Analysis of the Economics of Canadian Television Programming

Nordicity Group Ltd.

Prepared for:
Canadian Film and Television Production Association
ACTRA
Directors Guild of Canada
Writers Guild of Canada

March 2009

About Nordicity Group Ltd.

Nordicity is a leading international consulting firm specializing in strategy and policy development for the creative, telecom and technology industries. Nordicity is a powerful analytical engine, with expertise in policy, regulatory and economic analysis; business strategy and planning; financial forecasting; and market assessments. Because of Nordicity's international presence, it has become widely recognized for its ability to translate market developments and best practices from one market to another.

Nordicity was founded in 1979, acquired by PwC in 1997, and re-launched in 2002, coincident with the acquisition of PwC's consulting practice by IBM. Today, Nordicity has offices in Toronto; Ottawa; and London, United Kingdom (UK); and clients across Canada, in the UK, Africa, the Caribbean, and Asia.

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1 Introduction

- Canadian broadcasters often point to the challenging economics of Canadian television programming as the primary disincentive for them to acquire and exhibit more of it. They contend that they lose money on Canadian programming: that it does not draw high enough audiences to cover the licence fees and other costs they face to exhibit it.

- In this report, we address this contention made by broadcasters. We analyze the economics of Canadian television programming from the perspective of the *Canadian broadcasting group*. Our goal is not to prove that Canadian programming is necessarily more profitable than American programming; but rather, to demonstrate that Canadian programming can be profitable for Canadian broadcasting groups. As such, we make the case that any requirements that Canadian broadcasters acquire and exhibit Canadian programming are not necessarily the economic burden that Canadian broadcasters often portray them to be.

- Our analysis is not the first to attempt to quantify and portray the economics of Canadian television programming. However, our approach is novel on three counts.

  1. We include a well-informed estimate of the advertising revenue attributable to Canadian television programs. To accomplish this, Nordicity engaged two former senior advertising executives from the Canadian television broadcasting industry to conduct interviews with representatives from six leading media-buying agencies. While these media-buying agencies did not provide actual CPM (cost per thousand) data for Canadian programming, they did provide information on implied CPM discounts for Canadian programming, Friday/Saturday programming, and specialty television programming. The media-buying-agency representatives interviewed for this report also provided information on the average drop-off in audiences for repeat airings of a Canadian television program.
  2. Over the last several years, there has been considerable consolidation in the Canadian broadcasting industry. This consolidation has led to the formation of large broadcasting ownership groups ("broadcasting groups") that own and operate conventional and specialty television services. It has become a common practice among Canada's broadcasting groups to acquire rights to conventional and specialty television windows through their initial broadcast licence fee. In this analysis, therefore, we also take into account the revenues and costs associated with the airing of repeat episodes on a broadcasting group's specialty television services.
  3. We have included estimates of the average non-programming expenses (i.e., administrative, technical, and marketing expenses) that broadcasters face when airing a single hour (or half-hour) of television programming. Nordicity has reviewed the financial statistics available from the Canadian Radio-television and Telecommunications Commission (CRTC) and prepared an estimate of the average hourly non-programming expenses incurred by conventional broadcasters and specialty television services in the English-language market in Canada.

- By providing authoritative metrics for audience levels and CPMs, taking into account broadcasters' direct programming and non-programming expenses, and extending the analysis to include the specialty television repeat window, we provide a comprehensive estimate of the *first licence* value of Canadian programming to Canadian broadcasters.

2 Data Sources, Methodology and Assumptions

- Our analysis consists of modelling of the revenues and costs associated with the airing of Canadian television programming from the perspective of Canadian broadcasting groups. Our modelling is based on data and assumptions derived from interviews with media-buying agencies, analysis of production financing and budgets data available from the Canadian Audio-Visual Certification Office (CAVCO), as well as data from the CRTC.

- While we have not used data pertaining to specific Canadian television programs, several Canadian producers with extensive knowledge of the Canadian television programming marketplace have reviewed and validated certain of the assumptions in our modelling (i.e., production budgets, broadcast licence fees, number of repeats on conventional and specialty services). This group of knowledgeable producers has confirmed that our assumptions are reasonable and reflect common practices within the Canadian television programming marketplace in recent years.

- Nordicity also engaged former senior broadcasting advertising executives to validate certain assumptions made in this study.

2.1 Audience Data and Levels

Source of Audience Data

- Canadian Media Research Inc. (CMRI) supplied raw average minute audience (AMA) data for television programming on Canadian conventional television networks. CMRI sourced these audience data from Nielsen Media Research. CMRI also provided per-episode audience data for conventional and specialty television airings of selected Canadian television programs.

