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What next for satellite radio?

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After much waiting and anticipation, the proposed merger of XM Satellite Radio and Sirius Satellite Radio has at last made progress, as the Department of Justice has approved the combination. The FCC, reportedly still mulling things over, is expected to announce its decision within weeks, and observers point out that it would be highly unusual for the FCC to overturn the DOJ. Although there may be tweaks required for the post-merger entity's strategy and offerings, with the current FCC regime famously fond of à la carte services in consumer media (for example), general expectations are that the regulatory path will be cleared for the satellite radio operators to merge. This, for the two companies, is the good news. The bad news is that, despite highly publicized protests over the course of more than twelve months by well represented lobbying groups on behalf of the traditional radio sector, it was nevertheless concluded that the consumer audio market is so fragmented, rapidly changing, and ultra-competitive, that the merger of its only two satellite radio alternatives will not adversely impact consumer options by diminishing competition. And so, assuming that the merger does go through, and given the highly competitive state of the sector as noted, what's next for a satellite radio operator battling with wireless broadband, the popular iPod and other portable electronics, deep pocketed wireless carriers, the introduction of Internet access into Chrysler vehicles, and, still alive and almost moving, traditional radio? Here are a few musings and speculations about possibilities and strategies for the new entity:

…what's next for an operator battling with wireless broadband, the iPod and other portable electronics, deep pocketed wireless carriers, the introduction of Internet access into Chrysler vehicles, and traditional radio?

» Internet radio expansion. The major drawbacks of satellite radio are (a) limited bandwidth, which limits the amount of content offered, (b) no communication return path, which means no consumer interactivity, (c) limited addressability, which limits the degree of targeted content, and (d) finite footprint, which limits the audience to North America. Internet radio addresses all these limitations, as a result of which exciting services such as Last.fm and Pandora have become possible, providing highly customized listening, social networking, and music discovery alternatives to many tens of millions world-wide. The new service Slacker also offers a slick wireless device in combination with its Internet-based product. Although both XM and Sirius already maintain an Internet radio presence, it may behoove the combined entity to plan for a much more extensive and sophisticated Internet platform, leveraging its existing subscriber base and brand recognition into a vehicle for growth that fills in the gaps of satellite radio technology.

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» Premium content focus. One of satellite radio's notable strengths and a primary use of capital historically, has been its proprietary premium content, such as Stern, Oprah, and exclusive sports packages. It may well be that satellite radio is alone positioned to package such content, due to its ability to reach, and amortize the content cost over, a large national subscriber base. If so, the long term differentiating factor of satellite radio, particularly in light of technical and practical constraints previously highlighted, could be an even greater focus on premium content, substantially expanding upon the existing portfolio of selections. A combined entity should have better financial wherewithal and greater ability to pay for such an expansion.

» Traditional radio alliance. The two major radio alternatives – satellite and terrestrial – each have certain deficiencies that the other addresses. The competitive disadvantage most regularly attributed to satellite radio by its terrestrial adversaries is its limited availability of local content. There is insufficient bandwidth for satellite radio, even combining the two entities, to offer good-quality local traffic and weather in every market. For that matter, the opportunity for any niche oriented content, some of which may be regional in nature, is also constrained by the imbalance of bandwidth availability and narrow market demand. From the opposite perspective, the proprietary, mass-market, and premium content offered by satellite radio (as discussed above), is an area in which terrestrial radio falls short. It stands to reason that some kind of alliance between the two platforms – putting aside historical animosity – could help each platform to improve its offering and, perhaps, compete more effectively against the ubiquity and flexibility of Internet radio (which is continuing to gain popularity (and mobility)).

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» Development of complementary technologies. As there are several product areas, outside of music or for that matter entertainment entirely, for which satellite technology is ideally suited, the post-merger entity could dedicate additional resources to pursuing such offerings if these are complementary to the core business. For example, both XM and Sirius have already begun offering various forms of geospatial and telematics applications, which are areas that can be further developed. Likewise, a more expansive video offering than the four-channel package currently available from Sirius, bandwidth permitting, may not be an unprofitable use of development budget.

The extent to which the listed alternatives are suited better than others for near-term implementation is beyond the scope of a short article. It is very likely, however, that at least some of these strategies, (and undoubtedly others that we have not considered), have been vetted by the management teams of both XM and Sirius. We think it a safe bet, moreover, that the resulting post-merger entity is unlikely to operate its business in the same manner "only bigger," especially in light of the rapid pace of change and highly competitive environment that caused DOJ approval to be granted in the first place. Near term shareholder value may well be created through cost savings and economies of scale, but long term value will have to be predicated on something more. And so, it would not surprise us either if, after the dust on the present deal has settled, we hear about additional merger or acquisition discussions involving satellite radio… combining with, who knows, satellite television, terrestrial radio, Internet media, diversified entertainment? At the current pace of industry evolution, so many potential combinations become less and less farfetched.

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