Online - Video Ads Show Slower Growth.

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TV networks have long hoped digital dollars would help offset declines in traditional ad spending, but now even online video is showing some signs of faltering amid the recession.

General Electric's NBC Universal, at an investor conference last week, warned of a slowdown in ad spending on high-end Internet video. The company's NBC broadcast network streams many of its shows online, both on its own Web site and through Hulu.com, the sixth-most-popular video Web property, according to market tracker comScore Inc.

"The most surprising thing to us is how fast the digital marketplace has come to a standstill in the fourth quarter," said Jeff Zucker, chief executive of NBC Universal, during the conference.

Online video is still expected to be one of the highlights of the digital-ad market. When it revised its forecasts for U.S. online ad spending earlier this month, research firm eMarketer predicted that online video-ad spending by U.S. advertisers would grow 45% to $850 million in 2009.

By contrast, Bernstein Research forecast last month that total TV advertising would fall 1.9% this year, and another 5% next year, to $65 billion for 2009.

Despite its small footprint, online video has gotten advertisers excited, as they shift dollars to the Web to keep pace with the amount of time consumers spend watching videos there. But the eMarketer forecast is down from earlier projections of 49% growth and, as the recession forces marketers to scrutinize every penny, no area is immune.

Hulu, a joint venture of NBC Universal and News Corp., which offers programming from NBC, Fox and other networks, says its overall revenue is growing month to month, and that revenue per minute of video watched grew in November from October. But while advertising on the site was sold out as recently as August, it is no longer. (News Corp. also publishes The Wall Street Journal.)

"Clearly the environment today is different than it was four months ago," says Hulu Chief Executive Jason Kilar, adding that the venture "will be ahead of plan for 2008."

The slowing growth in video advertising also highlights some of the obstacles that threaten to keep the sector from reaching the lofty heights its popularity has suggested. Some media buyers say premium online video entertainment is still too difficult to buy, the rates are too high and the audiences are too small.

The industry has yet to settle on a single ad format, so marketers have to change the technical details of their ads to fit the specifications of different sites.

"There still is a lot of inefficiency," says Adam Shlachter, senior partner and group director at WPP media-buying firm MEC Interaction.

In particular, media buyers question whether the prices TV networks charge to advertise next to their top-tier online attractions are worth it. Rates are around $40 per thousand views, which can be more expensive than buying ads on conventional TV.

These rates are left over from a time when major marketers stuck with TV-network Web sites as safe, predictable outlets on the online frontier. They were hesitant to advertise with Internet companies that relied on user-created video, which could range from cute to wildly inappropriate.

That is starting to change, as Internet companies produce higher-quality content and new models for advertising. Marketers increasingly are working with companies like Broadband Enterprises and BrightRoll that can create original entertainment, as well as compile and resell the ad space of multiple partners. This lets the marketers buy ads to appear before bigger audiences at cheaper rates.

Meanwhile, some TV networks are distributing their programs on an array of sites to expand the audience they sell to advertisers. CBS says growth in online-video ad spending across a panoply of sites -- including Time Warner's AOL, Microsoft's MSN and its own CBS.com -- is outpacing the growth of the audience.

CBS says it expects fourth-quarter ad-revenue growth from online video of its network programs to be in the high double digits, compared with a year earlier, but that it's too early to forecast the first quarter of 2009.

"The market's challenged," says Neil Ashe, president of CBS Interactive. "But we're outperforming what I expected us to do in the fourth quarter given the economic environment."

ABC, a unit of Walt Disney Co., says its fourth-quarter online-video ad revenue is up from a year earlier, but it is tempering its expectations for 2009 given the weak economy.

Unilever, a top-spending marketer, says it is continuing to shift more ad dollars to digital, and that online video is an important part of its strategy. The consumer-product giant spreads its ad dollars across both the traditional TV networks and Internet companies.

"There is a lot of quality content that is not coming from the networks at this point," says Rob Master, Unilever's director of media for North America.

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