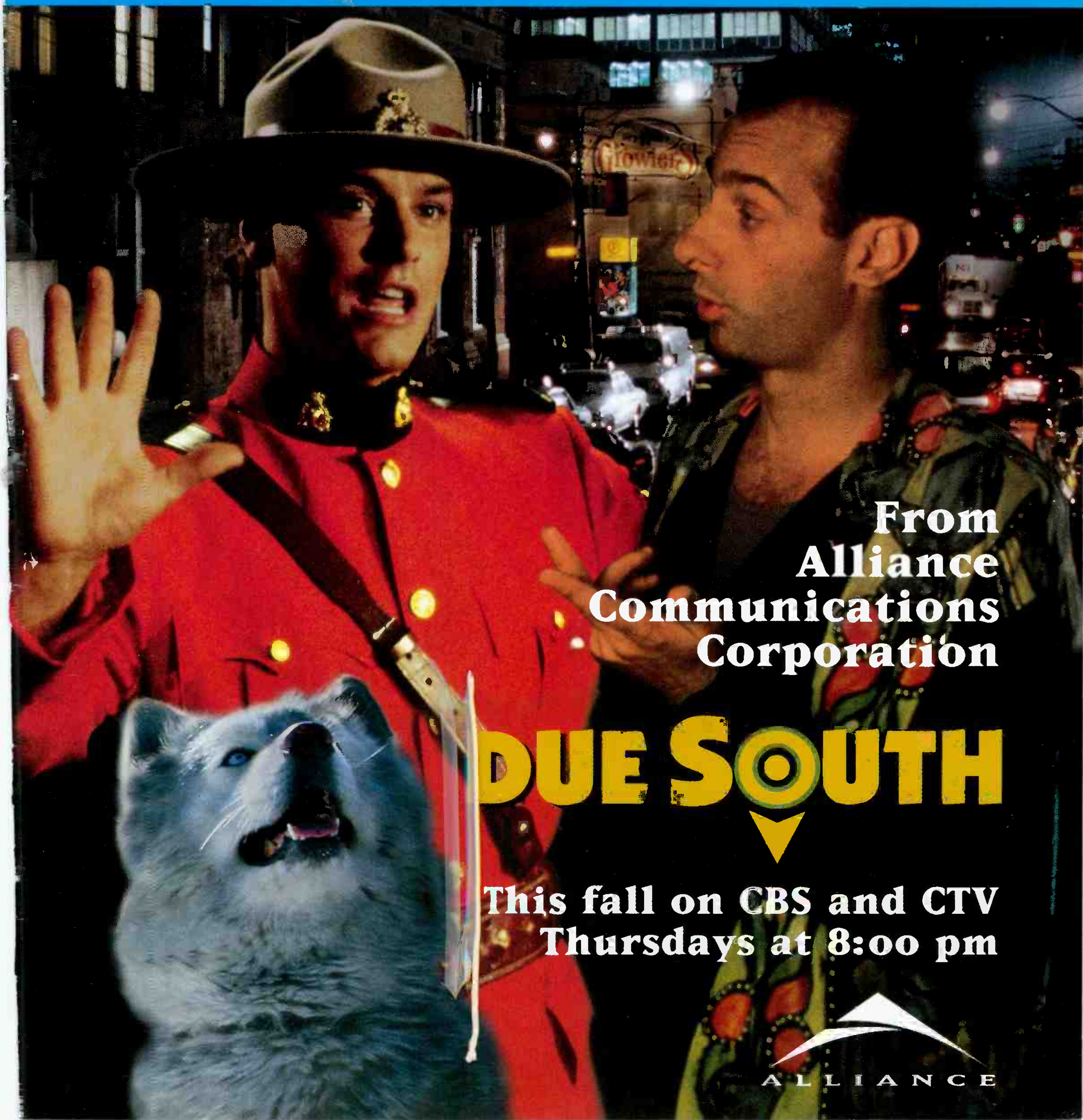
TBI TELEVISION BUSINESS INTERNATIONAL

JUNE 1994



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TBI TELEVISION BUSINESS INTERNATIONAL

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Back And Forth

See the big pendulum. See it swing up. See it swing way, way up. The press is excited about interactive tv. The media love multimedia. But wait. The pendulum stopped. It's starting to swing back, it's swinging back hard. The press hates interactive. Convergence isn't happening. Duck!

The hyping and unhyping of the digital revolution is a treat to watch – if you're not directly in the way of that pendulum. Of course, something that's fun to watch may not necessarily help you figure out what's going on in the world. We've had questions about this new field since all the talk started. Last year at this time, TBI reported on the woeful lack of consumer research available on interactive tv. In a separate essay in that issue, George Gilder forecast the death of the tv and telephone industries, saying everything would merge into the computer. Funnily enough, a slew of recent articles forecast interactive services are now likely to be delivered by the PC, not the tv. This year, TBI publishes a series of hard-nosed case studies that look at how companies in different sectors are gearing up to create interactive services. We've focused on what they are doing, not what might happen.

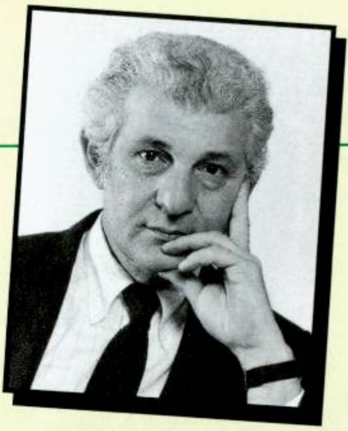
To be fair, you can pick up some interesting little titbits in the articles coming out these days: just ignore all the attempts to jump on the next bandwagon out of town. Take the following analysis the Sunday *New York Times* got off of New York consultant Robert Alexander:

Mr Alexander estimated that it would cost $100 billion to deploy an advanced electronic network to most American homes. That works out to about $1,000 per home, although even that number will seem optimistic until 1996 or 1997. He then assumed that the price per movie in the interactive television trials would be $1 to $4, generating an hourly rate of 50 cents to $2 per hour, of which the cable operator would clear 25 cents to $1. Then he estimated that the cable industry would require a 15 to 20% return on investment. If that is true, it would require $20 billion in revenue, equal to 20 to 80 billion hours of movies on demand. If the figure were 50 billion hours that would work out to about 500 hours per household – 10 hours per week, or five movies a week for every household in the country. "It's not disloyal to say that this kind of activity is simply not on the cards," Mr Alexander said.

The first thing you have to wonder is why people like this weren't being quoted when everybody was so excited about the coming – now stalled – revolution. To be honest, the main reason the press is now so pessimistic is because a few big deals, including the big kahuna, the Bell Atlantic-Tele-Communications Inc. merger, have fallen apart. But were those deals really about the future? More and more, the Bell Atlantic-TCI merger looks like John Malone throwing a hissy-fit because the government wouldn't let him do everything he wanted. If the deal was about the long, long-term future, the two really shouldn't have been allowed to pull such a grand alliance apart. Maybe Bell Atlantic and TCI didn't mean what they said in all those nice press releases.

The Editor

Back From The Virtual Future



BY LES BROWN

Suddenly it all subsided – all the excitement about the information superhighway.

For the better part of a year the highway was one of the hottest running stories in the U.S. media. Every day brought a breathless report or two on a new muscular merger or cross-industry business alliance, a wondrous technological development in the digital revolution, or a White House policy initiative to speed the construction.

Then with the unexpected crash of the mother of all media mergers – the $30 billion acquisition of TCI Cable by Bell Atlantic – came a pause. Soon another cable-telco merger fizzled, because of new rate regulations for cable; and then a giant telephone deal was put on hold while the government studied the anti-trust implications.

Meanwhile, two projects that symbolized tomorrow's-arrival-today missed their deadlines. Time Warner postponed the launch of its 500-channel cable system in Florida to work out technical glitches, and the first of the digital DBS services delayed its April roll-out.

All these non-events were quite sobering. The whirlwind of change that seemed about to sweep over the entire landscape turned out to be a storm that hadn't yet gathered. Reality set in. Assumptions that were made as givens before now become questions: will people pay for information, how much, how soon? Will people readily give up the old television for the new?

Whatever the answers, it's clear now that the superhighway will open its many lanes later rather than sooner.

I for one, as citizen and professional observer, consider it good news that the passage into the digital age will occur in a more measured and sensible way. The government says it didn't mean to create a slow-down with its meddling, but that has been the effect in financial markets, and just as well.

In this period of regrouping, there is even a chance of small, visionary entrepreneurs getting into a game the big players had claimed for themselves.

Scores of large companies, whether they realize it or not, were spared embarrassment and financial losses when the mass hysteria dissipated in April. We have all lived long enough to know how often big business is given to folly. Many a corporation was poised to drive on to the highway almost blindly for fear of being left out of the future.

To get in early on something new is to ensure market share, but this wisdom only applies if what you're getting into succeeds. The plain fact is that too many extraordinary digital devices and services are seeking to tap the consumer's wallet at the same time. And the typical consumer doesn't understand half of what's out there. Nor for that matter is he or she manifestly anxious to strain the household budget for more entertainment options and the convenience of electronic delivery.

Americans today spend an average $22 a month for cable services and have complained to Congress that the rates are excessive. The dazzling new interactive cable systems which are costing billions to build, need users to spend an average $100 a month. If communications history is a guide, that kind of step-up in spending for something new may take 20 years or more.

At the same time, the consumer is being pitched DBS, CD-Rom, video dial tone, on-line computer services, cellular phones, personal communication systems, power books, virtual reality, and video games, among much else. All these face great marketing costs to make themselves heard above the noise. That expense necessarily finds its way to the price tag, which is self-defeating since price is a major issue in the sorting-out process. So the current breather fosters a return to virtual sanity.

This is reflected in the way the rhetoric of the revolution has given way to evolution in the speeches of the industry's visionaries.

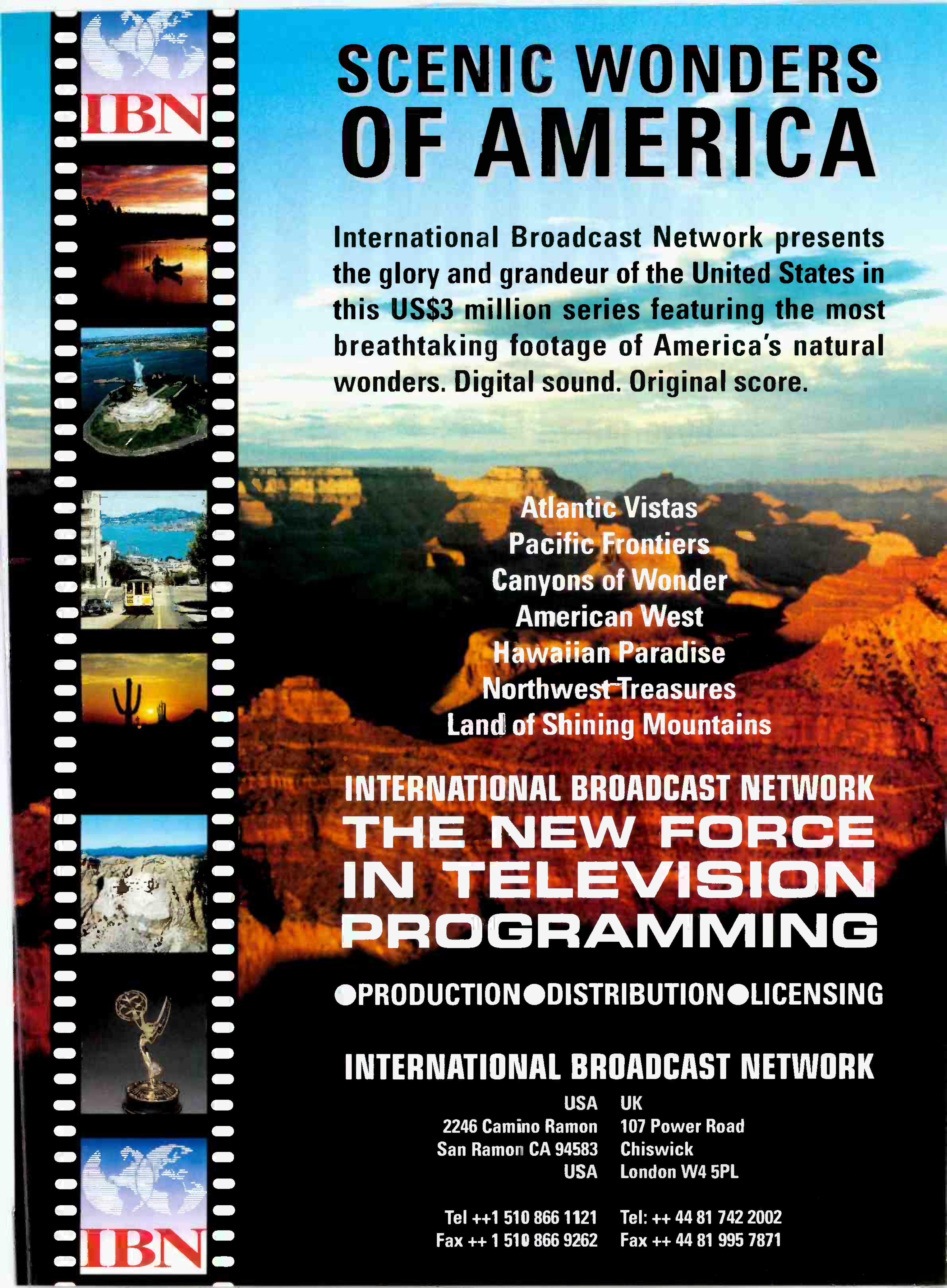
All the mind-bending projects like Time Warner's "full service" cable systems and Bell Atlantic's Stargazer, which stimulates a shopping mall for every kind of digital video service, are spoken of today as prototypes rather than technologies on the verge of explosion. And the future is never next year anymore but sometime after the year 2000. So it goes in post-frenzy America.

The frenzy had actually begun when TCI's John Malone and Bell Atlantic's Raymond Smith disclosed plans for the immediate construction of a fibre-optic interactive web.

The significant word was 'immediate'. That gave the future a timetable, and everyone went berserk, though understandably. Malone is a genuine front-runner on the frontier, and when he decides to accelerate progress that's the signal the future has begun.

Everyone sees things more clearly now. Everyone is wise to the hype. And that is likely to be the way – until Malone, or someone as powerful, makes another move to break from the pack. TBI

Many a corporation was poised to drive onto the highway almost blindly for fear of being left out of the future. Now they are regrouping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MONITOR

FRANCE

Government Alters Tack On Quotas

France will push for revenue criterion instead of content

As EU members wrangle over a possible redrafting of the 1989 *Television Without Frontiers* directive, the French government is preparing to modify its stance on one of the directive's most controversial aspects: program quotas.

Sources within the government are believed to favor altering the requirement that broadcasters "reserve for European works a majority proportion of transmission time" to a share of revenue rather than output. The shift of emphasis indicates a recognition both that the original requirement has not had the desired effect, and that the French are unlikely to be able to persuade other member states to adopt a system of strict broadcast quotas.

The fact that European independent producer's umbrella group CEPI has put forward a similar proposal indicates that the government can expect full support from producers. The increasingly powerful tv producers' lobby is fast losing confidence in the efficiency of the current system, which has allowed more liberal interpretations of the quota rule by member states.

The French proposal would place a less onerous burden on new ventures in their launch phase, although it would call for the requirement to invest in European production to be strictly enforced.

The stringent domestic system involving quotas, subsidies and regulated windows was designed to protect the French movie industry, but cinema and tv heads have found themselves standing at the crossroads. Other channels broadcasting in France only have to abide by the less restrictive directive.

The Gallic channels have found themselves at a disadvantage. According to French regulations, a tv channel cannot broadcast films 24 hours a day unless it is a pay-tv station and devotes at least 40% of its revenue to buying films. No broadcaster can show films on either Saturday or Wednesday or on Friday evenings before 10pm.

For a time the government tried to force all cable channels which wanted carriage in France – foreign or otherwise – to sign a convention with the regulatory authority the CSA forcing them to abide by the French system. The Cartoon Network/TNT, which was unable to adhere to the quota system, was refused cable carriage.

However, not all the other channels have agreed to play the game the French way. CLT, owner of RTL, a French-language channel which broadcasts from Luxembourg, signed the contract for one year. In April, RTL manager Jacques Rigaud wrote to the CSA stating that the channel would begin to abide by the less strict European directive with regard to the broadcasting of movies once the contract expired.

by Serge Siritzky — PARIS

CHINA

Official Line Is Hard On Outside Investors

Foreigners can supply equipment, but not programs, to Chinese cable

A recent crackdown on the broadcasting of western programming in China is unlikely to be lifted in the near future, according to Liu Xiliand, vice minister of the Radio, Film and Television Ministry. The main point at issue is the presence of foreign shows on the country's cable tv channels. According to Xiliand, foreign companies are permitted to supply equipment to the 600 licensed cable television companies, but not programming. Foreign companies are forbidden from holding even a minority stake in the burgeoning industry.

It is clear Xiliand's comments are in keeping with the hardline atmosphere. Chinese patriarch Deng Xiaping is in failing health and political interests are shaping up for a power struggle. Media policy makers are anxious to protect themselves should the hardliners gain power in the future.

Xiliand's comments follow earlier ones made by the ministry's cable television head, Zhou Caifu, who stated that foreign groups could not set up or operate cable companies in China, or take part in joint ventures or co-operatives with Chinese cable interests.

The Chinese authorities are particularly concerned about cable as, unlike the terrestrial channels, the operations are generally owned by private enterprises and are not directly controlled by the state.

In reality, it is the means of program distribution the Chinese are keen to control, rather than the actual broadcasting of foreign product. Xiliand said the cable crackdown and the scheme introduced last October to license satellite dishes has helped end the "chaotic" situation and boost "technical standards." There is little doubt planners see the television boom as a convenient way of radically expanding and improving China's communications infrastructure, in addition to spreading state propaganda and ideology.

However there is a big difference between government pronouncements made in Beijing and what actually occurs in practice outside the capital.

Xiliand said there are almost no cable operators running western programming directly from a satellite tv receiving dish. This does not mean that overseas programming has disappeared from Chinese screens – in many instances it still forms a third of a station's output, as domestic producers are unable to keep up with the demands for software.

Whatever the uncertainty surrounding the sale of programming to cable systems, overseas suppliers have been successful in making direct deals with China's 35 provincial stations and local channels in cities like Guangdong, Shanghai, Chengdu and Nanjing. In January, the national broadcaster China Central Television (CCTV) concluded a deal with Australia Television International – the Australian Broadcasting Corporation's satellite service – for entertainment, news and current affairs programming.

Hong Kong's Asia Television (ATV) has meanwhile announced the setting-up of a joint programming venture between itself and the Chinese and Taiwanese governments. The first fruit will be a 30-minute economic and financial news program called *China Economic Weekly*, to run on CCTV 2. A deal for distribution through a Taiwanese cable system is likely to follow by the end of the year.

