Consumers Union

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CABLE CONSUMER CHOICE:
The a la Carte Option

Cable rates have continued to soar since the industry was deregulated under the 1996 Telecommunications Act. Over the past eight years, cable rates have risen more than 50 percent, at a pace that is three times the rate of inflation. With cable rates skyrocketing, satellite TV failing to effectively discipline these price hikes, and the public increasingly uncomfortable with the programming they must buy in cable packages, it is appropriate to give consumers more choice in picking the cable channels they want through an a la carte option.

Background

- Cable does not face effective competition. The largest cable operators simply do not compete with one another. They have grown into national firms with regional clusters that attempt to keep out the few potential competitors who consider entering the cable arena. In markets where 98 percent of Americans live, a single cable operator dominates multi-channel video distribution with a market share exceeding 80 percent.

- Satellite television offers only limited competition. Satellite television's growth as an effective competitor to cable has been hampered by technological constraints. For instance, satellite is unable to provide local TV channels in many areas, subscribers' homes must have unobstructed south-facing views to pick up signals, and satellite often requires more expensive equipment than cable. Also, cable has a competitive edge because it can offer consumers the advantage of television programming *and* a high-speed Internet bundle.

- The result of this cable market dominance is costing consumers an estimated $4.5 billion to $6 billion per year *more* than if there was real competition. While it is true that cable companies are offering consumers more channels than they used to, customers are forced to pick from a limited number of channel packages and are prohibited from choosing only the individual channels they actually want to watch.

- Few people regularly watch all the channels they must buy on cable – ranging from service tiers of 40, 50 or 75 channels or more. According to a 2004 Consumer Federation of America/Consumers Union report, the average consumer watches about 17 channels regularly, with the top 20 channels accounting for approximately three-quarters of all viewing.

- Giving consumers the choice to select only those channels they want also provides a unique solution to the growing public concern about violent and indecent programming. Instead of forcing consumers to buy service tiers that include programs they never watch or channels they find offensive, Congress should require cable operators to let people pick and pay for only those channels they want.

- Cable operators might argue that technology prevents them from offering a la carte programming. While cable operators likely will have to make software adjustments inside the cable network to offer a la carte, systems that have been upgraded for digital cable would not require new technology in consumers' homes. And as cable operators will have to build in functionality to fight piracy (i.e. the plug-and-play proceeding at the FCC) in the next year, now is the right time to consider enabling equipment to handle a la carte options.

- Cable operators have voiced concerns that they will have diminished advertising revenues with an a la carte option. However, advertising is based primarily on television viewership. Those who claim that more choice in cable television programming means less advertising dollars are saying, in effect, that a la carte means people will watch less television. In fact, the opposite may be true. As consumers choose from a wider palette of options that will better cater to individual tastes, more TV viewership may result. People will simply be watching — and paying for — the programs they want to watch. Furthermore, the use of a la carte channel selection would enable advertisers to know more about their audiences, allowing the possibility of enhanced revenues from more targeted demographic information.