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Changes in Broadcast Television: A Study of Recent Challenges Facing the Broadcast Television Networks

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Changes in Broadcast Television:
A Study of Recent Challenges Facing the Broadcast Television Networks

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Abstract

Many diverse types of competition continuously challenge the broadcast television networks. This study researches the ways in which these networks are forced to adapt to the challenges. Television was created through the innovations of several inventors; the first adaptation for the device was the actual creation of what we know today as the television. Next television networks were created, sold, and regulated forcing competition between each network.

With several broadcast networks flourishing, the creation of cable television was next; bringing broadcasting to areas in the country that did not receive broadcast signals. Cable television brought about the creation of many new networks competing against broadcast for viewers. In 1950, there were four television channels and now, more than 50 years later there are 96 channels competing for the television audience. Cable television has had the largest impact on the broadcast networks but more media alternatives are introduced each year.

Broadcast television networks have several diverse competitors forcing constant adaptation in order to continue to be successful. The broadcast networks have been challenged by the creation and success of the Internet, providing new entertainment to the television audience. New devices such as Video on Demand and Digital Video Recorders create new challenges for the networks. Despite the new challenges, the broadcast networks continue compete against each other as well as the growing cable television media.

This thesis will examine how the broadcast networks have faced the challenges and how they have adapted to overcome their competition.

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Chapter One

Introduction

“In the game of American television, the bottom line has always been high ratings and, to this day, it still is.” (Castleman & Podrazik, 1982, p. vi) This quote taken from a 1982 published book is still true 25 years later. The entire television industry is based on only one thing, Ratings. “Programming delivers commercials to the viewers, and it is these commercials that provide revenue to the broadcasters. Indeed, the quest for successful, high-rated programs is based on the fact that hit programs attract advertisers and increase the fees broadcasters can charge for advertising on the more popular programs.” (Roman, 1998, p. 55)

Any decline in the number viewers can have drastic implications for a broadcast television network. In the fall of 2006, NBC, after experiencing severe ratings decline in the three prior seasons, was forced to layoff 700 employees, roughly 5% of the workforce, as well cut \$750 million worth of administrative and operating expenses. The company began a new business strategy that would reduce NBC's dependence on traditional distribution methods and advertising models. NBC was losing advertising dollars but spending more on programming initiatives, a traditional strategy used to try to lift the network from the number four position in 2005 and 2006. NBC's decline in ratings directly affected the entire company and called for the drastic action. (Consoli, 2006)

A broadcast network has one goal to be #1; with increased competition from broadcast, cable, as well as several growing alternative media, every network must adapt to this competition and forge forward always looking to be # 1. As the #1 network, advertisers and revenue grow and allow the network the opportunity to compete in the overall, changing media landscape.

“In 1950, television penetration of US Households was only 9.0%. It didn’t take long to grow, however, and within only five years it was up to 64.5%. By 1965 it reached 92.6% and from there it has grown to its current 98.2% level.” (Television Bureau of Advertising, 2006)

Year	Total US Households (000)	TV Households (000)	% HH with TV	% Growth
1950	43,000	3,880	9.0%	
1955	47,620	30,700	64.5%	691%
1960	52,500	45,750	87.1%	49%
1965	56,900	52,700	92.6%	15%
1970	61,410	58,500	95.3%	11%
1975	70,520	68,500	97.1%	17%
1980	77,900	76,300	97.9%	11%
1985	86,530	84,900	98.1%	11%
1990	93,760	92,100	98.2%	8%
1995	97,060	95,400	98.3%	4%
1996	97,540	95,900	98.3%	1%
1997	98,610	97,000	98.4%	1%
1998	99,860	98,000	98.1%	1%
1999	101,240	99,400	98.2%	1%
2000	102,680	100,800	98.2%	1%
2001	104,080	102,200	98.2%	1%
2002	107,400	105,500	98.2%	3%
2003	108,620	106,700	98.2%	1%
2004	110,420	108,400	98.2%	2%
2005	111,630	109,600	98.2%	1%
2006	112,260	110,200	98.2%	1%
2007	113,410	111,400	98.2%	1%

Report generated from Nielsen Media Research- NTL, September each year.

Television viewers grew from less than 5 million households in 1950 to more than 100 million households fifty years later in 2000. This medium has experienced exponential growth since its existence but has now tapered off and does not have much more room to grow. Since

there will not be many new households to help increase viewers, how do the broadcast networks keep the already loyal households tuned in to their programming while adapting to new competitors in the media industry?

Each year there are new channels to view and more alternatives to broadcast television. The broadcast networks must work to entertain and retain their viewers and, therefore, their advertisers and their revenue. The media industry has become increasingly competitive with broadcast network competing against many alternative means of entertainment. “Even today, television is an experimental medium. While it has come a long way from the fuzzy images transmitted by Farnsworth and Zworykin, television continues to evolve into new technological and substantive dimensions.” (Roman, 1998, p. 1)

Growth of Tuning Alternatives

“Tuning options have increased. The average household now has 96.4 different channels from which to choose.” (Nielsen Media Research, 2006)

	Broadcast Stations	All Channels*	Growth
1950	3.8	N/A	-
1976	7.7	N/A	-
1980	9	N/A	-
1985	11	18.8	-
1990	11.7	33.2	77%
1995	13	41.1	24%
2000	13.5	61.4	49%
2004	16.4	92.6	51%
2005	16.3	96.4	4%

Sources: *NTI Audimeter sample : February 1950-86*

National People Meter sample: February 1987-90 and September 1994-present.

Notes: *N/A = not available; * Includes broadcast and cable.*

Cable television was the first competitor of broadcast television. “Broadcast television, by its nature being directed at a mass audience, dispenses homogenized programming to its public. When cable television was first introduced, it was seen as a technology that would provide unique program services to its audience. Many hoped that cable television would create a new era in service and programming, and there is no doubt that it has brought about many changes in the entertainment marketplace.” (Roman, 1998, p. 207) Alternatives to broadcast television continue to grow but how have the broadcast networks adapted and responded to the competition?

Purpose of Study

As a media buyer for a mid-sized, in-house advertising agency, my life is also directly affected by ratings. I, like the broadcast networks, make decisions based upon the successes and failures of primetime television programs. One question, I am constantly asked is “Why did ABC get more budget than NBC?” My answer to this question, in the fall of 2006, is that ABC has more audience share than NBC. As a media buyer, the first week of the new season is probably the most exciting and busy time of the year. Although I have seen the new programs’ pilots, the fun part is guessing which shows will succeed or fail. Every day at 4:30 pm EST, Nielsen Media Research releases the ratings for the night prior where we can all see how far away our predictions were from what actually happened on air. Audience directly affects every aspect of the television industry.

My mother tells me that I found the perfect job. Not too much writing, but a lot of math and my first love, the television. As a child, I was obsessed; I could not enough TV. I went on

to college to study Communications, thinking I would be the next Hannah Storm. I love sports and television, so, of course, I would be a broadcaster.

In the summer of 2000, I was offered an internship with an advertising agency located in Madison, New Jersey. At that point I did not even know that media buying existed, beginning this internship I thought this advertising agency created commercials. I began working at the, then, John F. Murray Advertising and was immediately confused and even more excited. This agency purchased television time on all of my favorite television shows. I learned so much that summer about an industry I had never known existed. Media buying was the reason programs made it on air, who knew? The advertisers were the reason that broadcast television existed and ratings were reason the advertisers spent money.

I continue to work at that same advertising agency, now, Wyeth Advertising some six years later. When it came time to select a thesis topic, television was the obvious choice but what part of television would I study? I thought about my everyday work, what is the most important part of my job? What trends did I see in the industry, what would I be able to talk about and study for the next eight months? Viewers are the most important part of broadcast television and slowly for the last few years there was talk of cable beating broadcasting and broadcasting losing the share of audience, but why? This was the topic, why had viewers turned away from broadcast television's primetime?

Research Question

My research question is “Since the start of the 21st century, the broadcast television medium has been challenged by several diverse types of competition: how have the networks adapted to face this competition?”

Subsidiary Questions

There are several subsidiary questions that will help to answer the primary question of broadcast’s ability to adapted and respond to competition.

- Which alternative forms of media have had the greatest effect on the broadcast networks?
- Have the broadcast networks responded to changes and competition in the medium?
- How do the broadcast networks keep the already loyal households tuned into their programming?

Some networks have embraced the changes in the medium and tried to adapt to the changes where others have ignored the changed at first but then have been forced to follow their competitors. Networks have made some drastic programming moves in the past few years to keep audiences, but I feel that not all programming changes have been for the best. Broadcast networks are desperate to gain additional viewers and have taken ridiculous steps to try to increase ratings. Competition for broadcast networks has grown; not only are networks competing against one another, but also against cable television, the internet, DVRs, and other video sources. Broadcast networks must find a way to accept alternative media and use these media to become even more successful themselves.

Limitations of the Study

In this study of television I will research and analyze only the largest US broadcast television networks: ABC, CBS, NBC, and Fox. I am not including smaller broadcast networks such as WB, UPN, Univision, Telemundo, Telefutera, or public television networks. I will not be studying specific details on audience composition; focusing only on Household and total viewers.

This study will focus on the changes in broadcast television since the turn of the 21st century. I selected this time period due to the information available and the large scope of competition prior to this time period. Many studies have already been done on the impact of the change in television technology as well as the initial affects of cable television prior to the 21st century. This study will look past the initial introduction of cable and the leveling off of television penetration to focus on the competitors to broadcast television networks in the 21st century.

Although most television networks have international properties, I will focus on only the United States broadcast networks and their properties and actions.

Definition of Terms

“Cable Television (Cable TV or CATV): A television distribution system whereby TV signals are transmitted via cable (insulated wire), rather than through the air, to TV sets subscribers in a community or locality. Cable Television systems are generally called cable systems; the companies that own and operate them are known as cable system operators

Dayparts: The time segments that divide the TV day for ad scheduling purposes. These segments generally reflect a television station's programming patterns. Comparison of audience estimates between dayparts may indicate differences in size and composition of available audience. While dayparts may vary by market, station and affiliation, the most common dayparts are*:

Early Morning: 6am-9am

Daytime: 9am- 330pm

Early Fringe: 330pm-530pm

Early News: 530pm-7pm

Prime Access: 7pm-8pm

Prime: 8pm-11pm (Monday-Saturday)

7pm-11pm (Sunday)

Late News: 11pm-1130pm

Late Fringe: 1130pm-1am

Late Night: 1am-6am

Nielsen Media Research: A firm involved in local and national measurement of the TV audience; also involved in other research activities.

Nielsen Television Index (NTI): National network audience measurement reports

Personal/Digital Video Recorded (PVR/DVR): PVR/DVRs are digital devices that use a hard drive instead of videotape as the recording medium. PVR/DVRs blend the features of a VCR with the programmability and storage of a computer.

Rating: A percentage of total households or population owning TVs who are tuned to a particular program or station at a specific time (e.g., a six rating for women 18-49 means 6 percent of all women 18-49 in the defined geographic area were viewing that station or program.)

Share: Audience during the average minute of a program, expressed as a percentage of households using TV – computed by dividing average audience rating by households using TV. Broadcast

Sweeps: Four-week periods (known as “sweeps-months”) in which NSI surveys all television markets (generally during November, February, May, and July)

Syndicated Program: A program that is produced for national distribution, but which is shown on individual local stations rather than on a national network. These programs may be sponsored either locally or nationally.” (Television Bureau Of Advertising, 2006)

Summary

Although the public may conceive television as an entertainment media, it is truly a business based on only one thing, ratings. The television industry is successful due to highly rated programming which advertisers want to use as a vehicle to relay their product’s message. These advertiser bring revenue to broadcast networks which allows broadcast networks to continue produce more highly rated programming in order to attract even more advertisers.

Broadcast networks have faced the competition of cable in the past but now face more competitors as the media landscape changes. Viewers attract advertisers and those viewers have many new options to be entertained. The broadcast networks must adapt to the changes in the media industry and respond to those alternative media trying to compete for the network advertisers. How have these broadcast networks adapted so far and how do they respond to the competition to keep the millions on loyal television viewers?

The changes in the media industry have affected my everyday, as an advertiser, but how do these changes affect the traditional television viewer. By studying one broadcast networks actions, ABC, since the turn of the century I will see how this network has adapted to the competition and what specific actions have initiated a response from the television viewers. Before looking at the response of ABC to this competition, the following will establish the beginnings of the television industry and what some of the competition affecting the networks through the turn of the 21st century.

