**When A No might not be a No: A Case Study of the Acquisition of Time Warner Cable\***

Radha Chaganti, Professor, Department of Management Rider University, Lawrenceville, NJ

Mayank Jaiswal, Assistant Professor, Department of Management, Rider University, Lawrenceville, NJ email: [Mjaiswal@rider.edu](mailto:mjaiswal@rider.edu), and

Raj Chaganti, Professor, Department of General and Strategic Management Temple University, Philadelphia, PA email: [Chaganti@temple.edu](mailto:Chaganti@temple.edu)

Corresponding author:

Radha Chaganti, Professor, Department of Management, Rider University, 2083 Lawrenceville Rd, Lawrenceville, NJ 08648, email: [Chaganti@rider.edu](mailto:Chaganti@rider.edu)

\*This is an abridged version of the case submitted for presentation at the Annual Meetings of the Eastern Academy of Management, Providence, R.I. May 2018

**When A No might not be a No: A Case Study of the Acquisition of Time Warner Cable**

In late 2013, Charter Communications, the number 4 cable TV company made multiple bids to acquire Timer Warner Cable [TWC] the number 2 company only to be rejected. TWC instead invited the number 1 cable TV company Comcast to make a friendly bid and in February 2014 TWC accepted Comcast’s bid. However, a year later regulatory agency approval seemed unlikely and in April 2015 Comcast terminated its proposed merger1. Now that TWC was back in play, Charter appeared poised ready to make a revised bid. Regardless of who acquired TWC, an important question was who stood to gain and who would be hurt by the acquisition of TWC by a rival?

**INDUSTRY BACKGROUND**

**­­­­­­­­­­­*Cable TV Industry.*** The cable TV industry was started in the US in 1948. As of 2015, the major cable TV companies were Comcast Corporation, Time Warner Cable, Cox Enterprises, Charter Communications, and Cablevision Systems. Each provided a variety of bundled packages of voice, video and data services on a subscription basis. Highlights of industry are presented in Table1 below. Comcast Corporation, Time Warner Cable, and Charter Communications, the principal players in the acquisition process, are compared on businesses and strategies in Table 2 below.

**Table 1: Cable TV Industry Highlights**

|  |  |
| --- | --- |
| Industry Players | Industry characteristics |
| Competitors: major Cable TV companies were Comcast, Time Warner Cable [TWC], Cox, Charter Communications, and Cablevision | Companies provided cable TV, high-speed internet connections and related content services through similar bundles of basic and premium cable TV, broadcast TV, and VOIP services with higher prices for premium services. Costly and continuing technology upgrades in speed and quality of connections were essential. Industry revenues grew 2.9% yearly from 2011-2015 but high-speed/broadband internet segment grew at 11%. Overall number of cable TV subscriptions were decreasing, dropping from 104 million in 2011 to 100.8 million in 2015. Program purchasing costs were high and increasing. Average industry profits were 14% of revenues. Customer service complaints were common, being highest for TWC. Comcast had a 40% market share, TWC 23.5%, Cox 10.3%, and Charter 9.7%. Companies grew mainly through frequent acquisitions. The top five companies earned 84.1% industry revenues. |

Source: Nick Petrillo, *Cable Providers in the US;* IBIS World Industry Reports 20162

