Chapter 2 selection

Broadcast Television

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The Business of Broadcasting

Television is an entertainment and information medium that pervades our lives. Americans spend more than 28 hours per week (or 4 hours and ten minutes daily) watching video across multiple screen venues, including television, computers (laptops and tablets) and cellphones. An estimated 95.2% of all U.S. households own at least one television set.[1] The reliance on traditional TV watching is changing. Consumers are increasingly making Internet connectivity a priority. An estimated 66.4 million households in the U.S. pay for broadband Internet via cable television. The number of available digital-based cable or satellite channels has increased exponentially from an estimated 113 channels in 1994 to well over 900 channels today.[2] For many such viewers, television is a source of entertainment and news, while for others television provides a general backdrop to one's day-to-day activities.

Demographic Considerations

Advertisers are not merely interested in the size of an audience, but in its composition. The term *demographics* refers to the age, sex, income and other quantifiable characteristics of the audience. Programming decisions, in terms of general content and scheduling, are based on the composition and size of the audience. Television programs such as *Madam Secretary, Blue Bloods, the National Football Leauge* and *60 Minutes* elicit different types of audience composition. It is the very composition and size of an audience that allows a television network, affiliate or independent station to charge more depending on the number and composition of people watching a particular program—hence the phrase, "selling audiences to advertisers."

Television Organizational Structure

Television stations can be divided into two categories, *commercial* and *noncommercial*. The primary distinction between the two is the funding mechanism by which each station is able to operate. Commercial television (and radio) stations make their money by selling air time to advertisers. Noncommercial stations are funded through a variety of methods, including federal and state appropriations, business and foundation grants, and direct viewer contributions. Some critics have observed that over the years noncommercial underwriting has reached the point where it has begun to resemble commercial sponsorship.

The Broadcast Industry Structure

The broadcast industry structure refers to the principal players involved in the production, distribution and financing of television programs to the U.S. public. Let us consider the following six players:

1 The television networks
2 Program producers and distributors
3 The network affiliates
4 Independent television stations
5 Public broadcasting
6 The advertisers.

The Television Networks

The television network provides the organizational structure for many of the television stations in the United States. The networks function as brokers (or agents) between the program producer (i.e., Paramount, Disney, 21st Century Fox, Universal etc.) and the local affiliated station (i.e., WBNS,CBS, KRON, KABC, etc.) in the acquisition and distribution of programming. The networks sell advertising spots to major advertising accounts as a way to finance the cost of programming. In the U.S., there are four major television networks: NBC, CBS, ABC and FOX. In addition, there is the CW network which functions as a minor network. The CW network is a joint venture between Warner Brothers and CBS. There are two significant Spanish-language networks as well, including Univision and Telemundo. Many of the major and minor television networks are the subsidiaries of larger transnational media corporations. This can be seen in Table's 2.1 and 2.2 respectively.

Table 2.1 U.S. Major Broadcast Television Networks

Television Network	Parent Company
CBS	Viacom
NBC	Comcast
ABC	Walt Disney Company
FOX	News Corporation Ltd

Table 2.2 Select U.S. Minor Broadcast Television Networks

Television Network	Parent Company
CW	CBS (Viacom) and Warner Brothers (AT&T)
UNIVISION	Broadcasting Media Partners: Haim Saban
TELEMUNDO	NBC Universal Group (Comcast)

Achieving Profitability

The networks achieve profitability through the sale of national advertising, less the cost of programming. Network television has the ability to reach the largest number of people when compared to other kinds of advertising media. This is accomplished through a clearance arrangement: that is, a contractual agreement whereby the affiliate agrees to rebroadcast the said programming and advertisements as scheduled. This allows the network to deliver a cleared schedule to national advertisers on all 210-plus affiliate stations. This is referred to as *network clearance* and is the basis for the network television business model. Another revenue stream includes owning the programs that the network airs. This provides opportunities in terms of in-house stacking; that is, making the same program available, including advertising, in a digital format for video-on-demand. And likewise, a highly successful program if owned by the network presents future opportunities in the national and international syndication market.

