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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.

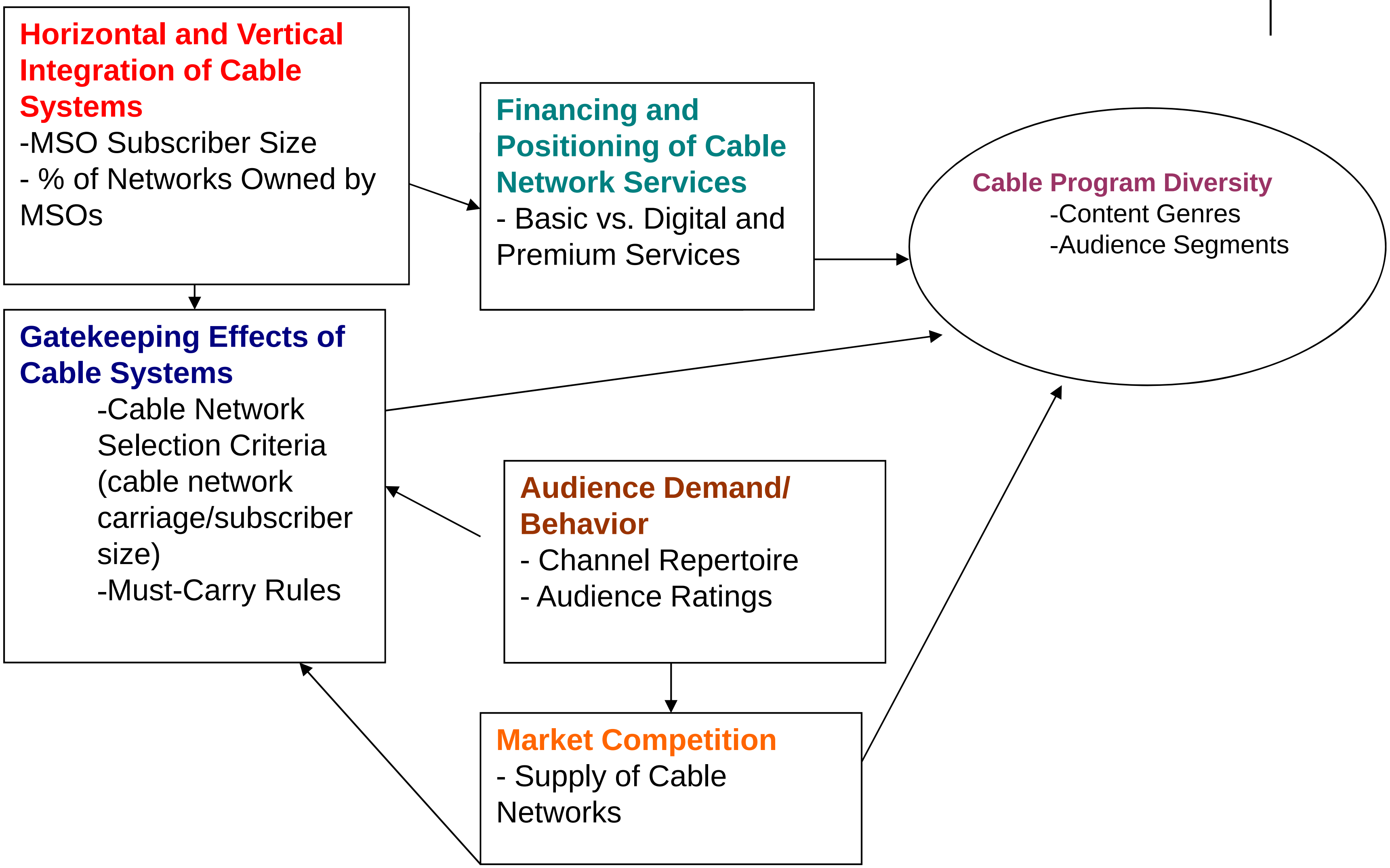
Dimensions of Cable Diversity

- 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.
- Examined 353 cable networks, 1984-2004.
- 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



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).

