

Comcast Corporation: Will the Future be Comcastic?

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Comcast Corporation experienced a great deal of success throughout its history. The organization based its core business on fiber optic cable and in 2010 began to face an uncertain future due to advancements in satellite technology and due to the way consumers were accessing bandwidth in order to satisfy their cable and Internet requirements. The case provides financial information and other key information on Comcast and on its competitors. The organization had a strategy that provided a competitive advantage in the past, but as technology advanced, so did the requirements of the customers. In this case, Comcast's CEO needed to determine whether the existing strategy was still the best way to go, or whether, the organization needed to adopt alternative strategies. This case can be utilized as a tool to examine the industry and general environment. In addition, it can be utilized as a tool for students to examine an organization's core competencies to determine how it may come up with a strategy to achieve a sustainable competitive advantage. The case also identifies mergers and acquisitions that are taking place in the industry and would be a valuable tool in the discussion of Corporate Level Strategy.

INTRODUCTION

Brian L. Roberts, Chairman and CEO of Comcast Corporation, faced many tough reviews from critics during his 20 years as President, but was he “really out of touch” with the company’s poor image and uncertain future? Brian Roberts grew up in wealth as the son of Comcast’s co-founder, Ralph Roberts. Brian Roberts was the only one of his siblings to show any interest in the family business and began working at Comcast when he was 13 years old. In his teenage years, he showed great executive potential when he discovered an error in the company’s annual financial statements (Berr, 2009). With his family heritage, his dedication to the family business, and his keen business sense, it was no surprise when Brian Roberts became President of Comcast at the young age of 31 (Comcast, n.d.a).

In 2010, at the age of 51, Brian Roberts was an approachable executive, often seen walking the Comcast offices and chatting with staff. In addition to being amicable, Roberts was not afraid of taking risks in order to grow and expand the company. One of his more

daring moves was the 2003 AT&T merger, which propelled Comcast to the top of the cable TV industry as the world's largest cable provider. The 2009 pending NBC union was another bold move that had the potential to further solidify Comcast's market position (Berr, 2009). Despite years of success through profitable mergers and acquisitions, changes in consumer trends that were leading the industry away from traditional fiber optic cable toward wireless access were challenging Comcast leaders.

While fiber optic cables had been installed in most major communities, many homes and rural areas still used outdated coaxial cable. The frequent technological innovations in the cable TV industry has led to consumers demanding more features, such as high definition (HD), 3D, and Internet access. (*See Table 1 in the Appendix for a glossary of terms.*) These features required bandwidth that coaxial cable was not able to deliver; however, competitors that used satellite or Internet technology had the ability to provide these features with little difficulty. Would consumers continue to utilize cable in the same manner, or would consumers cancel their cable subscriptions to watch their favorite shows via the computer?

In addition to changing consumer trends, Comcast had recently ranked third on MSN Money's Hall of Shame list for its customer service, a definite troubling recognition for a company that sought to distinguish itself within the cable TV industry (MSN, 2007). After years of growth, Comcast executives were now left wondering if the company could keep up with the changing cable environment.

CURRENT TECHNOLOGY

In order to remain viable, the future direction of cable television had to address cost containment and flexible programming delivery methods. Throughout its history, technology in the cable TV industry had continuously evolved – from aged technology such as analog to digital transmission. With the benefits of sharper images through digital transmission and better programming, cable companies were able to justify increasing customers' subscriptions costs. Succeeding in the cable TV industry required a careful balance of knowing customers' price elasticity and demand while providing quality service through enhanced technologies. One of Comcast's core competencies was the fact that it had the ability to bundle services, which helped it to leverage economies of scale, contributing to its overall profitability.

The cable TV industry was considered to be in the mature life cycle with individual company growth and sustainability historically coming from mergers and acquisitions. Many of these acquisitions helped cable companies not only in terms of additional market share, but also in expanding technological capabilities. However, wireless competition is expected to quadruple by year 2015 (Amobi & Kolb, 2010; Cable/Competition, 2007; Pay Television, 2007). In order to succeed, cable providers have to pioneer the use of

existing technology while striving toward technological innovation in order to boost market share in a mature and saturated market.

Technology in the cable TV industry was a major source of both competition and innovation. In order to survive, companies within the industry that offered Internet, cable, and phone services needed to find a way of leveraging economies of scale in order to successfully compete against rivals. However, in addition to containing costs, industry players had to also continually advance and adapt the technology used to bring services to customers in order to remain competitive. One example of competition fueling technological innovation in this industry was when direct broadcast satellite (DBS) operators adopted MPEG-2, an enhanced image compression and channel delivery method, so they could compete favorably with cable companies. In order to have a competitive advantage, cable companies moved toward a new technology and sought to “steal market share from the DBS industry by offering high definition television (HDTV), video on demand (VoD), and digital video recorders (DVR) (Business & Company, n.d.). (*See Table 1 for more definitions.*) The DBS industry responded to this innovation by expanding into HDTV services; therefore, the competitive cycle continued.