First Repeat Airing

- The value of repeat airings plays an important role in our modelling of the economics of Canadian programming. However, the audience data supplied by CMRI do not permit us to systematically identify an original from a repeat airing of an episode of a particular program. Instead, we asked media-buying agencies to share their knowledge of the average audience relationship between original and repeat airings. Media-buying agencies reported that the first repeat of a program on a conventional broadcast network will achieve an audience level that is 35% lower than the original airing; we applied this rate throughout our modelling.

Second Repeat and Subsequent Airings

- We also asked media-buying agencies to report on the relationship between average audience levels for the first repeat airing, and second and subsequent airings. Media-buying agencies reported that second and subsequent repeats typically attract audiences which are, on average, 60% lower than the first repeat airing. This implies that the second and subsequent repeat airings of a television program garner audience levels that are typically equal to 25% of the original airing ($[1-60\%] \times [1-35\%] \cong 25\%$). We adopted this 25% relationship throughout our modelling.

Specialty Television Audience Levels

- To establish an average audience level for the specialty television airing of a Canadian television program that originally aired on conventional television, we reviewed historical data (2003/04 to 2005/06) for seven Canadian television programs that fit this criteria. The average per-episode AMA for these eight programs was 56,000 (Table 1). To be conservative in our modelling, we used an average audience rate of 50,000 per episode.

Table 1 Average per-episode audiences for specialty television airings*

	Average minute audience (000s)
Blue Murder	37
Cold Squad	39
Corner Gas	87
Da Vinci's Inquest	50
Outer Limits	39
PSI Factor	39
The Red Green Show	18
Average	**56****

Source: Nordicity analysis based on data from CAVCO.
* Based on audience data for September 2003 through July 2006.
** This is the average across all airings of these television programs, and is not equivalent to the arithmetic average of the AMA across all seven programs.

2.2 Number of Ad Spots

- The calculation of ad revenue is based on ad rates (i.e., CPM rates) and the number of ad spots that broadcasters sell for a particular television program. Our analysis assumes that the broadcaster sells 24x30-second advertising spots for a one-hour program, and 12x30-second advertising spots for a half-hour program.

- While media-buying agencies reported that 100% inventory sell-out rates were common, we adopted an inventory sell-out assumption of 80%, so that our analysis would be conservative.

2.3 CPM Rates

- The senior advertising executives who conducted the research for this project also provided insights on typical CPM rates for television programming airing on conventional broadcast networks in Canada. These senior advertising executives reported that a top-10 program on Canadian television can command a CPM rate of $25 from advertisers.

- A CPM rate of $25 implies that a 30-second advertising spot for a top-rated program with an AMA of two million would sell for $50,000. This price is consistent with the advertising spot rates for top-rated programs on Canadian television in recent years. For example, a 30-second spot for *CSI: Crime Scene Investigation* sold for $42,000 in 2003.[1]

- The senior advertising executives also reported that a program that falls within the top 10 to 20 programs on Canadian television would command a CPM of at least $20, or $40,000 for a 30-second advertising spot. We used this rate of $20 as the *anchor rate* for our analysis. On the basis of this anchor rate, we

[1] Barbara Schecter, "Media buyers face record price run-up," *Financial Post*, June 11, 2003.

derived CPM rates to apply to Canadian programming. We applied various discounts (discussed below) to this rate before applying it to certain types of Canadian programs as part of our modelling.

Canadian Discount

- The research interviews with media-buying agencies revealed that one of the outcomes of the media-buying negotiation process in Canada is that Canadian television programming is subject to an *implied* discount. Canadian broadcasters typically sell television advertising in packages that include a combination of different types of American and Canadian television programs. Typically, these packages are sold on the basis of a single CPM rate; and the individual programs within the packages are not assigned their own CPM rates.

- However, the research interviews with media-buying agencies indicate that it is understood throughout the Canadian advertising industry that Canadian programming is subject to an *implied* discount of 15% to 25% in relation to the CPM rate that a top-10 program would yield. Media-buying agencies report that this discount is purely due to the fact that a program is Canadian, and is independent of any discount attributable to its day-of-week scheduling or other factors that might cause the CPM rate to be lower for a Canadian program than an American program.

- On the basis of this research, we have discounted the CPM rate for Canadian programming by 20% in relation to the anchor CPM rate of $20. As such, we have applied a CPM rate of **$16** to the first airing of a Canadian television program on conventional television.

Prime vs. Early Fringe

- Media-buying agencies also reported that CPM rates for programs aired during the early fringe period (5 p.m. to 8 p.m.) and outside of the prime-time period (8 p.m. to 11 p.m.) are subject to a discount of approximately 33%. This type of discount could apply to some second and subsequent airings of television programming.

Repeat Airings

- Media-buying agencies reported to us that there is typically no difference between the CPM rates for original and repeat airings of the same program, as long as the airings are both within the prime-time period. As such, we assumed that that the first repeat airing of a program earned the same CPM rate as the original airing.

