T-Mobile & Sprint Merger

Group 10

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PART 01

Background
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Literature Review

Market share of the largest 4 operators

Verizon: 35%
AT&T: 34%
T-Mobile: 17%
Sprint: 12%
Other: 2%

T-Mobile company overview

Name: T-Mobile US, Inc.

Headquarters: Bellevue, Washington, USA

Industry: Telecommunications

Founded: 1994

Network and Services

· T-Mobile operates a nationwide wireless network, providing voice, messaging, and data services.

· The company has been actively expanding and upgrading its network infrastructure to offer advanced services, including 5G.

5G Leadership

· T-Mobile has been a key player in the deployment of 5G technology in the United States.

· The company has focused on expanding its 5G coverage and providing high-speed connectivity to its customers.

Sprint Company Overview

Name: Sprint Corporation

Industry: Telecommunications

Headquarters: Overland Park, Kansas, USA

Network and Services

· Sprint operated a nationwide wireless network, providing a range of telecommunications services, including voice, data, and mobile broadband.

· The company has been a major player in the U.S. wireless market, competing with other carriers to offer innovative services to its customers.

Challenges and Competition

· Sprint faced challenges in terms of network coverage and subscriber growth, especially when competing against larger rivals like AT&T and Verizon.

· The telecommunications industry's competitive nature led Sprint to explore strategic initiatives to enhance its market position.

Market Impact

- Increased Competition
- Strengthened Market Position
- Accelerated 5G Deployment
- Market Share Dynamics

Consumer Impact

- Expanded Network Coverage
- Enhanced 5G Services
- More Competitive Pricing and Plans
- Customer Service Improvements

Literature Review

Let’s Have a Look of Experts’ Views!

It is a mutual benefit decision for both companies:

“*The merger between T-Mobile and Sprint is more of a strategic alliance that will benefit and be a value to both carriers. I believe that it is in the best interest of both parties to the merger.*” -------Tyrone Branch

There is also some public interest and welfare：

- T-Mobile’s and Sprint’s combined resources would allow the new firm “to invest in new network technology, innovation, and operations to rapidly construct and deploy the first true, nationwide 5G network.

- With the merger, T-Mobile aimed to offer more competitive pricing and service plans to attract and retain customers. The increased scale and network capacity could potentially lead to more competitive pricing strategies and improved service offerings for consumers.

Coordinated Effects + Unilateral Effects

- As per Berkeley Research Group, the merger has created asymmetries in capacity between T-mobile and other two remaining MNO (mobile network opeartor)s, the aggressive competition would remain the same after merger.
- The court also claimed the anticpated decline of Sprint will be recoverd after combining with the T-mobile, which means the market would not be harmed.

There are also some dissenting voices：

The Proposed Final Judgment cannot and will not address the anticompetitive harms identified in the Complaint, or restore the ex ante competitive conditions in the affected antitrust product markets (Nicolas and John, 2019)

1. Dish will operate on a MNO model that the DOJ and the Federal Communications Commission (FCC) have never deemed to be a meaningful competitive constraint on facilities-based providers.
2. Dish will be reliant on New T-Mobile for its network and operational support for years to come—the type of ongoing entanglements between the divestiture buyer and merged company that the DOJ and the FCC find problematic because the remedy creates ongoing competitive concerns.
3. Even if Dish meets its commitments to build a 5G network covering 70 percent of the population—and we are highly skeptical that Dish will ever build out its network—it still would not replace Sprint, which currently reaches over 90 percent of Americans.

PART 02

Court Results

Timeline

Jul 18, 2018

Clock Started

T-mobile and Sprint seek FCC consent to the transfer of control.

Pleading Cycle Established.

Sep 11, 2018

Clock Paused

Additional time is necessary to allow for review of newly-submitted and anticipated modeling relied on by the applicants.

- The newly-provided network engineering model is more complex than the one in record.
- The Commission did not receive Build 9, a business model which the T-Mobile executives described to provide a financial basis for the network buildout.
- T-Mobile recently disclosed that it intends to submit additional economic modeling in support of the Applications.

Nov 13, 2018

Commission announces receipt of supplemental analysis from T-Mobile.

