

I

## CABLE TELEVISION

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<b>Year</b>	<b>Operating Systems</b>	<b>Total Subscribers</b>	<b>Ho</b>
1960	640	650,000	
1965	1,325	1,275,000	
1970	2,490	4,500,000	
1971	2,570	5,300,000	
1972	2,655	6,000,000	
1973	2,991	7,300,000	
1974	3,158	8,700,000	
1975	3,450	10,800,000	
1976	3,651	10,800,000	
1977	3,801	11,900,000	
1978	4,030	12,900,000	

Michael McKeon

## Fragmenting of the News

Let me begin with three basic points:

- The mass audience and the mass media are rapidly disintegrating.
- People's faith and trust in society's institutions are falling.
- People are seeking to restore a sense of community in their lives.

These three factors have contributed to a fragmented, treacherous and completely foreign communications landscape in which traditional methods of reaching people—network television, print and radio advertising—count for far less than they used to.

Today, with cable and interactive television, remote control, VCRs, E-Mail and faxes, a great many people have almost unlimited access to a variety of new information sources. More ominously, they have the ability to deny access to anyone trying to reach them with a message.

What this means is that the things most Americans will be talking about are no longer chosen by a handful of network news producers each evening. Today, vast numbers of people can choose the issues, the medium and the community with which they share their views. The basis of the information

superhighway is not the rapidly advancing technology but the fact that the individual is now in the driver's seat.

And because distrust of government, business, the media and every other institution of society runs so high, many people do want to shut out these "official" sources of information. This doesn't mean they are not communicating. On the contrary, their appetite for information, a manifestation of their need for communality, is greater than ever.

But in place of network television and the daily paper, people are turning to what I call "the stealth medium"—the 1990s equivalent of the barroom conversation. They send faxes by day and sign on to computers at night to have conversations with strangers in terms they understand—terms that would not pass most political correctness tests but nevertheless reflect the language they understand and use among themselves.

These so-called "virtual communities" are coalescing among people who share nothing more than certain common interests and a desire to reach out

and connect with someone else. They range from environmental terrorists on the extreme left to neo-Nazi hate groups on the extreme right.

The "news" that flows between the members of these communities is uncensored, and its claims to accuracy and truth often go unchallenged. Equally important, the character of the information tends to be more emotional and, as a result, more reflective of peoples' true feelings.

As a Time magazine article puts it, "Sociologists note that without visual clues, people on-line tend to flame: to state their views more heatedly than they would face-to-face."

As for network news programs, they are losing their audience by the day. It used to be that if it was on the evening news, it was news, because that was the only TV news. But today, many people want their news unfiltered—from like-minded people, and stated in their own terms. In the stealth medium, "news value" is not determined by the validity of the messenger; it derives from the fact that it is chosen.

The drawback here is that people

are often choosing information delivered by demagogues appealing to fear, anxiety and prejudice through heated rhetoric and distortion. In the mass media, these views are rarely heard, but in the stealth medium they often move unchallenged.

Such conversations—uncensored and unedited—are occurring by the millions every day on 100-channel interactive television, on talk radio, in books and newsletters, on Rush and Howard, among the religious right and on the endless stream of talk shows spewing out hyper-cooked versions of "news."

Rap music is another channel on the stealth medium. Musician Ice-T calls rap "the black CNN," because it keeps people aware of the street conditions. (He underestimates his audience: One of rap's strongest sales demographics is young white suburban males.)

The controversy over gays in the military illustrates how the stealth medium can generate controversies that have little or no relevance to the majority of Americans. Three "virtual communities"—gay activists, the religious

right and veterans—fueled the debate that dominated the early weeks of the Clinton administration, although the issue was far removed from the president's agenda and the concerns of the people who elected him.

Perhaps the most insular virtual community, though, is the inside-the-Beltway crowd. The politicians perform each day for the mass media, the media go back to the studio, put their own spin on it, and give it back to the politicians over the airwaves. The next day, they do it all again. Americans, increasingly, ignore them.

Political candidates are going to have to learn to package messages aimed at extremely selective virtual communities that must be reached through their chosen form of communication. Ironically, political candidates have never had so many different ways to deliver messages, but the odds against their reaching significant numbers of people with that message have never been greater.

*The writer is president of a political consulting firm.*



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**Primetime Network Rating & Shares (Sept. - April)**

	ABC		CBS		NBC		FOX	
	Rating	Share	Rating	Share	Rating	Share	Rating	Share
1970 - 1971	18.4	-	20.7	-	18.1	-	-	-
1971 - 1972	16.7	-	19.5	-	19.4	-	-	-
1972 - 1973	15.6	-	21.4	-	18.2	-	-	-
1973 - 1974	16.9	-	21.2	-	18.0	-	-	-
1974 - 1975	19.2	-	19.6	-	19.5	-	-	-
1975 - 1976	17	-	20.0	-	19.2	-	-	-
1976 - 1977	16.7	-	-	-	19.3	-	-	-
1977 - 1978	15.6	-	-	-	19.0	-	-	-
1978 - 1979	16.4	-	20.0	-	20.0	-	-	-
1979 - 1980	17.1	-	19.4	-	19.9	-	-	-
1980 - 1981	18.2	-	20.2	-	19.5	-	-	-
1981 - 1982	17.4	-	19.9	-	19.3	-	-	-
1982 - 1983	17	-	21.1	-	19.1	-	-	-
1983 - 1984	16.7	-	20.8	-	18.7	-	-	-
1984 - 1985	16.4	-	20.2	-	18.2	-	-	-
1985 - 1986	16.2	-	20.2	-	18.2	-	-	-
1986 - 1987	16.2	-	20.2	-	18.2	-	-	-
1987 - 1988	16.2	-	20.2	-	18.2	-	-	-
1988 - 1989	16.2	-	20.2	-	18.2	-	-	-
1989 - 1990	16.2	-	20.2	-	18.2	-	-	-
1990 - 1991	16.2	-	20.2	-	18.2	-	-	-
1991 - 1992	12.2	20	13.8	23	12.3	20	6.4	11
1992 - 1993	12.2	20	13.8	23	12.3	20	8.0	13

**Network News (Sept-April)**

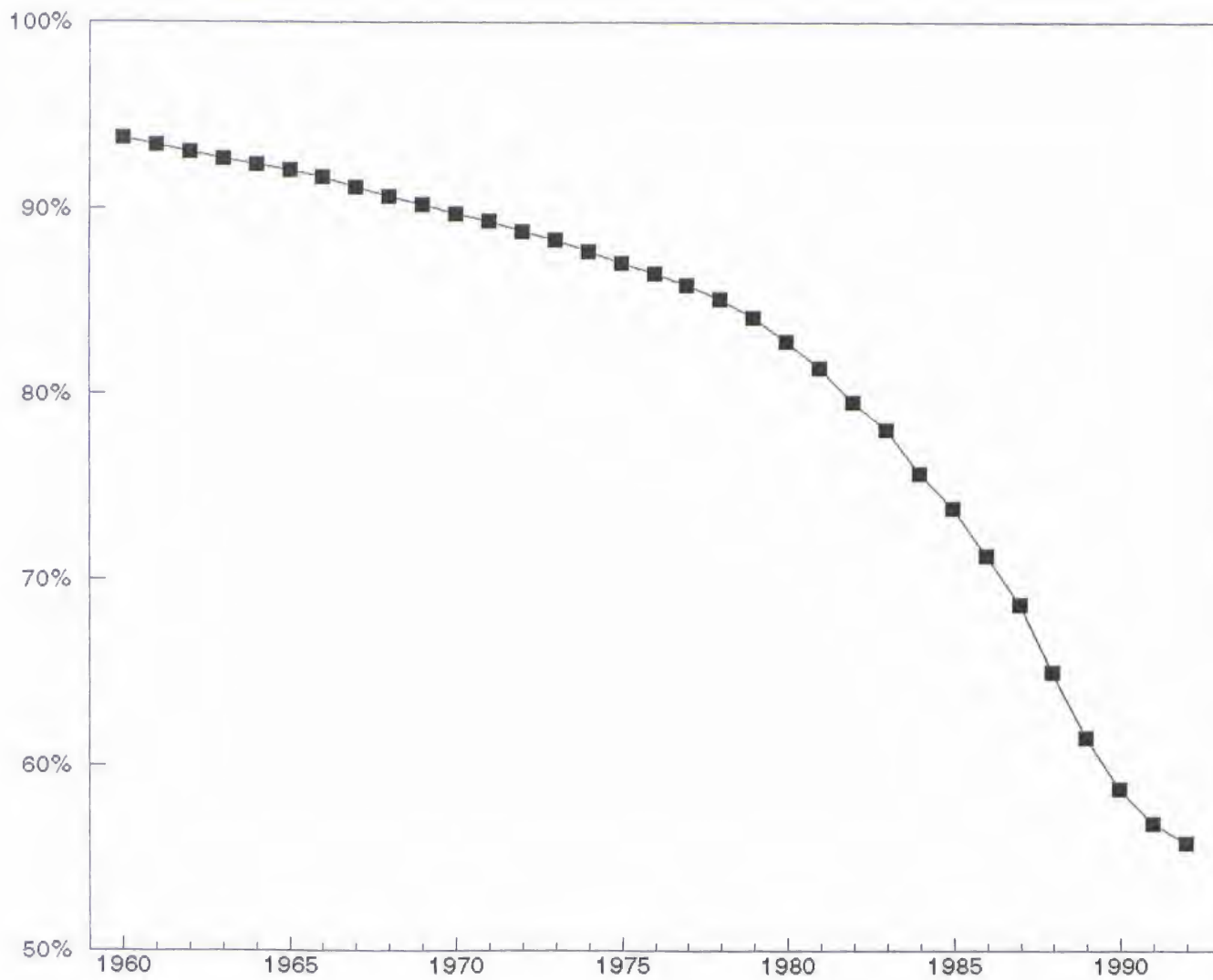
	Share	CBS		NBC		
		Rating	Share	Rating	Share	
1970 - 1971	16	16.5	31	15.5	28	
1971 - 1972	20	14.7	28	12.9	25	
1972 - 1973	21	14.6	27	13.6	25	
1973 - 1974	21.3	22	14.3	27	14.0	26
1974 - 1975	11.1	21	15.0	28	14.4	27
1975 - 1976	19	14.6	27	13.7	26	
1976 - 1977	18	16.1	30	14.1	26	
1977 - 1978	19	15.1	29	13.6	26	
1978 - 1979	11.1	21	14.7	28	13.0	24
1979 - 1980	20	14.6	27	13.7	25	
1980 - 1981	21	14.6	27	13.7	25	
1981 - 1982	22	14.6	27	13.7	25	
1982 - 1983	21	14.6	27	13.7	25	
1983 - 1984	11.1	21	14.7	28	13.0	24
1984 - 1985	11.1	21	14.7	28	13.0	24
1985 - 1986	11.7	20	14.4	27	13.3	25
1986 - 1987	10.7	19	14.1	26	13.1	24
1987 - 1988	10.7	19	14.1	26	13.1	24
1988 - 1989	10.7	19	14.1	26	13.1	24
1989 - 1990	10.7	19	14.1	26	13.1	24
1990 - 1991	10.7	19	14.1	26	13.1	24
1991 - 1992	10.7	19	14.1	26	13.1	24
1992 - 1993	10.7	19	14.1	26	13.1	24

*Tom -  
This is the best  
we can do.  
Joe*

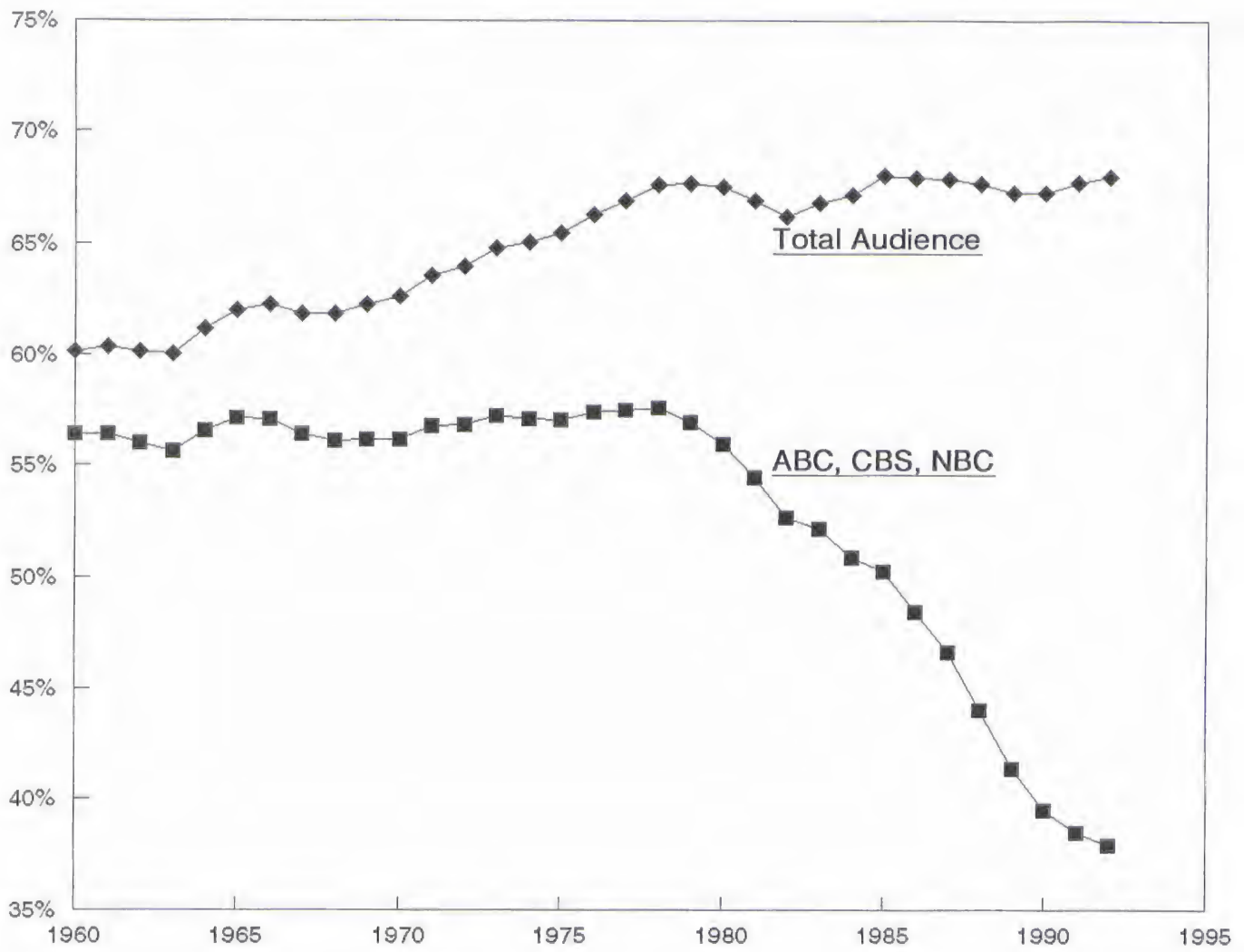
**Independent and Cable Networks  
(Primetime 8-11pm)**

	Year	Independent		Cable	
		Rating	Share	Rating	Share
November 1981	1981	8.2	13	1.0	2
1982	1982	8.7	14	1.8	3
1983	1983	8.7	14	1.7	3
1984	1984	9.9	16	1.3	5
1985	1985	10.3	16	1.5	6
1986	1986	10.9	17	1.1	6
1987	1987	11.8	19	1.6	9
1988	1988	12.7	20	1.7	12
1989	1989	12.6	21	1.8	15
1990	1990	13.0	22	1.8	16
1991	1991	6.1	10	13.1	21

\*NOTE: New definitions as of Nov. 1991:  
(1) Independent Commercial includes all superstations except TBS; excludes FDX.  
(2) Cable Origin includes TBS



ABC, CBS, NBC: COMBINED SHARE OF TV AUDIENCE



**NETWORK AND TOTAL TELEVISION AUDIENCES**

## Here is the news

ON A typical day in 1898, the *Times* of London led with its usual front page of advertisements; it then carried a page reviewing some recent novels; and then acres of coverage of the Balkan war. Altogether, the newspaper had nineteen columns of foreign news, eight columns of domestic news and three about salmon fishing. Exactly fifty years later, the front page still carried advertisements and the leaders commented on Italy, Canada, China and the crisis in Western civilisation (no change there, then). By 1998, the advertisements on the front page had been replaced by articles. There were six of them and only one was foreign; it was about Leonardo DiCaprio's new girlfriend.