Second Repeat and Subsequent Airings

- Media-buying agencies reported that second repeat and subsequent airings of a television program in the conventional window typically earned CPM rates that were 10% lower than the original airing. We, therefore, applied a CPM discount of 10% for all second repeat and subsequent airings in the conventional window.

Specialty Television Airings

- Senior advertising executives report that ad rates on specialty television services are approximately 50% of those on conventional television. Therefore, we have set the CPM rates for all specialty television airings at **$8**; this is 50% of the discounted rate of $16 applied to the original airing of Canadian program airing in prime time.

2.4 Average Budgets

- Our modelling also requires assumptions for the average production budgets for Canadian programming. From an analysis of CAVCO data for the 2007/08 production year, we derived the following average budgets for Canadian programming:
    - One-hour English-language television series: $1.5 million per hour.
    - Half-hour English-language television series: $550,000 per half-hour.

2.5 Licence Fees

- To develop an assumption for average broadcast licence fees as a percentage of the average budget, we also analyzed financing data provided by CAVCO. We reviewed the broadcast licence fee rates for 133 Canadian fiction television series produced in 2006/07 and 2007/08. The CAVCO data indicate that the average Canadian broadcast licence fee during this period was $409,000; the median broadcast licence fee was $402,000. The arithmetic average of Canadian broadcast licence fees as a percentage of the production budget was **35%**. We used this average rate to estimate the Canadian broadcasting group's licence fee for Canadian programming.

Table 2 Canadian broadcast licence fees, English-language fiction series*

	Amount
Canadian broadcast licence fee ($ per hour)	
Min	0
Max	1,178,000
Average	409,000
Median	402,000
Canadian broadcast licence fee (percentage of production budget)	
Min	0%
Max	79%
Average	35%
Median	33%

Source: Nordicity analysis based on data from CAVCO.
* Based on data for 2006/07 and 2007/08.

- We also modelled the economics of Canadian programming, where the Canadian producer made a pre-sale to a foreign broadcaster or distributor. We identified 16 English-language television series produced between 2004/05 and 2007/08[2] for which there was a foreign pre-sale. From this sample of projects, we found that the median licence paid by the Canadian broadcaster was lower: the average rate was 18%. We used this rate as the Canadian broadcast licence fee assumption in our modelling of the economics of a Canadian television program with a foreign pre-sale.

[2] We used data for four years rather than two years, in order to expand our sample of projects.

Table 3 Canadian broadcast licence fees for English-language fiction series with foreign pre-sales*

	Amount
Canadian broadcast licence fee ($ per hour)	
Min	0
Max	625,000
Average	260,000
Median	315,000
Canadian broadcast licence fee (percentage of production budget)	
Min	0%
Max	53%
Average	18%
Median	20%

Source: Nordicity analysis based on data from CAVCO.
*Based on data for 2004/05 to 2007/08.

2.6 Conventional Television Non-Programming Expenses

- Our analysis includes estimates of the non-programming expense (i.e., administrative, technical, and marketing expenses) associated with the airing of Canadian programming on conventional television.

- To derive an estimate of the non-programming expenses incurred by conventional broadcasters to exhibit a single hour of television programming, we first estimated the total non-programming expenses for the network operations of CTVglobemedia and Canwest, and then divided these estimates by an estimate of the annual total number of hours of national programming on each conventional television network.

- Before carrying out this calculation, we first derived an estimate of non-programming expenses as a percentage of revenues in the English-language conventional television market. Since the CRTC Financial Summaries do not include language-market statistics, we used the published regional financial statistics to proxy the financial results in the English-language market.

- To estimate the total revenues and non-programming expenses in the English-language market, we subtracted the financial statistics for Quebec from that of total Canada. The calculation process is outlined in Table 4, and it indicates that non-programming expenses accounted for 27.7% of total revenues in the English-language private conventional television market in 2007.

- Table 5 outlines how we estimated the hourly non-programming expenses at CTVglobemedia and Canwest. We start with the estimated total ad revenues at each broadcaster. We derived these estimates from information in the CRTC *Communications Monitoring Report 2008*. We then multiplied the ad revenue estimates by 27.7% to estimate each broadcaster's non-programming expenses.

Table 4 Calculation of non-programming expenses (as a percentage of total revenues) in the English-language private conventional television market, 2007

	Total Canada ($)	Quebec ($)	Estimate of English-language television (Total Canada excluding Quebec) ($)	Percent of revenues
Total revenues	2,170,844,770	461,870,395	1,708,974,375	100.0%
Non-programming expenses				
Technical	70,773,264	17,601,419	53,171,845	3.1%
Sales and promotion	226,735,647	60,339,963	166,395,684	9.7%
Administrative and general	264,813,990	67,748,938	197,065,052	11.5%
Depreciation of capital expenses	76,005,869	18,545,488	57,460,381	3.4%
Total non-programming expenses	**638,328,770**	**164,235,808**	**474,092,962**	**27.7%**

Source: Nordicity calculations based on data from CRTC.

