

# AT&T and T-Mobile May Marry

## *For Better or For Worse*

Edition: July 1, 2011

• Arlene Hauben

With the possible merger of AT&T and T-Mobile looming, consumers and their advocates are concerned about the future of cellular service and its cost. AT&T is set on acquiring T-Mobile, the mobile telecommunications subsidiary of Deutsche Telekom, in a deal valued at \$39 billion in cash and stock. If the Federal Communications Commission (FCC) and the Justice Department approve the transaction, AT&T will become the largest mobile carrier in the US.

Verizon Wireless would tail close behind. The two competitors would end up controlling more than 80 percent of the wireless markets. So, would less competition in the wireless market lead to price hikes, or might it be possible that efficiencies created through the merger could lead to greater market stability and price declines? Opinions range from optimism to outrage.

In opposition to the merger, Sprint Nextel Corp., the third largest carrier, filed a petition with the FCC seeking to block the merger of AT&T and T-Mobile. Sprint and other merger opponents contend that the acquisition would stifle competition and hurt public interests.

Looking back, mergers and acquisitions are regularly scheduled occurrences in the telecommunications industry, beginning with the divestiture of AT&T in 1984. It's been a game of rewind, remix, and reorganization -- perhaps one way to stir up the market. This time, the AT&T/T-Mobile combination would merge the GSM networks in the US. The other two carriers (Verizon and Sprint) are on CDMA networks.

GSM and CDMA are the two major telecom standards used by cellular networks. Both are 3G technologies but have different sets of performance factors.

As with any merger, there are pluses and minuses, but one of the biggest questions is the merger's effect on pricing. How will the consumer's wallet be impacted? Will prices of cellular plans and devices go up or remain stable?

### **Big Does Not Have to Mean Bad**

Sprint stated in its filing that the merger would result in higher prices for consumers. Less competition usually results in higher pricing.

But, a spokesperson for AT&T said that the transaction is a win for US consumers. "It means improved service across the US as a result of additional spectrum, towers and broader network infrastructure," said Stephanie Smith, director, AT&T Public Affairs. "We expect capacity increases of approximately 30 percent in some densely populated areas. With the added scale, spectrum and resources from this transaction, AT&T can commit to significantly expanding robust 4G LTE deployment to more than 97 percent of the US population or an additional approximately 55 million Americans."

Of the experts that were polled, most did not believe that bigger is bad. As for consumers, there was worry and skepticism.

T-Mobile customers are partial to their customer service and smaller SIM cards. They like the devices that the wireless carrier offers. "I could lose free tethering and navigation," remarked one T-Mobile fan. "AT&T subscribers have to pay for it."

T-Mobile is considered a lower-cost wireless carrier, compared to AT&T and Verizon. Christina Warren, reporting for mashable.com, wrote, "There is a fear that without T-Mobile, wireless prices will rise."

Ironically, lower prices have not reduced churn. T-Mobile has been losing customers to the other carriers. According to an official press release from the carrier, T-Mobile lost 318,000 customers during the fourth quarter of 2010 at a 3.6 percent churn rate.

One of the major reasons for the loss of contracts was the available handsets, many of which tend to be underpowered compared to the competition. Deutsche Telekom CEO René Obermann, though optimistic, said "T-Mobile is going to have to up its smartphone portfolio if they want to compete with the Verizon's of the world."

Industry talking heads pointed out the carrier's German parent was not investing enough in next generation spectrum that would be necessary for T-Mobile to stay in the race. Based on the lack of innovation, it was time for a sale and, since AT&T has a network with the same basic technology, it was the likely buyer.

There appears to be growing optimism about the merger's effect on pricing and services, especially in the prepaid sector. AT&T has been one of the largest providers of prepaid calling card services, and that is likely to expand after the merger. Resellers are generally happy with the carrier's way of working with ISOs and providers and handling distribution of prepaid calling cards. Both T-Mobile and AT&T have a reputation for making it easier for prepaid distributors to resell products. The merger could actually turn out to be a win-win situation for resellers and consumers. •

We asked dealers and industry experts what they thought about the merger. How might the AT&T-T-Mobile merger affect the pricing of wireless plans and devices? How could the merger affect competition in the broader wireless market? Here are the opinions of leaders in the prepaid industry:

**Osvaldo Rodriguez, President/CEO, iPayStation**

I think that there are positives and negatives to the merger, but the positives outweigh the negatives. There will be more coverage and more functionality. On the negative side, there will be less choice. Since both AT&T and T-Mobile are on the GSM spectrum, the benefits will be combined. Consumers that used to buy AT&T phones and throw a T-Mobile SIM card in it won't have to do this anymore.

From what I see, plans are already down in price. The merger may drive them further down or they might level off. With less competition, plans may stabilize.

The merger might be good for consumers who want an unlimited data plan, which AT&T doesn't have anymore. T-Mobile has an unlimited plan and a 4G network, which might drive AT&T back to an unlimited option.

**Roger Kean, General Manager, POSA Division, DST Networks**

A couple of things come to mind about a merger of AT&T and T-Mobile. One is that bigger is not always bad. The combination means more efficient operations and less cost. Will AT&T pass along the savings? Nobody knows. Prices have stayed constant. Discounts to resale markets have not changed for quite a while.

