



Cable vs. Satellite: Broadband Changes Everything

By Jimmy Schaeffler ■ *The Carmel Group*

"...The Carmel Group is now estimating one of the weakest subscriber growth years in the nine-year history of the U.S. DBS industry."

Ever since its launch in mid-June 1994, the U.S. DBS industry has been able to develop a marked advantage over cable. The DBS providers could deliver better pictures, at a lower cost, than their cable competitors. Today however, that advantage is beginning to wane. Because cable providers have responded with a big, fast pipe into the home that can cost-effectively deliver video, audio and now broadband – without a quarter second delay – more than 16 million cable broadband subscribers have already thought twice before heading to the stars.

What this means is that U.S. DBS growth is slowing due to competitive pressure from cable systems nationwide. As an example, The Carmel Group is now estimating one of the weakest subscriber growth years in the nine-year history of the U.S. DBS industry. The cable guys are beginning to offer broadband via very effective, two-way cable modems. The billions and billions of dollars are beginning to shed results.

Stated differently, if a customer can obtain a competitive quality video/audio and broadband service from the same carrier – be it cable or satellite – he or she is likely to want to keep matters simple and get the lower rate offered by the bundled carrier. Moreover, if he or she cannot get the

broadband service from either a telephone or satellite competitor, then the cable provider gains yet another key advantage.

Cable's Strengths

For DBS, its broadband capability is restricted. In the satellite side of the subscription TV business, the implementation of Internet and other broadband capabilities requires greater cost, as well as more hardware and software development, to say nothing of greater prices for each system's installation. Plus, because broadband is tied closely to the effectiveness of a two-way infrastructure, the sheer physical requirement of a signal that must travel to space and back 47,000 miles roundtrip, means that there will be an awkward delay in the send and receive process.

Cable does not suffer this impediment, and thus has a significant advantage over DBS when it comes to delivering voice and broadband content that is best delivered instantaneously. Cable does not suffer from this quarter second gap. This gap is especially troublesome when the content involves voices and accompanying video, however, it is also troublesome when delivering interactive games and other broadband content services.

Moreover, once cable begins delivering truly locally based content services (which it will), it will have an addition-

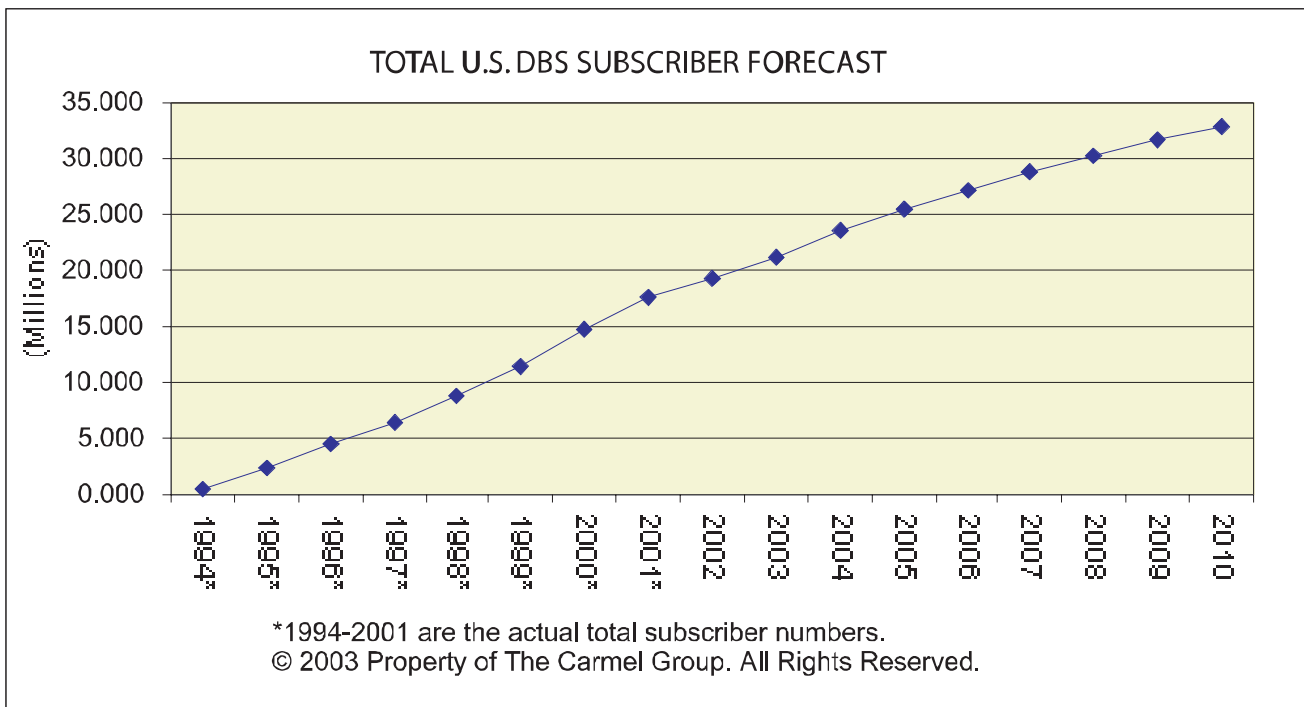
al head-start over DBS because DBS' presence is national rather than local.