- With 20 hours of scheduled programming each day, each national broadcaster and its local affiliates must program a total of 140 hours per week of programming on a national basis. We deduct 15.5 hours per week to account for the production of local programming at local affiliates. This leaves a total of 124.5 hours of national network programming per week, or 6,474 per year (52 x 124.5).

- We then divide our estimate of each broadcaster's non-programming expenses by the annual number of national network hours (6,474) to arrive at a proportional pro-rata estimate of the per-hour non-programming expenses at each broadcaster. For CTVglobemedia, the estimate is $35,994; for Canwest the estimate is $25,496. The average across the two broadcasters is $30,745. For our analysis, we use a rate of $30,000 per hour or $15,000 per half hour.

Table 5 Calculation of average per-hour non-programming expenses for private conventional television broadcasters

	CTVglobemedia	Canwest
Ad revenues ($)	840,000,000	595,000,000
Non-programming expenses as a percentage of revenues	27.7%	27.7%
Estimate of non-programming expenses ($)	233,027,536	165,061,171
Annual number of hours	6,474	6,474
Estimated non-programming expenses per hour ($)	35,994	25,496
Average ($)	**30,745**	

Source: Nordicity analysis based on data from CRTC.

2.7 Specialty Television Revenues and Costs

- Our analysis also includes the revenues and costs associated with the airing of Canadian programming on specialty television services under the provisions of an original broadcasting licence. All of the Canadian broadcasting groups with conventional television services also own and operate specialty television services; and it is common for broadcasting groups to air certain programs over both their conventional and specialty television services.

- Our analysis considers the economics of two genres of television programming: drama and comedy. To model the specialty television revenues and costs for a drama program, we have used the 2006/07 financial statistics[3] for Showcase Television, one of Canada's leading specialty television services for the drama genre. For our modelling of programs in the comedy genre, we have used the 2006/07 financial statistics for The Comedy Network.

- To estimate the subscription revenue that can be attributed to a single episode of television programming, we calculated the total number of hours of television programming aired in a single year (based on 20 hours per day) and then divided it into the total annual subscription revenues in 2006/07 (Table 6).

Table 6 Calculation of average per-hour specialty television service subscription revenues

	Showcase Television	The Comedy Network
Cable subscriber revenues ($)	23,400,572	16,516,002
DTH subscriber revenues ($)	7,315,202	5,741,400
Total subscriber revenue ($)	30,715,774	22,257,402
Hours per year (20 x 365)	7,300	7,300
Subscription revenue per hour ($)	4,208	3,049

Source: Nordicity analysis based on data from CRTC.

- We used a similar approach to calculate the amount of non-programming expenses at a specialty television service, which could be attributed to a single hour of television programming aired by the specialty television service (Table 7).

Table 7 Calculation of average per-hour specialty television service non-programming expenses

	Showcase Television	The Comedy Network
Technical expenses ($)	1,409,393	832,227
Sales and promotion expenses ($)	3,315,067	3,713,894
Administration and general expenses ($)	16,101,414	2,216,235
Depreciation expense ($)	11,328	6,097
Total overhead costs ($)	20,825,874	6,768,453
Hours per year (20 x 365)	7,300	7,300
Overhead costs per hour ($)	2,853	927

Source: Nordicity analysis based on data from CRTC.

[3] At the time of writing, financial statistics were only available for the 2006/07 broadcasting year (September 2006 to August 2007).

- Based on this analysis, for drama programming we use a per-hour subscription revenue rate of $4,200 and a per-hour non-programming expense rate of $2,900. For comedy programming, we use a per-hour revenue rate of $3,000, and a per-hour non-programming expense rate of $900.

2.8 Schedule Adjustment Factor

- We have also introduced an adjustment factor to our analysis, which we believe helps to take into account the environment in which Canadian television programming must compete. More precisely, this adjustment factor addresses the fact that Canadian broadcasters have historically – although to a lesser extent in recent years – typically aired most Canadian prime-time television programming on Friday or Saturday evening, or during the peak-fringe period.

- The economic performance or profitability of Canadian programming is largely a function of its ability to attract audiences. That being said, the audience levels for television programming – whether it is Canadian or otherwise – are very much a function of the day-of-the-week upon which a program is aired. By airing Canadian programs on Friday or Saturday, Canadian programs tend to attract lower audience levels than American programming airing between Sunday and Thursday.

- To arrive at a schedule adjustment factor or *day-of-the-week* factor, we examined the general viewing trends across the weekly schedule. We also examined the trends in ratings for a select group of television programs that Canadian broadcasters moved from a Sunday-to-Thursday time slot to a Friday or Saturday time slot. The detailed tabulations and calculations for our analysis can be found in Appendix A: Analysis of the Impact of Friday/Saturday Scheduling.

