**The Sprint/T-Mobile Merger: Analysis of Economic Implications**

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# **Introduction**

The Sprint/T-Mobile merger was officially approved in 2020 after a detailed analysis of the possible impact it would have on the telecommunications industry. While both companies involved highlighted the benefits the merger would create, such as the development of 5G infrastructure and the improvement of the country’s overall connectivity, critics expected it to significantly reduce competition in the telecommunications industry, leading to high prices and less innovation. As two of the four largest firms in the industry, Sprint and T-Mobile, if merged, would significantly reduce competitiveness in the industry as well as the options that consumers have. The merger and the controversy associated with it generally show how laws and regulations relating to the conduct of companies can affect their industries and the economy at large. The reliability of the laws and regulations in place can generally impact the stability of key industries and, as a result, the overall performance of the economy. This paper analyzes the overall economic impact of the merger on the telecommunications industry and the validity of arguments critics made against it.

# **History of the Merger**

T-Mobile and Sprint first declared their intention to merge in 2018, after overcoming what they believed were obstacles to the merger that had been identified in their initial failed merger in 2014. With T-Mobile and Sprint being the third and fourth largest wireless carriers in the country, regulators in 2014 believed the merger would reduce competition in the industry, which would negatively impact consumers[[1]](#footnote-1). The initial merger was therefore blocked, with the DOJ citing the need to boost competition and drive innovation in the sector, leading to improvements in the quality of services provided to consumers. Some experts also believed that the initial merger would have a negative impact on the performance of both companies and their staff. It was highly likely that the merger would have led to job losses, in addition to discouraging the company from making major investments in technologies that could improve the customer experience. T-Mobile at the time was also a fierce competitor that relied on innovation to stand out in the market. Regulators believed a merger would make it less innovative and, as a result, eliminate the gains that customers could have made from its innovativeness.

In 2018, the two companies restarted efforts to merge, citing the need to combine efforts if they were to be able to deliver the 5G technologies to consumers in the country[[2]](#footnote-2). They also identified the merger as having the potential to significantly reduce operating costs for each company, in addition to providing customers with better quality in terms of the services delivered. These reasons were identified as being strong enough to get the merger approved. Competition in the industry was also fierce, meaning the manager was not likely to have a major impact on the quality of services offered by firms in the industry. This also increased the likelihood that it would be approved. The Sprint/T-Mobile merger generally highlights how effective the DOJ has been in ensuring mergers are not used to eliminate competition in key industries. In an almost similar case, the department blocked the merger of NVIDIA and ARM, major semi-conductor manufacturers that were looking to consolidate their operations and reduce competition in their industry.

# **Opposition to the Merger**

The impact that the merger could have on the competitiveness of the industry was a key concern that most of those who opposed it raised. Due to the fact that the industry was dominated by just four major firms, a merger between any two of the key firms in the industry would lead to a highly concentrated market. Only three firms would remain, with each firm controlling a significant proportion of the market. Firms would, as a result, not have the same incentive to be competitive, which could diminish the quality of services that customers ended up getting[[3]](#footnote-3). Smaller companies would also struggle to grow in an industry that is dominated by just three major firms. Critics generally opposed the merger based on the perceived negative impact that it could have on the competitiveness of the industry.

Market concentration would also negatively impact the overall innovativeness of the industry. A key negative impact that oligopolies have is that they make firms sure of making profits due to the large markets that they control[[4]](#footnote-4). They will, as a result, be less interested in making major investments in research and development with the goal of improving their products and services. This leads to a slow rate of product improvement over time. In highly competitive markets, firms have no choice but to be innovative, as this ensures they keep identifying new ways to make their products and operations different from those of their competitors. The increase in market concentration as a result of the merger therefore generally meant that firms could lose their willingness to invest in new innovations in the future.