Chapter Two

History of Television

When analyzing the current state of television, one must look back at the past to see other adaptation made to the actual device as well as the networks that compose network television. Television, as we know it, was invented in many steps and by many different people. “In 1923, Charles F. Jenkins on June 14, made his first experimental wireless television transmissions with a mechanical system from the Navy radio station in to his Jenkins Laboratories office in Washington D.C. Also in 1923, Vladimir K. Zworykin applied for a patent on his iconoscope cathode ray tube, which would create an electronic television.” (Schoenherr, 2004)

“Television came into being based on the inventions and discoveries of many men and scientists. The 'first' generation of television sets was not entirely electronic. The display (TV screen) had a small motor with a spinning disc and a neon lamp, which worked together to give a blurry reddish-orange picture about half the size of a business card. The period before 1935 is called the "Mechanical Television Era". This type of television is not compatible with today's fully-electronic television system.” (Television history - the first 75 years, n.d.)

“Television was conceived by the same people responsible for commercial radio. Like radio, television was structured around just a few programming networks, paid for by commercial advertisers, and dedicated to attracting the largest possible audience.” (Castleman and Podrazik 1982) In 1926, RCA's David Sarnoff created NBC (National Broadcasting Company) for national radio broadcasting.

On April 7, 1927, “Bell Telephone Labs and AT&T give a USA public mechanical television demonstration over both wire and radio circuits. Pictures and sound were sent by wire

from Washington D.C., to New York City. A wireless demonstration also occurred 22 miles away, from Whippany, New Jersey, to New York City. The main part of the demonstration was a speech by Herbert Hoover, then Secretary of Commerce, which originated in Washington D.C. The pictures were received on a 2" x 3" screen and people claimed that there was no difference in quality between the pictures sent by either wire or radio." (Television history - the first 75 years, n.d.)

On January 13, 1928, "GE's Dr. Earnest Alexanderson and RCA's David Sarnoff Present the GE Mechanical System to the Press. GE System is Hailed as the 'World's First Television'" (Television history - the first 75 years, n.d.) In May, 1928, GE began regular TV broadcasting from a station that would become WGY in Schenectady NY; by the end of the year, over 15 stations were licensed for TV broadcasting. Also in 1928, GE's Dr. Ernest Alexanderson developed the Octagon mechanical TV set with three-inch screen that was manufactured and sold by GE for home use. NBC, formally a radio-broadcasting company, started its own New York television station W2XBS in July, 1930. (Schoenherr, 2004)

"In 1934, RCA improved Vladimir K. Zworykin's electronic system. On June 29, 1936, RCA/NBC made a broadcast from the Empire State Building of the improved electronic system. Allen B. DuMont manufactured a 14-inch electronic television set superior to the 12-inch sets being developed by RCA in 1938. On April 30, 1939, US President Franklin Delano Roosevelt opened the New York World's Fair on W2XBS. Also in 1939, RCA introduced its first commercial TV set, the mirror-in-the-lid TRK-12 for \$600. May 2, 1941 the FCC (Federal Communications Commission) issued the first commercial TV licenses to 10 stations, with

license number 1 going to NBC's W2XBS (became WNBET) and commercial broadcasting began July 1, 1941. (Schoenherr, 2004)

The next significant television innovation came in 1951 when CBS color broadcasts began on June 25. Due to the Korean War, CBS stopped color broadcasting 4 months later on October 19. On Dec. 23, 1953, the FCC approved a National Television Standards Committee standard for color television compatible with the black-and-white standard. (Schoenherr, 2004)

Television technical standards changed many times in the first 30-year period of development to allow for the improvement made to the device itself. The television was originally mechanical and was successfully adapted to the electronic model for a better picture and cheaper production costs. Next the television had to conform to new standards to allow for color. There are constant modifications to the television to this day as well, HDTV, DLP, LCD screens, the instrument of entertainment continues to improve to make for better viewing.

The Networks and the Development of Broadcast Television

In order to understand the transformation of the broadcast television medium and how the constant adaptation affects the broadcast networks, one must be familiar with how the major broadcast networks were created and how they have adjusted to this constantly changing industry. The owners, managers, and stockholders play a significant role in deciding what is seen on broadcast television.

NBC/Universal- "NBC came into existence as the subsidiary of an electronics manufacturer, RCA (Radio Corporation of America, which saw programming as a form of marketing, an enticement to purchase radio and television receivers for the home. Since NBC

was the leader in television, it helped RCA's technology to be adopted as the industry standard, particularly during the early years of television and in the battle over color television. In November, 1926, RCA formed NBC as a wholly-owned subsidiary. Shortly thereafter, RCA added a second network, and the two networks were designated NBC-Red and NBC-Blue. NBC was the first to begin experimental broadcasts from New York's Empire State building as early as 1932 and in 1939 became the first network to introduce regular television broadcasts. In 1943 RCA sold its Blue network to Edward J. Noble after FCC scrutiny, and this network eventually became ABC. In the early 1950s NBC accounted for only one-quarter of RCA's corporate profits.

Several key innovations in the television industry are credited to Sylvester "Pat" Weaver, the network's chief programmer from 1949 to 1953 and as president from 1953 to 1955. Weaver is credited with introducing the "magazine concept" of television advertising, in which advertisers no longer sponsored an entire show, but paid to have their ads placed within a program--as ads appear in a magazine. This move shifted the balance of power toward the networks, which were able to exert more control over programming. Weaver expanded the network schedule into the "fringe" time periods of early morning and late night by introducing Today and Tonight. He also championed "event" programming that broke the routines of regularly scheduled series with expensive, one-shot broadcasts, which he called "spectaculars."

By the mid-1980s NBC generated 43% of RCA's earnings--a hugely disproportionate share of the profits for a single division of the conglomerate. In the merger mania of the 1980s, RCA became a ripe target for takeover, particularly given the potential value of the company when broken into its various components. General Electric purchased RCA--and with it NBC--

in 1985 for \$6.3 billion. NBC dominated the ratings until the late 1980s--when its ratings and profits suddenly collapsed. By 1996 NBC was once again the undisputed leader of network television with the five top-rated shows most weeks.

G.E. has also spent a considerable amount of its own money to guarantee NBC the rights to the most valuable televised sports events, including \$4 billion for the rights to broadcast the Olympics. NBC has diversified substantially now owning minor stakes in many cable channels. NBC founded the cable network, CNBC, and after its success spun off the cable network MSNBC. (Anderson, n.d.) In 2002, NBC acquired Hispanic broadcast network, Telemundo. In 2003, NBC announced the merger between themselves and Vivendi Universal Entertainment; the two would form NBC/Universal. May 12, 2004 marked the first day of NBC Universal, adding theme parks, movie studios, and major cable networks (USA and Sci Fi) to General Electric.

CBS- In 1927, talent agent Arthur Judson founded his own network---United Independent Broadcasters. Soon merged with the Columbia Phonograph Company, the network went on the air on September 18, 1927 as the Columbia Phonograph Broadcasting Company. Within a year heavy losses the company was sold to William Paley, who had become enamored of radio as a result of advertising the family's La Palina brand cigars over a local station, bought the fledgling network, then consisting of 22 affiliates and 16 employees, for \$400,000 on January 18, 1929, and renamed it the Columbia Broadcasting System.

In the early 1970s profits increased to such an extent that by 1974 the Columbia Broadcasting System had become CBS, Inc., and consisted not only of radio and TV networks but a publishing division (Holt, Reinhart and Winston), a magazine division (Woman's Day), a

recording division (Columbia Records), and even for a time The New York Yankees (1964-73). Anxiety about the succession of William Paley at CBS and declining ratings began to threaten the network's independence and left the company vulnerable. To defend itself against a takeover CBS turned to Loew's president, Lawrence Tisch, who soon owned a 25% share in the company and became president and CEO in 1986.

Within a year Tisch cut in personnel and budget, and sold off assets such as the recording, magazines, and publishing divisions. In November, 1995 CBS was sold to the Westinghouse Corporation for \$5.4 billion, effectively bringing to a close CBS's history as an independent company. (Auster , n.d.)

Westinghouse sought to transform itself into a major media company with its purchase of CBS. It continued its expansion in 1997 with the \$4.9-billion purchase of Infinity Broadcasting Corporation, one of the largest owners of radio stations in the United States. Also that year Westinghouse acquired two cable television channels, The Nashville Network (TNN) and Country Music Television (CMT). In late 1997 Westinghouse changed its name to CBS Corporation. In 1998 CBS added to its broadcasting empire by paying about \$2.6 billion to acquire American Radio Systems Corporation, a company that owned more than 90 radio stations. A year later CBS paid \$2.5 billion to acquire King World Productions, a television syndication company whose programs include *The Oprah Winfrey Show* and *Wheel of Fortune*.

In 1999 entertainment conglomerate Viacom, Inc., once part of the CBS television network, announced its intention to acquire CBS Corporation in a deal valued at \$37 billion. The merger was completed in 2000 and made the combined firm the second largest entertainment company in the world. Viacom brought with it a production studio, Paramount, cable networks,

MTV Networks (MTV, VH-1, Nickelodeon) and Blockbuster. With much internal management turmoil, in 2006, CBS separated from Viacom and now consists of network television's CBS, the Infinity radio network, and publisher Simon & Schuster. ("CBS Corporation," 2006)

ABC- ABC grew out of a Federal Communications Commission (FCC) "monopoly" probe. RCA sold the Blue Network Company, Inc. for \$8,000,000 to the American Broadcasting System, Inc., owned by Edward J. Noble, who had made his fortune with Lifesavers candy. On October 12, 1943, ABC was born, the offspring of the separation of NBC. With bigger competition, NBC and CBS, Noble's network was overextended and nearly bankrupt so in 1951, Leonard Goldenson and United Paramount Theaters bought ABC for \$25 million.

The mid-to-late 1970s also saw the era of cable television developing strength and taking advantage of this trend in the early 1980s, ABC purchased ESPN, a cable sports network, with hopes that it would give the network a window on pay-per-view sports and help it bid for big sporting events.

In 1986, Capital Cities Communication engineered the first television network takeover since Leonard Goldenson's merger of United Paramount Theaters and ABC. The \$3.5 billion merger signaled the start of the purchase of all major networks in 1980s, but the resulting Capital Cities/ABC Inc. became what was widely considered by investors as one of the best run of media companies. Capital Cities cut costs dramatically while continuing to invest in news and entertainment programming.

In 1995 Walt Disney Co. acquired Capital Cities/ABC for \$19 billion, the second-highest price ever paid for a U.S. Company in U.S. history. The biggest media merger in history, touted as one of the best-kept secrets in the industry. (Noyes, n.d.)

Fox- The FOX Television Network was established, amidst shock, controversy, legal wrangling and uncertainty in 1985. In 1984, Rupert Murdoch purchased half ownership of 20th Century-Fox Film Corporation. The following year he acquired the remaining half of the corporation. These two purchases, totaling \$575 million gave him control over an extensive film library and rights to numerous television series. With this enormous programming potential in hand, he was in a good position to form a television network, the FOX Broadcasting Company. In October 1985, Murdoch bought six independent, major market stations. These stations enabled him to reach about 20% of all television households in the United States. For the first time since the 1960s the major networks were to experience a kind of aggressive competition that would threaten their very existence.

The founding of the FOX Broadcasting Company must be placed within a context of the general economic uncertainty and decline of network television. 1985 was the first year that network revenues fell slightly. By 1987, total revenues of ABC, CBS and NBC had dropped to \$6.8 billion. As a result, all three networks adopted austerity measures, cutting budgets, laying off personnel and dumping affiliates. In 1988, FOX lost \$90 million and in 1989, \$20 million. To hedge against increased profit erosion the three networks began to diversify their interests in cable television and shore up their owned and operated stations. FOX's vertically integrated structure (a combination of 20th Century-Fox, FOX Network and Fox Stations) is also well

suites to produce and distribute a large number of quality shows. The substantial collection of films in the vaults of 20th Century FOX remains a rich resource. (Worringham, n.d.)

The Creation of Cable Television

Cable television originated in the United States almost simultaneously in Arkansas, Oregon and Pennsylvania in 1948 to enhance poor reception of over-the-air television signals in mountainous or geographically remote areas. “Community antennas” were erected on mountaintops or other high points, and homes were connected to the antenna towers to receive the broadcast signals. By 1952, 70 “cable” systems served 14,000 subscribers nationwide.

By 1962, almost 800 cable systems serving 850,000 subscribers were in business. Well-known corporate names like Westinghouse, TelePrompTer and Cox began investing in the business. The growth of cable through the importation of distant signals was viewed as competition by local television stations. Responding to broadcast industry concerns, the Federal Communications Commission (FCC) expanded its jurisdiction and placed restrictions on the ability of cable systems to import distant television signals. As a result of these restrictions, there was a “freeze” effect on the development of cable systems in major markets, lasting into the early 1970s.

