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'87 FIELD GUIDE

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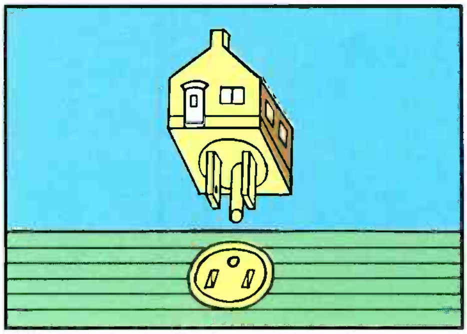

CHANNELS
THE BUSINESS OF COMMUNICATIONS

Field Guide '87

PERSPECTIVE

THE PLAYERS

THE AIR

SPACE

THE WIRE

THE HEARTH

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FROM THE EDITORS

About Field Guide '87

Investment houses give clients the *Channels Field Guide* as a quick introduction to the electronic media industries. Professors put it on reading lists for graduate courses in communications. Media journalists keep it handy. And readers in and around the media look to it for an overview of their bailiwicks as well as less familiar sectors of the field.

The guide, now in its fifth annual edition (and visually overhauled by designers Walter Bernard and Milton Glaser), hasn't lost its original preoccupation: the multitude of emerging electronic delivery systems, their pertinent economic and technological traits, their business prospects for the coming year. The *Field Guide* imitates a naturalist's handbook, condensing the key information on each species' markings, habitat and mating habits. There are updates on the life forms of the electronic media, organized into chapters noted by bright tabs on the margin of pages—The Air, Space, The Wire and The Hearth—starting on page 40.

But the *Field Guide* also recognizes that the delivery media don't operate in isolation. Most compete for advertising. Many go to the same moneymen for capital to expand. And all of them dip into the same worldwide pool of new and used programming to draw viewers and fill their distribution channels. Starting on page 13, there are new overviews of the markets where all of the delivery media go for their first-run programming, advertising and capital.

We've tried to keep the guide accessible to newcomers to the field by minimizing its use of the jargon that grows over the industry as aggressively as kudzu. Where we couldn't avoid using specialist vocabulary, the layperson will find relief in our glossary on pages 94 and 95. And for readers who want to know more about subjects discussed in the guide (or somehow left unmentioned), we're introducing a complete topic index to the past year's issues of *Channels* starting on page 96.

And, in the opening essay on page 8, editor-in-chief Les Brown looks back a few years more, to 1982, the year *Channels* prepared its first *Field Guide*, and traces the unexpected developments since then. Five years ago, it was an "innocent" time, when seers of the Second Age of Television knew so much less about the realities of the new media and had hopes for so much more.

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England: Jack Durkin & Co.
55 Hatton Garden, London EC1N 8HP England
Tel: 011-441-831-1131

C.C. Publishing Inc.
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CHANNELS The Business of Communications (ISSN 0276-1572) is published ten times a year by C.C. Publishing Inc., 19 West 44th Street, New York, NY 10036. Application to mail at second class postage rates is pending at New York, NY and additional mailing offices. Volume 6, Number 8, December, 1986.

Subscriptions: $39.50 per year; all foreign countries add $8. **Please address all subscription mail to CHANNELS The Business of Communications, Subscription Service Dept., Box 2001, Mahopac, NY 10541, or call 914-628-1154. Postmaster:** Send address changes to CHANNELS of Communications, Subscription Service Dept., Box 2001, Mahopac, NY 10541. **Editorial and business offices:** 19 West 44th Street, New York, NY 10036; 212-302-2380. Unsolicited manuscripts cannot be considered or returned unless accompanied by a stamped, self-addressed envelope. **No part of this magazine may be reproduced in any form without written consent.** ABC membership applied for January 1986.


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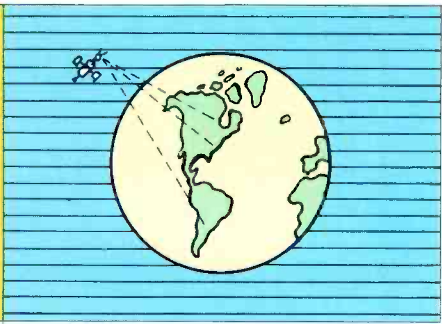


LOOKING BACK

Five Tumultuous Years

The visionary electronics of the early 1980s have given way to the hostile takeovers and leveraged buyouts of today, making for a future that is less dazzling than down to earth—a true Second Age of Television

Those were innocent times in 1982 when we published the first *Channels* "Field Guide to the New Electronic Environment," proclaiming the arrival of what we dubbed The Second Age of Television. Little was known then of leveraged buyouts, no one had heard of junk bonds and corporate raiders had not yet fixed their sights on media properties. All the excitement centered on technology and the amazing new things that could be done on the television screen.

Everyone loved talking about the future back then, for these were all futuristic electronics—cable that allowed for two-way television communications, optical discs that could store the entire contents of an art museum, satellites that could beam TV signals directly to the home and electronic newspapers to be read off the tube. It was possible to portray a dazzling future in which consumers could order up the programs they wished from television, while the TV set itself watched over the home for burglaries, fires and medical emergencies. From every direction the marketplace swarmed with technologies bearing such arcane monograms as MDS, DBS, VCR and HDTV. The question, however, was whether all this was to occur in the near future, the middle future or the distant future.

The next three editions were in the nature of progress reports—the picture had a way of changing every year. But this, the fifth Field Guide, marks the true beginning of the Second Age. If the past editions reported on the technological developments that had implications for the future, this one reports on the future that has, for better or worse, finally arrived.

No one doubted five years ago that the business of television would be altered quite drastically in this decade. Cable had already exceeded 30 percent penetration in the country and HBO, the first satellite-delivered pay service, was being spoken of as the likely fourth network. Video games, led by the Atari line, were grossing twice as much as Hollywood movies. Although no one can deny the impact of these technologies, the sweeping predictions about their inevitable progress were, as it turns out, overly optimistic. Cable subscriber growth rates have now slowed, pay services are suffering severe growing pains and video games have all but disappeared from the scene.

Still, the period spanning the five years of the *Channels* Field Guide has been the most turbulent in the history of media in America. Half a century has been compressed into half a decade, and the impact has been felt not just on the broadcast industry, but also on the motion picture and music industries, in advertising, retailing, news, sports, religion, finance, the stock market and American life-styles. The driving force of these revolutionary changes was not technology; rather it was business.

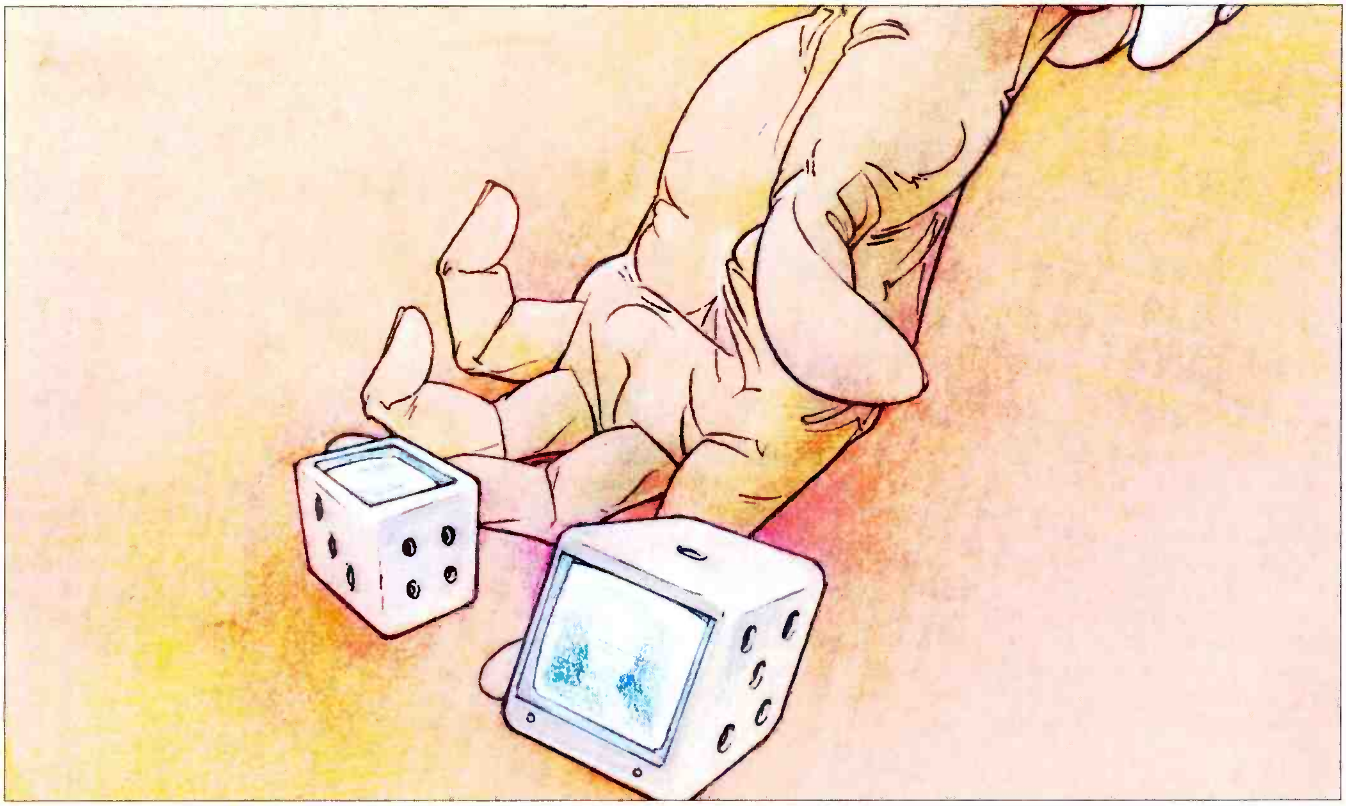
Business has not so much harnessed the new technologies as conquered them. Few of the early promises of the new media have been realized, at least in a time span that could be characterized as the near future. Cable did not become the narrowcast medium providing for limited, specialized tastes nor did it become the medium that watched over the home. The communications networks for communities, linking together businesses, the schools, libraries, hospitals and police departments, never really materialized. Videotex did not take away classified advertising and other information functions from daily newspapers—indeed, newspapers are booming, and two areas of renewed focus for them are, appropriately, business and television. Here, as has occurred so often in the past, new technologies did not so much eradicate the old as force them to explore new directions and to be viewed in a different way.

Likewise, the need for a public television system was not obviated by a cultural explosion in cable and video discs. Cable has succeeded not for its remarkable capabilities—those, if anything, were a turnoff to the financial community—but for its ordinary ones, its plain vanilla service, more television for mass audiences. Business was not enchanted by the miracles the new media could perform; it was, characteristically, more comfortable with the proven than with the risky.

But technology did play an oblique part in wrecking the old ways of television. The existence of cable and the other new media inspired deregulation, allowing the government's devout believers in free markets to argue persuasively that regulation based on the scarcity of broadcast frequencies no longer made sense. The conservative Reagan administration has been exceedingly liberal toward business, and Mark Fowler, chairman of the Federal Communications Commission, became Dr. Spock to the media business, permissive in the extreme.

Once the public service yoke was lifted from conventional broadcasting, and television licenses came to be regarded as the equivalent of real estate, the wheelers and dealers of finance found broadcasting to be quite attractive. And more so when it was discovered that most media companies were undervalued in the marketplace, worth more than the stock price if their parts were sold off individually.

The canny businessmen are swooping down, and in short order



DAVID JOHNSON

whole companies are vanishing: Metromedia, Storer, Wometco, Field, Gulf, Golden West and Group W Cable (formerly Teleprompter, once the largest and most influential cable company in the field). Powerful financiers who were not previously in the game are buying their way into television—among them Laurence Tisch, Warren Buffett, William Simon and the Bass brothers—along with such companies as Hallmark, Coca-Cola and Kohlberg Kravis Roberts & Co.

In a matter of months during 1986 the television industry was transformed beyond recognition. All three of the commercial networks—against which the progress of the other media inevitably is measured—came under new ownership or leadership. Each of the acquirers pledged to run these huge television machines in a more businesslike fashion than before, with fewer frills and executive perquisites, less staff, greater cost control and strict attention to the bottom line. So the networks have lost during the past year not only their near total dominance of the television market but also their swagger, their corporate identities and perhaps also their hallowed traditions.

Moreover, the networks operate now in a new economy, one in which they no longer have absolute control over advertising rates nor over the kinds of programs to be produced for the medium. With the population of independent television stations—most of them on UHF—shooting up from 78 to about 250 so far in this decade, the syndication market is booming. The demand for programming has not only caused the prices of off-network series to soar but has prompted the major studios to produce shows expressly for syndication. For advertisers, barter syndication has become an economical alternative to buying network spots. And out of Australia, media baron Rupert Murdoch marched brashly into the American market, buying first 20th Century Fox and then the Metromedia TV stations before mounting the first credible fourth network attempt, using the independents as an infrastructure.

A variety of other powerful media companies joined Murdoch in establishing vertical integration of their businesses. Hollywood studios such as Universal (MCA Inc.) and Lorimar-Telepictures have bought television stations, while Walt Disney Productions has established a successful pay-cable network. In a reverse move, Ted Turner purchased MGM for its film library, which he'll use not only to build up his superstation, WTBS, but to beam across the world via a new satellite arrangement. And now leaders of the cable industry are striving to create their own fourth network to draw yet more of the audience and advertisers away from ABC, CBS and NBC.

Meanwhile, the home video field, which is adding households at the rate of a million a month, has crimped the growth of pay cable, changed the weekend life-styles of teenage viewers and significantly reduced the network ratings on Friday and Saturday nights. Now movies fresh out of theatrical release are being delivered to homes by a new means, pay-per-view cable services. On another front, home shopping networks are giving cable operators something new to sell, while at the same time spilling over to UHF broadcast stations.

It all comes down now to programming. With everyone chasing the heavy users of television—that so-called mass audience—the differences in distribution systems become quite meaningless. Once the technologies enter the household they are taken for granted, and what they present, however it may get there, is considered to be television.

The Second Age of Television, then, is a new time in which the networks are joined by cable, syndication, VCRs, fourth networks, pay-per-view operators and marketers of backyard dishes in pursuit of the same audiences with essentially the same kinds of programs, give or take production values and style. Old wine is filling many new bottles.

The question today is whether there will be enough attractive programming and advertising dollars to go around. Odds are there won't be enough of either, and to survive some of the new media may be forced into relatively narrow niches in the marketplace, offering distinct programming and quality services not already found on commercial television.

LES BROWN

HINDSIGHT

Dead in the Red: A Billion-Dollar Necrology

There are failures and . . . failures. The following are in the second category. The ten top turkeys of record over the last half decade.

The Entertainment Channel: Journalists who wrote that the RCA/Rockefeller Center-owned pay cable channel was a "cultural" service received irate phone calls from the company's publicists, insisting it wasn't. What it was never was quite clear, at least in the minds of cable operators and viewers, a few of whom paid $12 a month for the mix of Broadway shows, off-network series, lowbrow BBC comedies and foreign films. When the channel folded in mid-'82, 18 months after launch (some of the programming was recycled into the Arts & Entertainment Network), chairman Arthur Taylor was faulted for imposing his caviar tastes on a Burger King crowd. Pretax losses: $34 million.

CBS Cable: It was cable's classiest hour: an original musical by Elizabeth Swados, a teleplay by John Osborne, a new production of *The Mikado* and Gregory Jackson's penetrating interview segments, *Signature*. Started in late 1981 as an ad-supported basic service, it pleased high-brow TV viewers with its generally first-rate programs. But ad support never materialized and CBS chairman William Paley reluctantly pulled the plug after 14 months. CBS' loss: $30 million.

TV-Cable Week: It was the dream magazine: a wide audience eager to embrace a single weekly offering *all* the TV listings, tailored to individual cable systems; advertisers who would flock to this upscale audience; cable operators who would help market it. Best of all, computers would produce large parts of it, and thus it had the potential to quickly become the most lucrative publication in Time Inc.'s history. The fatal flaw: Cable operators wouldn't cooperate, since they regarded Time Inc., owner of the nation's second-largest cable company, as competition. Five months after the April 1983 start-up, *TV-Cable Week* passed away. Time Inc. lost face and $47 million, but group vp Kelso Sutton was sanguine: "We misread the tea leaves."

Satellite News Channel It was a basic cable version of all-news radio—plagued with bad timing from the beginning. For one thing, Ted Turner's Cable News Network and CNN Headline News were off and running when SNC was born in 1982. The Big Three networks had all launched overnight newscasts of their own, draining ad dollars that might have gone to SNC. Then there was Turner's antitrust suit against SNC owners ABC and Westinghouse, claiming CNN was being kept off cable systems. In late '83, facing $40 million in losses, SNC was sold to Turner for $25 million. He promptly shut it down.

Time Teletext: It was to be the most sophisticated cabletext service of its day: national and international news, sports, financial data, video games, airline schedules and more transmitted from New York. Local newspapers around the country would tie in, providing community news, sports, public transit schedules, restaurant reviews, weather and so forth. But two years of corporate R&D convinced Time Inc. that on-line information for the masses was an idea whose time had not yet come. In November 1983, the project was scuttled, at an estimated cost to the company of $15 million to $30 million.

TeleFirst: It worked like this: Subscribers set their VCRs at night. In the wee hours, ABC's Chicago affiliate broadcast scrambled, early-release movies and other diversions, which viewers played back the next day. Problem was, most VCR owners hadn't mastered their VCRs' timers, and they rarely got around to watching many of those time-shifted tapes. TeleFirst never had a prayer. The only thing worse than failure, however, might have been success. Then viewers would have been watching yesterday's tapes instead of today's prime time, and both advertisers and affiliates would have squawked. With fewer than 5,000 subscribers, TeleFirst was put down after six months, in June 1984. Shutdown costs were reported at $15 million.

Qube: Influence public policy; play TV game shows from the living room; tell the quarterback which plays to call: That was the promise of Qube. Warner-Amex's two-way interactive cable, through which viewers could talk back to their TV sets via keypads, was trumpeted as the future of television, but after six years of attempting to capture viewers with interactive programs, it seemed only 25 percent of Qube's 350,000 subscribers had anything to say. With losses mounting to more than $30 million, Warner discontinued its special programs for Qube in 1984.

United Satellite Communications Inc.: When Prudential stepped in as the major investor in America's first direct satellite-to-home (DBS) broadcaster, the young entrepreneurs who founded the company in 1983 were quickly muscled aside in favor of more experienced management. Not that the big boys exactly acquitted themselves. By the time the service filed for bankruptcy in early '85, USCI had signed up fewer than 11,000 subscribers and owed $47.6 million. With the backyard dish movement in its prescrambling euphoria, DBS seemed but a fading dream.

Selectavision: It was an electronic Edsel, unneeded and obsolete the day it debuted. In 1981, when RCA introduced its videodisc player using an old-fashioned needle-in-the-groove, the competition already had one that not only read discs by laser beam, but offered interactive features RCA's couldn't duplicate. And the growing popularity of the VCR, which could record *and* play back, didn't help. After four years and $580 million, RCA ditched the disc, finding consolation in the fact that it is the largest U.S. marketer of VCRs.

America: Rescuing afternoon television from the cartoon/game show/rerun ghetto with a classy first-run, syndicated variety/talk show was a noble idea. Paramount Television and Post-Newsweek Stations financed the $400,000-a-week 1985 venture, and 114 stations signed on. But after four months of low ratings, five CBS-owned stations canceled the show, thus beginning an exodus that quickly sent *America*—and a noble idea—down the tubes.

PETER AINSLIE

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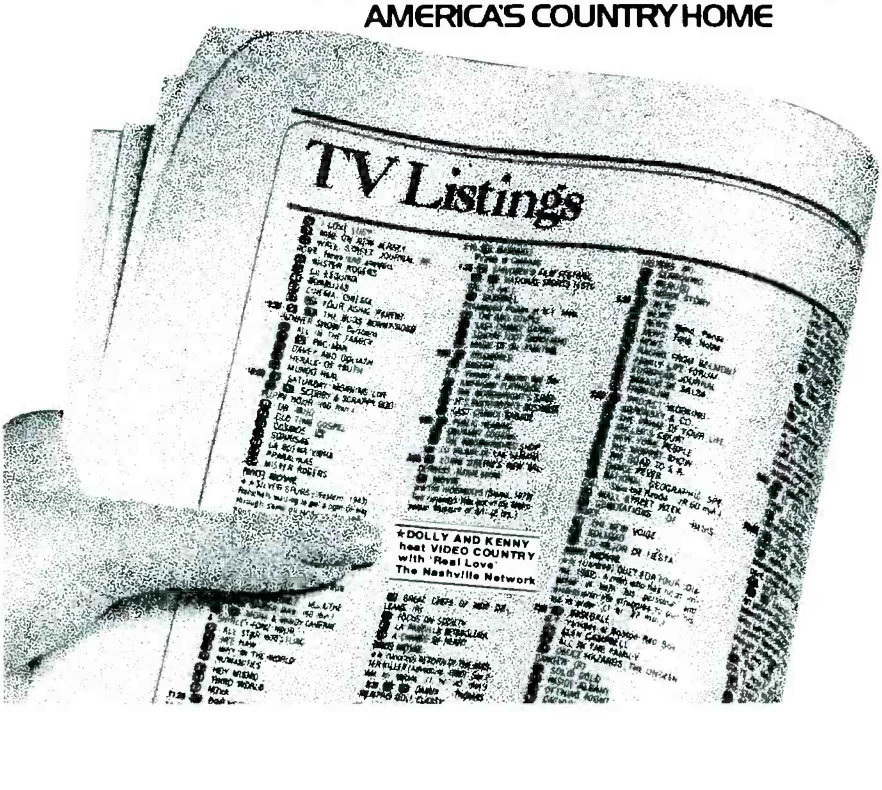

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Hollywood's New Low-End Market

Legions of program buyers are on the prowl, but virtually all —even the networks— are looking harder than ever at the prices

DAVID SUTER

When *Airwolf* was a big-budget weekly drama last season, before CBS canceled it, the show had everything: stars, location shooting, chase scenes, a $1.2 million tab per episode, even a helicopter of its own. Sometime in 1987, when new episodes of the show return on USA Cable, all of that will be in the extravagant past. Lower-paid Canadian actors will have taken the place of Ernest Borgnine and Jan-Michael Vincent, and the California locations will have given way to views of British Columbia. Many of the helicopter shots will be recycled from earlier shows. And if you squint, you might notice that the helicopter has been replaced in some shots by—can you believe it?—a miniature model.

The cut-rate *Airwolf*, produced in Vancouver at a cost of $400,000 an episode—about one-third the cost of its network cousin—symbolizes what the new age of television is doing to the production industry. The new TV delivery mechanisms, syndication and cable networks in particular, are beginning to mature economically and shop for their first grown-up, first-run programming.

The burgeoning first-run selection may sound great to viewers hungry for alternatives to predictable network fare. But the demands of the new program buyers are spreading the available expert writers and producers thinner than ever. And the uncharted economics of the non-network delivery systems are restricting innovation and risk taking every bit as effectively as the well-known pressures of high-stakes network programming.

"I think what happens is that you'll have more and more programming that tends to be cookie cutter and lower in quality than you've seen before," says Paul Bortz of the Denver consulting firm of Browne, Bortz & Coddington. Even when the new delivery media buy first-run series, the ideas for the series, as in *Airwolf*, are mostly hand-me-downs from the networks.

The syndicators and cable networks are just now climbing out of the bargain basement in both ad rates and programming budgets. Even the relatively strong new Fox network can get a mere $15,000 for 30-second spots on its Joan Rivers show, in contrast to $33,000 for those on competing late-night network shows. But aggressive syndicators and cable programmers, including superstation WTBS and the USA Network, are nevertheless striving to gain a competitive edge by moving up from off-network reruns to first run. One result is a new multi-tiered program-pricing structure based on the amount each of the delivery media can pay.

At the top, with a total of some $4 billion to spend annually, are the networks. From them, a proven producer can get $2.5 million or even $3 million for a first-run movie and $300,000 to $500,000 or more for a half-hour situation comedy. In the next tier are the pay cable services, which match or beat the networks on specials and movies but generally pay license fees of half to two thirds of what networks pay for series. Further downscale are the syndicators, which spend up to $400,000 for a half-hour sitcom episode, and, below them, the basic cable networks, whose price range is $100,000 to $250,000 per episode. Producers of made-for-cassette programs are also spending in the low six figures.

The Fox Broadcasting Company, the syndicators and basic cable programmers together laid out about $284 million for new programming this season, according to Paul Kagan Associates, or about 16 percent of what the networks spent for new prime time production. It's new business the studios don't mind having.

"At the beginning of coping with the new economic reality is realizing that much of what you did in the past probably didn't make sense in the past, doesn't make sense in the present, and certainly doesn't make sense in the future," says

Sidney J. Sheinberg, president of MCA Inc., producer of the original *Airwolf* for CBS and owner of the syndication rights to the new Canadian episodes. "There's no sense making shows that cost four *X* if cable can only afford to pay one *X* or pay-TV can only afford to pay one point five *X*."

The demand for less expensive programming has producers concentrating all the harder on their economics. "It's a free-for-all, I'm telling you," says Esther Shapiro, producer of *Dynasty* and a former ABC programming executive. "There's a lot of opportunity out there, but you have to spend a lot of time worrying about the finances."

Complicating matters for program suppliers, the austerity-minded networks are no longer willing to pay top dollar for shows. Whereas five years ago the license fees paid by networks came close to covering a producer's costs, they're now leaving shortfalls of up to $100,000 per episode for half-hour shows, and two or three times that for hour-long dramas.

The networks are in no mood to subsidize producers who routinely make big profits by selling their shows again and again in syndication and other "back-end" markets that the FCC has ruled off-limits to the networks. "I feel very comfortable with not paying the cost of a show," says CBS Entertainment president Bud Grant, who is refusing to hike license fees more than 3 or 4 percent a year. "The product we deal with is not consumable, like a can of Coca-Cola, that is consumed once and it's gone. It's a product that has a never-ending revenue stream," Grant says.

Inevitably, all this is forcing some fundamental changes in the way the programming game is played. Producers keep their eyes on their promised land, the back-end markets—syndication, cable, videocassette and foreign broadcasting—where they can make back their investments. Says Gary Krisel, president of network television for Walt Disney Television: "We weigh a show's cost against the possibility of success and only do those that have a promise of making a profit in the back end."

As always, there are problems on the cost side of the equation. For one, expensive labor contracts and competition for big-name talent are pushing up production costs dramatically—by roughly 10 percent a year, producers estimate. In addition, the new federal tax law has eliminated the investment tax credit (ITC) that allowed producers during the past decade to deduct 6.7 percent of the cost of their productions from their federal tax bills. The ITC often meant the difference between profit and loss on a project.

The goal on virtually all television production sets is to do more with less. This can mean working faster—*Dynasty* is shooting four shows every 14 days, for instance, instead of one show every seven days—or it can mean deleting from the script a $25,000 car-crash stunt. It can even lead to decisions that once would have seemed lunatic: turning down a network's order for a series. MCA took that step in '86 with two shows planned by top-flight producers, Michael Mann's *Crime Story* and an adventure show from Donald Bellisario, executive producer of *Magnum, P.I.*, because it expected production costs to outrun the potential back-end sales. New World Pictures jumped at the opportunity to make *Crime Story* for NBC as a way to gain entry into the television world. But the Bellisario project, with a price tag of some $1 million per episode, is still on ice.

A growing number of television producers have also shifted filming to Canada, where lower costs and more pliable unions assure hefty savings. The investment tax credit once provided a strong disincentive against runaway production, since it could be applied only to American production projects. Now that it's no longer in effect, however, producers estimate that going north can save them between $200,000 and $300,000 per episode.

This fall's schedule features more Canadian-made programs than ever, including Orion's *Kay O'Brien* on CBS, the Stephen J. Cannell Company's *Stingray* on NBC and a host of TV movies, game shows and specials. Not long ago, producers of Dolly Parton's ABC Christmas special had to give up plans to shoot in Vancouver. All the film crews there were already booked. And the search for programming sometimes leads even farther than Canada. Viacom's Nickelodeon is carrying an Australian series, *Zoo Family*, as well as a couple of French cartoon series.

The flight of series from Hollywood leaves union leaders feeling doubly burned. "Of course it's the unions that are making them go, because unions make them give a fair shake to the people who do the work, and they'd rather go where they don't have to do that," says Neal Marque, business manager of Local 531 of the National Association of Broadcast Employees and Technicians in Los Angeles. "The unions are weak in western Canada. They don't have the muscle to enforce a contract."

Unions are also feeling the squeeze from some productions remaining in California. In an attempt to keep costs near the lower prices offered by the new TV outlets, a few producers are trying to do without union labor. Back when the networks were the only buyers, it was less tempting to risk war with unions in one of the nation's most thoroughly unionized industries. Now, however, a small nonunion shop such as Arthur Annecharico's Arthur Co. can make a specialty of ultra-low-cost productions for syndication and basic cable. His strategy is not without risk. The Arthur Co. lost the rights to produce *Airwolf* to Atlantis this year after tussling with the Writers Guild over royalties for basic cable.

"There's a great deal of interest in producing for basic cable, but the future is still unclear because of certain positions of the talent guilds," says Dana Walker, Arthur's vice president of business affairs. "If they continue to insist on increased compensation, they will succeed in strangling in the cradle an infant industry they helped bring into the world."

With the economics of television production in turmoil and with relatively thin margins in sight, producers and the new program buyers are sticking to familiar genres. Almost 40 sitcoms were shown on network, on cable and in syndication this fall, and scores more are in production—more than ever before in television history and perhaps too many. "They're charging off the cliff with half-hour sitcoms this year," says producer Robert Lovenheim. "Where do all these studios get off, thinking that all they need is one good Hollywood writer and it will happen? It won't."

The big winners of television's production boom thus far seem to be the "above-the-line" people—an accounting term Hollywood has borrowed to designate the big-name actors, directors and writers whose salaries appear at the top of a production budget. "All these things come down to demand and supply," says Harvey Shephard, president of Warner Brothers Television. "The networks want certain people to create a show and stay with a show. All the studios are bidding for them." The annual compensation of some top writer/producers is nearing the $1 million mark.

At the same time, Hollywood's usual deal-making mania has risen to frenzy level as program sellers seek every conceivable market and seek to plant their fingers in the media-ownership side of the business as well. In the heat and pressure, strange new life forms are evolving and crawling out of the production industry's bubbling caldron. There are made-for-syndication series, made-for-cable specials and now, a made-for-cassette stand-up comedy series, *Paramount Comedy Theater*. Cartoons are released simultaneously on network and tape and a year later in syndication. "The face of the television business in five years is probably going to be very different than it is now," says Arthur's Dana Walker, "but exactly how it will change, nobody knows."

PATRICIA E. BAUER

THE PRODUCERS

Hollywood's biggest production houses had orders to produce more first-run syndicated shows than network series when surveyed in the fall. Costwise, the shows aren't necessarily comparable. Many of the syndicated programs are low-budget daily shows. But this sampling demonstrates how some studios have gone after the syndication market.

Producer	Network	First-Run Cable	First-Run Syndication
Lorimar-Telepictures	**118 hours:** *Better Days, Dallas, Falcon Crest, Knots Landing, Our House, Perfect Strangers, Valerie*	**None**	**390.5 hours:** *Love Connection, Mama's Family, Million Dollar Chance of a Lifetime, People's Court, SilverHawks, Superior Court, ThunderCats*
Coca-Cola Units			
Columbia Pictures Television	**32.5 hours:** *Designing Women, The New Mike Hammer, Starman*	**None**	**44 hours:** *The New Gidget, Punky Brewster, What's Happening Now!*
Embassy	**34 hours:** *Facts of Life, 227, Who's the Boss?*	**None**	**11 hours:** *Silver Spoons*
Merv Griffin Enterprises	**97.5 hours:** *Wheel of Fortune*	**None**	**227.5 hours:** *Dance Fever, Jeopardy!, Wheel of Fortune*
Paramount	**85.5 hours:** *The Bronx Zoo, Cheers, The Duet, Family Ties, MacGyver, The Tortellis, Webster*	**76 hours:** *Brothers, Hard Knocks, Sanchez of Bel-Air*	**218.5 hours:** *Entertainment Tonight, Entertainment This Week, Marblehead Manor, Solid Gold*
Disney	**65 hours:** *The Disney Sunday Movie, The Ellen Burstyn Show, Sidekicks*	Many productions for The Disney Channel	**207.5 hours:** *Siskel & Ebert & the Movies, Today's Business, Today's Business Weekend*
Taft Broadcasting Units			
Taft Entertainment Television	**6.5 hours:** *You Again?*	**None**	**12 hours:** *Throb*
Ruby-Spears	**17 hours:** *Alvin & the Chipmunks, Laser Tag, Punky Brewster* (animated version)	**None**	**67.5 hours:** *Centurions, Chuck Norris, Rambo*
Hanna-Barbera	**52 hours:** *Flintstone Kids, Foofur, Pound Puppies, Smurfs, Wildfire*	**None**	**12.5 hours:** *Funtastic World of Hanna-Barbera, Jonny Quest*
Southern Star/ Hanna-Barbera-Australia	**13 hours:** *Berenstain Bears, Teen Wolf*	**None**	**None**
20th Century Fox	**91 hours:** *Heart of the City, L.A. Law, Mr. Belvedere, The Wizard*	**None**	**52.5 hours:** *Dreamgirls USA, 9 to 5, $100,000 Pyramid, Small Wonder*
Universal	**112 hours:** *Amazing Stories, The Equalizer, Magnum, P.I., Miami Vice, Murder, She Wrote, Simon & Simon*	**None**	**26.5 hours** *Charles in Charge, The New Leave It to Beaver*
Warner Bros.	**79 hours:** *Growing Pains, Head of the Class, My Sister Sam, Night Court, Scarecrow and Mrs. King, Spenser: For Hire*	**None**	**None**
Aaron Spelling Productions	**86 hours:** *Dynasty, Dynasty II: The Colbys, Life with Lucy*	**None**	**None**
MTM	**55 hours:** *Hill Street Blues, Newhart, Remington Steele, St. Elsewhere*	**None**	**None**
The Arthur Co.	**None**	**47 hours:** Rocky Road, Safe at Home	**None**
Witt/Thomas/Harris	**12.5 hours:** *Golden Girls* (in association with Touchstone)	**None**	**25 hours:** *It's a Living, One Big Family* (both in association with Lorimar-Telepictures)
New World	**35 hours:** *Crime Story, Sledge Hammer*	**None**	**None**
Stephen J. Cannell	**42 hours:** *The A-Team, Hunter, Stingray*	**None**	**None**
Viacom	**31.5 hours:** *Easy Street, Matlock*	**None**	**13 hours:** *What a Country!* (in association with Tribune Entertainment)

Compiled by Hall Morrison

PERSPECTIVE

THE ADVERTISING SCENE

Going Soft: The Emergence of a Buyers' Market

Pressed harder than ever by competitors, the three networks hold down their rates and bend rules to please advertisers

Ted Turner saw what was happening and wasn't shy about speaking up. "Twenty-two percent of national TV viewing has left the broadcast networks," his cable networks pointed out last spring in the headline of an ad directed at advertisers. "Shouldn't your budget do the same?"

Advertisers' dollars were, in fact, already following the viewers to independent stations and cable, though perhaps not as many to Turner as he'd like.

After years of double-digit growth, network revenues slipped $300 million between 1984 and 1985 and were expected to grow just 3 percent, slower than the inflation rate, in 1986. *Advertising Age* estimated that the networks average ad prices in the third quarter of 1986 were just 0.6 percent above 1985's. CBS went from the most expensive network to the cheapest, with its prices down an average of 11 percent.

Advertisers were rebelling at network ad prices, which have risen much faster than the prices for their own products, says Robert J. Coen of the McCann-Erickson ad agency. Moreover, in the decade from 1975 to 1985, the networks tripled the rates charged to advertisers while they delivered a dwindling share of the prime time audience (September through April)—76 percent this year, compared with 91 percent in 1976.

"Now you have price competition that you never had before," says independent media consultant Ellen Berland Gibbs. Independent stations and barter syndicators have taken a fifth of revenues in a field that once belonged entirely to the big three and their affiliates. Rupert Murdoch's Fox network will take some more.

But advertisers were not by any means deserting the networks, which remain the surest way to reach nearly every American. Broadcasting retains a tremendous advantage over cable, for instance. "A 20 rating is still the biggest number in town," says Alice Sylvester of J. Walter Thompson. "The cable networks are fighting to get 1 ratings."


Grace's deficit ad fractures a network ban.

Again and again, events are showing that the balance of power in TV advertising has tipped toward the advertiser. The networks could no longer resist demands for 15-second spots. They had begun permitting ads for two products in a single 30-second spot—"split 30s"—in 1984, and CBS had given the go-ahead for stand-alone 15s the next year. ABC and then NBC bowed to the pressure last spring. The networks' 15s, selling for about half the price of 30s, let advertisers reach viewers more often for the money. Some admen warn that 15s can put across only the simplest messages, and that the clutter of short spots irritates viewers. But even the doubters are buying 15s for their clients. At midyear in 1986, one fifth of network spots were shorter than 30 seconds.

CBS felled another restriction—a ban on controversial issue ads—when J. Peter Grace, a crusader against government waste, accused the networks of restraining his free speech. Grace, chairman of the W.R. Grace & Co. conglomerate, had tried to place a 60-second spot that shows the ragged young people of the year 2017 putting today's adults on trial for running up the federal deficit. NBC rejected the ad, and ABC agreed to run it only between midnight and 12:30 A.M. CBS said it would run the ad if Grace deleted a brief mention of the proposed antideficit constitutional amendment. The point was moot, however, since Grace had used up his $900,000 ad budget on spot and cable ads.

A handful of major advertisers meanwhile are returning to sponsorship—the direct linkage to programming that was the norm in television's early years. Chrysler Corp., for instance, is planning to sponsor a *Chrysler Showcase* twice a year, says Werner Michel of the agency Bozell, Jacobs, Kenyon & Eckhardt. The first Showcase, "The Last Days of Patton," ran in September. "Chrysler had arrived at the point that it needed the association with fine programs," says Michel. Besides, sponsors typically benefit by owning part of the program's back-end rights. The networks have been accused of putting sponsored shows in second-class time slots, but Michel thinks that has changed. "The networks," he says, "need all the help they can get."

STEVE BEHRENS

MAKING HAY SELLING TIME The networks and affiliates soak up four fifths of TV and spending. But the competition grows faster.

