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# An Innovative Approach to Service Succeeds with Space-age Industry

**"T**o be sure, the broadcasting industry has played a major role in the enrichment of American life through its development of mass entertainment and information. The advent of cable television represents an enormous technological stride which establishes that industry as a major force of change in our social order. The emerging two-way telecommunications systems will provide a new dimension and require adjustments to many existing patterns of business, education, entertainment and leisure. The possibilities for the future of the cable television industry are limited only by one's ability to be imaginative...."

This slightly edited statement appeared not in *Time*, *Newsweek*, *Fortune* or *Business Week* but in the *Pennsylvania CPA Spokesman*, magazine of the Pennsylvania Institute of CPAs. Written by Raymond J. Gutowski, issue coordinator, the statement served as a preface to the April 1981 issue, which was devoted to the cable-television industry.

The origins of cable television go back more than thirty years, but recent technological developments have radically altered the nature, role and—perhaps most important—the

potential of that industry. It was early recognition at DH&S of both the general and the special needs of cable-system operators, and the meeting of those needs with effective and responsive financial services including computer techniques that are as contemporary as the very communications satellites used by the cable systems, that established the firm in a leadership position in this rapidly growing and evolving industry.

In its infancy the growth of television as a medium of mass entertainment was restricted by the fact that the transmission of a television signal is line-of-sight, that is, the broadcast signal travels in a straight line from the transmitting antenna to the receiver's (television set's) antenna. Reception in a hilly or mountainous area is frequently poor, sometimes nonexistent, because of the blocking effect of those hills or mountains. Community antenna television (CATV) systems met the challenge posed by the physics of tv transmission and, in the 1950s, enabled populations well away from metropolitan centers to achieve good reception. In a typical situation, a single antenna was—and often still is—placed as high as possible, for instance on top of a high ridge or hill, and the signal from that antenna was fed by cable to homes in the community.

CATV provided the means to make good television reception available virtually everywhere in the country. The 1960s saw the introduction of pay television, whose programming of movies and other special events foreshadowed the explosive expansion of the medium in the following decade. The early growth of pay tv, however, was limited, because transmission in much of the country required microwave relay stations, which were expensive to build and maintain.

The situation shifted dramatically in the 1970s with the commercial availability of the fixed-orbit communications satellite. These systems permit a cable company with a satellite receiving antenna (earth station), whose cost is considerably less than that of the old microwave relay sys-

tems, to receive programming transmitted via the satellites. This programming is then distributed by cable to the system's subscribers.

In simplified terms, the current technology permits a cable-system operator to install an earth-station receiver anywhere in the country and then lock on to the communications-satellite signal or signals to which he subscribes. A satellite offers a variety of programming. One of the busiest, SATCOM I, for example, is used to transmit nineteen different cable services, ranging from Home Box Office and sports to religious and children's programming.

Current estimates put the number of homes subscribing to cable television at about 15 million. Cable television, however, is available to only about a third or so of the homes in the United States at the present time, and the 15 million represents only about 20 percent of those. Obviously the cost of constructing a cable system demands a certain number of prospective subscribers for the system to be economically feasible. This remains one of the major factors limiting the expansion of the industry and the availability of cable systems in less densely populated sections of the country. However, technological advances in the years ahead will undoubtedly allow cable to be offered in all but the most isolated locations.

In view of the size of the cable-tv industry today and its potential for the future, perhaps the only thing surprising about the presence of DH&S at the convention and trade show in Los Angeles at the end of May was the fact that DH&S was the only public accounting firm represented. The situation may well have reflected the firm's prominence and the role it has played in the growth of the cable-television industry, a position achieved by the development of a broad array of specialized and imaginative services for cable-system operators and a sensitivity and responsiveness to the peculiar needs of the industry.

The firm's experience with cable tv can be traced back to the early days

of the industry when Cox Cable Communications and Continental Cablevision, today two of the largest cable operators in the country, became clients of DH&S. In 1974 Continental Cablevision relocated its headquarters from Cleveland to Boston and became an audit client of our office in that city. Shortly thereafter the office developed a computer program, using the firm's FALCON system, designed to prepare the client's financial consolidation and, subsequently, its tax returns. It was not too long before partners Neil Driscoll, Mario Umana and Jay LaMarche, manager David Thompson and others found themselves with a growing reputation as experts in the cable industry. Much of the growth in cable-tv clientele was the result of one client and its bankers and investment bankers referring and recommending us to other operators.

Early recognition by the Boston office that a team approach was necessary played a major part in the firm's expanding cable-industry practice. Because of the broad-spectrum needs of the industry, a team was assembled that now numbers twelve and includes DH&S professionals from the audit, tax, management advisory services and small business services groups. The Boston team supports, and is supported by, experienced personnel in offices located in virtually every part of the United States, including Phoenix, Dallas, Los Angeles, San Francisco, Seattle, Denver, Minneapolis, New York, Atlanta, Miami, Cincinnati, Chicago and Philadelphia.

