



CEGIR

FRENCH-LANGUAGE TELEVISION
IN CANADA

A SECOND PRIVATE NETWORK ?

FRENCH-LANGUAGE TELEVISION:

PROSPECTS FOR A SECOND PRIVATE NETWORK

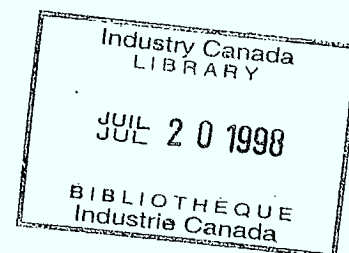
IN CANADA AND OTHER SECONDARY MARKETS

AN OPPORTUNITY STUDY

PREPARED FOR THE MINISTER OF COMMUNICATIONS,

OTTAWA

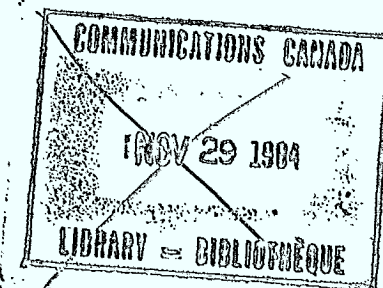
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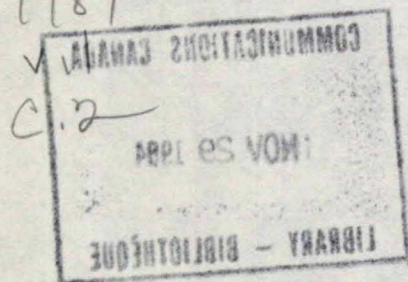
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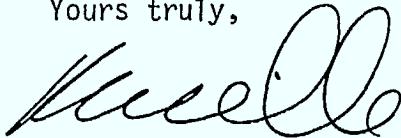
The Hon. Francis Fox
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Dear Sir:

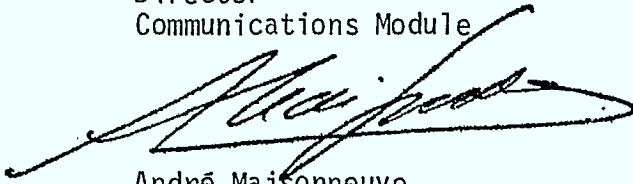
It gives us great pleasure to present to you the English version of the final report on the implementation of a second private French television network in Canada. We remind you that this document is not a literal translation of the French version but contains the substance expressed in the original report.

In addition, please accept our sincerest appreciation for your excellent collaboration, and that of your department, in the realization of this project.

Yours truly,



François Mercille
Director
Communications Module



André Maisonneuve
Vice-President
CEGIR - Ottawa

/lr

"THE ONLY THING THAT REALLY
MATTERS IN BROADCASTING IS
PROGRAM CONTENT; ALL THE REST
IS HOUSEKEEPING."

The Fowler Commission on
the Future of CBC-Radio Canada, 1965.

This study was undertaken by a team led by François Mercille, Director of the Communications Module of CEGIR and consisting of

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1. INTRODUCTION

1.1 Background

- Television as the Cultural Engine of French Canada

The establishment of a second commercial French-language television network in Canada has some striking implications. Over the past three decades, television has established itself as the dominant recreational activity and certainly, one of the major cultural and socio-political forces in French Canada. It is well-known that French-language television was a catalyst in the emergence of popular French cultural life in Canada during the sixties and seventies. French-language television has also consistently enjoyed higher ratings for its Canadian programming than its English language counterpart.

Of course, the language factor has ensured a captive market for French-language services. But beyond this linguistic advantage, French-language television has consistently sought excellence, innovation and creativity in its programming, using relatively modest means. Thanks to the creative contribution of its pioneers and artists, French Canadian television has built a first rate system and won the loyalty of a very large viewing audience.

A New Challenge

French language television is now entering a new era in Canada, and must confront the enormous challenges of the eighties and nineties. Leaving the technological revolution aside for the moment, French-language television will have to operate in an increasingly competitive environment and satisfy a public which is far more demanding and unpredictable in its requirements.

The development of new technologies, such as cable television networks and Direct Broadcast Satellites, are shaking up the communications environment. In its recent Broadcast Policy announcement,(1) the Department of Communications asked if increased access to English-language specialized services, cable-satellite networks and satellite dishes would not have the effect of throwing the entire television system off balance.

Alluding to some of the dangers in these new developments, the Department said: "In spite of the many promises of interesting results and benefits, these innovations have the potential of undermining our cultural life, and of destroying the foundations of our broadcasting system".(1)

This pessimistic scenario will occur, the document continued, "if we do not participate actively in providing new satellite broadcasting services to our TV distribution systems".(1)

French-language television cannot merely react to the dangers in this new environment. It must play an active role. CBC President Pierre Juneau expressed this attitude very well when he said: "It would be as futile to create obstacles to these new technologies as it would have been for a monk in the fifteenth century to oppose the development of the printing press for fear the art of illuminated manuscripts would disappear."(2)

- **A Rapidly Changing Environment**

The transformations taking place in broadcasting are but one aspect of a whole series of changes in Western society. A panoply of new technologies and tele-information services are propelling the West towards a new cultural, economic and social order whose rules have yet to be determined.

At the same time as these major changes are taking place in their overall environment, French-language broadcasters have to contend with the evolution of the Francophone population - not only in its cultural and social behaviour, but more significantly, in its television-viewing habits. There has been a marked increase in the viewing of English language television by Francophones, and a concomitant move away from French TV.

Several factors underlie this phenomenon. First, cable television has increased the availability of English-language services. Second, certain types of English programs have great appeal for Francophones because of their high production values. Third, the bilingualism rate is rising in Canada. All these factors are important and quantifiable.

There are other factors, too, which are more qualitative in nature. Foremost is the cultural evolution of French Canadians, who, at the same time as being swept up by North-American influences, are increasingly open to international currents. In other words, while technological changes are shaking the system, French-language television in Canada must deal with the cultural transformation of its audience.

1.2 Mandate

The Federal Government's National Broadcasting Policy identified eight spheres of activity in which the Department of Communications intends to undertake consultations to develop its overall strategy on Canadian broadcasting.

As far as French-language broadcasting is concerned, the broadcasting policy includes the following thrust: "The possibility of establishing a second commercial French-language television network in Quebec should also be examined. This network, which could broadcast both domestic French-language programming and programming from France and other French speaking countries, could help repatriate those francophone viewers who are moving in growing numbers to U.S. channels in order to increase their choice of programming."⁽¹⁾

The broadcasting strategy⁽¹⁾ also emphasizes the importance of broadening the diversity of French-language television services available to Canadians. In keeping with this spirit, the purpose of this study is to examine the feasibility of creating a second commercial French-language network^(*) to serve Canada as well as other secondary markets.

* Herein referred to as "a second network". "Network" is used in a large way to include option of one station with or without rebroadcast transmitters.

1.3 CEGIR's Approach

1.3.1 Overview

- Updating Previous Studies

In July 1972, The Canadian Radio-Television and Telecommunications Commission (CRTC) said it intended to evaluate, within the near future, the feasibility of establishing a second commercial television network service in the French language in Quebec. On December 5th, 1972, the CRTC announced it was ready to receive applications for licences to operate commercial French-language stations in Montreal and Quebec City. A public hearing was held on December 10th, 1973, following which the CRTC awarded licenses to Télé Inter-Cité Limitée to operate television stations in both cities. These were to be linked in a network operation (CRTC decision 74-75). For a variety of reasons, Télé Inter-Cité found it impossible to go ahead with this project.

When viewed in this historical context, the project for a second French commercial network is not a new idea, but one which has been the object of intense scrutiny and activity. Our study attempts in part to update and shed new light on existing studies.

- **An Opportunity Study**

It is important to keep in mind that this is a study to establish if it is opportune to consider establishing a second private network. Given the magnitude and complexity of such a project, one of its objectives must be to determine whether it is indeed feasible to proceed any further with the project, or whether it would be better to do additional studies before taking that decision.

More specifically, this study proposes to

- present an overview of the financial and economic data relevant to the establishment of a second commercial French-language network;
- identify conditions essential to the success of a second network;
- identify the likely implications of a second network.

- **A Conservative Approach**

We have developed our quantitative estimates and projections with great caution and restraint, trying to avoid the classic trap of overestimating potential revenues or underestimating the potential operating expenses (largely programming) of such a project.

1.3.2 Basic Assumptions

It is important to understand the assumptions underlying our approach. These assumptions, which are contained in the following section, are really the philosophical foundation of our study.

- A. French-language television will have to set higher standards of excellence in order to respond to an increasingly competitive environment and an audience which is rapidly becoming more selective and demanding.

Improving the quality of programming is an objective that most people involved in the broadcasting industry seem to share. The quality of cultural product is basically a subjective concept and its value really depends on the people who are using it. Still, a consensus exists among broadcasters that the "search for excellence" is central to the success of their industry.

At first glance, a search for excellence implies higher production costs. The export and coproduction of programming can help meet these costs by increasing the financial resources available for programming. And the stimulation of the independent production sector through such measures as the Canadian Broadcast Program Development Fund, administered by the CFDC, should also contribute to the realization of this objective.

Our hypothesis is that French-language television in Canada will always be financially handicapped due to overwhelming competition from English-language programming, particularly from the United States. For that reason, it must develop its managerial talent and efficiency, and seek out all those additional ingredients of excellence which are likely to enhance its limited financial resources.

On the subject of excellence⁽⁵⁾, firms which have achieved a high reputation generally have the following characteristics:

1. they are concerned with their customers' needs;
2. they encourage innovative ideas at all levels of the organization;
3. they experiment constantly in order to improve their products and services.

B. The fundamental question is to determine whether the introduction of a second commercial French television network in Canada would translate into a redoubled search for excellence on the part of the entire broadcasting industry, or whether it would, on the contrary, reduce the industry's ability to attain this standard of excellence.

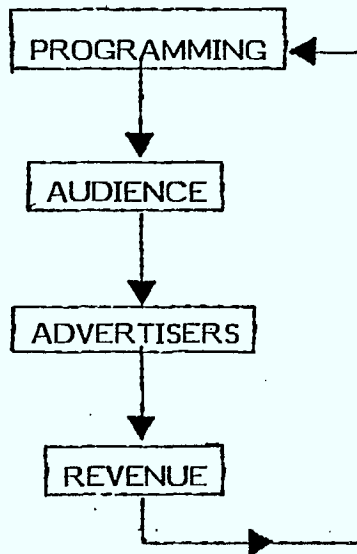
It is obviously impossible to provide a reliable answer to this fundamental question for the following reasons:

1. The Environment is Changing and Long-Term Projections are no Longer Stable

The unpredictable nature of both the current economic environment and of the broadcasting industry dramatizes the futility of making long-term projections which would have to be changed monthly in order to keep pace with developments. For these reasons, we will not attempt to predict the future in this area.

2. The "Unquantifiable" Indicators of Success

The eventual impact of this project (a second network) depends greatly on its financial viability. This in turn depends on its programming as depicted in this traditional classic equation:



- Management's Creativity and Strategic Approach

Programming is central in this equation. The network's success in capturing audiences will ultimately determine advertiser interest and the amount of revenue flowing back to the network. Successful programming depends on a number of factors, including imagination, creativity, the ability to predict audience tastes, and balanced, competitive scheduling. Of course, it is as difficult to predict the success of an isolated television program as it is to predict public reaction to a new film, book or record album.

- The Importance of Audience Research and Marketing

Of course, the potential risks involved in television production can be minimized with a proper budget, by the use of rigorous market research, as well as the inventive packaging of stars, directors and other creative personnel. While some of these elements are quantifiable, others, like creative management, are not. Of course, financial considerations place serious constraints on the exercise of creative imagination.

3. The Financial Strength and Vision of Network Promoters

The success of this project will ultimately depend on its promoters - their vision and imagination, as well as their financial resources.

If this assumption is correct, the following three

consequences are probable:

- A new network will probably attempt to repeat the successes of its competitors;
- The laws of competition ought to prompt a new network and its competitors to strive for excellence as well as develop new productions and new sources of revenues;

i.e.:

- . innovation;
- . new suppliers;
- . new marketing strategies;
- . new advertising markets;
- . secondary sources of revenue through coproduction and program export.

- A broadcasting organization which is well connected to larger and more diversified sources of revenue will have a greater chance of surviving in the international environment in which it must now compete.

At this stage it would be highly conjectural to predict the future strategies of existing television networks in reaction to the introduction of a new service. However, we will attempt to identify various likely impacts based on a thorough analysis of existing data.

- C. The concept of a second network really implies the creation of a second source of French-language programming financed uniquely by advertising revenue.

This means that the distribution system is actually secondary to programming. It also means that a new network can develop its distribution methods progressively. In the past, the majority of television networks were established on a gradual basis, beginning very often with a single station situated in the heart of the major market.

- D. A second commercial network must first be viable in Montreal, and then in the rest of Quebec and other secondary markets.

Its economic viability must be achieved, first and foremost, in the major markets and must not be dependent on revenue generated in secondary markets, such as the rest of Canada, Louisiana, and Florida.

- E. This study will not attempt to provide answers to all the questions raised by the introduction of a second network. Its basic objective is to provide a document which will serve as the basis for intelligent and lively discussion, as well as identify some guideposts for future study, if necessary.

- F. If programming is indeed the key, then the development of a detailed and comprehensive programming package will require considerably more study and reflection.

A field study undertaken in collaboration with creators, producers and advertisers could strengthen the basis for programming decisions. This exercise would form part of the pre-operational phase, and goes beyond the ambit of this study. Both budgetary constraints and the complexity of the issues involved have forced us to limit the scope of our analysis of programming matters. At the same time, it is clear that the programming strategies we have identified in this study can only be put to the test in a dynamic, operational environment.

1.4 Content and Methodology

This report contains seven chapters, including this introduction.

The second chapter provides a strategic study of the television market. We analyse the current television mix, as well as the demand for programming, and then move on to a consideration of the likely development of this market. An important part of this chapter is devoted to a special sub-study of Francophone viewing of English-language programs. The chapter concludes with a possible positioning of a second commercial French-language TV network, in both the major and secondary markets.

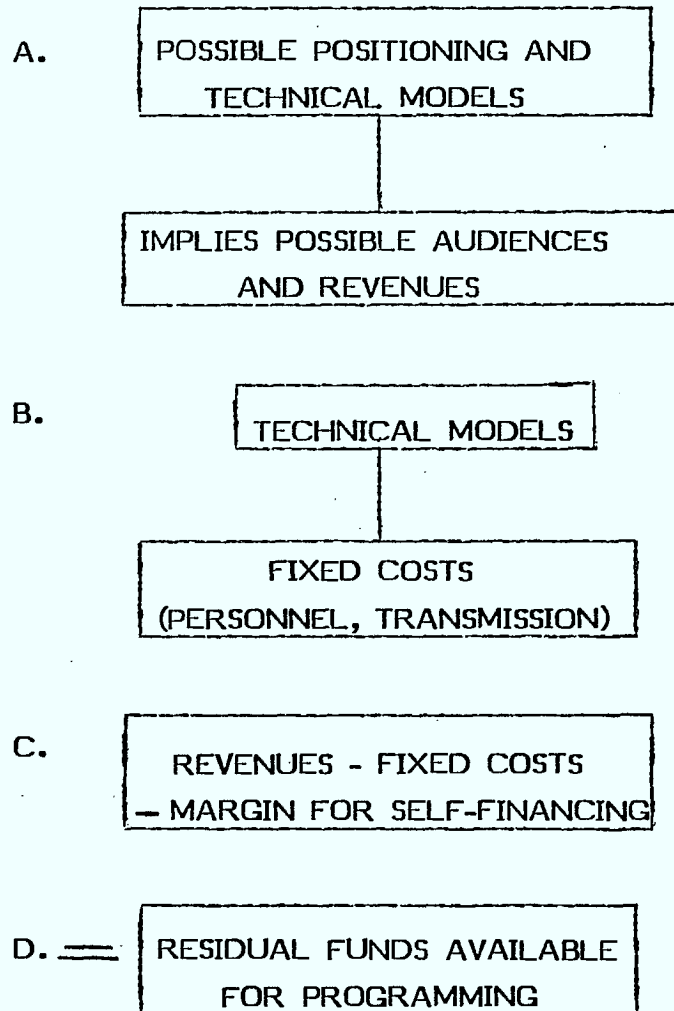
The third chapter describes some of the basic programming characteristics of the second network that are believed to be essential to its success. The sources of supply, the bases for estimating costs, as well as the availability of product, are also treated in this chapter.

The fourth chapter deals with the potential advertising market for a second commercial French-language network, both in Quebec as well as in the peripheral markets.

The fifth chapter identifies the main scenarios that could serve as the blueprint for a second network. These scenarios are described in terms of possible technical models, from which we derive revenue, fixed operating costs and capital requirements.

The sixth chapter assesses the likely financial performance of these various scenarios, in terms of their respective profit-generating capacity. In each case, the analysis takes into account the funds available for programming.

This unique approach allows us to break the vicious circle created by the lack of any kind of linear equation relating the programming costs to revenues. Our method is based on the following chain of reasoning:



The fundamental question is the following: is it valid to project possible revenues based on funds available for programming?

Our analysis of the financial performance of these different scenarios is fairly brief, and is based on an identification of the following parameters:

1. the fixed assets required;
2. cash requirements;
3. profitability at stable growth.

The report is completed by a series of annexes* found in the support document. These annexes provide a more detailed description of the methodology and information presented in the report.

* Available in French only.

NOTES FOR CHAPTER 1

1. "Towards a New Broadcasting Policy", Government of Canada, Department of Communications, OTTAWA, March 1983.
2. Excerpts from a speech by CBC President, Pierre Juneau, to the European Broadcasting Union, reported in LA PRESSE, 28 July 1983: "La radio-télédiffusion publique et les nouvelles technologies."
3. Alvin Toffler, THE THIRD WAVE, New York, William Morrow, 1980.
4. John Naisbitt, MEGATRENDS: TEN NEW DIRECTIONS TRANSFORMING OUR LIVES, New York, Warner Books, 1982.
5. Thomas J. Peters and Robert H. Waterman Jr., IN SEARCH OF EXCELLENCE: LESSONS FROM AMERICA'S BEST RUN COMPANIES, New York, Harper & Row, 1982.

CHAPTER TWO: A STRATEGIC STUDY OF THE TELEVISION MARKET

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This chapter presents a systematic analysis of the television market. Annex A contains a more detailed description of these matters as well as the major sources of information consulted.

Annex A-3 deals with the following three areas:

1. An analysis of English-language TV viewing by various segments of the Montreal francophone population;
2. An analysis of television viewing over a one-week period;
3. A detailed analysis of the viewing of French-language and English-language stations.

2.1 Description of the Television Market

- Our study of the market for a new French-language television network must be situated in the larger North American context since the new technologies now available permit us to reach every corner of this continent simultaneously.
- Our analysis of the supply of programming is based on the television infrastructure (the television networks, their coverage areas and their technologies). It is also based on currently available programming, as well as programming trends.
- Our analysis of programming demand is divided into two segments: one part examines the makeup and evolution of the TV audience; the other analyses the ratings, that is, the characteristics and appeal of different programs.

2.2 Supply and its Likely Development

2.2.1 Characteristics of the Current Mix

- French-language programming is concentrated in the Province of Quebec, where three Canadian networks broadcast programs in the French language to nearly the entire Francophone population. By 1978, more than 75% of Quebecers received three signals.(1) Since then, network coverage has expanded even more. (Radio-Canada's coverage plan, the regionalisation of Radio-Quebec, and the extension of TVA). All of these developments have undoubtedly increased this percentage significantly.

In the context of this study, the TVA network is analysed as a programming network in order to facilitate comparisons with Radio-Canada. In practice, however, it is clear that its newscasts, specials and sports programs constitute the only network programming done by TVA and offered to advertisers on a national basis. Almost ninety per cent of the programming originates from the flagship station, CFTM-10, Télé-Métropole. Since the "PARTICIPATION PLAN"(*) was discarded, this programming has been offered to advertisers on a selective basis. Only Radio-Canada offers a pan-Canadian French-language service. The TVA network will now be extending its coverage to New Brunswick, while Radio-Quebec will probably be available via Anik-C to all of Eastern Canada as of 1985.

* "PARTICIPATION PLAN": The method used for airtime sales in the past by TVA network affiliates. This formula resembles that used in network sales. Recently, TVA affiliates agreed to adopt a new participation plan, through PAUL L'ANGLAIS, Inc., due to be implemented this fall.

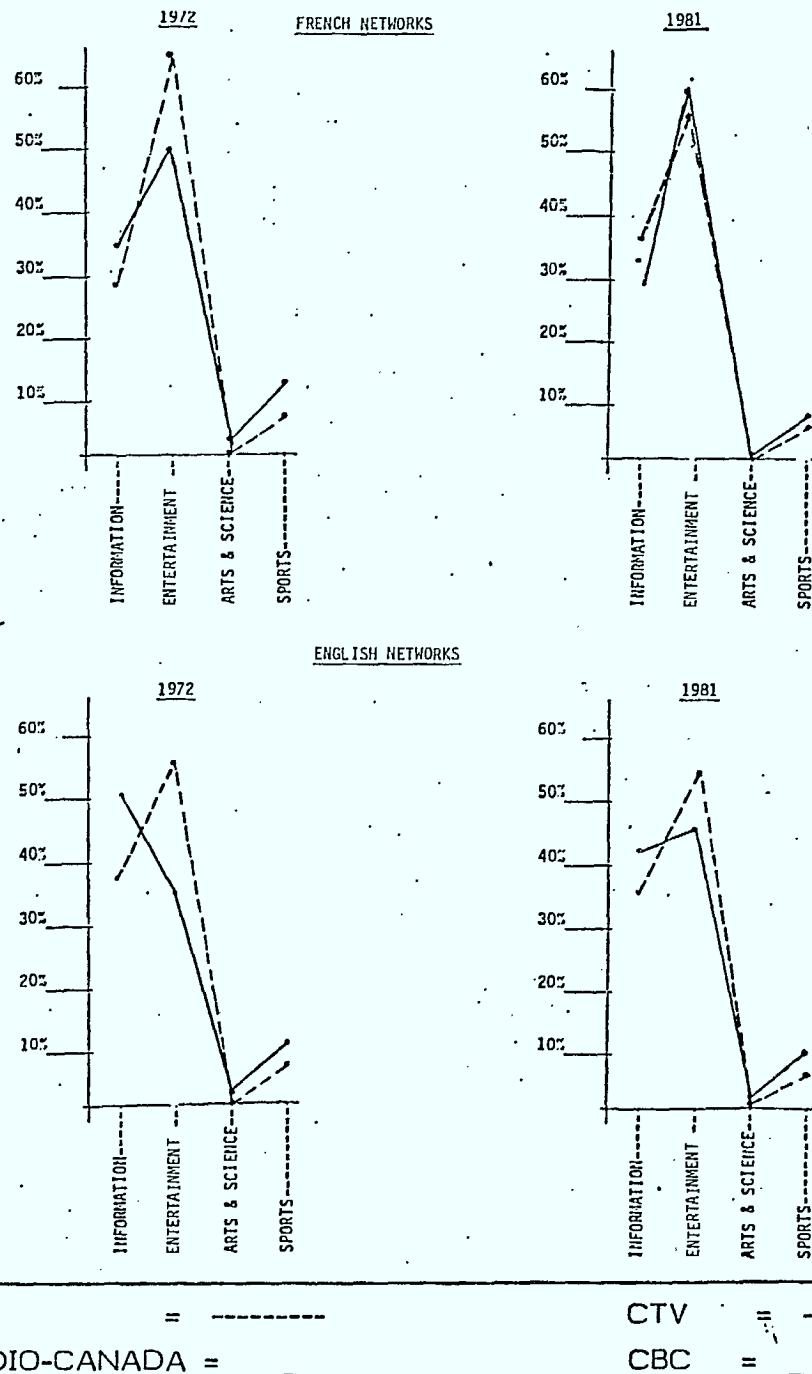
In addition, the CANCOM service offers certain Francophone communities in remote regions of Canada a selection of French-language programming from the existing networks. Thanks to its use of the Anik D-1 satellite, this service could in theory be made available to Francophone communities in peripheral markets located in the United States.

- With respect to the overall mix of available programming, French-language television is not well represented. The three French-language networks in Montreal offer 6,800 minutes of programming between 6 PM and midnight from Monday to Sunday, or about 35% of the 19,380 minutes offered by the English Canadian and American networks during the same period.(2)

This inequality stems from the fact that "the diversity of services offered in the French language in Quebec is lower than that offered in English in most of the other provinces in Canada, where either private independent stations or, in the case of Ontario, a new private network have been licensed."(1) Thus Montreal is served by three French-language Canadian stations, while Toronto offers its viewers a choice of six English-language stations: CBC, CITY, CHCH, CFTO, Global, and TV Ontario.

- The lower number of television viewing opportunities available in French is also aggravated by a clear tendency to homogenize popular programming on the French networks. The following table illustrates this tendency.

TABLE 2.1
Evolution of Programming
Categories of Private and Public Networks
1972-1981



Source: Special compilation done by Quebec Department of Communications.

Since 1972, Radio-Canada has steadily increased its entertainment programming, causing it to resemble more and more the TVA network. The latter has begun to offer an increasing number of information and sports programs. More than 50% of the programming of these two networks is devoted to entertainment; that is, to films and TV drama series ("télé-romans").

Radio-Quebec offers a distinctively complementary type of programming, with only 23% of its programs falling into the entertainment category, and 20% of its programs being of a cultural nature.

The choice of programming available to Francophones is even more restricted by the competitive strategy of the "popular" French networks, which often present the same type of program in the same time slots. This is particularly true of highly popular programs, such as news and drama series.⁽²⁾

- Our analysis⁽³⁾ indicates that both Radio-Canada and TVA are scheduling their entertainment programs during prime time, when they are most likely to capture the biggest audiences. Radio-Quebec, on the other hand, offers cultural programming during this period.

2.2.2 Expected developments: the major trends in programming

In the short term, the programming supply will probably be subject to the following variables:

- 1) Major changes in the use of the television set: VCRs, microcomputers, teletext, etc.
- 2) The accelerated development of new services, especially in North America and in Europe.

- 3) However the realities of the marketplace will likely lead to a "shakedown" of these services

Several experts foresee a rationalization of the TV market after a period of very intense growth and experiment. Thus, in the United States, which is a veritable laboratory for this type of development, analysts are already predicting that by the year 1990, perhaps only twenty programming services will be available.(4)

- 4) A trend toward the internationalization of content

The following factors will likely contribute to this trend :

- the use of satellites for the retransmission of special events, as well as the creation of "ad hoc networks";

- the creation of Direct Broadcast satellite services which transcend national boundaries (the first service of this type has just made its appearance in the United States);
- the proliferation of coproduction and joint venture agreements in programming which broadcasters are being forced to undertake in order to compensate for increases in their production costs and create new sources of revenue;
- new technologies will probably contribute to the development of multilingual production as well as dubbing.

50) Technological developments can create new opportunities for the television medium

For example:

- Improvements in the quality of the TV image (ie, giant screen) as well as in sound quality. These developments should enhance the pleasure of television viewing by recreating the experience of the theatre or a live event in the home.
- The advent of interactive television in both cable and telecommunications leading to new relationships between viewer and distributor.

- 6) The large conventional TV networks and independent stations will probably continue to dominate their markets despite the fragmentation of their audiences.

In the United States, several analysts⁽⁴⁾ have described the conventional television networks as "dinosaurs on the road to extinction". This pessimistic vision is now giving way to a more optimistic outlook for both networks and independent stations. In Canada, most analysts and experts regard television's financial prospects as encouraging, particularly for those stations serving the large metropolitan markets.

- 7) In the United States, in reaction to fierce domestic competition, the big networks are being forced to continuously raise the quality of their programming.

Confronted with Pay-TV, innovative independent stations and specialized services, American network programmers are concentrating increasingly on "event" television, such as made-for-TV films, mini-series, "blockbuster" movies and, of course, sports events.

