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Blair TV: Back From the Brink?

A Telephone Company Primer

CHANNELS

JUNE — THE BUSINESS OF COMMUNICATIONS — 1989

PURE MALONE

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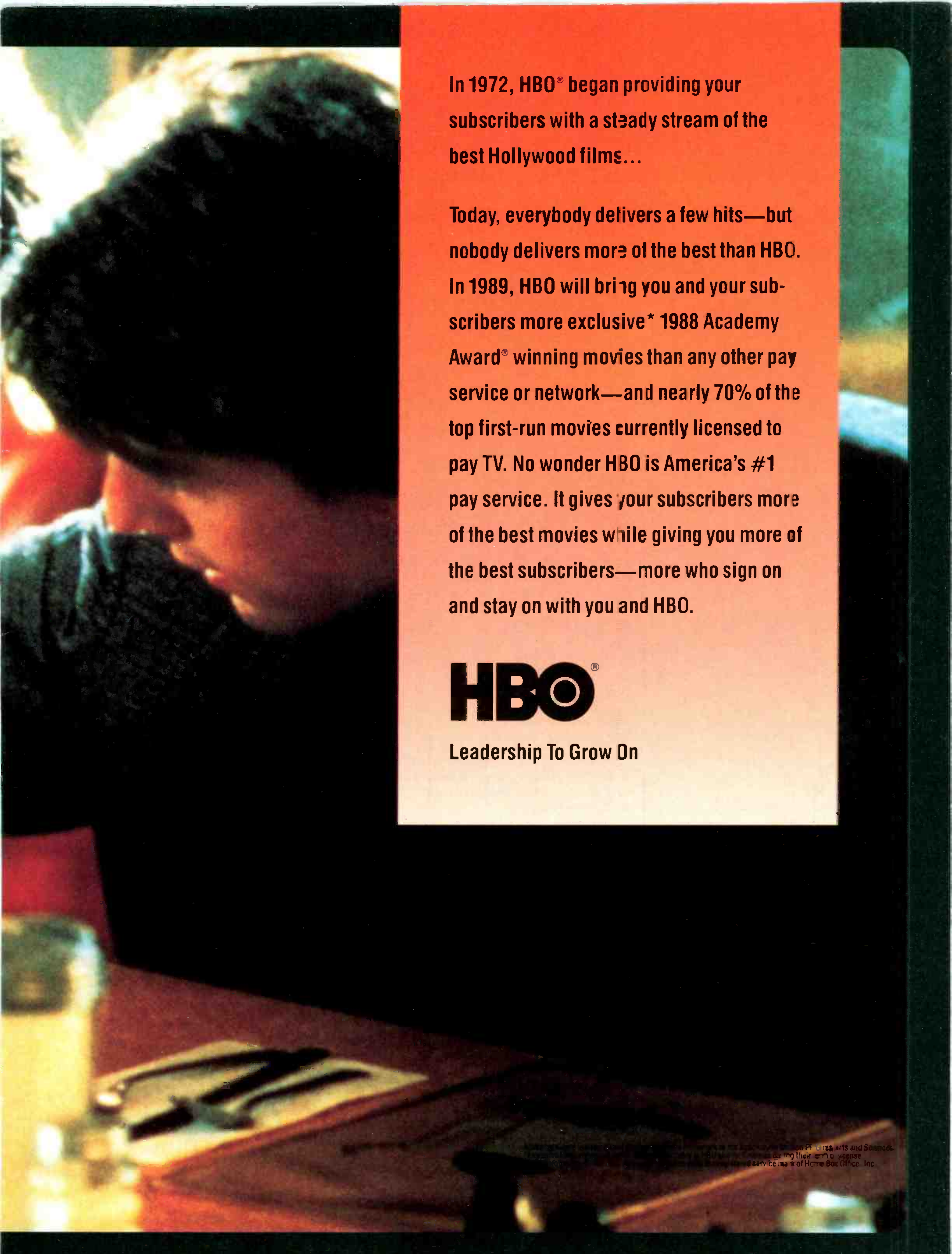
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THE BUSINESS OF COMMUNICATIONS

VOL. 9, NO. 7 JUNE 1989

Leading the battle for Blair Television 38

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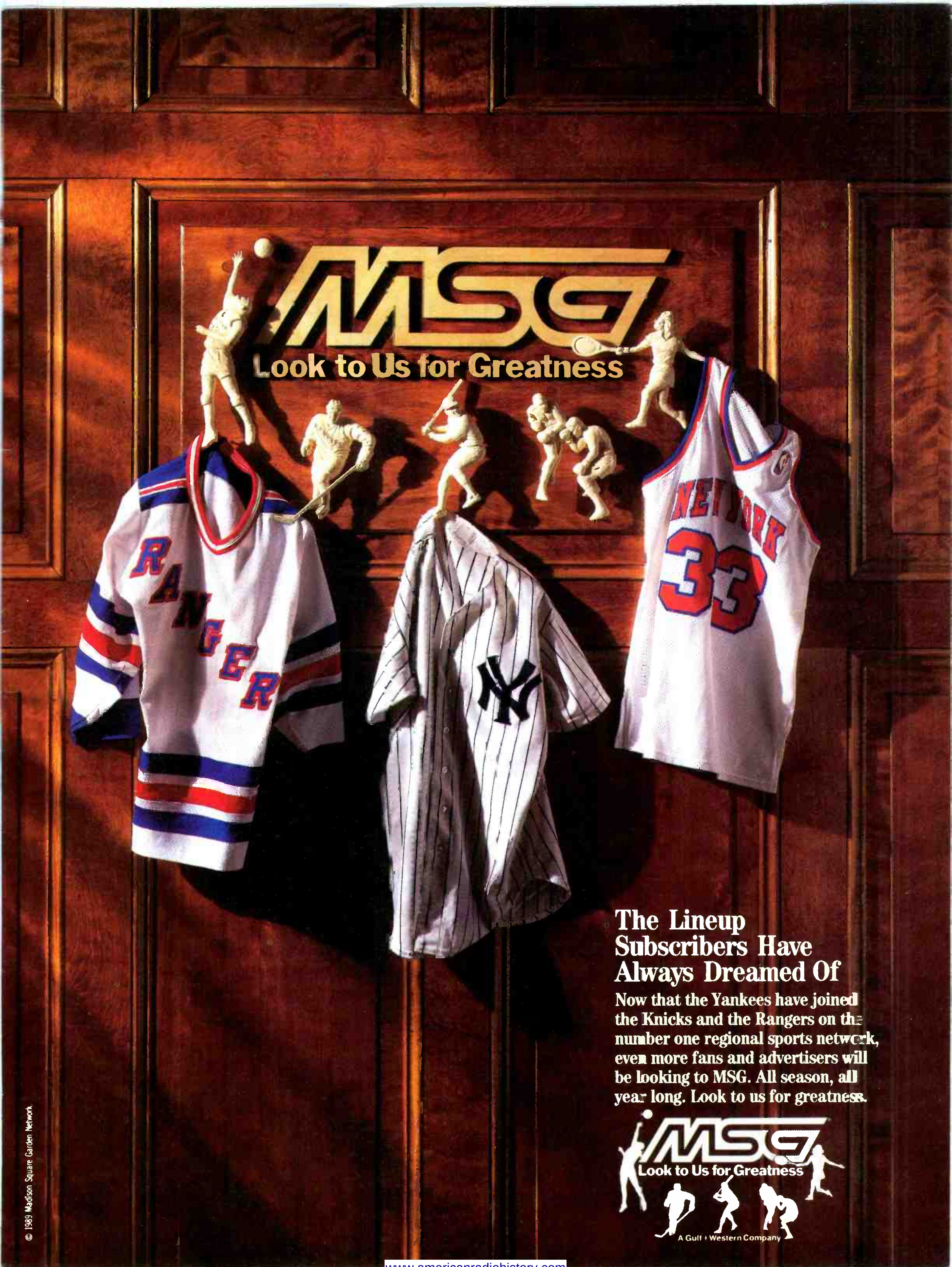
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PUBLISHER'S NOTE

Enhancing Value

As the cable industry gathers in Dallas for its annual national show, the business faces both a host of opportunities and a growing list of problems. Although subscriber growth rates are strong, cable network revenues are continuing to climb and system values are soaring, the industry faces a new agenda of political, marketing and service questions which potentially threaten an otherwise rosy prognosis in a fundamentally robust business.

In Washington, cable's critics are mounting a campaign to reregulate the field, at a time when cable's increasing importance in the marketplace is bringing more and more industry and public attention to the clout all operators have with programmers and viewers. But like so many issues in today's competitive business environment, the industry must do more to market to its audiences, to serve its key publics and grow upon its strengths. The marketing challenges facing the cable industry can be summed up in one notion. Cable needs to enhance perceived values. For networks, which are increasing subscriber fees to operators in order to fund new programming and additional consumer promotions, it is crucial to recognize and accept that these moves have potentially enormous long-term value in terms of subscriber acquisition and retention. For operators, the objective is to build the value of cable service in the mind of the consumer despite escalating basic service rates. On the advertising front, both networks and local systems face a common challenge of establishing the desirability of the cable audience.

Channels recognizes the substantive information needs of today's cable professionals. Throughout 1989, *Channels* has featured and will continue to offer special reports such as our March In Focus package on the big MSO's new directions. Two months ago, we reported extensively on the cable advertising challenge. Last month, we told you of the growing plans and pains faced by MTV Networks Inc.

This issue features an important cover story on the thinking of TCI's John Malone, a look at 10 emerging figures in cable to keep your eye on and two companies that have been around for a while but which contain a portfolio of new ideas—Cablevision Systems and Black Entertainment Television. Later this year, *Channels* will feature an in-depth report on the latest trends and developments in cable marketing and an accompanying package of up-to-date information on the New Season, destined to be a vital one for cable networks.

We believe cable professionals need to be aware of the television marketplace as a whole. *Channels* is proud of the fact that in both our editorial focus and our marketing efforts we've long recognized the development of an increasingly unified television industry. Our editorial coverage and our ad sales development on both fronts have received widespread acceptance across all TV industry segments. Our challenge—and yours—is to keep pace with a business changing as rapidly as any in the American economy.

Joel A. Berger

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HBO/MAX
203

Is it TV's 50th Birthday Or Not?

Smithsonian helps prolong myths of TV's early history.

David Sarnoff dedicating the RCA building at the 1939 World's Fair: A disputed 'debut' for TV.

The legend of television goes like this: There was no single inventor, but RCA's Dr. Vladimir Zworykin was the primary "father of TV." And RCA went on to officially introduce television at the 1939 World's Fair.

Alas, like most legends, it is untrue. Nevertheless, the Smithsonian Institution, in a year-long exhibit that opened in April, puts its imprimatur on the legend with "American Television from the Fair to the Family, 1939-1989." The exhibit was suggested and paid for by the Electronic Industries Association (EIA), a manufacturers trade group that declared 1989 "the official 'Fifty Years of Television' anniversary year."

Exhibit curator Dr. Larry Bird concedes there is nothing "official" about it. Regular TV broadcasts had occurred before 1939, he acknowledges, and commercial broadcasting didn't begin until 1941. Electronic TV sets were on sale a year before the Fair, and mechanical TVs were available to hobbyists even earlier. Most of the technical milestones were reached in the 1920s. Bird, who gingerly calls the 50th anniversary notion "arguable, perhaps a little arbitrary," avoids the term in the exhibit.

Why, then, did the Smithsonian choose 1939 to commemorate? It didn't. The EIA, anxious as any trade group for an anniversary to celebrate, set the dates. Though Bird says the EIA had no other editorial input, the exhibit's very framework gives blessing to a misinformation campaign perpetuated for years by powerful EIA member RCA.

Ironically, it is that campaign that is 50 years old. It began in September, 1939, when RCA president David Sarnoff conceded defeat in his war with maverick inventor Philo Farnsworth. Farnsworth had beaten RCA to an all-electronic television system. After nearly a decade of failing to buy Farnsworth out or wear him down through litigation, RCA was forced—for the first time in its history—to take a license and pay royalties. Broadcast historian Eric Barnouw wrote: "The RCA attorney is said to have had tears in his eyes as he signed the contract."

Farnsworth and team had created the world's first electronic television system—utilizing electronic image-scanning—in 1927, three years before Zworykin even joined RCA. Zworykin, while working for Westinghouse in 1923, had invented a crude TV-camera tube that scanned optical, not electronic, images. Many accounts erroneously call this the Iconoscope, the revolutionary electronic tube that Zworykin didn't actually invent until 1931. While the Iconoscope and a companion TV receiver, the Kinescope, were both important inventions, it was Farnsworth's creation of the first all-*electronic* system—with elements still used to this day—that was the true breakthrough.

The facts were given a thorough airing in the landmark 1932 patent-interference case *Farnsworth v. Zworykin*. When court after court agreed that Farnsworth should receive primacy for electronic TV, RCA decided to render Farnsworth a non-person.

The current edition of Encyclopedia Americana virtually dismisses Farnsworth in "Development of Television Equipment," an article written by one Edward G. Ramberg—an RCA employee who co-wrote with Zworykin a book about TV. At the RCA research library in Princeton, N.J., no mention of the court battles or the licensing agreement can be found. One typical RCA promotional booklet baldly claims that Zworykin's Iconoscope "meant the end of mechanical scanning"—an outright lie that buries the earlier Farnsworth inventions that did that very thing. RCA's story has been so pervasive that the Encyclopedia Britannica gives Farnsworth but one sentence—and calls Zworykin "the father of television."

The EIA sidesteps the issue by asserting that "Fifty Years of Television" refers only to a half-century of regular public broadcasts. Yet from 1931 to 1933, New York City's W2XAB, the forerunner of WCBS, aired several hours of variety shows each week.

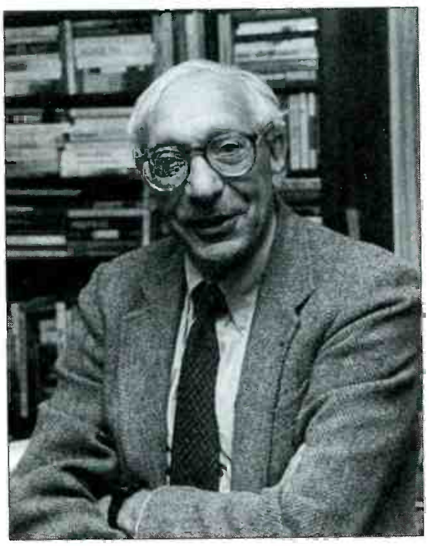
The EIA's exhibit includes one more thing: a 28-minute video, *The Electronic Dream: 50 Years of Television*. The EIA, which had script approval, calls it "a documentary"; producer Taylor Rickard, sensitive to journalistic standards, calls it simply "a coffee-table book on video." Either way, it's on sale at the Smithsonian—a further reinforcement to the general public that when it comes to the history of TV, nothing important happened before RCA said it did. FRANK LOVECE

PHOTOGRAPH BY PHOTOFEST

The Nieman Foundation at 50: The Curator Critiques Television News

Howard Simons rues the training of 'pure electronic babies.'

Since a bequest to Harvard University in the late 1930s by Agnes Wahl Nieman in memory of her husband Lucius, the founder and publisher of *The Milwaukee Journal*, more than 800 journalists from all over the world have taken time off from their jobs to spend a year at the university pursuing a course of independent study



Simons: Everybody wants to be Dan Rather.

as recipients of the Nieman Foundation fellowships.

In this, the 50th anniversary year of the Nieman Foundation, *Channels* editors discussed with Howard Simons, the curator since 1984 and former *Washington Post* managing editor, his views on the state of television news.

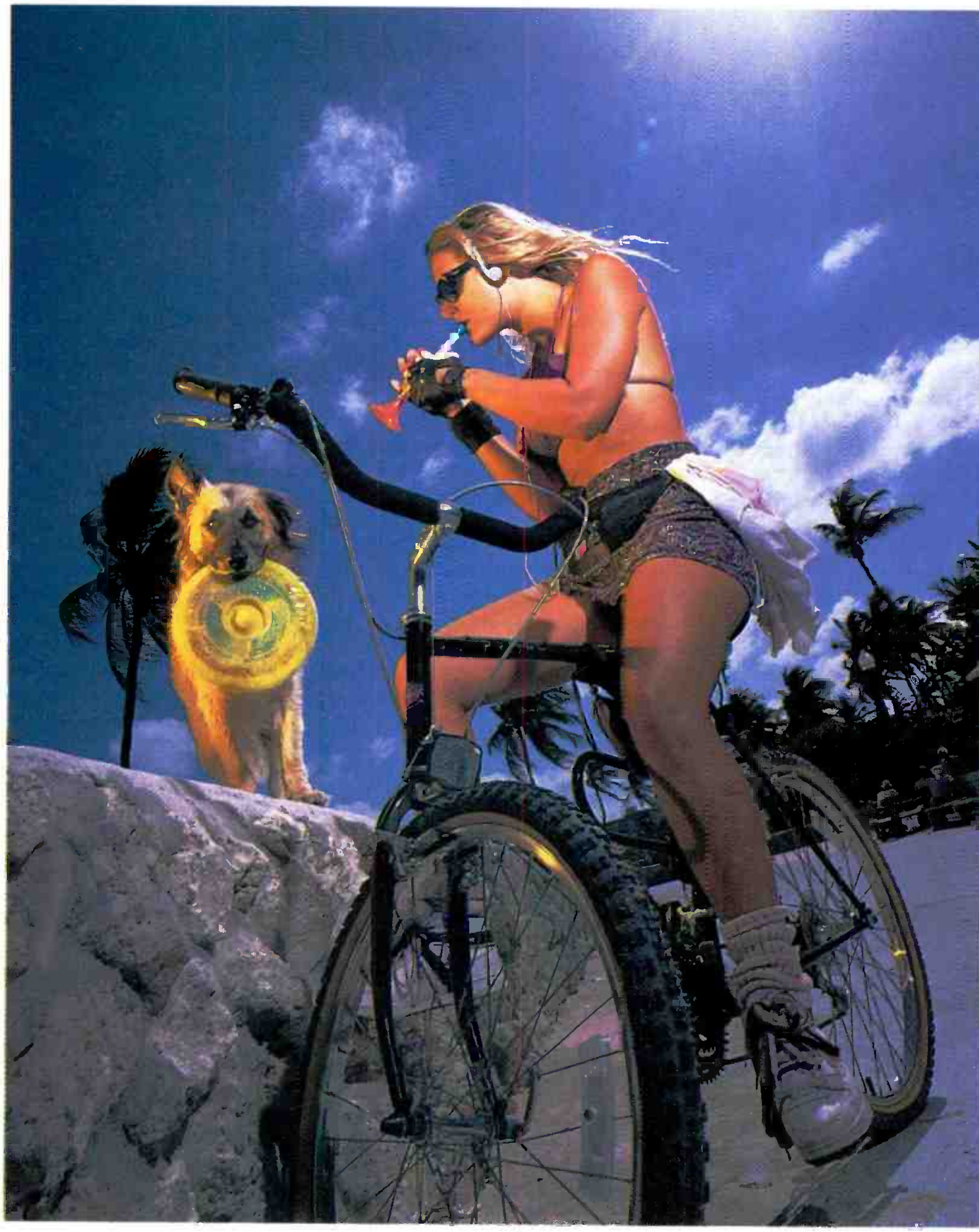
Says Simons, who is charged with helping educate the cream of the nation's journalistic community: "I thought TV news was much better when people came out of print and went into TV, when the networks and local stations all hired people with print experience." Simons argues, "If you work at many newspapers, whether you absorb it or not, there is a certain degree of conversation about ethics and conflicts of interest. I think pure electronic babies, which is now what's happening—a whole generation coming up without any print experience at all—is not healthy for the press. I think they march to a totally different drummer, in ethics and in other things that bother me. I don't think they have the street smarts; I don't think they're out there hustling; I don't think they know how to write; I don't think there's an eloquence in what they do."

Simons is also bothered by the star system in TV news. "Broadcast journalism in journalism schools reminds me very much of basketball, where every ghetto kid is out throwing a ball through the hoop, hoping to become Magic [Johnson]. Everybody wants to be Dan Rather and sign $3 million contracts. Except, what's the average pay in TV journalism? It's $20,000. But you only hear about the $3 million."

And he rues the passing of radio news and its role as a farm system for TV news. "Radio news used to be a wonderful place to start out, sort of like a small newspaper. That's all gone now. There are very few radio stations left in the U.S. with their own local news component. It's all gone, so that training ground has disappeared too."

Simons makes these predictions: "If I live to the year 2000, my guess is that *Newsweek* would be dead or owned by somebody else and diminished. And my guess is that CBS would be dead. NBC and ABC, having survived, will be the AP and the UPI of news for all the superstations like WCCO and WBZ and whatever. So that I may take Rather and Jennings for two minutes each on this story and that story, and put my own people in between and say the hell with you. That's all I really want from you tonight." PETER AINSLIE

Nobody understands them...



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What's On

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Tiny Telco Takeover?

by Richard Katz

JUNE 17-23: Over 30,000 invited guests and 2,500 registrants converge in Montreux, the beautiful French-speaking Swiss town on the banks of Lake Geneva, for the 16th **International Television Symposium and Technical Exhibition.** "Sandwiched in the middle of the symposium," says **Julius Barnathan**, president of broadcast management and engineering for **Cap Cities/ABC** and a member of the symposium committee, "is what they call the **Electronic Cinema Festival**, hopefully getting people interested in electronic cinematography." The cinema festival is co-chaired by **Francis Ford Coppola** and includes fellow director **Jean-Luc Godard**.

. . . .

JUNE 21-24: The **Broadcast Promotion and Marketing Executives/Broadcast Designers Association annual seminar** meets in Detroit. This year's BPME/BDA features a concerted outreach to cable in the convention seminars, which include "Madison Avenue Goes Motown," chaired by **Lloyd Trufelman**, director of communications for the **Cabletelevision Advertising Bureau**.

. . . .

JUNE 25: Nancy Reagan's "Just Say No" campaign seems to be losing no steam as the '90s approach, and it is keeping pressure on broadcasters to rein-in alcohol advertising. Beer sponsorship of television shows, such as **ABC's Schlitz Malt Liquor Professional Boxing Series**, which airs today, could become targets for those in favor of TV temperance. ABC officials say they aren't aware of any complaints about beer companies sponsoring their programs, but organizations such as the **Center for Science in the Public Interest**, based in Washington, D.C., are keeping a close watch on the situation. "We don't advocate an overall ban on alcohol advertising," says CSPI spokesperson **Karen Lieberman**. "However, we do feel there are certain instances where alcohol advertising should be prohibited, and one is sponsorship of sporting events—especially something like a car race." CSPI has not taken any direct action against the network, but Lieberman says it supports gestures like the **NCAA** proposal to limit alcohol ads during post-season college basketball broadcasts.

. . . .

JUNE 26-28: The **New York State Commission on Cable Television** holds its annual technical seminar and trade show in Lake George. **Bob Levy**, seminar chairman, expects 30 exhibitors and over 300 attendees at this year's show. Rebuilding cable systems and telco involvement in cable are hot topics this year, and **Bill Grant**, a consultant who has written books on cable and fiber optics, will speak about private phone companies that can legally get into cable now. "There are about 1,500 privately owned telephone companies in the U.S.," says Grant, "and many are in uncabled communities. I think these companies will be considering going into small cable systems, franchises with 300 homes." Grant worries that unless cable operators reconsider wiring those communities, the telephone companies will use them as a way into the business. "I hope to lead [them] more positively toward the practicality of these small systems as a defense mechanism against the telephone companies," says Grant.

JULY 14: The **Arts & Entertainment Network** continues in its quest for the utopian global community with its live coverage of the bicentennial festivities of **Bastille Day** in Paris. This French bicentennial salute follows on the heels of last year's "Australia Live! A Bicentennial Celebration," a five-hour feed from down under. A&E is also planning a month-long celebration of the People's Republic of China this October featuring live coverage from China. **Carolyn Reynolds**, director of programming, performing-arts at A&E, says the network is airing five hours of the celebration (on which the French government has spent $15 million) live from Paris. A&E will be airing French programming all month with shows ranging from the comedy *La Cage aux Folles* and French Revolution documentaries to the opera *Andrea Chenier*, an epic story set before and during the bloody revolution, starring **Placido Domingo**. The live coverage will include a military parade, floats, fireworks and a huge event called **Le Marsellaise**, which Reynolds describes as a "performance parade." Some 50 heads of state and 1,000 mayors of the world's largest cities are expected to attend. "It's going to be quite a hoo-ha," adds Reynolds. ●

CALENDAR

June 15: Association of National Advertisers Corporate Communications Workshop. Plaza Hotel, New York City. Contact: Renee Paley, (212) 697-5950.

June 15-18: Society of Cable Television Engineers convention. Orange County Convention Center, Orlando, Florida. Contact: Anna Riker, (215) 363-6888.

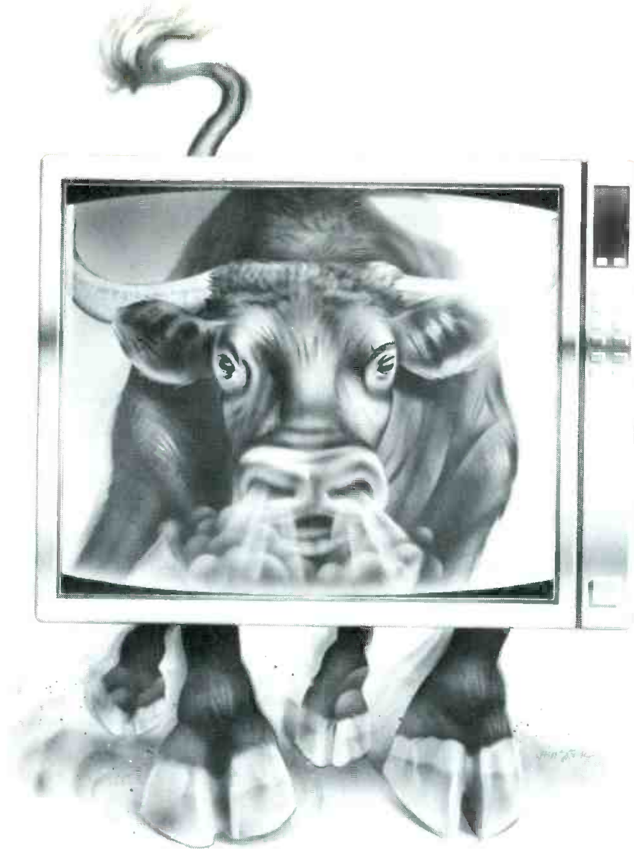
June 15-18: NATPE management seminar, "The Use of Microcomputers in Station Management." Princess Resort on Mission Bay, San Diego. Contact Jane Wallace Yollin, (213) 654-5910.

June 17-23: 16th International Television Symposium. Montreux, Switzerland. Contact: Michael Ferla, 41-21 963-3220.

June 19-21: Videotex Industry Association conference, "Services '89, Building Mass Markets–A Business Development Forum." Fairmont Hotel, San Francisco. Contact: Robert Smith, (703) 522-0883.

June 21-24: Broadcast Designers' Association/Broadcast Promotion and Marketing Executives 33rd annual seminar. Cobo Hall Convention Center, Detroit. Contact: Russell Smith, (415) 788-2324.

June 26-28: Annual technical seminar and trade show sponsored by the New York State Commission on Cable Television and the Society of Cable TV Engineers. Roaring Brook Ranch Resort, Lake George, New York. Contact: Bob Levy, (518) 474-1324.



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Picking Up the Pieces

by John Flinn

Free—and forced—to experiment, CBS found a strong new promotional voice.

Last fall could have been a promotion disaster for CBS. The network's new-season package, unveiled to affiliates in June at the annual meeting of the Broadcast Promotion and Marketing Executives, was soundly rejected. In August, George Schweitzer, a 15-year veteran of the network before leaving in 1987 to go to Young & Rubicam, returned to CBS and started building a fall campaign from scratch. He had the help of West Coast-based Michael Mischler, v.p./advertising and promotion, who rejoined the company from King World and had once worked at KCBS in Los Angeles. Schweitzer, CBS Broadcast Group senior v.p./communications, recalls, "We came in inheriting no campaign, but we also inherited no season, because of the writers' strike. That gave us an opportunity to scramble and try some things without the world falling apart."

Some stations had already abandoned the network's promotions and created their own fall campaigns, buying animation and music from outside vendors. Mischler responded by making sure that each element of the revised network graphics package was made available to local stations at no charge. "That was the initial peace pipe," he says, "to at least get everybody around the table and talking about how to fix things."

The result? Not perfect harmony, but a season that brought some much needed excitement to the network: hits such as *Murphy Brown*, unexpected victories such as *Lonesome Dove* and an advertising and promotion effort that is being noticed by advertisers and viewers alike. More important, both Schweitzer and Mischler learned some lessons that they've assiduously applied to the new season's campaign.

As CBS and its affiliate promotion managers meet again at BPME in late June, neither group should get an unpleasant surprise. The new fall campaign was designed in close consort with an affiliate advisory caucus of promotion executives—a first for CBS—because, Mischler notes, "We had to start listening to our affiliates again."

Schweitzer describes the network image campaign as two-tiered, with an initial thrust to inject some hype back into new-season premieres and then an effort to sell individual shows to viewers. The theme, "Get Ready," is an evolution of last year's understated "Are You Ready?" tag line (as in, "Are you ready for *Wiseguy*?"). Says Schweitzer, "This year we're using a much more direct, anticipation-oriented theme: Get Ready for CBS, Get Ready for *Murphy Brown*, Get Ready for Channel 2."

While at King World, Mischler was impressed with the syndicator's aggressiveness in helping local stations. "The syndication arena works market by market, and solves problems on a case-by-case basis," he says. "Network TV has tended to look at the whole, rather than saying, 'We have a situation in New York that's distinctly different from our situation in Los Angeles or in Chicago,' right on through the affiliate body."

Without making a wholesale change, CBS has become more market-focused this past year, buying space in airports or on outdoor billboards in certain cities to bring visibility to the network. It also went after specific demographics with the targeted aggressiveness usually displayed only by cable networks, creating what Schweitzer calls an "attitude campaign" with New York agency Grybauskas, Moss and Overall and running it in "influencer media" such as *Esquire*, *Vanity Fair* and *L.A. Style*. The print ads, for *Murphy Brown*, *Wiseguy* and *Beauty and the Beast* used sharp copy and enticing photographs to capture the essence of each show. Schweitzer says, "We wanted the take-away to be, 'Wow, this is an ad from CBS? That's surprising.' It really made an impact—it got people talking, and it took us to another level of TV advertising. It wasn't, 'Watch *Wiseguy* tonight at 10.' "

CBS will use a variation of the strategy for the coming season, but only as long as it remains fresh and unpredictable. One of the lessons learned from last fall's scrambling, Schweitzer says, "is that we like the flexibility of being able to turn on a dime in creating new kinds of spots and techniques to promote shows individually." Such thinking is a holdover from his Y&R days, but it ties in to Mischler's case-by-case style. "If you liken this to a General Foods or a Colgate," says Schweitzer, "we have 66 different brands at CBS—66 programs of news, sports and entertainment—each week. We have to pay attention to all of them." ●

From the GBO-produced *Murphy Brown* print ad: Wanting people to say, 'Wow, that's from CBS?'


