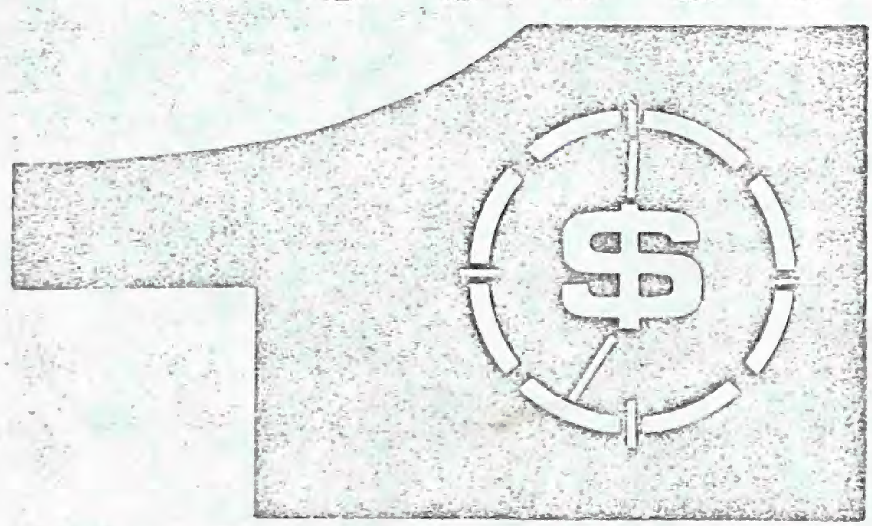
The Economics of prime time access



Prepared for
The Federal Communications Commission by

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FINAL REPORT

THE ECONOMIC CONSEQUENCES OF THE FEDERAL COMMUNICATIONS COMMISSION'S PRIME-TIME ACCESS RULE ON THE BROADCASTING AND PROGRAM PRODUCTION INDUSTRIES

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This report was prepared for consideration in the proceeding on television prime-time access. Any views or conclusions in the report are those of the author, and do not, in any way, represent those of the Commission that may be reached in the inquiry.

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INTRODUCTION:

The purpose of this paper is to examine the economic consequences of the Federal Communications Commission's Prime-Time Access Rule[1] on:

1. The Television Networks;
2. The Network Affiliates;
3. The Independent Television Stations;
4. The Independent Hollywood movie and television programming industry; and
5. The Film and Tape Syndication Business.

The Commission's prime-time access rule became effective in October, 1971, and its purpose was as follows:

A. To lessen the control the three networks have over the airwaves during prime-time television viewing--7:00 p.m. to 11 p.m. Eastern Standard Time.

B. To require network divestiture of syndication and financial interests in independent television program production. This section of the rule is not in dispute, and is not the subject of further FCC investigation.

C. To diversify program ownership, i.e., allow competing production companies to enter the market place with prime-time television programs.

FINDINGS:

Study of the rule has resulted in the following findings:

1. Overall network power has been strengthened, not weakened, by the prime-time access rule. Network originated programming has become

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[1] Prime-time refers to those television viewing hours between 7 and 11 p.m. Eastern Standard Time--the hours when most people are watching television.

scarce, resulting in greater advertiser demand for commercial minutes within prime-time programming, and ratings are generally better for such programs. It has, in addition, strengthened the network's bargaining position with program producers, who are now required to compete for fewer prime-time network hours.

2. Although the networks have divested themselves of their syndication arms, two of the networks, ABC and CBS, are still involved in producing their own prime-time programming and made-for-television movies. Both have discontinued production of theatrical movies, also ultimately destined for television. This practice, say Hollywood competitors, puts ABC and CBS at a competitive advantage over other production houses. The prime-time access rule has, therefore, exacerbated this potentially dangerous monopolistic situation, wherein the networks both produce and distribute entertainment programs.

3. The rule, by limiting the number of network supplied entertainment hours to three (3) per night, has relieved the networks of making difficult programming decisions for what has been, traditionally, the most difficult programming slot, i.e., 7:30 to 8:00 p.m. Homes using television (HUTS) are on the increase until 8 p.m. and then plateau. The ABC-TV Network has, therefore, endorsed the rule partly because the rule has allowed ABC to concentrate its programming effort into a shorter time period. Partly as a consequence of the prime-time access rule, the ABC network has strengthened its competitive position with regard to the other two networks and has become profitable. The other

two networks, CBS and NBC, which still philosophically oppose the rule, are, in fact, making more money as networks from the rule. CBS remains the strongest network critic of the rule, maintaining that it will not achieve diversified program sources, or popular network-calibre programs. CBS wants the rule rescinded effective October, 1975.

4. The decrease in prime-time programming hours has tended to force advertising prices upward, resulting in an overall better bottom line, or profit, figure. An improved broadcast economy, however, has also contributed to increased profits.

5. The five owned and operated stations that belong to each of the three networks are in a potentially better financial position as a result of the prime-time access rule, even though they face fierce competition, in some markets, from independent commercial stations. Because of the firmer broadcast economony, affiliated stations in large metropolitan markets have little difficulty selling the extra available commercial time that the rule provides. Once again, the profit figures are healthier, partly as a result of the rule, partly as a result of an improved economy. Moreover, it is important to note that a program stands little chance of being successful in syndication unless the networks' five owned and operated stations buy it. The networks and their owned and operated stations, therefore, have a great deal of financial power over those programmers producing

for the prime-time access periods, and thus over the total choice of programming available for access time on other stations. In effect, therefore, inexpensive programs with ratings track records have been dominant, and most of them are easily replicated . old network series.

6. Most stations in the top-50 markets, those subject to the rule, presently favor it because it enables them to make greater profits. They prefer to sell up to five minutes of commercials, plus adjacencies, for inexpensive syndicated programs. Prior to the rule, affiliates received network compensation. (Networks usually sell three commercial minutes in a half-hour program and allow affiliates to sell adjacencies, or station breaks, locally.)

7. Stations in smaller markets, those allowed to program off-network re-runs, generally have mixed feelings about the rule. If they can make money from the rule, they endorse it; if the local economy is soft and local advertising is in short supply, they tend to oppose it. Generall speaking, however, they too are making more money from the rule.

8. Independent stations, both VHF and UHF, want to retain the rule because it has strengthened their competitive position vis-a-vis their competitors with network affiliations. Although roughly the same number of sets are tuned-in to television between 7:30 and 8:00 p.m., a larger share of those sets are tuned-in to independents at that time period, which offer off-network reruns, providing subsequent financial gains to the independents. There is some threat, however, f the network affiliated stations that are competing for the national spot advertising. This competition promises to take away much of the benefit to independents in the long-run.

9. Because the prime-time access rule has reduced the amount of prime-time programming produced for the networks, the price for syndicated off-network shows has increased substantially. There is now a fear expressed that the rule might result in a long-term shortage of well produced, off-network, syndicated programming, with audience appeal, that is guaranteed to generate local advertising revenue. In this respect, what the major Hollywood producers have lost in prime-time, is being made-up, in part, by the exceptionally high profits generated when their off-network programs are sold in syndication at record scarcity prices.

10. Program ownership has been diversified somewhat, although not as much as appears at first glance. Many of the independent production companies selling programs for the prime-time access periods were in daytime and prime-time production long before the prime-time access rule was passed. There has been a substantial shift, however, away from independent producers of network quality programming (larger budget dramas and comedies) to taped game shows and imported film programs. In fact, were the rule to be abolished, very few would actually cease production. Producers would move, instead, into different daytime periods, remain in prime-time if they had a successful and proven prime-time access program, or attempt to meet the growing programming demand by independent stations.

11. It is not fair to say that all small independent producers favor the prime-time access rule. Some do and some do not. Generally speaking, those independent producers making programs on video tape (usually variety and game shows), and those producers who produce abroad, strongly support the prime-time access rule because their programs sell locally with a considerable price advantage. Those independent producers who work in drama and comedy, primarily on film, prefer to produce for the higher network budgets, using network owned facilities in New York or Hollywood, or in association with one of the major Hollywood production centers. Independent production opinion on the access rule is divided, but perhaps as many as 85 percent are for repeal of the rule, and 15 percent for maintenance (almost in direct ratio to their prior network production experience).

12. The major Hollywood production houses--MCA-Universal, Warner Brothers, Columbia-Screen Gems, 20th Century Fox, Paramount, and MGM--are bitterly opposed to the rule. Although these companies want to weaken network program control, they want to accomplish this by prohibiting the networks from making their own prime-time entertainment programs--not by limiting the number of network programming hours. The prime-time access rule has resulted in a serious loss of original prime-time television programming for the major Hollywood production centers and for some of the independent

film production houses. In order to generate good profit results on prime-time network programming, the Hollywood film industry has to have a series, such as Ironside, on the network for at least three seasons if it is to be sold successfully in syndication. The loss of about four hours of prime-time programming per week for 24 to 26 weeks a year, has led to a serious loss of work opportunities in the Hollywood film industry.

13. The rule has led to more imported foreign programming in the American television market, and there is strong evidence to support the view that this trend is going to continue in the years ahead. Although the film/television production industry has never taken a protective position, and has benefited from sales of American programming abroad, two points are worth considering: (i) many foreign movie industries, and consequently television production industries, receive direct or indirect governmental support through tax incentives, subsidies, etc.; and (ii) some countries, Britain and Canada, the sources of most imported programming, have quotas on the amount of foreign produced programming allowed on television. From the preceding, one should not assume that all imported material is brought in simply because of cost advantages. Time-Life Television, working closely with the BBC in London, has imported several series with acknowledged merit, for example, America (NBC), The Six Wives of Henry VIII (CBS, PBS), Elizabeth R, and others, were shown, originally, in prime-time on either a commercial network or the public television network. These

programs, incidentally, are being re-run in prime-time access by virtue of an FCC waiver.

14. One category of regularly scheduled network produced programming--public affairs/documentary--has almost totally disappeared from the prime-time schedule between the hours of 8 and 11 p.m. as a result of the prime-time access rule, except, of course, for news specials on such topics as Watergate. In addition, network produced prime-time children's programming, and children's specials, now begin later in the evening, causing many parents to write the FCC complaining about the situation.

15. The rule has led to some increase in locally produced and originated public affairs programming, but, basically, only in a few major markets, and among those stations that have had a commitment to public affairs programming long before the rule was enacted. It is unlikely that these stations will abandon such programs, should the rule be rescinded, and it is equally unlikely that this trend toward more public affairs, or minority interest programming, will increase rapidly, largely because of the production costs of such programs and because it is almost impossible to sell them to commercial sponsors in markets other than the top-20. If, for example, a station in a city the size of New Orleans decided to put on a local public affairs program, it would cost in the region of $1,000 to $1,500 per half hour show, and these shows generally cannot be repeated because of their topical nature. One thirty minute segment of a taped game show sells for $300 in this market, which is the price

of a one minute commercial in the show. If the game show is fully sold, and it is usually quite easy to sell game shows because of their wide acceptance among the family audience viewing from 7:30 to 8:00 p.m., then gross revenues of $1,500 are generated--five one-minute commercials at $300 per minute, excluding adjacencies. The profit figure is, then, quite high. A public affairs program dealing with drugs, pollution, or crime, on the other hand, is almost impossible to sell commercially because it will not attract large numbers of viewers. An additional "disadvantage" is that this type of program is expensive and time consuming to produce. Consequently, there are considerable <u>disincentives</u> to produce local public affairs programs, while there are considerable <u>incentives</u> to buy cheap game shows with a high revenue, and a high profit, potential.

<u>SUMMARY</u>:

A. Rescinding the prime-time access rule would benefit the Hollywood film industry, both major and independent producers.

B. Only one of the networks, CBS, and its owned and operated stations, is publicly opposed to the rule, even though the rule has been an important factor contributing to higher network profit figures. The strength of the broadcast economy in 1972 and 1973 has been another important factor.

C. The independent licensees want to keep the rule because it has presented them with opportunities to make short-term gains in ratings, revenues, and profits. The rule might harm them long-term, however, as the supply of off-network Hollywood produced syndicated programming, on which their existence depends, begins to decrease and, because of supply and demand, to cost more.

D. Most of the network affiliated stations in the top-50 markets, and many in markets below the top-50, want to keep the rule, as does ABC. NBC, at first opposed to the rule, is now neutral.

E. The independent producers of taped programs, mostly game shows, want to continue the so-called prime-time access 'experiment,' as do the importers of foreign made television series.

POSSIBLE POLICY ALTERNATIVES:

If the main purpose of the prime-time access rule was to lessen network control of the airwaves, and since this purpose seems to have been defeated in the sense that the networks, and their five owned and operated stations, still dominate television broadcasting in America, perhaps some overall policy alternatives ought to be investigated and given further research emphasis by the FCC, and other governmental and non-governmental bodies in the future:

1. Some consideration might be given to the overall extent to which the networks allegedly dominate television broadcasting. Each network has five owned and operated stations in top markets. All three networks have owned stations in New York, Los Angeles, and Chicago--

t, second, and third largest markets in the U.S. accounting
hing like 19 percent of the total television households.
its other two owned stations in the sixth and seventh largest
San Francisco and Detroit, respectively, which account for
r 4.7 percent of America's television households. CBS has
station in the fourth largest market, Philadelphia, and in
fth, St. Louis, which together account for another 4.8
of the nation's television households. NBC has its other two
ations in the eighth and ninth markets, Cleveland, Ohio, and
on, D.C., respectively, which together account for 3.8 percent
ision households. Consequently, ABC has access to almost 24
of the nation's television households through its owned and
stations; CBS also has access to almost 24 percent of total
n households; while NBC has access to almost 23 percent of
levision households. (National television spot revenue, however,
oportionately higher in the O & O markets, ranging from 32
rcent of the national total, but part of that is due to the fact
re are more stations, and competition is fiercer, in the larger
Not only are the three networks a tripoly in the distribution
amming nationally, they also own the three most powerful groups
ons. These two factors, in addition to their program making
, make them the most powerful instituions in American broad-
today, and critics claim that it is that power, concentrated in
ds, that has inherent and potential anti-trust dangers. If, afte
and investigation, that is deemed to be the case, then the net-
ld be made to divest themselves of one or all of their owned and

stations. There is need for careful consideration of this possible policy alternative, however, since the networks have argued quite forcefully that the reason they are able to be innovative and experimental in their programming, and to be the major suppliers of costly national and international news, instant news specials, documentaries, and sports programming, is because of their financial strength in American broadcasting. If the networks were made to divest themselves of their owned and operated stations, their financial power would be weakened, perhaps seriously, and such programming mentioned above would, probably, suffer. In addition, economists still differ about the alleged dangers of vertical integration and the networks may be able to put forward compelling 'public interest' arguments for having the control they have.

2. The FCC could work more closely in support of the Justice Department's anti-trust suits against the three networks. The intent of these suits is to get the networks out of the entertainment program making business, i.e., programs other than news, public affairs, documentary, and sports. These suits are based on the fact that the networks produce and distribute programs and buy programs from companies that do not own any distribution facilities, yet have to compete with the networks in the sale of programming. This situation has anti-competitive dangers in the sense that the networks can, theoretically, keep down the price of entertainment programming supplied by independent production houses based on the networks' assumed capacity to extend their own production should the independent suppliers prices become too high. In their defense, the networks say they need tape

facilities were first developed by the networks as an extension of live television, they should be left untouched because they are essential to network operation. In the area of film, the networks say they need to be free to experiment with, and develop, their own sources of programming. The networks' also claim that owning facilities is different from owning programs, and they now own very few programs.

3. The FCC could investigate ways of strengthening the nation's independent VHF and UHF stations allowing them to compete more effectively with the three networks. Policy favoring development of a fourth network is handicapped by a shortage of markets within independent VHF stations--only 14 of the top-50 markets have an independent VHF station.

4. Consideration might be given to the ways and means of financing and enhancing the public television network as a viable alternative to the commercial networks.

5. The newer technologies, for example cable and pay television, could be encouraged and stimulated in an attempt to establish another competitive broadcasting system that might be able to meet the programming needs of minority audiences in a more efficient manner.

The networks' could argue that it was never the intention of the prime-time access rule to make structural changes in the broadcasting industry, and that the above policy alternatives are thus irrelevant. The rule, they say, was merely intended to take away from the networks a daily half-hour and hand it over to their affiliates. In this case, the rule has been successful.

The remainder of this report will be devoted to a detailed analysis of the economic consequences of the prime-time access rule on the various interested parties.[1]

SECTION II: THE NETWORKS

INTRODUCTION

As we have seen, the three networks—ABC, CBS, and NBC—dominate television broadcasting in America. Seven days a week, year round, the networks offer programming during most of the day to their local affiliates in roughly 200 markets throughout the country. The networks buy or produce this programming, and sell commercial minutes within this programming, which is then aired by their local affiliates. In return, the local affiliates are paid what is known as station compensation--usually roughly a third of what they could get if they took an additional risk and programmed their own material--and they are also allowed to sell short segments of time in the network programming, known as station breaks or adjacencies, which are often very valuable because of the higher rating levels of many network shows.

All three networks usually carry fewer minutes of advertising than are allowed under the National Association of Broadcasters Code:

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[1] AUTHOR'S NOTE: Much of the detailed information presented in this report was given to the author by confidential sources who prefer not to be identif... in footnotes. Most of them have agreed to have their names included in the list of people interviewed--See Appendix I.

ABC Television Network

Advertising in prime-time, 8 to 11 p.m.

Half-hour program--NAB Code: 4.25
ABC Television: 4.17
- Billboard--20 seconds (a billboard is an announcement of the sponsoring advertiser or advertisers, e.g., "This program is brought to you by........")
- Commercials--3:00
- Station break--30 to 42 seconds (this is usually used for one locally sold 30-second spot announcement, plus station identification)
- Program promotion--15 seconds

One-hour program--NAB Code: 9:30
ABC Television: 7:55
- Billboard--40 seconds
- Commercials--6:00
- Station break--1:00, but sometimes as much as 1:30
- Promotion--15 seconds

Non-prime-time, daytime and weekends, excluding children's weekend programming

Half-hour program--NAB Code: 8:00
ABC Television: 7:45
- Billboard--20 seconds
- Commercials--6:00
- Station break--1:10
- Promotion--15 seconds

Non-prime-time, late night weekdays from 11:30 p.m., per 90 minute program

90 minute program--NAB Code: 24:00
ABC Television: 20:25
- Billboard--20 seconds
- Commercials--17:00
- Station breaks--2:40 (70 seconds, 70 seconds, 30 seconds)
- Promotion--25 seconds

Children's weekend programming

All three networks follow the NAB Code which states that children's programming between the hours of 7 a.m. and 2 p.m. on Saturday and Sunday shall not exceed 12 minutes of non-program material in any 60-minute period.

The other two networks, CBS and NBC, follow similar, though not identical patterns:

CBS Television Network

In prime-time, CBS has six minutes of commercials per hour, two billboards for 40 seconds, two promotions for 32 seconds, and a station break of 1:30, totalling 8 minutes and 42 seconds of non-program material. In daytime programming, the network has a total of 15 minutes and 40 seconds of non-program material broken down as follows: 12:00 of network commercials, 40 seconds for billboards, 40 seconds for promotional material, and station breaks of 2:30.

NBC Television Network

In prime-time, NBC has six minutes of commercials per hour, and seven minutes per hour in two-hour movies, with station breaks of from 30 to 60 seconds. In the 30-minute news program at 6:30 p.m. or 7 p.m. there are five minutes of network sold commercials, with one station break of 70 seconds. In daytime television, NBC offers six minutes of network commercials per half hour with a 70 second station break every half hour. There are, of course, the usual billboards and program promotions.

