ACCbriefs

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CABLE/ COMPETITION

Cable Television companies have long been mislabeled "monopolies." That word implies that we don't have any competition. But is that true? In this ACCbrief we take a look at the state of competition in the three primary services cable operators offer: video distribution, high-speed broadband connections and telephone. As you'll see, cable started as a way to introduce competition, and we're still doing it today.

What you'll also clearly see in this brief is that not only does cable face competition, but our competitors are often some of the largest companies in the country. The challenge is to let folks know that competition has made us better and has helped consumers. Competition works.

Competition: What is it?

This is not as simple a question to answer as it first appears. The simplest dictionary definition of competition, in the context of business, is that it is considered to be …***a rivalry between two or more businesses striving for the same customer or market.***

But what does that mean? Particularly that part about "same customer or market?" There's no question that if we look at the cable television business, and the delivery of lots of channels of television programming for folks to watch, the industry has competitors. They start with the local television broadcasters. In fact, when cable television got started, after its earliest years of being a "community antenna" to deliver broadcast signals, it was seen as the best potential competitor to local television! After all, who else could efficiently provide video programming to home television sets?

So when CNN or ESPN were started with the support of the cable television operators, they did so to provide an alternative for customers to watch. Those alternatives created

About ACCbriefs:
Designed for cable communicators in public affairs, government relations, executive office and other staff members who need a clear, concise, subject oriented guide on various topics they must face, the briefs explore the issues and provide a response from the cable perspective.

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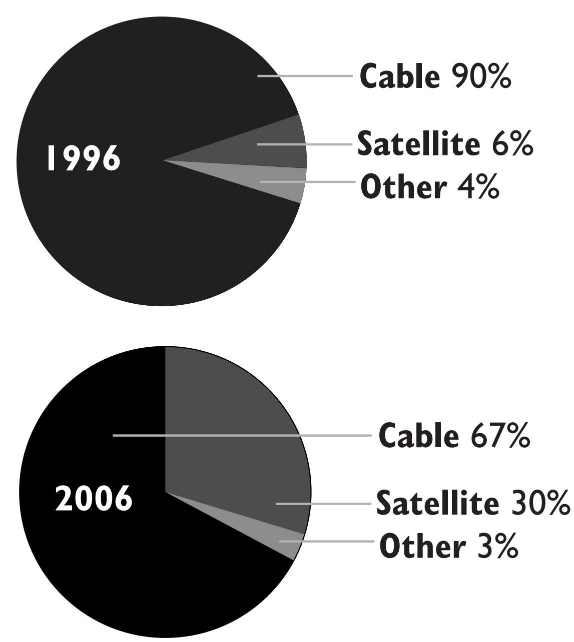
the incentive for folks to sign up to cable service. As an alternative, those channels, and the cable operators that were delivering them, were clearly "…striving for the same customer or market" as the local broadcaster. They both were trying to induce the viewer to watch their programs.

But that's often not the way cable television is characterized. The argument goes that there is "…only one cable company in town" so it's a "monopoly." Well, it's certainly true that in many cases in the past (as you will see later on, this is not as true today) there was only "one wire" in town that was capable of delivering television service. But does that really matter? Do customers "watch wires?" Actually, it is generally accepted that customers don't care that much how the television programming gets to their television set; they are interested in the program, not the technology that got it there. So in reality cable has always been in competition with the over-the-air broadcast television industry, and with the advent of "DTV," potentially multichannel digital television, that is even more the case today. Since the inception of cable television, there has always been competition for the same customer in the market viewing television programs. Cable was the first competitor, but far from the last.

Direct Broadcast Satellite

Cable television developed in the late 1940's as an antenna service. It wasn't until the early 1970's that it was seen as a viable competitor to broadcast television. The Federal Government placed numerous restrictions on that new competitor to assure that local broadcasting also remained strong. Both are now delivering video programming to the home. A third competitor for multichannel video delivery arrived on the scene in the mid-1990's. DBS, Direct Broadcast Satellite, brought a new dimension to the competition. It delivered pictures digitally. If they were properly received, they were crystal clear, perfect pictures. Again, consumers proved that they really didn't care how they got their programming, they just wanted good pictures, and lots of them. DBS in the beginning offered more channels of television programming than most traditional cable systems. DBS became very successful, and today 30 percent of all customers buying video delivery service buy it from a satellite distributor rather than a cable television distributor.