**Table 1: Cable TV Industry Highlights: contd**

|  |  |
| --- | --- |
| Indirect competitors: Satellite TV companies: Dish Network and DirecTV [from 2015 became part of AT&T] were major players | These were indirect competitors with similar offerings, and often served also rural markets where cable TV not available. Internet connection speeds much lower than for wired cable TV connections. |
| New Entrants: Verizon and AT&T were the majors | Wired and wireless telecom companies were new competitors. AT&T acquired DirecTV in 2015. Verizon’s FiOS technology superior to most cable TV companies’ technology but it covered limited geographic markets. |
| Substitutes: Over-the-top [OTT] media companies: Netflix, Amazon, Hulu were the major players | Provided retransmitted programming from cable and broadcast TV, and movie studios on a subscription basis mainly for mobile and online devices. Increasingly OTT companies invested in original programming. Younger viewers preferred OTT media to subscribing to cable TV channels. |
| Buyers: Residential and business subscribers | Residential subscribers accounted for 60% of industry revenues. Economic conditions, demographics, and improvements in technologies of cable TV and internet connections influenced demand. Younger audiences preferred mobile devices over cable TV. Quality and speed of connections, convenience of anywhere, anytime viewing, and attractive pricing relative to available programming were key to subscriber choices. |
| Suppliers of content: cable TV and broadcasting TV programming companies like Time Warner, NBC Universal [owned by Comcast], ABC [owned by Disney], CBS; and movie producer companies like Disney, NBC Universal, 21st Century Fox, and Viacom. | Program purchasing accounted for 22% of cable TV company costs, and in 2014 content suppliers often successfully demanded higher prices from cable TV companies. Yet, customers resisted price increases, thus squeezing cable TV profits, especially for the smaller cable TV companies. |
| Regulation | Local governments determined which cable TV companies could serve in their markets. Federal Communications Commission [FCC] monitored the industry for monopolistic behavior. In 2015 FCC imposed the ‘net neutrality’ rule barring cable TV companies from charging different prices to different users of distribution services. E.g. OTT companies could not charge higher fees to carry their companies’ content though they were heavy users of high-speed connections. |

Source: Nick Petrillo: *Cable Providers in the US;* IBIS World Industry Reports 2016.2

**Table 2: Comparison of Key Players: Comcast, TWC and Charter Communications**

|  |  |
| --- | --- |
| Comcast corporation | No.1 cable TV company with diversified businesses: in cable TV and high-speed internet, and through NBC Universal in cable TV programming, broadcast TV, and movie production. Had 27.7 million cable TV and 23 million broadband internet subscribers in 39 states in 2016. Cable TV subscriptions declining but broadband connections growing. Many acquisitions. Offered tiered pricing packages of service bundles and also a slim bundle for low income users. Technology leader offering upgraded cable TV services like the X1 platform and in selected markets, broadband internet speeds of 500mbps [megabits per second]. Operating margin above 27% in 2015. |
| Time Warner Cable [TWC] | No. 2 cable TV company offering video, voice and data services in tiered packages. Genre [sports e.g.] based packages a unique feature. Subscriptions declining somewhat overall. Invested in technology e.g. TWC TV app, and digital video technology, but not a tech leader. In 2014 served 15 million customers in 5 states and 80% were residential users. Frequent complaints about service quality. Operating margin above 20% in 2015. Not diversified. |
| Charter Communications | Served 6 million total customers in 2016 in Midwest, West and New England. Offered voice, video and data services in tiered packages similar to competitors. Excessive debt used for aggressive acquisitions which led to bankruptcy in early 2009 but re-emerged at the end of that year. Invested in advanced video technology and in internet connection speeds, which reached 100mbps in selected markets. Operating margin of 9.9% in 2015 was lower than that of Comcast and TWC due to smaller scale of operations. Not diversified |

Source: Nick Petrillo: *Cable Providers in the US;* IBIS World Industry Reports 2016.3

Tables 3, 4, and 5 summarize financial information for [only] cable TV operations of Comcast, TWC, and Charter respectively.

**ACQUISITION ROUNDS**

***Round 1: Charter Bids for Time Warner Cable***. In June 2013 Charter Communications the number 4 company in the industry made public its bid to acquire the number 2 cable TV company Time Warner Cable [TWC] after two of its earlier informal bids were rejected by TWC.

Charter’s logic was that consolidation and scale were necessary “to combat rising programming costs and capitalize on the business services opportunity…. to operate well”4. Merger would increase efficiency through reduced overhead costs and infrastructure consolidation. Further company prided itself on its operational efficiencies. Also the combined company would have enhanced bargaining power with content suppliers, and lately the higher programming fees imposed by media companies like CBS and Fox were hurting cable TV companies’ margins. Moreover, subscribers of TWC and Charter did not overlap geographically.

While acknowledging that they and the cable industry generally could benefit from consolidation, TWC said it could participate in a merger only if offer was in the best interests of its shareholders.

One view was that Charter with 4 million subscribers and an enterprise value of about $25 billion including a debt load of $14 billion in 2013, was less than half the size of TWC with over 12 million subscribers and enterprise value of $54 billion. A counter point was that TWC was a weak company and had been losing residential cable subscribers and adding fewer broadband subscribers during the previous two years. TWC also had received numerous customer complaints, and the technological edge it once had in high-speed internet was eroding5.

