Fox Entertainment Group (A):

Vertical Integration in the Television Industry

Fox Television Network

In 1985 Rupert Murdoch, after acquiring the Twentieth Century Fox studio for a total of $575 million through his holding company, News Corporation (NewsCorp), decided to start a fourth broadcast network on the advice of Barry Diller, the highly sought-after executive recently recruited to Fox from industry leader Paramount Studios. NewsCorp purchased Metromedia from media mogul John Kluge, gaining control of seven key independent TV stations in several large East Coast cities and Los Angeles. Fox quickly lined up 88 additional independent stations to become its network affiliates and launched the Fox Television Network in 1986. Initially the network reached only 60% of the country and aired original network programming only one night a week, on Sunday.

Everyone in the industry thought Diller and Murdoch crazy. At the time the big three networks had a combined television viewing share of 93%. To attract viewers away from them, Fox chose to go after two key demographics: youth, a group coveted by advertisers, and African-Americans. As Diller said, "We had to air shows that demanded your attention, that yanked you by the throat to get you to change the channel."[1] Peter Chernin, a loyal executive who would eventually become Murdoch's second in command, concurred: "We're in the attention-getting business. You have to be distinctive and compelling and unique and a risk taker."[2]

Early shows included *A Current Affair*, a tabloid-style news magazine hosted by Maury Povich; *America's Most Wanted*, which featured hokey dramatizations of lurid crimes; *Cops*, which eventually became part of pop culture for its unintentionally comical portrayal of lower-class individuals' confrontations with police officers; and *Married With Children*, a dysfunctional-family sitcom with plenty of sexual references and images.[3]

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[1] "News Corporation," Bharat Anand and Kate Attea, Harvard Business School Case Study 702-425, 6/19/02, p. 6.

[2] "The Rules According to Rupert," Marc Gunther, *Fortune*, 10/26/98, Vol. 138, No. 8.

[3] Ibid.

Fox also created a half-hour sketch comedy show featuring the many characters of comedienne Tracy Ullman. The show lasted just four seasons but more importantly featured short, animated vignettes drawn by cartoonist Matt Groening of a family called "The Simpsons." Fox spun-off *The Simpsons* into its own weekly half-hour series in 1989 to enormous success. The series put Fox on the map and in the league with the big three networks.

By 1990, Fox's youth-oriented strategy had paid off. Nearly half of its audience was between the ages of 12 and 34, compared to 35% for ABC, 31% for NBC, and 25% for CBS.[4] Fox had also succeeded where the other networks had failed in staking out a strong brand image for itself as a hip, edgy, risk-taker. This image contributed as much by attracting creative talent as it did seducing viewers. *Simpsons* creator Matt Groening said in 1998, "I don't think *The Simpsons* could have been done on any network other than Fox. Fox takes chances; the others don't."[5]

Experiencing Technical Difficulties

Despite the initial success of the Fox Network in attracting young viewers, Murdoch wanted to expand and diversify Fox's audience beyond young people. His aggressive pursuit of this vision began to cost him talented executives and hurt Fox's overall performance. Diller left in 1992 when Murdoch would not give him any ownership of the business. In 1994, Murdoch fired network president Sandy Grushow and replaced him with John Matoian from the more conservative CBS network, which traditionally had played well with an older demographic.

Matoian attempted to take Fox toward the mainstream by making moves such as signing a deal with Hallmark Entertainment to produce television movies. Though this material oriented the network's programming more toward the mainstream demographics of television viewers, the new lineup failed to draw viewers. Fox's rating growth stagnated and its brand image became blurred.

Never one to be shy about spending money, in 1993 Murdoch also shocked the media world by outbidding CBS for the rights to broadcast NFL football games for the next five years, spending $1.6 billion in the hopes of acquiring a more mainstream audience. Many questioned Murdoch's wisdom in paying so much, and also resented him for helping inflate prices for sports broadcast rights.

Meanwhile, the studio's television production arm lagged behind its rivals, especially in the lucrative situation comedy segment. In 1997 it ranked eighth among production companies with just five shows on the air.[6] Its three biggest hits were *The X-Files*, *NYPD*

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[4] Ibid.

[5] Ibid.

[6] "At Fox TV, a Hot Spot for a Hotshot," Bernard Weinraub, *The New York Times*, 12/29/99.

Blue, and *Party of Five*, all hour-long dramas that had debuted in 1993 or 1994. This compared unfavorably with a studio like Warner Brothers, which had created *Friends*, *ER*, and *Murphy Brown*, or even Columbia-TriStar, which distributed the 1990s juggernaut *Seinfeld*. Fox, the innovator in reality television, turned back to the genre, airing controversial shows like *When Animals Attack* and *Secrets of Magic Revealed*, but the damage to Fox's image more than offset the publicity they generated. These shows also failed to attract the advertisers Fox desired. According to Grushow, "Specials that were in the mode of *When Animals Attack* were getting killed in New York. There was no money in the marketplace for those kinds of shows; those types of specials were hurting the Fox brand."[7]

About the same time that Fox began struggling, several important changes in the television industry occurred. Two key events – the rise of cable networks and the repeal of the Fin-Syn rules – set the television industry on a course of dramatic change.

