Responses to Written Questions for the Record

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"Game of Phones: Examining the Competitive Impact of the T-Mobile – Sprint Transaction"

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Question 1:

In its merger announcement, T-Mobile addressed the issue of market consolidation by arguing that there are currently "at least seven or eight big competitors" in its industry. Conventional wisdom holds that there are four major US wireless carriers: Verizon, AT&T, T-Mobile, and Sprint.

a. Who are T-Mobile and Sprint's competitors today?

b. If this merger is approved who will New T-Mobile's competitors be?

Question 2:

The largest increase in concentration from this merger will be in the prepaid segment, which Sprint and T-Mobile disproportionately participate in. T-Mobile is the most popular carrier among customers who make less than $75,000/year. A substantial amount of Boost customers are also in that income range.

a. Describe for me how this merger will affect consumers whose most affordable option is to purchase prepaid services?

b. How will the merger affect T-Mobile's ability to compete on price with AT&T and Verizon?

Answer 1:

The Department of Justice and the Federal Communications Commission ("Commission" or "FCC") have both previously concluded that there are four nationwide wireless carriers: Verizon Wireless, AT&T, T-Mobile, and Sprint.[1] Thus, Verizon Wireless and AT&T are T-Mobile and Sprint's competitors, and those carriers are likely to remain New T-Mobile's sole competitors in the future due to the wireless industry's extremely high barriers to entry.

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[1] Complaint at 8-11, United States v. AT&T Inc., No. 1:11-cv-01S60 (D.D.C. filed August 31, 2011) ("AT&T/T-Mobile Complaint"); Implementation of Section 6002(b) of the Omnibus Budget Reconciliation Act of 1993, Annual Report and Analysis of Competitive Market Conditions with Respect to Mobile Wireless, Including Commercial Mobile Services, WT Docket No. 17-69, *Twentieth Report*, FCC 17-126, 8 ¶ 13 (rel. Sept. 27, 2017) ("*Twentieth Mobile Competition Report*").

Other players in the wireless market include multi-regional, regional, and local service providers, such as U.S. Cellular, C Spire, and dozens of single-market (often rural) providers.[2] According to the Commission's most recent wireless market competition report, U.S. Cellular is the nation's fifth largest facilities-based wireless carrier. As of December 2016, U.S. Cellular had approximately 5.079 million subscribers, compared to more than 71.4 million subscribers for T-Mobile and 59.5 million subscribers for Sprint, the nation's third and fourth largest carriers.[3] As the Department of Justice has explained, non-national carriers are extremely limited in their ability to competitively constrain the four largest nationwide wireless carriers.[4]

Further, while wireless resellers and mobile virtual network operators ("MVNOs") may be national, or nearly so in scope, they do not own their own network facilities and their business models rely almost entirely on purchasing service wholesale from facilities-based providers and reselling those services to consumers.[5] These providers (e.g., America Movil, Comcast, Charter, and Google Fi) are not truly competitors to the nationwide wireless carriers, for the simple reason that a retailer does not compete with its wholesaler. The Commission has previously found that "[u]nlike facilities-based service providers, MVNOs do not engage in non-price rivalry by creating capacity through network investments, network upgrades, or network coverage."[6]

MVNOs – including cable providers like Comcast and Charter – play an important role, but that role at this time is as marketing and customer relationship partners to the major carriers, as opposed to full alternatives to them. MVNOs are unlikely to ever truly disrupt facilities-based providers because MVNOs rely on the nationwide networks for connectivity.

Answer 2:

a. Because T-Mobile and Sprint (and their pre-paid sub-brands) disproportionately serve the pre-paid market segment, a T-Mobile-Sprint combination may most affect pre-paid consumers. As Recon Analytics has explained, "[t]he combined T-Mobile/Sprint organization will remain overall third in the wireless market, but it will dominate the carrier prepaid and wholesale markets, where it will have 60% market share and 47% market share, respectively."[7] The likely result of the merger for pre-paid consumers

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[2] *Twentieth Mobile Competition Report* at 8-9 ¶¶ 14.
[3] *Id*. at 15, Table II.B.1.
[4] AT&T/T-Mobile Complaint at 15-16.
[5] *Twentieth Mobile Competition Report* at 9 ¶ 15.
[6] Implementation of Section 6002(b) of the Omnibus Budget Reconciliation Act of 1993, Annual Report and Analysis of Competitive Market Conditions with Respect to Mobile Wireless, Including Commercial Mobile Services, WT Docket No. 16-137, *Nineteenth Report*, FCC 16-1061, 7 ¶ 9 (rel. Sept. 23, 2016).
[7] Roger Entner, *Industry Voices—Entner: Putting some context behind the T-Mobile, Sprint merger*, FierceWireless, Apr. 30, 2018,

would be the effects that regularly flow from horizontal consolidation in already highly concentrated markets[8] – higher prices, fewer retail locations, and fewer choices of billing plans and handsets.

Additionally, one of the business goals of this merger appears to be to drive the new company more "up market," towards higher-income consumers, more expensive handsets, and more expensive plans. Even apart from the loss of competition, then, pre-paid consumers could find themselves simply left behind and underserved.

Many MVNO consumers are lower-income, as well, and could face higher prices as a result of consolidation in the wholesale market for MVNO capacity. MVNOs will have one fewer national facilities-based provider from which to purchase wholesale access, meaning prices are likely to rise as competition declines.

b. The merger is immaterial to T-Mobile's ability to offer comparable prices to AT&T and Verizon Wireless. T-Mobile's service is already competitively priced against its larger rivals. Further, the fact that T-Mobile's pricing plans, unlike other providers', bakes all taxes and fees into the quoted price of the service,[9] means that T-Mobile's prices may already be the most competitive.

As noted above, one of the goals of the T-Mobile-Sprint combination appears to be to capture more high-income consumers and customers who purchase more expensive plans. It may be the case that the merged firm's business strategy is to discontinue its aggressive pricing in search of higher revenue customers. Further, it may also be the case that debt and other pressures from the deal lessen firm's ability to maintain its low prices. However the more pressing concern is that with less competition, the merged firm would have less incentive to introduce or continue aggressive pricing plans.

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https://www.fiercewireless.com/wireless/industry-voices-entner-putting-some-context-behind-t-mobile-sprint-merger.

[8] Regulators use the Herfindahl-Hirschman Index ("HHI") to measure market concentration. The HHI of the wireless industry is approximately 2,942. This is well above the measure that competition authorities consider "highly concentrated." *See id*.

[9] *See* Patrick Holland, *Verizon, AT&T, T-Mobile and Sprint unlimited plans compared*, CNet, July 16, 2018, https://www.cnet.com/news/verizon-att-sprint-t-mobile-unlimited-data-plan-compared/.