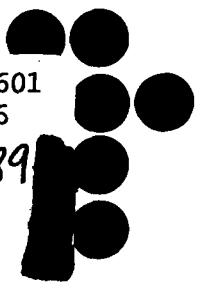


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COMMUNICATIONS FORUM

THE FUTURE OF THE BROADCAST NETWORKS

February 16, 1989

Seminar Notes

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COMMUNICATIONS FORUM

THE FUTURE OF THE BROADCAST NETWORKS

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Carolyn Wall
WNYW, Fox Television Stations, Inc.

Richard Feldman
NBC

Andy Lippman, Moderator
Media Lab
M.I.T.

Gail Kosloff
Rapporteur
M.I.T.

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This session focused on the the prognosis for the future of the networks from two distinct perspectives: a network television station (NBC) and a leading independent station (Fox). Richard Feldman of NBC appeared to be steadfastly optimistic about the future of the networks citing quantitative analysis his company has done showing that the networks still command the greatest number of viewers and control the bulk of the advertising dollars. Carolyn Wall of Fox Television Stations doesnot believe these ratings really reveal the growing challenge of cable TV and the general "demassification" of the TV medium which is really "leveling the playing field."

The first speaker, Richard Feldman of NBC, started his presentation by acknowledging that cable is the biggest changing force in television today. Feldman went on to explain that in order for NBC to address the question of the future of the networks (including NBC) the analysis must include a thorough understanding of the present industry situation as a starting point. In this vein Mr. Feldman showed the audience a series of graphs which depicted the continued strong standing of network television in terms of viewers and advertising dollars.

Specifically, Exhibit 1 shows that while network advertising revenues continued to climb slightly from a base of \$9 billion (1985 through 1988), cable advertising revenues also rose slightly, but from a base of approximately \$1 billion. Feldman noted that cable TV companies continue to generate the greatest percentage of their overall revenue from monthly subscriber fees. While Feldman acknowledged that "cable is a bigger industry than network TV today," he stressed that it is still the networks that control the important advertising revenues.

In analyzing primetime ratings over the past five years (1983-1988), Mr. Feldman noted that although network ratings did decline he believes these viewers did not all get "absorbed" by the other TV alternatives (e.g., independents, pay cable, basic cable, and public) and are difficult to locate. Exhibit 2 illustrates how prime time ratings for this time period significantly declined for network TV in contrast to the slight increases of independent and cable viewership.

Feldman noted that "innovative programs can prevent declines in ratings. As an example he cited the introduction of the Smurfs which stopped the decline for three years. However, Feldman acknowledged that the decline did restart after the Smurfs became mainstream. He believes that since it is dificult for all three networks to currently make money from broadcasting Saturday

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morning cartoons, it may prompt alternative programming practices by at least one network for this time period.

In regards to network news viewership, Feldman believes there will always be a "mystique" that surrounds network news. He believes that "CNN's tiny increases do not explain network news declines." Feldman blames news rating declines on the fact that people have so many additional non-news options they are watching less news. He went on to explain that independent stations, ESPN and HBO, as well as all the other competitors "are responsible for news declines, not CNN."

Feldman believes there are two major reasons why we are seeing an increase in cable ratings: (1.) distribution has expanded as the number of homes receiving cable has increased and (2.) the penetration of the top 12 cable networks has increased because of the effects of cable rate deregulation. According to Feldman (Exhibit 3), although cable penetration into U.S. homes actually increased from 1984-1988 the ratings for cable programming in a universe of those who subscribed (e.g., HBO ratings among home that receive HBO) revealed that "people are not flocking to cable programs eventhough they have it available to them."

Feldman touted that network television is still the logical choice for companies launching a new packaged consumer good. He showed the audience a breakdown of viewers for network versus cable stations by age for prime time programming (e.g., men 18-49 and women 18-49) to substantiate this point and reassert that network TV is still the "better buy" because it reaches more viewers. He noted that especially for the media buyer network TV is easier to deal with than attempting to spread ad dollars across numerous cable stations to reach the right audience. Mr. Feldman repeatedly emphasized the audience "reach" advantage of network television over cable as one very important factor in securing the future of the networks. Figure 4, regarding the "primetime cume," shows that 93% percent of U.S. homes watch the network affiliates in their area in one week, while HBO, the leader in "reach" among the cable stations, reaches approximately 18% of U.S. homes. Feldman remarked that even if a company bought ad time on all the cable offerings the reach would only be 30%.