Rise of Cable Networks: The proliferation of multichannel television service greatly expanded viewing options for the television-watching public during the 1990s. In 1990, the number of national cable networks (including premium channels like HBO and pay-per-view channels) was 79. By 1995, that number had nearly doubled to 139. By 2000, with the proliferation of digital cable, the number would reach 231.[8] As one research analyst explained, "The television audience universe is fragmenting as the number of television channels is increasing and more consumers are gaining access to large and diverse video programming lineups."[9] Today, multichannel television service, consisting primarily of either cable or direct broadcast satellite (DBS) service, reaches 96.2 million out of 106.6 million U.S. TV households.[10] Television viewers enjoy an increasing array of programming choices, particularly with the advent of digital cable (explained in greater detail below). In 1999, the aggregate ratings share for cable networks surpassed that of broadcast networks (such as ABC, NBC, and CBS) for the first time.[11]

Traditionally, cable networks broadcast their signal in analog form at a specified band of frequency in the radio spectrum. In the past several years, however, technology has allowed analog television signals to be converted to digital signals and transmitted to consumers' homes. A primary advantage of a digital signal is that broadcasters can compress it in order to send more information over the same amount of bandwidth. A standard analog-broadcast channel uses 6 mHz of bandwidth; through current compression tech-

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[7] "Once burned, twice shy," Susanne Ault, *Broadcasting & Cable*, 7/24/00.

[8] "Spotlight on Basic Cable Networks," Spencer Wang, ABN AMRO Corp. research report, 2/1/02.

[9] Ibid.

[10] National Cable & Telecommunications Association "Industry Overview, 2002."

[11] "Spotlight on Basic Cable Networks," ibid., p. 22.

nology, digital signals can fit up to 12 standard channels in the same transmission space.[12] Digital technology thus offers the capacity to deliver many more channels to viewers.

Today cable companies can usually deliver over 200 channels of programming. A typical operator might offer a basic package of 60-80 analog channels, an additional 80 "digital basic" channels, and another 40 premium and pay-per-view channels. To receive the latter two packages, a household would need to upgrade to digital cable, which essentially entails adding an advanced set-top box to decode the digital signals. At the end of 2002 an estimated 19.2 million households subscribed to digital cable and another 18.7 million homes received DBS service.[13] One research analyst expects the number of viewers with access to digital programming to reach 67 million by 2006.[14]

Repeal of Fin-Syn: In 1970, the FCC implemented a set of rules aimed at limiting the market control of the three broadcast networks and increasing the diversity of programming on the airwaves. The Financial Interest and Syndication Rules, which came to be known as "Fin-Syn," limited network participation in the production of most of the prime-time programs that they aired, and they also prohibited the networks from retaining financial stakes in those programs, meaning that networks could not earn any money from future airings of the shows in syndication. In 1977, the U.S. Department of Justice executed consent decrees with the networks that solidified the rules. At the time, networks commanded about a 90% market share of the television viewing audience.

By the early 1990s, however, cable had made a significant dent in the broadcast networks' viewing share, taking some 25% of the market. As the only production studio which also owned a network at the time, Fox took a lead role in seeking the revision of Fin-Syn. It asked the FCC in 1990 to relax the rules, and in 1991 the FCC complied. Decisions in several appeals court cases relaxed the rules further so that by November of 1995, no trace of Fin-Syn remained.

Media companies quickly seized upon the opportunities brought about by the repeal of Fin-Syn to marry content production and distribution assets. Viacom purchased the Paramount studio for $9.5 billion in September of 1993. On January 11, 1995, Time Warner launched the WB network. Five days later, Viacom launched the UPN network. In July, Disney acquired Capital Cities/ABC for $18.2 billion. In September of 1999, Viacom bought CBS for $34.9 billion. In the space of a few years the television universe had expanded to include six major broadcast networks, all backed by large entertainment conglomerates with complementary assets.

With the proliferation of cable networks, the start-up of major new broadcast networks, and the creation of multi-dimensional media giants, the demand for content exploded.

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[12] Ibid., p. 32

[13] NCTA, ibid., p. 17

[14] "Spotlight on Basic Cable Networks," ibid., p. 29.

Programmers from hundreds of television channels needed to fill thousands of hours of airtime.

Murdoch's Decision

In 1996, Fox struggled. Executive turmoil in the Fox programming department had affected the Fox production studio as well. The company had an ineffective pipeline for creating the kinds of shows that led to significant profits for the studio. It had only five shows on broadcast networks, and little cooperation existed between the network and the studio. While NBC developed prime-time lineups of sitcoms that dominated the 18-49 year-old age category, Fox rode the laurels of its dramas, older sitcoms, and *The Simpsons*. Meanwhile, upstarts UPN and WB had eroded Fox's share of younger viewers.