National TV media	1980	1986 projected	percent growth
Broadcast networks	$5,130 (Millions)	$8,535	66%
Barter syndication	50	610	1120%
Cable networks	50	800	1500%
Local TV media			
Cable, local and spot	8	193	2312%
Broadcast, spot	3,269	6,425	96%
Broadcast, local	2,967	6,400	116%
Total	**$11,474**	**$22,963**	**100%**

Source: for broadcast media, Television Bureau of Advertising; for cable, Cabletelevision Advertising Bureau

DAVID HERBICK

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Television

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DENNIS R. ECKHOUT
Senior Broadcast Analyst
Prior to joining CEA, Dennis Eckhout served as Senior Financial Analyst for Frazier, Gross and Kadlec, Inc., and has worked as an independent consultant in market and station analysis.

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Manic over Media: Wall Street Bets $8 Billion

The nation's financiers are eager to invest in media companies. But the industry is getting deeper in debt and worried about it

ROBERT GALE

Perhaps nothing better sums up the changing state of the media business in 1986 than the fact that the year's largest financing was Drexel Burnham Lambert's $1.4 billion funding of Ted Turner's MGM/UA purchase.

Turner's role in the television business and that deal in particular reflect an industry that is increasingly entrepreneurial, highly leveraged and acquisitive. Include in the picture Drexel, the aggressive investment bank that originated the now-renowned high-risk, high-yield junk bonds, and you have the elements that give media financing its roller-coaster excitement and terror.

What's exciting is Turner's ability, without yet showing profitability, to borrow enough to build an empire, Turner Broadcasting, and a property, Cable News Network, that any major news organization would be proud to have launched. What's terrifying is that Turner's expansion debts are about to become due, and that he'll almost certainly have to take on a major equity partner or sell off large pieces of the company in 1987.

These developments reflect a remarkable change in the strategies of media companies. Until recently, they had cash-positive balance sheets and were rare borrowers. "Media companies, which had been sleepy, are awakening to get in step with corporate America as a whole," says Morgan Stanley banker Steven Rattner.

The change could be long-term. As long as interest rates don't rise substantially above 1986 levels, there is every reason to believe that media companies will continue borrowing huge amounts of money. In 1986 alone, media and entertainment companies raised about $5 billion in the debt market, about $2 billion of that in private placements and about $1 billion in initial public offerings.

In addition to Turner, atop the accompanying list of the industry's largest 1986 debt financings is Capital Cities/ABC, which grew out of the biggest media deal ever, and Home Shopping Network, originator of the hottest media phenomena of the mid-'80s. The list of initial public offerings includes fundraising by Time Inc.'s American Television & Communications (ATC) and three other cable owners, reflecting the success of the fashionable cable business.

Not only are the media giants able to easily borrow, but so can the new names that dot the industry. New World Pictures, American Cablesystems and Legacy Broadcasting are well on their ways to becoming major factors in their fields because of creative uses of debt and other financial tools.

But by now, Wall Street is wise to what had been an undervaluing of media properties, and today analysts say most media companies are more fairly priced. So, other tools are emerging to attract capital to media companies. More and more media companies are, like Time Inc. in its deal spinning off 20 percent of ATC, likely to sell pieces of their businesses. And corporations, like Malrite Communications, will increasingly fund their growth by using devices like master limited partnerships (MLPs), which are popular because of their tax advantages and steady yields.

Another emerging financing tool being embraced by investors is the $1 billion "private" equity pool such as the one set up by financier Joe Allbritton. With resources available, with new players in the field and with interest rates low, there's no reason why the deal making and the capital raising of 1986 won't be eclipsed in 1987.

It's tougher to predict the condition of businesses that are only now getting used to large amounts of debt. Though the media industry is less leveraged than others, it's appropriate to worry about what will happen to the business, already facing a tough ad environment, if interest rates rise. We'll get a preview for the whole industry when we see how well the Ted Turners of the world survive 1987.

MERRILL BROWN

PERSPECTIVE

A WEALTH OF MEDIA FINANCINGS

PUBLIC DEBT OBLIGATIONS: Turner Broadcasting Company's borrowings associated with its purchase of MGM/UA lead the list of the largest public debt issues assumed in the media and entertainment industries in 1986 (through October).

Offer Date	Issuer	Description of Issue	Amount (Millions)	Managing Underwriters
3/86	Turner Broadcasting	Adjustable Rate 1-year Senior Extendable Notes	$600	Drexel Burnham
3/86	Turner Broadcasting	Adjustable Rate 15-year Senior Subordinated Debentures	360	Drexel Burnham
3/86	Capital Cities/ABC Finance	8.75% 30-year Sinking Fund Debentures	300	First Boston; E.F. Hutton; Merrill Lynch
10/86	Home Shopping Network	11.75% 10-year Senior Notes	250	Merrill Lynch
9/86	New World Pictures	12.25% 12-year Subordinated Sinking Fund Debentures	215	L.F. Rothschild Unterberg Towbin
1/86	Gannett	8.375% 3-year Notes	200	Dean Witter
3/86	Capital Cities/ABC Finance	8.25% 10-year Guaranteed Notes	200	First Boston; E.F.Hutton; Merrill Lynch
7/86	Gulf + Western	9.75% 30-year Senior Debentures	175	Morgan Stanley; Drexel Burnham; First Boston; Salomon Brothers
7/86	Price Communications	13.0% 10-year Subordinated Debentures	150	Morgan Stanley
3/86	Turner Broadcasting	3-year Senior Notes	110	Drexel Burnham
3/86	Turner Broadcasting	4-year Senior Notes	110	Drexel Burnham
3/86	Turner Broadcasting	5-year Senior Notes	110	Drexel Burnham
3/86	Turner Broadcasting	6-year Senior Notes	110	Drexel Burnham

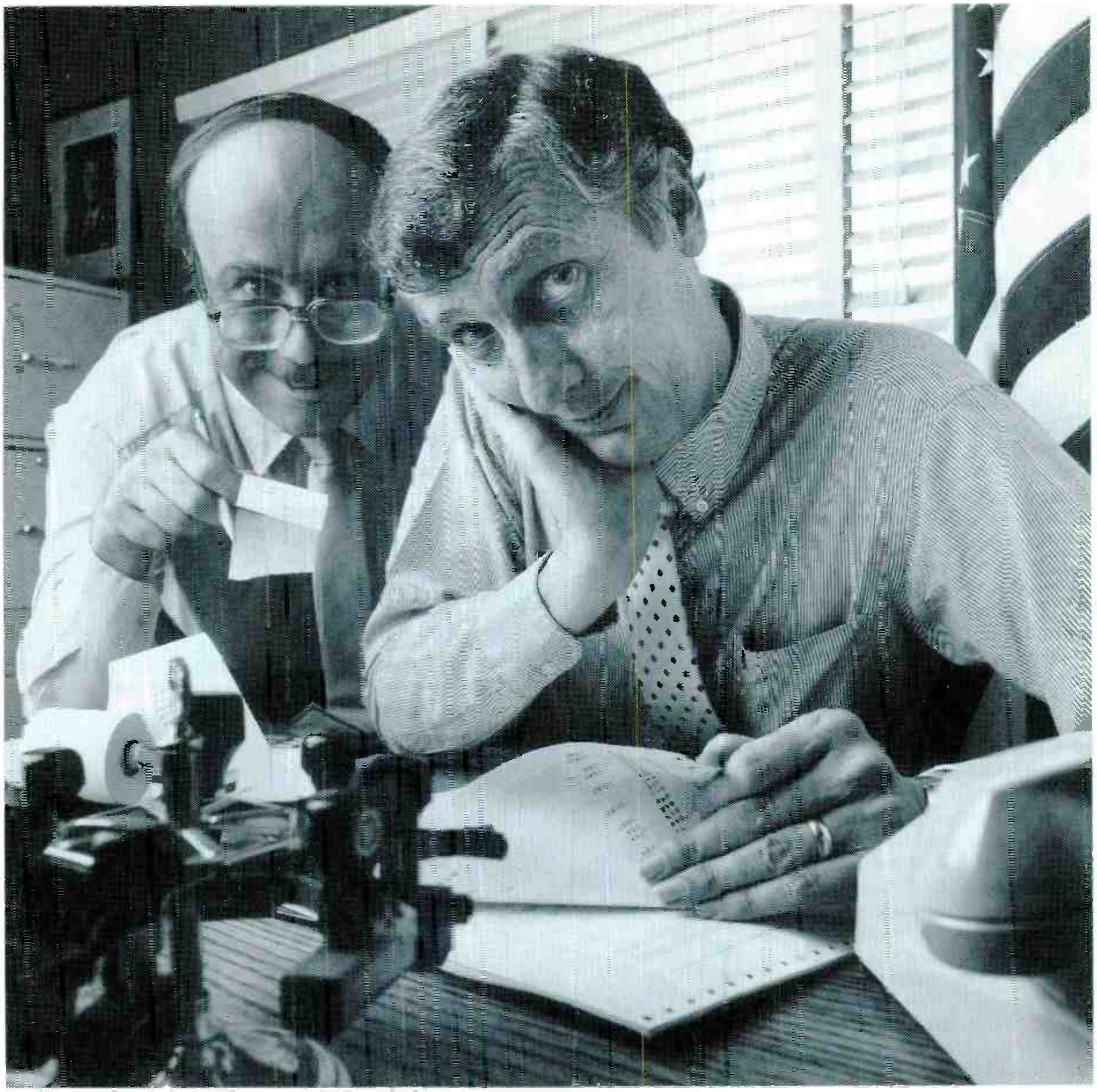
INITIAL PUBLIC OFFERINGS: The industry's ten largest examples of IPOs, the fund-raising mechanism that takes companies into the equity market.

Offer Date	Issuer	Description of Issue	Amount (Millions)	Managing Underwriters
8/86	American Television & Communications	20,000,000 common shares	$370.0	First Boston; Lazard; Salomon; Shearson
4/86	Western Publishing Group	10,080,000 common shares	201.6	Drexel Burnham; Wm. Blair; Paine Webber
1/86	Cablevision Systems	6,250,000 common shares	90.6	Drexel Burnham; Dean Witter
8/86	Aaron Spelling Productions	5,500,000 common shares	77.0	Drexel Burnham; Bear, Stearns
5/86	American Cablesystems	3,750,000 common shares	54.4	Kidder Peabody; E.F. Hutton; Drexel Burnham
2/86	Century Communications	3,850,000 common shares	48.1	Shearson; Paine Webber
6/86	Infinity Broadcasting	3,325,000 common shares	41.6	Shearson
5/86	Home Shopping Network	2,000,000 common shares	36.0	Merrill Lynch
8/86	Adelphia Communications	2,500,000 common shares	35.6	Paine Webber; Butcher & Singer
9/86	QVC Network	2,500,000 common shares	25.0	Furman

PRIVATE PLACEMENTS: The media companies' largest placements sold within the banking community.

Offer Date	Issuer	Description of Issue	Amount (Millions)	Agent
3/86	Scripps Howard Broadcasting	8-year Senior Notes	$125.0	First Boston
7/86	McCaw Cellular	8-year Senior Notes	125.0	Drexel Burnham
7/86	McCaw Cellular	10-year Senior Subordinated Notes	122.0	Drexel Burnham
6/86	CBS/Fox	5-year Notes	75.0	Morgan Stanley
6/86	Cox Enterprises	7-year Serial Notes	63.8	First Boston
6/86	Legacy Broadcasting	5-year Senior Notes	55.0	Donaldson, Lufkin & Jenrette
3/86	Sonic Communications	10-year Senior Notes	53.0	Paine Webber
2/86	Chronicle Publishing	10-year Senior Notes	40.0	E.F. Hutton
4/86	Winston Network	10-year Senior Notes	40.0	Dillon Read
6/86	Legacy Broadcasting	8-year Subordinated Notes	38.5	Donaldson, Lufkin & Jenrette

Source: IDD Information Services Inc., courtesy of First Boston Corp.



THE INTERNATIONAL SCENE

As the World Turns

Here's a state-of-video update covering countries where TV is developing much the way it has in the States—and those in which it's branching off on roads not taken here.

China claims 60 million TV sets, but few of its 1 billion people have their own.

J.P. LAFFONT/SYGMA

Young viewers in Hiroshima: Only NHK broadcasts nationally, but cable is coming.

STEPHANIE MAZE/DAY IN THE LIFE OF JAPAN/WOODFIN CAMP

Australia TVs: more than 95 percent of homes. VCRs: about 50 percent. Cable: none. At midnight in Sydney, late-retiring viewers of local Channel 7 can watch NBC's *Today Show*, live from New York, then CNN, live from Atlanta. Rupert Murdoch and Kerry Packer, who have their own growing interests abroad, continue to control much of the media, including two of the three commercial networks. Also on air: the public network ABC (Australian Broadcasting Corp.) and the SBS net, which carries programs in many European and Asian languages and is also run by a public-sector corporation. Official fears of an American programming deluge are delaying action on opening the skies to more satellite services, including DBS.

Brazil TVs: about 60 percent of homes. VCRs: about 3 percent. Rede Globo, the vast network owned by the Marinho media dynasty, fends off periodic challenges from other (currently four) domestic networks while exporting its popular nightly soap-opera-like *telenovelas* to 90 countries, from Poland to the U.S. The *telenovela Roque Santeiro* drew so many viewers that restaurants were often empty during its broadcast time. The producers took advantage of its popularity by selling billboard space to advertisers—on a billboard that was seen during the show in the fictional town where the serial is set. Expansion-minded Globo has bought a small foothold in Europe—Tele Monte Carlo Italia, which broadcasts from Monte Carlo into Italy.

Canada TVs: 98 percent of homes. VCRs: about 40 percent. Cable: 76 percent. A government task force has urged a tax on VCRs, tapes and satellite dishes to help support a new network specializing in Canadian-made shows. The reason: Alarm that English-speaking viewers in the world's most cabled country have ready access to many U.S. channels and spend only 29 percent of their viewing time watching Canadian-made shows. The network will supplement the state-subsidized CBC and two private networks. The government now permits cable systems to carry distant signals, leading several broadcasters to plan to market themselves as superstations.

China TVs: some 60 percent of people are said to have access, mostly through communal viewing; commonly cited estimate is 60 million sets in a country of 1 billion people. VCRs: estimated 50,000 units. TV is expanding rapidly in the People's Republic, where factories turn out 12 million sets a year. China Central Television gives only half its airtime to entertainment, and a smattering of the informational shows are imported. Walter Cronkite's ill-fated *Universe* has run on CCTV, along with other CBS shows and clustered ads from Nestlé, Boeing, Seiko and the like. A promoter claims ten NFL games will have 300 million viewers here. CCTV's network is supplemented in the largest cities by local, government-owned channels.

France TVs: about 95 percent of homes. VCRs: about 15 percent. Cable: about 5 percent. For the first time, a Western power is selling off a state TV network—France's largest, TF-1. Government will also reassign its first commercial channels, La Cinq and TV-6, to new operators—dumping assignments of the previous Paris regime. One of the other two state networks, FR-3, also may be privatized. Viewers' seventh option: the over-the-air pay-TV service, Canal Plus, with 750,000 subscribers. Politicians are considering legislation requiring that half of all music videos broadcast must be sung in French. Government plans to expand phenomenally popular Minitel videotex service to 30 percent of phone lines by 1990 and to launch direct broadcast satellite TDF-1 in late '87.

India TVs: some 70 percent of people are said to have access, mostly communal; estimated 6 million sets in a country of 730 million people. VCRs: estimated 795,000 units. The advent of TV advertising, introduced in 1985 with the popular serial *Hum Log*, created a mad scramble by advertisers and producers for time on the two state channels, previously known for earnest but dull programs.

BISSON/SYGMA

Employees of the French state network TF-1 rally against privatization.

BALDEV/SYGMA

New Delhi: Commercial TV is booming.

WALLY McNAMEE WOODFIN CAMP

First family: Gorbachev and mom on TV.

DILIP MEHTA/CONTACT STOCK IMAGES

Indians base video parlors on VCRs.

Entrepreneurs use VCRs to show movies, for a fee, in thousands of illegal video parlors, in specially wired apartment buildings, in rural town squares and even on buses.

Italy TVs: about 95 percent of homes. VCRs: about 4 percent. Cable: negligible, because the peninsula is dotted with TV stations. Silvio Berlusconi's three ad-supported nets have subdued the anarchy of total deregulation and now challenge the three state-owned RAI networks. Berlusconi, a world-class media baron, will be maneuvering to regain a partnership in French TV; he lost his role in La Cinq, France's first commercial network, with the change of political power in Paris. Both RAI and Berlusconi are producing more programs and buying fewer from Hollywood. Berlusconi, for instance, is coproducing a half-dozen miniseries for worldwide consumption, with stars like Amy Irving, Rex Harrison and Michael York.

Japan TVs: 99 percent of homes. VCRs: about 40 percent. Cable: 11 percent. Broadcasting dominated by the two public networks of NHK, the BBC of the Orient. Law forbids multiple ownership of private stations, but four Tokyo stations are major powers. Some four million homes are wired for cable, with limited channel capacity. Modern cable systems are now being planned. Premiere Japan, a company backed by Viacom, Columbia Pictures, 20th Century Fox and major Japanese media firms, is developing program services for cable. Some VCRs come with a scanning device that can automatically set the recorder's timer when waved across the bar codes printed in program guides. Videodisc sales here outpace cassettes by 40 percent, most of the discs providing music for sing-alongs in bars.

Mexico TVs: about 45 percent of homes. VCRs: about 1 percent. Cable: more than 100 local operators, 500,000 subscribers in Mexico City alone. Televisa, controlled by the Azcárraga family, dominates television, broadcasting on four channels (two nationwide) and completely overwhelming the government network, which gets less than 5 percent of viewing. Hit by enforcement of a U.S. law banning foreign ownership of U.S. stations, Azcárraga interests are selling their ten stations north of the border, but should maintain control of them for at least two years. Mexico has another television export to the U.S.: It's now the third largest source of imported color TV sets (some requiring further assembly), and is catching up with Japan and Korea.

Spain TVs: about 95 percent of homes. VCRs: about 15 percent. Cable: negligible. Government says it will name operators of the first three private networks, but observers suspect it's not eager to upset the status quo. Italy's Silvio Berlusconi is angling for advantage—he has bought a major Madrid studio and is producing a miniseries there, with Richard Chamberlain as Casanova. Now broadcasting are two state-controlled, nationwide Radiotelevision Española (RTVE) networks and three regional networks—Catalan, Basque and Galician.

Sweden TVs: about 95 percent of homes. VCRs: about 25 percent. Cable: about 15 percent. The state monopoly, dual-channel Sveriges Television, imports 40 percent of its programming, more than any other state net. Otherwise, it's characteristically Scandinavian—airing only five or six hours of light entertainment per channel in a week—and resolutely anticommercial. But TV ads can come in through cable nets such as Rupert Murdoch's Sky Channel. And ads could be broadcast as well if government goes ahead with proposed private third network, now being debated.

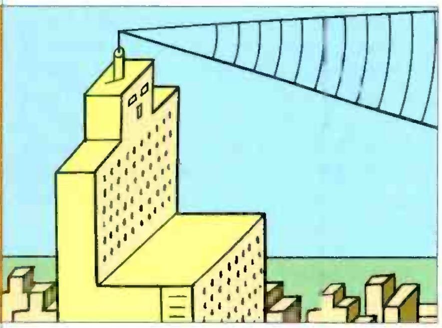
United Kingdom TVs: about 98 percent of homes. VCRs: about 46 percent. Cable: less than 1 percent. The government's Peacock Committee endorses privatizing two of BBC's four radio stations, but recommends continued support of BBC-TV by the mandatory tax on TV sets. Viewers spend about half their time with the BBC's two channels and the other half with the two commercial networks owned by 16 regional stations. Europe's top two cable services come out of London: Rupert Murdoch's Sky Channel, reaching 6.8 million homes; and Music Box, reaching 5 million.

USSR TVs: about 95 percent of homes. VCRs: less than .2 percent—perhaps 100,000 units among 70 million homes. Though the government fears VCRs will usher in propaganda, the machines are in great demand and cassette rental shops are open in major cities. Moscow plans to strengthen its video presence in distant provinces by developing satellite that transmits on Ku-band frequencies, received by smaller, cheaper dishes. Two networks originate in Moscow. Major cities have an additional local channel.

West Germany TVs: about 95 percent of homes. VCRs: about 26 percent. Cable: 8 percent. The country has two state-controlled networks, ARD and ZDF, local channels in each region and an ad-supported cable network, SAT-1. As in much of Europe, TV advertising has been stunted in Germany; as a portion of the GNP, it's only a quarter of what is spent in the U.S. But advertising opportunities are opening up as Germany lays cable. And more time will go on sale when the country launches a direct broadcast satellite, TV-Sat, late in '87. TV-Sat's four channels are tentatively assigned to the two national networks and two private groups dominated by major publishers.

Compiled by Remo Giuffre and Channels *staff. Sources: Mackintosh International, London; Canadian government; Televisa; Motion Picture Export Association of America; dispatches in* TV World, TV/Radio Age, Variety *and other publications.*

Family Ties



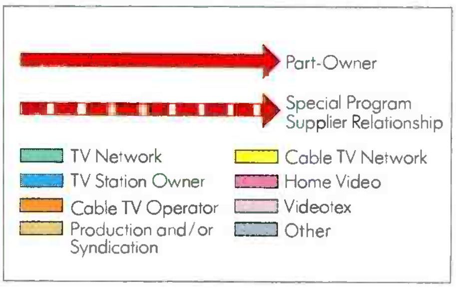
Like elements in a swirling solar system, a chart of the alliances and owner relationships in this new and confusing era of the television industry is always changing its configuration.

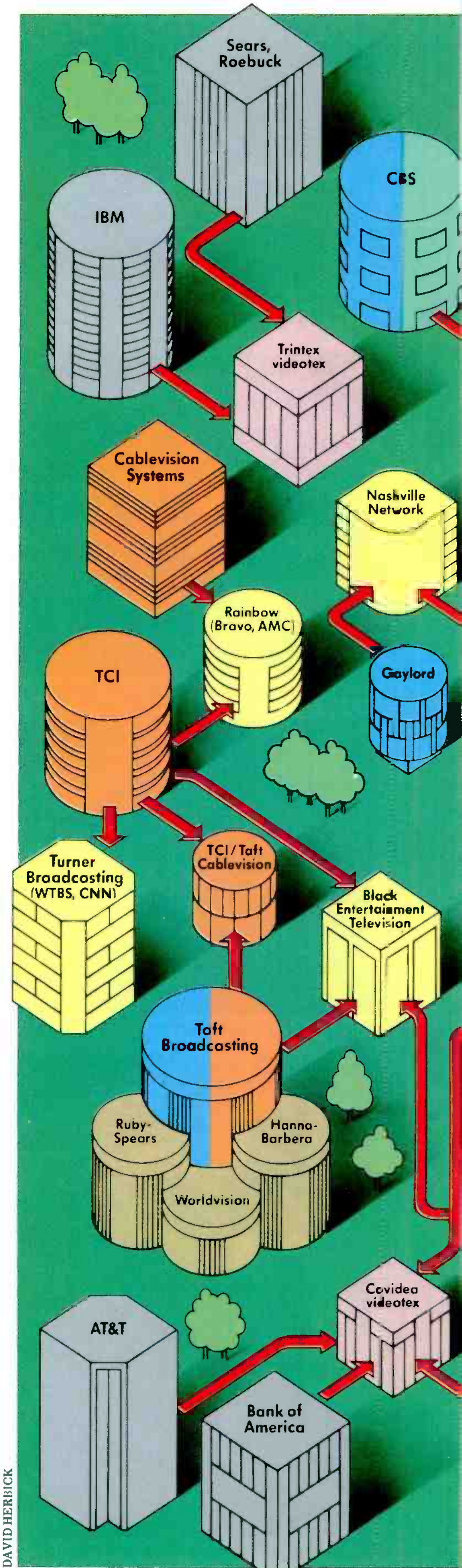
Perhaps as much as in any industry in the world, the corporate players in television thrive on doing business with outfits that are otherwise competitors. Most of the joint arrangements are designed to permit companies to spread risk in production activities and new ventures. In a hit-oriented business, there's no more natural mindset. It's true in films, television production, the music industry, video publishing and elsewhere.

The chart also highlights several other important structural features of the media and entertainment businesses in 1987. For one thing, it makes clear that the industry is dominated by very large players, a result of politically inspired deregulation moves, such as the changing of station-ownership limitation rules and the accompanying softening of federal antitrust standards. At the dawn of this decade, industry giants Coca-Cola, General Electric and the worldwide media colossus News Corp., the company controlled by Rupert Murdoch, were not major U.S. electronic media players. In many cases, the large acquisitions and joint ventures of the period would not have received federal blessing.

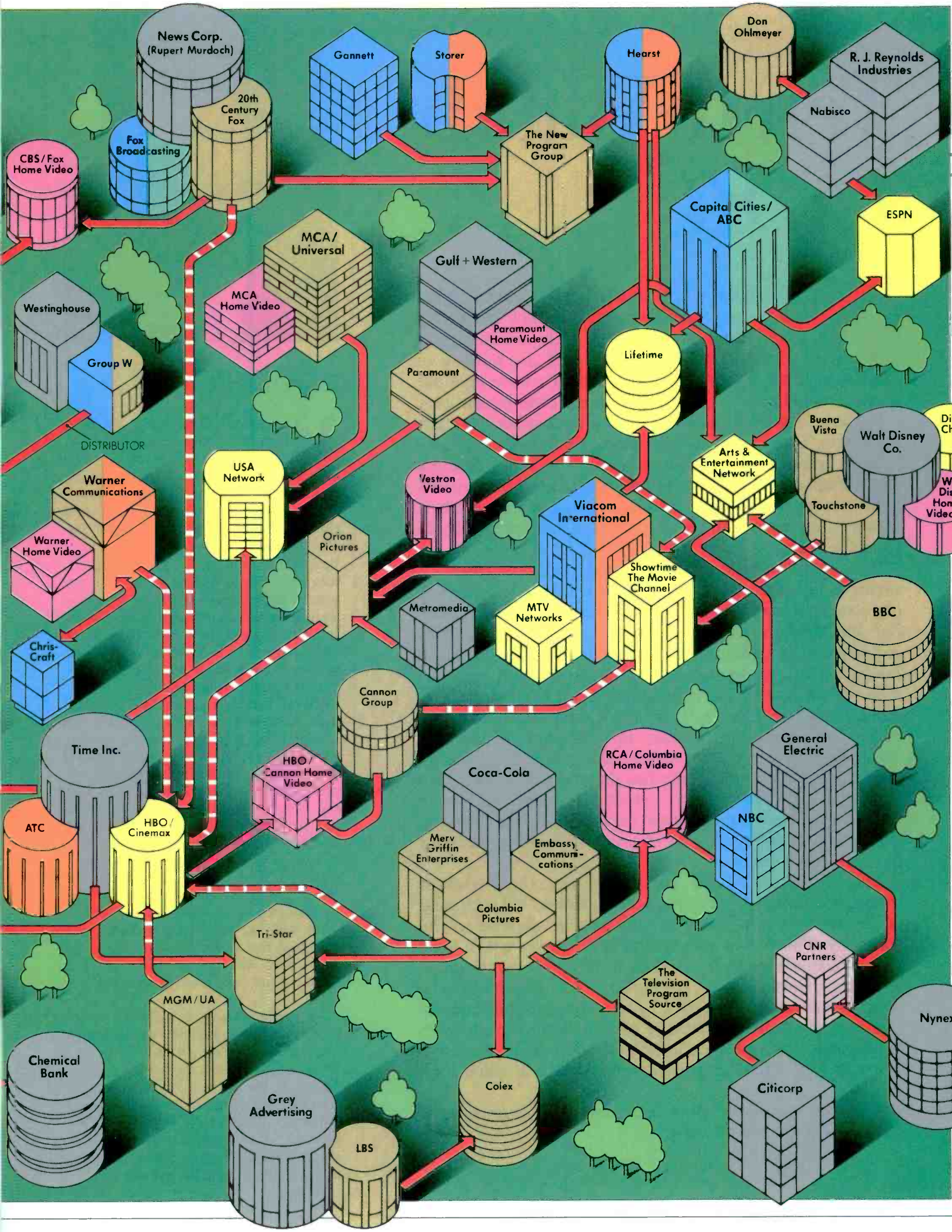
The presence of the largest shapes on the chart, the biggest companies in the field, clearly reveals how much power the studio giants, with their large parents such as Gulf + Western, bring to the television and film bargaining table, and how free the big production companies are, in the laissez-faire era of one time Hollywood star Ronald Reagan, to expand into any field they please. All the while, the networks remain restricted in their ability to move into the television production and syndication business, at least until the end of this decade, while producers such as MCA get involved in station and even theater ownership. It is reasonable to wonder whether media companies will launch one last frantic round of ownership changes in 1987, anticipating the election of an administration with a more restrictive view on acquisitions.

But while bigness is obvious, so too the media and entertainment field also remains a hospitable environment for brash entrepreneurs. The chart is dotted with such hugely successful organizations as the Cannon Group, the brainchild of producers Yoram Globus and Menahem Golan, Robert Johnson's Black Entertainment Television, Austin Furst's Vestron Video and, of course, Ted Turner's WTBS and CNN empires.





DAVID HERBICK


News Corp.
(Rupert Murdoch)
20th Century Fox
Fox Broadcasting
CBS/Fox Home Video
Gannett
Storer
The New Program Group
Hearst
Don Ohlmeyer
R. J. Reynolds Industries
Nabisco
ESPN
Capital Cities/ ABC
MCA/ Universal
MCA Home Video
Gulf + Western
Paramount Home Video
Paramount
Westinghouse
Group W
DISTRIBUTOR
Lifetime
Buena Vista
Walt Disney Co.
Disney Channel
Touchstone
Walt Disney Home Video
Arts & Entertainment Network
Warner Communications
Warner Home Video
USA Network
Vestron Video
Orion Pictures
Viacom International
Showtime The Movie Channel
MTV Networks
Metromedia
BBC
Chris-Craft
Cannon Group
Time Inc.
HBO/ Cannon Home Video
ATC
HBO/ Cinemax
Coca-Cola
Merv Griffin Enterprises
Embassy Communi-cations
Columbia Pictures
RCA/Columbia Home Video
General Electric
NBC
Tri-Star
MGM/UA
The Television Program Source
CNR Partners
Nynex
Chemical Bank
Grey Advertising
LBS
Colex
Citicorp

Ten to Watch In '87

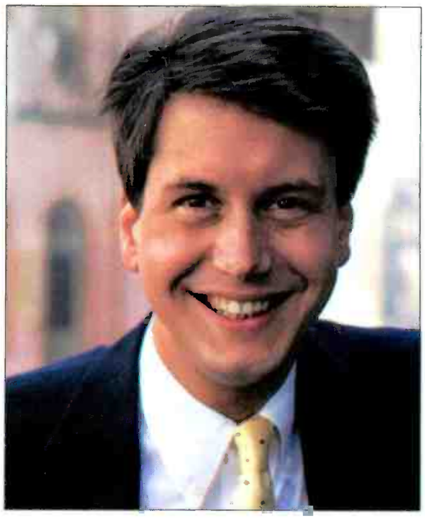
With a recognition that tomorrow's fame, notoriety and breakthroughs cannot be surely predicted, and with a little unapologetic eccentricity in the choices, the editors of *Channels* have chosen ten media lights whose agendas seem certain to shape the coming year in communications.

In the end, we found the ten fell on both sides of a characteristic: They are either expanding their companies into related areas or they are focused entirely on perfecting a single business. Perhaps prophetically, some followed labyrinthine paths to their current spots; others made a straight-line ascent in the business that attracted them from the start.

Rene Anselmo started out selling dubbed American TV series in Latin America, and now he wants to lease to foreign countries transponders on his international PanAmSat bird; Elton Rule expects to translate acquisition expertise as president of ABC into winnings for clients of his broadcast, cable and publishing investment partnership with former ABC colleague Martin Pompadur; Jim Hoak's cable company, Heritage Communications, has added broadcast properties; Jon Peisinger's Vestron Video is venturing into moviemaking and syndication; uneasily retired John Kluge has done nearly everything and, with his winnings from astute sales, could do nearly anything; Motown's Suzanne de Passe moved through music and scriptwriting to every nonrecording activity Motown could envision.

And then there's CBS' Laurence Tisch, the broadcast industry's famously nonbroadcast-trained CEO, lopping off businesses that seem to him to have distracted the company. There's ad agency chief Hal Riney who's been in the business since he worked in BBDO's mailroom 30 years ago; Garth Ancier, barely 30 years old, who left the number-one network, NBC, to join the group of hopeful founders of a fourth network, Fox Broadcasting; and Legacy Broadcasting president Carl Hirsch, whose obsession is radio and who has pursued nothing but since high school.

Together, these ten are inheritors of the era past and sculptors of the era to come.



TONY COSTA/OUTLINE

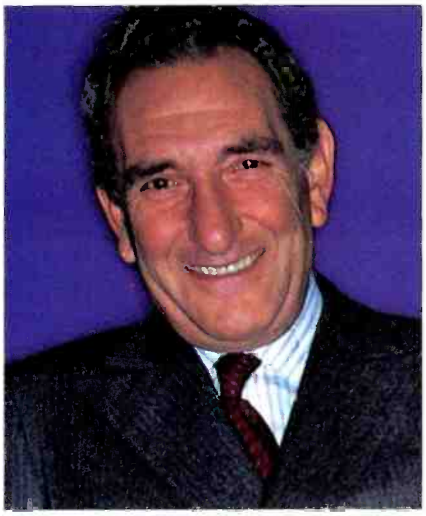
Garth Ancier

Fresh-faced Garth Ancier, 29, has a history of boy-wonderhood. At Princeton, he syndicated a radio show so successfully that *People* magazine took note. At 23, he was NBC's vice president of comedy as the network forged its current line-up of hits, including *The Cosby Show* and *Family Ties*, and at a time when his boss, Brandon Tartikoff, was still considered something of a boy wonder himself. Now, Ancier may cap the wunderkind image at fledgling Fox Broadcasting Co. as television's youngest senior vp of programming. Ancier gets to tackle a project whose premise has failed before—the elusive fourth network.

Though FBC is weighted by a $1 billion debt and the $100 million allocated for start-up costs, Ancier is not under instructions to hurry, but only to make it good. The current lineup started with the highly promoted *Late Show Starring Joan Rivers*. Nine programs airing on Saturdays and Sundays are in the works for the March prime time kickoff of FBC. They include an action drama from Stephen J. Cannell *(The A-Team)* titled *The Undercover Kid;* Gary David Goldberg's *(Family Ties)* romantic comedy called *Duet;* and seven half-hour shows, one of them based on the hit film *Down and Out in Beverly Hills*. FBC will program one additional night a week each year for the next five years.

Appropriately enough, Ancier's target is the younger viewer, who will be wooed from the competition with science fiction, horror and suspense shows. Though his domain at the moment is tiny compared with his responsibilities at NBC, the consequences of Ancier's FBC decisions are greater. "I'm scared, of course," Ancier says, with—yes—boyish candor. "It's also a very exhilarating experience."

JULIE TALEN



JOYCE RAVID

Rene Anselmo

When he had trouble getting an antenna installed atop the World Trade Center for Spanish International Network's New York station in 1980, SIN's then president, the flamboyant Rene Anselmo, went on a week's hunger strike. The 60-year-old Anselmo's next objective is far higher than the World Trade Center. In June, he's planning to launch PanAmSat, the first privately owned international communications satellite, with capacity to relay 36 TV channels to North and South America and Europe.

Thirty-five years ago the former actor from Massachusetts was selling dubbed American TV series in Latin America when he met Don Emilio Azcárraga, patriarch of the family that owns Mexico's dominant Televisa network. In the 1960s, Anselmo built Televisa's affiliate SIN into the major media power for Hispanic Americans and then left SIN this year after the FCC ordered the Mexicans to sell their interest in the SIN stations. Anselmo took his share of the $301 million selling price and put it behind Pan American Satellite Corp.

At presstime PanAmSat was awaiting approval by the board and members of Intelsat, the international agency that now has a near monopoly on international satellite service.

Rather than leasing time to customers as Intelsat does, PanAmSat plans to sell transponders on its "condominium" satellite. But so far chairman Anselmo has disposed of only one—which he virtually gave to Peru. The other 23 transponders are priced at $6.5 million each for the C-band and $12.5 million for the Ku-band. Says Anselmo, "This is my new holy war. Don't be surprised if you see another hunger strike."

TERESA KLINK

DOUGLAS VANN

Suzanne de Passe

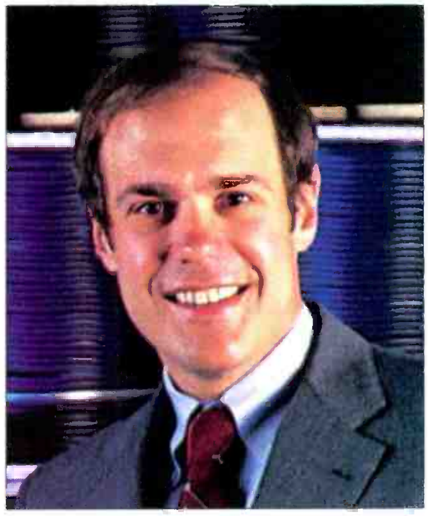
"I look for a day when I can push all the buttons on a ten million dollar project, fail, and go right on to the next project," says Suzanne de Passe, president of Motown Pictures. "Now *that's* success." As head of Motown's ambitious production company, the 38-year-old New York native presides over a $65 million investment that will turn up some 120 hours of programming for the 1986-87 TV season. She won an Emmy last year for her production of *Motown 25—Yesterday Today Forever* for NBC.

A college dropout, raised among Harlem's black elite, de Passe rose from talent coordinator for a New York nightclub, to Berry Gordy's creative assistant (1967). Working her way up in the business, she won an Oscar nomination for co-writing *Lady Sings the Blues*, and in 1979 was moved over from records to the motion picture division

Today, de Passe is the magic ingredient in Motown's push into ventures not strictly focused on recording music. Projects include 13 hours of *Sidekicks*, a comedy inspired by Disney's made-for-TV movie *The Last Electric Knight;* a two-hour movie of the week for CBS; *Divided Soul*, a made-for-TV movie for NBC based on Marvin Gaye's life; a six-part mystery series for HBO; another six-part series of soul music specials for Showtime; and, finally, *Last Dragon II*, a feature film to be produced for Tri-Star.

All this makes de Passe one of the most visible women in the notoriously male-biased entertainment field, and an equally rare example of a black executive in film and television. The success of the three-hour Motown special has set high expectations for de Passe, but her real test will come with the projects awaiting her attention in 1987.

J.T.



