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Steiner's Model

Steiner's model on programming preferences and broadcasting choices tries to

show how stations come to the conclusion of what programming to show. This model

goes on the assumption that broadcasters will go after the largest audience

possible.

Going on the information given about this hypothetical situation, we can predict

what each of the four stations in this market will show.

There are three distinct audience preferences. The first groups of 1200 viewers

has a first programming preference of sitcoms and a second choice of soaps. The

second group numbers 900 viewers and would pick cops first and soaps second. The

third group, 500 viewers, likes soaps first and sitcoms and their second choice.

This model says that the audience will watch their first choice first and then

the second choice, but only is their first choice is not available.

Let's say that the Federal Communications Commission licenses station A in their

market. Looking at the viewer preferences, station A would start to broadcast

soaps. By show soaps, it would capture a market of 2600 viewers. All viewers

would watch because soaps is their first choice or it is their second choice but

their first is not available.

The FCC then offers a license to station B. After examining the audience sizes,

stations B also starts to show soaps. By programming to this audience, it splits

the soaps market with station A and both of them have 1300 viewers.

Station B does not pick another programming because no other choice can offer

more than 1300 viewers.

When the FCC offers a license to station C, things will definitely change in

this market. Station C sees the biggest audience available is the sitcom market

with 1200 viewers.

But when station C takes that 1200 viewers from the soap audience which hold

sitcoms as their first choice, station A and B will both drop to 700 viewers.

They now have to make a decision. Both can find larger markets elsewhere.

One station, and it does not matter which one, will switch to cop shows. For

this hypothetical, station B would choose cops for 900 viewers.

Station A, who still is showing soaps, now only has 500 viewers. It does not

like that, so it starts to show sitcoms. Audience 3, with 500 viewers, now is

watching sitcoms because there are no soaps out there. Station A and C are both

showing sitcoms and are splitting a viewer audience of 1700 for 850 each.

Now that the viewers are confused about what station is showing what, the FCC

offers a fourth license to station D. After examination, station D decides to

start broadcasting sitcoms in competition with stations A and C. All three

stations have an audience share of 566. That is more than the 500 soap viewers

or splitting the 900 cops viewers with station B.

Although Steiner's model is not too far off what happens in today's television

landscape, it does have a couple of drawbacks that keeps it from being a true

model.

Steiner does not take into consideration that some audiences are more valuable

to advertisers than others. Because advertisers want certain viewers, stations

might program to that audience to attract more advertising dollars.

Steiner also assumes that as stations go into competition with another station,

they will split the audience equally. That is not always the case. Viewers will

watch the station they believe has the better quality, even if there are two or

three stations showing the same thing.

This model does offer some insights on how stations and networks make decisions.

Just look at the TV Guide and see how many sitcoms there are on any given night.

This also shows why some minority viewers never get programming directed at them.

The stations are going to the majority audiences which have larger numbers. The

minority viewer preferences, under these model, have to have another station

before they get to see their shows, in this situation.

First Copy Costs

First copy costs in the newspaper industry are the fixed costs of owning a paper

and printing the first one.

First copy costs include the money spend on items that are necessary for the

newspaper to be printed. These fixed costs do not vary as the number of papers

increases or decreases. Because they do not vary, they are very important and

must be covered by advertising and subscriptions.

These fixed costs include the physical plant, the presses, the pressmen,

reporters, photographers, other staff members and the delivery trucks.

The interesting things about fixed costs is that you have to have them. You can

not scrimp or just not buy them. To cut corners, a paper does not hire reporters,

but how does it cover the local news? Whether or not you print a paper, you still must pay for that stuff.

To figure the first copy costs of a newspaper, the fixed costs and the cost of the paper and ink of the first issue off the press are added together. For instance, let's say that the fixed costs of a newspaper is $1 million and the first issue costs $1 to print. The first copy costs $1, 000, 001.

Looking at this, it sounds like newspapers would never make any money, but we have not figured in variable costs. These include the paper, ink and related costs of running the press. As the quantity of papers goes up, these prices usually go down. As the quantity continues to go up, the average cost comes down and each paper gets cheaper and cheaper.

