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CHANNELS

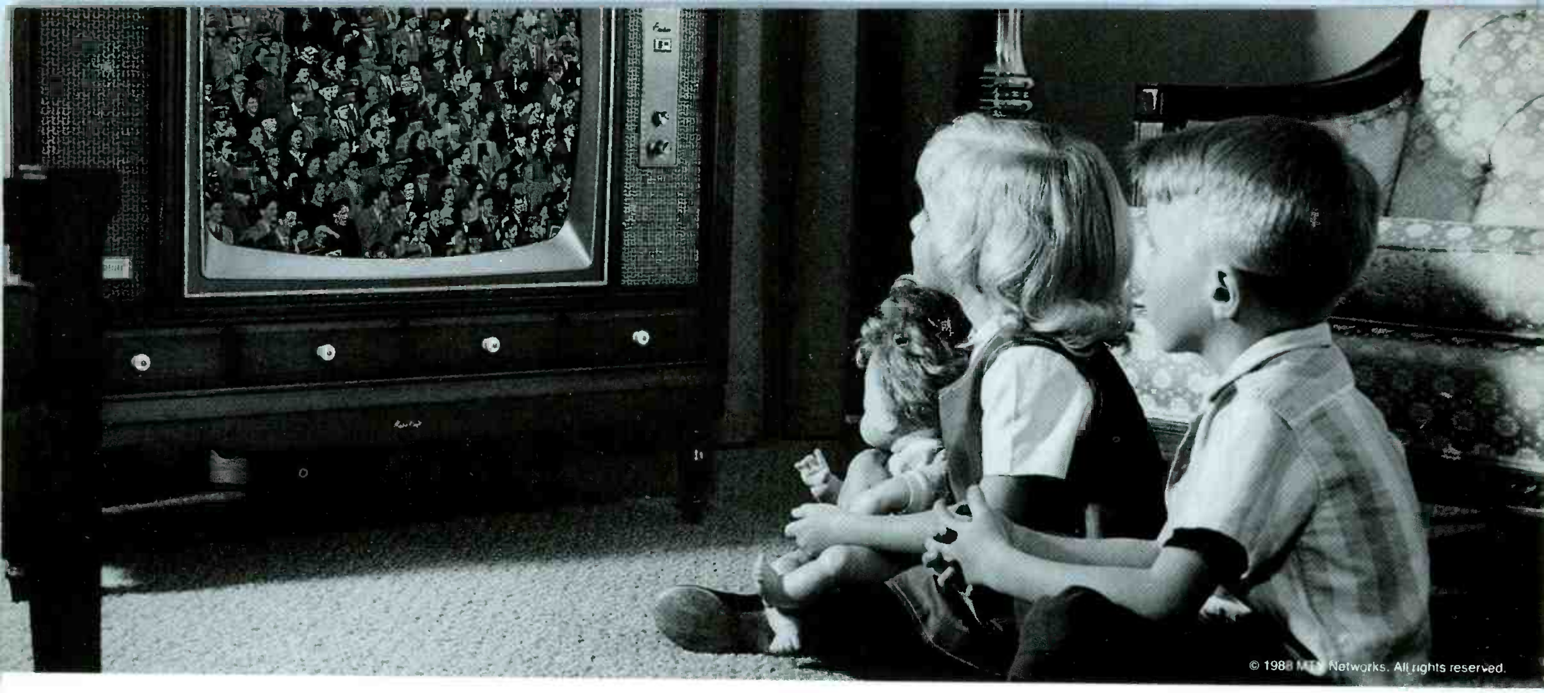
DECEMBER THE BUSINESS OF COMMUNICATIONS 1988

'89 FIELD GUIDE

TO THE ELECTRONIC ENVIRONMENT

SPECIAL REPORT

THE TURMOIL IN LOCAL TELEVISION



The first generation to grow up with TV...

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'89 FIELD GUIDE

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A man who's seen it all sees something new.

THE WASHINGTON POST SUNDAY, OCTOBER 2, 1988

Television '88: At Long Last, The New Season Begins

As the Networks Try To Pick Up the Pieces Of a Strike-Stricken Schedule, a Few Bright Newcomers Stand Out Amid the Usual Suspects: Herewith, a Sampler of the Fall

By Tom Shales
Washington Post Staff Writer

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New CBS Series

"Murphy Brown" (Monday, 8:30 p.m.). She's sassy, she's savvy, she's just back from a month at the Betty Ford Clinic. Candice Bergen makes a very stylish TV series debut as Ms. Brown, star reporter, for the "F.Y.I." network magazine show. Her foils include a former Miss America booked as a coanchor even though she's so dumb "she thinks Camus is a soap." Bergen is golden. (Nov. 14.)

"Almost Grown" (Monday, 10 p.m.). Suzie and Norman were lovers. But not at first. And not anymore. One of the season's rare departures from form and formula, "Grown" charts the ups and downs of a young New Jersey couple through three interlocking time frames: 1962, when they meet; the late '60s, when they live together; and today, as their 16-year-marriage lies in ruins. Rock music plays a big part in their lives—from "26 Miles" on the car radio in '62 to an aspiring '80s band called Airport Lobsters. The leads, Eve Gordon and Timothy Daly, are wonderful; the show is worth a peek, maybe even a look. (Two-hour "preview" Sunday, Nov. 27; premieres Nov. 28.)

"TV 101" (Tuesday, 8 p.m.), arguably the most ambitious new series, is part of an effort to retool the stodgy CBS image along youthier lines. Kevin Keegan (Sam Robards), adviser to the Roosevelt High School newspaper, encourages students to produce a video version instead. The pinhead principal hates it; the kids come alive through it. Tape inserts of the student show are mixed in with the filmed drama. Smart, hip and original. (Nov. 29.)

The man is Tom Shales, this year's Pulitzer Prize winner for television criticism.

CBS

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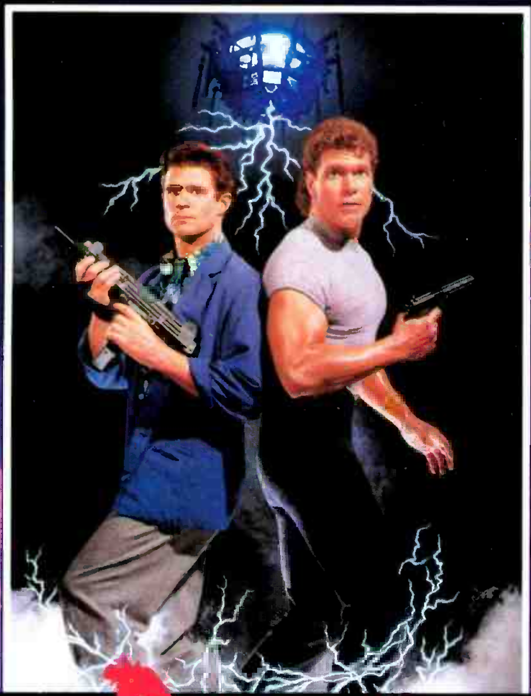

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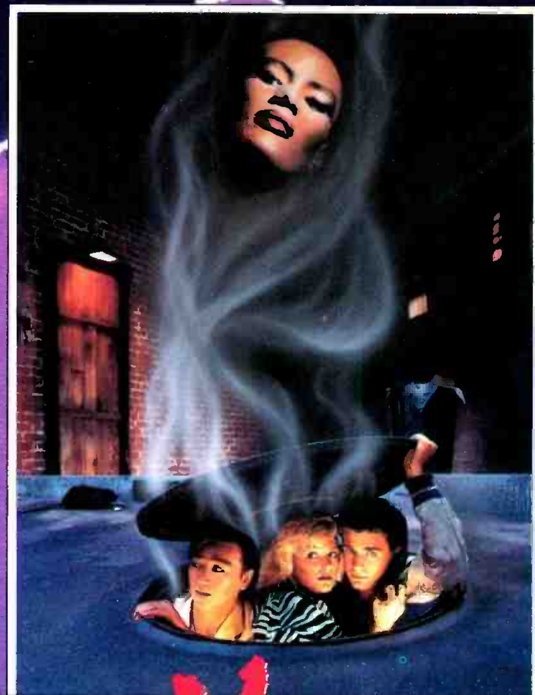

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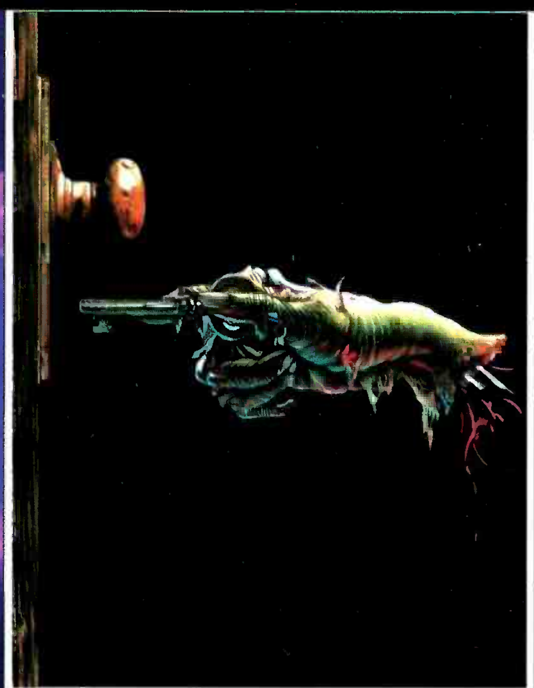

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FROM THE EDITOR

The 1989 Field Guide

There are a number of constants that guide *Channels'* editors each year in publishing the Field Guide. We set out to provide a thorough assessment of where the communications industries stand at year's end and put all that information into context for our readers. It is a stimulating, often intimidating task.

At the same time, we're constantly trying to improve a product that we hope our readers depend on year-round. While we've retained the topics covered, we've repackaged the seventh annual Field Guide to make it more useful, altering the sections to focus on specific segments and providing for the first time introductions to those sections. This Field Guide divides the media industries into four segments, which follow our "Perspectives" overview articles. Those segments are "Players," the people and firms that shape the communications businesses; "Programmers," those enterprises that produce the program material which drives the media businesses we cover; "Distributors," those that carry programs; and "Consumers," covering the equipment and patterns behind home use of television services.

The Field Guide is a labor of dedication from the *Channels* editors pictured here and from writers who shared with us their expertise. The 1989 Field Guide was edited by senior editor Chuck Reece, whose wisdom and good humor made the project a happy beginning to the holiday season.


MICHAEL FREEMAN

The *Channels* editorial team: (from left) Kirsten Beck, Chuck Reece, Amy Jaffe, Richard Katz, J. Max Robins, Rachel Cohen, Michael Burgi, Neal Koch, Merrill Brown, John Flinn, Sue Ng, Peter Ainslie.

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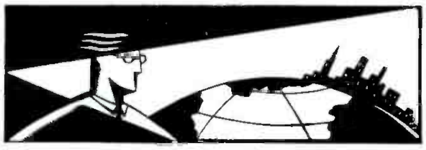
PERSPECTIVES

COVER STORY

Local Television Under Fire

Disappointing growth, soaring costs, new competition—local television is in the midst of a revolution. Can broadcasters fend off the onslaught?



Never before has the business of communications been divided into so many competing segments. New technologies in the '80s have made it possible for nearly everyone to find a niche in the market. As the field has become more crowded, the jostling has increased. If something is moving in one niche, those in the niches next to it will likely be forced to move, too. To that end, "Perspectives" offers the big picture of the communications business, starting with an examination of how rapid change has thrown television's basic building block, the local station, into turmoil. Editor Merrill Brown then offers his views on the state of the business, followed by looks at regulation, the international scene, finance, advertising and technology. This section is an aerial view of the forest. A look at the trees will follow.

"We may put on coats and ties in the morning, but they are really battle fatigues," says John Quigley. As general manager of independent station WTTE in Columbus, Ohio, Quigley likes to emphasize the first part of his title. His fiercely competitive market, the 33rd largest in the country, readily prompts battlefield metaphors. Says Quigley, "The attitude we have here is that we are at war."

Stations nationwide are in combat. It's unavoidable. Local operators are being attacked on all fronts: competition from cable (and more traditional media such as print and outdoor), disappointing revenue growth, soaring prices for premium programming and a fickle audience armed with VCRs and remote controls are all factors that have stations under siege. Rising costs and shrinking revenue potential are fundamentally changing the way local TV stations must do business.

Once upon a time, owning a television station was a virtual guarantee of ever-multiplying profits. As one industry observer wryly notes, "It used to be a general manager could come in late, take an early, three-martini lunch and return in the afternoon and only have to count his money."

For the corporate chiefs, it was sometimes hard to tell who in the field was a good station operator and who was just lucky. "A manager always looked like a hero," says Francis Martin, president and CEO of Chronicle Broadcasting in San Francisco. "Revenues were rising faster than expenses, so you had a rising margin." Inefficiencies developed, but it didn't really matter. Next year's profits would more than cover the waste.

No longer. No one—general managers, Wall Street observers, network executives—is sure what will happen to the local television business near-term. After strong spot sales in the first quarter of 1988, the market evaporated in what many station operators say was the worst second quarter in memory. For the year, many large station groups are reporting revenues "millions and millions of dollars below expectations," says one knowledgeable industry source. Major player Knight-Ridder decided to abandon the station business in October, putting its eight TV stations on the block in order to invest further in other media properties. George Gillett, who controls more stations than anyone in the country, has sold one station and has two others on the block. One broker counted 38 affiliate stations for sale in 1988's final quarter.

Sellers continue to hold out for the high multiples typical of the last two years, but nobody is rushing to buy. A pervasive sense of doubt about whether there will be sufficient revenue growth to justify aggressive investment has taken hold.

"Everyone agrees it's not as good a business as it was five years ago," says Steven L. Rattner, a managing director at Morgan Stanley, echoing the rumblings of the marketplace. "What people are debating is how big a change is under way from that historical high rate of growth." For players from the financial community, who have played a central role in driving the market for local stations, to even admit to a downturn is a clear indicator of a time of crisis.

Moreover, those who bought stations during the last two or three years of heated trading, borrowing heavily against projections of continued double-digit annual revenue growth, are having to scale back expectations. "The premise of any borrowing is that the market will behave a certain way," notes Michael Finkelstein, CEO of Odyssey Television Group. "I don't think anybody predicted affiliate revenue would be in this kind of condition. The market hasn't grown, so what do you do? A lot of people are being forced into selling by their highly leveraged capital structures."

Owners seeking relief are unlikely to find it from national spot, in the past a station's main source of revenue but now second to local sales. Martin Pompadur, president and CEO of ML Media (which operates two affiliate stations and has interests in cable and radio as well), has a theory about why national spot dissipated. "First of all, we've had a low rate of

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inflation, and we don't like that," he says. "Fractionalization of the audience also put pressure on our ability to raise rates. There are more places for advertisers to put their money: barter syndication, the Fox network, cable. And there's more inventory on the networks and on stations by virtue of the nets going from a 30-second to a 15-second unit of sale without getting a premium for the 15." Even the historical spur of the elections and the Olympic Games didn't boost the market this time around. "The every-four-years cycle has been disappointing," Pompadur admits.

In television, future revenues are also tied to future audiences, and the concern over viewer erosion that has plagued the networks for the last several years has filtered down to local markets. Where viewers go, ad dollars follow, and increasingly viewers are tuning in to cable. According to an analysis by the Association of Independent TV Stations using national Nielsen Media Research people meter data, for a typical month last spring cable networks' prime time share was up 37.5 percent compared with '87; NBC, ABC and CBS were down 7, 4 and 9 percent, respectively. Independents showed an average 19 percent gain.

Cable-system operators were once almost too busy to chase local ad dollars. Now that more than half of American homes receive cable, however, operators can increasingly turn their attention to local sales. Indeed, local cable ad revenues increased a healthy 33 percent last year, reaching $363 million, according to Paul Kagan Associates. By 1990, that figure should climb to $600 million.

"We're kicking their ass," says Eric Zitron, general manager of the Tidewater (Va.) Cable Interconnect, which sells local ad time for three area systems. "The broadcast audience numbers here have gone down for the last two years, and the cable numbers have gone up by 30 percent." The investment community has taken notice: The drop-off of interest in the market for broadcast stations has been matched note for note by a steady climb in the prices paid for cable systems.

For years, industry savants would tout the advent of cable or the huge bite the VCR would take out of viewership, but local station operators believed their glory days would last forever. The facts of their marketplace have finally become too cruel to ignore; the denial phase is over. After the evolutionary pace of the 1970s, this decade has had all the markings of a revolution. And while local stations recognize a period of upheaval, they are just beginning to deal with it. In most cases, it's business as usual, with a bit more of an aggressive face.

The question is, what if anything should they be doing? "You can't simply cut out a few expenses and have life go back to the way it was before," says Morgan Stanley's Rattner. "There's a fundamental problem on the revenue side, which is the lack of an audience base that allows them to raise prices and sell more advertising. As there's the ability for more channels to reach the home, local stations are going to lose share. It's just inexorable."

How station operators are reacting to the state of siege varies—indeed, there may be as many scenarios as there are markets. Still, certain strategies do seem to repeat themselves from place to place. Some stations are boosting marketing and promotion efforts. Others are beefing up local programming, tailoring it not only to their viewers but to their advertisers' needs. At some stations, sports or news is taking on more emphasis, while others are gambling on high-priced syndicated shows such as *The Cosby Show* and *Who's the Boss?*

No one is sure what will happen to the local television business near-term.

Perhaps the first thing that happens, as happens in any industry when revenues decline, is that the whip comes down. From programming to personnel, station operators scramble to cut costs. Chronicle's Francis Martin, who oversees one independent and four affiliate TV stations, says many broadcasters are now "wringing the fat out" of operations that had built up layers of luxuries, especially in staffing. "There's no magic number of employees necessary to operate a television station," he notes. "At the same time, there's no special relationship between film-amortization costs and personnel and operating costs, which are the three components of a television station. So you start looking at all those rather carefully."

Film costs, once they are contracted for, are fixed. So any savings devised today won't come into play for several years. But the payroll of a station is temptingly fluid. Local stations are starting to play out the painful personnel-cutting drama that's become a mainstay at the networks.

"You start saying, 'Well, maybe 50 percent of what this person is doing is essential and maybe 50 percent isn't,' " Martin says. "And you start redefining tasks and consolidating to see how you can wring out some efficiency."

The goal is to trim everything except what's absolutely necessary to keep the station on the air, still with quality programming. Explains Martin, in TV-industry managementspeak, "You look to see if a dollar expenditure is screen-oriented: Does this dollar go directly to the screen, or is it really a third-tier or fourth-tier dollar that in an attractive environment I'm willing to spend and happy to spend, but in fact is a nonessential expenditure?"

In a period of mounting economic pressures, no one would argue with local TV operators taking a long, hard look at costs. However, it doesn't necessarily mean this is a time for wholesale budget slashing either. Some operators counter that this is the time to invest, to pump up the volume on all fronts—sales, promotion, advertising and programming—in an effort to drown out the competition, or at least keep it at bay.

Jim Coppersmith, the general manager of WCVB, Boston's ABC affiliate, is an adherent of the "it takes money to make money" school. "Localism, localism, localism," he says. Coppersmith can't repeat that word enough. "We believe that the best thing you can do is to be unique, and that means local news, local sports and local entertainment." It embodies his way of dealing with a hyperkinetic marketplace, where cable and VCR penetration is high, the other network affiliates are strong and a couple of tough independent stations fight for viewers as well.

Coppersmith's brand of localism means local programming—he does 40 to 50 hours a week of it, which is at least 25 percent more than an average major-market affiliate. WCVB's commitment to local programming means a relatively huge production staff for state-of-the-art production values. It means aggressive spending for promotion and a sales approach that believes the economic future of local TV is "more on Main Street than Madison Avenue."

Yes, Coppersmith admits, "it takes a

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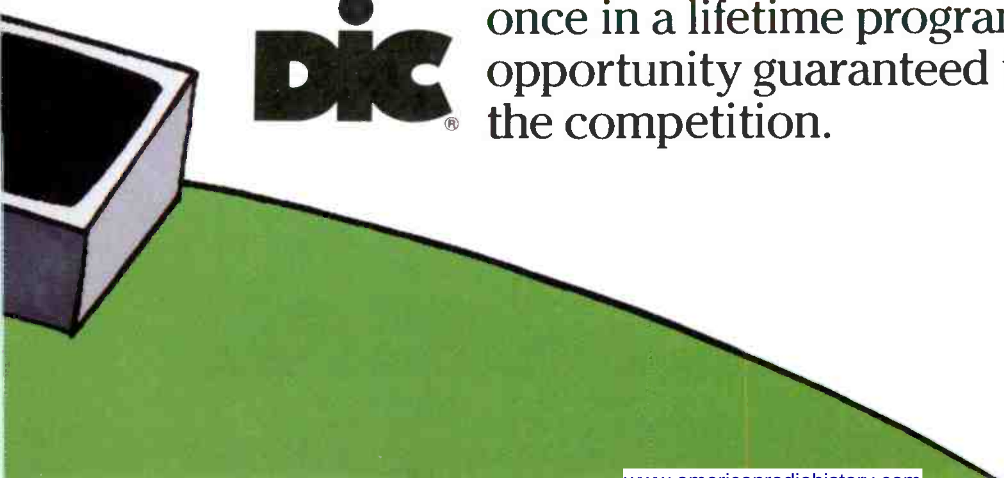

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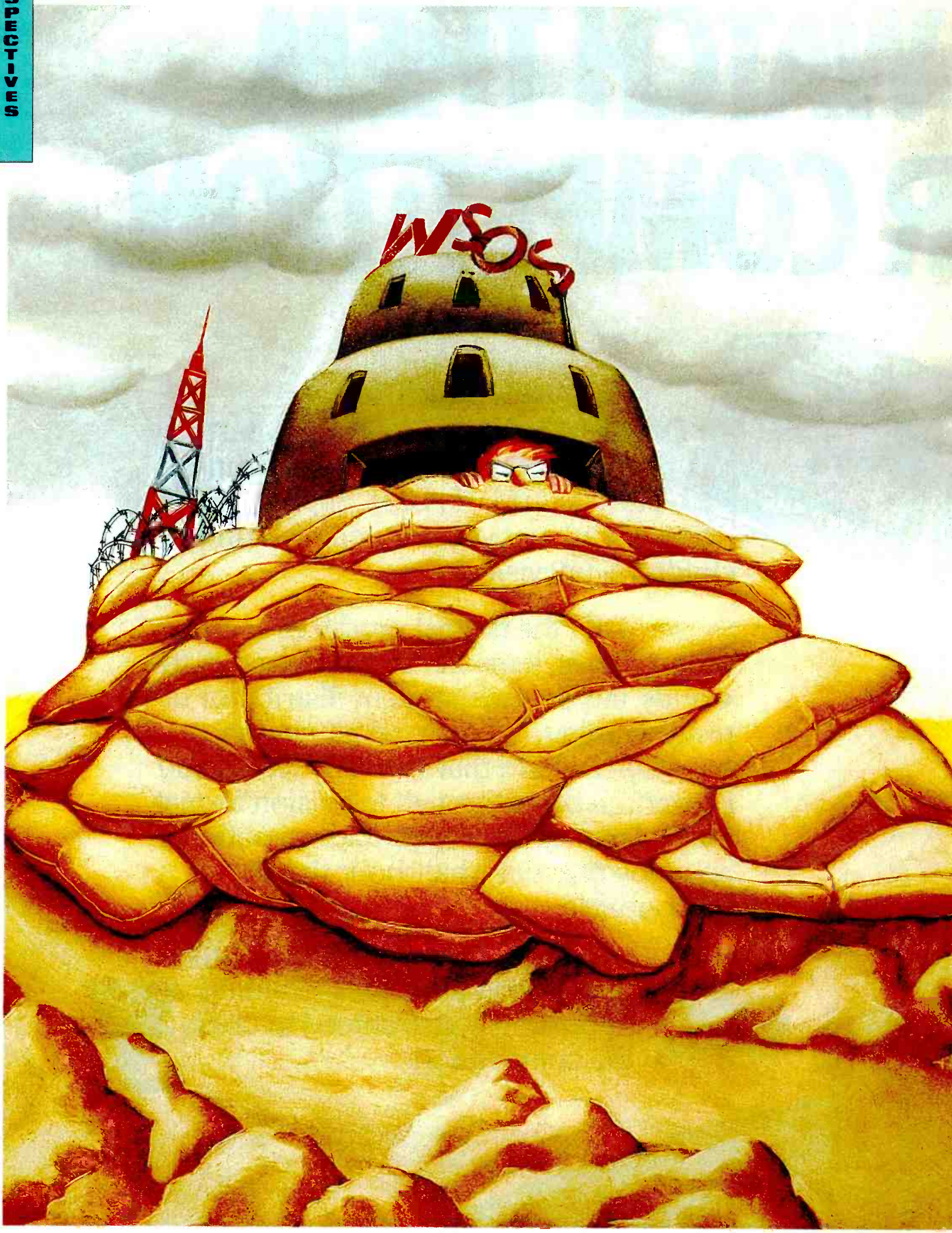


lot of money." But his station's parent, Hearst Corp., is willing to fund his campaign. "Hearst isn't saying to me, 'We're coming into a tight economy, you've got to cut.' What they're saying to me is, 'Do you have the dollars you need to compete?' " Besides, most WCVB-produced programming, such as the newsmagazine show *Chronicle*, makes the station money, he says. And as proven by the success of shows such as *PM Magazine*, which originated on a Group W station, and *A Current Affair*, which was developed by the Fox-owned station in New York, locally produced programming sometimes finds a lucrative national audience via syndication. WCVB's own *Chronicle* this fall began a run on the Arts & Entertainment cable network (which is partially owned by Hearst).

The kind of spending-intensive formula of localism that WCVB promotes may be fine for a network affiliate owned and operated by a major media conglomerate. But it can be a tough order for smaller stations without substantial resources. The part of the equation that does apply, however, is localism. Says Coppersmith, "The station that doesn't provide a local uniqueness won't have a reason to be. Why should somebody in Peoria tune in to local channel 99 when they can tune in a cable superstation or network that has the kind of production quality on par with a network affiliate?"

Rick Scott, executive v.p. and general manager of KRLR in Las Vegas, a small, family-owned independent in a medium-sized market, concurs with Coppersmith. Scott's operation, the only UHF station in Las Vegas, not only competes with the affiliates, cable fare and a market that has the third-highest VCR penetration in the country but is up against Meredith Broadcasting's KVVU, one of the oldest and strongest independents in the nation. "You can't be a UHF in this market and not be a bit uncertain about the future," admits Scott.

Despite daunting competition, one type of local programming has helped KRLR hang on: University of Nevada at Las Vegas basketball. "One of our main strengths is that we produce and air UNLV basketball," says Scott. "The only other thing this town cares about besides gambling is the Rebels, the UNLV basketball team—it's about the only thing we have that unites us."

Such live, local programming keeps viewers tuned in and familiar with the station. Of course, the most common way of building a local identity—and one that generates revenues as well—is news. According to a recent study by the Radio-Television News Directors Association, 70 percent of local TV news operations make money. News profitability has stayed steady, although with increased competition the news departments have begun to cut back staff, to avoid losses. Indeed, in the top 25 markets, where competition is keenest, there has been more than a 7 percent reduction in news staffs.

"Where we've seen the biggest decline in local TV news is in that 11 P.M. newscast," observes Bruce Northcott, president and COO of Frank N. Magid Associates, a leading TV consulting group. "Viewers have so many other news opportunities during the day, whether it's CNN, other local newscasts or the national news, that a lot of them don't see any need to watch a late-night newscast."

Stations are starting to react to the late-news viewership decline. Northcott points to stations that have restructured their 11 P.M. newscasts—such as Seattle's CBS affiliate, KIRO, and the Richmond, Va., ABC affiliate, WXEX—to a 15-minute sprint through news, weather and sports, followed by a 15-minute "closeup" segment on one or two stories.

Slow growth and shrinking fortunes are driving some major media companies out of local TV.

Some local stations are building their news and information programming beyond traditional time slots in an attempt to bolster image and profits. "We're in an extremely crowded field, and where we can stand out is in programming we control, which means news and information," says Andrew Fisher, v.p. and general manager of Atlanta's WSB, an ABC affiliate owned by Cox Enterprises.

Fisher notes that in the four years he's been running WSB, every department has shrunk except news and sales. Intrinsic to his approach to producing successful, profitable news and information programming is to make sure it gets a multilevel push: Often, equal amounts of care go into producing, promoting and selling ads in the programming. Case in point: A WSB-produced prime time documentary on runaways in Atlanta received the support of in-house-produced PSAs, editorial and news stories on the station's regular newscasts highlighting the problem, plus plenty of traditional advertising support. The program took its time period with a 26 rating and a 40 share.

"We're not out to do public-service programming that's buried in the schedule and that nobody is going to watch," says Fisher, a veteran news director before becoming a general manager. "When we produce something in-house we make sure it will be watched and make money. Our competition is too tough for us to be haphazard about this."

It's not simply in top-20 markets like Atlanta that stations are feeling the competitive heat. Several years ago, Bob Krueger, general manager of KTVB, the NBC affiliate in Boise, Idaho, began to worry about the creeping threat of cable in his market. "There were starting to be so many other sources of television, what with cable's 36-some channels, it was bound to cut into our pie," he says. "We started looking at how this station could single itself out."

His response centered around the station's information programming. "Our strategy was to try and position KTVB as the dominant news leader in the market," Krueger says. "We have achieved that, and we continually strive to strengthen the perception. We call ourselves Idaho's News Channel. It's all been purposely planned out, and it's proved to be a very wise and rewarding move."

For a lot of station operators, primarily independents, KTVB's approach is tantamount to suicide. "No news is good news," quips Harlan Reams, general manager of Wichita's KSAS, an indie. "You go to NATPE or INTV, and all you hear is localism, localism, localism, which means more news and more news. You listen to that stuff and, before you know it, you've got a news staff of 100 people, like an affiliate."

Except for a kids' show and a little college basketball, Reams shies away from original programming. KSAS takes Fox's Saturday and Sunday night feeds, but the rest of the time the station plays down and dirty—counterprogramming the competition with shows bought cheaply. "We can't be everything to everybody. There is no bad TV," says Reams, admitting he has learned from past experiences of carrying heavy debt from expensive syndicated programming. He points to a strategy of opting for relatively low-priced shows such as *The Brady Bunch*, which delivered the youthful demographics he wanted when it ran against the much more expensive *M*A*S*H*. With a tight-fisted approach to programming costs, Reams claims his station, the market's sole independent, can make money with

ILLUSTRATION BY SOPHIE PIERRE


MOONSTRUCK

only 10 or 11 percent of the market's estimated \$350 million in TV ad revenues. And if it can grab more than that, it can make a lot of money. "This isn't brain surgery," he says.

Odyssey's Finkelstein, who controls two independent stations in addition to an NBC affiliate, echoes Reams' strategy. The high-priced, hyped-up top syndicated shows bring with them a daunting amount of risk. Finkelstein argues that it's better to settle for a lesser rating than face enormous programming bills. "All TV businesses have to learn how to get their costs under control," he says. "The idea of winning in the ratings by a war to take the other guy's share away is a zero-sum game. If you lose, you lose big. The bills will come in for *Cosby* for some years to come."

Premium programming costs have already proved to be too much to handle for some independents. According to a recent survey of the top 50 markets by the ComCapital Group, 15 indies acknowledged being in "financial distress," and half of those stations cited high programming costs as the source of their troubles.

Whether they respond by scaling back spending or aggressively going after new sources of revenue, stations should consider themselves on red alert as they enter the 1990s. "The business is clearly going to get significantly more difficult," says Morgan Stanley's Rattner. "I think we're looking ahead to a couple of years of very slow growth in cash flow, at best, and I see substantial risks that the situation could be worse than that."

Rattner's worst-case scenarios include an economic recession or slowdown that would affect every advertising medium—cable, broadcast, newspapers—or an acceleration in audience erosion from local TV. "If fragmentation really gets bad, or the impact on advertisers is greater than expected," he says, stopping just short of being a prophet of doom and gloom, "it could cost local television quite a lot of money."

Unfortunately, so will most of the plans to win back viewers and increase revenues. High-definition television, which many expect to have the usual consumer-fascination factor that can drive up viewership, will also require new transmitters and studio setups. Says KTVB's Krueger, "That's going to be a tremendous burden."

If local broadcasters want to expand their advertising universes and increase their revenue streams, that will cost a lot of money, too. The requisite training and staffing to transform a sales department into a multifaceted marketing force, and doing the research to support it, doesn't come cheaply.

Any refinement of programming strategy—whether it involves adding more local news or buying this season's must-have syndicated show—requires extra cash, plus it brings the added expense of promoting the new schedule above the competitive din.

Some industry observers think the way to go is consolidation. One part of that equation is simply to realize economies of scale—in purchasing everything from programming to office supplies and computer systems. There are those who believe the FCC may even remove the 12-station cap on station ownership, making larger groups possible, but that may be wishful thinking.

Another sect of the consolidation crew is buying stations to close them down. Their argument is that the industry expanded too fast, and now there aren't enough viewers or ad dollars to support so many stations. They point to single-market, multistation buys by Pappas Telecasting and ACT III Broadcasting (a division of the company that owns *Channels*) as the first wave in that direction.

Most broadcasters still tout their industry, adopting a prognosis that, while downscaled, is still optimistic. "To discuss our business ten years ago is to discuss history," affirms Bob Regalbuto, president and general manager of Hubbard Broadcasting-owned KSTP in Minneapolis. "This is still a wonderful business. It's not as wonderful as it was, but it's wonderful compared to any other business that I know."

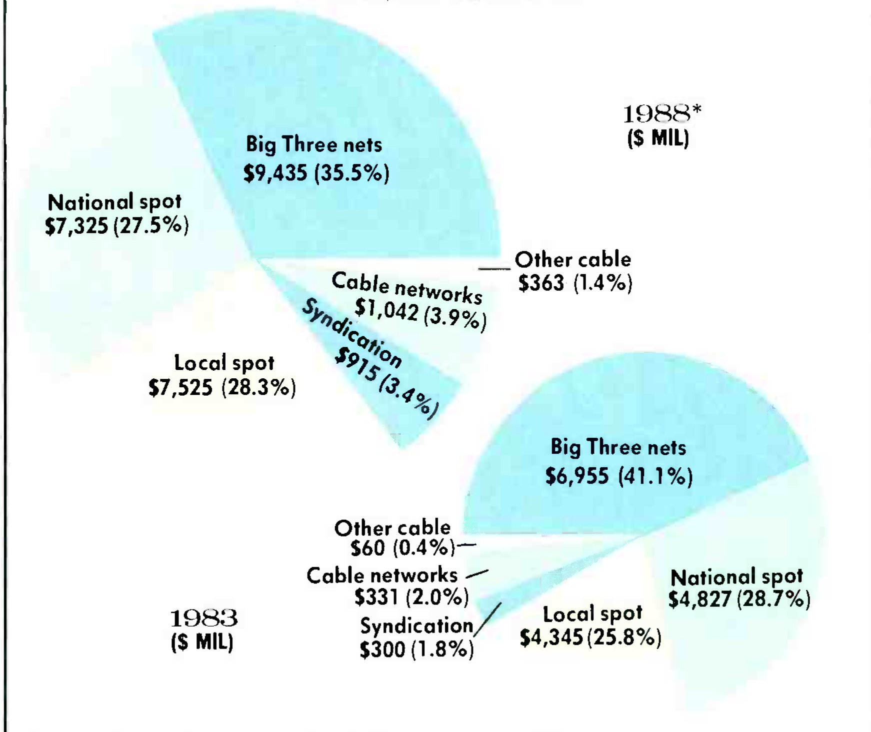
Others note that despite the considerable gains of cable, it still can't reach every household in a given market with an advertiser's message. "Broadcast television remains an extraordinarily effective medium," says Chronicle's Martin. "We have a signal that reaches 100 percent of a market's households. Cable doesn't come close to that kind of appeal."

But this is no time to be bragging about superior penetration. The cable community counters that in this era of target marketing, broadcasters' blanket coverage is not necessarily an advantage. The days of double-digit revenue growth for local television have come to a close—and the prospect of either slow growth or shrinking fortunes is already driving some established broadcasting companies out of the business. The key to the future for local operators will be how quickly and aggressively they battle for viewers and ad dollars. "Next year is going to be a scary year," one industry executive said recently. Up until now stations have been waging a war of containment—and if that strategy doesn't change, they soon will be in full retreat.

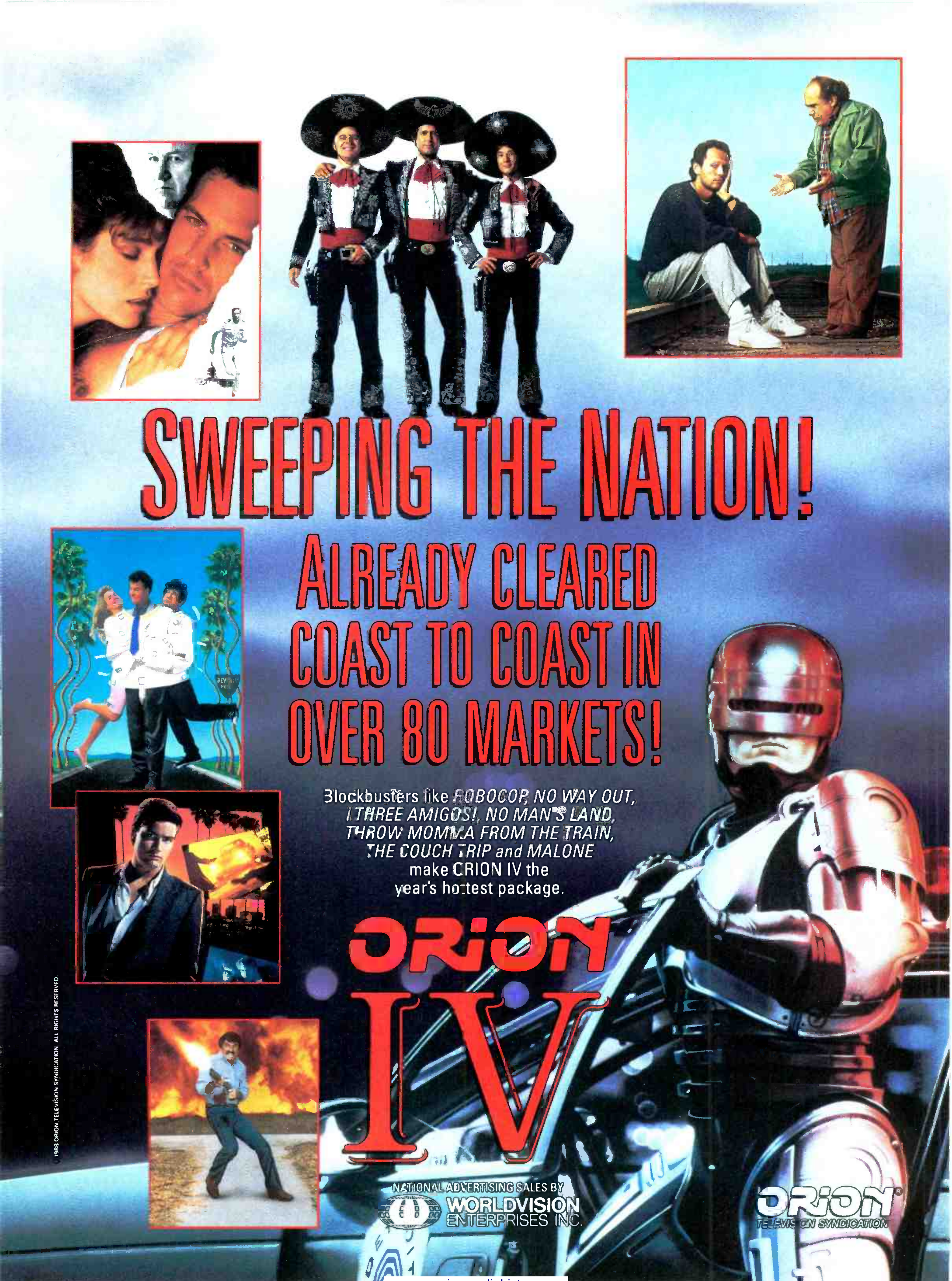
J. MAX ROBINS AND JOHN FLINN

Where Ad Dollars Land

New competitors and increasingly aggressive local-sales efforts have changed the way television divvies up its advertising revenues. The total pie has increased 58.2 percent over five years, from \$16.8 billion in '83 to \$26.6 billion in '88.



Source: McCann-Erickson; cable data from Paul Kagan Associates. *Estimated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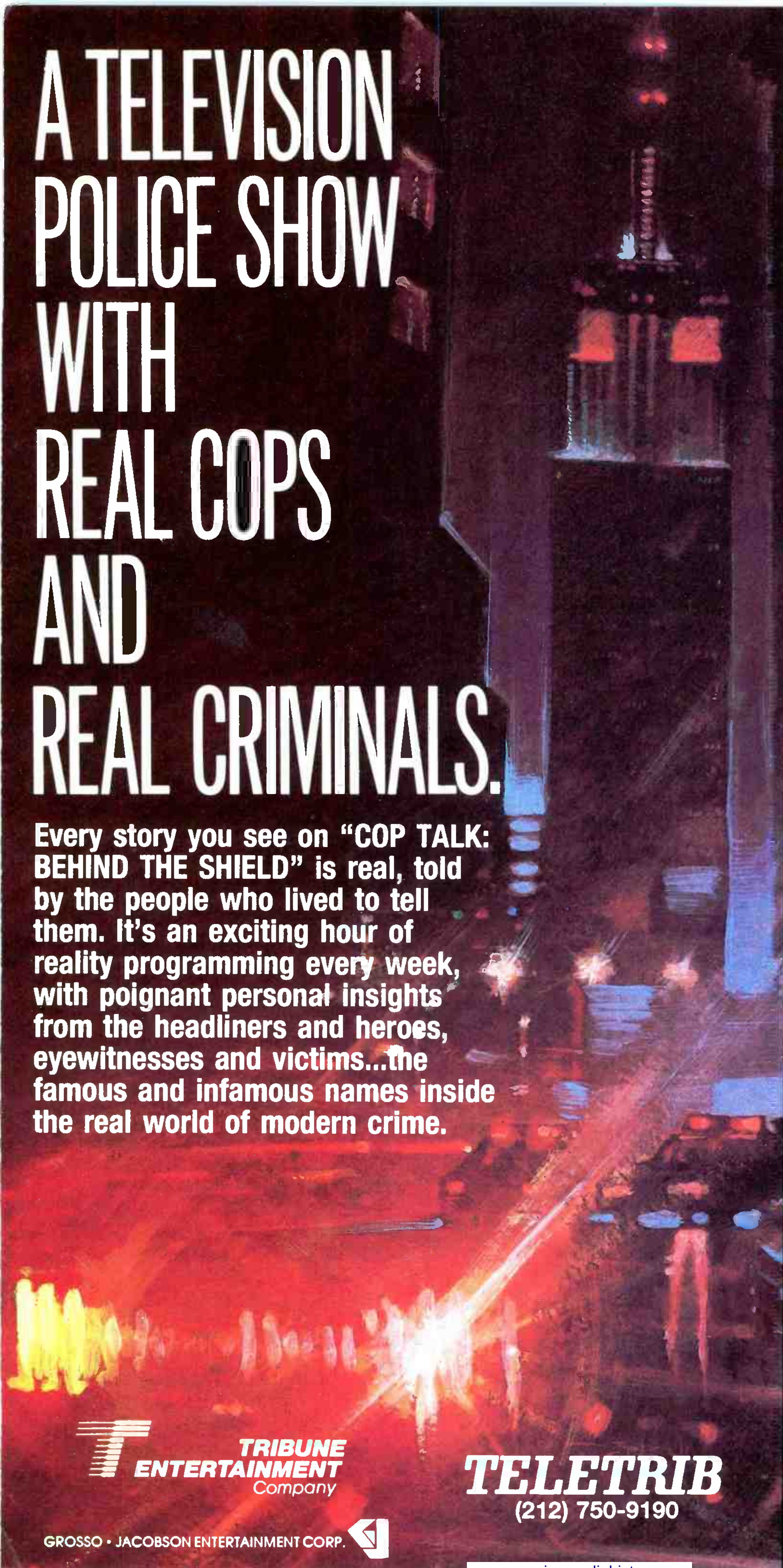
When Was The Last Time Cable

On Oct. 3, the TNT idea began to live up to its promise. With more than 17,000,000 subscribers at launch and millions more committed for Jan. 1, the momentum for Turner Network Television is building.

As industry support continues to grow, new original projects for the future are being added to the dozen already in production for 1989. An additional goal of adding major league sports to the TNT line-up has been accelerated. The faster the TNT subscriber base increases, the more TNT can deliver back to the industry — to attract new subscribers, and build local ad revenues.



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Every story you see on "COP TALK: BEHIND THE SHIELD" is real, told by the people who lived to tell them. It's an exciting hour of reality programming every week, with poignant personal insights from the headliners and heroes, eyewitnesses and victims...the famous and infamous names inside the real world of modern crime.

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The film launched a successful career in the entertainment industry, including credits on such projects as **"The Godfather," "The Rockford Files"** and **"Baretta."**

Most recently Grosso•Jacobson Productions has developed such critically acclaimed television movies as **"Question of Honor"** and **"Out of Darkness,"** as well as the CBS late night series **"Night Heat."**

This unique combination of police and entertainment experience gives Sonny Grosso special insight as host of **"COP TALK: BEHIND THE SHIELD."**

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OVERVIEW

The Boom That Wasn't

It was supposed to be a great year for the broadcast networks and cable. What happened?

For many people in the television industry, 1988 was a most confusing year. It was a year that was supposed to bring a great advertising boom, one propelled by the combination of the Olympic Games and hotly contested national elections. It was supposed to be a time when network programmers were going to assert their individuality with unique, big-event programming and targeted "dramedies." And 1988 was supposed to be the best of times for the cable industry. The year was none of those.

On the advertising front, especially for local station operators, 1988 was a significant disappointment, with the year's second quarter catastrophically bad for many broadcasters. The Olympics, though underappreciated as a major boon for NBC's owned stations and a positive development for many NBC affiliates, failed to deliver promised national ratings numbers. And what had appeared to be a hotly competitive primary race for the nominations of the two political parties petered out in the midst of a national election that seemed to leave most Americans exasperated, confused or uninterested. So much for the so-called quadrennial year.

Further, 1988, a year when cable television was to come into its own with a wealth of new opportunity, ultimately became the year in which cable became a popular whipping boy for politicians and competitors. Some national politicians, inspired by the promise of a deregulated cable business, openly bemoaned their votes just four years before that freed the cable industry from most regulation.

Other events were equally surprising, even for the most savvy of experienced television hands. It was a year that saw a veteran news executive, Howard Stringer, who oversaw a tough reconstruction of CBS News, move to a new post in charge of CBS's efforts to develop situation comedies and action/adventure series. It was also a year that saw a veteran print journalist, Michael Gartner, end up in charge of NBC News, and a sports TV executive, William Grimes (responsible for the success of ESPN), end the year running Hallmark's moves into Spanish-language television. Moreover, 1988 was a year that saw the most ballyhooed new cable network in recent years, Turner Network Television—which promised to create television so unique that cable nonsubscribers would sit up and take notice—launch its service with a 50-year-old movie that virtually everyone in the country had already seen at least once.

