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THE PROFITABILITY OF A NEWS SERVICE FOR
LOCAL CABLE TELEVISION SYSTEMS

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By

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ABSTRACT

THE PROFITABILITY OF A NEWS SERVICE FOR LOCAL CABLE TELEVISION SYSTEMS

By

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The purpose of this study is to determine whether or not a local cable news cooperative can compete with commercial broadcast television local newscasts for advertising revenues. The local cable news cooperative is a group of interconnected local cable television systems that produces local newscasts for insertion on an all news channel. The times of insertion coincide with the air times of the local commercial broadcast television newscasts.

The "market/station analysis" is the method of evaluation that is used to determine the potential profitability of a broadcast radio or television station or cable television system. The method is modified to evaluate the television market and the local commercial broadcast television news departments. These are then used to determine if a local cable television news cooperative can be profitable within three different sizes of television markets. Through this analysis, the cooperatives in each of the three types of television markets are found to be profitable.

Accepted by the faculty of the Department of Telecommunication, College of Communication Arts and Sciences, Michigan State University, in partial fulfillment of the requirements for the Master of Arts degree.

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Director of Thesis

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INTRODUCTION AND STATEMENT OF PURPOSE

The purpose of this study is to determine the feasibility of programming a local cable television news service to compete with local commercial broadcast television stations' newscasts for local, regional, and national advertising dollars. In order to compete, cable systems will have to interconnect with one another and form a local network. The cable newscasts will be inserted into a national news service such as Cable News Network (CNN) or Satellite News Channel (SNC) and fed through an interconnected network to participating cable systems. The measure of success for the cable news service will be whether or not it can make a profit by the tenth year of operation.

Three types of television markets will be examined representing the top 10, top 50, and second 50 television markets. The markets will be evaluated using the "market/station analysis" modified for application to local news departments rather than television stations or cable systems. The data from each market will be reviewed as to its social and financial stability. Then the economic factors entering into the operation of the local commercial broadcast television news department in each of the three markets will be evaluated. Finally, a decision as to the entry of a local cable television newscast into each respective market will be made.

Since cable news programming is a relatively new field, there is a lack of primary sources of information. Therefore this paper cites a number of trade, public and secondary sources.

CHAPTER I

REVIEW OF LITERATURE

Introduction

During the late 1940's, broadcast television's popularity began to grow in the United States. However, some communities were prevented by distance or terrain from receiving these broadcast television signals. To solve this dilemma, tuned antennas were placed on mountaintops and wire was connected from the antennas to households in the communities. Thus community antenna television (CATV) was created.

The growth of cable television has been sporadic (see Table 1). However in May 1982, both the A.C. Nielsen Co. and Arbitron estimated that cable television has penetrated at least 30 percent of the television households in the United States.[1] The number of channels available to subscribers has grown to over 100 channels. In addition, many large multiple system operators (MSOs) are upgrading smaller worn out systems of 5, 12 and 20 channels with systems of 26, 35, and 54 channels.[2]

Cable Television Advertising

Unlike local commercial broadcast television stations, local cable television systems depend on subscriber subscriptions for revenues.

Table 1. Growth of Broadcast and Cable Television 1952-1981

Year	Total Subscribers	TV Households (Millions)	Cable Penetration (Percentage of TV HH)
1952	14,000	17.3	0.08
1953	30,000	23.4	0.1
1954	65,000	28.2	0.2
1955	150,000	32.3	0.4
1956	300,000	36.7	0.8
1957	350,000	40.3	0.9
1958	450,000	43.0	1.0
1959	550,000	46.9	1.2
1960	650,000	45.2	1.4
1961	725,000	46.9	1.5
1962	850,000	49.0	1.7
1963	950,000	51.3	1.8
1964	1,085,000	52.6	2.0
1965	1,275,000	53.8	2.4
1966	1,575,000	54.9	2.9
1967	2,100,000	56.0	3.8
1968	2,800,000	57.0	4.9
1969	3,600,000	58.5	6.1
1970	4,500,000	60.1	7.5
1971	5,300,000	62.1	8.5
1972	6,000,000	64.8	9.3
1973	7,300,000	66.2	11.0
1974	8.700,000	68.5	12.7
1975	9,800,000	69.6	14.1
1976	10,800,000	71.2	15.2
1977	11,900,000	72.9	16.3
1978	13,000,000	74.5	17.4
1979	14,100,000	76.3	18.5
1980	16,000,000	77.8	20.6
1981	18.300,000	81.5	22.5

SOURCES:

"Estimated Growth of the Cable Industry," Television Factbook 1981-1982 Edition, (Washington, D.C.: Television Digest, Inc., 1981, p. 83-a.

"Trend of Radio and Television Ownership," Broadcasting Cablecasting Yearbook 1982, (Washington, D.C.: Broadcasting Publications, Inc., 1982), p. D-112.

While 3,105 cable systems originate programming, only 41 percent of them accept advertising on local origination channels. Rates for advertising range from $5 to $400 for 30 seconds of advertising time (called a spot).[3]

The 1981 Cable Advertising Directory, published by the National Cable Television Association, reports that 277 cable systems which penetrate 6.5 million homes are ready to make local advertising spots available for both network and local programming. Advertising revenues in 1980 for systems of more than 200,000 subscribers reported average advertising revenues of $10,000 to $25,000. Thirty-second spot advertising rates ranged from $6 to $20 and one-minute spots ran between $10 and $30. Total advertising revenues for the cable systems in 1980 were $14 million.[4]

One way of making cable television attractive to advertisers is through the interconnection (joining together) of a number of cable systems. Such a system exists in the San Jose-San Francisco, California area. The system, known as the Gill Bay Area Interconnect, links 32 cable systems with 475,000 subscribers through two channels that carry Cable News Network (CNN) and the Entertainment and Sports Programming Network (ESPN). The system works as follows: CNN and ESPN are received in San Jose, California where regional and national advertising are inserted into the programming and transmitted via microwave to the remaining 31 stations. As incentives to join the interconnect, cable operators are offered a share in the profits and five cents per subscriber.[5] In May of 1982, Viacom International joined the interconnect and announced plans for the adding of two more channels to the interconnect.[6]

National Cable Television News Services

Cable News Network

The Turner Broadcasting System's Cable News Network began operating on June 1, 1981. Approximately 172 cable systems representing about 1.7 million households originally subscribed to CNN. Within five months, the network had 550 cable systems serving 4.7 million subscribers. CNN, which offers around-the-clock in-depth news and information, needs an estimated eight million to ten million subscribers to cover $2.5 million in monthly operating expenses.[7]

As of April 1982, CNN has penetrated 13 million households and has an annual growth rate of 50 percent. Cable systems are charged 20 cents per subscriber if CNN is the only Turner Broadcasting programming they carry and are charged 15 cents if they do carry other Turner programming. Although CNN's revenues for the first quarter of 1982 were $8.4 million, Turner Broadcasting will not predict when the service will become profitable.[8]

On December 31, 1981, Turner Broadcasting introduced Cable News Network 2 (CNN 2) to some 800,000 subscribers. CNN 2 is a "24-hour headline news service" that delivers half-hour news segments.[9] It gives cable systems six minutes of every half hour for local news and advertising. For those systems carrying the Cable News Network (CNN 1), CNN 2 is free. For those not receiving CNN 1, the cost is five cents per subscriber per month.[10]

In June of 1982, Turner Broadcasting Vice President for Cable Sales and Marketing, Nory LeBrun, said that CNN 1 has over 500,000 new subscribers per month. In addition, he said that CNN 2 has 1.2 million subscribers and expects an increase to 4 million by the end of 1982. Currently, LeBrun said, 150 cable systems and "...about 50 broadcasters are using CNN 2 newsfeeds."[11]

Satellite News Channels

On June 21, 1982, Satellite News Channel I (SNC I) began serving over 2.6 million subscribers. It is a joint venture between Group W Satellite Communications and ABC Video Enterprises. SNC I is a 24-hour headline news service that operates in 18-minute segments and utilizes the resources of ABC News and regional associates. Advertising rates, according to Lloyd Werner, SNC Senior Vice President for Sales and Affiliate Relations, are $5,000 per 30-second spot or $2 cost-per-thousand and the rate will increase with the number of subscribers. The number of SNC subscribers is expected to increase by 4.9 million before the end of 1984.[12]

Unlike CNN, which charges cable operators on a per-subscriber basis for carriage, SNC has paid each operator 75 cents for signing up with them.[13] Still, CNN 2 and SNC I will both be offering headline news services to cable operators and as CNN's LeBrun said, "It should be a good little war."[14]

Local Cable Television Newscasts

Both CNN 2 and SNC I, all-news radio, and character generated news all strive to give a synopsis of the news within a limited amount of time. Many cable systems have used the automated character generator to print out news on subscribers' television screens. The automated news can be national or local in scope. Stuart Kaplan reported in a study that of those viewing automated channels at least four times a week, over 60 percent tuned in out of "convenience (e.g., current information is available at all times; several types of information are available on one medium)."[15] Of those viewing the news channel, 84 percent used it out of "convenience," 13 percent for "completeness (e.g., can get more detail than from other media usually available in household)," and 11 percent for "uniqueness (e.g., the desired information is not provided on other media available in the household)."[16] The automated community information channel was watched by 63 percent for "convenience," 27 percent for "completeness" and 37 percent for "uniqueness."[17]

Kaplan said that though "...most of the information provided by these channels is available from other media, an important advantage of the automated channels is that the information is available on demand 24 hours a day."[18]

Some cable systems have already begun to establish locally originated news programs (see Table 2). Many cable operators are interested in local newscasts, but weekly production costs of about $2,500 for half-hour daily newscasts tend to dissuade them from entering the field.[19] Still, those who produce cable news programs are providing a public service which could concurrently become profitable to the cable operator. Furthermore, the belief that local cable newscasts could not compete with news produced by commercial broadcast television stations is not necessarily valid.[20]

For over ten years, Palmer Cablevision of Naples, Florida has produced "The Naples Report;" a daily 30-minute local newscast.[21]

Table 2. Synopsis of Local Cable Television News as Cited in Chapter 1.

System (Location)	Length of Newscast (Minutes)	Comments
Palmer, Cablevision (Naples, Florida)	30	share of 23 (April 1980) in Fort Myers TV market; full time staff of 11, 3 part-time
Communication Services (Salina, Kansas)	30	25 rating/34 share from 13,000 subscribers; advertising rates run $15 to $20 for :30 spot
Jones Intercable (Alton, Illinois)	30	newscast live at 5 p.m. and replayed at 6 p.m.; full time staff of 4; 11,000 subscribers
Colony Communications (New Beford-Falls River, Massachusetts)	30	Portuguese language newscast; rates for advertising do not cover $2,500 weekly expenses; projects advertising revenues to reach $20 to $30 per subscriber
Cox Cable (Denton, Texas)	30	newscasts at noon and 6:30 p.m. inserted on CNN; $200,000 annual news budget; 6,700 subscribers

SOURCES:

"Cable TV: Going After Small Markets," Broadcasting, December 1, 1980; "Cable Meeting on the Cape," Broadcasting, July 20, 1981.

Production Manager Connie Pettit said the newscast has given the network affiliates stiff competition. In April 1980, she said Nielsen reported that "The Naples Report" received a share[22] of 23, second only to the NBC affiliate in Fort Myers.[23]

Communication Services of Salina, Kansas has produced a daily half-hour local cable newscast for over seven years. The newscast has received a 25 rating and 34 share from its 13,500 subscribers and competes with broadcasters in Wichita, Kansas and Kansas City, Kansas. Program Director Rich Weber said that the 12 30-second advertising spots available during the newscast sell on long-term contract from $15 to $20 per spot.[24]

Jones Intercable of Alton, Illinois produces a daily 30-minute news program serving several small towns totaling 11,000 subscribers. The newscast provides an outlet for local news not carried by the Saint Louis, Missouri stations, reporter Mike Drieth said. Although the system sells advertising, he said, it does not cover expenses.[25]

Colony Communications of New Bedford and Falls River, Massachusetts produces a 30-minute daily cable newscast in Portuguese for the nearly 50,000 Portuguese-speaking people in the area.[26] Colony President Jack Clifford said that advertising rates are just high enough to cover weekly costs of nearly $2,500. Presently, Clifford said, the system expects to make $30 to $40 per subscriber once advertising becomes established in cable.[27]

Cox Cable's Denton, Texas franchise is located 40 miles from the Dallas-Fort Worth area and produces two 30-minute daily local newscasts that break into Cable News Network at 12:00 noon and 6:30 p.m.

Production Supervisor Paul Bean believes that cable companies producing newscasts in big cities could not compete financially with network affiliates. "It is most appropriate," he said, "in small towns where the people can't get local news from anywhere else."[28]

CHAPTER II

METHODOLOGY AND PROPOSAL

This thesis will be descriptive in nature. By case study, it will determine whether or not local cable newscasts can compete with the newscasts of local commercial broadcast television stations.

Three Michigan television markets representing three different sizes of national markets will be individually evaluated in this study. The Detroit market is the seventh largest market in the United States and will represent the top ten television markets; the Grand Rapids market (which includes Kalamazoo and Battle Creek) is ranked 37th and will represent the national television markets ranked 11th through 15th; and Lansing is ranked 96th and will represent the markets ranked 51 through 100.[1]

A modified form of the "market/station analysis" will be used to determine if a local cable newscast can be competitive with commercial broadcast television newscasts. The "market/station analysis" was developed at Michigan State University and it reviews trends of the population and economy, competition, and financial soundness of a broadcast or cable property. A decision can then be made, based on information gathered in the "market/station analysis" as to the value of the local cable newscasting operation.[2]

In this study, a modified form of the "market/station analysis" will replace the station or cable system portion with that of the local cable television newscast. In addition, those stations not producing local newscasts are excluded from the study.

The market/news analysis will utilize the following steps in evaluation of each market:

1. Review of the market's population. Changes in the population by year, race and age/sex are reviewed to determine any changes in the composition of the market.
2. The market's economic health is measured. Economic indicators such as the Buying Power Index, Effective Buying Income, Total Retail Sales, Average Propensity to Consume, and unemployment as well as media competition are examined.
3. The local commercial broadcast television stations producing local newscasts within the market are analyzed. Length and time of newscasts, advertising rates, staffing, and equipment are factors to be considered.
4. The categories in step three are used to estimate advertising rates, staffing and equipment for the local cable news service.
5. A ten-year pro forma statement is created from all the categories in order to estimate whether the local cable news can be a profitable venture.[3]

Assumptions

Cable television is gradually becoming part of the American lifestyle. Broadcast television penetrated 98 percent of all American television households while cable television had achieved just 30 percent national penetration in May 1982.[4] Therefore it is assumed that cable television will operate under the following handicaps and that these will decrease over time.

First, there is still a lack of an established method for audience measurement of cable television. A.C. Nielsen's Home Video Index Division is commissioned by the Cable Advertising Bureau to test six methods for measurement of cable audiences on 30,000 households with a coincidental telephone follow-up of an additional 30,000 households.[5] The six methods being tested by Nielsen during June 3-16, 1982 involve the use of both diary and coincidental telephone calls. Three diary methods under evaluation include Nielsen's standard local TV viewers diary; a roster (listing of all available programming) personal daypart diary; and a roster diary measuring the household by daypart. The coincidental telephone methods include "seven-day, one-call-per-day recall; one-day-only 'aided' recall; and one-day-only unaided recall."[6]

Second, since cable television is a new advertising medium, some kind of incentives will be needed to lure advertisers. Most likely, these incentives will be in the form of "discounts" in advertising rates. Paul Kagan and Associates, a respected industry source, has said that advertising over local cable systems will increase from $15 million in 1980 to $195 million in 1985 and $575 million by 1990.[7]

Other assumptions made in this study are:

1. Cable systems located in areas of high population concentration will follow the lead of the Bay Area Interconnect and form similar interconnections.

2. Cable systems within these areas will want to compete with commercial broadcast television newscasts for local, regional and national advertising dollars. Due to economies of scale, these systems will take advantage of interconnection to create a cable news cooperative and produce a single cable news service to avoid a duplication of services.

3. The all-news format currently used by CNN or SNC will become the framework in which the cooperative will insert its news programming.

