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FROM John S. Robling OFFICE Advertising/Public Relations

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To: CHARLES E. SWANSON
PETER NORTON
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MORTIMER J. ADLER

Subject: CABLE

And now, for a moment, a few dissenting voices:

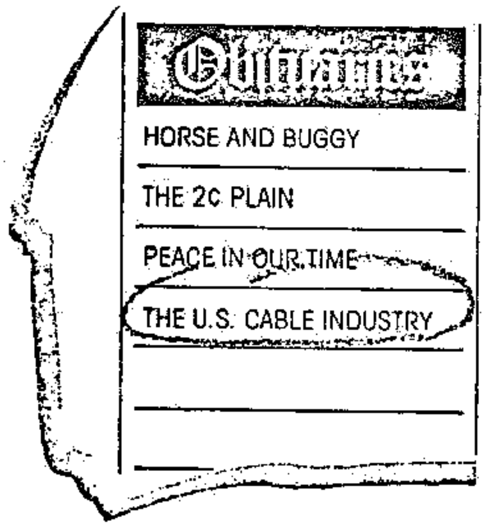
> "We are a technology in search of demand, rather than a demand in search of technology."

Three thoughts from three points of view. (Note plug for CBS and AT&T!)

JSR/dt

Attachment

THE DEATH OF CABLE



A DECIDEDLY MINORITY OPINION BY GERSH MORNINGSTAR

Cable television, with its pay services proliferating like maggots over a corpse, is a rapidly decaying monument to greed, smoke, flimflam, shared ignorance and a hysterical desire to believe that the naked emperor really is wearing a magic suit of clothes.

Lots of people are making money in cable: lawyers, consultants, hardware manufacturers and suppliers. Here and there you may find a cable system itself actually breaking even or even making a small profit. On the whole, though, cable television is a deficit beast with a ravenous appetite for money. It eats banks and defecates financial projections for a bright industry future. The nice folks at Chase Manhattan or Continental Illinois or any of the other large banks who keep feeding the beast don't seem to mind. Like the happy little boy digging through a huge pile of manure, they are convinced that there must be a pony in there somewhere.

Bad news, gang: there ain't no pony, and the emperor is as naked as a newborn babe.

Before going on, I've one equivocation: It's not the concept of multiple signal transmissions from a single source that's bad business. It's the nonsense of stringing a piece of wire across the countryside to accomplish something better done by other means.

During the sixties there was this grand plan: every home in the country would be wired. The kind of interactive communications this would make possible would revolutionize the way we lived. Entrepreneurs crawled forth from the earth. Investors indiscriminately threw money at the scheme. During the seventies disillusion crept in as new technology made it clear that the scheme was flawed. By the eighties the notion was dead.

I'm referring to the 1860s, *not* the 1960s. The scheme was to wire every American home for the telegraph. But the lesson of history is that we don't learn from the lesson of history—and some of you have bet the farm on a machine you think will turn lead into gold. To paraphrase Winston Churchill, never have so many been so ready to accept the uninformed technical fantasies of so few: never has so much been spent on something so little understood as cable television. The cable industry has become trapped in what Ted Nelson in his book *Literary Machines* describes as the growing gap between its ignorance and the real world of technology.

In the August 24, 1981, issue of *Newsweek*, Michael Clark, vice president of program development for Showtime, calls the technology of cable "revolutionary." The idea is preposterous. Cable's technology is straight out of the midnineteenth century. Its application to information-handling problems and opportunities of the emerging twenty-first century is as bizarre as the buggy-whip holders that were faithfully installed on the early Studebaker automobiles.

The delivery system cable offers is clumsy, is expensive to install, is expensive to maintain, necessitates local community enfranchisement and is outmoded. There is a myth that such an idiotic setup is required to achieve the "interactive" feature of cable—the capability of establishing a two-way communication link between viewer and programmer.

Nonsense. The technology for such a two-way link without the need for hard wiring has existed for years. Right now, AT&T is perfecting individually addressable wireless telephones. If you have a Zenith System III, you can make phone calls through your TV set. All that's left is to combine the two technolofor existence instantly disappears.