Near the end of 1995, Fox President Peter Chernin saw a window of opportunity for Fox to move strategically to enhance its position in the television industry. Management at several rival studios had been distracted by the events unfolding in the industry, and by merger and acquisition activity: Disney had just purchased Capital Cities/ABC; Matsushita had recently sold Universal to Seagram's; Time Warner was pursuing Turner Broadcasting; and Westinghouse was buying CBS. Also, Les Moonves, head of Warner Brothers television division, the industry's leading program supplier at the time with hits like *Friends* and *ER*, left to become president of CBS.

Of the situation, Chernin commented:

> The Disney-ABC acquisition struck me as a genuinely seminal event as it related to vertical integration in Hollywood. The whole TV landscape in town was changing quite fast. Up until then we'd been the only studio to own a network. It led me to thinking that the movement toward vertical integration was going to accelerate.[15]

Murdoch had to decide quickly which moves, if any, he needed to make to strengthen Fox's performance. Should he acquire another production studio to strengthen Fox's content development, or build capacity from within, as he had done with so many other News Corporation units? Also, in the past few years, the development moves of head network programmer John Matoian had failed to bear fruit. Should he fire Matoian and replace him, either by hiring someone from the industry with good experience or by taking a chance and promoting an executive from within the Fox Network fold? More significantly, Fox appeared to have a lead in the recent race to integrate production and distribution. Unlike its rivals, Fox had created organically the components of a vertically integrated television system. Could Murdoch build a sustainable competitive advantage ahead of the others?

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[15] "Fox Fire Heats Primetime," Cynthia Littleton, *Variety*, 9/6/99.

Appendix: The Life of a Television Show

This appendix describes the lifecycle of a typical television program, through development, production and distribution. It also details who pays the costs of development and production, as well as who receives the revenues generated by the show.

One key reason Murdoch decided to start a network was because he "recognized that a television show could become more profitable with age because capital expenses decreased and syndication revenue increased."[16] In other words, television shows have the potential to become cash cows: after start-up and production costs, additional revenues – from, say, advertising and syndication sales – contribute directly to the bottom line. A quality piece of content continues to generate cash for many years after its production, at little or no additional cost. A journey through the origination and creation of a television show helps illustrate this concept.[17]

Television production resembles the venture capital industry in many aspects. Investors place their bets on a diversified set of opportunities with the expectation that only a very small percentage will succeed. The successful ventures provide sufficient annual return to cover the expense of the unsuccessful ones, while still (hopefully) leaving plenty of cash for profit. Like venture capitalists, developers also hedge their bets by investing in stages.

The Pitch: Writers, producers, actors, agents, or any combination of such people might develop a television show concept. Sometimes teams spend months or even years developing shows, while other times producers quickly throw together talent and ideas to exploit a particular trend. Regardless of the length of the development period, ideas for shows always get pitched to executives at networks and production studios in the fourth quarter; executives may hear some 300 pitches in the space of a few months at the end of the calendar year.

The Script: Out of all the pitches they hear, network executives commission scripts to be written for about 50. They may ask the team that pitched the idea to find a writer, or they may choose writers they know who have proven themselves on other shows. The writer has a few short weeks to put together a script for a sample episode of a show, called a pilot. The writer will also include an additional page containing plot ideas for 10 to 20 additional episodes.

The Pilot: Network executives review the 50 scripts and then choose a dozen or so for which to produce pilot episodes. A pilot episode acts as a model for new programming that the networks may choose for the following fall's TV schedule. "Pilot season" traditionally takes place in the first four months of the year, and generates a frenzy of activity

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[16] Harvard Case Study 702-425: "News Corporation," [Date], p. 6.

[17] The Museum of Broadcast Communication's *Encyclopedia of Television* and Professor Jeffrey Cole, Director of the UCLA Center for Communications Policy, served as sources for much of the following description.

among television executives, producers, directors, and writers, and provides major opportunities for thousands of aspiring actors. Networks want to set their prime-time schedule by early May so that they can screen pilots for advertisers during the upfront advertising sales period.

Pilots cost a lot to produce, often much more than an actual episode of a series would cost during the TV season. A half-hour sitcom can cost from $500,000 to $1 million, and an hour-long drama can cost up to $3 million, especially if producers need special effects. Studios eat these costs, as networks will not reimburse them whether they pick up the series or not. That means studios spend $10 million or more every year on new shows, most of which will never be seen. **Exhibit 1** shows a list of pilots planned by the six major networks for the 2003-2004 season.

