The Cable Viewpoint

by Colin D. Watson

The cable television industry welcomes Madame Sauvée’s recent initiative on Pay TV. As an industry we have been encouraging the development of the pay concept for many years. It has always seemed logical to us, particularly considering the increasing penetration of cable, that the cable plant has tremendous potential to provide not only off-air service, but also discretionary services of a wide variety.

One such discretionary service is a movie and theatrical event channel. Another might be a “frame grabbing” data retrieval channel. A third could be a “university of the air” channel, which, for a fee, allows viewers to take credit-bearing courses in their homes. The variety of programming material which could be offered to cable subscribers on a discretionary “pay to view” basis is wide indeed.

The Canadian cable industry is excited about participating from the outset in a venture that may provide a vital stimulant to the Canadian independent production industry. Madame Sauvée’s speech on pay television at the June CCTA Convention stressed that:

“It (Pay TV) must ensure the production of high quality Canadian programmes that Canadians will watch.”

Madame Sauvée’s speech also requires Pay TV to:

“...ensure that programmes are produced in Canada for international sale”

and

“... provide a range of programming which does not duplicate that now offered by broadcasters and must do without siphoning programmes from the broadcasting system.”

These are worthy and realistic objectives for Pay TV; however, we in the cable industry believe that a fourth objective should be added:

“It must work.”

In the context of “making it work”, it is useful to examine the U.S. experience on Pay TV. The developments in Pay TV south of us have been well documented and reported. While little statistically valid analysis has been undertaken on the U.S. experience, some generalizations can be made that are relevant to those of us hoping to participate in the development of Canadian Pay TV. These are as follows:

- At a price of about $8/month approximately 25% of the subscribers on a cable system will try Pay TV. There appears to be a real resistance to higher-cost Pay TV by cable subscribers.
- Once sold, a subscriber needs constant reselling to prevent disconnection. The disconnection rate is high.
- The 1,000,000-odd U.S. pay cable subscribers are virtually all paying on a subscription basis rather than on a per-programme basis.
- First subsequent-run American movies is the only consistently successful programme fare to date. Live sports are also an attractive offering.
- The pay channel should only carry material that has a high perceived value to the subscriber. “Filler” material should probably not be used.
- The pay channel should be operated more in the mode of a theatrical outlet than in the broadcasting mode, i.e. one or two events a day repeated over a series of days.
- There does not appear to be any significant siphoning or fragmentation as a result of the implementation of U.S. Pay TV. Pay TV induces extra viewing hours.
- Different markets appear to require some different programming. What sells in New York does not necessarily sell in Kansas City or — putting it another way — New York City citizens have different tastes than those in Kansas City.
- In markets with low cable penetration, Pay TV is helping to sell cable.

Before trying to adapt the U.S. experience to the Canadian scene, it is worthwhile to examine some of the basic differences and similarities in the two markets. The following stand out:

1. Canada has much higher cable penetration than does the U.S. Hence, unlike many U.S. cable operators, the Canadian cable industry will not be able to subsidize Pay TV rates through increased cable revenues gained from an overall growth in cable penetration.

2. Pay TV in Canada must dedicate a certain percentage of gross revenue (15% has been suggested) to Canadian productions that, at least in the early years, will not have subscriber appeal comparable to the imported product.

3. Canadian viewers are very much attuned to U.S.-style programming and from a marketing standpoint we can probably conclude that a successful U.S. pay programme format will be successful in Canada and vice versa.

Insofar as the only consistently successful programming format on U.S. Pay TV consists of the provision of U.S. movies, we can conclude that this format should be used in Canada to initiate the development of pay cable and to subsidize the development of a Canadian independent film industry from the revenues thus generated.

One might conclude after examining the U.S. experience on Pay TV that an economically viable Canadian industry capable of sustaining Canadian productions could never develop, i.e. the Pay TV revenues would be comparable to those in the U.S., however, the product costs would be significantly higher.

The creation of one national Pay Television Network, however, as a buying monopoly could avoid the dysfunctional buying competition that currently exists between major Canadian broadcast networks in competing for U.S. product, and thus free up programming funds for the acquisition of Canadian product.

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The model envisioned by the cable industry for Pay TV in Canada is shown schematically in Figure 1.

