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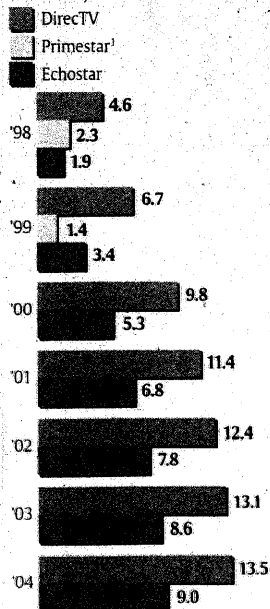
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Satellites creeping up on cable

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Satellite subscriber base grows

(year-end U.S. subscribers, in millions)

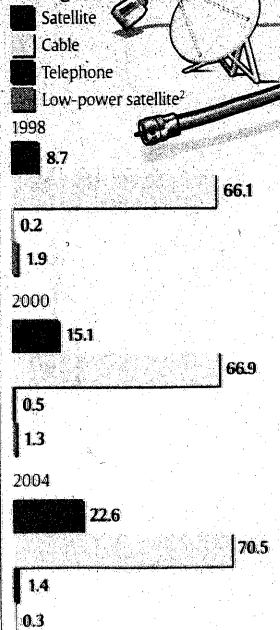


¹ Bought by DirecTV in 1999

² Refers to large backyard dishes, also known as C-band satellite dishes, that are increasingly being replaced by the smaller high-power dishes.

Source: Merrill Lynch

... as satellite market share grows



By Marc F. Molitelli, USA TODAY

says. But 400 kbps "is more than adequate to service probably 90% of customers' needs," he says.

It'll be hard to miss DirecTV's initiatives. Later this month, the service will be sold in about 4,000 Blockbuster outlets, which serve about 40 million customers a year.

And telephone company allies including Verizon (formerly Bell Atlantic and GTE), SBC Communications and Cincinnati Bell are starting to offer DirecTV in packages designed to compete with cable.

Hartenstein has been frustrated by phone companies' slowness to bundle DirecTV with their other services. In fact, BellSouth plans to offer its own satellite service using 36-inch dishes, instead of teaming with DirecTV.

Until now, video "has not been a core part of their business, but it will rapidly become that," Hartenstein says. When cable companies start offering phone service, "that's the call to action."

'New frontier of interactive services'

As sales take off, DirecTV is ready to take a page from cable companies' books and take equity positions in interactive-programming services in exchange for giving them instant national carriage.

"We see this as the new frontier of interactive services coming down the pipeline, where there's no proven 800-pound gorilla yet," says Executive Vice President Steven Cox. "There's a real opportunity, with the platform we're deploying, to aggressively stake out positions in interactive services."

While Hartenstein gamely promotes his new services, he seems genuinely surprised by the extent to which DirecTV — which got its start serving rural areas that had trouble getting cable — has evolved into a favorite perk among the elite.

He has a full-time assistant to handle special emergencies, for example actors who demand a hookup for their trailers or CEOs at remote corporate retreats who don't want to miss their CNBC and Bloomberg TV.

He's also intrigued by the opportunities he'll have offering DirecTV to fliers. It's available now on seat-back monitors on Legend Airlines and JetBlue Airways, and will be on Alaska Airlines next year.

"That's just huge, when you think about it," he says. "If you're on a transcontinental flight of five-plus hours and you want to get caught up, entertained or just veg, it's a terrific amenity to have. It's going to be a differentiator on which airline you're going to fly."

Besides, it's nice to have at least one place where he never has to worry about competition from cable.

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Get directions to your destination from where you are.

Sports

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How's your stock performing? Is today the day you cash out?

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your flight
delayed.
out now.

enail

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slow for traffic.
Send and receive
email to and
from any email
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14

Satellite system has speed on its side

Continued from 1B

to end this year with nearly 10 million customers, up 20% over last year.

As a result, it reaches more homes than anyone except AT&T and Time Warner, and it's on its way to passing the cable giants around 2005. About 70% of DirecTV's new customers come from areas served by cable.

No wonder investment bankers are so tantalized by the possibility that General Motors, which owns Hughes, is ready to fundamentally change the media landscape with an outright sale of the property. Analysts say it would cost a buyer about \$50 billion.