Prices that Charter offered for TWC in its multiple bids were a sore point with TWC for being too low. Charter initially offered TWC a stock price below $130 when TWC stock price ranged $110-$120, but by December 2013 Charter was willing to raise the bid to low-$130s, for a total price of $37.4 billion. TWC rejected this third and public offer saying it was still too low and would involve too much risk for TWC shareholders. Charter’s existing debt of $14 billion combined with TWC’s own debt of $25 billion would lead to excessive debt. Besides, Charter was planning to raise an additional $25 billion in debt to finance the transaction. The resulting debt load would be too much to bear. TWC would be [open to an] “offer that's better than the value we can create on our own” 6, 7. An added wrinkle in this process was that Charter stoked TWC management’s anger by announcing in February 2014, that they would nominate their own slate of directors to the TWC board, presumably because the newly elected directors would be more receptive to a Charter bid8.

***Round 2: Comcast Bids for Time Warner Cable***. Meanwhile Comcast had been mulling its own bid for TWC. As it turned out, TWC approached Comcast in late 2013 inviting a bid to counter Charter’s9. Comcast with a subscriber base of 22 million and a market capitalization of $130 billion, could easily afford the combination. Also Comcast might not have liked Charter’s bid for TWC, because, the new combined company with nearly 16 million customers would be a formidable competitor. But a proposed union of number 1 and number 2 cable companies would invite intense regulatory scrutiny on concerns of anti-competitive increase in market power.

Two days after Charter’s announcement, Comcast announced its friendly acquisition offer to TWC at a price of more than $158 for a total price of $45.2 billion10,11.If a merger was completed, Comcast with 30 million subscribers would be far and away dominant among cable and satellite TV distributors, followed by satellite companies DirecTV with 20 million, DishNetwork with 14 million, and telecoms AT&T and Verizon each with 5 million. Charter and Cox would have 4 million subscribers each. But, Comcast at the same time proposed to divest 3 million of its cable TV subscribers to keep its market share low enough and avoid regulatory challenges. Comcast claimed that geographically the two companies’ subscriber base did not overlap. Additionally, TWC subscribers would benefit from Comcast’s more advanced video technologies like X1 Entertainment Operating System, VOD platform, plus higher internet speeds and more streaming choices available on Xfinity TV.com. TWC accepted the offer because it was a compelling financial and strategic transaction for their shareholders. In the Comcast deal, TWC shareholders would receive $158.82 a share, a much higher price than Charter’s latest offer of $132.50.

Comcast share price decreased 3% after the announcement, suggesting investors worried about regulatory approval. Comcast’s ownership of broadcast and cable TV networks and film studios would be of concern to the Department of Justice and Federal Communications Commission [FCC]. Investors also read absence of the usual 3% breakup fee in the bid as a signal that both companies saw significant risks in regulatory approval12. Post-merger Comcast would cover 30% of cable in the top urban cable markets and control 40% of the high-growth high-speed internet market. It should be noted that satellite TV companies like DirecTV and Dish could not offer high speed internet connections yet, and the wireless telecom companies which provided mobile internet connections could not match the speeds of wired broadband internet connections of cable TV companies.

The news that a potential mega cable provider might emerge worried rival cable TV and satellite TV companies, as well as content suppliers like cable programming networks, and broadcast TV companies like Discovery, Scripps, AMC and CBS and OTT companies like Netflix , Amazon, and Hulu. After this merger, such content companies might no longer win in negotiations with cable TV companies for higher fees. But some doubted that Comcast, as owner of content operations through NBC and Universal, would view content companies as adversaries. Further, local television stations that received fees from cable TV providers also saw themselves to be at a disadvantage in negotiating with the new bigger Comcast. Additionally, it was feared this union might trigger a defensive wave of new mergers among smaller rival cable companies like Cablevision and Charter13.

Critics alleged innovation and customer service would suffer when large companies dominated, and US Congress was gearing up to scrutinize the deal as being anticompetitive14. Coincidentally after the announcement Netflix entered into a fee agreement with Comcast reportedly in multimillion dollars, to ensure access to reliable cable distribution for its programming. Such fees would not only raise costs for streaming companies and their customers, but more importantly they would over time stifle OTT streaming innovations because such high fees would be unaffordable for small startups.