The chart on the following page has been prepared to help explain the relationships between the television networks and their affiliates, including the networks' owned and operated stations:

THE TELEVISION BROADCASTING INDUSTRY

Parent Company	American Broadcasting Companies (includes United Paramount Theatres)	Columbia Broadcasting System	Radio Corporation of America (RCA)			
Subsidiary			National Broadcasting Company			
Network	ABC Television Network	CBS Television Network	NBC Television Network			
O & O's (by market size--5 VHF)				Independents in O & O Markets		
				VHF	UHF	
1. New York	WABC-TV	WCBS-TV	WNBC-TV	3	2	(New York)
2. Los Angeles	KABC-TV	KNXT-TV	KNBC-TV	4	2	(Los Angeles)
3. Chicago	WLS-TV	WBBM-TV	WMAQ-TV	1	3	(Chicago)
4. Philadelphia		WCAU-TV		–	3	(Philadelphia)
6. San Francisco	KGO-TV			1	3	(San Francisco)
7. Detroit	WXYZ-TV			–	2	(Detroit)
8. Cleveland			WKYC-TV	–	1	(Cleveland)
9. Washington, D.C.			WRC-TV	1	1	(Washington, D.C.)
12. St. Louis		KMOX-TV		1	1	(St. Louis)
Number of Affiliates	177 primary 101 secondary*	192 primary 3 also available	217	Total Number of Commercial Independents		
				34-VHF	58-UHF	

* A secondary affiliate carries less programming than a primary affiliate and might also have an affiliation with another network. Consequently, there is double counting of affiliates. There are roughly 550 affiliates, and

Over 78 percent of the television stations in the top-50 markets of the U.S., which account for roughly 70 percent of the viewing population, are multiple-owned and/or newspaper owned. No owning company, however, may operate more than seven stations, and no more than five can be VHF's. Many of the big broadcasting companies have their maximum of five VHF outlets in major markets, but none approaches the power of the networks and their owned and operated stations.

The major broadcasting companies, after the networks, are as follows, with the market number and network affiliation in parentheses:

Group W (Westinghouse), with stations in Philadelphia (4) (NBC), Boston (5) (NBC), San Francisco (6) (CBS), Pittsburgh (10) (CBS), and Baltimore (19) (ABC).

Metromedia, with stations in New York (1) (Independent VHF), Los Angeles (2) (Independent VHF), Washington, D.C. (9) (Independent VHF), Minneapolis (13) (Independent VHF), Kansas City (22) (ABC), and Cincinnati (23) (Independent UHF).

RKO, with stations in New York (1) (Independent VHF), Los Angeles (2) (Independent VHF), Boston (5) (CBS), Memphis (31)(ABC).

Dunn and Bradstreet (Corinthian), with stationsin Houston (14), Indianapolis (17), Sacramento (27), Tulsa (53), and Fort Wayne (103), all CBS affiliates.

The Hearst Corporation, with stations in Pittsburgh (10) (ABC), Baltimore (19) (NBC), and Milwaukee (25) (CBS).

Storer, with stations in Boston (5) (Independent UHF), Detroit (7) (CBS), Cleveland (8) (CBS), Atlanta (16)(CBS), and Toledo (57) (NBC).

Scripps-Howard, with stations in Cleveland (8) (ABC), Cincinnati (23) (CBS), Memphis (31) (NBC), Tulsa (53) (NBC), and West Palm Beach (90) (NBC).

Newhouse Broadcasting, with stations in St. Louis (12) (ABC), Portland (26) (CBS), Birmingham (47) (NBC), and Syracuse (58) (NBC).

McGraw-Hill, with stations in Indianapolis (17) (NBC), Denver (29) (CBS), San Diego (34) (NBC), and Bakersfield (416) (ABC).

Cox Broadcasting, with stations in Oakland/San Francisco (6) (Independent VHF), Pittsburgh (10) (NBC), Atlanta (16) (NBC), Charlotte (32) (NBC), Dayton (40)(CBS).

Capital Cities, with stations in Philadelphia (4) (ABC), Houston (14) (ABC), Hartford/New Haven (21) (ABC), Buffalo (24) (ABC), and Fresno (75) (CBS).

AVCO Corporation, with stations in Indianapolis (17) (ABC), Cincinnati (23) (NBC), Columbus (33) (NBC), Dayton (40) (NBC), and San Antonio (50) (NBC).

Taft Broadcasting, with stations in Kansas City (22) (NBC), Cincinnati (23) (ABC), Buffalo (24) (NBC), Columbus (33) (ABC), and Birmingham (47) (ABC).

The Washington Post/Newsweek Group, with stations in Washington, D.C. (9) (CBS), Miami (18) (ABC), Jacksonville (68) (CBS), and the purchase of one station pending FCC approval in Hartford/New Haven (21) (CBS).

WGN, with stations in Chicago (2) (Independent VHF), Denver (29) (Independent VHF), and Duluth, Minnesota (108) (CBS).

The television networks were organized to do two things: (i) to purchase or produce programs of higher technical quality and greater expense (e.g., national news, sports, drama, comedy, and variety shows) which, in turn, are transmitted to affiliates, including O and O's, and (ii) to sell commercial positions within these programs to national sponsors.

In 20 years, network programming time has expanded from five to 13 hours a day (or more on weekends), and about 70 percent of CBS and NBC affiliate programming is network supplied. ABC currently supplies less programming to its affiliates, taking up a little more than 50 percent of the total schedule, but the network has plans to expand programming, especially in the morning with a news format show along the lines of The Today Show on NBC, and the CBS Morning News.

Although the affiliates present some locally originated programming, mostly news and public affairs or off-network syndicated re-runs, the networks are responsible for the bulk of the daily programming. The reasons are:
(i) the networks, with their central programming, sales, promotion, service, and station distribution facilities, plus the weight of their five owned stations, have the resources that can afford the cost of the most popular entertainment shows, i.e., movies, situation comedies, and dramas, as well as very costly news, documentary, and sports programming; (ii) networking is also the most effective system of national advertising; (iii) except for a few of the largest stations,

most local affiliates have discovered that they have neither the talent nor the resources to do much local programming, other than local news.

Currently, both CBS and NBC program from 7 a.m. to 9 a.m., and from 10 a.m. to 4:30 p.m. on every weekday, with a half-hour break from 1 to 1:30 p.m. ABC has a shorter daytime program schedule of five hours, programming from 11:30 a.m. to 4:30 p.m. This daytime programming is usually made up of game shows, soap operas, talk shows, and network prime-time repeats. Between 6 and 7:30 p.m. all three networks offer their affiliates half-an-hour of national and international news, with the affiliates usually airing their local news program surrounding, preceding, or following the network news. Then from 8 to 11 p.m.--prime-time--the networks again dominate the airwaves with assorted entertainment programs, plus a little news/public affairs programming and some sports. At 11 p.m. there is a break from the network allowing the affiliates to present the late news. Then, it is back to the networks again for late night entertainment shows, usually talk shows or movies, until 1 a.m. or later. On Saturdays and Sundays, the amount of network supplied programming varies, but all three networks supply Saturday morning children's programs. All three networks supply, in addition, weekend sports programming and news, as well as prime-time programs from 8 to 11 p.m., or from 7:30 to 10:30 p.m.

PROGRAM COSTS AND REVENUES

Television programming is very expensive, and the following chart outlines the approximate costs of programs. The program costs exclude network adminstrative and general operating expenses, and also exclude the line charges that the networks pay for feeding the programs to their affiliates.

THREE NETWORK TOTAL PROGRAMMING COSTS AND REVENUES, 1972

	PROGRAM COSTS*	PROGRAM REVENUES
All News and Sports Programming**	$300 million (almost all network produced)	$400 million
Prime-time Entertainment Programming	$480 million (some network produced, but mostly Hollywood produced)	$800 million
Daytime Entertainment Programming	$105 million (some network produced, some independently produced)	$300 million
Late-night Entertainment Programming	$25 million (some network produced, some independently produced)	$58.5 million
Children's Programming, including weekend specials, American Bandstand, and Captain Kangaroo	$25 million	$80 million
	TOTAL: $935 million	

* The figures have been rounded, and the data derived from reports by the Federal Communications Commission (financial data) and Broadcast Advertisers Repor

** News and sports programming was especially expensive in 1972 because of the General Election and the Olympic Games.

There are, of course, two important deductions that have to be made from the above gross revenue figures; advertising agency commission and station compensation. Together these two deductions amount to about 20 percent of the gross revenues which, after deductions, net out to roughly $1.27 billion. It should be noted that different investments in different programming results in widely different revenue figures. News and sports programming, for example, generate very little revenue above program costs, and, after station compensation and advertising agency commission, it is easy to see why the networks say that, generally speaking, these particular program offerings are unprofitable. Although prime-time entertainment generates $800 million in gross revenue, station compensation for prime-time programming is greater than it is for other types of programming. The prime-time programming schedule receives, in addition, a greater amount of administrative attention and expense, causing little overall profit. The other types of programming, however, are all highly profitable, particularly children's programming, in the case of ABC and CBS, and daytime programming for all three networks.

Programming costs the networks roughly $935 million a year, with perhaps another $225 million in other costs, e.g., administration and general operating costs, plus line costs. (Line costs amount to $60 million a year for the three networks.) Consequently, the three networks were left with total pretax profit of almost $111 million, according to the FCC's report on network revenues for 1972. The three network pretax profit figure for 1972 was more than double that in 1971--in fact, it showed a 106.0 percent increase, but 1971 was a bad year for all three networks (see following page). There were four main reasons contributing to this increase in pro: 1. an upsurge in general economic activity; 2. an increase in revenues due to political advertising during an election year; 3. recovery from the cigarette advertising ban placed on the broadcasting industry in January, 1971; and 4. the prime-time access rule.

Using the FCC's TV Broadcast Financial Data, we can trace the profits of the networks and their owned and operated stations over the last seven years:

1966: Total pretax profits $187 million; the networks taken together made pretax profits of $79 million, and the owned and operated stations made pretax profits of $108 million.

1967: Total pretax profits $163 million; $56 million to the networks, and $107 million to the owned and operated stations.

1968: Total pretax profits $179 million; $56.4 million to the networks, and $122.4 million for the owned and operated stations.

1969: Total pretax profits up to an all-time record of $226 million; $93 million to the networks, and $133 million for the owned and operated stations.

1970: Total pretax profits down to $167.4 million; $50.1 million for the networks, and $117.3 million to the owned and operated stations. (This was the last full year before prime-time access and the cigarette advertising ban).

1971: Total pretax profits down to $144.9 million; $53.7 million for the networks, and $91.2 million to the owned and operated stations. (Last quarter of the year subject to prime-time access).

1972: Total pretax profits up to $213.4 million--the second highest in broadcasting history; $110.9 million for the networks--an all-time record, and $102.5 million for the owned and operated stations. (First full year of prime-time access).

NB: Critics of the financial power of broadcasters often overlook the fact that the ABC Television Network had been losing money quite heavily since 1963. In the nine preceeding years, ending December 31, 1971, ABC lost about $113 million on its television network--money that the company could ill afford to lose without the profitability of its five owned and operated television stations. During this time, however, the CBS and NBC television networks made profits of between $25 million and $50 million every year, totalling $676M, and the owned and operated television stations have always been highly profitable. The radio divisions attached to ABC, CBS, and NBC have had uneven results financially in the last few years. The networks claim that they need a fairly high return on their capital if they are to be adventurous or experimental in their programming.

It is impossible, of course, to say with any precision how much the upsurge in network profits was due to the prime-time access rule, but it is possible to say that for years before the implementation of the prime-time access rule the ABC Television Network was losing money, and some of these years marked new highs in America's economic growth. Since the prime-time access rule, the ABC Television Network has moved into a profit position. The network made a substantial profit in 1972, and it looks as though it is going to remain profitable. Because of this profit, the ABC network news and public affairs budget has been increased from $24.6 M in 1970, to $32.6 M in 1973. Even so, the network loses approximately $15 million a year on this type of programming. Although the ABC Television Network has become profitable since prime-time access, this is not to say that there is a direct cause-effect relationship here because there are other contributing factors. There is, however, some basis to believe that the prime-time access rule has been of significant financial help to ABC, which helps explain why that network, originally philosophically opposed to the rule, is now one of its most ardent supporters. ABC, however, has demonstrated that it has never needed the rule to reduce its hours of operation and overhead. Ultimately, it decided to offer fewer hours of programming than the other two networks on a daily basis, and from January to September, 1971, before the introduction of prime-time access, it reduced its prime-time schedule by three hours a week--on Sunday from 7-8 p.m., on Thursday from 10:30 to 11 p.m., and on Saturday from 9:30 to 11 p.m.

NETWORK-AFFILIATE RELATIONS

Prime-time refers to those television viewing hours between 7 and 11 p.m. eastern standard time--the hours when most people are watching television. The FCC's prime-time access rule which became effective in the fall of 1971, restricted the number of hours that affiliates in the top-50 television markets could receive network supplied programming to three per night. Network supplied news programming, however, was exempted from the rule, which means that the realistic maximum amount of network supplied programming between 7 and 11 p.m. is three-and-a-half hours, although only 90 of the total weekly potential of 1050 7 to 7:30 p.m. time periods are occupied by network news. Consequently, each network affiliate in the top-50 markets was required to provide locally originated programming (not necessarily locally produced programming) for at least half-an-hour a night six nights of the week, and for one-hour on Sunday (local evening news on Sunday is either cut back or not programmed at all), when the three networks had traditionally begun programming at 7 p.m. on Sundays. This consists of a total of at least four hours a week of programming that each network affiliate had previously received from the network. Altogether, each of the three networks "lost" four hours of prime-time programming responsibility, adding up to a total of 12 hours a week of 'lost' network programming.

Theoretically, there ought to have been no need for the FCC to have passed the prime-time access rule because any network affiliate can choose to clear or not to clear any network supplied programming that is fed down the line. In exchange for broadcasting network programs, with network sold commercials, the network agrees to pay its affiliated station a fee called station compensation. The individual affiliate, therefore, does not have to bill the sponsor, but does receive station compensation from the network. The station's risks are, therefore, reduced considerably and the rewards may be increased. The rewards depend upon the saleability of the commercial positions which fall within and follow network programs these are known as station breaks. The affiliate decision to clear a program depends, in large part, upon whether or not the guaranteed compensation on fully sponsored programs exceeds, or falls short of, the estimated profit of a local program, or a program bought in syndication but originated locally. Another very important factor in this decision is the impact the selected program has on the value of the local station breaks, within and following the program. Within this general framework, affiliates have always had the discretion to choose not to carry certain network programs on their stations. When an affiliate chooses not to clear a network program, it is known as a pre-emption, and the pre-empted programs, quite naturally, have usually been the less popular network originated programs.

PROGRAMMING DEVELOPMENTS

It was the market as it developed that determined the amount of programming that was network originated, and the amount that was affiliate originated. The market, however, has been weighted in the networks favor, since the networks are few in number, and have the most powerful groups of owned and operated stations forming the backbone of their network strength. Other networks, for example, Dumont, had difficulty in establishing themselves, either because they lacked enough owned and operated stations in key markets, or because they lacked the necessary attractiveness to draw away affiliates from competing networks, or both. There are moves currently underway to form so-called networks of independent stations, but early indications seem to show that these will always lack the financial strength and power of the existing networks. As the table on page 18 indicates, there are not enough independent stations currently operating to rival the strength of the three existing networks.

Network programming as it has evolved over the past twenty years or so, has been developed on a trial and error basis, and even today it is very difficult to forecast, with any consistent accuracy, what will make a successful television show or series. There is, however, a high correlation between money spent on production and talent, and popularity. Vast sums of money can be spent on the development of series that never get beyond the pilot stage. Every year, the three networks spend roughly $25 million (with additional investment by the independent producers) on the development of new programs. The networks recoup some of their investment by broadcasting pilots. Programming in prime-time involves estimates of future audience levels and their demographic composition. Advertising pricing and the sales levels of such advertising are dependent upon the overall strength of the economy, the program and other costs, station clearances, and competitive counter-programming from the other networks. Although these estimates are almost exclusively based on past performances of essentially similar (some would say, identical) programs, they are necessarily subjective since they deal with an uncertain future. The risks are particularly great with a program type that has never been aired before, for example, All in the Family. Once a program becomes a proven success, it is then copied by the other networks, Sanford and Son on NBC, The Corner Bar and the animated Wait Till Your Father Gets Home, in prime-time access syndication. CBS also developed an Archie Bunker spin-off, Maude, a left-wing, rather than a right-wing, bigot.

Programming on the television networks, then, involves constant change and competitive adjustments as market and competitive conditions change. Programming suggestions are financed and developed in several ways:

(a) from within the television network itself with the pilot financed by the network;

(b) from an outside producer, who fully finances many program outlines (costing about $2,500), of which about one-third are selected by a network for a script commitment--at this time the network obtains unilateral options to order a pilot, to order 13 to 15 or more, episodes for the first year, to order 22-24 episodes for the second year, and so on through the seventh year of broadcast. The script commitment is usually 80 percent network financed, and the total cost is about $15,000 to $25,000. One-third of the scripts are selected for a pilot--a 90 minute pilot costs roughly $500,000, 80 percent financed by the network and 20 percent deficit financed by the production company.

(c) very rarely, from an outside producer who brings a finished pilot or series to the network. (Only the bigger Hollywood producers are usually able to do this, for example, MCA-Universal, Columbia-Screen Gems, Warner Brothers, MGM, Paramount, 20th Century Fox.)

This is a highly selective process and usually very slow. For the 1973-74 season, out of hundreds of suggestions financed by independent producers, 124 pilots--70 to 80 percent financed by the networks--were made. Of these, only 17 were chosen as regular weekly series, and 13 were selected as mini-series--often unprofitable for the independent producer.

This evolutionary process in the birth of a network television program series is necessarily slow because the financial consequences of a programming error can be serious. Even film stars with a long and successful track record have bombed on television. James Stewart was signed up for a series on NBC in the 1971-72 season; he was guaranteed a fee in the region of $35,000 per program, and the series was a flop. In the same season, James Garner, Anthony Quinn, and Shirley MacLaine all had television series that flopped. In order to minimize the probability of error, several approaches have evolved which attempt to pre-test a program before a network is committed to purchase from 13 to 26 original plays: (i) pilots are shown to test audiences, including prospective buyers of advertising time, and their reactions are evaluated, (ii) pilots are aired over the networks and the ratings and critics comments are noted. Initial ratings are not always a good measure since a new program invariably fares worse than a tried and trusted older series, so often the pilot is aired twice on different days, at least once against "weak" opposition programming; (iii) 90-minute and two-hour pilots are shown as movies of the week, etc., with ratings, critics, and advertiser comments noted. Part of the cost of the pilot is recouped even if the pilot does not result in a continuing series. This has become a very effective cost-cutting or cost-effective measure undertaken by the networks in recent years.

Prime-time television has changed somewhat over the years, and these trends should be pointed out:

1. There has been a shift away from the half-hour situation comedy series, and half-hour series generally.
2. Dramatic programs have become increasingly one-hour, 90 minutes, or even two hours. This is known as the "long form."
3. Fewer original programs are being ordered by the networks. Ten years ago, a typical season was 39 originals and 13 repeats. Today it is likely to be 23 originals and 23 repeats, or, at best, 26 originals and 26 repeats. When 23 originals and 23 repeats are ordered, making a total of 46 weeks of programming, the remaining weeks are often used for news or entertainment specials, including pilots.
4. A new program form, the mini-series, has evolved. These mini-series usually have fewer than 20 original programs in any one season, for example, NBC's popular Columbo series has only eight original episodes in any one season, and this mini-series rotates with other mini-series on the network.