4. Time adjacent to the local newscasts of commercial broadcast television stations will be used by the cooperative to produce a regional newscast. During the local broadcast news prime time, which differs in each market, every half hour of co-op programming will have five minutes of national news, 20 minutes of regional news, sports, and weather, and an optional five minutes for local news.

Research Proposal

This paper proposes to offer analysis to demonstrate that a local cable news cooperative (co-op) can be profitable within a ten-year period based on capital investment. For the co-op to be profitable, it must not only be able to build an audience but it must be able to attract advertisers. Furthermore to accomplish both of these objectives, the co-op must compete with the local commercial broadcast television newscasts for quality of journalism, audience and in turn, advertisers. If the co-op cannot be profitable within a ten-year period, then it must be considered an undesirable business proposition.

CHAPTER III

MARKET/NEWS ANALYSIS--DETROIT, MICHIGAN

Market Analysis

Introduction

The term "market" as used in this study refers to the television market. The television markets of the United States are determined by A.C. Nielsen Company and Arbitron. Arbitron defines the television market as "...a geographic design composed of a group of counties ...exclusive of all others based on measurable viewing patterns."[1] The television market defines the boundaries in which the local cable television news cooperative will operate.

Geography

The Detroit television market is located in the southeastern corner of Michigan's Lower Peninsula and is 6,171 square miles.[2] This market is centered around the City of Detroit, Michigan. It is comprised of the following counties: Lapeer, Livingston, Macomb, Monroe, Oakland, St. Clair, Washtenaw, and Wayne.[3]

Demographics of the Population

Introduction

The demographics of a population reveal trends in the population as seen from different perspectives. The demographic categories of the market's population are: general population, age and sex, and race. This examination discloses changes in the population that can affect a market's economic future.

General Population

The population of the Detroit television market declined one-sixth of a percent from 1970 to 1980 (see Table 3). However, while the metropolitan area consisting of Wayne, Oakland, and Macomb counties has slowed in its rate of growth, the outlying counties of Livingston and Lapeer have experienced increasing growth rates. Still, the decline in the rate of change of the Detroit market between 1970 and 1980 has dropped below the rates of Michigan and the nation for the first time in 30 years.[4] This means that the market is not growing and worse, it is falling behind state and national growing trends. Further the decline indicates the beginning of a reduction in the number of consumers, which leads to a shrinking economy.

Age and Sex

The age and sex breakdown of the population indicates how the population is distributed. Those 29 years of age and under make up 51.3 percent of the Detroit market's population (see Figure 1). The largest single age group is composed of children age 6 through 13 who represent 13.3 percent of the population. The oldest age groups are also the smallest.

Table 3. Population Changes in the Detroit TV Market 1950-1980, Ranked by County Population Size

County	1950	1960	(% change)	1970	(% change)	1980	(% change)
Wayne	2,435,235	2,666,297	(9.5)	2,670,368	(0.2)	2,337,891	(-12.5)
Oakland	396,001	690,297	(74.3)	907,871	(31.5)	1,011,793	(11.4)
Macomb	184,961	405,804	(119.4)	625,309	(54.1)	694,600	(11.1)
Washtenaw	134,606	172,440	(28.1)	234,103	(35.8)	264,748	(13.1)
St. Clair	91,599	107,201	(17.0)	120,175	(12.1)	138,802	(15.5)
Monroe	75,666	101,120	(33.6)	119,215	(17.9)	134,659	(13.0)
Livingston	26,725	38,233	(43.1)	58,967	(54.2)	100,289	(70.1)
Lapeer	35,794	41,926	(17.1)	52,361	(24.9)	70,038	(33.8)
Market Totals	3,380,587	4,223,280	(25.0)	4,788,369	(13.4)	4,752,820	(-0.7)
Michigan	6,371,766	7,823,194	(22.8)	8,881,826	(13.5)	9,262,078	(4.3)
U.S.	151,325,798	179,323,175	(18.5)	203,302,031	(13.4)	226,504,825	(11.4)

SOURCE: U.S. Department of Commerce, Bureau of the Census, 1980 Census of Population, Characteristics of the Population, Number of Inhabitants: Michigan, (Washington, D.C.: U.S. Government Printing Office, 1982), p. 28; U.S. Department of Commerce, Bureau of the Census, "Population and Area 1790 to 1980," Statistical Abstract of the U.S.: 1981, (Washington, D.C.: U.S. Government Printing Office, 1980), p. 5.

Adults 85 and older, for example, make up less than one percent of the total population.[5] The population of the Detroit market is young and a young market is one with more consumers entering into it.

The sex of the population remains balanced between males and females. However, the difference between the sexes is greatest for adults 65 years of age and older (see Figure 1).[6] Still, this difference has an insignificant bearing on the market's economy.

Race

The racial makeup of the Detroit market consists of two major groups. The largest group is White, composing 77.5 percent of the population. The largest minority group is Black, representing 19.0 percent of the total population (see Table 4).[7] These two groups comprise 96.5 percent of the entire population and it would be adventageous to target these two racial groups for advertising and programming.

Economic Indicators

Introduction

This part of the analysis examines economic trends in the Detroit television market. There are several ways of looking at the past performance of the economy. The Buying Power Index (BPI) is one indicator that measures "...the market's ability to buy...(and it is expressed) as a percentage of the U.S. potential."[8] Two other measures of the economy's past performance are the Effective Buying Income (EBI) which is gross income less payroll deductions and Total Retail Sales (TRS) which represents total sales make to consumers.[9] The average household's

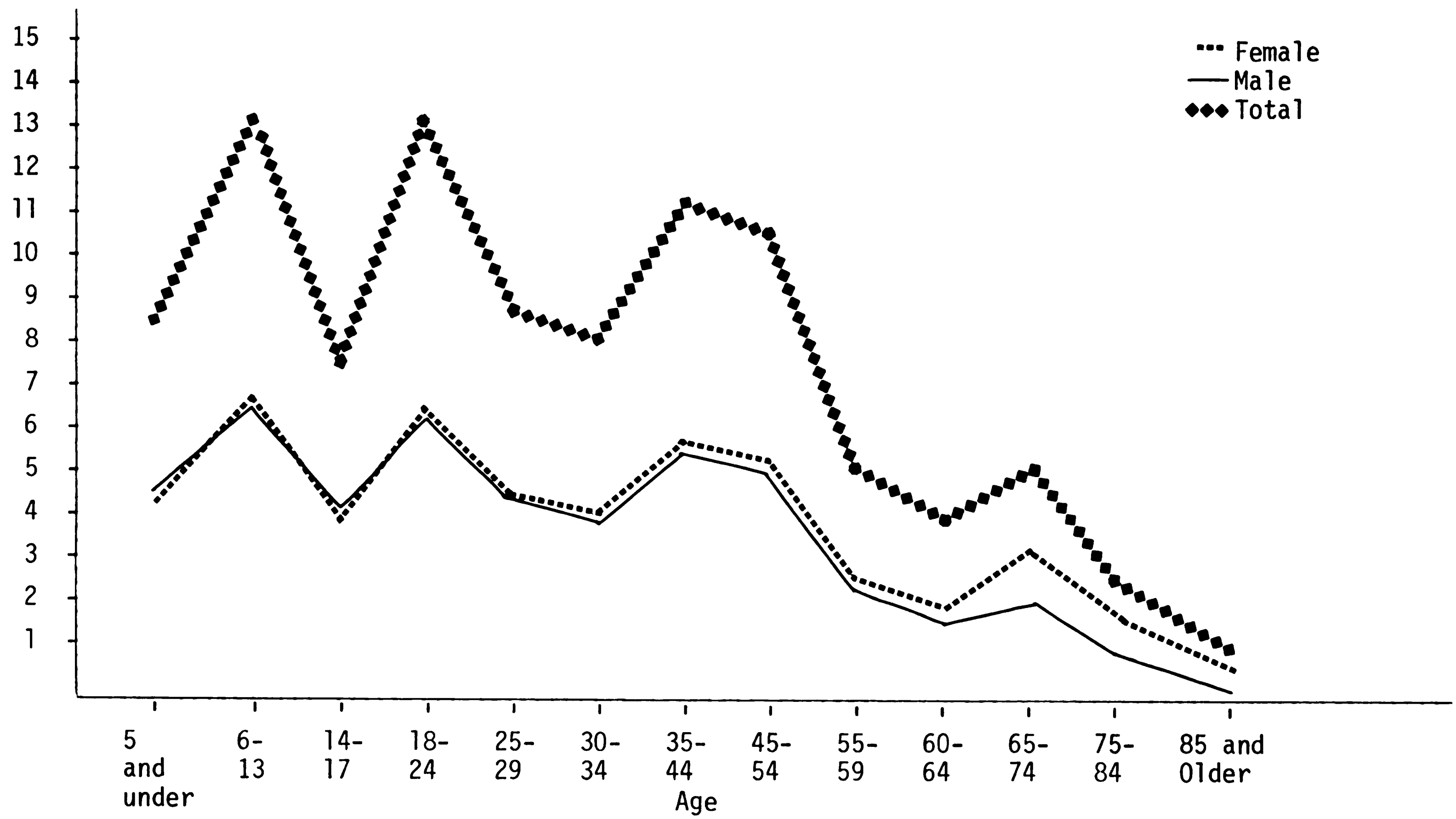

Figure 1. Percentage of Detroit TV Market's 1980 Population by Age/Sex

SOURCE: U.S. Department of Commerce, Bureau of the Census, 1980 Census of Population: Michigan (by county), Microfiche, Summary Tape File 1A, 10 December 1981.

Table 4. 1980 Racial Composition of the Detroit TV Market

Racial Group	Percentage of the Total Population
White	77.5
Black	19.0
Spanish	1.6
Other	1.9
TOTAL	100.0

SOURCE: U.S. Department of Commerce, Bureau of the Census, 1980 Census of Population and Housing: Michigan, Final Population and Housing Units Counts, (Washington, D.C.: U.S. Government Printing Office, 1981), pp. 14-24.

EBI and TRS are used to estimate the Average Propensity to Consume (APC). The APC is a ratio of each dollar of income that is spent on consumer goods and it is one measure of consumption habits of the average household.[10]

The unemployment rate of the market indicates how many people are out of work. The higher the rate is, the less dollars there are going into the market. In addition, a review of the market's five largest employers gives an indication if a market is dependent upon a particular type of industry.

By combining all of these economic indicators, a general picture arises as to the trends of the Detroit television market's economy. An economy that shows little or no growth is an important factor to be weighed in the final decision of whether or not a cable television news co-op can be profitable.

Buying Power Index

The BPI of the Detroit television market has failed to exceed its 1974 high of 2.57 percent (see Table 5). After dropping to 2.45 percent in 1975, the BPI has averaged 2.46 percent and fluctuated only one one-hundreth of a percent from 1975 through 1979. However, in 1980 the market's BPI fell over a full tenth of a percent. It appears very doubtful that the Detroit television market will ever recover its 1974 share of the U.S. economy.[11]

Income, Consumption, and Average Propensity to Consume

Trends in the average household income and consumption are important indicators to retailers and manufacturers who might consider advertising their products over commercial broadcast television or cable television. Moreover, if any portion of income remains after consumption, then the balance can conceivably be used for additional consumer purchases. The income of the average household in the Detroit market has increased annually from 1973 through 1980 (see Table 6). The average household consumption increased from 1973 through 1979 but declined in 1980.[12]

The Average Propensity to Consume (APC) is a ratio of how much of each dollar of net income was spent on retail goods. In the Detroit television market, the average mean APC dropped from 1973 to an eight-year low of .4400, the APC in the following years was still above the mean average (see Table 6).[13]

Table 5. Annual BPI of the Detroit TV Market

Year	BPI (% of Total U.S. Economy)
1973	2.5134
1974	2.5651
1975	2.4520
1976	2.4747
1977	2.4612
1978	2.4684
1979	2.4650
1980	2.3397

SOURCE: "Annual Survey of TV Markets," Sales and Marketing Management, Survey of Buying Power Part II, October 1974 through October 1981, c 1981 S&MM Survey of Buying Power II.

Table 6. Income, Consumption, and Average Propensity to Consume in the Detroit TV Market, 1973-1980

Year	Average Household EBI ($)	Average Household Share of TRS ($)	Balance ($)	Average Propensity To Consume (APC)
1973	16,115	7,696	8,419	.4776
1974	17,115	8,382	8,733	.4897
1975	18,156	8,700	9,456	.4792
1976	19.787	9,639	10,148	.4871
1977	22,218	9,775	12,433	.4400
1978	23,561	11,920	11,641	.5059
1979	25,693	13,802	11,891	.5372
1980	26,801	13,480	13,321	.5030

Note: The average household income and consumption were based on figures found in "Annual Survey of TV Markets," Sales and Marketing Management, Survey of Buying Power Part II, October 1974 through October 1981. c 1981 S&MM Survey of Buying Power II.

Unemployment and Employment

During the past five years, the Detroit market has had annual average unemployment rates higher than either Michigan or the nation (see Table 7). In 1981, for example, the market's annual unemployment rate was 13.6 percent which was one percent higher than the Michigan rate and six percent higher than the national rate.[14] This high unemployment rate has been a result of the market's dependence on the domestic automobile industry.

Table 7. Annual Average Unemployment in the Detroit TV Market, 1972-1981

Year	Detroit (% Unemployment)	Michigan (% Unemployment)	U.S. (% Unemployment)
1972	8.0	7.0	5.6
1973	6.5	5.9	4.9
1974	9.6	8.5	5.6
1975	13.2	12.5	8.5
1976	9.7	9.4	7.7
1977	8.7	8.2	7.0
1978	7.0	6.9	6.0
1979	8.4	7.8	5.8
1980	14.7	12.6	7.1
1981	13.6	12.3	7.6

SOURCES: "Michigan Employment Security Commission, Research and Statistics Division, Labor Analysis Section, "Civilian Labor Force and Wage and Salary Employment Estimates, 1971-1981; U.S. Department of Labor, Bureau of Labor Statistics, "Employment Status of the Noninstitutional Population 16 Years and Older, 1947 to Date," Employment and Earnings, January 1982, p. 9.

The five largest employers in the market with 10,000 or more employees are: General Motors, the City of Detroit, the Detroit Board of Education, the U.S. Government and Chrysler. Four of the top 20 employers are either auto manufacturers or auto parts suppliers. Another 4 of the 20 are state or local governments.[15] It should be noted that the various bodies of government are dependent on the tax base generated by the automobile companies and their suppliers.

Media Competition

Introduction

Commercial broadcast radio and television stations, and daily newspapers compete for advertising dollars in the Detroit market. Local cable operators, while competing with broadcast television for audience (especially with pay cable channels), do not compete with local broadcast television stations for advertisers. Rather, the various cable networks compete with the national television networks for advertisers. For the most part, local cable operators have yet to exploit advertising. The Bay Area Interconnect and a few other similar arrangements have recognized this deficiency.[16] However, cable penetration in the Detroit television market has reached 8.2 percent of the television households[17] and much greater penetration is needed before an interconnect can even be considered.

Television

There are eight commercial broadcast television stations serving the Detroit television market (see Table 8). Two of the eight switch to pay television programming in the evening.[19] A license for television

Channel 38 in Warren, for which there is one applicant, is yet to be assigned.[20]

Table 8. Commercial Broadcast Television Stations Licensed in the Detroit TV Market

City of License Call Letters	Channel	Licensee	Affiliation
Ann Arbor			
WIHT	31	Satellite Television Systems	STV
Detroit			
WDIV	4	Post-Newsweek Stations	NBC
WGPR	62	International Free and Accepted Modern Masons	IND
WJBK	2	Storer Broadcasting	CBS
WKBD	50	Field Communications	IND
WXON	20	WXON-TV	STV
WXYZ	7	American Broadcasting Co.	ABC
Windsor			
CBET	9	Canadian Broadcasting Corp.	CBC

SOURCE: "Facilities of Television," Broadcasting Cablecasting Yearbook 1982, (Washington, D.C.: Broadcasting Publications, Inc., 1982), pp. B108-B109; "Subscription TV Stations," Broadcasting Cablecasting Yearbook 1982, (Washington, D.C.: Broadcasting Publications, Inc., 1982), p. B148.