Michael Copp, acting chairman of FCC was quoted as saying: “There is a strong case to be made why this merger shouldn’t be approved… It is just so much power for one company to amass, and it is not just cable. They’re a broadband company, they’re a broadcast company, they’re new media, they’re old media, they’re telecom, they’re everything”15. Review by federal agencies was likely to focus particularly on access to high speed internet, and looking at just the high-speed, i.e., 25 mbps [megabits per second] or higher mbps connections, post-merger Comcast would have a share of at least 50%. In fact, in a few geographic areas Comcast would practically be the only provider of these services. Most mobile broadband service providers transmitted data only up to 8 mbps, a speed well below that of the average cable modem. Competition from Verizon’s powerful fiber optic cable existed only in 15 per cent of the geographic markets, and Google Fiber was available in just three cities. As customers steadily switched to mobile devices for news and entertainment, the new Comcast would have unprecedented control of high-speed internet segment and could raise broadband prices and limit programming choices16.

Others countered that this combination would not be anticompetitive because cable television industry should be defined more broadly than just cable, but should include the satellite TV, telecommunications companies supporting mobile devices and the OTT media companies. Combining Comcast and TWC would give cable TV providers a fighting chance to withstand competitive onslaught from all these companies. A combined Comcast-TWC would be a stronger negotiator with content suppliers and better at holding down customer costs17. Also given its record as a leading innovator Comcast would offer more advanced technology to all subscribers.

To satisfy regulators’ concerns, Comcast also reached a deal with Charter in which the latter would buy 3 million cable customers that Comcast planned to divest after completion of merger with TWC18. US House and Senate committees held hearings in May 2014 to investigate the deal. Consumer groups, satellite TV, and online media companies appealed to Congress and FCC, protesting against the post-merger company’s undue leverage, particularly in the high-growth broadband internet market. In the meantime, other merger proposals were announced later in 2014, e.g. in May 2014 AT&T and satellite television company DirecTV announced an agreement for a $48.5 billion friendly take-over by AT&T. Critics reiterated that a Comcast-TWC merger would increase concentration in media industries19.

Review by FCC and some state agencies continued well into late 2014, and opposition mounted from media companies, consumer groups, and labor unions. Tom Wheeler then chairman of FCC said in in September 2014 there would be little choice for majority of Americans who wanted high-speed internet, adding that “three quarters of American homes have no competitive choice for the essential infrastructure of 21st century economics and democracy.” Market nervousness increased20, still hope was that free-market oriented Republican Congress might not bar the merger.

A year after it was announced, the proposal was still being scrutinized by regulatory agencies, indicating they were taking a dim view of Comcast’s bid. Comcast in late 2014 stated that while it had a strong interest in the merger, “we have a very broad right to walk away from the transaction” if burdensome conditions were imposed for approval21. In April 2015, FCC recommended ‘hearing designation order,’ an order that would put the merger proposal in front of an administrative law judge, signaling that FCC was not persuaded the merger would serve public interest. Past history suggested that such a recommendation was a deal-killer, even though in principle the two companies have a right to make their case to the judge at a hearing22. A few days later in April 2015 Comcast terminated its deal to acquire Time Warner Cable23, 24.

End notes

1 Shalini Ramachandran, Joe Flint and Brent Kendall, FCC Staff Recommends Hearing on Comcast-Time Warner Cable Merger. *Wall Street Journal* April 23, 2015 , <https://www.wsj.com/articles/fcc-staff-recommends-hearing-on-comcast-time-warner-cable-merger-1429751499>

2, 3 Nick Petrillo: *Cable Providers in the US;* IBIS World Industry Reports 2016. [www.ibisworld.com/industry-trends/market-research-reports/information/broadcasting-telecommunications/cable-providers.html](http://www.ibisworld.com/industry-trends/market-research-reports/information/broadcasting-telecommunications/cable-providers.html) accessed 5/10/2017

4 Shalini Ramachandran, Martin Peers, Christopher S. Stewart, *Liberty Talks Up Charter-Time Warner Cable Deal With Investor****s***: Wall Street Journal June 28 2013. /www. wsj.com/ accessed 5/10/2016

5 Shalini Ramachandran, *Corporate Suite vs. Industry Lifer; Who Is Best Prepared to Run Time Warner Cable*?Wall Street Journal, December 19, 2013 /www.wsj.com/ accessed 5/10/2016

6 Dana Cimilluca, *Charter Makes Offer for Time Warner Cable: Bid of $37.4 billion Aimed at Bringing Cable Company to the Table*: Wall Street Journal, Jan 13, 2014. /www.wsj.com/ accessed 5/11/2016.