The freeze on cable’s development lasted until 1972, when a policy of gradual cable deregulation led to, among other things, modified restrictions on the importation of distant signals. In 1972, Charles Dolan and Gerald Levin of Sterling Manhattan Cable launched the nation’s first pay-TV network, Home Box Office (HBO). This venture led to the creation of a national satellite distribution system that used a newly approved domestic satellite transmission.

Satellites changed the business dramatically, paving the way for the explosive growth of program networks. The second service to use the satellite was a local television station in Atlanta that broadcast primarily sports and classic movies. The station, owned by R.E. "Ted" Turner, was distributed by satellite to cable systems nationwide, and soon became known as the first "superstation," WTBS. By the end of the decade, growth had resumed, and nearly 16 million households were cable subscribers. From 1984 through 1992, the cable industry spent more than \$15 billion on the wiring of America, and billions more on program development. (National Cable Telecommunications Association, n.d.)

Satellite delivery, combined with the federal government's relaxation of cable's restrictive regulatory structure, allowed the cable industry to become a major force in providing high quality video entertainment and information to consumers. By the end of the decade, nearly 53 million households subscribed to cable, and cable program networks had increased from 28 in 1980 to 79 by 1989. Some of this growth, however, was accompanied by rising prices for consumers, incurring growing concern among policy makers.

In 1992, Congress responded to cable price increases and other market factors with legislation that once again hampered cable growth and opened heretofore "exclusive" cable programming to other competitive distribution technologies such as "wireless cable" and the emerging direct satellite broadcast (DBS) business. In spite of the effect of the 1992 Act, the number of satellite networks continued their explosive growth, based largely on the alternative idea of targeting programming to a specific "niche" audience. And at the end of the decade, approximately 7 in 10 television households, more than 65 million, had opted to subscribe to cable.

Cable grew by double digits through the mid 1980s continuing to gain subscribers in the 1990s. Cable seems to have peaked around 65 million subscribers and has not seen significant gains since the turn of the century.

Year	Avg. Basic Cable Subscribers (000)s	% Growth
2005	65.3	-1%
2004	65.7	0%
2003	66	-1%
2002	66.5	0%
2001	66.7	1%
2000	66.3	1%
1999	65.5	1%
1998	64.7	2%
1997	63.6	2%
1996	62.3	3%
1995	60.6	4%
1994	58.4	4%
1993	56.2	3%
1992	54.3	3%
1991	52.6	4%
1990	50.5	6%
1989	47.5	7%
1988	44.2	7%
1987	41.2	8%
1986	38.2	8%
1985	35.4	8%
1984	32.8	12%
1983	29.4	16%
1982	25.3	20%
1981	21.1	21%
1980	17.5	17%
1979	15	12%
1978	13.4	10%
1977	12.2	11%
1976	11	12%
1975	9.8	-

Source: Kagan Research, LLC

(National Cable Telecommunications Association, 2006)

Also during the latter half of the decade, cable-operating companies commenced a major upgrade of their distribution networks, investing \$65 billion between 1996 and 2002 to build higher capacity hybrid networks of fiber optic and coaxial cable. These “broadband” networks can provide multi-channel video, two-way voice, high-speed Internet access, and high definition and advanced digital video services all on a single wire into the home. The upgrade to broadband networks enabled cable companies to introduce high-speed Internet access to customers in the mid-90s, and competitive local telephone and digital cable services later in the decade. A generally deregulatory environment for cable operating and programming companies enabled the cable industry to accelerate deployment of broadband services, allowing consumers in urban, suburban, and rural areas to entertain more choices in information, communications, and entertainment services.

As the new millennium got under way, cable companies began pilot testing video services that could change the way people watch television. Among these: video on demand, subscription video on demand, and interactive TV. The industry was proceeding cautiously in these arenas, because the cost of upgrading customer-premise equipment for compatibility with these services was substantial and required new business models that were both expansive and expensive. In 2001, partly in response to those demands, AT&T agreed to fold its cable systems with those of Comcast Corp., creating the largest ever cable operator with more than 22 million customers.

Lower cost digital set-top boxes that started to become the norm in customer homes in the mid 1990s proved effective in accommodating the launch of many of the new video services. In general, however, more expensive technology would still be required for cable to begin

delivery of advances such as high definition television services, being slowly introduced by off-air broadcast stations as well as by cable networks such as HBO, Showtime, Discovery, and ESPN.

To accommodate accelerating demand, cable programmers are rapidly expanding their menu of digital cable offerings. By 2002, about 280 nationally delivered cable networks were available, with that number growing steadily. The digital TV transition leapt forward in 2003, as substantial gains were made in the deployment of High-Definition Television (HDTV), Video-on-Demand (VOD), digital cable, and other advanced services. (National Cable Telecommunications Association, n.d.)

Who is Nielsen Media Research?

“Nielsen Media Research, the leading provider of television audience measurement and related services in the world, shares a common heritage with ACNielsen. The companies split up in 1996 as part of a strategic restructuring and came together again in 2001 when VNU acquired ACNielsen (VNU acquired Nielsen Media Research in 1999). Before 1996, both companies had been part of the AC Nielsen Company, which was founded in 1923 by a 26 year-old engineer, Arthur C. Nielsen Sr.

Arthur Nielsen began his career testing products for manufacturing clients to ensure that they performed up to specifications. Without market research to guide them, companies had no way of knowing how best to spend their advertising dollars. Soon after, Arthur Nielsen essentially founded the field of market research by visiting sample stores in various geographic areas in order to track the movement of different brands, and then informed clients how well

their products were doing against the competition - what we would call today "market share" information.

Arthur Nielsen's entry into broadcast measurement in the United States began with radio in 1936, that was 16 years after Westinghouse Electric Corp. turned on the juice for the nation's first commercial radio station, KDKA in Pittsburgh. Arthur Nielsen Sr. had attended a demonstration at the Massachusetts Institute of Technology of a mechanical metering device called an "Audimeter" that was designed to track radio listening. The machine was capable of making a minute-by-minute record of when a radio was on and where the dial was set. Nielsen bought the meter practically on the spot, and embarked on a long and expensive research and development effort to improve the Audimeter and to use it on a scientifically selected sample of radio listeners. In 1942, Nielsen launched the Nielsen Radio Index based on the Audimeter and using a national sample of 800 homes.

Later, Arthur Nielsen would apply the same measurement technology to the new medium of television, establishing the name "Nielsen" as synonymous with television ratings. The ratings provide estimates of TV audience size and composition. They are a barometer of people's viewing habits.

Television reached a 1950s America that was spending and producing as never before, creating the greatest economic boom the world had ever seen. Four networks (NBC, CBS, DuMont, and ABC) were driving the new medium, competing mostly for radio personalities to feed television's voracious appetite for programming. Advertisers were sponsoring entire programs.

A "Golden Age" of television eclipsed radio in just a few years. To prosper, however, the new medium depended on reliable, projectable information on which television programs were delivering the right audiences to advertisers.

To Arthur Nielsen Sr., who had built a successful marketing and audience research company based on a scientific principle of what people *did* rather than what they *thought* or *said they did*, the success of the new medium and the messenger were inexorably bound.

Nielsen Media Research continued to innovate in the 1960s and 70s with TV set meters and diaries. Beginning with the 1973 television season, Nielsen Media Research introduced a new metering technology called "Storage Instantaneous Audimeter" for nationwide service. The new Audimeter automatically recorded and stored minute-by-minute tuning records for channel, time of day, and duration of tuning.

The data could be stored and automatically retrieved quickly by Nielsen Media Research's computers via the phone line from the home during the night. This resulted in faster service and made possible the introduction of a daily national ratings report, which included average audience, share, station count and evening network coverage.

Nielsen Media Research's commitment to superior quality and innovation led the company to devote even more resources to the measurement of actual viewing behavior. The Nielsen People Meter, now in approximately 5,000 households throughout the U.S. (including Alaska and Hawaii), represented a major advancement in metering technology, and resulted in more accurate information on television viewership. For the first time, daily household and persons estimates were obtained from a single sample of households.

In addition to providing complete data on set tuning, the Nielsen People Meters measure who is watching TV. Each household member, as well as visitors, pushes a button that is assigned to them to indicate they are in the viewing audience.” (Nielsen Media Research, n.d.)

Nielsen Media Research’s findings control the television industry; the company’s ratings on each network controls the available advertising and in turn the revenue of each network. Although the only source on television ratings, Nielsen is often criticized for its methods and sample technique, but no alternative is available to advertisers or broadcasters.

Nielsen is constantly modifying its sample as well as its products. The latest addition to Nielsen products is the availability of measuring DVR ratings, which includes ratings of programs watched within a 24 hour period or a 7 day period after the original broadcast. Nielsen is currently experimenting with Commercial ratings, which would tell advertisers specifically how many viewers watched their commercial. This is Nielsen’s response to the complicated debate between advertisers and networks on the validity of the DVR ratings and if their commercial is actually viewed. Nielsen, like the media industry, is constantly adapting to the demand of the viewers.

A Broadcast Primetime Schedule

Ratings success in the broadcast industry is cyclical as is the viewers’ interest in programming genres. The broadcast networks must adapt to the viewers interests; these interests have varied over the years. From soap operas to reality television, the broadcast television networks have introduced new genres but still maintain some of the reliable genres all in the effort to achieve the goal of #1.

Television was created from radio, where several genres carried over in the television media. “The 1950s witnessed a surge in the popularity of television, while radio was treated like an overlooked cousin. Most of the popular radio programs and their stars moved to the “electronic canvas.” Comedy, variety, news, and music-oriented radio programs became instant successes on television...The program that bridged the culture gap and truly became adored by the masses; however, was the *Ed Sullivan Show*. Its formula endured for more than twenty years and became an important part of American popular culture. There were detective dramas, Westerns, soap operas, and serious dramas. Police dramas were another variation on the law and order theme that flourished on television on the 1950s, setting a precedent for the decade to come.” The quiz program was introduced in the mid 1950s with the *\$64,000 Question*, which quickly became the top program on television and many new quiz shows followed. Questions on the contestants led to the decline of these programs leading into the 1960s. (Roman, 1998, p. 57)

“In the mid-1960s, the availability of color television sets added a new dimension to television viewing. The detective/spy genre was prominent in the 1960s but westerns lost popularity. Several new programming genres developed; comedy took on a more satirical and irreverent tone with programs such as the *Smothers Brothers* and *Laugh-In*. One of the most unique introductions was *Star Trek*, which generated a loyal following. The police drama became very popular, addressing similar themes and characters. The medical show maintained its popularity in both the 1960s and 1970s, providing romance, excitement and entertainment. The feature-length film proved to be one of the most popular programming formats of the 1960s. The format became so successful that by 1967, the combined network primetime allocation to theatrical features increased to 12 hours. The miniseries came about in the 1960s and led to even

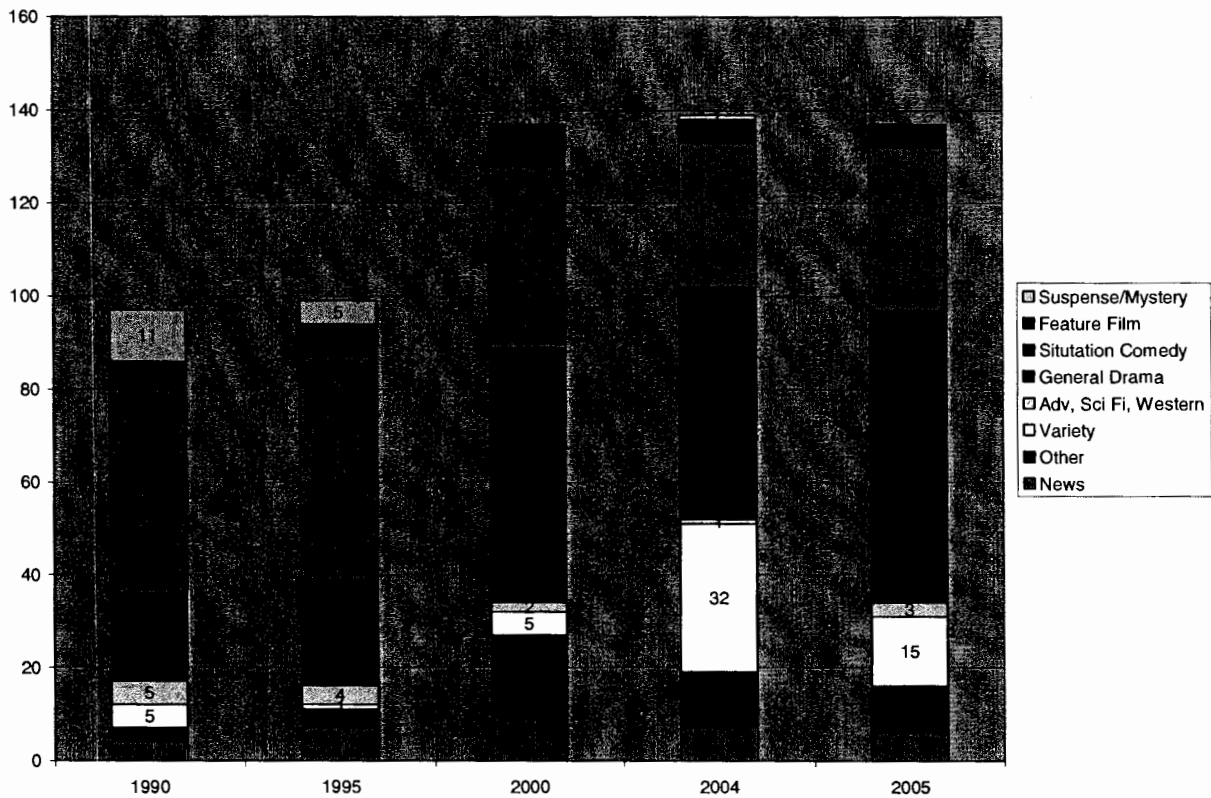
greater success in the 1970s. The first major miniseries event was broadcast on ABC in 1973, *Rich Man, Poor Man*. In 1977, *Roots* aired on ABC breaking all ratings' records with a 45 rating during the 8-night run. Another program genre introduced in the 1970s was the "docudrama." This genre portrays actual events and real people with a fictional slant. (Roman, 1998, p. 59)

