

WIRED

TO WIN

Entrepreneurs
of the
American
Cable
Industry

KATHI ANN BROWN



INTRODUCTION

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"One cold day in February (1954), I was 80 feet up on the Liberty Motel tower, changing out a tube, and this fellow stops by and yells up at me. It was Fred Green, a salesman for Jerrold Electronics. 'How come there's no cable in this town?' yelled Green. 'Cable? What's that?' I shouted back."

Alan Gerry, founder
Cablevision Industries

In 1984, the band Dire Straits released a song titled *Money for Nothing*—a catchy tune that quickly climbed the charts to become an instant “pop classic.” The satirical and light-hearted lyrics poked fun at the era’s usual suspects: mindless materialism and the superficiality of stardom. One phrase from the song’s refrain was utterly contagious. Millions of people around the world were soon chanting playfully: “I want my MTV!”

Today, two decades later, television fans not only want—but expect—their MTV . . . and HBO . . . CNN . . . and dozens of other favorite cable channels. Many of them are also beginning to demand high-speed modem service, pay-per-view, video-on-demand, voice-over-Internet and high-definition television (HDTV). All delivered courtesy of their local cable company.

For most Americans born after 1975, a world without cable—particularly cable television—is almost unimaginable. Yet less than a generation ago, American television was still dominated by the Big Three networks: ABC, CBS and NBC. Cable was merely an “antenna service,” a passive conduit for carrying the small range of programming that the trio opted to air.

The U.S. cable industry’s official birth-date is 1948. That year, the first documented cable systems were constructed in Arkansas, Oregon and Pennsylvania. Appliance dealer Jim Davidson of Tuckerman, Arkansas ran multiple wires from a 100-foot rooftop tower down to his store—as well as to one residential customer who signed up for service at \$3 a month. Ed Parsons of Astoria, Oregon ran coaxial cable from an antenna atop the Astoria Hotel to the television set in his apartment across the street. When brand-new KRSC in Seattle went on the air on Thanksgiving Day, Parsons and his wife enjoyed the show. A few cable pioneers also got their start in the late 1940s, including three in mountainous Pennsylvania: John Walson of Manahoy City; Robert Tarlton of Lansford; and Martin Malarkey of Pottsville.

Construction of those earliest cable systems is without question a major industry milestone. But cable’s story actually begins much earlier than the 1940s—at least a full century earlier . . . and on the other side of the Atlantic. In the 1840s, Scotsman and inventor Alexander Bain demonstrated for the first time that pictures could be transmitted by wire. His rudimentary device was the precursor of today’s ubiquitous fax machine.

Other successful experiments with image transmission followed Bain’s, but it wasn’t until the 1920s—after the invention of the cathode tube—that the concept evolved into its most familiar form: television.

One of the best-known demonstrations of early television technology took place on April 7, 1927 in New York City. AT&T welcomed reporters and dignitaries into its labs for the first serious show-and-tell of long-distance image transmission. Those assembled at Bell Labs watched and listened as Secretary of Commerce Herbert Hoover spoke to them live from Washington, D.C. The headline-making event was sent between the cities on the telephone system’s wires.

Bell Labs followed up its triumph two years later with an equally successful demonstration of color television. In the meantime, a few television stations began operations on an experimental basis. Wireless transmission of video signals—modeled on the success of radio—soon opened up a new and efficient method of point-to-multipoint broadcasting. In spite of the Great Depression, a few early television sets made their way into American homes in the 1930s.

On July 1, 1941, fourteen years after the Bell Labs demonstration, the Federal Communications Commission (FCC) activated the first non-experimental call letters for two television stations—WCBW and WNBT (later renamed WNBC)—and authorized commercial advertising for the first time.

The television era had officially begun.

Just as the medium was poised to take off, however, world events intervened. The fledgling American television industry went dormant as the nation’s businesses retooled for war production after the Japanese attack on Pearl Harbor on December 7, 1941. The manufacturing of sets came to a virtual standstill. During the military conflict, only nine commercial stations across the entire United States continued to broadcast.

When the war finally ended in 1945, more than 70 previously-authorized stations raced to get back on the airwaves. Applications for additional licenses flooded the FCC and overwhelmed its tiny staff. In 1948, the beleaguered Federal agency threw its hands up in the air and declared a freeze on authorizing new stations. For the next four years the government worked on the problem of allocating space on the spectrum to hundreds of applicants waiting impatiently to

get on the air.