As a practical matter, it's no argument, anyway. The number of interactive systems that are actually on-line in the United States can be counted on the fingers of one hand. Naturally, Warner Amex assures us there'll be lots more—and there must be a pony in here somewhere.

Cable's other argument is that it can deliver large numbers of channels. Certainly it can. So can satellites broadcasting directly to the home. But multiple signal transmission from a single over-the-air station, combined with AT&T's aggressive involvement, is the shovel that will actually bury cable. (More on this in a moment.)

The vast majority of cable subscribers in the United States are served by 12-channel systems. Twelve channels have generally proved adequate. As Bruce Mayer, executive vice president and general manager of channel 68, Boston's subscription television system (STV), observes, "How many different ABC channels can one individual reasonably watch?"

Every cable promoter, however, has a gimmick (backed up by financial projections) for getting rich: movie channels, sports channels, weather channels, women's channels (you know the catalog)—even, according to the *Wall Street Journal*, a modern Bulgarian art channel. It's all going to come flooding down that wire on a river of gold.

Sorry, gang. Cable is finished. Many things killed it, among them: (1) sticker shock, (2) human physiology and psychological trauma, (3) the lack of experts in the field and (4) the advance of technology. Pay attention, now, there'll be a test on Tuesday.

Sticker shock. Cable talk is always laced with discussions of huge sums of money. Everyone expects that the public is going to pay and pay. No one's bothered to ask the public if, in fact, it would pay. It may be time somebody did.

Ann Arbor, Michigan, where I live, is a kind of pay-service promoter's paradise. It's rich, sophisticated, growing and a perfect illustration of the rampant greed now pervasive in cable and the ancillary pay services.

We have cable, a Daniels-owned 30-channel system that charges a base rate of $11.50 per month. That buys 25 channels. (With a good antenna and a rotor we can get 26 right off the air, but never mind.) Recently we were offered four additional pay services for the following monthly charges: Warner Amex's Movie Channel at $9.95, Escapade at $7.95, Bravo at $12.00 and HBO at $12.00. You can get the whole package, however, for a mere $41.95 per month.

SORRY, GANG. CABLE IS FINISHED, AND MANY THINGS KILLED IT.

For another $15.00 you can also get HBO via multipoint distribution service (MDS). (The rates go up soon, so hurry.) That takes us to about $57.00 per month.

We have two STV channels available: $26.95 for one, $22.95 for the other. Make our tab now about $107.00 per month.

If we were in Chicago, come April 1982 we could add another $26.95 for SportsVision. Not to worry: the Detroit professional sports franchises are beginning to look at a similar service, so make the total about $134.00 per month.

If, in addition, we want to subscribe to any of the information services available here (Dow Jones; CompuServe, etc.), add another $100.00 a month, minimum, bringing us to $234.00 per month.

One other STV is licensed but not operating yet; another is applied for. Applications have been filed for a low-power TV to provide us still more STV. Another MDS will be on-line before 1982 ends. (All these investors are thoroughly convinced, on the basis of their financial projections, that the viewers around here are going to buy their services.) The total bill could top $400.00 a month, not including any other special services promoters just know will make millions.

Resistance in my town, like that in other towns, to all pay services is rapidly the public will refuse to be ripped off.

Sports Illustrated this past summer carried a couple of fine articles covering the cable fantasies of several sports entrepreneurs and system hustlers. Many see themselves getting rich by forcing the public to pay for that which has always been free, particularly high-school and college sporting events. Their argument sounds sensible enough: "For a price, we can carry the local high-school football game on one of our cable channels, a game that wouldn't be on television at all without us."

Any price may have at last become too high. An apparently innocuous lawsuit was filed in the Michigan courts just previous to the NFL *Monday Night Football* game between the Detroit Lions and the Chicago Bears October 19, 1981, challenging the NFL blackout rule on unique grounds. Detroit plays in the Silver Dome, which receives an annual subsidy from the state. The suit argued that a taxpayer-supported event cannot be denied to the public when denial is solely for the purpose of enriching a profit-making concern. The wheels of justice ground too slowly to prevent the blackout *this time*, but the issue is still to be resolved. The "smart" money is on the side of the taxpayer. Whoever wins, the suit holds profound implications for the purveyors of pay-television services. The entire issue of exclusivity, at least for taxpayer-supported sporting events, is up for grabs. And this particular suit is only the first skirmish in what promises to be a long, bitter and expensive war.