"The decade on the 1980s ushered in revised programming orientations and an increased emphasis on fiscal restraint. The Fox Broadcasting Company, which began in 1986, and aggressive challenges from cable and home video made broadcasters more sensitive to competition and the reality of a shrinking audience. As the 1980s evolved, original programming genres were developed, some of them controversial. The sitcom continued to be an important programming staple of the 1980s. In response to the newly defined trends in audience demographics, 1980s sitcoms identified a changing American family." (Roman, 1998, p. 61)

As the 1990s began, the broadcasting industry came face to face with the harsh realities of declining audience shares, decreasing revenues, competition from cable television and the depletion of programming resources resulting from the coverage of the war in the Persian Gulf. Network programming came under close scrutiny as executives redoubled their efforts to maintain a dominant edge in daytime and primetime programming. During the early 1990s, network television clearly became enamored of the "true story" made for TV adaptations. At the beginning of the 1990s, several network dramatic series distinguished themselves by addressing social themes in a mature and sophisticated way. Several dramatic television series premiered in the 1990s, including *Beverly Hills 90210*, *Brooklyn Bridge*, *Dr. Quinn Medicine Woman*, and *sea Quest DSV*. The situation comedy got off to a shaky start in 1990 but took a creative turn with

the appearance on *In Living Color*. Another Fox program to become an instant hit was the animated series *The Simpsons*. As is often the case, success invites imitation and CBS, NBC, and ABC quickly rushed into animated primetime program development for the 1991 season. (Roman, 1998, p. 64) The 1990s was home to great situation comedies on all of four of the broadcast networks; comedies opened the night with dramas airing in the last time slot of the night in primetime.

Network Program Trends-By Type
Primetime (Number of Programs)



Sources: Based on new fall line-ups of regularly scheduled programs, 25 minutes or longer.
 Fox included as of '90.
 WB and UPN included as of '97.
 Pax included as of '99.
 Primetime hours: Mon.-Sat. 8-11pm & Sun. 7-11p

The turn of the 21st century would introduce diverse types of programming in an effort to compete against the media pulling ratings from broadcast television. During the 21st century the networks have relied on alternative or variety programs to attract viewers; *Who Wants to be a Millionaire* and *Survivor* were two of the most successful programs in the 2000s. Reality television has been the story for this decade; programs such *Real World*, *Biggest Loser*, *The Bachelor*, *The Amazing Race*, etc... These programs cost very little to produce but bring revenue to each network when the program is successful. Situation comedy fell off and only had a few successes since 2000. Self-contained police dramas continue to flourish on broadcast television, and cable networks have also adopted this trend; *Law & Order*, *CSI*, *Cold Case*, and *Without a Trace* have all maintained viewers. ABC experimented with a few programs they called Dramedies, a combination of the situation comedy and a drama, and found success with *Desperate Housewives* and *Grey's Anatomy*. The Sci-Fi genre has re-appeared on network broadcast television as well, with *Lost*, *Medium*, *Heroes*, and *Jericho* and brought huge ratings to the networks. In the last 7 years, broadcast television has been creative, tried new things, in order to keep their viewers. This creativity has helped to maintain the broadcast share in the last few years, but the networks must continue to adapt to the competitive media industry.

The Competition

Broadcast networks (ABC, NBC, CBS, and Fox) have been fighting to maintain their share of the audience. Each network is continually adapting to discover a way to increase overall ratings on their own network as well as maintain the total network broadcast share over the cable industry.

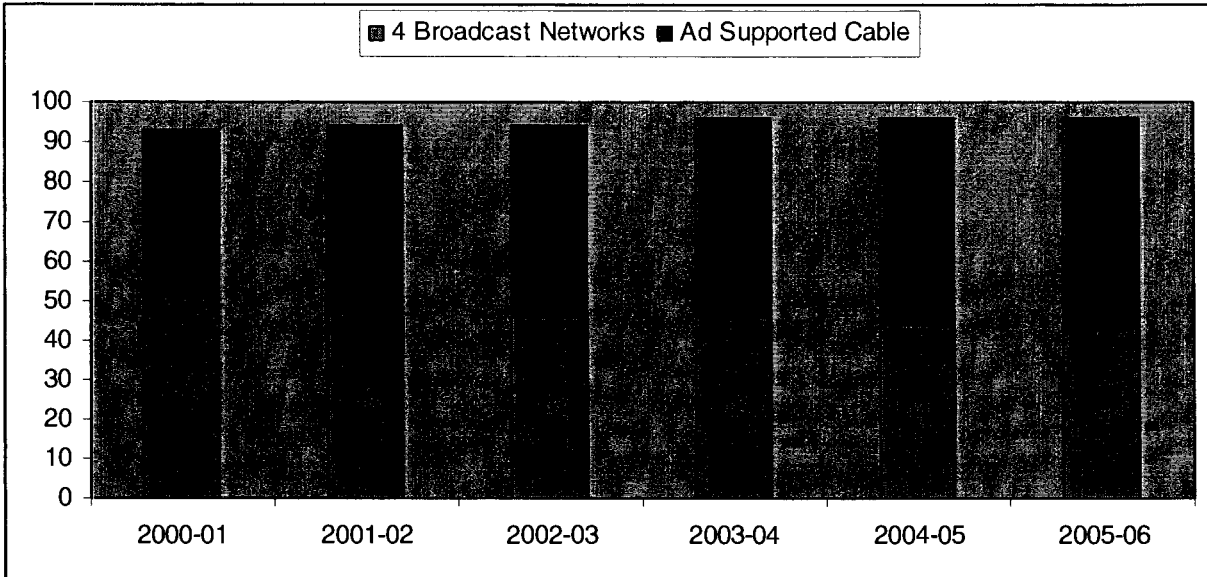
Year	ABC	Change	NBC	Change	CBS	Change	Fox	Change	Total	Change
2000-01	14	-	14	-	13	-	10	-	51	-
2001-02	11	-21%	13	-7%	15	15%	9	-10%	48	-6%
2002-03	10	-9%	13	0%	13	-13%	10	11%	46	-4%
2003-04	10	0%	14	8%	12	-8%	10	0%	46	0%
2004-05	11	10%	13	-7%	11	-8%	9	-10%	44	-4%
2005-06	11	0%	13	0%	10	-9%	9	0%	43	-2%

(Nielsen Media Research, 2006)

ABC made drastic changes to their primetime schedule in the 2003-04 season, which resulted in maintaining their share versus the year before and in 2004-05 premiered new programming genres to grow 10%. But when ABC is growing, another network falls; CBS, NBC and Fox lost significant share of audience in 2004-05 and overall broadcast lost 4% as well. Competition between the four networks is intense. All of the broadcast networks fight to gain audience as well as advertising revenue.

Broadcast networks must compete against one another but also against a growing media,

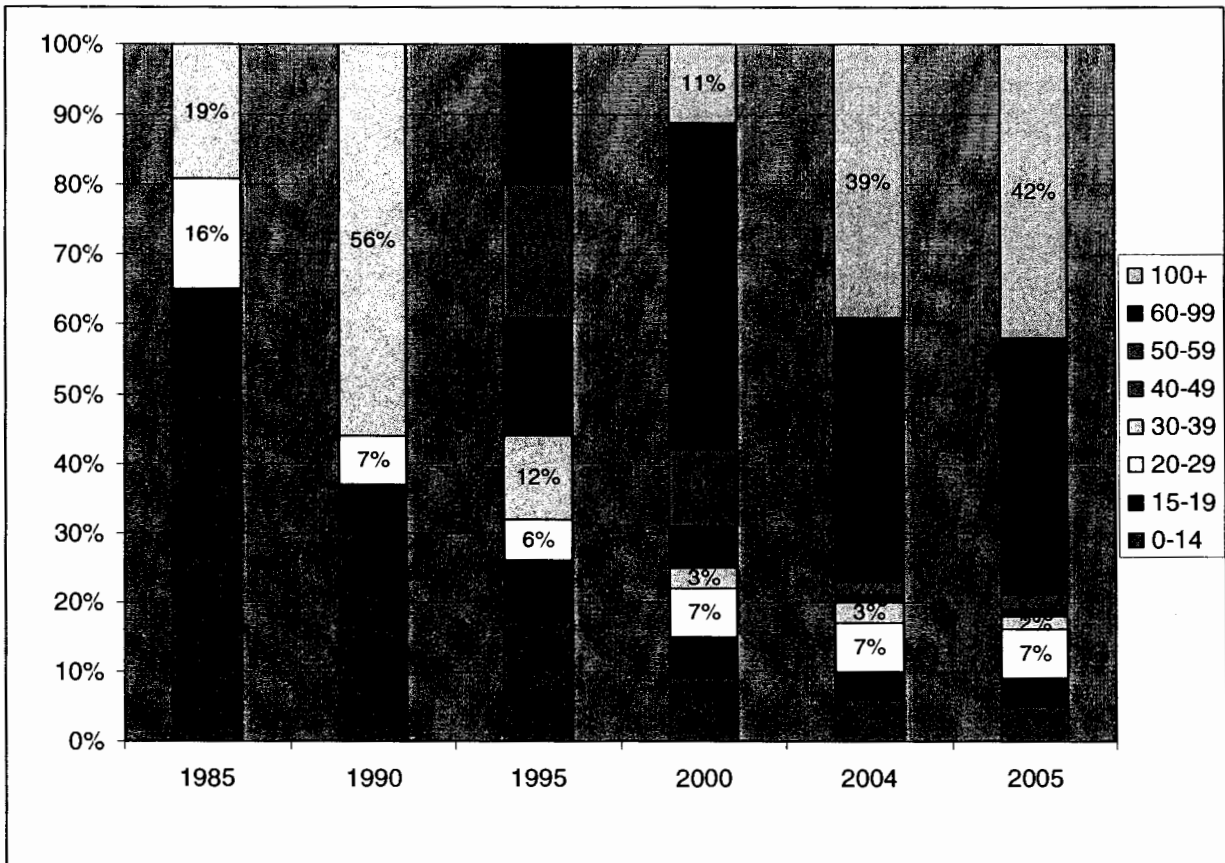
Cable. Cable networks continue to chip away at the network broadcast audience.



(Nielsen Media Research, 2006)

Television viewers have many options; they can watch more than 100 channels. The broadcast networks competition is increasing still; new cable networks are started each day posing a threat to the broadcast networks as well the other cable networks.

**Stations and Channel Receivable per TV Household
Number of Channels**



Sources: NTI Audimeter sample: September 1985; National People Meter sample: September 1990-present
 Notes: WB and Pax included as of 1998, UPN included as of 1999.

(Nielsen Media Research, 2006, p. 12)

There are now many alternative ways of viewing television. DVRs, On Demand, podcasting and the Internet all impact the success of the broadcast networks. These alternative media have been growing exponentially affecting the way broadcast networks program their primetime. Some networks have addressed these alternatives and tried to use them to compete but others must address the changes within the media industry in regards to these alternatives. In the future, DVRs, On Demand, podcasting and the Internet will affect the broadcast networks to an even greater level.