These improvements in the quality and production values of American programming are proving increasingly attractive to Francophone viewers and are altering their traditional viewing habits. They also tend to reinforce the success of stations like CFCF-TV, the CTV affiliate in Montreal, whose appeal to Francophone audiences through its high-production value American imports is increased through the mechanism of "simultaneous substitution".*

* As required by CRTC regulations governing cable companies.

- 8) A greater number of players who are diversified and integrated.

This increasingly international and competitive environment will probably offer the greatest chances of survival to broadcasters who are allied with larger businesses endowed with major financial resources and/or integrated infrastructures for the production and packaging of programs. New opportunities on the international market will compensate for the more limited domestic distribution opportunities. These developments are quite apparent in both Europe and the United States where huge financial conglomerates and large publishing enterprises are becoming involved in this sector of activity.

In Canada, however, current regulations on cross media ownership do not seem to favour this development, at least at the present time.

2.2.3 Programming strategies of major Canadian networks available to Francophones

In reaction to these present and future changes, Canadian networks are adopting the following strategies:

RADIO-CANADA

- an increase in Canadian content to 80% in prime time within the next five years.
- an increase of up to 50% in production undertaken by the independent production sector (excluding information and sports).
- the search for new audiences and markets (the proposed CBC-II; new target groups).
- a greater accent placed on the distinctive Canadian nature of the public network.
- a greater emphasis placed on Canadian drama programs, and in particular drama series ("télé-romans") and mini-series with high production values.
- a new and aggressive thrust on the international market - CBC Enterprises.

TVA

- greater attention to news and sports.
- greater emphasis given to regional production.
- caution and conservatism during this transition period, given the particularly difficult labour problems at Télé-Métropole.
- an increased reliance on the production capabilities of the affiliate stations (co-productions).
- search for new markets.

RADIO-QUEBEC

- a switch from educational to cultural programming.
- a broader interpretation of its educational mandate.
- regionalisation of production.
- a new emphasis on program sponsorship.
- an apparent desire to become less specialized.

CTV (CFCF-TV)

- A greater awareness of the importance of the Francophone audience.
- strengthening its role as packager; ("The Best of the Three").
- the acquisition of more and more first-run programming.

PAY-TV

- greater emphasis on quality than quantity.
- invasion of conventional television schedules: sports, variety, etc.

As in the United States, where the traditional networks have experienced the increasing fragmentation of their audiences, networks in both Quebec and Canada are beginning to feel the need to reposition themselves with respect to their audience. At the same time, this need for renewal seems to be occurring here with greater difficulty. This is probably the result of serious administrative and advertising constraints, and also because of the burden of the broadcasting infrastructure in Canada. These factors are often incompatible with a climate of creation and innovation.

2.3 Demand and its Likely Development

2.3.1 The Potential Audience and its Evolution

- In 1983, the Francophone population of North America was estimated at 7,204,000. Nearly 75% of this population resides in the province of Quebec.

TABLE 2.2		
<u>Rough Estimate of Francophone Population of North America</u>		
	<u>1983</u>	<u>1985</u>
Province of Quebec	5,376,000	5,408,000
Francophones outside Quebec		
Canada (mother tongue)	928,000	928,000
U.S.A. (language spoken)	900,000*	900,000
TOTAL	7,204,000	7,236,000

- Sources:
- . 1981 census, growth rate 0.3% annually, 1983-85.
 - . Exploratory study on the extension of TVFQ service (LA SETTE) outside of Quebec, Pierre Levasseur et Ass. 1983.
 - . Census Bureau, Washington DC.

The growth of this population group is assumed to be weak in forthcoming years (0.3% annually in Quebec), and is estimated at zero elsewhere in North America.

* The Census Bureau in Washington estimates that the French-speaking population in the United States oscillates between 900,000 and 1,500,000, depending on the period of the year. We chose the lower estimate for the purposes of this study.

- In 1983, the potential Francophone cable audience was estimated at 1,025,000 households in Canada. In Quebec, this number is around 847,000 households, which represents 83% of the Canadian potential(5).

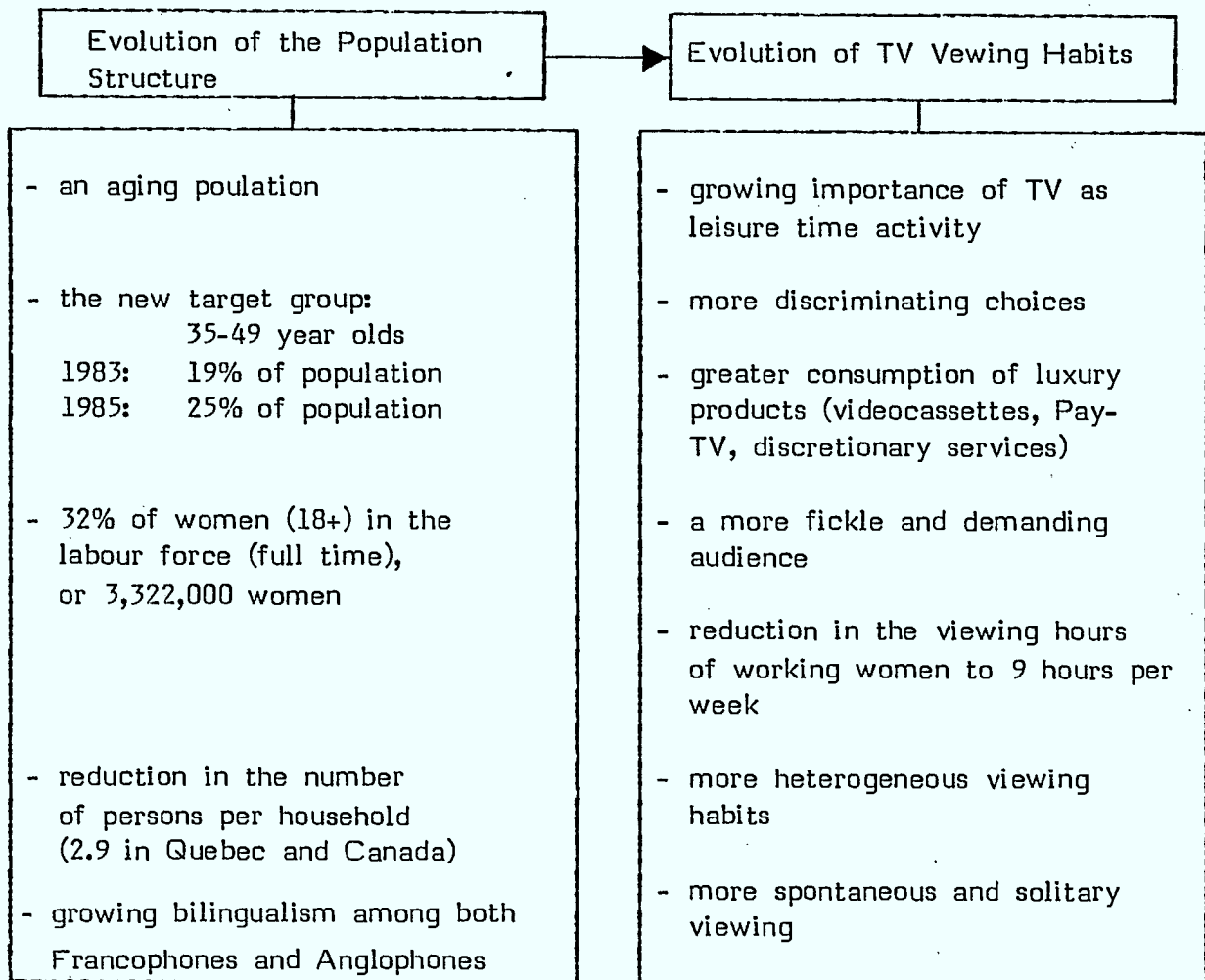
TABLE 2.3

Estimated Canadian Francophone Households Receiving Cable

	1983	1985
Province of Quebec	847,000	899,000
Rest of Canada	<u>178,000</u>	<u>178,000</u>
Total:	1,025,000	1,077,000

- Sources:
- . Matthews CATV list, June 1983.
 - . Assuming 2.9 persons per household.
 - . Exploratory study on the extension of TVFQ, Pierre Levasseur et Ass. 1983.

- The potential audience will be greatly affected by important structural changes taking place in the population, which are bound to result in changes in overall consumer habits, and will influence television viewing in particular.



- Sources:
- . BBM data, 1983.
 - . Statistics Canada, 1981 CENSUS.
 - . Bureau de la Statistique du Québec, POPULATION PROJECTIONS, 1976-2001.
 - . REVUE COMMERCE, September 1983.

2.3.2 Television Viewing: A Few Characteristics

- The average Canadian devotes 23.7 hours per week to television viewing.⁽⁶⁾ Average viewing in Quebec is slightly higher: 24.5 hours per week.
- Most TV viewing is of the conventional networks, but this is being progressively eroded. The substitutes are Pay-TV, VCRs, and microcomputers, representing roughly 5% of the use of television time. This percentage has increased rapidly in the last few years.⁽⁷⁾
- In 1982, French Canadians in Quebec still retained a fairly high degree of loyalty to French language TV stations (more than 80% of total viewing, except for Hull) according to a study by André Caron and L. Giroux "French-Canadian viewing of English-language Television, growth from 1976 to 1981" (title translated).
- In Montreal, the CTV affiliate, CFCF-TV, is generally considered to be the alternative source of popular programming among Francophones, with an average Francophone audience of 8% (BBM, 1982). At certain times, half of CFCF's total audience is Francophone. This station also attracts a very large percentage of third language, multicultural groups (45% of their total viewing). Radio-Quebec, on the other hand, which has an educational mandate, captures only 5% of the market.

TABLE 2.4
FRANCOPHONE AUDIENCE SHARE BY STATION
Montreal and Quebec City markets

TIME BLOCKS	MARKETS	Stations	1 9 8 2		1 9 8 3	
			Rating	SHARE	Rating	SHARE
6:00am - 2:00am	Montreal	CBFT	5	29%	5	33
		CFTM	7	43	5	31
		CIVM	1	4	1	5
		CFCF	2	10	2	14
		CBMT	-	2	-	3
		USA	0	7	1	9
		OTHERS	1	5	1	5
	Quebec	CBVT	5	30	5	35
		CFCM	8	47	6	38
		CKMI	1	4	-	2
		CIVQ	1	4	1	5
		OTHERS	3	16	3	20
6:00pm-midnight	Montreal	CBFT	11	32	11	34
		CFTM	15	43	11	33
		CIVM	2	5	2	7
		CFCF	3	8	4	12
		CBMT	1	2	1	2
		USA	3	6	3	7
		OTHERS	1	4	1	4
	Quebec	CBVT	10	31	11	35
		CFCM	16	48	12	39
		CKMI	1	2	-	1
		CIVQ	2	6	2	7
		OTHERS	5	14	5	17

Sources: BBM population 2 + years, Montreal C.M.; spring 1982
 Quebec; fall 1982, fall 1983.

Special report on the French language population.

English language viewing by francophones increased by 38% in Montreal between 1976 and 1981, whereas the viewing of French-language programs decreased by 11%.(8) The study by Caron and Giroux noted a significant transfer from French-language to English-language viewing in Montreal only.

The Caron-Giroux study found that in 1981, Francophone viewing of English-language networks was particularly high during the weekdays between 3 and 6 PM as well as after 10 PM at night, and was even higher during the weekends. Often it appeared that viewing of English-language networks by Francophones stemmed from weaknesses inherent in French-language programming at certain hours, or in the strategies of the popular French networks which scheduled similar programming in these time slots.

- The viewing of French-language programming by Francophones outside of Quebec seems to depend on the specific content of the programs.

French Canadians outside Quebec seem to be particularly interested in regional content, that is, local news and programs reflecting regional particularities. Francophones living in the United States seem to be more interested in programs which reflect their cultural heritage.

2.4 Positioning a New French-Language Network

2.4.1 The Performance of Current French-Language Networks

THE STRENGTHS OF EXISTING FRENCH LANGUAGE NETWORKS

1. Since their inception, both Radio-Canada and the TVA network have been particularly successful in attracting audiences with Canadian programs. The English-language networks, on the other hand, have rarely attained similar success levels with their audiences.
2. In spite of a growing trend to English-language viewing, the major French-language networks have managed to maintain a fairly loyal audience, and have rarely experienced the same degree of audience fragmentation as in English Canada, and more recently in the United States.
3. Radio-Quebec, with its educational mandate, has made a significant and distinctive contribution to the overall programming mix. Its popular fare, in particular, has managed to attract sizeable audiences - much to the chagrin of commercial broadcasters, it is said.

4. With only six million Francophone viewers, French-language television provides an even greater choice of networks than does France, with its fifty million viewers. Of course, as part of the North American television market - certainly one of the most advanced markets in the world - the industry naturally benefits from the larger mix of options and opportunities available. The TV industry, and indeed the entire communications sector, is probably one of the most visible and successful Canadian industries on the international stage.
5. The existing network structure integrates the functions of production, programming and distribution, allowing economies of scale and facilitating long term planning.

THE WEAKNESSES OF EXISTING NETWORKS

1. Program "choice" is often more apparent than real on French-language networks.

The usual network prime-time strategy is to counterprogram the competition by scheduling an identical category of programming at the same time. TV dramas are a good example. This results in little true viewer choice, especially between 4 p.m. and 9:30 p.m., Monday through Friday.

2. Radio-Quebec offers a complementary alternative to the other two networks. Its low audience share (around 6% of total viewing in Quebec) after ten years of operation, suggests that this network is not perceived as a true popular alternative by most Quebecers.

3. Because their audiences are largely captive as a result of the language factor (they will become less and less so in the future as Francophones become increasingly bilingual), the French-language networks have not really had to prove themselves or to be particularly innovative in order to attract viewers. It is also important to recognize that the language barrier has increased the difficulties of the French-language networks, in acquiring recent dubbed versions of films and programs. Their bids for American dubbed versions have been considerably weakened in a North American environment which is more than 95% anglophone. Delays in availability of these versions have contributed immensely to increasing the transfer of viewers from French-language to English-language networks. This issue will be dealt with more fully in chapter 3.3.
4. The attention given organizational questions, production facilities, labour problems, as well as a general administrative top heaviness, has detracted from creative development - the traditional strongpoint of French Canadian culture.
5. The special attention given by the French-language network of CBC to the Quebec region and in particular to Montreal has left most Francophones outside of Quebec highly dissatisfied. For most of them, the service offered by Radio-Canada is the only French-language Canadian choice available.(9)

6. A more detailed analysis of the French-language programming mix reveals the following basic weaknesses:(2)

"As soon as a French-language network offers an unpopular program, only a small portion of its audience turns to a competing network. Most switch to an English channel."

(Annex A-3, p. 107).

For this reason, CFCF television is often the third most popular choice for Francophones in Montreal:

"It is clear that for French-language viewers the English channels provide what could be called a third network where they can find the kind of programming which is missing or which is under-represented on the French-language networks."

Ibid, p. 107.

"Francophones are looking almost exclusively for entertainment programming on English-language networks, (83% of English-language viewing of English language networks by Francophones). This viewing is not done indiscriminately. It depends on what is being offered on French-language stations."

Ibid p. 107.

"It is usually when the French-language networks are focussed on the same audience that the English-language networks become more popular, since the balance of their audience is dissatisfied."

Ibid, p. 108.

A good example is the children's programming strip in the early fringe, which is standard for most French-language networks. This homogeneity in programming tends to push both adults and adolescents towards English language networks. Television station CFCF in Montreal seems to be picking up the disenchanted in increasing numbers during this time period.

"Another weakness of the French networks is their lack of consistency, both in content and in format throughout the broadcast week, and particularly in the daytime period."

Ibid, p. 108.

English-language programming, which is more consistent during this period, tends to win the loyalty of television viewers. Note, too, the popularity of the English language soap operas among French Canadian viewers.

"Movies play a very significant role in the dynamics of French Canadian viewing. Experience has proven that where a good film will deliver a large audience for the entire evening even on English-language networks, a bad film, on the contrary, will not only lose a large segment of its audience, it will also lose it for the entire evening."

Ibid, p. 78.

This becomes especially important when one considers that French-language networks place a very high premium on the scheduling of movies during prime time.

2.4.2 Viewer Satisfaction with Existing Services

For the purposes of this study, CEGIR asked CROP to insert the following question in their OMNIBUS survey in 1983:

"In general, would you say that you are very satisfied, somewhat satisfied, somewhat dissatisfied, not at all satisfied with the television programs provided by the French-language networks?"

The answers to this question were distributed in the following manner:

Very satisfied	5%
Somewhat satisfied	52%
Somewhat dissatisfied	30%
Not at all satisfied	9%
Don't know / no answer	<u>4%</u>
TOTAL	100%

The answers show that viewers are generally more satisfied than they are dissatisfied (57% versus 39%), which seems to attest to the success of the French-language networks, at least until now.

2.4.3 Prospects for a New Television Network

a) Audience Interest in this Possibility

The following question was also inserted into the OMNIBUS questionnaire:

"People are now studying the possibility of creating a new non-pay television network in the French-language which would carry advertising. Would you be more or less favourable to the establishment of a new French-language television network?"

More favourable	62%
Less favourable	20%
Indifferent	14%
Don't know / no reply	5%

The results indicate that Francophone Quebecers are clearly more favourable to the introduction of a new private French-language network than unfavourable.

b) Conclusions: Strategic Study of the Television Market

Four main conclusions can be derived from this strategic study of the television market:

1. French language television networks have achieved considerable success in terms of both the viewing and the production of Canadian television programs.
2. At the same time, new viewing habits are developing among Francophones, and the audiences themselves are changing. "It is clear that, at the present time, the two major French-language networks have not satisfied all the needs of Francophones."⁽²⁾ The educational network, Radio-Quebec, does not appear to have filled this void.
3. In view of these factors, it is reasonable to suggest that a segment of the francophone audience, which is currently viewing English-language programming, can be repatriated if programming complementary to that of the existing French networks were made available.
4. According to the OMNIBUS survey, Francophone Quebecers would be favourable to the introduction of a new commercial French-language television network.

NOTES ON CHAPTER 2

1. CRTC, Special Report on Broadcasting in Canada, 1968-1978.
2. "Francophones and Television: Public, Programming and Consumption", a sub-study undertaken by STATCOM Enr. for this study, November 1983. (see Annex A-3).
3. Supply index used by Souchon, Thoveron and Caron in their study entitled "Three Weeks of Television", a UNESCO report, 1982.

This index weighs supply and availability as a function of two factors; "That proportion of the total audience that is actually viewing television at the time of broadcast, compared with that able to receive the station". ("Francophones and Television: Public, Programming and Consumption", STATCOM Enr., p. 53-54).

4. Sources:

- Channels of Communications, "Field Guide for the NEW MEDIA", November-December 1983.
- Channels of Communications, "Are the Networks Dinosaurs", June-July, 1982.
- TIME, October 7, 1983: "Troubled Times for the Networks".
ATLANTIC MONTHLY, "Why the Networks Will Survive Cable", December 1983.
- "TV in Canada in the 1980's: Is the bloom off the rose?" Mimi Fullerton, Burns & Fry, MARKETING October 10, 1983.

5. Matthews CATV List, June 1983.
"Exploratory Study on the Extension of TVQ (LA SETTE) Outside of Quebec", Pierre Levasseur, 1983.
6. BBM Data, 1983.
7. Interview with Gerard Malo, BBM, French services.
8. "French-Canadian Viewing of English-language Television: Growth from 1976 to 1981", (title translated), André Caron, Luc Giroux and Chantal Mayrand, for the Federal Department of Communications.
9. Selected proposals and interviews from the last "Congrès du Conseil de la Vie française en Amérique", held in Quebec in October 1983. The Therrien Report (Entitled: "The 1980's: A Decade of Diversity", July 1980) had already described this phenomenon in 1979.

CHAPTER THREE: PROGRAMMING

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3. PROGRAMMING

The development of a model and a strategy for programming is of supreme importance in the creation of a new television service. We don't go into detail about programming, nor suggest a typical programming schedule. Instead, we propose a positioning strategy which we believe will make the new service successful.

3.1 Programming Concerns

Programming the new network raises a number of specific problems and concerns. The principal ones are as follows:

- 3.1.1 Characteristics inherent in so-called conventional television;
- 3.1.2 The objectives and goals set by government authorities;
- 3.1.3 Delays both in setting up the network as well as in analysing the competition's and the market's reactions and strategies;
- 3.1.4 Canadian content regulations;
- 3.1.5 The realities of market competition during the launch period;
- 3.1.6 The need to be distinctive as well as profitable;
- 3.1.7 The difficulty in quantifying the principal ingredients in good programming: a fertile, albeit commercial, imagination and creative capability;
- 3.1.8 The importance of marketing.

3.1.1 The Characteristics of Conventional Television

Programming the second network must be based on the principles of mass-appeal television. It must offer a variety of programs to a popular audience of sufficient size to attract advertisers. Above all, programming must be responsive to the ratings; it must constantly adjust its content and its course to suit its target audience.

3.1.2 Government Objectives

The thrust of the new network's programming must also respond to specific objectives arising out of the political context:

- 1) It must offer programming which is varied and complementary to that being offered by existing networks.
- 2) It must contribute to the development of the independent production sector, developing programs in the French language.
- 3) It must contribute significantly to the attainment of the objectives and spirit of the Broadcasting Act.
- 4) It must balance foreign cultural influences.
- 5) It must encourage both the export and the co-production of programs, especially with French-language countries.
- 6) It must adhere to CRTC regulations on Canadian content.

- 7) It must maximize opportunities created by the program-exchange agreements which are currently being negotiated with France and which will make possible the exchange of a significant number of television programs per year. Similar agreements are being explored with other French-speaking European countries.

3.1.3 Delays in Start-up

Our analysis of the positioning of the second network is based largely on an examination of the existing market and its anticipated development. It is possible that certain niches we identify in the market today will be occupied by the competition in the twelve to twenty-four months between the awarding of the license and the time the new service goes on the air.

For these reasons the programming models developed at this stage may lose some of their commercial impact in the future, as a result of strategic manoeuvres made by the competition. In short, there is a need to strike some balance between the positioning of the new network in the short term and the need to maintain secrecy about programming plans.

3.1.4 Regulation

Generally speaking, second network programming must adhere to CRTC Canadian content regulations. In its policy announcement regarding Canadian content on television(1), the Commission announced that it planned to make certain amendments which should come into effect around October 1st, 1984.

In its public notice, CRTC 1983-174, the Commission proposed a series of guidelines for the accreditation of Canadian programs based on a point system similar to that applied by the Film and TV Certification Office for tax shelters (CCA) productions. The CRTC is currently pursuing consultations on this subject with the industry and the public.

At this stage it is difficult to predict how revisions to the regulations will affect the new network's programming. Given the past popularity of French-language programs, it is likely that the new network will have no trouble meeting these regulatory requirements, at least in the mid to long term.

3.1.5 Competition During the Launch and Start-up Period

Experience has demonstrated the tremendous difficulties most new television services face during the start-up period, whether they are financed by subscriber revenues or by advertising. First, the industry is highly competitive, and it is dominated by participants with considerable technical, human and financial resources most of whom have been broadcasting for more than twenty years. Second, the conservative attitude of the advertising industry will have to be overcome.

The new network is faced with the overwhelming task of building from scratch its audiences, as well as a network of customers, suppliers, and creative resources. The first few years will be crucial, and its future will depend on how it marries the above requirements with CRTC regulations and its conditions of license.

It might be necessary to create enabling regulatory policies or at least to provide the network realistic conditions of licence

for at least three or four years. If the network is incapable breaking even during this period, it will never be able to fulfill cultural objectives and requirements.

3.1.6 The Need to be Both Distinctive and Profitable

Many believe that the problem facing the second private network, i.e. balancing the need for distinctive programming and at the same time building a profitable audience base, is an insurmountable contradiction.

Should the programming of the new network be so distinctive from existing programming that it neglects the very elements that have made French-language television so successful in Canada?

It seems clear that a new network should strike a balance between innovation and conservatism if it is to succeed in the short term. After all, innovation need not be limited to content. Nor is it necessarily synonymous with pure invention.

Therefore, we suggest:

1. The twin requirements of being profitable and complementary do not necessarily both have to be met in the short term.
2. There is a growing crisis in television creativity. The difficulty of offering something completely different seems to be growing concomitantly with the multiplication and diversity of new television channels. Pierre Juneau described this problem recently:

"It seems important to point out that the multiplication in channels is not necessarily synonymous with diversification of real choice. This is a sign of an enormous problem that exists in the United States and certainly in the rest of the world: the difficulty of reconciling technique and content. An imbalance exists between our technological capability of increasing channel availabilities, and our creative and financial ability to transmit programs which are not only varied but of high quality. Thus there is reason to be apprehensive about a proliferation of channels which offer neither variety nor substance."(2)

In spite of these admonitions, there are ways the new network could create a distinctive image without offering totally new programming. Innovation can originate at all levels of the enterprise (programming, management, research, production, marketing, promotion, positioning the program schedule, program acquisition, relationships with independent producers, international relations, etc.). An innovation strategy can be based on quick tactical trials, market research tests and adjustments.

According to a fashionable theory, it is this propensity to test innovative ideas which is one of the principal factors contributing to the excellence of large North American Companies.(3) Innovation can be profitable and can assume many different forms without necessarily offering something entirely new.

3.1.7 The Difficulty of Quantifying the Source of Good Programming: Imagination and Commercial Creativity

A Risky Industry...

Even if it is true that "programming is key, and the rest is housekeeping", (4) commercial television stations still consider their main task to be selling audiences to advertisers. Success is measured in rating points and the cost per thousand offered to advertisers. And, despite the continuing refinement of research tools and market studies, a program's success still depends on unquantifiable factors. Hence the typical statement of American studio heads, "The only thing that we can be sure of in this industry is that we cannot be sure of anything." (5) Clearly, then, the new network's programming strategy must be based at least in part on subjective factors and judgement calls.

Programming for Success: The Lessons of the Past

Many production and programming executives choose to rely on past successes when making decisions about future programming. This partly explains the increasing occurrence of movies scheduled in a series of installments in prime time, of new adaptations of old films, and of feature films repackaged into series or mini-series for television, such as Les Plouffe, Fame, and so on. There has also been an increase in the production of TV drama series based on tried and tested story and production formulas.

This "rational" approach, while it may be prolific, imposes limits on innovation and eventual success. Many experts attribute the current difficulties of American networks in producing successful series to this approach. Norman Lear, a prolific American TV producer, claimed:

"A show becomes a big hit because it is dynamically different, but the Networks are afraid of different. They want Carbon-Copy Television"(5).

In the same vein, Tom Shale, TV critic of the Washington Post, declared:

"A new idea looks like a foreign object. It's something to run away from. So they clone whatever was successful elsewhere"(5).

The development of new types of products could become the major preoccupation of the audio-visual industry during the eighties and nineties, as it now is in many industrial sectors. This phenomenon is well described in a recent study which claims that the developments and changes that have taken place demographically combined with the diversification of life styles seems to have forced most companies to develop innovative products geared to an increasingly segmented market.⁽⁶⁾

The problem of product development has certain common parameters, whether one is introducing a new car or a new television series. First, one has to measure the needs and expectations of consumers, and then determine if the product can be created and sold at a profit.

Predicting Consumer Needs and the Competition's Strategy

The problem usually stems from the delays that take place between the conceptualization, creation, and ultimate distribution of a given product. In the words of one American observer,

"Developing a new product is like shooting a duck. You can't shoot it where it is, you've got to shoot it where it's going to be"⁽⁶⁾.

From this perspective, the ultimate success of the second network's programming will depend on its executives' ability to predict the needs and television viewing habits of its audiences, while ensuring that the product corresponds to trends and tastes at the time of the broadcast.

3.1.8 The Importance of Marketing to Audiences and Advertisers

In this rapidly changing and competitive environment, marketing programming both to audiences and to advertisers becomes increasingly critical. Our television industry seems to have been slow in taking up this challenge, undoubtedly because competition was not that keen until only recently, particularly if we compare television to other industries.