7 Steven Davidoff Solomon, *What’s behind Time Warner’s Response to Charter’s Offer* New York Times January 23, 2014. <https://dealbook.nytimes.com/2014/01/23/whats-behind-time-warners-response-to-charters-offer/?_r=0>

8 David Gelles, Charter’s Bid for a Deal in Cable Heats Up. New York Times, February 11, 2014 <https://dealbook.nytimes.com/2014/02/11/charter-names-its-13-nominees-for-time-warner-cable-board/> accessed 5/10/2016

9 Shalini Ramachandran, Dana Cimilluca, and Brent Kendall.*Time Warner Cable has Reached Out to Comcast to Discuss a Deal* Wall Street Journal, Nov 22, 2013./www.wsj.com/ accessed 5/11/2016

10Shalini Ramachandran and Dan Cimilluca, *Comcast Acquiring Time Warner Cable in All-Stock Deal Worth $45 billion. Proposed Deal would combine the number 1 and number 2 cable operators*. Wall Street Journal, February 13, 2014. /www.wsj.com/ accessed 5/10/2016

11William Alden, *The Comcast-Time Warner Deal, by Numbers*. New York Times, Feb 13, 2014] //dealbook.nytimes.com/2014/02/13/the-comcast-time-warner-deal-by-the-numbers/?\_r=0 accessed 5/10/2016

12  Steven Davidoff. *Investors Eye Comcast’s Bid for Timer Warner Cable with Caution*. New York Times, February 13, 2014. <https://dealbook.nytimes.com/2014/02/13/lessons-learned-from-charters-previous-hostile-offer-for-time-warner/> accessed 5/10/2016

13 David Gelles. *With a Bigger Comcast May Come More Deals*. New York Times, February 14, 2014. https://dealbook.nytimes.com/2014/02/14/a-bigger-comcast-may-beget-more-deals/accessed 5/11/2016

14 David Goldman, *Comcast Deal to Face Antitrust Hurdles*. CNNMoney, February 13, 2014. <http://money.cnn.com/2014/02/13/technology/comcast-time-warner-antitrust/index.html> accessed 5/10/2016

15 David Carr. Que*stions for Comcast as It Looks to Grow*. New York Times, April 6, 2014 https://www.nytimes.com/2014/04/07/business/media/questions-for-comcast-as-it-looks-to-grow.html accessed 5/10/2016

16 Edward Wyatt, *Internet Choices Will Be Crucial Battlefield in Big Cable Merger*., New York Times, April 7, 2014 <https://www.nytimes.com/2014/04/08/business/in-scrutiny-of-cable-merger-internet-choice-will-be-crucial-battlefield.html>, accessed 5/11/2016

17 Larry Popelka. *Comcast-Time Warner Merger is Good for Competition- and Consumers.*. BloombergBusinessWeek.com, February 18, 2014 <https://www.bloomberg.com/news/articles/2014-02-18/comcast-time-warner-merger-is-good-for-competition-and-consumers>, accessed 5/11/2016

18 David Gelles, *Charter Reaches Deal with Comcast for Subscribers.* New York Times, April 27, 2014 https://dealbook.nytimes.com/2014/04/27/charter-said-to-finalize-deal-with-comcast-for-subscribers/ accessed 5/11/2016

19 David Gelles. With a Bigger Comcast may Beget More Deals. New York Times, February 14, 2014. <https://dealbook.nytimes.com/2014/02/14/a-bigger-comcast-may-beget-more-deals/>

20 Jeff Sommer, *The Stock Market is on Edge about a Cable Merger*. New York Times, Nov 8, 2014 <https://www.nytimes.com/2014/11/09/your-money/the-stock-market-is-on-edge-about-a-cable-merger.html> accessed 5/10/2016

21 David Gelles and Emily Steele. *Comcast-Timer Warner Cable Deal is Still Up in the Air a Year Later*. New York Times, February 8, 2015 <https://dealbook.nytimes.com/2015/02/08/comcast-time-warner-cable-deal-still-up-in-the-air-a-year-later/> accessed 5/11/2016

