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Timothy B. Lee

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Seeing Like a Cable Company

The great Comcast bandwidth cap debate continues!

What worries Tim is Comcast blocking YouTube or newer, heretofore undiscovered forms of content. But here's the rub: Comcast benefits from the existence of YouTube. If users get consumer surplus from watching YouTube videos, that's great because Comcast can raise its price to try to capture some of that consumer surplus.

To see what's wrong with this, it's helpful to imagine we're in an alternate universe in which Comcast established its present level of dominance a decade earlier. Suppose that in 2002, fearing that online video would cannibalize its pay television business, it had established a 300 *MB* bandwidth cap.

Now imagine it's March 2005 and you're Chad Hurley, Steve Chen, or Jawed Karim. You just launched a website called YouTube and you're trying to raise a round of venture capital. But potential investors keep pointing out that Comcast's bandwidth cap—and similar caps from other broadband incumbents—constrain the potential demand for YouTube's product. So while many of them like the idea of a user-generated video site in principle, they're not willing to write checks unless YouTube can do something about the bandwidth cap problem.

You ask noted economist Eli Dourado for advice, and he points out that it's actually in Comcast's self-interest to exempt YouTube from the bandwidth cap. In the long run, increased usage of YouTube will increase the demand for Comcast's broadband service. So he suggests you just call up Comcast and ask for a meeting so you can explain your

product and why it's in Comcast's interest to exempt it from the bandwidth cap.

You're likely to find it difficult to even get a meeting. Comcast's executives have their hands full negotiating deals with big guys like Disney and Time Warner. They're too busy to talk to a guy with a website they've never heard of. Even if you get a meeting, the conversation isn't likely to go well. The Comcast rep is likely to be skeptical about the size of the market for videos of peoples' cats. He'll patiently explain that Comcast has its own video-on-demand system in the works, which will offer much higher-resolution video, feature serious Hollywood content, and let people watch videos on their televisions instead of being hunched over laptop screens.

But suppose, implausibly, that you get an unusually perceptive Comcast rep who sees the potential of your site and understands why it's in Comcast's interest to promote its success. That's great news but it's also just the beginning of the process. Most likely you'll need to do several more meetings with higher-level Comcast executives, any of which could lead to a rejection. If those meetings go well, you'll need to hire a lawyer (which you may or may not be able to afford) to represent you in contract negotiations. Comcast will likely seek some kind of revenue-sharing terms, which will be tricky to write since you don't yet have any revenue. Comcast will probably want the right to veto certain categories of videos that might compete with Comcast's own offerings. Comcast may also want the right to prominent placement of certain Comcast-featured videos on the YouTube home page, or a right to license YouTube videos for Comcast's video-on-demand services. Comcast may also be worried about backlash from Hollywood over piracy and insist that you implement a complex anti-piracy system.

The negotiation process is likely to take many months, and there's a good chance they'll reach an impasse, as Comcast demands more control over your site (or a larger fraction of your revenues) than you're willing to give. Comcast will have little incentive to be flexible because you're just a tiny video-sharing website and there are lots of others out there Comcast can cut deals with.

Oh, and don't forget that in this hypothetical universe most of the other major broadband firms *also* have bandwidth caps. So you're going to have to go through this same process several times. All told, you're likely to spend a year or more on these negotiations, rack up hundreds of thousands of dollars in legal fees, and at the end will probably not have secured exemptions from all of the major broadband providers. Meanwhile, the negotiations will be a huge time-sink for you and your co-founders, and uncertainty over their outcome will make it hard to raise money. Most likely, the site will never gain traction and around October 2006 you'll fold up shop and go work for Google, which is in the process of negotiating bandwidth-cap exemptions for Google Video.

Eli's argument effectively assumes that Comcast is a single, perfectly rational person who, if not literally omniscient, has unlimited time and the ability to manage thousands of projects simultaneously. If such a person existed, it might be rational to assume it would behave in a manner that maximized its own welfare.

But if this is your conception of how Comcast works, you've obviously never called Comcast for tech support. In reality, Comcast—like every large organization—is a hierarchy of fallible human beings. As such hierarchies grow, they get less and less efficient. Often the right hand doesn't know what the left hand is doing. Sometimes the guy you're negotiating with is more interested in winning some kind of internal turf war, or pursuing some other personal agenda, than doing what's best for organization as a whole. Alternatively, you might waste a lot of time explaining your problem only to learn that the guy you're talking to doesn't actually have the authority to help you. Maybe the action you're seeking is against the rules, and getting the rule changed would require vastly more political capital than your contact is willing to expend. Maybe the guy you're talking to isn't very bright, or is going through a divorce and is too distracted to pay attention to your pitch.

Asking the question "What kinds of content would a selfish, unregulated cable monopolist block" implicitly assumes that the monopolist is likely to make the decisions that are in its own self-interest. But at the scale of the Internet, that's not a plausible assumption.

So what worries me isn't that Comcast will make a rationally self-interested decision to block YouTube. What worries me is that the Comcast department in charge of granting exemptions to the bandwidth cap will be too busy to return the next YouTube's phone calls.