In the United States, the conventional networks seem to have devoted much more attention to this problem, in the face of blistering competition from pay television, specialized services, and other claims on the viewer's time. A new trend has developed for creating television "events", with saturation newspaper campaigns and publicity campaigns stretching over many weeks.

NOTES FOR SECTION 3.1

1. "Public broadcasting and new technologies", an address given by CBC president Pierre Juneau to the General Assembly of the European Broadcasting Union, La Presse, July 28, 1983.
2. Public notice, CRTC, 1983 - 174.
3. Thomas J. Peters and Robert H. Waterman Jr., "In Search of Excellence: Lessons from America's Best-Run Companies", Harper & Row, 1982.
4. The Fowler Commission, Report on the Future of CBC, Government of Canada, 1965.
5. TIME, February 7th, 1983: "Troubled Times for the Networks", p. 68-70.
6. BUSINESS WEEK, November 21st, 1983: "Marketing: The New Priority, as Splintered Mass-market Forces Companies to Target their Products".

3.2 Positioning Strategies

The development of a detailed programming grid is part of the pre-operational stage and thus, does not fall within the ambit of this study. We will concentrate on identifying network positioning strategies here.

3.2.1 Programming that is complementary to that currently available, principally through commercial innovation

Programming ought to offer something different. However, it is unrealistic to expect pure invention in television products. Network programming ought to offer a varied menu of information, variety, sports, movies, and TV drama. In other words, the new network still has to offer the same ingredients as its competitors.

If the new network cannot invent something entirely new, it should at least try to be innovative and complement existing programming. We believe innovative businesses are faring better than cautious ones in the current economic environment, and that it is these businesses which have the greatest chance of success in the future.

"Innovative companies are not only doing exceptionally well in the production of new goods and services from the commercial standpoint, they are also a lot more adaptable to changes in their environment".(1)

In order to be complementary and distinctive, second network programming has to place a high value on innovation. This must be apparent at all stages in the programming process. The following are some of the important steps in this process:

1) Positioning programs within the schedule

In television, program scheduling is probably as crucial as the intrinsic value of the product. The new network should create a niche in the market by scheduling against the popular French-language networks (Radio-Canada and TVA). In recent years, these latter have shown a marked tendency to offer similar programs in the same programming slots (see Chapter 2). The new network ought to create a scheduling alternative for Francophones whose viewing habits are becoming increasingly less standardized.

The second network could distinguish itself by offering a program schedule which is a lot more flexible than that of its competitors, a step that would be compatible with changes that have taken place in consumer behaviour and lifestyles in an increasingly segmented marketplace.

2) Innovation in program content, format and production techniques

This could include:

- choice of themes for TV dramas;
- production rhythm;
- choice of hosts, performers, etc.;
- production methods;
- integration of content categories;
- visual imagery and presentation.

3) Marketing and Program Promotion

Good programming usually sells itself but it must also be reinforced by efficient and aggressive advertising and promotion. Now that we have passed from an age of passive viewing by a homogeneous, mass audience to audiences which are more unpredictable and heterogeneous in their behaviour, marketing television programming has become a far more serious business. The second private network will be forced to be innovative, dynamic and aggressive in its overall approach to marketing.

3.2.2 An Interesting Target Audience for the Short Term: Young Adults (25-39)*; for the Midterm: 35-49 year olds

By targetting principally to 25-39 year olds (the post-war baby boom generation), the second network would have room to grow and expand with this unusually large age-group. Then, as this audience segment grew older, the network could readjust its demographics and seek out the 35-49 year olds.

Here is a quick profile of the baby-boom generation:

- more North American and international in their values;
- more likely to respond to the younger creative generation;
- more likely to prefer more contemporary approaches to programming, with soundtrack and music predominating.

* The young adult segment is usually associated with either the 18-35 age break, or the 20-39 year old group. We believe the 25-39 year old target group is the most attractive demographic segment from a commercial standpoint.

3.2.3 A Premium on Flexibility and Spontaneity in Programming

A second private television network ought to specialize in "making television" and exploiting all the natural advantages of this medium.

Given the instantaneous nature of television, the new network can innovate with programming based on the coverage or creation of television events. These would have to be offered on a regular basis in order to entrench consumer viewing habits.

Here are some examples:

- An emphasis on programming which is spontaneous, "hot", and less artificial, perhaps using live broadcast techniques. The feasibility of using the latter approach would have to be studied.
- Event-oriented television requires a flexible program schedule not always divided rigidly into hours and half-hours. The increased use of live broadcasting would recreate the excitement and spontaneity which existed in the early days of Canadian television. An increase in live programming could repatriate viewers who have abandoned television or who are presently dissatisfied with it.
- We're not really recommending a nostalgic return to the past but rather looking back over our shoulder to decide which steps to take next. The formula "High tech, high touch"⁽²⁾ underlines this trend to balance our technological growth with increased physical activity and human contact. This partly explains why some segments of the viewing audience are turning away from television in favour of sports, cultural and social activities requiring participation and direct human contact.

- This strategy could be implemented in information programming, in popular cultural events (such as shows, music programs, theatre, variety) and in sports programming, all of which lend themselves most readily to this approach. It would also be interesting to extend this approach to drama series, game and quiz programs, public affairs shows and to newsmagazines and talk shows.

- **The Canadian Production of Big Sports Events**

This category refers primarily to professional sports, i.e., baseball, hockey and football, and more specifically to games which are not now being broadcast. Sports continues to be one of the most popular categories of programming on television. A new network could capitalize on this by a judicious scheduling of its sports programming as long as it does not saturate viewers and leave them with no other choice than to watch sports. In addition, the new network could concentrate on covering special events.

- **Secondary Sports Events and Imports**

An opportunity also exists to broadcast sports events which have not yet achieved popularity on existing conventional services. Rights to these events would naturally be much cheaper.

One possibility is to rebroadcast foreign programs hosted by Canadian teams. Another possibility would be to rebroadcast the more interesting events aired by specialty services in English Canada and the United States.

- **Entertainment Programs**

The new network could capitalize on event-oriented television by developing a whole panoply of programming formats based on various media events, broadcast singly or in series. In fact, the new network might even consider specializing in the presentation of live shows and public taping of programs.

This category could include variety shows, music shows, tele-theatres and other traditional cultural events.

By rewarding innovation and excellence, the second network could generate a variety of productions based on elements borrowed from traditional programming (such as soap operas, mini-series, variety shows and game shows) and transformed into live, TV "events". This could also include contests of different kinds, live quiz shows, special events, interurban and inter-regional meetings, etc.

To develop this idea further, we suggest that the network rely heavily on the creative, technical and administrative resources of personnel, whose viewpoints are more contemporary and whose techniques are experimental. Add to this a pool of creative and artistic talent with which the public can identify, and the new network should have maximum impact at lowest cost.

- 3.2.4 The programming ought to reflect Montreal's increasing importance as a major urban centre, as a mecca for French cultural life in North America, and as a gateway to Europe and the United States.

Without question, the principal target market for the new network is Montreal. There are three reasons for this:

1. The largest French-language population is concentrated there.
 2. It is there that the largest numbers of Francophones are switching from French to English-language TV programs.
 3. The most serious imbalance between the supply of English and French-language programs in Quebec will occur in Montreal.
- . Montreal is currently enjoying an economic renaissance, promoted by government policies which link the prosperity of the province to that of Montreal. Similarly, current trends seem to indicate a steady development of Francophone cultural life in Montreal, the home of excellence.
 - . Finally, Montreal's cosmopolitan and international spirit is more likely to influence programming in ways that will satisfy the young adult market, as well as attracting secondary audiences and markets.

The Evolution of Competing Services

- As the objectives in the new CBC strategy indicate, **Radio-Canada** will become increasingly Canadian, and will respond more favourably to regional imperatives. This development should satisfy Francophone audiences outside of Quebec, who have blamed the French network for concentrating too exclusively on Quebec and especially the Montreal region.
- **Radio-Quebec's** policy is to decentralize its network, as outlined in its regionalization plan.
- As far as the **TVA network** is concerned, even though roughly 90% of its programming originates from **Télé-Métropole** in Montreal, it is nevertheless composed of a group of regional stations whose production capacity is far better than it has ever been.
- **CFCF-TV in Montreal** has succeeded in positioning itself as a station catering primarily to the needs and expectations of Montreal Anglophones, as well as Francophones and other ethnic groups.

The way in which this new network is implemented could also have an influence on its ultimate positioning at the national level. It is feasible for the network to concentrate from the outset on reflecting the cultural and social needs of the city of Montreal. At the same time, it can gradually seek out Francophone audiences in other regions of Quebec as well as the rest of Canada.

- Today's Francophone has changed; even though the precise changes are difficult to quantify. The postwar baby boom generation seems to be defining itself simultaneously on a more narrowly-focussed personal scale (emphasis on individual values, more intense identification with the local community) and on a broader, more international scale (young Francophone adults perceive themselves as North Americans open to the world and retaining special ties with Francophones throughout the world).

- To conclude this section, second private network programming should attempt to capture the spirit and the cultural dynamism of Montreal and transpose it to the screen, taking advantage of the renaissance already underway in that city. If the second network succeeds in Montreal, it should be also successful in the rest of Quebec, and then be extended to Francophone markets elsewhere in Canada and the United States.

3.2.5 A Special Emphasis on Information Programming

- Even if entertainment programs are the "locomotives" of contemporary television networks, there is still a strong demand for dynamic, intelligent and entertaining news programming. Conventional television has been the traditional vehicle for news and information programming, and has become increasingly specialized and efficient in that area. Their success in the news area will help them compete advantageously with new services based strictly on entertainment, such as Pay-TV, DBS and home entertainment products such as VCRs, and videogames.
- News and information programs are relatively inexpensive if we compare them to other types of Canadian programs (e.g. variety, TV drama).
- Throughout this study, we have used a broader definition of information than is usual; this includes news and public affairs, but also covers magazine-type programming that can incorporate music, variety, sports and performances.

Here are some possibilities:

- 1- The network could fill up the voids in local and national news by concentrating on stories originating in Montreal, which is, after all, the nerve centre of Francophone life in Quebec and North America.

- 2- It could duplicate the successes of new networks and private stations elsewhere in Canada, who have built their strength in the news area in order to position themselves in highly competitive markets (example, Global, CITY-TV, CKVU-TV, etc.).
- 3- With the development of lighter equipment, such as electronic news gathering (ENG.), the news area offers great potential for innovation and a more instantaneous, event-oriented approach.
- 4- An interesting niche exists for magazine programs incorporating variety elements and targeted to young adults aged 25-39.(*). These programs could be successful if they reflect the new lifestyles of this important segment of the population. Robert L. Hosking, President of CBS Radio, described the information needs of this important segment as follows:

"Far from the Drugs, Sex and Rock'n'roll cliché of the past, this market segment has some pretty sophisticated information needs. Further, the size of this group, 18-34 years old, will comprise 36% of the nation's population in 1985. This means that these needs will be shaping the country for years to come."(3)

- 5- Information programming must respond to changes in the structure and behaviour of audiences. as described in Chapter 2.

* This segment is also often associated with the 18-35 year olds.

- 6- Live coverage ought to be favoured for local news. However, one of the problems inherent in live reporting is the scheduling changes it requires. It would mean planning each live report in advance in order to find a spot for it in the program schedule, or else delaying its broadcast and running it during a program period or break reserved for this purpose.
- 7- Another alternative would be to make an agreement with a radio station for the exchange of information and the joint use of editorial personnel. In the past, this used to be the practice between radio stations and the print media, and could probably be easily translated to agreements between the electronic media. Ultimately, an agreement could be established between a TV news service and a nationally distributed daily.
- 8- In its attempts to be different from the competition, the new network could rely on journalists and managers who specialize in dynamic information programming, people who are capable of renewing their approaches constantly, and who are not afraid to act courageously in spite of their relatively modest resources.

3.2.6 Filling the Niches left by Radio-Canada

With its increased "Canadianization" and its mandate to provide distinctive programming, Radio-Canada may have to abandon certain niches and types of programs that are more appropriate to private broadcasters. The new network could pick up the slack by broadcasting the kind of films, drama series, variety and sports programs, mostly of foreign origin, that Radio-Canada may have to abandon.

3.2.7 Accenting the "Latest" in Programming

- a) A dynamic scheduling of feature films, made for TV films and mini-series

Movies are among the most popular programs on television. Their cost/appeal ratio is advantageous since their first window prior to broadcast on conventional television has traditionally been theatrical and, more recently, Pay-TV and home video. While there is an overwhelming demand for recent films, audience interest still remains high for films made a number of years ago, particularly blockbuster films. What makes a film "recent" is almost as subjective as what makes a film "good". A recent study⁽⁴⁾ undertaken in France as part of the planning for CANAL PLUS, the proposed Pay-TV network in France, attempted to define the concept of a "recent" film as follows:

"A recent film is one which is presented on television, which is discussed on radio and which is the object of journalistic criticism. In many instances, the novelty or newness of a film can linger for up to two years. When a film is a failure theatrically it tends to age very quickly in people's minds. When shown a list of films that had been released within the last three years, roughly 55% of respondents actually believed these films were not recent."

b) Expected market development

. Radio-Canada's future acquisition policy

In light of the new CBC strategy, we foresee a drop in the French network's acquisitions of feature films of foreign origin, and particularly French versions of American commercial programs and films.

. A more important role for Radio-Quebec

This public broadcaster is becoming an increasingly active buyer of movies and made-for-TV films. Recent interviews indicate that Radio-Quebec's fairly aggressive acquisition policy in the area of recent European films has had a significant impact on prices for these films. Some commercial broadcasters are worried about the inflationary impact Radio-Quebec's buying habits could have on the market and chafe at competing with a broadcaster whose mandate is basically educational.

. The rationalization of Pay Television

Many experts foresee a reduction in the pay window. A shortening of this period would naturally hasten the exhibition of these films on conventional television, i.e., within eighteen to thirty-six months.

- . The growth in world production and distribution of made-for-TV movies as well as lower budget features

In view of the continuing growth and diversification of television services on a world scale, we are likely to witness a considerable increase in the amount of product available to conventional television. Broadcasters and producers are making significant investments in all forms of audio-visual programming and film, of course, occupies a prominent place in this mix. In the past few years, the large American networks have been purchasing and/or producing almost 100 new made-for-TV films per year. The increasing involvement of HBO in the production of original material, as well as the arrival on the scene of powerful financial groups, will combine to generate an impressive quantity of original product on the market. The industry in Canada is also gearing itself up for the same type of growth, i.e., a larger number of less expensive productions.

3.2.8 Rely on the Creative, Technical and
Administrative Resources Provided by the
"Trendsetters"

If the new network intends to appeal to a younger audience and to innovate constantly at all levels, it should combine forces with the new generation of creators, producers, technicians and management personnel.

This talented and artistically gifted generation is the first to reap the benefits of specialized education and training in schools especially created to serve the television industry.

This strategy could contribute immeasurably to the creation of original and dynamic programming. After all, the new service will only be as good as the people who staff it.

3.2.9 A Challenging Role for the New Network:
Programmer-Packager versus Traditional
Broadcaster

Nowadays, companies must answer one fundamental question in order to position themselves successfully in the current and future economic environment:⁽²⁾

"The question for the 1980s is: what business are you really in?"⁽²⁾

In summary, a second private network should consolidate its role by:

- defining itself as a company specializing in the audio-visual programming sector;
- by prioritizing its activities in the areas of program acquisition and packaging above those of production;
- by programming from a long range strategic vision of the marketplace and continuously testing it out against reality;
- by creating a long term development strategy on the international front and reinforcing its international image as a programmer/packager.

NOTES ON SECTION 3.2

1. Thomas J. Peters and Robert H. Waterman, In Search of Excellence: Lessons from America's Best-Run Companies, Harper & Row, 1982.
2. John Naisbitt, Megatrends: Ten New Directions Transforming Our Lives, Warner Books, 1982.
3. VARIETY, January 12th, 1983, p. 123.
4. Libération, September 27, 1983, "4ème chaîne: c'est presque en boîte".
(This study was done for the Bureau de liaison des industries cinématographiques by COFREMCA Inc.).

3.3 Programming Availability

Second network programming will depend on the availability of product. This will have a great influence on the orientation of its content. In this section, we will summarize the main factors determining success in this area.

3.3.1 Rely on Sources of "Popular" Programs at Bargain Prices

The new network will probably be forced to follow this strategy for some of its programming. This is what the majority of new television services (conventional, pay or other) have been forced to do in the last few years, and, undoubtedly, new television services will have to follow suit.

The older French-language networks were not major buyers of foreign programming⁽¹⁾, but concentrated on original French-language production. The new service, however, will have to follow the "bargain programming" strategy, at least, for part of its programming, from sign-on until stable growth. Though highly successful, the traditional approach involved significant costs, particularly for drama and variety programming.

Pierre Juneau has commented on this issue and linked it to the creation of new services using satellite and cable distribution technologies.

"Even if we invest in new infrastructures like satellite or cable, or a combination of the two, we will still have to rely on sources of programming that offer us popular programs at bargain prices. This is the only way we can attract the size of audiences that will allow us to recover our costs. As it happens, the United States is the major source of programming that is both appealing and affordable".

"Even the richest countries in the world are not in a position to produce all of the programs they need to supply the new services. Thus, they must rely on less costly, even free, sources of foreign programming".(2)

The principal source of bargain programming is obviously the United States, and it consists mainly of drama series and mini-series, movies and made-for-tv movies, variety shows and sports programming. One of the major problems in acquiring American programming, however, is the delay, often of several years, in obtaining French-language versions for the Canadian Francophone market. And to compound this problem, Francophone audiences will be able to access the original English-language versions of these programs and films to a greater degree than ever before as a result of increases in the number of English-language services.

3.3.2 The Commercial Advantages of a Program Exchange Agreement with France and other Francophone European Countries

If the guidelines have yet to be worked out, the commercial advantages of such an agreement must be assessed in terms of the following factors:

1- A Predilection for American Product

Interviews done with a variety of television experts attest to the predilection of Quebecers for American movies dubbed into French. In spite of the long delays between broadcast of the original versions of these movies on English networks, and the subsequent broadcast of dubbed versions on the French networks, American movies are overwhelmingly popular with French Canadians.

European movies, both French and foreign language, also enjoy considerable popularity among Francophones. However, even a "blockbuster" from France only manages to deliver the same ratings as a middling American film.

2- The Presence of Foreign French-Language Programming on Canadian Networks

Canadian networks, especially the public service, already broadcast a relatively large number of programs (movies, documentaries, children's programs and variety shows) originating from Francophone European countries, and principally from France.

3- The Relatively Modest Success of the TVFQ Network with Quebec Audiences

The TVFQ network operated by La Sette, a consortium of Quebec cable operators, offers a selection of programs from the three large French networks. Even though this service is relatively young, its ratings among French-language audiences are extremely low (less than 5% audience share).

4- We would be in a better position to judge the feasibility of the proposed exchange project if we had greater knowledge of the programming involved. Our study as well as our industry consultations make us very cautious about discussing the potential of such an exchange program, both for a second commercial network and for the public interest.

We believe the feasibility of the project as well as any subsequent negotiations should be examined and pursued with reference to the following factors:

- Partnership agreements;
- Coproductions;
- Dubbing and bilingual production;
- Expediting the availability of French-language versions of English programs (principally American).

**3.3.3 Capitalize on the New sources of Program Acquisition
Created by the Growth in National and International
Markets**

By diversifying its importation sources and by creating new acquisition strategies, a second private network could "hold the line" on inflation in its acquisition costs. Cost increases are bound to result, of course, as soon as it makes its appearance on the market.

These are some of the new sources a second network could tap:

- Programming designed to feed the American specialty networks, the "ad hoc" networks, pay-TV services, as well as the new broadcasting networks that are being set up in Europe.
- World class product coming from France, Italy, Australia, England, Japan, etc., and also being created as a result of new international coproduction treaties and co-venture agreements in which Canadians are playing a growing role.
- A burgeoning number of made-for-TV movies, mini-series, etc.⁽⁴⁾. The American networks are expanding this type of fare as a response to the overexposure of movies on Pay-TV.

3.3.4 The Availability of French-language versions of English-language Programs

Which ever one of the above strategies it chooses, a new network must be ready to seize on all new opportunities created by the growing supply of international programming. It must provide viewers the opportunity of seeing French translations of American shows as soon as they are available. Here are some of the problems that must be faced at this level:

- 1- For distributors of foreign products, the costs of dubbing (between \$7,000 to \$10,000 an hour) are too high to allow them to amortize the sale or purchase exclusively in the Francophone market in Canada. Moreover, current regulations in France limit the importation of products dubbed in other countries.
- 2- In the case of feature films*, a typical delay of up to six months between their theatrical distribution and the availability of a French-language version usually means they are broadcast on a delayed basis on conventional Canadian French-language networks.

* The Quebec government's new film Bill, i.e. "Loi 109, sur le cinéma et l'audio-visuel", could rectify this situation.

- 3- In the case of drama series, the availability problem is even greater. This is because the French Canadian market is integrated with the American domestic market, and must respect syndication agreements (i.e., offer repeats, rather than first run programming). By the time very popular shows like Dallas, Chips and Quincy are available to the Francophone networks, they have already been broadcast for periods varying between two and three years in the rest of North America, and often in European countries.

In VARIETY of September 28th, 1983,(4) André Séguin, a member of the purchasing department of Radio-Canada, described the advantages and disadvantages of this situation by pointing out that Dallas could still not be broadcast by the Corporation for yet another year:

"It's been impossible for us to get it until now, even though it's been playing in France for years. But it's not all that bad: the advantage is that we were able to pick it up for a lot less than CBC."(4)

According to Mr. Séguin, the advantage of the existing system is that it allows Radio-Canada to minimize the risks involved in acquisition, since they already know the series has been a success in the United States and the rest of Canada. Maurice Bastien, spokesman for Télé-Métropole, also pointed out the economic advantages of this practice in the same article in VARIETY: "He, like Séguin, won't reveal what price he pays, but he does admit that they are a bargain."

A further advantage, according to the Radio-Canada spokesman, is that the prior broadcast of these programs on the English network appears to have a negligible impact on the ratings for the French versions:

"Judging from our audience figures, we only lose a small percentage to the English competition. Quebecers like to watch their shows in French."(4)

This particular viewpoint is certainly not shared by commercial broadcasters in Quebec. They blame delays in the availability of French versions of American programs on Francophones switching to English-language stations, and the consequent drop in their audience share.

3.3.5 Explore the Possibility of Using Dual Audio Tracking as well as Other Stereophonic Sound Techniques for Television

The audio potential of TV seems to be making gigantic progress, and, among other things, allows television stations to add additional audio signals. These can be used to broadcast second language audio tracks or to provide special commentary for educational programs.⁽⁵⁾

Currently, dual channel sound is available in both Japan and Germany, and is being explored in a variety of countries, including France.

The simultaneous transmission of programs in both French and English, a possibility offered by the latest developments in dual audio tracking, could open up exciting avenues for Francophone viewers across Canada, and thus should be avidly explored.

- 3.3.6 . Capitalize on Resources available for French-Language Variety, Cultural and Sports Programming
- . Integrate Content Purchased from American and Canadian Specialty Services, which would not be Viable on the Francophone Market if Offered Exclusively

In a working paper entitled, "Le Québec et les communications: un futur simple,"⁽⁶⁾ the Quebec Department of Communications underlined that specialty channels might have to be established in Quebec to counter the threat posed by increases in both the supply and the viewing of English-language programming. "The growing lure of English-language television as well as the rapidly increasing converter penetration, seem to suggest that Quebecers are searching more and more for diversity."⁽⁶⁾

The working document describes several types of programming "which have the advantage of exploiting existing products without requiring additional creative efforts nor very substantial programming costs."⁽⁶⁾

A new commercial off-air network could integrate all of the following elements into its program schedule without specializing in any one in particular:

- Variety shows, especially music specials;
- Sports;
- Information;
- Music video clips.

It could also buy some of this content from the new services specializing in these areas, and then repackage and produce them for the Francophone market.

According to the Quebec government's working document, "The narrowness of the domestic French language market augurs badly for the development of profitable stand-alone, specialized services in Quebec"(6).

3.3.7 An Innovative Alternative: Canadian Program Repeats

The creation of a syndication market for Canadian program repeats could solve a problem for the new network during its start-up period by supplying it with popular programs at bargain prices. It could also provide the programming industry (broadcasters, producers, creators) with exciting new benefits.

This rather original and daring approach to program supply seems justified on the following basis:

- 1- Canadian broadcasters have built up a vast inventory* of Canadian programs (mainly drama), and this is likely to grow considerably in the next few years with expected increases in Canadian content programming by Radio-Canada.
- 2- While the commercial value of this inventory has not been assessed, it is reasonable to expect that during certain periods, this category of repeat programming could be very appealing especially considering the success of dubbed repeats of old American series, and other foreign programming.
- 3- The broadcasting of repeats on the commercial network could provide broadcasters and producers with an additional source of revenue, and also benefit the artistic community.

* Shelf product.

- 4- This option requires a feasibility study and consultations within the industry.
- 5- The development of a domestic syndication market could limit the importation of foreign products, especially during the start-up period of the new network.
- 6- Canadian program repeats could comprise between 5% and 7% of total network programming. But the second network need not become dependent on this programming. However, if the "repeat" strategy is not adopted, the network would have to compensate by broadcasting comparable programs in the same price range (i.e., Canadian news programs, or foreign entertainment programming).

3.3.8 Advantages of vertically-integrated programming and packaging

In its role as programmer-packager, which could either involve a partnership or an affiliation arrangement with an existing distributor, the second network could sign more comprehensive program acquisition agreements whose scope would allow it to achieve economies of scale. These agreements could also include conditions relating to the exchange of services, to co-production and to the sale of programming. This approach would guarantee a supply of programming at the lowest possible cost.

NOTES FOR SECTION 3.3

1. Except during the start-up period of station CFTM, Télé-Métropole.
2. "Public broadcasting and new technologies", an address by Pierre Juneau, CBC President, to the General Assembly of the European Broadcasting Union, reprinted in La Presse, July 28, 1983.
3. TIME, October 7th, 1983, "Troubled times for the Networks."
4. VARIETY, "Canadian French Track TV Plays Catch-up Via Dubbed Programs" 28 September 1983.
5. CHANNELS OF COMMUNICATIONS, "Stereophonic TV: You Haven't Heard The Half Of It." January-February 1984.
6. Le Québec et les communications: un futur simple, Ministère des communications, Gouvernement du Québec, 1983.

3.4 Production Modes

Our analysis of the production modes required for Canadian programming broadcast by the second network takes into account the government's concerns about Canadian program production and the current state of the industry.

3.4.1 Production Facilities Required

Should the second network operate its own production facilities?

3.4.2 Vertical Integration of the Production Function

If we are to encourage the development of an independent production industry, then to what extent should we limit vertical integration of the network's production capabilities?

3.4.3 The Organizational Model for Production: Some General Characteristics

What long-term strategies should the network follow for the production of Canadian programs?

3.4.1 Required Production Facilities

From a purely economic viewpoint, Canadian and foreign experience strongly favours vertical integration of production into a network which manages its own facilities.

The latest management trends⁽¹⁾ as well as the development of the Canadian production industry, suggest qualitative solutions based on the search for innovative production methods. Smaller production teams, whether inside or outside the network, are more likely to provide program excellence and profits.

"Even if conventional wisdom activates the business world nowadays, it doesn't explain exactly what makes good businesses succeed. First of all, the quantitative and analytic approach contain a definite conservative bias. Cost reduction becomes the first priority, whereas revenue development is relegated to an inferior plane. A strictly quantitative analysis cannot deal with intangibles, like the bustle and the zeal that go into creation"⁽¹⁾.

The search for innovation and excellence favours a minimum amount of vertical integration: a modest infrastructure which can accommodate both independent production units as well as creative forces within its milieu, especially those entrepreneurially gifted and active on the international scene. Such a set-up could offset the economies of scale that vertical integration would provide.

