A STUDY

OF

THE UNITED STATES MARKET

FOR

TELEVISION PROGRAMS

PART 2

BY

GRIEVE, HORNER & ASSOCIATES INC.

March 1983

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INTRODUCTION

This is the second part of a two part study made by Grieve, Horner & Associates Inc. on behalf of the Department of Communications of the Government of Canada to identify possible opportunities for Canadian producers in the U.S. television market.

The first part, completed in January 1982, analyzed the structure of the market for television programs and the changes that were generally expected to occur in that market during the next ten years.

It concluded that a window of opportunity had opened in the U.S. for Canadian producers. As the market fragments and the number of buyers increases, prices paid by a single buyer are insufficient to cover production costs. American buyers need programs that can be bought for prices much lower than cost and American producers are looking for partners to help make that pricing possible.

This second part of the study was completed about a year later. Our conclusions still hold. This part of the study examines these U.S. market developments more closely and concentrates upon the actionable immediate future. It includes an examination of how U.S. programs are developed and marketed in the United States in this new market situation. It also analyses how foreign, including Canadian, programs are being marketed in the United States, and what problems are faced by Canadian producers in the United States market. We then make some recommendations on how to capitalize on this opportunity.

By its very nature, this study concentrates on the United States television market as it is and looks at Canadian programs and the Canadian production industry from the perspective of that market. Our focus in this study has been on how the U.S. market situation might be exploited to help build a healthy and economically viable entertainment program industry in Canada based on serving a global market-place. We have not addressed the issue of Canadian self expression and Canadian specificity in Canadian-produced programs.

OVERVIEW

Program industry structures in Canada and the United States are quite different. Most Canadian-made entertainment, information, sports and news programs have been produced by Canadian broadcasters themselves. A very large proportion of mass-appeal entertainment and information programs run by Canadian broadcasters are finished series bought from U.S. or foreign producers and distributors. Canada, therefore, has only a rudimentary infrastructure in place for the independent development, production and distribution of broad appeal entertainment and information programs. This is why the Canadian pay services, which, because of their conditions of licence must buy from outside suppliers, have found it difficult to develop good new Canadian programs. It also explains the amazement expressed by American producers that our excellent studio facilities are not matched by equivalent levels of creative experience.

In the United States, broadcasters tend to produce their own news, current and local affairs and sports shows but to sponsor the development and production of entertainment and information programs from independent production companies, or to buy off-network series from distributors. Satellite-delivered program services also sponsor development and production of most of their materials from independent production companies or acquire finished movies and television programs from studios or other distributors. A very large and efficient infrastructure exists for the development, financing, production and marketing of television programs. This infrastructure is linked together by a complex communications nexus between program buyers, producers and distributors which provides continuous intelligence to producers and distributors on program needs and audience responses.

If Canadian broadcasters are to increase the proportion of Canadian produced, mass appeal programs in their schedules, and if Canadian pay services are to be able to schedule a high proportion of Canadian produced programs, revenues from the U.S. market will be a critical element in making it possible for Canadian producers to cover production costs. If Canadian made programs are to generate meaningful revenues from the United States, such programs must be developed in cooperation with U.S. program buyers, producers and distributors and on the basis of pre-commitments from U.S. buyers and distributors. Experience has shown that only minimal revenues can be made from programs sold in the U.S. after they have been filmed and which were not properly marketed in the U.S. during their development stages.

The U.S. program market is a fiercely competitive buyers market. The program production business is buyer-driven not producer-driven. Programs are made to meet the needs of buyers. Canadian producers must involve potential American buyers in the development of their programs from the very beginning of the development process.

CONCLUSIONS AND RECOMMENDATIONS

Conclusions:

1. A global, first run program market is evolving which, increasingly, is being served by a global creative community. The U.S. program market is the engine driving that development and is an integral part of that market. With constructive policies and imagination Canada could obtain a share of that global market and thereby simultaneously gain a foothold in the U.S. market.

2. The Canadian market on its own is not large enough to support a sound television program production industry without massive government subsidies. To become established, and to survive without such subsidies, the Canadian industry would need a combination of revenues from both Canadian and foreign program buyers. Canadian-made programs would have to be able to compete for buyers and audiences in the North American and global markets. Because of its size, diversity and dynamism, the U.S. program market represents the biggest potential source of revenues. By our estimates, U.S. television program services, including the three broadcast networks, bought $3,415 million worth of programs from outside suppliers in 1981 ($1,305 million excluding the networks). This represents the available market for Canadian programs. By 1986 the available market will represent a potential of $6,565 million in total and $3,320 without the three broadcast networks. By contrast, the available market in the rest of the world is estimated to be only $400 million.

3. The three broadcast networks still represent the biggest market in the U.S. for television programs ($2.1 billion in 1981: $3.3 billion in 1986). They are losing some of their dominance over and semi-monology of program development. During the next two to three years other segments of the U.S. program market will offer increasing opportunities for Canadian-produced programs, provided they are developed in collaboration with American program producers and buyers. These segments are:

- Pay Television Services

Estimated available market:
1981 $390 million: 1986 $1,600 million

Pay services are a major market for theatrical movies ($500 million in 1982: $1.1-$1.2 billion in 1986). They are increasing in importance as first-run markets for other types of television programs and series: made-for-movies: miniseries: dramatic and comedy series: comedy and variety specials.

- First-Run Broadcast Syndication

Estimated available market:
1981 $300 million: 1986 $500 million

There is an existing market for daytime, early evening and late night series. The market is likely to present growing opportunities. The number of off-network series available for station syndication is expected to decline along with the decline in the proportion of successful prime time network series. Ad hoc networks in prime time are now established and are expected to grow along with increased use of satellite relay capabilities.

There are two areas of opportunity:

a. Working with network-owned-and-operated stations and a distributor, for early evening and late night series and specials.

b. Working with station groups, with or without a distributor, for dramatic specials, miniseries, and children's and family programming.

- PBS

Estimated available market:
1981 $120 million: 1986 $150 million

Public broadcast stations seem to have established a loyal audience. They have funding problems but represent an important market for documentary, cultural and childrens programs, drama and miniseries.

- Some Specialized Cable Program Services

  Estimated available market:
  1981 $75 million: 1986 $280 million

  Non-pay cable services represent a very small and uncertain market at this time and pay very small licence fees. They will require low cost programs to survive. They represent markets for childrens and family series, and, perhaps, for segments of special audience, magazine-format series.

- The Broadcast Networks

  Estimated available market:
  1981 $2,110 million: 1986 $3,335 million

  Broadcast networks have lost audiences, mainly to other broadcasters and to pay services. It is likely they will take measures to prevent this from continuing. Opportunities will widen for made-for television movies and for miniseries made by independent producers.

These are markets for programs which unabashedly entertain and inform mainstream audiences. PBS seems to be the only one of these markets with a more narrowly based audience.

4. Contrary to the belief of many Canadian producers, with the exception of the broadcast networks, none of these buyers at this time can realistically pay licence fees that fully cover production costs. And, since the aftermarket potential for many programs is unclear, American producers try to recover costs from first-run revenues by actively looking for partners in the U.S. and in other countries with whom they can share costs or revenues. Simultaneous licencing in several markets is developing alongside sequential licencing in so-called aftermarkets as a way of recovering production costs. (See pages 53-58.)

   Canadian pay and broadcast services have program requirements similar to those of these American buyers. Canadian production costs, too, are only partially recoverable from Canadian first-run licence fees. Canada and the U.S. now share a common need for developing programs that can run simultaneously in both countries and in other markets. Other countries have also recognized the need for development partners to cover their program costs and have also recognized the U.S. market opportunities.

5. This multipart development and packaging process is still in its infancy. Canadian producers should become involved in its evolution (some are), and, in the process, become established program suppliers.

6. Sales of foreign, including Canadian, programs in the United States were about $90 million or 3 percent of the market in 1982. Canadian producers and distributors have gained a toe-hold in the market. Some series and specials have become established in the first-run syndication markets and pay services. Large volumes of low-priced programs were sold to the new cable services during their program inventory building phases. This was temporary.

7. Canada has some advantages in the development and marketing process with the United States. It has excellent production facilities, skilled technical personnel, and lower costs than the United States for filming and post-production of certain kinds of programs. The audiences for popular programs in both countries are similar.

8. Canada also has some weaknesses which make it difficult to enter the U.S. market:

   i) At present Canada provides a limited revenue base out of which to cover the production costs of mainstream, international quality programs. The CBC does most of its own production or buys American popular programs. Commercial broadcasters import most of their requirements and have only limited Canadian content requirements in major audience time periods. However, the CRTC has recently proposed increasing Canadian content requirements in these time periods. Until the new pay services become well established their revenues bases will be somewhat limited.

   ii) Supplying programs to the U.S. television market is an exceedingly competitive business with high risks and high costs. The odds against completion of a project from the concept stage and through the development stages are very high. The costs of developing scripts and pilot programs can exceed $1 million or more. The U.S. industry has evolved as well established infrastructure for the development and marketing of television programs, which, to minimize risks and costs of failure, puts a premium on the experience and track records of its participants. It is nervous of newcomers.

iii) Canadians have limited business and creative experience in the development of programs for mainstream audiences because, until recently, the Canadian market for independently produced Canadian programs was limited, and the U.S. market did not need outside participants. Canada, therefore, has developed no well-financed, well-managed infrastructure for the development, financing, packaging and marketing of Canadian programs in domestic and foreign markets. In the United States, the studios and larger production companies provide producers with financing assistance, with access to buyers and markets and puts business and management skills together with creative skills. Until Canada develops such an infrastructure, producers will diffuse their energies trying to piece together these services on an ad hoc basis to the detriment of their key creative role.

iv) Because of their limited experience, Canadian producers and creative talent have a poor image with mainstream U.S. program buyers and developers. This hinders access by Canadian producers to the U.S. market and make it necessary, at least initially, for Canadian producers to work from the earliest development phases of a project with U.S. producers and distributors who have the credibility and the access to the U.S. markets.

Probably the fastest and most effective way for Canadians wo develop the necessary business and creative skills is by working with and learning from professionals experienced in the development of mainstream programs for U.S. markets.

v) Success in the U.S. market is achieved through proper program development. The market is buyer-driven, not producer-driven. Television programs are usually commissioned and licenced by buyers in the United States during the development phases, not after they have been filmed. Programs are marketed to buyers during the concept and pilot stages and individual buyers or groups of buyers may well commission and finance script and pilot development before making licencing commitments. Canadian producers have limited access to these buyers and limited experience in this method of program development and marketing.

vi) Most television programs in the U.S. are bought by large, highly organized and professionally staffed communications companies. A very professional approach is required in turn to sell to them. Canadians have not yet developed those levels of professionalism because up to now the Canadian market has presented limited selling opportunities to producers.

vii) Development from the concept stage through to the completion of pilot programs, is an <u>expensive</u> and <u>high risk</u> process. The CFDC, and the Canadian pay services provide some money for this process but not enough to be effective in the United States. The proposed Canadian Broadcast Program Development Fund as currently proposed, does not appear to recognize the critical importance of proper program development steps with potential buyers nor that buyer commitments are based upon the completion of these important steps. Other forms of risk capital must be attracted into the development phases.

viii) We estimate that, in order for the Canadian <u>pay</u> services to meet their required spending levels on the purchase of Canadian programs and for <u>private</u> broadcasters to satisfy higher content requirements in peak viewing hours, and assuming the program services paid only licence fees, the following production expenditure levels would be required.

<u>Estimated Required Canadian Production Expenditures</u>
(millions dollars)

	1983	1987
Pay Services	$ 85	$265
Broadcast (Private)	30	120
	$115	$385

Funding will be required to bridge the 6-24 month period between production and the receipt of revenues from pre-sale and other licence fees. Some funding will be provided by co-production partners, but most will have to be based upon pre-sale commitments made by buyers in Canadian and other markets. Canadian Chartered banks know little about this business, are not staffed to serve it, and will not grant credit on the basis of U.S. or other foreign contracts or licence agreements. This is a critical problem for the industry. And the Canadian banks have not always been willing to accept commitments of the new pay services as collateral for loans. Other capital market structures have not been developed to compensate for this.

