

BIG WAVE ALERT – US Justice Department Finally Gets Aggressive!

This **big wave alert** will discuss the rationale behind the recently announced Justice Department suit to stop the AT&T and T-Mobile Merger. We examine the impact on the merger stakeholders

Rationale: An AT&T and T-Mobile merger would create a potential monopoly

September 21, 2011 - More news keeps coming about the AT&T and T-Mobile merger. The Justice Department sues to stop the merger and a couple of days later Sprint sues to stop the merger. Who are the stake holders and why is this merger such a big deal?

Who are players?

There are a lot of stakeholders in this game of merger mania. The key participants are shareholders, management, unions, workers, suppliers, customers, competitors, and governments. We will examine each participant and their reasons to like or oppose the merger.

Shareholders

Shareholders are the real owners of any company and as such they must benefit to want a merger. In this case both the shareholders of AT&T and T-Mobile (owned by Deutsche Telekom) have to see the benefits of the merger. The shareholder benefits are quite simple: synergy and market dominance. Because the shares are freely and readily traded, if the companies fashion an attractive looking deal, the shareholders will go along. In this case that's what happened.

Management

Management can really benefit in a merger. The AT&T management team gets to run a bigger company and thus can make more money. This is the way capitalism works. On the other hand, Deutsche Telekom gets rid of (from their perspective) a marginal operation and in return can concentrate on their highest performing business sectors. Management would not have pushed for such a merger unless it benefited them personally by providing more opportunity or reducing risk.

Unions

The Communications Workers of America (CWA) supports the merger. Why are management and unions aligned in the case of this merger? The answer is simple, CWA stands to gain members. In fact, they stand to gain between 20,000 and 30,000 new members from the merger. So what's not to like? I have rarely seen a case in which the interests of management and unions align. But, in this case, both of these groups will make out like bandits when the merger goes through.

Workers

Some workers lose. Even though there will be more workers in the new AT&T, the total number of workers will be reduced after the merger. It's just that the number of total union workers will increase. Thus, it is easy to align management, union, and worker interests unless you are one of the workers who will not have a job in the new company.

Suppliers

Suppliers will lose in the merger. The combined company will not need as much equipment as the pre-merger companies. This is where they will realize their cost savings. Further, there will be some suppliers of each company who become redundant and find themselves on the outside looking in. You can expect that the new company not only will spend less on equipment and supplies but will also spend less on research and development. And, with fewer customers after the merger, the surviving suppliers to the new AT&T will be told to "sharpen their pencils" when it comes to equipment pricing.

Customers

Customers will lose! The new company will dominate the wireless market. The new company will get rid of unlimited data plans. Unless you are grandfathered in, AT&T is not selling unlimited plans and expects to start throttling back customer usage in the future when they use too much data. T-Mobile currently uses a throttling strategy to control high volume data users. If the merger goes through you should expect that costs to the consumer are going to go up. The only hope is that Sprint or Verizon steps into the fray and lowers prices. However, with the merged company having massive financial capability relative to Sprint or Verizon, cutting prices as a market strategy could be a quick way to bankruptcy.

Competitors

Not all might be doom and gloom on the competition front. It is possible that new startups may appear and try to take on the wireless market. Whether AT&T could squash such startups is the question of the day. But, the reason AT&T and T-Mobile really want to merge is that the growth in the telecommunications market is in the wireless data sector and they want to control this sector as wireless data devices become ubiquitous. In such a market where lots of highly skilled and motivated people exist, you should expect

that even if the merger happens there will be other players entering the fray! As an example, maybe Virgin Mobile will gain a better foothold with their voice and data options in the US. Maybe, Sprint can take advantage to up their market share. But, both of these scenarios are long shots in view of the market dominance that AT&T should have after the merger.

Government

For one of the first times I can remember the US government is actually taking an interest in not letting companies merge their way into market dominance. Maybe they are waking up to the fact that you can let companies get too big (too big to fail). However, that view may be tempered by the promise of increased broadband coverage throughout the US.

The Result - **Caution is in order!**

Prediction – The Justice Department Suit will not stop the merger

Looking at the players in the merger, it is clear that some workers, suppliers and the consumer are going to be hurt. The alleged benefits of reducing the wireless telecommunication supplier base from four competitors to three are ridiculous. There are no consumer benefits. There is no way that this merger should be allowed. Costs are going to increase, the merged company is going to invest less and service will not improve.

The regulatory agencies need to stop the merger of AT&T and T-Mobile! Having broken up AT&T once before, it is ridiculous to allow AT&T to merge its way into market dominance! Allowing market dominance in the only space where future growth appears to be rapid is ridiculous! Wireless data is the key new technology and this merger would effectively leave AT&T in charge of the space.

Solutions need to be found to insure as many people as possible are served by both coverage and broadband capabilities, but that desire does not support a merger. It is unreasonable to assume that the consumer will not be hurt by this merger.

Prediction – While the Justice Department will try hard to stop the merger, corporate and union interests will be served in the end. The real hope is that constraints will be placed on the merged company that will allow consumers not to be hurt. We have no real idea yet of how the wireless device market will shake out but it is the big hope for future telecommunications systems growth. We expect that the merged company will eventually get rid of their wire line assets (just as Verizon sold its landline assets to both FairPoint – who went bankrupt - and Frontier) and concentrate solely on the wireless market. Whether the merged company can create a virtual monopoly will be seen within two years of the merger. But, we expect Sprint or Verizon will find a way to make a serious run at the merged company. Whether they can be successful remains to be seen.

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