Culture Clash and the Failure of the AT&T/Time Warner Merger

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Abstract

This paper uses the failed AT&T/Time Warner merger as a case study to show that mergers between companies with markedly different cultures are likely to fail. Besides documenting the merged company's worsening financial condition, the paper contrasts AT&T's performance after the merger with similar mergers to highlight the importance of complementary cultures for the success of a similar merger. Though the problem of corporate chemistry is hard to measure, the investment community was a reliable guide for predicting its failure.

Introduction

In 2016, AT&T announced its intention to acquire Time Warner. On paper, the merger seemed like it would work well for both companies. AT&T was in the cable business, although its main business is landline and wireless broadband transmission, Time Warner was in the entertainment/content business. Together, they would have the advantage of working together to develop new products for AT&T's emerging 5G network. Together, they would have the capability to gather customer usage data that neither had as separate entities. Together, they could expand their ability to advertise during a program segment because cable companies and content providers each were allotted a certain number of minutes to advertise per hour.

The Department of Justice agreed that the merged company would be a powerhouse but from its perspective, the merger would significantly reduce competition in both the distribution and content parts of the cable industry. Other cable companies that depended on Time Warner content for their service packages would be at a disadvantage because the merged company would have an incentive to take their business by raising the price of Time Warner content or simply not selling it to competitors. The Department of

Justice sued to block the merger. After two years of litigation, the merger went through, however. Judge Richard Leon who presided over the case said that the merger was a defensive maneuver because of lost viewership to online cable companies that leased capacity to deliver their services.

Interestingly, the financial community reacted negatively to the merger, but that did not seem to have any effect on AT&T's decision to move forward with the merger despite concerns about its success. Three years after the merger, AT&T divested itself of Time Warner and took a $40 billion loss. The question is why?

The basic theme of this paper is that a corporate culture clash doomed the merger. Corporate culture embeds all the policies and practices that a company has used to achieve a historical mission. AT&T historical mission was mainly as a communication technology company while Time Warner's was as an entertainment company. As a result, both companies had very different cultures that would be difficult to combine effectively. AT&T probably realized this difficulty but did not want to make the same mistake again that it did pre-divestiture. Lemley and Lessig said that pre-divestiture AT&T did not realize that "the same wires that AT&T used to send analog voice could deliver stock quotes, music, fantasy games, reference information." — in other words, potential services eventually supplied over the Internet.[1]

They explained AT&T's pre-divestiture marketing myopia by noting that companies develop core competencies, and most of them tend to stick to what they know how to do.

> Companies faced with a potential for radical change in the nature of their market may recoil, either because they don't know how to change to face changing conditions, or because they fear that they will lose the dominance they had in the old market as it becomes a new playing field. Their business planning is, in short, governed by the legacy of their past success.[2]

Randall Stephenson, the CEO of AT&T, tried to prove that the company could change, that it would not stand by and see others use its network to generate enormous growth in equity. The motivations of Time Warner's executive team are less clear in retrospect. Publicly, the company said it was losing advertising revenue to online companies that controlled content and distribution. Yet, one year into the merger the many of their executives left the merged company.

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likely to fail. Besides documenting the merged company's worsening financial condition, the paper contrasts AT&T's performance after the merger with similar mergers to highlight the importance of complementary cultures for the success of a similar merger.

The paper is organized as follows: Section 1 describes the reasons for the merger; section 2 documents investor skepticism; section 3 puts the merger's failure in context by describing the insights of organizational theorists and behavioral economists that have examined corporate culture; section 4 uses the failed AT&T/Time Warner merger to draw implications for analyzing future mergers; and section 5 contains concluding remarks.