“Viewers in DVR households begin to view shows on their own, not broadcast timing, and increasingly check what has been recorded for them and choose something to watch from that list. According to Nielsen Media Research, DVR’s are in approximately 8% of the U.S. Television homes. In January 2006, Nielsen began to report DVR ratings information. DVR gives consumers the ability but how the networks know who will take advantage of the new technology? According to Nielsen projections, 70% of DVR viewing will be “Live,” not delayed. The Arbitron PPM study says 93% was “Live” on DVR sets. Also, 60% of time-shifted programming viewed within same day (20% next day). Nielsen suggests that homes with DVRs will watch more television about 5% more than homes without DVR.” (TargetCast tcm, 2006)

“Video on Demand (VOD) is another technology growing up in tandem with DVR. VOD tends to reduce the amount of time people spend with ad-supported broadcast television. CBS Research suggests that, today, VOD is available in slightly more than 2 out of 3 digital set top box households, about 25 million U.S. TV households. An estimated 25% of households will have VOD service by 2006 according to the August 25, 2005 Jack Myers Business Report. CBS Research indicates that of those with access to VOD, about 1 in 5 have used it in the past month.” (Targetcast Tcm, 2006)

Since the fall of 2005, content providers have been cutting deals with computer and online players, with new deals announced weekly. Mostly the offerings for consumers are variations of iTunes model; pay \$0.99 cents for a program. Consumers can watch TV shows on their computer or download to handheld device (i.e. iPod) and watch on the go.

Summary

The broadcast television networks have undergone changes in every aspect of the organization. They have been merged, purchased, and split and still continue to program and air a new primetime schedule each year. The networks have had many successful programs and even more failures but still continue to fight for the television audience. Many new cable networks have tried to compete with the broadcast networks and some have had a great impact. The broadcast networks continue to adapt to any competition in order to grow their audience share. The broadcast networks have been challenged at by each other, the growth of cable and new alternative viewing opportunities, how have these networks adapted to the competition?

Chapter 3

Research Method and Design

In order to study how the broadcast networks have adapted, in the last few years, I will research and analyze one specific broadcast network. Research will show changes or adaptations made to address the competition. By analyzing one network, one can assume how each has addressed the competition. I have selected the ABC broadcast network to intensely study testing my hypotheses and answering the research question; “Since the start of the 21st century, the broadcast television medium has been challenged by several diverse types of competition: how have the networks adapted to face this competition?”

I have selected a case study because I feel that it is the most efficient method to successfully answer the research question. The research question must be answered by analyzing the actual actions of the ABC television network and their parent company, Walt Disney. Opinions or specific on-air elements are factors in the research but are not the subject and alone cannot answer the question. Neither a survey nor content analysis would adequately answer this question.

There are four broadcast networks, which I could have chosen to intensely study, but none has changed in the last few years like ABC. In Chapter two, I discussed the change in audience share and specifically ABC began the 21st century with an average 14 Household share and then dropped and now began to rebound. This network has faced much animosity and has successfully faced the competition in the last seven years. I feel that the changes ABC has already made and taken action to compete and adapt to the competition in the media industry.

As I mentioned earlier, I work in a media buying, advertising agency and have access to valuable resources enabling me to acutely study broadcast network television. One of my main job responsibilities is the purchasing and maintenance of ABC Primetime television. Since I am concentrated during the workday on the changes ABC makes and how that affects my client, I felt that studying ABC would also be appropriate and help in my everyday occupation.

Chapter 4 will detail my findings on how ABC, “since the start of the 21st century, has been challenged by several diverse types of competition; how has ABC adapted to face this competition?” To efficiently answer the research question I will analyze and research the critical factors to the success of broadcast networks. I will research how ABC has addressed and acted in regards to the critical factors and whether or not they have succeeded. I can apply the ABC answers to each broadcast network and presume how the networks have changed and adapted to face the competition.

Chapter 4

Introduction

This chapter will analyze critical factors, which are critical to the continuing success of any broadcast network. Broadcast networks must continually change and adapt to address the competition within the media industry and the needs of their audience. In this chapter I will analyze how ABC and the Walt Disney Company have addressed the changes in the media industry in order to continue to be successful in the broadcast television market. Analyzing the specific details of ABC/Disney's actions will demonstrate how the broadcast networks adapt to face the competition. The critical factors to the adaptation of broadcast television networks will demonstrate how ABC has adapted and changed to address the competition.

"The Walt Disney Company, together with its subsidiaries (the company), is a diversified worldwide entertainment company with operations in the following businesses: Media Networks, Parks and Resorts, Studio Entertainment, and Consumer Products.

The Company operates the ABC Television Network and ten owned and operated television stations, as well as the ABC Radio Network, ESPN Radio Network, and Radio Disney Network (the radio networks) and 71 owned radio stations. Both the television and radio networks have affiliated stations providing coverage to households throughout the United States. Most of the owned television and radio stations are affiliated with either the ABC Television Network or the Radio Networks. The Company has cable/satellite and international broadcast operations that are principally involved in the production and distribution of cable television programming, the licensing of programming both domestic and international markets, and investing in foreign television broadcasting, production, and distribution entities. Primary

cable/satellite programming services that operate through consolidated subsidiary companies are the ESPN-branded networks, Disney Channel, International Disney channel, SOAP net, Toon Disney, ABC Family Channel, and Jetix channels in Europe and Latin America. Other programming services that operate through joint ventures and are accounted for under the equity method include A&E Television Networks, Lifetime Entertainment Services, and E! Entertainment Television. The company also produces original television programming for network, first run syndication, pay and international syndication markets, along with original animated television programming for network, pay, and international syndication markets. Additionally, the Company operates ABC-, ESPN-, and Disney-branded Internet website businesses, as well as Disney mobile phone service specifically developed to meet the needs of parents and kids.” (The Walt Disney Company, 2006, p. 77)

Personnel

Michael Eisner, Former CEO Walt Disney Company

“Michael Eisner got his first taste of the entertainment industry with a summer job as a page at NBC studios in New York. After graduation in 1964, Michael Eisner returned to New York to work as an FCC logging clerk at NBC. Within six weeks, he had moved to the Programming Department at CBS, where he was responsible for slotting commercials in the right places in children's programs. Dissatisfied with this work, he mailed out hundreds of résumés, and received exactly one response. This came from Barry Diller in the programming department of ABC, who lobbied for Eisner's hire as Assistant to the National Programming Director at ABC, a post Eisner held from 1966 to 1968.

In 1967, Michael Eisner produced his first television special. In 1968 he was promoted to Manager of Specials and Talent, and, within a year, became director of program development for the East Coast at ABC. In this capacity, the young executive was responsible for Saturday morning children's programming. In 1971, Eisner became ABC's Vice President for Daytime Programming, where he promoted the popular serials *All My Children*, and *One Life To Live*. In 1975, Eisner served ABC as Vice President for Program Planning and Development and as Senior Vice President for Prime Time Production and Development in 1976. During Eisner's years in the programming department, ABC had moved from a perennial third place among television networks to first place.

In 1974, Eisner's former mentor at ABC, Barry Diller, had moved on to become Chairman of the Board of Paramount Pictures. In 1976 Diller offered Michael Eisner the post of President and Chief Operating Officer of Paramount Pictures. At Paramount, Diller and Eisner applied lessons they had learned in network television to keep the studio's costs down. During this time, Paramount moved from last place to first place among the six major studios.

In September 1984, Michael Eisner left Paramount to become Chairman and Chief Executive Officer of The Walt Disney Company. In 1995, Eisner announced the biggest coup of his career, Disney's acquisition of Capital Cities, owners of Eisner's old employer, the ABC television network. The network brought with it valuable cable television channels, including ESPN, The History Channel, Lifetime, A&E and E! Within a few years however, the acquisition of the television came to be seen as a drain on the Disney Company's resources, and criticism of Eisner mounted.

After 20 years at the helm of Disney, Michael Eisner relinquished the post of Chairman to his friend and longtime Disney board member, former U. S. Senator George J. Mitchell. He stepped down as Chief Executive Officer in October 2005. Robert Iger replaced Eisner as CEO of Disney. Michael Eisner's record as a hit-maker and dominant figure in the American entertainment industry remains unparalleled." (Academy Of Achievement, 2005)

Robert Iger, CEO Walt Disney Company

"Robert Iger began his career at ABC in 1974. Over the last 32 years, Iger has held a series of increasingly responsible senior management positions at the company, including serving as President and Chief Operating Officer of Capital Cities/ABC, where he guided the complex merger of ABC with The Walt Disney Company. ABC saw tremendous growth during Iger's career there, becoming a market leader in broadcast television and expanding into numerous cable and related ventures. During Iger's years with ABC, he oversaw its broadcast television network and stations, radio, publishing and cable television businesses, which includes the market leading brands of ABC, ESPN, Lifetime, A&E and The History Channel. He officially joined the Disney senior management team in 1996 as Chairman of the Disney-owned ABC Group and in 1999, was given the additional responsibility of President, Walt Disney International.

Iger served as President and Chief Operating Officer of The Walt Disney Company, a position he had held since January 2000. In this role, he oversaw all aspects of the company's worldwide operations including its filmed entertainment, theme parks and resorts, media networks and consumer products businesses. Robert A. Iger is now President and Chief

Executive Officer of The Walt Disney Company. Iger, the sixth CEO in the Walt Disney Company's 83-year history, was appointed to this post on October 1, 2005." (The Walt Disney Company, 2007)

Lloyd Braun, Former Chairman ABC Entertainment Television Group

"Lloyd Braun served as chairman of ABC Entertainment Television Group, a division of The Walt Disney Company, a position he held from January 2002 until April 2004. He served as co-chairman of the division from July 1999, when ABC merged network and studio operations. In this position, Braun had responsibility for all creative, programming and business areas of the division, which encompassed Touchstone Television and ABC Entertainment. During his tenure with the ABC Entertainment Television Group, Braun initiated and oversaw the development and production of such successful programs as *"My Wife and Kids," "According to Jim," "Alias," "The Bachelor," "Extreme Makeover,"* and *"8 Simple Rules."* At the same time, he shepherded Touchstone Television into one of Hollywood's top suppliers of series programming. Before overseeing the consolidation of Buena Vista Television Productions (BVTP) and ABC's Primetime Division into ABC Entertainment Television Group, Braun served as chairman of BVTP from April 1998 to July 1999, and was responsible for both the Touchstone Television and Walt Disney Network Television divisions.

Braun also served as president of Brillstein-Grey Entertainment, where he played an integral role in building the company's television division and also oversaw the company's management and motion pictures divisions. While at Brillstein-Grey, he oversaw the

development and production of such series as "*Just Shoot Me*," "*Newsradio*," and "*The Sopranos*." (iMedia Connection, 2005)

As president of ABC Entertainment for the majority of the 21st century, Lloyd Braun had one major challenge to overcome before considering any other; the decline of ABC's Primetime schedule. While at ABC, Lloyd Braun was coerced, by Eisner and Iger, to air *Millionaire* three or four times a week allowing for huge ratings success and then, when the audience grew significantly tired of the program, for significant decline. Braun cut the programming production budget at the network due to the success *Millionaire*, a program with low production costs. The low production budget forced Braun to only make eleven pilots in the 2000-2001 season while other networks were making thirty. The mistake made at ABC during the 2000-01 broadcast season would take years for the network to recover. Lloyd Braun battled with upper management at Disney, mainly Robert Iger and Michael Eisner, creating a situation where Braun would never be able to repair the damage done to the primetime schedule and in turn, the ABC Television Network and the Walt Disney Company.

Braun and ABC tried many different programming strategies to draw viewers back to the network including the return to family television and an increase of reality television. The process for finding new programs was not working at ABC/Disney. Braun began to look for programs that were different, to search for shows that were like nothing else on the air. In March 2004, Lloyd Braun was fired from ABC before his last two production projects would reinvent the network, *Desperate Housewives* and *Lost*.

Susan Lyne, Former President ABC Entertainment Television Group

“Susan Lyne served as President of ABC Entertainment from January 2002 to April 2004, where she oversaw the development of recent hits including *“Desperate Housewives,”* *“Lost”* and *“Extreme Makeover, Home Edition.”* She also shepherded other familiar programs, including *“8 Simple Rules,”* *“The Bachelor”* and *“Hope and Faith.”* Along with her programming and management responsibilities, she regularly served as the entertainment division's principal voice on strategic direction to the advertising and investment communities.” (biospace.com, 2006)

Susan Lyne worked side by side with Lloyd Braun at ABC, working to lift ABC out of the ratings decline. She played an active role in *Desperate Housewives* making it on the ABC primetime schedule. Lyne was let go in April 2004 from ABC following Braun's dismissal from the company. Both executives had led the organization through the toughest years, but had left the network poised for huge success during the 2004-2005 broadcast season.

Steven McPherson, President ABC Entertainment Television Group

Susan's replacement was a shock to most at ABC. She was replaced by the Touchstone studio president, Steven McPherson. “Prior to joining the ABC/Disney organization, McPherson was vice president, Primetime Series at NBC, where he oversaw the development and production of such shows as *“NewsRadio”* and *“Just Shoot Me.”* Before joining NBC, he was senior vice president, Creative Affairs of ABC Productions, where he supervised both comedy and drama series, including *“My So Called Life”* and *“The Commish.”* He also served as director, Current

Programming for FOX, where he helped launch “*Martin*” and “*The Ben Stiller Show*.” He began his industry career as director of Development for Witt-Thomas-Harris Productions.

