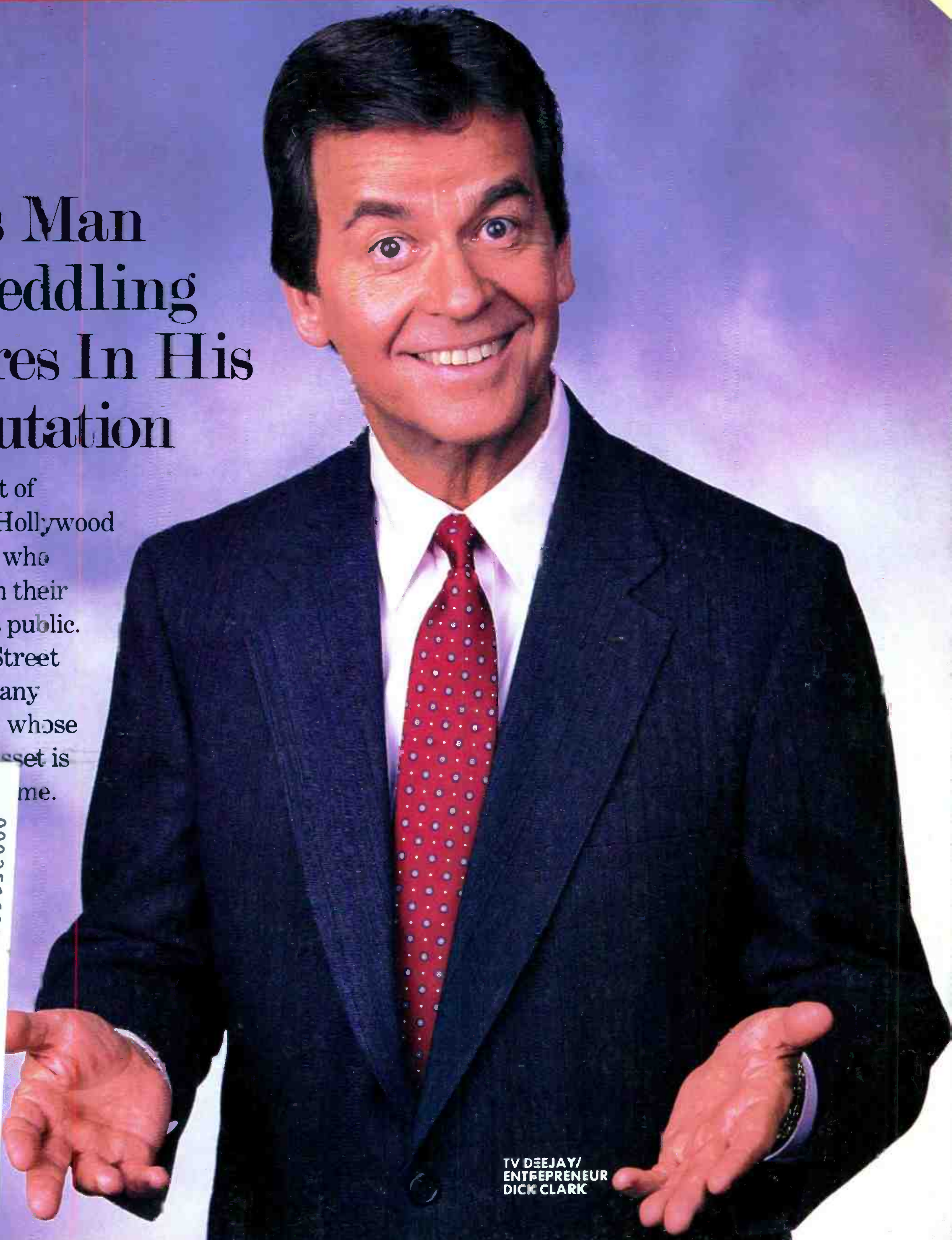
The Ten to Watch in Cable

CHANNELS

MAY THE BUSINESS OF COMMUNICATIONS 1987

Marketing/Promotion: WINNING IN NASHVILLE



This Man Is Peddling Shares In His Reputation

So are a lot of other hot Hollywood producers who have taken their companies public. But Wall Street is leery of any enterprise whose principal asset is ...me.

The Worl
Growing Fl

You could say that business at HBO® and Cinemax® is shipshape.

But, quite frankly, it would be an understatement.

The fact is, business is booming around here: HBO and Cinemax gained 800,000 subs in 1986 — more than any other two broad-appeal pay services combined.

And our fleet's *still* growing.

Why are subscribers signing on in record numbers?

Particularly at a time when most other broad-appeal services have, well, lost their appeal?

One big reason is our title volume.

HBO®/MAX® delivered a tidal wave of titles in '86 — the most in the pay industry.

And if first quarter '87 is any

d's Fastest
eet of Subs.

indication, America's number one twosome will break another title record this year.

With HBO/MAX delivering the box office hits, the highest movie volume and the hottest exclusive programming — it's no wonder you're winning new subs.

What's more, we're keeping them won over with unsurpassed variety that gives them unparalleled choice.

And we're making sure your subs increase by offering the kind of full-service marketing that's aggressive, effective and proven.

Indeed, the strongest in the industry.

After all, a fleet that's growing this fast deserves the best support on earth.

HBO®
Cinemax®
Pay TV's Number One Twosome

CHANNELS

THE BUSINESS OF COMMUNICATIONS

VOL. 7, NO. 5 MAY 1987

46 With cable's competitors talking tough, why is Jim Mooney smiling?

Cover photograph: Aaron Rapoport

MARIAN WRIGHT EDELMAN
President, Children's Defense Fund

I think that we obviously have to find ways,
all of us, in all of our capacities,
to strengthen families—to strengthen family interaction.

And television can play an enormous role in encouraging
parental confidence and parental communication
with their children. Teaching through entertainment
about the problems that American families

of all different types and varieties now face,
I think is—both a challenge for television,
and opportunity for television, and
a responsibility for television.

NBC. Tuned In To America.™

EDITOR'S NOTE

The Ten to Watch

Unlike broadcast television, which operates in a firmly developed business system, cable television is young enough as an industry still to be affected by the actions, ingenuity and sheer derring-do of individuals. Gutsy entrepreneurs such as Ted Turner, Bill Daniels and Chuck Dolan, visionaries such as Irving Kahn and Gerald Levin, and such financial swashbucklers as John Malone and Amos Hostetter were able in some measure to alter cable's course in times past. In this still evolving industry, a persistent pioneer spirit continues to bring to the fore dynamic and imaginative people who can play a significant part in the medium's development through the '80s and '90s.

As it puts in focus the present state of cable, this issue of *Channels* spotlights ten of the people to watch in the coming year, the people most likely to exert an influence—positive or negative—on the industry's immediate future. Some, in fact, may also prove the shapers of its long-range future.

The selections, from a field about four times as large, thanks to recommendations by prominent members of the industry, were made by the editors of this magazine in a series of deliberations. Because cable has so many facets upon which forces of change can operate—programming, advertising, finance, technology, public policy and law—we sought a broad cross section in our choices. We also based our decisions, at least in part, on the potential of these individuals for imminent influence.

Bear in mind, this is not a list of the ten most likely to succeed—many may indeed fail. Rather these are the people to watch because, in our view, they may make a powerful difference in where cable goes from here.

And speaking of those who may make a difference, there is also another to watch—this very magazine. As we go to press, *Channels* is a finalist for the National Magazine Award for general excellence among magazines of less than 100,000 circulation. In our field, this award is the equivalent of the Pulitzer Prize or the Emmy, and equally cherished as recognition from a jury of peers. Sponsored by the American Society of Magazine Editors and endorsed by the Magazine Publishers Association, the awards, like the Pulitzers and the DuPonts, are administered by the Columbia University Graduate School of Journalism.

To be one of five finalists from a field of hundreds of superb magazines is quite an honor, somewhat like being one of five nominees for the Oscar. And, as far as we can tell, *Channels* is the first finalist ever from the field of magazines specializing in covering television. The three submissions that comprised our entry were the September 1986 issue whose cover story probed Coca Cola's entry into television, the November issue whose lead article was the insightful profile of Warren Buffett; and the end-of-the-year *Channels Field Guide*—our special franchise, the complete annual report on the electronic media.

Expert journalism has always held our first priority, but while we were at it we also wanted *Channels* to be highly readable, accessible and good looking—a magazine that gave pleasure in the writing and design while providing an indispensable information service to our readers.

To have been selected as a finalist is recognition of our commitment to excellence. The honor reflects also on the high standards and inspiration of our spiritual leader, Norman Lear, owner of *Channels*. He never interferes with what we write; he just demands that we be the best at what we do.

So, win or not, here's to Norman, who set one hell of an example in his own television career, and to our great staff which never hesitates to go the extra mile that separates *Channels* from the pack.

Les Brown

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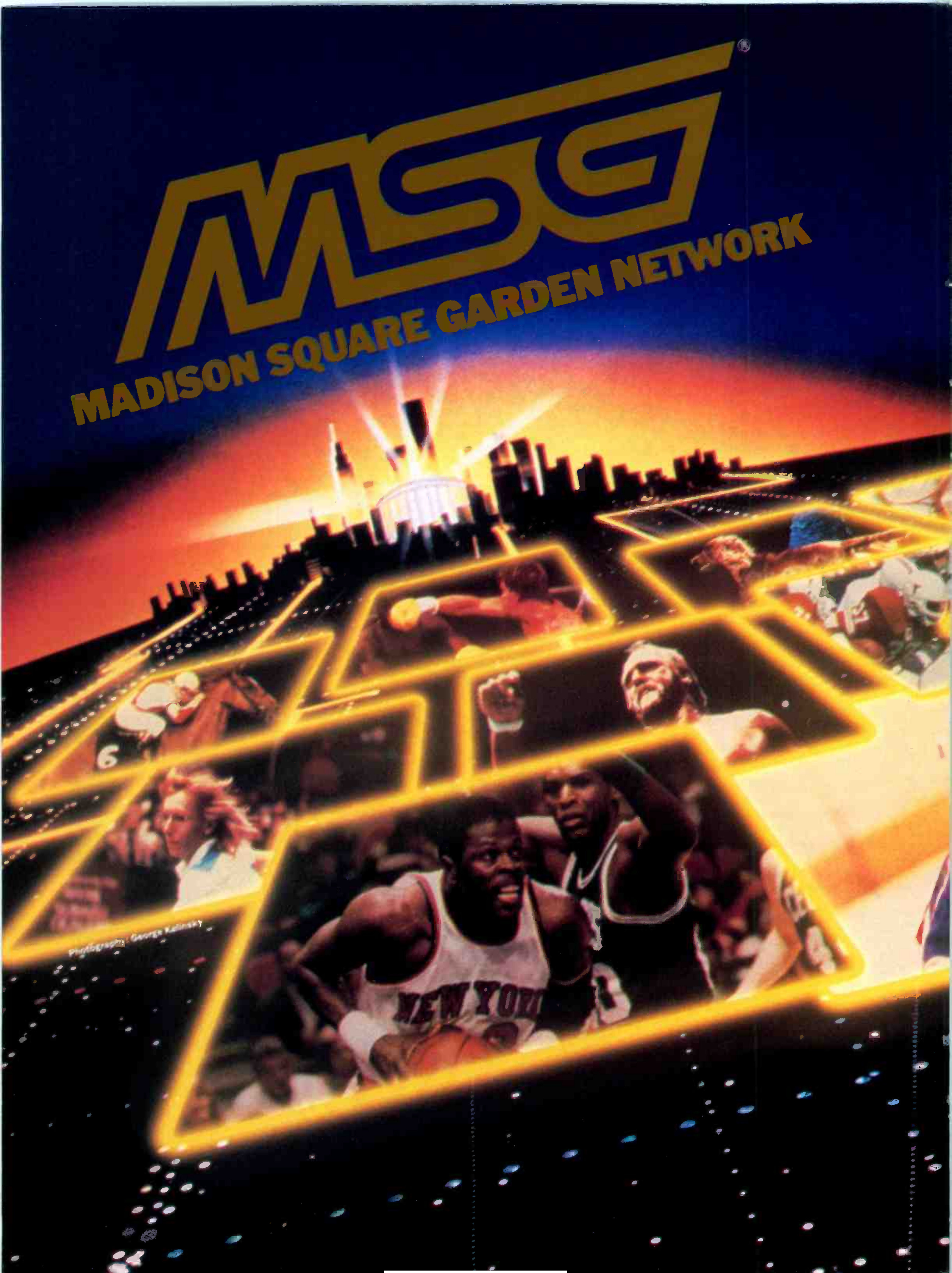
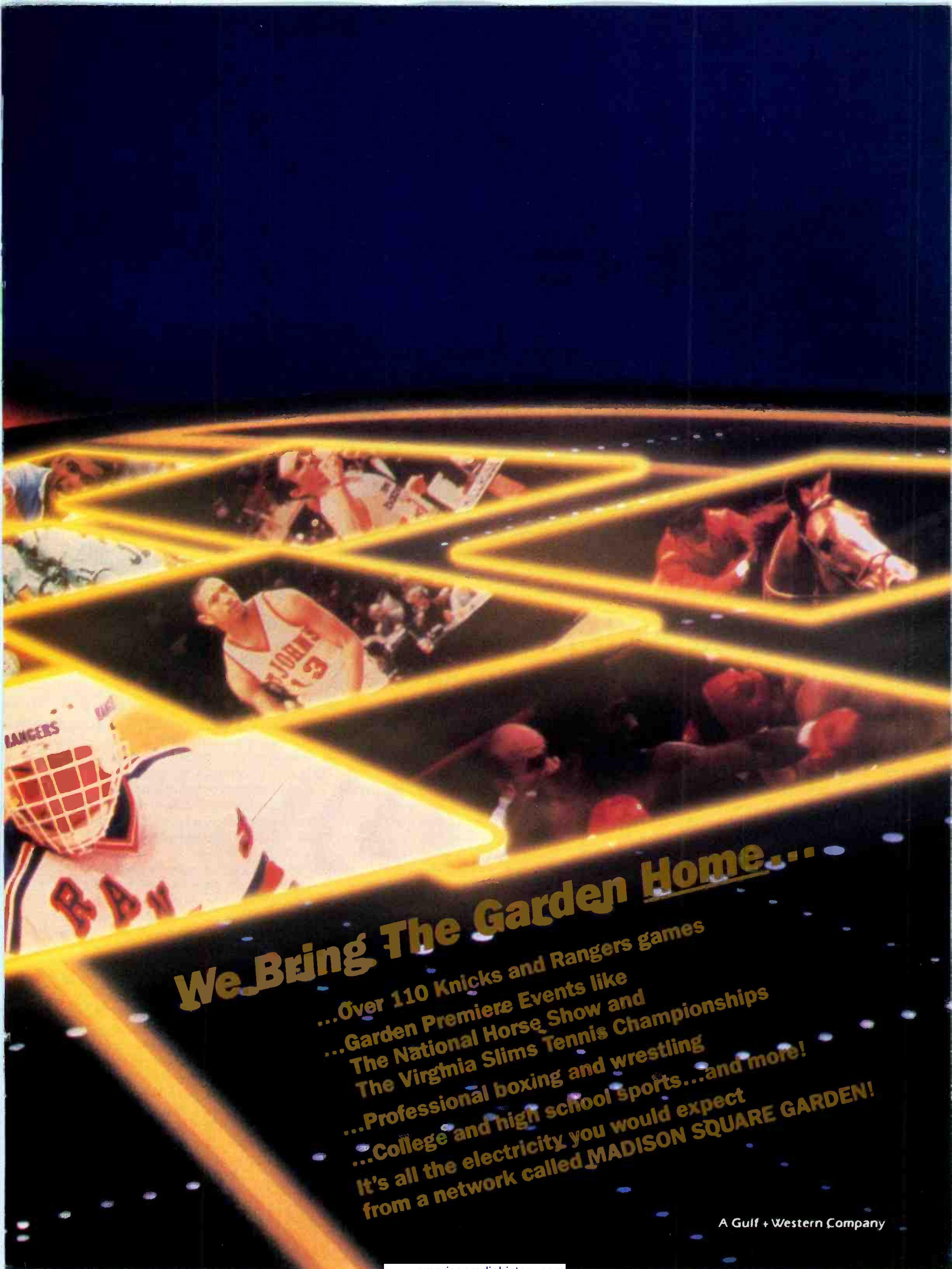

MSG
MADISON SQUARE GARDEN NETWORK
Photography: George Kalinsky
NEW YORK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...Over 110 Knicks and Rangers games
...Garden Premiere Events like
The National Horse Show and
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It's all the electricity you would expect
from a network called MADISON SQUARE GARDEN!
A Gulf + Western Company

Coming Home: Knight-Ridder's Dan Gold went from broadcasting to cable and then back again.

Help wanted: The Old Networks Need an Infusion of New Blood

Cutting budgets was easy. Recruiting top talent is not.

It's the one question that the new network owners haven't yet addressed, but it won't go away. While the rest of the industry bemoans budget cuts and eroding audience shares, top management is waking up to another, more lasting issue. In the wake of major corporate upheavals that removed top layers of power and sent many key executives into early retirement, how will the industry infuse its management ranks with fresh blood and talent? And from what industries will the next generation of television executives be drawn, since many network up and comers such as MGM/UA's Tony Thomopoulos have taken their skills elsewhere?

The question is important today because it goes to the heart of why the networks were taken over in the first place. Quite beyond ballooning budgets and undervalued stock, the networks changed hands because each failed at a basic business challenge: a crisis of succession. Unwilling or unable to cut costs, ABC, CBS and NBC were handed over to new parents remarkable mainly for their fiscal prudence.

Executives such as Laurence Tisch at CBS and Tom Murphy at Cap Cities/ABC have dealt briskly with the first set of problems—slashing costs and purging the bureaucracy—but they are transition managers, not permanent industry stewards. They will be judged on how well they plan succession. In this sense, the networks are belatedly grappling with problems already faced by station groups and local owners, many of whose managers were swept aside by the station deals of the early '80s.

"The striking thing I notice when I attend a broadcasting meeting is how old the executives are," says First Boston analyst Richard MacDonald. "For the networks to respond to changes, they need to develop new talent sources, which they can't do by going to the owned-and-operated stations."

In the past, broadcasters frequently recruited executives from related fields such as newspapers, and one particularly rich source today is the cable industry. (In the early '80s, the traffic was reversed, as cable drew leadership from broadcasters such as Arthur Taylor and Mike Weinblatt.) Last year, General Electric recruited NBC president Robert Wright partially on the strength of his performance as Cox Cable president. Other cablers who have beaten a path to TV include Burt Staniar, the former head of Group W Cable, who became its broadcast chief in May, and former Comcast cable president Dan Gold, who moved to the head of Knight-Ridder Broadcasting in 1985.

Gold's case is particularly interesting because he worked as a broadcaster at Group W, Post-Newsweek and CBS before joining Comcast in 1980. His reasons for returning to broadcasting were almost sentimental. "I missed the more journalistic, First Amendment aspects of broadcasting—news and community service," he recalls.

Gold nevertheless believes that broadcasters can learn from cable and says the skills needed there are more broad based. "For too many years broadcasters just threw their signal out and collected enormous revenues, without having to meet the discipline of making every cent count," Gold says. "They took it for granted that technology would always work in their favor, which cable could never do because it already had a technology to compete against. Cable also gave me a great appreciation of how important it is to stay on top of finance and have a relationship with the investment community."

Many observers say the solution to the networks' woes lies in finding executives willing to try new program strategies. That talent may have to come from independent stations and cable services, which are developing new programming initiatives.

"The owners who came in last year have concentrated on the only thing they know—cutting costs," says Michael Dann, former head of CBS programming and now a consultant at Cap Cities/ABC. "But I haven't heard a word yet about new initiatives in programming—finding executives comfortable with the creative community, with the courage to innovate and fail. Men like Tisch and Wright have taken those risks in other businesses, but with the enormous costs of television, you wonder if they'll take the plunge now." RINKER BUCK

A Decade Later, Cable's 'Rented' Citizens Cash In

A few got rich, but was the local interest served?

No one can say the American cable industry doesn't know how to reward its friends. About a decade ago, with cable companies competing fiercely to wire the country, the most common strategy to win franchises was the so-called rent-a-citizen approach. Prominent local citizens—in one case, a former state supreme court justice—were offered shares, free of charge or at very low rates, in the new system. The company got the "local participation" demanded by franchising authorities and the lucky rent-a-citizens were put in line for windfalls. Now it's time for many of them to cash in.

In Omaha recently, eight current and former residents, who had bought a total of 200 shares in a Cox Cable system for a dollar apiece in 1981, sold them back to the company for between $1 million and $4 million. The group included a businessman, a developer, a labor leader, a retired school administrator, a onetime postmaster and Omaha's former mayor, Robert Cunningham.

One Omaha resident who in 1980 received an invitation to join the eight was Warren Buffett, one of the country's most astute media investors. "I turned them down," says Buffett. "It was clearly a payoff of sorts. The letter essentially said that I would get a substantial interest for free simply by letting the company use my name. . . . If a telephone company had tried the technique there would have been a national outcry. But cities and towns never got fully organized when it came to cable."

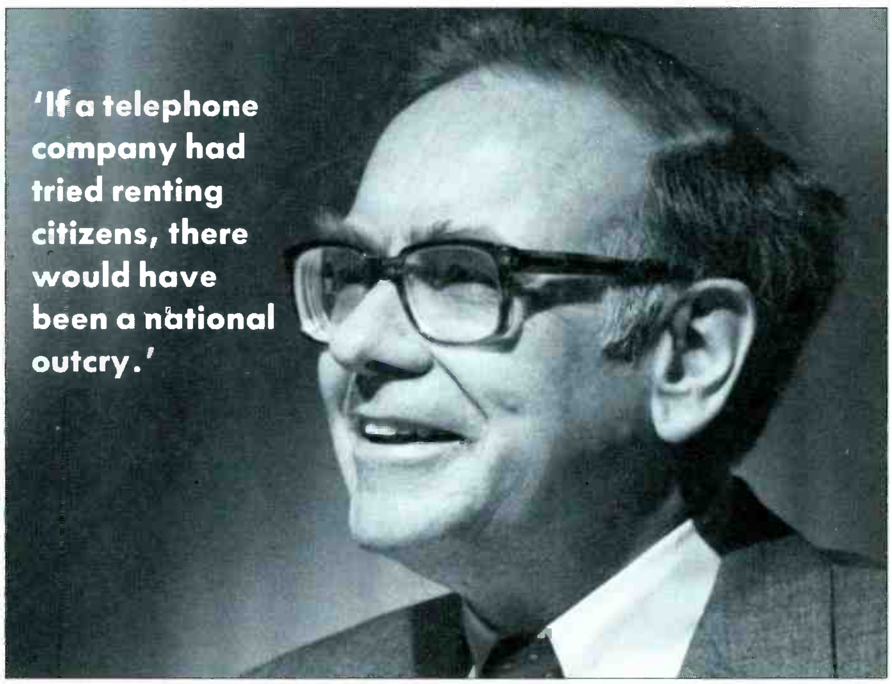
Seven years ago, David Mann, a member of Cincinnati's city council, calculated that if Metrovision Cable, a bidder for the city's franchise, had been victorious, the $164 investment by each of its prominent local citizens would be worth at least $4,256 in just six years. And, what's more, all of the competing bidders, each of which was doing a version of rent-a-citizen, had made their investments risk-free. One company, for example, had offered its investors low-cost loans to buy the stock, with the loans payable only from future profits.

The Cincinnati franchise eventually went to Warner-Amex, in large part because the company opted for a rent-an-institution rather than a rent-a-citizen approach. "One of the attractive things about Warner-Amex was that it offered its stock to a college, the board of education and the YMCA," says Mann. "We didn't think it right that a few local people got the chance to become instant millionaires."

How much was the Warner-Amex stock worth? In 1983, one of the recipients, Xavier University, a Catholic college, returned its shares to protest the company's plan to introduce The Playboy Channel into Cincinnati. At the time, a local stockbroker estimated that based on the system's projected revenues of $50 million a year, each share would pay annual dividends of about $5,000. Thus, Xavier's ten shares would have returned $50,000 yearly.

David Korte, vice president of the Cable Television Information Center and a consultant to cities awarding franchises, says he had practical as well as ethical problems with the technique. "We always advised our clients to discount the participation of prominent local stockholders," says Korte. "For one thing, when those shares were eventually sold, the money would come directly from local subscribers in the form of rate increases. Also, with local ownership held below 20 percent, their presence would have no real affect on decision-making."

Warren Buffett believes the "renting" of local citizens has affected cable's overall pricing structure. "The 20 percent of the system that was given away had to be made up in some way," he says.



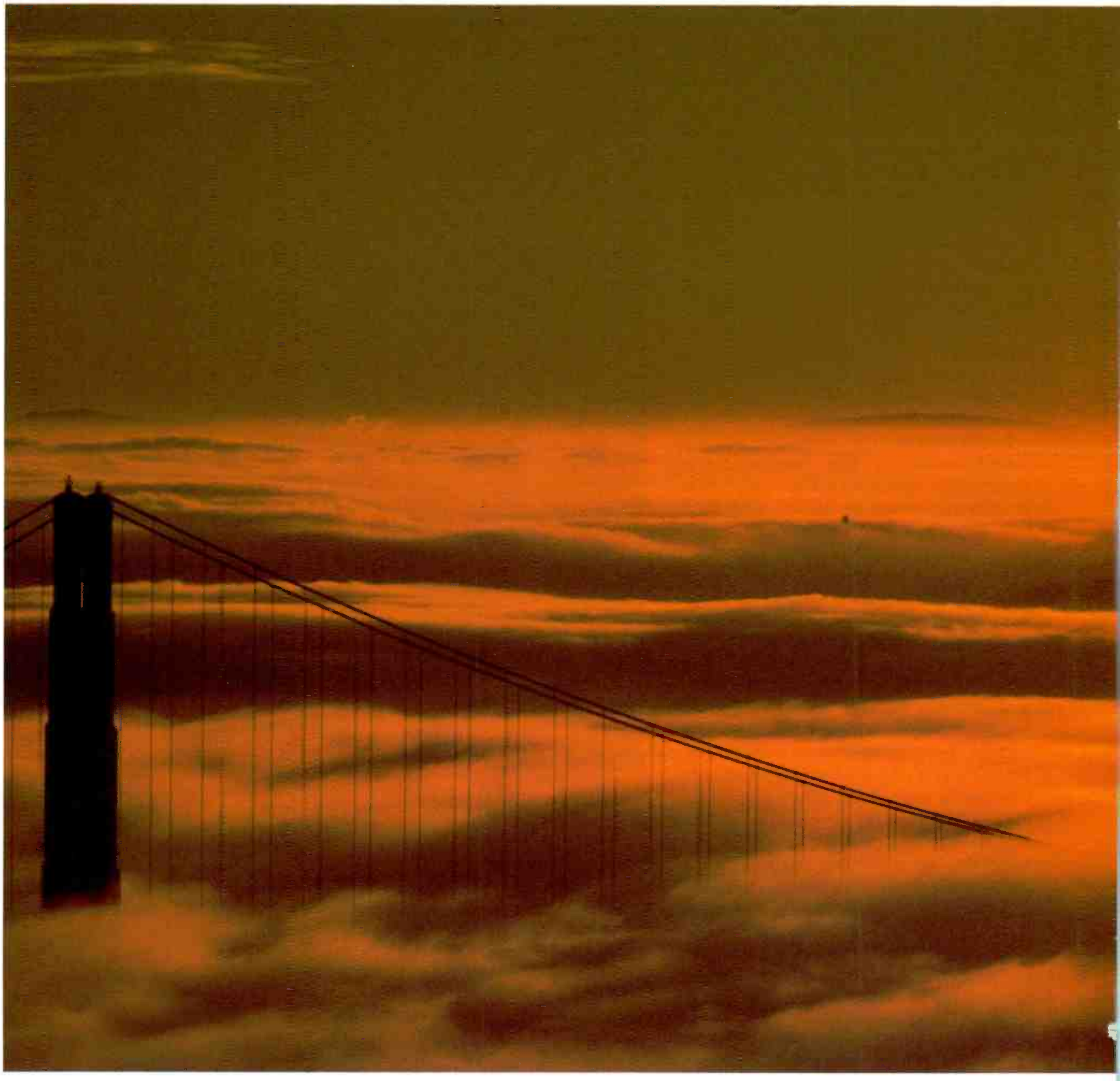
Investor Warren Buffett turned down a cable offer, calling it 'clearly a payoff of sorts.'

But cable analyst John Mansell says the full impact may be impossible to calculate. "There are those who say it falls on the subscribers," Mansell says. "There are those who say it falls on the shareholders and there are those who say it falls on the suppliers."

Yet one thing is clear: rent-a-citizen schemes were standard operating procedure during franchising phases of the wiring of America. Says consultant Korte: "I don't think I ever saw a bid on a franchise anywhere in the country where at least one applicant didn't offer 20 percent of the stock to local residents." And now, quite a few of cable's best friends are getting rich.