HERITAGE COMMUNICATIONS

James Hoak

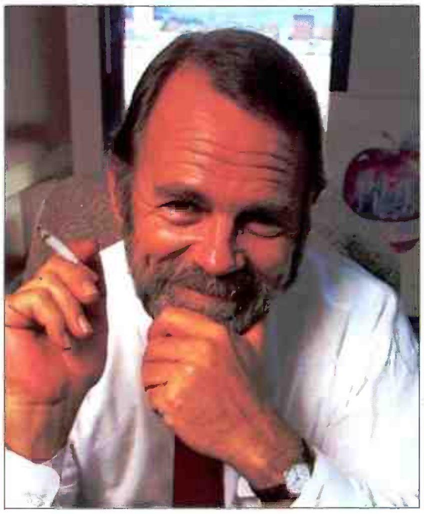
James Hoak, 42, cofounder and president of Des Moines-based Heritage Communications, is a rare success story from the nation's crippled heartland. Last year's purchase for $610 million of Atlanta-based Rollins Communications elevated Heritage to 15th place (with 950,000 subscribers) among cable's leading multiple system operators. Hoak's goal is not to be another Tele-Communications Inc. or United Cable. "Our model is Cap Cities, Times Mirror, Time Inc. or Viacom," he says. Heady aspirations for a company that started in 1971 with two tiny cable systems and a strong yearning for the Des Moines cable franchise, then up for grabs.

A graduate of Yale and Stanford Law School, Hoak served as a legal assistant to Nicholas Johnson at the Federal Communications Commission, then abandoned law to return to his hometown and form Heritage with buddy James Cownie. The two won the Des Moines franchise, and by 1979 had turned a $6 million profit. They weathered the cable shakeout of the early '80s, when many companies overextended themselves, and concentrated on buying small- and medium-sized systems in the Midwest, emphasizing customer service. They also successfully diversified into related areas—meeting-room display merchandise, broadcasting stations and, more recently, outdoor advertising.

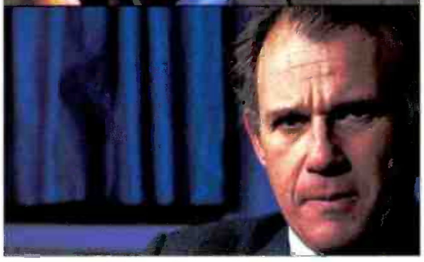
Since Heritage has become an obvious takeover plum for any acquisitive media company, Hoak has erected several protective measures. Iowa business leaders are eager for this celebrated local boy to remain and realize his communications dream in Iowa. "In the midst of all this agricultural crisis, he gives us something to be happy about," says one. "In the midst of bank failures, there is a star."

J.T.

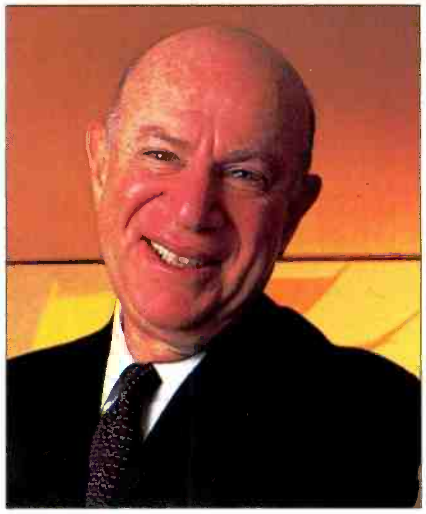
THE PLAYERS



ED KASHI/GAMMA LIAISON



(TOP) MARIA ROBLEDO; (BOTTOM) ERNESTO BAZAN/ARCHIVE



ROB KINMONTH

Hal Riney

In a Famous Foto studio in Times Square, tourists can have their pictures taken alongside life-sized photographs of Ronald Reagan, Madonna—and a couple of old geezers in polyester shirts named Bartles and Jaymes. These last two, fictitious founders of an eponymous wine cooler, are the studio's most popular choice. The actors who play the winemakers brought Gallo to the top of the wine cooler market in spots created by legendary copywriter Hal Riney.

When you see lovable old men on television, think Hal Riney. The 54-year-old chairman of San Francisco-based Hal Riney & Partners Inc. also sold Ronald Reagan to America in 1984. His fog-filtered, Norman Rockwell scenarios have won his ads the label "The New Sentimentality." Riney & Partners and other ad agencies west of the Hudson captured so many advertising awards at the end of the 1985-86 TV season that *New York Times* columnist Phil Dougherty declared, "New York has lost its advertising creativity crown to the western regions."

Riney began at BBDO, San Francisco, 30 years ago. His tag for Crocker Bank, "We've only just begun," inspired The Carpenters' hit song. Ronald Reagan was a client when Riney was executive vice president of Ogilvy & Mather, San Francisco, where he frequently wrote his own copy for clients. (He still does.) Then, in 1986, Riney bought out O&M's interest in the agency and took it independent.

Last fall, Riney & Partners opened a New York office and will attempt to take its place among the elite agencies there. In the meantime, the popularity of Bartles and Jaymes continues unabated. "Everyone asks about them," says Gregg Lewis, co-owner of Famous Foto. "Do *you* know who they are?"

J.T.

Elton Rule and Martin Pompadur

Here's a new way to play the market: Raise at least $5,000, give it to Elton H. Rule and I. Martin Pompadur and then sit back and relax. In five to eight years, they promise a considerable return on the investment.

Rule and Pompadur, two former ABC executives, joined with Merrill Lynch to form a blind pool called ML Media Partners. ML plans call for acquiring controlling interests in broadcast and cable properties and specialty publications. The return comes five to eight years later with the sale of the properties.

In spite of past investor resistance to blind pools, ML was *over*subscribed in 1986. Its goal of $100 million by the end of the year was easy; by mid-October it had almost double that. So far, the company has acquired only cable systems in Puerto Rico and California and a TV station in Louisiana. And the new tax bill raises the rate on capital gains, reducing the value of such properties to investors.

But confidence in ML is there, and Rule and Pompadur are the reasons. While Rule was president and COO of ABC from 1972 to 1983, the network signed up 68 television and 1,435 radio affiliates. In 1979, *Dun's Review* named ABC one of its "five best-managed companies." *Fortune* called its growth one of the "ten most noteworthy achievements of U.S. business during the decade of the '70s."

Pompadur was president of Ziff Corp., chairman of Ziff-Davis, vice president and assistant to the president of ABC Inc. and consultant to Rupert Murdoch.

If ML succeeds, blind media pools could become contagious: Word is that E.F. Hutton is putting together a similar scheme and watching Rule and Pompadur with more than casual interest.

T.K.

Laurence Tisch

When William Paley first heard of Laurence Tisch, he confused him with Laurence Tishman, a prominent New York real estate developer. By the second Wednesday in September of 1986, no one was confusing the 63-year-old Tisch with anyone else. Chairman of Loews Inc. and, with $780 million worth of CBS stock the company's single largest shareholder, Tisch was named its acting chief executive officer.

Warnings about Tisch's latent power had been sounded ever since the summer of 1985, when former president and CEO Thomas Wyman had invited him to join the CBS board as a white knight during the takeover threats from Ted Turner and Jesse Helms. A man who, with his brother Robert, had built a billion-dollar empire beginning with the purchase of a New Jersey resort in 1946, Tisch immediately began learning about the broadcasting business. Eventually he sided against Wyman in the struggle that followed CBS' takeover battles, libel suits, shrinking profits and ratings slippage.

Tisch shares some of Paley's traits, including a respect for hard news and a distaste for new technology. Shortly after his elevation, he closed the CBS Technology Center and let go another 500 CBS employees.

But Tisch clearly values his role as CBS protector. "My only desire is to keep CBS as a first class, independent network," he has said. "CBS and the other two networks mold, in large part, some of the thinking of the country. It's a serious obligation. It's not a toy." Paley and Tisch had to convince the FCC that the change in leadership was not a change in ownership—a conclusion which, if disagreed with, could have resulted in the loss of some lucrative station properties.

J.T.

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Many of the nation's leading media companies have relied on First Boston for financial advisory and execution services that reflect our creative approaches to reaching client goals.

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Cox Communications, Inc.
Des Moines Register and Tribune Company
E. W. Scripps Company
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Esquire Magazine Group, Inc.
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Harcourt Brace Jovanovich, Inc.
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Opryland Entertainment
Pearson PLC
Rollins Communications, Inc.
SFN Companies, Inc.
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Taft Broadcasting Company
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Time Incorporated
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To find out more about why First Boston is the leading advisor to media companies, please call Chuck Ward or Fred Smith at (212) 909-2000.

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ROB LEWINE

Carl Hirsch

Call Carl Hirsch one-dimensional and he'd be flattered: He knows only radio, but he *really* knows radio. In high school, while his classmates were laboring over love notes, Hirsch labored over radio formats. Since then, the Cleveland native has done nothing but radio—from receptionist to DJ to music director to account executive to general manager to president.

The industry gasped when Hirsch dropped $82 million in April for six major-market stations. He's already increased the stations' profit margins and his cash flow. One industry watcher estimates profits of $9 million a year, and Hirsch is looking for more.

In 1974, after working at various stations in Ohio and Pennsylvania, Hirsch joined Cleveland's Malrite Communications. Five years later, he was president. But better proof of his ambition is the story of radio station "Z-100," which Malrite bought in 1983 as Newark, N.J.'s, foundering FM, WVNJ. It had a mere 0.9 share of the market, but revamped as WHTZ, it was number one in the New York metropolitan area with an impressive 6 percent of the market.

In October 1985, Hirsch left Malrite, started a partnership with investment banker Bob Sillerman and created Legacy. The company bought relatively successful big-market stations—KDWB AM and FM in Minneapolis, KHOW and KPKE in Denver, WLLZ in Detroit and KJOI in Los Angeles—and made them even more successful.

With his track record, industry analysts think Hirsch will have no trouble raising the money for more acquisitions. Hirsch says to watch the major markets—in both radio and TV. "We'll definitely be up to something major in '87."

T.K.

BETTY BURKE GALLELA

John Kluge

What can you buy with $4 billion? That's how much John Kluge has to spend—and that's the question everyone is asking. This reclusive billionaire, who emigrated from Germany when he was eight, bought his first independent television station in 1959 and has never stopped astonishing observers with his financial prescience. He foresaw that non-network affiliated stations could become profitable properties and he used leaseback deals to create the largest tax shelter ever. In 1984, he took the seven-station Metromedia group private in a leveraged buyout worth $1.3 billion. Wall Street assumed Kluge was getting ready to expand his media empire, now that he owned 97.5 percent of the company.

But Kluge surprised everyone by selling the seven stations (six of them to Rupert Murdoch) in 1985 for $2 billion. He wanted to concentrate on Metromedia's emerging cellular radio business, Kluge said of the transaction that put him on *Forbes'* list of the nation's 13 bona fide billionaires. Fine. But in the summer of 1986, Kluge sold off the cellular radio business for another $1.2 billion in cash.

Metromedia is now a corporate shell with a treasury of some $4 billion, a sum hefty enough to bring Kluge's name automatically into conversations about network takeovers.

What Kluge will do next is anyone's guess. He recently purchased a 6 percent interest in Orion Pictures. He could buy the entire studio and still have plenty of cash left to play with. Disney also has been mentioned as a takeover target. Alan Gottesman, of L.F. Rothschild, Unterberg & Towbin, says he never could predict Kluge's next move. "Whatever it was," he says, "it usually took me two years to figure out how smart it was."

J.T.

GEORGE LANGE

Jon Peisinger

Dapper, bearded Jon Peisinger abandoned a sinking ship at Time-Life Films to follow his boss, Austin Furst, into what were then the uncharted seas of home video. The two proved adept navigators. Since Vestron's founding in 1981, Peisinger has served as president and later as chief operating officer during the boom in home video, leading Vestron to capture a 10 percent share of the market. With Furst now behind the scenes, Peisinger, 39, is the most visible representative of the largest independent video publisher.

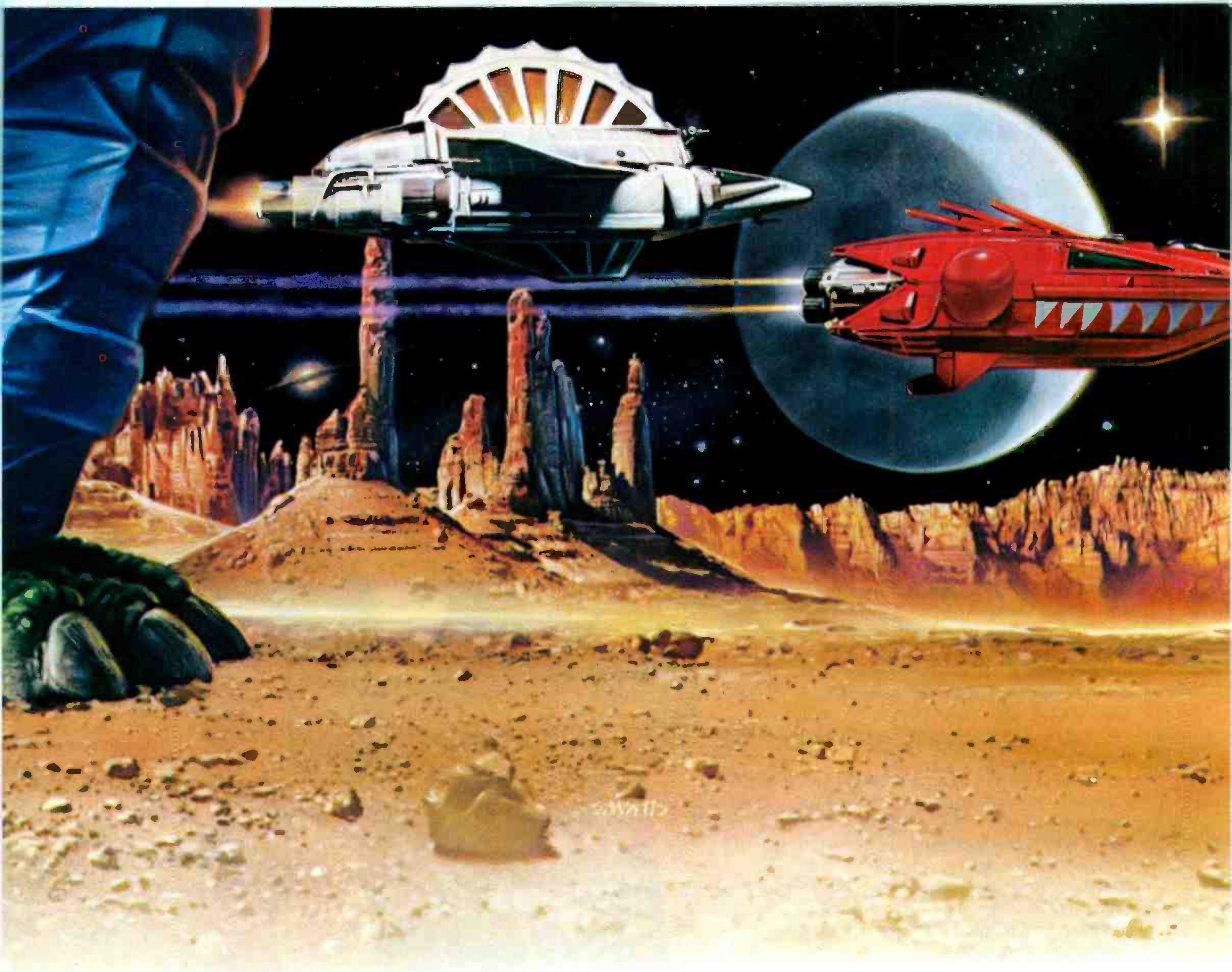
But the business faces an inevitable slowdown as the market matures. Companies such as Vestron, which used to secure video rights before movie studios knew what they were worth and before video retailers were discriminating, will be hardest hit. Wall Street's rejection of Vestron's initial public offering in late '85 foretold the rough sailing ahead.

Peisinger's strategy in these slow times is one that pay cable flirted with for years: original film production. To date, his early 1986 entry into filmmaking consists of hiring a handful of executives, picking up a few foreign titles and choosing a name for the project: Vestron Pictures. The company has yet to announce any productions, certainly nothing like the six to eight pictures it promised to have in production by the end of '86.

In the meantime, Vestron is profiting on far less ambitious productions: a Statue of Liberty birthday video, a *Let's Go, Mets* music video and underwater footage of the Titanic. And Vestron is quietly exploring television syndication possibilities for its product. Peisinger may soon have a company that more closely resembles a television studio than a videocassette publisher—and maybe that's what he wants.

J.T.

The newest idea in children's programming is 100 million years old.



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An RCA Video Production in association
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65 half-hours available Fall 1987.

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CORPORATE PLAYERS

The Powers That Be

Here are the 25 largest players in the electronic media today—companies whose revenues in the field, late in '86, were heading toward a total of $22 billion for the year. The industry has become so concentrated, and the companies have so assiduously purchased other firms among their competitors, customers and suppliers, that the 25 biggest now include owners of:

- all three TV networks, as well as the Fox Broadcasting Company network
- nine of the ten TV station groups with the greatest potential audience
- seven of the ten most extensive cable system holdings, serving more than a third of U.S. cable subscribers
- 11 of the 15 top syndicators of TV programming and
- seven of the ten top publishers of prerecorded videocassettes, with some two thirds of sales.

Using Wall Street's estimates, we've tried to isolate the companies' revenues derived from their broadcast, cable, video production and related sectors. It's worth noting, however, that some of these players have far greater revenues, not shown on this chart, that come from newspapers, magazines, soft drinks and locomotives—revenues that some are ready to invest in expanding their media role.

REFERENCES

(a) 1986 revenue projections based on information from Drexel Burnham Lambert, Wertheim & Co., First Boston Corp. and the Value-Line investment information service.
(b) Also includes revenues from theatrical movies.
(c) Actual results from year ended March 31, 1986.
(d) Projection assumes the sale of three Times Mirror TV stations and its microwave operations.
(e) 1985 revenues in electronic media. Projections of 1986 revenues not available.
(f) Group W is in the process of buying a sixth TV station, KHJ in Los Angeles.
(g) Lorimar-Telepictures is in the process of buying two more TV stations, one VHF and one UHF.
(h) Warner Communications also owns 42.5 percent of BHC Inc., a subsidiary of Chris-Craft Industries that owns five VHF and two UHF stations.
(i) MCA is in the process of buying one VHF station, WOR in New York.
(j) Gencorp. (RKO General) is in the process of selling two stations.
(k) Projection for full 12-month year. For accounting reasons, Lorimar-Telepictures' 1986 fiscal year is only eight months long.
(l) Group W revenues decline with sale of cable systems at midyear.

COMPILED FOR *CHANNELS* BY JOSEPH E. EDELMAN.

TABLE CREATED FOR *CHANNELS* BY NIGEL HOLMES

Can you name the 15 top rated network television shows of 1985-86?

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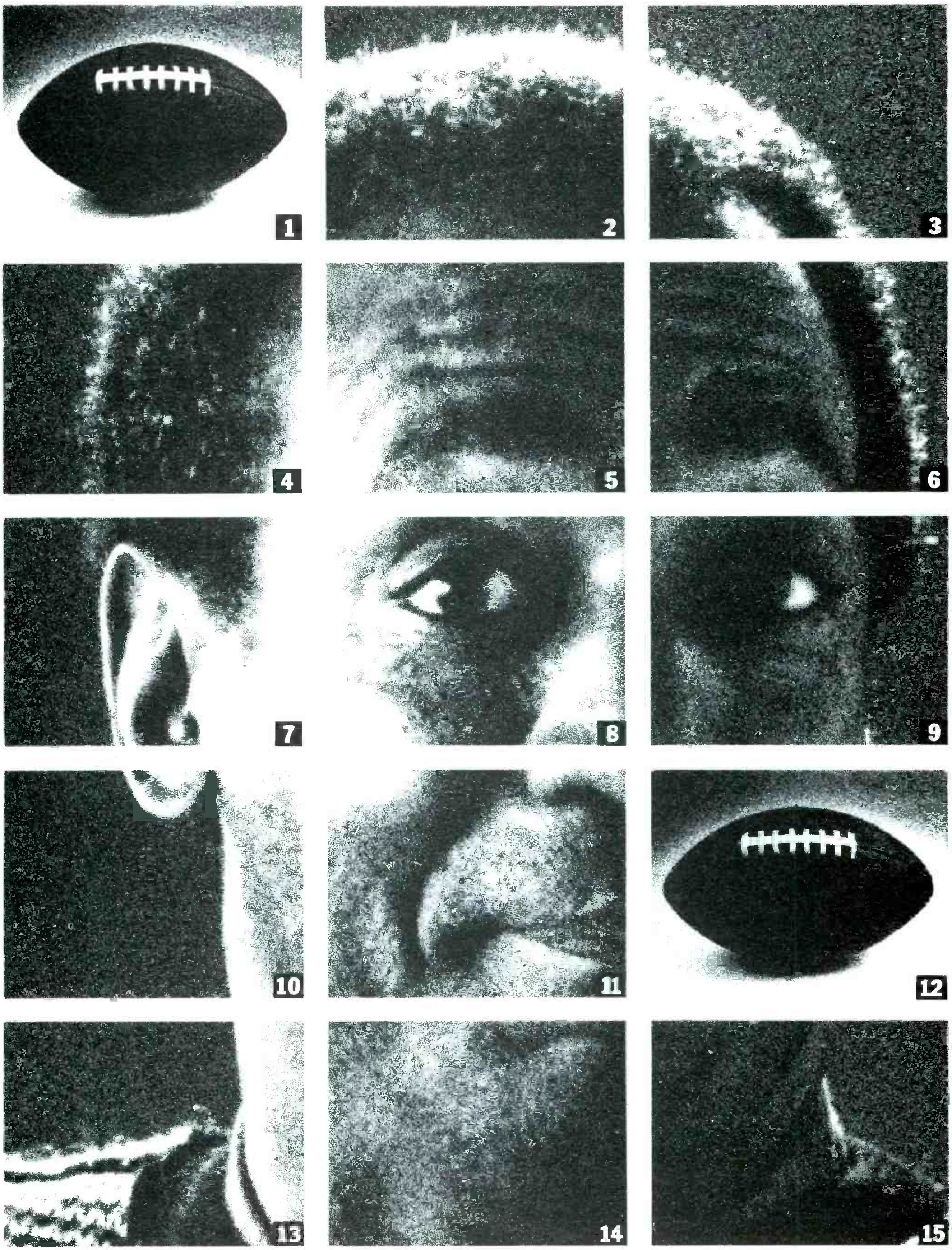
Viacom®

Syndication	Programs Syndicated (Sampling)	Home Video	Information Services	Related Interests	TV Sta-tions (U.S.)	Radio Stations Owned	Cable Systems Owned (Subs)
Foreign only		ABC Distribution Co.	Indesys		7 VHF 1 UHF	9 AM 8 FM	
Foreign only		CBS/Fox (joint venture)			4 VHF	7 AM 11 FM	
Foreign only		RCA/Columbia Home Video (joint venture)	CNR Partners (joint venture with Citicorp and Nynex), GEnie on-line info. network	GE and RCA consumer electronics	6 VHF	3 AM 5 FM	
Varner Brothers Television)istribution, distribution for hree Aaron Spelling shows	*Dukes of Hazzard, Private Benjamin*	Warner Home Video			(h)		Warner Cable Communications (1.26 million)
		HBO/Cannon (joint venture)	Covidea (joint venture with AT&T and banks)	Programming services for backyard dish owners			ATC cable systems (82%) (3.2 million)
mbassy Communications, The Television rogram Source, Columbia Pictures elevision Domestic Distribution	*The Jeffersons, Hart to Hart, Charlie's Angels*	Bell & Howell/Columbia Pictures Video Services, RCA/Columbia Pictures Home Video (50%)		Columbia Pictures Merchandising			
ACA-TV	*The A-Team, Kate & Allie, Gimme a Break*	MCA Home Video		Discovision (laser disc systems, joint venture with IBM)	(i)		
aramount Television	*Star Trek, Happy Days, Taxi*	Paramount Home Video, Bell & Howell Video Serv.(part-owner), Cinema Intl. Corp. (overseas)					
iacom Enterprises	*The Cosby Show, The Honeymooners, I Love Lucy*			Programming services for backyard dish owners	4 VHF 1 UHF		Viacom Cable (915, 000)
roup W Television Sales, elevision Syndication Center	*Hour Magazine, PM Magazine, She-Ra Princess of Power*			Group W Satellite Communications	5 VHF (f)	7 AM 6 FM	Sold cable systems in June, 1986
elevision Programming nterprises	*Entertainment Tonight, Star Search, Lifestyles of the Rich and Famous*		Datext, Inc.		6 VHF 2 UHF	5 AM 7 FM	Cox Cable (1.3 million)
New Programs Inc.	*Divorce Court*			Satellite uplink facility	5 VHF 2 UHF		Storer Cable Communications (1.5 million)
			X*Press (joint venture with McGraw-Hill and Telecrafter)	Programming services for backyard dish owners			Cable systems (3.8 mil.), part-owner of systems with 5.3 mil. more
uena Vista TV	*Wonderful World of Disney, Siskel & Ebert & the Movies, Today's Business*	Walt Disney Home Video					
0th Century Fox Film Corp. V Distribution, Metromedia roducers Corp.	*Dance Fever, 9 to 5, Small Wonder*	CBS/Fox Video (50%)		DeLuxe Labs	3 VHF 4 UHF		
ribune Entertainment Co. with partners)	*At the Movies, U.S. Farm Report*		AP News Plus		4 VHF 2 UHF	3 AM 2 FM	
elepictures Television	*Dallas, The Love Connection, Thundercats*	Karl-Lorimar Home Video			2 VHF (g) 1 UHF (g)		
Vorldvision Enterprises	*Barnaby Jones, The Jetsons, The Flintstones, Dallas (overseas)*	Worldvision Home Video	Elektra Teletext service	Midwest Mobile Phone Corp. (25%), Videostar Connection Inc.(19.8%)	10 VHF 2 UHF	7 AM 8 FM	TCI/Taft Cablevision Associates (50% owned), (166,000)
					6 VHF 2 UHF	8 AM 10 FM	
urner Program Services	*Portrait of America, World of Audubon Special, Color Classic Network*	Turner Home Entertainment		Turner Educational Services	1 UHF		
			Gateway Videotex service (discontinued)		4 VHF		Cable systems (823,000)
				Cellular telephone partnerships			Cable systems (1.2 million)
Aultimedia Entertainment	*New Music City U.S.A., America Comes Alive*		Latest Scoop (Greenville S.C.)		4 VHF 1 UHF	4 AM 4 FM	Multimedia Cablevision (278,000), Cable Security Services
	Ask Dr. Ruth				6 VHF	4 AM 3 FM	Hearst Cablevision of California (36,000)
		RKO Home Video			3 VHF (j)	6 AM 6 FM	

Projected 1986 Revenues from Electronic Media (in Millions) (a)	Projected 1986 Electronic Media Revenue Breakdown	Projected Percentage Change from 1985 to 1986	Broadcast and Cable Networks	Video Production	Programs Produced (Sampling)
$3,120	TV Network 67%, TV Stations 21%, Video Enterprises 4%, Radio 8%	-1%	ABC TV Network, 7 Radio Networks, ESPN (80%), Arts & Entertainment (38%), Lifetime (33%), Screen Sport (30%)	ABC Circle Films	*Moonlighting*, *ABC World News Tonight*
$2,785	TV Network 80%, TV Stations 13%, Radio 7%	0%	CBS Television Network, 2 Radio Networks, Rainbow Program Enterprises (regional sports cable channels with Washington Post Co. and Cablevision)	CBS Productions	*Twilight Zone, 60 Minutes*
$2,895	TV Network 83%, Other Broadcasting 17%	9%	NBC Television Network, 3 Radio Networks, Arts & Entertainment Network (par -owner through RCA Cable Inc.)	NBC Productions	*Punky Brewster, Fatal Vision, An Early Frost, Today*
$1,670 (b)	Filmed Entertainment 80%, Cable and Broadcasting 20%	30%		Warner Brothers Television	*Night Court, Growing Pains, Spenser: For Hire*
$1,530	Cable Networks and Home Video 58%, Cable Systems 42%	9%	HBO, Cinemax, Festival, Black Entertainment Television (16%)	HBO Sports	*The Last Innocent Man, Mandela, Inside the NFL, Cinemax Comedy Experiment*
$1,330 (b,e)	Entertainment 100%	24%		Columbia Pictures Television Group, Embassy Communications, Merv Griffin Enterprises	*Silver Spoons, 227, Who's The Boss?, Jeopardy, Dance Fever, Mike Hammer, Designing Women*
$1,225	Television 49%, Theatrical 29% (b), Home Video 22%	13%	USA Network (33%)	Universal Television (limited partnership with The Arthur Co.)	*Magnum P.I., Simon & Simon, Miami Vice, Murder She Wrote*
$1,100 (b)	Entertainment 100%	4%	MSG Network, USA Network (33%)	Paramount Television	*Family Ties, Cheers, Webster*
$950	Broadcast 13%, Cable 80%, Program Distribution 7%	114%	Showtime, The Movie Channel, Viewers Choice I & II, MTV, VH-1, Nickelodeon, Nick at Nite, Lifetime (33%)	Viacom Productions	*What a Country, Return to Mayberry*
$900	Broadcast and Cable 100%	-16% (l)	Home Team Sports (regional sports network)	Group W Productions	*Hour Magazine, PM Magazine, She-Ra Princess of Power*
$682 (e)	Broadcast 38% Cable 62%	—		The Landsburg Co. (80%)	*Adam: The Song Continues, The Parent Trap*
$644	Television 65%, Cable 35%	9%	New England Sports Network (part interest)	New Programs Inc.	*Divorce Court* (with Blair Entertainment)
$630	Cable 100%	9%	American Movie Classics (33%), Black Entertainment Television (16%), Cable Value Network (14%), Event-TeleVision (pay per view, 10%), Discovery Channel (10%)		
$499 (b)	Television 45%, Theatrical 30%, Home Video 25%	56%	Disney Channel	Walt Disney Productions	*Ellen Burstyn Show, Sidekicks, Disney Sunday Movie, Wuzzels, Gummi Bears, Golden Girls*
$476 (b,e)	Television 26%, Filmed Entertainment 74%	—	Fox Broadcasting Co. network	Metromedia Producers Corp., 20th Century Fox TV Prod. Div., 20th Century Fox Film Corp. TV Distribution Div.	*LA Law, Heart of the Law, The Wizard*
$474	Television 76%, Radio 9%, Entertainment 16%	23%		Tribune Entertainment Co. (with partners)	*At the Movies, U.S. Farm Report, G.I. Joe* (with partners)
$466 (k)	Network Television 47%, First-Run Syndication 13%, Home Video 7%, Broadcast 5%, Other 28%	10%		Lorimar-Telepictures Television, Brillstein Co. (equity position)	*Dallas, Knots Landing, Falcon Crest*
$428 (c)	Television 55%, Radio 11%, Entertainment 34%	30%	Black Entertainment Television (16%)	Hanna-Barbera, Ruby Spears, Southern Star Productions, Titus Productions, Sy Fischer Co., Taft Entertainment Co., TCI/Taft Programs	*On Wings of Eagles* (with Edgar J. Scherick), *You Again?, Throb,* (with Procter & Gamble Productions)
$345	Broadcast 98%, Production 2%	30%		Gannett Productions Inc.	*Small Wonder* (with Hearst, Storer, Taft & Metromedia)
$333 (e)	Cable Programming 100%	—	CNN, CNN Headline News, WTBS, CNN Radio Network (with Transtar)		CNN, *Super Football Saturday*, NBA games, *Our Finite World*
$325	Broadcast 38% (d), Cable 62%	-20%			
$295 (e)	Cable 100%	—			
$252	Broadcast 48%, Cable 32%, Entertainment 20%	11%		Mutimedia Entertainment	*Phil Donahue, Sally Jesse Raphael, America Comes Alive*
$231 (e)	Broadcast and Syndication 97%, Cable 3%	—	Lifetime (33%), Arts & Entertainment (joint venture)	King Features Entertainment	*Defenders of the Earth, Good Housekeeping/The Better Way*
$220	Entertainment 100%	3%		RKO Pictures	*Sweeney Todd*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Answers:

	Rating/Share
1. Super Bowl XX (1/26/86)	48.3/70
2. The Cosby Show (2/27/86)	39.0/56
3. The Cosby Show (1/16/86)	38.5/55
4. The Cosby Show (1/9/86)	36.9/54
5. The Cosby Show (3/6/86)	36.4/54 (R)
5. The Cosby Show (3/20/86)	36.4/54
5. The Cosby Show (2/20/86)	36.4/53
8. The Cosby Show (12/5/85)	36.2/53
9. The Cosby Show (1/30/86)	36.0/51
10. The Cosby Show (12/12/85)	35.4/52
10. The Cosby Show (2/6/86)	35.4/51 (R)
10. Super Bowl XX Post Game Show (1/26/86)	35.4/49
13. The Cosby Show (11/21/85)	35.3/51
14. The Cosby Show (2/13/86)	35.2/50
15. The Cosby Show (1/2/86)	34.9/50

Now think about what Cosby can do for *your* ratings beginning in 1988.

The Cosby Factor: Profit from it.

Source: NTI, September through September

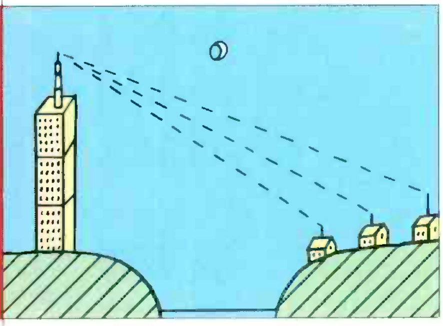
Viacom.

THE AIR

THE BIG THREE NETWORKS

Can the Cost-Cutters Beat the System?

Looking to boost earnings in a leaner marketplace, the new managements rewrite the old rules, risking their positions



Media historians will have no trouble characterizing 1986. In the modern chronicles of the networks, no year has been such an unequivocal turning point, bringing nothing less than revolution to the network system and to the economic climate in which it has flourished.

Sometimes it played like a very melodramatic movie-of-the-week script: Vast, self-indulgent, economically insulated trio of companies, run by high-profile titans, bestrides an industry. Hard times hit: potent competition, disaffected allies, rising prices, falling profits. Draconian staff and budget slashing follows. Then, in less than nine months, all three are in the hands of new management low on profile and high on financial accountability.

The lowest-ranked script reader wouldn't let that one get any further up the ladder. Too histrionic. Too coincidental. And too painfully true. In January, ABC was sold to a much smaller media conglomerate, Capital Cities, a $1-plus billion company that operated network affiliates. The conservative new owners brought a management philosophy so culturally distinct from freewheeling ABC's that it might have been developed in a different industry entirely. Five months later, NBC parent RCA merged with General Electric, a $28 billion conglomerate. It soon named as president and chief executive officer Robert Wright, a GE stalwart whose skills were developed far from broadcasting. Barely three months after that, CBS ousted its chairman, Thomas Wyman, partly for seeking yet a third takeover. It installed Loew's Corp. chairman Laurence Tisch, another nonbroadcaster, as acting chief executive, titularly under once and current chairman William Paley. They will preside over a $5 billion company, wounded but still independent.

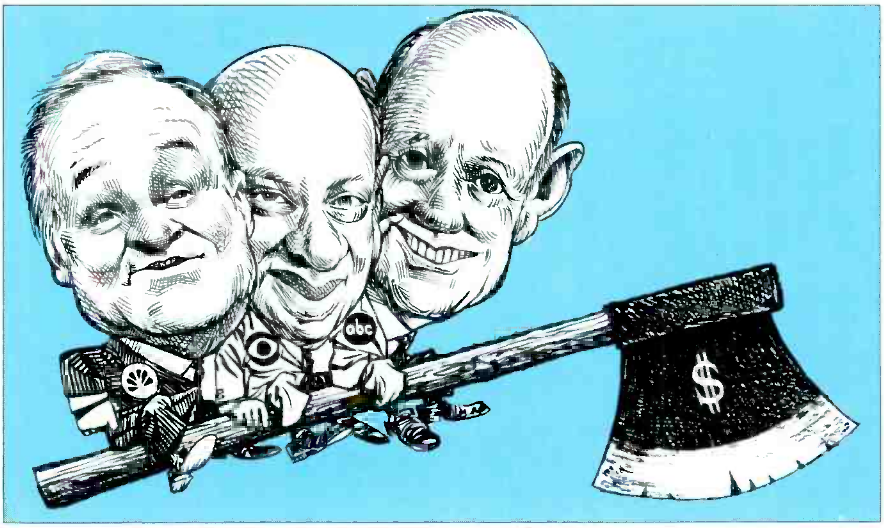
The Wall Street audience for media dramas greeted the CBS and ABC changes with applause. Cap Cities is admired; its management well-known and well-liked. CBS' former chairman Wyman had lost the Street's confidence and many were glad to see him go. NBC, characteristically, was different. Its revered chairman, Grant Tinker, was leaving, having completed his wizardly feat of turning the floundering company into a winner. The new owners were not experienced broadcasters and Wright, possessed of an impeccable GE pedigree, is still an unknown quantity in television. But NBC's momentum as ratings leader—and the translation of that audience delivery into ad sales—is expected to hold. That buffers it from much worrying aloud by analysts. Indeed, several are on record expecting NBC to increase profits in 1987, while ABC and CBS continue their decline.

Things on Broadcast Row had been bound for change. At the epicenter of the network revolution, after all, was a noisy mutiny, and not by powerless minions with a self-destructive streak, but by mutineers with heavily armed allies.

For the first time in years, advertisers could not be dictated double-digit increases in rates to cover the networks' own rising costs. CBS and ABC had to drop up-front prime time price tags for fall '86. Sophisticated syndicators, with popular programming and a market of more than 250 independent stations, were using barter to amass simultaneous minutes across the country, delivering national audiences more cheaply than the networks could. Ad-supported cable networks exerted a small but steadily growing competitive pull. There was a huge inventory of time to sell—helped along by the networks' acquiescence to 15-second commercials—and a traditional sellers' market was turned upside down. Suddenly the buyer had the leverage.

Meanwhile, for the first time ever, program suppliers were flatly refusing to take a loss to produce certain series they knew had no back-end, or aftermarket, appeal. The aftermarket had become essential to an industry that, thanks to the new tax law, was losing the investment tax credits that sweetened deficit financing on network shows. The back end, it seemed, had begun to wag the front end and a message was emerging: What would sell in syndication or to cable or in foreign markets was chiefly what would get made.

