

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

Cable (all)	78.0
DBS	18.3
SMATV	1.7
C-band	1.1
MMDS	0.8

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

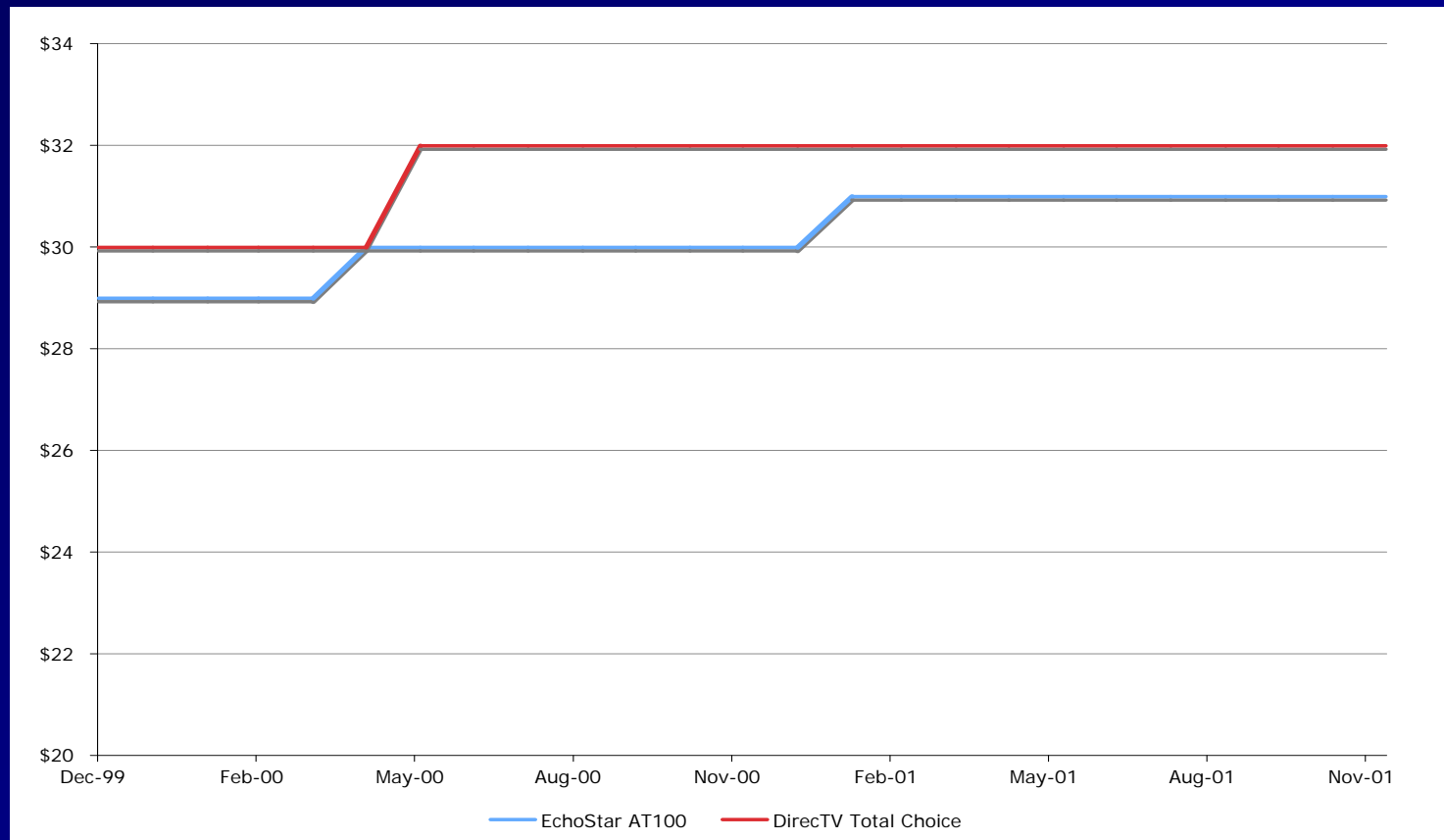
Econometric Evidence Inconclusive

Estimated price elasticities (Goolsbee and Petrin, 2004)

