Cable and Satellite TV Mergers: Who Will Benefit?

First Appeared in
The Bandwidth Desk,
January 25, 2002

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Comcast's recent agreement to acquire AT&T Broadband and EchoStar's planned purchase of DirecTV have shaken the structure of the U.S. cable and satellite TV industry to its roots and will shape the delivery of television to homes throughout the nation for decades to come. In the near term, we are likely to see more consolidation among cable TV providers, creating an even more lopsided industry than already exists. On one side are a handful of large and powerful cable TV companies, the top ten of which serve 87% of cable-TV homes nationwide, and one dominant direct satellite-TV provider serving some 18 million homes – a quarter of all those with subscription-TV service. On the other side and at another level are 1,500 small cable operators, typically serving just hundreds or perhaps several thousands of customers, often in remote, sparsely populated communities and collectively serving just 13% of cable subscribers.

The AT&T-Comcast merger seems likely to gain approval from the federal government, and the combined firm will emerge as the leading cable TV provider in the U.S., with more than 22 million subscribers. AT&T Comcasst will have a presence in major metropolitan areas and some of the nation's most affluent communities. It will not have a lock on movies, shows, sporting events, interactive video games, or other programming, but its huge customer base will provide enormous leverage with programmers and content providers. Bolstered by a $5 billion investment from Microsoft, AT&T Comcast may well make an acquisition in the content industry as well. Comcast president Brian Roberts has said that he sees no reason to stop at cable.

The planned merger of EchoStar with DirecTV has raised concerns among consumer groups and members of Congress. In areas without broadcast or cable TV, families depend upon satellite TV and now at least have a choice of either of these two companies. That choice will be gone if the two companies merge. Another concern is that the proposed merger includes a $1.5 billion investment in EchoStar by the French media company, Vivendi Universal. The planned arrangement would open a large, lucrative, growing, and, in some areas de facto monopoly, market to foreign ownership interests. What Echostar is planning is a vertically integrated distribution and programming operation that it will expand with additional programming acquisitions.

We are seeing a dramatic transformation of an industry that began only a generation ago with community-based antenna service.

Under the Bush Administration, the Federal Communications Commission (FCC) has set upon a policy of deregulation in virtually all areas of communications, allowing markets to operate without interference wherever possible, and the commission will not likely veer from that policy. At the same time, however, the FCC presently has cable ownership rules under consideration after a remand from the DC Circuit Court, and is surely not going to allow unlimited concentration in the cable TV industry.

But, right now, the pressure is on AT&T Comcast's principal competitors and we should get ready for more shoes to fall.

The quality of a cable company's network facilities – always essential for providing efficient, reliable and profitable service – is even more critical today as cable companies aim to capitalize on their increasing share of viewers and out-maneuver local phone companies in providing broadband Internet access. Large cable providers are deploying up-to-date systems that carry dozens of channels and bring digital TV and broadband, for customers to download music and video and for interactive business and entertainment. And they are focused on consolidation as well. Typically their model is to build an extended, largely contiguous serving area with a concentration of a significant number of relatively affluent customers, a base for negotiating with programmers and gaining operating efficiencies for better earnings. Programmers argue that large companies force prices downward to an extent that compromises content and quality.

In the significantly changing industry landscape, AOL and other leading cable companies – Cox, Charter, Adelphia and Cablevision – will be compelled to re-examine their market positions and find strategic market opportunities, acquisitions and allies.

AOL Time Warner, the largest cable provider after AT&T Comcast, will move quickly to form alliances. It will capitalize on its AOL's Internet access and Time Warner's entertainment strengths and could join forces with Cox, Cablevision, or other cable providers. Cablevision, undoubtedly exploring its options, is an interesting possibility. With some three million cable customers, concentrated on Long Island, Cablevision would surely like to expand its footprint in the New York metropolitan area – where AOL Time Warner already has a strong presence, including its headquarters. Cablevision's entertainment interests include Madison Square Garden and Radio City Music Hall.

AOL Time Warner could also seek to acquire Comcast. AOL's bid for AT&T Broadband suffered from widespread concern that a merger of the two leading cable companies, with 29 million customers between them, would not gain federal government approval. Now, with AT&T Comcast reaching more than 21 million customers, an AOL- Cox merger serving 18 million homes seems quite plausible.

Small cable companies are especially nervous about the implications of the AT&T-Comcast and EchoStar-DirecTV mergers, and suggestions that other alliances are being considered. These local companies, including some pioneers of community antenna/cable-based TV, say it is impossible for them to compete against huge providers who enjoy economies of scale and get favorable treatment from major television and film studios and other programmers. The small companies contend that they are more attentive to customers and offer higher-quality services than the large cable firms.

As large cable companies extend their serving areas, some communities served by just a single cable provider today may see a new cable or satellite TV company coming in, which may or may not mean new services and competitive rate structures. It is not clear that consolidation in the cable and satellite TV industry will encourage larger providers to place a high priority on extending broadband more generally, or offer even more advanced and potentially more economical Internet-based telecommunications. Recent increases in customers' monthly charges provide little comfort on that score. An FCC report on the cable TV industry released earlier this month states that from June 2000 to June 2001 cable prices increased an average of 4.24%, while the consumer price index rose just 3.3%. Cablevision has just raised rates on some service packages and Comcast has raised rates twice in the past ten months in some areas.

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