The network system had always thrived on scarcity: scarcity of viewing options, because that delivers hefty ratings by



JIM MORIN

default; scarcity of program buyers, because that keeps program suppliers docile; scarcity of advertising inventory, because that allowed ever-higher rates. Now there is no such scarcity. The burgeoning independent stations create a serious market for first-run syndication product. The cable industry has the money to revive or originate network-quality shows for its many channels. It may even secure an NFL package, elbowing ABC's $40 million loss leader, *Monday Night Football*, the longest-running prime time series on television.

The changed economics of production was behind MCA Inc.'s restructuring of its television division. The announcement took dead aim at every network anxiety button. President and chief operating officer Sid Sheinberg talked cheerily of the "ever increasing number of customers" and the "new and different . . .relationships" MCA will form with them. The new blueprint is writ large in MCA's output for the '86-'87 season. The longtime network stalwart provides NBC with *Miami Vice* and *Amazing Stories;* CBS with *Magnum, P.I.; Murder, She Wrote; Simon & Simon; The Equalizer* and *Together We Stand.* But it is now also producing *Alfred Hitchcock Presents* and *Airwolf* for USA Network (a cable service of which MCA is part owner with Time Inc. and Paramount), *The New Leave It to Beaver* as a barter arrangement with Turner Broadcasting, *Puttin' on the Hits* and *Charles in Charge* for first-run syndication and *Out of This World* for NBC's owned stations.

Everyone—advertiser, program supplier and viewer—has someplace other than the networks to go. Ad rates aren't even keeping pace with inflation. Network prime time viewership has steadily eroded over the last decade, down 14 percent between '75 and '85, and programming staples such as theatrical movies, children's fare, even news, are all problem areas thanks to competing exposure on cable, pay cable or independent stations.

Media analysts point to such omens, compare the suddenly unequal fortunes of the networks' parents and speculate about their perhaps unequal will. Earnings growth depends on cost-cutting. CBS Inc. will likely rid itself of a whopping 9 percent of its total staff. Cap Cities/ABC sliced over 600 off the payroll. NBC's Bob Wright issued a stinging memo to 44 senior officers, reproaching many of them for their lack of financial acumen.

But clearly not all savings can come from internal machinations. With the price of programming rising, and with advertisers looking at cable and barter options, it's apparent the network business will never again be what it was. Some analysts have issued jeremiads about a return to a two-and-a-half network economy, predicting that one may vanish within the decade. If that's true, being pennywise about programming is fearsome when developing a hit means the difference between being ranked number two and number three.

And yet, and yet . . . NBC, CBS and ABC are still the dominant force in television, well fortified with popular programming. Their audience share rose to 73.3 from 72.7 between the '84-'85 and '85-'86 seasons—the first rise in ten years—while cable and independent station viewing stagnated at shares of 6 and 21. The networks still have the world's most formidable promotion apparatus. The stalled subscriber growth of cable and pay cable awaits some breakthrough that has so far eluded them. Short-term, it appears, there is breathing room.

And maybe the luckiest thing that could have happened in 1986 was the sweeping change of network leadership. For what is imperative is a reassessment that might have been impossible for an old guard insulated in its profligate ways.

JERI BAKER

NETS' GAINS, NETS' LOSSES

(OPERATING RESULTS OF TELEVISION NETWORKS 1976-1986)

(IN MILLIONS)

REVENUES: The history of network revenues also serves as a history of prime time ratings and the consumer price index. Inflation in 1980 buoyed top-rated CBS; the 1975 recession had more impact than any Nielsen numbers. ABC rode high on *Happy Days* and its sitcom siblings in the mid-'70s and on the Olympics in 1984; CBS ascended to first place and then declined between 1980 and 1986; NBC plummeted in the aftermath of the U.S. boycott of the 1980 Olympics and soared on Bill Cosby's coattails in 1986.

Year	ABC Television Network Amount	CBS Television Network Amount	NBC Television Network Amount
1986 (est.)	$2,080	$2,237	$2,400
1985	2,165	2,288	2,150
1984	2,640	2,240	1,930
1983	2,073	1,952	1,700
1982	1,861	1,770	1,500
1981	1,563	1,432	1,242
1980	1,560	1,390	950
1979	1,306	1,100	1,000
1978	1,110	948	907
1977	918	843	820
1976	708	725	684

EXPENSES: Expenses reflect product costs, jumping when a major sports contract comes due (ABC's NFL negotiations in 1982) or when a new programming chief commissions new shows and writes off the leftovers (Fred Silverman at ABC in 1976; Grant Tinker at NBC in 1981).

Year	ABC Television Network Amount	CBS Television Network Amount	NBC Television Network Amount
1986 (est.)	$2,030	$2,161	$2,160
1985	2,010	2,057	1,963
1984	2,380	1,960	1,830
1983	1,838	1,762	1,645
1982	1,651	1,600	1,475
1981	1,348	1,272	1,282
1980	1,369	1,260	945
1979	1,109	955	961
1978	923	812	856
1977	753	704	718
1976	625	596	601

PRETAX INCOME: Pretax income reflects the year's programming decisions. Silverman's spending on so-called jiggle successes at ABC plumped up profits during his reign; NBC staggered under the burden of Olympics losses in 1981; ABC and CBS currently show the impact of their ratings eclipse by NBC.

Year	ABC Television Network Amount	CBS Television Network Amount	NBC Television Network Amount
1986 (est.)	$ 50*	$ 76	$240
1985	155	231	187
1984	260	280	100
1983	235	190	55
1982	210	170	25
1981	215	160	(40)
1980	191	130	5
1979	196	145	39
1978	187	136	51
1977	165	139	102
1976	83	129	83

Sources: *Television Digest*, 1976-84; *Channels*, 1985-86. 1973-80 data based on FCC financial reports. 1981-86 data based on media analysts' estimates.

*Because of an accounting technicality relating to Cap Cities' acquisition of ABC, the network will show a gain rather than a loss for the year.

THE FOURTH NETWORK

Rupert Wades In, One Daypart at a Time

Boom or bust, Fox could be independent television's last best hope of challenging the major networks' dominance

THE AIR

Rupert Murdoch has staked his spectacular career on perceiving opportunity where others see only red ink, and his creation of the Fox Broadcasting Company (FBC) this year is no exception. FBC, which debuted last October with *The Late Show Starring Joan Rivers*, is the boldest attempt yet to unify the booming independent-station business into a "fourth network" by offering quality, first-run programming outside the vagaries of the syndication market. Risky as it is, Murdoch's venture may be independent television's last best hope of challenging the dominance of the three major networks. Yet Murdoch's own long-range agenda may be vastly different from that of the independents he has pledged to serve, and he could easily emerge a winner even if his network fails.

Over the past decade a number of powerful companies—Paramount, Metromedia, LBS Communications—have experimented with networklike arrangements, only to abandon them in the face of huge losses and station defections. But the logic behind a new programming source for independents has become only more persuasive. With their ranks now swelled to some 250 outlets nationwide, independent stations have grown enormously in wealth and clout, and together they attract almost a quarter of the 24-hour viewing audience. But the one area that counts most—programming—has become a chaotic welter of syndication and barter deals, and fierce competition among independents has pushed costs through the roof.

Murdoch's foray into this minefield is markedly different from earlier attempts. His launch-date lineup of 90 affiliates began with a core group of seven owned stations in major markets—the six he bought from Metromedia last year plus WXNE-TV, Boston, which he bought in August. His 1985 acquisition of 20th Century Fox gave him access to an important programming arm and two executives with strong reputations in entertainment, Fox chairman Barry Diller and president Jamie Kellner. The cash flow from Murdoch's other media properties and his legendary tolerance for losses should give FBC the resources to last the three or four years it will take to gain an audience. Finally, FBC plans to gradually roll out a full weekly schedule—in March, it launches three hours of weekend shows—making it less likely that the failure of one or two will imperil the whole network.

20th Century Fox owner Murdoch.

ROB KINMONTH

FBC will hardly be breaking new ground in program content, but the network gained rapid acceptance this year by offering Hollywood producers and station owners deals they found hard to refuse. Diller's decision to pay competitive production fees and to give producers creative freedom has lured many top people, including Stephen Cannell (*The A-Team*), who will produce an hour-long adventure series called *The Undercover Kid*, and coproducers Gary David Goldberg and Ruth Bennett (*Family Ties*), who will create a romatic comedy, *Duet*.

Station managers were impressed with this roster of talent, but their real motivation for signing with Fox is the opportunity to boost their ratings while escaping the high, up-front costs of syndicated shows. "There's virtually no risk to us in this deal," says Stuart Swartz, station manager of KMSP, Minneapolis, which signed with Fox in September. "The only risk is to Mr. Murdoch's checkbook."

KMSP's situation is fairly typical for independents nationwide. During late night, the station receives a 2 or 3 audience share with syndicated shows such as *Police Woman* and *Love Boat*, and Swartz predicts that Joan Rivers could raise his ratings to a 5 or 6 share. He believes that FBC's weekend programming could eventually improve his ratings from a 6 to a 12 share. Overall, the ratings for the third-place station in the Minneapolis market, the NBC affiliate, are only two points higher than KMSP's. Conceivably, Fox could push the independent into the running for the top three.

Optimistic forecasts like these have already enticed two national advertisers, Gillette and Bristol-Myers, to weigh in with up-front buys on FBC. But there's a significant downside to the fourth-network equation. Even with big ratings gains, many observers doubt that FBC stations can generate enough ad sales to defray the high programming costs that the network will incur.

But immediate profits do not seem to be Murdoch's goal. His experience as a broadcaster in Australia and England has certainly taught him that media properties can greatly increase in value even as they appear to be losing money, and he has many options at hand.

FBC programming, for instance, is almost certain to raise the value of Murdoch's seven owned stations. Murdoch has already made it clear that his strategy is not national but global, and presumably FBC programming can be offered at steep discounts to his properties overseas. And, with many observers predicting that the three-network audience share will fall below 50 percent by 1990, one of them could evolve into an entirely different kind of business or bow out altogether.

If Fox can hang on that long, America would still have three networks, and Murdoch would become a major player. That, after all, is his ultimate aim.

RINKER BUCK

The Year of Living Nervously

The new age of network austerity strains the local ties that bind, and the affiliates are worried about the future

It was supposed to be the year that all the gloomy predictions about the affiliate-station business came to pass, and superficially at least, events in 1986 seemed to bear that out. Throughout the year, the nation's 602 affiliates encountered unprecedented uncertainty in the wake of major management changes at the networks, new challenges from satellite carriers and cable and rumblings of a major overhaul in the compensation system that binds them to the networks. Yet even as the networks struggle against a weak national advertising market, local ad sales in most parts of the country are booming, reflecting strong advertiser confidence and continued profitability for the affiliates.

The most serious challenge to the status quo was mounted last spring by Capital Cities/ABC. Faced with stiff losses on sports contracts negotiated before Cap Cities took over the network, its managers proposed eliminating the cash compensation paid to affiliates for carrying prime time baseball games and *Monday Night Football*, replacing it with a three-minute "local window" that could be used for commercials and news cut-ins. ABC affiliates, worried that the measure was a portent of across-the-board cuts, strenuously objected at the network's affiliates convention in June, and Cap Cities agreed to scale back its proposal. It is now paying affiliates a one-hour compensation fee for *Monday Night Football*, while allowing them to keep the news window and one additional minute of ads.

The networks spent an estimated $470 million on compensation fees this year, and these payments have become a prime target for cost-cutting during a new era of network austerity. Even minor adjustments to the compensation payments, however, could substantially affect station profits. In major markets, compensation fees typically represent about 5 percent of a station's revenues, and that figure climbs to as high as 10 percent in smaller markets. Merely swapping existing compensation fees for increased local spot time will not be popular with affiliates. Many fear that increased ad time will weaken demand, particularly so in the economically distressed Midwest and Southwest, where sales are already down. "We are swimming in a sea of unsold time as it is," says one Texas station manager. The most likely solution is a cap on compensation formulas to keep costs at their present levels for the next two or three years, but even this modest alternative could become a major irritant in network-affiliate relations during 1987.

"Should the networks be able to spread the loss of a failing show to affiliates across the country?" asks David I. Lane, president of WFAA-TV in Dallas, an ABC affiliate that opposed the change in compensation rates. "No. That is not how the relationship has always worked in the past."

Affiliates faced a new threat this summer when the Satellite Broadcast Network (SBN) announced plans to uplink the signals of three network affiliates and sell them to home dish owners. The networks and affiliate stations, who regard SBN's plans as a violation of their exclusive rights to programming in their markets, proposed an amendment to a bill before the House copyright subcommittee that

LEADERS OF THE PACK

The holdings of the top 20 station groups are an important indication of their long-range strategies. Tribune, for example, is betting on the continued profitability of independents, while Taft—once it sells its independent stations—will have hitched its star to the networks. These are the major station groups, the percentage of households they reach and their stations, listed by affiliation and UHF and VHF signals.

Group	Percentage of TV homes	VHF/UHF	Network/ Independent
Capital Cities/ABC	24.4	7/1	8/0
Fox Broadcasting	21.9	3/4	0/7
NBC	19.8	5/0	5/0
CBS	19.0	4/0	4/0
Tribune Co.	18.6	4/2	0/6
Group W (Westinghouse)	15.0	6/0	5/1
Taft*	15.0	10/2	7/5
Chris Craft Industries	12.0	5/2	2/5
Gannett	10.0	6/2	7/1
Storer (Kohlberg, Kravis, Roberts & Co.)	9.0	5/2	6/1
Scripps-Howard	9.0	6/3	6/3
Cox	8.9	6/2	5/3
Spanish Int'l. (Hallmark)	7.6	5/0	0/5
Gaylord	7.1	4/3	2/5
Hearst	6.9	6/0	6/0
A.H. Belo Broadcasting	5.6	5/0	5/0
Post-Newsweek Stations	5.1	4/0	4/0
LIN Broadcasting	5.0	4/3	7/0
TVX Inc.	4.5	0/7	0/7
Times-Mirror	4.0	4/0	4/0

Compiled by Hall Morrison. Companies' holdings include acquisitions pending at press time.
*Taft's five independent stations are up for sale.

would bar third parties from carrying network signals. The measure did not reach the House floor before Congress recessed in October and is certain to attract intense lobbying by the networks when it comes before Congress in 1987.

These developments have not dampened investors' interest in affiliate stations. Even as large station groups such as Storer, RKO and Outlet exited the business, a variety of new players and established entertainment companies emerged to take their place at the usual high premiums. Kohlberg Kravis Roberts, the New York leveraged-buyout firm, paid the highest amount for a single affiliate—$500 million for Atlanta's CBS outlet. Lorimar-Telepictures plans to spend $1.1 billion for affiliates in San Diego, Miami, Detroit and Cleveland. In September financier Joe Allbritton, with backing from five major insurance companies, announced the formation of Allco to acquire affiliates in the top 50 markets with $1 billion in leveraged capital. And two other important industry figures—former Metromedia president Robert Bennett and former ABC entertainment chief Lewis Erlicht—formed a unit at New World Pictures to invest in broadcast stations.

Despite the dire forecasts about network television, the logic behind owning an affiliate remains persuasive. "The desire to be an affiliate is stronger than ever, especially when you look at the programming costs paid by the independents," says Philip Jones, chairman of CBS' affiliate board and vice president and general manager of KCTV, the CBS affiliate in Kansas City. "Even if the combined network audience share drops below 60 percent, there are still only three affiliates dividing up that market. The other 40 percent is divided six or seven ways, between the indies, cable, VCRs and dish users. That's hardly a big share of the pot compared to what affiliates collect."

RINKER BUCK

HAVE STATION PRICES PEAKED?

Prices paid for TV stations in 1986 may have hit a ceiling, marked by the collapse of several big deals, but these sales went through:

Buyer	Station	Market	Affiliation	Price (millions)	Seller
MCA	WOR	New York	Independent	$387	RKO
First Media*	WCPX	Orlando	CBS	200	Wesray Capital Corp.
Gillette Group	WMAR	Baltimore	NBC	182	Times Mirror Co.
H&C Communications	KSAT	San Antonio	ABC	153	Wesray Capital Corp.
Narragansett Capital Corp.*	KOVR	Sacramento	ABC	104	Wesray Capital Corp.
Outlet Communications	WCMH	Columbus	NBC	86	Rockefeller Group
Lorimar-Telepictures	WTTV	Indianapolis	Independent	86	Tel-Am Corp.
Providence Journal	WHAS	Louisville	CBS	85.7	Bingham Corp.
Outlet Communications	WJAR	Providence	NBC	60.5	Rockefeller Group

*Both WCPX and KCVR could appear twice on this table since they had been purchased earlier in the year as part of the buyout of Outlet Communications from the Rockefeller Group.

Complied by Hall Morrison. Sources: Paul Kagan Associates and Morgan Stanley & Co.

HOUR MAGAZINE: "TELEVISION THAT FULFILLS A NEED"

Provides "Information While It Entertains," Gary Collins "Does A Superb Job"

Review
By Don Merrill

TV GUIDE

HOUR MAGAZINE

Large women look best when their hair is kept short, with lots of body.

When you lose a spouse, face the reality of it; give full vent to your grief.

You can't overwater a fern.

Many parents who adopt a child are overindulgent. They should set limits to show the child it is loved.

These are just a few of the fascinating things we learned watching *Hour Magazine*, a show syndicated by Group W to some 145 stations and shown by them chiefly in the daytime. Its host is Gary Collins, who knows exactly what the show is trying to accomplish, and whose pleasing demeanor is largely responsible for its success.

The great guru of communications, Marshall McLuhan, held that television is a "cool" medium, most effective when it presents people whose manner and choice of subject do not disturb or provoke the audience. Collins plays it very cool. He takes his guests, not himself, seriously. Somehow, even though his job calls for him to be center stage at all times, he generally seems to be in the background, with his guest the focus of attention. Collins, bless his heart, doesn't feel the need to prove he's smarter, or funnier, or more important than everyone who appears on his show. And that's what helps make it a low-key, enjoyable experience.

In concept, *Hour Magazine* is as standard as they come. There can be three or four or five topics treated during the hour. When subjects require more than 10 minutes or so to cover adequately, such as an examination of cells that prevent disease, they are treated over a period of several days. Collins has a "Woman of the Hour" to serve as co-host, and that can be anyone from a television-star-turned-director (Linda Gray) to the winner of the "Viewer of the Hour" contest (a woman from Lakewood, Col., whose letter was selected from 30,000 entries).

Although show-business personalities turn up from time to time, this series depends chiefly upon women's magazine subjects for its content. As a result, it appears to have more substance than most talk shows that book actors with new movies to promote or authors with new books to plug.

While the subjects treated, though varied, are usually quite light, the show maintains a list of consultants it calls upon to provide expertise on everything from problems with children and death in the family to cooking, fashions and beauty. The questions put by Collins are not always penetrating; but they do seem to elicit what most viewers want to know from the guests—and that's all the show aims to do.

Collins, an actor presumably playing himself, who has been criticized for being bland, is starting his seventh year as host. If being charming and modest and sensitive emerges as blandness, so be it. In our opinion, Collins does a superb job.

True, this is not brilliant or exciting or innovative television. It is, however, television that fulfills a need, that provides some basic information while it entertains, that is frequently moving and that doesn't hesitate to vary its format. Best of all, it doesn't leave you with a feeling of guilt for having wasted an hour watching more show-business *shtick*. END

TV GUIDE NOVEMBER 1, 1986

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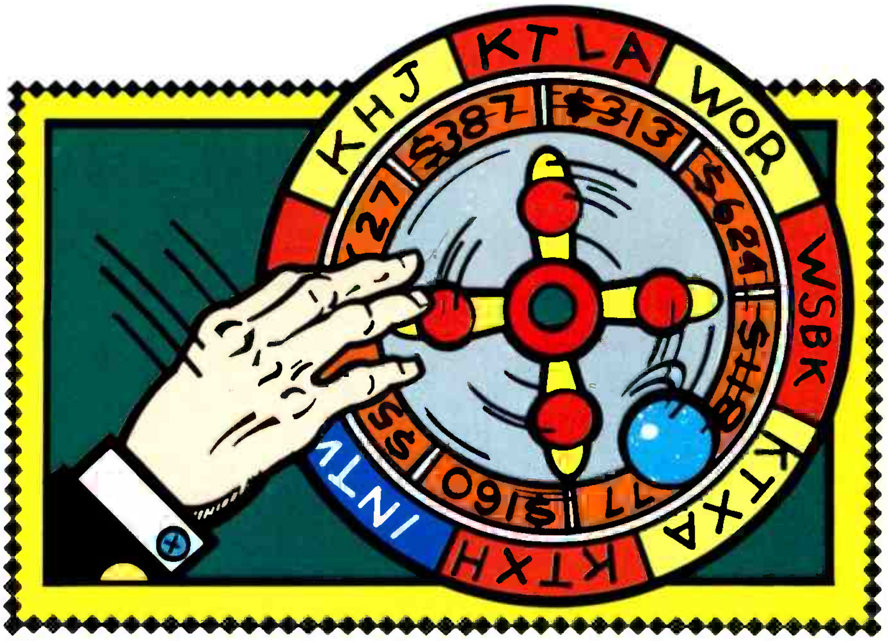
HOUR MAGAZINE
Now in its Seventh Successful Year

GROUP W PRODUCTIONS
A WESTINGHOUSE BROADCASTING COMPANY

The Morning After the Madness

With the boom times over, the nation's independent television stations will soon have to face the realities of a changed marketplace



DOUG TAYLOR

For a time, it seemed like every high roller in town was standing in line waiting for a turn at the indie gaming table: The Tribune Co. anted up $510 million for KTLA in Los Angeles; Gulf Broadcasting plunked down $160 million for two Texas UHFs; Group W ponied up $313 million for RKO's indie in Los Angeles; MCA paid $387 million for the same company's WOR-TV in New York (the RKO deals are awaiting FCC approval).

Some say it was the Federal Communications Commission's relaxation of ownership rules that did it, most importantly its de-emphasis of character considerations. Others contend it was lower interest rates and lenders' willingness to provide funds. Still others point to the perceived built-in profitability and cash flow of a TV station. Whatever it was, it produced three years like no others, part of the general media-buying madness of the mid-1980s.

But like sailors after a three-day blow, many of those who bet on indies are suffering a hangover. In 1985, for example, Taft purchased five stations from Gulf for $760 million. Then its long-term debt shot up 318 percent—from $182 million to $762 million. The Taft board of directors apparently rebelled, and the company decided to unload five stations for an estimated $300 million—including two of the just purchased Gulf properties: Houston's KTXH and Dallas' KTXA. In late November, Lorimar-Telepictures backed out of a $1.42 billion deal to buy six stations from Kohlberg, Kravis, Roberts & Co.

Once, owning a major market independent was tantamount to toting a gold-plated license to print money. Operating margins at a well-run property generally hovered in the juicy 20 to 40 percent range. But things have changed. For one thing, the marketplace itself has changed: It's saturated, or nearly so. There are now about 250 independent commercial television stations in the United States, more than double the number of just six years ago. Since 1980, 27 indies have signed on in markets where one already existed; 39 where there were already two or more.

The 1980s have seen more than 150 new TV stations come into being, all but a handful of them independent. Indies now command 21 percent of the total viewing audience, and some analysts, like Sharon Armbrust of Paul Kagan Associates, believe that the smaller markets—those with annual revenues of $25 million to $40 million—can only support one indie.

George Feldman of Katz Television, the large advertising rep firm, says that revenues still look good for independent stations for '87 but perhaps not good enough. "Will it be enough to cover their costs," Feldman asks, "their equipment, their programming?"

According to an industry study by Frazier, Gross & Kadlec, a media research and consulting firm, indies will report about $2.9 billion in total revenues in 1986, including 25 percent of spot advertising revenues. But the ad picture doesn't look as hot as in years past. For one thing, indies are likely to suffer more than networks from the softness of the general economy, with the gross national product expected to grow by only about 5 percent in 1987.

"When times get tough, advertisers tend to go the safest route," says Ron Inman, marketing director for INTV, the indie trade association. Though INTV projected a 13 percent increase in combined national spot and local sales for independents in 1986 over 1985, Bob Jones, an INTV marketing director, cautions that the final figures could be a point or two below that.

Superstation programming and the start-up of Fox will help some," says Peter Stassi, senior vice president and director of local advertising for BBDO. "But the advertising scene in general looks like it could be pretty dull in '87. There are no new, exciting products in view as in past years, like home computers or designer jeans. And there's the simple fact that many buyers aren't seeing the return on their ad spending now to justify more."

There are also disquieting portents for indies in viewership levels, attesting to increased competition from the VCR and cable. In the May Arbitron sweeps, for example, the audience share for independents declined for the first time since the early 1980s—the average market share of households viewing independents was down half a point from the year before.

If the independent TV business was a good one in itself, speculation in indies (helped by the FCC's elimination of trafficking rules) was also profitable. But now, due to the aforementioned factors, purchase prices are falling and many owners are having trouble selling even well-established stations. According to Kagan Associates, the average sale price for indies declined from $87 million in 1985 to $58 million in 1986; during the first six months of 1986, 31 UHF and VHF indies went on the block, down 35 percent from the 42 stations proposed for sale during the same period in 1985. Construction permits for new stations also dropped—from 18 in '85 to three in the first half of '86.

With all this softness, one would expect a buyer's market in indies in 1987. And in fact, new investors are rumored to be ready to snatch up bargains faster than you can say Yakov Smirnoff. But media analysts are less enthusiastic.

"It's true the price of independents is dropping," says First Boston's Richard MacDonald, "but the returns are dropping even faster. Many markets are saturated, and even those are getting glutted with low-power TV, cable, satellite dishes and VCRs. Indies may not turn out to be the bargains the speculators think. Those that aren't affiliated with Fox, many of them, are going out of business because they are undercapitalized."

Jim Goss of Duff & Phelps, a Chicago investment-research firm, says, "The pricing has peaked; there's less demand for independent stations. But whether it will totally nosedive in '87, I'm not so sure. There are still a few promising markets out there." Clearly, no one expects any fire sales, even in such depressed markets as Houston and Dallas. "Any price softening will simply bring out more buyers," says Goss, "and the prices will go up again."

INTV insiders view the current slump as simply the inevitable cooling of a market that got too hot too quickly. *Stabilization* is the buzzword. The long-range outlook, they believe, is healthier, though newer, smaller stations will suffer.

"It's difficult to speak of a national picture because the markets vary so dramatically," says INTV's Inman. As an illustration, he points to Florida, where Orlando is a hot market due to Disney World and younger demographics.

We project spot revenues in Orlando up 14 percent and local up 18 percent," Inman says. The station there, WOFL-TV, also has the advantage of being the only indie competing with the three affiliates. A short distance away, however, in Tampa, the ad picture is vastly different. There, two indies vie for viewers in an older, less lucrative market. Inman predicts only a 7 percent increase in spot purchases there.

But the surprise growth area for independents in the late '80s may be a group of stations that had previously been relegated to the most obscure UHF frequencies: Spanish-language TV. Bolstered by a flood of Hispanic immigrants, Spanish TV is becoming a hot commodity. So hot, in fact, that Hallmark and First Capital Corp. spent $300 million this year to buy the 13-station Spanish International Communications Corp. They may have been gambling on demographics alone: There are now 17.6 million Hispanics in the U.S., a 20 percent increase from five years ago, and their numbers are expected to double by the turn of the century. By that time, Hispanics could well be the largest ethnic group in the United States.

Advertisers seem to be well aware of this. Estimates are that when all the figures are in, they will have spent $389 million on Spanish-language TV in 1986—up from $333.5 million in '85. Perhaps industry proponents are right: For independent TV—with a distinct accent—the boom times are still ahead.

JOSEPH VITALE

Time to Pull the Plug?

When a trade association goes out of business, it's not a positive signal to the industry it was serving. But that's precisely what happened in the STV (subscription television) business in 1985. Surprisingly though, STV is still alive. Barely. Four stations are operating: WHT in New York; and SelecTV's outlets in Los Angeles; Reading, Pa.; and Bemidji, Minn. But for all four, business is dwindling.

The oldest of the new video technologies, STV is a conventional television signal scrambled (to secure the pay television programming it carries) and transmitted by a local broadcaster, usually a UHF station. After reaching its zenith in the early '80s, when 1.5 million Americans subscribed, the STV business was whittled away by cable, a victim of the latter's diversity of programming and its own noncompetitive pricing.

Just a few years ago, it appeared that STV had a chance. Cable had been slow to wire several large cities, including New York, and subscription television offered an immediate alternative to commercial programming. The economics seemed to be in STV's favor as well: Each new subscriber costs a cable company $1,000 to $1,500, while start-up expenses for an STV operator are in the $200-per-household range.

But STV's chances lasted only as long as it took for a cable company to move in. With monthly rates comparable to cable's, consumers voted with their pocketbooks, given the choice between STV (with its decoding box bringing in a single pay service) and cable's multiplicity. One study found that when cable entered a market, STV cancellations ran as high as 90 percent.

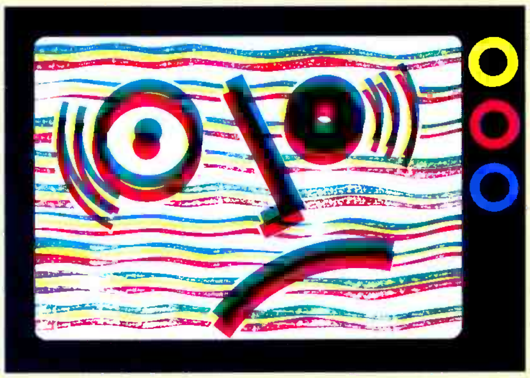
In the face of the challenge, STV failed to develop the technology or the means to pull together several services into a single, attractive consumer buy. And the industry built its foundation on sand: In its attempt to get off the mark quickly, STV companies signed up too many high-risk subscribers, who later failed to pay their bills.

Now, there aren't many left. From March 1985 to March 1986, the industry lost 72 percent of its subscribers—from 570,699 to 159,109, according to figures compiled by Paul Kagan Associates. "It's not that they were badly run businesses," says Kagan's Steven Rosenberg. "They just couldn't compete technologically with cable."

STV may prove to have been only a transitional technology between traditional broadcasting and cable. That's how it's being used abroad.

Ted Turner, for example, has set his sights on the unwired areas of Europe and is ready to utilize STV as his marketing tool. "He can use STV as an alternative until he builds up a subscriber base," says John Eger, a specialist in international TV. "Then he can sell those names to cable."

J.V.



RENEE KLEIN

THE AIR

The Name of the Game: Low Cost, High Clearance

Once-astronomical prices for syndicated fare have come back to earth—good news for the cost-conscious station manager

In January 1987, at their annual winter press tour in Los Angeles, the nation's TV critics will have a look for the first time ever at syndicators' upcoming programs, as well as the network offerings. The syndie sessions, sponsored by the Association of Independent Television Stations (INTV) and the National Association of Television Program Executives (NATPE), mark a coming of age for syndication.

No longer the kind of shows to be watched when everyone else in the house is asleep, the new breed of syndicated programs are first-run productions of genres the networks created. Of 67 first-run titles premiering in the 1986-87 TV season, there are 18 children's programs, 11 comedies, nine magazine shows, seven game shows and four music-based programs.

It wasn't long ago that about the only competitive programming local stations could acquire were shows that had already seen the light of a cathode ray tube in network runs. And every year there were fewer and fewer of those available, since the networks frequently canceled programs before the producers could amass enough episodes for syndication. Bidding for off-network shows was fierce; prices increased fivefold from the late '70s to the early '80s. The cost for programs such as *Magnum, P.I.* and *Hill Street Blues* shot up to the $100,000-an-episode range in some markets.

That was bad enough for independent stations, which provide syndicators with more than 60 percent of their sales. But when rising demand and short supply drove up the tab for proven network losers such as *The Insiders* and *Streethawk*, independents took matters into their own hands. One initiative is The New Program Group, a consortium of indie owners, which began producing its own shows. Working with 20th Century Fox, the group made a hit of *Small Wonder*, a half-hour comedy about a little girl robot, which was among the ten highest-rated programs in first-run syndication over the past year.

CARL FISCHER

Analysts say even record prices for *Cosby* reruns won't alter a moderating trend.

There were clear advantages for the independents to get into coproduction deals: creating an alternative to expensive off-network programs, paying less for first-run broadcast rights and later on, eliminating the syndicators' profits when the stations have enough episodes to "strip" them—run them daily at the same hour across the week's schedule. "Independents want to become masters of their own destinies," says INTV president Preston Padden, "and that means everything, including programming."

First-run offerings have not, however, taken all of the teeth, or all of the seductive appeal, out of off-network fare. Witness *The Cosby Show*—or "the Cosby Factor," as its syndicator, Viacom, is calling it. There's never been a show quite like *Cosby* (one affiliate general manager calls it "the most successful prime time comedy ever") and there has never been the kind of prices it's expected to command. Some analysts estimate the blockbuster could bring its owners as much as $180,000 an episode from stations in major markets when it becomes available in September 1988. The series could generate revenues as high as $450 million or even $600 million during its first five years of syndication.

The "cash-barter" scheme, unique for an off-network show, is similar to those for such first-run programs as *Wheel of Fortune* and *Entertainment Tonight*. Stations are bidding for the show on a weekly, instead of the usual per-episode, basis. In addition, Viacom will feed episodes to each station by satellite so they can be aired on the exact day and date agreed to in the contract. (The company is restricting the number of showings to avoid overexposing the show.) That is vital because Viacom will get not only a large fee from stations but also one minute of advertising time per episode, which it will sell on the national market. (Local stations will retain six and a half minutes of ad time.)

For station managers around the country, the show represents a buying decision that could make or break their careers as well as their balance sheets. But does *Cosby* augur a return to triple-digit bidding on other shows?

OFF TO A THRILLING START.

Death is Part of the Process

The McGuffin

Frankie and Johnnie

In The Secret State

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WW ENTERTAINMENT announces a long term co-production association with BBC, presenting 24 exciting new feature films for distribution to the worldwide home video and television marketplace.

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THE AIR

"It will clearly be an epic deal that will be watched very closely," says NATPE president David Simon. "What its long-term effects will be, I'm not sure." Larry Gerbrandt, an analyst with Paul Kagan Associates, doesn't see the *Cosby* deal reversing what has been a moderating price trend since 1985. "There will always be a market for proven hits," Gerbrandt says, "and Cosby is certainly that. But a slowdown in the rate of price increases has, in many cases, now been built into the equation."

For one thing, Gerbrandt says, syndicators have started making up-front deals with stations to limit increases, such as MCA's deals for *Charles in Charge* and Viacom's for *What a Country!*. In the case of *What a Country!*, the company has been able lock stations into a 104-episode commitment rather than the usual 26. The stations therefore avoid unexpected price increases and the syndicator can count on a two-year commitment.

The new pricing schemes, the slowdown in station start-ups, a soft ad market, uncertainty over legal challenges to the revised must-carry rule and an abundance of cheaper first-run material have all contributed to a cooling across the board, the *Cosby* phenomenon notwithstanding. In some markets, stations are reporting a 10 to 30 percent decrease in syndicated program prices below what they paid in 1985.

"Two years ago," says Gerbrandt, "syndicators did a good job convincing stations there was a serious shortage of off-network material. Now many are overstuffed with high-priced shows. These programs now have to be either run or written off."

Syndicators going for barter deals are asking for double trouble under these conditions. They're not only competing in the flooded program marketplace; they're also trying to sell the amassed advertising time they get in exchange for programs in a soft advertising marketplace. While barter syndicators managed to increase their advertising sales to more than $500 million in 1985, and between $600 million and $700 million in '86, some observers see problems ahead.

"Many stations are beginning to question what they give up and what they get in return from barter," says NATPE's Simon. "They're worried about what it's doing to their [commercial time] inventory. And under the arrangement, stations must commit to specific time periods. So if the show doesn't work, they're stuck." Also, should the ad environment remain soft and network prices continue to drop, 1987 may see some advertisers shifting their scatter budgets from syndication back to network.

SYNDICATORS' WIDEST REACH

Next to network TV, which reaches nearly every home in the country, syndication is the video distribution route with the greatest penetration. Top syndie shows reach 80 to 98 percent of homes, in comparison with cable networks, which reach less than 48 percent, and videocassettes, which reach no more than 40 percent.

Distributor	Show	Markets	Coverage
Blair	+ Divorce Court	151	88%
Buena Vista (Disney)	*Disney Magic (Movie package) + Siskel & Ebert & the Movies	144 151	89% 88%
Colex (Columbia)	+ The New Gidget	116	86%
D.L. Taffner	*Three's Company + The Ted Knight Show	183 105	97% 82%
Embassy	*Diff'rent Strokes	151	94%
Fries	+ Off the Wall	68	73%
King World	+ Wheel of Fortune	191	98%
LBS	+ Fame	150	90%
Lorimar-Telepictures	*Falcon Crest + People's Court	115 182	85% 97%
MCA	+ Charles in Charge	90	80%
Multi-Media	+ Phil Donahue	185	98%
Orbis	+ Defenders of the Earth	109	82%
Orion	+ Hollywood Squares	137	88%
Paramount	+ Entertainment Tonight	150	94%
20th Century Fox	*M*A*S*H + Small Wonder	188 106	98% 83%
Tribune	+ At the Movies with Rex Reed and Bill Harris	114	85%
Viacom	+ The MTV Top 20 Video Countdown	124	87%
Worldvision (Taft)	*Little House on the Prairie + Throb	195 134	95% 89%

*Off-network + First-run

A recent study by the Butterfield Communications Group, commissioned by INTV, determined that "the slowing growth of new stations, combined with a reduced appetite for more barter among established stations, indicates that the growth of syndicated inventory will slow significantly over the next few years."

George Back, president of All American Television, which distributes first-run programming, agrees. "Barter just went through its worst year in the last six because, contrary to what has been believed, our health is closely tied to that of the networks," he says.

"Traditionally, the price for syndicated programming is about 15 percent below off-network. Consequently, the same factors—a poor ad environment, competition from other media—that are impacting on the networks are affecting our business as well. The notion that the networks' misfortune is our [first-run syndicators'] good fortune is a historical misconception."

While syndicators ready their '87 offerings, this year's hot item may not be a show at all but a strategy: checkerboarding. The overabundance of product gives local stations the chance to air a different program each night in the same time slot. Early ratings at the stations experimenting with the checkerboarding approach look good, and if the numbers prove consistent, other stations may soon follow in stripping themselves of the "strip."