Prevailing market conditions help us identify some of the relative advantages and disadvantages to a second network of owning its own production facilities. The following table summarizes these points:

THE OWNERSHIP OF INTERNAL PRODUCTION FACILITIES

ADVANTAGES

- . Can compete with existing broadcasters for funding of projects undertaken by independent producers and allow access to CFDC's Canadian Broadcast Program Development Fund (2).
- . Would allow complementary sources of revenue.
- . Would allow tighter control over content.
- . Would provide a better guarantee of program supply, especially in view of foreseeable delays.
- . The organizational models are well known.
- . Creates an additional production facility. This can respond to increased demand which may result in saturation of existing facilities in the medium term.

DISADVANTAGES

- . Existing infrastructures for production, which are highly developed and accessible to independent producers.
- . The emphasis placed on live and remote broadcasts could limit the need for fixed facilities.
- . Independent producers will have increased access to Radio-Canada's facilities.
- . The expansion of facilities by both private promoters and by production houses. Example: the Cité du Cinéma project in Montreal.
- . Investment costs are rising significantly.
- . Higher operating costs.
- . The need for repeated reinvestment because of rapid obsolescence of equipment.
- . Possible constraints on creativity.
- . Underemployment of facilities during off-hours.

Appropriate Production Facilities

The model most likely to prove successful is the following:

- One or two medium size studios equipped for public affairs and news programs, and capable of functioning 24 hours a day for other types of content.
- Light mobile production equipment: "supertrucks", mobile units.
- A mini post-production centre for news programming.

Other Possible Modes

- Signing an agreement or creating a partnership with a service organization could be an advantage to the network and its relationship with independent producers.
- Collaborating with both private and public broadcasters or cable operators with production facilities.
- Participating financially as a third party in construction or expansion of production facilities.
- Increasing production in natural locations or in studios designated for multiple uses: theatres, hangers, performing halls, etc., by using mobile units.

- . Exploiting the technical possibilities offered by wedding video with stereo sound, and the use of the new 3/4 inch "broadcast" quality recorders.

All of these new factors could significantly influence the planning of production facilities.

3.4.2 Vertical Integration of the Production Function

According to our analysis of the independent production industry and the problems specific to the creation of the second network, the following parameters should be considered foremost in developing any operational plan:

- It is clear first of all that the new network could not allocate or invest sums comparable to Radio-Canada for Canadian production.
- To counterbalance its more meagre financial resources, the new network must innovate commercially and maximize creativity.
- Thus the new network must create an environment where excellence, innovation and creativity are masters. This environment should become a major attraction to creative personnel.
- In this respect, the new network ought to favour the development of its own product. While this is a risky process, it will allow it to distinguish itself from competing networks. It is clear that the new network could not compete, at least in the short term, with existing services, either in terms of its facilities or financial resources available to production. We might almost say it is condemned to depend on imagination and creativity to make it distinct.

- Another concern is that the new network could be seriously handicapped if too many demands and restrictions are placed on it during its start-up period. Requirements relating to the use of independent producers should not be more onerous than those currently imposed on existing broadcasters. The new network should not be the only one responsible for the development of the industry.
- The new network should also attempt to play a complementary role to that of the independent production sector. It could become a centre for developing independent production, using more modest budgets as well as the creative resources provided by the younger generation. It could use smaller crews and more economical production methods.
- The new network, building its strength in development, conception and packaging, could join forces with new private entrepreneurs in Canada and abroad. In fact, the new network ought to consider positioning itself in the long term as an intermediary and a springboard between the North American and European markets.
- The new network could also orient its activities around the model that has been successfully created by private sector independent producers and distributors who have made a significant mark on the international scene.

- Cooperation with English Canadian broadcasters, both private and public, could also be explored.
- Lastly, dealing with independent production houses, which are fairly integrated, and which are capable of financing their own projects and of enjoying economies of scale on bigger production projects, could be important. The new network could become an important participant in the rationalization of the industry, which, until now, because of the very limited domestic market for film and TV product, has remained essentially a cottage industry.

3.4.3 General Characteristics of an Organizational Model for Production

For historical reasons, the Canadian television industry was conceived on a model of vertical integration. Since Canadian television developed prior to the commercial film industry, the networks created, and vertically integrated, their own production facilities into their operations.

Private producers blame this vertical integration for their lack of opportunity with Canadian broadcasters and especially with Radio-Canada.

The Applebaum-Hebert Commission⁽³⁾ concluded that the solution to the problem was to separate production from distribution, with distribution going to the public sector and production to private enterprise.

This assessment may be right but it is still incomplete:

First of all, it reduces television to only two basic activities: the technical production of programs and their distribution. It also ignores the economic peculiarities of the Canadian television and film industries.

a) **An Organizational Model for Existing Broadcasters**

The organizational structure of existing industry organizations consists of four groups of activities inherent in the management of a vertically integrated television network:

1. Programming-Distribution

- Strategic planning, i.e. schedules, orientation of programming, audience research, etc., air time sales to advertisers, network management, i.e. affiliated stations, etc...

2. Content Development

- Acquiring and commissioning projects
- Concept development and script writing
- Copyright supervision

3. The Production Function: Playing the Role of Promoter and Packager (i.e., Executive Producer)

- Market research and audience studies
- The financing of production
- Packaging, putting the creative and financial elements in place
- Administration and budget control
- Marketing the product (seeking out co-production, foreign sales, and future marketing possibilities)
- Operational planning, i.e. budget, technical needs, etc.

4. Line Production

- All activities using production facilities, studios, post-production, etc.
- Includes managing employees and production budgets.

In vertically-integrated broadcasting organizations, all of these functions and their related activities are developed into a completely integrated and balanced system. This includes the operational and decision-making structures, the management and administrative styles and the communications and control systems, all of which fit together and function harmoniously.

b) **The Industrial Organization of the Independent Sector: the American Model**

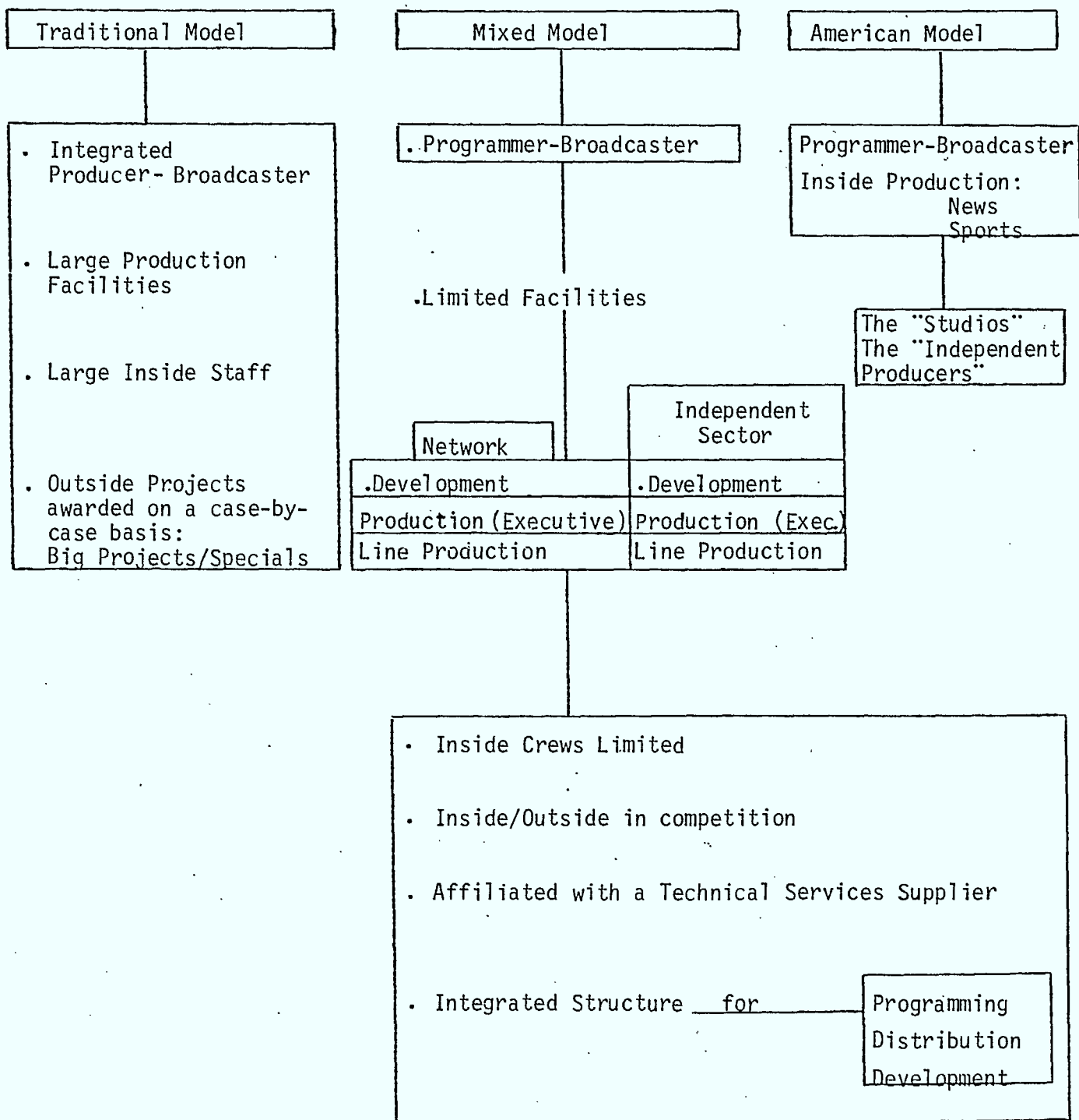
The Canadian independent production industry emerged largely as a result of pressures to produce feature films, and has since developed largely along American lines. The Canadian television industry has pursued essentially the same route.

Since its inception, American television was able to depend on a strong and well-established film industry which preceded it by half a century. As a result, it was able to separate the functions of production, distribution and financing.

The American television industry is based on two complementary structures, the programmer-distributor (the networks) and the producer (the large studios and independent companies) both of which are financially strong and which can rely for revenues on the most lucrative television market in the world.

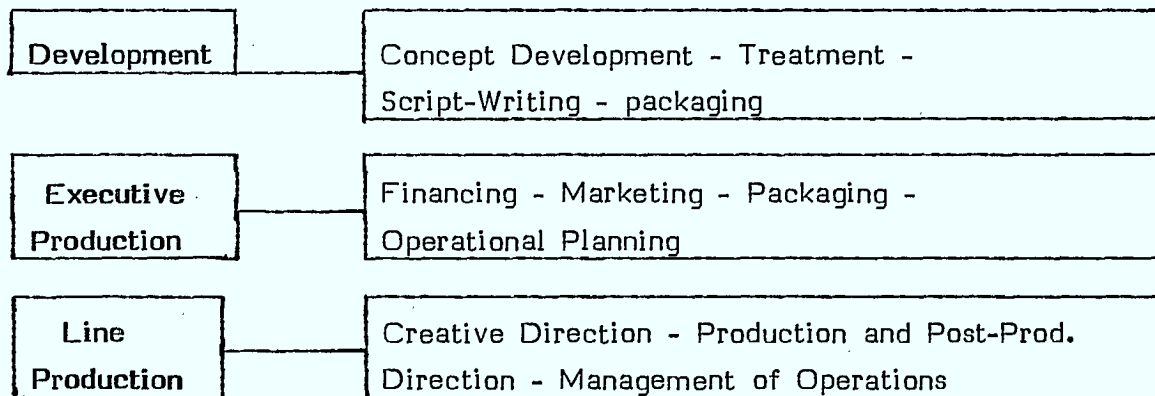
In Canada, despite broadcasters' efforts (most obvious in the case of Radio-Canada) to promote the development of the independent production sector, outside production remains alien in a system where the basic mechanisms and management styles were conceived almost exclusively in terms of inside production.

If Canadian broadcasters manage to adapt their organizations to the new realities of the marketplace-created in large part by the Canadian Broadcast Program Development Fund - then the new network could develop an organizational model in which the independent sector would be integrated at all levels of the organization.

c) Possible Models

In this mixed model, the relationship between the new network and the independent sector could take many different forms.

By dividing the concept of integrated production into three distinct functions as outlined in 3.4.3 above and summarized below, one can envisage a variety of different formulae, depending on whether the participants undertake all of the functions described, or only a part of them in collaboration with a third party, such as specialized service houses, other broadcasters, Pay TV networks, specialized programming services, sponsors, etc.



d) The Long Term Characteristics of the Model

In the long term, the new network could develop along the following lines:

- It should capitalize on its investment of internal resources in programming and program development.
- It could assume a key role in concept development and as a packager of products utilizing its connections with the creative community, the independent production sector and other partners.
- It could create a packaging subsidiary, or affiliate with an existing company. This structure would be confined to the following activities:
 - 1) It could seek out international co-production agreements and integrate acquisition agreements with marketing.
 - 2) It could develop joint ventures.
 - 3) It could ensure that the network is well stocked with recent versions of American productions and quality foreign products.

- 4) It could invest in independent production on a larger scale.
- 5) It could manage an international marketing and sales network by means of agreements with Canadian and foreign distributors.
- 6) It could undertake close collaboration with existing and future Canadian services, both Francophone and Anglophone.

3.5 The Cost of Programming

The success of a second commercial network will depend, in large part, on the programming it offers its audience. While the quality of strategic planning and the ability to stimulate innovation are extremely significant factors, because of extremely high costs, programming is of paramount importance.

Costs are thus a central consideration in the analysis of problems involved in creating the second network, and it is important to place them in proper, financial perspective.

This section examines:

- The basis for evaluating costs
- Costs for various categories of programs
- Costs for different programming strips in the schedule
- The costs of different programming models
- The growth in costs over a five-year operating period.

3.5.1 The Basis for Evaluating Costs

It is impossible to foresee what price a second private network will have to pay for the broadcast rights for Canadian and foreign programs. The development of a more specific program schedule, an analysis of available products, and an evaluation of the results of preliminary negotiations with different suppliers would contribute to a more detailed analysis of these costs.

However, the relative costs of programming will certainly be a function of the following factors:

A) Number of Daily Hours Broadcast

Should the new network limit the hours of broadcast during the initial start-up period, or should it offers programming for an entire broadcast day? Five models seem possible. A comparative cost analysis of these models would be required, since they influence all other financial components (revenue, costs, infrastructure, etc).

MODEL	BROADCAST HOURS	HOURS PER DAY	HOURS PER WEEK
(1) Télé Inter-Cité	4PM - Midnight	8	56
(2) Conventional	8AM - 2AM	18	126
(3) Reduced	12 Noon - Midnight	12	84
(4) Télé-soirée	6PM - 1AM	7	49
(5) Télé Inter-Cité plus extended weekends	4PM - Midnight weekdays + 12 hours on weekends		64

Our consultations with the industry allowed us to identify some of the more important aspects of this question:

1. A New Source of Programming

One cannot compare the situation of the new network with new Canadian stations elsewhere which can depend on existing programming sources.

This is based on the following principles:

- The development and management of a new source of original programming, with appropriate Canadian content, is a challenge of a magnitude which must not be underestimated.
- Considering the competitive nature of the environment, which will be intensified by the introduction of the second network, the strategy should focus on steady long term growth rather than on an overly ambitious start-up.
- The prime time hours, the principal source of potential revenue, will be encumbered by increasing competition.

2. The Advantages of "Day-Time"

According to some industry sources, the new network could benefit by offering its programming throughout the day or at least beginning at 12 noon. From the standpoint of air-time sales, any extension of broadcast hours would allow greater flexibility in putting together sales packages and air-time combinations.

3. Progressive Growth is Desirable

The challenges of program supply have been mentioned. Thus, an increase of one hour per day of broadcast time translates into a need for 365 programming hours per years. Several spokespersons have insisted that the new network must develop slowly, on a progressive basis.

To simplify the issue, we have used the following approach:

- A Minimum Core of Broadcast Hours

For the purposes of this study, we assumed a minimum broadcast schedule of 56 hours per week. This reflects the model proposed by Télé Inter-Cité, which was to broadcast from 4PM to Midnight. It is conceivable that this basic minimum will grow during the start-up period. However, for the purpose of our projections, we have based our analysis of costs and revenue for the first five years of operation on a basic weekly programming schedule of 56 hours, that is, 3000 hours per year.

- Other Possible Components

It would certainly be possible to increase the broadcast hours of the new network. According to our study of the advertising market, it seems likely that advertising revenues will be a lot lower for the periods before 4PM and after Midnight.

The 12 Noon to 4PM period seems to offer greater potential for advertising revenues than that following midnight during the week. Our study uncovered a real interest among Francophones for English-language soap operas during this period. Also, an extension during weekend evenings is possible.

We also mentioned that the new network ought to study - with the appropriate partners - the possibility of broadcasting replays of Canadian drama programs. Moreover, the signing of exchange agreements with France would unlock another source of programming which could prove profitable during these hours of broadcast.

- The extension of hours of broadcast is only possible if the new network is successful in limiting its unit programming costs by means of treaties and joint ventures with Canadian and foreign partners.

B) Vertical Integration of Production Activities and Facilities Management

This issue, already discussed in section 3.4, could have a significant impact on programming costs relative to overall network operations costs. Creating large facilities could result in a relative decrease in the unit costs of production for certain types of programs, while increasing investments in fixed assets and operating expenditures.

The basis for evaluating these costs is identified in the following model:*

- 1 or 2 production studios;
- Mini-centre for production and post-production;
- Some mobile equipment;
- A core of 30 employees assigned to production (mainly news and information programming);
- A staff of 30 employees assigned to editorial content (i.e., researchers, reporters, hosts, etc.).

* see sections 5.3 and 5.4

C) The Second Network's Negotiating Power in Program Acquisition

The new network's organizational approach to product acquisition, and its ability to rely on Canadian and/or foreign partners will have a large influence on its powers of negotiation. This will in turn have an impact on its capacity to deliver quality programming and more recent French versions of English-language programs.

D) Cooperating with the Independent Production Sector and Other Coproduction Partners to Maximize Use of the CFDC's Canadian Broadcast Program Development Fund

One of the underlying conditions of success for the new network will be its ability to attain the above objective. The new network should be a partner first and foremost. Our estimates of programming costs depend on maximizing use of these funds.

We estimate that, once the new network is firmly established, it will probably get involved in independent sector projects for up to 50% of funds allocated for commercial French-language broadcasters ($1/2 \times 1/2 \times 1/3$ of \$60 million = \$5 million). We also foresee the need to collaborate with English Canadian networks and commercial stations. This will allow the network to participate in production projects which are being funded on the English side. These productions could be undertaken by independent houses based in Montreal or they could be part of "double shooting", an increasingly prevalent practice.

E) Second Network Revenues

The more successful the network becomes with its audiences and advertisers, the more likely it will be in a position to devote significant sums to programming, even though this is a double bind problem.

F. Estimating Programming Costs During the First Five Years of Operation

Given the importance of the factors under discussion, we established a varying scale of yearly costs for the first five years of operation. We estimate that as of year five the network will be fully functional and that costs will be stabilized. Thus our programming cost data are based on the fifth year of operation. Costs for the first five years are estimated in the following order of progression, largely because the penetration level is less developed in those years:

Evolution of Programming Costs

1st year:	60%
2nd year:	70%
3rd year:	80%
4th year:	90%
5th year:	100%

G) References to Today's Market

We could base our analysis of program production and acquisition costs on today's industry standards. However there are a number of problems inherent in this approach:

- The precise costs of program production and acquisition are kept confidential by broadcasters.
- Their costs are based on a vertically-integrated model, whose production infrastructure is quite considerable.
- It may be more useful to use a private enterprise model as a base line for estimating costs than that of the CBC.

Canada's only commercial French-language TV network, TVA, doesn't really offer a suitable model for comparison, since most of its programming originates with its flagship station, Télé-Métropole in Montreal.

If we examine this company's annual report for 1982*, we note that \$35 million has been assigned to production costs. If it is fair to estimate the volume of annual programming at around 5000 hours for the year 1982, we then derive an average hourly cost of \$7,000.

* Télé-Métropole, Annual Report, 1982

Even if that provides a broad indication, it's important to recognize that the financial statements of Télé-Métropole include the activities of its broadcasting property as well as its production subsidiaries, JPL Productions, SONOLAB Inc. and Télé-Métropole International.

If we estimate the contributions of these subsidiaries at a maximum of 10% of production expenses (i.e., production of advertising, features, etc.), we end up with \$31.5 million in production expenses for the station itself, or roughly \$6,300 an hour.

Moreover, in 1982, Télé-Métropole spent \$14 million on general administrative expenses to cover its very sizeable infrastructure. This comes to roughly \$3,000 an hour, which obviously includes the cost of managing its subsidiaries.

H) Program Depreciation and the Potential Contribution of the Program Inventory (i.e. shelf product)

Most television undertakings operate with two distinct budgets: one relates to the cash flow (i.e., revenue and disbursements), the other, more classical, relates to revenue and operating expenses. Where rights are acquired for programs, principally for feature films, the costs can be amortized over a period of up to 5 years. Thus, if the start up period necessitates considerable funds to build up a product inventory, this can later contribute to limiting the growth of operating expenses. In the same way, investments in program production, whose broadcast will be deferred, will impede the flow of revolving funds in the organization.

Given the relative complexity of analyzing this process in detail, and the number of unknowns, we assumed that the product inventory will offset the increasing costs of programming during the first years. The need to set up an inventory from the outset explains the initial base set at 60% of costs in stable growth. During stable growth, the contribution of inventory is set at 10% of annual broadcast hours.

We would undoubtedly be in a better position to evaluate this question were we able to undertake a detailed financial analysis of the amortization of these programs with the help of a detailed program schedule, and a study of plans for the "pre-op" stages of the network. This is of great importance in establishing an operating budget as opposed to one based on revenues and disbursements.

3.5.2 Costs by Program Category

A number of interviews undertaken with distributors, independent producers and television broadcasters allowed us to establish certain base lines for estimating programming and production costs for the new network.

a) Movies, made-for-TV movies and made-for-Pay-TV movies

The current price structure for films in the conventional television market (on the average, between three and six years old) breaks out as follows:

American feature:	\$10 - \$12,000
European feature:	\$15 - \$18,000
Canadian feature:	\$20 - \$25,000

This table probably represents the average cost of class A films. Blockbuster films, on the other hand, command significantly higher prices, up to \$35 or \$40,000. It is also possible to obtain products for less than \$10,000 a unit. In the case of French versions of features or American made-for-TV movies, the majors tend to offer packages of twenty to forty movies on a lump sum basis.

For the purposes of this study, the average costs of purchasing feature-length films, made-for-TV films, as well as made-for-Pay TV films, were established as follows:

American:	\$15,000
European:	\$20,000
Canadian:	\$25,000

b) **Drama Series**

- **French Versions of American programs**

According to Variety,* Radio-Canada's French network is ready to pay between \$4,000 and \$7,000 per half hour for this type of program. We have adopted an average cost of \$5,000 per half hour.

- **Original Canadian Production**

According to our interviews, the total cost of producing TV drama varies between \$30,000 and \$60,000 per half hour, depending on production values (studio production only, location shooting, production time, style of decor, number of crew members, stars, etc.).

- **Canadian Broadcast Repeats**

We used the same base line for evaluating these costs as for foreign programs of the same type, that is, an average of \$10,000 an hour.

* "Global Prices for TV Films", Variety, January 12, 1983

c) News and Information

This is the only category of programming where an element of fixed costs must be taken into account (production facilities, technical and creative personnel and administrative expenses). Thus the direct costs associated with this type of programming are fixed at an average of \$7,000 an hour. The category includes news and public affairs programs as well as information-type magazine programs which occasionally incorporate elements of drama and variety. Depending on format, the average cost, including indirect expenses, can run to \$10,000 per hour.

Costs for these types of programs are estimated as follows:

- . Public affairs \$3,000 - \$7,000 a half hour
- . News magazines/talk shows
 (with elements of variety
 and drama, both Canadian
 and foreign \$5,000 - \$20,000 an hour

The costs of documentaries and in-depth reports, which are included in this category, vary with the subject matter.

We can only provide a preliminary estimate of costs for this type of programming. Once the content of the information programming is well defined, we can determine the best conditions for the production and acquisition of programs of this type. Sections 5.3 and 5.4 highlight the network's requirements in the way of equipment and personnel.

d) **Special Events Programming**

- Canadian production of major sporting events: \$50,000 per hour

Production costs for these events usually run to \$35,000 per hour excluding increasingly expensive rights payments to the sports organizations involved.

- Second-Class, Canadian Sports Events and Imported Sports programs: \$20,000 per hour
- Variety/Specials
 - Live Broadcast: Average: \$30,000 per hour (\$15,000 to \$45,000 per hour)
 - Original Production: Average \$65,000 per hour (\$30,000 to \$100,000 per hour)

e) **Quiz Programs: \$7,000 per hour**

The following table summarizes these costs.

Note: We have occasionally used categories and definitions that differ somewhat from those used in the industry or by the CRTC. In doing this, we hoped to simplify our economic analysis and better reflect the realities of the marketplace, where many of these categories are customarily combined.

TABLE A

Average Cost (1) Per Programming Category
in the Fifth Year of Operation
 (Stable growth - constant dollars, 1985)

PROGRAMMING CATEGORY	AVERAGE TOTAL COST
1- <u>News and Information</u> (2)	\$ 7,000/hr+ fixed costs (\$4,000 - \$10,000)
2- <u>Movies and Made-for-TV Films</u>	
2.1 American	\$ 15,000 (\$ 5,000 - \$ 30,000)
2.2 European	\$ 20,000 (\$ 10,000 - \$ 35,000)
2.3 Canadian	\$ 25,000 (\$ 15,000 - \$ 35,000)
3- <u>Events</u> (3)	
3.1 Major Sports : Canadian Production	\$ 50,000/hr including rights (\$ 30,000 - \$ 70,000)
3.2 Variety/Cultural Events: Made-for-TV Events	\$ 65,000/hr (\$ 30,000 - \$100,000)
3.3 Variety/Cultural Events: Live broadcast + New Talent	\$ 30,000/hr (\$ 15,000 - \$ 35,000)
3.4 Minor Canadian Sports + American Imports/ foreign	\$ 20,000/hr(\$ 10,000 - \$ 30,000)
4- <u>Public Contests</u> (Quizzes + Games)	\$ 7,000/hr(\$ 3,000 - \$ 10,000/hr)
5- <u>Drama</u>	
4.1 French Versions of American series and foreign series	\$ 10,000/hr(\$ 5,000 - \$ 15,000)
4.2 Canadian Repeats	\$ 10,000/hr(\$ 5,000 - \$ 15,000)
4.3 Canadian Original (local)	
• Séries/ Drama Series	\$ 80,000/hr(\$ 40,000 / 1/2hr) (\$ 30,000 - \$ 50,000 / 1/2)
• International Mini Series	\$600,000/hr(\$300,000 - \$900,000 / hr)

(1) Based on estimated average total costs for each type of program.

(2) Includes: News, public affairs and information magazines (with elements of variety and drama).

(3) Includes: Short dramatic episodes as well as mini-series of varying lengths.

3.5.3 Impact on Programming Costs of a Network Defining Itself Primarily as a Programmer/Broadcaster

By defining itself primarily as a programmer-broadcaster-packager, the new network need not end up like a producer/broadcaster forced to finance its costs exclusively through broadcasting revenues. A new network working with the independent sector and positioning itself as an aggressive partner could materially reduce its costs for certain categories of programming. Our estimate of the second network's expenditures on programming is based on the following assumptions:

1) The impact of the new CFDC Canadian Broadcast Program Development Fund

In five years, the Canadian Broadcast Program Development Fund ought to reach \$60,000,000 per year. Current policy requires that one third of the total fund be allocated to French-language production (roughly \$20 million by year five). Approximately 50% of this amount, (around \$10 million) will be allocated to projects involving private broadcaster participation. Finally, 50% of this amount, or \$5 million, could conceivably finance the costs of producing Canadian drama programs, variety programs, and children's programs for the second network.