"It makes sense," says Lehman Bros.' Robert Peck. "They have great assets that you could see News Corp., a European company, or a DSL company wanting. The killer app is the pipe to the home. So you hear rumors every day."

It's more than idle chitchat. "Almost everyone has come talking to us," Hartenstein says. "I would like to see DirecTV become larger. Do you do that organically, or do you do that with other alliances? We're looking at all those kinds of things."

Hughes Electronics CEO Michael Smith adds: "We have an open mind."

Cable vs. satellites

Meanwhile, Hartenstein is galvanizing DirecTV to take advantage of its opportunity to offer the TV and high-speed Internet connections nationwide while cable operators work out the kinks in their own digital and two-way services.

He must keep the pressure on. DirecTV is on the cusp of profitability, and the domestic satellite service accounts for about 64% of the \$7.5 billion in revenue Hughes is expected to generate this year.

And cable operators are determined to block DirecTV, or anyone, from wooing away users in the 66 million homes they serve.

They're busy deploying their most potent weapon to close the gap between the 50 or so channels they typically offer and DirecTV's 225 channels, which include pay-per-view offerings. In many communities, cable companies are starting to push more channels through their pipes by transmitting some digitally, a process that requires a system upgrade and a new decoder box.

In markets where cable offers digital channels, satellite providers sign up only about half the subscribers they get elsewhere.

Operators make the case that cable is more economical for families wanting to hook up two or more TVs. Satellite subscribers who want to watch different channels simultaneously on several sets would need a special dish and receiver, at \$150, with additional receivers for each TV at about \$90 apiece.

The typical cable subscriber pays about \$30 a month. DirecTV's most popular service costs \$32 for 70 national basic channels, access to pay-per-view and 31 ad-free audio music channels. Subscribers must pay an additional \$6 to receive the local stations offering ABC, CBS, Fox and NBC shows in the areas where DirecTV offers them.

Cable operators point to that, and the broader array of local stations they offer, as other competitive advantages.

"All that has to happen with satellite is for a signal to go out and a customer needs service. There's no one to call," says Doug Sessler, AT&T Broadband's senior vice president for marketing and sales. "There are a lot of customers who went to satellite and aren't 100% satisfied."

His company impressed its cable brethren recently when it persuaded 1,000 satellite customers in Denver and 1,000 in Salt Lake City to switch to cable by offering them 200 hours of free programming on its new digital service.

The second part of cable's one-two punch will come when operators roll out attractive two-way services—including interactive TV, high-speed Internet and phone connections.

"Their pipe, where they have it, is a little more robust," Hughes' Smith says. "But our advantage is economic. They have to spend billions to catch up to where we are. We only have to spend a few hundred million to upgrade features" nationwide.

DirecTV faces a different kind of challenge from satellite rival EchoStar, which is growing even faster than DirecTV. It's suing DirecTV, claiming that it has a monopoly stranglehold over the business. The lawsuit alleges, for example, that DirecTV pays retailers such as Circuit City for exclusive access to their customers.

Hartenstein says the lawsuit is "fundamentally without merit."

Investor jitters

All this uncertainty, though, makes Wall Street nervous about Hughes. "The market is concerned about there being too much competition in video," says PaineWebber analyst Tom Egan. Hughes stock has slid 39% since March, closing Friday at \$28.56.

Some investors are concerned about Hughes' hefty spending to keep DirecTV on top. Last year, it paid \$1.6 billion for USBS, a satellite service that featured premium channels, and \$1.8 billion for Primostar, a cable-controlled satellite service.

And it now spends about \$510 on each new subscriber in the form of marketing and subsidies—usually by offering free installation of the 18-inch dishes or a few months of free programming. Customers have to stick with DirecTV for about 18 months before the company makes a profit.

Executives insist that it's a solid long-term investment. Because DirecTV subscribers tend to order a lot of premium channels, such as HBO and Showtime, and in many cities pay extra to get the local stations, the average bill runs \$58.50 a month.

That figure could grow if videophiles warm to the interactive TV services DirecTV will roll out this fall—a run-up to the holiday season, when satellite companies land nearly one-third of the new customers they enlist each year.

DirecTV is about to introduce America Online's AOL-

TV, Microsoft's Ultimate TV—which provide e-mail, shopping and programming information—and Wink, which lets users call up additional information from certain shows and ads.