- With respect to general viewing patterns, we found that audience levels on Friday were approximately one-third below the Sunday-to-Thursday average. On Saturday, audience levels were 60% to 73% lower than the Sunday-to-Thursday average. On an aggregate basis, therefore, we found that audience levels on Friday and Saturday were approximately 51% lower than the Sunday-to-Thursday average.

- When we examined the rate of audience drop-off for specific titles, and thereby controlled – to some extent – for the variation in the quality of programming, we found that a Friday or Saturday time slot reduced a program's audience by 25%, on average. As such, when analyzing the economics of certain types of Canadian programming, which Canadian broadcasters typically air on Friday or Saturday night, **we grossed-up the audience level by 12.5%** to model what that particular television program's economic performance would have been had it had an opportunity to air in a Sunday-to-Thursday time slot. We used a rate of 12.5% rather than the full 25%, so that our modelling would be conservative.

3 Analysis

- In this section, we present the economic analyses of the following three different types of Canadian television programming.
    1. One-hour drama series
    2. Half-hour comedy series
    3. Drama series with foreign pre-sale

- For each program, we estimate the revenues that a broadcasting group could expect to earn from the original conventional window airing, repeat conventional window airings, and specialty television window airings during the period of the initial broadcast licence. We include both the direct advertising revenues as well as the specialty service subscription revenues that can be attributed to the program. We then compare these revenues to estimates of the broadcasting group's broadcast licence fee and non-programming expenses to derive the profitability or *financial surplus* associated with the program.

3.1 One-Hour Drama Series

- In this section we examine the revenues and costs associated with one-hour Canadian dramas that can attract audiences of 700,000 during the week and 400,000 on a Friday or Saturday. *The Guard* is an example of the former, while *Cold Squad* is an example of the latter.

- Our analysis shows that Canadian drama with an average audience of 700,000 between Sunday and Thursday is likely not profitable for a Canadian broadcasting group following the completion of the conventional broadcast window. After seven conventional airings, the Canadian drama generates a per-episode deficit of $138,264 for the broadcasting group. However, when a broadcasting group licenses such a program, it often also receives rights to broadcast the program on its specialty television service. Following 16 airings on a specialty television service, the program is breakeven for the broadcasting group: it generates a surplus of **$5,416** (Table 9). Any additional specialty television airings would further increase this surplus.

- To analyze the economics of a one-hour Canadian drama that airs on Friday or Saturday, we applied a 12.5% adjustment factor to the average audience level of 400,000, which such programs have displayed in the past. As such, for our modelling, we used an adjusted average audience of 450,000 (400,000 x 1.125).

- On the basis of this adjusted audience level, the one-hour drama generates a deficit of $351,384 from the conventional window. Following 40 airings on a specialty television service, however, the program is virtually breakeven for the broadcasting group: it yields a surplus of **$7,816** (Table 9). Any additional specialty television airings would further increase this surplus.

Table 8 One-hour drama series, conventional television window

	One hour drama (Sunday to Thursday)	One-hour drama (Friday/Saturday)
Broadcaster Revenue – Original Airing		
Average audience (AMA)	700,000	450,000*
Number of ad spots	24	24
CPM ($)	16	16
Per-episode revenue for original airing ($)	215,040	138,240
Broadcaster Cost – Original Airing		
Average budget per episode ($)	1,500,000	1,500,000
Broadcaster licence fee ($)	525,000	525,000
Other broadcaster expenses ($)	30,000	30,000
Total broadcaster cost per episode ($)	555,000	555,000
Broadcaster net revenue ($)	(339,960)	(416,760)
Broadcaster Revenue – First Repeat		
Average audience (AMA)	455,000	292,500
Number of ad spots	24	24
CPM ($)	16	16
Per-episode revenue for each repeat airing ($)	139,776	89,856
Broadcaster costs ($)	30,000	30,000
Broadcaster net revenue ($)	109,776	59,856
Cumulative net revenue	(230,184)	(356,904)
Broadcaster Revenue – Repeat Airings		
Average audience (AMA)	175,000	112,500
Number of ad spots	24	24
CPM ($)	14.4	14.4
Per-episode revenue for each repeat airing ($)	48,384	31,104
Number of repeats in licence	5	5
Total revenue from repeat airings ($)	241,920	155,520
Broadcaster costs ($)	150,000	150,000
Net revenue ($)	91,920	5,520
Conventional surplus/(deficit) ($)	**(138,264)**	**(351,384)**

Source: Nordicity analysis based on data from CMRI, Nielsen Media Research, CAVCO, and CRTC.

