They Fuse, You Lose

By Rob Pegoraro
Thursday, February 22, 2007; D01

The XM and Sirius satellite radio services came into being to give listeners a creative alternative to the soul-numbing monotony of commercial FM. But a proposed merger announced this week comes right off the standard playlist of other merger-happy industries.

Like every other newly engaged corporate couple, XM and Sirius say they must unite to survive -- the "let us merge, or we'll all die!" argument. They also repeat the usual assurances that the post-merger market will be as competitive as ever - since they were never real rivals anyway.

You've heard the exact same arguments made for most high-profile mergers. Whether it's banking, phone service, airline travel or gasoline, we're supposed to believe that reducing the number of competitors can only improve things.

More often, the only third parties to profit from a merger are the lawyers who usher the transaction to completion and the printing shops that crank out new business cards.

In the case of satellite radio, more is at stake than the number of channels beamed down from orbit. Competition pushed Washington-based XM and New York-based Sirius to come up with innovations in pricing (Sirius's $500 lifetime subscription fee) and products (XM's Mini-Tuner plug-in module, which lets you use one account with multiple receivers). A merger undercuts the need for further innovation.

The government, which sold XM and Sirius their radio licenses on the condition that they stay separate, will have a chance to veto this merger. But even if it stops the deal, we'll still be stuck with deeper issues that cramp our ability to buy the gadgets and services we want.

The biggest one is device choice, the way telecom providers limit which products can connect to their services. If you've been happy with your Dish Network set-top box but prefer the channel selection of DirecTV or Comcast, tough -- you'll have to give up the old box to make that switch. Instead of a company's customer, you may feel more like its property.

The history of XM and Sirius demonstrates this. Both firms once pledged to establish a common standard for receivers, which would have let subscribers keep the stereo they liked after changing services. But they quickly, conveniently, set aside this goal.

Each company's exclusive deals with car manufacturers provide a particularly strong form of lock-in. Buy a
new Acura but want to listen to Sirius? You'll have to rip out the Acura-installed XM tuner and pop in one that works with Sirius.

A Sirius-XM merger would end that problem, but not before inflicting a final insult. At some point, either Sirius or XM subscribers -- or maybe both -- will have to junk their old radios to keep tuning in to the new company's broadcasts.

That's not to say that viable competition always leads to more choices for consumers. In the communications market, companies seem strangely reluctant to compete on price. Most would rather give you more for the same price than lower the monthly rate -- whether or not you have any time or ability to enjoy the extra service provided.

Cable and satellite providers, for example, throw more channels into their entry-level packages, Internet providers rev up download speeds, and cellphone carriers add more minutes. (Sirius and XM initially offered customers a choice -- a lower price with some ads, or a higher price with fewer ads -- but then settled on the same monthly rate in 2005.) Customers who use these services heavily can benefit, but everybody else winds up subsidizing those few.

There's not much government can do about this behavior but encourage more companies to contest a market. So why does it keep working in the opposite direction? At best, it ignores ways to open industries to more competition; at worst, it encourages further consolidation.

Consider the recent history of radio. Before satellite broadcasts could get off the ground, relaxed ownership rules allowed commercial FM to be largely taken over by Clear Channel and its monopoly-minded ilk, resulting in a nationwide radio dial of sound-alike stations.

Two other technologies, low-power FM and digital AM, could have restored some diversity to the public airwaves, but inaction or interference by the Federal Communications Commission and Congress has consigned both to irrelevance so far. And so for years, only satellite radio could offer an alternative to FM. (Lately, HD Radio has finally begun to open up FM programming.)

Now, XM and Sirius suggest that wireless broadband will keep them honest; customers turned off by both FM and satellite radio will be able to listen to music sent through their cellphones.

But most wireless carriers impose grotesque limits on what you can listen to or watch on a phone: Listening to a Web radio station on a phone's Internet connection violates most of their contracts. This isn't bringing the diversity of Internet radio to cellphones -- it's recreating the controlled universe of cable TV. And it's unlikely to offer much of a meaningful alternative to dissatisfied listeners.

It's too soon to know what the government will do with the XM-Sirius merger proposal. But by not addressing these underlying problems, Washington isn't just approving telecom monopolies, it's aiding and abetting them.

*Living with technology, or trying to? E-mail Rob Pegoraro at robp@washpost.com.*

© 2007 The Washington Post Company
Secret Satellite TV on PC
Shocking discovery they don't Want you to know.
www.secretsatellite.com

Sirius Satellite Radio
at Electronics Leader Now! Ships Same Day before 2PM EST
www.electronicsleader.com