

The Impact of Non-Simultaneous Substitution on Private Canadian Over-the-Air Broadcasters' Advertising Revenues

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Introduction

Background

- For over three decades, the Canadian broadcasting system has benefited from simultaneous substitution. Under Canada's simultaneous substitution regulations, broadcasting distribution undertakings (BDUs) are required to substitute a Canadian broadcaster's signal for the signal of an American broadcaster, where the Canadian broadcaster holds the Canadian rights to an American program and is simultaneously exhibiting the program. This process amounts to a repatriation of Canadian viewers and the associated advertising revenues from the American border stations.
- There has been considerable research on the economic impact of simultaneous substitution. In the 1980s, Arthur Donner and Fred Lazar estimated that simultaneous substitution accounted for 11% of total advertising revenues in Canada's English-language market. In January 2009, Nordicity updated the Donner and Lazar analysis and estimated that simultaneous substitution was worth approximately \$200 million during the 2006/07 broadcasting year. These incremental revenues were largely drawn from American border stations. Armstrong Consulting also published an estimate of the value of simultaneous substitution in 2006/07. In *The Economic Value of Simultaneous Signal Substitution for English-language Private Conventional Television Broadcasters*, prepared for the Canadian Association of Broadcasters in January 2008, Armstrong Consulting found simultaneous substitution of American signals had an economic value of \$217 million in 2006/07.
- Like simultaneous substitution, non-simultaneous substitution (NSS) has the potential to increase Canadian broadcasters' advertising revenues by *repatriating* Canadian audiences that have leaked to American channels. What is more, NSS has the potential to increase the audience performance and value of Canadian programming, by giving Canadian broadcasters the flexibility to open up time slots during the Sunday-to-Thursday peak-viewing period for Canadian programming.

- Under an NSS scenario, BDUs would be required to substitute a Canadian broadcaster's signal, including its advertising, for the American broadcast signal, in all cases for which the Canadian broadcaster has acquired the rights to the American program. In the case where the broadcaster is offering a different program on its own channel, the broadcaster would have to arrange for a separate feed to the BDU. This separate feed would be comprised of the American program and Canadian television commercials, and thereby, give the BDU the content required to carry out the signal substitution. In effect, NSS gives the Canadian broadcaster two peak-period exhibition windows on offer to the viewer at the same time slot: one with the American program in question and the other that could be a foreign or domestic program of the same or different genre.

Summary of Mandate

- The Canadian Film and Television Production Association (CFTPA) asked Nordicity Group Ltd. ("Nordicity") to prepare a preliminary analysis of the impact of NSS on the advertising revenues of private Canadian over-the-air (OTA) broadcasters.¹ The following report presents the results of Nordicity's analysis.

Limitations to Analysis

- This report does not constitute a comprehensive estimate of the value of NSS to the Canadian broadcasting system. The following analysis estimates the increase in advertising revenue that could result from the implementation of NSS in light of Canadian OTA broadcasters' current programming practices. It does not consider the impact that NSS may have on Canadian specialty television services. While NSS is likely to have some impact on Canadian specialty television services, the analysis only estimates the impact on Canadian OTA broadcasters.
- While NSS would generate incremental advertising revenues for the Canadian broadcasting system, it would also generate incremental costs. For one, there would be a technical cost associated with implementing NSS. As well, Canadian OTA broadcasters may or may not face increased programming costs as a result of NSS. The higher programming costs might arise from Canadian OTA broadcasters' acquisition of American programming because they would be receiving two plays even though one of them was not on their own network. Or, they could have to pay Canadian rightsholders more if their programming became more valuable with better placement on the broadcast schedule. This report does not consider the cost equation, and therefore, does not provide a benefit-cost analysis of NSS.

Overview of NSS Impacts

- To estimate the overall impact of NSS on Canadian OTA broadcasters' advertising revenues, we have identified the following three separate sources of NSS impacts:
 - **Simulcasting Conflicts:** In some cases, Canadian OTA broadcasters may end up with the rights to two or more American programs airing at the same time. Moreover, because Canadian OTA broadcasters purchase American programming that can air on different

¹ Throughout the report, we drop the word "private" and refer to private Canadian OTA broadcasters as simply "Canadian OTA broadcasters." Our analysis does not include the impact of NSS on CBC/Radio-Canada.