Cable providers sought to provide consumers with fast access to Internet and high quality images through cost-efficient technologies. To meet these objectives, this industry had seen a fair share of system upgrades using digital compression and fiber optic cable (Business & Company, n.d.). Digital compression provided the most propitious technological advances for cable companies as this technology enabled providers to satisfy consumer needs through a wider array of video programming channels while still providing high quality image resolution. Through the use of compression, analog signals were converted to digital signals. Consequently, 10 channels could now be transmitted along a coaxial cable channel that previously was only able to transmit a single uncompressed channel. In addition, this compression allowed cable organizations to offer more than 5,500 channels (Business & Company, n.d.).

A challenge in the cable TV industry was that many homes were laid with coaxial cable, which used radio waves to transmit channels. Coaxial cable had limitations in bandwidth and transmission speed which often led to image distortion when the signals were transmitted over longer distances. Technologically speaking, fiber optic cable was considered a better choice than coaxial cable as it could “carry more than 500,000 channels compared with about 5,500 channels for standard coaxial cable” (O’Brien & Marakas, 2008, p.216). However, because many households were already laid with coaxial cable, adoption of fiber optic solutions was seen as cost prohibitive despite their technological superiority.

Cable providers had to carefully balance technological advances with consumer demands and financial restraints. To remain relevant, cable providers continually evalu-

ated the costs of implementing fiber optics while also considering how best to satisfy consumer needs through bundled services. For companies that have transitioned to fiber optic cable solutions, it was costly – for the industry, costs doubled from between “\$500,000 to \$1 million per mile” (O’Brien & Marakas, 2008, p.217). Cable providers were often forced to choose between using existing economical coaxial cable lines and implementing fiber optics at a much higher cost. Sometimes technology providers tried to circumvent the fiber optic and coaxial cable incompatibility by using a satellite to bypass the existing coaxial cables in households or used a converter/modem. The inability for coaxial cable bandwidth to compatibly handle the high-speed transmissions of the fiber optic cable technology was known as the classic “last mile” problem in the telecommunication industry.

The issue of the “last mile” created a significant cost burden for telecommunication firms. Often cable TV operators had no choice but to pass the increase in costs to their customers through higher fees. In an attempt to remedy the “last mile” problem, cable providers began exploring the possibility of using a next generation technology, WiMax (Worldwide Interoperability for Microwave Access) (O’Brien & Marakas, 2008). WiMax technology was compatible with the technology supporting triple-play service offerings and could provide high-speed Internet services as well as voice over Internet protocol (VoIP). Because it was able to connect faster transmission speed to a slower coaxial cable, WiMax was thought of as a possible solution to the “last mile” problem. (See Table 1 for more definitions.)

As of July 2009, Comcast had already begun re-selling WiMax technology in certain markets and Time Warner Cable was newly committed to begin offering a 4G network using Clearwire’s WiMax Network (Reardon, 2009). These cable giants were not alone; it appeared that DISH Network and DirecTV were also exploring the use of WiMax technology. According to a 2006 Forbes article, DirecTV and DISH Network were considering collaborating as well in order to also offer a wireless, broadband network, such as WiMax, to their satellite customers (Kraeuter, 2006).

WIMAX TECHNOLOGY

Cable companies were now faced with deciding whether investing in WiMax technology should be the next big plunge for the industry. Some companies, such as Sprint, were already seeking partnerships with cable companies in order to implement WiMax technology. Creating partnerships with large wireless telephone companies (telcos) was seen as mutually beneficial because companies like Sprint needed the infrastructure and fixed connections already laid by existing cable companies in order to offer WiMax capabilities, and cable companies like Comcast would benefit from WiMax’s resolution of the “last mile” problem. Some analysts predicted that for a single cable company, such as Comcast, to convert to wireless technology would cost upward of \$10 billion.

Sprint's CEO predicted that its WiMax rollout would cost anywhere from \$1 billion to \$5 billion and was actively seeking to split the cost with a cable company willing to partner (Hamblen, 2008).

Some potential disadvantages to implementing WiMax technology included costs of implementation and support and some basic technological inabilities. For example, weather and rain could interfere with service when using WiMax technology. Further, a line of site was required for connections greater than five miles and the data rates decreased as more distance was added. Finally, since multiple frequencies were used to deploy WiMax, other wireless equipment within the same household could potentially interfere with WiMax's service (Fitzgerald, 2006). There was no doubt that the WiMax market was growing internationally; however, it remained to be seen if the cable companies could afford to invest in this new technology.