2) Co-production and other sources of financing for programming

By initiating or participating in co-productions with both Canadian and foreign partners, the new network would have access to other sources of funding. By adopting a variety of financial arrangements with the independent production sector, (sponsorship, co-production, pre-sales, etc.), the new network could have access to products funded by any one of the following sources or combination of sources:

- partnership, sponsorship, and barter agreements with advertisers and packagers;
- CFDC (Broadcast Program Development Fund);
- Société Générale du Cinéma;
- Canadian Pay-TV services;
- Commercial and public Canadian stations and networks;
- International sales (conventional television, Pay-TV);
- Co-production (treaties and other possible agreements);
- Co-venturing;
- Private financing (via the capital cost allowance programs set up by the Canadian and Quebec governments);
- Sale of ancillary rights (video cassettes, institutional).

TABLE B
Estimated Average Cost per Programming Category in the
Fifth Year of Operation
 (Stable growth)

Programming Category (a)	Average Total Cost of Product	Average Expenses for the New Network
1. <u>News and Information</u> (b)		\$7,000/h (\$4,000 - \$10,000) + fixed costs (personnel) see p.54
2. <u>Movies and Made-for-TV Films</u>		
2.1 American	\$15,000/Film	\$15,000 ^(d)
2.2 European	\$20,000/Film	\$20,000 ^(d)
2.3 Canadian	\$25,000/Film	\$25,000 ^(d)
3. <u>Events</u> (c)		
3.1 Major Sports: Canadian Production	\$50,000/hr including rights (\$30,000 - \$70,000)	\$50,000/hr
3.2 Minor Canadian Sports + Imports	\$20,000/hr (\$10,000 - \$30,000/hr)	\$20,000/hr
3.3 Variety/Cultural Events: Made-for-TV Events	\$65,000/hr (\$30,000 - \$100,000/hr)	\$40,000/hr
3.4 Variety/Cultural Events: Live Broadcast + New Talent	\$30,000/hr (\$15,000 - \$45,000/hr)	\$20,000/hr
3.5 Public Contests (Quizzes + Games)	\$ 7,000/h (\$ 3,000 - \$10,000/hr)	\$ 7,000/hr
4. <u>Drama</u>		
4.1 French Versions of American series and foreign series	\$10,000/hr	\$10,000/hr
4.2 Canadian Repeats	\$10,000/hr	\$10,000/hr
4.3 Canadian Original (local) series/Drama Series Innovation: - Production Methods + New Talent	\$80,000/h = \$40,000/.50hr (\$30,00 - \$50,000/.50 hr)	\$50,000/hr
4.4 International Mini Series	\$600,000/hr	\$120,000/hr

- Notes: a) Children's programming is integrated into the other categories (movies, drama series, etc.).
- b) Includes: News, public affairs and information magazines (with elements of variety and drama).
- c) Includes: Short dramatic episodes as well as mini series of varying lengths.
- d) A detailed financial analysis of the amortization of these programs over several years would permit a better estimate of the relationship between operating budgets and the flow of revenues and disbursements.

- 3) All of these factors must be considered in establishing program budgets for drama programming (series and mini-series), and popular cultural events including children's programming.

In this context we have made the following assumption:

- The programming expenses for these categories of programming are fixed at 60% of total production costs, except for drama mini-series which are set at 20% of total production costs.
 - We conservatively estimate that a new private network could get involved in co-production agreements and/or acquire basic broadcasting rights in roughly 50% of cases;
 - 50% of programs will probably be financed entirely by the new network.
- 4) In the news and information category, we assume that the new network would have to cover the entire costs of programming although in the case of music or cultural magazine items, some support funding could be found.

The following table identifies the impact of these assumptions on the costs of the different categories of programming for the new network.

3.6 Potential Programing Models and their Associated Costs

Table C allows us to visualize the numerous programming choices possible for the second network, taking into account what is both feasible and practical.

TABLE C

Estimating Programming Expenses Based on Variations in the
Amount of Programming in Different Categories (Fifth Year of Operation)

(M= \$,000,000, 1985)

1. Category	News & Inf.	Movies, Mini Series + made for TV - A Products (3-6 years old)				Events				Drama			
1.1 Sub Category		American	European	Canadian	Classics + Cat. B-C	Major Sports	"Made for TV" Variety	Variety (live)	Minor Sports Imports	Ameri. + Foreign	Canadian Repeats	Original Canadian Production	
												Series	Mini series
1.2 Average costs estimated for a new network	\$7,000/hr. + Fixed Costs	\$15,000/per program	\$20,000	\$25,000	\$10,000	\$50,000/hr.	\$40,000/hr.	\$20,000/hr.	\$20,000/hr.	\$10,000/hr.	\$10,000/hr.	\$50,000/hr.	\$120,000/hr.
1.3 Average length		1.5 hrs.	1.5 hrs.	1.5 hrs.	1.5								
2. Percentage of yearly broadcast schedule													
2.1 High Profile 40% = 1,160 hrs	\$8,1M+	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Average Profile 20% = 580 hrs	\$4,0M+	\$5,8M	\$7,7M	unlikely production too low	-	-	-	\$11,6M	\$11,6M	\$5,8M	\$5,8M	-	-
2.3 Low Profile 10% = 290 hrs	\$2,0M+	\$2,9M	\$3,85M	\$4,8M	2.0M	\$14,5M	\$11,6M	\$ 5,8M	\$ 5,8M	\$2,9M	\$2,9M	-	-
2.4 Added Profile 1% = 29 hrs	unlikely	unlikely	-	\$0,5M	0.5M	\$ 1,5M	\$ 1,2M	\$ 0,6M	\$ 0,6M	\$0,3M	\$0,3M	\$1,5M	\$ 3,6M
2.5 Added Profile 5% = 145 hrs	unlikely	\$1,5M	\$1,9M	\$2,4M	1.0M	\$ 7,2M	\$ 5,8M	\$ 2,9M	\$ 2,9M	\$1,4M	\$1,4M	\$7,2M	\$17,4M

Re: 8 hrs/day = 2,900 hrs/yearly

— = unlikely in view of product availability and domestic production capacity.

3.6.1 Possible Programming Models (Formats)

As a result of our analysis and our consultations with the industry, we have identified four different models (formats) which are most likely to be successful in attracting a French language audience.

1. A model based on the profile of a CITY-TV in Toronto

This independent, English-language, Toronto station provides a model which could be transposed successfully to the French Canadian market. Without going into detail on their approach and the strategies underlying their success, one could say simply that its programming consists of a combination of "NEWS-MOVIES-MUSIC".

The model developed in Table D is not a faithful reproduction of the programming schedule of this station, but it resembles it closely.

CITY-TV has some of the characteristics identified in Section 3.2 as basic strategic elements for the new network:

- management and personnel: dynamic members of the younger generation;
- news and information treated in a cosmopolitan and North American style;
- fairly low-key production methods;
- target audience: young adults.

2. A CITY-TV model in an "enhanced" or adapted version, suitable to the French-Canadian market

Even if CITY-TV's programming model seems appropriate for our second network, its market is clearly different. For one thing, we are talking about a network, where CITY-TV is a simple independent station. The market it serves clearly has different characteristics.

It seems possible, nevertheless, to build a model which would adapt the stronger points of CITY-TV's programming to the specific realities of the French Canadian market at the same time as enlarging the scale and the scope of its operations to suit our network requirements.

This model would offer a basic schedule consisting of information shows, movies and musical specials, to which we would add original Canadian drama programming, European shows and sports, in response to the specific needs of the francophone market.

3. A mixed model

The mixed model of programming conforms to current broadcasters' programming, with stronger emphasis on news and information, sports and popular cultural events and feature-length films.

4. The specialized "high profile" model

The CITY-TV format ("News-Movies-Music") is a fairly specialized one. It is also possible to conceive a specialized model for the Francophone market consisting mainly of news and information programs, sports and variety (events, performances, and music).

This high profile approach places a very big priority on major sports events and high-calibre, popular, cultural happenings using name stars, original studio productions, etc.).

Of course, this implies higher programming costs.

The following table presents estimates of the costs for these different programming models at stable growth (i.e., after five years of operation).

TABLE D

Estimated programming Costs based on Different Models (formats)

(Fifth year of operation)

Legend : % = percentage of total broadcast hours
 M = \$ 000,000 (1985)
 Cost of Broadcast Rights and/or production including portions contributed by the Broadcast Program Development fund and other partners.

Re: Yearly disbursements for use of funds = 90% of the schedule

Type of products Formats	Information (2) + Quizz	Acquisitions				Events				Drama			Total
	News + Magazines,	Movies, Mini Series + made for TV - Category A (3-6 years)			Classics + Cat. B-C	Major Sports	"Made for TV" Variety	Variety (live)	Minor Sports Imports	Ameri. + Foreign	Canadian Repeats	Canadian Original	
Average costs	\$7,000/hr	American \$15,000/lm	European \$20,000/lm	Canadian \$25,000/lm	\$10,000/lm	\$50,000/hr	\$40,000/hr	\$20,000/hr	\$20,000/hr	10,000/hr	\$10,000/hr	50,000/hr	
1- City-TV Profile"	45% 6,25M ⁽³⁾	10% 2,0M ⁽⁴⁾	5% 1,9M	1% 0,5M	5% 1.0M	-	1% 1,2M	4% 2,3M	3% 1,7M	10% 2,9M	5% 1,4M	1% 1,5M	22,6M
2-"Enhanced City-TV"	40% 8,1M+	8% 2,3M	5% 1,9M	1% 0,5M	5% 1,0M	2% 3,0M	1% 1,2M	6% 3,4M	5% 2,9M	8% 2,3M	7% 2,0M	2% 3,1M	31,7M
3- "Mixed" Specialized - generalized	40% 8,1M+	7% 2,0M	7% 2,7M	1% 0,5M	-	5% 7,2M	4% 4,6M	7% 4,0M	3% 1,3M	8% 2,3M	6% 1,2M	2% 2,3M	36,7M
4- "Specialized" "High profile" Sports, news, music	45% 9,1M	6% 1,7M	3% 1,1M	1% 0,5M	-	6% 8,7M	5% 5,8M	8% 4,6M	5% 2,9M	3% 1,0M	7% 2,0M	1% 1,5M	39,0M

- (1) The percentage allocated to each category in the program schedule takes account of possible limitation in the supply of programs (e.g. Product availability, creative and technical capacity of the French Independent production sector).
 (2) Quizz represents 5% of this category.
 (3) The average cost of Information programming is reduced to \$5,000/hr. + fixed operating costs.
 (4) The average cost of French language Versions of American Movies reduced to \$10,000/hr. This is for less recent products.

TABLE E

Comparative Analysis of these Formats

Re: The inventory is fixed at 10% of the schedule and is comprised of: 7% Feature Films, Made in TV and Mini Series and 3% of Drama Series

Type of programming Formats	Information	"Quiz"	Feature Films made-for-TV and mini series	Sports	Variety	Drama /series	
1- City-TV Format	40%	5%	28%	3%	5%	19%	=100%
2- City Enhanced Format	35%	5%	26%	7%	7%	20%	=100%
3- Mixed Format	35%	5%	22%	8%	11%	19%	"
4- Specialized "High profile" Format	40%	5%	17%	11%	13%	14%	"

3.7 Conclusions

The following chart is a summary of the possible positioning characteristics of a second private network, availability of acquisitions and production sources, and likely market development. A brief Glossary of terms is included at the bottom of the chart to facilitate comprehension.

3.7.1 POSITIONING CHARACTERISTICS OF A 2ND PRIVATE NETWORK

Content Category	General Orientation	Means to distinguish/innovate	Availability/Sources of product	Factors of likely market development
1. Information				
1.1 News/Current Affairs	<ul style="list-style-type: none"> Positive approach + Local/National Accent on live reporting Aggressive Immediate/local 	<ul style="list-style-type: none"> + N.A., less Prov. Scheduling Format + Visual Local + National coverage Montreal based Investigative/in-depth style 	<ul style="list-style-type: none"> News Current trends Events In-house production Affiliation with existing infrastructure (radio, newspapers) 	<ul style="list-style-type: none"> SRC: + Regional + International TVA: + Regional New english specialized services
1.2 Public Affairs	<ul style="list-style-type: none"> Accent on live debates Investigative Original/Innovative scheduling 	<ul style="list-style-type: none"> Innovative treatment New young hosts & traditional stars Public participation Aggressive/controversial 	<ul style="list-style-type: none"> News In-house production + I.P. 	<ul style="list-style-type: none"> Needs of the audience: have synthesized info. in view of the flood of news available
1.3 Magazine/"Soft-News"	<ul style="list-style-type: none"> Flagship programming of network Marriage of variety/information & drama Target audience: young adults + women 	<ul style="list-style-type: none"> Scheduling Treatment N.A. format Entertaining Needs of young adults 	<ul style="list-style-type: none"> In-house + I.P. Current trends/lifestyle/fashionable 	<ul style="list-style-type: none"> Development of this format by existing networks 2nd SRC Network
1.4 Special Events	<ul style="list-style-type: none"> Local/National Interest 	<ul style="list-style-type: none"> Investigative Live reporting 	<ul style="list-style-type: none"> Events 	
2. Films/Drama				
2.1 Feature Films	<ul style="list-style-type: none"> Between TVA & SRC Accent on recent & American films Popular Foreign excellence 	<ul style="list-style-type: none"> Scheduling Accent on festivals/retrospectives Quality/choice Diversified sources of acquisitions 	<ul style="list-style-type: none"> French versions Increased international production from: Australia, West Germany, Great Britain & French countries (France) 	<ul style="list-style-type: none"> Decrease in acquisitions by SRC = new policy Shorter delay in product acquisitions (new legislation)
2.2 Made for TV-Pay - TV/Films	<ul style="list-style-type: none"> IBID: Feature Films 	<ul style="list-style-type: none"> IBID Feature Films 	<ul style="list-style-type: none"> New Stations/Networks: USA + Europe Co-Prod. I.P. Development of canadian production 	<ul style="list-style-type: none"> Important development of production
2.3 Series/TV dramas	<ul style="list-style-type: none"> American versions (very recent) Foreign excellence Canadian repeats International Co-Productions Using original Canadian drama series as a "HOOK" 	<ul style="list-style-type: none"> Scheduling New acquisition sources (stations & services) Treatment Live productions/public participation (young adults) bold/daring 	<ul style="list-style-type: none"> Bound to the decisions of French networks (dubbing) + availability I.P. Co-Production 	<ul style="list-style-type: none"> Availability of French versions Availability of Canadian repeats 2nd SRC Network New policy - SRC
2.4 Mini-Series	<ul style="list-style-type: none"> Recent french versions N.A. Foreign "sleepers" Canadian repeats 	<ul style="list-style-type: none"> Scheduling New acquisition sources 	<ul style="list-style-type: none"> International Co-Productions Increase in availability 	<ul style="list-style-type: none"> Development of Canadian production (Co-Prod. + Broadcast Fund)
3. Event Programming				
3.1 Concerts/Variety	<ul style="list-style-type: none"> Accent on "live" taping/re-broadcast New/Young Canadian Talent + Foreign 	<ul style="list-style-type: none"> Important accent on humour Video possibilities Innovative Target audience: young adults + N.A. Dynamic approach by private producers International (francophone) 	<ul style="list-style-type: none"> Exploit the dynamism of new generation of talent Development of Music Networks I.P. Theatre + Concert Promoters 	<ul style="list-style-type: none"> Increased international supply Emphasis on sound + evolution of technical quality
3.2 Dramas	<ul style="list-style-type: none"> Young audience Contemporary and Urban themes More N.A. Inspiration Aggressive/Innovative 	<ul style="list-style-type: none"> Production methods Accent on spontaneity and live format New/young talent (humour) New format New product 	<ul style="list-style-type: none"> I.P. Co-Production 	<ul style="list-style-type: none"> Consolidation of existing network series production SRC: large mini-series projects SRC: new policy
3.3 Sports	<ul style="list-style-type: none"> Traditional Development of new content 	<ul style="list-style-type: none"> Scheduling Alternate evening sports coverage Sports of the new generation 	<ul style="list-style-type: none"> I.P. American special services 	
4. Others				
<ul style="list-style-type: none"> "Quiz"-live games Marriage of different categories Children's programming 	<ul style="list-style-type: none"> Audience + young Adaptation of foreign concepts Creative Utilization of new technology 	<ul style="list-style-type: none"> Innovative Scheduling Public participation International Technology 		

GLOSSARY OF TERMS:

I.P. : Independent Producers
 Format: Visual & Content Presentation
 SRC : Société Radio-Canada
 Local : Montréal: base of francophone activity in N.A.
 Events: Associated with diverse programming categories
 N.A. : North-American
 Prov. : Provincial

3.7.2 Programming Costs

a) Annual disbursements

After careful analysis, we have opted for the "enhanced CITY-TV model" as the one which best responds to the positioning requirements outlined earlier in the study, and so, most capable of being successful.

According to the different programming models, the new network's annual disbursements for programming at stable growth could vary between \$22 million and \$40 million. This includes a relatively conservative participation from the Canadian Broadcast Program Development Fund, as well as other independent sources of production financing available to the network.

Costs would vary if the new network signed treaty and/or co-venture agreements, or if it could exploit sponsorship arrangements or barter-type agreements with advertisers.

Speaking conservatively, it seems reasonable to suggest that the new network, in order to be successful, would have to spend close to \$30 million, or roughly \$10,000 an hour, in programming disbursements at stable growth. The following growth is likely to occur during the first five years of operation:

GROWTH IN PROGRAMMING COSTS FOR THE FIRST FIVE YEARS
EXPRESSED IN CONSTANT DOLLARS (M = \$ MILLION)

Estimated annual disbursements	
Year One (including Year Zero)	60% = \$18 M
Year Two	70% = \$21 M
Year Three	80% = \$24 M
Year Four	90% = \$27 M
Year Five	100% = \$30 M

Source: CEGIR study 1983

b) Expenses at stable growth (year five)

We estimate that approximately \$27 million will be allocated to cover annual programming expenses when the network achieves stable growth, taking into account the inventory contribution and the depreciation of programming costs.

3.7.3 Canadian Content and its Impact on the Private, Television Production and Distribution Industry

a) Canadian content

After five years of operation, a second commercial network would be devoting 60% of its broadcast hours to Canadian content and a comparable proportion of its total programming costs. We emerge with the following profile based on our preferred programming model:

Enhanced City Model: Fifth Year of Operation

Program Category	% of Broadcast Time	Canadian Content
1. News and information	35%	35%
2. Games shows	5%	5%
3. Movies, Made-for-TV movies and mini-series	26%	3%
4. Sports	7%	7%
5. Variety/Events (1)	7%	5%
6. Drama series (2)	<u>20%</u>	<u>9%</u>
	100%	64%

(1) Includes some Drama programming.

(2) Includes 7% Canadian repeats. If it is impossible to obtain programming in the above proportions, the new network would eventually have to replace them with foreign drama series, feature films and/or information programs in order to adhere to the 60% Canadian content requirement.

b) Possible Benefits for the Independent Production and Distribution Industry

It seems reasonable to estimate that a new network would inject close to \$20 million (in 1985 dollars) into the independent Canadian production and distribution industries after five years of operation. We can anticipate that most of these benefits will flow to Montreal-based producers and distributors.

c) Job Creation

At start-up time, the second network would have to create at least 77 permanent jobs, which would gradually increase to 128 by year five.⁽¹⁾ It would also produce benefits in the areas of operations and administration through the hiring of contractual employees for the internal production of news and information programs (i.e., newscasts, magazines).

These jobs would be concentrated in the high-technology sector (i.e., communications, audio-visual, television), and could contribute to creating jobs for the younger generation which has experienced the highest unemployment levels in recent years.

(1) See section 5.4

d) Assumptions underlying these benefits

1. These benefits are based on the model favoured by this study, that is, the "enhanced CITY-TV" model adapted to reflect the specific market needs of the second network. We have estimated programming disbursements during the period of stable growth at \$31.7 million.
2. Sixty percent of disbursements will be affected to Canadian programming, that is \$19 million.
3. The organizational model analyzed for production assumed a limited amount of internal production, and this, principally in the news and information areas.⁽¹⁾
4. We estimate that more than 75% of the value of original Canadian production will be undertaken by the independent production sector, that is, close to \$14 million.
5. As far as the acquisition of foreign product is concerned, the study bases its estimates on current characteristics of the distribution market. Hence, we estimate that there will be benefits for the Canadian industry and the artistic community⁽²⁾ in the case of products other than American movies, made-for-TV films, series and mini-series.

(1) See section 5.4

(2) Canadian repeats

CHAPTER FOUR: A STUDY OF THE ADVERTISING MARKET

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4.1 Profile of the Television Advertising Market(*)

4.1.1 Quantitative data

The value of the advertising market is defined as the total net advertising revenues of private and public television stations operating in the market. For example, the advertising market for television in Montreal is evaluated on the basis of the total net advertising revenues (excluding agency and rep house commissions) of commercial television stations in the market, that is CBFT, CBMT, CFTM and CFCF.

- In 1982, the existing advertising markets for private and public television were estimated as follows:

* A detailed analysis of the potential advertising market can be found in Annex B, and includes notes on methodology as well as on information sources.

TABLE 4.1

Projected Value of the TV Advertising Market
Based on Station Net Advertising Revenue - 1982

		<u>% Canada</u>	<u>% Quebec</u>
Canada:	\$777 million	100%	-
Quebec Province	\$189 million	24%	100%
Montreal Region	\$106 million	14%	56%
Quebec Region	\$ 30 million	4%	16%

- Sources:
- Statistics Canada, Catalogue 56-204 - Radio and TV Broadcasting
 - Census data contains private and public television revenues
 - Estimated revenues of the French network of Radio-Canada based on 30% of total network revenues (1982)
 - Special compilation - Department of Communications, Quebec
 - CEGIR studies, 1979, 1982, and 1983

From now until 1985, the year the new network is assumed to start operations, we see the advertising markets developing in the following manner:

TABLE 4.2

Ad Market Growth, Commercial & Public TV, 1982-85
(millions of real dollars)

	1982	1983	1984	1985
Canada	\$777	\$878	\$992	\$1121
Province of Quebec	189	214	242	286
Montreal	106	120	136	160
Quebec City	30	34	38	45

Sources:

- The annual rate of growth is projected at 13% per year and is calculated on the basis of the annual rates of growth for the previous years and forecasts for the 1980's. (See Annex B)
- Radio-Canada's (French network) share of overall advertising revenues for the network climbed to 33% in 1983.
- The advertising market will probably swell by 5% in the first year of operation of the new network. This estimate is based on the experience of other new networks in Canada.

Advertising market projections for the new network's first five years of operation are expressed in constant 1985 dollars, and based on a real rate of annual industry growth of 4%. This was the average industry growth rate in 1979, 1980 and 1981 and excludes 1982, a recession year.

TABLE 4.3

Projected ad Markets, Commercial & Public TV - 1985 to 1989
(millions of constant dollars)

	1985	1986	1987	1988	1989
Canada	\$1121	\$1165	\$1211	\$1250	\$1310
Province of Quebec	286	312	324	337	350
Montreal	160	174	181	188	195
Quebec City	45	49	51	53	55

- Sources:**
- Real rate of growth estimated at 4% per year.
 - As in 1985, the advertising market is predicted to expand by 5% in the second year of operation of the new network.

4.1.2 Characteristics of the Market

- From the standpoint of advertising revenues, the television medium is at the stage of full growth, even though its share of advertising revenues has increased steadily. Between 1977 and 1982, television's share of overall revenues to Canadian media went from 15.3% to 17.5%.(1)

- o Among the factors likely to limit this growth are: average listening hours have stabilized at around 24 hours per week, and the Francophone audience is slowly slipping over to English television. Growth in advertising revenues for television will probably depend on broadcasters' ability to continue implementing rate increases. This activity seems to have increased significantly in the course of the last few years.
- o Furthermore, according to some people, the Canadian television industry has already absorbed most of the impact of audience fragmentation on its advertising revenues. Most industry analysts seem optimistic about the prospects for conventional television. Stations operating in secondary markets, however, seem less well equipped to position themselves in the more competitive environment that is taking shape.(2)
- o Television advertising revenues in Quebec split roughly into 35% local and 65% national. TV stations seem more dependent on local and retail sales than their counterparts in the rest of Canada.(3) As a result, Quebec television seems far more sensitive to the economic climate and to market fluctuations than stations elsewhere in Canada.
- o It is generally believed that the advertising market in Quebec is underdeveloped with respect to its potential. Per capita commercial television revenues were only 87% of Canadian levels in 1982, putting Quebec in second last place after the Maritimes. Table 4.4 depicts this situation.

TABLE 4.4

Net Ad Revenues, Commercial Television per
Capita and by Province - 1982

	Private Television Revenues (\$ millions)	Population (millions)	TV Revenues per capita	Index per capita
Canada	\$671	24.3	\$27.61	100
Atlantic Provinces	37	2.2	16.82	61
Quebec	154	6.4	24.06	87
Ontario	254	8.6	29.53	107
Manitoba & Saskatchewan	56	2.0	28.00	101
Alberta	100	2.2	45.45	165
British Columbia	69	2.7	25.55	93

Sources: - Statistics Canada, Catalogue 56-204; figures were rounded to the millions of dollars.

- Population: 1981 Census.

Per capita advertising revenue for television for the main cities in Canada is estimated as follows:

TABLE 4.5			
<u>Commercial and Public TV Ad Revenues by Market - 1982</u>			
		<u>Per capita</u>	<u>Index</u>
Montreal	French-language	\$36.35	115
	English-language	\$39.86	126
	Total	\$37.44	119
Quebec		\$51.55	163
Toronto		\$59.33	188
Vancouver		\$30.96	98
Edmonton		\$59.43	188
Canada		\$31.58	100

- Sources:
- Projected advertising markets by city. (See Annex B-6)
 - The population data for the per capita projections are derived from the Financial Post, Survey of Markets, 1983.

Advertising rates prevailing in some Francophone markets have always been lower than those in English-language markets.⁽⁴⁾ On the average, a gross rating point in Montreal costs between \$65 and \$100. It would command around \$150 to \$180 in Toronto.

This imbalance is usually attributed to the relatively low rates charged by Radio-Canada in Quebec and especially in the Montreal market. This particular situation must have had quite a significant impact on the historical growth of the advertising market in Quebec.

The Montreal market is the only one in the province of Quebec where television advertising revenues are split between three local participants, i.e. Radio-Canada, Télé-Métropole and CFCF-TV.

TABLE 4.6

1982 market Share by Station - Montreal Market

	<u>% of Advertising Market</u>	<u>% of Total Audience</u>	<u>% of Francophone Audience</u>
CBFT	12%	21%	29%
CFTM	57%	28%	43%
CFCF	28%	19%	10%
CBMT	3%	6%	2%
Others	-	26%	16%

Sources:

- Share of advertising market projected by CEGIR
- BBM Survey, Audience share, Fall 1982, population 2+, (Central market: 6 a.m. to 2 a.m.)
- BBM Survey, Special report on the Francophone population, Fall 1982, population 2+, (Central market: 6 a.m. to 2 a.m.)

Elsewhere in Quebec, Radio-Canada and TVA affiliates find themselves face to face in the market. In Quebec City, for example, advertising revenues break out as follows, by audience share:

TABLE 4.7

Station Market Share - Quebec City Market - 1982

	<u>% of Advertising Market</u>	<u>% of Audience</u>
CBVT (Radio-Canada)	17%	30%
CFCM (Télé-Capitale)	77%	47%
CKMI (Télé-Capitale)	6%	4%
Others	-	19%

Sources:

- Market share projected by CEGIR
- BBM audience share, Fall 1982, population 2+, Central market (6 a.m. to 2 a.m.)

These tables demonstrate that the fragmentation occurring in Francophone viewing is not necessarily reflected in its share of revenues. In Montreal in 1982, CFTM captures more than half of the total market with 28% of the total audience and 43% of the Francophone audience. Quebec City's Télé-Capitale controls 83% of the market (CFCM and CKMI) with 51% of the audience.

