Interview with Gary Newman Carsey-Wolf Center at UC Santa Barbara

18-23 minutes

In April 2010, Gary Newman, President and Chairman of 20th Century Fox Television, sat down with MIP for an interivew. In the excerpts below, Newman discusses financing models, managing changing release windows, the impact of new technologies, the significance of DVD and alternatives to broadcast, and the changes new distribution options have brought to the industry.

The cancellation and revival of *Family Guy* is an illustrative case study on the changing economics of television. Premiering after the 1999 Super Bowl, the animated series was first threatened with cancellation in 2001. While given a short reprieve and picked up in 2002, the program was eventually cancelled a year later after three seasons. The episodes produced were sold into syndication to Time Warner-owned Cartoon Network, where they proved a considerable draw for 18-34-year old men, who also purchased the series on DVD. The success of both these ventures resulted in 20th Century Fox Television reviving the show, signing a deal with creator Seth MacFarlane reportedly worth $100 million.

Gary Newman is President and Chairman of 20th Century Fox Television, a position in which he is partnered with Dana Walden. Newman and Walden were appointed Presidents in 1999, and since then, they have overseen the commissioning, development, and production of programs including *24*, *Family Guy*, *Modern Family*, and *Glee*, among others. Together, they pioneered the release of series onto DVD immediately following the broadcast season -- now industry standard practice.

DVD, Syndication, and Resurrecting Family Guy

Friday, April 30, 2010

NEWMAN: First, it was a network decision to cancel the show. The studio loved it and we would have continued production. After it was cancelled, a few things happened. Steve MacDonald, who works in our syndication division, loved the show and was frustrated he couldn’t take the 50 episodes that existed and sell them to a cable network. Typically 50 is too few episodes for a cable network to syndicate because they want to be able to strip it 5 days a week, and 50 episodes is just 10 weeks of programming. But Steve convinced Cartoon Network to “buy” it and he convinced me to let them have it for free for the first two months. After that, Cartoon had an option to continue for another period of time for a very low price, which I believe was $25,000 per episode. So this was a very small deal, but Steve hoped to ignite interest in the show so that when the contract with Cartoon Network was up he would be able to raise the prices.

The deal with Cartoon Network happened at about the same time we began releasing the show on DVD and our sales were through the roof. A part of the reason we were willing to sell the show so cheaply to Cartoon Network was that we had a DVD release coming up and we wanted to create awareness on Cartoon Network. We figured our consumers were watching that network, or at least the children of our consumers were, and they would convince their parents to buy it. So we thought of the sale to Cartoon Network as a synergistic marketing campaign for our DVD.

At about the same time I took my older son, Jordan, back to Yale on a college trip. I spoke at Pierson College, and took questions from students after my presentation. Twenty hands shot up and almost every question was about *Family Guy*. "Would it come back? Why was it not the air? Do I know Seth?" It was just that confluence of events, coupled with our great relationship with Seth MacFarlane, who was still in business with the studio. Seth never let go of the dream of bringing back *Family Guy.* He used to call me or come in and see me every few weeks to convince me to bring*Family Guy* back to television.

Eventually we just decided that we should do something. So I went back to talk to the network but they just flat out passed. They had no interest in bringing it back. So I went to my boss, who oversaw both the network and the studio, and I would bug him every couple of weeks about it. Eventually, I said, "what if we can figure out how to do this without a network and still pay for it?" He said fine never imagining we could do that. We got our DVD division to give us estimates on the value of new episodes, we got Steve McDonald to go to Cartoon Network to see how much they would pay for new episodes, and we made deals to bring the show back. Because we knew our network could easily change its mind, and because it would be helpful to us to have the network relaunch the series to create awareness, we negotiated a Cartoon Network deal with a potential window for the Fox network, in the event they changed their minds. Of course, once we got into production, they did change their minds. We had gone into production on 48 episodes, which is what Cartoon Network was prepared to buy. The Fox network only agreed to buy the first thirteen. Later, they agreed to take all of the episodes. And it turned into one of the studios most enduring and valuable series.

How valuable is it compared to something like *The Simpsons?*

That is hard to estimate, because both shows went into syndication at very different times, a factor that has worked to the benefit of *Family Guy*. When *The Simpsons* began it was the first animated show in two or three decades to work. State of the art at that time was that a program owner sold the full run of the series, no matter how many seasons were produced. That means episodes are still sold pursuant to deals done when it went into syndication in the early 1990s. *Family Guy* on the other hand has been through a number of syndication cycles, each with their own, increasing rates.

Clearly, then, DVD offered the prospect of an alternative financing model. With the DVD market dropping, what

models are you are looking at today that make it possible to leave the conventional path when bringing something to air you believe in?

It's really show-by-show. I think shows like *Prison Break* or *Glee*, really don't make financial sense without the DVD market. While the DVD market as an overall sector is declining, it isn't declining in the case of certain shows such as *Glee, Sons of Anarchy,* and *Prison Break*. These shows all have great sales even by comparison with shows from four or five years ago.

