

The NBCUniversal Merger

On January 28, 2011, Comcast Corporation succeeded in acquiring a controlling 51% stake in NBC Universal, Inc. (“NBC Universal”) and obtaining control over the studio conglomerate to form NBCUniversal, LLC (“NBCUniversal”). Previously managed by The General Electric Company, NBCUniversal is now headed by Comcast COO Stephen Burke. NBCUniversal is a media conglomerate that contains companies that cover countless aspects of the entertainment industry, such as television network and cable channels, a film studio, a content streaming website, and a cable operator. After a yearlong process to approve the merger under Federal Communications Commission regulations and more than two years after Comcast first announced its plan to purchase NBC Universal, the merger stands today as one of the largest media and communications company in the world.

NBC Universal, Inc. and Comcast Corporation

NBC Universal, Inc. was formed in May 2004 when GE’s NBC decided to merge with Vivendi Universal Entertainment.ⁱ A leading media conglomerate that has been a dominant force in the entertainment industry, NBC Universal, Inc. includes Universal Studios, Universal Pictures, Focus Features, and Illumination Entertainment (its animation division). CEO Jeffrey Zucker had led NBC Universal up until the merger, who was then replaced by Stephen Burke when the merger was finalized. Before Comcast bought 51% of NBC Universal, the company was 80% owned by General Electric and 20% owned by Vivendi Universal. With \$882 million in 2010 box office receipts and over \$15.4 billion in revenue in 2009, NBC Universal has established itself as one of the leading entertainment companies worldwide.^{ii,iii} Even with the merger, NBC Universal will continue to operate as a separate company instead of integrating with Comcast.

Comcast Corporation provides cable television, Internet, and telephone service all over the United States. Through many acquisitions, Comcast began to grow and become what is now the largest cable provider in the United States. Before the merger, Comcast already held significant ownership in cable networks such as E! Entertainment Television, Style Network, and The Golf Channel. Serving 22.8 million basic cable subscribers, Comcast's network reaches a wide customer base nationwide.^{iv} Comcast is one of the largest companies in entertainment, information, and communications products and services.

Comcast has taken many initiatives to improve entertainment, including areas where the Internet is concerned. In 2005, Comcast partnered with Sony Pictures Entertainment to acquire MGM and United Artists to distribute their material through cable and the Internet. Before Comcast announced its desire to purchase NBC Universal in October 2009, it revealed a "TV Everywhere" program with Time Warner that was available only for both of the cable companies' paid subscribers. This program was a test to bring TV shows online, starting with shows from TNT and TBS. Embracing the trend toward new media, Comcast started to find new ideas to distribute media to the general public.

NBCUniversal And Its Benefits To Comcast

On Comcast's website, the company is stated as being "one of the nation's leading providers of entertainment, information and communications products and services."^v With both NBC Universal and Comcast holding significant positions in the entertainment industry, the merger creates a leading entertainment giant covering virtually all aspects of the industry. According to an official announcement by Comcast, GE, and NBC Universal,

"The combination of assets creates a leading media and entertainment company with the proven capability to provide some of the world's most popular entertainment, news and sports content, movies and film libraries to consumers anytime, anywhere. The joint venture will provide consumers the broadest possible access to content, and support high-quality, award-winning content development across all platforms including film, television, and online."^{vi}

With almost every aspect of the entertainment industry within reach, Comcast has the ability to transform the way an entertainment conglomerate works. NBCUniversal now contains Universal Pictures, the NBC network, theme parks, Internet and cable services, Hulu, and channels such as E!, the Golf Channel, and Telemundo. NBCUniversal is currently 51% owned by Comcast and 49% owned by GE.

As the owner of many cable channels and other forms of entertainment, Comcast has always been looking for ways to expand in the entertainment industry. This was seen in its effort to purchase The Walt Disney Company in 2004, even though Disney rejected the offer. Although there are other studio conglomerates that Comcast could have purchased, GE was the company that was most willing to sell its entertainment subsidiary as opposed to News Corp. with Fox, for example. GE felt that NBC Universal was no longer a valuable asset to the company, and Comcast jumped at the chance to have more control over the content that goes through its cable systems.