CCTV is also planning to launch two advertiser-supported satellite services, one for sports and one for movies, in the fourth quarter of 1994. Bidders may be sought to supply international movies for the entertainment channel and contracts have already been signed for sports events, including a deal for the soccer World Cup.

by Owen Hughes — HONG KONG

TEL-AD LIKE IT IS

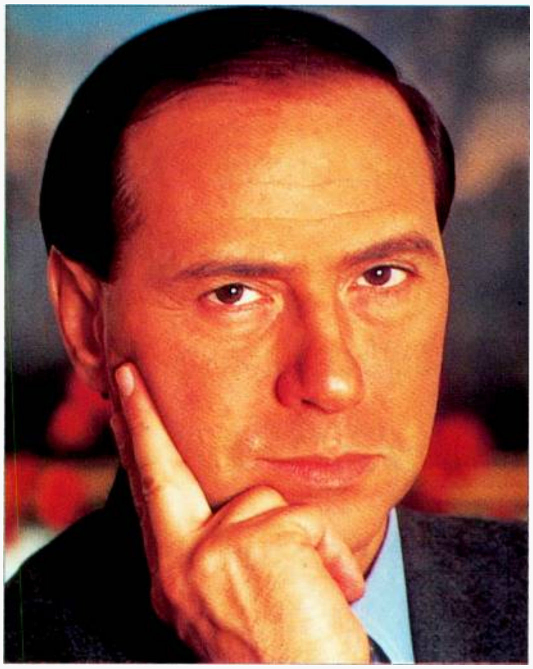
Tel-Ad, one of the four companies which operates Israel's Channel Two, had 11 programs in the top 50 between February 6 and March 5, according to the Gallup survey. The article in May's TBI referred to another top 50 published in a local trade magazine which gave Tel-Ad a single program in the top 50 over the same period.

ITALY

Broadcast Reforms Put To The Vote

A referendum could be the key to amending Italy's tv law

Italy's many political parties have all announced plans to change the 1990 tv law, but prospects for a major reform in the near future are still a long way from becoming a reality.



Silvio Berlusconi: Reform of tv law a popular issue

Thus, while the political discussions continue, a group of associations, politicians, and show business managers and artists have taken the matter into their own hands and launched a campaign pushing for a national referendum.

The aim of the referendum committee is to change three crucial points of the current so-called "Mammi" tv law (named after the Minister of Posts and Telecommunications who prepared it in 1990). The law was eventually approved by parliament after the harshest of debates and was generally considered to be awful, even by those who had approved it, including Mammi.

The referendum committee's three main proposed changes deal with the country's anti-trust rules. Firstly, they argue an individual should only be allowed to own one national television channel, as opposed to the three currently allowed. Such a move would "grant real competition and independence to Italian tv, as is the

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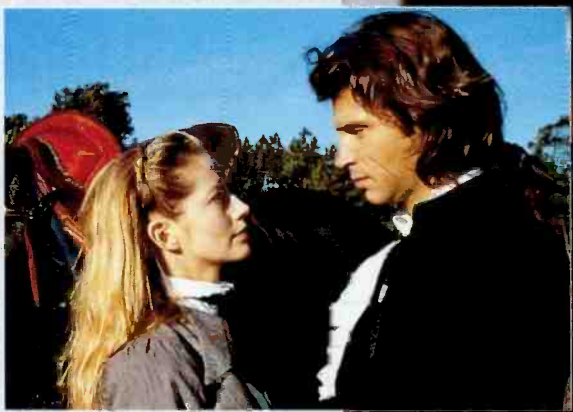

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CZECHS RESIST PRIVATIZATION

Czech national broadcaster Ceskà Televize will fight to hold on to its second channel despite calls from members of parliament for it to be privatized. "If we lose the second channel, it will create problems for the whole service," said Ivo Mathé, general director. "With two channels, there is more possibility of showing culture and special events."

The channel, CT2, was originally used to transmit Soviet tv. Mathé said CT was upgrading the network and that it would cover 77% of the population by the end of the year.

The first independent survey of tv viewing in the Czech Republic showed CT1 just ahead of its privately owned rival, Nova. According to the survey by Aisa Media and GfK, 63% of the population tune into CT1 every day, compared to 59% for Nova. CT2 managed 11% and Premiera, a private channel available only in Prague, and the surrounding region, 6%.

case in all other European countries, especially in the areas of news and cultural programs," said the committee.

The second point deals with advertising. Advertising sales houses currently have no limit on the number of tv networks they may represent. The referendum calls for a maximum of two. This would mean an end to the current duopoly formed by Sipra (Rai's sales house) and Fininvest's Publitalia '80, which, with three channels each, account for about 96% of the national tv audience.

The third and final point deals with the number of advertising breaks aired during films. Instead of the seven permitted under current laws, the referendum committee calls for a limit of three: one before the film, one during the natural break and one at the end. Only during very long films, with two natural breaks, should the limit be set at four.

A collection of signatures began on April 28. If no new vote has been approved once the necessary 500,000 target has been reached, the Italian people will vote for what they think should be the future of Italian television.

by Cecilia Zecchinelli — MILAN

JAPAN

Authorities Pave Way For Digital TV

Consortium to launch 50 satellite channels for Japan and Asia

Prospects for the advent of digital television in Japan have suddenly taken a giant leap forward with a Ministry of Post and Telecommunications (MPT) announcement, May 12, of plans for the digitization of broadcasting.

If all proceeds as expected, digital CS broadcasts will begin in 1996, followed by BS broadcasts in 2008 and terrestrial broadcasts from 2000 to 2009. To encourage digital broadcasters to enter telecommunications and other new businesses, the MPT has said it will eliminate the regulatory divide currently existing between broadcasting and telecoms.

On May 16, the MPT submitted the proposal to the Multimedia Study Group, an advisory panel to the Broadcasting Administration Bureau director-general Akimasa Egawa. Using the proposal as a base, the study group will prepare a report by next March. Egawa recently faced a storm of criticism over his comments that Japan should consider abandoning its Hi-Vision analog system in favor of digital.

To reassure NHK, which developed the analog Muse standard for HDTV broadcasts, and manufacturers, who have yet to see a return on their investment in HDTV development, the MPT will set aside an analog band on the satellites that will begin beaming digital transmissions in 2008.

Around the same time, a Japanese consortium comprised of trading houses Itochu, Mitsui, Sumitomo, Nishho Iwai and common carrier Japan Satellite System (Jsat) announced plans to beam 50 digitally compressed tv channels throughout Japan and parts of Asia via a Jsat satellite, scheduled for launch in 1995. Broadcasts are to begin in 1996 whereupon cable tv programmers, terrestrial commercial channels and CS broadcasters will use the satellite to beam sports, tv games, music and pay-per-view movies.

According to preliminary projections, two million subscribers will be watching the new multichannel service four to five years after its launch.

In order to collect fees from subscribers and recruit advertisers, the consortium is planning to set up an as yet unnamed joint venture company. "This is still in the study stage – nothing final has been decided," said a Jsat spokesperson. "We are going to keep consulting with each other and with electronics companies, the MPT and other interested parties to see which way we want to go."

Jsat's current analogue system transmits only one channel per transponder, but with digital compression the number will increase to between four and 10 channels. This will enable the consortium to sharply reduce the current annual transponder fee of ¥600 million ($5.8 million) and cut the total cost of broadcasting the channels to one-sixth compared with the current analogue system. Consumers will be able to subscribe for as little as ¥3,000 ($29.16) a month, nearly the same as the package fee for the four communications satellite channels Jsat currently beams to 17,515 subscribers (On July 1, that package will expand to five with the addition of the BBC's World Service Television). Receiving equipment is projected to

Digital CS broadcasts are slated for 1996

ATC BRANCHES OUT

State broadcaster Argentina Televisora Color (ATC) will launch at least two more cable channels if ATC Cable, which started in April, proves a success. The new network, transmitted via the Nahuel satellite to all 600 of the country's cable operators, will broadcast free of charge for the first two to three months. After that time the signal will be encrypted and digitally compressed, leaving enough band space for more channels.

Proposals for the channel came about two years ago after the management dropped its plan to encrypt the existing ATC network. Cable systems will be able to purchase decoders for $2,100, making ATC Cable the cheapest encrypted network in Argentina.

The new network broadcasts 24 hours a day, offering cartoons in the morning and in-house and domestically-produced information and entertainment programs in the afternoon. National broadcast rights for foreign programs are being bought simultaneously for ATC and ATC Cable.

cost between ¥50,000 ($485) and ¥70,000 ($680) – highly competitive compared with current CS and BS gear.

Also in May another MPT advisory panel, the Telecommunications Committee, released a report calling for a three-step construction of an optical fibre information highway, beginning with prefectural seats in 2000; extending to cities with populations of 100,000 or greater by 2005 and covering the entire country by 2010. The report estimates that by the year 2010 the multimedia market will be worth ¥123 trillion ($1.18 trillion) and will employ 2,430,000 people.

To ensure this vision becomes a reality, the committee urged the MPT to quickly liberalize licensing procedures and fee structures, expand financing and tax incentives to private businesses, encourage the public sector to take an active role in building and relax rules hindering infrastructure development.

by Mark Schilling — TOKYO

GERMANY

Vox Partner Keeps Show On The Road

Channel may need new license if rescue negotiations succeed

The slow but steady demise of commercial infotainment channel Vox caused one of the biggest financial debacles in Germany's television history, but don't count the channel out just because it has gone into liquidation.

Plans are in the works to revamp the Cologne-based network with a new programming format and corporate structure.

Vox's days appeared to be numbered after liquidation proceedings started on May 1. The channel came to this impasse after publisher Süddeutsche Verlag, which had a 20% stake, pulled out, taking other shareholders with it, and leaving Ufa Film and Television holding the bag. Media regulations prevented the Bertelsmann subsidiary (which owned 24.9% of the channel) from going it alone.

The proceedings did not herald the final curtain call for Vox, however. Owing to unusual licensing arrangements – Alexander Kluge's Development Company for Television Programming (DCTP) held a separate license, besides the Vox Film and Television Company franchise – the channel remained on the air with a six-hour schedule sustained by DCTP productions.

Then, a final-hour accord between Kluge and Wolfgang Clement, the state official in North-Rhine Westphalia responsible for the media, enabled the channel to resume a full schedule, boosted by more entertainment and fewer talk shows and political magazines. The Vox market share rose practically overnight from 1.5% to 2%.

At the same time, fresh negotiations were continuing in a last-ditch attempt to restructure Vox and save it from oblivion. Interested parties reportedly included Ufa, film entrepreneur Herbert Kloiber's TeleMünchen with partner ABC Capital Cities, and Kluge's DCTP. Canada's CanWest, which figured in earlier talks, was also mentioned.

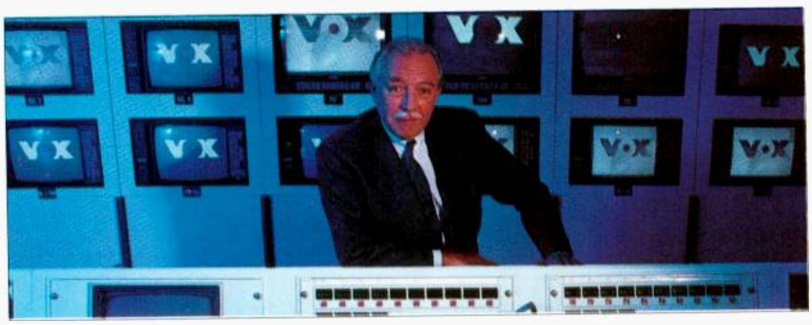
A joint media commission statement from North Rhine Westphalia, Hessen, Saarland and Bremen – the states responsible for backing the Westschienen Kanal project that later became Vox – said a new corporate structure could be realized "within a foreseeable time." However the commission threatened measures to revoke the channel's license, issued as an "information" broadcaster, should its program concept change.

This could prove problematic. If the negotiators do succeed in putting Vox back together by the June 20 deadline, what exactly will emerge from the talks is at present anyone's guess. In view of the commission's warning, the channel will probably have to be relicensed. The unexpectedly upbeat nature of the revived Vox, which aired previously unthinkable erotica such as the *Emmanuelle* sequences and *The Story Of O*, presaged the possibility of a general interest broadcaster offering not quite so highbrow entertainment. Press reports speculating on the conversion of Vox to RTL3 have been denied. Other reports envision an RTL Classic, supported by programming from RTL and the DCTP.

The business newspaper Handelsblatt, quoting participant circles, pictured the shareholder line-up as follows: 24.9% stakes for Ufa, CLT and TeleMünchen-ABC Capital Cities, 11% for DCTP, with the remaining 14.3% divided among other partners, including the publisher Bauer Verlag.

Vox was launched in February, 1993. Manfred Lahnstein, head of Bertelsmann's Electronic Media Division, puts start-up and operational losses at DM390 million ($235 million). Some experts, however, put the damage as high as DM 630 million ($380 million).

by Jack Kindred — MUNICH



Vox on the rocks, unless interested parties manage to find a workable solution

SATELLITE

Arabic Channels Launch Into Orbit

At a cost of $10,000 per decoder, the service doesn't come cheap

The Orbit Satellite Television and Radio Network launched its 20-channel digitally compressed service across 23 countries in the Middle East and Northern Africa at the end of last month (May).

Comprising of 16 tv channels and four radio channels, the service is uplinked from Orbit Communications' state-of-the-art digital studios in Rome, Italy, and is transmitted via several transponders on Arabsat and Intelsat. Broadcasting in both English and Arabic, the package includes CNN, The Discovery Channel, the BBC World Service's Arabic-language channel plus a number of original channels and joint ventures. Aside from the Middle East Broadcasting Centre (MBC), which broadcasts a free-to-air Arabic-language entertainment and news service to the region via Arabsat and terrestrial relays, Orbit has the pan-Middle Eastern market to itself.

Although the service will be free for the first year, a decoder will cost $10,000, plus shipping costs and local taxation. After a year, encryption, tiering and charging will come into effect.

According to Orbit manager of corporate communications, Marc Zachary, the decoder price has been jointly set by the factories manufacturing the hardware and the retailers. Furthermore, he said, Orbit will not make any money at all out of the sale of the decoders.

As Orbit is not intending to sell advertising or set up program sponsorships, except, perhaps, in the case of a big event such as the broadcasting of the World Cup on Orbit Sports/ESPN (a joint venture with ESPN International), the company will not begin to see any return until subscriptions are collected next year. Phil Braden, Orbit general manager, would not disclose the proposed monthly fees but said they would be comparable with other services.

Discovery's programs are being relayed by Orbit

Despite such hitches, chief executive of the Orbit Communications Group, Alexander B. Zilo, appears to have high hopes for the service and its fledgling market. "The Middle East is one of the last viable commercial frontiers, it could ultimately become more important than the U.S. market," he said. "Unlike the countries of Asia and Europe the region is united by two common threads: language and culture."

Braden said much of Orbit's programming will have an "Americana flavor" as "the Arabic population is high-earning, well-traveled and as such used to U.S. multichannel television."

For the last six months Orbit executives have been acquiring product and arranging output deals with the likes of Warner Brothers, Columbia Tristar and E! Entertainment with which to program its new channels. These include Orbit News, with programming supplied by ABC, NBC and CBS; Music Now, a world music channel, the Fun Channel, aimed at kids, two Arabic movie and entertainment channels called Al Oula and Al Thania respectively and a number of English-language movie and general entertainment channels.

Herein lies another problem. Orbit is reputedly backed by the Saudi royal family, hence its huge resources. However, a satellite dish ban in Saudi Arabia will render Orbit technically illegal in that country at least. As Orbit is uplinked from Italy it is exempt from local restrictions, but may well face protests throughout the whole region if unsuitable American product is aired.

According to Braden, cultural sensitivities will be observed to avoid controversy – "we will not show Basic Instinct there." In addition, future plans include a move towards the production of original product. A separate production company has been set up under the Orbit banner and is, said Braden, currently looking for co-production possibilities and joint ventures. Egypt, Lebanon, Jordan and Morocco are expected to be particularly prolific production centres.

The cost of the decoders suggests Orbit is going after an elitist, super-rich audience, although Zilo has been quoted as saying break-even is forecast after 400,000 subscribers. Estimates put the number of satellite dishes already in existence in the Middle East and North Africa at between 2.5 and three million.

Orbit will soon face competition for its subscriptions, however.

MBC plans to launch a package of subscriptions channels via MMDS within the Arabian Peninsula in 1994. At present its revenue is advertising and sponsorship-generated with the bulk of its business coming from multinational companies such as Coca Cola, BMW, Boeing and Unilever. MBC aims to breakeven during the next two years.

by Sarah Walker – LONDON

BBC/PEARSON ALLIANCE

The BBC says it is planning to launch a "family of news-led satellite channels" via a global strategic alliance with British media company Pearson. As a first step, the BBC and Pearson are launching two channels aimed at Europe, one offering news and information and a second offering entertainment, by the end of the year. Asia and the U.S. were earmarked as other key areas for development, with documentary and children's channels as possible products of further joint ventures. In Europe, Pearson will underwrite the £30 million ($45 million) cost of launching the two channels, which will be diluted if a third partner is brought into the venture. The news channel will be supported by advertising and the entertainment channel by subscription. The BBC's contribution will be limited to supplying staff and programs, and the arrangement will be structured so that none of the money raised from license fees in the UK is used directly to fund the operations. At the same time, the BBC restructured its international radio and tv operations into a new structure called BBC Worldwide, headed by deputy director-general Bob Phillis. A division called BBC International Television will handle the Pearson alliance, program sales, co-productions and other satellite tv operations.

ASIAN ALTERNATIVE

Asia may soon have its own regional satellite network to counter the influence of western media organisations, said Malaysia's information minister Datuk Mohammed Rahmar. Private companies have already begun to discuss the possibility of launching an Asean (the regional economic co-operation body) satellite network running programs produced by member nations and using satellites already in orbit. "An Asean network will be an alternative to western-controlled stations which now dominate satellite tv broadcasts. The network will carry programs produced by member countries such as Asean news, its people, cuture and achievements. However the setting up of such a network does not mean Malaysia will permit broadcasts from western-owned stations," Rahmar said.

ASIA

Star TV And Turner Set To Join Battle

Satellite services limber up to challenge Star TV's dominance

Murdoch's Star is adding film and music channels

Rupert Murdoch's Star TV and Ted Turner's Turner Broadcasting System (TBS) look set to begin battle in earnest this fall, after spending much of the year preparing their forces.

Having dropped the BBC's World Service Television from its northern footprint and MTV from all of its service, Star TV is hoping to attract viewers with its subscription channel, Star Movies, and its music channel, Star Music.

Meanwhile Turner is gearing up for the planned launch of the Cartoon Network/TNT in Asia on the ApStar-1 satellite this summer.

Star's Movie Channel, initially aimed at Taiwan's 2.6 million cable tv households, is scheduling a mix of 60% Chinese movies and 40% western fare, although it expects to pull in subscribers who mainly want to hear and see Asian faces, according to general manager Tony Watts. "We plan to be culturally sensitive – there is no point showing something like *Wayne's World* in Taiwan, it wouldn't work," he said. The Chinese movies have been acquired from the Golden Harvest and Golden Princess action-adventure-comedy libraries in Hong Kong, and the western product from 20th Century Fox's film archive. The films and interstitial material, including 20 first-run films a month, will air both Mandarin and English soundtracks with subtitles in either language. The channel will go into other countries once distribution deals are worked out.

Ross Portugeis, executive vice-president at Turner Entertainment Networks International, said TNT's films would feature Chinese subtitles, with plans to add Thai and Bahasa titles further down the line. The possibility of dubbing up to 200 hours of cartoons into regional languages by the end of the first year is being considered. Despite Asia's huge animation culture, there are no immediate co-production plans for the Cartoon Network, although, he added, feedback as to how much the audience wanted to see Asian productions would be noted.

Closely shadowing both Star TV and Turner in the pan-Asian market is Hong Kong's TVB International (TVBI), one of the so-called "gang of five" broadcasters set to rival Star TV in the region. TVBI's free-to-air service Super Channel already broadcasts an entertainment and news service, and plans are afoot for the launch of a sports-orientated subscription channel later this year. At the same time, TVBI will also be handling HBO's Taiwanese distribution as well as Asia Business News.

by Owen Hughes — HONG KONG

ISRAEL

Producers Lobby To Join The Media Fund

But the government is reluctant to jeopardise trade with the U.S.

The Israeli Association of Film and Television Producers is pressing the government to join the European Union's Media fund.

Leading the campaign are the association's chairman, Katriel Shakhori and his deputy, Alona Abat. Both successfully lobbied the government to include a clause in the law establishing the Second Channel, forcing the owners of the station to utilize independent producers for 60% of local programming.