These trends are partly the results of increasing programming costs. Network prime-time entertainment program costs rose by over 50 percent between the 1965-66 season and the 1969-70 season, and program costs are continuing to rise annually. In the period from 1965 to 1972, while program costs had increased by about 60 percent, the cost of living had risen by 33 percent. The advent of color to all programming in the late 60's added substantially to cost of production because color film is more expensive to buy and process than black and white, and because color generally uses up more production time

Network program pilot cost increased from around $72,000 for a half-hour in 1960, to about $250,000 for a half-hour by 1973. One hour pilots increased from just over $135,000 to about $330,000 in the same period. Average new program costs increased from $50,000 per half-hour to between $115,000 and $135,000, and more, for two-plays, while one-hour episodes have gone up from $95,000 to over $200,000 for two-plays. Fees paid by the networks to the producers of made-for-television movies and for the rights to major motion pictures once they have completed their theatre distribution tend to vary enormously. A 90-minute made-for-telvision movie costs the network around $375,000 to $425,000 for two-plays; a 2-hour made-for-television movie, or an average old motion picture that was not too successful at the box office, will cost the network from $600,000 to $800,000 for two plays. A successful major motion picture, however, like <u>Love Story</u> or <u>Patton</u> can cost much more, and the ABC Television Network reportedly paid $3 million for five plays of <u>Love Story</u>, and $2 million for one play of <u>Patton</u>.

The cost of television programming will be discussed in some detail later, in the section on the Hollywood television and movie industry.

In addition to buying programs from producers, the networks have their own facilities and make their own programs, particulary for the daytime periods. All three networks have videotape facilities, and CBS uses its own tape facilities for all of its videotaped programs, whether the network owns the programs or not. This means that programs like All in the Family and Maude, though not owned by CBS are actually produced at CBS's tape facilities in Hollywood. Only CBS has film facilities, although, ABC continues to produce its own made-for-television movies. NBC has never owned its own film studios, although it has produced its own film series. Bonanza was produced, for example, by NBC using someone else's film production facilities. ABC and CBS have always been more heavily involved in the production of filmed shows, and CBS has large film production facilities in Hollywood.

See Appendix II for lists of the regularly scheduled network entertainment programs, both daytime and prime-time, their ownership, and whether or not network production facilities were used.

PRIME-TIME ACCESS RESULTS

Partly as a result of this so-called power of the three network system, the FCC decided to encourage localism and to attempt to open up the competitive system in the program production industry by passing the prime-time access rule. There were several immediate and quite specific results as far as the three networks were concerned:

1. By reducing the amount of network programming by four hours per week for each network, network originated programming became a scarcer commodity and thus its value increased.

2. Network control over the program production industry was strengthened, not weakened, by the prime-time access rule in a very important respect. The network's bargaining position with Hollywood program production houses was strengthened because the market for expensive television programming had been reduced by roughly 16 percent without any commensurate reduction in the number of production houses, especially since the vast majority of those production houses found that competing for programming slots in the prime-time access periods at the local station level was uneconomic. Many

program producers in Hollywood have written to the FCC protesting that the rule was responsible for reducing, and in some cases eliminating, their production for the three networks. One prime-time access casualty was Don Fedderson Productions, producer of My Three Sons, which was eliminated from CBS prime-time schedule during the early days of the prime-time access rule. Fedderson's other network show, Lawrence Welk, was cancelled by ABC and is currently being offered in prime-time access. Wild Kingdom, produced by Don Meier, was a program driven off the NBC TV Network, and is now sold in syndication as a prime-time access show via an FCC waiver allowing half as many original programs as were presented when it was on the network. A third major prime-time television production house, MGM, was reduced to only one show, Medical Center, after the passing of the rule, and is only just making a comeback in the 1973-74 season on prime-time television, with three new series premiering.

MGM, in fact, was the only major Hollwyood production house to attempt to break into the prime-time access period with The Young Dr. Kildare, domestically produced, bartered by Bristol-Myers, a videotape rather than a film production. MGM abandoned production of this show after only one season. Other Hollywood film producers have only gone into production with foreign made access shows.

3. The three networks were relieved of making programming decisions for what is usually one of the most difficult and marginal time periods, 7:30 to 8 p.m. The program death rate in this time period has always been high due to the fact that the audience is in a transition stage, relying heavily on children and old people, two groups lacking major advertiser appeal.

Young people and adults, aged from 18 to 49, the most desirable group of television watchers from the advertisers viewpoint, tend to view television beginning at about 8 p.m. onwards when they have finished dinner and are ready to settle down to an evening's viewing. Consequently, the prime-time access rule allowed the three networks to concentrate their programming effort into a shorter time period where the audience composition was much better so far as potential advertisers were concerned.

4. Because the number of network commercial minutes available in prime-time was reduced by the prime-time access rule, and because the demand for such minutes remained the same, or actually increased somewhat as the economy became firmer, the price for prime-time minutes rose. According to <u>Broadcasting Magazine</u>,[1] television network salesmen were saying that the fourth quarter of 1973 would be "the biggest fourth-quarter sales record in TV history." This is at least partly, and perhaps even significantly, due to the prime-time access rule which has firmed up prime-time commercial prices as a result of making prime-time minutes scarcer. Not only are prices per minute higher--an all-time record of $120,000 to buy a one-minute commercial in CBS's <u>All in the Family</u>--but sales for the 1973 are up 14 percent from the 1972 figures, which were themselves a record, and up about 15 percent in prime-time.

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1 July 16, 1973, Vol. 85, No. 3, pp 17-18.

Advertising directed toward women viewers, aged 18-34, has increased from \$8 a thousand in 1970 to \$16 a thousand in 1973. Three years ago, a one-minute spot in a football game--weekend or night-time--cost from \$45,000 to \$50,000; by the fall of '73 t price had risen to \$70,000 plus at the weekend, and \$80,000 a minute for a spot in ABC's Monday Night Football. Apparently advertisers have more money to spend than the networks have time to sell, causing the price to go up. This scarcity of advertising time was a direct result of the prime-time access rule.

In the television business, ratings and the market place determine the price the advertisers pay for the commercials within the programs. While the three television networks compete against each other fo sales, approximately 400 sponsors bid against one another to purchase a virtually fixed supply of commercial minutes--and this supply was reduced by a total of 72 minutes each week for all three networks by the prime-time access rule. The method generally used by both the networks and the advertisers to arrive at a mutually agreeable price for a one-minute commercial is the cost per-thousand-homes, known as CPM. Thus if market supply and demand conditions seem to be running at \$4.00 CPM for a given prime-time program, a program that delivers 12 million homes would sell for about \$48,000 a minute. Should the audience build over time to 15 million homes, with an unchanged CPM, the price would tend to rise to about $60,000 per minute. Once a program achieved popularity and ratings superiority in its time period, however, premiums are usually demanded for buying minutes in a top rated program, and the cost per thousand rises. Because of the apparent scarcity of prime-time minutes under present market conditions, there has been an upward trend in the cost per thousand homes, particularly since advertisers are now interested in reaching certain target audiences, like women from 18 to 49, or young adults from 18 to 34.

In 1970, prior to the prime-time access rule, the costs per thousands homes of an average 30-second commercial in the networks' regular prime-time schedule in the fourth-quarter (the most expensive period of the year) has shown the following pattern:

1970	$1.98 (Pre-prime-time access)
1971	$2.09 (First year of prime-time access)
1972	$2.15 (Second year of prime-time access)
1973	$2.25 to $2.50 (Third year of prime-time access)

This shows a 13.6 percent to 26.26 percent increase in a three year period. The average prime-time minute now sells for $59,000.

5. Regularly scheduled network produced public affairs and documentary programming almost totally disappeared from the prime-time schedule as a result of the rule.

There was approximately a 30 percent reduction in regularly scheduled public affairs programming in prime-time as a direct result of the prime-time access rule. This category of programming excludes political advertising and on-the-spot special news coverage such as the President's trip to China, moonshots, etc.

ABC TV Network, in a submission to the FCC, pointed out that in the 1970-71 season, 16 1/2 hours of news, public affairs, documentary, and instructional programming were broadcast during prime-time hours out of a total of 577 hours of programming, i.e., 3.2 percent of the total was devoted to non-entertainment programming. In the first season of the prime-time access rule, 1971-72, this figure dropped to 12 1/2 hours of such programming out of a total of 520 1/2 hours, or only 2.4 percent of the total. In the second season of prime-time access, 1972-73, the figure jumped to 25 1/2 hours out of 522 hours, or 4.9 percent of the total. It should be remembered, however, that this increase includes coverage of instant news specials such as the Watergate Hearings, and some political programming during the Presidential Election period. The 1971-72 season is, perhaps, more typical since this last year has seen a number of important news events that have been given considerable coverage, some of it in prime-time. The NBC TV Network was the only network with regularly scheduled public affairs/documentary program series in prime-time --America and NBC Reports at 10 p.m. on Tuesdays during the 1972-73 season--and none of the networks have a weekly prime-time public affa program in the 1973-74 season.

In an analysis sent to the FCC by NBC, all prime-time public affairs were covered, including documentaries and series, and instant news specials. For the September through May period, there were 52 hours and 54 minutes of prime-time public affairs programming in the 1970-71 season, falling to 47 hours and 29 minutes in the 1971-72, and rising to 51 hours and 52 minutes in the 1972-73 because of Watergate and the Presidential Election. If both ABC's and NBC's figures had excluded instant news specials, the time allocated to prime-time public affairs programming would be minimal.

6. Network prime-time children's specials begin later in the evening as a result of the prime-time access rule, causing many parents to write to the FCC complaining about the lateness of the broadcast hour for children's prime-time television specials.

In the 1969-70 season, 80 percent of all children's specials began at 7:30 p.m. By the 1971-72 season, the first prime-time access season, this percentage had dropped to 39 percent, and in the 1972-73 season it had fallen to 25 percent. In the 1970-71 season, immediately before the access rule, 9.1 percent of all CBS's prime-time children's specials began at 8 p.m. This rose to 54.0 percent in the following season, and up to 63 percent in the 1972-73 season. In addition, a number of children's spec[illegible] that are offered to the networks by advertisers are being turned down because of the shortage of network prime-time.

In summary, the networks have not been hurt financially at all by the prime-time access rule, nor has their power diminished. An almost immediate result of the rule was the improvement of bottom line profit figures. With the introduction of the rule in 1971, broadcasters felt that they would suffer greatly as a result of the loss of cigarette advertising. The networks, in fact, over-reacted to the cigarette advertising loss, which was quickly recouped. In any event, the loss of four hours per week of fairly marginal network prime-time programming compensated for the spare advertising capacity that the networks felt they would have as a result of the cigarette advertising loss. Although two of the networks, CBS and NBC, are still philosphically opposed to the rule, they are showing no great anxiety to see its immediate repeal--one network executive even suggested that if the rule were to be repealed it should be repealed effective September, 1975!

ABC, originally philosophically opposed to the rule, is now one of the rule's most vigorous supporters. As has already been mentioned, the passing of the rule coincided with a turn-around in ABC's financial fortunes as a network. As a result, the networks would probably show no great disappointment if the rule were retained; they lost some marginal programming, and gained in revenues and profits.

SECTION III: THE NETWORK AFFILIATES

INTRODUCTION

We have seen that networks exist to distribute entertainment programs to their affiliates. Each network attempts to get the maximum number of program clearances from its affiliates, since non-clearance of network programs adversely affects a network's ratings, revenues, and profits. Each network affiliate signs a contract with one of the three networks (or more in the case of small-market multiple affiliates) in which it has first refusal in broadcasting network programs (and network sold commercials) over its facilities. In exchange for broadcasting network programs, the network agrees to pay its affiliate station compensation--usually about one third of what it could get if it bought its own programming and sold its own commercials. The affiliate does not have to arrange to purchase its own programs during the times that its network is on the air; the commercials have already been sold; the local station does very little and receives station compensation from the network. Thus the station's risks are minimized, and, in addition to compensation, the network allows its affiliate to sell commercial positions within network programs preceding and following network programs; these are known as station breaks.

About 90 percent of television stations' sales involve station breaks or "time" sales. These are usually 42 second intervals between network supplied programs. Initially these periods provided time for local stations to identify themselves by announcing their call letters and location, but additional time was made available by the networks, and this time became an affiliate's prime source of revenues. These station breaks have increased gradually over the years from 15 seconds in 1948, to 20 seconds in 1951, up to 30 seconds in 1956, and from 40 seconds to one-minute, depending on program length, beginning in 1963. The sale of these station breaks by the local affiliate are of two types--national spot sales, known as spot advertising, and local sales.

If a national sponsor wants to advertise snow tires in the northern half of the United States, spot sales allow him to do this. If he bought a one-minute announcement within a network program, approximately half of his advertising expendutre would be wasted. With regional commercials, a snow tire commercial would not be aired in the major markets of the south, where snow falls irregularly or not at all.

Local sales are sales made by the station's own salesmen to a local sponsor, for example a realtor, department or grocery store.

The programming latitude and autonomy available to the average affiliate does not apply in the case of the five network owned and operated stations. With very rare exceptions, the owned and operated stations clear all the television network programs in the network time periods, even if local conditions seem to indicate that non-clearance would improve the ratings of the owned and operated station in question. The main reason for this is that the owned and operated stations lie at the heart of network power. Any gains recorded by the owned and operated stations at the local level, would consequently be more than offset by ratings and revenue decreases for the network. In addition, when the owned and operated stations clear the network schedule unchanged, the network is then in a position to use this to persuade the rest of the affiliates to do the same thing. As a result, most affiates follow the owned and operated stations and clear almost all of the network fed programming. Generally speaking, the owned and operated stations for CBS and NBC and their affiliates, have programs during the following times from Monday through Friday:

9:00 - 10:00 a.m.	--- Entertainment
1:00 - 1:30 p.m.	--- Entertainment
4:30 - 6:00 p.m.	--- Mostly entertainment, with some news on a very few stations
6:00 - 7:00 p.m.	--- News
11:00 - 11:30 p.m.	--- News
After 1:00 a.m.	--- Movies

Weekend programming is fitted around the network children's, sports, and prime-time entertainment schedule. In general, the periods from 4:30 to 7:00 p.m., and from 11:00 to 11:30 p.m. are of primary importance to both the owned and operated, and affiliated stations ratings and revenues.

Within these time periods, CBS and NBC affiliates have to provide their own programming and sell their own commercials. ABC affiliates have slightly more local time since the ABC Television Network provides just over 50 percent of total daily programming, while CBS and NBC supply more than 70 percent. One of the first results of the prime-time acces rule was to increase the amount of locally originated programming (not necessarily locally produced programming) and also the amount of advertising that was offered for sale locally.

PRIME-TIME ACCESS PROGRAMMING

The passing of the FCC's prime-time access rule, therefore, gave the affiliates much more programming responsibility in the early evening prime-time period from 7:30 to 8:00 p.m., when homes using television, a term developed by the Nielsen ratings firm, were increasing but had not yet reached their peak. On five days of the week, Monday through Friday, the prime-time access rule gave the affiliates a half-hour to program locally--previously a network responsibility. On Saturdays and Sundays, this time was, in many cases, extended to one-hour, from 7:00 to 8:00 p.m., or from 7:00 to 7:30 p.m. and from 10:30 p.m. to 11:00 p.m., since only one network, NBC, presents regularly scheduled evening news programming on both Saturday and Sunday, while CBS programs its regular half-hour news program on Saturday only, going to a late night 15-minute news format on Sunday evening. These weekend changes in the network feed to affiliatesare of vital importance to the type of prime-time access shows programmed. Generally speaking, from Monday through Friday, the affiliates have only half an hour per night to program, and that half-hour is normally from 7:30 to 8:00 p.m. As a result of the time of day and the time limitation (30 minutes), the type of programming has to be that which appeals to young viewers and older viewers alike, namely game shows and half-hour comedies. It is felt by many producers that the action-drama format does not lend itself to a 30-minute time restriction.

The weekend, on the other hand, giving some stations one full hour, means that one-hour variety programs, such as Hee Haw and Lawrence Welk, can be programmed, as well as space dramas, e.g., UFO (for Unidentified Flying Objects). The weekend also allows another programming variation because local affiliates that have the 10:30 to 11:00 p.m. time period available on Sundays are able to present some locally produced public affairs programming leading into the Sunday night 11 p.m. news programs. Not all affiliates present public affairs programming in this time period, of course, but some major market licensees, usually the top 10 or 15, have been experimenting with this time period.

Bearing this in mind, the two charts that follow show what most of the network affiliates have been doing with the prime-time access periods. The first chart is restricted to the top-50 markets, because those are the markets to which the rule applies. Networks chose not to program to the bottom 150 markets because it would not have been economical to program to only 30 percent of the television households. This means that the prime-time access rule does, in many respects, apply to all 200 markets. The only advantage that the bottom 150 markets have is that they can buy off-network television programs or series. The second chart shows the total market clearances and the ratings for the syndicated programs. It does not show what impact local programming has had, an area to be dealt with later.

TOP 35 PRIME-TIME ACCESS PROGRAMS

BY NO. OF TOP 50 MARKETS, PROGRAM TYPE,

AND PRODUCTION CENTERS--1972-1973 SEASON

RANK	TITLE	# MARKETS	PROGRAM TYPE	PRODUCED IN
1.	HOLLYWOOD SQUARES	48	GAME	U.S.
2.	LET'S MAKE A DEAL	47	GAME	U.S.
3.	PARENT GAME	46	GAME	U.S.
4.	WILD KINGDOM	41	NATURE/WILDLIFE	U.S.
5.	THE PROTECTORS	39	ACTION/DRAMA	BRITAIN
6.	CIRCUS	37	CIRCUS VARIETY	MOSTLY ABROAD
7.	HEE HAW	35	VARIETY	U.S.
7.	NEW PRICE IS RIGHT	35	GAME	U.S.
7.	TO TELL THE TRUTH	35	GAME	U.S.
7.	UFO	35	SPACE DRAMA	BRITAIN
11.	TRUTH OR CONSEQUENCES	34	GAME	U.S.
12.	LAWRENCE WELK	33	VARIETY	U.S.
13.	YOUNG DR. KILDARE	32	HOSPITAL DRAMA	U.S.

RANK	TITLE	# MARKETS	PROGRAM TYPE	PRODUCED IN
14.	WAIT TILL FATHER GETS HOME	31	ANIMATION	AUSTRALIA/US
15.	POLICE SURGEON	30	ACTION DRAMA	CANADA
16.	I'VE GOT A SECRET	24	GAME	U.S.
17.	THIS IS YOUR LIFE	23	LIFE HISTORY	U.S.
18.	WHAT'S MY LINE?	21	GAME	U.S.
19.	AMAZING WORLD OF KRESKIN	20	MAGIC/ESP	CANADA
20.	THE ADVENTURER	19	ACTION DRAMA	BRITAIN
20.	MOUSE FACTORY	19	CHILDREN'S	U.S.
22.	HALF GEORGE KIRBY HOUR	16	VARIETY	CANADA
22.	LASSIE	16	ADVENTURE DRAMA	U.S.
24.	YOU ASKED FOR IT	15	GAME	U.S.
25.	DOCTOR IN THE HOUSE	13	COMEDY	BRITAIN
26.	EXPLORERS	12	NATURE STUDIES	VARIOUS COUNTRIES
27.	JOHNNY MANN'S STANDUP & CHEER	11	VARIETY	U.S.
28.	EVIL TOUCH	10	DRAMA	AUSTRALIA
28.	GOLDDIGGERS	10	VARIETY	U.S.
30.	FAMILY CLASSICS	9	ANIMATION	AUSTRALIA

RANK	TITLE	# MARKETS	PROGRAM TYPE	PRODUCED IN
30.	SURVIVAL	9	NATURE/WILDLIFE	BRITAIN
32.	AUDUBON WILDLIFE THEATRE	8	NATURE/WILDLIFE	VARIOUS COUNTRIES
32.	SAFARI TO ADVENTURE	8	NATURE/WILDLIFE	VARIOUS COUNTRIES
34.	NASHVILLE SOUND	7	VARIETY	U.S.
34.	UNTAMED WORLD	7	NATURE/WILDLIFE	VARIOUS COUNTRIES

Prepared by Alan Pearce, using various sources, including Metromedia Producers Corporation, Ogilvy and Mather, TV Guide, and Viacom.

