Tom,

You asked me to review the books concerning Bill Paley, particularly his contribution to CBS's advertising strategies as they differed from NBC's and his effort to permit direct advertising in radio.

Starting with the summary that you dictated to me, I reviewed most of the books in your library to identify any information that would support or dispute the statements you were hoping to make about Paley and his contribution to radio advertising. When I found information that supported your thoughts, I added citations to indicate support. If I found new information that augmented your thoughts or seemed relevant to your argument, I added new material (with citations). I tried to leave the language of your dictation untouched, if possible, believing you may prefer your voice if you use any of this as a starting point for your writing.

In some instances, the books did not speak to the statements you were hoping to make. I list these ideas below along with sources I believe I could review for answers to these issues:

- Paley's advertising did not mesh with the Anglo-protestant perception of what responsible businessmen did.

  We may want to explore some Paley biographies and sociology books about business and advertising.

In other instances, the books disputed your thoughts. I list these below, explaining what the books indicate:

- Paley picked up on the network idea and started CBS.

  Paley did not start CBS; he was invited to become President of the network after the founders had struggled for a year and a half to get the company on its feet.

- Paley may have created the model of sustaining programs.

  NBC was already providing its affiliates sustaining programs when CBS began developing its business relationship with its affiliates. The sources, however, do not indicate who devised the idea of sustaining programs.

- Paley and CBS were always at forefront.

  If by "forefront" you mean that CBS had higher revenue than NBC, that is inaccurate. The data shows that NBC generally led CBS in revenue, though not always by very much. What is most remarkable about CBS, though, is that it competed healthily with NBC, forcing NBC to change its strategies and business models despite that it had many fewer employees, lacked a radio manufacturing division, and repeatedly faced financial ruin early in its development.

Finally, in some instances, the books contradict each other. I list these below along with potential sources that could shed light on the issue:

- Barnouw credits Paley for putting an ad for his family's Congress Cigar Company on the radio, whereas Bergreen credits Paley's father, saying that Bill had been on vacation when the ad was placed.

  Data from Paley's or CBS's archives could confirm Paley's travel schedule and any meeting notes or memoranda concerning the ad; Paley biographies may discuss this event, since this may have been a seminal moment in Paley's understanding of the power of radio advertising.

- Paley led the way for the development of direct advertising.

  AND

- Paley moved more aggressively to sell more direct advertising along the lines of what we know it today rather than the more stately sponsorships that NBC had been using.

  AND

- He was much more aggressive than Sarnoff at NBC about allowing more and more overt commercialism in advertising.

  Paley may have led the way for the development of direct advertising in the sense that CBS's tremendous and fast success really turned the heat on NBC. Without such a strong competitor and the financial squeeze NBC's advertisers felt from the depression, NBC may have continued to avoid direct advertising much longer. Paley, however, may not necessarily be credited with using direct advertising first or being more eager than NBC to use direct advertising. As I explain further below, sources differ as to whether NBC or CBS was first to air a product's price. Although sources indicate that NBC had a longer list of banned words, both networks were feeling the pressure from their sponsors to use direct advertising.

In addition, I reviewed the materials for any direct comparisons between CBS and NBC. This list is in chronological order at the end of my summary.

The citations are accurate, but I haven't put them into MLA format yet.

## Bill Paley

In 1927, after NBC was created, Alfred Judson and George Coats laid the groundwork for the network that became CBS.[1] Between early 1927 and late 1928, the start-up network struggled to gain financial footing, but finally found its redemption when it acquired new capital and William S. Paley as president in September 1928.[2] At age 26, Paley had been Vice President and advertising manager[3] in his family's Congress Cigar Company.[4] Though Paley did not have a technical background, he grew up in a family of successful businessman and had witnessed how radio could positively impact business. In the summer of 1928, the company advertised La Palina cigars on the radio and after six month cigar sales reached the million-dollar-a-day mark, an event that permanently impressed Paley with the power of radio. [5]

From the beginning, CBS had a different business model and, consequently, a different attitude towards radio broadcasting than NBC. Whereas NBC was owned by RCA, a company that manufactured radios, Paley's CBS had no radio manufacturing business. Because NBC's radio sales in part subsidized its network, it could afford to conceive of its programming as a public service and still profit. Paley, however, had to make radio broadcasting a revenue producing business apart from the promotional value

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1 Erik Barnouw, <u>A Tower in Babel: A History of Broadcasting in the United States to 1933</u>, New York, 1966 at 194.