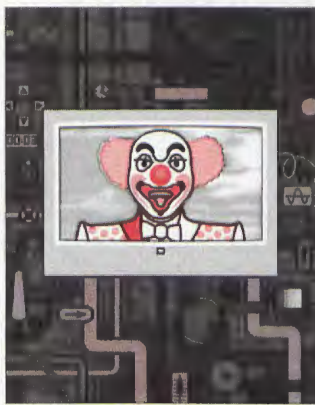
Here then is a modern paradox: that in this age of globalisation, news is much more parochial than in the days when communications from abroad ticked slowly across the world by telegraph. And here is another: that in this information age, the newspapers which used to be full of politics and economics are thick with stars and sport.

Competition has shaped the modern *Times*. Unfair competition, according to some; Britain's Office of Fair Trading said on July 2nd that it would look into the paper's aggressive pricing policies. Whatever the outcome of that inquiry, Britain's bitterly contested newspaper market, where Rupert Murdoch bust the unions in the early 1980s, has already shown where competition leads. The same goes for television, in America and elsewhere. News is moving away from foreign affairs towards domestic concerns; away from politics towards human-interest stories; away from issues to people (see pages 17-19).

To many this seems unambiguously a change for the worse—a dumbing down that panders to inanity, prurience and prejudice. If so, it would not be enough merely to retort that readers and viewers like it that way. The news is not a product like any other. People learn about how they are governed from what they read in the newspapers and what they see on the television news. Unless voters know something about how they are governed, they cannot have an intelligent opinion about it. And without intelligent opinions about government, you cannot have a healthy democracy.

### Lightweight and easy to use

Any politician who felt that the news was indeed being dumbed down would have a mighty hard time doing anything about it. When countries had one, or two, or three television networks, then governments could, in a polite sort of way, instruct them to carry lots of very serious reports about the opening of a power station. But as television networks proliferate, people can choose what to watch. Regulated net-



works tend to bore viewers. And there are some subjects which, however central to the workings of democracy, people will not pay attention to: it takes a lot, for instance, to make the British care about anything to do with Brussels. However, before democrats despair—or advocate draconian measures to restore the news to its educative role—it is worth asking whether the dumbing down is really as dumb as it appears.

For a start, the golden age of news was not all it is cracked up to be. On August 16th 1977, for example, CBS led its bulletin with six minutes on the Panama Canal treaty. A hell of a story, to be sure—but that was the day Elvis

Presley died. Remember too that politicians and journalists who bemoan the fall in standards have an interest. Politicians bore people, and the less the news is controlled by the state, the less politicians can get their faces on television. For their part, journalists, like all producer lobbies, are full of nostalgia: people whose heroes were the grand political columnists of yore dread being sent to cover “personalities”.

For those who really want it, specialist information is more available than ever before, thanks to the falling costs of publishing and broadcasting information. Foreign newspapers are sold on the platforms of rural stations. Serious magazines and newsletters exhaustively analyse domestic politics. A universe of news and comment is available on the Internet.

The worry, you might argue, is not that news junkies are no longer catered to, but that the unaddicted cannot rely on mainstream papers and programmes for basic information. Yet even the casual majority is better served by today's editors than you might think. One shift in the nature of news, for example, is away from stories about governments and bureaucrats and towards companies and how they affect people—through food, health, the environment. In that, the news is following society as much as leading it: as the role of the state shrinks, so the private sector matters more.

The lack of foreign news is a measure of world peace as well as of rich-world insularity. Compared with the momentous collapse of communism or the drama of the Gulf war, the world is a relatively quiet place these days. In Britain, at least, the decline in coverage of foreign news does not seem to have had much effect on people's general knowledge. According to a poll carried out for *The Economist* (see page 19), they are, if anything, more clued up about the world than they were 20 years ago. Column inches and air time are poor measures of influence. People absorb what interests them: if news is too worthy, it goes in one ear and out the other.

At the same time, a new category of news is supplanting political issues: what Americans call “news you can use”—stories telling people about how to get hold of new cancer

drugs, or how to determine whether their child's school is performing well. The focus may be narrow, but the effect is not trivial: telling people how to influence their local school or hospital is useful and gives them real political power.

What of the dramas that take over the news from time to time—stories like O.J., the Louise Woodward case, and so on? Those, surely, are pushing at the frontiers of pointlessness? By no means. Behind them, quite often, is a big issue. The trial of

O.J. Simpson was not just about a celebrity accused of murder, but also about race relations in America. Louise Woodward was not just a girl who killed a baby, she also represented a real dilemma for mothers who go out to work.

If Mr DiCaprio makes you despair at breakfast, remember that "dumb" is not necessarily stupid, and news that entertains may also be news that informs. And if all else fails, we need hardly add, there's always *The Economist*.

## Intervene and be damned?

### Sometimes it is a risk that must be taken

**D**ESPITE the efforts of diplomats, the warnings of politicians and the forebodings of journalists, the Serbian province of Kosovo remains agonisingly on course to set off the next Balkan war. An air of inevitability seems to precede it, and pessimists use words like inexorable and ineluctable to describe the descent into a new round of Bosnian-like warfare. In truth, even if the Serbs and Kosovars are hell-bent on fighting, a wider war is not inevitable—if the outside world is prepared to take action to stop it. But will the outside world? And if not, will, or should, a part of it?

These are the questions that Kofi Annan, the United Nations secretary-general, was chewing over last weekend in a thoughtful speech on the subject of intervention. Mr Annan is for intervention—of the right kind. And so, it may safely be said, is everyone else. But what is the right kind?

Not many people will nowadays make a case for the Soviet kind of intervention (in Hungary in 1956, Czechoslovakia in 1968 or Afghanistan in 1979). America's intervention in Vietnam in the 1960s may get more support, though it remains intensely controversial, as do more recent American actions in Grenada in 1983 and Panama in 1989 (where "bad guys" were replaced by "good guys"). But India's intervention in Pakistan in 1971 (to end the civil war in the east), Vietnam's in Cambodia in 1978 (to get rid of the Khmers Rouges) and Tanzania's in Uganda in 1979 (to oust the odious Idi Amin) would in retrospect arouse few people's criticism.

The circumstances of these attacks—for that is what they were—varied greatly. But all were in reality acts of interference in the internal affairs of a sovereign country, though in each case some argument, good or bad, was offered to justify the action. The UN charter, after all, to which all the countries involved subscribed, protects national sovereignty in domestic affairs even from intervention by the UN itself.

Naturally, Mr Annan upholds the charter. But he also upholds intervention, especially when international peace is threatened or broken. Moreover, his experience in averting a showdown with Iraq earlier this year confirms his belief that effective diplomacy must be backed by force (and fairness). So his speech last weekend was in reality a plea for intervention in Kosovo. But for Mr Annan, unsurprisingly, that intervention can come only if the Security Council gives its permission. And there's the rub, because unless his eloquence has changed minds in Paris, Moscow and Beijing, the Security Council is unlikely to give its approval.

For interveners, the question then becomes one of



"Should we go it alone, and hope that history will put this action into the Pakistan-Cambodia-Uganda category, and not the more unpopular ones?" The answer is hardly straightforward. So far at least, Serbia's behaviour in Kosovo is far less heinous than, say, Pol Pot's in Cambodia. Moreover, the Kosovars might well take the arrival of outside help as an opportunity for some brutal ethnic cleansing of Serbs (which is why NATO, if it does intervene, should be ready to put troops on the ground to stop any such nastiness).

Mr Annan is as much troubled by atrocities carried out by tyrants at home as abroad. He, and other "new interventionists" like him, are haunted by memories of those who stood to one side while the Nazi terror unfolded in Germany or, more recently, while Hutus embarked on genocide against Tutsis in Rwanda. They point out that most wars nowadays are not international, they are internal; and perhaps three-quarters of the victims of modern warfare are civilians, not soldiers.

### When might is right

In the case of Kosovo, Mr Annan seems to think that the awfulness of what is happening within Serbia's borders should be enough to make the world, meaning the Security Council, sanction an intervention. And perhaps he will be proved right. But if indeed something akin to genocide is about to take place there, it seems absurdly legalistic to act only on the Security Council's say-so. It would, of course, be highly desirable to win the Council's backing before taking the extreme action of an attack on the sovereign state of Serbia (technically Yugoslavia). But if that backing were not forthcoming, intervention should not automatically be ruled out, *pace* Mr Annan. History would not look kindly upon those who one day had to plead, "We would have stopped the terrible atrocities of Kosovo had the Russians not said no."

As it happens, a stronger case for intervention against Serbia rests on the threat to international peace—the wider Balkan war that is likely to break out if the fighting is not stopped. It would be highly desirable, again, were the Security Council to recognise this, and give its approval to NATO for appropriate action. But if the Council will not, then once again, the action should not automatically be blocked. The world has not yet reached the stage where its affairs can be conducted entirely according to UN rules. If it had, the West would in effect be giving Russia and China a veto over its foreign policy. It is too soon for that, on Kosovo or anything else.



# THE NEWS BUSINESS



## Stop press

NEW YORK, ATLANTA, LONDON AND BOMBAY

**Television news has become a battleground for the world's big media groups. As they fight it out, they are changing the nature of news**

SOON after NBC launched a cable news service, MSNBC, with Microsoft in 1996, it moved its news-gathering operations from "Thirty Rock", its swanky building in Rockefeller Plaza, to an industrial estate in New Jersey. The new newsroom has a rotating anchor's desk and a domed roof that can be lit by three rear-screen projectors. The studio is furnished with what is described as a "cybercafé", for those casual on-air chats swapping web-gossip over a cappuccino; as a backdrop, a *trompe l'oeil* of clouds moving across an industrial skyline. Behind the whizzy, high-tech façade are banks of workers—editors, reporters, writers—toiling away. This is a factory, not unlike scores of others in New Jersey.

The news business used to be a craft, but now it has turned into a manufacturing operation. Look at the quantity of NBC's output: over the past two years, it has gone up from three hours of television news a day to 27 hours a day, plus a constantly updated website. And that is with only a few extra reporters. Like the next factory owner, NBC has thought hard about how to screw more output from its workers.

The TWA crash on July 17th 1996,

MSNBC's third day in action, put the new system through its paces. Before the expansion in output, a reporter on a big story would spend all day assembling an elegantly crafted piece for the evening news. The TWA crash, by contrast, was on MSNBC at 9.37pm, the moment they got the story, and eight minutes ahead of CNN (these things matter tremendously to the producers of news). NBC's New York affiliate station, WNBC, provided the first aerial pictures within an hour, and had a reporter on the scene in a boat. MSNBC did wall-to-wall coverage, and CNBC, America's successful business channel, and NBC did hourly updates. That is news manufacturing.

NBC is an example of what is happening across the industry. Until two years ago, America had three evening news shows, one cable news network and a couple of weekly news-magazine programmes. Now it has three evening news programmes, ten weekly hour-long news-magazine shows, three cable news networks, three cable business news networks, two sports news networks and three news websites furnished with video. Britain, which until recently had three evening news programmes, now

has four, plus two cable news channels—News 24, the BBC's service, and Sky News, from Rupert Murdoch's Sky TV—and one news website which offers video.

The same is happening in the rest of the world. Until recently, CNN had the globe to itself. Now it is challenged by BBC World, the television version of BBC World Service radio. There is regional competition too. In Europe, CNN and the BBC face Euronews, which Europe's public-sector broadcasters created after CNN's success in covering the Gulf War, and has now been bought by Britain's commercial news broadcaster, ITN. Meanwhile, Sky News is being carried by Telia Infomedia Television, the biggest cable operator in Scandinavia. In India, Mr Murdoch launched Star News this year to compete with TVI, a local service begun in 1996, and India TV, launched by Zee TV this year. In Latin America, CNN launched CNN Español last year, to compete with CBS's TeleNoticias and the Mexican Televisa group's Eco. The Arab world has two new local news services—Al Jazira, launched in 1996 from Qatar, and Arab News Network, started last year by the nephew of Syria's President Assad.

Joining the babble are the niche news channels. CNBC is now expanding abroad. Bloomberg, which sells financial-information terminals, has now also got into business television, and CNN has launched CNNFN, though it has much ground to make up—as has its sports channel, CNNSI, which is pitting itself against the news channel launched by ESPN, Disney's hugely successful sports cable network.

### Who wants it all?

News is changing partly because people's habits are changing. They can no longer be relied on to sit down to the evening news. "When I was growing up my parents came home from work, had dinner at half past five and watched the news at six," says John Moody, vice president of Mr Murdoch's Fox News, an arm of the group that will be partially floated later this year. "I don't know anybody in my neighbourhood who has that regular a life."

According to the Pew Research Center, a research organisation in Washington, DC, the share of Americans who watch only the evening news programmes has fallen by half from 1993 to only 15% today. Twenty-four-hour cable services fit better with today's diverse living patterns; and now the Internet is beginning to make a dent in the news market. In 1995, 4% of Americans used a news website; this year 20% did.

If the demand for different sorts of

news is affecting output, so is the cost of producing it. Starting with the replacement of film by videotape in the early 1980s, making news has become progressively quicker, cheaper and easier. Five years ago, a ten-minute satellite slot from Australia to London would have cost around £1,200 (\$1,800); now, it would be £300. Satellite newsgathering trucks, all the rage for domestic coverage, cost a lot; but stick a reporter in front of one, plug him in, and you get hours of virtually free live news.

Now pictures are moving from videotape to computers. In an advanced newsroom, journalists write and edit pictures simultaneously. And as the technology is changing, so are working practices. Chris Shaw, editor of Britain's 5 News, produces an hourly news update with four people, who edit, write, man a camera, mix sound, mix vision, time, run the teleprompt, transmit and present the bulletin.

