The Business of News

by Bob Papper and Michael Gerhard

"We're operating inside a very strong consumer demand environment, and what's happening is that advertising is particularly buoyant," says Leland Westerfield, senior broadcasting analyst at PaineWebber.

Most television news operations turn a profit, according to the latest RTNDA/Ball State University Survey, and the bigger the news operation, the more likely the station is to make money on news. News also continues to supply an increasing percentage of station revenue–now up to 40 percent of the total.

"I think overall we're going to see strong and accelerating advertising growth over the next 18 months to the end of the year 2000," says Westerfield.

Along with the strong economy, Westerfield and others say advertising will be fueled by next year's Olympics, what looks like a staggering growth in political advertising, and what Westerfield sees as the emergence of a new major advertising category: "brand-building by the dot-com or new media, with emerging companies using their proceeds from IPO's (Initial public offerings) to advertise their brands."

The recent decision by the Federal Communications Commission to allow a broadcaster to own two TV stations in the same market (under certain conditions) has clearly increased the value of some UHF stations in major markets, large markets, and even some medium markets. USA Network stations and Paxson stations could be major beneficiaries. CBS, Fox, and some smaller groups with strong news franchises, like Belo and Hearst-Argyle, could be among the major buyers.

A Review of 1999

The current year has been a mixed one for broadcasting. Radio has been strong, but as a "hammock" year (no Olympics and no election), television has been sluggish.

"As far as individual [television] stations go, it appears that there's been some weakness in ad revenues," says Linda Bannister, media analyst for Edward Jones in St. Louis.

"I'd say television companies are still licking their wounds from a very mediocre first half of the year," says James Marsh, senior broadcasting and publishing analyst at Prudential Securities. "Radio just continues to go gangbusters. We see no slowdown whatsoever in radio."

"Advertising was quite strong in the first half of this year, overall," says Westerfield. "It was strongest among radio stations, strong in the scatter market for network, strong in cable networks, and soft only among TV stations."

The Year 2000

"I think 2000 is going to look very good for the whole ad industry," says Marsh. "People are already talking about a push into the Millenium. That should hit the fourth quarter into the first quarter. Obviously, you have the Olympics helping, political ad spending. Plus if the economy remains strong, the underlying economic fundamentals should make for a robust ad market."

Bannister, who follows Disney, Tribune, and Gannett, among others, is a little more cautious. "It appears that their up front market was pretty strong," says Bannister, "so it looks like for 2000, advertising gains are going to be decent."

"Through June 30, the candidates who have announced themselves for the year 2000 election have raised in their coffers 52 percent more than they had in 1996," says Westerfield. "That is a truly large increase in campaign funding."

The overall consensus: As long as the economy remains strong, 2000 should be an extremely profitable year for both radio and TV.

Beyond 2000

Tough to project, say the analysts, this far out. Odd number years, without Olympics or elections, tend to be slower anyway. Bannister also worries that eventually, there will be an "inevitable" slowdown in the economy and that always affects advertising media.

Westerfield is considerably more optimistic. "I think that the promotion spending by new media and e-commerce companies, by dot-coms, will be substantially larger than people expect at this time," says Westerfield, "and so the year 2001 may surprise us as the year in which the history of advertising reshapes itself."

The Business of News

For much of the local television industry, local news has fueled the advertising revenue growth. The latest RTNDA/Ball State University Survey shows news generating 40 percent of station revenues (median figure)–up from 38 percent the year before and 35 percent the year before that (when we first asked the question).

"It's been a big breadwinner historically," says Marsh. "I think lately it seems to be getting more and more competitive there. Not just from other broadcasters." Marsh points to local cable news operations and more news-related programming on cable as contributing to the increasing news fragmentation.

"I thought we hit the saturation point [in news] about three years ago," says Marsh, "but it hasn't stopped."

Westerfield disagrees. "News refreshes itself," says Westerfield, "and news is about community. It is about our daily lives, and so news is a conversation that is carried forth by the media, by broadcasting media with viewers. So I don't think there's a saturation point in terms of viewer interest. What I do think is that there's a challenge for management to come up with compelling news stories from the editorial point of view" And to keep production costs in line.

Every two years, there's an added payoff. "Election spending tends to go toward the franchises with the strongest local news," says Westerfield. "TV news franchises are a terrific differentiating feature, and Wall Street recognizes and respects those TV station owners who have very strong local news franchises. So a local news franchise draws and attracts election spending really like no other feature of a TV station operation."

Will more stations get into local news? Probably not any time soon.

