

competing over the airwaves

by Bharat N Anand

Associate Professor of Business Administration, Harvard Business School

Why does a couch potato prefer *Ek Mahal Ho Sapna Ka* over *Kahani Ghar Ghar Ki*? How do viewing habits affect the strategies of the television networks? And how does one make sense of the shifting fortunes in the competitive landscape of the television industry? Strategy professor Bharat N Anand offers some strong clues to these difficult questions based on his recent empirical analysis of television viewing behavior.

The setting: Between January 2000 and January 2001, viewer ratings of Star Television jumped more than 400%, from 1.8 to 8 Television Rating Points (TRP's). Over the same period, ratings of Zee TV fell almost 25% from 4.5 to 3.5 TRPs.

This turnaround was all the more dramatic because of where Zee had been. As recently as 1999, Zee aired eight of the top ten, and 35 of the top 50 rated shows on prime-time television. By any measure, Zee had dominated the Indian cable and satellite television landscape for almost a decade. So what happened?

Several accounts of the story have been heard thus far. Zee had become complacent, some said. Others felt that Subhash Chandra had become pre-occupied with too many new ventures, most notably satellite telephony, and had inevitably paid less attention to the channel. Another view held

that it was only a matter of time before Star figured out the nuances of Indian viewing habits—and now they had.

Globalists argued that a small, local player like Zee could never ultimately compete with a global giant like News Corporation. After all, David may win in fables, but Goliath succeeds in business. Any number of other explanations were provided for the shift in competitive position. Siticable. Cablewallahs. Lobbying. Local tastes. Regardless of the explanation, though, there was consensus on one issue—it appeared to be 'game over' for Zee.

Or, is it? As much as one would like to think that the primary drivers of success in the Indian television market are somehow different than in other countries because of differences in tastes, regulations, industry structure, and so on, they are probably not. The turnaround

in fortunes may have much less to do with the idiosyncratic features of the Indian competitive landscape, and more to do with some basic facts about television viewing habits.

basic drivers for tv viewing
People's tastes are often said to be 'local.' Even if one were to compare the USA and the UK markets, there is virtually no overlap in the top shows on television. When it comes to other markets, differences are even more striking but these differences mask important similarities. While tastes for content may be different across markets, certain patterns in television viewing habits appear to be similar.

principle one, inertia: Viewers tend to 'stick around' while watching television. Sure, viewers surf channels, more so in

the remote control era. However, once a person settles down to watch a program, she tends to switch away far less than commonly thought. If one were to ask the simple question: What is the likelihood that a viewer who watched the 8.00 pm show on a channel would end up watching the 9.00 pm show on that same channel? The answer is a whopping 56%. No, that is not a typo. It's 56%.

What is even more impressive is that this finding is extremely robust—the number is high for male and female viewers, both early in the night and late night as well, for dramas and sitcoms and other show genres, and for any night of the week.

If one were to look at the 'persistence rate' during a show rather than between shows, the number would be even higher. One might argue that attributing high rates of persistence to viewer inertia is misleading, mainly for two reasons.

First, television channels often air similar shows in successive time slots, in which case a viewer with a taste for the first show is likely to have preference for the second show as well. Secondly, persistence may simply be because the viewer is hooked by promos, since channels often promote a particular show during the previous one.

While it is a proven fact that 'homogeneous programming' and cross-promotions are important

drivers of television viewing, it turns out that persistence is high even after controlling these factors. In some of these cases, the persistence rate is as high as 80%. Though no one is quite sure why persistence in TV viewing is so high, there are some sensible explanations.

For one, watching television is an inherently passive activity and the viewer does not want to keep searching and switching. Moreover, tv programs are often like stories. Once you are hooked to the story, you stick around - you'd rather watch a half-hour program in its entirety rather than two minute clips of fifteen different programs.

principle two, promos: Another important factor that influences a person's decision to watch a show is whether she has been exposed to promotions or advertisements for that show.

These television promos, also called 'previews', or 'tune-ins', are short, usually not more than 10-20 seconds in length. But they are highly effective. Some recent studies that we undertook reveal that, on average, exposure to a single promo increases a person's probability of watching a show by more than 41%.

Again, different viewers respond differently. Some are more easily hooked by exposures, others less. Promos for 'specials' (one-off shows) have a different impact than promos for regularly aired shows, but effects are uniformly large, and virtually

across all types of viewers. This, of course, should not be surprising.