NOTE: At the Commission's oral argument on the prime-time access rule on July 30, 31, 1973, some confusion was expressed about where Golddiggers was produced. The syndicated prime-time access program is produced in Hollywood; when the show was a summer replacement on the NBC TV Network, it was produced in London.

The preceding chart shows the impact of game shows on the top-50 market. It also illustrates that, generally speaking, drama shows are usually imported from Britain or Canada, since imported shows of this type have a distinct price-advantage when placed in competition with American shows. In fact, the only American produced drama series in the above list is The Young Dr. Kildare, a barter series produced on videotape, not film, by MGM that was cancelled at the end of the 1972-73 season after only one year of production.

The following chart gives an overall picture of syndicated programming, including programs shown on independent stations not subject to the rule. The programs are ranked by popularity and clearance.

PRIME-TIME ACCESS PROGRAMS BY RATINGS

MARKETS, TOTAL NUMBER OF PRODUCTION TYPES

AND PRODUCTION CENTERS---1972-1973 SEASON

PROGRAM	RATING	MARKETS	PROGRAM TYPE	PRODUCED IN
1. LAWRENCE WELK	25	176	VARIETY	U.S. at ABC
2. HEE HAW	22	168	VARIETY	U.S.
3. LET'S MAKE A DEAL	21	123	GAME	U.S. at ABC, along with daytime strip
4. HOLLYWOOD SQUARES	20	111	GAME	U.S. at NBC along with daytime strip
5. PRICE IS RIGHT	20	79	GAME	U.S. at CBS along with daytime strip
6. WILD KINGDOM	19	172	NATURE/WILDLIFE	U.S.
7. TRUTH OR CONSEQUENCES	18	121	GAME	U.S. at Metro-media
8. TO TELL THE TRUTH	18	114	GAME	U.S. at NBC
9. UNTAMED WORLD	16	103	NATURE/WILDLIFE	VARIOUS COUNTRIES
10. WHAT'S MY LINE?	16	56	GAME	U.S. at NBC
11. YOU ASKED FOR IT	15	21	GAME	U.S.
12. WILDLIFE THEATRE	14	17	NATURE/WILDLIFE	VARIOUS COUNTRIES
13. CIRCUS*	14	66	CIRCUS VARIETY	MOSTLY FOREIGN
14. THIS IS YOUR LIFE*	14	100	LIFE HISTORY	U.S.
15. WAIT TILL YOUR FATHER GETS HOME	14	50	ANIMATION	AUSTRALIA/US

CONT'D

PROGRAM	RATING	MARKETS	PROGRAM TYPE	PRODUCED IN
16. POLICE SURGEON	14	120	ACTION DRAMA	CANADA
17. KRESKIN	14	29	MAGIC/ESP	CANADA
18. I'VE GOT A SECRET*	14	46	GAME	U.S.
19. SURVIVAL	13	50	GAME	BRITAIN
20. MOUSE FACTORY*	13	30	CHILDREN'S	U.S.
21. GEORGE KIRBY *	13	18	VARIETY	CANADA
22. SAFARI TO ADVENTURE	13	28	NATURE/WILDLIFE	VARIOUS COUNTRIES
23. PARENT GAME*	12	103	GAME	U.S. at ABC
24. ANIMAL WORLD	12	55	NATURE/WILDLIFE	VARIOUS COUNTRIES
25. UFO*	12	93	SPACE DRAMA	BRITAIN
26. STANDUP & CHEER	12	52	VARIETY	U.S.
27. GOLDDIGGERS*	11	33	VARIETY	U.S.
29. BEAT THE CLOCK	11	26	VARIETY	CANADA
30. LASSIE *	10	144	ADVENTURE	U.S.
31. DR. IN THE HOUSE	10	14	COMEDY	BRITAIN
32. YOUNG DR. KILDARE *	10	68	HOSPITAL DRAMA	U.S.
33. THRILLSEEKERS	10	18	REAL-LIFE ADVENTURE	U.S. and ABROAD

PROGRAM	RATING	MARKETS	PROGRAM TYPE	PRODUCED IN
34. EVIL TOUCH	10	17	DRAMA	AUSTRALIA
35. FAMILY CLASSICS*	10	10	ANIMATION	AUSTRALIA
36. PROTECTORS	9	85	ACTION DRAMA	BRITAIN
37. BLACK BEAUTY	9	41	DRAMA	BRITAIN
38. ADVENTURER *	9	65	ACTION DRAMA	BRITAIN
39. JONATHAN WINTERS*	7	41	VARIETY	U.S.
40. MANCINI GENERATION*	5	53	MUSIC	U.S.
41. KENNY ROGERS*	3	58	MUSIC	CANADA

* Cancelled or played out as first run prime access.

SOURCE: February-March, 1973, Nielsen Syndication Report reprinted in VARIETY, Wednesday, August 1, 1973.

NB: Program type and production center categories compiled by Alan Pearce, using Metromedia Producers Corporation and Viacom as sources.

The preceding chart indicates that programs such as Hee Haw and Lawrence Welk, which are not shown in some major urban markets, do well nationwide because they pick-up many stations in smaller markets and do well in the countrywide ratings. It also tends to diminish somewhat the overall impact of the game shows on prime-time access. Of the top-10 prime-time access shows, the top two are variety shows, and two others in the top-10, Wild Kingdom, and Untamed World, sixth and ninth respectively, are nature/wildlife programs. A third way of measuring the impact of prime-time access shows is to count the number of half-hours occupied in access periods. When this is done, game shows that are stripped five-days-a-week, like To Tell The Truth, Truth or Consequences, and What's My Line?, occupy a large percentage of access hours.

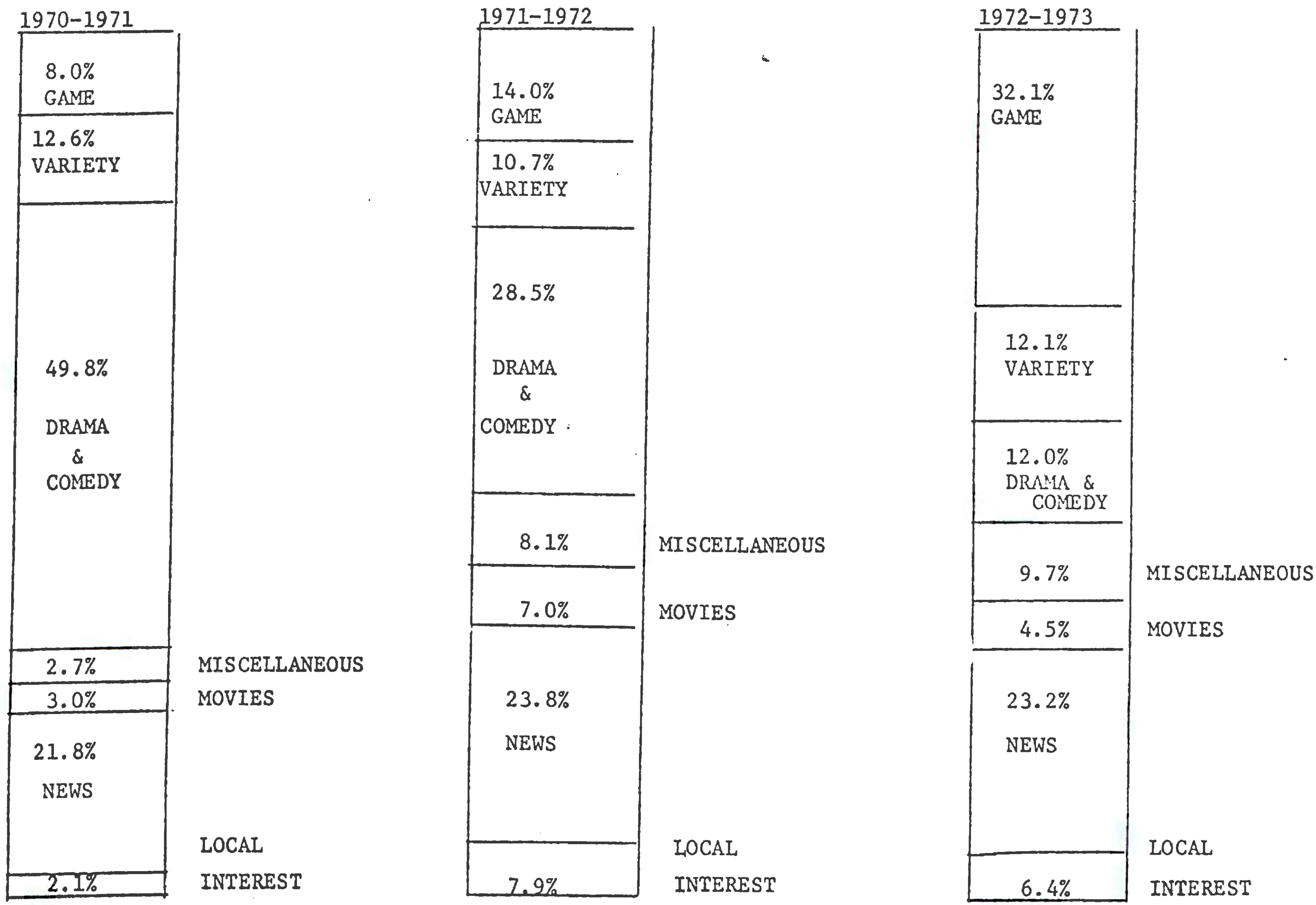
Of the top-41 prime-time access programs, ten are game shows, the biggest single program category. Of the remaining 31, seven are music/variety, six are nature/wildlife, five are drama shows of one form or another, and the rest constitute a mixture of assorted programs that include a situation comedy, animated shows, a circus, ESP, and real-life adventure series. Of the 41 shows listed by nationwide popularity, six are produced in Britain, five in Canada, two in Australia, and seven in various countries but these are usually edited in the U.S. Altogether, 12 of the top 41 programs are directly produced abroad. Despite the fact that these are the "successful" syndicated programs, the mortality rate is high--15 have already been cancelled or played out. Altogether

37 different access shows have died since the rule was introduced in the fall of 1971.

Clearly there has been some change in scheduling as a result of the prime-time access rule, and the following chart shows what has happened to the various program types since the 1970-71 season, the last season before prime-time access. The 1971-72 season was the first season of prime access, but one in which off-network syndicated shows could be broadcast. The 1972-73 season is described as the first full season of prime-time access:

ALLOCATION OF "ACCESS TIME" BY PROGRAM TYPE

1970-1971 THROUGH 1972-1973 SEASONS



Source: Paul Klein, Computer Television, Inc.

LOCAL INTEREST PROGRAMMING

The previous chart shows a boost in local interest programming, as well as some marginal increase in the amount of news programming. Prime-time access local interest programming is restricted to the major markets, usually the top ten. For the 1973-74 season, the 150 stations subject to the access rule are offering 145 half-hours of local interest programming--less than one-half-hour per station. Of the 145, seven half-hours are on the three affiliates in D.C., and 13 are on the three Boston affiliates. Using the Nielsen 25 Major Market Program Ranking Report for prime-time access shows, it is possible to see how some of these local public affairs programs were rated locally in the 72-73 season. In Boston, the top rated public affairs program, Bostonia, on WNAC, the CBS affiliate, is the twelfth most popular prime-time access program and gets an 8 rating and a 15 percent share of the audience, as against a 31 rating and a 57 percent share for Lawrence Welk, the top rated prime-time access program in the Boston market. Most of the other public affairs offerings in Boston get shares of less than 10 percent of the viewing audience, and are not regarded as ratings successes. These include WCVB's local prime-time offerings, Investigators, Five on Sports, Zenker--Hot Seat, Young Reporters, Third World, and Five at Large, which appear at the bottom of Nielsen ratings for prime-time access shows. In Detroit, the highest rated locally produced public affairs program is Profiles--Black, shown on WWJ, the NBC affiliate, from 10:30 to 11:00 p.m. on Sundays, but it finishes 16th out of 17 prime-time access shows and gets a 5 rating and a 9 percent share of the audience. In New York, the only regularly scheduled local prublic affairs program in the 1972-73 season was New York Illustrated, on WNBC from 10:30 to 11:00 p.m. on Sundays, and it averages a 5 rating and 9 percent share of the audience. In Philadelphia, the NBC affiliate, KYW, a Group W station, programs Black Edition every week from 7:30 to 8:00 p.m., but the show barely attracts 7 percent of the available audience in that time period, and is the last program in the prime-time access ratings table. The two locally produced shows in Pittsburgh also have the last two positions ratings wise in the city, Face to Face, on WIIC, the NBC affiliate, averages only 6 percent of the available audience from 10:30 to 11:00 p.m. on Sundays, while Close Up, on WTAE, the ABC affiliate, attracts only 2 percent of the audience. In San Francisco, the Westinghouse station, KPIX, a CBS affiliate, has two local shows that finish in the last two places in the Nielsen's, Whatchamacallit, a children's show, and All Together Now, both getting only 8 percent of the available viewers in their time periods. It is an almost identical situation in Washington, D.C., where the five locally produced public affairs programs, The Place on WRC, Caution on WTOP, McCaffrey at Large on WMAL, Perspective on WRC, and Everywoman on WTOP, hold down the last five places in the ratings. In all of these major markets, game shows or Lawrence Welk are the most popular programs, with the exception of Detroit, where Circus is the most popular prime-time access show.

With the exception of Miami, which is number 18, these top-10 markets account for a large portion of the public affairs programming in the prime-time access period. Although more public affairs programming is promised for the 1973-74 season, the main portion will be provided by the ABC and CBS owned and operated stations.

The problem with locally produced public affairs programming, and even public affairs programming in general, is that it usually appeals to a minority of viewers and therefore does poorly in the ratings. This means that stations generally lose money on this type of programming since it is usually expensive to produce, gets low ratings, and consequently generates low revenues. The average game show, for example, would cost a station in New Orleans, the 36th market, only $300 per half hour, which is roughly the cost of a one-minute of advertising time in a show airing from 7:30 to 8:00 p.m. If the game show was fully sold on a regular basis it would generate gross revenues in the region of $1,500 to $1,800 per show--five one-minute commercials at $300 a minute, plus a station break. After program cost and advertising agency commission, the profit is quite high—over $1,000 per show. A public affairs program, on the other hand, would cost in the region of $1,000 to $1,500 per half hour, excluding overhead costs, and over $5,000 per half-hour, excluding overheads, in a major market like New York, Philadelphia, or Washington, D.C. These shows are generally topical in nature and are seldom repeated, so program expenses cannot be amoritized over two showings. In addition, because ratings are lo , few, if any advertisers are attracted to such programs, especially when such shows deal with the more pressing and sometimes controversial issues facing society, i.e., drug and crime prol venereal disease, abortion, etc. There are, then, considerable disincentives to producing such local public affairs programs, while there are considerable incentives to buy cheap game shows with high viewer appeal and high revenue and profit potential. It is possible, however, to do local public affairs programming more cheaply than the above budget figures suggest, but low budget public affairs programs normally utilize the studio interview technique, with little or no filming, and add little to local station ratings.

According to Mr. Donald McGannon, President and Chairman of Group W, there were 106 locally produced programs in the 1972-73 season that he claims were the direct consequence of the prime-time access rule. Nearly half of these programs, however, were produced in the five markets where Group W has stations--Boston, Philadelphia, Baltimore, Pittsburgh, and San Francisco. These locally produced public affairs programs have, undoubtedly, led to some increase in employment at the local station level--as many as 40 employed on WCVB's locally produced access shows in Boston. Of the 135 local half-hour programs listed by the FCC, the prime-time access period, 44 were in existence before the rule. If this FCC data is accurate, it means that only 91 half-hours were developed as a result of the rule. (See Appendix III).

To date, there has not been a great impact from locally produced public affairs programming. It is concentrated in the major markets--usually the top-10--and there are compelling economic reasons militating against production of local programming in markets below the top-20. Even so, some increase in loc_l programming is expected in the 1973-74 season because both the ABC and CBS owned television stations have promised more, so the percentage of local interest programming is expected to increase from 6.4 percent of the total of prime-time access programming but, because of economic constraints, it is not expected to exceed 10 percent--in fact, it is only 7 percent in 1973-74.

GAME SHOWS

The reason for the dramatic increase in game shows since the passing of the prime-time access rule is that these shows are: (a) cheaply produced; (b) popular among very young and very old viewers, and these two groups constitute the bulk of viewers from 7:30 to 8 p.m.; (c) most of the access game shows are off-network, and are familiar to viewers; and (d) some game shows are stripped, thus providing five half-hours of access programmin ming with a minimum amount of programming effort. Game shows as a category of prime-time access programming rose from 8 percent before the rule, to 14 percent in the first year of the rule, to 32.1 percent in the second season, 1972-73, and up to 36.6 percent in the 1973-74 season. The reason for this dramatic increase between year one and year three of the rule is that during the first season of access, 1971-72, the off-network programming restriction was waived, which meant that some local affiliates decide to buy former network programs e.g., Dragnet, Bewitched, Jeannie, Lucy, The Dick Van Dyke Show, Hogan's Heroes, The Beverley Hillbillies, etc., for broadcast in the prime-time period. For the second season, 1972-73, however, off-network programs such as these were not allowed, and this led directly to the upsurge in game shows, particularly those that are stripped--that is played from 7:30 to 8:00 p.m. Monday through Friday. These programs included the highly rated Let's Make a Deal, Truth or Consequences, Hollywood Squares, To Tell The Truth, Price is Right, and others. Game shows have extremely low budgets--roughly $30,000 for five half-hour shows for stripping, or from $10,000 to $20,000 per single half-hour show for those that are stripped on a network during the daytime. Many access period game shows are low-budget programs because the producers merely make a sixth edition of a daytime show to sell in syndication as an access show. This is true of Let's Make A Deal, on ABC-TV Network from 1:30 to 2:00 p.m. Monday through Friday, Hollywood Squares, on NBC-TV Network from 11:30 to Noon Monday through Friday, and Price is Right, on CBS-TV Network from 10:30 to 11:00 a.m. Monday through Friday, all of which have additional low-budget episodes made for prime-time access syndication. Meanwhile a dramatic show or a situation comedy produced for the prime-time access period might cost from $50,000 to $75,000 per half hour, if produced in the U.S., and half if produced abroad. When these two types of programs are offered competitively, in syndication, the game show always has a distinct price advantage, and this helps explain why game shows, that generally do as well or better than dramatic shows in the 7:30 to 8:00 p.m. time period anyway, are preferred to new to television dramatic shows. If old network re-runs were allowed, however, e.g., Hogan's Heroes, Dragnet, etc., these would become price competitive with the game shows because they are being offered for sale as off-network re-runs and are not original programs. (The economics of the syndication business will be dealt with fully in a later section of this report.)