While the FCC hashed out its plans, the American public dove with relish into the pleasures of peacetime—including the joys of modern technology. The number of television sets in American homes mushroomed from 7,000 at war's end to approximately 800,000 just three years later. In 1948, 1,000 new sets were being installed every 24 hours.

Post-war America was clearly primed for prime-time. But merely owning a television set did not guarantee an evening's entertainment. Signal reception in the early days of television depended heavily on the will of Mother Nature. Broadcast signals were generally clear and reliable within a 50-mile range of a station, but not beyond. Viewers located just outside the 50-mile limit might—or might not—be able to pick up a good signal, depending upon weather conditions, geography and other factors. Even audiences living *inside* the perimeter could have trouble getting clear pictures if mountains—or tall buildings, for that matter—stood in the way. And the FCC's four-year freeze on new television stations only exacerbated the problem by limiting the number of stations on the air.

The result? Millions of would-be television viewers who were eager to find a way—ANY way—to improve signal reception. And a tailor-made business opportunity for anyone who could figure out how to do it.

Enter the entrepreneurs.

Beginning in the late 1940s, hundreds of (mostly) small town businesspeople took up the challenge of delivering a strong, clear television signal to their neighbors' living rooms. In some cases, the business of bringing in a better signal consisted of installing individual rooftop antennas or a master antenna for an apartment building. Entrepreneurs Club member Alan Gerry, for example, set up just such a sideline to his television sales-and-repair service in Liberty, New York in the early 1950s.

Gerry—like a number of others—didn't stop there, however. In 1954, when a traveling salesman for cable supplier Jerrold Electronics introduced Gerry to the idea of running coaxial cable from a master antenna to individual homes—and charging a monthly fee for service—he didn't have to think twice. Gerry was off at a gallop, wiring his hometown for cable first and then expanding his reach into other towns and other states. Forty years and thousands of miles of coax later, Gerry sold his privately-held Cablevision Industries to Time Warner in 1996 for \$2.1 billion.

Naturally, not everyone who jumped into the cable business during the industry's early days ended up hitting the ball out of the park, as Gerry did. Plenty of 'mom-and-pops' started and ran small systems in their communities when the industry was young, but were happy to sell out to larger companies as technology became more expensive and the realities of running a real business kicked in. But for those entrepreneurs who stayed in the cable game—or who

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leaped in during one of the industry's dips over the past half-century—the financial rewards ranged from comfortable to phenomenal.

The entrepreneurs featured in *Wired to Win*, without exception, fit into the latter category. As the cable industry's fortunes rose over the years, theirs did too—quite dramatically. All 21 recognized a golden business opportunity . . . and made the most of it.

A solid majority of the group—18 members—got their first taste of the cable industry between 1954 and 1976, when the business was still in its formative years. Three Entrepreneurs Club members first crossed paths with cable in the mid-1950s, less than a decade after its official debut. On the heels of his enlightening exchange with the Jerrold Electronics salesman in 1954, **Alan Gerry** rounded up local investors and founded Liberty Video, the foundation for Cablevision Industries. In 1956, 22-year old **Bill Bresnan** took a job selling coax in Minnesota and **Bob Rosencrans** learned about cable during a conversation with industry pioneer Bill Daniels.

As cable continued to spread across the American landscape in the 1960s, eight others in the fraternity had their first brush with the industry. **Glenn Jones** discovered cable in 1962 while working as an attorney in Colorado. That same year, **Ralph Roberts** was sweet-talked into buying his first system, in tiny Tupelo, Mississippi—an acquisition that laid the foundation for today's cable behemoth, Comcast. Financier **Larry Flinn** invested in his first cable system in 1964, in rural North Carolina. That same year, **Chuck Dolan** applied for a permit to wire Manhattan for cable. In 1965, **Leonard Tow** was collared by Dolan's principal rival, Irving Kahn, to help turn TelePrompTer into the biggest cable company of the era. And students **Frank Drendel**, **Marc Nathanson** and **Jeff Marcus** all discovered cable while working their way through college in the mid-to-late 1960s.