In addition, Comcast was one of the first to see the potential that online viewing had over TV growth with its “TV Everywhere” program and pursued NBC Universal, a company with diverse programming and a large stake in Hulu. Hulu is a website that streams television episodes and movies from a variety of companies. Hulu’s service is free, but it also offers a premium service that includes additional features and greater access to content. Comcast has its own streaming website, Xfinity TV or Fancast, but it has the potential to double its web user base almost instantly by combining Comcast and NBC Universal’s current web users (See **Exhibit 1** for web user traffic). As online streaming continues to grow exponentially, Comcast is looking to pioneer the recently established field to new heights.

NBC Universal is also appealing to Comcast because it has had a steady growth rate of over 15% compounded from 2004-2009 with margins at nearly 50% (See **Exhibit 2** for an operating cash flow chart). NBC Universal has been successful in many of its ventures, and to be involved with a leading studio conglomerate can greatly improve Comcast and its services. Also, NBC owns Telemundo, the second-largest Spanish-language television network in the United States. Both Univision and Telemundo are growing at astounding rates that have analysts predicting that the channels will overtake English-speaking channels in the near future.^{vii}

Combining an entertainment studio with a cable provider also eliminates the costs and efforts involved in purchasing independent content to distribute. The merger reduces the externalities that emerge when content is produced, distributed, and exhibited through different companies. This way, Comcast can lower its costs and reduce the double markup that arises when it buys content from studios and sells it to its subscribers. Comcast could potentially lower its prices and gain a larger share of the market.

Conditions

The Comcast – NBC Universal merger took over a year to become finalized, mainly due to FCC antitrust regulations. While the NBCUniversal merger provides new competition and many opportunities, it also consolidates aspects of the entertainment industry that have never before been controlled by the same company. Before approving the merger, the FCC needed to ensure that the new conglomerate did not acquire an unfair advantage when the deal finalized, so it approved the merger after going over set conditions that Comcast must fulfill as a new company.

One of the biggest hurdles NBCUniversal encountered was NBC Universal's partnered ownership of Hulu with News Corp. and The Walt Disney Company. Although the FCC did not require NBCUniversal to give up its partial ownership of Hulu, FCC conditions associated with the merger required NBCUniversal to relinquish any controlling rights while providing the same amount of content that ABC/Disney and News Corp. offer. Therefore, although NBCUniversal holds Hulu's largest share of ownership, it is forbidden to make any executive decisions for Hulu on behalf of the company. NBC Universal's role in online media was a complication to the merger because of "the government's difficult task of applying antitrust law and other regulations to the rapidly evolving and not yet well-defined marketplace for online video."^{viii} Because of the amount of online power NBCUniversal has as a media and Internet conglomerate, it may also be required to release certain programming to other online distributors if other competitors do so first. For example, if Viacom allows Apple to distribute MTV reality shows, Comcast may be obligated to allow Apple to distribute similar NBC programming.

NBCUniversal has also agreed to create ten new independent cable networks, most of which will serve or be owned by minorities. It will also create a Joint Diversity Council that will focus on promoting diversity in employment, programming, and company relationships with the help of civil rights organizations. NBCUniversal has already begun carrying out that part of the deal, having signed a talent deal with comedian Randall Park, an Asian American, less than a month after FCC approved the merger.^{ix} The merger also benefits independent companies, for Comcast has made an agreement with the Independent Film and Television Alliance to increase independent content – diversifying their media and providing more opportunities for independent companies and producers. In addition, the conditions include provisions to create additional hours and programming choices for news, children and families, and Telemundo and Mun2 VOD programming. Comcast also pledged to keep NBC as a free-over-the air broadcast and offer discount Internet service to 2.5 million low-income households.

Public Feedback

The merger of the country’s largest cable provider and a major studio may lead to issues that have an effect on people all over the United States. The main concern to individuals in entertainment is just how much the merger will affect the industry. Comcast has consistently assured the public that the merger is “pro-consumer, pro-competition, and strongly in the public interest,” claiming that the company’s goals align with the public’s. Public opinion has, for the most part, been negative, with critics believing the inclusion of many conditions only shows how close the merger is to breaking antitrust laws (See **Exhibit 3** for an example of negative feedback).

