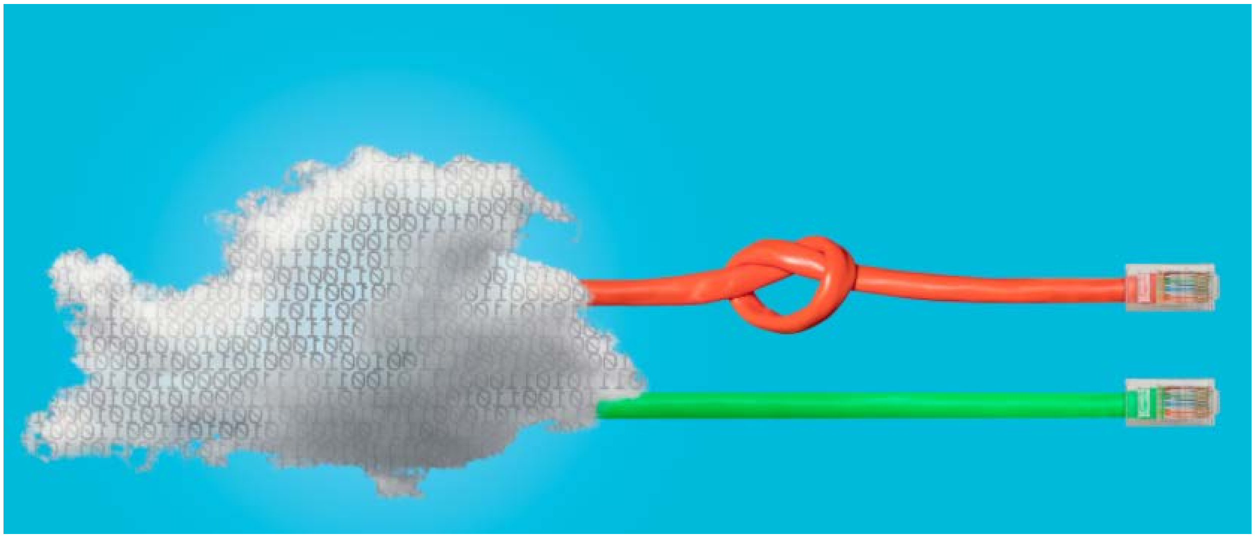
FCC Deals Blow to Midsize Businesses with Net-Neutrality Vote



The Federal Communications Commission on Thursday voted to overturn rules governing how internet-service providers treat web traffic, a decision that could impede the ability of middle-market businesses to compete in a range of industries involving web-based products and services.

"There's a fair amount of concern about what can happen, and there's a fair amount of justification for those fears," says Ken Marlin, managing partner and founder of Marlin & Associates, a New York City-based investment bank focused on mergers and acquisitions in business software, financial technology, data, analytics and related services.

The so-called "net neutrality" rules implemented by the Obama administration required internet-service providers, or ISPs, to provide equal treatment for all web traffic. The FCC decision eliminating the rules creates the potential for ISPs to grant preferential treatment for certain types of content or charge higher fees for faster streaming capabilities.

Web-based software providers, cloud-based software-as-a-service businesses, and content providers are among the middle-market companies that could be negatively impacted by the net-neutrality reversal, Marlin says.

Large corporations are better positioned to pay for faster data transmission, putting small and midsize competitors at a disadvantage against their larger peers and potentially stymying the next Amazon or Instagram, Marlin says. "Netflix will be just fine. But if there's a startup that can't afford to pay and has less priority, or is slower, that will make it more difficult for a startup to compete."

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Meanwhile, customers have limited options when it comes to internet providers in most parts of the country. "The problem here with net neutrality is that by and large these markets are not sufficiently competitive," he says. "You have de facto monopolies among large ISPs."

Many ISPs also own content channels, which could lead them to favor their own offerings over those of their competition.

The impact on M&A activity remains to be seen. If striking down net neutrality leads ISPs to slow or restrict data transmission, it could raise the cost of doing business for companies, reducing their value or forcing them out of the market. But for now, the effect of Thursday's vote remains to be seen.

"I think it's going to take at least a year before we start to see the impact," Marlin says.

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