BARTER AND SYNDICATED PROGRAMS

Another consequence of the prime-time access rule was that it led to the redevelopment of the barter program. A barter program is a program that is usually presold to a sponsor, for example Bristol-Myers, or Brut, or Chevrolet, all of which had barter programs in the 1972-73 season. The sponsors usually pay all production expenses for the show and often undertake distribution costs. The show is then offered to stations free of charge; all the sations have to do is schedule the program, which normally contains a minimum of two minutes of advertising from the sponsoring company. The other three minutes, plus the station break, can be locally sold and thus generate the local station's profit.

Barter is a relatively painless way of making money at the local station level, and probably most closely approximates the network affiliation system. There are no risks in program selection, no program expenses, and whatever minutes of advertising are sold constitute station profit. Some of the better known access shows are distributed on a barter basis, among them Hee Haw, Young Dr. Kildare, Lassie, The Protectors, Johnny Mann Stand Up and Cheer, and a number of game shows. [illegible]

[illegible] later.)

The other program type for prime-time access is the newly produced show. These new shows are sold to the local stations for a negotiated fee which varies according to market conditions and the expected popularity of a particular show. These programs are often marginally cheaper than the barters, which take a minimum of two minutes of advertising. Local stations buying programs have to make decisions determining wheter the new to television syndicated programs will garner an adequate number of viewers, and then have to attempt to sell all the commercial positions in those programs, not just two or three as they do in barter shows.

PROFIT POTENTIAL

Because the prime-time access rule gave the local stations an additional weekly advertising inventory of a minimum of 24 and a maximum of 44 minutes a week to sell, most stations choose a mixture of barter programs and programs that have to be purchased directly from the production company or a syndication firm. Whatever their program mix, however, network affiliates in the large metropolitan markets were given a greatly increased profit potential because of the prime-time access rule.

Before the passing of the prime-time access rule, the most an affiliate could get was guaranteed station compensation from a television network equal to the revenue obtained from a maximum of seven-and-a-half minutes of advertising per week for carrying the network program feed from 7:30 to 8:00 p.m. Monday through Saturday, and from 7:00 to 8:00 p.m. on Sunday. The local network affiliate is compensated according to a formula that gives the local station revenue roughly equal to one-third of its local hourly rate. The hourly rate is what a station can expect in revenue from selling all its advertising in a one-hour program.

Consequently, the prime-time access rule, by increasing the amount of local advertising inventory to a minimum of 24 minutes and a maximum of 44 minutes every week, year round, gave the local affiliated stations potential opportunities to increase profits. While network programming generally carries only 3 minutes of advertising every half-hour, plus a local 60 second station break, once the prime-time access period became the responsibility of local stations, this time period carried 5 minutes of local advertising plus a 90 second station break in most major markets, so the amount of advertising time available increased by up to 75 percent, although many stations settled for less than this max

The chief advantage of the networking system to the local affiliates is that no program selection or expenses are involved—the affiliates simply let the networks program, and receive compensation for clearing network programs locally.

After the passing of the rule, the affiliates had to buy or produce programming for an additional four hours every week. The overall profit potential, however, was enormous for large-market network affiliates, providing that the additional advertising inventory could be sold. This became the crucial question in a local station's attitude toward the prime-time access rule: Could it sell the additional advertising? If it could, a station embraced the rule; if it could not, a station would fight to repeal the rule. Generally speaking, stations in the larger markets--one through 50--had no difficulty in buying programming, selling advertising time in that programming, and making more money from the rule than they did before the rule. After some hesitation, more local advertisers came forward to take up the additional advertising minutes made available by the rule, and national spot advertisers also increased their expenditure when the economy began to firm up in the fall of 1971--right at the beginning of the first season of the rule. After believing that the rule might depress major market advertising prices generally, most of the local stations in the top-50 markets--accounting for roughly 70 percent of the nation's television households--saw that prices were relatively firm, and that they would make greater profits, thanks to the FCC.

GROWTH IN LOCAL ADVERTISING

For the past ten years, the amount of local advertising has grown at a rapid rate--from $253.7 million in 1962 to $778.1 million in 1972. According to the FCC's Annual Television Broadcast Financial Data, local advertising constituted 21.4 percent of total television income in 1972, up from 14.9 percent ten years earlier. In fact, local advertising has been the most dynamic in growth over the ten year period. National spot advertising constituted 33.1 percent of the total ten years ago, and amounted to 32.1 percent in 1972. Network advertising accounted for 46.4 percent of the total in 1972, and 52.0 percent in 1962. In money terms, network and national spot advertising doubled in the ten year period, while local advertising tripled. This growth in local advertising was particularly dramatic since the passing of the prime-time access rule, rising from $589.1 million in 1970 to $778.1 million in 1972--a 32 percent increase in two years.

This increase in local advertising helped take up many of the additional minutes that the local stations had for sale as a result of the prime-time access rule. In addition, the economy strengthened from the fall of 1971 onwards and this, too, helped sell some of the additional minutes. The crunch will come when the economy begins to weaken, as is expected in 1974, and this should be the first full test of how well the local minutes stand up to pressure on price. Since the general trend in local advertising is upward, any setback in the price of locally sold minutes due to economic downturns should be temporary, and the outlook for the future is good. The local stations in the major markets will, probably, do much better financially in the long-term as a result of the prime-time access rule.

VIEWER PREFERENCES

One of the major snags, however, so far as the major market network affiliates are concerned, is the tendency for viewers to watch the independent television stations in this prime-time access period. In the early weeks of the first prime-time access season, 1971-72, while network ratings were up an average of three points over the 1970-71 season, affiliates across the country were suffering a three point ratings' drop in those prime-time periods in which the FCC required them to carry local or syndicated programs. At the same time, independent stations were increasing their ratings by an average of 7.5 percent over the previous year. Supporters of the prime-time access rule said that this change was temporary and that viewers would return to the network affiliates in the second half of the season. As the season developed, however, the audience movement to independent stations viewing in the 7:30 to 8:00 p.m. access period became even more pronounced.

During February, 1972, the average rating was down 11.8 percent from the previous season, and independent station ratings were up by 33.3 percent, according to the 70-market Nielsen figures. We can assume that substantial numbers of the viewing public, by switching to the independents for the prime-time access period, and then back to the network programming feed at 8:00 p.m., prefer to watch off-network repeats shown by the independents, rather than the largely new programming offered by the affiliates. This question of switching to the independents and its impact on them will be dealt with more fully later. The reason that affiliated stations in large markets did not worry too much about this ratings switch was because they were making more money from the rule themselves by buying relatively cheap programming, selling more advertising minutes in it, and making bigger profits. But, as we shall see in a later section, the threat from the independent stations, both VHF and UHF, could grow, and promises to be permanent.

ECONOMIC IMPACT ON SMALL MARKET AFFILIATES

The extent to which any station is sold commercially varies enormously depending on overall local, regional, and national economic conditions, and also upon the time of the year. The fourth and second quarters of the year are usually much better sold than the first and third quarters. On the average, however, an affiliated station is usually 60 to 75 percent sold in the daytime, and from 85 to 95 percent sold in prime-time. In markets below the top-100, there are mixed feelings about the prime-time access rule. Most local station managers in the bottom 150 markets cannot afford to make their own programs because of their limited resources, and some have difficulty buying programs to fill all the local hours of programming that they have. Station managers interviewed for the purposes of this report said over and over again that the prime-time access rule has led to a dramatic increase in the demand for "good quality programming"--usually as much as 21-hours a week in the many three-station markets that present only half-an-hour of local news--and there simply is not available 21-hours of programming that can attract an adequate number of viewers.

In addition, national spot advertisers are generally not all that interested in small market stations which often means that these stations are the first to suffer from a downturn in the economy.

Within this general framework, there are those, of course, that have welcomed the prime-time access rule and are now beginning to make more money from it, thanks largely to the growth in local advertising. In Charleston, South Carolina, the 119th market, the three affiliated stations are happy with the rule because the local economy is buoyant and local businessmen are buying advertising in the prime-time access period. In Duluth, Minnesota, the 108th market, the rule has been an absolute disaster, according to Mr. Odin Ramsland, General Manager of KDAL-TV, the CBS affiliate there. The reason for this is that the prime-time access rule has provided the market with too much advertising to sell locally because the economy in the Duluth area is currently depressed, due to the fact that United Steel, the area's biggest employer, has recently closed down its local -lant.

Generally speaking, most affiliated stations in small markets have welcomed the prime-time access rule. A significant minority, however, are opposed to the rule, especially the more than 33 percent of affiliated VHF stations and the 85 percent of affiliated UHF stations in markets below the top-100 that are either losing money ro making less than $50,000 a year in pre-tax profit. These stations feel that the rule has created too much excess capacity in advertising, thus depressing overall profits, or at leas tmaking any expansion in profits more difficult, even though the outlook for the development of local advertising looks promising in the long-run.

PRIME-TIME ACCESS RESULTS

In summary, these are the results of the prime-time access rule, as far as the network affiliated stations are concerned:

1. The networks' five owned and operated stations are in a potentially better financial position, as are the stations in

the larger metropolitan markets. This is because they are able to sell the increased number of commercial positions provided by the rule while spending little for the programming offered by highly-competitive syndicators for the prime-time access periods.

2. Stations in smaller markets, those allowed to program off-network re-runs, generally favor the rule, but their view of the rule depends largely on the strength of the local economy. Some small stations are faced with an excess capacity of commercial positions and, although local advertising is growing, it has not yet been able to fill all the available time, although it probably will in the long-run. In addition, small market stations attract very little national spot advertising, especially during an economic downturn.

3. While the rule has led to some increase in locally produced and originated public affairs programming, with a subsequent impact on local station employment, this is basically confined to the largest markets. Such programming is not very popular and, although some minimal growth can be expected in this area of programming because of <u>believed</u> FCC pressure in this area, it is unlikely that this programming will become either profitable or popular in the foreseeable future.

4. The rule has led to an increase in the number of minutes of advertising that varies from market to market, but ranges from 33 to 66 percent. Before the rule, the 7:30 to 8 p.m. period carried three minutes of network advertising, plus a station break. Now stations generally attempt to sell five minutes of advertising plus station break.

SECTION IV: THE INDEPENDENT TELEVISION STATIONS

PROGRAMMING

Both VHF and UHF independents are not subject to the prime-time access rule, and have generally programmed off-network re-runs in the 7:30 to 8 p.m. time period. In the country's major market, New York City, where there are three independent VHF stations, all three are programming material previously seen on the networks during the prime-time access period. WNEW, a Metromedia station, programs That Girl, previously seen on ABC; WPIX, owned by The New York Daily News, programs Jeannie, previously seen on CBS; and WOR, owned by RKO, programs

It Takes a Thief, previously seen on ABC. This situation recurs countrywide on the independents, with _That Girl_ on the independent stations in Washington, D.C., Cincinnati, and Minneapolis, among others. _Dragnet_, originally seen on NBC, is being played during prime-time access by independent stations in Boston, Oakland-San Francisco, and others. Many other independent stations program _Petticoat Junction_ (first seen on CBS), _Dick Van Dyke_ (CBS), _The Beverley Hillbillies_ (CBS), _Hogan's Heroes_ (CBS), _Get Smart_ (NBC), and the apparently ever-popular _Lucy_ (CBS).

Countrywide, it is true to say that the vast majority of independent stations, well over 90 percent of them, are programming syndicated off-network re-runs during the prime-time access period when their network affiliated competitors have to program something that is original and _not_ off-network. As a result, the independent stations, both VHF and UHF, appear to have been given a considerable competitive advantage during this time period, resulting in a ratings boost, with a consequent impact on advertising revenues and overall profit.

The only problem with the rule, so far as the commercial independent stations are concerned, is that the prices of off-network syndicated programming are rising at a rapid rate. In many cases, off-network programs with a proved ratings success, such as _Mission Impossible_, _The FBI_, _Ironside_, and _Adam-12_, are selling at more than double the prices they could have expected to fetch before the rule was passed. The scarcity price for off-network syndicated programming has been brought about by the fact that the prime-time access rule, by reducing the amount of network prime-time, means that fewer film series and dramatic shows produced in Hollywood are being aired on the networks. In addition, the longer-form of programming, and the introduction of the mini-series, have also led to a reduction in the type of programming, namely the one-hour or half-hour series programs, that independent stations like to rely on in their prime-time schedules. Because of this scarcity, prices for such programming have risen, quite dramatically in many cases. A one-hour dramatic series that sold for something like $850 per episode for three plays in 1971 in a market the size of Dallas-Fort Worth, the eleventh largest market, can now be expected to sell for $2,000. In fact, Ironside was sold in the Dallas-Fort Worth market for $2,000 per episode for four plays, while four plays of The FBI was sold for $1,900 per episode. In San Francisco, the sixth market, Ironside was sold for $6,000 per episode for four plays, while Mission Impossible was sold a few months earlier for only $2,100 per episode for three plays. (Syndication pricing will be discussed fully in a later section).

RATINGS

In most of the major markets, the prime-time access rule has meant that the independents are winning the ratings battle in this time period, often for the first time ever.

Using ARB top-25 market data, it is possible to trace the viewing trends resulting from prime-time access over a three-year period--one year before the rule, and the two years since. Pure reverted time periods have to be used if there is to be any meaningful comparison between the pre-access and post-access. Pure reverted acces periods are from 7:30 to 8 p.m. on Monday, Wednesday, Thursday, Friday, and Saturday nights. Tuesday and Sunday have been eliminated because ABC was given a waiver to start programming at 7:30 p.m. on Tuesday in the first season of prime-time access, and CBS and NBC broadcast from 7:30 to 10:30 p.m. on Sunday. In addition, the independent station share figures have been weighted according to market size. Bearing this in mind, the independent stations in the top-25 markets had a 16 percent share of the audience in the 1970-71 season--the season immediately before prime-time access. In the first season of prime-time access, the 1971-72 season, this share jumped dramatically to 28 percent. There was some slight loss during the 1972-73 season, but the independent stations still gathered a 26 percent share of the television audience during the 7:30 to 8 p.m. time periods on Monday, Wednesday, Thursday, Friday and Saturday.

This improvement in the ratings position of the independents can perhaps be better understood by moving from the general to the specific. WTTG, the Metromedia independent VHF station in

Washington, D.C., increased its audience in the 7:30 to 8 p.m. slot by fully 60 percent between November, 1970, and November, 1972. This happened as a result of the prime-time access rule and on the ratings strength of two off-network syndicated shows, I Dream of Jeannie in the first season, and That Girl in the 1972-73 season. WTTG is the clear winner in the Washington, D.C., ratings battle during prime-time access with a 14 rating for a total of 215,000 homes, according to the ARB ratings for January/February, 1973, and a 16 rating for a total of 227,000 homes, according to the Nielsen survey for January/February, 1973. In both cases, the second station in the D.C. market is WMAL, the ABC affiliate, with an ARB rating of 13 for 166,000 homes, and a Nielsen rating of 12 for 164,000 homes. WMAL, incidentally, strips the game sho , Truth or Consequences, Monday through Friday, a show that is syndicated by Metromedia Producers Corporation. Also in the Washington, D.C. market, WDCA, the only commercial UHF independent, has doubled its prime-time audience since the passing of the rule. Some of this is due to increased power, but much of it is due to the rule.

In Buffalo, New York, the UHF independent, WTV, has seen its audience share jump by 162 percent because of the rule. According to Nielsen data, the adult audience has grown by a staggering 714 percent.

IMPACT ON PROFIT

All of this, of course, has had an impact on the profitability of both VHF and UHF independents, since ratings determine the amount of advertising revenues. The 34 independent VHF stations have traditionally been strong competitors of network affiliates in the markets where they exist, and these stations are usually profitable. The prime-time access rule, however, has led to a strengthening of their competitive position, and they have been able to exploit their dominance in the 7:30 to 8 p.m. time period, thus increasing advertising revenue and overall profit.

According to the FCC's annual television financial data, the 34 independent VHF stations have had their best years ever since the passing of the prime-time access rule. Total gross advertising revenues in 1972 rose to an all-time high of $193,533,000 operating expenses were $174,455,000, and the profit figure was $19,078,000. In 1971, with 31 independent VHF stations in business, FCC records show that revenues amounted to $167,431,000, operating expenses were $148,165,000, and profit amounted to $19,265,000. Since the passing of the prime-time access rule, the independent VHF stations taken as a whole have enjoyed their two best years. Thse figures hide the fact that 11 VHF independents actually lost money in 1972, but the competitive positions of these stations is improving, and most of them are expected to show a profit by the end of 1973, thanks mainly to the prime-time access rule.

An even bigger impact on profit has been felt among the 58 UHF stations--stations that have traditionally been unprofitable because they began operations later than most of the VHF stations, were denied network affiliation in most markets, and have had to contend with a tuning problem since they were assigned spectrum space for channels 14 through 85.

According to a report by the National Association of Broadcasters, 1973 Television Financial Report, the typical UHF station, both independent and affiliated, operated in a profit in 1972--the first year that this has happened since 1952, when the UHF frequencies were first opened for commercial television's use. Of the 81 UHF stations in the NAB survey, 41 made a profit in 1972.

Although the independent UHF stations are enjoying record revenue levels, thanks to the prime-time access rule, they are still not in an overall profit position. In 1972, the 58 independent UHF stations reported all-time record revenues of $80,907,000, up from $63,245,000 in 1971, according to FCC Financial Data. Broadcast expenses, however, were $98,463,000 in 1972 and $92,647,000 in 1971. Reported losses amounted to $17,556,000 for 1972, the lowest on record, as compared with $29,402,000 in 1971. Eleven UHF stations reported a profit in 1972, an all-time high, while 42 reported losses, an all-time low. The trend for independent UHF stations is one that is moving toward a profit for the typical stations by 1976.

The leading independent UHF group, Kaiser Broadcasting, which owns six stations, all of them UHF independents in major markets, has moved from a loss position to a profit position since the passing of the prime-time access rule. In combination the six Kaiser stations earned a profit in 1972 for the very first time, with revenues 18 percent ahead of 1971.

To most commercial independents, the prime-time access period has become an important generator of advertising revenue. Generally speaking, 40 percent and more of independent station revenue is generated from the 6 to 8 p.m. time period, with more than a half of that coming from the 7:30 to 8 p.m. period. Since prime-time access, revenues earned during the prime-time access half-hour have increased by at least a third, and by much more in many markets.

Given several more years of the prime-time access rule, the vast majority of commercial independents, and particularly the UHF stations, will probably become commercially viable.

PRIME-TIME ACCESS RESULTS

In summary, the prime-time access rule has resulted in the following results, so far as the independent television stations are concerned:

1. The competitive strength of both VHF and UHF independents has been considerably strengthened. More viewers are turning to the independents during the prime-time access period. This has resulted in increased revenues, and has moved an increasing number of stations into profit positions, often for the first time ever.

2. The long-term effect of the prime-time access rule will probably be that the independent stations will become an increasingly more viable force in American television, and will be able to compete more effectively with both the networks and station affiliates.

3. Spiralling costs of syndicated programming, particularly off-network programming, upon which the independents rely, constitutes the only disadvantage stemming from the rule. Off-network program syndication costs have increased dramatically because the rule, by diminishing the amount of network prime-time, has made off-network programming a scarcer commodity, with a resultant increase in price.

