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The Premium Blend: Options for Maximizing Subscription Cable Content Ratings on Network Television

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Executive Summary

The purpose of this study was to determine how to maximize the audience ratings of premium channel television programming in the United States. Various options were considered, including a theoretical merger of networks to increase viewer ratings potential. The desired results would have led to a format that would increase the audience for original premium channel television shows.

Research included a 30-item questionnaire of 72 viewers’ preferences and three interviews with television industry executives. Information gathered from these sources, as well as evidence from various texts focused on the television business, was analyzed to ascertain the feasibility of the options being considered. The findings showed that viewers were essentially satisfied with their current viewing choices. Evidence from the three executives interviewed showed that premium channel content had in fact been modified and altered in the past in an attempt to reach wider audiences, and that such ventures had almost never been successful. The results of such ventures had not been evident in the literature.

Given the information gathered during this study, the outcome was that the section of the television industry analyzed was operating well with optimum performance, and that changes to content or the business models in place would not be recommended.

Introduction
According to entertainment industry executives, the landscape of the television business is changing. Twenty-five years ago, a viewer in the United States (U.S.) had a simple choice: which channel would they watch after dinner? The local news was on at six, national news at 6:30, and then primetime kicked in at 7:00. *Barney Miller* provided laughs on the American Broadcasting Company (ABC,)* The Dukes of Hazzard* kept Columbia Broadcast System (CBS) audiences on the edge of their seats, and the National Broadcasting Company (NBC) had a highly rated sitcom with *Family Ties* (Nielsen 2011.)

The idea was simple – if a show aired at 8pm on Tuesday, viewers watched it at 8pm on Tuesday. The only electronic device capable of recording a TV show was the videocassette recorder, a machine that just one quarter of United States households owned (Valenti 1982.) Concerns about inappropriate content barely existed; mothers and fathers could share the living room couch with sons and daughters, without fear of seeing graphic violence or harsh language on the TV screen.

Fast forward to the year 2012, where homes in the U.S. receive an average of almost 120 channels. A record 87% of all homes own a digital video disc (DVD) player, and in January of 2011 it was reported that online video usage had increased 45% from the previous year (Nielsen 2011.) With the aid of recording devices and cable services, United States viewers can record programs digitally and watch them days, weeks, or months after the initial broadcast.

The marketplace has become saturated with options. What to watch, when to watch it, and how to watch it. Advances in technology and increased viewer awareness have altered the television business in a way that puts the consumer in control. With these options, some difficult questions arise for the television industry. How can they achieve the best ratings? How can programming geared for a specific audience reach as many viewers as possible? What changes are necessary in order to maximize the full potential of the business, and are those changes worth the risk?

One aspect of the industry that must be examined is the growing trend in premium channels in the United States. These subscriber-based channels show unedited feature films, original programming, and sporting events like boxing, all in exchange for a monthly fee. Why do subscribers choose to pay upwards of $20 a month for these? According to network executives, they offer a different style of programming found nowhere else.

A feature film shown on network television will be edited for time, allowing it to fit into a certain programming block – which is typically two hours in length. The film will also be edited for content. The Federal Communications Commission (FCC) has the final say as to what can and cannot be shown on television in the United States. Content including cursing, violence, drug use and nudity must be deemed appropriate before it can be shown on television (FCC 2011.)

Finally, the film will be interspersed with commercials. These advertisements are the lifeblood of the industry – without them, the networks will not survive. They command good money, and for a good reason. A record 111 million viewers tuned in to the 2011 Super Bowl broadcast on FOX – a network that wasn’t launched until 1986 (Fox 2011.) Due to overwhelming demand for ad space, some companies paid up to $3 million for a 30-second commercial during the broadcast (Reuters, 2011.)
Premium channels operate on a different platform. Due to monthly subscriber fees, channels like Showtime and the Home Box Office (HBO) do not have commercial interruptions. Programming is not subject to the strict regulations of the FCC, meaning that films can be shown in their entirety.