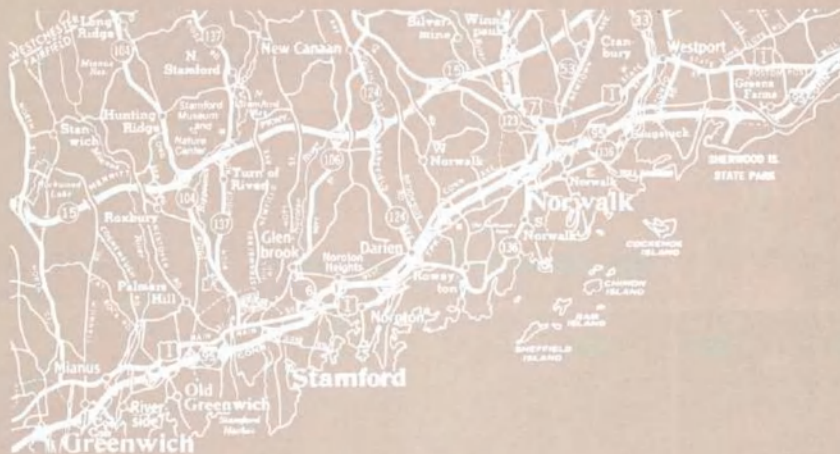
The team quickly found that the nature of the industry demanded heavier emphasis on certain financial forecasting and planning services. It is an industry whose demand for capital requires the development of many innovative financing methods. It is an industry marked by a very large number of limited partnerships and one that requires detailed and accurate financial planning when an operator applies for a new franchise.

The firm's FORECAST computer system formed the basis for CablePlan, a sophisticated financial forecasting and planning system developed

## Hot Battle for 'Gold-Coast' Franchise

Some insight into the intense competition that takes place for the more-lucrative cable-television franchises was provided by an article appearing in *The New York Times* at the end of June.

The newspaper reported that Cablevision of Connecticut had been given the cable franchise for a ten-town area of Fairfield County. The franchise, awarded some two years after ten cable companies had applied for it and after eighty days of hearings, includes some 120,000 households in the so-called "Gold Coast" towns of Greenwich, Stamford, Norwalk, Darien, Westport, New Canaan, Wilton, Weston, Redding and Easton. The franchise was highly prized because of the area's relative affluence and the fact that most households are expected to subscribe to the services offered for additional fees, such as first-run movies.



In its application, Cablevision agreed to provide one studio—in itself valued at \$500,000—for public access to the cable system, as well as four mobile units for news coverage. However, the article in the *Times* pointed out that competence of management and financial ability to complete the system were among the factors considered most critical by the county commissioners charged with awarding the franchise.

The major shareholder in Cablevision of Connecticut is Scripps-Howard Broadcasting, a DH&S client. Other significant amounts are held by Charles F. Dolan, president of Cablevision of Connecticut and other Cablevision companies serving suburbs of New York City and Chicago, and New Stamford Associates, a group of investors.

Cablevision's proposal calls for wiring every subscribing household with two cables, each carrying fifty-two channels, an exceptionally large number. The company anticipates that it will be able to wire some ninety-one miles a month once the project is started, and that the 1,700-mile system could be completed within two years under optimum conditions.

specifically for the cable-tv industry. CablePlan's genesis occurred about 1978, when the Boston group began developing several financial models for cable-tv clients. One was a part-

nership model because so many cable operations are founded on limited-partnership agreements. A second model was developed to produce completed Form 100s, complicated

forms required by the State of Massachusetts from those seeking cable franchises. Because of the complexity of the form, being able to complete one on computer produced a substantial saving in time for client management. Finally, the office developed a construction model used to project a cable system's financial needs during startup and early operation phases.

CablePlan, originally developed to consolidate the three models and to make them an integral part of the firm's FORECAST system, is structured to be of particular assistance in four key areas:

- **Financial Forecasting**—CablePlan can prepare forecasts and projections quickly and efficiently and can develop financial statements, special analyses, comparison reports and tax reports. It will provide the answer to many types of "what if" questions to test the financial impact of various operating alternatives, such as rate increases, construction costs, new programming, different franchises and various debt/equity structures.
- **Capital Formation**—CablePlan can provide an evaluation of financing requirements and allow the financial analyst to determine the best combination of available capital, whether as a limited partnership or as a corporation. In addition, it can help an operator develop a business and financial plan for presentation to bankers, institutional lenders, venture capitalists and other investors.
- **Tax Planning**—CablePlan can assist the tax advisor in assessing alternative organizational structures and depreciable lives and help in analyzing the impact of other tax questions such as system acquisition costs and alternative tax-reporting policies.
- **Profitability Analyses**—CablePlan will perform a variety of analyses bearing on future profitability, such as assessing the economics of expanding existing cable systems and moving into adjacent areas, offering and pricing new services, and renegotiating debt/equity structure.