It was a year in which Hollywood writers closed down production studios, service businesses and trendy Beverly Hills restaurants by striking against a studio system that had made many of its members rich beyond even the wildest dreams of the nation's film and television factories. In fairness, it was a strike designed to help the fortunes of the several thousand television and film writers who may not have gotten rich off the Hollywood system, but one in which the results—and winners and losers—remained unclear even well after its August resolution. At least the strike of '88 became an event from which the nation's TV viewers became aware that their television system was certain to face years of disruption as its revolution continues into the 1990s.

> Television pros in 1989 will grapple with a difficult and confusing strategic environment.

And it was a year when the industry started to recognize the end of the basic relationship between the viewer and set—the dynamic that for more than three decades had made the viewing of TV programs a staple of family life. American consumers increasingly decided that flipping through the dial—grazing—was a potentially more satisfying experience than watching one program at a time. Advertising experts, who had long since recognized remote control as a nemesis, moved to add often bizarre stylistic touches to commercials in an effort to restrain the urge to flip, fast-forward, wander and graze.

That's not to say 1988 wasn't a year of some predictable events. Network audiences continued to move to other viewing alternatives; relations between the Big Three networks and their irreplaceable affiliates soured further. More affiliates moved to preempt the fare fed to them by network programmers, and some affiliates called for the departure of network leaders. It was a year in which Bill Cosby's situation comedy broke syndication price records and *The Cosby Show* moved from weekly visits to the American living room to daily ones. The Big Three networks continued to prune operations, cutting overhead as their business further downsized.

In addition, 1988 saw the independent station and syndication business continue to consolidate and presumably gain strength for the future through that process. And it was a year in which the large cable operators continued to buy systems, add subscribers and tighten their firm grip on the increasingly popular basic-cable programming field.

What the unpredictable and predictable events of the year portend for 1989 are more surprises. The government is preparing to restudy the deregulation of both broadcasting and cable, and once again the network and production businesses are trying to reach a long-sought compromise agreement over the increasingly important financial interest and syndication rules. Most sectors of the communications industry, meanwhile, awaited the inauguration of a new President, a presumably eager Congress and a revamped FCC with considerable apprehension and uncertainty.

The cable industry, perhaps, faces the most unpleasantness in 1989, with the politically powerful and astute Hollywood

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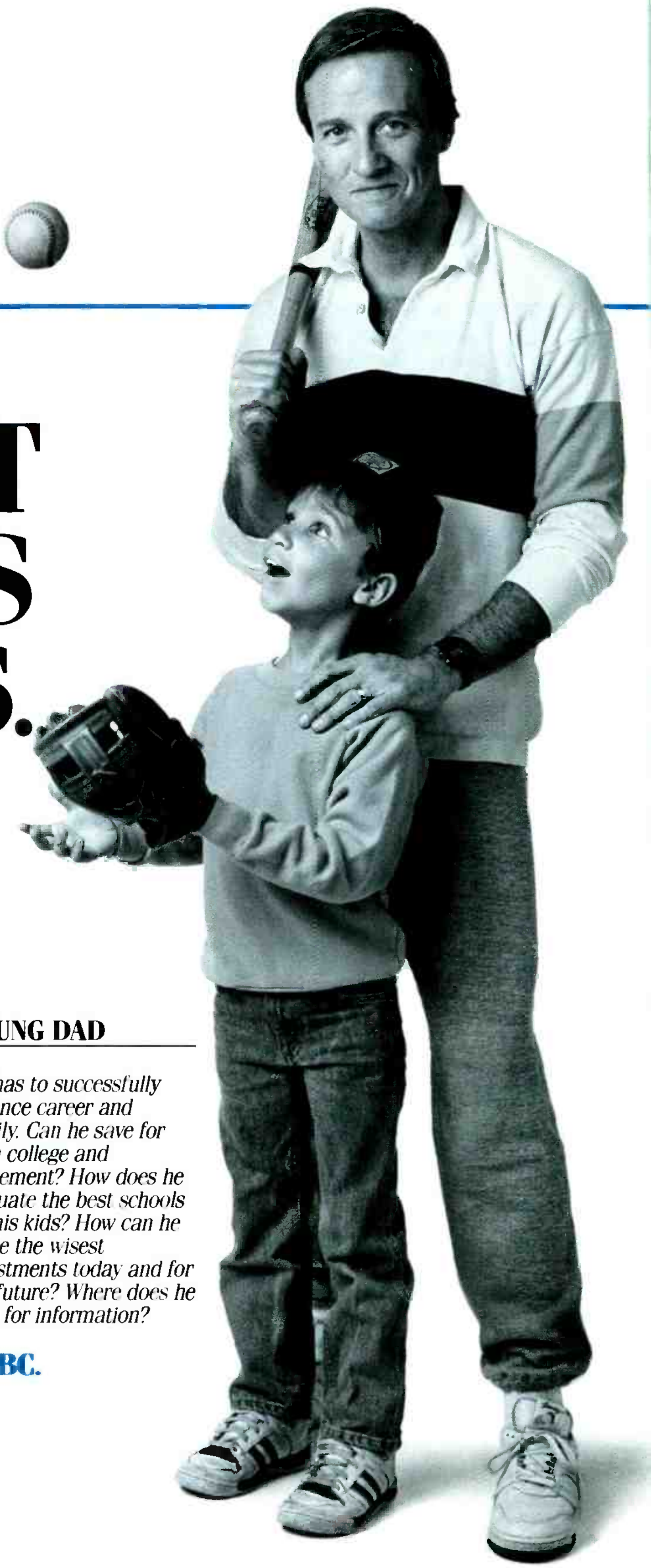

Your subscribers are smart consumers. They have tough questions about investments, mortgages, college, retirement, healthcare and more.

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YOUNG DAD

He has to successfully balance career and family. Can he save for both college and retirement? How does he evaluate the best schools for his kids? How can he make the wisest investments today and for the future? Where does he turn for information?

CNBC.


EXECUTIVE
She's thinking about value. How does she make her earnings and investments work for her? Which strategies are best for keeping taxes down? Is she better off buying or renting a new home? How does she select the best products at the right prices? When's the right time to buy that new car she's been thinking about? Where does she go for advice?
CNBC.
EMPTY NESTER
Now the kids are gone and she has free time on her hands. Should she take a vacation and see the world? Which airlines offer the best fares and most convenient schedules? What are the best ways to stay in shape on the road, and is there any special medication she'll need for her travels? And when she returns, how can she turn her life skills into job skills? Where does she get the answers?
CNBC.

studios ready both to cut deals with the Big Three and hammer at cable operators, their current whipping boys. More important for the cable business, the nation's telephone companies—enterprises that dwarf the TV industry—are loaded with cash, have already been split apart by federal edict and are preparing for a political assault aimed at winning the right to deliver video into the home, a possibility that made cable operators apoplectic and left broadcasters considering an odd marriage with cable to hold off a telephone company onslaught.

Meanwhile, many of those same cable operators, while understandably focusing on investments in programming that might lure the half of the wired population that continues to refuse cable subscriptions, continued to exert their own control over cable program networks. That trend galvanized Hollywood, which claims to be threatened by the fact that the same people who own the wire into the home increasingly own the fare carried over those cables. That political and strategic conundrum for cable operators looms as the fundamental strategic issue facing the entire programming business as 1989 dawns.

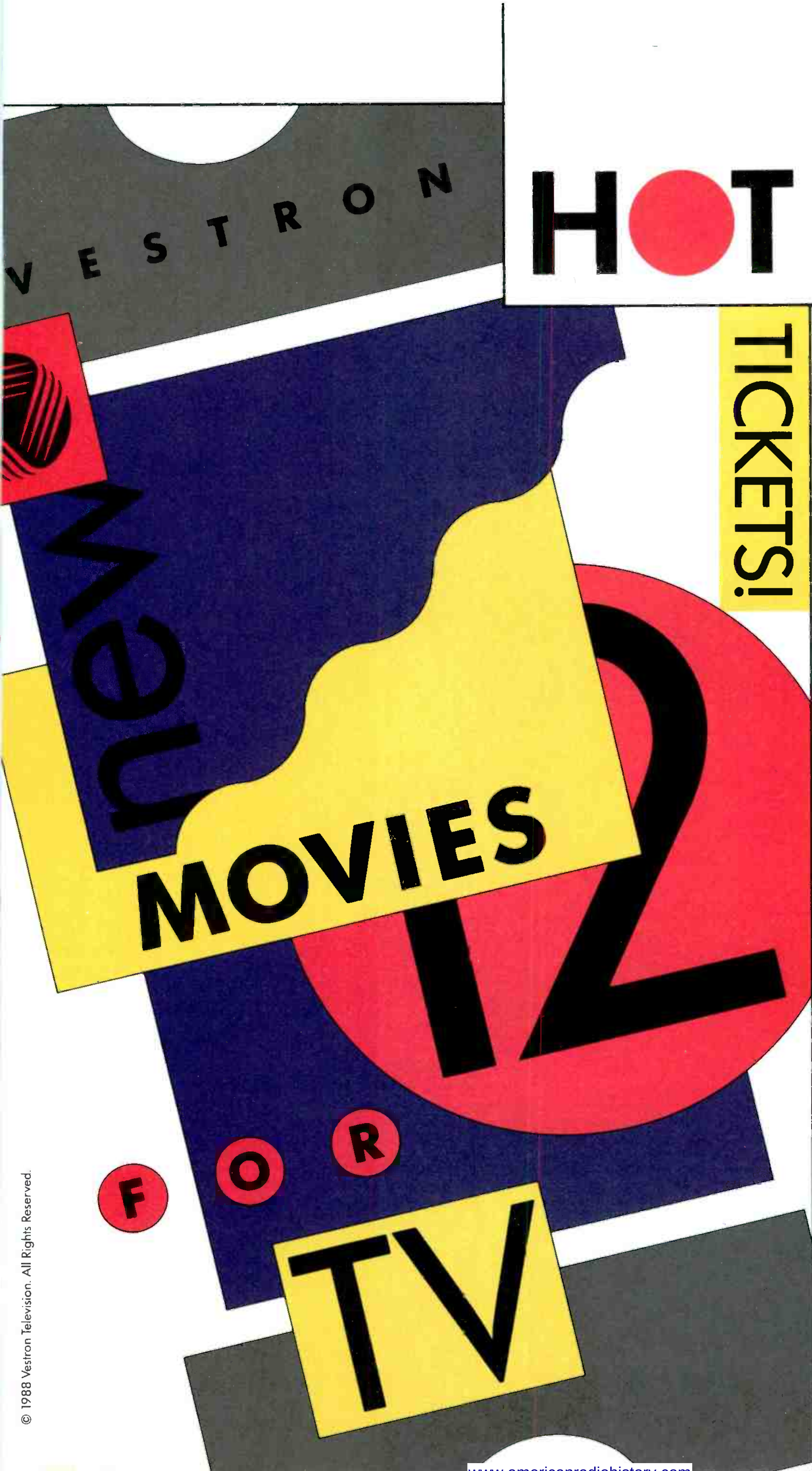
NBC, meanwhile, proposed a business-news venture on cable, CBS earnestly considered how it too could once again take advantage of the compelling cable network programming economics, and ABC looked to expand its three-cable-network position. But at a time when no facet of television programming looked to be in better strategic position than cable programmers, with their dual streams of revenue to back program investments and the powerful system operators funding many of their ventures, the situation that brought about that strength also appeared to be cable's most significant political vulnerability.

Sound a bit confusing? Undoubtedly it was even more puzzling to the managements of ABC, CBS and NBC and to their affiliates, advertisers and program suppliers. For as loaded with surprises and compelling plot lines as 1988 appeared to be, the likelihood of more industry drama in 1989 is certain. Can cable gain another major foothold in televised sports and garner pieces of the hotly sought Major League Baseball and 1992 Olympics contracts? Could an avalanche of network sitcoms at least hold current network viewers and perhaps begin to slow the slide of others to the networks' competitors? Can the cable industry, already unable to market consistently and successfully its current product, absorb the introduction of at least two new networks—TNT and NBC's CNBC—without further confusing viewers? How would the national television news structure survive with owners committed to turning historically philanthropic endeavors like news divisions into profit-making organizations? And finally, would the slowing of advertising growth in local television put so much pressure on affiliates that they'd be forced to take seriously their ongoing threats to defect from their networks?

Those complex issues, laid over the backdrop of a Washington regulatory structure apparently now frightened of cable and eager for political reasons to preserve so-called "free television," lay out the scene for what should be a surprising 1989. The government will make some waves, but Washington will remain a distant secondary issue for most television professionals as they grapple with a difficult and confusing strategic environment. Diversification by broadcasters and others into cable will continue. Foreigners—like Britain's Television South, which recently acquired MTM Productions, and Australian Christopher Skase, who recently took control of Hal Roach Studios—will also help reshape the configuration of the television industry.

But the toughest dilemmas in television will, as they often do, revolve around programming—making programs in a cost-effective manner, developing compelling television that is grazer-resistant and helping confused viewers find the important programming out there that's passing them by. MERRILL BROWN

ILLUSTRATION BY CHRIS SCHMIDT; LOUGANIS PHOTOGRAPH BY DAN HELMS/DUOMO; BUSH/DUKAKIS PHOTOGRAPH BY AP/WIDE WORLD.



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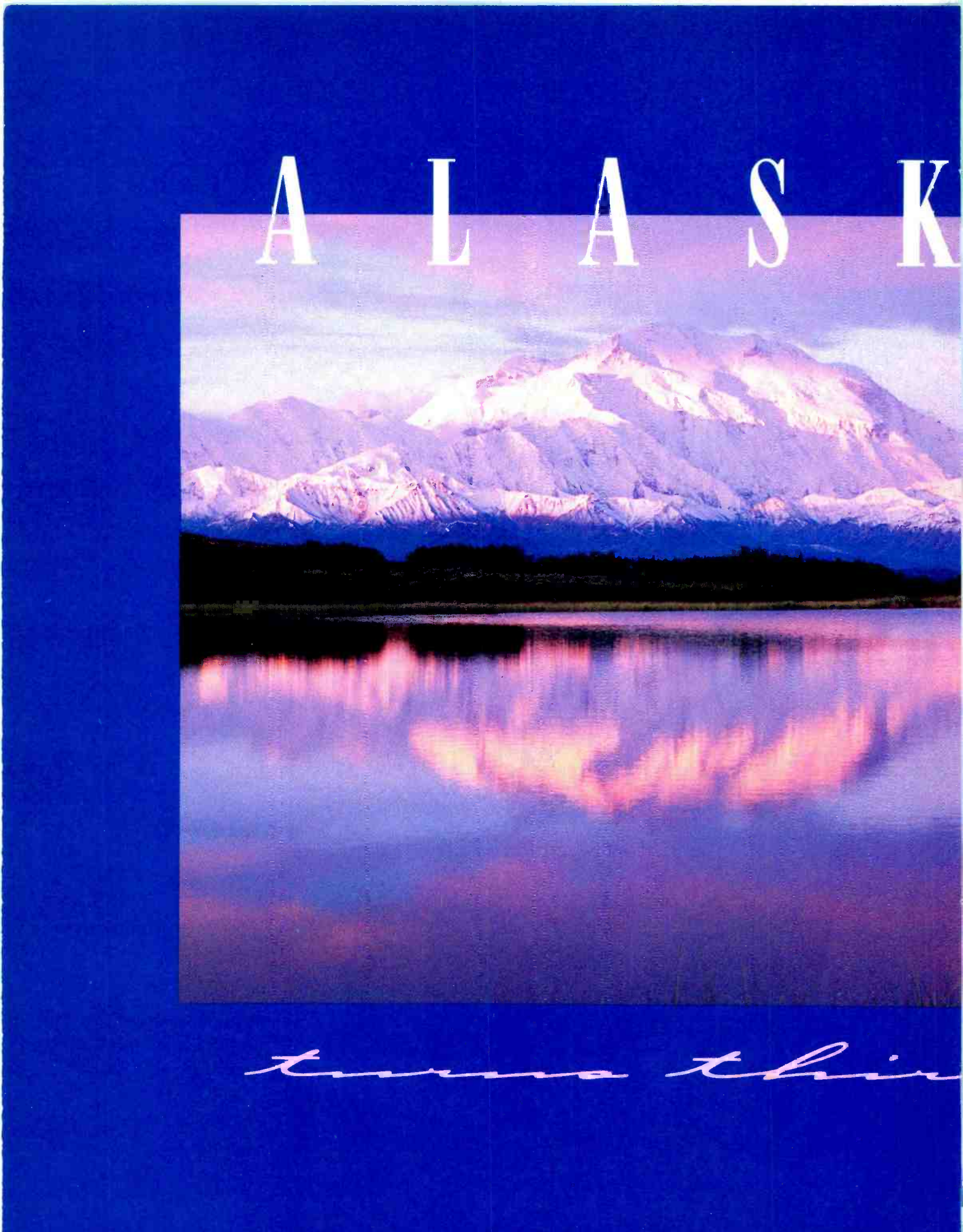
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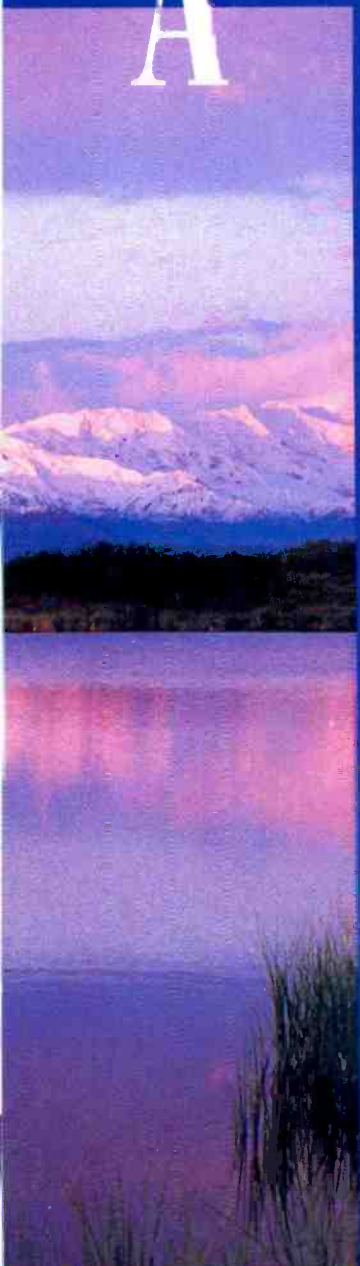

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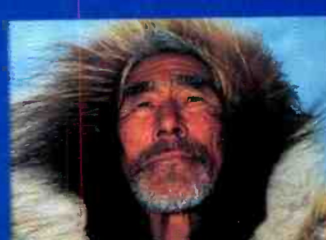

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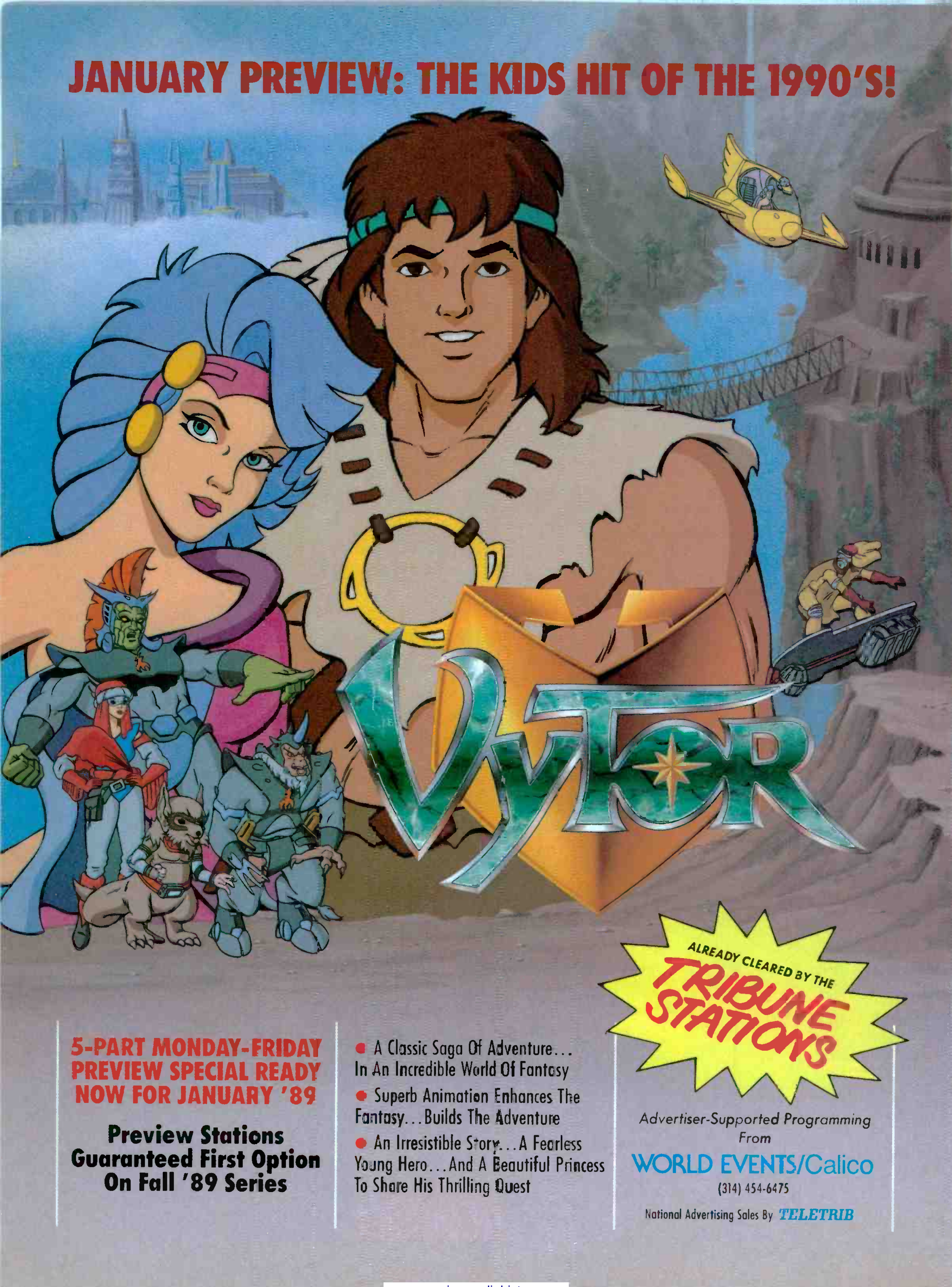
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THE REGULATION SCENE

The Pendulum Swings

Regulation is coming back, as cable TV becomes the focus of a variety of communications issues.

As the communications industry prepares for 1989, a year in which the next decade's communications policy will likely be formed, the cable TV business must prepare for battle. Cable has become a lightning rod for legislators and regulators, and change may be coming not only in the manner in which programming is delivered but also in who delivers entertainment to the home.

The emphasis on cable won't, however, exclude other communication forms from regulation. Cable joins broadcast TV, radio, satellite and others in dealing with government initiatives aimed at serving the "public interest" by stimulating competition, reducing monopolies and regulating the flow of information.

Cable's biggest concern will be whether telephone companies (telcos) will be allowed to offer information services. And, while telco/cable cross-ownership is of concern to broadcasters, they will have problems of their own. Congress will likely renew efforts to reimpose the Fairness Doctrine.

Elsewhere, 1989 will see a somewhat stagnant Justice Department become active. The Federal Trade Commission, virtually dormant the last eight years, may begin to suggest tighter reins on a lightly regulated advertising market. And the Federal Communications Commission, which spearheaded communications deregulation under the Reagan administration, may begin to travel down other roads. The National Association of Attorneys General may renew attempts to tax and regulate advertising. Senator Ernest Hollings (D-S.C.) will continue to press his proposed spectrum fee, which would charge broadcasters for using the airwaves. Must-carry rules, which require cable systems to carry local broadcast signals, may rise again. These initiatives—along with the Fairness Doctrine, recently passed children's television legislation and other measures—make it clear regulation is returning after an eight-year honeymoon.

The cable industry first grew defensive as a ground swell of concern rose over its control of video program distribution. Now, as Capitol Hill's cries of antitrust grow louder and telco interest in information services becomes serious, cable has every reason to expect regulation.

"The message that is coming through loud and clear is that perhaps we should revisit our decision to deregulate cable, and I can tell you that if rates continue to spiral upward, this senator will urge that Congress do just that," said Senator Howard Metzenbaum (D-Ohio), chairman of the Senate antitrust subcommittee, at a hearing on cable TV last May. In October, the government's General Accounting Office released a report substantiating Metzenbaum's claims that cable rates were increasing.

> Broadcasters will continue to face issues dealt with in 1988: fairness, ads, children's TV.

Metzenbaum's comments represent just a taste of what cable faces in '89. The FCC's decision last spring to reimpose syndicated exclusivity, or "syndex," has been followed by petitions for reconsideration and endless comments responding to those petitions. Syndex most likely will wind up in the courts. Must-carry will likely be decided in the next Congress. Rep. John Dingell (D-Mich.), chairman of the House energy and commerce committee, often reiterates his desire to force cable to carry local broadcast signals. A wave of anticable sentiment could push must-carry through on the Hill, most likely tied to a measure requiring cable operators to carry local signals in order to receive compulsory licenses.

An expected renewal of activity within the Justice Department might begin with a new look at anticompetitive practices cable subscribers and opponents claim are widespread. The telcos' entrance into cable may be seen as a way to enhance competition: It would create an environment in which the viewer has more choice. The Justice Department, paired with what should be a procompetition, antimonopoly Congress, may end cable's party. If it doesn't, somebody else will.

Although telcos are prevented from entering cable by three things—the FCC, judicial mandates from the AT&T divestiture case and the 1984 Cable Act—winds of change are starting to blow. "This belief in competition has led us to consider telco entry into the cable business—many predict we'll see telco entry in the not-too-distant future," says FCC chairman Dennis Patrick.

The FCC is not the only one making the suggestion. Rep. Howard Nielson (R-Utah) introduced legislation to eliminate the statutory ban that prevents telco entry into cable. A National Telecommunications and Information Administration study on the issue said, "The problems which are foreshadowed by the trends toward vertical integration and ownership concentration in the cable business could be largely diminished by greater competition in the local market." It appears inevitable that telephone companies will enter the business of providing information services by the mid-1990s. Their entrance promises to reshape the industry.

For broadcasters, the Fairness Doctrine is the largest hurdle to clear in 1989.

"The key issue is the Fairness Doctrine—that's the way it is because that's what [energy and commerce committee chairman] Dingell wants," says Larry Irving, majority counsel of the House telecommunications and finance subcommittee. Other issues concerning broadcasters "won't move until the Fairness Doctrine moves."

The Fairness Doctrine has further strained the relationship between Congress and the FCC. The FCC repealed the Fairness Doctrine in 1987, and challenges to the repeal were being heard in court at press time. Dingell and Hollings,

ILLUSTRATION BY DAVID GORDON

who was chairman of the Senate communications subcommittee and is now chairman of the commerce committee, want Fairness Doctrine legislation enacted. A new administration makes likely a heated battle over that issue.

"The only one who wants the Fairness Doctrine reimposed is Congress," said communications attorney Ian Volner of Cohn and Marks, a Washington law firm. "I don't think the American public is terribly upset, and I think broadcasters, though they never thought it was quite as severe a problem as it was made out to be, are happy to see it go."

As for children's TV, President Reagan in November vetoed legislation that would have reimposed restrictions on programming. The bill would have limited advertising during kids' programming to 10.5 minutes an hour on weekends and 12 minutes an hour on weekdays. Broadcasters would also have been required to provide educational programming for kids as a condition of license renewal.

Looming next year, key staff members for Hollings confirm, is his desire to see action on the Communications Transfer Fee Act of 1987. The bill, part of Hollings' continued attempts to make broadcasters and others pay for using the airwaves, calls for a fee on the transfer of spectrum licenses.

Meanwhile, setting the stage for 1989, Rep. Tom Tauke (R-Iowa) introduced the Television Self-Regulation Act of 1988, hoping to resolve some of the key communications issues before the end of the decade. Tauke's bill would give the industry an antitrust exemption to allow discussion of self-regulation among broadcasters, which would let the industry draft its own guidelines on kid-vid ads, TV violence, alcohol advertising and balanced news programming. While the bill addresses the same concerns as Senator Paul Simon's (D-Ill.) bill on TV violence, the Tauke bill could stifle a number of battles on the Hill.

Although the bill may indeed delay the inevitable, it could eliminate whatever steam is left in the Fairness Doctrine fight, and it should work in conjunction with sweeping antipornography legislation that was passed by the Senate in late September.

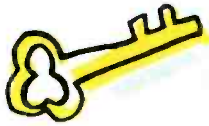
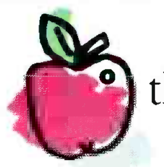
On the advertising front, the Federal Trade Commission has suggested new legislation aimed at limiting false and deceptive advertising. Last year, with the FTC virtually inactive, Capitol Hill took hold of the advertising regulation reins. Tobacco and alcohol ad bans continued to be high on the list of priorities. But one bill expected to move more quickly than any outright bans is Senator Metzenbaum's Senate Bill 2525, which would empower state attorneys general to cite "unfair or deceptive acts or practices in or affecting commerce, if the attorney general believes such acts or practices may affect the state or its residents." The bill would give states power to sue national advertisers. If the bill is passed, it could set precedents that would adversely affect both local and national television advertising.

Broadcasters will continue to face renewed efforts by Capitol Hill to regulate them. In regulators' eyes, broadcasters have fallen down on their responsibility to serve the public interest. "Central to the prevailing broadcast regulatory scheme is the concept that the government should, first, license broadcast stations in the 'public interest' and second, somehow police their performance to ensure compliance with that elusive standard," according to the NTIA's recently released *Telecom 2000* report. Broadcasters appear bound to get hit by the swing of the regulation pendulum.

DAN SPRINGER

ART APPR

(Or, Why Some Of The World's

No IFs, ANDs, or BUTs about it... **WIN, LOSE OR DRAW is the hottest thing going in syndication today.** Last year, it took off like a  finishing in the #1 spot among new shows in syndication. And this phenomenal first-year success continues in 1988: after a hefty 53% NTI rating increase, we're now the #4 first-run syndicated strip and the #3 syndicated game show. In a  **WIN, LOSE OR DRAW is strong and getting stronger!** Its celebrity fun and fast-paced excitement appeal to everyone, especially  demos, like young adults. That's why WIN, LOSE OR DRAW gives programmers a unique opportunity to dominate big-money dayparts. Don't believe us? Ask WCBS-TV in New York. Skeptics in the Big  thought the station had bit off more

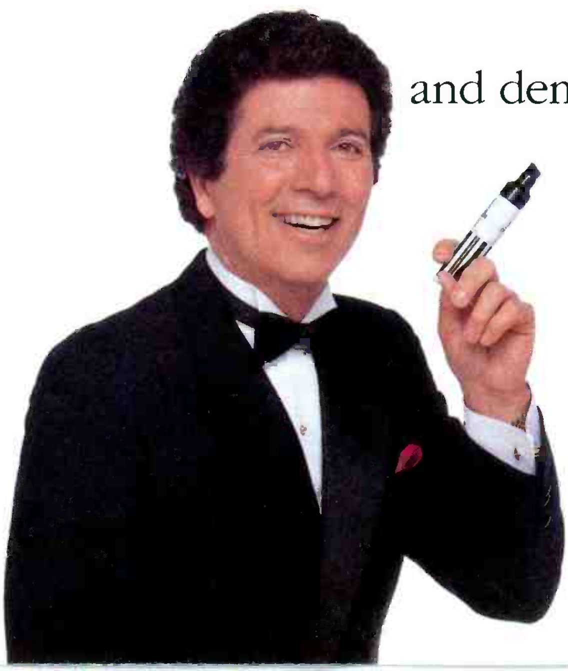
Source: NTI 9/87-10/88; New York Nielsen 10/87, 10/88.

ECIATION

Worst Drawings Are Priceless)

than it could chew when it debuted WIN, LOSE OR DRAW in the traditional CBS EVENING NEWS time slot. But now the folks at Channel 2 are rather pleased with the move – having scored an impressive young women demo increase at 7PM. Across the  in markets big and small, the story's the same... WIN, LOSE OR DRAW has access clout!

Renew now for the third blockbuster season to keep its powerful ratings  working for you. Keep WIN, LOSE OR DRAW in access and just  your ratings and demo picture brighten. It's the perfect way to draw upon our success.



Because everyone's a winner with WIN, LOSE OR DRAW.

Buena Vista Television

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THE INTERNATIONAL SCENE

Here Comes 1992

When the Single European Act takes effect in three years, it will shake up U.S. TV companies.

Europe—the most important foreign market for American television executives—is speeding toward radical change in its trade policies. In preparation for 1992, when the Common Market is supposed to fulfill the promise of its name, changes are being proposed that may have far-reaching effects on U.S. companies.

Already under way or under debate are changes in advertising regulations, copyright and possible imposition of new import quotas.

The past five years of growth in the European market came at just the right time for U.S. producers caught with increasing production deficits. Squeezed between escalating costs, level network licensing fees and the syndication market's financial downturn, producers went overseas in search of new income—and found it.

New European channels (both satellite and terrestrial), more broadcast hours on existing channels, the privatization of national broadcasters and the initiation of commercial television all have contributed to an increased demand for programming. Since 1980, in Italy, France, Germany and the United Kingdom, there has been an approximate 50 percent increase in television time. American companies have been the primary—although by no means only—beneficiaries. For many a pinched producer and distributor, program-hungry European clients have made the difference between profit and loss on series.

But now—with 1992 looming—American companies must remain alert to changes in the works.

By December 31, 1992, 12 European nations will become a single trade zone—a market of 320 million consumers (nearly as large as the U.S. and Japan combined) without interior barriers—thanks to the Single European Act passed on July 1, 1987, by Common Market member countries. The Common Market, now more often called the European Community, includes Belgium, Britain, Denmark, France, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain and West Germany.

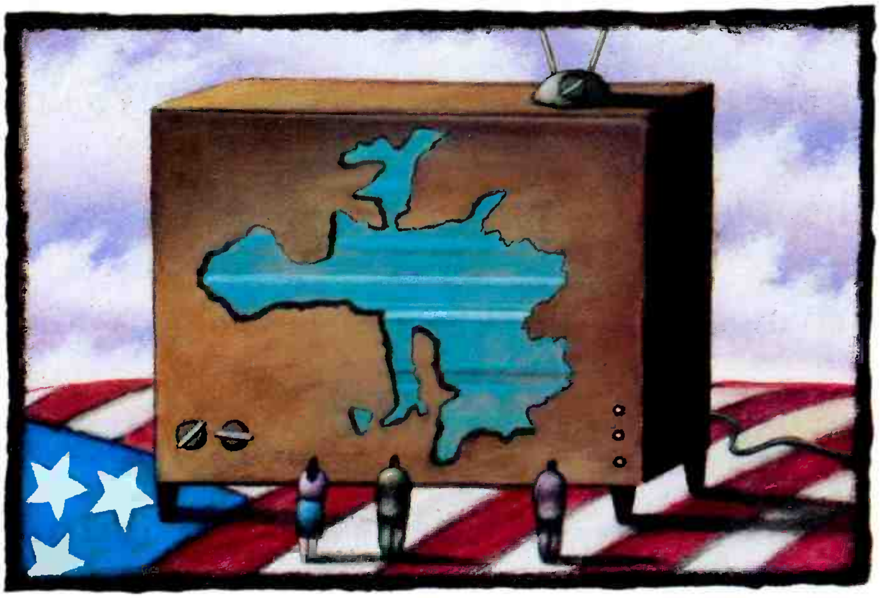


ILLUSTRATION BY WARREN GEBERT

The Single European Act envisages a trade environment similar in many ways to the one that prevails in the U.S. between the states: free flow of currency, goods and services, in short, no barriers (such as taxes and quotas) on goods crossing borders. Many suspect some years may elapse before such a utopian vision of a unified Europe becomes real, but few doubt that eventually a large Euromarket will materialize.

In preparation for the big year, the European Commission, the administrative arm of the EC, is issuing some 300 directives that will harmonize and in some cases standardize regulations within the Community. Already, controversy abounds. Proposed directives designed to standardize the regulation of advertising, for example, have raised howls of protest from several countries, including Britain. Last fall, Prime Minister Margaret Thatcher unleashed a broadside at Brussels, the home of the EC, warning that Britain had not "successfully rolled back the frontiers of the state . . . only to see them reimposed at a European level, with a European superstate exercising a new dominance from Brussels." But there is controversy on all sides. At the opposite pole from the Thatcher free-market philosophy is an emerging protectionist attitude toward countries outside the Community.

Such controversy should come as no surprise. In the past, Europeans have fought wars over less. For centuries, European countries have fiercely protected their borders, partly to foster their own economic interests and partly to preserve their cultural heritages. And the determination to preserve national advantage and identity persists today. But by 1992's close, important aspects of this very natural tendency must change, and it won't be easy.

For those in the television industry on both sides of the Atlantic, there are ripples of concern over possible changes in currently accepted business practices.

The push to standardize some regulations has resulted in a number of provocative proposals. The Council of Europe (a 21-member body made up of European foreign ministers, distinct from the 12-member European Commission, which is the administrative branch of the Common Market) wants commercials placed only between programs in groups as large as 12 at a time. Advertisers in countries permitting commercial insertions during programs are alarmed their ads

PERSPECTIVES

might be relegated to the so-called "graveyard" between programs. Other proposals put forth include regulation of sponsorship, bans on advertisement of certain products and permission for individual countries to block certain kinds of advertising.

While there is no ready EC-wide enforcement mechanism for Council regulations, some Europeans worry that Council proposals may migrate into EC legislation, which will have the force of law.

If the banning of in-program commercial insertions strikes dread in the hearts of established advertisers and commercial broadcasters, some of the proposed copyright changes may be even more daunting. Michael Flint, chairman of the London law firm Denton Hall Burgin and Warrens, points out that "the draft directive on freedom of broadcasting essentially says you may not use copyright as grounds for preventing freedom of television services from state to state," meaning broadcasters could not prevent retransmission of their programs in other EC countries.

In the absence of a freely negotiated retransmission agreement, a statutory or arbitrated license might be issued to a cable operator who would then pay a designated sum to the broadcaster in an arrangement similar to the U.S. compulsory licensing system.

Should this be the ultimate resolution of the rights issue, Peter McInerney, business affairs controller for Thames Television, one of England's major exporters, warns that broadcasters having the right to retransmit might have "a detrimental effect," as in the U.S. where Ted Turner's enterprise (Superstation WTBS) was built at first "by buying material locally at local price and retransmitting it nationally." The Thames executive says his company will probably have to develop "new sales deals as compensation, acknowledging that the licensee is likely to retransmit beyond the jurisdiction of his license."

The gray area in all this is what will happen when a property owner seeks to exclude specific territories, says Flint, whose clients include Rupert Murdoch, Turner's CNN and several American film distributors. There is already a problem in Italy, where RAI, the national broadcaster, duplicates its terrestrial signal on the European satellite Eutelsat, reaching beyond Italy.

One knowledgeable American observer cautions, however, that "anyone who pretends to know the answers to these copyright questions now has been smoking the wrong things." It is simply too early in the process.

Some American multinationals that earn significant income from the European market are alarmed even now, however, to find protectionist sentiment taking hold in some European business sectors.

Several U. S. banks, after having invested millions in London offices in order to offer banking services Europe-wide in 1992, are now reportedly discovering that EC countries may allow them in only if the United States admits EC bank branches. Calman J. Cohen, vice president of the Emergency Committee for American Trade, a Washington lobbying group for multinational corporations, cautions that companies active in EC countries should educate themselves about new proposals and express their views through trade associations, individual contacts in the Brussels community and U.S. government agencies.

Newly proposed import quotas may be a trouble area for U.S. television and film companies, but the final form of such regulations is uncertain now. Many European countries already impose quotas on imported programming, and there has been a disagreement between the Council of Europe and the European Commission on quotas. The Council wants a "reasonable proportion" of European programming to fill the major part of time available where practical, while the Commission proposes to oblige its 12 members to "ensure that" 60 percent of total program hours is devoted to programs of EC origin. News, sports, advertisements and teletext are excluded from this requirement, meaning the quota will fall heavily on oft-imported entertainment shows.

Although the future of this proposal is unclear now, the 60 percent figure is understandably disturbing to some European programmers, particularly the new terrestrial and satellite services, which require large amounts of programming for their start-up periods and which traditionally have relied heavily on American material.

Colin Davis, president of MCA Television International, thinks the full import of 1992 changes has not yet been recognized in the U.S., yet he foresees little problem with the requirement of 60 percent national or European Community-originated content currently under discussion.

"A 60 percent quota won't be a problem for us, as Americans," Davis says. Many agree with Davis that a 60 percent quota is more likely to affect the program-hungry Europeans.

Jack Valenti, president of the Motion Picture Association of America, is more cautious, arguing that "if 1992 unity encourages the erection of walls and barriers, all its hopes will collapse. The great tragedy of protectionist film and television measures is that invariably their beautiful hypothesis—to build walls high—is killed by an ugly fact: No industry survives without reaching out."

The recent trend toward more U.S.-European co-productions and the taking on of foreign partners in productions stems at least in part from concern over quotas. Mel Harris, president of Paramount Television, says that an important aspect of producer motivation for international co-production is concern over potential trade barriers following 1992. "We need to reach out to the global creative community," he insists.

Furthermore, sources within the EC say that EC member participation may suffice for productions to qualify as "of EC origin" under the post-1992 regime.

It is still early in the planning process in Brussels, and one U.S. source observes wryly, "When you look at this issue today, you feel like you're meeting yourself coming and going, because you are."

But the din of European disagreement may eventually grow loud enough to jar the U.S. television community into a state of alertness. Otherwise, 1992 may dawn with American distributors meeting themselves coming and going, unprepared to cope with the new trade world they find.

KIRSTEN BECK

THE EUROMARKETS

A look at the European markets that have grown most important for American distributors.

UNITED KINGDOM

HBO and Great Britain's Thames Television co-produced *Waldheim*.

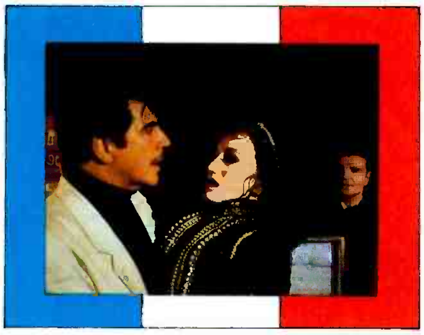
PHOTOGRAPH BY SVEN ARNSTEIN/HBO

As Margaret Thatcher pursues her aim of bringing free-market competition to television, the industry is coping with the drop of the second shoe. The first was the announcement that British Satellite Broadcasting's (BSB) three-channel DBS service would begin next year. Now the broadcasting establishment is dealing with the government's white paper, the policy basis for future British broadcasting.

In the U.K., only the public service broadcaster (the BBC with its two channels) must limit foreign programs to 12 percent, though the idea of "proper proportions" is written into license agreements signed periodically by the government and the BBC. This quota restraint on the BBC, a kind of gentleman's agreement between Independent Television (with its local channels, one national network and channel 4) and BBC buyers not to bid against each other, has kept prices paid for imported programs relatively low in the past. But the entry of BSB has brought competition into the market, and prices are on their way up.

MCA Television International president Colin Davis articulates the feelings of many U.S. distributors when he bemoans the BBC's 12 percent limitation on imports from a single country. "But I think we see the answer to that," he adds. "It's the new satellite" services (BSB and Luxembourg's Astra). Clearly, for Davis and fellow American distributors selling to terrestrial, licensed broadcasters, the proposed 1992 quotas would be an improvement.

FRANCE



USA Network and Ellipse co-produced three episodes of *Ray Bradbury Theater*.

Since private TV was introduced three years ago, France has been a hot market for U.S. distributors in Europe. But it's still the most heavily regulated TV territory in Europe. France's broadcasting law of September 1986, along with regulations passed since then, requires that 50 percent of the works TV stations provide be of French origin and 50 percent of films be French. The law also requires that 300 hours of original documentaries and fiction be broadcast per year. Further, 60 percent of the films and audiovisual works transmitted by the six networks must be from the European Community. Just last fall, two new privately owned networks, M6 and La Cinq, were disciplined for failing to meet their set program quotas, and TF-1, the premier network, was fined for exceeding the time allowed for advertising on two occasions. To make matters even more difficult, a new regulatory agency was recently established—as was expected of the government of Prime Minister Francois Mitterrand—and the picture is changing yet again.

France and Italy, while introducing private television, established a pattern that is likely to be repeated in other countries with newly established commercial networks. The French and Italian authorities simply looked the other way for several years before enforcing quotas. Some private broadcasters have become creative in the face of quotas. For example, newly privatized TF-1, which now needs a wide audience, last summer ran documentaries and cultural programs, which draw smaller audiences, at times like 2:30 A.M., to fulfill the letter of quota requirements, if not the spirit.

WEST GERMANY

Daniel Wilson Productions and Alcor Film co-produced *Hemingway*.

West German channels have an obligation to promote German culture, but they have no import quotas.

To date, Germans can receive two national public service broadcasters plus a regional station in each state. Three private channels are available via satellite, and cable is spreading fast, served by three additional satellite services.

The specter of private channels using cheap American programs wall-to-wall resulted in the April 1987 treaty under which the Lander, or West German states, agreed that the private Sat-1 and RTL-Plus should "supply a reasonable proportion of . . . programs from territories within the German-speaking or European cultural traditions."

The Germans are opposed to quotas. Dr. Walter Konrad, director of programs for 3-Sat, the satellite channel run by a consortium of ZDF (German public broadcaster), SRG (Switzerland) and ORF (Austria), says he is convinced that a European quota won't become "binding" and that "every quota is an infringement." In his view, it is far simpler to achieve European strength through co-production efforts.

ITALY

Harmony Gold, Reteitalia and S.F.P. co-produced *King of the Olympics*.

Italy, the first site of private television in Europe, obligates its state-owned public service network, the three-channel RAI, to create 50 percent of its weekly productions domestically. (RAI can include third parties in Italy or within the European Community and still be in compliance.) Private stations such as Silvio Berlusconi's, or any of the approximately 300 smaller local stations broadcasting in Italy, fall under the same obligations one year after start-up. But, to date, Italian regulations, lacking sanctions to back them up, have been ignored when convenient.

Riccardo Tozzi, head of television fiction at Berlusconi-owned production and distribution company Reteitalia, is confident that both Berlusconi and RAI are well able to meet a 60 percent quota should that become necessary. Two years ago, this would have been a problem for Berlusconi, as most programming on his channels was American, but now the balance has shifted. There is no longer a need to reach a start-up audience, and according to Tozzi the audience has reached the saturation point with American programs. Now strong original programming is needed to compete effectively, he says. The company is producing movies, miniseries and programming in other genres at an accelerated rate.