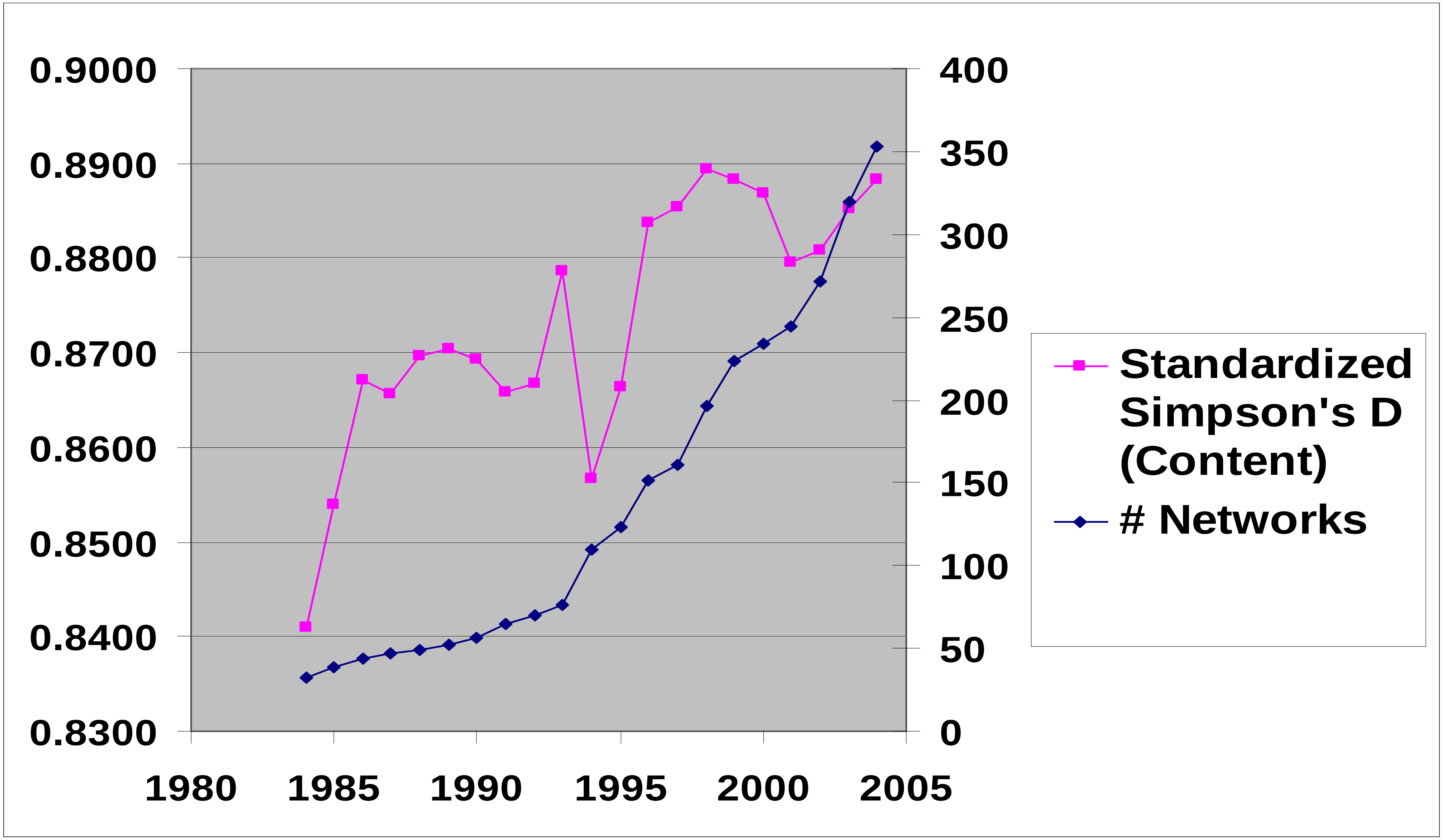
Vertical and Horizontal Integration

- 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.