Television news is thus becoming less of a performance—more like print journalism than the movies. This pleases companies, because their costs have been falling. It also pleases journalists, as they can travel without a retinue of grumbling technicians. Mr Shaw remembers a week-long trip to Iran a few years back: the crew of five people and half a ton of their equipment cost £15,000 as well as an extra £2,500 in excess-baggage charges. Now, he says, two people would go, armed with a tiny camera and a laptop editing machine.

**Too much news**

The danger is that a massive increase in news means that there is a glut of the stuff. After all, consumer demand is only one of the reasons why companies produce news. There is not room for two cable news networks to make money in Britain, for example. But the BBC is financed by a tax and Mr Murdoch may maintain Sky news because news is a tool of influence. News is also subject to the whims of governments (Germany's *Länder*, for instance, have the power to approve or reject cable channels); it is a

branding exercise (America's networks regard their evening news programmes as their stamp of character); and it is advertising (Bloomberg Television is a way of promoting the terminals).

Some news services are bound to fold. In Asia and Europe competition has already led Dow Jones to merge its Asia and Europe Business News channels with CNBC earlier this year. In America the evening news programmes' audiences are dwindling (see chart). NBC has responded by marginalising its evening news, which is now just one of several products from its news operation; ABC junked well-developed plans to go into cable in favour of a website; CBS seems frozen in the headlights. In Britain, broadcasters want to shift the main commercial evening bulletin from its prime-time slot and replace it with something more advertising-friendly; but the politicians, who like to be on television in prime time, are resisting.

Cable services are struggling simply to reach viewers. Programmers usually charge cable operators for their material, but America's new cable news networks are paying to appear. Each subscriber costs Mr Murdoch's Fox \$10 in "marketing support", which goes to cable systems that carry it. Since almost nobody watches Fox News or MSNBC, advertising revenue does not make up the shortfall and both of them are losing money hand over fist. CNN's ratings are still way above those of its competitors, but even it is feeling the squeeze: it has just cut a quarter of the jobs at CNN Headline News, its second news service.

The more national and regional news there is, the bigger the problem for the global news services. Once upon a time the BBC's World Service radio satisfied a real demand. In miserable countries with lying governments, the World Service was the only reliable source of information. But these days, there are few places in the world where you cannot get television free from state control; anyway, today's freedom-fighters can always use their laptops to log

on to CNN, BBC, ABC, MSNBC, or...

CNN's response is to editorialise. It has broken its service into three regions and is expanding into Spanish- and German-language programming. Governments permitting, CNN will go further down that road, becoming a global provider of news services, rather than a provider of a global news service. But BBC World is stuck. The BBC cannot make money as it is, but neither can it afford to follow CNN's strategy—indeed, a shortage of cash means the BBC is cutting back on original programming.

**The water-cooler rules**

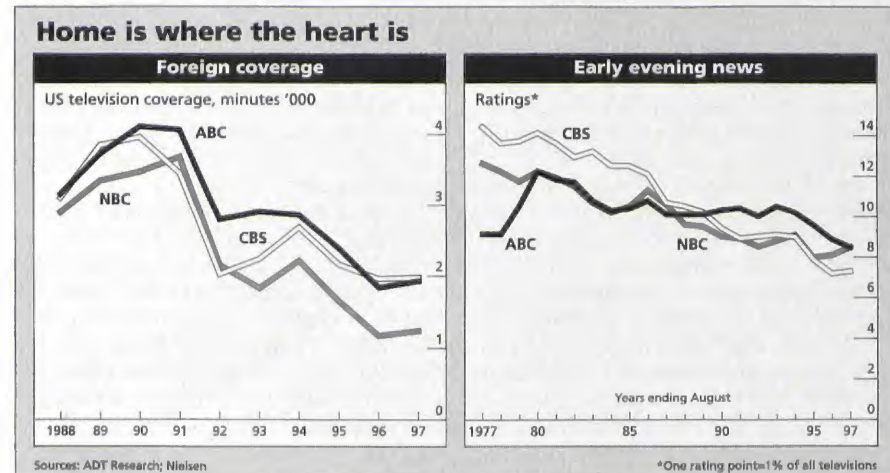
To the viewer, all this competition has already influenced what counts as "news". The biggest impact is in countries such as India, where news used to be ribbon-cutting exercises by politicians. Competition has made news watchable—even on Doordarshan, the state-owned broadcaster. Indians called this year's election the country's first television election. Everybody watched the three local news channels and Doordarshan: print media, BBC World and CNN were marginalised.

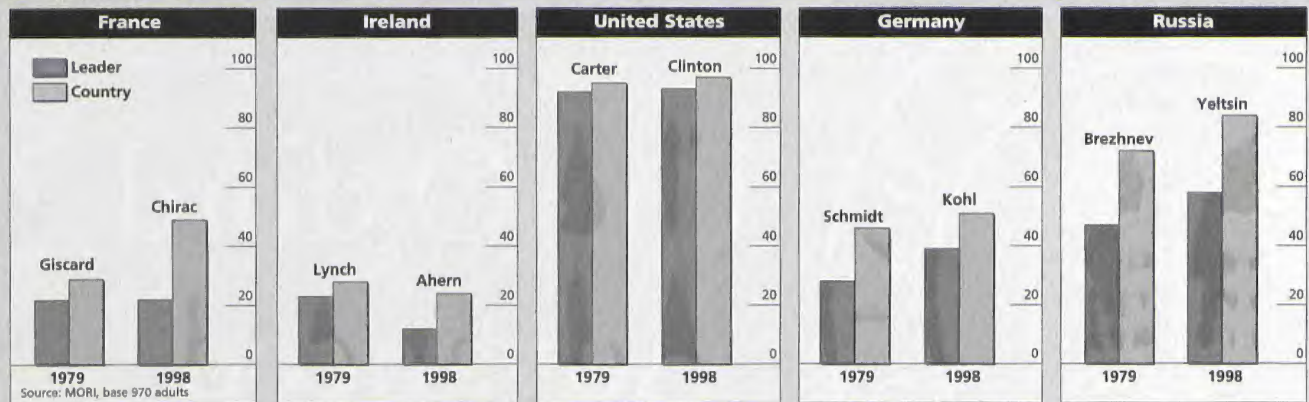
Television is already changing Indian politics. It has created an unlikely constellation of new political stars. Laloo Prasad Yadav, for instance, a politician from Bihar, has a rough village rhetoric that works wonderfully on the screen. Sonia Gandhi, Rajiv's widow, charmed India with her gaunt beauty and heavily accented Italian Hindi.

Some say television was responsible for the unusually high turnout; some that it created new alliances, as voters in cities found common cause with voters in villages whose televised complaints they shared. It certainly helped to keep the voting honest: television pictures of ballot papers strewn around voting booths in constituencies in Bihar led to several repolls.

In developed countries, where television news was already watchable, the effects of competition are more controversial. The quality is falling, say some reporters, as resources are stretched to their limit. Instead of thoughtful, finely crafted packages, the evening programmes are now filled by the same space-filling material as the cable networks. And cost structures are visibly driving content: the satellite trucks mean endless "here I am on the spot" reports; the helicopters lead to endless pile-ups and car chases.

The content is changing in other ways too. News is getting more parochial (see chart on next page). This may be a response to events: abroad it less exciting than it was in, say, 1991, during the Gulf war. Nevertheless, according to the Tyndall Report, which measures the American networks' output, the share of foreign coverage has fallen even when compared with the duller days of the mid-1980s. Although no figures are available for Britain, a quick look at some



**Britons look abroad** *Who is this world leader, and what country does he represent? % in Britain answering correctly*


Are people more or less ignorant than they were? In order to get some measure of what has happened to general knowledge about foreign affairs in Britain, *The Economist* commissioned MORI to replicate a study done nearly 20 years ago, asking people to identify foreign leaders, and their countries, from their photographs. People seem to be a little less igno-

rant than they were, but there were some curious wrinkles in the figures. Londoners were best-informed, and Scots worst, with Wales and the rest of England somewhere in between: 45% of Londoners, for instance, recognised Helmut Kohl, compared with 19% of Scots. And men are far better-informed than women: 51% of men got Mr Kohl, and 29% of women.

BBC news programmes from 20 years ago shows more facial hair and more foreign coverage. Certainly, in those days ITN would not have reported India's nuclear test after the commercial break, following a story about a man in the Amateur Swimming Association.

News is also shifting its focus away from politicians. There are fewer Congressional hearings or parliamentary wrangles and more features from fly-over country or Middle England. The public sector features less and the private sector more. The number of political reporters is shrinking and the number of consumer-affairs correspondents growing. The few remaining politicised citizens in California would have been hard put to find out anything about the governor's race: until a couple of days before the poll, it featured on television only through paid-for commercials.

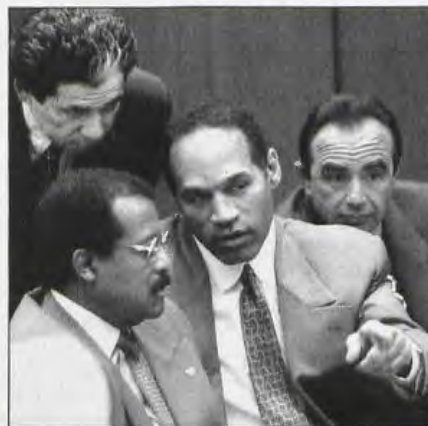
The way stories are covered is also changing. The new fashion in America, which is seeping into Britain, is "news you can use". This means stories that are about you: how you are being ripped off, or how you can improve your life. The subjects most susceptible to this treatment are education, taxation, and health, health, health. NBC News has recently pulled ahead of the pack, and its pushy news supremo, Andrew Lack, who describes himself as "America's news leader", is credited with inventing this formula. Now ABC and CBS are following NBC—as is Britain, where this style was first adopted by 5 News and is now being tried by its competitors.

The latest fashion in news is the obsession with "water-cooler stories". The water-cooler in America is the coffee machine in colder climates—the place where office workers stand around and gossip. Water-cooler stories must have recognisable char-

acters and a developing drama. The model was O.J. Simpson, which television loved from the moment that it broadcast the car chase that led to his arrest; closely followed by Louise Woodward, the young British nanny accused of murdering her charge, whose plump-faced panic somehow proved magnetic on camera.

### Woolly

News organisations chasing water-cooler stories have come to behave like sheep. In any other industry, competition drives companies to differentiate their products. But in the news business, competition seems to push news editors not so much to find something interesting and new, but to pour resources into the same old story. "Viewers find there's nowhere to go to get away from this stuff," says Andrew Kohut of the Pew Research Centre. Louise Woodward's trial offered the sharpest illustration of the telesheep mentality: all three networks broke into their normal programming for 45 minutes to report the verdict.



Hot stuff at the water-cooler

News editors argue that when their coverage of the big stories shrinks, so do their ratings. Yet the ratings may be misleading. According to Mr Kohut, there are always a few people who are obsessed with a water-cooler story, while the great mass of viewers is somewhere between mildly interested and bored. The hardcore is quicker than the rest of the population to reach for its remote control, so its preferences show up most clearly in the ratings. Meanwhile, the disaffected mass may drift slowly away to other forms of entertainment.

This partly explains the apparent contradiction between public irritation at the coverage devoted to the Monica Lewinsky story and the fall in the ratings for any programme that tried to avoid it. Defensive news editors saw this as hypocrisy; but it may simply have been the obsessive few. Either way, the episode has damaged the standing of the American media.

The news organisations' soul-searching about Ms Lewinsky shows how hard it is to respond to competition. Most viewers want to be entertained and moved—and news is better at this than it was—but they do not like the grubby feeling that too many intern stories give them. Britain's newspapers, which operate in an even more competitive market than American television, have found this to their cost. People are dropping the downmarket tabloid newspapers in droves—perhaps because they want a better self-image, perhaps because they just want something more substantial to read.

There is a lesson in there for television. There is nothing wrong with treating news as a product for sale; but you must treat it carefully, because it contains ingredients like trust and decency that spoil easily.



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*William F. Baker*

# Masters of the Media

The recent decision by the federal appeals court in Washington to relax television ownership limitations has been praised by the networks and condemned by consumer advocates. Once again in the continuing debate about media deregulation, the lines have been drawn between corporate power and the public interest. And once again the public interest has come out the loser.

The 1996 Telecommunications Act was designed to be a means by which media companies could remain competitive in a new multi-media economy dominated by large conglomerates. But if the 1996 act encouraged economic competitiveness across industries, it clearly stifled competition in the marketplace of ideas by reducing the number of owners and thus consolidating, centralizing and homogenizing formerly disparate voices.

The effects have been most dramatic in the radio industry, which was all but completely deregulated in 1996. Since then, there have been more than 10,000 radio station transactions worth more than \$100 billion, and there are now at least 1,100 fewer station owners than before—a decline of nearly 30 percent in six years.

The result is that in almost half the largest markets, the three largest companies control 80 percent of the radio audience. Today, as the remaining vestiges of television regulation preserved by the 1996 act are finally stripped away, a new wave of merger mania, this time among television networks and stations, is a foregone conclusion.

From the point of view of economic competition, the easing of ownership caps and the lifting of cross-media ownership rules are positive, creating opportunities for growth and profit. As corporate parents increasingly control not only mass media content (television, movies, newspapers, magazines, books, etc.) but also the national delivery systems for that content (networks, cable, satellite and telephone systems),

they gain financial leverage, increase returns and expand control over their properties, fully monetizing them from conception to reception.

But the economic benefits to media conglomerates come at the expense of the public's access to a healthy marketplace of ideas. Take the example of television news. To increase margins, media giants are closing newsrooms,



BY MARGARET SCOTT

merging staff and producing multiple newscasts on different stations from the same desk. As commercial news programs—folded into entertainment companies whose goals are providing diversion and attracting ad revenue—try to retain audiences that have hundreds of channels to choose from, journalistic quality has plummeted, and news editors increasingly are resorting to sensation, scandal and oversimplification to keep ratings up and ad dollars flowing.

World news, in particular, has been a front-line casualty in the merger wars. A study by Harvard's Shorenstein Center shows that television news time devoted to international coverage dropped from 45 percent in the 1970s to less than 14 percent in 1995. Is it any surprise that so many Americans had such scant understanding of the forces that led to Sept. 11?

Some industries may thrive with little or no oversight. But the media are

an exception. Television remains our most powerful medium for news, information, cultural awareness and the dissemination of ideas. Just as we have fought wars to preserve the vitality of free expression, so we must defend the integrity and openness of the media through which we manifest that expression. To do this, we must look to leadership and vision that is representative not only of corporate shareholders or the laws of supply and demand but of individuals and American society at large.

The courts have left it to the Federal Communications Commission to justify the 35 percent cap on national station ownership (that is, the rule preventing companies from acquiring additional TV stations if those they have cover more than 35 percent of the national audience). FCC Chairman Michael Powell has made it clear that he is not interested in preserving ownership caps beyond the restrictions of the antitrust laws that govern other industries. It's now up to Congress to take a stand by holding public

hearings with an eye to protecting the quality and diversity of American media through legislation.

Deregulation is concentrating power, squeezing opportunity and decreasing quality by leasing television content to the bottom line. To treat television as a mere commodity, we endorse the philosophy of one former FCC chairman who said: "Television is a toaster with pictures."