SECTION V: THE INDEPENDENT HOLLYWOOD MOVIE & TELEVISION PROGRAMMING INDUSTRY

INTRODUCTION

The Hollywood Movie Industry depends upon its ability to sell its product to the television industry, particularly the three networks. All the production companies not only attempt to sell their theatrical motion prictures to television, but also produce made-for-television movies and program series for the networks. Television, once the biggest threat to the motion picture business, is now a crucial link in its future.

At least 80 percent of film output in the United States is accounted for by eight concerns, who use their own in-house production facilities or finance smaller independent producers. Three of these eight concerns are conglomerates: Gulf and Western, which owns Paramount; Warner Communications (formerly Kinney Services), which owns Warner Brothers-Seven Arts; and Transamerica Corporation, which own United Artist. The major independents are Columbia-Screen Gems, Disney, MCA (Universal), MGM, and 20th Century Fox.

The industry has always been quixotic, having had a long history of cost overruns on major motion pictures, temperamental and extravagant stars, and, all too often, poor management. Part of the industry's problem is due to the fact that the movie market is inherently speculative and highly competitive because too many people want to make too many films for too few potential customers.

Almost everyone knows that the movie industry has been going through difficult times since the television industry became a major competitor in the late fifties and early sixties. In fact, the Hollywood industry reached its peak in the years from 1945 to 1948, when attendance at movie theatres averaged 90 million people a week. Today the figure is about 17 million. In 1947, box office gross receipts reached an all-time high of $5 billion; today the gross is about $1.3 billion, climbing steadily from a low of $989 million in 1967, and industry forecasters do not expect it to reach $2 billion until 1980.

This long-run decline in the business fortunes of the industry is due to a number of factors, most important being the growth of the television industry. Other reasons given include the expense of the tickets, babysitters, cost of dining out, parking, etc; fears about the safety of attending downtown theatres, and general inconvenience.

The under-30 population comprises about 75 percent of today's theatrical motion picture audience. The 30 to 40 age group makes up slightly over 10 percent. About 65 percent of the American population never go out to see a motion picture. They stay home watching television. They have not deserted movies, however, because they see more movies than ever before--but free of charge on television.

Because of these factors, the movie industry went through a crisis period from 1967-71, when it suffered a financial bloodbath. During this time, the number of feature films granted code seals by the Code Administration of the Motion Picture Association of America increased two-and-a-half times, from 215 in 1967, to 478 in 1971. A number of high-budgeted movies were financial disasters, however, and movie-makers reduced the number of these films costing from $10 to $15 million, from ten in 1969, to five in 1970, and only one in 1971, with none in excess of $10 million since. As the high-budgeted movies declined, the new low-budget "independent" movie-makers took on an increasingly important role in film production. The "new breed" of film-maker, usually using little known or unknown stars, aimed their product at the under-30 moviegoers. They kept production costs low, often between $300,000 and $500,000 per picture. Because most of the small independent producers lack distribution facilities, they relied on the major studios, and also often used major studio financing and facilities. While the high-budget movies were losing out to the low-budget movies, the major production houses lost heavily, particularly in 1969 and 1970 as the chart on the next page will show:

COMPANY	PARENT	'67	'68	'69	'70	'71	'72
		ACCOUNTING PERIODS ENDING IN: (Profit/Loss in $m)					
Columbia/ Screen Gems	-	6	10	6	6	-29	4
MGM	-	14	8	-35	-8	8	10.7
Paramount	Gulf & Western	na	na	na	2	22	31
Twentieth Century	-	15	14	-37	-77	6	7.8
United Artists	Trans-America	17	19	16	-45	1	10.8
Universal	Music Corporation of America	17	13	3	13	17	20.9
Warner Brothers*	Warner Communi-cations (Kinney)	3	10	-52	8	9	50.1
Disney	-	10	13	17	22	22	40.2

*Warner's figures exclude the highly profitable music division for the years 1969, 1970, and 1971.

Source: Prepared by Alan Pearce using data from Variety, Business Week, The Economist, and company reports.

Because five of the big eight movie-makers lost money during some of these years, the shock waves helped to rationalize and reorganize what had become an inefficient industry, with some notable exceptions. For the first time, the industry adopted new management techniques and, spurred on by the new-breed of low-cost movie-makers, the industry synchronized production with marketing. Total overheads have been reduced by cutting down on production and studio costs, and by rationalizing distribution.

Today, investment decisions are based on each movie's profit potential in three main markets:
1. U.S theatres; 2. Foreign theatres; 3. Leasing to television, both at home and abroad. Some studios will approve production of a movie only if it will be potentially viable in all three markets. Some low-budget movies, however, are aimed at specialized markets, resulting in an upsurge of movies made especially for blacks, teenagers, etc.

It is now rare for a movie to cost more than $5 million, and the vast majority of the almost 500 movies expected to be relased in the U.S. in 1973 cost between $1 and $2 million. Traditionally the movie business was based on the assumption that it was the occasional 'smash hit' movie that allowed it to stay in business and cover the inevitable losses of most movies. This idea has gone forever, and only exceptional movies receive budgets in excess of $2 million.

Perhaps the great appeal of the movie industry, apart from the apparent glamor, is the prospect of great profit, and this explains why many firms, both large and small, are tempted to gamble in the business, including the Mattel Toy Company which co-produced Sounder, Reader's Digest, which produced Tom Sawyer, and Brut, which financed A Touch of Class. A list of some of the top money makers will give some idea of the spectacular profits that can be made from the movie business:

MOVIE	ESTIMATED COST OF PRODUCTION	GROSS U.S. BOX OFFICE RECEIPTS
The Godfather	$6 million	$85 million
Gone With The Wind	$4 million	$78 million
The Sound of Music	$7.6 million	$72 million
Love Story	$2.2 million	$50 million
The Graduate	$3.1 million	$48 million
Doctor Zhivago	$8 million	$48 million
Airport	$10 million	$45 million
The Ten Commandments	$14 million	$43 million
Ben-Hur	$15 million	$41 million
Patton	$12.25 million	$36 million
My Fair Lady	$12 million	$32 million
M*A*S*H	$3 million	$31 million
Mary Poppins	$8 million	$31 million
Butch Cassidy and the Sundance Kid	$5.5 million	$29 million

Compiled by Alan Pearce from data published in Variety or supplied by confidential sources.

This list, of course, while by no means complete, does give some support to the theory developed by the new breed of movie-maker that it is not necessary to make a high budget picture to assure box office appeal. In fact, young people are often attracted by low-budget movies. The list deliberately excludes the hundreds of movies that did not break even. In 1971, for example, some 170 films shared only $60 million in gross box office recepts-- and that amounts to a lost of misses.

The number of general feature movies rated and released in the U.S. has climbed steadily since 1967 from 215 to 493 in 1972. In 1973, an expected 500 movies will be released in the U.S., and almost a half of them will have been made and financed abroad. Of those financed by the American motion picture industry, roughly totalling 260, between 110 and 120 of them will have been made either exclusively or partially abroad as a cost-saving method and also to broaden audience appeal. So, while the number of movies made throughout the world and distributed in the United States have been climbing steadily, the growth of the home based movie industry has been slowed somewhat because of the impact of foreign competition. The roughly 500 feature movies released in 1973 can be expected to have gross box office revenues of $1.3 billion. This means that the average gross revenue per movie amounts to only $2.6 million. Since one-third of the gross revenue is kept by the theatre owners, to cover their expenses and profit, only $1,733,334 remains to cover costs of production and distribution. It is, therefore, easy to understand why the vastmajority of movies have generally lost money in the past few years, and why income from abroad--down to a third of gross earnings from a maximum of 50 percent in the prosperous days--plus income from television, are so vital to the economic health of today's movie business.

THE TELEVISION INDUSTRY AND THE PROGRAMMING INDUSTRY

It was against this general background, that the Federal Communications Commission imposed the prime-time access rule on the television industry in the Fall of 1971. The immediate impact of reducing network supplied programming by a three-network total of 12 hours a week was felt most seriously in the program making industry, based in Hollywood. The situation was made worse because the movie industry was attempting to recover from an almost calamitous depression, and having attempted to rationalize and modernize itself, was not about to accept the prime-time access rule without a fight.

Of the 12 hours taken away from the networks by the rule, an estimated ten hours a week were supplied by the program making industry in Hollywood. Ten hours of prime-time television entertainment programming costs roughly $2 million, since the average hour of a prime-time program costs a little over $200,000.

If this figure is multiplied by the 24-week television season (24 weeks plus 24 repeats), then the total loss to Hollywood is in the region of $48 million. Of this, about 70 percent is suffered by labor, both creative (which is very highly paid, though not always in regular work), and technical (which is paid at rates roughly commensurate with other industries). Consequently, it is true to say that Hollywood received the very first economic shock wave of the prime-time access rule, which took away roughly 18 percent of the total network prime-time schedule and put it in the hands of the affiliates.

From the beginning, it was generally believed in Hollywood that television was a major contributing force in the long depression of the movie industry. The prime-time access rule was thought to be yet another step in the disintegration of Hollywood.

The movie-makers, for the most part, accepted television as a necessary evil. They point to the days when television was young and say there were more independent movie producing companies actively supplying broadcasters in the late-50's and early 60's than there are today. In fact, the FCC's prime-time access rule was, in part, motivated because the networks occupied more and more time than they had in the early days—and this was a natural enough process.

There have grown up, with television but stemming from the movie industry, three broad categories of individual producers who were recognized to have sufficient competence to produce network-calibre programming:

1. The "major" public companies with their own facilities for major motion pictures and for television film production and distribution.

2. The medium-sized, often public, independent companies with wide creative resources, often their own distribution resources, who rent production facilities from other independent companies, usually the larger ones.

3. Smaller, often individually owned companies, producing live-on-tape shows, either with independent tape facilities but more usually on network premises either in Hollywood or New York.

Certainly the same basic economic forces that drove the movie business to the wall also affected those companies involved in television program production. These adverse economic forces can be summarized as follows:

1. So-called adverse union conditions in the film industry. There have been some accusations of feather bedding against the Hollywood unions. Without going into the merits or otherwise of this argument, it is an economic fact that when an industry is popular and profitable, as the movie business was in the 1940's, the

unions can expect to share in the rewards. It is also an equally important economic fact to note that when bad times come to an industry, as they did to Hollywood in the sixties, then the unions are not prepared to willingly accept a rollback in wage rates and conditions. Consequently, the brunt of a business downturn is felt first by management, the people who gave the pay raises to the unions in the first place. Then, if the depression is prolonged as it was in Hollywood, the workforce is trimmed, as it was.

2. Rising talent costs. Hollywood has traditionally paid high fees for top creative talent--stars, writers, producers, directors, etc. Here again, when a high paying precedent is established, it is difficult, if not impossible, to halt the trend, let alone reverse it. As a result, the same Hollywood stars that appeared in movies, demanded what some considered to be high fees for appearing in television series. This became an important factor in bidding up the price of television production.

3. Difficulty in "gearing down" to television standards. It took the movie industry a long time to "gear down" to television standards, and some of its critics say the process is by no means complete. The movie industry was originally developed to make major motion pictures to be projected on large screens. Sound and picture quality was of the utmost importance, and time, generally speaking, was not all-important. In television, the new medium,

the finished product was being flashed on to a small, as distinct from a large, screen. Sound quality was not all that important, but time was of the essence. Television became much more of a mass production industry than the Hollywood movie industry ever was. Instead of producing a few movies a year that were distributed slowly around the country, with runs lasting several weeks or even months, television entertainment was immediate--nightly national distribution of many hours of different types of programs. Initially Hollywood was unable to cope with these dramatic changes, and the techniques used in motion picture production were slow to adapt.

4. The high costs incurred by the changeover in television from black-and-white to color. This changeover in the sixties caused production costs to rise sharply and led, to a considerable extent, to the change in re-run policy by the three television networks. Because of the higher costs, the number of re-runs increased. As a result, there was a production loss in Hollywood.

5. Finally, indpendent production companies discovered that they could not profit sufficiently from their sales to the three networks to speculate on independent, new programming. Indeed, television production became so costly, because of the reasons outlined above, that many companies withdrew completely or retrenched investment in network calibre programming because their

dealings with the networks made their television production unprofitable, or marignal.

The eight major companies--Columbia-Screen Gems, MGM, Paramount, 20th Century, United Artists, Universal, Warner Brothers, and Disney--have met with very varied fortunes on network television. United Artists is the only one that has withdrawn completely from new television production. Warner Brothers withdrew in 1965 but re-emerged in 1969 as part of its absorption into the Kinney conglomerate. MGM and 20th Century Fox have also had problems with television production and major motion pictures, while Columbia-Scren Gems, although reasonably successful with television series, has had great difficulties at the corporate level. This leaves Universal, owned by Music Corporation of America (MCA), Disney, and Paramount (part of Gulf and Western), as perhaps the three most successful program makers.

Of these three programming companies, Universal is by far the most successful in terms of television production. MCA-Universal has not suffered a loss since the end of the second World War. Gross revenues have grown from $5 million in 1946 to a record $345 million in 1972. Universal studios produced 320 hours of film in 1972--far more than any of its competiors--and two-thirds of its film revenues came from television. To get the 4,500 feet of film necessary for a one-hour television series like <u>Ironside</u>, it is necessary to shoot 30,000 feet of film and edit it down. Universal, realizing that speed was important in this process, was probably the first studio to be run with an eye to business efficiency. Budgets are strictly supervised by management, who scrutinize daily computer cost print-outs, and cost overruns are not tolerated. Television production in particular is never allowed to run beyond the time allotted for shooting--a maximum of three days for a half-hour series, and five for a one-hour series. Some of Universal's successful television series include Ironside, Marcus Welby M.D., Owen Marshall, The NBC Mystery Movies--Columbo, Macmillan and Wife, Mcloud, Banacek, etc., and Adam-12.

Paramount, with series on television like Mannix and Mission Impossible on CBS, Love American Style, The Brady Bunch, and The Odd Couple, on ABC, as well as a number of made-for-television movies, is also still a dominant force in the high budgeted major motion picture field. Paramount, in fact, made The Godfather, which will probably gross around $100 million at the box office in the U.S.--an all-time record, and the company is spending over $12 million on three movies--one a sequel to The Godfather, and two others, The Great Gatsby, and The Day of the Locust.

Four of the other five major studios do have series currently running on prime-time network television. Warner does the popular Kung Fu series on ABC, The Brian Keith Show (Little People) on NBC, makes made-for-television movies for all three networks, jointly produces at least one other series, The FBI, while renting its studio facilities out to a number of smaller production companies. Columbia-Screen Gems produces The Partridge Family, Bob and Carol and Ted and Alice, Temperatures Rising, The Girl with Something Extra, Needles and Pins, and Police Story, with some of these series produced in conjunction with small, independent producers. Twentieth Century Fox produces The New Adventures of Perry Mason, and Roll Out, both new series on CBS. MGM has recently made a comeback to prime-time after being reduced to only one series, Medical Center, on CBS. Beginning in the fall of 1973, MGM had three new series on television-- Mr. and Ms. on ABC, Hawkins, and Shaft on CBS.

The rest of the prime-time schedule represents the work of a number of smaller producers, but many of them more successful than the majors in the amount of prime-time television that they produce.

QM Productions, for example, produces The FBI, and The Streets of San Francisco on ABC, and Cannon and Barnaby Jones on CBS--all of them one-hour detective series. QM Productions does not have its own facilities, but rents from the majors.

After QM, the two most successful production outfits are Tandem Productions--All in the Family and Maude on CBS, and Sanford and Son on NBC, all of them situation comedies; and MTM Enterprises (for Mary Tyler Moore)--The Mary Tyler Moore Show and The Bob Newhart Show, both situation comedies and both on CBS. These five shows are all produced with the help of network production facilities--that on network owned studios in Hollywood. Tandem's All in the Family and Maude, are producedon CBS's tape facilities and play on the CBS Television Network; The Mary Tyler Moore Show and The Bob Newhart Show are produced at CBS's film studios in Hollywood and play on the CBS Television Network; and Tandem, which produces its two CBS shows on CBS facilities, produces its only NBC show, Sanford and Son, on NBC's tape facilities in Hollywood.

Apart from detective series and situation comedies, the most popular forms of prime-time network television are major motion pictures and made-for-television movies, and the musical variety shows. The problem with all prime-time television series, however, is the high waste factor, and perhaps a third or more of the new series launched in the 1973-74 season will not last the full year.

NETWORK TELEVISION PROGRAM PRODUCTION FACILITIES

In 1967, with a $30 million revolving fund, ABC started ABC Films to produce "theatrical" motion pictures, most of which would ultimatley be shown on the ABC Television Network. ABC incidentally, is also the nation's largest theatre owner (over 400), but theatrical distribution was to be by independent companies, although arrangements for distribtuion to the ABC Television Network, and other television distribution, were to be handled "internally." These theatrical movies were to be separate from the ABC Movie of the Week. As a result of an anti-trust suit against ABC by five of the major motion picture production companies, ABC has stopped making major motion pictures, but is still heavily involved in production of made-for-television movies--producing 19 out of 47 made-for-television feature films that played on the ABC Television Network in the 1972-73 season. In addition, ABC played one of its theatrical feature movies on the ABC Sunday Night Movie in the 1972-73 season.

Apart from movies, ABC is only minimally involved in prime-time program production. Its videotape facilities were used for the Julie Andrews Show and One Touch of Grace, but neither show was owned by ABC. Mod Squad, which was cancelled at the end of the season, was an ABC production.

Eight of the ten ABC daytime programs are produced on ABC facilities in Hollywood or New York, and one program, General Hospital, is produced and owned by ABC. Most of the late night entertainment, while not ABC owned, is produced on ABC's facilities, for example, Dick Cavett and Jack Paar. Most children's television is owned by independent companies and produced on independent facilities.

CBS also initiated theatrical motion picture production in 1967 on the same basis as ABC, though with two major differences: (i) CBS does not own 400 motion picture theatres; (ii) it does own its own Hollywood film production facilities (ABC does not). CBS's Cinema Center Films also produced movies for showing on the CBS Television Network, and while production of major motion pictures has ceased, partly because of the anti-trust suit by the major independent producers, CBS still makes made-for-television movies that are played on its own network. In the 1972-73 season, about half of the made-for-television movies on the CBS Television Network were made by the CBS film company.

CBS is much more involved in prime-time production of programs other than movies than the other two networks. Out of its 23 prime-time programs in the 1972-73 season, ten were made on CBS's own facilities in Hollywood or New York. These were, Gunsmoke, which is also owned by CBS, The Doris Day Show, The Bill Cosby Show, Maude, Hawaii 5-0, The Carol Burnett Show, Sonny and Cher, The Mary Tyler Moore Show, and The Bob Newhart Show.

The entire daytime program schedule, while not completely owned by CBS, is produced on CBS's Hollywood and New York facilities. Children's programming, apart from Captain Kangaroo and In The News, is mostly independently produced.

Of the three networks, NBC, a subsidiary of the RCA conglomerate, has only been minimally involved in ancillary distribution, least involved in equity participation, not involved at all with film production facilities, about equal to CBS, but slightly greater than ABC, in the use of its own tape facilities.

The only prime-time programs that NBC have had any interest in at all in the past few years are Bonanza, which was cancelled in January, 1973, and The Dean Martin Show, which is owned by and produced on NBC facilities. The Dean Martin Show is the only program owned by NBC in the 1973-74 season. NBC's tape facilities, however, are frequently used by the independent producers that have shows on the NBC Television Network. In the 1972-73 season, Laugh-in, Flip Wilson, Sanford and Son, and Bobby Darrin, were all produced on NBC's Hollywood facilities. Of the prime-time specials, NBC owns NBC Follies and Peter Pan, and partially owns The Bob Hope Specials. Apart from these only six of the specials were produced on NBC facilities in the 1972-73 season.