After their unfortunate experiences in 1979/80, equity investors shy away from this industry and the effective reduction of the annual capital cost allowance deduction to 50 percent has increased the perceived risk. The proposed Canadian Broadcast Program Fund is a useful first step but appears to be too rigidly tied to pre-sales to Canadian broadcasters to make it as effective as it could be.

Recommendations:

1. The Canadian government should strengthen policies which ensure a strong basic Canadian market for Canadian programs. The New National Broadcasting Policy proposals seem to go some way towards recognizing this.

   - Canadian pay services should retain their agreed quotas of Canadian programs,

   - Broadcasters' Canadian program content requirements should be increased, especially during the peak audience viewing periods and should include content requirements by type of program, e.g., drama vs. talk shows. The CRTC's January 31, 1983 proposed changes in its Canadian content regulations has laid the ground-work for this.

   - The CBC should carry more independently produced programs. The Applebaum-Hebert Report has recommended this. The Federal Government through the Standing Committee on Communications and Culture is developing a new policy framework for the CBC. It should take this into account.

2. The international potential of Canadian programs should not be hobbled by making Canadian specificity a compulsory ingredient of Canadian content. Canadian self-expression ought more properly be the mandate of the CBC.

3. The Canadian Broadcast Program Development Fund will make additional funds available for the industry. But, to attract the matching funds required under the terms of the Fund, the government should consider providing financial support and incentives to the industry in four areas:

   a. Interim financing. Perhaps the government should consider providing some form of guarantees to the banks or other lending institutions on foreign contracts or licence agreements. This might be a special program under the Export Development Corporation. The Program Development Fund probably can be used to provide interim financing through its loan and guarantee provisions.

b. Attracting risk capital to finance program deficits. Strong incentives should be retained to attract risk capital into the industry. Consideration might be given to restoring the 100% C.C.A. or moving to the 150% level of Australia or to exempting the first 50 percent of revenues from taxes. Perhaps, as in Australia, the C.C.A. might be made contingent on certain levels of pre-sale commitments or distributor's guarantees. The current one year limit on the C.C.A. period leads to distortions in production timing. The eligible production period should extend for 2 years.

c. Attracting risk capital for program development. Special incentives are needed to attract money into the high-risk, high-cost program development stages. Broadcasters and pay services might become sources of such financing if there were such incentives as tax credits available. Perhaps the CFDC should provide a certain proportion of its development money only if another Canadian broadcast or pay service is also profiding development money. Perhaps a certain percent of the Canadian Broadcast Program Development Fund should be earmarked for development as opposed to filming expenses.

d. Developing an infrastructure for the industry. Special companies with their own rules designed to shelter earnings within the companies and to provide special incentives to investors might be considered. Ontario Small Business Development Corporations provide a model.

4. The Canadian production industry should get to know the U.S. market better. Who the buyers are; who their audiences are; how the audiences behave; what time slots need to be filled; what program types they need; what revenues the programs generate; what prices are paid; how programs are developed and financed; etc. They must get to know how to put together the various components of the market necessary to finance, market and package projects. Above all, they must get to know the participants in the market and to become an accepted part of the program community. They can do this by attending trade fairs and selected conferences and by reading the extensive trade press. But they can do it best by working with experienced, professional, American producers and distributors.

5. Producers should follow the commonly accepted development process that reduces risk through step by step development and testing and that permits the full creative and business participation by potential buyers and experienced U.S. producers and distributors.

6. Canadian producers should concentrate on the development of programs for which there is the closest reciprocal demand in both the U.S. and Canada and which can only be satisfactorily priced in both markets if costs are covered by revenues or financing from several sources. U.S. and Canadian pay services make natural development partners. They need similar types of programs, lower-than-cost-priced programs, and, often exclusivity in their markets. But U.S. pay is not the only first-run market for programs produced for Canadian pay services. First-run broadcast syndication spearheaded by various station groups represents an alternative market for some of these programs (See Table 3). Similarly, programs produced for Canadian broadcasters could find their first-run U.S. markets in U.S. pay services.

7. Canadian producers should concentrate on the development of:

   a. Dramatic programs (made-for-pay movies, miniseries, dramatic specials) and family programs, which lend themselves to several markets and are appropriate for joint production.

   b. Comedy and variety specials and series which can be made at low cost for the Canadian and U.S. markets only.

   c. Programs for which Canadians have good reputations: childrens series and documentaries. These must be made at costs which suit the limited market potential for such programs.

   d. Low cost, assembly-line-produced program segments for the cable service channels. These could, for example, be produced for new Canadian satellite services on a joint venture basis with similar U.S. program services.

8. Where possible, it makes good practical sense to fully finance program costs from first run revenues because of the current uncertainty about aftermarkets. It is important, therefore, to try to fit production budgets to suit potential first-run revenues from pre-sales in global markets. Only programs with clear sequential markets ought to be deficit financed.

9. The Canadian independent production industry probably needs a presence in New York or Los Angeles. The facilitative services provided by the Canada Film Centre in Los Angeles are constructive. CBC Enterprises and the National Film Board's sales offices market their own products in the U.S. A Canadian distributor/packager should perhaps locate in New York or Los Angeles to act as a commercial contact point with the U.S. market.

EVOLUTION, SIZE AND MARKET SEGMENTS

Evolution:

1. The U.S. television program market is in a state of evolution from a system where three broadcast networks and their affiliates almost totally monopolized audience viewing; constituted virtually the only market for television programs; depended entirely on advertising sales for their revenues; and financed, owned and controlled the distribution of the majority of programs produced; to one where:

   a. Independent and public broadcast stations and satellite-delivered program services are increasing their shares of audience viewing at the expense of the networks and affiliate stations.

   b. The number and diversity of program buyers has increased.

   c. Program buyers' revenues are derived from viewer subscriptions as well as from advertising sales.

   d. The financing, ownership, and distribution of television programs is more widely diffused.

   e. Program financing is becoming more dependent on revenues derived from the global market.

2. This situation has developed over the past decade as a result of:

   a. The growth in the numbers of VHF and UHF independent broadcast stations and the increased audiences made accessible to these stations by cable. These stations developed very successful counter-programming strategies, especially in late afternoon and early and late fringe time periods using tried and true off-network series, and, in prime time, using movies and sports events and even some first-run specials.

   b. The development of public broadcast stations and networks.

c. The development of new satellite-delivered pay and advertiser supported program services.

d. The desire of television viewers for a greater choice of programs and a willingness to pay for them.

e. The implementation of the Prime Time Access, Financial Interest and Syndication regulations in the early 1970's prevented the three broadcast networks from owning financial interests in programs produced for them, from distributing these programs in the United States, and, in effect, set aside one half hour on affiliate stations for non-network entertainment programs in the important 7:00-8:00 p.m. prime time period ($550 million in advertising revenues) in the top 50 markets. This in turn led to the development of a syndicated aftermarket of individual independent and affiliate stations for network shows after their initial two runs, and to the development of an infant first-run syndication market for shows developed specifically for independent and affiliate stations to run in some daytime, early and late fringe time periods, and, especially for affiliate stations, to run in the prime access period.

   This situation may change. The F.C.C. has proposed lifting these regulations and the networks are lobbying strongly to rescind them. A compromise is generally expected to emerge.

3. It is important to note that individual stations, station groups, and the new program networks are <u>not</u> prohibited from having financial interests in programs produced for them.

<u>Market Size and Segments</u>:

1. Audience shares and revenues of the satellite-delivered program services are expected to increase during the next ten years as the proportion of homes reached by cable, direct broadcast satellite or other delivery systems increases. These services will become increasingly important program markets. The following table summarizes those expectations.

	Share of Audience (%)		Net Revenues ($ millions)	
	1981	1991	1981	1991
Broadcasters:				
Network Stations	75%	56%	$8,766	$20,900
Independent Stations	20	21	1,084	4,100
Public Stations	2	2	NA	NA
Pay Services	2	14	565	5,650
Other Satellite Services	1	7	95	1,600
TOTAL	100%	100%	$10,510	$32,250

Source: Grieve, Horner & Associates Inc.

Nevertheless, although pay services already are an important market, and will increase in importance, broadcasters are expected to remain the major market, and the network stations to continue to dominate.

2. Of more immediate interest to Canada are the opportunities that will be presented between now and the next three to five years. That is the period during which a Canadian production industry must become established. And during which Canadian producers could gain a firm foothold in the United States while that market is still in a state of change and transition.

At present, the most important program markets are:

a. Broadcasters

i) Networks for first-run use.

ii) Syndication purchases by individual affiliate and independent stations of off-network programs.

iii) Syndication purchases on a cash and/or barter basis[1] by independent and affiliate stations of first-run product.

iv) Public broadcasters.

b. Pay Television Services

i) Established services dominated by Home Box Office.

ii) Start up services investing in programming, e.g., The Entertainment Channel[2], Disney Channel.

c. Non-Pay Satellite-Delivered Program Services

These are usually advertiser-supported program services carried on basic or tiered cable systems. There are about 40 such services with others being added. Only 8 to 10 of these services are expected to survive. They represent a very small and splintered market for programs.

The following table shows expected total spending on the purchases of programs from outside suppliers by the various market segments in the next five years.

	Estimated Program Purchases from Others ($ millions)	
	1981	1986
Broadcasters:		
Networks	$2,110	$3,335
Stations	720	1,200
Public	120	150
Pay Services	390	1,600
Other Satellite Services	75	280
TOTAL	$3,415	$6,565

Source: Grieve, Horner & Associates Inc.

1. Barter is the system whereby the producer or distributor licences program rights to the station in exchange for advertising time in place of cash licence fees.

2. Since this study was completed, this pay service has been discontinued.

3. The best opportunities for Canadian producers will probably be in the following segments (in descending order of likelihood):

   a. <u>Pay Services</u>

      The pay services are an important segment and are expected to become stronger. Theatrical movies are the backbone of pay services' programming, and consequently the pay services represent an important source of revenues for theatrical movies. However, the pay services expect to run an increasing proportion of made-for-pay movies and other types of original programming in order to create distinctiveness for their services, to develop subscriber loyalty, and to establish regular viewing habits.

      U.S. and Canadian pay program services are natural co-venture partners. Their programs are similar. Their individual licence fees are much lower than production costs. And they want first-run exclusivity in their markets. U.S. pay services and Canadian <u>broadcasters</u> make good partners for similar reasons.

   b. <u>First-Run Syndication Markets</u>

      Various groupings of production companies, broadcast station groups, distributors and advertisers have developed programs to run on individual stations on a station by station basis, or increasingly, as satellite links become available, on an ad hoc network basis. Most of these have been format type shows (game, talk, or magazine) to run on a daily strip basis in daytime, fringe and prime access time periods; and weekly series to run on weekends or in late fringe periods. There are, however, an increasing number of first-run specials in prime viewing periods.

   c. <u>Public Broadcasting</u>

      This is a small market, but with opportunities for the types of programs at which Canadians excel: childrens, instructional and documentary programs.

d. Non-Pay Satellite-Delivered Services

Only the superstations have been successful in attracting audiences. WTBS represents a market for first-run programs. The other cable services have had difficulty in becoming established. Their coverage of the United States is still limited to about 30 percent of T.V. homes. In cable systems carrying such services, their total audience share is about 6-8 percent splintered among all the services. Their advertising revenues have been limited. Because of this, they pay very small licence fees and have limited funds for program production.

