A Strategic Analysis

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**Introduction**

Initially Comcast offered to purchase AT&T Broadband for 44.5 billion in stock and 13.5 billion in debt assumption. AT&T’s board of directors did not accept the acquisition and instead Comcast offered to merge with AT&T broadband to form AT&T Comcast. AT&T stocks have been falling and this merger would possibly help them by letting Comcast, which has great knowledge in the broadband industry, work with the many resources AT&T has to offer. The merger is valued at $72 billion. Comcast believes the merge with AT&T will save them money and it will receive 2.2 million broadband customers and 22 million communications, media and entertainment subscribers.¹ We are analyzing the merger to determine if the outcome will be a success or a failure.

**Executive Summary**

Our analysis of the merger between Comcast and AT&T concludes that the merger will be beneficial for both the companies. AT&T will be able to revert back to its core competency of telecommunications and not spread its resources too thin. Comcast will gain access to AT&T’s large telecommunications resources. AT&T Comcast will be the most powerful communications, media and entertainment company in the world.²

Cable broadband is in its infant stage and has great potential to take off exponentially over the next few years. Competing broadband providers, such as Digital Line Subscribers (DSL), have barriers to entry restricting their growth. The fiber optics

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¹ Eileen Connolly AT&T [www.att.com/press/item/0,1354,4135,00.html](http://www.att.com/press/item/0,1354,4135,00.html)

² Ibid
required for DSL are very expensive and are not easily installed making cable broadband an only alternative for many high-speed Internet subscribers.³

Comcast will not have to change its strategy to continue to operate after the merger. It is also in the cable business and specializes in cable television and broadband. Comcast uses a focused differentiation strategy. It looks for innovations that cable television and broadband subscribers will be interested in using. Both AT&T and Comcast are excited to bring telephone services to the many markets that Comcast currently has cable in. They hope that with AT&T’s expertise in telephony and Comcast’s size in areas that AT&T currently doesn’t compete, that they will be able to tap into these markets.⁴

The merger between AT&T and Comcast will be successful because both companies have the resources that the other company needs in order to improve. Comcast is very experienced with cable television and broadband, but not with telephony. AT&T is very good with telephony, but not as experienced in the cable industry. Together these companies can combine resources and overcome the weaknesses of both company.⁵

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³ Corey Grice  Staff Writer, CNET News.com  

⁴ Brian L. Roberts, President of Comcast Corporation,  
http://www.att.com/press/item/0,1354,4135,00.html

⁵ C. Michael Armstrong, CEO of AT&T,  
http://www.att.com/press/item/0,1354,4135,00.html
External Analysis

We performed an external analysis for Comcast to help determine if the merger of AT&T with Comcast will prove to be a profitable merger. In our analysis we looked at the following general environmental factors, demographics, social cultural, technology, economics, and political. We also looked at the following industry environment factors competitors, substitutes and suppliers. Our analysis shows that Comcast has great opportunities in its external environment for growth.

General Environment

First, we looked at the issues in the general environment that would possibly have an impact on the merger of AT&T Comcast.

Demographics

There is potential for growth in the broadband industry, because it is only in its beginning stage. There are a total of 50.3 million Internet subscribers in the world and 94 percent of them use dial-up connections. Broadband has the ability to capture those 47 million customers and hopefully new computer users. Comcast has the opportunity to take off in the industry, especially if it merges with AT&T. Currently, AT&T is the largest cable provider in the nation with 1.4 million subscribers. Comcast is currently the third largest carrier of broadband Internet access. These two images show where AT&T and Comcast are nationally. The first image shows where AT&T and Comcast are and where AT&T Comcast will be after the merger. The second shows how the new company will compare to their competition.6

Press Release from Comcast
Social Cultural

Broadband has had relatively slow growth due to cable and phone companies being sluggish in upgrading networks with expensive fiber optics. Digital subscriber lines (DSL) have had trouble winning access to telephone company’s proprietary lines. A final cause for the slow growth of broadband is the hesitancy of current 56k modem subscribers to upgrade to such a fast speed but the slow modem lovers are fading out and the younger generation of Internet users is moving toward faster cable modems. AT&T Comcast has a great opportunity to be the leading cable broadband company when the broadband industry starts to take off.8

Technology

The broadband industry is growing, but some companies are a little overzealous about the growth. @home is one company that tried to grow too fast for the market and because of it the company went under. According to the Federal Communications Commission, the broadband industry is in its infancy. The cable modem has led to other broadband technologies such as digital subscriber lines.9