American networks, a schedule change by one of these networks can lead to a *simulcasting conflict*. When such simulcasting conflicts arise, the Canadian OTA broadcaster might elect to pre-release one of the conflicting programs and forego the simultaneous substitution opportunity. Under such a scenario, the Canadian OTA broadcaster loses a portion of the Canadian audience to the airing of the program on the American border station. With NSS, the Canadian OTA broadcaster could substitute its signal in the American border station's feed, even though the Canadian OTA broadcaster aired a different program during that specific timeslot. Thus, the Canadian OTA broadcaster could repatriate any loss of Canadian audience that would have watched the program that was not carried by the Canadian OTA broadcaster in a simulcasting conflict.

- **New Prime-Time Substitution Opportunities:** NSS also gives Canadian OTA broadcasters the opportunity to repatriate Canadian audiences viewing American programming during prime time that cannot be accommodated within the Canadian OTA broadcasters' schedules. There are certain American prime-time programs that do not air on Canadian OTA broadcasters because no simulcasting opportunities exist. When Canadian audiences watch these programs on American border stations, the associated viewership and associated advertising revenue leaks from the Canadian broadcasting system.
- **Syndicated Programming:** At present, a large share of syndicated programming airing on American border stations outside of prime time is not subject to simultaneous substitution. This outcome may be because Canadian OTA broadcasters have not acquired the rights to this programming or because it is inconvenient for Canadian OTA broadcasters to schedule their acquired syndicated programming at the same time as American border stations. It is nearly impossible to match the airing of specific episodes of syndicated strip programming, and this practical reality discourages the use of simultaneous substitution. Regardless of the rationale for not engaging in simultaneous substitution for certain syndicated programming, Canadian audiences leak from the Canadian broadcasting system. NSS allows Canadian OTA broadcasters to repatriate these audiences' tuning to syndicated programming on American border stations.
- In the next section we derive estimates of the incremental advertising revenue that could be earned by Canadian OTA broadcasters from each of these three sources of NSS impacts.

Results of Impact Analysis

Simulcasting Conflicts

- To estimate the revenue impact from the application of NSS to the resolution of simulcasting conflicts, we reviewed the prime-time program schedules for the week of December 7, 2009 for the four major American border stations in Buffalo: WKBW-T (ABC), WIVB-TV (CBS), WGRZ-TV (NBC) and WUTV-TV (Fox TV).² We compared these schedules to the prime-time program schedules for the same week for the five major private Canadian OTA broadcasters in the

² Although Canadian OTA broadcasters air programming from The CW network, we did not include the Buffalo affiliate of The CW (WNLO-DT) in our analysis, because it is only carried by Canadian BDUs as a digital-tier service, and therefore, has a more limited audience reach than the four American networks distributed by Canadian BDUs on the basic analog tier.

Greater Toronto Area (GTA): CFTO-TV (CTV), CIII-TV (Canwest Global), CITY-TV (Rogers-Citytv) CKXT-TV (Sun TV) and CKVR-TV (A-Channel Barrie).

- By comparing the program schedules, we were able to identify five instances where American prime-time programming aired in a different timeslot on the American and Canadian stations, due to simulcasting conflicts on the Canadian OTA broadcaster. **Table 1** lists these five programs; they total five hours of weekly prime-time programming.
- If one assumes that these simulcasting conflicts prevail throughout the year, then the five hours of conflicts suggest that there would likely be a total of approximately 195 hours per year (5 hours × 39 weeks = 195 hours) that could be subject to NSS.³ Of this total number of hours, 130 hours would likely be original airings (5 hours × 26 weeks = 130) and 65 hours (5 hours × 13 weeks = 65) would likely be repeat airings. The type of airing – original vs. repeat – is relevant to the calculation of the audiences to each episode of the program. In *Analysis of the Economics of Canadian Television Programming*, submitted as part of the CFTPA's initial written submission in this CRTC proceeding, Nordicity found that the audience level to the first repeat airing of a prime-time program was typically 65% of that to the original airing.

