

A LA CARTE: MAKING YOU PAY *MORE* FOR *LESS***Government-mandated a la carte is bad for cable consumers, who would wind up paying higher prices to receive the same level of service and fewer channels than they receive today.**

- Ad-supported cable networks earn revenues based on the number of *prospective* viewers they offer to advertisers. Half of the industry's revenues are directly attributable to national ad sales.
 - Forcing cable operators to sell each channel separately (a la carte) would reduce the size of the potential audience for each channel, adversely affecting a network's ability to attract the same level of advertising dollars. Networks would also incur much higher marketing costs to persuade customers to purchase their programming. As networks lose the advertising revenues that make up the bulk of their programming and operating budgets and face higher marketing costs, they would need to increase the license fees paid by cable operators in order to continue to deliver high quality and diverse programming.
 - These higher license fees would be reflected in higher retail cable prices. To the extent that customers were unwilling to pay the higher a la carte prices for certain networks, those networks would have no choice but to reduce the quality and attractiveness of their programming or go out of business.
 - Reducing the potential viewership for a channel will also mean that cable operators lose local advertising revenue, which would increase pressure on subscriber rates.
 - While customers may not watch every channel today, the channels they don't watch subsidize the channels they do watch. When that balance is disrupted, customers will pay higher prices for fewer channels.
- A mandated a la carte regime would also require investments in the technology required to make it work, adding new costs for cable operators and their customers.
 - Offering services on a channel-by-channel basis or by discrete groups of channels requires an addressable set-top box.
 - Only about 60 percent of U.S. cable households today subscribe to services *requiring* an addressable set-top box. Even in households with addressable boxes, not all TVs in the house are so equipped.
 - For the tens of millions of customers who rely on "cable-ready" television sets to view basic and expanded tier programming, the a la carte approach would require leasing or purchasing addressable set-top boxes for each TV in their home, at a cost the FCC estimated to be \$3.86 per box. The average cable household has over 2.6 television sets, so the equipment cost alone could increase the price of the enhanced basic tier by more than \$10.

Mandating a la carte distribution of cable networks will reduce the availability and diversity of programming for consumers.

- Most basic networks depend on revenue from advertising and license fees paid by the cable operator to create programming that attracts more viewers each year. This model has successfully worked to improve the quality and quantity of TV programming choices.
 - From 1980 through 2006, the number of national program networks grew from 28 to 565, and the array of new programs offered on existing networks dramatically increased. Viewing of cable programming is increasing every year.
- Mandatory a la carte could cause the demise of many existing basic programming services and hinder the creation of new ones, reducing choice and diversity.
 - Nearly all ad-supported networks launched during the 1980s and 1990s were part of packages, bundled with cable's earliest program pioneers like ESPN, Nickelodeon, and CNN.
 - Building on the existing package's popularity, new services and new programs became popular themselves, enabling them to gain advertising support. These in turn anchored newer services, which could not have been launched without being part of a broader tier of services.
- The fact that all multichannel video programming distributors offer their programming on a bundled basis reaffirms that tiering – not a la carte – is the most efficient way to distribute diverse program networks to a wide audience.

Most studies conclude that a mandated a la carte regime would be more expensive for consumers and result in less diversity in programming.

- The FCC's First Report, in 2004, found that mandatory a la carte would be likely to make most consumers worse off. It concluded that most customers would have to pay more under an a la carte regime to purchase only those channels that they *regularly* watch than they pay today to receive the entire array of channels on the basic and enhanced basic tiers. Moreover, it concluded that a la carte would reduce the quality and quantity of available program networks. In particular, it would threaten the viability of new networks and existing networks that appeal to minority interests, threatening program diversity.
- Other studies by the General Accounting Office, Bear Stearns, Kagan Research, Sanford Bernstein and others have reached the same conclusions – a la carte would force consumers to pay more while harming program diversity.
- The FCC's "Further Report" on a la carte, in 2006, relying on alternative hypothetical assumptions, concluded that "a la carte *could* be in consumers' best interests." But the FCC's study itself undermined the conclusion:
 - Assuming that the FCC's new methodology was correct, 40% of consumers who subscribe to a digital cable service could receive 20 channels for about the same amount as they pay today for up to 150 channels. Of course that assumes that the 20 channels to which they want to subscribe could survive in an a la carte world.

- In other words, you could buy one or two eggs for the price of a dozen. Consumers are not likely to think that is a good deal.
- The Further Report confirmed that a la carte will likely diminish diversity and minority-interest programming. It acknowledged that bundling gives cable operators incentives “to add niche programming that appeals to a small set of subscribers rather than add additional mainstream programming that provides greater total value to consumers” and that, in contrast, a la carte would be likely to provide more “mainstream” programming and less “niche” programming. That is the very reason that hundreds of commenting parties who feared the loss of programming uniquely targeted at the interests of minorities strongly oppose a government-mandated a la carte regime.

A la carte would fundamentally alter the way that people enjoy television.

- Cable revolutionized the way that Americans watch television by giving consumers a broad array of programming options. Most viewers like the opportunity to discover new networks and programs based on word of mouth, critical acclaim, or by grazing through channels, rather than having to decide in advance the entire list of programs and networks they can watch.
- A la carte would destroy that model, forcing viewers to lock in their choices in advance, and depriving them of the ability to easily explore new shows and networks.