Over the last seven to eight years we have recognized that we are in an even more hit driven business. It isn't about market share, it isn't about volume, it's about very brand-specific properties. Shows that are serialized, or are genre or animation, and that appeal to a young and male skewing audience still perform great on DVD. We are not going to be able to sell serialized programming in syndication to broadcast stations or cable networks so you must rely on home entertainment

There is a level of complexity to our business that simply didn't exist when I started. I know it sounds simplistic, but twenty years ago all we cared about was the network and its needs. Almost everything went from network to syndication and worked. As that changed, we began to look at each show separately to determine whether in ratings success if there was a path to financial success?

So far, there have only been two paths to success -- either DVD sales or syndication. I think *Glee* is maybe our first show that has found a third avenue to success, which is music. Our music sales on the show are really kind of mind blowing. We took Glee on a ten day concert tour last summer. It was not a big financial windfall by any stretch, but it was remarkably popular and with our growing ratings in season two we plan to do a big arena tour this summer which we think could be financially very successful. And I think there are also other businesses that could spin-off, whether it's a Broadway version or a feature film version of*Glee.* It's the kind of property that can travel from platform-to-platform.

What we learned from *Family Guy* is that in terms of audience value, the intensity of the fandom is more important than its breadth. You can take a relatively conventional TV show, maybe a procedural drama, and if you have enough breadth you are going to be successful. You are going to syndicate it to one of the older skewing cable networks, as is the case with *NCIS* on USA. That will be quite successful. But if you are not in that fairly narrow window, you better have an audience with an intense passion for your show. One way we try to monitor this is online.

Distribution Changes and Studio Practices

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NEWMAN: Dana and I are both chairmen of the studio. I tend to focus more of my time on the business and distribution side of what we do, but our philosophy is that either one of us should be able to sit in any meeting and be fully up to speed and lead it, so I end up getting quite involved in the creative side, as Dana does in the business side. As the heads of a content creation company, our primary focus is creating new series, whether it is selecting the writers, shaping pitches, or overseeing projects from the script stage to the editing room and beyond. We work through all the difficulties of production, from hiring talent to negotiating license fees with networks to getting shows launched and pushing the networks to market, schedule and support our shows successfully.

Once we get a show launched and secured, I immediately turn my focus to the distribution of it, which a decade ago was a relatively simple thing. There wasn't a lot to do in the first four years of a series' life until the network exclusivity period ended and you were free to sell the show into syndication. Ten years ago we were just beginning home entertainment releases of shows, but even that was always after 4 or 5 years of production, and sometimes just the pilot or special episodes-- no one thought to release entire seasons back then. Now, things have changed so much. We map out and execute our distribution strategies right from season 1 with streaming, Electronic Sell Through (EST) and releases on DVD. The international distribution of shows, which has always been the province of the studio, has become a more important part of our financial equation. Then there are ancillary businesses that are only applicable to certain shows, whether it is the music of a show like *Glee* or the licensed merchandise for a show like *The Simpsons* or *Family Guy*. Those are businesses that begin right away and it is up to the studio to manage them.

MIP: Thinking back to 10 years ago when you started this

job, how has the production world changed in that time? There was of course a wave of conglomeration happening in the wake of the 1996 Telecommunications Act. How has managing a broadcast studio changed over that time?

As companies became more vertically integrated there was a belief you could be self-sustaining. There was a move at the studio divisions to really beef up their roster of writers and to spend a lot of money on what we think of as research and development. Lots of writers were hired, lots of development was done, because the business was a volume game. The idea was to control as much of one's own network's schedule as possible. And because primetime shows had always been worth a lot in syndication, vertically integrated companies not only wanted to broadcast them, but own them. Many times we ended up having to share ownership in order to get a show on a third party network. We were beginning to see various networks go through periods where they would primarily buy from their sister studios for fear of not owning the product.

In May, when the trades would write about the upfronts, the banner headline was always about which studio had landed the most shows on the fall schedule. It was all about volume and that fueled tremendous growth. At Fox, we went from having 7-to-10 series on the air in the 1990s, to topping out at 25 series by the early 2000s. And those were all network shows – those numbers didn't include cable programming, so there was a tremendous consolidation in the ownership of shows.

Several things have changed since then. First, our company believes that networks can't be self-sustaining; a network can't and shouldn't try to create all of its programming through its in-house studio. Having an arms length relationship between the network and studio benefits development creatively by assuring that programming is created through multiple creative prisms. When the same few executives are controlling the development at a strictly vertically integrated company, the projects risk suffering from a homogeneous point of view. Further, it is healthy for a network to have to compete for a project rather than just get it because it was developed at its sister studio. This forces them to determine which projects they are most passionate about. This is good for the sister studio as you only want projects at a network if there is genuine passion and interest. The arms length relationship is also good for the studio. It forces us to compete with other studios for development and broadcast "shelf space" at the networks, which necessitate that our projects be as compelling as possible.

"Judging Amy" ran on CBS for six seasons between 1999 and 2005.