Seven more future Entrepreneurs Club members encountered the cable industry for the first time in the 1970s. By then, cable was 25 years old and the first generation of single-system mom-and-pops began to sell out to larger MSOs—multiple system operators. **Gerry Lenfest**, for example, was working as in-house counsel for media magnate Walter Annenberg when he was put in charge of Annenberg's cable operations in 1970. That same year, **Jim DeSorrento** followed a friend's job lead and ended up at TeleVue Systems, an MSO based in San Francisco. In 1973, college student **Mike Willner** interned at a new cable system in his hometown; **Gus Hauser** accepted a job running (and dramatically expanding) Warner's tiny cable stable; and newly-minted Oklahoma City attorney **Barry Babcock** took on the city's cable franchise process at the mayor's behest. In 1974, **Steve Myers** traded in a successful career in real estate for the chance to put together cable limited partnerships. And University of California law professor **Steve Simmons** first delved into cable while researching a book on broadcasting and the Fairness Doctrine in the early 1970s—and again while working in the White House under President Jimmy Carter.

Whatever the circumstances or timing of their entry into cable's orbit, the 18 men are quick to agree that one event in the industry's history—and their own business success—was pivotal: the satellite launch of HBO in 1975. When the fledgling network—the brainchild of Entrepreneurs Club member Chuck Dolan—went up on Westar's "bird" on September 30, 1975, a business that had been largely local in scope and utilitarian in nature suddenly took on a new and national dimension. Instead of serving principally as a passive conduit for the signals of the established broadcast networks, cable now had the muscle to compete against the Big Three with its own programming . . . delivered through its own infra-

structure. A new era had begun.

Those among the 18 future Entrepreneurs Club members who had not yet gone into business for themselves soon did, joined not long afterward by three other future members: **Fred Nichols**, **Marty Pompadur** and **Leo Hindery**, all of whom plunged into the industry in the early 1980s. During the two-and-a-half decades following HBO's satellite debut, the 21 entrepreneurs profiled in *Wired to Win* rode the cable industry's roller coaster—enduring its dips, riding its crests and hanging on when many others bailed out.

In the wake of HBO's groundbreaking success in 1975, communities that were not yet wired began clamoring for cable. Consumer demand set off the “franchise wars” of the late 1970s and early 1980s. Cable companies battled it out in city council chambers from coast-to-coast, each trying to plant its corporate flag in as many towns as possible.

The dust from the “wars” had barely settled before Congressional action in 1984 changed the cable landscape yet again. On the upside, the Cable Communications Policy Act rationalized the franchise process and gave the industry long-sought relief from decades of Federal regulation. Following passage of the legislation, MSOs and their financial backers poured \$15 billion into building out the nation's cable infrastructure between 1984 and 1992—the largest private construction project since World War II. In the meantime, new cable networks like Discovery Channel, Arts & Entertainment (A&E), the Disney Channel and dozens of others debuted, inspiring consumers to literally chase the trucks of local cable companies to sign up for service.

The liberating effect of the 1984 deregulation also had a downside, however. The cable industry suddenly became attractive to outsiders whose overarching interest—and agenda—was financial. Eager to get into the game, many newcomers bought small, aging systems at premium prices and then instituted eye-popping rate raises to cover their costs. Minimal attention to plant upgrades and an arrogant attitude toward customers fueled consumer discontent in the late 1980s and brought calls for re-regulation.

Looking back, many cable veterans acknowledge that the public's outrage was not without foundation. At the time, however, the industry's main trade organization—NCTA—downplayed the problem, and many cable operators failed to recognize the seriousness of their predicament . . . until it was too late. In 1992, an angry Congress enacted the Cable Television Consumer Protection and Competition Act—the only major legislation to be passed over Presidential veto that year. The Federal Communications Commission (FCC) moved quickly to re-regulate the cable industry, instituting painful rate rollbacks, among other things. A first round of rate cuts was followed by another in 1994. The effect was to bring development of cable programming and infrastructure to a virtual standstill.

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In late 1988, cable entrepreneurs Steve Simmons, Gus Hauser and Marc Nathanson had invited more than a dozen of their colleagues to join them in setting up a new organization devoted to exploring issues shared by mid-sized MSOs. (See *The Entrepreneurs Club: A Brief History*, p.3) At the top of the new Club's agenda was a campaign to lobby Congress in the hope of staving off—or at least blunting—re-regulation. The Club's efforts succeeded to a degree, but weren't enough to halt Congressional momentum. The legislation passed on October 5, 1992 and re-regulation became a fact of life.

