MEDIA

Dish Starts Falling to Earth

The satellite TV network is struggling to keep subscribers from fleeing. But it could be too late

By Ronald Grover

Not long ago, Charlie Ergen was the scourge of cable TV. By offering bargain prices and competing head-on with struggling cable operators, his Dish Network satellite company snatched away millions of subscribers and nearly caught up with its bigger rival, DirecTV. Now, Dish is losing altitude faster than a dying satellite, and Ergen is looking like an also-ran.

Ergen declined to comment, but not much is going right these days. Having added fewer subscribers than analysts projected in the first quarter, Dish could shed at least 37,000 of its 13.8 million customers this quarter, says Sanford C. Bernstein & Co. analyst Craig E. Moffett. That would be the first time a satellite TV player has lost subscribers since the industry began its growth spurt a decade ago, he says. Meanwhile, AT&T, which accounts for a big chunk of Dish's new subscribers by bundling video with its phone and Web offerings, recently said it plans to ditch the company by yearend and possibly hook up with DirecTV. "Dish," Moffett says, "is between a rock and a hard place."

Dish has lost ground to DirecTV by skimping on marketing and waiting too long to embrace HD technology

How did pay-TV's most aggressive player arrive at this juncture? By failing to see the world changing around him. Ergen, 55, focused on keeping costs low (he famously requires executives to share hotel rooms on business trips) and declined to bid for the pro football and Nascar programming that DirecTV offers exclusively to sports-loving satellite subscribers. He skimped on marketing even as DirecTV and the cable and phone companies hired actors and star athletes to hawk their services. He missed the high-definition revolution, concentrating instead on flashy technology, such as set-top boxes that can control TVs in two separate rooms. DirecTV, meanwhile, lured new subscribers with dozens more channels in crystal-clear high-definition.

It doesn't help that Ergen has been distracted. In recent months the Dish CEO has focused much of his attention on new technology, including a box that delivers satellite signals to TV viewers who haven't bought digital sets. The company spent $712 million on a wireless spectrum auction so it can provide TV to cars and mobile devices. Dish also has been involved in a string of lawsuits—including a four-year-old battle with TiVo, which alleges Dish's set-top digital video recorder infringes on its technology. And while Ergen in January split his company into two publicly traded entities focused on set-top technology and on programming, he continues to run both. "I probably wasn't as aware of the operations as I should have been," Ergen conceded to analysts in late May. Dish's stock reflects the turmoil: At 28, it has fallen 25% since fan. 1, compared with a 16% rise for DirecTV's share price.

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Ergen is hustling to get Dish back in the game. He has frozen prices on some services. Dish has opened a new service center to help counter a 15% jump in subscriber defections. Dish also says that it is five months ahead of schedule in adding new HD channels—though it still trails DirecTV.

It's not clear, however, that these moves will be enough to boost Dish into a sustainable orbit. If AT&T bolts to DirecTV, as seems increasingly likely, Ergen would be left with a few small regional phone companies as partners. That could force him to do something he really doesn't want to do: merge Dish with DirecTV, which is controlled by Liberty Media, the company owned by his archrival John Malone. A painful choice, for sure, but possibly Charlie Ergen's only real option.

Fonte: BusinessWeek, p. 65, 4 August. 2008.