JOSEPH VITALE

Getting to the heart of

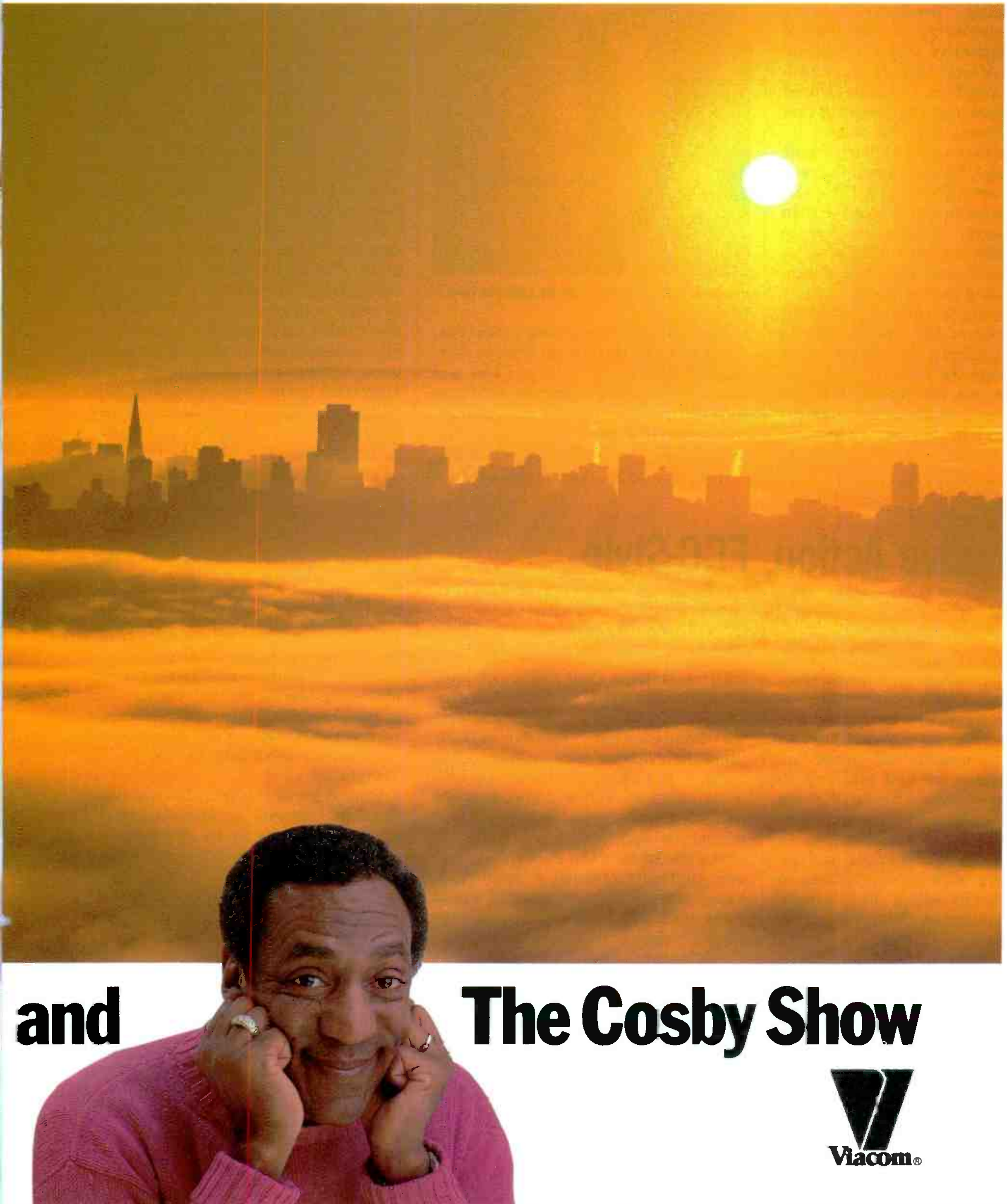


KPIX-TV

"KPIX has won the high stakes bidding war for local broadcast rights to The Cosby Show. We're confident that America's favorite television show will positively effect KPIX's entire lineup and strengthen our position as the Bay area's favorite television station."

Carolyn Wean, *General Manager, KPIX-TV, San Francisco*

San Francisco.



and The Cosby Show

Viacom®

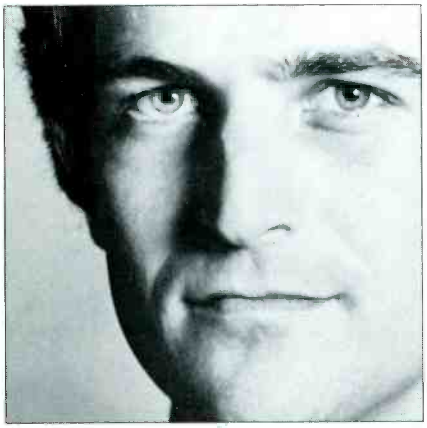
Universal Changing the Rules

New chief McCluggage charged with cutting excess baggage.

It sounds like a plot twist worthy of a Hollywood script. Last season, as a supervising producer, Kerry McCluggage wrote big checks for one of TV's most expensive shows, Universal Television's *Miami Vice*. Now, as Universal TV president, the Kansas-bred whiz kid is slashing program costs that ballooned, in part, under his aegis.

None of this seems particularly ironic to McCluggage, 32, the youngest president in Universal TV history. "The economics of the business are tougher than ever," he says. "Something has to change because we, and other studios, are producing at huge deficits and basically subsidizing the networks."

McCluggage is charged with carrying out the threats of MCA president and CEO Sid Sheinberg: to produce hour shows for what the networks will pay, or cut them out altogether. It could become a deadly serious struggle for Universal and its parent, MCA, Inc.



Universal's McCluggage: Can he save the hour?

One of the biggest network producers, Universal has thrived on pricey, star-studded shows such as *Miami Vice* and *Magnum, P.I.*, spending as much as $500,000 more per episode than the networks pay. Studio executives were confident rerun sales would yield profits.

But no more. Local stations, faced with a soft market and more competition, are balking at high rerun prices and *Miami Vice* reruns aren't selling. It's no coincidence that MCA is putting marketing muscle behind *Home Shopping Game*, an inexpensive show with special appeal to stations since it offers them a piece of what shoppers spend.

McCluggage isn't saying what's to be cut, but he knows where the costs are buried. Lanky and buttoned down, he went to work at 14 to help support his family and, at 17, landed his first TV job: as a security guard for ABC's *In Concert*. After earning all A's in broadcasting at the University of Southern California and then an MBA at Harvard, he came to Universal as a junior programmer and never left.

Now, nine years later, McCluggage says he's hopes to keep hour dramas alive. "It's just that things have changed and everyone is going to have to react to those changes," he says. "I don't think its impossible to do. After all, audiences aren't tired of watching good television programming." And Universal is not tired of making what audiences want. As long as the price is right. JOAN VON HERRMANN

Affirmative Action, FCC-Style

Broadcasting's preference policies: Are they working?

The Supreme Court's recent decision supporting affirmative action may dampen the FCC's enthusiasm to do away with its preference policies, which, since 1973, have given favorable treatment to women and minorities seeking licenses for and planning to manage new stations. Since 1978 the FCC has also offered capital-gains tax breaks to broadcasters who sell to minority-owned companies, and allowed owners with legal problems to avoid hearings by selling out to minorities at a bargain price. But have the policies had their desired effect?

Minorities make up 19 percent of the U.S. population but they own only 2 percent of radio and TV stations—209 radio and only 38 TV stations. Women own just 9 percent of radio stations and 3 percent of TV stations as of 1982.

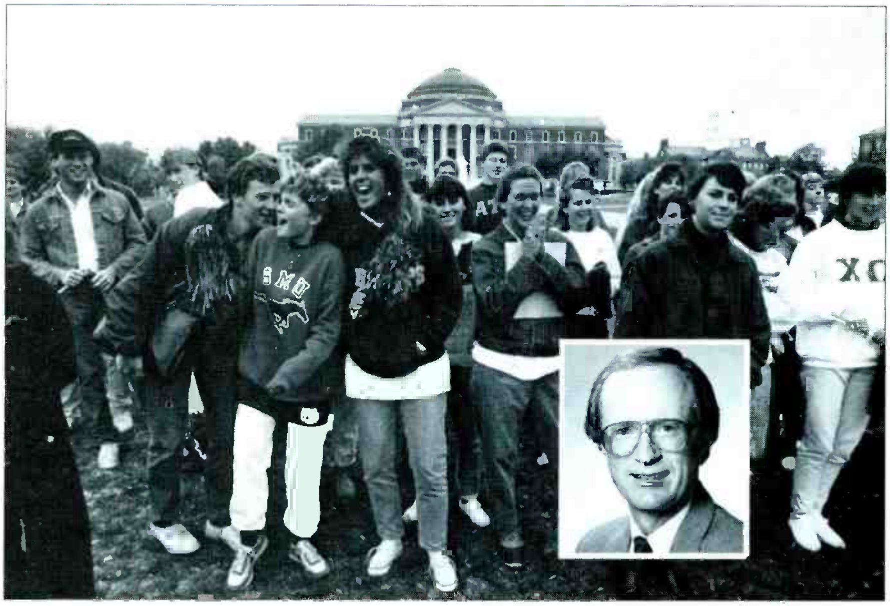
The FCC has issued some 110 tax certificates and approved 35 distress sales since the policies took effect. In other words, minorities have bought 145 existing stations they might not have otherwise acquired. As for the preferences given in comparative hearings, the commission hasn't tallied how many times they've been decisive in awarding licenses. But a look at the cases decided in the last half of 1986 shows that the preferences play a major role in determining who applies for new stations and who wins. In 16 of the 18 cases, at least one applicant claimed a preference based on race or sex, but the credit these applicants received didn't always carry the day. Still, in 10 of the 18 cases, the winning companies were wholly controlled by minorities or women.

Critics point out that licenses placed in minority hands don't always stay there. Some stations are taken over by shadow partners; others are sold to non-minority companies. Even so, the policies have contributed to an increase in minority-owned stations, from about 100 in 1978 to 247 last year.

The crucial issue for the FCC, however, is whether minority ownership fosters program diversity. A recent study suggests that minority owners do, in fact, look beyond majority tastes for their programming. More than 70 percent of black-owned radio stations choose a black-oriented format and more than 90 percent of Hispanic-owned radio stations are programmed in Spanish, according to the NAB's Dwight Ellis.

Ellis' study doesn't nail down an indisputable connection. Minority-owned stations may simply be going after a market that white owners would otherwise serve. Still, it confirms a perception shared by many broadcasters: Companies tend to program what they know.

The figures—what few there are—indicate that the preferences are working, in a modest way. Minority-owned stations have doubled and minority programming has blossomed in dozens of black and Hispanic communities. The policies are hardly perfect but they're giving minorities a better chance to be heard. NOEL GUNTHER



SMU students at a March rally to offset the negative publicity. Inset: station president David Lane.

MICHAEL WIRTZ

Dallas Station Refuses to Flinch as It Topples a Gridiron Power

In Texas, where football is a religion, WFAA keeps the faith.

If a news report can ever be said to "blow the lid off the town," a 40-minute special aired on WFAA-TV in Dallas deserves that description. The station's probe of athlete recruiting at Southern Methodist University led to the first suspension of a major college football program ever imposed by the National Collegiate Athletic Association. It helped topple university leaders and ultimately led to Texas Gov. William Clements, who is struggling to repair credibility damaged by his role in football player bribery.

But for Dallas media—and for WFAA in particular—the story provided special tests. So woven into the city is SMU that WFAA management had to put aside personal and corporate loyalties to air the story. A.H. Belo Corp., which owns WFAA and the *Dallas Morning News*, is a heavy SMU contributor. Belo president Ward Huey is an SMU graduate active in fundraising, and several staffers, including president and general manager Dave Lane, lecture in the communications department.

But in reporting the football scandal several months ago, the most complicated relationship involved the station's attorney, John McElhaney, who also represents SMU, and who was implicated early on in the payoffs. Ultimately, WFAA was forced to hire other law firms to review its SMU report.

When the story aired, it included accusations against McElhaney and tapes of the lawyer's denials. "We didn't use him for anything involving SMU," says Lane. "There were times that his name came up and our reporter talked to him as a source, not as a client. We were just as aggresssive with him as we were with any source."

In any city, a scandal like SMU's would have been a bombshell, but in Dallas, where 60,000 fans turn out for high school football, SMU is not just another school. As WFAA news director Marty Haag says, "SMU is a fundamental part of the civic fabric of Dallas." WFAA staff members agree that it was SMU's place in the community, not personal interests, that required the extra care. "We had tremendous concern about what the story meant to SMU and to the Dallas community," says sports director Dale Hansen. "We knew we could be destroying careers and the SMU athletic department. We were extraordinarily careful to be sure we were right."

WFAA's five-month probe began with a tip about continuing payments to former linebacker David Stanley despite SMU promises to NCAA investigators that recruiting violations were halted. WFAA reporter John Sparks, who was most responsible for the story, says he worked for weeks to gain an interview with Stanley. Finally, the player sat before a camera and admitted to receiving huge bribes that continued after the supposed cut-off.

Sparks and Hansen held off running the story immediately, even after they balanced Stanley's allegations with taped denials from athletic director Bob Hitch, head football coach Bobby Collins and recruiting coordinator Henry Lee Parker. They arranged lie detector tests for Stanley and his mother and submitted documents to handwriting analysis. When the story was ready, two local lawyers and a Washington attorney examined it. When the story aired, viewers were told that Stanley had drug problems and was not fully credible. Tapes of SMU officials were shown at length.

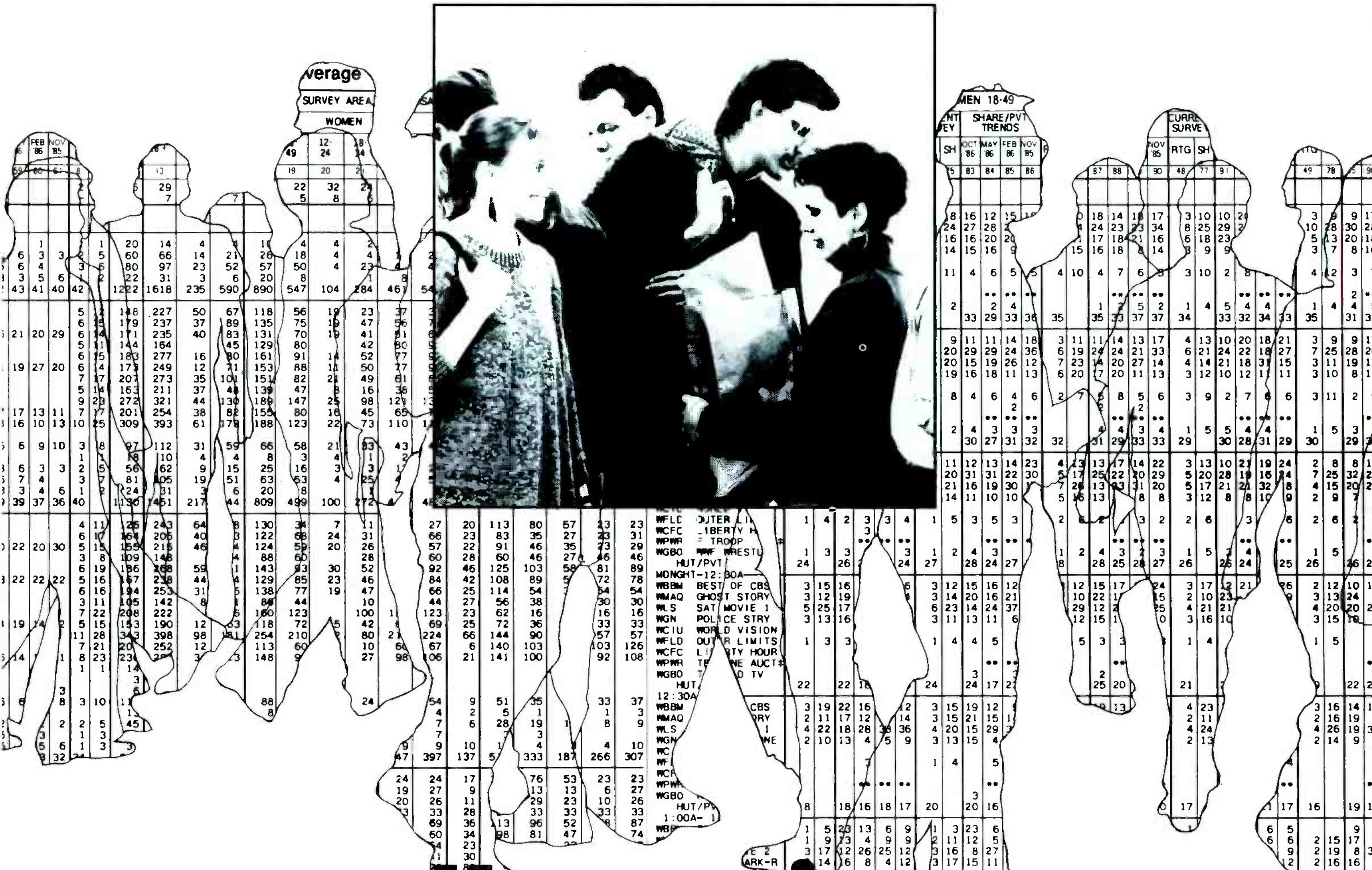
The day after the report, the *Morning News* revealed another violation of NCAA rules. The reports together triggered the decisive NCAA action and a shake-up at SMU. Hitch, Collins, Parker and SMU president Donald Shields left the university in disgrace and SMU football was killed, at least for 1987.

Later, WFAA learned that Gov. Clements was among members of the SMU board of governors who approved continuing bribes, and Austin bureau chief Carole Kneeland's questioning of Clements at a press conference brought an admission to that effect.

For its part in revealing the goings-on at SMU, WFAA has heard from viewers. Hundreds of callers have complained that if WFAA had just kept quiet, the violations could have ended without embarassing the city. Hansen receives unprintable letters, some of them addressed to his wife at home.

But the station firmly believes good journalism demanded that the story air. "Yes, I am very close to SMU," says Huey. "I was very saddened about the story and concerned about it and how it was reported. But I think we did the story in a responsible way and we were right." Says general manager Lane: "It is important for SMU and the community that this come out. I think it will help us rebuild in a way that will make the institution stronger. If we played a role in that, I'm pleased."

DENNIS HOLDER



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ARBITRON RATINGS

We know the territory.

Maytides

by Cecilia Capuzzi

MAY 17-20: This year's 36th annual **National Cable Television Assn.** convention is the first staged in cable's new era of deregulation—and many public-policy issues that dominated past shows have been replaced with talk of finance and management. **Phil Hogue**, president of **Daniels & Assocs.**; **William Suter**, **Merrill Lynch** vice president; and **J. Patrick Michaels**, chairman of **Communications Equity Assocs.**, deliver talks on money topics. Pricing and competition sessions are moderated by **Jack Pottle** of **Browne, Bortz & Coddington**, and **Larry Wangberg** of **Times Mirror**. Six executives are honored for innovative management. System ACE awards are presented **May 18**.

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MAY-JUNE: The Big Three hold **annual affiliate meetings (CBS, May 17-20; NBC, May 31-June 2; ABC, June 9-11)** at the Century Plaza in Los Angeles. Besides attending scheduled extravaganzas, some affiliate and network brass butt heads on hairy issues manifested during last year's network TV chaos. **Mickey Hooten**, **ABC** affiliate board chairman, says concern centers on third-place ABC's prime time lineup and the tack taken by new owner **Capital Cities**. "In the vital areas of news and programming, there has been no improvement," he says. At **CBS**, besieged by budget cuts and layoffs, affiliate head **Scott Michels** says affiliates want reassurance: "They want CBS to showcase that there still is a network every bit as able to compete with ABC and NBC." But for first-place **NBC**, affiliate head **Jim Lynagh** says this year's meeting should be quiet. Focus is on private satellite companies' distribution of NBC's signal, and a 15-minute window affiliates want during network telecasts of the 1988 Olympics.

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MAY 18: The first of **Bill Moyers'** controversy-ridden **Constitution** "news reports" airs on **PBS**. Moyers pulled the series of 90 three-minute spots, called ***Moyers: A Report from Philadelphia***, when ***The MacNeil/Lehrer Newshour*** refused to give up time to air them. **Paine-Webber** agreed to be underwriter and the series was reinstated—without uniform time slots. Reportedly, the real reason for ***Newshour***'s objection is **Robert MacNeil**'s animosity toward Moyers. MacNeil reportedly circulated a statement saying, "I have strong feelings about Bill Moyers. But they're private." **May 25** is the 200th anniversary of the first session of the Constitutional Convention; **September 17** marks the signing; in between, TV viewers brace for a spate of commemorative programming including **ABC News**'s ***Blessings of Liberty***.

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MAY 27: A.C. Nielsen winds up its sweeps period; **Arbitron, May 26**. The spring sweeps hold less weight than February's, but watch the numbers from these series and specials for signs of what the networks will do come fall: **NBC** series ***Sweet Surrender, The Days and Nights of Molly Dodd*** and ***Me & Mrs. C***; **CBS** miniseries ***Murder Ordained*** and ***Roses for the Rich***, which the network hopes will rival ***I'll Take Manhattan***'s success; **ABC** new shows ***The Charmings, Max Headroom*** and ***Mariah State***, and dramatic special, ***The Dumb Waiter***. A Nielsen spokesperson says beefed-up sweeps programming rarely changes a network's ranking. Last February NBC was first with an 18.6 rating, followed by CBS with 16.4 and ABC with 14.7. Some 75 network pilots are in development for the 1987-88 season at a price of $100 million. ●

CALENDAR

May 15-17, June 12-15: Radio Advertising Bureau Sales University. City Center Marriott, Charlotte, N.C.; Sacramento (Calif.) Hilton. Contact: Tessa Rodriguez, (212) 254-4800.

May 17-21: Nebraska ETV Network/ Univ. of Nebraska videodisk workshop. UN campus, Lincoln. Contact: Tausha Schupbach, (402) 472-3611.

May 26-29: Public Telecommunications Financial Management Assn. conference. Phoenix. Contact: Diane Brinson, (803) 799-5517.

May 26-29: Prix Jeunesse international conference on children's programs, Bayerische Rundfunk, Munich. Contact: Ursula von Zallinger, 89-5900-2058.

May 26-30: University of Missouri's J.C. Penney-Missouri TV Workshop. UM campus, Columbia. Contact: Leigh Shallenberger, (314) 882-7771.

May 27: Center for Communication award luncheon. *Washington Post* CEO Katharine Graham honored; Walter Cronkite, guest speaker. Call: (212) 930-4878.

May 27-28: Washington Journalism Center conference "Gambling in America." Watergate Hotel, Washington, D.C. Contact: Mrs. Adamson, (202) 331-7977.

May 27-30: International Television Assn. conference. Linda Ellerbee, keynote speaker. Washington (D.C.) Hilton. Contact: Inez Wehrli, (214) 869-1112.

May 30-June 1: Annual Showbiz Expo for film and video professionals. Los Angeles Convention Center. Contact: Cindy Rossman, (213) 668-1811.

May 30-June 2: Electronic Industries Assn. Consumer Electronics Show. McCormick Place, Chicago. Call: (202) 457-8700.

June 6-9: American Advertising Federation conference. Buena Vista Palace, Orlando, Fla. Contact: Antoinette Allen, (202) 898-0089.

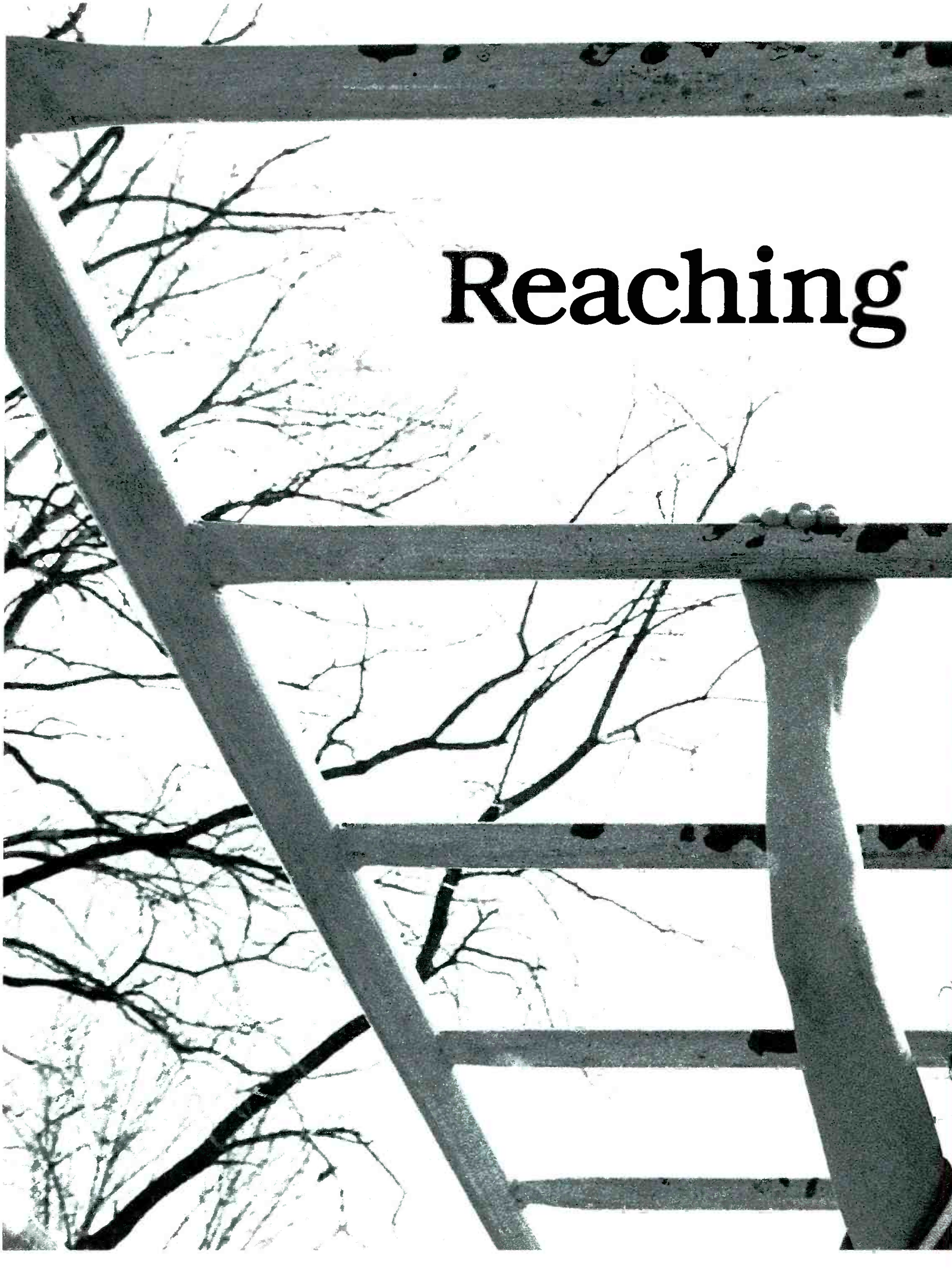
June 10-13: American Women in Radio and Television annual conference. Beverly Hilton, Los Angeles. Contact: Becky Trachtman, (202) 429-5102.

June 10-14: Broadcast Promotion & Marketing Executives/Broadcast Designers Assn. annual seminar. Westin Peachtree Plaza hotel and Atlanta Market Center. Contact: Lance Webster, (213) 651-4688.

June 15-17: Videotex Industry Assn. International Videotex Industry Exposition and Conference. Sheraton Center, New York. Contact: Katherine Clifford, (703) 522-0883.

June 15-July 2: American Film Institute TV writers workshop "Creating Television Drama." AFI campus, Los Angeles. Contact: Victoria Costello, (213) 856-7743.