Source: National Cable & Telecommunications Association

Competition Works – The Competitive Response

As can be seen from the two pie charts, digital picture delivery impressed customers. As a result, the cable industry recognized that it, too, would have to upgrade its facilities to offer digital distribution. This was one of the incentives for the cable industry to begin the process of totally upgrading the cable infrastructure in almost all systems in the country. The result, after over ten years and more than $110 billion in capital expenditures, is the modern, fiber-optic based "HFC" (Hybrid Fiber Coaxial Cable) cable distribution plant in most American communities today.

But what started as a need to build a new infrastructure to deliver digital pictures has led to multiple capabilities for cable television operators and customers. The competition in video delivery has not only resulted in improved pictures and improved programming; it has also resulted in new competitive telecommunications offerings in the area of broadband data to the home and, for the first time, competitive telephone service. We'll take a look at those in a moment. First, let's take a look at what happened in video.

Because digital transmissions are so much more efficient, more channels can be delivered to the home. The average number of channels a cable customer receives increased 70% between 1995 and 2005. But much more importantly, the quality of those cable programs went up as well. How do we know? Simple: viewers are "voting" with their eyes. The best way to tell whether customers think they are getting a good value is whether they use the product they are buying. In the case of cable television, our customers are watching much more cable programming (and less broadcast programming) than ever before. Viewing time of basic cable networks has increased by 68% in the last ten years. The numbers (and awards) tell it all. In the latest (1st Q 2007) Nielsen viewing survey of prime time television, the six broadcasting networks got a 42% share of viewers, while cable programming attracted 53.5%.

The real price per viewing hour of cable decreased 7.4% between 2002 and 2005 from 28.4 cents to 26.3 cents.

Not only that, the real cost of that viewing went down! The best way to determine value is to see how much people are paying for what they are actually watching, what is called the "price per viewing hour." Between 2002 and 2005, that price decreased by 7.4%! Over the past decade the real price per channel has dropped 5.3%.

During the 2006 television season, for the first time, cable channels out-rated broadcast network channels on 4 of 7 nights of the week. And to show that cable customers know what they are looking at, and appreciate quality, cable networks won half of the 2006 Primetime Emmy Awards. The eyes have it.

The competition is fierce, and it's not cheap! Cable operators have invested $90.7 billion in all forms of programming from 1995 to 2005. That's on top of the facilities upgrade investment of over $110 billion mentioned earlier. Cable programmers during that same period spent an additional $84 billion to create the programs that are competing for customers' attention. Competition, and the response to it by competitors, costs a lot, but the benefits are well worth it.

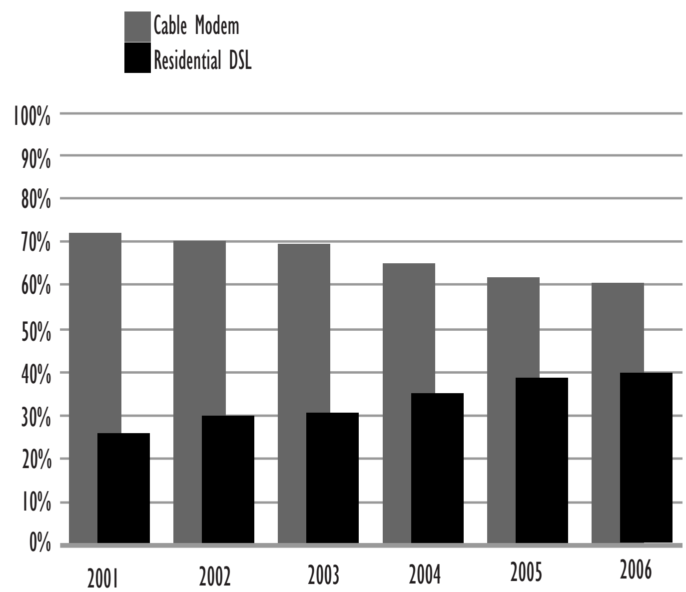
Cable Introduces Data Competition

There was a time when the only way a residential customer could get on the Internet was to use a slow telephone modem. They were inefficient and usually required a separate, dedicated telephone line if you also wanted to make telephone calls. Then came cable modems. Because of the cable infrastructure upgrade, cable can not only deliver a digital video picture to the home, it can also deliver broadband data. Around the same time the "World Wide Web" started to gain popularity, the cable industry in 1996 started offering high-speed Internet service to compete with the telephone company. The consumer was the absolute winner.

Cable introduced competition, just like it did for the television broadcasters.