Then, there is one of the biggest draws for premium channels – original programming. Without content restrictions, the possibility for a more realistic feel to the stories is well within reach. Ratings indicate that viewers flock to this by the millions (Nielsen, 2011.) They are able to watch plots unfold as they would in the real world without the censorship that is ever present in network television programming.

While premium channel programming is popular, it does not reach anywhere near the same amount of viewers as network channels do (Nielsen, 2011.) Due to the added price for subscribers, some viewers find the expense not worth the content. In addition, other options now exist for audiences wishing to view the original programming offered by these channels. Websites like iTunes and Netflix offer the shows for a cheaper price. Alternatively, viewers can choose to watch them once they are released on DVD.

The television business thrives on partnerships – the CBS Corporation owns Showtime. Viacom owns Music Television (MTV) and Comedy Central. As of early 2011, Comcast, the largest cable provider in the United States, now holds a 51% stake in NBC Universal – which includes NBC television (NBC Universal, 2011.) Executives say that these partnerships are mutually beneficial – one side offers something to the other, and vice versa.

That said there are areas of opportunity that have yet to be fully explored. For example, can premium channel programming provide added value to network television? Can it be adapted in such a way that it reaches a larger audience? What are the options available to the networks that will allow them to maximize shareholder wealth and offer the best programming to the largest number of people?

**Some Options Considered**

There are several options available to the networks, the first of which is a merger between a network like NBC, and a premium channel like Showtime. The two channels could work together as a cohesive unit to bring the best original programming to TV viewers. Series could be produced and aired on Showtime, and then edited for content and shown on network television as well.

Allowing for premium channel programming to air on NBC would ideally create high ratings for shows that typically only saw a few million viewers per episode. This would give advertisers more reason to get behind the show, and would give the show the backing of a major network with more finances and resources.

The downside to this plan is that viewers tune in to premium channel programming for its realism. The characters and stories are not restricted by FCC regulations, and that is part of why the shows succeed on their level. Editing programming down to network standards could harm the show by taking the realism out of it. If viewers saw it unfavorably on network TV, it could potentially harm the brand of the show itself.
Maintaining brand recognition is one of the main reasons that airing Showtime programming on NBC would likely fail. The strength of the brand – in this case a television show – would hinge on audiences being able to rely on certain aspects of the show (Chernatony and McDonald, 2003.) Altering or removing these elements could cause damage to the reputation of the show, as well as the network.

A second option would be to turn NBC into a premium channel. This would allow current NBC series to broaden their stories and writing, as they would be free from the FCC restrictions. If a partnership with Showtime were to occur under this option, Showtime series’ could be shown on NBC in an unedited form. Without the merger, however, NBC would still have a full schedule of original programming.

An added bonus with this plan would be the access to NBC Universal content. If NBC were a premium channel, industry executives believe it could have exclusive broadcast rights to feature films made by Universal Studios. This would benefit the film studio in that it would ensure distribution of its films after they left theaters, and it would allow NBC television to show the films in their unrestricted format.

While this option benefits the film studio, the major flaw is in original programming. NBC is the fourth-highest rated network in the United States (Nielsen, 2011.) Its original series do very well in their current format, according to executives. A change to the network would cause a change to the shows, which could risk alienating viewers. The additional cost of the network to viewers would almost certainly cause numbers to fall drastically. For this reason, turning NBC into a premium channel would also likely fail.

A third option available to the network would be one in which it became a part of a standard cable package. Whereas it is currently free, this option would add a small percentage to a viewer’s monthly cable bill, which would go to NBC. This would allow for fewer content restrictions on original programming, as the FCC regulations would be more lenient than on network television, though not as lenient as with premium cable.