While the FCC approved the merger, NBCUniversal contains characteristics similar to the vertical integration that was banned in the Paramount Decree of 1948. This antitrust law prohibited major studios from owning companies in all three parts of feature film media content: production, distribution, and exhibition. In other words, studios were not allowed to own companies that produced media, distributed media to theaters, and displayed media for the general public. Studios had to at least sell their theater chain counterparts, a result from studios creating a monopoly on their own movies by showing

it exclusively in their own theaters or selling them at high prices to other theater chains. While the merger is FCC approved, what NBCUniversal now does is somewhat similar to vertical integration – it provides and distributes the content through NBC and exhibits it on NBC networks shown through Comcast services. Critics claim that with Comcast’s extensive ownership over almost all areas of entertainment, the merger is headed in a monopolistic direction.

People are also concerned that the merger will raise cable prices and make it harder for outside companies to provide their own content, especially in areas where Comcast dominates TV stations and cable systems.^x Comcast argues that the merger does not shift the cable network industry, for NBC remains the fourth largest owner of national cable networks before and after the merger (See **Exhibit 4** for a comparison). Not only may the merger raise cable prices, but it could also potentially raise advertising prices, for Comcast now has a broader range of properties that it can use as leverage against companies.

While public response has mostly criticized the merger, Comcast has attempted to please underrepresented groups in the entertainment industry. As previously mentioned, Comcast has made a commitment to increase diversity in its programming, employees, and partners. This has brought praise from organizations such as the Center for Asian American Media, the National Association for the Advancement of Colored People, and the United States Hispanic Chamber of Commerce. Comcast has also agreed to create more opportunities for independent companies and producers, pledging to create independent channels and also working directly with the Independent Film and Television Alliance. While this will help bring more independent content to the entertainment industry, the Writers Guild of America, West and East both feel that the consolidation of NBC Universal and Comcast will escalate the discrimination of outside content.^{xi}

Risks

The merger has stirred up controversy from the start, and NBCUniversal must be careful in its future plans to improve the conglomerate. Not only is the future of NBCUniversal uncertain, but there are also risks for the entertainment industry and its

consumers as a whole. NBCUniversal must ensure that it does not violate any FCC regulations or become too monopolistic in its businesses. Many people are already skeptical of the fairness of the merger in the first place, and NBCUniversal needs to make smart decisions that benefits the company but does not anger its competitors, partners, or customers. This can be anywhere from being too controlling of its content to drastically raising the prices for its services.

Furthermore, NBCUniversal may fall short in providing the competition and innovation it promises. When America Online bought Time Warner in the year 2000, the new entity stirred up buzz as “a historic moment in which new media has truly come of age.”^{xii} Yet the so-called revolutionary merger failed to live up to its expectations, and in just two years, AOL Time Warner reported a loss of \$54 billion. And in late 2003, AOL was dropped from the name altogether, with plans to spin AOL off as a separate company in 2009.^{xiii} NBCUniversal represents a huge shift in the entertainment industry just as much as AOL Time Warner was perceived to be, even though there are qualities that make the NBCUniversal merger different. For one, this is the first time that a cable company will own a major broadcast network.^{xiv} In addition, AOL was not as involved with the entertainment industry as Comcast was before each of their respective mergers. But AOL Time Warner had the opportunity to revolutionize media, but it failed to adapt and cater to the online entertainment shift. NBCUniversal needs to remain innovative with its newfound power and utilize the vast range of entertainment companies it has within its reach.