CURRENT ENVIRONMENT

The cable TV industry had gone through many changes in the last 60 years and had been able to respond successfully to changes in the industry and external environment. The industry had navigated through frequent government regulation updates, technological advances, and increased satellite and telcos competition. However, the industry faced perhaps its largest two challenges in 2009 and 2010: the economic downturn and market saturation (Zwolak, 2010).

First, the cable TV industry was highly competitive and faced uncertainties due to the economic downturn. Across the industry, overall basic cable subscriptions were declining and giving way to improved digital services and cheaper bundled services. The demand in the cable TV industry was very elastic and fluctuated with the economy. With unemployment on the rise, the industry faced uncertainty as subscribers chose to either discontinue services or opted for cheaper service packages (Zwolak, 2010). According to IBISWorld Industry Reports, "industry profit margins [were] expected to fall due to the deepening economic recession during 2009, existing high household penetration rate, increasing costs and internal price based competition" (Zwolak, 2010, p.31).

Second, competition in the industry was fierce and multi-faceted. Buyers of these services were extremely price-sensitive, had high service demands, and had low switching costs, making price-based competition the norm. Additionally, the industry faced challenges from the satellite TV industry segment. From June 1999 to June 2001, the number of satellite subscribers climbed from 10 million subscribers to 16 million and it was expected to nearly triple by the end of 2009 (Zwolak, 2010). Aside from competition, the industry's growth had significant barriers stemming from high levels of penetration in existing basic cable service and the continual decline in subscribers in this segment (Zwolak, 2010).

In addition to competition and market saturation challenges, many of the companies in the industry, including Comcast, were facing liquidity issues after years of expensive merger and acquisition strategies and were being forced to reorganize in order to better combat the challenging financial environment. According to Standard & Poor's industry analysts, "with private equity still on the sidelines, we expect[ed] companies with relatively healthy balance sheets to drive an increase in the pace of strategic M&A (merger & acquisition) activity" (Amobi, 2010).

In late 2009, Comcast Corporation offered to purchase 51% of GE's NBC Universal. This deal, if approved by federal regulators, would have made Comcast a majority owner in the joint venture, and would have provided Comcast with access to a portfolio that included over \$50 billion in revenues. The pending contract would have allowed Comcast access to NBC Universal's television network, Spanish-language broadcaster (Telemundo), Universal Studios, and upwards of 20 other cable channels. In addition to the cable channels and broadcasters, Universal Films was also included in the deal; this would have provided Universal better distribution of its movies and allowed Comcast better programming through its cable and VoD services (Cella, 2010a). Therefore, if approved by federal regulators, the new joint-company would have had strength in both broadcast and cable TV and would have an approximate 20% share of the total domestic viewership (Zwolak, 2010).

CABLE TV INDUSTRY COMPETITION

In 2010, the cable TV industry was highly competitive. Because of the high investment in physical capital and heavy government regulations, entrance of new firms into the market was infrequent. There were over 2,845 multichannel video program distributors (MVPD) in the US, which provided service to over 99.5 million basic video customers. As presented by Table 2 in the Appendix, the top four firms, Comcast, DirecTV, DISH, and Time Warner Cable, controlled nearly 70% of the cable TV industry's total market share (Amobi & Kolb, 2010; Zwolak, 2010).

Due to the increase in household saturation, competition between the top ten distributors was intensifying. Consequently, these companies were battling for subscribers and market share through product and price differentiation. In 2008, cable providers accounted for 66% of the nation's pay TV industry, while DBS and telcos' market shares accounted for 32% and 2%, respectively. The largest DBS provider—DirecTV—had become a major competitor for Comcast, capturing 18% of the total industry market. However, Comcast still remained the nation's top cable TV industry leader, holding 24% of the market share (Amobi & Kolb, 2010).

The average cable TV provider in 2010 could offer more than 500 cable channels, high-speed Internet access, telephone services, HDTV, VoD, DVR, and pay-per-view (PPV)

capabilities. On average, customers saved money when they bundled services with one provider. The bundling of video, data, and voice services was called “triple-play,” and had become one of the major trends affecting the cable TV industry (Amobi & Kolb, 2010). (See Table 1 for more definitions.)

Comcast’s corporate strategy of bundling services and its ability to offer various VoD services gave the company a competitive advantage over satellite providers, like DirecTV and DISH, who had yet to launch VoD services. In order to appeal to America’s fast-paced lifestyle, Comcast was developing services to offer a new wireless system, called WiMax, which would support PPV, VoD, HDTV, and higher data transmission speeds such as 4G (Amobi & Kolb, 2010). Expanding into the wireless market represented a major growth opportunity for Comcast.

