

# Continental cablevision inc expansion



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## **Executive Summary**

### **The Joint-Venture agreement:**

On February 1994, Continental Cablevision Inc., the third largest U. S. cable TV Company and Fintelco, Argentina's leading television-cable operator had drafted a joint venture structure after several meetings and negotiations.

The joint-venture structure took six months to develop.

### **Continental Cablevision:**

Two Harvard graduates founded Continental in 1963, and the success of the company based on growth strategy i. e. ' cluster cable system', and as on Dec 1993, the company serves has 3 million subscribers in 19 states of U. S. The company starts exploring international market because of saturation of US cable market and Government's deregulation of cable industry. In 1993, company started explores joint venture in Singapore and Australia. In the meantime, Robert Stengel received a call from Jack Crosby, associate of Texas businessman showed concerns investment opportunity with Fintelco.

### **Fintelco:**

Samuel Liberman, an Argentine entrepreneur founded Fintelco in 1980. The growth strategy was also same as Continental. The company was Argentine's largest cable operating service provider and around 390, 000 cable subscribers by 1990 in Buenos Aires, Cordoba, Rosario and other Argentine cities. The company also bought Video Vision in 1993, the largest cable-television-system operator in Cordoba. As the cable market was optimistic, Liberman wants to expansion of the company but due to lack of well-developed local capital market as well as the Argentina's capital market did

understand cable market, and it is new for the Argentine's bank to do investment in media sector.

**Factors enhanced the joint venture:**

Exhibits 10 shows that Argentina's cable market had become most developed in Latin America, by 1994 approx 4 million subscribers and the growth rate of 50% while U. S. cable market towards maturation phase.

Argentina's cable industry deregulated by the Government, which created competitive and strong cable market in Argentina. Under the deregulation plan, U. S. investors can invest 100% in cable systems and 25% of broadcast- television station in Argentina.

**Conclusion:**

The joint venture of Continental and Fintelco and 50-50 deal was as a win-win for both partners as commended by Sachs even though there are few pit holes. Fintelco needs investment to expand the services in Argentina where Continental exploring foreign investment for expanding business outside U. S. In this deal, Continental gets a local partner so that the investment risk reduces where as Fintelco not only get financial investment also gets technological assistance, experienced management team, which helps Fintelco aggressive entry in Argentina's cable market with new strategy.

Continental Cablevision, Inc. is a leading provider of broadband communications services. As of December 31, 1996, the Company's cable television systems and those of its U. S. affiliates passed approximately 7. 4 million homes and provided service to approximately 4. 4 million basic cable subscribers, making the Company the third-largest cable television system operator in the United States. In addition, Continental has pursued <https://assignbuster.com/continental-cablevision-inc-expansion/>

investments in sectors that are complementary to its core business, including interests in

- International broadband communications
- Telecommunications and technology, including competitive-access telephony and direct broadcast satellite (“ DBS”) service and
- Programming services.

On November 15, 1996, Continental merged with and into Continental Merger Corporation; a wholly owned subsidiary of U. S. WEST, Inc.

Continental Merger Corporation changed its name to Continental Cablevision, Inc. on the Merger Date. The “ Company” or “ Continental” refers to both the Successor Corporation and the Predecessor Corporation.

- Continental is one of the multimedia businesses of U. S. WEST and is a member of the U. S. West Media Group (the “ Media Group”). The Media Group is comprised of:
  - cable and telecommunications network businesses outside of the Communications Group fourteen state region,
  - domestic and international wireless communications network businesses and

domestic and international directory and information services businesses.

Media Group is one of two major groups that make up U S WEST. The other major group, the Communications Group, provides telecommunications services in fourteen western and midwestern states. See the Notes to Consolidated Financial Statements for additional information related to the Merger.

## **U. S. Cable Television Business**

Cable television is a service that delivers a wide variety of channels of television programming, consisting primarily of video entertainment, sports and news, as well as informational services, locally originated programming and digital audio programming, to the homes of subscribers who pay a monthly fee for the service. Television and radio signals are received by off-air antennas, microwave relay systems, satellite earth stations and fiber-optic cables and then distributed to subscribers' homes over networks of coaxial and fiber-optic cables.

The joint venture of Continental and Fintelco was a long-term strategic move in the history of cable service provider. Entry of continental in to the Argentine market was a good strategic move for the company.

- Continental exploring the international market hence, the U. S. cable market reaches stage of saturation and the deregulation of cable industry by U. S. government make the cable market is more competitive in U. S. so joint venture of Continental and Fintelco is a good strategic move because it will reduce the market entry risk in foreign market using local partner in joint venture
- For Continental six months will be not enough to study a foreign market and invest so getting a local partner who is premier service provider will help to run the business in profit in very short time. The foreign investor no need license to provide the cable service otherwise it will delay the process in this Continental will save the time and they can use best the local resources.