Reasons for the AT&T/Time Warner Merger

When AT&T and Time Warner announced an agreement in October 2016 to merge, the two companies had to be nervous because it was a blockbuster sure to draw political attention. AT&T was going to acquire Time Warner for $85.4 billion or $108.7 billion if assumed debt is included, in a stock-and-cash transaction.[3]

AT&T said the merger would allow it to offer innovative content, develop new, targeted advertising, and expand its menu of subscriptions to mobile, cable, and over-the-top (Internet-based) customers with a potential customer base of 315 million people in the United States. The subscription menu would, for example, include bundled mobile broadband and video content to its 5G customers. AT&T predicted that its two-sided revenue streams – from subscribers and advertisers – would generate enough cash flow to fund the merger and allow AT&T to offer premium services to its customers at best value.[4]

AT&T justified the merger as a competitive response to other media companies that had key advertising advantages from being vertically integrated. Netflix, Amazon, and Google, leaders in both programming and online distribution allowed them direct contact with customers.[5] "In most cases, Time Warner did not even know its viewers' names."[6] Its merger with AT&T would allow Time Warner to compete on an equal footing because it would now have the set-top boxes and broadband infrastructure to capture customer information.[7] The merger would also level the playing field on advertising minutes. For example, Turner channels sold 14 minutes of each programming hour to advertising partners and ceded 2 minutes to distributors to sell at their discretion.[8] The AT&T/Time Warner merger, which included Turner, would allow the combined company to manage all 14 minutes, and therefore, be on an equal footing with other vertically integrated media companies for advertising minutes.

The merger would also give the two companies a competitive edge for wireless customers. AT&T had a nationwide wireless network that online competitors did not have. With the emergence of 5G wireless, AT&T was convinced that mobile video will become increasingly popular.[9] The merger would give AT&T and Time Warner the capability to develop new video products for mobile viewing.[10]

Taken together, all these advantages would give the merged company the scale to develop targeted advertising and services that would boost the bottom line and add another major competitor to online cable TV. Like their competitors that were already delivering high-quality programming "over the top" AT&T would do so using its wired and wireless broadband networks to consumers' televisions, phones, and tablets. This would create a

> "flywheel effect" where video content drives deeper engagement on their platforms, creating more sales and advertising revenue from participating retailers and advertisers, subsidizing the cost of the service to consumers, putting downward pressure on consumer prices, and supporting additional investment in video content.[11]

The Federal Trade Commission and the Department of Justice, in essence, agreed with AT&T that the merger would produce a powerhouse media company, so powerful, that it would lead to diminishing competition with media customers facing higher prices and fewer choices for service. They sued to prevent the merger[12] and lost. The presiding judge, Judge Richard Leon, believed the merger was unlikely to lessen competition and thought that the merger would enable the merged company to offer new wireless services.

Investor Skepticism

From the start, the stock market's reaction to the merger was noticeably cool for a variety of reasons documented below that ranged from overpaying for Time Warner that left the merged firm heavily in debt to skepticism that AT&T would manage the merged company effectively in the market for streaming entertainment content. Perhaps the overpayment was also an indication that AT&T was not an effective deal maker with a company outside of its own basic market, which is broadband transmission.

Immediately after the 2016 announcement, over-the-top (online) video distributor stock prices such as Netflix were unaffected by the announcement. AT&T's stock price continued a downward trend that began in 2015, which will be discussed in more detail below. The merger also drew criticism from financial analysts and investors soon after it took effect. In

June 2018, Moody's and S&P Global Ratings cut AT&T's credit rating to Baa2 and BBB respectively, two notches above junk bonds, because of the company's net debt had risen to $180 billion because of the merger.[13]

The skepticism about a new, dynamic media giant emerging began with key executive losses when in March 2019, Recode reported that Time Warner's top management jumped ship to other media companies.[14] As a result, John Stankey, an AT&T veteran with little media experience, became CEO of WarnerMedia (Time Warner's new name) and would later become AT&T's CEO when it divested its media assets.[15,16]

Despite the heavy debt and loss of experienced Time Warner executives, AT&T was not in financial trouble yet. AT&T's reported first quarter, 2019 financial results showed that its free cash flow was $5.9 billion even as it spent $5.2 billion on capital expenditures. But AT&T's entertainment group lost 544,000 of its 22.4 million premium subscribers, and DirecTV lost 83,000 of its 1.5 million subscribers. Those losses may explain why AT&T's diluted earnings per share was $0.56 compared to $0.75 in the first quarter of 2018 and portended trouble ahead.[17]