In concluding his presentation, Feldman again asserted that even with continued declines in ratings the networks can survive in the future especially because of the networks impressive reach

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figures (which according to Feldman have not changed in 15 years). He reiterated that the cable industry, from his viewpoint, is more interested in collecting subscriber fees than in attracting advertising dollars. In the end he believes that cable and network TV are complementary media. He acknowledged that NBC is in the cable TV business because it sees itself as a "broad player" in the TV game.

Feldman foresees more and more players will enter the TV industry and everyone will be subject to "nibbles" in viewership. In the future Feldman believes that networks will stop imitating each other (e.g., more variation in the time of news broadcasts) and thinks the financial interest rule will soon be dropped so that networks can own their own programs). He also announced that Nielsen will start including research of second homes so programming will become more important.

The second speaker, Carolyn Wall of Fox Television Stations, Inc. began her talk by proclaiming that "T.V. is in an age of 'demassification' and emphasized there are several options available today to viewers and advertisers. Coming from a background in print media, she compared what is happening in the television industry today to what has been happening to magazines and large urban newspapers for the past several years. According to Wall the large-size magazines like Colliers and Look were not able to compete with the increase in specialty magazine publications and other media alternatives to meet peoples' growing special interest requirements. Wall noted that almost every large U.S. city used to have several (5+) dailies in contrast with having only one or two dailies today. She believes that this phenomena of "options" has impacted TV last since printed media (especially magazines and newspapers) was more vulnerable to media alternatives.

Wall went on to discuss how traditional broadcast television has changed because of peoples' new lifestyles which include the use of VCRs and remote control devices. According to Wall these devices give the individual the ability to decide on when and how to watch programs. She voiced her fascination with all the research on left brain/right brain effects and how people learn from media. Wall cited recent experimental research that has been conducted at the University of Michigan which has focused on how children watch cable TV. This research has found that children watch two or more channels at the same time; the children feel this means they have actually watched two or more television shows eventhough they have not trully watched every

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minute of the shows. Based on studies like this, Wall believes TV will become a "lateral" media much like a newspaper.

Wall also noted that in her opinion there has been a reduction in the dominance of the networks. She thinks that people today are "more likely to tune into a program rather than a network" and thus there is much less viewer loyalty to particular networks. She takes this to mean that viewers today will be more influenced by programming. Wall suggests that stations must build relationships with viewers.

