Evolve & Prosper: Finding Colleagues in a Complex World
Comments Prepared For
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Good morning, and thank you.

Actually, I'd like to begin this by thanking the NAB for something that happened 37 years ago when the NAB named me to receive a full scholarship to Columbia University graduate journalism program…it was called the NAB's Harold Fellows Scholarship. I was supposed to come to this convention in the Spring of 1969 to receive the honor at lunch, but just a few days before the convention I had to turn it down….seems the government had other ideas about where I should spend my graduate years….

But I've always appreciated the honor…and never had a chance to say an official thank you…so I'm delighted to be able to say thank you to the NAB today.

In my few minutes I want to ask you to consider that old, immutable law of the greater media industries…I'd guess it probably started with Gutenberg when a competitor duplicated his printing press. No, its not Kill for Sport. Its that law handed down on the tablets of media executives for generation after generation "the enemy of my enemy is my friend. The friend of my enemy is my enemy." And you thought it came from the Middle East…but no, I can assure you it was media. And, the problem today is figuring out who are friends and enemies. I'd like to suggest some answers in two contexts—advertising … and digital station content creation, aka anti stripping.

What I am going to say will go against currently held views in both the broadcasting and cable industries. But this shouldn't be about settling old scores or fighting the last war. Instead, it should be about using careful financial and strategic analysis to position for the future. What's done is done, lets move on.

To my mind, there is a large threat brewing, and that's the content side of the internet, which, even without current growth rates continuing, could easily have advertising as large as all television in ten years….and, as I explained to the TVB last Thursday, that would sop up more than half the incremental growth of conventional media, including TV and Cable advertising.

Why are the advertisers interested in the web and why are many agency people telling their clients to put up to 20% of their budgets into web content? Because it provides solid accountability—advertisers know, as much as privacy rules allow, who is seeing their ads. It provides generation of hard leads. It provides the ability to buy right off the ad. And, increasingly if you watch what Google is doing, it is being localized.

Lets do a little bit of threat analysis.

Broadcasting first. In the green, great local content and advertising, but in the red, absolutely nothing in the core business to address zoning, on demand content, lead generation, selling, or solid ratings accountability.

Now Cable…not so good in local content and advertising, but clearly can zone and has on demand, and have the hardware and return path for lead generation, direct selling, and ratings accountability which, among other things by the way, may work to keep advertisers out of Sarbanes-Oxley questions about justification of expenditures.

Satellite has some similar capabilities, but with a store and dial-back approach

Now lets look at the web…not the transport web of broadband, but specifically the web as defined by the big content/advertising players like Yahoo, Google, and others. Increasingly, the web is showing that it can do it all…it is moving into video content delivery, local content, local advertising, and zoning, and it dominates electronic lead generation, sales, and accountability. As viewers spend more time on the web, the web content companies will siphon consumer time and advertising revenues from conventional media including broadcasting and cable.

So where can we find new value in all of this. Maybe by looking at some combinations. Clearly broadcasting dominates local content and the stronger TV stations may dominate the cable operator by three to one in local advertising. But if you look at this in the context of the future, I'd suggest that unless broadcasters think they can diversify into Web Content so quickly that they can off set the slowing of revenue growth in their primary, core business, then they need to consider the Content Web as a threatening advertising competitor, and it is only through an alliance of broadcasters and cable—and satellite to a lesser extent-- that the complimentary—yes, complimentary--skill sets can be brought to bear in a competitive model.

Cable has the plant, Broadcasters have the local content and sales, and the negotiating patterns have been established by retransmission consent over the years. I'd suggest that how you use your retrans leverage or how you craft other creative business deals with cable will determine whether you have long term viability as a two way business that is well positioned against the big web players, or are a one way, dead end medium.

You can find more on this and a retransmission consent calculator at the download page of wolzien.com

New topic—anti stripping. This past Sunday here in Las Vegas, a group of commercial and public stations met to consider the success of the British "Freeview" digital terrestrial system. Using new digital station capacity, they asked, could they find, finance, and program sufficient networks to develop a stand-alone free service in the US.

I'd take that a bit farther to ask if new digital broadcast networks with distribution enhanced by anti-stripping approaches, would be in the interest of both broadcasters and, believe it or not, cable operators. Clearly a radical suggestion if you're on the cable side. Could there be a situation in which cable and broadcasters have a commonality of interest that helps put cable in a better position vis-à-vis the multichannel programmers? Cable keeps telling Wall Streeet its content costs are rising out of hand. A way to put downward pressure on those cost increases is to have alternative program services. And a way to get alternatives is to encourage broadcasters to provide new, competitive ad supported networks. Cable and satellite would have to carry the content on all systems in order to give it the potential of being it financially viable…and that would probably require anti-stripping regulations.

Now this is where we really move into uncharted territory. I think you could make a case that it makes sense for the largest cable system operators to actually invest in digital broadcast content as a way to put downward pressure on their program costs while building content equity. A new digital broadcast network would get full distribution day one, instead of waiting for years, and a cable operator could see a better place to invest some of the sub-fees that he currently pays for content.

Not to put too fine a point on it, but if you looked at an MSO with, say, 22 million households that is paying 15 cents a sub, for some lesser network, that's nearly $40 million a year or $200 million a year for 5 channels And just under a billion dollars over five years and for five channels…that MSO has just sent almost billion dollars out the door …with not even any potential for an equity return from the content provider. But a billion dollars invested along side broadcasters into appropriately targeted digital broadcast networks, could actually provide equity value to the MSO…while simultaneously being one huge stick to keep downward pressure on other programming costs.

I haven't talked with Comcast or any other MSO about this…but I'm suggesting it here as an example of how in any negotiation, the parties need to work to solve the other guy's problems. In this case its program costs. But to be fair to cable, an anti-stripping approach that just fills the cable channels with infomercials and more home shopping hardly fixes anything….and that's a big fear of cable operators…and maybe a point of compromise for broadcasters.

Anti stripping potentially helps solve the problems of another group—those who are concerned that, proportionately, there is too much material on multichannel TV that doesn't meet the broadcast standards for decency… Since any digital broadcast channels would come under the same regulations of decency as regular broadcast stations, there is an interesting dilution effect that would occur to the overall basic video landscape as these new channels become available. For policy makers concerned about decency issues, these new, broadcast-controlled networks would increase the consumer choice of program services meeting decency rules, thereby diminishing the presence, at least on a percentage basis, of the multichannel networks which don't. And for cable, more family friendly programming may ease pressure for both the application of broadcast-type standards to multichannel content…and for al-la-carte.

So trying to figure out who are friends and enemies today is confusing. But a long time friend of mine from NBC days, Dave Schmerler, wrapped up all this friends and enemies stuff with the comment…in this business after enough years, you don't have as many friends as you'd like…and you probably don't have as many enemies as you feared. But what you do have are a whole lot of colleagues.

There are lots of other issues and challenges you'll be working on today, but as you look toward this complex future, take a moment to ask if perhaps you can find mutual interests and do some mutual problem solving with colleagues you just may find in unusual places.

Thank you very much.

(For more information, background, and downloads, please visit www.wolzien.com)