2 Id. at 220-24.

3 Laurence Bergreen, <u>Look Now, Pay Later: The Rise of Network Broadcasting</u>, New York, 1980 at 57.

4 Barnouw at 223.

5 Id. at 224; Bergreen at 59 (Barnouw credits Paley for the radio ad, while Bergreen credits his father, saying the Bill had been on vacation when the ad was placed.).

of selling radios. This meant that CBS was more reliant on selling sponsorships and advertising, which was a challenging proposition in the early days of radio, when radio advertising was met with advertiser's reluctance and public disapproval.

In the early 1920s, advertisers shared the public's view that radio was the public's domain [6] and feared offending their listeners.[7] Advertising industry journals expressed this reluctance, with articles emphasizing the risk of alienating the public, saying that "the family circle is not a public place, and advertising has no business intruding there unless it is invited."[8] Their fear was reasonably based on varied derogatory statements, including by the country's leaders – in 1922, Herbert Hoover said, "It is inconceivable that we should allow so great a possibility for service to be drowned in advertising chatter."[9]

Not only did sponsors fear putting off their target audience, they also lacked production know-how and did not know how to gauge the value of marketing to particular listeners.[10] Moreover, they feared spoiling relationships with newspaper and

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6 Michele Hilmes, Hollywood and Broadcasting: From Radio to Cable, Urbana, 1990 at 10 citing a 1924 Senate resolution stating that "The ether and the use thereof for the transmission of signals, words, energy and other purposes . . . is hereby reaffirmed to be the inalienable possession of the people of the United States and their Government."

7 Roland Marchand, Advertising the American Dream: Making Way for Modernity, 1920-1940, Berkeley 1985 at 89, 92; Paul Starr, The Creation of the Media: Political Origins of Modern Communications, New York, 2004 at 355.

8 Id. at 89 citing a 1925 issue of the journal *Printers' Ink*.

9 Hilmes at 22.

10 Id. at 92.

magazine clients who opposed radio.11

Meanwhile, the public generally disliked radio advertising, expecting their programming not only to be free, but also uninterrupted by sponsorships.12 A November 1922 article in *Radio Broadcast* bemoaned the increasing appearance of advertising on the air, noting that "Concerts are seasoned here and there with a dash of advertising paprika. You can't miss it; every little classic number has a slogan all its own, if it is only the mere mention of the name—and the street address, and the phone number—of the music house which arranged the program. More of this sort of thing may be expected. And once the avalanche gets a good start, nothing short of an Act of Congress or a repetition of Noah's excitement will suffice to stop it."13 And efforts were made to get Congress to abolish radio ads. In September 1925, a Congressman14 announced he was about to introduce such a bill.15

There was particular distaste for "direct" advertising – identifying a product's price. 16 Advertisers believed it would alienate the public, thus stunting ads' effectiveness.17 The first station to use sponsors – WEAF – prohibited advertisers from

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11 Hilmes at 83.