Voicing a view held by many co-producers and broadcasters, European and non-European alike, Tozzi says, "You can't create an industry by law." Instead, the prime requisite for a European industry is "freer relationships between talent and financing sources." For the first time in Europe, he continues, substantial production money is available to broadcasters, and these revenues must be used in Europe. K.B. WITH NICOLA SWANN

PERSPECTIVES

THE FINANCE SCENE

The Street's Jitters

Stocks rebounded from the 1987 crash, but media issues languished and financing grew scarce.

The stock market may have shown resiliency in its rebound last year from the October 1987 crash, but television stocks and media-industry financings showed no such strength. Even the industry's ability to finance acquisitions, including the transaction-happy world of cable-system deals, became less automatic and constrained by tougher loan restrictions.

Signs of serious unease in the financial community were particularly apparent in the station and production segments of the television industry—indeed, they were essentially shut out of the equity markets in 1988. Moreover, there were virtually no consequential initial public offerings in the industry and only a smattering of large public offerings of any kind in the media business altogether.

"The equity markets are totally, totally closed," to most of the broadcasting industry, observes one investment banker summing up the media malaise that swept Wall Street.

This is a marked change in attitude from 1985 to 1987, when television-related companies were among the hottest on both the stock and deal fronts. The investment community's infatuation with the TV industry cooled for several key reasons: Increased competition and a difficult advertising market that cut into TV station revenues; a syndication business that slowed as key time slots were gobbled up in multiyear contracts; government problems facing cable operators, and new competition down the road for cable from telephone companies.

For much of the year, media-industry stocks trailed the spurt in the market, a market driven in large measure by the major acquisitions that dominated the year's financial scene. Apart from cable transactions, there were few deals of consequence to drive stock prices. And with both TV- and newspaper-advertising revenues languishing, it's little surprise that media stocks trailed the broader market indicators.

Elsewhere, there were more signs of a financial community disillusioned with a once-favored industry. More than three dozen TV stations were on the market at one point in the third quarter, a reflection of the downturn in station revenues, as well as the heavy debt burdens faced by some recently acquired stations. In 1988, the market for stations was transformed from a seller's to a buyer's market.

Meanwhile, on the Hollywood front, small production companies—and even some larger ones—faced a difficult time financing operations. Several production companies had to scramble to restructure operations and balance sheets to adjust to a contracting production environment. New World Pictures received an infusion of cash in exchange for equity from GE Capital, for instance, while consolidations resulted in several production mergers.

Those in the TV industry looking to the high-yield, or junk-bond, market as a method to raise capital for consolidation or other restructuring plans had signals that it was time to look elsewhere for help. The most glaring harbinger of trouble came when the junk-bond king, Drexel Burnham Lambert, found itself in serious legal trouble. The firm had been a principal financier in entertainment, raising money for station operators such as George Gillett, production companies such as Lorimar Telepictures and such cable operators as Tele-Communications Inc. Because Drexel was the target of ongoing Securities and Exchange Commission and Justice Department insider-trading probes, the gloss was off the market for junk bonds. As that market slowed somewhat, financiers put even greater constraints on companies looking for bond placements. "Junk bonds are no longer a free ride," says Richard MacDonald, a First Boston analyst. "Lenders are imposing more conditions than ever before; and even in cable, a lender's paradise, some operators are having problems with tough covenants."

ILLUSTRATION BY CHRIS SCHMIDT

Still, Drexel, whose Beverly Hills offices had been involved in the financing of Warner Communications' acquisition of Lorimar Telepictures and other major entertainment industry deals, kept wheeling and dealing. Yet while Drexel dominated the public-debt portion of TV's financing in 1987, a similar compilation this year (see chart) shows the firm participated in just three of the major transactions listed, 60 percent of the total of the previous year. But that trend probably reflects other firms' moving into the junk-bond arena, not necessarily sagging Drexel fortunes. Indeed, in what was one of the most significant transactions of 1988, Viacom International, through Drexel and others, used junk bonds to continue its financial restructuring, issuing $300 million in senior notes in June and another $500 million in senior subordinated notes two months later.

Also playing the debt field, cable giant TCI easily placed $450 million in senior debentures in the fall. Acquisition-hungry Comcast Corp. raised close to $700 million in debt and partnership financing last year. Meanwhile, the restructuring of Columbia Pictures Entertainment resulted in a substantial transaction—$325 million in senior notes—early in the year.

While there may have been plenty of debt action, cable deals propelled the media marketplace. Kohlberg, Kravis, Roberts' sale of nearly 1.5 million cable subscribers to Comcast/TKR partners for nearly $2.9 billion and United Cable's deal with United Artists, a $2 billion transaction, dominated the field.

The early part of the year saw the announcement of a host of major deals and the continuing rise in the per-subscriber multiples that buyers were willing to shell out for increasingly rare large systems. But the prospects for cable on Wall Street grew less positive as the year progressed. Growing concern about reregulation in Washington and the prospect of a major political effort by telephone companies to move into cable's TV-distribution terrain began to make some investors jittery about cable's long-term prospects. Some analysts debunked concerns over cable's vulnerability and continued to recommend several operators, particularly TCI and Comcast, as important, long-term investment vehicles. But investors were less certain: As the year closed, cable stocks were stagnant, despite strong revenue and profit growth.

Prospects on Wall Street for the media industry in 1989 hinge on several issues. Hollywood consolidation may be complete and programmers may benefit from growing foreign television markets.

National advertising could also rebound if the strong upfront season portends a strong 1989. But, while the station business goes through rocky times, as producers face labor woes and cable faces competitive problems, the 1989 Wall Street outlook is at best uncertain. A widely predicted economic slowdown and a sluggish Christmas retail environment may keep Wall Street cool on television into 1989. MERRILL BROWN

Money Into Television

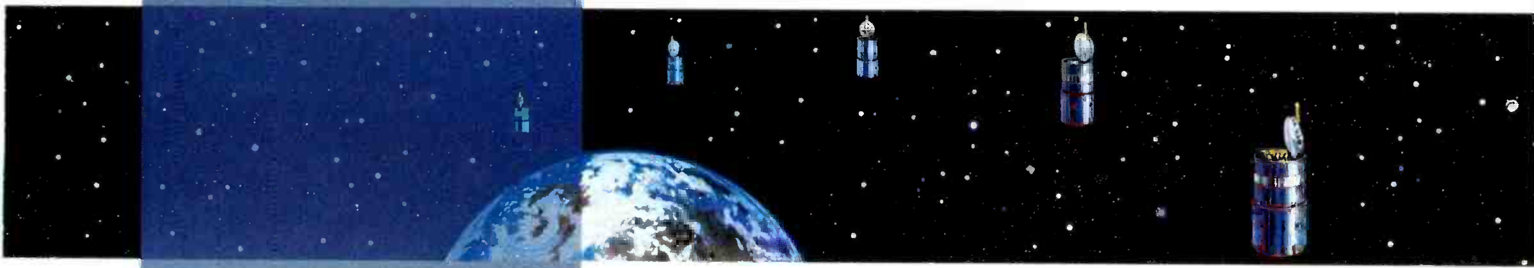
PUBLIC DEBT OBLIGATIONS / PUBLIC OFFERINGS	ISSUE	AMOUNT (millions)	UNDERWRITER
8/88 Viacom Int'l.	senior subordinated notes 300 mil 11.8% 200 mil 1.5% extendible due 1998	$500	No underwriter
9/88 General Electric Co.	9 1/8% bonds due 10/17/93	$500	Amsterdam-Rotterdam Bank of N.V.
10/88 Tele-Communications Inc.	senior subordinated debentures	$450	Prudential Bache Securities
10/88 Centel Capital Corp.	debt securities	$400	Morgan Stanley
2/88 Columbia Pictures Entertainment Inc.	senior subordinated notes due 2/98	$325	Allen & Co. Goldman Sachs Merrill Lynch
6/88 Viacom Int'l.	senior subordinated notes (150 extendible due 1998)	$300	Drexel Burnham Lambert Bear Stearns
4/88 The Adams-Russell Co.	senior subordinated deferred interest due 1997	$273	Kidder Peabody
5/88 New World Entertainment Ltd.	12 7/8% senior subordinated secured notes due 6/1/95, and others	$262	No underwriter
8/88 Harte-Hanks Comm. Inc.	11 7/8% subordinated debentures due 2000	$200	No underwriter
8/88 Orion Pictures Corp.	senior subordinated reset notes	$200	Drexel Burnham Lambert
10/88 MGM/UA Comm. Co.	possible asset sale to shareholders	$200	No underwriter
6/88 Jones Intercable	13% subordinated debentures due 5/1/2000	$150	Prudential Bache Capital Funding
6/88 E.W. Scripps Co.	filed IPO 8 mil class A common shares	$128	First Boston
1/88 Comcast Corp.	75% to stockholders tendered on outstanding interest due 1995	$125	Morgan Stanley Lazard Freres
5/88 Jones Intercable Inc.	subordinated debentures due 2000	$115	Prudential Bache Capital Funding Shearson Lehman Hutton Dean Witter Capital Markets
1/88 Times Mirror Co.	8.91% notes due 1/1/93	$100	Goldman Sachs
2/88 Cencom Cable Entertainment Inc.	senior subordinated notes due 1998	$100	Kidder Peabody
4/88 Comcast Corp.	convertible Eurobonds 2.5%–2.75% due 4/15/2003	$100	Morgan Stanley Int'l.
6/88 Harte-Hanks Comm. Inc.	subordinated debentures due 2000	$100	Drexel Burnham Lambert

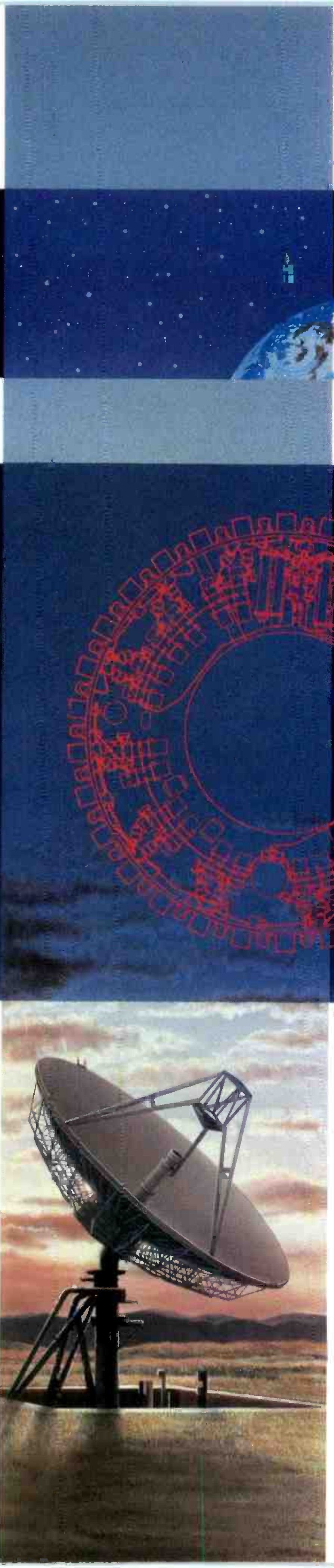
PRIVATE PLACEMENTS	ISSUE	AMOUNT (millions)	UNDERWRITER
3/88 Adelphia Cablevision	12 year senior secured notes, 10.8% interest	$45	Salomon Brothers
6/88 New Century Comm. Inc.	cumulative redeemable exchangeable preferred due 2002	$45	Kidder Peabody
8/88 Tribune/Swab-Fox Cos. Inc.	10.32% senior notes of TSF shares due 1997	$20	Prudential Insurance Co. of America

PARTNERSHIPS	ISSUE	AMOUNT (millions)	UNDERWRITER
1/88 Comcast Corp.	conditioned 75% tendered on outstanding interest	$259	No underwriter
1/88 Cencom Cable Assoc.	50,000 units max 150,000	$150	Kidder Peabody Smith Barney Harris Upham Dean Witter Capital Markets
1/88 Comcast Corp.	0 coupon notes 61% due 1995 convertible to class A common stock	$125	Morgan Stanley Lazard Freres

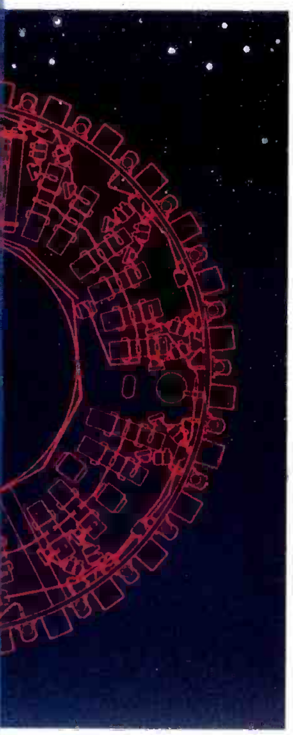
Source: *Media Business News.*

YOU CAN SEE THE FUTURE IN OUR EXPANDING GALAXY.





HUGHES COMMUNICATIONS.



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THE ADVERTISING SCENE

Shower of Blessings

TV sales suffered in some segments, but a welcome network windfall signaled growing demand.

The wave of merging, purging and reemerging among advertising agencies and media-buying companies was finally cresting as 1988 began, and the relative calm that ensued gave Madison Avenue the chance to engage in a favorite pastime: grandiloquence. Events at home and abroad had advertising executives making fancy speeches about humongous business combinations and even the rights of the individual versus the rights of the corporation.

But one question stumped most everyone in the ad game in 1988, and that question is of great concern to the television business: Where the hell is all this money coming from? It appears possible that "stagnant" may no longer be the adjective most used to modify the phrase "media market."

The 1987 and 1988 upfront network television markets broke all expectations. (The upfront market is the annual, late-summer, first-chance sale to the largest advertisers of network prime time in the new TV season. Advertisers that buy in the upfront market are given guarantees their spots will reach certain numbers of viewers. Should audiences prove too small to meet the guarantees, upfront buyers get additional spots to make up the difference.) In 1987, the upfront for the '87-88 season brought in a whopping \$3.1 billion to the networks. The prices were high, most ad mavens believed, because of uncertainty over the change in audience measurement from diaries to people meters. Advertisers, the reasoning went, wanted to buy in the upfront to give themselves at least a modicum of guaranteed protection from drastic swings in ratings that could occur with the move to meters.

In 1988, that sort of ratings anxiety was dead, and prognosticators were bearish, saying the upfront network marketplace for the '88-89 season would bring in around \$2.6 billion. Instead, the number was an astounding \$3.2 billion, and cost per thousand viewers was up by about 7 percent. And time on cable and syndicated shows was pushing revenues up at rates two and three times faster than network time (see chart).

"There must be more money in the overall broadcast marketplace," says Tom Winner, executive vice president and media director of ad agency Campbell-Mithun-Esty. "There seems to be enough money to support the network upfront *and* significant increases in the cable and syndication marketplaces. Specifically in the network area, to account for that increase in demand that has surprised many people, you have to realize that what the network sells is ratings points, and there are fewer of them [as network audiences continue to erode]. Prices go up dramatically."

> There seems to be enough money to support the networks *and* increases in cable and syndication.

That would bode well for the television business even if demand was not expanding. The strength of the '88 upfront market at first was being explained by circumstances that were worrisome to advertisers. Uncertainty engendered by the Writers Guild of America strike, plus the quadrennial shower of monetary blessings from the Olympics and presidential campaign ads, would normally account for a flood of money in the upfront. But that tide of upfront dollars would presumably be balanced by a weak scatter market later on. (In the quarterly scatter markets, the networks sell the time left over from the upfront, and buyers of scatter time are not given audience guarantees.) But as the returns came in on the fourth-quarter '88 scatter market, confirmation of increasing overall demand arrived. The prices paid for scatter time were "ahead of upfront prices by around 15 percent," according to Alan Gottesman, advertising analyst for PaineWebber.

"There is too much money in the advertising market to be explained away," Gottesman writes in a September edition of his *Ad Libs* letter. "Something 'real' is going on. Advertisers are coming back into the fray. They are increasing their ad spending for the old-fashioned reasons. They want to clobber their competitors. Anyhow, that is our theory."

It's a theory that excites advertising agencies, which make commissions off time they buy for advertisers, and it excites the television business. Advertisers have for several years been shunting money from advertising to pay for promotions. If Gottesman's theory is correct, it means advertisers are beginning to look away from promotions aimed at short-term sales gains and back toward the long-term image building of media advertising.

"I think everybody would agree they would like that to happen," says CME's Winner. "It costs [an advertiser] money to promote products through rebates or coupons." It's almost impossible to get an accurate picture of how much money is spent on advertising as opposed to promotion because, as McCann-Erickson media prognosticator Bob Coen says, you can ask 100 people to define promotion and get 100 definitions. But Winner's take on the market is that "there has been a slight movement" back toward advertising. "The fact that it's heading in that direction is important," he says. "It's been a while."

That movement would also bode well for the national and local spot-television markets. Spot's rates of growth have dropped precipitously since the early part of the decade, accounting for part of the bottom-line pressure felt by local TV stations. But rep firms, grown recently intent on rebuilding the market, have focused most of their efforts on playing up spot-TV's short-term promotional value. Cathy Egan, vice president and group di-

There's nothing simple about her.

With children, without, married or not, she defines her time. Although more visible and more vocal than ever, a great deal of her mystery and myth endure.

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rector of Katz Television Group Marketing, is actively touting spot to advertisers as "precision television." Appealing to the promotion sympathies of advertisers that are already reconsidering media advertising makes for a doubly promising prospect for the TV business.

"The reps are getting into the promotion business," says Television Bureau of Advertising president William G. Moll. "Companies are developing data for retailers to help them understand how television can reach their customers. There are some companies that are leading stations to learn how to market—not only to understand it, but how to do it."

Cable's similar but earlier attention to marketing has paid off (see chart) in the medium's speedy rates of ad-revenue growth, maintains Robert Alter, president and CEO of the Cabletelevision Advertising Bureau. "I think cable's going to continue to show nice advertising growth," he says. "We're now in the mainstream of the TV advertising process. We'll be getting larger shares of national advertisers' budgets. Nineteen-eighty-eight really brought a lot of things into focus. We reached 50 percent penetration, and we are now generating substantial shares of viewing."

Syndication, too, can expect to take a good share of the rising demand for television advertising. "I think syndication will grow just because it represents an alternative at a lower price," says Paul Isacsson, executive vice president of international ad agency Young & Rubicam. "One can reach a national audience using syndication."

Perhaps what has happened to the television marketplace is a little like what happened to Cinderella. Dressed differently, it is perceived differently. Television, adorned in its new proliferation of choices for viewers, may be leaking audience at the network level, but the excitement generated by the new uses of the medium is drawing more money, which benefits all segments.

Griffin Bacal, a New York ad agency that is one of the largest placers of ads aimed at kids, is an example of how advertisers and agencies are adapting to television post-cable. Last year's talk that the networks were considering a move toward older audiences on Saturday mornings "didn't really scare us," says Art Heller, director of media, programs and marketing services for Griffin Bacal. "We have in recent years been a much heavier user of spot for children's advertising than network. The independent stations have been programming heavily to children." In other words, when a gap opens in the television advertising spectrum these days, another media outlet will quickly fill it, and advertisers need not worry.

The strength of the network advertising market is, however, concentrated primarily in prime time. "In prime time we've seen a consistent and steady growth," says Lou Schultz, executive vice president and director of media services at Lintas:USA. "Sports has been relatively flat. Daytime's a disaster area."

Still, the networks' surprising strength in prime may be attributable to a maturing view of network audience erosion—an outlook that could help areas such as daytime. Erosion, as it is generally discussed, "supposes that only network is losing viewers," says Bob Igiel, senior vice president and group media director for ad agency NW Ayer. "Well, erosion works on everything. On any given night, the audience not only could stabilize for the networks but could in fact grow. You have a *fluid* viewing situation."

Floating on top of that fluid situation is a simple fact that may explain the strength of the network advertising marketplace. "The networks are still the dominant factor," Igiel says. "You can still reach 90 percent of the population at least once a week through the networks."

CHUCK REECE

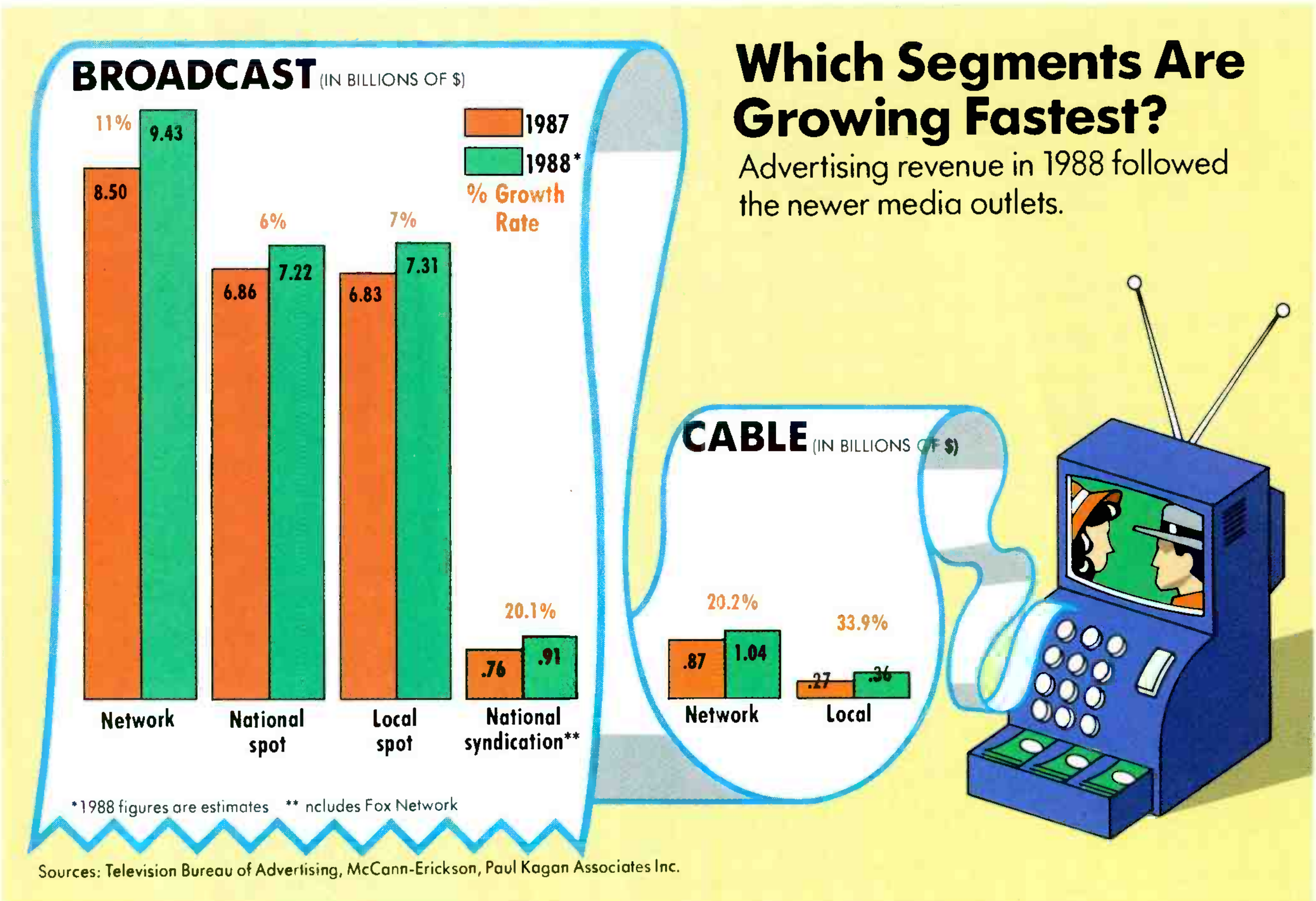


CHART BY DAVID HERBICK

WHEN YOU'RE IN THE MARKET TO BUY NATIONAL SPOT CABLE . . . CALL THE EXPERTS

CNI's People!

CABLE NETWORKS INC. BRINGS TOGETHER A UNIQUE BLEND OF CABLE, BROADCAST & AGENCY EXPERTISE FROM YEARS OF EXPERIENCE . . . LET CNI'S PEOPLE WORK FOR YOU.

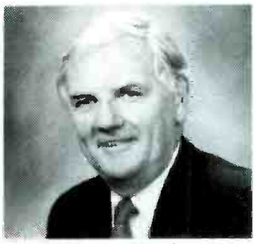
Bob Fennimore
President of CNI
- 27 years in Broadcast and Cable Television Industries
- 5 years Vice President and General Manager of WOR-TV

Peter Moran
CNI Vice President and Director of Sales
- 6 years in Local, Regional and National Cable Sales Management

Brian Gault
CNI Director of Affiliate Relations
- 9 years Cable Television experience at CBS, HBO and Cablevision
- 3 years Sales Management at RASCO

Jim Nuzzo
CNI Director of Finance
- 6 years Accounting/Finance Experience
- 3 years Cable Advertising Management

Colleen Moraghan
CNI Director of Administration
- 5 years experience in Local, Regional, and National, Traffic, Billing and Collections



Harry Durando
Director of Sales—New York
- 25 years in television and radio sales
- VP & Director of Sales RKO Television
- President Metromedia Radio Sales

Stacie Raiss
Sales Manager—New York
- 7 years experience in Local and Regional Cable Television Advertising Sales

Paul Conway
CNI Director of Research
- 15 years Agency experience at McCann Erickson and Calet Hirsch & Spector

Melinda Borum
CNI Traffic Manager
- 5 years as the Traffic Manager for the NBC affiliate KSBW in Monterey, CA

Wylie Drummond
Vice President—Western Division
- 12 years in Broadcast and Cable Television Advertising Sales

Ilise Yohay
National Sales Manager—Los Angeles
- 6 years sales experience with CNI in New Jersey, New York and Los Angeles

Jenny Hazelrig
National Sales Manager—Atlanta
- 13 years experience in Broadcast and Cable Television Advertising Sales
- 5 years with Katz Communications

Mindy Ellin
Local Sales Manager—Atlanta
- 10 years Broadcast, Broadcast Rep and Cable Television Advertising Sales experience
- 5 years at CNI

Ray Gaskin
National Sales Manager—Dallas
- 15 years experience in Broadcast Advertising Cable Television
- With CNI for 2 years

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STACIE RAISS	ILISE YOHAY	MINDY ELLIN		

THE TECHNOLOGY SCENE

Closing In on HDTV

The FCC took a major step toward an advanced TV standard. Why is there still such confusion?

The Federal Communications Commission's 1988 draft statement on high-definition TV represented a major step toward defining an advanced TV standard for U.S. broadcasters. While welcomed by the industry, the FCC's tentative decisions hardly form a clear map to HDTV.

The commission tentatively decided to require that any future HDTV broadcasting system be compatible with present-day NTSC (the National Television Standard Committee's color-TV standard) receivers. This automatically eliminated from consideration any proposed system that requires a broadcast channel wider than the standard 6 MHz used by U.S. television. If extra bandwidth is authorized for HDTV broadcasts, it will have to come from a second channel.

The FCC stated, also tentatively, that any extra bandwidth that may be granted for HDTV operations will have to come from the existing UHF and VHF bands, eliminating broadcasters' hopes for additional allocations. At the same time, to broadcasters' great relief, the FCC voted to continue its moratorium on additional grants of UHF spectrum to land-mobile users.

These latest actions, while welcome, leave many issues unresolved. In fact, the compatibility decision didn't thin out the competing systems to any great degree. The only systems that were eliminated outright were those that, like NHK's MUSE-E, require channel bandwidths wider than 6 MHz. The FCC will continue to consider proposals that require additional bandwidth, but that bandwidth must come from unallocated channels within the existing VHF and UHF spectrums.

The compatibility issue remains thorny and wide open to debate on several levels. U.S. broadcasters strongly favor a compatible system for straightforward economic reasons. The huge number of NTSC color TV receivers in this country is expected to make consumers reluctant to pay premium prices for HDTV receivers, however excellent the quality. Any broadcaster starting a noncompatible HDTV venture could expect a rerun of the "color wheel" debacle of the early 1950s, when the FCC adopted a color broadcasting standard that was incompatible with black-and-white receivers. After the incompatible color receivers flopped in the marketplace, the commission finally reneged, adopting the compatible, all-electronic NTSC system.

Faced with continuing loss of viewership to cable and videocassettes, it's no wonder broadcasters are reluctant to hitch their wagons to anything other than an NTSC-compatible HDTV system.

Compatibility will allow broadcasters to begin advanced TV service without risking current audiences. And at the same time, the continuing erosion of broadcasters' market share to cable has made them especially sensitive to any development that favors cable.

Over-the-air broadcasters also face greater technical and regulatory restrictions than other media. While cable distribution of HDTV signals is still under development and involves its own technical problems, cable operators do not face the stringent channel-width restrictions that hamper broadcasters. While cable and videocassette program suppliers would be hampered by the same constraints as broadcasters on the receiver end, their ability to offer a "side-by-side" HDTV service at relatively little risk could give them an advantage.

On the technical side, exactly what constitutes "compatibility" is still under discussion. Most of the compatible HDTV proposals encode the signal so that conventional NTSC receivers can decode the equivalent of an ordinary TV picture, while viewers with HDTV receivers see the full HDTV picture.

These systems vary widely, requiring different amounts of extra bandwidth and encoding the signal in different ways.

At least three proposals, however, achieve compatibility by simulcasting an HDTV signal over one 6 MHz channel and a standard NTSC signal over another. (The Spectrum Compatible HDTV System recently proposed by Zenith Electronics Corp. falls into this category, along with NHK's Narrow-MUSE and a system from the Massachusetts Institute of Technology.) In terms of the actual architecture of the HDTV signal, a compatibility requirement would seem to favor systems with 1,050 scanning lines, double the 525 lines in a frame of NTSC video. The mathematics involved in extracting a 525-line compatible signal from a 1,050-line transmission are clearly less complex than if an NHK-style 1,125-line signal were standardized. The 1,125-line NHK standard is the only one currently in use, however, on both the production and transmission ends. Most proposed NTSC-compatible systems have been demonstrated so far only as computer simulations.

This lack of usable hardware disturbs broadcasters. "The sooner we get all of

This photo from Southwestern Bell shows conventional TV, left, versus high-definition.


578

Tested in one of the toughest arenas on earth, Panasonic MII helped set new standards in broadcast quality.

Panasonic M II equipment helped NBC get over the hurdles of broadcasting the world's largest sports event in history. With more venues. More events. And better quality video and audio than ever before attempted.

From the ease with which an army of free-lance technicians was trained on M II . . . to the reliability it displayed under the pressure of 180 hours of intensive programming. . . M II equipment became one of the cornerstones of NBC's third largest facility—right behind New York and Burbank—and their first all-stereo facility.

Between the 4 large composite edit suites and the 11 small component suites, NBC utilized up to 100 Panasonic M II machines. Machines that the free-lancers found "to be user-friendly, reliable and responsive. It enabled us to maintain a high-caliber on-air look." *Jack Slomnicki, broadcast technician.*

With the grueling pressure of making it quickly to air with a combination of archival footage, live events, graphics, maps and animation, NBC's Olympic team found that M II's "primary advantage was the ability to make last-minute decisions on which segments to run. A 1-inch format would have required more machines to do the same job." *Neil Flagg, lead technical director, International Broadcasting Center.*

And the pressure was eased by the fact that "these machines proved to be reliable workhorses while providing excellent audio and video recording quality." *John Wesley Nash, broadcast engineer.* And also helped NBC set a new track record that could stand for years to come.

In addition, the host Korean broadcast network (KBS) as well as broadcast networks from Japan (NHK), Austria (ORF), and the Netherlands (NOS) utilized the M II advantage in their coverage of the games. All told over 300 machines brought home the gold.

Panasonic
MII

Official Video Equipment Of The 1988 Olympic Games

Title 36 United States Code Section 380

MII Panasonic
Broadcast Systems Company

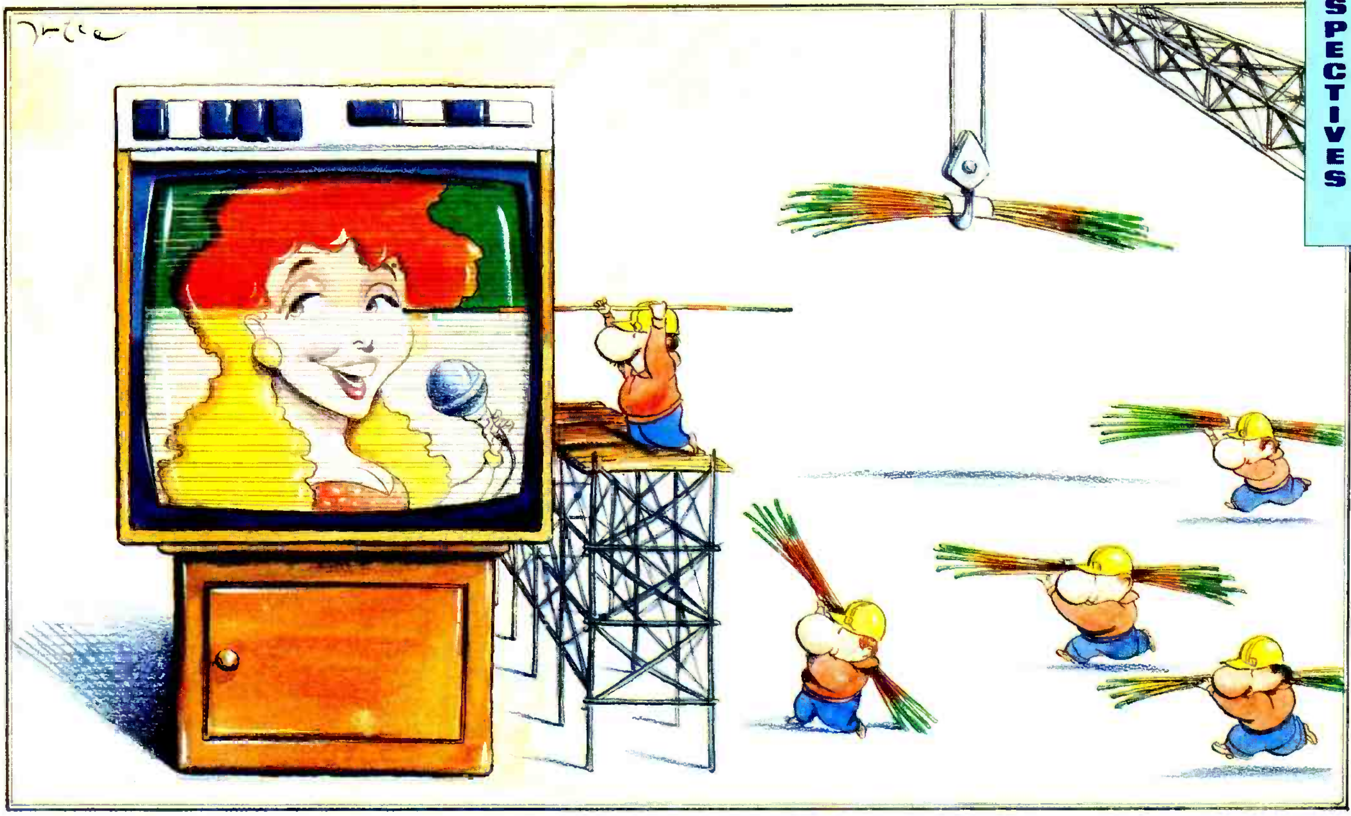


ILLUSTRATION BY MICHAEL WITTE

the systems all the way to the point of being in hardware, the sooner we can start getting some real answers as to what the best choice is," says Merrill Weiss, managing director of advanced TV systems for NBC Television.

Some industry observers are concerned that by adopting a lower-resolution, 1,050-line HDTV system, U.S. terrestrial broadcasters will be saddled with a standard that compares unfavorably to full-bandwidth, 1,125-line HDTV. If a large cable programmer, such as HBO, were to buck the tide and offer a 1,125-line picture, broadcasters might suffer by comparison. A noncompatible system, while less attractive economically, in theory could use technological developments without restriction.

Furthermore, the 1,125-line HDTV standard has been promoted as a means for broadcasters to transcend the nuisance of divergent international television standards, which complicate international program exchange. A 1,050-line U.S. HDTV transmission standard could create political problems on the international broadcast-regulation scene.

Adoption of a 1,050-line standard for transmission would not necessarily mandate its use in program production, however. There is strong support for use of 1,125-line, 60 Hz HDTV as a production standard. Arguments in favor of such a move are strong. First of all, the equipment is already in production and in use in the U.S., Canada, Europe and Japan. And while it may be convenient to use the same standard for transmission and production, it is hardly necessary. The best example of this is found in television broadcasting itself, which has for many years relied on 35mm film as its main production medium.

Additional concerns center on how—or if—the FCC will select a single standard for HDTV transmissions. The commission's tendency in recent years to rely on market forces to answer technological questions has alarmed many broadcasters. But now it appears likely the FCC will retreat from its extreme dependence on market forces and either select a system, as it did three decades ago with NTSC, or protect a feature of one of the systems, as it did with multichannel television sound. Either method would allow broadcasters to move ahead with plans for advanced television.

The various compatible systems are not the same. And the FCC has yet to start determining which is technically superior. Questions also remain on where the extra bandwidth for HDTV will come from, especially in large markets and on the East Coast, where most available broadcast spectrum is already allocated. If not all broadcasters will receive additional spectrum space—the scenario that appears most likely—by what method will the FCC decide who gets to broadcast HDTV and who does not? Theoretically, U.S. broadcasters could become divided into HDTV haves and have-nots, a situation bound to create conflict.

Two controversial FCC proposals concerning this extra spectrum have already elicited comment, much of it unfavorable. The first suggests that broadcasters who have been awarded spectrum space for HDTV broadcasts be permitted to use that spectrum for other profit-generating applications until they actually begin HDTV service. The other would allow broadcasters to resolve any HDTV-related interference disputes among themselves. Critics, including Rep. Edward Markey (D-Mass.), chairman of the House telecommunications and finance subcommittee, and FCC commissioner James H. Quello, have charged that the first proposal is incompatible with the public interest and the second could lead to interference and service reductions.

Further complicating the advanced television arena is improved NTSC. At least two companies—Faroudja Laboratories Inc. and Central Dynamics Limited—have developed and are marketing sophisticated encoders and decoders for NTSC. Faroudja is, in fact, promoting its SuperNTSC as a possible HDTV standard. U.S. broadcasters are united in their desire for advanced television, although they have yet to unite on the exact form it will take. Competition and controversy can be expected to continue over the next few years as technological issues are ironed out and the competing systems become ready for full-fledged tests.

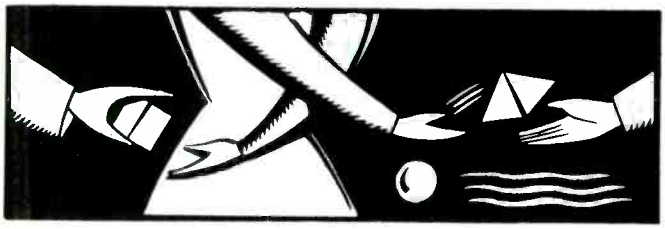
Until a standard is agreed upon, however, HDTV broadcasts remain a good five to ten years away.

EVA BLINDER

TRANSITIONS '88

Debuts and Done Deals

A capsule look at the year's events, from corporate shuffles to courtroom battles.



If you want to learn the TV game, you need an introduction to those who play it. Ergo "Players." The section's first piece, "Transitions," tells who did what to whom during the last 12 months: executives who switched turfs, ventures that were born (and "Bloopers" that never should have been), disputes that wound up in court and big deals that altered the television landscape. To find out more about the back-and-forth in the year's sales and swaps, look at the next story, on trading in cable systems and TV stations; there are some unexpected factors driving cable-system prices ever upward, and making TV-station prices stall. In "10 to Watch," we profile achievers in the communications industry worth keeping an eye on in 1989, including deal-makers, programmers and one rising Hollywood star. "Players" ends with a pair of charts. One looks at where the money goes—a ranking of the top 40 companies in terms of revenues earned from electronic media. The other, "Media Alliances," shows how the new communications environment is forcing diversification and a multitude of cooperative ventures among the companies that make and deliver the electronic goods. The chart illustrates an ever more tangled web—one that is likely to become still more complex in 1989.

MOVERS

J. William Grimes, one-time **ESPN** president, to Spanish-language broadcasters **Univision Holdings**, as president. Stepping up to the ESPN presidency is **Roger Werner**, previously **ABC TV** Network's executive v.p.

Jules Haimovitz, former **Viacom Networks Group** president, to the newly created position of president/COO at **Aaron Spelling Entertainment**.

Lee Rich, former chairman and CEO of **MGM/UA Communications**, to his own newly formed **Lee Rich Productions**, shortly after **Kirk Kerkorian** announced a restructuring of MGM/UA. **Stephen D. Silbert**, formerly president, replaced Rich.

Robert Harris, former president of the **MCA TV** Group, to **Imagine Entertainment** as president of motion pictures and TV.

Robert Morse, former general manager of Fox O&O **KTTV** in Los Angeles, to the same position at **WMAQ**, NBC's Chicago O&O.

Former Lorimar Telepictures member of the office of the president **Michael Garin**, to investment bankers **Furman Selz Mager Dietz & Birney** as managing director and head of media and entertainment group.

John Trinder upped to v.p. and COO of **TVX Broadcasting** following the resignation of Tim McDonald.

Ex-***Moonlighting*** executive producer **Glenn Caron** to a career in feature films, according to his publicist. Rumors circulated that Caron had butted heads with star Cybill Shepherd.

The New York Times' Manhattan-based TV reporter **Peter Boyer**, to the paper's Los Angeles bureau as a national correspondent.

ATC, cable's number two MSO, moved east to Stamford, Conn., from Denver. Announcement of the move in July followed a shake-up in the ATC and **HBO** hierarchies. ATC's CEO **Trygve Myhren** relinquished his position; HBO president **Joseph Collins** moved into the spot. **E. Thayer Bigelow**, ATC's former president, stepped into Collins' old position. Both ATC and HBO are owned by **Time Inc.**

Lee Rich: out on his own.

CBS's revolving door: **Howard Stringer**, former News president, to president of the Broadcast Group. **Gene Jankowski**, succeeded by Stringer, to chairman, Broadcast Group. Filling the News

TOP LEFT ILLUSTRATION BY LINDA BLECK; OTHER ILLUSTRATIONS BY HAL MAYFORTH

CBS juggle: Jankowski, Tisch, Stringer and Burke.

presidency is **David Burke**, joining the net from ABC.

Barbara Corday, formerly **Columbia/Embassy TV's** president, to **CBS Entertainment** as executive v.p./prime time programming.

George Schweitzer, who earlier left CBS to join **Young & Rubicam**, rejoins as senior v.p./communications, and **Michael Mischler** joins CBS as v.p./advertising and promotion from the same position at **King World**.

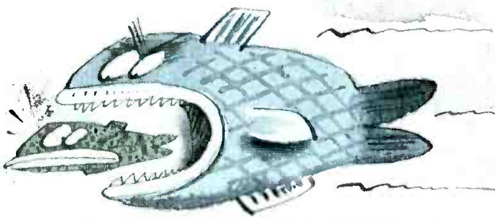
And last, **CBS** unveiled its newly made-up "eye." The subtly modernized Black Rock logo is aimed to "appeal to younger viewers while still pleasing the audience that grew up with the eye."

BIRTHS

Ike Pappas Network Productions, formed by veteran newsman Ike Pappas. The company will develop news documentaries for independent TV and radio.

Consumer News and Business Channel (CNBC), General Electric's (and NBC's) first cable-programming venture, aimed to rival **Financial News Network**. Conceived this year, it goes on the air in early 1989.

Turner Network Television (TNT), Ted Turner's latest venture in cable programming, debuted on October 3 with an airing of *Gone With the Wind*.



ACQUISITIONS

Houston Industries Inc. swallowed up **Rogers Communications's** U.S. cable systems in September for $1.3 billion, involving about 520,000 subscribers.

The year's two mega-deals: The **Storer** cable systems (SCI Holdings) controlled by

Daniels: no more cable.

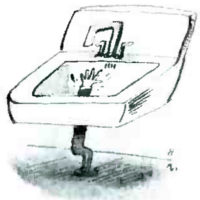
Kohlberg, Kravis, Roberts were sold to **TCI** and **Comcast** for about $3.1 billion. Involving about 1.5 million subs, the deal hit an antitrust snag in Connecticut courts in September.

The second is **Rupert Murdoch's (News Corp.'s)** $3 billion purchase of **Triangle Publications**, owner of ***TV Guide***, in August.

Others: the grandfather of cable, **Bill Daniels**, sold his **Daniels & Assoc.** cable assets (about 340,000 subs) to **United Artists Communications** for $190.5 million in cash and convertible stock.

Acquisition failures: **Barris Industries' Burt Sugarman** tried and tried but eventually failed in his $1.78 billion bid to acquire **Media General**. The struggle began in March, turning into a bitter proxy battle that finally sputtered out in June, with Sugarman coming out the loser.

DEMISES



DeLaurentiis Entertainment Group (DEG), which finally hit rock bottom in August, filing for Chapter 11. This followed a veritable walkout of DEG executives.

St. Elsewhere, ***Cagney & Lacey*** and ***Magnum, P.I.***, three of the best-known TV shows of the 1980s. All three shows are already on the syndication circuit.

Elsewhere: life off-net?

Critically acclaimed CBS dramedy ***Frank's Place***, which got the ax in October after promises from CBS it would return for the fall season. **Tim Reid** and **Hugh Wilson**, the star and executive producer, had even taken 25 percent pay cuts to keep the show alive, but to no avail.

Very possibly, the networks' exclusive coverage of the **Olympics**. Both ABC and NBC, who respectively covered the Winter and Summer Games this year, coughed up millions of dollars in make-goods to advertisers for ratings points that just weren't there.

DEATHS

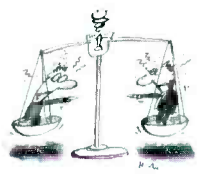
Clark

Jack Clark, probably the most recognizable voice in game-show history, of bone cancer at 62. Clark was the announcer for *Wheel of Fortune*, *The $25,000 Pyramid* and *Password*.

Former CBS News executive **Burton Benjamin**, 70. Benjamin produced several award-winning documentaries over the years but is best-known for heading the inquiry into the infamous CBS documentary on the Vietnam War and General Westmoreland.

Benjamin

Charles Dawson Butler, the original voice of **Yogi Bear** for 30 years, of a heart attack at 71. He is replaced as Yogi's voice by protege Greg Burson.



COURTING

Valerie Harper took **Lorimar** to court and won $1.4 million and 12.5 percent of the profits from ***Valerie***, the NBC half-hour sitcom she starred in. Harper claimed that she was strong-armed out of the show.