TOP COMPETITORS

As mentioned earlier, competition in the cable TV industry was fierce, with the top ten companies holding about 90% of the total US cable TV market. Table 2 in the Appendix shows the market share for the top ten US operators as of September 2009. As can be seen from Table 2, two wired cable operators (Comcast Corporation and Time Warner Cable) and two DBS operators (DirecTV and DISH Network) dominated the cable TV service distribution market.

DIRECTV

In 2010, DirecTV had 17 million customers in the US and an additional 5 million customers in Latin America; operating America’s largest DBS service company. In addition to satellite service, DirecTV also offered services such as HDTV and VoD programming. DirecTV had a broad programming base comprised of nearly 2,000 digital video and audio channels coupled with a distinct advantage in that it was the only cable broadcaster authorized to sell NFL Sunday Ticket, which allowed viewers access to Sunday Professional Football (Cella, 2010b).

Like others in the cable TV industry, DirecTV also had a rich history of mergers and acquisitions that fueled gains in services offered and market share. In 1999, DirecTV purchased United States Satellite Broadcasting and its competitor, Primestar. In 2001, DirecTV expanded its services by purchasing Telocity (an organization that used DSL technology) and later renamed this division as DirecTV Broadband (Cella, 2010b). Most recently, in 2009, DirecTV added three networks to its offerings due to a merger with Liberty Media’s Liberty Entertainment business, Liberty Stars. Liberty Media owned 53% of DirecTV’s shares, but was a minority voting partner, with only 48% voting rights. Also in 2009, DirecTV announced a partnership with AT&T that facilitated the bundling of DirecTV video programming with broadband Internet and digital telephone technologies (Cella, 2010b).

DISH NETWORK CORPORATION

In 2010, DISH Network had over 13 million subscribers, including individual home viewers and hospitality and retail business customers. DISH was second to DirecTV in its DBS TV service, but had also formed strategic partnerships with voice and data communications providers in order to bundle its services. Further, DISH sought to capitalize on local markets and to stamp out regional competition by offering local channel service to all of its markets in the US. DISH Network's programming base rivaled DirecTV with over 2,700 digital video and audio channels, but it also had the ability to offer satellite services to its customers through its 14 leased or owned satellites (Shafer, 2010).

DISH Network had not experienced as much merger and acquisition activity as others in the industry, but remained competitive by expanding its service offerings. By 2010, DISH Network services included PPV content and local and HDTV channels in addition to Sirius Satellite music channels. Additionally, DISH had newly purchased wireless spectrum licenses that would enable it to offer higher bandwidth HDTV programming in the future (Shafer, 2010). Recently, however, DISH Network had been the victim of an expiring distribution agreement with AT&T. "A distribution agreement with AT&T had been responsible for about 17% of DISH Network's annual gross subscriber additions, but the deal expired in January 2009, at which point AT&T entered a new deal with chief rival DirecTV" (Shafer, 2010, para.4).

TIME WARNER CABLE, INC.

In 2010, Time Warner Cable (TWC) was the second largest wired cable TV operator in the US, behind Comcast. TWC was responsible for providing cable services to more than 30 states and nearly 13 million basic subscribers. In addition to basic television customers, TWC had 8 million digital video, 8 million Road Runner Internet, and 4 million digital phone customers (Cella, 2010c). Similar to other cable TV operators, TWC purchased cable systems throughout the US to increase its market share (Cable, 2008). For instance, in 2006, alongside Comcast, TWC invested \$8.9 billion to purchase all the assets of bankrupt Adelphia Communications. This strategic acquisition increased TWC's basic subscriber base by 3.8 million customers and secured TWC a stronger position in the marketplace. In 2007, the company continued its domestic cable service expansion by purchasing Texas and Kansas City Cable Partners LP, gaining 788 thousand additional basic subscribers (Zwolak, 2010).

Until 2009, Time Warner Inc. owned 84% of TWC. However, in an effort to legally and structurally separate itself from the cable TV industry, the conglomerate Time Warner Inc. "spun off the cable division to its shareholders" (Cella, 2010c, para.2). The separation from Time Warner Inc. was beneficial to Time Warner Cable's profitability. As a separate entity, TWC had more freedom to participate in future cable mergers; the Federal Communications Commission (FCC) had previously restricted merger activity

for the giant Time Warner Inc. Interestingly, one of Time Warner Inc.'s chief competitors was NBC Universal, which was in the midst of merger conversations with TWC's rival, Comcast Corporation (Bromhall, 2010).