In October, subscribers also will be able to buy DirecTV receivers with TiVo's digital video recording capability, allowing them to store 30 hours of programming.

Hartenstein says these services, most of which require a special set-top decoder, will give him a big boost in his competition with cable.

"They're still in a catch-up game," he says.

And cable's big talk about its dazzling new services, he adds, may sound hollow for as much as half of all TV viewers—particularly those who don't live in the biggest and richest markets. They may not be upgraded to digital in the next decade because it isn't economical to do so in many small cable systems with 500,000 or fewer subscribers.

Investors, however, aren't ready to bet just yet that DirecTV will score big with the new services.

Hooking up with phone players

There's more optimism about DirecTV's effort to position itself as a national provider of high-speed Internet services for personal computers.

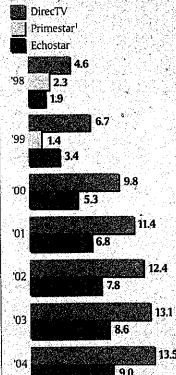
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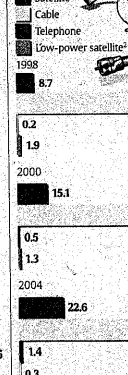
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By Marcy E. Mullins, USA TODAY



"Almost everyone has come talking to us. I would like to see DirecTV become larger. Do you do that organically, or do you do that with other alliances?"

—Eddy Hartenstein

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tion Systems

to acquire Chris-Craft

News Corp., owner of the Fox television to announce today that it will buy TV Chris-Craft Industries and its subsidiary \$5 billion. Chris-Craft owns 10 TV stations, controlled by Rupert Murdoch, will 5 a share for Chris-Craft and its BHC ins and United Television subsidiaries. ined to comment over the weekend.

hurd as Verizon strike drags on

87,000 union workers against Verizon ns entered its second week as tension een the two sides. They're wrangling ty and customer service workers' man- ine and working conditions. The strike normal service but has interfered with formation, along with repairs and new Verizon faced a backlog of 90,000 re- nday as torrential rains hit parts of the

l rivals' cars online

ors is considering buying an online car- ny or starting a new service with its ould provide information, referrals and or competitors' vehicles, not just GM GM spokesman said Chairman Jack et with dealers this month to discuss a that would operate in addition to com, an online source for GM cars only.

ica seeks protection

ler Value America, which has struggled for nearly a year, filed for bankruptcy on Friday, shut down its Internet re- and laid off 185 of its 404 employees. plans to focus on its electronic-services ch helps other companies conduct busi- web. "After careful consideration, and de- l-faith efforts, we were unable to estab- satisfaction that our Internet retailing ould become profitable within a reason- ne," CEO Glenda Dorchak said in a state-

rysler joins in-car services race

rysler says it will have an in-car tele- available on some Chrysler, Dodge and by 2003 to compete with General Mo- system and Ford Motor's Wingcast. Tele- term used to describe the on-board com- systems that include cellphone, Internet cy call services. The Daimler system is Tele-Aid system offered in its Mercedes- . OnStar will have 1 million subscribers d. Wingcast, a co-venture with Qual- is in 2002. Daimler says the service could 0 in revenue per car a year.

irms size of IPO

owered an initial public offering to shares from 11.5 million shares and price range to \$10-\$12 a share from \$12- g to a Securities and Exchange Commis- e firm — which offers packages including ernet access and technical support — cut n what it hopes to raise from its IPO. Peo- expects \$85.4 million.