"I think it definitely helps brand a station," says Marsh. "Stations are taken more seriously when they have high quality local news. But my sense is that the typical UPN and WB affiliate won't be moving into local news any time soon. I would expect to see the Fox affiliates there first. WB a little bit later."

Both Marsh and Westerfield thought that WB stations, if they did move into news, would likely go with a strongly-targeted approach to WB's young audience.

The Network Business

"What we've been hearing from ABC affiliates is that the ratings have hurt, and the ad pacings have been the lowest of any of the major affiliate groups," says Marsh. "Ad pacings" compare advance sales this year with a year ago. "What we're hearing is that that's also starting to negatively impact local news. Lead-ins seem to be substantially weaker the last 18 months than they have prior to that. That's rattling a lot of ABC affiliates."

"There are a lot of other issues with Disney besides just the problems of the ABC television network," says Bannister. "We think that, overall, Disney will start to perform a little better, but we recognize that it will take more time for that to happen."

"CBS definitely stopped the bleeding on the ratings side," says Marsh. "They've got a relatively stable line-up, which is important to the network. The owned and operated stations at CBS have been selling very aggressively and from what I've been hearing have been getting rate increases. It seems like the sales force is largely rejuvenated by a kick in the pants from Mel Karmazin, the new CEO there. I don't hear a lot of complaints out of the CBS affiliates. Most are glad to get the NFL back. That's also been an emotional boost, not necessarily a profitable one, but they're all feeling a little bit more optimistic."

Marsh particularly likes the NBC model for "re-purposing content" that has already been gathered. "Ten years ago, you could see the NBC Evening news once, at one time," says Marsh. "Today, you'll see bits and pieces of it on CNBC, MSNBC. So they're making better use of that content, and they're able to sell ad revenues against that to help pay for it."

Marsh thinks CBS probably needs to look at finding a partner to help with additional product distribution–a partnership like the often-rumored one with CNN. Marsh sees buying cable distribution as too costly. "Fox did that recently and paid 13 bucks a subscriber to do it," says Marsh. "I think people are starting to believe that that might have made sense, but that's a very expensive way to get into the news, and I think now with Fox already somewhat established, it's going to be even more difficult to make those numbers work."

Westerfield sees a strong potential for both CBS and ABC's brand extension onto the Internet.

Radio

"We're very bullish on radio," says Marsh. "We wrote a report called *Home, Not So Sweet Home*, and what it really did was compare and contrast the media that rely on contacting the audience within the home like television, magazines, newspaper, cable, satellites, Internet. There's more and more competition at home, and people are spending less time at home. Out of home seemed to be a different story. There wasn't a lot of competition for the consumer's time, especially drive time."

The Internet

"People who have Web sites are trying to get advertisers, but no one's really making a lot of money on the Internet yet," says Bannister. "I think advertising on the Internet is something that's going to continue to grow rapidly as more people log on. Internet usage is doubling every hundred days, so advertisers are going to go where the eyeballs are."

But Bannister notes that many of the "older media companies" like Gannett have major sites on the Internet, too. "They're not going to let this new distribution method develop without having some part in it," says Bannister. "They're not going to let some competitor come in and take away their advertising revenue."

Westerfield sees some limitations of the Internet. "The power to build brand is the domain of anybody that contacts large audiences in a common environment," notes Westerfield, "and that's really not something that the Internet can accomplish. The power to build brand is still in the hands and will continue to be in the hands of the broadcast networks at the national level, arguably cable networks at the national level, and, at the local level, the power to build brand will still thrive among TV station and radio station owners."

Westerfield sees the Internet as more a collaborate media than a competitive one. "I think we'll see vertically integrated news media and broadcast media companies create interest through broadcasting editorial content and drive audiences who have further interest to [network and station] Websites where they can explore their unique interest on the same franchise."

Digital Television

"I have to admit, I'm a little skeptical about HDTV," says Marsh. "It just doesn't seem to me something that consumers are really clamoring for right now. And you've got a classical case of a chicken and egg problem."

"The real question is whether program producers will be willing to step up and create product that is unique to high definition and on that, the jury is still out," agrees Westerfield.

"Without programming, of course, consumers won't adopt. There has to be a jump start of programming."

Bob Turner concurs. He's vice president of engineering at Belo Broadcasting.

"Most of us depend on that kind of programming from our networks," says Turner, "and our networks have been slow. There has to be compelling programming, and in my opinion, it must be HD (high definition) for people to buy those sets. I don't think they will buy a six thousand dollar set in order to get five more channels of what they already get on cable and satellite."