The clause did not bring about the expected results as the owners generally produced their most lavish programs in-house while consigning the independents to far less lucrative contracts.

Shakhori and Abat view the state of their industry as desperate, pointing out that it has been years since the last major Israeli film or television production saw the light of day. In February they changed tactics and began to lobby for Israeli participation in Media.

"Israel can't possibly raise the kind of money [needed] to compete with American product, so we're kept out of the market. However, we could afford to participate in co-productions half covered by Media," said Abat.

In March, the lobbying effort seemed to bear fruit when the Ministry of Trade and Industry,

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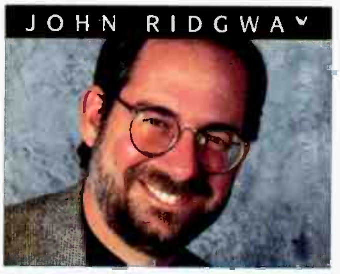

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The effects editor

MEGA GOES TO MARKET

Mega Channel, one of the two dominant private tv stations in Greece, is floating on the stock market. Its owner, the Teletypos publishing group, is planning to increase its capital with the issue of 3.7 million new shares. Mega plans to use the new capital to finance the construction of new studios in the Athens region, to upgrade its equipment and take on new personnel. According to the company accounts, Mega's revenues in 1993 were 21.05 billion drachma ($122 million), up from 15.79 billion drachma ($87 million) in 1992. Net profits were 3.05 billion drachma ($17 million), up from 1.06 billion drachma ($5 million). The company is forecasting 23.65 billion drachma ($133 million) in revenue and 3.4 billion drachma ($17 million) in profits for 1994 and expects continued improvements in the next two years.

responsible for supporting film and television production, appointed a special committee to investigate the possibility of joining Media.

In April, Shakhori and Abat campaigned in Europe. They received a commitment from Marcel Chatoun of the EU's Trade and Industry office that he would look favorably upon such an application, provided the Israeli government agreed to pay the $8 million required as its share of the Media fund.

Shakhori and Abat returned to Israel and called a meeting of government officials to report what they considered to be an important development. To their disappointment, the official response was that joining Media would likely constitute a breach of trade agreements with the U.S. In 1993, of the 154 foreign films imported into Israel, 122 were American. Tampering with the balance would cost the American industry real money.

Shakhori does not buy the government's argument. "The Israeli market is insignificant to Hollywood. Our only hope to ever crack the American market is through Europe. If we're kept out of Media, we may never build a serious production industry."

by Barry Chamish — TEL AVIV

TURKEY

TV Stations Need Allies In High Places

Private networks resist swinging powers of new tv commission

Private broadcasters in Turkey are lobbying to amend the broadcasting act passed in April. The most contentious part of the long-awaited bill, approved by the National Assembly on April 13, provides for the setting up of a Radio and TV Higher Commission with powers to close down and impose fines on broadcasters.

Yusuf Gökcek, deputy general manager of Show TV, the most successful of the private stations which have sprung up since the late 1980s, said private tv stations were working to persuade the necessary number of members of the house of representatives to challenge the law in the higher court.

They argue the nine-member commission will infringe the consititutional guarantee of government non-interference in broadcasting because the government will appoint five of its members. The other four will be appointed by the opposition parties.

Gökcek said the broadcasters were also anxious the commission, which will grant licenses and frequencies and determine standards and conditions, should be made up of "decent people" rather than "enemies of tv."

The bill's swift passage into law reflects official anxiety about the possible spread of radio and tv stations operated by fundamentalist Islamic groups and the PKK terrorist organisation. In early April, many stations broadcast reports about the Serbian attack on Gorazde which helped to inflame demonstrations nationwide.

A temporary provision in the law also calls on public and private broadcasters to pay 4% of their gross turnover to the commission over the first five years of its existence. Tobacco and alcohol advertising will be banned although OTC drugs will be permitted. Investment by foreign companies and by national newspapers will be limited to 20%.

The law comes at an inopportune time for the private stations, which are slashing program budgets in a bid to offset the crisis in the economy.

by Erhan Yarar — ANKARA

MARKETING

Stations Switch On To Power Of Brand

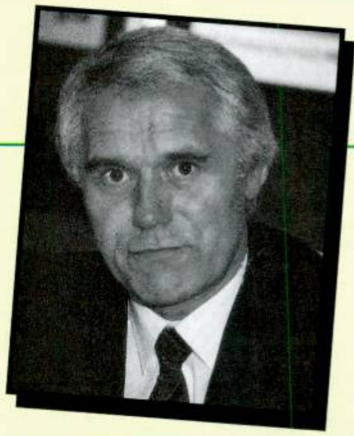
Competition is getting competitive, and this is just the start

As the biggest and best of the television marketing world in the U.S. gather in New Orleans for this year's Promax conference and exhibition, they will be joined by more international marketing executives than ever before. Competition in television is no longer just an American phenomenon – it hasn't been for some time. But it has taken a long time for station chiefs outside the U.S. to wake up to the power of corporate image and branding.

But the issues and problems that will be discussed at this Promax hold a more sinister and threatening undercurrent than in previous years. "500 channels on the way and no idea how to market them?" could be the sub-heading for the conference program. The only certainty is that brands have to be created and defended. Corporate image has to be all-powerful because the corporation could be on the line.

So where does this leave the marketers? Should they concentrate on building strong program strands and time periods, or should they pump all their efforts into corporate branding? Or perhaps they should just focus on the one-off big events, blockbusters and ground breaking programs. At this stage there is no obvious answer to any of these questions.

Freeing TV From The Politicians



BY WILFRIED AHRENS

The discussion is as old as it is undecided: To what degree does television influence politics, especially the fate of individual parties and politicians?

Journalists normally tend to deny any such influence, which is, of course, as hypocritical as the corresponding reaction on the part of politicians.

Their answer depends on whether they have lately profited or suffered from whatever went on the screen, whether they happen to be television's current darling or whipping-boy. The winners always owe their success to their merits and to the intelligence of their voters, including sympathizing tv journalists. The losers rank television high in their list of causes of their dismay.

Both winners and losers have one thing in common: they resolve to get a hold on that medium.

In good old tv monopoly times they more or less succeeded in controlling the medium: in some cases through direct state control, in others by infiltrating public channels with partisan management and journalists. The viewing public was reduced to financing the arrangement by way of taxes and fees. So far, so bad.

In this situation, commercial television has prompted some radical changes – and disappointed some politicians.

In Germany, for example, one strong motive behind the tv deregulation 10 years ago was to balance the supposedly leftist-liberal bias of ARD and ZDF with a more conservative commercial counterweight.

Sure, the advent of a dozen and more new channels has diminished the political impact not only of public tv but of television in general. What those politicians did not realize was the simple fact that the commercial channels have to earn their money in the marketplace, that they have to offer mass audience-winning programs in order to strive and survive. Political propaganda does not belong in that category. Hence the disappointment in those circles.

Enter Silvio Berlusconi. It is true, Sua Emmitenza's ascent (some think descent) to prime ministry in Italy a matter of months after entering politics has not changed the basics of the discussion. Here, too, the winner claims that television, let alone his own networks, had nothing to do with the outcome of the election. The losers as vehemently proclaim the contrary.

In just one sense both are right. Of course, Berlusconi never would have been able to establish his Forza Italia movement in such a short time had he not been the king of commercial television in Italy but the unknown overlord of, say, the country's macaroni business. And, of course, Berlusconi made profuse use of his publicity instrument.

But then, Berlusconi's channels rule only half of the tv market; the other half is still controlled by Rai. For decades, that state network of three channels was in the grip of the old political class, including the Communists. And giant Rai certainly did not use its propaganda potential to the advantage of Berlusconi and his political allies. In other words, television, the non-commercial half of it, can register itself on the losers' side, too.

Commercial channels have to offer mass audience-winning programs in order to survive. Political propaganda does not belong in that category

So, the only certain thing that can be said about tv's influence on the outcome of the Italian election is that the commercial and state elements cancelled each other out. The anti-Berlusconi Rai just did not have a clear zone of fire because the enemy could and did act and react in kind.

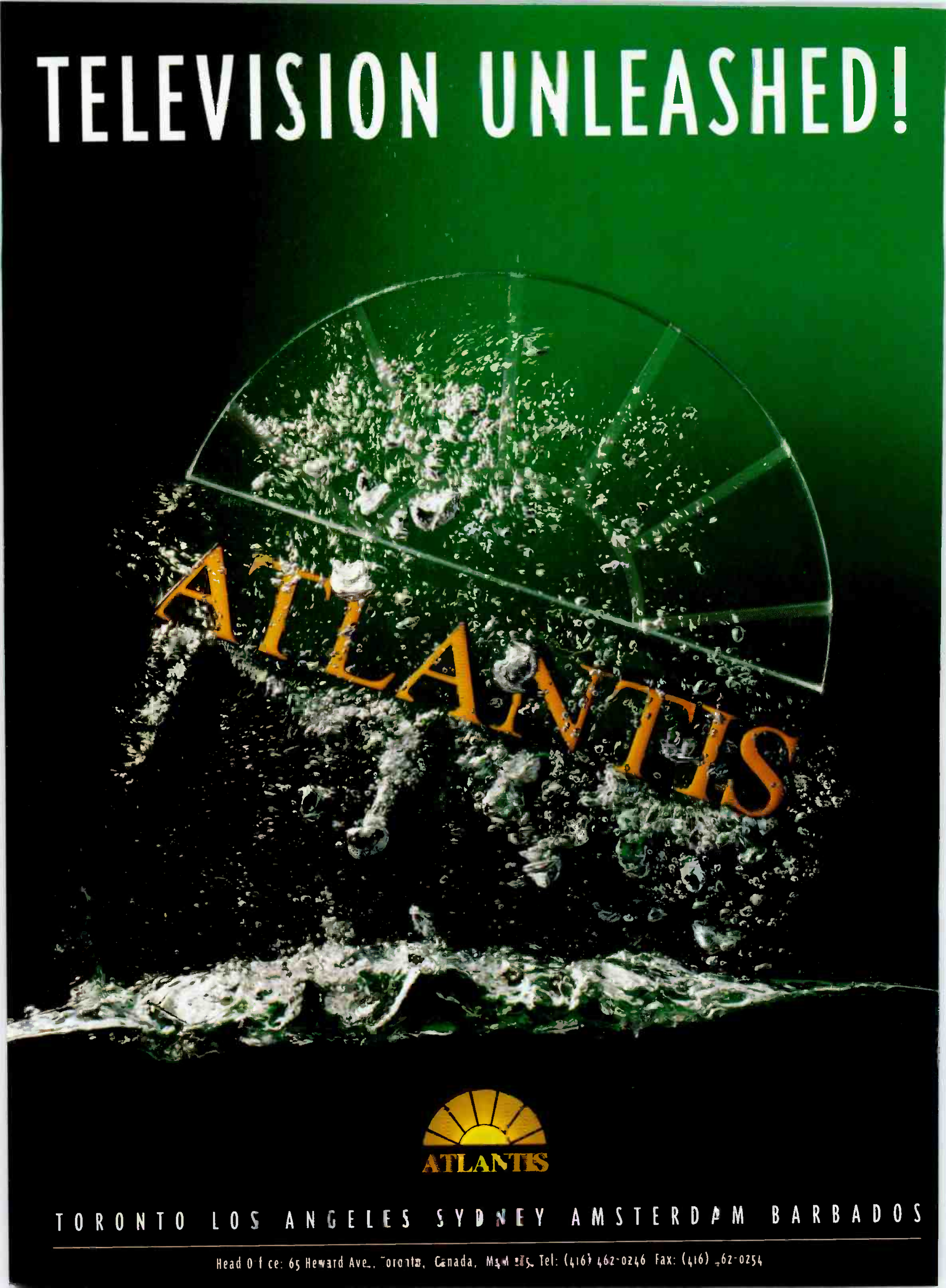
The tv entrepreneur's political victory has been denounced a danger to democracy. Is it really? The majority of Italians do not think so, even when asked about the inclusion of the small group of Neo-Fascists in the government (including the minister responsible for broadcasting). Maybe the self-styled defenders of democracy should have more respect for democracy's results.

Indisputably, the Italians did not opt for Berlusconi but, hopefully, for a new beginning. That is what they deserve after generations of public corruption, economic waste and Mafia-infested political personnel.

Berlusconi's task is intimidating. If he fails, he will be voted out of office as quickly as has now entered it. Of course he will have to divest himself of his media holdings, as any industrialist is obliged to sell his business interests the moment he enters government.

The notion that television will save him from public scrutiny is as silly as it is disrespectful of the country's democracy. The Italian morass certainly was deep, but it has been done away with by the Italians themselves, not by any allegedly better democrats outside the country. A bit of change in the old ways of public affairs is overdue elsewhere, too. The Italians have demonstrated that such change is possible even under extreme conditions.

Television has played its part in this process and exerted a legitimate influence by doing its job – reflecting and reporting reality – well. TBI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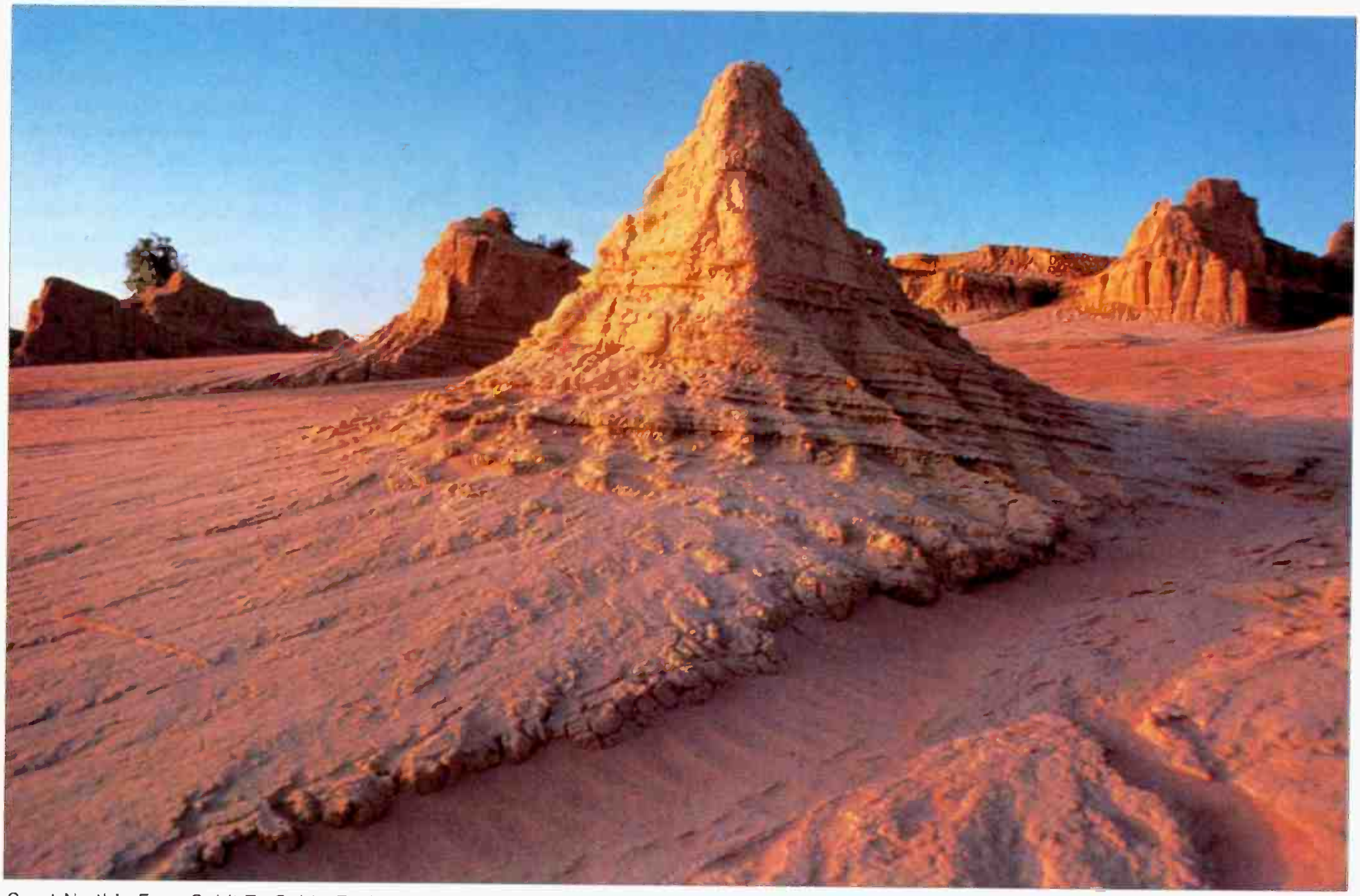


Great North's From Spirit To Spirit: Each co-producer paid for and produced three episodes and got broadcasts rights for all the shows

Historical accident, the cultural imperative of protecting themselves from the U.S., and smart business practice have made ace co-producers of the Canadians, reports Karen Murray

As multichannel environments flourish the world over and broadcasters and producers quake at the prospect of being swept away by a tide of imported product, the example of Canada might just soothe a few jangled nerves.

Fragmentation of viewing, an insufficient supply of license fee revenue on the domestic market, and exposure to the full force of the U.S. programming industry, have been a fact of Canadian business life for several years.

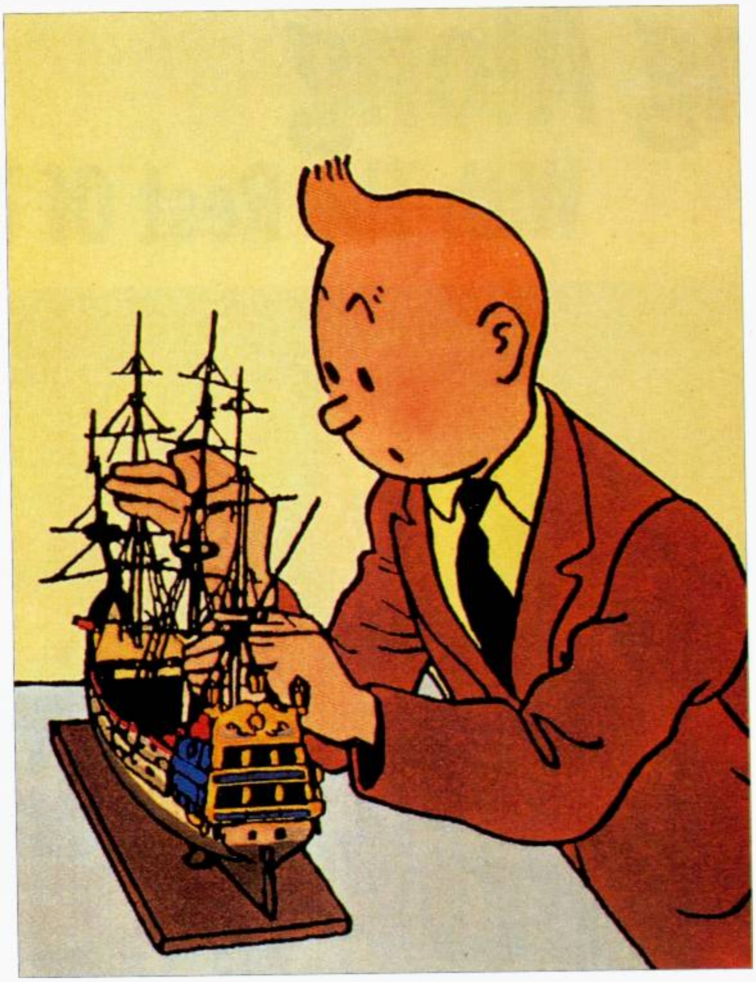
The Canadian industry is currently waiting for the Canadian Radio-Television and Telecommunications Commission (CRTC) to release its decision on which of the 48 applicants for new services will be granted broadcast licenses. The regulator held month-long hearings in March and is expected to release its decision in June. The majority of broadcasters and producers are involved in new license proposals.