First copy costs keep many papers from owning their own presses. Large dailies must own their own presses in order to meet distribution deadlines and ensure

that their paper gets printed on time. Smaller papers can not afford that first

copy cost, so they have to contract with other to print their paper.

First copy costs are a determining factor in how a paper is operated. Whether it

owns it own presses or not, the size of its staff and how often it prints is all

tied into these first copy costs.

Economy of Scale with Cable TV

By the nature of the beast, cable operators normally get exclusive franchises to

supply a community with their cable service; so talking about competition in the

cable industry sounds like an oxymoron. But there are signs that it might

actually compete in a way.

Less than 50 cities in the United States are overbuilt, or have more than one

cable provider. Yet studies show that those overbuilt cities have lower basic

cable subscription rates, $14. 31 compared to $17. 31.

Can competition within the cable system be created?

Probably not. The barriers against entry for new cable operators in a specific

market are great.

To begin with, the new operator must get a franchise agreement with that city.

The incumbent franchise will not stand still for this. Those in the local

government also will fear that the incumbent franchise might change benefits or

disturb the local political situation.

Economics of Scale would suggest that the incumbent would have lower average

costs because they are already there and have a better distribution system. The

second franchise would have high entry costs because they have to string their

own cable and many times they have to bury the new cable. This additional work

means high construction costs and community aggravation as they tear up roads

and yards.

The incumbent can employ delay tactics to make it very hard to start up new

franchises. From political pressure to lawsuits to dropping price and keeping

their customers happy, delays will make the new guy on the block discouraged and

out.

Within the cable operator networks, like TCI or CableVision, networks themselves

own or have a financial interest in some of the channels they carry. Time-Warner

owns TBS, CNN and a host of other channels started by the Turner Broadcast

System.

Although this sounds like a serious violation of the anti-trust laws, no contest

has been put up against this practice. In fact, it has been shown that multi-

system operators and overbuilt cities' operators are more likely to provide

channels owned by other networks.

Carrying their own channels allows networks to increase profits and helps keep

subscription rates down. And, as a practical matter, cable systems need channels

to put out there for people to watch. Owning or having financial interest in

channels ensures that they have programming to carry.

With all the things going against the competition of cable systems, the market

demand for cable is elastic. The Crandall study, sponsored by TCI, showed that

an elastic rate of 2. 2 means that as subscription rates go up 1 percent, 2. 2

percent of the subscribers will cancel their service.

As the market show elasticity, the reality is that is normally does not work

that way. To persuade subscribers to take their higher rates, cable operators

offer new channels along with the rate hike. The number of channels has

traditionally been a measure of quality and as " quality" goes up, so can the

rates.

Cable in the near future will see some competition from sectors outside of the

cable industry. The Telecommunication Act of 1996 will make it easier for

telephone and utility companies to go head to head with the cable operators.

This might change the competition landscape of cable TV.

Programming to the Minority Audiences

Because networks and broadcasters look to capture the largest audience possible,

many times the minority tastes are ignored. These minorities now have more

choices today than they did before as technology expands.

Steiner's model described how broadcasters went after larger audiences and skip

over minority tastes. As technology advances and more stations are introduced,

Steiner's model would suggest that those minority tastes were met.

In a situation where government regulates a small number of broadcast stations,

minority taste audiences have little recourse. The only option that they have is

to petition the government to force the stations to program to them. Such was

the case with religious groups. They got the Federal Communications Commission

to make stations allocate time for specific religions and their shows.

In a government sponsored market with a limited number of channels, some

programming for the minority tastes will appear. The government would sponsor a

channel that showed minority taste programming. On the down side here, the other

broadcasters will continue to ignore minority tastes because their needs are met

somewhere else. Broadcasters will continue to aim for the majority markets.

Today, with an unlimited number of channels available, minorities have

programming provided to them. Those with minority tastes can now start their own

channel to cater strictly to themselves. Whatever their tastes, they will have

it.

The benefit of unlimited channel supply is that the market audience keeps

getting more and more programming. Once someone see a type of programming work

and make money, they might go after the same market. Broadcasters who once avoid

that type of programming can now start another channel and tap into that market

without detracting from its majority audience programming.

As the technology improves and allows more and more minority groups to get

involved with broadcasting, we will start to see a sharp increase in specialty channels; more than what we currently see.