The benefit to NBC with this plan is that it would continue to have paid commercial sponsors, but would also make money from cable subscribers every month. Depending on the deal worked out with cable providers, NBC could bring in between a few cents and a dollar per subscriber, every month. This would allow the network more programming options. A film could be edited for content if it were necessary, and then shown without commercial interruptions. The network could afford to do this, due to the extra money coming in. While this plan would still require viewers to pay a small fee each month, it would provide the most flexibility for the network in terms of advertising and original programming, and would likely be a success.

Methodology

Research Plan

The main focus of the study was to determine the option that would provide the best model keeping viewers and attracting new viewers to different kinds of television channels. The key
questions were:

- What would the benefits and drawbacks be of a merger between a television network and a premium channel?
- What alternatives would be available to premium channels in order to get content seen by the most people, and would these alternatives be worthwhile?
- What changes, if any, would be necessary in order to maximize viewer ratings?

The ideal outcome of this study was one that provided a better understanding of the television business. A firm grasp of the programming decisions and reasons why television channels operated in different ways was imperative for anyone entering into the broadcasting business.

In approaching this study, it was critical that information be gathered from a variety of sources, so as to best represent the current state of the television business and the viewer perceptions and preference.

Exploratory research was undertaken to gain a firm grasp of the television business as well as general business practices. As was suggested by Dawson (2002) this was done so as to not ask questions of interviewees where information was already available in other sources. Once the primary research was completed, further details and facts were obtained from several sources. A mixture of research methods was used in order to gain information from a wide range of sources, both from a company perspective and from a consumer perspective. The following diagram (figure 1) outlines the research process for the study.

Analysis of the Data

The data uncovered in this study tended to support a common theme and therefore was easy to understand on most levels. Figure 2, seen below, shows the ‘thematic’ patterns that emerged from the interviews. The ‘codes’ shown are essentially representative of the emergent ‘themes’ from the 1:1 interviews conducted with television industry executives (n = 3).

Among these three interviewees questioned for the study, the idea of a merger between a television network and a premium channel was overwhelmingly deemed as not wise. This was mentioned on 19 separate occasions over the three interviews (see above table for this total).

Much of the negative commentary included ideas as to why such an idea would not work, including two mentions of substantial job losses. Other factors included the limited original programming airing on premium networks, making it more difficult to provide a full schedule to a television network.
Additionally, interviewees indicated that what television networks and premium cable channels were doing was working for their respective businesses. It was discussed that a merger or combination of channels would do more harm than good for both sides.

All three individuals also stressed that various options of the sort had been attempted and had failed in the past. There were six mentions of the previous endeavors, as well as details behind why they hadn’t been successful.

The Questionnaire

Data from the questionnaire was made up of answers from 72 respondents. Of these, roughly 40% were male and 60% were female. The majority of respondents were between the ages of 26 and 35, while 32% were between 36 and 50 years old, and roughly 12% were older than 51. Ten percent were between 18 and 25 years of age.

For the most part, respondents resided in the United States, where information on the study was most relevant due to the availability of the channels and programming being reported on. However, two replies from the United Kingdom, as well as one from Canada and one from Germany.

The four replies from outside the United States were given either by former United States residents or people with access to American television programming. For this reason, their responses were considered to be well informed and therefore were included in the findings. The main sample (n=72) was a purposive sample of average regular TV viewers.

Several questions related to previous attempts to show premium channel content on network television. Among these was the television show Dexter, which originally aired on Showtime but was shown on CBS for a brief time.

Only 17% of respondents were aware that the show had aired on CBS, while 3% were unsure. Nearly 81% were not aware of it – only several episodes aired before the show was pulled. 97% reported never watching the show on CBS, while the remaining 3% were unsure.

If NBC turned into a premium channel with no content restrictions, but did not show feature films, respondents were less likely to pay for the service. Only 18% said they would pay up to ten dollars per month, while nearly 81% said they would not pay for the channel. One person reported that they would pay 30 dollars or more per month for this option.

