Your Task: (Complete Version)

You are Kim Taylor, the general manager of WCHI, an independent television station located in Chicago.

This market has three million television households which are served by three network owned and operated stations and four independents, including WCHI. Your station is a subsidiary of MULTIMED Inc., a highly successful, national, multimedia corporation. In addition to owning several independent television stations across the country, MULTIMED also operates newspapers, magazines and a film/video company which produces theatrical films and television programs for network and syndicated distribution.

As an independent station, WCHI relies mainly on the syndication market for its programming. There are two broad categories of syndicated product. One is off-network which involves programs that previously appeared on one of the networks; the other is first run shows which are produced specifically to be aired on local stations.

Your task as general manager is to assess WCHI’s current ratings position in the Chicago market, evaluate the audience potential of its current library, analyze the present syndication market and determine what products are available, and negotiate the best possible price for the programs that you deem to be beneficial to WCHI.

Until 3 years ago, WCHI followed an aggressive buying strategy. During this time, shows were bought not only to air but also to prevent competitors from purchasing them. The end result was that too high of a price was paid for most programs and, as a result, the station found itself in financial difficulty. To remedy the situation, MULTIMED canceled all buying for three years. Although the station is now out of financial trouble, its audience position has eroded because of the lack of new product; consequently, WCHI is now ranked as the second independent station in the market with a relatively low household rating and weak demographics. It is ranked fifth among all seven stations.

To improve this position, MULTIMED has recently permitted you to purchase new programs. Although most of the best shows that will become available for the upcoming season have already been sold, you were just notified that HOLLYVILLE INC., one of the top seven producers in the industry, is releasing Working Women to syndication a year earlier than anticipated.

This program would be ideal for WCHI’s turn around. It involves three women in their late 30’s who are trying to balance their lives as account executives in the advertising industry and as mothers of teenage children. Working Women is doing very well on the SBT network, ranking in the top ten each week with a 20 rating and 30 share in a competitive prime time slot. This strong rating is reflective of the program’s excellent writing and talented cast of characters. The show appeals primarily to 18-49 year old women who constitute 45% of its viewing audience. These demographics make the program particularly appealing because of the high rates that advertisers will pay to reach this market. In addition, these demographics are ideal for the 6:00 p.m. timeslot which commands the largest viewing audience for independent stations.

To further assess Working Women, you have researched your competitors’ programming profiles and audience positionings. You are reasonably certain that the network stations will not be interested in the program because of the FCC’s Prime Time Access Rule which inhibits their use of off-network syndicated product. In your assessment of the independent stations, you know that WILL, typically the third independent in the market, has had an excellent year with a 10% increase in overall market share. Its new profile, although fairly well balanced, is trending toward young men and is not conducive to an additional woman’s program. Consequently, Working Women should not appeal to WILL.

WXYZ, the smallest station in the market, has already told HOLLYVILLE that it is not interested in the show because of financial reasons. You know that WWIN, the independent leader in the market, is interested in purchasing the program. Although it currently has a strong 6:00 p.m. show, the introduction of Working Women by a competitor would erode its market share. In light of this and its strong financial position, you expect that WWIN will offer HOLLYVILLE a good price for the program. Like MULTIMED, HOLLYVILLE is a large, multimedia company. In the production business, syndicated programs are the cash cow. Although only 15% of the network programs make it to syndication, the money realized from this business more than offsets the 20% loss from the other first run network shows. In the past, the limited number of stations in each market had placed producers like HOLLYVILLE in a weak position. However, the recent expansion in the number of program outlets has increased the producer’s negotiating strength. Despite this increase in demand, HOLLYVILLE has had a bad network season. Two shows that it had planned for syndication never sold. Consequently, its financial position has deteriorated significantly from its yearly financial plan.
Your job as WCHI’s general manager is to get the best price and terms for Working Women. In calculating the worth of the show to WCHI, you realize that the value—determined by expected net advertising revenue—is really a function of the show’s performance. Although you expect that the program will draw 7-8 rating points, you know realistically that both the ratings and advertising revenue generated from the show are uncertain. Your best estimate of the likelihood of various ratings and their corresponding valuations is as follows:

<table>
<thead>
<tr>
<th>Ratings</th>
<th>Likelihood</th>
<th>Net Adv. Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>6-7</td>
<td>20%</td>
<td>$7,000,000</td>
</tr>
<tr>
<td>7-8</td>
<td>50%</td>
<td>$8,000,000</td>
</tr>
<tr>
<td>8-9</td>
<td>10%</td>
<td>$9,000,000</td>
</tr>
<tr>
<td>9-10</td>
<td>10%</td>
<td>$10,000,000</td>
</tr>
<tr>
<td>10-11</td>
<td>10%</td>
<td>$11,000,000</td>
</tr>
</tbody>
</table>

Thus, your overall estimate of the net advertising revenue from the show is equal to

\[(.20 \times $7M) + (.50 \times $8M) + (.10 \times $9M) + (.10 \times $10M) + (.10 \times $11M) = $8.4M.\]

This valuation assumes that each title will be run 6 times. Up to 8 runs/title, each additional run increases the advertising revenue of the show by $840,000 (i.e., 7 runs/title would add $840,000, 8 runs/title would add $1,680,000). An assessment of your current advertising needs reveals that any more than 8 runs/title would not be beneficial to WCHI.