Unease with the merger continued to grow. In August 2019, 20,000 AT&T's workers who service their landline network went on the strike, which led to a five-year contract that included a 15.25% wage increase, pension and 401k enhancements, and improved job security.[18] Yahoo reported that AT&T's debt size is pushing AT&T to delay landline upgrades, cutting ad jobs at CNN, raising prices on its "skinny bundle plans" squeezing suppliers, and cutting programming costs. At the time the Yahoo report, AT&T's dividend was 5.86% while the yield on a government 30-year bond was 2%.[19]

In September 2019, Elliot Management, which managed funds that owned $3.2 billion in AT&T Inc., wanted AT&T to spin off DirectTV and other non-core businesses and said that WarnerMedia under John Stankey's leadership lacked direction. In October 2019, Elliot Management reported that AT&T would not make any more large acquisitions such as Time Warner. AT&T also committed to adding "two new skilled directors" to its Board. Elliot also took issue with John Stankey's leadership of Time Warner Media. Elliot recommended that AT&T focus on its core business where it was losing ground to Verizon and T-Mobile.[20] Also, in October 2019 AT&T did not rule out selling DirectTV during an earnings call but said the timing wasn't attractive because its pay television unit lost 1.16 million subscribers in the 3rd quarter leaving its TV subscribers at 20.4 million.[21] AT&T decided to slash capital spending by $3 billion in 2020, mainly lit fiber-to-the-home network buildout.[22] Lit fiber is a vehicle for high-speed internet connections that would allow AT&T to carry high-bandwidth online services.

In March 2020, AT&T suffered another key personnel loss. Brian Lesser, the CEO of Xandr, the head of WarnerMedia's advertising and analytics division, resigned, perhaps because he was not selected to run Time Warner. Whatever the reason for his departure, one ad agency advised clients not to use the Xandr's buying until the situation at Xandr clarified.[23] In April 2020, Digital News Daily, reported AT&T Total Ad Revenue Down 13% in Q1, but Xandr revenue was up by 15%,[24] confirming Lesser's claim that he left Xandr in good shape.

In April 2020, Randall Stephenson announced his retirement as AT&T's CEO, effective July 2020. His bets on acquiring entertainment companies seemed a marked failure.[25] Public discussion of spinoffs and write-downs began soon afterwards. In June 2020, AT&T considered selling Warner Bros. Interactive Entertainment to reduce debt.[26] In March 2021, AT&T wrote down its premium TV business by $15.5 billion, reflecting cord cutting.[27] Then came the shocker. the new CEO, John Stankey, announced that AT&T was giving up on its dream for a combined content and distribution company. AT&T had agreed to spin off its media empire that included HBO, CNN, YNT, and Warner Bros. studio to Discovery. The sale wiped out tens of billions of dollars of equity value. Stankey would no longer challenge Comcast in Pay-TV or draw digital advertising from Google or challenge Netflix on streaming. It would revert to being a broadband and wireless company. John Malone, a former cable company executive whose was chief executive officer of Tele-Communications Incorporated when it was acquired by legacy AT&T, summed up the basic problem:

> "I think that the technology of connectivity and digital technologies are one focus, and creating content that people get addicted to is another focus," he said. "And you seldom would find both of those in the same management team."[28]

When Randall Stephenson took over AT&T as CEO in May 2007, the company's stock price was $39.47. As of April 20, 2020, AT&T traded under $30, about 24% lower. The S&P 500 was up about 85% in the same period.[29]