12 Gleason L. Archer, <u>History of Radio to 1926</u>, New York, 1938 at 285-86.

13 Id.

14 Research needed – Archer does not identify this congressman.

15 Id. at 363.

16 Marchand at 90.

17 Bergreen at 63.

offering samples, quoting prices or describing their products[18] because in the mid twenties, it was generally felt that "the radio audience will certainly never stand for direct advertising. . . it would kill the radio industry as quickly as anything you can think of."[19] By the late twenties, however, companies began to recognize that direct advertising could boost sales.[20] And by 1932, even this inhibition had melted away.[21]

In 1931, NBC still did not mention prices and had a list of prohibited language.[22] Advertisers found that CBS, competing for business, gave them more freedom.[23] It is unclear, however, whether CBS or NBC first started using direct advertising because the sources conflict. Barnouw and Bergreen claim that CBS broke the direct advertising ban first, but Lichty & Topping contradict this. Further research must clarify this. Meanwhile, both descriptions of history are below:

Bergreen credits Paley with breaking the direct advertising ban, though he cites no sources and does not give any details about this ground breaking event such as the date, the product, or the price.[24] Barnouw also fails to explain any details about the event, instead citing an October 1932 article in which Paley was quoted as saying that

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18 Marchand at 93.

19 Hilmes at 22.

20 Marchand at 107.

21 Hilmes at 22; Barnouw at 237.

22 Barnouw at 238.

23 Id. citing an advertiser who could say that his cigars cost five cents and were not made with spit: "There is no spit in Cremo!"

24 Bergreen at 63.

CBS's "specific contribution toward [radio advertising development] is the permitting of price mention,"25 which could just be blustering on Paley's part and doesn't prove that CBS was first. Barnouw also says that soon after Paley's statement, in January 1933, NBC's president announced a policy change to his advisory council, saying that "the company has decided to alter its policy with reference to the mention of price in commercial announcements."26 Again, this is not definitive proof.

Lichty & Topping credit NBC with breaking the ban, citing a broadcasting journal article that said that NBC began mentioning prices for daytime only in July 1932.27 They quote the same article for the fact that, in September, both NBC and CBS broke the ban at night, with the September 12 A&P Gypsies program mentioning prices.28 While a single journal article is not necessarily definitive proof, Lichty & Topping's mention of specific dates and programs for both networks along with their citation of their sources lends more credibility to their description of the ground breaking event than Barnouw's or Bergreen's.

Lichty & Topping also cite early statements by NBC's executives that indicate that the network intended to change its direct advertising policy. In late 1931, they say, NBC president Merlin Aylesworth said, "First, we'll find the programs giving the fullest measure of service to the public; next, we'll establish the best facilities for such service;

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25 Barnouw at 238 citing *Radio Art*, Oct. 1, 1932.

26 Barnouw at 238 citing *Broadcasting*, Jan. 15, 1933.

27 Lawrence W. Lichty & Malachi C. Topping, <u>American Broadcasting: A Source Book on the History of Radio and Television</u>, New York, 1976 at 199 citing *Broadcasting-Telecasting*, October 15, 1956, p. 112.

28 Id.

and lastly, we'll make the structure self-sustaining. Obviously, if broadcasting is to be a success, it must stand on its own legs."29 *Literary Digest* asked about what NBC intended regarding becoming "self-sustaining," and learned that " . . . it is expected to make advertising ultimately pay the entire expense for the elaborate programs to come. Thus, apparently, is solved the old discussion as to whether radio audiences should be made to pay for their entertainment."30 While these statements are not definitive proof that NBC was first to state prices, they at least support this hypothesis.

Even if CBS was not first to break the ban on direct advertising, Paley certainly made a tremendous business accomplishment, catapulting a struggling startup into neck-and-neck competition with a prestigious well-funded network. A big part of Paley's success was that he treated radio as a commercial undertaking.[31] Whereas Sarnoff at NBC initially ran his network on the premise that radio needed to be uplifting and bring culture to the masses, from the get-go, Paley created programs to attract sponsors, not to provide a high-minded public service.32 Lacking a manufacturing division, constrained by the depression,33 and increasingly encouraged by advertisers to alter its policies,34

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29 Lichty & Topping at 225 citing *New York Times*, Nov. 15, 1931, ix., 8.

