Interview with Joe Flint Carsey-Wolf Center at UC Santa Barbara

22-28 minutes

Joe Flint is a staff reporter for the *Los Angeles Times* covering the media and entertainment industries. Before joining the *LA Times* in April 2009, Flint was director of industry programs for the media council at the Paley Center for Media. He also has worked as a media reporter at the *Wall Street Journal*, *Entertainment Weekly*, *Daily Variety* and *Broadcasting & Cable*.

MIP met with Flint at the historic *Los Angeles Times* building where we asked him what the digital distribution revolution looks like from the perspective of a media and entertainment journalist. He spoke broadly about the challenges of shifting from a lucrative cable bundling model to an uncertain and potentially disastrous a la carte model. Flint also remarked on the lack of innovation amongst advertisers, broadcasters, and measurement companies before expressing concern for the long-term viability of streaming alternatives, like Netflix.

Bundling vs. a la Carte

In the last ten years, what do you think has been the two or three biggest developments in the distribution landscape?

First, and foremost, we have to acknowledge the Internet as a content delivery platform. If you look at the history of the industry, what platform did we have for decades and decades? We had over-the-air television and used the public airwaves to deliver programming. We had three to six channels in every city. Then in the late 70s, the cable industry really started to emerge as another distribution platform. Cable initially just carried broadcast channels. Then we experienced the emergence of HBO and some other pay services. In the 80s, we saw an explosion of new entertainment cable networks, like USA, MTV, and Turner. Initially, there wasn't much on them except reruns and movies. Eventually the networks recognized they needed to offer more. So, in the 90s, we saw more and more original content on these channels.

You went from your broadcast delivery system to your cable and then satellite delivery system. Now, we've added this over-the-top Internet platform where the content is being streamed online both in a linear fashion and in an on-demand fashion.

But, on top of that, we also are seeing a shift in where people watch content. HBO GO, for example, lets you watch HBO shows on your iPad or on your smartphone. But, while we have all these new devices, they're not fully replacing television yet. I just did an interview with an HBO president today about HBO GO's popularity. Apparently 4.5 million of HBO's subscribers have signed up to use this service, which allows you to watch all of their programming on-demand. But only two percent of the people signed up are watching on new devices. Instead, 98 percent are consuming HBO on traditional televisions, the way they did before HBO GO existed. I think we can expect to see that ratio shift in the coming years.

Lastly, the viewers have taken control of consumption away from the industry by using digital video recorders and video-on-demand services. All these things make it possible to enact that clichéd idea of watching what you want, when you want, and where you want.

It’s a blessing and a curse for traditional media companies. For example, I can record *The Good Wife* on Sunday night and watch it on Wednesday. On the one hand, that’s a great thing. On the other hand, if I'm watching on Wednesday, I'm not watching something else on Wednesday. I'm skipping through the ads and that's not beneficial. Or, I'm not watching these shows right away, so they are not getting the measurement credit. All these different things, all these interrupters, are what the industry is struggling with right now.

What players are driving these changes? For instance, do you see content providers in control? Do you see those with pipelines more in control?

If you've got the content that people want and for which they are willing to pay, you've got leverage over the distribution platforms. At this exact time, it's hard to say if that’s always the case. So, are programmers in control? In some ways they are because they act as powerful gatekeepers and refuse to alter their business models.

This is the challenge for the entertainment industry. It wants to protect the current business model as much as possible. Both content providers and programmers have a vested interest in doing so. For example, Disney owns several popular cable networks, but it also owns others that maybe wouldn't be in as much demand. It can bundle them together. Everyone loves ESPN but what about ESPN 2? Disney can make deals with the distributors and bundle those channels together. They both have a lot to protect. Sometimes there is a perception that it's the guys with the pipe that are hell bent on protecting this current model. But the content providers are equally invested in this model.

I interviewed a man recently for a story I was doing about this Department of Justice probe into the paid television business that emerged a few weeks ago. The interviewee runs this cable channel called Wealth TV. It’s a very small, independently-owned network. He struggles to get any distribution because he's not one of the big five or six media companies. He said that in his contracts it's very clear that if he were to sign on with some sort of over-the-top provider, he would put his distribution agreements in jeopardy. He said that on the record. That was refreshing because most people don't come out and provide that information. They will allude to cable’s behavior, but they won't say anything on the record. The concern that the cable industry’s programmers and distributors want to protect their current model and hinder the growth of other distribution services is an interesting element to all this. In fairness, the cable industry denies that that is the case. The industry would also say it is not opposed to new competitors or platforms. Programmers will tell you, "We want to do business with everyone. Why would we have an issue?"