Reaching

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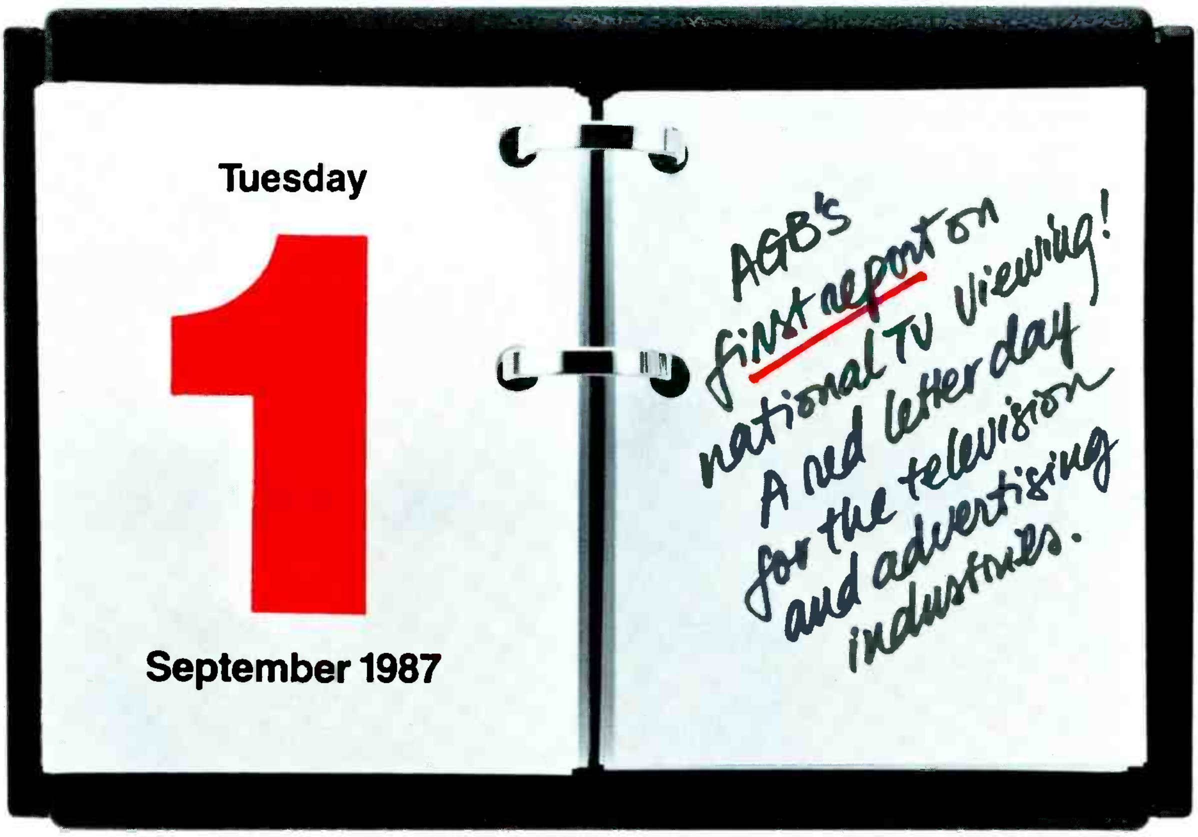

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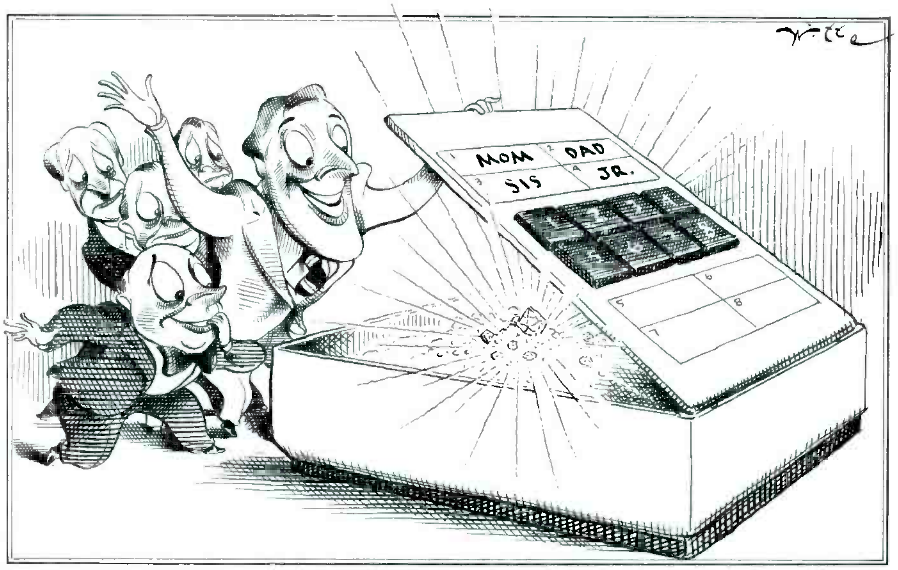
People Meters' Upside

by Steve Behrens

It was the kind of reassurance you'd get from a dentist before root-canal surgery. "Transition has always been painful," says Stephan Buck, chief executive of AGB Television Research of Great Britain, "but looking down the road we believe the gain will be worth the pain."

Buck was referring to the ad world's twinges, uncertainties and anxieties occasioned by the transition to the people meters that both his company and Nielsen Media Research will use to estimate national TV audiences, starting officially September 1. ("P-Day," he calls it.) Yet some media and ad people are already looking beyond the pain, to some likely gains in the usefulness of national ratings a year or two after P-Day:



MICHAEL WITTE

Sharper demographic targeting. CBS research vice president David Poltrack says networks will, at last, be able to demonstrate program demographics as narrow as those on advertisers' marketing plans—for example, isolating households with incomes of $75,000 and up instead of the standard $40,000 and up.

It takes a bigger sample to measure narrower audience segments reliably, says Poltrack, and the people meter makes that bigger sample affordable because it replaces two smaller samples. For the present network ratings, Nielsen estimates the number of viewing households from a sample of 1,700 sets wired to meters, while extracting viewers' age and gender from a separate sample of 2,600 diary keepers. People meters, with push-buttons for every viewer in the household, are designed to report both the set's tuning and the age and gender of those watching. Though both Nielsen and AGB expect to have only 2,000 people meters in the field this fall, Nielsen says it'll have 4,000 by fall '88 and AGB predicts 5,000.

Year-round demographics. Neither CBS nor the USA Network has ever seen demographics on its late August tennis coverage of the U.S. Open, aired during one of the "black weeks" (including all of June and August) when Nielsen doesn't issue diaries. Demographics are available for the broadcast networks only 38 weeks a year, and for cable networks and barter syndicators just 16 weeks a year (from the local "sweeps" diaries). As a result, cable networks have seen their demographics only for the weeks during which the networks offer the toughest competition.

Overnight demographics. For the first time, national programmers will have demographic results the day after a broadcast, allowing them to punch up promotion, plan counterprogramming and adjust the prices and audience guarantees they give to advertisers. Today the broadcast networks have to wait more than a week for Nielsen to publish national demographics from diaries. Cable networks have to wait months to find out if they've been underpricing a program, says a chagrined David Bender, research vice president of the USA Network.

Reach and frequency demographics. An advertiser often wants to know the number of individual people exposed to its ad during the week (reach) and the average number of times each saw it (frequency), but the ratings don't provide that data. Nielsen's network demographic sample changes every 13 weeks and includes only the four-week sweep periods for cable and syndication, but people meter households will stay on duty a full year.

Comparable ratings for new media. When reliable demographics start coming out of people meters, probably after 4,000 meters are running late next year, broadcast and cable networks and syndicators for the first time will have their audiences measured the same way—which will make cable and syndication comparable and easier for agencies to buy. That'll be a big boon for barter syndicators and cable, according to Warren Boorom, executive director of ASTA, the barter association.

VCR playback. People meters will help defuse the zipping and zapping controversy by monitoring which programs—and which commercials—are recorded and later played back at normal speed on videocassette recorders. The present ratings system assumes that people watch everything they tape.

A major advantage claimed for the people meters, of course, is that they come closer to reporting the unknowable truth about viewing. But on that score there will be no quick consensus among the buyers and sellers of TV time. Some will indulge in posturing about people meters' accuracy, says Barry Kaplan, media director at Ted Bates/New York. "This negotiating season will be like any other. The networks will try to get as much as they can—and we'll try to pay as little. How it goes depends, as usual, on supply and demand." ●

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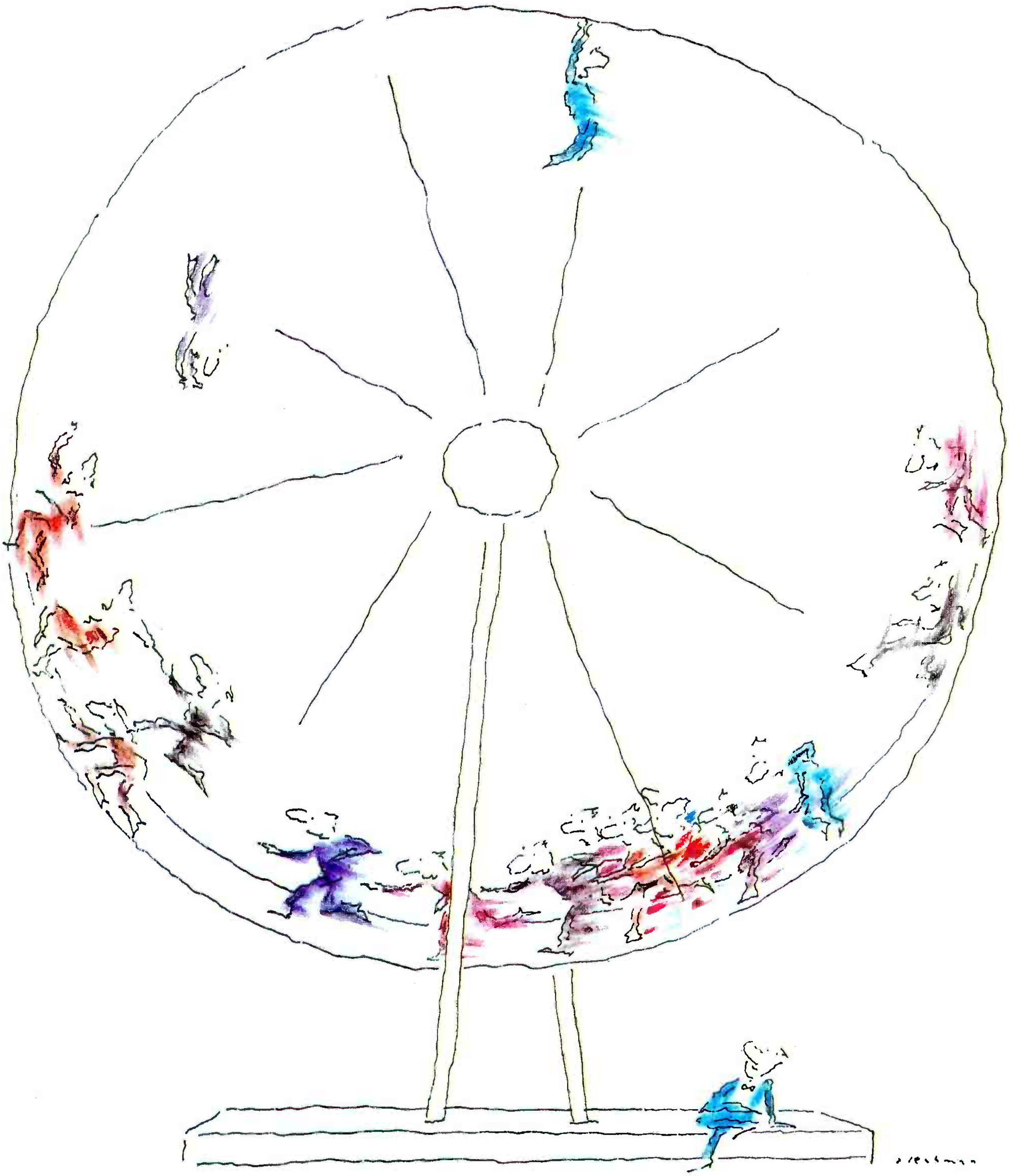
ADWEEK



WSMV's Damage Control

by Rinker Buck

It was the sort of news that every broadcaster dreads and, at first, it appeared that the Nashville television market was poised for a dramatic shake-up.

Last July, WSMV anchor Dan Miller, an enormously popular, 15-year veteran of the NBC affiliate, announced that he was leaving town for a new anchor job at KCBS in Los Angeles. A few weeks earlier, another WSMV fixture, sportscaster Charley McAlexander, had announced that he was leaving for the more relaxed pace of local radio.

Almost overnight, the station had suffered a devastating loss, and now management found itself grappling with perhaps the oldest problem—and potentially the most lethal—in local television. WSMV, the oldest outlet in the six-station market, had built its reputation on news. Largely based on Miller's popularity, its top-rated evening newscast regularly attracted a 40 percent share of the audience. How could the station preserve its image and ratings dominance during the three months it would take to find a replacement for Miller?

"It was an awful summer," recalls Carolyn Lawrence, WSMV's director of creative services—the station's title for its promotion chief. "Nothing like this had ever happened to us. All we knew was that, in this situation, stations usually panic and churn out a lot of hype that drives viewers away."

As she pored through her ratings data on WSMV's newscast, Lawrence unearthed an interesting piece of research. Bill Hall, WSMV's folksy, discursive weatherman, registered extraordinarily high personality ratings—even better than Miller's. After brainstorming with her staff, Lawrence decided that a series of spots on Hall would be the perfect "bridge" to carry the station through the fall, resolving viewers' uncertainty about the leadership vacuum at WSMV.

Weatherman Bill Hall (left) "bridged" WSMV's identity until anchor Jeff McAtee (center) joined co-anchor Demetria Kalodimos and sportscaster Rudy Kalis on the station's award-winning newscast.

The spots ("Bill Hall and You," "Bill Hall and the Mid-South") began their run in September, and were an immediate hit with viewers. As he sat beneath a tree on a farm outside Nashville, Hall looked directly into the camera, speaking over a sound track of touching theme music. He talked about himself and his family, the weather, but mostly Hall spoke of home.

"I love the Mid-South," he said, appealing to the regional loyalties of viewers. "I belong here. Why would anyone ever want to leave?"

"It was an assurance to viewers that most of the people at the station they knew and trusted were staying," says Lawrence. "Viewers already sensed that, and we were simply reinforcing the message. Viewer awareness of what's really happening at a station is always high. You can never betray that—it's the station's basic equity."

By mid-November, Miller had been replaced by Jeff McAtee, a former anchor with KOMO-TV in Seattle, and in the Nielsen sweeps that month, WSMV's evening newscast actually *gained* two share points in the ratings. Over the winter, Lawrence aired an equally effective promotional series on McAtee and coanchor Demetria Kalodimos, and the station emerged from the February sweeps with a 39 share, its reputation and ratings virtually intact.

It's tempting to dismiss WSMV's handling of its "anchor crisis" last year as a bit of lucky guesswork, but in fact it was a continuation of the same sophisticated, targeted approach to promotions that the station has pursued since it was bought by the 12-station Gillett Group in 1981. That approach helped WSMV win two first-place awards at last year's Broadcast Promotion & Marketing Executives (BPME) annual contest for promotional spots, and has earned it a growing national reputation for excellence in promotions. WSMV's experience provides valuable insights into how a model station became even stronger by making promotions a top priority of management.

WSMV didn't begin to overhaul its basic station philosophy until 1983, however, shortly after Gillett promoted former news director Mike Kettenring to general manager. Kettenring, then 40, a taciturn, analytical manager, immediately perceived that WSMV fit the profile of many similar stations that had changed hands during the first wave of buyouts in the early 1980s. Though firmly entrenched in the community, WSMV was plagued by morale problems, an antiquated sales policy and audience demographics listing toward older viewers. Long the ratings leader in Nashville, WSMV nevertheless placed a distant second in ad revenues to the CBS affiliate, WTVF.

Kettenring's remedy for this anemic performance was an embrace of localism. NBC's schedule, he concluded, was exerting too great an influence on the station, preventing it from highlighting its own strong card—local programming and news. Under a doctrine he called "islands of localism," Kettenring decreed that WSMV would never run more than three consecutive hours of network programming, and he began preempting NBC with a regular schedule of locally produced variety and magazine shows and evening news documentaries.

Localism offered the station two distinct advantages, Kettenring believed. First, unlike network shows, local programming could be tailored for the specific demographics the station needed in a daypart. Second, since local programming is costly and inherently risky, it forces a station to use its promotional airtime to maximum effect, which over time enhances its creative instincts and overall image.

Kettenring, however, was not at all satisfied by the station's existing practices. "Like most stations, we were using the shotgun approach. We were throwing out a lot of promos every day, filling in the dead time that the ad people couldn't sell."

The problem was that neither the promotions nor sales departments valued promotional airtime as a real commodity, but instead regarded it as an accidental gift of the local spot market. Kettenring changed that too, declaring that 10 percent of the best spots in each daypart—roughly $3 million worth of time annually—would be available for station promotions. To make it stick, he instructed WSMV's traffic manager to reprogram the scheduling computers to treat promotional spots like any other advertising—preconfirmed, scheduled buys that could not be preempted.


Singer Amy Grant and husband Gary Chapman with the *Snowbird Family Christmas Special* cast.

That decision sent tremors throughout the station's sales force, but Kettenring did not stop there. He pulled the station's billboard and print ads, and spent the money instead on improving Lawrence's creative staff. Promotion employees were put on an equal professional footing with sales and news personnel, and the staff was reorganized to create several new writer-producers who are paid salaries well above the industry norm. Finally, WSMV stopped using outside ad agencies for its promotion spots; all of its productions were moved in-house.

The effect of Kettenring's changes was an explosion of promotional spots that set an entirely new tone for the station. Lawrence's creative-services team became a veritable programming arm of the station, churning out studio-quality spots ranging from the rousing *Hello Nashville* general theme featuring country-and-western singers, to the antic *Rerun Zone* spots designed to pull viewers away from series repeats on competitors' schedules.

Perhaps the best example of WSMV's evolving style is its popular Snow Birds, a cast of Muppetlike characters created for the station by a Nashville puppet troupe. The Snow Birds were originally introduced in 1983 to promote the school-closing reports Bill Hall broadcasts during winter storms. After the station noticed a huge ratings spike every time the Snow Birds appeared, it used the puppets for a series of community-service spots for children.

In 1984 and 1986, WSMV senior writer-producer David Van Hooser created two half-hour *Snow Bird Family Christmas Specials*. Last year's show, featuring gospel singer Amy Grant, was of outstanding quality, worthy of The Disney Channel, and won two National Association of Broadcasters awards in March. The specials are among the few instances—if not the only one—where a local promotion department created a full half-hour of programming.

"Most of the things WSMV is doing are not that unusual," says Willis Duff of Audience Research & Development in Dallas. "What makes them exceptional is their consistency and the number of elements they bring to the mix. The station just never gives up."

Kettenring's strategy has apparently paid off. WSMV's ad revenues are now the highest in Nashville, he says, having risen from 32 percent of the TV market in 1983 to 36 percent in 1986. The Gillett Group plans to export Kettenring's philosophy to its other stations, but Kettenring doesn't expect it to be easy.

"Whenever I talk to other general managers about our promotions, they say: 'Oh boy, Mike, that sounds great. As soon as I get my station turned around I'm going to try it.' They don't understand yet that this is *how* we turned the station around." ●

PUBLIC EYE

by Les Brown

When the new corporate management displays no more commitment to news than as a product for sale, then something dies in the news division.

TAMPERING WITH THE NERVOUS SYSTEM

Network news has fallen on the thorns of commerce in the cruelest sort of way. All the hysteria and doomsaying that accompanied the last round of staff cuts at CBS News made you realize what innocents journalists are about the business they're in. Early on, someone in the company should have given the troops deep background on what the new network bosses like to call "the new reality" of television economics. Instead, on his arrival, CEO Larry Tisch presented himself to CBS News as its white knight and protector, and gave everyone false hopes.

Corporate management's handling of the Great Payroll Slashing at CBS News was, to say the least, maladroit. Still, it's astonishing that big-time journalists who are supposed to be so alert to the changes going on in the world were so oblivious to the changes taking place in their own professional world.

Surely everyone had to be aware that three networks had come to be controlled by hard-nosed businessmen with a greater reverence for stockholders than for any icons or hallowed traditions of the news divisions. In light of this, the cries of outrage—typified by Dan Rather's Op Ed plaint in *The New York Times* last March, invoking the sacred names of Edward R. Murrow and Walter Cronkite—seemed oddly childish and full of outmoded rhetoric.

Dan Rather's Op-Ed bleat in the *Times* seemed in a different language than that spoken by the hard-nosed businessmen.

DAVID BURNETT/CONTACT

If this were baseball instead of news with a capital N, few would blame the new network leaders for their concern about bloated star salaries, an overpaid and underused bench and a general lack of efficiency that bespeaks a style of living too rich for the circumstances.

If you were Tisch, wouldn't you find it vexing that CBS News had a budget of $150 million in 1980, of which $30 million represented salaries, while today the budget has more than doubled and salaries make up almost half of it? In contemplating the heavy overset every night—that is, the quantity of unused news pieces—how would you respond to Rather's bleat that the cutbacks mean CBS "will cover less news. We will go to fewer places and witness fewer events"?

I confess now to playing devil's advocate here. When the big news hit CBS News, various reporters of the consumer press asked me the same question: What's this going to mean to the viewer? As if anyone could divine some neat, simplistic answer, such as that CBS News was going to be 20 percent less good than before.

The fact is that no one will notice a marked change in *The CBS Evening News* as a result of the Seattle, Warsaw and Bangkok bureaus closing or from the loss of such seasoned reporters as Ike Pappas, Mike O'Connor, Fred Graham and David Andelman. The latter two are former *New York Times* reporters, first-rate journalists with a lot of special expertise. They were a loss to the *Times* when they left, but that paper has managed to continue nicely without them. And they are a loss to CBS News, whose evening newscast will also survive without them. The important difference is that they were not ousted by the *Times*.

The brain drain at CBS is not to be minimized. Those eliminated from the payrolls were not mere foot soldiers but veteran reporters and producers with valuable experience and contacts, which, alas, are intangibles to the businessmen. Their departure won't make the least difference in ratings points, but their journalistic skills were part of the strength of CBS News. No organization could count itself richer for losing them. Tisch had said he would only cut into fat and not muscle at CBS but, in diminishing the strength of the news division, he's clearly cut beyond the fat.

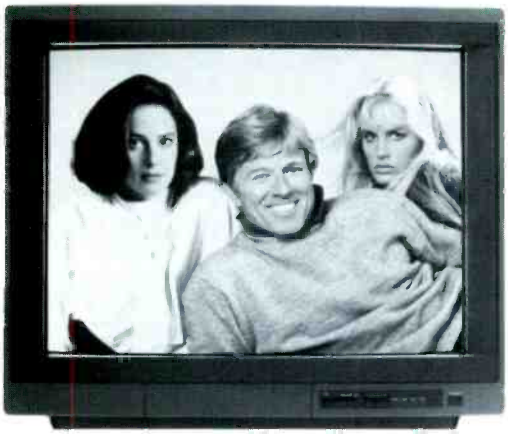
The surgery this spring was not the end of it all for CBS News but the signal of a real crisis, one based in the rank and file's realization that management has no special regard for news except as a profit center. This is something new in the history of broadcasting.

Just about every leader at every network—starting with General David Sarnoff and William S. Paley—viewed his news division as the very soul of the company, the special service that made his network part of the nation's nervous system. You made money with entertainment and sports, but news—especially in the coverage of consequential breaking stories—was what justified a network in a higher sense.

Tisch's crude handling of the cutbacks at CBS News bespoke a lack of belief in news as the cornerstone—and the pride—of networking. This was the shattering revelation to the staff, and it went right to the bottom line of morale. When the new corporate management displays no more commitment to journalism than as a product for sale, then something dies in the news division: the courage to cover tough stories with the confidence of top management's support. That is bound to affect both the spirit and character of its work. Some stories will not make it to the screen, for all the wrong reasons.

And that's the answer to the reporters who ask what the cutbacks at CBS News mean to the American citizen. ●

Look alike?



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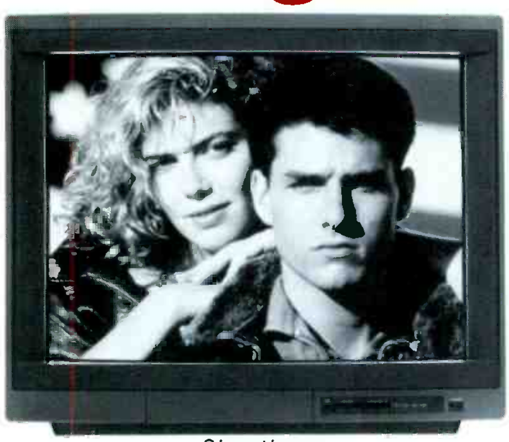

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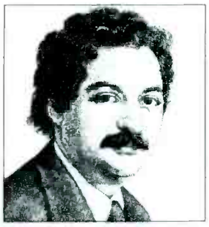

by Merrill Brown

'People in broadcasting have to know that they are not just in any business, but in the most sensitive business this country engages in.'

MARKEY SEE, MARKEY DO

The quiet but meaningful storm that erupted over recent House hearings on the state of network news affirms a quality about Ed Markey that a lot of broadcasters are about to appreciate. The six-term Massachusetts congressman who, as head of the telecommunications and finance subcommittee, called the hearings, has ruffled a lot of feathers. "My own philosophy in politics is that you are known by the enemies you make, and I am very proud of the enemies I've made in my career," Markey said in a recent chat.

At least two major figures in the television industry—CBS chairman Laurence Tisch and Viacom chairman Ralph Baruch—have publicly chided Markey about holding the recent headline-grabbing hearings. But the criticism is only the first taste of confrontation Markey is certain to have with the television industry.

Rep. Ed Markey: 'You are known by the enemies you make.'

CYNTHIA JOHNSON

While broadcasters were lauding departing FCC chairman Mark Fowler at the recent National Association of Broadcasters parley, and cheering his calls for an end to the Fairness Doctrine, Markey was blasting Fowler's deregulation intitiatives and asking for a revival of regulation. According to Markey, the FCC under Fowler has "engaged in a blindly ideological drive to open up the free market . . . oblivious to the underlying public interest and public-trust concepts that are the foundation of our nation's communications policy."

From a man who has drawn the nuclear industry's ire and who prepared a critical report of the Interior Department scandal that led to the departure of its chief, James Watt, those are fighting words not to be ignored. For as Fowler exits, as moderate Democratic senators Ernest Hollings and Daniel Inouye take control of the Senate commerce-communications apparatus and as the nation begins a rethinking of deregulation, the 40-year-old liberal whose district includes suburban Boston's high-tech corridor is going to be someone for media executives to reckon with.

Although Markey was involved in telephone matters during previous years on the subcommittee, he has not been a leader on broadcasting issues and, as a result, is reluctant to set out his agenda. It is obvious, however, that he is disturbed by the Fowler years and their consequences. He appears committed, for instance, to the notion that the massive ownership changes in broadcasting and the relaxation of trafficking rules that permitted station trading have had disastrous results.

"To me it is extremely troubling that the FCC has looked at broadcast ownership the same way it might look at pork belly sales. Over the past three years, people with less of a commitment to the public interest, people who would deal with licenses as commodities, have entered this business," he says. "My own gut reaction is that it's for the worse and that we are going to have to propose new antitrafficking laws. People in this industry have to know that they are not just in any business but in the most sensitive business this country engages in. To the extent they don't understand that and treat it like any other consumer product, they are going to run into an obstinately committed opponent."

Listen to Markey on the subject of children's television: "I don't think we need any more evidence. There is palpable evidence that children's television has deteriorated and that there is less commitment to it, and it is clear that the trends in interactive TV are very questionable."

Markey says he doesn't want to spend limited resources finding compromises that solve debates between industries, such conflicts as the financial interest and syndication issue, but instead will use the panel to hold oversight hearings after deals are cut. And he also notes that his telecommunications and finance subcommitee has responsibility for financial markets and that the insider trading scandals and related problems will occupy half the subcommittee's time, up from about a fifth of its hours devoted to finance during predecessor Tim Wirth's chairmanship. But because the broadcasting industry has been altered by merger frenzy, the two fields offer Markey an opportunity to study the impact of mergers on both the telecommunications and finance fronts.

But on both facets of the panel's mandate, a major opportunity exists to have impact, make changes and garner headlines. After all, former Rep. Wirth is now Colorado's junior senator—in some measure a product of the clout and fund-raising capability the subcommittee chairmanship afforded him.

Granted, Markey admits, communications issues don't grab front-page headlines the way nuclear power, the nuclear freeze and James Watt have. But then again, Markey is clearly warning broadcasters that he intends to look at these issues as part of a bigger picture, rather than focusing on a mundane, limited policy agenda. "Nothing is more important than the effect the television set has on shaping who we are," he says. "It's a hugely important issue."

The man knows how to ruffle feathers. Don't be surprised if Markey becomes a leading player shaping the post-Fowler years in the industry. ●

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COMPANIES

Dick Clark Grows Up

by Adam Snyder

America's oldest living teenager takes his company public, but to Wall Street's consternation, he withholds some jewels.

