AT&T to Purchase DirecTV

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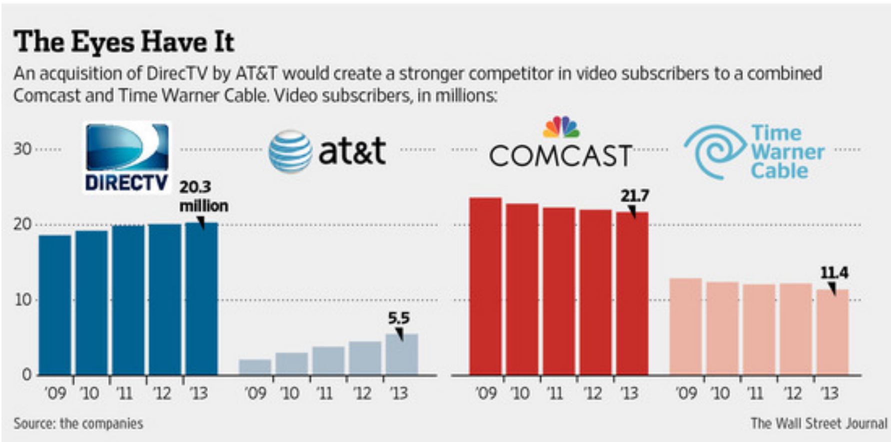
The United States' largest telephone company and second largest high-speed Internet provider, AT&T, recently announced plans to acquire the nation's largest satellite TV provider, DirecTV, for $48.5b, a deal that would further consolidate the already dwindling field of pay TV providers across the country. Significantly, this deal comes only a few months after the proposed merger between cable giants Comcast and Time Warner Cable (TWC), leaving the FCC with two major buyouts to consider that will invariably alter the landscape of media distribution and telecommunication services in the United States.

If the FCC approves the deal, AT&T will take over DirecTV's 20 million U.S. subscribers (not to mention its attractive deal with the NFL), in addition to the satellite TV provider's 18 million subscribers in Latin America. Right now, AT&T's U-Verse television service only reaches around 25 percent of the country and has just 5.7m subscribers. While AT&T and DirecTV are not direct competitors in most areas of the country, U-Verse does compete with DirecTV in 10 of America's top 20 metropolitan markets. This means people in those 10 markets would lose a pay TV competitor should the FCC approve the merger. The combined company will have 100m wireless subscribers, a 70m footprint in broadband, and around 26m pay TV subscribers in the U.S.

In addition to emphasizing the tremendous growth opportunities this deal offers, AT&T has offered three main concessions to calm expected regulatory objections. AT&T promises to 1) expand its high-speed broadband service to 15 million households, including many underserved rural areas; 2) continue to offer stand-alone, nation-wide prices for its satellite and broadband subscribers; and 3) respect the now defunct net neutrality rules. However, promises two and three come with a three-year expiration date, at which point AT&T will be free to play with its prices and service bundles.

The recent string of high-profile mergers in the telecom and cable industries signals a larger trend toward consolidation and scale in the sector, a logic in which the most successful companies going forward will be those with infrastructures large enough to reach the most customers, provide the most services, and leverage their size in order to lower content licensing costs. In fact, AT&T expects to save at least $1.6b on content costs from its DirecTV deal; unfortunately, there is no indication these savings will be passed on to consumers. Moreover, the consolidation trend has a troubling domino effect: as larger companies merge (Comcast and TWC), competing companies (AT&T and DirecTV) look to do the same in order to remain competitive. This ultimately contributes to a dwindling field of competitors that provide consumers with phone, Internet, and pay TV services.



Accordingly, AT&T's proposed deal has raised the concerns of Congress. A Senate Antitrust Subcommittee will hold hearings on the proposed merger, while AT&T's formidable lobbying armada will attempt to sway favor on Capital Hill, something the company was unable to do in 2011 when its merger with T-Mobile was denied based on similar concerns.

Media watch dog groups, the National Association of Broadcasters, and the American Cable Association, a trade group for small cable providers, have voiced skepticism or outright opposition to the deal. Much of this criticism expresses doubts that a more consolidated cable market will be good for the public or smaller competitors. Such concerns are valid given that a recent FCC report suggests U.S. pay TV subscription prices raised over five percent in 2012, higher than the inflation rate, to an average of $64 per month.

The rapid string of proposed mergers in the telecom and pay TV industries should alert the FCC to be cautious, at least until more extensive analysis can be done on the impact of these mergers. This is especially true if AT&T tries to frame its acquisition of DirecTV as an attempt to compete with a potentially engorged Comcast. Such a rationale if embraced by the FCC risks endorsing the corporate logic of a consolidated marketplace—competition is possible but only among the few biggest contenders. Paradoxically, this race will likely end with another outcome entirely: a reduction of major players, less competition, and fewer choices (and agency) for the consuming public.