Media

Is AT&T Buying a Big Dog to Get a Fancy Tail?

- ▶ **Mobile video is growing fast, but users mostly watch short clips**
- ▶ **"You buy this enormous company and only ... utilize a small slice of it"**

For **AT&T** Chief Executive Officer Randall Stephenson, grabbing ownership of great video content that his company could offer through its mobile services was a key reason for his $85.4 billion deal to buy **Time Warner**. "Premium content always wins," he said in October after the deal was announced. "It has been true on the big screen, the TV screen, and now it's proving true on the mobile screen."

Just how successfully that maxim can be applied to the cell phone universe remains to be seen. User-generated and social-media-shared content—think cat videos or clips of James Corden's *Carpool Karaoke*—are among the big drivers of mobile video. Getting smartphone users, who tend to watch shorter pieces, to consume much of Time Warner's long-form content on their tiny screens won't be easy.

"That's one of the big challenges—you buy this enormous company and only try to utilize a small slice of it," says Jan Dawson, an analyst at Jackdaw Research. "The good thing is, it's a good business in its own right."

Companies like AT&T are embracing mobile video for a simple reason: It's the fastest-growing video type by consumption, according to the Interactive Advertising Bureau. Already, 14- to 25-year-olds watch more video on computers, tablets, and smartphones than on traditional TV, Deloitte says. In the second quarter, streaming-video plays on smartphones rose 10 percent from a year earlier, while tablet plays increased 51 percent, according to Ooyala, which tracks millions of viewers.

Advertising should bolster mobile-video revenue, which globally will reach $25 billion by 2021, up from $12 billion today, as the number of mobile-video users more than doubles to 2 billion by the end of 2022, says researcher Strategy Analytics. With more than 60 percent of mobile-data traffic already coming from video, a figure that's still growing, "mobile video is at the center of a lot of operator strategies," says Chetan Sharma, an independent wireless analyst.

AT&T has already been offering video via mobile apps, one of which lets phone users stream their DirecTV channels so the video doesn't count against their wireless data allowance when the services are bundled. And in November the company will launch DirecTV Now, a service offering more than 100 channels for $35 a month over wireless or traditional wired Internet connections to any smartphone, tablet, smart TV, or other device. "If you fast forward—2020 plus—mobile video is central to a TV viewership," Sharma says. "AT&T is looking to offer access-and-content bundles and compete head-on with **Comcast** and the like."

It's uncertain how suited many marquee Time Warner properties—such as the Warner Bros. *Harry Potter* film franchise and HBO's *Game of Thrones*—may be for the small screen. According to Ooyala, in the second quarter, videos 5 minutes or shorter accounted for 55 percent of all viewing time on smartphones; mobile video 5 minutes to 20 minutes long accounted for about 20 percent of viewing time on smartphones, tablets, and computers. Longer-form video, though it's becoming more popular, was mostly watched on home TVs and tablets. That means most users may watch only snippets of CNN or sports highlights from Time Warner on their phone—but not 90-minute shows.

Besides, many people who consume mobile video don't pay for premium content. A typical U.S. user spent 13 minutes more watching **YouTube** than watching **Netflix** on a smartphone this year, according to research from Strategy Analytics. Over the past year the time a typical American spent watching YouTube on a phone jumped 37 percent, while Netflix-watching time remained constant. "YouTube is a classic example of how consumers consume mobile video," says analyst Wei Shi of Strategy Analytics.

Making money on video services could be tough. At the expected rate of $35 a month for DirecTV Now, AT&T might end up providing content at a loss, says Craig Moffett, a senior analyst at MoffettNathanson. He figures that content costs alone will add up to $34 per viewer a month. "By the time you add in the cost of hosting and transport, customer service, customer acquisition—you'll be losing money," he says. "That's why everybody is scratching their heads over this transaction." But AT&T may be able to make money selling ads around mobile video content, which currently is experiencing red-hot demand from advertisers, says Cathy Boyle, an analyst at researcher EMarketer.

AT&T executives are undeterred by the skeptics. "Think about the mobile devices really just becoming secondary televisions in people's home," says Tony Goncalves, senior vice president for strategy and business development at AT&T Entertainment Group. "What do people watch on their televisions? Premium content. They watch *Harry Potter*, *Game of Thrones*, news. We think that's where monetization really lies." —*Olga Kharif*

The bottom line Mobile video accounts for more than 60 percent of mobile-data traffic. AT&T wants Time Warner content to feed that growing segment.