

Behind Media-Ownership Fight,
An Old Power Struggle Rages

As TV Networks Get Bigger,
Their Local Affiliates Fear
Growing Loss of Autonomy
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RALEIGH, N.C. -- Jim Goodman, chief executive of Capitol Broadcasting Co., has maintained a successful relationship with Viacom Inc.'s CBS for almost 20 years. His TV station here, WRAL, is one of the most profitable CBS affiliates in the country and has helped cement Mr. Goodman's position as an influential community figure.

Yet in May, when he found himself seated with Viacom President Mel Karmazin at a Senate hearing on media concentration, Mr. Goodman said: "I need to suggest that I basically do not agree with anything that Mr. Karmazin said."

Mr. Goodman has emerged as one of the most vocal combatants in the fierce battle over media ownership, which has drawn activists across the political spectrum concerned about the power of Big Media. At issue is the fate of sweeping Federal Communications Commission proposals that would ease restrictions on how many media businesses one company can own. Mr. Goodman and other critics argue that allowing conglomerates to own more outlets will stifle independent media voices.

[Jim Goodman]

But the fight is also being fueled by something far more parochial: the rising antagonism between broadcast networks and their local affiliate stations, whose partnership forms the backbone of the TV industry.

Most of the nation's television stations are owned by independent companies that contract with the national networks, much as car dealerships are linked to auto makers. The local stations, or affiliates, usually take their network partner's prime-time lineup, morning and late-night show, soap operas and weekend sports events. The affiliates assemble the rest of the schedule themselves, either buying reruns and talk shows or making their own programs, most importantly the local news. Networks need affiliates to reach the biggest possible audience and command higher rates from advertisers. Affiliates need strong network programming to help their own local ratings.

The two sides have jostled for years over how much control networks have over affiliates. In the early days of television, the fledgling networks were the weaker

partner, enticing station owners to sign on with them. But today affiliates say they're getting squeezed as the networks acquire more stations of their own. They complain the networks increasingly interfere with the way they want to run their local stations, clamping down, for example, on longstanding "pre-empting" rules that allow affiliates to tinker with network programming lineups to cater to local audience tastes.

It's not just pride and independence at stake. Affiliates get to sell only a couple of minutes' worth of ads on network shows, and they have to give up more and more of their own airtime to promote network lineups.

For their part, the networks say affiliates have as much independence as before. As for buying up more stations, networks say it's a must in this climate. The rise of cable and rapidly increasing programming costs are jeopardizing the network model of free television for viewers, they say; buying cash-rich stations will help the networks' bottom lines. The FCC's proposed rule change would allow networks to own stations reaching 45% of the nation's television households, up from 35%.

[Image]

Mr. Goodman, 60 years old, is a third-generation owner who started working at his family's company, closely held Capitol Broadcasting, when he was 13. As a locally prominent businessman, he fits the mold of an old-fashioned, down-home affiliate owner -- a type that was common when most local stations were mom-and-pop affairs. His company owns the local minor-league baseball team, the champion Durham Bulls, and he's leading one of Durham's most significant urban-renewal projects. When CBS anchor Dan Rather came to visit, they dined at a local Shoney's. Employees get turkeys at Thanksgiving and poinsettias at Christmas.

Capitol Broadcasting is also a powerhouse, both editorially and financially. Capitol owns five television stations in North Carolina, as well as a radio station and two digital channels. Its Raleigh-Durham stations scoop up about 36% of all the TV revenue in that market, according to BIA Financial Network, a consulting firm in Chantilly, Va. Sen. Jesse Helms announced his intention to retire on WRAL's early evening newscast in August 2001.

"It is not a genteel Carolina 'we'll get around to it tomorrow' sort of place," says Bill Peterson, a former WRAL general manager.

Mr. Goodman uses his pre-empting power to dump prime-time lineups, either for local basketball games or because he doesn't think the shows are appropriate for the community. WRAL, for example, axed CBS's Victoria's Secret fashion show in November 2002 for a Burt Bacharach Christmas special. Earlier this year, it refused to run CBS's "Cupid," a reality-TV dating show, saying it demeaned the

institution of marriage. Instead, WRAL ran reruns of "The Andy Griffith Show," the folksy 1960s sitcom.

"I know they were grumpy about it, but that's the way it is," Mr. Goodman says of CBS. CBS says no other affiliates pre-empted "Cupid."

Likewise, WRAZ, Capitol's Fox affiliate in Durham, refused to run the first two seasons of "Temptation Island" as well as "Who Wants to Marry a Multi-Millionaire?" and "Married By America." WRAZ also re-edits promotional material from News Corp.'s Fox when it's deemed too racy.

