Time warner cable

Business, Marketing

Large-scale mergers between media companies are becoming more and more commonplace in recent years causing alarm to consumers and industry analysts. The result of these mergers has been a consolidation of market competitors causing media ownership and influence to be controlled by a smaller and less diverse group of firms, the essence of anti-competitiveness. Most recently, Compact announced its intent to acquire Time Warner Cable (ETC) which, if approved, will unite the two biggest companies in the cable television market (Steelers, 2014).

The merger would give unprecedented power to the newly merged company which would over 30 percent of the pay television subscribers (Baker, 2014). The fact is that separately, Compact and ETC already have market power in numerous local geographic markets. Compact is the nation's largest provider of pay television with 22 million subscribers (41 percent of all homes and businesses in the geographic areas in which Compact operates). ETC is the second largest cable television company with 1 1. 2 million subscribers.

After the merger, approximately one third of all cable television bickerers will be Compact customers sparking concern about the amount of leverage and influence one company should control (Rhombohedra & Camilla, 2014). There are varying opinions about the kind of economic industry cable television market operates in. Many argue that cable television is a " natural monopoly' (source). Economics professor, Thomas Delivered, explains, natural monopolies occur when productiontechnology, such as relatively high fixed costs, causes long-run average total costs to decline as output expands.

In such industries, the theory goes, a single reducer will eventually be able to produce at lower cost than any two other producers, thereby creating a 'natural' monopoly. Higher prices will result if more than one producer supplies the market. (Delivered, 1996, p. 43) Natural monopolies are created when the initial investment in the framework and infrastructure required to enter the market are so high that it discourages other firms from coming into the market. Installing cable lines is an example of the high cost of starting a business in the television industry and a " first come, first serve" mentality for natural monopolies.

Implementing the cable lines is considered a sunk cost and is one reason why there are such overwhelming difficulties to entry in the cable industry. With natural monopolies, economies of scale are also very significant so that minimum efficient scale is not reached until the firm has become very large in relation to the total size of the market allowing it to recoup its investment. The graph below shows the demand curve of a natural market economy (Economics Online, 2014). When price is allowed to be set by the company (P), it results in higher levels of profit and manipulation of the market.

The company's main concern is in the bottom line and maximizing its profits. The chart also shows a potential price (Pl) that would result if there was some regulation; for example, government imposes a price cap and the company operates at a loss. The cable television industry has also been described as a " patchwork of micro-monopolies" (Honda, 2011, p. 1). Since there are a small number of large companies that compete on the national scale, some argue that the industry cannot be classified as a monopoly or natural monopoly.

However, the market structure, permitted and/or encouraged by the government, is set up so that Hess companies do not compete on the local level which results in small scale monopolies and little to no choice for the consumers. A 2011 survey by the Federal Communications Commission concluded that 61. 5 percent of customers had only one choice of cable provider in their neighborhood (Marten, 2012). The theory is that through local government legislation and result in nearly non-existent competition on the local level between cable companies has led to a non-competitive oligopoly (Shafer, 2014).

Although the cable industry natural monopoly may have made sense initially, the companies that have been able to benefit from this market structure have exploited the consumer and been able to charge high prices for mediocre products. Many of the government regulations that were initially implemented at the onset on the industry were controversial; firms paid franchise fees enabling them to obtain decisions through offers of building public access studios and regulating the rates of the politicians' Jurisdiction (Shafer, 2014).

Notwithstanding the exact classification, there is a general consensus that too few companies in the cable television industry hold too much power. It is evident when comparing the service that the American public receives in terms of cable television and broadband from these companies to other developed nations that we consumers receive far less. Americans pay more for their personal service that in any other industrialized country except Chile, Mexico and Turkey (Crawford, 2014).

In the United Kingdom, the government forces the cable companies which dominate the market to lease their networks to competitors at cost. This weakening of one of the major barriers to entry in the system has created competition and brought prices down considerably to the UK population (Caddis, 2014). There are many negative consequences for consumers when industries operate in monopolistic or near monopolistic competition. This is especially true when the industry is related to the media and has a great deal of influence on what the public is seeing and hearing.

First, the media market will be too reliant on and loyal to large corporate sponsors. The industry will become singularly focused on what it can get from the consumer rather than concern with public interest. Second, a small number of colossal companies will represent the interests of their stockholders, usually America's upper-class. Third, there is a lack of competition in the marketplace which leads to higher prices to the consumer and a lack of innovation in the products offered. These problems are exemplified by both ETC and Compact.

In 2012, ETC spent Just 9 percent of its $41 billion revenue on maintaining and upgrading their equipment and networks (Hilt, 2013). Compact spent even less, 3. 7 percent of its $118. 3 billion revenue. There is little reason to believe that two companies spending such a small percentage of their revenue on making improvements to their products and services would change their strategy cost-merger. Consumers are already troubled with the possibility that the merger will be approved. Cable television companies already have critically low satisfaction scores among their clients.

ETC and Compact are the two worst offenders in the industry. In 2013, the American Consumer Satisfaction Index gave the two companies the dubious distinction of having the lowest rated television and internet services in the United States (Ezra, 2014). According to Yogurt's Barehanded, Americans do not want ETC and Compact to merge (Including, 2014). The television cable industry is notoriously retrieved by consumers in general and the announcement of the merger has caused the perception of the two companies to drop even further. The following chart shows how consumers are reacting to the $45 billion deal.

In many cases, customers have no recourse other than cutting the cable cord completely if they do not choose Compact or ETC. There are many non-cable media options for the public to patron however, one major section of the population has no choice but to subscribe to cable: sports fans. This is of particular concern to the Dodgers and Lasers fans in Los Angles. Currently, ETC spent billions to obtain eradicating right to both massively lucrative sports franchises (Baker, 2014). This allows ETC to extract steep subscriber fees to its non-cable competition.

When the negotiations between the companies stall or are incomplete, ETC blacks out the games to those who do not subscribe to ETC. This is especially problematic for sports fans who do not have the choice to become customers of ETC since the company does not even offer services in their region. Additionally, those customers who cut the cable cord are likely only able to access internet through the same company that was already overcharging for their television service. They will be able to watch Nettling or Hull instead of cable television but will still have to pay Compact in order to do so.

It creates a catch-22 in the industry and very little choice for consumers in terms of who they select as their service provider. The merger between Compact and ETC will have a much greater impact than simply in the cable television industry alone. There will be a ripple effect in internet and phone service as well as the other media that these companies own such as NBC Universal and Sportsmen. The merged company's control will be more widespread because of their various endures making it all the more potentially harmful to the consumer.