You see, it's not that the telephone company was unable to offer a higher speed service, called "DSL" (digital subscriber line), it's that they already had 100% of the market with their slow telephone modems. They didn't see why they should offer anything else. Cable introduced competition, just like it did for the television broadcasters, and things started to change rapidly. Now competition is fierce to provide High-Speed Internet, thanks to cable. At first the telephone companies were slow to respond, and cable modems dominated the market. But as you can see from the chart, DSL offerings have pretty much caught up to cable, and new competitors are lurking as well, from municipal WiFi systems to "broadband over power line." The technologies are improving and both price and quality competition is easy to see anywhere you look. By the end of 2006, cable broadband service was available to 94% of all U.S. homes.

Share of Residential High-Speed Market



Source: National Cable & Telecommunications Association

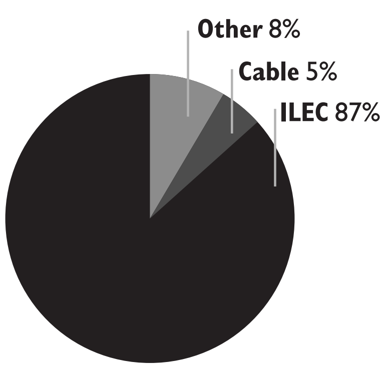
Competition – Now Telephone Too!

Once the competitive juices start flowing, they don't stop. The same digital, fiber-based infrastructure that delivers digital television pictures and high-speed cable broadband service has another capability: telephone service.

Until the last few years, the only place a consumer could get facilities-based wire line telephone service was from the telephone company. That's been true since the early 1900's when AT&T reached an agreement with the Federal Government to be a "regulated monopoly." It was only after the adoption of the Telecommunications Act of 1996 that others were invited into a new competitive world of home telephone delivery. It took another decade to get all the technology in place to actually accept that invitation to compete, and the cable industry is the only one that spent the money and accepted the challenge.

Now more than 10 million households have chosen cable phone service, and the "sign-up" rate is increasing, fast. There has been more than 100% growth (4.6 million homes) since December 2004. Of course in this area, competing with the telephone giant is no small task, and that giant is still really big. As of December 2005, more than 87% of the marketplace is still controlled by the incumbent telephone companies (ILECs). After many years of trying, the competitive local exchange carriers, most using the ILEC facilities, have managed to garner only eight percent of the telephone market. The new facilities-based cable phone competition has already garnered five percent of phone customers. There's a long way to go.

Residential Wireline Phone Access Lines, December 2005



Source: National Cable & Telecommunications Association

How Big Is Big?

The vast majority of the voice services marketplace is still controlled by the incumbent telephone companies.

Along with the mis-characterization that opened this ACCbrief about cable being a "monopoly"… which the competitive landscape (as described earlier) proves is simply not the case… there is another misconception. This one is about how big and dominant the industry is. At one point in the political debate, the CEO of the largest cable company was even likened to Darth Vader! Well, it's instructive to take a look at the actual numbers to see how misleading that characterization is.

As we've seen, cable has played an instrumental part in bringing competition to the television delivery business and now to the broadband Internet business as well as the facilities-based telephone business. Cable competes, primarily, with broadcasters and satellite companies in video delivery and with the telephone company in data and telephone delivery. We should note here, of course, that telephone companies, because of the competition that cable has introduced, are now spending billions of dollars to upgrade their systems, and are starting to offer video as well.

But let's take a look at these companies. Latest cable industry statistics show that the total estimated revenue for all cable systems in 2006 was $72.9 billion. That's pretty good. We're not complaining, and we're not saying the cable industry is "small." But who is the cable industry competing with? Well, if you look at broadcast industry statistics, you will find that even though, as was noted above, more folks are watching cable programming today than broadcast programming, advertising dollars are still tilted very heavily in favor of the broadcasters. It's changing, but slowly. This past year while cable advertising garnered $23.7 billion, broadcasters raked in almost twice as much, $44.7 billion. They are very potent competitors.

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And the telephone industry is even more impressive. Total revenue in 2006, not including their income from wireless services, was $147.3 billion… twice as big as the cable industry. If you include their wireless income as well, they show pro forma revenue in 2006 of $219.3 billion! This is three times the size of the "new" cable competitor in the battle to sign up telephone customers. Anyone who suggests cable is not in an "up-hill" fight with very large competitors simply hasn't looked at the numbers.