COMCAST CORPORATION'S HISTORY

In 1963, with the acquisition of a community antenna television system in Tupelo, Mississippi, Ralph Roberts (the father of Comcast's current CEO Brian Roberts), together with partners—Daniel Aaron and Julian Brodsky—founded American Cable Systems (Comcast, n.d.b). In 1969, American Cable Systems underwent a name change and became Comcast Corporation. The name Comcast was meant to convey the founders' hope and technological vision for the company - "communication and broadcast" (Comcast, n.d.b, p.5; Comcast, 2009). In late 1972, Comcast moved its corporate headquarters to Philadelphia and offered its initial public stock offering (IPO) on the NASDAQ stock market with ticker symbol CMCSA (Comcast, n.d.b; Comcast, 2009). Comcast stock traded under two tickers: CMCSA and CMCSK, with voting rights being the difference between the two stocks (Comcast, 2010b).

The IPO fueled Comcast's growth, allowing the company to double its size over the next fourteen years. By 1986, with the purchase of 26% of Group W. Cable, Comcast boasted 1.2 million subscribers (Comcast, 2009). From 1986 through 1996, Comcast fueled its growth largely through mergers and acquisitions with big names such as Storer Communications, Maclean Hunger and E.W. Scripps (Comcast, n.d.b). In addition to gaining service area, Comcast expansions helped the company parlay into other service offerings such as cellular telecommunications and broadband networks. In 1988, Comcast was the fifth largest cable operator in the US and with the purchase of American Cellular Network was positioned to expand its future services to include cellular telecommunications.

Despite impressive growth in terms of market share and product offerings, Comcast's market dominance was largely curtailed until the Telecommunications Act of 1996, which was drafted by the FCC to promote competition and technological advances among cable operators (Amobi & Kolb, 2010). Prior to this Act, the federal government did not allow cable TV operators to provide cable and telephone services to the same customers thereby limiting providers' revenue growth and products. With the Telecommunications Act of 1996, Comcast strategically invested into fiber optic and wireless phone technology, and went on to attract a \$1 billion investment from Microsoft (Comcast, n.d.b). Because of Microsoft's involvement, in 1996, Comcast was the first in the industry to offer a high-speed, cable modem broadband service, called Comcast@Home, in select markets (Comcast, 2009).

During the 2000s, Comcast continued to experience growth through diversification of

new service offerings and strategic mergers and acquisitions. In 2001, Comcast was, once again, the first in the industry to introduce HDTV and VoD cable TV products and services. By 2004, the company added high-speed Internet and digital telephone offerings to its menu of services. Over the next several years, Comcast also entered into numerous partnerships and programming and distribution arrangements with companies like ABC News, Walt Disney, Sony Pictures Entertainment, and T-Mobile (Comcast, n.d.a).

Because of strong alliances and strategic expansion, in 2010 Comcast was the largest cable TV provider in the US, offering services to subscribers in 39 states. Comcast's US geographical coverage in 2010 included 19 of the top 25 US TV markets, which have at least 200,000 customers each (Cohn, 2009). Comcast had roughly 23.9 million, 15.3 million and 7.0 millions high-speed, Internet and phone clients, respectively (Van Liew, 2010a). Since its inception in 1963, Comcast Corporation had expanded services into two major divisions: cable and programming. Nearly 96% of Comcast's total revenues came from cable subscriptions, including access to multiple regional sports networks. In addition to cable services, Comcast also had interests in national programming, such as VERSUS, The Golf Channel, Style Network and E!. By 2009, Comcast had captured over 24% of the industry's subscriber market share (Amobi & Kolb, 2010; Zwolak, 2010).

FINANCIAL STATEMENTS

Due to its leading market position and strong vertical integration, Comcast was still enjoying above-average revenue growth even during the economic downturn of 2009 and 2010. An inspection of Comcast's 2009 income statement, found in Table 3, reveals that annual sales increased by 61% since 2005. The company attributed this significant jump in revenues to the Adelphia/Time Warner deal from July 2006. This arrangement improved Comcast's subscriber base by two million viewers (Comcast, 2009). In general, Comcast's total sales increased from nearly \$4.913 million in 1997 to \$35.756 billion in 2009 (Amobi & Kolb, 2010; Standard & Poor's, 2010).

In 2009, Comcast reduced its operating and capital expenditures, resulting in a 20.8% addition to its free cash flow from 2008 to 2009. Free cash flow represents the amount of cash a company can generate after paying for capital expenditures (Amobi & Kolb, 2010). Having positive free cash flow often leads to greater investment opportunities and favorable financial performance. Indeed, the increase in free cash flow positioned Comcast to benefit from future investment opportunities, such as the pending NBC merger. Also, to continue with its strategic acquisitions and benefit from the current low interest rates, Comcast's management restructured the company's debt obligations. In 2008, the corporation amended its revolving bank credit facility loan from \$5.0 billion to \$6.8 billion, lowered the interest rate, and extended the payoff date from 2010 to 2013 (Comcast, 2009). Table 4 in the Appendix provides Comcast's balance sheet data for the past five years. Furthermore, Tables 5 and 6 in the Appendix show Comcast's financial

position for 2009 as compared to its three main rivals: DirecTV, TWC, and DISH.