Radio

The Detroit market has 48 commercial broadcast radio stations. Twenty-four of these are AM stations and 24 are FM stations. Rates for a 30-second advertising spot range from $185 at WJR-AM in Detroit to $6 at WDEY-AM-FM in Lapeer and WTGV-FM in Sandusky (see Appendix).[21]

Newspapers

There are eight daily newspapers in the market.[23] The Detroit News and Detroit Free Press each have a circulation of over 500,000. Subsequently, either one has a greater circulation than the six other dailies combined. Only the Detroit Free Press is delivered in the morning while the remaining seven are delivered in the evening. Advertising rates per line range from $5.26 at The Detroit News to $.44 at The Ypsilanti Press. The rates are contingent, in part, on circulation and The Detroit News has the highest with 630,573 daily. The Ypsilanti Press' circulation of 15,703 daily is the lowest of the eight dailies (see Table 9).[23]

News Analysis

Introduction

This section will examine cable television's direct competitior; commercial broadcast television. Specifically, the news departments of commercial broadcast television stations will be evaluated in the following categories: personnel, revenues, expenses, and equipment.

There are three broadcast television stations in the Detroit market producing competitive local newscasts: WDIV, WJBK, and WXYZ (all licensed in Detroit). WDIV is owned by Post-Newsweek Stations and is assigned to Channel 4. WJBK is owned by Storer Broadcasting and is assigned to Channel 2. WXYZ is owned and operated by the American Broadcasting Company (one of the three major broadcast television networks) and is assigned to Channel 7.[24]

The staffing of the three news departments ranges from 64 employees at WDIV to 83 employees at WXYZ (see Table 10).[25] It is unclear why there

Table 9. Daily Newspapers Published in the Detroit TV Market

City of Publication Newspaper	Publisher	Circulation Daily/Sunday
Ann Arbor		
The Ann Arbor News	Booth Newspapers	42,161/47,081
Detroit		
Detroit Free Press	Knight-Ridder Newspapers	604,062/557,067
The Detroit News	Evening News Association	629,598/829,240
Monroe		
Monroe Evening News	Monroe Publishing Co.	27,131/-------
Mount Clemens		
The Macomb Daily	Panax Newspapers	51,547/-------
Pontiac		
The Oakland Press	Capital Cities Communications	73,295/75,010
Port Huron		
The Times Herald	Gannett Newspapers	30,845/35,790
Royal Oak		
The Daily Tribune	Tribune Publishing	47,096/-------
Ypsilanti		
The Ypsilanti Press	Harte-Hanks Communications	16,370/16,097

SOURCE: "Daily Newspapers Published in the United States," Editor and Publisher International Yearbook 1981, (New York: Editor and Publisher Co., Inc. 1981), pp. I130-I139.

exists such a disparity in the staffing of these news departments. One possible explanation might be that WXYZ is owned by a network and it may have responsibilities to the network in the gathering of national news. The three stations also appear top-heavy with supervisory personnel.

Table 10. TV News Personnel in the Detroit TV Market

	Number of Employees			
Position	WDIV	WJBK*	WXYZ	MEAN
Supervisory	18	22	13	18
Anchorperson	6	6	7	6
Sportscaster/Weathercaster	7	7	8	7
Reporter	11	11	14	12
Writers	3	4	12	6
Cameraperson/Technician	19	30	24	24
Miscellaneous	--	--	5	--
TOTAL	64	80	83	73

SOURCES: Interview with Robert White, News Director, WXYZ-TV, 22 March 1982; personal letter from Mike VonEnde, News Director, WJBK-TV, 23 March 1982; personal letter from Bob Warfield, News Director, WDIV-TV, 7 April 1982.

*Estimates made from general categories.

Revenues

Revenues are generated by a news department through the sale of time to advertisers (see Table 11). In the Detroit market, two of the stations broadcast a local midday newscast on weekdays. The length of the late afternoon local newscasts range from one hour at WDIV to two hours at WXYZ.[26] The estimated cost per 30-second advertising spot is based on the fixed rate, which is the maximum rate charged to advertisers. The rate a station charges is influenced by the program rating that the newscast receives. WXYZ, the leader in ratings, charges a higher price for advertising spots than either of its two competitors.

Expenses

Salary Expense. Salary expense is divided into two categories: news salaries and advertising commissions (salaries) for the selling of newscast time to advertisers. Policy concerning sales commissions varies with each television station. The annual news salaries calculated in Table 12 are based on a survey of weekly news salaries by Vernon A. Stone for the Radio and Television News Directors Association. The questionnaires were mailed to 690 commercial broadcast television stations and 449 or 65 percent of those returned were usable.[27]

Equipment. The cost of broadcast television equipment, as shown in Table 13, is very expensive. The single most expensive item is the live remote van. All three of the television news departments in the Detroit market have at least two of the vans. The expense of the equipment appearing in Table 13 is estimated from current prices for broadcast quality equipment.

Table 11. Estimated Revenues for Local TV Newscasts in the Detroit TV Market

Station Time of Newscast	Fixed Rate ($)	Number of 30 sec./Spots Newscast	Number of Days/Week	Weekly Revenue ($)	Annual Revenue ($)	DMA Multi-Week Average Rating/Share
WDIV						
12:00 n.-12:30 p.m.	250	16	5	20,000	1,040,000	4/14
5:30 p.m.-6:30 p.m.	760	32	7	170,240	8,852,480	11/24
11:00 p.m.-11:30 p.m.	1,650	16	7	184,800	9,609,600	11/24
TOTAL					19,502,080	
WJBK						
12:00 n.-12:30 p.m.	420	14	5	29,400	1,528,800	7/30
5:00 p.m.-6:30 p.m.	850	25	5	106,250	5,525,000	8/17
6:00 p.m.-6:30 p.m.	850	16	2	27,200	1,414,400	--
11:00 p.m.-11:30 p.m.	2,000	16	7	224,000	11,648,000	10/23
TOTAL					20,116,200	
WXYZ						
5:00 p.m.-7:00 p.m.	1,000	65	5	325,000	16,900,000	15/29
11:00 p.m.-11:30 p.m.	2,500	13	7	227,500	11,830,000	17/39
TOTAL					28,730,000	

SOURCES: Personal letter from Susan A. Brooks, WDIV-TV, 2 March 1982 (Rate Card Enclosed). Personal letter from George L. Kenyon, Local Sales Manager, WJBK-TV, 17 February 1982 (Rate Card Enclosed). Personal letter from Lee Gannon, General Sales Manager, WXYZ-TV, 22 March 1982. "Program Averages," Nielsen VIP Reference Volume 5: Nielsen Station Index, Detroit, Michigan, (A.C. Nielsen Company, 1982), pp. 16-36.

Table 12. Annual Estimated Salary Expense for Local TV News Departments in the Detroit Market

Position	Weekly Salary ($)	WDIV Number of Personnel	WDIV Annual Salaries	WJBK* Number of Personnel	WJBK* Annual Salaries	WXYZ Number of Personnel	WXYZ Annual Salaries
Supervisory	790	10	410,800	22	903,760	13	534,040
Anchorperson	1296	6	404,352	6	404,352	7	471,744
Sportscaster/ Weathercaster	743	7	270,452	7	270,452	8	309,088
Reporter	649	11	371,228	11	371,228	14	472,472
Writer	743	3	76,752	4	102,336	12	307,008
Cameraperson/ Technician	415	19	647,400	30	647,400	24	517,920
Miscellaneous	267	--	---	--	---	5	69,420
TOTAL			2,180,984		2,699,528		2,681,692

SOURCES: Interview with Robert White, News Director, WXYZ-TV, 22 March 1982. Personal letter from Mike VonEnde, News Director, WJBK-TV, 23 March 1982. Personal letter from Bob Warfield, News Director, WDIV-TV, 7 April 1982. Vernon A. Stone, "Moderate Gains in News Salaries," RTNDA Communicator, December 1981, pp. 16-19.

*Estimates made from general categories.

Table 13. Broadcast Television Equipment in the Detroit Television Market

Equipment	Unit Cost ($)	WDIV No.	WDIV Total Cost ($)	WJBK No.	WJBK Total Cost ($)	WXYZ No.	WXYZ Total Cost ($)
Studio Camera	70,000	4	280,000	10	700,000	6	420,000
3/4" Video Tape Recorder (VTR)	13,000	4	52,000	8	104,000	8	104,000
Live Remote Van	200,000	2	400,000	2	400,000	5	1,000,000
Remote ENG Camera with VTR	50,000	6	300,000	6	300,000	10	500,000
Miscellaneous	150,000		150,000		150,000		150,000
TOTAL			1,182,000		1,654,000		2,174,000

SOURCES: "Innovations and Improvements: NAB Equipment Showcase," Broadcasting, April 19, 1982, pp. 34-41; Telephone interview with Ailika Taylor, Sony Broadcast Product Mgt. Div. Los Angeles, California, 6 July 1982; "U.S. Commercial Television Station Equipment 1981," Television Factbook 1981-1982 Edition, (Washington, D.C.: Television Digest, Inc., 1981), p. 43a.

A Local Cable News Cooperative

Introduction

Figures from the previous section will be used to generate estimates of revenues and expenses for the local cable news cooperative. The co-op is an interconnected group of local cable systems that will program local newscasts for insertion over a national cable news channel. The insertions will coincide with the local commercial broadcast television newscasts, allowing the co-op to compete for advertisers. The goal of the co-op is to offer quality programming at a profit.

Revenues

The sole source of revenues for the cable news co-op is the sale of time during newscasts to advertisers. Broadcast and cable television differ from radio and newspapers in that they deliver audio-visual information into households. Therefore cable's only competition, from this perspective, is broadcast television and rates for the local cable news cooperative will be based on those of the local commercial broadcast television newscasts.

The co-op, being a new source of local news, cannot deliver as large of an audience to advertisers as can the broadcast television stations. This means that advertising rates for the co-op will have to be lower and initial discounts will have to be offered to attract advertisers. Thus the co-op will base its rates on 50 percent of the average fixed rate of the three Detroit broadcast television stations (see Table 14).

Table 14. Estimated Advertising Rates and Revenues for a Local Cable News Co-Op in the Detroit Market

Time (Days Scheduled)	Station Rates ($) WDIV	Station Rates ($) WJBK	Station Rates ($) WXYZ	Mean Rates ($)	50% of Mean ($)	Avails	Cable News Co-Op Weekly Revenues ($)	Cable News Co-Op Annual Revenues ($)
12:00 n-12:30 p.m. (Monday-Friday)	250	240	--	335	167.5	16	13,400	696,000
5:00 p.m.-6:30 p.m. (Monday-Friday)	760	850	1,000	870	435	48	104,400	5,428,800
6:00 p.m.-6:30 p.m. (Saturday-Sunday)	760	850	--	805	402.5	16	12,880	669,760
11:00 p.m.-11:30 p.m. (Monday-Sunday)	1,650	2,000	2,500	2,050	1,025	16	114,800	5,969,600
TOTAL								12,764,960

SOURCES: Personal letter from Susan A. Brooks, WDIV-TV, 2 March 1982 (Rate Card Enclosed). Personal letter from George L. Kenyon, Local Sales Manager, WJBK-TV, 17 February 1982 (Rate Card Enclosed). Personal letter from Lee Gannon, General Sales Manager, WXYZ-TV, 22 March 1982.

Expenses

Salary Expense. Salary expense is divided into advertising sales commissions (salaries) and news salaries. In order to cover the advertising commissions and expenses related to sales, 20 percent of gross revenues will go to the advertising sales department. News salaries are based on the number of employees, their positions, and the amount each is paid. By trimming the staff down from the average staff size of three Detroit television stations, but keeping the pay competitive, the co-op can hire a quality staff. Weekly salaries for the co-op are based on a survey of 449 commercial broadcast television stations by Vernon A. Stone for the Radio and Television News Directors Association (see Table 15).[28]

Table 15. Proposed Staffing and Estimated News Salary Expense of the Detroit Cable News Cooperative

Position	Number of Employees	Individual Weekly Salaries ($)	Annual Salaries ($)
Supervisory	10	790	410,800
Anchorperson	6	1,296	404,352
Sportscaster/ Weathercaster	5	743	270,452
Reporter	12	649	404,976
Cameraperson	19	415	410,020
TOTAL	52		1,900,600

SOURCE: Vernon A. Stone, "Moderate Gains in News Salaries," RTNDA Communicator, December 1981, pp. 16-19.

Equipment. The equipment needs of the cable news cooperative are similar to that of broadcast television news. All three broadcast television news departments in Detroit have live remote capability. Therefore, if the cable news cooperative is to compete with the broadcast television newscasts, it will have to acquire similar equipment. Since live remote vans are made to order, the co-op will purchase two vans (see Table 16).

Table 16. Estimated Equipment Expense for the Detroit Local Cable News Co-Op

Equipment	Unit Cost ($)	Number Needed	Total Cost ($)
Studio Camera	70,000	4	280,000
Video Tape Recorder (VTR) 3/4"	13,000	2	26,000
Pr. VTRs with Edit. 3/4"	32,500	2	64,000
1/2" to 3/4" VTR Unit	40,000	1	40,000
Live Remote Van	200,000*	2	400,000
Remote ENG Camera with Portable VTR 1/2"	50,000	7	350,000
Pr. VTRs 1/2" with Edit. Deck	40,500	2	80,000
Miscellaneous			150,000
TOTAL			1,390,000

SOURCE: "Innovations and Improvements: NAB Equipment Showcase," Broadcasting, April 19, 1982, pp. 34-41.

*Estimate.

The expense of the equipment, less a salvage value of 20 percent, will be depreciated over a six-year span. The sum-of-the-years-digits method of depreciation, which allows large tax deductions early in the equipments' life-span, will be used to help lower the amount paid in taxes.[29] The total equipment expense is $1,390,000 less a salvage value of $278,000 leaving $1,112,000 to be depreciated over the six years. The equipment, to be replaced in the seventh year of operation, is expected to increase in cost by an annual rate of ten percent. By the seventh year of operation, the new equipment will cost $2,462,468 with a salvage value of $492,494 and leaving $1,969,974 to depreciate.

Other Expenses

There are other expenses not covered in the aforementioned categories. The expense of running a news operation must be accounted for. There are various costs such as: fuel costs for motor vehicles, maintenance and repair costs for equipment, and costs for studio equipment. These and other costs are difficult to estimate, therefore, all of these costs will be combined under "Administrative and Miscellaneous Expenses" that will be increased annually by ten percent. Besides revenues and expenses, there is a tax of 25 percent to be paid on any income remaining after depreciation.[30]

Pro Forma

The ten-year pro forma profit and loss statement combines all revenues and expenses to discover whether or not the local cable news cooperative can be profitable (see Table 17). A ten-year period is used in the pro forma so that the projected performance of the co-op can be viewed over a period of time. The pro forma examines the finances of a given year. Annual revenues, less annual expenses, leaves an operating income for that year. If expenses are greater than revenues, then there is a loss in operating income and depreciation and taxes do not apply. However if revenues are greater than expenses then there is a profit in operating income. Assuming there is a profit in operating income, the depreciation allowance is substracted from the operating income with the taxable income remaining. If the amount to be depreciated is greater than or equal to the operating income, 25 percent of it is paid in taxes leaving a net income for the co-op.