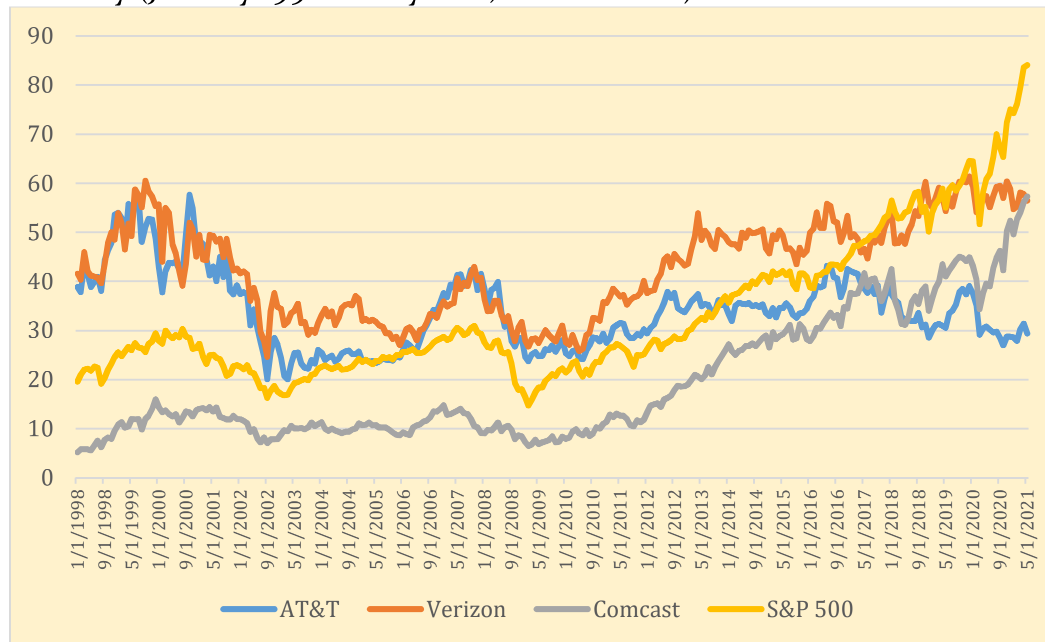
John Stankey, Stephenson's successor as AT&T CEO, explained the management failure from the company's perspective:

> We bought Time Warner because we wanted to offer consumers not just great connectivity, but also something else. That's our play," Stankey explained to *Barron's earlier this year,* "Our play is a great network, adding value with entertainment.

> The transition was rough on the ranks of Time Warner's senior leadership. Time Warner CEO Jeff Bewkes planned all along to retire after selling his company, but AT&T subsequently lost other key executives like HBO boss Richard Plepler, who's making shows for Apple now, and Turner leaders David Levy and John Martin. AT&T also lost Warner Bros. studio head Kevin Tsujihara to a sex scandal last year.[30]

Relative stock market price movement support Malone's and Stankey's observations on management failure that suggest culture clash is a reasonable explanation for the merger's failure. Figure 1 encapsulates this evidence.[31]

Figure 1. Closing Stock Prices for A&T, Verizon, Comcast, and S&P 500, Monthly (January 1998 -- May 2021, S&P rescaled)



AT&T' stock price had been trending downwards since its acquisition of DirecTV for $40 billion was approved July 24, 2015, which served as a warning signal that AT&T's push into the entertainment business was ill advised. The acquisition occurred just as viewers began to cut the cord and view content online.[32] After AT&T completed its acquisition of Time Warner on July 14, 2018, its stock price dropped again. By contrast, Comcast, a cable company that merged with NBC-Universal (NBC-U) on January 8, 2011 and completed the takeover from GE in 2013 experienced a sharp run-up in its stock price afterwards.

Table 1 reinforces the impression that AT&T's stock price fared poorly after the Time Warner merger was finally approved by the courts. Since July 2018, the S&P has risen 15.35% while AT&T's stock price has dropped by 1.05%. Comcast outperformed the S&P 500, rising by 19.39%. Verizon, a company with a similar history to AT&T's, stayed mainly with its core business of providing broadband services, fared better than AT&T.[33]

Table 1. Annualized Average Monthly Stock Price Growth Rates for AT&T, Verizon, Comcast, and S&P 500

	AT&T	Verizon	Comcast	S&P 500
1/1/98-7/1/18	1.79%	3.95%	12.97%	5.89%
8/1/18-5/1/21	-1.05%*	2.48%	19.39%	15.35%

* AT&T Merger finalized 7/1/2018.

Using a beta analysis reinforces the poor performance of AT&T post-merger. Multiplying each company's beta by the S&P's return post-merger yields the market's expected return estimates for each as summarized in Table 2. These estimates do not include the negligible .01% level on June 8, 2021, of the risk-free rate on the results.

Table 2. Annualized Expected Return Estimate using a Beta Analysis

	AT&T	Verizon	Comcast	S&P 500
Beta, June 8, 2021*	.74	.45	1.04	1.00
Estimated Expected Return Post 8/18/2021	11.36%	6.90%	15.96%	15.35%

*Source: Yahoo Finance, June 8, 2021.