So, who is in control right now? The current incumbents are still in control, for better or worse. It's really up to the consumer to bring about change. At some point the consumers will have enough options that they can start to look at television in a new way, whether it's cutting the cord or some other change yet to be discovered.

I think the thing to watch is sports. That programming is very expensive. It's getting more and more expensive for cable operators and satellite operators to carry ESPN. It's currently over $5 a subscriber per month. As a subscriber, you don't have a say about those fees. You pay for that channel whether you watch it or not. I think we're heading toward a tipping point. Whether through a congressional act or whether through the frustrated operators themselves, sports content will create a space to discuss alternatives—a la carte, different subscription tiers, or a separate subscription package altogether.

If we look five or ten years down the road, are consumers going to have the choice to access content in an a la carte manner?

Well, I don't know. I wouldn't want to put a time line on that. On the one hand, I sit here and think, my God, how can it not eventually get to that point? I work in my own industry where we are in the exact same predicament. Although, I dare say our content isn't quite as exclusive as an episode of *Jersey Shore* [laughter], but it is that same dilemma. Steve Burke, the CEO of NBC Universal, once joked when Kara Swisher of the *Wall Street Journal* asked at one of their big digital conferences, "Why can't I just get Bravo and this channel and that channel. That's all I want?" And Burke said, “I don't know. Why can't I just get the Marketplace section of the *Wall Street Journal*?” Touché.

There is so much to protect there. We talked about ESPN and how it's $5 a month with 100 million subscribers. You can see that's a big chunk of change. The knock against a la carte is if only 50 million people get ESPN, they are going to have to raise that price to $10 dollars because they have to make up for all those lost subscribers.

Or they could just make less profit. Do they have to keep it at that inflated level?

Right. In my fantasy world, customer costs wouldn’t inflate when ESPN’s subscriber numbers are cut to say 60 million instead of a hundred million. So, a bunch of revenue has gone away. Perhaps instead of increasing the price for those 60 million, they would say to the sports league, "Guys, the gravy train is over." Maybe the sports league would have to say to the players, “Guys the gravy train is over.” And there would be some sort of market correction. I get a big laugh whenever I bring this up to folks at ESPN or the leagues.

I could see the price of the tickets going up.

Yeah. The money that would have come from sports programming is going to come from somewhere. Let's take ESPN out of the equation. Bundling might just get rid of a lot of networks with arguably limited demand. How many different

Nickelodeon channels do we need? How many different VH1 channels do we need? Perhaps an a la carte model would provide that market correction. Only the strong would survive.

However, programming is not entirely dependent on profits, admittedly. Some channels spend a lot of money on programming. They might have a tough time making the original content if their revenues drop.

We sometimes forget that for 100 bucks, we get an awful lot of channels. I know we don't use them all and might say we only use 13. The problem is that the 13 I watch aren't the 13 that you watch or that he watches or that she watches. Unfortunately, we have to get them all. But it still breaks down to a pretty good deal for the consumer. I bet I spend almost as much a month at Starbucks as I do on my cable bill for hours and hours of content.

But, as more and more programming shifts to this kind of on-demand model, an a la carte model becomes more possible. Every time I think of a good point in the a la carte versus bundling argument, five other things pop up that shoot my pro-a la carte ideals down. The industry is like an Etch-a-Sketch. You just want to shake it to make it all disappear so you can start over. It makes one wonder, if you were building the industry today what would you do?

I did a panel at the NAB show six weeks ago. I was talking about how more and more content will be distributed in an On Demand world. And the programming executives on the panel said, “No, no, people like to be programmed too.” I think it's true for previous generations like Baby Boomers and maybe even Generation X. I think folks under the age of 35 or 30 have a very different mindset. They don't feel the need to be programmed or told what to watch. The trouble in all of this, though, is making the economics work.

Have you been watching *Breaking Bad* all along or have you caught up through Netflix or DVDs? That is exactly what I did. I didn't watch it for the first few years, and then I caught up. Now, I'm hooked. When that show comes on in a few weeks, I'm going to be watching *Breaking Bad* on AMC. Isn't that great for AMC? Its viewership will go up. The challenge is that programs and networks can't bank on that future success. They can’t say, “Hey, in three years people will be downloading the Netflix episodes and ordering the DVDs. This show, which no one is watching right now, will be a hit and our economic bet and our millions and millions of dollars spent will all payoff.”

There was an FX drama about an aging boxer called *Lights Out*. The show lasted one season, and the creator told me he would bump into some folks who would say, "I have been watching one of your shows. I really love it. I can't wait for season two." And he would say, “There is no season two. Where were you when I needed you? Why weren't you watching it on FX?” That's a challenge. That's the part that gets lost in the on-demand model. There still needs to be some success out of the box, on the ground level.

