

Title:

Is the ability to choose satellite programming the best deal for consumers?

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Summary:

The FCC released a new report last week concerning a second study on the bundling of TV programming packages in the satellite TV and cable industries. The study concluded consumers could be saving money by ordering only the channels they thought they wanted. However, an earlier study released 15 months earlier had the opposite conclusion...bundling programming was best for consumers. Which option helps American consumers save money on their cable and satellite bill?

Keywords:

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Article Body:

The FCC released a new report last week concerning a second study on the bundling of TV programming packages in the satellite TV and cable industries. The study concluded consumers could be saving money by ordering only the channels they thought they wanted. However, this was a second study. The first study, released 15 months earlier, had the opposite conclusion, bundling programming was best for consumers. So which position is the FCC really taking? Which option helps American consumers save money on their cable and satellite bills? Is unbundling TV programming a viable solution?

**Is a la carte programming politically motivated?**

If the bundling study was motivated simply by a question of economics, it would be one thing. But there are political motivations involved as well. The key political motivation is from the conservative right who feel it's unfair for consumers to pay for programming that contains objectionable content. They contend consumers shouldn't be forced to pay for content they don't want coming into their homes. The FCC can only censor content that is sent freely over the airwaves.

Major content providers have reacted to this situation by offering "Family Programming" packages that feature select channels at a lower monthly price.

Both major satellite providers DISH Network and DirecTV recently announced the availability of family packages. DISH rolled theirs out very quickly in February for \$19.99 a month - about \$15 less than any other DISH Network package combination. DirecTV has plans to release a family package in mid-April. Cable providers also followed suit in hopes that demand for "a la carte" programming would subside.

TV broadcasters have argued being forced to provide service on an a la carte basis would force smaller channels with niche audiences to go off air due to the unwillingness of consumers to subscribe. Broadcasters think specialty channels like G4, the Golf Channel and the Independent Film Channel couldn't generate enough of an audience to stay in business.

<b>The economics of a la carte programming.</b>

The recent battle between satellite provider DISH Network and the Lifetime channel raises some real economic questions about a la carte programming. The contract for the two entities ended December 31st without a new contract being signed. DISH Network claimed Lifetime had asked for a 76% rate increase, while Lifetime countered DISH had demanded a 33% decrease. It was estimated Lifetime would lose \$20 million in ad revenue and licensing fees spread over 8.5 million DISH subscribers each year if the agreement terminated.

Lifetime and DISH eventually reached a deal, undisclosed of course, and Lifetime returned to DISH Network on February 1st.

The Lifetime vs. DISH battle exposed some numbers that show how much a la carte programming could cost. These numbers are estimations based on limited data, but let's do the math. If Lifetime was planning on losing \$20 million over 8.5 million customers, that adds up to \$2.35 per customer, per year. That's only 19.5 cents per month, per customer in profit. Assuming a gross profit target of 50%, the a la carte price of Lifetime should be 29.25 cents per month.

If we made the same assumption across the board, a package of 60 channels would cost \$17.55 per month. DISH Network charges \$29.99 per month for 60 channels. That is a per channel cost of 49 cents. DirecTV on the other hand doesn't offer a 60 channel package, but has a package of about 155 for \$41.99. That's 28 cents per channel with 49 XM satellite music channels included. Taking out the music channels yields a per channel price of 39 cents. Comcast cable has a price in my local area of \$39.99 for 98 TV channels, or a per channel price of 40 cents.

Satellite and cable providers have an additional expense in equipment.

Satellite providers bundle the satellite equipment with the programming...that's why they require contract periods. Cable providers have the same equipment expense, but don't require contract periods.

**<b>Are family programming packages a fair alternative?</b>**

If you look at the price comparison with the "Family Packages," you'll see getting family programming actually costs more! On DISH Network, the family package includes 31 channels for \$19.99, which is 64 cents per channel. DirecTV will begin a family package in mid-April which includes 40 channels for \$34.99...a per channel cost of 87 cents. Comcast's family tier is \$31.20 per month for 16 channels and leads the industry in per channel cost for family programming at \$1.95.

There certainly is an advantage to bundled programming as more channels in a package lowers the per channel price giving an advantage over a la carte programming. While family centric programming packages provide "G" rated options, those options come at a premium.

**<b>Is unbundling satellite programming worth it?</b>**

If you look at the numbers, there is a small pricing advantage to a la carte programming in smaller packages. But as program choices increase, the price actually comes down. Urging Congress to force broadcasters to offer a la carte programming won't benefit consumers financially. However, if the real issue behind the move to a la carte programming is content and not price, education about parental controls on satellite equipment would be a better solution.

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