At present, only Nickelodeon (a childrens channel), MTV (a movie channel), the U.S.A. Network (an omnibus channel), ESPN (a sports channel that is evolving into an omnibus channel), the Cable Health Network, and Daytime (a womens channel), represent worthwhile future markets.

e. The Broadcast Networks

It is unreasonable to expect the networks not to take counter-measures to prevent continued audience erosion. Some observers believe the networks will be forced to develop more effective programs, to seek different audiences and to turn to a wider circle of creative and production resources.

In order to be able to exploit these opportunities it is important to understand how television programs are developed, financed, and marketed in the United States and to appreciate how the industry there is structured.

This will be done in the next two sections.

STRUCTURE OF THE TELEVISION PROGRAM INDUSTRY

1. The U.S. television program industry is very responsive to audience reaction both during the development of programs and when they are running. Despite appearances to the contrary, this is true of the pay services as well as of the broadcasters. Competition among program suppliers is fierce. The buying and production sides of the business are highly structured, largely to reduce financial risk, yet the industry is organized in such a way that individual entrepreneurship and creative talents can be given full scope. Very high standards of professionalism prevail.

   The industry is concentrated in New York and Los Angeles. New York is generally concerned with the business aspects and Los Angeles with the creative aspects of program decision making. Los Angeles is the centre for the development and production of television series because it has the agglomeration of writers, actors, directors, producers, banking facilities, and production facilities necessary to turn out continuous episodes. Movies, pilots and specials can be and are produced elsewhere as well as in Los Angeles.

2. Many organizations and individuals are involved in the development, marketing, financing and production of television programs. It is a people business. No matter where they are located, they form a very close knit community linked by the telephone, the airplane, a prolific trade press, numerous trade organizations and associations, shared experiences and common backgrounds. Their common currency is audience ratings and shares of time periods. They work under the pressures of a very competitive marketplace where fast response and instantaneous communications are critical. This makes them competitive yet sharing a common bond. People learn by doing. Acceptance is based on reputation and personal trust. Performance is the passport to acceptance.

   This community is also part of a global community involved in television program development and marketing. Americans have sold over $400 million of U.S. programs per year into foreign markets. And foreign markets have become an increasingly important source of revenues and financing for American producers as U.S. audiences fragment.

3. To market programs in the United States, Canadian producers must become linked to and an accepted part of that community or find ways to work through people who are. It takes from two to three years of persistent effort to get to know this community and to become an accepted part of it. Since acceptance is based on performance, a large number of Canadians based in Los Angeles and the United States are an accepted part of the community; but only a handful located in Canada are. These include a few broadcasters who buy from the community and have leased studio space to its various members: a few producers: and one distributor (Media Lab Television). Canadians, likewise, must become part of the global community. Only a few are.

4. Broadcast and other program services which buy programs, producers and distributors are all involved in the process of developing, selling, financing and producing television programs. Any one of them initiates the development of a program, all become involved in the process at some point, usually long before a program is actually filmed.

5. The major elements of the industry are:

   - Program buyers
   - Production companies and producers
   - Distribution companies
   - Advertising agencies and advertisers
   - Talent agencies
   - Banks

a. <u>Program buyers</u>

(Broadcast networks, stations and station groups, and other program services)

They are involved in the development of programs as well as in the licencing of programs. As such they are generally staffed by specialists in the creative and business aspects of program development and program acquisition.

Most of the larger organizations have vice-presidents of program development and of program acquisition, and departments of business affairs consisting of lawyers, financial experts and accountants.

Some have staffs which specialize in various program types or programs for specific day-parts. For example, the broadcast networks have vice-presidents for daytime programs or late night programs, for dramatic programs or for night time serial programs. Home Box Office has the following specialists: sports, film programming, Cinemax programming, original programming, film acquisition, documentary programming, music and variety development, theatre development, comedy and dramas, made-for-pay motion pictures, original programming/West coast, pre-production acquisition/West coast.

The first rule of television program development is: <u>get to know the buyers, who their audiences are, what their needs are, and how decisions are made.</u>

All program buyers except the three broadcast networks, can and do take a financial interest in the programs produced for them.

b. <u>The Production Companies</u>

These consist of the seven major production companies: Columbia, MGM/UA, Paramount, 20th Century Fox, MCA/Universal, Warner Brothers and Disney - and the 40-50 so called "independents" which are often substantial companies in their own right, and which include Avco Embassy, Orion, Spelling-Goldberg, TAT-Tandem, MTM, Lorimar, Group W., Metromedia Producers, Taft (QM Productions, Hanna Barbera), etc. These production companies provide the infrastructure for the actual production of programs: they provide the studio space and facilities or they arrange for it: they organize development and production, hiring writers, directors, the cast, line producers, etc.: they may provide the deficit financing to cover the difference between production costs and the licence fees committed by the sponsoring buyer(s), either from their own financial resources or from money raised from limited partnership financings; they provide funds for the actual production expenses from their own bank lines of credit.

Many of these larger production companies have their own distribution arms which sell the programs into the syndication and foreign markets.

Although truly independent, free agent, producers do develop concepts for television programs and do receive contracts to develop and produce them, they usually do so in association with one of these production companies with their well-established management capabilities and experience.

c. Distribution Companies

Promotion and sale of offnetwork programs and movies, and of first run syndication programs to individual stations and station groups are made by distributors. There are 46-50 companies distributing offnetwork programs, mainly series, to stations. These include the distribution arms of production companies discussed above. Independent distributors, the largest of which are Viacom and Worldvision (Taft), tend to distribute programs made by the non-major studio production companies and the true independents. Viacom now has its own production company and Worldvision is associated with the Taft-owned production companies.

There are about 50 companies involved in selling first-run syndication programs. These include the distribution arms of the production companies as well as independent distributors who tend to specialize in certain kinds of programs. For example, Sandy Frank specializes in game shows and reality programs: Jack Rhodes in variety (music and comedy) shows: D.L. Taffner Ltd. in high class special programs: Teleworld in children's programs; and Viacom in offnetwork movies and sitcoms.

Distributors are responsible for promoting and marketing programs to individual stations, for signing licence agreements, shipping materials to the stations, collection of fee payments, accounting, and remittance of net amounts to producers. In return, they charge fees of from 10 percent of gross fees for sales to a large single buyer (a network) to 30-45 percent of gross sales to individual stations.

Most offnetwork movies and programs are sold on a cash basis for licence fees. Of the first-run syndicated programs offered at the beginning of 1982, 50 percent were offered on a cash basis; 30 percent on a barter basis (i.e., in return for 2-3 minutes of advertising time in a half hour progam and for 4-5 minutes in an hour program); 20 percent were offered for cash <u>and</u> barter (usually in return for one minute of advertising time which would be sold to a single sponsor).

In order to be able to convert advertising time bartered by stations in exchange for program rights into revenues for producers, <u>distributors must have the ability to sell advertising time either themselves or through other arrangements. Not all distributors have this capability</u>.

In order to generate sufficient revenues from licence fees and advertising revenues, it is a rule of thumb that distributors must be able to clear sufficient stations to cover 65 percent of the <u>television audience</u>. This is particularly important <u>to attract</u> advertisers.

There is a general misconception that distributors will provide minimum guaranteed revenues to producers in return for distribution rights. This may have been the case several years ago, but it is not today. The market is too uncertain and the cost of money has been too high. Only the larger distributors like Viacom, Worldvision and Telepictures will provide guarantees to the mini-major producers for their offnetwork made-for-TV movies, sitcoms and dramatic shows.

Rule number 2 in program development, production and marketing. Choose a distributor who knows your type of program, knows the market and buyers for those types of program and can sell advertising time as well as clear stations if barter is involved. It is unlikely that distributors will provide financing.

d. Advertising Agencies and Advertisers

Some advertising agencies have program development departments and may initiate and coordinate the development of programs for sponsorship by their clients. Advertisers and their agencies played an important role in program development and sponsorship in the early days of television. The practice almost died out in the 1960's and 1970's, but is beginning to take on increased importance in the development of programs for the advertiser supported cable services and as advertisers take the initiative in the development of high profile programs (e.g., Procter and Gamble and "Marco Polo").

Some agencies have their own program distribution companies: for example, Lexington Program Services is owned by Grey Advertising. They are particularly important in the development and distribution of programs sold on a barter basis to stations because they have the ability to find advertisers to buy the spots retained by the producer or distributor.

It is becomming increasingly important, particularly for expensive, high profile programs, to find advertiser sponsors who will commit production money in return for advertising time in the program. As program production costs increase, it is possible to keep down the cash price for the program charged the station (or network). Proctor and Gamble, General Foods and Mobil have been leaders in this.

Rep. houses, which represent stations to sell advertising time to advertising agencies, can also be involved in syndication and in finding sponsors. Telecorp, a Rep. House owned by Cox Broadcasting, coordinates and manages Operation Prime Time.

e. Talent Agencies

Agencies such as the William Morris Agency and International Creative Management play an important role in the program development process. They represent the actors and actresses, screen writers, directors, free-agent producers, and other creative personnel involved in program production. They also represent the owners of properties (novels, books, etc.) which may form the basis for television programs or movies. Because of their contacts and because they make 10 percent of their client's fees, talent agencies now play an active role in initiating and coordinating program developments in order to "create work opportunities" for their clients.

f. Banks

Banks in California and New York have long experience in providing working capital to producers and distributors in the movie and program production industries. They understand the industry and its needs and have developed the expertise and staffs to service it.

PROGRAM DEVELOPMENT AND MARKETING

Program development is the key to program success in the United States. A producer must know the market and how to put the various combinations together for financing and for revenues. Marketing and financing are inextricably related.

Program development follows a similar pattern no matter who the end user is: it is the marketing and financing that differs.

1. Almost without exception, television programs are made in collaboration with the eventual buyers to meet their needs. They are developed in accordance with well established steps designed to minimize risk. Producers and writers are attuned to the needs of the program services: they monitor ratings and keep in tune with audience tastes and trends. Only very rarely are programs made in completed form and then marketed to buyers. Most are foreign. But even this practice is diminishing as foreign producers become more familiar with the American market. Canadian producers will have to become more involved in the development process with American buyers if they are to make significant sales in the United States.

   This is not to say there is no market for completed programs in the United States. There is. And it sometimes makes strategic sense to market completed programs.

2. There are basically three ways in which television productions are financed in the United States:

   a. Financed totally by the buyer. Where there is little or no aftermarket, the buyer pays a licence fee which covers full production costs. Budgets for these programs are usually tailored to fit the licence fees paid. Made-for-TV movies with five year rights; new repeat series, e.g., soap operas; and some format shows which are topical in nature (e.g., Entertainment Tonight) are financed this way. Sometimes when a buyer wants total exclusivity, he may pay a normal licence fee and cover the deficit through an equity investment in the program. (The 3 networks are not permitted to do this.)

   b. Financed partially by the buyer from licence fees for first-run rights. The shortfall is financed by the producer and/or by a distributor with hopes of after sale revenues in the syndication and foreign markets. Typically, only prime-time entertainment series and specials are financed this way because they tend to be the only types of programs with good so-called aftermarket potential.

c. Financed by a pre-planned co-venture of groups of buyers either totally in the United States or in the United States and other countries. The financing can come from pre-sales of playing rights, co-financing or co-productions. Where there are foreign co-ventures, first-run licence fees may well cover all production costs.

3. In general the stages involved in program development are as follows. Each stage provides important marketing tools.

i) The idea or concept which may be a new one or based upon a property (book, article or someone's life) is developed. This should fit the audience, time period, and type of program required by potential buyers.

ii) Exploration of interest in the idea or concept among potential buyers.

iii) Outline - a 3-4 page outline of the concept and how it fits the client's needs, for presentation in person or otherwise to potential buyers. This should say who the writers would be and what the producer's experience has been.

iv) Treatment - 20-40 pages outlining the storylines, characters, casting and approximate budget. This may cost from $15-20,000 to develop for a made-for-television movie to $40-75,000 for a bible for a continuing series showing how the series would be sustained. The potential buyer may put up all or part of this development money.

v) Development deal where writers are hired, scripts developed and agreed upon, a director brought in, a shooting schedule completed, budgets developed and agreed upon, and casting agreed and completed. This development process may cost $100,000 or more and is sometimes advanced by the buyer to be recovered out of licence fees.