Table 1 Instances of simulcasting conflicts on Canadian OTA broadcasters (fall 2009 schedule)

Program (duration)	American airing	Canadian airing
Law & Order SVU (1 hour)	Wednesday, 9 p.m., WGRZ-TV (NBC)	Tuesday, 10 p.m., CFTO-TV (CTV)
Heroes (1 hour)	Monday, 8 p.m., WGRZ-TV (NBC)	Sunday, 10 p.m., CIII-TV (Canwest)
CSI (1 hour)	Thursday, 9 p.m., WIVB-TV (CBS)	Thursday, 8 p.m., CFTO-TV (CTV)
Bones (1 hour)	Thursday, 8 p.m., WUTV-TV (Fox)	Wednesday, 8 p.m., CIII-TV (Canwest)
Brothers and Sisters (1 hour)	Sunday, 10 p.m., WKBW-TV (ABC)	Monday, 10 p.m., CIII-TV (Canwest)

Source: Nordicity research based on data from CFTO-TV, CIII-TV, CITY-TV, CKXT-TV, CKVR-TV, WIVB-TV, WGRZ-TV, WKBW-TV and WUTV-TV.

- Before estimating the incremental revenue impact, we needed to derive some idea of the magnitude of leaked Canadian audiences. To do this, we reviewed audience and schedule data for four years (2005/06, 2006/07, 2007/08, and 2008/09) of prime-time drama programming on Canadian television. From these data, we identified instances where Canadian broadcasters aired original prime-time American programming in both the same timeslot as the American broadcaster and outside of that timeslot during the same season (i.e., situations where audience data were available for the same program with and without simultaneous substitution). We found six instances that fit this criterion. Within these six programs, the simulcasting conflict affected one or very few airings. We used these instances to observe the magnitude of audience drop-off resulting from simulcasting conflicts.
- A comparison of the airings of original episodes with and without simultaneous substitution indicated that Canadian broadcasters experienced, on average, a 39% drop in total audience when they were unable to air an episode simultaneously with the American station (**Table 2**). In other words, simultaneous substitution added approximately 40% to the total audience of American prime-time programming airing on Canadian OTA broadcasters. The implication: had Canadian broadcasters had access to NSS, they would have been able to increase the audience and advertising revenues to these non-simulcast episodes by two-thirds.

³ We use 39 weeks in our analysis as opposed to 52 weeks, to account for the fact that special-event programming or summer substitute programming often preempts a television series, thus preventing it from occupying a particular timeslot for 52 weeks of the year.

Table 2 Calculation of audience leakage due to lack of simultaneous substitution

Program (season)	Average audience of original airings		Drop-off in total audience due to lack of simultaneous substitution	Percentage drop-off in audience due to absence of simultaneous substitution
	With simultaneous substitution	Without simultaneous substitution		
OC (2005/06)	1,078,000	845,000	233,000	22%
CSI (2006/07)	3,454,000	2,112,000	1,342,000	39%
Criminal Minds (2006/07)	2,187,000	1,287,000	900,000	41%
Criminal Minds (2008/09)	2,557,000	1,746,000	811,000	32%
ER (2006/07)	2,046,000	901,000	1,145,000	56%
Ghost Whisperer (2005/06)	1,497,000	882,000	615,000	41%
Average				39%

Source: Nordicity calculations based on data from Nielsen Media Research.

- We then applied this average percentage drop-off rate (40%) to the total average audiences garnered by the five American programs subject to simulcasting conflicts. According to television ratings data from Nielsen Media Research, the five programs had an average audience of approximately 1.38 million to airings of original episodes. With an audience drop-off rate of 40%, the application of NSS would recover – or repatriate – approximately 552,000 viewers, on average, to each original airing (**Table 3**).

Table 3 Calculation of average audience recovered by NSS

Program	Average audience to original airings	Estimate of recovered audience*
Law & Order: SVU	1,300,000	520,000
Heroes	1,200,000	480,000
CSI	2,000,000	800,000
Bones	1,500,000	600,000
Brothers and Sisters	900,000	360,000
Average	1,380,000	552,000

Source: Nordicity calculations based on data from Nielsen Media Research.

* Equal to average audience to original airings × 40%.

- The estimate of 552,000 viewers formed the basis of our calculation of the incremental advertising revenue associated with the repatriated audiences. For repeat airings, we used an audience equal to 65% of the audience to the original airing. This 65% adjustment factor was derived from research used for the preparation of *Analysis of the Economics of Canadian Television Programming*. With 24 ad spots per hour, sold at an average CPM (cost per thousand) of \$25 with an estimated sell-out rate of 70%, Nordicity estimates that the audiences recovered by Canadian OTA broadcasters through NSS could yield incremental advertising revenues of **\$40 million** on an annual basis (**Table 4**).