Human physiology and psychological trauma. One of our more popular catchphrases in these days of "information revolution" is "information overload." In the 1950s, systems scientist James G. Miller conducted some highly sophisticated research concerning what happens when individuals are presented with more information than they can effectively handle. Miller's work demonstrated that there are discernible, finite limits to the amount of information individuals can deal with, and there are both physiological and psychological consequences when those limits are exceeded.

Even though there are known effects of too much information, even though it is possible to determine how much is too much, the cable industry has proceeded in a state of reprehensible ignorance concerning the impact of its services upon cable viewers. It's not for lack of existing research; there's plenty of that.

The cable industry simply ignores it, apparently reluctant to find out anything that might upset its preconceived notions.

We do not know if 30-channel systems are better or worse than 20- or 12-channel systems. The demand for additional channels comes, not from viewers, who haven't been asked, but from the operators and from those who have their own hustles to execute. The cable industry is a closed system, feeding upon its own rumors, suppositions, fantasies and propaganda.

We don't know the long-range psychological consequences of systems with 100 or more channels. Some evidence suggests they may be serious. Yet RCA is planning on putting up 20 more communications satellites. Added to what's already there, that's going to make more than 500 channels available, and there will be a great many more to come. We know there *are* finite limits on the amount of information a viewer can and will tolerate. We don't know what those limits are. The research has not been done. Based upon Miller's work, however, and that of Neal Miller, Leon Festinger, Wilbur Schramm, David McClelland, Kurt Lewin, Hideya Kumata and a whole host of notable others, there is every reason to believe that the physiological and psychological limits are far less than cablecasters suppose them to be.

Lack of expertise. Cable television and its ancillary pay services represent a multi-billion-dollar industry run with all the sophistication of a kid's Kool-Aid stand. There just aren't any experts. It's true you can peel off a thousand-dollar bill, send it to an outfit in Connecticut and get back 15 bucks in change and a spiffy report filled with charts and graphs. Their own promotional flack states: "High stakes are involved, and the decision-makers must proceed on the basis of very meagre information about the actual revenue and profit potential of these new services." What tends to get fed back to broadcasters are their own speculations that were based, in the first place, on almost total ignorance of the people they propose to serve.

There are no definitive studies of the cable viewing market. No one knows when cable is strung who will subscribe and who will not. That's why the cable folks talk about the number of homes their cable passes, not the characteristics of the audience they propose to serve.

TURNING AT&T LOOSE ON THE CABLE INDUSTRY WILL BE LIKE PUTTING A LION IN A DEN OF DANIELS.

With few exceptions, cable operators generalize from their own experience to the entire market, a process fraught with hazard. (Just as a famous broadcasting executive once refused to slot the NBC Symphony at a certain time on radio because he knew everyone was out playing polo at that time.)

What is even more surprising is that banks have been so willing to pour money into such an ephemeral enterprise. If I were the Chase Manhattan Bank, I would wake up each morning in a cold sweat because of the millions I had committed to an industry about which so little is known, an industry that has exhibited so little interest in finding out about itself, an industry that faces such a shaky future as a result of imminent competition from such powerful forces as multisignal over-the-air television and direct satellite-to-home services.

Technology. In the late 1960s the Federal Communications Commission authorized experiments in which a single over-the-air TV station was allowed to send out three different signals simultaneously, using sidebands and engineering magic. Though apparently only a marginal success, it was a beginning.

We've come a long way in the past 15 years, thanks largely to the space program. Digital transmission of video signals makes far more efficient use of present available channel capacity. Existing technology gives the over-the-air station the capability of transmitting a great many simultaneous signals with no difficulty and only minor modifications of existing sets. There is at least one electronics firm presently experimenting with digital transmission of partial video signals, enhancing and reconstructing the picture with information provided by microprocessors right in the TV set. This frees up so much extra space on any given channel that a single over-the-air station is expected to have the capability of transmitting up to *80* separate and distinct signals.

