



**MEMO**  
Janice Sterling  
Director of Strategic Planning

Dear \_\_\_\_,

Well, I just returned from the programming meeting in Atlanta, and the only thing everyone agreed on was that the success of reality-based programming has significantly altered our programming model. “Everyone runs a drama in primetime” is no longer the operative adage. There was a lot of talk about whether Strategy or Research ought to be making programming decisions in the future and, of course, the final decision was “both.” In effect, Research gets us the numbers, and we make sense of them. The problem is, the revenue “numbers” are derived from a three-step procedure using such buzz-friendly concepts as “the rule of tenths,” “the rule of five,” and the “OCPR procedure.” Confused? So was I.

First, the advertising consortium, which represents television advertisers, estimates total viewers (Nielsen points) for the season for each possible combination of shows (Table I). This is a nontrivial process as it involves forecasting past viewership loyalties into next season. For example, if we run a reality show and CBS runs a drama (the opposite of each of our strengths), the total audience is likely to be much smaller than in the reverse scenario.

Second, the consortium estimates (quite arbitrarily) how the total viewers will split across the networks using a “rule of tenths.” We each start with an equal number of points (e.g., five points implies 5/10 or ½ of the market), then adjustments are made based on whether we and CBS stay with our historically strong genre or switch to weaker genres (Table II). For example, if each network runs a reality show, we lose two points – one for CBS running its strength and one for us running our weakness. Similarly, we get two extra points if our drama competes against CBS’s comedy.

Lastly, we take the consortium’s numbers and translate the resulting shares into expected revenue figures using a process termed OCPR and the Rule of Five. Each ratings point is worth up to \$10M in ad revenue (don’t ask!). However, this is only true if there is no significant ad outlet on competing networks (as life was, for example, with Seinfeld). With competition from strong shows on other networks, we must reduce our ad prices. Effectively, we make \$10M per point but lose \$10M for every five CBS points (Table III). For example, if we each elect a reality show, we net \$20.8 million.

Like it or not, that’s how things are done. Hopefully, the attached exhibit clarifies this process. Interestingly, whether or not the forecasts are correct makes no difference! Once the advertising consortium publishes these estimates, the ad rates are set until next sweeps. Thus, even if we know a show will be more successful, ad buys are based on *their* estimates, not ours. Effectively, the consortium’s estimates determine each network’s profitability.

I didn’t enclose the Monday stats simply as an example. Both CBS and NBC have yet to purchase a show for this slot. ABC is committed to *Dancing with the Stars* and CBS can renew last year’s comedy or buy a new show. We are both shopping from among the same batch of shows (this year, the offerings are four dramas, three reality shows, and seven comedies), and we get first pick as long as we decide by this Thursday. We need either two comedies (half hour each) or one drama or reality show. The rights to each drama are around \$1.8 million, comedies cost about \$700 thousand each, and reality shows are priced at about \$1.2 million.

In the past, show purchasing decisions were kept secret from other networks, and we all waited to announce our new shows simultaneously at the industry meetings in July. However, there is reason to believe that if we don’t make a decision soon, CBS will break with tradition, announcing its lineup early, and forcing us to play catch-up, picking what to run against CBS’s choice. Effectively, we need to decide both programming choice and announcement timing:



- What genre of show should we buy?
- Should we announce our decision (whatever it is) immediately, forcing CBS to play catch up or should we lobby for a simultaneous announcement again? What if CBS breaks with tradition and preannounces?

You would think our industry with only three players would be easy. Can you imagine how hard this would be if Fox becomes a serious contender (unlikely, I know). We obviously need a decision soon since Friday morning we lose our right-to-buy-first option and thus, lose our option to preannounce ahead of CBS. Of course, if beyond a direct response to the above you have any of your creative suggestions, I wouldn’t mind hearing them. Sorry to drop this in your lap you with so little notice. All we need (at a minimum) are the profit numbers under each announcement timing scenario and a (bottom line) suggestion as to what we should do this week. Direct your responses to the Office of the Director of Programming.

Best (of luck),

Janice



**Table I. Monday Night Nielson Points**  
**Total Expected Household Ratings for CBS plus NBC**

CBS 		NBC 		
		Reality	Comedy	Drama
Reality	13.0	18.6	19.0	
Comedy	17.0	14.2	20.7	
Drama	18.8	20.5	14.5	

Note ABC is committed to *Dancing with the Stars* and is not included in the analysis.



If both networks show identical genre programming, total viewership is low. Note that drama is the most popular overall, and reality programming the least.

**Table II. Rule of Tenths**  
**Market Share Allocation of Total Ratings to NBC (Monday night)**

CBS 		NBC 		
		Reality	Comedy	Drama
Reality	3 / 10	4 / 10	5 / 10	
Comedy	5 / 10	6 / 10	7 / 10	
Drama	4 / 10	5 / 10	6 / 10	

Given our historical strengths (drama over comedy over reality), and CBS's (reality over drama over comedy), the rule of tenths assigns a score of five to us, plus (minus) one for running our strength (weakness) and plus (minus) one for CBS running its weakness (strength). Dividing points by 10 gives our market share of the total Nielson points (CBS receives the rest). Thus, our share grows as you move right in the table, and grows as CBS moves from reality to drama to comedy.

**Table III. Rule of Five and OCPR**  
**Anticipated Advertising Revenue Example**  
**(If both networks elect reality programming, ad base at \$10M per point)**

		 CBS	 NBC
<b>OR</b>	= own share x market size	13 x 0.7 =	13 x 0.3 =
Own Rating		9.10	3.90
<b>CR</b>	= competitor's own rating / 5	3.9 / 5 =	9.1 / 5 =
Competitor Rating		0.78	1.82
<b>PR</b>	= OR-CR		
Ad Power Rating		8.32	2.08
<b>RR</b>	= PR x ad base (\$10M)		
Revenue Rating	in millions	\$83.2	\$20.8

This formulation (effectively, our Nielson rating minus 1/5 of competitor's Nielson rating, all times \$10M) provides the appropriate revenue numbers for each of the nine scenarios.