Producers screen finished pilots for network executives and then, if approved by the executives, for test audiences to gather feedback on the show. Throughout the pilot process, but especially after the episode is shot, the network may tinker with the show, tweaking the script, changing the casting in search of the right chemistry, or even overhauling key concepts altogether in an effort to bolster its investment. Executives also undertake important scheduling considerations, planning where the show might work best in the prime-time lineup.

The Pickup: Out of the dozen or so pilots it commissions, a network chooses only a small handful, perhaps three or four series, to add to its fall schedule. Once a network has decided to pick up a series, it places an order for a specified number of episodes, usually between 13 and 22, representing a half and a full season's worth, respectively. Networks pay producers a per-episode license fee that gives them the right to broadcast each episode twice – once during the regular season, and once during summer reruns.

Prices networks pay for series fees differ based on a number of factors, including the genre (e.g., sitcom or drama), the name recognition of the talent, what kind of hype it has received in the trade press, and of course how badly the network wants it. **Exhibit 2** shows license fees for new series picked up by networks for the 2002-2003 season; the average license fee for a new half-hour sitcom ran at approximately $775,000, and the average for a new hour-long drama came in at nearly $1.7 million.[18] Often these license fees fall several hundred thousand dollars short of covering the studio's total cost of producing each episode, leading to a situation known as "deficit production." Studios allow deficit production to occur because if a show becomes a hit and remains on the air, it eventually provides returns that more than cover the initial deficits, either through higher network license fees or, more likely, through syndication fees (see below).

[18] "Bean Counting and Arts and Crafts," Richard A. Bilotti, Merrill Lynch Research Report, 10/4/02, pp. 49-51.

Survival of the Fittest: Three out of four new shows do not make it past their first season.[19] Network executives usually know within a few weeks of the new fall season whether or not a show will succeed. Because they have so many advertising dollars at stake, networks have become ever quicker to pull the plug on underperforming shows, a trend often criticized by producers and writers who point to prior hit shows like *Seinfeld* and *Cheers* that needed time to find their footing and didn't catch fire until their second or third seasons. Shows that survive beyond the first season, however, will likely command increasingly higher license fees, especially as networks come to depend on their biggest shows to draw viewers and to anchor a particular evening's programming. It is not uncommon for a studio to charge a license fee several million dollars higher for a show entering its fifth or sixth year. This occurs partly because contracts with actors, writers, and producers tend to last for four or five years, after which their costs will escalate based on the success of the show. The series *ER*, finishing its fifth season in 1998, set a record when NBC agreed to pay $13 million per episode to renew the show for three more seasons. NBC had previously been paying $1.5-$1.8 million per episode.[20]

Television series revenues

Networks make money by selling advertising during their programming. Commercial space sells in 30-second spots, priced in customers per thousand (CPM) reached of a particular viewing universe, such as total television households (105.5 million), viewing adults aged 18-49 (127.4 million), or total U.S. viewers (272.0 million). Currently, for example, prime-time commercial spots sell on average for approximately $22 per CPM of adults, aged 18-49, the key demographic category targeted by advertisers. For example, if 10 million adults, aged 18-49, watch a particular series, the network delivers 10,000 CPM units. The network can therefore sell a 30-second commercial spot for 10,000 x $22 = $220,000. Networks sell about 10 30-second spots during a half-hour sitcom, meaning it can earn 10 x $220,000 = $2.2 million in advertising for airing just one episode of the series. Most of the network's costs to broadcast the program remain fixed; therefore, the cost of acquiring the program itself is the primary variable factor. If the network pays the average $775,000 per-episode price for a new half-hour series for out example case, it will make a gross profit of $1.4 million for each airing of an episode, a 64.8% margin. The license grants the network the right to show each episode twice in a season, and each series typically airs around 22 episodes per season. Thus, over a regular television season, the network might potentially earn 44 x $2.2 million = $96.8 million in revenue and $62.7 million in profit in one year of a single series. (In reality, the second airing of an episode attracts a smaller number of viewers than the first.)

Networks set their advertising rates according to television ratings. A rating is a percentage of all potential viewers in a defined category watching the network at a particular time. If the sample show above reached 10 million adults aged 18-49, it would earn a rat-

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19 "Tube Finally Dresses for Fall," Josef Adalian, *Variety*, 10/2/00.

20 "ER: high-priced Rx for NBC," Barry Garron, *Broadcasting & Cable*, 1/19/98.

ing of about 7.9, or 7.9% of the roughly 127 million adults aged 18-49 who watch television. The following table shows the 20 highest-rated programs among adults aged 18-49 for the 2001-2002 television season.