Broadband has many great features. It is fast and many people can do things they never could before with their dial up access. Broadband allows users the ability to download music and videos in relatively short periods of time. Surfing the web is quick and enjoyable compared to the long waiting on dial up connections. Technology is an

8 Cable-Modem.net: published by Digiterra Broadband, Denver, CO, USA
http://www.cable-modem.net/features/jun00/wpaper.html

9 Federal Communication Commission Telecommunications Policy
opportunity and threat for Comcast. High-tech industries are constantly changing and the competition is very high. Currently, cable broadband is the leading technology for high speed Internet and is the fastest-speed, lowest-priced connection available. \(^{10}\)

**Economics**

The economy has been in a decline for two years. In March 2000 the Stock Market went down and has not yet recovered. With the slow economy, consumers have been hesitant to spend money for things other than essentials. The level of discretionary funds in the nation and in the world at large has decreased due to the slow economy. People are not willing to spend the $40 a month for broadband because they are able to get dial up connection for $10 a month.

The slow economy has helped the cable broadband industry by eliminating many competitors. Cable broadband is not the most expensive high-speed Internet provider and many of the competitors have not been able to compete in the slow economy. Consumers are hesitant to spend the $40 a month for cable broadband but the $60 for satellite and other substitutes is much more than consumers are willing to spend at this time.

As the economy returns to pre-March 2000 levels, we will begin to see unemployment decrease and stock values increase. \(^{11}\) As people begin to see their savings increase in value and as others return to work, their sense of economic well-being will increase and they will have more money and will begin to spend more of their monthly...

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\(^{10}\) Corey Grice  Staff Writer, CNET News.com  

\(^{11}\) “Most Households Have Fun Money To Spend” by Cheryl Russell, New Strategist Publications  
income and save less. This money that may be diverted from savings to pleasure spending is known as discretionary income. The more discretionary income consumers have that can go to wants instead of needs, the more likely that Internet user will be to upgrade from their dial-up Internet connections to broadband connections.

**Political**

The Federal Communications Commission is afraid that regulation is needed to keep cable broadband from becoming a monopoly. If regulation becomes necessary, then the broadband industry could face some decline in growth. The regulation would increase the price for cable broadband causing a decline in growth. Regulation could involve increasing the costs associated with providing cable to subscribers. Government could also step in and deny the merger between AT&T and Comcast because they will become the largest cable provider. They will be twice as large as the next largest provider, AOL Time Warner.

Government officials hope the intervention is unnecessary and that the market will keep the competition alive. The concern is that cable broadband will become like Microsoft and buy up all the competition.

The external general environment looks favorable for AT&T Comcast. There is great potential for growth because there are millions of dial-up internet subscribers who

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12 “The Economics of Well-Being” by Wilfred Masumura
[http://www.census.gov/ftp/pub/prod/2/pop/p70/p70-56.pdf](http://www.census.gov/ftp/pub/prod/2/pop/p70/p70-56.pdf)

[http://www.bls.gov/news.release/empsit.nr0.htm](http://www.bls.gov/news.release/empsit.nr0.htm)

14 “Cable Guys Win AT&T Cable” by Dan Ackman, Forbes.com

15 “DoJ to Review AT&T-Comcast Merger” By Roy Mark
have yet to switch to a high speed, broadband connection. The economy seems to be stabilizing and heading for recovery, and discretionary income is on the rise. Both are good signs that subscriptions for broadband will start to increase. At present, government regulation is not a concern and poses no immediate threat to the merger.

**Industry Environment**

Now, we will look at the environment affecting the broadband industry to see how it might affect the merger of AT&T Comcast.

**Competition**

AT&T Comcast’s competition does not have locations as broad as AT&T Comcast and will not have the customer base that AT&T Comcast will. The merge with AT&T would make Comcast the largest carrier of broadband Internet access making this a great opportunity for Comcast.\(^{16}\) With this merger, AT&T Comcast will also be the world’s largest cable provider. The new company will pass 38 million homes and serve 22 million basic cable subscribers in the U.S., double the size of its largest domestic cable rival, AOL Time Warner.\(^{17}\)

**Substitutes**

DSL is something that the broadband world has to consider as competition in the Internet service industry; however, some researchers have found that customers are not satisfied with DSL service. Although DSL subscription has been growing, consumer complaints show that long waiting periods for installation are experienced. Other potential consumers have been disappointed to find out they live too far from the phone.