That statement will come back to haunt us. Like our national parks, the airwaves are a national trust. Left unprotected, our parks would soon be deforested. Without enlightened regulation, our airwaves will continue to suffocate.

*The writer is president of Thirteen/WNET New York, the nation's largest PBS station, and co-author of "Down the Tube: An Inside Account of the Failure of American Television."*

*Nixon & Networks  
19E*



# US Economic Review

## Television Data

AVERAGE NUMBER OF HOURS OF TV USAGE PER HOUSEHOLD

INTI AVERAGE HOUSEHOLD RATINGS - PRIME TIME

### AVERAGE NUMBER OF HOURS OF TV USAGE PER HOUSEHOLD

Season (Sept. - Aug.)	Hours:Minutes Per Week	Hours:Minutes Per Day
95-96	50:44	7:15
94-95	50:42	7:15
93-94	50:50	7:16
92-93	50:24	7:12
91-92	49:25	7:04
90-91	48:40	6:57
89-90	48:29	6:56
88-89	49:19	7:02
87-88	49:04	7:00
86-87	48:22	6:54
85-86	50:16	7:10
84-85	50:00	7:07
83-84	49:58	7:08
82-83	48:31	6:55
81-82	47:44	6:48
80-81	47:07	6:43

Source: Nielsen

## NTI AVERAGE HOUSEHOLD RATINGS - PRIME TIME

(Three Networks Combined)

Season (Sept. - Aug.)	Combined Average Rating	Combined Average Share
95-96(1)	36.2	62
95-96	29.7	51
94-95(1)	38.2	66
94-95	31.4	54
93-94(1)	40.8	68
93-94	33.9	57
92-93(1)	40.6	70
92-93	33.6	58
91-92	34.6	60
90-91	33.9	60
89-90	35.6	63
88-89	37.4	64
87-88	39.1	67
86-87	42.6	71
85-86	44.4	73
84-85	44.1	73
83-84	45.6	76
82-83	46.5	77
81-82	47.1	80
80-81	50.1	84

1. Four Networks including Fox

Source: Nielsen

**VCR HOUSEHOLDS**

Year <u>End</u>	VCR <u>Households</u>	Yearly Percent <u>Change</u>	1996 <u>Versus</u>
1996	78,800,000	4.0%	—
1995	75,800,000	4.1%	4.0%
1994	72,800,000	1.6%	8.2%
1993	71,687,000	1.9%	9.9%
1992	70,348,370	4.3%	12.0%
1991	67,465,686	3.2%	16.8%
1990	65,356,200	5.0%	20.6%
1989	62,259,600	10.8%	26.6%
1988	56,200,000	22.7%	40.2%
1987	45,800,000	40.9%	72.1%
1986	32,500,000	38.3%	142.5%
1985	23,500,000	56.7%	235.3%
1984	15,000,000	80.7%	425.3%
1983	8,300,000	72.9%	849.4%
1982	4,800,000	92.0%	1541.7%
1981	2,500,000	35.1%	3052.0%
1980	1,850,000	—	4159.5%

**VCR PENETRATION IN U.S. TV HOUSEHOLDS**

Year <u>End</u>	VCR <u>Households</u>	TV <u>Households</u>	Percent <u>Penetration</u>
1996	78,800,000	95,900,000	82.2%
1995	75,800,000	95,400,000	79.5%
1994	72,800,000	94,200,000	77.3%
1993	71,687,000	93,100,000	77.0%
1992	70,348,370	93,053,400	75.6%
1991	67,465,686	92,040,500	73.3%
1990	65,356,200	93,100,000	70.2%
1989	62,259,600	92,100,000	67.6%
1988	56,200,000	90,400,000	62.2%
1987	45,800,000	88,600,000	51.7%
1986	32,500,000	87,400,000	37.2%
1985	23,500,000	86,100,000	27.3%
1984	15,000,000	85,300,000	17.6%
1983	8,300,000	84,200,000	9.9%
1982	4,800,000	83,700,000	5.7%
1981	2,500,000	81,900,000	3.1%
1980	1,850,000	78,000,000	2.4%



## SALES OF PRE-RECORDED VIDEOCASSETTES TO U.S. DEALERS

Year End	Pre-Recorded Total Cassettes	Yearly Percent Change	1996 Versus
1996	641,200,000	22.8%	--
1995 *	522,200,000	20.1%	22.8%
1994 *	434,900,000	19.7%	47.4%
1993 *	363,200,000	20.4%	76.5%
1992 *	301,600,000	11.6%	112.6%
1991 *	270,200,000	10.6%	137.3%
1990 *	244,200,000	17.7%	162.6%
1989 *	207,500,000	39.5%	209.0%
1988 *	148,700,000	38.3%	331.2%
1987 *	107,500,000	45.1%	496.5%
1986 *	74,100,000	61.4%	765.3%
1985 *	45,900,000	117.5%	1296.9%
1984 *	21,100,000	90.1%	2938.9%
1983 *	11,100,000	56.3%	5676.6%
1982 *	7,100,000	82.1%	8931.0%
1981 *	3,900,000	30.0%	16341.0%
1980	3,000,000	--	21273.3%

Source: Adams Media Research, Carmel Valley CA

\* Revised

## RENTAL

Year <u>End</u>	Pre-Recorded Rental <u>Cassettes</u>	Yearly Percent <u>Change</u>	1996 <u>Versus</u>
1996	41,100,000	6.8%	--
1995	38,500,000	5.5%	6.8%
1994	36,500,000	0.6%	12.6%
1993	36,300,000	-3.2%	13.2%
1992	37,500,000	-1.8%	9.6%
1991	38,200,000	10.1%	7.6%
1990	34,700,000	0.3%	18.4%
1989	34,600,000	7.8%	18.8%
1988	32,100,000	3.5%	28.0%
1987	31,000,000	10.3%	32.6%
1986	28,100,000	39.1%	46.3%
1985	20,200,000	106.1%	103.5%
1984	9,800,000	88.5%	319.4%
1983	5,200,000	26.8%	690.4%
1982	4,100,000	70.8%	902.4%
1981	2,400,000	--	1612.5%
1980	--	--	--

Source: Adams Media Research, Carmel Valley CA

## SELL-THROUGH

Year <u>End</u>	Pre-Recorded <u>Sell-Through Cassettes</u>	Yearly Percent <u>Change</u>	1996 <u>Versus</u>
1996	600,100,000	24.1%	--
1995	483,700,000	21.4%	24.1%
1994	398,400,000	21.9%	50.6%
1993	326,900,000	23.8%	83.6%
1992	264,100,000	13.8%	127.2%
1991	232,000,000	10.7%	158.7%
1990	209,500,000	21.2%	186.4%
1989	172,900,000	48.3%	247.1%
1988	116,600,000	52.4%	414.7%
1987	76,500,000	66.3%	684.4%
1986	46,000,000	79.0%	1204.6%
1985	25,700,000	127.4%	2235.0%
1984	11,300,000	91.5%	5210.6%
1983	5,900,000	96.7%	10071.2%
1982	3,000,000	100.0%	19903.3%
1981	1,500,000	--	39906.7%
1980	--	--	--

Source: Adams Media Research, Carmel Valley CA

## SALES OF BLANK VIDEOCASSETTES TO U.S. CONSUMER MARKET

Year <u>End</u>	Blank <u>Cassettes</u>	Yearly Percent <u>Change</u>	1996 <u>Versus</u>
1996	392,000,000	2.3%	--
1995 *	383,000,000	1.1%	2.3%
1994 *	379,000,000	0.5%	3.4%
1993	377,000,000	5.3%	4.0%
1992	358,000,000	-1.1%	9.5%
1991	362,000,000	7.1%	8.3%
1990	338,000,000	18.2%	16.0%
1989	286,000,000	-3.7%	37.1%
1988	297,000,000	8.4%	32.0%
1987	274,000,000	-7.4%	43.1%
1986	296,000,000	27.0%	32.4%
1985	233,000,000	75.2%	68.2%
1984	133,000,000	133.3%	194.7%
1983	57,000,000	130.8%	587.7%
1982	24,700,000	9.8%	1487.0%
1981	22,500,000	50.0%	1642.2%
1980	15,000,000	--	2513.3%

Source: EIA

\* Revised

## BASIC CABLE HOUSEHOLDS

Year End	Basic Cable Households	Yearly Percent Change	1996 Versus
1996	63,965,300	2.1%	--
1995 *	62,677,800	4.9%	2.1%
1994 *	59,722,800	2.6%	7.1%
1993 *	58,187,500	1.7%	9.9%
1992 *	57,227,841	2.6%	11.8%
1991 *	55,776,543	1.5%	14.7%
1990 *	54,929,000	4.4%	16.5%
1989 *	52,589,100	8.1%	21.6%
1988 *	48,635,200	8.7%	31.5%
1987 *	44,743,000	6.4%	43.0%
1986 *	42,039,400	5.7%	52.2%
1985 *	39,778,200	6.7%	60.8%
1984 *	37,276,100	9.3%	71.6%
1983 *	34,101,000	16.4%	87.6%
1982 *	29,295,000	26.4%	118.3%
1981 *	23,177,700	31.5%	176.0%
1980 *	17,628,000	--	262.9%

Source: Nielsen

\* Revised

## ADDRESSABLE CABLE HOUSEHOLDS

Year <u>End</u>	Addressable Cable <u>Households</u>	Yearly Percent <u>Change</u>	1996 <u>Versus</u>
1996	30,895,240	7.6%	--
1995 *	28,706,432	8.3%	7.6%
1994	26,500,000	2.3%	16.6%
1993	25,914,631	2.8%	19.2%
1992	25,200,000	5.0%	22.6%
1991	24,000,000	9.1%	28.7%
1990	22,000,000	4.8%	40.4%
1989	21,000,000	9.9%	47.1%
1988	19,100,000	26.5%	61.8%
1987	15,100,000	29.7%	104.6%
1986	11,640,000	29.0%	165.4%
1985	9,020,000	40.9%	242.5%
1984	6,400,000	77.8%	382.7%
1983	3,600,000	140.0%	758.2%
1982	1,500,000	--	1959.7%
1981	N/A	--	--
1980	N/A	--	--

\* Revised

## PAY CABLE - SUBSCRIPTIONS

Year <u>End</u>	Pay Cable <u>Subscriptions</u>	Yearly Percent <u>Change</u>	1996 <u>Versus</u>
1996	54,480,000	5.7%	--
1995 *	51,550,000	9.6%	5.7%
1994 *	47,030,000	9.9%	15.8%
1993	42,780,000	4.6%	27.3%
1992	40,900,000	2.8%	33.2%
1991	39,800,000	0.6%	36.9%
1990	39,570,000	-4.4%	37.7%
1989	41,400,000	11.3%	31.6%
1988	37,200,000	10.1%	46.5%
1987	33,800,000	4.0%	61.2%
1986	32,500,000	2.5%	67.6%
1985	31,700,000	5.3%	71.9%
1984	30,100,000	7.5%	81.0%
1983	28,000,000	35.9%	94.6%
1982	20,600,000	36.4%	164.5%
1981	15,100,000	69.7%	260.8%
1980	8,900,000	--	512.1%

\* Revised

## SUBSCRIBERS

Year End	Pay Cable Subscribers	Yearly Percent Change	1996 Versus
1996	32,797,800	7.4%	--
1995 *	30,528,000	14.1%	7.4%
1994 *	26,752,800	4.5%	22.6%
1993 *	25,602,500	0.8%	28.1%
1992 *	25,403,578	-1.8%	29.1%
1991 *	25,863,381	-2.9%	26.8%
1990 *	26,626,600	-1.7%	23.2%
1989 *	27,077,400	2.9%	21.1%
1988 *	26,306,400	11.6%	24.7%
1987 *	23,567,600	2.9%	39.2%
1986 *	22,898,800	-5.4%	43.2%
1985	24,200,000	19.8%	35.5%
1984	20,200,000	12.2%	62.4%
1983	18,000,000	34.3%	82.2%
1982	13,400,000	--	144.8%
1981	N/A	N/A	N/A
1980	N/A	N/A	N/A

Source: Nielsen

\* Revised

nounced that its quarterly earnings would not live up to Wall Street's expectations. Nike has lowered its production forecasts to its manufacturers in Asia. John Horan, of *Sporting Goods Intelligence*, a newsletter, speculates that sports-shoe retail chains may have over-expanded, with a planned 17% increase in their retail space in America over the current year threatening profit margins. There is talk of slow business at Footstar, a chain that sells athletic shoes.

Rather than enjoying praise for having created the "Nike economy" of fluid worldwide production, the company is now having to fend off criticisms that it exploits Asian workers. True, the Nike-clad Tiger Woods has given its golf range an agreeable boost. But in the most important sport in which Nike is trying to raise its profile, soccer, its decision to sponsor anti-heroes such as Eric Cantona (the retiring captain of the English league champions, Manchester United) has infuriated sports bureaucrats. And for a company that has always prided itself on its ability to be hipper than its rivals, there is the problem of ubiquity: it is difficult to persuade youngsters that Nike is cool when even their grandparents now wear the firm's shoes.

#### In Nike's slipstream

Whatever the cause, Nike's current slowdown has created room for rivals to bag a bigger share of the sports-shoe market, which was worth \$16.4 billion in wholesale sales in 1996. Companies such as Reebok, Fila and Adidas have long been waiting for Nike to stumble. But the biggest beneficiaries from Nike's slowdown may well be smaller brands that think they have identified niches created by the diversification of teenage tastes. The most promising of these are Airwalk, a brand owned by Items International from Pennsylvania (recently accorded the Bundayesque "footwear marketer of the year" award); Simple, which is owned by a Californian firm called Deckers Outdoor; and, especially, Vans.

Vans, which is owned by an eponymous Californian firm, has spent most of its 30-year history trapped in its local market, hampered by inflexible factory workers and unimaginative managers. However, since coming under the stewardship of a father-and-son team, Walter and Gary Schoenfeld, the company has spurred forward. On the production side, it has copied Nike, closing down one of its two Californian factories and subcontracting much of its production to South Korea, where workers can produce a wider range of designs.

On the marketing side, Vans has eschewed expensive sports stars in favour of a different role model: the Californian adolescent. This is demographically shrewd. The number of American teenagers is set to grow from 25m today to 31m in 2010, thanks to the echo of the baby boom, and



The Vans generation

their purchasing power is growing. James Palczynski, an analyst with Ladenburg, Thalmann, an investment-research firm, calculates that teenage spending power could grow from \$75 billion this year to \$77 billion in 1998, and almost all of this income is discretionary.

Vans's hunch is that the leaders of this teenage pack are no longer the inner-city kids Nike has pursued, but the Internet-

surfing latchkey-kids who dwell in southern California's suburbs. Whereas Nike is interested in established team sports such as basketball, Vans aims at individual sports—especially fast-growing "alternative" ones, such as skate-boarding, snow-boarding, surfing and mountain-biking. Within two years of entering the market for snowboard boots in 1995, Vans has become the third-largest company in the business.

