Sky Wars: The Attempted Merger of EchoStar and DirecTV (2000)

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A High Tech Merger?

- Relatively new product:
  High Power Direct Broadcast Satellite TV
  - DirecTV launched 1994
  - EchoStar/Dish launched 1996

- Large claimed efficiencies

- Platform issues
  - Incompatible encryption formats
  - Dynamic platform competition

- Installed base pricing incentives
Analytical Approach

- Roughly similar approach by parties and DOJ
- Focus on substitution (diversion) rather than market definition
- Some consideration of installed base pricing incentives
- Some consideration of platform competition
- Otherwise, not very different from merger analysis for low-tech markets
National MVPD Subscriber “Shares” (June 2001)

Percent of MVPD subscribers

<table>
<thead>
<tr>
<th>Service</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cable (all)</td>
<td>78.0</td>
</tr>
<tr>
<td>DBS</td>
<td>18.3</td>
</tr>
<tr>
<td>SMATV</td>
<td>1.7</td>
</tr>
<tr>
<td>C-band</td>
<td>1.1</td>
</tr>
<tr>
<td>MMDS</td>
<td>0.8</td>
</tr>
</tbody>
</table>

Source: FCC Tenth Annual Report (2004), Table B-1.
Key Question

Do DBS companies primarily compete with each other?

Or do DBS companies primarily compete with cable?
Parties Argued

- DBS competes primarily with cable
  - DBS MVPD subscriber share < 20%
  - High own elasticity for DBS (>5 in magnitude)

- Large efficiencies
  - Capacity savings
  - More high def, “local into local”

- Increase competition with cable and lower cable prices
DOJ Case

- DBS companies primarily compete with each other
  - Merger to monopoly for markets without cable
- Efficiencies are distant
- Platform competition promoted innovation and better service
- Installed base growth likely to make DBS demand less elastic
Econometric Evidence Inconclusive

Estimated price elasticities (Goolsbee and Petrin, 2004)

<table>
<thead>
<tr>
<th>Service</th>
<th>Expanded Basic</th>
<th>Premium Cable</th>
<th>DBS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Antenna</td>
<td>1.30</td>
<td>.92</td>
<td>.12</td>
</tr>
<tr>
<td>Expanded Basic</td>
<td>−1.54</td>
<td>.92</td>
<td>.29</td>
</tr>
<tr>
<td>Premium Cable</td>
<td>1.26</td>
<td>−3.18</td>
<td>.49</td>
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<tr>
<td>DBS</td>
<td>.93</td>
<td>1.17</td>
<td>−2.45</td>
</tr>
</tbody>
</table>
DBS companies primarily compete with each other

Monthly prices for DirecTV and EchoStar most-popular programming packages

![Graph showing monthly prices for DirecTV and EchoStar programming packages from Dec-99 to Nov-01. The graph displays two lines: one for EchoStar AT100 and one for DirecTV Total Choice, with price ranges from $20 to $34.]
DBS companies primarily compete with each other

Monthly per-channel prices for DirecTV’s and EchoStar’s most-popular programming packages

![Graph showing price per channel over time for DirecTV and EchoStar packages. The graph indicates a trend of decreasing prices over the years with labels for specific months and periods. The x-axis represents the months from July 1997 to July 2002, and the y-axis represents the price per channel in dollars, ranging from 0.25 to 0.60. The graph includes two lines, one for DirecTV-Total Choice and another for EchoStar: AT50, AT60 and AT100.}
Risk of Installed Base Opportunism

- A significant share of the DBS installed base bought DBS when it was more expensive than cable
- “Headroom” to raise DBS prices relative to cable has increased over time
- Risk that merged company would raise prices to exploit inelastic demand of installed base
Risk of Installed Base Opportunism

Three measures of the relative price of DBS vs. cable over time
Efficiencies

- Capacity savings would occur in distant future
  - Need to change satellite fleet
  - Need to swap set-top boxes

- EchoStar and DirecTV currently
  - Have larger HD channel lineup than most cable companies
  - Broadcast local programming to about 95% of all households