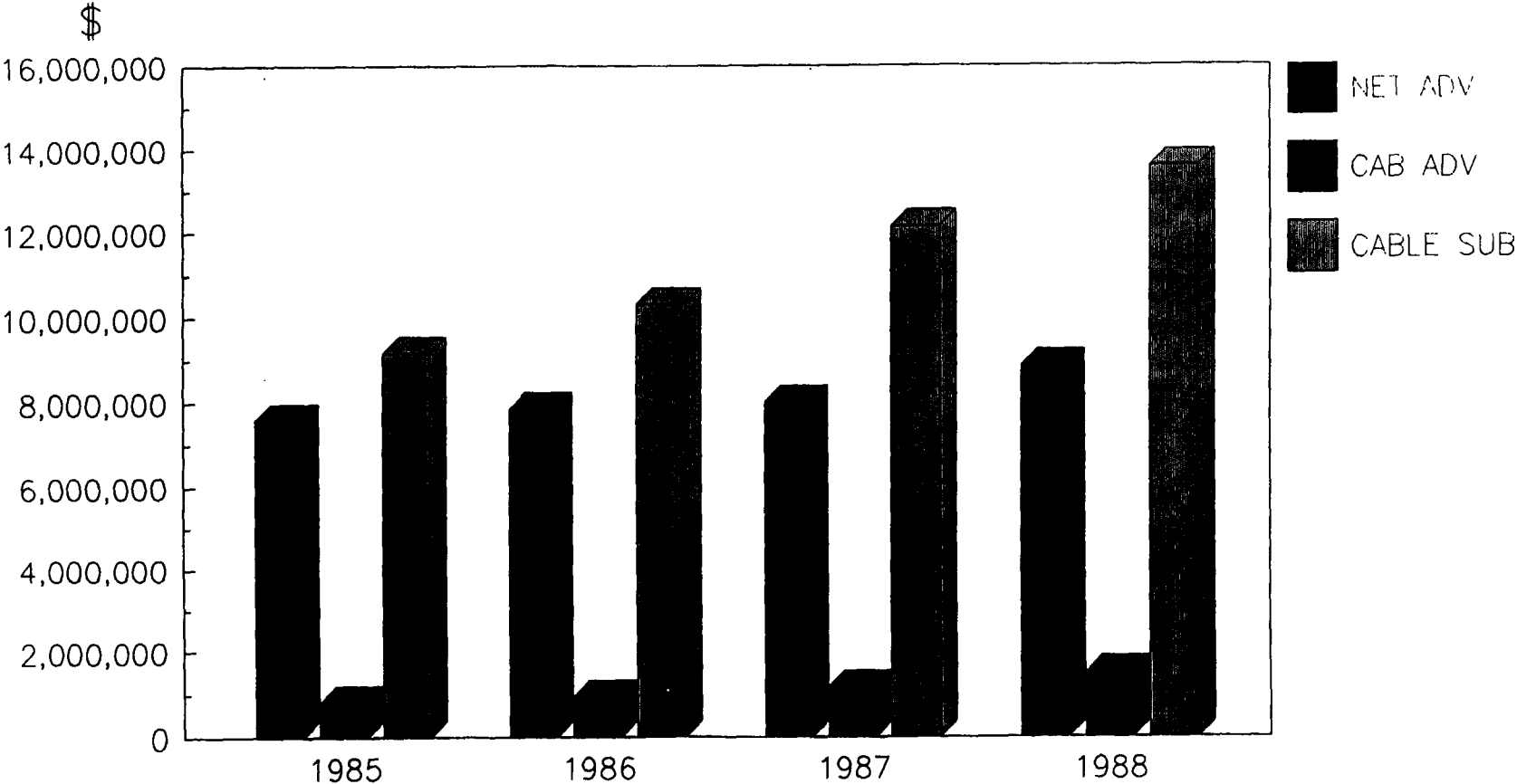
In a more narrow discussion of the operation of Fox Television's business, Wall noted that Fox "will never be programmed to the extent that the networks are today (in the sense of the number of programs aired)." She believes this situation gives Fox an opportunity to profit by being more local in flavor. Wall noted, using New York as an example, there has already been substantial growth in viewership of independent stations.

Looking into the future, Wall believes that all parties involved in the television business (the networks, independents like Fox, etc.) will become involved in more risk-taking. She believes that much of this risk-taking will be predicated on the fact that younger people do not have established media loyalties. Wall noted that risk-taking in a constructive manner is highly supported by Fox management.

In responding to Richard Feldman's presentation Carolyn Wall made a few observations. Foremost she believes the growing industry emphasis on the qualitative and quantitative points of view is a destructive trend. She agrees with Feldman that there are too many players now in the business of broadcasting Saturday morning children's programming. Wall noted that Fox Channel 5 recently exited this segment of its business although she acknowledged its (alternative) new early morning show has been expensive to produce. Wall also agreed with Feldman that cable (especially with its push to more local programming) will continue to be one of the greatest challenges to the networks and to independent players like Fox.

Wall concluded her presentation by noting that given all these challenges the end result will be a "more level playing field." She believes that television will remain the dominant carrier of information while the long term future of independent television appears to be the most vulnerable of all the players.