- The applicants filed a new econometric study with the Commission, describing itself as a merger simulation offering an economically coherent framework for understanding the competitive significance of the proposed merger.

Dec 04, 2018

Clock Resumed

Feb 02, 2019

The applicants filed additional information regarding their network integration plans for 2019-2021, an extension of their previously field merger simulation analysis to cover the years 2019-2021.

Mar 06, 2019

The applicants filed additional information regarding their claims related to fixed wireless broadband services.

Mar 07, 2019

Clock Paused

The Commission provided an opportunity for interested parties to file comments on these new submissions.

Apr 04, 2019

Clock Resumed

Oct 16, 2019

Clock Stopped

FCC approves T-Mobile and Sprint transaction with conditions.

POTENTIAL PUBLIC INTEREST HARMS: UNILATERAL AND COORDINATED EFFECTS

Unilateral Effects

- Horizontal transactions raise potential competitive concerns when the combined entity has the incentive and the ability to raise prices, lower quality, or otherwise harm competition in a relevant market.
- Unilateral effects arise when firms, regardless of the anticipated actions or responses of other firms, find it profitable to raise prices or otherwise exercise market power following a horizontal merger.

Consumer Substitution

The degree of direct competition or substitution between the merging parties' products and whether there are non-merging parties that are selling close substitutes are important factors in determining the likelihood and magnitude of any potential unilateral price.

Arguments: The Applicants claim that LNP porting data are unreliable for purposes of calculating diversion ratios, and will exaggerate the closeness of competition between the two merging parties.

Justification: In prior transaction reviews, Commission staff have acknowledged that porting is an imperfect measure of diversion because consumers who port their numbers are not necessarily responding to a price or quality change, but nonetheless has relied on it as the most reliable proxy.

Gross Upward Pricing Pressure Analysis

The Gross Upward Pricing Pressure Index (GUPPI) has been previously used by the Commission as a measure of the competitive constraint that merging parties exert on each other. Using available data on prices, profit margins, and customer substitution patterns, GUPPIs provide a simple screen of the likelihood of adverse price effects.

Arguments: Petitioners argue that the proposed transaction would likely lead to significant upward pricing pressure based on results of a GUPPI analysis.
The Applicants did not submit a GUPPI analysis with their initial or subsequent filings and even do not directly respond to opponent's GUPPI analyses.

Justification: Staff conducted an upward pricing pressure analysis, using data submitted by the Applicants. The GUPPIs that staff estimated predicted whether the proposed transaction without conditions is likely to raise prices, but made no determination about the magnitude of any upward pricing pressure.

Merger Simulation and Predicted Price Effects

Merger simulations are commonly used by the Commission and antitrust regulators worldwide to evaluate potential unilateral effects that may arise from the elimination of competition between merging parties.

Arguments: Both the Applicants and DISH submitted merger simulations.

- DISH asserts that its model (HBVZ model) demonstrates that the proposed transaction would result in higher prices.
- The Applicants assert their simulation demonstrates that the proposed transaction is procompetitive and would yield a similar result.

Justification: In the Commission's evaluation of the IKK model, they predict it is likely that there would be harmful price effects for the transaction without conditions. And they ultimately conclude that the divestiture of Boost Mobile is necessary to ensure that the transaction will not substantially lessen competition.

Coordinated Effects

Coordinated effects arise when competing firms, on recognizing their interdependence, take actions that are profitable for them only as a result of the accommodating reactions of the other firms.

Arguments: The Applicants contend that coordination would be less likely posttransaction.

- dynamic demand incentivizes maverick (non-coordinating) behavior
- network investment competition incentivizes deviating from any coordination scheme

Justification: The Commssion do not conclude that the likelihood of coordination would increase posttransaction.

- The Applicants' commitments to rural coverage likely broaden the number of potential local markets, and make it more difficult to coordinate by focusing on specific market segments.
- The Applicants' divestiture of its Boost Mobile business lessens concerns to the potential for coordinated effects.

Commitments

Boost Mobile Divestitures

Regarding the potential impact of the transaction on competition, the Applicants pledged to divest Sprint's Boost Mobile business to Dish Network, including Boost's stores, employees, and current subscribers, to an independent buyer, as well as to provide the buyer a wholesale agreement with rates and terms that "will ensure that New Boost will be an aggressive competitor."