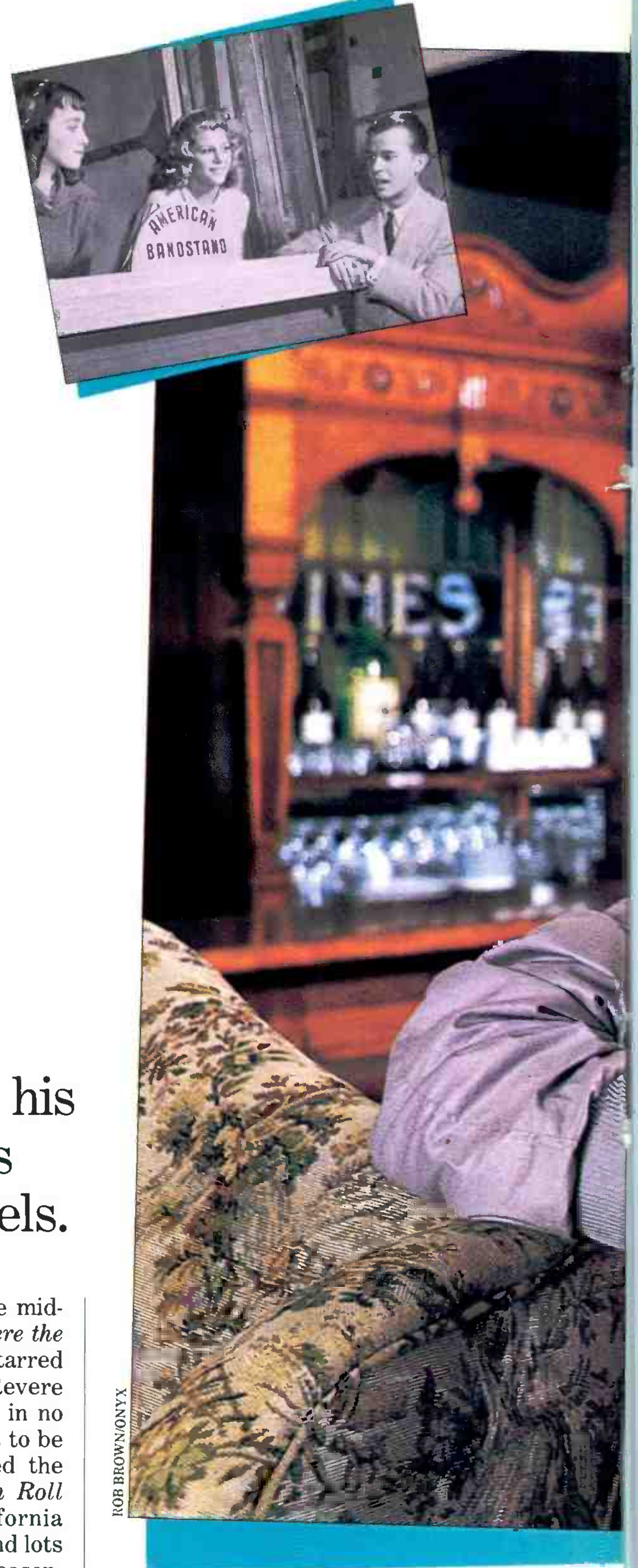
It was the spring of 1985, and ABC television had dug itself into a third-place hole in the Nielsens. When the network's programming chief, Lew Erlicht, decided to try and salvage a little something out of the summer months and introduce a new series in a season traditionally reserved for reruns, he had one person in mind to help him out. And so he called at home one evening the host of *American Bandstand* and *The $25,000 Pyramid*, America's perpetual teenager and TV's foremost purveyor of pop music, Dick Clark, who also happens to run one of the most successful production companies this side of Honolulu.

Commuting to work the next morning, Clark came up with an idea for ABC: an updated version of the mid-60s variety series *Where the Action Is*, which had starred the rock group Paul Revere and the Raiders. And in no time flat—three weeks to be exact—Clark presented the network with *Rock 'n Roll Summer Action*, shot on California beaches and full of nubile bodies and lots of soft-core rock music. Erlicht's reasoning: "I turned to Clark because no one is more prolific. Even at the last minute I knew I'd get a show with a beginning, middle and end that I wouldn't be embarrassed by."

Rock 'n Roll Summer Action produced meager ratings for ABC and lasted only two months. But Clark, renowned for delivering a professional-looking product quickly and on a modest budget, was, as always, assured of a profit.

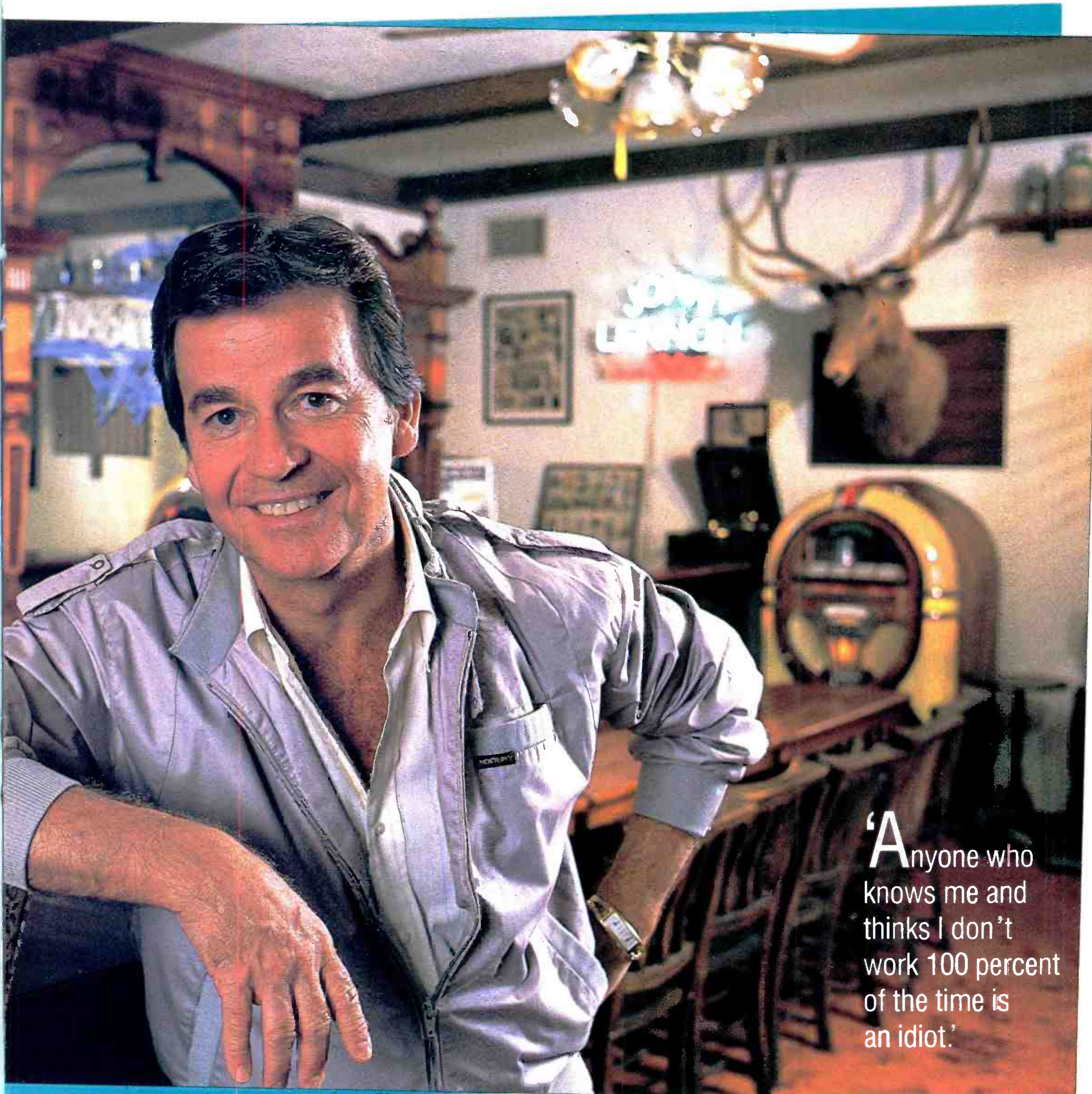
The story exemplifies what has traditionally been Dick Clark's weakness as well as his strength with the more than 180 shows he has produced for television during the past 30 years. While his no-risk strategy avoids losing money on individual productions, it also precludes the large profits made possible by hits with vast back-end potential.

Now, at 57, Clark is trying something different, a strategy fraught with risks for his huge empire. He is entering a much more lucrative arena by creating programs with a potential shelf life but that also involve deficit financing. Rather than risk his own money, however, he has gone the way of a number of Hollywood



ROB BROWN/ONYX

Free-lancer Adam Snyder is working with singer/businessman Jimmy Dean on Dean's autobiography.



'Anyone who knows me and thinks I don't work 100 percent of the time is an idiot.'

bigwigs and taken Dick Clark Productions Inc. (DCPI) public.

For Dick Clark, one of television's most accomplished pitchmen, the peddling of his company to the financial market should have come naturally. But Wall Street doesn't function as Hollywood does, although in finance as in entertainment, timing is everything.

Unfortunately, Clark chose to take his company public at a time when initial public offerings (IPOs) in general and entertainment stocks in particular were weak, and the company didn't have an easy time of it. Investors balked at gambling on a producer principally churning out one-shot programs for survival. What's more, there was skepticism on Wall Street after Clark personally retained some of his most lucrative holdings, including his radio network and real estate properties.

But Clark's story is more than just that of a producer/star raising equity. It is a story that tells a great deal about the changing nature of TV financing, the links between celebrity and entrepreneurship and the growth of speculative Hollywood investments.

In the wake of Cannon Picture Group's serious financial difficulties and Grant Broadcasting's bankruptcy late last year, Wall Street was inevitably skeptical of new entertainment issues, especially ones with as many oddities as DCPI. In putting together the deal, several jewels were omitted, leaving little beyond a production company with a value more tied up in future shows than in today's assets. Clark's company's 1985 revenues, for instance, totaled $55 million, with profits of $12 million. But with a few of the more

A Check on Spelling

Last summer, Aaron Spelling led the charge of famous producers cashing in and taking their companies public, and the stock has faced problems ever since.

In the late '70s, with such hit programs as *Charlie's Angels* and *Love Boat*, and later, serials like *Dynasty*, Spelling-produced programs represented more than a third of ABC's prime time lineup. But when his star faded, Spelling was forced by skeptics to abort plans to sell 6.3 million shares for $14 to $17 a share. Only 5.5 million shares were sold, whereupon the stock fell until Spelling's friend Marvin Davis paid $12 million for about 10 percent of it, which boosted the price to $16. Then it fell again and was rising close to $11 this spring.

Spelling's biggest problem is that his shows have lost favor with the public and with cost-cutting ABC. His *Life With Lucy* was a major failure last fall and there's considerable doubt whether the tight-fisted, careful management of Cap Cities/ABC will renew Spelling's contract when it expires next March.

But unlike DCPI, Spelling has, during his glory years with ABC, produced programs with considerable shelf life. Unfortunately, many of his most popular series, such as *Fantasy Island*, *Charlie's Angels* and *Hart to Hart*, were sold to Columbia Pictures in 1982. But the company has retained a valuable library of more than 190 hours for syndication, a wealth of shows such as *Love Boat*, *Dynasty* and *Hotel*.

lucrative holdings kept private, the restructured company reports 1985 earnings of just over $28 million and pretax income of only $4.1 million. (An accounting change lowers the revenue somewhat, DCPI officials point out.)

"My only complaint is that we're not getting enough of Dick Clark," says Norman Fosback, editor of *New Issues*, an influential investor newsletter. Fosback, who likes Clark's record, notes that he is "extremely generously compensated but is under no obligation to devote anything approaching full time to his company. It casts a shadow over the offering that Dick Clark is not more involved. I see him as a part-time manager."

Despite these criticisms, not many brokerage houses are publicly dumping on the Clark offering. The big full-service firms are enamored with celebrity issues because they provide a hook for customers. According to one stock dealer, "The market loves these stocks because when you call a customer and say, 'How about Viacom?' they practically fall asleep. When you call and say, 'Dick Clark,' people stay on the line."

Four decades ago Richard Wagstaff Clark's Mount Vernon, N.Y., high school class voted him "the graduate most likely to sell the Brooklyn Bridge" and he's never looked back. After high school Clark moved with his family to Utica, where his father, after years in cosmetics, became a radio sales manager. Clark got a summer job at the station and, working up from the mailroom, soon started doing station breaks and news.

By Clark's senior year at Syracuse University, he was working for a dollar an hour at WOLF-AM. In 1951, he moved to Philadelphia to work for WFIL-AM. There, he launched *Dick Clark's Caravan of Music*, which later underwent a name change to *Bandstand* to correspond to the WFIL-TV program of the same name. In the summer of 1955 Clark got his big chance to host TV's *Bandstand* and suddenly was the permanent host of a program that was capturing the hearts of America's teens. Clark worked out a royalty deal in 1957 that evolved into total ownership of the show, and *American Bandstand* was picked up by the ABC network. At the same time, he began accumulating the rights to hits and deftly promoting a lucrative road show called *Dick Clark's Caravan of Stars*. By age 30, he was a millionaire.

Clark's career was momentarily slowed by the payola scandal in the 1950s and 60s. He told a House committee that except for a fur coat and two pieces of jewelry that a record company executive had given his wife, he had never received payment from anyone in the recording business. More importantly, he said he had never agreed to play a record or have an artist perform in return for cash or other considerations. Although Clark's testimony was never contradicted, the bad publicity hurt. A magazine column he wrote was canceled, the public relations firm headed by Gene Shalit dropped him as a client and *The Washington Post* coined the term "Clarkola." The scandal also led ABC to force its disc jockeys to divest themselves of all financial involvement in the music recording and publishing fields. Clark, compelled to choose between his music holdings and *Bandstand*, took *Bandstand* to Los Angeles in

Dino's Dilemma

Dino DeLaurentiis has produced films much the same way Dick Clark has TV programs: He persuades other people to pay for them and walks away with lucrative fees, regardless of the films' success. But after a stream of losers, studios cooled to DeLaurentiis and he then found another willing investor: the American public. DeLaurentiis Entertainment Group (DEG) last year raised almost $90 million in an initial public offering and in a debt offering.

DEG was fortunate it went public when it did. Had it waited until the end of summer, after two colossal clinkers, *Tai Pan* and *Dune*, it wouldn't have fared so well. Even so, DEG hasn't sparkled. After coming out at $12 a share, last year it dipped under $10, and despite a strong market has only rarely crept above opening price. DeLaurentiis and the other producers-gone-public know that only one thing will boost their stock prices: good old-fashioned hits.

DEG does have the advantage of owning a valuable library of more than 320 films, including such hits as *The Graduate*, *The Lion in Winter*, *Carnal Knowledge*, *The Producers* and *Romeo and Juliet*. The DeLaurentiis Group is also entering television, producing and distributing a weekly half hour called *Hollywood Closeup*. Other projects for the 1987 television season—the comedy *Honeymoon Hotel* and a network miniseries, *Noble House*—are in various stages of development for fall.

1964 to expand his TV interests.

Subsequently, he sold the networks on such classic innovations as lip-syncing, air concerts (miming musical instruments) and allowing viewers to determine the winners of beauty pageants by phone. The titles of his programs are part of TV lore: *Celebrities . . . Where Are They Now?*, *The Most Beautiful Girl in the World* and *Men Who Rate a 10*. This spring he hopes to contribute a new one with a planned ABC show called *Superstars Salute Their Mothers*. Although Clark once worked almost exclusively for ABC, today he may be the only producer with simultaneous deals with ABC, CBS, NBC and a flock of syndicators.

Clark's first production efforts were *Bandstand* clones, mostly daytime variety shows hosted by either Clark or a well-known performer. But another big break came in 1974 when ABC dropped the Grammy awards and went looking for a cheaper alternative. Clark came up with the idea for the *American Music Awards*, which became one of Clark's first forays into prime time, and perhaps his most important. The show has been produced by Clark for the past 14 years and is probably its most highly regarded, typically second ranked among all awards shows, trailing only the Oscars.

Recently, however, the company has managed to break the musical stereotype with such productions as the theatrical film *Remo Williams*, a TV movie called *The Demon Murder Case*, the miniseries *Murder in Texas* and the specials *You Are the Jury*. Today, Dick Clark Productions is among the most successful independent production companies in the industry, having produced about 150 hours of television in each of the past two years. "We're in a wonderful position," says Clark. "We make things people need."

But Clark's latest venture—the sale of about 15 percent of his company—has focused more attention than ever on his operations, skills and potential liabilities. Early this year, as a result of the weak market and the fact that DCPI, like recent show-biz issues, is only as valuable as its next product, his IPO raised a mere $8.2 million, about half its initial expectations. "These [producer stocks] are speculative," warns Steven Aronoff, a Scudder, Stevens & Clark analyst. "You have to be very careful what you buy."

Clark's big-league success notwithstanding, his youthful persona still makes him seem like a teenager trying to break into grown-up programming and, this year, into public finance. DCPI's ivy-covered, mock Tudor headquarters is a three-story Burbank building directly across the street from NBC, and suggests a dorm more than a growing public company. Clark dons a tie only for business meetings or dressy evening activities. Walls are covered with memorabilia, often from the early rock-and-roll years—awards, gold and platinum hit records and photographs of Dick with Fabian, Connie and Frankie. The conference room is designed as an English pub, filled with souveniers such as Elvis' cape, John Lennon's boots and Rudy Vallee's megaphone. Clark's four dogs roam freely in and out of his office, which with its authentic apothecary counter for a desk, resembles a crowded antique shop.

But Clark's seriousness of purpose belies his adolescent image. Clark today is a blend of businessman, entrepreneur and showman. He has earned a reputation for knowing what the public—or at

Richie Gets Rich

Ron Howard's company, Imagine Films, had the best reception of all the production groups to go public recently. At the age of 33, Howard already has a remarkable record, first in starring roles in the *Andy Griffith Show* and *Happy Days*, then as director of hit films *Splash* and *Cocoon*. Neither Howard nor co-chief executive officer Brian Grazer had prior management experience, but their IPO last year raised over $13.4 million. The unit price came out at $8 and immediately leaped to $18 3/4 before falling to the more realistic $12 range.

Unlike Clark's generous arrangement with DCPI, Howard has agreed to devote 100 percent of his work to Imagine. Lucasfilm, for example, is paying Imagine, not Howard, $2.15 million for him to direct *Willow*, an action-adventure fantasy due to be completed this year. Howard will see a percentage of this money, but he is only guaranteed a $450,000 salary for his work on the film.

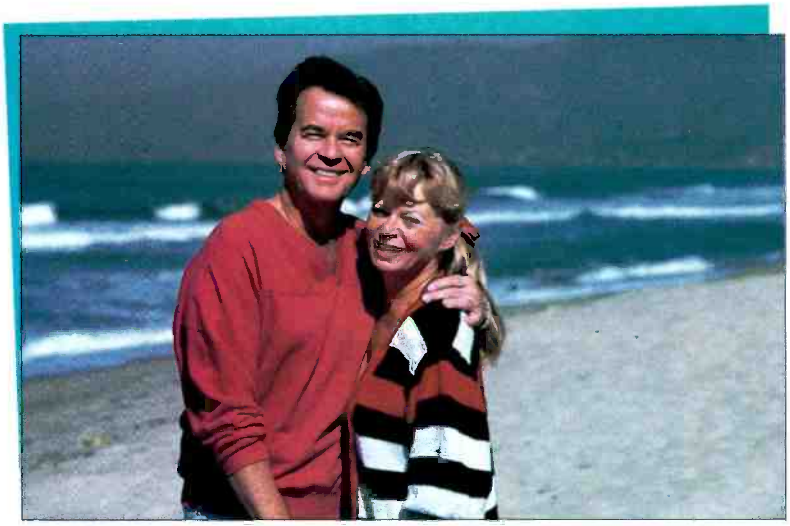
Imagine's goals call for the production of TV shows likely to generate the 60 episodes necessary for syndication—the principal source of profit in television production. Its first television venture, *Gung Ho*, based on a Howard feature film of the same name, was canceled by ABC after its first year. But Imagine hopes for hits with other shows in production, such as *Ohara* starring Pat Morita, *The George Segal Show*, or with its nine other series presently in various stages of development.

The Furia Folly

You don't have to be rich and famous to take your entertainment company public. Take The Furia Organization, a tiny television and film concern. In June 1984, television producers John J. Furia and Barry Oringer formed Furia, Oringer Productions Inc., and a year later raised $3 million in an IPO. But with fiscal 1986 expenses of about $1.6 million and sales of less than $300,000, the operation stalled. NASDAQ delisted it because it no longer met minimum equity requirements of $375,000. Furia's original prospectus lists 38 projects in development but almost all are unsold. The only bright spot: ABC's March airing of *We Are the Children*.

In a final survival effort, staff was cut from 11 to six, Oringer resigned and the name was changed to The Furia Organization. A share of stock, now on "pink sheets," could be bought recently for as little as about two bits, down substantially from its opening price of $1. But executives admit that even with cost cutting, Furia can survive only through about the middle of this year without an infusion of new funds.

Unlike several other risky entertainment offerings, investors who lost money on Furia have no one to blame but themselves. In a warning as prominent as the surgeon general's on a cigarette pack, Furia's prospectus makes it clear that the stock "should be purchased only by persons who can afford to lose their entire investment."



On the Malibu beach with his wife Kari: "Success is quality; quality is success."

DAVID BURNETT/CONTACT

least the networks and, more recently, the major syndicators—want, and giving it to them inexpensively. "They [DCPI] have become a port of first call for the networks when they are in trouble, and they're always in trouble," says Enrique Senior, the banker at Allen & Company who directed DCPI's IPO.

Many network executives agree. "He provides one-stop shopping," says Roger Vail, NBC's manager of specials and variety programs. "He has a wealth of information and talent in his organization so it's easy to contact him and say, 'Okay, what can I plug into that can be ready in eight or ten weeks?' " Group W Productions president and chief executive Edwin Vane, a Clark friend for 25 years, says Clark "does a quality job with short notice. And he does it with great professionalism—no 20-minute speeches with no point to them. He can literally do everything."

Clark and his associates offer no apologies for the mass-audience nature of what they make. "Success is quality, quality is success," says Clark's 30-year-old son, a DCPI producer nicknamed Rac (Richard Augustus Clark) to differentiate him from his father. Stock analysts seem to agree."What's quality to the opera buff is not quality to the baseball fan," says Hal Vogel, the Merrill Lynch vice president in charge of entertainment and leisure. "You'd have to say he has quality because his business has been so successful over the years. Quality is in the eyes of the beholder."

Indeed, Dick Clark Productions has a solid history of growth and black ink. The company is debt free, and between fiscal years 1982 and 1985 it grew at a compound annual rate of 34 percent, with profit increases of 30 percent annually. In 1986, however, sales and profits were up only 15 percent.

Because of the company's reputation as a reliable, low-cost miracle worker, networks and syndicators are willing to foot development and production costs, enabling it to operate virtually risk free. But regardless of its past success, 1987 (the company operates on a June 30 fiscal year) will be a critical year. Net income for the first two quarters totaled $1.8 million, down from $2.35 million last year, and revenues totaled $14.1 million, down from almost $19.2 million in 1986.

Income is suffering a sharp drop because the company delivered a made-for-TV movie that boosted earnings the previous year, and because *TV Bloopers & Practical Jokes* has been dropped by ABC and is going into syndication. *Bloopers* and *Bandstand*, which also goes off ABC and into syndication as of August, generated more than 50 percent of profits for each of the past three years. *Bandstand* had been increasingly preempted by ABC, often because of college football. Then last year, ABC offered a three-year renewal, but only if the hour-long show was cut in half. Instead, Clark promptly signed a deal with LBS Communications and, after 30 years on ABC, the program will seek new generations of teens via syndication for the first time during the 1987-88 season.

"There were a lot of years when, for personal pride, I wanted it on a network," Clark says. "But the world has changed. It doesn't matter anymore. The cutting to a half hour—I couldn't let happen. It hurt my feelings that they'd even suggested it." The old shows will continue to bring in money, too, having been edited into a hot home video called *Dick Clark's Best of Bandstand*.

DCPI president Francis C. La Maina predicts that in syndication *Bandstand*'s market penetration will increase from its present 60 percent to more than 80 percent, and says that if ratings rise because of better time placement, its profitability could double or triple.

Building *Bandstand* in syndication is, however, just one of the company's major challenges and just one of the questions raised in investors' minds by the limited nature of the DCPI public offering. To begin with, the substantial compensation Clark receives for hosting Bob Stewart Productions' hits, *$25,000 Pyramid* and *$100,000 Pyramid*, is completely outside the public company. Clark is also the major owner of the highly profitable United Stations Radio Networks, which distribute more than 54 hours of weekly programming to over 2,000 radio stations. Just before the offering, the network was spun off into a separate subsidiary having no relationship with the new DCPI. And although *American Bandstand* is owned and produced by the public company, its service mark has been retained by Clark, who has given DCPI a ten-year exclusive license for its use. Clark says the holdings omitted from DCPI "were too valuable to include. We were creating a public television company, and the entitites we omitted were outside this area."

But some analysts are even more troubled over the time and energy other activities will take from Clark's involvement with DCPI. He spends four or five days a month taping *Pyramid* episodes and about the same amount of time recording two four-hour weekly radio programs, *Rock, Roll and Remember* and *Countdown America*. According to Nick Verbitsky, president of United Stations, he and Clark chat virtually every day. Furthermore, Clark's employment agreement permits him to spend as much time as he likes on personal business, which include consulting to companies such as the record store chain, Musicland. La Maina, who has been with Clark for more than 20 years and is involved in most of his activities, has the same freedom.

1986-1987 TELEVISION PROGRAMMING

TITLE *(Network or Syndicator)*

SERIES

American Bandstand *(ABC)*
Puttin' on the Hits *(MCA)*
Puttin' on the Kids *(MCA)*
Keep on Cruisin' *(CBS)*

ANNUAL SPECIALS

New Year's Rockin' Eve *(ABC)*
American Music Awards *(ABC)*
Academy of Country Music Awards *(NBC)*
Golden Globe Awards *(Syndicast)*
Lou Rawls' Parade of Stars *(Syndicast)*
Black Gold Awards *(Syndicast)*
ABC Fall Preview Special *(ABC)*

SPECIALS

All-Star Caribbean Cruise *(Syndicast)*
My Home's in Alabama *(CBS)*
Superstars Salute Their Mothers *(ABC)*
Uncensored Channels: TV Around the World with George Plimpton (two specials) *(HBO)*
You Are the Jury (two specials) *(NBC)*
Whatta Year! . . . 1986 *(ABC)*

La Maina says that even with outside interests Clark typically spends 60 hours a week on company business. By all accounts Clark is always working, even doing business via phone while changing costumes in between the 15 *Pyramid* tapings he does every other week. "He has incredible energy," says Launa Newman Minson, director of special programs at ABC. "He's hands-on and never far away from a project."

Clark says that "anyone who knows me and thinks I don't work 100 percent of the time is an idiot. The average CEO works fifty or sixty hours a week. That's my minimum. All of what I do is related to the entertainment business, all of which helps the public company. It's not as if I'm in the shoe repair business on the side. That I am in the public eye doesn't do the public company any harm."

Clark and his associates attribute his tireless pace and his eagerness to play roles from CEO to game show host to his simple love of work. *Forbes* recently estimated his personal fortune at $180 million and Clark clearly doesn't need money. Says Group W's Ed Vane: "Dick would rather be doing what he's doing than anything else, more than lying on the beach, or sitting home with a book, or going out on the town. He likes being prominent and being recognized, and I don't see him about to change that."

Clark and his wife, Kari, have retained approximately three quarters of the public company's regular common shares and 90 percent of the Class A stock. Clark's $750,000 annual salary, which will increase as soon as DCPI's pretax annual profits top the $7 million mark, is supplemented by generous fees for all on-air performances, not only those outside the company's domain such as *Pyramid* and the radio shows, but also all company-produced programs, including *Bandstand*, a package certain to bring Clark several times his salary. He also owns the two buildings that house DCPI. A holding company controlled by Clark receives $570,000 annually in rent.

The structure of the IPO was among the reasons Wall Street viewed the offering as overpriced. After analysts balked last fall at buying large blocks of stock, the company filed an amendment to the offering two weeks before its first day of trading that reduced the number of shares for sale from 1.6 million to 1.1 million and dropped its opening price range from $8-$10 per share to $6-$8. Although DCPI was aided by a year-end stock market boom, the offering performed less than spectacularly. After coming out at $6.50, the stock price quickly rose to $8, but then fell to $6, making the market value about $50 million. It has languished near there since. After underwriters' discounts, the offering netted DCPI only $7.6 million, a sum that might have come from Clark's checkbook.

Earlier, Clark could have taken the route of Merv Griffin Enterprises—acquired by Coca-Cola—and sold DCPI outright. In the fall of last year Clark had an offer from what he describes as a large firm outside entertainment. "We took two days to think it over," he says. "But we believe we have a solid foundation, a 30-year record of dependability. Common sense tells you that with all the activity we generate, this can become an explosive growth company. If that's true, why should we sell it? All the good that would come to us would accrue to the buyer."

Noting all the difficulties and controversy that come with going public, Clark and DCPI officials say they took the step for several reasons. One was to take advantage of the growth potential of DCPI at a time of increasing demand for programming, while at the same time avoiding having to obtain large amounts of financing from increasingly cautious major production companies.

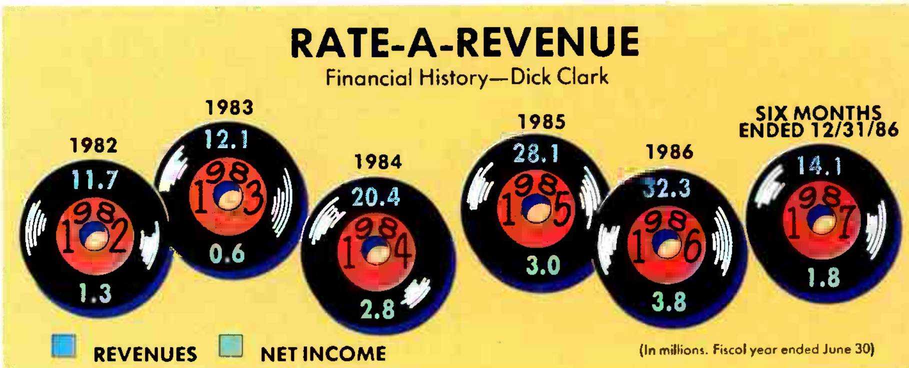
More importantly, DCPI executives explain that the primary reason they went public was to use the new stock to attract talent. Norman Fosback agrees that stock options are a preferred form of incentive for creative talent, but notes that Clark may have gone public to enhance his own and other executives' holdings. "A company that is publicly traded is worth more than one that is private," he says. "There is a trading market, more buyers; in general the price is higher. Going public will also put them in a better position to borrow."