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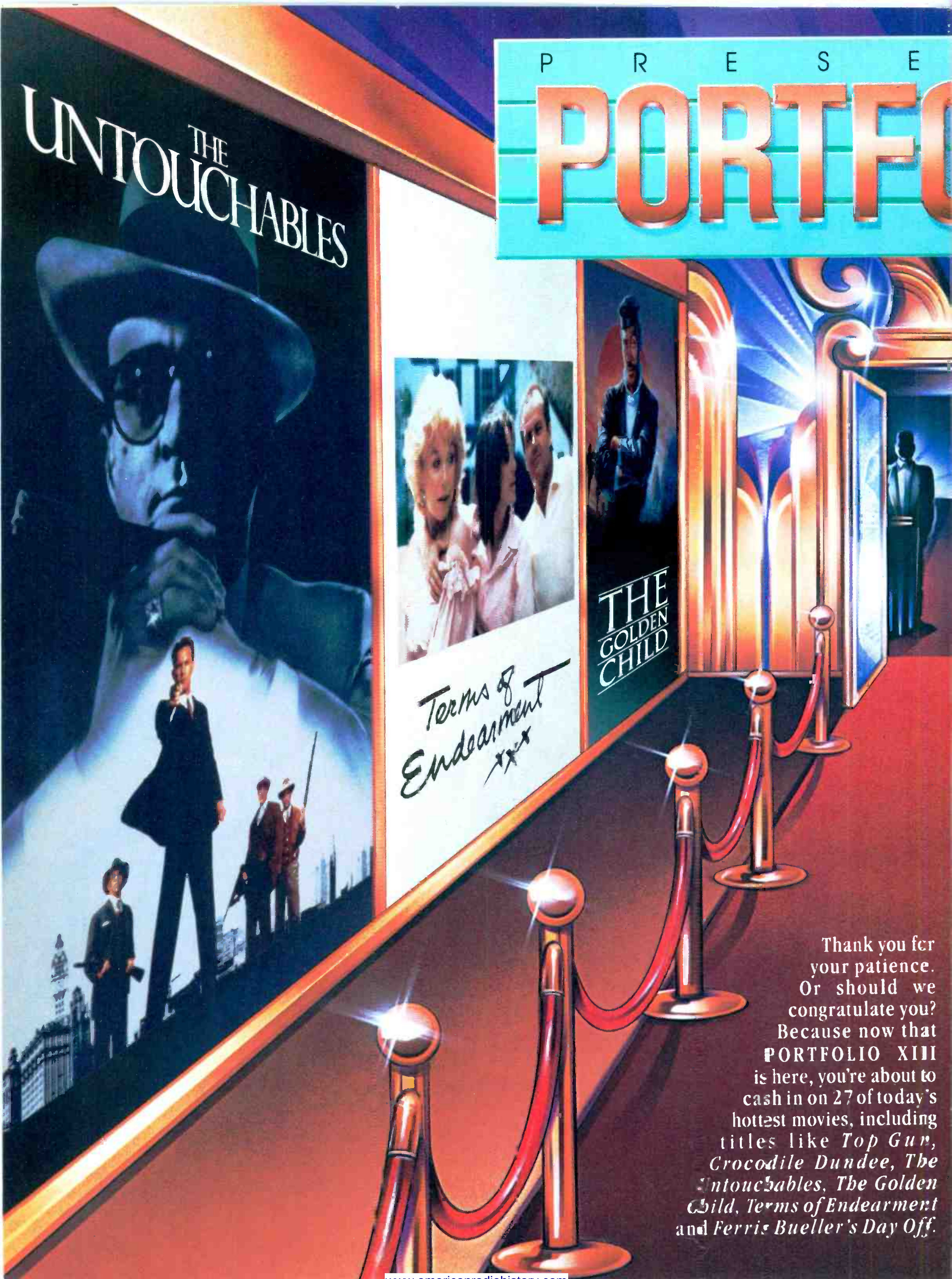
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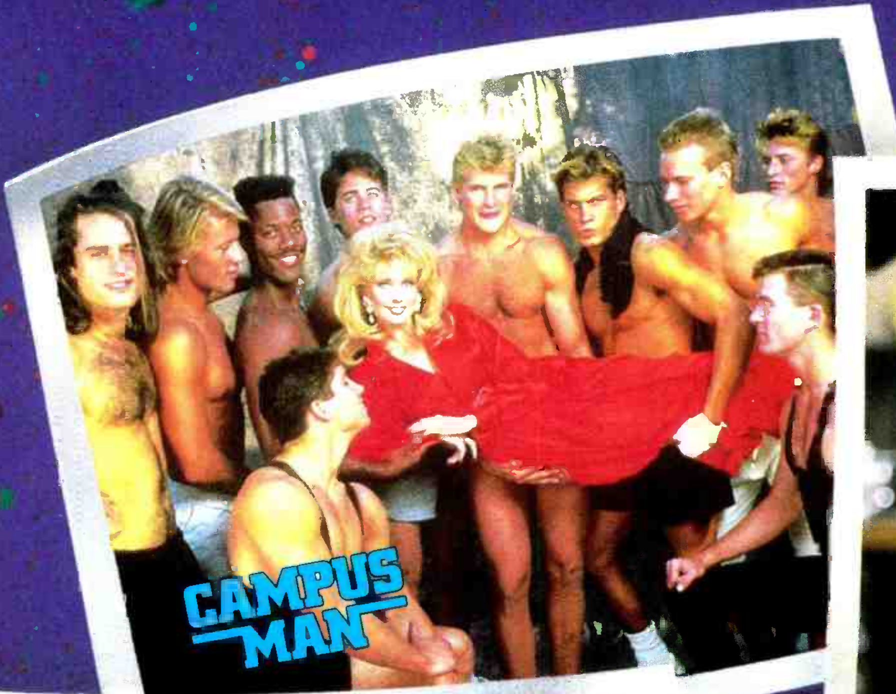

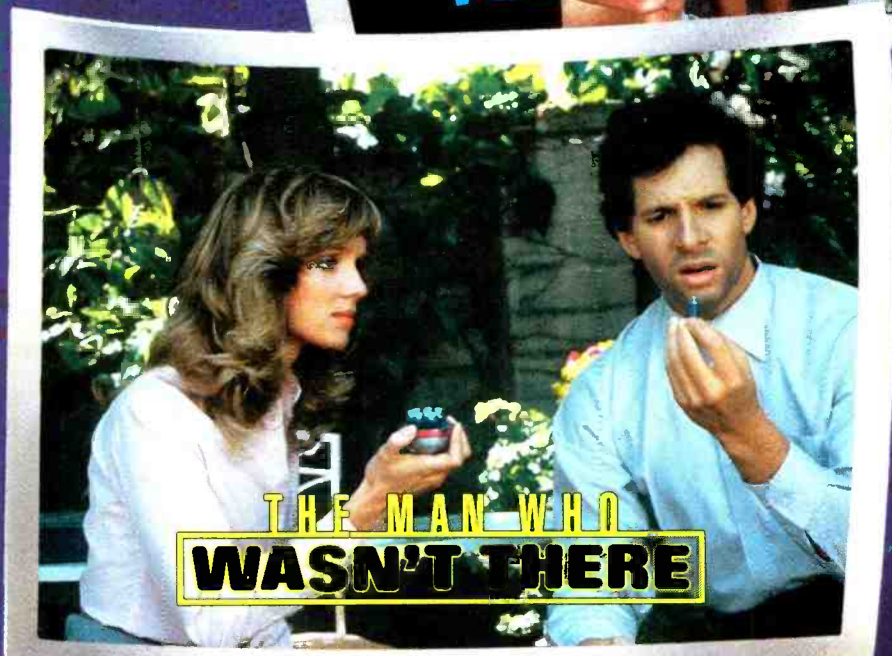

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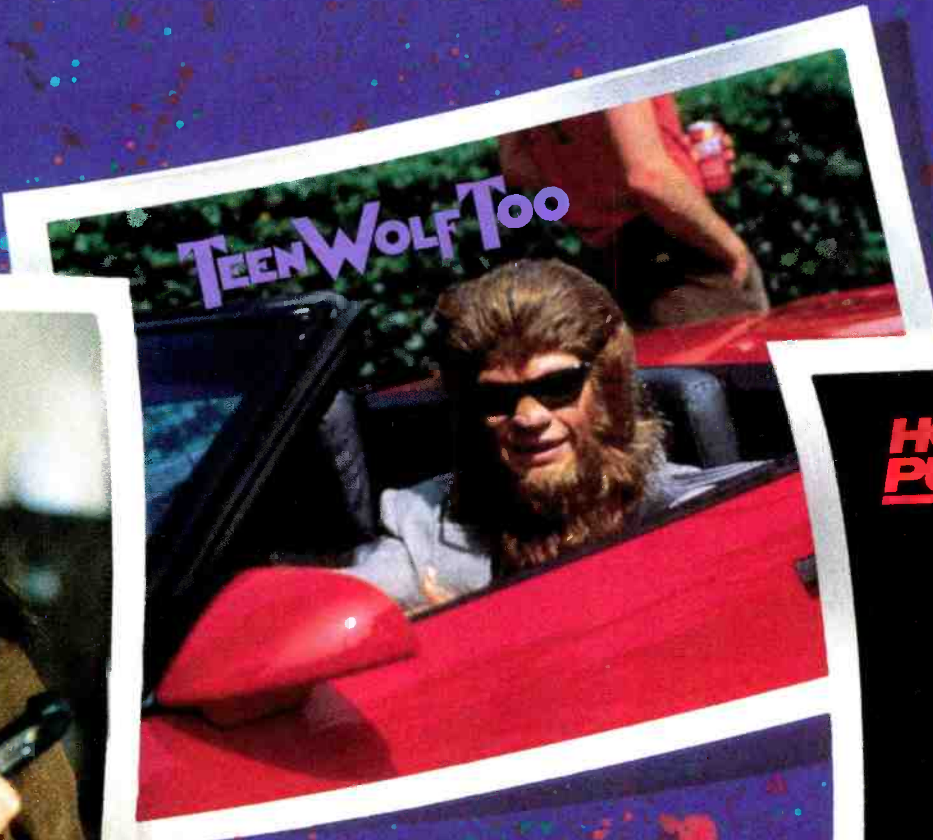

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television–*April Fool's Day, Hot Pursuit* and *Campus Man,* just to name a few. This package also delivers the stars younger audiences flock to see, like Dean Stockwell, Morgan Fairchild, Steve Guttenberg and Virginia Madsen. So get your hands on Paramount's PREVIEW IV.

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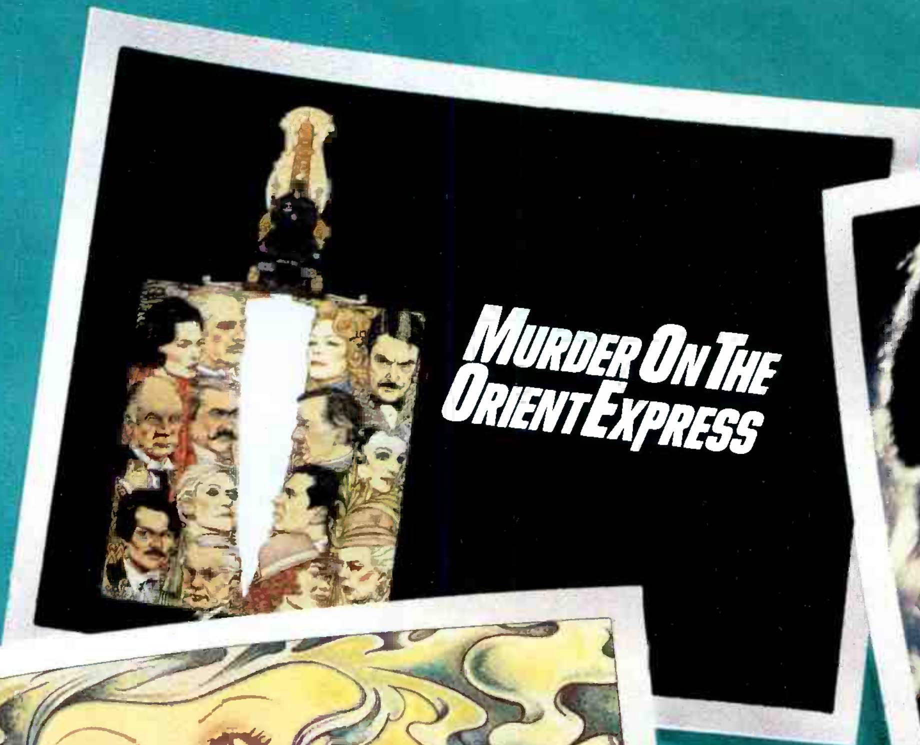

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prime time and weekends during sweeps. Just look at these titles–*To Catch A Thief*, *The Man Who Shot Liberty Valance*, *Donovan's Reef* and *Hud*. This package even has six Jerry Lewis favorites. Paramount's SPECIAL EDITION III. Fifty-five films that are not just endearing, they're enduring.

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L.A. Goes Hispanic

by Kirsten Beck

A new Latin beat permeates airwaves KMEX dominated for a quarter of a century.

For the last 25 years, Daniel Villanueva has been beating the drum for Spanish-language television in his role as general manager of KMEX, Los Angeles' oldest and most successful Latino station. So it is in some ways ironic that just as the genre is gaining momentum, Villanueva is retiring. Villanueva's TV career seems to have paralleled the growth in size and influence of the country's Hispanic population: When he started in the business in 1964, Villanueva knew little about TV. Likewise, the Hispanic population in the U.S. (and in L.A.) seemed of little significance back then. Now, as Villanueva hands over the KMEX reins to 35-year-old Emilio Nicolas Jr., the station's new general manager, Spanish-language TV executives and marketers are finally getting their message across: The Hispanic population in the U.S. is growing dramatically, and it is a group that's hungry for programming and primed for advertisers.

Nowhere in the country, except for Miami, is this message more true than in Los Angeles, where the Spanish-speaking population numbers a documented 3.8 million—nearly 40 percent of the L.A. metropolitan area's total. Many believe the count could be as high as 5 million. And there is no shortage of media outlets competing for L.A. Hispanics' attention. Two prominent Latino stations—Villanueva's KMEX, owned by Univision (which is owned by Hallmark Cards Inc.) and KVEA, owned by Telemundo (which is owned by Reliance Capital Corp.)—already battle it out for audience. A third, KWHY (owned by Harriscope of Los Angeles Inc.) is changing over to Spanish-language programming for half of its broadcast day. A fourth, L.A.'s newest station, KSLD, was scheduled to bow as a Latino station last spring but changed plans at the last minute, claiming it was unable to secure enough programming (the station instead carries home shopping). In addition, seven Anglo broadcasters are simulcasting portions of their programming in Spanish, and Tribune-owned KTLA simulcast the U.S.'s first bilingual commercial last fall.

The sheer amount of Spanish-language TV in L.A. implies that advertisers and programmers have recognized the potential of the untapped Hispanic market. On the other hand, there is still no generally accepted ratings methodology to accurately measure the Hispanic audience, which is inhibiting these stations' ability to attract major advertisers.

KMEX is the granddaddy Spanish-language station in Los Angeles, with over 25 years of successful operation in the market to its credit—years in which it has honed its business acumen and kept at bay eight TV rivals that tried to make it in the L.A. metro area, but failed. Then, three and a half years ago, KVEA came along. As in most situations where an upstart challenges an established old-liner, KVEA has forced KMEX to compete for perhaps the first time in its history. But the challenge also proved something surprising to both stations: that the L.A. market can support two Spanish-language stations, and probably a third, quite comfortably.

According to KVEA's Stephen Levin, v.p. and g.m., his station has already achieved operating profitability. Last year, Levin says, revenue growth was threefold; this year he expects 100 percent growth. Part of the reason for the station's quick success, he says, is its aggressive blending of traditional community outreach with contemporary merchandising and promotion. Both factors have combined to capture the attention of the viewing and advertising communities.

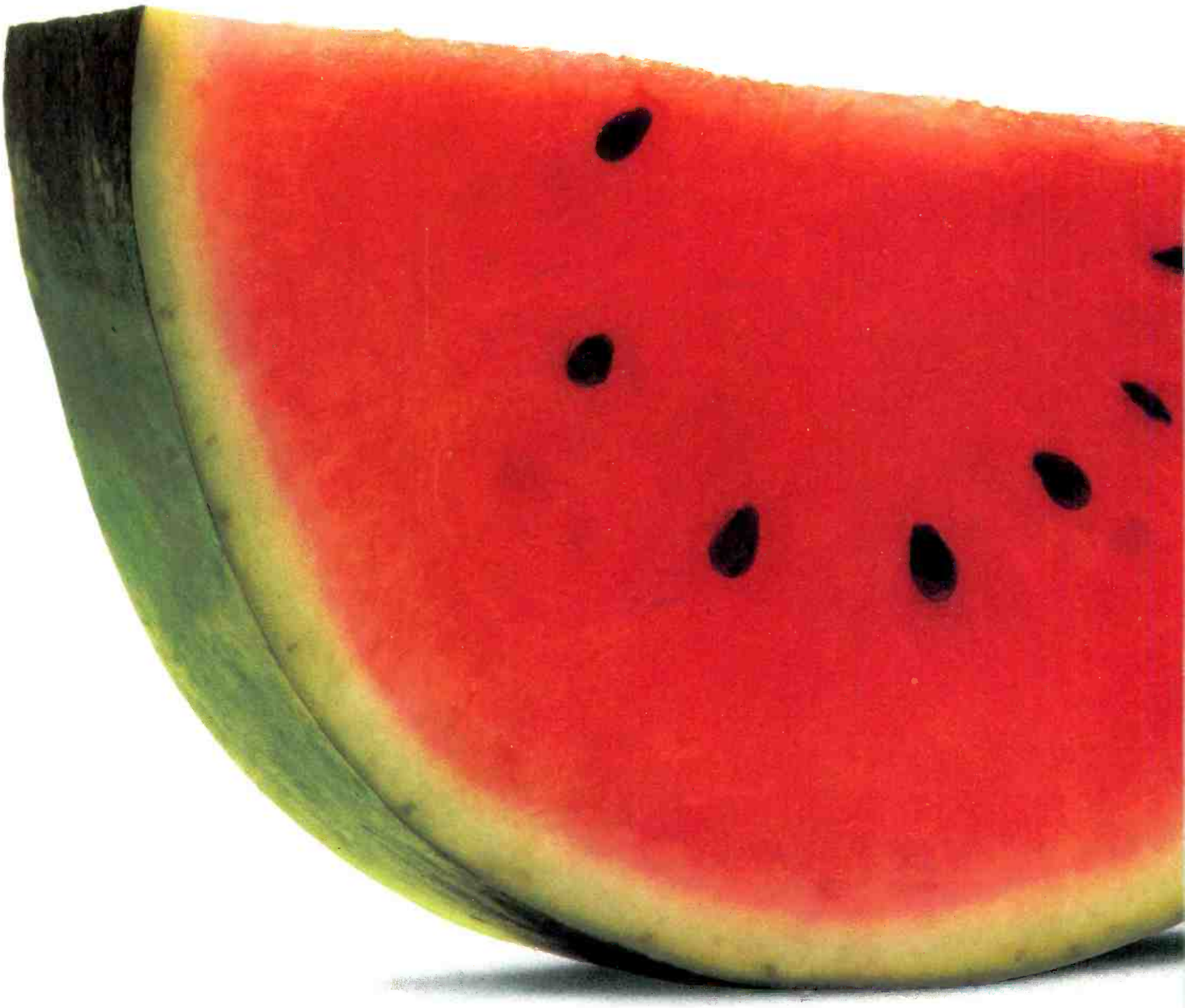
That's not to say that KVEA has been as strong, or its ratings as consistent, as KMEX (see chart). But merchandising and heavy promotional campaigns have heightened awareness of the station and worked well in selling it to its audience and to advertisers. For example, KVEA sponsors a host of community events, such as the staging of the traditional Mexican celebration "Cinco de Mayo," commemorating in music and dance Mexico's triumph over the French at the Battle of Puebla. The events are heavily promoted on the station and in print and radio ads. KVEA also designs contests around many of the events. Such tie-ins with the community have a dual purpose, says Levin. They involve the audience with the station, keeping it and its programming top of mind. They also give advertisers added exposure, making them more comfortable about buying time on the market's number two Spanish-language station.

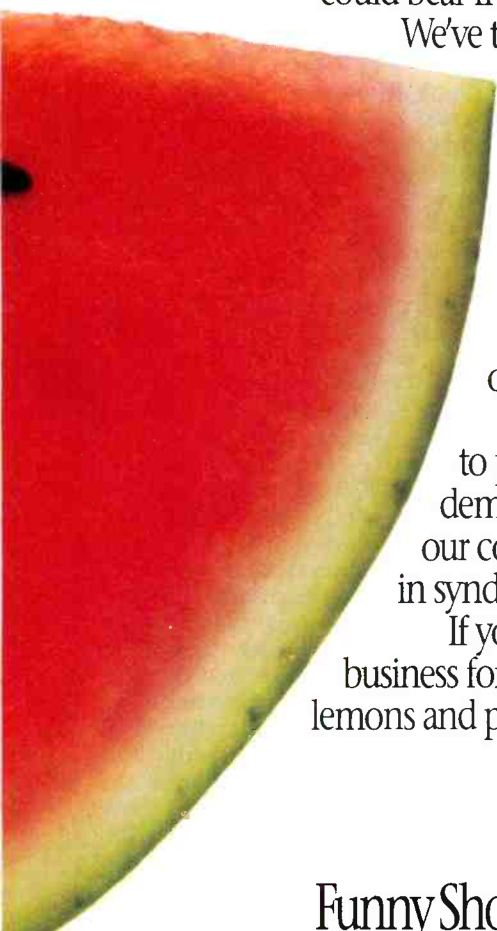
As the market's old-timer, KMEX hasn't had to resort to heavy promotion to establish itself in the community's consciousness, according to Levin. The Hispanic community knows KMEX, and the station leverages its ad rates based on the audience it delivers. But that hasn't meant that KMEX is too old to learn new tricks, or that it doesn't realize—especially as Spanish-language TV gains viewers and respectability—that it has to promote to hold its place in the market. In fact, Craig Kinney, KMEX general sales manager, insists KMEX matches KVEA's promotional and merchandising efforts.

Villanueva admits that KVEA has made inroads into KMEX's audience, and that it caused major changes within KMEX. The competitive spirit has been most visible in each station's local news shows. When KVEA produced live coverage of the Salvadorean earthquake in 1986, says Reuben Martinez who covers Latino affairs for *L.A. Weekly*, it at-

Why Some Hit Sitcoms Sour In Syndication.

And Others Get Sweeter And Sweeter Over Time.





It's not funny when a juicy network sitcom turns into a lemon once it's stripped. But a Warner Bros. comedy could bear fruit for years to come.

We've taken a look at 12 years of off-network comedies. Both the hits and the misses. And we've identified the ingredients that make a show a winner.

It's not just high network ratings. It's demographics. Simply put, for a prime time hit to work in syndication, its network audience must be made up of the same type of viewers that watch sitcoms five days a week.

Knowing what makes a hit a hit, we strive to produce network shows that appeal to the demographics needed for stripping success. So our comedy hits on network now will also be hits in syndication later.

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GROWING PAINS

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NIGHT COURT

PERFECT STRANGERS

tracted a new group of viewers and set a new tempo in the battle between the two stations for the news audience.

At the same time, KVEA capitalized on the attention it created by beefing up promotions for its 6 P.M. news. The station still runs a series of teaser spots each day before the evening news. Scheduled stories are promoted during prime time via a live tie-in with an Hispanic radio station. Following the news, a spot announces, "If you had watched the 6 o'clock news, you would have seen this ... Watch at 11." A similar reminder runs late night and the next morning. In addition, a ten-second promo airs every 15 minutes reminding viewers: "You are watching 52. Remember it. Write it down." As Levin says, "You can't sneak into the L.A. market and succeed."

HABLAMOS ESPAÑOL

Market Rank: 2 (Arbitron) Cable penetration: 44% VCR penetration: 70%

STATION / OWNER	PRIME TIME AVG. RATING / SHARE*	SIGN-ON TO SIGN-OFF AVG. RATING / SHARE
KABC (ABC)** Cap Cities/ABC Inc.	10/17	5/15
KCBS (CBS)** CBS Inc.	10/17	5/13
KCOP (IND)** Chris-Craft Industries Inc.	4/7	3/9
KHJ (IND)** RKO General Inc.	3/5	3/8
KMEX (UNIVS'N)*** Univision Station Group Inc.	3/4	1/4
KNBC (NBC)** National Broadcasting Co. Inc.	14/23	6/17
KTLA (IND)** Tribune Broadcasting Co.	6/10	4/10
KTTV (IND)** Fox Television Stations Inc.	5/8	3/9
KVEA (T'MUNDO)*** Telemundo Group Inc.	1/2	1/2
KWHY (IND)† Harriscope Corp.	—	—

*Monday-Saturday, 8-11 P.M.; Sunday, 7-11 P.M.
**Station simulcasts some programming in Spanish.
***Spanish language station.
†Broadcasts The Business Channel 6 A.M.-3 P.M. weekdays; Galavision 3 P.M.-2 A.M. and 10 A.M.-sign off Saturday-Sunday.
All ratings, cable and VCR information courtesy of Arbitron, February 1989.

KVEA's local evening news ratings now closely tail KMEX's, and that has caused KMEX to reassess its coverage. Says Villanueva: "KMEX was built on a bedrock of news, even received a Peabody in 1970, but we moved away from it for a while. KVEA's presence made us beef it up and do things we'd never done before, like live coverage of the Mexican elections."

Besides refocusing on news, KMEX increased and redirected its staff, partly as a result of KVEA's onslaught and partly because the advertising community was beginning to take Spanish-language broadcasters more seriously. Suddenly, advertisers wanted better ratings and demographic information on Spanish-language programming and its audience. For the first time, KMEX created an advertising budget and installed creative-affairs and research departments. "We used to sell on emotion, on perception, on results," says Villanueva. "We had to scramble to change gears and get people who could sell the numbers." Marketing efforts were sharpened and intensified. One executive, for example, now works full time just with grocers.

Though the dollars spent on advertising to Hispanics in L.A. have grown dramatically—from $16 million in 1983 to $67 million in 1988—growth slowed in 1988, according to *Hispanic Business* magazine. The magazine also says that advertisers are telling Spanish-language station executives that without better ratings and demographic information, they will continue to get less than a $7 CPM (cost per thousand) for prime time programming, compared with the $10 CPM paid for network prime time.

KMEX and KVEA may compete head-to-head on a local basis, but nationally the two Spanish-language networks that own the stations—Univision and Telemundo—have a common goal: To provide a more accurate picture of the size and makeup of the Hispanic audience to get ad dollars more fairly distributed. After pressuring Arbitron to no avail for a better reading of the Spanish-speaking market, the networks commissioned Strategy Research Corp. (SRC) to conduct surveys of the audience. But advertisers won't use the SRC research, claiming the results are inflated. So the networks have jointly funded creation of an Hispanic peoplemeter system, to be run by A.C. Nielsen and tested this year in Los Angeles.

Though Hispanic stations in L.A. haven't yet been able to maximize ad revenues, that hasn't kept others from jumping into the market in hopes of cashing in on what could eventually be a big payoff. That's what KWHY is counting on. The Harriscope station carries "The Business Channel," with 50 percent paid, business-related programming, from 6 A.M. until 3 P.M. each weekday. Afternoons, evenings and weekends, its airwaves had been leased to subscription television company SelecTV. When SelecTV went into bankruptcy earlier this year, Harriscope needed a replacement with growth potential and chose Spanish-language programming. Station president and COO Burt Harris Jr. sees change coming to L.A. "Nothing's for sure," he says, "but there will probably be growth in the Hispanic market."

Harris had considered signing on as an independent, but concluded that the cost—an estimated $100 million for the first year—was prohibitive. Instead, he arranged a barter deal with Univisa Inc., a U.S.-based company owned by principals of Mexican broadcaster Televisa, to carry Televisa's satellite-delivered Galavision network, which is distributed primarily via cable systems in the U.S. Harris won't reveal the barter terms but says the deal includes more than 4,000 hours of programming per year. He also thinks Televisa product will be well suited to L.A.'s predominantly Mexican Hispanic audience.

Hispanic Telecommunications Group, a rep firm, will handle ad sales for KWHY, and revenues from The Business Channel will continue covering the station's operating expenses. "Even if we don't break even immediately," says Harris, "this is positioning the channel properly for growth over the next three years."

With the enormous potential for Spanish-language television, the major challenge in Los Angeles today appears to be establishing a solid ratings system. That and the creation of original programming specifically for the U.S. Spanish-speaking audience represent the next evolution in the business of Latino TV. ●


"The Life of Riley..."
To Watch it is to Live it!
YOU HAVE TO BE CRAZY TO WORK HERE
THE LIFE OF RILEY
PROGRAM DIRECTOR
"The Life Of Riley," featuring William Bendix and Jackie Gleason as Chester A. Riley is a classic family comedy with just the right appeal that delivers to young adults in daytime, early and late fringe. With 120 episodes for Fall '88, this proven winner offers solid value.
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The Business Side

by Merrill Brown

Awakening Cable

With pressure mounting from broadcasters, Hollywood, government officials and others, it's time for the nation's cable operators to preempt a potential regulatory and business nightmare and assemble a policy response that begins to silence the growing number of critics.

While there's nothing new about criticism of cable from independent stations or Hollywood, the National Association of Broadcasters' recent and passionate call for renewed cable regulation, combined with rising public and political concern about MSO power, suggests that cable had better put its house in order. It may be the case that the political and policy vacuum—and the favored Washington status—that the industry has operated in is collapsing. The risks of reregulation are substantial. A return to more stringent rate regulation, for example, would hamper cable's efficiency and would surely do it harm on Wall Street. Moreover, if the current perception of cable as a bully grows, it can only aid the increasingly savvy and powerful phone lobby in opening the field to new competitive threats, a prospect that raises thorny issues for the entire television industry and for the public.

> Facing growing criticism, the cable industry can head off reregulation by quickly making service and rate pledges.

Political momentum is clearly against cable. Just look at a set of recent events. For the first time, in various regions of the country, the public is becoming aware and concerned about the pivotal role cable operators play in deciding what programming subscribers receive. In the New York suburbs, in Florida, in Southern California and elsewhere, subscribers are balking at decisions by operators and programmers about their access to key local sports events. At the same time, a decision by baseball owners to move regular season national baseball telecasts from NBC to ESPN next season is focusing attention on access to cable. Meanwhile, Sen. Albert Gore (D.-Tenn.), a politician adept at getting attention, has made cable operations—rates, primarily—in Tennessee a vital constituent issue. Another skilled headline-grabber, Sen. Howard Metzenbaum (D.-Ohio), is on a cable-bashing tear built around antitrust issues and cable rate increases. All the signs of an issue gaining significant political momentum are there. And, unlike the days when the cable industry was the popular upstart—the positioning that played so well in getting the industry deregulation legislation in 1984—cable doesn't appear to have too many friends. Combine those citizen and governmental forces with the ubiquitous though not always well utilized clout of broadcasters and phone companies, and it is clear that cable, with fewer and fewer allies, faces a tide of criticism going against its best interests.

How might cable respond? For one thing, it can continue doing what it's been doing, emphasizing whenever possible to a generally unappreciative political world and public that cable's contribution is substantial—C-SPAN, CNN, Nickelodeon, uncut movies, more sports than ever, original and innovative quality programming and so forth. Those contributions go largely unrecognized, especially in the city of Washington, which only recently turned on its first cable service.

But the cable business also has to reach internal consensus about the issues that plague it—must carry, most importantly. Just as broadcasters are having to swallow their ideological pride and at least tacitly buy the congressional commitment to the Fairness Doctrine, cable operators must finally abandon any remaining First Amendment concerns about must carry and lead a coherent, aggressive move to insure that an industry must-carry compromise gets implemented before Congress rams one down cable's throat. Cable operators are certainly entitled to conditional freedoms to drop redundant, inadequate services, whether they're broadcast signals or cable networks. But the politics of the situation will inevitably produce an undesirable set of overly stringent rules unless cable and broadcasting reach an acceptable compromise. Since Congress would rather run from a leadership position on the issue than take a stand, an industry compromise would go a long way toward easing the pressure on cable.

Just as important, it would be prudent for cable's leadership to take an outspoken stance on issues revolving around rates and service. It is vital that cable make a commitment—and soon—to establishing a bare-bones basic rate that all subscribers can afford and embrace. Second, it is just as vital that cable make a commitment to the nation to offer universal service, to wire even the least attractive (read urban) markets. Those two commitments would play well in Washington and, ultimately, even on Wall Street and Madison Avenue, where, obviously, a totally wired nation would only enhance the market for cable finance and advertising. It is not too late for cable to recapture the high road. Prudent action is in cable's self-interest. ●

MALONE ALONE

The most powerful man in cable talks about the power and unique structure of Tele-Communications Inc., about what bugs him and what turns him on. And, oh yes, about his passion for the medium of TV.

by Peter Ainslie

The most powerful man in cable television works in a nondescript glass-enclosed office building on the outskirts of Denver, Colorado. His office, just off the reception area on the 6th floor, is standard-issue CEO: large, airy and masculine, with a striking view, in this case of the distant Rocky Mountains. Toys include a couple of CEO favorites: handmade miniature sailboats—one antique and the other of more recent vintage—which offer a clue to the occupant's genuine passion for sailing. There's also a large, magnificent fossil, a three-million-year-old nautilus (which doubles as an ashtray for visitors). But by far the most remarkable thing about John Malone's office is not what it contains but what it does not. It seems that the most powerful man in cable television does not have a TV set where he works.

Critics of John Malone would maintain they are unsurprised by this fact; that it fits perfectly with the profile of the man whose company—Tele-Communications Inc. (TCI)—controls approximately one out of every five cable subscribers in the U.S. They view Malone as an arrogant, opportunistic, no-nonsense, deal-obsessed, hard-ass of a man with little interest in or passion for television, save what money he can make from it. In their view, chicken coops or tires could as easily be the product he is selling.

Chances are, those who feel this way about Malone have never met him. Those who *have* seem to like—or at least admire—him. How else to explain the year-in, year-out regularity with which Malone is selected (typically by a five-to-one margin) as "the most admired person in the industry" in an annual reader poll conducted by one of the cable trade magazines. "So if I'm such a mean, nasty bastard," Malone asks, in what is probably the closest he'll ever come in public to sounding genuinely wounded, "how come I win that?"

And passion for television? His critics obviously haven't heard him discuss his favorite programmer these days, The Discovery Channel. Or the responsibility he feels—and the indignation—when the medium falls short of his high standards for it. (Offended by a program on MTV, he once threatened to turn the channel into a pay service, or remove it altogether from TCI systems. See sidebar.) Or Cable News Network. ("I love Ted Turner—for the fact that he has been able to do CNN and keep his hands off the editorial side. I think anybody would say that has the most unbiased video reporting on the air. And [with his reporters] he has stayed away from the cult of personality. It's just good, solid news.")

To hear Malone tell it, the critics have got him figured all wrong. Just look at his record. "I may be cool about it," he says, "but you won't find anybody who has fought harder for the defense of the cable industry than I have—in Congress, at the FCC or anywhere else. I just do it in a different way. After all, I am not loyal to assets and I am not loyal to businesses. I am loyal to people. And those who have been loyal to this company, that have been good suppliers to us, our bankers—those are the people I'm loyal to. A business is just a game. It's the people that count."

Those same critics have no doubt been taking great pleasure in the proposed Time-Warner merger, hoping that the powerful new entity would play against TCI in a sort of Hertz/Avis scenario, making trouble for TCI—at the very least humbling it—and keeping it respectful of its newly empowered number two.

But it's a vision that doesn't have much truck with Malone: "We've always played that [adversarial] role with Time Inc.," he responds. "But in most cases we've been cooperative, not contentious. We're their largest affiliate for their programming services. We have joint-venture cable systems. I'd say [Time CEO] Nick Nicholas is probably my closest friend in

Chairman Malone: If TCI is too big, are America's large pension funds too big as well?

PHOTOGRAPH BY BARRY STAVER

the cable industry. So if they're going to make a great deal of contentiousness about our relationship, they're going to have to get busy. I think we'll go out of our way to avoid being contentious with them, and they probably will do the same with us, as has always been the case."

Malone thinks the merger works well for everybody: "Steve Ross gets what he wants. Nick gets what he wants. It certainly makes for a very powerful balance sheet. And I think that they will find some very real synergies over time. I think they are going to be in foreign marketplaces—and domestic marketplaces—where they can combine their talents. If I was Viacom and I owned MTV, I'd be worried about a competitor in that area. After all, MTV was really created by Warner. I think Steve always regretted having to sell that."

And so to hear Malone tell it, the merger seems unlikely to change in any substantive way TCI's approach to doing business. What will drive the company in the future is the same thing that has driven it in the past, the same thing that has created in TCI an operation that is unique to the cable business: the right deal—almost always an asset play—done with the right people. "If we can get a piece of an asset and we can get it effectively and efficiently, with no leverage against it," says Malone, "that's how we make money."

What that management philosophy has created at TCI is the cable industry's runaway leader, a firm that controls, directly or indirectly, some 11 million cable subscribers. Thus, even after the merger, Time Warner's new cable entity will still rank second by far, with less than half the subscriber count of TCI.

