

Consolidating the directv acquisition

[Media](#), [Television](#)



Case 7: News Corp.

in 2005, Consolidating the DirecTV acquisition The case focuses on the acquisition and consolidation of DirecTV by media mogul Rupert Murdoch's News Corp. After the acquisition, Murdoch's content-and-distribution empire spanned four continents, with more than 26 million subscribers. Murdoch, News Corp. 's chairman, had ambitions to build one of the most powerful media companies in the world. He aspired to have a balance between subscription and advertising revenue, the best mix of content and distribution and the widest geographic spread in the world. There are a various aspects of the general environment firstly; the political/legal aspect of the general environment was initially most significant in the purchase of DirecTV by News Corp. FTC concerns of potential market concentration issues if EchoStar purchased DirecTV forced the two to drop discussion, paving the way for News Corp.

's purchase of DirecTV. Technology is probably the most important current aspect of the general environment. Secondly, Demographic segment Growing markets worldwide for various communication and entertainment media content. Thirdly, Socio-cultural segment largely due to rapid changes in technology, as well as increased overall globalization efforts, consumers are becoming increasingly sophisticated in the quality and type of communication and entertainment that they expect. Communication, news and entertainment provided by DirecTV and similar services have become viewed as nearly a necessity in a modern world. Fourthly, Economic segment while general economic conditions and level of economic development in a particular country or region may hinder some feasibility of these types of

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services, in general, they are needed and used by markets worldwide regardless of overall economic conditions. Fifthly, Political/legal segment The FTC, the government's watchdog arm that oversees competition policy, is responsible for ensuring that consumers' interests are protected.

If an industry is getting increasingly concentrated, the FTC can use antitrust laws to prevent further consolidation of the industry or break up previous consolidation. The FCC, the government's watchdog arm that oversees the communications industry, is responsible for overseeing companies that sell communications products and services. Finally, Technological/global segment The 1980s and 1990s saw a worldwide race to deliver television programs to global markets. Cable operators invested in laying cables and beamed programming content through these cables into subscribers' homes. Satellite television had a much wider reach, because satellites orbiting the earth sent the programming content directly into the home without the need for a cable connection. By 2000, cable had an important advantage over satellite in that it offered high-speed, two-way access, including phone capability. Satellite was still mostly one-way.

However, it would take cable companies years of multi-million dollar investments to upgrade to digital technology. DirecTV competes in a broadly defined media industry. Several sectors of this industry might include communications (e. g. telephone, internet, cable, satellite TV), news services, entertainment (e. g. , cable and network programming, movies, pay per view, gaming).

There are various characteristics of the dominant industry. Market size is the most providers are regional or national competitors, depending on the facet of media in which they compete. Life cycle stage is growth. Growth rate is rapid. Scope of rivalry is fragmented in some respects, but rivalry is fierce among those that go head to head in specific sectors. Rivalry concentration in the media industry is dominated by large and powerful companies, but most of these are regional, national or multi-national players. Pace of industry change is the technology change is rapid in telecommunications and related fields, which drives significant rapid change in all aspects of media.

Product/service differentiation is the consumers often have changing options for substitute products. Porter's five forces model of competition to the industry. Generally media is a very attractive industry with substantial growth opportunities, both domestically and internationally. Extensive economies of scope and scale are becoming increasingly influential in this industry and its related sectors. Threat of entry: new technologies fuel the constant threat of new entrants into some facet of content and/or delivery in the media industry. Bargaining power of suppliers: Bargaining power of suppliers is not significant here. Content suppliers must deal with DirecTV due to its massive size and market share.

Bargaining power of buyers: Customers' bargaining power is very significant, as consumers increasingly have choices of how and when they take delivery of content. Threat of substitute products: many potential substitutes exist, along with many ways to access content. Rivalry amongst existing competitors: Rivalry is fierce, as News Corp. had substantial content that

cable providers needed for product scope, permitting premium pricing. Cable and satellite are constantly battling for new or switching customers. Critical success factors DirecTV must continue to be aggressive in its acquisition and implementation of new technology. They must also be keenly aware of customer tastes and preferences for content and delivery options.

There are two types of resources Tangible and intangible. News Corp. 's tangible resources are its global satellite platform and its strength in both content and distribution, as well as an impressive set of fast-growing networks such as Fox News, Fox Sports, National Geographic and Speed Channel and satellite distribution in Europe, Asia and Australia. Before its acquisition of DirecTV, News Corp. as a global company, but had no direct broadcast satellite presence in the United States. DirecTV had three primary components at the time it was acquired by News Corp. , all of which appear useful for expanding News Corp's scale and scope of offerings: it was the largest US provider of direct broadcast satellite, giving customers access to hundreds of channels of digital-quality video and audio programming; PanAmSat owned and operated 25 satellites that covered 98% of the world's population; and broadband satellite networks and services were provided to both consumers and enterprises.

Intangible resources an aggressive corporate culture used to dealing in the high-pressure, ever-changing media industry, which fuels significant interest in developing scope and scale of product content and delivery. There are unique internal resources and capabilities of DirecTV that played a prominent role in Murdoch's decision to acquire DirecTV. DirecTV was the

first entertainment service in the US to deliver all digital-quality multi-channels TV programming through an 18-inch satellite dish. In 2003 DirecTV had 12. million subscribers, 10. 7 million of which were DirecTV subscribers, and the remaining receiving DirecTV service from members and affiliates of the National Rural Telecommunications Cooperative. This unique capability potentially provided Murdoch with a vast American market and the ability to shake his programming from the seeming stranglehold of American cable companies.

The rivalry like between News Corp. and its competitor(s) during the acquisition of DirecTV. In September 2000, Murdoch offered \$22 billion for a 35% stake in DirecTV. In Feb 2001 Hughes stock declined, and Murdoch reduced his bid for a 30% stake. As News Corp. negotiated with Hughes Electronics for the sale of DirecTV, the progress was very slow. In 2001, EchoStar surprised many by making an unsolicited bid to buy Hughes for \$30.

4 billion in stock and \$1. 9 billion in assumed debt. EchoStar was in the US satellite pay-tv market and a combined DirecTV and EchoStar would control as much as 92% of that market. Murdoch used this knowledge to lobby intensely to block the merger on antitrust grounds, and DirecTV and EchoStar dropped their deal. In April 2003, News Corp. acquired GM's 19. 9% stake in Hughes and a further 14.

1% from public stakeholders. The feature of the external environment does News Corp. use to fend off its rivals. Murdoch used a US government regulatory body, the FTC, to make sure that his rival EchoStar did not get a

chance to buy DirecTV. He forced the issue to the FTC that combination of DirecTV and EchoStar would create a monster that would control 92% of the market. Once the sale to EchoStar was blocked, News Corp. went forward and made a successful bid for the purchase of DirecTV.

The News Corp. integrates the newly acquired DirecTV into its global strategy. DirecTV was immediately re-structured. Labor disputes were settled and half the employees were retrenched. DirecTV became increasingly focused on core business, selling its 80% stake in the satellite launch business for \$2.5 billion, and its set-top-box manufacturing and XM Satellite Radio. The proceeds of these sales were used to pay about \$1.

4 billion for rural satellite companies that had 1.5 million subscribers, dramatically increasing market share. The factors inhibit News Corp's strategy from delivering its full potential. In order to close the DirecTV deal, News Corp. had to make some concessions: (1) Since the FCC had already banned large cable operators from discriminating against rival programmers, DirecTV could not use its muscle power to its full advantage (2) News Corp. had to submit to arbitration if cable operators accused it of using its popular channels as bargaining tools. These restrictions were temporary, as they expired within six years.