

Cable Prices: The *Real* Story

- **Cable has moved from offering a one-way video service to a variety of popular two-way interactive broadband and multichannel video services, and as a result, consumers today are receiving a much better value from their cable subscription than ever before.**
- **With more consumers subscribing to cable's triple play bundle (video, high-speed Internet and digital phone), the actual price for these products often is lower than it was ten years ago, and the services are dramatically better.**
- **The marketplace is working as the vast majority of consumers today have at least three choices for their multichannel video provider, and nearly 32 million consumers now subscribe to a pay TV provider other than cable.**
- **Even when examining video service alone, consumers today pay less for their video service than they did ten years ago, when the real price per viewing hour is considered.**
- **As new entrants in the video marketplace, the telephone companies aren't intending to drive prices lower. In fact, Verizon already has raised prices for its video service by more than 7 percent, and AT&T prices its service above the rates charged by a typical cable system.**
- **The FCC's 2005 Price Survey relies on data that is two years old and doesn't accurately reflect today's dynamic marketplace for multichannel video services.**

While the FCC's release of its January 2005 Cable Price Survey is likely to show that prices for "expanded basic" cable service have increased, cable is no longer a one-way basic video service. Today's cable industry provides robust packages of video, high-speed Internet and voice services and is delivering more value than ever before. As a recent *Wall Street Journal* article (12/7/06) reported, cable rate increases are the smallest in years, and consumers can save money by purchasing bundles of video and non-video services.

CABLE'S BUNDLE OF VIDEO, HIGH-SPEED INTERNET AND VOICE SERVICE COSTS 23 PERCENT LESS THAN IT DID TEN YEARS AGO.

- Cable's triple play – voice, video and high-speed cable modem service – provides customers a *much better buy today* than the options available 10 years ago.
- In 1996, a package of local and long distance service, 46 channels of cable, and incredibly slow 28K Internet access would have cost more than \$102 – or \$129 adjusted for inflation.
- Today, a robust bundle from cable – which includes unlimited long distance phone service, Internet access at speeds of 5-15 Mbps, and more than 75 cable channels – frequently is available in an introductory offer for just \$99.
- That's 23 percent less for a bundle of services that features Internet speeds an incredible 17,000 percent to 50,000 percent *faster* than 10 years ago.

FOR CONSUMERS TAKING THE BUNDLE OF SERVICES, MULTICHANNEL VIDEO PRICES HAVE DECLINED.

- An increasing number of cable customers are experiencing lower prices for multichannel video by purchasing cable's triple play bundle.
- The video component of the typical cable triple play bundle, priced at \$33, is LESS than the nominal rate card price of cable service used by the FCC to measure cable price increases (\$43.33 in the 2005 report).
- By not accounting for the "bundle effect," a savings on the video component of more than \$10, the FCC's 2005 Cable Price Survey grossly overstates even the nominal price increase for cable video service.

CABLE VIEWING IS WAY UP, AND THE REAL COST PER HOUR IS DOWN.

- There's no longer any single way to measure the value of a service such as cable, but one sure test is how much people *use* it – and the viewing of cable networks has climbed over the last 10 years.
- During the current television season, for the first time ever, cable channels combined out-rated broadcast network channels combined, on four out of seven nights of the week.
- The *real* price of a cable subscription, divided by the number of hours used per month, is *less per hour* than it was 10 years ago – about 19.2 cents per viewing hour in 2005 vs. 23.7 cents in 1995, adjusting for inflation.
- Even removing the inflation adjustment, the *actual* price per hour of viewing *has remained essentially flat* over that 10-year period.

- The price of cable on a per-channel basis grew a total of only 10.8 percent from 1995 to 2004, compared to an increase in inflation of 20.4 percent during the same period. Cable prices on a per-channel basis have remained virtually *flat* since 1998.
- While subscribers may be paying more overall for a greatly enlarged and improved multichannel video service, they are getting – and using – much more of the service.

INFLATION ISN'T THE RIGHT MEASURE FOR JUDGING CABLE PRICES.

- Price reflects cost – that's basic economics. And cable's price represents programming costs (such as sports and entertainment salaries) and upgrade costs – costs that rise much faster than inflation every year.
- That's why comparing a dynamic product such as multichannel video to the inflation rate makes little sense. Cable's prices, and the prices set by cable's competitors, all are tied to the cost of developing, creating, and distributing the programs that viewers watch and the costs of delivering that service.
- As in any business, cost increases will inevitably be reflected in the retail price of the product.

PRICE INCREASES FROM CABLE'S COMPETITORS ARE OUTPACING THOSE OF CABLE.

- Direct broadcast satellite (DBS) service – which has captured 30 percent market share in just a decade – faces cost pressures similar to those of cable operators. From 2005 to 2006, DBS's average price to customers rose 8.1 percent, compared to cable's 5.2 percent.
- Likewise, the largest new entrant into the multichannel video business, Verizon, announced in late November 2006 that the price of its "cable" service for new customers, not including equipment costs, was increasing by 7.6 percent from \$39.95 per month to \$42.99 per month.

THE FCC'S 2005 PRICE SURVEY IS OUT OF DATE AND DOESN'T REFLECT THE CURRENT STATE OF COMPETITION OR THE RAPIDLY CHANGING MARKETPLACE.

- The FCC's 2005 price survey took a snapshot of unbundled cable prices from January 1, 2005 – measuring rates from *two years ago* and completely ignoring the significant marketplace developments since then, including the efforts of the telephone companies to begin providing video service.
- During the last two years, cable companies have launched digital phone service, increased the rollout of high-speed Internet access, and launched a wide variety of popular new video services, offering consumers a greater bundle of products at a discounted price.

- Most of the nominal increase in cable prices of the past 10 years, as cited in the FCC report, occurred between 1995 and 2003. Furthermore, calculating cable's multichannel video prices from 1995 to 2005 based instead on the price per viewing hour (PPVH), the increase in the price of cable's multichannel video service was only 3.0 percent for the entire period, whereas the increase in the Consumer Price Index was more than 9 times greater, rising by 26.9 percent over the ten-year period. And, for the period 1997-2005, cable's PPVH *decreased* by 2.4 percent while inflation increased by 19.9 percent.
- The FCC's study doesn't account for the impact of new technology on today's media environment, overlooking innovations such as YouTube, iTunes and other popular broadband video options.
- Reliance on stale data that doesn't include current pricing/packaging information, skews the facts and isn't the basis for sound policy decisions. While the survey indicates that pricing in communities where there is wireline competition was below the rates in areas without wireline competition in 2005, that price differential will have diminished given that the telephone companies sometimes price their entry level service higher than cable's lowest offering (lowest price is \$42.99 for Verizon and \$59 for AT&T's U200 service).

Today, multiple video providers vie for customer loyalty, each trying to provide new innovative products and services while trying to outdo those provided by their competitors. As a result of this competition, a wide new array of services – both video and non-video – is available to consumers over several alternative broadband platforms, including cable, telephone, wireless, and DBS. Increasingly, these services are offered to consumers in bundles. The FCC's 2005 Cable Price Survey, however, only reports the nominal price of analog video service and doesn't allow for the proper measurement of the value of the dynamic services offered. The FCC's survey doesn't account for discounts attributed to bundling (nor other promotional offers) and clearly fails to measure even the quality adjusted price of video service. Moreover, given that the FCC's 2005 Report includes data from nearly two years ago, it doesn't reflect the current state of competition. As reported in *The Wall Street Journal* (12/7/06), cable's triple-play bundle of video, voice, and Internet access has led to a dramatic reduction in cable price increases during the past two years.