It was not always that way at TCI. The company has come a long way in the 16 years since Malone joined forces with founder Bob Magness (turning down a more lucrative offer from Steve Ross to run Warner Cable in the process). TCI was a small, mostly rural MSO that was burdened by lots of floating-rate debt. It was also in the midst of a liquidity crises. Malone, a 30-year-old Magna Cum Laude Yale graduate with two MBAs and a PhD (in operations research), was also an experienced executive by the time he joined TCI. He had worked as economic planner in Bell Lab's R&D department for AT&T; as a management consultant at the blue-chip New York firm, McKinsey & Co.; and then as president of General Instrument's Jerrold Division.

Malone's exposure to corporate America, first at AT&T and then as a corporate-organization specialist at McKinsey, left him with a fair amount of disdain for the short-sighted, bureaucratic, always-play-it-safe way of life that saps the fun out of working at so many big companies. It also left him determined to create a working environment free of those negatives. But first he had to set TCI's house in order, and thus spent his first four years there staving off bankers bent on foreclosing.

By 1977 he and Magness had succeeded to such a degree that he was able to convince a group of institutional lenders to part with $77 million, at the time the biggest loan ever made to a cable company. All the while, Malone had been absorbing the Magness business philosophy, which had to do with asset appreciation. "Forget about earnings," Malone says. "That's a priesthood of the accounting profession. What you're really after is appreciating assets. You want to own as much of that asset as you can; then you want to finance it as efficiently as you can. If you do that, you'll build wealth. And that's Bob Magness' philosophy. Now, I don't think he ever said it that succinctly. But you just have to watch what he does, which I did when I got here—and I'm a quick learner. There were five or six years where we couldn't do anything because we were broke anyway. But when we emerged from that pattern and we first found ourselves having a little bit of elbow room to do deals, that was the model we pursued."

It is a model that has served TCI well. From a low of $7/8 in 1976-77, TCI stock, with divisions equivalent to a 12-for-1 split and two spinoffs, is today worth about $450 a share. ("That's like a 500-to-1 performance," says Malone.) And it has made for a lot of happy campers around TCI. There are secretaries in the company who invested their money early on and are very nearly millionaires now. And there are a lot of middle-management executives who were making $20,000 a year back then who are bonafide millionaires now.

With numbers like that at stake, people tend to stay put. "That does bind a team together, you know," Malone says with a smile. "It puts the same tattoo on everybody's rear end." In fact, Malone says, not one executive has ever left the company. "We're very stable," he says. "We've all grown older together, and nobody has ever left."

The team that has built TCI's empire is also surprisingly small. "Take a walk about this office," Malone says. "You'll see that we run this company with a handful of people. I think there are something like 12 cable executives in our headquarters. The rest of them are support people or accountants. The unfortunate existence of tax returns and things like that requires a fairly good-sized staff just to fill out government forms."

As a matter of fact, the word "company" is something of a misnomer when it comes to TCI, and it can obfuscate what the company is really about and how it functions. ATC is a cable company. Comcast is a cable company. But they bear about as much resemblance to TCI as a wart does to a warthog. TCI, in the words of Malone, pursues a portfolio strategy. "We are really a collection of small companies," he says. "Some of them we own 100 percent of, and a lot of them we are only an investor in and they are run autonomously by their own entrepreneurial managers. I think the secret of TCI's growth and success has been that we've been willing to make those kinds of investments. We get good performance and a lot of new, creative ideas out of these 63-odd partnerships that we have, that are all run by people other than ours.

"When you look at TCI and say 'Is TCI too big?,' it's sort of like looking at a large pension fund and saying 'Is it too big?' The reality is, TCI is an investment vehicle. We don't try to run everything from here. If we did, we *would* be too big. So what we view ourselves as is an investor and a shareholder in a large number of small companies. And I think that keeps us efficient and effective and responsive and rapidly growing. Our stock performance has been stronger over the last ten years than any public company. I think it is because of this kind of orientation toward doing whatever makes sense and not being stuck into any particular bureaucratic approach."

TCI AT A GLANCE

	1988	1987
Net revenues (millions)	**$2,282.0**	**$1,709.4**
Cash flow (millions)	**887.4**	**649.7**
Net income (millions)	**56.0**	**5.6**
Subscribers (thousands)		
Consolidated	**6,160**	**5,162**
Non-consolidated	**4,916**	**3,233**
Total (millions)	**11,076**	**8,395**
Stock price (Dec. 31)	**$26.13**	**$23.63**

Compiled from TCI annual reports and analyst reports.

One version of the TCI approach is the Heritage Cable transaction two years ago. TCI put up about $400 million of equity and leveraged the company. Now TCI owns 100 percent of it, and the Heritage management group, which has been left in charge for a guaranteed five-year tenure, gets an 18 percent upside participation in the company. TCI has one director; Heritage has four. And the company is totally autonomous, run out of Des Moines in the same way that it was when it was a publicly held company.

Although Heritage management has been at it for less than two years, Malone says he has recently been trying to put a dollar value on how much it has made so far. The answer: $65 to $80 million.

In most cases, TCI leaves the management in tact, so that the same people who have been running a company still run it; only now they participate in ownership. "We recapitalize them," says Malone. "We give them the benefits of what we can bring to the table: less expensive financing; proper use of tax benefits on a timely basis; group program-purchasing rates."

Key to the TCI strategy is picking the right people with whom to enter a deal. No matter how attractive the opportunity, Malone has found, if it isn't manned by smart, experienced people, chances are it isn't going to work. And on the rare occasion that TCI has forgotten that bit of wisdom, it inevitably gets burned. Like the time a couple of years ago when a would-be cable operator approached Malone. He had a cable franchise but couldn't get financing to build the system. Even though the man was not particularly experienced, TCI liked the deal's financial profile and agreed to help. But the system didn't perform particularly well, which TCI eventually discovered was related to a serious cocaine problem the man had. But even this story ended happily. TCI bought him out and restored the system to health. Says Malone: "You're always better off going with the quality manager, even if the deal looks iffy. Because a good guy can make an iffy deal work, but an unqualified guy can screw up the best of them."

TCI's reputation as a sugar daddy would, on the face of it, seem to place an inordinate strain on Malone's time, what with the endless parade of supplicants passing through. But in fact, an audience with Malone is not that easy to come by. "They've got to go through an investment committee first," he explains. "That screens them down pretty good." The investment committee is made up of five senior TCI executives, and, depending on the nature of the deal, other executives may get involved. "If it's a pure cable acquisition-divestiture deal, it's Bob Lewis," Malone explains. "If it's an investment, then Bob or anyone else in the company can look at the deal, but they must present it to the investment committee. If the committee rejects the deal, then it goes no further. If they approve the deal, it comes to me. And if I like the deal, then we do it." And if it's a really big deal, such as Heritage, then it goes before the TCI board of directors.

In the end, Malone says, the company does only a couple of deals a year. "Generally speaking," he says, "the guys who come and are successful are friends of the


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THE REIGNING VODKA.
SMIRNOFF® VODKA 40 & 50% Alc by Vol. Distilled from premium grain. © 1989 Ste. Pierre Smirnoff FLS (Division of Heublein, Inc.) Hartford, CT—Made in U.S.A.

company. They are guys who used to be commercial bankers, investment bankers, brokers, managers of other companies. And we don't do blind deals with them. They have to come in with a project. If we like the guy and we like the project, we tend to do it. Ultimately, many of these things turn into acquisitions for us. We buy out the entrepreneur, and he goes off and starts another deal. I think I have bought [former MSO owner] Jeff Marcus out at least four or five times."

Although TCI is publicly held, Malone's approach to running the company has more in common with the way, say, Kohlberg Kravis Roberts or Carl Ichan's company or other investment firms are run. That free rein is what enables TCI to move with the alacrity that is so widely envied in the cable industry.

It is possible because Malone and Magness, worried in 1979 about losing control of their increasingly successful company, created a Class B stock that carried ten votes per share, and distributed it to TCI shareholders. Malone and Magness then acquired B shares in exchange for some of their own A shares from institutional holders, who were constrained for regulatory reasons from holding the B stock. The two ended up controlling about 60 percent of TCI's votes, while owning only about 11 percent of its shares.

But clearly there is more to their power than simply controlling the votes. One aspect of it, Malone explains, is the atmosphere of internal trust that prevails at TCI, the freedom from that corporate disease known as fear of screwing up. "It's very tough for a public company to operate that way," says Malone. "If you're in a large, bureaucratic organization and you've got to answer to a boss and you screw up just once, that's your career. I saw enough of bureaucratic America by working at AT&T, and then [through] my McKinsey experiences of dealing with the frustration of some extremely talented middle-management people, frustrated by this huge, indecisive bureaucracy. Part of working at McKinsey was learning how to deal with that. How do you fight that bureaucracy? How do you get people to make decisions? How do you get people to grow balls?"

Malone claims to have eliminated such problems at TCI, and to work in an atmosphere free of backbiting, second-guessing, buck-passing and political in trigue. "As a result," he says, "we're able to collectively take risk. We are risk-takers as a management team because we know that the penalty for having taken an honest risk and been wrong is not death. You're career *will* survive it. Everybody has a right to be wrong. The only people who are never wrong are those who never do anything.

"Trust is just not something that most large corporations enable their managers to place in other people," Malone says. "It just isn't part of the equation. We can make decisions quickly. That's one of the reasons it's fun to work here. I can make a decision to buy Storer, and if I feel insecure in my authority to do it, I can make one phone call and feel a little more comfortable. Nobody else can do that. That's the strength of having a company like ours, where a couple of us vote hard control of the company. So you don't have to worry about being second-guessed."

Still the critics carp, finding fault with TCI. Ironically, their harshest criticism—that Malone is nothing more than an asset manager—is one that he readily, even proudly, accepts.

"I think there is no higher tribute in our society than an asset manager," says Malone. "The efficient allocation of resources to assets is what a capitalist society is all about. I have passion for a good, creative idea, for something that's going to make a difference. For a Discovery Channel, for something that needs financing. I have a lot of passion for that. To me, the individual assets are only as good as they'll perform, and only as good as the management in them."

Malone offered these opinions on other cable issues:

• The Jones/USA Network battle: "There were two things [Jones Intercable CEO] Glen Jones objected to about USA. They were charging substantially more money and spending it on increasing the

A Matter of Taste

Those who think John Malone has no passion about television weren't privy to the remarks he made to the TCI board of directors about The Playboy Channel.

"I personally went before my board and told them that we could probably make $40 million a year cash flow if we put The Playboy Channel on, but I was personally not going to put it on unless they ordered me to. And they said, 'No, we agree with you. Don't put it on. We can do without the money.' "

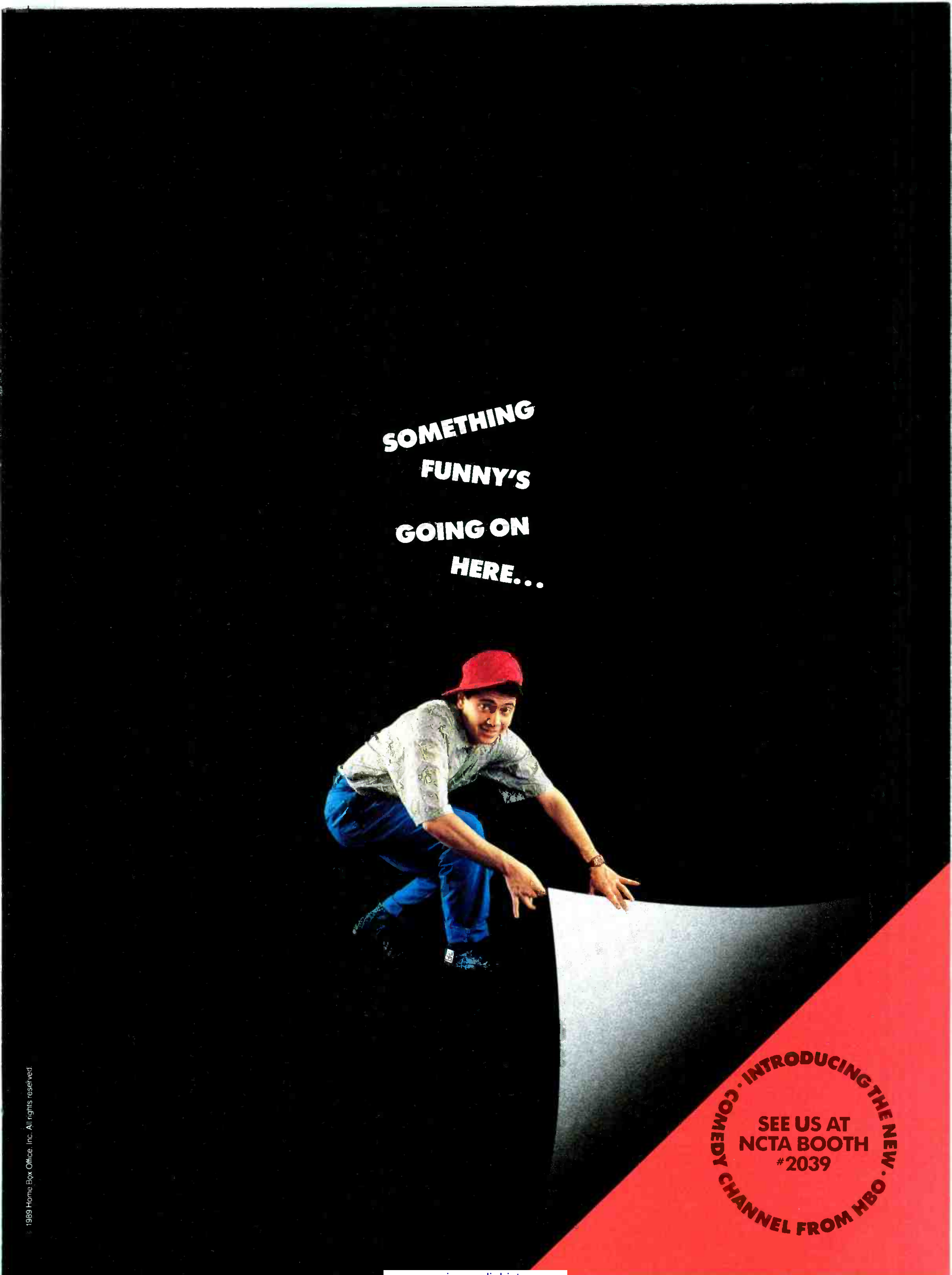
Malone says he tries not to get involved in deciding what people like and don't like, and that it's not a religious issue with him but a matter of taste. "I think that's an appropriate area for surveys, for professional surveys by independent people, and we should be guided in terms of what we present and how we present it," says Malone. "But when it comes to areas of bad taste, I've got taste, and if it violates my sense of taste, I won't put it on. I think that's my job, too, and that's my responsibility."

Everyone heard about TCI's forcing MTV to rescind its rate increase. Fewer have heard about Malone's outrage over Eddie Murphy's behavior as host of the Video Music Awards at Radio City Music Hall, carried live on MTV three years ago. "He was following girls into the women's room and using extremely vile language," Malone says. "That may be okay on a pay channel if people know it's there and they are paying to get it. I don't happen to like it a bit. I threatened to take MTV off every system we've got if they repeated it. We just are not in the business of pumping that stuff into our subscribers' homes on a mandatory basis, particularly on a channel aimed at children. I threatened to make MTV a pay service."

Malone refuses to carry The Movie Channel on most TCI systems because it programs hard-R rated movies in the middle of the day, and he abhors the violence of slasher films like *Friday the 13th*, but acknowledges that if you took those films off the air, there wouldn't be any movies. "It's pathetic that our society is so fascinated with violence," says Malone. He notes that TCI's contract with HBO, "which is one of earliest in this area, gives us the right to delete entire programming segments if, in our judgment, they are not suitable," and he acknowledges that TCI has over the years blocked a number of specific programs, though he won't name names. "But if Cinemax or Showtime starts to get over to the prurient a little bit in family viewing periods, I raise hell," Malone says.

But Malone's wrath can cut both ways. A year and a half ago he ordered Jim and Tammy-Faye Bakker's fund-raising-happy *PTL Club* off TCI systems. "It was fraudulently taking money from old people, promising them that it would be invested in their behalf, and then going bankrupt," says Malone. "It was pathetic." For that move Malone heard himself branded "an anti-Christ" by the Rev. Jerry Falwell on ABC's *Nightline*. Malone is sensitive to viewers' tastes though, and TCI has a rule that if 5 percent of its viewers request in writing the return of a program or service that's been bumped, TCI will bring it back, regardless of how Malone feels about it. In the case of the PTL Club, the letters never came.

—P.A.



SOMETHING
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GOING ON
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INTRODUCING THE NEW COMEDY CHANNEL FROM HBO
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violence in prime time and in early prime time. Secondly, they were using the money they were getting from the cable industry to effectively bail out shows that were unsuccessful in syndication. In Glen's view, and perhaps ours, cable-industry money was going to permit the broadcast networks to continue to run these kind of shows, because cable would pay for the back end. And I don't disagree, to some degree, with that, but I take a broader and longer view of it—that this stuff will all come out in the wash eventually. If cable can afford and wants to outbid networks for first-run programming, we will. And if second-run programming is desired and gets good ratings, we should run it, too. I don't see it in quite such narrow terms as Glen does. But from his perspective, he did what was right. And I honor him for doing it. Glen wanted to prove to USA that his subscribers could live without USA, and he has proven that—that USA, at this stage, does not have a deep franchise with the consumer. But it's a pretty tough lesson. I certainly come down on the other side, because I have been encouraging USA to charge us more money if they can substantially improve the attractiveness of the programming. And I think they are trying to do that."

• Cable and the telephone companies: "[The telcos] are trying to ride this sort of super-high-tech philosophy, that they've got optical fiber and it's going to make all the difference. That's just a bunch of bologna! At this point there is no economically viable system they can demonstrate. They don't know how to ring the telephone yet, but they're using optical fibers. It's a public-relations ploy, trying to grab ahold of a technical idea and use it to promote a regulatory scheme. I think the hard reality is that if they could get in the cable business, they'd probably use coaxial cable to build a cable system, because that is the most cost-effective way to do it. I happen to be a proponent of letting them into the cable business outside of their operating area. Because I'd rather compete or have a telephone industry to deal with that already knows the cable business, and knows what's sensible and what's not, than one to whom the grass always looks greener over there—if we could only get in that business. The other thing I constantly say is that if we're going to take the fence down, let us go over and eat their grass too. Because I believe that to the cable companies, there are a lot of almost immediate revenue applications by essentially serving the business community—local area networks—for the long-distance carriers. It may well be that TCI might be able to be the last ten miles for AT&T into the major cities. If you look at the amount of revenue that goes to the Bell operating units, about half of it is coming out of their share of long distance. That's far and away their most profitable business. And if we could compete for that, we could probably help hold down long distance rates, and provide ourselves with a very nice business. There have been a lot of discussions with the MCIs of the world with respect to what role cable could play."

• Basic-cable rates: "I am very concerned that people think they can charge anything for a cable service and that the public will tolerate it and the government will tolerate it. My belief is that these people who are getting way out of whack are going to get overbuilt. The reason there aren't a lot of dual systems in the country isn't lack of franchises. There are a lot of dual franchises. The reason is that in most cases the rates being charged are not sufficient to support two cable systems with the division of the revenues. If cable gets to the point where it charges so much that two systems are financially viable, there will be two systems."

• On TCI's ability to make or break a new cable service:

"If we give heavy support to a channel, it helps it make it. If we don't, it does not mean that it can't succeed. If you think we can dictate things to all of the entities we have an interest in, that would be an exaggeration. But if you assume we could, that's 11 million out of 45 million. Most of these channels are break-even at 20 million subscribers, so they can easily do without us. Obviously, if they can come to us and get strong support for our whole base, it gives them a long head start toward that 20 million. So certainly, people start with us."

Malone's Grim Forecast

"I have a passion for this country. But I think this country is blowing it. I think we have an atrociously short-sighted political system that prevents us from dealing with our real, long-term problems. And we are going to end up as a second-class country within my lifetime because of it. I think it's pathetic. And if you talk to any really intelligent political leaders in the country privately, they'll agree with you. But the political system is such that they can't do anything about it. To me, the base cause of it is that we have an under-educated population that is unwilling to look at longer-term issues. If a guy proposes a gasoline tax, he's likely to get beaten before he gets the words out of his mouth—when that's probably what we need. What we need is to stimulate the savings rate. Yet we kill the IRA. We're just so short-sighted in this country. It's really pathetic. We graduate something like 10 percent as many engineers as the Japanese do, and then we wonder why our technological infrastructure is falling apart."

. . . .

Malone acknowledges that some of TCI's image problems are its own fault—the result of ignoring for years the need for a public-relations effort. The company's ability to put on its best face has improved dramatically since Bob Thompson joined the company. His title is director of government affairs, but he handles some public relations functions as well. Says Malone: "We are doing more expression of why we're doing things and what we're doing, and I think it has had a marked reaction in terms of the way we're perceived." The problems TCI has had with municipalities seem like ancient history now. "I think we enjoy excellent relations with the communities we serve," says Malone. "Not that we don't have disagreements from time to time. In towns like Pittsburgh, where our relations are excellent, we had to take over a disastrous cable situation and straighten it out. These are not easy situations. You have to be tough if you want to make them work. It's easy to continue losing a lot of money and doing a lousy job. It's hard to fix things. But sometimes you have to say the truth, and then people will see after the fact that you were right."

Malone dismisses some of the harshest criticism directed at the company—and at him in particular—as being motivated "either by jealousy or by vindictive attacks by programmers with whom we have valid disagreements. We can't agree with everybody. It would be easy to be a nice guy by just rolling over. But the cumulative effect of that, as General Motors found out with their unions, is that sooner or later you've got to pay the piper. You end up in Eastern Airlines' dilemma if you do that. You've got to run a business; you've got to be firm. You've got to be fair. You've got to be loyal. You've got to be consistent."

Malone's secretary across the hall has been busy taking messages while the boss talks, and by the time he finishes, an impressive array of TV moguls await callbacks: Ted Turner, Bob Wright, Chuck Dolan, Tom Rogers, etc. Still, Malone clings to the notion that the most powerful man in cable can get by with a low profile just because he wants one. "I have never sought a high profile. I don't like to be high profile. I don't like to have to hire armed guards for my kids. I don't want to be in *Who's Who*. I just want to have a very simple existence and go home and walk my dogs and have lunch with my wife, which I've got to do right now." ●

The Learning Channel is an excellent planning resource when doing promotions in the community. TLC is very important to our public relations efforts and a tremendous asset when targeting hard to reach subscribers like seniors or new citizens. A great service!

Valena Dixon
Community Relations Manager
Greater Media Cable
Philadelphia, PA

We recently launched The Learning Channel on our system re-build, subscriber reaction so far has been great. I look forward to all of our subscribers getting TLC soon.

Mark Anderson
Marketing Manager
Continental Cablevision
Westfield, MA

The Learning Channel made a lot of school kids happy in our system. TLC's input and support toward our bookcover campaign has helped to make The Learning Channel a household word! Thanks for truly standing behind your words.

Philip McRae
Area Sales and Marketing Manager
Paragon Cable
Irving, TX

I received your Senior's kit today and I just had to take pen in hand and thank you for putting me on your mailing list. I want each representative in my department to know all they can about each service when making presentations to prospective and current subscribers... your kit certainly helps. Keep up the good work!

Kathleen Lyons
Telemarketing Supervisor
Comcast Cablevision
Philadelphia, PA

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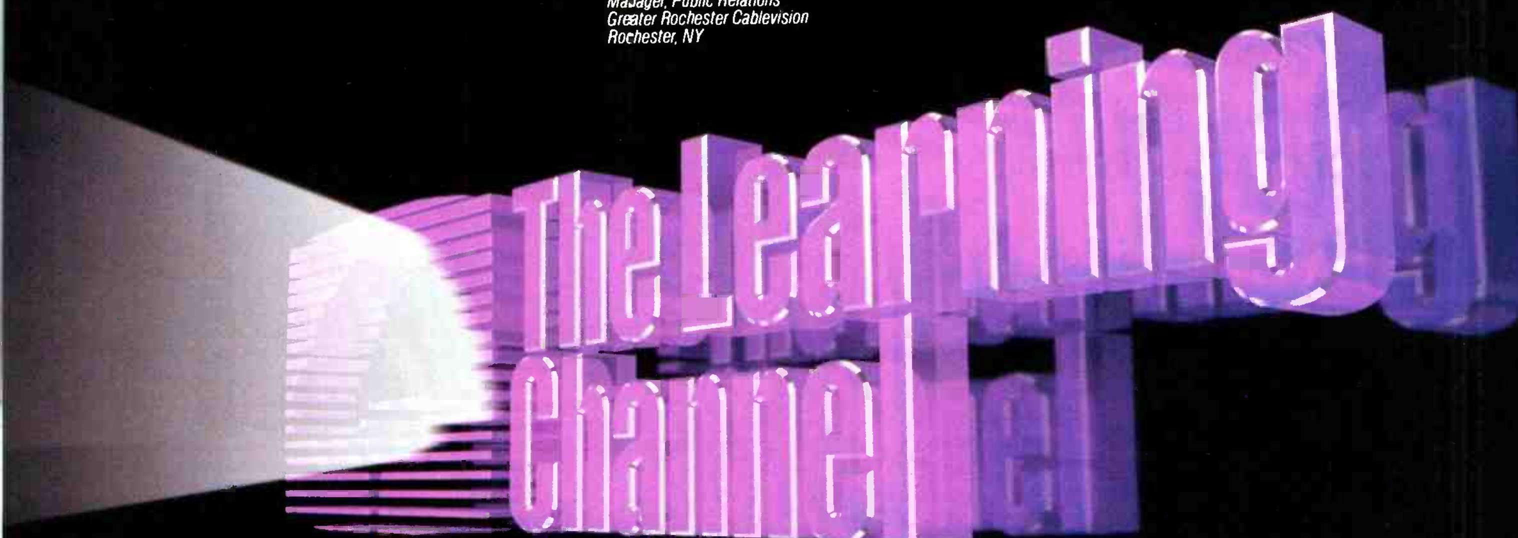
Stephanie Gradinger
Manager, Public Relations
Greater Rochester Cablevision
Rochester, NY



TLC is great for United Cable as a public relations tool—it is especially helpful in bringing home the value of cable TV to the community!

Angela Brochis
Marketing Manager
United Cable
Ocean City, MD

We feel TLC truly enhances our basic package. Not only does it provide great educational programming for the community it also works very well in public relations efforts.

Lisa Grand Murphy
Director of Marketing
Benchmark Communications
Washington, D.C.

The Learning Channel makes it easy to promote cable to parents and students with their SAT series. TLC's COLLEGE PREP programming is just one of the many ways I promote TLC to my subscribers.

Nancy Palmatter
Marketing Manager
Centel Cable
Grand Haven, MI

I am so glad we added The Learning Channel to our line up. It is providing our subscribers with excellent educational programming and helps us with hard to reach groups.

Cathy Hollingsworth
Public Affairs Director
Cooke Cablevision
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The Learning Channel makes my job easier. Teachers and guidance counselors come to me and describe how they've used TLC. It's a great way to reach opinion leaders, parents and kids to let them know that cable TV is not just more TV.

Karen R. Baxter
Director of Public Affairs
ATC Reading Division
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General Manager
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Cambridge, MN

Bringing Blair Back to Life

Jim Rosenfield overpaid for a money-losing rep, the same year national spot plunged. Why did he do that?

by Kathy Haley

Blair CEO Jim Rosenfield.

Thursday, February 2, was a red-letter day for Blair Television. The rep firm had just signed KENS in San Antonio, Texas, a strong CBS affiliate, as a new client, wrestling the contract away from arch-rival rep Katz Communications.

"We worked for almost a year to get that station," explains Jim Rosenfield, chairman and CEO of John Blair Communications Inc. "It was a big victory for us." Still, there's a hint of nervousness in Rosenfield's manner. He and his team have worked furiously during the past two years to rebuild Blair into the top-ranked rep it once was. And lately, there have been signs their efforts are beginning to pay off, with major station groups inviting the rep to pitch its wares and a steady string of stations joining its clientele. But in the two years since Rosenfield took control of Blair, he's learned that repping is one tough game to play.

Once the biggest of the reps and long one of the classiest companies in television, Blair skidded into tough times in 1986-87, when back-to-back ownership changes paralyzed management and sent many of Blair's biggest client stations scurrying to other reps. Billings fell nearly $200 million from their $900 million peak, in 1985, to about $730 million in April 1987, when Rosenfield's JHR Acquisition Group bought Blair.

"This was a company headed south very, very fast," recalls Rosenfield, a former senior executive at CBS Broadcast Group, of his earliest days at Blair. "They had lost Cap Cities, a station in St. Louis and three or four other stations. Every one of the major groups was questioning where they were going to go for representation." Worse, Blair's long-time and much-loved president, Wally Schwartz, had retired, and the future of Harry Smart—Blair's chairman and the man many called "the glue" that held Blair together—was also in doubt. "People here felt abandoned," recalls one senior executive.

But the troubles were just beginning. National spot TV sales, which had grown slowly in late 1986, took a shocking dip in 1987, finishing the year up only 4.2 percent, compared with 9.4 percent growth the two previous years and 10 to 16 percent annually during 1980-84. Dwarfing that disappointment, however, was another phenomenon—the rep wars of 1987. Nearly 100 television stations, representing almost $1 billion in annual billings, looked at their bottom lines and switched reps. Blair, caught in some disarray after its ownership change, lost some of its biggest clients, including WGN in Chicago and XETV in San Diego.

PHOTOGRAPH BY BOB WAGNER

And 1988 brought little relief, for Blair or the rep business itself. The quadrennial Olympic/election year proved a bust by the end of the second quarter, and initial projections for 10 to 11 percent growth in national spot were abandoned. Growth that year finished at only 4.4 percent. Exacerbating Blair's problems were continued client defections: independent WWOR in New York and, earlier this year, ABC affiliate WTNH in Hartford.

'Each of the 23 stations we've picked up is a vote of confidence in Blair.'

By December, rumors were thick that Blair was for sale or desperately trying to refinance. Two months earlier, Blair Entertainment, a small syndicator Rosenfield had acquired with the rep, had been drastically reorganized under Alan Berkowitz, the division's general manager and executive v.p., who cut its overhead by two thirds and scaled way down its commitment to first-run program development. On December 29th, Rosenfield completed a refinancing and informed client CEOs that interest payments had been deferred for several years to permit Blair to pursue its business plan to restore the rep to its former luster.

Yet the perception had become entrenched that Blair Television, despite having hung on to what many consider the best sales staff in the business, had lost too much ground in a rapidly changing industry to ever regain its former glory. Indeed, so much turmoil has shaken the rep business itself during the past two years that some question the business' very future, which is at least certain to be dramatically different from what it is today.

Perhaps surprisingly, then, Rosenfield—sitting in his modestly furnished corner office—looks back on his first two years at John Blair Communications Inc. and calls them "fun." He agrees the rep business is undergoing a radical transformation, but argues that Blair—slimmed down of general support staff but beefier in programming, research and marketing—is poised to emerge as one of the industry's strongest organizations. Still, nagging rumors circulate that Rosenfield's heart lies in the entertainment side of his company, and that he lacks the kind of commitment a rep firm needs from the top to win lasting relationships with stations.

Blair's problems can be traced back to 1966, when company founder John Blair wanted to retire. He took the company public, and shortly thereafter was advised to acquire some hard assets for it. (A rep firm's principle assets are its people and its contracts, usually for one-year terms, with stations.) The firm began to diversify under new chairman and CEO Frank Martin by acquiring printing companies. By 1972, however, it was clear that strategy had failed, and new chairman Jack Fritz took the company in other directions, acquiring radio stations, a radio and TV research company, a newspaper insert company and some TV stations. Most, especially the insert business, were successful, and Blair began to acquire the trappings of big profits—lavish new offices covering four floors at 1290 Avenue of the Americas in Manhattan, a car and driver for Fritz, and other perks.

In 1984, Blair acquired ADVO Systems Inc., a direct marketing firm, and with that, its fortunes reversed. ADVO floundered in its increasingly competitive business. Blair Television, for years the parent company's cash cow, felt the heat: bonuses for its sales reps were cut. Perks (except, one former executive points out, those for Fritz) were taken away. "It was tough sitting in a board meeting and watching bonuses being eliminated at the same time a $1 million plane for the chairman was approved," says one former Blair insider.

In 1985, John Blair & Co. reported a net loss of $29.2 million and a decline in operating profits of $46 million. For first quarter 1986 alone, losses totaled $25.4 million. Meanwhile, short-term debt had climbed to $20 million and long-term debt totalled $224.4 million.

With the takeover climate on Wall Street, it didn't take long for Blair to attract a hostile tender offer. It came on April 22, 1986, from McFadden Acquisition Corp., whose parent company's holdings included a publisher of "true confession" magazines and, now, the *National Enquirer*. One of Blair's financial advisers, Drexel Burnham Lambert, had a joint venture—Drexel Reliance Capital Group—with financier Saul Steinberg's Reliance Group Holdings L.P., and suggested Reliance as a white knight. Reliance made its first tender offer June 2 and by August, after several competing offers from McFadden, gained control of the stock. On December 24, with its own executives already installed at Blair, Reliance formally acquired the company for $668 million.

Blair clients, unsettled by three months of takeover uncertainty, were hardly calmed by Reliance's victory. Station groups owned by publicly traded companies made it known they didn't like the fact that Reliance Capital, a takeover vehicle for Steinberg, would now have access to sensitive financial information about their companies. At the same time, few expected Reliance to hang on to Blair Television, even though it claimed it intended to. Steinberg had made it clear his object in taking over Blair was to pick up its Spanish-language TV stations and build a programming network. That left Blair's clients wondering who, ultimately, would own their rep.

They didn't have to wait long to find out. On December 2, not quite a month before it formally acquired Blair, Reliance had begun to entertain an offer from JHR to buy the rep firm and Blair Entertainment, which had a hit first-run strip, *Divorce Court*. Fearing that rumors of another sale of the rep would precipitate more client defections, Reliance demanded that sale of the company be based not on buyer's due diligence but on information supplied by Reliance and an accounting firm's audit. JHR agreed and three months later bought the company for $115 million "plus other considerations." Total price reported to the press was $118 million.

Blair clients around the country breathed a loud sigh of relief: their rep had been bought by a broadcaster. Senior executives at competing reps, however, snickered with glee. JHR, they believed, had paid a high premium. And they wondered how Rosenfield, a 20-year veteran of the then steady network television business, would fare in their world—an arena where stations rule and reps have long been known as "whipping boys."