The new channels will only add to the clutter of broadcast outlets. The city of Toronto is a case in point: an extended cable package includes more than 50 channels including national pubcaster CBC, private national network CTV, Ontario regional network Global, several regional stations and numerous Canadian and U.S. cable channels.

According to Ted Riley, executive vice-president of Atlantis, the Canadian experience is unparalleled in the world-wide tv industry. "We're the only country in the world where 85% of the population can watch CBS, ABC, NBC, Fox, whatever, on top of [our] domestic signals. We have unquestionably the worst and least desirable domestic market in the world in terms of major western nations."

With a population of 28 million, Canada is only one-tenth the size of the U.S. But the shared border means that Canada's tv market has always competed against the massive influx of American signals. And with cable penetration topping 80%, American programming majority became the product of choice among a majority of English-language viewers.

The domestic market was too small to support productions which could compete on an equal footing with the big-budget U.S. offerings. Ten years ago, recalls Robert Lantos, CEO of Alliance Communications, Canadian producers were far from being regarded as key players in the production business.



Tintin: Nelvana co-produced with French producer Ellipse

"Actually, there was no business in the first place. The business had to be invented from scratch. There were nothing but obstacles, both at home and internationally. We didn't exist," said Lantos.

"What there was for a long time in this country were a number of independent producers, who sometimes proliferated and then sometimes disappeared, and each made a movie or two every couple of years."

Canadian production companies recognized that having access to the world marketplace hinged on building up a sizeable library of quality product. "So we'd be better positioned to turn product into a business and have real access to world markets," Lantos said.

"It's a business of singles and doubles. You build a catalogue, you build a body of work, there's no windfall. It's all small victories," explained Riley.

And it has been a rapidly accelerating process in the last five years. As the domestic market continues to represent a smaller portion of distribution revenues, many Canadian producers have stepped up co-production activity. "More and more, entirely indigenous projects represent a smaller part of what we do," said Lantos.

One area where Canadian producers have made significant inroads over the last few years has been in producing for the U.S. marketplace. Many Canadian companies have established L.A. offices in their bid to increase exposure for Canadian programming.

It began in the mid-80s when Canadian programming found a home on American late-night tv. Next came the growth of U.S. cable channels which opened up new opportunities for producers. Canadian product carved out a niche for itself.

At the same time, the proliferation of new services began to cut into the market share of the U.S. networks. Canadian producers now found that doors at the networks – which had long been closed to them – were finally beginning to open. Americans began seeking out Canadian partners.

The most noteworthy example occurred during Toronto's Festival of Festivals trade forum two years ago when CBS president Jeff Sagansky offered an open invitation to Canadian producers to bring their project pitches to the network.

Numerous movie and miniseries projects produced with American networks have been a hit with viewers. That includes Alliance's *Family of Strangers* (starring Melissa Gilbert and Patty Duke Astin), Paragon's telepic *Stranger in the Mirror* (based on the Sidney Sheldon novel) and Atlantis' made-for-tv thriller, *Adrift* (starring Kate Jackson).

This fall, Alliance will score another first for Canada when *Due South* airs on CBS. An action comedy series which pairs up a straight-laced mountie with a streetwise Chicago cop, *Due South* will be the first Canadian series to show in prime-time on a U.S. network.

While Canadian producers have made headway in foreign markets, there are indications that English-language fare has gained increased acceptance on home turf, although it's still a question of denting the dominance of U.S. programming.

Several home-made series and made-for-tv movies and miniseries have built up audiences that were sizeable enough to earn them a place in A.C. Nielsen's Top 20 weekly listing. That includes series like Sullivan Film's *Road to Avonlea*, Alliance's *E.N.G.*, pubcaster CBC's *Street Legal* and Atlantis' *Adrift*.

And, ironically, it's been the substantial revenues that broadcasters receive for their American programming that has helped pay for their Canadian programming.

That's because the CRTC requires that private broadcasters spend a percentage of their advertising revenues on Canadian programming. They are also required to broadcast a minimum amount of Canadian content, generally 60% over an

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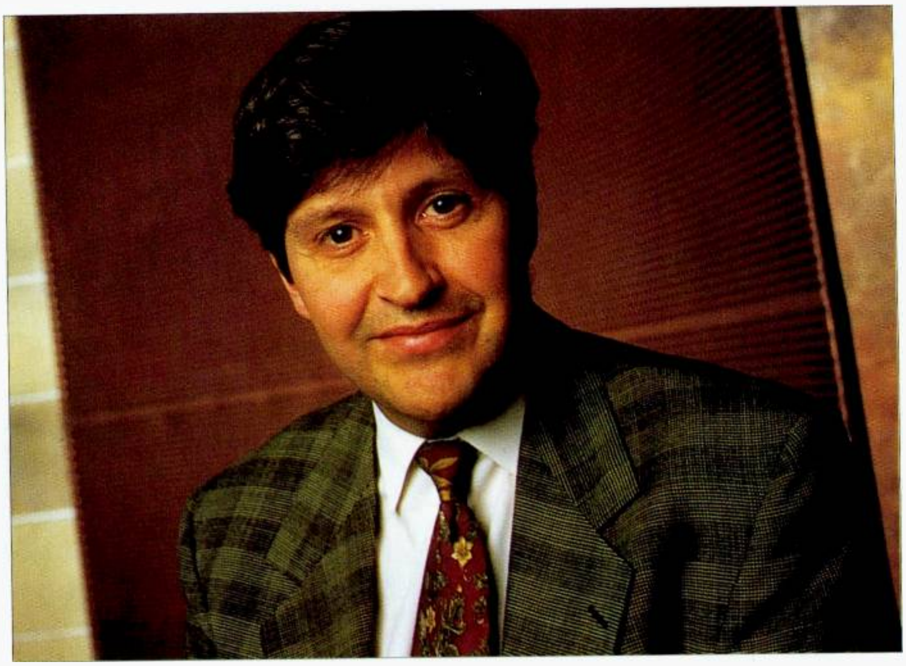
The situation is markedly different in the French-language province of Quebec, where home-grown fare outperforms U.S. programming. It's not uncommon for a Quebec-made miniseries to garner 60% of the viewing audience.

But the Quebec television market is still impacted by the same fragmentation problems as the rest of Canada. The addition of Canadian speciality channels in the last several years, combined with the influx of signals from the U.S., has resulted in smaller audiences and shrinking advertising revenues.

That means Quebec broadcasters and producers have also stepped up international co-production efforts. France would seem to be a natural ally for Quebec, since both countries share the same language. However, past co-production experiences between the two territories have demonstrated that a program which performs well in one market may not necessarily be warmly embraced by another.



Riley: Co-production is a matter of "small victories, there's no windfall"

Government agencies in Quebec and France are trying to change that situation with a unique co-production initiative called Franco-Fiction.

Agencies pooled C$10 million (U.S.$7.2 million) for a co-production project. Producers and screenwriters were then selected from each market through a contest. Quebec production firm Telefiction was the home-grown choice for *Mourir D'Amour*, a love story that's reincarnated through the ages.

The production was shot in France and Quebec this spring and writers made the trek both ways across the Atlantic so that they could work together and try to find some common cultural ground.

Telefiction producer Jacques Bonin said their objective is to make sure that the show will be interesting for the audiences in the two markets. "And this is the most difficult because there is a lot of difference culturally, even if we do speak the same language," he said.

The ability to produce in two languages is part of what is unique about the Canadian production industry. Companies like Montreal-based Cinar have successfully produced programming in both English and French.

Cinar, Alliance, Atlantis, Malofilm, Nelvana and Paragon have all become publicly-traded companies over the past year – a first for the Canadian industry. The six companies have combined annual sales of $C330 million ($237.60 million).

Pierre DesRoches, executive director of federal funder Telefilm Canada, noted that most of those companies make a large proportion of their sales to foreign markets.

"Some can even boast of having sold all their productions in every continent, including the U.S., which is the leading

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Toronto Tel.: (416) 205-3500 Fax: (416) 205-3482 London Tel.: (71) 412-9200 Fax: (71) 323-5658 export market for Canadian producers and distributors," DesRoches told an audience during Mip-tv in April. He also pointed out that the Canadian delegation at the annual tv market was the fourth largest.

"The existence of a vigorous audio-visual industry in a country with 28 million inhabitants, divided into two separate language markets, is certainly a uniquely Canadian phenomenon. But our industry possesses many other characteristics that are the source of our desire to increase the level of partnership between Canada and the countries of Europe," said DesRoches.

Lantos pointed out that being a Canadian producer does have advantages that "outweigh the disadvantage of having a domestic market in a state of utter disarray. And those advantages are what have created a favorable climate and given us a unique edge in this highly-competitive global business."

Lantos pointed out that Canadian producers have access to most of Europe and much of the rest of the world through co-production treaties. That means Canadians can tap into foreign subsidies through co-productions, in addition to cultural incentives that exist in Canada.

"These incentives have taken many shapes over the years and continue to exist and have played a key role, particularly in the earlier days, of forming the industry," said Lantos.

He said that probably the most important advantage is Canadian producers have access to public benefits in Canada and offshore, while also having easy access to the U.S. market.

"Now everybody theoretically has access to the U.S. market. But we have cultural proximity; that same bombardment of American programming which so weakens our domestic market, is also the mass culture that we imbibe from birth on. As a result, we don't have to go to school to learn how to create programming for American audiences because we share mythologies and we share a mass culture," said Lantos.

Canadian content requirements, tax shelter programs and Telefilm Canada's broadcast fund, each provided building blocks for the Canadian industry.

"Co-production is definitely the flavour of the month," said Cinar president Ron Weinberg. "I think the trend is no-one has enough money on their own to make shows for their market. It's as if a secret formula has been unleashed on the world and everybody wants the magic potion."

What constitutes a co-production is really a question of semantics. There is no official record of total co-production activity, although industry estimates say it is probably more than C$2 billion (U.S.$1.44 billion)

Even the definition of co-production seems somewhat elusive. Co-productions take many forms and Weinberg pointed out that what some producers call co-productions are nothing more than financing deals.

What constitutes a co-production is really a question of semantics. There is no official record of total co-production activity, although industry estimates say it is probably more than C$2 billion (U.S.$1.44 billion).

Co-ventures that are classified as Canadian content are certified through the CRTC. Operations manager David Grimes said the number of productions seeking Canadian content certification has dropped off sharply this year.

Telefilm Canada does keep records of co-productions that are administered under any of the 27 co-production agreements with 23 countries. Figures suggest that the number of television co-productions decreased from 27 projects in 1992 to 21 projects in 1993.

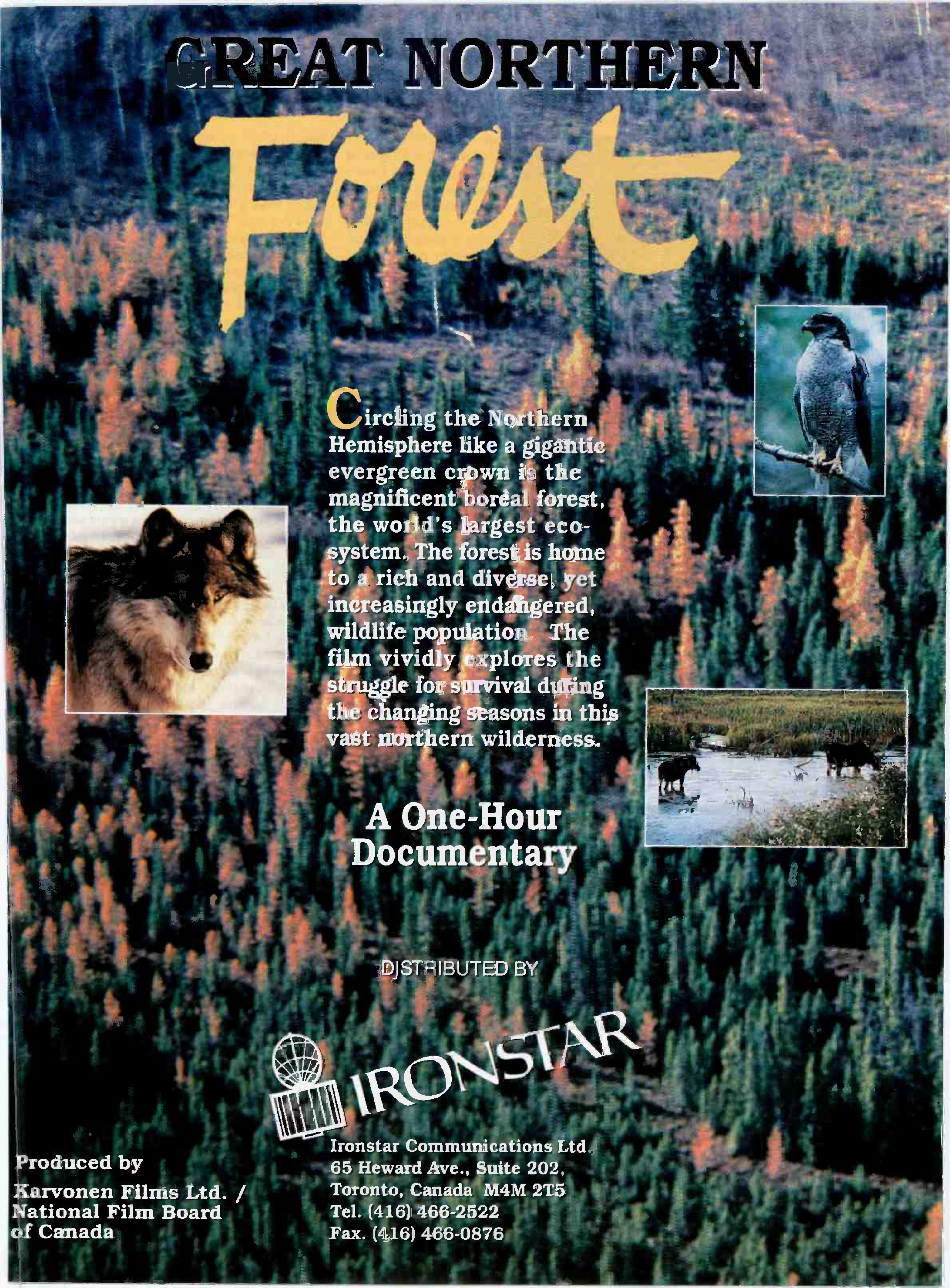
But Deborah Drisdell, who oversees international co-production at Telefilm, says those numbers are misleading because there is much more production activity beyond what qualifies as official treaty co-productions.

In the last decade, Telefilm's broadcast fund has helped to finance over 1,000 television programs and series, which collectively represent 5,000 production hours and 20,000 broadcast hours. The total budgets of independent productions supported by Telefilm is more that C$200 million ($144 million) per year.

DesRoches said the budget for 33 co-productions made through agreements with European countries totalled C$249 million ($179.28 million) in 1993. Some 50% of the projects were majority European co-productions and Telefilm aims to double that amount over the next five years. DesRoches called on their European partners to support their initiative.

"Our goal cannot be achieved unless our European partners are as convinced as we are of the need to collaborate. Canada is not part of Europe, but neither is it part of the U.S.," said DesRoches.

Tekwar: Atlantis got the Canadian rights, MCA/Universal the rest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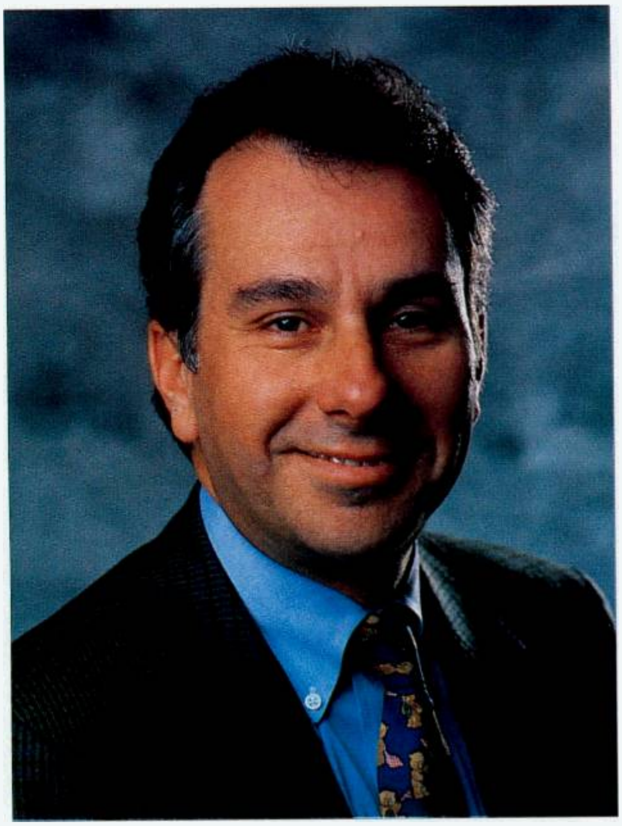


Weinberg: "No-one has enough money on their own"

National Film Board chief Joan Pennefather agreed with DesRoches. "We are hoping the European community will remain open to Canadian producers," she said.

The NFB is also looking for more international partnerships for its documentary, animated and feature film projects. Faced with a C$7 million ($5.04 million) rollback in government funding by 1997/98, the publicly-funded organization streamlined operations and announced plans to generate additional revenues and increase co-production activity.

Pennefather points out that Canadians looking for international support are challenged by the kind of projects they make. "Are films becoming more and more homogenized?" she queried.

"It's the day and age of compromise and flexibility," concurred Atlantis' Riley. "We always give up something to get something. It's the nature of the beast." He noted that it's not unusual, for example, to retain distribution rights for Europe and give Far East rights to a co-production partner.

He cited the financial arrangement that was put together between Atlantis and MCA/Universal for the production of *Tekwar*, a series of four movies based on books by William Shatner. MCA/Universal picked up the lion's share of the financing and retained worldwide rights, while Atlantis ended up with Canadian distribution rights.

Andy Thomson, president of Alberta-based Great North, highlighted the unique financing structure that comprised *From Spirit to Spirit*, a 13-part documentary series focusing on indigenous peoples. The project was co-produced with Sweden, New Zealand and Australia. Each company paid for and produced three episodes and got broadcast rights for all the shows.

Thomson said increased co-production activity is also evident between Canadian partners. "It's international, but it's also domestic. You'll find more and more Canadian companies produce together."

He cited the television series *Destiny Ridge*, which his company produced with Atlantis and German broadcaster ARD. Thomson said provincial regions have built a production infrastructure that was practically non-existent five years ago.

Canadian producers have identified a couple of trends that have emerged in the international co-production industry. Riley believes tv movies and miniseries have become more plot-driven, as opposed to local-driven. He said that was evidenced by the success of their tv movie *Adrift*. It performed well in the ratings in U.S. and Canada and has been sold to virtually every country in the world.

"I see more and more of those kinds of exciting adventure stories or exciting futuristic stuff that doesn't relate to the here and now. Because at the end of the day, what people really like on tv is just a good yarn," said Riley.

Jay Firestone, vice-chairman of Alliance Communications, said broadcasters are getting involved in projects at an earlier stage.

"In the international co-production market, what's happened is that everyone's woken up to the benefits of international partnerships and therefore are getting involved at an earlier stage where it makes sense, as opposed to trying to work in different cultural elements after the script is done."

That would seem to be part of the rationale behind the establishment of a consortium comprised of Baton Broadcasting, Australia's Nine Network and TV New Zealand.

Ivan Fecan, Baton's senior group vice-president, said the consortium members have a common competitor in Global Television (Baton's Canadian competitor), which owns stations in Australia and New Zealand.