Service	Price		
	Expanded Basic	Premium Cable	DBS
Antenna	1.30	.92	.12
Expanded Basic	-1.54	.92	.29
Premium Cable	1.26	-3.18	.49
DBS	.93	1.17	-2.45

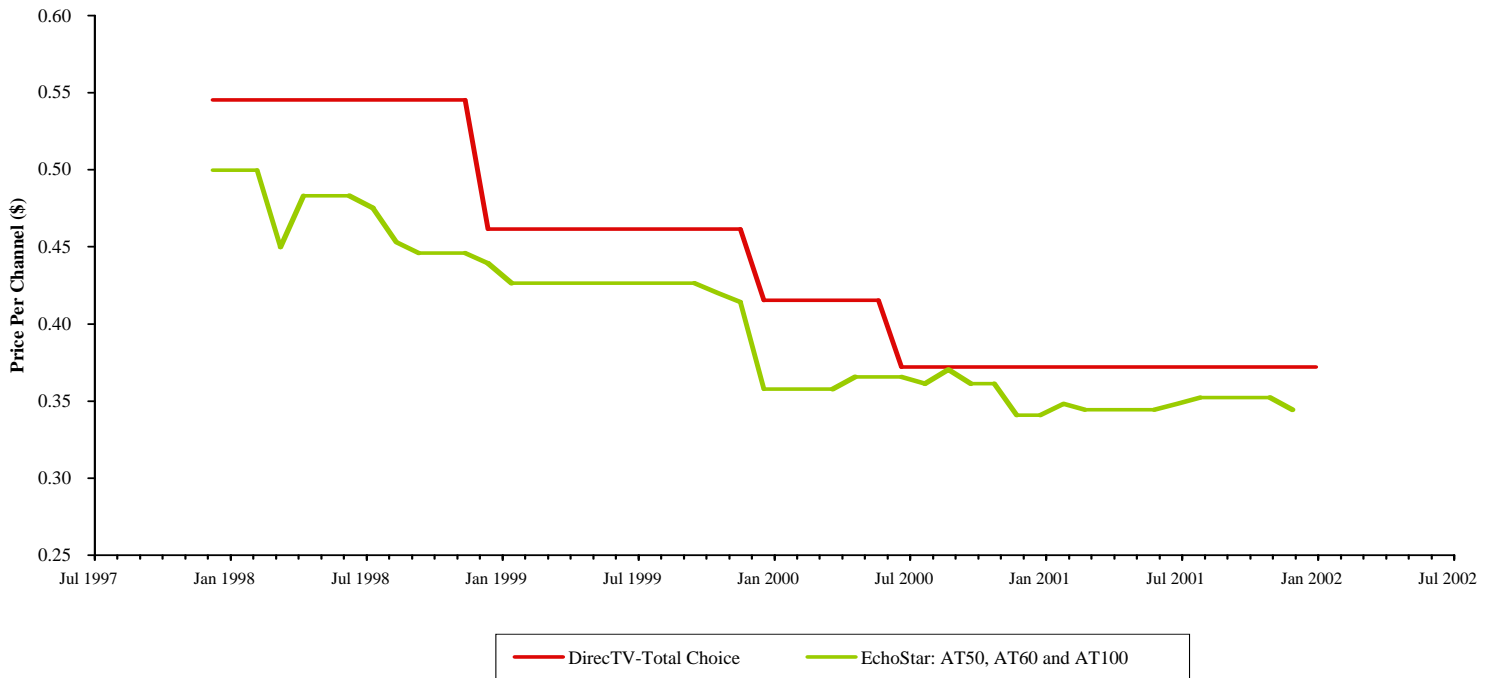
DBS companies primarily compete with each other