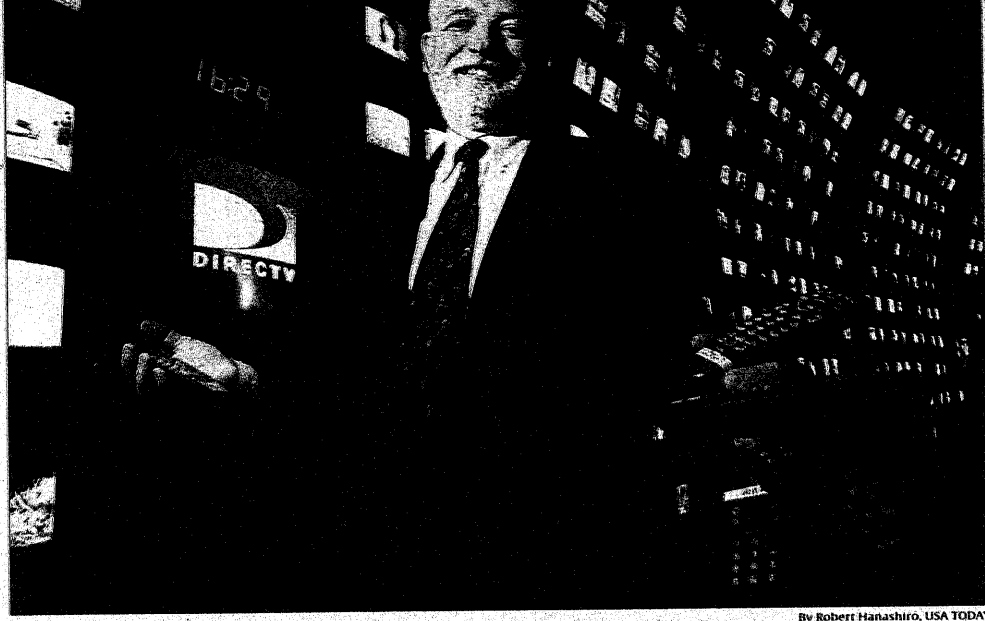
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By Robert Hanashiro, USA TODAY

Dealmaker: Eddy Hartenstein, DirecTV's founder and senior executive vice president at parent Hughes Electronics, has been forming alliances with media powers and programmers to keep DirecTV ahead in its battle with cable systems.

Cover story

DirecTV stays step ahead of cable

Satellite titan is leading the way in digital, interactive TV

By David Lieberman
USA TODAY

NEW YORK — Until recently, few would have included Eddy Hartenstein in a list of the media world's most-sought-after dealmakers. The jovial one-time engineer has spent the years since 1990, when he founded DirecTV, preoccupied with the nuts and bolts of building a mostly rural business with a technology that had a questionable future. While he toiled, cable operators spent billions of dollars on preparing to offer glitzy interactive services.

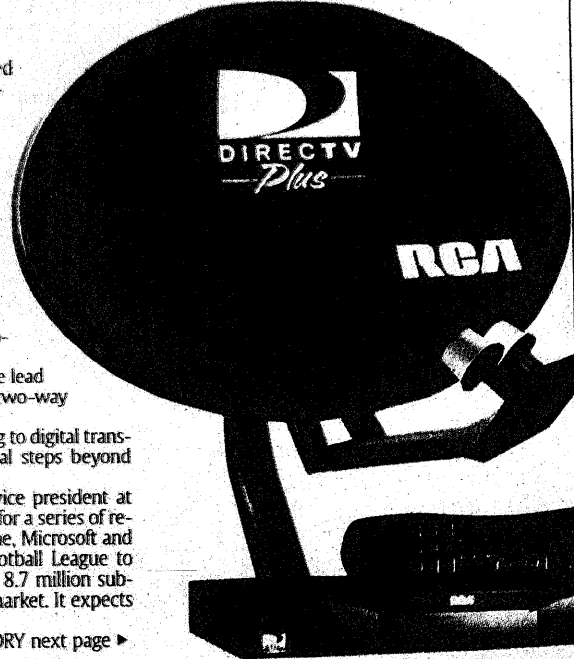
But a lot has changed over the past year. The number of satellite players has shrunk from four to two: DirecTV and EchoStar. They're doing surprisingly well in rounding up new subscribers and revenue since the federal government gave them the right to retransmit local stations, which they do for an extra fee.

And over the next few months, satellites will take the lead in offering interactive digital TV services, as well as two-way high-speed Internet connections, coast to coast.

"Cable is just now, six years after we launched, getting to digital transmissions," says Hartenstein, 49. "We're already several steps beyond that in enhancing an already good digital platform."