Television networks spend a lot of money on promotions for their shows. Though there may not be a direct cost of production since promos are simply 'clips' from already existing shows, the channel forsakes valuable revenue from commercials by airing their own promos.

A quick glance at prime-time programs reveals that for every five minutes of commercial time, television channels typically air one minute of their own promos, making the opportunity cost of promos large. Very large. Indeed, the ratio of advertising to sales for television channels is larger than for most other industries.

principle three, identity: A third robust finding about television viewing habits is that people like to watch shows about themselves. It is common for a person's sense of 'identity' to influence her behavior and in the context of television viewing, identity simply manifests as what show you watch. Older people like to watch shows with older characters. College students watch shows centered around characters of their age. If the show has predominantly female characters, men will tend to stay away. One might believe that men like to watch women and women men, but a show that comprises characters of only one gender will tend to drive away

viewers of the opposite gender.

With few exceptions, people like to watch programs related to people of their own gender, age group, income group, race, geographical location (urban or rural) and so on.

Identity is not limited to individual programs. Channels have identities as well, may be different ones for different nights. In USA, for example, ABC was known to be the 'family channel' on Friday night and CBS the 'women's channel' on Monday night by virtue of their program lineup on these nights.

Similarly, MTV is synonymous with music, young, and 'cool', Zee and Sony for family entertainment. Of course, program content and the channel identity are not unrelated. A channel's identity is ultimately determined by its programming lineup.

If MTV were to start airing adventure dramas or educational programs for twelve year-olds, its identity would inevitably change.

Why are channel identities relevant? Simply to guide viewing decisions in case of information overload. With over 10,000 programs on the Indian airwaves, a viewer can hardly be expected to be aware of what program is on every channel in every time slot. A viewer might tend to decide what she watches based on the profile or identity of the channel.

Bob Pittman, the founder of MTV and CEO of AOL Time Warner, put this succinctly when

he said, "Consumers buy brands, not products."

One might easily paraphrase this in the context of television: "viewers are loyal to channels, not just shows."

consequence

product spillovers: The factors of inertia, promos, and identity have one important consequence. They imply that what you watch on television depends on what else you have watched. The reason being that a viewer who tunes in to watch a hit serial on a channel would end up watching the subsequent show on the same channel (effect of inertia), as well as other shows on the same channel that are cross-promoted during the hit.

And, because programs shape channel identity, the same viewer is likely to believe that the channel airs quality serials, resulting in further 'channel loyalty.'

If these spillovers are large, as analysis indicates they are, it is possible that a dominant show might create enough spillovers to turn a channel's fortunes around.

As concrete evidence, consider a simple example. *Kaun Banega Crorepati* (KBC) first aired on Star on 3-July-2000 at 9.00 pm. Only a month later, in August 2000, Star's ratings *over the entire weekly lineup* jumped from 1.55 to 8.15 TRPs. Sure, the ratings of KBC itself were great. But the ratings for the shows that aired right after KBC on the four nights of the

week also showed a dramatic increase. And, here is the real icing on the cake. While ratings for Star's shows on the nights that KBC was aired jumped by 380%, the ratings for its shows on nights that KBC was *not* aired still jumped by 320%.

Star benefited from this initial ratings increase without making virtually any changes to its programming lineup on those nights. KBC was not just a hit, it was a runaway train and all of Star's other programs were happy passengers along for the ride.

The point is that Star's dramatic turnaround, and Zee's concurrent demise, was in large part the consequence of one strong show. Moreover, none of this should have been surprising. It is exactly what an understanding of television viewing habits would lead one to predict.

News Corporation (the parent company of Star television) has done it before. Like Star before KBC, Fox was a struggling channel in 1992. Then in 1993, Rupert Murdoch bought the rights to a package of National Football league games, the most popular sport in the USA, and one of the most watched Sunday programs on American television.

To do so, he merely outbid his competitors by 100%. That's right. Fox paid \$395 million for the rights to the games in 1993, when the highest bid from any competitor was a full \$100 million less.

The result? Two years later, when ratings for the other three networks continued to decline (as a result of the cable television boom), Fox's ratings held steady.

And just like the spillover effect of KBC on Star's other shows, Fox's entire Sunday night lineup benefited dramatically from the NFL, helping Fox to jump from a weak number four network to emerge as the market share leader on Sunday evening.