Program Producers and Distributors

Program producers are the studios and production houses that make the television programs and films that are leased to both broadcast and cable networks for viewing. They include such production companies as 21st Century Fox, Paramount, Sony Pictures Television, Universal

Studios and Walt Disney to name only a few. In addition, there are various independent producers/executive writers like Aaron Sorkin, *The West Wing*; Jerry Bruckheimer, *CSI*, *The Amazing Race*, Dick Wolf, *Law and Order*, *FBI* and Barbara Hall, Morgan Freeman and Lori McCreary, *Madam Secretary* to name only a few. The program producers contract with the networks to supply approximately twenty-two episodes per season; sitcoms may have as many as twenty-four. The actual number of episodes will vary depending on the program and length of time it has been in production. The standard contract allows the network to show newly produced episodes twice during a regular season. Although the networks provide seed capital, most of the production costs are assumed by the program producer. Thus, during the early stages of development, the cost of leasing seldom pays for the cost of production. Once the program has proven successful, the cost structure can change dramatically with the network assuming a much higher percentage of the production costs. As television programs become more successful over time, the writers and actors of the said program demand more money.

Achieving Profitability

Why are program producers willing to assume the risk and costs associated with television production? The program producer achieves profitability when that same program can be sold as part of a syndication package: that is, reruns that are made available to local stations on an exclusive basis. Examples might include *Big Bang Theory, Simpsons, Friends, Seinfeld* and *MASH* to name only a few. In addition, the program producer retains the right to sell that same series to cable programmers as well as possible video streaming services like Netflix, Amazon Prime and Hulu. Program producers through their distributing agents try to maximize the sale of television and film products by carefully planning the selection of distribution media and release times.

There are two basic economic assumptions that characterize the production and sale of television and film products. The first is that television and film products are examples of a public good. By that, we mean that the cost of production is independent of the number of people who consume it. If a viewer watches television, this action does not prevent others from watching. A second important assumption is that the cost of television and film production is fixed. Once the cost of production has been realized, the cost per viewer declines as the size of the audience increases. The objective, therefore, is to maximize audience reach and to favor those distribution media which can accomplish this goal. Media economists Bruce Owen and Steve Wildman refer to this as *windowing*: the method by which television and film programs are sold and distributed using different distribution media.[3]

Repurposing

This refers to the television industry practice of reworking (or recycling) television programs into new or alternative formats. As an example, NBC might take a television series like *Law & Order: Special Victims Unit* and negotiate a special deal with the USA cable network for the rights to air the same program episode two weeks after the original network telecast. Similarly, Bright/Kauffman/Crane Productions, producers of the television comedy series *Friends*, would eventually release the ten-season program series on DVD in box set form.

Program Distribution

In recent years, the number of distribution windows has increased significantly, and now includes broadcast syndication (both domestic and foreign), basic and pay cable television, direct broadcast satellite, DVD sales and rentals as well as over-the-top video streaming services. All television program producers have designated groups responsible for distributing television programming, including syndicated programs, on-going television series and films. A major media company such as the Walt Disney Company, for example, has designated distribution subsidiaries responsible for repurposing different software products. As an example, Disney–ABC International Television manages all of the Disney and ABC television brands nationally and internationally.

Network Affiliates

Affiliates are the local stations that make up the network. It is the local station that provides the network with direct access to viewers. In practice, a local station enters into an affiliation agreement (or contract) with a parent network to carry the network's programs in accordance with the parent network's schedule. The networks are responsible for approximately 60–70 percent of their affiliates' schedules depending upon the network. During that time, the affiliate receives a select number of advertising slots during which time they can sell local or national spot advertising. The other 30–40 percent of the affiliate's schedule is made up of local programming, most notably news and sports as well as syndicated programming. During those time periods, the affiliate station derives 100 percent of the revenue from the sale of local and spot advertising.

The Network–Affiliate Relationship

The network–affiliate relationship can trace its origins back to the early 1930s when the major radio networks (NBC and CBS) needed a technical means of transmitting broadcast signals to different parts of the continental U.S. The networks would send their programming via leased telephone lines to affiliate stations located across the U.S. The affiliate station, in turn, would receive the transmitted signal and rebroadcast it over the air to its local listening audience. The same network–affiliate relationship would be adopted with the advent of television, starting in 1948 and the early 1950s.[4] Leased telephone and cable lines gave way to satellite communication starting in the late 1970s.