* Average audience level of 400,000 adjusted upwards by 12.5% to reflect schedule adjustment (see Section 2.7)

Table 9 One-hour drama series, specialty television window

	One hour drama (Sunday to Thursday)	One-hour drama (Friday/Saturday)
Average audience (AMA)	50,000	50,000
Number of ad spots	24	24
CPM ($)	8	8
Per-episode revenue for each repeat airing ($)	7,680	7,680
Number of repeats in licence	16	40
Total ad revenue from repeat airings ($)	122,880	307,200
Subscriber revenue per hour ($)	4,200	4,200
Allocated subscriber revenue ($)	67,200	168,000
Total revenue ($)	190,080	475,200
Costs per hour ($)	2,900	2,900
Specialty service costs across all episodes ($)	46,400	116,000
Net revenue ($)	143,680	359,200
Conventional/Specialty surplus/(deficit) ($)	**5,416**	**7,816**

Source: Nordicity analysis based on data from CMRI, Nielsen Media Research, CAVCO, and CRTC.

3.2 Half-Hour Comedy Series

- A half-hour comedy series with an audience level of approximately 400,000 can also be profitable for a Canadian broadcasting group, if the broadcasting group can air repeat episodes on a specialty television service. *Robson Arms* is an example of such a comedy series.

- Our analysis shows that a half-hour comedy series generates a deficit of $125,254 for the broadcasting group from the conventional window (Table 10). However, following 26 additional airings on a specialty television service, the program achieves a breakeven position and yields a surplus of **$1,886** (Table 11). Any additional specialty television airings would further increase this surplus.

Table 10 Half-hour comedy series, conventional television window

Broadcaster Revenue – Original Airing	
Average audience (AMA)	400,000
Number of ad spots	12
CPM ($)	16
Per-episode revenue for original airing ($)	61,440
Broadcaster Cost – Original Airing	
Average budget per episode ($)	545,000
Broadcaster licence fee ($)	190,750
Other broadcaster expenses ($)	15,000
Total broadcaster cost per episode ($)	205,750
Broadcaster net revenue ($)	(144,310)
Broadcaster Revenue – First Repeat	
Average audience (AMA)	260,000
Number of ad spots	12
CPM ($)	16
Per-episode revenue for each repeat airing ($)	39,936
Broadcaster costs ($)	15,000
Broadcaster net revenue ($)	24,936
Cumulative net revenue	(119,374)
Broadcaster Revenue – Repeat Airings	
Average audience (AMA)	100,000
Number of ad spots	12
CPM ($)	14.4
Per-episode revenue for each repeat airing ($)	13,824
Number of repeats in licence	5
Total revenue from repeat airings ($)	69,120
Broadcaster costs ($)	75,000
Net revenue ($)	(5,880)
Conventional surplus/(deficit) ($)	**(125,254)**

Source: Nordicity analysis based on data from CMRI, Nielsen Media Research, CAVCO, and CRTC.

Table 11 Half-hour comedy series, specialty television window

Average audience (AMA)	50,000
Number of ad spots	12
CPM ($)	8
Per-episode revenue for each repeat airing ($)	3,840
Number of repeats in licence	26
Total ad revenue from repeat airings ($)	99,840
Subscriber revenue per hour ($)	1,500
Allocated subscriber revenue ($)	39,000
Total revenue ($)	138,840
Costs per hour ($)	450
Specialty service costs across all episodes ($)	11,700
Net revenue ($)	127,140
Conventional/Specialty surplus/(deficit) ($)	**1,886**

Source: Nordicity analysis based on data from CMRI, Nielsen Media Research, CAVCO, and CRTC.

3.3 Drama Series with Foreign Pre-Sale

- Our analysis indicates that a drama series with a foreign pre-sale can also generate a positive return for a Canadian broadcasting group that can air repeat episodes on a specialty television service. *Degrassi: The Next Generation* is an example of such a program.

- Modelling the economics of a drama series with a foreign pre-sale requires a modification to the Canadian broadcast licence fee assumption: a Canadian broadcasting group is likely to face a slightly lower broadcast licence fee than for other drama programs because foreign broadcasters pre-license the program as well. As noted in Section 2.5, an analysis of CAVCO data indicates that a broadcast licence fee of 18%, rather than 35%, is warranted for Canadian English-language fiction television series with a foreign pre-sale.

Table 12 Drama series with foreign pre-sale, conventional television window

Broadcaster Revenue – Original Airing	
Average audience (AMA)	400,000
Number of ad spots	12
CPM ($)	16
Per-episode revenue for original airing ($)	61,440
Broadcaster Cost – Original Airing	
Average budget per episode ($)	545,000
Broadcaster licence fee ($)	98,100
Other broadcaster expenses ($)	15,000
Total broadcaster cost per episode ($)	113,100
Broadcaster net revenue ($)	(51,660)
Broadcaster Revenue – First Repeat	
Average audience (AMA)	260,000
Number of ad spots	12
CPM ($)	16
Per-episode revenue for each repeat airing ($)	39,936
Broadcaster costs ($)	15,000
Broadcaster net revenue ($)	24,936
Cumulative net revenue	(26,724)
Broadcaster Revenue – Repeat Airings	
Average audience (AMA)	100,000
Number of ad spots	12
CPM ($)	14.4
Per-episode revenue for each repeat airing ($)	13,824
Number of repeats in licence	5
Total revenue from repeat airings ($)	69,120
Broadcaster costs ($)	75,000
Net revenue ($)	(5,880)
Conventional surplus/(deficit) ($)	**(32,604)**

Source: Nordicity analysis based on data from CMRI, Nielsen Media Research, CAVCO, and CRTC.