One top network official, who asked not to be identified, says producers will start producing nearly all prime time film dramas and sports in 16 by 9 by the start (September) of the 2001 season. The programming will have better resolution than current TV but will probably not be HDTV.

Getting Digital on the Air

The biggest markets are required to be broadcasting digitally by November 1 of this year. All stations are supposed to transmit digitally by 2003, and stations are supposed to stop sending out analog signals–in a complete digital conversion–by 2006. It won't happen. In fact, industry insiders, some of whom asked that their names not be used, say it won't even be close.

"There's zero chance of [being all digital] in 2006," says Turner. "There's no way. I don't think any market in the country will be at 85 percent digital by that time. There are a few thousand sets out there in the whole U.S., and that's it."

Eighty-five percent is supposed to be the magic cut-off number. If digital set penetration isn't 85 percent in a market, a station doesn't shut off analog broadcasting. Some say the whole thing is a red herring.

"Do you think Congress would take a significant part of the population, tens of millions of people, and say, 'Oh, no more TV for you, bye.'? Come on, never going to happen," says one top network official who asked not to be identified. "It's a joke. Twenty to 25 years from now, analog will shut down."

"I don't know what the government will do," says Turner. "I know that we have 15 stations to go on the air ourselves, and I am concerned about it. I'll say that for sure. It's economically devastating to the small stations."

The Cost of Digital

"The cost varies all over the place," says Turner. Figure $3 million dollars on a tower and up to $1.5 million on a transmitter building. Some towers may be strong enough to handle the additional load–with additional support, but even that will be expensive. Transmitters cost $500 thousand to $1.4 million. Antennas are $180 to $500 thousand, depending on configuration. Turner says to figure $3 to $5 million just to get on the air. Add some digital equipment in the control room, like a file server and some routing and other related equipment, and you're up to $5.5 to $6.5 million. Just for what's called "pass through"–meaning that digital signals coming in to the station can be broadcast digitally. Those figures don't include anything to gather or *originate* digital programming.

While digital studio equipment is heading down in price, transmitters are holding steady, and towers are getting more expensive. "It's going to get much worse when you have 1,200 stations trying to get on in two years," says Turner. "The problem is just awesome."

Smaller markets, the ones least able to afford the change, will frequently get hit with the highest bills. "The small markets are usually the ones that have the oldest infrastructure," says Turner, "and they usually have no spare space of any kind because they just barely built for today."

"Those small markets aren't going to be 85 percent digital for a long, long time," says Turner. "I would think 2020, maybe. There is no economics to pay for it. We'll do pass-through, and we'll do it in as responsible way as we can."

"We don't know what's going to happen there," says a top network executive who requested anonymity. "The small markets may see some consolidation and sugar daddies that come up and basically say, 'Look, in return for half of your bandwidth, we will build it for you at $3 million a pop.' Then they can do anything they want."

Digital News

"The conversion to digital is not going to be an overnight thing," says Turner, "and it's not a part of what's required by the government. The government requires you to transmit digital; it doesn't require you to originate it."

Turner suspects that in five years–maybe less–high definition equipment will cost no more than high-end standard definition equipment. But other than pass-through, most gathering and origination equipment on the local level will be purchased in the regular course of business when older equipment wears out. After the conversion eventually starts, Turner suspects it will take about three years to complete in large markets and four to five years in smaller ones.

From an equipment standpoint, it's all about money. But from a news standpoint, Andrew G. Setos, executive vice president of the News Corp. technology group (Fox), says, "It's all about content. Local news is going to be more important than it was. Don't be distracted by high definition and 16 by 9."

"It's not about how sharp the images are," says Setos. "It's how we present the images in a convenient and compelling way. It's about enterprise stories. It's about our ubiquity. We're everywhere. We're not just in 70% of the households [as cable is]. DBS (direct broadcast satellite) provides better service, but is not local. So localism is still our turf. Let's exploit that and do more news and better news."

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research was supported by the Department of Telecommunications at Ball State University and the Radio Television News Directors Association.

Shaded Box:

A Dissenting View on Digital?

Because of the politics involved, not everyone was willing to talk about digital television on the record. At least one top network official, who asked not to be identified, thinks people are missing the point. "The HDTV part is the unfortunate part because it's detracted from where the true value is," according to the official. The real point is that digital provides tremendous flexibility, without having to keep going back to the government for regulatory authority.

"It's frightfully expensive, and it actually limits the flexibility of news producers to do good news because it's so cumbersome. It's like going backwards 40 years when cameras were heavier and equipment was less flexible."