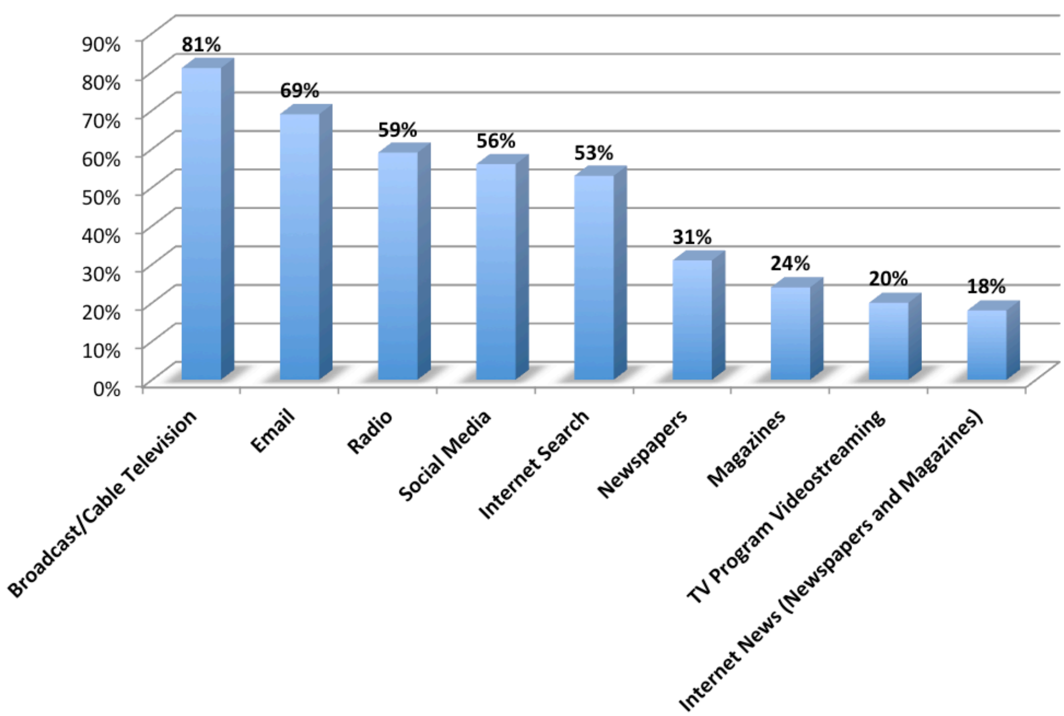
Broadcast Programming

Commercial television stations have two sets of customers. The first set of customers are the viewers. Their primary motivation is in watching television programs. They make it possible for the second set of customers, the advertisers. The advertisers purchase air time based on the belief that the said program will attract the right kind of viewers to see their commercials. According to Susan Tyler Eastman and Doug Ferguson:

> Programming is both a skill and an art. The primary goal in programming advertiser supported media is to maximize the size of an audience targeted by advertisers. The only way to accomplish this goal is to satisfy the needs and wants of that audience.[5]

In general, television advertising reaches more people when compared to any other advertising medium. This can be seen in Figure 2.1.

Fig. 2.1 Media Mix and Advertising Platforms



Source: TVB[6]

Programming in a Digital Universe

Digital media is at the heart of today's communication revolution. Digital media represents the artistic convergence of various kinds of hardware and software design elements to create entirely new forms of communication expression. From electronic commerce (Amazon.com and Google) to music and video streaming (Apple iTunes, Netflix and Hulu), digital media has transformed the business of television entertainment and and personal lifestyle. We have entered the era of personalization where iPod users personalize their music listening and television viewers customize their viewing selection via their digital video recorder. They are part and parcel of what I call digital lifestyle.[7]

Digital television runs counter opposite to many of the basic assumptions of traditional television program strategy. With the exception of athletic events like football and special event programs like the Academy Awards, today's television viewer is less inclined to watch television in real time in a linear fashion. Rather, video-on-demand has become more of the way we experience television. From digital video recording to over-the-top video streaming services, they both give the user the option to choose when, where and how to watch a given television program. Digital television and specifically video-on-demand has major implications for program strategy as well as the varying business models that support network television.