Blair TV president Tim McAuliff.

Rosenfield admits now that he overpaid for the company, but not through negligence. A lawsuit filed last March alleges Reliance Capital Group fraudulently inflated Blair Television's and Blair Entertainment's projected 1987 profits, causing JHR to overpay by $30 million. He also admits Blair didn't fare as well during the rep wars as it might have. "We didn't lose as many stations as the other reps did, but we didn't pick up as many as we should have," Rosenfield says.

Nineteen stations, a handful of them from major markets, left Blair between the time Rosenfield took over the company and early this year. Lost billings are estimated at approximately $116 million. During that same period, Blair picked up 23 stations, representing an estimated $79.5 million in new billings. As of first quarter '89, Blair's billings stood at roughly $738 million (including some holdover revenue from stations bought out by other reps), slightly ahead of where they were when Rosenfield took over. (Competing reps estimate Blair's billings at $650 million, but Blair's president, Tim McAuliff, blames this on historically inaccurate estimates of Blair's billings back in the good old days. Indeed, a 1986 press report pegged Blair's billings at $790 million before loss of the Cap Cities stations, but a highly placed former Blair executive says billings in 1985 were over $900 million.)

Rosenfield objects to using billings as the only measure of his company's comeback, however. "Each one of the 23 stations we picked up represents a vote of confidence in us," he says. "Especially during 1987, when we were still trying to reverse Blair's downward momentum, the stations picked up were won in spite of the perception that Blair was in bad shape. That's a tribute to our efforts." Blair's biggest victory in 1988, winning WUSA in Washington and the $40 million in new billings it represents, came only after a gut-wrenching fight. "Two of the Gannett stations wanted to leave us so the whole group listened to presentations from us and the other reps," Rosenfield recalls. "Loss of that group would have really taken this company down, but not only did we win back the stations that wanted to leave, we picked up the one Gannett outlet we didn't already have."

With billings at $738 million, Blair's revenues are in the neighborhood of $50 million. Pre-tax profit, after a cost of roughly $35 million to run Blair, totals about $15 million. Debt for JHR's acquisition of the company is estimated to be between $10 million and $14 million annually. The refinancing, Rosenfield says, "has given us a clean balance sheet and the resources we need to grow this company." Even before the refinancing, however, Rosenfield says Blair had "no financial problems at any time. The rumors with which our competitors flooded the industry were spread without their having the vaguest idea about the relationship of our debt to equity."

Rosenfield's game plan for Blair Television has been to boost client services and sales strength in the hope of winning back some big-market stations like the ones it lost. On the less tangible side, he's fought to hang on to Blair's classy, "we're number one" spirit while simultaneously challenging the "we've always done it this way" mentality enough to turn Blair into a more efficient machine. His first act was to make sure Harry Smart, former Blair chairman and a 40-year veteran of the company, stayed on as vice chairman. But in the minds of some observers, Rosenfield's subsequent underutilization of Smart may have cost him some clients. "He could have sent Harry out any time a station complained and Harry would have come back with a commission increase," notes the CEO of one station group. Instead, Smart was left outside the inner circle and retired last year, although he's still a consultant to the company.

Rosenfield gets better marks in his choice for president: Timothy McAuliff, a ten-year Blair veteran and former division v.p./ABC teams. Through McAuliff, Rosenfield kept relatively intact a strong senior management team, including Bill Breda, senior v.p. and general sales manager; Jim Kelly, senior v.p./director of client services; and Floyd Gelini, senior v.p./director of regional sales. These rep veterans have an average tenure at the firm of about 15 years. (Some critics argue Rosenfield should have shaken up that management team more with new leadership brought in from outside, but Blair's client stations appear to be big fans of McAuliff and his team and were relieved at the continuity they provided.)

What puzzles Blair's competitors and others is the fact that, despite the loss of big-market stations that are the profit center of any rep, Blair hasn't significantly downsized its sales force. "He's still running it like the Cadillac of reps—in that office space that looks like the Taj Mahal—but he doesn't have the revenue to support it," says the head of a rival rep firm. "I don't know how he's doing it."

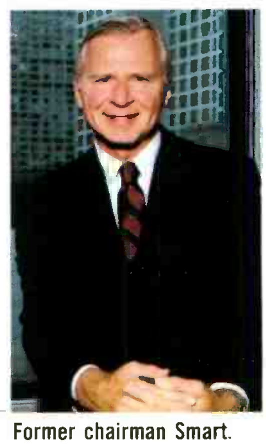
In the rep business, of course, cutbacks in sales teams can cause major shock waves in the station ranks. Rosenfield, who claims he's held costs to the level of four years ago while simultaneously increasing services, chuckles at his competitors' bewilderment. "There are 100 people fewer at this company now than when I took over and nobody in the industry has noticed," he maintains. Many of the cuts came from a bloated corporate layer that included an in-house travel agency, Rosenfield explains, but Blair Television has not had to significantly cut back its sales staff because of efficiencies achieved through new computer systems in research and programming and by changing its use of support personnel.

The addition of desktop publishing in research, for instance, has quintupled Blair's output of sales materials—and given them a more finished look—while enabling the department to cut back on support staff and add experienced analysts. Likewise, computerized ratings analysis has cut back the programming department's need for clerical help and permitted it to increase its consultants from three to four.

Bob Foster, general sales manager at client WBNS in Columbus, Ohio, calls Blair "much more aggressive in a number of areas—research is more in-depth, collection is faster and senior management is more clearly defined. We pressed them to be more responsive to our needs and they've responded."

Rosenfield adds he's also bolstered Blair's marketing department, which he claims is the largest, at 12 people, of any of the reps'. New efforts include a joint venture with Jefferson Pilot Retail Services to develop new business locally and regionally and an aggressive push into unwired networking.

One thing not reorganized at Blair is the structure of its sales teams, which is different than that of any other rep. The teams in New York and Chicago are still organized along the lines of network affiliation or status as an independent. Bill Breda says the structure, in place since 1971, permits Blair's sales reps to know their clients in greater depth and sell them more effectively. Its problem is its lack of flexibility: when a team's client list increases or decreases, as happens constantly in the rep business, its workload can't be shifted to other teams. Seltel president Ray Johns dismisses the strategy, saying, "It's



Former chairman Smart.

PHOTOGRAPH TOP LEFT, BY BOB WAGNER

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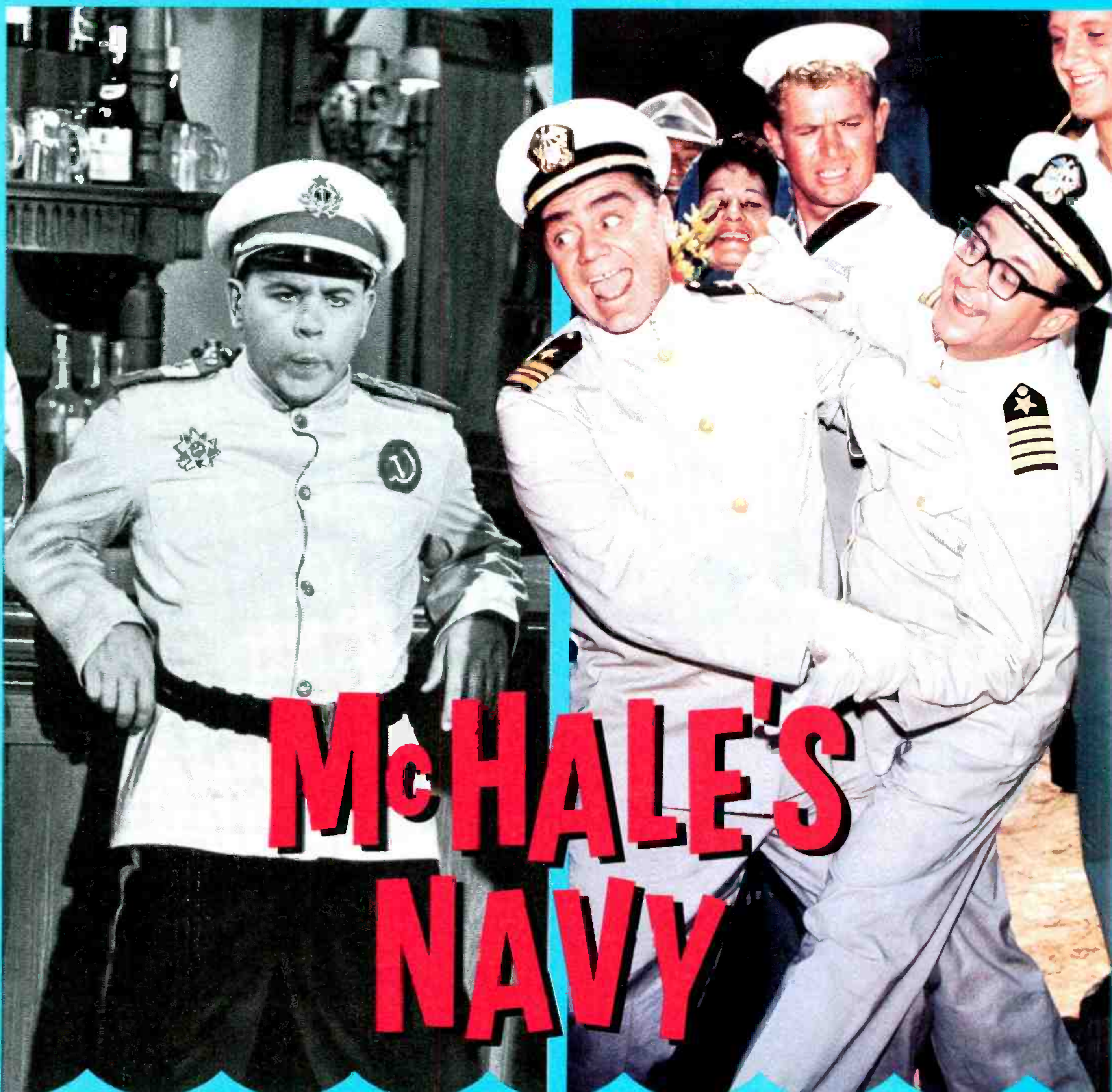

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A Foggy Future for All Reps?

Today's independent television rep business is not, to say the least, a happy place. Profit margins have been shrunk by rising costs and reductions in station commissions. Staff cuts and limits on compensation increases for sales reps, imposed by a slow spot TV market, have demoralized many working in the industry. In the words of one victim of last fall's wave of cutbacks: "The rep business is like a leper colony right now."

Worse, a widely predicted shakeout is expected to thin rep ranks—already reduced from 21 to 11 (including those owned and operated by station groups) since 1976—to as few as four or five in the coming few years. A significant reduction in the number of independent reps would virtually assure dual representation—repping of more than one station per market and a fact of life in radio—in television. It would also, in the minds of most reps, result in a severe decline in rep services for stations as well as erode the reps' ability to aggressively sell spot.

Richard Williams, a former marketing v.p. at Katz Television, wrote in his masters' degree thesis last fall (published by St. John's University in New York) that erosion in the rep ranks will lead major station groups, like Fox or Tribune, to create their own in-house reps in order to assure themselves effective sales clout. These small but powerful major-market reps will also represent cable outlets or program services owned by their companies but they will not, most likely, be profit centers for their companies. "The stations represented by this kind of rep will depend more on their own resources for research, programming and sales development," Williams says.

This trend would leave room, Williams continues, for "four or at the most five extremely large complete-service rep firms. The large reps will also have a cable division and perhaps a syndicated programming sales division. These reps . . . will have large program, research and sales development departments to serve stations in those areas."

Harry Smart, former chairman and CEO of Blair Television, sees merit in Williams' predictions, primarily because of the cost pressures now threatening to force smaller independent reps out of the business. Jim Dowdle, president of Tribune Broadcasting, can also see the industry headed that way, but says that it doesn't necessarily have to follow that route. Unlike many in the rep business, Dowdle doesn't believe it is up to the stations, through the commission rates they pay, to keep an adequate supply of independent reps in business. "The business of television has been through tremendous change in the past seven or eight years. The rep business hasn't," he says. "Their structures are the same as they were ten years ago."

Dowdle, who wouldn't confirm reliable reports Tribune tried to buy Petry Television last year, believes the reps should cut back on the programming and research services they provide and put more sales people on the street instead. "Two years ago, cable and syndication didn't have a major impact on the market like they do now," Dowdle says. "What have the reps done to react to that?" The reps should sit down with station owners and explain the need to change the way reps do business, Dowdle says. "Reps deserve to earn a living too, and one thing we don't want to do is start our own rep." —K.H.

an archaic structure, way too expensive."

Blair may be coming to that realization, too. In February, it announced it was reorganizing its L.A. office, dissolving the affiliation structure. "We were heavy on NBC stations handled out of Los Angeles and the other stations weren't served as well," McAuliff explains. The new structure evens the load. It also puts team managers, who previously only supervised, on the street selling, too, and assigns one rep to handle regional business.

L.A.'s restructuring, which didn't involve any cutbacks in sales staff, resulted largely because a new manager there, Bob Saracen, recommended the changes, McAuliff says, adding there are no plans at the moment to follow suit in New York and Chicago. Still, client stations smell change in the wind. "I wouldn't be surprised if in the next six months we saw more changes in Blair's organization," says the general manager of a CBS affiliate who now has six Blair sales reps selling for him in L.A., compared with three before the reorganization. "Since the new ownership, we haven't seen any significant changes, and the ones made recently in L.A. make sense. The old system was cumbersome. A lot of business slipped by."

Rosenfield expects to be snaring a lot of business that perhaps once slipped by. "We have cleaned out a lot of dead wood and nourished some of our younger sales and management people so that we really have improved our street-selling ability," he says. The president of one major station group comments there has also been an important change in the attitude at Blair: "Quite frankly, and pardon my choice of words, but the people at the old Blair didn't think their shit stank. They're good people, but they thought they were the end-all—even while the other reps were starting to pass them. The people haven't changed, but they've learned, through all of this trouble, to be a little more responsive to their clients."

As for doubts about Rosenfield's commitment to the rep, which were fueled when he failed to attend last year's Television Bureau of Advertising Convention and this year's Association of Independent TV Stations Convention, Rosenfield replies: "The rep is the heart of this company. It gets about 90 percent of my time. I grew up in sales and marketing and never left it. Even in management at CBS, my emphasis was never far from sales. It is in sales and relationships with stations that I have the most fun. That's where my life is."

But one former Blair executive argues that leadership at a rep firm must come from the very highest levels of the company, and he says Rosenfield—and here this executive's opinion is echoed frequently elsewhere—"isn't a rep." What such comments always boil down to is that a rep is someone who makes each client station feel it is the most important thing in the world to the company; former Blair CEO Smart is called the master at this. "It sounds ridiculous, but a station manager has to feel his rep loves him," comments the former president of a major radio rep. "A station never resigns his rep because of performance. He does it when he feels he isn't getting enough attention."

Outside the ranks of the reps, however, Rosenfield's level of involvement doesn't appear to be an issue. "Relationships were everything in this business eight years ago," says one broadcast CEO. "Today, with stations pushed much harder to make budget than ever before, a rep is judged on performance, accountability and service."

There are also those who feel Rosenfield fits the bill when it comes to making clients feel loved. "You'd have to see him in action at a Blair reception, making the rounds of station owners and managers," says Peter Kohler, v.p./broadcasting at Gannett Broadcasting and a former colleague of Rosenfield's at CBS. "This is where Jim lives." Kohler is among many Blair clients who feel Blair has turned the corner on its tumultuous times and is now ready to make its comeback. "Everything we see indicates they've come out of the storm," he says. "Their strength has been and remains that sales team." ●

Kathy Haley is a New York-based freelance writer.

227

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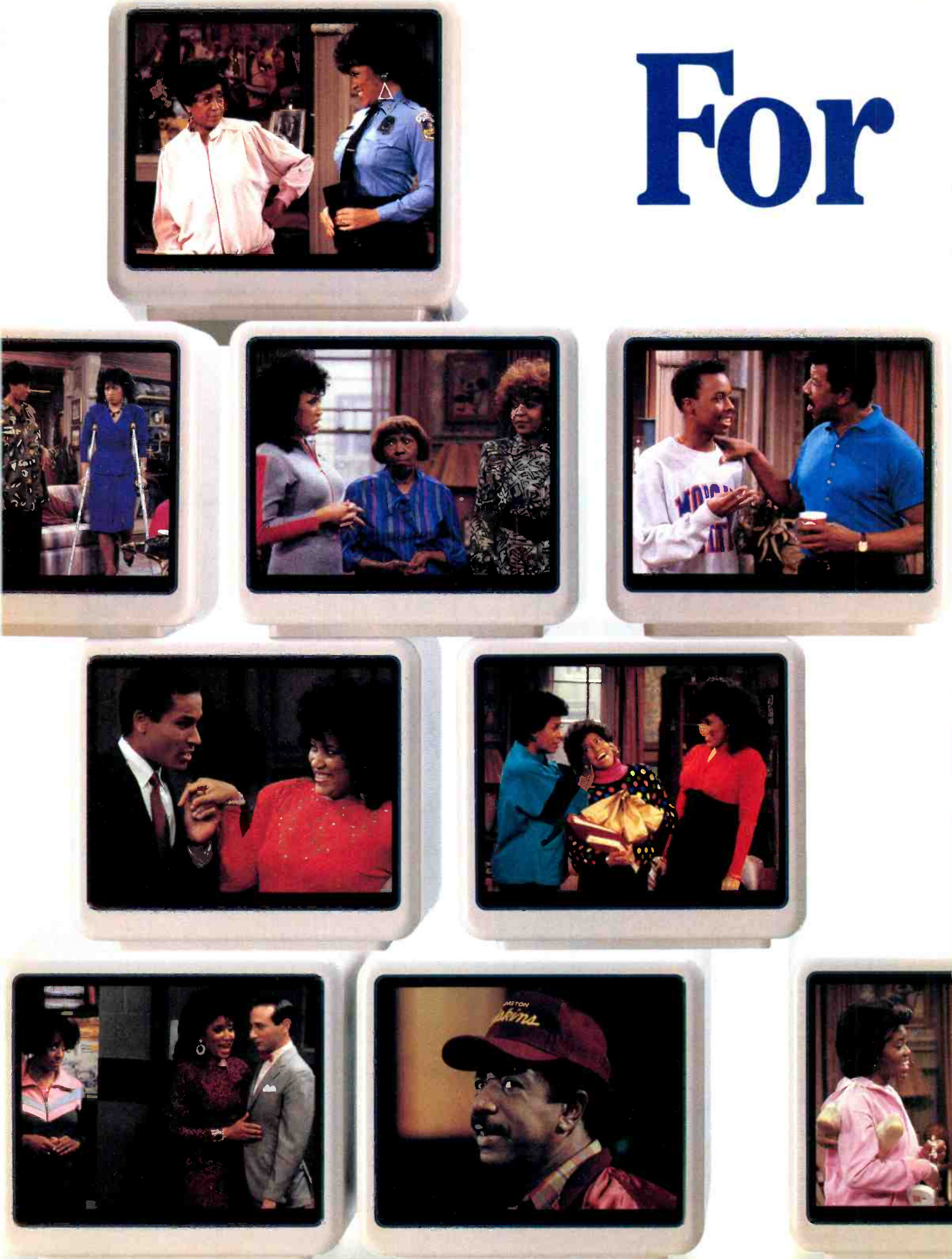

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Are the Scales Being Tipped?

There are powerful forces afoot in the cable industry, including a new giant named Time Warner, an MSO that is also a programming power and an outside threat called the telcos.

The balance of power in the cable industry has been under stress lately, what with the merger of number six-ranked MSO Warner Cable with number two-ranked ATC, the continued emergence of number eleven-ranked Cablevision Systems as a major player on the cable landscape, and the restiveness of the telephone companies—both the Regional Bell Operating Companies and the independents—most of whom profess interest in seeing the statutory prohibitions lifted that keep them out of the cable business in their own service areas. This month's In Focus section opens with a look at Chuck Dolan's Cablevision Systems. In his story, "Can A Maverick Run a Giant?," senior editor Chuck Reece seeks to discover whether Dolan will continue to manage his company like a mom-and-pop operation now that it has joined the big leagues. In "BET Faces Music, Comes Up with Talk," senior editor Kirsten Beck tracks the development of Bob Johnson's Black Entertainment Television as it strives to become a programming power. Free-lance Harvey Solomon examines the impact of the Time-Warner marriage in his story, "The Meaning of the Merger," and finds that while there are not a lot of synergies to the matchup just yet, both companies will draw on the other's strengths and forge a powerful new presence, not only in cable but in television in general. We also unveil this year's 10 to Watch in the cable business, our editors' selection of ten individuals who are wielding power and influence in their end of the business and who are worth keeping an eye on in the months ahead. Rounding out the section are profiles of the seven Regional Bell Operating Companies and the three largest independent telephone companies. Most of these firms see opportunity in the TV business, and are lobbying for the overturn of rules limiting their access to cable. And while some MSOs, such as TCI, are in favor of limited telco entry, most view telcos as a powerful threat and are dead-set against allowing them membership in the cable club.

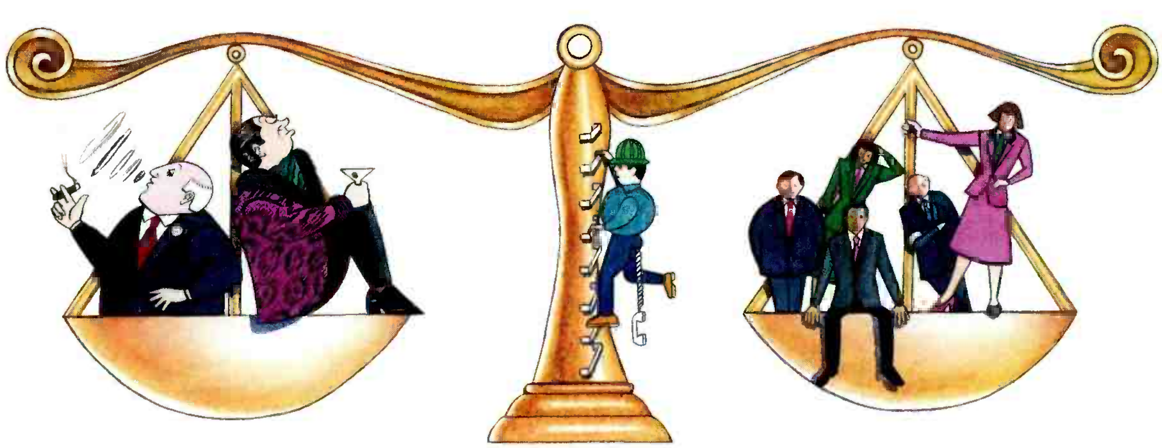
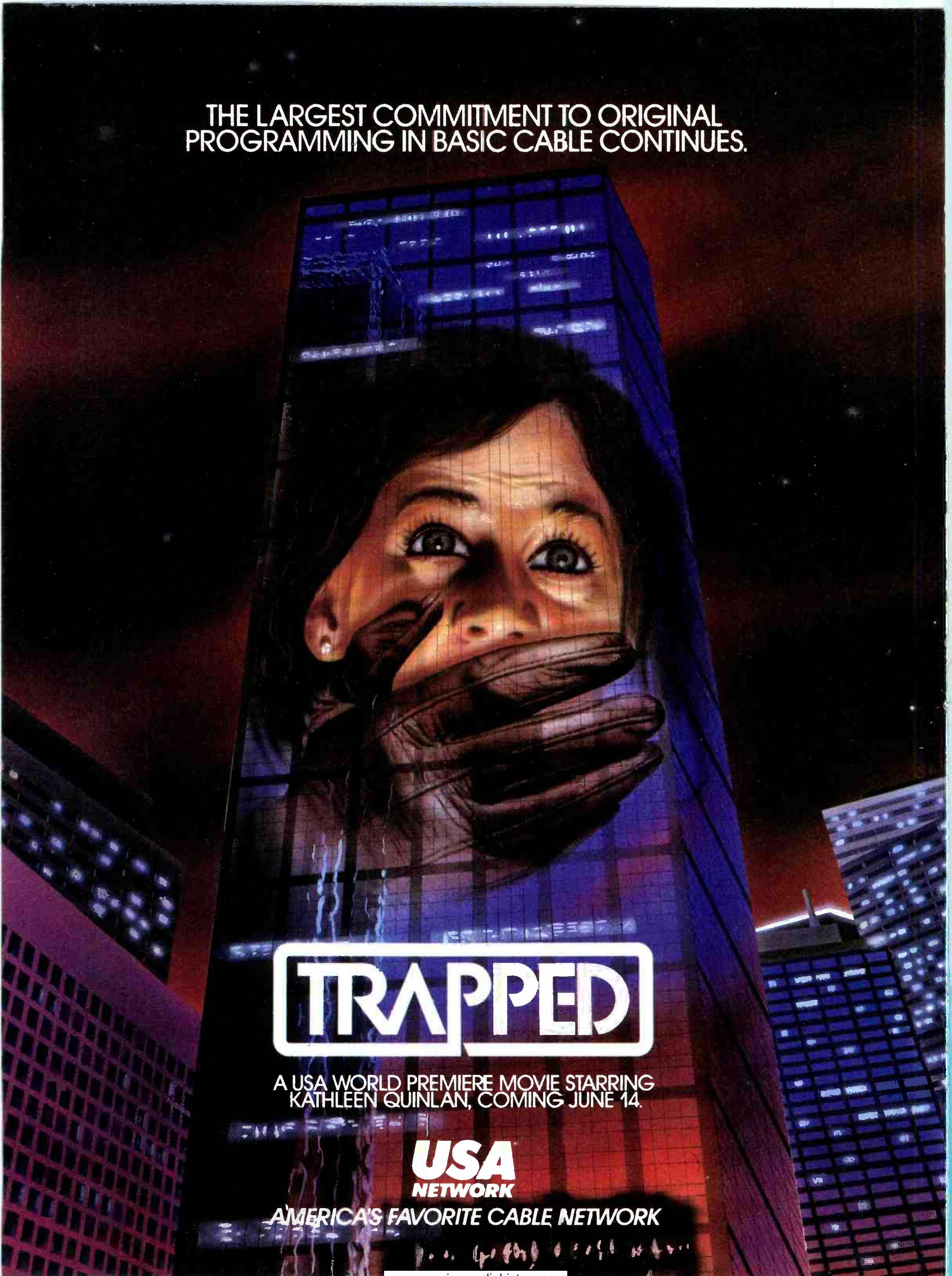


ILLUSTRATION BY JENNIFER SKOPP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Can a Maverick Run a Giant?

Chuck Dolan's Cablevision was always a workshop for new ideas about cable. Now, the little shop, grown huge, tries to keep its edge. **BY CHUCK REECE**

Charles F. Dolan can look at the modern world he helped to build through a cantilevered window that pops outward about halfway up the wall of his office. This bit of parvenu's architecture affords him a sweeping picture of his Cablevision Systems Corp. empire, which on this day is lit by a brilliant early-spring sun. It illuminates the chairman and CEO's five big buildings in the office park that houses his businesses, a corporate castle surrounded by Long Island and Cablevision's 458,453 subscribers there.

This archetypal suburbia and the company built on its affluence are at the core of cable's future. In the homes that sprawl beyond Cablevision's headquarters live the children who will grow up watching Cablevision's proprietary news, sports and entertainment programming, a mix of locally owned and produced product unmatched in any other cabled community. It's a huge task, servicing the needs of a demanding public; on Long Island—and in other communities across 11 states—the job belongs almost wholly to Chuck Dolan.

How he has done it has puzzled many outsiders. Dolan and Cablevision president and chief operating officer John Tatta have always run the company in an almost frighteningly informal manner. Many executives who have dealt with Cablevision Systems—in joint ventures, acquisitions and other areas—claim amazement that the company maintains its place at the head of the revenue and cash-flow per-sub lists. "They go hand to mouth. There's no planning whatsoever," says one executive. "It's amazing they've gone as far as they have. Maybe it says we don't need management in this world."

Or perhaps it says that management—Cablevision style—isn't readily apparent to the outsider. Marc Lustgarten, president of Cablevision's Rainbow Program Enterprises, explains the company's approach. "You know, there's that nonchalant style of dress of the guy who looks like he just rolled out of bed—but everything seems to work," he says. "Nothing says that guy didn't spend a *lot* of time to look that good. There is a lot more going on here than people on the outside realize, because it is nonchalant, informal. We don't wear everything we do on our sleeves. I would submit there is a lot more going on in management, controls and discipline than would seem apparent."

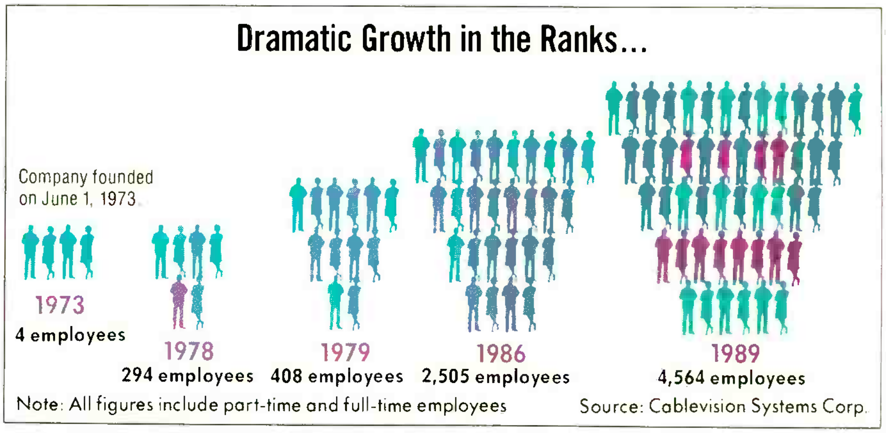
Cable theorist Chuck Dolan, chairman/CEO.

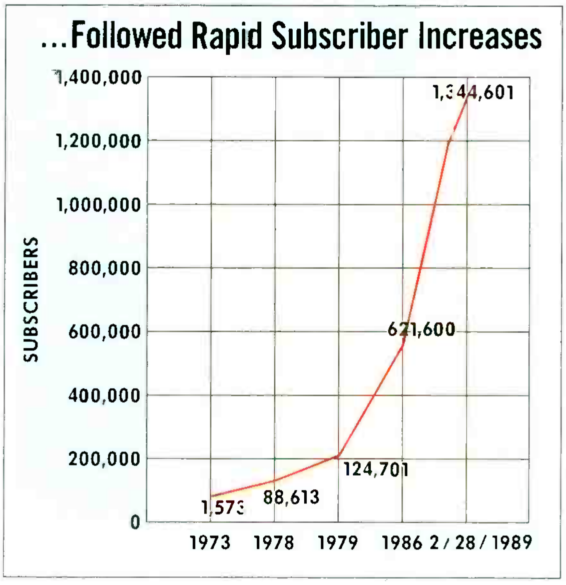
Controls and discipline weigh on Dolan's mind today, far heavier than they did at Cablevision's 1973 birth. The company became Dolan's workshop for new ideas about the evolution of cable. Quick afoot and never "overorganized," as Tatta says, it could swiftly follow Dolan in directions that, though at times contrary to prevailing winds, proved profitable. But the workshop model no longer fits so well a company that, after years of big ventures, has become undeniably a giant. And today, many people throughout the TV industry wonder whether Chuck Dolan's laboratory can actually evolve into a well-managed giant that will be a leader during the maturation of the cable industry.

Last August, Cablevision agreed to buy Viacom Inc.'s Long Island and suburban Cleveland cable systems. The $550 million deal, for more than 200,000 subscribers, was completed in February. In December, Cablevision agreed to enter a major joint venture with NBC that will give Cablevision 50 percent of CNBC, which had its debut in April, in return for 50 percent of the programming services and technical facilities of Rainbow Program Enterprises, Cablevision's programming arm. Worth of the businesses involved: $300 million. Then, in February, Rainbow acquired Z Channel, a regional sports and movie network in the L.A. area, giving Rainbow its seventh regional sports network after SportsChannel New York, SportsChannel New England, SportsVision in Chicago, PRISM in Philadelphia, SportsChannel Florida and SportsChannel Ohio. SportsChannel America, launched in January, is a stand-alone basic channel for areas without regional sports networks. "The number of separate businesses included under this Cablevision-Rainbow umbrella is enormous," says Dolan. "We had to learn what other companies learned long ago: A great priority now is management development."

Administration, however, has always taken the back seat to ideas at Cablevision. Keeping up with Dolan's own ideas has dictated that approach. When cable was mainly a device to solve over-the-air TV reception problems in rural areas, Dolan in 1966 set about wiring Manhattan. (His Sterling Manhattan Cable Television, sold to Time Inc., is now known as Manhattan Cable.) When the business believed subscribers would not pay for premium services, Dolan helped invent Home Box Office, which also was sold to Time Inc. And today, when cable operators are trying to put as many offerings as possible into basic packages, Dolan believes "basic cable" is an antiquated concept and is offering Cablevision's subscribers in the outer boroughs of New York City the chance to pick and pay for only those channels they want. James Rosenfield, the chairman and CEO of John Blair Communications, who at CBS oversaw that network's brief interest in Rainbow, says, "Chuck is just so far ahead of everybody else." Tatta, Dolan's right-hand man since 1966, adds: "Chuck is ahead of the game. He's a pioneer kind of a guy." The Cablevision empire grew in large part on the back of Dolan's early recognition that cable was more than a solution to bad reception; that it instead was a means to deliver an unfathomed library of TV alternatives to a public hungry for information and entertainment.

Cablevision's Expansion





We have always been programmers first, and cable has been the marvelous way in which we have been able to implement," Dolan says, describing Cablevision's method. "We don't think of ourselves as being 'cable people.' That's always struck me as a misnomer. We are providing an editorial service to the home." The formula has worked. By building and buying systems primarily in areas where Cablevision's program offerings can get concentrations of viewers, the company has allowed its Rainbow division to build 11 services: Bravo, American Movie Classics, News 12 Long Island and the national and regional sports networks. Cablevision is now the nation's eighth largest operator, with 1,354,936 subs as of April 1.

But pioneering in an industry with the massive potential of cable television meant growing at a terrifying pace, and about three years ago, the company began to feel the growing pains intensely. Four employees had started the company to build a Long Island system in 1973. By 1986, the number was 2,505, and by early this year, Cablevision's payroll had 4,564 names.

