

David McCourt plans to undercut your phone company, your cable company and your Internet provider. Plus, he's got a box of cookies for you.

RCN's high-wire act

By Daniel Roth

TWO MONTHS AGO 64-year-old Boston resident Mary Clifford switched her cable television and phone service to telecom upstart RCN Corp. RCN promised her more channels at a lower monthly rate—and provided a cookie-toting salesman to explain it all. "He was so nice," gushes Clifford.

Cookies from the telephone company? This isn't Ma Bell. The audacious RCN (the initials are for Residential Communications Network) aims to rewire the northeastern U.S., trampling the local telephone and cable companies in its path. The cookies are just for trimmings. As a senior citizen, Mary Clifford used to pay \$11.40 a month for basic cable service and another \$13 for local telephone service. RCN will give her both for \$20.

The past decade has seen endless speculation—on the floor of Congress, in the pages of *FORBES* and other places—about the convergence of the cable television and telephone businesses. Supposedly the two industries would collide, each using its existing network to cut into the hitherto monopolistic market of the other. At some point, one or both of these well-entrenched industries would put up the money to bring high-bandwidth data lines into every home. Consumers would benefit immensely.

So far, it hasn't happened. Telephone and cable companies have made only timid moves to invade one another's turf. Several experiments to bring fiber to the home and offer movies on demand were big flops.

Into this relatively static market comes David McCourt, who broke off RCN from a smallish phone company only three months ago and has

already raised \$575 million in the junk bond market to begin his attack on the monopolies.

McCourt is a 41-year-old former construction company owner who talks fast with a thick Boston accent and a lot of bravado. Nothing less than bravado would lead an upstart like him to take on a gang of established firms with more than \$60 billion in assets

among them.

McCourt has the grand ambition to wire up 9 million cable, phone and Internet users among the 25 million households in his chosen territory, the corridor from Boston to Washington, D.C. The capital cost: \$1,200 to \$1,400 per customer, or \$12 billion in all. It helps that McCourt has a powerful ally: Omaha, Nebr.-based Peter Kiewit Sons', the giant construction and investment outfit (*FORBES*, Oct. 24, 1994).

If you sign up for one or more of RCN's services, RCN hangs both copper and coaxial cables between the nearest telephone pole and your house. If you accept RCN's cookies and its offer of a better price, you will be able to get the same TV programs your old cable company provided, thanks to federal legislation compelling show owners to give RCN access on more or less the same terms offered to the established cable providers.

But how did RCN elbow its way onto that crowded telephone pole? Some local phone company and some cable provider are already there, and presumably are not thrilled to have a competitor alongside. With the help of federal statutes on telecom access, McCourt could probably win a court battle over rights to string his fiber alongside the cable and phone wires. However, he does not want to

Monopolies beware

The more RCN services you take, the better the deal. A comparison of an average month's bills in the fictitious Ward household in Somerville, Mass.



Local telephone

Bell Atlantic: \$17 for unlimited local calling, \$3 for call waiting and \$3 for FCC line charges. **Total bill: \$23**

RCN: \$16 for unlimited local calling, \$2 for call waiting. The FCC line charge is waived. **Total bill: \$18**



Long distance

AT&T: 10 cents a minute under One Rate Plus, \$5 monthly fee. The Wards make 100 minutes of long distance calls a month. **Total bill: \$15**

RCN: 9 cents a minute, no monthly fee. **Total bill: \$9**



Cable

Time Warner: \$30 for 60 standard channels, \$28 for 4 premium channels. **Total bill: \$58**

RCN: \$25 for 80 standard channels (\$20 if the Wards also take local phone service), \$19 for 7 premium channels. **Total bill: \$44, or \$39** in a package with RCN's local phone service.



Internet, 10-megabit connection

Time Warner: Does not offer Internet access. **AOL:** fastest is 56-kilobit connection, for \$20 a month (unlimited hours), plus cost of second phone line.

RCN: (starting Jan. 15) \$50 for cable-modem-ready on-ramp to Internet.

If the Wards take all of RCN's currently available services, they'll pay \$66 a month, \$30 less than they would have paid their old suppliers.



David McCourt of RCN

Telephone poles crowded? RCN's chief executive is finding room at the top.

the phone and cable outfits from complaining to utility regulators about the arrangement.

"They're all whiners," says McCourt.

Along with its lower prices, RCN boasts of offering faster connections. RCN's lines feed into your house at 51 megabits per second, 1,000 times as fast as a conventional phone modem and 5 times as fast as a cable modem. Until technology catches up, McCourt's network is ahead of anything today's modems can handle.

His service is better, too. Order a second phone line and RCN's installers will call you, wherever you are, half an hour before they need you at home for the installation. In New York City the best Bell Atlantic can offer is a four-hour window.

Brash? That's McCourt's middle name. When he was younger, his construction company did some work installing coaxial cable for Cablevision. But why be a mere contractor? He started laying cable for himself, going into the telephone bypass business. In that business he undercut the New England Telephone Co. (now part of Bell Atlantic) in local phone connections to business customers.

The folks at Peter Kiewit Sons' liked McCourt's boldness.

Kiewit had made much the same diversification into phone bypass. It later bought McCourt's cables with cash and shares in Kiewit subsidiary Metropolitan Fiber System.

McCourt then built a residential phone/cable TV network with Kiewit in Europe. In 1993, with backing from Kiewit Sons', McCourt bought the Princeton, N.J.-based phone company C-TEC. McCourt had C-TEC spin off its fledgling subsidiary RCN in September. In his new venture he has not just Kiewit's money (and the public's) to play with but also his own. His MFS shares turned into a \$30 million stake in WorldCom.

Over the next two years RCN will

spend \$700 million laying fiber at a rate of 15 miles per day. So far the company has installed 300 miles in Boston and New York City. Sales? McCourt says his Somerville, Mass. network won't be finished until early 1998, yet RCN has signed up about 25% of the customers it has marketed to there, with customers ordering an average of 2.7 services. Suburban New York and Washington, D.C. are his next targets.

Are the likes of Bell Atlantic, Time Warner and Cablevision going to let McCourt walk off with a third of their customers? Not without a fight. But each has one hand tied behind its back. The outfits are required to serve nearly everyone in their territories. McCourt is under no such obligation. He can skim the cream and intends to do so. He's not going to wire rural areas. But he will be going into high-density, low-income neighborhoods—they tend to watch



a lot of television.

McCourt says that he can beat the entrenched suppliers—cable and phone executives have spent their whole careers as monopolists and haven't a clue about marketing.

This remains to be seen. But McCourt is right about another point: The existing telecom players have billion-dollar millstones around their necks in the form of archaic technology. The cable companies, in debt from their buying sprees over the past 20 years, may be hard-pressed to match RCN's prices or technology. They have been paying about \$2,000 per customer to acquire existing systems, a price that reflects not just the cost of stringing cable but also the franchise value of a supposed monopoly. Perhaps they paid too dearly and will be dragged under by the sunk cost.

LEE WHITE trust his fate to the slow workings of the court system. So he often cuts deals with the third incumbent on the utility pole, the electric company. To gain quick entry into new markets, RCN is doing joint ventures with Boston Edison in Boston and Potomac Electric in D.C. RCN then strings its fiberoptic cable on the top rung (where the electric power lines go) or in underground electric conduits. This finesses the right-of-way problem, although it hasn't stopped