Digital transmission of video signals opens up yet another possibility: movies on demand, fed down your existing *telephone* lines. At least two different techniques, I am told, already exist.

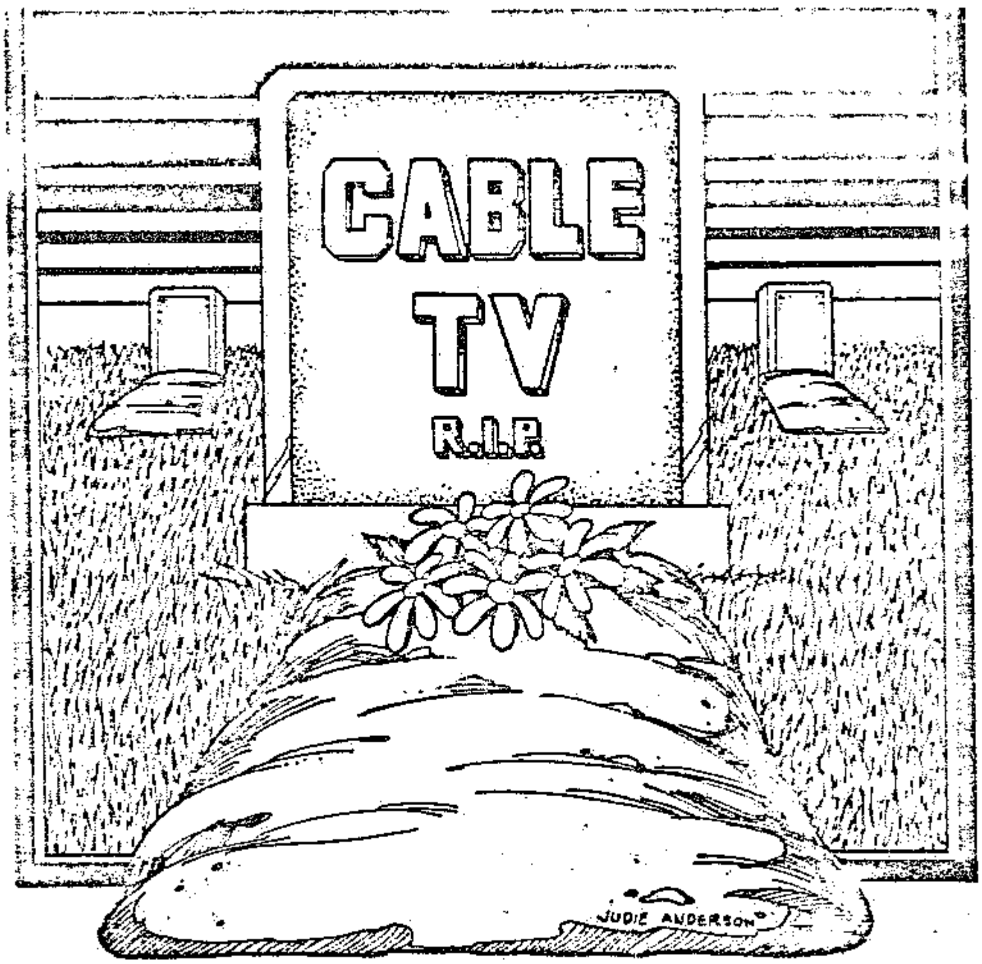
And the mention of phone lines brings us back to Ma Bell, the mother of us all. For those with the mistaken idea that there may still be some life left in cable, let AT&T deliver the technological coup de grace. On October 7, 1981, the U.S. Senate passed its version of the new communications act (S. 898). If the House version comes even remotely close, TPC ("The Phone Company") will at last have the freedom to move into the video industry it has sought for so many years. Given the relaxation of regulations, AT&T fully intends to become *your* total information company, including *all* forms of video.

AT&T may be the best-managed company in the world. It also has vast research capability (it cares about research) and the technical and financial clout to bury anyone it wants to. Turning this sophisticated monster loose on the naive and childlike cable industry will be like putting a lion in a den of Daniels. And it is loose. Before the hands were lowered in the Senate, AT&T and CBS had announced a joint test of a two-way videotext system. Next comes graphics. Then pictures that move. Never bet against TPC. Remember who killed the home telegraph. Goodbye, Columbus. Cable is dead. Take the money and run.

