Should Telecom Stocks like Bell (TSX:BCE) Invest in Content?

Description

CraveTV, **Amazon** Prime, and **Netflix** are quickly replacing cable television. Not only do they stream popular television shows from HBO, Showtime, and CBS, but they also create original content. Original content creation requires a significant amount of upfront investment, including debt.

Looking at Hollywood's history of failure to turn expensive major motion pictures into profitable endeavours, are these corporate expansions into the film industry a good idea? Activist investor Paul Singer of Elliot Management believes **AT&T** (NYSE:T) made unprofitable investments in Time Warner, the RatPac-Dune film library, and AT&T TV Now.

BCE (TSX:BCE)(NYSE:BCE), or Bell, makes similar investments to AT&T; thus, shareholders in Bell may want to take note of Mr. Singer's advice to AT&T and verify its relevance to Canadian telecommunications corporations.

Should Bell invest in original content?

Like AT&T, Bell streams and creates original content through its subsidiary, CraveTV. To better compete with Netflix, Bell has also made available the basic Crave service through **Rogers** cable. Popular U.S. television stations such as HBO and Showtime are also available on the platform.

Apple and NBC, a subsidiary of **Comcast,** are also making bids for media streaming and original content like that of Netflix. AT&T undoubtedly doesn't need a streaming service. Arguably, neither does NBC, which should focus on expanding its content on already popular streaming platforms.

Apple's move to concentrate on the service industry is a brilliant strategy given the relatively noncompetitive dollar valuation. High dollar valuations reduce the competitiveness of U.S. exports in favour of imports. Import tariffs put even more pressure on U.S. industries that are heavily reliant on manufacturing.

Despite this truth, creating original media content is expensive, risky, and requires substantial capital investment. Hollywood may have its reasons for unprofitability, including a preference for ego and patronage of the arts. AT&T, Bell, and even the trustworthy Apple are all taking on substantial risk in entering content creation with no guarantee of profitability.

Interestingly, Mr. Singer suggested that AT&T divest regional sports networks. Bell Media, in partnership with its “competitor” Rogers, owns Maple Leaf Sports & Entertainment. Sports is a problematic industry, as business interests often compete with the ego of building a winning team. The sports industry, like Hollywood, can sometimes prioritize awards over profit.

Is oligopolistic control over data a quality concern?

In a letter to AT&T, Mr. Singer refers to a statement made by former Time Warner CEO Jeff Bewkes in an interview with CNBC. In a conversation about consumer data collection, Bewkes referred to vertical integration by AT&T into media as “a fairly suspect premise.” All that is needed to ensure the success of content and distribution is data transfer.

Bewkes emphasized that there should always be multiple distribution channels as well as content sources. Any reduction in mediums of distribution or content creators puts consumer data in too few hands for consumers to benefit. Essentially, within privacy limits, oligopolistic control over data is more dangerous than data collection in a perfectly competitive market.

These are exciting thoughts from a former executive of a major media corporation. In Canada, where Bell and Rogers have a clear advantage in telecommunications, is oligopolistic media control reducing quality content, harming consumers, and putting customer privacy at risk?

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