

June 4, 2003

Dear Colleagues,

In March, we sent you a draft discussion document introducing you to the financial analysis of public television we began last fall with McKinsey & Company. Now - after a series of five round robin meetings to gather thoughts and reactions from general managers throughout the country - we have synthesized the findings and incorporated key themes into a revised discussion document, which is attached.

We found strong agreement with the discussion document's analysis of **station finances**. General managers widely agreed with these financial findings and were eager to examine options to address the challenges they represent. At each session, several general managers suggested that the report may in fact understate the severity of public television's financial situation, as they already had faced predicted 25 percent cuts in headcount and 50 percent cuts in local programming as a result of recent budget cuts.

With regard to **national programming**, we heard general managers recognize that PBS and producing stations are feeling cost pressures as they create the National Program Service. Eager to learn from approaches outside our industry, general managers also asked questions about public radio, commercial broadcasters and cable channel business models and economies.

We also heard general agreement with the three initiatives we identified as **potential solutions**. Most general managers agreed with the analysis that identified major giving, station efficiency, and program strategy. In addition, general managers identified other opportunities that could help a number of stations, but may not have a system-wide impact for all. Among the most frequently mentioned were: educational and other state services; additional earmarked federal funds (such as through the Department of Agriculture); consolidating/sharing graphics and promotional staff; and increasing membership numbers through best practices and programming changes.

We also heard interest in moving more aggressively on system strategy questions and long-term public television positioning. These are well worth considering and will be central to our collective future. But they will require substantially more analysis over a longer time-frame, and **we believe efforts to shore up our financial footing must not be delayed any further**. Thus, these questions should remain outside the scope of this effort, but will be addressed in the future.

We heard general managers enthusiastically supporting the **major gifts** initiative, with many noting their own major and planned giving successes. The discussion focused on key implementation challenges, including working with university development departments; the scarcity of general manager time; the difficulty of recruiting major giving experts; and the culture change that will impact many departments within stations. General managers also noted that public television has significant assets for this initiative, including older audience demographics, TV airtime and capital campaign expertise. The overall sentiment was that we should "just do it" but with a

recognition that success will require the commitment and time of everyone at the station. As one participant put it “toolkits and on-air support are fine but major giving is all about boots on the ground.”

Although general managers agreed with the need for and the potential in improvements in **station operations**, we heard cautious skepticism about the ability to achieve success. Even as engineering and IT functions are merging, many other obstacles remain, including the sense of loss of control; amount of control held by technical staff; ability to capture true savings; issues with depreciation calculations; and an acknowledgement of significant technical and implementation risks. General managers urged the team to pursue these efforts and recommended that priorities be set and recent collaboration efforts be closely examined.

The discussion of **national programming** issues proved to be the most challenging. General managers generally agreed with the financial challenges and our value-chain approach, but had questions about the potential for cost-savings. Some were concerned that the full range of voices and viewpoints needs to be involved in the process of addressing national programming concerns. Some participants urged the project to question “how” programming funds have been spent historically and proposed cutting future hours or numbers of shows as a way of managing expected cost increases rather than accepting the “inevitability” of increasing budgets.

Across all the sessions, there was strong interest in discussing programming strategy questions that are related to costs including repeat strategy, promotion budgets, eliminating genres to increase programming focus, and exploring local and other non-PBS sources of programming. Feedback after the round robins provided additional questions to explore including an examination of the possible structural inefficiencies in national distribution; a benchmarked examination of the costs of national productions and the “return on investment” of major programming investments by CPB and PBS as measured by audience, service, or membership metrics.

Stations also expressed strong interest in being more closely involved in the range of programming decisions. Several general managers offered suggestions for new models for station involvement, such as a return to an elected PBS Program Advisory Committee (PAC) of programmers as has existed previously.

As we have considered the **next steps** after this round robin process, we started with the view that this is a long-term project requiring resources and focused attention. We endorse the concept of CPB’s creating a “coordinating office,” modeled on the idea of the Satellite Interconnection System Planning Office (SISPO) of the 1970s. This office would provide visibility, dedicated staff and resources for a three-year period to develop, refine and implement initiatives in the three areas of major giving, station efficiencies and national programming. Robert Altman and Ed Caleca of PBS and Michael Gatzke of McKinsey & Company are working on developing teams, project plans and “quick wins” while CPB refines details of how best to implement this approach.

We also recognized an important theme emerging from the programming discussion - the need for better audience research. While not a source of revenue, research to better understand our viewers and members will help to increase the efficacy of programming dollars. As a result, we are pursuing four initial ideas: a Nielsen diary-based study of member viewing behaviors; expansion of the current Nielsen subscription; a national poll of attitudes about public television; and a study aimed at better understanding local audience needs and use of local services.

We are particularly excited with this last idea, which we hope will provide solid data on how public television can blend its national schedule and local programs and initiatives to create a comprehensive, valuable service. We expect the project will involve talking to many users of our varied products, viewers to be sure, but also the teachers, artists, cultural institutions and governments that use our services daily.

Later this week, we will have the opportunity to continue this conversation at the PBS Annual Meeting in Miami. Members of the Steering Committee will be joining Bob Coonrod at his "Ask Bob" session scheduled for Sunday, June 8 at 2:45 p.m. to update you on project efforts. In addition, we encourage you to attend both the concurrent sessions on major giving (Monday 11:15) and on station vision (Sunday 11:45). The major giving team found that development officers agree that we must better define "impact" if our major giving efforts are to succeed. These two sessions should offer some insight into the types of conversations and targets to consider.

Your participation and input continue to be important as work on this project progresses. Clearly, success will mean involvement on both the local and national level - but frankly, we believe local work and change are probably more important to eventual success. Nationally provided tools and system-wide conversations are of little use without action at the local level. We look forward to continuing to work together to develop mutually beneficial solutions and to provide support to one another in these challenging times.

Sincerely,

Systemwide Financial Analysis Steering Committee

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