22 Shalini Ramachandran, Joe Flint and Brett Kendall, *Staff Recommends Hearing on Comcast-Time Warner Cable Merger.* Wall Street Journal, April 23, 2015 <https://www.wsj.com/articles/fcc-staff-recommends-hearing-on-comcast-time-warner-cable-merger-1429751499> accessed 5/11/2016

# 23 Emily Steel, David Gelles, Rebecca R. Ruiz & Eric Lipton *Comcast Is Said to End $45 Billion Bid for Time Warner Cable,* New York Times, April 23 2015 <https://www.nytimes.com/2015/04/24/business/media/comcast-time-warner-cable-merger.html?_r=0>

# 24 CNBC. *Comcast ends pursuit of Time Warner Cable acquisition*, CNBC April 24, 2015 <https://finance.yahoo.com/news/comcast-ends-pursuit-time-warner-123653770.html> downloaded 5/11/2016

**Table 3: Comcast Corporation: Financial Performance of Cable TV operations**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Year | Revenue ($ million) | %change over previous year | Operating income ($ million | % change over previous year |
| 2011 | 37,226.0 | 5.3 | 8893.0 | 10.2 |
| 2012 | 39,604.0 | 6.4 | 9850.0 | 10.8 |
| 2013 | 41,836.0 | 5.6 | 10,811.0 | 9.8 |
| 2014 | 44,140.0 | 5.5 | 11,690.0 | 8.1 |
| 2015 | 46,656.0 | 5.7 | 12,825.0 | 9.7 |

Source:Nick Petrillo: *Cable Providers in the US;* IBIS World Industry Reports 2016

**Table 4: Financial Performance of Time Warner Cable’s cable television operations**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Year | Revenue ($ million) | %change over previous year | Operating income ($ million | % change over previous year |
| 2011 | 19,675.0 | 4.3 | 4069.0 | 10.3 |
| 2012 | 21,386.0 | 8.7 | 4445.0 | 9.2 |
| 2013 | 22,120.0 | 3.4 | 4580.0 | 3.0 |
| 2014 | 22,812.0 | 3.1 | 4632.0 | 1.1 |
| 2015 | 23,926.0 | 4.9 | 4907.0 | 5.9 |

Source: Nick Petrillo: *Cable Providers in the US;* IBIS World Industry Reports 2016

**Table 5: Financial Performance of Charter Communications’ cable television operations**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Year | Revenue ($ million) | % change over previous year | Operating income ($ million | % change over previous year |
| 2011 | 7204.0 | 2.1 | 1041.0 | 1.70 |
| 2012 | 7504.0 | 4.2 | 915.0 | -12.10 |
| 2013 | 8155.0 | 8.7 | 909.0 | -0.68 |
| 2014 | 9108.0 | 11.7 | 971.0 | 6.80 |
| 2015 | 9713.0 | 6.6 | 961.0 | -1.00 |

Source: Nick Petrillo: *Cable Providers in the US;* IBIS World Industry Reports 2016

**When a No is not a No: Acquisition of Time Warner Cable**

Instructor’s Manual

CASE SYNOPSIS

Time Warner Cable [TWC] turned to Comcast as the white knight in 2014 and invited the company to make a friendly acquisition offer after TWC rejected multiple bids from the smaller cable TV company Charter Communications. Comcast obliged, but the merger proposal was rejected by federal authorities due to regulatory issues in 2015. It was a high stakes endeavor for both suitors with multi-billion dollar bids. This case study seeks to identify and analyze events in this acquisition process to illustrate important concepts in strategic management.

Target Courses

*This case is targeted at students in undergraduate capstone courses in strategic management/business policy with a view to reinforcing their understanding of strategic analysis in M&A situations.*

Learning Objectives and Theoretical Linkages

1. Students get practice in analyzing industry characteristics [a la Porter] and identify resources and capability advantages [if any] of the firms competing in the industry.
2. Students understand and describe the motivations of Charter, Comcast and TWC in their conduct with respect to the TWC acquisition efforts.
3. Students evaluate M&As not just from the viewpoints of the companies, but with the yardstick of impacts on the diverse stakeholders involved in the acquisition process.

Assignment Question 1:

Identify the competitive pressures faced by cable TV industry in 2013-2014. Also identify the resources and capabilities of Comcast Corporation, Time Warner Cable [TWC] and Charter Communications at this time.