The development deal is often structured on a stepped basis where payments for each step in the process are agreed in advance, and can be cut off at any stage.

vi) Pilot - the development deal may include the development and production of a pilot which may be tested in test theatres, on cable systems and by other methods. A pilot is developed to see how the concept works and to learn how to make it work. Pilots may be entirely or partially paid for by the buyer and cost from $300,000 to $800,000 and can even go as high as $2 million for one hour.

It is important to note program development is expensive. Over $1 million can be spent before the final programs are produced.

vii) Production - buyers order up from 6 to 20 episodes of a series, or a complete movie or special. Payment is based on an agreed upon schedule.

Naturally, there are as many variations of this process as there are people and circumstances. Some steps may be bypassed and some telescoped.

4. The rest of this section discusses how programs are developed, marketed and produced for the various major segments of the U.S. program market. Development for the networks is discussed extensively because it provides a model for other market segments and acts as a point of comparison and contrast. It is also, of course, the biggest market.

A. DEVELOPMENT AND MARKETING OF BROADCAST NETWORK PROGRAMS

1. In effect, the Financial Ownership and Syndication Rules prevent the three networks from owning rights in entertainment programs which may have other markets, and from distributing these programs to other markets in the United States. Networks produce their own news, sports, current affairs, news magazine and some soap opera programs. Most series programming is commissioned by the networks for development and production by the seven major studios and by some other major independent producers. Some specials, made-for-television movies and miniseries may be commissioned from non-major independent producers. Producers retain the aftermarket rights to these programs. The networks are limited by a consent decree with the Department of Justice to the in-house production of only 2½ hours of prime-time programming per week.

2. Most program development for the networks is carried out in Los Angeles. Only CBS has a significant office in New York.

3. The networks deal only with production companies and producers who are reliable, reputable, and creative, and who will deliver quality product according specification, on time and within budget. The major and minor production companies have demonstrated track records and capabilities. Networks insist that producers must have the financial resources to guarantee completion of a project. This means, in effect, that independent producers have to find financial backing from a major production company or a distributor. In fact, most independent producers and writers develop contractual relationships with the major companies to provide them with access to markets and to financial support.

Nightime Entertainment Programs

Sitcoms are the most frequent program type in prime time hours.

	Number of hours per week	
	1982/83	1981/82
Comedies (Sitcoms)	15 (29 programs)	15 (30 programs)
Action/adventure/mystery	21	16
Drama	13	16½
Movies	10	10

Source: Electronic Media

The number of hours of miniseries scheduled in 1982/83 is planned to increase to 70 hours from 49 hours in 1981/82.

Nightime Entertainment Series

These are the steps in nightime series development:

1. The appropriate network program development department calls for (or the producers and/or writers come in with) concepts or ideas for a particular type of series for a particular time slot and audience. The presentation to the network, called the "verbal pitch" is the key part of the process. Here the producer or writer must capture the imagination of the network people. The pitch must be professional and compelling and attuned to the specific needs of the network and its audiences.

2. If program development likes the concept, the network business affairs department will negotiate a contract with the production company's business affairs department (or equivalent) for the development of a script for a half hour or one hour pilot. The network pays between $30-$45,000 for these scripts. The network has the right to one major rewrite and a polish for this price.

   The three networks probably commission about 1500 scripts per year at a total cost of $3½-$4 million. Each network makes about 30 pilots from these scripts (down from 40 five years ago). Each script, therefore, has only a 6 percent chance of being made into a pilot. The decision which pilots to make is based upon how well the script fits the needs of the schedule, what the network's priorities are, and what dollar revenues are available for pilots.

3. The network business affairs department will negotiate a contract for the development of a pilot and agrees to a licence fee at about $400-$450,000 for a half hour and $800-$1,000,000 for a one hour pilot. Generally the network covers full below the line costs of the pilot. Some producers may decide to invest further of their own money in the pilot to make it more effective. The development of a pilot is a protracted process with the network involved at all stages, including reviewing daily out-takes. Many changes are made during this process.

Most pilots are tested on audiences, in a test theatre in Los Angeles, or on cable systems, where the pilot show is promoted by mailings to the cable subscribers, and questionnaires are completed comparing how the pilot performed against other shows on air at that time. Changes are made based on these findings.

Because of the high costs of developing pilots ($60-$80 million per year), there is some trend towards making decisions on the basis of 20 minute previews (demonstration tapes) or even on the basis of scripts alone. But to date very few shows have been done without a pilot: on ABC only "Taxi", "The Associates" and the "New Odd Couple" had no pilot.

4. All pilots are reviewed together in Los Angeles in March/April. The decision about which ones will be made into series is based upon the test results, the schedule priorities, how the pilots compare one to another, on competition, and on creative judgement. Only about 1 in 3 pilots was made into a new series in 1982/83 (25 new series out of 90 pilots).

5. The network will commit for 13 episodes for a negotiated licence fee which entitles it to two plays during the broadcast year. After that, the series can go into syndication. There is an increasing tendency, however, for the networks to commit first for only 4-5 episodes and to see how they perform on air before committing for a full 26 episodes.

   Average licence fees in 1982 were $350,000 for a half hour episode and $650,000 for an hour. However, these licence fees generally do not cover full production costs - probably about 75-80 percent. The producer is expected to recover these costs and make a profit from syndication and foreign sales. However, a series only becomes valuable in the syndication market when there are enough episodes to strip run on a five day a week basis for about 20 weeks. That is, when over 4 years (106) of episodes are available. In effect, producers bear risks until the end of the third year of the show's life. Few shows last four years. One in four of new shows used to survive beyond the first season. The proportion is now one in ten. Only 21 of the 65 series which started the 1982/83 season had been on the air for more than 2 years: six for three years: seven for two years: six for one year: and 25 were new.

Made-For-TV Movies and Miniseries

1. Made-for-TV movies are licenced to the network for five years with three plays during that period. (Theatrical movies are licenced on the same terms). Because of the long licence period, there is an uncertain aftermarket. Producers, therefore, tailor their budgets to the licence fees, which average about $1.7-$2.0 million. Extra fees are paid for stars included at the networks' insistence.

2. Most made-for-TV movies and miniseries are based upon books or peoples' lives and the concepts are sold to networks in a verbal pitch on the basis of a simple outline of the story and characters, who the writers will be, and the producer's experience.

3. If the network likes the concept, they, in some cases, will finance a treatment where the storylines and characters are developed more fully, casting is proposed and a budget developed. They pay about $15-20,000 for this.

4. If the network likes the concept and treatment, business affairs negotiates an agreement with the producer to develop scripts, budgets, a shooting schedule, to hire a director, and to cast the film for an agreed fee which covers expenses. The fee is generally about $100,000, plus $10-$20,000 to acquire book or personal rights. These development fees will be recovered out of licence fees if the film is produced.

5. When the scripts, budgets, schedule and casting are agreed, a licence fee will be negotiated to produce the movie for delivery to the network. Generally licence fees are paid 10 percent upon signing; one third before production begins; one third during filming; the rest upon acceptance. Shortfalls before final payment are financed by the producer from bank lines of credit.

Daytime Entertainment Series

Daytime soap operas and talk and game shows are developed in a manner similar to night entertainment series. However, since a pilot would not be meaningful, the network may negotiate for the development by the producer of a treatment called "a bible" which will demonstrate how the storylines and characters would be sustained over many episodes. Talk show producers usually demonstrate the proposed host and the format of the show on a demonstration tape or even on a live set. This costs $45-$75,000, which the network may cover.

Networks commit for completed daytime series in a way similar to that described for nightime entertainment shows. Since there is a limited aftermarket for these types of shows, licence fees are likely to cover full costs of production.

Syndication of Network Nightime Entertainment Series

Domestic distribution rights for syndication sales to stations after programs have completed their first network runs are owned by the producers. Most of the major studios have their own distribution arms. 25 of 39 off-network series in 1982 were sold by the distribution arms of major production companies. The other 14 were distributed by five major independent distributors (Worldvision, Viacom, Telepictures, Taffner and Victory). Generally these were series produced by the mini-major production companies. Some of these distributors may provide producers with a guaranteed minimum payment to cover production deficits.

Most off-network series are sold to stations for cash for a five year term. Where there are fewer than 104 episodes, or the series is very old, they may be sold on a barter basis for two years. About 70 percent of revenues from off-network series comes from independent stations. Over the past ten years producers have received over $800 million from off-network sales.

B. DEVELOPMENT AND MARKETING OF FIRST RUN BROADCAST SYNDICATED PROGRAMS

Programs for first-run on individual stations and station groups are developed similarly to network programs, but are marketed differently because development funds and revenues have to be found from a variety of sources. The key to this process is to find ways to cover production costs through co-ventures, co-financings and pre-sale arrangements before the program is filmed. This formula may include foreign partners.

1. a. Most programs for this market are developed primarily for audiences in the prime access, early and late fringe, late night, and some morning and afternoon time segments. Except for during the prime access period, audiences and advertising revenues are much smaller than in the prime evening hours, and licence fees which can be paid for these programs are much lower than can be paid for prime time shows. For this reason, first-run syndicated programs tend to be low cost, daily or weekly half-hour and one-hour series consisting of talk shows, game shows, format shows like "People's Court", "You Asked For It" and "P.M. Magazine", with some wildlife, comedy and variety series.

   b. First run syndicated programs are licenced to stations for cash; or on a barter basis where stations give the producer 2-2½ minutes of advertising time per half hour and 4½-5 minutes per hour segment in exchange for program rights; or on a combination of cash and barter where the producer is given 1-2 minutes of advertising time and cash licence fees.

   c. There are few aftermarkets for this type of program. Costs must be recouped from the first-run markets and production budgets tailored to fit expected revenues. Generally speaking, commitments from stations covering a minimum of 60-65 percent of the national television audience are required to provide licence fees and/or advertising revenues sufficient to cover production costs and to attract advertisers.

The program budget is usually determined, therefore, by the net revenues which can be obtained from running on stations with coverage of 60-65 percent of the national television audience. The amount available will depend upon the show's estimated share of audience in its time period less distribution expenses (30-45 percent of gross revenues) and advertising agency commissions (15 percent of billings).

d. Traditionally, first run programs have been developed by production companies or individual producers in cooperation with one of the network's owned and operated station groups, and with a distribution company.

Each network's group of stations covers about 40 percent of the total television audience. This provides a substantial revenue base. Licencing commitments from the other stations required to make up the 60-65 percent coverage of the audience are obtained by distributors on the basis of a pilot or demonstration film.

Total gross revenues per episode for first-run syndication programs are shown in the following table. The ranges represent the differences in time slots and quality of the programs.

Gross Price Ranges Per Episode
of First-Run Syndication Programs

Type of Program	Gross Price Range
Games Shows (half hour)	$25-75,000
Talk Shows (half hour)	25-75,000
Magazine format	35-225,000
Wildlife (half hour)	15-55,000
Science/Documentary	25,000

Source: Grieve, Horner & Associates Inc.

e. The Owned and Operated stations and/or distributors may provide some development money. For example, "Family Court" was developed by ABC O and O's and Group W: "Soap Talk" by NBC O and O's, Mag Net and Pierre Cossette Productions: "Night Court in Vagas" and "Weekday" were developed by Metromedia (a station group and production company) and Viacom (a distributor). CBS O and O's were reported to have provided $100,000 for the development of a pilot. Distributors, the O and O's program development departments, and potential advertising sponsors are shown a project at the concept stage, usually in the form of a short presentation. This may then be developed into a more elaborate treatment for a series; into a script or scripts for a pilot program; or into a demonstration for a talk or game show.

f. The Owned and Operated stations and the advertiser sponsors make their commitments on the basis of the pilot or demonstration film and contingent upon clearance by stations covering 60-65 percent of the television audience. The distribution company may provide a minimum guarantee, but not very often. It may, however, commit a minimum amount to be spent on promoting the series to individual stations. This promotion includes advertising and public relations and presentations of the pilot or demonstration film by his sales force to stations in the top 50-75 markets and to smaller market stations at NATPE and other trade shows.