Dish Network's Role

Dish Network was designated as a new wireless carrier intended to replace Sprint as a competitor. T-Mobile and Sprint agreed to sell certain spectrum licenses, prepaid businesses, and other assets to Dish Network to enable it to establish its wireless network.

Safeguards Against Coordination

To prevent anticompetitive coordination between T-Mobile and Dish Network, the conditions included measures to ensure that the two companies operate independently.

Coverage and Deployment Commitments

T-Mobile committed to expanding its 5G network coverage, especially in rural areas. The FCC imposed specific requirements for the deployment of 5G infrastructure to ensure that the merger benefits consumers with improved wireless services.

Pricing Commitments

T-Mobile committed to offering certain pricing plans to consumers for a specified period. These commitments were made to address concerns about potential negative impacts on pricing resulting from reduced competition.

PART 03

Economic Analysis

Horizontal Merger

A **horizontal merger** is a merger or business consolidation that occurs between firms that operate in the **same** industry.

Pro-Competitive

- One purpose of horizontal consolidation is to achieve economies of scale, i.e., to reduce unit costs through mass production and distribution.
- Competition tends to be higher among companies operating in the same space, meaning synergies and potential gains in market share are much greater for merging firms.

Anti-Competitive

- The merged firms may face antitrust investigations because they may control the market and limit competition, resulting in reduced benefits to consumers.
- May cause some employees to lose their jobs because the two firms may have duplicate departments and positions.

Merger Efficiencies:

Market Structure:

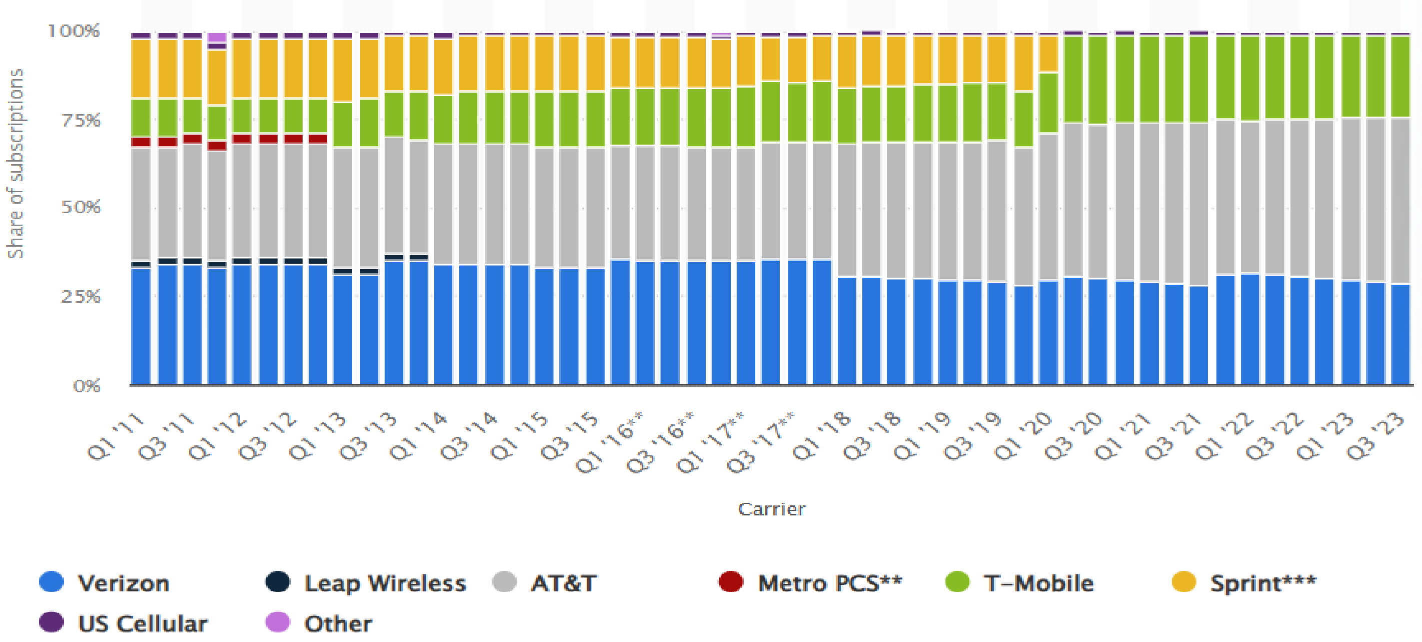
- Reduced Number of Major Players-oligopoly;
- Led to increased concentration in the market, with the three major players having a significant share of the wireless subscriber base;
- Influenced the competitive dynamics and strategies of the remaining major players.