"We have similar attitudes as broadcasters that to maintain success it would be good to be proactive in development and ensure that development takes place," said Fecan.

He added: "I think everybody is in everybody's business and it's probably healthy. We have telcos wanting to be in cable, we have production companies applying for broadcast licenses and we have broadcasters taking more interest in production."

The need to co-produce has proved a driving force in the growth of the Canadian industry. And now that the rest of the world is beginning to feel the effects of fragmentation, many Canadian producers believe their experience gives them a leg-up on the rest of the world.

"Fragmentation is our friend," maintained Ted Riley. "The more markets [worldwide] fragment, the more license fees go down and the more important it is to build deals, then, the more it plays into the hands of Canadians, because that's the way we've always had to do business."

Although Canada has improved its position by moving with the times, some warn that more changes in the competitive environment are on the way. With the launch of U.S. satellite programming services like DirectTv and new Canadian services over the next few years, Nelvana chairman Michael Hirsch offered a harsh reality check for the theory that fragmentation of the Canadian tv industry is a bonus.

"While some say fragmentation leads to more co-production, fragmentation is followed quickly by the growth worldwide of more American channels. And during this interim period, no-one is suffering, but in the long run, we're going to end up with fewer global customers. The desire to co-produce will shrink because there are these global channels," warned Hirsch. TBI

Time Is Not Money

Europe's independents don't think they're getting their fair share of airtime in broadcasters' schedules. So now they're going straight for the purse strings: They want a percentage of revenues. Barry Flynn and Jean-Luc Renaud give the background to Europe's next big tv battle

The 1989 directive on broadcasting, TV Without Frontiers, called on broadcasters to devote 10% of their schedules to European productions commissioned from independents. Like many aspects of the directive, the content quotas have proved, ultimately, to be ineffective. So now, the indies want the rules changed: they believe their interests will be better served if the formula is changed from a percentage of content to a percentage of revenues.

There is no doubt that if the Commission, which will present proposals for a revision of the directive later this year, takes their plans on board, the effect on the future of independent production within the EU will be profound. They might even prove more popular with the broadcasters, too.

CEPI, the independents' umbrella group, is suggesting that the EC offer two options to broadcasters. Under the first option, broadcasters would be required to invest 15% of their previous-year turnover in the acquisition of broadcasting rights for new programs with a long potential shelf-life (defined as tv films, drama, documentaries, animation and children's programs) made by independents. The terrestrial rights would revert to the producers after seven years.

Under the second option, broadcasters would be required to invest 30% of previous-year turnover in new production and re-runs of European programs across all genres. No less than two-thirds of this percentage must go to independent producers.

As a further, separate measure, the independents are proposing that rather than tighten the existing European broadcast quotas, it would be better to boost the circulation of European works. One way of doing this would be to grant a 'weighting' to broadcasters transmitting non-domestic European programs. So if France 2 programmed an hour-long ZDF drama, it would count not as 60 minutes of EC programming, but as 90 or 100, say.

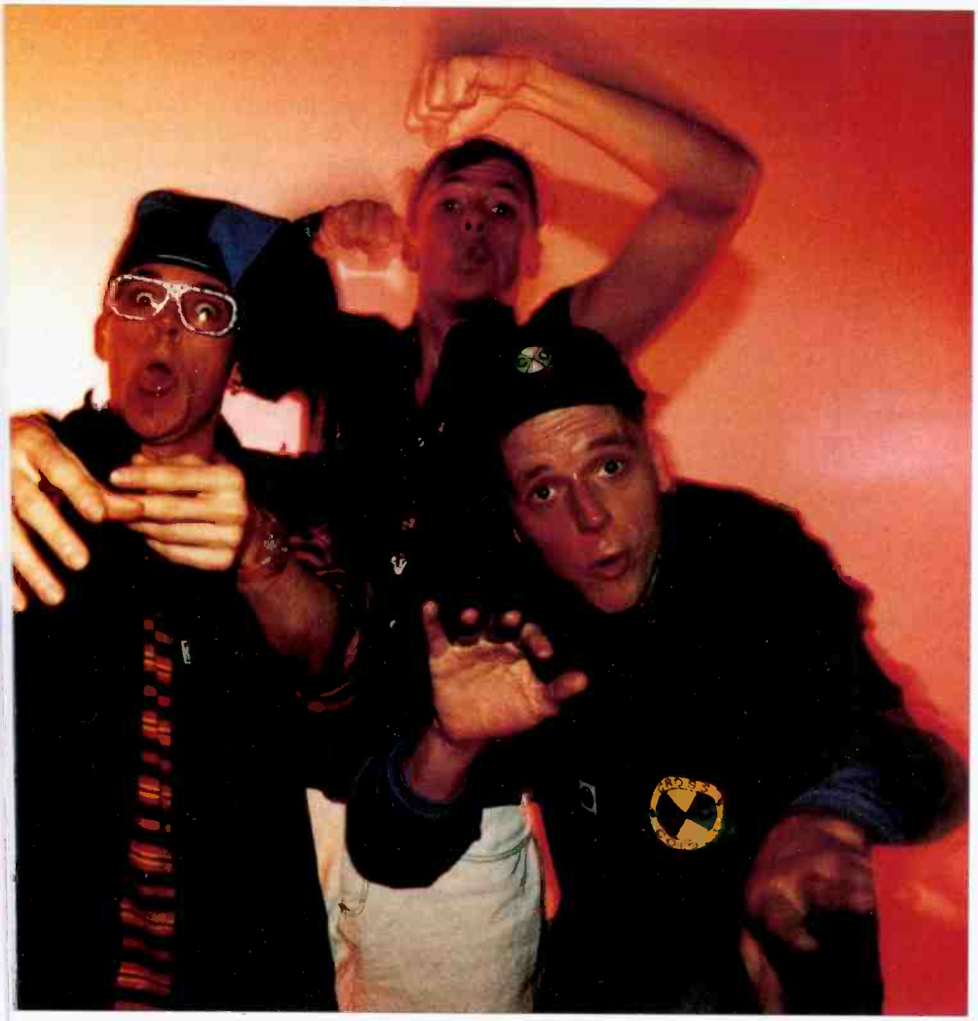
The sting in the tail of all this is that the independents want tougher enforcement and monitoring of the new investment quota system, and stricter penalties for broadcasters not complying with the new legislation.

Perhaps the most conspicuous failure of the directive has been among the non-terrestrial channels: if European independents had hoped the advent of a plethora of new satellite channels would offer new markets for their skills, they could not have been more mistaken. The wording of the directive left a number of loopholes, particularly regarding thematic channels. Member states, for instance, needed only to ensure that the quotas were "achieved progressively, on the basis of suitable criteria," or "where practicable and by appropriate means." New start-ups were therefore able to argue that they were achieving the targets "progressively," for who was to say what "suitable criteria" were?

The result was predictable. Few, if any, of the non-terrestrial European channels now meet the European content quota, and even fewer the independent production quota.

Even the terrestrial channels have had a mixed track record in this respect. Spain, which still has not implemented the directive, and Italy, fall well short. And the performance of broadcasters in the UK, Germany and France indicates that even where quotas are observed, it does not necessarily follow that it leaves the indies in a healthy financial state.

Terrestrial broadcasters in the UK were told to meet a 25% independent production target by 1993, and by the



DoRo's Die Vierte Dimension: Austrian independent has struck a chord at Premiere

beginning of this year, it appeared the principal commercial channel, ITV, had met its requirements, while the BBC had not. (Channel 4, of course, has always commissioned the lion's share of its programming to independents.)

According to David Graham, formerly one of the independent producers who lobbied for the 25% rule, "in its first stage, it must be considered a huge success, because it made them do something they didn't want to do. The quota has permitted the growth of a genuine showbiz entertainment sector which wasn't there before."

Nevertheless, the British indie quota has been dodged in ways that indicate broadcasters are only looking to adhere to the letter, not the spirit, of this law. First, the exclusion of news and news-related programming from the legislation led the BBC in particular to re-classify a large amount of its current affairs output – which would have been included as qualifying output – as news or news-related. According to a Knowledge Research report published in September 1991, between 1989 and 1991 new production – excluding news – declined over the four-year period by 9.2%, from 4,843 hours to 4,396 hours. News and news-related output, by contrast, grew by 22.6%.

Moreover, said Graham, although the drama figures in particular look impressive, the largest amount of hours contracted out by ITV was in the entertainment genre (62% or 100 hours). "Of that 100 hours, 53 hours were contemporary music, with the next largest category being quiz shows. In other words, independent output is biased towards low-cost production in certain genres."

It is also biased towards off-peak programming. In the first quarter of 1992, while independents had a 15.6% share of peak-time hours, 73.2% of independent programs were transmitted outside peak time.

Another dodge – and it accounts for many of the independents now producing programs for the BBC and ITV – is the so-called "sweetheart" deal, under which senior producers accepted voluntary redundancy and used the money to set up their own production companies: as independents, they would then be commissioned to make the program series they had previously produced as an employee.

If anything, such deals have made the independent production sector in the UK even more of a cut-throat business than it was before, with an increasing number of independents chasing a dwindling number of commissions. This has had the effect of cutting production fees, paradoxically benefiting the one group of people quotas were supposed to hurt – the broadcasters.

Richard Price, a director of distributor RTPA Primetime, commends the UK system, though the quantity of indies doesn't necessarily make for quality. "Anything which encourages the independent sector to grow into a commercially viable area is something I would like to see encouraged; anything which fragments it to the extent we have seen in this country is dangerous."

The health of German independents is, by contrast, robust, even though the EU legislation remains loosely applied.

Regional pubcaster ARD has in its charter an obligation to broadcast material originated in Germany, and it must by law directly reinvest its advertising revenue in originated production of about 400 hours a year, at a cost of DM200 million ($120 million).

Moreover, Germany has a wide variety of funding mechanisms, some at national, some at state level, designed to encourage film and television production. The net effect of these, taken as a whole, is to pump an additional $90-105 million a year into German film and tv production. Films are the main beneficiary, but many of these films also have backing from the broadcasters. Tv's total contribution to film-making in Germany amounts to more than $15 million a year. The net effect of the close ties between the film and tv sectors in Germany is, of course, that film subsidies effectively subsidize local content on tv.

All in all, ARD and ZDF commissioned 68% of their material from independent producers from 1988 to 1990. During the same period, acquisitions accounted for 32% and in-house production 17%. In 1990, DM 715.5 million ($428 million) was spent on in-house and independent productions, while DM408 million ($244 million) was spent

Select TV's Birds of a Feather: High Flyer for the BBC

on the acquisition of foreign programs.

According to Chris Sieciechowicz, head of business affairs and sales at pay channel Premiere, the reason for these figures is simple: "Both public and private broadcasters have found that local shows get high ratings." This is not a recent realization. Germany has traditionally been one of the most chauvinistic of territories in terms of its preference for German-language programming, to the extent that subtitling of foreign shows is all but unknown there. A foreign show is either dubbed into German or the language problem is circumvented when the broadcaster buys the format rights to a foreign program and reproduces it from scratch as a German show. The latter approach also has the effect of boosting local production.

Recent changes in the German broadcasting industry appear to be helping independents. The commercial broadcasters are beginning to overtake their counterparts: 1993 was the first year the public broadcasters were beaten into second place in terms of market share. This has had a multiplier effect on German independent production. Not only do their increases in advertising revenue mean channels like RTL and Sat1 can now afford increased amounts of original programming, but the public broadcasters have been forced to respond by investing more heavily in local production in a bid to regain audience.

In addition, ARD and ZDF have been furiously trimming staff and costs in an effort to compete with the private broadcasters. Since there is a general recognition that independents produce programs more cheaply due to their lower overheads, it has become increasingly in the public broadcasters' interests to put out a steadily higher proportion of programming to independent producers.

This type of cost-cutting is being mirrored by the private broadcasters, with RTL and Sat1 increasingly reducing in-house production and changing the structure of their companies so that only the strategic functions remain. On the production side, this has meant spinning off departments that formerly produced just one program into a new independent, which then supplies the old show to the "parent." Generally run by the stars or presenters of the shows, the advantage to them is that in the short term, they get more money. The broadcasters have hived off the problem of staff redeployment once the show is discontinued, giving them the ability to react much more quickly to a competitive marketplace.

The German lesson is one that France's independents have now begun to take to heart. France's quota legislation is perhaps (with the exception of Belgium, where it is decided on a broadcaster-by-broadcaster basis) the most byzantine in all of Europe. As far as films and other "audio-visual works" are concerned, broadcasters must devote from their total broadcast hours at least 60% to European works, and at least 40% to "oeuvres d'expression originale Française" – loosely expressed as French-originated material. Broadcasters must also set aside at least 3% of their annual turnover for expenditure which contributes to the development of French films.

As far as independents are concerned, broadcasters can either devote 15% of their annual turnover to commissioning French-originated production to independents and broadcast an annual minimum of 120 hours of European programming (or French-originated programming that has not already been shown in primetime), or they can devote at least 20% of their annual turnover to commissions to European independents and at least 15% of this same annual turnover to the commissioning of French-originated shows from independents. The rules governing pay-tv channel Canal Plus, though more complex, essentially combine rather tougher rules on re-investment with a lack of any specific independent production quota.

The French independent sector has, nevertheless, been in a state of crisis for the past two years. What has gone wrong, according to Jean-Pierre Jezequel, of the Institut National de l'Audiovisuel, is that strict limits on advertising revenue, combined with quota requirements, have weakened the broadcasters' finances. During the period of deregulation in the 1980s, broadcasters were encouraged to reduce their financial involvement in production and were only too happy to comply.

Thus, French independents' association USPA (l'Union Syndicale de la Production Audiovisuelle) estimates that currently, broadcasters bear at most 45% to 50% of the cost in the fiction genre, 17% to 30% for animation, and 25% to 40% for documentaries.

A common gripe – echoed elsewhere in Europe – is that even when French broadcasters invest a minority of the budget of an independent production, they may often retain all the rights. Furthermore, there is no secondary market in France.

René Bonnell, director of film at Canal Plus, observed that French independents are "very much a cottage industry," with what he described as vertically integrated producers accounting for only 10% of production. "They don't have any money: the only money they make is for films. They need to get closer to the big integrated media groups, who should enter into their capital."

Investment by the big media groups would give the sector time to breathe and re-modernize.

A year ago, USPA began formulating its own solution to the crisis in the

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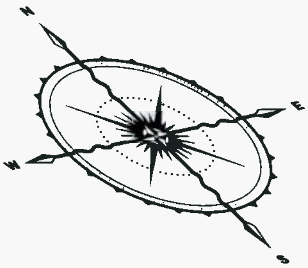

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A New Way: USPA's Quota Proposal

Production Quotas (% of turnover)		Output Quotas (% of airtime)		
Production of French works	Repeats of French works	Production of European works	French works	EC works
12% min	2% max	4% max	30%	60%
8% min	6% max	4% max	40%	60%

Source: USPA

French independent production sector. In common with PACT, its sister organization in the UK, it came to the conclusion, said USPA's boss Alain Modot, "that everything that increases bureaucracy is bad. Rather than have broadcast quotas, the best thing to do is to invest in independent producers themselves."

He added: "The present system does not allow the three biggest channels to participate in European or international co-productions, unless they are shot in French, which makes it all the more difficult when French financial support rarely accounts for the majority of the budget."

Thus, USPA is proposing what it describes as a "simple and coherent" quota system, tying production obligations to output quotas. The proposed system would be based on a re-investment by broadcasters of 18% of turnover, broken down according to two possible options, as in the table above.

It should be noted that most of these measures require more state money to be pumped into independent production, rather than less. USPA's criticism is that the way the money is being fed into the system is not particularly efficient, not that the idea of a substantial state subsidy mechanism should itself be challenged.

With a French government proposal to revise the program quota rules now on the table of the Commission in Brussels, the matter looks certain to loom large in the discussions of the directive between now and the end of the year.

CEPI's president, Bertrand Moullier, said its proposal seeks a connected tax incentive for those who reach the investment target by a certain time which would be related to the start-up date of the channel.

The incentive might be a rebate on a new satellite channel's corporation tax or levy – or whatever happened to be the appropriate vehicle. The idea would be that a new channel could agree with the relevant broadcasting authority a schedule by which it thought it could fulfill the independent investment target, and it would be financially to its benefit to comply.

New broadcasters may not be keen to be tied to rigid investment targets, but at least the proposed system takes account of the fact that in the early years, most of them will have to rely on acquired programming – just as Germany's RTL and Sat-1 did.

"The advantage [of the change] is that when you get a new satellite broadcaster, of course he is not in a position to acquire a lot of programming," said Peter Orton, managing director of distributor HIT Communications. "As he gets strong in the second and third years, then he will start commissioning programming of his own volition."

Others are not as sure. "Philosophically, I am against quotas," maintained Bert Cohen, president of Worldvision and a veteran of previous rounds of the debate in the late 1980s. "[They] take away from the ability to program a schedule with the viewer's interest and deprive the viewer from seeing the best possible programs available."

Bonnell, from a seemingly diametrically opposed position, argued that the French state had intervened in cinema since 1945. "French producers don't have the experience of the free market. The logic is to have obligatory broadcaster levies."

Some distributors, implacably opposed to any quotas, doubt the CEPI's proposed shift in emphasis from content to investment will make much practical difference. One U.S. distributor warned: "The broadcaster who has been successful and earns $10 million has to spend a million on local production. As soon as he does that it's going to affect his budget the next year. What they are doing is penalising success." TBI

Cultural Exceptions

The millions of non-European residents of Europe are served by a handful of tv channels which have been made possible by the extra capacity offered by satellite and a massive pool of programs. Nick Bell assesses the economics and the prognosis of European ethnic channels

The growth of cable and satellite distribution in Europe has created an environment in which niche channels, targeting sections of the population not adequately served by the broadcasters, can exist. The 13 million people out of 320 million resident in the 12 European Union territories described as being of ethnic origin are a case in point.

The publishing industry, revolutionised by desk-top publishing technology, is frequently used as an analogy for where television is rapidly heading. There will be as many tv channels as there are magazines cluttering the racks of newsagents, so the theory goes, each catering to audiences segmented by interests, hobbies, lifestyles or whatever.

The trouble with the analogy is that it is usually more expensive to make just a single half-hour show than it is to produce a magazine. Originally commissioned production is expensive, so most cable and satellite channels are simply program re-cycling plants. They require a large supply of ready-made product which can be cheaply acquired.

The beauty of ethnic channels is that they target an audience for which there already exist huge stocks of movies and tv programs. The Indian and Hong Kong production industries are the most prolific in the world, churning out thousands of hours every year which have never had an airing on television outside their home markets. Picking up the European rights is not expensive.

"On the economic level the basic business equation of these channels is attractive," said Gwyn Morgan, consultant to TV Asia, a London-based satellite channel, "but equally they're providing a social service that wasn't available before." Until recently the 800,000 households originating from the Indian sub-Continent and the 200,000 of Chinese origin in Europe have been starved of suitable television viewing.

Japan Satellite Television (JSTV) has scored a couple of firsts. Backed by a consortium of blue-chip Japanese companies, it was the first pan-European channel to broadcast in a non-European language and the first to use News Corp's Videocrypt encryption system. Broadcast from Astra 1b from 7pm to 6am every day, the service has 11,000 subscribers equating to a 25% penetration rate of the estimated 45,000 Japanese households in Europe. About 40% of these are in the UK, followed by France and Germany with 20% each. JSTV is also available in 240 hotels.

"We're highly targeted at Japanese expatriates," said Russell Barash, JSTV's marketing director. The subscriber rates are suitably geared towards this high income-earning group, with £100 ($150) charged as a joining fee and monthly charges of £30 ($45) thereafter. Churn, at about 30%, reflects the fact that most Japanese are on a three-year tour of duty, but the channel runs incentive schemes to keep it to a minimum – giving presents to parting families who pass on their membership, with no joining fee, to their replacements.