30 Id. citing "Radio Converts the Continent into an Auditorium," *Literary Digest*, Dec. 4, 1926, p. 61.

31 Paley's father ran a cigar company - he came from commercial business background.

32 Hilmes at 51.

33 Marchand at 288.

34 Id.; Barnouw at 238.

CBS could not afford NBC's elite attitude towards the airwaves.35

One of the keen ways Paley helped CBS gain an edge on NBC was through its relationship with its affiliates.36 NBC allowed its affiliates to choose which programs to carry, charging them for its sustaining programs – programs paid for by the network –37 and paid them for carrying its sponsored programs.38 Since CBS lacked a receiver manufacturing division whose sales could offset program costs, it needed different terms with its affiliates.39 So under the plan devised by CBS vice president Sam Pickard,40 CBS did not charge its affiliates for sustaining programs, but instead got an option on any part of the affiliates' schedules for the network's sponsored programs and the right to transmit certain hours of sponsored programs on the local station.41 This enabled CBS to promise advertisers time on as many stations as it wanted without clearing it with local stations first.42 By the mid-1930s, CBS led NBC in profitability.43

One of Paley's shrewd insights was his belief that, to beat NBC, CBS had to

35 Hilmes at 52; Bergreen at 61.

36 Starr at 354.

37 Id.

38 Hilmes at 51.

39 Id.

40 Barnouw at 251.

41 Id.; Starr at 354; Bergreen at 59-60.

42 Id.

43 Id.

outclass it rather than appearing like a scrappy startup.44 Paul Kesten, who joined CBS in 1930 as director of sales promotion, helped Paley do this, distributing slick promotional booklets with catchy tag lines like “Nine times out of ten, people do what they’re told.”45

NBC v. CBS data:

- During the 1927-28 seasons, 39 companies sponsored NBC programs and 4 companies sponsored CBS programs.46
- In 1929 CBS sold $5,000,000 in advertising and earned $500,000 in profit. In 1930, its advertising revenue was $9,000,000; in 1931 it was $14,500,000; and in 1932 it was $16,000,000. CBS’s highest profit was in 1931 when it earned $2,350,000. In 1932, CBS showed almost exactly the same net profit as NBC, approximately $2,300,000.47
- In 1931 NBC’s operating costs for two networks were nearly $30 million while CBS spent a third of that.48
- In 1931 NBC had more sponsored programming than CBS, with 33.8 % sponsored programming as compared to CBS’s 21.94 percent.49

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44 Bergreen at 64.

45 Id. at 64-65.

46 Lichty & Topping at 228.

47 Bergreen at 71-72.

48 Lichty & Topping at 159.

- FRC data shows that in 1931 NBC was a larger and arguably less efficient organization than CBS. NBC had 1359 employees as compared to CBS's 408.[50] The NBC networks featured 256 special events, carried 159 incoming international programs from 34 points of origin, broadcast 28 appearances by the President, 37 by cabinet members, and 71 by U.S. Senators and Representatives. It made a net profit of $2,325,229. Similarly, CBS featured 415 special events, carried 97 international programs from 19 points of origin, and broadcast 19 appearances by the President, 24 by cabinet members, and 65 by U.S. Senators and Representatives. And it made a net profit of $2,346,766.
- In 1931, NBC had a $25,900,000 share in the advertising market as compared to CBS's $11,600,000.[51]
- NBC's percentage of commercial as opposed to sustaining programs per broadcast day grew from 23.6 in 1933 to 49.4 in 1944.[52] Over those years, CBS's percentage grew from 22.9 to 27.8.[53].
- By 1935, CBS had a larger number of affiliates than NBC.[54]

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49 Barnouw at 245.

50 Id. at 250 citing *Commercial Radio Advertising* at 17-22; Archer, Big Business and Radio at 397.

51 Bergreen at 64.

52 Hilmes at 82 citing Llewellyn White.

53 Id.

54 Hilmes at 51.

- In 1938, both networks had a tremendous return on investment, with NBC at 80 percent and CBS at 71.55

55 Bergreen at 147 citing FCC Report on Chain Broadcasting, May 2, 1971.