Vans goes to great lengths to stay close to its customers—not least by hiring many of them to work for the company. Ideas dreamt up by in-house Generation-xers are then tried out on local youths, who are divided into "core kids" and "mainstreamers". Vans even lets various sporting heroes design not only their own signature shoes but also their own (slightly shambolic) advertisements.

This teen-friendly approach seems to work. In the nine months ending in February, Vans's sales were \$120m (against \$85.4m in the same period in the previous financial year); its net profits rose from \$2.6m to \$7.7m. As these numbers imply, Vans remains a small niche player when set alongside Nike and Reebok. But the progress of Vans, Airwalk and Simple also sends a warning to their more established peers: that the latter will abandon the leading edge of the industry at their peril. After all, an unfashionable sneaker is just another shoe—as Al Bundy will tell you.

#### America's television networks

## The dash for the off switch

NEW YORK

**The fragmentation of America's television market is forcing the three main networks into increasingly convoluted gyrations**

IS THE all-American TV slob an endangered species? During the viewing season from September 1996 to May 1997, only 49% of prime-time TV viewers watched ABC, CBS or NBC, according to Nielsen Media Research, the first time the combined share of the big three networks has fallen below half. America's remaining TV addicts, according to the ratings, were tuned variously to News Corporation's Fox (which now attracts 13% of viewers: see chart), to wannabe "networks" such as UPN and WB, or to big cable channels such as TNT. But in reality more Americans are simply tuning out. On one estimate, TV is losing one in 20 prime-time viewers every year—a dash for the off-switch that comes at a terrible time.

This is not yet an industry in peril. The big networks still make the bulk of TV-land's profits, although an increasing share of those spoils is ending up in the hands of each year's ratings king. And advertising

revenues are still healthy: this year Fox and the big three will rake in a combined \$6 billion in ad spending—a rise of some 4-5% over 1996. But that increase is largely due to higher rates, the traditional yearly price hikes that TV executives may soon find increasingly hard to justify. The reason? A revolution in the viewing habits of all those couch-potato Americans who pay the advertisers' bills.

The networks, for the most part, have had a miserable season. ABC, which led the prime-time ratings as recently as 1994-95, ended last season in third place, and often found itself trailing Fox in the bid to attract young viewers aged between 18 and 49. ABC, which lost about 2m viewers last season, has endured some spectacular flops: a recent, much-hyped "ABC is Pop" special on the rock group U2 attracted one of the smallest prime-time audiences ever. Despite denials by Walt Disney, which owns ABC, rumours persist that Jamie Tarses, the

33-year-old boss of ABC's entertainment unit, will lose her job before the new season is out.

CBS, which is owned by Westinghouse, is faring little better. Its ratings held steady last season, but that is small comfort: the network had already lost more viewers than the other networks combined during the previous two years. CBS's worst headache is its ageing audience—a problem that has not been helped by the network's treacly "Welcome Home" campaign, which puts cosiness before cool. For all CBS's protests that older viewers are spending more these days, advertisers prefer young audiences, and will pay for the privilege of reaching them. On average, it costs advertisers three times as much to reach viewers aged 18-34 as it costs to reach those over 50. CBS's inability to attract young viewers is the main reason why it is losing money.

#### Where are the viewers?

CBS is largely a victim of NBC's success with shows such as "Seinfeld", "Friends", "Frasier", "Caroline in the City" and "Suddenly Susan", each of which is aimed at younger free-spending, urbane types. NBC's list gave it seven out of the top ten shows last season, and left it awash in ad revenues. This year NBC's parent, General Electric, could make close to \$500m in operating profit from the network. (ABC, by contrast, is forecast to make as little as a quarter as much as that this year.) But NBC cannot rest easy. For all its success last season, it lost viewers almost as rapidly as ABC.

Conventional TV-land wisdom has it that Fox, UPN, the WB network and the big cable channels are profiting from those lost viewers. Reality is more complex—and does not show up in any of the ratings (which track only the networks and biggest cable channels). Although Fox gained viewers last season, its long-run share of the audience is stagnant. So are the shares of UPN and the WB network, which between them are still watched by fewer than one in ten viewers at prime-time. The ten biggest cable channels, too, have seen only marginal improvements in their ratings in recent years.

So where are the networks' growing band of deserters going (leaving aside those who have given up TV altogether)? The trend behind the answer is the industry's worst nightmare: fragmentation.

More and more viewers, it seems, are surfing from cable channel to cable channel. As the number of speciality channels grows (among them Home & Garden Television, the Golf Channel and the Romance Classics network, which offers such delights as reruns of "Peyton Place"), the more fragmented the audience will become. Be-



The \$120m man

cause such channels tend to win only tiny, fleeting audiences, most will find it hard to attract enough advertising to thrive. But by sheer weight of numbers—there are already around 200 "unrated" channels—the newcomers will increasingly bite into the big networks' revenue cake.

The networks seem undecided about how to fight back. All have ventured into the cable-channel business, albeit with mixed results: when CBS launched its new Eye on People cable channel this spring, it was available only to 2m viewers nationwide, because few cable operators were prepared to make space for it. Worse, actual audiences for the networks' cable channels—and hence their ad revenues—are minuscule: insiders claim that MSNBC, a joint venture between Microsoft and NBC, has fewer than 50,000 viewers. The networks, then, are realising that their own, unprofitable cable ventures will do little to offset the fragmentation of both audiences and advertising dollars. Indeed, they are often merely adding extra fragments.

Small wonder the networks are suddenly redoubling their efforts to win back lost viewers next season. Mostly they are doing so with the usual mix of feeble sitcoms, tired features (ABC's autumn schedule is awash with Disney) and secondhand ideas (CBS is taking over two shows from ABC next season). But for sheer uninspired desperation, ABC takes the Grammy. On June 3rd it said it would offer frequent-flier miles to viewers of specific programmes (who will have to complete a questionnaire to prove they watched). The network has also launched a campaign to boost viewing figures under the slogan "TV is good": "It's a beautiful day. What are you doing outside? Watch TV."

With the cost of shows rising fast—the next season's-worth of "Seinfeld" will cost

NBC around \$120m, thanks to a pay deal for its stars that will inevitably boost the cost of rival sitcoms—the networks have also come up with a novel argument: fewer viewers should mean higher, not lower, prime-time advertising rates. Fragmentation, say network executives, means that big blocks of demographically desirable viewers, of the kind coveted by advertisers, are becoming rare. To reach such an elusive species, advertisers must pay a premium. So, although "Seinfeld" is losing viewers, an ad on the show could cost around 15% more next season, or well over \$1m a minute.

Reversing your marketing pitch is a fine piece of chutzpah. It even seems to be working: admen are stomping up the dollars for "Seinfeld". Yet, like the news that the networks' viewer share has slipped below 50%, it also marks another retreat. After all, the networks used to boast of how many viewers were glued to their programmes, not how few.

#### Management consulting

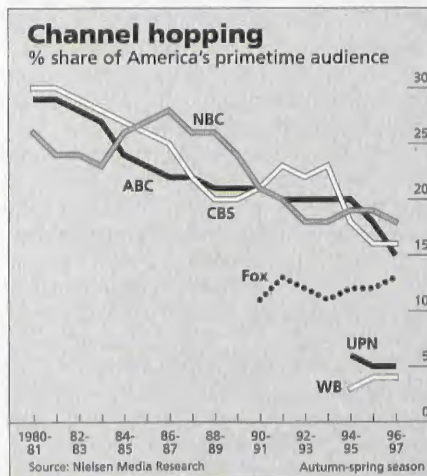
### Spouse trouble

NEW YORK

FOR a couple that have recently renewed their wedding vows, the two halves of Andersen Worldwide still act suspiciously as though they were bracing themselves for a divorce. In April the firm's partners voted not to split its two main business units—the Arthur Andersen accountants and Andersen Consulting—into separate companies, and to make whatever changes are necessary to help the troubled union succeed. Now they are quarrelling over who should succeed Lawrence Weinbach, the chief executive of the combined company, who is due to retire in August.

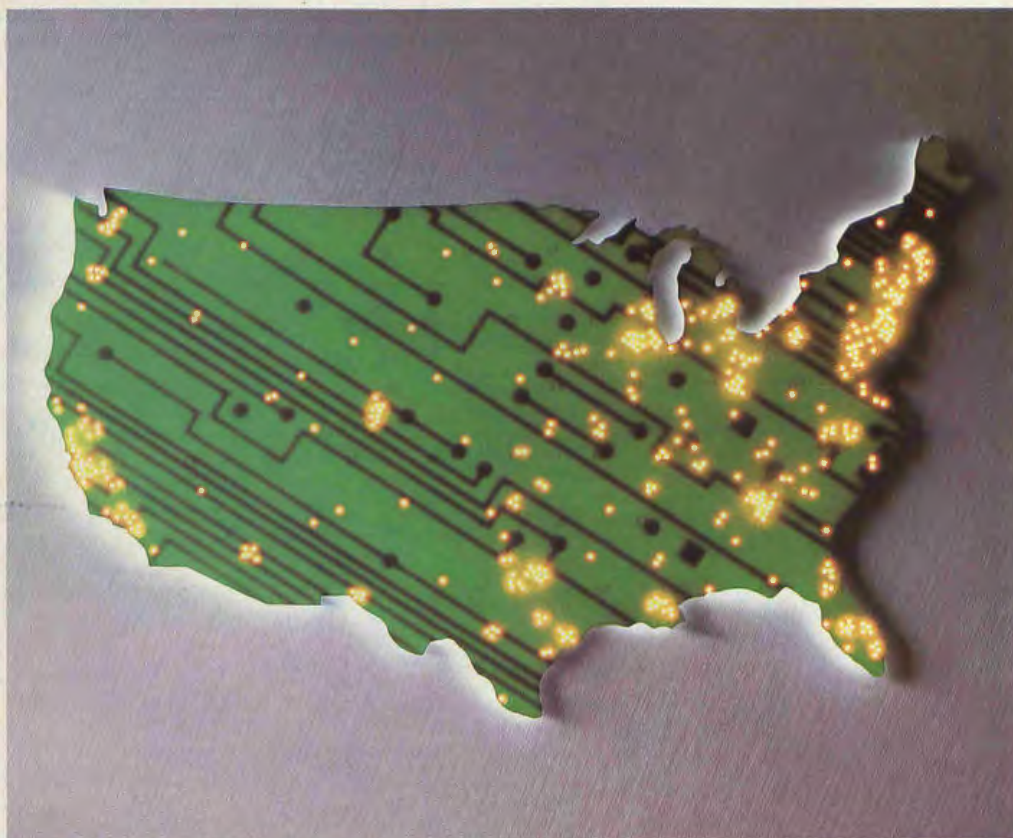
In the first round of voting, which ended on May 30th, the partners rejected Jim Wadia, who is the managing director of the British part of the accounting unit, and whom the firm's board had nominated in preference to George Shaheen, the global boss of consulting. Although backed by a majority of partners (Arthur Andersen partners outnumber Andersen Consulting partners by around 1,600 to 1,000), Mr Wadia was unable to muster the two-thirds of the votes he needed to succeed. So the board will now put forward Mr Shaheen as the only other name on the nominating committee's slate. If he cannot win over a substantial number of Arthur Andersen partners, the accountants and consultants may soon need to call in the lawyers.

Much of the fight is about money. Since Andersen Consulting was spun off as a separate business unit in 1989, its turnover has grown faster than that of Arthur Andersen. Last year it surpassed its sibling for the first





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## NETWORKS

# ALL THE NEWS THAT CAN BE HAD ON THE CHEAP

TV network news is changing faster than you can say 'cost crunch'

In a season of retrenchment for the networks, one episode seems especially telling: On Easter weekend, the three major networks used a pool camera crew to cover President Bush's fishing trip to the Florida Keys. The decision created a stir among journalists because it forced the cancellation of the White House press plane.

Democracy may not be threatened if George Bush casts his fishing rod without a phalanx of cameras from CBS, NBC, and ABC there to record it. But such economies are only the most obvious sign of a wholesale restructuring of network news. Budget constraints have changed the newscasts that 27 million American households watch each evening. And the changes will become more pronounced as the money squeeze on the networks intensifies. Says Michael Gartner, president of NBC News: "The economics of this business have changed dramatically."

Battered by a prolonged advertising drought, the networks these days want to gather news on the cheap. Gone are the days when they rushed correspondents and crews to every story from San Clemente to Saigon.

**PARSIMONY.** Now, the networks are concentrating their resources on feature programs that cost less to produce than newscasts and that show off stars such as CBS's Dan Rather or NBC's Jane Pauley. They're relying more on reporters from affiliates to cover hard-to-reach events. They're buying foreign news footage from agencies such as Britain's Visnews or ITN. And they're pooling coverage of routine White House press briefings. Says Gartner: "We've got to quit being competitive in areas where competition is stupid or meaningless."

Such parsimony didn't occur to the networks in their heyday, because each believed it was covering news with a thoroughness and nuance that no local TV station could match. "The networks were a stable of highly paid, highly tal-

ented people," says Everette E. Dennis, executive director of the Gannett Foundation Media Center. "The public benefited from this cadre of talent."

With the development of satellite technology, affiliates can compete with the networks by shipping reports to one another. And national exposure is honing the skills of some local reporters. The

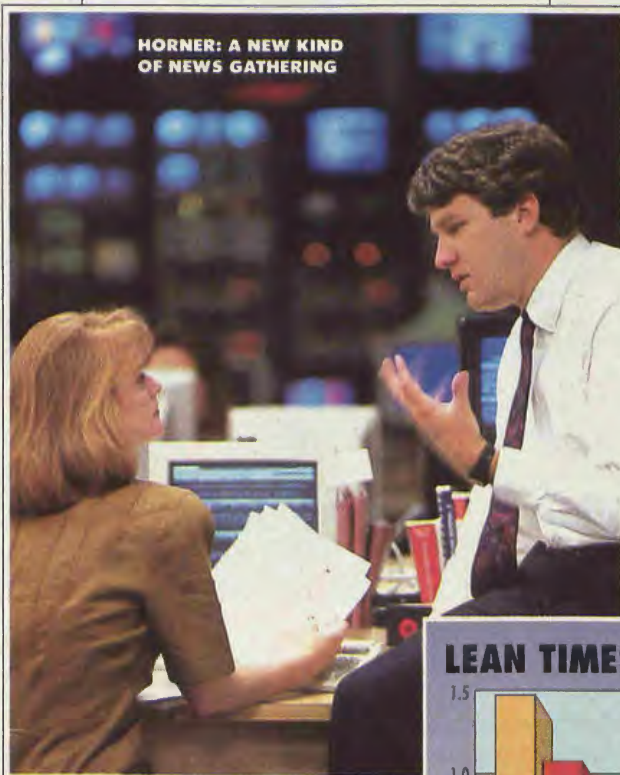
wave technology. Trucks that send and receive satellite signals can cost \$450,000, while satellite time costs as much as \$200 a minute. At \$300 million, the NBC News budget is more than double that of *The New York Times*.

**WAR LOSSES.** The cost of covering the Persian Gulf war threw this into sharp relief. NBC, for example, says it spent \$25 million on war coverage—only to lose \$25 million more in ads pulled by companies fearful their spots would air next to news of U. S. casualties. CBS Inc. and Capital Cities/ABC blame first-quarter earnings declines of 73% and 45%, respectively, on the war. CBS News and NBC News are losing money, while analysts say ABC News is eking out a profit.