The schedule is news-oriented, allowing the audience to stay in touch with home. NHK, a leading shareholder in

JSTV, supplies it with a half-hour *News at Seven* for rebroadcast on the channel at 8pm UK time, followed by *Good Morning Japan* at midnight and a 3am live feed of the *News at Noon*. Dramas, children's programming and documentaries are acquired mostly from NHK, but also the other big broadcasters like TV Tokyo, Fuji TV and TBS. Daily one-hour coverage during the six annual Sumo-wrestling *Bashos*, each lasting 15 days, has tempted a significant number of the sport's European fanatics to sign up to JSTV.

The focused nature of ethnic channels is a big advantage, both from the perspective of marketing the channel and pulling in advertisers. TV Asia, launched in July 1992, differs from JSTV in that it addresses a permanently resident ethnic community. Again using Videocrypt and charging £11.99 ($18) per month, the service is transmitted during weekdays from 7pm to 6am on Astra 1b, and from 6am to 6pm on 1c. A U.S. version of the channel has recently signed up with DirecTv.

There are almost 400,000 Asian families in the UK, and TV Asia's penetration rate has rapidly grown to 18%. Word of mouth has proved to be effective in spreading awareness among the tight-knit community, and the channel has also benefited from the support of the Indian film star Amatabh Bachchan, whose brother Ajitabh is TV Asia's chairman. With penetration still climbing in the UK, and a further 400,000 Indian households elsewhere in Europe, the channel still has legs.

Like the Indian sub-Continent, the channel's audience is far from being homogeneous. Hindi is the main language, followed by Urdu and English, and programs in Punjabi, Gujarti and Bengali are broadcast in the morning. However, they are united in their love of Indian movies, with some 750 of Bollywood's finest screened every year.

TV Asia's major shareholder is Ketan Somaia, who runs a Dubai-based conglomerate called the Dolphin Group. Rumors that the channel is for sale, with a price tag of £6.5 million ($9.75 million), are vigorously denied.

Two channels are competing for Chinese viewers, about half are Cantonese speakers from Hong Kong who now reside in the UK, while in France and Germany they are mainly Mandarin-speaking and originally from Indochina. "It's a diverse audience – not all Chinese eat rice," said Betty Yao, who heads up Chinese News and Entertainment.

In November 1992 CNE started broadcasting a three-hour free service beginning at 1am UK time – ideal for catching restaurant workers coming off-duty – on Eutelsat, but a year later it initiated a switch to the Astra system. Backed by Hong Kong businessman TT Tsui, who recently donated a Chinese wing to the Victoria and Albert Museum in London, the channel sources its programming from ATV in Hong Kong, China Central Television on the mainland, and Chinese Television Services from Taiwan. CNE is looking for more broadcasts hours and will become encrypted.

But since March, CNE has no longer had the field to itself. The Chinese Channel, 80% owned by the Wilton Group and 20% by relatives of Hong Kong movie mogul Run-Run Shaw, is currently broadcasting from Astra 1c between midnight and 3am. When the service is extended to 5am this summer the channel will also become encrypted, using Tandberg's Cryptovision system. The fact that CC did not choose the Videocrypt system indicates that the Chinese market is regarded as distinct from the rest of the satellite channels.

The monthly charge will initially be set at £13.99 ($20.98), but once Astra 1d is ready at the end of this year CC will move to a 12-hour schedule beginning at 3pm – in time to catch the quiet post-lunch period in restaurants – and charge over £20 ($30) per month. "We're confident that the market will support our pricing," said Gerald Winnington-Ingram, managing director of the channel. "On average a Chinese household will spend £10 ($15) per week on renting videos."

The new channel has tapped into the best source of programs in buying up the exclusive Chinese-language rights in Europe to most of the programming from TVB (part of the Shaw empire), though the Asian powerhouse will probably be very careful not to cannibalise its lucrative video rental business. The daily news program on the main Hong Kong network will be couriered to London every day, supplemented by in-house produced bulletins in Cantonese and Mandarin.

Other ethnic groups are also being targeted. TRT International, a satellite-delivered service operated by the Turkish national broadcaster, is primarily aimed at the 1.8 million expats in Germany. Business plans for channels targeted at black viewers are currently doing the rounds in the UK, with IDTV, backed by U.S. cable network Black Entertainment Channel, already available on some systems.

Although the cheap availability of a lot of programming can make ethnic channels an attractive business opportunity, in the long term they may run into difficulties. First-generation immigrants obviously welcome a window on to the culture and news from their country of birth, but the next generation is less likely to have such a strong attachment.

This was one of the conclusions from the market research conducted for the recently-abandoned Hum Channel, an Asian service which UK cable operators were proposing on a budget of only £100 ($150) per hour. The younger members of the audience research panels did not relate to the channel's diet of acquired Indian programs, a problem TV Asia is currently grappling with as it finds itself having to spend more to produce in-house shows that attract the desired youth audience. TBI

European Ethnic Satellite Networks

Channel	Satellite	Hours broadcast a day	Language
China News/ Entertainment	Astra 1c	3	Mandarin, Cantonese, English
The Chinese Channel	Astra 1c	3	Mandarin, Cantonese
TRT International	Eutelsat II F1	17	Turkish
TV Asia	Astra 1b and 1c	10/11	Hindi, Urdu, Gujarati, Punjabi Bengali, English
JSTV	Astra 1b	11	Japanese English

Something New On The Menu

The race to develop two-way tv services has attracted an unusual field: telephone, computer software, consumer electronics and retail companies jostling for position alongside programmers. Kicking off TBI's focus on interactivity, Barry Flynn looks at how the UK national telephone operator, British Telecom, has emerged as one of the surprise front-runners in the global video-on-demand stakes.

On Wednesday, September 29, 1993, the UK's television regulator, the Independent Television Commission (ITC), dropped a bombshell on the nation's cable industry.

It announced that after discussion with its counterparts at the Department of Trade and Industry (DTI) and the Office of Telecommunications (OFTEL), if British Telecom (BT) chose to run a video-on-demand (VOD) service over its telephone network, it would not need a local tv delivery license from the ITC. And if it did not need a local tv delivery license for a VOD service, concluded the ITC, BT would not be in breach of its telecommunications license if it decided to run one.

At a stroke, BT's VOD plans, which had long been dismissed by the UK's cable MSOs as bogus – in effect, a mere PR spoiler aimed at putting a brake on accelerating investment in cable companies – had become reality.

Any lingering doubts about BT's intentions were exploded when BT issued a Request for Proposals for trial VOD equipment late last year. Currently, there is a 60-home technical trial taking place among BT employees, and another 2,500-home consumer trial is due to take place at the end of this year. BT says it has agreements with a number of programmers to supply material for the trial: these include the BBC, various ITV companies, media conglomerate Pearson, and Picture Music International. It is also in discussions with a number of unidentified Hollywood studios.

But it would be wrong to think that from now on it will be all plain sailing for BT. First, the ITC ruling is not legally binding, and the cable industry has made it clear that as soon as BT applies to run a commercial VOD service, it will challenge the move in the courts. It is fair to say that the ITC decision was regarded as a little eccentric in some quarters, and it would be open to the cable industry to argue that a BT VOD service would run counter to the spirit of the 1991 White Paper on telecommunications, which implied that BT should be prevented from offering entertainment services (and thereby competing with cable companies) until the next decade. In May this year, Oftel re-affirmed that this general ban on entertainment services would remain in force at least until 2001.

UK distributor Picture Music International is to supply music programming for BT's VOD trial

Second, there is the thorny issue of program rights. Until recently, BT's theory about VOD appeared to be based on a simple premise: that if its subscribers were offered the possibility of ordering up the movie they wanted without even bothering to get up from their seats, they would favor that option over a time-consuming walk down to their corner video-shop. For this theory to work, BT either has to acquire Hollywood blockbuster movie rights itself, or get the studios to agree to run a company which would distribute their product on its network.

Why Hollywood blockbusters? Firstly, they are what drive the video rental business, so if BT wants to compete with it, it must acquire rights to the same range of product. But UIP, for one, recently made it clear that it had so far licensed none of its product for VOD use, commercial or otherwise, in the UK. Moreover, the partners BT has announced so far are unable to fill the vacuum. The only programs they would be able to on-license to BT for VOD purposes would be ones to which they already owned the copyright – generally, those they had produced in-house themselves. Not only would this provide pretty lacklustre programming (just how many old ITV repeats would UK viewers be prepared to rent from their video shops?), but it is not at all clear that the various unions whose members were involved in the creation of those programs would be prepared to release such material for VOD use without a fight.

As for the Hollywood studios, they face the risk of cannibalising lucrative video rental and sell-through revenues. According to Julian Dickens, head of the multimedia practice at Simon Olswang & Co, the studios are well aware that "any large-scale licensing of [their] catalog [to VOD] would be likely to seriously jeopardize the revenues they obtain through sequential licensing." This could mean that they will initially decide to place the VOD release window after free-to-air tv, which could be several years away from theatrical release, believed Dickens. In which case, would anyone be willing to pay for VOD movies?

Perhaps because of the difficulties in obtaining video product, BT has recently shifted the focus of its projected service away from films and tv programming – although BT says the move is based on the results of large-scale quantitative consumer research carried out before the current trial.

According to John O'Sullivan, entertainment services development manager at BT Personal Communications' marketing division, its research has shown that movies and tv on demand, though an important part of its service, would not be the "killer application" the industry claimed it would be.

The other important services, he suggested, would be "things like educational programming and [...] things like home-shopping and all of those areas. We were putting a number of concepts to people and saying, 'well, how important is this to you?' and then ranking those. And the movies came out quite important, as you would expect, but the other services alongside those were also very important as well."

O'Sullivan said that he therefore expected that the larger trial scheduled for the end of the year would "move beyond just the movies and tv programs to a home-shopping service and educational programming, the public service area".

O'Sullivan emphasized that "what we don't want to do is to have a service which directly competes with rental and sell-through video, or any type of terrestrial or cable tv programming, because it's got to be much bigger than that".

Recent demonstrations to TBI of BT's VOD service at its laboratories in Martlesham underlined this change of emphasis away from programming-on-demand. For instance, the on-screen menu for the VOD services lists 'Movie Choice' as just one among many other equally prominent categories such as 'Home Banking,' 'News Now,' 'The Mall,' 'Public Services,' and 'Leisure.'

Home-shopping and community services, in particular, seem to have been the subject of a great deal of development work at BT. Retail giant Kingfisher's role in the trial is to provide retail expertise for a home-shopping service, and BT even demonstrated an advanced prototype of a 'virtual shopping mall' – a 'walk-around' shopping area created using advanced virtual reality techniques.

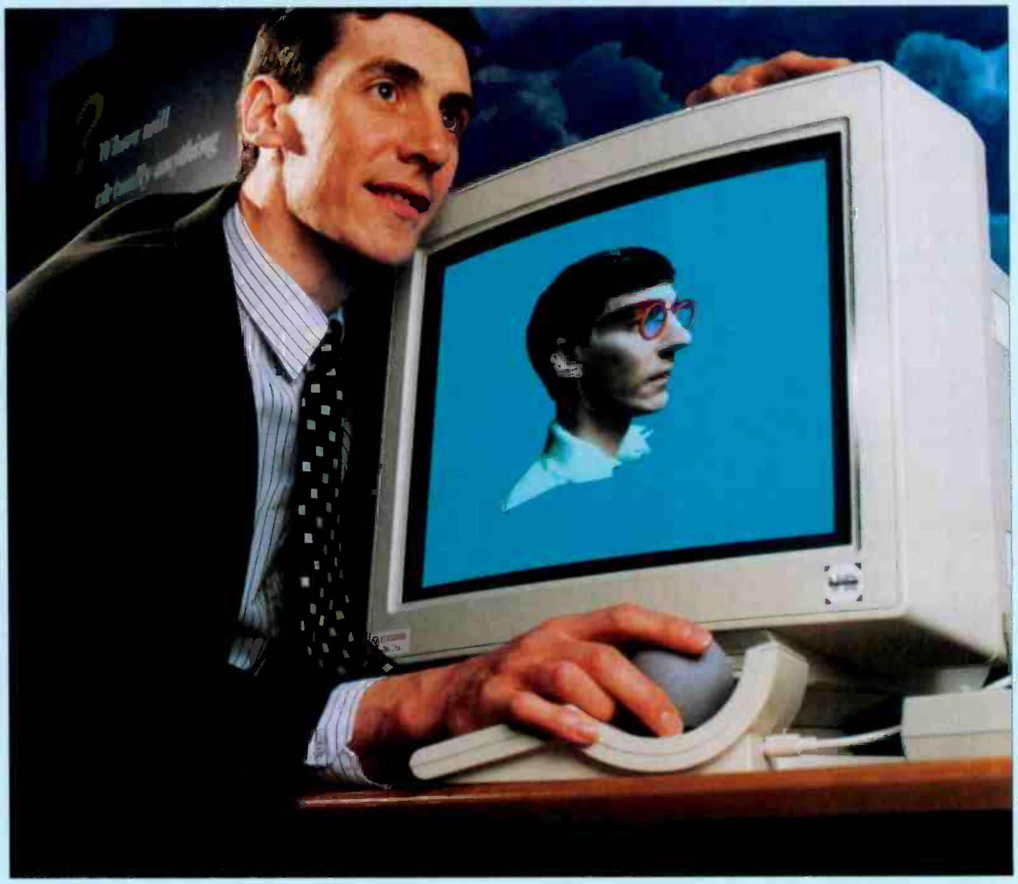
BT's demonstration of local community information access via the phone line was also highly sophisticated: the demonstration to TBI involved visual and textual information about the local sports centre, displays of the various facilities on offer, and the 'booking' of a squash court.

If the shift of emphasis solves the software problem (in the programming sense), there are still technical difficulties to be addressed regarding software (in the computer sense). It emerged during the VOD demonstration that BT had encountered unforeseen problems 'marrying' the Oracle media-server being used to store and pump out the images for the trial to the Apple set-top boxes.

BT is feeding half the homes in its trial using ADSL (Asymmetric Digital Subscriber Loop) technology across conventional copper twisted pairs, with video compressed down to a rate of 2MBit/s. The other half receive the signals compressed to the same rate, but via a fibre-optic cable. The uncompressed ADSL signal demonstrated at Martlesham showed that the picture quality was superior to VHS, if not approaching broadcast definition, although it is impossible to say whether this would be repeatable outside laboratory conditions.

Meanwhile, BT would do well not to underestimate the challenge from cable. At the end of April, General Instrument announced it would be providing the digital technology for a number of near-video-on-demand (NVOD) trials on UK cable early next year. Tony White, managing director of General Instrument's UK operation, said his company was "looking probably to the first quarter of 1995 to do full compression trials on UK cable involving NVOD," on the basis that "the [digital] equipment will be available around then. The decision to deploy will depend on the success of those trials."

Cable's advantage is it can run such a service without requiring legal clearance, whereas any commercial BT VOD service faces an arduous slog through the courts. However, BT's subscriber universe of 20 million homes is considerably larger than that of cable – which will still be below a million by the end of 1994. The cable industry is right to be worried. TBI



VR shopping: Stroll through the mall with BT's joy stick and tv screen

Now you can put all this on CD

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You too can exploit your copyright property on a new, additional medium: Compact Disc interactive (or CD-i for short).

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CD-i

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CD-i scored a big hit at this year's MIP-TV. The growing consumer demand for more titles is your chance to fully exploit your copyright property. Write today to find out how you can profit.

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Software Servers

Oracle CEO Larry Ellison: Moving on to the next stage

America's Oracle Corp is not the only company developing video-on-demand software; but it believes it's leading the field, reports Mitch Shapiro

Oracle Corp is the U.S.'s leading supplier of the software used by businesses to manage large databases. Having built its annual revenues from $131 million in 1987 to more than $1.5 billion in 1993, Oracle announced earlier this year that it was making the leap from text and data to video and multimedia and plugging for the first time into the consumer market.

In February, the company unveiled three related software products and formed an Emerging Technologies Group to help network operators implement them. At around the same time, a range of companies involved in telephony, cable hardware and consumer electronics revealed that they would be working with Oracle to develop interactive tv products and services.

Oracle's flagship product is Oracle Media Server (OMS), a multimedia library software package that supports storage, retrieval and management of various forms of information, including video, audio, text, images and tables. It is an extension of Oracle's traditional database, messaging and transactional software into the realm of multimedia consumer services such as personalized news, movies-on-demand and home shopping.

Oracle Media Objects (OMO) is a multimedia authoring tool used to create interactive services and to allow "smart" tvs or set-top devices to run these services. The third product is Oracle Media Net (OMN), a software protocol which supports a range of networks including telephone, cable and satellite. OMN would provide the interactive link between the viewer's OMO-equipped smart tv and an OMS-equipped video server.

Among the vendors expressing some support for the new Oracle software products were General Instrument (GI) and Scientific Atlanta (S-A), the two largest suppliers of cable tv converters in the U.S. market. These were joined by a larger group of companies hoping to enter the set-top market as it enters the digital, interactive era. This group included Apple Computer, Goldstar, Philips, Sharp, Microware Systems, 3DO and Kaleida Labs, a joint venture between IBM and Apple.

Though this is an impressive list, it is important to note that nearly all these companies announced support for OMS only. And many have been working separately on developing their own competing products.

During the past year GI has been working closely with Microsoft to develop an interactive tv system, while S-A has been working with Kaleida, Silicon Graphics and 3DO. At the same time, Philips and Goldstar, both hoping to break into the U.S. set-top market, have been working with Microware, whose OS-9 operating system is already used in a number of products, including Philips' CD-i.

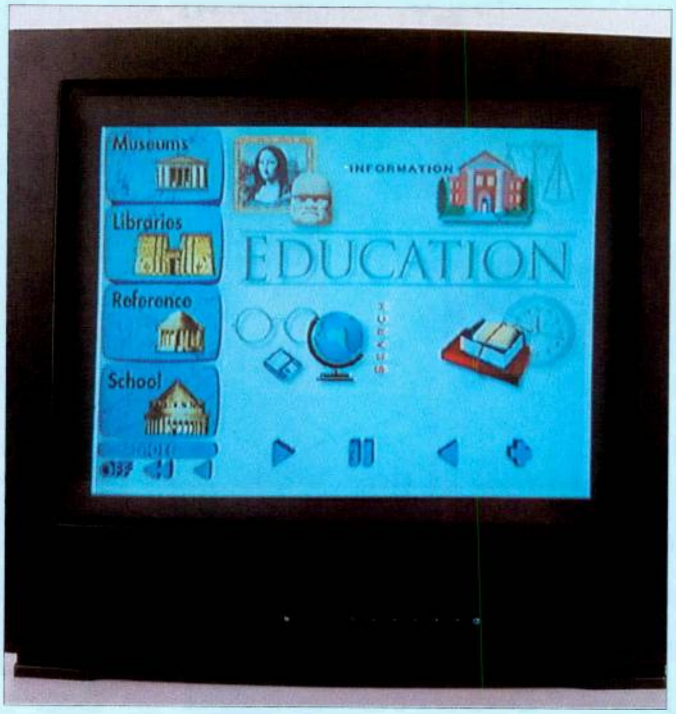
Though the details of Microsoft's interactive tv agenda had not been spelled out by press time, the company, which was planning a press conference to discuss its server technology, is perhaps the most likely to compete with Oracle on a broad software front.

According to Kevin Eagan, group product manager, advanced consumer technology, Microsoft is developing an end-to-end operating environment that encompasses the server, network management, set-top boxes, personal computers and wireless devices. This sounds a lot like Oracle's equally broad multimedia strategy.

The shifting sands of co-operation and competition in this emerging market reflect the technical complexity involved in creating interactive tv networks and services. There are also big questionmarks about the need for technical standards, uncertainty about consumer demand and the hardware and software platforms best suited to satisfy that demand.