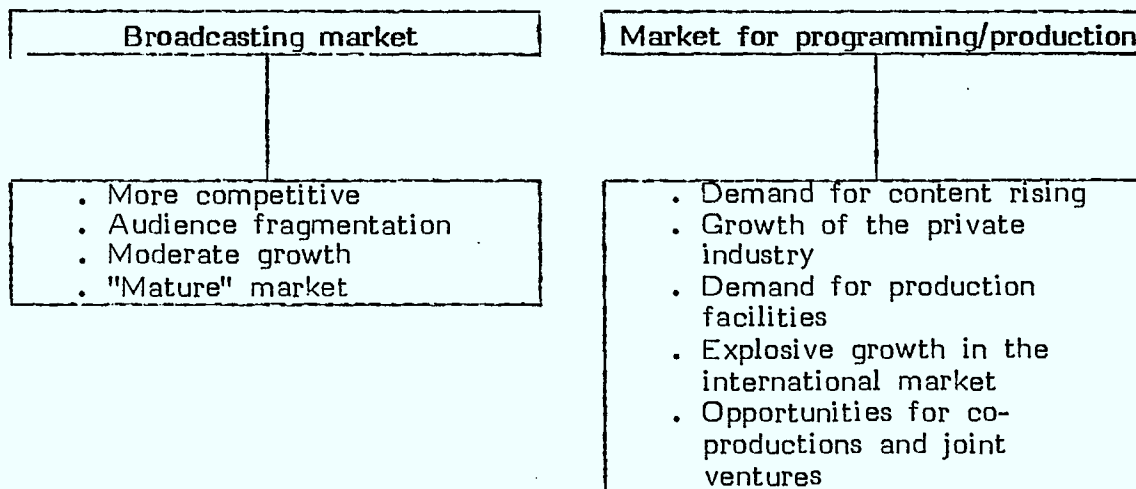
According to the BBM survey of Fall 1983, this gap seems to have widened in 1983 with the reduction in CFTM's share of the Francophone audience to 31%.

4.1.3 Growth Factors

- The transfer of Francophone viewing to English networks, particularly acute in the case of Montreal, may well result in the transfer of Montreal advertising revenues to CFCF, to the detriment of the French-language networks.
- Expected changes in the population structure as well as the growing diversification in consumer habits will likely contribute to the growing importance of "marketing" in our society. This is likely to produce the following consequences in the advertising industry (among others):
 1. A greater demand for spot advertising, particularly during prime time.
 2. The pursuit of more defined and circumscribed audiences from a qualitative point of view.
 3. The diversification of communications media.
 4. Shorter and crisper advertising campaigns.
- The Francophone television industry will have to adjust to these trends.
- An expected tightening of the advertising market (or at least a slowing down of its growth) could force broadcasters to develop new markets (example, productions, coproductions, exports, other investments) in order to generate new sources of revenue. This strategy is certainly more desirable to major network stations, which form part of large, diversified communications enterprises. For example, CFTM (Télé-Métropole Inc.), CFTO (Baton Broadcasting), CFCM (Télé-Capitale).

This slowdown in market growth probably also explains why broadcasters are devoting increased efforts to developing export markets and to seeking out new sources of revenue (e.g. CBC Enterprises, NBC International, France Media International, etc.)

The problem could be summarized as follows:



Other factors that will affect the strategic decisions of the industry are:

- The Policy of "Canadianizing" the CBC

Appearing before the Parliamentary Committee on Culture and Communications, CBC warned that the Corporation's audience and revenues would probably decline following the implementation of the new CBC strategy. The traditional

popularity of Canadian programs on the French network make this scenario less probable for French television. Nevertheless, it is highly likely that once public sector programming is forced to be distinctive from private sector programming, and as is forced increasingly to eschew commercial imperatives, new opportunities will open for commercial TV.

- **More Aggressive Marketing by CBC**

In our consultations, Radio-Canada indicated they would be adopting an increasingly dynamic marketing policy in the course of the next few years. This more aggressive approach, combined with an increase in their advertising rates, could have a sizable impact on the advertising market.

- **Rationalizing the Commercial Policies of TVA Affiliates**

The strategy of this commercial network and its affiliated stations could have a significant impact on the prospects for a second commercial network in the market. We can foresee the following possibilities:

- . a decrease in rates;
- . the creation of a new "participation plan";
- . an improvement in their marketing and sales efforts with advertisers and agencies.

Some members of the Canadian advertising industry have pointed to serious weaknesses in the marketing and sales efforts of Francophone TV broadcasters in the last few years. They claim that French-language stations and rep houses do not approach the task of marketing as systematically and aggressively as their English-language counterparts.

This problem has assumed increased importance in the past few years with the emergence of Toronto as the major decision-making centre for the industry. Many members also believe that this lackadaisical approach to sales has been encouraged by the relatively limited level of competition in the Quebec TV market.

- A Greater Involvement by Radio-Quebec in Prestige Advertising and Program Sponsorship

4.1.4 Conclusions of this Analysis of the Advertising Market

- The advertising market for television in Quebec, and in Montreal, in particular could not only be bigger, it could also increase its share of advertising revenues per capita compared to other Canadian regions.
- The second network could help restore balance to the Quebec market, and to the Francophone market, in particular, by either blocking the flow of advertising dollars to the English networks or by repatriating them to the French networks.
- The strategies adopted by current broadcasters and the degree to which public broadcasters get involved in the advertising market, could influence the eventual positioning of the new network.

4.2 Positioning a Second Television Network in the Advertising Market

4.2.1 Commercial Rates

The commercial rate is the basis for calculating advertising revenues in the television industry. To facilitate comparisons between rates offered by different stations and media, buyers and sellers of commercial time generally use the "cost per thousand" (CPM). This cost varies significantly depending on the time slots and target groups in question. Media buyers are most interested in adults aged 18+, the ultimate consumers to whom they address their advertising messages. At the same time, the CPM for men will differ from the CPM for women, depending on the type of audience to which a particular program is targeted.

Even though there are differences among CPMs from one time slot and one group to another, we have calculated an average CPM based on the extended market for the new network, (i.e., population 2+) during the core broadcast schedule, that is, from 4 p.m. to midnight.

The purpose of this exercise is to establish a basic unit for calculating advertising revenues for the second network.

In 1983 the average cost per thousand for television between 4 p.m. and 11 p.m. in Montreal and Quebec City⁽⁵⁾ is estimated as follows:

TABLE 4.8

Average Cost per Thousand in Montreal and
Quebec City
1982-1983

Unit Cost, Average CPM,
Population 2+
4 p.m. to 11 p.m.

Montreal

CBFT	\$3.50
CFTM	\$5.00+

Quebec

CBVT	\$6.25
CFCM	\$5.25+

Source: Card - September 1983
BBM - Fall 1982

It is important to note that these CPMs do not actually reflect the rates currently prevailing in the market since advertisers generally buy "18+" and very often "men 18-35". Media buyers generally agree that the average CPM for the 18+ in prime time costs at least double the CPMs indicated in the above table.

Since it is not our intention to develop a rate structure here, but rather to evaluate the financial basis for revenues, we will use the average CPM appearing in Table 4.9 to complete our financial analysis of the second network. It is important to bear in mind that this is just an average CPM and not the real prevailing rate, since these will differ from one hour to another and one target group to another. We are satisfied, nevertheless, that this method provides us with a solid basis for calculating potential revenues for the new network.

It is clear from our analysis that if a second, private network is to be competitive, it must adjust its rates to fit in between those charged by the two other Montreal stations as well as offer a somewhat lower rate than those of Télé-Capitale and Radio-Canada in Quebec City.

TABLE 4.9

Cost per Thousand for a Second NetworkSetting an Average CPM (as the Unit Basis
for Projecting Advertising Revenues)

	Hypothetical CPM 1982-83	Projected CPM 1985
Montreal	\$4.50	\$6.40
Quebec	\$5.00	\$7.00

Source: CEGIR estimates: Annual rate of growth for rates estimated at 13%.

4.2.2 The Target Advertising Markets

- The second network will be geared primarily to the Quebec advertising market. Interviews done with advertisers and agencies indicated that advertising markets reached outside of Quebec are relatively unimportant.⁽⁶⁾ Should the network be extended to cover secondary, American markets, it might be worthwhile to undertake supplementary studies on the advertising potential of the permanent and seasonal Francophone populations, particularly in Florida and Louisiana.
- In this study we are primarily interested in the traditional advertising market for television. We are assuming that only two transmitters will be erected, one in Montreal and the other in Quebec City. Additional sites appear to be too costly in view of the relatively small additional population that can be reached, even if we take account of cable television penetration.

Advertising revenues derived from traditional sources are anticipated for the Montreal and Quebec city markets only.^(*) We have also attempted to estimate the potential of the advertising market for cable in Quebec. Section 4.3 provides details.

* Marginal regional stations might be interesting in affiliating with the new network on a "twin-stick" basis.

- Our technical profile(*) indicates that the new network must broadcast on the UHF band, since there is no VHF frequency available in Montreal. In the case of Quebec city, a UHF channel seems the most likely choice, even if more detailed studies should indicate that a VHF channel was possible.

It is difficult to measure how choosing a UHF channel will affect viewing, and advertising revenue. In addition, a UHF station might require more time to get on its feet than its VHF counterpart.

Nevertheless, the OMNIBUS survey done by CROP (see 2.4.2) indicates that the potential audience appears unconcerned about the band chosen by the station. In response to the question, "If a new French-language television station were only available on the UHF band, like Radio-Quebec, do you think that you would watch it more often, as often, or less often than if it were available on the usual band, as in the case of Radio-Canada, for example?" The response was as follows:

More on UHF	6%
As much on UHF	36%
Less on UHF	15%
No difference	37%
Don't know/no response	6%

These answers, of course, only indicate an intention to behave in a certain way and must be evaluated accordingly.

* Annexe E.

- The second network could promote advertising niches for spot ads, particularly in network time sales. At present, only Radio-Canada is offering network buys to national advertisers. The latter have indicated great interest in extending this availability on an alternative network. Since (*) its "participation plan" was terminated, TVA is only offering network spots on newscasts, sports programs and on some specials.
- Furthermore, the new network could be very attractive to advertisers with medium size budgets, which they are now spending primarily on radio and on daily newspaper. This is probably due to limited availabilities on television and the prohibitive cost of television campaigns.
- Finally, a number of local advertisers would probably be interested in a new opportunity to buy spots in prime time. In the case of Radio-Canada and TVA, these spots are regularly bought up by national advertisers. Interestingly, CFCE seems to be developing the retail market in Montreal with great success, with both English and French advertisers.

* A new participation plan should be implemented next fall by TVA through Paul L'Anglais.

4.3 The Potential Market for a New, Commercial French-Language Television Network

4.3.1 Penetration Scenarios

Once the market studies were completed, three penetration scenarios were considered. Table 4.10 presents a comparison between these scenarios and two of the projects already developed.

TABLE 4.10					
<u>The Performance of a Second Commercial Network (1st year of operation)</u>					
CEGIR STUDY				TAMEC	Télé-Inter-Cité
	1. <u>Optimistic scenario</u>	2. <u>Average scenario</u>	3. <u>Pessimistic scenario</u>		
Francophone audience share	22%	18%	15%	18%	20%
% of Commercial time sold	60%	40%	25%	40%	50%

- Sources: - CEGIR estimate
- Information contained in Télé Inter-Cité's application to the CRTC to operate a new, private, French-language television network in Montreal and Quebec city - 1973.
- TAMEC INC., "A feasibility study for a Canadian DBS program package". Department of Communications, Ottawa, July 1981.

We have chosen the **pessimistic scenario** for the first year of operation for the following reasons:

- The commercial potential of UHF and of cable are both unknown.
- The difficulty anticipated in developing sales arguments the first year without the aid of BBM surveys.
- The "wait and see" attitude likely to be adopted by advertisers in this context.
- Canadian experience in setting up new networks.
- Since 1985 was chosen as year one, it does not really leave much manoeuvring time to market programming and advertising spots.

This combination of factors is likely to lead to the following sequence of scenarios:

First year of operation	-	1985:	pessimistic scenario
Second year of operation	-	1986:	average scenario
Third year of operation	-	1987:	optimistic scenario
Fourth year of operation	-	1988:	audience share stabilizes at 22% to 24%; 60% of advertising time is sold.

Whichever technical model is chosen, the above sequence of scenarios results in the following annual revenue growth rates⁽⁷⁾.

YEAR	% growth from <u>preceding year</u>	Revenue progression Until Stable Growth
1985	-	21%
1986	78.4%	38%
1987	72.6%	65%
1988	38.7%	91%
1989	10%	100%

These are the rates of growth that will be used to project network revenue for each of the various technical models proposed.

4.3.2 The Potential Market in Montreal: 1985

In 1985, it is likely that a new network could attract 126,000 French-language viewers per quarter hour in Montreal and could tap roughly \$8.8 million in advertising revenue in the Montreal market.

This estimate is based on the following assumptions:

- a transmitting station in Montreal ("off-air" reception) on the UHF frequency;
- a minimum of 8 hours of broadcasting daily (4 p.m. - midnight), which is the basic core of this model;
- 192 advertising spots of 30 seconds;
- 60% national advertising, 40% local advertising;
- an average quarter hour audience of 126,000 viewers;
- an average national rate of \$810.00 and an average local rate of \$680.00. (A pessimistic CPM of \$6.40 x 126 for the national rate, reduced by 15% for the local);
- 25% of total commercial time sold;
- reduced commercial-potential during the 13 summer weeks (40% of the regular season potential).

Annex C describes the methodology used in calculating these revenues. They are summarized in Table 4.11.

Potential Revenues of a Second Network in Montreal - 1985

1.	<u>Potential Daily Revenues</u>	National Advertising :	\$ 810 x105	spots	=	\$85,050	
		Local Advertising :	\$ 680 x 87	spots	=	59,160	
						\$144,210	
2.	<u>Air Time Sales</u>			x		25%	
3.	<u>Daily Revenues</u>					\$ 36,052	
4.	<u>Weekly Revenues</u>			x		7 days	
						\$ 252,364	
5.	<u>Revenues (Fall, Winter, Spring) (39 weeks)</u>			x		39 weeks	
						9,842,196	
6.	<u>Revenues (Summer): 13 weeks x (40% 252,364\$)</u>			+		1,312,293	
7.	<u>Gross Annual Revenues:</u>					\$11,154,489	national: \$ 6,692,693 local : \$ 4,461,795
8.	<u>Agency Commissions (15%)</u>			-		1,673,173	
						669,269	
9.	<u>Commissions to sales representatives (10% on national)</u>						
10.	<u>NET REVENUES:</u>					\$ 8,812,047	

Source: CEGIR Estimate

More details on underlying assumptions used can be found in Annex C.

4.3.3 The Potential Market in Quebec City: 1985

In 1985, the new network could reach an average audience of 40,000 viewers per quarter hour in Quebec City and could go after roughly \$3 million in advertising revenues at both the local and national levels.

In the national advertising market alone, we could expect revenues in the order of \$1.7 million for the same year.

This projection is based on the following assumptions:

- the transmitting station in Quebec city operating on a UHF frequency;
- a relay in Quebec for the national market only;
- a minimum of 8 hours of broadcasting daily between 4 p.m. and midnight (basic core);
- 192 advertising spots of 30 seconds;
- 60% national advertising, 40% local advertising;
- an average quarter hour audience of 40,000 viewers in the Quebec City region;
- an average national rate of \$280.00 and an average local rate of \$240.00 (pessimistic CPM of \$7.00 x 40 for the national reduced by 15% for the local);
- 25% of total commercial-time sold;
- reduced commercial potential during the 13 summer weeks (40% of the regular season potential).

Annex C describes the methodology used in calculating these revenues. They are summarized in Table 4.12.

Potential Revenues of a Second Network in Quebec City - 1985

1. <u>Potential Daily Revenues</u>	National Advertising : \$260 x 105 spots = \$ 29,400	
	Local Advertising : \$240 x 87 spots = 20,880	
		\$ 50,280
2. <u>Air Time Sales</u>		x 25% 12,570
3. <u>Daily Revenues</u>		\$
4. <u>Weekly Revenues</u>		x 7 days \$ 87,990
5. <u>Revenues (Fall, Winter, Spring) (39 weeks)</u>		x 39 weeks 3,431,610
6. <u>Revenues (Summer): 13 weeks x (40% x 87,990\$)</u>		457,548
7. <u>Gross Annual Revenues:</u>		\$3,889,158
		national: \$2,333,495 local : \$1,555,663
8. <u>Agency Commissions (15%)</u>		- 583,374
9. <u>Commissions to sales representatives (10% on national)</u>		233,349
10. <u>NET REVENUES:</u>		\$3,072,435
11. <u>Gross Annual Revenues (national only)</u>		2,333,495
12. <u>Commissions to agencies and sales representatives (25%)</u>		583,374
13. <u>Net Annual Revenues (national only)</u>		1,750,121

Source: CEGIR Estimate

More details on underlying assumptions used can be found in Annex C.

4.3.4 The Potential Cable Market in 1985

TABLE 4.13

Potential Revenues for a New Television Network:
the Advertising Market for Cable - 1985

Quebec total	:	\$5.1 million
Quebec total, except Montreal	:	\$2.3 million
Quebec total, except Montreal and Quebec City	:	\$1.4 million

This estimate is based on the following factors:

- an average cable penetration rate of 50% in 1985 in Quebec;
- a correlation was found to exist between the potential audience (50% of television households), viewing (6% of the Francophone population is reached in the pessimistic scenario) and potential advertising revenues.

Annex C, which deals with the estimated revenue potential of the new network, provides more details on the methodology used in calculating these revenues.

4.4 Summary Table of Potential (Net) Revenues for the New Network, by Market, in the First Year of Operation

	<u>1985</u>
Montreal advertising market (local and national)	\$8.8 million
Quebec City advertising market (local and national)	\$3.0 million
Quebec City advertising market (national)	\$1.7 million
Cable advertising market	
Province of Quebec	\$5.1 million
Except Montreal	\$2.3 million
Except Montreal and Quebec City	\$1.4 million

Source: CEGIR estimate

Network revenues could increase in the first four years of operation as indicated in the following estimated rates (in constant dollars):

1985 - 1986:	78.4%
1986 - 1987:	72.6%
1987 - 1988:	38.7%
1988 - 1989:	10%

These percentages will be applied to projections of potential revenue for each of the technical models analyzed in Chapter 5.

If we use the year 1989-90 as a baseline, (the year the network should achieve a level of stable growth) the progression of revenues should develop according to the following sequence:

1985:	21%
1986:	38%
1987:	65%
1988:	91%
1989:	100%

NOTES ON CHAPTER 4

1. These percentages are based on revenues derived from air time sales by private television as documented by Statistics Canada, Broadcasting, Catalogue 56-204. The percentage is calculated on total net media revenues as reported annually by Maclean Hunter Research Bureau, in A Report on Net Advertising Revenues in Canada.
2. MARKETING, October 10, 1983: "Conventional television: Is The Bloom Off The Rose?" p. 12.
3. CEGIR studies:
 - "The Advertising Industry in Quebec, Analyses and Trends", 1979, sponsored by the Publicity Club and the Quebec Department of Communications.
 - Various studies done on the strategic positioning of private broadcasting undertakings in Quebec, 1981-1983.
 - Study in progress sponsored by COGEP on the Positioning of the Quebec advertising industry in Canada, 1983-84.
4. Interviews with media buying specialists.
5. In the case of Radio-Canada, we are making an approximate estimate since network advertising is significant but it is difficult to separate it from the total. The average CPMs were calculated for each daypart between 4 p.m. and 11 p.m. for the population 2+. Details are provided in Annex B.
6. Except Moncton and perhaps eventually, Toronto.
7. The method of calculating these growth rates is described in Annex C.

CHAPTER 5: OPERATING SCENARIOS FOR A SECOND PRIVATE NETWORK

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5.1 Description of the Scenarios: Models for Technical Operations	5- 1
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5.1 Description of The Scenarios: Models for Technical Operations

5.1.1 Operating Frequencies Used by the Transmitting Stations

Annex E contains the results of a general study examining the different technical questions raised by the creation of a second private network.

Evidently, the operating frequencies of the transmitting stations are a very basic factor in the analysis of potential advertising revenues. Here are the conclusions of that study:

Ten years ago, broadcasting in the UHF band posed a serious handicap because television receivers were generally not equipped to receive UHF frequencies. Since that time, legislation has forced manufacturers to integrate UHF into new television receivers. Since the lifetime of most television receivers is less than ten years, the of VHF-only sets have largely been replaced. The research department of Radio-Quebec estimates that UHF penetration in Quebec is 95% of households and 75% of TV sets.

It is important to point out, however, that there is still a theoretical possibility of using VHF channels both in Montreal as well as in Quebec City.

In Montreal, Channel 4 could be used but with a reduced average power of less than 15 KW. This restriction in radiated power would mean that the station could not cover the metropolitan region, and this in turn would not be acceptable according to the Radio Act. Several years ago, the CIVITAS group proposed the use of Channel 4 in conjunction with a full power UHF channel. It would be difficult to justify this rather burdensome option nowadays, given the high penetration rate of UHF receivers.

In Quebec City, Channel 2 could be used in a limited fashion, but its average power would have to be reduced to 32 KW in order to protect the station in Montreal, and in Jonquière, respectively, which are also transmitting on Channel 2.

The above information on the use of VHF channels in both Montreal and Quebec City is only meant to provide a hasty overview of the existing situation. Specific studies on each of the channels would be required in order to evaluate the benefits to be derived from such a limited use. The outcome of these studies is also doubtful, especially for the use of Channel 4 in Montreal, because of existing regulatory constraints and the rights of existing broadcasters.

There is the remote possibility that channels could be realigned to increase their broadcast zone. But this solution has rarely proved acceptable to the Department of Communications. The complexity of this proposal almost makes it impractical since the costs are quickly becoming astronomical.

Discussions with the Department of Communications have confirmed the difficulty of setting up VHF transmitting stations. In Montreal, the question appears to have been settled. In Quebec City, on the other hand, more detailed studies could, in principle, indicate that VHF Channel 2 is usable.

In keeping with this conservative approach, our study has focussed exclusively on the use of the UHF frequency by second network transmitters.

5.1.2 The Scenarios

In this study we have developed 9 models to describe the technical operations of the second network(*). These technical models form the basis for the scenarios by which we will ultimately analyse the potential profitability of the second network.

The 9 scenarios can be collapsed into 5 essential types.

* We have not included the possibility of regional stations affiliating to the network on a "twin stick" basis, in view of the many unknown factors associated with such a situation.

DESCRIPTION OF THE SCENARIOST Y P E O N EScenario 1

This is the basic scenario. It consists of:

- a UHF station in Montreal
- cable operators pick up the signal at their own expense and distribute it according to CRTC priorities

Scenario 2

To scenario 1, we add the creation of a program distribution network through video cassette delivery to participating cable operators. The latter can distribute them on a delayed basis at their convenience whether they are in Quebec, elsewhere in Canada, or in the United States.

DESCRIPTION OF THE SCENARIOS (Cont'd)T Y P E T W OScenario 3

This is the model favored by Télé Inter-Cité in its application to the CRTC in 1973. It consists of the following elements:

- a flagship UHF station in Montreal
- a UHF station in Quebec City equipped with studios and/or mobile equipment for the production of some local programming^{*}, as well as facilities for commercial substitution
- a microwave link between the two stations
- cable operators must pick up the signal in Montreal and Quebec City and distribute it according to CRTC priorities

Scenario 4

Scenario 4 resembles scenario 3. However, it only has a rebroadcaster in Quebec City, with no local production nor broadcast origination taking place there^{*}

* With the growth of light mobile equipment, as well as the infrastructure now existing in this region, it would be possible to do some regional programming out of the Quebec station without having to invest in separate studios for the new network.

DESCRIPTION OF THE SCENARIOS (Cont'd)T Y P E T H R E EScenarios 5, 6 and 7

These are the "SUPER STATION" models, consisting of:

- a UHF station in Montreal
- a satellite uplink
- reception and distribution by cable operators, according to CRTC priorities.

Scenario 5

- use Anik D-1 with 2 beams
- covers all of North America, live, with an hour's delay in some regions.

Scenario 6

- uses Anik D-1 with only 1 beam
- covers all of North America, live in the eastern regions and with a delay of one to three hours in the West, and in some other regions

Scenario 7

- uses Anik C-3 with a single beam
- covers the North East of North America live

DESCRIPTION OF THE SCENARIOS (Cont'd)T Y P E F O U RScenario 8

This is a mixed model microwave and satellite incorporating:

- a UHF station in Montreal
- a UHF station in Quebec city equipped with facilities for some local programming as well as for commercial substitution
- an uplink with Anik C-3 utilizing one beam
- covers the North East of North America, live
- cable operators in Eastern Canada can pick up the service either off-air or off satellite according to CRTC priorities
- cable operators in Western Canada and in other peripheral markets can pick up this programming on a delayed basis through video cassette distribution

DESCRIPTION OF THE SCENARIOS (Cont'd)TYPE FIVEScenario 9

This model has no earth transmitting station. However, it does have a broadcast origination centre as well as an uplink to Anik C-3 covering the Northeastern part of the continent on a live basis.

The reception and distribution of this signal are the cable operators' responsibility, according to CRTC priorities.

SUMMARY OF THESE SCENARIOS

<u>Type</u>	<u>Scenario</u>	<u>Description</u>
1	1	UHF station in Montreal only
	2	UHF station in Montreal, bicycling cassettes
2	3	UHF station in Montreal, UHF station in Quebec City, microwave link
	4	UHF station in Montreal, repeater in Quebec City, microwave link
3	5	UHF station in Montreal, uplinked to Anik D-1, use of two beams
	6	UHF station in Montreal, uplinked to Anik D-1, one beam only
	7	UHF station in Montreal, uplinked to Anik C1-3, one beam only
4	8	UHF station in Montreal, UHF station in Quebec City, use of one beam on Anik C-3
5	9	No station, use of one beam on Anik C-3

OVERVIEW OF SCENARIOS

Type	Scenario	Station		MICRO-WAVE NETWORK	Satellite	DISTRIBUTION IN THE REST OF CANADA AND NORTH AMERICA
		Montreal	Quebec CITY			
1	1	UHF				NO
	2	UHF				Delayed basis
2	3	UHF	UHF	YES		NO
	4	UHF	Rebroadcast*	YES		NO
3	5	UHF			D-1 2 beams	YES
	6	UHF			D-1 1 beam	Delayed in West
	7	UHF			C-3 1 beam	Live, N-E only
4	8	UHF	UHF		C-3 1 beam	Live, N-E only
5	9				C-3 1 beam	Live, N-E only

* Repeater

5.2 Simulating Potential Revenues Based on These Scenarios

The estimates of potential revenues that could be generated by the scenarios described in section 5.1 are based on their advertising potential.

5.2.1 The Technical Models and Their Advertising Markets

The following assumptions were used in estimating these revenues:

- According to our approach, the advertising market for this network outside of Quebec is negligible. Additional studies are required to estimate the advertising potential of peripheral markets, principally in the United States.
- Additional revenues are anticipated from the cable market. However, the distribution of the signal by satellite must be done at the expense of the new network.
- Both local as well as national advertising revenues are anticipated in the market for the new network, as long as the latter has a transmitting station and reception is possible off-air. In the case of a relay station, the network will probably be forced to forego national advertising revenues.
- Advertising potential is estimated at nil in the case of broadcasting on a delayed basis or distribution by cassettes.

