

Dogfight: Comcast vs. AT&T

By Tim Young

For a number of years now, Pipeline has taken the time to dedicate at least one annual issue to the ongoing competition between cablecos and telcos for various segments of the market. This is a battle that's most furiously pitched in the home.

The struggle between these access technologies is taking place all over the world these days. In Europe, cable powerhouse Liberty Global just announced that it will buy Kabel-Baden Württemberg, Germany's third largest cableco, further consolidating its position as the largest owner of Non-US cablecos. Meanwhile, according to a recent report from In-Stat, Western Europe leads the world in IPTV customers, with 17.5 million. (11 million of those are in France, alone.)

In the CALA region, the cableco/telco struggle is a bit more convoluted, as the largest cableco in the region (NET Servicos de Comunicacao) is actually a subsidiary of telco Embratel. Meanwhile, in parts of AsiaPac, hundreds of millions of pay-tv consumers are distributed

Two aces, up close and personal. In aviation, it's called a dogfight.



between scores of carriers, each carrying a part of the world's largest market (the region is home to 57% of the world's pay-tv subscribers, according to the Asia-Pacific Broadcasting Union) while rarely surpassing 5 million subs, individually (according to In-Stat).

However, one way to characterize the struggle between cablecos and telcos is to select the biggest heavyweight from each category in the US market and see how they stack up against one another.

Two aces, up close and personal. Aware of one-another's presence and attempting to out-manuever the other. In aviation, it's called a dogfight.

The Aces

Of course, in this head-to-head, the combatants aren't a P-51 Mustang and a Messerschmitt Bf 109.

In one corner, we have AT&T. It's a big company. Big in a way that planets are big. It's number 7 on the Fortune 500 list, a ranking topped only by 3 oil companies, Bank of America, GE, and WalMart. In the Forbes Global rankings, AT&T's still #13, worldwide, and that's after sliding six spots from the previous year's list. \$125billion in revenue. \$20billion in income. That's wicked big.

In the other corner is Comcast, which sports a "scant" \$38billion in revenue and \$6billion in operating income. And that Fortune 500 list? Comcast clocks in at number 57. So while smaller than the largest telco, the largest US cableco is hardly diminutive.

So, let's just take a brief walk through how these companies stack up against one another in a number of important areas:

Not for distribution or reproduction.

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Pay-TV

This one goes the way you might expect. At least for now, it's Comcast in a walk, in terms of market dominance. As of September 2010, Comcast had some 23 million subscribers to their pay TV service, at least at a basic level, according to the NCTA. AT&T, meanwhile, clocked in at 2.7 million, making it the number nine video provider in the country, behind even its wireline rival, Verizon, which came in at number seven with its 3.3million subs. However, that massive gap is narrowing, if slightly. Comcast dropped 135,000 video subs in Q42010, while "AT&T U-verse is the fastest growing TV provider in the country," said Mari Melguizo, spokesperson for AT&T, "with more TV subscribers added than any of the major TV providers reported in 2009 and 2010."

Furthermore, while Comcast's "xfinity" rebranding didn't win it any popularity contests in the mainstream media, the triple-play options that xfinity has brought about really have helped its positioning in the market. The app that Comcast offers iPad/iPhone/Android users came before AT&T's much less robust U-Verse app offering, and has garnered a lot of positive press for the cableco, as well as generated a perception of being able to meet subscriber needs and wants in an agile and perceptive manner. However, AT&T's press contacts tell me that their latest value-adds for subscribers include U-verse Mobile, which lets customers manage recordings remotely and watch TV shows on more than 14 devices, U-verse Online, where online users can watch some 100,000 titles of TV shows, movies and video clips, as well as take advantage

Comcast added 1 million net broadband customers in 2010. AT&T did just over half that.

of remote DVR management, the ability to pay bills, and other user features. It's a step in the right direction.

Voice

Meanwhile, AT&T continues to bleed wireline customers. Wireline voice revenue was down 12.5% between Q1 2010 and Q1 2011. On the other hand, Q42010 numbers (the most recent available at press time) for Comcast show that it added 257,000 voice customers, up about 6 percent over the year previous. VoIP, then, continues to march against the phone systems of old.

Data

Broadband service is growing among most carriers, but AT&T's growth has been anemic compared to Comcast's explosion. According to research firm Strategy Analytics, Comcast led the US market in broadband subscriber growth in 2010, adding 1 million net customers over the course of the year. Second place in broadband growth went to none other than AT&T, but with a rate just over half of that demonstrated by Comcast.

I asked representatives from each company what made their data offerings stand out. "Three things," said



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Comcast's Peter Dobrow, Executive Director of Corporate Communications at Comcast. "Speed, price and security." The speeds range from 1.5 to 105 Mbps and are offered to 40 million homes. "Our prices for all these services are very competitive with what telcos offer," Dobrow said. "We also offer the most comprehensive security suite of services to our Internet customers for no additional charge."

"With U-verse High Speed Internet," said AT&T's Melguzio, "we're focusing on your entire surfing experience. It's about speed, value and mobility." That last point is of particular salience. "Wireless home networking capability and access to the nation's largest Wi-Fi network is included for all U-verse Internet."

Aha. The mobile angle. Which leads us to...

The Rest of the Story

I said at the outset of this piece that the battle between cablecos and telcos is fiercest in the residential market. It's the home where these titans spar most vehemently. However, during a roundtable discussion I chaired a few years ago, several cableco execs pointed out something interesting. They noted that as more and more consumers start to carry more complex and data-hungry devices, and as they want to be able to access many of the same things on the go as they would be able to at home, the definition of the home, itself, is changing. It is no longer a building. It's an experience. It's a place where one can be found, and where valuables can be stored, and communications with friends and family take place. Increasingly, consumers desire that home experience anywhere.

With that in mind, it's clear that the numbers I've thrown around above only tell part of the story. After all, AT&T isn't sitting on its hands while subs and revenue head for the exits. What about the wireless revenue?

It's true: AT&T is a juggernaut in the wireless space, and if the T-Mobile USA acquisition does make it through

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It's true: AT&T is a juggernaut in the wireless space

all the proper regulatory hoops, it'll only get bigger. Meanwhile, Comcast has a keen understanding of how to integrate elements of the wireless experience (as evidenced by its iPad app prowess), but lacks a meaningful wireless presence.

Therefore, if we had to call it (and AT&T would contend that U-Verse is far too young to do a thing like that), we could say that Comcast has won the home and AT&T has won the wireless space.

However, let's continue to assume that the changing definition of the home I mentioned before holds true. Let's also recognize that it's primarily the home networks that are constantly besieged by over-the-top data accessed by customers who don't expect massive overage charges in the same way that wireless customers might. Furthermore, wireline calling, VoIP or traditional, has lost so much luster that the triple-play scenario may lack some of the punch it once had.

In short, might there be a chance that Comcast has captured the home just as the home has started to do what those roundtable members I mentioned said it would do? And if consumers are taking the show on the road, how easy is it to follow them? What's the point of being king of the mountain if it happens to be Mt. Vesuvius?

Still, even as Comcast seems to have the home market well in hand, AT&T insists that they are not to be counted out. The most recent strategy coming from AT&T is to use extant wireless enthusiasm to draw in lucrative U-Verse customers (and at an ARPU of \$168, what company couldn't afford a few of those?)

Regardless of the outcome, however, it's fascinating to watch these two massive companies do battle. One seems to hug the ground, tethered and secure, protecting the ground below. The other seems to be climbing into the mist, free from terrestrial constraint, but perhaps leaving its underside exposed.

And in this way, the dogfight rages on.