Financial forecasting and planning models are particularly important to the cable-television industry for several reasons. One, of course, is the fact that cable operators are franchised by a local government, which requires detailed financial plans from the companies seeking the franchise in order to ensure competent service to the community.

Cable operators often find it necessary to raise substantial amounts of capital. This may be for startup operations, for the expansion of an existing system, for the upgrading or replacement of equipment, or for the acquisition of another system. Here, too, banks, venture capitalists and other investors demand detailed financial projections that will provide guidelines to anticipated financial performance, system expansion and related questions. The ability to provide detailed and accurate financial plans under varying conditions can well make the difference between success or failure in a capital-raising effort.

Finally, cable system management itself can use forecasts in developing operating budgets, cash-flow projections and statistical reports. CablePlan was structured to be a management tool of significant value to the cable-system operator when used on an ongoing basis. Indeed, the system uses familiar cable-tv and accounting terminology, with basic logic for construction, programming, subscriber statistics and accounting built in to simplify use by the operator. As only one example, employing CablePlan will permit system management to input various assumptions and then vary them to answer certain "what if" questions. These assumptions include subscriber rates, saturation levels (how many homes that can subscribe actually do subscribe), homes passed, construction costs, asset lives and depreciation methods, expected operating costs and financing costs.

Because it is part of the FORECAST system, CablePlan runs on the General Electric Mark III time-sharing service through its worldwide communications network. This offers a

number of advantages, not the least of which is that even a subscriber without computer experience can access the GE service using a compact terminal in his or her own office to enter data, give commands and print reports by "talking" to the computer in basic English.

Because of the nature of trade shows and conventions, CablePlan proved ideal as a "product" for DH&S to demonstrate at its exhibit booth, which is designed to promote one-on-one discussions between our people and visitors. Partly as a result of the specialized nature of the business, these visitors generally are impressed by the firm's substantial experience and expertise in the cable-tv area. CablePlan has proved not only a valuable tool for system operators, but a highly effective door-opener in talks with potential clients, because its features are so easily and graphically demonstrated. A working computer terminal in the booth is used to demonstrate typical projects and models. The booths are staffed by DH&S people from local offices with the support of industry specialists from DH&S Boston. The most recent show, the annual convention and exposition of the National Cable Television Association, was held in Los Angeles and attended by more than 15,500 people. The DH&S booth at that busy three-day show was staffed by people from Los Angeles, Orange County and Boston.

The convention brought together so many people involved in the cable-tv industry that manning the exhibit booth was only part of a hectic schedule for DH&S personnel. Much effort and considerable time were devoted to a busy round of business breakfasts, luncheons, dinners and evenings in conferences with operators requiring capital or seeking other financial services and bankers, venture capitalists and others interested in investment opportunities.

No one really can say at this time what lies ahead for the cable-television industry, except that the future looks exceptionally promising. Analysts rate the industry as one of the five they expect to show the most growth in the current decade. Al-

though the early period of explosive expansion may appear to have ended, the future will be marked by the granting of a large number of new franchises, by the rebuilding of older systems and by a substantial number of acquisitions and mergers in the field.

Indeed, the very nature of the cable-tv industry is changing dramatically. In the past it grew because it provided a basic need—improved communication through community-antenna systems. Now, with the services possible using communications satellites, the industry is expanding its programming and entertainment capacity tremendously. With cable converters, television receivers that formerly were capable of receiving only twelve channels can now handle more than 100, with the promise of perhaps even greater capacity in the future.

Financial analysts look for the cable-tv industry to provide a major investment opportunity as its voracious appetite for program material spurs the need for more and more production and entertainment packaging—and the capital to provide it.

Looking even farther down the road, cable television may bring us into the real future of two-way communications by electronically linking a home or apartment with other locations. Methods already exist that permit cable-tv wiring to double as home security and fire-alarm systems. Major retail operations and others are experimenting with video catalogue techniques that will let an individual scan any section in a video "catalogue," select the merchandise desired and order that merchandise—all through what eventually will become an electronic information, education and entertainment home center.

What is not hard to imagine, however, is that as the cable-tv industry grows and changes in the years ahead, so, too, will the firm's close support of and assistance to that industry. And we will have the opportunity to share in the excitement of a growth industry whose future potential is still largely untapped—and as yet perhaps even undreamed. □