The returns indicate that Comcast, a traditional cable company that acquired its programming by vertical relationships with content providers such as Time Warner, was successful at cobbling together a full-service media giant, while AT&T failed. Comcast's stock performance kept up with the rapid growth of the S&P 500, an indicator that the merger of a cable company and content providers is a reasonable strategy for developing online entertainment products. The performance of AT&T like that of Verizon, with its losses from Yahoo and AOL, suggest that corporate culture clash was likely

a factor in holding back their performances, which is explored in the sections below.

Insights of Organizational Theorists and Behavioral Economists

Two basic reasons for an established company to fail are either that it suffered from market myopia, or it damaged itself through disastrous mergers. Theodore Levitt's groundbreaking article on marketing myopia describes how high-growth companies lost their edge because they defined their market too narrowly. His examples included railroads, Hollywood, electric utilities, oil companies and a host of others.[34] Certainly, AT&T, before divestiture in 1983, failed to see how it could profit from the digital revolution. One could argue that the merger with Time Warner showed vestiges of this myopia because it seemed as if AT&T was simply moving from offering voice service to a triple-play of voice, data, and video over its new broadband network. Perhaps AT&T should have looked at itself as the transmission vehicle for online commerce and focused on improving its transmission options to companies like Netflix. Nonetheless, the marketing myopia argument is not persuasive. Comcast's merger with NBC-U was a successful merger of a cable company (Comcast), which distributes entertainment and other content, and an entertainment company (NBC-U). The question is why the difference in outcome between the two mergers.

In AT&T's case, mergers with non-telcos have been a long-standing problem. Prior to being bought by SBC, AT&T had tried to enter the wireless business by buying McCaw Cellular from its freewheeling founder. Then it bought TCI cable assets from John Malone who started the company. It also bought a 25% share in Time Warner Cable. An earlier acquisition was Olivetti, an Italian office machine company and personal computing company. They were all spun off or discontinued. By contrast, SBC, the company that would acquire AT&T and relabel itself as AT&T mainly purchased Regional Bell Operating companies.[35]

The history of AT&T before being absorbed by SBC and SBC's own strategy suggest that companies which were part of the Bell System seem to merge easily; whereas, when they purchased companies outside the system, those acquisitions generally failed. By contrast, Brian Roberts, the son of the founder of Comcast, engineered the successful merger with NBC-Universal.

A large and growing literature suggest that culture clashes often sink a merger that looks promising on paper. Organization theorists explain the failures as ideological clashes while economists attribute the failures to rising principal/agent costs when two organizations have different values and perceptions of the market. The two perspectives overlap, yet they yield different insights into why the AT&T/Time Warner merger failed.

Both academic groups agree that culture is often a vague term, but it has components that are widely accepted. Here I use John Coleman's definition of culture as containing a basic vision that orients the firm, a set of values that serve as guidelines to employees, practices that embed corporate values, people who are willing to embrace the corporation's values, a corporate narrative that defines the corporation's unique history, and place or physical environment where corporate members interact.[36] Other factors may be important such as the organizational form that guided a successful company since its inception.

In AT&T's case, its culture centered on a mission defined by Theodore Vail in 1907 as "one system, one policy, universal service" for local and long-distance voice traffic[37] AT&T's top priority became customer service. The product itself was a given: voice telephony. The culture that evolved focused on network technology and command and control for implementing landline servicer network upgrade plans. Interestingly, this mission seems to have caused AT&T to miss the mark on wireless potential and over-commit to developing a picture phone in the 1960s before the digital revolution took hold. Eliot Management's call for skilled directors on AT&T's board was a strong signal that AT&T's top management did not have the expertise to make the merger work. By contrast, Comcast is in essence a family business run by two generations of the Roberts family whose focus is on deal making with content providers. They are in the process of crafting their strategy for gaining a larger footprint in the online market through strategic alliances with other creative entities in that space. Notably, investor's cheered Comcast's performance in 2020. The basic message is that Comcast's strong management is aligning with companies with shared competencies to seize new opportunities for online entertainment.[38]

Harrison, a ground-breaking organizational theorist, helps place AT&T's culture into a broad category, which is useful for understanding its strengths and weaknesses. He divided corporate ideologies into four groups.

