

Is Dish Cooked?

AT&T pick of DirecTV is bad news for Dish Network.

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AT&T's announcement that it selected DirecTV as its sole partner for satellite video is really bad news for Dish Network, but it doesn't ensure long-term success for DirecTV either.

During the first six months of 2008, AT&T accounted for 15% of Dish's gross subscriber adds, or 222,000 of its 1.48 million gross new subscribers. During this same period, almost as many Dish subscribers churned off the service as were added, leaving Dish with only 10,000 *net* new subscribers. Without AT&T's contribution as a distribution channel, Dish would have suffered a net loss of over 200,000 subscribers during the first half of the year. Dish's churn rate during this period, which averaged 1.78% per month, is attributed to competition, the economy, signal theft and operating inefficiencies. Given that these are long-term factors, it will not be easy for Dish to reduce churn significantly. However, unless and until this happens, Dish faces ongoing net subscriber losses. In recent years, cable operators also have reported losses of basic video subscribers, so Dish will be in good company. Cable MSOs can point to counterbalancing growth in multiplay RGUs (revenue generating units). For cable operators, it's arguable whether small to moderate losses in their basic video subscribers really "matter." For Dish, these losses will hurt.

DirecTV gained 404,000 net new subscribers during the first six months of 2008, reaching 17.16 million in total, and is clearly pulling away from its smaller DBS rival with its 13.97 million subscribers. Given the new AT&T deal, DirecTV will have distribution agreements with all the former Bells—Verizon, AT&T and Qwest—and in the current competitive environment, telco distribution makes a difference. In its 2Q08 report to the SEC, DirecTV states that its gross subscriber adds during the quarter declined relative to a year earlier "primarily" due to the April 2008 termination by AT&T of its prior distribution agreement in the former BellSouth territory.

There is no pleasure in piling on Dish Network, an innovative and entrepreneurial company. For what it's worth, DirecTV is also far from a long-term sure thing. For several years, I have opined that both DBS operators face a strategic competitive disadvantage vis-à-vis the multiplay cable and telco operators. Now even Rupert Murdoch recently has expressed the same opinion in explaining why he disposed of his interest in DirecTV. Although perhaps Murdoch was only saying this to tease John Malone, his fellow media mogul who took DirecTV off his hands as ransom for Malone's large shareholding in News Corp.

Verizon and AT&T will undoubtedly give top priority to their own multiplay services and will cut back on marketing DirecTV as they expand FiOS and U-verse, respectively. In areas not reached by FiOS and U-verse, where DirecTV will remain the only video option for telco households, the DSL broadband product in the telco/DBS bundle will represent an ever-weaker competitor to cable modems, and this bundle will still have nothing directly comparable to cable VOD. The bidding war between Dish Network and DirecTV to win the AT&T deal must have been intense, and whatever DirecTV promised is likely to be reflected in the raising of DirecTV's already high subscriber acquisition cost.

Thus while Dish Network faces tough times, for DirecTV the words of poet John Donne also apply, "...send not to know for whom the bell tolls, it tolls for thee."

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