A separate option would be for content restrictions to be lessened on NBC; a small charge, ranging from a few cents to one dollar, would be added to a subscriber’s monthly cable bill. The network would not show uncensored movies.

Given this scenario, 14% indicated that they would pay ten cents a month for the channel, while 13% said they would pay 25 cents and another 13% were willing to pay up to one dollar a month. Only 3% said they would pay more than one dollar, though the majority, at more than 58%, said they would not pay for the channel.
Discussion of the Data

Several important patterns emerged from the findings in this study, both through the interviews and the questionnaire findings. The results from the questionnaire were fairly consistent with the opinions of company executives interviewed for this research.

All three NBC executives interviewed for the study indicated that a merger between a premium channel and a television network would not be a good idea. NBC’s manager of comedy development, Charlie Andrews, stated that various methods of airing premium content on network television had already been attempted.

The most relevant of these was that of Showtime’s Dexter airing on CBS for a brief time in 2007. This was done in response to a strike by the Writer’s Guild of America (WGA.) CBS executives needed to fill holes in their schedule to compensate for programs normally penned by WGA members, so previously completed episodes of Dexter were edited for content and shown on the network.

Charlie Andrews, Manager of Comedy Development at NBC, pointed out that CBS only aired four episodes before pulling the show from the network due to poor ratings. This was consistent with the findings of the questionnaire – more than 80% were not aware the show had aired on CBS, and not a single respondent had watched it.

The data seemed to have overwhelmingly suggested that a merger between a premium channel and a television network would not succeed. The most telling evidence came from questionnaire findings and information from company executives.

Prior to the research, a merger seemed like a worthwhile venture in that it would allow for two separate companies to share programming. The exposure of premium channel content to a larger audience was the main factor behind this line of thinking.

The discovery that this had in fact been tried on several different occasions was the first indication that this was not a new idea. Even more revealing was the fact that changes in show formats and network branding had failed in the eyes of executives and authors who had studied various examples.

Given several different scenarios, questionnaire respondents indicated that, for the most part, they would not pay for NBC, even if the network made changes and offered additional programming. This shed light on the idea that viewers were able to access the programs they wanted to see, and found a way to do so that fit their lifestyle and budget, be it paying for premium services and watching the shows when they aired, or viewing them online at their own convenience for a reduced cost.

Summary and Conclusions

The intention of this study was to determine how to best provide television content to the largest number of viewers. More specifically, options regarding premium channel content were compared.
The thinking behind this was that premium channels had high subscription fees and no restrictions concerning graphic content. Due to these two factors, original shows produced by HBO and Showtime were only visible to a small number of viewers in comparison to network television programming.

Several options were explored in order to highlight the best ways for premium channels and networks to share resources and allow content to be accessible to a larger audience. By maximizing resources, the theory was that ratings, especially from premium channel shows, would improve.

The main findings of this study indicate that a proposed merger between a television network and a premium cable channel would not be successful. NBC executives unanimously agreed that such an endeavor had already been attempted on a small scale. While an actual merger of channels and content had not taken place, premium channel shows like Dexter had been shown on network television and were not considered to be successful. This example was precisely the driving factor behind the idea of a merger, and it had failed.

While the viewer preferences collected for this study indicated that changes had already occurred, it would be beneficial to look at how the trend has changed from just ten years ago. This would help to predict where the industry is going in the future.

The information gathered from such a study would not only help networks to understand and make use of viewer preferences, but the results could assist executives be proactive. If they could view patterns of how television is watched, they could influence that pattern and steer it in a certain direction, giving them more control over how their content is watched and how they can maximize their resources.

Given the technological changes and the number of options now available to television viewers, companies must look forward to determine how to keep viewers interested. Entertaining programming is only one factor at play.

The television industry is continuing to evolve. While the options put forth by executives for this study may not have been well received by viewers, and the proposed merger was not recommended, it could be just a matter of time before another change – possibly a merger or a change in format – is proposed that has all the right elements of a successful deal in the television business.

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References