Table 4 Estimate of advertising revenues recovered from the application of NSS to simulcasting conflicts on Canadian OTA broadcasters

Line	Item [formula]	Original airings	Repeat airings

A	Number of hours per week	5	5
B	Number of episodes	26	13
C	Annual number of episodes [=A × B]	130	65
D	Number of ad spots per hour	24	24
E	CPM (\$)	25	25
F	Sell-out rate	70%	70%
G	Audience recovered by NSS	552,000	358,800
H	Estimated amount of recovered ad revenues (\$) [= C × D × E × F × G ÷ 1,000]	30,139,200	9,795,240
I	Total estimated amount of recovered ad revenues (\$)	39,934,440	

Source: Nordicity calculations based on data from Nielsen Media Research, CFTO-TV, CIII-TV, CITY-TV, CKXT-TV, CKVR-TV, WIVB-TV, WGRZ-TV, WKBW-TV, WUTV-TV and Nordicity, *Analysis of the Economics of Canadian Television Programming*.

New Prime-Time Substitution Opportunities

- A review of the prime-time schedules for the four American and five Canadian stations included in this analysis also revealed that there were eight television programs airing on American networks that were not airing on Canadian OTA broadcasters (**Table 5**). These eight programs combined for 7.5 hours of programming with an estimated average audience of 650,000 for each original airing.⁴ These audience statistics reflected a network-wide audience, so an adjustment was needed to reflect the fact that Canadian audiences are fragmented between American and Canadian services when it comes to network programming. As such, we applied the 40% audience drop-off rate to adjust the network-wide audience to an audience estimate that reflected the number of Canadian viewers to the American station airing these programs. After applying the 40% adjustment to the network-wide audience statistics, we found that the average incremental audience that could be potentially captured by NSS was 260,000 (**Table 5**).

⁴ Because these programs do not air on Canadian stations, audience data from Nielsen Media Research were not available to us. As such, we collected data from Wikipedia.com and tvbythenumbers.com for audience levels in the United States. To convert these American audience levels to audience levels for the Canadian market, we divided the former by a factor of ten. The factor of ten reflects the ratio of national populations in each country.

Table 5 Duration and estimated audience levels for television programs airing on American networks but not Canadian OTA broadcasters (fall 2009 schedules)

Program	Airing date	Duration	Estimated audience*	Adjusted estimated audience**
Shark Tank	Tuesday, 8 p.m., ABC	1 hour	500,000	200,000
The Forgotten	Tuesday, 10 p.m., ABC	1 hour	800,000	320,000
Gary Unmarried	Wednesday, 8:30 p.m., CBS	½ hour	700,000	280,000
COPS	Saturday, 8 p.m., Fox	1 hour	520,000	208,000
America's Most Wanted	Saturday, 9 p.m., Fox	1 hour	520,000	208,000
Dateline NBC	Saturday, 8 p.m., NBC	1 hour	560,000	224,000
America's Funniest Home Videos	Sunday, 7 p.m., ABC	1 hour	800,000	400,000
So You Think You Can Dance Results	Wednesday, 8 p.m., Fox	1 hour	800,000	320,000
Total/Average		7.5 hours	650,000	260,000

Source: Nordicity research based on data from CFTO-TV, CIII-TV, CITY-TV, CKXT-TV, CKVR-TV, WIVB-TV, WGRZ-TV, WKBW-TV, WUTV-TV, Wikipedia.com and tvbythenumbers.com.

* To derive an estimate of the average audience in the Canadian market to an original airing, the average American audience level to each episode reported in Wikipedia.com and/or tvbythenumbers.com was divided by ten.

** Equal to estimated audience × 40%.

- To estimate the incremental advertising revenues that could be generated by NSS to these new prime-time simulcasting opportunities, we applied a CPM of \$20 and a sell-out factor of 70% to the estimated amount of incremental advertising inventory. Nordicity estimates the application of NSS to these eight programs could yield just under \$17.0 million in incremental advertising revenues on an annual basis from 26 original airings, and \$5.5 million from 13 repeat airings (**Table 6**).