Figure 1: Market share of the four leading carriers before the merger

As competition in the industry reduced, consumers were most likely to get charged higher prices without any change in the quality of services provided. As two of the largest carriers in the country, T-Mobile and Sprint had historically competed on price, with each trying to lure customers with lower prices when compared to the other three carriers[[5]](#footnote-5). If the two forms merged, competition based on price would significantly reduce in the industry. Consumers would, as a result, be forced to put up with higher prices that would be unlikely to change. By blocking the merger, critics believed the industry would remain competitive, leading to better prices for consumers as well as improvements in the services provided.

Critics of the merger also believed Sprint and T-Mobile’s consumers, who mostly relied on prepaid services, would be negatively impacted by the merger[[6]](#footnote-6). Customers of both companies mainly included low-income consumers who preferred to use prepaid services as a way of controlling costs. Having the two companies operating separately meant that consumers in these segments would have more options. The merger would, however, mean that consumers would be accorded a single option, which may not suit some of their needs. Critics therefore believe that the merger needed to be blocked to safeguard the interests of low-income consumers who could benefit from the availability of more options[[7]](#footnote-7). The merger was also believed to have the potential of negatively impacting employment for staff in both companies. As a result of the merger, the new company formed will need to consolidate its operations. Similar areas that serve the same functions will need to be merged, meaning there will be excess staff in certain roles in the organization. The company would, as a result, have to lay off staff in a number of roles, leading to job losses in parts of the country where they have operations. It was estimated that as many as ten thousand workers would end up losing their jobs as a result of the merger.

The claim by both companies that the merger would make it easier to roll out 5G connectivity throughout the country was also doubtful. Both companies claimed that they would not only be able to roll out 5G more easily if their efforts were united but that costs would also be significantly reduced. This claim was questionable as it was difficult to imagine a scenario where the new company would be able to achieve both. Critics pointed out that almost all other mergers included the promise to lower costs, which were never really fulfilled[[8]](#footnote-8). Market concentration, which is a common outcome in mergers, was also likely if the merger was approved. With just a few firms in the industry, key decisions regarding the quality of products and services offered would not receive a great deal of pushback from competitors. This will reduce innovation in the industry, as just a few firms would be in control of all key aspects of the industry. Having more firms dilutes the market power that major firms have and forces firms to be innovative in trying to gain competitive advantages.

In some states, lawsuits were also filed that highlighted the negative impact the merger would have on the quality of services provided to consumers. They also argued that the basis for the merger, such as the need for 5G connectivity, could still be achieved if each firm remained independent. The state of New York for example sought to block the merger due to the potential impact it would have on prices in the industry. The case argued that as the market became more concentrated, firms will be able to charge higher prices without consequences. In resolving this issues, the court highlighted the impact that the terms stipulated in the DOJ settlement would have in protecting competition in the industry and as a result ensuring that consumers got fair prices. The cases mainly focused on the reduction of market competition as a key anti trust issue that can negatively impact the customer experience.

# **Approval**

The DOJ approved the merger in 2020 after a detailed analysis of the possible benefits it could have on the country’s telecommunications sector. A key reason for the approval was the possible impact the merger could have in terms of speeding up the fee rollout of 5G technologies[[9]](#footnote-9). If each company acted alone, it would have taken them longer to roll out the technology, and their chances of success in maintaining it would still be low. If the capabilities of both companies were, however, merged, it would be easier for them to roll out the technology successfully. 5G technology was generally believed to be capable of significantly improving the country’s telecommunications infrastructure and the quality of services offered to the general public. The merger was therefore approved due to the possible impact it could have on the country’s infrastructure.

Figure 2: Market share after the merger

The DOJ also identified a number of conditions put in place to ensure that the merger did not have a major impact on the competitiveness of the industry. As a condition for the merger, Sprint was required to divest its prepaid operations to a different firm. This was meant to ensure the interests of low-income consumers were protected, as they could not be sidelined due to the merger[[10]](#footnote-10). The firm that was taking over Sprint’s prepaid services was also granted access to T-Mobile's network, which would ensure it was able to deliver high-quality services to its consumers. These measures generally diminished the impact that the merger would have on the overall competitiveness of the industry. The DOJ also put in place a number of conditions that were meant to ensure consumers were protected from a lack of competitiveness. T-Mobile, as a key party to the merger, was required to make a commitment to not raise prices for at least three years after the merger was concluded. T-Mobile was also required to take active measures to protect rural consumers by providing them with the same quality of service as those in urban areas. By putting in place these safeguards, the DOJ ensured that despite the merger, the industry would still remain relatively competitive, and most consumers would be protected, especially those in low income groups.

