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### **Financial challenges of 24-hour news channels**

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News channels, like all broadcast channels, face fundamental cost and revenue challenges that require them to produce and make available content at costs that can be covered by their sources of revenue. News channels typically operate at lower cost per hour for programming than other channels, however, because they do not have to invest in risky—but highly demanded—original drama and comedy or to engage in heavy rights competition for sports rights and desirable contemporary films.

The amount of money required to operate a 24-hour news channels varies significantly among news channels because it is dependent upon the scale and scope of operations, where the broadcasts will be distributed, and the number of languages in which programming is produced. Costs are thus influenced by whether it is a domestic or international operation, who pays for the distribution of the channel, how much of the programming involves live broadcasts, how much live remote broadcasting is undertaken that requires use of satellite links, the number of news packages reused during the broadcast, repetitious use of broadcasts from earlier in the day, the number of bureaux and correspondents, the extent of multiplatform operation, and other operational factors,

Nonetheless, the basic financial requires for operating a 24-hour news channel are rather straightforward. An international broadcaster, or one in a large nation, will require £20-35 million (\$30-50 million) for start-up costs including facilities, equipment, personnel, and service contracts. In addition a large news operation will require £65-250 million (\$100-400 million) annually for operations. Channels operating in small nations, provincially or locally require significantly less money, usually requiring £3-15 million (\$5-25 million) in start-up costs and £10-65 million (\$15-100 million) in annual operating costs.

How 24-hour news broadcasters obtain the financing required also varies significantly and is complicated by the increasing number of channels and online news providers, declining average audiences and advertising revenue, and the extent to which operating costs must be covered by the channel or another party.

Almost all 24-hour news channels face the common challenge that viewers and advertisers alone generally do not provide sufficient funding and that other arrangement to support their operations are necessary. The importance of non-market funding to 24-hour news has been a characteristic since its inception and owners of channels have been induced to operate because of policy requirements or because they are willing endure operating losses on news channels because they are deemed important for company brand purposes. In other cases, subsidies are often provided by governments and politically active owners in order to achieve some desired foreign or domestic influence.

Particular challenges faced by broadcasters is that 24-hour news channels are a highly high niche offering that tend to attract a more limited audiences than entertainment channels and they tend to be viewed for fewer minutes a day than other variety and thematic channels.

The size of audiences is also influenced by domestic populations in their countries of origin and by their abilities to aggregate audiences internationally. Even in the United States, with a population of 320 million people, total average daily viewership of Fox News Channel, CNN, and MSNBC combined is only 1.8 million (Cable News Audience..., 2015).

Nevertheless, the availability of satellite transmission capability, improved cable capacity, and the development of digital television have induced broadcasters in many countries to consider and launch news channels. The switch to digital terrestrial broadcasting led many public service broadcasters in Europe to enter 24-hour news provision on one of the new multiplex channels they gained in the transition. Doing so was seductive because it fit the criteria of their remits and journalists desired more broadcast time for their journalism. Many saw 24-hour channels as a tactical choice supporting strategic moves to provide news across platforms including internet and mobile services.

Because the channel was essentially free to European public service broadcasters and the news channel could be built on the infrastructure of existing news operations, many believed they could effectively operate the news channels, but most have done so with mixed success. The primary challenges have been attracting audiences and paying the costs for operations at a time when most public service broadcasting budgets have been contracting. An example of the challenge is seen in the experience of YLE in Finland, which launched its 24-hour news channel (YLE24) in 2007, but shut it down within a year because the costs of operation could not be justified by the audiences it generated and because major news events would go live on YLE 1, the broadcaster's primary channel, where most people would turn to watch.

State-supported, privately supported and fully commercial 24-hour news channels typically operate under different financial arrangements that influence their start-up and operating capital, revenue, operating costs, audience performance, and how financial losses are handled. Most broadcasters are not very transparent about their funding and expenses, either not making budgets available or obscuring them by reporting them as consolidated expenditures with other enterprises. Nevertheless, industry sources regarding subscriptions and advertising and other information provides insight into their financial structures and performance.