2006
Telephone Industry Revenue =
219.3 Billion dollars
Cable System Revenue =
72.9 Billion dollars

Competition Has Created A "Bases-Loaded/Triple Play"

Does cable have "competition?" The definition, again, is ***"…a rivalry between two or more businesses striving for the same customer or market."*** In the battle to deliver video to the home; between the cable industry, broadcast industry and DBS companies, there can be no question; competition is fierce. In the delivery of broadband high-speed Internet access, it's clear that cable actually spurred that competition. Now cable and telephone companies are battling for an increasingly equal share of the market while new competitors, such as municipal power and city-wide wireless operators, enter the fray as well.

In the competition to deliver wire line facilities-based telephone service to the home, the cable industry has finally introduced the first true competition to the telephone company in more than 100 years.

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Has competition worked for the consumer? The answer is an unequivocal yes. The bases are loaded. Everyone is competing, and the consumer is the ultimate beneficiary of the "triple play." That's what both the cable and

In 1996 consumers paid, on average, $129.38 for a combination of services including local phone service.

telephone industries are now trying to offer to their customers, a packaged combination of video, voice and data service all over one wire. The ability to offer all three services via one super-efficient digital technology allows companies to offer substantial savings for "bundled" services. To give you some idea, in 1996 consumers paid, on average, $129.38 for a combination of services including local phone service, long distance with per-minute charges, dial-up Internet access at 28 Kbps, and 46 channels of video. Compare that to today's $99 "bundle" offered by many cable operators of unlimited local and long distance phone service, High Speed Internet at 5+Mbps and more than 75 channels of video, and you can easily see that the consumer is the winner in this competition.

So How are The Facts Communicated?

The purpose of these *ACCbriefs* is to take an in-depth look at a single issue affecting the cable television industry. The history, the impact, the facts and figures are the best ways to communicate how cable views an issue. In this case the issue is a simple one: what is the state of competition in the services cable television operators offer to the public?

As anyone reading through this brief can see, there is plenty of competition and there always has been. The cable television industry, in fact, has introduced that competition in most cases.

But that is not the popular perception. Since for a long time there was only one "cable" provider in most communities, cable has long been "popularly" labeled a "monopoly." Over the decades that label has stuck even though the "market" cable is competing in has always been dynamic. So how does the industry communicate to our customers, local opinion leaders, officials, and the press to understand the competitive reality the cable industry faces every day? There really is only one way: keep talking about it.

It's not easy. This is not like a "campaign" where there is a specific message that can be distributed through the normal marketing and public relations channels. Instead, it is a challenge that can only be met by constantly communicating what is going on in our business, the voice, video and high-speed Internet delivery business.

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This *ACCbrief* includes the most recent numbers on the state of competition in the multichannel video marketplace. It is important to stay briefed on current statistics, especially when discussing this

> **There is lots of competition in our business, we have responded, and the consumer wins.**

issue with opinion leaders on a local, regional or national level. The best way to do that is to refer to the NCTA Web site, www.ncta.com, that maintains the industry overview statistics on a current basis. The Web site also has specific materials on the state of competition. It's worthwhile to refer anyone who is interested about the state of cable competition to this site.

Communicating about competition should be a daily exercise, and like most exercise it becomes easier the more you do it. In this case there is lots of help. It's hard to miss the newspaper ads of our competitors in the video, voice and high-speed Internet delivery business. It is almost impossible to avoid some of the automated phone calls made by some satellite promoters. And if they haven't been to your community yet, it is likely that you will soon be visited by a telephone company campaign either to attain a local franchise to compete with the cable company or announce they are coming pursuant to a recently-issued state franchise.

It's hard to miss the competition. Of course we are in the business, and we notice it all around us, but don't be fooled, your local opinion leaders, reporters, officials, etc., also see those ads, get those calls during dinner, and read about all the "new" competition coming. So the best way to keep people informed of the benefits cable has brought – by introducing competition to the few major broadcast networks and local stations, to the Internet delivery business and now voice telephone – is to keep them up-to-date on the latest competitive responses: the triple play packages and how those prices compare with costs in the past, the service improvements, the speed increases, and so on.

Competition never ends, and the job of communicating about that competition for the cable industry is on going. The good news is that more and more folks are becoming aware that they have alternatives for viewing television or getting high-speed Internet or telephone service. It's our job to simply "connect the dots" between that knowledge and the fact that there is lots of competition in our business, we have responded, and the consumer wins because of that.

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