Better still, thanks to aggressive cross-promotions for its other shows, Fox's programs on Monday through Friday nights held their ratings constant despite falling ratings for its competitors.

implications for business strategy

strategy one, revenue accounting: Besides illustrating the magnitude of spillovers, the Fox-NFL story raises an intriguing issue that is common to the Indian context as well.

Put simply, how can a network executive properly evaluate the true worth of a program? This question is all the more important in India, considering that more than 75% of the programs aired by the three major television channels in India namely Star, Sony, and Zee are not produced internally, but bought from independent producers like UTV, Balaji Studios and Adhikari Brothers.

Consider this question as it

applies to shows that are not hits. In the example of Fox and the NFL, Fox's Sunday night programs clearly experienced a dramatic upsurge in ratings.

But to what extent should producers of those programs be rewarded for the improved ratings? One might argue that increase in ratings reflect fortuitous scheduling rather than superior production or artistic talent.

The spillover effect challenges network executives to uncover the true value of a television program. There are reasons why their attempts to do so may be way off the mark. Ignoring spillovers altogether may be one of the most common.

But organizational design and accounting systems can also play a role. Consider the following example. You are head of programming of a major television station that airs news programs, serials, dramas, sports programs, and so on.

The end-of-year income statement reveals that advertising revenues generated from the sports programming division did not cover its production costs. One alternative is to substitute new and better programs for sports. For all the reasons mentioned, this strategy could be misguided.

Conventional accounting systems fail in the circumstances because they tend to ignore the intangible spillovers across products. Organizing the company

into product-centered silos can amplify these decision biases.

Entertainment companies in different businesses, be they in television or film or new media, appear to be learning this lesson the hard way.

Now, consider the answer to the question: How much should a network pay for the rights to a hit program? A plausible guess would be 'depending on the advertising revenues expected to be generated from commercials aired during the program'. Wrong again.

The previous discussion suggests that because of product spillovers, direct advertising revenues may have little correlation with the true worth of a program. NBC extended its rights over ER, the top-rated program for the past three years by an offer at \$13 million per episode, or more than \$300 million per year according to unofficial estimates.

This figure far exceeded the entire annual advertising revenues from ER, and was enough to wipe out more than two-thirds of NBC's entire annual profits. Crazy, one might say. On the other hand, without the enormous spillovers of ER, NBC probably guessed that it would make no money at all. This points to a fact which often puzzles some, and disturbs others.

The large spillovers between television shows imply that some fraction of the profits generated by each program on a channel should correctly be

imputed to the hit show from which it derived spillover benefits.

strategy two, performance measures: Companies often rally their troops around specific performance measures. Evidence on viewing habits suggests that not all metrics may be appropriate and some can be misleading.

During the height of their channel's popularity, executives at Zee network, like those at many channels in the USA, would cite different measures of advantage. Higher advertising rates. Superior control over intellectual property. Voluminous consumer feedback. Or the fact that Zee had '35 programs in the top 50', 'sixteen in the top twenty', or 'eight of the top ten' as evidence of its absolute and overwhelming superiority in the ratings game. The implication was clear: even if Zee were to lose two or three programs, its advantage would be unassailable. Indeed, similar comments were attributed to senior executives at Zee and Sony, who, even after indications of the success of KBC, argued that no single show could significantly reshape revenue tables.

But television is neither like soft drinks (Coke has the market share lead over Pepsi in more than 70% of national markets), or sport (Tiger Woods has won five of the last six major championships) where the advantage of the leader is robust. Even if Tiger Woods were to lose a particular

tournament, his odds of winning the next would still be the best in the field.

Spillovers in television imply that a different logic is at work there. Simply put, having the top few shows can create domino effects all the way down the lineup. It would be a good bet that the channel that airs the top two or three shows also has the lead in average market share across all shows in the lineup.

An analysis of tv ratings in USA shows that in most weeks, the network with the number one program also has the highest average ratings for the week. Coincidence? Hardly. With product spillovers, the advantage of the market leader may be a lot more fragile than is apparent from market share data of the kind that was pointed to by Zee.

Reliance on such metrics can only induce complacency in an organization and that might be more insidious and harder to overcome, than the lead in the ratings game.

strategy three, sustainability: The dominance Star established in the ratings game had one visible consequence. Star, and Amitabh, were the buzz words everywhere- Billboards, promotions, new contracts, magazine articles and endorsements.