HDTV, according to this executive, takes three-quarters to nine-tenths of the spectrum and provides essentially the same quality as alternative new technologies that only use 20 percent of the new bandwidth.

"The headline for me," the executive says, "is that it's not about the 11 o'clock news anymore." It's about combining the convenience of cable with the on-demand benefits of the Internet. And it can do that in a medium that reaches everybody.

"You'll go home, you'll turn on a set-top box and it will have soaked up the stuff that we send out," says the official. That will enable viewers to program what they want to watch and in what order. They can watch the local news whenever they want (as they can now with a VCR). But this will be easier and can run in whatever order the viewer wants. It will be television, "but delivered in a different way, consumed in a different way, convenient the way viewers wants when they want it. That's what digital television provides for--without cutting the spectacle" that only television can deliver.

For news, that means developing "hybrid skills ... not only how to edit a story, but how to create a front page like a Web page and get stuff when you want it, whether that's from a computer, TV, laptop, or a special new appliance you might carry around."

"You'll compete on the quality and the breadth and the depth of your stories," says the executive. "What's imperative is good news coverage. Forget the fancy technology. You're just wasting your money. Wouldn't you rather have more reporters and more portable equipment? People like the news, they like to be informed. It has nothing to do with 16 by 9. The anchor reason for doing all of this–which is high definition television, 16 by 9--is the least important and interesting thing in the whole pot."

Shaded Box:

16 by 9 v. 4 by 3

The change in the aspect ratio from TV's present 4 by 3 to the traditional movie aspect ratio of 16 by 9 will create some interesting challenges in blocking and shooting. Outdoor shooting will not change much–you'll just gather a wider panorama. Studio shots will alter some blocking but should present few problems. Most current sets will probably work, although the edges of the sets might present some problems. Among the biggest challenges will be arranging interview sets that don't wind up giving space to people who are just listening, and isolating on one person in 16 by 9 is a little tricky.

Trickier still will be years of overlap, where camerapeople and photographers will have to learn to shoot in a way that will look good in both aspect ratios. Watch for experimentation with graphics on the left side of the screen, generally dividing the action into thirds (three shots or two-shots with graphics), and what's called "common topline" where the bottom of a 4 by 3 shot gets cut off the bottom to fit in a 16 by 9 screen.

1999

TV News Profitability at a Glance

Showing Profit	57%
Breaking Even	9%
Showing Loss	11%
Don't Know	23%

Radio News Profitability at a Glance

Showing Profit	19%
Breaking Even	18%
Showing Loss	6%
Don't Know	57%

The percentage of TV stations showing a profit on news has dropped fairly steadily over the last four years from 72% to 62%, then up a notch to 63% last year before dropping again this past year. The percentage showing a loss has increased over the same time frame, from 4% to 8% to 10% to 11%. This may reflect the slow but steady increase in the number of stations starting local news operations. Start-ups generally lose money for at least one or two years. Radio news profitability has slid slightly in the last few years (23% to 22% to 19%), but it's still a notch higher than four years ago (18%). Otherwise, the percentages for radio vary a little from year to year but show no overall trend in one direction or the other.

TV News Profitability

	Showing Profit	Breaking Even	Showing Loss	Don't Know
Market Size:				
ADI 1-25	56%	16%	8%	20%
ADI 26-50	55%	25%	10%	10%
ADI 51-100	64%	2%	13%	21%
ADI 101-150	50%	10%	18%	22%
ADI 151+	68%	5%	3%	24%
Full Time Staff:				
51+	72%	10%	3%	15%
31-50	57%	10%	13%	20%
21-30	60%	6%	12%	22%
11-20	48%	10%	13%	29%
1-10	25%	17%	17%	41%
Region:				
Northeast	55%	10%	21%	14%
Midwest	59%	4%	11%	26%
South	59%	14%	8%	19%
West	57%	9%	9%	25%
Affiliation				

ABC	51%	15%	7%	27%
CBS	65%	2%	9%	24%
Fox	44%	19%	19%	18%
NBC	66%	5%	13%	16%
Independent	38%	18%	13%	31%

The drop in profitability crosses all market sizes except the smallest–with the most pronounced drop in the biggest markets. As in the past, the smallest news operations are the least likely to make money on news, and news directors in those smallest operations are the least likely to know whether news makes a profit. All network affiliates showed drops in profitability–except NBC affiliates, which held steady. Fox affiliates dropped the most, perhaps reflecting the greater likelihood of start-up news operations among Fox affiliates. The lower profitability of ABC affiliates (again this year) probably reflects the network's prime time programming and lead-in weakness.