Figure 3: Sprint and T-Mobile revenues in billions before the merger

The DOJ also agreed with the argument that the merger would likely boost employment levels in the country. Both companies argued that the merger would lead to major investments in infrastructure that will contribute to economic growth in parts of the country. Numerous jobs would be created as a result of the merger, in addition to the major improvements in telecommunications that would be recorded[[11]](#footnote-11). In the long term, therefore, the merger would positively contribute to economic growth in the country. The DOJ was also persuaded by the argument that the merger could improve competitiveness by challenging the two largest carriers in the country, Verizon and AT&T. While Sprint and T-Mobile held a significant share of the market, the majority of consumers in the market used either Verizon or AT&T. By creating a merged firm with enough resources to roll out 5G infrastructure, the merger could make the telecommunications industry more competitive and challenge the dominance of the two leading companies. This could lead to gains for consumers in terms of lower prices and improvements in the quality of services provided.

Monitoring and enforcement mechanisms were also in place to ensure the merger did not end up harming consumers. A number of conditions were placed on the new company that would ensure it did not violate the terms of the merger. Key among this was the requirement that regular audits be done on aspects of operations such as pricing; this would ensure that the new company continued to act in the best interests of its consumers. The DOJ also required T-Mobile to provide assurances that Dish, the company taking over the prepaid operations of Sprint, would become a new independent company. These measures generally ensured that the merger be in the best interests of consumers.

# **Implications of the Merger**

## **Short Term Implications of the Merger**

As a result of the merger, the telecommunications market became significantly concentrated. The number of major players in the industry was reduced from four to three, making it a stronger oligopoly where only a few firms had control over most of the market. The three firms left as a result had more control over critical aspects of the operations of the industry, such as the prices that consumers paid and the features of their products[[12]](#footnote-12). Price competition generally declined as a result of the merger, where firms could still control prices in their favor even without colluding directly. The barriers to entry for new firms also increased significantly, as the few firms controlling the market had immense resources and dominated almost the entire market. The merger therefore significantly improved market concentration, which could be used by the few firms available to take advantage of consumers.

The fact that the merger improved the resources and market share available to T-Mobile generally made the industry more competitive, as it could now compete with the two largest firms more effectively. As the new company made major investments in infrastructure such as 5G connectivity, competition in the industry would increase significantly, forcing the two other firms to find ways of being innovative themselves if they are to retain their share of the market[[13]](#footnote-13). The increase in competition could benefit consumers in terms of lower prices as well as improvements in the quality of services provided. The fact that Dish Network was approved as a new competitor also protected the interests of low-income consumers who relied on Sprint’s low-cost options. This ensured there was a new firm that could take over the operations of Sprint, meaning the industry would remain just as competitive as it was before the merger.

Critics of the merger, however, argued that prices were still likely to increase in the future as a result of the merger[[14]](#footnote-14). Despite the requirement that T-Mobile maintain low prices for at least three years after the merger, there was no guarantee that this would be possible. Past mergers have, for example, failed to maintain low prices even when they promised to do so. A change in market conditions that increases costs would still lead to high prices. The merger would therefore contribute to higher prices in the long term, something that could harm certain groups of consumers. Consumers would also have less choice as a result of the merger, which may force them to settle for options that do not comprehensively address their needs.