SCENARIO	DESCRIPTION	ADVERTISING MARKETS
1	UHF Station in Montreal only	Montreal: Local & National
2	UHF Station in Montreal, + videocassette network	
3	UHF Station in Montreal, UHF Station in Quebec City, microwave link	Montreal and Quebec City: Local & National
4	UHF Station in Montreal, rebroadcaster in Quebec City, microwave link	Montreal: Local & National Quebec: National
5	UHF Station in Montreal, uplink to Anik D-1, use two beams	Montreal: Local & National Cable Market: Quebec minus Montreal
6	UHF Station in Montreal, uplink to Anik D-1, use one beam	
7	UHF Station in Montreal, uplink to Anik C-3, use one beam	
8	UHF Station in Montreal and Quebec City, use one beam on Anik C-3	Montreal & Quebec City: Local & National Cable Market: Province minus Montreal & Quebec City
9	No station, use one beam on Anik C-3	Cable Market of Province of Quebec

TABLE 5.1

ESTIMATED POTENTIAL REVENUES FOR A NEW FRENCH LANGUAGE NETWORK (1985-1989)

Technical Models	Potential Francophone (,000)	Potential Advertising Markets	\$ Millions - Constant Dollars				
			1985	1986	1987	1988	1989
1. 1 station in Montreal	Montreal: 2,225	Montreal: local & national	\$8.8	\$15.7	\$27.1	\$37.6	\$41.4
2. 1 station in Montreal and distribution by videocassettes	Montreal: 2,225 Additional Audience via cassette undetermined	Montreal: local & national					
3. Inter-cité Model	Montreal: 2,225 Quebec : 675 Total : 2,900	Montreal: local & national Quebec : local & national	\$11.8	\$21.1	\$36.4	\$50.5	\$55.5
4. 1 station in Montreal and rebroad in Quebec City	Montreal: 2,225 Quebec : 675 Total : 2,900	Montreal: local & national Quebec : national	\$10.5	\$18.8	\$32.4	\$44.9	\$49.4
5. North American Superstation	Montreal: 2,225 Rest of : 1,409 cabled Quebec : Canada : 516 cabled U.S. : 900 Total : 5,050	Montreal: local & national Cable Market (Quebec minus Montreal)	\$11.1	\$19.8	\$34.2	\$47.4	\$52.1
6. Canadian Superstation (delayed basis in W. Canada & S. West U.S.A.)	Montreal: 2,225 Rest of : 1,409 cabled Quebec : Canada : 516 U.S. : 900 Total : 5,050	Montreal: local & national Cable Market (Quebec minus Montreal)					
7. Superstation Eastern Canada & North Eastern U.S.A.	Montreal: 2,225 Rest of : 1,409 cabled Quebec : Eastern Canada : 412 cabled U.S. : 234* Total : 4,280	Montreal: local & national Cable Market (Quebec minus Montreal)					
8. Mixed Model & distribution N.E. U.S.A.	Montreal: 2,225 Quebec : 675 Rest of Quebec: 929 cabled Eastern Canada: 412 cabled U.S. : 234 Total : 4,475	Montreal & Quebec: local & national Cable Market (Quebec minus Montreal & Quebec City)	\$13.2	\$23.6	\$40.7	\$56.4	\$62.0
9. Model without station	Province of Quebec : 2,756 cabled Eastern Canada: 412 cabled North East U.S. : 234 Total : 3,402	Cable Market (Quebec Province)	\$5.1	\$9.2	\$15.9	\$22.0	\$24.2

* Slightly more than a quarter of the French speaking population in the U.S. is concentrated in New England.

5.2.2 Estimate of Potential Revenue

Potential revenues were projected for each model based on the value of markets as defined in Chapter 4. The methodology used in making these estimates is explained in greater detail in Annex C.

Table 5.1 highlights the following tendencies:

1. Sources for projecting potential Francophone audiences:

a) Projected population growth in the television coverage area (,000)

	<u>1982</u>	<u>1985</u>
Montreal	3,206	3,225
Quebec City	583	689
Sub-total:	3,789	3,914
Total/Quebec:	6,438	6,496

- Sources:- Radio-Quebec: Development plan for a new television network (September 1979).
- An annual rate of growth of .2% for Montreal and of .3% for the rest of Quebec in the last few years, is based on data from the **Financial Post, Survey of Markets**.
 - Census data 1981, **Statistics Canada**.

b) Projected Francophone population: 1985 (,000)

Montreal: $3,225 \times 69\% = 2.225$

Quebec: $289 \times 98\% = 675$

Sources:Research Department, Radio-Canada:

the percentage of population is based on the 1981 Census, Statistics Canada.

c) French viewers with cable

- The figures for Quebec come from Matthews CATV List, June 1983; a growth rate of .3% was applied until 1985.
- The figures on Canadian Francophone households with cable were derived from the Exploratory Study Regarding the Extension of the TVFQ Service Outside of Quebec (LA SETTE), Pierre Levasseur et Ass., 1983.
- A zero growth rate had been applied until 1985. An average of 2.9 viewers per household was assumed on the basis of 1981 census data.
- The U.S. information was obtained from the Language Office of the Census Bureau in Washington. It is based on the number of Americans who speak and understand French. The Census Bureau estimates that this group, which is difficult to survey, could vary between 900,000 and 1,500,000 depending on the season. We took a conservative approach and chose the lower end of the estimate.

2. As expected, the first year of operation should only generate modest revenue for the network, representing 21% of the anticipated revenue when stable growth is achieved.
3. The mixed model (Scenario 8) which calls for originating stations in both Montreal and Quebec City, and the distribution of programming by Anik C in the Northeast part of North America, is undoubtedly the most remunerative model. The least remunerative is Scenario 9, based on satellite-cable distribution.
4. It is interesting to compare these revenues to the Francophone audiences that would be reached by the different models:

SCENARIOS	Audiences reached (\$,000)	Revenues 1985 (\$,000)	Revenues per capita
1 - Montreal station	2,225	\$ 8,800	\$3.95
2 - Station and cassettes	2,225	\$ 8,800	\$3.95
3 - Montreal and Quebec City stations	2,900	\$11,800	\$4.07
4 - Montreal station, Quebec repeater	2,900	\$10,500	\$3.62
5 - North American superstation	5,050	\$11,100	\$2.20
6 - Canadian superstation on a delayed basis	5,050	\$11,100	\$2.20
7 - Eastern Canadian superstation	4,280	\$11,100	\$2.59
8 - Mixed model	4,475	\$13,200	\$2.95
9 - No station	3,402	\$ 5,100	\$1.50

If we compare potential network revenues to number of viewers reached, it seems that Scenario 3 is perhaps best targeted from an advertiser's point of view to reach the potential audience. For each viewer reached, the network could expect annual revenues in the order of \$4.07.

5. We can expect a rapid growth, in the long term, in revenues generated by cable television. Strategies for marketing new advertising on cable should be in place within the next five years. In the United States, the largest superstation, WTBS, managed to generate \$85 million in gross revenue in 1982⁽¹⁾. In that year, this station reached 66,000,000 Americans⁽²⁾ representing a per capita gross of \$1.29. This superstation's gross revenue exceeded \$30 million in 1980⁽³⁾ and reached \$85 million in 1982, an increase of 183% over the two year period. Total advertising expenditures on U.S. cable television could reach \$86.9 million in 1983⁽⁴⁾, an increase of 70.7% with respect to 1982 (\$51.5 million).

(1) Fortune, April 18, 1983.

(2) Channels of Communications, November-December 1982, reports that 22 million households are served by WTBS.

(3) Foster Reports: "New Video Technology and its Impact on Commercial Communications", September 1981.

(4) Home Video and Cable Report, December 19, 1982.

5.2.3 SHARE of Advertising Market for Television

<p align="center"><u>TABLE 5.2</u> <u>Growth of Potential Revenues for a New Television Network</u> <u>including Share of Quebec Market based on these different scenarios</u> <u>1985-1989 (in constant \$ millions)</u></p>							
		1985	1986	1987	1988	1989	% of Quebec Market (1989)
Total, Province of Quebec		\$ 286	\$ 312	\$ 324	\$ 337	\$ 350	-
Total, Montreal		\$ 160	\$ 174	\$ 181	\$ 188	\$ 195	-
Total, Quebec City		\$ 45	\$ 49	\$ 51	\$ 53	\$ 55	-
Scenarios							
1.2	1 station in Montreal	\$ 8.8	\$15.7	\$27.1	\$37.6	\$41.4	11.8%
3.	Télé-Intercité Model	\$11.8	\$21.1	\$36.4	\$50.5	\$55.5	15.9%
4.	1 station in Montreal & rebroad in Quebec City	\$10.5	\$18.8	\$32.4	\$44.9	\$49.4	14.1%
5.6.7	Superstation	\$11.1	\$19.8	\$34.2	\$47.4	\$52.1	14.9%
8.	Mixed Model	\$13.2	\$23.6	\$40.7	\$56.4	\$62.0	17.7%
9.	Model without station	\$ 5.1	\$ 9.2	\$15.9	\$22.0	\$24.2	6.9%

The mixed model (Scenario 8) appears to be the most viable and would probably capture 18% of Quebec TV advertising revenues by 1989. The Télé-Intercité Model (network), on the other hand, would attract around 22% of the advertising market in Montreal and Quebec City for the same year.

5.3 Capital Costs Required for These Different Scenarios (1985 dollars)

Each of these scenarios assumes certain investments in capital costs. There are certain basic requirements which are common to all of these scenarios, as well as other elements which may be required in only one or in several of these scenarios.

BASIC OPERATION

Elements	Cost in Millions of 1985 dollars
- Site and main building for administration, production and origination (4,000 m ²)	2.5 M
- Production and transmission centre, in Montreal; equipment and two studios	7.0 M
- Newsroom: equipment	1.0 M
- Office furniture materials and equipment (for administration use)	.5 M
TOTAL:	11.0 M

OTHER COMPONENTS

Elements	Cost in Millions of 1985 Dollars
1. A UHF transmitting station in Montreal	2.0 M
2. Setting up a cassette distribution network	0.2 M
3. A UHF station in Quebec City	2.0 M
4. A local production and origination centre in Quebec City	3.0 M
5. A rebroad station in Quebec City	2.0 M
6. A satellite uplink for each station	0.1 M

In our study of the technical requirements of the second network (Annex E), we considered three different basic types of operations. It is really the number of studios which distinguish these different operations. They do not include the cost of newsroom equipment, estimated at \$1.0 million.

Basic Operation A:

This operation consists of two studios belonging to the second network: one for news and the other, a bigger one, for commercial production and public affairs programs.

Basic Operation B:

It is possible to consider using only one news studio.

Basic Operation C:

In this case, the network does not own any studios and the investment required is for the main origination centre in Montreal.

We would estimate that the investments required in 1985 dollars would be as follows:

Operation A:	2 studios	\$10 M
Operation B:	1 studio	\$ 7 M
Operation C:	Origination only	\$ 3 M

It seems reasonable to opt for a basic two-studio operation. The study indicates that it would be possible for the new television network to function with a single studio. However, it would require a greater investment in mobile production equipment. Thus a base of \$10 million seem reasonable for technical operations for the start-up period.

The planning period (up until operations) is expected to last two years. We are assuming there will be a delay of two years between the initial feasibility study for this project (Fall 1983), and the commencement of actual operations (Fall 1985). This timetable, of course, does not take into account other factors that could result in a delay, such as regulatory decisions, the need for additional studies, etc.

PROJECTED CAPITAL COSTS FOR A
BASIC TWO-STUDIO OPERATION(*)

Site and Building	\$ 2,500,000
Household Improvements and Office Equipment	500,000
Studio Equipment	
- studio cameras (4)	500,000
" (3)	150,000
- télé-ciné (2)	200,000
VTR	1,500,000
- 2 2" production	
- 3 1" "	
- 4 1" origination	
- 4 3/4" news	
Lighting and Cyclorama	500,000
Control Room: control desk	
audio	
switches (video)	
special effects	1,500,000
Mobile Units (3) and VHF	50,000
Space Parts	100,000
Installation	500,000
Maintenance Equipment	100,000
Tape	200,000
Contingency	300,000
Professional Fees	300,000
Total Investment: Building and Studios (1983)	: \$ 8,900,000
Projected Costs (1985)	: \$10,000,000

(*) Excludes newroom equipment and improvements. Re: VTR-greater use of 3/4" broadcast quality could change these costs.

SUMMARY OF SCENARIOS

- 1 UHF Station in Montreal
- 2 UHF Station in Montreal + Videocassette Network
- 3 UHF Station in Montreal, UHF Station in Quebec City, Microwave Link
- 4 UHF Station in Montreal, Relay Station in Quebec City, Microwave Link
- 5 Superstation: UHF in Montreal + Anik D-1: 2 Beams
- 6 Superstation: UHF in Montreal + Anik D-1: 1 Beam
- 7 Superstation: UHF in Montreal + Anik C-3: 1 Beam
- 8 Mixed: 2 stations: UHF in Montreal + Quebec City + Anik C-3: 1 Beam
- 9 No station: Satellite Anik C-3 + Cable only

INVESTMENTS IN FIXED ASSETS FOR EACH SCENARIO

(1985 - \$ millions)

Basic Core: \$11.0 M

SCENARIO	COMPONENTS						TOTAL
	1	2	3	4	5	6	
1	2,0						13.0
2	2,0	0,2					13.2
3	2,0		2,0	3,0			18.0
4	2,0		2,0				15.0
5	2,0					.2	13.2
6	2,0					.1	13.1
7	2,0					.1	13.1
8	2,0		2,0	3,0		.1	18.1
9						.1	11.1

SUMMARY OF COMPONENTS OF FIXED COSTS

Number	Description
1	UHF Station in Montreal
2	Cassette Distribution Network outside Quebec
3	UHF Station Quebec City
4	Local technical and production Centre in Quebec City
5	Rebroadcaster Quebec City
6	Satellite Uplink

5.4 Projected Operating Expenses in Stable Growth (Year Five, 1985 Dollars)

We have projected operating expenses for the different scenarios at stable growth. To ease comprehension, we have assumed that the period of stable growth will be reached in the fifth year of operations. However, we have expressed the dollars in terms of their 1985 value. This estimate excludes the costs of programming. The basis for projecting these costs is as follows:

5.4.1 Basis for estimating transmission expenses

Components	Annual Expenses (\$)
- A UHF station in Montreal	500,000
- The operation of a cassette network	300,000
- A UHF station in Quebec City	500,000
- Rental of microwave link	300,000
- Satellite up link: 1 uplink	160,000
2 uplinks	250,000
- Satellite transponder rental: on Anik C-3	825,000
on Anik D-1	1,300,000
- A rebroadcast station, Quebec City	500,000

5.4.2 Administration Expenses

The expenses for administration include salaries and benefits, maintenance of buildings and equipment, and other general expenses.

Salaries (128) = \$5.3 million

The basis for estimating salaries can be summarized as follows:

- | | |
|--|--------------------|
| 1) Management: | (10) = \$450,000 |
| . President (1) | |
| . Vice President (4) | |
| Programming-information | |
| Marketing | |
| Broadcast and technical services | |
| Finance and administration | |
| . Support staff and secretarial | |
| 2) Programming-Information: | (73) = \$2,550,000 |
| . <u>Support staff for management (V.P.)</u> | (6) |
| Responsible for product development, strategic planning, administrative assistance | |
| . Information | (30) |
| . Packaging and acquisitions | (11) |
| . Production | (26) |
| 3) Marketing: | (16) = \$640,000 |
| . <u>Communication</u> : advertising research, promotion, public relations ... | |
| . <u>Customer service</u> : local and national sales, business development ... | |

- 4) Operations and technical services: (12) = \$400,000
- . Transmission/origination
 - . Maintenance and technical services
- 5) Finance and Administration: (17) = \$500,000
- . Personnel services
 - . Information systems
 - . Accounting
 - . Budget control
 - . Traffic
 - . Inventory supply and control
- 6) Social benefits and overtime: = 17%

- Other administrative expenses include:

- . Projected advertising and promotional expenses which are expected to decline progressively in the following sequence:

Year one:	\$1.4 million
Year two:	\$1.3 million
Year three:	\$1.2 million
Year four:	\$1.1 million
Year five:	\$1.0 million

- . Travelling and relocation expenses
- . Professional services
- . Program development expenses for unproduced programs
- . Bad debt
- . Diverse administration expenses

5.4.3 Depreciation of Capital Costs

The depreciation of equipment and technical material is calculated on a linear basis over ten years.

Real estate is amortized over a twenty year period.

5.4.4 Financial Expenses

(See the basic assumptions used in projecting cash requirements - 6.3).

5.4.5 Production centre for the Quebec City station (Scenarios 3 and 8)

For those scenarios which also anticipate the creation of a production centre in Quebec City, we project supplementary administrative expenses (maintenance, salaries, other expenses) in the order of 30%.

The following table depicts these different costs based on the assumptions outlined above:

ESTIMATED OPERATING EXPENDITURES AT STABLE GROWTH (1) FOR
EACH OF THESE SCENARIOS (2) (1985 - \$ millions)

Scenario	Technical Operations	Administration			Financial Costs		Depre- ciation	Total
		Salaries	Maintenance Buildings	Administrative Expenses	SHORT term	Long term		
1	0.5	5.3	.8	2.7	1.9	0.7	1.2	13.1
2	0.8	5.3	.8	2.7	2.0	0.7	1.2	13.5
3	1.3	6.9	1.0	3.5	2.7	1.0	1.7	18.1
4	1.3	5.3	.8	2.7	2.2	0.8	1.4	14.5
5	3.3	5.3	.8	2.7	2.5	0.7	1.2	16.5
6	2.0	5.3	.8	2.7	2.4	0.7	1.2	15.1
7	1.5	5.3	.8	2.7	2.4	0.7	1.2	14.6
8	2.0	6.9	1.0	3.5	3.0	1.0	1.7	19.1

(1) Excluding Programming

(2) Scenario 9 was dropped because of its low revenue base

SUMMARY OF SCENARIOS

- 1 UHF Station in Montreal
- 2 UHF Station in Montreal + Videocassette Network
- 3 UHF Station in Montreal, UHF Station in Quebec City, Microwave Link
- 4 UHF Station in Montreal, Relay Station in Quebec City, Microwave Link
- 5 Superstation: UHF in Montreal + Anik D-1: 2 Beams
- 6 Superstation: UHF in Montreal + Anik D-1: 1 Beam
- 7 Superstation: UHF in Montreal + Anik C-3: 1 Beam
- 8 Mixed: 2 stations: UHF in Montreal + Quebec City + Anik C-3: 1 Beam
- 9 No station: Satellite Anik C-3 + Cable only

CHAPTER SIX: THE FINANCIAL PERFORMANCE OF THE SCENARIOS

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6.5 Estimated Operating Results for the Fifth Year of Operation	6-16

6.1 Summary of Net Advertising Revenues (in millions of 1985 dollars) for the different scenarios during the first five years of operation.

SCENARIOS	YEAR OF OPERATION				
	1	2	3	4	5
1 & 2	8.8	15.7	27.1	37.6	41.4
3	11.8	21.1	36.4	50.5	55.5
4	10.5	18.8	32.4	44.9	49.4
5-6-7	11.1	19.8	34.2	47.4	52.1
8	13.2	23.6	40.7	56.4	62.0
9	5.1	9.2	15.9	22.0	24.2

SUMMARY OF SCENARIOS

- 1 UHF Station in Montreal
- 2 UHF Station in Montreal + Videocassette Network
- 3 UHF Station in Montreal, UHF Station in Quebec City, Microwave Link
- 4 UHF Station in Montreal, Relay Station in Quebec City, Microwave Link
- 5 Superstation: UHF in Montreal + Anik D-1: 2 Beams
- 6 Superstation: UHF in Montreal + Anik D-1: 1 Beam
- 7 Superstation: UHF in Montreal + Anik C-3: 1 Beam
- 8 Mixed: 2 stations: UHF in Montreal + Quebec City + Anik C-3: 1 Beam
- 9 No station: Satellite Anik C-3 + Cable only

6.2 Summary of Investments in Fixed Assets
 (in millions of constant \$ - 1985)

SCENARIOS	FIXED ASSETS
1	13.0
2	13.2
3	18.0
4	15.0
5	13.2
6	13.1
7	13.1
8	18.1
9	11.1

SUMMARY OF SCENARIOS

- 1 UHF Station in Montreal
- 2 UHF Station in Montreal + Videocassette Network
- 3 UHF Station in Montreal, UHF Station in Quebec City, Microwave Link
- 4 UHF Station in Montreal, Relay Station in Quebec City, Microwave Link
- 5 Superstation: UHF in Montreal + Anik D-1: 2 Beams
- 6 Superstation: UHF in Montreal + Anik D-1: 1 Beam
- 7 Superstation: UHF in Montreal + Anik C-3: 1 Beam
- 8 Mixed: 2 stations: UHF in Montreal + Quebec City + Anik C-3: 1 Beam
- 9 No station: Satellite Anik C-3 + Cable only

6.3 Projected Cash Requirements for these Different Scenarios

Basic Assumptions

Scenarios Adopted

The basic scenarios used are::

- No. 1: One station in Montreal
- No. 2: One station in Montreal and cassette distribution
- No. 3: The Télé-Inter Cité model
- No. 4: A station in Montreal with a rebroad in Quebec City
- No. 5: A North American superstation
- No. 6: A Canadian superstation
- No. 7: A superstation in Eastern Canada
- No. 8: A mixed model

Model No. 9 (which has no station) was not included because the revenues it would attract would not be sufficient for programming.

Net advertising revenues

The data on these revenues are taken from Chapter 4.

Start-up expenses

The pre-operative expenses (Year 0) are presented separately. They will be applied to the first year of operation.

Repayment of long-term debt

Long-term debt, incurred as a result of financing investments in fixed assets are amortized over a 7.5 year period.

The financial expenses of this long-term debt

We are assuming a negotiated financing at the rate of 12%.

Administration costs

Administration costs include salaries and social benefits, maintenance of buildings and equipment, as well as other diverse expenses, such as:

(1) Projected advertising and promotional expenses which are expected to decline progressively in the following sequence:

Year one:	\$1.4 million
Year two:	\$1.3 million
Year three:	\$1.2 million
Year four:	\$1.1 million
Year five:	\$1.0 million

(2) Travelling and relocation expenses

(3) Professional services

(4) Program development expenses for unproduced programs

- (5) Bad debt
- (6) Diverse administration expenses

The expenses in items 2 to 6 follow the curve projected for programming expenses, that is:

Year 1:	60%
Year 2:	70%
Year 3:	80%
Year 4:	90%
Year 5:	100%

Administration expenses are increased by 30% if we add another originating station in Quebec City (Scenarios 3 and 8) with a local mini-production centre.

Technical (Operations) Expenses

Details on these expenses are reviewed in the table summarizing operating expenses at stable growth (Ref: 5.4.1).

These expenses are held constant, without taking inflation into account.

Programming

Funds allocated to programming are calculated in such a way that the return on funds used in the fifth year is in the order of 12%.

Financing shortfalls in working capital

Cash requirements are projected in a general way. They do not take into account permanent investment in capital stock or other types of long-term debt.

We have used a real rate of 7% for cash required in preceding years, and a rate of 3.5% for the current year. We have also applied this rate to the cash-flow surplus.

Summary of Scenario 1: UHF Station in Montreal

SCENARIO - 1Estimated Cash Requirements
(in millions of constant 1985 \$)

Budget Item \ Year	0	1	2	3	4	5
1- Revenues Net Advertising Revenues	-	8.8	15.7	27.1	37.6	41.4
2- Disbursements	2.1	-	-	-	-	-
2.1 Startup Expenses	-	-	-	-	-	-
2.2 Repayment of long term debt	-	1.7	1.7	1.7	1.7	1.7
2.3 Financial Expenditures long term debt	-	1.6	1.4	1.2	0.9	0.7
2.4 Administration Expenditures	-	6.1	6.8	7.4	8.1	8.8
2.5 Technical Operations	-	0.5	0.5	0.5	0.5	0.5
2.6 Programming	-	13.8	16.0	18.2	20.5	22.8
2.7 Short term Financing of Deficit	0.1	0.7	1.7	2.3	2.3	1.9
TOTAL DISBURSEMENTS	2.2	24.4	28.1	31.3	34.0	36.4
3- Cash Requirements (surplus)						
. Annual	2.2	15.6	12.4	4.2	(3.6)	(5.0)
. Cumulative	2.2	17.8	30.2	34.4	30.8	25.8

Summary of Scenario 2: UHF Station in Montreal + Videocassette Network

SCENARIO - 2

Estimated Cash Requirements
(in millions of constant 1985 \$)

Budget Item \ Year	0	1	2	3	4	5
1- Revenues Net Advertising Revenues	-	8.8	15.7	27.1	37.6	41.4
2- Disbursements	2.1	-	-	-	-	-
2.1 Startup Expenses						
2.2 Repayment of long term debt	-	1.7	1.7	1.7	1.7	1.7
2.3 Financial Expenditures long term debt	-	1.6	1.4	1.2	0.9	0.7
2.4 Administration Expenditures	-	6.1	6.8	7.4	8.1	8.8
2.5 Technical Operations	-	0.8	0.8	0.8	0.8	0.8
2.6 Programming	-	13.5	15.7	17.9	20.2	22.4
2.7 Short term Financing of Deficit	0.1	0.7	1.7	2.3	2.3	2.0
TOTAL DISBURSEMENTS	2.2	24.4	28.1	31.3	34.0	36.4
3- Cash Requirements(surplus)						
. Annual	2.2	15.6	12.4	4.2	(3.6)	(5.0)
. Cumulative	2.2	17.8	30.2	34.4	30.8	25.8

Summary of Scenario 3: UHF Station: Mtl + UHF Station in Quebec City
+ Microwave Network

SCENARIO - 3

Estimated Cash Requirements
(in millions of constant 1985 \$)

Budget Item \ Year	0	1	2	3	4	5
1- Revenues Net Advertising Revenues	-	11.8	21.1	36.4	50.5	55.5
2- Disbursements	2.5	-	-	-	-	-
2.1 Startup Expenses	-	-	-	-	-	-
2.2 Repayment of long term debt	-	2.4	2.4	2.4	2.4	2.4
2.3 Financial Expenditures long term debt	-	2.2	1.9	1.6	1.3	1.0
2.4 Administration Expenditures	-	7.9	8.8	9.6	10.5	11.4
2.5 Technical Operations	-	1.3	1.3	1.3	1.3	1.3
2.6 Programming	-	18.1	21.0	24.0	27.0	30.0
2.7 Short term Financing of Deficit	0.1	0.9	2.2	3.0	3.0	2.7
TOTAL DISBURSEMENTS	2.6	32.8	37.6	41.9	45.5	48.8
3- Cash Requirements (surplus)						
. Annual	2.6	21.0	16.5	5.5	(5.0)	(6.7)
. Cumulative	2.6	23.6	40.1	45.6	40.6	33.9

Summary of Scenario 4: UHF Station in Mtl + Rebroadcaster in Quebec City
+ Microwave Network

SCENARIO - 4

Estimated Cash Requirements
(in millions of constant 1985 \$)

Budget Item \ Year	0	1	2	3	4	5
1- Revenues						
Net Advertising Revenues	-	10.5	18.8	32.4	44.9	49.4
2- Disbursements	2.1	-	-	-	-	-
2.1 Startup Expenses						
2.2 Repayment of long term debt	-	2.0	2.0	2.0	2.0	2.0
2.3 Financial Expenditures long term debt	-	1.8	1.6	1.3	1.1	0.8
2.4 Administration Expenditures	-	6.1	6.8	7.4	8.1	8.8
2.5 Technical Operations	-	1.3	1.3	1.3	1.3	1.3
2.6 Programming	-	17.1	19.9	22.7	25.6	28.4
2.7 Short term Financing of Deficit	0.1	0.8	2.0	2.7	2.7	2.2
TOTAL DISBURSEMENTS	2.2	29.1	33.6	37.4	40.8	43.5
3- Cash Requirements (surplus)						
Annual	2.2	18.6	14.8	5.0	(4.1)	(5.9)
Cumulative	2.2	20.8	35.6	40.6	36.5	30.6

Summary of Scenario 5: UHF Superstation in Mtl + Anik D-1: 2 Beams

SCENARIO - 5Estimated Cash Requirements
(in millions of constant 1985 \$)