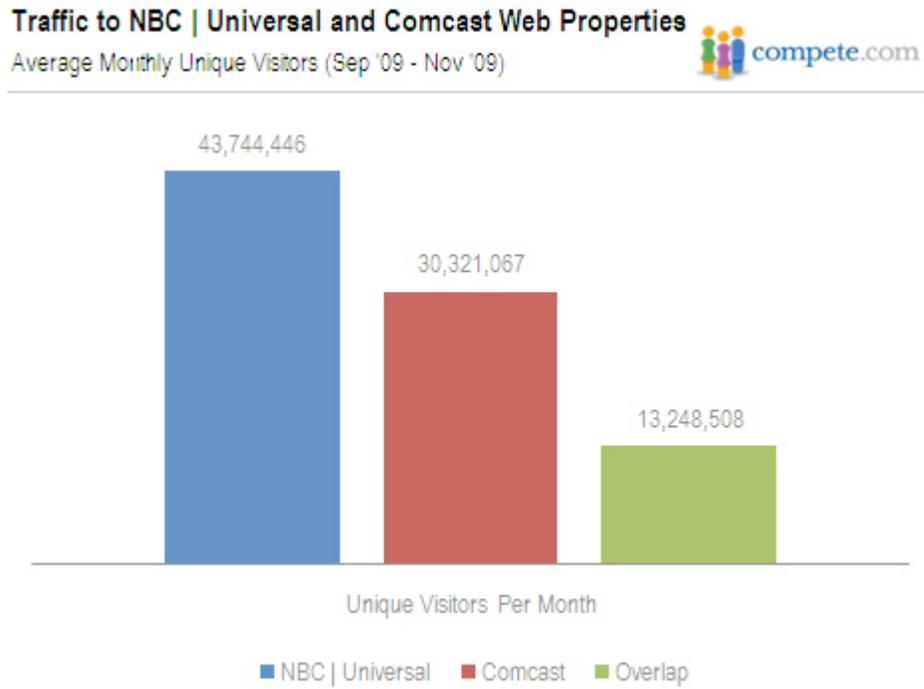
What the Future Holds For NBCUniversal

NBCUniversal now has a clear advantage in the entertainment industry – as Jean Prewit of the Independent Film and Television Alliance claimed, “We know what is good for Comcast and NBC in this merger: the ‘cost savings’ and ‘synergies,’ which they define clearly as the ability to self-source programming across their many platforms from free television to cable to video on demand to the internet, avoiding the ‘transaction costs’ involved in acquiring independent content and extending the reach of these channels and the self-sourced content to a wider audience.”^{xv} NBCUniversal can now

save some of the costs needed to obtain content and distribute it through its cable systems.

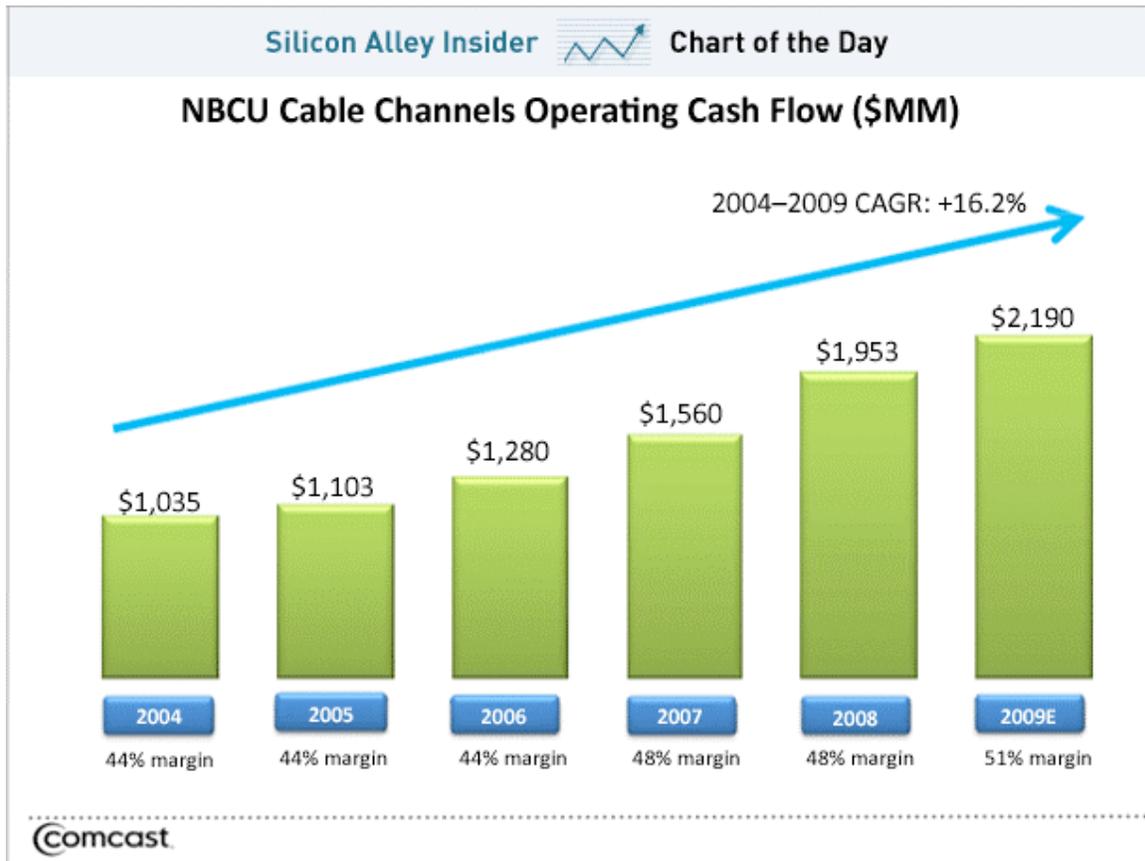
Although Comcast has no managing control of Hulu, its affiliation with the Internet provides ways for the company to expand media online. With the exponential growth of online viewing, Comcast has the potential to transform the relatively new platform. New media as a whole is evolving, and the Internet is becoming a threat to not only entertainment but also to industries across the board. Comcast has taken the opportunity to embrace the change and pave the relationship between entertainment and the Internet. Entertainment is constantly changing, and the merger could potentially define where the future of the industry is going. According to Mike Berkley, former CEO of SplashCast Media, “The real motivation behind this deal is survival.”^{xvi} As TV revenue from content, advertising, and subscriptions declines and online viewing gains popularity, Comcast is simply finding new means to build new revenue streams rather than hurting old markets.