When this process is completed, stations make commitments for a first 13 or 26 episodes.

g. The development and marketing process is expensive and lengthy. For example, ABC's O and O stations spent two years researching, testing and negotiating a project for the access period. The project was abandoned because the show would have been too expensive. The failure rate is high. Of the new series demonstrated at 1982's NATPE, 14 of the 27 new strip shows: 5 of the 18 weekly half hour shows; and 6 of the 12 weekly one hour shows failed to become series.

h. Table 1 shows the number of first-run syndicated shows which started off on-air in 1982 and the basis on which they were sold. New series formed a large proportion. The mortality rate of first-run syndication shows is high (probably 50%).

TABLE 1

FIRST RUN SYNDICATION SERIES
ON-AIR 1982/82 - NO. OF SHOWS

		Sales Basis		
	Total	Cash	Barter	Cash & Barter
Strip Half Hours				
New	13	5	3	5
Returning	13	4	3	6
Weekly Half Hours				
New	13	4	7	2
Returning	14	4	10	--
Weekly Hours				
New	6	3	3	--
Returning	3	--	3	--
Talk Strips				
New	1	--	--	1
Returning	3	--	--	3

Source: Katz Programming Services

2\. a. A very important variation of this syndication method of program development and marketing has emerged, not just for format series, but also for prime time specials and miniseries, and for children's programs.

Station groups, especially those owning independent stations, are initiating their own productions with production companies, distributors and advertisers. Metromedia, Field, Ganett, Taft, Cox, Post-Newsweek and the Tribune Companies have pioneered this approach co-venturing with other station groups and producers, including foreign producers. These station groups cover important markets; for example, Metromedia and Field stations together cover 40 percent of TV homes. Sometimes revenues from the station groups and their co-partners cover production costs. At other times they must make up the needed 60-65 percent coverage with syndicated sales.

In some instances, especially in prime time, various coalitions of these groups have put together ad hoc networks where a program is broadcast at the same time on all stations, or a quasi-ad hoc network where the show may play on different days on some stations in the network.

b. This situation has developed because:

- Independent stations have become increasingly vital. Profits to fund production have been generated by audience and advertising revenue growth. 165 independent stations cover 76 percent of U.S. homes. 1981 advertising revenues were $1.2 billion. Independents' share of prime time audiences grew from 10 percent in 1970 to 17 percent 1981.

- There is an impending shortage of off-network series beginning in 1984/85. Prices of successful shows have been bid up to very high levels.

- With the advent of pay television, there has been a lengthening in the pre-exposure chain of theatrical movies before they run on independent stations.

- Some stations believe certain of their important day-part audiences, e.g., children, deserve better programs than those available from the networks.

- Satellite delivery and reception capabilities are improving. Transponder and up-and-down-link costs are too high at present to allow real-time networking. But it is believed that it will become possible. At present, satellites are used to deliver programs to station head-ends for later play. Entertainment Tonight, the Merv Griffen Show, Solid Gold, Dance Fever and Saturday Night Live are delivered this way.

c. Entertainment Tonight, a half hour, magazine-format series was developed to run in early fringe and access time periods by a combination of Tele Rep, a company which represents television stations to advertising agencies, Cox and Taft Broadcasting which each own seven TV stations, and Paramount which produces and distributes the series on a cash and barter basis. Tele Rep developed the concept and put together the partners who financed the development of a pilot show and who own the series.

d. Operation Prime Time is a consortium of stations organized to produce first-run, high budget, prime time, network quality programming for local station use. It has been in existence for five years and has developed the concept of running dramatic specials in prime time on an ad hoc network of independent and affiliate stations on a first-run basis with co-ordinated promotion support. The programs have attracted significant audiences. "A Woman Called Golda" was the share leader in many markets where it ran. 16 hours of new programming, consisting of 4 to 6 specials are being developed for 1982/83.

A seven member steering committee representing 24 television stations covering 44 percent of U.S. homes and providing 66 percent of the licence fee revenues of the projects, select the projects, approve casting and scripts and provide the necessary administrative services, including national promotion and publicity. Television Program Enterprises coordinates these activities for OPT.

Large numbers of projects are suggested to OPT by producers and are screened by Television Program Enterprises. A number are presented to the Steering Committee which selects the projects and makes commitments on behalf of its members. OPT then contracts with a production company - usually a studio - to develop the project, provide deficit financing, find other co-partners if necessary, and to produce the program. The production company has aftermarket and foreign rights.

These programs now cost over $1 million per hour to produce. The participating stations can pay no more than $650-800,000 per hour. It is necessary to lay off these deficit costs with revenues or production monies from elsewhere. "Smiley's People", for example, was a co-production of the BBC and Paramount. OPT is looking for suitable projects with foreign producers.

"Solid Gold" - developed by OPT as a prime-time, one-hour music variety special in 1979 - was later made into one of the most successful syndicated series, and now runs during late night weekends on NBC.

The evolution of "Solid Gold" illustrates two important factors:

1. It is the hope of all producers of first-run syndicated series that eventually their show will be taken up and run by the networks. Only a few have. They mostly have been late night shows aimed at a teen and young adult audience.

2. It is becoming increasingly common in the first-run syndication market to make a one hour special based on the pilot show and to measure the on-air audience reaction to it before going to series. Several such projects are being developed in this way.

e. There are other ad hoc networks. SFM Holiday Network puts together groups of stations to show family programs (animated specials, movies, etc.) at such special holidays as Christmas and Thanksgiving. Mobil Showcase Theatre organized by Mobil and D.L. Taffner is another example. Both of these ad hoc networks tend to run existing programs.

f. Other more genuine, ad hoc groupings are being put together. For example, "Blood and Honour" a two part, five hour special ran in prime time on two nights in early December 1982 on independent and affiliate stations. An American producer arranged for Beta in Germany to finance and film the program under his direction. The Field group of stations became a financial partner and arranged pre-sales in seven top markets to a mixture of independent and affiliate stations. D.L. Taffner Ltd. syndicated the program in other markets. Other such projects, initiated by U.S. station groups, are being developed.

g. Two recent proposals have taken this process to its logical conclusion. Metromedia is planning a national newscast network. It would be satellite-delivered from New York. Stations would rearrange the segments and insert their own. Ganett and Telepictures have proposed a half hour, six days a week news and information program into which local stations could insert their own anchor persons. Metromedia has proposed a first-run theatrical movie network.

C. <u>DEVELOPMENT AND MARKETING OR PROGRAMS FOR PAY TELEVISION SERVICES</u>

1. Theatrical movies are the mainstay of programming for the established pay services. 75 percent of the programs on HBO and Show time and 100 percent on the Movie Channel and Cinemax are movies. HBO will run 220 movie titles in 1982. In 1982, the pay services probably spent $500 million licencing theatrical movies. This could become $1.2-$1.3 billion in 1986. Pay services have become one of the most important steps in the marketing chain of feature movies (See section on sequential marketing).

However, the proportion of original programs - made for pay movies, variety and comedy shows, Broadway plays, and sports - is increasing in an attempt to create distinctiveness between the various services. HBO plays 12 sports and entertainment specials each month. In addition, the pay services expect to increase the number of dramatic and other <u>series</u> in an attempt to build viewer loyalty and regular <u>viewing</u> habits. The aftermarkets for these original programs is not yet clear and there are problems in deficit financing such programs.

2. The newer pay services, the Entertianment Channel and the Disney Channel plan to rely less on movies and to follow a more conventional programming format using series programs. Both these services are unproven at this time and are investing in new programs.

3. Pay services must offer new and exciting programs if they are to keep subscribers: programs the audiences will have not seen before or which they can see nowhere else. Pay services have developed various strategies to ensure they get first-run rights to feature movies after their theatrical runs; to programs they acquire or develop; and in some instances, totally exclusive rights to programs.

   HBO provides financial support to the smaller production companies and to independent producers in return for the first run pay rights to their movies. HBO has signed agreements with Columbia for first-run pay rights to their movies. It is likely the Movie Channel will obtain first-run pay rights to movies produced by Paramount, MGM and Warner which now own part of the Movie Channel, and will pay these studios higher per subscriber prices than are paid now. Ultimately, some accomodation will be reached whereby the studios will receive a larger proportion of subscriber revenues in licence fees for their feature movies and the various pay services will obtain first-run pay rights in return.

4. Development of original programs for the pay services is similar to that followed in the development of programs for the broadcast network and syndication markets. Pay services can own financial rights in the programs produced for them and may participate in profits through negotiated points.

5. The following is a description of the methods followed in the development and marketing of programs for three major pay services: HBO, Showtime and the Entertainment Channel.

HOME BOX OFFICE

i) HBO regards itself as a broad-based entertainment service; it includes series and sports in its programming: and it schedules types of programs according to the predominant viewing audience available in each day-part.

ii) In 1982, HBO expects to spend $25 million on original programs. These will include made-for-pay movies; miniseries; variety and comedy specials; and six theatre productions.

HBO insists on totally exclusive rights in the United States for original programs it commissions and licences. It is the one pay service with revenues big enough to finance the total cost of the development and production of a program. However, if it can obtain exclusive rights in the United States and share the costs through a pre-sale or co-financing arrangement in other countries, it would prefer to do this in order to maximize the use of its program budget. For example, "Chandler Town", a made-for-TV movie, is being equally co-financed with London Weekend TV. HBO will have the North American rights and will licence it in Canada. "Far Pavillions", a 6 to 8 hour miniseries, is being co-financed with Goldcrest Productions and Channel 4 in the U.K. HBO will have exclusive North American rights.

iii) The process by which ideas are screened and pilots and programs developed follows the network pattern. However, once the decision to develop a project has been made, HBO is actively involved in finding other revenue sources to cover the total cost of development and production from co-financiers, pre-sales licence agreements and co-productions.

Concepts outlining the storyline and characters, and the experience of the writers and producers, are reviewed by the appropriate program development staff: made-for-pay movies, comedy and drama in Los Angeles: documentaries, variety and theatre in New York. If there is interest, HBO may order up scripts for pilots, or treatments for movies, miniseries or one-shot variety and comedy shows. HBO may completely or partially finance treatments and pilots. Pilots are tested in focus group sessions, test theatres and on cable systems.

However, each project is treated differently and is worked out with the producer to suit the circumstances. For example, no pilot was developed for "Fraggle Rock". Six scripts were developed and six episodes contracted for. Since then a total of 36 half-hour episodes have been ordered.

SHOWTIME

i) Showtime develops comedy series, adult soaps, stage-play-based programs, variety series and may be thinking of dramatic series to supplement movies, which are the backbone of the service.

ii) Showtime's budgets are more limited than HBO's because of its smaller subscriber base. Consequently, Showtime cannot fully finance development and expects the producer to have other partners. Showtime requires U.S. exclusivity for 18 months and 15 play days (which means the program can play more than once per day), after which the programs are free for release into such other U.S. markets as broadcast syndication.

iii) The development process for a program series is similar to that followed by broadcast networks.

Showtime lets established writers and/or producers know what they are looking for. Or producers send or bring in their ideas. Based upon the initial concepts, Showtime may provide up to $25,000 for the development of a treatment. And if that is acceptable, 60-70 percent of the money needed to develop and make a pilot - or a one hour special - before deciding to make a series. Pilots and specials are evaluated through audience research.

iv) Because of its limited budgets, Showtime is interested in co-ventures which can result in part of the cost being covered by licence fees or co-financing arrangements outside the United States, or from financing provided by a production or distribution company which expects to make broadcast syndication sales after the 18 month exclusive period on pay. For example, "Bizarre" was financed by Showtime and Viacom and from licence fees and facilities agreements with CTV. Viacom will syndicate the series to broadcast stations. Lorimar and Showtime are producing 80 episodes of an adult soap series called "Perfect Couples". Showtime is developing programs with a consortium of STV services, which participates in the 18 month pay TV window, and in financing. Paramount developed and produced a Frank Sinatra special, with revenues coming from licence agreements with Showtime and the STV services and from foreign and U.S. syndication sales.