REVENUE TRENDS

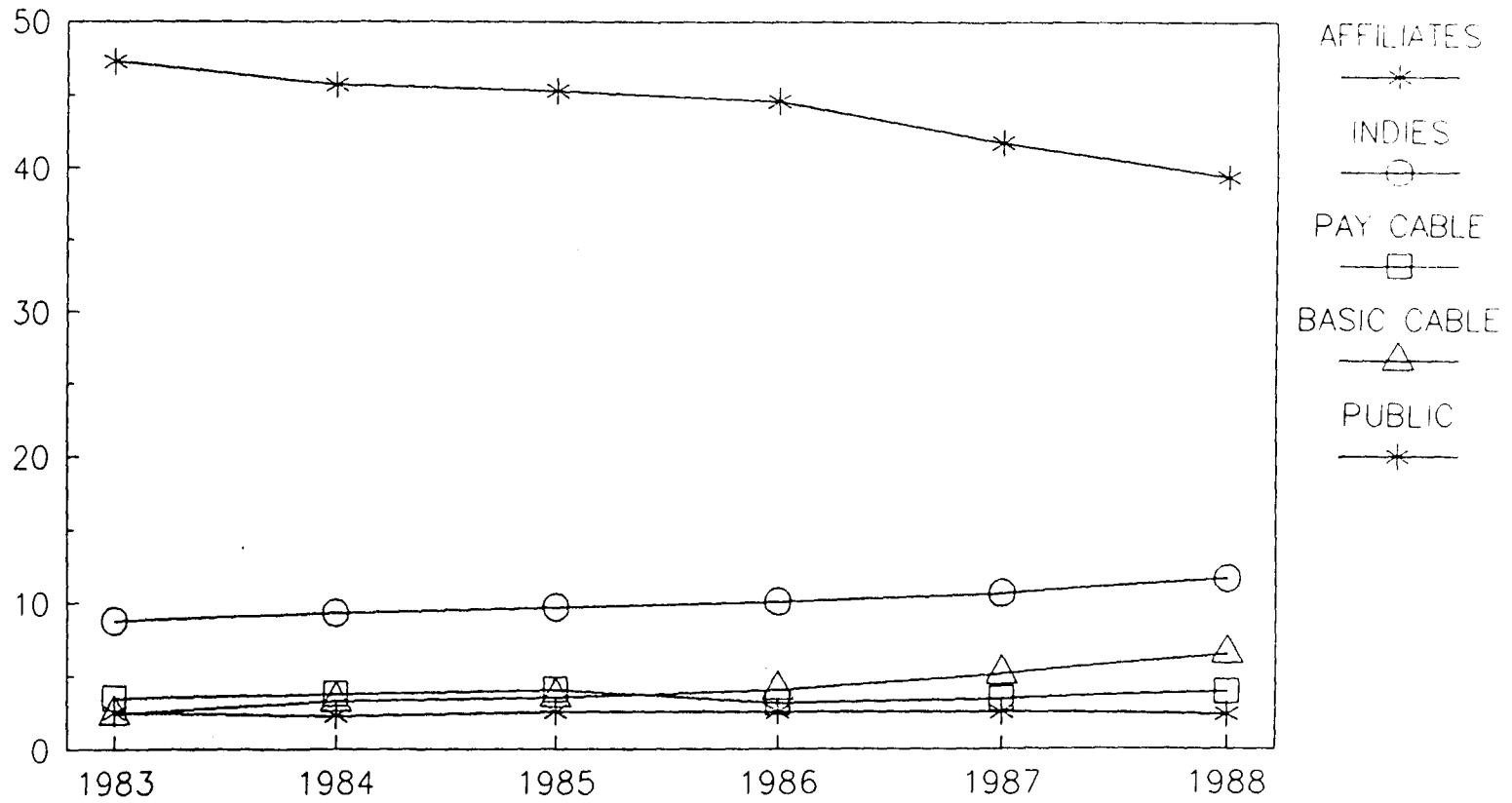


Source: NBC Estimates

EXHIBIT I

CALENDAR YEAR RATINGS PRIMETIME

