
Advertising Age

**Channel One Hits Bump, Losing Ads and Top Exec;
In-school TV Network Often Targeted by Critics Hurt as Kellogg,
Kraft Shy Away Due to Kid Obesity Debate**

March 14, 2005

Claire Atkinson

<<<>>>

Retrieved 03/28/05 from
<http://www.nexis.com/>

Its equipment is badly in need of an upgrade, advertisers are fleeing, critics are declaring they want to put it out of business, and the top executive, one of the founders, is leaving.

Channel One, once proclaimed by its founder Chris Whittle as "a good business" that wouldn't work "unless it makes sense to the sponsors," no longer seems to work for some of its key advertisers.

Primedia's latest financial results show the extent of the network's problems attracting advertisers. In a year that saw overall U.S. ad spending up by 10%, according to TNS Media Intelligence, Primedia's Education segment, dominated by Channel One, saw ad revenue fall 12.3% for the year to \$39.1 million. During the fourth quarter 2004, a major holiday selling period, ad revenue was down 12.1% to \$13.1 million.

"The concern by certain advertisers about the obesity issue in schools caused them to stop or reduce advertising in schools," said Primedia in the full year results released Feb. 28. A Kraft Foods spokeswoman said Kraft has not advertised on Channel One since it enacted its policy to eliminate all in-school marketing in July of 2003.

Last week the company anointed Judy Harris as president-CEO of Channel One. Ms. Harris starts on April 4 and replaces outgoing Jim Ritts, the last executive with ties to Channel One founder Mr. Whittle.

"We took a big hit from Kellogg and Kraft," said Mr. Ritts, who went on to say, "future revenues are going to come." Food marketers are reorienting their messaging toward health, he said. A spokesman said ad revenue would be up in the first quarter.

RAISING THE PROFILE

New York-based Ms. Harris plans to be "highly visible" to advertisers over the next few weeks as she makes the rounds with outgoing chief Mr. Ritts. She has her work cut out for her. The network is hardly high profile at the media agencies. Aaron Cohen, senior VP-director of national broadcast at Horizon Media, New York, said: "I haven't seen a sales effort by Channel One in the longest time. I can't remember the last time we were approached by Channel One."

The service, now 15 years old, operates by providing schools free TV equipment, including a satellite dish, monitor and VCR. The network broadcasts two minutes of ads during a 12-minute daily show reaches 8 million secondary-school children in 370,000 classrooms. That reach has remained fairly constant in the last few years. An ad-supported Web site, Channelone.com, is also available.

But its very presence in classrooms has drawn the ire of critics, including Commercial Alert, a Portland Ore.-based consumer advocacy group, which has pushed the charge against Channel One to the top of its agenda. "The coalition which opposes the presence of Channel One is bigger and stronger than ever before. We expect to run them out of every school in the country," said Executive Director Gary Ruskin.

Jim Metrock, president of Obligation, a Birmingham, Ala.-based child advocacy organization, charges on his Web site that any school district that has a contract with Channel One is "not serious about education ... and they are inviting the wrath of parents and other citizens who don't want school time replaced with commercials for junk food and sleazy movies."

NO PLANS TO SELL

Ms. Harris reports to Primedia chairman Dean Nelson, rather than CEO Kelly Conlin, which some observers posit means the company is considering a sale. Mr. Nelson strongly denied that speculation, and said that Channel One is still and always has been profitable, and that the company would not have recruited Ms. Harris if it had plans to sell.

Channel One's ad declines date back years. In 2002 ad revenue at Channel One was \$50.2 million, that dropped by 11% to \$44.6 million in 2003. Primedia once packaged its teen titles together with Channel One, but Seventeen and its related titles were sold to Hearst for \$184.2 million in May 2003. Ms. Harris was not yet sure whether there were other cross-company packaging opportunities.

A second headache for Ms. Harris will be overseeing the company's digital upgrade. Some observers close to the company report Primedia has put off upgrading the network as long as possible. A handful of schools are testing a new digital format, but an insider said the board has not yet given the green light to doing a full upgrade, and won't address it for at least another 6 months.

"It would be very difficult for Primedia to justify the capital investment if the ad revenue is down," noted one executive close to the company.

Primedia, when it was known as K-III, purchased Channel One from Whittle Communications in 1994 for \$250 million, based on annual revenue of \$70 million and \$20 million in operating profit. At the time, K-III expected to spend \$100 million over the next decade on upkeep and technology for its 12,000 satellite dishes, 6,000 miles of cable and 350,000 classroom TVs, according to published reports.

Primedia executives said Channel One is quite capable of supporting its infrastructure and any required changes with its current revenue stream. However, Mr. Nelson did say Ms. Harris had already been in touch with foundations willing to underwrite the cost of programming, and a spokesman said one option is to bring in a partner to supply TV equipment to schools in exchange for promotion.

The estimated cost of digital transition could be anywhere between \$4 million to \$6 million according to an executive familiar with digital upgrades, and replacing TV equipment could add millions more. Said Mr. Ritts, "We are at the beginning of digitizing content. We are in the pilot phase of the first 15 to 20 schools." He declined to say what kind of investment was necessary to convert the network, but said it was nowhere near the original start-up investment, reported to be around \$250 million at the time.