PHOTOGRAPHS OF LEE RICH, CBS EXECUTIVES: AP/WIDE WORLD PHOTOS; ST. ELSEWHERE AND VALERIE HARPER: PHOTOFEST

BLOOPERS

Sports veteran **Jimmy (The Greek) Snyder** was fired by CBS in January after he told a television interviewer that blacks were better athletes than whites because they were "bred to be that way" since the days of slavery, and that if more blacks become coaches, "there's not going to be anything left for the white people." Snyder was paid between $400,000 and $500,000 per year by CBS to dispense predictions designed to aid bettors. . . . When the biggest winner in the history of ***Password*** came to pick up his $58,000 check, **Kerry Ketchem** was arrested for credit-card fraud by two federal agents. The 36-year-old Ketchem, who had eluded the agents for some time, was spotted on the show by an acquaintance in Alaska, who

For the Greek, all bets are off.

called authorities. . . . In a valiant attempt to create a late-night hit, Fox Broadcasting lured ***Late Night With David Letterman*** producer **Barry Sand** to L.A. to do whatever he wanted. Sand hired a dozen hip writers and, vowing to make "dangerous television," launched a topical humor

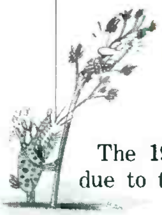
Was TBS's Soviet portrait bullnost?

hour just before Christmas '87. Fox affiliates didn't get the joke. Three weeks later, ***The Wilton North Report*** was dead. . . . Convinced that last April 23's episode of ***Mighty Mouse*** depicted the super rodent sniffing cocaine, the American Family Association's **Donald E. Wildmon** of Tupelo, Miss., went public with the charge. CBS responded that the scene in question shows His Mightyness merely sniffing the aroma of "crushed stems, tomatoes and flowers," and denied he snorted cocaine. . . . Calling **Ted Turner** "a Soviet propagandist," **Rep. Bob McEwen** (R-Ohio) blasted Superstation TBS's seven-part documentary ***Portrait of the Soviet Union*** as a "whitewash," pointing out that Soviet TV felt compelled to run a disclaimer that said the film "gave an excessively glamorous portrait of the Soviet Union and fails to reflect the self-criticism currently under way." Soviet TV, added McEwen, "recognizes *bullnost* when it sees it." . . . **AGB Television Research** and **R.D. Percy & Co.**, caught in an audience-measurement war with A.C. Nielsen and unable to enlist sufficient broadcast support, both suspended operations the first week of August. AGB had spent $67 million in an effort to unseat Nielsen, and shut-down costs were a reported $50 million. . . . She lost 40 pounds before the season began, gained ten of them back when viewers complained that she looked anorexic, was preempted for the November sweeps, refurbished by a new producer and then survived a move in January '88 from Sunday night to Saturday night. But in the end, **ABC/Cap Cities'** $44 million bet on **Dolly Parton** came to naught. The show was cancelled May 7, 1988 . . . **WISC-TV** in Madison, Wisc., suspended a female employee after captions she filed were inadvertently broadcast promising deaf viewers—in locker-room language—scenes of breasts and buttocks during the upcoming Miss Wisconsin pageant.

Not anorexic.

PETER AINSLIE

BRUSHES WITH DEATH



The **1988 TV fall season**, due to the 26-week writers' strike that crippled what should have been busy summer production schedules. Instead, the season limped out in fits and spurts, from late September onward.

The Fashion Channel, which declared bankruptcy but was bailed out by **CVN Companies**. CVN agreed to absorb future losses but wouldn't be held responsible for any of the channel's previously existing debts.

ALLIANCES

Critically acclaimed ***The Days and Nights of Molly Dodd***, the on-again, off-again series spurned by NBC, got a new, 13-episode lease on life with the **Lifetime** basic cable network.

CBS CEO Larry Tisch, feeling a little lonely at the top, brought in his brother **Preston Robert Tisch** to the board of directors.

The originally-made-for-**Showtime *It's Garry Shandling's Show*** hooked up with the **Fox** network, the first big move of a program from pay cable to broadcast TV.

Molly Dodd dates Lifetime.

MICHAEL BURGI

PHOTOGRAPHS OF WRITERS' STRIKE, JIMMY THE GREEK AND JESSE JACKSON: AP/WIDE WORLD PHOTOS

PLAYERS

TRADING

Can Cable Continue?

Caution may be in order for traders as prices begin to outstrip actual revenues.

The heady optimism that has characterized cable-system trading since deregulation did not abate in 1988, but the excitement failed to spill over into a somewhat stalled market for TV stations.

Prices paid for cable systems reached records as the largest multi-system operators (MSOs) sought to expand their holdings by buying a dwindling number of available properties. The willingness of the financial community to provide capital to the industry, even in the wake of 1987's stock-market crash—coupled with operators' ability to raise rates with little or no subscriber drop-off—enabled cable consolidation to continue.

But fears over the effects of issues such as syndicated exclusivity, must-carry, overbuilds, the competitive threat of telephone companies and government reregulation may have found their way to Wall Street: Low stock prices prevailed for cable companies. The private market, however, seemed not to notice. As reported by Paul Kagan Associates, 425 cable deals worth a record $10 billion were transacted in 1987. The industry shattered that this year; as of July 1988 there were 225 deals, totaling a whopping $9.51 billion as prices paid topped the seemingly unreachable $2,500-per-subscriber mark.

"It's been an enormously active year, and the values have been much stronger than people expected going in," says Steven Rattner, managing director of Morgan Stanley & Co. Inc.

Deals like Cablevision Systems' $550 million acquisition of Viacom's Long Island, N.Y., and Cleveland, Ohio, systems, at almost $2,700 per subscriber, demonstrated that operators were willing to pay grandly in 1988 for a shrinking supply of quality cable assets.

"It was very significant in '88 that you had people like TCI [Tele-Communications Inc.], Comcast and Century paying prices way in excess of $2,000 a sub," says broker John Waller of Waller Capital Corp. Those buyers, he says, want the systems for long-term investments.

Broadcast TV deals continued their slow decline from 1986, when a record 167 stations, with a total value of $6.8 billion, changed hands. As of September 1988, only 52 station deals, valued at $1.1 billion, had been transacted.

Brokers report that for affiliates, the lack of available major-market stations kept multiples paid at all-time highs, despite deteriorating prospects for overall audience and advertising share. Trading in independents remained weak in '88, due to lingering doubts about some stations' strength. Only a handful of buyers pursued acquisitions.

"The unfortunate thing is that this negative perception has spilled over to where you can't even sell a good situation," says Dennis Eckhout, v.p. of Communications Equity Associates.

The outlook for both industries in 1989 appears less than certain. While some observers look forward to $3,000-per-sub becoming cable's pricing benchmark, others fear that an economic slowdown and higher interest rates may finally put a lid on cable prices.

"Even without worries about cable reregulation and telephone companies entering the business, investor psychology has become much more cautious," says Merrill Lynch media analyst Harold Vogel. "The fact is that prices—and, more importantly, projected prices—for systems have been and still are growing faster than projected gains in revenues. If all this isn't the prescription for cable-system prices to at least stall, if not come down, I don't know what is."

PAUL NOGLOWS

Big Deals of 1988

TV Stations

BUYER	SELLER	STATIONS / MARKETS	PRICE (Mil)	PRICE PER VIEWER[2]
King World Productions[1]	Howard Publications	WIVB (CBS) Buffalo, N.Y.	$100	$1,727
Tak Communications	Smith Broadcast Group	WGRZ (NBC) Buffalo, N.Y.	96	1,884
Broad Street Television Corp.	Woods Communications Group	WTVW (ABC) Evansville, Inc. KLBK (CBS) Lubbock, Texas	74	2,102
KT Communications[1]	Adams Communications Corp.	WKEF (NBC) Dayton, Ohio	72	2,226
Capitol Broadcasting	TEL-AM Corp.	WTTV (Ind) Indianapolis, Ind.	62	1,292
Morris Newspaper Corp.	United Broadcasting Corp.	KARK (NBC) Little Rock, Ark.	62	1,320
CBS[1]	TVX Broadcasting	WCIX (Ind) Miami, Fla.	59	1,731
Smith Broadcast Group	Beach-Schmidt Group	KWCH (CBS) Wichita, Kan.	45	1,450
Providence Journal Broadcasting[1]	Channel 36 Partners	WPCQ (NBC) Charlotte, N.C.	40	1,845
Granite Broadcasting Corp.[1]	Price Communications	WEEK (NBC) Peoria, Ill.	33	1,719
Commercial Dispatch Publishing	United Broadcasting Corp.	KDBC (CBS) El Paso, Texas	33	1,968
Adams TV	Price Communications	WWAY (ABC) Wilmington, N.C.	26	2,041
Mel Wheeler Inc.[1]	Price Communications	KRCG (CBS) Jefferson City, Mo.	24	1,710

Cable Systems

BUYER	SELLER	SUBSCRIBERS	PRICE (Mil)	PRICE PER SUBSCRIBER
Tele-Communications Inc. / Comcast[1]	KKR / Storer	1,500,000	$2,880	$1,920
Houston Industries[1]	Rogers Communications	520,000	1,270	2,442
Cablevision Industries Corp.[1]	Bass / Wometco	311,000	720	2,315
Cablevision Systems[1]	Viacom	205,000	540	2,634
Westmarc Communications[1]	Bass / Tele-Communications Inc.	210,000	420	2,000
Adelphia Communications	Rigas Family	107,000	241	2,252
First Carolina[1]	Cencom Cable	100,000	220	2,200
ML Media[1]	Prime Cable	71,000	192	2,704
ATC[1]	Tele-Communications Inc. / Memphis (49%)	65,000	167	2,569
Century Communications	Adam Corp.	41,000	103	2,512
Jones Intercable	Jones Fund	30,000	66	2,204

TV source: Morgan Stanley & Co.
Cable source: Paul Kagan Associates Inc.
[1]Deal pending approval. [2]Using Arbitron's May Sweeps, Morgan Stanley calculated total viewers by multiplying each station's total ADI households by its sign on-sign off ratings points. The result was then divided by each station's price.

MEDIA PEOPLE

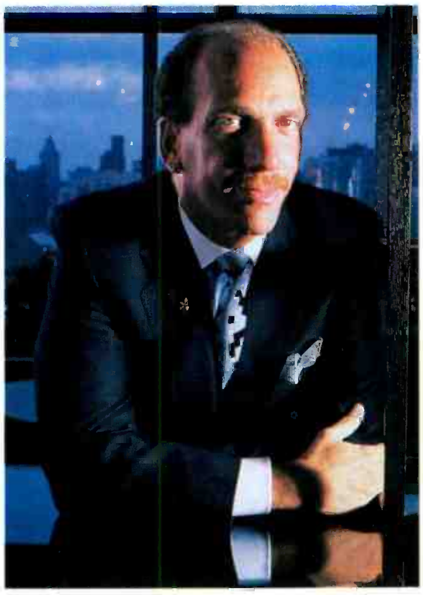
TEN TO WATCH

These people will make news in 1989.

ROBERT SILLERMAN

A gold pin with the inscription "SLS" adorns the lapel of Robert F.X. Sillerman's blue pinstripe suit. The initials stand for Sillerman's rallying cry, "Sell Like Shit!" That's the slogan he used to motivate the sales staff at his first radio station, WALL-AM/WKGL-FM in Middletown, N.Y.

Ten years and more than 60 radio investments later, the chairman and CEO of Sillerman-Magee Communications Management Corp. is doing more buying than selling while expanding his media base beyond radio. In April, the seasoned broadcast operator and investor acquired



Broadcast investor Bob Sillerman.

PHOTOGRAPH OF ROBERT SILLERMAN BY SHERRIE NICKOL/CRAIN'S NEW YORK BUSINESS

the old Metropolitan Broadcasting radio stations for $300 million—the largest deal in radio history—securing his position as a true powerhouse in the industry.

Sillerman has moved beyond radio and into cable TV programming with an equity interest in cable's Country Music Television, and is taking a hard look at radio/cable cross-promotion possibilities.

But Sillerman's recent purchase of television rep firm Seltel gives the best indication of his plans. Although Sillerman has owned TV stations in the past, industry watchers see this as the first step in a major new thrust into the television arena, and at press time in late October, a deal involving four network affiliates was reportedly in negotiations. Sillerman attributes his deal-making prowess to "diligent" investigation of a prospective acquisition before making a move: "I know everything there is to know." Accordingly, Sillerman says he intends to use Seltel's wealth of TV-station information to aid him in his quest.

Bringing to his personal life the same fervor he has for business, Sillerman, 40 and married, shuns the 70-hour work week of the typical overachiever, instead taking extended vacations in the Caribbean, jetting to Paris for lunch on occasion and recently training for and completing The Mighty Hamptons Triathalon. Sillerman remains true to his motto: "Have fun. Make money. And have fun while making money." PAUL NOGLOWS

BARBARA CORDAY

When CBS Entertainment hired Barbara Corday in July 1988, it sent a clear message: The network wanted to improve ties with Hollywood's creative community. In recent years, CBS had developed a reputation for excessive interference in program development. It was no longer the first place many producers wanted to take their work. And the network had fallen into the prime time cellar in 1987-88.

"It's no secret that we have a lot of hours that need attention," Corday acknowledged last fall, just ten weeks into her new job. "We have to build a new schedule one night at a time." To many, hiring Corday seemed an encouraging step. Well-liked in Hollywood, she is also highly regarded for her experience as a producer, studio head, network executive and Emmy-nominated TV writer.

Corday's appointment, as executive vice president for prime time programs and second in line to CBS Entertainment president Kim LeMasters, set Hollywood's gossip mill churning. With LeMasters' modest industry stature, the

CBS executive v.p. Barbara Corday.

question became: Who would be in charge in the long run? After all, CBS had just seen a corporate shake-up in which Howard Stringer, not strong on Hollywood ties, was promoted to president of the broadcast group, replacing longtime head Gene Jankowski; and an outsider, David Burke, an ABC News executive vice president, was named as Stringer's successor to run CBS News. Corday's new job represents a chance for her to prove herself again, following her ouster from what is now Columbia Pictures. She was fired in October 1987 from her post as president and chief operating officer of Columbia/Embassy Television, following its merger with Tri-Star. Columbia at the time had trouble keeping series on the air. Also around that time, Corday and husband Barney Rosenzweig, now executive vice president and chairman of the Weintraub Entertainment Group's television division, divorced. But now, Corday, 44, a former ABC head of comedy development, has the chance to help bring sorely needed humor shows and younger viewers to CBS, the network with the oldest audience—and to reinvigorate her career in the process. NEAL KOCH

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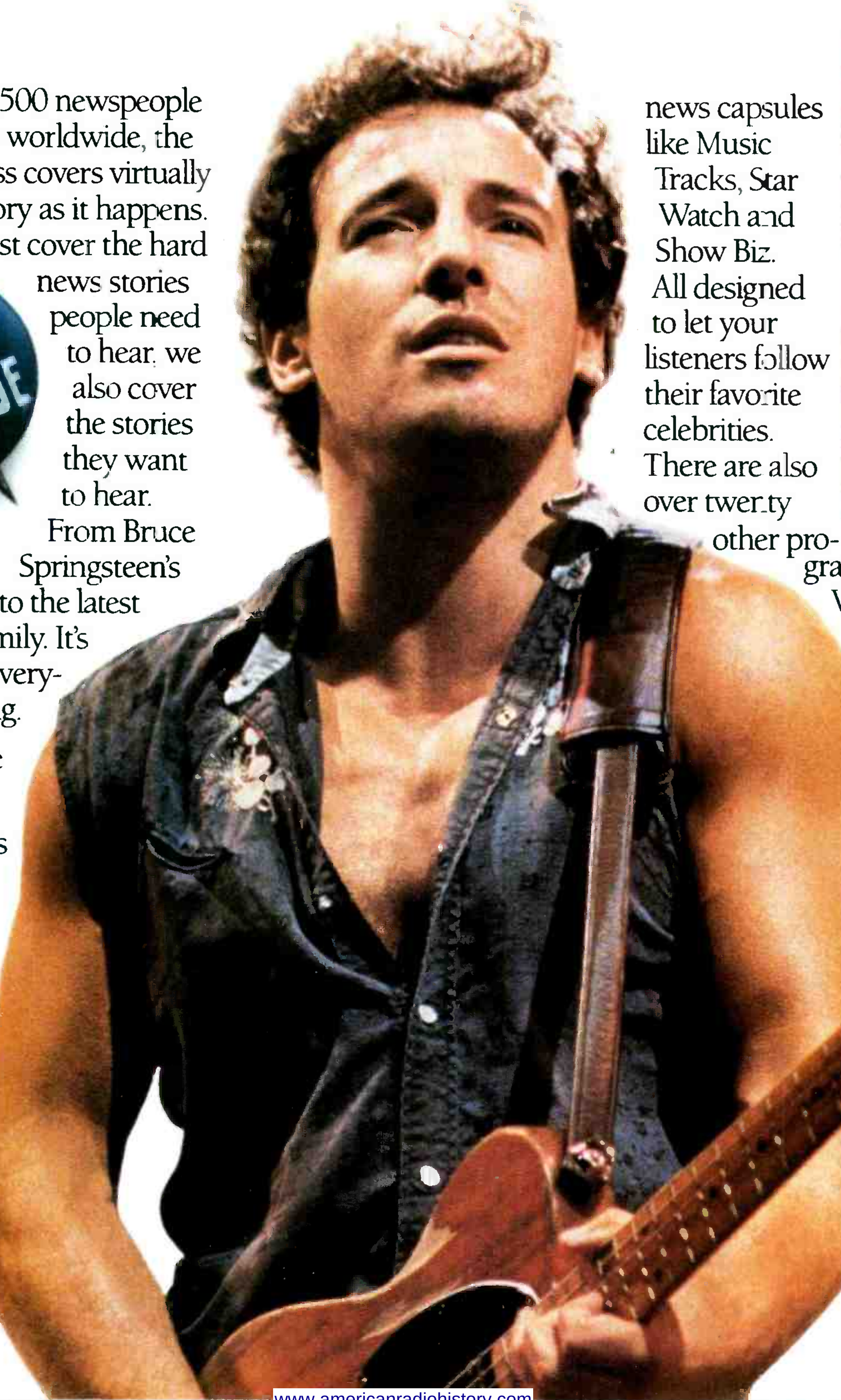

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Comic/talk show host Arsenio Hall.

ARSENIO HALL

Arsenio Hall will be the first to admit that he's going up against some stiff competition: "Johnny's a legend. He's like Mike Tyson. No one will beat him—he'll beat himself. And that's the *only* way somebody will get a piece of his demographics." Nevertheless, the 30-year-old comedian-turned-actor-turned-talk-show-host will kick off *The Arsenio Hall Show* on January 3—in some markets against Carson himself.

Hall, who is also executive producer of the show, made Paramount, the show's distributor, very happy before even going on the air, gaining 85 percent coverage of the country in early October after only six weeks on the selling block. Hall at first did not want to return to the talk format following his 13-week "grind" as Joan Rivers' replacement on Fox's *The Late Show*. But a buttering up from Paramount chairman and CEO Frank Mancuso, who expressed a desire to see Hall headline a talk show, hooked him. Now he's balancing the things he learned from *The Late Show* (and even from his days as Alan Thicke's yes-man on *Thicke of the Night*) with trying to establish an identity for his own show.

Working with a "much larger budget" than *The Late Show*'s, Hall is worrying about whether to use a desk or a couch and how to incorporate more women into the show (maybe an all-female house band?). "I want to further develop what it was I was doing right," he says, without looking like a *Late Show* clone.

As for a possible lawsuit from Fox over contract obligations, Hall says he isn't worried. He maintains he wanted to stay with the company after his *Late Show* tenure, but Fox instead went with *The Wilton North Report*. Then when Fox did want him back, he was already in Paramount's camp working on *Coming to America* with best buddy Eddie Murphy. Fox, says Arsenio Hall, had its chance.

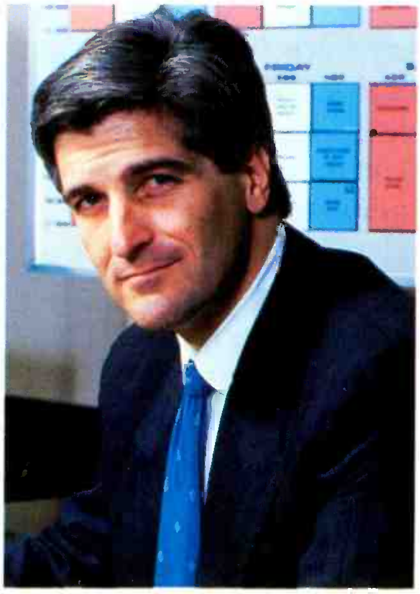
MICHAEL BURGI

KERRY McCLUGGAGE

The joke about the Black Tower, MCA's austere executive office building in Universal City, is that those who enter it immediately lose their senses of humor. Kerry McCluggage's challenge is to get them laughing.

As president of Universal Television, he's been charged with diversifying MCA's prime time network program production beyond the powerhouse studio's traditional strength in big-budget, hour-long action/adventure and suspense shows. He is launching a full raft of half-hour sitcoms made on moderate budgets. Al Rush, chairman of MCA's TV Group, gave McCluggage a mandate to broaden the giant studio's output while putting a lid on costs. Says Rush, "He's the guy to be watched—I'll be watching him, too."

People have had their eyes on the quiet, reserved McCluggage, 33, for some time. He started in TV at 17 as a security guard for ABC's *In Concert* show, picked up his Harvard MBA and, in 1980, became Universal's youngest vice president at age 25. After a stint as supervising producer of MCA's big-spending *Miami Vice*, the lanky, Kansas-bred whiz kid was assigned to cut program costs on MCA's hour shows, with the results not yet clearly in. Now he's been asked to create a place for MCA in network sitcoms. McCluggage landed one network berth for the 1988-89 season, with CBS's *Coming of Age*; another show, *Coach*, for ABC, was scheduled to go into production as of early last fall.

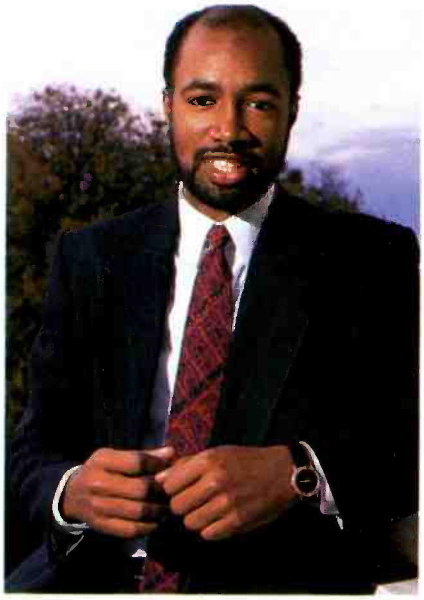


Universal TV's Kerry McCluggage.

Interest in McCluggage has been shown outside MCA, but it looks as if he's staying put for now. Clearly, with the backing of MCA president and chief operating officer Sidney J. Sheinberg and the departure of Robert Harris, president of the MCA TV Group, there's still room for McCluggage to have the last laugh in the Black Tower.

NEAL KOCH

LARRY IRVING



House senior counsel Larry Irving.

The fight between Congress and the FCC over the Fairness Doctrine drove a bitter wedge between the two bodies, but perhaps it also provided a lesson. Larry Irving notes, "I would think that any person who comes into the FCC chairmanship now will recognize that while you can do things Congress has serious reservations about, you do that at your peril."

As senior counsel/mass media to the House subcommittee on telecommunications and finance, Irving is subcommittee chairman Rep. Edward Markey's point man for the communications industries, heading oversight of the FCC and operating as a think tank for issues the panel should be looking at. And while the FCC visibly chafed in 1988 under Markey's indignant stare, Irving says the commission better get used to it. "The FCC has never felt this kind of oversight because Congress never felt the need for this kind of scrutiny," he says. "Their new relationship is the natural result of some of the actions the FCC took. It is a creature of Congress; any powers it has are powers Congress gives it. There's been a loss of that reality at the FCC."

A self-professed liberal Democrat from

PHOTOGRAPH OF LARRY IRVING BY RHODA BAER

Queens, New York, Irving graduated from Stanford University's law school in 1979 and moved to Washington because he wanted to "spend some time" in public service. After a brief stint at Washington law firm Hogan and Hartson, Irving went to work for Rep. Mickey Leland as legislative director and counsel. He was contemplating a return to the private sector when Markey approached him in March 1987, and as an admitted "mediaphile and pop-culture addict," Irving couldn't say no.

He's never looked back, arguing that this is the most exciting time in telecommunications policy since the 1934 act that established the FCC. The coming year could see action on cable-network regulation, telephone-company entry into cable and HDTV, among other things. And after eight years of what he calls an "unregulatory regime" at the FCC, it may be time for the pendulum to swing: "You won't see a wholesale rush to reregulate," he says, "but a prudent reassessment of deregulation." JOHN FLINN

CHARLES F. DOLAN

Cablevision Systems head Dolan.

Already at work installing a fiber-optic backbone for his Long Island Cablevision system, Charles F. Dolan is considering offering telephone service to his subscribers in the future. It should come as no surprise that Dolan, chairman and CEO of Cablevision Systems Corp., one of the nation's largest cable operators, is thinking in such terms. Dolan, 62, has long been the master of the unexpected: Wiring Manhattan in 1971, when cable was a rural phenomenon and no one operated in urban markets; showing uncut movies on what became HBO when that was unheard of; proposing a $2 basic service fee (in Boston) and starting the first 24-hour regional news service (on Long Island).

In the past year, he has added some 450,000 subscribers to his company through acquisitions; purchased a $25 million, 5 percent stake in Showtime Networks as part of his deal to acquire Viacom's Long Island cable systems; paid $51 million for a three-year National Hockey League contract; taken his regional pay SportsChannel concept national by launching SportsChannel America; and floated the idea of offering pay-only service in his Bronx franchise.

The increased attention vertical integration is receiving from Washington is also on Dolan's mind, and it's no wonder. His companies provide virtual textbook examples. Cablevision Systems serves more than a million subs; Rainbow Program Enterprises offers three national and five regional services; Cablevision Systems owns two cable ad sales and rep companies; and a publishing company puts out a program guide. Dolan thinks regulators will allow integration unless operators "deny others the opportunity to do" what cable does. "To the extent that we are, *de facto*, the only provider of video service to the home, we must prove we will provide competitors with alternatives to cable carriage," he says. "If we are in the way, we shouldn't be."

KIRSTEN BECK

SCOTT SASSA

Scott Sassa first came to cable-industry prominence in 1983, when Ted Turner promoted him from Turner Broadcasting System's director of sales promotion to the vice president and general manager's post at TBS's short-lived Cable Music Channel. So what if Sassa was only 24? Turner didn't want some oldster programming rock videos. Now, however, after stops at the Playboy Channel, Fox Broadcasting Co. and Ohlmeyer Communications Co., Sassa is back at TBS. This time, his job is bigger.

Turner rehired Sassa last April as executive vice president to program Turner Network Television, TBS's "high-concept" cable channel that was launched in October. Sassa is still under 30, but Turner knows he's got more than a kid who can program a video channel. Sassa has some serious ideas about how TNT can help bring to cable those potential subscribers whose homes are passed, but untouched by the wire. "You've got that 27-million-home disparity between the number of homes that can take cable and those that do," Sassa says. "That's *$54 billion* worth of assets that the cable industry has out there. Basically, the capital has already been spent to get that."

He concedes it would be "incredibly arrogant" to think TNT alone can push non-

TNT executive v.p. Scott Sassa.

subscribers into cable heaven. Instead, Sassa says: "TNT is what I call the trigger to get people thinking about it. We all have to recognize that if a subscriber took cable three years, four years ago, with what cable services are now, there's no comparison. And so we've got to get people to rethink it." That's a difficult task, Sassa admits. But he believes the programming he envisions for TNT—issue-oriented specials like *Nightbreaker*, about nuclear testing in Nevada—can attract nonsubscribers. And Ted Turner believes he has the right man for the job. "Scott's just a real bright guy who's gone out and gotten a lot of good experience," Turner says. "It was just logical to hire him." One of cable's dramas in 1989 will be the wait to see if Turner's logic holds up. CHUCK REECE

NEIL S. BRAUN

Neil S. Braun was hired by Viacom Inc. a year ago to help the company, in his words, "stop operating like a leveraged-buyout company and start operating like a strategic player in all the businesses we're in." To that end, Braun, who describes himself as Viacom president and CEO Frank J. Biondi's "deal guy," has, in the eyes of most appraisers, been successful. The company's burdensome debt load, which totalled more than $2.3 billion at the beginning of 1988, was reduced by year's end to $1 billion, via long-term financing and the sale of assets. Braun's job, as senior v.p./corporate development and administration, is to work with division heads to make Viacom a "strategic player" by structuring off-balance-sheet financing alternatives that will let the company move forward in '89 despite a lack of internally generated

Viacom "deal guy" Neil Braun.

cash flow. That's a tall order. But the 36-year-old Manhattanite seems just the man to fill it. Braun is a consummate deal-maker. During his tenure at HBO in the early '80s, Braun was responsible for negotiating long-term agreements with Columbia Pictures and Tri-Star Pictures, the formation of Silver Screen Partners, HBO's first film-financing limited partnership and HBO's entry into the videocassette business. Braun left HBO in 1986 to join filmmakers Ron Howard and Brian Grazer in the formation of Imagine Films Entertainment, fulfilling a lifelong fantasy of starting a creative-based company. (Imagine has released *Willow*, among other films.) While at Imagine, Braun structured two deals, one with Showtime and one with Universal, that covered all the company's production, distribution and corporate-overhead costs for five years to come. Ironically, Braun realized that through those two deals, he had already contributed most of what he had to offer the start-up company. It was once again time to move on.

Braun says he was attracted to Viacom because the company faces challenges sufficient to keep him busy for the near future. "I'm happier in a lot bigger place where there are a lot more problems to deal with," Braun says. "I'm much better being in the deep water with a ton of stuff going on." PAUL NOGLOWS

CAROLE KIRSCHNER

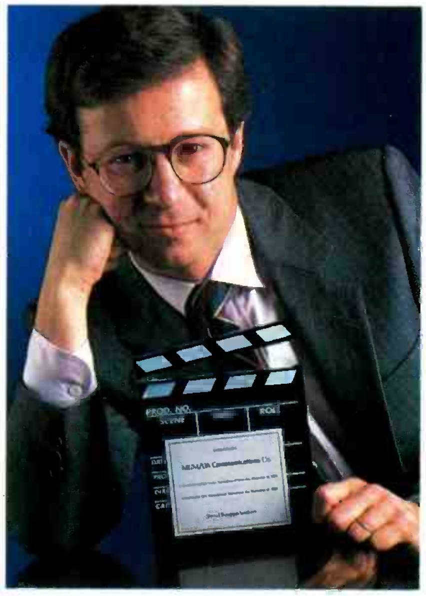
Like most studio bosses, Carole M. Kirschner—who as vice president of Steven Spielberg's Amblin Entertainment Inc. will head the company's newly created television division—claims she cares first and foremost about the quality of the shows she produces. Her resume suggests one should believe her when she says that. For one thing, Kirschner, 35, is fresh from a two-year stint as director of comedy series development at CBS, where she was responsible for, among other shows, the critically acclaimed but doomed *Frank's Place*. But perhaps just as telling of Kirschner's commitment to quality is that her first love was performance—as a stand-up comic in L.A. clubs such as the Comedy Store. "It was the most fun I ever had," she says. She didn't meet with financial success, but it wasn't because her material lacked substance; her act didn't consist so much of cracking jokes as telling stories "commenting on my experiences being single and how men and women relate to each other," she says.

Amblin is developing four projects for the fall '89 season, two for the broadcast networks and two for cable. "We're not looking to be a high volume house," she says. "We're not looking to be Lorimar. We're just looking to do a few excellent projects." Spielberg's involvement in the television branch of Amblin is reportedly minimal, but his presence will still be felt. "It's his company," Kirschner says, "and nothing gets done here unless it's a project Steven has an interest in." Feeling free after working for a network, Kirschner is interested in the "open-ended quality" of cable, which she believes will be responsive to her plans to market innovative programming. Whether quality programming will do well remains an unanswered question. Amblin's first crack at TV, *Amazing Stories*, flopped, and even Kirschner admits a failure to understand why *Frank's Place* starved for viewers. But maintaining high-quality content in Amblin's shows will be Kirschner's main concern. "I work with people who say, 'We only want to do projects we know we can do well,'" maintains Kirschner. "Our attitude is not, 'Get out there and sell pilots!'" RICHARD KATZ

Amblin V.P. Carole Kirschner.

ART BILGER

A line of Lucite cubes winds its way around Art Bilger's Beverly Hills office, nearly spilling off the 30-foot window sill. Each preserves a momento of a multimillion-dollar deal the Drexel Burnham Lambert managing director helped cut—many for TV companies, many financed with junk bonds. One hexagonal block, perched alone on a coffee table, holds a replica of the $1.2 billion check from Drexel that Turner Broadcasting used to buy MGM/UA Entertainment Co.—a deal in which Drexel served as investment banker for both sides. Bilger



Drexel managing director Art Bilger.

joined Drexel in 1977 and is now point man for entertainment-industry financing on the West Coast. Now 35, Bilger is helping Lorimar Telepictures in its pending merger with Warner Bros. He's also a director of Aaron Spelling Productions, which he helped take public in 1986. When Spelling had capital problems in 1988, Bilger engineered its merger with Worldvision. In the MGM deal, he first represented the studio when Turner sought to acquire it. When it became clear the deal would go through, he switched sides and closed it for Turner. "No one objected," says Mary McCarthy, an MGM/UA senior v.p. "Each company did its own due diligence."

In 1989, Bilger faces an interesting year of another sort. Drexel continues to face an SEC onslaught over its junk-bond dealings. And faced with a drop-off of capital in search of entertainment-biz targets, Bilger is now eyeing cable TV—a new reason to remain in the game. "I guess I'll stay until it's no longer fun," Bilger says. "I don't spend much time thinking about what I'll do when I'm done here." NEAL KOCH

PHOTOGRAPH OF ART BILGER BY PHILIP SALTONSTALL/ONYX

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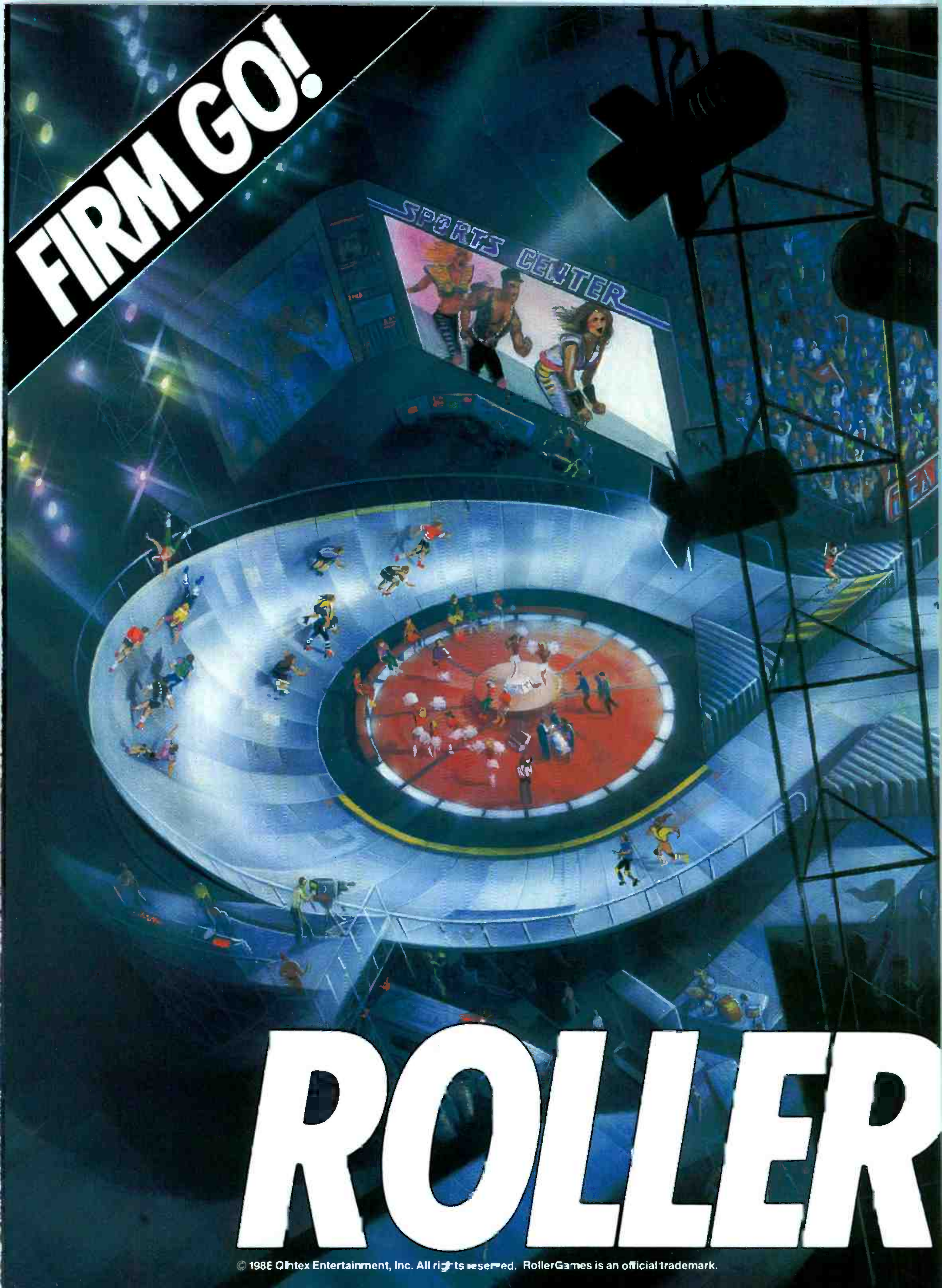
ARBITRON RATINGS

BIG 40

Most of this year's 40 big companies showed impressive projected electronic-media revenue growth despite obstacles like a difficult advertising market and a crippling strike in Hollywood. All counted, the 40 players totaled $33.6 billion in projected revenue, broken out below by segments. Edited by Michael Burgi.


I WANT MY ROCK &...



FIRM GO!
SPORTS CENTER
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MEDIA ALLIANCES

Family Ties

Television's crazy quilt of alliances revealed.

This chart of alliances and owner relationships in the television industry unfolds like a Ridley Scott set for a futuristic city. It's an ultramodern blueprint of a business filled with players consolidating fiefdoms, expanding empires or forging agreements simply to survive.

The most active players on the chart are from the cable community. Lines running to and from cable players depict an industry segment that has forged alliances with the same energy that propelled it to wire and program the nation.

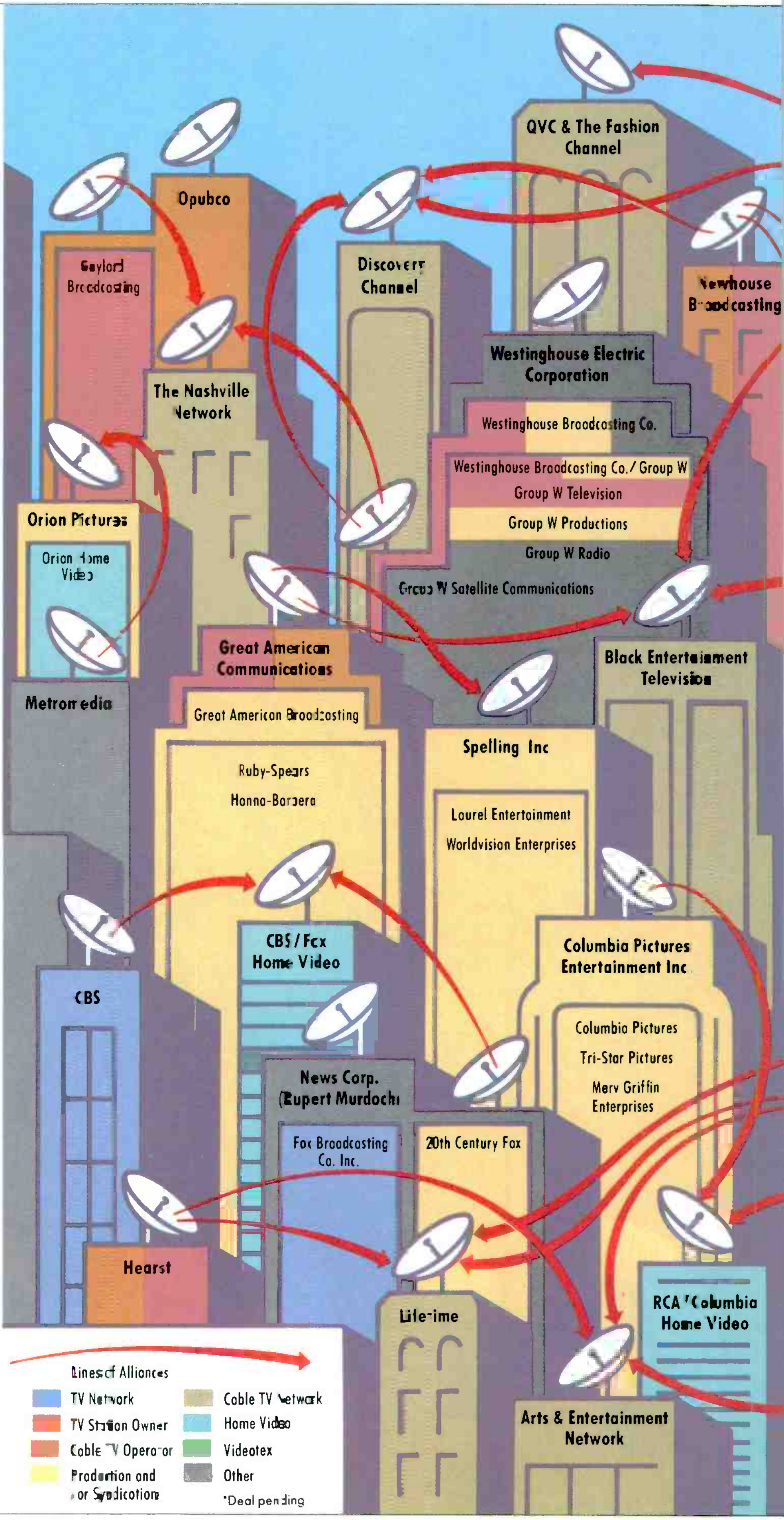
No cable concern has been more aggressive, or become more entangled, than Turner Broadcasting System. A couple of years ago Turner Broadcasting was comprised simply of Superstation WTBS and CNN. But in a short space of time Turner's empire has expanded appreciably—the Superstation and CNN have been joined by CNN Headline News, CNN Radio and TNT, the company's new cable network.

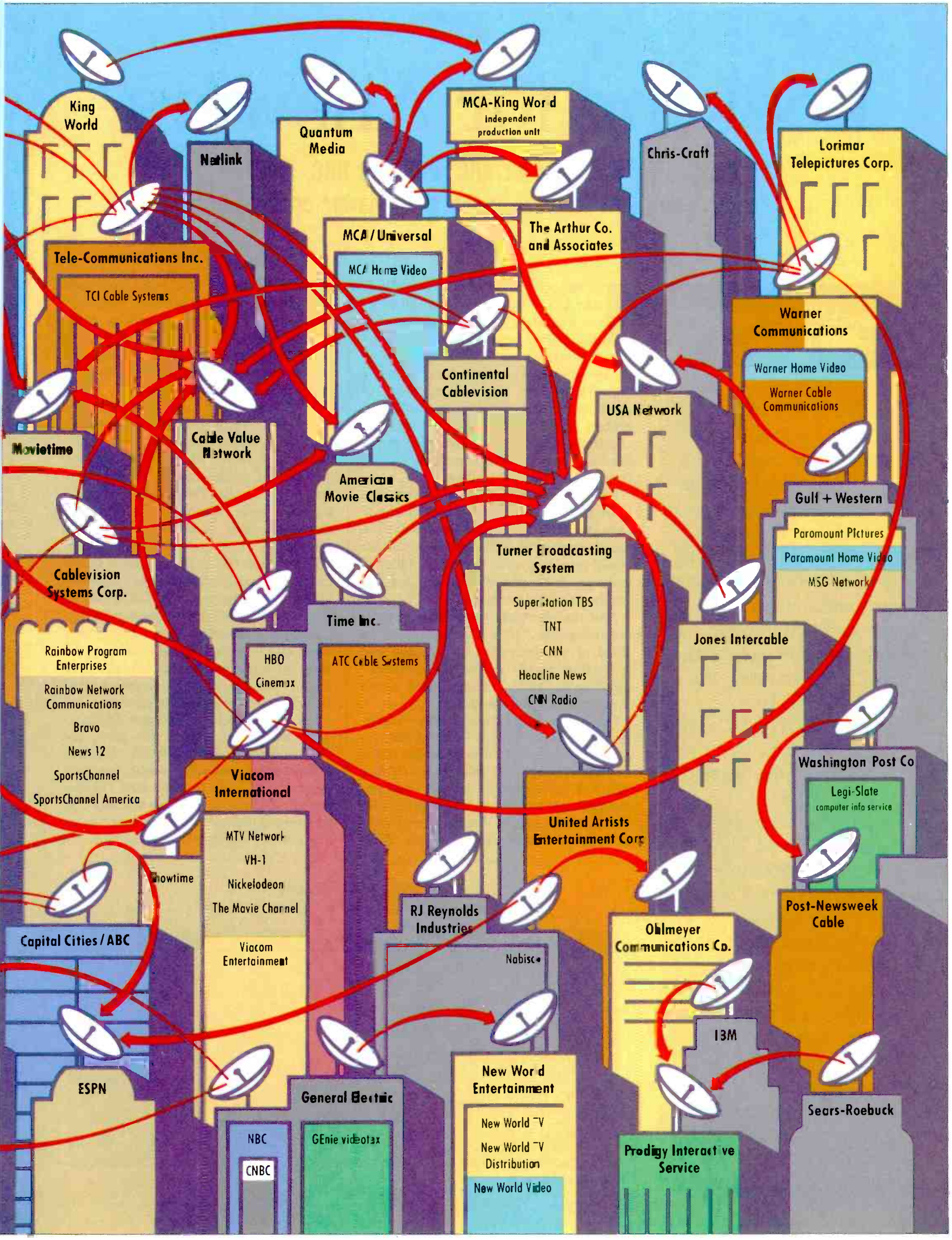
To fund its expansion, Turner was forced into a complex string of alliances. Time Inc., Viacom International, Warner Communications Inc., Cablevision Systems Corp., Tele-Communications Inc., United Artist Entertainment Corp., Jones Intercable and Continental Cable all have pieces of Ted Turner's action.

While Turner had to sell off portions of his company, TCI stretched its tentacles into other facets of the business. Adding to its holdings in Turner, Rainbow's American Movie Classics and Black Entertainment Television, TCI has taken positions, Hydra-like, in The Discovery Channel, Cable Value Network, QVC and the Fashion Channel, Netlink and a pending deal with United Artists.

While cable companies reached out into new regions of the industry, mainline broadcasters have been forced to turn inward and focus on their primary businesses. There is NBC's new cable venture, CNBC, however, which will exploit the network's strength in news, business information and sports—perhaps it is a harbinger of things to come.