JOSEPH VITALE

Paradise Postponed: Settling for Survival

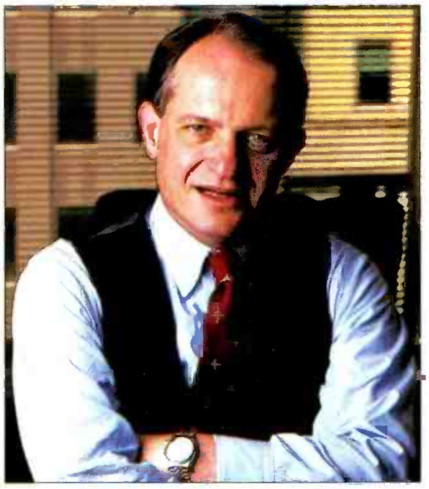
In the last two years the source of most support for public TV has shifted from government to fans and other funders

Martin Rubenstein, a commercial broadcaster who briefly served as president of the Corporation for Public Broadcasting, had a line he wanted public broadcasters to repeat to every potential underwriter: "Mr. Corporation, for your enlightened self-interest, have I got a deal for you!" During the 11 months he served at CPB, he urged his new colleagues to work harder at marketing themselves and their programs.

As recently as a few years ago, some public TV stations ignored offers of program-promotion money from corporations that had underwritten shows. And PBS thanked the underwriter with a quick on-screen credit in the plainest typeface. Now producers include marketing as a regular part of the budgets they show potential funders, and the underwriters get on-air credits with brand logos, animation and slogans, sometimes as long as 30 seconds. Many public TV stations are revising their periodic pledge drives to make them less offensive and some 20 stations have dropped them altogether.

These changes, which began before Rubenstein arrived at CPB, haven't transformed public TV's status as commercial television's poor sister. CPB's latest statistics show that public TV's total revenues in 1985 were $889 million—less than one twentieth of all broadcast TV advertising revenues. And some innovations threaten public TV's noncommercial image without adding significantly to its income. But stronger marketing has helped keep public television's revenues growing, and 1985 became the first year it brought in more money from private sources than from state and federal aid.

One reason for that shift, of course, has been the federal funding cutback under the Reagan administration. Despite the extraordinary 25 percent hike in the annual federal grant (now $200 million) to CPB in the fall of 1986, the sum, adjusted for inflation, merely equals the federal funding level of ten years ago.



Rubenstein to public TV: Market thyself.

JEFF MACMILLAN

Viewers and critics have already seen the effects of the biggest federal pullback—a $35 million cut in 1983, when 1985-86 productions would be in the works. When last season came around, PBS had no major new American-made series.

The last year had its own setbacks. Exxon halved its underwriting of *Great Performances* for fall 1987. And the biggest producer, WNET in New York, trimmed its staff 10 percent, vowed to be more cautious in undertaking expensive national productions and said goodbye to its 13-year president, John Jay Iselin.

Perennial funding problems were addressed last summer when CPB and PBS agreed to put up $24 million over three years to help fund new series. That amount is small compared with the $209 million being spent on this season's national programming.

PBS and CPB had actually collaborated several years ago in funding this season's nine-part series *The Africans*, but their role was overshadowed in the furor stirred by another funder, the National Endowment for the Humanities. NEH put $600,000 into the $3.5 million series, which was written and narrated by Kenyan scholar Ali Mazrui. When Reagan-appointed NEH chairman Lynne Cheney saw the series, she called it an "anti-Western diatribe" and persuaded PBS to remove the Endowment's funding credit. Cheney's remarks joined the continuing chorus of conservatives' complaints about leftist bias in PBS programs.

Even before the *Africans* dustup, Richard Brookhiser, a Reagan appointee on the CPB board of directors, had proposed hiring consultants to do a content analysis of the public affairs programs' "objectivity and balance"—an idea that was promptly questioned by Congressman John Dingell (D-Mich.), a powerful friend of public TV. The proposal was put on hold—at least until the CPB board is up to full strength. The White House and Senate, which nominate and confirm appointments to the ten-member board, have left five vacancies for most of a year.

Critics of CPB noted gleefully that public broadcasting moved along quite briskly despite the crippling of CPB's board. In an unusual collaboration with ABC this season, public TV launched a campaign against illiteracy, establishing 347 activist task forces around the country and drawing public notice to the problem. In January, PBS will premiere *Eyes on the Prize*, a six-part history of the civil rights movement, and a new series from Children's Television Workshop called *Square One TV*, which aims to do for children's math skills what CTW's *Sesame Street* has done for their reading. In the fall of 1987 there will be major new documentary series on architecture (*America by Design*) and the scientific process (*Ring of Truth*). And a new free-lancer named Bill Moyers may very well appear on both CBS and PBS—he's proposing a series of 60-minute documentaries for public TV.

On the regulatory front, public TV has fought off an agreement between the cable TV industry and commercial broadcasters that would have let cable operators drop carriage of many public TV stations. The Federal Communications Commission reinstated a new version of its must-carry rule, which requires each operator to carry at least one local public TV signal for the next five years. But Turner Broadcasting and other cable interests say they will challenge the new rule in court. The triumph, like so many for public TV, was a partial one and may require another fight a few months down the road.

J.J. YORE

LOST EMPIRES

produced by June Howson
directed by Alan Grint

starring Colin Firth, Carmen Du Sautoy, Brian Glover
and John Castle as Uncle Nick
with special guest stars Laurence Olivier, Pamela Stephenson,
Alfred Marks, Rachel Gurney and Lila Kaye

Financial Times

Thank goodness for Granada Television.

Wednesday October 22 1986

GRANADA TELEVISION OF ENGLAND
We make television worth watching

COMING SOON TO THE USA
Lost Empires has been acquired for the USA by WGBH Boston for showing on *Masterpiece Theatre*
in January 1987, made possible by a grant from Mobil Corporation

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Granada is represented world-wide by
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Paris: 18 Rue Volney 75002 Paris France
Telephone (33 1) 42 61 79 10. Telex 213008
New York: 1221 Avenue of the Americas, Suite 3468
New York NY 10020 USA
Telephone (212) 869-8480. Telex 62454 UW

LOW-POWER TV

They Jes' Keep a-Growin'

The money's marginal but hundreds sense a way to enter TV

It's a break-even business at best, but people are still building low-power TV stations. In fact, LPTV's growth may well shift into higher gear during 1987 as perhaps 200 stations complete construction and go on the air. Some 60 stations went on air in 1986, bringing the total to 383, operating primarily in small-town America—225 of them in Alaska's state-sponsored bush network. And the clock was ticking away on 1,479 construction permits as of fall 1986. Each will expire 18 months after its issue if the station isn't on air. Even if only 15 percent of the permits turn into stations, the number of LPTV stations would grow by more than half in 1987.

Another 10,000 or so LPTV applications await processing at the FCC—a molehill compared with a backlog of 37,000 a couple of years ago. (The backlog probably will never be so great again—applicants will soon face a $375 fee, and the FCC may put a cap on the number of applications a person may file.)

Mini-station pioneers have suffered extreme versions of the financial and programming woes that confront full-power independent stations. Local production tends to be too expensive for mini-stations serving small audiences within reach of their lower-powered transmitters, so most rely on the cheapest satellite-program feeds. Many have filled their air with music videos, religious programs or, lately, home-shopping offerings.

From the start, LPTV's fate has been in government hands. In 1982 and 1983, the FCC was overwhelmed by its backlog and for two years held periodic lotteries awarding construction permits. Then in early 1986 the FCC extended the time allowed for construction from 12 to 18 months. Given the reprieve, many stopped building for six months.

Only when LPTV stations have operated for a few years will they have known trading values like those of other stations. It takes time, as well, to secure spots in the local ratings book and to negotiate syndicated program prices commensurate with their limited audiences.

LPTV was announced in the closing days of the Carter administration as a way for a wider variety of Americans to own media properties. It also promised to provide new competition for established broadcasters. But now, whenever a new LPTV rule comes up for discussion, the National Association of Broadcasters does not even bother to denounce the competitor. As one senior FCC staffer remarks, "If the NAB is happy, you know something is awry."

MICHAEL COUZENS

THE AIR

HIGH-DEFINITION TV

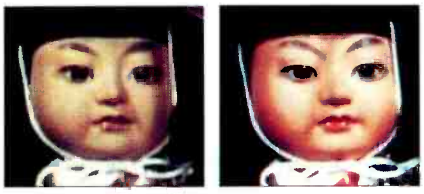
Politics Muddies the Clear Picture

Tomorrow's TV may still need conversion to cross borders

Thumbs were down at the world assembly in Dubrovnik, Yugoslavia, last May, but high-definition TV certainly wasn't sent out to die. Over the summer, producers were using high-def videotape—with its finely detailed, wide-screen image—to shoot a movie in Italy (RAI's *Julia & Julia*, with Kathleen Turner) and a miniseries in Canada (the CBC's *Chasing Rainbows*). In September, research labs were showing off four competing high-def systems at an exhibition in Britain. And in January, high-def proponents will demonstrate high-def's picture by broadcasting it over a pair of TV channels in Washington.

The Dubrovnik assembly postponed setting any world high-def standard, scheduling a study-group meeting in 1988. It ran into an impasse much like the one at an earlier assembly at Oslo in 1966. Then the question was about setting a single world standard for color TV, and the result was that nations ended up choosing among three incompatible technical systems. This time the question was whether the HDTV production system developed by Japan's NHK network and backed by the Americans would be used worldwide for shooting programs—an electronic alternative to 35mm film. And once again the results appear to be that TV will need electronic conversion to cross borders.

"There won't be a standard," predicts consultant Joe Roizen. "It will be the same situation as in the '60s, rooted in economic and political differences."



No debate: High-def (right) looks better.

Observers say Europe's delegates shot down the HDTV-standard proposal to protect European electronics manufacturers and technology. Europe's Eureka project—the continent's answer to Star Wars—plans to put some $180 million into high-def research. The Europeans' point of contention was that Japan's HDTV videotapes can be converted a little less readily for showing on their existing TV systems than for the U.S. and Japanese systems. A bigger problem for the Japanese system is that only a handful of sets in existence can show its full 1,125-line picture. Some Europeans and Americans are proposing systems that would bring in high-def gradually, the way "compatible color" was phased in.

Several versions of compatible high-def, which would provide low-def pictures on old TV sets and high-def pictures on more expensive new ones, already have been developed and may be transmitted experimentally in the Washington, D.C., tests.

STEVE BEHRENS

STEREOPHONIC TV

Set Buyers Ratify A Sound Idea

Three million buy stereo receivers as NBC and Fox move toward dual tracks on all prime time programming

THE AIR

JOAN CRUSPINERA

Since its October launch, the Fox Broadcasting Company has distributed its entire schedule with stereo sound to Fox-affiliated stations. Because only about a third of the affiliates are equipped to broadcast stereo so far, the move is mostly symbolic. But for stereo TV, it's a sign of the times. At the start of 1987, the number of stereo-equipped stations will have grown from 250 to perhaps 350 in a year.

Stereo TV is already spreading faster than color TV did in the 1950s and '60s. Manufacturers sold a million color sets in a year for the first time in 1964—11 years after color's introduction. Yet Americans bought some three million stereo sets—20 percent of color sets sold—in stereo's second year on the market. At year's end, about 5 percent of U.S. households had stereo sets. In 1987 consumers are expected to buy five million. By 1990, 33 percent of households will have purchased stereo TV sets, some 30 million in all, according to audio market analyst Martin Polon, president of Polon Research International. Others will switch to stereo by purchasing stereo-receiving VCRs or the audio-only receivers, priced at $100 to $200, that pick up the stereo signal and pipe it through home sound systems.

Chicago public station WTTW was, in 1984, the first TV station to install stereo broadcasting equipment, but virtually all other stereo-TV landmarks (like those in the historic conversion to color) belong to NBC. The network has been intimately connected with the set-manufacturing interests of RCA—and now GE as well. NBC had the first network stereo telecast (*The Tonight Show* in July 1984) and the first in prime time (coverage of the baseball All Star game in July 1985). NBC and RCA engineers won an Emmy in 1986 for their pioneering work in stereo. And the network had, in the fall, 95 stereo-equipped affiliates, nearly twice as many as CBS and ABC combined.

The NBC stations have good reason to switch. Their network is feeding stereo with 19 prime time series this season—more than half of the prime time schedule—and four late-night offerings, and it has put out a call for commercials produced in stereo. By fall of '87, all or nearly all of its prime time shows will have stereo sound, according to NBC.

Stereo has had a lower priority at ABC and CBS in their time of austerity. The equipment would cost millions of dollars, and stereo would add $5,000 to $15,000 per episode to production expenses. While NBC carried 24.5 hours of stereo a week, ABC offered only the sitcom *Sledge Hammer!* and some theatrical movies; CBS had *The Twilight Zone*, the Super Bowl and some specials; and PBS had an average of ten hours of programming a week.

Local stations offering stereo programs broadcast on average six hours of locally produced material, five hours of syndicated shows and nine hours of network shows in a week, according to a National Association of Broadcasters survey last March. One in three airs commercials that have been produced in stereo.

Fewer stations are making use of the Second Audio Program (SAP), the extra channel authorized by the Federal Communications Commission as part of the plan for multichannel TV sound that can be received with the flip of a switch on stereo sets. Some retailers are already advertising sets that feature "bilingual sound," though only a few stations are broadcasting simultaneous Spanish audio with the English soundtracks of selected programs. Only about 20 stations are using SAP at all. But the NAB survey showed that 16 percent of stations not now using SAP have plans to do so. WTIC in Hartford uses SAP to send out unexpurgated soundtracks of R-rated theatrical movies. Public TV plans to use SAP for blind members of the audience, describing visual aspects of the programs.

Stereo signals travel through most cable systems without trouble, and some cable operators are also installing encoding equipment that will enable stereo TV sets to pick up the stereo soundtracks of HBO and other cable networks. One of the most ambitious is Gill Cable's system in San Jose, Calif., which offers 11 cable services in stereo.

The audience, meanwhile, will continue to grow as manufacturers drop the premium they've charged in the past for stereo sets—about $100 at year's end—and put stereo circuitry into cheaper models. In 1985, RCA's least expensive stereo set cost about $900; now there's one selling for $500.

RICHARD BARBIERI

WIRELESS CABLE

The Quick Fix That Came Late

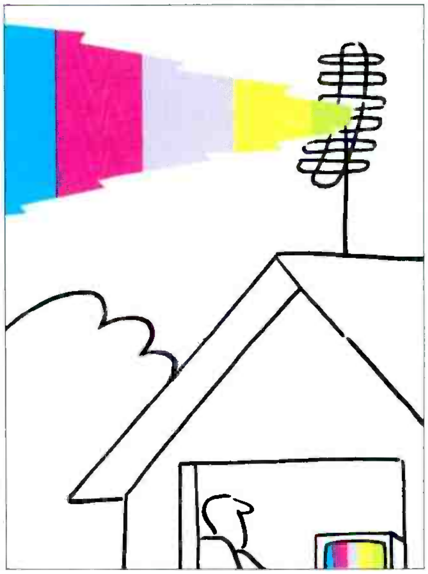
Using channels leased from educational institutions, MMDS startups have begun offering an over-the-air alternative to cable

A new over-the-air subscription TV service nicknamed "wireless cable" is just now starting in many cities—but may already have missed its big chance. Multichannel microwave service was touted several years ago as the quick fix for markets in which cable installation had been delayed. But wireless cable has had delays of its own, and now cable is being installed in Detroit, Washington and New York's outer boroughs. "Multichannel TV has already lost its advantage in those markets," says one industry expert.

Small rooftop dishes are nevertheless appearing in places where people have signed up for wireless cable, which is officially known as multichannel multipoint distribution service (MMDS). Most of the systems that are now operating started by using channels leased from educational institutions.

In late 1985 the Federal Communications Commission finally held a lottery to hand out the first permits to be had by MMDS companies themselves. The winners' first order of business has been negotiating to lease enough additional microwave channels to be able to offer subscribers a cablelike programming package. In Milwaukee, for example, People's Choice Television put together a 14-channel system by leasing two channels from commercial licensees and 12 from Wisconsin Bell, which had leased them in turn from the state public TV network.

The start-ups are eager to learn what will make MMDS work as a business. "People are looking for the cookie cutter, something to point to," says Peter Frank, partner in a company that holds four MMDS channels in New York City. The model may, in fact, come out of New York's experience in coming months. Some 2 million uncabled homes in the city's outer boroughs are the target for two formidable players maneuvering for position: Peter Frank's MultiChannel Media applied for MMDS channels in 170 markets, including New York, and Microband Corp. of America, which originally proposed the wireless cable idea, has leased time on four educational channels in New York. Microband reportedly hopes to launch systems in Detroit and Washington as well. (During the year, the Boston venture capital firm TA Associates helped Microband management buy out the company from McDonnell-Douglas.)



NURIT KARLIN

MMDS operators are literally having to fight to sign up the programming they most want to offer. A typical four-channel MMDS operation offers a variety of ad-supported program services such as ESPN and CNN, perhaps a regional sports network, and a minor movie service such as SelecTV. The major pay networks that serve cable operators, however, are "staying away from MMDS in droves," as one observer puts it. The Justice Department reportedly is investigating the situation as part of its probe of anticompetitive activity in cable. Viacom surprised the industry in February by selling its Showtime and MTV services to the Cleveland microwave operator, Metropolitan Cablevision, but reneged two months later. Metropolitan was able to keep the two program services by filing an antitrust suit against Viacom. But Cleveland remains the only place where subscribers can watch Showtime on microwave.

MMDS is an elaboration on the long-established multipoint distribution service (MDS). Single-channel MDS operators nationwide had some 750,000 subscribers at their peak in 1982, but now have only a third as many or fewer. In 1983 the FCC accepted the reasoning that MDS operators needed multiple channels to compete effectively. The commission turned over eight little-used microwave channels previously reserved for educational broadcasters and began permitting educational groups to lease out "excess" time on their microwave channels for commercial use.

Now the FCC may tidy up an oddity of MDS history. The commission has always categorized MDS (and now MMDS) operators as common carriers and prohibited them from controlling the content of more than half of their airtime. Many license holders therefore must lease the channels to separate operators. In March the FCC proposed that licensees be allowed to choose whether to be regulated as a common carrier or as a type of broadcaster. The matter remains one of wireless cable's many loose strings.

RICHARD BARBIERI

A Symbiotic Set-up

Not long ago there were two kinds of TV being aired on the channels in an obscure band of microwave frequencies and seldom did the twain meet. Entrepreneurs were trying to build a pay-TV medium on the MDS channels while educators—particularly parochial school systems and university graduate schools—transmitted courses on ITFS (instructional television fixed service) channels.

Now the two are becoming highly interdependent, with the entrepreneurs subsidizing the educational channels in return for leased time on those channels.

PBS gave ITFS a boost during 1986 by starting its National Narrowcast Service, which distributes career training programs to the ITFS outlets owned by some 40 public TV stations.

THE AIR

Striking Gold in The FM Band

A host of new prospectors are paying record prices for stations, and earning higher-than-ever profits

Radio was once considered a ho-hum business, providing mere background music to the more glamorous and expensive deal making in television, but no longer. Investors flocking to the media field now view local radio stations as highly desirable properties and are paying television-size multiples to obtain them. Trading prices have been pushed to new highs. The total volume of radio-station trading in 1986 is expected to approach $3 billion, almost double the amount spent in 1985.

A variety of forces has fueled this binge. Unlike television's mass appeal, radio attracts audiences with relatively narrow but consistent demographics. Ad time is comparatively inexpensive and, at the stronger stations in each market, cash flows have remained healthy despite a soft national advertising market. Low interest rates and the relaxation of Federal Communications Commission ownership rules—an individual can now own 12 FM and 12 AM stations, up from seven in 1985—have invited a massive infusion of Wall Street money.

On the sellers' side, the increase in capital-gains rates under the new tax law has encouraged many owners to sell out before the end of the year. Overall market trends have also played a role. "Over the past couple of years, real estate syndication went to hell and oil was depressed," says Charles Giddens of Chapman Associates, a major station broker, "so you had a lot of money with no place to go."

The net effect is the creation of a substantially new market and class of media investors. "Unbelievable appreciation in value is what draws people to the broadcasting industry," says Tom Buono, president of Broadcast Investments Analysts Inc. Yet, with average sale prices for television stations reaching $95 million in 1986, all but the largest station groups and

TIM GABOR

corporations have been boxed out of the market. Radio, with average sale prices for FM stations in the $4 million to $5 million range, remains affordable for a broad spectrum of buyers. Entrepreneurs can buy in, introduce new management and change a station's format, quickly enhancing value. Incredible success stories such as WLIF in Baltimore—purchased by American Media Inc. in January 1984 for $5.7 million and resold to JAG Communications in 1986 for $30.5 million—create eager investors with high expectations. As a result, stations are now selling for eight to 14 times their annual cash flow.

Investment banks, rarely in the market a few years ago, are now major players in radio. Gary Stevens, a first vice president of Wertheim & Co., best demonstrates the new shift in emphasis. A former disc jockey and president of Doubleday Broadcasting, Stevens joined Wertheim in January and has since brokered almost $185 million in radio deals, earning over $3 million for the firm. Many radio broadcasters are now worried that the bulk of future profits will be drawn from simply trading stations, not operating them.

The biggest deal of 1986 was Metromedia management's $285 million buyout of the company's nine radio stations. Blair & Co.'s eight radio stations accounted for $170 million of the price Reliance paid to acquire that company, and Viacom's nine stations were estimated at $142 million in its proposed management buyout. Single stations also sold for eye-popping prices. Infinity Broadcasting, for instance, paid $45 million for KROQ in Los Angeles.

Radio advertising sales have generally bucked national trends for other media. Radio network advertising rose by 20.2 percent in 1986. Local radio, accounting for 75 percent of total advertising, increased 8.4 percent. The Radio Advertising Bureau estimates an overall growth rate of 7.3 percent for the year, which tracks well ahead of increases for network television (2.5 percent), spot television (7 percent) and newspapers (5.3 percent).

National radio audiences—with 95 percent of the population 12 years or older listening at least once a week—remain remarkably stable. But within individual markets, stations scrambling for the lucrative 18-to-35-year-old market have continued their format wars. According to the Radio Information Bureau, adult contemporary and Top 40 radio remain the leading formats. Country radio continued its

THE RADIO BOOM

Over the past six years, the volume of radio station sales has grown from $339 million annually to over $2.5 billion, a 700 percent increase.

Year	Volume Sold	Percentage Change from Previous Year
1986	$2.5-3 billion*	+79-114%
1985	$1.4 billion	+43%
1984	$977 million	+57%
1983	$621 million	+32%
1982	$470 million	+5%
1981	$447 million	+32%
1980	$339 million	+1.9%

Source: FCC
* estimate

DAVID HERBICK

rise in popularity, climbing to third place. Album-oriented rock, which features longer cuts by major artists, fell from third to sixth place. Urban contemporary, an emerging format with a strong dance beat, rose in popularity, particularly in cities with large minority populations.

For the most part, however, the boom is restricted to FM stations. For the first time since 1972, the aggregate AM audience did not decline, but poor fidelity and the scarcity of AM stereo transmissions retarded its growth, except for specialized formats such as talk and foreign language shows. Many AM broadcasters, however, are encouraged by the flurry of initiatives proposed this year.

Improvements in AM broadcast standards dominated the proceedings of Radio '86, the first convention since the National Radio Broadcasters Association merged with the National Association of Broadcasters (NAB) in May. The National Radio Systems Committee, an ad hoc group formed by NAB and the electronics industry, announced an accord between broadcasters and manufacturers for improving the fidelity of AM transmissions and the production of wide-band receivers.

Many AM broadcasters are pressing the FCC to adopt technical standards for AM stereo before it's too late. Sony and Pioneer, for example, have already discontinued some of their AM stereo lines. According to NAB estimates, only 9 percent of AM stations broadcast in stereo, while 30 percent of television stations have already converted to stereo transmission. Many are hoping that stereo technology will give AM a much-needed boost.

In April the FCC issued an AM improvement report signaling its interest in reestablishing parity with FM. Agreements were secured with Mexico and Canada to extend the hours of daytime stations. The FCC dropped limits on program duplication by jointly owned AM and FM stations and plans to repeal the ban on ownership of two AM stations in the same market. An international band agreement is expected to create 500 new AM stations in the U.S. over the next decade.

No one expects the radio market to quiet down over the next few years. The new tax law will probably drive more players into high-volume cash businesses like radio. Recent licensing decisions by the FCC will create as many as 1,000 new stations by 1990. If interest rates rise again, many analysts predict a shakeout as marginal operators are forced out. But these losses will be restricted to a relatively small number of owners. Overall, the radio industry looks like it will be a winner for some time to come.

PATRICIA HERSCH

The Changing of the Guard

Long the industry leaders, the old-line networks reassess their commitment to radio—and competitors prepare to move in

The so-called new radio networks think they're engaged in a David and Goliath struggle with the old-line ABC, CBS and NBC radio networks. "*We're* Goliath," says United Stations president Nicholas Verbitsky, "and *they're* David."

Well, not quite. The new networks, such as Westwood One and United Stations, were little more than program syndicators as recently as a year ago. Though their stature in the industry has grown, Verbitsky's swagger is probably premature. His confidence, however, reflects the changes overtaking network radio after 60 years of dominance by the Big Three.

Last year, new questions were raised about the established networks' commitment to radio. With new, bottom-line-oriented management at all three networks, what will happen to the companies' radio divisions? What incentive is there for ABC and NBC to continue in the radio business when the Federal Communications Commission is requiring that they divest their owned stations, the radio divisions' major profit centers? Says one observer: "There is a concern in the industry that the national radio networks as we know them are under some duress."

That concern is not shared by the new networks, hoping for the opportunity to bolster their own positions. In December 1985 Westwood One acquired the old Mutual network and in April 1985 United Stations acquired the RKO network, properties that give both a solid programming base with which to attract affiliates and advertisers. Mutual, for example, increased Westwood's commercial inventory from 24,000 to 80,000 units and boosted revenues to just under $60 million in the third quarter of 1986, up from $19.1 million prior to the purchase.

Network radio had a good year in 1986. ABC, CBS and NBC showed radio division profits. Projected network advertising revenues in 1986—$395 million—topped 1985 by 20.2 percent, or 5 percent of the total $7 billion spent in radio last year. Two factors contributed to this growth. Media planners fled the high cost of television advertising, and available radio network time proliferated.

NETWORK RUNDOWN

In radio today, the line between the major networks and the syndicators is a blurry one. Both provide music, news and informational programs of varying lengths, and most sell ad time. (Numbers of affiliates are noted in parentheses.)

ABC: *Contemporary Network* (262), young adult; *Entertainment* (545), adult; *Direction* (347), adult; *FM* (135), young adult; *Rock Radio* (85), young adult: music, news, sports, features, comedy. *Information* (622): news, business news, sports, Peter Jennings commentary. *Talkradio* (118): telephone talk. *Paul Harvey* commentary (1,300); products of ABC's *Special Programming* unit.

CBS: *CBS Radio Network* (400), adult: news, sports. *RadioRadio* (160), young adult: music, features, *Radio Programs*.

NBC: *NBC Radio Network* (363), adult: news, commentary, sports. *The Source* (120), young adult: news, features. *Talknet* (283): financial, personal advice. *Radio Entertainment*: (varies): music, entertainment, events.

Westwood One: (varies) music, entertainment, features, interviews, comedy, concerts. Various formats.

Mutual: (1,200) News, sports, entertainment, music, *Larry King Show*.

United Stations: *US1* (200), young adult; *US2* (300), adult: news, sports. *United Stations Programming Network* (1,400): music, various formats.

Satellite Music Network: (627) 24-hour programming; music, news, sports, features. Seven formats.

Transtar Radio Networks: (617) 24-hour programming; music, news, sports, features. Five formats.

DIR: (200) Music, entertainment, including *King Biscuit Flower Hour*.

MJI: (150) Short-form quiz shows; long-form music, entertainment.

Sheridan: (131) Black-oriented. News, sports, urban and gospel music, features.

Caballero: (70) Spanish language. Entertainment, news, sports.

Wall Street Journal Radio Network: (99) Economic, financial news.

National Black Network: (96) Black-oriented news, features, interviews, talk.

—COMPILED BY HALL MORRISON

Since 1980, the number of programming networks has grown from about 15 to 35, in part a result of FCC deregulation. Pressure mounted for the old-line networks to compete with program syndicators who were filling stations' demands for programming that would distinguish them in volatile local marketplaces.

Though the Big Three's radio divisions make a profit (primarily derived from owned stations), few of their programming networks do (the news networks make no money). Without owned-and-operated stations, there is little reason for them to be in the business, says one industry executive.

Last year, NBC reportedly decided to get out of radio altogether. The radio division's $5 million in earnings in 1986 is unimpressive to new parent GE, and the prospect of losing five major stations in New York, Chicago and Washington could further undermine the radio division. This fall, NBC and Group W were considering spinning off their radio holdings into a separate publicly held company in which both firms would retain some ownership. At the same time, Westwood One chairman Norman Pattiz raised $100 million in financing to acquire stations, and he is also interested in NBC Radio. The sale of NBC's stations was expected by the end of 1986 to beat the new tax laws.

ABC, however, is expected to continue in radio. The division does so well that it is likely the company will reinvest money from the forced sale of seven owned stations (New York, Los Angeles, Chicago and San Francisco) into radio station purchases where it's allowed to own them. In 1986, ABC Radio made $39 million in profit on $215 million in revenues, attracting about 40 percent of network radio advertising dollars.

CBS, with $26 million in earnings last year, is expected to remain in the business but trim its operations—it has already laid off radio division personnel and plans more cutbacks for the coming year.

As the radio business continues to shift and powerful stations come on the market, competitors stand to become formidable players. Says Westwood One's Pattiz: "The state of the industry puts us in a position where the opportunity for growth could come at any time. We're watching with a close eye."

CECILIA CAPUZZI

AN OPEN LETTER TO THE EDITOR

WCVB5TV

America's Best TV Station

Editor In Chief
Channels Magazine
19W. 44th ST.
New York, NY 10036

Dear Editor:
We at WCVB-TV were amazed and disappointed with your recent article,"Group W Television: Local Heroes." Amazed because I had been certain that a magazine of the stature of "Channels" employed fact-checkers to ensure the accuracy of articles submitted to it by free-lance writers, in this case a TV critic for a suburban newspaper in the Boston area. Disappointed because the article so totally and blatantly misrepresents the record of accomplishment of WCVB, a record which we submit is unsurpassed by any television station in Boston. I'm not a journalist, but I do know enough about the news business to spot this article as a puff piece from top to bottom.

The writer, Terry Ann Knopf, sets up her false premise in the very first paragraph. It is that in 1982 WCVB-TV "began to decline after it was sold to Metromedia and then resold to Hearst last year" and that this led to the emergence of Group W's WBZ-TV as heir to "the title of America's best local station," a title Ms. Knopf admits was held by WCVB for much of the preceding decade. Not one shred of evidence is offered to support the supposed decline of WCVB. I'd like to set the record straight, and I'd like to ask you and your readers to decide if our accomplishments from 1982 to the present sound like those of a declining TV station. We believe our record bears eloquent testimony to the fact that no station in Boston, even as fine a competitor as WBZ, can come close to matching in quality or quantity the news and other programming efforts of WCVB.

WCVB: Total Commitment to Local News and Programming

Here, then, are just some of the facts Ms. Knopf chose to ignore:

WCVB continues to broadcast more local programming per week than any other television station in America.

WCVB offers its viewers 20 hours per week of news, an increase of 2½ hours per week since 1982, and more than any other station in Boston.

WCVB produces an average of one special each week of the year, every year, the vast majority of which are shown in prime-time. This schedule of local specials is of unparalleled ambition and far exceeds the output of other competing stations in Boston.

In 1986, WCVB received the coveted Gabriel Award as the best television station in the country for our news and programming efforts. This was the sixth time in WCVB's history that our station was so honored, more times by far than any other television station in America, and the second time since 1982.

In 1985, WCVB won the equally prestigious Edward R. Murrow Award from the Radio Television News Directors Association as the best television news organization in the United States.

In 1986, WCVB editorials were cited as the best in America by the National Broadcast Editorial Association.

WCVB has won more Emmy Awards than any other television station in New England each year since 1982. In fact, we've won more Emmys than any other station each year during the entire nine-year history of the New England chapter of the National Academy of Television Arts and Sciences.

These are only a handful of the literally scores of major national and regional awards received by WCVB news and programming since 1982, including a 1985 Peabody Award for our acclaimed documentary "Somerville High," a portrait of a contemporary urban high school, and awards from both AP and UPI in the last several years as either best television news station or the station having the best television news coverage.

Revolutionizing Local Television

Starting in 1982, WCVB began broadcasting "Chronicle," a nightly half-hour news magazine which airs in the prime access time period."Chronicle" continues to prosper in 1986 as the nation's only local newsmagazine, a program that had no model when we created it and still today has no counterpart in American television. Even Ms. Knopf has lavished praise on this extraordinary and much honored program.

CC CLOSED-CAPTIONED

WCVB in March of this year became the first television station in America to offer real-time closed captioning of our hour-long 6pm news and of "Chronicle" for the deaf and hard-of-hearing viewers in our community. We conceived and brought to fruition this pioneering new public service which is now being replicated by television stations in other cities. Here again WCVB has broken local ground in what has been the province of the networks.

WCVB conceived and mounted an unprecedented 20-month long compaign called "A World of Difference" which was targeted at racial, religious and ethnic prejudice, an effort to make people aware of prejudice and to reduce its presence in our community.

A WORLD OF DIFFERENCE

"A World of Difference" which has been showered with awards, including another coveted Gabriel, is also being replicated in cities across this nation, and has as its legacy in Massachusetts a major school curriculum in use throughout the state.

WCVB was the second television station in America, after the founder's own station in Minneapolis, to pioneer the use of satellite news gathering. This October we celebrated our 2nd anniversary of SNG operations that have taken our reporters and photographers to stories all over New England and the nation. Today, two full years later, WCVB remains the only station in Boston to have regular SNG operations. In fact, our experience moved the Hearst organization to become the first television group to have satellite news gathering facilities at all their stations.

Since 1982, WCVB has undertaken a multimillion dollar expansion and improvement program that has led to the largest and most modern production facility of any commercial station on the East Coast. Our station was named the best technical facility in the United States by Broadcast Management Engineering Magazine.

WCVB specials during the past four years have been unprecedented in scope and quality.
A few examples:

- "WCVB Playhouse" brought viewers two major original hour-long dramas with actors of the caliber of Ralph Waite, Cloris Leachman and Pat Morita. These dramas were mounted and produced totally at the studios of WCVB.
- "Secrets," a one-hour film dramatization starring Barbara Feldon based on the true story of a Massachusetts family and the son's tragic entanglement in drugs.
- "Citizens' Summit: Women to Women," a two-hour satellite forum between Phil Donahue and his audience of 200 Boston women and Vladimir Pozner and his audience of 200 women in Leningrad.

And this barely scratches the surface of the scores of local specials produced at WCVB since 1982.

WCVB: Pacesetters

WCVB News, Chronicle, and Specials have been pacesetters in our industry in traveling throughout the country and overseas in pursuit of stories important to the New England audience, including trips to Vietnam, China, Japan, England, Germany, France, Ireland, Italy, Ethiopia, Sudan, Greece, Israel, Poland, Central America, and many others.

This list could go on and on. I have not done close to justice to the full record.

I ask you (and your readers), does this sound like a television station in decline? WCVB continues to be the finest station in Boston and perhaps the country. We are intensely proud of our record of accomplishment throughout our history, starting in 1972. But we did not stop achieving, pioneering, growing and daring in 1982. We simply entered a new phase of our history - and the chapters we've written, as only partially outlined above, would be the envy of any broadcaster in any city in this nation. I am operating this property under a direct mandate from the Hearst Corporation to retain and where possible, improve the quality of news, programming and local service which has earned it its reputation of excellence.

Perhaps now you can understand why the article you published is, as I said at the outset, such a total and blatant misrepresentation. We have no idea what motivated the author to concoct such a fabrication, but I am sure it does not reflect the customary standards of your magazine. We invite "Channels" to send a staff reporter to Boston to do your own objective analysis of the market. We're confident the result would be a balanced report that gives proper credit to the great accomplishments of this great television station and its dedicated, talented staff.

As Paul Harvey might say, "Now, you know the rest of the story."

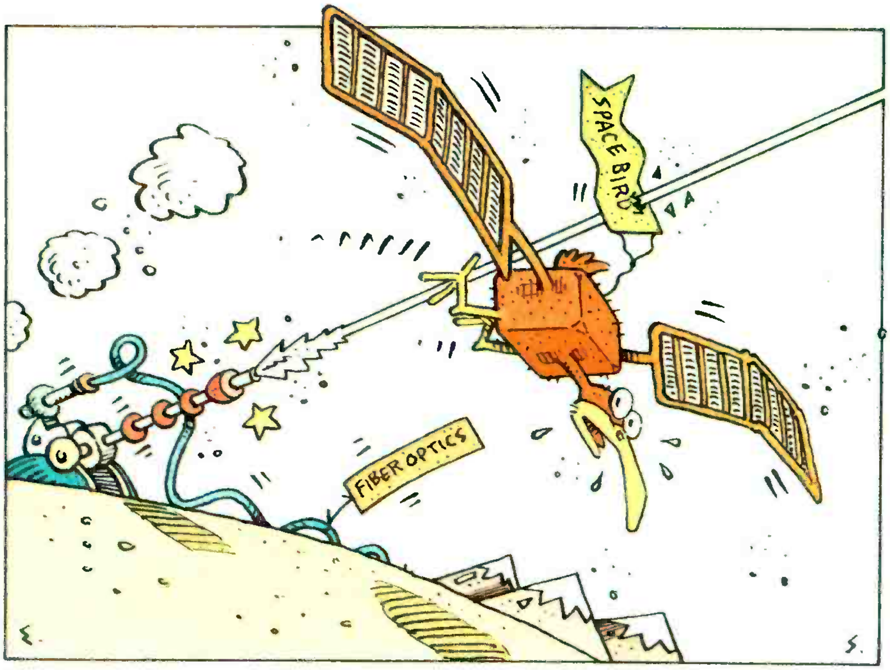
Sincerely,

S. James Coppersmith
Vice-President & General Manager
WCVB-TV
5 TV Place
Boston, Ma 02192

WCVB 5 TV

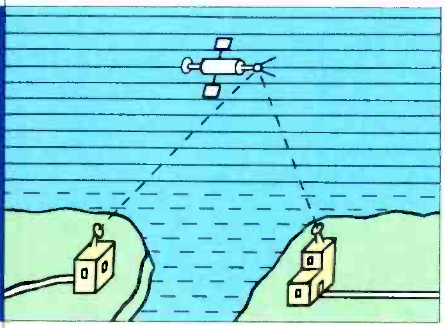
Costs Come Home to Roost For the Birds

Getting them off the ground isn't easy, and now satellites are losing customers to fiber optics for many kinds of transmission



ELWOOD SMITH

The high hopes for satellite communications have been brought down to earth by recent launch disasters and the phenomenal pace at which fiber optic cables are emerging as an earthbound competitor. Satellites are increasingly devoted to delivering the mass media—relaying a single message to many sites, the kind of usage for which they are supremely suitable—



while fiber optic cables are making inroads in point-to-point communications.