Table 13 Drama series with foreign pre-sale, specialty television window

Average audience (AMA)	50,000
Number of ad spots	12
CPM ($)	8
Per-episode revenue for each repeat airing ($)	3,840
Number of repeats in licence	7
Total ad revenue from repeat airings ($)	26,880
Subscriber revenue per hour ($)	4,200
Allocated subscriber revenue ($)	29,400
Total revenue ($)	56,280
Costs per hour ($)	2,900
Specialty service costs across all episodes ($)	20,300
Net revenue ($)	35,980
Conventional/Specialty surplus/(deficit) ($)	**3,376**

Source: Nordicity analysis based on data from CMRI, Nielsen Media Research, CAVCO, and CRTC.

- With an average audience of 400,000, a drama series with a foreign pre-sale still yields a deficit of $32,604 for the broadcasting group following the completion of the conventional window (Table 12). Following seven airings on a specialty television service, however, the program is breakeven for the Canadian broadcasting group and generates a surplus of **$3,376** (Table 13).

3.4 Non-Quantifiable Factors

- Our analysis has focussed on Canadian broadcasting group's direct costs and revenues associated with the licensing and airing of Canadian television programming on conventional and specialty television. However, this analysis has been unable to incorporate two key non-quantifiable aspects of the economics of Canadian programming. The fact that we have been unable to incorporate these non-quantifiable aspects suggests that the results of our analysis are indeed conservative.

- The first non-quantifiable aspect is related to Canadian broadcasting groups' equity investments in Canadian television programming. An analysis of CAVCO financing data indicates that Canadian broadcasting groups made equity investments of approximately $30 million in English-language Canadian programming in 2006/07. These equity investments provide Canadian broadcasting groups with the potential to earn revenues from the foreign distribution of Canadian television programs or from DVD sales of the program. These distribution revenues are in addition to the direct advertising and subscription revenues earned by Canadian broadcasting groups.

- In a related manner, Canadian broadcasting groups are also obtaining wide-ranging ancillary rights to Canadian programming as part of their broadcast licensing agreements. These ancillary rights also provide Canadian broadcasting groups with the potential to earn additional revenues – through revenue-sharing agreements or otherwise – from the distribution of Canadian television programming over alternative digital platform such as Internet or video-on-demand. In some case, these ancillary rights provide Canadian broadcasting groups with the potential to also earn a share of merchandise sales associated with a Canadian television program. Like equity-investment related distribution revenues, we have not taken into account the value of potential ancillary rights revenues for Canadian broadcasting groups, and therefore, in our view, have presented a conservative portrayal of the economics of Canadian programming.

4 Summary of Findings

- While the consolidation of the Canadian broadcasting industry reduces the number of potential buyers of independent Canadian production, it does give Canada's large broadcasting groups the opportunity to air programming on both conventional and specialty television services. While the number of airings in the conventional window has in the past been limited, this has changed in recent years as broadcasters demand unlimited plays within broadcast licence agreements. Moreover, the specialty television window gives Canadian broadcasting groups the opportunity to reach breakeven and earn profits from Canadian programming.

- On the basis of available audience statistics, program-cost data, additional research, and reasonable assumptions, we modelled the economics of three different types of Canadian programs: a one-hour drama series, a half-hour comedy series, and a half-hour drama series with a foreign pre-sale. Throughout our modelling, we applied reasonable and conservative assumptions. Most importantly, we assumed that these Canadian television programs garnered average audiences of 400,000 to 700,000 for their original airing on conventional television. These rates of audience performance are below the levels achieved by *hit* Canadian programs such as *Corner Gas* and *Flashpoint*, but are consistent with the audience levels for many prime-time Canadian television programs airing over the last four years.

- Our modelling shows that all three types of programs generate a financial deficit for a broadcasting group, following the original conventional airing and six repeat airings on the conventional network. However, all three types of programs can achieve a breakeven position for the broadcasting group following a reasonable number of repeat airings on specialty television services.