### **Commercially operated channels**

Commercially operated channels are typically operated in hopes of profit or for reputational gains by a media company with other profitable operations. Start-up capital is typically provided by an existing company or a joint venture of two or more companies in hopes of the future financial or brand benefits. The enterprises perceive opportunity and are willing to invest in pursuit of that opportunity.

The development of cable television in the United States created the first real opportunity to offer 24-hour news because cable bypassed limited radio spectrum and for competitive reasons needed to provide channels that were not available in terrestrial television. Although 24-hours news could easily have been provided as an early cable service, along with movies, music, and sports, no enterprise began doing so because the potential financial rewards were low. In addition, no one offering cable channels had existing news operations and experience and having to operate throughout the day was even beyond the

capacity of the existing terrestrial broadcast networks' news departments. That situation was changed, however, when regulators began requiring that cable providers include public affairs/new channels in their services. Rather than start their own operations, the thousands of independent cable systems spread across the US began looking for a supplier of news and public affairs programming that would meet the requirements.

That demand was met with the establishment of CNN in 1980. The initial business model for CNN in the US was to provide the channel to cable systems at about a penny per subscriber, allowing cable systems to offer 24-hour news as part of the basic tier services as an inducement for more households to subscribe to their cable services. This created a large, stable aggregate revenue stream for CNN. Existing broadcast networks with news operations remained reticent to establish news channels because they saw cable as a competitor, so an entrepreneurial regional broadcaster--Ted Turner who operated a mediocre television station in Atlanta--saw the possibility and created CNN which became financially successful within 5 years. The cable subscription model, however, was not available when CNN began the CNN Airport Network (primarily funded by travel related advertisers) and began expanding internationally so start-up funding was provided by shareholders and joint ventures with domestic partners in other countries.

When Fox News Channel was launched in 1996 it understood that access to cable systems was crucial and it immediately gained access to 17 million cable subscribers by agreeing to pay the cable providers for carrying the channel. It has since grown to reach 87 million households and cable systems that now pay for it to be included in their offering, but

the channel nevertheless attracts only about 1.1 million average daily viewers—still enough to attract significant advertising revenue .

Getting the audience and financial arrangements coordinated to support operations is a challenge and in the past decade numerous commercially operated national news channels have failed to do so and left the market. These include nationally channels such as ITV News in the UK, TV4 News in Sweden, and Sun News Network in Canada, as well as local/provincial channels such as News 24 in Houston and CityNews in Toronto. The common factors across them have been the inability to attract sufficient audiences to cover costs through subscription or advertising revenue and that they have all operated in crowded news marketplaces with multiple national and international television news providers (Britain’s ITV News..., 2005; ITV News Channel..., 2005; De Vynck, 2014; Sun News Network..., 2015; Quebecor’s Sun News Network..., 2015; Sweden TV 4...2013; Parks, 2004; Marotte, 2013).

Potential rewards can be high for successful commercial new providers. Larger commercial 24-hour operations in the U.S. have large cash flows and returns as high as 60%, according to analysts. The three main 24-hour channels were projected to produce total revenues of more than \$3.5 billion (£2.25 billion) in 2014-15 (Figure 1).

**Figure X. Revenues and profits of leading US news channels**

	<b>Subscriber revenue</b>	<b>Advertising Revenue</b>	<b>Profit/Profit margin</b>
CNN	\$710 million	\$339 million	\$327 million/29%
Fox	\$1.2 billion	\$794 million	\$1.2 billion/61%
MSN	\$274 million	\$221 million	\$206 million/41%

Source: State of the Media, 2015

CNN was projected to experience the strongest rate of growth in advertising, up 6% to \$339 million (compared with Fox's 2% growth to \$794 million and MSNBC's projected decline of 5% to \$221 million). Of the three main news channels, only Fox News was projected to grow its profits in 2014 (up 10% to \$1.2 billion). CNN was projected to experience a 5% decline in profit to \$327 million, and MSNBC was projected to decline by 8% to \$206 million. Still, all three channels continued to enjoy double-digit profit margins: 61% at Fox, 41% at MSNBC and 29% at CNN (State of the Media, 2015).