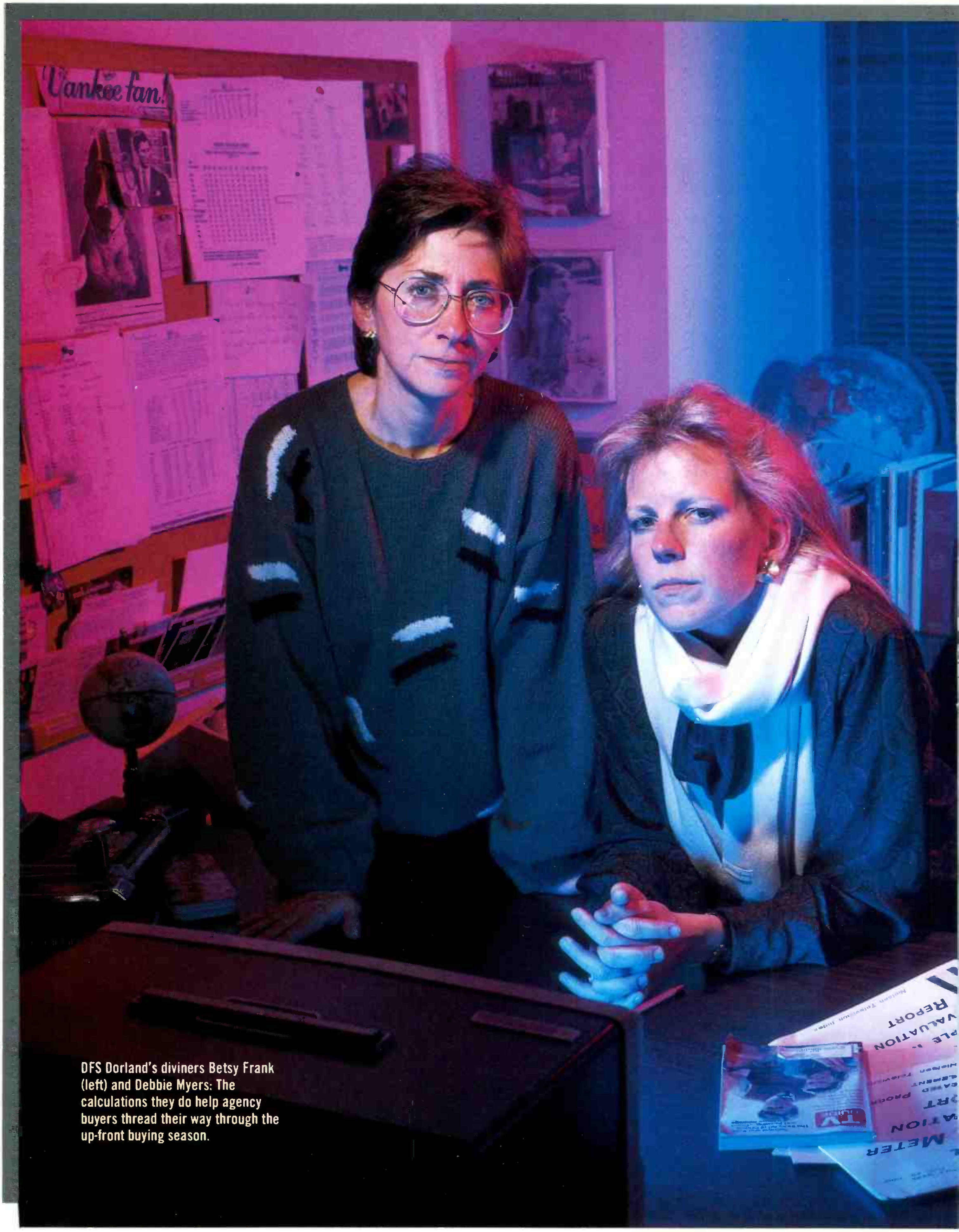
La Maina and Clark both recognize that in order to offset 1987's expected results and to build the company into a much larger entity, major expansion is needed. The influx of capital from the public offering, combined with another $8 million or so in cash on hand, will be largely used to develop sitcoms, game shows and two talk shows for the 1987 season. Malrite Communications is funding development of an afternoon, five-day-a-week "relationship" program hosted by radio adviser Dr. David Viscott, and MCA is attempting to sell DCPI's *The Lou Kelly Show*, a talk show hosted by a puppet. Another attempt at a game show—a morning show hosted by Barbara Mandrell—failed to get clearance.

DCPI is developing two theatrical films, *Vendetta* for Disney and *Bandstand* for 20th Century Fox, and several TV ideas. But so far only *Ellen's World* about a housewife with an active fantasty life, and *Remo Williams*, based on the theatrical film, have commitments for pilots from ABC. In addition, CBS has ordered another fourteen episodes of the late-night music show, *Keep on Cruisin'*, while NBC has picked up a fifth episode of the specials, *You Are the Jury*.

During the past year Clark has produced *Puttin' On the Hits* and *Puttin' On the Kids*, both first-run syndicated shows for MCA, and a variety of specials for ABC, CBS, NBC, HBO and Syndicast. The company also intends to enter the lucrative game-show arena, although ironically it is prevented from playing its strongest card because Clark is barred from hosting another game show until his contract with *Pyramid* executive producer Bob Stewart expires in 1990. Clark says the shows can stand on their own, but *Pyramid* producer Francine Bergman thinks otherwise: "Dick Clark is so associated with *Pyramid* you don't know where one starts and the other stops. He's the best emcee there is." La Maina and Clark also think they'll be doing their own syndication down the road, and *Bandstand* is a candidate. But even with the bold plans made possible by the IPO, Clark and La Maina say they won't junk their risk-averse outlook.

At the same time, the vigil for "home runs"—programs that have more of a shelf life than the one-shot specials they are known for—continues. And the risks of competing with the majors intensifies. But Clark remains confident: "We're like a good automobile that runs real well. If we tune up the car a little it might run faster and it might win more races. If you win just one or two races, you've got something very valuable. We're not going to do *Cosby* or a *Wheel of Fortune*. Those are the impossible, the biggest in their fields. But we should be able to generate a *Divorce Court* or a *Newlywed Game*. They aren't the runaway hits, but say you only make $20 million?" ●





DFS Dorland's diviners Betsy Frank (left) and Debbie Myers: The calculations they do help agency buyers thread their way through the up-front buying season.

MIKE FULLER

The Oracles of Madison Avenue

Advertising agency numbers-crunchers can predict with astonishing accuracy just who and how many will watch a network television program.

by James Traub

The most compelling thing happening in the television industry this month is the arcane deliberations of the major advertising agencies' media-research veterans. With a pretty good sense of the networks' fall prime time schedules in mind and fresh—or faded—from screenings of the pilots, agency numbers-crunchers will convene to prophesy ratings. They predict the performance of each program in more than a dozen demographic categories; they predict variations from week to week; finally, they predict the value of a commercial running on an untried program. Then they hand the stacks of numbers to their colleagues who buy network time for the agency's clients. So armed, the buyers sally forth to do battle with the network salesmen, who are equipped in turn with their numbers.

Thus begins the up-front buying season. By its end, advertisers will likely have purchased some $2.5 billion worth of prime time commercials.

In the years of single-sponsor programs, up-front buying actually determined what went on the air. Now it secures for advertisers a guaranteed number of viewers in the demographic category of their choice and reserves specific time slots for seasonal ad campaigns or special promotions. Clients who prefer to hold on to their money in the hope of lower prices make their buy instead in the so-called scatter or spot markets.

Up-front buying is always a calculated gamble. This year, in the tumult following Nielsen's switch from diaries to the people meter, that gamble will make such bargaining more precarious, more contentious than ever. Tests of the meters show fewer viewers than the diaries did, and above all fewer 18-49-year-old female viewers—the single most desirable demographic group. The networks, worried about a possible drop in revenues, have already begun darkening the skies with threats. NBC, in particular, has spoken of withholding some up-front commercial time, in the hopes

Contributing editor James Traub last wrote for Channels *about* Washington Post *television critic Tom Shales.*

that it can command better prices in the scatter market.

The analysts' process of projecting numbers for the fall programs begins with two mighty bursts of hype staged by the networks to dazzle agencies and advertisers into uncritical euphoria. In March, ABC, CBS and NBC held gatherings in Los Angeles to show off pilots in development. Promotion executives groped for earth-shattering descriptions. Every new pilot, observes Debbie Myers, associate network director of the DFS Dorland/New York agency, is "just like *Cosby*" or "just like *Moonlighting*," or, if at all possible, both. ("We've got a black *Moonlighting*. And is it warm!")

In mid-May or later, the upcoming season's prime time schedules are announced. One after another, the networks throw lavish parties in New York, trotting out stars and carefully edited clips.

In the light of day, the analysis begins. At most agencies, the head of the media department calls the share-projection meetings within a week of the network screenings. The cast includes time buyers; the network director, who functions as the in-house TV critic; and the head of network research, who must keep track of innumerable influences. The meetings are generally described as something like the commodities trading floor. The head of network research reads out projections and analyzes the trends behind them—and then he or she ducks. When the gang gets buffaloed, at least at BBDO, says the agency's media director, Arnie Semsky, they spin something called the "Share Point Decision-Maker," a cardboard wheel whose last-resort answers include "Use last year's" and "Add two."

In fact, the tonnage of statistical data to assimilate is immense, and it may be several weeks before the media department has plugged in numbers in each of perhaps 20 demographic categories for every prime time show in the schedule.

The crucial thing to understand about this process, and about the whole apparently mysterious question of what works on television, is that *very little is left to chance*. Books, movies, plays and restaurants succeed or fail on their own appeal. TV shows, especially new ones, do not. Their success is dictated by a series of well-known factors that can be, and are, reduced to numbers. Virtually the same-sized audience watches one of the three networks at 9:30 every midwinter Wednesday night—the same number of young women, children, old men and so on. A new show, or a show in a new time slot, can attract viewers only by causing defections from the established shows.

Then there are the iron laws of pro-

Sometimes the numbers gang gets stumped at BBDO, and when they do, a spin of the dial settles the matter.

gramming and counterprogramming. A show with a strong lead-in generally does well, while a show with a poor or incompatible lead-in usually does not. A show in a particular genre will attract a predictable audience composition. Despite the vagaries of taste a show's prospects can be largely foretold.

Share projections, therefore, tend to be more accurate than, say, economic forecasts. This past season, the major agencies correctly predicted that NBC would again win the ratings race, followed by CBS, then ABC. Most correctly predicted that NBC's *Amen*, *Matlock* and *L.A. Law* would head the pack of new shows, and that virtually all of ABC's entries save *Head of the Class* and *Jack & Mike* (which has *Moonlighting* as its lead-in) would fail.

But the same rules that make ratings predictions relatively mechanical have the effect of magnifying small errors. BBDO media chief Semsky, a fast-talking, numbers-fluent man with a ready explanation for everything—an occupational trait—is proud that he correctly pegged *The A-Team* at a stunning 35 share its first season. But he doesn't mention that he thought it would win a 25 this past year and lead *Miami Vice* to a tie with *Dallas*, giving Friday night to NBC. He was wrong. *The A-Team* managed only a 22, losing out to CBS's *Scarecrow and Mrs. King* before NBC gave the show the hook. Owing in part to a strong lead-in and in part to actor Patrick Duffy's unforeseeable return, Semsky says, *Dallas* has been creaming *Vice*, and CBS has locked up Friday, as most other analysts expected. Meanwhile, the head of media at Ted Bates, the donnish Joel Segal, Groucho eyebrows jumping over his half-glasses, boasts that he predicted *Vice*'s decline. But he concedes that he underrated *Cosby* and *Family Ties*, which in turn made him overrate *The Colbys*. If share projection were an exact science, the nets wouldn't turn out so many fiascoes.

With the advent of the up-front buying season, the numbers action shifts from ratings to dollars. Between one-half and three-quarters of the roughly 50,000 available prime time commercial spots are generally purchased in the up-front market. Negotiation takes the form of dueling numbers. The agency buyer presents the network salesman with a client's target. Sometimes the advertiser wishes to reach a certain number of households; more often, it is a certain key demographic group. The salesman then returns with a schedule designed to produce the number and kind of viewers the advertiser wants, when he wants them—so many spots on *Cheers*, so many on *The A-Team*, so many on a new sitcom like *ALF* that the network is trying to push.

And now the numbers—and the discrepancies between them—take command. As Allen Banks, director of media at DFS Dorland explains, "The network may say, 'You're going to generate 100 rating points a week with this package.' And we say, 'According to our estimate, it's only going to do an 80.' So the network says, 'We'll charge you for a 90 instead,' " or the network may stick to its guns—it depends on a host of factors including the client's importance, the amount he is spending in other dayparts, and the network's confidence in its schedule. In the years before people meters, the gap between the networks' and the advertisers' expectations generally came to about 15 percent of projected ratings. This year it's anyone's guess. Says Semsky, "We spend a lot of time in the gap." Stray to the network side and you overpay; bring the network to your side and you can't go wrong.

The networks guarantee the schedule, so if the advertiser doesn't get the agreed-upon ratings, the network will fork over free time, known as bonus units or make-goods. But the replacements may come on the wrong show, or at the wrong time, particularly if the ads were pegged to a sale or promotion. Projecting possible weekly variations in ratings, analysts must thus ask themselves questions like, "What will the World Series competition do to *Cagney & Lacey*?"

When Betsy Frank, network director at DFS Dorland, and Debbie Myers, the agency's associate network director (see sidebar), persuaded the agency to list *ALF* as a modest success, that in itself didn't secure a buy for the show: In the up-front market, clients pay for packages of rating points rather than individual programs. But without their recommendation, the agency's buyers might have tried to weed *ALF* out of the package.

ALF has turned out to be that supremely desirable object of the share-projection game, a sleeper. NBC sold the show at a 21 share. As of this writing, *ALF* had hit 25 and was still rising. It will help those clients who bought it to reach their target audience without having to resort to bonus units, even if they bought other shows that underdelivered. And that equation, obscure as it sounds, is the very soul of television.

The 1986-87 season, most analysts agree, was unusually dull. "The word 'blah' is pretty good" as an overall description, says Joel Segal. Segal expects next season to be even more nondescript, with the cost-conscious networks seeking a cheapest common denominator in programming.

But other analysts are more sanguine. Alec Gerster, head of media at Grey Advertising, says he expects the two new network program chiefs, Brandon Stoddard at ABC and Kim LeMasters at CBS, to try to distinguish themselves through innovation. The growth of Fox Broadcasting will throw another wrench into the prognostication machinery. And people meters will create a new layer of uncertainty. Even if, as Arnie Semsky suspects, rumors that NBC will refuse to guarantee its shows or withhold some up-front time are just "a bit of sales posturing," people meters are sure to give a special twist to the usual wrangling. Maybe the blahs are over, at least for the moment. As Semsky says, not without a certain amount of perverse relish, "It's going to be a long, hot summer." ●

How They Do It

To help demystify the share-projection process, Betsy Frank, DFS Dorland's director of network research, and Debbie Myers, assistant director, agreed to run through their analysis of Monday, 8–8:30 P.M., for the fall '86 up-front buying season. Frank and Myers have a sort of Kate & Allie thing going. Myers, endearingly TV-obsessed, tells the dizzy jokes; Frank, the cautious statistician, plays the straightwoman. Bliss to Myers is watching *Ben Casey* and *The Beverly Hillbillies* on cable at 5 A.M. A restricted viewer as a child, she now, at 32, watches with indiscriminate abandon. Frank says she, too, loves TV, but not quite so single-mindedly. Much of the account that follows is Frank's:

MIKE FULLER

ABC's entry at 8 P.M., *MacGyver*, had begun the previous season on Sunday evening, where it had scored well with men and women aged 25-54 as well as with teens and children. Its demographic profile had been nonaffluent, strong in the Midwest and in less densely populated areas. After the football season ended, the show was moved to Wednesday at 8 P.M., where it retained its appeal to kids but lost some of its younger adult viewers. Now, at 8 P.M. Monday, it would benefit from football once again. In the West and West Central areas, where it would show *after* rather than before *Monday Night Football*, this would be especially so. In order to make the show more popular with men, ABC had made *MacGyver* more hard-edged and fast-paced.

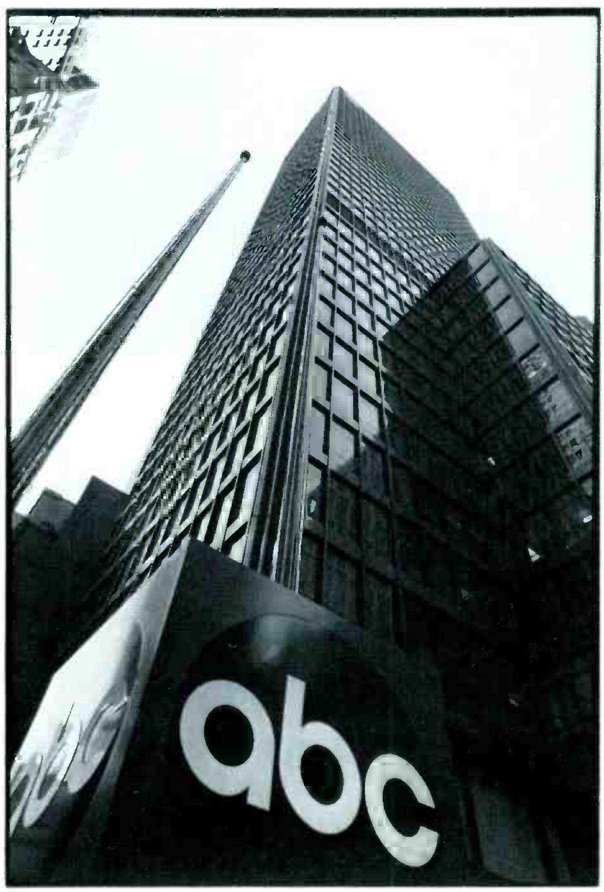
CBS, too, had been jiggering with its schedule. In order to make room for a new two-hour comedy block, *Kate & Allie* had been moved from 9 P.M. to 8 P.M. "When a show moves from 9 to 8," Frank says, "you don't know if they're going to make changes in the story." CBS did, making the show more youth oriented to appeal to kids.

The joker in the time slot was NBC's new show, *ALF*. Frank and Myers had been impressed with it at the network's annual wingding. "*ALF* was the strangest show we'd seen in a long time," says Myers. "Like *Cosby* with fur." Their counterparts at other agencies were not so won over. "It seemed like a dumb idea," says Joel Segal. "You couldn't command an adult audience." And *MacGyver* already had the kids. He and others projected that *ALF* would sink out of sight by the November sweeps. But Myers and Frank, with the instincts of the TV generation, noticed something else. "If someone read the story," says Frank, "they'd say, 'This is a children's show.' But if you listen to the dialogue, he's caustic, like a Borscht Belt comic. And he drinks beer—sort of a less wholesome Fozzie Bear." *ALF*, they reasoned, might not get the kids from *MacGyver*, but given its appeal and the demographics of its competitors, it might get enough young, upscale adults—the NBC audience—to hang on.

At the share-projection meeting, Myers and Frank ran into opposition from the agency's head network buyer, Mel Connors, who, they said, had once been high on *Mr. Smith*, a sitcom starring an ape, and wasn't about to get burned on another animal show. But Myers, Frank and others prevailed: *ALF* would live, if precariously.

DFS Dorland's media prophets predicted that *Kate & Allie* would get 27 percent of the audience in the fourth quarter, the period between the start of the new season and the end of the year. It got 28 percent. *MacGyver* they pegged at 23. It got 22. They awarded *ALF* a 22. It managed a 23. They estimated that 37 percent of *ALF*'s audience would be 16 or under. It came out at 35 percent. The show has, in fact, had an upscale skew. In the share-projection trade, that's considered mighty fine shootin'. J.T.

WILL TEMPTATION UNDO THE TIE THAT BINDS



CARRIE BORETZ

by Steve Behrens

By all reports, CBS hit a brick wall when it proposed tinkering with the ancient and revered scheme of cash compensation for affiliate stations. "Our best advice was, 'Leave it alone,'" says Phil Jones, chairman of the CBS affiliates board and manager of KCTV, Kansas City. "We have *had* our discussions," said CBS senior vice president Tony Malara, after a passionate eight-hour session with six affiliate leaders on March 3. Jones agrees: "We felt it's *done*."

Some had feared the networks' new managers would unbalance or poison the long-standing deal that lets them broadcast commercials viewable in 99 percent of American homes, but the threat seemed to fade early this year at all three networks.

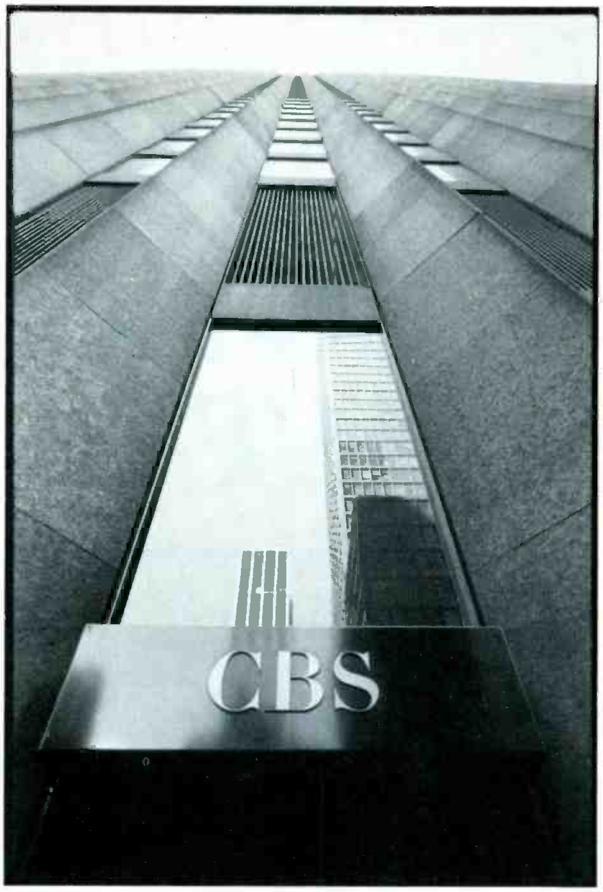
Like CBS, ABC had already run into affiliate resistance and, six weeks before the CBS meeting, compromised substantially on its previously announced cutbacks in affiliate compensation. And on the same day, January 21, NBC donned a white hat and gave its affiliates a complicated new deal that, according to affiliates chairman James Lynagh, boosts the network's compensation outlays 3 percent.

The first stone was cast by Little Rock: ABC wanted to revise its pact with affiliates.

But few participants in the annual affiliate meetings, this month and next, can honestly vouch that the issue has been settled or assert that the networks' vital distribution infrastructure is at all secure. The three networks and about 640 affiliates are still surrounded by the temptations and pressures that led two networks to review their affiliation pacts—temptations given voice by the analysts of Wall Street. "It is not surprising that such an uneconomic practice should be reviewed," says David Londoner, vice president of Wertheim Schroder. The deal that networks grant their affiliates would confuse any outsider, Phil Jones admits. "It's natural to ask: 'You mean you give them programs and pay them, too?'"

That's the deal affiliates are defending. A typical network, if there is such a thing, gives its affiliates the following: (a) programming that costs the network more than $1 billion a year; (b) advertising time to sell, mostly in the breaks between shows; and (c) $140 million in compensation checks.

In exchange, stations across the country transmit spots that the network sells for more than $2 billion. During the network's allotted hours, it gets much more salable airtime than the station—in prime time, for instance, ABC controls 80 percent of the commercial inventory. But network programs generally draw so many viewers that affiliates nevertheless profit handsomely from the deal, achieving an average margin of 29 percent in 1985. The networks' own margins, meanwhile, averaged a mere 9 percent. To the bottom-line managers now running the networks, something was amiss in the deal, and the temptation to tinker with it was—and most likely will remain—an irresistible temptation.



CARRIE BORETZ (2)

The deal originated in radio days, when William Paley needed independent broadcasters to commit airtime to the new CBS network. He gave them a portion of network ad sales—a fee that evolved into affiliate comp. TV networks later adopted the deal. "If they had stopped and thought about it," admits retired Houston broadcaster Jack Harris, "I don't think they would have done it." But the networks did, and they spent more and more on compensation over the years as they vied for the strongest stations.

That competition and a witches' brew of other factors have determined the affiliates' widely varying hourly rates on which comp is based. CBS lays out the highest total comp—$174 million, compared to NBC's $130 million and about $120 million at ABC, and there's a good reason why: CBS is defending the strongest affiliate lineup. In the 152 markets where all three of the networks have affiliates, CBS stations held the top Arbitron audience share last November in 51 percent, NBC in 36 percent and ABC in 22 percent.

Networks pay a premium for VHF stations. The sole "V" in one Midwestern market gets comp at three times the rate earned by the city's other two network affiliates, which have UHF channels, even though its audience is no larger.

Comp rates have gotten out of line for dozens of affiliates, and some will be trimmed. ABC is cutting the rates for about 15 stations by 15 to 50 percent. At the same time, NBC is cutting rates for a few stations and working with affiliates on reform of the rate structure: creating a standard index to set an affiliate's hourly rate by market size, by audience share compared with the network's, and other specific criteria.

Black Rock had to back off when it tried making compensation a stronger incentive to carry programs.

The networks' comp payments have grown, but not as fast as network or station ad sales. Though comp made up nearly a fifth of station revenues in 1950, it contributes just 5 percent today. Major market managers often regard comp as spare change—it provided only 2.9 percent of time sales in the top 10 markets. But comp is vital in markets 110 and smaller—the reliable source of more than 10 percent of revenues. Moreover, comp has intangible value—it's a key part of the basic network-affiliate deal.

If any network was in a safe position to risk changing the deal on its partners recently, it would have been the profitable and popular NBC. Instead, at an affiliate board meeting last December, it was Capital Cities/ABC that announced plans to trim comp.

"All indications are that they planned, over three to five years, to reduce compensation in the worst case by 50 percent; in the best case by 10 to 15 percent," says ABC affiliates chairman Mickey Hooten, television chief at Hearst Broadcasting. "If this is the way ABC treats us when it's number three," says an indignant manager, "God help us when it's number one."

Affiliate leaders were unmoved by their network's fiscal plight. Though ABC says it lost more than $70 million on its TV network last year, the parent Cap Cities /ABC reported a net profit of $447.7 million, doubled earnings per share and a stock price 65 percent higher than when Cap Cities acquired ABC. "I'm sick and tired of hearing about the network losing money, because the parent company is *printing* money and its network is one of the reasons," said one prominent manager. Affiliates sent letters of protest to the network and a special committee to deal with ABC's top brass. Late in January ABC compromised.

The network had originally planned to eliminate comp for a menu of such costly special programming as this year's World Series, *Monday Night Football* and next year's Winter Olympics. Instead, ABC zapped compensation for those shows in only the 100 largest markets, recognizing smaller stations' greater dependence on the cash. (Nobody would get comp for the miniseries *Amerika*.) The network had pruned $3 million in costs with minimal risk. Who would dare preempt the World Series?

CBS had also been warning that it would lose a modest bundle on its TV network this year—$20 million, president Laurence Tisch predicted—and preparing its affiliates for changes in the deal. CBS revealed the specifics at the March 3 meeting in Washington. Rather than pruning costs, as ABC had, CBS tried to make comp more effective in persuading stations to carry network shows. CBS proposed to hand out at least $10 million in bonuses for stations that increase their audience or clearance.

The touchy part was that the network also wanted to adjust comp with the same objective, increasing it during dayparts with clearance problems (including game shows and late night) and reducing it in prime time and other dayparts that are almost universally cleared anyway. Comp has always varied from daypart to daypart. CBS, for instance, has been paying affiliates 10 percent of their hourly rates for clearing the *CBS Late*

Night action-adventures. As an incentive, the network proposed to pay 40 percent instead. In prime time, it would have dropped the portion from 32 to 30 percent.

The proposals stayed on the table only a few minutes, recalls Joe Carriere, a former affiliates chairman who manages KBIM, Roswell, N.M. Compensation, the affiliates said, was nonnegotiable. But the meeting wasn't over; the affiliate and network representatives went on for eight hours, discussing what each side needed from the other. Both wanted more commercial airtime in prime time, to keep up with NBC's recent increases in network and affiliate inventory; CBS will add three and a half minutes a week this fall and the affiliates one and a half. Said CBS's Tony Malara: "The two partners walked away feeling good."

"We assured them we'd do all in our power to increase clearances," said Carriere. "CBS has a serious late-night clearance problem. In the meeting, I was the only manager clearing *CBS Late Night*, and I'm delaying it."

Affiliates chairman Phil Jones not only preempts the network's late night reruns in favor of syndicated reruns at KCTV, Kansas City, but he also drops a CBS midmorning game show to air a game show bought in syndication. Jones says he simply wants more time to sell. ABC can't even count on stations owned by its parent, Capital Cities/ABC, to clear its weaker shows. Cap Cities' Philadelphia outlet, WPVI, trashes two network half hours every weekday, inserting the syndicated *Jeopardy* and a locally produced noon newscast in their place.

The network isn't the only partner tempted to abandon the age-old deal. The affiliate is sorely tempted to ignore the repeat of a network movie, run a movie for which it has remaining broadcast rights and sell all 48 spots during the two hours. The station, which loses $2,000, $1,000 or less in comp, can make more money than if it stuck with the network, even if its syndicated show gets only half the audience.