NOTE TO TIM: could easily drop the regional figures above ... and either note that there were no meaningful variations by region ... or just ignore it.

TV News Budget Changes

	Increase	Same	Decrease	Don't Know
All TV News	69%	16%	10%	5%
Market Size:				
ADI 1-25	68%	12%	12%	8%
ADI 26-50	70%	10%	10%	10%
ADI 51-100	66%	24%	7%	3%
ADI 101-150	74%	14%	12%	0
ADI 151+	68%	10%	13%	9%
Full Time Staff:				

51+	64%	13%	15%	8%
31-50	67%	23%	8%	2%
21-30	82%	10%	8%	0
11-20	65%	16%	10%	9%
1-10	50%	17%	17%	16%

Just over two-thirds of television news budgets went up this year. That's a slight increase (2 percent) from last year, but the percentage of stations having a budget decrease also slid by 2 percent. There were no meaningful differences by region. ABC and Fox affiliates were a little more likely to see budget increases; ABC and NBC affiliates were a little more likely to see budget decreases.

Percentage of TV Station Revenue Produced by News

	Average	Median	Minimum	Maximum
All TV	42%	40%	12%	75%
Market Size:				
ADI 1-25	37%	40%	23%	52%
ADI 26-50	29%	29%	18%	40%
ADI 51-100	44%	48%	12%	60%
ADI 101-150	42%	40%	30%	75%
ADI 151+	46%	45%	20%	63%
Full Time Staff:				
51+	41%	40%	23%	60%
31-50	41%	40%	18%	60%
21-30	44%	40%	12%	75%
11-20	na	na	na	na
1-10	28%	28%	20%	35%
Affiliation:				

ABC	41%	40%	18%	60%
CBS	46%	46%	25%	63%
Fox	30%	30%	19%	40%
NBC	42%	40%	20%	75%

The percentage of station revenue produced by news edged up in the latest survey–from 36% average and 38% median the year before. There has been a steady increase in this figure in the three years we asked the question (it was 35% in the first year). This may reflect the general increase in the amount of news that stations run. The percentage of station revenue produced by news rose in all market sizes except 26-50 and for most staff sizes (there was simply not enough data for 11-20 to produce reliable numbers). The percentage rose for all network affiliate groups. Fox affiliates remained well below the others, reflecting the smaller amount of news run by most Fox affiliates. Median figures represent the midpoint of station responses.

Radio News Profitability

	Showing Profit	Breaking Even	Showing Loss	Don't Know
Market Size:				
Major	56%	1%	17%	26%
Large	10%	26%	8%	56%
Medium	18%	22%	6%	54%
Small	16%	10%	2%	72%

While major market stations were more likely to show a profit from news than a year ago, others either remained about the same or dropped.

Radio News Budget Changes

	Increase	Same	Decrease	Don't Know
All Radio News	24%	45%	7%	24%
Market Size:				

Major	46%	42%	1%	11%
Large	21%	47%	11%	21%
Medium	29%	50%	4%	17%
Small	10%	35%	8%	47%

Radio news budgets rose substantially from the 10-12 percent of radio news budgets that have risen in the past. All markets rose, although the major markets rose the most. The percentage of radio budgets that dropped remained exactly the same.

Station Web Sites

	Yes	No
TV Stations	82%	18%
Radio Stations	62%	38%

Most radio and TV stations now have Web sites. In radio, the larger the market, the more likely that the station has a Web site. In television, the only meaningful variation was that independent stations were much less likely to have Web sites. Stations are not making money on the sites. Three percent of radio stations reported making a profit on the Web site, and another 12 percent reported breaking even. In television, 6 percent reported making a profit and 22 percent reported breaking even.

The Shift to Digital and High Definition TV ... News Directors
11% have done nothing at all
46% have discussed but arrived at no decisions
23% have determined what equipment to purchase
14% have purchased new or compatible transmitting equipment
16% have bought new or compatible studio equipment
26% have bought new or compatible news gathering equipment
4% expect some non-news jobs will be lost to pay for new equipment

2% expect some news positions to be lost to pay for new equipment

Estimated Total Station Cost to Convert to Digital TV
Average: $5.6 million
Median: $3 million
Minimum: $1 million
Maximum: $29 million

About the Survey

The RTNDA/Ball State University Survey was conducted in the fourth quarter of 1998 among all 1,422 operating, non-satellite television stations and a random sample of 994 radio stations. Valid responses came from 793 television stations (55.8 percent) and 188 radio news directors representing 426 radio stations.