Internationally, CNN has 31 foreign bureaus, as well as the 9 in US, and it has national partnerships with local broadcasters and news organization around the world that create a network of news and video sharing affiliates. Overall, about half the total revenue for CNN are produced by subscriptions and the second half from advertising and ancillary services ("Cutbacks at CNN...", 2014)

### **State-Supported Channels**

State-supported channels receive funding from governments or through government-controlled or supported entities that provide funds for their operations. The bulk of internationally operating 24-hour news channels fall into this category. The degree of independence from the state in these relationships varies considerably, but state funding influences structural and operational choices and finances even in broadcasters that enjoy a high degree of editorial independence. This occurs because the interests of state funders vary over time with changing priorities and geopolitical focuses of their attention.

This issue is clearly illustrated by the BBC World Service and its relationship with the Foreign and Commonwealth Office, which help funded its operations. Although generally independent in its daily news decisions and provision, the World Service clearly conveys a British perspective on the world and plainly articulates British government positions. The strongest influence from the state support has historically been evident in the audiences that it pursued internationally and how its resources were spent. It was influenced to provide services that matched the Foreign Office's interests, which varied over time to include services to colonies in the Empire, then to then Commonwealth nations, and ultimately to regions of interest because of geopolitical developments. These policies at various times emphasised or de-emphasised regions such as Asia, Africa, Central/Eastern Europe, and the Middle East. The influences altered the BBC's positioning and use of terrestrial and satellite transmitters and distributions systems, locations of foreign bureau, the amount of staffing, and the languages used of news output.

In recent years the BBC's £250-300 million annual costs for operations of its the 24-hour global channels have been progressively shifted from grants from the Foreign and Commonwealth Office and the Cabinet Office to general license fee funds and commercial revenue that it is able to generate (BBC Full Financial Statements 2012/13).

France 24, which operates French, English, and Arabic news channels, has struggled with financing for the two decades of its existence since President Jacque Chirac determined that France needed an 24-hour news channel to improve presentation of France and French perspectives on global and European developments (Hare, 1995). After being restructured and relaunched several times, France 24 became a wholly owned subsidiary of the French



Government, operated through a holding company. In 2012 its budget was approximately €100 million (£72 million) per year (“Faits et chiffres”, 2012). Capital for the venture came from French taxpayers, as does annual subsidies to cover operating losses. Its annual budget under its new incarnation in 2006 was set at €80 million and the French government expected that it would lose money annually for many years, perhaps as much as €100 million annually (Carlin, 2006). Today the channel broadcasts in French, English and Arabic, reaching 250 million TV households and an average weekly audience of 41.7 million viewers in 177 countries (France 24, 2015).

RT (Russia Today) was established as a purportedly independent Russian international broadcaster with about \$30 million capital provided by the Russian news agency RIA Novosti in 2005 (Knobel, 2005; Painter, 2006). Nearly half the network's budget came from the state and the other half from banks and companies aligned with the government, with its budget rising to \$380 million in 2011, but being reduced to \$300 million in 2012 due to national economic challenges. Russian President Vladimir Putin prohibited funding to be reduced further in autumn 2012 because of its importance in representing Russia abroad (Maczka, 2012; Burrough, 2013; Putin forbids..., 2012).

One of the best known 24-hour news broadcasters from outside Europe is Al Jazeera, which was founded in 1996 and began 24-hour operations in 1999. It is owned by the state of Qatar and private investors. It is highly influential in the Arabic speaking world and attempted to expand its influence further by launching an English-language channel in 2006 that is now available in 130 countries. Start up financing of \$137 million was provided by the Emir of Qatar (Miles, 2004). It spent \$500 million in 2005 to buy an existing channel in the US to convert it

into an Al Jazeera America Channel—an unsuccessful initiative that cost about \$2 billion (Atkinson, 2015; Koblin, 2015).

Despite the challenges facing international operations, no 24-hour broadcaster today is expanding more rapidly than China Central Television, a state-owned broadcaster that is internationalizing as a “soft power” influence (Nelson, 2013). It now broadcasts 7 channels (including a 24-hour news channel launched in 2012) in English, French, Spanish, Arabic and Russian, as well as Chinese, to more than 140 countries. Financing for the news channel is not transparent, but in 2012 CCTV as a whole received \$2.6 billion in advertising revenue—about 1/3 of all advertising revenue in China and it is funding its growth with that income and hundreds of million pounds in special government grants to help its global expansions (Si Si, 2012).

