attempts

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By [Al Ries](#)

What are the three biggest, most exciting, most dynamic industries in America? Many people would say computers, TV and the Internet.



Qube was the start of the grand vision of interactive TV. Twenty-seven years later we're still waiting for the vision to work.

Great, why not combine the Internet with your TV set and your computer? And so the cry goes up, interactive TV, the wave of the future.

Some wave. In spite of decades of hype, interactive TV has gone nowhere.

#### 27 years ago: Qube

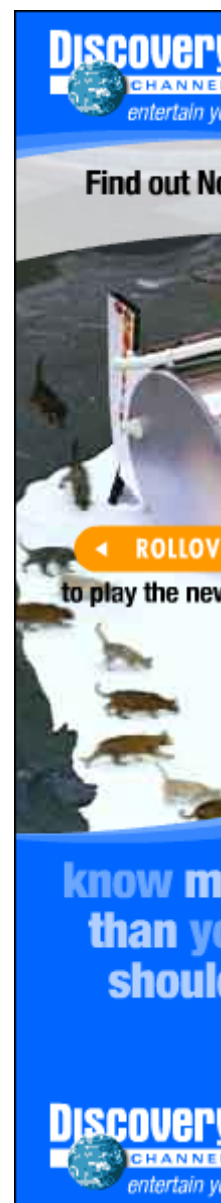
It was almost 27 years ago that the world's first commercial interactive TV service opened for business in Columbus, Ohio. Called Qube, the service offered 30 channels of TV

divided equally between 10 broadcast channels, 10 pay-per-view channels and 10 channels with original interactive programming.

Built by Warner Communications, the system cost \$23 million to install plus the \$200 cost of a set-top box for each of Qube's 50,000 subscribers.

The publicity was enormous. Warner Qube rapidly earned contracts to build similar 30-channel systems in Houston, Milwaukee, and the suburbs of Chicago and St. Louis, as well as 60-channel systems in Cincinnati, Dallas and Pittsburgh. Since the systems were expensive to install, Warner brought in American Express as a partner in 1980.

Four years later, American Express withdrew and the Qube systems closed one by one. The last Qube boxes were phased out in 1994, which coincidentally was a year when Warner was developing another



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interactive TV service in Orlando, Fla., called the Full Service Network.

## Flawed concept

Interactive TV has no future because it's based on a flawed concept called convergence. Yet many of America's largest and most successful companies are pouring billions of dollars into convergence concepts.

In 1997, Microsoft bought WebTV Networks for \$425 million and has since poured more than half a billion dollars into the venture. Results have been dismal. Today, WebTV (whose name has been changed to MSN TV) has about 1 million subscribers, a trivial number compared to the more than 100 million TV sets in use.

Also in 1997, Microsoft invested \$1 billion for 11.5% of Comcast Corp., at the time the nation's fourth-largest cable operator. According to *The New York Times*, "Comcast will become a seedbed for Mr. Gates to test his vision of a converging world."

But that was just a start. In 1999, Microsoft pumped \$5 billion into AT&T and secured a contract to install its TV software in as many as 10 million AT&T set-top boxes. Not a single box made it to the top of a TV set serviced by an AT&T cable system and since AT&T is now out of the cable business, the contract is just another convergence dead end.

## Microsoft keeps trying

Microsoft keeps trying. After the lukewarm reception to WebTV, Microsoft moved on to UltimateTV. Putting a clock together with a radio is nothing compared to what Microsoft has in mind for today's couch potato.

What can you do with UltimateTV? Everything, it's the ultimate in TV. You can record and store up to 35 hours of programming. You can pause and instant replay live TV. You can watch and record two shows at once. You can send e-mail and chat online while watching TV.

Fred Allen once said that TV is 85% confusion and 15% commission. UltimateTV may turn out to be 100% confusion. "If programming the clock on the VCR gives you a migraine," reported *Fortune* magazine, "UltimateTV will trigger a full nervous breakdown."

Another strong supporter of convergence is America Online. Even before its Time Warner merger, the company invested \$1.5 billion in Hughes Electronics and got a deal to launch AOLTV on its DirecTV satellite service. In July 2000, AOL rolled out its AOLTV service, a \$249 set-top box that allows users to send instant messages, read e-mail, chat online and surf the Web while watching a TV show. AOL subscribers, who now pay \$21.95 a month, would fork over an additional \$14.95 for AOLTV.

For all that money what could you actually do with AOLTV? *USA Today* imagined it this way: "Imagine lying on a sofa, watching a program produced by *Cooking Light* magazine on your wall-size plasma television. AOL-Time



WebTV became MSN TV after Microsoft bought the Internet-based interactive TV company in 1997. Half a billion dollars later, results are still dismal.

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After a failed attempt at interactive TV, AOLTV recently closed its operations.

Warner serves up a digital version of the recipe. You send the recipe to your refrigerator; it knows you need milk, which it orders online."

#### **A onetime holy grail for AOL**

*USA Today* calls interactive TV "the holy grail for AOL Time Warner. It will eventually enable TV viewers to communicate, shop, play games, call up information and order news and entertainment on demand from the TV screen." (It might be churlish of us to point out that in 2,000 years no one has ever found the holy grail.)

As you might have expected, AOLTV is now on hiatus and is no longer accepting new subscribers.

The convergenists keep trying, however.

"People do not want to be passive when they watch TV," says Nicholas DeMartino, the director of new media ventures for the American Film Institute. "Old people want to be passive. Young people do many things at once, from looking at the Internet to talking on the phone, while they watch television."

The old people we know often read a magazine while they watch TV. But they don't necessarily want the magazine on half the screen and the TV program on the other half.

#### **Sacrificing simplicity**

Nor do young people necessarily want to combine TV with the telephone and the Internet just because they might be using several devices at once. You pay a price when you try to put things together. And the price is usually a sacrifice of simplicity and flexibility.

"We believe in interactive television," says Rich Mandler, general manager of ABC's Enhanced TV group, "because it encourages live TV and live commercial viewing." Give consumers something active to do during a scheduled show, the reasoning goes, and they will watch it, commercials and all.

That's the hype, but the reality is different. The Internet is an active medium. Nothing happens until the user clicks away at a computer keyboard. Interactivity is an essential element of the Internet experience.

#### **Mixing media**

TV, on the other hand, is a passive medium. Convergence is fundamentally a flawed concept, but it's even worse when you try to put an active medium (the Internet) together with a passive medium (television.)

In four years, Forrester Research predicted, interactive TV would be a \$20 billion business. Also in four years, Alex Brown of Deutsche Banc predicted, t-commerce (buying stuff over the TV) would surpass e-commerce (buying stuff over the PC).

Of course, both predictions were made four years ago.

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*Al Ries is the author or co-author of 11 books on marketing, the most*

recent of which is The Fall of Advertising and the Rise of PR. He and his daughter Laura run the Atlanta-based marketing strategy firm Ries & Ries.

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