There's more that can be said about the death of the cable industry. Much can be said, too, about the imminent demise of STV, but in both cases, why belabor the obvious? Reduced to an hour or two, the history of cable would make a great, if somewhat silly, comic opera. Certainly a few of us, at least, would leave the theater laughing; but of course, we were laughing going in.

GERSH MORNINGSTAR is a professional broadcaster, writer, synectics consultant and market research specialist.

Cable TV: is it obsolete before its time?



Ron Alridge
TV-radio critic

WE'VE ALL HEARD those gushing stories about how cable television is going to take over the country; about how it won't be long before we're all wired for 50 or more channels each throbbing with programs more tightly tailored to our individual needs and tastes.

Heck, I've written a few such cable stories myself, even as I've tried to warn that cable won't necessarily be as big and beneficial as some cheerleading enthusiasts maintain.

But nothing I've written or read throws as much cold water on the much-ballyhooed cable television revolution as the current issue of Emmy magazine, published by the Academy of Television Arts and Sciences. Writer Gersh Morningstar, billed as a broadcaster, writer, and market researcher, has penned an obituary for cable. He thinks the boom has turned out to be a fizzle and that cable television is dead as last spring's daisies.

The death was caused, says the magazine, by price, new technology, ignorance, and plain old human nature.

The projected price is awesome, up to $400 a month for subscribers determined to buy everything now on the pay TV market. Even if people had the time or need for all those services, which they don't, they wouldn't want them because humans can handle just so much information before they start tuning it out. Meanwhile, the cable industry is in the hands of incompetent bozos who can't seem to figure out what to do with their new technological toy, which really isn't new at all and is in fact obsolete.

It is a dreary picture accurately labeled by Emmy editors as "a decidedly minority opinion." As with many minority opinions, however, the article's key points deserve further discussion.

The price of cable TV has always bothered me. Basic service is fairly cheap, almost always less than $10 a month, but when you start adding extras such as uncut movies and sporting events, the price can soar. Although the cost of a good, varied cable service falls well below the $400 mark cited in the article, it can easily exceed the cost of telephone service in many homes. Is America really ready, willing and able to pay that kind of money for television, which we've previously received for free? In a country where most people don't regularly go to the movies, I'm not so sure.

Likewise, I'm troubled by the people who seem to be running the cable TV industry. My very unscientific observations have turned up too many managers who know too little about such things as customer service, programming, and public access channels. The typical cable system in this country has only about a dozen channels, most of which are little more than huge antennae carrying the shows televised by ABC, NBC, CBS, and their affiliates. Too often, cable service is not available in poorer neighborhoods. And when something goes wrong, which it does, getting help can be difficult.

In one city I lived in, the local cable company had so few telephones that it was almost impossible to get a call through. I received a call the other day from a suburban Chicago reader complaining that a cable company in his neighborhood wouldn't hook up its basic service without first requiring the subscriber to endure a sales pitch about other services. The industry is young and sometimes dumb.

Perhaps the most intriguing possibility of all is that cable has become obsolete even before it has emerged from its infancy. While the industry has muddled along, snailing its wire through the country and underwhelming the world with its programming, others have been working on exotic new forms of communication. The day is fast approaching when satellites can beam programs directly, and cheaply, to individual homes. Regular television stations may soon begin broadcasting several programs simultaneously over a single signal. AT&T, the giant telephone company that already has the nation wired, is slowly creeping toward becoming a huge cable-TV system.

Cable TV may not be dead, but it could be terminally ill. It's something to think about.

Ron Alridge appears in Tempo Monday, Wednesday, and Thursday and in sports on Friday.

GUEST SPOT

Who Really Wants Cable TV?

By Raymond E. Joslin

(Editor's note: The following are excerpts of remarks made by Raymond E. Joslin, vice president and general manager of Hearst Cable Communications Division. He offered his observations at the Annenberg School of Communications, University of Southern California.)

Many of us in the cable-network programming business are assuming that the major-market systems will develop rapidly. More importantly, many are predicting that because technology allows carriage of 50 to 100 channels, automatically there will be 50 to 100 programming services sometime down the road.