Some veterans of the cable industry responded to the turn of events by selling their companies. Others diversified into businesses outside of cable. Still others looked for opportunities overseas. Those who chose to sit tight domestically fretted about competition from direct broadcast satellite (DBS) and telephone companies—both of which began eyeing cable's traditional turf. The diehards of the cable industry walked the hallways of Congress and the FCC, determined to reverse the damage done in 1992.

In February 1996, their effort was rewarded by passage of the huge Telecommunications Act, the first thorough overhaul of the country's telecom law since 1934. The legislation wasn't aimed specifically at cable, but its effect on the industry was profound. The more egregious aspects of the 1992 re-regulation were reversed or softened and a general invitation was issued for cable to join all comers in reshaping the nation's telecommunications landscape. Companies were welcome—even encouraged—to expand beyond their original business and into new telecom arenas.

The law quickly became a psychological dividing line in the cable industry. Some entrepreneurs welcomed the opportunity to branch out into new areas, including telephony and the Internet. For others, the prospect of making huge capital investments in infrastructure in order to be competitive was less than enticing. While individual companies pondered what to do, the cable industry as a whole underwent a major make-over in the summer of 1997—a period of fast-paced deal-making that soon garnered the nickname the Summer of Love.

At the center of the deal-making was cable giant TCI, one of the industry's oldest companies. At TCI's instigation, MSOs swapped systems from coast-to-coast with an eye toward geographic consolidation. In a few months' time, the cable industry's map was substantially redrawn. Gone for the most part was the crazy quilt of system ownership that had been the accepted pattern for a half-century; in its place was a more rational design composed of concentrated "clusters" of systems.

For those who planned to stay in the game for the long haul, the so-called Summer of Love offered a chance to achieve scale and build a strong geographic base—both of which would be vital when going toe-to-toe with telephone and DBS competitors. Plant upgrades and new service roll-outs—including high-speed data services, video-on-demand, voice-over-Internet and HDIV—would be much easier and more economical in contiguous systems than in far-flung properties.

The deal-making mania of 1997 also benefitted MSOs who were thinking about getting out after passage of the 1996 telecommunications legislation. A dramatic rise in system valuations was a natural outcome of the process of rationalizing the industry's "map." More than one MSO owner suddenly found himself at the end of the "Summer" heading a cable company worth not just millions, but billions, of dollars. Even those who wanted to stay in found it difficult or impossible to resist the premium prices that newcomers like Microsoft co-founder Paul Allen—or old-timers like Adelphia, Comcast, and Cox—were willing to pay to play the new cable game.

Among those who sold most or all of their cable systems in the 1990s were 17 members of The Entrepreneurs Club:

Barry Babcock, Bill Bresnan, Jim DeSorrento, Larry Flinn, Alan Gerry, Gus Hauser, Leo Hindery, Glenn Jones, Gerry Lenfest, Jeff Marcus, Steve Myers, Marc Nathanson, Fred Nichols, Marty Pompadur, Bob Rosencrans, Steve Simmons and Leonard Tow.

Although the sales of their companies catapulted more than one Club member onto the Forbes 400 list, many had mixed feelings about exiting an industry they helped to create and for which many had fought bruising battles over the years. Three, in fact, missed the action enough to rejoin the cable ranks: Leo Hindery in 2001 and Bill Bresnan and Steve Simmons in 2003.

For most Club members and their peers who sold their companies, regret about leaving the business is tempered by a gut feeling that the industry is no longer as entrepreneurial as it once was . . . and therefore not as much fun. The day of the rough-and-ready “cable cowboy” is for the most part over; “the suits”—or professional managers—now run the show. A relatively small number of big players control most of the country’s cable systems. There’s still room for those who want to carve out small empires for themselves, but the cable industry as a whole has followed the natural course of industries as they mature. The forces of consolidation and corporatization now hold sway.

The entrepreneur that dwells inside each Club member and cable pioneer might mourn the change in the industry’s temperament, but the died-in-the-wool businessman in each savors cable’s “arrival”—and his role in making it happen.

Ralph J. Roberts, who founded Comcast Corporation in 1962, speaks for many of his colleagues when he observes: “Cable is a pure unadulterated demonstration of what can be done in America that couldn’t be done anywhere else. We have taken a great idea..and in one generation created a new industry and made it available to over 90 percent of American homes. Cable’s entrepreneurs risked it all, obtained billions of dollars in financing for their dreams..and won. Nowhere does the cliché, ‘Only in America,’ fit more aptly.”

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