Top-rated Programs, Adults 18-49, 2001-02 TV Season

Rank	Program	Network	Rating
1	*Friends*	NBC	11.6
2	*ER*	NBC	10.5
3	*Will and Grace*	NBC	8.9
4	*Survivor Marquesas*	CBS	8.6
5	*CSI: Crime Scene Investigation*	CBS	8.6
6	*Survivor Africa*	CBS	8.4
6	*Just Shoot Me*	NBC	7.7
8	*Everybody Loves Raymond*	CBS	7.4
9	*Law and Order*	NBC	7.0
10	*Monday Night Football*	ABC	6.9
11	*Frasier*	NBC	6.4
11	*Malcom in the Middle*	FOX	6.4
13	*West Wing*	NBC	6.3
13	*Fear Factor*	NBC	6.2
15	*The Simpsons*	FOX	6.1
16	*Becker*	CBS	5.6
17	*Yes, Dear*	CBS	5.4
18	*Scrubs*	NBC	5.4
19	*King of Queens*	CBS	5.3
20	*Law and Order: SVU*	NBC	5.3

source: "TV Upfront Primer: 2002," Jessica Reif Cohen, Merrill Lynch research report, 5/2

The ratings span from 5.3 to 11.6, and so the sample program from above with a 7.9 rating would fall in the top 20. To set its rates, however, a network averages ratings for all of its prime-time programs and arrives at a lower overall number for the audience it says it can deliver to advertisers in the following season. For the 2002-2003 television season, for example, NBC, which had the most programs in the top 20 the season before, promised to deliver advertisers at least 5.1 million viewer impressions on average in prime-time, or an overall rating of 4.0, for adults aged 18-49. For this promise, NBC charged an upfront CPM of nearly $25.[21]

Network's advertising revenues are extremely sensitive to television ratings. Morgan Stanley estimates that a 0.1 ratings point increase in the 18-49 category for a network – the equivalent of adding 127,000 viewers – can bring $50 million of incremental advertising

[21] The "upfront" market refers to the advance sale of commercial inventory for the following year. Networks sell about 75%-80% of their total primetime advertising inventory in the upfront market, which usually takes place in the spring and summer before the new fall season. The remaining inventory sells in the "scatter" market and usually commands a pricing premium. Large consumer products companies with significant advertising budgets and well-planned marketing campaigns, such as carmakers or household products manufacturers, therefore prefer to purchase advertising in the upfront market, where they get the most for their money. Source: "TV Upfront Primer: 2002," Jessica Reif Cohen, Merrill Lynch research report, 5/24/02, pp. 40-42.

revenue the following season by allowing the network to increase its guaranteed impressions and CPM rates used to sell upfront advertising.[22]

Syndication: The Holy Grail

The producers of every network television show have one financial goal in mind for that show: to last long enough on network television to allow the series to reach syndication. Local television stations need to fill broadcast hours when the network does not provide them with programming, from about 10 a.m. to 8 p.m. every day. The station may produce local newscasts to fill part of that time, but the rest it fills with syndicated programming. In the past decade, cable networks have also emerged as competing bidders for syndicated programs. Studios produce and sell some first-run syndicated programs specifically for these two markets, such as game shows and daytime talk shows. Off-network syndicated programs, on the other hand, consist of popular network series that have either finished their broadcast run or been on the air long enough to provide the necessary number of episodes for syndication.

The magic number of episodes a new network series wants to reach is 100, because that amount provides enough episodes for buyers to broadcast the series in programming "strips," or daily shows five or six times per week for several weeks on end. Producers sell series market by market to individual television stations, to groups of stations owned by media companies (including conglomerates like Fox and Viacom, which also produce shows), and to cable networks. A syndication market license usually allows for six consecutive runs of a series cycle over a period of three to five years.[23]

For show producers, syndication is where the real money is made. Syndication fees for episodes of hit shows can often exceed the license fees paid by networks and reach into the millions of dollars. The table below presents current syndication fees for several recent hit series.

Much as Netscape's IPO signaled the start of the dot-com boom in the tech industry, the success of *Seinfeld* raised the economic stakes for players, demonstrated the potential rewards of producing a hit show, and set valuation standards for shows that followed it into syndication. *Seinfeld*'s first syndication cycle (or about 100 episodes from years one through five) sold for $3.3 million per episode, and the second cycle sold for $4.1 million per episode.

In addition to cash, stations will pay for syndicated series by offering "barter advertising" to producers. In barter advertising, the station gives some of the advertising time to the syndicators of the show as payment for the right to broadcast it. The syndicators then

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[22] "Bean Counting and Arts and Crafts," ibid., pp. 28-29.

[23] Chapter 4: "Financial Accounting in Movies and Television," *Entertainment Industry Economics*, 5th ed., Harold L. Vogel, Cambridge University Press, 2001, p. 136.

realize additional revenue from selling advertising on the series when it airs in syndication.