Despite its obvious appeal, however, preemption is surprisingly rare. It violates the deal and undercuts the network. Most affiliates still believe in the deal. Temptations are high this year because national ad sales have been soft for both networks and stations.

"A couple more ratings points in prime time would go a long way toward solving our problems," says ABC's senior vice

If anyone could force changes in the deal, you'd think profitable NBC could—but it didn't try.

president George Newi. If network TV swings back, all of this may be just a passing tiff. But many think the networks' market share won't be big enough for business as usual. "Ultimately the networks are going to cut comp over the next few years," says Tim McDonald, president of the TVX Broadcast Group. "Economics are going to force them to attend to their profitability."

"Eliminating comp is not the concept," insists Newi, but he notes that Cap Cities/ABC still hasn't finished examining the issue. It didn't entirely back away from cutting comp.

Analyst Francine Blum of Wertheim Schroder expects the new "open-minded" network managements to "whittle away slowly" at comp. ABC's compromise suggests that it may become a subsidy for small-market stations.

But can the three networks afford to whittle while other program suppliers seek access to national audiences through their affiliates? For the moment, the networks distinguish themselves from barter syndicators by paying comp, which cushions a station's risk in committing time to a new program. "The danger for the networks," says a veteran sales executive, "is that if they don't pay comp and become straight barter suppliers, a station operator can say, 'Why shouldn't I have two or three affiliate contracts—NBC on Wednesday, Fox on Friday, MCA on Saturday?' At what point will an MCA or a Lorimar offer to program the station at a better price?"

Already five Group W stations are committed to preempting NBC and CBS in order to air two Harmony Premiere Network miniseries being coproduced with Italian and French broadcasters. And five ABC affiliates are preempting *Nightline* to carry *The Late Show Starring Joan Rivers* where Fox has no other outlet. The next step might be for Coca-Cola, Paramount, Disney, MCA or Lorimar to offer a complete daypart of programming, comp and all.

"When you move to a concept of controlling a time period rather than selling a program, compensation becomes a necessary component," says David Fox, CEO of the syndication firm, Fox-Lorber. Two years ago syndicators tried offering a share of profits for the right to schedule a block of programs and sell ads on independent stations. When LBS Communications, Tribune Broadcasting and Columbia Pictures debuted their ill-fated Inday service, they were, in effect, bidding to become a mini-network, delegated to schedule and sell a two-hour daytime block. Their stations stood to get cash as part of the deal.

"For the past 20 years, the networks probably didn't *have* to pay comp," says a former ABC executive. Before these times of temptation, affiliates were held to them by the arrangement's profitability, by tradition and longtime business friendships. "The strange thing about what Cap Cities did," he says, "is that at the very moment when others are threatening to get into their affiliates' pants, Cap Cities is threatening to reduce comp. The irony of it! Folks, you have just put the issue into play!" ●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IN FOCUS

The Rap on Cable

Cable Television Tightens Its Grip

The industry's momentum has been impressive, but is success coming back to haunt it? A host of naysayers charge that cable has come too far, too fast.

After a series of wins in Congress and at the Federal Communications Commission, the formerly can't-lose cable business has had a change of image. Its lobbying rivals—the motion picture industry, the networks, independent and public television stations and telephone companies—accuse it of infernal arrogance and high-hattedness.

"Yes, they say we've won too much," remarks Jim Mooney, president of the National Cable Television Association. "But so what? We're riding the crest of deregulation generally. Historically, we'd been subjected to ill-thought-out regulation."

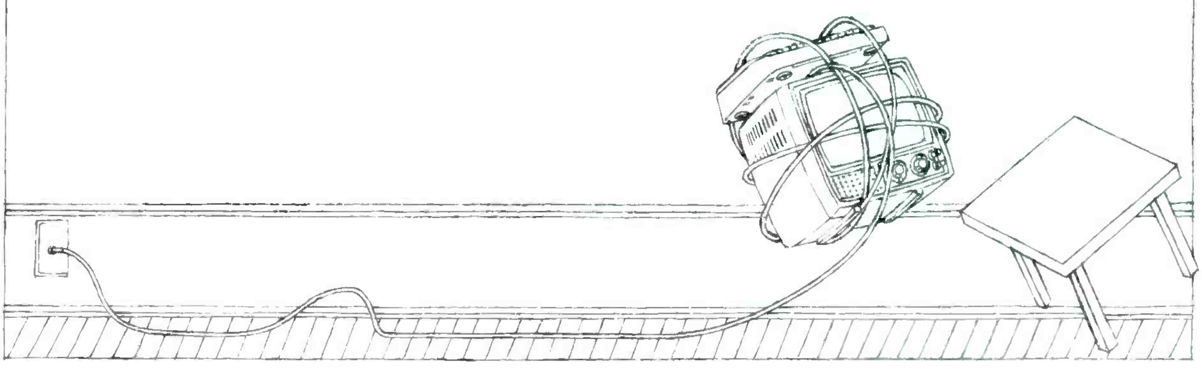
Ironically, just as cable's string of political achievements was coming under attack, public acceptance of the glamour of its pay TV offspring had all but vanished. Subscriptions to certain pay networks softened and even declined. Buyers decided pay programming was duplicative, poor in quality and, where there *were* attractive titles, already cannibalized by the videocassette market. It took a major marketing effort by the pay networks to counter subscriber losses in 1985-86, at a level of spending unlikely to be repeated.

The industry has sought salvation in original programming, too. For the first time in years, the focus is on creating new basic rather than pay services. The secret to affording it has been to rally willing multiple system operators as funding sources and equity partners.

And finally, the periodic best hope for cable's revenue future—pay per view—shows signs of real promise. One financial analyst estimates that national revenues could grow to $1 billion by 1990.

This *Channels* In Focus section unveils the current state of cable from several viewpoints: a survey of the industry's political problems, a biography of a creative financial prodigy and a look at the state of pay-per-view.

JERI BAKER



CHAS B. SLACKMAN

Is the Blue Sky Falling?

Cable's days in the sun are numbered if broadcasting and the motion picture industry have their way with legislators. **BY CECILIA CAPUZZI**

When Spencer Kaitz, president of the California Cable TV Association, spoke at independent television's convention last January, he voiced a cable industry line on must-carry that most if not all of those present had heard before. "I said, 'You're looking for governmental solutions,' " Kaitz says. " 'Your problem is skyrocketing programming costs resulting from multiple indies in the market—and must-carry is what encouraged new broadcasters to come on the air.' " But the broadcasters booed Kaitz, who says sarcastically, "My comments weren't always well received.' "

Neither, these days, is the cable industry—and it's not just independent broadcasters who are razzing it. Wall Street loves cable, but network affiliates, public television, the film industry and public-policy experts are all down on the once over-regulated cable industry, claiming it won one too many legislative battles and that it is now the "first unsupervised monopoly in the history of the country," in the words of Motion Picture Association of America (MPAA) president Jack Valenti.


NCTA president James Mooney calls broadcasters' gripes against cable unwarranted "wild flailing."

In January, cable put into full practice freedoms won in the 1984 Cable Act. Now critics say the industry's victories made it arrogant, that the price of cable service will skyrocket, that cable has acted in anticompetitive ways, as it allegedly has done with the backyard dish industry by scrambling signals and trying to control delivery. The motion picture industry fears certain operating companies such as Tele-Communications Inc. are growing so quickly that they will ultimately have a choke hold on programming and its distribution. And they accuse cable of claiming First Amendment and deregulated status only when it suits the bottom line. (With cases pending in Florida and elsewhere that question systems' right to exclusive franchises, cable has backed off the notion that it is protected by the First Amendment, fearful that systems could be harmed by new builds.)

The combined ruckus of the MPAA, National Association of Broadcasters, independent television's INTV and the National Association of Public TV Stations (NAPTS) has put pressure on the Federal Communications Commission—itself beginning a shift in policy tone with the exit of deregulation-champion chairman Mark Fowler—to consider restrictions on what they see as cable's unfettered growth potential.

What broadcasters and the motion picture industry are asking for is the reinstitution of syndicated exclusivity, the repeal of the compulsory license, permanent must-carry rules, the removal of bans prohibiting phone companies from delivering television signals, ceilings on cable-company size and separations between signal distribution and program ownership. Ultimately Valenti wants cable reduced to a common carrier.

If these goals seem far-ranging and excessive, cable can't afford to take them lightly. At a National Cable Television Association (NCTA) board meeting in February, House telecommunications subcommittee chairman Rep. Edward Markey (D-Mass.) urged the industry to proceed cautiously: "I hope you will look carefully at long-term political repercussions of actions that may bring you short-term gain."

Though many of the complaints seem to be based on fears of cable's future strength, there are tangible examples of what critics call cable's abuses. They may be isolated, say critics, but the effect is cumulative—and a harbinger of worse to come.

Pricing of basic services is a major concern. MPAA says basic rates have risen an average 20 percent this year. A Goldman Sachs report says cable could add an average $1 billion a year in cash flow by 1990 by raising rates an average 8.6 percent per year. Critics claim the consumer is friendless. NCTA, however, says MPAA's 20 percent figure is inaccurate, and that MPAA fails to note the price of pay services has declined.

The most salient and annoying example of cable's anticompetitive behavior, say broadcasters, is operators shifting or dropping over-air signals to make way for cable networks in which they have a financial stake or can sell ads. There are also reports that cable services are paying operators to place cable networks on desirable low-numbered channels—bumping over-air signals to the high-numbered channels. NAPTS president Peter Fannon says at least 150 public stations have been dropped or threatened; at least 70 station signals are carried on a selected basis. The loss of carriage, he says, threatens the structure of public TV, since federal funding is based on audience reach. INTV has similar stories, noting that all 45 independent stations launched after must-carry's repeal in 1985 have had carriage problems.

Operators say there are few instances of unwarranted station drops or channel shifting. Only less popular stations have been moved—often to their assigned over-air number—and only new stations with little following dropped. The abuses, they say, are few and mostly pertain to renegade operators.

What broadcasters want most is must-carry regulation that doesn't "sunset" in five years, as the FCC proposes. With cable in 48.7 percent of TV households and major urban areas just getting wired, broadcasters believe cable's track record calls for regulation ensuring local carriage. And they will stop at nothing to get it.

At the heart of the must-carry crusade are threats to repeal the compulsory license and lift bars on phone companies carrying TV signals. The

THE GROWING CLOUT OF CABLE'S TOP 10

	1987					1980			
	NAME (PARENT)	SUBSCRIBERS	AFFILIATED SYSTEMS	PARENT COMPANY'S RELATED INTERESTS		NAME (PARENT)	SUBSCRIBERS	AFFILIATED SYSTEMS
1	Tele-Communications, Inc.	4,417,300	600	Cable Value Network (20%), American Movie Classics (50%), Black Entertainment TV (16.5%), Event TV (10%), Discovery Channel (10%)	1	American Television and Communications Corp. (TIME INC.)	1,415,000	102
2	American Television and Communications Corp. (TIME INC.)	3,400,000	615	HBO, Cinemax, Festival, Black Entertainment TV (16.5%), USA Network (33.3%), home video (with Cannon), information services, programming services for backyard dishes	2	Teleprompter	1,383,000	114
3	Continental Cablevision Inc.	1,413,000	106	cellular telephones	3	Tele-Communications Inc.	1,270,000	130
4	Storer Cable Communications (KOHLBERG KRAVIS ROBERTS AND CO.)	1,393,000	90	cable sports network (part interest), video production, program production/syndication, satellite uplink facility, TV stations	4	Cox Cable Communications (COX COMMUNICATIONS INC.)	903,900	43
5	Cox Cable Communications (COX ENTERPRISES INC.)	1,355,200	24	video production, program production/syndication, information services, TV and radio stations	5	Warner Amex (WARNER COMMUNICATIONS, AMERICAN EXPRESS)	758,000	118
6	Warner Cable Communications (WARNER COMM. INC.)	1,315,042	101	video production, program production/syndication, home video	6	Storer Cable Communications (STORER COMM. INC.)	611,100	66
7	Comcast Cable Communications Inc. (COMCAST CORP.)	1,228,000	45	QVC Network (home-shopping cable service)	7	Times Mirror Cable Television (TIMES MIRROR CO.)	600,000	46
8	United Cable Television Corp. (TCI OWNS APPROXIMATELY 24 PERCENT OF UNITED)	1,094,670	48	Cable Value Network, Discovery Channel, QVC Network	8	Newhouse Broadcasting	493,500	NA
9	Newhouse Broadcasting	1,007,759	65	interest in Discovery Channel, owns Eastern Microwave, newspapers, magazines	9	Viacom Cable	455,100	19
10	Heritage Communications, Inc. (TCI, INC.)*	922,076	69	TV and radio stations, outdoor advertising, communications products	10	United Artists-Columbia Cablevision Inc.	423,200	26

*Deal pending as of April 1987.

Sources: Paul Kagan Associates, *Channels* compulsory license was instituted by Congress as part of the Copyright Act of 1976. At the time, must-carry rules required systems to carry all local stations, and the compulsory license was instituted to give cable a break from broadcasters. It exempts operators from paying copyright fees for programming on local stations. But if must-carry is abolished in five years, broadcasters and policy experts say cable should negotiate for rights to product aired on stations operators choose to carry. "If operators pick stations willy-nilly, then they should pay for programming," says NAB executive vice president John Abel. "We're talking about protection of property."

Cable, unsurprisingly, sees things differently. "How can broadcasters claim to have bought exclusivity when there is a compulsory license?" asks NCTA president James Mooney. "Didn't they know there was a compulsory license? Did Hollywood snooker them into thinking there wasn't?"

But the NAB's Jeff Baumann says Hollywood will not negotiate lower prices knowing broadcasters hunger for programming. With the 1980 repeal of syndicated exclusivity or "syndex" (an FCC rule that gave stations exclusive rights to syndicated shows they bought and the right to keep cable systems outside the station's market from carrying them) and no protection under the compulsory license, broadcasters felt hit from all sides.

The cable industry likes to play down its concern about threats to repeal the compulsory license, but according to Mark Bykowsky, an analyst with the National Telecommunications and Information Administration, the mere notion of its repeal "sends chills up the industry's spine." In 1986, cable paid $100 million in copyright fees for carrying distant signals and though no figures are available, Bykowsky says local copyright fees would be large.

Cable officials say havoc would ensue without the compulsory license, making it impossible to negotiate rights with every owner of every broadcast program a system carries. They say broadcasters and viewers would suffer and program volume decline. But public-policy experts say cable wouldn't care about the issue if it didn't affect the bottom line: "They're a bunch of greedy bastards," says Henry Geller, director of the Washington Center for Public Policy Research. "They want to milk the compulsory license as long as they can and ride broadcasters into the ground. Then they'll get rid of it."

The FCC has no jurisdiction over compulsory-license legislation, but it could reinstitute syndex. Without it, syndicated shows can be distributed to many cable systems, shifting the competitive balance in cable's favor and undermining investments in product, broadcasters say. Now, with syndex proponent Dennis Patrick succeeding Mark Fowler, many think a syndex ruling is certain. But NCTA's Mooney has an instinct that it won't fly: "It is flatly anticonsumer. Also, responsible government doesn't encourage the importation of distant signals and then say you have to black out the most popular programs on those signals."

Cable doesn't like the idea of phone companies entering their business, and though INTV has lobbied the FCC to let them do so, many broadcasters don't like the idea either. A $40 billion company, AT&T is almost twice the size of television broadcasting. "Our concern is they'll get into programming. They could put us out of business," Abel says.

What MPAA fears most is cable "concentration" (the top three operators control about a third of subscribers, it claims) and "vertical integration"—or cable as programmer *and* distributor. Cable accuses the movie industry and broadcasters of a double standard on the latter, pointing out that broadcast networks have long owned stations, and studios own theaters. NCTA says that a third of subscribers are owned by the top five or six MSOs.

But cable operators' involvement in programming has increased (see chart). Says Turner Broadcasting System executive vice president Robert Wussler: "I wouldn't advise any friends to start a channel without extensive conversations with [ATC chief executive Trygve] Myhren, [TCI president John] Malone and [telecommunications chief James] Cownie at Heritage."

When broadcasters and the MPAA need examples of all they rail against, they point to TCI, the largest MSO. Whether or not TCI *is* cable's bully, it's a company with mounting clout that sets the industry's tempo. With interest in or control of 20 percent of cable subscribers, plans that some say call for control of up to 40 percent of cable subscribers, growing ownership of programming services (including The Discovery Channel, American Movie Classics and TBS) and talk of starting a new major network, TCI not only has to defend its muscle, it must combat the "mythology," as one cable executive put it, that has evolved around it.

Add to TCI's list of problems its habit of getting caught with its hand in the cookie jar, as it did recently in Jefferson City, Mo. Claiming it had a First Amendment right to continue operating there after the close of a three-year franchise, competing system Central Communications filed suit and TCI was found guilty of unlawfully conspiring with the mayor to continue exclusive service. The Supreme Court upheld a lower court ruling and ordered TCI to pay $35.8 million to Central for violation of antitrust and state laws.

To help clean up its image, TCI hired government-relations specialist Bob Thomson, who it hopes will develop relations with legislators and the television community—and take some of the heat off. But TCI executive vice president John Sie is defensive about the company and the cable industry. He rails at the notion of cable as "gatekeeper" ("If we're a gatekeeper, movies bypassed us to cassettes and depleted us of our most treasured product") and says concern about TCI's size and influence is unfounded ("If we're an 800-pound gorilla, what's CBS? Two tons?). TCI has only two mandates, he says: maximizing shareholder assets and "serving the truly underserved."

Is cable really the Darth Vader of television, as Valenti says? Or is the "mob psychology" against it? Says ATC's Myhren: "A fundamental thing happened: Cable programming became good enough and narrowcast stations became valuable. That breeds jealousy." Adds NCTA's Mooney: "A lot of these guys have a hard time getting used to the fact that they are no longer the officially anointed method for delivering television."

All of which may be true—but cable will have a hard time convincing movie industry executives and broadcasters that it is merely doing a good job. "Good business," says James Hedlund, INTV vice president for governmental relations, "isn't always good public policy." If the critics are successful at hammering that message home to legislators, cable's got a rough road ahead. ●

THE REACH OF THE MSOs

When the number of national services backed by cable operators in 1980 is compared with the count today, it may appear that MSOs are unreasonably increasing control over programming. In 1980, ten national services were financed in whole or part by MSOs; in 1987, 24. But with overall number of services up from 19 to 47 in that time, the percent of operator involvement has remained virtually unchanged—52.6 percent in 1980, 51 percent in 1987.

SERVICE	1980 OWNERS*	1987 OWNERS*
A&E	1984 start-up	**Hearst,** Capital Cities/ABC, RCA (each 33.33%)
ACTS Satellite Network	1984 start-up	Southern Baptist Convention
American Movie Classics	1984 start-up	**Tele-Communications Inc.** (50%), Rainbow Programming Enterprises (owned by **Cablevision Systems**) (50%)
Black Entertainment Television	**Tele-Communications Inc.** (20%), Robert Johnson (80%)	**Taft,** Home Box Office (**Time Inc.**), **TCI** (each own 16.5%), Robert Johnson (50.5%)
Bravo	1981 start-up	Rainbow Programming Enterprises (owned by **Cablevision Systems**)
CBN	Christian Broadcasting Network	Christian Broadcasting Network
C-SPAN	**Nonprofit cooperative of 100 MSOs**	**Nonprofit cooperative of 120 MSOs**
C-SPAN II	1986 start-up	**Nonprofit cooperative of 120 MSOs**
Cable News Network	Turner Broadcasting System Ted Turner (81%), rest publicly held	Turner Broadcasting System: Ted Turner (51%), **17 MSOs** and Kirk Kerkorian (35%), rest publicly held (pending completion of deal)
Cable Value Network	1986 start-up	**28 MSOs** (50%), C.O.M.B. (50%)
Cinemax	**Time Inc.** (owns **American Television & Communications**)	**Time Inc.** (owns **ATC**)
Consumer Discount Network	1986 start-up	Entertainment Marketing Inc.
Country Music Television	1983 start-up	James Guercio (90% through personal and Music Village Productions holdings), minority partners (10%)
The Discovery Channel	1985 start-up	**Tele-Communications Inc., United, Cox, Newhouse,** Group W Satellite Comm. Inc. (each own 10%), TDC management and venture capital firms (33%), rest held by private investors.
The Disney Channel	1983 start-up	Walt Disney Co.
ESPN	Getty Oil (85%), ESPN founders (15%)	Capital Cities/ABC (80%), RJR Nabisco (20%)
Eternal Word Television Network	1981 start-up	Eternal Word Television Network Inc.
Financial News Network	1981 start-up	Biotech Capital Corp. (20%), FNN management (4%), rest is publicly held
Galavision	SIN Inc. (now Univision)	Univisa Inc. (parent to Univision)
Headline News	1982 start-up	Turner Broadcasting System: Ted Turner (51%), **17 MSOs** and Kirk Kerkorian (35%), rest publicly held (pending completion of deal)
Home Box Office	**Time Inc.** (owns **American Television & Communications**)	**Time Inc.** (owns **ATC**)
Home Shopping Network	1985 start-up	Publicly held (offering equity to MSOs)
Home Shopping Network II	1986 start-up	Publicly held (offering equity to MSOs)
Home Theatre Network	**Group W**	Closed down January 1987
The Learning Channel	Appalachian Community Service Network	ACSN (40%), Biotech Capital Corp. (40%), TLC employees (20%)
Lifetime	1984 start-up	**Hearst,** Capital Cities/ABC, **Viacom International Inc.** (each 33.33%)
MTV: Music Television	1981 start-up	MTV Networks (subsidiary of **Viacom International Inc.**)
Modern Satellite Network	Modern Satellite Network (division of Modern Talking Picture Service)	MSN closed down 1986
The Movie Channel	**Warner-Amex Satellite Entertainment Co.**	**Viacom International Inc.**
The Nashville Network	1983 start-up	Opryland USA Inc. (division of Gaylord Broadcasting)
National Christian Television (now Liberty Broadcasting Network)	1981 start-up	Old Time Gospel Hour Inc.
National Jewish Television	1981 start-up	Incoba Inc. (50%), Joel Levitch (50%)
Nickelodeon	**Warner-Amex Satellite Entertainment Co.**	MTV Networks (subsidiary of **Viacom International Inc.**)
The Nostalgia Channel	1985 start-up	The Nostalgia Network Inc.
PTL: The Inspirational Network Fellowship	Heritage Village Church and Missionary	Heritage Village Church and and Missionary Fellowship
The Playboy Channel	1982 start-up	Playboy Enterprises Inc.
QVC Network	1987 start-up	**40 MSOs** (40%), rest publicly held
Rock Christian Network	1986 start-up	Rock Christian Network Inc.
Showtime	**Teleprompter** (50%) (in 1981 Teleprompter merged with **Group W**), **Viacom International Inc.** (50%)	**Viacom International Inc.**
The Silent Network	1984 start-up	Sheldon I. Altfeld
Sky Merchant	1987 start-up	**Jones International Ltd.**
Tempo Television (formerly Satellite Program Network)	Satellite Syndicated Systems Inc.	**Tempo Enterprises Inc.**
The Travel Channel	1987 start-up	TWA Marketing Services (subsidiary of TWA)
Trinity Broadcasting Network	Trinity Broadcasting Network Inc.	Trinity Broadcasting Network Inc.
USA Network	Madison Square Garden (Gulf & Western) (50%), **UA/Columbia** (50%)	**Time Inc.** (owns **ATC**), Paramount (Gulf & Western), MCA Inc. (each 33.33%)
VH-1	1984 start-up	**Viacom International Inc.**
Video Shopping Mall	1986 start-up	Publicly held
WTBS	Turner Broadcasting System Ted Turner (81%), rest publicly held	Turner Broadcasting System: Ted Turner (51%), **17 MSOs** and Kirk Kerkorian (35%), rest publicly held (pending completion of deal)
The Weather Channel	1982 start-up	**Landmark Communications**

*System owners in boldface type

Compiled by Simon Applebaum

Young and Impulsive

Now that pay per view is starting to show promise, can impulse buying via cable push it into the bigtime? BY PATRICIA E. BAUER

The time was never really right for pay per view (PPV). In the beginning, cable systems saw greener pastures in subscription TV. Then the film studios veered off into the high-stakes world of home video. The prospect of making money by working together to sell programs to individual cable subscribers just seemed, well, pretty far off at best.

Until now. Developments over the last six months show PPV making steady strides toward becoming a business. It's not making piles of money yet—in fact, most of the studios have yet to see a penny's worth of profit from their PPV investments. But PPV pioneers are showing results. The April Hagler-Leonard fight grossed $8 million nationally, about $40 a home, and *Wrestlemania* in March grossed $12 million. With those two events, many systems picked up more revenues, on a per-home basis, than they had in full years. "It's still got a lot of kinks to be worked out," says Frank Biondi, chairman and CEO of Coca-Cola Television. "The good news is that there are answers to almost every problem. There's been tremendous progress."

That's not to say that the hurdles remaining aren't significant. Much of the technology needed to bring PPV into the home is still costly and doesn't achieve the full "impulse" ability believed to be necessary for PPV to work best. (There are several impulse technologies, some of which allow viewers to tune in to a movie at the last moment or even after it has begun.) Cable operators, even those enthusiastic about PPV, are often baffled by the marketing effort needed to get double-digit buy rates (total number of purchases per month divided by the number of PPV homes). And though cable operators have pleaded with studios to release films to PPV *before* the video release, the answer thus far has been a resounding no.

A good part of PPV's continuing troubles stem from the often opposing needs of the various groups involved. In order to succeed, PPV must continually hammer out compromises among movie studios, satellite PPV services, cable systems and hardware suppliers—all of whom seem to suspect that the other guys are working together to grab control of margins. "Everybody wants their cut—and unfortunately, all the cuts add up to 180 percent," says Jack Pottle, of the Denver consulting firm Browne, Bortz & Coddington.

Still, the prospect of a significant revenue stream can do a lot to encourage compromise, and the forecasts for PPV are starting to look downright optimistic. Goldman Sachs analyst Barry A. Kaplan says PPV revenues in 1986 were up more than 70 percent over the previous year and forecasts that national revenues, estimated at $70 million last year, will grow to at least $400 million—and possibly $1 billion—by 1990. "The business may finally be getting off the ground in a big way," says Kaplan.

That all depends, of course, on whether enough cable operators will spend the money to upgrade their systems, and whether consumers will buy programs if they do.

Studios have long been interested in PPV because copyright's first-sale doctrine limits their share of the home video market. Studios estimate they got only about $900 million from the $4 billion home-video market last year. Besides, they say, it makes good business sense to offer consumers another convenient way to see first-run movies. "Pay per view will grow up and become a big revenue source," says Alan Cole-Ford, vice president of video distribution for Paramount. "I don't think it will displace home video, but it will certainly have an impact."

But the real financial push had to come from cable operators, and they have been hesitant to spend the $150 or $200 per household needed for addressable technology without some strong evidence that revenues would soon follow. But with technology prices falling 30 percent over the past three years—in some cases to an incremental capital cost of $35 per household—more operators are taking the plunge. Over the past year, franchised homes with addressable technology increased 31

PAY-PER-VIEW PR

Key Measures	1980	1981	1982	1983	% INCR.	1984	% INCR.	1985
Addressable Universe (Mil.)	0.0	1.0	2.0	3.5	75.0	4.6	31.4	9.0
PPV Available (%)	–	–	15.0	15.0	0.0	21.3	42.0	16.7
PPV Homes (Mil.)	–	–	0.3	0.5	75.0	1.0	86.7	1.5
Avg. PPV "takes"/Month/Sub.	–	–	0.5	0.5	0.0	0.5	0.0	0.5
Pay Per View Rate (per "take")	$4.50	$4.50	$4.50	$4.50	0.0	$4.50	0.0	$4.50
Pay Per View Total Revenue ($Mil.)	–	–	8	14	75.0	26	86.7	41

Source: Goldman Sachs E = estimated

percent to 11.8 million of the nation's 67 million cable households, and the number should reach 24 million by 1990. In the past six months alone, the number of cable systems in which PPV is offered has increased by 50 percent to 140, and several more major companies are planning to expand their PPV systems.

"It just seemed like a logical business for us," says Nimrod Kovacs, vice president of marketing at United Cable Co., which will spend some $50 million within the next year upgrading its remaining 800,000 subscribers for PPV (300,000 are already addressable). "We came to a very strong realization that PPV is nothing more than a video store at home. Even a small percentage of that business would be tremendously advantageous to us."

Fueling the temptation for cable operators are the dazzling PPV results reported in a handful of systems. General Instrument's Cable Video Store, a programming service designed to promote GI's Jerrold technology, has reported tests in which buy rates soared to the stratospheric 300 percent-per month-range—so far above the industry average of 17 percent as to be almost unbelievable. But the key to the Cable Video Store experiment, and what made its data so fascinating to cable operators, was the fact that CVS's tests limited PPV service to those willing to pay an extra monthly "club" fee for the service—in effect screening out households that would not be heavy users of PPV technology. Thus, CVS pulled in more revenue per active buyer each month—almost $9—than in any other PPV test, according to Paul Kagan Associates.