Practicing analysis of external and internal environments of companies is highly useful exercise so that students understand context of the M&A clearly. So we recommend instructors encourage class to identify the status of industry conditions at the beginning of the TWC acquisition process. Good sources for analyzing competitive pressures faced by cable TV companies are the theoretical concepts developed in Porter1 and Thompson, Peteraf, Gamble and Strickland2. Our analysis of the industry situation is presented in Table IM-1 below.

Competitive position of the three players in TWC acquisition. A company’s resources and capabilities are the building blocks of its competitive strategy and its competitive advantage depends on the quality and quantity of its resources and capabilities relative to those of its competitors. Students can compare resources of the three players in the M&A situation, namely, Comcast, TWC and Charter using the **VRIN** framework3. That is, 1. Is it valuable competitively? 2. Is it rare or widely available? 3. Is it inimitable that is hard to imitate? And 4. Is it non-substitutable or safe from threat of substitute types of resources? Which of these companies’ resources stand one or more of these tests? Using the limited data in case, our analysis is summarized in Table IM-2.

Table IM-1: Analysis of Industry Competitive Pressures for Cable TV companies in 2013

|  |  |
| --- | --- |
| INDUSTRY PLAYERS | COMPETITIVE PRESSURE FOR CABLE TV COMPANIES |
| Direct Competitors: Cable TV companies | Rivalry intense due to slow growth in cable TV demand, limited product differentiation among offerings and highly price sensitive customers |
| Indirect competitors: Satellite TV companies | Competitive pressure high due to product similarity, but cable TV had edge in broadband speeds |
| New Entrants from Telecom Industry | Increasing pressure due to product similarity and large size and resources of telecom companies |
| Substitutes in OTT media companies | High threat to cable TV video services due to anywhere any time viewing convenience and lower cost to users. |
| Buyers: residential | Competitive pressure high due to high buyer power high due to low product differentiation in cable TV services and high price-sensitivity of buyers, and availability of mobile viewing. |
| Programming content suppliers | Pressure high due to strong bargaining power with cable TV companies because for buyer/user, content is king. |
| Key success factors in industry | Technology edge especially in broadband internet connection speeds, size of customer base for economies of scale, control of content. |

Table IM-2: Comparison of Comcast, TWC and Charter’s resources and capabilities

|  |  |
| --- | --- |
| Resources common to the three companies | Similar service bundles of voice, video and data and similar pricing packages and similar in customer service weaknesses. Technology investments was a common capability, as were acquisitions. |
| Comcast | Strongest on broadband internet technology, strongest in market size and economies of scale, and owned content assets. Strong and unique leadership capabilities in moving ahead of rivals in response to industry dynamics. |
| TWC | Had market size, but said to be weak in operational efficiency capabilities. No unique capabilities. |
| Charter | Lacked in size and scale resources, but leadership tended to make risky and aggressive moves to acquire them. Technological capabilities higher than those of TWC but lagged behind Comcast. No other unique resources and capabilities |

Though Comcast was strongest among the three in market, financial, and technological resources and capabilities, these did appear to be unique or inimitable in the long run to meet the VRIN test. Its advantages seemed primarily attributable to the leadership’s capabilities in responding with speed and agility to industry forces. Charter’s advantage also seemed to lie in leadership’s acquisitive capabilities, particularly in the 2013 timeframe.

Assignment Question 2:

Why was Charter interested in TWC and why did Comcast want to acquire TWC?

Turning to motivations of the companies for engaging in the M&A efforts, our analysis is presented in Table IM-3. Theoretical concepts relating to advantages and disadvantages of acquisitions identified by authors of strategic management texts help. We suggest the book Hitt, Ireland, and Hoskisson for a detailed discussion of pros and cons of acquisition strategies4.

Table IM-3: Motivations of Comcast, TWC and Charter in the acquisition process

|  |  |
| --- | --- |
| Comcast | To pre-empt competition from a combined Charter-TWC, increase market size and scale, add to its technological advantage and by offering advanced technologies to more subscribers, add to its bargaining power with suppliers, better withstand competitive threats from OTT and telecom, no geographic overlap in subscriber markets. Drawbacks risk of regulatory agency rejection of merger due to concerns about excessive control of cable TV market. At the very least Comcast might have to divest some subscriber markets to satisfy regulators. |
| TWC | Rejected Charter bid because of drawbacks that it would not increase TWC market size or scale much, bid price was too low, risk of excessive debt in merging with Charter, Charter acted as a hostile acquirer.  Invited Comcast because: would benefit from financial strength and market power of Comcast, increase TWC’s market size and scale significantly, Comcast’s bid price was much higher, gain Comcast’s advanced technology, gain bargaining power with suppliers and withstand competitive threats from OTT and telecom. Drawbacks: risk of rejection by regulatory agencies |
| Charter | TWC would add substantial scale and size, Charter could leverage its operating capabilities to remedy TWC weaknesses, improve TWC customer service record, gain bargaining power with suppliers, and withstand competitive threats from OTT and telecom. No geographic overlap in markets. Drawbacks: risk of rejection by TWC. |