Exhibit 1 Overlap Between NBC Universal and Comcast Web Users



Source: Adapted from Steve Schuler, “Comcast Acquires NBC and 30 Million New Online Customers,” Compete Pulse, <http://blog.compete.com/2009/12/08/comcast-acquires-nbc-and-30-million-new-online-consumers/>, accessed March 8, 2011.

Exhibit 2 NBCU Cable Channels Operating Cash Flow



Source: Adapted from Jay Yarow, “CHART OF THE DAY: The ‘Wow Slide’ That Explains The Comcast-NBCU Deal,” *Business Insider*, <http://www.businessinsider.com/chart-of-the-day-nbcu-operating-cash-flow-2009-12>, accessed March 8, 2011.

Exhibit 3 Negative Feedback on NBCUniversal

Merger Facts

Serving Size: 1 Mega-Merger

Amount Per Serving*

Saturated Media Ownership: 2 giant companies
Comcast reaches 1 out of every 4 cable subscribers.
NBC owns 27 local TV stations, and the NBC network reaches 99% of U.S. homes with TVs.

Fat Profits: Over \$50 Billion in Revenue
Comcast 2008 revenues: \$34.3 billion
NBC/Universal 2008 revenues: \$16.9 billion

Total Control: 1 out of every 5 viewing hours in the U.S.
Comcast 22 cable channels including E!, Style, G4, Comcast Sports Net, the Golf Channel, PBS Kids
NBC 30 cable channels including NBC, Telemundo, MSNBC, Bravo, USA, CNBC & part of Hulu

Level of Healthy Competition: Nearing 0%
Comcast would charge competitors more for NBC shows.
Comcast would control even more of the ad market.

Cost to Consumers: Big Bucks
Comcast already hikes its rates 8% every year. With less competition, they'll jack up prices even more.
Cable rates for customers nationwide will increase when Comcast starts charging its competitors more for NBC programs.