Based on this, some might see a parallel with other markets that have the characteristic of the 'winner takes it all', and conclude

that it was 'show over' for Star's competitors. Microsoft, after all, established a dominance in DOS that carried over into Windows 3.0, then into Windows 95, and later into newer versions of the operating system.

There is, however, one crucial difference. Hits in the tv and entertainment industry have a very short life cycle, a limited shelf life. People's tastes and interests change. What is hot today was not two years ago, and will not be two years hence. Consider that the hottest video game in 1980, Pong, was all but forgotten five years later. Or that the hottest music star in 1990, M C Hammer, was old hat by 1992.

This suggests a reason for hope for Zee and Sony. After all, it is unlikely that Star has figured out the 'recipe' for creating hits. No company ever has. Television programming is an inherently creative process and creativity does not replicate easily.

Once again, television battles in USA offer a reality check. Each one of the major three networks at some point or the other dominated the ratings game between 1970 and 2000. Indeed, each often dominated two or three times. But it never lasted. CBS rode its hits, *Dallas* and *Dynasty*, to establish market share lead from 1980 to 1985, at which time NBC's hits *The Cosby Show* and *Cheers* caused a reshuffle in the ratings game.

Similarly, NBC piggybacked

its hits, *Seinfeld* and *ER*, to establish market share lead from 1994 to 1999. But then, ABC propelled its way to the top on the coattails of *Who Wants to Be A Millionaire*. And, to complete the circle, it was CBS's turn again with *Survivor* in summer 2000. In each case, a network that was lagging in the ratings leapfrogged its competitors to the number one slot in market share by piggy-backing on the strength of one or two hits. At the crux is the fact that leadership positions in television ratings are simply not sustainable over the long haul.

strategy four, competitive response: The same logic offered a reason for hope for Zee in the immediate aftermath of KBC's launch. If Zee's ratings lead could be undermined so quickly, it could turn things around as quickly by focusing its efforts on developing a strategy to guide the content it airs.

Zee did have a response early on. Six months after KBC had aired, Zee launched *Sawaal Dus Crore Ka*, a quiz show not too dissimilar from KBC. The attempt failed miserably. Bad execution? Wrong timing? Miscast hosts? All factors may have contributed but it wasn't poor implementation only, it was bad strategy.

This had two devastating consequences. First, to a viewer interested in quiz shows and celebrity hosts, differentiation

between the two shows on offer was minimal.

This meant that Zee was essentially fighting for market share among KBC's existing pool of viewers—a losing battle for a firm in the number two position. Imitating the market leader is not always bad strategy because the follower can avoid the costs of mistakes of the early mover—allowing them to come up with products of higher quality or lower costs. Neither of these factors, however, is relevant in the business of television content.

The importance of 'identity' suggests that Zee would have been better off targeting a different pool of viewers with a different kind of program.

In USA, networks never air programs that target an audience with the same demographics in the same time slot. If ABC airs a sitcom centered on male characters in the 9.00 pm time slot, CBS might counter it with an action drama or a newsmagazine.

This strategy, called 'counter programming', offers gains for all networks. Each network, by attracting a different kind of audience, ends up increasing the total tv viewing market than if they competed head-on for the same viewers.

Segmenting a larger audience does not hurt. After all, if total viewership expanded from 100 to 140 viewers with counter programming, its better to grab 40% of the total audience pool (56

viewers) than 50% of the original pool (50 viewers). The second consequence of Zee's new quiz show was on its costs. Zee abandoned its strategy of low-cost programs for the wrong show. Worse, it did not win any points with the analysts for failing to impress that it was in any position to challenge Star over the long haul.

some closing thoughts

Tastes are local. But it appears that viewing habits are not. Indeed, the main factors that drive viewing behavior seem to be common across different parts of the world. Understanding these 'global' patterns and their consequences may help in forming strategies in particular local markets.

What makes this all the more intriguing is that spillovers explain both the dramatic rise to the top for Star Television, as well as the fact that its position there will not last forever.

With KBC now having had its run, the battle for leadership may be up for grabs again. Zee, or Sony, might once again be able to capture audiences to their benefit with a few strong programs. In which case, the battle for the television airwaves is hardly over. It may have only just begun. ■

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