October 27, 2016

TheStreet

Is the AT&T-Time Warner Merger Toxic for Consumers? Some Advocates, Customers Think So

Free markets are at risk if this mega-merger goes through, one consumer group states. Why you should fear 'a tight oligopoly on steroids.'

Brian O'Connell

Oct 27, 2016 10:32 AM EDT

Consumer advocates are not reacting kindly to the proposed **AT&T** (T) - **Time Warner** (TWX) merger, valued at a whopping $85.4 billion.

They see the proposed pact as a both a "choice" issue and as a big hit to the pocketbook for consumers, as well.

"The AT&T-Time Warner merger must be stopped, but that's only part of the problem," says Dr. Mark Cooper, director of research at the Consumer Federation of America**. "**Today's concentrated digital communication network is putting a stranglehold on distribution, preventing free market delivery of content, and costing consumers billions of dollars."

Overall, the CFA calls the merger "bad for consumers," and Cooper is first up in manning the barricades. "While there is no question that the AT&T-Time Warner merger should be blocked, there is a far bigger market failure that needs to be addressed in the digital communications industry," he adds. "A tight oligopoly on steroids has emerged with consumer harm that far exceeds the problems that would be created by the merger."

"Right now, four massive firms (AT&T, **Verizon** (**VZ**) , **Comcast** (**CMCSA**) and **Charter** (**CHTR**)) totally dominate the digital communications landscape," Cooper notes. These "final four" firms control all of the major product markets - wireless, broadband and business data services - areas that all directly impact consumers, he states.

Cooper is hardly alone. Analysts, consumer watchdog groups and even digital communications consumers are all weighing in against the merger.

"Of course the merger will be toxic," says Mike Arman, a resident of City of Oak Hill, Fla.. "Have you ever known either of these companies to do anything in their customer's best interests?"

"So now we're going to combine the phone company with a cable TV content provider which has the worst customer service satisfaction ratings," he adds. "What could possibly go wrong?"

Arman says the merger will lead to more of the same limited choices and high fees that seem to define the large cable and telecommunications consumer landscape.

"As a consumer, just suppose you find yourself in one of the areas that's only served by this combination," Arman notes. "You are locked in and at their mercy. If, for example, you want to change your phone provider, then your internet and cable TV goes away - and all your email contacts over the last years can't contact you any more. If you want to get rid of crappy, expensive cable TV? Sorry, you can't - they only offer bundled service."

"It's always all or nothing with these companies - just take it all or leave it, as you have no alternatives," says Arman, who describes himself as an AT&T customer for almost half a century, and who has "probably spent $100,000 with them and never even got a thank you card."

It may be a while before consumers get a good grip on what the merger means to them, as the proposed alliance has to clear federal government regulators first.

"It will take some time before customers are able to reap the benefits of this merger," says Jim O'Neill, principal analyst at Ooyala, in Grand Haven, Mich.

O'Neill says that, because of the intensity of the deal and what it could mean for the industry, both the Republican and Democratic presidential candidates have said they believe it should be heavily scrutinized. "Meanwhile, critics argue that the deal could lead to higher prices and fewer choices for consumers, a reduction in competition and that it concentrated too much media power in one company," O'Neill says.

If the merger does clear all hurdles, it could be one of the biggest blockbuster business alliances of all time. "This will be one of the largest media mergers we have seen historically," adds O'Neill. "If everything works out successfully, this deal could set the stage for a new generation of media companies."

Jerry Braakman, chief investment officer at First American Trust, expects the merger process to take a while to go through, giving both pro- and anti-merger forces ample time to lobby for their preferred result. Additionally, it should give investors plenty of time to evaluate the financial potential of two digital communications giants joining forces.

"The AT&T/Time Warner deal will be challenging to complete from a regulatory perspective, considering the long anti-trust review the Comcast/NBC merger experienced," Braakman says. "The market is anticipating these issues as the current trading price of Time Warner is at a significant discount to the offer price by AT&T."

"It's expected the approval process will take 12 to 18 months considering the complexities involved," he adds. "From an investor standpoint, the deal is a more out of the comfort zone as AT&T will get into the media content creation business."

In the meantime, consumers can expect higher fees, and less choice, if the deal goes through - even if they plan to be cord-cutters and cell phone discounters, other analysts say.

"It's doubtful this merger stems the tide of rising programming costs that are largely to blame for higher cable bills and cord-cutting," notes Mary Kelly, an assistant professor of economics at the Villanova School of Business. "Lower prices, more choices, and innovation comes from more competition, not less. The good news is that consumers are "going outside the box" and getting content from indirect competitors. The reality, however, is that those competitors still need to get to customers via the pipes controlled by the likes of AT&T and Comcast."

That doesn't bode well for consumers who are already accustomed to taking it on the chin from cable and phone providers, price-wise and customer service-wise. In that regard, the ATT-Time Warner deal seems like more of the same, only doubled.