Knowing the Audience in the Digital Age

How should metrics be adjusted to reflect what's going on in the digital space?

It seems to me the information is already there from the industry. We all have these boxes in our homes. How tough could it be?

I don't want to say whether I think Nielsen is slacking or not, but I have to think that the industry could probably measure content success itself. Would anyone take the numbers seriously, though? We are used to the idea of this neutral ratings company. Nevertheless, I would be game if Time Warner Cable wanted to share my viewing habits, sans identifying information, and build its rating scheme. I'm willing to bet the numbers would be very different than typical findings from Nielsen’s measurements.

I will say this: Nielsen is not doing enough. It really does need to step it up. It's a cliché to say the game has changed, but Nielsen seems more and more out of touch.

Our research suggests viewers, especially younger viewers, are not adverse to ads. It’s really a question of how many and how intrusive. Why are we not seeing innovation among the advertisers and the broadcasters who rely on those ads?

We certainly will. The number of commercials in a show has more than doubled in the last 30 years. I'm not just talking about commercials for products but promotions as well. The typical sitcom now clocks less than 22 minutes. It used to be 26. Some old episodes of *Mash* include more than 26 minutes of content with three and a half or four minutes of commercials. That is pretty incredible.

That's sort of the interesting thing. They put more advertising inventory in shows to make more money. Why? Their ratings fell because of fragmentation.

This year the networks sold $9 billion worth of advertising, which is flat from a year ago. It sounds like a lot of money, but if the commercial load is increasing, they are actually selling for less. I always argue that you should go to advertisers and say you have a limited amount of commercial inventory. They are not going get lost in the clutter. Hence, the value of their spots is greater. That's a better pitch than being the 15th advertiser in a 10-minute commercial break on Spike TV.

Really, the whole process of purchasing ads is flawed. They buy demographics. Advertisers technically get what they paid for – a particular demographic – but without delivering what they ultimately want: a connection to the viewer. For example, if you ask most advertisers, point blank, if they know what products their ads are in, they don't because ads are not really sold that way. You go in and say, "I need to reach X amount of 18 to 34's. Here is $100 million dollars. Go buy some commercials." Then those buys are put into all sorts of different shows. It's always fun if you watch a particularly risqué episode of some TV show and then call the advertiser and say, "So, were you comfortable with your spot in this episode of *Two Broke Girls*?" Their line will be, "I had no idea that we were in that show. We are going to look into this." I do think they need to be more hands on. They also need to think through ways to ensure a commercial isn't skipped, deleted, or fast forwarded through. With all of those routes blocked, you've got a pretty good shot at that ad being seen on a screen in a room that has people in it. And that is the challenge.

How do you think social media factors into the contemporary media landscape?

I do think that Twitter can provide valuable feedback to producers and entertainers. It also allows people to engage with the common man and their audiences. But it also means people in the entertainment industry must have some pretty thick skin. I can't imagine being a producer who is active on Twitter dealing with a bunch of snotty jerks like myself all the time. If I were Matt Weiner or Aaron Sorkin, I wouldn't care about your thoughts. If you don't like my show, don't watch it. If you do like it, great. I appreciate your support. I would not spend a lot of time concerned with social media. I'm sure I would have other things to worry about and figure out. Those guys are being paid a lot of money to do their shows the best they can, so they shouldn't necessarily focus on the nasty things strangers are saying.

Ultimately, though, I think feedback and interaction can be a good thing. It's certainly good for me as a reporter. Twitter has helped me buildup sources, find new sources, and also create more awareness of my work and what I do through that platform. And for better or for worse, newspapers are putting more and more value on reporters who have a large social network presence. I do not have that. I have over 7,000 followers. People at the *New York Times* have over a hundred thousand followers. I don't know how they do it but they do.

Innovation at Gunpoint

What companies do you see as being the most interesting innovators of successful distribution strategies and productive tactics in this phase? Which companies have absolutely no clue?

I do think you are dealing with an industry that will innovate at gunpoint.

It's much trickier than just saying this provider is dropping the ball or that one isn't doing enough. They all recognize the need to do stuff. They don't want to be the newspaper industry. Unfortunately, they are trying to correct the same mistake that the newspaper industry made where initially they put a lot of stuff online for free and then they realized wait, what are we doing? Why are we giving this away? People pay for physical copies of this, and we are giving it away on here. Our distributors don't like it. If I owned a McDonald's franchise I would be pretty pissed if McDonald's corporate started giving out cheeseburgers in front of my store. So that's kind of the rub.

I was wondering if you had any sense of which companies in the film world are doing especially innovative stuff with distribution and taking advantage of new opportunities presented by the digital era.

