

Bob Johnson's brainchild

Forbes; New York; Apr 22, 1996; Waxler, Caroline;

Volume: 157
Issue: 8
Start Page: 98
ISSN: 00156914
Subject Terms: Television syndication
Minority owned businesses
Corporate profiles
Corporate planning
Blacks
Television networks
Corporate profiles
Cable television industry
Blacks

Classification Codes: 9521: *Minority- & women-owned businesses*
9190: *US*
9110: *Company specific/case studies*
8330: *Broadcasting & communications industry*
2310: *Planning*

Geographic Names: US

Personal Names: Johnson, Robert L

Companies: Black Entertainment Television
Black Entertainment Network

Abstract:

Black Americans are a splendid market for TV. They watch more of it than does the general population, tend to be more brand-loyal and are growing in numbers faster. This makes Black Entertainment Television (BET) attractive to advertisers. The man behind BET is Robert Johnson. Johnson, already worth \$235 million, has set his sights even higher. He wants to build a black-managed media empire. Johnson boasts that he intends to double BET's market capitalization to \$1 billion. Johnson wants BET Holdings Inc. to be the brand of choice for black consumers that Disney is for white consumers. He does not just mean in cable. In 1993, Johnson paid \$14 million for Action, a national satellite pay-per-view channel with about 7 million subscribers. In 1995, BET joined DirectTV's lineup. BET is now on air in London and the Caribbean. South Africa is next. In January 1996, Johnson launched BET on Jazz, a 24-hour cable network.

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EVEN BEFORE O.J. Simpson was acquitted, the battle was on; Who would land an interview? Simpson stood up NBC's Katie Couric and Tom Brokaw after they thought they had him on their hook. Ditto CNN. When the notorious ex-footballer finally sat down to talk, it was to Black Entertainment Television anchor Ed Gordon. From 300,000 viewers, BET's audience that January night shot up to 3 million. In the month following, parent company BET Holdings, Inc.'s NYSE-traded stock jumped 30%.

Of course, O.J.'s handlers were looking for sympathetic treatment, and they knew where to go. So did Washington, D.C. Mayor Marion Barry. In 1992 Barry granted BET an exclusive interview from his jail cell, where he was serving a sentence for possession of cocaine. "I knew the reporter would understand the true nature of what was going on in my life at that time," Barry told FORBES. O.J.

didn't talk with us, but his reasoning must have been similar. Both men know BET reaches 97% of the 6.8 million black households with cable.

Black Americans are a splendid market for TV. They watch more of it than does the general population, tend to be more brand-loyal and are growing in numbers faster. This makes BET attractive to advertisers. McDonald's and Oldsmobile like BET because it reaches the growing black middle class. Nike and Coca-Cola like BET because it delivers hip 12- to 34-year-olds for about half the price it costs to reach these youngsters on MTV.

The man behind BET is Robert Johnson, 49. Johnson, already worth \$235 million, has set his sights even higher. He wants to build a black-managed media empire, Newsweek recently having chronicled his invasion of the movie business. Sitting comfortably in his office at BET's 5.5-acre "media campus" in Washington, he boasts that he intends to double BET's market capitalization to \$1 billion. "We want to be the brand of choice for black consumers that Disney is for white consumers." He doesn't just mean in cable. In 1993 Johnson paid \$14 million for Action, a national satellite pay-per-view channel with about 7 million subscribers. Last year BET joined DirecTV's lineup. BET is now on air in London and the Caribbean. South Africa is next.

In his boldest reach yet, in January he launched BET on Jazz, a 24-hour cable network. It is aimed at an educated and affluent demographic. But even if all goes according to plan, BET on Jazz won't break even until at least the year 2000. To lure cable carriers, Johnson's offering this new channel free of subscriber fees for two years.

The biggest question facing Johnson right now is: Can he handle all the deals he's spawning? Besides broadcasting, BET publishes two glossy magazines: YSB (Young Sisters and Brothers) and Emerge. It runs a retailing division that hawks goods on BET. None of these ventures has yet earned a dime. Johnson is spending \$5 million to open a BET-themed "interactive" restaurant. Through joint ventures with Blockbuster Entertainment, Encore and Live Entertainment, BET has started to make flicks. With Microsoft, BET is creating online programming.

To be sure, the BET network is a money-spinner. Its revenues, 50% from fees, 50% from advertising, have increased at a compound annual rate of 26% for five years. This fiscal year (ending July 31) BET should gross \$133 million, with cash flow of \$48 million (earnings, that is, before interest, taxes, depreciation and amortization). In 1995 BET's entertainment division had an operating profit margin of 35%. That compares nicely with 31% at the Family Channel.

BET is as profitable as it is because it keeps programming costs low. About 60% of its programming is music videos, supplied free by record companies. Then there are the cheap reruns like Benson, a sitcom from the 1970s that stars a witty black butler and his dim, white boss. BET gets Benson for just \$36,000 an episode--compared with the around \$1 million a network pays for an episode of an original sitcom. Also big on BET are late-night infomercials, which in 1995 grossed the network \$14 million. Last year BET's total production costs were just \$33 million, compared with \$75 million for the Family Channel.

BET grew from an idea in Bob Johnson's head. He was one of ten children who grew up in rural Freeport, Ill., where their father worked at a battery factory and their mother assembled switches. After graduating from the University of Illinois and studying international affairs at Princeton, Johnson landed a job in Washington as a lobbyist for the National Cable Television Association.

Johnson was inspired by cable entrepreneurs like Ted Turner. But wouldn't there be room for a

channel aimed specifically at blacks? "The idea for BET was not conceived out of idealism," he explains, "but as a business opportunity that had been ignored." He figured he'd need \$500,000. Where does a 33-year-old who never ran a business get that kind of money? From Tele-Communications, Inc.'s John Malone. TCI paid Johnson \$180,000 for 20% of BET's equity and lent him \$320,000, thus leaving Johnson with 80% of the shares. That way no one could say Johnson was just a front.

By January 1980 BET was on air, but only from 11 p.m. to 2 a.m. every Friday night. Two years later Malone brought in another partner, Taft Broadcasting, which contributed \$1 million for 20% of BET. Next came Home Box Office with \$600,000. In 1985 Johnson was on 24 hours a day.

"My advice to him in the early years was

to approach BET as a

sustainable loss," explains Malone. "In other words, there is no way you can start a business like this and make money in the first couple years." It was not until the seventh year, 1987, that BET turned its first profit, \$500,000 on revenues of \$11 million.

Johnson's willingness to reinvest cash flow in new ventures comes from this early experience and from Malone's advice: Build the business right, and the profits will take care of themselves.

In late 1991 BET went public, selling 21% of the company for \$72 million. HBO and Taft have sold out at handsome profits, but Malone's TCI still owns 22% of BET. Malone's loan has long since been paid back, and his \$180,000 equity investment is now worth \$105 million. Johnson still owns 49% of the equity. Thus, when he shows a willingness to forgo current profits in order to bet on the future, it is very much his own money he is playing with.

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