Time was when red ink was irrelevant to a network news operation: CBS viewed its news division as a loss leader that added intangibly to the parent company's prestige. But new owners such as CBS's Laurence A. Tisch and NBC's General Electric Co. expect news to make money just as entertainment programming does. And when news loses money, they don't hesitate to wield the budget ax (table).

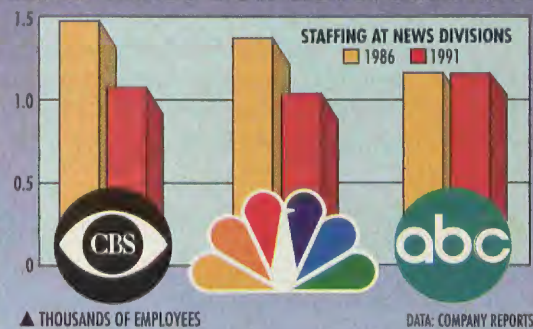
CBS News recently laid off 120 staffers and scaled down bureaus in Johannesburg and Beijing as part of an effort to cut \$100 million in costs. NBC News is offering buyouts to 80 employees and has shut down its San Francisco bureau. Even at ABC News, where *World News Tonight* leads the ratings race, staffers are bracing for cuts.

Instead, networks are pouring money into projects such as NBC's News Channel. Based in



HORNER: A NEW KIND OF NEWS GATHERING

## LEAN TIMES FOR NETWORK NEWS



rise of Turner Broadcasting System Inc.'s Cable News Network has also eroded the networks' dominance overseas: With worldwide staffs of about 1,000 each, they are no match for CNN's 1,603 employees and 15 foreign bureaus. And with higher salary structures, the networks can't afford to be global news organizations.

What's more, the technology that has made news gathering more accessible to affiliates and CNN has also made it far more expensive. For one thing, satellites cost a lot more than older, slower micro-

Charlotte, N. C., the News Channel is a satellite service that acts as a 24-hour clearinghouse, feeding network and local news to NBC's 209 affiliates. NBC says bolstering its ties with local stations will spur them to cover more news for the network. Says News Channel President

Robert M. Horner: "A network news division can't do its best unless it has a strong reliance on affiliates."

Already, 25% of the reports on NBC *News at Sunrise* and the *Today* show come from affiliate reporters. On its Mar. 22 telecast, for example, the NBC *Nightly News* reported on several tornados in Tennessee and Kentucky. But the report was filed by NBC's Nashville affiliate, after editors decided it was too costly to send a network reporter.

Horner says NBC has sunk \$20 million into the News Channel. But the network sees it as a long-term investment, since it will reap economies from more affiliate reporting. NBC also placed the operation in North Carolina, a right-to-work state where labor costs are lower than at its unionized New York headquarters.

CBS and ABC are also determined to make local stations full partners in the news business. If they don't, they risk

### CBS got a shock on the first evening of the gulf war when some affiliates broadcast CNN instead of the network

losing them: CNN has already signed deals with 264 network affiliates to feed and receive footage. CBS got a rude shock when some affiliates broadcast CNN instead of CBS on the first evening of the war. And last week, NBC's Boston affiliate deleted the portion of a *Nightly News* report that revealed the name of the woman who says a nephew of Senator Edward M. Kennedy raped her.

Still, some news executives warn that relying on affiliates can lead to editorial lapses. Tom Bettag, former executive producer of the *CBS Evening News*, says the network erroneously reported that Israel had retaliated after Iraq's first Scud missile attack, based on the reporting of an affiliate correspondent. A CBS spokesman notes that full-fledged network correspondents also goofed.

Bettag and others warn that the drive for profits means a shift from news gathering to news packaging. Indeed, shows such as ABC's *20/20* and CBS's *60 Minutes* are money-makers, while the core news programs are unprofitable or barely break even. So the trend toward such programming seems bound to continue. Some observers even speculate that the networks may get out of the news business altogether. At this rate, President Bush's weekend getaways will only get more peaceful.

By Mark Landler in New York, with Walecia Konrad and Chuck Hawkins in Atlanta



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## Propose Overhaul of Creditor Banks

controls cosmetics giant Revlon Inc. and stamping equipment maker Coleman Cos., in recent weeks has been driven to the sidelines by bondholders who won the right to vote stock he formerly controlled.

Now those bondholders are maneuvering to gain an edge over the banks, which are owed \$685 million. The bondholders propose to leave the bank debt untouched and repay the banks with \$300 million in cash, plus the assets of Marvel's Greer/Skybox trading cards and Panini sticker units, as satisfaction against their claims. The bondholders estimate the assets have a market value of about \$85 million.

Either option would leave the two veteran bankruptcy speculators controlling the stock of the new, combined company.

The switch is an embarrassing setback for Marvel's current management, which had turned to Toy Biz last month for support in the company's bankruptcy proceeding. It also steps up the pressure on Chase Manhattan Corp., which is Marvel's leading secured creditor and has been allied with Marvel management, to work with Mr. Icahn and Mr. Perlmutter. Chase Manhattan officials declined to comment.

Marvel's management won a little breathing room when a federal judge postponed until Tuesday a bankruptcy court's decision that would have allowed the bondholders to seize control.

Specifically, the bondholders and Toy Biz jointly said that they agreed to submit a revised plan in the Marvel bankruptcy proceeding that calls for the two firms to combine into a newly created company whereby Marvel's shareholders would own 60% and Toy Biz shareholders would own 40%. Bondholders led by Mr. Icahn would also back a rights offering that would raise between \$300 million and \$500 million.

### BASSETT FURNITURE INDUSTRIES INC.

## Two Units to Be Shuttered, Pretax Charge Is Scheduled

Bassett Furniture Industries Inc., in an effort to focus on its core operations, said it will close two divisions and take a \$30.5 million pretax charge in the second quarter. The Bassett, Va., company said it will close its Impact Furniture and its National/Mt. Airy divisions; the two operations manufacture, respectively, the company's lower-priced and higher-priced furniture. The closings will result in the shuttering of plants in Martinsville, Va., and Hickory, N.C. The moves will allow Bassett to concentrate on its core line of residential furniture, said President Robert H. Spilman. The company said the changes would reduce annualized sales by about 10% but would improve operating earnings. In the 1996 second quarter, Bassett earned \$5 million, or 37 cents a share, on revenue of \$111.3 million.

## Broadcast TV's Viewership Fell In Latest Season

By KYLE POPE

Staff Reporter of THE WALL STREET JOURNAL

NEW YORK — Viewership of broadcast television continued to slide in the season that ended last night, with 1.7 million fewer homes watching the big four networks than a year earlier and more homes tuning into cable.

Preliminary ratings from Nielsen Media Research show that prime-time viewing of CBS, NBC, ABC and Fox dropped to 62.1% of all U.S. households during the most recent eight-month season, down from 65.2% a year earlier.

The decline marks a record low for the big television networks. Though broadcast viewership has steadily eroded during the 1990s, some in the industry were startled at the magnitude of the decline. "If anybody had been standing in 1994 and said there would be this decline, they would have been laughed out of the industry," said Jonathan Sims, vice president of research at the Cable Television Advertising Bureau, an industry trade group. "It's shocking what has happened."

While a number of cable networks have seen ratings declines similar to those at the broadcast networks, overall cable viewership is up. During the most recent season, for instance, prime-time viewership for basic cable totaled 32.4% of U.S. households, up from 29.5% a year earlier. Overall viewership rose by 1.69 million homes during the season.

At the broadcasters, network declines ranged from a 13% drop in household viewing at Walt Disney Co.'s ABC, which slipped from second to third place during the year, and a 10% drop at NBC, the General Electric Co. unit that nevertheless remains television's top-rated network.

Second-ranked CBS, a unit of Westinghouse Electric Corp., ended the year up slightly in total household viewership, while Fox Broadcasting Co., a News Corp. unit, was the biggest gainer, up nearly 5% for the season.

Leslie Moonves, president of CBS Entertainment, blamed the overall broadcast decline on a glut of choices—not all of them good. "There is too much product on television and a little bit of it is too watered down," Mr. Moonves said.

While CBS was notable for the gains it made in moving from third to second during the year, analysts were surprised by the 10% drop at NBC, which has been, in recent years, an overwhelming ratings winner. Among the adults 18 years old to 49 years old that advertisers prefer, NBC's audience slipped every night of the week this season, except Saturday.

"Certainly it's a concern," said Warren Littlefield, president of NBC Entertainment. "Decline is something we look at really closely."

## WATCHING THE WEB

## OPTIONS AND FUTURES

**CHICAGO MERCANTILE EXCHANGE** Derivatives buffs can check here to get quotations on interest-rate futures, foreign-currency options and other selected financial instruments. Futures for stock indexes, including the Standard & Poor's 500 and the Nasdaq 100, are also covered. Pricing information is presented in a bare-bones format that will be difficult for novices to decode, but the CME site also includes an Instant Web Lessons section on the basics of futures.

.....  
<http://www.cme.com>

**CHICAGO BOARD OF TRADE** Once you get past a rather sobering waiver screen (clicking through signifies your assent to all the conditions listed), the CBOT site contains a substantial amount of information. In the Financial Planning section, a somewhat daunting menu leads the way to a primer on how to use derivatives to hedge risk in a portfolio. For quotations on agriculture and financial futures (with a 10-minute delay), visitors must click their way over to the CBOT's MarketPlex site, a sort of on-line bazaar where financial companies can plug their products and services. The site also includes some multimedia features, including RealAudio sound recordings of press conferences discussing crop reports.

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<http://www.cbot.com>

**FUTURES OPTIONS ANALYSIS** For sophisticated users only, this site serves up daily updates on futures options for currencies, bonds, equity indexes, sugar, oil and other commodities. There's plenty of data on prices and volatility. The numbers are presented without explanation, so, as the site suggests, use the data at your own risk.

.....  
<http://www.cyberramp.net/~chrismc/futopt.htm>

**FUTURES ONLINE** Produced by Futures magazine to advertise its print publication, Futures Online presents a few selected articles from each issue. The site also features daily market commentaries under the heading Hot Markets. The commentaries (excerpted from a subscription-based news service) summarize the action in futures for metals, stock indexes, energy commodities, coffee and cocoa. For chart readers, Futures Online presents a Technical Talk section.

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<http://www.futuresmag.com>

**WALDEMAR'S LIST** This site serves as a comprehensive guide to futures information across the Web. Start here to explore links to sites offering historical data, trading information and futures exchanges all over the world.

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<http://www.netservers.com/~waldemar/list.shtml>

## LAWN &amp; GARDE

**ASK EARL** Starting from its front porch, which asks the simple question, "What's Your Yard-Care Problem," this simple and attractive design makes it easy for suburban weed warriors to see the roots advice. Searching on "crabgrass," instance, returns more than a dozen entries revealing control tips and a wealth of trivia (crabgrass is often confused with foxtail and goosegrass). If you're not searching for specific hints, you can browse reports on fertilizing and watering. And since the site was created by Toro Co. to promote its lawnmowers, there is an extensive section on cutting grass.

.....  
<http://www.yardcare.com>

**GARDENING.COM** Click on the Ortho Problem Solver for a nicely interactive guide to lawn and garden dilemmas. First pick a category, such as shrubs or soil problems, then specify a subtopic. Law-related issues covered include "dead patches" (don't neglect the possibility of "dog-urine injury") and "lawn pale or yellow" (you may have a nitrogen deficiency). Return to the front page to query the plant encyclopedia or peruse an annotated digest of other garden-care Web sites.

.....  
<http://www.gardening.com>

**TURFFILES** Though aimed primarily at lawn-care professionals and golf-course maintenance staffers, some of this site's tips—mostly contained in a set of lawn-

## A CLO

## A New Page in Competit

THE BATTLE OF THE ON-LINE BOOKSTORES HAS begun.

Barnes & Noble opened a store in cyberspace last week (<http://www.barnesandnoble.com>), making it possible for shoppers to browse and order books over the Web.

*Barnes and Noble*

Of course, that's exactly what customers of the much-hyped Amazon.com (<http://www.amazon.com>) site have been doing for nearly two years now—a fact that hasn't escaped Barnes & Noble. Just before Amazon took its stock public last week, Barnes & Noble took aim at Amazon in court, challenging the upstart's claim to being the "Earth's largest bookstore."

The winner in all this, of course, is the consumer, since both booksellers are aggressively pricing their wares to snare market share. Barnes & Noble discounts all hardcovers by 30%, while Amazon offers 40% off its most-popular titles.

That means finding the best deal depends on the book in question. "How to Be Your Dog's Best Friend" by the Monks of New

We welcome any comments. E-mail us at [net.interest@wsj.com](mailto:net.interest@wsj.com)



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## Big Three post record share slide

ABC, CBS, NBC claim on prime time audience falls to 57%

By Steve McClellan

The Big Three TV networks' share of the prime time viewing audience has hit an all-time regular season low—57% vs. 1992-93's previous low of 60% and last season's 61%.

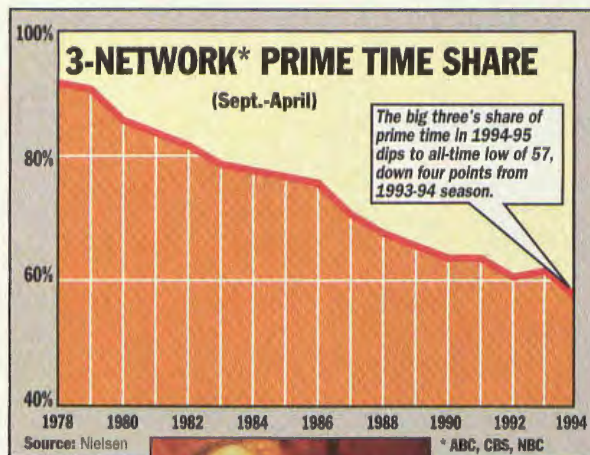
Although a week still remains in the season, those numbers will not change short of a programming event of cataclysmic proportions.

Ratings crunchers say the networks have cable, Fox and O.J. Simpson partially to blame. But they also cite the networks' loss of the Major League Baseball playoffs and World Series, and the absence of Olympic games. (The 1994 winter Olympics in Lillehammer, Norway, swelled the number for the 1993-94 season.)

The shift of the National Football Conference to Fox this season contributed to its overall 1-share-point gain in prime time. Conversely, the lack of the NFC on CBS deprived that network of a significant promotion platform.

The 4-share-point drop in prime time represents an average 2.2 million fewer homes tuning in to the networks. According to Turner Entertainment Group's vice president of research, Bob Seiber, basic cable networks have gained the most from the networks' share drop. Collectively, basic channels have added 2.7 share points, or 1.6 million homes, to their average prime time viewing audience this season, he says.

Network executives also say that



Cable's original programming, O.J. coverage and Fox chipped away at the Big Three's prime time audience.



year's upfront will be, Schulman says. The demand for network advertising probably will cause the upfront market to break early this year—probably in early June.