Syndication Fees for Recent Series

Series	Producer	Fee per Episode (000's)
*Seinfeld (2)**	Sony	$4,100
*Friends (2)**	AOL Time Warner	3,600
*Seinfeld (1)**	Sony	3,300
Frasier	Paramount	3,100
King of the Hill	Fox	3,000
*Friends (1) **	AOL Time Warner	3,000
Home Improvement	Disney	2,600
Everybody Loves Raymond	Viacom	2,500
Drew Carey	AOL Time Warner	2,500
3rd Rock From the Sun	Carsey-Werner-Madabach	2,200
The Simpsons	Fox	1,300
ER	AOL Time Warner	800
Walker, Texas Ranger	Sony	725
X-Files	Fox	600

* Long-running series are sold in cycles. Once a series reaches 100 episodes, a studio may elect to sell the first cycle into syndication, and then sell the second cycle for a higher fee based on the show's increasing popularity during its broadcast run.

Source: "Bean Counting and Arts and Crafrts," Morgan Stanley research report, 10/4/02

Thus far sources estimate that *Seinfeld*, combining cash sales of its two cycles with barter advertising revenue, has already earned $2 billion in syndication. With the show likely to stick around as a classic, much like *I Love Lucy*, it will probably go through several more syndication runs. Although per episode fees will decrease with each run, *Seinfeld* could still earn $10 billion or more during its lifetime. Cable networks have helped in this vein by expanding the lifetime value of hit series. The show *Cheers*, for example, which ran for 11 seasons but went off the air in 1993, still fetched $250,000 per episode in 1998 from the cable network Nick at Nite, a division of Viacom, which bought the show from Paramount Television (also owned by Viacom).[24] Nick at Nite in fact assembled NBC's original "Must-See TV" Thursday night prime-time lineup from the 1980s by purchasing *The Cosby Show*, *Family Ties*, and *Cheers*. By doing so it garnered the number one rating among cable networks for adults aged 25-34 in 2001.[25]

In a notable reversal of first-run, network broadcast market economics, one-hour dramas command less than half-hour sitcoms in syndication. The per episode fees flip, with even B-level sitcoms selling for $2 million per episode or more, while the biggest drama of all time, *ER*, sells for just $800,000. Demand for sitcoms from both local television stations and cable networks has outstripped that for dramas. Barry Thurston, president of Co-

[24] "Nick Bellies Up for 'Cheers,'" Linda Moss, *Multichannel News*, 9/14/98.

[25] "The Funny Money In Off-net: 'Seinfeld' leads way as broadcasters and cable pony up – and up – for high-profile sitcoms," Joe Schlosser, *Broadcasting & Cable*, 2/23/98.

lumbia Tri-Star Television Distribution in 1998, said, "The half-hour comedy is the staple of the entire business for everyone – from every network to every TV station. It's hard to find stations out there that don't carry at least one or probably several situation comedies."[26]

New Trends

Several recent changes or alterations to the process of television content creation and distribution have occurred in recent years. First, networks began seeking ownership stakes in shows. Looking to protect themselves from the type of price-gouging experienced by NBC, networks demanded co-producing duties on series they had helped develop, which would give them financial interest in the shows and allow them to share in syndication revenue once the shows went off-network. By the 2000-2001 season, all six networks owned or co-owned more than half of their new shows, and three networks owned or co-owned over 75%.[27]

Second, producers and networks increasingly seek to "repurpose" episodes of new series. Repurposing refers to the re-airing of a series episode on a cable channel within a short window after it premieres on a broadcast network. Repurposed shows often air within a week of the original. Producers and networks use the tactic to help recoup some of the costs of producing original shows by earning additional advertising revenue. In addition, some executives maintain, repurposing benefits the cable network by attracting key demographic categories, such as adults aged 18-34, to the channel that in turn attract better advertisers. Jamie Kellner, chairman and CEO of Turner Broadcasting System, sees repurposing as a way of improving the economics of the network television business model. "The current model [of airing a program once and waiting six months to repeat it] doesn't work [economically] in the network television business today. You can either try to cut everybody's salary, which nobody wants, or you can find other ways to exploit programming where you can generate more revenue for advertisers.[28]

Third, HBO has found considerable success by breaking the show development mold. As a pay-cable network, HBO is not beholden to advertisers and can therefore be 100% focused creatively on what shows appeal to viewers. This approach has led to several award-winning series, most notably *The Sopranos*. HBO has a reputation for giving writers and producers complete autonomy in fulfilling their creative vision. Additionally, the network develops and premieres series year-round and usually runs the series in 13-episode mini-seasons. HBO's success helps keep competitive pressure on networks and their production arms to keep programming fresh and innovative.

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[26] Ibid.

[27] "Nets Get It Together," Michael Schneider, *Variety*, 5/22/00.

[28] "Re-purposing's still the rave for nets," R. Thomas Umstead, *Multichannel News*, 5/13/02.

Fourth, HBO and Fox have led the way in creating a home video market for highly rated and critically successful series. HBO has released DVD sets of all seasons of *The Sopranos* and *Sex and the City*. Fox has done the same with *The X-Files*, *The Simpsons*, *24*, and many others. The home video market adds an additional revenue stream at minimal cost, enhancing profits from hit shows.