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\(^{16}\) *Cable Datacom News: published by Kinetic Strategies Inc.*

[http://www.cabledatamcomnews.com/jan02/jan02-1.html](http://www.cabledatamcomnews.com/jan02/jan02-1.html)

\(^{17}\) Ibid.
companies' equipment to get DSL at all because DSL is sensitive to distance. Because DSL has had so many customer complaints, cable broadband is a popular alternative. Greater popularity of cable broadband is beneficial for Comcast.\(^\text{18}\)

**Suppliers**

It is estimated that the market will force cable companies to negotiate access agreements with unaffiliated Internet Service Providers (ISPs). Currently, the cable companies choose an ISP and every customer with that cable company has to use its ISP. This has caused broadband Internet services to remain relatively high priced. The introduction of unaffiliated ISPs will increase the competition among the suppliers of Internet Service, thus lowering the costs to the cable providers like AT&T and Comcast.\(^\text{19}\)

The industry environment looks positive for AT&T Comcast. They will be twice the size of their next largest competitor. DSL (digital subscriber lines) is the closest substitute, but they are expensive to install and service is not available in many areas where cable is. And if Internet Service Providers begin to compete, the cost to AT&T Comcast to provide their customers with internet may fall substantially, thus increasing the company’s profitability.

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\(^{18}\) Corey Grice  Staff Writer, CNET News.com  

\(^{19}\) Cable-Modem.net: published by Digiterra Broadband, Denver, CO, USA  
[http://www.cable-modem.net/features/jun00/wpaper.html](http://www.cable-modem.net/features/jun00/wpaper.html)
Internal Analysis

We looked at the internal strengths and weaknesses of Comcast. In our internal analysis of Comcast we examined these areas of the company; customer service, marketing, and research and development. Our internal analysis gave evidence for further pursuit in the merge with AT&T.

Customer Service

Comcast and AT&T have not had a great track record for having great customer service. AT&T has the resources to provide cable television and broadband, but it doesn’t have the experience or expertise to supply good service to its customers because it is use to the communications industry. They are looking at the merger with Comcast as an opportunity to focus its attention on its core competency of telecommunications. Comcast focuses on cable television and broadband but doesn’t have the resources that it needs to provide its customers with quality service. Our research has shown that the merge will allow both AT&T and Comcast improve their customer service.20

Comcast and other broadband providers have a standard of service that they try to live up to. “Comcast's first priority is to provide reliable and high quality service to our customers. To that end, we have been working around the clock to make sure our

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customers receive uninterrupted high-speed Internet service,” said Steve Burke, president of Comcast Cable.21 Quality service in the broadband industry includes these five things:

- Ensure the customer gets broadband access as quickly and as simply as possible
- Ensure the customer receives the connection speed they expect and guarantee it 24/7
- If a problem occurs, ensure the customer has one point of contact and processes are in place to quickly resolve the problem
- Ensure appropriate measures are in place to ensure the privacy and security of the customer.
- Ensure the customer can pay for services as easily as possible.22

These standards are great if they are all fulfilled, but there are many complaints from subscribers who have not received service meeting the five standards set by the industry. Customer service is an area Comcast could improve upon. After the merger, AT&T Comcast hopes that their combined efforts will provide the quality cable broadband and television service that subscribers desire. AT&T has the means to provide quality service but needs the cable knowledge of Comcast to use the resources, and Comcast has the knowledge but needs the resources to meet customer demands. The merger provides a possible solution to both companies’ service problems.

Marketing Focus

An area that Comcast will have an advantage in is marketing. “Comcast owns many cable systems and some sports franchises, giving it access to both distribution and programming.”23 They will be able to market their service of broadband through the cable systems and at the sporting events. For example, Comcast owns the Philadelphia Flyers

22 Ben Macklin eMarketer “Quality of Service: The Key to Broadband Success” http://www.emarketer.com/analysis/broadband/20010320_quality_bband_service.html
and 76ers. The people that go to and or watch these games on TV will be marketed to and will see the advertisements for AT&T Comcast.