Budget Item \ Year	0	1	2	3	4	5
1- Revenues Net Advertising Revenues	-	11.1	19.8	34.2	47.4	52.1
2- Disbursements	2.1	-	-	-	-	-
2.1 Startup Expenses	-	-	-	-	-	-
2.2 Repayment of long term debt	-	1.8	1.8	1.8	1.8	1.8
2.3 Financial Expenditures long term debt	-	1.6	1.4	1.2	0.9	0.7
2.4 Administration Expenditures	-	6.1	6.8	7.4	8.1	8.8
2.5 Technical Operations	-	3.3	3.3	3.3	3.3	3.3
2.6 Programming	-	17.3	20.1	23.0	25.8	28.7
2.7 Short term Financing of Deficit	0.1	0.8	2.1	2.8	2.8	2.5
TOTAL DISBURSEMENTS	2.2	30.9	35.5	39.5	42.7	45.8
3- Cash Requirements (surplus)						
. Annual	2.2	19.8	15.7	5.3	(4.7)	(6.3)
. Cumulative	2.2	22.0	37.7	43.0	38.3	32.0

Summary of Scenario 6: UHF Superstation in Mtl + Anik D-1: 1 Beam

SCENARIO - 6

Estimated Cash Requirements
(in millions of constant 1985 \$)

Budget Item \ Year	0	1	2	3	4	5
1- Revenues Net Advertising Revenues	-	11.1	19.8	34.2	47.4	52.1
2- Disbursements	2.1	-	-	-	-	-
2.1 Startup Expenses						
2.2 Repayment of long term debt	-	1.7	1.7	1.7	1.7	1.7
2.3 Financial Expenditures long term debt	-	1.6	1.4	1.2	0.9	0.7
2.4 Administration Expenditures	-	6.1	6.8	7.4	8.1	8.8
2.5 Technical Operations	-	2.0	2.0	2.0	2.0	2.0
2.6 Programming	-	18.2	21.1	24.2	27.2	30.2
2.7 Short term Financing of Deficit	0.1	0.8	2.0	2.7	2.7	2.4
TOTAL DISBURSEMENTS	2.2	30.4	35.0	39.2	42.6	45.8
3- Cash Requirements (surplus)						
• Annual	2.2	19.3	15.2	5.0	(4.8)	(6.3)
• Cumulative	2.2	21.5	36.7	41.7	36.9	30.6

Summary of Scenarios 7: UHF Superstation in Mtl + Anik C-3: 1 Beam

SCENARIO - 7

Estimated Cash Requirements
(in millions of constant 1985 \$)

Budget Item	Year					
	0	1	2	3	4	5
1- Revenues Net Advertising Revenues	-	11.1	19.8	34.2	47.4	52.1
2- Disbursements	2.1	-	-	-	-	-
2.1 Startup Expenses	-	-	-	-	-	-
2.2 Repayment of long term debt	-	1.7	1.7	1.7	1.7	1.7
2.3 Financial Expenditures long term debt	-	1.6	1.4	1.2	0.9	0.7
2.4 Administration Expenditures	-	6.1	6.8	7.4	8.1	8.8
2.5 Technical Operations	-	1.5	1.5	1.5	1.5	1.5
2.6 Programming	-	18.5	21.5	24.6	27.6	30.7
2.7 Short term Financing of Deficit	0.1	0.8	2.0	2.7	2.7	2.4
TOTAL DISBURSEMENTS	2.2	30.2	34.9	39.1	42.5	45.8
3- Cash Requirements (surplus)						
. Annual	2.2	19.1	15.1	4.9	(4.9)	(6.3)
. Cumulative	2.2	21.3	36.4	41.3	36.4	30.1

Summary of Scenario 8: Mixed, 2 stations: UHF in Mtl + Quebec City
+ Anik C-3: 1 Beam

SCENARIO - 8

Estimated Cash Requirements
(in millions of constant 1985 \$)

Budget Item \ Year	0	1	2	3	4	5
1- Revenues Net Advertising Revenues	-	13.2	23.6	40.7	56.4	62.0
2- Disbursements	2.5	-	-	-	-	-
2.1 Startup Expenses	-	-	-	-	-	-
2.2 Repayment of long term debt	-	2.4	2.4	2.4	2.4	2.4
2.3 Financial Expenditures long term debt	-	2.2	1.9	1.6	1.3	1.0
2.4 Administration Expenditures	-	7.9	8.8	9.6	10.5	11.4
2.5 Technical Operations	-	2.0	2.0	2.0	2.0	2.0
2.6 Programming	-	21.0	24.4	27.8	31.3	34.8
2.7 Short term Financing of Deficit	0.1	1.0	2.5	3.3	3.3	3.0
TOTAL DISBURSEMENTS	2.6	36.5	42.0	46.7	50.8	54.6
3- Cash Requirements (surplus)						
• Annual	2.6	23.3	18.4	6.0	(5.6)	(7.4)
• Cumulative	2.6	25.9	44.3	50.3	44.7	37.3

6.4 Funds Available for Programming
 (Stable Growth = Fifth Year of Operation)
 (1985 - in millions of constant \$)

Expected Margin of Self-Financing: 12% of Net Revenues

Scenario	Net Advertising Revenues	Operations and Administration	Finance		Self-Financing	Residual Funds Available for Programming
			Long term	Short term		
1	41.4	9.3	2.4	1.9	5.0	22.8
2	41.4	9.6	2.4	2.0	5.0	22.4
3	55.5	12.7	3.4	2.7	6.7	30.0
4	49.4	10.1	2.8	2.2	5.9	28.4
5	52.1	12.1	2.5	2.5	6.3	28.7
6	52.1	10.8	2.4	2.4	6.3	30.2
7	52.1	10.3	2.4	2.4	6.3	30.7
8	62.0	13.4	3.4	3.0	7.4	34.8

6.5 Estimated Operating Results

(Fifth Year of Operation) (1985 - in millions of constant \$)

SCENARIOS

ITEM	SCENARIOS							
	1	2	3	4	5	6	7	8
<u>REVENUES</u>								
- Net Advertising Revenues	41.4	41.4	55.5	49.4	52.1	52.1	52.1	62.0

<u>EXPENDITURES</u>								
- Programming	20.5	20.2	27.0	25.6	25.8	27.2	27.6	31.3
- Technical Operations	0.5	0.8	1.3	1.3	3.3	2.0	1.5	2.0
- Administration	8.8	8.8	11.4	8.8	8.8	8.8	8.8	11.4
- Finance	2.6	2.7	3.7	3.0	3.2	3.1	3.1	4.0
- Depreciation	1.2	1.2	1.7	1.4	1.2	1.2	1.2	1.7
- Total Operating Expenses	33.6	33.7	45.1	40.1	42.3	42.3	42.2	50.4

- Earnings before Taxes	7.8	7.7	10.4	9.3	9.8	9.8	9.9	11.6
- Profit Margin (%)	18.8	18.6	18.7	18.8	18.8	18.8	19.0	18.7

- Maximum Cash Requirements (Year 3)	34.4	34.4	45.6	40.6	43.0	41.7	41.3	50.3
- Funding (End of Year 5)	25.8	25.8	33.9	30.6	32.0	30.6	30.1	37.3

CHAPTER SEVEN: GLOBAL PROSPECTS

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7.1 Plausible Scenarios

- If we exclude Scenario 9, (no originating station), most of these scenarios do seem plausible. This is because funds available for programming are in the order of \$30 million, once stable growth has been reached.
- Scenarios 1 and 2 are appropriate to the network model which begins with only one station located in Montreal. With this business plan, we can expect somewhat lower programming costs.
- In the case of Scenarios using Anik D, and serving all of the peripheral markets with concentrations of French speaking people, the incremental cost of broadcasting rights for both foreign and Canadian product could reduce their prospects of profitability.
- Supplementary studies would allow a more precise evaluation of the short and long term profitability of the various scenarios. The preceding analysis reveals a wide range in cash requirements (\$34 - \$50 million) for each of the different scenarios.

7.2 Probable Impact on the Positioning of French-Language Television

7.2.1 Background - A Review

The Department of Communications and the CRTC are concerned that the new television service would contribute to improving, or at least not weakening, the position of French-language television in Canada. We have also focussed on the network's capacity to encourage the industry's "search for excellence" as a means of repatriating Francophone viewers, or at least to prevent them from switching to English channels. Competitive industry performance following the introduction of the new service will determine how the advertising pie is recut. Increased revenue (or losses) occasioned by the arrival of the new player will influence the sums broadcasters decide to invest in French-language production.

The debate is centered on the following question: will French-language TV viewers devote more time, as much time, or less time to watching French-language television, if a second commercial network offers them an additional viewing choice, and what will the specific impact of these different possibilities be?

In view of the rapid changes taking place in the television environment, we used the following method to estimate the impact of the new network.

- analysis of the suggestions and opinions made in a number of interviews with various industry representatives;
- an evaluation of the success and benefits hoped for, as well as dangers associated with the new network's successes and failures.

7.2.2 Industry Viewpoint

About fifty interviews were done with experts in the broadcasting and advertising industry, as well as affiliated sectors. Their reactions to the introduction of a second network polarized into two camps, the cautious and the innovators. In the following sections, we will identify the main elements characterizing these positions. Annex F contains a more detailed exposé.

A) THE CAUTIOUS POSITION

Industry experts who took a cautious view of a second, commercial, French-language network, argued that while changes are desirable, the "search for excellence" should be carried out within the existing structure of the industry.

This conservative group, consisting mainly of existing broadcasters, and representatives from the advertising industry, questioned whether a second, French-language network project would be realistic in view of the following factors:

- 1- The plan would result in the introduction of a fifth television choice in the French-language, not counting Pay-TV.
- 2- "The Montreal market must be considered as an integrated whole where French-language stations and English-Canadian and American stations interact simultaneously. Thus, French-language stations do not only compete among themselves in divying up the so-called captive, unilingual French market". (1)
- 3- The market is too small to allow any increased competition in French-language services.
- 4- The introduction of a new player will not produce the hoped-for repatriation of Francophone viewers from English-language networks.
- 5- Consequently, "adding yet another network to the already existing ones will not contribute to the greater viewing of French-language stations". (2)
- 6- The potential, national advertising revenues seem relatively inelastic.
- 7- The main result of the creation of a second private network will be greater fragmentation and distribution of audiences and revenues among a larger number of participants.
- 8- Thus, the immediate impact of a new network will be to reduce revenues to French-language television stations.
- 9- In addition to threatening the viability of more marginal television stations, the decline in revenues will affect the quality of programming in general.
- 10- In brief, the introduction of a new network will result in less French viewing, as well as reduce the amount of revenues available for reinvestment in creative resources, and in production and broadcasting companies which are financially unstable.

"With the creation of another French-language network in Montreal, not only will we not be able to respond to any need, on top of this we will contribute to further imbalance by oversaturating the market". (1)

B) THE INNOVATORS' POSITION

In contrast to the conservatives, the innovators argue that only the arrival of a new player will generate an atmosphere of healthy competition, as well as a search for excellence, and thus lead to a strengthened position for French-language television.

- 1- "In other North American cities, the competition is far more lively than in Montreal and no one can hope to capture 40% of the audience, as is the case with Channel 10 at the present time". (3)
- 2- The profitability of television undertakings in Quebec seems to indicate that the French-language television industry is very prosperous there. The Globe and Mail suggested recently (4) that Télé-Métropole is the most profitable television undertaking in Canada with net profits after taxes in the vicinity of \$13.7 million for the first 9 months of the 1982-83 financial year. Financial analysts representing the firm Alfred Bunting claimed:

"Investors should recognize that this less competitive market is a highly profitable operating environment for a well-managed TV company". (5)

- 3- Télé-Métropole has managed to maintain profitability despite the constant drop in its share of viewers and in its percentage of advertising time sold.

TABLE 7.1
Growth in Télé-Métropole's Performance 1975-1983

Year ending August 31	Net Revenues (millions) (current dollars)	Earnings after taxes	Net Profit Margin (%)	Share of Total Viewing (%)	% Advertising time sold
1975	\$27.5	\$ 4.3	15.8%	35	
1976	\$35.0	\$ 5.9	16.7%	34	
1977	\$39.6	\$ 5.7	14.4%	36	70
1978	\$48.0	\$ 7.7	16.0%	31	65
1979	\$56.3	\$ 9.7	17.2%	31	80
1980	\$68.2	\$11.2	16.4%	33	70
1981	\$73.2	\$13.3	18.1%	32	59
1982	\$77.5	\$14.0	18.1%	29	55
1983	\$90.0	\$16.1	17.9%	22	N/D

Sources: Consequences resulting from the introduction of a second commercial French-language network in Montreal: Comments by the management of Télé-Métropole Inc., presented to the Minister of Communications, April 1983, page 33.

B) THE INNOVATORS' POSITION (Cont'd.)

- 4- Many argue that Télé-Métropole's financial success is due to the lack of competition in the market:

"In our opinion, Télé-Métropole, and to some extent the entire Québec broadcasting industry, make abnormally large profits because of a simple lack of competition which enables Quebec broadcasters to exert a significant influence on the cost of acquisition and/or production of programs. This is especially true of Télé-Métropole, but also of Télé-Capitale which operates in Quebec City". (6)

"Commercial television is very profitable in Quebec... And Télé-Métropole reigns supreme. Recent studies have suggested that the private television industry in Quebec is gaining abnormally high benefits due to the lack of competition. (7)

- 5- This suggests that a new television network could not affect existing stations unduly, because they are already so profitable.

Canadian experience suggests that, "Audience fragmentation has not reduced the profitability of major stations individually, or that of the country as a whole". (8)

The authors of the study which came to this conclusion were amazed at the tremendous capacity of these businesses to adapt to changes by raising their rates, or by developing new sources of revenues.

- 6- The introduction of a second, commercial television network would create new opportunities in the Quebec market, not only from the advertising and cultural point of view, but also in terms of job creation and employment.

This would allow Quebec, and Montreal in particular, to display the prowess it has traditionally demonstrated in French-language television, not only in Canada, but in North America and the world.

B) THE INNOVATOR'S POSITION (cont'd)

Because the French-language television industry happens to be located in the nerve-center which is North American television, many believe that French-language audiences should have a greater choice than French-language audiences else where in the world. Quebec, therefore, should be in the front line of developments in television, since it comes into such frequent contact with cultural and technological developments in the United States. The younger generation of Francophones creators seem to be increasingly oriented towards New York and California, whereas twenty years ago creative Quebecers were more attracted by Paris. Furthermore, thanks to this twin cultural link, (North America and Europe), Canadians involved in the communications and television sectors are in an ideal position to develop world-class expertise and products.

7.2.3 Some Assumptions About the Performance of a Second, Commercial Television Network

In the context of this study, the performance of a second, commercial television network is evaluated on the basis of its ability to create conditions that are favourable to the "attainment of excellence" and to an improved positioning of the entire French-language television industry.

We have developed four hypotheses for the year 1989, the first year of stable growth for the second network (actually 1989-90):

SUMMARY OF HYPOTHESES

- | | |
|------|---|
| H-1: | Status quo |
| H-2: | The goal of improved positioning not achieved |
| H-3: | Stability in transfers of viewing |
| H-4: | Repatriation of 30% of Francophone viewing from English-language networks |

This study uses the Montreal market as the basis for analysis since transfers of viewing and audience fragmentation are higher here than elsewhere in Quebec.

These hypotheses (and their projected impact) were based on BBM surveys up to, and including 1982. The BBM Fall 1983 survey was not used for several reasons including the major change it suggests took place in the size of Francophone audiences switching to English-language programs. These led us to base our assumptions on quantitative changes that took place in viewing up to and including 1982.

The BBM surveys of 1983 seem to confirm that the 1% figure representing the yearly growth in transfers of viewing by Francophones to English-language networks, is in fact a very conservative number.

The analysis of these assumptions is based on the 4 p.m. to midnight broadcast period which comprises our minimum core of broadcasting hours. Still, 40% of Francophones viewing of English networks takes place before 6 p.m. (9) This suggests our analysis of the impact of these hypotheses is based on rather conservative estimates of transfers of viewing.

Should the hours of service be extended beyond the basic core schedule suggested here, additional studies could be undertaken to evaluate the performance of these different hypotheses.

SUMMARY OF HYPOTHESES

- H-1: Status quo
H-2: The goal of improved positioning not achieved
H-3: Stability in transfers of viewing
H-4: Repatriation of 30% of francophone viewing from English language networks

TABLE 7.2

Expected growth of Francophone
Audience Share (%) by French-language
and English-language stations
4 pm - mdnt. - Montreal - 1982-89

	<u>1982</u>	<u>1989</u>			
	<u>BBM</u>	H1	H2	H3	H4
	<u>Spring 82</u>				
CBFT	32	↓	↓	↓	↓
CFTM	43	↓	↓	↓	↓
CIVM	5	↓	↓	↓	↓
All existing stations	80	70	48	55	60
New network	-	-	22	22	22
All French language	80	70	70	77	82
CFCF	8	↓	↓	↓	↓
CBMT	2	↓	↓	↓	↓
American stations	6	↓	↓	↓	↓
Total English	16	23	23	16	11
Other	4	7	7	7	7
Total	100	100	100	100	100

Sources: - BBM, Spring 1982, Special Report on the French language Population.

- Hypothesis 1 assumes an annual growth rate of 1% per annum in Francophone viewing of English language networks.
- The category "other" includes viewing of certain English language stations (TVO & PBS in particular) as well as certain French-language stations (TVFQ, The Community Channels). These are not included in the present study because the data is insufficient.

7.2.4 The Impact on Television Viewing

The following observations are based on an analysis of the data contained in Table 7.2. Annex F documents each of these.

- 1- The second network will probably contribute, at least in the short term, to increasing the Francophone share of French-language television.
- 2- The even partial success of the second network, will assure a stronger, overall positioning for French-language television than presently exists.
- 3- There will be some increases in audience fragmentation in any case.
- 4- The excellent positioning of English-language television by 1989 (arising from hypothesis 2) should be noted.

SUMMARY OF HYPOTHESES

- | | |
|------|---|
| H-1: | Status quo |
| H-2: | The goal of improved positioning not achieved |
| H-3: | Stability in transfers of viewing |
| H-4: | Repatriation of 30% of francophone viewing from English language networks |

7.2.5 Impact on Advertising Revenues

SUMMARY OF HYPOTHESES

- | |
|---|
| H-1: Status quo |
| H-2: The goal of improved positioning not achieved |
| H-3: Stability in transfers of viewing |
| H-4: Repatriation of 30% of Francophone viewing from English language networks. |

1- A somewhat bigger advertising market

Our study suggests that the creation of the second network will, in 1989-90, stimulate additional advertising expenditures in the order of \$31 million (+10% in 1985 dollars) in all of Quebec, \$15 million (+8% in 1985 dollars) in Montreal market, and \$4 million (+8% in 1985 dollars) in the Quebec City market.

2- More parties will divy up the pie

The entry of a new player will likely contribute to the increased fragmentation of advertising revenues available for television. Recent Canadian experience shows that television stations that are solidly entrenched in the market are not in danger (i.e., those equipped with production facilities and with access to complementary sources of revenue).

- 3- Negative and positive effects, depending on which hypothesis occurs.

Even though we cannot measure their effects in any precise way, it seems that hypotheses 1 and 2 will result, at least in the mid-term, in a weaker positioning of French-language television in the advertising market.

The stabilization of Francophone viewing of English-language networks, as suggested in hypothesis 3, will probably lead to a positioning of French-language television comparable to that which existed in 1982.

Finally, the achievement of hypothesis 4 would ensure French-language television a special place in the advertising market.

- 4- The effects will depend on the technical scenarios.

At stable growth (1989), each of the technical scenarios generates advertising revenues representing a specific share of the advertising market for the Province of Quebec as well as for the Montreal and Quebec City markets. (Table 7.3)

TABLE 7.3
Expected Advertising
Revenues and Market Share for a Second Commercial
Network in Terms of Scenarios Chosen
 (At Stable Growth 1989-90 in millions of constant \$ 1985)

SCENARIOS	Revenues 1989-90	% of Montreal Market	% of Montreal & Quebec City Markets	% Province of Quebec
1.2 One station in Montreal	\$41.4	21.2	-	11.8%
3. Télé Inter-Cité Model	\$55.5	-	22.2%	15.9%
4. One station in Montreal & rebroadcaster, Québec City	\$49.4	-	19.8%	14.1%
5.6.7 "Superstation"	\$52.1	-	-	14.9%
8. Mixed Model	\$62.0	-	-	17.7%
9. Model without station	\$24.2	-	-	6.9%

Source: CEGIR Estimate

The more advertising revenues the new network generates, the greater will be its impact on other television broadcasters. In this regard, the mixed model (Scenario 8) is likely to have the biggest impact on the Quebec advertising market, with 17.7% of net advertising revenues in 1989.

Finally, Scenario 9 is the one that would prove least threatening for other television broadcasters, because of its very weak market share in stable growth.

5- The impact on existing commercial television stations.

We expect that the main commercial French-language station in Quebec, i.e., CFTM in Montreal, will experience the greatest impact of the new network on its share of advertising revenues.

We predict that stations like CFTM-TV and CFCM-TV, which have successfully expanded into sectors related to television will not suffer a permanent drop in revenue. These stations will probably end up rationalizing their operations and developing new sources of revenue as a result of their considerable financial, administrative and technical capacity.

CEGIR subscribes, in part, to the "innovators' position" which ties the considerable profitability of these stations to their relative lack of competition. Still, we must not underestimate their administrative and cultural skills in our attempts to explain these stations' financial success in a relatively small Francophone market.

7.2.6 Specific Impacts

It would be impossible to predict systematically all the effects that the introduction of a new player will have on the television industry. Nevertheless, we would like to make several observations.

- It is likely that the creation of the new network will result in a greater concentration of revenues in the major markets.
- We also expect that this greater concentration of ad revenues will indirectly affect the secondary markets in Quebec which most national advertisers prefer to reach either through Quebec-based or Canadian networks. As we suggested earlier, some regional stations may wish to operate on a twin-stick basis.
- Since national advertising expenditures are relatively inelastic, some of the new network's revenues will come from other markets, or be transferred from other media in the same market. Radio will probably be most affected during the network's first years of operation. This is especially true of radio stations which presently benefit from advertisers who are unable to buy good advertising spots on television.

Experience in other Canadian markets suggests that this phenomenon is less significant after the new service's first few years of operation.

7.3 The Conditions for Success

The impact of this project is directly linked to the success it manages to achieve. Whichever start-up scenario is adopted, the network will only be successful if certain prior conditions are respected. These can be divided up into three categories:

1. Promoter's financial strength and the calibre of management.
2. Developments in the economic environment of the network.
3. Regulatory conditions and future development of the project.

7.3.1 Promoter's financial strength and the calibre of management.

We submit that the second network will have the greatest chance of success if the organization implementing it possesses all, or at least most, of the following desirable characteristics:

- a) Access to financial resources appropriate for this type of investment which, of course, involves a considerable risk. We must not only consider cash requirements, but other factors as well, including those which might delay start-up (as was the case with Télé-Inter-Cité).
- b) A sound knowledge of the Canadian media industry and of Francophone's needs and expectations with regard to television.
- c) The ability to manage well and to foster excellence through innovation in programming and through systematic and aggressive marketing.

Examples:

- Ability to predict new trends both as a result of their expertise as well as with the aid of marketing tools.
- Ability to tap creative sources, and most particularly, those of the younger generation.
- A strategic planning capability which can react quickly and feed on new opportunities.

- d) A group possessing both a strategic vision as well as entrepreneurial talents who have already proved themselves on the Canadian as well as the international fronts.
- e) The ability to cope effectively with the art versus commerce paradox, which is felt very keenly in the broadcasting milieu.
- f) A group that can inject new blood into the Francophone industry to help it respond to major challenges created by changes in its environment.
- g) In its major role as "packager", a group able to develop both the independent production and distribution industries. As packager, it should be strong enough to assure the international status of the Canadian production industry, thanks to the combined leverage it would have as both buyer and seller. This will allow the second network to keep programming costs down, the single most important operating variable and precondition to success.
- h) Given the enormous sums required to start a new Canadian and international news service, it seems unlikely that a promoter will achieve any success in this area without associating himself with some existing organization that is already involved in the news and information sector.
- i) In view of the estimated delay (4 to 5 years) likely between start-up and viability, the ability to limit operating costs and to function with a modest staff and technical organization will be important conditions of success.

7.3.2 Conditions for Success Stemming from Changes in the Economic Environment

a) Limitations of the Francophone market

- The circumscribed nature of the Francophone market does not favour the addition of many new broadcasting channels. Although our study indicates there is room for a second commercial network, we must not underestimate the danger of siphoning both audiences and creative resources. The positioning of the new network, its financial prospects, as well as its impact on other private stations, would have to be reconsidered if the following events occur:

CBC/Radio-Canada realizes its plans for a second network.

A greater involvement by Radio-Quebec in "popular" programming.

The development of specialized French-language cable channels.

b) The economic well-being of Quebec, and particularly, the Montreal region.

- One of the most important conditions for the success of this project is an improvement in the economic climate and its positive effect on advertising markets. The last quarter of 1983 suggests a fairly vigorous revival for media-related businesses in Canada. However, it is difficult to predict whether this growth will be steady or not.
- Most financial analysts and observers of conventional television seem particularly optimistic about the long term economic prospects for the industry in spite of the numerous changes taking place in its environment.

c) Playing by the same rules: equal access by French-language and English-language services to the same pool of programs

- Here we refer to the limited availability of French-language versions of American programs with high production values. Of course, this problem is partly related to the limited budgets of existing French-language broadcasters, as well as the very nature of competition in the acquisitions market (see Section 3.4).

- Our study underlines the need to resolve this problem and thus allow Francophones in Canada to see French-language versions of popular programs at roughly the same time as other North Americans. This condition is absolutely fundamental in view of the numbers of French Canadian viewers switching to English networks and the resulting transfers of advertising revenue. This income from the sale of Francophone audiences is ultimately reinvested in English-language and American production.
- The advent of bilingual productions, that is, double shooting, presents some interesting possibilities. Other innovations in sound tracking have also opened new avenues which ought to be explored.

A new player, endowed with significant financial resources, who can act as both a participant and an active partner in the Canadian and international markets, will have better chances of resolving this problem.

- Canadian industry representatives must also tackle such issues as dubbing and make an effort to improve their products in collaboration with interested American and European partners. Here too, technological progress and the search for innovative solutions, could ultimately prove to be profitable.

7.3.3 Conditions created by the Regulatory Environment and the Future Development of this Project

a) Government Regulation

- A regulatory framework favorable to the pursuit and attainment of medium and long term cultural objectives.
- Start-up conditions which take into account the five-year delay in achieving stable growth.

- We believe that the second commercial network could contribute to the attainment of the objectives outlined in the Broadcasting Act as well as those enunciated in the National Broadcasting Policy if it is not burdened with constraints or with excessively rigid, short term conditions. Granted, these conditions should be analogous to those imposed on the competition, but they should take into account recent Canadian experience in the start-up of new television services.

b) Minimum vertical integration, with emphasis placed on programming, packaging, and news and information

If the key is programming and marketing, then the second network **should have a minimum degree of integration** in its information and packaging activities. This would enable it to compete with broadcasters who are highly integrated vertically and highly endowed with financial, technical and human resources.

c) The need for follow-up and quick decisions

The market, and the positioning of the new network within it, will certainly continue to evolve.

Thus, while this study takes account of the existing market for a second commercial network, it does not ignore the fact that numerous unknown variables will influence the future strategies adopted by the competition.

If the plan for a second network seems feasible at the moment - under the conditions outlined above - any major delays in the start-up could modify the parameters set out in this study. Our analysis presupposes longer waiting periods for scenarios involving transmitting stations, given the (UHF/VHF) frequency issue and the relatively complex facilities required.

d) The nature of the promoter or group of promoters

In view of current regulations and policies applying to the Canadian broadcasting industry, and in particular, those dealing with the ownership of Canadian media, the number of parties who are likely to meet the conditions of success required for this project - both because of their expertise and their financial resources - is limited. Though conscious of the government's concerns and the public interest in this regard, we believe that Canadian broadcasting requires the participation of corporate entities that are fairly well-integrated as well as financially-endowed to allow them to compete on a national and international scale.

NOTES ON CHAPTER 7

1. Consequences resulting from the introduction of a second commercial French-language network in Montreal: Comments by the management of Télé-Métropole Inc., presented to the Minister of Communications, April 1983, page 14.
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