The networks complain that Capitol's cherry-picking of programs violates the spirit of the broadcaster-affiliate relationship, even though Capitol hasn't exceeded the number of pre-emptions allowed by CBS. "I get that they don't entirely agree with everything we want to do, but this isn't a Chinese menu," says CBS Chairman Leslie Moonves. "You can't say I want 'Everybody Loves Raymond,' David Letterman, the Super Bowl and the Grammy Awards and then say I don't want 'Cupid.'" responds Mr. Goodman. "I know they might think we are a little sort of independent, but I think they are used to us."

Mr. Goodman believes local stations, not networks, should have more say in programming decisions. At the same time, he wants to protect his lucrative local enterprise. He says he fears that if the networks grow more powerful they will simply ignore his station. He has long complained that networks no longer seek his input on programming at the early stage of a show's development.

Moreover, he complains, as many affiliates do, that as the networks buy more stations, they make it harder for locally owned affiliates to buy syndicated programs, such as game shows and afternoon talk shows. The companies that sell those shows would rather do business with larger groups of local stations -- the kind that the networks, among others, now control.

When the networks began to grow after World War II, federal rules tightly restricted how many stations a broadcaster could own. So when William Paley and David Sarnoff were building CBS and NBC, respectively, they plied local stations with cash to persuade them to sign on.

For decades, networks headed off fights by soliciting affiliates' opinions when drawing up schedules. And affiliates had lots of power to pre-empt network shows and run their own, which gives them the ability to sell many more ads during a broadcast. At the end of a quarter, for example, stations often run movies instead of a network's prime-time lineup in order to sell enough ads to make their revenue targets.

The balance of power began to shift in the early 1990s after networks were allowed to acquire more local stations. For example, Viacom, through its

ownership of CBS and UPN stations, now owns 39 stations reaching 39% of the nation's audience, compared with 10 years ago when it owned six stations reaching just 19%.

As the networks' power grew, they started to cut payments to locally owned affiliates for carrying their programs and in some cases even demanded payments from affiliates. Growing accustomed to the close control they had over the local stations they own, the networks became more restrictive when negotiating pre-emption deals.

The result, say many affiliates: Networks, in effect, force programs down their throats without considering the local market. When NBC launched its controversial XFL football league with Vince McMahon's World Wrestling Entertainment, West Coast NBC stations objected loudly, since they would have to pre-empt their local news to carry the games. But their arguments with NBC failed, and they were forced to run the games.

Network executives and some station owners dismiss the suggestion that local affiliates are losing power. Even some stations owned by networks say they have plenty of latitude to make their own decisions about programming. "We operate exactly the same as Capitol Broadcasting," says Bernie Prazenica, general manager of the ABC-owned station in Raleigh. "You can't be successful if you don't understand the community."

WRAL prides itself on being the most local of local enterprises. The station employs over 100 staffers in its news department, a large number for the market it covers, and runs documentaries on subjects such as North Carolina's fishing industry and the moving of the Cape Hatteras lighthouse. All of this pays off: WRAL's local news beats its NBC-owned and ABC-owned competitors in evening and late-night local news broadcasts.

Earlier this year, Mr. Goodmon took his programming battles to Washington -- and, by late April, had become a player in the ad hoc coalition opposing the FCC. What had previously been an issue only for corporations and their lobbyists was turning into a major political stink. Fanning the flames were pressure groups from the left and the right as well as a number of industry and religious groups that had banded together to oppose the FCC's planned move.

Capitol, armed with its own lobbyist, rallied supporters, provided facts and figures to FCC commissioners opposed to deregulation and pressured lawmakers. The coalition made big inroads, especially with House Republicans, who were keenly aware of the power of local media barons such as Mr. Goodmon. On May 1, in the office of Rep. Richard Burr, a North Carolina Republican, Mr. Goodmon pushed for legislative action to block the changes to the TV-ownership cap.

"If you are not going to do this for us, we are committed, and we are going to go door to door until we find someone who is," Mr. Goodman replied, according to people familiar with the meeting. Rep. Burr, who says he doesn't recall the specifics of the conversation, introduced a bill to strike down changes to the ownership cap with Rep. John Dingell, a Michigan Democrat. The bill didn't go anywhere but gave the anti-FCC group a platform to make its case.

Since then, the House passed an appropriations bill with an amendment that would keep the ownership cap at the old 35% level, and the Senate is planning its own version of the bill. On a separate track, the Senate passed a "resolution of disapproval," a little-used measure, that would kill the entire FCC reform package, but it's highly unlikely the House will follow suit. The FCC's opponents are also pursuing their case in the courts.

The White House has threatened to veto any appropriations bill that scuttles the regulatory changes, but it's not definite that will actually happen. The Senate is considering wrapping many of its appropriations bills together, which will make them harder to veto.

Describing Mr. Goodman's efforts to defeat the rule changes, CBS's Mr. Moonves calls the station owner a "rabble rouser."

Mr. Goodman prefers to see himself as a Plott Hound, North Carolina's state dog, famed for its enthusiasm and its persistence. Having chased a bear into a tree, the hounds have "been known to sit at the bottom of the tree until they starve," says Mr. Goodman.

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