THE ENTERTAINMENT CHANNEL[1]

i) The Entertainment Channel's programming follows the traditional broadcast format but is aimed at what they regard as discriminating audiences. T.E.C. has been and is acquiring rights to existing programs as well as developing original programs from a large ($75 million) program fund.

ii) 40 percent of its programs are from the BBC. Under an agreement with the BBC, the Entertainment Channel has a contract to buy a certain number of BBC programs per year and to co-produce a certain number with the BBC or with independent producers via the BBC. The BBC sends most proposals to the Entertainment Channel at the advanced treatment stage. The Entertainment Channel choses the projects in which it has interest; has input at this juncture; but does not become involved during actual production.

iii) A joint arrangement exists with RKO Netherlander to make television versions of Broadway plays and musicals.

iv) The Entertainment Channel insists on full exclusivity in non-broadcast television, and complete U.S. exclusivity for two years. In order to retain full control over quality, it currently pays licence fees which almost (90 percent) cover production costs.

1. Note: This service has been discontinued. The demise of it, and CBC Cable late in 1982 illustrates the transitional nature of the U.S. program market at this time.

v) The Entertainment Channel's program development staff let established producers know what they are looking for. And producers send in their proposals in an outline or treatment form. Costs of development and of pilots are shared by the Entertainment Channel and the producer. Pilots are tested in the usual way. The producer has to finance the deficit between production costs and licence fees paid by the Entertainment Channel. In return, the producer has foreign and U.S. syndication rights, and the Entertainment Channel complete U.S. rights for 2 years and a share in profits after recoupment. For this reason, the Entertainment Channel prefers to work with production companies with access to distribution in the U.S. and abroad. The "Animal Express" series will be distributed this way.

6. All the pay services receive hundreds of proposals. Only those that capture the imagination of buyers, that clearly meet the immediate and future needs of the program services, and that clearly understand the program services' audiences are developed any further. About one in ten may be developed. Of those for which scripts are developed about one in ten make it to the pilot or single first-episode stage.

7. All programing acquired by the major pay television program services is also evaluated through audience research before final commitment.

8. The ranges in licence fees paid by the three major pay television program services for non-theatrical movie programs is shown in the table below. In most cases they are well below production costs.

LICENCE FEES PAID BY PAY SERVICES

	HBO	Showtime	The Entertainment Channel
Made-for-pay movies	$250-1,500,000	$150-750,000	N/A
Miniseries (per hr.)	50-250,000	50-250,000	$150-225,000
Dramatic series (per hr.)	50-250,000	50-250,000	150-250,000
Variety special (per hr.)	200-350,000	175-200,000	N/A
Comedy series (½ hr.)	55-60,000	55-60,000	N/A
Soap Opera series (per hr.)	55,000	55,000	N/A
Childrens series (½ hr.)	10-15,000	10-15,000	N/A
Womens magazine format (½ hr.)	500-5,000	500-5,000	N/A
*Family series (½ hr.)	30-50,000		

Source: Grieve, Horner & Associates Inc.

* For Disney Channel

D. DEVELOPING AND MARKETING PROGRAMS FOR NON-PAY CABLE PROGRAM SERVICES

1. There are about 40 of these cable program services.

2. The program services specialize by type of program (sports, news, music and 'cultural') or by audience (childrens, womens). Most are dependent almost entirely on advertising revenues, which have been restrained by the limited coverage of the country and by the lack of evidence of appreciable viewing levels of these services by audiences. Their licence fees are low and they have limited program development funds. Most have been kept in existence by investments by their corporate parents - Warner Amex, Westinghouse, ABC, Hearst, Viacom and Time.

LICENCE FEES PAID BY CABLE SERVICES

	Fee per episode
Cooking: how to: health and excercise (½ hr.)	$500-5,000
Childrens series (½ hr.)	2,500-5,000
Family series (½ hr.)	5,000-10,000
Proprietary magazine format series (½ hr.)	5,000-30,000
Cultural programs (1 hr.)	1,500-10,000

3. The sports and news services produce almost all of their own material. The other services tend to run very specialized magazine-format programs designed for specialized audiences and that can be produced for low costs on a continuous, almost assembly-line, basis. The other services produce about 40 percent themselves and buy the rest from outside production companies which produce the programs under the close supervision of the program services. The key problem for these services and for producers serving them is to make very low cost programs that people will watch. Advertisers and advertising agencies are playing an increasing role in financing and developing these services' programs. The services are in a state of evolution and experimentation in program development.

4. Nickelodeon, a specialized childrens service, has represented an important market for Canadian programs and is investigating the development of programs on a co-venture basis with Canadian and other foreign partners.

   Nickelodeon follows a similar pattern of program development to that practiced by U.S. broadcasters, including helping to finance the development of scripts and pilots.

5. The U.S.A. Network, Hearst/ABC Daytime, ESPN, and the Cable Health Network represent possible markets and follow normal program development. These services critically need "creative deal making and marketing approaches".

Sometimes development and production is totally underwritten by the program service and, more often, by an advertiser sponsor. Some are co-ventured with producers and, in the case of some cultural services, with foreign producers. The ancillary and distribution rights and licence fees are negotiable.

AFTERMARKETS FOR U.S. PROGRAMS

1. Except in cases where first-run licences cover full costs of production (made-for-TV movies, soap opera series, and some specials licenced by networks; most first-run syndication series; and some specials licenced by pay services), producers or distributors have to recover costs and make profits from sales abroad and from sales to other U.S. broadcasters or cable services which licence programs after the expiration of their first-run licence periods.

2. Before pay and other satellite services and home video became established, the traditional sequence of distribution and marketing was as follows:

Theatrical Movies	o U.S.	Theatrical run (12-18 mo.) → Network TV (5 yr.) → Syndication TV (5 yr.)
	o Foreign	Theatrical run → Network/Syndication TV
Television Series	o U.S.	Network TV (1 yr.) → (104 eps.) → Syndication TV (5 yrs.)
	o Foreign	Network/Syndication TV
	o U.S.	First-run syndication TV → Little aftermarket
	o Foreign	Few markets except Canada

3. The arrival of home video, and the desire of pay and other satellite services for first-run or even total U.S. exclusivity; and the development of made-for movies, miniseries and other prime time specials for broadcast television, has complicated sequential distribution and marketing and, in some cases, made it more problematical. In fact, <u>simultaneous</u> marketing has become increasingly important, particularly simultaneous marketing in foreign markets with foreign co-venturers. This, of course, presents opportunities for Canadian producers.

4. Table 2 shows the possible combinations of sequential and simultaneous marketing that might be followed for feature movies and for various types of programs developed for first-run on U.S. pay and broadcast television.

TABLE 2

POTENTIAL SEQUENTIAL AND SIMULTANEOUS LICENCING OF
U.S. MOVIES AND TELEVISION PROGRAMS
IN U.S. AND FOREIGN MARKETS

	MARKET		TELEVISION LICENCES First Licence (Period)	Subsequent Licences (Period)
Theatrical Movies	o U.S.:		Pay → (1 yr.+)	Network → Syndication (2 yr.) (2-5 yrs.)
	o Foreign:		Network/Syndication	
		or	Pay (Canada) →	Network/Syndication (2-5 yrs.)
Made-for-TV Movies and Miniseries	o U.S.:		Pay → (1 yr.+)	Network? → Syndication
	o Foreign:		Network/Syndication	
		or	Pay (Canada) →	Network/Syndication
	o U.S.:		Network — Pay? → (5 yr.)	Syndication
	o Foreign:		Network/Syndication	
		or	Pay (Canada) →	Network/Syndication
TV Series (Drama, Action Sitcoms, Etc.)	o U.S.:		Network (104 eps.) → (1 yr.+)	Syndication
	o Foreign:		Network/Syndication (Not sitcoms)	
	o U.S.:		Pay (104 eps.) → (1 yr.+)	Syndication?
	o Foreign:		Network/Syndication (not sitcoms)	
(Format Series)	o U.S.:		1st Run Syndication →	None
	o Foreign:		Syndication (Canada)	
TV Specials	o U.S.:		Network →	Syndication (limited)
	o Foreign:		Network/Syndication (limited)	
	o U.S.:		Pay →	Syndication (limited)
	o Foreign:		Network/Syndication (limited)	
	o U.S.:		1st Run Syndication →	None
	o Foreign:		Network/Syndication	
		or	Pay (Canada)	

Some comments on Table 2:

i) Not all these opportunities exist for all programs: only for the best and most successful programs.

ii) Increasingly, home video versions of movies are being released during theatrical run. Pay television has first-run rights to movies shortly after they have completed their theatrical runs. In the future, some movies are likely to be released on a pay-per-view basis before they are shown on monthly-fee pay television. This lengthening of the chain of viewing of theatrical movies seems to reduce their value to the broadcast networks and especially to the syndicated broadcast stations. The following table shows the decline in average ratings of theatrical movies shown on broadcast stations after they have been shown on pay services.

AVERAGE RATINGS OF THEATRICAL MOVIES 1981

Homes without cable	16.5%
Homes with cable but not pay	14.5%
Homes with pay	11.0%

Source: A.C. Nielsen

This trend is expected to result in more development by broadcast networks and stations of their own movies, miniseries and specials, and to reduce the licence fees paid by broadcasters for theatrical movies. This reduction in revenues will have to be compensated for from higher pay licence fees.

iii) It is unlikely that programs produced for U.S. broadcast networks or for U.S. first-run syndication would subsequently run on U.S. pay services, since the U.S. pay services depend for their distinctiveness on first-run material. Pay services, however, do take over and run continuations or adaptations of a broadcast series (e.g., as nearly happened with "Taxi" and did happen with "Paper Chase").

U.S. pay services do, however, show programs that run first or simultaneously on foreign broadcast or pay services, as long as they have U.S. first-run exclusivity. This is an opportunity for Canada.

iv) It is not likely that programs developed and run first on U.S. pay services would subsequently be licenced by U.S. broadcast networks. Theatrical movies are the exception. Made-for-pay movies and miniseries may become exceptions.

v) Some one-shot comedy and variety specials made for pay television <u>may</u> sell into broadcast syndication markets, but that market is a limited one for such programs. It is essentially a market for continuing daily or weekly <u>series</u>. Series developed for first-run on U.S. pay services <u>could</u> subsequently be licenced in the broadcast syndication markets, but for the next few years, they would have to compete with <u>proven</u> off-network series that are available in 104 <u>episodes</u> or more, and with syndicated first-run format-programs that increasingly make provision for localization. Satisfying local audiences is becoming increasingly important to local broadcast stations. In future, as the number of <u>successful</u> off-network series decreases, pay services <u>could</u> become an increasingly important source of <u>series</u> programming for broadcast stations. But these stations will require 52-104 episodes.

vi) Should the network's Financial Interest and Syndication rules be rescinded (as is now, March 1983, being proposed), off-pay programs and series could become a more important source of syndicated programs for independent stations in particular.

vii) The U.S. pay services, some specialized cable program services, and the first-run syndication broadcast markets represent excellent potential co-partners/ pre-sale partners for both Canadian pay and broadcast programs. Table 3 shows the potential simultaneous and sequential markets for Canadian programs in the United States and abroad.