Table 17. Ten-Year Pro Forma Profit and Loss Statement for the Detroit Cable News Cooperative

	1983	1984	1985	1986	1987
Revenues	12,764,960	14,041,456	15,445,602	16,990,162	18,689,178
Expenses					
News Salaries	1,900,600	2,090,660	2,299,726	2,529,698	2,782,667
Sales Commissions	2,552,992	2,808,291	3,089,120	3,398,032	3,737,836
Equipment	1,390,000	---	---	---	---
Administrative and Miscellaneous	100,000	144,000	172,800	207,360	248,832
Operating Income	6,821,368	8,998,505	9,883,956	10,855,072	11,919,843
Depreciation	317,714	264,762	211,810	158,857	105,905
Taxable Income	6,503,654	8,733,743	9,672,146	10,696,215	11,813,938
Taxes	1,625,913	2,183,436	2,418,037	2,674,054	2,953,485
Net Income	4,877,741	6,550,307	7,254,109	8,022,161	8,860,453

(continued)

Table 17. (continued)

	1988	1989	1990	1991	1992
Revenues	20,558,096	22,613,906	24,875,297	27,362,827	30,099,110
Expenses					
News Salaries	3,060,933	3,367,026	3,703,728	4,074,100	4,481,510
Sales Commissions	4,111,619	4,522,781	4,975,059	5,472,565	6,039,822
Equipment	---	2,462,468	---	---	---
Administrative and Miscellaneous	298,598	358,318	429,982	515,978	619,174
Operating Income	13,086,946	11,903,313	15,766,528	17,300,184	18,958,604
Depreciation	52,952	562,850	469,041	375,233	281,425
Taxable Income	13,033,994	11,340,463	15,297,487	16,924,951	18,677,179
Taxes	3,258,499	2,835,116	3,824,437	4,231,238	4,669,295
Net Income	9,775,495	8,505,347	11,473,050	12,693,713	14,007,884

CHAPTER IV

MARKET/NEWS ANALYSIS--GRAND RAPIDS, MICHIGAN

Market Analysis

Introduction

This section of the study evaluates the characteristics of the Grand Rapids television market. This market serves as a representative of television markets that are ranked 11 through 50 by A.C. Nielsen and Arbitron. The television market will serve as the boundaries in which the local cable news cooperative will operate. Arbitron defines the television market as "...a geographic design composed of a group of counties...exclusive of all others based on measurable viewing patterns.[1]

Geography

The Grand Rapids market, encompassing 8,690 square miles, is located in the southwestern part of Michigan's Lower Peninsula.[2] The following 14 counties embody the Grand Rapids television market: Allegan, Barry, Branch, Calhoun, Ionia, Kalamazoo, Kent, Mecosta, Montcalm, Muskegon, Newago, Oceana, Ottawa, St. Joseph, and Van Buren.[3] Major cities in the market are: Grand Rapids, Kalamazoo, Muskegon, and Battle Creek.

Demographics of the Population

Introduction

The demographics of the population represent different ways of describing the people. The demographics to be examined in this study are: general population, age and sex, and race. By following changes within each category, trends can be seen that could impact the market's economy.

General Population

The population of the Grand Rapids television market increased 10.4 percent from 1970 to 1980 (see Table 18). The counties where the major cities are located (Calhoun County--Battle Creek; Kalamazoo County--Kalamazoo; Kent County--Grand Rapids; and Muskegon County--Muskegon) are among the areas that experienced the least growth in population. On the other hand, those counties outside the major population centers, with one exception, had growth rates of at least 13 percent. The Grand Rapids market growth rate over the past 30 years is similar to the state and national rates. In 1980 the market was just below the national population growth rate but above the Michigan rate by 5.9 percent.[4] The market's population reflects national population trends and this assures a rate of consumer growth consistent with the nation.

Age and Sex

Age and sex breakdowns give the population characteristics as to the composition of the market. Those 29 years of age and younger make up 52.9 percent of the total population (see Figure 2). The largest age group is young adults, age 18 through 24, who compose 14.3 percent of

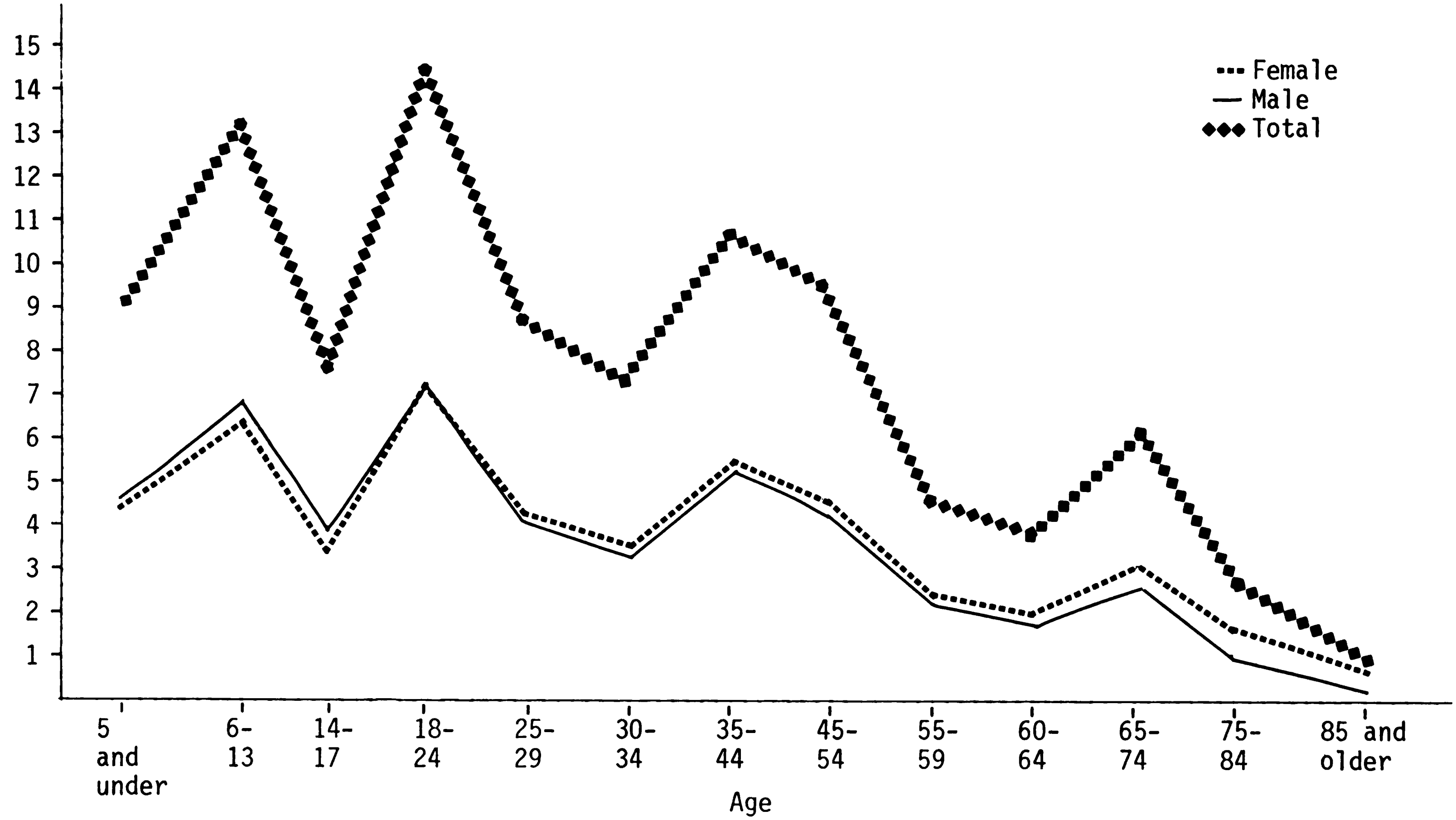

Figure 2. Percentage of Grand Rapids TV Market's 1980 Population by Age/Sex

SOURCE: U.S. Department of Commerce, Bureau of the Census, 1980 Census of Population: Michigan (by county), Microfiche, Summary Tape File 1A, 10 December 1981.

the market's population. The smallest age group, adults age 85 and older, make up one percent of the population.[5] The population of the Grand Rapids market is weighted towards the younger age group, which is a good indicator of future economic growth.

There are over ten percent more females than males in the market (see Figure 2). The number of females in relation to the number of males has remained within 0.3 percent through age 64. But the number of females increases over males by at least 0.5 percent for those age 65 and older.[6] Still, the sex differences in the population are insignificant and should not have an effect on the economy.

Race

There are two major racial groups in the Grand Rapids television market. The largest group, White, composes 90.6 percent of the population (see Table 19). The Black racial group makes up the largest minority group representing 5.6 percent of the population.[7] The racial composition of the population is predominantly White with a small Black minority. This information will be a determining factor in the making of advertising and programming decisions in the market.

Table 18. Population Changes in the Grand Rapids TV Market 1950-1980, Ranked by County Population Size

County	1950	(% change)	1960	(% change)	1970	(% change)	1980	(% change)
Kent	288,292	17.0	363,187	26.0	411,044	13.2	444,506	8.1
Kalamazoo	126,707	26.6	169,712	33.9	201,550	18.8	212,378	5.4
Muskegon	121,545	28.6	149,943	23.4	157,426	5.0	157,589	0.1
Ottawa	73,751	23.6	98,719	33.9	128,181	29.8	157,174	22.6
Calhoun	120,183	27.6	138,858	15.6	141,963	2.2	141,557	-0.6
Allegan	47,493	13.5	57,729	21.6	66,575	15.3	81,555	22.5
Van Buren	39,184	11.6	48,395	23.6	56,173	16.1	66,814	18.9
St. Joseph	35,071	10.5	42,332	20.7	47,392	12.0	56,083	18.3
Ionia	38,158	6.9	43,132	13.0	45,848	6.3	51,815	13.0
Montcalm	31,013	8.5	35,795	15.4	39,660	10.8	47,555	19.9
Barry	26,183	15.8	31,738	21.2	38,166	20.3	45,781	20.0
Branch	30,202	16.9	34,903	15.6	37,906	8.6	40,188	6.0

(continued)

Table 18. (continued)

County	1950	(% change)	1960	(% change)	1970	(% change)	1980	(% change)
Mecosta	18,968	12.2	21,051	11.0	27,992	33.0	36,961	32.0
Oceana	16,105	8.7	16,547	2.5	17,984	8.7	22,002	22.3
Market Totals	1,012,855	19.4	1,252,041	23.6	1,417,860	13.2	1,561,958	10.2
Michigan	6,371,766	21.2	7,823,194	22.8	8,881,826	13.5	9,262,078	4.3
U.S.	151,325,798	14.5	179,323,175	18.5	203,302,031	13.5	266,504,825	11.4

SOURCES: U.S. Department of Commerce, Bureau of the Census, 1980 Census of Population, Characteristics of the Population, Number of Inhabitants: Michigan, (Washington, D.C.: U.S. Government Printing Office, 1982), p. 28; U.S. Department od Commerce, Bureau of the Census, "Population and Area 1790 to 1980," Statistical Abstract of the U.S.: 1981, (Washington, D.C.: U.S. Government Printing Office, 1981), p. 5.

Table 19. 1980 Racial Composition of the Grand Rapids TV Market

Racial Group	Percentage of the Total Population
White	90.6
Black	5.6
Spanish	1.8
Other	2.0
TOTAL	100.0

SOURCE: U.S. Department of Commerce, Bureau of the Census, 1980 Census of Population and Housing: Michigan, Final Population and Housing Units Counts, (Washington, D.C.: U.S. Government Printing Office, 1981), pp. 4-23.

Economic Indicators

Introduction

This section of the paper is an evaluation of the economic indicators of the Grand Rapids television market. The economic health of the market can be evaluated by reviewing the economy's past performance. One indicator that is used is the Buying Power Index (BPI) which measures "...the market's ability to buy...(and it is expressed) as a percentage of the U.S. potential."[8] There are two other methods of evaluating the economy. The Effective Buying Income (EBI) is gross income less payroll deductions and Total Retail Sales (TRS) which represents total sales made to consumers.[9] In addition, the EBI and the TRS are estimated for the average household in the market and used to estimate the Average Propensity to Consume (APC). The APC is a ratio of each dollar of income that is spent on consumer goods and it is a measure of the consumption habits of the average household.[10]

Finally, the employment status of the market is reviewed through the evaluation of unemployment rates and major employers in the market. Unemployment rates measure the strength of the economy by estimating how many people are out of work. As the unemployment rate grows, more people are without jobs and therefore less money is being spent in the marketplace. In addition, the top five employers in the market will be reviewed to discover if there is a dependency on a specific industry for employment.

By combining the aforementioned economic indicators, an overview of the Grand Rapids market can be formed. Knowledge of economic trends is essential to deciding whether a market can support a local cable news cooperative. If, for example, the indicators signal a faltering economy, then it may be wise to wait or even consider another market for establishing a cable news co-op.

Buying Power Index

The Grand Rapids BPI has climbed out of a low of .6120 percent share of the national economy in 1977 to set all time highs in 1978 of .6419 percent and .6495 percent in 1979. Although the BPI declined to .6395 percent in 1980, it has remained higher than any year's BPI previous to 1978.[11] The Grand Rapids market has maintained its share of the American economy (see Table 20) and even shows some signs of economic growth.

Table 20. Annual BPI of the Grand Rapids TV Market

Year	BPI (% of Total U.S. Economy)
1973	.6353
1974	.6305
1975	.6203
1976	.6339
1977	.6120
1978	.6419
1979	.6495
1980	.6395

SOURCE: "Annual Survey of TV Markets," Sales and Marketing Management, Survey of Buying Power Part II, October 1974 through October 1981. c 1981 S&MM Survey of Buying Power II.

Income, Consumption, and the Average Propensity to Consume

This section is an examination of the trends in an average household's net income and consumption. This is important information for businesses interested in advertising their products. For example, if the average household in a market has no money remaining after making everyday purchases of consumer goods, he or she cannot be expected to make additional purchases.

The average household income (average household EBI) in the Grand Rapids market has risen annually from 1973 to 1980 (see Table 21). Average household consumption (an average household's share of the TRS) has also grown annually from 1973 to 1979. But in 1980, consumption fell 4.7 percent from the 1979 level.[12] Since income rose in 1980, a loss of income cannot be the reason for the drop in consumption. Rather, this decline is attributed to consumer caution due to the state of the economy.

Table 21. Income, Consumption, and Average Propensity to Consume in the Grand Rapids TV Market 1973-1980

Year	Average Household EBI ($)	Average Household Share of TRS ($)	Balance ($)	Average Propensity To Consume (APC)
1973	12,713	7,835	4,787	.6163
1974	13,215	7,987	5,228	.6044
1975	14,073	8,242	5,831	.5857
1976	14,942	8,861	6,081	.5930
1977	16,499	9,021	7,478	.5468
1978	16,852	10,399	6,453	.6171
1979	18,347	11,614	6,733	.6330
1980	19,766	11,067	8,699	.5599

SOURCE: "Annual Survey of TV Markets," Sales and Marketing Management, Survey of Buying Power Part II, October 1974 through October 1981. c 1981 S&MM Survey of Buying Power II.

Both income and consumption of the market's average household are used to estimate the household's Average Propensity to Consume (APC). The APC is a ratio of how much of each dollar of net income is spent on retail goods.[13] The average household in the Grand Rapids market has used, from 1973 to 1980, an annual average mean of 59.45 percent of each dollar of net income for consumption (see Table 21). The APC has dropped below the average mean by 4.77 percent in 1977 and 3.46 percent in 1980. These years represent the largest downward fluctuations in the eight-year period. Still, throughout the eight years, the percentage of each dollar of net income going towards consumption has been at least 54 percent.[14]

Unemployment and Employment

The annual average unemployment rate for the Grand Rapids market has been higher than the national rate for the past ten years (see Table 22). The market's rate has been below the Michigan unemployment rate from 1977 to 1981. However, the difference between the market and state unemployment rates has ranged from 0.1 percent in 1977 to 1.4 percent in 1980.[15] Still, this difference is attributed to the fact that there is less of a dependency on the auto industry for employment than in other markets in the state.

Table 22. Annual Average Unemployment for the Grand Rapids TV Market, Michigan, and U.S. 1972-1981

Year	Grand Rapids (% Unemployment)	Michigan (% Unemployment)	U.S. (% Unemployment)
1972	6.3	7.0	5.6
1973	5.3	5.9	4.9
1974	7.3	8.5	5.6
1975	13.9	12.5	8.5
1976	9.9	9.4	7.7
1977	8.1	8.2	7.0
1978	6.7	6.9	6.0
1979	7.0	7.8	5.8
1980	11.2	12.6	7.1
1981	11.5	12.3	7.6

SOURCES: Michigan Employment Security Commission, Research and Statistics Division, Labor Analysis Section, "Civilian Labor Force and Wage and Salary Employment Estimates, 1971-1981;" U.S. Department of Labor, Bureau of Labor Statistics, "Employment Status of the Noninstitutional Population 16 Years and Older, 1947 to Date," Employment and Earnings, January 1982, p. 9.