Assignment Question 3.

Weighing interests of the diverse stakeholders involved in the TWC acquisition process, is the merger of TWC with a rival cable TV company desirable? Give well-developed reasons for your conclusions.

Main purpose of this question is to encourage students to evaluate corporate strategy from the broader economic and consumer yardsticks and not just the competitive objectives of companies involved. Regardless of which particular company might acquire TWC in future, e.g. Charter, or another rival cable company, it is important for students to evaluate impacts of, and concerns regarding, TWC acquisition on the diverse groups of stakeholders involved in the acquisition. Students should be encouraged to consider first perspectives of the companies engaged in acquisition, of other direct rivals in cable TV industry, indirect competitors in telecom and satellite companies, OTT media companies like Netflix, Amazon, and Hulu, suppliers of content for cable TV like Disney, CBS, and Time Warner Entertainment, regulatory agencies like FCC and Department of Justice, and last but not least the residential subscribers/buyers/ customers. It is evident that an acquisition is a no-no for some groups and ‘vital’ for others. Our assessment is summarized in Table IM-4.

Many of the benefits and disadvantages can be gleaned from the case narrative on the responses of the different groups to the Charter’s and later Comcast proposal to acquire TWC. After a consideration of these consequences students should give their conclusion on whether their opinion benefits from acquisition of TWC by a rival outweigh the disadvantages to the various parties.

Table IM-4: Benefits and Disadvantages in acquisition of TWC by a rival Cable TV company

|  |  |  |
| --- | --- | --- |
| Stakeholders | Benefits | Disadvantages |
| Acquiring cable TV company | High in market power, scale, bargaining power with OTT and suppliers, greater chances of growth and profits | Risk of regulators’ rejection of proposals |
| TWC | High in market power, scale, bargaining power with OTT and suppliers, greater prospects of growth and profits | Medium depending on the financial strength and market power of acquirer, risk of rejection by regulators |
| Rival cable TV companies | Low – some chance that they might be more attractive to potential acquirers | High, because a stronger rival emerges, their relative market power and bargaining power with suppliers and OTT might diminish |
| Indirect competitors: Telecom  Satellite companies | Low because some chance they might be more attractive to potential acquirers | High, because a stronger rival emerges, their relative market power and bargaining power with suppliers and OTT companies might diminish |
| Suppliers of content | Low | High because cable TV [distributors] would have greater bargaining power, risk of slower growth of revenue and profits |
| OTT media companies | Low | High, because costs of access to distribution services might increase, and fewer innovative startups |
| Buyers/subscribers | Low | High, because cable TV and broadband internet prices might increase, service choices might decrease, fewer innovations in media in long run |
| Regulatory agency concerns | Low | High, reduce competition in cable TV and excessive market control by a few; so would hurt consumer interest, and innovation in media industries |

Endnotes

1 M. E. Porter, Competitive Strategy, New York: Free Press, 1980; M. E. Porter, ‘The Five Competitive Forces That Shape Strategy,’ Harvard Business Review 86, no. 1 (January 2008), pp.78-93

2 A. A. Thompson, M. Peteraf, L.E. Gamble, A.J. Strickland III, Crafting and Executing Strategy: The Quest for Competitive Advantage: Concepts and Cases, 21st edition, New York: McGraw-Hill Education, 2018.

3 M. Peteraf and J. Barney, ‘Unraveling the Resource-Based Tangle’ Managerial and Decision Economics, 24-no.4 (June-July 2003) pp.309-323

4 M.A. Hitt, R.D. Ireland, and R.E. Hoskisson: Strategic Management: Competitiveness and Globalization, 12th edition, 2017, Cengage Learning, Chapter 7: Mergers and Acquisitio**ns**,