School of Media Studies

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**FRIENDS**

The Price of Friendships

 After nine very successful years of selling for WSBC-TV, Tom Wyatt resigned. He had been a productive salesperson, handling agency business as well as being excellent at new business development. Although Tom had made a nice living and served his station well, he suffered considerable disappointment when he was passed over for the second time for the local sales manager's (LSM) position. The station's general sales manager (GSM), Fred Barris, was a close personal friend of Tom's and respected Tom's ability. Fred wanted to promote Tom, but was vetoed by WSBC-TV's General Manager, Elliott Tumolt.

 Nina French, another salesperson on the staff with comparable qualifications, got the nod for the local sales manager's job. Tumolt favored Nina over Tom Wyatt because of her excellent track record in sales, because Tumolt felt she had more management potential and because of her extensive community involvement. Tom harbored no ill will toward the station, Fred, Nina or for that matter even Elliott Tumolt. However, he felt he had been given a message that his path to management was blocked. Therefore, he decided to enter the advertising agency business.

 With a few of the direct accounts he had developed and an automobile dealer he was able to take away from another small agency, Tom opened Wyatt & Associates Advertising. Based on his success as a media salesperson, Tom had confidence that he could parlay his experience and media connections into a successful agency business.

 Because Fred Barris was a friend and was embarrassed that he didn't have the clout to overcome the general manager's veto, Tom expected Fred's to help him succeed in the new venture.

 Another aspect of Tom's media background was his acquaintance and friendship with most of the market's other media representatives. Many of his contemporaries and competitors were now in management at other television stations in the market. Tom felt that these friendships would be an excellent asset in getting leads on new business. Fred Barris, in fact, had promised to try to direct accounts to Tom. Fred wanted Tom to prosper, and in return he felt Tom would favor WSBC-TV with bigger shares of his media buys.

 Tom knew most of the television salespeople and managers in town quite well. He often played golf with the local sales manager of WCBN-TV, Mitch Mitchell, who at one time had worked with Tom at WSBC-TV. Another golfing buddy was Arnold Parker, who was the general sales manager of WCBA-TV. The general sales manager at the market's only independent station was Ann Taylor. Several years earlier, before either Tom or Ann had married, they dated. They agreed at the time that they were not headed for a long-term relationship, but they had a good time together and still remained friendly. Tom, therefore, had good friends at all the local TV stations and expected that they would all be helpful to him in his new advertising agency business.

 When the first blush of excitement and anticipation of being a successful agency owner wore off, Tom came to the realization that maybe the agency business wasn't as easy or as lucrative as it appeared initially. He had picked up very few new accounts, and his car dealer cut his ad budget due to the recession and, thus, sagging business. Tom became nervous and began to press his media friends for leads on new accounts.

 Tom confided to Fred Barris that things were going slowly and that he needed more accounts. Fred was able to direct a mid- sized department store to Tom's agency, but Fred asked for a favor in return. He asked Tom to keep him posted on spot prices and rates on the other television stations. Although WSBC-TV was a strong number one in audience share, Fred was getting questioned on his revenue share by his general manager, Elliott Tumolt. Tumolt was not happy with the overall growth of the station's billing. He felt that WSBC-TV was losing revenue share, although there were no shared revenue figures or other hard facts to support this feeling.

 Threatened by this pressure, Fred was ready to lower his rates in order to maintain share and, in his view, keep his job. Tom knew enough about rates and inventory control to know that a competitive price war among the stations could work to his agency's advantage. If he got inside information, he could make "I can buy it for you cheaper" a part of his new business presentation.

 Tom reasoned that if Fred was so anxious for rate information, his counterparts at the other stations would also be eager for the same type of information. Tom then developed a plan to share rates with Mitch Mitchell, Arnold Parker and Ann Taylor. In order to work this information-sharing ploy to his advantage, Tom would shave a little bit off the rates his friends told him about. Each friend was led to believe that they were the only station getting full information and the competitor's accurate rates.

 When each station saw the lower competitive rates, they reacted accordingly. They generally afforded Tom a slightly better rate to keep their share. Tom in turn started to secure new accounts with his accurate claim that he could buy cheaper. After nine months in business, Tom had secured twelve TV accounts and billings that would project to more than $3,500,000 annually.

 Because the stations were all relying on Tom's shared rate information for other clients as well, the costs-per-point (CPP) level in the market eroded nearly 15% on local buys. As a result, none of the stations were expecting to make their annual budgets for the year. Responding to pressure from their general managers and owners, each station pressed even harder for share.

 During a weekend golf game, one that Tom couldn't make because he was too busy with all of his new accounts, Mitchell and Parker, after a discussion on the course, each realized that they did not have an exclusive on Tom's pipeline and rate information. Because they were both in search of firmer rates, they decided to pivot on Tom's game and turn it back to their favor. Together they approached Tom with the following proposition:

1. If Tom continued his role as rate reporter, they would continue to give him rates below the market pricing.
2. Mitchell and Parker would cue Fred Barris in on the new ground rules.
3. Tom himself would tell Ann about this new arrangement.
4. In the future, Tom would report only the actual rates submitted to his agency.
5. It would be the four sales managers' objective to reverse the downward CPP trend by keeping tabs on the competition through Tom.

 All of the people involved bought into the clandestine plan, and rates started to rise in the market. The biggest beneficiary of the higher rates was Nina French, WSBC-TV's local sales manager, who knew nothing of the arrangement. WSBC-TV's rates and local revenues started to rise, and Elliott Tumolt felt it was a result of Nina French's good pricing and inventory control skills. Tumolt viewed the situation as confirmation of his good judgment in promoting Nina over Fred Barris's objections.

 While Fred Barris was on a two-week Mexican vacation, Nina would not accept several of Tom's low-rate orders. Furious, Tom called Nina and said, "This is my deal. I made the deal with Fred and the other stations for a service I provide." Tom explained just enough for Nina to understand what had been going on.

AUTHOR'S NOTE

This case is not based on actual facts; it does not represent standard industry behavior or practices. The case represents extreme circumstances and is presented only as a teaching tool.

ASSIGNMENT

1. Assume you are Nina French. What alternatives do you have in regard to your newly discovered information?
2. How important are revenue shares as a gauge of sales performance? What effect does revenue share emphasis have on rates and sell-out levels? Which is more important, rates or share, and why?
3. Assume you are Elliott Tumolt and have just been informed by Nina French about the rate-information sharing, of which you were unaware. What will you do?