The five largest employers in the market are: General Motors with 10,615 workers; Upjohn with 6,800 workers; Steelcase with 6,000 workers; Kellogg with 5,000 workers; and Amway and Hownet Turbine Components, both with 3,000 each.[16] Eight of the 20 largest employers in the market are either automobile manufacturers or auto parts suppliers.[17] However, only 31.0 percent of the total workers of the twenty companies work in auto related industries. Although the market does have automobile related industries, it is not completely dependent upon them for jobs.

Media Competition

Introduction

In the Grand Rapids television market there are broadcast television and radio stations and daily newspapers competing for the advertising dollars. Although local cable operators are in competition with broadcast television for audience, most leave it to the cable networks to compete for advertising with the national broadcast television networks. Few local cable operators have seriously considered competing for advertising revenues and are more interested in subscriber fees as a source of revenue. However, the Bay Area Interconnect is an example of how local cable operators can, through interconnection, attract advertisers.[18] Cable penetration of the Grand Rapids television market is 36.3 percent[19] and the possibilities of forming an interconnect should be explored by local cable operators.

Television

The Grand Rapids television market is the 37th largest market in the United States.[20] There are five commercial broadcast television stations in the Grand Rapids market (see Table 23). There are presently two channels within the market that have yet to be licensed by the Federal Communications Commission. There are two applicants for Channel 64 in Kalamazoo and two applicants for Channel 54 in Muskegon.[21] This market is unique in that it contains two ABC affiliated stations. The geographic size of the market is such that the Grade B television signals of WUHQ and WZZM overlap five counties: Allegan, Barry, Ionia, Kent and Ottawa.[22]

Table 23. Commercial Broadcast Television Stations Licensed in the Grand Rapids TV Market

City of License Call Letters	Channel	Licensee	Affiliation
Battle Creek			
WUHQ	41	Channel 41, Inc.	ABC
Grand Rapids			
WOTV	8	Time-Life Broadcasting	NBC
WWMA	17	TV 17, Ltd.	IND
WZZM	13	WOMETCO West Michigan TV	ABC
Kalamazoo			
WKZO	3	Fetzer Broadcasting	CBS

SOURCE: "Facilities of Television," Broadcasting Cablecasting Yearbook 1982, (Washington, D.C.: Broadcasting Publications, Inc., 1982), pp. B108-B109.

Radio

The Grand Rapids market has 63 radio stations (see Appendix). Thirty-six of these are AM stations and 27 are FM stations. Rates are for a one-minute advertising spot range from $159 at WOOD-AM in

Grand Rapids to $6 at WKPR-AM in Kalamazoo.[23]

Daily Newspapers

Fifteen daily newspapers are published in the Grand Rapids market (see Table 24). All of the newspapers are published for evening delivery with the exception of the newspapers located in Big Rapids, Ionia, and South Haven which are delivered in the morning. Each of the four newspapers in Battle Creek, Grand Rapids, Kalamazoo, and Muskegon publish Sunday editions. Advertising rates are based on rate per column inch for daily editions and range from $1.39 in the Grand Rapids Press to $.19 in the Big Rapids Pioneer.[24]

News Analysis

Introduction

This section will review commercial broadcast television newscasts which are the local cable television co-op's principal competitors. In particular, analysis will be made of the commercial broadcast television news departments of local stations. The following criteria will be used in the evaluation: personnel, revenues, expenses and equipment.

There are three broadcast television stations in the Grand Rapids market producing competitive local newscasts: WKZO in Kalamazoo, WOTV and WZZM, both in Grand Rapids. WKZO is owned by Fetzer Broadcasting and is assigned to Channel 3. WOTV is owned by Time-Life Broadcasting and is assigned to Channel 8. WZZM is owned by WOMETCO West Michigan and it is assigned to Channel 13.[25]

Table 24. Daily Newspapers Published in the Grand Rapids TV Market

City of Publication Newspaper	Publisher	Circulation Daily/Sunday
Albion		
Albion Evening Recorder	Albion Evening Recorder	4,085/---
Battle Creek		
Enquirer and News	Gannett Co.	32,915/40,801
Big Rapids		
The Pioneer	Conine Publ. Co.	5,028/---
Coldwater		
Coldwater Daily Reporter	Coldwater Reporter Company	8,596/---
Grand Haven		
Grand Haven Tribune	Grand Haven Publ. Co.	9,921/---
Grand Rapids		
The Grand Rapids Press	Newhouse/Booth Newspapers	127,601/150,395
Greenville		
The Daily News	Greenville News Inc.	7,811/---
Holland		
The Holland Sentinel	Stauffer Communications	17,394/---
Ionia		
Sentinel-Standard	Ionia Sentinel-Standard	4,307/---
Kalamazoo		
Kalamazoo Gazette	Newhouse/Booth	60,542/67,237
Marshall		
Chronicle	Marshall Chronicle	3,167/---
Muskegon		
The Muskegon Chronicle	Newhouse/Booth	44,577/48,259
South Haven		
South Haven Daily Tribune	South Haven Daily Tribune Co.	2,705/---
Sturgis		
Sturgis Journal	Gannett Group	10,278/---
Three Rivers		
Three Rivers Commercial	Three Rivers Publ.	4,615/---

SOURCE: "Daily Newspapers Published in the United States," Editor and Publisher International Yearbook 1981, (New York: Editor and Publisher Co., Inc. 1981), pp. I130-I139.

Personnel

The news departments of two of the three Grand Rapids market television stations are staffed with approximately the same number of employees (see Table 25). The news department of WOTV has more supervisory personnel and camerapersons than either of the other two news departments. WOTV has a total news staff that is over 70 percent greater than the news staffs of WKZO or WZZM. Five freelance camerapersons are used by WKZO in Kalamazoo. Freelance personnel are usually hired for two reasons. First, freelancers are available to work at pre-arranged times that save the station from juggling work schedules. Second, freelance personnel are paid on a per-assignment basis. This saves the station from paying a staffperson for overtime.

Table 25. TV News Personnel in the Grand Rapids TV Market

	Number of Employees			
Position	WKZO	WOTV	WZZM	Mean
Supervisory	3	14	2	6
Anchorperson	2	5*	2	3
Sportscaster	1	2	1	1
Weathercaster	1	2	1	1
Reporter	11	11	15	12
Cameraperson	2	14	7	8
Freelance Cameraperson	5	--	--	--
TOTAL	25	48	28	31

SOURCES: Telephone interview with Fred Douglas, News Director, WKZO-TV, 6 May 1982; Telephone interview with Jack Hogan, News Director, WZZM-TV, 6 May 1982; WOTV-TV, Federal Communications Commission, Equal Employment Opportunity, EEO-1, Exhibit No. VII B, March 27, 1982.

*News Anchorperson/Reporter

A major drawback to relying on freelancers is that if none of them are available to take an assignment, the news department is left without coverage on a story.

Revenues

The revenues of a news department are derived from the sale of time to advertisers (see Table 26). Both WOTV and WZZM produce midday newscasts on weekdays. WOTV is the only station in the market with an hour-long newscast in the early evening. The other two stations have early evening newscasts of one half-hour in length.[26]

The rates for a 30-second spot are based on the fixed rates, which are the maximum rates charged to advertisers. The audience rating (which is a method of audience measurement) that a newscast receives influences the advertising rate. The three stations within the Grand Rapids market that produce news are very close in the ratings. Advertising rates for the late evening newscasts, for example, lie within a $50 range of one another because of the ratings.

Salary Expense

Salary expense is composed of two parts: news salaries and advertising commissions for the selling of newscast time to advertisers. The annual news salaries in Table 27 are based upon a survey of weekly news salaries conducted by Vernon A. Stone. Questionnaires were mailed to 690 commercial broadcast television stations and a return rate of 65 percent was achieved. The survey was made for the Radio and Television News Directors Association.[27] Advertising commissions include salaries to salespeople, commissions to national media representatives, and other expenses that occur from the selling of advertising for newscasts.

Table 26. Estimated Revenues for Local TV Newscasts in the Grand Rapids TV Market

Station Time of Newscast	Fixed Rate ($)	Number of 30 sec. Spots/ Newscast	Number of Days/Week	Weekly Revenue ($)	Annual Revenue ($)	DMA Multi-Week Average Rating/Share
WKZO						
6:00 p.m.-6:30 p.m.	280	16	5	22,400	1,164,800	11/23
6:00 p.m.-6:30 p.m.	185	16	1	2,960	153,920	--
11:00 p.m.-11:30 p.m.	230	16	7	25,760	1,339,520	4/13
TOTAL					2,658,240	
WOTV						
12:00 n.-12:30 p.m.	95	85*	5	8,075	419,900	7/37
6:00 p.m.-7:00 p.m.	250	155	5	38,750	2,015,000	11/24
6:00 p.m.-6:30 p.m.	185	32	2	5,920	307,840	7/23
11:00 p.m.-11:30 p.m.	150	112	7	80,745	1,456,000	9/27
TOTAL					4,198,740	
WZZM						
12:00 n.-12:30 p.m.	50	16	5	4,000	208,000	4/19
6:00 p.m.-6:30 p.m.	275	16	5	22,000	1,144,000	15/31
6:00 p.m.-6:30 p.m.	175	16	1	2,800	145,000	9/29
6:30 p.m.-7:00 p.m.	150	16	1	2,400	124,800	7/28
11:00 p.m.-11:30 p.m.	275	16	7	30,800	1,601,600	9/30
TOTAL					3,224,000	

SOURCES: Personal letter from Jerrold M. Raffel, Sales Manager, WKZO-TV, 16 February 1982 (Rate Card Enclosed). Personal letter from Richard A. Groat, General Sales Manager, WOTV-TV, 15 February 1982 (Rate Card Enclosed). Rate Card, WZZM-TV, 15 January 1982. "Program Averages," Nielsen VIP Reference Volume 5: Nielsen Station Index, Grand Rapids, Michigan, (A.C. Nielsen Company, 1982), pp. 12-24.

*All WOTV avails are per week.

Table 27. Annual Estimated Salary Expense for Local TV News Departments in the Grand Rapids Market

Position	Weekly Salary ($)	WKZO Number of Personnel	WKZO Annual Salaries	WOTV Number of Personnel	WOTV Annual Salaries	WZZM Number of Personnel	WZZM Annual Salaries
Supervisory	773	3	120,588	14	562,744	2	80,392
Anchorperson	903	2	93,912	5[2]	234,780	2	93,912
Sportscaster	573	1	29,796	2	59,592	1	29,796
Weathercaster	573	1	29,796	2	59,592	1	29,796
Reporter	477	11	278,844	11	272,844	15	372,060
Cameraperson	250	2	26,000	14	182,000	7	91,000
Freelance Cameraperson	220[1]	5	57,200	--	---	--	---
TOTAL			636,136		1,371,552		696,956

SOURCES: Vernon A. Stone, "Moderate Gains in News Salaries," RTNDA Communicator, December 1981, pp. 16-19. Interview with Fred Douglas, News Director, WKZO-TV, 6 May 1982. Interview with Jack Hogan, News Director, WZZM-TV, 6 May 1982. WOTV-TV, Federal Communications Commission, Equal Employment Opportunity, EEO-1, Exhibit No. VII B, March 27, 1982.

[1] Estimate

[2] News Anchorperson/Reporter

Equipment

In terms of overall cost, the equipment represents the largest single expense for a television news department. There is only one television station in the Grand Rapids market that possesses live remote capability; WOTV.[28] The expense of broadcast quality equipment for the three stations is estimated in Table 28.

A Local Cable News Cooperative

Introduction

This section will utilize information from the previous section to estimate revenues and expenses for the local cable news cooperative. The co-op is an interconnected group of local cable systems that will program local newscasts for insertion over a national cable news network. News programming from the co-op will be inserted during the same times of day as local broadcast television newscasts appear. This will allow the cable news cooperative to compete for advertisers using local broadcast television newscasts. The co-op is interested in delivering the news at a profit.

Revenues

The sole source of revenues for the cable news co-op is the sale of time to advertisers. Broadcast and cable television compete with broadcast radio and daily newspapers. Television, however, is unique in that it reaches a household with both audio and visual information. From this perspective, cable television's only competitor is broadcast television. Therefore, advertising rates for the local cable news cooperative will be based upon the rates of local broadcast television newscasts (see Table 29).

Table 28. Broadcast Television Equipment in the Grand Rapids Television Market

Equipment	Unit Cost ($)	WKZO No.	WKZO Total Cost ($)	WOTV No.	WOTV Total Cost ($)	WZZM No.	WZZM Total Cost ($)
Studio Camera	70,000	2	140,000	5	350,000	3	210,000
3/4" Video Tape Recorder (VTR)	13,000	3	39,000	6	78,000	4	52,000
Live Remote Van	200,000	-		1	200,000	-	
Remote ENG Camera with VTR	50,000	3	150,000	3	150,000	3	150,000
Miscellaneous	150,000		150,000		150,000		150,000
TOTAL			479,000		928,000		562,000

SOURCES: "Innovations and Improvements: NAB Equipment Showcase," Broadcasting, April 19, 1982, pp. 34-41; Telephone interview with Ailika Taylor, Sony Broadcast Product Mgt. Div., Los Angeles, California, 6 July 1981; "U.S. Commercial Television Station Equipment 1981," Television Factbook 1981-1982 Edition, (Washington, D.C.: Television Digest, Inc., 1981), p. 43a.

Table 29. Estimated Advertising Rates and Revenues for a Local Cable News Co-Op in the Grand Rapids Market

Time (Days Scheduled)	Station Rates ($)			Mean Rates ($)	50% of Mean ($)	Avails	Cable News Co-Op	
	WKZO	WOTV	WZZM				Weekly Revenues ($)	Annual Revenues ($)
12:00 n.-12:30 p.m. (Monday-Friday)	-	95	50	75	40	16	3,200	166,400
6:00 p.m.-6:30 p.m. (Monday-Friday)	185	250	275	237	120	16	9,600	499,220
6:00 p.m.-6:30 p.m. (Saturday-Sunday)	185	185	162	180	90	16	2,880	149,760
11:00 p.m.-11:30 p.m. (Monday-Sunday)	230	250	275	252	130	16	14,560	757,120
TOTAL								1,572,500

SOURCES: Personal letter from Jerrold M. Raffel, Sales Manager, WKZO-TV, 16 February 1982 (Rate Card Enclosed). Personal letter from Richard A. Groat, General Sales Manager, WOTV-TV, 15 February 1982 (Rate Card Enclosed). Rate Card, WZZM-TV, 15 January 1982.

The co-op will be handicapped in that initially, its audience will be smaller than those of local broadcast television newscasts. Thus, in order to draw advertisers to the co-op, advertising rates will be 50 percent lower than the competition's mean fixed rates. The co-op's advertising rate of 50 percent below the fixed rate of the broadcast stations is chosen because it will be an attractive price to advertisers. It will allow the co-op to meet expenses and, at the same time, make a profit.

Expenses

Salary Expense. Salary expense is divided into advertising sales commissions and news salaries. In order to cover the cost of sales commissions to local salespersons and national media representatives as well as other expenses created in the process, the advertising department will receive 20 percent of the total (gross) revenues. The staffing of the news department for the co-op is based, in part, on the mean number of employees in each position. The salaries are based on the Radio and Television News Directors Association study conducted by Vernon A. Stone. The co-op's news salary expense appears in Table 30.

Table 30. Proposed Staffing and Estimated News Salary Expense of the Grand Rapids Cable News Cooperative

Position	Number of Employees	Individual Weekly Salaries ($)	Annual Salaries ($)
Supervisory	2	773	80,392
Anchorperson	2	903	93,912
Sportscaster	1	573	29,796
Weathercaster	1	573	29,796
Reporter	13	477	322,452
Cameraperson	7	250	91,000
TOTAL	26		647,348

SOURCE: Vernon A. Stone, "Moderate Gains in News Salaries," RTNDA Communicator, December 1981, pp. 16-19.

Equipment. The equipment requirements of the local cable television news co-op resemble those of the local broadcast television news departments. There is only one station using a live remote van in the Grand Rapids market; WOTV in Grand Rapids. WKZO broadcasts from Kalamazoo and covers the Grand Rapids metro area and nearby counties through its Grand Rapids news bureau.[29] While only one station in the market has a live remote van, it would give the co-op an advantage over the others to have one. Therefore, a live remote van will be included in the equipment purchase (see Table 31).

