MSOs face boost in TBS conversion rate

Cost to operators of basic channel TBS is doubling

By Donna Petrozzello

Time Warner Inc.'s conversion of Superstation TBS to a conventional cable channel could double its cost to operators.

Sources close to the conversion deal say TBS expects to charge operators an average 26 cents per sub for the network as a basic channel.

That is about twice the current combined cost of a 3-cent monthly license fee to TBS Superstation distributor Southern Satellite Systems plus the 10 cents in copyright fees funneled to Hollywood studios that sell programing to the Atlanta station WTBS. The conversion is scheduled for Jan. 1.

The value added to MSOs, say TBS executives, is the increasing quality of the network's programing and the MSOs' new-found ability to sell local commercials on the network.

But operators are balking at doling out additional cash for TBS, whose programing now consists largely of Atlanta Braves baseball games, movies and off-network sitcoms.

"This is a product we were paying no license fee on before," says Bob Wilson, vice president of programing at Cox Communications. "Now, because TBS converted the status and will start charging a license fee, our perception is this is a total windfall for them."

Wilson sees the sharp increase compounding cable operators' overall problems with surging programing costs. "Number one, we can't necessarily pass it through to our customers. And if we do, it's a significant increase to pass through," he says.

On the ad sales side, the TBS conversion will give MSOs two minutes per hour of local ad time to sell.

Sources involved in negotiations with operators say TBS—the third-highest-rated cable network, whose Braves games attract strong male demos—estimates that MSOs will generate an average 32 cents per sub in local ad revenue from TBS alone.

Some cable operators are skeptical. Jeffrey Marcus, chairman of Marcus Cable Corp., says he'd like Turner to show him the money before he's convinced. Marcus says he'll have to balance the license fees against what he can reasonably expect to generate from local ad sales on TBS.

The problem, Marcus says, is that selling local ads on TBS alongside his existing channels could simply divert sales from other channels.

"You have to ask yourself how much advertising is out there to sell, and are you cannibalizing other services so you can get revenue on TBS," says Marcus. "Are you better or worse off on a net basis? This is a purely subjective judgment at this point, but we've got to weigh all that."

"It's uncertain how that will play out," says Wilson. "We know that generally TBS's syndicated product is popular, but we're not sure Braves baseball will be popular enough with the rest of the country."

While Marcus calls the proposed 26-cent license fee "pretty hefty," he anticipates that Turner will find a way to work out deals. "Turner people are smart, and my guess is they'll figure out a way to make TBS a net benefit for operators." ■

WorldWire

Telewest and NTL in merger talks

TCI- and US West–backed Telewest Communications—the UK's second-largest cable operator—is in early merger talks with U.S. cable company NTL. The merger would spawn one of the UK's largest cable TV and telephone companies, with an estimated market capitalization of $2.45 billion and some 6 million customers. NTL has confirmed discussions with Telewest about "a possible business transaction" but would not comment further "until such talks have been successfully concluded."

Hutchinson may sell AsiaSat stake

Hong Kong conglomerate Hutchison Whampoa is considering selling a 24.33% stake in Hong Kong–based satellite operator Asia Satellite Telecoms. News Corp., whose Star TV regional satellite network is AsiaSat's biggest customer, is a potential buyer. Merrill Lynch forecasts AsiaSat's year-end worth at $274.8 million. Sources say Hutchison may need the cash to support its $2 billion bond offering in the U.S. that has been raised for Hong Kong and China infrastructure projects.

United News & Media may enter UK cable

UK-based United News & Media reportedly is mulling a foray into cable TV to create a $1.6 billion rival to Cable and Wireless Communications. Under the plan, United News & Media would take a minority stake in the cable company that would be formed from a merger of Telewest Communications and NTL. United News & Media already has ownership stakes in terrestrial broadcaster ITV's regional franchises and in new national terrestrial commercial broadcaster Channel 5.

Brazil releases cable/MMDS auction rules

The Brazilian government has issued rough drafts of the upcoming cable and MMDS auction process. The licenses will be issued for 15 years, after which they can be renewed for another 15-year term. Brazil ultimately will tender some 1,700 licenses, with the first 100 set for bidding in mid-September. Cable TV licenses must be at least 51% locally owned; however, foreign firms with offices in Brazil will be able to own a majority of the MMDS licenses. **—Michael Katz**