With preparations now under way to celebrate the 25th anniversary of the launch of Telstar in 1987, the world's first communications satellite, the mood in the satellite business is gloomy. By the time the next satellite roars into space sometime in 1987, it will have been nearly a year without such launches, following the 1986 losses of the space shuttle *Challenger* and a French Ariane rocket.

When President Reagan pulled NASA out of the satellite-launching business and told operators to hire private contractors to do the work, he ended a huge subsidy of the satellite industry. Unable to put up satellites for $25 million on the shuttle, owners are being forced to confront the real cost of launching a bird—at least twice what the government was charging.

As if that were not enough, the cost of insuring satellites has skyrocketed. Since the halcyon days of 1979, when domestic U.S. satellites transformed the cable TV industry and sprang into public consciousness, satellite insurance costs have quadrupled, from 6 percent of a bird's value to 24 percent or more.

Meanwhile, to add insult to red ink, at the New Jersey laboratory where AT&T built the first Telstar, there's no sign of a space-traveling successor. The lab has been taken over by researchers making fiber optic cables capable of carrying billions of data bits across oceans or towns at a fraction of the cost of satellite transmissions. And, unlike satellites, fiber optic cables can be dug up and repaired easily if anything goes wrong.

The moneymen have also lost their enthusiasm for satellites. What financier today would bet the $100 million it costs to build and launch a satellite when there are so few guarantees that the money will ever be repaid? Evidence supporting such skepticism abounds throughout the industry. None of the entrepreneurs that would like to compete for international transmissions with Intelsat, the global satellite cartel, has gone beyond the planning stage. One company that is still trying to sell former SIN president Rene Anselmo's transponders to foreign customers, PanAmSat, is facing resistance from users accustomed to leasing time from Intelsat.

Even projects with giant sponsors have gone bad. Satellite Business Systems, originally co-owned by IBM, Aetna Life & Casualty Co. and Comsat, was ignominiously shut down in 1986 and its assets transferred to MCI Communications Corp. MCI, the most successful of AT&T's competitors in the long-distance telephone business, has no intention of shooting off good money after bad. It is building a fiber optics network and has no apparent plans to build any more satellites.

A few years ago, the satellite people were glowing with optimism. They thought that in direct broadcast satellites (DBS) they had stumbled on a big deal. But DBS has not begun to blanket the world with television. Only where governments are prepared to sponsor DBS are the satellites being built.

But those, too, face an uncertain future. The French and West German DBS satellites are firmly on the ground. Allotting the channels has been a sticky political problem. When the Conservatives returned to power in Paris last winter they threw out the Socialists' DBS channel-allotment plan. In Britain, entrepreneurs face steep costs without state subsidies, but five consortia are seeking the DBS franchise, among them groups that include the big British commercial broadcasters London Weekend TV, Anglia TV and Granada; major retailers and publishers; Columbia Pictures International TV, the Saatchi & Saatchi ad agency; Rupert Murdoch; and Australian Robert Holmes à Court.

In the U.S., the advance of satellite-to-home television is equally confused, with consumers leading the way by purchasing their own backyard dishes. Over the last year, cable networks began introducing electronic scrambling to protect their transmissions, leading to a drastic slump in dish sales, an almighty row on Capitol Hill and continuing hostilities between dish owners and the programmers whose channels they've been intercepting. An aggrieved dish partisan briefly overrode a Home Box Office movie one night last April with his own defiant message printed in white on color bars: "Good evening HBO from Captain Midnight. $12.95 a month? No way! (Showtime/Movie Channel beware.)" After two months of technological detective work, authorities fixed the blame on a Florida dish retailer, John MacDougall, who pleaded guilty to interfering with the HBO transmission and was fined $5,000.

Nations are also struggling over policies that determine who benefits from satellites. At the International Telecommunication Union (ITU), the United Nations agency that acts as a kind of global Federal Communications Commission, the developing countries have been making moves to sharply limit the number of satellites the rich countries can launch. The poorer countries are determined to reserve space for themselves, since they're unlikely to switch to fiber optics for communications within their widely dispersed populations. Every credible scenario for the late '80s, when a new regulatory regime for satellites is likely to emerge from the ITU, would predict restrictions on launches by the richer countries.

The less developed countries and Intelsat are already at odds with the Americans over plans by U.S. entrepreneurs to launch privately owned satellites to carry international traffic. Developing countries side with Intelsat because it charges no more for a telephone circuit on the relatively underused hop between Zimbabwe and Togo than for a circuit between New York and London that is less expensive to provide.

Despite the satellite industry's woes, there are still nearly two dozen satellites distributing programming to cable systems, television stations and hotels in the U.S. Scores more distribute television signals in foreign countries. And that field grew in recent years with the opening of underused channels in the Ku-band frequencies, which can be transmitted and received by using smaller dishes than the old C-band frequencies.

"We see a migration of programming from C-band," says RCA Americom spokesman John Williamson. RCA Americom and Home Box Office are trying to persuade cable networks to move to a Ku-band satellite, Satcom K-1, and eventually to Satcom K-3, a new bird now being built for launch in 1989. Last summer, the two companies announced a joint venture called Crimson Satellite Associates to own K-3. Ku-band frequencies are used increasingly for satellite news gathering (SNG) by local TV stations.

Nearly 98 percent of domestic TV stations have at least one dish apiece. Internationally, enough television programs are transmitted by Intelsat in one month to fill up a TV screen for five months. Satellites have been a big success in television distribution and are likely to continue to be, while fiber optics excels primarily in the distribution of computer data and other information between two points. Telephone companies say that fiber optics will become so inexpensive that it will eventually reach every corner of the U.S. and other developed countries, reducing the cost of long-distance phone and data connections and wiping out any advantage satellites may claim.

Perhaps this assessment of the satellite business is too forcefully bearish. But it is clear that 25 years after the first Telstar, the early perception that orbiting relay stations would be some kind of panacea for all communications problems is proving far too optimistic. Until confidence in the industry is restored, there will be little investment in new satellites. And the birds will be limited to roles in which they can demonstrably outperform their earthbound competitors.

JONATHAN MILLER

THE BIRD BUSINESS

Some of the world's largest communications and aerospace concerns compete with one another in space. The following companies are the major players in satellite communications.

AT&T: The telephone giant owns and operates three Telstar satellites, but has no announced plans to replace them. It also leases two Comstars from Comsat. AT&T's Skynet services distribute radio and TV programs. Telstar 301 remains the broadcasters' most-used satellite, carrying ABC and CBS. Forty percent of AT&T traffic is video and the rest telephone and data, but the company is phasing out telephone traffic by satellite.

Comsat: The Communications Satellite Corp. and its subsidiaries own and operate four Comstar satellites. Chartered by Congress in 1962, Comsat is the U.S. participant in the treaty governing international satellite traffic and part owner of Intelsat. Comsat recently announced plans to merge with Contel, a large owner of telephone companies.

General Electric: GE operates RCA Astro-Electronics, which builds communications satellites, and RCA Americom, which operates six satellites. Satcom IIIR and IV (also known as Cable Nets I and II) are major carriers of cable networks, and the company is offering Satcom K-1 for the same purpose. Satcom K-2 uses the more powerful Ku-band frequencies and devotes six channels to NBC network programming. Satcom V is operated jointly with Alascom Inc. to provide special service to Alaska.

GTE Corp.: GTE and its subsidiaries own four Spacenet and Gstar satellites and plan to launch more. But the company plans to switch telephone traffic from satellites to fiber optic lines.

Hughes Aircraft: A General Motors fiefdom, Hughes builds satellites and operates three of them through a subsidiary, Hughes Communications Galaxy Inc. Its Galaxy I satellite is a major carrier of cable TV networks. The company has an ambitious launch program and is a partner with C. Itoh & Co. and Mitsui & Co. to operate, starting in 1988, the first two privately owned satellites serving Japan.

Intelsat: The 22-year-old International Telecommunications Satellite Organization, based in Washington, D.C., is the largest satellite operator, with 16 satellites carrying two thirds of international telephone traffic and nearly all international television feeds. Some 110 countries are full members and more than 170 use the system. Intelsat now faces a major challenge in its main profit center, the Atlantic basin, where an international consortium plans to operate a new fiber optic cable with 44,000 telephone circuits.

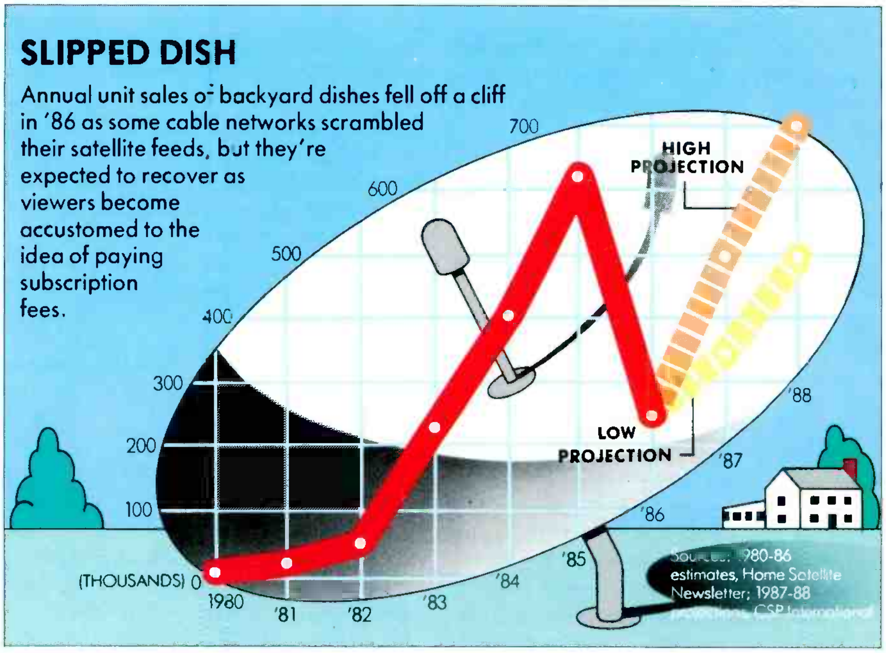
Western Union: The financially troubled operator, which led the industry in the '70s, has an aging fleet of Westar satellites (II through VI) and no quick way to replace them. Westar IV and V carry broadcast and cable networks primarily, including PBS and NPR.

SPACE

BACKYARD DISHES

There's Life After Scrambling

Cable's awkward switch to encryption sent the TVRO trade into a tailspin. Now it may be in for a big rebound



DAVID HERBICK

Can the fledgling backyard satellite-dish movement shed the vestiges of its outlaw past and ease into its niche in the pantheon of video technologies? Will its chief rival, the cable industry, dominate the sale of programming to this emerging television market? In 1987, these questions are very much on the minds of backyard dish, or TVRO (television receive-only), owners.

The community has grown from a mere 4,000 to more than 1.5 million since 1980, as the dishes brought the first TV programs to many rural areas and offered a terrific bargain besides. Avid TV viewers gained access to as many as 150 channels, including premium movie networks, without paying any subscriber fees.

That bargain made cable operators seethe—their formerly exclusive programming was being "stolen" in transit. Since an estimated one third of all dishes lay within cable franchise areas, the signal-poaching threatened to devastate cable's financial base. The operators and their networks implemented their solution in 1986: scrambling the satellite signals to prevent viewing by interlopers. Now, to watch HBO, for instance, TVRO owners must first buy a special decoder (list: $395) using the VideoCipher II scrambling technology developed by M/A-Com Inc., which has become the industry's de facto standard. When they subscribe, their decoders are activated by coded satellite signal. Monthly fees range from a few dollars per channel, as part of a package deal, to $12.95 for HBO purchased alone.

HBO (with its sister channel, Cinemax) inaugurated the new era of scrambling in January 1986. By year's end, another half-dozen cable networks had followed suit. Virtually all other cable programmers are committed to scrambling by the end of 1987, CBS has begun scrambling and the other two networks are also expected to scramble their transmissions eventually. Though more than 100 satellite channels remain unscrambled the encryption of the most popular cable networks dealt a crushing blow to the TVRO industry. Dish sales were expected to drop to 250,000 in 1986, down 60 percent from 1985's record sales of 625,000, according to industry analyst Kate Hampford.

Sagging sales led to a major shakeout among dish manufacturers and retailers, throwing scores of people out of work and prompting a chorus of pleas for government action. SPACE, a trade association of TVRO manufacturers, dealers and owners, contends that the cable industry is trying to thwart genuine competition in the retailing of programs.

Currently, the two top movie services, HBO and Showtime, sell their programming to TVRO owners through their own marketing operations and via participating cable operators. Both companies are now assembling programming packages that will soon be offered to TVRO owners. The only other major program packager is Tele-Communications Inc. (TCI), the nation's largest multiple cable system operator, which sells a package of about 20 channels for $17.50 per month.

Programmers are also eager to expand their audiences by entering the TVRO market, but are wary of alienating their chief customers, the cable operators. Until they backed away from the practice under congressional pressure in the fall of 1986, HBO and Showtime sent monthly rebates to local cable franchises for every dish subscriber in their areas—$5 per subscriber a month, in HBO's case.

To prod the cable industry into dealing fairly with TVRO owners, Congress and federal regulators have made many ominous but inconclusive threats and put cable executives in the hot seat in three congressional hearings and other inquiries. While there was no official action to foster competition, none may be necessary. A number of possible competitors have already arisen: The cleaning-products company Amway, Turner Broadcasting and even the pay-per-view services First Run and Request TV may start selling programming to dish owners.

The awkward transition to scrambling in 1986 caused a great deal of hard feelings, confusion and business losses for nearly everyone connected with TVROs, but the two groups are beginning to mend their differences. Most dish owners now accept scrambling and are slowly buying subscriptions. With the normalization of scrambling, the TVRO market may soon recover from 1986 and resume its growth.

DAVID BOLLIER

SPACE

A Flashy Technology That Pinches Penney's Pennies

Got a message for the troops? Companies replace memos with voice and visuals for customer, employee and shareholder

Could J.C. Penney's merchandising specialists decide what women's wear to offer in their local markets without coming to New York to "feel the goods"? Penney's bet they could. The huge department-store chain now has one of the largest video teleconferencing (videoconferencing) operations in retailing—or any other industry—installed by Private Satellite Network Inc. (PSN). Among other things, it provides show-and-tell demonstrations of the season's fashions to the chain's merchandise buyers, who can stay in their 54 districts around the country while they make their choices.

Travel expenses are no small prod to the growth of videoconferencing. There are an estimated 20 million-plus business meetings held daily at a cost of over $250 billion annually. Half the airline tickets sold are for business travel. Videoconferencing offers a compelling contrast. "A long-distance meeting between two of our offices, lasting for one hour, costs between $600 and $1,200 for the transmission," Tim Schade, communications chief for American General Life Insurance in Houston, told *Communications Technology Magazine*. "With an average of six participants, we save $6,000 on travel expenses."

By late 1986, some 8,500 organizations had done similar arithmetic, spending $2.3 billion a year to make video programs for employees, shareholders and other special audiences. That investment has doubled since 1981, reports D/J Brush Associates, with the typical company now producing 31 programs annually, part of a $4.5 billion industry of satellite-sped business communications. And the business has been moving at a gallop, doubling its revenues every three years as equipment costs decline. Brush projects that it will grow at a more sedate 17.5 percent yearly, reaching $7 billion by 1990.

There are two forms of videoconferencing. Point-to-point, a two-way exchange of voice and visuals, so far accounts for less than 5 percent of the business. In the more common point-to-multipoint applications, live video is sent from a central location—a hotel conference room for hire or a corporate headquarters—to audiences in scattered cities. The exchange is one-way video, two-way audio.

An increasing number of point-to-multipoint videoconferences are entrepreneurial. Attendees pay a fee to participate, as they would at any business seminar. Texas Instruments' satellite symposium on artificial intelligence was attended last spring by 50,000, viewing in 850 locations. The entire production was handled by TI's in-house video department.

According to Elliot Gold, publisher of *TeleSpan*, a monthly newsletter on teleconferencing, three corporations had permanent videoconferencing networks in 1982; today nearly 40 do. "The number of satellite-receive sites in place at corporations jumped from 2,100 to 4,500 in 1985," he says. "In 1987, there will be between 12,000 and 13,000 sites, and that's a conservative estimate based on known installation contracts."

It's no surprise that vendors who provided services for ad hoc networking—setting up mobile satellite dishes, supplying the technical and production support—have all begun installing permanent satellite networks for corporate clients.

Corporate installations are the largest growth segment of the market. "Years ago, it might have cost $500,000 to start a private network," says Jim Hines of Holiday Inns' video subsidiary, Hi-Net. "Now you could do it for well under $100,000, or as little as $3,000 to $5,000 per site."

At the same time, corporate users' expenses are falling, thanks to new equipment that can compress voice, picture and computer data so that it may be sent over a single telephone line. Executives on a budget use audio-only teleconferencing, a relatively simple setup of conference-calling circuits between cities and loudspeaker telephones for office-to-office discussions. The average cost is under $50 per location per hour.

Exploration of these alternate technologies will have a negligible impact on satellite videoconferencing, say industry observers. "The corporate user isn't switching but expanding his use of the technology," says PSN president Richard Neustadt. Whatever the form that's chosen, teleconferencing is a far cry from the house organ for corporate communication.

MIA AMATO

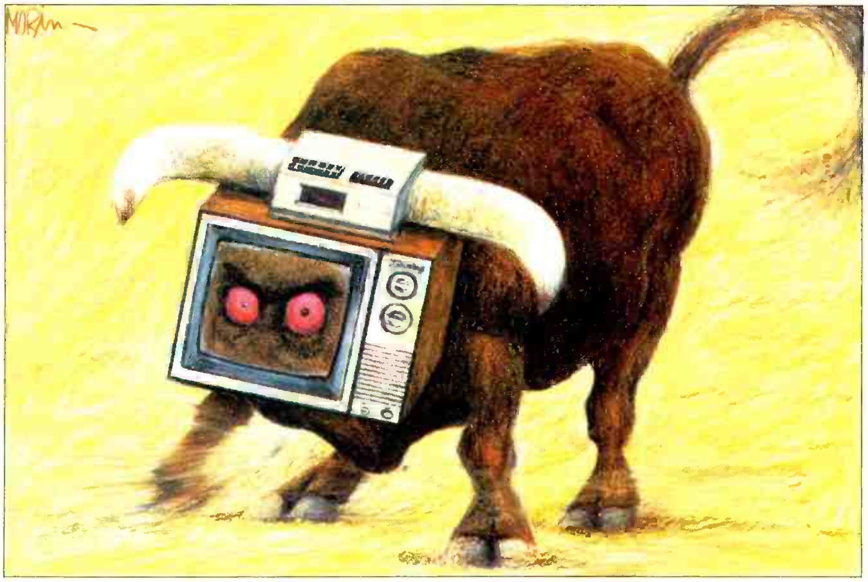
SEPP SEITZ/WOODFIN CAMP

Live video brings immediacy to interoffice communications, allowing instant feedback.

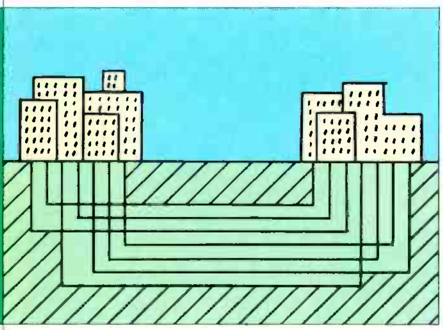
SPACE

Wall Street's Affair With the Wire

Deregulation gives cable back its glow, with programmers providing sparks. Now everyone's hot on the business again



JIM MORIN



If the cable industry was once accused of blue-sky optimism, only to see its hopes dashed by subscriber apathy and the collapse of programming services, even the harshest critic cannot deny that 1986 gave operators reason to rejoice. Cable's heyday finally has arrived, albeit not in the shape that most expected. "The sex appeal is gone," says Colony Communications president Charles Townsend, "and now we're down to business."

Down to business, indeed. The franchising rush is over, new-build and rebuild construction has slowed, sending such hardware companies as Texscan and Oak into tailspins, and pay services—once the driving force behind cable—suffered agonizing subscriber losses. At the same time, cable-system purchases and financing opportunities hit an all-time high and Wall Street started what one analyst calls its "love affair" with the industry. Cable operators also began looking at basic services with renewed longing. A new buzzword, "tier-meltdown," came to the business as the much ballyhooed marketing strategy of packaging services became passé, and industry leaders instead turned their sights on programming.

The cable industry changed in 1986. Behind it all was the imminence of deregulation and the potential for no-holds-barred rate increases. "On December 31," says Steven Tuttle of the National Cable Television Association, "all the bells start ringing. The effects of deregulation cannot be understated. There's no one out there between us and the consumer. There are no more 'what ifs.' "

In the past, boosting subscriber numbers meant bidding on new franchises and building unbuilt areas. But with 700,000 miles of cable wire laid, few metropolitan areas remain that do not have cable systems built or under construction. About 47.8 percent of homes with television in the country subscribe to cable.

With the groundwork laid, in 1986 operators shifted attention away from pay services toward the basic channels. The reasons are twofold. Consumers wearied of the pays, and subscription growth was flat; and basic sales contributed as much as 50 percent more to operators' profits than premium sales. Total revenue for the industry hit $10.5 billion in 1986.

Now all operators have to do is figure out how to take this unparalleled potential for good fortune and make it work. Programming looks like the way. Several developments last year signaled the industry's new devotion to programming:

• A controversial idea for a programming "cooperative" supported by operators. Some expect it could evolve into an organization similar to the Corporation for Public Broadcasting, through which programming grants for that system flow.

• The success of Home Shopping Network. It has spawned a host of competitors, including Cable Value Network, of which Tele-Communications Inc. is part owner. A total of seven shopping channels have started since, and another seven to ten have plans to launch. Home shopping services could contribute $1 to $2 per subscriber per year to system revenues.

• ESPN and Turner Broadcasting System (TBS) schemes to bring NFL football to cable. ESPN asked for cable operator support—as much as a 25 cent hike in per subsciption fees—in its proposed $150 million bid for *Monday Night Football*. TBS proposed that a cooperative of operators finance the bid. TBS would handle production, marketing and advertising sales and would cablecast the games on WTBS. The co-op would collect national advertising revenue and retain rights to the games.

• The Discovery Channel. The $30 million joint venture between Cox Cable, Newhouse Communications, Tele-Communications Inc. and United Cable, officially launched in 1985, drew more than 8 million subscribers last year, including new episodes of *Airwolf*.

• Pay per view. Despite slow growth, it's still positioned as cable's answer to the VCR. Two services are making strides: Showtime's Viewer's Choice and Reiss Media's Request TV. Some operators expect pay per view won't be a real business for five years and believe VCRs aren't as ominous as they once seemed.

• USA Network's investment in programming. Owned by Time Inc., Paramount and MCA, it spent $30 million for 27.5 hours a week of original and acquired programming for the 1986-87 broadcast year, including new episodes for *Airwolf*.

Though cable could spend as much as $500 million on programming in 1987, according to cable industry analyst Paul Bortz of Brown Bortz & Coddington, that amount is only a fraction of the $1.8 billion the three broadcast networks spent in 1986 on prime time alone. "Cable is still a penny-ante game," says Bortz.

Many cable operators are worried about the high costs of obtaining original programming for cable, but Wall Street strongly backs the move because financially the time is right. Says Drexel Burnham analyst Jeffrey Russell: "The industry is swinging from a devourer of capital to a period of surplus cash flow. Many companies are for the first time cash positive."

The potential for higher subscriber fees and cash flow, coupled with the lowest interest rates in nine years and investors' rush to beat 1987's new tax laws, made cable systems among the hottest media properties in 1986. Banks lined up to lend, and operators raised $5.5 billion in new debt and equity, up from $4.8 billion in 1985. An estimated $5 billion to $6 billion in cable property sales took place. Systems were generally selling at $1,500 per subscriber. In two deals, Wometco Cable's sale to Taft Broadcasting and the Robert Bass Group and ML Partners' acquisition of the Storer systems, that figure hit $1,700. Ten years ago, the average price was closer to $300 a head.

But all the buying and selling is raising concern, primarily among cable's competitors, about concentration of ownership. Dennis McAlpine, vice president of Oppenheimer & Co., expects an industry shakeout rivaling the breakup of AT&T. He predicts that within the next ten years 20 percent of operators will own 80 percent of the subscriber base.

Though cable stocks were down 15 to 20 percent in the fall (a "correction," McAlpine says) and a weak bond market signaled the potential for higher interest rates and slower sales, that didn't seem to affect the financial community's view of the business. Last year's almost $1 billion in local and national advertising sales—1987 sales are projected at $1.2 billion—indicated cable's growing acceptance among advertisers and made Wall Street more bullish. In fact, industry leaders warn operators not to buckle to Wall Street pressure. "Wall Street will push like crazy to get us to raise rates," American Television & Communications president Trygve Myhren said at the Cable Television Administration and Marketing Society conference in June. "That may look good in the short term, but we're in this business for the long term."

WIRED FOR GROWTH

Cable's top ten multiple-system operators have come a long way in the last five years, showing dramatic growth in revenues and subscribers. In some cases, that growth has been close to 50 percent and more on an annual basis since 1981.

Company	1986 subs (in thousands)	Avg. Annual Change ('81-'86)	1985 Revenues (in millions)	Avg. Annual Change ('81-'85)
1. Tele-Communications Inc.	4,350	48.2%	577.3	61%
2. American Television & Communications	3,293	26.2%	520.7	36%
3. Storer Communications	1,574	30.2%	398.8	50%
4. Cox Cable	1,333	7.8%	420.0	19%
5. Warner Communications	1,264	13.2%	354.0	24%
6. Continental Cablevision	1,202	45.4%	279.2	70%
7. Comcast Corp.	1,093	111.6%	117.3	49%
8. United Cable Television	1,027	34.2%	180.2	47%
9. Newhouse Broadcasting	973	19.4%	252.0	28%
10. Viacom	915	17.0%	206.0	36%

Sources: companies, Paul Kagan Associates, *Television Digest*

Compiled by Matthew Murabito

At least one cable company is not put off by those warnings and is testing the market instead. "I hear a lot of people preaching caution, but I don't agree," says Daniels & Co. executive vice president Jerry Maglio. "Deregulation allows cable to find its equilibrium point, and that's what we'll do."

Daniels tested pricing schemes in six of its cable systems, raising basic rates to $16.95—as much as a 70 percent increase in some systems. The results, he says, were overwhelmingly positive, assuaging the company's fears of raising rates.

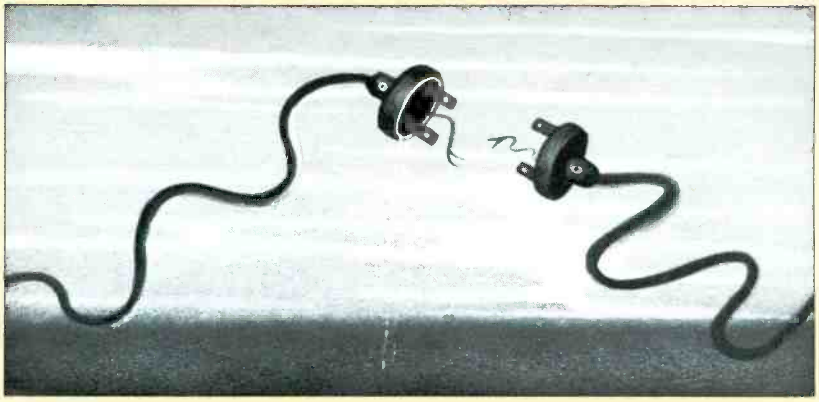
Oppenheimer's McAlpine says he expects basic rates could increase as much as 15 to 20 percent in systems that are 60 to 80 percent penetrated. He predicts subscribers will pay between $20 and $25 for a typical subscription of basic and one pay.

The biggest factor in setting cable subscription prices is maintaining the so-called price/value relationship—put another way, how much will a subscriber pay before deciding the product is not worth it? A cautionary flag was raised last fall when A.C. Nielsen Co. published cable's first *Database* report. It showed that during the second quarter of 1986, both basic and pay subscriber growth was virtually flat, or 0.26 percent, and the number of single-pay subscribers declined. Seventy percent of "downgrades" (subscribers who dropped some portion of cable service) occurred in this group.

Cable also came of age last year in the legal arena. Decisions on must-carry, First Amendment rights and copyright for the most part represent victories for the industry. In *Los Angeles vs. Preferred Communications*, the Supreme Court upheld cable's First Amendment rights but did not define the extent of cable's protections under the amendment. The case was remanded for trial to the district court in Los Angeles.

Depending on whom you ask, the FCC's unanimous vote last August to reimpose must-carry regulation was either victory, since the ruling adhered closely to a compromise struck by cable operators and broadcasters, or, as TCI president John Malone called it, an "abortion." The root of dissension is a requirement that cable operators provide so called A-B switches, which allow subscribers to switch between on-air and cable transmissions. The National Cable Television Association will seek reconsideration of that part of must-carry and other parts of the ruling.

THE WIRE



TOM SCIACCA

SMATV

The Satellite Master Antenna Television (SMATV) industry continues to pursue some measure of protection from the encroachment by cable operators on its "private cable" operations in apartment buildings, hotels and private developments. In courts throughout the country, dozens of cases are pending on the question of mandatory access—the right of SMATV operators to feed satellite-delivered television signals to multi-unit buildings in areas already franchised for cable, versus the cable operators' right to go after SMATV customers. "The battles continuing on mandatory access are the biggest issues concerning SMATV operators," says Marni Shapiro of the National Satellite Cable Association.

Some skirmishes resulted in resounding wins for SMATV, especially in Florida, where the Florida Private Cable TV Association, together with allied home builders and realtors, has defeated nine mandatory-access bills. The fight will continue next year, however, when Florida's major cable operators try once again to get a bill to the legislative floor.

Also on the list of SMATV concerns are signal scrambling by cable operators and rate deregulation of the cable industry. The cost of descrambling equipment, needed for each channel on each SMATV system, is expected to force some operators to raise prices beyond the $20 monthly average fee. But cable's freedom to raise rates as of January 1, 1987, will have "a favorable effect on the SMATV industry in most large metropolitan areas, as people turn to SMATV as an alternative," predicts an optimistic Diane Maruca of the National Satellite Programming Cooperative Network.

While last year at this time it was difficult for SMATV operators to fill a 12-channel system, Maruca sees signs of slow change. Showtime accounts for the vast proportion of pay programming on private cable, since HBO refuses to deal with all but a few large systems. (SMATV operators who want to carry HBO must still get permission from the local cable operator.) Affiliates of the programming cooperative can offer program packages of four to 12 channels, beamed from four different satellites.

Last year the SMATV industry's annual convention, entitled "Private Cable: Here to Stay," was accurate in an unintended way with its suggestion of constancy. SMATV's subscriber numbers have held relatively motionless, between 450,000 and 600,000, according to Paul Kagan Associates.

In July, a U.S. District Court in Washington ruled that operators were required to pay copyright fees only on programming carried on broadcast signals and not on programming offered on cable networks. Operators had complained for years that they payed twice—through copyright fees and per subscribers fees—for cable network fare. The Motion Picture Association of America appealed the verdict; no decision has yet been reached.

Last year's stormy changes in the communications business wracked other media but left cable better defined. The industry became predictable and easier to understand, says Colony's Townsend.

This year, as the full implications of deregulation become known, cable enters a new era. Cable must leave its feudal stage (that is, the era of feuding for turf), says TCI's Malone, and instead enter a period of cooperation if it is to compete effectively in a volatile marketplace.

CECILIA CAPUZZI

Breaking the Billion-Dollar Barrier

Ad revenues climb and cable starts to look much like broadcast—spending big on original series and off-network revivals

Second-generation evergreens: Cable networks are bringing back old staples in new productions. *The New Leave It to Beaver* is for WTBS: *Alfred Hitchcock Presents* is for USA Network.

The basic cable networks in 1986 revealed a remarkable resemblance to their broadcast siblings. They commissioned program series; they told A.C. Nielsen Co. it made mistakes in its ratings; they even bid against each other for product. At the same time, they continued the one sales pitch that distinguishes them from broadcasters: pushing the quality of their demographics and not the number of viewers they attract.

There's both victory and failure in this new phase of basic cable's development. On the positive side, Nielsen's summer report put cable penetration of the nation's households at 47.8 percent, up 5 percent since the same time in 1985. A later study by Browne, Bortz & Coddington says cable is the decade's fastest-growing medium, with a 27 percent annual average revenue rise between 1980 and 1985. Cable revenues climbed by about $1 billion to $10.5 billion in 1986. ESPN, WTBS, USA Network, MTV, CBN and The Nashville Network are all in the black, and Arts & Entertainment had hoped to join them by the end of 1986. Basic program services accounted for $280 million of nearly $1 billion the cable industry funneled to Hollywood in 1985, when their program buying was far less lavish.

Increased viewing of the basic cable networks, reflected in the decade-long decline of broadcast networks' collective share of the television audience, is one reason cable ad revenues hit almost $1 billion in 1986, up from $606 million in 1985, according to the Cabletelevision Advertising Bureau.

On the negative side, subscriber gains during the second quarter of 1986 were negligible, according to A.C. Nielsen Co.'s *Database* report, commissioned by the Cable Television Administration and Marketing Society (CTAM). Nielsen's study found that new subscriber installations were almost equaled by disconnects—the "churn" equation that harrows the cable industry. The net subscriber gain over the period studied was 0.3 percent.

It is unclear yet whether the industry's new emphasis on programming is a function of its optimism soaring along with its revenues, or because its marketing strategies have proven ineffective in adding and retaining customers.

Ted Turner, whose Turner Broadcasting has been in the forefront of program spending, harangued attendees at the 1986 National Cable Television Association convention on the subject: "Our goal should be 70 percent penetration by 1991, which can be achieved if the industry puts some money into original programming." John Malone, president of Tele-Communications Inc. (TCI), the country's largest cable company, indicated that operators, too, are looking in the same direction for growth. "The future will be driven by programming," he said, now that franchising and construction are no longer financial drains—nor guaranteed sources of subscriber growth.

Both men look to cable operators to share their investments. Turner Broadcasting wants an operator cooperative to finance its bid for *Monday Night Football* (an intra-industry battle that pits it against USA Network and ESPN); Malone's company leads a home shopping consortium and has proposed operator participation in a low-cost pay network. It has also formed a regional sports network and has recently taken several equity positions in such programming endeavors as The Discovery Channel and the pay channel American Movie Classics.

Program producers, eager to add cable to their list of outlets, have also become important players in the industry. Some new strategies: creating programming for cable that may be syndicated later to broadcasters (Paramount's *Sanchez of Bel Air* for USA Network); reviving canceled network series to amass enough episodes to sell to independent stations (MCA's *Airwolf*, also for USA Network); refurbishing for cable classic series long gone from networks but evergreen in broadcast syndication (MCA's *The New Leave It to Beaver* for Turner Broadcasting and *Alfred Hitchcock Presents*, also from MCA, for USA).

For all the hope riding on the new programming boom, there's a clear risk. The very reason *Monday Night Football* may be available is because ABC lost $40 million on it in 1986. Another cautionary tale is Turner's loss of $26 million on the little-watched Goodwill Games from Moscow in July 1986.

One more looming threat to cable's ambitions is the controversy over ratings. MTV and USA Network publicly challenged Nielsen's methodology when they were reported to *(Continued on page 74)*

THE WIRE

BASIC CABLE NETWORKS

Name	Owner	Launch Date	Scrambled?	Homes Reached (millions)	Content
ESPN (Entertainment and Sports Programming Network)	ABC/Capital Cities, Nabisco	Sept. 1979	First quarter '87	38.5	College football, hockey, soccer, other sports
CNN (Cable News Network)	Turner Broadcasting System	June 1980	July '86	35	24-hour news
USA Network	Time Inc., Paramount Pictures, MCA Inc.,	Apr. 1980	First quarter '87	33	Broad-based entertainment, sports
CBN Cable Network	Christian Broadcasting Network	Apr. 1977	First quarter '87	32.3	Family entertainment, classic comedies, westerns, children's shows, documentaries, religious shows
MTV (Music Television)	MTV Networks (Viacom)	Aug. 1981	Dec. '86	30	Music videos, concerts, interviews
Nickelodeon	MTV Networks (Viacom)	Apr. 1979	Dec. '86	29	Children's programming
The Nashville Network	Opryland USA (Gaylord Broadcasting)	Mar. 1983	No	27.8	Country music, talk shows, sports
Lifetime	Hearst, ABC, Viacom Entertainment Services	Feb. 1984	July '87	26	Programs of special interest to women
C-SPAN (Cable Satellite Public Affairs Network)	Nonprofit corporation supported by cable companies and others	Mar. 1979	No	25	Live coverage of U.S. House of Representatives, public affairs programs, congressional hearings
FNN (Financial News Network	Financial News Network	Nov. 1981	No	23	Stock market reports, national business and financial news, interviews
The Weather Channel	Landmark Communications Inc.	May 1982	No	22.8	Weather forecasts for sports, travel, school
CNN Headline News	Turner Broadcasting System	Jan. 1982	July '86	21	24-hour news updates
Arts and Entertainment Network	Hearst, ABC Video Enterprises, RCA Cable Inc.	Feb. 1984	No	19.7	Dramas, music, dance, films
SCORE	Financial News Network	May 1985	No	18.5	Sports news, events (evenings on FNN transponder)
VH-1 (Video Hits 1)	MTV Networks (Viacom)	Jan. 1985	Dec. '86	14.1	Top 40 music videos
PTL Network	Heritage Village Church and Missionary Fellowship	Apr. 1978	No	14	Religious programming, talk shows, news, specials
BET (Black Entertainment Television)	Robert L. Johnson, Tele-Communications Inc., Home Box Office, Taft Broadcasting	Jan. 1980	No	13	Family and religious programming, music videos, jazz, talk shows
Tempo Television (formerly SPN)	Tempo Enterprises Inc.	Jan. 1979	Fall '87	12.5	International programming, classic movies, regional sports, home shopping
The Discovery Channel	Cox Cable, Newhouse Broadcasting, United Cable, Tele-Communications Inc.	June 1985	No	10.5	Nonfiction programming about nature, science, history, exploration

(Table continued on following page)

(Table continued from preceding page)

Name	Owner / Launch Date	Scrambled? / Homes Reached (millions)	Content
C-SPAN II	Nonprofit corporotion June 1986	No 7.5	Live coverage of U.S. Senate, public affairs programs, congressional hearings
TLC (The Learning Channel)	Appalachian Community Service Network, Biotech Capital Corp. Oct. 1980	No 7.5	Educational programs, how-to, career information
The Silent Network	Sheldon Altfeld Jan. 1984	No 6.5	Entertainment and information with sign language, open captions, sound
EPG (Electronic Program Guide)	United Video Inc. Jan. 1981	No 5.9	Cable programming schedule
EWTN (Eternal Word Television Network)	Nonprofit corporation supported by donations Aug. 1981	No 5.4	Family programming with Catholic viewpoint
ACTS Satellite Network	Southern Baptist Convention May 1984	No 5.3	Christian family entertainment
SIN Television Network	Televisa S.A. Dec. 1961	No 4.3	Spanish-language newscasts, specials, *novelas*
Update	X-Press Information Services May 1984	N/A 3	Alpha-numeric news service
Galavision	Televisa S.A. Oct. 1979	No .45	Spanish-language *novelas*, children's programs, sports (converting to basic and pay Jan. '87)

SUPERSTATIONS

Name	Owner / Launch Date / Carrier	Scrambled? / Homes Reached (millions)	Content
WTBS	Turner Broadcasting System Dec. 1976 Tempo Enterprises	No 36.8	Family programming including classic movies, original sitcoms
WGN	The Tribune Co. Oct. 1978 United Video	No 20.9	Children's, sports, syndicated programs
WPIX	The Tribune Co. June 1984 United Video	No 10.9	News, entertainment, sports, children's programs, movies
WOR	MCA, Inc. (as of 1987) April 1979 Eastern Microwave	Mar. 1986 8.6	Movies, sports
KTVT	Gaylord Broadcasting July 1984 United Video	No 2	Family entertainment, sports programming

have lost popularity. They now place hopes for recovery on AGB's people meter, as do cable executives across the board. (According to Nielsen, prime time ratings for the basic networks have recently ranged from 0.3 for The Weather Channel to 1.5 for ESPN and The Nashville Network. Total day ratings show ESPN, Nashville, CBN, USA and MTV alternating at the top spot. WTBS, which outranks the basic networks, is considered separately by Nielsen.)