The equipment is valued at $848,000 and has a salvage value of 20 percent of the original cost of$169,600. This leaves $678,400 to be depreciated over a six-year period. The co-op will use the straight line method of depreciation. By using this method, the co-op can evenly distribute this tax deduction over six years without the fear of a large portion of it going to waste because of a loss.[30] The cable news co-op

Table 31. Estimated Equipment Expense for the Grand Rapids Local Cable News Co-Op

Equipment	Unit Cost ($)	Number Needed	Total Cost ($)
Studio Camera	70,000	3	210,000
Video Tape Recorder (VTR) 3/4"	13,000	2	26,000
Pr. VTRs with Edit. 3/4"	32,000	1	32,000
1/2" to 3/4" VTRs with Edit. Deck	40,000	1	40,000
Live Remote Van	200,000	1	200,000
Remote ENG Camera with 1/2" VTR	50,000	3	150,000
Port. Pr. VTR 1/2" with Edit. Deck	40,000	1	40,000
Miscellaneous			150,000
TOTAL			848,000

SOURCES: "Innovations and Improvements: NAB Equipment Showcase," Broadcasting, April 19, 1982, pp. 34-41; Telephone interview with Ailika Taylor, Sony Broadcast Product Mgt. Div., Los Angeles, California, 6 July 1982.

should anticipate the replacement of its equipment in the seventh year of operation. Further, the cost of the equipment can be expected to increase by an annual rate of ten percent to $1,502,282 with a salvage value of $300,456.

Other Expenses

Additional expenses to operating a news department include furniture, telephones, motor vehicles, repair and maintenance of equipment, and the cost of equipping and maintaining the studio. All of these individual expenses are combined under "Administrative and Miscellaneous Expenses."

This category will be increased by ten percent annually. In addition, a tax of 25 percent of the operating income less depreciation, must be paid on any income remaining after depreciation is taken.[31]

Pro Forma

All of the projected revenues and expenses are combined in the ten year pro forma profit and loss statement (see Table 32). The purpose of the statement is to determine whether the local cable news co-op can be profitable within a ten-year period.

For a given year, each category of expenses is subtracted from the annual revenues with the operating income left over. A negative operating income indicates a loss, in which case depreciation and taxes do not apply. Assuming, however, that there is a positive operating income, the depreciation amount is deducted leaving a taxable income. The taxable income less 25 percent for taxes leaves a net profit for the local cable news co-op.

Table 32. Ten-Year Pro Forma Profit and Loss Statement for the Grand Rapids Cable News Cooperative

	1983	1984	1985	1986	1987
Revenues	1,572,500	1,729,750	1,902,725	2,092,997	2,302,525
Expenses					
News Salaries	647,348	712,082	783,290	861,619	947,780
Sales Commissions	314,500	345,950	380,545	418,599	460,459
Equipment	848,000	---	---	---	---
Administrative and Miscellaneous	100,000	120,000	144,000	172,800	207,360
Operating Income	(337,348)	551,718	594,890	639,979	686,697
Depreciation	193,829	161,524	129,219	96,914	64,610
Taxable Income	---	390,194	465,671	543,065	622,087
Taxes	---	97,549	116,418	135,766	155,522
Net Income (Loss)	(337,348)	293,645	349,253	407,299	466,565

(continued)

Table 32. (continued)

	1988	1989	1990	1991	1992
Revenues	2,532,525	2,785,777	3,064,354	3,370,789	3,707,867
Expenses					
News Salaries	1,042,558	1,146,813	1,261,494	1,387,643	1,526,407
Sales Commissions	506,505	557,155	612,871	674,158	741,573
Equipment	---	1,502,282	---	---	---
Administrative and Miscellaneous	248,832	298,598	358,318	429,982	515,987
Operating Income	743,630	(719,071)	831,671	879,006	923,909
Depreciation	32,305	343,379	286,150	228,919	171,689
Taxable Income	702,325	---	545,521	650,087	752,220
Taxes	175,581	---	136,380	162,522	188,055
Net Income (Loss)	526,744	(719,071)	409,141	487,565	564,165

CHAPTER V

MARKET/NEWS ANALYSIS--LANSING, MICHIGAN

Market Analysis

Introduction

This section of the study evaluates the characteristics of the Lansing television market. This market is used to represent the television markets ranked 51 through 100 by A.C. Nielsen and Arbitron. The television market will serve as the boundaries in which the local cable news cooperative will operate. Arbitron defines the television market as "...a geographic design composed of a group of counties... exclusive of all others based on measurable viewing patterns."[1]

Geography

The Lansing market is located in the south-central part of Michigan's Lower Peninsula and covers 3,020 square miles.[2] The following counties make up the market: Clinton, Eaton, Hillsdale, Ingham, and Jackson.[3]

Demographics of the Population

Introduction

The demographics describe the characteristics of the population.

The areas to be examined are: general population, age and sex, and race. By reviewing the variations in the population, trends that could affect the market's economy can be evaluated.

General Population

The population of the Lansing market has increased by 9.7 percent from 1970 to 1980 (see Table 22). The two counties with large urban populations (Ingham County-Lansing and Jackson County-Jackson) have experienced the least amount of growth in the market. On the other hand, the population of the rural counties (Eaton, Clinton, and Hillsdale) has grown by at least 13 percent. Although all of these counties have experienced population increases, only Hillsdale County had a higher rate of growth in population from 1970 to 1980. The four remaining counties' rates of population growth declined, following state and national trends.[4]

Age and Sex

The age and sex breakdown of the population indicates the distribution of the population. Persons under 30 years of age make up 55.5 percent of the market (see Figure 3). The single largest age group is those 18 to 24 years of age making up 17.2 percent of the total population. Those 85 years of age and older are the smallest age group, representing less than one percent of the population.[5]

There are nearly an equal number of males and females in the Lansing market (see Figure 3). But a difference does appear in those age 65 and older. The number of females to males increases by 0.6 percent for ages 65 to 74 and .04 percent for ages 85 and older.[6]

Table 33. Population Changes in the Lansing TV Market 1950-1980, Ranked by County Population Size

County	1950	(% change)	1960	(% change)	1970	(% change)	1980	(% change)
Ingham	172,941	32.4	211,296	22.2	261,039	23.5	275,520	5.5
Jackson	107,925	15.9	131,944	22.3	143,274	8.5	151,495	5.7
Eaton	40,023	17.3	49,684	24.1	68,892	38.7	88,337	28.2
Clinton	31,195	17.0	37,969	21.7	48,492	27.7	55,893	15.3
Hillsdale	31,916	9.7	34,742	8.9	37,171	7.0	42,071	13.2
Market Totals	384,000	22.4	465,635	21.3	558,868	20.0	610,316	9.2
Michigan	6,371,766	21.2	7,823,194	22.8	8,881,826	13.5	9,262,078	4.3
U.S.	151,325,798	14.5	179,323,175	18.5	203,302,031	13.4	226,504,825	11.4

SOURCES: U.S. Department of Commerce, Bureau of the Census, 1980 Census of Population, Characteristics of the Population, Number of Inhabitants: Michigan, (Washington, D.C.: U.S. Government Printing Office, 1982), p. 28; U.S. Department of Commerce, Bureau of the Census, "Population and Area 1790 to 1980," Statistical Abstract of the U.S.: 1981, (Washington, D.C.: U.S. Government Printing Office, 1981), p. 5.

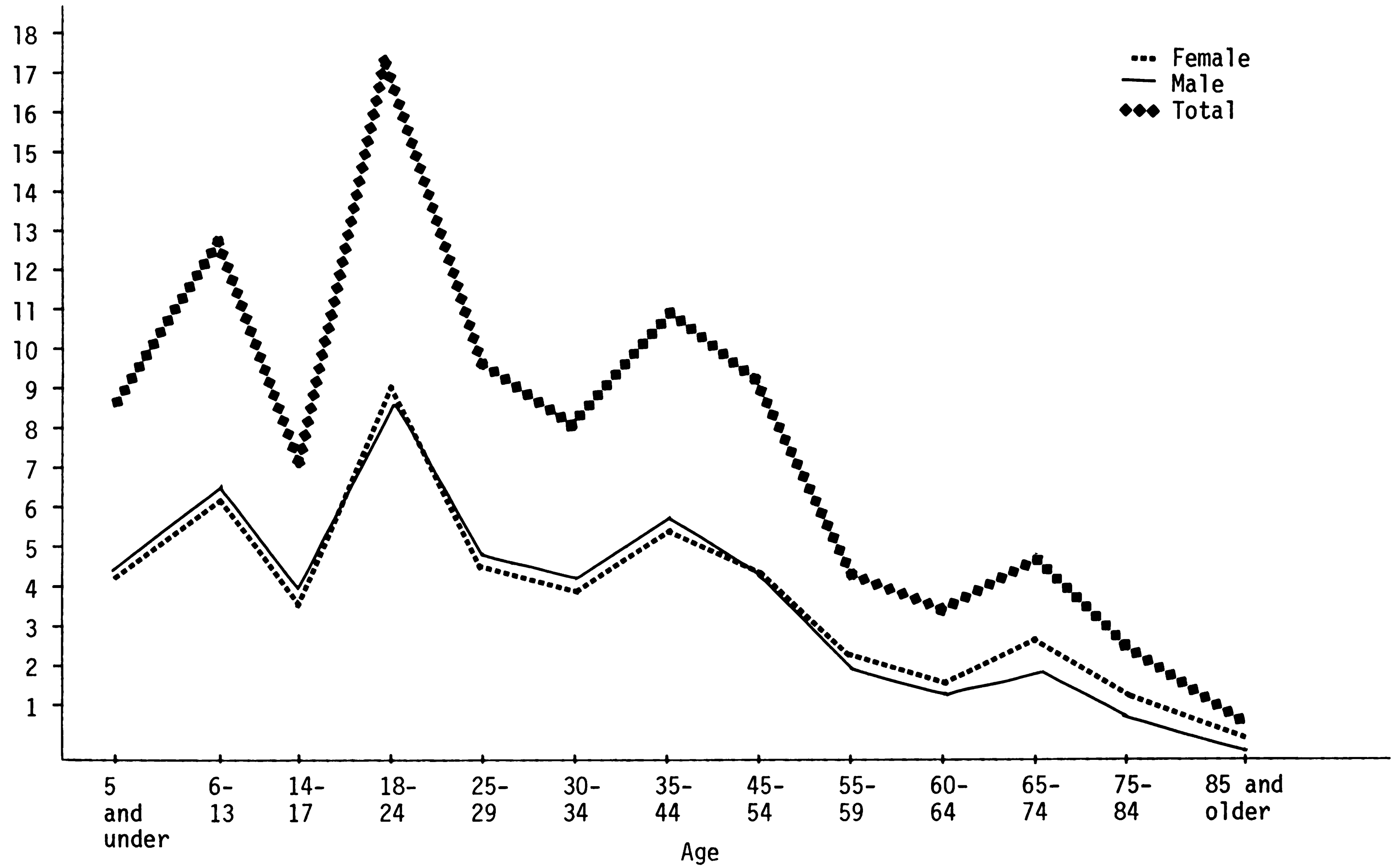

Figure 3. Percentage of Lansing TV Market's 1980 Population by Age/Sex

SOURCE: U.S. Department of Commerce, Bureau of the Census, 1980 Census of Population: Michigan (by county), Microfiche, Summary Tape File 1A, 10 December 1981.

Race

The Lansing television market consists of three major racial groups. The White racial group composes 90.5 percent of the market's population (see Table 34). The largest minority group is Black, composing 5.5 percent of the population. The second largest minority group, those of Spanish origin, make up 2.4 percent of the population.[7] The market consists of a large White majority and two very small minority groups. This information is useful in determining both marketing and programming strategies for the Lansing market.

Table 34. 1980 Racial Composition of the Lansing TV Market

Racial Group	Percentage of the Total Population
White	90.5
Black	5.5
Spanish	2.4
Other	1.6
TOTAL	100.0

SOURCE: U.S. Department of Commerce, Bureau of the Census, 1980 Census of Population and Housing: Michigan, Final Population and Housing Unit Counts, (Washington, D.C.: U.S. Government Printing Office, 1981, pp. 8-12.

Economic Indicators

Introduction

This section of the analysis is an examination of economic trends within the Lansing television market. Several economic indicators are to be used to evaluate the economic health of the market. The Buying

Power Index is an indicator that measures"...the market's ability to buy... (and it is expressed) as a percentage of the U.S. potential."[8] Two other measures of the economy are based on net income and consumer purchases. The Effective Buying Income (EBI) is gross income less payroll deductions and Total Retail Sales (TRS) represents total sales made to consumers.[9] Both the EBI and TRS are estimated for the market's average household and in turn are used to estimate the Average Propensity to Consume (APC). The APC is a ratio of each dollar of income that is spent on consumer goods and it is a measure of the consumption habits of the average household.[10]

Finally, the unemployment and employment trends of the market are examined. The annual average unemployment rate measures the percentage of the work force that is unable to find work. This has a direct bearing on the economy in that the higher the unemployment rate is, the less dollars there are being spent for consumer goods. The five top employers in the market will also be reviewed to determine whether a dependence on any single industry exists.

By taking into account all of the above indicators, an overall view of the Lansing television market's economy is formed. The condition of the market as to whether there is economic growth or decline serves as a major factor in determining if a cable news cooperative can be profitable.

Buying Power Index

The Lansing television market's BPI has not been able to surpass its 1973 high of 0.3109 percent of the nation's economy (see Table 35). After dropping from its 1973 high, the Lansing BPI stablized from 1974

to 1979. The average mean during these six years was 0.2839 percent with the fluctuations from the mean of less than .005 percent. However in 1980, the BPI dropped almost .02 percent.[11] Lansing will not recover from this pattern of decline in the foreseeable future.

Table 35. Annual BPI of the Lansing TV Market

Year	BPI (% of Total U.S. Economy)
1973	.3109
1974	.2825
1975	.2790
1976	.2843
1977	.2867
1978	.2853
1979	.2858
1980	.2679

SOURCE: "Annual Survey of TV Households," Sales and Marketing Management, Survey of Buying Power Part II, October 1974 through October 1981, c 1981 S&MM Survey of Buying Power II.

Income, Consumption, and the Average Propensity to Consume

Changes in annual income and consumption of the market's average household are of interest to manufacturers and retailers. If, for example, a household's income increases but its consumption does not increase, then there is money available for additional consumer purchases. Both manufacturers and retailers would like to see that money being spent on their goods.

The average household EBI has increased annually from 1973 through 1980 (see Table 36). The average household TRS reflects a similar trend up to 1979. But in 1980, the average households' consumption has declined for the first time in eight years.[12] This decrease in consumption cannot be attributed to a lower income because income did rise in 1980. Instead, the downturn in spending can be traced to the consumer's lack of confidence in the economy.

Table 36. Income, Consumption, and Average Propensity to Consume in the Lansing TV Market 1973-1980

Year	Average Household EBI ($)	Average Household Share of TRS ($)	Balance ($)	Average Propensity To Consume (APC)
1973	14,725	8,054	6,671	.5470
1974	15,673	8,770	6,903	.5595
1975	16,478	9,006	7,472	.5466
1976	17,937	9,688	8,249	.4792
1977	20,231	9,740	10,491	.4871
1978	20,775	11,144	9,631	.5364
1979	22,764	11,908	10,856	.5231
1980	23,573	11,581	11,992	.4913

SOURCE: "Annual Survey of TV Markets," Sales and Marketing Management, Survey of Buying Power Part II, October 1974 through October 1981. c1981 S&MM Survey of Buying Power II.

The average household's Average Propensity to Consume (APC) is a ratio of how much of each dollar of income is spent on retail goods (see Table 36).[13] The APC is based on the average household's EBI and share of TRS. In the Lansing market, the average household's APC from 1973 to 1980 is a mean average of .5213 or approximately 52 cents of each dollar.