STOCK PERFORMANCE

Overall, Comcast's share-price appreciated over time. As can be observed from Table 7, the company's earnings per share (EPS) have more than tripled since 2005, reaching \$1.26 in 2009. Comcast's EPS were expected to further increase because of the company's decision to buy back stock and initiate a quarterly dividend payment to its shareholders (Comcast, 2009). Table 7 shows that Comcast's estimated EPS were expected to reach \$1.80 by year 2015.

However, as presented by Table 7, TWC's investors have enjoyed the most EPS out of the four leading cable provider firms. Most recently valued at \$3.05 in 2009, TWC's earnings per share were expected to reach \$5.25 by year 2015 (Van Liew, 2010c). Comcast and DirecTV's EPS were showing slow positive growth, despite the harsh economic conditions. DISH Network struggled with subscriber retention, but analysts expected the company to recover by year 2012. Therefore, analysts predicted DISH Network's future EPS would significantly outperform other companies in the cable TV industry, including Comcast (Burke, 2010).

INDUSTRY SPECIFIC MEASURES

Revenue-generating units (RGUs) are an important measure for cable operators because cable revenues are directly related to subscription figures (Amobi & Kolb, 2010). RGUs are calculated by adding the voice, data and video subscribers. Therefore, a single subscriber could be counted as three RGUs if that subscriber holds three different service subscriptions. Table 8 in the Appendix lists Comcast's RGU data from 2005 to 2009. Because the cable TV industry's competition was intense and because the number of substitute products (such as free video downloads from iTunes and Hulu and mail-subscriptions like Netflix) were increasing, Comcast had been working diligently on ramping up its subscriber base through product differentiation. For example, Comcast led the industry in 3D VoD in HDTV offerings (Comcast, 2010a; Patterson, 2010). By 2009, Comcast reported a cumulative increase of 43.1% in its RGUs since 2005. Table 9 further illustrates Comcast's industry specific measures for 2008 and 2009 as compared to DirecTV, TWC, and DISH.

As presented by Table 9, Comcast reported a 4.7% increase in video, data, and voice service RGUs in 2009 as compared to 2008 (Comcast, 2010b). However, the sluggish economy has had a negative impact on industry growth for the last couple of years. As shown in Table 9, wired cable TV providers, such as Comcast and Time Warner Cable, were affected more harshly in terms of RGU annual growth than their DBS counterparts, DirecTV and DISH. When DISH experienced a loss in customers due to negative public-

ity stemming from patent-infringement litigation brought on by TiVo, it demonstrated strength in its ability to reel back some customers and achieve a 3.1% RGU growth over 2008 (Burke, 2010). Comcast's RGU growth for 2009, although diminished from 2008, was still higher than DISH and TWC's annual RGU growth rates.

Average revenue per user (ARPU) is also an important measure by which a cable provider analyzes its average pricing. Essentially, higher ARPU translates to higher revenues. Table 9 shows that Comcast and TWC received higher ARPU rates as compared to DirecTV and DISH. Because wired cable operators benefited from bundled services, they usually received higher ARPU rates than satellite operators; this is evident by looking at Table 9 (Amobi & Kolb, 2010). In 2009, Comcast had the highest ARPU vis-à-vis its main competitors, reported at \$118.00. On the other hand, DISH was the cheapest provider of the group, receiving nearly 41% less in revenues per user. Although a higher ARPU is desirable, Comcast's future pricing power will be greatly limited if the competition is able to offer the same products and services at a cheaper price.

PROGRAMMING COSTS

The top two major costs for cable operators included program purchases and depreciation expenses related to programming and infrastructure. In 2009, these two major costs resulted in 56% of total annual expenditures (Zwolak, 2010). Of the two costs, more than 26% was spent on purchasing programs (Zwolak, 2010). Since cable operators purchased programming from cable networks and then delivered those programs to consumers, many cable operators did not have much bargaining power with their suppliers. However, cable operators who were vertically integrated and also owned cable networks were able to exhibit more bargaining power than non-integrated providers of pay television services.

In general, cable program costs have increased over time for all providers because many cable networks charged fixed contract costs as well as variable fees depending on the number of subscribers (Zwolak, 2010). Although bigger companies experienced economies of scale on fixed costs, their variable costs still increased as they acquired additional subscribers. Also, because of increased competition, cable TV operators strived to offer a greater number of channels to their customers.