In daytime programming, NBC owns only one program, Concentration, but its facilities are used for the production of 12 of the 13 daytime programs.

Late night programming is produced exclusively on NBC facilities, and The Tonight Show is owned by NBC.

In children's programming, NBC owns and produces Talking with a Giant, now cancelled, and its facilities are used for Runaround. Apart from these, children's programming is independently owned.

See Appendix II for a complete breakdown, network by network, of program ownership and facilities use.

PROGRAM PRICING AND CONTRACTS

Prime-time television entertainment programming is expensive, and would be even more so, say the Hollywood program makers, if the networks did not have their own production facilities. The fact that two of the networks, ABC and CBS, are in both the film and tape program production business, and the third, NBC, has big tape production facilities, tends to depress the market price of television entertainment programming, according to the independent Hollywood production houses, since the networks provide the most efficient means of distribution.

As a result of this, most independent television entertainment program production tends to be deficit financed by the independent program makers. They hope to make up this deficit, of course, and eventually go into a profit position by having a long-running network television series. If a series runs on television for three years or more, the rewards can be great because the series can be sold in syndication to local stations, both affiliates and independents, when it completes its network run. This explains the great success in syndication of shows like Perry Mason, Lucy, Beverley Hillbillies, etc., and also explains why production companies are prepared to speculate against the prospect of long-term profits.

The process from the first draft of an idea to final selection as a prime-time television series is highly selective. There are normally hundreds of script ides that are usually financed by the independent program producers. These generally cost around $2,500 per idea, and most of them are written off completely. Only one-third of these suggestions actually go to a script commitment. Depending upon the stature of the writers, a script commitment costs between $15,000 and $25,000. The script commitment is normally 80 percent network financed, and 20 percent financed by the independent production company. In return for this "upfront" financing, the network obtains a unilateral option to order a pilot, to order a mini-series, or to order a full series, for the first year, and to order 22 or 24 original episodes per year thereafter until the fifth or seventh years of the contract, at which time it can be renegotiated by both sides. After the scripts have been read and evaluated by the networks, about one-third of them are selected for a pilot. A 90-minute pilot costs the production company from $500,000 to $750,000 and the network usually pays around $400,000 for two-plays. The program company is thus expected to take another deficit in the hope that the idea is selected for eventual inclusion in the network prime-time schedule. For the 1973-74 season, 124 pilots were made, only 17 were chosen as regular weekly series, and 13 were selected as mini-series. Mini-series, the production companies claim, are very often unprofitable.

If a pilot is developed as a series, a licensing agreement is firmed up between the network (the distributor) and the producer. The network obtains an exclusive right to play the series for a period of from five to seven years, subject to prior cancellation by the network. The initial flat price is based upon expected popularity, usually approximately $115,000 to $125,000 for two-plays of a half-hour series, $200,000 to $249,000 for two-plays of a one-hour series, and from $375,000 to $450,000 for two-plays of a 90-minute series. Production companies, however, say that the actual costs of production of series exceed these licensing fees.

According to the major Hollywood production houses, most 90-minute series cost in the region of $500,000 or more, while one-hour shows invariably cost $250,000 or more, although some cost less than this. The weekly budget of shows like <u>Ironside</u>, <u>The FBI</u>, or <u>Hawaii 5-0</u>, run at about $250,000 an-hour, of which a little over $82,000 goes to above-the-line talent, writers, producer, and director, and their staffs. Of the remainder of the budget, perhaps $65,000 per show will go to film crews, technicians, studio sets, etc., $27,000 to editing, cost of film stock, music, and titles, $32,000 to general expenses and additional labor, and about $41,000 in studio overhead. Studio overhead is a general allocation in each show budget that reflects the cost of keeping the studio in business; it includes a portion of salaries for top executives,

CHART 3

THE RATIO BETWEEN ETHICALLY NEGATIVE AND ETHICALLY NEUTRAL CASES (S) AND ETHICALLY POSITIVE, NEGATIVE AND NEUTRAL OPINIONS (R) IN THE DIFFERENT PERIODS. VERTICAL SHADING, POSITIVE; DIAGONAL SHADING, NEGATIVE; WHITE SECTIONS, NEUTRAL

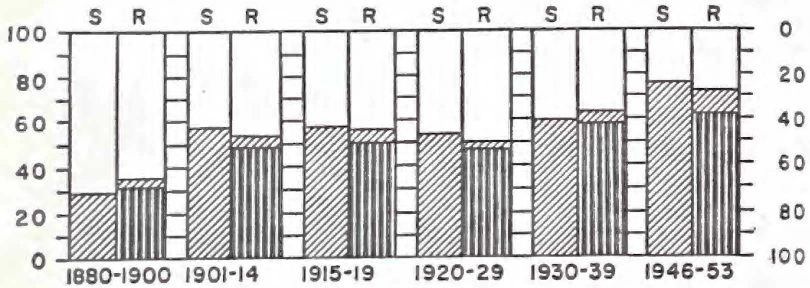
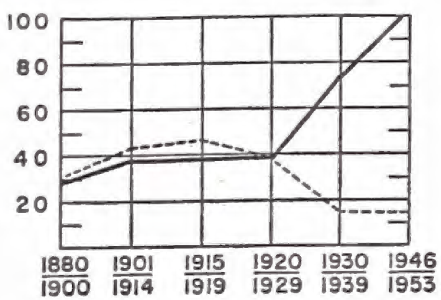


CHART 4

NUMBER OF ETHICAL DEVIATIONS EXPRESSED AS A PERCENTAGE OF ANALYZED CASES, DIVIDED INTO TWO MAIN GROUPS: "LACK OF INTEGRITY" (CRITERIA 2, 3, 4, 6, 8), DOTTED LINE; AND "DYNAMIC SALES POLICIES" (CRITERIA 1, 5, 7, 9), SOLID LINE



COLONIAL NEWSPAPER ADVERTISING: A STEP TOWARD FREEDOM OF THE PRESS

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It is frequently said that the newspaper of today is printed on the backs of advertisements because the price the reader pays usually does not cover the printing cost and the publisher has to depend upon the sale of advertising space for his principal revenue. The partnership between journalism and advertising is so close today that the quality and quantity of editorial matter supplied to the reader depends upon the amount of advertising that can be sold.[1]

In the study of the historical development of journalism and advertising, it is interesting to note that the first daily established in the United States came, not because of a demand for fresh news but as a result of the pressure of advertising. The first newspapers were weeklies, and it was only when these weeklies could not handle the increasing volume of advertising that they were converted into semiweeklies. Then, as advertising volume grew still heavier, these publications were published triweekly, and finally on a daily basis.[2]

The history of newspaper advertising also reveals the remarkable fact that it was largely through the development of profitable advertising that editors in England and the United States were finally able to free themselves from the subsidy and control of governors and political parties.[3]

However, the development of newspaper advertising into a profitable undertaking came only after a long, determined struggle. The colonial printer-editors did not have to discover newspaper advertising, since English pioneers such as Houghton, Addison, and Defoe had already experimented and proved its effectiveness. But the colonial economy was largely agricultural and the few potential business advertisers were naturally skeptical of the untried medium and had to be won over gradually. The colonial printer-editors strove to overcome this skepticism by running stores on the side and advertising their own merchandise. Thus, by example, they demonstrated to commercial interests the value of advertising.[4]

Moreover, before advertising patronage could be built up substantially, the crude newspaper advertising technique borrowed from England had to be refined. Save for their headlines, the first advertisements were set up like regular reading matter and buried on the back page.[5]

The most formidable obstacle faced by the colonial editors was that of developing adequate circulation in order to make their papers effective carriers of advertising. This was difficult to accomplish since strict censorship was exercised over the early colonial newspapers. Frank publication

[1] George B. Hotchkiss, *An Outline of Advertising* (3d ed.; New York, 1950), p. 22.
[2] Frank Presbrey, *The History and Development of Advertising* (New York, 1929), p. 161.
[3] Times (London), *The History of the Times*, Vol. I., p. 20. Also, Alfred M. Lee, *The Daily Newspaper in America* (New York, 1937), p. 181.
[4] James M. Lee, *History of American Journalism* (Boston, 1923), p. 72.
[5] Alfred M. Lee, *The Daily Newspaper in America*, pp. 31–32.

of news events in the colonies meant almost certain imprisonment for the editor and suppression of his paper. To be on the safe side of authority an editor practically had to have his paper edited by the ruling governor.[6] A newspaper so edited was more an organ of official propaganda than an unbiased common carrier of news. To keep out of trouble with the authorities most of the early colonial editors followed the custom of reprinting news from leading English newspapers. Consequently, much of the editorial matter was stale and it was difficult for editors to build and maintain a circulation of several hundred paying subscribers.

This study covers the first 60 years of colonial journalism, a period roughly from 1690 to 1750. It was during this period that freedom of the press was fought for and won, and newspaper advertising was built up to the point where editors could begin to divorce themselves from dependence on political subsidy, postmasterships, job printing, and other revenues except copy sales. Specifically, this article gives a brief biographical sketch of eight early colonial newspapers, and evaluates the contributions of their editors to the development of advertising and free journalism. This development of advertising and of a free press must be studied together, as both are essential ingredients of a healthy newspaper.

Harris's Publick Occurrences

As in England, the forerunner of newspapers in colonial America was the newsletter. This letter was prepared either by a writer who wandered from one coffee house to another to pick up the news, or the postmaster who handled the few copies of newspapers which came from abroad, and who had contact with the captain and passengers of incoming ships. As soon as the requests for this paid letter service became too numerous to be handled by pen, the writer was forced to employ a printing press.[7]

The first such printed newsletter was *Publick Occurrences* published on September 25, 1690, by Benjamin Harris, a refugee who had fought unsuccessfully for a free press in England. Without fanfare or preliminary advertising, Harris came out suddenly with the first and only issue of his paper. *Publick Occurrences* was to be published once a month or oftener, depending upon the amount of news. From the standpoint of journalism it was an excellent conveyor of news, carrying a vivid account of a battle waged by Governor Winthrop with the French and Indians and of the barbarous treatment of French prisoners of war. It was this account that angered the authorities and caused the immediate suspension of the paper.[8]

What Benjamin Harris's intentions were with regard to advertising are not known. The lone issue contained no paid announcements, and his first-page statement of objectives carried no mention of advertising.[9] Even though *Publick Occurrences* contained no advertising, it is important because it challenged the authorities and began the fight for a free press in the colonies. Following its suppression, the governing council

[6] George H. Payne, *History of Journalism in the United States* (New York, 1926), p. 57.

[7] James M. Lee, *History of American Journalism*, p. 18.

[8] Payne, *op. cit.*, p. 21.

[9] Presbrey, *op. cit.*, p. 122.

quickly passed a resolution to the effect that any person or persons wishing to set forth anything in print must first obtain a license from the local authorities. This drastic action made it clear to other aspiring publishers that a free press would not be possible without a long and hard fight.

Campbell's Boston News-Letter

The quick suppression of *Publick Occurrences* and the passage of the licensing law discouraged the founding of a second newspaper until 1704, when John Campbell began the publication of *The Boston News-Letter*. Mindful of the fate of the first newsletter, Campbell was careful to publish his paper "by authority" and to print nothing that would offend the Council. For the most part, he followed the practice of reprinting material from back issues of *The London Flying Post* and *The London Gazette*. His coverage of local news was largely restricted to the recording of deaths and the announcement of sermons.[10]

Campbell was aware of the success that Houghton and other English publishers were having with newspaper advertising in England, and he was anxious to develop his *News-Letter* into a profitable advertising medium. On the back page of the very first issue he printed the following announcement: [11]

Advertisements

This News Letter is to be continued Weekly; and all Persons who have any Houses, Lands, Tenements, Farms, Ships, Vessels, Goods, Wares or Merchandizes, etc. to be Sold or Let, or Servant Run away; or Goods Stole or Lost; may have the same Inserted at a Reasonable Rate; from Twelve Pence to Five Shillings, and not to exceed:

Campbell's bid for advertising was viewed with great interest by New York's earliest printer, William Bradford. To see for himself what response a newspaper advertisement would bring from a public not yet accustomed to it, he sent in the following real estate announcement, which appeared in the third weekly issue of *The Boston News-Letter*, and which is considered to be the first American newspaper advertisement.[12]

AT Oyſterbay on *Long-Iſland* in the Province of *N. York*, There is a very good Fulling-Mill, to be Let or Sold, as alſo a Plantation, having on it a large new Brick houſe, and another good houſe by it for a Kitchin, & work houſe, with a Barn, Stable, *&c.* a young Orchard, and 20 Acres clear Land. The Mill is to be Let with or without the Plantation: Enquire of Mr. *William Bradford* Printer in *N. York*, and know further.

Slaves, runaway apprentices, lost articles, books and real estate were the most frequent subjects of advertisements in the early issues of *The*

[10] Payne, *op. cit.*, p. 26.

[11] Presbrey, *op. cit.*, p. 126.

[12] *Ibid.*, p. 126.

News-Letter. Of these, shocking as it might appear to the modern reader, slaves constituted a large percentage. In the seventeenth issue of Campbell's paper, the first American store advertisement appeared. It ran as follows: [13]

> **At Mr. John Miro Merchant, his Warehouse upon the Dock in Boston, There is to be Sold good Cordage of all Sizes, from a Spurn-yard to Cables of 13 inches, by Whole-sail or Retail.**

In colonial times a store was sometimes referred to as a "warehouse" since families were largely self-sufficient, growing and making their own products, with the exception of a few imported necessities which were frequently stored in a warehouse at the port of entry.

Now and then cloth merchants used *The News-Letter* to announce the arrival of new merchandise from England, and occasionally someone would advertise made-up frocks. But store advertising was a small part of a small total of advertising that appeared in *The News-Letter*.[14]

At the end of three years a total of five inches of advertising was a heavy run for *The News-Letter*, and some numbers appeared without a single advertisement. That Campbell had expected greater support from retail advertisers is evident from his petition to the governor for a subsidy. In this petition he complained "that the post office was paying him very little and that despite the fact that a number of merchants had promised to contribute to the support of his weekly *News-Letter*, he had not made anything by it." [15]

John Campbell's failure to obtain a greater volume of advertising was largely due to the scant circulation of his *News-Letter*. Even after fifteen years of publication its circulation was only 300 in a city with a population of about 10,000.[16] Ever conscious of the fate of *Publick Occurrences*, the editor played down local news, and his paper contained mostly stale reprints from London newspapers. Usually *The News-Letter* was from five to thirteen months behind with the news.[17]

Small wonder, then, that the public was reluctant to subscribe to *The News-Letter*, and that business people were reluctant to advertise in it. Rather than read dull accounts of past events in Europe, the populace preferred to continue the custom of getting news of events in the colonies through coffee house gossip and private newsletter.

Probably another reason for Campbell's failure to attract a larger volume of advertising was his lack of enterprise and ingenuity.[18] He did not try to devise ways of making each advertisement resultful. The publicized product was not illustrated, and the only display was the word "advertisements." Otherwise, all of *The News-Letter's* announcements were set up like regular reading matter and appeared inconspicuously on the back page.[19]

[13] *Ibid.*, p. 127.
[14] *Ibid.*, p. 129.
[15] Payne, *op. cit.*, p. 26.
[16] *Ibid.*, p. 27.
[17] Anna J. DeArmond, *Andrew Bradford Colonial Journalist* (Newark, Delaware, 1949), p. 51. See also, Payne, *op. cit.*, p. 27.
[18] Presbrey, *op. cit.*, p. 129.
[19] Elizabeth C. Cook, *Literary Influences in Colonial Newspapers 1704–1750* (New York, 1912), p. 8. See also, Presbrey, *op. cit.*, pp. 128–129.

Campbell's journalistic career suffered a severe blow when in 1719 he was replaced as postmaster by William Brooker. With the loss of the post office revenue, he found it extremely difficult to continue the publication of his *News-Letter*, and on January 7, 1723, it passed into other hands.[20]

James Franklin, The Boston Gazette, and The New England Courant

On December 21, 1719, Brooker, the new postmaster, brought out the first number of *The Boston Gazette* at the request of several Boston merchants who apparently were completely fed up with the ineffective *News-Letter*.[21] James Franklin, older brother of the celebrated Benjamin, was the printer of *The Gazette* for one year.[22] To supplement his meager income as printer, Franklin printed and sold cloth at his print shop. He was an enthusiastic advertiser of his own products. On April 25, 1720, for instance, he inserted this advertisement in *The Gazette:* [23]

> **The Printer herof prints Linens, Calicoes, Silks, etc., in good Figures, very livily and durable colours, and without the offensive Smell which commonly attends the Linens printed here.**

While its founding had been encouraged by disgruntled *News-Letter* advertisers, *The Boston Gazette* failed to introduce any new advertising techniques during its early years, possibly due to its frequent change of ownership. It was approximately the same size as *The News-Letter*, used the same soggy typography, and carried the same type and paucity of advertisements — mostly of slaves, lost articles, books, and real estate — on its back pages.[24]

On August 6, 1721, shortly after his dismissal as printer of *The Boston Gazette*, James Franklin began to publish Boston's third newspaper, entitled *The New England Courant*. He was well prepared for this venture, having studied in London where he observed firsthand the work of the English masters, Addison and Steele.[25] While *The Courant* was the liveliest and most literary of the early colonial newspapers,[26] it lasted less than five years, for James Franklin was another Harris and constantly clashed with the authorities. Most of the space in *The New England Courant* was absorbed in frank criticism of the conduct of colonial affairs and in attacks against inoculation for smallpox.[27] It carried very little news, and but few advertisements.[28]

While James Franklin's journalistic career was short-lived,[29] he con-

[20] Clarence S. Brigham, *History and Bibliography of American Newspapers, 1690–1820*, Vol. I (Worcester, 1947), p. 327.
[21] DeArmond, *op. cit.*, p. 42.
[22] James Franklin was replaced after one year because Brooker lost both the postmastership and *The Gazette*. Between 1719 and 1739, this paper was owned and operated by no less than five postmasters. In spite of this shaky start, *The Gazette* was published continuously until 1798.
[23] James M. Lee, *History of American Journalism*, p. 72.
[24] Presbrey, *op. cit.*, pp. 131, 133.
[25] Payne, *op. cit.*, pp. 30–31.
[26] DeArmond, *op. cit.*, p. 216.
[27] Payne, *op. cit.*, p. 32. See also DeArmond, *op. cit.*
[28] Isaiah Thomas, *The History of Printing in America*, Vol. I (Albany, New York, 1874), p. 111.
[29] DeArmond, *op. cit.* *The Courant* lasted from August, 1721, to June, 1726.

tributed in at least two ways to the development of colonial journalism. First, his fearless criticism of the colonial government revived the fight for a free press. And secondly, he trained his brother Benjamin in newspaper work and prepared him for his influential role in colonial journalism.

