

## Stand and deliver

Do upstart newcomers hold the key to the future of American telecoms and television?

David McCourt thinks so

THE New York office of Residential Communications Network (RCN) tries hard to look more like a guerrilla hideout than the headquarters of a telecoms firm. "No empire lasts forever," proclaims a poster of Lenin, "especially one that keeps you waiting five hours for a repairman." In the background, salesmen fight a street-to-street battle to lure customers from the rival services of Bell Atlantic and Time Warner. For RCN, unlike most other young rivals of the established telephone companies, is gunning mainly for homes, not businesses.

For David McCourt, RCN's 41-year-old Irish-American chairman, the battle lines were drawn when the government deregulated the telecoms and cable-TV markets in 1996. Since then, he has done what the cable-TV firms and Baby Bells have conspicuously avoided: declared war. Now, RCN's aggressive posters are common sights in Boston and Manhattan; Washington, DC, is next. And it is war on all fronts: while his opponents have stuck largely to their previous skills, Mr McCourt offers his customers all three core services of the multimedia age—cable TV, voice telephony and Internet access.

Mr McCourt knows that one of the enemy's weakest spots is marketing. The posters were his own idea: "We had to make an impact." He slipped into telecoms by accident. As a teenager in Boston he wanted to be a policeman; as a college student in Washington, DC, he wanted to be a social worker. Back in Boston, he drifted into work with his father, a construction contractor, before striking out on his own.

One of his early jobs was laying television cable for Cablevision. Later, Mr McCourt began laying his own telephone cables, building small local networks for commercial customers that allowed them to bypass Bell Atlantic's Boston predecessor. Eventually he sold the firm to Peter Kiewit, a huge construction company which merged Mr McCourt's firm into what became WorldCom, the company that is now buying MCI for \$37 billion.

The result of that deal was to give Mr McCourt impeccable credentials as a telecoms revolutionary: a seat on the board of the company that eventually became WorldCom and \$30m-worth of its shares. He also spent two years in Britain, working with Mr Kiewit and watching American cable-TV firms discover that telephony would be their main product. So far, America's multimedia market has tended to lag behind Britain's, at least in the residential market. RCN plans to change that.

In doing so, it has some big advantages over its heftier rivals. With its modest overheads, RCN's prices are typically about 5-10% lower—a discount that can rise to 30% if customers choose all three services. RCN also benefits from regulation designed to boost competition in both telecoms and television. For instance, as a "competitive local exchange



carrier", RCN has the right both to put its wires on Bell Atlantic's poles and to lease lines from its rival. Regulation also ensures that it can usually buy the same television programming at roughly the same rates as Time Warner and Cablevision. And RCN, unlike its big competitors, is free to "cherry-pick". Mr McCourt chose to work in the Washington-Boston corridor because it packs 25% of the nation's telecoms market into 4% of its geography. Of the area's 25m households, he is chasing just 9m, mainly the lower-middle classes, who tend to watch more television and care more about its cost. Harlem, reports Mr McCourt, is a better market for RCN than the Upper East Side.

To reduce its dependence on its rivals' networks, RCN has been buying up smaller local cable companies and Internet service-providers. But Mr McCourt's main fascination is with fibre-optic cable. Indeed, he tends to see each new apartment block that RCN's salesmen conquer mainly as an opportunity to borrow more money to lay more of the stuff. He has also signed fibre-building alliances with several big local electric utilities, including Boston Edison.

Mr McCourt is scathing about the old giants of telecoms and television. Various Baby Bells plan to increase the bandwidth of their copper lines: that, he argues, will give them capacity still barely one-tenth that of fibre-optic—not enough to cope with the rapid growth in interactive and data services that he expects (see chart). As for the big cable-TV companies, they would rather buy up smaller cable-TV operators at a cost of \$2,000 per subscriber than take the battle to the telephone companies. By contrast, Guy Woodlief at Prudential Securities calculates it costs RCN about \$1,150 to connect each home to its network—and, unlike conventional cable-TV firms, Mr McCourt can make money from telephony and the Internet, as well as from television.

All this has elements of hubris. RCN has barely 600,000 customers; its opponents have \$60 billion in assets. Mr McCourt could miscalculate his revenues and borrow too much (RCN has already issued \$1 billion of junk bonds). Much depends on the company's ability to provide good service: it is trying hard (setting fixed times for visits by its repairmen), but it will be vulnerable as long as it has to borrow its competitors' lines.

Many people suspect that Mr McCourt will eventually sell out to one of the dinosaurs he so despises. As if this were the case, Mr McCourt is already toning down his ads just a little. But he is adamant that "you need a new mentality to survive." On that, he is probably right. Even two years ago, most telecoms firms that had heard of WorldCom dismissed it as a niche player. In five years' time, American consumers may well regard a high-speed multimedia link as a necessity. And, yes, nobody should be kept waiting five hours for a repairman.