David Poltrack, CBS executive vice president, research and planning, predicts a "very strong" upfront market, despite the drop in network share levels. "There are pockets of strength at all the networks," he says. "The money will be booked. The question is: Can we deliver and hold the money?"

Cable's coverage of the Simpson trial has boosted basic cable ratings, most significantly those for CNN and Court TV. In fact, CNN has dominated the weekly top 40 list of basic cable programs for the past two months. O.J. coverage typically has accounted for 35 or more of the top 40 shows.

That coverage has forced a dip in the ratings for the three network evening newscasts, each of which is down about 1 share point season to date.

Poltrack theorizes that cable's coverage of Simpson has boosted the industry's penetration by roughly 2% this year, with people subscribing—or resubscribing—

primarily to see the trial.

Poltrack cites cable's development of more successful original programs as a key reason for its audience gains. And this year, "outside of NBC's Thursday night, there was not a lot of new-program success" for the Big Three, he says. "I believe from now on, network share will swing up and down relative to the success and failure of the programming in any given year," as opposed to cable gains from penetration or adding new networks.

"Our ratings declines didn't all go to ABC, NBC and Fox," says Poltrack. "And our recovery, when it comes, won't all come from them either. It's nothing that can't be fixed with good programming." ■

some blame for the share drop must go to the relatively lackluster crop of new entertainment series and specials, while cable networks continue to aggressively develop more original entertainment fare.

However, network executives and television media buyers say the network-share declines will not affect this season's network upfront advertising sales market, which is expected to approach—or possibly surpass—last year's \$4.4 billion total.

"The network upfront market is driven by supply and demand, and the demand is probably going to exceed the supply" this year, says New York-based media buyer Paul Schulman. One unanswered question is just how big a seller's market this





**Narrower niches: Turner Broadcasting is testing a channel with a program mix designed for airport lounges**

sumers regard brand names as an assurance of quality—a drop of six percentage points since July, 1989. In the same study, 66% say they're trading down to lower-priced brands.

But even if consumers remained staunchly brand-loyal, marketers would be less willing to blanket them with media advertising. To be sure of reaching the right audience, companies once had no choice but to use general advertising campaigns, which reach nearly everybody. Now, computerized market research is letting them collect detailed information on their customers—not just the approximations offered by demographics, but the specifics of names and addresses. Marketers such as American Express Co. and Philip Morris have assembled vast data bases identifying their customers and their buying habits. With such information, companies now believe it's as important to reach the right people as it is to reach lots of people.

Increasingly, direct marketing is the vehicle of choice. Junk mail used to be the sales tool for fairly specialized products and services—credit cards or magazine subscriptions. Now, marketers of mass consumer products ranging from cars to coffee are turning from the TV box to the mailbox. Chrysler

Corp., for example, recently mailed a videocassette promoting the changes in its 1991 minivan to 400,000 current minivan owners. It included a coupon for a Rand McNally road atlas redeemable at any Chrysler dealer. McCann-Erickson's Coen figures national direct-mail spending will grow 6.5%, to \$24.8 billion, in 1991, while ad spending on network television will creep up just 1.5%, to \$9.5 billion.

Even such traditional TV advertisers as Kraft General Foods Group are shifting to direct marketing. Kraft uses individual mailings, a newsletter, and a toll-free telephone to sell its Gavelia Kaffe, a premium Swedish coffee, to baby boomers and older consumers.

Direct mail has its problems. Consumers are also weary of being flooded by junk mail. And the vast data bases of marketers have prompted

fears that they could invade the privacy of consumers.

**SLICED THIN.** The woes of the traditional mass media are being sharpened by the proliferation of new competing media outlets. CBS, NBC, and ABC once commanded a 93% share of U.S. homes watching television. Now, they have just over 60%. The rest are watching Bart Simpson on Fox or a baseball

game on cable TV, which now reaches 59% of homes. Or they're watching a movie on a rented videotape. Or a boxing match on pay-per-view television.

Some new media target even thinner slices of the population. Want to reach air travelers? Turner Broadcasting System Inc. recently began testing a channel that will beam news from Cable News Network and commercials to TV monitors in airport waiting lounges. GM, AT&T, and American Express have signed up as charter advertisers. How about grocery shoppers? Turner is also rolling out a channel to be viewed at supermarket checkouts. Both services beat mass media on one important count: The advertisers know who their messages are reaching.

Packaged-goods companies such as Nestlé are also relying more on targeted media. Camillo Pagano, Nestlé's worldwide marketing chief, figures that in the past two years, the giant Swiss company has shifted roughly 20% of its advertising budget into alternative media. Pagano wouldn't give details, but he says Nestlé will use a variety of these media in a new venture with Coca-Cola Co. to sell cold canned coffee and tea under the Nescafé and Nestea brand names. Says Pagano: "There is no question in our mind that the key point is more targeting of the consumer."

Nestlé and other marketers are spurred by a growing desire to measure the effectiveness of their advertising. Media entrepreneur Chris Whittle

**Brand loyalty is eroding as shoppers become more price-minded**

says marketers can get more bang for their buck by using his targeted media. His products include Special Reports Family Network, a group of publications and a TV channel distributed to doctors' waiting rooms, and Channel One, a satellite service that beams 12 minutes of programming and commercials each day into school classrooms. Whittle says a 30-second commercial on Channel One reaches 40 times more teens than one on MTV.

Ad executives are unimpressed by such claims: "These methods may be effective," says Philip H. Geier, chairman of Interpublic Group of Cos., "but

they are only adjuncts to mass media." Still, Whittle has persuaded Quaker Oats Co., Procter & Gamble Co., and Burger King Corp. to buy commercials on Channel One. "There are still people who believe in a core buy: three networks and a dose of women's magazines," says Whittle. "But a lot of people understand that's not the way things work anymore."

There's no denying that marketers want more accountability. Struggling to meet financial goals in markets that often grow no faster than the population as a whole, packaged-goods companies have been riding herd on their

brand managers to produce quarterly sales results. The impact of image-building advertising on sales can often be tough to see. Not so with price discounts or coupons, which give sales a quick, easily measured kick. "People are saying: 'I can't wait for advertising to work. I've got to turn these dollars around more quickly,'" says Don E. Schultz, a professor of advertising at Northwestern University.

In addition to luring consumers, manufacturers must satisfy the demands of an increasingly powerful retail trade. Scanning devices at the checkout counter enable supermarkets

## THE MEDIA GET THE MESSAGE—AND IT'S GRIM

Each summer, it's a cat-and-mouse game. The Big Three networks post big rate hikes and purr quietly as advertisers scamper to lock up precious commercial time for the coming season. But this year, the mice are having all the fun. Advertisers are having little trouble finding available time. Best of all, they're getting discounts of up to 25%. Battered by a yearlong advertising downturn that feels more like depression than recession, CBS Inc. and NBC Inc. are offering these sweet deals because they have little choice. Their fear: If they don't catch the advertisers now, they may have to offer more expensive bait later.

Many magazine publishers are caving in to pressure, too. Until recently, most didn't budge much from their published rate card. Now, although most won't admit it, publishers are offering their advertisers premiums or outright discounts.

"There's a school of thought that says: 'If you can say you've got the most pages, you're in good shape,'" observes Reginald K. Brack Jr., chairman of Time Warner Publishing.

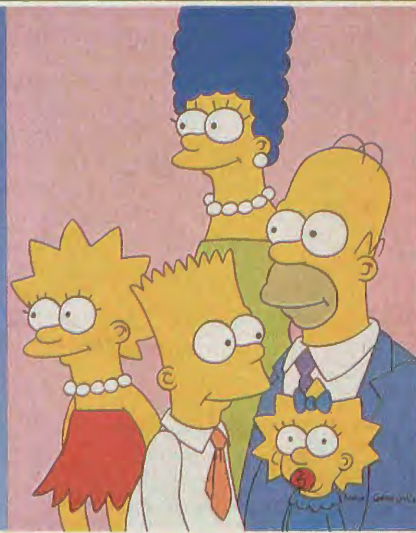
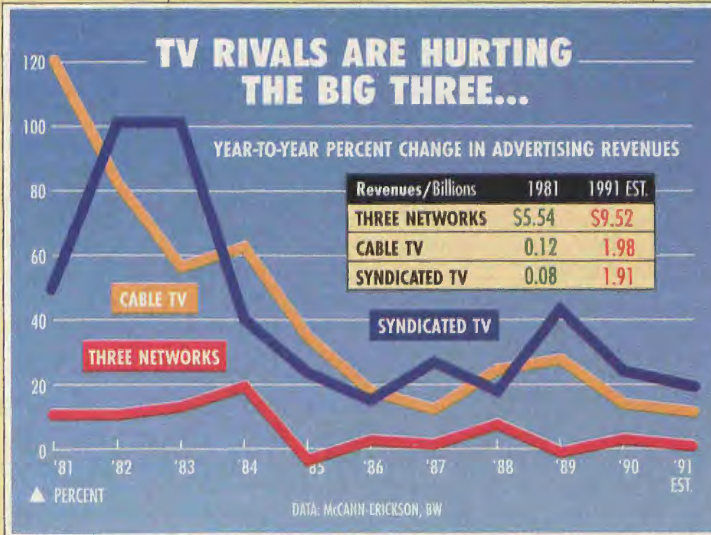
**YESTERDAY'S DARLINGS.** But rather than shield the traditional mass media from a decline in advertising spending, such stopgap measures have only worsened the pain (chart). Now, not only are media companies selling less advertising, but they're also earning less for what they do sell.

The effect on profits has been devas-

tating. Profits of media companies are especially sensitive to fluctuations in ad revenue because they have high fixed costs involving staff, production, and distribution. Since the cost of adding ad pages or commercial time is fairly small, any incremental gain in ad revenue produces a much bigger jump in profits. Likewise, any loss of ads slashes profits disproportionately. Selling time at a discount, for example, will

Publishers flooded the shelves with hundreds of new magazines every year. And why not? The industry rolled up annual increases in ad rates of 8% to 10%. Now all the new players have vastly overbuilt the business—and the industry is in a shakeout.

Then there are structural changes in the ad marketplace that are reducing the number of traditional mass media advertisers. Airlines, banks, savings



badly hurt CBS, which already reported a 67% decline in profits in the first half of 1991. Still, CBS's troubles are nothing compared to Financial News Network Inc. or Family Media Inc., publisher of *Discover* and *Health* magazines. Both have shut down.

The wave of failures has also come because of a glut in the business. For most of the 1980s, the media were everybody's favorite boom industry. All three networks were gobbled up by profit-hungry corporations. Rupert Murdoch paid \$3 billion for *TV Guide*.

and loan associations, movie studios, and retailers are consolidating into fewer players, so each industry will spend less on advertising. The turmoil in the retail industry, for example, has sharply reduced the volume of newspaper advertising. In New York City, the liquidation of B. Altman & Co. and Gimbels hurt papers such as *The New York Times*. The *Times*, which saw its ad lineage plunge 18.5% in the first half of 1991, says it doesn't expect its advertising to return to mid-1980s levels.

Magazines, meanwhile, are strugg-

# Ratings for TV Networks Reach New Low in '98-'99

► CARMAN  
From Page 1

single-digit rating averages. CBS ousted NBC and laid claim to the prime-time ratings crown for the first time since the 1993-94 season.

CBS won with a 9.0 Nielsen rating average and 15 percent share of the audience. NBC barely trailed with an 8.9 rating and 15 share. ABC averaged an 8.1 and 13. Fox finished with a 7.0 and 11, the WB network with a 3.2 and 5, and UPN with a 2.0 and 3.

(A rating represents a percentage of the nation's 99.4 million TV households. A share is a percentage of the households with the sets actually in use. For example, "ER's" 29 share meant that on average, it was seen in 29 percent of the households where sets were turned on.)

CBS also won the season, which began September 23, in a separate category, total viewers, but ranked only fourth in the key demographics, viewers 18 to 34 years old and viewers 18 to 49.

In effect, CBS leads in household ratings because it is strongly favored among viewers 45 and older, while its rivals compete for the younger audience coveted by advertisers.

CBS has been trying to convince advertisers for years that older viewers are no less desirable commercial targets than younger people.

David Poltrack, CBS research chief, said this week that people 45 and older are the most affluent, fastest-growing segment of the population.

Generally speaking, because its viewers are older, CBS is not able to charge as much for commercial time as its competitors. But CBS approaches that liability with an interesting strategy: If you can't join them, beat them. In other words, corral higher household ratings by avoiding the overcrowded battle for younger viewers.

"We're not going the 'Central Park West' and younger route," Les Moonves, president and chief executive officer of CBS Television, said in a telephone interview this week. The reference was to the 1995-96 season, when CBS tried to skew young and took a beating in the ratings. "Central Park West" was one of its failed shows.

Moonves said almost a third of the newly announced fall series on other networks will be teen or "twentysomething" shows all dealing with the lives and problems of young people.

"Our shows deal with adult angst," he said, "which is something I can deal with a lot better."

Moonves said of this season's ratings victory: "This caps a four-year battle from the bottom. When I came to this place a few years ago (in 1995, as president of CBS Entertainment) CBS was the pariah network."

Moonves added that CBS will post a profit this year, something the network failed to do last year.

But even in rising from third place in 1995, CBS has lost ratings as part of network television's downward spiral.

In the '98-99 season, its ratings declined 6 percent. NBC suffered worse, though. Its prime-time ratings fell 13 percent, partly because it lost last year's top-rated series, "Seinfeld."

The only network that boosted its ratings this past season was the WB, which posted a 3 percent gain. The WB primarily focuses on teenagers, with such shows as "Dawson's Creek," "Felicity" and "Charmed."

NBC's "Jesse," starring Christina Applegate, was the season's highest-rated new series, finishing fifth among all shows.

Still, "Jesse" was deemed less than a creative triumph, and NBC has promised to make revisions for its sophomore season. Its high ratings are attributed to its placement between "Friends" and "Frasier" on NBC's Thursday night lineup.

In a sense, the more legitimate new hit was "Providence," also on NBC. The Friday night drama about a young doctor who returns to her hometown was jeered by most critics and had no schedule help. Yet it finished the year as a top-20 show.

Although the networks continue to bleed ratings, the news isn't all bad for them.

Business is reportedly brisk, for one thing, in the so-called up-front sales market of advertising time for the year's fourth quarter.

Another possible hopeful sign is the fact that 11 of last fall's new TV series, along with a handful of mid-season shows, will return for a second season in the fall. That is a relatively high survival rate. Twenty-six new series from last fall were canceled.

Also, strangely enough, the networks might be able to turn a negative — their declining ratings — into a selling point.

The point is that as proliferating channels spread the audience thinly across the TV landscape, the networks deliver the medium's closest approximation of a mass audience.

Collectively, the four major networks and the two "weblets" — WB and UPN — claim an average of 62 percent of the prime-time audience.



Andy Graves and his father, Jake, attended the tobacco sales in Lexington, Ky., in November; they are leaders in the campaign to legalize hemp.

MERITHEW / For The Chronicle

in '99, but it may be five or six times as much as last year.



In the center of Lexington, at Tattersall's Tobacco Warehouse on the first day of the annual tobacco sales last fall, the auctioneer reeled off the bids in a gravelly Southern streak as farmers waited to see how much multinational tobacco companies would pay for their harvest. The sweet, almost choking smell of tobacco from hundreds of huge, honey-colored sample bales filled the dim warehouse. Underneath that aroma was something else: the smell of fear.