J. Max Robins
Research: Sallie Ogg




King World
Netlink
Quantum Media
MCA-King World
independent production unit
Chris-Craft
Lorimar Telepictures Corp.
Tele-Communications Inc.
TCI Cable Systems
MCA / Universal
MCA Home Video
The Arthur Co. and Associates
Warner Communications
Warner Home Video
Warner Cable Communications
Continental Cablevision
USA Network
Movietime
Cable Value Network
American Movie Classics
Gulf + Western
Paramount Pictures
Paramount Home Video
MSG Network
Turner Broadcasting System
SuperStation TBS
TNT
CNN
Headline News
CNN Radio
Cablevision Systems Corp.
Time Inc.
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VH-1
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The Movie Channel
Viacom Entertainment
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Washington Post Co
Legi-Slate
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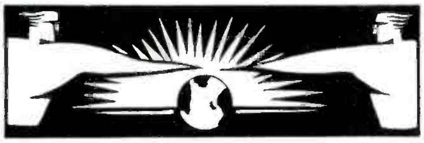
General Electric
NBC
CNBC
GEnie videotex
New World Entertainment
New World TV
New World TV Distribution
New World Video
Sears-Roebuck
Prodigy Interactive Service

THE FOUR NETWORKS

Looking for Answers

Good news was rare for ABC, CBS and NBC, and each added new faces to try to stem viewer erosion.



The wide variety of businesses covered in the "Programmers" section is a good representation of how communications has blossomed in this decade. The need to feed a widening array of outlets is making things tough on the programmers in Hollywood, according to our look at the state of programming. As one cable-production executive tells West Coast editor Neal Koch, "A new level of sophistication is required." Are programmers becoming sufficiently savvy? The answer is different in every case, from the Big Three networks through pay cable, basic cable, syndication, Spanish-language TV, public TV, home video software, home shopping, radio networks and pay-per-view services to the still fledgling field of videotex. These segments have in common their drive to capture an ever more sophisticated consumer.

In the annals of network television, the 1987-88 season will not go down as a banner year. It was the year the people meter officially came into play, and anticipation of that new reality brought unprecedented vigor to the networks' '87-88 upfront market. Ad agencies hustled to lock in guarantees to protect their clients against expected shortfalls in network audiences as measured by the new meters, pushing the upfront to a record $3.1 billion.

But that was about as far as the good news went for the new season. The audience shortfalls quickly materialized in the fourth quarter of 1987, and the networks ended up giving away some $40 million in make-goods to advertisers who had not reached their guarantees.

And the shortfalls continued throughout the season. "Now it looks like about a third of the year-to-year audience loss was a function of the change in methodology," says David Poltrack, CBS senior v.p., planning and research.

CBS was particularly unhappy with the people meters, since it finished the season in third place for the first time in the 36-year history of television ratings. Many of its shows are old and tired and the network hasn't had a new hit in four years, so the people meters merely compounded the network's problems. What is more, Poltrack contends, problems with the people meter persist: "The cooperation rates are low; there's an overrepresentation of cable and pay cable homes in the sample and there are some geographic imbalances, although the last is being corrected over time."

As if that weren't enough to contend with, the Writers Guild of America launched a strike against Hollywood producers that lasted 22 weeks, thoroughly disrupting the planning and production of new shows for the 1988-89 season, delaying the season launch and inhibiting the networks from promoting their new shows.

The reruns the networks were forced to fall back on sent audiences elsewhere in droves, and by the time NBC launched its 180 hours of Olympic coverage in September, the Games couldn't bring them back either. The Olympic ratings fell short of advertisers' guarantees by almost 17 percent, though there were other theories about why this happened.

For one thing, the Summer Olympics were really fall Games this year, and NBC undoubtedly suffered audience losses because vacation season was over, people were back at work and children were back in school. There was also the problem of distractions from other sporting events: The pro-football season was

Down The Tubes
A Decade's Decline in Network Share

	ABC	CBS	NBC	COMBINED TOTAL
'78-79	34	30	27	91
'79-80	31	31	28	90
'80-81	29	30	26	85
'81-82	29	30	24	83
'82-83	28	29	24	81
'83-84	27	28	23	78
'84-85	24	27	26	77
'85-86	23	26	27	76
'86-87	22	25	28	75
'87-88	22	22	26	70

Source: Nielsen Media Research.

ILLUSTRATION BY LINDA BLECK

under way and the baseball pennant races were concluding. The fact that the Games were held on the other side of the world, in Seoul, South Korea, didn't help either. The network was forced into late-night coverage of some prime competition, and often its reporting of results came after other news reports of what had gone on. Furthermore, the other two networks, in the past content to program summer reruns against the Olympics, this year made concerted efforts to counterprogram, ABC pulling together reruns of its best comedy programs and CBS attempting to corner the female audience.

All in all, the problems severely diminished NBC's profit expectations from the Olympics. "It certainly hurt them on the network side, because they had a bunch of make-goods to do," says Oppenheimer & Co. analyst Dennis McAlpine. "If you count the time sold on the O&Os, they made some money, but not big money."

Capital Cities/ABC also fared poorly with its 16-day coverage of the Winter Olympics in Alberta, Canada. After paying a record $309 million for the broadcast rights and spending around $100 million in production costs, the network was stuck with an estimated $35 million in make-goods. Overall, the loss to the network was estimated to be $75 million to $80 million.

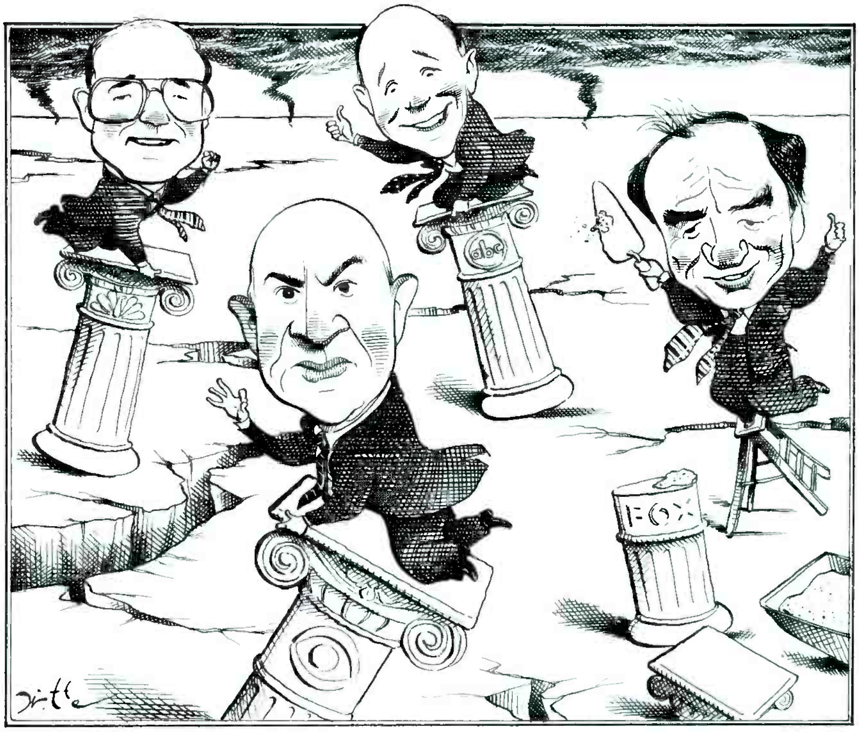


ILLUSTRATION BY MICHAEL WITTE

The fact that 1988 was both an election year and an Olympic year made the network troubles all the more vexing. "When you think of Olympic/election years," says Eberstadt Fleming analyst Mark Riely, "you think of years when profits at broadcast organizations ought to take their biggest leap forward. Certainly for the whole broadcast industry and the networks, that was not the case. We didn't see this year what we had in previous election/Olympic years, where the demand for commercial time tightened up to the extent that prices could be raised significantly."

Elsewhere on the network front, angst in the news divisions continued. More than a thousand news-division employees have been let go in the past two years. NBC, releasing 110 employees during the fall, said it had reached the final stage of its news-employee cutbacks. The layoffs brought NBC's total to 400. The network, operating under a corporate mandate to make its news division profitable, also moved to cut costs abroad, negotiating to purchase 37 percent of the London-based video news agency Visnews. Not only would such a purchase enable NBC to implement reductions in its overseas news operations, the network would also become a player in the increasingly lucrative business of supplying news programming abroad. There was, naturally, criticism of the move among network newsmen, who fear a reliance on non-network reporters will bring a reduction in quality to the division. Wall Street doesn't think so. "No way," said one analyst. "The networks are cutting down on what has been an enormous amount of fat. The average viewer isn't going to notice it."

Two networks got new news chiefs in 1988. NBC bounced news president Larry Grossman and startled many by hiring Michael Gartner, a former *Des Moines Register and Tribune* and Gannett Co. news executive, for the post. At CBS, news boss Howard Stringer was promoted to president of the CBS Broadcast Group; ABC News executive v.p. David Burke was brought in to replace him. Stringer's new mandate was to improve relations with Hollywood's creative community and try to put to rest CBS's reputation among producers as arrogant.

And so it was a tough year for the Big Three, a year, in Poltrack's words, "that we'd like to forget." But analyst McAlpine points out that the networks have also lost a billion dollars to cable advertising and another billion to first-run syndication, and still managed to bounce back. "That used to be network money, and it has hurt them. But it is actually a remarkable tribute to the networks that they've been able to lose $2 billion in revenues and still come out ahead."

The biggest mystery on the networking front was at Fox, which lost $94 million between June of '87 and June of '88. Fox officials were nevertheless talking of expanding to a third night in '89, the network's third season. And, taking a cue from their own stations' success with programs like *A Current Affair* and subsequent programming efforts of the Big Three (which tried out reality-based programming during the writers' strike), about one-third of Fox's program development has been focused on unscripted, nonfiction shows.

The reasons are clear enough: Not only is it cheaper to produce but the reality genre has been one of the few bright spots in the Fox programming lineup. Such series as *America's Most Wanted, The Reporters* and *Beyond Tomorrow* showed promise during the year of drawing viewers away from traditional network fare.

Accordingly, the network ordered up a fourth such show to be tested on the six Fox-owned stations for a possible rollout to the network if it flies. The program, called *Cops*, is planning to follow the private and professional lives of five real-life police officers.

Wall Street, in spite of the losses, continues to be upbeat about Fox. Says PaineWebber analyst J. Kendrick Noble: "When Fox first started, somewhat to my surprise, I found ad agencies calling the network, which is part of the battle. It seems to have established a growing foothold in some evenings. Some programs seem to be working out well, so as long as Fox owner Rupert Murdoch has as deep pockets as he seems to have, I think it is showing signs of gradual progress—though it will take a long time."

Or, in the words of Dennis McAlpine, "There's nothing wrong with Fox that a hit show wouldn't solve." PETER AINSLIE

STATE OF PRODUCTION

Shifting Sands

With their industry in a downturn, Hollywood producers must have new sorts of savvy.

Television producers are busily regrouping, forming new alliances in the midst of a cyclical downturn and a restructuring of the industry. "Hollywood periodically reaches a crossroads, a crucible," ventures Ken Krushel, president and chief operating officer of Shelley Duvall's new Think Entertainment, a cable production company. "A new level of sophistication is required."

Faced with large production deficits, only slightly rising network license fees and a tight syndication market, many execs say they expect corporate consolidations to continue. In 1988, for instance, Lorimar Telepictures Corp., already loaded with debt, sought solace in the arms of Warner Bros. Though challenged in court, the buyout by Warner threatened to remove TV's largest maker of prime time series from the ranks of independents just as the fall season was getting under way—a step that would restore dominance of the evening schedule to the major studios for the first time in several years. Some officials are betting that four or five program suppliers could dominate the TV production business within a few years.

At the same time, producers seem increasingly preoccupied with the growth of overseas markets. Foreign syndication earnings have been rising amid the privatization of the European TV industry. Moreover, co-productions with foreign concerns appear to be booming, with predicted increases in the use of international stars and foreign locales. Such partnerships bring American studios several benefits: shared risk on deficits, foreign tax breaks and higher foreign license fees. The studios are also hoping that co-productions will position them to avoid tariffs and import quotas that could be imposed by European nations, which prefer to promote production from within their borders.

But some studios remain cautious. MCA talks of foreign syndication as little more than a way to cover production deficits at home, and sees co-production simply as a way of cutting risk, equivalent to the practice of selling off equity in a show in return for a higher license fee. "We don't know how much of that [foreign market] will turn out to be big hat, no cattle," cautions MCA executive vice president Tom Wertheimer.

Still, most producers say they see little choice, with new American markets holding out minimal short-term promise of substantial returns. The domestic syndication market remains tight, with stations skittish and few time slots to fill. Production for cable and the Fox Network is regarded primarily as long-term investment—a way to build future market share for the time when those networks become more lucrative. MCA Inc. and Paramount, for instance, say they will use network-size budgets to make original movies for their jointly owned basic-cable channel, USA Network, whose license fees don't yet match ABC's, CBS's and NBC's.

At the same time, cost-cutting remains a favored way of boosting margins, but it promises to produce continued labor strife. Both Paramount and MCA plan to avoid union labor by making the USA Network movies through corporate entities that never signed guild contracts.

Runaway production, spreading like wildfire: *Mission: Impossible* Down Under.

Furthermore, producers and the Screen Actors Guild say they're likely to lock horns in mid-year over many of the same issues that produced the bitter, six-month writers' strike in 1988, including the split of foreign earnings. "We may be weary," says MCA vice president Stuart Mandel, "but our needs haven't changed."

Another way of cutting costs, runaway production, has also gained. The march north has slowed because Canadian facilities are full and the Canadian dollar has strengthened. But the air corridor to Australia has rapidly become familiar to Hollywood. Of Paramount's six one-hour shows for the 1988-89 season, five were being shot outside the U.S., two Down Under, including the network revival of *Mission: Impossible*. "Hollywood," Paramount's TV group president Mel Harris declared last fall, "is not the center of the universe anymore."

At home, studios fear for their flanks with 1990 so near. That will bring the first major loosening in the consent-decree agreements that limit the broadcast networks' ability to make their own shows. Still, the danger could be some time in appearing. NBC bought none of the five pilots it produced for the 1988-89 season, later selling one, *Good Morning, Miss Bliss*, to The Disney Channel. Moreover, the networks, according to one executive, "couldn't afford to deficit finance entire" schedules.

Another part of the restructuring is the new capital emerging from the wings, as foreign concerns cut themselves in for a piece of the action, as with the 1988 purchase of MTM Entertainment by Britain's Television South. Many observers believe that trend will gain momentum. "The more you go toward co-production with European suppliers," says Leslie Moonves, Lorimar executive vice president, "the more possibility of their buying into our companies."

Says Jonathan Dolgen, president of Fox Inc., "Across the board, the industry is trying to adjust to the changing terrain."

NEAL KOCH

The Program Factories

MOST PROLIFIC PRODUCERS	FOR BROADCAST NETWORKS	FOR FIRST-RUN SYNDICATION AND CABLE
WARNER BROTHERS 805 HOURS TOTAL		
Warner Brothers Television 77 HOURS TOTAL	**77 Hours** / China Beach, Growing Pains, Head of the Class, Just the Ten of Us, Murphy Brown, Night Court	
Lorimar Telepictures 728 HOURS TOTAL	**181 hours** / Midnight Caller, Hogan Family, ALF, Dying for Love (movie), Perfect Strangers, Full House, Studio 5B, Dallas, Knots Landing, Falcon Crest, Paradise, Adam Kane, Jack the Ripper (miniseries)	**547 hours in synd.** / Love Connection, Superior Court, People's Court, Family Medical Center, It's a Living, Mama's Family, She's the Sheriff, Nightmare on Elm Street, Thundercats, Gumby, Fun House
PARAMOUNT TELEVISION GROUP 739.5 HOURS TOTAL	**100.5 hours** / Duet (in association with UBU), The Cavanaughs, Cheers, Day by Day (in association with UBU), Dear John, Dolphin Bay (in association with Dick Berg's Stonehenge Productions), Family Ties, MacGyver (in association with Henry Rich Productions), Mission: Impossible	**628 hours in synd.** / The Arsenio Hall Show, Entertainment Tonight, Entertainment This Week, Friday the 13th: The Television Series, Star Trek: The Next Generation, War of the Worlds, Webster, Wipeout; **11 hours on cable** / Brothers (Gary Nardino in association with Paramount)
GREAT AMERICAN BROADCASTING CO. 675.5 HOURS TOTAL		
Hanna-Barbera 665 HOURS TOTAL	**21 hours** / A Pup Named Scooby Doo, Smurfs, Ed Grimley	**644 hours in synd.** / The Jetsons, Smurfs, The Yogi Bear Show, The Snorks, The Funtastic World of Hanna-Barbera, Hanna-Barbera Superstars (animated movies)
Titus Productions 4 HOURS TOTAL	**4 hours** / Internal Affairs (miniseries)	
Ruby-Spears Entertainment 6.5 HOURS TOTAL	**6.5 hours** / Superman	
WALT DISNEY 611 HOURS TOTAL		
Walt Disney Television 58.5 HOURS TOTAL	**58.5 hours** / The Magical World of Disney, The New Adventures of Winnie the Pooh	
Buena Vista Television 552.5 HOURS TOTAL		**546 hours in synd.** / Live With Regis and Kathie Lee, Win Lose or Draw, DuckTales, Siskel & Ebert; **6.5 hours on cable** / Chip'N' Dale's Rescue Rangers
FOX INC. 481.5 HOURS TOTAL		
Fox Television Stations Inc. 207.5 HOURS TOTAL	**77.5 hours** / The Reporters, America's Most Wanted	**130 hours in synd.** / A Current Affair
Twentieth Century Fox 274 HOURS TOTAL	**50.5 hours** / Have Faith, L.A. Law, Mr. Belvedere, Hooperman	**223.5 hours in synd.** / Animal Express, 9 to 5, Small Wonder, Miller's Court, Expedition Danger, Audobon Wildlife Theater
GROUP W PRODUCTIONS 454 HOURS TOTAL		**454 hours in synd.** / P.M. Magazine, For Kids' Sake (Campaign), Time to Care (Campaign), Hour Magazine, Life's Most Embarrassing Moments, Teenage Mutant Ninja Turtles, Lifequest
MCA INC. 440 HOURS TOTAL		
Universal Television 131 HOURS TOTAL	**131 hours** / Almost Grown, Coach, Coming of Age, The Equalizer, Men, Miami Vice, Murder She Wrote, Simon & Simon, Columbo (movie), Gideon Oliver (movie), Burt Reynolds movie, 911	
MCA Television Entertainment 309 HOURS TOTAL		**309 hours in synd.** / Out of This World, Charles in Charge, My Secret Identity, The Munsters Today, The Morton Downey Jr. Show
COLUMBIA PICTURES ENTERTAINMENT 414.5 HOURS TOTAL		
Columbia Pictures Television 72 HOURS TOTAL	**72 hours** / Police Story, Something Is Out There, Trackdown, Designing Women, Married...With Children, Who's the Boss?, 227	
Merv Griffin Enterprises 342.5 HOURS TOTAL	**130 hours** / Wheel of Fortune	**212.5 hours in synd.** / Wheel of Fortune, Jeopardy!
NEW WORLD 399 HOURS TOTAL		
New World Television 314 HOURS TOTAL	**314 hours** / The Wonder Years, Tour of Duty, A Fine Romance, Murphy's Law, The Robert Guillaume Show, Santa Barbara	
Marvel Productions 85 HOURS TOTAL	**7 hours** / Jim Henson's Muppet Babies	**78 hours in synd.** / Marvel Action Universe
VIACOM INTERNATIONAL 308 HOURS TOTAL		
Viacom Productions	**46 hours** / Matlock, Jake and the Fat Man, Perry Mason movies, Father Dowling	
Viacom Enterprises		**262 hours in synd.** / Double Dare, Finders Keepers, Best of Gleason III
GTG ENTERTAINMENT 228 HOURS TOTAL	**46 hours** / TV 101, Raising Miranda, The Van Dyke Show, Baywatch (movie)	**182 hours in synd.** / USA Today
MGM / UA TELEVISION PRODUCTION 154.4 HOURS TOTAL	**48 hours** / thirtysomething, In the Heat of the Night, Knightwatch, Dream Street	**100 hours in synd.** / Twilight Zone, Group One Medical; **6.5 hours on cable** / Kids Inc.
ORION TELEVISION 109.5 HOURS TOTAL	**9 hours** / Pancho Barnes (movie), The Kennedys of Massachusetts (movie)	**97.5 hours in synd.** / Hollywood Squares; **3 hours on cable** / Glory! Glory!
STEPHEN J. CANNELL PRODUCTIONS INC. 72 HOURS TOTAL	**72 hours** / Wiseguy, Sonny Spoon (in association with NBC Productions), 21 Jump Street, Hunter	
AARON SPELLING PRODUCTIONS INC. 63 HOURS TOTAL	**63 hours** / Heartbeat, Dynasty, Angels, Nightingales	
WITT / THOMAS / HARRIS 49.5 HOURS TOTAL	**39.5 hours** / Golden Girls, Empty Nest, Beauty and the Beast	**10 hours in synd.** / It's a Living
DICK CLARK PRODUCTIONS, INC. 37 HOURS TOTAL	**20.5 hours** / Live: Dick Clark Presents, Liberace (in association with Republic Pictures) (movie); SPECIALS: The 24th Annual Academy of Country Music Awards, The 16th Annual American Music Awards, The 5th Annual Soap Opera Awards, Dick Clark's New Year's Rockin' Eve '89, Super Bloopers & New Practical Jokes, America Loves the Movies	**10 hours in synd.** / Dick Clark's Golden Greats, Hot! Hot! Hot! (in association with Jaguar Entertainment), Supermodel of the World (1989) (produced in association with Ford Models Inc. & TV Program Enterprises) (special); **6.5 hours on cable** / The 46th Annual Golden Globe Awards, Golden Globe Awards Preview Show, Going Home With Loretta Lynn and Crystal Gayle
MTM 31.5 HOURS TOTAL	**31.5 hours** / Annie McGuire, Tattinger's, Newhart	

Compiled by Cathy Goodstein and Chuck Reece.

SYNDICATION

Reality Sets In

There's a fissure in *Wheel of Fortune*'s success, but for some syndicators it comes too late.

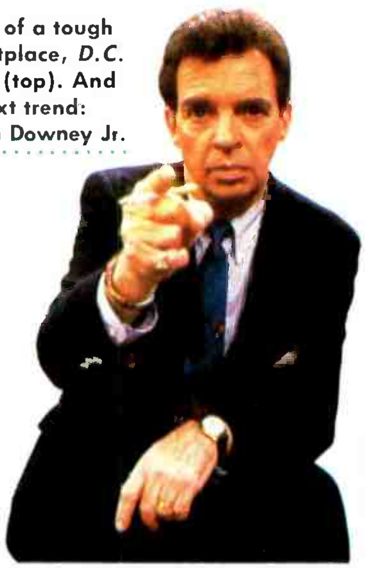
If a program director with a lineup of *Wheel of Fortune*, *Jeopardy* and *The Oprah Winfrey Show* had fallen asleep in September of 1987 and just now been jolted awake, there would be no reason to worry: The station would probably still be number one in the important access and early fringe time periods, with the three King World shows anchored at the top of the ratings.

That same programmer would have to snap back pretty quickly, however. *Wheel* has been showing demographic erosion for more than a year now, and there are signs that the American public's infatuation with the glitter of game shows is giving way. On the rise: reality-based magazine and talk shows, exemplified by *A Current Affair*, originally developed by Fox Broadcasting's owned station in New York, WNYW, and now syndicated by Twentieth Century Fox Television. Nearly as successful are the rough-edged talk shows such as *Geraldo* and, the most abrasive, *The Morton Downey Jr. Show*. At the 1989 conference of the National Association of Television Program Executives, almost every major syndication company—Paramount, Orion, Viacom and MCA—expected to have a *Current Affair* clone for sale. King World attempted a preemptive strike with *Inside Edition*, which was scheduled for launch in January '89; as of late October the syndicator had cleared about 30 percent of the country.

The rush to copy *A Current Affair* was only hastened this past fall, when the new crop of syndicated offerings for the '88-89 TV season hit the air without much impact. After all the hype—the record-breaking prices paid, the enormous budgets spent in preparation—perhaps there was no way the pretender King and Queen of syndication could help but disappoint their stations. But when *The Cosby Show* and *USA Today: The Television Show* debuted, the sound they made was neither that of a belly flop nor a rocket launch. It was, instead, the sound of a sigh: of relief, from the *Cosby* stations, and of exasperation, from those with *USA Today*.

The Cosby Show was sold under the rubric "The Cosby Factor," and was supposed not only to win its time period for stations but to lure viewers to the periods surrounding the show. In the latter, early results indicate, it failed: Viewers who tune in for *Cosby* pretty much take their dose and leave. But as a half hour of programming, *Cosby* is delivering a respectable punch. After two weeks of ratings, *Cosby* was improving on its lead-in in 13 of its 15 metered-market stations and was winning its time period in three markets. (In eight markets it placed second, and in three markets it placed third.)

Unfortunately, after having paid the highest fees ever for a syndicated show (see chart), stations need more than just a routinely successful half-hour's performance from *Cosby*. Still, the show isn't the disaster in reruns some predicted it would be.



Victim of a tough marketplace, *D.C. Follies* (top). And the next trend: Morton Downey Jr.

USA Today debuted to an unprecedented lambasting by the nation's TV critics. Viewers weren't much kinder. By the show's second week, industry gossip focused on when—not if—GTG, the show's syndicator, would be forced to pull the plug. Instead, GTG and *USA Today* executive producer Steve Friedman began fine-tuning the show, adopting a slower pace, changing staff and beefing up the four nightly segments.

After five weeks on the air, the show was limping along with an average 5.4 rating/11 share (based on metered-market overnight results). With a debt to the power of promotion, its best performances were on Gannett-owned stations in Atlanta, Denver and Washington, where the show averaged a 9.7/18, 7.9/21 and 7.8/15, respectively.

Early signs from other syndicated debuts ranged from mixed to discouraging. After six weeks of the new season, LBS's revival of *Family Feud* was averaging a mediocre 5.9 rating/12 share, placing third in three markets, fourth in six markets. Highly anticipated stabs at reality-based court and medical dramas seemed to miss the mark, with all three such shows—Lorimar's *Family Medical Center*, MGM/UA's *Group One Medical* and Republic's *On Trial*—termed disappointments by station reps. Even one potential bright spot, Buena Vista's *Live With Regis and Kathie Lee*, which was pulling 20 shares in some markets, failed to pull even a 10 share on seven of its metered-market stations.

For every syndicator burned by a failed new series, however, there are a dozen competitors cheering—and stepping in with a replacement show. In fact, had *USA Today* and *Family Feud* been resounding hits, most stations would have entered the winter program-buying season with a full plate. *Wheel of Fortune* has been renewed in many markets into the next decade. Buena Vista's *Win, Lose or Draw* and Fox's *A Current Affair*

Paying the Price in Syndication

YEAR AVAILABLE	OFF-NET SERIES	SYNDICATOR	PRICE PER EPISODE* (000)
'77	Mary Tyler Moore	Viacom	$ 200
'79	Happy Days	Paramount	400
'79	M*A*S*H	Fox	250
'81	Laverne & Shirley	Paramount	650
'83	Three's Company	D. L. Taffner	850
'84	M*A*S*H (renewal)	Fox	900
'86	The Fall Guy	Fox	1,100
'86	Magnum, P.I.	MCA	1,750
'86	Gimme a Break	MCA	1,000
'87	Cheers	Paramount	1,650
'87	Family Ties	Paramount	1,400
'87	The A-Team	MCA	950
'87	Hill Street Blues	Victory / MTM	1,100
'87	Silver Spoons	Columbia / Embassy	1,200
'88	Webster	Paramount	1,400
'88	The Cosby Show	Viacom	4,800
'88	Kate & Allie	MCA	1,200
'88	Night Court	Warner Bros.	1,100
'88	Mama's Family	Lorimar	515
'89	Who's the Boss?	Columbia / Embassy	2,500
'89	Growing Pains	Warner Bros.	910
'90	Head of the Class	Warner Bros.	950
'91	Alf	Lorimar	1,500
'91	Perfect Strangers	Lorimar	1,500

*Estimated total revenues per episode. Source: Paul Kagan Associates Inc.

have been performing decently. Two more hits could have caused deal-making gridlock.

The scarcity of time periods for new shows and the soaring costs of launching a program in syndication are forcing more companies than ever into co-ventures and other risk-spreading combinations. King World put together a "Research and Development Network" of station groups to test-run new shows. In addition, King World and MCA formed a joint venture to develop programming for first-run syndication, the networks and cable. Each company contributed $10 million to the start-up. LBS and Casablanca IV also announced a programming "alliance." More dramatically, producer Aaron Spelling agreed to merge his company with Great American Communications' Worldvision Enterprises to form Spelling Inc., and Warner Communications agreed to purchase Lorimar Telepictures.

Some smaller companies simply disappeared. Syndicast, distributor of *D.C. Follies*, a weekly political-satire show with a cast of foam puppets, ceased operations in August; the show was picked up by Raymond Horn Syndication for its second season and lives on.

Another casualty was Access Syndication, still open with a skeleton staff to service existing clients but not developing any new product. Ritch Colbert, former president of Access and now v.p. and director of programming for Television Program Enterprises, explains that small, independent companies have little chance for success in today's market. "If you are not studio-based, well-capitalized and/or associated with a broadcast group, then the odds are overwhelmingly stacked against you," he says. Access managed to place several shows on the air during the past two years, including *Beverly Hills Teens*, *Honeymoon Hotel* and *Getting in Touch*. None were big hits. "Access got shows on the air," Colbert says, "but a company that size cannot survive a failure. It costs between $500,000 and $1 million to launch a show—and that's a modest launch." Indeed, it's been widely reported that GTG set aside $40 million for the launch of *USA Today*.

Colbert argues that it wasn't a matter of poor programming decisions that doomed Access. As he says, "Nobody can pick a hit. King World, in a span of two years, launched *The Rock 'N' Roll Evening News*, *Headline Chasers*, *Nightlife With David Brenner*, *Comedy Club*, *True Confessions* [and developed] *The Tony Orlando Show*—six shows that did not succeed. The difference was, they were capitalized sufficiently and had asset shows [cash-generating machines such as *Wheel*] driving their company. Without that, no one could have survived those six launches and six failures."

There's no denying the high risks of first-run syndication, but even studio-backed syndicators live in a precarious environment now. Off-network programming no longer inspires the heated bidding wars it once did. Hour-long shows are rarely sold to broadcast stations. And except for top-notch performers—*Who's the Boss?* from Columbia, perhaps *Head of the Class* and *Growing Pains* from Warner Bros., Lorimar's *Alf* and *Perfect Strangers*—even half-hour sitcoms have to settle for moderate prices.

Syndication's savior is, ironically, broadcast TV's nemesis: basic cable. Cable's healthy appetite for programming is finally being matched by sturdy programming budgets, and cable nets are snapping up syndication's leftovers. USA Network, in fact, is beginning to look like an early-'80s time capsule for the Museum of Broadcasting, with a schedule that includes *Miami Vice*, *Airwolf*, *Riptide* and *Murder, She Wrote* from network TV, plus *Throb* and *Bustin' Loose* from first-run broadcast syndication. Lifetime has picked up *Cagney & Lacey* and *The Days and Nights of Molly Dodd*. The CBN Family Network has a host of older broadcast-network shows.

Cable's tastes probably will change soon. Some operators worry that consumers will balk at paying for cable networks that air shows they've seen once for free. Already, USA has announced a $250 million pool to fund original programming. But for now, this new market is helping to tide syndicators over until broadcast TV rebounds, or simply runs through its programming and comes back for more.

JOHN FLINN

Mr. and Mrs. Martin were ashamed to tell their friends that their son, Mitch, was the G.M. of a cable system.

Until he added American Movie Classics.

But when Mitch decided to carry American Movie Classics, it wasn't just to please his parents. It was for his subscribers, as well as himself. Because like everyone else, Mitch loves great movies. Movies with memories. Movies like they don't make anymore.

Like Mitch, you can give your subscribers a line-up of the greatest movies Hollywood ever made—with American Movie Classics. Uncut, commercial–free classics we've come to know and love.

It's no wonder that in a recent survey of people who don't have cable, more said they would like to have American Movie Classics than any other cable service. And subscribers give American Movie Classics an exceptionally high satisfaction rating.

Give your subscribers the thrill of a lifetime with movies that last a lifetime!

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PAY CABLE

Hard Work Pays

Laboring harder for smaller returns, the pay services fought for every subscriber in '88.

For pay cable services, the heat to compete was turned up in 1988. Faced with increasing audience fragmentation, escalating programming and marketing costs and growing competition from basic cable, pay services labored hard to redefine themselves while finding new ways to defend and expand subscriber bases and revenue margins. Those that did prospered. Those that didn't disappeared.

Pay services in 1988 had to work harder for smaller returns. "Subscriber growth has been running at record levels —pay has had one of its best years," says Larry Gerbrandt, senior analyst at Paul Kagan Associates. "But it has come at a bit of a price: Higher marketing and programming costs have shrunk some of the margins. Operators are holding firm on their foundation pay services, but they're discounting second and third pays like Cinemax and The Movie Channel. That's one of the pressures holding down overall growth on a net revenue basis."

Pay cable also fought to hold its ground against the VCR while fending off threats from a blossoming pay-per-view industry. Says HBO Inc. chairman and CEO Michael Fuchs: "There's only one trend, and that is fragmentation. Ever since the VCR came on the scene there's been a tendency to say the clock is ticking on pay, but I think pay is a terrific survivor. It adjusted to the VCR, and it will adjust to pay-per-view."

It must also adjust to basic cable, which, for the first time, is presenting a serious alternative to pay. USA Network is spending heavily to acquire and promote quality off-network fare and is commissioning its own movies. Turner Broadcasting System launched TNT this year, and Cablevision Systems Corp. decided to reclassify both its American Movie Classics and Bravo services as basic on certain systems. Such developments, says Viacom Inc. president and CEO Frank J. Biondi Jr., "will shrink the differential between pay and basic."

But Charles F. Dolan, Cablevision's founder, chairman and CEO—whose systems are offering pay services on a stand-alone basis to subscribers who don't buy basic cable—is sensitive to pay's situation: "The industry has tended to want to put everything new into basic, to enrich basic and make it a bit more price-worthy than it was. That is causing some starvation in the pay area. It's very important that cable operators improve marketing skills in the selling of pay services."

One heavily marketed pay service in '88 was the regional sports channel. Dolan's Cablevision introduced SportsChannel America in October, offering its programming through regional cable sports networks nationwide or as a full-time stand-alone service to areas without a regional sports network.

Despite increasing competition from other outlets, pay cable is now in 28.8 percent of all TV homes, up from 27.4 percent a year ago, according to the A.C. Nielsen Co. But audience fragmentation has taken a toll. The Playboy Channel, which lost more subscribers and cash flow in '88, announced that it would change the service from a sex channel for men to an R-rated channel aimed at the 24- to 49-year-old audience. The service will relaunch as Night Life in May of '89.

And in one of the year's biggest surprises, HBO discontinued its year-old Festival service. Despite having 50,000 subscribers and strong satisfaction ratings, the family-oriented channel couldn't overcome problems of channel capacity and muddled demographics.

On the positive side, pay services developed strategies they hope will carry them through '89 and into the next decade. HBO, its secondary service Cinemax and The Disney Channel added subscribers through heavier emphasis on original programming. Showtime Networks, while still spending heavily on exclusive product and still losing money, sold a minority interest in its pay services and revamped The Movie Channel. Heavy marketing and promotion boosted subscribers at Showtime and halted leakage at The Movie Channel.

With these gains, however, came the realization on the part of pays that they will have to work diligently in '89 to maintain the position they fought so hard for in '88.

PAUL NOGLOWS

Fighting fragmentation with original programming: HBO's *Dear America: Letters Home from Vietnam* and Showtime's *Brothers*.

Pay Cable Services

NETWORK SUBSCRIBERS	OWNER, HEADQUARTERS, LAUNCH DATE	CONTENT
HBO 16.5 million	Time Inc. New York, Nov. 1972	Movies, variety, sports, specials, documentaries, children's programming (scrambled)
Showtime 6.1 million	Viacom New York, July 1980	Movies, variety, comedy specials, Broadway adaptations (scrambled)
Cinemax 5.1 million	Time Inc. New York, Aug. 1980	Movies, comedy, music specials (scrambled)
The Disney Channel 4 million	Walt Disney Co. Burbank, Calif., April 1983	Original feature films, specials, series, classic Hollywood films and Disney cartoons
The Movie Channel 2.5 million	Viacom New York, Dec. 1980	Double features, film festivals, movie marathons (scrambled)
The Playboy Channel .5 million	Playboy Enterprises Los Angeles, Nov. 1982	70% original programming, comedy, music, talk shows; 30% acquired films

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BASIC CABLE

Basic Goes Hollywood

Cable's booming networks moved aggressively into production, with Ted Turner leading the charge.

When Ted Turner declared from Hollywood, "We'll be in meetings for the next twenty-five years," following a breakfast get-together with representatives from the production community last March, he sounded a new theme for basic cable. Until 1988, Hollywood had pretty much been pay cable's turf. But basic-cable networks, flush with increased revenues from advertising and operator fees, are seeking more original programming along with ratings-generating big names and events. This brings many cablers to the programmers' Mecca for the first time.

Gone With the Wind: TNT's debut, but not its mandate.

After announcing Turner Network Television, Turner Broadcasting officials made the rounds of Hollywood with a goal of creating one blockbuster program per month for TNT's first year. (That goal for original programs doubles in the second year and grows to one a week in TNT's third year, with all production to be covered by a fund of $250 million.)

TNT hardly had instant credibility as a buyer. Michael Dubelko, president of The Cannell Studios, commented later that "the TNT executives had a big appetite and a little purse," a situation ruling out major Hollywood producers and forcing Turner to work with smaller independents who, while they produce good quality, cannot maintain a steady flow of product. Nonetheless, Turner's dream of creating a new network to rival the Big Three brought him to Hollywood, and a number of others are on his heels. Furthermore, the TNT launch to a universe of 17 million subscribers was a record for cable. It was for many an affirmation of the virtues of operator investment in program services, and a show of operator faith in Turner's franchise.

USA Network, child of Hollywood parents MCA and Paramount, also announced plans to invest $250 million in original programming over a two-year period. Part of this amount was earmarked for production of 24 made-for-TV films. USA also upped its commitment to high-profile, off-network hour series by purchasing both *Miami Vice* and *Murder, She Wrote* from MCA. Other networks such as Lifetime, with its agreement to continue production of *The Days and Nights of Molly Dodd*, a critically lauded dramedy dropped by NBC, further illustrated ongoing changes in program-distribution windows.

But in October, USA suffered a serious blow when Jones Intercable pulled USA from 67 percent of its subscribers (as many as 800,000), citing the network's abundant reruns and violent content, and put TNT in its place. The actual reasons for the change are probably less important than the fact that an established cable network could be unseated while reportedly under contract to an operator.

Jones' move against a Hollywood-owned program service came just as the Tinseltown team was beginning to side with cable on some important regulatory issues. "The bottom line is, this will antagonize Hollywood, which in turn may create greater pressure for cable to be bound by financial-interest rules," speculated a Wall Street analyst.

Cable operators have reason to worry. The MSO community, which in 1987 established a pattern of equity investment in programmers—pumping $568 million into a flagging Turner Broadcasting—this year continued that practice by investing over $10 million in Movietime. Four MSOs plunged into programming by joining with Shelley Duvall to form Think Entertainment to produce for cable; Jones also launched a partnership to fund miniseries, movies and sports events.

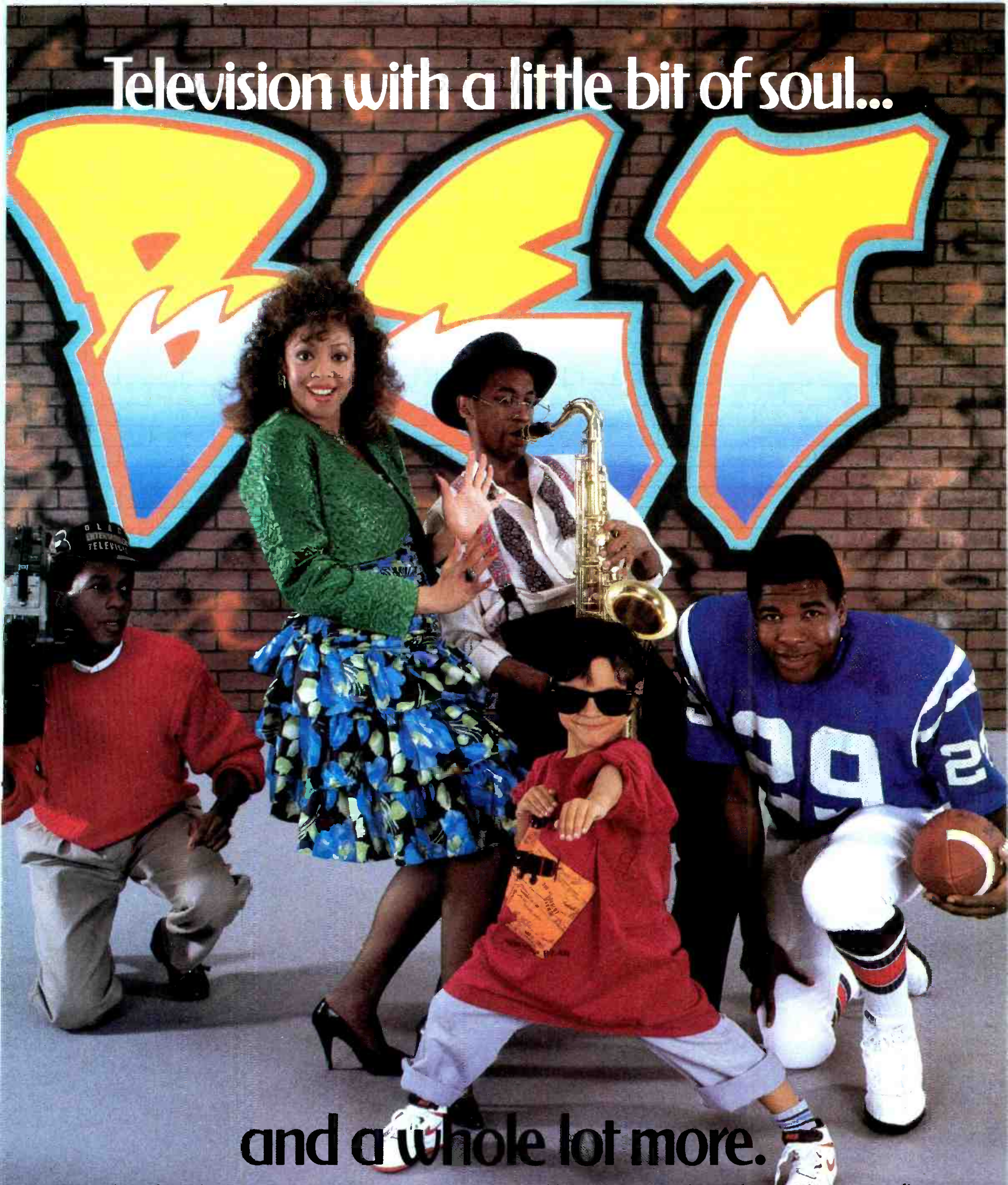
Such activity marks a coming-of-age of the cable industry. Now that cable reaches over 50 percent of the country's viewers and new system construction, with its nearly automatic subscriber growth, has slowed, cable is forced to provide more enticing programs to attract resistant customers. Steady growth in subscribers is what helped increase ad revenues, which Paul Kagan Associates estimates to have grown by 20 percent in 1988 to over $1 billion.

Cable's costly new offerings will not come easily. Some attribute Jones' booting of USA to its rate increase of 77 percent over two years. MSO discontent over fees is on the upswing, even though Kagan points out that the 1988 percentage increase in fees is the smallest in four years, estimating that programmer license revenues will rise from $423 million in 1987 to $527 million in 1988.

It is the same with spending on basic programming, with Kagan estimating a 16.7 percent increase in 1988 over 1987, bringing total basic program expenditures to $737 million. During the same period, Kagan expects gross ad billings and license fees to increase 20.2 and 24.6 percent, respectively.

If basic networks were available as investment vehicles they'd be good bets. "Right now, they have no reason to go public," adds Larry Gerbrandt, a Kagan analyst. "Owners can grow these networks on a revenue basis at a rate of 30, 40, sometimes even 50 percent a year for the next few years." Such growth will create a very healthy private-market value. "Right now the profits of Nickelodeon are helping Viacom's balance sheet. Why would you want to spin it off?" asks Gerbrandt. And program service owners probably won't—not until revenues flatten out.