Also, we discovered many of the series we got on to the air turned out not to be successful from an economic standpoint, at least not for the studio. *Judging Amy* is a good example. It was a wonderful show and a genuine hit for CBS and we loved the people we were in business with, particularly Amy Brenneman. We produced *Judging Amy* with her at CBS for 5 years and while the network did just fine selling ads, we just made no money at all. It was too soft for the market at that time. CBS leveraged us into agreeing to a co-production, so we didn't have international distribution and as a result, we didn't earn any distribution fees, and the show didn't sell well in domestic cable syndication.

At that point a light bulb went off in our heads. Dana and I were in New York for the upfronts in May and it was the year that we sold more shows than ever before—a whopping 25 series. We had sold something like 10 or 11 new series and returned 14 or 15 series for another season. We were at the top of the industry and the trades sported big headlines like "20th Century Fox Television Dominating the Network Landscape." We had just toppled Warner Brothers, who had been at the top for a number of years and Peter Chernin, Chairman of Fox, invited us to fly back to Los Angeles on the corporate jet. We figured, "what a nice reward for our great work."

We met him at the airplane at 8:30AM and we expected to be wined-and-dined and have a relaxing experience. But when we sat down he said, "We have some talking to do. You guys are going to ruin our business. You are too desperate to get programming on the air. You need to stop thinking about volume and start thinking about quality opportunities."

It wasn't exactly the reward we had hoped for, but it really was a turning point for us and shifted our strategy. Since that time we have been much more oriented towards a hit strategy than a volume strategy. Market share is meaningless to us now. What is more important is creating shows that can become brands and travel from platform to platform to platform- we don't even think about how many shows we are making at any given time relative to our competitors.

So at that time it was a matter of colonizing tuner space in some sense--having as big a footprint as you could put out there? Now it is one of trying to monetize as many platforms as possible?

There was a belief, based on past experience, that if you just got to 100 episodes you would be successful, but we began to discover that wasn't the case. It was no longer a simple business where you develop a good pilot, hand it to the network, make phone calls now and then trying to get them to support your show, and wait for it to come back to you 4 years later for syndication. It is now a much more proactive business. We started thinking much more about commercial success and viability in ancillary markets, and we have become more selective about the projects we decide to produce, even passing on network orders from time-to-time.

"Joan of Acadia" ran on CBS for 2 seasons between 2003 and 2005

We developed *Joan of Arcadia*, about a young girl who would talk to god, which ended up on CBS. CBS wanted to go forward with it, but when we talked to our international and syndication divisions, they were pessimistic about selling it as it lacked several elements that their buyers valued. We gave it back to CBS and told them they could take it. The show was canceled after only two seasons, with probably no return on its investment for the studios (Sony and CBS Productions) that wound up producing it, so it turned out to be absolutely the right decision.

Other vertically integrated companies have followed very different strategies. ABC and NBC are both very much trying to be self-sustaining networks primarily buying programming from their sister production divisions. The studio divisions of CBS, NBC and ABC collectively produced one pilot that wasn't for their own network and probably developed fewer than 10 scripts for other networks, whereas we had a third of our pilots outside of Fox. We did 15 pilots this year and 5 were at outside networks. Our scripts were a little bit more oriented toward Fox than that, but we got a better percentage of our pilots ordered by outside networks than we did at Fox. It's just a very different strategy.

I think this is a primary reason that things have been going very well at our company. We are frequently a more attractive home to talent than other studios. We can support an idea that is best suited for ABC, NBC, or CBS. You aren't going to be forced to set your idea aside or to change its basic nature so that it fits the Fox brand. Whereas if you were at one of those other studios, you might find that if your idea wasn't right for their own network, it would get altered or passed on. Or they might order a script defensively but not order it to series. Or they'll manipulate the idea into what they want it to be instead of what the writer wanted it to be. And great TV shows are rarely developed by forcing a creator to change his fundamental vision or inspiration. So we make sure that if one of our writers has a compelling idea, we bring it to the network that will be the best home for it, even if that isn't Fox.

And while we like to think that we do things better and smarter than our competitors, there is no denying that there is a huge amount of luck involved. This year we had the three most successful shows of the year in *Glee*, *Modern Family* and *Cleveland.* Two years ago, we had no new hits, and the year before that, just one success, *Lie to Me*. It wasn't that all of a sudden we got smarter or that our strategy got better, but rather a lot of things came together.

I think for the long-term health of the company, ours is the right strategy, but it can be a hard strategy to employ. The relationship with our sister network is complex because they aren't happy when we take shows to outside networks and we aren't really happy about them buying shows from other studios. It takes a lot of communication, awareness and appreciation of each other's strategies. Whereas it is pretty easy at some other companies—for example at ABC, Steve McPherson controls the studio that makes the shows as well as the network that buys them, so there is just not a lot of conflict in that. But I really believe that out of conflict comes the best work.

Read the complete transcript of our conversation with Gary Newman in *Distribution Revolution: Conversations about the Digital Future of Film and Television*.