Exhibit 1: Pilot production of broadcast networks for 2003-2004 season

Planned Pilot Production for the Major Broadcast Networks, Spring 2003

	Series	Studio(s)	Description
ABC	Untitled Dan Finnerty	WBTV/Mohawk/Wonderland	Average guy (Finnerty) finds himself as the star performer at his family's lounge.
	Untitled Flett-Giordano/Ranberg	Paramount/Touchstone/Storyline	Young man from conservative family and the daughter of a gay couple become a couple.
	Hench at Home	Touchstone/Dreamworks/Lottery Hill	Professional hockey player retires and moves back home with his wife and 3 kids.
	Untitled Henchy/Pennette	WBTV, Tollin/Robbins	Romantic comedy inspired by Chris Henchy's marriage to Brooke Shields.
	Hope and Faith	Touchstone/Industry Ent.	Housewife's life turns upside down when her sister, a soap opera star, moves in with her.
	Untitled Jenny McCarthy	Touchstone TV	Spoiled rich girl (McCarthy) has to adjust to a regular life when her father goes to jail.
	Mr. & Mr. Nash	Carsey-Werner-Mandabach	Gay couple are professional designers during the day and amateur sleuths at night.
	My Life With Men	Touchstone TV	Woman struggles to raise her four sons, her father and her husband all at the same time.
	Platonically Incorrect	Touchstone/Shady Acres	Platonic relationship between a man and a woman who are best friends and colleagues
	These Guys	Carsey-Werner-Mandabach	Tim Allen narrates misadventures of four men facing marriage, parenthood, divorce and dating.
	Untitled Tom Hertz	20th TV/Brad Grey TV	Introverted New Yorker marries into a large, gregarious family from Kansas.
CBS	*All Grown Up*	WBTV/LivePlanet/Bull's Eye	Childhood friends have to adjust to two of them becoming parents.
	Crazy Love	Touchstone/CBS Prods.	Baby-boomer couple adopt a Chinese girl.
	Family Show	Sony Pictures TV	Parents adjust to their teenagers becoming parents themselves
	Harry's Girl	Warner Bros. TV/CBS Prods.	Jennifer Esposito as a city woman whose loyal dog narrates her life.
	The Lunchbox Chronicles	Universal TV/CBS Prods.	Widowed mother (Monica Potter) of two young kids struggles to hold her life together.
	Untitled Staley/Long	Paramount Network TV	Widowed mom raises her two sons while working at the family bar with her mother.
	The Stones	WBTV/KoMut Ent.	Twentysomethings cope with their parents' decision to get a divorce
	Untitled Tony Kornheiser	Regency TV	Based on Kornheiser's life as a *Washington Post* sports columnist and father to teen.
	Two and a Half Men	Warner Bros. TV	Bachelor's life changes when his brother and his 10-year-old nephew move in.
NBC	*Come to Papa*	WBTV/NBC Studios	Aspiring writer (Tom Papa) dreams of making it big but settles for life in a small N.J. town.
	Coupling	Reveille/NBC Studios	Based on the British series about 6 thirtysomething friends.
	Happy Family	NBC Studios	Would-be empty nesters whose children keep coming back home; J. Larroquette stars.
	Untitled Howie Mandel	Pariah TV	Based on Mandel's life as a father doing hidden-camera bits on "The Tonight Show."
	Mr. Ambassador	Touchstone/NBC Studios	Rupert Everett stars as a fish-out-of-water British ambassador to the U.S.
	The Ortegas	Hat Trick Prods./Pariah TV	Cheech Marin in a family sitcom/talk show based on the BBC's *The Kumars at No. 42.*
	Untitled Phil Hendrie	NBC Studios	Radio personality Phil Hendrie as the security guard of a gated community
	The Real Deal	NBC Studios	Charismatic Clinton-esque governor of Pennsylvania and his staff
	The Ripples	NBC Studios/DreamWorks	Centers on a couple who have been married for 4,000 years.
	Untitled Robert Peacock	Paramount TV/Grammnet	Strong Southern fisherman and the eclectic folk who live in a Southern town.
	Untitled Scherick/Ronn	Touchstone TV	Three adult siblings - 2 brothers and a sister - at different stages in their lives.
	Spellbound	Warner Bros. TV	Richard Ruccolo as a male witch who falls in love with a mortal.
	Untitled Tim Doyle	NBC Studios	Family struggles to stay a part of the middle class.
	Untitled Tracy Morgan	Carsey-Werner-Mandabach/NBC Studios	Morgan as a blue-collar family man with big dreams in New York.
	Untitled Whoopi Goldberg	Carsey-Werner-Mandabach/NBC Studios	Goldberg's take on life.
FOX	*Arrested Development*	20th TV/Imagine TV	Wealthy Orange County, CA family pulls together after their assets are frozen.
	The Big Wide World of Carl Laemke	20th Century Fox TV	Family life as seen through the eyes of a typical suburban dad.
	Cracking Up	20th TV/Brad Grey TV	Psychology grad student lives in the guest house of a nutty Beverly Hills family.
	Untitled Luis Guzman	20th Century Fox TV	Guzman as a hardworking neo-conservative donut-shop owner in Spanish Harlem.
	The Mallards	20th TV/Imagine TV	Party guy lives with blue-collar family with an unjustified sense of entitlement.
	A Minute With Stan Hooper	Parmount Network TV	N.Y. while-collar guy (Norm Macdonald) and his wife move to a small Wisconsin town.
	Mister Ed	20th TV/Original TV	Remake of the 1960s series, in which talking horse Mr. Ed has an urban sensibility.
	The Pool at Maddy Breakers	20th TV/Original TV	Three 28-year-old women struggle with the reality that they peaked in high school.
	Untitled Ron White	20th TV/Regency TV	Guy (Ron White) and his girlfriend run a pottery factory in Mexico.
	Titletown	20th TV/Brad Grey TV	Three families in Green Bay, WI live and breathe for the home football team.
	Untitled Twins	WBTV, Tollin/Robbins	Twentysomething separated fraternal brother and sister twins reunie, become roommates.
WB	Untitled Adam Resnick	Sony/Happy Madison	19-year-old mayor of a small Northeastern town.
	All About the Anderson	Warner Bros. TV	Unemployed actor (Anthony Anderson) moves back in with his parents with his young son.
	Are We There Yet?	Carsey-Werner-Mandabach	Divorced dad takes his kids and their friends on a European adventure.
	Untitled Bow Wow	Parmount Network TV	Bow Wow as a high school teacher.
	Untitled Coming Home	WBTV/Tannenbaum Co.	Teen girl is being raised by her three older siblings.
	The Courtship of Eddie's Father	WBTV/Pariah TV	Contemporary take on the 1970s series.
	Untitled Eric Zicklin	Warner Bros. TV	Two very different teen siblings - a bad boy and a girl devoted to Orthodox Judaism.
	Family Friends	Warner Bros. TV	Mother and her 16-year-old son move in with her best friend and her family.
	The Help	Warner Bros. TV	In the vein of *Upstairs, Downstairs.*
	Sixteen to Life	20th Century Fox TV	Blue-collar teenage girl works at a country club and takes care of her father.
	The Spaces	WBTV/Laura Ziskin Prods.	The teen years of the first boy born in a space colony in the 31st century.
	Sweet Potato Queens	Warner Bros. TV	Southern mom (Delta Burke) and her teen daughter; based on J. Conner Browne's books.
	Trash	Regency TV	*Romeo and Juliet* set in a trailer park.
UPN	Untitled Borns/Smith/Pinkett Smith	WBTV/Overbrook	Family comedy inspired by the real home life of Will Smith and Jada Pinkett Smith.
	Game Over	Carsey-Werner-Mandabach	Computer-animated show about a suburban family's everyday life.
	Old School	Paramount Network TV	The everyday conflicts in a group of twentysomethings.
	Untitled Tom Kelleher	Warner Bros. TV	Twentysomethings transition from the single life to the responsibility of having a family.