Control about a third of the market > Try cut into their own profits

Merger Efficiencies:

Market Share:

The new combined company's market share increased to double what it had been when it operated separately, against AT&T and Verizon.



Wireless subscriptions market share by carrier in the U.S. from 1st quarter 2011 to 3rd quarter 2023

Source:statista
https://www.statista.com/statistics/199359/market-share-of-wireless-carriers-in-the-us-by-subscriptions/

Merger Efficiencies:

Competitive Landscape:

enter barrier, but…

Synergies & Cost Savings:

T-Mobile and Sprint claim a net present value of $43.6 billion in cost savings from the merger and an ability to build out a better 5G network than either firm would have on its own.

A Better 5G Network

From a business perspective, building 5G networks is expensive, and mergers will help cut costs.

Consumers will also see remarkable benefits, especially when it comes to 5G coverage.

The transaction will enable New T-Mobile to build a network with distinct advantages over both the standalone 5G networks planned by T-Mobile and Sprint and will provide a platform for an unrivaled nationwide 5G mobile service. On a standalone basis, neither company has enough or the right combination of spectrum or cell site resources to deliver the enormous gains in capacity that New T-Mobile will provide in the near term. By having the option to use cell sites from either company, the transaction will allow the merged entity to have almost immediate access to more cell sites than either company would have absent the merger. New T-Mobile's deployment of T-Mobile's and Sprint's combined spectrum portfolios, together with the addition of many more radios across the combined network than either party would install on its own, will create a massive increase in capacity that would not be possible but for the transaction. The merger will also enable the combined company to dedicate more spectrum to 5G much sooner than either company could do individually, while also allowing New T-Mobile to more efficiently utilize existing spectrum assets for continued and unimpaired LTE services.

Merger Efficiencies:

Investment and Innovation:

T-Mobile's disruptive strategies, such as the introduction of discounted packages and unlimited prepaid plans, may have historically influenced industry trends. Post-merger, T-Mobile's ability to innovate and disrupt may impact how competitors respond and adapt to changing market conditions.

Not a Job Opportunity:

T-Mobile and Sprint claim that “the incremental increases for the combined direct internal and external employees will be 9,600 more jobs relative to the “standalone companies” baselines for 2021.

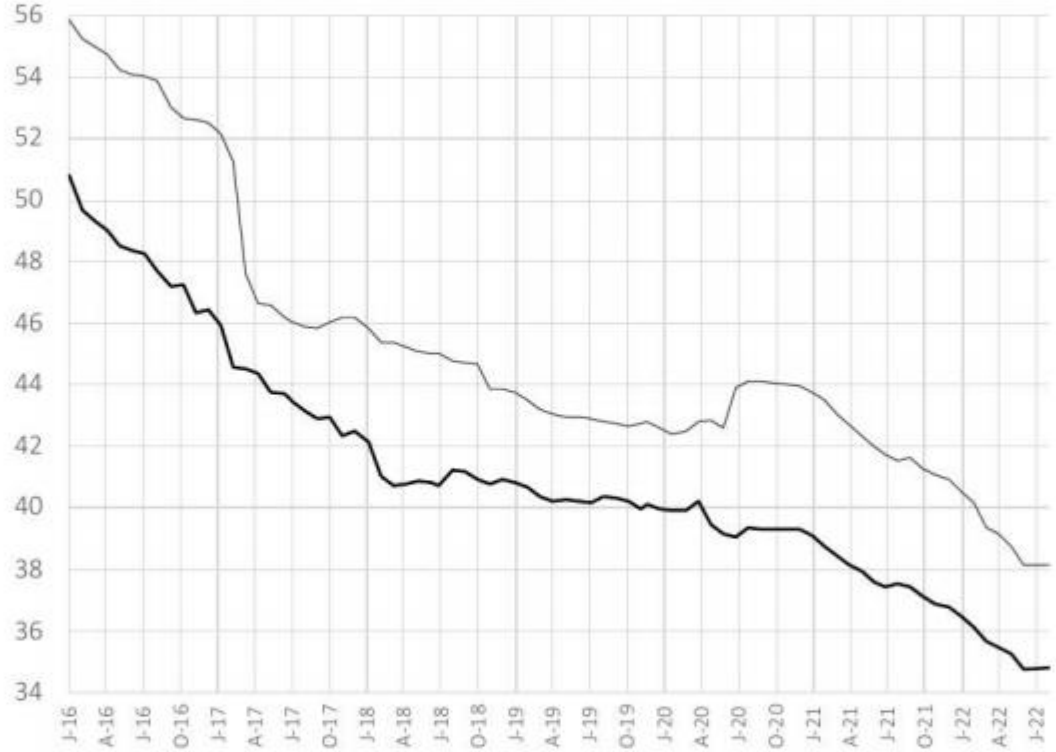
? T-Mobile has cut at least 5,000 jobs since completing its merger with Sprint despite promising that the merged company would start creating new jobs.