On the flip side, however, each decrease in the number of runs/title results in a $840,000 decrease in advertising revenue (i.e., 5 runs/title would decrease the value by $840,000, 4 runs/title would decrease the value by $1,680,000).

The total cost of the program is determined by multiplying the agreed upon price/title by the number of titles. Working Women will end its network run with 100 titles. The 100 titles are being offered as part of a five year contract; the length of this contract is non-negotiable. You know that management will not let you buy the program if the price exceeds $60,000 per title; however, you also realize that the show would never sell for less than $30,000 per title. In evaluating the price you would be willing to pay for Working Women, you are aware that you can purchase a different program for the same time slot from another producer. You estimate that this show would produce $3,000,000 in net profit.

Given HOLLYVILLE’s financial position, you have heard that they would prefer 50% up front and 25% in years 1 and 2. You prefer zero payment up front and the payments spread evenly over 5 years.

To assist you in the negotiation, your financial group has quantified the savings of delayed payment:

<table>
<thead>
<tr>
<th>Money Paid</th>
<th>You Save</th>
</tr>
</thead>
<tbody>
<tr>
<td>up front</td>
<td>0% of money paid in this year</td>
</tr>
<tr>
<td>1st year</td>
<td>10% of money paid in this year</td>
</tr>
<tr>
<td>2nd year</td>
<td>20% of money paid in this year</td>
</tr>
<tr>
<td>3rd year</td>
<td>30% of money paid in this year</td>
</tr>
<tr>
<td>4th year</td>
<td>40% of money paid in this year</td>
</tr>
<tr>
<td>5th year</td>
<td>50% of money paid in this year</td>
</tr>
</tbody>
</table>

Although you would like the best deal possible, you also know that your relationship with HOLLYVILLE will continue as new shows for future years become available. For example, you know that HOLLYVILLE is very interested in selling a new show, Juniors, for the upcoming season. Although the show has done moderately well in the networks, the teenage market segment that the show appeals to has one of the lowest advertising rates. Due to your weak program profile, you may be interested in purchasing the show. Based on 100 titles, the maximum value that you would place on this show is $20,000 per title. Thus, any price below $20,000 per title would result in a positive profit.

You are about to meet with Terry Schiller, Syndicated Sales Representative of HOLLYVILLE, to discuss. To assist you during the negotiation, the "Negotiation Agreement Worksheet" (found on page 4) can be used as a guide in calculating the final net worth of any agreement. In addition, an example of a net value calculation is provided on page 5. At a minimum, the agreement should specify the items listed below.
1. Expected Advertising Revenue from the Show

The expected advertising revenue from the show can be determined by using the expected value of $8.4 million as a base and then adjusting this value for any agreement that differs from 6 runs/title.

2. Price of the Show

To calculate the price of the show, multiply the agreed on price per title by 100 titles.

3. Payment Savings

Any payments made in years 1-5 constitute a savings. For any agreement that specifies payments in these years, calculate the annual savings by multiplying the payment by the percent savings for each year. To determine the total savings from the payment terms, add up all savings from years 1-5.

4. Net Price of the Show

To determine the net price of the show, subtract the payment savings from the price of the show.

5. Other Terms of the Agreement

If applicable, note any other terms of the deal and their corresponding value/cost.

6. Net Profit of the Show

The net profit of Working Women can be determined by subtracting the net price of the show from the net value of the show and adding in any other terms of the deal that have been agreed upon.

7. Value of the Alternative Deal

Your alternative to purchasing Working Women is to buy a different program from another producer. As described, the value of this program is $3,000,000.

8. Net Value of the Bargaining Agreement

To determine the total net value of the bargaining agreement, subtract the value of the alternative deal from the net profit of the show.

You are not limited to the structure presented on the Negotiation Agreement Worksheet. Rather, this is to help you organize the various pieces of information that will be included in the final negotiation agreement. While you may reach agreements not on this chart, you cannot add any information that you do not know to be factual.

Regardless of the structure you decide to use to organize the negotiation, you should have a reasonable basis for evaluating the worth of your agreement. Upon completion of the negotiation, please fill out the "Negotiation Agreement Worksheet" on the following page and turn it into the lecturer as soon as it is completed. After turning this sheet in, you will receive an additional summary sheet to complete.