source: "Networks value family for comedies," Nellie Andreeva, *The Hollywood Reporter*, 2/24/03.

Exhibit 2: License fees for new series in the 2002-2003 season

Network Series License Fees, 2002-2003 TV Season

Studio	Series	half-hour	hour
FOX	*Cedric the Entertainer*	$485.0	
	Septuplets		$1,600.0
	Still Standing	750.0	
	Girl's Club		1,815.0
	John Doe		1,725.0
	Oliver Beene	850.0	
	The Grubbs	850.0	
Disney	*Firefly*		1,750.0
	8 Simple Rules	825.0	
	Less Than Perfect	775.0	
	Life with Bonnie	795.0	
	MDs		1,650.0
	That Was Then		1,850.0
	Push, Nevada		1,750.0
	CSI Miami		1,625.0
Viacom	*Without a Trace*		1,650.0
	Hack		1,550.0
	Do Over	795.0	
	In-Laws	850.0	
	Half and Half	750.0	
	Haunted		1,650.0
	Bram and Alice	760.0	
NBC	*Hidden Hills*	865.0	
	Boomtown		1,650.0
	American Dreams		2,050.0
AOL Time Warner	*Presidio Med*		1,050.0
	Birds of Prey		1,650.0
	Everwood		1,615.0
	Family Affair	825.0	
	What I Like	795.0	
	Fastlane		1,750.0
	The Twilight Zone		1,875.0
	Good Morning Miami	635.0	
	AVERAGE	$773.7	$1,680.8

Source: "Bean Counting and Arts and Crafrts," Morgan Stanley research report, 10/4/C