- Fintelco is Argentina's largest cable operating service provider and they have a better understand of the cable market than a foreign investors and it will be difficult to fight head to head for a foreign investor against a local company so for Continental a good move to choose Fintelco a venture partner.
- Amos and Samuel both are self-made man and they have similarities of personality and they are quite comfortable each other not just at business level they are personally comfortably each other. This means they trust each other and have respect for each other so in this situation doing business will be easier for long-term partnership.
- Continental's success of the company based on growth strategy i. e. ' cluster cable system', which is same strategy of Fintelco so it is easier to executive and understand the management of the company together as well if they have common strategies it will be easier to make future marketing strategies of the company.
- Argentina's government deregulation plan helps Continental to move strategically to invest in Argentina's cable company Fintelco. Even though if Fintelco will discontinue with Continental in this scenario the Continental does not need to find venture partner urgently because Continental's investment in Fintelco is subject to regulatory approval by Federal authorities working in Argentina. The recent approval of a bi-lateral investment and trade agreement between Argentina and the U. S. make it possible for the first time for U. S. companies to own cable systems in Argentina. Therefore, it allows U. S. investors to invest 100% in cable industry. So there is possibilities for Continental to buy the 50% share from Fintelco.

When Argentina entered the decade of the 1990s, the economic performance was dull over a prolonged period of time. From the period of 1975 through 1990, the country was plagued by high inflation and general economic stagnation. Inflation seldom fell below 100 percent; there were bouts of hyperinflation, notably in 1985 and 1989-90. In the year 1990, real GDP stood 6 percent below the level in 1974. Over this period of time, the general stance of economic policy was inward-looking and interventionist, although there were occasional attempts to adopt more market oriented policies. All-out crises erupted twice during the 1980s. But with the help of joint venture of Continental and Fintelco, these companies were able to cope up with the Inflation.

All the above factors indicate that the Continental's move to entry into Argentine's market was a good strategic move, and Fintelco was an appropriate venture partner.

In Businesses joint ventures or partnership is very important to strong the relation for long-term commitment or collaboration to start or continue short-term project. The opportunities and risk of Continental and Fintelco joint venture are as follows:

### **Opportunities:**

#### **Local market knowledge**

This venture has an advantage of a local partner, knowledge of the local market is extremely important for a company to do business in other country. It is more important for an entertainment industry to know about their customs, culture, political scenario and regulatory laws. In this venture,

Fintelco is a local leading cable provider so it is easier for the company to customize the programme and marketing accordingly.

### **Sharing of resources**

Fintelco is a local company so there are many data available with the company, which can be used for marketing and customizing progemme otherwise for Continental it will take time to conduct surveys, gathering data and analysis it consume lot of money as well as time. So with this venture there are lots of opportunity to save time and money which is so important for a company so that they can use the money for strategic investment.

Continental's technical assistance offering will help the venture to upgrade the technology in Argentina's cable market without any cost paying.

Advance technology edge will give business advantage as well as lost operating cost. Later, the venture can sell their technology skills to small cable operator so they can extend their services.

### **Argentina's cable market**

In Latin America, Argentina's television and cable markets it has the largest number of television receivers (8, 000/thousand population) in the region affter Brazil and Mexico by 1994. And its cable penetration was 50% (case study's exhibits 10). It is good opportunity for the venture to make strategy to capture market share as much as possible while acquiring small cable service provider or extending the services in new regions.

### **Flexible venture**

One important aspect of the venture is the venture is flexible and partner of Fintelco is Continental, which based in U. S. The recent approval of a bi-



lateral investment and trade agreement between Argentina and the U. S. make it possible for the first time for U. S. companies to own cable systems in Argentina and invest up to 100%. Therefore, it allows Continental to invest as much as possible to expand the market. Fintelco get regular investment from the venture partner and on other side Continental able to expand the business international market without and legal barrier for investment. The flexible venture also be a risk that both partner might be internally try to increase the percentage of share holding of the camapany.

### **Telephone and Satellite markets**

Argentina's tele-communications and wireless cable is underdeveloped so there are opportunities for the venture to investment in this sector as well as extend their business to reduce the risk doing one business.

### **Risk:**

#### **Different cultures and management styles**

Both companies culture and management style is different which may be result in poor integration and co-operation among the staff. Continental not just limited to investment they will share the management committee.