Prior to joining ABC, he was president of Touchstone Television, where he guided Touchstone Television to the three best development seasons in the company’s history. In that role, he led the development and production of the division’s network primetime series, specials and films, and was responsible for all day-to-day operations of the studio. He originally joined Touchstone as an executive vice president of the studio. (American Broadcasting Companies, 2007)

Anne Sweeney, Co-Chair of Disney Media Networks, and President, Disney-ABC Television Group

“Replacing Lloyd Braun was Anne Sweeney who had spent 12 years at Nickelodeon/Nick at Nite in various executive positions, most recently as senior vice president of Program Enterprises as well as the position of Chairman and CEO of FX Networks, Inc since 1993. During her tenure, she presided over the launch of two basic cable networks. Ms. Sweeney joined The Walt Disney Company in February 1996 as president of Disney Channel and executive vice president of Disney/ABC Cable Networks. From 2000 to April 2004, Ms. Sweeney served as president of ABC Cable Networks Group and Disney Channel Worldwide. While overseeing the Cable Networks, Sweeney launched two successful cable networks; Toon Disney and SOAPNet.

She took her current role as co-chair of Disney Media Networks and president, Disney-ABC Television Group in 2004. In this role Ms. Sweeney is responsible for Disney's

entertainment and news television properties globally. These include the ABC Television Network, which encompasses ABC Entertainment, ABC Kids, ABC Daytime and ABC News; Touchstone Television; and Disney ABC Cable Networks Group, comprising Disney Channel Worldwide -- which has grown to 24 wholly-owned international channels -- Toon Disney, SOAPnet, ABC Family and Jetix. In addition she oversees the Radio Disney Network, Walt Disney Television Animation, Buena Vista Worldwide Television and Walt Disney Television International, and has responsibility for managing Disney's equity interests in Lifetime Entertainment Services and A&E Television Networks.

During her tenure, Disney-ABC Television Group's properties have experienced tremendous growth. With the help of hit series "*Grey's Anatomy*," "*Desperate Housewives*" and "*Dancing with the Stars*," ABC has grown its primetime audience by a whopping 30 percent from the 2003-04 TV season to date among Adults 18-49. The Group's production studio, Touchstone Television, has grown its creative product output from 11 series in 2004 to 17 currently across broadcast and cable television, with Buena Vista International Television distributing many of Touchstone's hit properties to more than 200 territories worldwide. Popular series such as "*Ugly Betty*" and "*Lost*" have also found new audiences across a variety of platforms, including VOD, broadband, and mobile, in addition to the Internet. ABC News' "*World News with Charles Gibson*" has also moved into the 24-hour digital space, with content available throughout the day on ABCNews.com and an afternoon webcast that is downloaded by millions." (The Walt Disney Company, 2007)

ABC has changed for the better since 2005 with the change in upper management from Eisner to Iger. A new management system empowers each business segment to maintain and run

its business eliminating the micromanagement from the Eisner days. New personnel will continue to infuse new life into this television network and bring out new ideas and more success for ABC.

Acquisitions/Mergers

Merger of ABC television network and Touchstone Television (now ABC Television Studio)

In September 1999 ABC Entertainment Television Group unveiled its new organizational structure, the result of its consolidation of Touchstone Television and ABC's prime time division, ABC Entertainment. Though they now share the same umbrella, the two will remain separate units within the ABC Entertainment Television Group, headed by Chairmen Stu Bloomberg and Lloyd Braun. Bloomberg and Braun will share oversight of all the creative, programming and business areas for ABC Entertainment Television Group, while Steve McPherson, executive vice president of Touchstone Television, will be in charge of all day-to-day operations for Touchstone. This includes program development for ABC and other broadcast networks. (Grego, 1999)

“Walt Disney Co’s attempt to reinvent its television business is proving more difficult than the company thought. Disney's merger of the Disney television-production studio and its ABC Television Network was announced and heralded by the company as an innovative way to save money and get more Disney-owned shows on ABC's prime-time schedule. A Disney spokesman said it is premature to judge the success of the TV merger. He added: "Whether or

not it proves to be difficult, it is the right thing to do." He said the arrangement would ultimately both produce hit TV shows and benefit Disney shareholders.

Almost from the day it was announced, the Disney set-up has raised eyebrows in Hollywood. Rival networks say they will be wary of discussing new projects with the combined Disney studio, even though Mr. Eisner says it will remain open to supplying some of its shows to ABC rivals. Other studios, meantime, say they aren't sure how open ABC will be to selecting their shows, since the network essentially now has its own in-house production operation.

Like all of the big networks, Disney has been eager to own more of the programming it puts on the air, in hopes of cashing in if its shows make it to syndication. The company decided to merge its studio with ABC after having difficulty in getting Disney shows on the network." (Pope & Orwall, 1999)

This merger proved successful for the ABC television network where Touchstone Television, now ABC Television, produced programs such as *Lost*, *Desperate Housewives*, *Grey's Anatomy* and many more. ABC/Disney is able to profit not only from the on-air success but also from the DVD sales and syndicated runs of these programs. Having an in-house production company gives ABC an advantage over the other networks that must use other studios for their programming. The in-house production company could limit ABC from pursuing other production deals, and possibly missing out on the hit television shows. This in-house production unit can also be used to produce programs for the ABC cable networks providing the opportunity for more profit for Disney.

ABC Family purchase

Disney officially acquired Fox Family Worldwide from News Corp and Haim Saban for \$5.2 billion in October 2001. "This acquisition strengthens our company's worldwide business of family entertainment," said Michael Eisner, chairman and CEO of Disney. For its money, Disney got the Fox Family Channel, which reaches 81 million cable and satellite subscribers. It will be renamed ABC Family. It also picked up a 76% stake in Fox Kids Europe, which has more than 24 million subscribers, and all of the Fox Kids channels in Latin America, which serve about 10 million subscribers. The Saban library and entertainment production businesses, with more than 6,500 episodes of animated and live-action children's and family-oriented programming, was also part of the package." (Anonymous, 2001)

This acquisition represents an important strategic extension of the company's programming assets and reach. With cable growing at a higher rate than network television the Walt Disney Company made a smart decision to diversify their media properties including a new cable network. ABC Family will increase advertising revenue, provide an outlet for on and off-network Disney programming and extend reach of the Disney family of media networks into the growing cable marketplace.

Programming

Rating success in primetime is constantly changing; each network takes their turn producing hit TV shows and beating the competition but that can all change within a matter of weeks. One hit show such as *American Idol*, *Who Wants to be a Millionaire*, *Friends* or *CSI* can re-invent and alter an entire primetime schedule. The success of various programming genres

and subject matter can change rapidly based on the audiences' taste or favorites at that time. A program such as *Will & Grace* featuring two homosexual characters would not have been a success 15 years ago but in 2005 was one of the highest rated programs on television. CBS's *Survivor* probably would not have attracted ten of millions of viewers ten years ago but viewers are now open to many kinds of reality television. The constant changes in viewers' taste and options force each network to adapt by producing new, fresh, and creative programming opportunities to continue ratings success.

Year	ABC	NBC	CBS	FOX	WB	UPN	TV-14
2000-01	8.4	-	8.3	-	8.1	-	6.1
2001-02	6.5	-23%	8.1	-2%	9.1	+12%	5.5
2002-03	6.3	-3%	8.1	0%	7.7	-15%	6.0
2003-04	6.0	-5%	8.3	+2%	7.3	-5%	5.9
2004-05	6.6	+10%	8.2	-1%	6.5	-11%	5.8
2005-06	6.8	+3%	8.1	-1%	6.4	-2%	5.9

(Nielsen Media Research, 2006)

2000-2001

ABC started the 21st century with ratings success due the program *Who Wants to be a Millionaire*. It was a game show that started with huge ratings success in Great Britain. Once adapted for US television, ABC aired this program over and over again bringing in tens of millions of viewers each time it aired. While *Millionaire* dominated ABC, CBS introduced a new forensic drama, *CSI* and reality blockbuster, *Survivor*. CBS continued to succeed with several other highly rated programs to fill out the primetime schedule. NBC dominated

television on Tuesday, Wednesday, Thursday, and Friday night with sitcoms, dramas, and news magazines. Fox had two programs leading the network, both dramas; *Ally McBeal* and *The X-Files*.

Viewers flocked to *Millionaire* hurting the other networks, but would its success continue into the next broadcast year?

2001-2002

ABC continued to rely on the success of *Millionaire* but schedule the program to only air twice a week. In the fall ABC unveiled several new dramas and sitcoms with lackluster success. While ABC had not created any successful programs, CBS was busy airing the third installment of *Survivor* and continuing their ratings success with dramas (*CSI*, *Judging Amy*, *Touched by an Angel* and *Jag*) and sitcoms (*Everybody Loves Raymond*, *Yes Dear* and *King of Queens*). NBC introduced the third *Law & Order* series, *Crossing Jordan* and *Scrubs* during 2001-2002. The NBC programs were surrounded by other successful shows such as *Third Watch*, *Law & Order*, *West Wing*, *Friends*, *ER*, and *Will and Grace*. Fox had a schedule that resembled 2000-01 with *The X-Files*, *Ally McBeal*, *Boston Public* and several popular sitcoms. Fox's new program was *24* a new, innovative program that was a real-time, action series.

Thursday night was the highest rated night on television and CBS and NBC were the only two networks in the game. ABC took a back seat for the year and watched the other networks fight for the audience.

2002-2003

In the summer of 2002, the way in which broadcast television is programmed was changed with the large success of another British-adapted program, *American Idol*. *Idol* experienced huge ratings the summer of 2002 but that did not compare to what *Idol* would do in the winter of 2003.

ABC premiered eight dramas and again none received ratings success. Sitcoms helped ABC in an effort to bring back family-friendly television. Programs such as *According to Jim*, *8 Simple Rules for Dating my Teenage Daughter*, *Life with Bonnie* and *Less than Perfect* would “offer some new programming the entire family of kids, teens and parents could watch together.” (Consoli, 2002) ABC knew they had work to do, fixing what *Millionaire* had created, but no one predicted how the second half of the year would be for anyone other than the Fox network. ABC produced multiple reality programs to try and compete against the other networks but to no avail, they were the number 4 network for the year.

CBS rode *CSI*, *Survivor* and a new drama, *Without a Trace*, to ratings success in 2002-2003. With several other returning series, CBS maintained their audience for the year. NBC took a huge hit in the ratings in the year, while premiering only one mildly successful show in the fall, *American Dreams*. Luckily the *Law & Order* series and Thursday night comedies helped maintain some audience for the network.

Fox saw huge ratings in the winter 2003 when *American Idol* premiered. This show made all of the networks scramble to counter program against the ratings giant, *Idol*. Despite the success of *Idol*, Fox did not air any other program in the year that would return for the next

season. Fox now had to find programming to complement the *Idol* audience and capitalize on the shows huge ratings.

The 2002-2003 season changed programming; broadcast networks would now have to create two schedules, one for the fall and the second for the winter when *Idol* would come to air on Fox. Although ABC did not gain audience in the season, they only lost a minimal 3% ratings; things could only get better.

2003-2004

ABC was hoping to build on their comedies for the 2003-2004 season. They brought back the once successful TGIF (Thank Goodness It's Friday) sitcom block, still focused on the family-friendly programming. Only reality programming, *Extreme Makeover*, *Extreme Home Makeover*, *The Bachelor* and *The Bachelorette* made waves for the network while the dramas continued to crash and burn on the network.

ABC, NBC and Fox all experienced declines in the year and CBS had modest growth, not a stellar year for broadcast primetime. CBS premiered dramas *Cold Case*, *NCIS*, *Joan of Arcadia* and sitcom *Two and Half Men*, all successful for the network. NBC had another tough year with no breakout hits for the network; only reality program, *The Apprentice*, did well during the year. 2003-2004 marked the final year of mega-hit *Friends* for NBC, but the program had already lost much of its audience to the established CBS drama, *CSI*.

Fox did not have much to be happy about in 2003-2004. There was not much success with their new programming. Only *The OC* gave Fox something to talk about in the year and of course *American Idol* did well again.

With nothing to be real excited about, ABC was already focused on the 2004-2005 broadcast season and what would pull ABC out from the bottom of primetime.