KIRSTEN BECK



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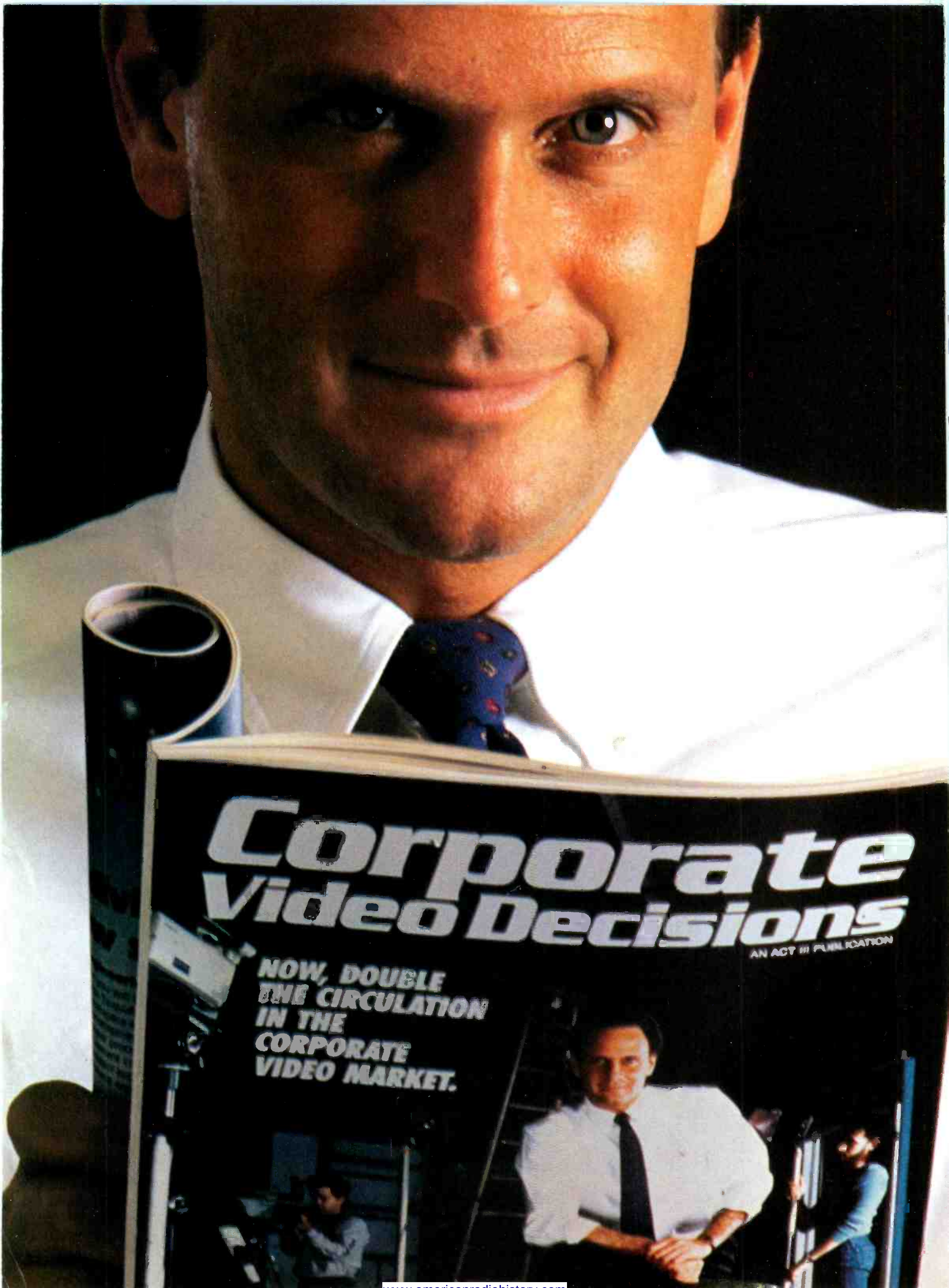
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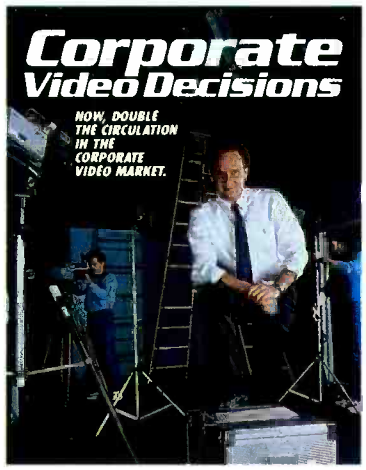

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PROGRAMMERS

Basic Cable Services

NETWORK / SUBSCRIBERS	OWNER HEADQUARTERS, LAUNCH DATE	CONTENT
ESPN 48.8 million	Capital Cities / ABC Bristol, Conn., Sept. 1979	College and NFL football, college basketball, auto racing, golf, other sports (scrambled)
CNN (Cable News Network) 47.1 million	Turner Broadcasting System Atlanta, June 1980	24-hour in-depth news (scrambled)
USA Network 46.2 million	Paramount Pictures, MCA Inc. New York, April 1980	Broad-based entertainment, sports (scrambled)
CBN Family Channel 43 million	Christian Broadcasting Network Virginia Beach, Va., April 1977	Family entertainment, comedies, Westerns, children's shows, documentaries, religious and inspirational shows
MTV 42.6 million	MTV Networks (Viacom Int. Inc.) New York, Aug. 1981	24-hour music videos, with interviews and concerts
TNN (The Nashville Network) 42 million	Opryland USA (Gaylord Broadcasting) Nashville, March 1983	Original concert specials, sports, live variety and classic Western movies
Nickelodeon 41.4 million	MTV Networks (Viacom Int. Inc.) New York, April 1979	Children's programming (scrambled)
Lifetime 41 million	Hearst, Cap Cities / ABC, Viacom New York, Feb. 1984	Entertainment and information programming for women
C-SPAN 38 million	(Non-profit corp. supported by cable companies and others) Washington, March 1979	Live coverage of U.S. House of Representatives, public-affairs programs, congressional hearings
Arts & Entertainment Network 36 million	Hearst, Cap Cities / ABC, NBC New York, Feb. 1984	Comedy, drama, documentaries, performing arts
The Discovery Channel 35.8 million	Cox Cable, Newhouse Broadcasting, United Cable, Tele-Communications Inc. Landover, Md., June 1985	Documentaries covering nature, history, science / technology, world adventure
The Weather Channel 34.3 million	Landmark Communications Inc. Atlanta, May 1982	International, national, regional and local weather forecasts and features programs
CNN Headline News 33 million	Turner Broadcasting System Atlanta, June 1980	24-hour news in brief (scrambled)
FNN (Financial News Network) 31 million	FNN New York, Nov. 1981	Broad range of business and financial news
VH-1 28 million	MTV Network (Viacom Int. Inc.) New York, Jan. 1985	24-hour music videos for the 24-49-year-old audience
BET (Black Entertainment Network) 20.7 million	Robert L. Johnson, Tele-Communications Inc., HBO, Great American Comm. Co. Washington, Jan. 1980	Music videos, jazz, gospel, sports, news, public affairs, classic movies, specials
SCORE 20 million	Financial News Network New York, May 1985	Sports information and events
VISN (Vision Interfaith Satellite Network) 18.4 million	National Interfaith Cable Coalition New York, Sept. 1988	Religious and "values-oriented" programming
TNT (Turner Network Television) 17 million	Turner Broadcasting System Atlanta, Oct. 1988	24-hour entertainment programming, original and children's programming, movies
C-SPAN II 14.2 million	(Non-profit corp. supported by cable companies and others) Washington, March 1979	Live coverage of U.S. Senate and congressional hearings, public affairs
American Movie Classics 14 million	Cablevision Systems Woodbury, N.Y., Oct. 1984	Hollywood classics from the '30s to the '70s (scrambled)
Tempo Television 13.7 million	Tempo Enterprises Inc. Tulsa, Okla., Jan. 1979	International shows, how-to, classic movies, sports
Family Network 13.2 million	Liberty Broadcasting Network Forest, Va., May 1988	Family entertainment and inspirational
TLC (The Learning Channel) 13 million	Appalachian Community Service Network, Biotech Capital Corp., Washington, 1984	Adult educational and informational programming
The Silent Network 11 million	Sheldon Altfeld, Silent Network Inc. Los Angeles, Jan. 1984	Entertainment and information with sign language, captions, sound
Travel Channel 11 million	Trans World Airlines Marketing New York, Feb. 1987	24-hour travel information, entertainment, features
EWTN (Eternal World Television Network) 10.5 million	(Non-profit, supported by donations) Birmingham, Ala., Aug. 1981	Family programming with a Catholic point of view
The Inspirational Network 10.5 million	Heritage Village Church and Missionary Fellowship Charlotte, N.C., April 1978	Religious programming, talk shows and specials
Movietime Channel 10 million	Movietime Channel Inc. Hollywood, Calif., July 1987	24 hours, promotes movies at local theatres and cable televison programs
Trinity Broadcasting Network 8.5 million	TBN Inc. Tustin, Calif., April 1973	Religious programming, including talk shows, exercise, music, health, teaching, and children's programs
Country Music Television 8 million	Caribou Communications Nashville, March 1983	24-hour country music videos and interview clips
ACTS-Satellite Network 7 million	Southern Baptist Convention Fort Worth, Texas June 1984	Family, inspirational (30% religious, 70% entertainment and information)
EPG (Electronic Program Guide) 6.4 million	United Video Inc. Tulsa, Okla. Jan. 1980	Cable programming schedule

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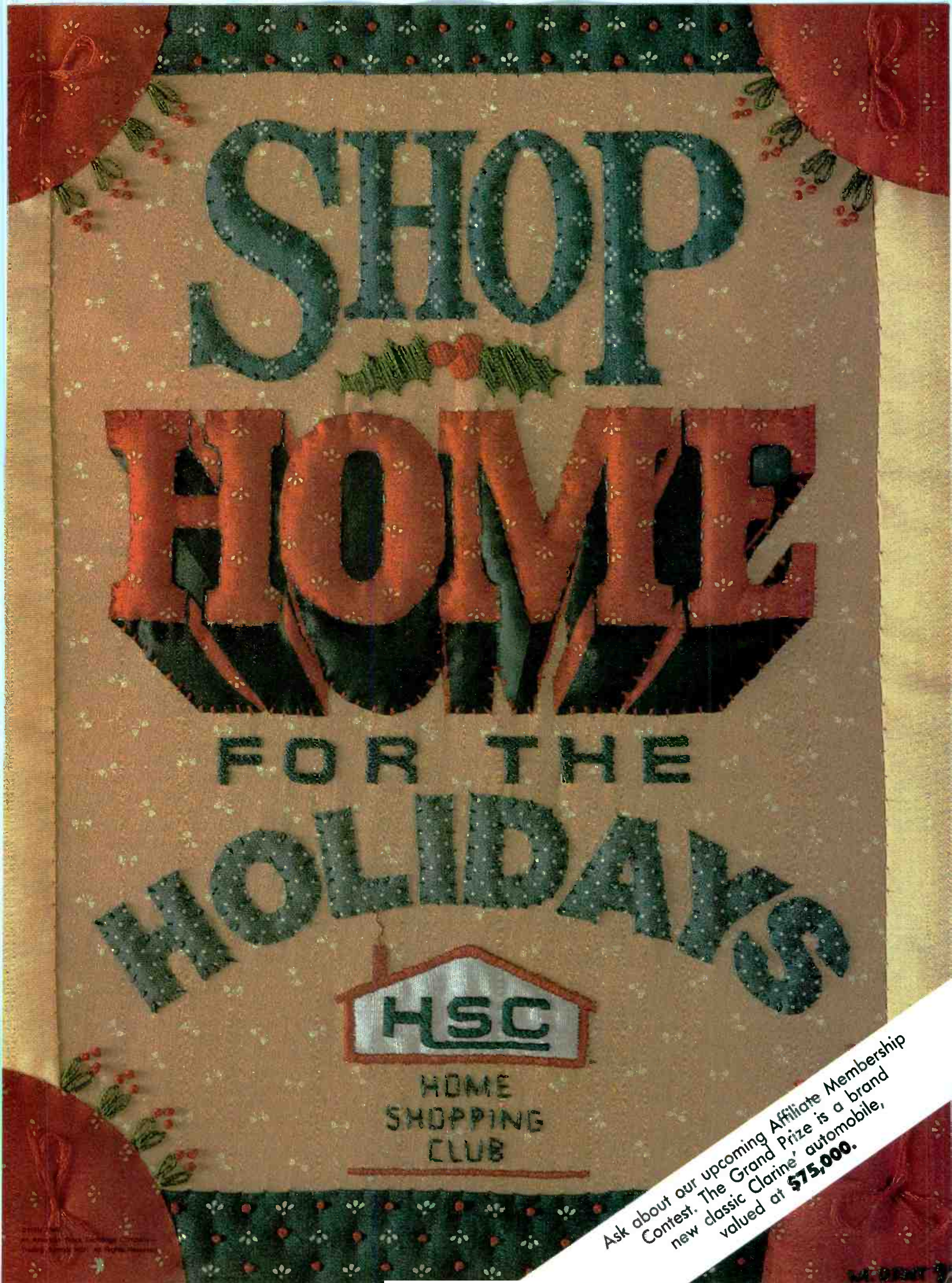
PROGRAMMERS

NETWORK / SUBSCRIBERS	OWNER HEADQUARTERS, LAUNCH DATE	CONTENT
Prevue Guide 6.2 million	United Video Inc. Tulsa, Okla., Dec. 1987	Cable programming schedule
Univision (formerly SIN) 4.7 million	Hallmark Cards Inc. Kansas City, Jan. 1987	Spanish-language newscasts, specials, novelas, sports, movies, children's programming
Nostalgia Channel 3.5 million	Nostalgia Network Inc. Dallas, May 1985	Classic movies ('30s to '60s), comedies, vintage TV, drama and adventure, music videos (big band-'40s and '50s), celebrity interviews, newsreels
Bravo 1.3 million	Cablevision Systems Woodbury, N.Y., Dec. 1980	70% American independent and international films, 30% performing arts specials
Galavision / ECO 1 million	Univisa Los Angeles, Oct. 1979	Spanish-speaking news; on Sundays only, movies and sports
Update .2 million	X*Press Information Services Denver, May 1984	24-hour alpha-numeric news, including national and international weather, sports, stock market

Superstations

SUPERSTATION / SUBSCRIBERS	OWNER / HEADQUARTERS LAUNCH DATE, CARRIER	CONTENT
WTBS 45.6 million	Turner Broadcasting Systems / Atlanta Dec. 1976, Tempo Enterprises	Family programming including classic movies, original sitcoms, sports (scrambled)
WGN 24.8 million	The Tribune Co. / Chicago Oct. 1978, United Video	Children's, sports, syndicated programs, prime time movies and sitcoms (scrambled)
WWOR 12 million	MCA Inc. / Secaucus, N.J. April 1979, Eastern Microwave	Movies, sports, children's programs (scrambled)
WPIX 9.7 million	The Tribune Co. / New York June 1984, United Video	News, entertainment, sports, children's programs, movies (scrambled)
KTVT 2.5 million	Gaylord Broadcasting / Dallas July 1984, United Video	Family entertainment, sports programming, newsbreaks (scrambled)

RESEARCH BY JAMES BAMFORD AND AGNETE LUNDVIK.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HOME SHOPPING

Shopping Shakes Out

The cacophonous flea market has lost voices, but selling is moving beyond traditional TV.

During 1986 the Home Shopping Club arrived over Concord TV Cable at the McAnally home in Clayton, Calif., a trim suburb near Oakland. Betty McAnally, a housewife with children grown, became "glued" to it.

"I would come home, flip it on, and watch it, watch it, watch it," she recalls. She didn't start ordering immediately. "I passed it up quite a few times," she says. "When they would put a caller's voice on, my husband would say that it was a phony. I still remember my first order, a ceiling fan. After I ordered, they said, 'Hold on a minute.' Then I could hear myself answering the questions that were on television. 'Where are you going to put the fan?' 'The kitchen.' After that, my husband was afraid I would take all our money and give it to Home Shopping Club."

Home Shopping Networks Inc., the Tampa, Fla., merchandiser behind Home Shopping Club, for a time was hoping that customers like Mrs. McAnally might do just that. HSN, after ten years of local operations, began national cable distribution in July 1985 and made its initial public offering of stock in 1986. It was ballyhooed as the ideal entrepreneurial stock play. Annual sales through August 1985 averaged more than $11 million. Through August of 1987, they had rocketed to $582 million, according to HSN's 1987 annual report. The stock price mushroomed to a high of $282 (adjusted for two splits), in January of 1987. In May the company's co-founder, Roy Speer, was on the cover of *Venture* magazine, praised as a "billionaire."

Other firms raced to secure a piece of the boom, and at its height shopping by television was being offered by 30 or more purveyors at once, using cable, broadcast and even, briefly, syndication. The result was clutter—too many products being hawked by too many firms. Meanwhile, cable penetration, which remained the most important source of new customers, could not sustain annual percentage growth in double digits as it burrowed into the majority of American homes. Multichannel shopping was beginning to appear to cable operators as a cacophonous flea market.

A shakeout followed last year. Many services folded or merged, throttling back projections and rhetoric. TV merchandising is settling in with about $1 billion in annual sales, shared mostly by a half-dozen firms, according to analyst Larry Gerbrandt of Paul Kagan Associates. In addition to the three largest—QVC Network, Cable Value Network and HSN—the industry includes Financial News Network's Telshop, J.C. Penney and Shop Television Network Ltd.'s Shop TV, plus several regional competitors. There are a total of "15 or so" shopping services, he says.

In retrospect, any core customer, like Mrs. McAnally, might have tipped the market that hype was one thing and sustaining the giddy growth another. She says: "There were things I could have lived without—the earrings for pierced ears with about seven different gems. Now, watching it is not that important anymore. I come home and don't turn it on." As of September 1988, stock in HSN was selling at around $3.40, but the company had survived. Currently it distributes two 24-hour live shopping feeds by satellite. Judy Ludin, director of corporate communications, says the company is here to stay: "We're not a Hula Hoop." Even reformed TV shopping addicts return now and then: For the third year, Mrs. McAnally is doing her Christmas shopping by television. "They have everything you want," she says.

And the selection is growing. Product lines are improving, with more quality name brands, and expanding into new areas. An important change is home shopping's move beyond merchandise to sell insurance, financial services and legal services. Home-shopping executives see the sale of services as the business' ticket into the 1990s. Some competitors have added the minor wrinkle of distinct program sub-segments, but these often are left vague. For example, CVN airs *The Millionaire Hour* and *Beautiful You*, but the segments aren't always distinguishable from other programming.

Services that weathered the shakeout all offer unconditional returns (usually for 30 days) and work hard to make ordering fast and simple. Using club memberships or prizes, bonuses and even special credit cards, every service tries to differentiate

Top National Home Shopping Networks

NAME SUBSCRIBERS (in millions)	OWNER	CONTENT
Home Shopping Network 77 (includes HSNII)	Home Shopping Network Inc., St. Petersburg, Fla.	Electronics, jewelry, housewares, clothing, cosmetics, health products, collectibles
Home Shopping Network II	Home Shopping Network Inc., St. Petersburg, Fla.	Same merchandise as HSN I
Cable Value Network 20	CVN Companies Inc., Minneapolis	Electronics, tools, jewelry, toys, clothing
QVC Network 13	QVC Network Inc., West Chester, Pa.	Jewelry, electronics, appliances, toys, games, clothing
Telshop 11.5	FNN New York	Brand-name merchandise: Jewelry, housewares, clothing, travel services

Source: the shopping networks.

ILLUSTRATION BY DAVID K. SHELDON

itself by promoting an almost evangelical sense of belonging among viewers.

The Council of Better Business Bureaus early in 1988 evaluated television shopping, using staff to make 1,818 comparison buys in retail stores. The BBB's findings praised the television merchandising services for their fulfillment on orders but found the discount arithmetic fanciful, noting that the televised product was available at stores in only 14 percent of the cases. And home shopping's "claimed retail prices," the council said, were higher than 96 percent of the found retail prices.

Shoppers compose only 10 to 20 percent of the total television audience. That share, according to Kagan Associates' Gerbrandt, is "comparable with any television program, including successful ones of the networks."

The great bulk of purchases are made by a small portion of the total shopping audience, however. Now under way are efforts to persuade more viewers to buy, and to provide electronic shopping in different formats, or through different channels, with the hope of gaining the allegiance of new audiences. With these plans, shopping is but one sidelight to the emerging struggle of the 1990s over what channels of copper, coaxial cable and optical fiber will be entering the home, and under whose auspices.

"We are seeing an evolutionary process, headed toward giving consumers precise answers, and requiring much more processing and transactional manipulation of data," according to Frank G. Washington, a consultant in Sacramento, Calif., who has worked on consumer and business information systems for information concerns such as Times Mirror Co. "By comparison," he says, "current services are static."

What Washington means is that home-shopping services may find their real future beyond traditional television—in interactive electronic services. The move will be tough, he says, because of the need to overcome ingrained consumer habits. "This will require very deep pockets and a very high pain threshold, or instead, carefully devised niche products that build loyalty in small pieces," Washington says.

The move is already under way. In 1988, J.C. Penney Co. introduced Telaction, an interactive shopping service, on a Post-Newsweek Cable system in Deerfield, Ill. Customers can use a touch-tone phone to select a product category, summon still images and catalog data, and then place an order. Gerbrandt notes that this is the first videotex project whose principal reason for being is to offer merchandise for sale in the home. Among other projects in development are TCI's X*Press service, which uses videotex menus as a complement to the company's stake in CVN; Main Street, an interactive fiber-optic system under development by GTE; and Prodigy Interactive Service, a personal computer information utility in which IBM and Sears have invested over $400 million (see related story in this issue).

Among niche projects, the AppleLink-Personal Edition of Quantum Computer Services Inc. takes home shopping full circle, offering a range of interactive programs that are designed and scheduled in segments, much like broadcast TV. As a programmer would schedule shows, AppleLink has taken the personal computer and scheduled on-line offerings. Already, users can buy information services via AppleLink. The service is marketed through Apple to its computer owners. Tom Morgan, vice president of planning and development for AppleLink, says, "We're searching for kinds of communications-based services that are addictive to average persons." In that way, research and development on multiplayer games and group "chat" processes could reveal ways to scan and order products from the home and have fun doing it. Eventually, what may emerge is high-involvement home shopping, reaching a market not yet tapped by the cool, low-involvement presentation on traditional shopping channels.

MICHAEL COUZENS

PAY PER VIEW

At the Crossroads

There's still no profit, but pay-per-view's audience and reach are rising dramatically.

Decoder boxes that take movie orders. Field tests of anti-videotaping technology—two kinds. And long-running merger talks among some of the biggest players. The nascent pay-per-view cable industry expended enormous amounts of technological and financial effort in 1988 on these and other issues—all, it seems, so that a few hundred thousand people could watch *WrestleMania IV*.

Pay-per-view cable came within spitting distance of a crossroads in 1988. Viewership and reach increased dramatically, serious revenue (if still no profits) began to accrue and the stormy relationship between the PPV and home-video industries grew cordial.

One reason is the year's major development: the movement of PPV movies' window of distribution from generally before video release to just after. This placated video retailers nervous about home taping and prompted field tests of the Macrovision and Eidak PPV anti-taping systems. Though highly controversial, anti-taping technology is likely to see at least tentative use in 1989. Proponents think the earlier window it allows outweighs possible consumer annoyance.

Controversy aside, PPV business is vigorous. Analyst Paul Kagan Associates Inc. found a 24 percent rise from 1987 to '88 in the number of installed addressable decoders, from 15.2 million to 18.9 million—along with a whopping 70 percent jump, from 4 million to 6.8 million, in the number of homes being offered at least one PPV service.

Pay–Per–View Networks

NAME	ADDRESSABLE HOMES
Jerrold's Cable Video Store	185,000
Home Premiere Television	1,400,000
Playboy on Demand*	2,200,000
Request Television / Request-2**	3,700,000
Viewer's Choice I / Viewer's Choice II**	3,500,000
Zap! Movies	80,000
Graff PPV	750,000

* Available only in addition to pay-cable service.
** Available only in addition to primary PPV service.

Helping spur this growth is a proliferation of impulse decoders, through which consumers can order programs via remote-control units instead of through customer service representatives or automatic number-identification phone technology. A study from Paramount Pictures' Video Division found impulse technology produced a 13 percent buy rate for top movies—almost twice the rate of automatic number identification and nearly three times that of customer service representatives.

Programming tastes are growing up more grudgingly, with pro wrestling still the reigning and undisputed champion. In a PPV record for raw viewership, 9 percent of 10.1 million addressable homes shelled out $19.95 apiece to watch hyperthyroidic musclemen slam each other around in *WrestleMania IV* last March, according to the World Wrestling Federation. Even such a lesser event as *SummerSlam '88* drew 814,000 at $14.95. By comparison, the Mike Tyson-Michael Spinks boxing match, at $35 per ticket on average, reached only about 600,000 homes (with a caveat that it was marketed heavily via closed-circuit TV).

All this action hasn't been lost on the industry's gamblers. First came a proposed merger of PPV leaders Request Television and Viewer's Choice. It fell through, asserts Request president and CEO Jeffrey C. Reiss, because VC owner Viacom initiated a stock offering and Request preferred to remain private. Scott Kurnit, president of Viewer's Choice, flatly denies that. "We have never seriously considered going public," he says.

The coming year isn't likely to see a shakeout. Instead, more niches will be carved. Programmers will increasingly target audiences on a city-by-city, even system-by-system, basis. And programmers say they're becoming more realistic in terms of which sports and musical events they can credibly obtain and sell. "Forget the Super Bowl," advises Request's Reiss. "Think 'created events' "—such as *WrestleMania*.

There is one hitch in the niche. Touchtone Video Network, financed partly by telephone and satellite-gear manufacturer Uniden, plans to launch a home-dish-delivered PPV system in '89. Touchtone will transmit ten films simultaneously. But perhaps most interesting is the involvement of AT&T; in addition to leasing transponders and uplink from AT&T, Touchtone will charge viewers via phone bills. And when the phone company steps into the ring, even Hulk Hogan trembles.

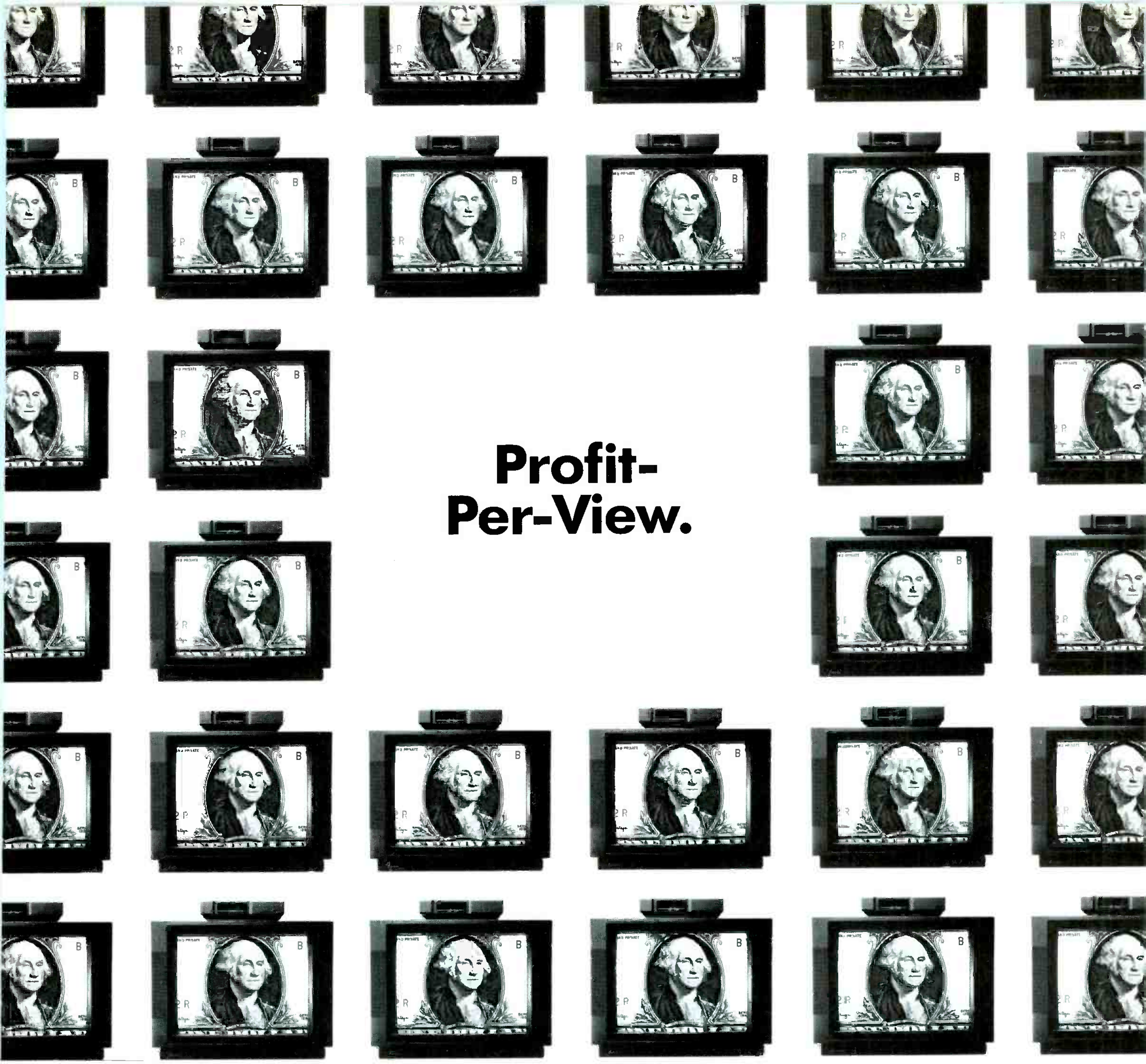
FRANK LOVECE

Consumer Spending: Pay-Per-View vs. Competitors

Spending per medium—and each medium's percentage of total spending—now and ten years from now.

MEDIUM	1987 SPENDING (Billions)	% of TOTAL	1996 SPENDING* (Billions)	% OF TOTAL
Pay-per-view	$0.06	0.3%	$ 2.60	6%
Cable TV	6.59	32.0	17.32	40
Home video	6.18	30.0	12.99	30
Movies	3.91	19.0	5.63	13
Pay cable	3.71	18.0	4.76	11

Source: Paul Kagan Associates. *Projected



First run hits, first on TV. That's how Request Television® turns pay-per-view into profit-per-view! Our marketing strategy of featuring Hollywood's best is one big reason why Request affiliates have doubled their monthly buy rates over the past year. And in fact, those using advanced order-taking technology have increased monthly buy rates four to five times.

With Request you gain access to all the films from all of the major studios. Add Request 2 and our two channels give you more showings of the mega-hits with staggered start-times as well as "Drive-In" winners. Request and Request 2 outperform any multi-channel pay-per-view network combination in the marketplace.

Stop by our booth at the Western Show and find out how Request can work for you. With Request it really does pay to ask.

REQUEST®

First Run Hits. First On TV.

SPANISH-LANGUAGE TV

Into the Mainstream

Spanish-language TV is shedding a frumpy past for the professionalism of its Anglo counterparts.

Frank and Ed, the amiable old coots who shill Bartles & Jaymes wine cooler, were recently seen at a Hispanic nightclub where salsa dancers swirled around them. Then there was the Hispanic baseball game at which Frank, in fractured Spanish, ordered a wine cooler and ended up ordering drinks for the entire section by mistake.

The spots, aired by E. & J. Gallo Winery as part of a test, are one small measure of the continuing transformation of Hispanic television.

Buoyed by well-heeled Anglo investors and advertisers, 1989 may be the year that Spanish-language TV finally sheds its frumpy past and lays claim to the slick professionalism of its Anglo media counterparts.

On the way out: the glut of imported *novelas* (soap operas), low-budget ads and limited audience penetration. The coming trend: domestically produced, demographically targeted programs reaching most of the nation's 20 million Hispanics.

By 1988 U.S. Hispanics were finally getting a taste of the video smorgasbord that Anglo viewers take for granted. They could sample Spanish-language game shows, music videos, presidential convention coverage, sitcoms, entertainment news, miniseries, domestically produced soap operas and women's magazine shows. The upcoming year promises even more program innovation with Hispanic knockoffs of *Late Night With David Letterman*, *Good Morning America* and Barbara Walters-style celebrity interviews.

The two Spanish-language networks, Telemundo and Univision, are betting that their slick new programming will attract new viewers, impress top advertisers—and, in time, generate hefty profits. The robust growth in Hispanic TV ad revenues over the past few years —from $118 million in 1984 to $223 million in 1987, according to *Hispanic Business* magazine—suggests a dazzling future.

What propels the market are some compelling demographics. "Hispanics represent about 6 percent of any advertiser's audience," says Henry Silverman, president and CEO of Telemundo, "yet advertisers spend less than 1 percent of their budgets on Hispanic TV." Persuading advertisers to boost that 1 percent outlay to just 3 percent would bring in an additional $500 million. That would triple current revenues.

The two networks like to point out that Hispanic Americans tend to be younger and more brand-loyal, their families are larger than the national average and they live in a handful of geographic clusters, making them easier to reach. According to *Hispanic Business*, U.S. Hispanics in 1988 commanded an estimated $152 billion in purchasing power, up from $134 billion in 1987.

In order to exploit these promising numbers, however, the fledgling networks must first hunker down to some hard, gritty work. They must build new management teams, improve audience research, cultivate more major corporate advertisers and produce American-oriented shows that appeal to a vast audience with largely untested preferences.

The transformation of Hispanic TV began in 1986 when financier Saul Steinberg's Reliance Capital Corp. cobbled together Telemundo by acquiring five UHF stations and 15 affiliates, giving it a 66 percent penetration of U.S. Hispanic households. That reach could top out at 80 percent in 1989 after several new affiliates go on the air. (To reduce its debt and streamline its holdings, Telemundo announced in 1988 that it was considering the sale of its valuable San Juan, Puerto Rico, station WKAQ-TV.) The powerhouse player in Spanish-language TV remains Univision, a station group and network assembled by Hallmark Cards Inc. over the past two years. Hallmark owns 75 percent of Univision, and First Chicago Venture Capital owns the remainder. Previously known as SIN, for Spanish International Network, Univision reaches a broader audience—83 percent of Hispanic households. An important long-term asset may turn out to be the newly appointed chief executive officer, J. William Grimes, whose strategic savvy transformed once-lowly ESPN into a cable colossus.

While Telemundo and Univision will surely do their best to outperform each other, a rapidly expanding market will shower its ample rewards on both; industry ad revenues in 1989 are expected to rise 20 to 30 percent. Newcomers are trying to carve out their own niches; Galavision's ECO, a 24-hour-a-day basic cable service featuring news and information, was launched in September.

And in pay television, Home Box Office in January will begin offering selected shows with both Spanish and English sound tracks. Subscribers with stereo television sets will be able to receive the Spanish audio track by using the "second audio program" option available on all stereo TVs.

"Hispanic Americans have been looking through a periscope for some time," says Joaquin Blaya, the new president of the Univision network, "but the whole ship has yet to surface." It may soon break above water with a vengeance.

DAVID BOLLIER

The Rapid Growth of Hispanic TV's Ad Revenues
(in millions of dollars)

	1984	1985	1986	1987	1988	1989
National	$ 48	$ 55	$ 64	$104	$275*	$338.3*
Local	50	65	78	118.5		
Independent	20	20.5	42.3	**		
Total	118	140.5	184.3	222.5	275*	338.3*

Source: *Hispanic Business magazine*, plus *Channels* estimates

*Estimations, based on discussions with industry executives, include both national and local revenue.

**The independent category disappeared when the Telemundo network was formed.

PUBLIC TV

Shocked Into Action

Negotiations in Washington promise to alter public programming permanently.

Public television in 1988 was consumed by potentially revolutionary developments that few in the industry imagined just 12 months earlier, developments that may shape public TV's future.

After months of Washington infighting, Congress last October directed the Corporation for Public Broadcasting—the agency that administers almost all government funds for public broadcasting—to work with the Public Broadcasting Service and the nation's public TV stations on a new plan for distributing CPB's annual $40 million national TV program fund. The National Association of Public TV Stations, the industry's lobbying and planning group, responded by putting together a 30-member task force—drawn from all segments of public TV—to come up with proposals for national programming.

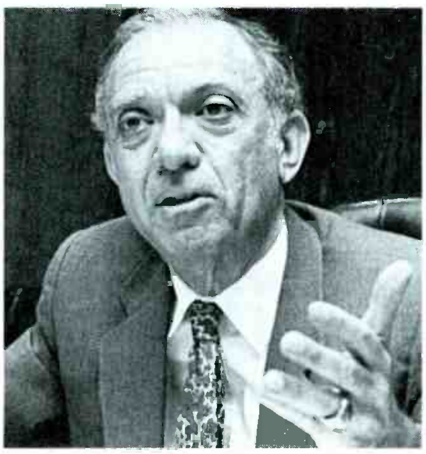
The upheaval began in late 1987 with congressional hearings that appraised public TV's performance after 20 years of regular federal funding. It continued in the spring of '88 at the triannual congressional authorization hearings. Criticism from independent producers, minorities and others, on top of a yearlong barrage of negative press, prompted charges from key congressmen that public TV had not fulfilled its promise. House and Senate authorization bills proposed three years of funding increases, plus $200 million to replace public broadcasting's aging satellite system. But both bills contained plans that tied the industry in knots.

Despite public TV's objections, a report accompanying the bill advised CPB to create a $6-million-a-year independent producers' program service. It also suggested increasing annual funding for minority services from $800,000 to $3.8 million, and asked CPB to submit annual reports on public broadcasting's service to minorities.

In the Senate, after private discussions with officials from Public Broadcasting Service and the National Association of Public TV Stations, the Senate proposed to eliminate 80 percent of CPB's national TV program fund and assign that money to public stations instead. Wounded CPB officials were furious and charged that dispersing the money would jeopardize major series including *The MacNeil/Lehrer NewsHour* and *Great Performances*. Some public TV executives say the disagreement demonstrates the industry's inability to control its destiny.

Despite the authorization impasses, House and Senate appropriations committees moved ahead, but provided CPB with only $242 million for fiscal 1991, a modest increase from 1989 and 1990 appropriations. Even this was more than the Reagan administration and its congressional allies wanted to allocate.

CPB president Donald Ledwig.



CPB chairman Howard Gutin.

PHOTOGRAPHS BY JOAN MARCUS

Senate Commerce Committee chairman Ernest Hollings (D-S.C.) also jumped into the fray late in 1987 with a proposal to tax commercial broadcasters on property sales and put the proceeds into a public-broadcasting trust fund. The Senate soundly defeated the bill, but some Capitol Hill observers expect the proposition to resurface next year.

In the midst of these battles, PBS in July proposed restructuring the way public TV handles national programming. After producing a dismal assessment of the industry's performance in the new, cable-heavy media environment, PBS asked its 332 member stations to grant it more power over public TV's national prime time schedule. Specific proposals: tripling PBS program funds to at least $42 million, letting PBS negotiate more aggressively with major producers, agreeing to same-night carriage of the national schedule in almost every market and increasing promotion monies. Station managers and programmers broke from tradition and agreed that public TV must increase central control over national programming. But the station executives just as strongly questioned whether PBS could handle the job. On the heels of this debate, PBS programming chief Suzanne Weil resigned in September after eight years on the job.

Audience figures released in late summer weren't promising. Public TV's prime time audience dropped 11 percent, to a 2.5 rating, from an all-time-high 1986-87 rating of 2.8. More encouragingly, industry income rose 13.9 percent for the year ending September 30, 1987 (the most recent statistics available), to just over $1 billion. An 11 percent jump in viewer contributions—to $244.5 million—helped fuel the increase. But stations last year spent more time on the air begging.

Public TV's volatile year signals a recognition by many that public TV needs major reform if it is to prosper in the coming years. "The ball is in play," says William McCarter, president of public TV powerhouse WTTW in Chicago. The question now is whether public TV can control it.

J.J. YORE

HOME VIDEO SOFTWARE

Good-bye, Easy Growth

With demand for videocassettes leveling off, distributors look harder at marketing efforts.

The slowing growth of the retail market for home video in 1988 reflects this fact: You can sell only so many videocassettes. The ramifications of finite demand are being felt all the way up the video distribution ladder.

As demand slows, marketing is becoming the battle cry for studio and independent sources of prerecorded cassettes, for wholesalers and for video rental shops. Their artillery is a combination of alternative distribution, promotional tie-ins and, to a lesser extent, placing advertising on cassettes. These plus pricing are primary techniques for bolstering share of market.

The slowdown in growth didn't make 1988 a bad year for the industry; it just wasn't as good as '87. Unit sales of prerecorded cassettes, at wholesale, grew 17 percent, respectable despite being only half the rate of the year before. According to Vidmar Communications, a Hollywood publishing, research and consulting firm, wholesale dollar volume gained almost 14 percent to $3.8 billion—a rate of growth a little less than half what it had been, but again expansion with which most industries would be thrilled.

At retail, the news was less invigorating and more indicative of what the future holds. The rate of growth slipped to single digits, 8-plus percent, bringing total retail value of rentals and sales of prerecorded videocassettes to $7.1 billion. The rate of growth the previous year was better than 20 percent; the forecast for 1989 and 1990 is for 4 to 5 percent annual growth (see table).

The independent video label will never be extinct, but it may have reached its nadir—in terms of numbers and success—in 1988. There were consolidations (Lorimar is in negotiations to be purchased by Warner) and attempts at consolidations that failed (Prism and Atlantic). There were labels that entered distribution deals with major studios and promptly disappeared (Palisades into Paramount). And large independents entered distribution deals with other major independents (Nelson and Orion), trial marriages preceding, observers say, more formal commitments.

But no matter how many hits a studio or independent has and how great the demand for them, the bottom line for the video rental shop is that demand now appears constant. *The New York Times* termed the summer of '88 "a blockbuster summer of blockbusters," but more blockbusters do not mean more people renting more movies. They mean people will rent more blockbusters more often—and rent everything else less often. Given that fact, the industry now revolves around the ability to satisfy demand while it's hot. Leasing schemes are therefore changing as studios and distributors try to milk blockbusters for more profit. One new method has a studio or distributor leasing a copy of a tape to a retailer for a fee, plus a commission on every rental. That's called pay-per-transaction and will be a major focus in 1989.

In 1988, the studios moved increasingly toward diversified marketing techniques, adapting much from packaged-goods companies and in fact tying in with beverage, snack and prepared-food marketers to reach the studios' target audiences.

For example, Disney's fourth-quarter holiday campaign included cross-promotions with Coca-Cola, Procter & Gamble and McDonald's, in which Disney's videocassettes were promoted in supermarkets, convenience stores and McDonald's restaurants. That meant exposure in more than 100,000 outlets nationwide, compared with 25,000 or so video rental shops. In similar arrangements, Vestron linked with Nestle, Nelson with Chun King and Tsingtao, MGM/UA with M&M/Mars, MCA with Pepsi, Planters Snacks, A&W and so on.

"In a supermarket, you're vying for exposure against packages of cookies, so tapes really stand out," MCA's Roger Mill, who was involved in that company's deal with Pepsi to promote *E.T.*, told *epm Report*. Supermarkets may have rental counters, but in a deal with Pepsi (or most of the other companies mentioned above), the display piece is in the aisle where the food or beverage is sold.

Additional pressure comes from the studios' interest in switching from a rental-dominated market to a so-called sell-through market for home video. A few titles, such as *E.T.* and *Cinderella*, have been released at prices consumers can afford—under $30. In retail dollars, the ratio of rentals to sales in 1988 was estimated by Vidmar at about 65 to 35. That ratio isn't expected to change significantly over the next five years.

What is the overall outlook? The next great growth spurt—at least three to five years down the road—will likely be sparked by a change in technology. The question is, Will that technology be video CDs with two-hour movies, or some medium yet to be discovered? IRA MAYER

The Market for Prerecorded Videocassettes

YEAR	TOTAL FACTORY SALES	% CHANGE OVER PREVIOUS YEAR	TOTAL RETAIL VALUE (Rentals & Sales)	% CHANGE OVER PREVIOUS YEAR
1986	2,557,380,000	28.10%	$5,429,251,667	33.74%
1987	3,327,500,000	30.11	6,518,366,667	20.06
1988*	3,782,500,000	13.67	7,063,642,833	8.37
1989*	4,104,000,000	8.50	7,365,549,262	4.27
1990*	4,240,000,000	3.31	7,711,332,069	4.69
1991*	4,482,500,000	5.72	7,907,880,316	2.55
1992*	4,550,000,000	1.51	8,177,142,857	3.40
1993*	4,604,000,000	1.19	8,186,500,000	0.11

Source: Vidmar Communications Inc. *Estimates

RADIO NETWORKS

A Bit Too Bulky?

After a boom in program offerings, flat ad revenues may bring a shakeout to network radio.

"Everybody wants to get into the act," comic Jimmy Durante often complained in jest. That phrase applies to the network radio business, which "bulked up" over the last few years to satisfy the programming appetites of the nation's 10,000 stations. But two straight years of flat ad revenues may bring some downsizing among the major network players and a shakeout of program offerings in 1989.

Ad dollars edged up just over 1 percent in 1988 to $373 million. Revenues dropped slightly in 1987, according to the Radio Network Association.

Those lackluster numbers affected two of the major radio networks this year. Westwood One, for example, bought back a million shares of common stock in May after Wall Street reacted to a less-than-glowing second-quarter revenue report. United Stations Radio Networks has made its availability known to potential buyers, but, industry observers say, it hasn't gotten the right offer.

In an effort to increase the revenue pie, industry executives recognize that pumping out more programming may not be the best recipe. "We've pretty much saturated the [late night and weekend] programming arena," says Lou Severine, ABC Radio Network's senior v.p. and director of sales. "Countdown shows, anthology shows, how many can you run?"

Good question, agrees Dennis McAlpine, broadcast-industry analyst for Oppenheimer & Co., who thinks there may be too many countdown shows in the network radio marketplace.

Shadoe Stevens—the new voice of ABC Radio Network's *American Top 40*—joined a roster of similar shows this year hosted by the likes of Dick Clark and Casey Kasem. (ABC signed Stevens after Kasem's move to Westwood; Kasem's new show starts in January.)

If each succeeds in the scramble for affiliates and advertisers, next year bodes well for network ad revenues. But if revenues remain flat, a shakeout is certain, McAlpine says, with Stevens' show likely to go down for the count.

One thing radio networks didn't count on in 1988 was the crossover of cable's Financial News Network and The Nashville Network into the business. This isn't cable's first foray into radio; Cable News Network and CBN were the trailblazers (see chart).

For FNN, which launched FNN Business Radio in October, that crossover may be a strategic move to strengthen its business niche on cable before the launch of Consumer News and Business Channel (CNBC), a unit of NBC Cable, early next year. "Cable is the center of our universe," says Michael Wheeler, FNN's executive v.p., "and promoting tune-in is key to our overall strategy."

As for TNNR, the radio-network joint venture between Opryland and Group W Satellite Communications, the mission is clear: "We want to be the major force in the marketing of country music," says Lloyd Werner, GWSC's senior v.p./sales and marketing. "We're not creating the wheel. We have a product, a relationship with people who know country music cold [Opryland], and everybody knows who we are." The 24-hour country-music radio network hit the air in December.

Media analysts aren't sure either venture will have a positive impact on radio networks' ad revenues. The question, asks Oppenheimer's McAlpine, is how the additional avails will be priced. "If it's priced low, it could drag down the unit pricing" of radio network time, he says. That's an unappealing prospect for an already underpriced buy.

And the main issue for 1989 is whether network ad revenues will rebound. RNA president Peter Moore is optimistic, with a bullish prediction of 5 to 8 percent growth over the next several years. The Radio Advertising Bureau's estimate is less sanguine: 3 to 5 percent growth in 1989.

JODI GOALSTONE

Cable Companies in Network Radio

TNNR	A satellite-delivered, 24-hour country-music radio network originating from Nashville. Ad packages with cable's The Nashville Network are available. Expects to have 200 affiliates by the end of 1989. Was expecting 50 to 75 on board for December 1988 launch.
FNN Business Radio News	On weekdays, offers 32 one-minute updates from 5:20 A.M. until 10:50 P.M. Eastern time, plus three regional business updates daily. On weekends, offers five one-minute reports daily. Weekend service is being expanded in 1989. Ad packages with cable's Financial News Network are available. Has 55 affiliates, mostly AM stations, covering 80 percent of the top 50 radio markets. Launched in October 1988.
CBN Radio	CBN produces and syndicates five programs including news, talk and music shows. New in 1988 were music shows *Christian Countdown* and *Heart Sounds*. Has 100 affiliates, AM and FM stations, not restricted to religious formats. Launched in January 1987.
CNN Radio	A 24-hour news service with six to nine modules airing from 5 A.M. to 10 P.M. Eastern time. Has 254 affiliates, mostly AM stations, 11 of which are in the top 50 radio markets. Launched in 1982 as an audio feed of CNN Headline News. Restructured as separate entity in 1984.

