

# Industry Briefing

Economist Intelligence Unit

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Economist

## USA telecoms: Booby prize

January 17th 2012

FROM THE ECONOMIST INTELLIGENCE UNIT

**Cash and spectrum compensation from the collapse of the AT&T takeover is unlikely to revive the fortunes of T-Mobile USA. They are also scant consolation for parent company Deutsche Telekom.**

If you want to see the latest gadgets and technical wizardry, the Consumer Electronics Show (CES) in Las Vegas seems the ideal place to be. The next big thing may well be found among the glitz and fanfare of new product launches. It is one of the industry's most exciting events.

One might have thought, then, that the chief executive of a large, struggling mobile-phone operator would pick a more sober environment in which to talk up company prospects, particularly when they look so bleak. Philip Humm, the boss of T-Mobile USA, clearly thought differently. Amid the hubbub of the annual shindig held in Las Vegas this month, Mr Humm argued that the Deutsche Telekom subsidiary was in "fighting shape". Yet, after the failure of AT&T's proposed US\$39bn acquisition of T-Mobile (see [End of the affair](#)), the company looks weaker than it was 12 months ago (before the AT&T-T-Mobile saga began).

True, T-Mobile gets compensation from AT&T. As part of the break-up package, and pending regulatory approval, AT&T will hand over some of its wireless frequencies to the Deutsche Telekom subsidiary. The extra spectrum will help T-Mobile increase the capacity of its HSPA+ network in many parts of the country. Deutsche Telekom also gets US\$3bn in cash from AT&T. Neither of these provisions, however, is likely to improve T-Mobile's long-term prospects.

### Same old problems

T-Mobile is still afflicted by the same problems that prompted Deutsche Telekom to try selling off its US subsidiary in the first place. Of the country's big four national wireless operators, T-Mobile is the smallest by some measure. It also has a worrying inability to attract and retain contract customers (who tend to spend more than the pre-paid variety). During the third quarter of 2011, T-Mobile registered a net contract customer loss of 186,000. The previous quarter, the firm saw its contract subscriber base shrink by 281,000. Illustrating just how distracting AT&T's advances have been for T-Mobile, the company had suffered a much smaller net loss of 54,000 contract customers in the third quarter of 2010. T-Mobile has managed to keep its overall customer numbers steady at around 34m, but that is only because lower-spending pre-paid users have joined its network. The company's third-quarter 2011 revenue, at US\$4.7bn, is 1% down on sales in the same quarter the previous year.

The two biggest operators in the US—Verizon Wireless and AT&T Wireless—serve far more subscribers (108m and 101m connections, respectively). They also appear more attractive to contract customers. During the third quarter of 2011, Verizon Wireless boosted its number of contract customer accounts by nearly 900,000, taking the total to around 86m, while AT&T signed up almost 400,000 new post-paid subscribers, ending the quarter with 68.5m in total.

Sprint Nextel, the third-biggest mobile-phone operator in the US, with 53m connections, has long struggled to expand its contract customer base. But unlike T-Mobile, the operator is showing strong signs of improvement. Sprint lost just 44,000 post-paid subscribers in the third quarter of 2011, compared with a 107,000 in the third quarter of 2010.

Customers may be reluctant to buy two-year smartphone deals from T-Mobile due to uncertainty about the company's future. Extensive media coverage of AT&T's attempted takeover might have scared off consumers. Can the firm be focused if it wants to sell up?

Verizon Wireless and AT&T, as well as Sprint, look more committed to upgrading their networks

and improving their services to customers. The two US wireless heavyweights have particularly benefited from high-profile launches of LTE (a technology that provides greater capacity and faster services than older 3G standards) and LTE-enabled smartphones. Sprint has also announced plans to roll out LTE. T-Mobile, hindered by a lack of spectrum and financial muscle, has to stick with HSPA+, an older 3G technology.

At CES, however, Mr Humm talked up HSPA+ progress. Through network upgrades, about two-thirds of US consumers are now within reach of a T-Mobile signal that can provide maximum downlink speeds of either 21Mbps or 42Mbps. There are some suggestions that T-Mobile might hope to squeeze as much as 82Mbps out of HSPA+, provided it can get support from device manufacturers.

The problem for T-Mobile is that, through lack of capacity, customers will rarely experience anywhere near those superfast speeds. The spectrum allocation from AT&T will help, but the extra wireless frequencies being handed over (unfortunately for T-Mobile) do not belong to the valuable sub-1GHz band. Short-range sub-1GHz spectrum is much better at providing in-building coverage than higher-frequency airwaves, and AT&T, Sprint and Verizon Wireless hold the overwhelming majority of it in the US. T-Mobile has none.

In another concession from AT&T, the Deutsche Telekom subsidiary is to benefit from an HSPA+ roaming agreement with the US wireless heavyweight. That will help T-Mobile's coverage, but customers choosing a national operator may well prefer one that runs its own network to one highly dependent on roaming agreements. And unlike T-Mobile, both Verizon and AT&T have extensive fixed-broadband operations, giving them an opportunity to develop bundled packages of mobile and fixed-line broadband services. That leaves another question mark over T-Mobile's ability to match rivals.

### Cash shortage

Nor is T-Mobile likely to see much of the US\$3bn break-up fee paid by AT&T to Deutsche Telekom. The German telecoms group is keen to cut debt, preserve dividend levels and nurse its European businesses back to growth, all of which requires cash—something Deutsche Telekom has less of than it would have hoped. Under the original US\$39bn proposal, Deutsche Telekom was to receive a cash payment of US\$25bn from AT&T (the balance being made up from AT&T equity). The US\$3bn compensation looks small beer in comparison, especially as it would cost Deutsche Telekom as much as US\$9bn to upgrade T-Mobile's US network to provide LTE services, according to estimates.

When Deutsche Telekom's unveils its 2011 results in February, it is expected to outline a new strategy for its US subsidiary. One possible outcome is that T-Mobile's towers will be sold (for up to US\$2bn, according to estimates) and then leased back to the operator. Another possibility is a tie-up with Sprint that would give T-Mobile greater reach and allow it to enjoy greater economies of scale. What is certain is that Deutsche Telekom will not get a more generous offer for T-Mobile than the one it received from AT&T. And the T-Mobile brand, following the AT&T debacle, has been weakened. It is unlikely that the break-up concessions will have brought much cheer to the Deutsche Telekom boardroom.

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