Andrew Bradford's American Weekly Mercury

It is interesting to note that the first issue of *The American Weekly Mercury* appeared in Philadelphia on December 22, 1719, one day after *The Boston Gazette's* first number was published.[30] Andrew Bradford, the founder, was especially well qualified for the task of publishing a colonial newspaper, and he developed his *Mercury* into the most influential newspaper of the 1720's.[31]

Bradford knew from the experiences of the first colonial journalists that the development of a wide circulation was crucial to the success of his undertaking. Therefore, before launching his paper, he made careful arrangements for its distribution. To insure the widest possible circulation, not only in Philadelphia and Pennsylvania but in all the middle colonies and even in parts of the South and New England, he contracted with nine business associates to take in subscriptions and to collect news and advertising.[32]

To please subscribers, Bradford printed both foreign and domestic news. He strove particularly hard to serve business people and thereby gain their advertising patronage. His *Mercury* regularly published commodity prices and shipping news of Philadelphia, New York, and Boston.[33] Bradford's method of appealing to the self-interest of business people is well illustrated by the following announcement, which appeared in the ninth issue of *The Mercury*.[34]

> **The Design of this Paper, being to Promote Trade it is hoped, that it will be Incouraged by the Merchants of this City, by Acquainting Us with the true price Current of the Several Good's inserted in it, which we presume may be Serviceable to All concern'd in Commerce, Especially to them, that have any of those Good's to Sell, who will find a quicker Sale, by Our Informing those persons that want them where they may be Supplied: We likewise Desire those Gentlemen that receive any Authentick Account of News from Europe, or other places, which may be proper for this paper, that they will please to favour Us with a Copy.**

With such able business management, *The Mercury* prospered from the start. By the end of the first year it had a wide circulation and carried several advertisements from distant colonies.[35]

In his early years as publisher, Bradford had several clashes with the authorities, but later he became circumspect and avoided the publication

[30] *Ibid.*, p. 12.
[31] *Ibid.*, pp. 1–6, 25. He inherited from both sides of his family the tradition of the press. Both his grandparents were well-established printers and publishers in London, while his father, William Bradford, was New York's first printer.
[32] *Ibid.*, p. 41.
[33] *Ibid.*, pp. 40–41.
[34] *Ibid.*, p. 41.
[35] *Ibid.*, p. 43.

of controversial political matters.[36] By such judicious avoidance he was left free to develop his newspaper into an effective organ of commerce.[37]

Besides his newspaper, Bradford was engaged in several other business ventures.[38] The enterprise that was the most helpful to his newspaper business was his retail store. It was the custom, almost the necessity, for the printing shop to sell all sorts of commodities, for as Lee states, "the colonial printer was willing to take almost anything in exchange for subscriptions" and often "sold over the counter the goods accepted in payment." [39]

Bradford contributed to the development of retail advertising in that he regularly advertised merchandise that had accumulated in his print shop. Thus, by his own example, he undoubtedly influenced other merchants in Philadelphia to try newspaper advertising. In the early issues of *The Mercury*, Bradford's own advertisements announced for sale such items as molasses by the barrel, whalebone, live goose feathers, Barbadoes rum, chocolate, Spanish snuff, tea, pickled sturgeon, and beaver hats, as well as a variety of patent medicines.[40] As his retail business developed, he added imported merchandise, and from about 1726 his advertisements in *The Mercury* announced the importation from Europe of such articles as spectacles, compasses with dials, leather, English brandy, clothing and books.[41]

By such astute business practices Bradford gradually built up his advertising volume to the point where in the mid-thirties it reached one-and-a-half to two pages regularly.[42] Business people from all the middle colonies, as well as some from New England and the South, frequently announced their wares, which included food and clothing, utensils and machinery, houses and land, ships and wagons and horses, musical instruments, jewelry, and chinaware. Also, *The Mercury* advertised services of different sorts, not only the professional assistance of doctors and lawyers, but also of skilled artisans who offered such services as sharpening of sickles, dry-cleaning, and dyeing.[43]

Unlike Campbell of *The Boston News-Letter*, Bradford was constantly experimenting to improve newspaper advertising technique. In addition to employing a considerable variety of type, he was the first of the colonial printers to use cuts to identify the advertised product. His first such illustration was a crude picture of a book beside the notice for the sale of an almanac in 1721. Later in the same year a cut illustrated the notice of an unclaimed bale of goods.[44]

By the early thirties cuts became a regular part of the make-up of *The Mercury's* advertising pages. During the later years other improvements in advertising format were made. Advertisements were set in varied type,

[36] Payne, *op. cit.*, pp. 40–41.
[37] DeArmond, *op. cit.*, pp. 20, 44. By staying out of politics he was able to keep the lucrative job as government printer, and in 1728 he was awarded the postmastership, which post enabled Bradford to circulate his paper free of charge.
[38] DeArmond, *op. cit.*, pp. 20, 34. Bradford also had a financial interest in an iron foundry and speculated in real estate.
[39] James M. Lee, *History of American Journalism*, pp. 68, 72.
[40] Payne, *op. cit.*, p. 40. See also DeArmond, *op. cit.*, p. 21.
[41] DeArmond, *op. cit.*, pp. 22–23.
[42] *Ibid.*, p. 48.
[43] *Ibid.*, p. 157.
[44] *Ibid.*, pp. 47–48.

boxed separately, and carefully spaced to catch the eye. Bradford frequently employed rows of type ornament to divide the news section from the advertising section.[45]

Finally, Bradford was probably the first of the colonial journalists to start classified advertising. As early as 1730, *The Mercury* carried help wanted announcements which called for carpenters, joyners, bricklayers, tanners, and hatters.[46]

While Bradford's distinguished journalistic career ended with his untimely death in 1742, his wife continued to publish *The Mercury* until May 22, 1746. Thus came to an end, after a notable history of twenty-six years, Pennsylvania's earliest newspaper.

William Bradford's New York Gazette

William Bradford was one of the first printers in America, having come to Pennsylvania with the Quakers in 1682 for the purpose of printing the laws of the colony. Here he was frequently in trouble with the authorities for printing seditious materials, and after eleven years of discouragement he moved his press to New York in 1693 and became the governor's printer at a very attractive salary. From this time on he was most careful of what he printed.

It was not until November 8, 1725, that William Bradford, at the age of 62, began to publish *The New York Gazette*, New York's first newspaper,[47] six years after his son's *American Weekly Mercury* appeared in Philadelphia. At this advanced age, William Bradford lacked the drive to promote his newspaper aggressively. He was content to publish a news sheet like Campbell's *Boston News-Letter*, and like the latter paper it carried mostly foreign news. Invariably, *The New York Gazette* was poorly printed due to the fact that William Bradford had used his type for a long time before he began to print his newspaper. Circulation was limited, and the printer frequently had to appeal to delinquent subscribers.[48]

Advertisements in *The New York Gazette* were few in number, and the subjects were mostly slaves, runaway apprentices, lost articles, and real estate. Since William Bradford was a land speculator and developer, he at times ran his own real estate announcements in *The Gazette*.[49]

The New York Gazette, which was published continuously until October 29, 1844, contributed little to the advancement of journalism and advertising. However, its publisher in his earlier years as a printer fought staunchly for freedom of the press, trained his son Andrew for his role on *The Mercury*, and in his later *New York Gazette* days took in the immigrant Zenger and taught him the newspaper business.

45 *Ibid.*, p. 48.
46 *Ibid.*, pp. 157–158.
47 John W. Wallace, *An Address Delivered at the Celebration by the New York Historical Society, May 20, 1863, of the Two Hundredth Birthday of Mr. William Bradford, who Introduced the Art of Printing into the Middle Colonies of British America* (Albany, New York, 1863), p. 86.
48 James M. Lee, *History of American Journalism*, pp. 37–38.
49 It will be remembered that the first American newspaper advertisement was William Bradford's Oyster Bay real estate announcement that appeared in the third number of Campbell's *Boston News-Letter*.

Benjamin Franklin's Pennsylvania Gazette

As a matter of historical fact, *The Pennsylvania Gazette*, the state's second newspaper, was started by Samuel Keimer on December 24, 1728. According to Franklin, it was his idea to start a paper in competition with *The Mercury*, but Keimer upon getting wind of Franklin's plan hurriedly made arrangements to forestall him. Keimer, however, proved unequal to the task, and after struggling along for nine months with less than 100 subscribers, he sold out to Franklin for a trifle.[50]

Since Andrew Bradford had a monopoly of all the profitable printing in the colony, it took great courage on Franklin's part to take over the insolvent *Gazette*. Some of the difficulties that could befall a printer not in the subsidy and grace of the colonial authorities is vividly described in this editorial piece published by Keimer as an explanation for an interruption in the publication of *The Gazette:* [51]

> **It certainly must be allowed somewhat strange that a person of strict Sincerity, refin'd Justice, and universal Love to the whole Creation, should for a Series of near twenty Years, be the constant But of Slander, as to be three Times ruin'd as a Master-Printer, to be Nine Times in Prison, one of which was Six Years together.**

That Franklin was able to surmount all obstacles and establish *The Gazette* within a few years is proof of his genius. Having been a personal witness of the struggles of both Keimer and his brother James, he realized the futility of open resistance to authority. From the very start he strove to sell his ideas through tactful persuasion.[52] In the conduct of *The Pennsylvania Gazette* he was careful to exclude material of a scandalous or libelous nature. At the time, it was common strategy for politicians to injure the reputation of rivals by paying to have fabricated, defamatory information printed.

However, from time to time Franklin used the editorial pages of his *Gazette* to criticize mildly the public conduct of certain citizens of high standing. The story is told that when some wealthy patrons tried to suppress his plain speaking, Franklin invited them to his house for dinner and served them nothing but pudding made of coarse corn meal and a pitcher of water. Franklin ate heartily, but upon seeing his guests' inability to do likewise, he arose and said, "My friends, anyone who can subsist on sawdust pudding and water, as I can, needs no man's patronage." [53]

Benjamin Franklin succeeded where Keimer failed because he was thrifty, plowed back profits into his paper, and constantly sought ways and means of improving it. Editorially *The Gazette* was of uncommon brightness. Its pages were illuminated with the quiet humor to be found in all of Franklin's writings. His lucid style of writing and the excellence of his typography at once attracted attention throughout the colonies. He

50 D. H. Montgomery, *The Autobiography of Benjamin Franklin* (Boston, 1927), p. 73.
51 John C. Oswald, *Benjamin Franklin Printer* (New York, 1917), p. 98.
52 In his autobiography, Franklin describes in detail his plan for self-improvement. His method is still used today in sales training courses. During his first year with *The Gazette*, he won from Bradford the printing of the laws through personalized sampling of his work.
53 Montgomery, *op. cit.*, p. 74.

put in new and larger type, watched paper and ink and press work, and got better printing. Good use of leading and white space helped further to make *The Pennsylvania Gazette* the best looking paper. The circulation of 90 copies per issue quickly went into the hundreds. To increase his circulation, Franklin originated the practice, still popular today, of writing letters to the editor, creating a number of imaginary characters and engaging in disputes with himself in order to draw the public into the editorial circulation-building net, wherein they write letters and buy many copies of the paper in which their names are printed.[54]

It was in the advertising that Franklin's typographic skill found its chief opportunity. He opened up soggy columns by separating each advertisement from its neighbors above and below with several lines of white space. A 14-point heading for each advertisement was another innovation. Franklin's combinations of type were pleasing and his typography as a whole was ahead of that used in London newspapers of the period.[55]

Franklin along with Andrew Bradford pioneered in the use of cuts for better identification of advertised products. His first illustrations were 1¼-inch stock cuts of ships, which were set into the announcements of cargo space and passenger accommodations. As retail advertising developed, Franklin used stock cuts of scythes and sickles in advertising these products for hardware dealers. He used clock faces to identify the watchmaker's advertisement. Later he used stock cuts of horses and other objects to identify at once the nature of the advertisement.

Franklin's gift as a writer is reflected in his advertising copy. Much of his copy has a modern ring, with a factual presentation of the qualities of the product. For instance, the following advertisement of soap carries a strong appeal and sounds quite modern:

Super Fine Crown Soap

It cleanses fine Linens, Muslins, Laces, Chinces, Cambricks, etc. with Ease and Expedition, which often suffer more from the long and hard rubbing of the Washer, through the ill qualities of the soap than the wearing.

Like other colonial publishers before him, Franklin took merchandise in exchange for subscriptions and advertised it for sale in his newspaper. Thus as his retail operation grew, he advertised a wide variety of goods which included wine, coffee, chocolate, tea, mathematical instruments, codfish, and even two quack medicines, the "True and Genuine Godfrey's Cordial," and "Seneka Rattlesnake Root, with directions how to use it in the Pleurisy, etc." [56]

Keimer during his proprietorship of *The Gazette* occasionally but not often published enough advertisements to fill one page. Franklin had from the start more advertising in each issue than any other paper in the colonies had been able to develop after three to twenty years of effort.[57] Some of *The Gazette's* early issues contained paid announcements occupying two of its four pages. As the volume of advertising increased,

[54] Payne, *op. cit.*, p. 64.
[55] Presbrey, *op. cit.*, p. 133.
[56] *Ibid.*, p. 137.
[57] *Ibid.*, p. 133.

the paper's size had to be expanded from two short columns to three deep columns, making *The Gazette* about the size of one of our twentieth-century tabloids. Finally the pressure of advertising broke the long-standing tradition that advertisements should appear at the bottom of the back page and work forward; *The Gazette* began to carry paid announcements on every page.[58]

Besides setting an example in good newspaper work with his own paper, Benjamin Franklin also contributed greatly to the growth of journalism by financing the establishment of six other colonial newspapers. To ambitious apprentices he supplied the press and a font of type and took a one-third interest in the profits. *The South Carolina Gazette* and *The New York Post Boy* were two colonial newspapers set up with the financial assistance of Franklin.[59]

When Franklin was elected to the assembly, he turned over the publication of *The Pennsylvania Gazette*, to a partner, David Hall, who in 1766 became the sole proprietor. With the exception of a brief interruption during the Revolutionary War, *The Gazette* was published continuously throughout the remainder of the eighteenth century. It was finally discontinued in 1815.

Zenger's New York Weekly Journal

John Peter Zenger is perhaps the best known of the colonial printer-publishers because of his fearless and successful fight for a free press. On November 5, 1733, after serving an appenticeship of eight years on William Bradford's *New York Gazette*, Zenger launched his *New York Weekly Journal* which from its first issue began to carry frank criticisms of the provincial government. As a result of these attacks upon the authorities, Zenger was jailed but continued to edit his paper from prison.

Of his famous trial in 1735 nothing need be written. The immediate effect of Zenger's victory was to increase his popularity and the prestige of his paper. People were tired of the British rule, and Zenger's seditious *Journal* was popularly subscribed.[60]

Unlike the wealthy Bradford who had a monopoly of all the choice printing in the colony for over thirty years, Zenger desperately needed revenue to defray the cost of printing his *Journal*. For this reason he went after advertising aggressively, and since his paper enjoyed a much wider circulation than Bradford's *Gazette*, it was not difficult to increase advertising patronage. Within a few years *The Journal* carried four and five times as many announcements as *The Gazette*. Moreover, Zenger's paper attracted a wide variety of advertisements whereas Bradford's sheet carried mostly the lost and found variety.

As for innovations in advertising technique, Zenger is credited with publishing the first American half-page advertisement. He was also the first to use broken column rules in newspaper advertising.[61] Along with Andrew Bradford and Franklin, Zenger also contributed to the development of display technique.

[58] *Ibid.*, p. 136.
[59] Payne, *op. cit.*, pp. 65–66, and Presbrey, *op. cit.*, pp. 144–145.
[60] *Ibid.*, p. 56.
[61] Presbrey, *op. cit.*, pp. 142–143.

In 1737, two years after his victorious trial, Zenger was made public printer for New York, and the following year for New Jersey. These positions contributed much-needed revenue for the support of his financially hard-pressed *Journal*. Although many other remunerative printing opportunities now tempted him, Zenger continued to apply himself energetically to the development of his newspaper until his death in 1746, after which his family continued its publication for another five years.

Conclusion

The development of an adequate circulation was one of the most pressing problems faced by the early colonial journalists. Andrew Bradford and Benjamin Franklin led the way out of this dilemma. Through careful planning and organization of distributive agencies in key population centers, Bradford proved that a newspaper could be circulated widely throughout most of the colonies. Franklin demonstrated that newspaper readership could be greatly stimulated when stale foreign news was rewritten and a lively sense of humor was injected. In addition, both journalists experimented and discovered many ways of improving the crude newspaper techniques borrowed from Europe. They pioneered in the use of illustrations and developed a variety of type to improve the appearance and readability of copy.

The colonial journalists were ingenious and resourceful. To build circulation they took merchandise in exchange for subscriptions, and then advertised the accumulated stock for sale in their newspapers. By engaging in retailing and by advertising their own merchandise, they gradually overcame the skepticism of other businessmen about newspaper advertising.

Harris, James Franklin, and Zenger fought the all-important battle for a free press. However, even after the victorious Zenger trial in 1735, newspapers still could not stand alone on their youthful advertising legs. The economy was largely agricultural and there were simply not enough potential advertisers. Even the most able of the colonial journalists continued at least partially to finance the publication of their newspapers by such activities as job printing, retailing, and politicing.

Nevertheless, the struggles of the pioneer colonial journalists were not in vain. Through their sacrifices and dogged persistence they freed the press and introduced many of the technological improvements that were needed to develop the newspaper into an effective carrier of advertisements.

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MARKETING NONCONSUMER GOODS BEFORE 1917

An Exploration of Secondary Literature

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This essay reflects an interest in a subject area that seems, to me and to some others, deserving of greater attention than it has hitherto received. There are, in addition, certain procedural aspects to the paper. I have attempted, on a modest scale, to work an accumulation of data derived from secondary sources into some kind of a conceptual framework. Whether this attempt has been even moderately successful is not for me to say. There is probably some merit merely in making the endeavor, since many of my colleagues profess to believe that business historians have already provided enough raw material to erect some structures, even if these be only temporary sheds with leaky roofs.

The first concern in launching this study necessarily is with definitions. To define the area of interest in a negative manner — items that were *not* consumer goods — is a bit awkward, but seems necessary. When one reaches beyond goods (and services) purchased and enjoyed by consumers, one taps items of somewhat variant nature. They include such things as turret lathes and threshing machines, card clothing, locomotives, and typewriters. These articles have two qualities in common: they fall within the economist's rubric of goods used for the production — directly or indirectly — of goods (or of services) for ultimate consumption; and they do not form a part of the latter goods — do not wear off on them, as it were — or form a constituent element in them, as does raw material.

Actually, the intrinsic character of the several items is quite diverse. In one direction the group runs from what clearly would be "capital goods" in the economist's view, to what the latter would regard as real estate, i.e., from locomotives or merchant ships to round-houses, repair shops, and dry docks and to office buildings and rights of way. Again, the group encroaches upon the domain of true consumer goods. The consumer would have little use for the turret lathe or the locomotive mentioned above, but he could — and does — use hammers, spades, typewriters, etc., which are also utilized on farms or in factories. In short, the term "nonconsumer goods" does yield various irregular fringes and some uncertainties, but will serve reasonably well.

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For producers' goods as a whole, something like a "state of nature" might perhaps be detected, a condition when trade in such items did not exist. The early textile enterprises in this country had their own machine shops wherein much of their apparatus was constructed; the colonial and early post-Revolutionary merchants built their own vessels; locomotive builders constructed their own machine tools; etc. Trade did not exist in these particular cases.

The earliest distinct commercial "state" was characterized by the two features (a) of production only upon order and (b) the initiating of the purchase wholly by the prospective user. Sometimes one can observe a line of production in the process of change. In the 1840's Hussey was building his threshing machines only on order, while McCormick was building for stock — and, with an expanding market, "hardly ever built too many," as Hutchinson reports. Somewhat correspondingly, John Hutchins speaks of the tactics used by the builders of wooden commercial vessels in the pre-Civil War period: they hoped to sell while the vessel was still on the stays; if unsuccessful, they might send the completed ship