The outcome of the ratings controversy is crucial to advertisers' assessment of cable. So far, MTV Networks, which includes Nickelodeon and VH-1, has been able to increase its ad revenues steadily. Paul Kagan Associates projects it will pull in $97.2 million in 1986, up $10 million from '85. But ratings woes prompt concern that the group's ad revenues will slide, and there are reports that prices for MTV's spots have been cut. Arts & Entertainment, only recently rated, found ad agencies immediately unwilling to pay as much as they did when the network's sales approach to them was based on demographics alone.

Despite the mixed signals, basic cable networks are intent on creating a strong programming presence. Thirteen of them are spending $23.5 million to promote the "quality and diversity of cable programming" during National Cable Month in April. If imitation is the sincerest form of flattery, the broadcast networks might take a perverse pleasure in the competitors nipping at their heels.

JOHN MOTAVALLI

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CHANNELS
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Home Is Where The Mart Is

Imitators flock to repeat HSN's success as the phenomenon expands from cable systems to UHF broadcast stations

"Budget Bob" Circosta addresses his constituents from HSN's Clearwater, Fla., studio.

CARL FISCHER

It's more than a little ironic that the cable phenomenon of 1986 was a dusted-off version of one of the oldest notions of programming originated for cable. When cable services first began to develop in the mid-1970s, interactive cable—then confined to Warner Cable's Qube—was touted as the wave of the future. Home shopping seemed an obvious use for the technology. See the product, press a button, enter your order. But interactivity languished as its daunting costs became evident. Widely available two-way cable is still an unfulfilled industry dream.

Not so home shopping. Thanks to "800" numbers and the persistence of Home Shopping Network (HSN), the new shopping services promise to provide the added punch to cable that pay networks and music video did before them. The phenomenon isn't confined to cable. As Tele-Communications Inc., the nation's largest multisystem cable operator, along with other cable companies, chose to start their own home shopping service rather than offer HSN on their systems, Florida-based HSN went on a buying spree, acquiring 14 UHF stations in top 20 markets, a spree that extends its reach beyond cable and into the broadcast arena.

The rapid acceptance of HSN and its brethren, despite limited channel availabilities on cable systems, has been facilitated by the fees most cable operators receive from the shopping networks, often 5 percent of total sales in their franchise areas, whether the buying home is a cable subscriber or not. When a smaller service like America's Shopping Channel generates sales of $4 million in oil-recession-racked Tulsa, the message is clear.

Though there were regional shopping networks before HSN went national, HSN and HSN II took the notion big time. The service rang up a phenomenal $106.7 million in sales during the first nine months of 1986, sending its stock skyward. For the fiscal year ending August 31, 1986, HSN generated $17 million in net income on $160.2 million in revenue, compared with the $16,000 net on $11.1 million it earned the year before.

Analysts projected that home shopping channels would generate as much as $250 million in orders in 1986, with more than $3 billion expected by the end of the decade. To put this in perspective, consider that cable ad sales reached perhaps $1 billion in 1986, up by about $200 million since 1985. If growth rates stay constant, home shopping could eclipse advertising as a revenue producer in a few years.

It's hardly surprising that there are now at least 17 real or imagined home shopping networks. But so far, there is no indication that anyone fears a glut. When Warner Communications Inc. announced its intention to invest in Cable Value Network, its stock rose by $2.125 the same day, and that of its partner, C.O.M.B., leaped by $14.25.

In January, two Hollywood powers, Lorimar-Telepictures and Fox Television Stations, will join forces with Horn & Hardart and its Hanover House catalog retailer to create ValueTelevision (VTV), a one-hour, six-day-a-week, home-shopping show set for midday, first-run syndication. The show is offered to stations for one year on a cash-and-barter basis, with takers receiving the 5 percent commission on goods sold in their markets. The producers will spend some $7 million on 312 shows for the first year, seeking more upscale viewers with a jazzed-up version of HSN's very basic direct sell. Once it proves itself in its daytime slot, the plan is to move it to prime time access.

Indeed, the proliferation of new services is reminiscent of two recent events in broadcast circles: the flurry MTV created by making video music a genre that looked as if it couldn't lose; and the salvation HBO's early success seemed to promise for the UHF stations that carried over-the-air subscription television (STV) in uncabled markets. Add to the irony of home shopping's reappearance in cable the equally ironic specter of HSN—no mean bargain hunter itself—buying up languishing UHFs that have had previous incarnations as music video or STV outlets, and sometimes, as with Newark's WWHT-TV, both.

JOHN MOTAVALLI

THE WIRE

HOME SHOPPING NETWORKS

Name	Owner / Launch Date	Scrambled? / Homes Reached (millions)	Content
American Shopping Channel	Consolidated Stores Int. Corp., American Shopping Channels Inc.	No	Jewelry, electronics, decorator items, appliances, sporting equipment
	Oct. 1986	15	
Home Shopping Network	Home Shopping Network	No	Jewelry, electronics, hardware, toys, clothing
	July 1985	13	
Tempo TV	Tempo Enterprises	No	Jewelry, sporting equipment
	Jan. 1979	12.5	
The Shop Television Network Ltd.	Caravelle Resources Ltd.	No	Grouped in 15-minute segments—toys, sports equipment, etc.
	Oct. 1986	12	
Telshop	Financial News Network, Comp-U-Card	No	Brand-name merchandise, travel services
	Aug. 1986	10	
Video Shopping Mall	Video Shopping Mall Inc.	No	Jewelry, clothing, financial programming, home study courses
	June 1986	7	
QVC Network	QVC Network Inc.	No	Jewelry, electronics, appliances
	Nov. 1986	5.1	
Home Shopping Network II	Home Shopping Network	No	Upscale, trendy merchandise
	July 1985	2.3	
Texas Shopping Club	ASTV, Inc.	No	Children's items, appliances, jewelry
	Aug. 1986	.08	
Sky Merchant	Jones International Ltd.	N/A	Jewelry, outdoor products, toys, electronics
	Sept. 1986	.06	
The Crazy Eddie World of Home Entertainment Shopping Network	Crazy Eddie Inc.	N/A	Electronics
	Nov. 1986	N/A	
Cable Value Network	C.O.M.B., Tele-Communications Inc., Warner Communications, United Cable, Daniels and Associates, Rogers Cable Systems, McCaw Communications	No	Electronics, tools, toys, jewelry, clothing
	May 1986	N/A	
Cable Shopper's Network	Jewelcor Inc.	N/A	Anything except clothing
	Late 1986	N/A	
Consumer Discount Network	Entertainment Marketing Inc.	No	Jewelry, clothing, electronics, appliances
	Sept. 1986	N/A	


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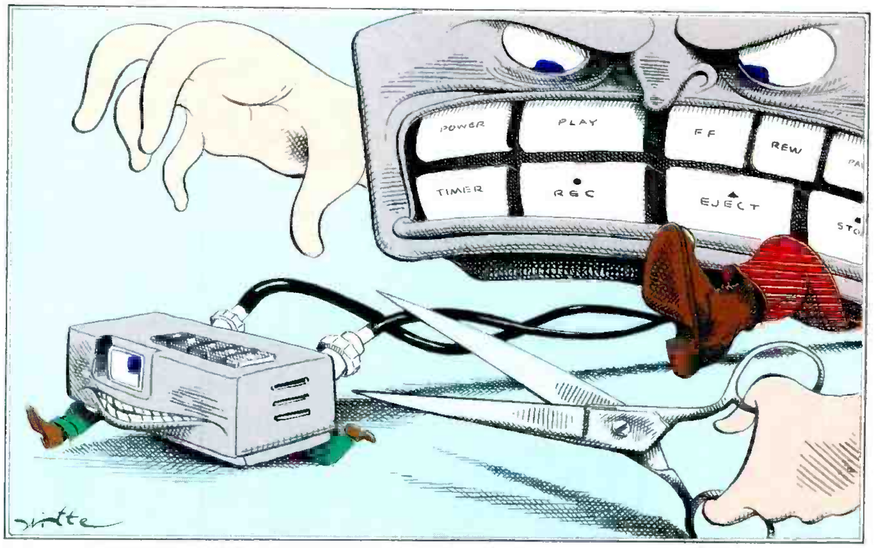
PAY CABLE NETWORKS

In Search of a New Strategy

With few new territories and lots of competition, pay services try to freshen perception and deepen penetration



MICHAEL WITTE

Pay television gave the cable industry its Manifest Destiny, sweeping it from sea to sea in triumph. But what was once cable's greatest asset is now a source of alarm and despair to operators feverishly trying to dam the tide of receding pay television subscriptions.

The VCR competition, unappealing product and, more galling, a jaded audience were apparent in 1986. Pay subscriber growth in the past was buoyed by cable system construction and plant extension. As the supply of markets without cable shrinks, the major pay services can avoid paralysis only by heroic spending—even as both Time Inc. and Viacom, parent companies of the two largest networks, posted losses for their pay subsidiaries in the third quarter of 1986.

More than a year of wan growth may be further exacerbated by the Federal Communications Commission's January 1987 deregulation of basic cable fees. In cities where rate increases have been permitted, many cable customers canceled subscriptions to pay channels to make up for the higher cost of service.

Pay network executives know affiliates must drop retail rates to keep pay subscribers, so they are cutting wholesale rates. Time Inc.'s Home Box Office will charge a token fee to systems for each subscription beyond an agreed-upon minimum revenue commitment. Its closest competitor, Viacom's Showtime/The Movie Channel, offers incentives to lower retail subscription prices to under $7.95.

The system's margin on a basic subscription has always been twice what it retains on a pay subscription, minus the 40 percent pay-network fee. Pay networks badly want to soften that harsh comparison. Faced with their own pressures, some operators are de-emphasizing pay channels, sensing an easier sale without them in VCR-saturated communities.

Operators who do market pay aggressively usually favor discounted packages that blur the difference between pay and basic channels. Such packages typically include two pay services, with HBO generally getting first position. Jostling for the second slot fanned rivalry between HBO, which wants its sibling Cinemax there, and Showtime.

Showtime's weapon in 1986 was exclusive programming. Its strategists decided pay TV's major problem was duplication of film titles on different pay networks. At a cost so far of nearly $1 billion, Showtime has acquired exclusivity on films from half-a-dozen studios. Network executives say exclusives will account for more than half of Showtime/TMC's combined fare in 1987, and 70 percent by 1989.

HBO struck back with a barrage of deal making. Because of Showtime's stated refusal to sign nonexclusive contracts, HBO ended up with de facto "exclusives" and will pay the studios extra for the loss of Showtime revenues. Ironically, it was HBO that invented pay TV exclusivity several years ago when it became concerned about systems affiliating with a number of pay services. Now chairman Michael Fuchs derogates the concept. In a world of video stores and pay-per-view services, he says, there is no such thing as exclusive films.

Whatever the eventual outcome of the exclusivity wars, other solutions to pay's plight are being sought. The pay networks are spending valiantly on marketing campaigns. In HBO's case, its costs are estimated to run as high as $60 per added subscriber. Meanwhile, HBO, Showtime and The Disney Channel are dropping installation and first-month subscription fees, or offering rebates to buyers who stick around for more than three months.

Both HBO and Showtime say they will increase original programming, exclusive by definition. And both networks have discussed with studios and operators low-cost supplemental pay channels, offered to multiple-pay subscribers, which would feature hit films at the same time they are released to the home video and pay-per-view markets. So far, the studios are opposed in general to anything that jeopardizes their VCR and pay-per-view revenue. In particular, they object to operator ownership in a pay network.

Pay services face an uphill battle for the foreseeable future. After the stinging net loss in subscribers in early 1986, the industry rebounded a bit. But monthly growth figures, say operators, have been choppy, with no clean trend line established.

One prophet was undaunted by the steep climb ahead. "We're in a very sound position . . . poised to take advantage of the rebound in pay television, which we envision in the not-too-distant future," said Neil Austrian, president and chief executive officer of Showtime/TMC. Then he resigned.

JOHN MOTAVALLI

THE WIRE

PAY-CABLE NETWORKS

Name	Owner / Launch Date	Scrambled? / Homes Reached (millions)	Content
Home Box Office (HBO)	Time Inc. Nov. 1972	Jan. 1986 14.6	Movies, variety, sports, specials
Showtime	Viacom July 1976	May 1986 5.2	Movies, variety, comedy specials, Broadway adaptations
Cinemax	HBO (Time Inc.) Aug. 1980	Jan. 1986 3.7	Movies, comedy, music specials
The Movie Channel	Viacom Jan. 1980	May 1986 3	Double features, film festivals, movie marathons
The Disney Channel	Walt Disney Co. April 1983	No 2.6	Specials, Disney cartoons, movies
The Nostalgia Channel	Boston Investments Inc. May 1985	No .80	Vintage programming—movies, cartoons, sports, documentaries
American Movie Classics	Rainbow Programming Enterprises Oct. 1984	No .71	Hollywood classics, from the '30s through the '70s
The Playboy Channel	Playboy Enterprises Nov. 1982	No .65	75 percent original adult talk shows, news and comedies; 25 percent R-rated and sex-oriented movies
Bravo	Cablevision; CBS Dec. 1980	No .30	70 percent international films, 30 percent U.S. TV premieres, performing arts
Festival	HBO (Time Inc.) Early 1986	Yes In test phase	PG-13 rated movies (suitable for families)
SelecTV	Clarion 1976	Sept. 1986 .16	Movies, family entertainment

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PAY PER VIEW NETWORKS

Forcing Open A New Window

PPV pries its way in while distributors—and doubts—multiply, and believers await breakthroughs in the equipment

SLACKMAN

Pay per view (PPV) is the cable industry's will-o'-the-wisp. It bedevils the business with its technical complexity and bedazzles it with the promise of new revenue. To the pay networks, it is an offensive weapon against home video, whose earlier access to films has put pay cable's growth on hold. The prospect of selling premium events to individual cable subscribers, via scrambled signals that are deciphered by addressable equipment, has finally taken on substance. Just how substantial is a question with conflicting answers.

Witness: During 1986, one of the fledgling PPV satellite networks died. Another repeatedly postponed its launch. But at the same time, the number of cable systems offering regular PPV programming, either on a "stand-alone" (independent) basis or as affiliates of one of the existing PPV networks, more than doubled to 110. Revenues from pay per view, says Steven Rosenberg of Paul Kagan Associates, should double in 1987 to $100 million. (In 1986, total cable industry revenues hit $10.5 billion and cable advertising revenues, nearly $1 billion.) "It's not an if," says the optimistic Rosenberg, "it's *when* PPV will catch on in a big way."

The projected revenue rise depends on two things, and both are problematic. Subscribers' program purchases must increase mightily, but cable operators acknowledge average buy rates (total number of purchases divided by the universe of PPV homes) have been single-digit disappointments. Furthermore, more primitive systems must be upgraded with addressable equipment that, preferably, allows impulse buying rather than telephone ordering. To date, there are only 8.5 million addressable converters in the nation's 40 million cable homes. Of these, fewer than three million are used to provide PPV programming. (The others are used for billing, disconnects and other administrative purposes.)

Fueling pessimistic projections is the falloff in orders for addressable hardware. In 1985, operators bought 4.3 million units. In 1986, the number dropped to 3.4 million and is expected to be up only slightly to 3.7 million in 1987. The expense—particularly if it is to be justified only by PPV's unproven promise—has left operators dubious.

To overcome such doubts, several tests of impulse-buy pay per view are underway. New York Times Cable outside Philadelphia seems to have fulfilled PPV's promise with its stand-alone operation. Impulse-buy rates soar above the average 1.5 to 2 percent for feature films to 70 percent and more.

It's too early to predict the winners among the national pay-per-view networks, the oldest of which have just celebrated their first birthdays. The leaders are Viacom International's Viewer's Choice, operated by Showtime/The Movie Channel, and Request TV, owned by a group of investors that includes *Channels'* owner Norman Lear. Each network has signed up more than one million homes. Viewer's Choice is a middleman between film studios and cable operators. The trio splits the revenue, the studio taking about 50 percent, the operator 40-plus and Viewer's Choice the remainder. Request TV sells transponder time to studios for an annual fee. Each studio then programs its hours as it chooses and splits the PPV purchase price 55-45, favoring the cable operator.

EventTeleVision, an aspiring PPV consortium of cable operators in partnership with Caesar's Palace and Warner Communications, was the victim of squabbles among backers; most have pulled out and the rest have postponed launch. Publicly owned Telstar is a multichannel PPV network started in June and serving a handful of systems. It says its approach to fee structuring is similar to Viewer's Choice, with its share dependent on how much marketing support the affiliate wants. The only confirmed casualty so far is People's Choice, which was dismantled after its MarketCorp Ventures partners, among them Capital Cities/ABC, admitted they had overestimated PPV demand.

About 50 other operators have chosen stand-alone PPV. They prefer, they say, to deal directly with a wider group of studios, or to "cherry pick" from the PPV networks, tailoring events to their markets. Still others have opted for multichannel PPV, providing one or more independently programmed channels and one or more of the pay-per-view networks.

Will PPV be a revenue generator for the cable industry on the order of pay cable, which also floundered early on? The willingness to prime the pump is largely lacking. Operators are reluctant to make the investment PPV hardware requires. Says one observer, "Home shopping put PPV back five years because it's easy, it's cheap and it pays."

Finally, Hollywood is not about to endanger home video after spending millions on making it a major source of its revenues. And as long as PPV is defined largely as a movie service, the studios can be expected to call many of the shots.

MARK FRANKEL

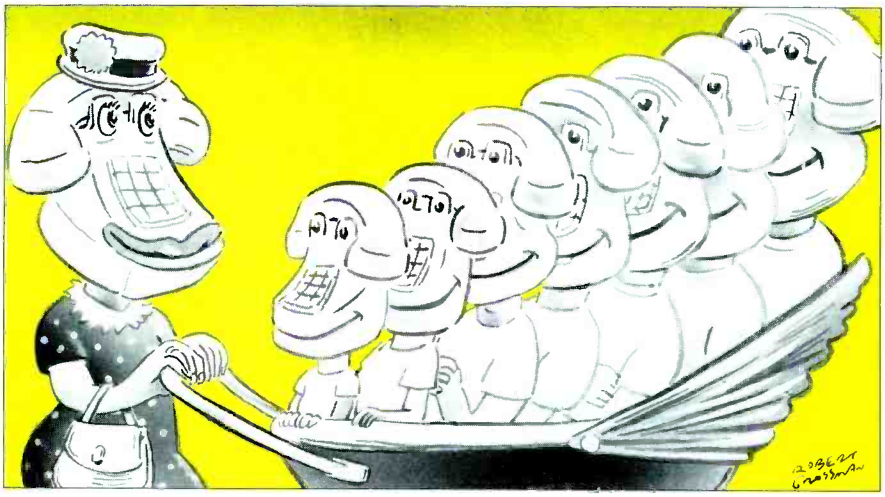
THE WIRE

PAY-PER-VIEW NETWORKS

Name	Owner	Launch Date	Retail Price	Homes Reached (millions)	Content
Choice Channel	World Television, Inc.	Oct. 1984	$7 to 15 per event	4	Sports, live concerts
Request Television	Reiss Media Enterprises	Nov. 1985	Varies per affiliate	1.4	Two to four movies a week, special events
Viewer's Choice	Showtime (Viacom)	Nov. 1985	$4 to $20 per event, $4 to $5 per movie.	1.2	Movies, sports
Playboy's Private Ticket	Playboy Enterprises Inc.	July 1985	$4 to $5	.10	Original programs and R-rated movies in weekly three-hour blocks
World Video Library	Jesse Upchurch John Ratliff	Dec. 1986	$3.95	.03	Movies
Telstar	Telestar Satellite Corporation of America		$2.50 to $5	.02	Movies

You've Come a Long Way Babies

The regional phone companies have moved into cable, fiber, cellular systems—and are even battling on each other's turf



ROBERT GROSSMAN

One lesson taught by the events of 1986 in the telecommunications business is that "Baby Bell" is not and never has been an appropriate nickname for any of the seven giant regional holding companies (RHCs) spun off from AT&T in 1984. All of them appear in *Forbes*' list of the 25 U.S. companies with the highest net profits—the smallest profits any of them reported was US West's $926 million.

The darlings of Wall Street are relatively mature companies that have built upon their basic assets—the local telephone systems serving four fifths of the U.S. population. They still derive more than 90 percent of their revenue from being the phone company, though they have aggressively moved into new businesses, including cable TV. Pacific Bell and Chesapeake & Potomac Telephone are building cable systems in Palo Alto, Calif., and Washington, D.C., respectively. Cable systems using fiber optic cable are being built by Southern Bell near Orlando, Fla., and planned by Ohio Bell for Cleveland.

The RHCs are spending bigger bucks, however, expanding into paging services and cellular (mobile) telephone companies. The largest such deal was Southwestern Bell's $1.65 billion purchase in July 1986 of Metromedia's cellular and paging operations, which left Metromedia's John Kluge one of the two or three richest Americans.

The deals are having an odd result for consumers: Chicagoans who want a car phone can choose between Ameritech (the local phone company) and Southwestern Bell, a phone company based in St. Louis. Similarly, the downtown San Diego office-equipment store owned by the California-based RHC Pacific Telesis is next door to one owned by Nynex, the Northeastern regional. The most remarkable invasion of one RHC's territory by another has been Southwestern Bell's attempt to publish Yellow Pages in New York, Washington and other distant markets.

Despite the expansion and growing profits, the RHCs have embarked on a campaign to achieve "economic freedom." They want to enter the three areas forbidden them after the AT&T breakup: long-distance service, equipment manufacturing and information services. They are asking Congress to take jurisdiction over the breakup away from U.S. District Court judge Harold Greene and award it to the friendlier Federal Communications Commission.

If the RHCs succeed in entering the long-distance business, they'll find Ma Bell waiting, tougher than ever. She has just won the Equal Access Sweepstakes. Greene ordered that all Bell phone lines be converted by September 1, 1986, so that callers could use competing long-distance carriers as easily carriers as easily as they could AT&T ("equal access"). The FCC decided that customers should cast ballots to pick their long-distance carriers. Much to the chagrin of MCI and the rest, the deadline passed with only 70 percent of phone lines converted.

The contest was expensive and brutal. GTE was forced to spin off its Sprint service into the US Sprint joint venture with the equally desperate US Telecom. Other smaller carriers also merged to make themselves more efficient. But in the end, AT&T kept 75 to 80 percent for itself. Was it a real win for AT&T? US Sprint president Charles Skibo says, "When you recognize that it ended up having only 75 percent of the customer base, it hasn't done very well." Sprint captured 4 percent of the market, and MCI, 10 to 15 percent.

Holding on to long-distance business was crucial for AT&T. Long distance had carried the company for the past couple of years. Under new chairman James Olson, who replaced Charles Brown, the AT&T chief during divestiture, the company will try to shape up its manufacturing and sales operations and make strides in the computer business. It got a big boost last spring from the FCC, which ruled that the company could do away with separate subsidiaries for long-distance and equipment businesses, freeing AT&T to market its products and services together.

Like its competitors, AT&T is moving into fiber optics, capable of at least 8,000 simultaneous phone conversations in a single strand. Fiber is stealing long-distance electronic traffic from satellites and increasing the capacity of busy downtown phone circuits. Fiber may also be the route for the much touted world of ISDN—Integrated Services Digital Network, the simultaneous transmission of voice and data. (All of the RHCs are experimenting with ISDN, but the service may be cost prohibitive.) Fiber is also the most likely medium to bring viewers their own individualized choice of video programs, giving TV the transmission flexibility the telephone now has.

ARTHUR BRODSKY

AT&T BRINGS YOU A PROGRAM THAT CONTINUES TO MAKE HISTORY.

Three years ago, The MacNeil/Lehrer Report became The MacNeil/Lehrer NewsHour—and made history as the first hour-long evening news program on national television.

Through in-depth analysis and interviews with expert guests, Robert MacNeil and Jim Lehrer have been helping many of us better understand the complex world we live in.

We at AT&T began supporting the MacNeil/Lehrer approach to the news in 1979. We're still doing it today.

We're proud of the association. We believe it's one more reflection of our commitment to excellence. In business. And in the quality of life.

The MacNeil/Lehrer NewsHour. Weeknights on PBS. Have a look for yourself. See why we're so proud.

AT&T
The right choice.

High Rollers with High Hopes

Videotex operators, refocusing after years of disappointments, are plunging ahead, still trying to make a marketplace

If there ever was a *big* experiment in new media, videotex is it. The nation's largest publishers, banks and communications companies have poured millions of dollars into trial and error (and error upon error) for nearly a decade. Yet none has come up with a formula to bring this long-ballyhooed technology into every home.

At the same time, some three dozen videotex systems, most relatively small, are up and running, serving a not insubstantial clientele. Videotex systems now count about one million subscribers—a number that grew 40 percent in 1986 and is expected to climb at a similar pace in '87.

The original videotex concept—a communications system delivered via cable TV wires and used mainly for text information retrieval—has virtually disappeared. Transactional services such as home banking, home shopping and electronic mail, delivered via phone lines, are the mainstays of today's videotex game plan. And the delays in building a home market have forced promoters to look to offices and public sites as the first beachheads for videotex.

The low point of the U.S. videotex industry's brief life may have been the winter of 1986. The year began with the surrender of two videotex pioneers, the big newspaper publishers Knight-Ridder Inc. and Times Mirror Co. Knight-Ridder admitted to spending more than $50 million during the seven years it developed and briefly operated its Viewtron service in Florida and then nationwide. Times Mirror put at least $30 million into its Los Angeles-area Gateway videotex foray. (The investments in hardware were not total losses; much of the equipment was redeployed within the companies.) Knight-Ridder had just over 20,000 customers at Viewtron's peak. Times Mirror never recruited as many as 5,000.

Covidea offers data from the *Times*.

Print publishers had jumped into "electronic publishing" when they feared it eventually would eclipse their newspapers in news gathering and classified advertising. When the two big publishers retreated from videotex in 1986, they left the door ajar for telephone companies to try to enter. Six years ago the publishers won court and congressional support to stop AT&T and its regional subsidiaries from offering information services. The phone companies have not lost interest in the field and are now tiptoeing toward the door. If challenged again, the phone companies are ready to point to the publishers' recent retreat as evidence that videotex is a service better run by phone companies, with their computer facilities and capacities to handle billing and sales.

One vivid illustration of the phone companies' interest is Project Victoria, a multipurpose home information and transaction system that Pacific Bell tested in California in 1986. The new Victoria digital technology brings into the home two voice telephone lines and five data circuits carrying such things as electronic mail, local information supplied by an arm of the San Francisco *Chronicle*, home banking

Kiosk terminals help guide tourists.

and educational data. Pacific Bell plans to expand the test to 5,000 homes to see how much customers will pay for the service package. Statewide rollout may come later in the year.

The publishers' retreat has focused attention on the next wave of aspiring system operators. First out of the gate is Covidea, a partnership of AT&T, Chemical Bank, Bank of America and Time Inc. Covidea's national system, called the Target Information and Transaction Network, is growing out of home banking services offered by the two partner banks, with news and information services from *The New York Times*, *Money* magazine and others, and an on-line telebrokerage service from Investment Edge. Covidea is seeking banks around the country to peddle the package in their markets.

Trintex, a partnership of IBM and Sears, Roebuck, backed by $250 million in seed money, is expected to begin offering its mix of services, as yet undisclosed, in 1988, after several years of secretive research. One of its original three partners, CBS, pulled out of the joint venture late in '86, and observers note that IBM usually becomes the dominant partner in any consortium it enters.

Among the other major firms investigating videotex prospects are Citicorp, Nynex and RCA. The latter formed a research venture called CNR Partners early in the year. J.C. Penney bought a large chunk of the Canadian videotex company CableShare and is developing the Telaction service for cable delivery, possibly starting in 1987. Many of the interested corporations see great efficiencies in serving customers by computer rather than by human employee. American Express, Citibank, Chase Manhattan Bank and American Airlines, to name a few, are looking for the right combination of content and technology that will make videotex succeed as a business.

New explorers in videotex may benefit from marketing lessons their predecessors learned. Customers, it turned out, don't want to receive general-interest news on a video screen. However, they will pay for valuable special-interest information, such as stock market data. Information is still part of today's videotex service mix, but now the operators put the spotlight on transactions—airline ticketing, stock trading and banking. Some 40 banks with home banking services are betting customers will want to do their banking by computer.

Videotex pioneers also learned about hardware: A certain minority of people enjoy using personal computers as videotex terminals, and many have signed up for national videotex services such as CompuServe. But Mr. and Mrs. Mass Market don't want to deal with computerlike gadgets (perhaps their children will, in years to come). In addition, marketers learned people wouldn't spend $600 or $900 on a "dumb" videotex terminal—one with little memory and no computing capacity. In its New York debut, Covidea's Target service is subsidizing by at least $100 the $49.95 price of each terminal, which is designed to be attached to the user's TV set and telephone jack.

In addition, home videotex services in the U.S. are doing without the detailed graphics developed by AT&T and others and adopted as the North American Presentation Level Protocol Syntax (NAPLPS) standard—graphics that certainly enlivened the screen but required more expensive terminals and slowed transmissions.

Viewtron and Gateway found that customers bridled at waiting as long as five seconds for complete images to appear on the screen. Instead, most home services use the plain text standard used for years by teletype machines and computers. For graphics in future systems, planners are turning to television-quality still video images, which have real potential for use in advertising messages.

The success of an electronic phone directory service in France instills hope for American videotex projects. The French government-run phone company has given away, sold or rented 2 million low-priced Minitel terminals, with which users can look up phone numbers, conduct online transactions, or patronize a highly popular computerized singles bar. Six million more terminals will be distributed by 1989, giving French videotex the critical mass to make more services economically feasible. American phone companies, although still forbidden to offer information services themselves, have explored development of similar systems.

Future home customers in this country are likely to become acquainted with videotex by using it at work or in public places. At least 200 companies have installed in-house videotex systems for their employees' transaction and up-to-date information needs. The systems typically substitute for printed information about such topics as insurance benefits.

WHERE THE VIDEOTEX ACTION IS

These are among the videotex services being used by 1 million Americans. Some of the services are still in development.

Service/System Operator	Service Area	Subscriber Count
A-T Videotext/*Tiffin Advertiser-Tribune*	Seneca County, Ohio	150
American People Link/American Home Network	national	16,000
CNR Partners/Citibank, Nynex, RCA	national	future
Citinet/Applied Videotex Systems	Boston	20,000
CompuServe/H & R Block	international	280,000
Covidea (Target)/AT&T, Chemical Bank, Time Inc., Bank of America	New York, California	45,000*
Delphi/General Videotex Corp.	international	NA
Direct Access/Citibank	New York	22,000*
Dow Jones News-Retrieval/Dow Jones	international	250,000*
Easylink/Western Union	international	130,000
Excel/Manufacturers Hanover Trust Co.	New York	4,000*
GEnie/General Electric Information Services Co.	national	16,000
Grassroots America/Infomart	national	3,200
Nytex/New York Telecomputing & Videotex	Hudson Valley, N.Y.	2,000
Project Victoria/Pacific Bell	Danville, Calif.	200
Quantumlink/Quantum Computer Services	national	13,000*
The Source/Source Telecomputing (*Reader's Digest*)	national	70,000*
Spectrum/Chase Manhattan Bank	New York	5,000*
Startext/*Ft. Worth Star-Telegram*	Dallas, Ft. Worth	2,268
Transtext/Integrated Communications Systems	Roswell, Ga.	200*
Trintex/IBM, Sears	national	future
Vicom Information Service/Chillicothe Telephone (test)	south central Ohio	100

*estimate
Source: *International Videotex Teletext News*, Arlen Communications Inc.

Public access videotex kiosks are also popping up in hotel lobbies, tourism centers and shopping malls. Some kiosks add detailed video images to the text by incorporating videodisc players.

Many skeptics think videotex needs a new name, a new start and, certainly, a success story to do for the field's identity what Frigidaire, Pampers or Polaroid did for those products when they were new.

While the field watches to see what the big corporations manage to do, a handful of smaller companies are plugging away at the videotex business—companies such as Penn Security Bank in Scranton, Pa., the Chillicothe (Ohio) Telephone Co. and the start-up company Boston-Citinet. Many analysts would say that these smaller organizations may have a better chance at finding the right formula because they will be satisfied by small successes. For the immediate future there may not be an audience big enough to create the megahit the big companies will need to justify their big investments. But whoever finds the right formula—consumer appeal, convenient, user-friendly equipment, attractive price—the rest of the industry will undoubtedly be quick to follow.

GARY ARLEN

The Makers' Lament: Not-So-Fast Forward

A vast inventory has prices and profits dropping. Will new features like stereo spur a second buying wave for the VCR?

OLIPHANT

It was the year of the monumental glut of videocassette recorders. The machines continued to gain in popularity—they're in more than 40 percent of America's TV households—but the electronics industry had higher expectations. During the first seven months of 1986, importers brought in 71 percent more VCRs than dealers sold.

Strong VCR sales since 1980 had lured many Johnny-come-latelies to the business. VCRs have been selling in the U.S. under 86 different brand names (though all were made by just a score of manufacturers in Japan and Korea). With a vast inventory overhang, prices and profits started to decline. Observes Robert O'Neil of Hitachi America: "We are about at the point where factories would be better off shutting down."

Americans bought 11.8 million VCRs in 1985—55 percent more than in 1984—and manufacturers prepared for another leap of that size in 1986. But the easiest sales have been made and those ahead will not come as quickly. Though sales headed for a record 13.75 million units in 1986, the increase over the previous year was just 14 percent. In July, for the first time in 81 months, fewer VCRs were sold than during the same month a year before.

Industry leaders began wondering what percentage of homes would ultimately have VCRs. The machine's penetration could overtake cable TV, which is in 47 percent of TV households. More than 50 percent of homes have VCRs in Las Vegas, Baltimore, Sacramento and other markets (Anchorage had the highest penetration, 61 percent). A few experts believe VCRs can become as nearly universal as color TV sets. The consensus seems to be that the device could eventually be in 70 percent of households, though the slogging will be a lot tougher from here on in.

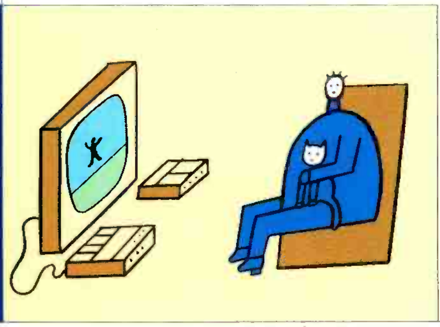
The machine's appeal is shown in a quite unexpected phenomenon: Households that already own VCRs are buying new ones far ahead of the anticipated schedule. A survey early in 1986 by Market Facts for the Electronics Industries Association found that 17 percent of VCR owners bought additional recorders in 1985 and that 32 percent planned to buy again in 1986. The research firm reported, incidentally, that "all demographic segments show substantial interest" in buying VCRs. The households most likely to buy were those with three or more members and annual incomes of at least $25,000.

The glut and its resulting price-cutting were especially good news for buyers because all other signs had pointed to considerably increased prices in 1986. More than 95 percent of VCRs are made in Japan, and the value of the yen against the dollar had increased more than 50 percent in a year. Prices in American stores were expected to rise substantially, but as the Japanese frantically cut costs, the industry held price increases to an overall 6.6 percent. What the Japanese achieved is amazing. In July 1985, the average cost of a VCR exported from Japan to the U.S. was 60,789 yen; one year later, the cost had been whittled down by almost a third to 41,585 yen.

Korean manufacturers have not been able to cut prices as sharply as expected because they are dependent on Japan for most parts for the machines. The first American VCR plant—started up during the year by Hitachi in Anaheim, Calif.—also uses Japanese parts. Several more Japanese-owned plants are expected to begin VCR assembly in the United States in the coming months.

Manufacturers continue to add new features—notably, stereo sound reception—to boost sales, especially of the higher-priced models. The use of digital computer memory chips is giving VCRs a variety of new features—including extremely sharp and "clean" freeze-frame, forward scanning and other special effects. One feature that is likely to gain in popularity is picture-in-picture (PIP), now available in some Hitachi-made units sold by the manufacturer and by RCA and Sears. PIP makes it possible to watch two pictures at once—one picture filling the screen with a smaller picture visible in a corner. Either image may be from a TV broadcast, a tape or even a video camera keeping an eye on a sleeping baby or the front door. Some machines let the viewer freeze either picture at any time.

