Multichannel News

AT&T Needs to Kill DirecTV to Save It

Researcher says migrating satellite customers to IPTV should be phone company's main goal

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A new study by BIA Advisory Services puts into black and white what a lot of analysts have been saying for awhile: in order for AT&T to preserve its video distribution business, it first has to destroy it.

AT&T burst onto the video scene in 2006 with the debut of its copper-wire based Uverse broadband and video service, an offering that had some limited appeal to customers primarily in the heartland. By 2015, AT&T decided that it had to make an even bigger splash, agreeing to buy satellite giant DirecTV in a deal valued at about $50 billion, which made it the largest pay TV distributor in the country with about 26 million customers. Now, according to a new research report by BIA Advisory Services -- *AT&T Media Strategy 2019* -- author, veteran network systems executive and Connolly Network Insight chief Paul Connolly, says as the pay TV business morphs yet again to one increasingly focused on streaming video, AT&T needs to take the next step.

"AT&T needs to migrate their satellite subscribers (DirecTV) to an IP-based system or risk losing them," Connolly said in his report.

Satellite subscriber rolls have been steadily dwindling since AT&T bought DirecTV -- the satellite giant lost about 544,000 total customers in Q1, while its streaming service DirecTV Now lost about 83,000 subscribers. Between Q1 2017 and Q1 2019, DirecTV lost about 2.377 million satellite TV customers, according to a May research report by MoffettNathanson principal and senior analyst Craig Moffett, with the bulk of those losses (1.4 million) coming in the past three quarters. Dish Network also has endured heavy satellite subscriber losses over the past two years -- 2.49 million between Q1 2017 and Q1 2019, according to Moffett -- but has seen a slowdown in the most recent quarter. That may be in part because the overall satellite base is becoming more rural, a core that may prove to be stickier than its urban and suburban counterparts and help moderate losses going forward.

"The question is whether this stabilization comes in time to save the business," Moffett wrote.

That has also helped fuel speculation that DirecTV should sell out to Dish, creating a 36-million subscriber strong powerhouse with the scale to survive the coming satellite apocalypse. Some analysts believe that regulators may be open to a deal and are actively trying to push the two toward the negotiating table. It should be noted that neither company is in talks and there is no indication that they would be, although there have been some reports that both DirecTV and Dish would be open to a combination.

But to me it seems like a classic case of too little, too late. Kind of like merging the two biggest buggy whip makers in the country while Henry Ford is steadily cranking out horseless carriages. It may sound like a good idea at the time -- especially to the dealmakers -- but it would only briefly hold off the inevitable disintegration of the business, essentially giving people more of what they don't seem to want in the first place. Better yet would be a rethinking of the product into something that could support and/or take advantage of the new technology.

That, according to BIA, appears to be what AT&T is trying to do.

In its research note, BIA says that distribution isn't quite so important for the phone giant as it used to be. While DirecTV Now and a third streaming offering slated for launch towards the end of the year will undoubtedly increase their subscribers as satellite customers migrate, BIA believes the company's real profit center lies in its programming division.

AT&T paid about $107.8 billion for Time Warner Inc., a deal that made it one of the largest content creators in the world. According to BIA, that content leadership, coupled with the targeting capabilities inherent in an IPTV delivery platform, could make AT&T a major ad player going forward.

According to Connolly, this has been the strategy from the get-go. AT&T consolidated all its data analytics capabilities in a new unit called Xandr in September 2018, and has systematically built an infrastructure around the unit to deliver advanced ads to the 170 million direct-to-consumer relationships the company has through its wireless, video and broadband products. A month prior AT&T bought AppNexus, for $1.6 billion, bringing machine learning, engineering, advanced analytics, and a programmable ad exchange system to Xandr.

"The intent is now to produce a premium video programmable ad exchange for both their own use and that of other video providers," BIA said in the report.

AT&T has made some progress toward that goal, expanding ad slots through some recent carriage renewals, launching initiatives like Turner Audience Now, which includes insights and data from more than 40 million AT&T set tops for more precise targeting, and Launchpad, which pushes out in-house generated branded content to 15 million addressable homes in the DirecTV footprint and 5 million more from partners Frontier and Altice.

"If AT&T can pull this off, they eliminate their major exposure to aging satellite-based technology, solve the long outstanding dilemma of how to provide more video targeting to its video subscribers, maximize the value of their recently purchased WarnerMedia content, and reinforce the unique value of their wireless offerings in the highly competitive 5G roll out," Connolly said in the report.