Table 6 Estimate of incremental advertising revenues from the new prime-time substitution opportunities at private Canadian OTA broadcasters

Line	Item [formula]	Original airings	Repeat airings
A	Number of hours per week	7.5	7.5
B	Number of episodes	26	13
C	Annual number of episodes [=A × B]	195	97.5
D	Number of ad spots per hour	24	24
E	CPM (\$)	20	20
F	Sell-out rate	70%	70%
G	Average audience	260,000	169,000
H	Estimated amount of recovered ad revenues (\$) [= C × D × E × F × G ÷ 1,000]	17,035,200	5,536,440
I	Total estimated amount of recovered ad revenues (\$)	22,571,640	

Source: Nordicity calculations based on data from Wikipedia.com, tvbythenumbers.com, and Nordicity, *Analysis of the Economics of Canadian Television Programming*.

- In total, these new simulcasting opportunities could generate approximately **\$23 million** in additional advertising revenues for Canadian OTA broadcasters, by repatriating Canadian audiences watching these programs. The net economic impact of NSS in this scenario would be lower, however, as Canadian OTA broadcasters would have to acquire Canadian exhibition rights to these programs before they could apply NSS to them.

Syndicated Programming

- In addition to original prime-time programming, syndicated programming that airs during the daytime or in the early fringe prime-time period (7 p.m. to 8 p.m.) also offers new substitution opportunities for Canadian OTA broadcasters. A comparison of schedules for American and Canadian OTA broadcasters in the GTA market revealed that there were at least six syndicated programs that aired on American and Canadian stations at different times during the week of December 7, 2009,⁵ and therefore, offered NSS opportunities for Canadian OTA broadcasters. These six programs accounted for 24.5 hours per week of programming and had an estimated average audience in Canada of 387,400.
- We have applied the 40% audience drop-off rate derived for prime-time programming to audience levels for syndicated programming in order to estimate the number of Canadian viewers that could be recovered – or repatriated – by the application of NSS to syndicated programming. Overall, Nordicity estimates that each hour of syndicated programming subject to NSS could recover approximately 154,960 Canadian viewers (**Table 7**).

Table 7 Total hours per week and audience levels for syndicated programming eligible for NSS

Program	Duration	Airings per week	Total hours per week	Estimated audience*	Estimate of recovered audience**
Dr. Oz Show	1 hour	5	5	360,000	144,000
Rachael Ray	1 hour	5	5	207,000	82,800
Young & Restless	1 hour	5	5	490,000	196,000
The Doctors	1 hour	5	5	220,000	88,000
Judge Judy	½ hour	5	2.5	660,000	264,000
The Simpsons	½ hour	2	2	n/a	n/a
Total/Average			24.5	387,400	154,960

Source: Nordicity research based on data from CFTO-TV, CIII-TV, CITY-TV, CKXT-TV, CKVR-TV, WIVB-TV, WGRZ-TV, WKBW-TV, WUTV-TV, Wikipedia.com and tvbythenumbers.com.

* To derive an estimate of the average audience in the Canadian market to an original airing, the average American audience level to each episode reported in Wikipedia.com and/or tvbythenumbers.com was divided by ten.

** Equal to estimated audience × 40%.

- With approximately 25 hours per week of syndicated programming eligible for NSS, there would be some 975 hours (25 hours × 39 weeks = 975) of programming on an annual basis eligible for NSS. To estimate the incremental advertising revenue associated with these 975 hours, we applied a reduced CPM of \$13.33, compared with \$20 for prime-time programming. This CPM discount is consistent with the results from an *Analysis of the Economics of Canadian Television Programming*. That research found that there was a 55% CPM premium for prime-time programs vs. fringe-period programs. This 55% premium implies that the CPM for fringe-period programs was approximately one-third lower than the CPM of \$20 for prime-time programs.
- Based on a \$13.33 CPM and an estimated 70% sell-out rate, Nordicity estimates that syndicated programming eligible for NSS could generate approximately **\$34 million** in incremental revenue for Canadian OTA broadcasters (**Table 8**).

⁵ We used the schedule for Wednesday, December 9, 2009 as a representative sample of the weekly daytime schedule for the stations included in the analysis.



- The application of NSS to syndicated programming has the potential to generate even more incremental advertising revenues for Canadian OTA broadcasters in a scenario where Canadian OTA broadcasters acquired the Canadian rights to other syndicated programming airing on American stations, but not currently airing on Canadian stations.