In 1985 and '86, "there were too many balls in the air, lots of juggling of different things," says Sheila Mahony, v.p. for government relations and public affairs and a Cablevision director. "When you have crises, you have to put people on them. And there were a number of crises going on. There were deals being done: We were doing the leveraged buyouts [from limited partners in various cable systems], and at the same time there were a number of deals going on on the Rainbow side. We had partners we were bringing in, partnerships we were undoing. Franchising was ending, and acquisitions were starting. I'd say we had three or four things on the table—any one of which individually could have commanded a lot of management attention. The fact that there were a number of them on the table at once suggested that we needed to bring in more people, put structure to the various organizations." Says Dolan, "What you can't help but recognize is that a lot of the ground that used to be covered by one person—that person just can't cover that much ground anymore."

Being overwhelmed by that pile of crises prompted Cablevision to call in management consultants McKinsey & Co. "The job becomes so big, it needs to be split up and organized in a way that works," Tatta says. "If you don't react to that, you are swamped." McKinsey delivered a major study to the company and still works periodically on specific tasks.

The first priority of reorganization was to make clear that the company's three divisions had their own "maximum leaders," Tatta says—Lustgarten over Rainbow, James Kofalt over system operations and Bob Fennimore over Rainbow Advertising Sales Corp. (RASCO), the company's ad-sales operation. Apart from clarifying the lines of authority was the problem of insuring adequate communication across those lines. What McKinsey found was a company whose left hand often was not aware of what the right hand was doing. That prompted a radical streamlining of the company's management-information systems. Before the company's reporting processes were overhauled, word of new developments—both positive and negative—in company divisions was too slow reaching top management. And once word arrived, it came in unstandardized formats that were unwieldy. So streamlining and standardizing the reporting of basic information was one of the first orders of business.

"It's easier to do now," Dolan says of the fully computerized reporting system. "The new routines of reporting make oversight much easier." A six-inch stack of reports—the latest arrivals from the company's MIS department—sits on the floor next to Dolan's desk. Those books, he says, "come through with red flags in them. If you take just five minutes to read the first

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**Business Month/March 1989

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two pages, you can be on top of a whole business and be pretty sure you haven't missed anything. The people who are reporting know exactly where we're supposed to be at that moment, and if we're not there, you see it. And with that, you can just walk down the hall into somebody's office and say, 'What are we going to do about this?' And you've done maybe as much as you need to do about it." Dolan points out the big window. "There's a building across the street totally devoted to accounting and reporting," he says. "The people who are in that area have been at it now longer and are more sophisticated. It's one of the good results of growth."

Another obstacle to information flow was in the financial area. "We had a lot of problems as we grew in different locations," says William Bell, Cablevision's vice chairman and top finance officer. "We had grown at a rapid pace for ten years. You just get to a certain size, and then you have to put in some systems." The building and acquisition of cable systems—each with its own financial people—in 11 states meant that financial reporting and bill-paying was an unstandardized jam. The company, in response, centralized financial reporting, Bell says, to meet a need for data to move with equal speed and in a standard format to all operations. Centralization also meant significant cost savings, he says.

But Dolan says that move met some internal resistance: "People will hang back and say, 'Well, we're doing planning, we're doing projections, we need to be constantly working on this or that, and I can't be going to another department to get those people. I need my own people.' " Bell elaborates: "People who manage businesses like their own financial people reporting to them. At first, we had a controller reporting to each general manager, and they feel naked without that kind of support." But by giving each of the three divisions a financial analyst, the company has "given these people the number support they need to run their businesses."

Kofalt, who is president of the company's cable operations, adds: "We were fortunate for having recognized the problem and for implementing those changes. We've been able to absorb the growth and assimilate new acquisitions in very good order because of that."

This new attention to the flow of information and money through the company has "made it more difficult for the company to go off track," Dolan says. "We're saving ourselves from bad surprises. If there's bad news developing anywhere, we're going to know it quickly. In our history, we have had situations that have gone sour long before we recognized it was going badly."


President/chief operating officer John Tatta.

But the sourest part of the disorganization that befell Cablevision during its speedy early-'80s growth was the company's inability to find young hotshots within its own ranks. Unable to pinpoint them, the company faced the prospect of a future without the kind of dynamic leadership that had built the enterprise. An executive at another company who worked with Dolan and his team during the mid-'80s says, "They have quite a few young bucks in the organization who are good—and who will probably leave if they don't get a bigger part of Marc's and Chuck's responsibilities."

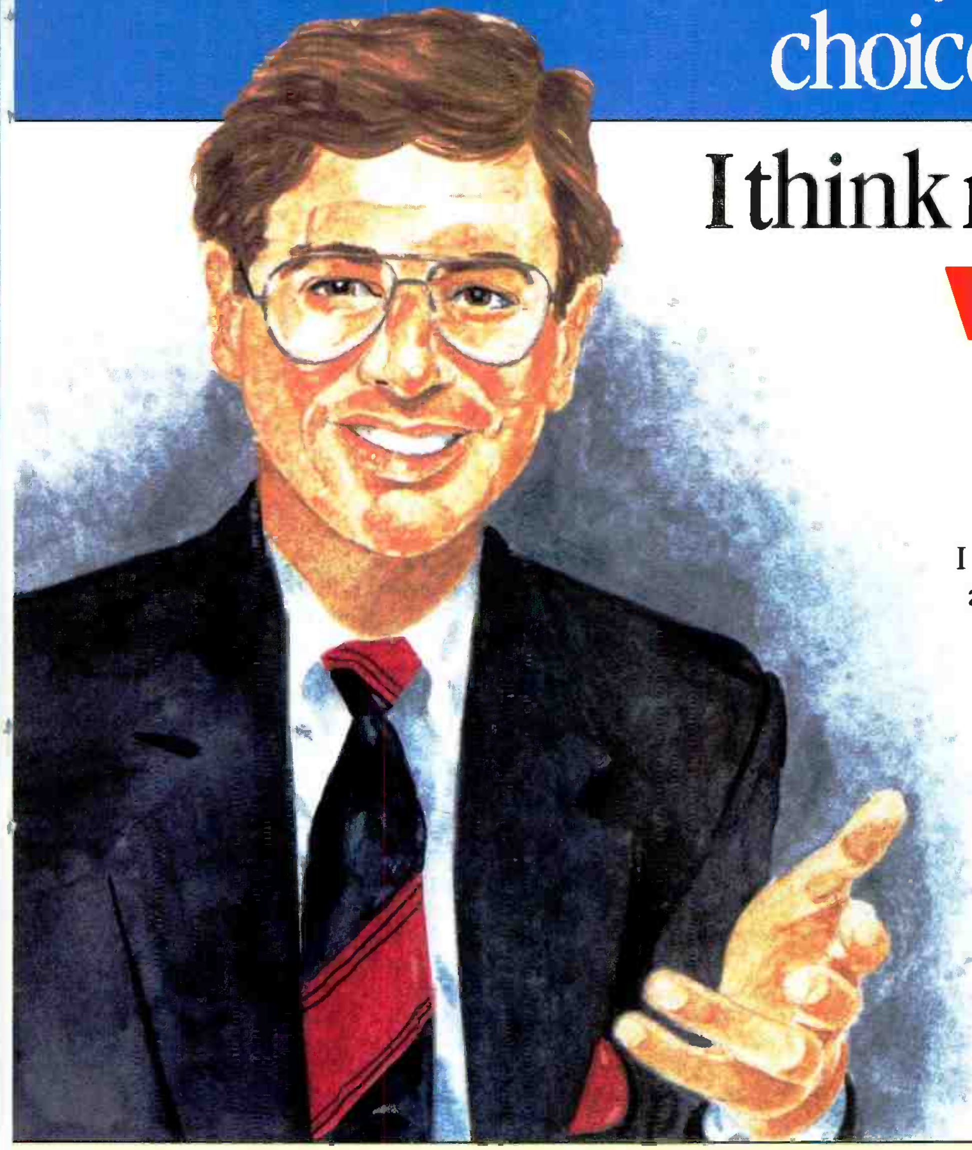
Says Dolan: "Whoever made that comment accurately sees a problem. There is frustration. That's probably not unusual. I'm sure other organizations in similar situations have it. So we just work on it. We want to keep people who feel frustrated. We want them to feel like they're making all the progress in the world, as much progress as their own abilities justify." Training programs are in place, and young talent is included on ad hoc, task-related committees that are formed to attack specific jobs and then dissolved.

"In bringing these young turks along, I think we've solved a lot of that," Lustgarten says. "We probably didn't bring enough along as quickly as we should have in the past." He mentions several young managers in Rainbow as evidence of the company coming to terms with that problem. "We're moving them as quickly as we think they're ready to move," he says. "We need people because we're growing so fast. We're always looking for people to bring along. But you've got to be careful not to give a young turk his head before he's ready, because that's how you ruin the horse. A young turk, by definition, thinks he can do more than he can do. When that horse is really ready to run the race, rarely is the horse the one who would know that." But that doesn't mean Lustgarten won't take all the hotshots he can find. Says he, "The best horses are the wild ones."

It's more than a little ironic to hear Lustgarten say that, because the top managers of Cablevision, the people who built the company into a cable conglomerate, are quite the wild horses themselves. And their wildness, their supreme confidence in their own abilities, contributed to the insularity that became a management problem in the middle of this decade. "Our company has made it to what it is today because we are in a sense free spirits," Tatta says. But why would a business that at first involved little more than laying wire attract "free spirits"? "The people who started cable are the people who couldn't get jobs anyplace," says Tatta, laughing but not really joking. "Believe me when I tell you that. The engineers and everybody else were not top caliber. It's the truth. Today, it's beginning to change. Today, you get more people formally educated, Harvard Business School, all this stuff. They're more focused on doing it the way they're taught to do it than on success. If you're successful, you continue to run your business informally or however [it traditionally has been run]. That's what you're getting paid to do—make money for your stockholders. We've done that in an informal way, so that's what we'll continue to do."

There is an unmistakable air of outcast's pride on the executive floor at Cablevision's headquarters. The top managers possess the twinkle-in-the-eye dignity of outsiders who have made it in. They operate in a manner more assuredly casual than seems possible for executives of an enterprise with annual revenues of $493 million. Sit for a while in Sheila Mahony's office and Dolan will probably drop in to say there are new

After I signed our system up for Prevue Guide, my boss had a few choice words for me.



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I took a "no guts, no glory" attitude about devoting a channel to Prevue Guide. I admit it. I was skeptical.

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promotional spots to watch, or some such thing. Visit Marc Lustgarten and Jim Kofalt is likely to stick his head in and ask to borrow Lustgarten's car. At any time, there might be an impromptu meeting of in-house board members.

"The reality is that we're a family here," Lustgarten says after Kofalt leaves (without the car keys, but only because Lustgarten has to drive to Manhattan soon). "Every one of us has very strong family ties. The 'scene' is not what drives us, not where we get daily nourishment. We're hard-working, certainly risk-taking, but we believe in creating good television and enjoying ourselves while we're doing it. We don't believe in all the shtick that comes with that. The company is not territorial because of that. It's not a political environment. We've all been together a long time. We don't need the boundaries that other groups need."

Dolan, too, is pleased with the close relationships among his top managers. "We are fortunate that the group here has been together a long time," Dolan says. "Marc Lustgarten has been here 15 years. John Tatta and I have been together since Manhattan Cable days. You go on down the hall here, and there's hardly anybody in the executive group who hasn't been with the company ten years." There was a time when their closeness drew a line between them and other managers with ideas to contribute. To Dolan, that was troubling.

"The negative side of having people in management around for ten years is that it can be insular," he says. "It's difficult to bring people from the outside into that group. The culture clash is strong. And we haven't been too successful at doing that." One of the things that most pleases Dolan about the reorganization are the new structures that aim to identify young talent. "There's always been an attitude that we wanted everybody who could participate to participate," he says. "But before [the company's rapid growth], we didn't think much about it because somehow the people were always apparent. People who were secretaries are running departments at this point. Then, you knew who you had. But now you don't see them, so how do you know? You better have some structure that helps them identify themselves."

That structure matters much to the company's future. Cablevision's top two, Dolan and Tatta, are 62 and 69 years old, respectively. Neither man claims to have planned retirement. But Dolan admits looking forward to the day when the company is "progressing without needing me to arrive at 8:30 in the morning." He has a house and a boat in Florida—he wouldn't mind being there more often. And he thinks about who will sit in his chair, and Tatta's, when they leave the company. "We talk about that internally, that there should be somebody ready to step in as CEO and somebody ready to step in as COO," Dolan says. "We are definitely not looking outside for either one. They will be filled inside."

Dolan believes the company's course is already well plotted. "I'm not troubled by our direction at all," he says. "I'd just like to see more accomplished in the direction in which we're traveling. I'd like to see the service that we're providing become very identifiable and unique and able to survive the rival of any competition in any form. With that thought in mind, you have to be ambitious on the programming side because that's where the content is going to come from. If anything, I'm ambitious to see this become a very strong editorial company."


Programming head Marc Lustgarten, Rainbow's president.

Dolan can take comfort in Wall Street's view of this strategy. Cablevision "has some assets not generating much cash, mainly in the programming area, but many industry observers feel those will show substantial expansion in cash flow over the years, particularly as the benefits of the NBC deal come up," says John Reidy of Drexel Burnham Lambert. The regional sports and news networks show the greatest promise. Rainbow's sports operations are drawing more and more competition. And News 12 Long Island—a "special enthusiasm," Dolan says—is an idea imminently exportable to audiences now accustomed to 24-hour news. (Rainbow plans regional 24-hour news operations next in Connecticut and New Jersey.) Although most talk centers on the future, Reidy says investors have no qualms with Cablevision's current performance—this despite the $800 million in debt the company is carrying, in addition to more than $1 billion in debt that is part of stand-alone financings of Cablevision's two largest systems acquisitions, Adams Russell and Viacom. "The institutional investors focus most intently on the assets behind that debt and the cash flow coverage," he says. And Cablevision has the cash flow. The company posts regular losses, but in the immature cable business, earnings are not the standard of success. Revenue and cash flow per subscriber are. Cablevision's cable operations in 1988 took in monthly revenue per subscriber that averaged almost $34; operating cash flow averaged almost $14 per sub per month. Those are the highest figures in the industry. Last year, total cable operating revenues increased 50.9 percent to $390.5 million, and programming revenues increased 160.1 percent to $123.7 million. Overall, the company's operating cash flow was up 52.5 percent over 1987, at $140.1 million.

"The proof is in the pudding," says Tatta, by way of not apologizing for the company's informal culture. He also believes the problem of integrating new management talent won't vex the company. "That problem exists anywhere," he says. "People feel threatened when you bring somebody in from outside. People think the guy's going to chip away at their authority. Sure, that's been a bit of a problem." Then Tatta, who is old enough to say exactly what he pleases, explains his view in simpler terms.

"You got a dog? You bring another dog into the family, what does the first dog do?" Tatta asks, turning the tables on his interviewer.

"She'd go nuts."

One of the most experienced men in the cable business hears that and sums up: "So what the hell's the big deal?" ●

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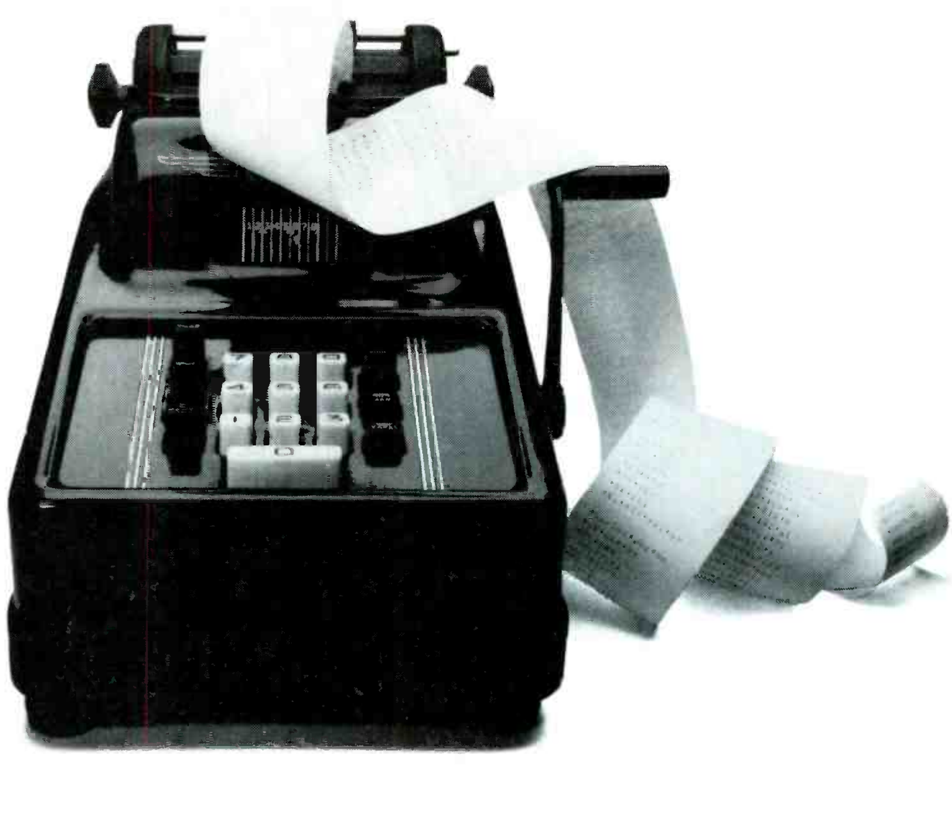
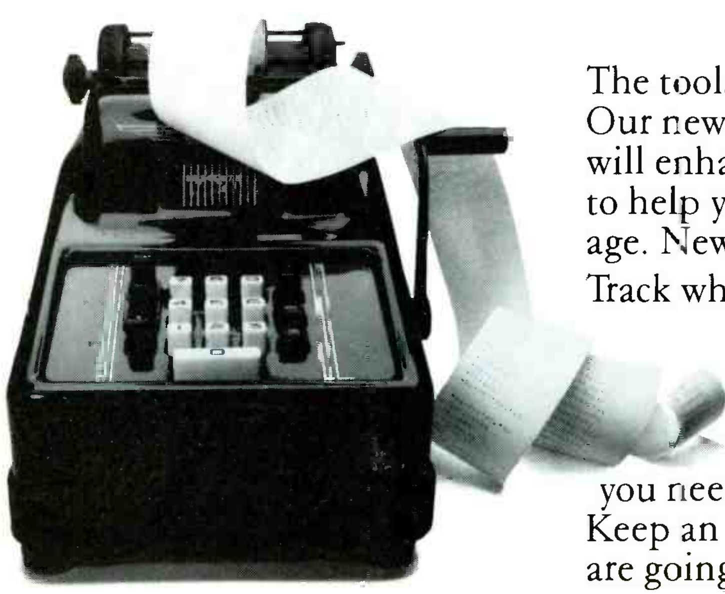


The Arbitron Company

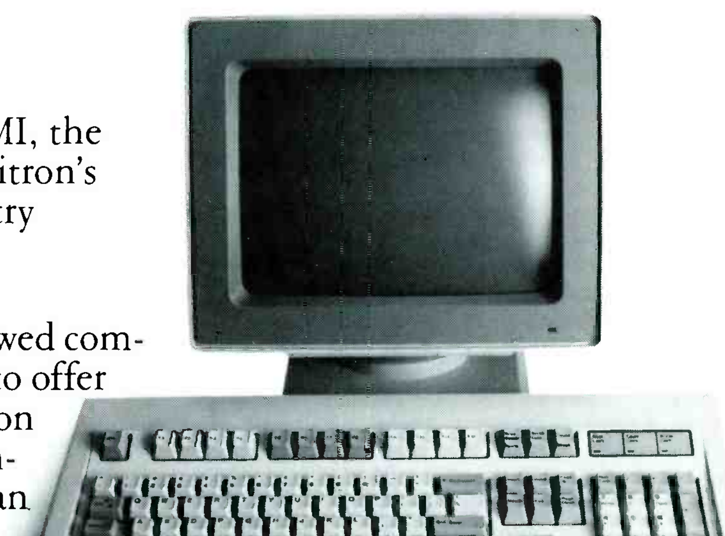


The tools have changed. And so has Arbitron. Our new services give you information that will enhance your station's ratings. New ways to help you sell. New ways to help you manage. New ways to help you compete.

Track what local retailers are promoting on the air, in the stores, through the mail and in newspapers. Know which products are the market movers to get the ammunition you need for those tough national sales calls. Keep an eye on where the advertising dollars are going in your market. Get your fair share of those spot dollars. How? With SAMI, the leading product tracking service. Arbitron's newest addition. And with the industry standard for commercial monitoring, Broadcast Advertisers Reports.

It all adds up to commitment. A renewed commitment by The Arbitron Company to offer you a full range of services. Information that puts marketing in perspective. Information that works for you so you can increase your station sales and profits.

ARBITRON



BET Faces Music, Comes up with Talk

BET survived nine years with lots of paid programming and music videos. Now they're serious about original shows.

BY KIRSTEN BECK

Bob Johnson eases his silver-gray Audi through the midday traffic of Washington, D.C., talking as he drives. The founder of cable's Black Entertainment Television, Johnson tells a shocking story that has less to do with television than with the perspective he brings to the medium.

"I was walking across the Grand Hyatt lobby on my way to an HBO meeting [in New York]," Johnson says, "when a security guard came up to me, demanding to know my name and was I a guest of the hotel. I said, 'I don't have to answer you,' and continued to walk toward the door. Then another security guard came up. They surrounded me, bumped into me, kept me from going in or out. I tried to step back and I couldn't . . . . Before it was over I was surrounded by four guards and a manager, all demanding that I tell them whether I was a hotel guest and what my name was. I looked at them and said, 'I don't have to tell you my name; I have a perfect right to be here.' "

But the security men persisted for as long as 20 minutes, Johnson says, demanding to know who he was and preventing him from moving. Eventually, police arrived. As Johnson talked with them, he recalls, the security guards faded away. After a short conversation, the police left, and Johnson—shaken and furious—took off for his meeting, pausing only to telephone BET's general counsel in Washington. When he returned to the hotel, he says, he demanded an explanation from the Hyatt manager, but still all he has been told is that someone in the hotel had been mugged.

"It just goes to show you, Malcolm X was right," says Johnson, his grip tightening ever so slightly on the steering wheel. "No matter how rich you are in this society, if you're black, you're still a nigger."


Johnson: BET's cool, deliberate leader.

Johnson is suing Hyatt—not because the incident happened, but because, he charges, the company still has not explained satisfactorily why the incident happened. Bringing suit is hardly the first reaction one would expect from this extraordinarily cool, deliberate executive who appears practically unflappable. And Johnson, BET's president and majority stockholder, admits that he rarely "loses it." After nine years of carefully shepherding the only network targeted to the black American, Johnson says he is ready to implement his dream—to make BET the primary source of entertainment and information for black America. He wants, as he puts it, "to show there is another way to make television for an audience that's been denied its culture in a real sense."

Johnson argues that much of what is identified today as black culture comes from Hollywood, and yet, he says, "there are very few blacks [in television] on the West Coast." Part of his dream is to create a forum for East Coast voices, such as author Maya Angelou and Dance Theater of Harlem founder Arthur Mitchell, and provide television so distinctive "it will take on the magic of the Disney name" for America's blacks.

Thus far Johnson has guided BET to positive cash flow (reached in 1987), and this year he has set big growth plans. Buoyed by a 100 percent increase in the affiliate fee cable operators pay to carry the service, which rose from 2.5 to 5 cents this year, BET recently took charge of all its production and satellite uplinking. After years of leasing space, it opened a sleek $10 million studio in Northeast Washington. And, for the first time since it became a 24-hour service in 1984, BET is planning a new fall season with nine original shows, which Johnson promised operators last December.

Today's BET is a far cry from the two-hour, late-night Friday service begun in January 1980. Johnson has built a channel that could almost pass for a black MTV from noon to 3 A.M. With nearly half of the channel's weekday programming devoted to shows featuring music videos, BET has become the premiere outlet for black musicians. The largest chunk of BET's seven-day-a-week, 24-hour-a-day service, however, is devoted to program-length commercials such as *Can You Beat Baldness?* Time sold for these programs totals 76 hours per week, or 45.2 percent of the programming grid, according to BET's '89 program schedule. Viewers may overlook this, as it's mostly shown from 3 A.M. to noon, but on Sundays it's hard to miss, running a full 22 hours.

The balance of BET's programming consists of reality-based shows (a show-biz news program and a half-hour travel program, *Going Places*), sports, black movie classics, an occasional sitcom rerun and an hour of cartoons. BET produces a weekly news show and a sports talk show, and presents weekly boxing and black college football and basketball in season.

Although BET has 21.5 million subscribers now, the early days were frustrating for Johnson as he tried to win carriage on primarily white suburban and rural systems. Back then, Johnson admits, his cool facade occasionally cracked. Once, for instance, he called cable operators "telecommunications slumlords," saying they returned nothing to the minority communities from which they took revenues. "Then," recalls Johnson, "some of my industry friends said, 'Listen Bob, we know how you feel, but in cable we don't say things like that.' " In spite of the advice, and his own determination to win by working within the system, Johnson stepped on toes occasionally. Some cable operators recall that Johnson's early sales tactics felt more like extortion than marketing. "BET wrote letters indicating that they were hoping for an affiliation agreement with us so that they wouldn't have to go directly to the city council and say we were not serving the minority constituency. It was coercion," recalls one MSO executive.

In 1984, Johnson turned to HBO for help. As HBO senior v.p. Don Anderson recalls, "the cable operators were mad as hell because BET was being sold on the strength of, 'You gotta carry me or you're not fulfilling your social commitment to your black subscribers.' " That year, HBO joined BET's two other investors, TCI (BET's original 1980 partner, with a $180,000 investment and a $320,000 loan, according to Johnson) and Taft (now Great American). Each has a 16⅔ percent interest in the service. As part of the investment deal, HBO's Anderson took over BET's affiliate marketing, a responsibility he retained until last January, when Curtis Symonds, hired by BET to establish an in-house affiliate marketing department, took control.

During Anderson's tenure, BET subscribers grew from 7 to 21 million, and affiliate revenues, according to Paul Kagan Associates estimates, increased from $2.5 to $10.2 million. As control of marketing passes back to BET, some operators admit they are wondering what BET's new tone will be. Symonds says he'll shift BET's affiliate marketing into a more aggressive mode, beef up affiliate services and public relations, institute a co-op advertising program and begin community marketing.

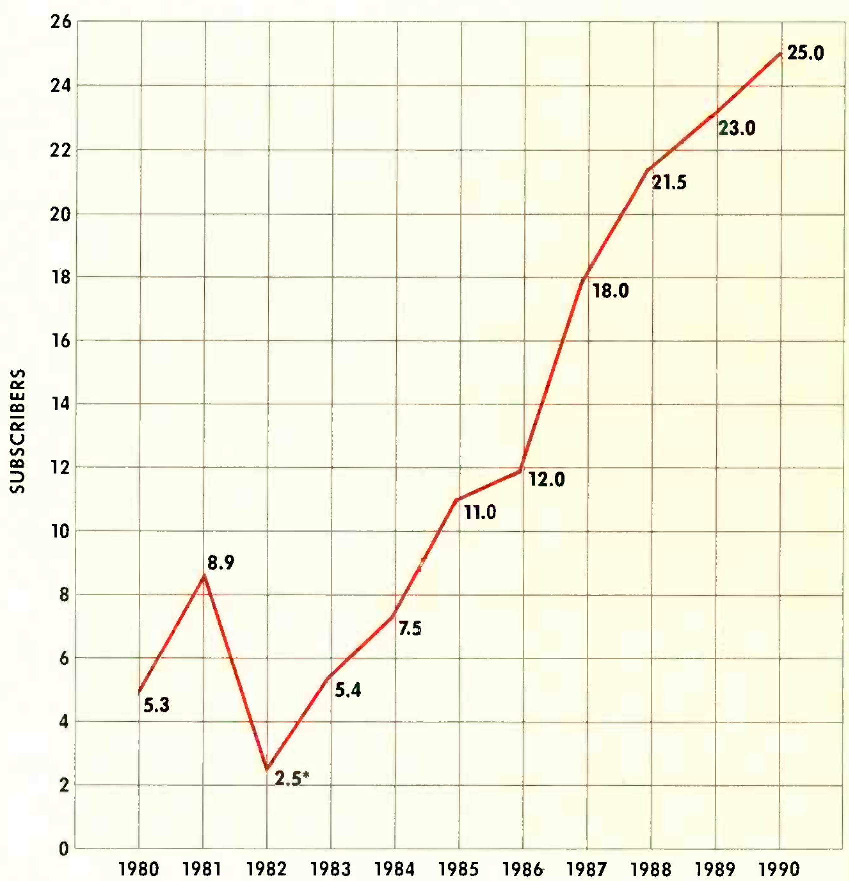
The same year HBO took over marketing, BET became a 24-hour service, and Johnson chose music videos as a programming staple. In the process, BET put black musicians on TV before MTV integrated its format, and many record-industry executives credit BET for single-handedly establishing today's thriving black video business. BET's extensive use of videos has also proven efficient, gaining Nielsen ratings as high as .8 at low cost, since videos are still provided free and need only be woven together with a host.

For fall, Johnson promises to diversify BET's programs and expand its heretofore limited original programming. Cable operators say they expect the higher affiliate fees to generate a better mix of shows, and even record executives admit that for BET to become America's black network, it will have to provide more than mostly music.

Last September, Johnson hired BET's first programming v.p., William Wallace, from WQED in Pittsburgh, a PBS station. Ideas for fall's new programs took shape during a November retreat Johnson held with Wallace and network operations v.p. Jefferi Lee. Each new program will have an element of interactivity, and each is designed to give a TV voice to parts of the black community that previously have had none, a longstanding goal at BET.

The new shows include a nightly talk show that will draw on the black intelligentsia and artistic communities in addition to the political establishment, which Johnson grew close to during his years as press secretary to D.C. Rep. Walter Fauntroy and later as lobbyist for the Urban League and the National Cable Television Association. Johnson hopes to create a show with an intimate atmosphere, almost like an after-dinner conversation over coffee and brandy. That's what it will be like "if we do it right," he says. "If we do it wrong, we'll have national public-affairs television." In a similar vein, BET will create a teen-oriented talk show to address current

BET Subscriber Growth
(in millions)



Source: Paul Kagan Associates, Inc.

*BET moved from satellite Satcom I to Westar V in 1982, losing 6 million subscribers in the process. In 1984 BET moved to Hughes Galaxy I.

teen problems and to showcase black teen achievements. Both programs will involve viewers via telephone linkups or in-studio participation. Johnson also wants to give black actors and writers a voice via BET's *On Stage*, a series of one-character dramas focusing on outstanding blacks. These three shows will form the program thrust for the new season's beginning, says v.p. Wallace. As they take shape, he says, BET will add six additional new shows, which include a celebrity interview show and a live music-performance program.

A comedy show is on the development list, as is a new sports talk show, a soap-opera magazine show and *Black Agenda 2000*, a traveling town meeting that will address some of the tough issues facing the black community today.

Producing nine new shows in-house for one season is a tall order for any-network; BET is still ironing the wrinkles out of its new studio and lacks experienced production teams. Furthermore, BET production won't even reach full staffing until August, when the new fiscal year begins. Racing to create the new shows will surely stretch BET to its limits. Wallace admits he is concerned, but says he won't linger on such troubles, preferring to regard 1989 as a challenge that will elicit the best in his people. Others, however, are less sanguine, and already the network is indicating the status of two of the nine shows is "iffy."

In spite of likely growing pains at BET, Johnson knows he has an audience that loves TV. Nielsen says black households viewed 10.6 hours of TV per day on average in 1988, as compared with 7.3 hours for all others. And Robert Maxwell, HBO research v.p., told HBO affiliates that penetration figures "suggest that blacks are 80 percent more likely to subscribe to cable if BET is available." Ajit Dalvi, Cox Cable's senior marketing and programming v.p., agrees, and says that Cox's internal data indicate BET is heavily viewed in black households. David Keefe, senior v.p., Continental Cablevision of Southern California, says, "BET helps cable stick and avoid churn."

So compelling is the audience research on black viewing that choosing BET is virtually a "no brainer" for any advertiser looking for the black audience, says Nick Howse, v.p./media director for Chicago-based Burrell Advertising. Even United Airlines, which is not generally keen on so-called new

BET Basics

	1987	1988	1989*
Net ad revenues	7.7	10.2	13.3
License fee revenues	5.1	5.2	10.0
Operating cash flow	2.0	3.0	4.0
Programming expenses	4.3	7.0	11.0
Cash flow margin	16	19	17

Source: Paul Kagan Associates. *Estimates.

media opportunities, was finally convinced to buy time on BET, says Bill Alenson, who makes United's ad buying decisions. It wasn't easy for BET to crack United; it took two years to convince the airline that BET reaches the desirable, up-scale frequent flyer with *Going Places*, BET's travel show, as well as via the weekly BET news.

BET is also a natural for advertisers like Mattel Toys, with such products as the black Ken and Barbie dolls. After two years of planning, Jocelyn Carter-Miller, v.p. of marketing, says Mattel is signing on with BET as a fall '89 advertiser. BET is beefing up its children's programming, starting with old Jackson Five cartoons twice a week.

BET's sales pitch has changed during the six years James Ebron has been v.p./network ad sales. When he began selling BET, he says, "we sold black, black, black: exclusively black numbers. But now we're selling crossover, too," acknowledging white viewers who tune in for sports, music and more.

BET declines to reveal financial information, but Paul Kagan Associates (with whom Johnson likes to say he won't argue) estimates BET's net ad revenues for 1988 at $10.2 million, up from $5.5 in '86 (see chart). Kagan also estimates BET's total net revenues will increase from $15.4 million in '88 to $23.3 million this year, generating an operating cash flow of $4 million.

A significant portion of BET's current revenue, however, comes from sale of time for program-length commercials. Fifty-seven of the network's 76 weekly hours of paid programming are sold outright to New York-based Synchronal, for which BET receives approximately $500,000 per month. Synchronal then "programs" the time. If the remaining hours are sold by BET at a comparable rate, time-sales alone will bring in approximately $8 million this year, which would comprise a significant portion of Kagan's $13.3 million estimate of BET's net '89 ad revenues.

Without paid programming and Johnson's canny use of free music videos, BET would probably not yet have reached positive cash flow. The strategy provided enough financial security for BET to build its new studio and buy the impressive $2 million, three-story Georgetown building it calls corporate headquarters. Yet some wonder why bricks and mortar preceded original programming. Now, as original programs are added to the schedule, the amount of time sold may decline. And as BET faces dramatically increased expenses for programming, additional staff and its studio, giving up what is essentially easy money may prove difficult.