Sources: The Nashville Network, Financial News Network, CNN and CBN.

VIDEOTEX

Gifted Child

Will Prodigy, the new venture from Sears and IBM, wake up a laggard videotex business?

Even the word "videotex" is becoming acceptable again. After the dismal failures of newspaper-backed on-line information systems in 1986, the videotex business—and the very name of the industry—seemed to go into hiding. Its reemergence is fueled largely by the long-awaited Prodigy Interactive Service, which entered dozens of markets in 1988. In addition, a slight lifting of the Bell System divestiture restrictions has enabled regional Bell operating companies to launch "gateway" computer-based information projects in communities from Burlington, Vt., to Atlanta. Moreover, several fast-growing on-line computer services, such as Quantum-Link, GEnie, AppleLink and Delphi, are gaining momentum, creating potential competition. The number of U.S. videotex customers is growing about 30 percent a year—to 1.3 million in 1988, according to *Interactivity Report*—reflecting increasing use of home and office computers.

Prodigy's mix of services typifies the new look of videotex. Dozens of information, shopping, travel, financial and entertainment services are available, and $9.95 a month buys access to the system. More than 100 advertisers are participating in Prodigy, in which IBM and Sears have invested $400 million. Although many of the on-line merchants offer computer products, Prodigy is adding diverse advertisers, including Kroger Food Stores, American Airlines and apparel firms. By the end of 1989, Prodigy will be available to consumers in about two dozen large markets.

Prodigy hopes to encourage families teetering on the brink of computer ownership to make the leap. The company's strategy, however, depends heavily on attracting women to on-line usage, which is now dominated by male customers. (Up to 90 percent of U.S. videotex customers are men.) Prodigy is spending about $20 million on an introductory ad campaign.

The Baby Bells' gateways may also become formidable services. The gateway concept permits home PC users to access a variety of computer-based information, including small and specialty data bases, without having previously subscribed to the services. Customers dial a single local number through their PC/modem hookup and are presented with a menu of on-line topics from regional and national information/service providers.

GARY ARLEN

Futurist Alvin Toffler in a commercial for Prodigy Interactive Service.

PHOTOGRAPH BY S.D. NEWTON

NETWORK AFFILIATES

A Headache of a Year

Advertising looked good and then folded, program costs continued climbing and ratings kept shrinking.

ILLUSTRATION BY LINDA BLECK

The old saying was right. There is indeed more than one way to skin a cat. Depending on where a consumer's home is and how much he is willing to pay for television, he could be getting the programs he watches from a network-affiliate station, an independent station, a cable operator, a satellite master antenna television [SMATV] setup, a wireless cable operation, a low-power TV station or direct from a satellite. "Distributors" looks at how all these businesses are handling the new TV environment—how broadcast stations are responding to their loss of viewers, how cable operators are coping with a host of competitive threats, how the satellite business is handling its overcapacity problem. And on the way, there are side trips to look at radio stations and at the latest equipment that distributors are using.

The 600-plus affiliates of the three major networks had plenty of headaches in 1988. The networks' combined rating, which had been falling 2 or 3 percent a year since early in the decade, took an unprecedented 9 percent drop during the 1987-88 season. A long strike by the Writers Guild of America delayed the start of most fall '88 shows, leaving ABC and CBS affiliates trying to excite local advertisers with reruns and hastily developed specials, while NBC affiliates benefited from the Summer Olympics and the World Series.

What really hurt the affiliates most in 1988, however, was the failure of local ad sales to reach the projections of double-digit growth in the quadrennial Olympic/election year. Spot advertising limped along at close to 6 percent growth, slower than any other category, all year, according to the Television Bureau of Advertising (TvB). And that disappointment came as many affiliates wrestled with huge programming cost increases.

"The impact has been on the bottom line," says Jim Coppersmith, vice president and general manager of WCVB-TV, Boston, an ABC affiliate.

A booming first quarter in national spot advertising, up 10.3 percent over the 1987 period, according to TvB, led even skeptics to concede that strong demand had returned, if only for the Olympic/election year. Then came "the worst second quarter in the history of the television business," according to Dan Gold, president of Knight-Ridder Broadcasting. (Knight-Ridder said in October that it would sell its TV stations.) The quarter ended only 1.5 percent ahead of 1987's second quarter and sent prognosticators scurrying back to their calculators.

The TvB estimated that 1988 national spot revenues would end up 6 percent ahead of 1987 and local sales would increase by 7 percent.

For a great many affiliates, the Olympic/election year no-show couldn't have happened at a more inopportune time. Many had counted on it to boost profit margins squeezed by a continuing upward curve in programming costs.

William G. Moll, president and CEO of the TvB and former president of Harte-Hanks Broadcasting, estimates the percentage of budget affiliates spend on programming has risen from 10 percent of total expenses five years ago to between 20 and 25 percent today. Group W Television Stations president Tom Goodgame adds that affiliates that invested in *The Cosby Show* and another sitcom with which to pair it may have doubled their programming costs.

The victim? Profit margins. "Programming and people account for 60 to 70 percent of a station's costs," Knight-Ridder's Gold says. "There simply isn't anyplace to offset a big jump in what you're paying for product." WCVB's Coppersmith adds, "Programming cost increases have been dramatic—staggering at many stations."

Although affiliates are spending more on syndicated programming, they are not cutting back on news. Nearly 80 percent of network affiliates now program news between 6 and 7 A.M., a 9 percent increase over the last two years, according to a survey by the Television Information Office. Overall, it appears that affiliates continue to increase their reliance on news.

As pressure on station profit margins has increased, so has the strain in network/affiliate relations. This year, however, the tense standoff that began nearly two years ago when ABC and CBS raised the issue of cutting compensation appears headed for resolution.

The ice breaker, at least for ABC affiliates, came with a study the network commissioned from Bortz & Co. Inc. about the future of affiliate relations.

The analysis accused both affiliates and the networks of creating many of the revenue problems they've endured over the past three years themselves. Slow national spot growth occurred not because of aggressive competition from cable and barter syndication, but because affiliates ignored the need to market their product more forcefully and because the networks, by pricing 15-second commercials too cheaply, depressed the price of their other inventory.

DISTRIBUTORS

In their efforts to address slow revenue growth, both the networks and their affiliates, the study said, chose short-term remedies and hurt each other. Affiliates significantly increased network preemptions while the networks virtually gave up trying to compete against top-rated programs on the competition.

To boost future profits, Bortz & Co. president Paul I. Bortz recommended a "massive investment" aimed at better marketing the values of over-the-air TV to advertisers. He then challenged affiliates to consider where they have greater leverage in negotiating with program suppliers—as part of a network or in the open syndication marketplace?

Coppersmith, whose station has had a tradition of frequently preempting network programming, calls the Bortz report "a great wake-up call," particularly for its suggestions about new ways to market the medium. Also, Coppersmith says, the report convinced WCVB to reevaluate its policy on preemptions.

ABC's affiliate board has established task forces to look into network/affiliate relations and future profitability expectations in a changing market.

NBC sounded a similar alarm about the need for change in the affiliate relationship at the network's annual June meeting with station heads. Pierson G. Mapes, president of NBC Television Network, told affiliates at their annual June gathering: "We need to look at every element in our relationship. How can we sell together the unique value of our medium? How can we share the risks and rewards in an increasingly high-risk business?"

Although a newly created "futures committee" of the CBS Affiliates Board is considering, among other issues, modifying the affiliate relationship, that particular problem didn't come up at the network's June meeting with its stations. Instead, network officials tried to appease an at times angry affiliate body about much more immediate concerns.

In last place in the ratings for the first time in its history, CBS had also, in the minds of many affiliates, been seriously lacking in its promotional efforts for several seasons. One station manager stood during a closed-door session with network officials and suggested that CBS president and CEO Laurence Tisch consider "stepping up to a higher position and allowing the network to be run by broadcasters."

The network was ready at the meeting with a new West Coast advertising and promotion vice president, Michael Mischler, hired away from syndicator King World. Shortly after, the network addressed the issue of new leadership. Howard Stringer, president of CBS News, replaced Gene Jankowski as president of CBS Broadcast Group. According to Joe Carriere, general manager of KELO-TV in Sioux Falls, S.D., and a CBS affiliate board member, Stringer brought "a big breath of fresh air" into CBS management and calmed many affiliates' concerns about leadership at their network.

Sources on all three affiliate boards agree changes in their relationships with the nets are inevitable, but they warn that reorganization will probably come gradually. "I'm not sure either side has the enlightenment to build a new relationship," says Jim Lynagh, president of Multimedia Broadcasting Company. "But then, you know what they say about necessity and the mother of invention."

KATHY HALEY

The Bottom Line for Affiliates and Independents: 1987

	MARKETS 1-10		MARKETS 11-25		MARKETS 26-50		MARKETS 51-100		MARKETS 100+	
	Affiliate	Independent	Affiliate	Independent	Affiliate	Independent	Affiliate	Independent	Affiliate	Independent
Total Time Sales	$80,458,996	45,861,200	39,380,996	14,510,048	18,948,705	6,743,628	9,116,488	3,686,639	4,260,525	1,838,281
Total Net Revenue	$67,715,997	38,992,713	32,917,224	12,303,960	16,170,041	6,014,779	7,852,810	3,191,416	3,798,964	1,651,930
Total Expenses*	$34,169,705	34,152,368	22,075,371	13,531,311	12,881,398	8,134,523	6,938,522	4,552,533	3,903,757	2,861,918
Cost of Broadcast Rights (% of expenses)	$ 6,022,334 (17.6%)	17,446,461 (51.0%)	4,421,898 (20.0%)	6,185,047 (45.7%)	2,176,553 (16.9%)	3,134,662 (38.5%)	977,262 (14.1%)	1,497,918 (33.0%)	331,681 (8.5%)	469,926 (16.4%)
Depreciation, Amortization and Interest (% of expenses)	$ 1,894,168 (5.5%)	2,478,159 (7.2%)	2,785,223 (12.6%)	1,511,048 (11.2%)	3,249,859 (25.2%)	2,497,207 (18.4%)	1,314,642 (18.9%)	1,088,243 (16.7%)	1,168,667 (30.0%)	1,037,935 (24.0%)
Pre-Tax Profit (profit margin)	$25,451,036 (31.6%)	5,459,396 (11.9%)	10,841,853 (27.5%)	−1,293,201 (−8.9%)	3,222,630 (17.0%)	−2,119,743 (−31.4%)	934,447 (10.3%)	−1,318,052 (−35.8%)	−95,675 (−2.2%)	−1,199,658 (−65.3%)

Source: 1988 NAB/BFM Television Financial Report.
*Some expenses estimated by NAB due to incomplete reporting.

INDEPENDENT TV

Gains for the Future

Troubles remain, but indies won real victories from the ratings services and in Washington.

It won't go down as one of the best years in the history of independent television, but in many ways 1988 will be remembered as a turning point.

Revenue growth was expected to finish about 10 percent ahead of 1987, with national sales up 8 percent and local up about 12 percent. That's slightly ahead of the modest 9 percent overall increase first forecast by the Association of Independent Television Stations (INTV), but short of more bullish projections that expected a big boost from Olympic/election year sales.

"It hasn't been a great year, but it's been better than last year," notes John Serrao, vice president and general manager of WATL-TV in Atlanta.

Independent-station executives recall 1987 only too well as the worst year in their industry's history, when at least 23 outlets declared bankruptcy and many more renegotiated program debt.

Caution remains the watchword on the programming front. Independents continued to buy programs primarily on an "as needed" basis, and, according to David Fox, CEO of Fox/Lorber Associates, stations preferred barter over cash as a form of payment. The price of syndicated product, however—except for top-tier shows and some movies—dropped substantially. Reports one major-market programmer, "We're buying shows at fees 40 percent below three years ago."

Top-tier product, in addition to powerhouse off-network sitcoms, includes such highly visible first-run shows as Paramount's *Star Trek: The Next Generation*. Shows like these, notes Seltel programming v.p. Janeen Bjork, are pushing the limits of how much barter time stations must pay to acquire a show.

Indies buy about as much first-run programming today as they did a year or two ago, Bjork says, as long as the Fox Network's shows are considered first-run syndication. "Fox Network," she says, "displaced a lot of syndicated product, or bumped it to lesser time periods."

Offsetting uncertainty in programming and ad sales, there were notable victories in audience measurement and marketing in 1988—and an even greater win on the regulatory front.

The switch to people meters saw average independent ratings rise almost 12 percent in prime time and nearly 20 percent in early fringe. "Independents now capture a 25 percent share of daytime viewers and between a 22 and 24 share of prime time viewers," says Ron Inman, v.p./marketing for INTV, who adds that once meters begin measuring demographics, indies' young-skewing audiences will look better to advertisers.

The most significant gains indies made this year, however, will bring their payoffs in the coming decade.

A five-year effort by INTV to persuade A.C. Nielsen and Arbitron Ratings to inform advertisers that diary measurement underreports viewing of independent stations finally bore fruit. Both ratings services have promised to accompany future local reports with a companion document detailing discrepancies between diary and meter ratings.

Even that victory, which places a potent tool in the hands of local sales reps, pales next to the independents' breakthrough in Washington. The Federal Communications Commission voted to reinstate its syndicated-exclusivity rules, which will allow stations to demand that cable systems black out syndicated shows that duplicate those aired locally. A court challenge from satellite carriers could delay imposition of the rules, but INTV anticipates they could be in place a year from now.

Even as indies celebrate the return of exclusivity for their syndicated shows, they fight for the return of must-carry rules. The FCC abandoned efforts to revive the rules, having had two versions struck down by the U.S. Court of Appeals, which argued the rules violate cable operators' right to free speech.

Efforts to win back must-carry have reached their arena of last resort: Congress, where leaders have indicated they'll put the rules into law in exchange for codification of the Fairness Doctrine, a rule the FCC eliminated this year. House Energy and Commerce Committee chairman John Dingell (D-Mich.) summed up the regulatory crossroads broadcasters have reached when he told them in June, "You can be special or you can be deregulated, but you can't be both."

The INTV board, meeting in June to review priorities for the 1990s, agreed special status—not the free market—better served indies. The board outlined four regulatory goals: no spectrum fees or transfer taxes on the sale of outlets; availability of additional spectrum for high-definition TV; access to local cable carriage without payment and nondiscriminatory channel placement; and "reasonable and quantifiable standards of community service" to be met for license renewal.

All in all, independent TV is rebounding. Cost controls should improve 1988 margins and station values, which dipped in '87. Jack Harvey, v.p. at media brokerage Blackburn & Co., reports the trading multiple for a successful top-50-market independent is 12 to 13 times cash flow, even higher in bigger markets. In smaller markets, a profitable indie might command ten times cash flow.

"Think of us," says Charlie Edwards, INTV chairman and vice president and general manager of KTVT-TV in Dallas, "as an aircraft returning to level flight."

KATHY HALEY

ILLUSTRATION BY MARC ROSENTHAL

LOW-POWER TV

Putting Down Roots

Low-power television stations are finding programming games they can afford to play.

Eight years after the inception of low-power television, LPTV stations are taking root in communities large and small. The stations are economical local outlets for specialty fare, working just like a channel of basic cable, without the wiring. Only a handful claim positive cash flow, but an average of about 20 new stations activate each month, according to the Federal Communications Commission staffer who processes license applications for LPTV facilities that are ready to sign on. By September of 1988 the FCC had licensed 306 of these diminutive stations throughout the continental U.S., with another 242 in Alaska's statewide network.

Among operating LPTVs, Metrocom of Oregon runs one of the most ambitious, with an initial investment of $2.8 million and a paid staff of 35, according to general manager John Mielke. To date it is the only LPTV station to have secured an affiliation from a nationwide broadcast network: It is a Fox outlet. To reel in that affiliation, the station had to prove it could pull a published rating of one point, sign-on to sign-off, a feat it accomplished in the fall of 1987. It only sometimes uses its arcane LPTV call sign, K25AS, instead promoting itself with an unofficial moniker more suggestive of a traditional television broadcaster—KLSR.

To fill its time slots, KLSR draws broadly from syndicated fare. Like other LPTV operations, the Oregon station has taken advantage of the programming glut of the last several years. As many as a dozen programmers of full-time channels, fed by satellite to cable systems, now actively court LPTV outlets and ask for little or nothing in cash.

The program panorama includes the CBN Family Network, Telemundo, RFD TV (commodity and farm news), Country Music Television and several home-shopping channels. LPTV operators often make their selection and simply leave the satellite feed to run.

Easy and cheap access to program lineups from the bird actually makes it less likely that any LPTV station will invest the time and effort to devise local programming, tailored to the needs and interests of its community. Original local programs were the early promise, and ballyhoo, of LPTV when the FCC announced plans for the service during the Carter administration's twilight in 1980. Today, stations with commitments to local service stand out as exceptions.

Such an exception is the station pair of W22AE and W54AF (channels 22 and 54) in Bucyrus, Ohio, which is just beyond easy reach of television stations at the corners of a triangle composed of Toledo, Dayton and Cleveland, and is fairly devoid of local broadcast TV. Starting in 1984 with channel 22, Bill Allonas and Jim Pry produced inexpensive local news and sports in the morning, and at 7 P.M. switched to a pay service, ON-TV, which later flopped. Today, one channel is used for pay TV, the other for local programs—with advertiser support—highlighted by local sports.

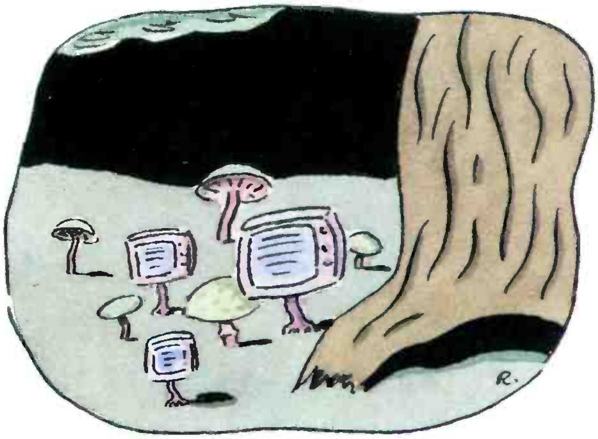


ILLUSTRATION BY MARC ROSENTHAL

"The area is sports-crazy," Pry notes. "We started with three high school football games per weekend, tape-delayed. Then we added basketball. Two small colleges in the area are coming with us. When the local high school went to the state basketball championships, we rented an uplink and then found a backer for that cost and sold all the time in one day."

In the future, a major obstacle to LPTV development will be the fact that homes wired for cable—a growing majority—cannot receive broadcast stations not carried on the cable. LPTV stations, unlike established full-service TV stations, lacked a must-carry rule to force their way onto cable systems. This disadvantage seemed to abate when the courts abolished must-carry. But carriage remains a sore point.

"We had to start paying to get on cable [in Bucyrus]," says W22AE's Pry. "On three other cable systems, we got on only because the city council raised hell. But we would die if we didn't have cable coverage."

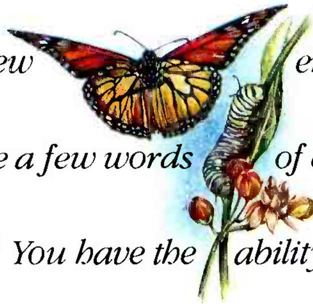
Metrocom's station in Eugene still cannot get local cable coverage, and Mielke claims the reason is a cable operator who does not want competition for local advertising sales. And even as a Fox affiliate, with some success in attracting national-spot advertisers, the station cannot secure national representation for ad sales and doesn't have its offerings listed in *TV Guide*.

With these hindrances, LPTV growth will tend to concentrate in cable-weak pockets of the country, reaching big-city audiences where homes without cable still represent formidable numbers or reaching the smallest communities where the cable system is rickety, obsolete or even non-existent. Once in a while, from the force of a unique, promotable idea, a station will clear all the hurdles with ease. In Anchorage, Alaska, K14AP heralds itself as "The Cartoon Channel," with 24-hour animation programming. The station was among the first LPTVs to be rated by Nielsen and now shows up in the ratings throughout the day.

"We found that cartoons transcend all ages," says George LaMoureaux, the president of the family-owned enterprise. "Cable television is the newspaper of the eighties. But they left one section out—the comics."

MICHAEL COUZENS

ALL TOO *often people in high places forget where they came from. And while they make every effort to treat their peers and superiors with friendliness and respect, they don't always afford others the same common courtesy. Next time you have an opportunity, why not ask a new employee what his or her aspirations are for the future. Or give a few words of encouragement to your secretary or someone on your staff. You have the ability to make people happy with just a few thoughtful words. Why not start using them.*



Bill Daniels, 3200 Cherry Creek Drive South, Suite 500, Denver, Colorado 80209

CABLE OPERATORS

Steady as She Goes

As prices for cable systems set records, operators look for leaks in their mighty vessels.

Cable operators had a lot on their collective mind in 1988. The reimposition of syndicated exclusivity, the threat of overbuilding by cable competitors coupled with the specter of challenges from telephone companies, as well as increased rumblings in Washington about the need for re-regulation, resulted in more than a few sleepless nights for cable operators nationwide.

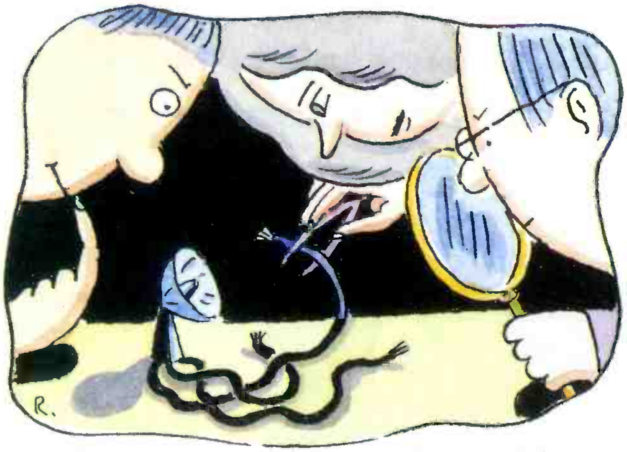
Despite these concerns, cable enjoyed what most industry observers considered its most fruitful year. System prices continued on their seemingly endless upward spiral, with several deals topping the $2,500-per-subscriber mark. Penetration reached 52.8 percent of TV homes, while cable advertising blossomed to nearly $1.5 billion. Morgan Stanley & Co. analyst John Tinker summed it up: "Deregulation is working."

But cable operators expressed considerable concern over a perceived swing in the governmental pendulum toward re-regulation of the industry. Speaking at this year's National Cable Television Association Convention, NCTA president and CEO James P. Mooney put the charge to operators: "Our own intelligent self-interest requires us to recognize that with success comes accountability and . . . increased scrutiny. Members of Congress who long have been supportive of the cable industry's goals are raising questions about vertical integration and horizontal concentration, channel repositioning, customer service and, yes, rate increases. Some of these questions reflect merely a desire to understand issues raised by our competitors. Some of them, however, reflect a perception that some of us are being less careful than we might be. We have to pay attention to this. We have to take it seriously . . . . We need to recognize, too, that Washington's politics well up from the local level, and it's never smart in politics to ask people to believe you're always right."

Cable operators agree. Alan Gerry, chairman and CEO of Cablevision Industries, says cable operators "cannot operate with the attitude that you're the only game in town, take it or leave it."

Gerry adds: "Our concern is to do a better job—answer the phones better, make sure that the service is at its peak, that there are no down times, that the quality is there, and the quantity of programming is there, and to just do a better job. When you're spread out in 12 or 13 states all over the country, you want to make sure that your standards are kept high and that you provide a good product."

With this in mind, the operators' task in 1988 became how to grow—in terms of both revenues (through rate increases and advertising sales) and subscribers (through new customers and acquisitions) —without inviting government re-regulation of the industry.



To this end, operators were for the most part successful. According to figures compiled by Paul Kagan Associates Inc., in Carmel, Calif., the monthly rate for basic service, which averaged $13.20 in 1987, grew to $14.52 in '88.

"Rates are being increased, and subscribers are not abandoning systems en masse," says Charles E. Walters, vice president at Washington-based consulting firm Frazier, Gross & Kadlec. "Rates will continue to creep up. If the operators aren't too greedy, most subscribers will basically shrug their shoulders and pay the extra $2 or $3 a month every year." Revenues from cable advertising increased 24 percent in 1988, according to Kagan. Multiple system operators' cash flow is reported to be growing at 18 to 24 percent a year. Cable revenues from subscribers and advertisers in 1988 were projected to reach almost $14 billion as franchises continued to attract additional customers by providing better and more diverse programming. Basic cable's subscriber base reached a record 46.83 million in 1988.

"We're having the best year we've ever had in terms of cable growth," says Robert Alter, president and CEO of the Cabletelevision Advertising Bureau. "Cable's growing at the rate of about 300,000 new basic households per month, and as of July, our penetration of 52.8 percent marked an increase of 3.5 million subscribers over the previous year." Alter says cable programming is gaining greater recognition among viewers, and those with cable available to them are subscribing at an accelerated rate. "We see that growth continuing into 1989," Alter says. "Cable has become much more aggressive in marketing itself to the consumer."

The acquisitions market in 1988 was both busy and pricey. Proven operators as well as newcomers paid top dollar for a shrinking number of available quality properties. Some believe this year's buying spree by industry leaders like Tele-Communications Inc., Comcast Corp. and Cablevision Systems was in part fueled by fear that a change in presidential administrations could trigger merger reform in 1989. "The rationale is that the big deals only come around once and then they're gone, so you better get them while they're there," says analyst Dennis McAlpine of Oppenheimer & Co. "But there's also the feeling that they could stretch a little bit now because who knows whether they could get away with a big deal next year." As of late summer, 262 cable deals worth a staggering $12.018 billion had been transacted, according to Kagan. Multiples paid climbed past the 13-times-cash-flow mark, while price per subscriber topped $2,500 in some cases.

ILLUSTRATION BY MARC ROSENTHAL

DISTRIBUTORS

Fears over the effects of syndicated exclusivity, competition from telcos and overbuilders, as well as re-regulation, are, to the industry, like a simmering kettle of water. When—or if—outside forces will turn up the heat to a boil is anybody's guess.

Cable insiders say syndicated exclusivity, or "syndex," rules (which were reimposed in mid-1988 and guarantee exclusive broadcast rights to syndicated shows within individual markets) remain a wild card for '89. "Syndex really didn't translate into any kind of a quantifiable issue in terms of values [of cable systems]," says Phil Hogue, president of Daniels and Associates, a Denver cable brokerage.

Industry concern about overbuilding, the practice of building a second cable system to compete for subscribers in a single service area, is diminishing. The retreat of Telesat Cablevision (the cable subsidiary of FPL Group Inc., the owner of Florida Power and Light) from its aggressive overbuilding plans in Florida has signaled to the industry that studies labeling the practice not financially viable may be on target. Some overbuilds persist in parts of the country, but most insiders agree the threat will continue to lessen.

The industry is split as to what effect the entrance of telephone companies, or "telcos," will have on the cable arena. While some believe it is the most serious threat facing cable today—seeing the telcos' goal as putting cable out of business—others, such as Frederick A. Moran, president of Moran Asset Management Inc., which invests heavily in cable stocks, believe the industry is missing the boat with regard to telcos. Moran looks forward to what he describes as "the telephone opportunity." He believes the cross-ownership ban between the industries will remain in place (current congressional restrictions prohibit phone companies from owning cable systems in their own service regions) and that telcos will opt to acquire cable operators outside their service areas on a major scale. Moran believes that acquisition by telephone companies can only serve to firm up cable asset values.

"What's really bullish about cable is that the stuff that nobody can define or know about is what gives everybody a case of nerves," says Kagan senior analyst Sharon Armbrust. "It's a lot different than if you were in the steel industry a few years ago and were watching your markets disappear. Cable has the good fortune of having to look at spooks rather than reality."

Somewhat depressingly, while these

Top 20 Cable Operators

COMPANY	BASIC SUBS 6/30/88 (000s)	BASIC SUBS 12/31/87 (000s)	PERCENT CHANGE
1. Tele-Communications[1,2]	4,254.3	4,148.2	2.6%
2. ATC	3,838.0	3,633.7	5.6
3. Continental	2,266.0	1,566.0	44.7
4. Storer	1,496.0	1,453.0	3.0
5. Warner Cable	1,471.8	1,405.3	4.7
6. Cox Cable	1,454.2	1,438.1	1.1
7. Comcast	1,383.7	1,335.6	3.6
8. United Cable[3]	1,210.7	1,155.6	4.8
9. Viacom	1,100.0	1,058.0	4.0
10. Newhouse	1,086.7	1,065.4	2.0
11. Cablevision Systems	1,070.9	780.4	37.2
12. Heritage[3]	1,060.2	1,026.2	3.3
13. Jones Intercable	1,017.2	978.5	4.0
14. Times Mirror	940.1	918.5	2.4
15. Sammons	846.8	828.4	2.2
16. United Artists[3]	814.6	796.9	2.2
17. Century[1]	716.4	705.0	1.6
18. Adelphia	639.3	581.1	10.0
19. Cooke Cablevision	620.0	461.5	34.3
20. Cablevision Industries	599.6	591.4	1.3

Sources: Paul Kagan Associates Inc. Percent changes compiled by *Channels*.

[1] Paul Kagan estimate.

[2] TCI estimate does not include various partnerships and percentage interests in other cable companies. The total TCI estimate is 8,961,700 subs.

[3] Part-owned by TCI.

"market spooks" have failed to deter private-market trading or to lower prices paid for systems, they have frightened investors. Cable stocks have declined to the point that they are selling at record discounts to net asset value, in some cases selling at one third or less of the company's net asset value. Kagan reported that the gap between public and private prices had so widened that in August the average discount of multiple system operators' stock prices had reached an alarming 51 percent off private-market value.

"I think the gap has got to close. The disparity is too great," says Steven Rattner, managing director of Morgan Stanley & Co. "Somebody's wrong. Whether it's the public-market investors or the private-market operators who are actually buying the systems, it's got to close."

But cable observers disagree over which market is the truer measure of cable's worth. "I've got to think the gap is going to narrow, and I don't think the private market is going to come down at all," says cable broker John Waller, president of Waller Capital Corp. in New York City. "I think the public market is going to come up."

Merrill Lynch media analyst Harold Vogel takes a more bearish stance, siding with the public-market view of the industry: "The fact is that prices and, more importantly, projected prices for systems have been and still are growing faster than projected revenues." Subsequently, Vogel says, he believes private prices will come down in 1989.

"My concern," says Bob Lewis, vice president for corporate development at Tele-Communications Inc., "is that some of the deals that have been done or will be done are going to rely on very high basic rates [paid by subscribers], and I think that is a danger the industry needs to be very careful about."

Most of the issues confronting cable in 1988 will carry into 1989, and it is difficult to tell what the impact will be if the situations do come to a head. Most industry watchers remain optimistic in their outlook for cable operators. Says Waller, "On the operations side, I don't think there are any huge short-term threats breathing down the cable industry's neck."

Cable brokers and operators will debate these issues until their faces turn blue. But perhaps Frazier, Gross & Kadlec's Charles Walters is the most accurate in his summation: "It's hard to tell what '89 will bring." PAUL NOGLOWS

SMATV

Still Kicking

Some were ready to count it out, but SMATV is alive and well.

Despite years of drubbing by the cable industry, the satellite master antenna television (SMATV) industry continues to be a successful niche business. In 1988, SMATV operators, who use satellite dishes to deliver cable programming to multi-unit dwellings, gained greater access to programming and increased subscriber numbers at a modest rate.

About 800,000 to 1 million Americans—up slightly from last year—subscribe to SMATV, or "private cable," according to Paul Kagan Associates analyst John Mansell. Another 800,000 or so use SMATV while watching TV at the 3,000 hotels that employ the systems.

As for access to subscribers, "Private cable has been fairly successful in giving property owners the right to choose," according to communications lawyer Mark Tauber. "In a lot of states, like Illinois, Massachusetts and Florida, mandatory access rules have been overturned. But in most states franchise holders still have the right to come on anyone's property, whether they want cable or not." Also, cable franchise-holders themselves are reportedly installing "early-bird" SMATV systems in areas where coaxial is being laid to prevent private-cable interests from getting a foothold.

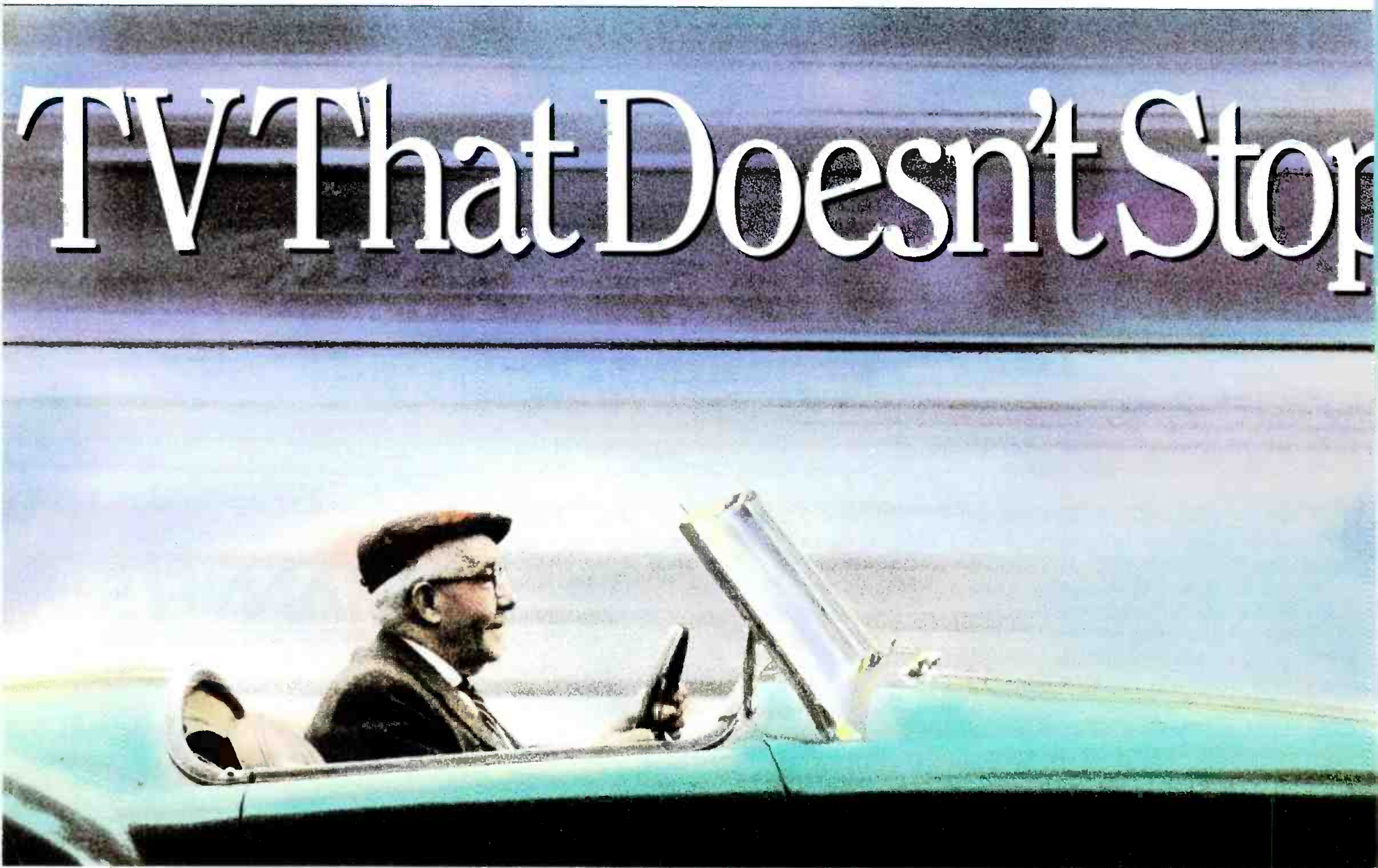
But Bob Vogelsang, president of the National Satellite Programming Network, thinks that cable involvement in SMATV is good for the industry. "It's not true that they're just absorbing systems," he says. "They don't just buy a SMATV operation and throw away the antenna. They're building and operating SMATV systems." Telephone companies, including AT&T, are also involved in private-cable constructions.

Access to name-brand programming, another of SMATV's constant struggles, is improving somewhat. Court battles, congressional investigations (led by Senators Howard Metzenbaum and Albert Gore) and cable's own interest in private cable have brought in some programmers. HBO, Arts & Entertainment Network and SportsChannel are still major hold-outs, and SMATV operators are charged 15-20 percent more than cable operators for programming.

Still, for a niche business, SMATV can be pretty lucrative. Says Vogelsang, "If I buy a 7,000-sub system for $350 per sub and sell it 18 months later for $700 a sub—you tell me, is that a business?"

KEVIN PEARCE

ILLUSTRATION BY BACHRUN LOMELE



WIRELESS CABLE

A Chance Arises

A financial boost to the industry's leader means opportunity for the wireless business.

ILLUSTRATION BY BACHRUN LOMELE

This year should be a good one for the wireless-cable business, the perennial flea biting cable's ear. After 17 years of technical limitations and hardball competition from multi-system operators, wireless seems to have the opening it needs to challenge cable's delivery monopoly.

Microband Corp., the U.S.'s largest wireless cable company, took a big step this year by securing $125 million in bank and investment financing; the money is helping to establish footholds in Washington, New York and Detroit. Microband president Mark Foster won't release subscriber figures, but George Eagle, senior analyst for Paul Kagan Associates, estimates the entire industry reaches about 250,000 subs over 20 or so systems, including some in heavily cabled areas such as Oklahoma City.

Wireless operators assemble a collection of microwave (MDS, MMDS, ITFS, OFS, SHF) licenses in a market and use them to transmit a programming package of pay and basic services—up to 33 channels. On the subscriber's rooftop, an array of tiny antennae receive the microwave signals, as well as VHF and UHF signals. From the roof down, the wiring is the same as a cable system: A coaxial cable runs to the descrambler and TV set. In fact, the wireless business, in almost every regard from programming to marketing, is identical to the cable business. For years, cable programmers, afraid of offending MSOs, have refused to sell through microwave. Holdouts include SportsChannel, Arts & Entertainment, Bravo and American Movie Classics. HBO, ESPN, Showtime, Disney and others have made deals, if only under court pressure, but they still charge wireless up to 75 percent more than cable equivalents. Smaller operators are still routinely frozen out. Despite this, it is believed that wireless operators can keep prices below cable's. One advantage: Passing a home costs about $400, compared with coaxial cable's $1,000-plus. If wireless cable does take off, a larger battle may be brewing: Foster has already discussed the possibility of telephone-company investment in the industry, and at least half a dozen MSOs are themselves considering expansion into wireless.

KEVIN PEARCE

DISTRIBUTORS

BROADCAST EQUIPMENT

Technology Booms

Digital recorders go into the field, character generators gain sophistication.

The 1980s are ending with a resounding bang for broadcast equipment. The last year of the decade promises almost incredible development in television equipment, from new digital tape formats to advanced TV systems.

One of the most exciting products on the horizon certainly is the new D-3 digital recorder from Matsushita, which appeared in prototype at October's Society of Motion Picture and Television Engineers convention in New York. What, you say, *another* tape format? Don't throw your hands up in despair—this is a format with a purpose. Unlike the D-1 component digital video standard and the newer D-2 composite digital standard, which at present are for studio use only, D-3 will make digital recording practical in the field. Based on Matsushita's established half-inch analog component M-II technology, D-3 will record a composite digital signal compatible with NTSC (the National Television Standard Committee's color-television standard). There's still no word on when the product will be available, but interest should be high.

The D-2 composite digital format, which emerged in 1988 with such a splash, will continue to make waves. D-2 studio recorders plug directly into NTSC facilities with no rewiring or other fancy footwork, and cost about the same as the high-end Type C machines they outperform in several respects. Many industry observers believe that D-2 will develop into the next studio production standard, nudging Type C from the position it's held for a decade.

With digital products moving rapidly into stations and facilities, digital video in its various forms will continue to be hot. One product to watch for will be a new family of digital encoders from Broadcast Television Systems. These devices allow a video signal to be converted between analog component and digital component form, a necessity with the mixture of analog and digital technology in today's facilities. Another interesting digital product should be Digital Service Corp.'s new Collage/DiSC, which combines a digital disk recorder—*de rigueur* for the "layering" that's so popular in trendy commercials—with digital video effects.

One equipment area that should spark renewed interest in 1989 is character generators, which are used to create electronic type and titles. Ampex Corp. has entered this field for the first time with a product called Alex, a sophisticated, high-end, full-featured character generator. With its antialiased characters and flexible character motion, Alex is intended to compete in the arena now dominated by the likes of Aston Enterprises (the Aston 4), Chyron Corp. (the Scribe and Scribe Jr.) and Quantel (Cypher). (Antialiasing is a technique that smoothes out the "jaggies" that can mar diagonal lines in electronic graphics.)

Ampex is taking an aggressive approach to this seemingly saturated field. Before you dismiss its efforts, consider that Ampex is well regarded (not to mention successful) in the graphics area with its AVA-3 system and in digital video effects with its popular ADO. The company has established distribution here and abroad, and plans to be a major player.

Other companies won't be content to hand Ampex the prize, however. Chyron, whose name is almost synonymous with character generation, has a new unit that combines text capabilities with graphics, animation and video effects in real time. It's called the ACC. And Abekas Video Systems, which has made a name for itself with its digital disc recorder, along with innovative digital effects devices, has caused quite a stir with its A72 character generator, which features real-time font resizing.

With so much emphasis on high-definition TV, NTSC may seem to have fallen out of favor. Don't believe it. The highly technical area of NTSC encoding and decoding—the process that turns an RGB (red/green/blue) camera feed into a single composite video signal and then back into RGB again—has stirred up renewed attention of late. Encoded and decoded properly, NTSC video can be almost as "clean" as RGB, without the dot crawl and other artifacts once considered necessary evils. Faroudja Laboratories, Sunnyvale, Calif., has done much pioneering work on improving NTSC. And Central Dynamics Ltd., Pointe Claire, Quebec, has introduced a new line of NTSC encoders and decoders that generate exceptional NTSC performance. HDTV may be on the way, but until it reaches viewers, expect plenty of improvements in NTSC. EVA BLINDER

Ampex's new Alex character generator, a high-end model, may make the company a major player in that field.

RADIO STATIONS

The Sound of Dealing

Top-market stations hit the block in '88. Ad dollars will keep the game exciting in '89.

The availability of top-market radio stations—spurred by the breakup of old-line station groups and by the heavily leveraged casualties of recent boom trading years—made 1988 a year of record deals in radio. But even though radio stations remain attractive to Wall Street, continued strong ad sales on Main Street will probably be the key numbers to watch in 1989. The Radio Advertising Bureau was counting on a 7.5 percent increase in local ad revenue for 1988 and projecting a 9 percent increase for '89.

One of 1988's key developments in the radio-station business was the move of old-line group operators NBC and RKO General out of the game (see chart).

"Larger operators, for whom radio is not their core business, [recognize] they are better off selling stations for a profit, taking the money and reallocating" operations and personnel into other areas, says Gary Stevens, managing director of Gary Stevens & Co., a New York media mergers-and-acquisitions firm.

Heavy debt payments owed by previous station buyers put additional major-market properties on the market in 1988. Says Stevens, "Deals made in rosier times are getting unstuck." Debt-ridden Metropolitan Broadcasting sold its six remaining stations and the Texas State Network to the Sillerman Acquisition Corp. in April for $300 million. Metropolitan had bought a nine-station group from Metromedia in 1986 for $272 million.

Overall, radio stations continued to sell at ten to 12 times estimated cash flow. But the top-market deals pushed multiples even higher, Stevens says.

Radio brokers expect a few more breakups of large station groups in 1989, as heavily leveraged group owners are forced to sell properties. But in terms of individual station sales, Stevens anticipates deals in "markets [ranked] 15 to 50, where there is always churn."

Nevertheless, RKO's $86.6 million sale of KRTH (see chart) "shows just how far people are willing to reach," Stevens says. What they're reaching for is the attractive profit margins local radio is delivering. Local radio still accounts for 76 cents out of every ad dollar the medium gets, says William Stakelin, president and chief executive officer of the Radio Advertising Bureau. The RAB pegged 1988 local-radio ad revenues at $6 billion, out of a projected $7.8 billion in overall radio revenues.

As advertising agencies and advertisers have looked increasingly toward local and regional promotions at the retail level, local radio has profited. For example, New York City-area radio stations have generated $6 million in new ad revenues since 1985.

Back on Wall Street, deal-maker Stevens isn't sure that big-bucks radio deals will be sustained in 1989. "We're operating in the area of perceptions," he says, "and a willingness to fund those perceptions at the banking level" is required to fuel high-priced radio deals. Stevens says he has already noticed a leveling off of prices fetched by VHF TV stations, "which suggests to me that there could be some erosion" in Wall Street's optimism for radio.

"The radio business is no different than high-bucks real estate," he says. To him, the question, "like in housing, is 'How high is up?' "

JODI GOALSTONE

Tracking Major Radio Station and Group Deals—1988

STATION(s)	BUYER	PRICE (Mil)
NATIONAL BROADCASTING COMPANY		
WKYS-FM, Washington, D.C.	Albimar Communications, Boston	$ 49.5
WNBC-AM/WYNY-FM, New York WJIB-FM, Boston WKQX-FM, Chicago KYUU-FM, San Francisco	Emmis Broadcasting, Indianapolis	121.5
EMMIS BROADCASTING		
WYNY-FM, New York	Westwood One Inc.	41
WFAN-AM, New York	Spanish Broadcasting System (SBS)[1]	23
RKO GENERAL RADIO PROPERTIES[2]		
KRTH-AM/FM, Los Angeles	Beasley Broadcast Group, Goldsboro, N.C.	86.6
WRKS-FM, New York	Summit Communications Group, Winston-Salem, N.C.	50
WOR-AM, New York	Buckley Broadcasting, Greenwich, Conn.	24.5
WRKO/WROR, Boston	Atlantic Ventures, Boston	28.3
WGMS-AM, Bethesda, Md WGMS-FM, Washington, D.C.	Partnership led by John VerStanding	33.9

[1] SBS, which already owned WSKQ-AM, New York, swapped WFAN-AM for Forward Association's WEVD-FM (to be called WSKQ-FM) for an estimated $65 to $75 million in August. WSKQ-AM/FM will be New York's first Hispanic AM/FM combination.

[2] RKO deals pending FCC approval and resolution of various license challenges.

Sources: *Morgan Stanley's Communications Industry Databook, American Radio* and other published reports.

SATELLITES

The Birds Fly Low

Growing alternative uses may ease the pain. Overcapacity and falling prices still hurt.

It's put-up-or-shut-up time for the satellite industry, which has been claiming for years that it will stay healthy despite intense new competition from fiber-optic cables and others. The current generation of satellites is getting so old that builders and users must now begin making commitments to replace the birds in the early 1990s. A recent string of successful launches has eliminated the excuse of failures to justify delaying the decision.

