

MANDATING A LA CARTE DISTRIBUTION OF CABLE PROGRAMMING WOULD HARM CONSUMERS

Mandating a la carte distribution of cable networks will reduce the availability and diversity of programming for consumers.

- Most basic cable networks depend on a dual revenue stream of advertising and license fees paid by the cable operator. This dual revenue stream model has successfully worked to improve the quality and quantity of TV programming choices.
 - From 1980 to 2004, the number of cable program networks has grown from 28 to 390, and the array of new programs offered on existing networks has dramatically increased. Viewing of cable programming is increasing every year.
- Mandatory a la carte could cause the demise of many existing basic programming services and hinder the creation of new ones, thus reducing diversity.
 - Nearly all ad-supported networks launched during the 1980's and 1990's were part of packages, bundled with cable's earliest program pioneers like ESPN, Nickelodeon, and CNN.
 - Building on the existing package's popularity, new services and new programs became popular themselves, enabling them to gain advertising support. These in turn anchored newer services, which could not have been launched without being part of a broader tier of services.
- The development of these cable-original networks also led to the emergence of cable's competitors, like DBS.
 - Neither DirecTV nor EchoStar offer programming on an a la carte basis, even though their technology would easily allow them to do so. Their choice confirms that bundling of basic cable networks is the most efficient way to widely distribute diverse program networks.

The marketplace should dictate cable programming and marketing decisions.

- Without government regulation, an impressive and vibrant cable programming industry has developed over the past 20 years. Today, cable offers consumers a tremendous entertainment value.

Mandatory a la carte is bad for cable consumers, who would wind up paying much higher prices to receive the same level of service they get today.

- Ad-supported cable networks depend heavily on being able to deliver large numbers of viewers to advertisers: half of the industry's revenues are directly attributable to national ad sales.
 - Unbundling leads to reduced viewership, affecting a network's ability to attract the same level of advertising dollars. As networks lose advertising revenues that make up the bulk of their programming and operating budgets, they would look to replace these lost ad dollars with increased license fees paid by cable operators in order to continue to deliver high quality and diverse programming.
 - These higher license fees would be reflected in higher retail cable prices.
 - Cable operators would also lose local advertising revenue, which would put added pressure on subscriber rates. Local ad sales generated \$4.325 billion in 2004, according to Kagan.
- In addition to higher prices for cable services, unbundling would require all consumers to have addressable converters to access a la carte programming.
 - Operators are unable to offer services on a discrete channel-by-channel or group of channels-by-channels basis without an addressable set-top box.
 - Fewer than half of U.S. cable households today subscribe to services *requiring* an addressable converter. Even in households with addressable boxes, not all TVs in the house are so equipped.
 - For the tens of millions of customers who rely on "cable-ready" television sets to view basic and expanded tier programming, the à la carte approach would require leasing or purchasing addressable set-top boxes for each TV in their home, at a cost the GAO estimates to be \$4.39 per box (GAO-04-8 October 2003). The average cable household has over 2.5 television sets, so the equipment cost alone could increase the price of the enhanced basic tier by \$10.98 – a 30 percent increase over the average tier price of \$36.47.

Federal agencies have concluded that a la carte would be harmful to consumers:

- **The Government Accountability Office** reported in October 2003 (GAO-04-8: *Issues Related to Competition and Subscriber Rates in the Cable Television Industry*) that:
 - Government-mandated à la carte regime could increase prices for many consumers while decreasing programming diversity.
 - Requiring all networks to be offered on an à la carte basis in many cases would add substantial costs to the purchase of these services.
 - A la carte would undermine the economic viability of cable networks that are currently offered on a tiered basis.
 - Consumers could well be faced with fewer rather than more choices under an à la carte system – and at greater cost.

- **The Federal Communications Commission** reported on November 18, 2004 (*Media Bureau Report on the Packaging and Sale of Video Programming Services to the Public*) that:
 - The vast majority of consumers are better off with tiered channel packages.
 - Tiers are an economically efficient way of providing video programming.
 - A la carte would lead to higher cable prices.
 - A la carte would harm program diversity.
 - Competition and technology are more likely to increase consumer choices than regulations.