## **Current Implications of the Merger on the Industry Today**

The fact that the new firm formed made a commitment to invest in 5G infrastructure was generally beneficial to the country’s telecommunication sector. 5G is a powerful technology that could improve connectivity within and outside the country. Investments in these technologies have contributed to long-term economic benefits for the country as a whole. Consumers in rural areas have access to the same service quality as those in urban areas, which is also a major improvement in the telecommunications coverage in place in the country. There was, however, the possibility that prepaid consumers, who mainly used Sprint, would lose access to the low-cost services provided. Dish, the newly licensed provider, stepped in as a remedy and still provides the same service options to this target group.

The merger has also made the telecommunications industry more innovative than it was initially. Investments in technologies such as 5G and improving rural connectivity are important for the country due to the impact they can have on the growth of other sectors of the economy. The approval of the merger was therefore a positive step in this respect as it indirectly contributed to the growth in other sectors of the economy.

Due to the merger, the number of people working in the telecommunications industry reduced. As two of the four largest firms in the country merged, thousands of employees working in different parts of their supply chain were declared redundant and lost their jobs as a result. The overall impact that this had was, however, slightly minimized by the fact that new jobs were created by the investments made in 5G telecommunications infrastructure. The approval of Dish Network as a telecommunications provider was also expected to reduce the number of employees who lost their jobs as a result of the merger.

As a result of the merger, the telecommunications industry generally became more inaccessible for new firms that were looking to enter the market. As the market became more concentrated, new firms would need even more resources than they would otherwise need if they were to successfully enter the market and make an impact. This generally meant that the growth and development of the industry were limited to the firms in place. New firms that could bring in new ideas and products were unlikely to enter the market, which could limit its growth in the long term. The merger also highlighted the difficulties that regulators face in trying to protect consumers while at the same time promoting the growth of certain key industries. While mergers are a common method that firms use to improve their resource base and overall competitiveness, they can be used to take advantage of consumers by concentrating market power among a few firms and eliminating competition.

## **The Financial Performance of the Newly Formed Firm and Impact on Investors**

After the merger, Sprint and T-Mobile grew their share of the market and, as a result, their overall profitability. Before the merger, Sprint and T-Mobile had market shares of 12% and 18% of the telecommunications market. After the merger, the combined firm has a market share of 33%, which is higher than their combined market share before the merger. The newly formed firm therefore generally performed better. Investors and shareholders generally gained from the merger due to the growth recorded by the newly formed company. T-Mobile’s shares were, for example, priced at $84 before the merger but rose to more than $220 after the merger. Shareholders and investors generally stood to gain from the merger.

## **Long-Term Implications**

The merger and the scrutiny it received generally mean proposed mergers in the future will be analyzed in detail in terms of the impact they will have on different consumer groups. While antitrust laws mainly focus on competitiveness and the stability of industries, the case highlighted the need for a more detailed analysis of the implications of a merger on different consumer groups. The case generally adds to the antitrust regulations in place, focusing on the need for promoting market competition and ensuring the decisions of key players in an industry are beneficial to all consumers. The approval of the merger may encourage other telecommunications firms to merge in the future. Firms that are in the same position as Sprint and T-Mobile will be able to merge more easily in the future with less opposition from regulatory agencies.

# **Conclusion**

The negative impact on competition that the Sprint/T-Mobile merger was expected to have was one of the main reasons why it was opposed by a section of the public. As two of the four leading carriers in the country, a merger would mean the market for telecommunications services would become highly concentrated, with only a few firms controlling all aspects of the market. This could lead to higher prices for consumers as well as a less innovative industry. The merger highlighted the impact that antitrust laws can have on the economic performance and stability of key industries in the country. As brought out in the case, the effectiveness of the regulatory framework in place generally determines whether collaborations between firms in an industry serve to grow the industry and benefit consumers.

The merger was generally beneficial to the telecommunications industry due to the investments that were made in 5G infrastructure and the improvement in wireless network coverage for the country as a whole. Shareholders and investor of the two companies also gained due to the growth recorded by the newly formed firm. Regulatory actions in the future should generally analyze mergers in more detail by considering the impact they would have on different consumer groups instead of the industry as a whole.

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