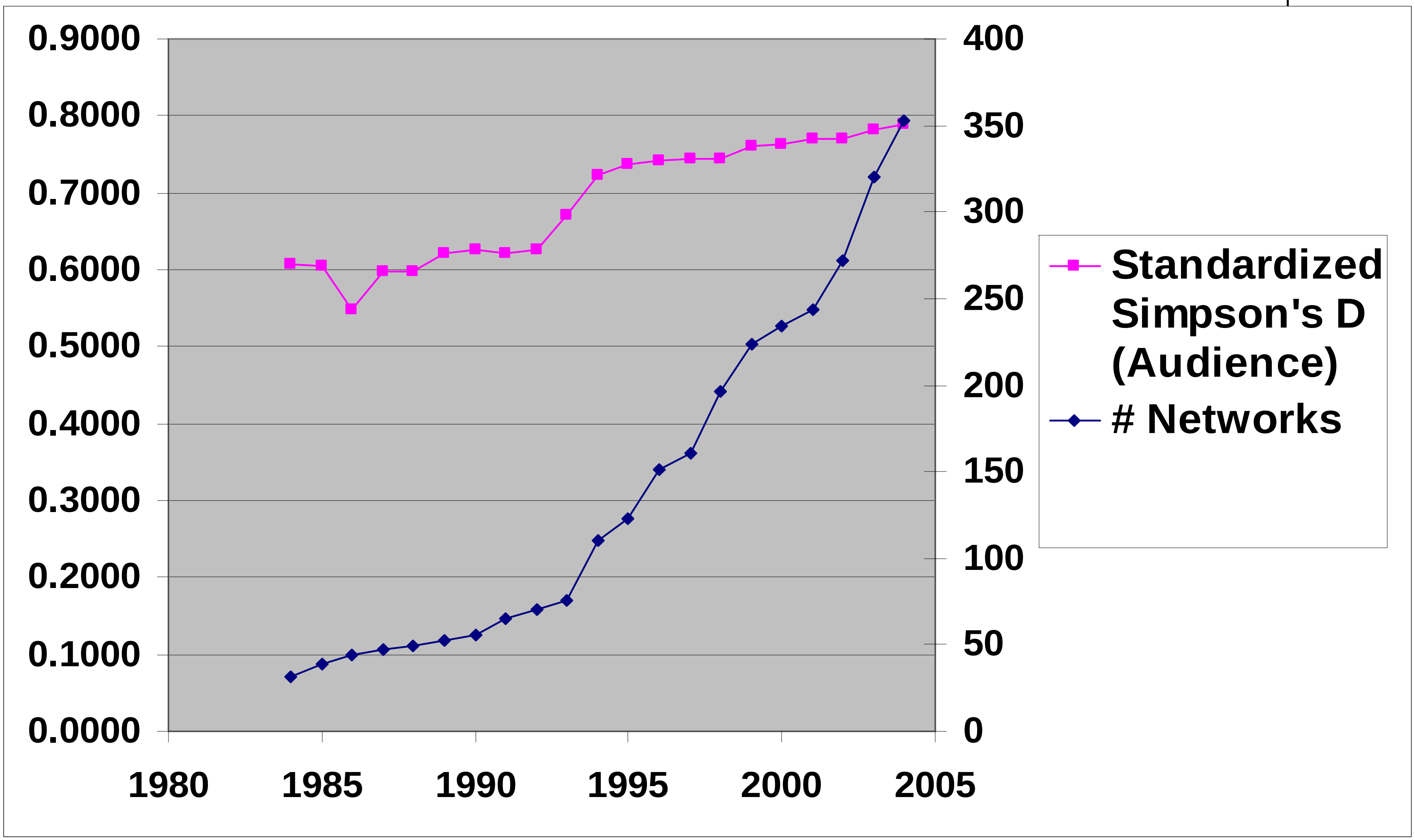
Program Development & Audience Viewing

- 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).