Monthly prices for DirecTV and EchoStar most-popular programming packages



DBS companies primarily compete with each other

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



Risk of Installed Base Opportunism

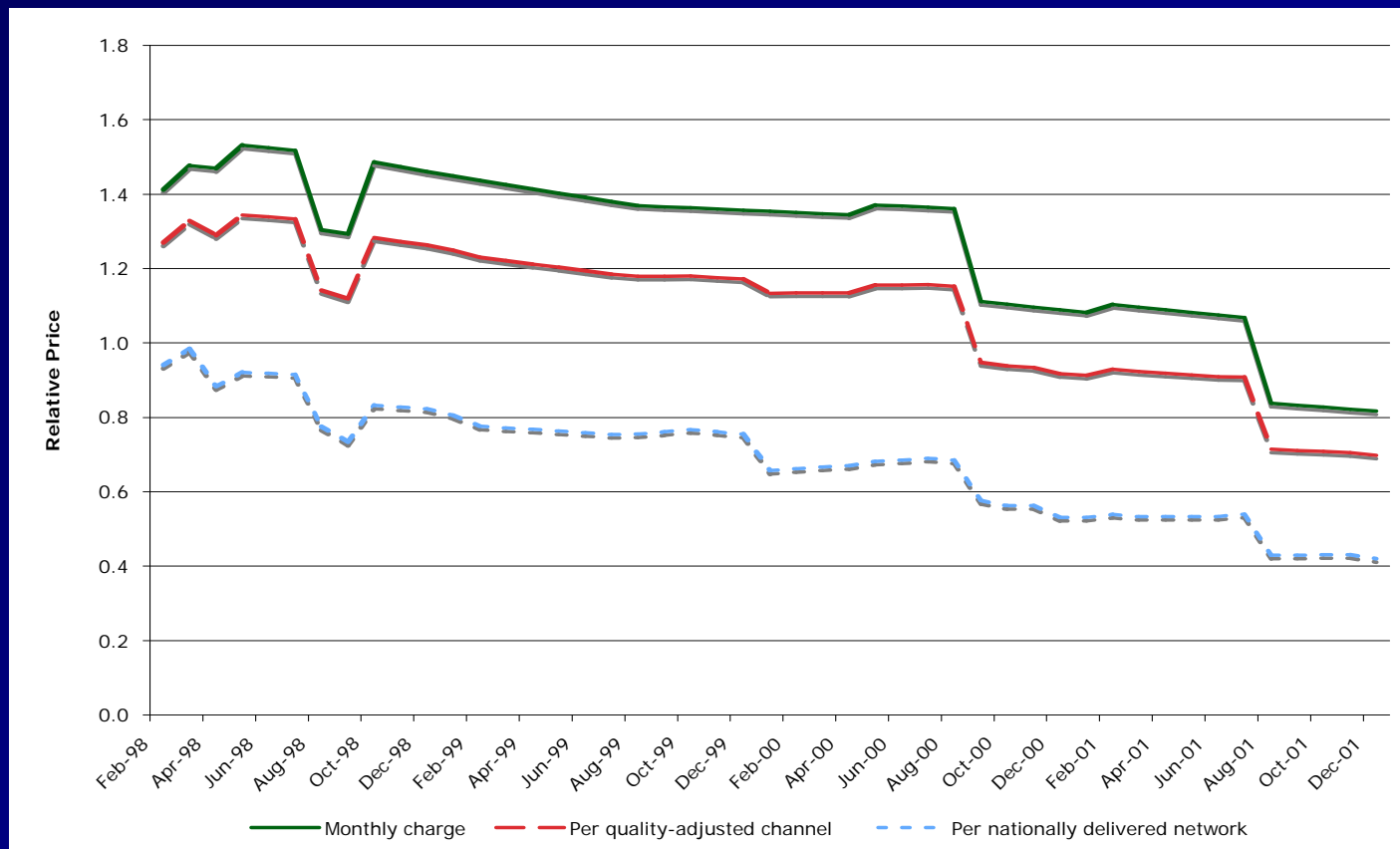
A significant share of the DBS installed base bought DBS when it was more expensive than cable

“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