



Highlights of [GAO-04-241](#), a report to the Subcommittee on Antitrust, Competition Policy and Consumer Rights, Committee on the Judiciary, U.S. Senate

### Why GAO Did This Study

One of the primary purposes of the Telecommunications Act of 1996 was to promote competition in telecommunication markets, but wire-based competition has not developed as fully as expected. However, a new kind of entrant, called *broadband service providers* (BSP), offers an alternative wire-based option for local telephone, subscription television, and high-speed Internet services to consumers in the markets they have chosen to enter. This report provides information on (1) BSPs' business strategy, (2) the impact of BSPs' market entry on incumbent companies' behavior and consumer prices for telecommunications services, (3) the key factors that BSPs consider when making decisions about which local markets to enter, and (4) the success of BSPs in attaining subscribership and any key factors that may limit their success.

We developed a case-study approach to compare 6 cities where a BSP has been operating for at least 1 year with 6 similar cities that do not have such a competitor. The 6 markets with a BSP presently account for more than 20 percent of the households nationwide that are in areas where BSPs currently offer the three-service package, but the results of these case studies are not generalizable to all markets.

[www.gao.gov/cgi-bin/getrpt?GAO-04-241](http://www.gao.gov/cgi-bin/getrpt?GAO-04-241).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Mark Goldstein at (202) 512-2834 or [goldsteinm@gao.gov](mailto:goldsteinm@gao.gov).

## TELECOMMUNICATIONS

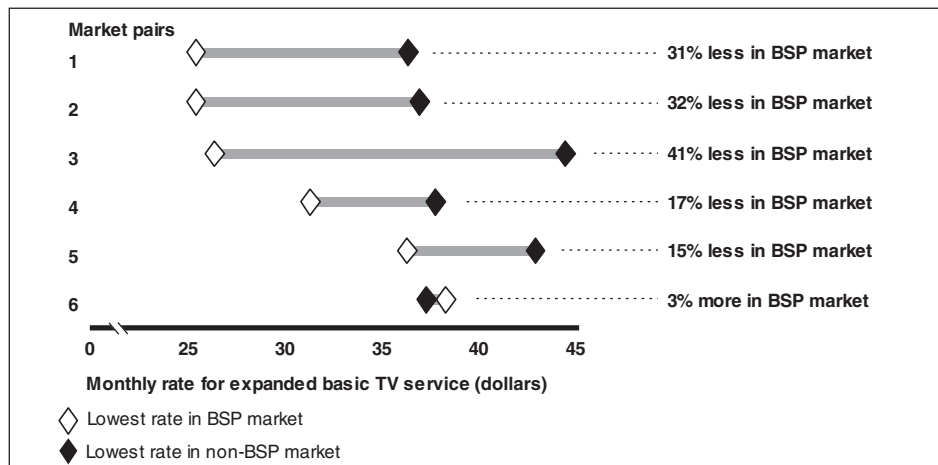
### Wire-Based Competition Benefited Consumers in Selected Markets

#### What GAO Found

BSPs' primary business strategy is to build a fiber-optic network to provide consumers with a *bundle* of services, including subscription television, high-speed Internet access, and local telephone. To entice consumers to purchase more than one service of the three services they offer—a key marketing goal—all of the BSPs we reviewed offer substantial savings to consumers who buy more than one service.

The rates for telecommunications services were generally lower in the 6 markets with BSPs than in the 6 markets without a BSP. For example, expanded basic cable television rates were 15 to 41 percent lower in 5 of the 6 markets with a BSP when compared with their matched market.

Comparison of Monthly Cable TV Rates in 6 Matched-Pair Markets



Source: GAO.

The 6 BSPs we interviewed said that demographic factors, such as city size, income, and computer use were important factors in their decision to enter a market. For example, most of the BSPs avoided entering large cities. Location of the markets to key facilities and receptivity of local government officials were also considered when deciding which markets to enter.

The 6 BSPs we interviewed have gained significant market shares for the services they provide, but they have also faced a number of obstacles that may be hindering their success. For example, the BSPs we spoke with are experiencing some financial difficulties and are putting off network expansion. Two of these companies also currently lack the resources necessary to adequately market their services within their existing markets.

We provided a draft of this report to the FCC and DOJ. The DOJ did not provide any comments, and FCC provided technical comments that we incorporated. We invited the Broadband Service Provider Association, the National Association of Telecommunications Officers and Administrators, the National Cable & Telecommunications Association (NCTA), and the United States Telecom Association to comment on a draft of this report. We summarize and discuss NCTA's detailed comments in the report.