Table 8 Estimate of incremental advertising revenues from the application of NSS to syndicated programming on Canadian OTA broadcasters

Line	Item [formula]	Syndicated airings
A	Number of hours per week	25
B	Number of episodes	39
C	Annual number of episodes [=A × B]	975
D	Number of ad spots per hour	24
E	CPM (\$)	13.33
F	Sell-out rate	70%
G	Average audience	154,960
H	Estimated amount of recovered ad revenues (\$) [= C × D × E × F × G ÷ 1,000]	33,843,264

Source: Nordicity calculations based on data from CFTO-TV, CIII-TV, CITY-TV, CKXT-TV, CKVR-TV, WIVB-TV, WGRZ-TV, WKBW-TV, WUTV-TV, and Nordicity, *Analysis of the Economics of Canadian Television Programming*.

Summary of NSS Impact

- Nordicity estimates that NSS has the potential to increase Canadian OTA broadcasters' annual advertising revenues by **\$97 million (Table 9)**. All of this increase in advertising revenue would come from the monetization of Canadian viewers repatriated from American programming airing in Canada on American stations.
- Our analysis assumes that the Canadian television advertising sector will be able to absorb 100% of the increased advertising inventory associated with NSS without experiencing significant downward pressure on ad prices. The application of NSS to prime-time and syndicated programming could, in theory, result in lower prices for ad inventory. However, we note that the total impact of NSS, \$97 million, amounts to only 2.9% of the total advertising revenues of \$3,392 million earned by Canadian television broadcasters (including CBC/Radio-Canada and specialty television services) in 2008. As such, the additional ad inventory resulting from the NSS and its impact on ad prices could very well be immaterial.

Table 9 Summary of incremental impact of NSS on Canadian OTA broadcasters' advertising revenues

	Estimated impact on advertising revenues
Simulcasting conflicts	\$40 million
New prime-time substitution opportunities	\$23 million
Syndicated programming	\$34 million
Total incremental advertising revenues from NSS	\$97 million
Total television advertising revenues in 2008	\$3,392 million
Percentage	2.9%

Source: Nordicity calculations based on data from Nielsen Media Research, CFTO-TV, CIII-TV, CITY-TV, CKXT-TV, CKVR-TV, WIVB-TV, WGRZ-TV, WKBW-TV, WUTV-TV, Wikipedia.com, tvbythenumbers.com; Nordicity, *Analysis of the Economics of Canadian Television Programming*; and CRTC, *Communications Monitoring Report 2008*, p. 136.

Impact of NSS on Canadian Programming

- As noted above, NSS will not only allow Canadian OTA broadcasters to repatriate Canadian viewers, and thereby, increase their advertising revenues at the expense of American border stations, it will also give Canadian OTA broadcasters increased flexibility in their schedules. Canadian OTA broadcasters will no longer be severely constrained by simultaneous substitution, and therefore, have to reserve their peak viewing period timeslots between Sunday and Thursday for American programming. The implication of the increased scheduling flexibility is that there will be more room for high-quality Canadian programming to occupy good time slots in the Sunday-to-Thursday period and build stronger audience followings.
- Of course, there might be limited incentive for Canadian OTA broadcasters to schedule Canadian programming during the peak viewing period between Sunday and Thursday, since NSS also opens up the opportunity to schedule more American programming. As such, some type of broadcasting regulation may be required to compel Canadian OTA broadcasters to apply this new schedule flexibility to Canadian programming.
- With some assurance that Canadian programs will, through regulation, have access to Sunday-to-Thursday timeslots during peak viewing periods – and with NSS protecting most of Canadian OTA broadcasters’ revenues from American programming – Canadian OTA broadcasters will likely have increased incentive to invest in the development and production of more Canadian programming with high production values. More of this programming will have a shot at achieving *hit* status because it will be exposed to larger audiences than it otherwise would. The result should be more hit Canadian programs such as *Corner Gas* and *Flashpoint* that garner audiences in excess of one million viewers, even without the benefit of simultaneous airing on an American station.
- Under such a scenario, Canadian television drama and comedy series could see their audience levels increase from 300,000 to 400,000 on Friday/Saturday to say 1,000,000 during the Sunday-to-Thursday period.⁶ Thus, Canadian programming could experience an increase in audiences of 600,000 to 700,000 (**Table 10**).