It's unclear how much of the nation's tobacco settlement — more than \$200 billion — will go to U.S. farmers whose lives, towns and families thrive only as long the tobacco plant does. The fate of the quota and price-support system is also uncertain. Tobacco farmers fear the rise in cigarette prices will lead to less demand, and foreign competition from countries like South Africa lies ahead. Tobacco currently sells for about \$6,000 an acre, compared to \$300 an acre for corn.

Throughout the battle to legalize hemp, the priority for Hickey, Graves and the other hemp activists in Kentucky is the future of U.S. farmers of tobacco and other crops with depressed prices, such as wheat.

The Kentucky tobacco farmers, like those in other states, are one of the most conservative groups in America, and yet they are also behind hemp. Farmers like Jimmy Sharp, who remembers his father growing fields of hemp in the '30s. "I don't have a problem with it," he says, leaning over a bale at the auction during a break.

Standing next to him, tobacco farmer Graves adds, "Everybody's daddy or granddaddy grew hemp. It helped support a way of life around here. As long as it makes money, they'll grow it."

Hickey believes hemp will grow rural economic development across the country. He envisions local processing plants for items as bold as the car made from plastic hemp that Henry Ford once built — plants like the one a Canadian firm just announced will be built in northwestern Manitoba.

Change in federal policy might be afoot. Although the DEA maintains official silence about the future of industrial hemp from its public affairs office in Washington, Representative Thielen in Hawaii says she is hearing a different tale. She says DEA Chief of Operations Gregory Williams told her recently that the agency is working on revising security regulations to permit U.S. farmers to plant hemp because of the commercial interest. A DEA spokeswoman for Williams wouldn't comment other than to say the office is reviewing Hawaii's request on ending the hemp ban.

Change can't happen soon enough for the Bluegrass hemp team. Says Harrelson, "The argument has been that hemp sends the wrong message to our youth. What about cigarettes, alcohol and tobacco? What kind of message do they send? Those are the real drugs. Hemp isn't."

## NIelsen PRIME-TIME RATINGS

Network prime-time ratings for the current season and several past seasons. A rating is a percentage of the nation's 99.4 million TV households. A share is a percentage of the viewing audience, defined as sets in use.

	abc		CBS		FOX		NBC	
	Rating	Share	Rating	Share	Rating	Share	Rating	Share
1979-80	19.5	31	19.6	31	*	*	17.4	28
1984-85	15.4	24	16.9	27	*	*	16.2	26
1989-90	12.9	21	12.2	20	6.5	11	14.6	24
1994-95	12.0	20	11.1	18	7.6	12	11.5	19
1995-96	10.6	18	9.6	16	7.3	12	11.7	19
1996-97	9.2	15	9.6	16	7.7	13	10.5	18
1997-98	8.4	14	9.6	16	7.1	12	10.2	17
1998-99	8.1	13	9.0	15	7.0	11	8.9	15

\*Fox's first prime-time show was in October 1986.

Source: Nielsen Media Research

## Love of Art Pays Big

MILWAUKEE — A bargain hunter who bought a painting for \$29 at a rummage sale a decade ago got an \$882,500 return on his investment at auction. The painting the Wausau man bought because he enjoyed its depiction of magnolia flowers turned out to be a rare still-life done by American landscape artist Martin Johnson Heade about 100 years ago.

ASSOCIATED PRESS

## Jail for Fashion Whoops

CENTERVILLE, Tenn. — A woman who had just reached a plea deal on drunken-driving charges was jailed by a judge took offense to the message on the back of her T-shirt: "The 11th Commandment: Thou Shalt Whoop A." Hickman County Circuit Judge Timothy Easter found Dana King in contempt of court and sentenced her to 10 days in jail.

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# War Crimes Indictment Includes Milosevic, 4 S

► **KOSOVO**  
From Page 1

that the assets of all five that are held in U.N.-member countries and Switzerland be frozen.

Russia sharply criticized the indictment and said it complicated its already difficult efforts to mediate a settlement of the conflict between NATO and Yugoslavia. Special envoy Viktor Chernomyrdin still planned to travel to Belgrade today after a fresh round of talks yesterday with U.S. Deputy Secretary of State Strobe Talbott and Finnish President Martti Ahtisaari, the European Union envoy.

The indictment's number of 340 "identified" civilians known to have been murdered is much lower than

Western estimates. NATO has put the toll at 4,500, and U.S. Defense Secretary William S. Cohen has spoken of 100,000 deaths. Arbour said the tribunal's evidentiary standards are tougher to meet than those of politicians.

Milosevic and the others are charged in the indictment with personal responsibility for ordering, planning, instigating, executing, and aiding and abetting the persecutions, deportations and murders committed in Kosovo since January 1. All but Sainovic are also charged with command responsibility for the war crimes — knowing about the crimes of subordinates and failing to stop them.

Further charges against them, and against others, and for crimes

they may have committed in Bosnia and Croatia from 1992 to 1995 are likely, Arbour indicated.

The indictment is filled with sober accounts of looting, murder, rape, arson, the shelling of Kosovo civilians by the Yugoslav military and other alleged atrocities.

According to the document, about 65 Kosovo men were slaughtered by Serbian police as the men stood naked in a streambed at the village of Bela Crkva on or around March 25.

At the same time, according to the indictment, about 105 men and boys from two villages in the Orahovac region were assembled inside a house, which Serbian police then sprayed with gunfire. Police then piled hay onto the dead and wound-

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striped tee  
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Jennifer Moore and  
Style & Co. shorts  
Reg./orig. \$20

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**extra 15% off**

a single sale or clearance purchase of career sportswear & dresses for misses, petites, juniors & women; plus handbags

**extra 10% off**

a single sale or clearance purchase of intimate apparel, suits & shoes for her, jewelry, watches & accessories

Excludes Levi's; Bridge and Designer Sportswear; Easy Spirit, Joan & David and Ecco shoes; Coach; Dooney & Bourke; and L.N.C./International Concepts. Redeemable only at point of sale. Coupons cannot be used on gift certificates, Macy's Electronic Gift Cards, prior purchases, phone orders, Macy's By Mail catalog or macys.com purchases, or as payment on credit accounts. Coupon discount will be deducted from the sale or clearance price as applicable. Valid through Saturday, May 29.



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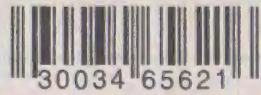
**extra 15% off**

a single sale or clearance purchase of casual sportswear & dresses for misses, petites, juniors & women; plus handbags

**extra 10% off**

a single sale or clearance purchase of intimate apparel, suits & shoes for her, jewelry, watches & accessories

Excludes Levi's; Bridge and Designer Sportswear; Easy Spirit, Joan & David and Ecco shoes; Coach; Dooney & Bourke; and L.N.C./International Concepts. Redeemable only at point of sale. Coupons cannot be used on gift certificates, Macy's Electronic Gift Cards, prior purchases, phone orders, Macy's By Mail catalog or macys.com purchases, or as payment on credit accounts. Coupon discount will be deducted from the sale or clearance price as applicable. Valid through Saturday, May 29.



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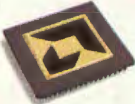
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# Out at the top, II

BY ANDREW J. KESSLER



Andrew J. Kessler is a managing director at Unterberg Harris, an investment banking firm in San Francisco; his MCI mail address is akessler.

HERE WE GO AGAIN—smart media sellers, not so smart buyers.

Not quite two years ago I opined that both John Malone of TCI and Craig McCaw of McCaw Cellular were getting out at the top (*FORBES*, Mar. 1, 1993). As it happens, McCaw unloaded his cellular frequencies on AT&T at the peak in that frothy market. The sale of TCI to Bell Atlantic fell apart, but had it been consummated, it would have taken place at peak cable prices.

This time it's in broadcasting. Laurence Tisch is selling CBS to Westinghouse and the Thomas Murphy-Warren Buffett team is selling Cap Cities/ABC to Disney. Once again the media sellers, I think, are getting out at the top. The fundamental values of broadcasting licenses have topped. Competition is around the corner.

The Fox network or cable channels? No, the market has already discounted that kind of competition. What I am referring to is competition for eyeballs.

The average American watches 55 hours per week of television, just under 8 hours a day. Advertisers pay \$10 or so per thousand viewers for a 30-second spot to attract those eyes. Given that the population of households goes up very slowly, big revenue growth can come only from either increasing the numbers of hours watched per week (no chance) or raising rates.

## **A battle is shaping up for the American eyeball. Television's growth trajectory is over.**

We have seen some bold increases in TV advertising rates over the last 18 months, making this more or less the best market for broadcast advertising since the last time broadcasters changed hands in quantity, which was in 1986. I have a feeling that these price increases are not a trend, just an uptick. Tisch and Murphy are clever to capitalize on it.

In the future there is simply going to be less time spent watching broadcast television. There are other screens to sit in front of.

My dad reminisces about the golden years of TV, not Milton Berle or Howdy Doody but

Friday night boxing. Eyeballs were glued to matches with Sugar Ray Robinson, Rocky Graziano or Tony Zale, mostly fighting stiffly; what became known as the bum of the month club. Now you have the privilege of spending \$40 to watch an 89-second Mike Tyson come-back. Who needs that? Try *Mortal Kombat*. For \$40 you can buy another cartridge for your videogame console. Almost one in three U.S. households has a Nintendo or Sega player, and new, more entertaining 32-bit players are coming out from those two and from Sony.

I'll always remember the NBA finals a few years back. At halftime the network cut to number one draft pick Chris Webber in his living room.

"What did you think of the first half, Chris?"

"Didn't see much of it," Webber replied.

"Too busy playing NBA Jam on my Nintendo!"

At least one ad exec must have choked on her martini on that comment.

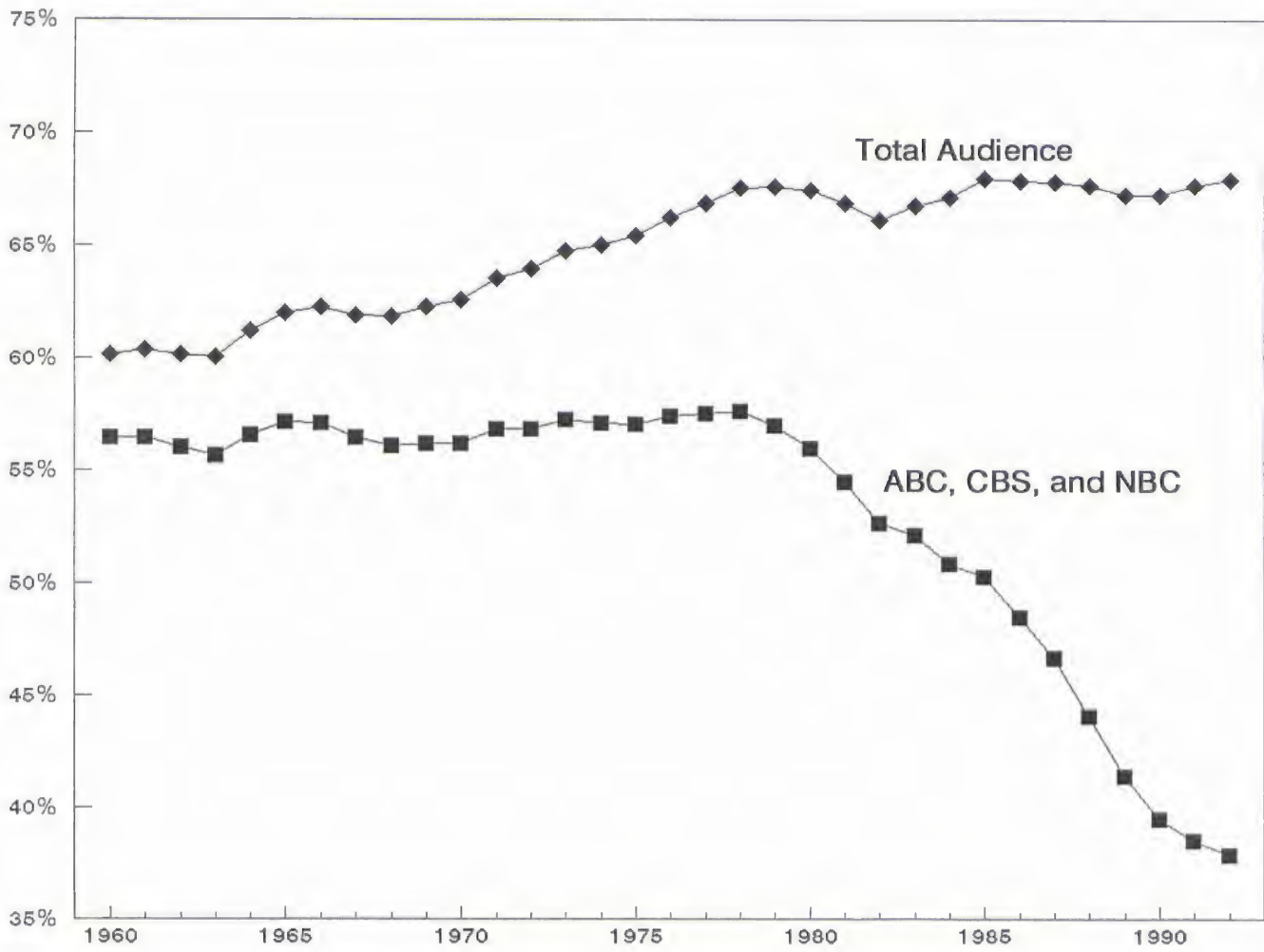
The last year has seen a frenzy of home PC purchases, Pentiums with gobs of memory and quad speed CD-ROM drives and sound cards. Have broadcasters factored in the time spent just getting these machines to boot, let alone the hours playing Doom? Windows 95 may pull even more new households into the PC fold.

In the past year 25 million PCs were sold in the U.S., more than half of them to consumers. And these are the consumers the advertisers are after—25- to 39-year-olds. As PC screens become more televisual, they will attract still more eyeballs. I don't buy the argument that people are too lazy to interact with a computer and will always prefer the horizontal and couch-ridden position of TV-watchers. Look, video games are interactive and they're already a \$10 billion industry.

There are now 7 million subscribers to existing on-line services America Online, CompuServe and Prodigy. With help from Microsoft, that number will double in a year. Surfing the Internet takes longer than watching a Tyson fight. You spend hours and hours to get one useful piece of information. Still, you spend it, and that means eyeballs that belong to Netscape's browser rather than *Dr. Quinn, Medicine Woman*.

TV is not dead, but its economic model is subject to revision. Technology is a runaway train, leaving a trail of upheaval in its path. All the old rules are subject to change, including those written 50 years ago by broadcasters. William Paley and General Sarnoff each took technological innovation and created empires. Those, like all empires, shall pass, are passing.

Broadcasters will look good for a year or so. We have a robust economy, a presidential election and a murder trial. Two years from now advertisers may finally sit up and say they want a rate cut. Tisch's timing is brilliant. ■



**NETWORK AND TOTAL TELEVISION AUDIENCES**