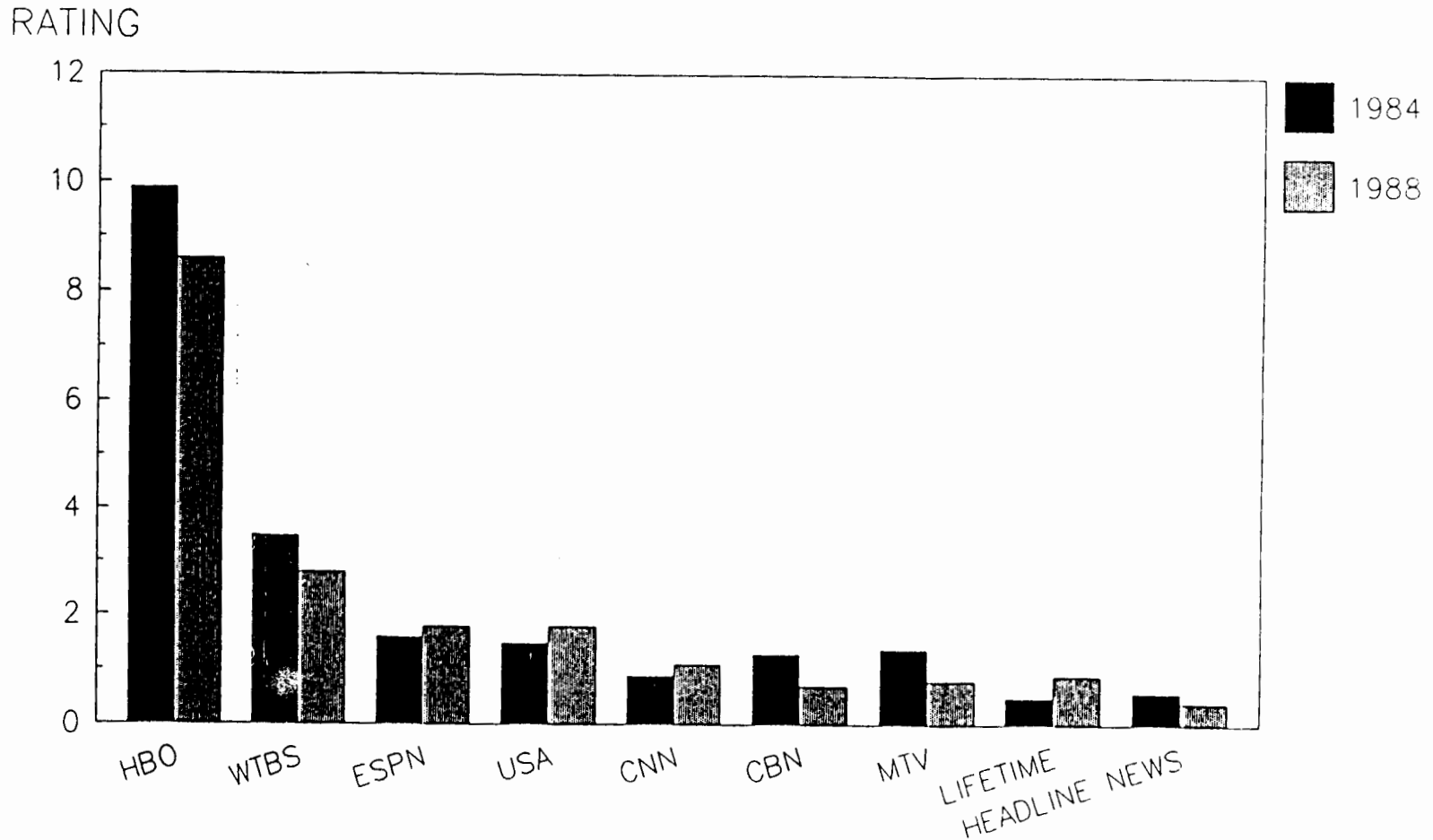
RATING



Source: NTI

EXHIBIT II

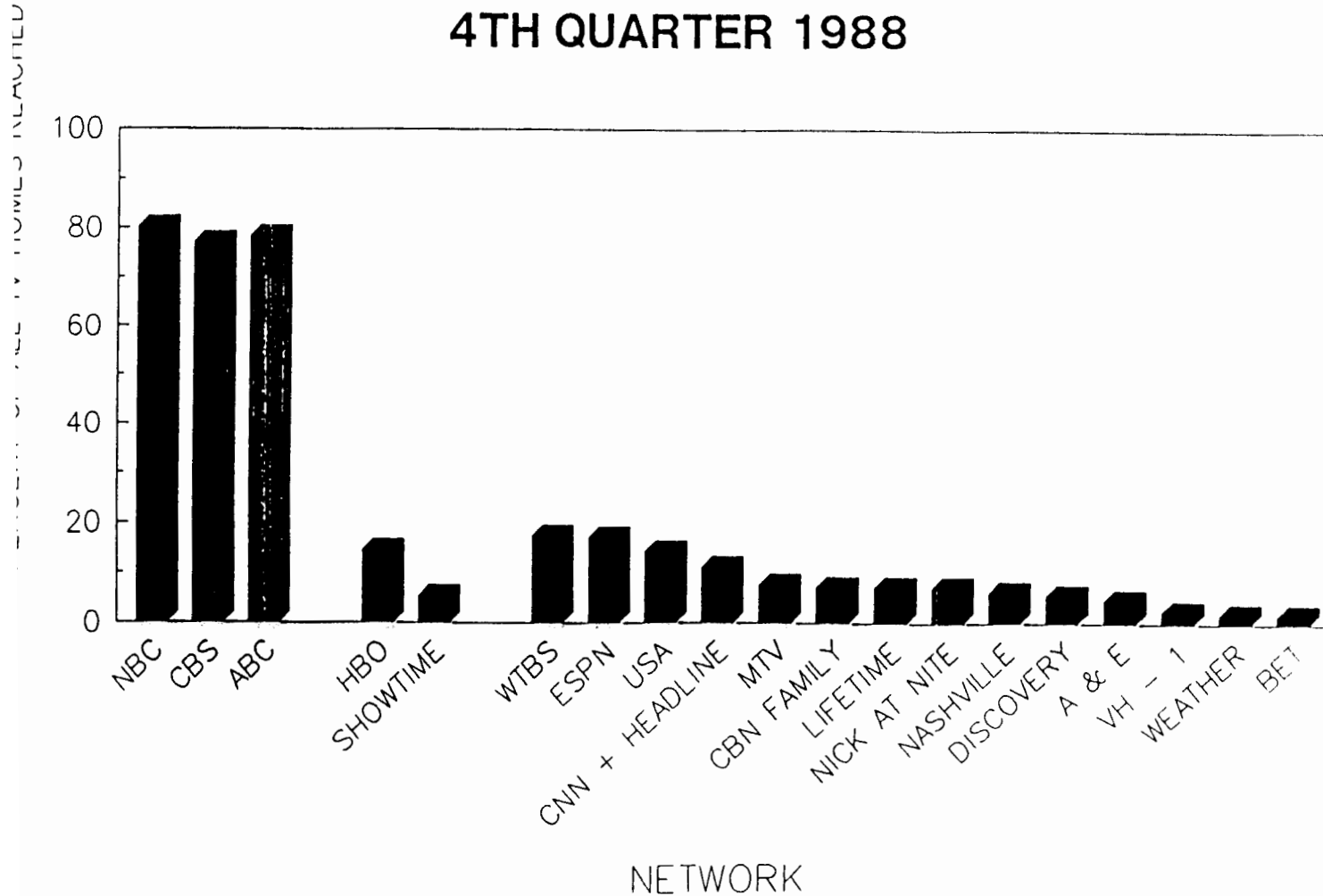
PRIMETIME CABLE RATINGS IN THEIR OWN UNIVERSES 1988 VS. 1984



Source: NTI

EXHIBIT III

PRIMETIME CUME 4TH QUARTER 1988



Households watched 5 minutes or more in a week
Source: NTA

EXHIBIT IV