TABLE 3

POTENTIAL SIMULTANEOUS AND SEQUENTIAL LICENCING OF CANADIAN-MADE PROGRAMS IN U.S. AND FOREIGN MARKETS

FIRST RUN IN CANADA		LICENCED TO OR MADE WITH: UNITED STATES First Run	UNITED STATES Subsequent Runs	FOREIGN
PAY: Made-for movies or miniseries	(a)	Pay →	Network → Synd.	Video/TV
	(b)	First-run Syndication		Video/TV
PAY: Specials	(a)	Pay →	Syndication	Video/Broadcast?
	(b)	First-run Syndication		Video/Broadcast?
PAY: Drama Series	(a)	Pay →	(104) Syndication	Broadcast
	(b)	First-run Syndication		Broadcast
PAY: Comedy/Variety Series	(a)	Pay →	Syndication	Not likely
	(b)	First-run Syndication		Not likely
PAY: Family/Children's Series	(a)	Pay →	Syndication	Broadcast
	(b)	First-run Syndication		Broadcast
	(c)	Special Channel		Broadcast
BDCST: Drama Series	(a)	Pay →	Syndication	Broadcast
	(b)	First-run Syndication		Broadcast
BDCST: Family/Childrens series	(a)	Pay →	Syndication	Broadcast
	(b)	Special Channel →	Syndication	Broadcast
	(c)	First-run Syndication		Broadcast
BDCST: Comedy/Variety Series	(a)	Pay →	Syndication	Not likely
	(b)	First-run Syndication		Not likely
BDCST/PAY: Magazine format series	(a)	Special Channels		Not likely
	(b)	First-run Syndication		Not likely

PENETRATION OF CANADIAN AND OTHER FOREIGN PROGRAMS IN THE UNITED STATES MARKETS

1. From various estimates, it is believed that about $80-100 million of foreign programs will be sold in the U.S. in 1982. This represents about 3 percent of the total available market. The new pay and cable services made most of these purchases. Public broadcasters remained important buyers and an increasing number of series and specials were purchased by the network and station broadcasters.

ESTIMATED PURCHASES OF FOREIGN PROGRAMS IN THE U.S. 1982
(million dollars)

Public broadcasters	$13.0
Commercial broadcasters	30.0
Pay and Cable	47.0
	$90.0

Source: Grieve Horner & Associates

2. Most purchases were completed programs already shown in their countries of origin, and then, in many cases, adapted for the U.S. market. An increasing number was of programs developed on a co-venture or pre-sale basis by foreign producers with U.S. producers, distributors and buyers.

3. The reasons for this growth in foreign program purchases are:

   a. The new pay and cable services required large volumes of start-up programs at low prices. These were available from foreign inventories.

   b. The success of corporately sponsored series on PBS e.g., Masterpiece Theatre.

   c. A growing need by independent and affiliate stations for reasonably priced series in early evening and late night time period as the prices for offnetwork series escalated.

d. The use of prime time specials as alternatives to network programs (Operation Prime Time and Mobil Theatre Show-case).

e. The arrangement between the BBC and the Entertainment Channel.

f. The growth in co-venture and pre-sale arrangements between American pay services, some U.S. stations groups, and foreign producers and buyers as a way of maintaining affordable individual licence fees for quality programs and series. In effect, the emergence of a global program syndication market.

g. The belief held by some of the new cable services that they attract sophisticated audience which are more ready to accept foreign programs. (This is more a theory held by programmers than a proven fact at this stage.)

h. A better understanding by American distributors of how to position, price and promote foreign programs in the U.S. markets.

i. More aggressive actions by foreign producers to develop and market programs in the U.S. market.

4. Foreign Programs

a. Programs for the U.S. market must be in English. Based on trials by PBS, Cinemax and others, U.S. audiences do not accept dubbed programs. This gives an advantage to British, Australian and, in theory, especially to English Canadian programs. But, even so, accents that are too English, Australian and Canadian are not acceptable to general audiences. More programs are being made in two versions: one for the host country and another for the U.S. and English-speaking markets.

b. Programs run on PBS or on cultural channels are generally little changed from the original, although they may be repackaged with hosts or narrators who are well known to American audiences. Series for commercial broadcast use are almost always recut and reedited to suit American pacing, length and commercial insertion requirements.

c. Some foreign suppliers have their own marketing organizations in the U.S. I.T.C., a British company headed by an experienced U.S. distributor, is located in New York. It syndicated the "Muppet Show" in early prime time. BBC Enterprises had a successful selling organization which has been replaced by the arrangement with the Entertainment Channel and by Lionheart International, a private company set up to market BBC programs after they have run on that channel, or if the Entertainment Channel does not exercise its option for first run rights. Beta Films of Germany formed International Television Trading Corporation and developed the "Live from Lincoln Centre" and "Live from the Met" series jointly with PBS, and distribute Beta's cultural programs in the U.S. A group of 8 Brazilian producers is reported to be planning to acquire a 50 percent partnership in a U.S. distribution company for marketing their output in New York and Los Angeles.

d. Foreign programs marketed through established, experienced U.S. distributors have been the most successful. D.L. Taffner Ltd. marketed Thames Television's "Masterpiece Theatre" series to PBS and, more importantly, to corporate sponsors; "Edward and Mrs. Simpson" to the Mobil Showcase network; the "Benny Hill" comedy series for late night stripping in syndicated markets; and more recently, 125 half hours from Thames Television. Two Australian series were syndicated to commercial stations: "Caged Women" by Firestone Syndication to run initially in the early fringe period and more recently in the late fringe time: and the "Paul Hogan Show" a comedy series, by Gould Entertainment. "Nicholas Nickelby", a British-German co-production has been distributed in the U.S. by SFM Entertainment, is sponsored by Mobil, and will run on an ad hoc network of independent and affiliate stations for 3 hours on 3 nights in early January 1983.

e. An increasing number of 'foreign' programs have developed from global co-ventures or pre-sale arrangements made during the program development stage. PBS led the way, followed by the broadcast networks, with such miniseries as "Marco Polo", and, more recently, by the major pay services and some broadcast station groups.

   o Out of 157 made-for-television movies to be completed in 1982/83, 41 were to be made outside the United States, most on a co-production basis.

- o HBO is developing three miniseries and dramas and will receive North American rights:
  - "Chandler Town" with London Weekend (co-financing).
  - "Far Pavillions" with Goldcrest Productions and Channel 4 (co-financing).
  - "All the Rivers Run" with Crawford Productions and financing from some Australian publishers and broadcasters (pre-buy).
  - Several dramas are being developed with the BBC and Harlech Television.

- o "Smiley's People" was produced and financed by Paramount and the BBC with a pre-buy by the OPT stations.

- o "Blood and Honour" a two part special was developed and produced by an American producer with Beta in Germany. The Field Group of stations became a partner, and with D.L. Taffner, syndicated it to an ad hoc network of individual stations.

- o The Field Group is developing a childrens' animated half-hour strip series with a French company and Lexington Broadcasting, an American distributor. Field financed the pilot. This will be developed into a half-hour special to run in the winter. Based on the results of this airing a commitment will be made for 62 episodes. The characters were developed in France, with U.S. input. Animation was done in Japan under French and American supervision. Music and dialogue was developed in Los Angeles.

5. <u>Canadian Programs</u>

Canadian programs sales in the U.S. market have improved along with better marketing of foreign programs, development of cable program services and the emergence of the need for global program development and marketing.

a. Sales of <u>completed</u> programs initially developed for Canadian use and run first in Canada, benefited from the increased demand for <u>low-priced</u> early fringe and late night series; from the bulge in demand created by the cable services scrambling to build their inventories with large volumes of available existing programs at low cost; and from the increasing skills of U.S. distributors in marketing already - completed foreign programs. Most such Canadian programs were bought on the basis of price. (Low licence fees for good quality programs.)

i. C.B.C. sales are expected to increase from $675,000 in 1981/82 to about $1.5 million in 1982/83. This is partially the result of the market forces described above and partially the result of better positioning and promotion of CBC programs in the U.S. by CBC Enterprises. PBS, the Ovation Network (formerly the English Channel), some of the cultural and family cable services, and Nickelodeon, a children's service, have and will provide natural markets for CBC's cultural, drama, documentary, family and childrens' programming. But the prices paid by these services are low.

It is alleged that the high levels of ACTRA residuals have made it uneconomic to sell much of the CBC's program inventory to U.S. cable services.

ii. Three independently produced children's series and a science series were sold to Nickolodeon, and a miscellany of other Canadian independently produced programs has been sold to a variety of cable services and distributors for low unit prices.

iii. Some completed Canadian series have been sold into syndication markets. The "Wayne and Shuster" series was distributed in an adapted version by D.L. Taffner. "SCTV", originally syndicated by Jack Rhodes Productions, was bought by NBC for the weekend late night period. Michael McClear's "10,000 Day War" was syndicated to a variety of stand-alone pay cable services and individual broadcast stations. "Linehan and Co." produced by City Lights, and "That's Life" produced by Global, will be syndicated as potential replacement 26 week, half-hour strip series, in January 1983 by King Features Syndicate and Rhodes Productions respectively.

b. Some Canadian program series, produced with tax shelter funding, and with the U.S. market in mind during development, have been successful in the U.S. market.

o Several of Nelvanna's half-hour animated specials, distributed by Viacom in the late 70's on a guaranteed basis, had good ratings.

- "Evening at the Improv", a late night comedy series has not yet run in Canada but is in its second year of syndication in the U.S. A pilot was produced and formed the basis for a station-by-station marketing program by American Television Syndication Inc. The show is sold on a barter basis in over 100 markets.

- "Lorne Green's New Wilderness", a 26-part half-hour documentary series was also marketed on the basis of a pilot program. An advertising sponsor was found, a pre-sale made to CTV, and the series marketed on a barter basis by American TV Syndication and Total Video to over 90 stations.

c. Some Canadian producers and the new Canadian pay services have been actively seeking co-operative pre-sale and co-ventures with U.S. pay services - and the U.S. pay services have been actively seeking co-operative arrangements in Canada.

- Riff Markowitz, now associated with First Choice, sold four Canadian produced and tax shelter financed variety specials to HBO and Showtime. They will now run on Canadian pay TV.

- "Bizarre" a half hour weekly comedy series, now in its third year, was pre-sold to Showtime and CTV and jointly produced by Glen Warren and Showtime in Toronto. Viacom has international distribution rights. It is made in two versions - a more 'adult' version for Showtime - a more 'family' version for CTV.

- "The Terry Fox Story", a made for TV movie, was financed with Canadian tax shelter money on the basis of pre-sales to HBO and CTV. It was later pre-sold to Superchannel.

- "Fraggle Rock" was co-financed by Hansen Associates and the CBC, with a pre-sale commitment of 36 episodes to HBO which has a two week window and a five year option in the United States.

- "Somethings Afoot", a Broadway Musical Comedy, is a co-production between First Choice and Showtime who each have licenced the show in their countries.

- HBO expects to develop programs with both First Choice and Superchannel in the future.

d. Most of the Canadian broadcaster-related production companies (Glen Warren, Standard, Global, Telemetropole) are actively seeking cooperative projects with U.S. pay services and broadcasters.

e. One Canadian distribution company, Media Lab Television Inc., has developed, over the past five years, a network of contacts within the U.S. and foreign program markets. It is developing collaborative arrangements for the production of Canadian programs between Canadian producers and American producers, who will act in an advisory capacity, based upon pre-sale and other co-venture arrangements between Canadian broadcasters and pay services, U.S. broadcast groups and pay services, and foreign producers and broadcasters.

f. The more successful theatrical movie producers in Montreal have also developed imaginative development and marketing arrangements for the cooperative production of theatrical movies, made-for-television movies and miniseries among different countries. For example, International Cinema Corp. (John Kemeny/Denis Heroux) are producing "Louisiana", a Canadian/French coproduction. This will be a theatrical film and a television mini-series made in separate English and French versions. Co-producers are ICC, Gaumont and Antenne Deux. Financing was provided by CFDC, Famous Players, and Institut Quebecois du Cinema, based upon pre-sale licence agreements with HBO, Antenne Deux and the CBC: and with 20th Century Fox for U.S. theatrical distribution and Orion Pictures for foreign theatrical sales.

g. The program inventory building phase of the cable services in the United States is probably over. The demand for large numbers of low-priced completed programs will fall and be replaced by demands for new original programming, directed at specific audiences of each of the cable services.

h. The Canada Film Center in Los Angeles appears to provide useful facilitative services for Canadian producers interested in the U.S. feature film and television market. It provides ongoing information and feedback about U.S. market developments and, sometimes, advice and assistance on the suitability of concepts and scripts for that market. It effects useful introductions to U.S. buyers and producers. It does not and should not become involved in negotiations on behalf of Canadians. Australia and France have similar offices. Germany and Israel are considering setting them up.