Johnson continues to express frustration over BET's inability to gain 24-hour carriage on certain systems—particularly New York City's two Manhattan systems, where the service has only partial carriage. Many operators do express a growing appreciation of BET's ability to help them penetrate urban black markets: Larry Michel, marketing v.p. for Baton Rouge Cablevision, calls BET "very important" to his system. And most operators contacted for this story admitted they were unaware of BET's high percentage of paid programming. Only Continental's Keefe said he was both aware and tolerant of it, noting, "We understand it as part of the metamorphosis of a new service." Yet some people are aggravated by it. Many operators expressed disgruntled surprise over the large number of paid programs on BET, and declared it had better diminish.

As BET gears up for its new push, Johnson dismisses the suggestion that BET might be unable to deliver all nine planned programs along with the higher level of affiliate service the industry wants from BET. In fact, says Johnson, in spite of all the challenges, BET can't lose. Even if a well-heeled competitor wanted to horn in on BET's territory, he says, it would "buy us out first." If it takes several years instead of one to deliver all that he has promised, Bob Johnson still has a firm grip on cable's black shelf, and that is exactly what he set out for nine years ago. Now, the cable industry waits to see how well BET will stock the shelf. ●

This notice appears as a matter of record only
January 1989

Sold:

Altelco Communications Services
Serving Kirkwood, California.
Has been acquired by
Weststar Communications Inc.

Dan Forey
represented the sellers

DANIELS
& ASSOCIATES

This notice appears as a matter of record only
January 1989

Charter Cable Inc.
Has acquired certain cable properties
serving Central Kentucky.

Sale represents 2,000 basic subscribers

Jeff Eden and Bill Fitzgerald
represented the sellers

DANIELS
& ASSOCIATES

This notice appears as a matter of record only.
January 1989

Citizen's Cable Inc.
Serving Colorado Springs, Colorado.

Has merged with
Colorado Springs Cablevision Inc.
A joint venture of ATC and
Century Communications Corp.

Sale represents 6,400 basic subscribers

We assisted in the transaction

DANIELS
& ASSOCIATES

This notice appears as a matter of record only
January 1989

Liberty Communications Inc.
Serving North Liberty, Mt. Vernon, Solon
and six other Iowa communities.

Has been acquired by
Vantage Cable Associates Inc.

Sale represents 4,875 basic subscribers.

Bill Fitzgerald
represented the sellers.

DANIELS
& ASSOCIATES

This notice appears as a matter of record only
January 1989

Prairie Cable Vision Inc.
Serving Center Point, Iowa

Has been acquired by
Vantage Cable Associates Inc.

Bill Fitzgerald
represented the sellers

DANIELS
& ASSOCIATES

This notice appears as a matter of record only
February 1989

Sold:

US Cable of North Gibson
Serving Dyer, Rutherford, Bradford and Kenton, Tenn.
Has been acquired by
Enstar Income/Growth Program
Six-A, L.P.
A limited partnership managed by
Falcon Cablevision

Sale represents 2,680 basic subscribers.

Chip James represented the sellers

DANIELS
& ASSOCIATES

This notice appears as a matter of record only
March 1989

Weststar California
Comprised of certain affiliates of
Weststar Communications Inc.
Serving Half Moon Bay, Bishop and other
California communities.

Has secured financing in the amounts of:
$23,000,000
Senior Secured Notes
$2,000,000
Senior Subordinated Notes
$9,750,000
Junior Subordinated Notes
Bruce Godfrey & Craig Johnson
privately placed these notes.

DANIELS
& ASSOCIATES

This notice appears as a matter of record only
March 1989

Weststar Communications I
A limited partnership managed by
Weststar Communications Inc.
Serving Truckee, Calif., and various Northern
Idaho communities.

Has secured financing in the amounts of:
$22,000,000
Senior Secured Revolving Credit Line

Bruce Godfrey & Craig Johnson
arranged the financing.

DANIELS
& ASSOCIATES

This notice appears as a matter of record only
April 1989

Cable TV Company of Central New York
Serving various villages and towns in
Oneida and Oswego Counties, New York.

Has been acquired by
First AmeriCable Corporation

Sale represents 4,130 basic subscribers

Greg Ainsworth and Bruce Godfrey
represented the sellers.

DANIELS
& ASSOCIATES

This notice appears as a matter of record only.
April 1989

CableVision of Foxfire
Serving Foxfire Village and
Moore County, North Carolina.

Has been acquired by
ATC

Chip James represented the sellers.

DANIELS
& ASSOCIATES

This notice appears as a matter of record only
April 1989

Centel Cable TV Company
Serving cable television subscribers in six states.
Has been acquired by
Jones Intercable Inc.
ATC
C-TEC Corporation
Simmons Communications Inc.
Adelphia Communications Corp.
Warner Cable Communications Inc.

Sale represents 578,000 basic subscribers

We represented the sellers.
PENDING

DANIELS
& ASSOCIATES

This notice appears as a matter of record only
April 1989

Sold:

Coastside Cable TV Inc.
Serving Half Moon Bay and Fort Ord, California.

Sale represents 13,000 basic subscribers.

Dan Forey represented the seller.

DANIELS
& ASSOCIATES

This notice appears as a matter of record only
April 1989

Culdesac Cable T.V.
Serving Culdesac, Idaho

Has been acquired by
Weststar Communications

Jeff Eden represented the sellers.

DANIELS
& ASSOCIATES

This notice appears as a matter of record only.
April 1989

Grangeville T.V. Service Inc.
Serving Craigmont and Nezperce, Idaho

Has been acquired by
Weststar Communications

Jeff Eden represented the sellers

DANIELS
& ASSOCIATES

This notice appears as a matter of record only
April 1989

Joseph S. Gans Inc.
And Affiliated Companies

Providing cable television service in
Pennsylvania, New York and Arizona

Has secured financing in the amount of:
$28,000,000
NCNB National Bank of North Carolina

Greg Ainsworth initiated the transaction
and served as financial advisor.

DANIELS
& ASSOCIATES

This notice appears as a matter of record only
April 1989

Sold:

Santiam Cable Vision Inc.
Serving Detroit, Lyons, Mill City, Sublimity,
Stayton and Turner, Oregon.

Sale represents 3,000 basic subscribers.

Dan Forey represented the seller

DANIELS
& ASSOCIATES

This notice appears as a matter of record only
April 1989

Spearman & Shamrock Cable Television
Serving Spearman and Shamrock, Texas
Has been acquired by
Mission Cable Company L.P.

Sale represents 2,207 basic subscribers

Trevor Brown represented the seller.

DANIELS
& ASSOCIATES

This notice appears as a matter of record only
April 1989

Weststar Communications
Has acquired
Clear Water Communications Inc.
Serving St. Maries, Kellogg, Page,
Pinehurst and Wardner, Idaho.

Sale represents 3,591 basic subscribers.

Dan Forey represented the buyer

DANIELS
& ASSOCIATES

This notice appears as a matter of record only
April 1989

Sold:

Weststar Communications
Has acquired
Telview Antenna Inc.
Serving Osburn and Wallace, Idaho.

Sale represents 1,750 basic subscribers.

Dan Forey represented the seller.

DANIELS
& ASSOCIATES

This notice appears as a matter of record only
April 1989

Video Communications Inc.
Serving Cotton Wood and Elk City, Idaho

Has been acquired by
Weststar Communications

Jeff Eden represented the sellers

DANIELS
& ASSOCIATES

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The Meaning Of the Merger

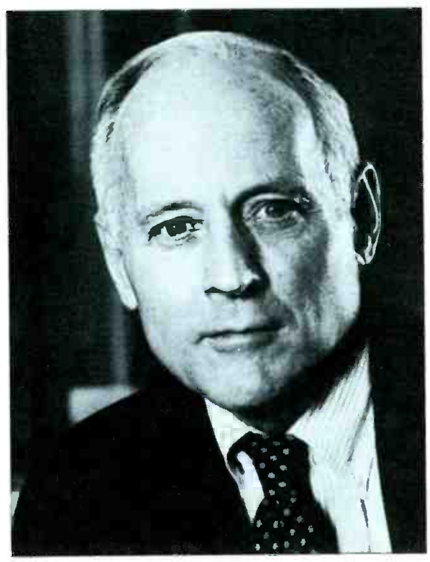
It may be years before the full impact of the Time-Warner marriage takes hold. But in cable, the shock waves are easier to measure. **BY HARVEY SOLOMON**

If cable news were measured on a seismograph, the proposed Time-Warner merger would have registered 8.0 on the Richter scale. Now, as the tremors subside, questions remain as to whether the aftershocks will ultimately prove constructive or destructive. Limited comments from Time and Warner executives have only fanned the investigations and cable pundits' theories.

The March 14 testimony of Time chairman and CEO J. Richard Munro and Warner counterpart Steven Ross before a U.S. House subcommittee provided but two suggestions of the merger's effect: that it may enhance HBO's entry into European pay TV, and stimulate program distribution in Europe and Asia. Munro said that the combination of production and distribution capabilities would "translate into a greater overall volume of programming and more diversity and innovation for viewers."

Not surprisingly, HBO and Cinemax will reap multiple benefits from the merger. Both already enjoy preeminent status in original programming, and that chasm separating them from the other services is widening. Operationally, the combined 5.4 million subscribers of Time Inc.'s American Television & Communications and Warner Cable provide a strong base, but carriage alone doesn't guarantee increased penetration. Rather, placement and promotion are the two keys to a channel's success, and HBO and Cinemax will receive top-level support from the new MSO (see sidebar).

ATC and Warner Cable will report to ATC chairman Joseph Collins, but few observers expect major operational changes. The MSOs have systems in 36 states, but only 15 have both ATC and Warner systems. Some economies could accrue in combining program-license, marketing and operational expenses, especially in new builds and rebuilds.



Time's Richard Munro: Europe, here we come.

Feature films have always formed the core of pay television's appeal, and Time's services are now in the third year of a five-year de facto exclusive movie pact with Warner Bros. Though Warner's 1988 schedule generated only a solitary box-office smash, *Beetlejuice*, its 31 releases represented the most of any studio. In pay cable, quantity and quality go hand in hand, and Warner's critically acclaimed releases such as *Crossing Delancey*, *A Cry in the Dark*, *Stand and Deliver*, *Bird* and *Lean on Me* should fare quite well. Warner's 1989 releases already include several Oscar-winning hits, including *Dangerous Liaisons* and *The Accidental Tourist*, with potential blockbusters *Lethal Weapon 2* and *Batman* upcoming.

But the most promising long-term benefits accrue to HBO and Cinemax in myriad new programming scenarios. HBO's long-standing dominance in pro boxing, for example, will mesh nicely with Warner Bros. Pay Television, which recently distributed the Hector Camacho/Ray Mancini WBO welterweight championship bout, its first pay-per-view fight. Last year, HBO's first PPV boxing bid for the Ray Leonard Donny Lalonde title bout was topped by wrestling programmer Titan Sports. "To protect our boxing franchise, we're desperate to get into that business," says one HBO executive. "The MSO will have the physical plant and equipment, and we have all the [boxing] contacts, so it's a perfect marriage."

Warner's record-label affiliates—Warner, Electra, Atlantic, Sire and Geffen—also offer an impressive roster of musicians from which to develop PPV and cable programs. The fact that TV concerts spur record sales could help close deals since "licensing fees are the big hit in program arrangements," according to an HBO executive.

Time's imminent basic comedy channel would also benefit from the merger. More important than the 5.4 million subscribers, Warner's position as the largest program supplier to network TV could give the comedy channel the creative legs it needs to survive. Thanks to its recent acquisition of Lorimar Telepictures, Warner boasts marked strength in sitcoms with *ALF* and *Perfect Strangers* in addition to its *Growing Pains* and *Head of the Class*.

A softening of the syndication marketplace for dramatic hours has allowed basic cable to make inroads, most notably with MCA's sale of *Miami Vice* and *Murder, She Wrote* to its half-owned USA Network. This deal could be a precursor to similar Warner comedy sales. "Lorimar is in first-run syndication in a big way, and many people would say that there's not a huge difference between producing cable's programming and a lot of what goes for first-run syndication," says John Reidy of Drexel Burnham. "The question always is, 'What's the maximum I can make on my product?' That's always the main consideration of the film guys."

But the dollar considerations of the major studios have been greatly influenced by the merger, and a tacit response has quietly emerged: Studios are more predisposed than ever to sell to Showtime. Just as operators embrace the idea of a strong number two MSO to counterbalance TCI, in a Hertz/Avis mold, studios and operators have always liked having Showtime to counter HBO.

Days before the merger announcement, Showtime signed an exclusive deal with Nelson Entertainment for 18 films, many in development. Such so-called "output" deals will doubtless increase. And days after the announcement, Showtime stole some of the headlines with a $500 million, five-year extension of its pact with Walt Disney Studios, the dominant theatrical force in 1988. The agreement calls for exclusive pay-TV rights (with a small percentage of films shared by The Disney Channel) for up to 126 films from Touchstone Studios and the recently formed Hollywood Pictures.

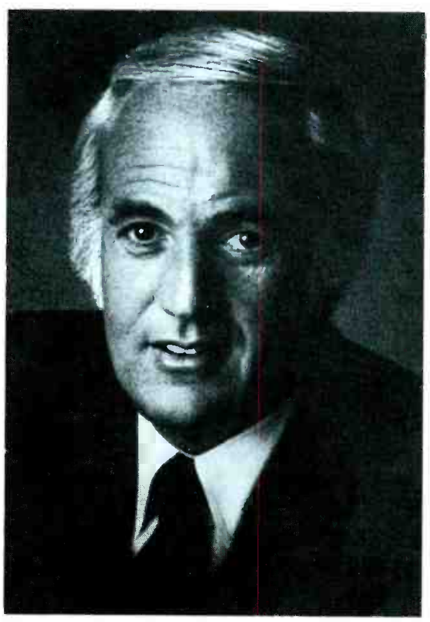
As part of the agreement, Disney's TV arm will also develop original shows and series exclusively for Showtime. Many expect Warner Bros. to do the same for Time Warner's existing and new services. And the decision by former MTV boss Bob Pittman to rejoin Warner, probably to develop new programming, will bring another strong creative force under the Time Warner umbrella. "The need for good-quality, efficiently produced alternative programming is one that the cable industry has only begun to understand," says Marc Lustgarten, Rainbow Program Enterprises president and CEO.

While the big get bigger, some independent producers worry that gaining access to HBO will become more difficult. Time's Munro tried to allay those fears, saying at the House hearings that "our commitment to utilizing the talents of independent producers will not be affected by this merger." But the merger could help foster new relationships between Hollywood and cable. Operators generally approve of Warner Bros. joining the cable programming fold, and few would be surprised if other studios followed suit. Additional network/cable alliances such as ABC/ESPN and ABC NBC/A&E could surface. While much off-HBO product including *The Hitchhiker*, *Philip Marlowe*, *Private Eye* and *Ray Bradbury Theatre* has been sold to USA Network, HBO is reportedly negotiating to allow Fox to air HBO/Cinemax fare after its cable runs.

But regulatory issues such as syndex keep the overall cable/broadcast relationship precarious, and cable's biggest concern is that the merger may hasten increased governmental scrutiny. As their audience shares inexorably erode, broadcast networks are clamoring for abolition of some strictures, especially the financial-interest/syndication rules. Increasing vertical integration in cable, typified on the largest scale by the Time-Warner merger, could provide the impetus for new communications rulings and/or legislation.

In the meantime, it's business as usual as cable braces for further consolidation. As one cable veteran says warily, "The other players will have to scratch and claw a little bit harder to hang on. But is that so bad?" ●

Harvey Solomon last wrote for Channels *about cable refranchising.*



Warner's Steve Ross: Bringing back Pittman.

Let's Do Launch

The announced Time-Warner merger has sparked renewed concern over the trend toward vertical integration, particularly regarding operator equity in cable services. Has equity participation become a prerequisite for new services? Industry observers may hedge, but recent experience screams out an unqualified "yes."

Excluding shopping channels, only seven out of some 20 new basic services launched during the last five years have surpassed the 10 million subscriber mark, and all have either operator interest or parent companies that own cable systems: VH-1, The Discovery Channel, C-SPAN II, The Travel Channel, Movietime, TNT and CNBC. "Operator investment isn't mandatory, but it's helpful," says Marc Lustgarten, president and CEO of Rainbow Program Enterprises, which received a hefty cash and subscriber infusion when Tele-Communications Inc. bought half of Rainbow's American Movie Classics (AMC) cable channel. "To the extent that the industry moves away from that preoccupation, I think it will be better off. In the end, we want lots of good services to come forward . . . Programming feeds the system."

Following the failure of Time Inc.'s family movie channel Festival, Time representatives are visiting MSOs in an unprecedented effort to not only tout the company's forthcoming comedy channel but gain feedback about it as well. While finding an untapped audience niche is paramount, placement and promotion go a long way toward determining a channel's ultimate success. MSOs aggressively support their own program interests; subscriber totals at Discovery and Movietime, for example, have skyrocketed since operators bought in. Conversely, Cablevision Systems often battles competing regional sports networks, and partial CNN owners ATC and Warner were conspicuously absent from CNBC's launch.

A look at operator equity in cable services reveals a veritable thicket of intertwined relationships: TCI, which shares AMC with Cablevision and NBC (25 percent each), recently announced a partnership with Daniels & Associates to develop new and existing regional sports channels. TCI, along with Cox and NewChannels, just increased the MSO stake in Discovery to practically 100 percent. And there are numerous other such deals.

Lustgarten would argue that "the quality of the service, not ownership by the cable operator, has got to provide the solution." But the smart money remains on increased operator investment in programming services. As one MSO executive explains, "Cable is programming-driven, and it's a hungry beast." —H.S.

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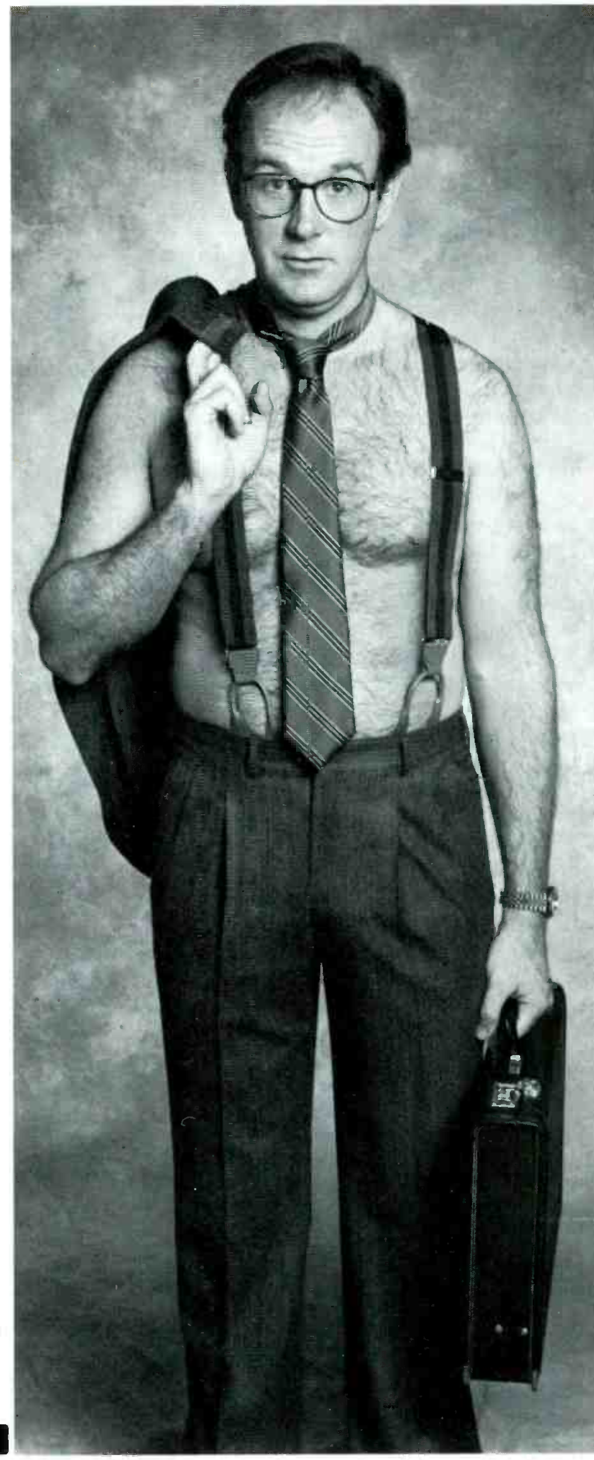

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10 to Watch

A Senator gets his back up; a president moves "up" to v.p.; a White House staffer turns MSO; a son proves himself in Dad's business; a newsman ponders the future; a U.S. cable honcho goes abroad; and more. Ten intriguing tales from the wide world of cable.

PAUL AMOS
Cable News Network

Cable News Network is in the midst of a major reevaluation of its mission, and the man at the center of the process is Paul Amos. "To be successful, we need to be more than a wire service with pictures," says Amos, executive v.p. of programming at CNN. "Does that mean we want to be the broadcast global *New York Times*? Perhaps. Or does that mean we should be a newsstand with the *Times* and *The Washington Post* and *The International Herald-Tribune* on display as well as *Forbes, Time, Billboard, Ladies Homes Journal* and *National Geographic*? These are crucial questions."

Since last December, when Amos was named CNN's new programming chief, the rumor mill has been in overdrive. Amos has been with the network since its debut and has proved himself in a variety of roles—most notably as one of the architects and then director of CNN's Headline News. Until he became CNN's program boss, the buzz was that the 35-year-old Amos was heir-apparent to the network's 69-year-old president, Burt Reinhardt. Says one CNN insider, "Paul is the guy with Turner's ear. He doesn't have to grandstand. He just has to bide his time."

But Amos is doing more than waiting. He is overseeing development of a slew of pilots, including an afternoon show for women on health and nutrition, and an environmental news show.

Look for CNN also to become a more aggressive news-gathering operation. Says Amos: "In the early days we were a reactive network because that was all we were capable of doing. We were firemen rather then engaging in fire prevention. Now we can be proactive.

"We're kind of like Gerber Baby Foods—news is our business," says Amos, "our only business. Given that, if news is going to be broken, it will have to be broken here." J. MAX ROBINS

Cable News Network executive v.p. Paul Amos.

PETER BARTON
Tele-Communications Inc.

How does the president of a fast-growing cable-shopping service move gracefully to a v.p.'s position at an MSO and get away with calling it a promotion? It's easy if you're Peter Barton and the MSO in question is Tele-Communications Inc., where Barton had already worked. As senior v.p. of programming for TCI, the country's largest MSO, Barton is unequivocal about the move: "I've improved my position by going from president of CVN Companies to this. I'm in a very interesting place at a very interesting time doing very interesting things."

Last year, Barton took on the job that former programming boss John Sie juggled along with numerous other tasks. It includes banging out deals with programmers and then explaining it all to TCI's creditors and bankers.

But the job is also a bit of a three-ring circus, the fit-looking, 38-year-old Barton has discovered: "I am one of the

TCI's senior v.p., programming, Peter Barton.

guys who sweeps up behind the elephants, you know. All the desks at the office slope to my desk."

Barton's latest challenge is serving as point man for TCI's ingenious new approach to programmers who demand more than is their due. Under the company's so-called "unbundling" scheme, TCI simply asks its subscribers if a particular service is worth, say, a dollar a month to them. If a majority votes no, the service becomes an optional pay. By transferring such tough decisions to subscribers, TCI not only sidesteps the rap that it is cable's 2,000-pound gorilla, but pressures programmers to upgrade their services. Barton calls it "a hell-or-high-water option" but maintains that the ultimate use of power is in *not* using it. "We tore up contracts that gave us favorable rates in favor of paying programmers more money for better programming," he insists.

MICHAEL BURGI

BOB DAVIS
CNBC

For Bob Davis, the executive producer of the new Consumer News and Business Channel (CNBC), starting a cable service that works is not so difficult. "If you look at the successful ones," says the 45-year-old Davis, "you'll find they're focused at a particular audience or kind of information. Whether it's movies or news, as long as people know what to expect and you deliver it, you've got a viable business."

Whether CNBC's 24-hours-a-day mix of consumer news (auto recalls, pesticide updates) and business news (stock tips, mortgage pointers) competes with either CNN or FNN remains to be seen. If so, how will two business-oriented channels survive? Davis says CNBC is not gunning for either network, but notes that FNN has added consumer news and that CNN's Headline News now uses a stock crawl—evidence, he says, that they're hedging their bets against the new network.

CNBC's executive producer Bob Davis.

Judging from CNBC's impressive launch—13 million subs and 11 of the top 15 MSOs—cable operators are confident that CNBC's programming will establish a successful niche. "Television is *the* prime source of information, but it falls short in the consumer area," says Davis, who was the news director of WNBC from 1982 to 1984 and then for the ill-fated *Today's Business*.

"We think what we are programming will have a real impact on people and, in some cases, inspire them to change their lives based on the information they get," Davis says. "Plus, it's good TV. So it's enjoyable whether you plan to change your life or not."

RICHARD KATZ

SENATOR ALBERT GORE

Democrat—Tennessee

Cable-TV executives with eyes on Washington would do well to train

Tennessee's Democratic Senator Albert Gore.

them on Sen. Albert Gore (D-Tenn.), who has introduced a major cable bill that aims to "stimulate competition."

"People who enjoy the programming variety of cable TV do not have to be trapped by established cable companies," says Gore, 41. "They can begin their own, which will give them a say over programming and rates." In February Gore held an unprecedented seminar on overbuilding in his home state to deliver just that message. Limited rate regulation, "in particular to captive customers," is also on Gore's agenda, says staff director Roy Neel. "You maybe give states the right to draw geographical lines showing where there is clear over-the-air service from X number of stations," he says. "And that would leave you a kind of white area [without over-the-air service] in which you might allow rate regulation." Those white areas—specifically the 22 towns in West Tennessee served by M.L. Partners' MultiVision Cable Television Corp.—are at the heart of Gore's complaint. Neel says MultiVision's rate increases were confined to markets without over-the-air competition. "They took their captive basic-rate customers and jacked rates up almost 50 percent. The whole thing smelled"—strongly enough to irritate Gore.

"You've got to remember who these folks are. They are largely a communications-disenfranchised constituency," living in areas so remote that 80-foot antennas are necessary. Neel says Gore sees the matter "to a certain extent as a rural-equity issue." Translation: Big-city cable operators are bilking the good people of West Tennessee. Gore will have no trouble at all selling that agenda to his constituents, which makes him a powerful nemesis for cable operators.

CHUCK REECE

ROBERT MIRON

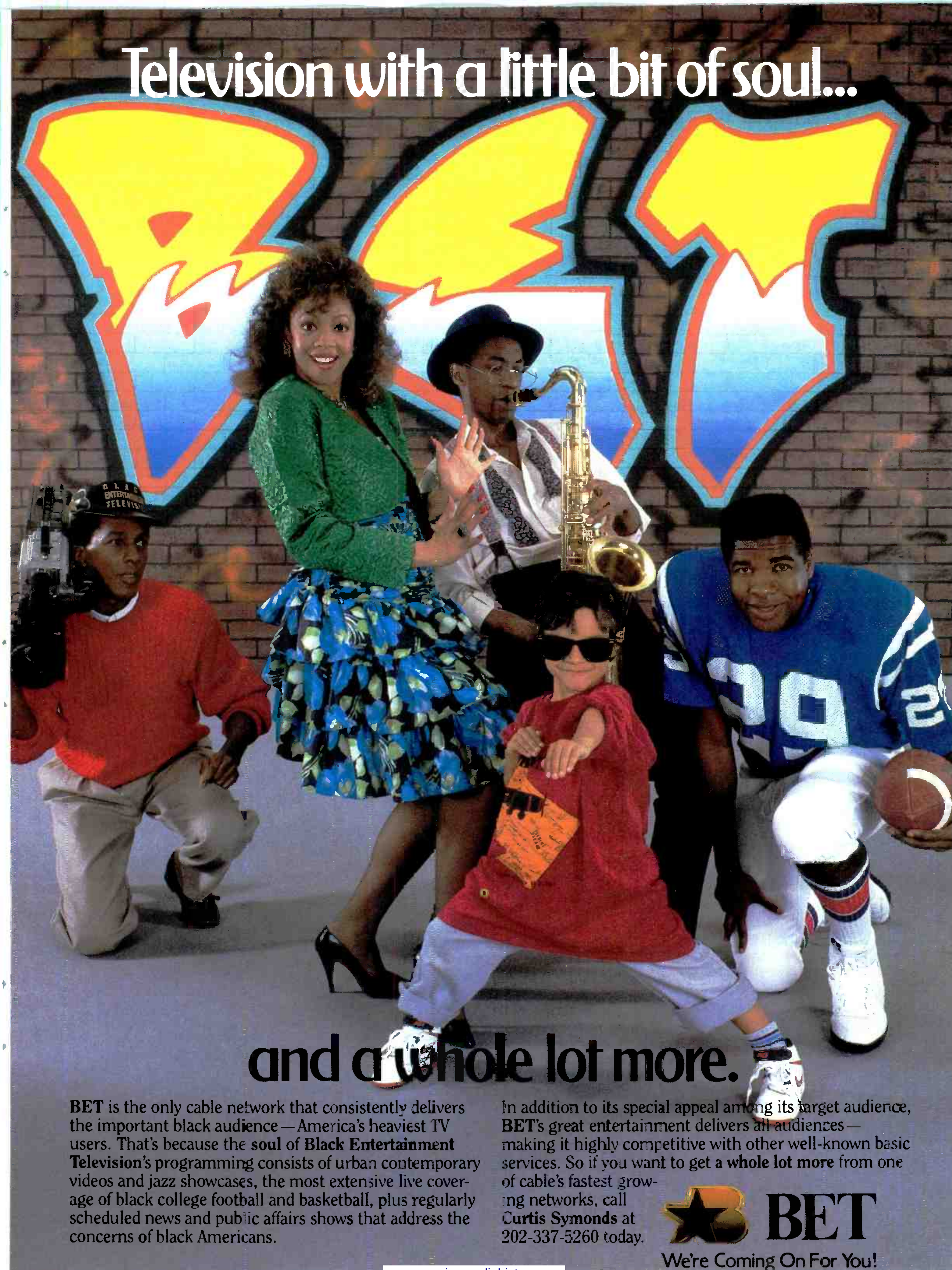
Newhouse Broadcasting

The new chairman of the National Cable Television Association thinks that if the cable industry can just keep its eye on the consumer, most problems will take care of themselves. "When I put all our priorities together," says Newhouse Broadcasting's president Robert Miron, "whether from a public-policy standpoint or as an operator, I start with the consumer."

Miron's first job out of college in 1959 was with Newhouse's TV station group, so when he talks about local service, he's talking from experience. Miron, 51, switched to the cable side of Newhouse in 1966, then assisted in the company's transition from broadcast owner to cable operator.

Newhouse Broadcasting president Robert Miron.

Miron views must-carry and syndicated exclusivity as the two most pressing issues facing cable today. With new FCC syndex rules slated to go into effect January 1, 1990—the same time of year that cable systems traditionally raise rates—Miron envisions a scenario in which cable networks are being bumped because of must-carry, and some broadcast stations are getting blacked out due to syndex—just as rates are going up. Miron says the anticipated consumer rebellion will have a ripple effect throughout the cable industry, making it unlikely that cable will get any special favors from Congress, such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as keeping local and regional telephone companies out of its knickers.

But, adds Miron, "If we continue to provide good value, good service, then I don't see any hue and cry for the phone people to come in. The telephone companies have had a history of abuse, and that's why they were broken up. The world hasn't changed. But my overall priority isn't with the telephone issue. My priority is to take care of the customer—that cuts across all these issues." JACK LOFTUS

THOMAS PISKURA
USA Network

If Thomas Piskura had been at USA Network six years ago, perhaps *The Cosby Show* could have been cable's savior instead of NBC's. "There are creative ways to structure a deal, financially, that would have made it attractive to Bill Cosby," Piskura says. He should know the economics: Before joining USA as its v.p. and West Coast programming executive, he was executive v.p. for The Carsey-Werner Company, which produces *Cosby*.

USA Network vice president Thomas Piskura.

Piskura's main responsibility now is overseeing the 24 original World Premiere Movies USA is producing this year, but he's also on the West Coast to develop other new programming. "We're looking at a new one-hour action/adventure series," he says, "and there are a lot of pitches from producers we want to do research on."

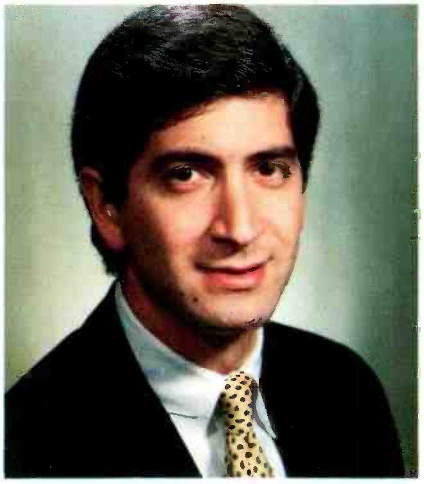
Cable's underdog days in Hollywood are over, Piskura argues: "The creative community recognizes especially USA as a huge potential source for sales." USA is paying producers $2.5 million for each original movie, for instance, which Piskura says is "a little more than the Networks pay." Plus, it's a more direct sail from concept to finished product. "I report to two people, [senior v.p./programming] David Kenin and the chairman of the board," Piskura says. "I can get back to producers immediately with creative input, and at the networks that takes weeks—sometimes years. The suppliers appreciate that."

USA's first crop of 24 films, produced on location from Yugoslavia to Dallas, are action films with recognizable stars—Telly Savalas, Keith Carradine, Stacy Keach. "Our viewers don't care, when they open their cable guide, that it's a World Premiere Movie—they don't understand what that means," Piskura says. "But they do understand stars and action/adventure, and that's what we're giving them." JOHN FLINN

BRIAN L. ROBERTS
Comcast Corp.

Fifteen years ago, Brian L. Roberts had a summer job installing cable boxes for his father Ralph's small cable company, Comcast Corp. Today, at 30, Roberts is executive v.p. of the company that spent more than $2.2 billion in acquisitions this past year alone, and that has emerged as one of cable's true powerhouses. As Comcast has grown, so has Roberts' influence, both in the company and in the industry.