We envision a national Pay Television Network (PTN) with an English-language division and a French-language division. PTN should be a non-profit or "flow-through" operation set up only with provisions for investors to recoup their initial capital investments. PTN should have four distinct functions:

1. The purchasing of U.S. movies.
2. The purchasing/commissioning of Canadian product.
3. Helping the cable company exhibitors with the marketing of PTN product.
4. The distribution of its product to the cable company exhibitors, whether by tape or by direct satellite feed.

PTN must clearly operate in such a manner that it benefits the entire Canadian broadcasting system and specifically engenders the development of a Canadian production industry that can compete on an international scale.

The cable operators' self-interest in Pay TV is served through the provision of the exhibition facility. The cable industry is currently examining the feasibility of providing the subscriber hardware (perhaps upwards of $100 capital cost per subscriber) and the additional services required to implement Pay TV. At this point, the economics are far from clear; however, the cable operator will certainly require, as a minimum, 55% of the gross subscriber revenue to finance operating expenses, the potentially heavy terminal capital costs and miscellaneous other capital costs.

Naturally the cable industry's continuing interest in providing the exhibition facility for Pay TV is dependent upon its ability to earn a fair rate of return on its incremental capital investment for Pay TV.

The independent Canadian producer is well served by the proposed model as not only does he have access to a guaranteed flow of investment funds, but he also has guaranteed exhibition for his finished product.

The Canadian broadcaster will benefit directly by having access to additional Canadian content (after the initial Pay TV run) and indirectly through added revenue directed to broadcaster-owned production facilities.

PTN itself should probably have ownership and/or directorship representation from all sectors of the Canadian broadcast community as well as the production industry.

There may be a valid argument for public representation in PTN. PTN must, above all, be designed in such a manner that the creative elements of the Canadian production industry always have access to PTN program-
ming dollars. PTN must not fall into the trap of channelling its funds for production towards "in-house" facilities.

The cable industry feels that it must have a strong voice in PTN for two reasons:
1. It has all of the capital at stake and from a business standpoint cannot be without an influential voice in the affairs of a programming monopoly with which it must deal for product.
2. It has a vested interest in ensuring that the product buying decisions, particularly the Canadian ones, are based solely on the criteria of creative excellence and marketplace acceptance.

As a positive response to Madame Sauvé's initiative on Pay TV, the CCTA recommended to its membership that a company be incorporated to coordinate the industry's activities on Pay TV. PTN, Pay Television Network Ltd., has filed for incorporation. The immediate objectives of PTN are:
1. To promote the participation in PTN by all CCTA member companies.
2. To encourage broadcasters, independent producers and the interested public sector representatives to work through PTN to seek mutually acceptable solutions for the implementation of Pay TV. PTN is not exclusively a cable operators' company.
3. To present a report on September 1st to the CRTC that outlines a "workable" Pay TV model that maximizes the benefits to the Canadian independent production community.
4. To act as a data resource for all segments of the communication community and the concerned regulatory authorities.
5. To apply for a Pay Television Network licence if our plan is favoured by the regulatory authorities after the September filing.

The management of PTN has initiated discussions with all elements of the broadcasting community, including the CTV network, the CBC and many independent broadcasters. At this point, discussions are continuing and we are hopeful that the broadcasting industry and the cable industry will find a common solution to Pay TV.

We have devoted a great deal of our time to date in seeking the help of the independent Canadian producer in the planning of our model. Naturally the production community represents a range of interests but, here again, we are quite optimistic that our current thinking is coincident with that of the independent producer.

In addition to our continuing dialogue with broadcasters and producers, we are developing a wealth of economic data on Pay TV that, with the help of our computer model, should, by September 1st, allow us to present a good business plan to the CRTC indicating clearly the profit potential and the "social dividend" potential of Pay TV.

The cable industry welcomes Pay TV as an opportunity to work within the broadcasting industry to provide a new economic stimulus to the Canadian creative community. It is certain that this stimulus will contribute significantly to the development of an economically viable Canadian production industry.

(Figure 1)

Proposed Model for Implementation of Pay Television

- Foreign Product
- Canadian Producers
- Pay Television Network
- Exhibitor (Cable Operator)
- Pay TV Subscriber

$2.00/mo. (25%)
$3.60/mo. (45%)
$8/mo. 100%
$3.60/mo. (45%)
$1.20/mo. (15%)

- distribution to exhibitor
- marketing to exhibitor
- U.S. product purchase
- Canadian product commissioning