As cable providers acquired additional channels, companies' programming costs also increased due to the fixed cost component. According to the National Cable & Telecommunications Association (NCTA), original and purchased programming costs for cable networks have increased an average of 23% a year between the years of 1997 and 2002 (Cable Pricing, 2003). Offering attractive programming to consumers cost \$9.17 billion in 2002, representing a 115% cost increase since 1996 (Cable Pricing, 2003). To combat these rising costs, cable TV operators were (and continue to be) forced to increase their

prices to customers. Increasing programming costs posed a significant threat to cable operators' ability to grow and remain relevant. The Comcast-NBC merger, if approved by the FCC, would produce a vertically integrated giant that would force rivals to "put money in the pocket of a competitor" (Raabe, 2009, para.3; Zwolak, 2010).

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TABLE 1
Glossary of Terms

Term	Definition
3D	Three dimensions (width, length, and depth)
4G	Fourth generation of cellular wireless standards
ARPU	Average revenue per user
Bandwidth	The total capacity of a transmission system to carry signals, most often measured in bits per second (bps) for digital lines.
Broadband	Wired or wireless high-speed Internet access, able to carry multiple signals simultaneously.
Coaxial cable	Copper cable that is run by cable TV companies between a community antenna and subscribers' homes and businesses.
DBS	Direct broadcast satellite
DVR	Digital video recorders
EPS	Earnings per share
FCC	Federal Communications Commission
Fiber optic cable	A transmission system using very thin glass fibers to send out light waves, able to carry more signals than coaxial cables.
Free cash flow	Is calculated by subtracting capital expenditures from operating cash flow.
HDTV	High-definition television
IPO	Initial public offering
MPEG-2	An enhanced image compression and channel delivery method.
MVPD	Multichannel video programming distributors (cable & satellite)
PPV	Pay-per-view
RGU	Revenue-generating units
Telco	Large wireless telephone company
Triple-play	Bundling of video, data, and voice services
VoD	Video on demand
VoIP	Voice over Internet protocol
WiMax	Worldwide Interoperability for Microwave Access

Note. Sources: (Business & Company, n.d.; O'Brien & Marakas, 2008; Reardon, 2009; Standard & Poor's, 2010).

TABLE 2
Leading US Cable TV Providers as of September 2009

Top 10 US MVPD Service Providers as of September, 2009	Number of Basic Subscribers	Market Share
1. Comcast Corporation	23,759,000	
2. DirecTV	18,441,000	
3. DISH Network Corporation	13,851,000	
4. Time Warner Cable, Inc.	12,964,000	69.36%
5. Cox Communications, Inc.	5,247,000	
6. Charter Communications, Inc.	4,879,000	
7. Cablevision Systems Corporation	3,066,000	
8. Verizon Communications, Inc.	2,708,000	
9. Bright House Networks LLC	2,283,000	
10. AT&T, Inc.	1,817,000	

Note. Source: (NCTA, 2010).

TABLE 3

Comcast Corporation's Annual Income Statement (2005 – 2009)
 (\$Millions, except per share)

	Dec 09	Dec 08	Dec 07	Dec 06	Dec 05
Sales	35,756	34,256	30,895	24,966	22,555
Cost of Goods Sold	15,413	14,415	12,276	10,005	9,142
Gross Profit	20,343	19,841	18,619	14,961	13,113
Selling, General & Admin	7,646	7,487	7,894	6,514	5,793
Depreciation, Depletion & Amortization	5,483	5,457	5,107	3,828	3,630
Operating Profit	7,214	6,897	5,618	4,619	3,690
Interest Expense	2,168	2,439	2,289	2,064	1,796
Non-Operating Income/Expense	240	130	560	393	159
Special Items	-180	-530	460	646	-173
Pretax Income	5,106	4,058	4,349	3,594	1,880
Total Income Taxes	1,478	1,533	1,800	1,347	933
Minority Interest	10	-22	-38	12	19
Adjusted Net Income	3,638	2,547	2,587	2,533	928
Earnings per share	1.26	.87	.84	.80	.28
Earnings per share-diluted	1.26	.86	.83	.79	.28
Dividends per share	0.265	0.188	0	0	0

Note. Source: (Comcast, n.d.b; Standard & Poor's, 2010).