Stuart Read, director of client-side marketing at Oracle, acknowledged that Oracle's early market strength lay in its server technology, OMS, and that other software products could serve as an "alternative" to OMO.

What Oracle believes gives them an edge are the alliances it has forged with network providers. Both Bell Atlantic and British Telecom have committed to deploy all three of Oracle's software products.



Oracle on-screen: Opening up the information age

In a March 30 announcement of its new Digital Production Center in Reston, Virginia, Bell Atlantic highlighted the role that Oracle personnel are playing to set up the facility.

According to Larry Plumb, a Bell Atlantic spokesman, his company's relationship with Oracle was "more like a strategic alliance [than] a vendor/supplier contract...We're involved in this for the long haul."

Though a second Baby Bell, US West, had yet to commit to any deployments of Oracle software, it has been working with Oracle on multimedia applications since mid-1993 and has an OMS server installed at its laboratory in Boulder, Colorado. Although US West committed to use a Digital Equipment Corp (DEC) server and 3DO applications software in its first video-on-demand trial in Omaha, Nebraska, a US West spokesman pointed out that these commitments were made prior to Oracle's February product announcement. And though he said "no procurement decisions have been made beyond Omaha," the tone of his comments suggested that Oracle was a leading contender for future projects.

In terms of content providers, Oracle is working with Capital Cities/ABC on a multimedia news-on-demand application and with The Washington Post Company to develop new forms of electronic publications and advertising combining text, audio and video. The Cap Cities/ABC application will be tested as part of a 2,000-home market trial that Bell Atlantic hopes to begin this year.

Yet Cap Cities/ABC does not appear ready to commit to Oracle or any other supplier of interactive tv systems. According to a company spokesperson, "much is being done," but "very slowly and cautiously" in the company's exploration of interactive tv markets.

In addition to Oracle, she noted, Cap Cities/ABC has been working on similar projects with other companies, including NTN Communications, an interactive tv developer serving mainly restaurants and bars; Your Choice TV, a subsidiary of Discovery Communications that has developed an "on-demand" tv system; and EON Corp, which has developed an interactive tv system based on soon-to-be-licensed IVDS (interactive video and data service) spectrum.

Though many key players remain uncommitted, Oracle officials point to several key strengths their company enjoys in the battle for dominance in the interactive tv software market.

One is the fact that OMS is designed to operate on a new breed of computer known as "massively parallel processors" or MPP. Though widely viewed as very powerful and relatively inexpensive, MPP systems tend to be more difficult to program than mainframe or other computer systems.

Having committed early to develop MPP software in cooperation with nCube Corp – an MPP hardware supplier controlled by Oracle CEO Larry Ellison – Oracle is in a position to provide more cost-effective server solutions than its competitors, company officials claim.

According to Rich Wyckoff, nCube director of corporate communications, the cost of his company's current generation of server is roughly $600 per simultaneous video stream, with each video stream delivering the 1.5 megabit-per-second data rate considered the minimum for delivery of an on-demand movie.

The next generation machine, to be introduced early next year, said Wyckoff, will feature costs as low as $100-$200 per video stream.

Based on expected usage levels, Wyckoff said network operators were planning to support 3-5 customers per active video stream. This would equate to a cost of $120-$200 per subscriber for nCube's current server and as little as $20-$70 per subscriber for its next generation system.

The reality of an Oracle/nCube cost advantage is questioned by competitors, some of whom point to an Oracle history of overstating its ability to deliver (similar charges are often made against Microsoft).

Another key strength of the Oracle interactive tv platform, said company officials, was tied to its experience as the leading supplier of sophisticated database software.

According to Tim Negris, vice president, server product marketing, an on-demand service, to be truly compelling, must respond quickly and in a user-friendly way to a wide range of subscriber interests, desires and enquiries.

To do so, he said, a system would need to apply the kind of advanced search and retrieval function that Oracle has been the leader in developing.

Though it remains to be seen whether its strengths and alliances will make Oracle a long-term winner in the interactive tv market, the company does appear well-positioned in what could prove to be a very long, demanding race. TBI

Content Contender

US West, one of the biggest of the Baby Bell phone companies, set up an interactive division to demonstrate it was "serious about content development." Observers are not as willing to be serious about a phone company's capacity to innovate, reports Barbara Osborn

Warner Bros' The New Adventures Of Superman: New tv powers

Despite billion dollar investments, the Bell operating companies continue to meet with skepticism in their efforts to demonstrate creative leadership in the new telecommunications industry, particularly when it comes to content. Mitch Ratcliffe, editor in chief of industry newsletter *Digital Media* summed up that perspective in mock apocalyptic tones: "I can't imagine a world programmed by the telcos," he said.

But the phone companies, including US West, one of the most aggressive of the regional Bell operating companies, keep on trying. Can US West produce a "killer application" or will its buttoned-up corporate culture militate against anything more exciting than interactive yellow pages?

To be fair, US West has made significant financial investments and conducted major market tests in an effort to expand beyond its expertise in switching and networks. The company's recent efforts include:

- A $2.5 billion investment in Time-Warner Entertainment (which includes Time-Warner cable, Warner Brothers studios and HBO). The 1993 deal was the first major investment in a program producer by a telco. It also provided US West access to customers outside its own 14-state territory. Through Time-Warner's cable systems, US West can now reach customers in 46 states. The company is discussing similar investments with other cable operators.
- A $10 billion upgrade of its communication network. US West announced that it would build a full-service network in its current service area. The company will begin a full-service test in Omaha this fall.
- Significant related investments overseas include TeleWest, a US West-TCI joint venture providing phone and cable service in the UK; additional cable investments in Hungary, Norway, Sweden and France; personal communications and cellular phone investments in Russia, the UK, Japan and several other European countries.

Meanwhile, US West has also been developing and testing prototype services in-house through its New Media Division. In March, the company announced the creation of a spin-off company, Interactive Video Enterprises (IVE), that would be exclusively devoted to developing interactive marketing and merchandising applications. Company spokesperson Robin Baca explained that home shopping was perceived as having such tremendous potential apart from other New Media Division products in development that US West decided to establish a separate company.

Robert Grant, a vice-president with the New Media Division and newly-named president of IVE, said that they also decided to set up the company in order to demonstrate to advertisers, cable companies and other potential partners that US West was serious about content development. "People were looking for a signal about how serious we were," said Grant, "whether we were just putting our toe in the water or really getting in."

Not everybody however thinks that setting up a company to develop shopping applications is "really getting in." Michael Schrage, a research associate at MIT's Media Lab and a Los Angeles Times technology columnist, said that US West is following "a lemming-like surge into a profitable domain" noting

that many of the other phone companies have also announced home shopping plans. "It's the interactive El Dorado for the Bell operating companies," he said. Once enough players enter the market, "it will cease to be profitable." Furthermore, Schrage isn't convinced that US West can outwit people already in the market. "Do I believe US West has people that are smarter in retail than Barry Diller? Probably no."

Prior to the IVE announcement, US West's New Media Division had developed several interactive services including EasySource, an interactive audio service that provides information on news, weather, real estate, the law, and other topics via a touch-tone phone that the company plans to introduce in the near future; a home banking and billing service developed jointly with EDS and France Télécom; and CityKey, a CD-Rom information service currently in use in San Francisco hotels.

Critical response to CityKey has been lukewarm. *Digital Media*'s Ratcliffe called the service "interesting but clumsy."

"I wasn't blown away by it," he said, "but I don't think any of these 'revolutionary services' are too revolutionary." More importantly, Ratcliffe had a hard time imagining that people would prefer to use the service rather than look up information in a published directory, particularly if they have to pay for it.

Grant: US West is "not just putting its toe in the water"

Orgel: Focusing on "what's real"

IVE's new services will be developed by a team of multimedia, entertainment, and marketing and merchandising people that for the most part have not yet been hired. Grant has brought in two well-known interactive pioneers as executive vice presidents: Kevin H Randolph, co-founder of Interactive Network, one of the first interactive tv companies; and Andrew Orgel, who worked with A&E, MTV, and Video Jukebox Network when those services were starting up.

Although trying to develop content by throwing computer and entertainment people together is a common strategy, it may not be the best way to develop new applications. Pulling talent from Silicon Valley and Hollywood doesn't get us anything new, said Ratcliffe. Yes, it improves IVE's chances, but it needs people who can "innovate on their previous creativity based on the new capabilities."

At press time, IVE had just opened its Silicon Valley office and the company was saying little about its new services, the first of which are to be announced next fall. US West also plans to begin its full-service test in Omaha at that time. No decision has been made as to whether IVE services will be included in the test and executives are quick to point out that their new services are designed to work on different networks, not just those of US West.

What the company will say about its prototypes is that the services will focus on information. US West's research has indicated that consumers want practical information about what to buy and where to buy it, as well as information that will help them accomplish things they already do. The services may also involve Time-Warner programming. In addition, Grant acknowledged the importance of an easy-to-use interface.

Andrew Orgel, one of the new IVE executive vice-presidents, also thinks ease of use is a prerequisite for creating a market for these services. On the other hand, he's not particularly concerned about whether customers really want interactivity. "I don't think it matters," he said. "I don't know anyone 18-34 who wanted MTV. Most people thought it was the stupidest idea they ever heard. MTV is the consummate marketing and merchandising service. That's what it is. We think there are enough people who will want this when we make it easy."

Orgel is also inclined to focus on "what's real." He explained: "There's been a tremendous amount of hype. At Video Jukebox Network, the service was simple [phone-based interactivity which allowed customers to select music videos], but it was real."

Orgel also has no illusions about attracting a huge customer base instantly. Despite the investments, research, and expertise, many still believe that US West will be undone by its own corporate culture. Michael Schrage likens US West to a water utility. Nobody expects the water company to be able to market Evian or Perrier, he said. "They [the phone companies] do not have the ability to add value to a commodity, in this case bandwidth and switched networks. Their notion of innovation is call forwarding and call waiting. That's not bad but it's a very incremental notion. You get to the top of the Bell system by being conservative, not by taking a lot of risks."

Orgel, however, believes that disdain directed at phone companies is "short-sighted and unrealistic. I don't take it too seriously."

Before joining US West, Orgel met with nearly all the RBOCs. He chose US West because it has the three ingredients he believes are necessary to success: cash, distribution, and an understanding that they needed to get into the television business. "We're busting through any cultural barriers." TBI

No Time To Panic

Home to most of the world's leading electronics and media conglomerates, Japan has nevertheless fallen behind in the development of next-generation interactive tv. But a volte-face by regulators will, they hope, allow it to make up ground. Mark Schilling reports

After years of snail's pace development, Japan is finally rushing headlong into the interactive tv future. In the past year the Ministry of Posts and Telecommunications, local governments, trading houses, telcos and electronics companies have announced new tie-ups, projects and plans designed to build – and profit from – Japan's information highway.

NTT, Japan's largest telco, plans to spend ¥45 trillion ($402 billion) to connect every household and business in Japan to optical fibre cable networks by 2010. The Construction Ministry recently announced plans to lay trenches for optical fibre cable along the country's 420,000km of road. And in January, the Telecommunications Council, an MPT advisory body, proposed that NHK and Japan's five commercial networks switch from wireless transmission via NTT lines to an optical fibre system by the year 2010.

The gap between Japan and the global leader in the interactive tv field, the U.S., is nevertheless a large one. Only 3% of tv households subscribe to multichannel cable, compared with more than 60% in the U.S. Japan's cable industry is not only highly fragmented and underdeveloped but unprofitable: by the end of fiscal 1992 only 24% of Japan's 158 "urban-type" multichannel cable operators had moved into the black. "Japan is at least 10 years behind the United States," says Kleinwort Benson analyst Nanako Sakaguchi. "And it's questionable whether it can ever catch up. It's a situation that seems to have the MPT panicking."

Although the recession has tightened purse strings, especially for new tv services, a more fundamental cause of Japan's delay, say analysts, is a regulatory structure that has slowed the development of the cable industry.

For years after its start in 1955 the MPT saw cable as little more than a means of relaying tv signals to remote and mountainous areas. Seeing the rapid growth of cable in the U.S., the ministry began to promote "urban-type" cable networks in the mid-80s (in Japanese bureaucratic parlance "urban-type" means stations broadcasting five or more channels, serving 10,000 or more households and having two-way capacity). But it also wanted to prevent US-style domination by a handful of major media players. Ministry regulations encouraged local investment and planning, prohibited the formation of MSOs and limited foreign investment in cable stations to 25%.

Realizing that the industry is ill-equipped to build Japan's information highway, the MPT has recently changed course 180 degrees. Beginning last fall, in response to the recommendations of an MPT advisory committee, the ministry has moved to ease restrictions on MSOs, foreign capital participation in cable companies, and the integration of cable broadcasting and telcommunications services.

The MPT is also actively promoting interactive tv R&D. Together with 50 cable tv operators and other companies, the MPT will begin an experiment in interactive tv this June at its newly-completed General Telecommunications Research Center in Tokyo. Investment in the first stage of the three-to-five year project will amount to ¥500 million ($4.8 million).

The MPT, however, is only one of many players with a plan or project on the drawing board.

● Time Warner, US West, Itochu and Toshiba are considering investing ¥40 billion ($380 million) in building ten cable stations. If the consortium decides to go ahead, it will move quickly to apply to the MPT for licenses and open the first stations in 1995. The stations would provide interactive services, including video-on-demand, using optical fibre networks. With Itochu serving as overall co-ordinator, Toshiba would supply the hardware. Time Warner would assist in designing cable networks and developing interactive services, and US West would offer technological support.

● Tokyo Electric Power Co, Mitsui & Co and Tokyo Corp are mulling over plans for a joint pilot project linking telephone and cable tv services. Although the partners have not yet decided on a site or schedule for the project, Tokyu Cable Television, a cable tv station in Tokyo owned by Tokyu, is expected to play a central role. TTNet, a Tokyo-based telco whose owners include Tokyo Electric, Mitsui and Mitsubishi, will link its optical fibre network with Tokyu Cable.

● NTT, NEC, Hitachi, Matsushita and other private multimedia companies, metro authorities will construct an ¥3 billion ($28 million) optical fibre cable network in the Tokyo bay area.

● Broadband ISDN Business Culture Creation Chance (BBCC), an umbrella organization of nearly 160 governmental bodies, manufacturers, software houses and other organizations and companies, will start its pilot project this August in Kyoto's Kansai Science City. Scheduled to continue for three years, the ¥5 billion ($44.6 million) project will connect 300 homes and businesses to an optical fibre network and lend them Hi-Vision tvs, video telephones and cable terminals free of charge. The MPT, which is backing the project, expects a total of 100 companies to participate. NTT, Northern Telecom, NHK, Matsushita and Mitsui have already signed up.

The Japanese ministry has moved to ease restrictions on MSOs, foreign capital participation in cable companies, and the integration of cable broadcasting and telecommunications services

● This April, NTT Data Communications and Softbank Corp, a Tokyo-based software house, launched a ¥50 million ($480,769) joint venture for developing interactive tv services. Called Media Bank Planning, the new company will begin services next year, providing a free set-top box to subscribers allowing them to access the services via NTT's optical fibre network. Initially, the company will target hotels equipped with optical fibre networks.

● LCV of Suwa City, Nagano Prefecture, Japan's second-largest cable operator with 60,000 subscribers, has announced plans for an experimental telcommunications network. With the MPTs' Cable Television Advanced Applications Research Center, Toshiba and two other electronics makers, LCV will install 50 telephones in its broadcasting area.

● The Tokyo metropolitan government plans to begin a large-scale interactive cable tv experiment in March, 1996. With the co-operation of the national government, NHK,

● Next year, NTT will begin to provide experimental broadcasting and telcommunications services, including video-on-demand and interactive games.

● This December, Telecommunications Inc, Sumitomo and Pioneer will launch the first cable station in Japan to offer interactive services via optical fibre cable. Subscribers to Suginami Cable Television in Tokyo's Suginami Ward will be able to access up to 120 channels.

● U.S. telco Nynex and trading house Tomen will join together to provide interactive tv services. Although the original plan was to start experimental transmissions to 100 households in Yokohama this spring and launch full-scale services in 1995, a Tomen spokesman now says that "no concrete schedule exists."

● This September Fujitsu will begin testing interactive tv services using Fujitsu's computer and telcommunications technology, City Television Nakano, Fujitsu-owned cable stations in Yokohama, Akashi and three other cities. Eventually, Fujitsu hopes to establish a nationwide multimedia network.

Will Japan catch up with the U.S., just as it did in the auto and electronics industries? "I don't think Japan is out of it," says Jardine Fleming electronics analyst Jeffrey Camp. "The U.S. cable market grew very quickly in the 1980s. Japan's might do the same in the 1990s – it's still a wide open game. But they have to have the right regulatory structure; it all depends on whether the MPT allows change to happen."

Although the MPT has indicated that it intends to do just that, barriers to growth created by past policies will not be easy to remove. A major objective of the MPT's interactive tv experiment at its Tokyo research center is to promote standardization so that cable operators can form integrated networks. But because that same integration was formerly discouraged, "urban-type" and rural cable systems developed using different cable frequencies. Even stations using the same frequencies often have different amplification equipment and control capacity, making integration difficult.

"The truth is, no one knows for sure how this is going to happen," says Yasuhito Shirota, manager of Dentsu's cable tv business department. "It's going to take some time until we now what kind of system and what kind of network we can build. What we have to do is take a cool, objective view of the situation. Panic will get us nowhere." TBI

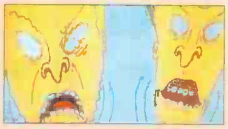
Ones And Zeros

Digits will dominate – no doubt. Below is news, product and promises from Cyberspace that intrigue us

Nynex/Viacom Venture Spans the Atlantic

Nynex, the regional Bell operating company, has followed up its investment in Viacom last year with the announcement of their first major co-operation.

The two groups will explore the possibilities of video-on-demand (VOD) services both in New York and in the UK, where Nynex is the largest investor in broadband cable systems. Viacom will provide the programming in the shape of MTV, Nickelodeonand plus the Paramount library.



MTV: On demand?

Nynex subscribers in 50 New York City homes have been hooked up to the VOD service since May. In the UK, Nynex is expected to launch near-video-on-demand tests later this year and VOD early next year.

Dutch Pubcasters Lift The VEIL On Interactive

Dutch company Itcom, using technology licensed from US company Interactive Systems Worldwide, plans to have Europe's first broadcast interactive programs on the air this fall.

Itcom was due to reveal details of what it calls a "very close co-operation" with Ster, the marketing organisation for Holland's three public broadcasters, as TBI went to press.

According to Casper Keller, commercial director of Itcom, services will start in four regions of the country, including Amsterdam, on September 15. The first two shipments of 10,000 boxes - designed in the Netherlands by Satcom and manufactured in the Philippines - will arrive between then and April.

Although the VEIL system is the same as that tested in Spain by TV Española - an experiment which failed - Keller said Itcom would adopt a different approach.

"There will be a broad range of things that the viewers can do, unlike in Spain where there were very few applications," said Keller. "They will be able to play along in game shows, give their opinion during talk shows and debates, and order free samples and special offers." In addition, consumers will not have to buy the boxes and all instructions will be displayed on-screen rather than on the box.

The participation of Ster means it could for once steal a march on private commercial rival RTL4, which is investigating interactive services but is "still in the process of discussions" according to a spokesman.

Discovery Is Still Learning

GTE has just completed a trial in Ceritos, California, with Philips and the Discovery Channel. The trial was less remarkable for the size of the sample - only 60 households - than the fact that it paired CD-i machines with a broadcast signal.

Each home was equipped with a CD-i player. Disks were supplied direct to viewers' homes and, combined with a videotext facility, were used to provide an interactive 'overlay' for the Discovery programs . Viewers were able to call up program schedules and information about aspects of the program they were watching.

