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AT&T Time Warner Merger Impact

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AT&T Time Warner Merger Impact

The world today is changing due to the increasing pace of technological advances. These advances can be seen in people's everyday life from how people buy groceries to how people watch their favorite television shows. All across consumers' lives, technology is having an impact and showing that it is a powerful tool that can act as both a disrupter and innovator across many industries. The companies that have embraced technology have created new industries and positioned themselves to succeed, while companies that have often ignored how technology is changing their markets by sticking and stuck to their old business models have often lost market share to smaller, less capitalized companies that have disrupted the markets. A clear example of this is Toys R Us. They failed to continue to innovate and stuck with an outdated business model until it was too late for them to recover, and eventually led to them declaring bankruptcy. Compare this to companies like Amazon that have leveraged technology in order to continue to grow and gain market share. This change has also happened in the media industry as technology is changing the way consumers view their favorite shows and movies. Consumers are now preferring to stream their shows to their cell phones and television screens instead of paying for a cable provider. This changing perspective by consumers is affecting company's long-term strategies in the telecommunication, satellite and cable industries as companies are faced with a decision on how they should adapt. In the case of AT&T when faced with the changing consumer demographics, they decided that they needed to change. They decided to change by merging with Time Warner to best position their company to provide services that their customers would value. The merger of AT&T and Time Warner positioned AT&T to capitalize on the merging technology and create synergy between their business units.

Today AT&T is a multinational conglomerate that is well known for their presence as a telecommunication and satellite television provider and a cell phone company. However, to understand AT&T's place in the industry today it is important to see how AT&T started. AT&T's birth can be traced back to their predecessor, the Bell Telephone Company. The Bell Telephone Company dates back to the era when Alexander Graham Bell invented the first telephone, which was a great technological breakthrough at the time that forever changed the landscape of communications, and ultimately entertainment and media for consumers, (History 2009). The company was started by a technological innovation and the company continues to strive to be on the forefront of technology in order to best provide for their customers. This focus for innovation has only continued as shown by AT&T's purchase of Direct TV. This acquisition allowed AT&T to be able to move deeper into the wireless service industry.

As a company founded on innovation and technological advances, AT&T also realized that customers are shifting toward streaming providers and away from cable and satellite television providers, a core part of AT&T's business model through Direct TV. In response, AT&T launched Direct TV Now in order to give the customers a streaming option for their service, but they soon realized that they needed more content, as competitors in the entertainment distribution industry started acquiring entertainment producers. This need is what helped create the merger between AT&T and Time Warner Inc. At the time, Time Warner Inc. was a leading media and entertainment company whose media brands included HBO and CNN. Time Warner also has multiple business segments ranging from the Turner business segment and the Warner Bros. Business Segment. These facts are what made the acquisition of Time Warner so appealing to AT&T. According to the AT&T website Randall Stephenson, Chairman and CEO of AT&T Inc. states, "The Content and Creative Talent at Warner Bros., HBO and Turner are first-rate. We're going to bring a fresh approach to how the media and entertainment industry works for customers, content creators, distributors, and advertisers," (AT&T, 2018). This quote from AT&T's own website further emphasizes the importance that AT&T placed on the content provider Time Warner. AT&T always had a means of connecting to customers through its telecommunication industry, with access to millions of Americans, but it needed to become a content provider to be able to offer its customers exclusive content. This need for content is what drew AT&T to Time Warner. Time Warner was a company that provided exclusive content, but did not have a direct path to consumers. This merger allowed the two companies to be able to combine their unique talents to better compete in the new entertainment streaming market.

After the merger, AT&T will now be able to leverage its connection to millions of Americans with the exclusive content that Time Warner has to offer. AT&T has realized that companies such as Netflix and Hulu have changed customers' perceptions of entertainment and they have adapted to better fit their customers' needs. While this merger marked a leap forward in the streaming industry, it came at a large cost. The deal included 1.437 shares of AT&T and $53.75 in cash per share of Time Warner Inc. This resulted in 1,185,000 shares of common stock and $42.5 billion in cash. Combined with the net debt of Time Warner, the deal pushed the total net debt of AT&T to $180.4 billion, (Fitzgerald, 2019). This increase in net debt shows a highly leveraged acquisition that puts pressure on the company to generate additional revenue. The company remains optimistic that it will not have problems in paying off their debt, but their expansion has been debt financed. This leaves the company vulnerable because the company has become highly leveraged to finance its newly acquired business units. The future debt payment load will limit AT&T's ability to maneuver as future technological advances and trends happen and their existing strategy does not prove successful. However, AT&T is betting that the merger will allow the company to offer their customers more services and allow the company to charge a higher price since they are able to bundle their services and reduce the commoditization of their existing businesses.