Research and Development

Brian Roberts and Steve Burke, presidents of Comcast, reported to investors their plans for AT&T. Telephony is not a concern for Comcast at present, because they want to wait for the new IP telephony equipment that is coming to the market. Comcast is looking at ways to stage telephony in. It is a hundred billion dollar-a-year proven revenue market. Until the new IP telephone market is ready, Comcast and AT&T will not try to expand telephony other than the current marketing.24

Comcast has partnered with Microsoft, Intel Corp., NBC, Sony Corporation of America, Sterling Investment Partners and US West Inc. in a joint venture to revolutionize the entertainment industry. They call the project Intertainer and it is horizontal porthole of streamed media. The site features everything from television to sports broadcasts to the newest movies. For a small fee, users can have the programs streamed to them for their viewing pleasure over the Internet. There is also a monthly service to view all of their television programming for about $8. Partners in the venture believe that Intertainer will change the way we buy our media entertainment. The

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24 Dave Burstein  The DSL Prime Newsletter  
innovation of the Intertainer will help Comcast differentiate from other cable broadband providers.\textsuperscript{25}

The internal analysis shows that the merger will be good for AT&T and Comcast. Currently, both AT&T and Comcast have relatively dissatisfactory customer service. AT&T has the strength that Comcast lacks and vise versa. The two companies have great assets to enhance their marketing including interests in many forms of entertainment and multimedia. AT&T Comcast also has great and innovative plans for their future together.

**Culture and Integration**

The merger will allow both companies to remain focused on their core competencies while still providing quality customer service. When mergers and acquisitions happen one problem that may arise is that of two different cultures collide and people can’t work together. The new management may run things differently and the current employees find it hard to work under these conditions. Another problem that arises from mergers is dissatisfied shareholders. Before the merger their stock may have been worth more. For AT&T/Comcast this should not be a problem. The problems shareholders could face will be minimal. “AT&T shareholders will receive approximately .34 shares of AT&T/Comcast Corporation for each share of AT&T they own. Comcast shareholders will receive one share of AT&T/Comcast Corporation for each Comcast share they own.”\textsuperscript{26} Because there are more AT&T shareholders they will be receiving the smaller portion of the new stock. This is fair for both sides because the increased value of the stock by an estimated $72 billion will balance the contribution and benefit for both

\textsuperscript{25} Press Release, Microsoft Corporation  

\textsuperscript{26} Charlie White  
companies. And AT&T currently carries outstanding debt of $20 billion that will be assumed by the new company.

As for the culture and integration of the companies, management has devised a solution to the potential problem of culture clash. The new company’s management will not be solely made of members of just AT&T or Comcast. “AT&T and Comcast will each contribute five Board members to the new company and they will jointly select two additional members who have no current affiliation with either company.”27 By doing this, the new company will have insights from both companies, allowing them to have specific knowledge of how each company operated before the merger. With this knowledge, AT&T/Comcast can make sure that the employees will feel comfortable and not out of place. Considering the culture issue upfront, will allow the company to merge smoothly and allow the company to focus on core competencies and spend their time usefully to make a profit. The new company will be “…subject to regulatory review, approval by both companies’ shareholders [,] and certain other conditions.”28 This will allow the shareholders from both companies to have a sense of comfort, knowing that this will be looked at and reviewed in a way that will benefit their best interest.

Because the well balanced board at AT&T Comcast, we are confident that stakeholders will feel equally represented, crating a sense of trust throughout the organization. Mergers based on the principle of trust and mutual benefits tend to be strong and enduring relationships. The balanced board will also give the board a strong understanding of the core competencies that the businesses each had before the merger and help them to transfer these competencies throughout the new entity after the merger.

28 Ibid.
The smooth merging of culture and strong positive integration will be integral to the success of AT&T Comcast.
Conclusion

Comcast should pursue the merger with AT&T because the market is favorable, it has the opportunity to be the market leader in the cable broadband industry, and Comcast can gain needed resources from AT&T.

Our analysis of the cable broadband industry shows that future growth is expected to continue because the industry is in its infant stage. With the economy slowly recovering and discretionary income starting to rise, the 47 million dial-up subscribers will have more money for the broadband Internet.

The cable broadband industry is only in its early stages so the market leader will gain the largest returns when the industry starts to grow exponentially. The merger will put AT&T Comcast in the position to capture the bulk of the profits from the industry growth.

Comcast is currently a provider of cable broadband and wants to gain market share. Without the merger, Comcast would remain the third largest cable provider in the nation and could possibly lose ground to other competitors for the AT&T customers. The merger will help Comcast eliminate other competitors in the cable business. The merger is definitely a good strategy for Comcast.

AT&T has great resources to offer cable television and broadband, but it does not have the expertise in the use of its resources in the cable industry. It will benefit from having Comcast help to manage the resources that it has to offer the cable television and broadband industry.
The merger between AT&T and Comcast looks to be a very wise move for both companies because they are both struggling in the broadband industry on their own. When their competencies are combined they will compensate for each other’s weaknesses.

Both companies are planning to move forward and combine their resources to become the best cable broadband provider available. Managers from the two companies feel that the merger will be great integration for both AT&T and Comcast.