Table 10 Estimate of incremental advertising revenues associated with the scheduling of Canadian programming in Sunday-to-Thursday peak period

Line	Item [formula]	Original airings	Repeat airings
A	Number of hours per week	4	4
B	Number of episodes	13	13
C	Annual number of episodes [=A × B]	52	52
D	Number of ad spots per hour	24	24
E	CPM (\$)	18	18
F	Sell-out rate	70%	70%
G	Incremental audience	600,000	390,000

⁶ Audience data from Nielsen Media Research indicate the following examples of average audiences for Canadian programs airing on Friday/Saturday: *Sue Thomas F.B. Eye*, 683,000 (2005/06); *Cold Squad*, 386,000 (2005/06), 423,000 (2006/07); *Red Green Show*, 375,000 (2005/06); *Robson Arms*, 266,000 (2005/06), 293,000 (2006/07); *J-Pod* (2007/08), 293,000; *Whistler*, 208,000 (2006/07), 217,000 (2007/08).

H	Estimated amount of recovered ad revenues (\$) [= C × D × E × F × G ÷ 1,000]	9,434,880	6,132,672
I	Total estimated amount of recovered ad revenues (\$)	15,567,552	

Source: Nordicity calculations based on data from Nielsen Media Research, and Nordicity, *Analysis of the Economics of Canadian Television Programming*.

- If each of Canada's two major private conventional OTA networks – CTV and Canwest – develops a successful one-hour drama and half-hour comedy series, and Rogers develops a single one-hour drama series, then the result will be four **additional** hours per week of successful Canadian programming. With a discounted CPM of \$18⁷ and assuming a 70% sell-out rate, Nordicity estimates that the incremental audiences to these hit Canadian programs could generate nearly **\$16 million** in additional advertising revenue from the original airing and first repeat of each episode (**Table 10**).
- By adding four hours per week of Canadian programming between 8 p.m. and 11 p.m., Sunday to Thursday, Canadian OTA broadcasters in the English-language market would effectively triple the amount of Canadian programming airing during this time period on private Canadian OTA broadcasters. The fall 2009 schedules for CTV, Canwest Global, and A-Channel indicate that *So You Think Can Dance Canada* (2 hours) is the only Canadian program airing during this period.
- We note that the \$16 million of additional advertising revenue derived from Canadian programming is not additive to the estimate of \$97 million for the overall revenue impact of NSS, nor is accurate to consider the \$97 million to be inclusive of the \$16 million. The estimate of \$97 million assumes that Canadian OTA broadcasters take full advantage of any NSS opportunities available to them; this would leave little room for Canadian OTA broadcasters to program additional Canadian television programs in the peak viewing period between Sunday and Thursday. In fact, in order to realize the \$16 million in additional advertising revenue from Canadian programming, Canadian OTA broadcasters would have to sacrifice some of the \$97 million in additional advertising revenue from the application of NSS to American programming.

Summary of Results

- Like simultaneous substitution, NSS offers Canadian OTA broadcasters an opportunity to repatriate Canadian audiences that have leaked to American stations to watch programming that is currently available on Canadian OTA stations or could be made available. These repatriated Canadian audiences could generate an additional **\$97 million** in annual advertising revenues for Canadian OTA broadcasters, or 2.9% of total advertising revenue in Canada's television broadcasting industry.
- NSS also gives Canadian OTA broadcasters a certain degree of scheduling flexibility. This scheduling flexibility will permit Canadian OTA broadcasters to foster the development of more Canadian hit programs without significantly eroding Canadian OTA broadcasters' revenues from American programming. Nordicity estimates that this scheduling flexibility has the potential to increase Canadian OTA broadcasters' advertising revenues by an additional **\$16 million** on an annual basis, as Canadian drama and comedy series see their average audience levels increase. Indeed, for each additional hour of Canadian programming scheduled during the Sunday-to-Thursday peak period, Canadian OTA broadcasters' advertising revenues – and the value of Canadian programming to Canadian OTA broadcasters – could increase by **\$4 million** on an annual basis.

⁷ See Nordicity Group Ltd., *Analysis of the Economics of Canadian Television Programming*, pp. 6-7 for discussion of CPM discount for Canadian hit programming.



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