The primary reason people bought VCRs in the early years was to time-shift programs to a more convenient hour. But



with the proliferation of video rental shops, VCR usage shifted to viewing prerecorded tapes—opening up a market for cheaper video machines that don't record at all. Some projections for 1986 show that Americans will buy as many as 500,000 of the videocassette players, which sell for $25 to $50 less than VCRs.

Another unusual VCR flashed briefly across the screen in 1986—the Translator. Demonstrated by Korea's Samsung, the recorder had receptacles for both VHS and the smaller 8mm cassettes. Samsung said it was designed to let people shoot home videos on 8mm and transfer them to VHS cassettes to send to Aunt Millie. The Motion Picture Association of America demanded that the machine be dropped, insisting that it would be used to make unauthorized copies of Hollywood movies. Samsung enjoyed the publicity and then decided not to produce the Translator.

It has been a frustrating few years for the MPAA. In 1984 the Supreme Court's Betamax decision guaranteed consumers the right to tape movies off the air for their own viewing. Then the association failed to persuade Congress to put a tax on VCRs and blank cassettes to reimburse the studios and other copyright owners for possible piracy. As the 99th Congress adjourned, the MPAA was pushing for a new solution to piracy—a law requiring that all new VCRs have built-in "anticopy chips" that would prevent copying of specially encoded recordings.

86 BRANDS IN '85

Nearly a fifth of VCRs sold in the U.S. in 1985—18.75 percent—were from RCA or General Electric, now both owned by GE. Matsushita's Panasonic and Quasar together took 16 percent of the market.

Rank	Brand	% of '85 Sales	Rank	Brand	% of '85 Sales
1	RCA	13.75	18	Montgomery Ward	1.5
2	Panasonic	12.05	19	Sylvania	1.5
3	Fisher	7.65	20	NEC	1.0
4	GE	5.0	21	Curtis Mathes	1.0
5	Sears	5.0	22	Samsung	0.9
6	Sony	4.75	23	Goldstar	0.85
7	Quasar	4.05	24	TMK	0.8
8	Magnavox	4.0	25	Canon	0.65
9	Sharp	4.0	26	Lloyd's	0.5
10	Sanyo	4.0	27	Akai	0.5
11	JVC	3.6	28	Philco	0.5
12	Hitachi	3.5	29	Realistic	0.5
13	Zenith	3.45	30	Kodak	0.5
14	Mitsubishi	3.25	31	Kenwood	0.425
15	Toshiba	3.05	32	Tatung	0.2
16	Emerson	2.0	33	Sansui	0.2
17	J.C. Penney	1.75		53 other brands	3.625

Source: *Television Digest* survey

At the same time, six major cassette publishers—HBO/Cannon, MGM/UA, MCA, CBS/Fox, Walt Disney and Warner—are planning to encode their tapes with Macrovision, the latest anticopying encoding process (others have had severe failings). The Macrovision technology is designed to trick the tracking control of a VCR used to copy a protected cassette and make the copy unwatchable.

The year of the VCR glut was the last for the two-piece portable VCR and camera. The remainder are being liquidated and superseded by camcorders—the camera-recorder combinations weighing two to six pounds and using the buyer's choice of the available cassette formats. At least a million camcorders were sold in '86, double the number sold the year before.

DAVID LACHENBRUCH

FORMAT WARS

Makers of videocassette recorders using the VHS cassette now control about 95 percent of VCR sales in the country. They have nearly driven off the market VCRs using the Sony-developed Beta cassette, and have counterattacked their new competitor, the 8mm format.

Beta gave up the ghost in 1986, its sales having slipped to 2 or 3 percent of the market. Manufacturers other than Sony have virtually dropped Beta, and even Sony is promoting its Betamax as a deluxe recorder for video hobbyists.

The VHS manufacturers have also held 8mm's share of the total VCR market to 3 percent or less and its share of camcorder sales to 20 percent. But it seemed something had changed. In March 1983, the same companies had been among 127 international manufacturers that agreed to technical specifications for the 8mm format.

The 1983 group published a series of specs for a flexible 8mm system that would use a cassette hardly bigger than an audio cassette, employ the newest metal tape technology and be capable of recording for two or four hours with digital audio.

Immediately after the agreement, however, the participants had some difficulty agreeing about what they had agreed on. Was it a new system for portable camera-recorder combinations—camcorders—or was it designed to replace both the Beta and VHS tape formats in stay-at-home VCRs?

Proponents of Beta, whose sales were plummeting, introduced camcorders and home decks. The VHS manufacturers stuck with VHS, introducing camcorders using full-size VHS cassettes. JVC, the company that invented the format, resuscitated the VHS-C (for "compact") cassette, which is capable of accommodating 20 minutes of recording (or one hour in a new slow speed), and put it in a new camcorder that could compete with 8mm. The VHS-C cassette is as small as a cigarette pack and can be played in any VHS machine with the aid of a special adaptor.

Disturbed that some other makers of VHS recorders were planning to add 8mm machines, JVC last spring called what is now known in Japan as the "five-company meeting." Matsushita, Hitachi, Mitsubishi and Sharp were directed to attend. Shizuo Takano, the JVC executive known as "the father of VHS," reportedly opened the meeting with these words: "Get out of this room, any of you who want to start an 8mm business." He exhorted his "old comrades" to join JVC in pushing the VHS-C format and warned of the many other Korean and Japanese companies now making VHS machines. Some say he was implicitly threatening to revoke his comrades' licenses to make VHS machines.

After the meeting, one by one, the VHS manufacturers added VHS-C machines to their lines (although Matsushita and Hitachi continued to make 8mm machines for sale under other brands).

D.L.

Cassettes Rewrite Studios' Books

Calling home video an ancillary business in today's Hollywood economy is something of an understatement

A major hit again, *Sleeping Beauty* sold more than a million cassettes at $29.95 each.

In 1986, for the first time ever, Hollywood's entertainment factories brought in more money by supplying programs for home video than by releasing films to theaters. They shipped, according to the best indications, 80 million prerecorded videocassettes worth at least $2.5 billion at wholesale (some observers say $3.5 billion)—surpassing the projected $1.9 billion they brought in by delivering films to theaters.

When the Recording Industry Association of America began certifying tape sales in 1981, a movie went "platinum" by selling just 50,000 tapes (worth $2 million). Now it takes 150,000 copies (or $6 million in sales). But the best-sellers have left platinum in the dust: Two $29.95 hits were each expected to sell more than a million tapes—Paramount's *Indiana Jones and the Temple of Doom* and Disney's *Sleeping Beauty*; several vaulted over 400,000 units—HBO/Cannon's *Rambo: First Blood II*, MCA's *Back to the Future* and CBS/Fox's *The Return of the Jedi*.

The big sales could be traced in part to the home video labels' increasingly zealous crusade to move more cassettes by convincing consumers to *buy* them instead of renting them. In massive pre-Christmas promotions for "sell-through," cassette companies (known as manufacturers in the trade) cut suggested retail prices to $29.95 and less on a large number of titles. Consumers could choose among about 500 titles in that price range, about five times more than in 1985. Manufacturers backed up their crusade by spending about $30 million on advertising in the last four months—up from $13 million in all of 1985.

Recent films, hitting the shelves three to nine months after theatrical release, are still the industry's backbone. Retailers have generally shunted older movies into dusty "classics" sections, but are now giving them new respect. *Sleeping Beauty*, a 1958 production, looked like the year's number-two seller, and CBS/Fox sold more than 2 million cassettes from its Five Star Collection of 30 films—about half of them made before 1970. Of those, *Casablanca* and *The Sound of Music* hovered for months near the top of *Billboard*'s sales charts. Publishers are also counting on computerized colorization to stimulate sales of black-and-white classics such as *It's a Wonderful Life*.

Other older films, however, were caught up in the self-destruction of firms dealing in so-called "public domain" titles—films that many companies duplicated and sold at low prices because their copyrights had gone unrenewed. Profit margins disappeared as titles from Good Times Home Video were marked down to $7.77, even for the likes of *Royal Wedding*, starring Fred Astaire.

Producers continued the quest for the next Jane Fonda—the first superstar of made-for-cassette productions—while Fonda's publisher, Karl-Lorimar Home Video, launched her sixth exercise cassette, *Jane Fonda's Low Impact Workout*. Her original *Workout* has sold an astounding 1.3 million copies worldwide and her *New Workout* has topped 600,000. Fonda's entire leotarded oeuvre has rung up more than $100 million in retail sales, by conservative estimate. Also doing well are Kathy Smith and Debby Reynolds exercise tapes and golf tapes with Jack Nicklaus (*Golf My Way* from Worldvision) and Bob Mann (*Automatic Golf* from Video Associates).

Cassette publishers are stepping up their experiments in adapting the content of broadcast and print media to the cassette. They released, for example, about a dozen of the long-predicted instant cassette snapshots of recent events—mostly boxing, baseball and other athletic contests. A gutsy Midwest programmer, MPI, cashed in on the Chicago Bears' immense popularity, rushing to market with the music video *Super Bowl Shuffle*, which sold 225,000 copies at $29.95. NFL Films sold 122,000 copies of *World Champions—The Story of the 1985 Chicago Bears*, released just two weeks after the game. Vestron Video gave *Liberty Weekend* the instant video treatment, and HBO/Cannon Video packaged *The Royal Wedding* of Prince Andrew and Sarah Ferguson.

Advertisers joined in testing out sponsored cassettes—some putting just a mention on the box and others inserting old-fashioned 60-second commercials on the tape inside. Their motives? To recapture some of the lost network viewers and to reach a narrowcast audience primed to

THE HEARTH

hear about their products. Weber Grills, for instance, sponsored a how-to tape on barbecuing. And thanks to General Foods sponsorship, consumers with proof-of-purchase coupons from Crystal Light drink mix could buy a 90-minute *National Championship Workout* cassette for $14.95 (list price $39.95).

More than a dozen ink-and-paper magazines have followed *Playboy* and *Esquire* into the cassette medium—eight of them adapted by Karl-Lorimar, including *Consumer Reports* and *Parents*. Ex-Monkee Michael Nesmith plans to start publishing an all-new magazine on a two-hour cassette in early 1987. Called *OverView*, it will be a monthly tape for home video fans, previewing new video releases and featuring standard commercials. The supremely cheap price: $3.95. But won't people just fast-forward past the ads? "People flip through magazines and don't look at all the ads," says Nesmith. "That hasn't killed the business, has it?"

The year also saw increased give and take between video and book publishing. More than 70 book publishers, including giants Simon & Schuster, Random House, Crown and McGraw-Hill, exhibited video wares at the 1986 American Booksellers Association show in New Orleans. Two years before, there was only one video booth. Publishers are concentrating on book adaptations—mostly informational and kids' fare. The book industry's biggest video success to date has been Western Publishing's Golden Book Videos series of low-budget animated stories for children.

Kid video, in fact, has been a success story for many companies, accounting for 15 percent of wholesale cassette revenues in 1986 (up from 12 percent the previous year), according to the market research firm Cambridge Associates. Many young parents appear to be using the VCR as an electronic babysitter. Walt Disney Home Video dominates the field with its releases often occupying nine of the top ten spots on *Billboard*'s kid-vid sales charts.

Probably the biggest surprise of the year was the success of VCR games, which incorporate video clips in standard game-board play. Parker Brothers says it sold more than 600,000 *Clue* cassettes ($39.95) in a year, and more than a dozen other firms have introduced game cassettes, including Mattel's *Honeymooners*, Pressman's *Doorways to Horror* and Milton Bradley's *Chutes and Ladders VCR Game*. Wrestling tapes also scored a surprising hit. Coliseum Video shipped a total of 500,000 copies of its first 20 titles and its *Wrestlemania*, the cassette version of a celebrity grapplefest—came in tenth on *Billboard*'s midyear sales chart.

Hard-core "adult" titles remained a substantial part of the business—15 percent by many credible estimates—despite attacks by the antiporn commission set up by attorney general Edwin Meese. *Adult Video News* said the adult film sector in 1986 would ship about 7.5 million cassettes, which works out to more than $300 million at the retail level. (Some argue that Meese's alarms actually boosted sales.) Pornographers suffered most from a glut of garage-quality tapes produced on video, which flooded the market and forced price cutting.

Music videos have failed to live up to the massive promise of Vestron's *Making Michael Jackson's Thriller*, a 1983 release that sold 600,000 copies. Instead, the successes among music cassettes sell just 50,000 copies. As for TV series, the only big-numbers success, with more than 1 million cassettes sold, have been the 50-odd episodes of *Star Trek*. Pilots of the *Moonlighting* and *Miami Vice* series are also doing well.

Despite the general boom in home video, it was a tough year for cassette publishers not allied with major studios. Here's why, according to Wall Street analysts: As the studio-affiliated companies increasingly cut prices on strong releases—the so-called "A" titles—buyers were drawn away from older and less successful movies, imports, horror and karate films in the B and C categories. "Where we used to be able to count on selling 25,000 units for slash and trash," says one programming executive, "now we're looking at 5,000."

The resulting hardship is altering the industry. "The smaller companies will disappear, either by going out of business or by being acquired," says Dennis McAlpine, media analyst at Oppenheimer & Co. Los Angeles-based Video Associates, for example, has declared bankruptcy despite its successes with *Do It Debbie's Way* and *Automatic Golf*. "The larger independents are going to have to fight hard to achieve A titles and broaden their lines," says McAlpine.

Vestron, by far the largest of the independents, is going after marketable movies by becoming a minor studio, releasing 12 to 15 films a year (producing six of them and acquiring the rest) for theatrical runs and then cassette. Media Home Entertainment, an arm of the British firm Heron International, scored big by cofinancing two *Nightmare on Elm Street* bloodbaths. Karl-Lorimar is cofinancing Dino DeLaurentiis' *King Kong Lives*. And when Coca-Cola sold Embassy Home Entertainment to Nelson Entertainment, Coke agreed to cofinance six features with Nelson over the next three years.

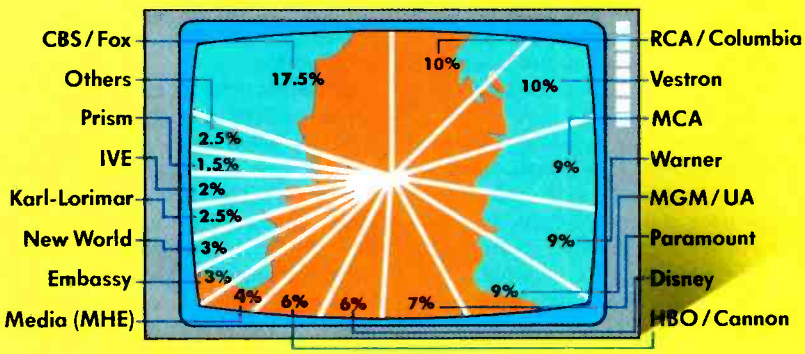
The $85 million sale of the Embassy Home Entertainment label was just one among many transactions as mergermania came to the cassette business. Thorn EMI/HBO Home Video changed its name (to HBO/Cannon Home Video) and ownership when the Cannon Group bought the entertainment interests of the British firm Thorn EMI. But the deal had not been signed before Cannon had sold off home video rights to 55 of its upcoming films to Media Home Entertainment. And Carolco, a production company headed by Sylvester Stallone, bought into International Video Enterprises.

It was also the year when Andre Blay, then Embassy Home Entertainment's part owner and chairman, tried unsuccessfully to buy the cassette firm from Coca-Cola. He sued Coke for breach of promise and later won an out-of-court settlement. Blay is credited as the man who kicked off cassette publishing in 1978, when he licensed 50 titles from 20th Century Fox. Magnetic Video, Blay's original company, is better known today as CBS/Fox, and is still leading the pack.

RICHARD ZACKS

SHARES OF THE ACTION

Nobody knows exactly how many prerecorded videocassettes are sold, but one estimate, for the first nine months of 1986, comes from the new trade newspaper *This Week in Consumer Electronics*.

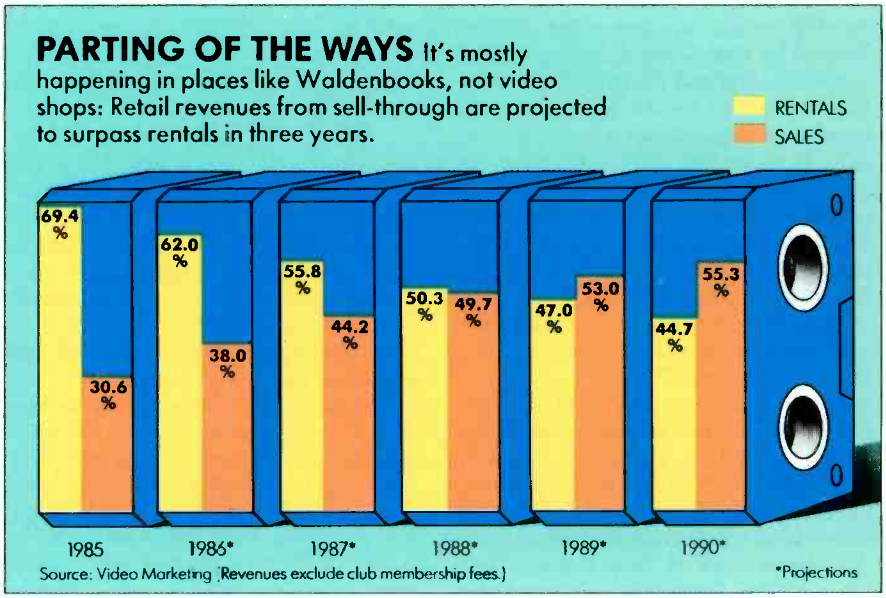


DAVID HERRICK

THE HEARTH

Beyond Rentals: The Next Push for Growth

The game is called 'sell-through' and the players are mostly utter newcomers to marketing prerecorded videocassettes



DAVID HERBICK

While the familiar corner video shops battle it out for the rental business that they invented, a new hoard of mass merchants and other nonspecialists are going after the holy grail called sell-through—cassettes that walk out the door and don't come back. In the process, video software retailing is being split into two markets.

The rental business remains lively, largely among the specialty shops, providing the most important afterlife for theatrical movies. But, according to an industry analysis by the research firm Video Marketing, they show little potential for dollar growth. The sell-through marketers, in contrast, will push children's, exercise, how-to and other so-called special interest tapes and low-priced feature films. Retail sales of tapes are expected to blossom from $2.1 billion in 1986 to more than $4 billion by 1990 as new, nonspecialty dealers enter the market.

These trends are already evident at the cash register: Of the $5.5 billion that consumers spent renting and buying video software in 1986, a surprising 38 percent was laid out to purchase cassettes. By 1988, sales and rental revenues will be in a dead heat, and sales will surpass retail rental revenues before the end of the decade, according to Video Marketing. Through the first five years of the business, sell-through never exceeded 25 percent of consumer spending.

Other retail sales are bypassing the cash register altogether. Direct-mail cassette sales, including those by video clubs modeled after book and record clubs, are now believed to make up less than 5 percent of prerecorded videocassette sales but could be accounting for 15 percent within the next two to three years.

The market is crowded, to be sure, but that hasn't led to the long anticipated massive closings of video shops. Instead of the shake-out, video specialty stores are consolidating. Many small local chains are folding their two or three stores into a single larger video superstore. This permits them to reduce overhead costs while they stock more copies of each title and a wider selection than is available in the local Safeway's new video department, for example.

But the net result is not fewer video software outlets. In fact, they're continuing to proliferate. Walt Disney Home Video's Christmas 1986 blitz involves having its children's cassettes in 50,000 retail outlets—25,000 of them video specialty stores and an equal number of alternative outlets. Hanes Direct Sales Delivery, the company that puts L'eggs pantyhose in some 90,000 stores, plunged into video software, placing *Esquire* magazine's yuppie-oriented fitness tapes in some 20,000 supermarkets, drug stores and other retail outlets.

As the list price for more and more titles drops to $29.95 and below, bookstores, toy supermarkets, sporting goods shops and general mass merchandisers—which hadn't wanted to bother with the labor-intensive rental business—are increasingly experimenting with low-priced sell-through. Other retailers are going into the rental business. Such chains as A&P and 7-Eleven are setting up computerized rental stations in their stores that stock 200 to 300 fast-moving titles.

Why are so many nonspecialty retailers clamoring to handle video? The simplest reason is that, with about 40 percent of homes using VCRs at year's end, the demand has made prerecorded cassettes a volume business. Cassette publishers can risk lowering their prices and reducing their short-term profit margins in the expectation of greatly increased unit sales.

The largest of those newcomers to video, the mass merchants, have distinct advantages over the mom-and-pop video store. They buy great quantities of tapes directly from the video publishers, bypassing the middlemen—the independent wholesalers that supply most video shops (and add 8 to 10 percent to a cassette's margin in the process).

While most video retailers are seeking ways to grow, many will have to fight to avoid shrinking. They face heavy expenses to keep a small but dependable part of their trade—so-called adult tapes. In some communities, retailers will bear the cost of defending themselves against obscenity prosecutions encouraged by the Attorney General's Commission on Pornography. Many have taken off their shelves X-rated videos collectively worth tens of millions of dollars after prosecutors announced that the tapes feature performances by four porn stars filmed before they had reached the legal age (18) for appearance in pornography.

IRA MAYER AND PAUL SWEETING

OPTICAL DISCS

CDs and Their Laser Kin: The Beam Brightens

Having secured a niche in both the business and education markets, videodiscs are inching into households hooked on digital sound

ELIOT BERGMAN

Consulting the dashboard screen for directions: Discs provide a new way to travel.

A consumer touches a screen to buy a pair of blue jeans. A jazz fan listens to a jam session reproduced with astounding fidelity. An Army recruit learns to repair a missile guidance system from a monitor. A traveler consults the screen on his car's dashboard to get directions to the nearest motel. All are using sound, visuals and information stored on various kinds of optical discs—videodiscs and the audio and data versions of the compact disc—and picked up by laser beams.

The most familiar of these is the compact audio disc (CD), which has had the most successful product introduction in consumer electronics history. CD players can now be found in more than 4 percent of American homes. Player sales in the U.S. have tripled each year since the CD's introduction. Some 300,000 were sold in 1984; a million, in '85 and more than 3 million probably will be sold in '86. Player prices dropped as fast as volume rose, with many models now selling for less than $150. Since 1984, sales of the discs have risen from 5.8 million to 50 million or more in '86. Of the 9,000 titles on the market, the classical CDs are gradually losing ground to pop music discs, with each accounting for about half of 1986's total sales.

Videodisc sales to consumers have never been as impressive, but are beginning to benefit from the CD's success. Pioneer's subsidiary, LaserDisc Corp. of America, expected to sell 50,000 players in 1986, bringing the number in homes to 250,000. More than half of sales are the combination units capable of playing both videodiscs and CDs. Videodisc software sales were expected to reach 2 million units in 1986, up 50 percent from the year before. Most of the 1,800 discs available are of the 12-inch variety and contain feature films, but a market is emerging for eight-inch videodiscs that provide 20 minutes of music video and cost $11.

The videodisc may never achieve the phenomenal growth the videocassette did in the consumer market, but thanks to its capacity for interacting with the viewer (with the help of a computer), it has gained a significant niche in business and educational markets, where more than 100,000 players are in use. IBM's introduction of its InfoWindow interactive videodisc system, with its touch-screen monitor, was welcomed like a Good Housekeeping Seal of Approval for videodisc technology.

The major industrial use of videodiscs is training. Companies such as Deltak Training Co., Advanced Systems Inc. and Industrial Training Corp. have introduced large numbers of generic videodisc courses on technical and management skills. The Department of Defense has adopted a standard videodisc training system that could lead to the deployment of 50,000 such systems by 1990.

Videodiscs also interact directly with the public, taking orders for merchandise as well as dispensing information. Their sturdiness makes them ideal for heavy use at exhibitions and in stores. At First Chicago Bank, customers visit a videodisc kiosk to learn about Individual Retirement Accounts and other banking services. At Builder's Emporium stores in California, homeowners go to a similar kiosk to learn how to install fixtures and perform various home repairs.

Now the latest use of optical discs is beginning to take off—massive data storage and publication. A five-inch CD-ROM disc (compact disc/read-only memory), physically identical to an audio CD, can store 550 megabytes of information, the equivalent of 100,000 typewritten pages. Market researchers' projections of 1987 sales vary widely: Link Resources sees sales of 36,000 drives and 200,000 discs; Diversified Data Resources expects 476,000 drives and 3 million discs. Lotus Development Corp., publisher of the widely used Lotus 1-2-3 software, plans to start weekly publication of optical discs containing several vast financial databases that it now publishes on floppy disc.

The capabilities of the different kinds of optical discs are converging at a great rate. Videodiscs that contain digital soundtracks and digital data are regularly being published. And a new variation on the CD is scheduled for introduction late in 1987: Spinning on a player with a built-in microcomputer, the compact disc-interactive (CD-I) will play back text as well as music, still images and limited animation.

The idea is to bring computerlike capabilities to consumers who resist buying anything that looks and handles like a computer—and in a device that will also play high-quality music from the now familiar CD. Many of the same Japanese firms that make CD players are poised to launch (probably in 1987) still another format, which uses magnetic tape instead of an optical disc to carry digital sound—digital audio tape (DAT). DAT won't be as well suited as optical discs for interactive uses, but its superb recording and copying ability strikes fear in the record industry, which has been doing so well with CDs.

ROCKLEY L. MILLER

THE HEARTH

GLOSSARY

Demystifying the Jargon

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 an individual subscriber.

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

ADI: Area of Dominant Influence, the Arbitron ratings service's term for the region in which local stations' signals are dominant (see DMA).

Ad rep: a company that sells time to national advertisers on local broadcast stations.

Affiliate: a broadcast station not owned by a network but using its programs and ads.

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

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

Back end: see "ancillary markets." In "front-end" sales, the buyer is the medium that first carries a program.

Barter syndication: a program distribution scheme in which the syndicator retains and sells a portion of the advertising time. In "cash 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.

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

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

Camcorder: video camera and recorder combined in one unit.

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

CD: Compact Disc, a five-inch record on which a digital audio signal is recorded optically so that it can be read by laser beam. Variations include the CD-ROM (CD-Read Only Memory) for computer data and the CD-I (CD-Interactive) for data, graphics and sound.

Churn: the rate of turnover in subscriptions to cable and/or STV, 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, when "open captions" are aired, they 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. System owners are divorced from content control.

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.

CPM: advertisers' cost per thousand viewers who see a commercial.

DAT: Digital Audio Tape, a new audio cassette format for consumer and professional use; expected to hit stores in 1987.

Dish: satellite antenna or earth station.

DMA: Designated Market Area, A.C. Nielsen Co.'s version of an ADI.

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

Electronic mail: services that transmit textual information between customers through a computer network.

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 for the office. News shows are exempt.

Fairness Doctrine: the FCC rule that requires broadcasters to devote airtime to important controversial issues and to air contrasting views on those issues.

Financial Interest and Syndication Rules: FCC rules preventing networks from owning interest in or syndicating most shows they carry.

First-run syndication: distribution of shows produced for first release on outlets contracting with the syndicator. See "off-network syndication."

Footprint: the geographic area in which a satellite transponder's signal can be received.

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.

High-definition TV: technical systems providing a finer TV picture, specifically the Japanese one proposed as world standard, with 1,125 scan lines, compared with the usual 525 or (in Europe) 625.

HUT: Households Using Television, the percentage of TV homes using sets at one 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 general public.

Impulse pay per view: viewers' last-minute ordering of PPV programs, similar to "impulse shopping."

ISDN: Integrated Services Digital Network, an internationally recognized technical framework for future digital telephone, data and perhaps video transmission by wire.

ITFS: Instructional Television Fixed Service, a TV delivery service by line-of-sight microwave that the FCC licenses to educational institutions.

Jamming: deliberate interference with a satellite transmission (or broadcast) by transmitting on the same frequency.

Junk bonds: borrowing device that has high yield 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 giga-Hertz (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 vehicle 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 in areas where a full-power signal would interfere with other stations broadcasting on the same frequency.

Major market: one of the 100 largest metro areas in numbers of TV households.

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." See ITFS.

MSO: Multiple System Operator; firm that operates more than one cable TV system.

Must-Carry Rule: an FCC requirement that a cable system carry certain qualified, local, over-the-air TV stations.

Narrowcasting: aiming shows at a specialized audience.

Network compensation: networks' payments to affiliated stations for airing network programs and commercials.

Off-network series: former network programs that are now 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.

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.

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.

Prime Time Access Rule: an FCC regulation limiting TV networks to three hours of prime time programming per evening, which has opened up the 7:30 (Eastern time) half hour to other program sources, mainly syndication.

Rating: estimated percentage of TV households tuned to a program during a 15-minute period, out of all those with TV sets.

Reach: percentage of audience exposed to an ad or program.

RHC: Regional Holding Company, one of the seven firms owning local telephone companies created in the breakup of the Bell System.

SAP: Separate Audio Program, an audio channel that can be received by new stereo TV sets and used for a second sound track.

SCA: Subsidiary Communications Authorization, FCC permission to use subcarriers of the FM band or other broadcast channels to piggyback other material, such as readings for the blind or computer data transmissions.

Scatter market: unsold commercial time that remains after the preseason "up-front" buying period.

Scrambling: altering a TV signal transmission so it can't be properly received without an operating decoder.

Share: estimated percentage of TV households with sets turned on watching a program. Compare with "rating."

SMATV: Satellite Master Antenna Television, a miniature cable system that receives programming by satellite and serves a housing complex or hotel.

Spot advertising: commercial time on a local station purchased from the station or a national ad rep.

Stripping: scheduling a program (usually syndicated) at the same hour every day or every weekday.

STV: Subscription TV, 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.

Teletext: broadcast of textual information 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.

Translator: a low-power transmitter that retransmits a distant TV or radio station in order to improve its reception in an area.

Transponder: a satellite component that receives and retransmits a TV signal or sometimes many narrower-band data or audio channels.

TVRO: Television Receive Only, a satellite receiving antenna, also known as a downlink. A consumer-owned TVRO is backyard dish.

UHF: Ultra High Frequency, the band including TV channels 14 through 83.

Up-front market: preseason purchasing of network (or barter-syndication) commercial time in specific programs.

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; more powerful than UHF channels.

VHS: Video Home System, the leading consumer videocassette format. Like Beta cassettes, 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 on demand and various transactional services.

VSAT: Very Small Aperture Terminal, a small satellite dish for data transmission.

Window: the period during which a network or other distributor has contractual rights to show a program.

Zapping: changing channel by remote control to avoid ads.

Zipping: fast-forwarding through ads when playing back a program on a VCR.

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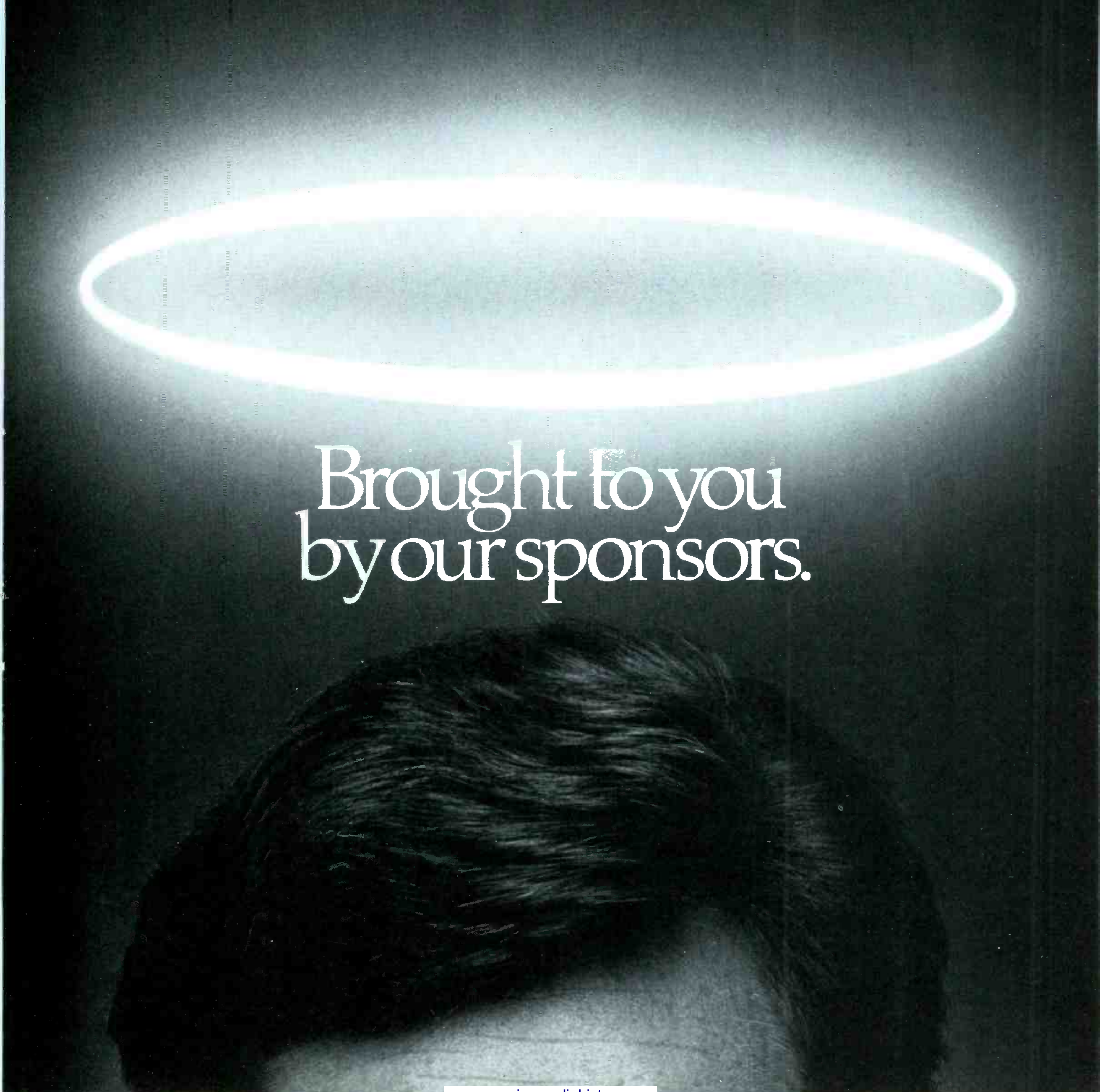
For more information

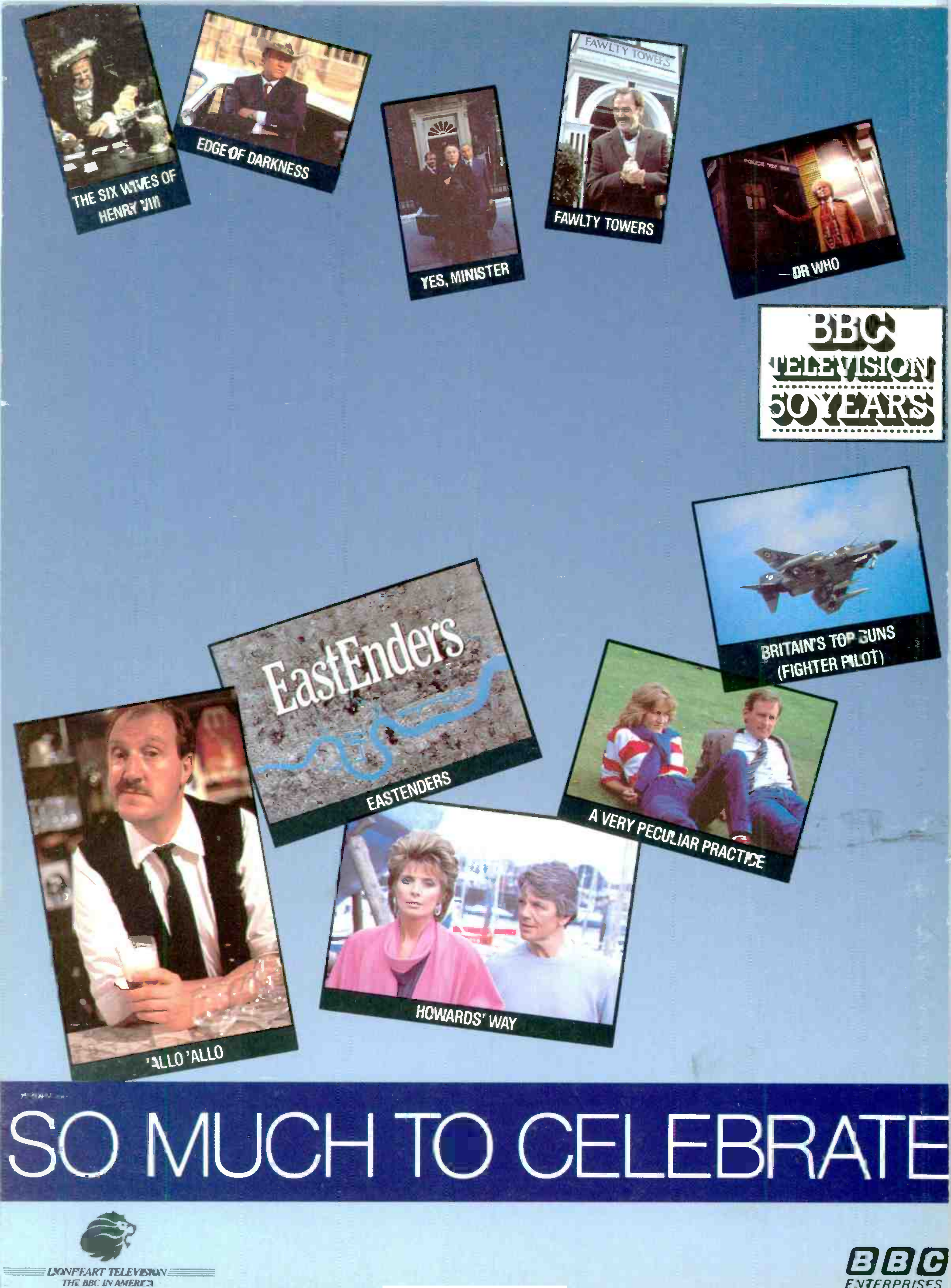
Community goodwill. It's something every station needs, every advertiser wants. And now, Group W is syndicating a whole new concept in community outreach campaigns. One that builds station and sponsor image, and actually generates new revenue in the process. It's called *For Kids' Sake*.

Targeted to adults 25 to 54, this important new campaign addresses the issues affecting today's children. And as it helps them, it helps you. By attracting enough community-minded sponsors to pay for itself. And as stations all over the country can attest, paying for itself is just the beginning.

For further details, call Jeff Osborne, Group W Television Sales, at (212) 883-6145. He'll explain how you can join the growing list of *For Kids' Sake* stations whose local images are picking up. While *For Kids' Sake* sponsors are picking up the tab.

FOR KIDS' SAKE

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