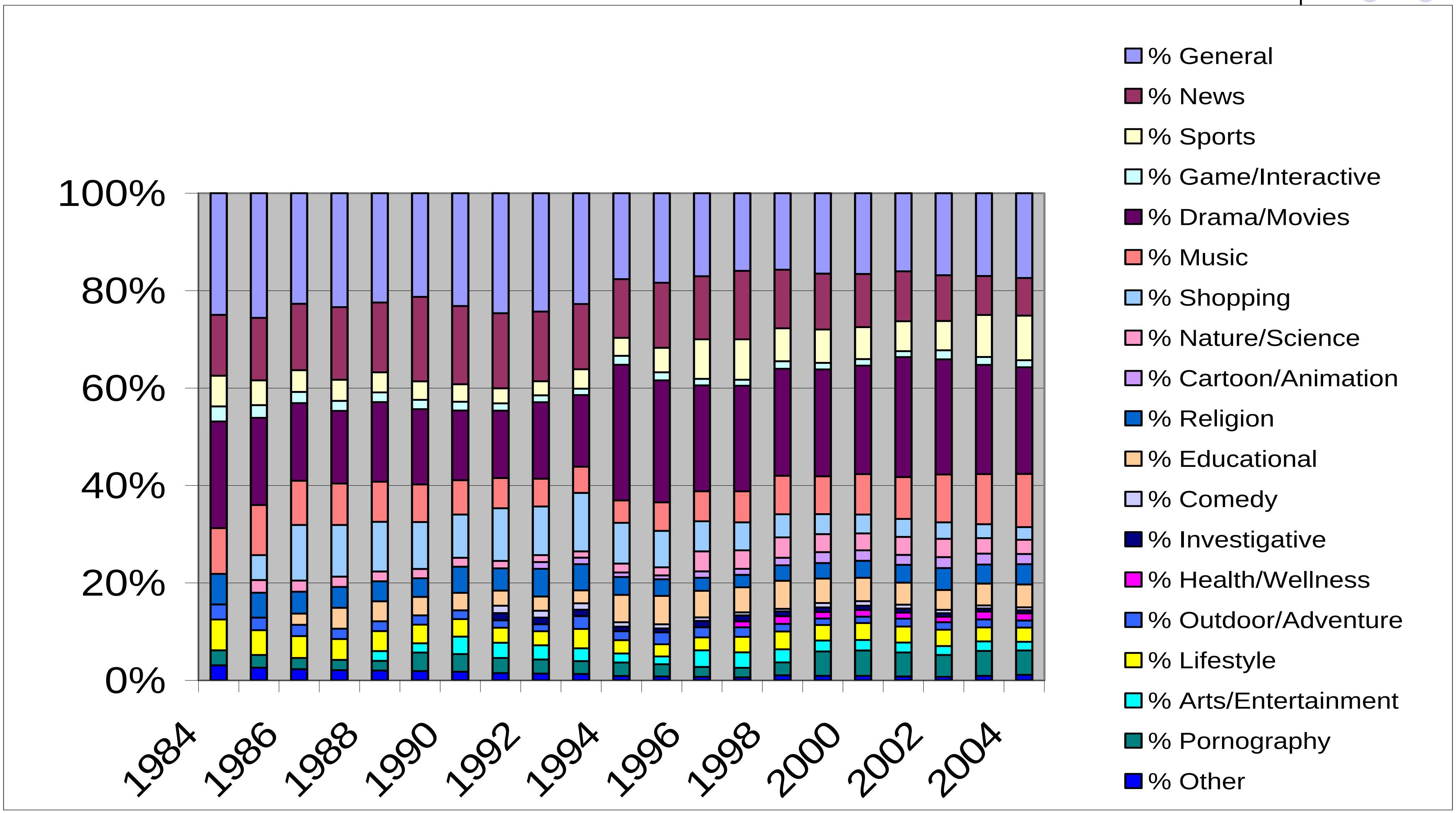
Program Genre Diversity by Year and Number of Networks