DBS' Advantages

Nonetheless, don't just write-off DBS yet. There will still be a hefty fight between DBS and cable well into this and many more decades. That is because DBS does certain things very well, and is learning quickly how to do many more things well. Many of these things are those that consumers like, and like a lot.

For one, DBS provides great customer service. Last year's JD Powers awards for top multichannel customer service went, first and second places, to DirecTV and EchoStar, respectively. In the two years before, the DBS players were switched, but the one-two results were the same. DBS also has a national footprint and its two companies each speak with a voice that effects almost 300 million potential customers uniformly.

DBS also has the advantage of being at once, a national service, whereas even the biggest and most broadly dispersed cable system is regional, at best. Thus, each of the two DBS Duopolists is able to send a uniform marketing, hardware and software message to every consumer across the land. This is important in a transient society such as America. For people to be able to move anywhere and continue dealing with



(Continued on page 11)

CoaXmedia
1/2 Page Horizontal
4/C

*Broadband Properties
is proud to announce
the 21st Anniversary*

WWW

Broadband Properties Summit

September 8 -10, 2003

Marriott Denver Tech Center, Denver, CO

**Exhibit space is now on sale. Contact Irene Gonzales
at 877-588-1649.**

More details to follow next issue.

www.broadbandproperties.com

(Continued from page 9)

the same subscription service provider is a marked advantage.

DBS in most instances can invest more easily in and broadly deploy new services, such as High Definition TV (HDTV) and Digital Video Recorders (DVRs) than cable can as an industry. That is a pure law of physics, related to DBS' ability to deploy universally to a national audience. Conversely at best, cable can only compete regionally. That means that DBS is likely to have an advantage offering these types of new advanced services.

Additionally, DBS can reach rural subscribers who have no access to cable and only telephone companies are ever likely to present competition for these almost 30 million potential paying customers.

What Next?

Without modems and digital upgrades, as an industry, cable would have few answers to the quality and substance of DBS. In fact, digital cable and cable modems make up the subscription TV industry's newest "killer application." Video-On-Demand (VOD) in the cable environment does not yet approach this "killer app" status (and may never).

This scenario presents two real Questions:

First, what is the differentiator between the two? Other than broadband, for now, the only other thing we can think of is DVRs. So far, advantage: satellite.

And second, two or three years from now, the Hughes Network Systems' Spaceway project may answer some broadband needs, however, as yet it has

not launched and not made it's mark and many questions remain unanswered until it does either. Plus, Spaceway is focusing initially on the commercial and 17 million Small Office Home Office (SOHO) customers, so its overall relevance may be limited even then. ■

About the Author

Jimmy Schaeffler researches, analyzes and writes this monthly report. He is a subscription TV analyst at The Carmel Group, a publisher of industry data-books and the monthly newsletter DBS Investor, and a consultancy based in Carmel-by-the-Sea, CA (www.carmelgroup.com). The company specializes in telecommunications (e.g., cable, satellite and wireless), as well as computers and the media. He can be reached at e-mail jimmy@carmelgroup.com or at telephone number 831/643 2222.

4-com Teleguide 1/2 Horizontal 4/C