

Squandering the Early Bandwidth Lead

Early efforts to commercialize cable modem services were executed using two new companies, Road Runner and @Home. Most of the large MSOs in the U.S. and Canada became investors or customers of one of these mini-carriers. The structure of these companies was a mix of traditional cable industry collaboration and dot-com venture-backed start-ups. Though both companies suffered from the Telebomb, the results for the two companies differed dramatically. Road Runner was under funded from the beginning but still exists today as a provider of broadband services. @Home was over funded and suffered from a Silicon Valley culture that, at the dawn of the 21st century, prized deals over sound business fundamentals. Logical decision-making processes were in short supply, though, during the merger frenzy fueled by Comcast, AT&T, and Charter.

Road Runner was started in 1998 as a joint venture between Microsoft, Compaq Computer, Time Warner, and MediaOne. MediaOne owned about one-third of Road Runner directly and through an ownership stake in Time Warner Entertainment. When the industry consolidation was in full swing, AT&T acquired MediaOne and its stake in Road Runner. The problems started when AT&T later acquired a controlling stake in @Home through its purchase of TCI. After the TCI purchase, AT&T was then a majority owner of @Home when, at the same time, it owned one-third of @Home's largest competitor. The United States Justice department required that AT&T divest itself of its ownership of Road Runner as part of the TCI purchase.¹

@Home was started in 1995 by TCI, Cox, and Comcast with help from Kleiner Perkins Caufield & Byer, a Silicon Valley venture capital firm. The idea, as with many video programming ventures, was that the cable company partners would be investors as well as distribution channels for the new service. @Home went public barely two years later, raising \$100 million for a company that had generated less than \$5 million in revenue in its brief operating history.

In May 1999, @Home acquired Internet portal Excite in another typical dot-com deal. The logic behind the deal was to "marry" content and networks to lock in a customer. Because nearly all of Excite's customers didn't pay for its service, one wonders why it was important to lock them in. The deal was done at a time when logic didn't matter, though. The very simple point that the Internet was all about breaking apart the links between networks and content didn't seem to affect a deal that was sold to shareholders of both companies as an attempt to build tighter links between @Home's network and Excite's content. The deal suffered from the same lack of understanding of telecommunications economics as the FSN and AT&T's forays into the computer business. The only difference was that @Home had the lessons of history to learn from and chose to ignore them.

With too much money invested and revenue growth that, while impressive, could never match the expectations of investors, @Home filed for bankruptcy in September 2001 and liquidated a year later. Shareholder lawsuits ensued against Cox and Comcast (directly and as successor to TCI and AT&T Broadband).

¹ Time Warner also bought out Microsoft and Compaq and now owns 100% of Road Runner.

Neither Road Runner nor @Home was ever financially viable, even though the cable companies that sold their services were posting significant revenue gains based on the Internet data service they provided. As much as 70% of the revenue generated from the cable modem services stayed in the local cable network, leaving little revenue for the backbone providers. Rivers that seem impressive as they enter the ocean start as small streams. @Home and Road Runner were so far away from the coast that they couldn't catch enough of the cash flowing from the business to stay afloat.

Another conclusion from the misbegotten days of @Home and Excite is that the Silicon Valley venture community, while made up of generally bright investors, knows nothing about building the bricks and mortar businesses that actually deliver the Internet to individuals and businesses. They have built many, superior, single-product companies, but couldn't grasp the huge investment required to compete in the Internet backbone business.