### **Privately supported channels**

Privately supported channels are operated by private individuals and enterprises, sometimes associated with ruling elites, and differ from fully commercial news channels in that they typically are not expected to make a profit because they are operated for other economic or political purposes.

The country with the most extensive array of such news channels is India, where broadcasters offer about 400 news channels and about 125 operate 24-hours a day providing service at least 14 major regional languages. Most are operated by owners of real estate firms, industrial conglomerates, and politicians to promote regional political interests and parties and they tend to be highly politicized and commercialized. Despite tendencies to pander to

advertiser interests most still lose money annually, with losses covered by the owners to support their other ambitions (Mehta, 2008 and 2009).

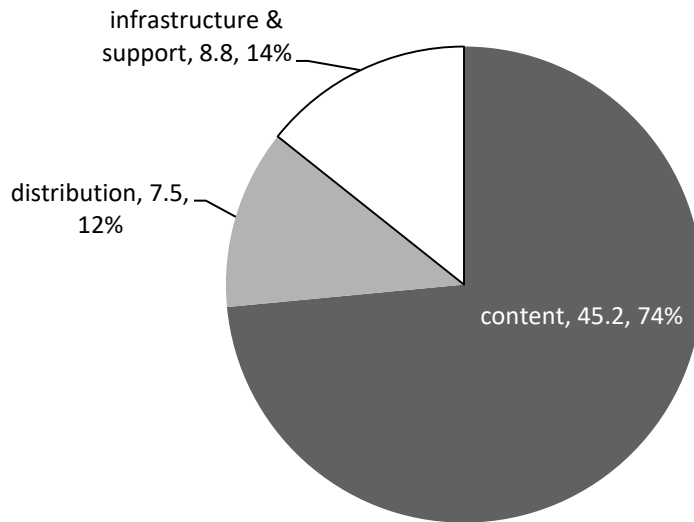
A similar situation is found in Arabic language broadcasting today where many individuals are willing to underwrite the costs of channels for domestic and regional political and social influence and personal aggrandizement. A Saudi Arabian prince started the Al-Arab news channel in Bahrain 2015 to support his view of the region and challenge other Arab news channels but immediately ran into difficulties with Bahrain authorities (Black, 2015).

### **Operating Expenses of channels**

Some understanding of the operating expenses of 24-hour channels can be obtained by observing expenditures of financially transparent broadcasters such as the BBC and CBC. They show that the costs are primarily content, administrative overhead costs, and distribution costs.

The domestic 24-hour BBC News Channel's costs for operations were £61.5 million (\$95.9 million) in 2013, for example, about £168,500 (\$262,735) per hour. Three-quarters of the costs were attributable to content, 14% for overhead costs, and 12% for distribution (Figure 2).

Figure2. Expenses for operating BBC News Channel, 2013 (£m and % of total)



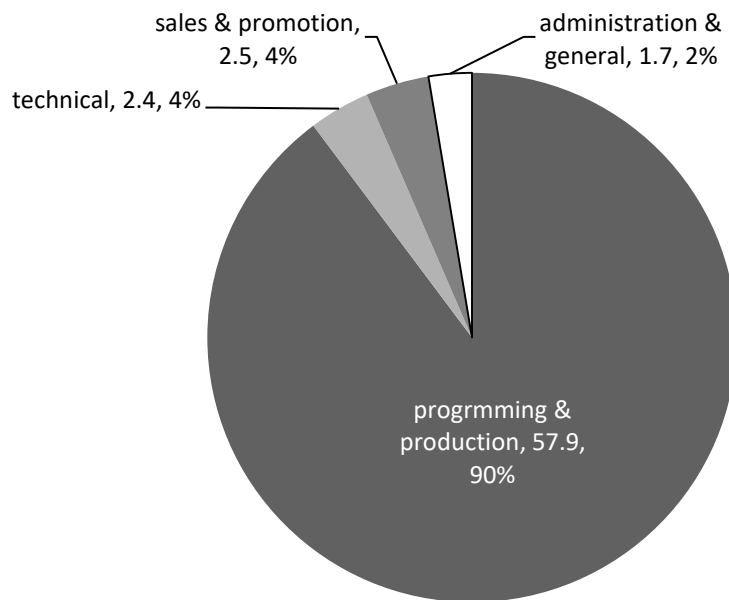
Source: BBC Full Financial Statements 2012/13

Operating costs for the BBC World Service, the international 24-hour channels, were £284 million. Distribution costs accounted for £33.8 million, 12%, of its expenses in 2013.