Audience Diversity by Year and Number of Networks



Breadth of Content Appeal of US National Cable Networks by Year



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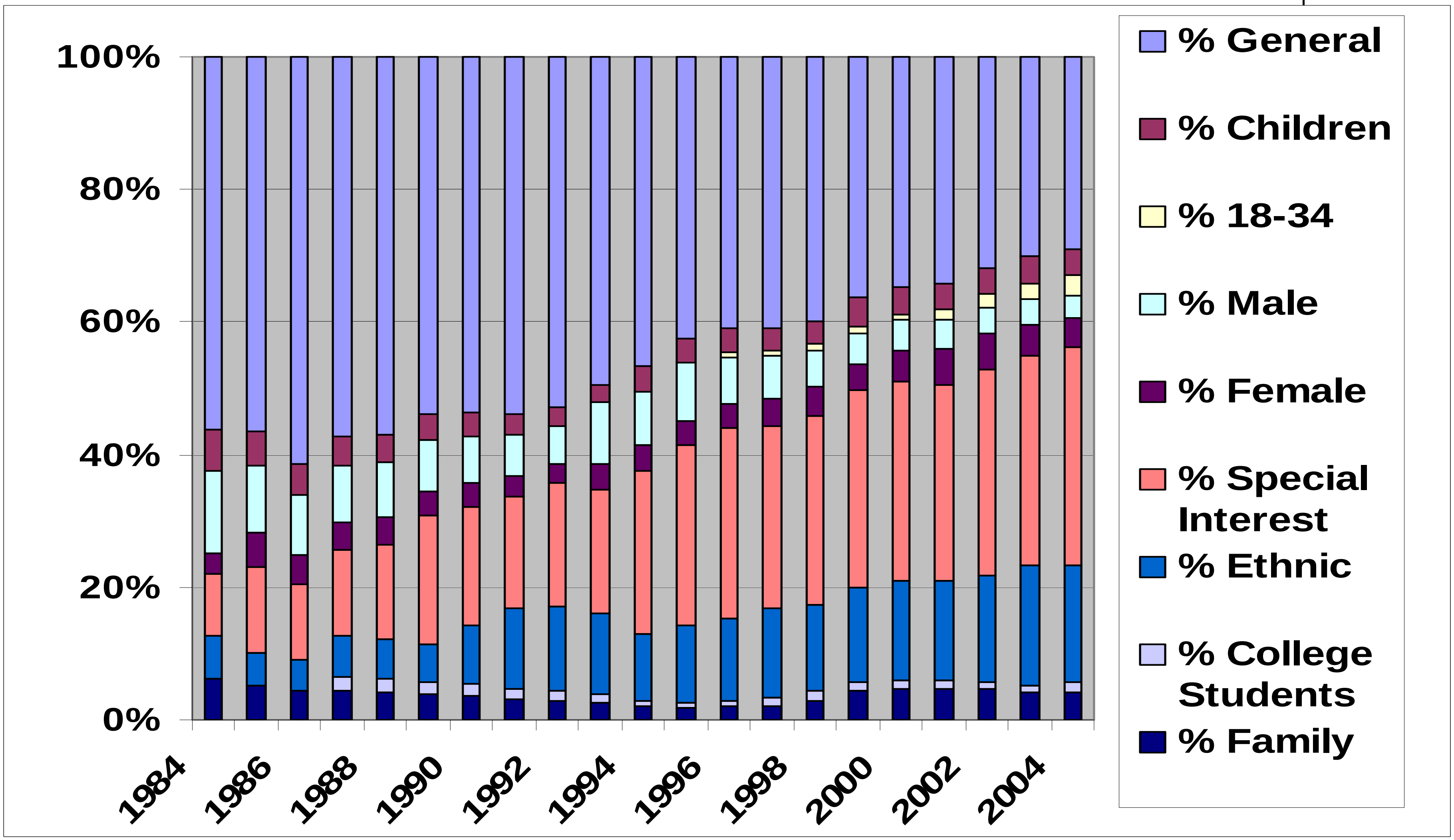
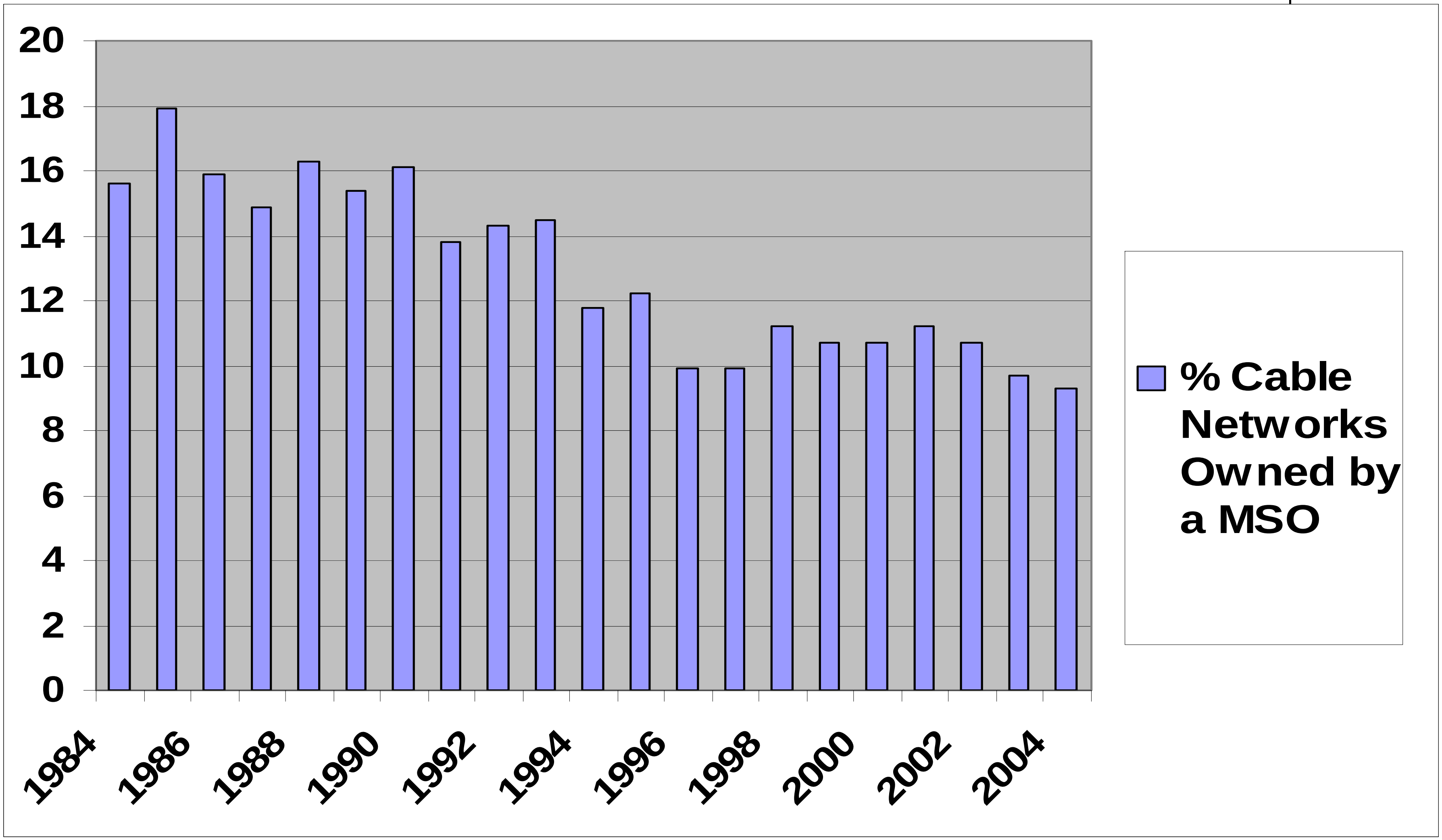
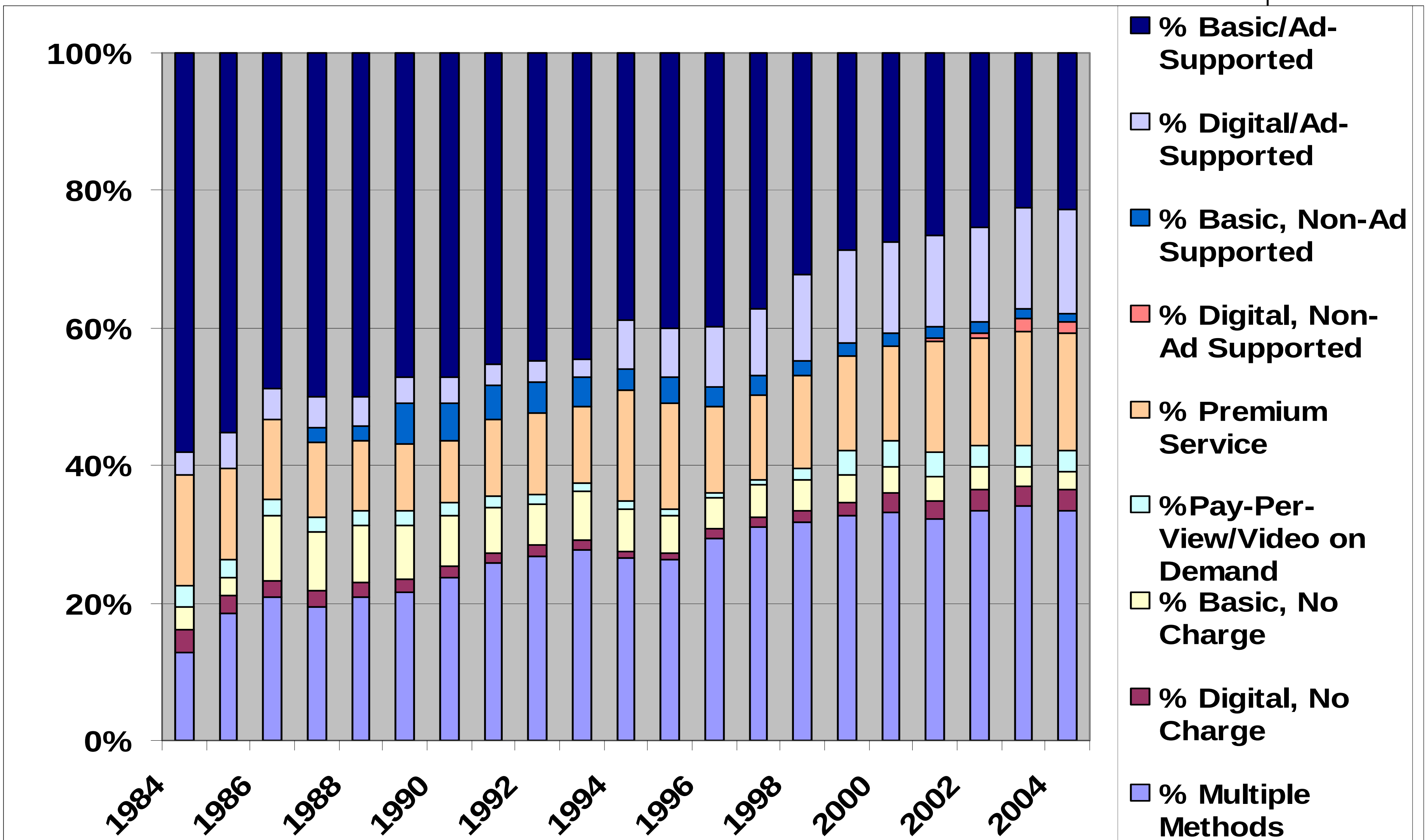