The wireless industry is starting to mature and this may lead to more consolidation. As a reseller, AT&T has been easier to deal with as far as distribution. The Sprint group is difficult to work with because they try to control distribution by telling resellers what we can sell and what we can't sell.

On the prepaid side, T-Mobile and AT&T are well liked by resellers. They try to make it easier for prepaid networks to resell top-up and other services.

**Ron Kraft, Vice President-General Manager North America, Emida**

Emida sees the merger between AT&T and T-Mobile as offering potential new blood and ideas for the prepaid industry. Ron Kraft said, "Both players are mobile leaders and have worked international markets in which prepaid dominates postpaid. Both operators have a long history of anticipating customer needs and we expect they will be monitoring recent US market trends with a view to becoming more active in the prepaid space soon."

**John Gill, CEO, Phoenix Telecom**

Business is all about data. The more data a company has about its customer, the better that company is able to serve that customer. What this merger accomplishes is bringing more data to both "camps" that have been servicing a global community.

It's no secret that Europe is several years ahead of the US with respect to cellular telecommunications. So, this merger will bring those advanced technologies directly to the AT&T customer base. It is also no secret that AT&T has one of the most sophisticated businesses in the history of telecom. T-Mobile's customers will now be the benefactor of that sophistication.

In the end, this merger should prove extremely beneficial to the entire customer base of both companies, bringing this shared technology to the foundation of what customers seek...superior service, for a low cost.

As for cell plans going up in price, I really don't see that happening. Verizon, Sprint and the many smaller companies and MVNO's will keep AT&T and the price/value equation in check. What I do see with the combined synergies of the two companies is better

plans, more options, and more sophisticated features.

#### **Duffy Mich, CEO, Aperio CI**

Aperio CI, a telecom-focused data management company, supports large scale data warehouses, analytic and price capabilities for mobile phone companies around the world. (Disclosure: neither AT&T nor T-Mobile is a client of Aperio.) Mich also heads up Left Right Research, which just conducted a large scale (5,733 respondents) survey of the US mobile phone market.

Because of our work with rate plans in the US mobile market, we know that AT&T is considerably more expensive than T-Mobile for most customers. This comparison is based on finding the lowest price plan for each carrier across hundreds of calling profiles. AT&T's best plan is, on average, more than 15 percent higher than T-Mobile's best plan for most calling profiles. Our supposition is that AT&T will raise the rates for T-Mobile customers over time. So, yes, we believe this merger will increase costs for consumers.

#### **Ken Fellman, Attorney, Kissinger & Fellman P.C.; President of the National Association of Telecommunications Advisors and Officers**

The AT&T - T-Mobile merger is likely to create a national duopoly. Many experts are predicting that with a merger of the second and fourth largest carriers, the third largest (Sprint) is not likely to survive. A duopoly is a situation in which two companies own all or nearly all of the market for a given type of product or service. It leads to higher prices for consumers and it reduces demand to upgrade networks. It stifles innovation of new products and services, resulting in less consumer choice.

About a month ago a Senate subcommittee held a hearing on the proposed merger. Victor Meena, CEO of a small carrier, Cellular South, noted that AT&T has already used its market power to restrict competitive carrier and consumer access to devices. Meena adds that AT&T's market power has allowed it to withhold roaming agreements and leverage its control over device and infrastructure vendors to Balkanize new spectrum and show the deployment of 4G LTE technology in the US.

Dan Hesse, CEO of Sprint, noted that most small carriers have been attempting to negotiate lower rates for wireline backhaul for cellular base stations, while AT&T and Verizon have been pushing for those rates to be kept high. Thus, a stronger duopoly will create even more ability for the two largest companies to squeeze out the smaller firms.

#### **Gary Schwartz, CEO, Impact Mobile, Inc.**

The acquisition allows AT&T to implement significant cost-cuts across the two organizations. The efficiencies created through the merger can be used to grow their 4th Generation (4G) network capacity - essential to fulfill their consumer's increasing data appetite as well as focus on new lines of business such as their ISIS mobile wallet. This will all positively affect the consumer.

Of course, there is an inherent fear that the merger will lead to price hikes for the T-Mobile subscriber base; however, it will be a lengthy integration process and ultimately AT&T will want to keep some version of the brand and pricing strategy to continue to reach and service T-Mobile's existing demographic.

The merger possibly has the most impact on Sprint and ultimately their subscriber base, as the network does not have a clear growth strategy. Verizon is focused on its own network growth. AT&T and T-Mobile will be busy becoming the major player in the US.

#### **A Statement from Stephanie Smith, Director, AT&T Public Affairs**

The US wireless industry is and will remain fiercely competitive following this transaction. The US is one of the few countries in the world where a large majority of consumers can choose from five or more wireless providers in their local market. For example, in 18 of the top 20 US local markets, there are five or more providers. Local market competition is escalating among larger carriers, low-cost carriers and several regional wireless players with nationwide service plans. This intense competition is only increasing with the build-out of new 4G networks and the emergence of new market entrants.

While we cannot comment about future pricing, the report from the US General Accounting Office (GAO) states the overall average price (adjusted for inflation) for wireless services declined 50 percent from 1999 to 2009, during a period which saw five major wireless mergers.