The industry has been limping along for years with little or no overall traffic growth. The latest Federal Communications Commission report showed an already worrisome excess of C-band satellite capacity grown slightly worse in the past six months. The Ku-band situation, bad to start with, is deteriorating even faster. That will mean more downward pressure on the prices that end users pay for satellite time.

The predicament is liable to get worse for the satellite business before it gets better—particularly in the case of transoceanic service. One new cable boosted trans-Atlantic capacity 30 percent when it came on line in November, and more are coming. Intelsat is contributing to the glut with a new generation of larger Intelsat VI satellites to be launched this year. Consulting firm Satellite Systems Engineering estimates North Atlantic communications capacity will grow 35 percent a year through 1997. That means capacity will grow 25 percent faster than demand for the foreseeable future, according to one estimate.

Overcapacity and pricing are critical now, as satellite firms decide whether to invest billions of dollars in replacement satellites. Declining traffic makes it less likely owners will get a good return on their investments. And there's the demonstrated risk that the satellite will be blown up on launch or won't work once in orbit. It adds up to a tough call for investors and lenders.

But satellite builders and users are putting up. AT&T recently issued a request for proposals to build a new generation of satellites worth nearly $500 million to replace AT&T's Telstar 300s, despite their having been among the most underutilized birds. Several other firms, including Alascom, Contel ASC, GE and GTE, have already applied for FCC authorization to launch replacement satellites. Hughes Aircraft Co. also is nearing a commitment to a new generation of satellites, but that's less surprising because TV users have filled the company's Galaxy satellites to bursting.

The broadcast TV networks also have given satellites a ringing endorsement. CBS issued a request for proposals for at least nine or ten full-time satellite transponders that the network plans to use to relay network programming to stations,

> Use of satellites for business-TV networks is expected to grow 30 percent a year.

as well as for satellite news gathering and other uses. ABC too is committed to using satellites and has begun meeting with satellite firms about acquiring seven or eight transponders. The two deals would obligate the networks to use satellites as their primary transmission media at least through the end of the century. NBC has signed to use the GE Satcom K-2 satellite for the next eight to ten years.

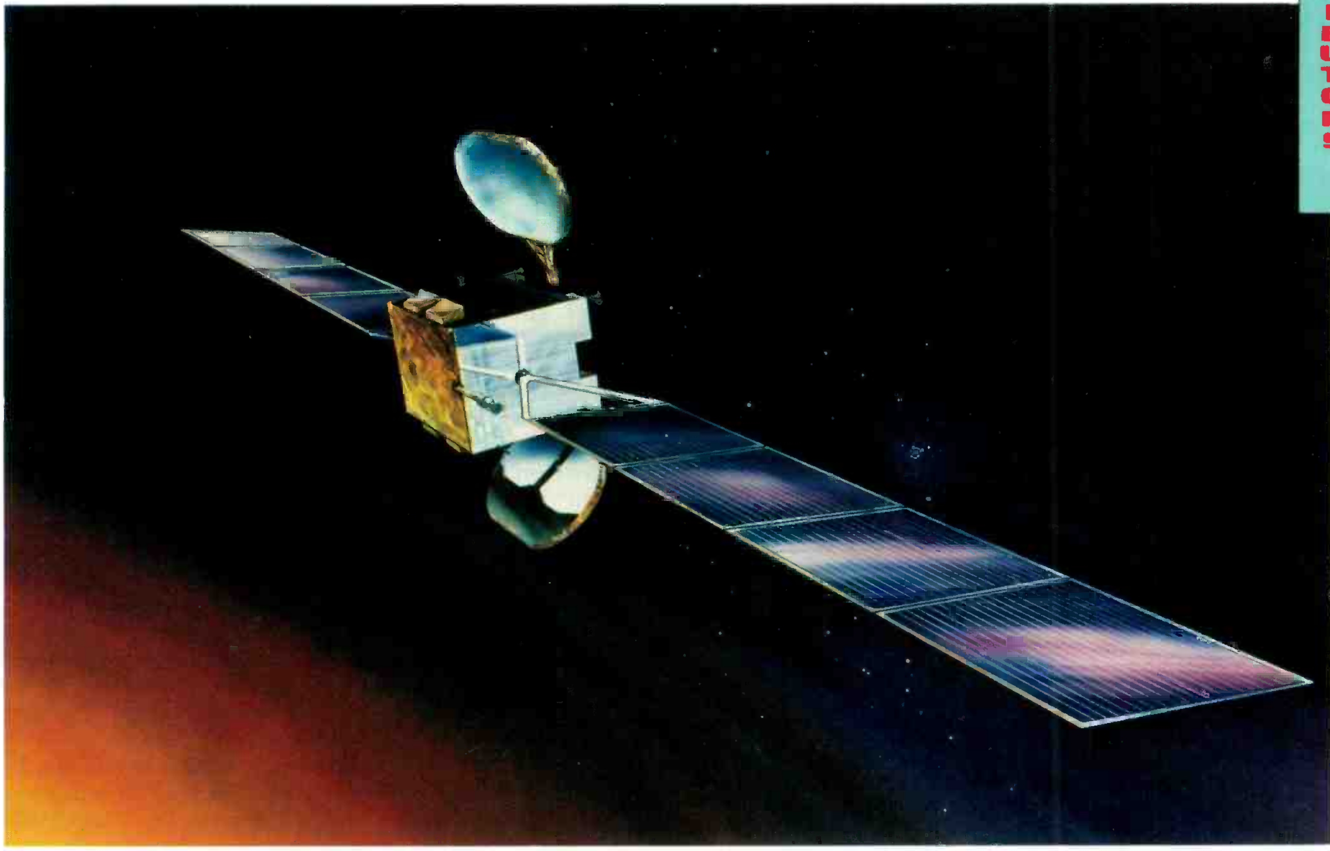
The networks had been considering switching to fiber-optic cables for program delivery. Bell Communications Research has demonstrated cable distribution for networks, but the fiber-optic network probably won't be complete enough to meet network requirements at least until the end of the century, according to Julius Barnathan, ABC president of broadcast operations and engineering. He says adequate cables may reach the big cities within a few years, but networks must also serve small towns that won't get fiber for years. The networks, he says, don't want to maintain both satellites and cables to meet all needs.

And there's a new surge toward direct-broadcast satellites. Hughes was, late in 1988, closing in on a final decision to launch a DBS system, either alone or in partnership with programmers and others. Robert Dankanyin, chairman of Hughes Communications Inc., a subsidiary of Hughes Aircraft, was expecting to send a DBS business plan to corporate parent General Motors by the end of '88. The plan includes two 16-channel DBS satellites to be co-located (meaning both satellites will be in the same orbital position), providing 32 TV channels to dishes less than a yard across.

Hughes isn't the only one interested in DBS. The FCC is considering DBS license applications from five firms that want to launch a total of ten DBS satellites. The group includes two of the pioneers of the DBS business—former Coronet and National Exchange head Clay Whitehead and Directsat chairman Wilbur Pritchard. Others are TCI-Tempo, Hubbard Broadcasting and Orbital Broadcasting. Dominion Video, meanwhile, has signed a contract to buy a DBS satellite from GE Astro.

This round of DBS mania is likely to be more successful than the last, many industry officials believe. The main difference is in the satellites: Now a DBS satellite can carry 16 channels of programming instead of just four. DBS devotees believe 16 or 32 channels of programming at a single orbital location are necessary to attract viewers who aren't willing to re-aim their satellite antennae every time they change channels.

New flat antennae also make DBS more attractive. Comsat and Matsushita have begun showing three-foot-square flat antennae that are two inches thick. Industry officials believe the flat antennae, which are less obtrusive, could extend the DBS market to urban areas.



Hughes Aircraft's new HS 601 satellite design is part of the next generation of birds. It will serve a variety of businesses.

High-definition TV also could be a big boost for satellites. Unlike local broadcasters, satellites will have no trouble meeting the band-width requirements of HDTV. That means satellites can carry HDTV as soon as both the programming and HDTV sets are ready.

In fact, a French firm, Videac, was planning to begin relaying HDTV programming via satellite before the end of 1988. Videac will use an HDTV system developed in Faroudja Labs of California to deliver first-run movies over the French Telecom 1 satellite to cinemas in small- and medium-size French towns.

Piracy is the fly in the ointment. The FCC has estimated as many as 50 percent of all General Instrument VideoCipher II descramblers may be equipped with pirate chips that allow consumers to receive pay programming free (see related story on page 125).

Satellite Broadcasting & Communications Association president Chuck Hewitt says such high levels of piracy could kill the TV receive-only industry by making it unprofitable to provide satellite TV programming.

One possible remedy is replacing the VideoCipher, which has been the industry standard but has proven to be appallingly easy to break. General Instrument, the system's maker, will begin offering a VideoCipher II Plus, which will be more difficult for pirates to violate and make it easier for the company to change chips periodically.

Uniden, meanwhile, is introducing an all-new scrambling system that senior managing director Tom Kawada predicts "will do to the VideoCipher system what VHS did to Beta" videocassette recorders. The first Uniden D-Code user is supposed to be Touchtone Video Network, which is acquiring 17 Telstar transponders for new satellite-delivered pay-per-view and basic services.

Others also believe that there's a chance to supplant the VideoCipher as the industry standard. Hughes officials have talked to another GM subsidiary, Delco, about the possibility of building a variety of satellite electronics. Hughes officials won't confirm it, but the talks almost certainly included the feasibility of building a new descrambling system.

Alternative use of satellites has surged, particularly by businesses, TV news departments and politicians. Since Chrysler installed its first network to relay video training and other programming to its plants and dealers in 1983, at least 60 business-TV networks have been installed by concerns as diverse as Aetna Life & Casualty, the Army School of the Air, AT&T, Domino's Pizza, Hewlett-Packard Co. and K-mart Corp.

Use of satellites for business-TV networks in the U.S. is expected to grow at least 30 percent a year for the foreseeable future, industry experts say. And it's beginning to take hold abroad. Telesat Canada announced its first business-TV contract in September, and Business TV Corp. is launching a European business network.

Satellites seem to be taking over the TV news business. GTE Spacenet carried more than 1,600 hours of news programming to local TV stations during the Democratic national convention and a similar amount during the Republican confab. Eight Intelsat satellites were used to carry all of the news programming originating from the Moscow summit last spring. The business is so good in the U.S. that Hubbard Broadcasting's Conus subsidiary is trying to expand its satellite news-gathering operations into Europe and the Far East.

Even the politicians are jumping on the bandwagon. Both parties have their own Washington-based satellite TV operations that candidates can use to send tapes or interviews directly to hometown TV stations. Candidates for state offices are buying their own satellite time, especially in large states such as California that have many media markets.

R. MICHAEL FEAZEL

THE TV SET

Buy American?

A Silicon Valley-led consortium wants to get U.S. manufacturers back in the game with HDTV.

The fate of all signals ultimately rests in the hands of the consumer. Specifically, it rests in the hand holding the remote control. "Consumers" looks first at three pieces of hardware that allow the viewer to view—the satellite dish, the VCR and the TV set itself. The section concludes with a second look at a *Channels* study that identified a phenomenon called "grazing." The remote has made today's viewer a wanderer, the survey says. Through 50 or 60 channels a viewer searches, looking for something to hold his or her attention. "It's an art to catch just enough of different story lines to follow all of them," one young viewer says. "My parents can't take it. I usually end up alone in front of the TV." Programmers and advertisers will be alone behind the TV if they don't soon learn how to capture the grazer.

The television set is entering the new age of high definition in a cloud of video chauvinism. The distinctly American industry that developed the modern TV set is all but gone, and there are widespread demands that Humpty Dumpty be put back together with federal glue.

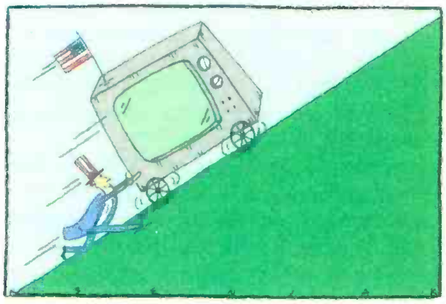
The astounding sellout of pioneering RCA, first by its own board of directors and then by its new parent, General Electric (which traded off its TV set business to France's Thomson Group), left only one major American-owned manufacturer in the extremely competitive business of providing the nation's homes with viewing boxes. That company is Zenith, whose TV business is up for sale and has been the subject of negotiations with companies from Korea, Japan, France and Holland—but, so far as is known, not one from the United States.

Led by Silicon Valley, which wants a market for its chips, is a movement to establish a government-blessed (and financed) consortium to "bring consumer electronics back to the United States" in time to enjoy the fruits of HDTV. The casual observer would be led to believe there are no longer any television sets manufactured in this country—which isn't quite true. They're made here, but most of the makers are foreign owned. There are actually 20 TV manufacturing and assembly facilities in the United States, according to the Commerce Department—more than there were ten years ago—but 11 are owned by Japanese companies, two each by European, Korean and Taiwanese firms and only three by American companies. In 1988's first half, almost 60 percent of all color TV sets sold in the United States were put together here by one of those operations.

Although many of the proposed HDTV systems are homegrown, the boxes that receive the chosen system are going to be designed, engineered and built largely by companies with facilities worldwide. But long before any HDTV transmissions are available to the American public, the effects of this new preoccupation with picture quality are being felt.

Enter IDTV. This new system would seem to be one step down the alphabet from HDTV, but in fact it's an ingenious way of making a silk purse of a picture out of the sow's ear of our current TV transmissions. Virtually every major brand of TV set on the American market is expected to announce its own version of IDTV this year. The ID stands for "improved definition," and what this new set does is use computer memory and digital technology to make the picture on the screen appear to be better than the video signal that came into the set.

This electronic illusion is achieved by several means. The most significant is "line doubling" technology, which fills the screen with twice as many lines per given interval of time as the transmitter is sending out, converting the every-other-line interlace pattern of today's TV



transmission to an every-line pattern. In addition to enhancing the resolution and eliminating the line structure in the TV picture, IDTV sets include digital signal processing which eliminates picture "noise" and snow, "crawling dots" and color fringing. Some may also add electronic ghost cancellation. IDTV will be featured at first on the highest-priced sets—$1,500 and up—accompanied by a continuing trend toward larger screens.

Americans bought a record 20 million color sets last year, meaning that almost every fourth household added a set. The pattern is expected to extend into 1989, and the industry hopes the public's new awareness of picture quality will increase the percentage of expensive sets and end the era of profitless prosperity that caused the industry's upheaval in the first place. DAVID LACHENBRUCH

ILLUSTRATIONS BY LINDA BLECK (TOP), MARK KSENIAK (RIGHT)

HOME SATELLITE DISHES

Up Against the Wall!

The satellite business finally gets help—FBI-style—as the government cracks down on piracy.

Tensions run high on any FBI raid, but in recent months the newest drill has become almost routine. The suspects usually are unarmed and not dangerous—in fact, they're more likely to be bookish engineer types. And because pirate computer chips (designed to break the scrambling codes that protect satellite-delivered television) don't flush well down a toilet, agents hitting suspected distribution or manufacturing centers rarely need to brandish their weapons or break open doors. But heart-pounding, adrenaline-pumping, heavy-artillery raids have gone down as well.

Today, the FBI's newest enforcement effort centers on sophisticated and unceasing efforts to thwart the scrambling of entertainment programming satellite-delivered to American homes. A significant underground economy has flourished as consumers buy illegally modified chips and attend offshore seminars to learn how to install them.

The problem is getting out of hand, as evidenced by increased cooperation between the U.S. Customs Service, the FBI and local police agencies. Back in July, the Federal Communications Commission got into the act, saying it would participate in enforcement efforts.

Industry observers say as many as half of all consumer descramblers may be illegally modified. "There are somewhere around 350,000 illegally modified descramblers in American homes," says Chuck Hewitt, president of the Satellite Broadcasting and Communication Association. According to a spokesperson from General Instrument's VideoCipher Division, manufacturer of the standard home descrambler, the VideoCipher II, nearly 600,000 or more units have been "authorized," meaning they are legally receiving scrambled programming packages.

Because VCII owners outside the United States—in Canada, Mexico and the Caribbean—have no way to buy scrambled programming from U.S. distributors, Hewitt says the more than 200,000 descramblers sold offshore are "100 percent" illegal.

While the plague of piracy continues

unabated, sales of home-dish systems are on the rebound. According to industry statistics, August was a good month, with more than 20,000 TVRO (television receive-only) units sold. Paul Petersky, market analyst for TVRO manufacturer Winegard Co., says a new trend in sales is emerging: "The industry is seeing better sales performance over the last year. We're seeing an emphasis on the sale of high-end integrated receiver-decoders coupled with lower-cost antenna systems." The industry topped 2 million home-dish-system installations in August, reaching a milestone many observers had predicted would be passed two years earlier.

The challenges that remain for the home-dish industry seem ever less likely to be solved by regulation or legislation. Indeed, says Dave Bross, assistant editor of the newsletter *Satellite Times*, the prospects for legislative solutions to uncertainty in the home-dish marketplace "appear dimmer and dimmer." He notes, however, that the need for such solutions "lessens as the marketplace issues work themselves out."

On the legal side, some problems remain. Recently, the U.S. District Court in Atlanta ruled that Satellite Broadcast Networks—a satellite uplinker of three network affiliates (WXIA Atlanta [NBC], WBBM Chicago [CBS] and WABC New York City [ABC])—was not a so-called wireless-cable company and therefore was not entitled to the protections of the Copyright Act of 1976. The court's ruling, if upheld, could greatly affect the TVRO market and the way satellite programming packages are delivered to consumers' homes.

On another front, the issue of syndicated exclusivity (syndex) also is creating clouds on the home-dish horizon. Prominent cable attorney Jack Cole, an active opponent of the regulation, says the reimposition of syndex may well drive the current crop of satellite-delivered superstations off the air, damaging the ability of home-dish owners to receive programming. A challenge to the recently reimposed syndex rules, Cole says, won't come before the courts until this summer.

While distress and disruption remain the rule rather than the exception for the home-dish industry, market leaders continue to invest in the development and manufacture of new home-satellite receiving equipment.

At a major industry conference in Nashville last September, Communications Satellite Corp. (Comsat) and partner Matsushita of Japan unveiled for the first time in the U.S. their flat-plate antenna, a technological advance that may stimulate sales in the home-dish arena. At 15 inches square, the unobtrusive device is not subject to zoning ordinances or neighbors' annoyance. And, in Japan, the antennae are selling like hotcakes for use with that country's new direct-broadcast satellite.

Despite nagging problems, the combination of new technology, more secure and sophisticated scrambling and the resolution of distracting legislative and regulatory issues bodes well for the gradual resurgence of this market niche.

SCOTT CHASE

ILLUSTRATION BY MARK KSENIAK

VIDEOCASSETTE RECORDERS

Here, Buy Another

Moving ever closer to the saturation point, VCR marketers want to make your old deck obsolete.

As 1988 ends, about 56 percent of America's television households own at least one videocassette recorder. One quarter of the VCR buyers in 1987 already had a VCR at home, and in 1988 the percentage of sales to existing owners is estimated as high as 52 percent, according to Nielsen. With such a successful product already reaching close to saturation, what do the industry's marketers do now?

They try to make obsolete every recorder now in use. Or try to sell existing VCR homes a derivative product such as a camcorder (a portable camera-recorder combination) or a Sony Video Walkman.

It's unlikely VCR penetration will ever approach 100 percent. The figure is apt to be closer to 75 percent, in the opinion of many observers—and it's nearing that now. But the VCR has become a part of the essential recreational impedimenta of most households. Although it has increased the amount of time people spend with their TV sets—VCR households have their sets on nearly 32 minutes more a month than non-VCR homes, Nielsen says—it has also cut into viewing of real-time programming. In May 1988, for example, VCR owners spent an average of almost four hours playing tapes, and two-and-a-half hours recording them. VCRs cut more deeply into prime time than other dayparts, with 27 percent of tape viewing occurring during broadcast TV's finest hours.

Near-saturation has caused something of a slump in sales of home VCRs, which hit a peak of 12 million in 1986, dropped slightly to 11.7 million in 1987 and headed for about 10.5 million in '88. To persuade owners to buy new ones, builders in Japan, Korea and Taiwan (whence most American VCRs come) are offering up all sorts of jazzy new ideas.

The most widely publicized is Super VHS, whose mere existence has had more impact than sales figures would indicate. The fact that a home VCR was capable of producing a picture better than the one networks could transmit gave strong impetus to the drive toward advanced TV standards. In 1988, S-VHS represented less than 5 percent of VCR sales, hang-ups being high prices and the absence of recorded software in the U.S.

VCR manufacturers have also been attacking the problems of programming a recorder in advance for taping. Most units now being sold have simplified programming systems that walk the operator through the process with instructions on the TV screen. Some Matsushita-made recorders—including the Panasonic and Magnavox brands—have wireless programming styluses, which can be drawn across a program listing encoded in grocery-store bar-code language, to set them up. For the forgetful, another specialized machine may be programmed by telephone from any distance.

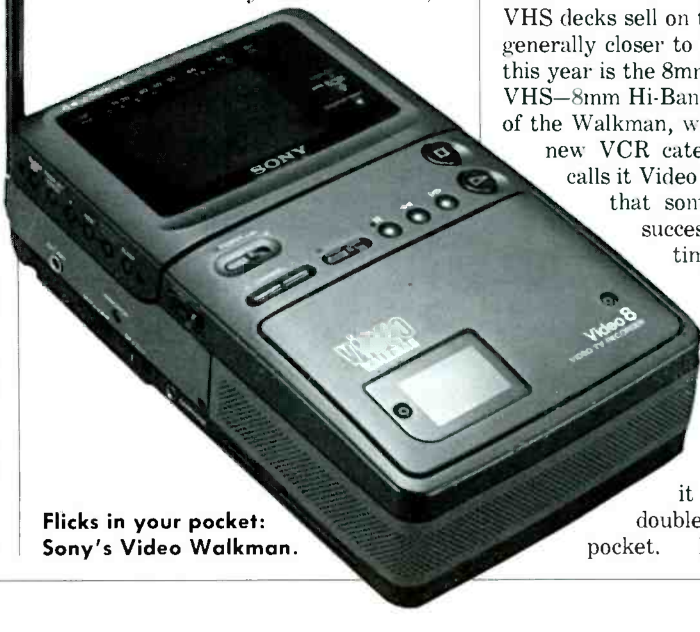
VCRs advertised as "digital" actually aren't digital recorders at all—they have digital circuits for special effects, such as slow and stop motion. Most also have the latest gimmick: PIP, which stands for "picture in picture." It's just what you think it is: a separate picture from a different source—TV channel, tape—superimposed in the corner of the main picture. Among other digital gimmicks is channel-scan, which can show a still-picture sampling of 12 or more channels on a single screen. One Mitsubishi unit can store and display up to 100 still pictures simultaneously on one screen; a 60-inch projection TV is needed for the pictures to be even fairly visible. Mitsubishi knows that, however; it makes 60-inch projectors.

Sony, having given up and added VHS to its line, has produced a new semi-compatible version of its Beta format called ED Beta (for extended definition). ED Beta provides better definition than Super VHS, but prices are stratospheric.

If special effects don't induce consumers to buy, perhaps portability will. Camcorder sales are heating up even as VCRs cool off. An estimated 2.2 million of these $1,000-and-up units were sold to retailers in 1988, says the Electronics Industries Association. Despite the advantages of miniaturization, in the U.S. nearly 70 percent of camcorders sold use full-size VHS cassettes, the remaining number being split about evenly between the new 8mm cassette and VHS-C (for "compact," a small cassette that can be inserted in an adapter and played back through a standard VHS deck).

Super VHS has achieved more success in camcorders than in home decks, presumably because a camcorder makes its own software and gives the user the ability to produce a home movie with greater resolution than a broadcast TV picture. S-VHS decks sell on the far side of $1,500, generally closer to $2,000. Coming early this year is the 8mm equivalent of Super VHS—8mm Hi-Band. From Sony, maker of the Walkman, will come a completely new VCR category for 1989. Sony calls it Video Walkman in the hope that some of its namesake's success will rub off. It's a tiny combination 8mm VCR and 3-inch flat-screen LCD color TV, all weighing less than two-and-a-half pounds. An 8mm cassette can play for as long as four hours, making it possible to carry a double feature in your shirt pocket.

DAVID LACHENBRUCH



Flicks in your pocket: Sony's Video Walkman.

WATCHING TV

A Mobile Audience

Grazing—changing channels during programs—is the new way to watch TV.

It was the year the grazer came out of the closet. An exclusive 1988 *Channels* survey on audience viewing habits and attitudes toward television has turned the old notions about the way people watch TV upside down and given them a good, hard shake.

It comes as no surprise that the VCR has transformed even ten-year-olds into mini-Brandon Tartikoffs, rearranging the television schedules to suit their own whims, zipping past ads via fast-forward. But the VCR is found in only 56 percent of U.S. homes. What the *Channels* survey revealed was that the remote control, found in 75 percent of U.S. TV households, in combination with the wider viewing alternatives afforded by cable, has given rise to a new form of behavior in front of the set, particularly among younger viewers: grazing.

Today's viewers tend to regard watching *television*, not specific television *programs*, as a form of entertainment in itself. And while they occasionally settle in for the "long" haul with a specific show, they are just as likely to graze—that is, wander through 50 or 60 channels, searching for something to hold their attention. Says one viewer, Orville Andres, a retired Indianapolis executive, "I have my idea of what I want to look at. If it doesn't meet my specifications, I flip through the stations. If I still can't find anything to watch after five or ten minutes, I turn the set off." Andres is in a minority in his demographic group: Among viewers 50 or older, only some 40 percent say they change channels during programs, whereas some 60 percent of viewers 18 to 24 say they graze, and 47 percent of them say they regularly watch two shows at once, flipping between channels with a certain mad logic. Says one dedicated grazer, 18-year-old Jeanette Bonilla of Coppers Cove, Texas, "It's an art to catch just enough of different story lines to follow all of them. My parents can't take it. I usually end up alone in front of the television."

The reasons behind the grazing are all too frequently negative. Boredom with what viewers are watching, or making sure they're not missing something better on another channel, were the most frequent reasons given. Combine that with the 11 percent who switch channels to follow more than one program, and it is clear that almost two-thirds of the grazing is a function of insufficient interest in what is being watched.

Nevertheless, when viewers were asked what channels they particularly enjoy, the most frequent responses cited one of the Big Three commercial networks. These were followed by public television stations (benefitted by the so-called "halo effect," whereby viewers say they watch more high-brow TV than they actually do). Right behind PBS stations, and ahead of HBO, ESPN, CNN and other popular cable networks, were independent television stations. Indies were more popular among women than among men, were most popular among the 35-49 age group and did better in homes with under-$30,000 income than they did in homes making $30,000-plus.

One of the other more significant findings in the *Channels* survey was the relatively high level of viewer dissatisfaction with television, although these responses were laced with ambivalence. When viewers were asked if there were more or fewer good programs to watch today compared with five years ago, 52 percent said fewer while only 30 percent said more. (The 18-to-24-year-olds, however, said more, by a 46 percent to 42 percent margin.) Viewers 65 years and over are the hardest to please. By a 69 percent to 12 percent margin, they say there are fewer good shows on now than five years ago. And 70 percent of all viewers say it's not always easy to find something good to watch on TV.

On the other hand, 65 percent of respondents said they felt television had been a positive influence in their lives, compared with 22 percent who thought they would be better off without it. Viewers feel in particular that both local and network news have improved over the last five years, and they confirmed that they go first to TV for news.

The ramifications of these new attitudes and habits—grazing in particular—have yet to be fully grasped by the networks and by Madison Avenue. There is no audience-measurement device that can even track grazing. Viewers mentioned only two things that caused them to stop grazing and watch a program: Something unusual catches their eye, or they see something that is familiar to them. What precisely they mean by that, and how programmers and ad agencies can respond, is a major challenge facing the industry in the years ahead.

PETER AINSLIE

DO VIEWERS CHANGE CHANNELS DURING PROGRAMS?

(Based on those who at least sometimes use their remote control)

	TOTAL	SEX Male	SEX Female	AGE 18-24	AGE 25-34	AGE 35-49	AGE 50-64	AGE 65+	INCOME $30,000 Or Less	INCOME MORE THAN $30,000	HAS BASIC CABLE TV? Yes	HAS BASIC CABLE TV? No
Yes	48.5%	51.0%	46.0%	59.7%	53.6%	45.6%	41.3%	40.0%	50.3%	46.9%	49.6%	46.4%
No	50.3	48.5	52.0	40.3	43.6	53.4	57.3	60.0	48.5	52.0	49.6	51.4
DK/NA	1.3	.5	2.0	–	2.7	1.0	1.3	–	1.2	1.0	.8	2.1

Source: Frank N. Magid Associates, for *Channels*.

VIDEODISCS

Count the Acronyms

The onslaught of new disc formats is confusing, but the technologies offer new combos of sound and sight.

In the world of optical discs, audio and video are converging at the speed of light—leaving both consumers and retailers somewhat confused but awash in opportunity. Already in the stores are CDs, CDVs, mini-CDs, CD-ROMs and videodiscs. Soon to come are CD-I, ICVD, DVI and Thor-CD. The acronyms alone could fill a shelf. It's hard to know what to buy and where to buy it.

But there may be laser light at the end of the distribution tunnel. The newest hardware from Sony, Pioneer, Yamaha, Denon, Magnavox and Philips can play 12-inch and 8-inch videodiscs, standard audio CDs, 3-inch mini-CDs (CD-3s) and CD Videos, which combine 20 minutes of digital audio with five minutes of video on a standard-sized CD.

Many of these players will accommodate a future adaptor for when the Compact Disc-Interactive (CD-I) format, which combines data, visuals and sound, arrives on the professional market in 1989 and at retail in 1990. These combination players have given consumers the confidence that their hardware won't be obsolete next year.

Just as the compact audio disc is leading the way in consumer electronic sales, look for the audio stores that sell them to emerge as the primary retail source for all things laser, a response to the proliferation of formats and the need to offer the hardware and titles at the same location.

The growth rate for sales of audio compact-disc players has slowed from meteoric to merely exceptional. The Electronic Industries Association anticipated 1988 player sales would reach 4.8 million, up from 3.3 million in 1987.

Much of this growth has come in portable units and automobile players. For home use (AC power only), the EIA projected sales of 2.8 million (of the total 4.8 million units) in 1988, up from 2.5 million sold in 1987. In 1989, sales are projected to total 5.6 million, of which 3.2 million will be for the home.

PolyGram Records has relaunched the Compact Disc Video format, after last year's false start with no titles, and dropped the hyphen from its CDV acronym (formerly "CD-V"). The new acronym is being applied to 12-inch, 8-inch and 5-inch (CD-size) discs.

Promising 100 music titles by Christmas, the company expects as many as 1,200 retail record outlets to have players and video monitors available for customer demonstrations. The 5-inch discs, containing mostly rock videos, will sell for $7 to $10 each, and the 12-inch CDV discs retail for about $30.

Gunter Hensler, president of PolyGram Classics, estimates there are currently 300,000 to 400,000 12-inch consumer videodisc players and 40,000 to 50,000 LV/CD/CDV combination players in the U.S. He was predicting 70,000 sales of combination players in 1988. By 1992, Hensler predicts, 25 percent of all CD players will be combination CDV players, and 5.5 to 6 million such players will have been sold in the U.S.

Laserdisc manufacturers are happy to piggyback on the success of CDs with the combination players; few dedicated LD players will be imported after this year. Some unique players have been added to the lineup, however, such as Pioneer's new unit that can play both sides of two discs without reloading, and its karaoke players, possibly the ultimate cross of audio and video.

On karaoke discs, the original vocal track is removed from the music, allowing consumers to take up the microphone and sing. The laserdisc provides background music and offers mood-enhancing visuals and lyrics.

Karaoke has been a major hit in Japan (where special bars have sprung up for the activity) and is a mainstay of the Japanese disc business, with over 180,000 such systems sold since the disc's introduction in the early 1980s, according to the *Video Disc Monitor*.

Back in the U.S., laserdisc title distribution is boiling down to a battle between Pioneer Electronics and Image Entertainment Inc. Of nearly 3,000 titles now available, Image claims exclusive agreements on about 18 percent. The company expects to increase its market share dramatically in 1989, to 2.4 million of the projected 3.5 million that will be sold during the year.

These will include some 1,176 new titles, of which Image expects to release 70 percent. A third distributor, The Voyager Company, is making a substantial contribution in the area of collectible and unusual titles, many of which are enhanced with additional footage and audio commentaries.

So what's next? In terms of new formats, 1989 promises to be a banner year. CD-I, a Philips and Sony initiative, will offer interactive audio, data and graphics on an integrated player targeted to cost under $1,000. Digital Video Interactive (DVI), being jointly developed by General Electric and Intel, will be able to store an hour of digital video on a CD-ROM and play it back on a home computer.

Mattel Inc. will introduce an Interactive Compact Videodisc (ICVD) format that brings arcade-quality video games on CDs to the home market. And in 1990, Tandy has promised to introduce the Thor-CD, a CD-compatible disc that can be both recorded and erased, with the player retailing for around $500 and discs for about $20.

With all these features and formats, the optical disc surely now has something for everyone.

ROCKLEY L. MILLER

YEAR	TOTAL CD UNITS*	HOME CD UNITS*	VIDEODISC UNITS*
1985	1.0 million	.96 million	75,000
1986	2.6 million	1.69 million	85,000
1987	3.3 million	2.49 million	100,000
1988	4.8 million	2.80 million	120,000
1989	5.6 million	3.20 million	180,000

Source: Electronic Industries Association.
*Estimated

The Art and Impact of Television

NATPE '89 PROGRAM CONFERENCE
January 23–27, 1989
George R. Brown Convention Center
Houston, Texas

The impact of the most powerful information and entertainment medium; the elements that go into quality programming. What moves viewers now? What will motivate them in the future?

In keeping with NATPE's continuing commitment to the pursuit of the best in TV programming, the '89 Program Conference delves into the basics of the TV medium: the creation of quality programming and its effect upon the TV audience.

THE AGENDA

GENERAL SESSIONS

Keynote address by Michael Eisner, Chairman and CEO, The Walt Disney Company.

"Waves Of The Future," a general session on HDTV, produced by Joel Chaseman, Chairman, Post Newsweek stations.

"Writers," a general session to be moderated by Dick Cavett, including Bruce Paltrow, Steven Bochco, John Marcus, Stephen J. Cannell, and Fay Kanin.

INTERNATIONAL SESSIONS

International seminars, including a workshop on Spanish programming.

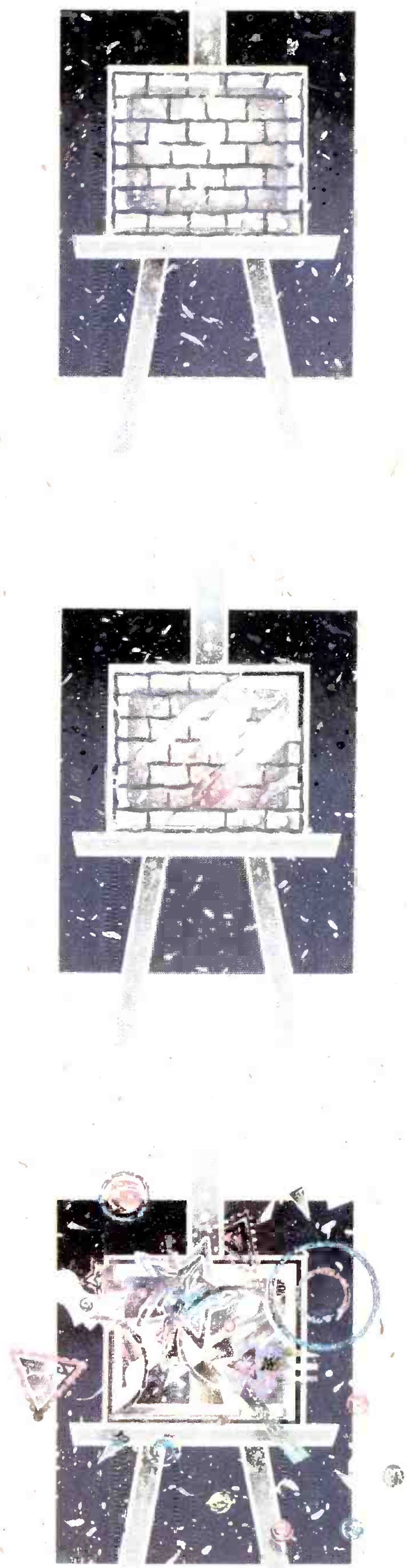
International viewing hours on the exhibition floor.

An international reception.

OTHER ACTIVITIES

"Where To Find Your Next Hit," moderated by Fred Silverman.

USC Management seminars.



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Behind the Buzzwords

Above-the-line costs: production costs related to story and script, producer, director and stars. The program's other costs are "below-the-line."

Addressability: remote control function of sophisticated equipment that allows a cable operator to activate, disconnect or unscramble the signal received by a subscriber.

Ad hoc networks: a temporary grouping of stations to carry a specific program.

ADI: Area of Dominant Influence; Arbitron Ratings Co.'s term for the region in which local stations' signals are dominant (corresponds to DMA).

Affiliate: a broadcast station not owned by a network but airing its programs and commercials.

Ancillary markets: secondary sales targets for a program that has completed its first run(s) on its initial delivery medium. AKA back-end.

Aspect ratio: the ratio of a screen's width to its height. Today's TV tubes have a 4:3 ratio. High-definition TV (HDTV) tubes have a ratio of about 5:3.

Barter syndication: a program distribution method in which the syndicator retains and sells a portion of the show's advertising time. In "cash plus barter," the syndicator also receives some money from the station on which the program airs.

Basic cable: channels received by cable subscribers at no extra charge, usually supported by advertising and small per-subscriber fees paid by cable operators.

Beta: a consumer videocassette format employing half-inch tape like the VHS cassette, but less widely used.

Break-up value: or private market value, the estimated worth of a company when its assets are sold.

Cash flow: cash in minus cash out, as opposed to accrual accounting. A company's expenses and the taxes it has paid have been subtracted from incoming cash, but depreciation, amortization and other non-cash charges have not.

C-band: the range of frequencies from 4 to 6 gigaHertz (billion cycles per second) used by most communications satellites.

Chapter 11: part of federal bankruptcy law, permitting a bankrupt company to continue operations under court supervision while protecting it from full demands of creditors.

Churn: a cable industry rate based on a formula that takes account of subscriber connects, disconnects, upgrades and downgrades.

Closed captions: a form of teletext for hearing-impaired viewers that superimposes subtitles on programs and requires special decoders for reception. In contrast, "open captions" appear on all sets.

Common carrier: the FCC's class of transmission systems, such as telephone, telegraph and certain satellites, open to public use at uniform fees and generally not permitted to control content.

Comparative renewal: the process by which the FCC decides whether to renew a broadcaster's station license upon its expiration or to award it to a rival applicant.

Compulsory license: the right of cable systems and certain other delivery media to use copyrighted material (such as programs on a superstation) for a governmentally set fee, without negotiating a price.

Copyright Royalty Tribunal: the small federal agency that divvies up royalties from a compulsory license.

CPM: advertisers' cost per thousand viewers exposed to a commercial.

DAT: Digital Audio Tape, an audio cassette format available in Japan but still in gray market in the U.S.

DBS: Direct Broadcast Satellite, which transmits TV signals directly to dishes at viewers' homes. Usually a high-powered satellite that requires only small dishes.

DMA: Designated Market Area, a viewing region defined by Nielsen Media Research (corresponds to ADI).

Downlink: to receive from a satellite; also, the dish used for reception.

Equal Time: the FCC's Equal Opportunities Rule: If a station gives or sells airtime to one candidate for public office, it must offer equivalent time to other candidates. News shows are exempt.

Fairness Doctrine: the rule repealed in 1987 by the FCC that required broadcasters to devote airtime to important controversial issues and to air contrasting views on those issues.

Financial Interest and Syndication Rules: FCC regulations forbidding networks from owning interest in or syndicating most programming they carry.

First-run syndication: distribution of programs produced for initial release on stations contracting with the syndicator. Compare "off-network syndication."

Franchise: in cable TV, a license granted by a local government to provide service. Cities usually exclude competing systems, but franchise exclusivity is under legal attack.

Grazing: the act of constantly flipping through TV channels, watching several shows at once, brought on by the ease of remote-control units and the wider viewing selection that cable TV offers.

HDTV: High-definition TV, various technical systems providing a finer and wider TV picture, usually with twice as many scanning lines as standard TV.

Headend: a cable TV system's control center where incoming signals (from satellites and other sources) are put on outgoing channels.

Hertz: cycles per second; a measure of electromagnetic frequency that represents the number of complete electrical waves in a second. One kiloHertz (kHz) is one thousand cycles per second; one megaHertz (mHz) is one million; one gigaHertz (gHz) is one billion.

HUT: Homes Using Television, the percentage of TV homes with one or more sets in use at a given time.

Indie: independent, as in independent producer (not affiliated with a major studio) or independent TV station (not affiliated with or owned by a network).

Initial public offering: a company's first sale of stock to the public.

Impulse pay per view: viewers' last-minute ordering of PPV programs, similar to "impulse shopping."

ITFS: Instructional Television Fixed Service, a TV delivery service by line-of-sight microwave that the FCC licenses for use by educational institutions.

Junk bonds: means of borrowing that have high yields and higher than normal risk; a key acquisition-financing tool developed by Drexel Burnham Lambert.

Ku-band: the range of frequencies between 11 and 14 gigaHertz (billions of cycles per second), used increasingly by communications satellites.

Leveraged buyout: acquisition of a company, usually by its management, in which the buyers borrow against the company's assets.

Limited partnership: investment vehicles with substantial tax benefits, often used in TV and film production, in which the limited partners' liability is confined to the amount of capital they contribute. The venture is managed by a general partner. Ownership is sold in blocks of large denomination.

Low-power TV: TV stations licensed by the FCC to use low transmitter power, usually in areas not locally served by full-power stations.

Major market: one of the 50 largest metro areas in numbers of TV households.

MSO: Multiple System Operator, a company that operates more than one cable TV system.

MMDS: Multichannel Multipoint Distribution Service, a TV delivery system using line-of-sight microwave with four or more channels operated by a single company, often called "wireless cable." Similar to ITFS.

Must-Carry Rule: a former FCC requirement that a cable system carry certain qualified local over-the-air TV stations.

Network: a program distributor interconnected with stations under different ownership for simultaneous broadcast. A narrower FCC definition says a network distributes at least 15 hours of programming a week to at least 25 affiliates in at least 10 states.

Network compensation: networks' payments to affiliated stations for airing network programs and commercials.

Off-network series: former network programs now being syndicated.

Optical discs: recording media including CDs and videodiscs that store information in patterns of microscopic pits, which can be detected by a low-power laser beam and reproduced as sound, images or computer data.

Overbuild: a cable system built in an area where another firm already has established service.

Pay cable: program services supported by optional extra subscriber fees.

Pay per view: programs purchased by subscribers on a per-program rather than per-month basis.

People meter: an "electronic diary" now used by ratings services to record demographic viewer data (e.g., viewers push buttons to identify themselves) as well as the channel-tuning data that earlier meters collected.

Penetration: in a given population, the percentage of households using a product or receiving a service.

Pod: the group of commercials and announcements in a break during programming.

Preemption: replacing a network show with another program, a station practice frowned upon by networks.

Prime time: in practice, the three evening hours (four on Sunday) programmed by the broadcast networks, 8 to 11 P.M. Eastern or Pacific Time, and 7 to 10 P.M. Central or Mountain Time, Monday through Saturday, starting an hour earlier on Sunday.

Prime Time Access Rule: an FCC rule forbidding network affiliates from carrying more than three hours of network programs and off-network reruns (with some exceptions) in the four hours starting at 7 P.M. (ET).

PUT: Persons Using Television, the percentage of persons in TV households using sets at one time.

Rating: estimated percentage of the universe of TV households (or other specified group) tuned to a program at once.

Reach: percentage of audience exposed to an ad or program in a given period.

Rep firm: or station representative, a company that sells time on local stations ("spot time") to national advertisers.

Resolution: measure of a picture's detail; horizontal lines of resolution in TV are counted across the screen (in a test pattern) and vertical lines of resolution, from top to bottom.

SCA: Subsidiary Communications Authorization, FCC permission to use subcarriers of an FM (or other) channel to piggyback other material such as readings for the blind and computer data transmissions.

Scatter market: unsold national ad time on the networks that remains after the preseason "up-front" buying period.

SAP: Separate Audio Program, an audio channel that can be received by new stereo TV sets and used for a second soundtrack.

Scrambling: altering a TV signal transmission so it can't be received without an operating decoder.

Share: estimated percentage of "HUT" watching a program. Compare to "rating."

SMATV: Satellite Master Antenna Television, or "private cable"; a miniature cable system that receives programming by satellite and serves a housing complex or hotel.

Spot time: commercial advertising on a local station purchased from the station or a rep firm.

Stripping: scheduling a program (usually syndicated) at the same hour every day or every weekday.

STV: Subscription television, a broadcast TV station that transmits a scrambled signal for reception by paying viewers who own special decoders.

Superstation: a local TV station whose signal is satellite delivered to cable systems across the country.

Syndicated Exclusivity Rule: "syndex," an FCC rule that requires a cable system bringing in distant signals to black out syndicated programming for which a broadcaster owns exclusive local rights.

Teletext: broadcast of text and graphics along with a TV signal for reception on specially equipped sets.

Tender offer: a public offer to shareholders to buy their stock, often used in hostile takeovers.

Tiering: combining cable channels, sometimes both basic and pay, to sell at a package price.

Transponder: a satellite component that receives and retransmits a TV signal or perhaps many narrower-band data channels.

TVRO: Television Receive Only, a satellite receiving antenna, also known as a downlink or a backyard dish.

UHF: Ultra High Frequency, the band including TV channels 14 through 83.

Universe: the population (for example, all households, or all women 25-54) within which a rating is figured.

Upfront market: annual preseason purchasing of commercial time, for which audience levels are guaranteed.

Uplink: to transmit to a satellite for relay; also, the dish used to transmit.

VBI: Vertical Blanking Interval, 21 lines in the TV picture not used to carry video. Some are used to control the TV receiver and others can carry teletext.

VHF: Very High Frequency, the band including TV channels 2 through 13, which are more powerful than UHF channels.

VHS: Video Home System, the leading consumer videocassette format. Like the Beta format, VHS uses half-inch tape.

Videotex: an interactive service connecting a TV set and decoder by phone lines or cable TV to a central computer, providing textual information and various transactional services.

Window: the period during which a network or other distributor has contractual rights to show a program.

Zapping: changing the channel by remote control during a program to avoid a commercial.

Zipping: fast-forwarding through commercials when playing back a program on a VCR.

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Look It Up

Compiled by Michael Burgi.

Thanks For Setting Us Straight

The NEWSTAR system has led the broadcast newsroom automation market for years. But, sales in the past 12 months have been spectacular!

Since we released our new production automation software and low-cost closed captioning option last fall, more than 28 systems have been ordered domestically, with impressive performance abroad as well. Our installed base is now over 150 systems worldwide.

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