Program Selection and Scheduling

The constant demand for television programming by affiliate and independent stations requires that they have direct access to both new and old sources of programming. The programming department of any station is responsible for making sure that the station offers viewers good product inventory. As mentioned, the networks fill approximately 60–70 percent of an affiliate's schedule with programming. That means the affiliate is responsible for filling the remaining 30–40 percent of the schedule. Independent stations, by comparison, have the more formidable task of trying to fill their entire schedule with different sources of programming. In addition to locally produced television (i.e., news and public affairs), one of the important sources of programming for the local station market is through the purchase of syndicated programming.

Syndication

Syndication is the licensing of a television or film product by a program distributor to an affiliate or independent broadcast station on an exclusive basis: that is, one station per market. A syndicator like Warner Brothers will lease a program such as *Big Bang Theory* and have the same program appear on an NBC affiliate in San Francisco, a Fox affiliate in New York and a cable service like WTBS in Atlanta. Each station buys the exclusive rights to that program in its market. In the case of a major station group, the decision about program selection is often made at the corporate level on behalf of the company's multiple station outlets. In general, there are three types of syndicated programming: (1) first run, (2) off network and (3) feature films.

First Run

First run syndication refers to programs that are made for the syndication market. Such programs include talk shows (*Ellen*, *Dr Phil*), game shows (*Wheel of Fortune*, *Jeopardy*) and entertainment shows (*Entertainment Tonight*, *Made in Hollywood*, etc.).

Off Network (Reruns)

Off network syndication refers to programs that have appeared previously on the networks (i.e., reruns such as *Big Bang Theory, Simpsons, Friends, Home Improvement, Seinfeld, M*A*S*H, Cheers,* etc.).

Feature Films

Feature films are movies that were originally made for theatrical exhibition and are now available for television.

Syndicated programming is typically purchased to fill the hours of non-network feeds (typically late afternoons) or the entire schedule in the case of independent stations. Several of the nation's major syndicators include CBS Television Distribution (CBS), WB Domestic TV Distribution (AT&T), Disney ABC Domestic Television (Walt Disney Company) and Sony Pictures Television (Sony), to name only a few. Television syndicators license the exclusive rights to a program in that station's market. The syndicated program is usually sold as an entire package and specifies a set number of plays through the life of the contract. This does not include the current year if the program is still in production. The purchase price for syndicated programming will vary according to the program offering, the television market size and the expected returns during select day parts (i.e., the early fringe period, 5–6PM, will be worth more than regular daytime or late night).

For most television stations, the purchase of syndicated programming represents the single largest expense for a station on a year-to-year basis. It should not be surprising, therefore, that program acquisition and negotiation are areas that occupy a considerable amount of time for station management. The challenge, of course, is to purchase the right program at the right price. For a station manager (and program director), the right program has to achieve the objective of attracting a large number of people with the right demographics. Depending on the time slot, the right program has to provide a possible segue into the local evening news at 5:30 or 6:00PM. Clearly, the station that makes the mistake of purchasing a syndicated program that underperforms (or where too much was spent on the licensing fee) can seriously destabilize the station's financial performance.

The program syndicator will typically negotiate contracts with the station's general manager or the group station program director. Throughout the year, both sets of managers will routinely meet with syndicators, listening to sales pitches, reviewing research reports and watching DVDs of program excerpts or actual pilots. Often, the meeting takes place at industry conferences such as the National Association of Television Program Executives (NATPE). That said, most of the important contracts are negotiated in advance of the convention. In the pitch, the syndicator tries to convince station management of the program's merits, pointing out the potential upside for improved station ratings.

[1] Television Background, *Vault Research Companies*, February 26, 2019, http://www.vault.com/industries-professions/industries/television.aspx

[2] National Cable and Telecommunications Association, *Industry Data,* February 26, 2019, https://www.ncta.com/industry-data

[3] Ibid., 26-27

[4] Christopher H. Sterling, *Stay Tuned: A History of American Broadcasting*, 3rd Edition (New York: Lawrence Erlbaum & Associates, 2002), 283-290.

[5] Susan Tyler Eastman and Douglas Ferguson, *Media Programming: Strategies and Practices*, 8th Edition (Boston, MA: Thomson Wadsworth, 2009), 3.

[6] "Competitive Media, 2019," *TVB*, February 28, 2019, https://www.tvb.org/Public/Research/CompetitiveMedia.aspx

[7] Richard A. Gershon, *Digital Media and Innovation: Management and Design Strategies in Communication*, (Thousand Oaks, CA: Sage, 2017), 13-14.