However just as AT&T was starting to plan how it will accomplish their strategic objectives, the merger was challenged by US Justice Department in federal court. Since announcing the merger, and subsequent challenge by the U.S. Government, AT&T has been in a holding pattern with its newly acquired business units. This was a huge impact on AT&T because the company could not fully integrate Time Warner due to the ongoing litigation that was present at the time. The reason for this challenge by the Justice Department in federal court was the fear that AT&T would have too much market share and this power would give AT&T the ability to force suppliers to pay a lower price and cause consumers to pay higher prices. However, on June 14th 2019, this was settled with the U.S. Court of Appeals ruling in the case of U.S. v. AT&T Inc., 18-5214, The U.S. District Court of Appeals', District of Columbia Circuit ruled in favor of AT&T, (Lee and Kang, 2018). Now that the case has been settled, AT&T is able to start organizing their business according to their identified needs and long-term strategies.

One of those long-term strategies is to make Warner Media a streaming-video business. AT&T is positioning the company towards this goal by negotiating licensing deals with Turner's cable networks such as TNT and TBS. This will allow the company to be able to start incorporating these licensing deals into their current products and further lower cost for their provided content. Warner Media, which is Time Warner and AT&T's new company, is using their size to develop relationships with Hollywood talent. The sheer size of the company allows AT&T to have a significant competitive advantage over their competition, but also being able to have their own platform to stream provides a distinct advantage. Combine this with Time

Warner's established relationships in the industry and AT&T's involvement in an industry that already has high barriers to entry, AT&T is positioning itself to make an impact in the streaming industry. One example of Time Warner's impact is their connection with talents such as Michael B. Jordan. These connections allowed Warner Media to sign a first-look deal with Outlier Society, Michael B. Jordan's production company. Warner Media also signed Mindy Kaling to write scripts for future productions and it is negotiating with J.J. Abrams. J.J. Abrams was the director and producer behind *Star Wars: The Force is Born.* While AT&T is creating relationships to continue to increase the content it can provide to their customers, AT&T is also looking to create Warner Media Innovation Lab that will encourage new ideas and innovations, (Fitzgerald, 2019). This lab will allow AT&T an incubator to continue to research cutting edge ideas and technology, so the company will be able to stay ahead of their competition and provide the best services for their customers.

In addition to providing a better service for their customers, AT&T is providing themselves an opportunity to be able to compete in the future. AT&T is providing an exclusive streaming platform with exclusive content that can now become monetized. AT&T can monetize this service and the data they will be able to obtain to have targeted ads that advertising customers will pay premiums in order to reach this wide network of consumers through very targeted, data driven advertising placement. While this is how AT&T can improve their position now, the upcoming technology of 5G is where AT&T can truly change its business. 5G technology will allow consumers to better stream videos and shows directly to their smart phones at speeds considerably faster than anything currently seen. This further emphasizes the importance of smart phones as the primary contact and direct access vehicle to consumers. Other competitors are also seeing the importance of this technology and are creating their own streaming services. One example of this is Disney, which has recently announced their own streaming service as an exclusive way to watch much of Disney's considerable, proprietary and popular original movies and television shows. The future appears to be a streaming environment where customers can pick and choose which streaming providers they want to have. AT&T's merger puts it in a distinct competitive advantage in this market, since they now have exclusive content and multiple avenues to provide it to their customers through AT&T's telecommunication industry.

AT&T has faced many issues with changing customer preferences and how to adapt to continue to provide the best services for their customers, so they decided to merge with Time Warner to be in a better position to provide for their customers. The company was forward looking enough to see the importance of streaming services and the impact of technological innovations on the industry and continue its long history of adapting and innovating to provide a better platform for their customers and remain a relevant player in the communications industry, that it in many ways originally created through its founder, Alexander Graham Bell. Time Warner's acquisition allows AT&T to beef up their streaming services and help entice customers to buy their services, allows the company to gain large amounts of consumer data, and entice consumers to continue their relationships with the company. However, the impact of the merger is still undetermined as the company has been dealing with court cases that has prevented the full merger of these two companies and allowed its competitors to react to AT&T's strategy while the company was battling the Justice Department to move forward. While the impact cannot be determined yet, the company appears to be positioning themselves as best they can to take advantage of all the offers 5G has to offer. AT&T is continuing to be sensitive to the changing customer preferences and be willing to adapt to better suit their needs. This willingness to embrace change should allow AT&T to continue to stay in the forefront of technological advances and allow the company to reap the rewards as a technology start-up company, while leveraging the advantages of being a large, multinational conglomerate.

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