- Our conclusion can further be considered conservative because it has not taken into account the equity investments made by Canadian broadcasting groups and the ancillary rights they obtain through their broadcast licensing agreements. The equity investments give Canadian broadcasting groups the opportunity to earn additional revenues from foreign distribution and DVD sales. Obtaining ancillary rights also gives the Canadian broadcasting group the opportunity to earn additional revenues from Canadian programs. Both of these potential sources of revenues would be over and above the surpluses modelled in our analysis

Appendix A: Analysis of the Impact of Friday/Saturday Scheduling

- To arrive at a schedule adjustment factor or day-of-week factor, we examined the general viewing trend across the weekly schedule. We also examined the trends in ratings for a select group of television programs that Canadian broadcasters moved from a Sunday-to-Thursday time slot to a Friday or Saturday time slot.

- Table 14 presents the average audience levels for all television programming (Canadian and foreign) airing on CTV, Global, and CBC during the 2005/06, 2006/07 and 2007/08 television seasons. The audience figures are based on a 12-month sample of programs, and include only the audiences to the conventional television airings of a program. Table 14 clearly shows the drop-off in audience on Friday and Saturday nights. Between Sunday and Thursday, a television program will, on average, garner an audience of 1 million to 1.5 million viewers. On Friday, however, this average drops to under one million; and on Saturday night it drops to under 500,000.

Table 14 Average audience levels, all persons 2+, (000s)

	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Weekly Average
2005/06	1,333	1,262	1,060	1,182	1,455	839	498	1,130
2006/07	960	1,076	875	1,176	1,416	791	374	979
2007/08	794	1,007	1,076	943	1,093	644	380	863

Source: Nordicity calculations based on data Nielsen Media Research and CMRI
Note: Includes programming airing on CTV, Global, and CBC.

- Table 15 presents the calculation of the percentage audience drop-off on Friday and Saturday in relation to the average audience level for Sunday through Thursday. Audience levels on Friday are approximately one-third below the Sunday-to-Thursday average; on Saturday, audience levels are 60% to 73% lower than the Sunday-to-Thursday average. On an aggregate basis, audience levels on Friday and Saturday are approximately 51% lower than the Sunday-to-Thursday average.

Table 15 Calculation of weekend audience drop-off

	Sunday to Thursday average	Friday	Saturday	Friday and Saturday
2005/06	1,258	839	498	669
Audience drop-off	--	*33%*	*60%*	*47%*
2006/07	1,101	791	374	582
Audience drop-off	--	*28%*	*66%*	*47%*
2007/08	906	589	248	418
Audience drop-off	--	*35%*	*73%*	*54%*
2008/09	983	644	380	512
Audience drop-off	--	*35%*	*61%*	*48%*
Average audience drop-off	**--**	**33%**	**65%**	**51%**

Source: Nordicity calculations based on data Nielsen Media Research and CMRI
Note: Includes programming airing on CTV, Global, and CBC.

- Of course, the drop-off in Friday and Saturday viewing is partly a function of the day of the week and partly a function of the type and quality of programming available on those nights. To more clearly determine what portion of the Friday-Saturday drop-off can be attributed to the day of the week, we identified ten television programs (nine titles) that aired two or more times between Sunday and Thursday and two or more times on Friday or Saturday during a single television season. Of these ten television programs, nine experienced an audience drop-off when they moved from a weekday to a weekend. One program, *Everybody Hates Chris*, experienced an audience increase when Citytv moved it from Friday to Tuesday, midway through the 2007/08 season. One program, *Comedy Inc.*, experienced an increase in audience level when A-Channel moved it to Saturday during the 2007/08 television season.

Table 16 Calculation of weekend audience drop-off for specific programs

	Television season	Sunday to Thursday average audience (000s)	Friday or Saturday average audience (000s)	Audience change
Whistler	2005/06	348	244	(30%)
Lipstick Jungle	2008/09	289	220	(24%)
Everybody Hates Chris	2008/09	60	45	(25%)
Robson Arms	2005/06	231	266	15%
Robson Arms	2006/07	409	293	(28%)
Very Bad Men	2007/08	235	183	(21%)
Swingtown	2007/08	526	289	(45%)
NCIS	2008/09	845	705	(17%)
Comedy Inc (CTV)	2005/06	370	216	(43%)
Comedy Inc. (A-Channel)	2008/09	48	63	32%
Close to Home	2005/06	1,036	980	(5%)

Source: Nordicity calculations based on data Nielsen Media Research and CMRI
Note: Includes programming airing on CTV and Global.

- While the aggregate schedule data suggest that rescheduling a television program to Friday or Saturday can reduce its audience by half, the program-specific analysis – which partly controls for variation in the type and quality of programming – indicates that a Friday or Saturday time slot reduces a program's audience by 25%.

- The implication is that any analysis of the economics of Canadian television programming that considers the audience levels of Canadian programs airing on Friday or Saturday should apply an adjustment factor of 25%. That is, the analysis should gross-up the audience figures for the Canadian program by 25% to model what audience level the program could garner if it aired in a time slot between Sunday and Thursday.

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