But even without prescreening participants, other technologies are reporting impressive results. New York Times Cable in Cherry Hill, N.J., with interactive Sprucer technology that is among the industry's most sophisticated, reported 98 percent buy rates in February. Sprucer allows customers to push a button and instantly see the programs they want; billing is also simultaneous. Centel Cable TV of Traverse City, Mich., did nearly as well with a telephone-company ordering system that offers impulselike ordering speed without the need for hefty capital investment. Under that system, called Automated Number Identification (ANI), a customer's call to a phone-company computer instantly authorizes reception and billing of the desired program. AT&T has announced it is working toward offering the ANI technology nationwide. And even maturing PPV systems with relatively unsophisticated order technologies are chalking up numbers more than double the national average. Rogers Cable TV in Portland, Ore., which relies heavily on customer-service representatives who take orders by phone, reported a 40 percent buy rate in February. "We've been at it a long time, and we've learned over the past five years what our people want," says special services manager Ellen Notbohm.

None of this growth could be taking place, of course, without a wealth of available programming—the vast majority of it current motion pictures. Some systems program their own PPV channels, but most are going with one of the two leading satellite services. Viewer's Choice, owned by Viacom and operated in concert with Showtime and The Movie Channel, acts as a middleman, licensing movies from studios and signing up some 65 cable operators to carry them. Ordinarily, Viewer's Choice takes about 10-20 percent of the revenues, with the studio and the cable system splitting the rest. Industry experts estimate that Viacom is losing $5 million to $10 million a year on Viewer's Choice. Request Television serves as a broker of satellite time for nine major studios, which allows them to cut their own deals with cable operators. Each one pays around $1 million a year to participate—though they say their total PPV revenues amount to less than half that. Still, they reason, the investment is worth the money if it prevents the creation of another HBO, which controlled the pay-TV market as a middleman and dictated margins to the studios. "Of course we're troubled by the cost, but if nothing else, Request has functioned as pump priming and R&D for the cable industry," says Ed Bleier, president of pay television for Warner Bros.

So where does it all go from here? It would seem that cable operators, especially those in highly competitive urban markets, will be looking more and more to PPV as a tool they can use to woo viewers away from off-air signals. Assuming that's so, and that the PPV subscriber pool continues to widen, cable operators will need to put more muscle into marketing—a task that could be easier if studios agree to provide more marketing help or grant PPV a release date earlier than home video. But that may be a long time coming.

But the biggest unanswered question involves the competition between PPV and video stores. Will PPV succeed in taking money out of their pockets? So far nobody's suggesting a major revolution is at hand, though some say PPV might help push ailing mom-and-pop shops out of business. Far more likely, though, is the thought that PPV could create a new market niche, tempting viewers to watch—is it possible?—even more television. ●

OJECTED GROWTH

% INCR.	1986E	% INCR.	1987E	% INCR.	1988E	% INCR.	1989E	% INCR.	1990E	% INCR.	COMPOUND ANNUAL GROWTH 1986-90
95.7	11.8	31.1	14.9	26.3	18.0	20.8	21.2	17.8	24.4	15.1	19.9
(21.8)	22.0	32.2	26.8	21.8	36.6	36.2	46.3	26.7	56.1	21.2	26.3
53.1	2.6	73.3	4.0	53.8	6.6	64.5	9.8	49.2	13.7	39.5	51.5
0.0	0.5	0.0	0.5	0.0	0.5	0.0	0.5	0.0	0.5	0.0	0.0
0.0	$4.50	0.0	$5.00	11.1	$5.00	0.0	$5.00	0.0	$5.00	0.0	2.7
53.1	70	73.3	120	70.9	197	64.5	295	49.2	411	39.5	55.6

Cable's Ten to Watch

From the board room to the court room, *Channels* identifies the cable newsmakers who have full agendas for the coming year.

Nimrod Kovacs, *United Cable*. Nimrod Kovacs talks about cable TV as if he'd just gotten off the boat from Hungary: movies on demand, living-room shopping, home banking and stock-market services. In fact, Kovacs did immigrate to the U.S. from Hungary in 1972, but he's been around cable long enough now to be playing a hand in making yesterday's blue-sky promises come true. United has already proved that there's money in movies on demand. The Denver-based operator, with 300,000 addressable homes, averages incremental pay-per-view revenues of $2 per sub monthly from the 100,000 that are impulse wired, and, under Kovacs' prodding, has committed $50 million to make the remaining 800,000 addressable by the end of next year. "Pay per view as a business already exists," says Kovacs, United's vice president of marketing, programming and communications. "It's a $4 billion business that's called video rentals. Going addressable is a big but pretty reasonable risk given the anticipated return. You get $3 out of a subscriber incrementally and you multiply that by 1.1 million and you come up with $40 million or so annually." And addressability revenues won't end there. Along with United president Fred Vierra, Kovacs is positioning the company in home shopping: United is an equity partner in QVC and Cable Value Network home shopping services, which Kovacs sees as the cornerstone of United's plan to sell fashion, financial services, home banking, computer services and other things via cable. "Anytime you're a pioneer you expect an arrow in the back," says Kovacs. "But we really don't see that happening."

PETER AINSLIE

LOS ANGELES TIMES PHOTO

Kirk Kerkorian, *MGM/UA Communications*. Investor Kirk Kerkorian is either the Svengali or the Midas of entertainment. Part of the reason for Kerkorian's mixed reputation among media executives is that he never discusses his affairs with reporters or analysts. Within the cable industry, however, curiosity about him peaked last year when he pulled off still another sleight of hand on Ted Turner.

In March 1986, Kerkorian unloaded his troubled MGM/UA Entertainment to Turner for $2 billion, then quickly bought back United Artists and other assets for $480 million. The MGM purchase swamped Turner with debt, but less than a year later Kerkorian emerged as a savior of sorts. In February, he and 14 MSOs paid $550 million for 35 percent of Turner Broadcasting stock and won half the seats on its board.

Cable operators worry that Kerkorian's Turner investment is part of a scheme to move into cable by seizing TBS. But based on his past, he can be relied upon to churn his stock for maximum gain while demonstrating little interest in the core business. After buying MGM in 1969, for instance, Kerkorian reduced the studio's output, subjected presidents to the executive meat grinder, bought United Artists and capitalized on the company name to build MGM Grand Casinos in Nevada.

"At MGM, Kerkorian realized outstanding gains from a losing studio without operating the company;" says Oppenheimer & Co.'s Dennis McAlpine. "At Turner, we expect him to protect his investment without ever really getting involved."

RINKER BUCK

BOB SULLIVAN

Ruth Otte, *Discovery Channel*. When Ruth Otte's appointment as president and chief operating officer of The Discovery Channel (TDC) was announced late last year, many in the cable industry said "Ruth who?" But certain industry circles knew Otte (rhymes with knotty) to be a highly regarded marketing and sales executive for The Movie Channel and Nickelodeon, and later for MTV. Otte ended her six-year tenure at what eventually became MTV Networks as vice president of marketing for MTV and VH-1.

The support of Cox Cable's Ajit Dalvi and Tele-Communications Inc. executive vice president John Sie, both of whom sit on TDC's board, and the confidence of TDC founder and chairman John Hendricks, won her the spot. With her understanding of the cable industry and 17 years of marketing experience, Otte is shaping the operations of the two-year-old TDC from the ground up. She has assembled an executive staff and now is pushing TDC into the forefront of system program offerings.

As one of the first and fastest-growing in a new wave of operator-backed programming services (TCI, Cox, United and Newhouse each own 10 percent), TDC's success could signal what it takes to make it in cable programming today. With minimal carriage problems because of MSO backing, Otte has been free to focus attention on the search for top-notch science and nature programming, the network's staple, and the most effective ways of marketing it. So far, it's been smooth sailing. Subscriber numbers have grown from 9.5 million at Otte's sign-on to 15 million today.

GREG MOYER

CECILIA CAPUZZI

Peter Barton, *Cable Value Network*. Last fall, when it came time to select the first president of the Cable Value Network (CVN), the home-shopping service launched by Tele-Communications Inc. and 20 other MSOs, the company didn't have very far to look. TCI senior vice president Peter Barton had been instrumental in introducing cable investors to CVN's other major partner, Minneapolis closeout merchandiser C.O.M.B., and since May he had been crisscrossing the country selling the service to MSOs. Barton, 36, had previously served as publisher of TCI's channel guide, *Cabletime*, and been active in acquisitions and new programming.

The workup toward CVN's June 1986 launch had proved to be something of a model case study for the Harvard-trained MBA. "Initially, we thought we'd be lucky to gross $50 million a year," Barton recalls. By September, CVN was forecasting sales of $200 million and experiencing growing pains.

Amid signs of a shakeout, CVN's strategy has been to downplay its rivalry with the Home Shopping Network (HSN) while streamlining operations to better compete against other formidable entrants. In March, after merger talk between CVN and HSN collapsed, CVN and C.O.M.B. announced plans to buy out cable investors and combine the companies under CVN.

"As the industry matures, it's the vertically integrated operations that will survive," Barton predicts. "You can't just say you're offering the best products at low prices—you have to do it. The public can't be fooled." R.B.

Roger Werner, *ESPN*. With a deal bringing National Football League games for the first time to ESPN, executive vice president Roger Werner and his colleagues have changed forever the nature and perception of cable TV. It's the kind of instant credibility that only money—and programming smarts—can buy. ESPN lately seems to have plenty of both. The nation's largest basic cable network (41.1 million subscribers), ESPN attracted wide attention last winter with its superb live coverage of the America's Cup. The almost $50 million Cap Cities/ABC–Nabisco–owned company spent for 13 NFL games (four preseason, eight regular-season and one post-season) also brings a major financial challenge: how to recoup its investment. Werner says ESPN's NFL ad rates will mark new cable highs, but that most of the financing will come from operators, now being asked for 10 to 15 cents per sub monthly for the games. Werner, 37, in charge of programming, production, marketing, sales and research, worked alongside ESPN president Bill Grimes to outbid HBO, Fox, and an MSO consortium to land the NFL package. But Werner, a former management consultant, says it's only the beginning. Football fans next fall will find a menu of 39 major college games and Werner hopes to coproduce part of the '88 Winter Olympics with parent Cap Cities/ABC—another cable first. "The NFL games represent a watershed for basic cable," says Werner. "If operators choose to step up and pay the freight, we think it represents a step towards really accelerating the importance of the medium." P.A.

Steven Dodge, *American Cablesystems*. Steve Dodge considered cable television a special industry when he headed the Bank of Boston's special industries division in the mid-1970s. As vice president in charge of cable lending, it didn't take him long to decide to chuck banking and, in 1978, start American Cablesystems Corporation, which now serves nearly 500,000 cable subscribers in five clusters across the country. The company went public a year ago and today ranks as one of the top 25 MSOs. "There were a lot of entrepreneurs out there having fun and making a lot of money," says Dodge. "My learning curve at the bank was pretty much over. I wanted to do something entrepreneurial in an industry in which I was already known."

That was true enough, but it was also true that Dodge hadn't been involved in corporate management. In addition, the cable industry, in the year he'd chosen, was in the doldrums, with little franchising or acquisition going on. Financier Dodge had no trouble gathering start-up capital but rather more assembling a long-lasting team of managers. "It was a product of hard work and an ability on which I've traded: Read people; see how they fit together," he says.

Now as a public company, American is moving into new areas. The company's size has doubled in the last 18 months and it is an aggressive system acquirer "in the framework of financial prudence," Dodge says. "We have no access to a crystal ball." But pay per view, home shopping and expanded megaclusters of systems are decidedly in the company's future, he says.

JERI BAKER

Larry Carlson, *Home Box Office*. For a self-described "two-year kind of guy," Larry Carlson has spent lots of years at HBO and nearly as many at ATC before that. His first step toward his 1985 appointment as senior vice president of Cinemax and new business development for HBO was a fluke job in 1968. A university placement office put the architecture student to work on a baffling project setting up ATC's in-house engineering division.

It was a big jump then to HBO ten years later as San Francisco regional director. Two years later, he reluctantly accepted a transfer to HBO's New York headquarters for an advertising and marketing job that has remained his focus ever since. Currently, Carlson runs the group marketing to backyard dish owners and manages HBO's search for new pay and basic services.

The big challenge ahead of him is the launch of Festival, the family movie service that has been tested for two years and will be launched next month. "Operators appeared to be spending more time on basic than pay services. We asked ourselves, 'Are we going to just accept this incremental growth?' The answer, we decided, was no, and we convinced the industry to back us on pay TV again." One question outstanding is Festival's price. Forty systems are experimenting with various levels. "We've had the luxury to learn everything except the optimum prices in certain markets. It's a segmented service, aimed at the one out of four who buys only basic and the one out of four who never buys cable at all." One sweet surprise for Carlson: Disney Channel buyers are also Festival buyers. J.B.

Sumner Redstone, *National Amusements*. Even before the sun rose on the all-night board meeting last March that resulted in Sumner Redstone's $3.4 billion purchase of Viacom Inc., broadcasters and cable owners were asking what the takeover would mean. Would the new owner raise rates? Pull out of the newly formed consortium to rescue Turner Broadcasting? Sell or shake up Viacom's sluggish pays, Showtime/The Movie Channel? Viacom, one of the most powerful vertically integrated media companies in the nation and the eleventh-largest MSO (with 940,000 subscribers), managed to lose $9.9 million in 1986 on revenues of $919.2 million. So what's a raider to do? Redstone, president and CEO of National Amusements, one of the largest movie-theater operators, is said to be an honors graduate of the Larry Tisch School of Speedy Surgery. And though, so far, he's been saying good things about Showtime, calling it "of inestimable significance in terms of the needs of cable operators," he's been listening to buyout offers from, among others, TCI. Showtime's contracts with Paramount, Orion and other studios may make it more attractive. The contracts guarantee exclusive rights to seven out of 1986's ten top films, including *Platoon* and *Hannah and Her Sisters*.

"Whether those deals are enough to enhance Showtime's value remains to be seen," says Alan Kassan, an analyst with Shearson Lehman Bros. Despite the Showtime speculation, some analysts think Redstone, who turns 64 this month, will instead concentrate on Orion Pictures, in which Viacom has a 28 percent interest and National Amusements 6.4 percent. The decision: buy the company outright or force a sale or stock buy-back to pay off Viacom and N.A. debts.

JOSEPH VITALE

Bob Thomson, *Tele-Communications Inc*. If TCI, the largest MSO, is cable's 800-pound gorilla, as many say, Bob Thomson's job is to keep it looking svelte and fit in the eyes of legislators and the TV community.

Thomson, TCI's new vice president for government affairs, came on board last February amidst increasing fire from broadcasters and movie executives over the MSO's unhampered growth and market muscle. His first order of business will be to establish relations in Washington and convince legislators that Denver-based TCI isn't the company many make it out to be. He will also serve as marketing director for C-SPAN. Says Thomson, "We need to correct any misunderstandings that exist about TCI, and make policy makers and regulatory agencies understand our business philosophy—that we don't have any evil designs on anyone."

The 43-year-old Thomson has no background in telecommunications but he's well versed in the ways of government. He spent four years in the Carter White House as one of two Senate lobbyists dealing with budget and energy issues. For the last six years, he's been director of government affairs and general counsel at the New York shipping line Moore McCormack Resources.

SETH RESNICK

Thomson came about the TCI post through recommendations from National Cable Television Association president James Mooney and executive vice president Bert Carp, whom he knows from his days on Capitol Hill. Thomson's post at TCI could be a sign of more to come as other operators, sensitive about their image in Washington, follow TCI's tack. C.C.

ASSOCIATED PRESS

John A. Zaccaro. Could this man—real estate and insurance broker—John A. Zacarro, bring down cable's whole house of cards in the long-frustrated attempts to wire the outer boroughs of New York City? While Manhattan has had cable TV for more than 20 years, Brooklyn, Queens, Staten Island and the Bronx have been embroiled for eight years in a struggle to get the wire, and throughout much of that period, there's been a persistent odor of corruption. Partly, no doubt, it's been brought on by the city's decision to let borough presidents award the franchises. Allegations that a former Queens borough president, the late Donald Manes, attempted to extort money from one franchise applicant led to Zacarro's indictment on criminal charges last October. Lawyers familiar with the case say that in 1981 Zacarro, 53, who is the husband of former Democratic vice presidential candidate Geraldine Ferraro, helped introduce executives of Cablevision Systems Corp., the Long Island-based MSO, to Manes and later asked for a $1 million payment to help cinch the franchise. Manes later committed suicide in the midst of another municipal scandal, but Zaccaro has pleaded not guilty to charges of attempted extortion and bribery. There's also the matter of hundreds of thousands of dollars advanced to a Bronx company to fund access programming. The money is missing and there's been no such programming.

What Zaccaro reveals about any of this when his case comes to trial could set the whole process back years, and cast further harsh light on the business of urban cable franchising.

P.A.

Keeping the Bankers at Bay

After nearly losing his MSO to lenders, a cable chief finds security—and a wizard's reputation—in creative financing. **BY DENNIS HOLDER**

Prime Cable's Bob Hughes confronts the master limited partnership in a new tax environment.

Ask Robert W. (call me Bob) Hughes to recall the worst moment of his 19 years in cable television and he'll describe a meeting with bankers in 1975. Hughes argued earnestly that the cable industry was ready to take off, and pleaded for time to turn his company around. But two of the bankers wouldn't hear of it and demanded payment on their notes.

"I told them, 'We'll put the keys on the table, and if you want my company, here it is,' " Hughes says. "My partners and I walked out. We gambled they would rather work with us than run our cable systems."

Dennis Holder is a Dallas free-lancer whose last article for Channels *profiled broadcaster Nolanda Hill.*

The ploy succeeded. Within nine months, Communications Properties, Inc. (CPI), grandfather to Hughes' current company, Prime Cable Corp., regained fiscal health and took off. But the brush with ruin was too close. Never again would Bob Hughes entrust bankers with the fate of his business. Surely he could find better ways to finance his cable ventures.

Since that grim session 12 years ago, the Austin, Texas, entrepreneur has experimented with nearly every financing and capital-generating device known to Wall Street. He has floated junk bonds, created tax-shelter partnerships, liquidated companies and rolled over capital stock. He has taken operating companies off balance sheet to gain maximum leverage while insulating the parent corporation from creditors. And he has raised some $50 million in acquisition capital by creating a master limited partnership, that ingenious financial instrument that so far sidesteps the tax law's battle against tax shelters. An MLP is not for sheltering income, as the limited partnership it replaced was; rather, it is the equivalent of stock. As an income vehicle, it can be publicly traded and is entirely liquid.

In the process of the MLP creation, Hughes has built a reputation as one of the cable industry's financial wizards. "Bob probably is the best in the business at figuring out how to purchase and grow cable systems," says Bill Daniels of Daniels & Associates, the Denver-based brokerage firm and cable operator. "He is always looking for creative ways to finance his investments, and when he puts together a deal, it is a good deal for everybody."

Investment analyst Paul Kagan describes Hughes as a leading cable-industry venture capitalist. But Hughes insists he is simply a cable capitalist, not a venture capitalist. "The word 'venture' implies some great risk," he explains. "I don't think there's any significant risk in cable today if you do it right. The way we structure our deals, there is virtually no possibility that we can lose." Despite his disclaimers, Hughes concedes that it is the challenge of making deals, not cable itself, that sets his blood running. "I'm not an operations guy," says Hughes. "I'm a financially oriented guy. And of course, I use a lot of the strategies of a venture capitalist. That's how I got my start in business." In fact, it was a job with a venture-capital company that led Hughes to Austin and, later, to cable.

Fresh out of Harvard's MBA program in 1962, his interests were in managing companies and making money. To those ends he accepted a position with an Austin venture-capital firm, where he met cable veteran Jack Crosby. It was Crosby who eventually persuaded

Hughes to help organize Communications Properties, Inc.

They formed their company in 1968, drawing on $500,000 in start-up capital to purchase systems. A year later they issued stock to become one of the first publicly traded cable companies in the U.S. From a handful of subscribers, CPI grew to serve some 316,000, the nation's eighth-largest MSO.

Despite its growth, however, CPI was faltering badly by the time Hughes met with the hard-nosed bankers. "Most people in this country have forgotten," he says, "but in 1975 the cable industry across the board had severe financial problems. Frankly, we fell on our faces in the early years. Our stock, which had been $11, was selling for about $1.50 in 1975. We got rescued when the satellites went up in 1976."

Rescue was complete in 1978. That same year, Hughes was chairman of the National Cable Television Association and spent "practically the whole year" lobbying. He and his administration came away with legislation that wiped out FCC restrictions on cable services to metropolitan areas. For the first time, operators won the right to offer whatever services the market would bear.

Also during that year, Times Mirror Corp. approached Hughes and Crosby with a buyout offer at the then unheard-of price of $380 per subscriber. Hughes wasn't ready to sell, but the other investors felt the deal was too good to pass up. They liquidated CPI for $135 million, a price that left some $85 million in equity after debts were paid.

Says Hughes, "I took the management team from CPI and, within 90 days after the sale, we formed Prime Cable. We all figured the time was right to make some real money." The original team included Jerry Lindauer and Ron Dorchester among others, who make up what one admiring cable CEO calls "a true Marine Corps story—they'll go over the hill for Bob."

Starting from zero, Prime Cable grew in six years to serve 420,000 subscribers in seven states. "Our thrust has always been to look for situations we thought were undervalued—not capitalized or managed properly—and build them," said Hughes. "Building the number of subs has never been that important to me. I always look for chances to build equity quickly for our shareholders."

Under the old U.S. tax code, an equity-development strategy produced hefty returns for investors because of lower taxes on capital gains. But Prime was a public company and could deliver returns only by liquidating assets. Hughes insists that his is not among those companies that flip system ownership quickly, driving up purchase prices and forcing increases in subscription rates.

"If you look at our history," he says, "it would be foolish for me to deny that there's a certain amount of churn built in. But I don't think we've owned any system less than five years and I don't think we've inflated any sales price beyond the real value of a system. We make our gains by increasing the actual value through strong management."

> Prime Cable may be in a footrace with Congress to close the loophole allowing master limited partnerships.

When he formed Prime Cable, Hughes attracted large investors by assuring them liquidity in no more than six or seven years. He promised to buy out other investors, take the company public or sell it. To make good on his guarantee, Hughes sold off more than half of Prime Cable's assets in 1985 and "cashed out" investors. In a highly unusual move, he also offered warrants, options to buy stocks at a given price, in his next fund, Prime Cable II Inc.

Hughes' expansion strategy is different in this new company. Where Prime Cable purchased systems outright and was highly leveraged, Prime Cable II buys off balance sheet, through joint ventures or limited partnerships.

"As this industry has evolved in the last three or four years, we have concluded that the way to do deals is on a stand-alone basis," says Hughes. "We have different partners in each deal and we often have a minority equity interest. We look for 20 to 60 percent ownership, but we insist on managing a system as though it were wholly owned. We are not interested in any joint-management agreements."

With the change in the tax laws at the turn of the year, Hughes currently is reconstituting Prime Cable II as a limited partnership. Because the capital-gains advantages were excised from the code, he says, reorganization will produce the greatest return. It will enable the company to pass profits (and losses) directly through to investors without the double taxation inherent in corporate income taxes.

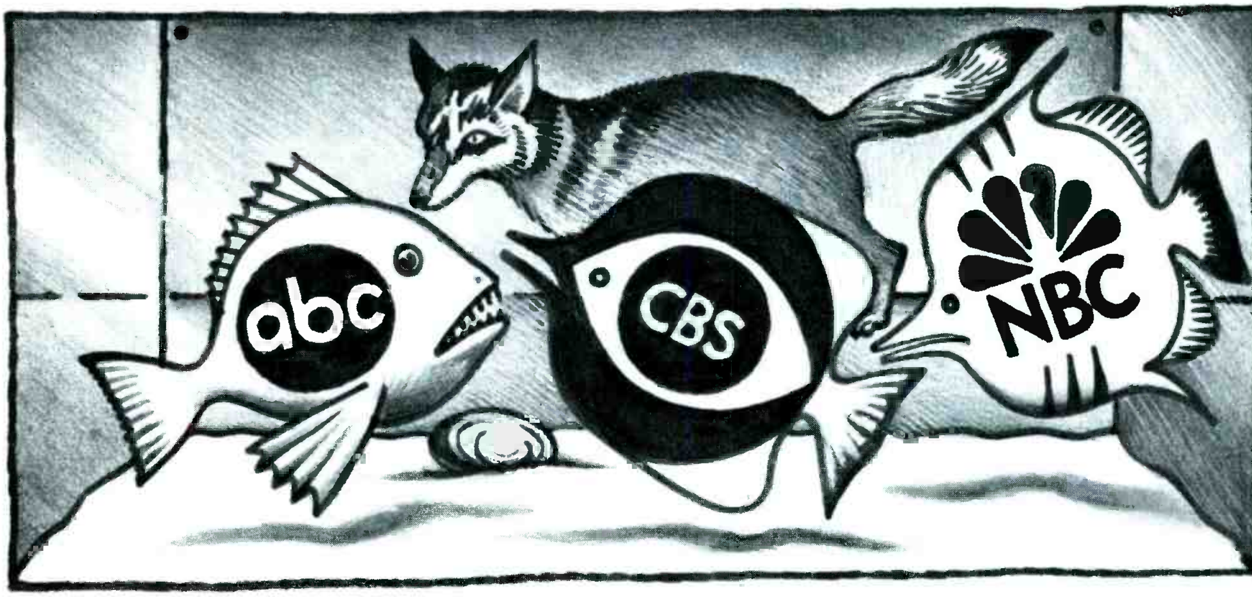
In the summer of 1986, Hughes embarked on another move tailored to the new tax code. With Shearson Lehman Bros., he created a master limited partnership called Prime Cable Income Partners L.P. A July 10 public offering, designed to raise $50 million at $20 per unit, sold out. A second MLP will be organized this spring—a problem, of course, if Congress, now under pressure, reverses itself and tinkers with the MLP loophole.

Whether Prime Cable Income Partners will turn out to be good for investors is uncertain. But while it lasts, it is sure to be a gold mine for Hughes. Under the partnership agreement, Prime Cable II will manage properties owned by the MLP for 5 percent of gross revenues. And though Prime Cable II contributes 1 percent of the fund's assets, a built-in liquidation six to ten years in the future guarantees the operating partner 25 percent of any capital gains. That means, of course, that investors who kick in 99 percent of the money get only 75 percent of the benefit.

That 25 percent is my incentive to make the systems we buy increase in value," says Hughes. "I want to make my 25 percent worth as much as possible, but that means the other 75 percent has to grow, too."

One feature of the new MLP that Hughes mentions with particular pride is a provision that limits debt. The investment fund can borrow no more than $1 of every $5 it spends to buy cable operating companies. For investors, the provision virtually guarantees their income cannot be eaten away by interest payments. For Bob Hughes, though, it represents security of another kind. It means he'll never have to sit across the table from a batch of bankers and bet the company to stay in business. ●

TALK SHOW



BOB GALE

HURT ON THE STREET

With all the mergers and acquisitions reshaping the TV business, one would think the Wall Street community would be basking in a golden age. But here's how one of the most respected media analysts, First Boston's Richard MacDonald, assessed what's been happening at a recent industry seminar:

The media business has entered a gloomy era of Malthusian overpopulation. The pool of advertising can no longer feed, even at a subsistence level, all the TV networks, TV stations, radio stations and newspapers whose hands are outstretched. The survivors of the 1985 "War to End All Wars" have turned on each other like the post-atomic survivors in a *Mad Max* film. . . .

I doubt whether four networks will ever coexist profitably. After all, three don't today. Only NBC will make money on an operating basis this year. But I believe that the global Fox Broadcasting Company, backed by Fox studios, has a better-than-even chance to survive in the long term. Fox has locked-in program supply and someday will have the ability to amortize rights across a worldwide English-speaking video market of 220 million homes, while the U.S. networks cannot . . . .

What challenges face the new network managements? Two of them have never been broadcasters before. They operate by the numbers and now must find a way to make their networks self-sustaining, while not wounding any deeper the spirit of a business that entices creative people into it and creates the excitement that draws audiences to spend their evenings with its entertainment . . . .

Specifically, I see the challenges to the three networks as: for NBC, sustaining the network's creative momentum in a period when NBC's profit contribution to G.E. will and indeed should decline if it is to prepare for a future of competitive struggle. G.E. may not accept a profit decline from NBC and in protecting profits could damage NBC's future.

For Capital Cities/ABC, fixing a broken prime time and daytime schedule by improving program quality while reducing costs. In my view, preposterous program ideas, such as *Amerika*, waste both money and the schedule at a critical time.

For CBS, keeping the center together of the most successful past (and potentially future) broadcaster. Further attacks on the news division, which defines what CBS stands for to people outside the company, could fatally damage the spinal cord of the enterprise and severely damage long-term shareholder interest as well.

What worries me most as an investor is that such complicated, conflicting and indeed ambiguous problems, now endemic to the business, require both a numbers and a creative answer. Unfortunately, the highest levels of management now running the networks—hailed for their strength on the former by analysts—remain absolutely unproven on the latter . . . .

Are business and its proxy, Wall Street, now providing healthy advice on the business of running a TV network and serving the public interest? No. The flippant comments by analysts on the huge staff reductions at CBS News would seem to have the following ultimate logic: "If you fire everybody at your network and take all your programming off the air, you'll make a ton of money." That kind of rubbish—Wall Street's obsession with costs fueled by a stunning lack of business knowledge and common sense—could lead and may have already led to fatal decisions.