TABLE 4

Comcast Corporation's Annual Balance Sheet (2005 – 2009)
(\$ Million)

	Dec09	Dec08	Dec07	Dec06	Dec05
ASSETS					
Cash	721	1,254	1,061	2,974	841
Inventories	0	0	0	0	0
Receivables	1,711	1,626	1,645	1,450	1,060
Other	791	836	961	778	693
Total current	3,223	3,716	3,667	5,202	2,594
TOTAL ASSETS	112,733	113,017	113,417	110,405	103,146
LIABILITIES					
Total Current Liabilities	7,249	8,939	7,952	7,440	6,269
TOTAL LIABILITIES	70,012	72,567	72,077	69,238	62,927
TOTAL EQUITY	42,721	40,450	41,340	41,167	40,219
LIABILITIES & EQUITY	112,733	113,017	113,417	110,405	103,146

Note. Source: (Comcast, n.d.b; Standard & Poor's, 2010).

TABLE 5

Top Four Firms' Comparative Balance Sheet Data for Year 2009
 (\$Million)

	COMCAST	DIRECTV	TIME WARNER	DISH NETWORK
	Dec09	Dec09	Dec09	Dec09
ASSETS				
Cash	721	2,621	1,048	2,139
Inventories	0	212	0	296
Receivables	1,7111	1,625	663	780
Other	791	597	391	261
Total current	3,223	5,055	2,102	3,476
TOTAL ASSETS	112, 773	18,260	43,694	8,295
LIABILITIES				
Total Current Liabilities	7,249	5,701	2,958	3,287
TOTAL LIABILITIES	70,012	15,349	35,009	10,387
TOTAL EQUITY	42,721	2,991	8,685	-2,092
LIABILITIES & EQUITY	112,773	18,260	43,694	8,295

Note. Source: (Standard & Poor's, 2010).

TABLE 6

Top Four Firms' Comparative Income Statement Data for Year 2009
(\$ Million)

	COMCAST	DIRECTV	TIME WARNER	DISH NETWORK
	Dec09	Dec09	Dec09	Dec09
Sales	35,756	21,565	17,868	11,664
Cost of Goods Sold	15,413	10,930	8,855	7,023
Gross Profit	20,343	10,635	9,313	4,641
Selling, General & Admin	7,646	5,322	2,830	1,953
Depreciation, Depletion & Amortization	5,483	2,640	3,085	940
Operating Profit	7,214	2,673	3,398	1,748
Interest Expense	2,168	441	1,311	408
Non-Operating Income/Expense	240	172	-48	34
Special Items	-180	-570	-127	-361
Pretax Income	5,106	1,834	1,912	1,013
Total Income Taxes	1,478	827	820	377
Minority Interest	-10	65	22	0
Adjusted Net Income	3,638	942	1,070	636
Earnings per share	1.26	.96	3.07	1.42
Earnings per share-diluted	1.26	.95	3.05	1.42
Dividends per share	0.265	0	30.81	2.0

Note. Source: (Standard & Poor's, 2010).

TABLE 7

Cable TV Key Players' Earnings per Share Prices (2005-2015)
(in \$ dollars)

	2005	2006	2007	2008	2009	2010 (E)	2011 (E)	2012-2015 (E)
CMCSK	0.33	0.47	0.74	0.91	1.26	1.20	1.35	1.80
DTV	0.24	1.12	1.20	1.36	1.46	2.30	2.80	4.15
DISH	1.74	1.52	1.68	1.98	1.42	1.90	2.15	3.00
TWC	3.45	2.85	3.45	3.75	3.05	3.55	3.95	5.25

Note: E = estimation. Sources: (Burke, 2010; Van Liew, 2010a; Van Liew, 2010b; Van Liew, 2010c).

TABLE 8

Comcast Corporation's Industry Specific Measures Data (2005 – 2009)

	2009	2008	2007	2006	2005
RGUs (in Million units)	65.527	62.588	58.502	50.800	45.800
ARPU (in \$ dollars)	118.00	111.00	102.00	95.00	82.00

Note. Source: (Comcast, 2007; Comcast, 2008; Comcast, 2009; Comcast, 2010b).

TABLE 9

Cable TV Key Competitors' Industry Data (2008 – 2009)

	Comcast Corporation (CMCSK)		DirecTV Group (DTV)		DISH Network (DISH)		Time Warner Cable (TWC)	
<i>Year</i>	2009	2008	2009	2008	2009	2008	2009	2008
RGUs (in Million units)	65.527	62.588	18.560	17.621	14.100	13.678	35.234	34.200
RGU Yearly Growth Rate	4.7%	9.8%	5.3%	5.1%	3.1%	-0.7%	3.0%	6.6%
ARPU (in \$ dollars)	118.00	111.00	85.48	83.90	70.04	69.27	97.83	92.44
ARPU Yearly Growth Rate	6.3%	8.8%	1.9%	6.1%	1.1%	5.2%	5.8%	2.5%

Note. Source: (Comcast, 2010b; DirecTV, 2010; DISH, 2010; TWC, 2010).