I think the movie industry is particularly challenged because of self-inflicted wounds. Putting movies out on pay-per-view faster or on-demand faster or bringing them to DVD faster, will hurt the initial window. Half the movies that I would have seen in the theatre, I know I can wait just a little longer and rent it. I can make the call and decide if I can wait a short six weeks and just rent it or if I need to go see it now

I do think that in the years ahead, the industry will have to find a way to release content on-demand simultaneously or even before it premieres in theaters, but it has to figure out how to do that without pissing off the theater owners.

Do you think the original programming on sites like Netflix and Hulu are going to prompt the incumbents to put more momentum behind their efforts?

The traditional TV business puts a show on, finds out how many people watched it and then moves on. It's easy to do the analysis. Netflix doesn't care. All of the episodes go out at the same time. Netflix never really releases information on the popularity of its stuff. But this original content also doesn't have to be an overnight success. It's like a bookstore. That book can sit on the shelf for years as long as people coming into the store buy it. Of course, eventually we'll be able to tell if its content was successful. If in two years Netflix is not doing original shows, we'll know it was a business model that didn't work. If Netflix is successful, I think we'll see Amazon and other distributors trying to keep up.

Do you know anything about how much Netflix pays for content?

They pay the premium on a lot of stuff. I can't address specifics now, but I have stories on my computer with clips with numbers in them. I don't know just off the top of my head. They made a deal with the CW Network to buy a bunch of its shows. I think the price tag on *Gossip Girl* was $800,000 per episode. That's a lot of money. But the company has a different measurement technique, so it can do that. But the more it spends, the more it needs to increase its subscription numbers. And the more it increases those subscription numbers, it will face a tougher time convincing content companies to sell content to Netflix. Content companies don't want to lose viewers to Netflix because it's not as valuable to them as pay-TV. If Viacom determines that having *SpongeBob SquarePants* on Netflix is hurting the ratings on its channel, it is going to have to make a decision about whether the money they get from Netflix is worth the loss of advertising revenue on Nickelodeon. Some companies, like HBO, already won't sell to them. And their movie content is much less robust than their television content. So, it's facing some serious challenges. There are a lot of folks in the pay TV business who think Netflix will fizzle out and go bankrupt.

Are there any lessons from the past that you feel need to be remembered now in this new moment of crisis chaos and confusion?

Everything in the past that has been seen as some great disruptor or as something that is going to destroy the backbone of the industry hasn't done that. For instance, the beta max was going to destroy the industry, but that actually cleared the way for the home video business and all sorts of new revenue streams. Cable could have just destroyed the industry. But they actually buy a lot of shows and need new content. All of these things have actually led to more and more opportunities.

But the digital platform is tough. The audience is fragmented incredibly, which means that determining what's a hit has become a lot harder. Monetizing those hits has also become harder because the audience has gotten smaller and there is so much choice out there that there is crap out there for everyone. There really is. I don't know if it's a golden age of TV, but there is certainly no shortage of content or choices on a wide range of subjects out there. The trick is monetizing that? How do you make a show that three million people really love a profitable and successful venture?

My biggest fear is that as these industries have become more and more consolidated, risk taking and innovative, creative thought has gone by the way side. These companies are all big public companies that have to worry about appeasing Wall Street. They have to worry about shareholders and investors. Everything is about the next quarter, not the next decade.

Swash buckling executives – those leaders who change movies and television, who take risks and make movies no one else will make and make TV shows no one else will make – are becoming fewer and fewer. That's the challenge I see. The issue is finding that next generation of creative executives willing to lead with their guts and take chances, whether it's both from a creative standpoint and a business standpoint, to deal with all this stuff rather than play it safe and focus on how to protect this quarter's numbers. That is the big challenge.

Is there one executive you could name who met that challenge?

I will just compare and contrast Les Moonves and Jeff Zucker. I'm not saying either is perfect. Moonves, for better or for worse, has a passion for content. We may disagree on the content he puts on CBS. Some of it is derivative. The point is that he's an executive who clearly loves the entertainment aspect of the business and thinks of himself in the vein of Brandon Tartikoff and Robert Evans and other larger than life programmers. He's running this major entertainment company and still attends casting meetings and is still very intrigued by all that stuff.

Then you had Zucker who, in my opinion, did not have a passion for entertainment or programming when he was running NBC. He might as well have been making ball bearings. At the same time, Zucker had a passion for news and made the *Today Show* a huge franchise. I don't think he had that same sort of passion out here. It's tougher and tougher, though, for anybody to rise up in such a consolidated Wall Street-centric industry now, especially when compared to the industry in the 60s and 70s. You had more movers and shakers and people who were more concerned with creative bets rather than weighing everything against the bottom line.