What is in the News?

January 2011

- NBCU-Comcast merger.
- New fees from Bank of America in response to FinReg.
- Groupon (In Athens as of January 17...first deal a $10 voucher to Moe’s conditional on 5 total people buying).
Goal of the Course

- To give you the tools to think through current events of this nature, for when you are a key player in such an event.

- What are the strategic reasons for a vertical merger such as NBCU-Comcast? What are the competitive concerns? Why does the FCC appear poised to require Comcast to provide video content to an online video service if rivals such as Disney provide their content. Why is Rupert Murdoch opposed to this rule?

- Do rivals such as Wells Fargo need to respond to Bank of America’s new fees and loyalty conditions? Are rivals’ best responses likely to make competition fiercer or softer?

- What are the fundamental economics behind Groupon? How does it add value?
Instructor

John L. Turner

- Born: Atlanta, GA.
- Graduate School: University of Virginia, 2002 (MA, PhD, Economics).
- At Terry since 2002, Associate Professor since 2008.
- Main research interests in industrial organization.
- My first MBA course.
The Course

- Study (mostly) of behavior in situations characterized by strategic interdependence.
- Game theory “from the standpoint of the player” (i.e. how to use it to optimize performance).
- A bit about capturing market power, pricing and bundling (which are more decisions than game playing).
- Case-study driven
The Course (continued)

- Introductory section on game theory fundamentals (4-5 classes, including one case).
- Application of fundamentals to IO models of monopoly and rivalry, plus industry analysis and competitive advantage (8-9 classes, including cases).
- Applications to business environments with a small number of players (14 classes).
## Games

### Non-business

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### Business

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Grading

- Class Participation (20%)
- Group Case Writeups (30%)
- New Case (20%)
- Final Exam (30%)
Class Participation

- Bring a name tent.
- Bring topics of the day to discuss as class begins.
- Be prepared to be cold-called.
Group Case Writeups

- Groups should include 4-5 people.
- Groups need to form in the next 2 weeks.
- Write memos no longer than 2 single-spaced pages (excluding figures and calculations).
New Case

- Write a new mini-case based on a current business situation.
- Make it concise but dense with substance. Keep under 1,000 words (excluding figures and calculations).
- An example: an important aspect of the NBCU-Comcast merger overlooked by commentators.
- Examples of past mini-cases: www.strategytoday.blogspot.com (a class blog for a strategy course at Chicago Booth in 2005).
Final Exam

- Cumulative.
- In class.
- May include a case to prepare.
NBCU-Comcast Merger

- Comcast is in the process of acquiring a 51% stake in NBC Universal (NBCU) from General Electric (GE).
- The proposed merger is reviewed by the Federal Communications Commission (FCC) and the Department of Justice (DOJ).
- This is a partially horizontal and partially vertical merger.
- Comcast owns 9 regional sports networks and many national cable networks (e.g. E! Entertainment, TV One, Versus) and is also the largest cable operator in the US, serving 23.8 million customers in 39 states (TV, broadband internet).
- **Horizontal**: NBCU also owns television networks (e.g. NBC, USA, Bravo) that are substitutable to some degree with Comcast’s networks.
- **Vertical**: Networks are “upstream” from multichannel video programming distributors (MVPDs) such as Comcast (and Charter, Adelphia, Cox, Time Warner, etc.). These MVPDs pay NBCU for the right to broadcast its networks to their cable customers.
FCC and DOJ review (from WSJ articles 1/18/11 and 1/19/11)

- Comcast must provide more space on its cable systems for independently-owned channels.
- Comcast must guarantee the independence of NBC news operations.
- Comcast must offer standalone internet service for $49.95 a month for three years.
- Comcast must provide its programming to any online competitor that has reached a similar deal for content with one of NBC’s competitors (e.g. Walt Disney’s ABC or News Corp.’s Fox).
- Many provisions endure for 7 years, longer than the 3-5 years the FCC typically requires.
A Market for Video Programming

- NBC Universal
- Comcast (C) Value = V
- Rival MVPD (R) Value = V
- C (1/2)  R (1/2)

Subscribers
Suppose a given consumer gets $20 per month worth of value from either of two networks N1 and N2.

Suppose a given consumer gets $30 per month worth of value from having both N1 and N2.

We say they are (partly) substitutable because having one diminishes the marginal value of the other (from $20 to $10).

If they are separately owned, an MVPD will only be willing to pay the marginal value of $10 for each network (absent collusion).

If they are jointly owned, an MVPD will be willing to pay the total value of $30 for the bundle.

Upstream consolidation could result in greater upstream bargaining power and higher prices.
Foreclosure: A Vertical Concern

NBC Universal

Comcast (C) Value = V

Rival MVPD (R) Value = V' < V

C (2/3) R (1/3)

Subscribers
NBCU-Comcast Merger: Questions

- Is this a good strategic move for NBCU and Comcast?
- What are the implications of the FCC/DOJ conditions on the merger for competitive strategy in the market for video content (online and TV)?