Percentage of Cable Networks Owned by a MSO



Cable Network Financing & Service Positioning



Discrepancy between Audience Ratings and Cable Carriage

Network and Owner		Subscribers[1] (in millions)	HH Rating[2] (Rank)
1. Discovery	Discovery	89.5	0.8(20)
2. ESPN	ABC/Disney/Hearst	89.1	2.1 (1)
3. CNN	Time Warner	88.8	0.9 (16)
4. USA (gen.)	NBC/Universal	88.8	1.7 (6)
5. TNT (gen.)	Time Warner	88.7	1.7 (6)
6. TBS (gen.)	Time Warner	88.5	1.3 (11)
7. Nickelodeon	CBS/Viacom	88.5	2.1 (1)
8. A & E	ABC/Disney/Hearst	88.3	1.0(15)
9. Lifetime	ABC/Disney/Hearst	88.2	1.6(9)
10. Spike TV	CBS/Viacom	88.1	1.3(11)
11. Weather Channel	Landmark	88.1	0.2(53)
12. CSPAN	Cable Sat. Industry Corp.	87.9	< 0.1
13. ESPN2	ABC/Disney/Hearst	87.7	0.6 (31)
14. TLC	Discovery	87.6	0.7(26)
15. ABC Family	ABC/Disney/Hearst	87.5	<0.1
16. Headline News	Time Warner	87.4	0.2 (53)
17. MTV	CBS/Viacom	87.2	0.9 (16)
18. HGTV	Scripps	87.1	0.8(20)
19. History Channel	ABC/Disney/Hearst	86	0.8(20)
20. Cartoon Network	Time Warner	86	0.9(16)

Source: Nielsen Cable Ratings Report as Released by Starz Encore Group on PR Newswire. Average Monthly Rating, October 2004. http://www.prnewswire.com/cgi-bin/stories.pl?ACCT=109&STORY=/www/story/11-11-2004/0002404211&EDATE. Subscriber number is based on self-submissions of the networks to NCTA.

Top 5 Cable Network Ratings Rank 1996-2004

Network	1996	1997	1998	1999	2000	2001	2002	2003	2004
TNT	1	1	1	3	3	3	2	1	1
TBS	2	3	4	2	2	5	4	5	10
ESPN	3	7	7	6	-	12	8	14	6
USA	4	4	2	1	1	2	6	7	3
Lifetime	5	5	5	7	6	1	1	2	8

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.