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Determinants of Cable Program Diversity [Slides]

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Determinants of Cable Program Diversity

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Research Questions

- **RQ 1**: How has cable networks' content diversity evolved in the past 20 years?
- **RQ 2**: What factors determine the content diversity of cable networks?

Content diversity is defined as the degree of heterogeneity in network program genres and audience segments in the offering of cable network programming and cable systems and satellite networks.
Dimensions of Cable Diversity

- McDonald and Dimmick (2003)’s 2 dimensions of diversity:
  - # of categories in the classification.
  - The evenness of the distribution of categories.

- The most common approach to study media diversity is known as “reflective diversity,” or matching consumers’ preferences with the content being produced (van Cuilenberg, 2000).

- Napoli (1999)’s three dimensions of diversity: source, content, and audience.
Method

- Data collected from *NCTA Cable Developments 2004*, FCC MVPD reports, and other sources such as cable network websites.
- 19 program content genres and 10 audience segments
  - The *standardized Simpson’s D* was chosen as the diversity measurement of both audience segment and content genre diversity.
  - The higher the $D$, the higher the diversity.
Determinants of Cable Diversity

- Horizontal and Vertical Integration of Cable Systems
  - MSO Subscriber Size
  - % of Networks Owned by MSOs

- Gatekeeping Effects of Cable Systems
  - Cable Network Selection Criteria (cable network carriage/subscriber size)
  - Must-Carry Rules

- Financing and Positioning of Cable Network Services
  - Basic vs. Digital and Premium Services

- Audience Demand/Behavior
  - Channel Repertoire
  - Audience Ratings

- Market Competition
  - Supply of Cable Networks

Cable Program Diversity
- Content Genres
- Audience Segments
Market Competition & Gatekeeping Effects

- Two theories:
  1. More competition, more diversity
  2. More competition, less diversity (excessive competition leads to ruinous consequences)
- Smaller audience size, lower cost production
- Increase in channel capacity may not lead to more diversity.
- Cable system operators are the principal gatekeepers controlling what networks will be carried on their systems (Parsons, 2003).
- Even with must-carry rules, there is no mandate on the diversity of content for system operators (Aufderheide, 1999).
Vertical and Horizontal Integration

- Horizontal integration through market expansion by multiple system operators (MSOs), group ownership of cable networks such as the Scripps Cable Networks, and vertical integration of the supply chain both help and hinder diversity.
- The fate of a new network is highly dependent on whether any MSO carries it.
- Networks which have vertical ties with other corporations are most likely to be carried by systems and have more commercial value.
- Vertical integration helps lower programming subscription costs to systems to consumers.
Program Development & Audience Viewing

- Cable networks develop programming along the continuum of narrowcasting and broad-based appeal.
- As more digital cable services continue to become available, audience fragmentation also increases.
  - Spin-offs are used to repurpose content of their flagship networks (Chang, Bae, & Lee, 2004). Examples include ESPN2, ESPN Classic, and Fox Sports Net.
  - Changing the channel repertoire of the viewers requires heavy marketing efforts (Neuendorf, Atkins, & Jeffres, 2001).
Program Genre Diversity by Year and Number of Networks

![Graph showing program genre diversity by year and number of networks. The x-axis represents years from 1980 to 2005, and the y-axis represents the standardized Simpson's D (Content) from 0.8300 to 0.9000. The number of networks is also plotted, with a significant increase observed from 1990 onwards.](image-url)
Audience Diversity by Year and Number of Networks

- Standardized Simpson's D (Audience)
- # Networks

The graph shows the trend of audience diversity, measured by Standardized Simpson's D, and the number of networks over the years from 1980 to 2005. The diversity increases gradually from 1980 to 1995, then rises sharply from 1995 to 2005.
Breadth of Audience Appeal of US National Cable Networks by Year

- % General
- % Children
- % 18-34
- % Male
- % Female
- % Special Interest
- % Ethnic
- % College Students
- % Family
Percentage of Cable Networks Owned by a MSO

% Cable Networks Owned by a MSO

- 1984: 18%
- 1986: 19%
- 1988: 19%
- 1990: 19%
- 1992: 19%
- 1994: 19%
- 1996: 19%
- 1998: 19%
- 2000: 19%
- 2002: 19%
- 2004: 19%

Years: 1984 to 2004
Cable Network Financing & Service Positioning

0% 20% 40% 60% 80% 100%

% Basic/Ad-Supported
% Digital/Ad-Supported
% Basic, Non-Ad Supported
% Digital, Non-Ad Supported
% Premium Service
% Pay-Per-View/Video on Demand
% Basic, No Charge
% Digital, No Charge
% Multiple Methods