1. power oriented – an autocratic rule from the top, typified by the military.
2. roles oriented – a constitutional monarchy with a rational organizational form based on a merit-based hierarchy, rules, and procedures. It is typical of regulated utilities.
3. task oriented – an achievement-based organizational structure like a task group that has little commitment to hierarchy; the task group just wants to get the job done.
4. person oriented – a cooperative with no hierarchy.[39]

AT&T fits easily into the roles-based ideology that stresses control of a large organization and focuses on efficiency and technology; whereas, Comcast's culture fosters fast-paced, creative content deliverables, which makes it a task-based.[40] While ostensibly the AT&T/Time Warner merger was on paper collaborative, the organizational theorists said when two differing corporate ideologies are within one merged company, clashes are likely[41] because they speak different languages and draw on different experiences, summarized by three corporate culture elements:

1. common language coding
2. a shared knowledge of certain facts
3. a knowledge of certain established rules of behavior.[42]

AT&T was known for its voluminous handbooks on how to handle problems and its use of acronyms that an outsider would either find mystifying or overly detailed such as its text on economic decision making.[43]

Behavioral economists focused on how a homogenous, strong culture will reduce organizational decision-making costs. Cremer, for example, asked, "why is corporate culture a factor for the efficiency in the internal treatment of information within organizations?"[44] He associated culture with a form of team-related human capital. A corporate culture overcomes bounded rationality by using historical learning to overcome internal integration and external adaptation.[45] It is an accumulation of shared insights and basic assumptions that have worked for the corporation. It is a type of specific human capital shared by many employees in the firm.[46] A strong culture has a great stock of knowledge accumulated over a long history.[47] The cost of changing a large stock of knowledge is expensive because of the interconnections between policies and practices. As a result, one would expect a corporation with a long life to be stodgy. AT&T's culture, which spans almost 150 years, fit the "strong culture" category well. Its basic mission has remained relatively constant: customer service based on technological excellence.

Akerlof, and Kranton stressed that corporate culture builds a common identity, which reduces the costs associated with the principal/agent problem. A loyal member of the corporation loses utility if he or she does not follow the rules.[48] In other words, an insider will identify with the company and exert more effort for a given wage level. Van Der Steen (2010) focused on performance depending on the right decision rather than personal effort. Since all employees learn from the same source and have shared experiences, their beliefs converge over time.[49] He showed that successful firms tend to overinvest in homogeneity.[50] Again, the conclusion is that homogeneity is stronger in firms that are older and more successful.

He noted that a corporation develops a corporate culture using three mechanisms: screening in the hiring process, self-sorting (since an employee's utility depends on the actions of the boss and coworkers, he or she may prefer to work / not to work with), and joint learning (the employees experience the firm's behavior and performance together and learn from it). Once again, AT&T focus on engineering as a gateway to corporate success was symbolized by its flagship institution, Bell Labs. Network technology was a major unifying organizational force that produced loyal employees committed to AT&T's mission. That seemed to dissipate rapidly after divestiture. Bellcore, formed in 1983 by Bell Operating Companies to reproduce many of the Bell Labs functions was sold in 1996 to Science Applications International Corporation.

In a follow-up paper, Van Der Steen focused on the causes of culture clash.[51] He began by saying corporate culture aligns the objectives of the principal and the agent, and hence reduces agency problems. As a result, shared beliefs lead to increased delegation, utility, and effort; reduced information collection, experimentation, and influence activities; and less biased communication.[52] Culture clashes arise when two internally homogeneous groups, with beliefs and preferences that differ across the two groups, decide to merge. He predicted that after a merger, the degree to which employees share beliefs is lower than that in their respective premerger firms. Therefore, the agency problems are higher after the merger, which can dissipate other benefits such as product synergies. Van Der Steen recognized that culture clashes may lessen once the two sides learn about each other, but this takes time.[53] In AT&T's case, the window for cultural integration was short because it was under financial pressure to show results quickly. By contrast, Comcast had a long history of acquiring content from entertainment companies such as NBC. Apparently, the two sides in that merger had less difficulty with cultural matters, perhaps because they hold to a task-oriented ideology of winning in the creative content space.