Over the eight-year period, the APC has dipped during economic slowdowns but has never fluctuated more than 4.21 cents from the mean average.[14]

Unemployment and Employment

The annual unemployment rate for the Lansing television market has been above the annual national rate for the past eight years and within one percent of the annual state rate for the past six years (see Table 37). The market's annual unemployment rate has not been above the state rate since 1977. Although the Lansing market has lower unemployment rates than other markets in the state, it still has very high unemployment when compared to the national rate.[15]

Table 37. Annual Average Unemployment for the Lansing TV Market, Michigan and U.S. 1972-1981

Year	Lansing (% Unemployment)	Michigan (% Unemployment)	U.S. (% Unemployment)
1972	5.4	7.0	5.6
1973	4.3	5.9	4.9
1974	7.5	8.5	5.6
1975	13.6	12.5	8.5
1976	9.7	9.4	7.7
1977	8.3	8.2	7.0
1978	6.4	6.9	6.0
1979	7.2	7.8	5.8
1980	12.0	12.6	7.1
1981	12.2	12.3	7.6

SOURCES: Michigan Employment Security Commission, Research and Statistics Division, Labor Analysis Section, "Civilian Labor Force and Wage and Salary Employment Estimates, 1971-1981"; U.S. Department of Labor, Bureau of Labor Statistics, "Employment Status of the Non-institutional Population 16 Years and Older, 1947 to Date," Employment and Earnings, Janaury 1982, p. 9.

The market's largest employer is General Motor's Fisher Body and Oldsmobile Divisions with 22,491 workers.[16] Second is the State of Michigan with 16,344 employees in the Lansing market.[17] Third is Michigan State University with 8,373 employees.[18] Fourth is Goodyear Tire and Rubber's Motor Wheel division in Lansing employing 1,600 workers.[19] Goodyear also employs a minimum of 1,400 workers in Jackson.[20] The fifth largest employer is Consumer's Power Company in Jackson with a minimum of 2,500 employees.[21] The Lansing market is dependent upon the automobile industry not only for employment but for the tax base it supports. Since 1980, layoffs in the auto industry and layoffs in state government both continue to stall economic recovery.

Media Competition

Introduction

The local commercial broadcast television and radio stations and daily newspapers are all in competition for the advertising dollars that are spent in the Lansing market. Local cable operators, while competing with broadcast television for audience, do not, for the most part, compete with them for advertisers. Instead, the national cable networks compete with the national broadcast television networks for advertisers. While most cable operators count on subscriptions for revenues, a few systems realize the potential revenues to be gained from advertising. The Bay Area Interconnect is an example of a group of local cable systems joining together to attract national, regional, and local advertisers.

Television

The Lansing television market is ranked as the 96th largest television market in the nation.[22] There are two commercial broadcast television stations licensed in the market (see Table 38). In addition, there are three applicants for the license of Channel 36 in Lansing.[23] The Federal Communications Commission has the authority to choose the best applicant for the license. The FCC has yet to act on these applications. It may be assumed that the applicant who is awarded the license will become an ABC affiliate.

Table 38. Commercial Broadcast Television Stations Licensed in the Lansing TV Market

City of License Call Letters	Channel	Licensee	Affiliation
Lansing WJIM	6	Gross Telecasting	CBS
Onondaga WILX	10	A-T-O Communications	NBC

SOURCE: "Facilities of Television," Broadcasting Cablecasting Yearbook, 1982, (Washington, D.C.: Broadcasting Publications, Inc., 1982), pp. B108-B109.

Radio

The Lansing television market has 20 commercial radio stations. There are 11 AM stations and 9 FM stations. Adversiting rates for a 30-second advertising spot range from $50 at WFMK-FM in East Lansing to $8 at WMMQ-FM in Charlotte (see Appendix).[24]

Daily Newspapers

Three daily newspapers are published in the Lansing television market (see Table 39). All three newspapers publish evening editions. The Jackson and Lansing newspapers are published seven days a week while the Hillsdale newspaper is published Monday through Friday. Advertising rates per column inch range from $.90 at the Lansing State Journal to $.24 at Hillsdale Daily News.[25]

Table 39. Daily Newspapers Published in the Lansing TV Market

City of Publication Newspaper	Publisher	Circulation Daily/Sunday
Hillsdale		
The Hillsdale Daily News	Stauffer Communications	8,205/ --
Jackson		
Jackson Citizen Patriot	Newhouse/Booth Newspapers	38,395/41,857
Lansing		
Lansing State Journal	Gannett Newspapers	73,316/79,852

SOURCE: "Daily Newspapers Published in the United States," Editor and Publisher International Yearbook 1981, (New York: Editor and Publisher Co., Inc., 1981), pp. I134-I135.

News Analysis

Introduction

In this section, the local broadcast television newscasts, which are the chief competition of the local cable television news co-op, will be evaluated. The categories to be examined are: personnel, revenues, and expenses.

There are two broadcast television stations in the Lansing market producing competitive local newscasts: WILX and WJIM. WILX is owned by A-T-O Communications and is assigned to Channel 10. WJIM is owned by Gross Telecasting and is assigned to Channel 6.[26]

The two commercial broadcast television stations in the Lansing market have nearly the same number of news employees (see Table 40). The size of the news departments range from 24 employees at WILX to 26 employees at WJIM.[27] WILX has an anchor/reporter position which allows the news department the flexibility of switching an individual to either reporting or anchoring as need be.

Revenues

The news department's revenues originate from the sale of time to advertisers. Both WILX and WJIM produce midday newscasts on weekdays.

Table 40. TV News Personnel in the Lansing Market

	Number of Employees		
Position	WILX	WJIM	Mean
Supervisory	3	2	2
Anchorperson	3	4	3
Sportscaster	2	2	2
Weathercaster	1	2	1
Anchor/Reporter	5	-	-
Reporter	7	8	7
Cameraperson	5	6	5
TOTAL	26	24	25

SOURCES: Telephone interview with Jan Allen, News Director, WJIM-TV, 6 May 1982; Personal letter from Howard Lancour, News Director, WILX-TV, 1 April 1982.

(see Table 41). However, WILX produces 60 minutes of news in the early evening while WJIM has only 30 minutes of news. The WILX early evening newscast appears in two 30-minute segments that are divided by 30 minutes of network news.[28] The fixed rate, from which revenues are estimated, is the highest advertising rate that is charged to advertisers for a 30-second spot. The amount that is charged for an advertising spot is based, partially, on the audience rating that a newscast receives. WJIM has the highest newscast ratings in the Lansing market, therefore, its advertising rates are the highest.

Expenses

Salary Expense - Salary expense is divided into news salaries and sales commissions for the sale of news time to advertisers. Individual stations have developed policy concerning the commission given to the account executives of the advertising department as well as arrangements with a national media representative. The annual news salaries in Table 42 are based upon a Radio and Television News Directors Association study conducted by Vernon A. Stone. The survey was sent to 690 commercial television stations and 65 percent of the stations returned usable questionnaires.[29]

Table 41. Estimated Revenues for Local TV Newscasts in the Lansing TV Market

Station Time of Newscast	Fixed Rate ($)	30/sec./Spots Newscast	Number of Days/Week	Weekly Revenue ($)	Annual Revenue ($)	DMA Multi-Week Average Rating/Share
WILX						
12:00 n.-12:30 p.m.	75	17	5	6,375	331,500	3/16
6:00 p.m.-6:30 p.m.	300	17	6	30,600	1,591,200	9/19
7:00 p.m.-7:30 p.m.	240	17	5	20,400	1,060,800	--
11:00 p.m.-11:30 p.m.	280	16	7	31,360	1,630,720	7/23
TOTAL					4,614,220	
WJIM						
12:00 n.-12:30 p.m.	100*	16	5	8,000	416,000	6/32
6:00 p.m.-6:30 p.m.	350	16	6	33,600	1,747,200	21/43
11:00 p.m.-11:30 p.m.	300	16	6	28,800	1,497,600	8/29
TOTAL					3,660,800	

SOURCES: Personal letter from Mary Siders, TV Sales, WILX-TV, 1 February 1982 (Rate Card included). Rate Card, WJIM, 16 February 1982. "Program Averages," Nielsen VIP Reference Volume 9: Nielsen Station Index, Lansing, Michigan, (A.C. Nielsen Company, 1982), pp. 14-20.

*Estimate

Table 42. Annual Estimated Salary Expense for Local TV News Departments in the Lansing Market

Position	Weekly Salary ($)	WILX Number of Personnel	WILX Annual Salaries	WJIM Number of Personnel	WJIM Annual Salaries
Supervisory	567	3	88,452	2	58,968
Anchorperson	581	3	90,636	4	120,848
Sportscaster	417	2	43,368	2	43,368
Weathercaster	417	1	21,684	2	43,368
Anchor/ Reporter	375	5	97,500	--	---
Reporter	363	7	132,132	8	150,800
Cameraperson	237	5	61,620	6	73,944
TOTAL			535,392		491,296

SOURCES: Telephone interview with Jan Allen, News Director, WJIM-TV, 6 May 1982; Personal letter from Howard Lancour, News Directir, WILX-TV, 1 April 1982; Vernon A. Stone, "Moderate Gains in News Salaries," RTNDA Communicator, December 1981, pp. 16-19.

Equipment. The cost of broadcast television equipment represents the largest single expense of a news department. The live remote van represents the most expensive item of equipment. The only broadcast television station with a live remote van in the market is WJIM. The expense of the equipment that is listed in Table 43 is estimated from the current prices for broadcast quality equipment.

Table 43. Broadcast Television Equipment in the Lansing TV Market

Equipment	Unit ($)	WILX No.	WILX Total Cost ($)	WJIM No.	WJIM Total Cost ($)
Studio Camera	70,000	4	360,000	4	360,000
3/4" Video Tape Recorder (VTR)	13,000	6	78,000	5	65,000
Live Remote Van	200,000	-	---	1	200,000
Remote ENG Camera With VTR	50,000	6	300,000	2	100,000
Miscellaneous	150,000		150,000		150,000
TOTAL			888,000		875,000

SOURCES: "Innovations and Improvements: NAB Equipment Showcase," Broadcasting, April 19, 1982, pp. 34-41; Telephone interview with Ailika Taylor, Sony Broadcast Product Mgt. Div., Los Angeles, California, 6 July 1982; "U.S. Commercial Television Station Equipment 1981," Television Factbook 1981-1982 Edition. (Washington, D.C.: Television Digest, Inc., 1981), p. 43a.

A Local Cable News Cooperative

Introduction

The figures generated from the previous section will be used to estimate revenues and expenses for a local cable news co-op. The co-op is composed of a group of interconnected local cable systems. The co-op will program local cable newscasts for insertion over a national cable news network. The programming will appear during the same time that local broadcast television newscasts are scheduled. This will allow the co-op to compete with the local television newscasts for advertisers. The goals of the cooperative are to be profitable and produce quality local news programming.

Revenues

The sale of time to advertisers is the only source of revenues for the local cable news cooperative. While broadcast and cable television compete with radio and newspapers for advertisers, only television communicates an audio and visual message. Taking this into account, the local cable television news co-op's only rivals are local commercial broadcast television news departments.

The co-op will initially operate at a disadvantage because it will not, in the beginning, be able to draw as large of an audience as the broadcast television newscasts. Since rates are based, in part, on audience size, the co-op's rates to advertisers will have to be lower than those of the established television newscasts. Therefore, the co-op's advertising rate is 50 percent less than the mean advertising rate of the broadcast newscasts. This figure is chosen because it will be an attractive price to advertisers and it will allow the co-op to make a profit (see Table 44).

Expenses

Salary Expense. Salary expense is divided into advertising sales commissions and news salaries. The advertising sales department will receive 20 percent of the total revenues to cover commissions of the sales department and national media representative and other expenses incurred in making sales. The news department sales are based on research by Vernon A. Stone for the Radio and Television News Directors Association. The survey was sent out to 690 commercial broadcast television stations and 65 percent of the returned questionnaires were usable.[30] The news salary expense for the co-op appears in Table 45.

Table 44. Estimated Advertising Rates and Revenues for a Local Cable News Co-Op in the Lansing Market

Time (Days Scheduled)	Station Rates ($)		Mean Rates ($)	50% of Mean ($)	Avails	Cable News Co-Op	
	WILX	WJIM				Weekly Revenues ($)	Annual Revenues ($)
12:00 n.-12:30 p.m. (Monday-Friday)	75	100*	90	45	17	3,825	198,900
6:00 p.m.-6:30 p.m. (Monday-Saturday)	300	350	330	165	17	16,830	875,160
11:00 p.m.-11:30 p.m. (Monday-Sunday)	380	300	290	145	16	16,240	844,480
TOTAL							1,918,540

SOURCES: Personal letter from Mary Siders, TV Sales, WILX-TV, 1 February 1982 (Rate Card Included). Rate Card, WJIM-TV, 16 February 1982.

*Estimate.

Table 45. Proposed Staffing and Estimated News Salary Expense of the Lansing Cable News Cooperative

Position	Number of Employees	Individual Weekly Salaries ($)	Annual Salaries ($)
Supervisory	2	567	58,968
Anchorperson	4	581	120,848
Sportscaster	2	417	43,368
Weathercaster	1	417	21,684
Reporter	7	363	132,132
Cameraperson	5	237	61,620
TOTAL			438,620

SOURCE: Vernon A. Stone, "Moderate Gains in News Salaries," RTNDA Communicator, December 1981, pp. 16-19.

The number of employees in a given position are estimates from the mean number of employees hired by the two broadcast television departments.

Equipment. Equipment requirements for the local cable news co-op are like those of local broadcast television news departments. Although WJIM is the only station with a live remote unit, it will be necessary for the co-op to have similar equipment if it is to be competitive. Therefore the co-op will purchase a live remote van (see Table 46). (Price estimates are for broadcast quality equipment.)

Table 46. Estimated Equipment Expense for the Lansing Cable News Co-Op

Equipment	Unit Cost ($)	Number Needed	Total Cost ($)
Studio Camera	70,000	3	210,000
Video Tape Recorder (VTR) 3/4"	13,000	2	26,000
Pr. VTRs with Edit. 3/4"	32,000	1	32,000
1/2" to 3/4" VTRs with Edit. Deck	40,000	1	40,000
Live Remote Van	200,000	1	200,000
Remote ENG Camera with 1/2" VTR	50,000	3	150,000
Port. Pr., VTR 1/2" with Edit. Deck	40,000	1	40,000
Miscellaneous			150,000
TOTAL			848,000

SOURCES: "Innovations and Improvements: NAB Equipment Showcase," Broadcasting, April 19, 1982, pp. 34-41; Telephone interview with Ailika Taylor, Sony Broadcast Product Mgt. Div., Los Angeles, California, 6 July 1982.

The depreciation allowance is estimated by deducting the salvage value from the total cost of equipment. The salvage value for the equipment is 20 percent of the total cost. The equipment expense for the Lansing cable news co-op is $832,000 less a salvage value of 20 percent or $166,400 leaving $665,000 to be depreciated. The amount will be depreciated over six years using the sum-of-the-years-digits methods of depreciation. This method allows the co-op to depreciate more of the total in the early years of operation which helps to lower taxes and increases net profits. It allows a high depreciation allowance in the first year which gradually decreases in each of the following years.[31]

Other Expenses

There are additional costs in running a news department. These include office furniture and supplies, support personnel, repair and maintenance of equipment, and motor vehicles. All of these items are covered under "Administrative and Miscellaneous Expense." This category has been given an annual increase of 20 percent. In addition taxes are to be estimated as 25 percent of income after the depreciation allowance has been taken.[32]

Pro Forma

The ten-year pro forma profit and loss statement combines revenues and expenses that are projected over a ten-year period (see Table 47). Annual increases of ten percent are added to revenues, salary expense, and equipment expense. A 20 percent annual increase is added to administrative and miscellaneous expenses.

In a given year, revenues are deducted from the various expenses leaving an operating income. Next, taxable income is determined by deducting the annual depreciation allowance from the operating income. If the depreciation allowance is greater than the operating income, then no taxes are paid. However, if there is taxable income, then 25 percent of it is deducted leaving a net profit for that particular year.