### Discrepancy between Audience Ratings and Cable Carriage

<table>
<thead>
<tr>
<th>Network and Owner</th>
<th>Subscribers¹ (in millions)</th>
<th>HH Rating² (Rank)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Discovery</td>
<td>Discovery</td>
<td>89.5</td>
</tr>
<tr>
<td>2. ESPN</td>
<td>ABC/Disney/Hearst</td>
<td>89.1</td>
</tr>
<tr>
<td>3. CNN</td>
<td>Time Warner</td>
<td>88.8</td>
</tr>
<tr>
<td>4. USA (gen.)</td>
<td>NBC/Universal</td>
<td>88.8</td>
</tr>
<tr>
<td>5. TNT (gen.)</td>
<td>Time Warner</td>
<td>88.7</td>
</tr>
<tr>
<td>6. TBS (gen.)</td>
<td>Time Warner</td>
<td>88.5</td>
</tr>
<tr>
<td>7. Nickelodeon</td>
<td>CBS/Viacom</td>
<td>88.5</td>
</tr>
<tr>
<td>8. A &amp; E</td>
<td>ABC/Disney/Hearst</td>
<td>88.3</td>
</tr>
<tr>
<td>9. Lifetime</td>
<td>ABC/Disney/Hearst</td>
<td>88.2</td>
</tr>
<tr>
<td>10. Spike TV</td>
<td>CBS/Viacom</td>
<td>88.1</td>
</tr>
<tr>
<td>11. Weather Channel</td>
<td>Landmark</td>
<td>88.1</td>
</tr>
<tr>
<td>12. CSPAN</td>
<td>Cable Sat. Industry Corp.</td>
<td>87.9</td>
</tr>
<tr>
<td>13. ESPN2</td>
<td>ABC/Disney/Hearst</td>
<td>87.7</td>
</tr>
<tr>
<td>14. TLC</td>
<td>Discovery</td>
<td>87.6</td>
</tr>
<tr>
<td>15. ABC Family</td>
<td>ABC/Disney/Hearst</td>
<td>87.5</td>
</tr>
<tr>
<td>16. Headline News</td>
<td>Time Warner</td>
<td>87.4</td>
</tr>
<tr>
<td>17. MTV</td>
<td>CBS/Viacom</td>
<td>87.2</td>
</tr>
<tr>
<td>18. HGTV</td>
<td>Scripps</td>
<td>87.1</td>
</tr>
<tr>
<td>19. History Channel</td>
<td>ABC/Disney/Hearst</td>
<td>86</td>
</tr>
<tr>
<td>20. Cartoon Network</td>
<td>Time Warner</td>
<td>86</td>
</tr>
</tbody>
</table>

## Top 5 Cable Network Ratings
### Rank 1996-2004

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>TNT</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>1</td>
<td>1</td>
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<tr>
<td>TBS</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>2</td>
<td>2</td>
<td>5</td>
<td>4</td>
<td>5</td>
<td>10</td>
</tr>
<tr>
<td>ESPN</td>
<td>3</td>
<td>7</td>
<td>7</td>
<td>6</td>
<td>-</td>
<td>12</td>
<td>8</td>
<td>14</td>
<td>6</td>
</tr>
<tr>
<td>USA</td>
<td>4</td>
<td>4</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>6</td>
<td>7</td>
<td>3</td>
</tr>
<tr>
<td>Lifetime</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>7</td>
<td>6</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>8</td>
</tr>
</tbody>
</table>

Source: FCC MPVD Reports 1996-2004 based on Nielsen data
Discussion & Conclusion

- Most of cable’s boom in the last few years is a result of being in more homes and more networks, not because of an increase of content diversity.
- Minority interests are at a disadvantage under the current tier structure of cable programming.
  - Basic cable subscriptions only allow access to general networks such as local broadcast affiliates, public broadcasting, and home shopping channels.
- Gatekeeping effects of cable system operators are barriers of entry for niche networks.
  - If a system and satellite TV services do not carry a channel, consumers cannot receive that channel.
Discussion & Conclusion

- The cable industry is full of entry barriers to new independent networks.
- Vertical integration between MSOs and cable networks and cable network group ownership hinders new independent networks from being available to consumers.
- Large MSO-owned cable networks dominate basic cable line-ups and premium offerings.
  - e.g. HBO, HBO2, HBO Family, etc
Proposed Policy Changes

- **Modify the must-carry rules to reduce the gatekeeping power of cable systems.**
  - Mandated amount of “diverse” networks.
  - Set Standardized Simpson’s $D$ Index as minimum audience segment and content diversity threshold for basic line-ups.

- **Offer a “pick two” option in addition to subscribers’ basic subscriptions.**
  - Standard 15-20 basic channels + a selection of two digital networks to their service.
  - Giving consumers a taste of extended cable options could increase more deluxe subscriptions as a result.
Proposed Policy Changes

- The proposed solutions involve public policy changes and attempts to balance the commercial interest of the multichannel service providers and the public interest of diversity.
- The public would be enticed to experiment with new channels and purchase other tiers of programming.
- Most viewers must experience what they are missing before they are willing to invest in additional services.