That has made Hartenstein — a senior executive vice president at Hughes Electronics, parent of DirecTV — the go-to guy for a series of recent deals with power players including America Online, Microsoft and Blockbuster, and programmers from the National Football League to Walt Disney. They're attracted to DirecTV because its 8.7 million subscribers account for about two-thirds of the satellite market. It expects

Please see COVER STORY next page ▶



PRNewsFoto

Firms offer employees better perks to help recruit

By Stephanie Armour
USA TODAY

Strapped by the tight labor market, employers are offering more than cash to workers who help them find new hires.

Think champagne, cars and cruises. Eye-catching perks are being added to create referral programs that get workers talking — and hopefully more interested in taking part. Employers say the extra incentives are needed because staffers make the best recruiters.

"You have to pull out all the stops," says Roger Coker at Texas Instruments, which has beefed up its referral program with raffles for prizes. "Basically, this is a marketing campaign. And like any marketing campaign, it can begin to get stale. The non-cash prizes add freshness." What

those workers also can participate in a raffle of a Ford, Lincoln or Mercury vehicle valued at up to \$52,000. Last month, the drawing was held in the headquarters' cafeteria while hundreds watched.

Such prizes have boosted the program. From 1995 to 1998, the company hired about 200 applicants a year referred by staffers who received cash bonuses only. When the car prize was added in 1999, the number of referrals hired jumped to 602 people.

▶ Nortel Networks launched a \$1 million cash-and-prizes program in June for workers who help find hires for specific positions. In addition to money, employees can get entered in drawings for trips, luxury cruises or the use of a car for one year. About 48% of Nortel's hires are made through referrals.

▶ At SRA International, an information technology company based in Fairfax, Va., employees who refer successful hires join in a raffle for such prizes as a \$500 Best Buy gift certificate, a week-long cruise for a family of four or dinner and a show at the Kennedy Center in Washington, D.C.

Each quarter, those who refer the most new hires receive such perks as a Palm Pilot, laptop or home computer. "You have to keep the interest up and let everyone know you're serious," says Kerri Koss Morehart at SRA.

▶ At BabyCenter, a San Francisco-based online resource for new and expectant parents, employees who refer hires get \$2,000 cash and a bottle of Dom Perignon. About half of the company's workers come from referrals.

"We're looking at adding flowers," says Mari Bakker at BabyCenter. "With flowers

pay for growing drug costs

Employers and insurers pass blame on prescription

By Julie Appleby
USA TODAY

Maybe you've seen your employer's payment for prescription drugs in the past year, from, say, \$15 — or even up to \$25 — a prescription. Get ready, because soon may pay even more.

Faced with rapidly rising costs on prescription drugs, employers and insurers are increasingly shifting the cost to patients.

▶ More employers are so-called "three-tier" plans, which charge patients co-payments for expensive name drugs. The first large such plans showed significant savings for employers, mainly because consumers paid more.

▶ Co-payments themselves have crept up from an average \$6 for generics, \$12 for brand-name drugs and \$26 for third-tier drugs just a year ago to \$7, \$14 and \$26, says consulting firm Scottsdale.

▶ A few employers are considering dropping flat co-payments in favor of requiring patients to pay a percentage of the cost of the prescription, ranging from 10% to 50% or more.

▶ Others may add a "third tier," with patients paying 100% of the cost of certain high-cost drugs, such as baldness treatments.

The changes are aimed at curbing rising prescription drug costs, now growing more than 10% a year as more patients take drugs, and as expensive new drugs enter the market.

The number of patients covered by the "three-tier" plans doubled in the past year and is expected to double again this year, according to PCS, a pharmaceutical management company.

The three tiers in such plans range from generics — the least costly — to brand-name drugs, which the insurer has no discount, to all other brand-name drugs.

Traditional plans attempt to control spending by restricting patients' drug choices, which some patients and doctors oppose. New plans widen the range of drugs covered, for a price.

"Employers will say, 'We have what you want, but you have to pay more for the privilege,'" says Barbara Brickmeier, benefits director at IBM.

In the first large study of such plans, Express Scripts, a management firm, compared two groups of companies. One switched to a three-tier plan, while the other did not. In a year, insurers for the three-tier plan spent 8.5% less on drugs. But spending shifted to the other group.

Insurers saved most of the money paid more to employees for prescriptions, says study author Brenda Motheral.

Employees in the three-tier group also used fewer prescriptions than before.

The study did not explain why. Researchers say it could be because patients have been raised by patients' own experiences.