But perhaps they're right. Let creative destruction sweep the old from the stage and let different players renew the drama. Replace the now stymied dynamics of Paley, Sarnoff and Goldenson with rump news divisions, rump programming schedules and rump audiences, and let Rupert, Ted and the cable operators develop the new out of the old.

TALK SHOW

BOB GALE

A SUBTLER KIND OF VIOLENCE

What most people mean when they talk about TV violence is the violent images—murder, death, mayhem. But the violence *on* television is only one element in what might be called the violence *of* television.

The leading example is The Violent Juxtaposition. On television, anything can follow anything else. *Family Feud* follows the nightly news. An Ex-Lax commercial follows a terrorist bombing. The concealed violence of these juxtapositions is present in the notion of a "cut," as in "cut to the weeping mother." What is cut is not only the videotape but the viewer's attention. It's true that one can self-inflict this violence merely by changing channels, but that only proves the point. By insisting that anything can follow anything, television attacks the principle of continuity and its moral equivalent, the sense of the sacred. That some things belong exclusively to their own realm and are profaned by contact with another is too limiting a principle for television to uphold, so a cut to a commercial is always appropriate.

Voyeuristic Violence is another form. The scene is a motel room in Tennessee where twins, separated since birth, are about to be reunited before TV cameras. Shot of a car pulling up to a motel door. One twin comes out, sees the other; they giggle, embrace and finally begin to cry. This private moment is offered as "news" to an audience of strangers, who has no business at the reunion. Pressure on a tear duct can be a form of violence, especially when applied by scenes that are essentially pornographic, offering the intimate for less than the price of intimacy.

Still another form is Confusion as Violence. Never is television more apt to use force against its audience than after a tragedy, such as a plane crash or terrorist bombing. As families are brought before the camera to grieve, the viewer is stranded between two reactions: One is to regard the victim of violence as a family member; the other is to make of the victim a larger-than-life figure, to see in his death a public significance. Thus the twin myths of the television audience as "one big family," and the victim as a national hero.

Perhaps these conceits are necessary to hide the pornographic element in television's treatment of tragedy. A kind of violence is committed, then, both against the victims' families, whose suffering is made inappropriately public, and against the culture's definition of "family" and "hero," which cannot survive with any meaning the stretching television requires of them. The public and private realms become confused; strangers are treated as intimates, victims as heroes. Words lose their meanings, emotions their grip. The effects of this are difficult to calculate, which is probably why the more literal forms of violence on TV receive so much attention.

JAY ROSEN

THE WAGES OF RE-REG

"Prove it." That's what the champions of the free market say whenever critics argue that broadcast deregulation has been detrimental to news, public-service and children's programs. Until now, it's been difficult to come up with quantitative proof, but some evidence has emerged from an odd source—the applications submitted for the annual Peabody Awards, the industry's most prestigious prizes for distinguished work, which put a strong accent on public service.

A comparison of the Peabody submissions from stations and networks for the last five years (the period coinciding with the deregulation initiatives at the FCC) reveals a steady decline in news and public-service entries, an increase in those for entertainment and an overall drop in radio submissions.

This year, the Peabody administrators sent out some 9,000 invitations to American commercial radio stations to submit programs. They received 40 responses. Overall, the Peabodys received 759 entries, 587 in television and 172 in radio. Of those:

- Only one radio entry was in children's programming.
- Public-service radio programming accounted for less than 10 percent of all radio entries. A decade ago, it was 33 percent.
- Overall television entries were up, but the increase was primarily in entertainment: 107 programs this year, the most in the history of the awards. In 1981, only one in seven TV entries was in entertainment; today it's one in five.
- One in five television entries was a news program. In 1981, it was one in four.

It can be argued, of course, that there is just as much news and public service on the airwaves nowadays but that stations no longer feel the need to submit such programs simply to win FCC brownie points. But taking the Peabodys as a more illustrative mirror, it appears that when FCC requirements to offer programs in the public interest disappear, news and public-service programming often disappear as well.

JOSEPH VITALE

PRIVATE EYE

by William A. Henry III

NETWORK PROPHETS AND THE BOTTOM LINE

The news division layoffs and all the Draconian measures to come can't hold a candle to what networks could achieve by real cost controls in prime time for just one night a week.

In the heyday of network television, roughly a decade ago, executives were routinely accused of striving for profits without honor, valuing the bottom line to the virtual exclusion of fulfilling a public trust. These days the networks find it easier to demonstrate honor than profit, although the hardscrabble scratch for the latter may soon nullify the former completely. Everything the networks once considered holy, from the evening news to the limousine life, is subject to the new cost accounting. The most surprising thing about this transformation is that everybody acts surprised. It is not true that no one in network TV saw the crunch coming, it is just that no one listened. My own experience included three wise men. They too are—you should pardon the expression—prophets without honor.

The most significant of them, in terms of what he knew and how soon he knew it, was Robert Wussler, now a honcho at Turner Broadcasting. As president of CBS-TV a decade ago, when living was easy and the hog on high, Wussler reduced his colleagues to giggles by warning that they were paying too much for shows in a misguided search for top ratings. "Product cost is getting out of hand," he said in my presence, "and we have no one to blame but ourselves. If a show is a hit, everyone involved wants to renegotiate his contract. If the producer tries to hold out, we cave in and pay the difference." Advertising revenues could not possibly rise as fast as program costs, Wussler added. The networks were running out of new dayparts to exploit, and there was only so much of a premium sponsors would pay for TV's effectiveness at marketing, compared with radio or print.

Another factor that Wussler could not foresee caused him to be right even faster than he expected: Double-digit inflation eased and made rapid annual price rises much tougher to achieve. Meanwhile salaries kept on jumping—as an example, the current rate seems to be $10,000 a week for secondary characters on hour-long series—and so did everything else. All the highly publicized news-division layoffs to date, and all the Draconian measures that may come, can't hold a candle to what the networks could achieve by real cost controls on prime time shows for just one night of the week.

The second wise man was Fred Silverman, whose mismanagement of NBC—frenzied spending on new series, huge accumulation of program inventory, runaway duplication of duties in the executive suite—cannot wipe out the acuity of one thing he said to me in 1979. Cable, syndication, fourth networks and other competition would inevitably erode the network dominance in pure entertainment programming, Silverman argued. Therefore NBC and its rivals should focus more of their energies on live coverage, sports and other reality-based programs, building on the credibility they had established with viewers.

Some of Silverman's efforts, including a news magazine with Tom Snyder and a medical show featuring actual surgical footage, flopped miserably, both as art and as commerce. But ABC's *Our World* is a fine example of what Silverman had in mind, and in the changed environment it is a triumph. Its ratings are generally the very worst of the week. Yet its production costs are low enough so that it ranks far higher in profitability—which amounts to winning while losing. The most obvious contradiction to this dictum, of course, is the double fiasco of prime time football and baseball. Those games could be hugely profitable, but the networks let themselves bid too high.

The prophets without honor: Sauter, Wussler and Silverman

The third wise man was the mystifyingly reviled Van Gordon Sauter, a fellow of charm, wit and common sense who was denounced by his CBS News subordinates for the wicked act of telling them that the party was over. About five years ago during a seminar, Sauter started asking me questions about the structure of the news-gathering staff at my employer, *Time* magazine. He applauded the notion of dividing the labor between correspondents in the field who get the story and writers at headquarters who shape the raw reports into crisp, spare narratives. CBS News should do the same thing, he said. There was no point in hunting out people who were not only reporters but also adroit on-camera performers only to have them appear on air once or twice a month. Far better, he observed, to hire reporters at lower wages and confine the premium for on-camera authority to a few super-correspondents who could deftly package other people's raw reporting as well as their own. He wasn't seeking to substitute packaging for news gathering, just to shift writing and editing into fewer, perhaps abler, hands.

This wasn't such a radical notion: The network already had field producers who did something quite similar to the off-air job he was describing. Still, nothing much came of his proposal until after he left, and CBS, along with its competitors, started considering ways to cut the budget. Among the top ideas: Sauter's plan to limit star wages and duties to real stars, with others relegated behind the scenes. That makes him, like Wussler and Silverman, at least something of a prophet. So here's some belated honor. ●

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ABILENE, KTAB CBS • ADA-ARDMORE, KTEN ABC/NBC • ALBANY, GA, WALB NBC • ALBANY, NY, WNYT NBC • ALBUQUERQUE, KGGM CBS • ALBUQUERQUE, KOB NBC • ALEXANDRIA, LA, KALB NBC • ALEXANDRIA, MN, KCMT NBC/ABC • AMARILLO, KAMR NBC • AMARILLO, KVII ABC • ANCHORAGE, KTVA CBS • ATLANTA, WSB ABC • ATLANTA, WXIA NBC • AUGUSTA, WJBF ABC • AUSTIN, KTBC CBS • AUSTIN, KTVV NBC • BAKERSFIELD, KGET NBC • BALTIMORE, WMAR NBC • BANGOR, WLBZ NBC • BANGOR, WVII ABC • BATON ROUGE, WAFB CBS • BATON ROUGE, WBRZ ABC • BEAUMONT, KFDM CBS • BEAUMONT, KJAC NBC • BECKLEY, WOAY ABC • BEND, KTVZ NBC/CBS • BILLINGS, KTVQ CBS • BILOXI, WLOX ABC • BINGHAMTON, WBNG CBS • BIRMINGHAM, WBRC ABC • BIRMINGHAM, WVTM NBC • BOISE, KBCI CBS • BOISE, KIVI ABC • BOSTON, WBZ NBC BOSTON, WNEV CBS • BOWLING GREEN, WBKO ABC • BUFFALO, WKBW ABC • BURLINGTON, WPTZ NBC • BUTTE, KXLF CBS • CASPER, KGWC CBS • CEDAR RAPIDS, KWWL NBC • CHAMPAIGN, WCIA CBS • CHAMPAIGN, WICS NBC • CHARLESTON-HUNT., WCHS ABC • CHARLESTON-HUNT., WOWK ABC • CHARLESTON, SC, WCBD ABC CHARLESTON, SC, WCIV NBC • CHARLOTTE, WBTV CBS • CHARLOTTE, WSOC ABC • CHARLOTTESVILLE, WVIR NBC • CHATTANOOGA, WRCB NBC • CHATTANOOGA, WTVC ABC • CHICAGO, WLS ABC • CHICO-REDDING, KHSL CBS • CINCINNATI, WCPO CBS • CINCINNATI, WKRC ABC • CLARKSBURG, WDTV CBS • CLEVELAND, WEWS ABC • COLORADO SPRINGS, KKTV CBS • COLORADO SPRINGS, KOAA NBC • COLUMBIA-JEFF., KMIZ ABC • COLUMBIA-JEFF., KOMU NBC • COLUMBIA, SC, WIS NBC COLUMBUS, SC, WOLO ABC • COLUMBUS-TUPELO, WTVA NBC • COLUMBUS, GA, WRBL CBS • COLUMBUS, GA, WTVM ABC • COLUMBUS, OH, WBNS CBS • COLUMBUS, OH, WTVN ABC • CORPUS CHRISTI, KRIS NBC • DALLAS, KXAS NBC • DALLAS, WFAA ABC • DAVENPORT, KWQC NBC • DAVENPORT, WQAD ABC • DAYTON, WKEF NBC • DENVER, KUSA ABC • DES MOINES, KCCI CBS • DES MOINES, WHO NBC • DETROIT, WDIV NBC • DETROIT, WXYZ ABC • DOTHAN, WDHN ABC • DOTHAN, WTVY CBS • DULUTH, KBJR NBC • ELMIRA, WETM NBC • EL PASO, KDBC CBS • EL PASO, KVIA ABC • ENSIGN, KTVC CBS • ERIE, WICU NBC • EUGENE, KVAL CBS • EUREKA, KVIQ CBS • EVANSVILLE, WFIE NBC • FARGO, KTHI NBC • FARGO, KXJB CBS • FLINT, WJRT ABC • FLORENCE, WBTW CBS • FRESNO, KFSN ABC • FT. 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WAYNE, WPTA ABC • GAINESVILLE, WBSP IND • GAINESVILLE, WCJB ABC • GRAND RAPIDS, WWMT CBS • GRAND RAPIDS, WZZM ABC • GREAT FALLS, KRTV NBC/CBS • GREEN BAY, WFRV ABC • GREENSBORO, WGHP ABC • GREENVILLE-NB, WCTI ABC GREENVILLE-SA, WLOS ABC • GREENVILLE-SA, WYFF NBC • GREENWOOD, WABG ABC • GREENWOOD, WXVT CBS • HARLINGEN-WESLACO, KRGV ABC • HARRISBURG, WHP CBS • HARRISBURG, WHTM ABC • HARRISONBURG, WHSV ABC • HARTFORD, WFSB CBS • HARTFORD, WTNH ABC • HATTIESBURG, WDAM ABC/NBC • HAYS-GOODLAND, KAYS CBS • HONOLULU, KHON NBC • HOUSTON, KHOU CBS • HUNTSVILLE, WAFF NBC • IDAHO FALLS, KIDK CBS • IDAHO FALLS, KPVI ABC • INDIANAPOLIS, WRTV ABC • INDIANAPOLIS, WTHR NBC • JACKSON, MS, WJTV CBS • JACKSON, TN, WBBJ ABC • JACKSONVILLE, WJXT CBS • JOHNSTOWN, WWCP IND • JONESBORO, KAIT ABC • JOPLIN, KODE ABC • KANSAS CITY, KCTV CBS • KANSAS CITY, WDAF NBC • KNOXVILLE, WATE ABC • KNOXVILLE, WBIR CBS • LA CROSSE, WEAU NBC • LA CROSSE, WXOW ABC • LAFAYETTE, IN, WLFI CBS • LAFAYETTE, LA, KATC ABC • LANSING, WILX NBC • LAS VEGAS, KTNV ABC • LAS VEGAS, KVBC NBC • LEXINGTON, WTVQ ABC LIMA, WLIO NBC • LINCOLN, KOLN CBS • LITTLE ROCK, KATV ABC • LOS ANGELES, KABC ABC • LOS ANGELES, KCOP IND • LOUISVILLE, WLKY ABC • LUBBOCK, KAMC ABC MACON, WMAZ CBS • MADISON, WKOW ABC • MANKATO, KEYC CBS • MARQUETTE, WLUC CBS/NBC • MASON CITY, KIMT CBS • MASON CITY, KTTC NBC • MEDFORD, KDRV ABC • MEMPHIS, WMC NBC • MERIDIAN, WTOK ABC • MERIDIAN, WTZH CBS • MIAMI, WPLG ABC • MIAMI, WTVJ CBS • MILWAUKEE, WTMJ NBC • MINNEAPOLIS, KSTP ABC MINNEAPOLIS, WCCO CBS • MINOT, KFYR NBC • MISSOULA, KPAX CBS/ABC • MOBILE, WALA NBC • MOBILE, WKRG CBS • MONROE, KNOE CBS • MONROE, KTVE NBC MONTEREY, KMST CBS • MONTGOMERY, WAKA CBS • MONTGOMERY, WSFA NBC • NASHVILLE, WSMV NBC • NEW ORLEANS, WWL CBS • NEW YORK, WABC ABC • NEW YORK, WCBS CBS •NORFOLK, WVEC ABC • ODESSA, KMID ABC • ODESSA, KTPX NBC • OKLAHOMA CITY, KWTV CBS • OMAHA, KMTV CBS • ORLANDO, WFTV ABC OTTUMWA, KTVO ABC • PADUCAH, KFVS CBS • PALM SPRINGS, KESQ ABC • PANAMA CITY, WJHG NBC • PANAMA CITY, WMBB ABC • PARKERSBURG, WTAP NBC • PEORIA, WEEK NBC • PEORIA, WHOI ABC • PHILADELPHIA, WPVI ABC • PHOENIX, KTSP CBS • PHOENIX, KTVK ABC • PITTSBURGH, KDKA CBS • PORTLAND, ME, WGME CBS PORTLAND, OR, KOIN CBS • PRESQUE ISLE, WAGM CBS • PROVIDENCE, WPRI ABC • QUINCY, KHQA CBS • QUINCY, WGEM IND • RALEIGH, WTVD ABC • RAPID CITY, KOTA ABC • RENO, KTVN CBS • RICHMOND, WXEX ABC • ROANOKE, WDBJ CBS • ROCHESTER, WHEC CBS • ROCKFORD, WTVO NBC • ROSWELL, KBIM CBS • ROSWELL, KOBR NBC • SACRAMENTO, KXTV CBS • ST. JOSEPH, KQTV ABC • ST. LOUIS, KMOV CBS • ST. 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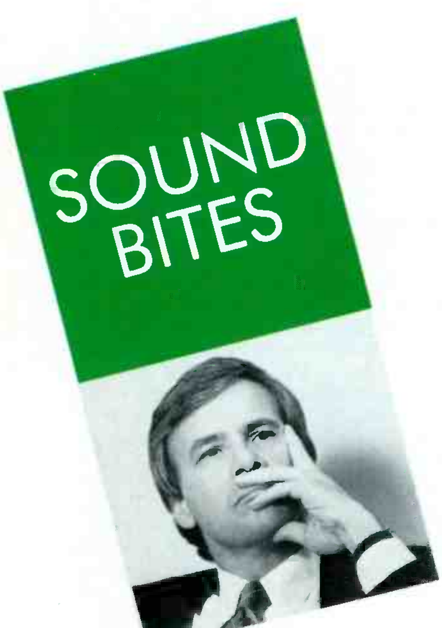
WLS-TV CHICAGO

Source: Feb. Nielsen Cassandra Report

NBC's Catalytic Anchor

Tom Brokaw talks about his relationship with Bob Wright, the trauma at CBS and the 'teetering' Reagan presidency.

The glow of success associated with NBC's entertainment schedule has now spread to the news division as well, and no one seems to be enjoying it more than Nightly News *anchor Tom Brokaw. On camera, Brokaw projects the image of his prairie roots—flat, subdued and dispassionate—but in person he is considerably warmer, even jocular. A native of Webster, S.D., he began his career in 1962 at KMTV in Omaha. Brokaw joined NBC's Washington bureau in 1973 and served as the network's White House correspondent during Watergate. In 1982, after five years on the* Today *show, he was named evening anchor and lately the network has been increasing his visibility by featuring him in a series of one-hour news specials.*



BEING NUMBER ONE

Lately, it's been a lot easier around here to get through Tuesday mornings, when the Nielsens come out. When you have the kind of success that we've enjoyed lately it gives a lift to the whole organization. People have more confidence in what they're doing, they're willing to take a few more chances to create a stronger broadcast, and you're given more latitude by the corporate parent.

This is certainly a reversal from the position we found ourselves in two years ago, in mid-1985. That was not a good summer. When the TWA hijacking in Beirut went down, I was a continent away, in Africa. I got to Beirut behind the curve and could never get ahead of it. Things did not go well for us there, and we took a lot of grief in the press. The next thing that happened was the president's illness, and we were all over that story. Whenever there was something new to report we devoted extra time to it, even on weekends. We also started breaking onto the air whenever a hostage was released. Gradually, we established NBC as the more aggressive network, the one that stayed on the air longer to cover whatever was going on. By the time of the Shuttle explosion in January 1986, we were able to respond, I think, in a magnificent way to this terrible tragedy. We had repaired most of the damage done by fumbling the TWA story. People in the television criticism business didn't notice this, but audiences did. They perceived that NBC was back up to speed, and the ratings just followed that perception all the way up.

WINDOW OF OPPORTUNITY

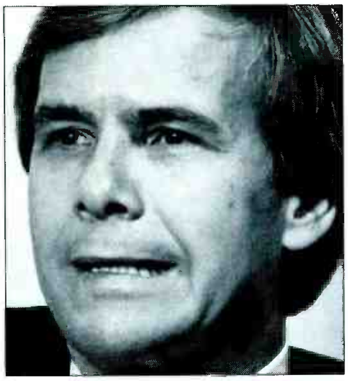
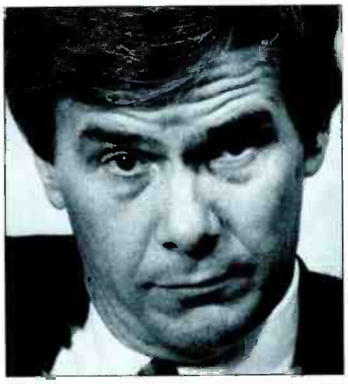
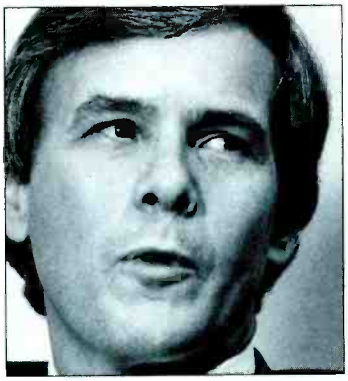
Though it's not something that I want to alert the other networks about, it's obvious that there's a real window of opportunity for us now. The NBC schedule is in good shape, and [parent company] GE has no immediate cash-flow difficulties. We have achieved success with all of our news shows throughout the day, beginning with *Sunrise* and continuing through to the *Nightly News*. Now we're trying to create an even stronger audience for NBC News with the one-hour evening specials we're running. But I don't think that anyone is going to have a total lock on news audiences anymore—it's just too competitive out there today.

My role in this is to make sure that our organization is tight, that everyone agrees on it, and that we're moving toward the goals we set. I'm known around here as a meddler, but I prefer to think of myself as a catalyst. I am always asking, "How come that graphic isn't any good? What's wrong with the lighting?" Two years ago, on my birthday, the staff gave me a certificate making me a member of every union guild in the house.

THE NETWORK NEWS CUTS

One of the things that has changed in the last 25 years is that press coverage of us is much more intense. And I think we pay too much attention to it. Instead, we should be stepping back as journalists, looking at the larger picture and making a judgment. It's too early to say that this whole development is going to destroy network news, or that we're not going to be covering stories as effectively as we have in the past.

As an outsider looking in at CBS, for example, it seems to me that the people there were lulled into a false sense of security. When [CBS News president] Van Gordon Sauter was removed after Larry Tisch came in last year, Sauter said: "It won't make a difference. Who-

MIKE FULLER

'What we're seeing is, if not overt collusion, an understanding among the new owners that there's a different way of doing business.'

ever succeeds me will have to do the same thing." And he was right. They just turned the scalpel over to Howard Stringer.

Tisch's reputation was well known when he arrived. He is a businessman who operates in a spare and critical fashion at every company he takes over. And what he found was a network news operation that had been allowed to grow into this enormous bureaucracy. So much money was available that we had developed into a kind of full-service, 24-hour news-gathering operation, regardless of whether or not we had any place for that news on the air. In the meantime competitors like CNN realized that they could deliver news to the same market more efficiently, slowly picking away at the audience. So, for the first time we had to consider whether all this extra baggage was really helping or hindering the enterprise.

THE CHANGES AHEAD

I do feel strongly about the importance of network news in American life. It goes back to my roots. I grew up in a kind of cultural backwater, the prairies of South Dakota, where we didn't have good newspapers. Television truly was a window on the world for me. In a pluralistic society with the kind of geographical reach this country has, this is a vital function. The question we're really facing is how to preserve a vigorous, well-financed news organization within the changing information spectrum of the country.

I think one of the changes we're already seeing is the emphasis on broadcasting special segments of some length every night, whether it be the Iran-contra scandal or drug-smuggling in the Bahamas. Second, we're going to be drawing on a smaller pool of reporters. The players in the future will be the specialists, those that cover economics, science, foreign affairs. Increasingly, the network will be the place where audiences turn for more coverage of what I call the "overarcing" events—those that fly over parochial concerns.

ANCHOR SALARIES

There has also been quite a bit of concern among the rank and file, and among people like Fred Friendly, about the kinds of salaries we collect. I don't believe these are obscene, but they certainly are exaggerated salaries. My contract is up for renewal in 1988, and I expect it to come under very close review—but then *everything* around here is under review. It's not a simple question of, say, Dan Rather or Tom Brokaw giving back 40 percent. Does that mean that [GE chairman] Jack Welch is going to take that 40 percent and say, "O.K., let's go out and hire eight more writers." I don't think that Welch or Tisch or the Cap Cities people think that way at all. They are looking at a whole restructuring process and asking "How do we get real value out of this organization?" What we're seeing is, if not overt collusion, certainly a quiet understanding among the new owners that there's a different way to do business in television.

ROBERT WRIGHT

During the six months that [NBC president] Bob Wright has been here, I've seen him about a half dozen times. He's very bright and asks a lot of questions, and my contact with him has been friendly but professional. The period when his memo surfaced last year was a painful time for him. [In December, Wright sparked a controversy within the network by suggesting that NBC employees contribute to a political action committee fund.] Plainly, he got himself tangled up in some things that I don't think he should have. During that period I said to him, "The First Amendment also permits you to be quiet. I think you ought to just shut up for a while." To his credit, he realized that he had a responsibility to get on with the business of running this company, and finding out more about it before he spoke with the press again.

REAGAN AND THE ARMS SCANDAL

Of course, everyone is comparing the Iran-contra affair to Watergate, but this is probably inaccurate. Ronald Reagan has a peculiar, personal relationship with the American public. When he walks out there with a smile on his face and joshes with reporters, it's much different from Richard Nixon, hunched over in his topcoat, saying "I am not a crook." For six years the White House press corps pointed out the errors of fact on the part of the president, but the public wouldn't accept it. To them, Ronald Reagan represented something much larger—their feelings about the economy and how the country was going.

Now, I think that the president is teetering. But it's very important for the press not to be perceived as going from guppies to piranhas simply because they think there's some blood in the water. The enduring lesson of Watergate was that when you went after Nixon, you had to have your facts in order and ask your questions firmly, but pleasantly. Reporters can't begin to think that they're larger or more important than the events they are covering. If you disengage the viewer, you can't function any longer as a journalist. It does no good to shout news in a vacuum. ●

RUNNING THE NUMBERS

The ten-most-aired commercials of late '86

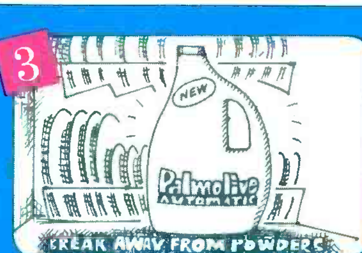
Nearly three times a day, on average, network TV ran the same commercial message for Active-Length Lee Press-On Nails—the most frequently aired network spot in the last six months of 1986. The Top 10 were identified for *Channels* by Broadcast Advertisers Reports and its subsidiary Radio TV Reports, which are developing a new service that will monitor advertisers' placements and spending on individual commercials.

The fingernail maker, Lee Pharmaceuticals, clawed its way past larger advertisers to the top of the list by pushing one product at a time, relying on a single commercial and buying cut-rate "remnants" of daytime and late-night time at the last minute. TV's biggest advertiser, Procter & Gamble, not only had two of the most-repeated spots (Folgers coffee and Safeguard soap), but also aired the largest number of *different* executions during the six-month period—304. In all, the networks ran 143,694 ads—5,814 executions for 1,973 brands placed by 489 companies.

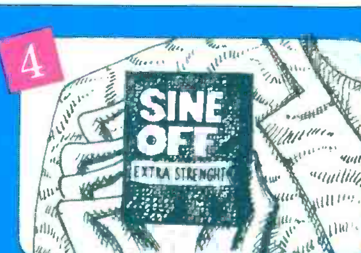
STEVE BEHRENS

503 PLAYS
ACTIVE-LENGTH LEE PRESS-ON NAILS
("Sturdy enough to use over and over.")

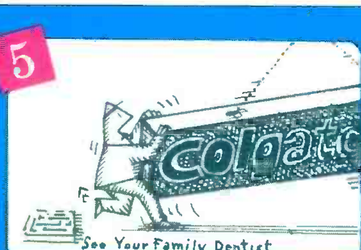
469 PLAYS
CONTAC 12-HOUR CAPLETS
(A computer prescribes Contac to an astronaut.)



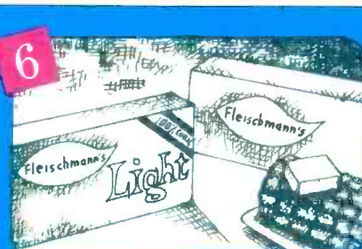
411 PLAYS
PALMOLIVE LIQUID DETERGENT
(Freed from powdered detergent, a couple can "get on with other things.")



286 PLAYS
SINE-OFF SINUS MEDICATION
(Army women sing out: "Sound off for Sine-Off!")



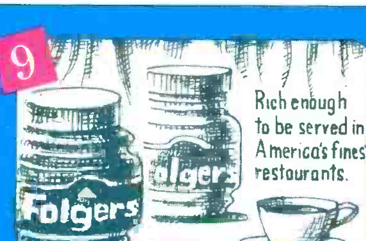
272 PLAYS
COLGATE TARTAR-CONTROL FORMULA
(Enormous toothbrush attacks tiny workers putting tartar on teeth.)



254 PLAYS
FLEISCHMANN'S MARGARINE
(30-year-old man switches to low-fat diet after heart attack.)

248 PLAYS
PINE SOL DETERGENT
(While wife's away, husband soils entire kitchen.)

246 PLAYS
VISINE EYE DROPS
("It gets the red out of irritated eyes, so they look fabulous for hours.")



241 PLAYS
FOLGERS CRYSTALS
(Instant coffee sneaked into cups in fine Atlanta restaurant.)

240 PLAYS
SAFEGUARD SOAP
(Jazz musician keeps odor away.)

ILLUSTRATIONS BY MACIEK ALBRECHT

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