Table 47. Ten-Year Pro Forma Profit and Loss Statement for the Lansing Cable News Cooperative

	1983	1984	1985	1986	1987
Revenues	1,918,540	2,110,394	2,321,433	2,553,576	2,808,933
Expenses					
News Salaries	438,620	482,482	530,730	583,803	642,183
Sales Commissions	383,708	422,079	464,287	510,715	561,787
Equipment	848,000	---	---	---	---
Administrative and Miscellaneous	100,000	120,000	144,000	172,800	207,360
Operating Income	148,212	1,085,833	1,182,416	1,286,258	1,397,603
Depreciation	193,829	161,524	129,219	96,914	64,610
Taxable Income	---	924,309	1,053,197	1,189,344	1,332,993
Taxes	---	231,077	263,299	297,336	333,248
Net Income	148,212	693,232	789,898	892,008	999,745

(continued)

Table 47. (continued)

	1988	1989	1990	1991	1992
Revenues	3,089,826	3,398,808	3,738,688	4,112,556	4,523,811
Expenses					
News Salaries	706,401	777,041	854,745	940,219	1,034,240
Sales Commissions	617,965	679,762	747,738	822,511	904,762
Equipment	---	1,502,282	---	---	---
Administrative and Miscellaneous	248,832	298,598	358,318	429,982	515,978
Operating Income	1,516,628	141,125	1,777,887	1,919,844	2,068,813
Depreciation	32,305	343,379	286,150	228,919	171,689
Taxable Income	1,484,323	---	1,491,737	1,690,925	1,897,124
Taxes	371,081	---	372,934	422,731	474,281
Net Income	1,113,242	141,125	1,118,803	1,268,194	1,422,843

CHAPTER VI

DISCUSSION AND CONCLUSION

In each of the three markets studied, the highest population growth was experienced by counties outside the major metropolitan areas. Low rates of growth were reported by all the counties containing major urban centers. It does not appear that this trend will be reversed in the foreseeable future.

All of the three markets have young populations with individuals under age 30 making up over 50 percent of the population in each of the markets. However, the rate of growth at the market, state, and national levels is slowly declining. If this trend continues, the youthful majority of the 1980's could become the middle age majority in the 1990's. Therefore, programming and marketing will eventually have to appeal to an older population.

The racial composition of the three markets shows a predominantly White population. The Black minority in the Detroit market makes up nearly 20 percent of the population. However, the Black minority in the Lansing and Grand Rapids markets remains under 6 percent. Particularly in the Detroit market, it will be advantageous to direct programming and marketing at the large Black minority.

Economically speaking, none of the three markets are healthy. The Detroit market's share of the national economy has dropped dramatically

over the past few years. In addition, the recent annual unemployment rate of the Detroit market has been higher than Lansing, Grand Rapids or the state rate. The Lansing market has also lost its share of the national economy and like Detroit, it has high unemployment.

The Grand Rapids market has been least affected by the economic recession. It has the lowest unemployment of the three markets. The Grand Rapids share of the national economy has actually grown and surpassed gains of previous years. The market also has a greater variety of employers than either the Lansing or Detroit markets indicating less of a dependence upon the auto industry. There is no doubt that Grand Rapids has the healthiest business environment.

In examining the pro formas for the news co-ops, all three can be considered profitable. Both the Detroit and Lansing cable news co-ops had net profits in the first year of operation. Detroit and Lansing co-ops both made annual net profits of over $1 million during the ten-year period. But Grand Rapids could match them only half way. The local cable news co-op in Grand Rapids had losses in two of the ten years, due to equipment purchases. But the equipment expense was the same for both Lansing and Grand Rapids co-ops. There are two reasons for the losses and smaller profits. First, the advertising rates of the commercial broadcast television newscasts are lower in Grand Rapids than in Lansing. This is attributed to the three-way competition for the local newscast audience. In Lansing, there are only two local commercial broadcast television stations with newscasts and there is also less media competition.

Second, the news salary expense for Grand Rapids is nearly one- and one-half times as large as it is for Lansing. Cutting the staff

is not a solution if there is a danger in lowering quality. The Grand Rapids co-op could raise its rates but there is also the risk of losing advertisers if rates go too high.

Although all three co-ops are profitable, the question remains as to whether they can be money-makers in these markets. Under the current economic conditions, it would be unwise to establish a co-op in Detroit and would probably be difficult going in Lansing and Grand Rapids. However, while the markets that are used in this study may not currently be choice locations, this process can be applied to any market within the given market rankings. For example, the co-op may not be right for Lansing but for another market ranked between 51 and 100, this could be an ideal time to establish a local cable news cooperative.

In conclusion, the local cable news cooperatives could be profitable in all three markets. The co-ops in Detroit and Lansing have profits in all ten years of operation. The Grand Rapids co-op shows profits in eight of the ten years with losses in the first and seventh year.

The co-ops prove that they can compete at half the mean advertising rates of the commercial broadcast television newscasts and still show a profit. This is achieved without reductions in personnel or equipment.

The interconnection of local cable systems is necessary for the cable news co-op concept to work. As mentioned earlier, the Bay Area Interconnect is already inserting advertising on CNN. The next logical step in such a network would be to introduce the local cable television news co-op on a news network, such as CNN to compete with the local commercial broadcast television newscasts.

NOTES

NOTES--CHAPTER 1

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[23]"Cable TV," Broadcasting, p. 79.

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NOTES--CHAPTER TWO

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[2]John Abel, Mike Wirth, and Bob Yadon, Handbook on Broadcast Station Management 2nd ed., (East Lansing, Michigan: Michigan State University, 1978), p. 2.

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[1]Arbitron Television, 1981-1982 Universe Estimates Summary, (New York: The Arbitron Company, 1981), p. i.

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[31]Ibid.

[32]Ibid. p. 42.

APPENDICES

APPENDIX A

COMMERCIAL BROADCAST RADIO STATIONS IN THE DETROIT TV MARKET

City of License Call Letters (AM/FM)	Licensee	Format
Ann Arbor		
WAAM (AM)	WAAM Broadcasting Co.	MOR
WIQB (FM)	Lake America Communications Co.	Top 40
WPAG (AM)	Washtenaw Broadcasting Co., Inc.	MOR
WPAG (FM)	Washtenaw Broadcasting Co., Inc.	Soft Rock
Birmingham		
WMCJ (FM)	Greater Michigan Radio, Inc.	Contemporary
Dearborn		
WNIC (AM)	Renaissance Communications, Inc.	Adult Contemporary
WNIC (FM)	Renaissance Communications, Inc.	Adult Contemporary
Detroit		
WABX (FM)	Century Broadcasting Corporation	AOR
WCXI (AM)	Golden West Broadcasters, Inc.	Country
WTWR (FM)	Golden West Broadcasters, Inc.	All Hits
WDRQ (FM)	Chartcom, Inc.	Top 40
WGPR (FM)	WGPR, Inc.	Black
WJR (AM)	Capital Cities Communications, Inc.	Diverse
WJR (FM)	Capital Cities Communications, Inc.	Beautiful Music
WJZZ (FM)	Bell Broadcasting Co.	Jazz
WLLZ (FM)	Doubleday Broadcasting Co.	Album Rock
WLQV (AM)	Gannett Broadcasting	Inspirational
WCZY (FM)	Gannett Broadcasting	APR
WMUZ (FM)	Crawford Broadcasting	Religious
WMZK (AM)	Booth American Co.	Black
WJLB (FM)	Booth American Co.	Black

City of License Call Letters (AM/FM)	Licensee	Format
Detroit (continued)		
WOMC (FM)	Metromedia, Inc.	APR
WQRS (FM)	The Outlet Co.	Classical
WWJ (AM)	Evening News Association	All News
WWJ (FM)	Evening News Association	Beautiful Music
WWWW (FM)	Shamrock Broadcasting	APR
WXYZ (AM)	ABC Owned Stations	Talk
WRIF (FM)	ABC Owned Stations	AOR
Howell		
WHMI (AM)	B & H Broadcasting Co.	MOR
WHMI (FM)	B & H Broadcasting Co.	MOR
Inkster		
WCHB (AM)	Bell Broadcasting Co.	People Power
Lapeer		
WDEY (AM)	WTHM Broadcasting Co.	Easy Listening
WDEY (FM)	WTHM Broadcasting Co.	Easy Listening
WMPC (AM)	Calvary Bible Church	Religious
Livonia		
WCAR (AM)	Wolpin Broadcasting Co.	Talk
Marine City		
WSMA (AM)	Sommerville Broadcasting Co.	C&W
Monroe		
WHND (AM)	WQTE Broadcasting, Inc.	Oldies
WVMO (FM)	Monroe Broadcasting Co.	C&W
Mount Clemens		
WBRB (AM)	Radio Station WBRB	Talk
WLBS (FM)	Inner City Broadcasting	Progressive

City of License Call Letters (AM/FM)	Licensee	Format
Pontiac		
WPON (AM)	Michigan Cablevision & Radio Co.	C&W
Port Huron		
WHLS (AM)	Wismer Broadcasting, Inc.	Adult Contemporary
WSAQ (FM)	Wismer Broadcasting, Inc.	MOR
WPHM (AM)	Enterform, Inc.	MOR
Royal Oak		
WEXL (AM)	Sparks Broadcasting Co.	Inspirational
Saline		
WMIC (AM)	Lake America Communications, Inc.	Modern Country
Ypsilanti		
WSDS (AM)	Koch Broadcasting Corporation	Modern Country
WYFC (AM)	WYFC, Inc.	MOR

SOURCE: "Facilities of Radio," Broadcasting Cablecasting Yearbook 1982, (Washington, D.C.: Broadcasting Publications, Inc., 1982), pp. C115-C124.

APPENDIX B

COMMERCIAL BROADCAST RADIO STATIONS IN THE GRAND RAPIDS TV MARKET

City of License Call Letters (AM/FM)	Licensee	Format
Albion		
WALM (AM)	WALM, Inc.	MOR
Battle Creek		
WBCK (AM)	Wolverine Broadcasting Co.	MOR
WDFP (FM)	WVOC, Inc.	Religious
WKNR (AM)	Engineering Investment Corp.	Top 40
WKNR (FM)	Engineering Investment Corp.	MOR
WWKQ (AM)	Television Thirty-Six	Oldies
Big Rapids		
WBRN (AM)	WBRN, Inc.	MOR
WBRN (FM)	WBRN, Inc.	Oldies
Coldwater		
WTVB (AM)	Tri-State Broadcasting	MOR
WNWN (FM)	Tri-State Broadcasting	Contemporary Country
Fremont		
WSHN (AM)	WSHN, Inc.	Mellow Contemporary
WSHN (FM)	WSHN, Inc.	Mellow Contemporary
Grand Haven		
WGHN (AM)	Community Broadcasters, Inc.	MOR
WFMG (FM)	Community Broadcasters, Inc.	Easy Going

City of License Call Letters (AM/FM)	Licensee	Format
Grand Rapids		
WCUZ (AM)	Federated Media	Modern Country
WCUZ (FM)	Federated Media	Modern Country
WFUR (AM)	Kuiper Stations	N/A
WFUR (FM)	Kuiper Stations	Beautiful Music
WJFM (FM)	John E. Fetzer Stations	Contemporary
WMAX (AM)	Salem Media of Michigan	All News
WOOD (AM)	WOOD Broadcasting, Inc.	MOR
WOOD (FM)	WOOD Broadcasting, Inc.	Beautiful Music
WTWN (AM)	Shepard Broadcasting Corp.	Talk
WLAV (FM)	Shepard Broadcasting Corp.	AOR
WXQT (AM)	Regional Broadcasters of Michigan	Music of your Life
WGRD (FM)	Regional Broadcasters of Michigan	Top 40
WZZR (FM)	Liggett Broadcasting	Soft Rock'
Greenville		
WPLB (AM)	Hat River Broadcasting Co.	MOR
WPLB (FM)	Hat River Broadcasting Co.	C&W
Hastings		
WBCH (AM)	Barry Broadcasting Co.	Modern Country
WBCH (FM)	Barry Broadcasting Co.	Modern Country
Holland		
WHTC (AM)	Holland Broadcasting Co.	Diversified
WHTC (FM)	Holland Broadcasting Co.	Beautiful Music
WJBL (AM)	Ottawa Broadcasting Co.	Beautiful Music
WJBL (FM)	Ottawa Broadcasting Co.	Religious
WZNC (FM)	West-State Broadcasters, Inc.	C&W
Ionia		
WION (AM)	McPherson Broadcasting Co.	MOR

City of License Call Letters (AM/FM)	Licensee	Format
Kalamazoo		
WKMI (AM)	Steere Broadcasting Corp.	Contemporary
WKPR (AM)	Kuiper Stations	Religious
WKZO (AM)	John E. Fetzer Stations	MOR
WQLR (FM)	Fairfield Broadcasting Co.	Beautiful Music
WYYY (AM)	Williams Broadcasting Corp.	MOR
Kentwood		
WKWM (AM)	Richard Culpepper	Black
Marshall		
WELL (FM)	Triad Stations, Inc.	Diversified
Muskegon		
WKBZ (AM)	Reams Broadcasting Corp.	MOR/Old
WMUS (AM)	Greater Muskegon Broadcasters, Inc.	Contemporary Country
WMUS (FM)	Greater Muskegon Broadcasters, Inc.	Contemporary Country
WQWQ (FM)	TSPS Broadcasting Co.	Beautiful Music
WTRU (AM)	Regional Broadcasters	Adult Contemporary
Muskegon Heights		
WKJR (AM)	Muskegon Heights Broadcasting Co.	Religious
WKJR (FM)	Muskegon Heights Broadcasting Co.	Religious
Otsego		
WOAM (AM)	Allegan County Broadcasters, Inc.	Big Band
WAOP (FM)	Allegan County Broadcasters, Inc.	C&W
Portage		
WBUK (AM)	Radio Michigan	Solid Gold, Contemporary
Rockford		
WJPW (AM)	Jack Lee Payne	Farm, talk, MOR
South Haven		
WCSY (AM)	Spartan Broadcasting, Inc.	MOR

City of License Call Letters (AM/FM)	Licensee	Format
Sturgis		
WSTR (AM)	Water Wonderland Broadcasting Co.	MOR
WSTR (FM)	Water Wonderland Broadcasting Co.	MOR
Three Rivers		
WLKM (AM)	Voice of Three Rivers, Inc.	MOR
WLKM (FM)	Voice of Three Rivers, Inc.	MOR
Whitehall		
WCNF (FM)	Blueberry Broadcasting, Inc.	C&W
WPBK (AM)	Pyramid Broadcasting Co.	Diversified, C&W
Wyoming		
WYGR (AM)	Donna Broadcasting Co.	Contemporary Christian

SOURCE: "Facilities of Radio," Broadcasting Cablecasting Yearbook 1982, (Washington, D.C.: Broadcasting Publications, Inc., 1982), pp. C115-C124.

APPENDIX C

COMMERCIAL BROADCAST RADIO STATIONS
IN THE LANSING TV MARKET

City of License Call Letters (AM/FM)	Licensee	Format
Charlotte		
WGWY (AM)	Sharon Broadcasting Co.	Contemporary Christian
WMMQ (FM)	Mid-America Broadcasting Co.	Adult Contemporary
East Lansing		
WFMK (FM)	Ligett Broadcasting Group	MOR
WVGO (AM)	Goodrich Broadcasting, Inc.	Black
WVIC (FM)	Goodrich Broadcasting, Inc.	Black
Hillsdale		
WCSR (AM)	WCRS, Inc.	Diversified
WCSR (FM)	WCSR, Inc.	Beautiful Music
Jackson		
WDJD (AM)	North Shore Communications, Inc.	Modern Country
WKHM (AM)	Patten Communications Corp.	MOR
WJXQ (AM)	Patten Communications Corp.	AOR
WXCM (AM)	Booth American Co.	C&W
WIBM (FM)	Booth American Co.	Top 40
Lansing		
WILS (AM)	Lansing Broadcasting Co.	MOR
WILS (FM)	Lansing Broadcasting Co.	AOR
WITL (AM)	Mid-West Family Stations	Modern Country
WITL (FM)	Mid-West Family Stations	Modern Country
WJIM (AM)	Gross Telecasting, Inc.	MOR
WJIM (FM)	Gross Telecasting, Inc.	Beautiful Music

City of Licensee Call Letters (AM/FM)	Licensee	Format
St. Johns		
WQTK (AM)	Chase Broadcasting Co.	MOR
WQTK (FM)	Chase Broadcasting Co.	Contemporary Beautiful

SOURCE: "Facilities of Radio," Broadcasting Cablecasting Yearbook 1982, (Washington, D.C.: Broadcasting Publications, Inc., 1982), pp. C115-C124.

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