2004-2005

This was ABC's year; they had some big fall premieres and programming ready for mid season as well. *Lost* and *Desperate Housewives* premiered and re invented the network overnight. Reality programs *Wife Swap* and *Super Nanny* also help lift the network. ABC had changed management and turned the corner toward success by unveiling new, original, innovative programming. "Risky new dramas help revive network. ABC is taking back prime time--one night at a time. Dead on Arrival last season, the network is battling CBS and NBC for the key 18-49 demo--and gaining momentum. ABC ruled Sunday night last week with soapy smash *Desperate Housewives*. On Wednesdays, thriller *Lost's* outstanding performance is overshadowing CBS's hot *CSI: N.Y.*, and reality series *Wife Swap* is strong. Forget last fall's slams of "struggling" and "stagnant." This year, ABC is basking in accolades like "reinvigorated" and "inventive." (Romano, 2004)

NBC had no response for ABC, falling 10% for the year. They tried new reality programs *The Contender*, for the creator of *Survivor*, and the *Biggest Loser*, which had mild success. There were many failed programs for NBC, *Joey*, *Hawaii*, *LAX*, *Medical Investigation*, and *Father of the Pride*; they spent a lot of production budget to try to find successful programs.

CBS had mild loss of audience in the year only 1% drop in audience, due to the well-received programs *CSI NY* and *NUMB3RS* and a schedule of established returning programs.

Fox also had slight ratings decline for the year with only one highly rated new program, *House*.

The 2004-2005 season was all about ABC; their success was due after several years as the worst in network primetime. They worked to produce new programming that no other network had anything like. Would they be able to continue this success into the 2005-2006 season?

2005-2006

The growth continued with *Grey's Anatomy*, the perfect complement to *Desperate Housewives*, ABC ruled Sunday night. Monday became a female night with established reality programs, *Wife Swap*, *Super Nanny*, and *The Bachelor*. Highly touted *Invasion* and *Commander In Chief* fell flat for the network but all was made good when *Dancing with the Stars*, another British reality program produced huge ratings for ABC. The network had finally put together a schedule to maintain audience every night in each hour.

NBC again only had mild success in the year with *The Office*, *My Name is Earl*, *The Apprentice: Martha Stewart*. Again a foreign created program, *Deal or No Deal*, delivered huge ratings on US television and this time on NBC. *Deal or No Deal* helped NBC to stop the bleeding; they were now in the same place as ABC just 4 years before, trying to stop the decline however they can.

CBS fell slightly for the year but still had the most consistent schedule, returning many popular programs and introducing a few more, *How I Met Your Mother* and *Criminal Minds*. Fox grew in 2005-2006, finally finding programming to complement *Idols* audience with action and crime dramas *Prison Break*, *24*, and *Bones*.

The 2006-2007 season has not been the best year for ABC; the network is experiencing some decline due to failing sitcoms. Again they introduced a new type of program; this program is based on a Hispanic telenovela, *Ugly Betty*. *Grey's Anatomy* moved to Thursday night where ratings have better higher than ever and ABC now wins Thursday night.

ABC made strong programming decisions in the last few years to lift them out of the hole built in the early part of the 21st century. The network brought different, innovative programming to air. They did not copy other programming for the other network; they were original and therefore successful. Success in programming is constantly changing, it is now ABC's turn but who will be next?

Advertising

“The economic health of most of our country's media rests primarily on the strong financial foundation provided by advertising revenues. Commercial over-the-air broadcasting, both radio and television, is supported solely by revenue gained through the sale of airtime to advertisers. Other media, such as magazines and newspapers, cable television systems and the Internet, rely on subscription fees as well as advertising for revenues. Without advertising dollars, many of today's media outlets would not exist and the cost of those media that survived would be substantially higher for the consumer.” (Association of National Advertisers, 2007)

Advertising is essential for the success of any broadcast network. The advertising allows networks to purchase, produce, air and sell programming each day. Between 2000 and 2006, approximately 58% of the Disney Media Networks revenue was advertising dollars. Advertising revenue can fluctuate due to many internal and external factors. Television networks cannot solely control their amount of advertising revenue.

The broadcast and cable advertising revenue is based on the advertising marketplace, which changes almost weekly throughout each year. The advertising marketplace is determined by supply and demand. Supply is the amount of ratings or audience the individual network has to sell to advertisers. Demand is the amount of marketing budgets advertisers spend in a particular media. The marketing mix of each advertiser will determine the budget for each media. As more marketing tools become available, the competition for advertising dollars grows and television networks must find innovative ways to keep their advertising revenue.

Advertising revenue allows networks to program and produce quality, hopefully highly rated television shows therefore increasing supply and the ability to sell more advertising in the constantly changing advertising marketplace.

ABC/Disney Advertising Revenue (Broadcast and Cable)

	Revenue (in Millions)	+/- Year Ago
2000	\$6,637	-
2001	\$5,988	-10%
2002	\$5,174	-14%
2003	\$6,319	22%
2004	\$6,611	5%
2005	\$7,721	17%
2006	\$7,725	0%

Source: The Walt Disney Company Annual Reports 2000, 2001, 2002, 2003, 2004, 2005

During the 2001 television season, the advertising marketplace was very soft, meaning the advertising budgets were less with advertisers trying new marketing areas, in particular the Internet. The overall change in the advertising marketplace resulted in the decrease of advertising dollars for the ABC television networks as well as all of their competitors. During

the 2002 season, there was an increase of advertising dollars in the marketplace but poor ratings performance on the ABC television network led to a decrease in advertising revenue for the second year. An improved advertising market in 2003 led to the growth of advertising dollars at the ABC television networks; in 2003 ABC began airing the NBA games and also had the Super Bowl leading to growth of their advertising dollars. The huge success of the ABC primetime schedule during 2005 led to double-digit increased advertising revenues.

Advertising Revenue

	Broadcast		Cable		TOTAL TELEVISION	
	Revenue (in Millions)	+/- Year Ago	Revenue (in Millions)	+/- Year Ago	Revenue (in Millions)	+/- Year Ago
2000	\$44,802	-	\$15,455		\$60,257	
2001	\$38,881	-13%	\$15,736	2%	\$54,617	-9%
2002	\$45,068	16%	\$16,297	4%	\$61,365	12%
2003	\$41,932	-7%	\$18,814	15%	\$60,746	-1%
2004	\$46,267	10%	\$21,527	14%	\$67,794	12%
2005	\$44,293	-4%	\$23,654	10%	\$67,947	0%

(Universal McCann, 2006)

Cable television has experienced huge growth in advertising revenue over the last 6 years; this growth resembles the growth pattern of cable's share of audience. The influx of cable advertising has raised the bar for cable networks but the increased revenue enables them to produce even more quality, original programming earning cable more advertising revenues. Advertisers come to expect more for than money and are demanding more from the cable networks. With cable's ad revenue growing, the competition between broadcast and cable gets fiercer.

ABC lost a large amount of advertising revenue early in the 21st century due to poor ratings and soft advertising markets. Since then an improved advertising market, decent programming decisions, and smart ad market strategy has led to the increases in revenue for the last years; this will help ABC's future production and programming opportunities and in turn the success of the network.

Additional Media Properties

The Disney Cable Networks Group

The Disney Cable Networks Group includes ABC Family, Soap Net, Disney Channel Worldwide, Playhouse Disney, Toon Disney, ABC News Now and the ESPN channels. This group in the Disney organization has grown in the last 6 years to be successful and profitable. Cable television is increasing its share of the viewers each year. According to Nielsen Media Research, cable's share of the primetime viewing audience in 2000 was a 42 and broadcast 51; just 2 years later cable overtook the broadcast share with a 48 share while broadcast had fell to a 46 share.

Disney recognized the change in media landscape, acquired ABC Family, launched new cable networks, Soap Net, Toon Disney, and ABC News Now, increased the subscribers of the Disney Channel from 70 Million homes in 2001 to 91 Million homes in 2006 and made strides to acquire new sports broadcasting rights for the ESPN channels ensuring success.

Cable is the largest competition for the broadcast networks and ABC/Disney took action to ensure that the Disney brand would continue in the new media. The largest change came in the 2006 television season when *Monday Night Football* moved from the network, ABC, to

ESPN. *Monday Night Football* continued success on ESPN, and Disney reaped the profits of now huge ratings growth on the cable network and counter programming on ABC of female skewing reality programs. Disney has adapted to the competition by joining it; acquiring and valuing the cable medium, recognizing the growth potential and taking action to change with the media landscape.

The Walt Disney Internet Group

“The Walt Disney Internet Group provides centralized strategic leadership, business execution support and a world-class technology platform for all of the Internet properties of The Walt Disney Company. The Internet Group partners with all divisions of the company to execute their Internet plans and directly operates Disney.com worldwide, FamilyFun.com, Movies.com and Disney Mobile. Additionally, the Internet Group distributes content and services to mobile platforms under the mDisney Studios brand, as well as third-party brands through its Starwave Mobile publishing label. The business is also charged with developing and delivering broadband entertainment content such as Disney Connection, Playhouse Disney Preschool Time Online and Toontown Online and has led the way in developing interactive content for televised programming through its Enhanced TV service.” (Walt Disney Company, 2007)

Disney took many actions to enhance and grow their internet business and take advantage of another growing medium, the internet. Not unlike cable, the Internet has grown exponentially in the last 10 years while national broadcast television has only maintained their share of television households.

DATE	NUMBER OF USERS	% WORLD POPULATION
December, 1995	16 millions	0.40%
December, 1996	36 millions	0.90%
December, 1997	70 millions	1.70%
December, 1998	147 millions	3.60%
December, 1999	248 millions	4.10%
December, 2000	361 millions	5.80%
August, 2001	513 millions	8.60%
September, 2002	587 millions	9.40%
December, 2003	719 millions	11.10%
December, 2004	817 millions	12.70%
December, 2005	1,018 millions	15.70%
December, 2006	1,093 millions	16.60%

(Internet World Stats, 2007)

The Walt Disney Internet Group operates more than 40 websites including category leaders Disney.com, ESPN.com, and ABCnews.com. Together these sites count more than 50 million unique visitors each month in the US alone, which places Disney among the Top 10 Internet properties, according the 2006 Walt Disney Company Annual Report.

“In May 2006, the ABC network continued to pioneer new platforms with the launch of its own broadband player on ABC.com. During the 60-day pilot of the player, ABC.com had great success with its ad-supported video streaming of ABC shows including *Lost* and *Desperate Housewives*. The results indicated a significant market for this service and also suggested that it is additive to television watching.

ABC launched a permanent version of the player streaming returning hits *Lost*, *Desperate Housewives*, and *Grey’s Anatomy* as well as new shows *Ugly Betty*, *Six Degrees*, and *The Nine*. Viewer demand for these shows generated almost 19 million requests for episodes during the first six weeks alone. The ABC.com opportunity adds to their efforts to create an array of new

businesses that extend beyond their traditional broadcasting service” (The Walt Disney Company, 2006)

The Internet has become a valuable resource for ABC as well as all of the Disney brands. ABC has taken steps to address the Internet and embraced the growing media to find the ways that it can grow the ABC/Disney business. The network has been successful in establishing a television network online with the full episode player and all networks are now catching up to ABC. The network has not ignored the changes to the media landscape but looked for the best ways to adopt the changes and make it work for their businesses.

Digital Offerings

Video on Demand

There are many types of Video on Demand, all of which have created new ways of viewing programming and content. Television based Video on Demand is most often available in these formats: Free VOD, Subscription VOD, and Pay-per-view VOD. “VOD is now in 25 million digital-cable homes and 60% of all digital-cable subscribers have used VOD, up from 25% two years ago, only 4% of all TV viewing comes from recorded DVR programs and VOD content, according to Leichtman Research Group.” (Whitney, 2006)

“Broadcast fare is sparse on VOD because networks have devoted their attention to online delivery and streaming through venues such as iTunes, Google Video, ABC.com and CBS’ Innertube, says David Ernst, exec VP-director of futures and technology for media agency Initiative.

Negotiations don't happen quickly for VOD product. Rights issues are one of the main impediments to providing content for the VOD platform, says Paul Rule, president of VOD research firm Marquest Research. Traditional licensing agreements do not usually provide for ancillary uses such as VOD or streaming without further negotiations with the rights holders. But the relative dearth underscores another truth about VOD: It doesn't command a tremendous audience yet and has yet to yield a breakout success like basketball's March Madness was for online. "There have been many false starts in VOD," says Mr. Ernst." (Whitney, 2006)

ABC has made strides with their VOD Internet streaming video and through a lucrative deal with Comcast cable corporation, the network is taking action to also offer it's programming On Demand. VOD is available in limited viewing homes, but like other alternative media, is more competition for the broadcast television viewers. The broadcast networks must use the alternative media to their advantage in order to hold onto viewers.