The Discovery Channel said it was going to be involved in another upcoming test with GTE in Virginia, tests of PPV, and near video on demand.

A spokeswoman commented: "As a television network, we are not inclined to sit on our laurels. We are out there partnering as many people as we can."

Now: The Half-Inch Billboard

Advertisers and agencies are still the primary source of funding for commercial television, so the development of interactive tv is a major concern for them.

TBI is not sticking its head far above the parapet in maintaining that advertising will continue to be the primary source of funding however many channels are fighting for attention.

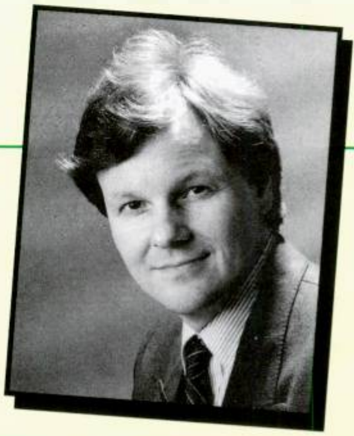
Exhibit one: Microtime Media, a UK company which has built up a £1 million turnover, mainly from selling advertising in computer games. Founded four years ago by Daniel Bobroff, formerly with Young & Rubicam London, Microtime has negotiated exposure in computer games for brands like Adidas, Coca-cola, 7-UP, Volvo and Canon. Rates range from $60,000 for a straight product placement into hundreds of thousands for a role in co-producing a new game.

With their target market spending an increasing amount of time at the console and less time in front of the television set, the trendier marketers of youth products were willing to try out an alternative medium.

But Bobroff expects his company's expertise to have applications beyond entertainment software as the availability of interactive media increases.

The growth of interactive media mean there will be "a radical redefinition of what we mean by the consumer" as he or she takes a more active role in choosing media, argued Bobroff. "That puts the power to choose in the hands of the user."

Getting More Out Of Meters



BY TOBY SYFRET

The European Society of Opinion and Marketing Research (ESOMAR) and the Advertising Research Foundation (ARF) of North America appear to have started a tradition of biennial worldwide television advertising research symposia. Two years ago the venue was Toronto in June: this year Paris in May.

An important question for the advertising industry is the precision with which audiences are measured. Ideally, the advertiser wants to know exactly who saw each spot. Although this may be an impossible dream, peoplemeters have got close: by cross-referencing separate meter records of set status and individual presence as viewer, they can tell you almost anything about the who, the what, and the when of viewing.

Yet, there are limits to what peoplemeters can achieve. Four papers presented in Paris covered three aspects of this question, namely: the limits to metering people; the pressures to push beyond peoplemeters; and the storm clouds on the horizon.

The first paper, by Maura Clancey from the Statistical Research Institute in the U.S., examined how we meter people. This is done by asking each member of the peoplemeter panel to log himself on and off at the beginning and end of each viewing session. At issue is the wording of the instructions. Some, like Nielsen U.S., say "present in the room with set on and watching." Others settle for the laxer criterion of "present in the room with set on."

The laxer criterion ought to generate higher viewing figures, and there has been much heated debate in Europe about which way to harmonize. However, the view appears to be gaining ground that panelists impose their own response sets on the instructions regardless of their wording. If there had been a choice, even granted the differences may be trivial, I am firmly pro the laxer definition because it is objective and easy to validate.

I think it important to recognize the limits of what we can expect meters to meter; however this does not mean we should not try to go further. We know that people get up to many extraneous activities while the telly is on, and advertisers do want to know who saw, as opposed to who might have seen, their commercials. Ideally, they want to choose commercial breaks where the proportion of attentive viewers is greatest. This means they need to consider the surrounding programs, but what should they look for and what links exist?

Two papers presented at the ESOMAR/ARF symposium addressed this tricky research question. They were given by representatives of European buying groups – one by Phil Gullen of Carat, the other by Doug Read and Shelia Byfield of The Media Partnership.

Both found a strong positive correlation between attention to programming and attention to commercials. Viewers were more likely to stay tuned, and those highly involved were better at recalling the advertising.

Expressions like advertising clutter or fragmentation crop up repeatedly. There is a growing fear at the diminishing effectiveness of tv ads

The research interests me not only because it tries to advance beyond peoplemeter measures, but also because I think it a sign of the times. Expressions like advertising clutter or fragmentation crop up repeatedly, and one senses a growing fear at the diminishing effectiveness of television advertising. One possible solution is to be more selective over the choice of commercial breaks.

My fourth paper goes beyond peoplemeters, beyond the supplementary studies of commercial attentiveness, and into the research scene of 2010. Its authors are Bob Hulks, the chief executive of Barb, the joint industry body responsible for peoplemeter data in the UK, and Gilles Santini, president of IMS, a leading software house in France.

The paper concentrates on Europe. Among its many points, it argues that peoplemeter research budgets are already overstretched, and unlikely to increase significantly over the coming decade. By contrast, continued growth of multichannel and varied viewing conditions, plus the onset of digital tv, will place an intolerable upward pressure on research numbers and costs.

As an escape route, Bob Hulks and Gilles Santini proposed that audience researchers might retreat from metering people. Instead they could focus on more meters for measuring set use in and out of the home, and employ modelling techniques for filling in viewer demographics.

In making the case for models, the authors question the objectivity of current peoplemeter measures. This is a fair point for researchers to make, but markets are guided by numbers. I suspect that the advertising industry will find it very hard to retreat from peoplemeters; but then I am persuaded that a crisis is edging closer. The nineties are trying enough times for advertisers without the worry of the nuts and bolts of audience measurement. Now more than ever, though, the industry needs to look ahead. TBI

Responding To The Tech Threats

A worldwide survey of broadcasters reveals clear differences of perception about the threats and benefits of new technology, writes Jean-Luc Renaud

At the time when giant media conglomerates, telcos and cable operators are forming billion-dollar alliances intent on shaping the digital interactive and multimedia future, other media players – most prominently the terrestrial broadcasters – are searching to identify their role in the new digital area.

The London-based International Institute of Communications (IIC) – an independent, multi-disciplinary organisation with a worldwide membership representing a broad variety of interest in the communication field – recently carried out what could well be the first survey of terrestrial broadcasters' strategic thinking.

The analysis is based on results from a questionnaire completed by some 45 medium-to-large-size broadcasters in Europe, the U.S. and the Far East. Two-thirds of the respondents were from public-service broadcasting, one-third from private commercial stations. The findings were presented at the first meeting of the IIC's Digital Media Forum last month. "The [strategy survey's] objective is to assist broadcasters identify the relevant issues and provide information that will illuminate a path of action," said Tom McQuaide, forum co-ordinator and principal investigator.

The fact that 45 out of 95 broadcasters solicited completed a fairly long questionnaire – a remarkable 47% response rate – is an indication of the importance, not to say the urgency, terrestrial broadcasters give to issues revolving around their future strategic positioning.

The survey focuses on four specific areas: strategic overview, financing, regulation, programming and audience. Public service broadcasters' responses are contrasted with those given by commercial broadcasters. However, given the relatively small sample involving the latter, the figures are only indicative of broad trends.

Table 1 – Changing Revenue Equation: Private Broadcasters

Present	5 Years	10 Years	20 Years
1 Advertising	1 Advertising	1 Advertising	1 Advertising
2 Sponsorship	2 Subscription tv	2 Subscription tv	2 Subscription tv
3 Commercial enterprise	3 Sponsorship	3 Sponsorship	3 Sponsorship
	4 Comm. enterprise	4 Comm. enterprise	4 Pay-per-view
	5 Pay-per-view	5 Pay-per-view	

The advent of digital video compression technology for the terrestrial and satellite distribution of tv is looked at favourably by terrestrial broadcasters, who might well consider using it (75% regard digital terrestrial services as beneficial and 71% digital satellite as beneficial). There is less enthusiasm among private commercial terrestrial broadcasters: 67% regard digital satellite transmission as a threat, compared to 54% of public broadcasters. Satellite delivery of digitally compressed services is the bête noire of commercial terrestrial broadcasters. Joining the satellite digital bandwagon is thus an offensive as well as a defensive strategy, or at least a policy of containment.

Whether it shows a lack of vision or the desire to stick to what they know best, public broadcasters do not see that many opportunities in the emerging advanced tv services such as interactive tv, pay-per-view, video-on-demand, near-video-on-demand or CD-i. Commercial broadcasters, in contrast, are more interested in the new advanced services, because they feared them more. Interactive tv is the perfect illustration of the "if-you-can't-beat-them-join-them" strategy: 83% regard it as beneficial compared to just 46% of public broadcasters.

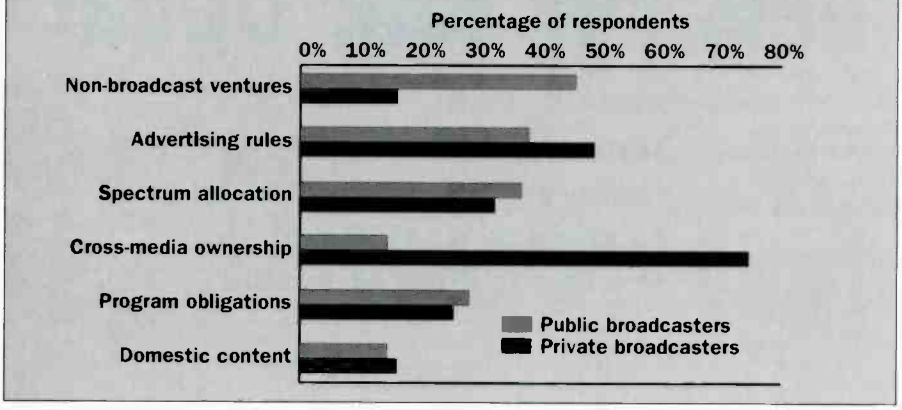
If there is a new service that worries all terrestrial broadcasters it is pay-per-view, especially if delivered via satellite (61% of public and 58% of private broadcasters see it as a threat). But is this fear justified? Cable-distributed pay-per-view services have fared rather badly in the U.S. so far. It is perhaps the (successful?) prospect of ppv on the DBS direct-to-home DirecTv venture that frightens broadcasters.

Because wide-screen tv technology has essentially been developed in the

Table 2 – Changing Revenue Equation: Public Broadcasters

Present	5 Years	10 Years	20 Years
1 License fees	1 License fees	1 License fees	1 License fees
2 Gov't support	2 Gov't support	2 Gov't support	2 Gov't support
3 Advertising	3 Advertising	3 Advertising	3 Advertising
4 Sponsorship	4 Sponsorship	4 Comm. enterprise	4 Comm. enterprise
5 Comm. enterprise	5 Comm. enterprise	5 Subscription tv	5 Subscription tv
	6 Subscription tv	6 Sponsorship	6 Sponsorship
		7 Pay-per-view	7 Pay-per-view

Table 3 – Loosening Of Restrictions Needed To Pursue Strategy



labs of public broadcasters, it is no surprise that they wish to deploy it – especially now that European broadcasters can obtain EU subsidies. No surprise that commercial broadcasters are less than excited about the new tv format.

Pursuing strategic objectives, taking advantage of forthcoming opportunities – or simply surviving – will require a liberalisation of the regulatory framework (table 3). Given the different nature of their mandate, public and private broadcasters are bound to have their own set of priorities. Nearly half of the respondents from the public broadcasting sector would like to be allowed to move into non-broadcast ventures. Rules that cost money should be reviewed: Advertising regulation should be loosened to generate more income, naturally more so for commercial broadcasters; "public service" program obligations as well as "local content" requirements (quotas) should not be a burden.

It is in the media cross-ownership area that public and private broadcasters part company on a grand scale. On the one hand, public broadcasters – generally powerful organisations – tend to see themselves navigating in uncharted waters very much on their own. Private broadcasters, on the other hand, see their future as part of multimedia consortia, which many already are. In this context, relaxing cross-media ownership rules is all the more important.

When it comes to perceived company strength, the emphasis varies between public and private broadcasters. In addition to the quality of their news, public broadcasters also insist on the fact they are usually on the technological leading edge. Some perceive their organisation as having high credibility. For their part, private broadcasters point to their efficient management, their stable financial base, the built-in flexibility of their company in responding to changes. Several mention the fact that their service is provided to the viewers at a low cost.

"Plus ça change, plus c'est la même chose" could well describe the broadcasters' perceived revenue equation over the next 20 years. Table 2 shows that public broadcasters believe license fees will remain the first source of financing followed by government subsidies and advertising (the pre-eminence of government subsidies in the results is attributable to the inclusion of data from non-European broadcasters). The faith in the license fee principle, at a time when that principle starts being challenged, is curious.

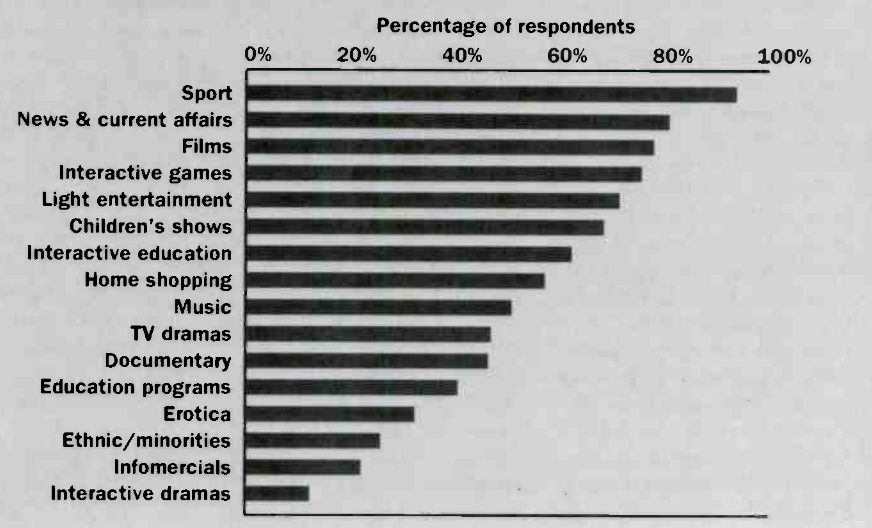
Private broadcasters reckon that advertising will still form the bulk of their revenue in 20 years' time, subscription tv income coming a clear second, which suggests broadcasters intend eventually to diversify their operations into pay-tv. Here again, this will be a matter for the legislators.

If there is no doubt that, over the years, viewers will be consuming more television for which they will have to pay directly, this evolution may be slower than usually advertised, especially when it comes to interactive television. Terrestrial broadcasters anticipate that, in five years, conventional television – license fee/advertising-supported over-the-air or cable tv stations – will retain an 80% viewing share, falling to 41% in 20 years. Interactive tv services will capture only 5% in five years, a share increasing to 24% in 20 years.

When terrestrial broadcasters are asked what types of programming they believe will likely succeed in a multi-channel environment, they put sports on top followed by news and movies (table 4). Then comes the first service which is truly a child of the digital area – interactive games. There are variations between public and private broadcasters. If children's shows, interactive education, documentaries and educational programs have been selected by, respectively, 71%, 71%, 54% and 46% of respondents from the public sector, the figures for the commercial sector representatives are 58%, 42%, 33% and 25% respectively. 50% of private broadcasters believe erotica can hold its corner versus 25% of public broadcasters.

Despite being a $400 million-a-year and growing business in the U.S., infomercials get the thumbs down. And interactive drama? a non-starter. TBI

Table 4 – Programming Likely To Succeed In A Multi-Channel Environment



More Channels For Your Dollar

Relative merits of U.S. direct-to-home services... Europe tries to salvage its HDTV program... the importance of Vesa...

This column has recently plugged itself into the Internet, and has been following with interest a debate in one of the newsgroups about the relative merits of DirecTv versus Primestar. The Hughes-backed DirecTv service was originally billed to be the world's first digital DTH satellite service, and had been due to launch a mainly pay-per-view service on April 1 on the same satellite as USSB, a separate programming venture owned by communications veteran Stanley Hubbard. However, DirecTv's launch slipped back to May, and into the gap strode Primestar, the satellite distribution service owned principally by U.S. cable MSO subsidiaries. Primestar is an analog service in the process of converting its signal to digital, but since it has beaten DirecTv to the draw in delivering digital satellite decoders into U.S. homes, it is claiming the crown as the world's first digital DTH service, rather than DirecTv.

The Primestar move was made possible by a $250 million contract with General Instrument for digital satellite equipment.

This is what the debate on the Internet is all about: the rival digital decoders DirecTv has commissioned from Thomson/RCA are not being provided gratis – they sell for around $699, including dish. So which service is the better value? Well, Primestar will offer 37 channels during the change-over period, upgrading to 77 by the summer, for a monthly fee of $30 upwards. Once a DirecTv customer has bought the equipment, however, he or she will be able to subscribe for as little as $7.95 (rising to $34.95) a month to between 20-30 channels, initially. Meanwhile, the Primestar dish needs to be four feet wide, whereas the DirecTv one is only a foot and a half. And, say the DirecTv advocates, the same dish provides access to USSB, too.

For distributors, however, the significant aspect of the debate is the competition between the rival services is bound to drive down the entry-price to a satellite transponder.

Battle Of The Researchers

This column has argued before that, in the global digital R&D wars, Europe's progress should not be underestimated. Indeed, Europe has already defined common digital broadcast transmission standards for satellite and cable signals. But in one particular area, European engineers are worried about the U.S. lead: HDTV. Europe, you may recall, wasted a lot of time and money on developing an analog HDTV system called HD-Mac, and then attempted to force EC members to move towards it by transmitting in the intermediate D2 Mac standard. When Brussels belatedly decided to junk this policy, analog HDTV development was effectively wound up in favour of research into standard-resolution digital services. But now the folks who ran the HD-Mac programme, dubbed Eureka 95, are worried that Europe will be left behind when the U.S. moves straight to a terrestrial HDTV system after 1996. They say they can spin off a lot of the expertise they gained in the development of HD-Mac into the digital domain, and to this end they want to create a new digital R&D program called ADTT (Advanced Digital Television Technologies) to replace Eureka 95. This would focus on the development of digital HDTV. It's too early to say whether ADTT will fly. But can the industry trust the same people who led it up the HD-Mac cul-de-sac not to lead it up another one.

Marriages For Convenience

Most TBI readers have probably not heard of a U.S.-based organisation called Vesa (Video Electronics Standards Association). In which case you probably haven't come across the fact that it recently inaugurated a new sub-committee called the Open Set Top standards special interest group. However, your interest might be re-awakened if you looked at the list of members, which include: Apple, AT&T, Bell Atlantic, Brooktree, Cirrus Logic, Compaq, Divicom, General Instrument, Goldstar, Hewlett-Packard, IBM, Kaleida, MainStream Control, Media Vision, Microsoft, Motorola, National Semiconductor, Novell, Nynex, Oracle, Philips, Raytheon, SGS-Thomson, Southwestern Bell, 3DO, US West, and Viacom. In a nutshell, these companies want to ensure the digital set-top boxes in consumers' homes are compatible with everybody else's hardware and software. This is no minor feat. One of the major technical hitches British Telecom engineers have been trying to overcome in their current video-on-demand trial in the UK is that the Apple decoder they are using sometimes refuses to 'speak' to the Oracle media-server at the other end. And both systems have been deliberately engineered to be compatible. Unless Vesa can achieve a consensus on a common standard, then there is a danger that traffic on the super-highway could grind to a halt. Some types of interactive programs made by one supplier might employ user interfaces that don't work with other decoders. Some servers might store their information in idiosyncratic ways which would render it inaccessible to particular homes. In fact, the whole point of a super-highway – which is it involves universal distribution and access – would be defeated. So – maybe everyone should be paying more attention to what Vesa is doing, after all. TBI


HOLSTEN
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PRÄSENTIERT
Krombacher
PRÄSENTIERT