Roberts started his cable career in earnest in 1981, after graduating from the Wharton School at the University of Pennsylvania (where he was an All-American squash player). He went to work as controller for Comcast's Trenton, N.J., system, and spent the next five years cutting his teeth in a variety of operational roles for a variety of systems, before returning to corporate headquarters. Subsequently serving a stint as v.p. of operations, Roberts began his current incarnation in 1987. His job these days is to help the company digest its tremendous growth of the past five years—Comcast grew from 447,000 subscribers in 1983 to 2.4 million by mid-1989—while positioning it to thrive in the future. Comcast hopes to do that by emphasizing programming. To that end, Roberts sits on the boards of Turner Broadcasting and QVC Network. "These are opportunities to continually improve the programming that's on cable," Roberts says of his involvement. He was instrumental in cutting deals with Turner—putting TNT on 80 percent of Comcast's systems—and CNBC—sending that service to a quarter of Comcast's systems for its April launch.



Comcast executive vice president Brian Roberts.

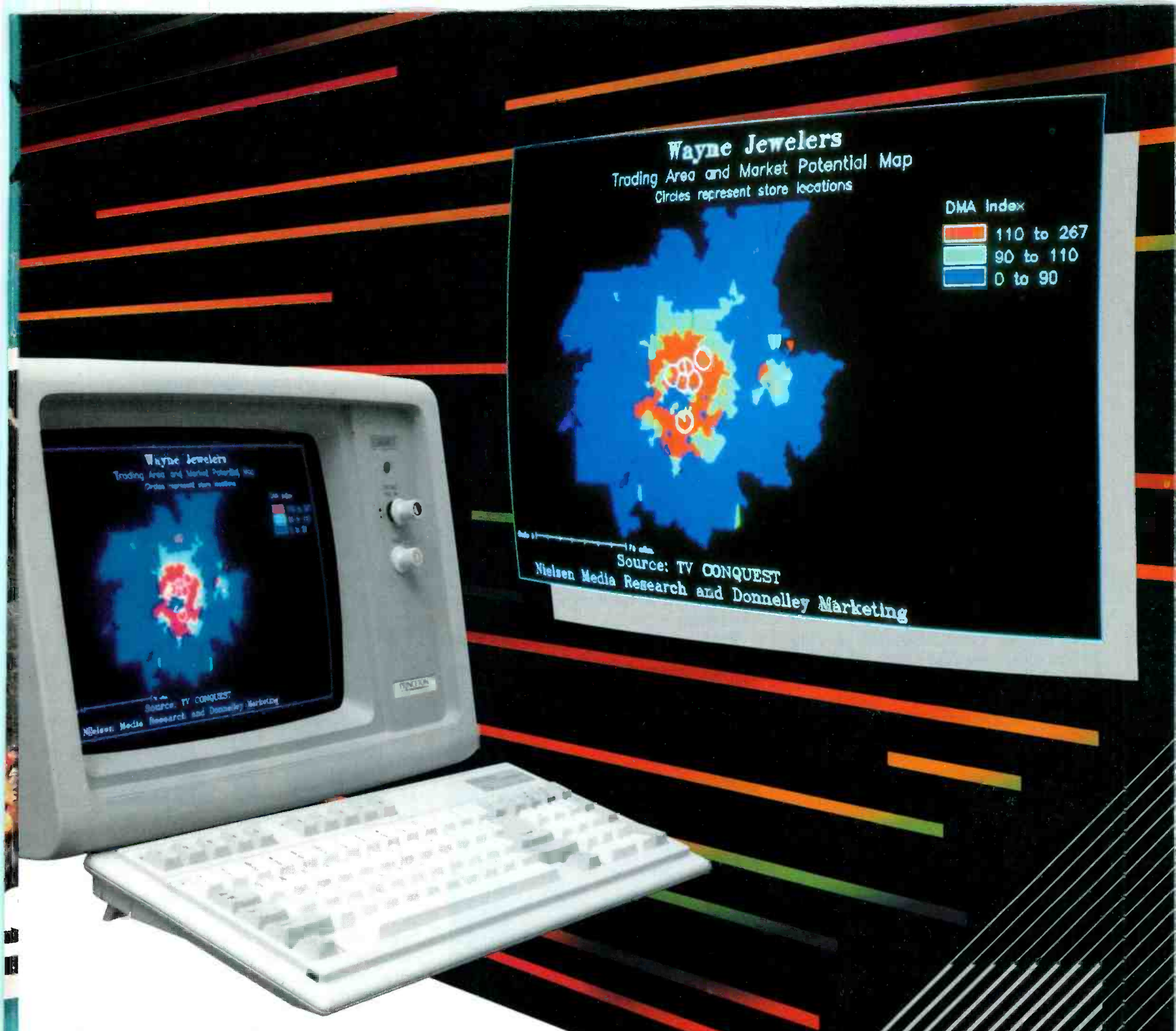
Roberts' goal is to see that "we don't rest on the last decade's success. As cable becomes a major part of American entertainment, we have a responsibility to evolve to a much higher level of quality." PAUL NOGLOWS

STEVEN SIMMONS
Simmons Communications

Steven Simmons' kitchen used to double as his office. That was back in 1982, when Simmons, a former law professor and associate director of the domestic policy staff for the Carter White House, left Douglas Communications to start Simmons Communications. With a handful of seed money, he bought his first cable system in 1983, a 4,500-subscriber operation in rural Vermont.

Less than six years later, Simmons, 42, no longer works out of his kitchen. With its recent purchase of Centel Corp.'s Kentucky and Indiana systems, his company is now the ninth-largest private cable company in the U.S. and ranks 33rd overall.

Simmons modestly attributes his success to "a lot of luck and a lot of hard work." His ability to turn around underperforming systems is virtually unparalleled in the industry. In 1985, for example, Simmons purchased troubled



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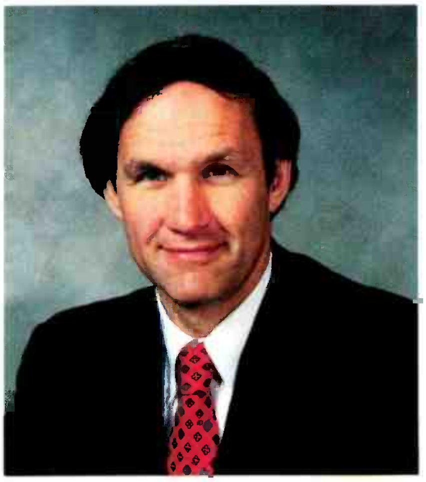


Simmons Communications Steven Simmons.

Long Beach, Calif., systems serving 38,500 subscribers for a then-whopping $42 million (about $1,100 per sub). Today, the systems serve 58,500 subscribers while cash flow has increased 350 percent. Simmons achieves such turnarounds by improving plant quality, upgrading the programming mix, packaging more attractively, intensely marketing the improved product and carefully controlling expenses with an emphasis on improved customer service.

Simmons is excited by the prospects of pay per view, fiber, high-definition and increased ad revenues. Simmons says he hopes to grow his company into a diversified media powerhouse spanning cable, cellular, newspaper and radio. "In five years, I'd like to see us still expanding in cable," Simmons says. "But I'd also like to see other legs on the table." Based on his track record, Simmons' prediction appears almost a foregone conclusion. PAUL NOGLOWS

PENNY TAYLOR

Northwest Cable Advertising

Penny Taylor, g.m. of Seattle's Northwest Cable Advertising, the nation's fifth-largest interconnect, never hires seasoned sellers of cable advertising. "I've never seen one," says Taylor, 35. "I *have* talked to one or two." Old hands at cable ad sales are about as elusive as Bigfoot. Cable advertising is an infant business, especially at the local level. Taylor, however, is among a new breed of cable sales people with broadcasting backgrounds. They are bringing the methods and tools of over-the-air ad sales to the wire.

Since Taylor joined Northwest Cable in late 1986, ad revenues have at least doubled, and rapid growth is continuing in '89. "What I wanted was to run it like a small TV station," Taylor says. "There's a negative perception toward cable ad sales because it hasn't always been the most professional group. What I wanted was to enhance the image and quality of the personnel, get sales people who could not only walk and talk but chew gum at the same time. We needed people who had strong reputations in this market. The perception of the company was not necessarily negative. It was just not taken that seriously as an ad medium—local cable and sky writing were considered the same. I always say I've been trying to legitimize the business."

That can't be done without MSO

Northwest Cable Advertising g.m. Penny Taylor.

backing, however. Taylor credits the joint-venture partners in Northwest Cable—Viacom and TCI West—with making a strong commitment to what is still an "ancillary business" for them. "I think you're going to see real strong growth in local cable," she says. "But it depends on who you have, how the cable system is perceived and what the MSOs give you to set up and run your business. I think all those factors were in our favor in this market."

CHUCK REECE

GERALD YUTKIN

East London Telecomm. Ltd.

Gerry Yutkin presumes he's been blessed. Today he may be the only U.S. cable executive who is at once an international cable operator and a telco executive. Yutkin runs the Jones U.K. Holdings-Pacific Telesis International joint-venture cable and telephone company serving East London. Preparing for possible telco moves in the U.S., Jones Intercable decided to learn the business with an expert partner. By January 1990, Yutkin expects to have over 6,000 cable subs, a start in the

East London Telecommunication's Gerald Yutkin.

phone business and to have applied for additional London franchises.

The East London franchise alone presents serious challenges. A manager who can overcome hurdles like construction costs of $60,000 to $100,000 per mile (as compared to approximately $22,500 for Jones' U.S. systems), basic penetration rates as low as 9 percent and construction surprises like the recent discovery of a buried, unexploded World War II bomb in the franchise area could be a real hero.

Yutkin, however, is confident he can make East London's pluses triumph over its minuses. Its population density of 300 to 500 passings per mile is rarely equalled in U.S. urban builds. Furthermore, the extremely low penetration rates should rise fast once operators have attractive programming, something unavailable until this year's satellite launch of new channels.

Perhaps most exciting to Yutkin is learning the telco business. He'll soon be hip deep in tariffs, rate structures and usage estimations. Running a utility brings sobering responsibilities, Yutkin admits. A cable service outage may make customers angry, but won't cost lives. The same is not always true for telephone service. KIRSTEN BECK

Here Come The RBOCs

The Regional Bell Operating Companies and their independent phone brethren want in the cable business. Just who are they and what are they up to?

If Pacific Telesis Group and Prime Cable succeed in their attempt to purchase the Group W Cable property in Chicago, it will be a day long dreaded by the American cable industry. It will mark the first time one of the Regional Bell Operating Companies (RBOCs) has acquired majority interest in an established cable concern. Such an action was perhaps inevitable following the FCC's recommendation last July that statutory restraints prohibiting RBOC entry into the cable TV business be lifted. Although that plan may falter, since prime supporter Dennis Patrick has announced his resignation as FCC chairman, and commissioner James Quello has wavered on the issue, many Washington observers believe it is only a matter of time before telephone companies are free to deliver voice and video signals to the home, via fiber-optic cable. How the RBOCs and the independent telephone companies are positioning themselves for that day and to what extent they are pursuing a cable strategy is the focus of the following profiles.

GTE

GTE, the largest of the non-Bell operating companies, has been thinking about the various uses of fiber optics and the cable-TV business for quite some time. In 1977 it became the first U.S. phone company to develop a commercial application for fiber optics. The Stamford, Conn.-based company, which offers phone service in 31 states and is heavily involved in lighting and precision materials, was also ahead of the flock in researching how its telephone division could get into cable.

Walt Sorg, assistant v.p. of business development, GTE telephone operations. '88 rev: $16.5 bil. Access lines: 14.4 mil.

In the Southern California town of Cerritos, GTE received FCC approval in April 1988 to lay and maintain broadband coaxial-cable facilities and carry cable-TV programming to a limited number of homes in a community where it also operates the phone system. Apollo CableVision, the local CATV operator, is leasing half of the bandwidth from GTE to provide cable programming to Cerritos. GTE has also filed a construction application with the FCC and is awaiting approval to build a fiber-optic system in Cerritos.

If permission is granted, GTE's plan is to compare the cable-TV signal-delivery capability of coaxial cable, fiber-optic and twisted-pair cable. The tests would include interactive video services, pay-per-view programs, home banking, shopping, security services and remote meter-reading. Currently, 2,150 Cerritos homes are receiving cable though GTE equipment, with more than one-third of its cable laid. When the fiber-optic system gets under way, unique services such as "near-video-on-demand," which makes a film available to subscribers once every 15 minutes, will be tried.

"The reason we're doing Cerritos," says GTE spokesperson Carol Huff, "is to find out what can be done with fiber optics—what makes sense to do, what's the best kind of equipment, how much of an investment it is going to take and what the customers really want." Huff says that GTE has filed with the FCC to lift the cross-ownership ban. GTE will also be experimenting with the simultaneous switching of video, voice and data via single-mode fiber in a small number of homes, courtesy of GTE Labs and American Lightwave's two cable systems in Wallingford, Conn.

"Local telephone companies should be allowed to transport entertainment and interactive video services," argues Walt Sorg, assistant v.p. of business development for GTE telephone operations. Sorg thinks that as telephone companies upgrade their local networks to full broadband capability, they will become a cost-effective provider of video services in their franchise areas. "We know our customers and we have the technology," adds Sorg. "We look forward to working with the cable-television industry." RICHARD KATZ

BELLSOUTH

"I think it's high time to admit that the days of a kinder, gentler telecommunications industry are gone with the wind." So says the chairman and CEO of the Atlanta-based baby bell known as BellSouth, John L. Clendenin, who apparently never met a metaphor he didn't like. Clendenin is usually out on the stump comparing U.S. telecommunications policy to a Tower of Babel, warning against foreign invaders and championing the cause of strategic alliances among U.S. companies to provide "the gateway" through which American information services will flow. BellSouth is making all the right moves, anticipating the day when this baby will be more than just a copper conduit. The party line is that BellSouth should be free to decide whether to get involved in cable TV. End of comment. Meantime, the company is backing the U.S. Telephone Association as that trade group carries the fight to Congress. Behind the scenes, however, BellSouth has a 25- to 30-member full-time delegation in Washington, including a lobbying group that boasts Karen Possner, a one-time staff member on the House Telecommunications Subcommittee—the same folks who reached out and touched AT&T. Their mission is to smooth the way for

John L. Clendenin, chairman and CEO. '88 rev: $13.7 bil. Access lines: 16.4 mil.

BellSouth's entry into a wide range of information services, including cable, high-def TV and electronic transmissions of the yellow and white pages.

BellSouth has made big headlines with moves into the U.S. and international cellular-communications business. It has also conducted fiber-to-home and high-def-TV experiments. Both AT&T and Northern Telecom, a Canadian equipment manufacturer, are providing hardware for BellSouth's fiber-optic experiments at its two phone systems, one near Orlando, Fla., and the other near Memphis. According to BellSouth vice president John Gunter, the last part of the fiber linkup—going into the customer's home—"is still in development, but we are getting the cost down."

BellSouth has conducted two HDTV tests. In the first, a signal was transmitted via fiber optics from the Democratic National Convention to TV monitors nearby. The second involved the fiber transmission of the launch of the space shuttle *Discovery* to a press conference in Orlando.

On a larger scale, BellSouth, in a $710 million stock transaction, acquired Mobile Communications Corp. of America, a national cellular-telephone and paging company. That acquisition, plus existing operations in the U.S., Europe, the United Kingdom and Australia, gives BellSouth 320,000 cellular customers worldwide, plus 795,000 pagers beeping people around the globe.

JACK LOFTUS

NYNEX CORP.

In its mere five years of existence, Nynex has grown from a regional telephone company into a giant telecommunications empire with $12.7 billion in revenues and a net income of $1.3 billion in 1988. The company has grown from a mere provider of phone service into information systems, cellular technology, computer software and publishing.

Nynex's 1988 annual report says that its main strength lies in "transporting information." Given that cable companies presently do the same thing, a company with the growth potential of Nynex is making cable operators nervous. Romy Tomlinson, director of regional services planning for Nynex Service Company, a subsidiary of the New England Telephone/New York

Romy Tomlinson, director of regional services planning for Nynex Service Company. '88 rev: $12.7 bil. Access lines: 14.9 mil.

Telephone branch of the company, sees Nynex's possible entry into the world of cable as precisely a carrier of video services for an MSO in a given area. "Our present efficiencies lie in transport," Tomlinson says. "The synergies of broadband video transport make a natural and evolutionary fit into our present services."

It's not all that easy, however. While the current regulatory environment allows telcos to own and construct cable facilities, and then to lease them to a franchised operator, it does not allow them to do it in an area where they also offer phone service. There's also the matter of getting FCC approval for a permit to lay wire in a given locality: It can take years to be granted. "When you go to an operator," he explains, "and bang out a deal where the price is right and everything's in place, and then you say, 'By the way, we have to apply for a 214 [the construction application to the FCC],' that makes it really hard to negotiate because [operators] have schedules to meet and we can't tell them when the 214 will be granted."

The obstacles stretch beyond just red tape. Fiber-optic technology is not an economical alternative just yet, and Tomlinson predicts that broadband fiber-optic technology won't break even in cost effectiveness with copper wires for at least another decade. The present price-per-home difference between copper and broadband fiber-optic cable is a substantial $2,000 at a minimum.

Nynex nevertheless is looking forward to relief from existing cross-ownership restrictions. Whether or not the company would then muscle in on cable operators is unclear just now. Tomlinson says Nynex is definitely procompetition, but for now, however, stresses the notion of working in tandem *with* MSOs, not against them. "We're looking beyond strictly carrier-user relationships with cable companies," he insists. "And some of the companies we've spoken to seem to be willing to work together with us in partnerships." MICHAEL BURGI

BELL ATLANTIC

For 100 families in the little town of Perryopolis, Pa., telephone conversations are a tad clearer these days, and the pictures on TV sets are a bit crisper. They are guinea pigs in Bell Atlantic's first test of fiber-optic technology that delivers voice and video signals together into the home. Local cable operator Helicon Cablevision also signed on for the test, which provides each home with two phone lines and two cable hookups. It's an important step for Bell Atlantic,

Link Hoewing, director of issues management. '88 rev: $10.8 bil. Access lines: 16.3 mil.

whose divisions serve Pennsylvania, Delaware, New Jersey, Virginia, West Virginia, Washington, D.C., and Maryland. The parent company's tag line, "We're More Than Just Talk," reflects its desire to expand beyond simple phone service. Last year the company introduced or began market-testing expanded phone services such as voice mail, information gateway (a catalogue of consumer data bases) and a package including Caller ID, which displays the phone number of incoming calls. Bell Atlantic Mobile Systems is the country's sixth-largest cellular phone operator. And in a contract won in '84, Bell Atlantic is laying the coaxial trunk routes for D.C.'s District Cablevision system.

Link Hoewing, Bell Atlantic's director of issues management, says the company's priority now is making sure its fiber-optic network will be suitably busy, and that means being allowed to offer video to the home. "We believe very strongly that it's important for our customers to have fiber technology in place. But it's going to take until the mid-1990s for the cost of fiber to be lower than the cost of copper [wire]," he says. "The question is, can we afford to wait in today's competitive world economy? We feel we can't wait. We have to do it as fast as possible, and we need incentives to do that. One incentive is to drive usage on the network, and one of the usages people are really attracted to is video programming."

Bell Atlantic CEO Raymond W. Smith has said that the company would "certainly consider" investing in or buying cable companies in the future, but Hoewing adds, "That isn't how we plan to get into the video end of things. Our long-range strategy is to get fiber in place and have a two-way switched fiber network." Hoewing sounds like a salesman from the early days of cable when he describes some of the features such a network would include: videophone conversations, pay-per-view type programming libraries and even health-care monitoring. Noting that cable already passes 80 percent of the country, Hoewing says, "We're not saying to yank out that wire. We're saying, let us have the same flexibility cable has so we can put our wire in place." JOHN FLINN

AMERITECH

Executives at Chicago-based Ameritech believe that current restrictions prohibiting phone companies from providing cable to their customers may limit the development of a variety of new and different telephone services that may someday range far beyond cable. "All over the world, networks more advanced than ours are becoming part of national infrastructures," says Allan Arlow, Ameritech's director of government affairs. "Japan has plans for a ubiquitous fiber-digital network that will provide tremendous capabilities to its citizens. Those networks will eventually be built here, but without the spur of entertainment services, the public may be deprived of advanced communications for perhaps decades." Arlow envisions entertainment programming as "the welcome jump start to the economic engine that will bring America a more advanced telecommunications infrastructure sooner."

Allan Arlow, director of government affairs. '88 rev: $9.9 bil. Access lines: 15.5 mil.

Accordingly, Ameritech has been vocal in the fight to knock down cable barriers. "We feel that real competition in the provision of all services will best serve the long-term needs of the public," says Arlow. "Ameritech will not supplant the local cable company so that there is only one wire into the home. [We will] not be a bottleneck provider of information services, preventing others from transmitting their programming and their ideas."

Arlow says the FCC's open-network-architecture policy guards against such a situation. "If we want to provide an information service, we have to design our network so that anybody else who wants to provide an information service competitively with us has the same access to our transmission and switching facilities as our own service has."

To the extent that it's able, Ameritech is actively pursuing opportunities in cable television. The company is constructing local distribution facilities and operates and maintains the fiber-optic portion of North Coast Cable's Cleveland, Ohio, system. Ameritech, along with other telephone companies, is involved with Raynet Corp., a California-based fiber-optic firm, in several fiber-to-home trials.

Even so, Arlow is less than optimistic about the chances of cable/telco restrictions being lifted in the near future. "The impression that I'm getting from congressmen is that they don't see a broad public upswelling of interest in having action taken in this session of Congress," he says. "If they don't see it at this stage, I don't know that even if lobbying gets more intense, there will be that kind of momentum needed to get things going. Right now, Congress is basically saying that it's got a lot of other things on its plate. And, after all, it did just a few years ago pass the cable TV cross-ownership ban."

PAUL NOGLOWS

PACIFIC TELESIS

From the top on down, the formidable Pacific Telesis Group makes no bones about its interest in the cable business. Chairman and chief executive officer Sam Ginn is "very hot on cable," says company spokeswoman Diane Olberg—"He loves to talk about it." Meanwhile, the company has been on the prowl, "seeking domestic cable outside our operating areas at the right price," says Olberg. "We look at it as a potential line of business for us that would grow."

Internationally, the company has already backed its words with action. In the United Kingdom it owns an equal interest with Jones Intercable (totaling 89 percent) in a company that holds licenses to provide both cable and telephone services in East London. PacTel is also interested in other Western European markets, says Olberg. Domestically, the company has teamed with the Austin, Texas-based multiple system oerator, Prime Cable, in an effort to purchase the last of Group W's cable holdings, in Chicago. Last year the company tried to acquire Rogers Cablesystems in the U.S. but was unsuccessful in its bid.

Despite all this interest, however, Olberg maintains that PacTel hasn't yet decided exactly how far it wants to go in cable. The London venture will allow it to learn about building and running a system from its partner, Jones. "We're not going to say we want it to be a major line of business for us," she says, "if we don't know yet how it works and how well our skills apply." To caution against jumping to conclusions, Olberg points out that when AT&T was forced into divestiture of its Bell operating units, it was widely assumed that PacTel's first major new businesses would be telephone manufacturing and publishing of specialized telephone directories outside its telephone-service area. But it has since made the decision to get out of both lines of business.

Chairman/CEO Sam Ginn
'88 rev: $9.5 bil.
Access lines: 13.1 mil.

At the same time, though, Olberg says the primary impediment to PacTel's greater involvement in cable television has been system prices. She declined to say what the company would consider a desirable price.

One thing that is clear, however, is that whether or not PacTel's course is set, it is bound to be a formidable presence in any business it enters. The San Francisco-based company boasted the third-highest reported net income among California corporations in 1987 and ranked 30th on *Forbes* magazine's market-value list. The state boasts the nation's largest consumer market, with per-capita income significantly above the national average. Clearly, the cash flow would seem to be available for acquisitions once the company makes up its mind—a point that shouldn't be too long in coming.

NEAL KOCH

US WEST

US West used traditional western cowboy images to establish a corporate identity quickly following the AT&T divestiture in 1984, and for some, the pioneering wild-west image hangs on though the campaign no longer runs.

The company's largest subsidiary is US West Communications, the regional phone operating company serving the 14-state western area that was formerly the territories of Mountain, Northwestern and Pacific Northwest Bell.

Already an investor in overseas cable systems, US West aims to work with U.S. cable operators in its service area, too. Furthermore, US West is hopeful that the court will eventually loosen the restrictions barring it from cable.

Last August, parent company US West turned to Gary Bryson, who had been executive v.p. at the second-largest MSO, American Television & Communications (ATC), to head US West's cable activities. Now president of the six-month-old Cable Communications Group, Bryson has responsibility for cable interests in the U.K. and France; he is a bidder for Hong Kong's cable franchise; and he heads up US West's domestic operations on cable-related opportunities.

Although the company is already supplying some services to cable operators, its top priority is to attract cable to the fiber-transmission network it plans to install. Since phone and cable companies will one day rebuild their plants, using optical fiber and sharing the high cost

Gary Bryson, president Cable Communications Group. '88 rev: $9.2 bil. Access lines: 12 mil.

makes sense, says Bryson.

Partnership is the only sensible route domestically, he argues. Even if the divestiture order allowed it, there would be no profit in competing with established cable operators, because a fiber network delivering phone service still requires a major electronics investment before it can deliver video. In rural areas without cable, however, Bryson says he won't rule out the possibility of US West offering cable service, should the company be able to.

US West's European operations took root in cable, not because the company wanted a cable-telco learning lab but because US West was unable to enter the highly regulated and largely government-owned telephone business in Europe, explains Reynie Ortiz, president of US West International. US West was completely free, however, to invest in new overseas cable systems, so the company sought out those calling for interactive voice and image capacity, to position itself to provide broader service than it can in the U.S. Winning Hong Kong's highly sophisticated video, data (and after 1995 voice) franchise would position the company well for future moves into China and additional Asian countries. (The winning bidder will be announced late this summer.) Not bad work for a bunch of corporate cowboys.

KIRSTEN BECK

SOUTHWESTERN BELL

Southwestern Bell Corporation sees cable as a logical extension of its current wireline services to the home. "We're interested in the opportunity of using our network for broadband transmission of a variety of things, including video programming," says Curtis Williams, director of strategic market planning for St. Louis-based Southwestern Bell. "We see it as a natural extension of the things we do in our network and where the technology is taking us." Accordingly, Southwestern Bell, in a joint venture with Dallas-based cable operator Sammons Communications, plans to test the simultaneous transport of voice and video over fiber-optic cable to the home later this year. The trial will involve 80 to 100 customers in a subdivision of Ft. Worth, Texas, and will last 12 to 24 months.

Stymied at home, Southwestern Bell is moving ahead in cable by going abroad. It is building a cable system in Israel with partner Aurec Information and Directory Systems.

Like many of its sister companies, Southwestern Bell is confident about the future uses of fiber in the U.S. Last August, the company transported a

Curtis Williams, director of strategic market planning. '88 rev: $8.5 bil. Access lines: 11.3 mil.

high-definition broadcast of a St. Louis Cardinals baseball game over fiber to a local movie theater. "The trend is definitely in the direction of more fiber rather than less," Williams says. "The cost characteristics are favorable for fiber to the home becoming economical within a few years.

"But it's clearly not here yet, and significant improvements need to be made in terms of home delivery of video over fiber. But video transmission might shorten the time that it takes to do it economically," he adds.

Accordingly, Southwestern Bell has been active in the industry's effort to gain entrance into cable. "We're looking for the freedom to make the business decisions that will move us in a direction that our customers and our owners want us to go," says Williams. "Basically it comes down to allowing us to provide new and improved services to our customers. It could turn out to be in competition with the cable industry or we might remain a provider of services to the existing cable companies. Video transport goes beyond the cable business. We consider it a basic part of the evolving technology of our network."

Although in favor of letting telcos into cable, the company is not so magnanimous when it comes to cable's counterclaim that it should be allowed into the phone business. "We're obligated to serve not only the areas that are very economic to serve but all of our franchise areas," says Williams. "We are very concerned about cable being given the freedom to come in and selectively compete under a different set of ground rules."

PAUL NOGLOWS

UNITED TELECOM.

While other telephone companies may hunger for a bigger bite of the U.S. cable television market, United Telecommunications is still nursing a bulging belly following its acquisition of a controlling interest in the nation's third-largest long-distance telephone carrier, US Sprint, earlier this year. "I doubt very, very much they're interested" in buying cable systems anytime soon, says First Boston industry analyst Frank Governali. "They'd be stupid to be getting into another area right now." He estimates that it will be at least three years before Kansas City-based United, which recently sold some cellular-telephone interests, will venture into new areas. For now, acknowledges United spokesman Don Forsythe, "We have our plate full."

Ron LeMay, executive vice president, strategic and corporate planning. '88 rev: $6.49 bil. Access lines: 3.7 mil.

It's little surprise. It was just last January that United bought another 30.1 percent of Sprint from GTE, giving it 80.1 percent of the company. Moreover, it was only last year that the laying of Sprint's 23,000-mile, $3 billion nationwide fiber-optic cable network was finished. As a result, United's capital expenditures over the three years ending in 1988 amounted to $3.12

billion. And plans call for an outlay of $1.4 billion more this year. Add to this the fact that while US Sprint finally produced a positive cash flow in the fourth quarter of 1988, it barely did so. In the short term, "United doesn't need" cable to expand, says Governali. "They have Sprint for growth."

But no one's ruling it out in the long term. About two decades ago, United ranked as one of the country's largest MSOs. When the FCC ordered it out of the business in areas where it also provided telephone service, the company divested its entire cable operation.

Now, claims executive v.p. Ron LeMay, who oversees strategic and corporate planning, United must relearn cable in order to re-enter the business. And it's planning to do just that, through cable trials at selected sites in new Kansas City subdivisions, if it can get FCC waivers. But for the present, says LeMay, "Our plate is full. We have a lot of pressing business priorities with Sprint." But cable is still a possibility: "We are interested," adds LeMay.

Meanwhile, United in recent years has become the nation's second-largest non-Bell operating company. And last December it surprised many when its U.S. Sprint captured a contract for 40 percent of the federal government's new telephone system, known as FTS-2000. For now, the company's next big move looks to be buying out GTE's remaining 19.9 percent interest in Sprint, which United has until 1995 to do. But it may not have to wait that long, once earnings from the FTS-2000 business start to roll in. So, in a few years, keep an eye out for another hungry acquisitor to belly up to the cable table.

NEAL KOCH

CONTEL CORPORATION

Contel Corporation views the cable-telco issue as one that affects far more than just the cable TV and telephone industries: "The United States is falling behind other nations in the deployment of video services because of this separation issue," says John C. McDonald, Contel's executive vice president of technology.

"In Japan you see Nippon Telephone and Telegraph coming up with very innovative video services that are being provided by the telephone company," says McDonald. "Go to France or

John C. McDonald, executive vice president, technology. '88 rev: $2.9 bil. Access lines: 2.5 mil.

Germany and you see the same thing. The United States is not building the same infrastructure for communications that other nations are building. This will, in the long run, present a very substantial problem. As an example, someday it could very well be that nations of the world will be able to make video calls to all other nations of the world except the United States."

The Atlanta-based company that services 2.5 million access lines used to operate cable systems serving a few hundred thousand customers before being forced to sell out to Warner Communications in the 1970s because of FCC cross-ownership directives.

Contel is currently pursuing fiber-to-home trials for voice transmission in Sydney, N.Y. and Ridgecrest, Calif. "We believe that fiber to the home for just plain old telephone service will prove economical by 1992 or 1993," says McDonald. "Today, fiber is about twice as expensive as copper, but the technology is rapidly improving and we look for a halving of the cost in that time frame.

"As far as video transmission is concerned," McDonald says, "my guess is that in the same time frame the switching systems to allow selection of channels will be commercially available and will be priced competitively."

McDonald maintains that "in an environment where competition is being fostered in all dimensions, it seems unconscionable not to allow competition in cable television." But, he adds, in the long run it will be economics rather than government regulation that will settle the debate over telephone's entrance into cable.

"Normal business judgment will prevail rather than some regulator or Congressman," he says. "The issue will shake out in a way that is dictated by good business sense. Cable's straw man has been that telephone companies will use their monopoly position to subsidize competition with cable. That's a real issue that's raised with great concern, but, frankly, I don't think it's an issue at all. Speaking for our company, we're just not that way. Each business has to make it on its own. Cross-subsidies are just not in the cards for us."

PAUL NOGLOWS

Local News Reveille

by J. Max Robins

Guerrilla A.M.-TV news muscles in on radio and the morning 'couch' programs.

It's 6:50 A.M. and the crew of *Good Day New York* is crammed into the control room at WNYW-TV. The place is like an airport-control tower with planes stacked up coming and going. "Ten minutes to party," says producer Bob Kusbit.

Tape rolls of a Boy Scout playing reveille on the Staten Island Ferry. Anchor Jim Ryan gives the top stories, Glenn "Hurricane" Schwartz does the weather, and the two-hour news show is off, zipping between three live locations, in-studio interviews and a tape package or two for good measure.

Inevitably when weaving disparate elements together, something breaks down. David Peterkin, the program's senior producer, hovers over the control board, the phone an appendage to his ear until he slams the receiver down. "We don't have the subway-rapist package. We'll go to Dick Oliver live," he says, referring to the correspondent, who jumps into his report from the subway station where the rape occurred.

The concept behind *Good Day* is to get away from the typical morning-news "couch" programs and give viewers a window on their city. Sure, the program still uses in-studio interviews—but there are at least three remotes each day that stay live throughout the program.

"Morning shows always take people out of their living room into another living room," says Peter Brennan, *Good Day*'s former executive producer. Brennan not only conceived *Good Day*, he also created Fox's *A Current Affair*. "People stuck in the house would like to get out of the house, not back into another one."

Last June, the powers that be at WNYW said they wanted a morning news program. In typical Fox fashion, *Good Day* was on the air by August 1 with little fanfare—Brennan's idea was to keep a low profile and work out the kinks on air. The first two months were rocky. The show used two hosts in a stark studio and often had as many as five remotes—*Good Day* was unwieldy, without a center. But when veteran newscaster Ryan was put at the news desk and the remotes were trimmed, the program began to find its voice.