Comcast/Disney deal

"Comcast Corporation and The Walt Disney Company announced that they have entered into long-term comprehensive distribution agreements that will extend their relationship into the next decade for the 10 ABC-owned broadcast television stations and a broad array of Disney's leading networks and services. In addition, Comcast will launch ESPN Deportes, a stand-alone Spanish-language sports network, and the companies formalized their ESPN2 HD agreement.

In addition, Comcast has acquired The Walt Disney Company's 39.5 percent ownership stake in E! Networks. Following today's acquisition, E! Networks, which includes E!

Entertainment Television and Style Network, is now wholly owned by Comcast. The purchase price for the 39.5 percent stake was \$1.23 billion.

The companies have also agreed to add primetime television programs, cable network shows and Disney movies to Comcast's signature ON DEMAND service. Marking the first time ABC broadcast programs will be available on video on demand (VOD) by any cable company, several ABC primetime series will be offered free by Comcast in ABC-owned television station markets. The companies also said they will work together to make promotional content from the Disney-ABC Television Group available on Comcast's leading broadband portal, www.comcast.net.

"This agreement reflects our ability to distribute content on multiple platforms and signals another first for Comcast and Disney as we continue to explore the evolving possibilities of digital technology. We could not have gotten this deal done without Bob Iger's leadership and vision. Putting Disney, ESPN and ABC's extremely popular content on Comcast VOD is a watershed event for both of our companies," said Brian Roberts, Chairman and Chief Executive Officer of Comcast. "This is the first cable on-demand agreement for hit ABC primetime broadcast programs like *Desperate Housewives* and *Lost* and, when combined with Disney movies and other ABC/Disney/ESPN television programs, gives Comcast access to the most Disney content available." (Light Reading, 2006)

ABC/Disney's deal with Comcast will increase the reach of the Disney brand. Video On Demand is an up-and-coming medium for any kinds of programming. The television audience seems be leaning towards watching television on their time, not necessarily the same time it is viewed on the network. On-demand and DVR, Digital Video Recording, services are increasing

and each programming source, including ABC/Disney, must find a new way to show their programming and make a profit. These new media are taking viewers away from the traditional television viewing patterns. The ABC/Disney and Comcast deal helps ABC to reach different viewers and extend reach of their programming, and continue to adapt to the changes facing broadcast television networks.

Apple/iPod

“Apple Computer CFO Steven Jobs and Disney’s CEO Robert Iger took to a stage Oct. 12, 2005, and told the world it could watch ABC TV hits on the iPod media player. The announcement accelerated a rush by television executives to deliver shows in new ways-and left them puzzling over how to make a business of it.

A year later, the television landscape is still shifting. Audiences are watching more shows on iPods, cell phones and computers. Networks are figuring out how to accommodate those fans while preserving the schedules that still generate almost all of their revenue. Advertisers are balancing the need to reach mass audiences on broadcast and cable while securing beachheads among new media technologies.

"It's the first time I can remember that the industry has tried to get ahead of a change rather than follow it," said television historian Tim Brooks, coauthor of "The Complete Directory to Prime Time Network and Cable TV Shows." "The industry has fallen all over itself to find a way to make a business model, monetize and adjust to a new technology. The danger in that is what overtakes us may not be what we're looking at."

Since Mr. Jobs and Mr. Iger unveiled their enterprise, 45 million television TV shows have been sold on the iTunes download store at \$1.99 a pop, success that has helped the deal become a waypoint in the history of TV.

It's too early to gauge the full economic potential of digital television delivery. Those ventures generated about \$1.B billion in 2005, according to Jupiter Research. Ad sales related to digital tie-ins amounted to about 1 percent of the \$8.9 billion generated in the 2006 upfront advertising market, where about 70 percent of prime-time spots are sold, ad buyers and network executives' estimate. Even if it represented a baby step, the timing of the iPod-ABC deal put it at the forefront of 12 months of breakthroughs:

- *AOL and Warner Brothers formed In2TV, marking the first time ad-supported TV fare was available on an Internet site in large quantity.

- *ABC broke ground by offering full-length, ad-supported episodes of current shows on its Web site.

- * NBC Universal Television Group CEO Jeff Zucker made the 2006 upfront advertising market the first at which a network connected Internet, mobile and other digital offerings with each of its shows.

Mr. Iger and Mr. Jobs now contend with a stampede of competitors seeking to tap the new TV market. And a year later, no one is sure how big those markets will be. It may be four years or more before digital media contribute a material portion of revenue at media companies, said Mr. Brooks, executive VP of research at the Lifetime cable network. Either way, as the stories in this special section illustrate, it's the incautious TV executive who doesn't wake up each morning wondering about it." (Baumann, 2006)

Summary

The majority of the 21st century has been difficult for ABC as they battled to create a primetime lineup that would generate any kind of buzz or ratings growth for a successful prime schedule is the most important factor for a broadcast network. The beginning of the 21st century was a poor story for ABC with one hit television show, a poor advertising market, stale management, cable television growing, and the Internet taking shape as a viable media. ABC had to take action to address the changes happening in the media industry. They had to fight to do more than pix primetime. Seven years later, ABC is riding high on the success of many primetime programs, a profitable primetime schedule, an advertising market which is flourishing, new management that continues to bring new ideas to the network, new cable networks launched and succeeding, and one of the most talked about sites on the Internet. ABC has made strides since 2000 but many strategic decisions brought them to where they are today.

ABC has

- Changed management and infused a new culture and a new way of doing business, focused on the present and the future of ABC.
- Smart business decisions made to acquire ABC Family and launch several other cable networks providing a cable outlet for ABC network programming.
- Merged the production and network divisions to streamline processes with ABC ensuring the best programming make it to the air.
- Created innovative and creative primetime programming to appeal to the constantly changing taste of the television audience. ABC learned from previous failings in the primetime marketplace.

- Continued strong advertising relationships by working with advertisers to charge justifiable pricing weighing the success of the network and the television advertising market. Also able to grow ad revenue with the success of the growing ABC cable networks.
- Made strategic alliances in the media industry, placing ABC in a strong position to take advantage of new media: the Internet, Video on Demand, Apple's iPod program distribution and many others.

ABC is ready to go forward; they have embraced new technology and challenged themselves to grow with new media. The future for ABC looks good but the key is to continue to provide high quality, creative, entertaining primetime television in order to succeed in the television market. Decisions made place ABC in a leadership role moving ahead in the 21st century. ABC must continue to look forward and embrace each new media as it is introduced to the marketplace and creatively use these media to boost their businesses.

Chapter 5

Introduction

The purpose of this study was to determine how the broadcast networks have been challenged since the beginning of the 21st century and how have they faced these challenges. These challenges take many forms, new media, cable television, or even fellow competitors in the broadcast television medium; which challenges have the greatest affect on the broadcast networks. Many critical factors of a networks' success were examined to answer the initial question of how have the broadcast network adapted to the competition and other challenges in the last six years. To answer this question I analyzed one of the broadcast networks, ABC and the Walt Disney Company, and discovered the ways that broadcast networks have adapted to face the challenges and competitors. Analyzing ABC enabled me to reach some conclusions regarding the actions of the broadcast networks and in turn answer the purpose of this study.

My Interpretation

I determined several of the most critical factors to the success of a broadcast network and before researching this topic, I never truly understood how one little change within the critical factors impacts a broadcast television network. One program can change an entire network, one manager can impact all of the programming, and one competitor's schedule affects the success of all others' programming and ratings. As I researched Chapter 4, I learned about the factors and their impact on ABC and, in turn, how each broadcast network could be impacted and how so significantly it could create success or failure.

In order to study the current challenges and state of broadcast television, I first examined the beginning of broadcast television and how each network came to be and the many challenges faced to become who they are today. Broadcast television networks have merged and been acquired creating the networks currently on air. Networks have taken the same actions to adapt to the present challenges and prepare for the future of the broadcast television. Cable television has grown significantly, from a necessary media for certain geographic areas that could not receive a broadcast signal to currently a medium of niche networks that have grown to a share of audience larger than the broadcast networks. Broadcast and cable networks and their critically important “ratings” are monitored and measured by one company, Nielsen Media Research; this company has the largest effect on all of television; all aspects of the networks’ successes and failures are based on the ratings reported by Nielsen. Nielsen has also adapted and recognized the changes in the media industry. They are now measuring new media such as DVR, Internet and video games. Broadcast networks had been competing against each other for years and then there was cable television, all competition within the same media, but new alternative media have challenged the networks to think outside of just television. The diversity of the competition is a challenge to each network; each competitor brings a different set of challenges for each network to address.

My hypothesis in the beginning of this thesis was that the broadcast networks would be forced to adapt to their competition and that I found to be true. To test the hypothesis I studied one broadcast network, ABC and the Walt Disney Company, in order to make assumptions for all of the broadcast networks. ABC proved the hypothesis correct, as they took many actions to

adapt to the challenges faced by all of the broadcast networks since the turn of the 21st century.

Which alternative forms of media have had the greatest effect on the broadcast networks?

Despite the challenges of new media entering the marketplace, the broadcast networks must first face the competition among themselves. The primary focus for any broadcast television network is still the primetime programming on air on their network as well as their competition. Before being concerned with alternative media or cable television each network concentrates on their primetime schedule as that greatly impacts each network's ratings success, advertising revenue, and profit. Each network covets the title "#1" before any other accolade.

Cable television has had the largest impact on the broadcast networks to date. Broadcast networks are fighting for audience and cable television, which continues to grow, is luring audiences away from broadcast television. Broadcast networks have adapted to the cable competition by becoming part of it, launching their own cable networks and selling broadcast programming to the cable networks. Being part of cable allows the broadcast networks to profit from the medium. All of the top broadcast programs are re-purposed and syndicated on cable networks and each of the four broadcast networks owns at least one cable entertainment network aiding in the re-purposing of broadcast programming and more profit for the networks. CBS owns several cable networks, CMT, MTV, VH-1, Nick @ Nite, TV Land, Spike TV, and Nickelodeon; CBS' most successful program *CSI* airs on Spike TV and other programming *Without A Trace*, *Cold Case* and *CSI: Miami* air on various cable networks. NBC owns Bravo, USA, and Sci-Fi and has hit programs *Law & Order*, *Law & Order SVU*, *Law & Order Criminal Intent*, and *ER* airing on cable. The broadcast networks have been successful using cable television to extend their brands and profit from the medium.

Alternative media are forcing the broadcast networks to adapt, networks must use these new media to their advantage and compete to maintain viewers. Television programming is available on many different screens now; each of the broadcast networks are continuously changing to use all of these screens to their advantage. In the case of ABC, *Desperate Housewives* can be seen on the Internet or, a cellular phone or, an iPod or on, cable television, and, of course, the on ABC Broadcast Television network. Most hit television programs can be seen the same way as each network is creating vehicles to sell their programming on all screens available. The alternative media are just beginning to impact broadcast television but each of the networks has already taken action to address the new competitors. Penetration for some of the new media is low, but will continue to grow. Networks have learned from their past experiences to adapt early in order to continue success.

The broadcast networks create, produce and air high quality and hopefully high rated programs each year. Each network is trying to maintain or grow their share of audience by placing good programming on the air; this is still the primary focus at any media company or network. Ratings fall-off in broadcast television has forced networks to analyze external factors to the decline and address the competition. The competition is diverse but networks have adapted and will continue to in order to maintain or grow their audience and therefore their profit.

Suggestions/Further Research

After thoroughly researching actions taken by broadcast networks I have found that a network must continue to produce programs that are unique to television in an effort to maintain

viewers tuning into broadcast television. With high quality programs the networks will have more options to market, syndicate and profit from the other media. New, innovative and creative programming can impact a network more than any competitive media, but in a positive manner.

Broadcast networks must continue to address alternative media and use these media to become even more profitable. ABC is an excellent illustration of profiting from alternative media, as they have launched cable networks, sold programming to cable networks, created a way to bring ABC primetime to the Internet, and, most importantly, started all of this success by producing new, creative programs after several years of ratings' slide. More alternative media will be created and broadcast networks will be forced to constantly adapt to the competition as they already have in the past.

Research on this subject can be continuous, as the broadcast network will always face competition between themselves and various new media. This thesis study has proved that broadcast networks adapt to their competition and to the current challenges. Media are constantly monitored and scrutinized; there is at least one article each day regarding networks' ability to compete against one another and more recently how each network is adapting to the challenges of new alternative media.

As part of the media/advertising industry I will continue to research the adaptation of the broadcast networks, as it is extremely pertinent to my occupation. Each network will have ups and downs, ratings successes and failures; as part of this industry, it is part of my job to predict how the networks will perform. Not only do the networks have to adapt to the challenges placed before them, but the advertising community must adapt as well. We must learn about the new

media and how they can be used to better serve our clients' goals. I am learning more each day about the new ways the media industry is changing and adapting. This thesis topic will never be completely researched because each network will always be challenged and therefore must continuously adapt to the competition.

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