This is shaky logic. If you examine our free-enterprise system, you will find that generally, when a demand existed, an entrepreneur or inventor filled that demand. (Or a promotor created the demand and then the entrepreneur or inventor filled the demand.)

We are assuming that process works in reverse, as well. We are assuming that invention is the mother of necessity. We are proceeding down a path that offers the proverbial cure for which there may be no proverbial disease. We are a *technology* in search of a *demand*, rather than a demand in search of a technology.

There will be as many channels of service as people are willing to buy, regardless of channel capacity.

Look at the numbers. J. Walter Thompson says that major-network prime-time shares will drop to 70 by 1990. Assume for the moment that today is 1990. The universe of television households is 100. If the major networks have a 70 share, that leaves 30. Assume pay-television only has a 10 share, a conservative estimate because of the nature of the service. That leaves 20. Divide that in half because the cable industry will have achieved a 50-percent penetration of all television households by 1990. That leaves a 10 share universe for the non-pay cable networks.

The question is: How many quality non-pay cable networks can be supported? The answer: five.

The real question becomes: How many advertiser-supported, non-pay, *quality* cable networks can be fed from a 10 share? (Remember we are talking 1990, not 1981.)

The real answer: five, at best, not the 20 or 40 some are talking about. Five, even if we employ the best target-cast audience practice that creative minds can concoct. Five, even if we solve the two major problems confronting this new industry:

- Convincing the established TV advertising community that cost-per-thousand benchmarks no longer apply, and that cost-per-quality-exposure does. Changing the thought process of a 30-year institution is not an easy task.
- Producing quality programming at a fraction of commercial-network programming costs. This is a tough assignment because of major-network precedence, and because the creative community currently does not understand the economics of target-cast networking.

Somehow, there has to be a balance between programming costs for a quality product and the price that advertisers are willing to pay for small target audiences. If not, we have no business.

How does one build a strategy for participation and success in this new business? The task is knowing the questions—let alone the answers. If you ask what might be the process (and you are willing to accept one man's musings), I would respond as follows:

1) Unfettered and Unconditioned Creativity

Assume that past major-network practices are for guidance only and may not apply to this new medium. Who says that one has to provide a 10-hour-or-more service to be a network. No one requires that a network has to be continuous, or even entirely on only one transponder. Perhaps target-cast programming is more like magazine publishing than traditional television.

2) Distribution—Satellite Position

You can publish the best magazine or newpaper, but if you don't have a place in the home or on the newstand, no one will ever know.

3) Product—Produce for Quality, not Quantity

Concentrate available financial (and other) resources upon quality and not upon filling a huge time space because you think you must provide 10-12, or 24 hours of service in order to be a network. "ARTS," the Alpha Repertory Television Service, is on three hours per day, seven days a week. "Daytime," beginning in March, will be on four hours per day, five days a week. Start with a commitment that is manageable, hone it, then expand it. Don't over-promise, trying to look like ABC, CBS or NBC, hoping to find the right combination in this new business. Remember, the three major networks don't provide 10 hours of programming a day, and they have more resources than cable people.

4) Durability—Staying Power for the Long Haul

If you buy the premise that there are to be fewer—not more—cable networks in the future, be one of the horses that makes it to the finish line, rather than a fast starter who falters mid-race. Don't spend all your dollars on the opening bet. More will be needed later to play in the game.

5) Credibility

Say what you are going to do only when your plans are definite. Then, do as you said you would do. This business, like any business, is not going to be built upon flash but upon performance.

While my remarks do not echo all that we have read and heard about the promise and opportunity of cable, this industry has a rewarding and challenging future. But the rewards will only go to those who are willing to take risk . . . in a deliberate and businesslike manner.

The days of some industry participants being rewarded, regardless of their abilities, are over. Just being there, or being there first, is no guarantee of success. One has to be there at the right time, in the right way, with the right plan. Taking a risk with sound business sense makes sense—it's the building-block principle.

Remember, Warner did not produce all its movies in the first year. Nor did Westinghouse make all its appliances. Nor ABC start its network with instant success. Diligence, prudence and providence will reward some . . . a few.