PERCEPTIONS OF CANADIAN PROGRAMS AND OF THE CANADIAN PRODUCTION INDUSTRY BY THE AMERICAN MARKET

Despite the growing number of collaborative projects between Canadian producers and U.S. buyers, American views of the Canadian production industry are still prejudiced by past events and by their perceptions of current public Canadian broadcast policy.

We met with and talked to many American program buyers, producers, talent agents, distributors and advertising agencies. Without fail, they were sympathetic to Canada's desire to develop a viable program production industry and to foster greater levels of self expression in its television programs. They were sympathetic with the concept of programming content quotas as the basis for a domestic market for Canadian programs, and even with the purpose behind content requirements of the productions themselves. They felt, however, that program content requirements, as they stand now, discourage good productions and make no provision for the <u>development</u> of Canadian creative talent through practical hands-on experience. They felt tax and other financial incentives were necessary at this stage of industry development in Canada, but that until Canadian investors became more sophisticated, they might tend in their current form to encourage production for production's sake.

They felt that existing Canadian programs are not very suitable for U.S. markets, and that if content policy mandated Canadian specificity, they would become even less suitable. They were particularly critical of the lack of experience and professionalism among Canadian producers and felt that existing short-comings of creative people hindered the fast development of the Canadian industry.

Access to the U.S. market place is based upon acceptance and reputation of the individuals or companies involved. How Americans perceive Canadian producers and the Canadian industry is one of the major obstacles to acceptance in the U.S. market. Here is a fuller discussion of their comments.

1. Canada is seen to have excellent, low cost production facilities and generous tax shelter provisions for production financing. But Canada lacks <u>experienced</u>, <u>dependable</u> writers, directors, set designers, and especially producers.

2. In its heyday, the 100% C.C.A. attracted promoters and amateur producers who were more interested in finder's commissions and producer's fees than in making films for audiences. Many of these producers were seen by Americans as unprofessional, inexperienced and ill-informed and, therefore, to be avoided, or by the less scrupulous, to be manipulated. They created a bad image for Canadians in general, which the better Canadian producers are only now beginning to overcome.

   Even now, some Canadian producers are regarded as business opportunists, who raise tax shelter money, make 26 episodes, get their production fees and belatedly look for markets for their programs.

3. The U.S. market is intensely competitive. Producers must make their impression on buyers immediately and are judged immediately. While there are exceptions, Canadian producers in general are thought to be unprofessional in their approach to the U.S. market and to not inspire confidence. They do not seem to understand the necessity of finding out about the market and its needs in advance. They do not think in terms of the program buyer: who the audience is: what his problems and opportunities are: what kinds of programs he is looking for: and how the producer's proposal fits those needs. Concepts are usually incomplete, not well thought out, and often poorly and unconvincingly presented, especially in comparison with projects presented by the better American, British and European producers. They do not understand that their project is in competition with dozens of others. They do not seem to understand the importance of the development stage in the marketing process.

4. Canadian shows are regarded as being poorly scripted, too slow moving, and too slow to develop for U.S. audiences. This is seen to be an easily surmountable problem.

However, more serious, it is felt that many Canadian producers and the Canadian government do not accept that television is a mass audience entertainment medium and that they appear to look down upon 20th Century popular culture and to prefer a romanticized notion of British and European 19th Century culture. Many Canadian programs are too "British" and highbrow for the U.S. mainstream market. As Peter Pearson, a Canadian producer, has aptly expressed it: "Canadian producers have a tendency to use television as a pulpit". This does not sit well with American audiences.

Many Canadian producers are seen to be too idealistic about their programs and not geared to audience and economic realities.

5. It is difficult to achieve credibility in the U.S. market without a succesful track record. Very few Canadians have experience in the development of entertainment programs for mainstream audiences. If their projects are to be accepted by American buyers, Canadian producers will have to work with succesful Americans until they, too, have developed sound reputations.

6. It's believed there isn't the developed talent in Canada to support a production industry making mass audience, world-quality programs at this time. There are talented writers, directors, set designers but they lack experience and training. They must gain this training and experience before they can become fully effective. It has been suggested this could be achieved most effectively by working with and learning from professionals experienced in the craft of widespread appeal television program development and production. Canadian content points system for determining Canadian Capital Cost Allowance eligibility are seen by Americans to inhibt this process by excluding certain kinds of American talent from whom Canadians could learn the business and through whom Canadians could gain access to the American program marketplace.

7. It puzzles most Americans why the very experienced and highly-regarded Canadian creative community living in the United States and working in American television hasn't shown more initiative itself in helping develop a Canadian industry, or why the resources of that community aren't harnessed more effectively to achieve contacts in the United States and in the development of Canadian creative skills.

8. It's widely felt that the infrastructure necessary to initiate, coordinate and manage program development, production, financing and marketing exists in only a rudimentary form in Canada. There are too few producers experienced in making mainstream audience programs; writers have had to few opportunities to develop their skills under seasoned professionals; mechanisms for funding the development of ideas and scripts are limited; skills for marketing and distribution of Canadian programs in U.S. and foreign markets are rudimentary; Canadian banks do not understand or cater to the financing needs of the industry; and, too much of Canadian producers' time and energy is absorbed by finding financing at the exprense of their more important creative and management functions. This all makes American buyers nervous about making commitments for Canadian-produced programs.

PROBLEMS FACING PRODUCERS OF CANADIAN PROGRAMS FOR THE U.S. MARKET

Canadian producers have made some headway in penetrating the U.S. program market, and some Canadian producers and distributors are exploring how to increase that penetration. But they have an uphill battle.

1. At present Canada provides a limited revenue base out of which to cover the production cost of mainstream, international quality programs. The CBC does most of its own production and buys a large proportion of mass appeal programs from American suppliers. Commercial broadcasters import most of their requirements and have only limited Canadian content requirements in major audience time periods. And the new pay services will have only limited revenue basis in the immediate future.

   This increases the importance of U.S. and foreign revenues for Canadian producers but reduces their pricing flexibility in these markets. And, as we have seen, licence fees paid in the U.S. are not as high as generally believed.

   The CRTC has addressed the issue of increasing the proportion of Canadian produced programs in the peak audience viewing periods.

2. Supplying programs to the U.S. television market is an exceedingly competitive business. The odds against completion of a project are very high. The U.S. industry has evolved a well established infrastructure for the development and marketing of television programs, which, to minimize risks and costs of failure, puts a premium on the experience and track records of its participants. It is nervous of newcomers.

   Canadians have very limited business and creative experience in the development of programs for mainstream audiences because, until recently, there was no market in Canada, and the U.S. market did not need outside participants. Canada, therefore, has developed only a limited well-financed, well-managed infrastructure for the development, financing, packaging and marketing of Canadian programs in domestic and foreign markets.

Because of their limited experience, Canadian producers and creative talent have a poor image with mainstream U.S. program buyers and developers. This hinders access by Canadian producers to the U.S. market and makes it necessary, at least initially, for Canadian producers to work from the earliest development phases of a project with U.S. producers and distributors who have the credibility and the access to the U.S. market.

3. Canadian television programs with which the U.S. market is most familiar, have the reputation of being unsuited to most American audiences. The impression held in the United States that Canadian programs must have a high degree of Canadian specificity adds to the wariness of Americans about the suitability of Canadian programs for their audiences.

4. Canadian creative and business skills could be developed faster and more effectively by working with professionals experienced in the development of mainstream television programs for large audiences and experienced in the U.S. market. Existing Canadian content points system for determining Canadian Capital Cost Allowance eligibility sometimes make it difficult to work with the experienced, professional American producers and creative personnel who could perform that function and who are necessary anyway to gain access to the U.S. market and to provide assurance to American buyers.

5. Canadian producers lack continuing contact with the U.S. television program community. They can establish this contact only by working <u>with</u> that community.

6. Television programs for the U.S. market succeed or fail in the development phases. Programs are marketed in the United States at this stage. Development is an expensive and high risk process. Although Canadian pay services and the CFDC are beginning to contribute some money for this process, most producers do not have the necessary financial resources to fund proper development steps. Perhaps some form of tax incentive could be devised to attract risk capital for this stage. (At present, risk capital is being funneled only into completed programs.)

The Canadian Broadcast Program Development Fund in its proposed form does not seem to take into account the crucial importance of proper program development with potential buyers before filming takes place nor that buyer commitments are usually based upon the completion of these important steps and makes no allowance to assist in funding these steps.

7. Canadian banks know little about this business. Quality Canadian productions depend on pre-sales and contractual arrangements in the United States and other foreign markets to finance recoupment of costs. Canadian banks will not bank foreign contracts. This adds to the problems faced by Canadian producers in finding the interim financing to fund production. Canadian producers are at a disadvantage with U.S. and foreign producers who can obtain bank financing.

We estimate that, in order for the Canadian pay services to meet their required spending levels on the purchase of Canadian programs and for private broadcasters to satisfy higher Canadian content requirements in peak viewing hours, the following production levels could be required. This assumes the program services paid only licence fees for programs and that the producers recouped costs from simultaneous and sequential sales to other markets.

ESTIMATED REQUIRED CANADIAN PRODUCTION EXPENDITURES
(million dollars)

	1983	1987
Pay Services	$ 85	$265
Private Broadcasters	30	120
	$115	$385

Funding will be required to bridge the 6-24 month period between production and the receipt of revenues from pre-sale and other licence fees. Some funding will be provided by co-production partners, but most will have to be based upon pre-sale commitments made by buyers in Canadian and other markets. Canadian chartered banks know little about this business, are not staffed to serve it, and will not grant credit on the basis of U.S. or other foreign contracts or licence agreements. This is a critical problem for the industry. And the Canadian banks have not always been willing to accept commitments of the new pay services as collateral for loans. Other capital market structures have not been developed to compensate for this.

After their unfortunate experiences in 1979/80, equity investors shy away from the industry and the effective reduction of the annual capital cost allowance deduction to 50 percent has increased the perceived risk. The proposed Canadian Broadcast Program Fund is a useful first step but appears to be too rigidly tied to pre-sales to Canadian broadcasters to make it as effective as it could be.

We believe that programs developed for Canadian pay and other first-run markets will not necessarily be rerun by Canadian private broadcasters at later dates, and certainly that programs developed for first-run by Canadian private broadcasters will not be run at a later date by Canadian pay services. Firstly, the kinds of programs run on the two types of service are quite different. Secondly, private broadcasters depend on advertising revenues and on attracting large audiences. As the pay services' subscriber bases increase in size, the potential size of the broadcast audience for the rerun program will decrease. At best, broadcasters would pay low licence fees for such recycled material.

8. Because of the small size of its domestic market, Canada probably will not be able to support large-scale production companies along the U.S. model. The major broadcast and pay television companies will probably form the nucleii around which a production industry will develop. This raises the issue of the role of these companies in the production and marketing of television programs.

9. The size of the Canadian market for Canadian childrens programs has been reduced by the prohibition against advertising during childrens programs. Broadcasters have substituted entertainment series in which they can advertise for childrens programs in the time period when children constitute significant audiences. This is self-defeating and should be re-examined.

A STUDY OF THE UNITED ~~SAFETY~~ STATES
MARKET FOR TELEVISION PROGRAMS