→ Mergers often lead to the elimination of redundant jobs and, in the wireless space, so does the closure of redundant stores.

For Customers:

CPI&PPI:

Pre- and Post-Merger Prices



Source: U.S. Bureasu of Labor Statistics
https://www.bls.gov/cpi/factsheets/telecommunications.htm

- The solid line is the Bureau of Labor Statistics (BLS) Producer Price Index for Wireless Telecommunications Carriers (Wireless PPI) , which is a measure of average revenue per subscriber for the industry.
- The lighter solid line is the Consumer Price Index for Wireless Telecommunications Services (Wireless CPI), which is a measure of the prices available to consumers seeking to sign up for service with a carrier as the sampling date.
- The merger closed on April 1, 2020. Three months later, the Wireless CPI jumped up 3.6 percent.

For Customers:

Customer Base and Retention:

<u>-For Sprint Customers:</u>

Sprint customers don't need to upgrade their devices to use T-Mobile's network. Their plans and bills will now also remain the same and they can get the same benefits and privileges as before the merger.

<u>-For T-Mobile Customers:</u>

T-Mobile is promising no price increases for three years, which also applies to customers who currently have T-Mobile plans. And, T-Mobile customers will benefit from enhanced network power through the merger.

Regulatory Approval & Conditions:

Concerns

The U.S. Department of Justice has argued that large-scale mergers and acquisitions can reduce competition in the marketplace, inhibit innovation, and may result in higher costs for consumers. Due to antitrust concerns, the DOJ required T-Mobile and Sprint to divest some of their assets.

Reasons

-Ensure the stability of the communications job market;

-Not produce monopoly, but avoid the emergence of market monopoly. According to the trend of the existing pattern, it will lead to a monopoly pattern between the former and the former two, and the merger of the two can make the U.S. telecom market pattern more balanced;

-The United States needs to introduce more high-quality players on the 5G track, and the competition effect will stimulate the market to produce more innovation and better product experience.

-China's 5G network is developing rapidly.

PART 04

Limitation & Conclusion

Limitation

1. Job Losses and Consolidation: Mergers often lead to redundancies in operations and workforce. The consolidation of two major companies may result in job losses as the merged entity streamlines operations and eliminates duplicative roles, impacting employees of both Sprint and T-Mobile.
2. We do not know enough about it yet to provide knowledgeable predictions about the future state of the world with a merged entity versus compared to one with a separate T-Mobile and Sprint (Hard to perform a reasonable prediction and make comparison)
3. The supposed rationale for approving the merger subject to this settlement appears to be Dish’s actually building out its own national facilities-based network. If Dish does not build out a national facilities-based network, wireless competition will be forever weakened.

Conclusion

1. The Sprint and T-Mobile merger resulted in a significant consolidation within the U.S. telecommunications market, impacting competition, market dynamics, consumer choices, and the deployment of 5G technology. Generally, it is considered as procompetitive merger.
2. With government regulation, the welfare of the low income consumers and wireless service in rural are should be monitored as well. If this part can be ensured, most consumers will definitely better off in the long run.

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