#### **Objective of the venture**

The objectives of the venture were not very clear and communicated to everyone involved. This venture is most like to their personal preference and level of comfortable and mutual trust. But in future absence of their may create confusion and may the venture get trouble,

#### **Leadership**

If the management committee will share by venture partner then it will be difficult for both leader to be present at all meeting to guide and mentor the <https://assignbuster.com/continental-cablevision-inc-expansion/>

newly formed managerial committee that may be difficult to follow the value of the company.

Success of the joint venture was dependent on clear aims and objectives, mutual trust and open discussion among partners. The business plan should be communicated effectively and clearly at all levels of staff and involvement of majority of employees.

In 1994, the senior management of Continental Cablevision contemplated acquiring a 50 % interest in the largest Argentine television cable company, Fintelco, for \$80 million up front, and an additional \$70 million over the next few years, Continental is facing a maturing market in the U. S., and sought new avenues of growth and outlets for its strong positive cash flow.

Meanwhile, Fintelco needed cash for the aggressive build-out of its cable system.

Strategically and organizationally, the investment seemed to make sense. The forecasted cash flows in Argentine pesos. As a matter of government policy, the peso was pegged to the dollar at 1: 1 exchange rate. But whether this was sustainable, the Economist Intelligence Unit projected inflation in the dollar at 2. 5 % for the next 5 years and inflation in the peso at 6 to 12 % over the same period. There were no firms comparable to Fintelco listed for trading on the Argentine equity market.

Continental's analyst took a sample of betas for cable firms in the U. S., unlevered and averaged them, and then relieved the average to drive a firm beta for Fintelco. The country beta for Argentina currently was 1. 96. The country's risk yield premium was 350 basis points over U. S. treasuries at the <https://assignbuster.com/continental-cablevision-inc-expansion/>

time. Continental was uncertain about the government's commitment to maintaining a 1: 1 convertibility between the Argentine peso and the U. S dollar, so the analysts modeled the cost of capital estimate under both scenarios. Under the 1: 1 convertibility and devaluation scenarios, the resulting estimates of cost of capital were 20. 75 and weighted cost of capital (WACC) 19. 21% respectively.

Exhibits 1 & 2 give the calculations of the WACC and NPV for the investment. The result presents two exchange rate scenarios: 1: 1 and depreciating peso. Under the stable scenario, the NPV would be \$96. 2 million and under the depreciating peso scenario, the NPV would be -\$15 million.

At that point in time analysts should not be biased with the new venture and value the price of the deal again, specifically with the depreciating peso scenario.

Both the companies were offering different kinds of deals. One was offering 75% while the second was offering 25% but finally they came to 50-50 partnership deal. Apart from few pit holes, this deal was a fair deal for both the companies. Continental wanted to enter into the Argentine market and Fintelco needed capital at that time. So, overall, the deal worked well and both companies were in win win position.

In an international joint venture, generally, small enterprises suffer two basic disadvantages that large enterprises by definition are without:

- Elevated rates of employee costs.
- Working capital requirements.

Large enterprises like Continental cablevision have lower costs per unit turnover and substantially larger cash flow capacities. Moreover, these kinds of joint ventures represent a high risk factor in terms of debt repayment capacity, often because of inadequate financial know-how and limited access to guidance and consultation. Long term success of the joint venture is additionally contingent upon a heightened degree of financial flexibility that enables rapid adaptation to changing market needs.

The disappointment with large scale, capital intensive and often import-dependent businesses has been growing long before the current global economic downturn set in.

Continental and Fintelco has a lot to blame on themselves for their experience with large enterprises, reports of their diminishing impact on inclusive economic growth is emerging unmistakably from across the globe. As new economic realities begin to hold sway, slowly but surely the practicality of these kinds of ventures running on gigantic employee and capital turnovers is slipping away.

It holds out a multitude of short and long term benefits that are of especial relevance to this joint venture. In the context of both immediate and long term goals, a policy shift in favor of rapid promotion of smaller enterprises is perhaps the only policy priority standing between Continental and Fintelco and a rapidly prospering economy.

There are significant challenges in this direction, none more pressing than the need to create a mindset change among these companies with regards to grassroots entrepreneurship. Further practical problems were in the form

of skilled manpower shortage, a disturbing enterprise mortality rate and devastating infrastructural deficiencies, especially in terms of security, power and roads. Improving availability and access to finance and equity was the most critical challenge by far,.

In order to ensure rapid development, both companies must effect swift fiscal, monetary and industrial policy changes in order to capitalize on its huge potential of venture. A lot more things depend on the effective management of its human resource capital its sizeable population that has been traditionally dependent on extremely small, subsistence-level enterprises. It is a matter of fact that the fate of Continental and Fintelco ambitious economic goals rests largely on its ability to convert this talent into tangible economic growth.