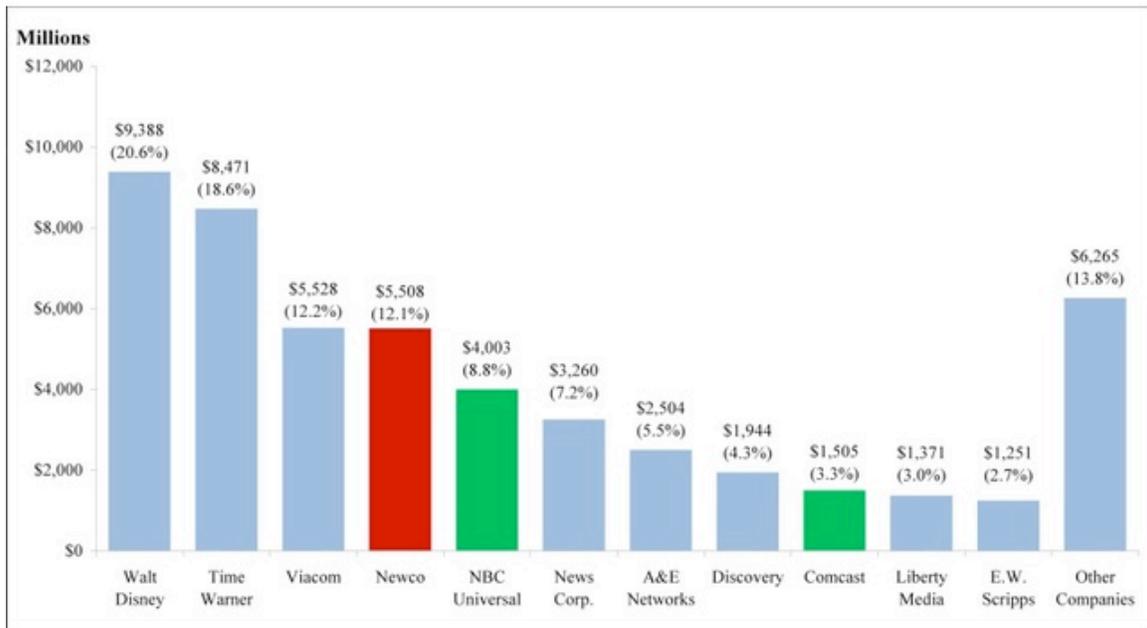
Diversity of Viewpoints Even Fewer
One company will control more news & information.
Comcast will prioritize NBC programs instead of local & independent voices.

**Based on a healthy media diet, enriched by diverse & independent viewpoints & quality journalism.*

WARNING: This merger could be hazardous to the health of our democracy.

Source: Adapted from Ron Hogan, "Comcast Eats NBC Universal," POPFi, <http://www.popfi.com/2009/12/04/comcast-eats-nbc-universal/>, accessed March 8, 2011.

Exhibit 4 Top 10 National Cable Owners by Majority and Wholly-Owned Network Total Revenues, 2009



Notes: Includes all basic cable and pay networks listed by Kagan. "Other Companies" includes networks belonging to owners not in the Top 10 and networks with no clear majority owner. Total revenue equals net advertising plus affiliate fee revenue. Data excludes all RSNs. Sources: Estimates by SNL Kagan; SNL Kagan Cable Network Ownership Data, Economics of Basic Cable Networks, 2009 Edition.

Source: Adapted from David L. Cohen, "Comcast, GE and NBC Universal File Public Interest Statement with FCC," Comcast Voices, <http://blog.comcast.com/2010/01/comcast-ge-and-nbc-universal-file-public-interest-statement-with-fcc.html>, accessed March 8, 2011.

Endnotes

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ⁱⁱ “Studio Market Share,” Box Office Mojo, <http://boxofficemojo.com/studio/?view=company&view2=yearly&yr=2010&p=.htm>, accessed March 9, 2011.

ⁱⁱⁱ “Summary of Operating Segments,” GE 2009 Annual Report, http://www.ge.com/pdf/investors/financial_reporting/financial_statements/ge_ar_2009_fin_sec_operating_segments.pdf, accessed March 9, 2011.

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^x Nikki Finke, “Why Hollywood Should Care About The Comcast/NBCU Deal,” Deadline Hollywood, June 22, 2010, <http://www.deadline.com/2010/06/why-hollywood-should-care-about-the-comcastnbcu-deal/>, accessed February 14, 2011.

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^{xvi} Theirer, “A Brief History of Media Merger Hysteria: From AOL-Time Warner to Comcast-NBC.”