Good Day has also started to find an audience. According to Arbitron, in the November '88 sweeps it trailed the other morning shows with a 1.2 rating and a 6 share. But in February's sweeps, *Good Day* had a 2.2 rating and an 8 share, outpacing *CBS This Morning*. It still trails the other morning shows, but the recent addition of an early-morning headline-news program as its lead in should give the show a boost.

What Brennan has done with *Good Day* is cherry-pick from *Today*, personality-driven radio shows and the all-news radio format, then throw in a dash of hip, neo-homemade TV a la David Letterman and keep the whole shebang local. "Our idea was to reach out to people who don't watch morning TV because it's all the same and too slow," says Brennan, "the people who listen to radio because it's more active."

Brennan has cultivated a lively cast, including Gordon Elliot, the ex-anchor of *Good Morning Australia*. Elliot's schtick—going out with a camera crew, randomly knocking on doors and inviting himself in for breakfast—has become the program's signature: live guerrilla TV. Elliot's stunts, such as hiring a choir to sing outside Bill Cosby's townhouse and lure the star on camera, has earned him a tryout for his own Fox show, *Gordon Elliot: Live and Dangerous!*

It's not only Elliot's live antics that give the program its edge. "Traffic accidents, fires—we're there," says Peterkin. "When they found this guy who shot himself after killing some cops, we were the one program to go live with the police from the scene."

People like a little news, weather and sizzle to charge up in the A.M. The Big Three and radio know that and put a lot of energy into mining the early-morning audience. Several affiliates do early news programs leading into their networks' offerings. But it's been the rare affiliate that will preempt the network couch shows with local news.

***Good Day*'s Gordon Elliot nabs an exclusive live interview with Bill Cosby by luring the star out of his house with a gospel choir.**

In two markets where the network offering is delayed, the local morning shows of CBS affiliates WFMY Greensboro and WWL New Orleans rule their time periods. The former Miami NBC affiliate, WSVN, now an independent, has had some success with a 6-to-9 A.M. hard-news block.

Back at WNYW in New York, it's 8:27 A.M. There is a collective yawn in the *Good Day* control room—an early morning seventh inning stretch. The bumper music kicks in with a novelty rhythm-and-blues tune: "TV is the thing this year/Radio was great now it's out of date/TV is the thing this year."

Peterkin smiles. He thinks that percolating early-morning local news may just be the thing this year. ●

Guaranteed Success?

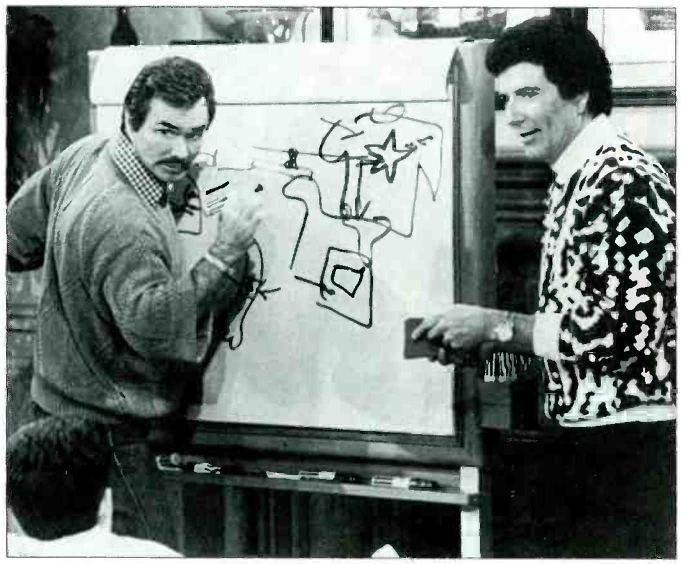
by Neal Koch

Producers of first-run syndicated shows are wringing support out of distributors.

Television stations around the country could become the beneficiaries of a new-found self-interest on the part of Hollywood producers. As original production for first-run syndication grows, a few savvy producers have found they can persuade distributors to commit themselves, in their distribution contracts, to extensive advertising and promotion budgets for the producers' new shows. More promotional support could mean enhanced prospects for the programs, leading to higher ratings and greater ad revenues for stations. "Distributor commitment to [promotional] advertising is definitely becoming a very big issue in contract negotiations," says Vance Scott Van Petten, Paramount Domestic Television's senior v.p. for business affairs.

These promotional promises are separate from the commitments distributors try to wring out of station managers. In those more familiar cases, stations agree to provide on-air promotional time to support the "breakthrough" programs each syndicator promises will single-handedly turn around the stations' prime-access ratings. And it is the distributors who insist that the commitments be made contractual. They seek the commitments for several reasons: They fear the increasing competition for viewers; they're concerned about the rising supply of programs available to quickly replace their shows should they fail; and they're focusing on the higher-than-ever costs of failure. "The trigger finger is quicker now than it used to be," confirms Dennis Gillespie, Viacom Enterprises executive v.p. for marketing. "There is no shortage of competition in first run. It is more important than ever to get off with a fast start, and promotion is crucial to that."

Independent producers of first-run shows have realized that they must make up for their shows' not having previously appeared on one of the Big Three networks. Such exposure amounts to free advertising that can provide an already developed audience base for a show going into syndication.



Producers/stars Bert Convey and Burt Reynolds: Scared to face first run alone?

And distributors may be willing to help make up that difference.

Consider Buena Vista Television's *Win, Lose or Draw*, produced by Bert Convey and Burt Reynolds in association with Richard Kline. It was only the second game show ever to be successfully introduced directly into first-run syndication without a prior network run (although it did benefit from a simultaneous launch on NBC).

Win, Lose or Draw's producers, according to their lawyer, Philip Klein, were wary of undertaking the show given first run's competitive nature and the tendency of local TV stations to lean heavily on the November ratings sweeps to decide the fate of a show airing for the first time the previous September. "We couldn't count on the public identifying with the show quickly," says Klein. So he negotiated a deal in which Buena Vista committed to minimum amounts of weekly advertising, starting two weeks before the show's first airing in September 1987 and going through the November sweeps. The deal seemed to prove its worth. The show started out with just a 3 national Nielsen rating, airing mostly in early fringe time slots. But in November, says Michael Mellon, Disney's v.p. for domestic television research, the show drew a 5.2 rating, and stations began moving it into the more coveted access period. This season, through early March, the show was the third most successful game show in syndication, behind *Wheel of Fortune* and *Jeopardy*. In a typical week, it drew a 5.8 rating with 86 percent national coverage, says Mellon. The network version continues, as well.

To be sure, other distributors have been committing themselves to promotional support for their shows. Among the most noteworthy is the innovative approach taken by Genesis Entertainment (see *Channels*, "Sales," May 1989). As a matter of course in its sales pitches—and in its contracts with stations—Genesis commits to minimum levels of spending for advertising and promotion of *Highway to Heaven*, for instance, says Phil Oldham, Genesis executive v.p. for domestic sales.

Yet Genesis' efforts came of its own accord, as part of the company's aggressive strategy, and *Highway to Heaven* is an off-network show. Indications are that first-run producers will increasingly demand similar support. And that can't help but filter down to the bottom line of stations. ●

Chasing the Telcos

by Merrill Brown

The usual TV bankers are learning the frustrations of working with phone companies.

There's a divergence of opinion about how soon the regional phone behemoths and larger independent telephone companies will become major players in the television industry, but a growing consensus says that they'll be significant players in everything from operating cable systems to investing in information and entertainment programming.

As the phone industry continues to emerge as a TV industry force, many people working with media companies in the finance and brokerage communities are getting their first glimpses of these very large companies, which have vastly different approaches and cultural backgrounds than even the giants of cable, broadcasting and publishing.

With both cable brokers and their competitors at large investment banking houses increasingly courting phone company management teams, many television industry financial people are getting to know a huge industry that has historically been out of the deal-making loop and often has been unable to move with the speed of the maturing but still entrepreneurial cable industry. Says one prominent banker: "A lot of the bankers and finance types who've dealt with phone companies are yo-yos. We've got to get them away from the bond salesmen and involved with the deal guys."

Considering that the top phone companies—the RBOCs, or regional "Bell" companies—have a market capitalization of a staggering $100 billion, it's not surprising that they also have transaction-related bureaucracies and procedures generally unheard of in, for example, cable television. What's more, until the government's breakup of AT&T was implemented just five years ago, phone companies were essentially barred from participating in competitive businesses and built modes of operation that focused on regulatory arenas, service and, of course, the maintenance and upgrading of the telephone plant. Deal-making was unheard of, and strategic planning focused exclusively on issues like the impact, for example, of interest rates and other macro-economic trends on phone usage. That's a considerably different procedural and cultural situation than TV's deal-makers find even at the largest MSOs. "They're slow, cautious and bureaucratic," complains a cable brokerage professional of phone companies he's talked with. "It's a problem for them in entering cable television, an industry that by comparison can move on a dime."

'We've got to get them away from the bond salesmen and in with deal guys.'

But, say sources in both the telephone and television financial communities, that situation will change as the old phone company's monopoly culture is replaced quickly by a more competitive, responsive mind-set. "Over time, it will change," says one top investment banker. "I'm sure of it."

With the recent announcement of the Pacific Telesis Group's plans to join with Prime Cable in buying a major interest in Group W's Chicago area systems (which are Group W's last remaining cable holdings), the change in phone company strategies may occur even more quickly. The PacTel transaction is at least the second major cable deal the San Francisco company has bid on in the last year and marks the phone industry's first significant cable acquisition since the 1984 breakup of AT&T. PacTel has been the most aggressive pursuer of cable systems, although several of the other RBOCs and large independents have been reviewing possible transactions.

Obviously, current rules barring the phone companies from offering television services in their operating areas limit the freedom phone companies have in bidding for and building cable operations. Moreover, several say they'll wait out current pricey cable deals in hopes of ultimately winning the right to build their own fiber video and voice networks, rather than invest in existing cable properties. And even in cases where PacTel and other phone companies might be willing to step up and bid top prices, some sellers are hesitant to close deals because of the regulatory delays that accompany any expansion of the phone company role in cable TV.

It would be difficult indeed for many telephone companies to pay today's cable-system prices as long as shareholders and analysts continue to view rate-of-return phone companies in a vastly different way than cable companies are evaluated by their followers. PacTel, for instance, when it bid aggressively, though unsuccessfully, for the Rogers systems last year, was roundly criticized by top telephone analysts for going beyond "acceptable" discount cash flow analysis in making its bid.

But in light of the increasingly aggressive posture of the telephone industry both in Washington and in the marketplace, TV's top bankers and brokers are starting to lay the groundwork for moving rapidly into the telephone-industry world. "They've got the first leg up into the home—you have to deal with them," says one broker. "The problem is that nobody in our game has quite figured out how to do it." ●

The Magid Nugget

Whose News to Use?

With a dizzying variety of media from which to get news, where do people turn for the bulk of their information? Fank N. Magid Associates queried 1,084 people and came to the conclusion that just over half (52.7 percent) depend primarily on televison news. When broken out by region (not shown below), a whopping 71 percent of the South Central U.S. (Louisiana, Arkansas, etc.) respondents rely mostly on TV news. Men get a higher percentoge of news from newspapers and magazines than do women or the youngest segment (23, 26 and 21 percent, respectively). Almost all queried rely on the four medio broken out below, however, os demonstrated by the low percentages in the "Other" column.

Source Depended On Most For News and Information

	Television	Newspapers	Radio	Magazines	Other	DK/NA
Total	52.7%	30.2%	11.1%	0.9%	0.2%	5.0%
Sex						
Male	47.4	35.3	9.9	1.6	0.2	5.6
Female	57.5	25.5	12.1	0.4	0.2	4.4
Age						
18–24	64.4	20.8	12.1	0.0	0.0	2.7
25–34	52.4	26.2	18.4	0.0	0.0	3.0
35–49	50.0	33.3	9.7	2.4	0.7	3.8
50–64	48.6	35.0	8.6	0.5	0.0	7.3
65 +	52.2	33.3	3.8	1.3	0.0	9.4

Source: Frank N. Magid Associates Inc.

DEALS

First-quarter Action

Centel Cable's piecemeal sale to a number of MSOs was the only oddity in an otherwise normal cable market. "You don't usually see a company split up its assets when selling," says Oppenheimer & Co.'s Dennis McAlpine. "But in this case, Centel got more dollars for it, and the buyers got adjacent systems." Beyond the three buyers listed below, Warner Cable, Jones Intercable and Simmons Communications split the rest of the deal's total $1.4 billion pot.

BUYER	SELLER	PROPERTY	BROKER	PRICE (Mil)
Adelphia Comm.	Centel Cable	Systems serving southeast Fla.	Daniels & Morgan Stanley	$309.6
ATC	Centel Cable	14 systems in Fla.	Daniels & Morgan Stanley	251.0
C-Tec Corp.	Centel Cable	Systems serving Michigan	Daniels & Morgan Stanley	210.0
Century Comm.	Mickelson Media	Systems in New Mexico, Idaho, and Florida	Waller Capital	46.0
Douglas Comm.	Galaxy Cablevison	Systems serving Texas	Daniels	25.6
Naragansett Capital	Tioga Cable, ElMar Comm., and Bradley TV Cable Service	Systems serving Tioga, Penn., ElMor, N.Y., and Bradley, Ohio	John Barber & Co.	18.0
ATC	Avnet Inc.	Systems in North Carolina	Donaldson, Lufkin & Jenrette	16.7

Source: Media Business News.

★ RATINGS ★

TOP NETWORK SERIES

First 29 weeks of season, Sept. 18, 1988, through April 2, 1989

SERIES / NETWORK	RATING / SHARE
1 Roseanne / ABC	26.0 / 38
2 The Cosby Show / NBC	25.7 / 41
3 A Different World / NBC	23.0 / 36
4 Roseanne (8:30) / ABC	22.9 / 34
5 Cheers / NBC	22.6 / 35
6 60 Minutes / CBS	21.6 / 35
7 Golden Girls / NBC	21.4 / 37
8 Who's the Boss? / ABC	21.0 / 33
9 Wonder Years / ABC	21.0 / 31
10 Murder, She Wrote / CBS	19.9 / 30

TOP BARTER SERIES

First 28 weeks of season, Sept. 4, 1988, through March 26, 1989

SERIES / SYNDICATOR	RATING
1 Wheel of Fortune / King World	15.7
2 Jeopardy! / King World	13.3
3 The Cosby Show / Viacom	11.8 #
4 The Oprah Winfrey Show / King World	10.1
5 Star Trek: The Next Generation / Paramount	10.0 #
6 Universal Pictures Debut Network / MCA TV	9.6 #
7 Wheel of Fortune (weekend) / King World	9.6
8 Columbia Night at the Movies / Columbia	9.0 #
9 TV Net Movie / Teletrib	8.5 #
10 Tri-Star Showcase / TeleVentures	8.5 #

TOP CABLE NETWORKS

Average ratings / projected households, March 1989

NETWORK	7 A.M. TO 1 A.M.	PRIME TIME
1 TBS	2.0 / 966,000	2.6 / 1,256,000
2 USA	1.4 / 654,000	2.1 / 981,000
3 ESPN	1.1 / 551,000	2.1 / 1,052,000
4 CNN	0.8 / 395,000	1.1 / 543,000
5 MTV	.8 / 359,000	.8 / 359,000
6 CBN	.8 / 350,000	.8 / 350,000
7 Nashville Network	.5 / 237,000*	1.0 / 456,000
8 TNT	1.0 / 226,000	1.5 / 339,000
9 Lifetime	.5 / 211,000	.7 / 295,000
10 Discovery	.5 / 195,000*	.9 / 352,000

Includes multiple exposures.
* 9 A.M. to 3 A.M. Note: cable ratings are percentages within the varying populations that can receive each network. Networks are ranked by projected number of households rather than ratings. Source: Nielsen Media Research data.

HOME VIDEO

Top Videocassettes / Rentals

March 1989

TITLE / PUBLISHER	% TOP 50*
1 A Fish Called Wanda / CBS / Fox	7.4
2 Die Hard / CBS / Fox	6.8
3 Bull Durham / Orion	5.6
4 Big Business / Touchstone	5.5
5 Midnight Run / MCA	5.3
6 Married to the Mob / Orion	4.8
7 Presidio / Paramount	4.0
8 Dead Pool / Warner	3.6
9 Young Guns / Vestron	3.2
10 Red Heat / IVE	2.9
11 Great Outdoors / MCA	2.9
12 Three Men and a Baby / Touchstone	2.9
13 Crocodile Dundee II / Paramount	2.7
14 Good Mother / Touchstone	2.0
15 Iron Eagle II / IVE	1.9
16 Poltergeist III / MGM / UA	1.9
17 Caddyshack II / Warner	1.8
18 Beetlejuice / Warner	1.8
19 Hero and the Terror / Media Home Ent.	1.6
20 Punchline / RCA / Columbia	1.6

Top Videocassettes / Sales

March 1989

TITLE / PUBLISHER	% TOP 50*
1 U2 Rattle and Hum / Paramount	10.1
2 Michael Jackson: Moonwalker / CMV	6.9
3 Sports Illustrated Swimsuit Edition / HBO	6.2
4 Jane Fonda's Complete Workout / Lorimar	6.0
5 E.T. / MCA	4.7
6 Bruce Springsteen: Video Anthology / CMV	4.4
7 Cinderella / Disney	3.6
8 Fatal Attraction / Paramount	3.1
9 Dirty Dancing / Vestron	2.8
10 Untouchables / Paramount	2.7
11 Wizard of Oz / MGM / UA	2.6
12 Top Gun / Paramount	2.0
13 Playboy's Sexy Lingerie / HBO	1.8
14 Jane Fonda's Low-Impact Aerobics / Lorimar	1.8
15 Callanetics / MCA	1.8
16 Jane Fonda's New Workout / Lorimar	1.7
17 Jane Fonda's Start Up / Lorimar	1.6
18 Ben Hur / MGM / UA	1.6
19 Bugs & Daffy: Wartime Cartoons / MGM / UA	1.6
20 Dr. Zhivago / MGM / UA	1.3

Source: Videodome Enterprises, Dallas. Charts appear weekly in TWICE magazine. *Title as percentage of top-50 tapes total volume.

'No Excuses' For Stringer's CBS Team

Happy with the pilots picked and confident that News is on track, Howard Stringer prepares for a better year in prime time.

Howard Stringer, president of CBS/Broadcast Group since last August, faces his first full new season this fall, free of strikes and Olympics, and armed with entertainment programming picked by him and his team on the West Coast. With CBS having finished third in the ratings two seasons running, the pressure is on Stringer, a former CBS News president and producer, to bring viewers back to the network. Stringer recently discussed the changing network landscape with Channels' *editors.*

The First Stringer Season

This is a collaborative form—I can't say that enough. My job is to motivate and, hopefully, inspire and set a tone. But I am very pleased with the team that's on the West Coast. Yes, it's a nervous time. It's clear that this time around, we will have no excuses.

Making Tough Choices

At this stage, it's impossible to know what will work. I am going to put on shows that I like. Last year, there were some shows I didn't think would succeed. We're going to put on shows that I think will succeed, that I like, and that I can be proud of.

Now, don't misunderstand me. We've also got to succeed. So if *The A-Team* walked into my life right now and I thought it was going to get a 30 share at 8 o'clock, I probably, like NBC before, wouldn't walk away from it. But on the other hand, I don't want tabloid television. We've made that clear. We've got a strong emphasis on comedy, because we want to get back in the comedy business. When this network was on top, it was with a level of sophisticated comedy that was quite unique—and I'd like to do that.

We have gone with a lot of risky shows, and a lot of variety and versatility. We have gone after 8 o'clock. We have gone for younger shows. And there is a danger in that for CBS, which is an older network. But we've reached out in a lot of different directions, and [for the fall season] we will sit and think very hard about which shows go where.

Why *TV 101* Finally Failed

It's much easier to stick with a 10 o'clock show than it is with an 8 o'clock show, because an 8 o'clock show can pull down the whole night. And you don't stick with a show just for the sake of being able to say to the press, "Look, I stuck with a show." We stuck with *TV 101* for a lot longer than most of Hollywood thought we would, and we did it out of respect for Grant Tinker and what he stood for. It was a good show and it deserved the right to succeed. But I don't think anyone would argue [with the statement that] the show, regardless of its quality, was rejected.

Getting Along with the Coast

Hollywood is in difficulty right now, with declining revenues and soaring costs. And when they have you at a disadvantage, they will press their advantage. We're all pushing ourselves down the same slippery slope as we compete like this on costs . . . . Pointing the finger at us or us pointing the finger at them is irrelevant. We ought to be sitting behind tables and thinking about things differently. We ought to be saying, does 90 pilots in the spring really make sense? Every show needs an ensemble of about five stars. Are there really 450 front-rank talent in one given period? Not to mention 90 directors, 90 producers . . . . I'd like to see if I can challenge that system. Because as it is, I am not so sure that it guarantees enough success.

Where CBS Might Spend

Obviously, we're looking at more stations. I think at some stage, too, given the direction of the fin-syn negotiations, we're going to be going into more in-house production. Fin-syn is no panacea. I've tried to say to Hollywood, stop putting up these straw men and worrying about the extremes. We're not going to walk into all those deficits. We don't have the skill and the experience to take on those studio responsibilities. But there is a meeting ground in there where we can solve some of their problems, if they reach out and solve some of ours.

'Serious' versus 'Pop' News

I think reinvigorating *CBS Reports* has enormous value to CBS News, both in terms of its reputation and in terms of its journalistic accountability. But I am not one of those who turns away from *48 Hours* and says "pop journalism." I think that's ludicrous.

One of the things about *48 Hours* we haven't gotten across, and one of the reasons that I like the form, is the combination of immediacy and the amount of talent that you put on one project.

One more thing I like is that, when it's on target, it's less one person's lonely quest for the truth—which has advantages when that journalist is a re-

PHOTOGRAPHS BY MARK STERN

markable journalist, but all too often becomes a producer's-eye view. I'm not so sure that's as exciting as the camera telling its own story. In a way, *48 Hours* takes enormous risks by [focusing on] what happens in front of that camera.

CBS News: Stable Upheaval

We went through three transitions [before David Burke moved into news]. For some considerable length of time, the upheaval of those transitions meant that just holding together was important. Yet in that period of holding together, we put on two more weekly news programs. No other network did that. We put on a morning show which is respectable and growing. We were the industry leader in this so-called downsizing and cost-cutting. And we paid a price for that. We were the focus, for a long time, of all the attention. CBS News held together despite all that, and put new shows on, and still kept its first-place rating in the evening news, and kept *60 Minutes* the magazine leader.

The CBS of the Year 2000

I'd like to think it [will be in] the network/affiliate distribution system in one form or another. That relationship—the national arm of broadcasting and its local constituencies—is very important. The television set is an intimate part of the household. It's a small piece of furniture which establishes stability and security for the people watching it. The relationship between the affiliate stations and the community is even tighter. That's why local news sometimes draws a larger audience than network news. It's immediate; it's their own. And that relationship is more valuable than the rather distant, cold cable or satellite equivalent.

The Warmth of the Familiar

60 Minutes and *Dallas* are still banging on quite happily, and *Knots Landing*, for heaven's sake, has been stronger this year than last year. That says a lot about the audience comfort factor and the stability it needs from this little box. The flash shows, the trash television, the trend shows that come and go, have much less meaning. They sometimes set a different direction for everybody, and they remind people of new techniques and new ways of doing things. But ultimately, it's a fairly conservative audience that says, "I am coming home; I want to be entertained. Look after me."

Cutting Cable Down to Size

I don't downplay [cable] technically. I don't downplay any narrowcast. I only downplay cable because everybody else is raising it up to some God-like status.

'Does 90 pilots in the spring really make sense? Every show needs about five stars. Are there really 450 front-rank talent in a given period? Not to mention 90 directors.'

Of course MTV has a place. Should it surprise anyone that USA Network, based on reruns of shows that have already succeeded on network television, would do quite well? No, that's not surprising. What surprises me is that everybody says, "Gosh, isn't this surprising? This is a failure of network television." It's not. It's a system-wide opportunity for everybody.

There's a monopoly out there in cable-land that was brilliantly conceived and brilliantly executed in Washington. That's our fault, for not spotting the potential of cable, for putting our head in the sand. But that, again, is not a triumph of programming. That's a triumph of financial money-making. America at the end of the '80s is all about the triumph of money-making over production.

The Successor to Dan Rather

Oh Lord, if I mention one, I've forgotten another. And at the moment, with all this stuff flying around about who's on first and so forth, it's awfully hard to say. We're not anticipating Dan Rather leaving in the near future, so I think it's just as easy to leave it at that.

I think we have a strong bench. Much has been made in recent years about who has gone where. If I went through the list of CBS talent, I think I could say that it surpasses the competition. Now, that's my job, and you may say that's hype. But I really do believe so.

Up Early in the Morning

Our morning show is clearly a growth industry. We've done something there which we haven't done in recent years, which is to allow it to stay there. We have a lot of indications, in our own research and so forth, that Harry Smith and Kathleen Sullivan are a good core. I've sat in front of and had to disband morning news shows more regularly than I care to think about, but this one has a lot of integrity and a lot of thoughtfulness.

Stringer's First Year on the Job

There haven't been any disappointments—any *strict* disappointments. The problems have been fairly obvious, but they're exacerbated when you actually run into them. Then there is the whole vastness of the collaboration that you sometimes say to yourself, "It's a miracle that anything gets on the air." There is the combination of the original idea and the producers; then the studios; then the networks; then the network brass. There are so many layers. So many cooks get involved with the broth, that after a while you wonder how anything gets cooked nicely and served neatly. ●

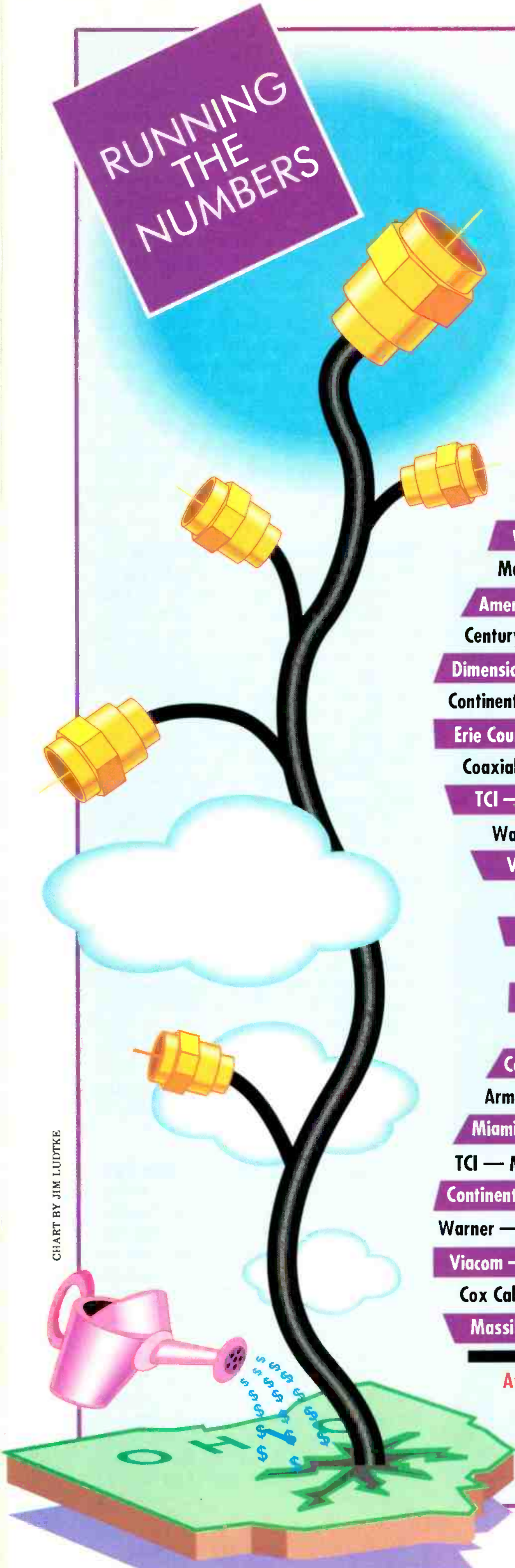


CHART BY JIM LUDTKE

Cable Rate Flux

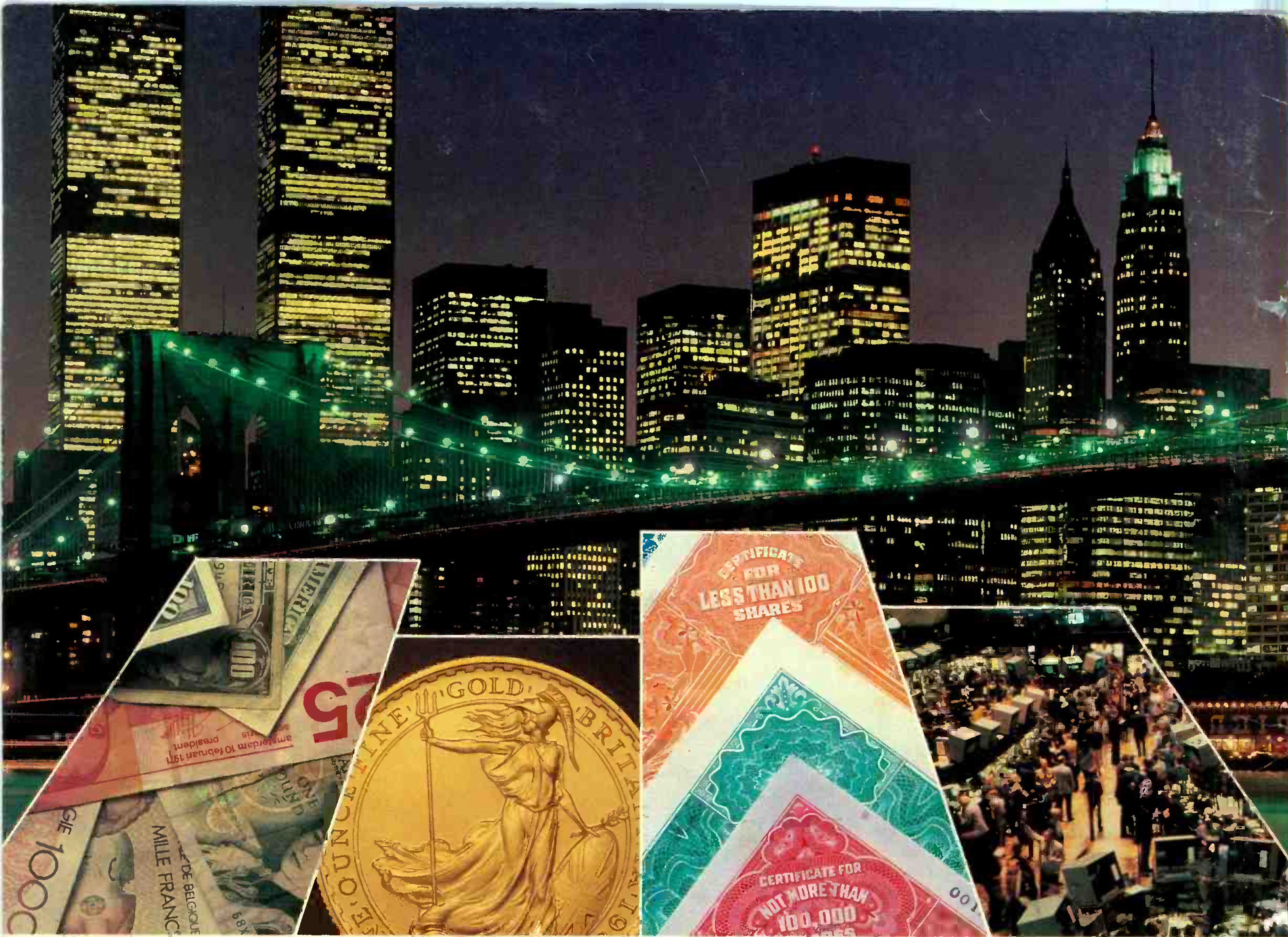
Since rate deregulation, cable bills have mostly increased. Catherine Rice, secretariat of NATOA, part of the National League of Cities, attributes the rise to MSOs' need to pay off acquisition debt. "They are de facto monopolies," she says, "raising rates to make more money." But the National Cable Television Association disagrees. "Before, operators were forced to keep [basic] rates low," explains spokesman John Wolfe. "Pay rates were higher to make up for that. Deregulation brought basic rates up to their market value." Both sides expect the forthcoming General Accounting Office study on deregulation's effects on rates and services to back up their arguments. The figures below are from a regional study conducted by the GAO in August, 1988.

RATE CHANGES IN OHIO
(25 LARGEST SYSTEMS)

	PERCENT CHANGE FROM 1986 TO AUGUST, 1988		
CABLE SYSTEM—CITY	**Basic**	**HBO**	**Installation**
Warner — Cincinnati	76%	14%	0%
Mahoning Valley — Warren	70	0	-60
American — Columbus	64	0	-80
Century Ohio — Portsmouth	55	21	0
Dimension — Newark	55	-12	39
Continental — Springfield	41	0	39
Erie County — Sandusky	39	11	0
Coaxial — Columbus	35	4	33
TCI — Zanesville	35	0	50
Warner — Youngstown	30	-8	-50
Viacom — Dayton	27	0	33
Warner — Akron	23	-8	-60
Continental — Eastlake	23	0	43
Buckeye — Toledo	21	0*	67
Warner — Canton	19	0	-40
Multichannel — Mansfield	18	-17	0
Continental — Englewood	17	0	50
Armstrong — Boardman	17	0	56
Miami Valley — Hamilton	16	9	25
TCI — Middletown	16	9	25
Continental — Kettering	15	0	20
Warner — Columbus	11	-9	20
Viacom — Cleveland	10	-8	0
Cox Cable — Parma	7	-13	20
Massillon Cable — Massillon	0	0	0
Average of all companies	27%	-2%	6%

* HBO not available. Rate for Showtime was used.

Source: General Accounting Office, Ohio Cable Television Rate Increases, 1986 to present.



PRIME TIME
PRIME AUDIENCE
PRIME OPPORTUNITY

Financial News Network, the leader in business news and personal money management advice, has expanded the business day with valuable prime time programming.

Prime time programs like FNN MoneyTalk, FNN Business Tonight, and FNN Focus offer more opportunities for cable to reach the most affluent and best educated audience in television.* And that means increased local advertising revenue for you, and greater value for your subscribers.

Put FNN's prime time programming to work for you. You'll see why a system without FNN is probably past its prime.

*Source: Simmons Market Research, 1988

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