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Press Release

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FOR IMMEDIATE RELEASE
Thursday - April 22, 2010

Data Show that Content Providers are Far More Profitable than Large Broadband Providers

Phoenix Center Demonstrates that Data Belie Arguments that Broadband Service Providers Make "Soaring Profits"

WASHINGTON, D.C. - The Phoenix Center released today a new PHOENIX CENTER PERSPECTIVE disproving claims by proponents of increased Internet regulation that Broadband Service Providers ("BSPs")—such as AT&T, Verizon, Sprint-Nextel, Qwest, Comcast, and Time Warner Cable—make "record profits," "substantial profits," and "soaring profits."

By reference to the most widely used measures of profitability, the Phoenix Center found that the data show that the profitability of the larger BSPs is generally equal to or below average for firms in the S&P 500. Thus, according to the Phoenix Center, "'typical' is more accurate than 'substantial' as a description of these profits." As for "record" or "soaring profits," the data show that 2009 profitability ratios are largely typical of recent profitability for the larger BSPs. The data further show that the profitability of the larger BSPs has been relatively stable over the past five years.

The Phoenix Center additionally demonstrated that content firms like Google and EBay are substantially more profitable than BSPs, implying the BSPs are not benefiting as much as others in the Internet eco-system from the surge in broadband adoption and use. Across all measures of profitability, Google and Ebay are two-to-four times more profitable than the better performing broadband providers.

To put these numbers into context, the Phoenix Center also looked at the profitability of several large firms outside of the broadband space. The Phoenix Center found that, for example, both Wal-Mart and Colgate-Palmolive have much higher profits than BSPs (with the exception of net profit margin for Wal-Mart), leading the authors to conclude that "[s]elling consumers staples and toothpaste appears to be more profitable than selling them broadband connections."

FCC Chairman Julius Genachowski has issued a challenge to the industry for data-driven analysis," according to study co-author and Phoenix Center President Lawrence J. Spiwak. "Accordingly, parties calling for regulation need to present more than just hyperbole about 'soaring' profits—they need to present facts."

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“The evidence shows that BSP profitability is fairly typical of American industry, if not a little low” said study co-author and Phoenix Center Chief Economist George S. Ford, PhD. “Based on available evidence, regulatory intervention based on substantial profitability by large BSPs has no basis in fact.”

PHOENIX CENTER PERSPECTIVE 10-04, *Substantial Profits in the Broadband Ecosystem: A Look at the Evidence*, may be downloaded free from the Phoenix Center’s web page at: <http://www.phoenix-center.org/perspectives/Perspective10-04Final.pdf>.

The Phoenix Center is a non-profit 501(c)(3) organization that studies broad public-policy issues related to governance, social and economic conditions, with a particular emphasis on the law and economics of telecommunications and high-tech industries.

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