Benabou and Triolet even question whether enough time will reconcile cultural clashes. The obvious examples are religious differences and lately political differences.[54] They point out that valuable beliefs lead to shunning any evaluation of their value because they threaten a sense of self that gives life meaning.[55] Perhaps this explains why the Time Warner executive team left, and Stankey's takeover of the media business was a signal to the remaining Time Warner employees that cultural integration would not work.

Implications for analyzing future mergers

Mainstream economic theory based on marginal costs and benefits dominates thinking in academia. This mindset confirms business

transactions by the "numbers," and justifies government intervention to block potentially anticompetitive mergers. Mainstream economic theory explains the existence of firms and the rationale for mergers is to reduce transaction costs. The push by AT&T and Time Warner to merge suggests that both sides believed that a less formal subcontracting arrangement would not work as effectively as a union of the two companies.

Behavioral economists stress a basic problem with the model of "Economic Man" used by mainstream economists. He lacks a sense of self that is crucial for understanding behavior, especially of a marriage of two separate entities that have their own identities they value. Organizational theorists and economists in the behavioral camp suggest a major downside to a merger is a cultural clash. The Comcast/NBC-U merger, arguably similar to a controlled experiment, illustrates the effects of cultural differences on a merger's success. That merger was successful; the AT&T/Time Warner merger was a failure. The basic difference between the two mergers was not numbers driven; it was culturally driven. Comcast and NBC-U grew up in the entertainment space. AT&T was for most of its history, a regulated, monopoly that valued technology and customer service for known products. Time Warner, from which Comcast has long obtained content that it delivered to subscribers, is an entertainment business that favors content creativity and fast reaction to changes in viewer behavior.

The implications of the AT&T/Time Warner merger failure should serve as a warning especially to other highly regulated companies that want to branch out by merging with companies that grew up in a different cultural environment. Broadening a company's mission statement to include more opportunities to participate in emerging markets does not mean it should come at the expense of requiring major cultural changes. It makes most sense for a company like AT&T to find new opportunities in transmission and network connections. For example, its 5G wireless network may become a gateway for connecting the Internet of Things, from connecting to its network fixed-location customer premises devices to connecting to its network mobile devices and services that, for example, will allow autonomous vehicles to operate safely.

It may be tempting for an electric utility to expand its services by acquiring companies that produce meters and sensor devices. This may be a mistake because technical creativity is not part of an electric utility's culture. It may even make sense to subcontract sophisticated communication networks to outside firms instead of having industry taskforces develop communication protocols. The Postal Service is another example of a company that is looking to expand beyond mail and parcel delivery, perhaps

into banking. It may make more sense to expand the scope of its package delivery service instead.

The failed merger also suggests that government antitrust guidelines may want to account for potential culture clashes when analyzing whether a merger would reduce competition or provide efficiencies that reduce service costs. In particular, when analyzing merger gains as part of its analysis of a vertical merger, the competition agencies (Department of Justice and Federal Trade Commission) should consider (at least qualitatively) whether purported gains are overestimated. Conversely, cultural divisions may lessen the likelihood that a vertical merger will succeed, and therefore, reduce competition for the products at issue in a proposed merger.

Concluding remarks

This case study began with an analysis of the merger from a strictly financial viewpoint. The merger made sense because AT&T and Time Warner could become a vertically integrated entertainment firm like its traditional and emerging online competitors. The missing element in the analysis was the corporate personalities of the merging firms. They did not fit. It was a bad marriage that looked good on paper and in photographs. The comparison with the Comcast/NBC-U almost served as a controlled experiment to show that corporate culture is critical for a merger's success or failure. The problem is that corporate chemistry is hard to measure, but if you are experienced at interpersonal relations, you know when a merger is likely to succeed or fail. In this case, if AT&T had listened to the investment community early on, and by big investors in AT&T stock, AT&T should have walked away from the deal.

Discussion Questions

1. *How might the fear of marketing myopia have pushed AT&T into a merger with Time Warner?*
2. *Was there historical evidence that the merger would not work?*
3. *How would you define the cultural differences between AT&T and Time Warner?*
4. *Why did the financial community react negatively to the AT&T/Time Warner merger but positively to the Comcast/NNC-U merger?*
5. *What lessons might a regulated company learn from the AT&T/Time Warner failure?*

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