Across the Atlantic, the Canadian CBC News Channel operates as a commercial-funded entity and in 2013 earned a pre-tax profit of CAN\$20.4, a 23.5% return on its revenue of CAN\$86.5 million, while serving 11.3 million subscribers. The cost per hour for operations was thus about CAN\$176,712 (£92,025). The channel receives the bulk of its revenue from cable and satellite subscription fees and about a quarter from national advertising. The news channel obtains some benefit and synergies from its relationship to the license-fee funded CBC news operations, but it is also highly supported by state policy that requires the national news channels to be carried by cable and satellite service providers and thus provide payments to the broadcasters. Because its costs of distribution are borne by those cable and satellite operators, its expenditures are primarily for content and about 90% of its expenditures are for new

concent (Figure 3) (Canadian Radio-television and Telecommunications Commission, 2014; Wingrove, 2013).

Figure 3: Expenses for operating CNC News Channel, 2013 (CAN\$ and % of total)



Internal subsidies from other company operations can be significant for 24-hour channels. In the years after its 1989 establishment Sky News operated on a budget of £40 million with a £10 million share of overhead contributed by the company—about 20% of its total costs (Chippendale and Franks, 1991). Such cross-subsidization helped it develop into an international 24-hour news channel reaching 100 million homes in 118 countries.

## Discussion

Given the financial realities of 24-hour news, it is apparent that the market can support only a small number of international and domestic channels. Nevertheless, the number of

channels is proliferating globally, regionally, and in a number of national settings.

Consequently, financial consideration of 24-hour channels requires contemplation of what the broadcasters are trying to do, who they are trying to reach with their content, and how their content is distributed. Only with that context can one fully judge the financial performance or efficacy of their operations.

A common performance feature across all types of 24-hour news channels is that they generate relatively low audiences and in most cases incur financial losses. The challenge of traditional financial analyses, however, is that the small audience might be the best audience if the intent of the broadcaster is to gain prestige or influence rather than financial gain. Non-pecuniary rewards are especially high for operators of 24-hour news channels so those must be considered in understanding why channels remain in operation and why new entrants are appearing.

Even when owners are willing to bear financial losses, many news operations appear to moderate those losses by practices that reduce costs. Most operate only a limited number of domestic and foreign news bureaus and attempt to reduce the costs of production by repetition of previously broadcast news segments and packages. Although these practices reduce costs, they also reduce the quality of the broadcasts in ways that can reduce audiences or the amount of time they spend watching a broadcaster.

Cost of distribution increases when global audiences are sought because continual use of satellites incurs significant costs and reliance on broadband distribution systems often requires payments to their operators, unless there is clear benefit for them to carry the channel or they are required to do so by domestic policy.

Because distribution can account for 10-15% of operating costs, opportunities to reduce those costs by alternative means are attractive to managers. Broadband internet distribution has distinct cost advantages over broadcasting, cablecasting and satellite distribution, and has the potential for global reach. The availability of broadband is highly skewed toward developed nations, however, making it less effective in reaching audiences where the majority of the world's population lives and broadband can be subjected to domestic control that blocks channels a government does not wish distributed in the country by that mechanism.

Because so many of the world's 24-hour news channels are dependent upon governments and individuals willing to bear operating costs and losses for their operations, they face the twin challenges of funding stability and organisational sustainability. As long as their patrons are able and willing to provide funds, and as long as the broadcasters are seen as delivering the results desired by their benefactors, the channels will be able to survive. Given their challenges in attracting audiences and concurrent difficulties in attracting advertising and market funding, however, the stability of that support is questionable and the ability of channels to survive without it is negligible.

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