Fewer players in wireless could rein in price cuts

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(AP) -- How many wireless carriers do we need? It's a question that's popping up again as T-Mobile USA is said to be looking at buying Sprint Nextel Corp.

Now that most people have a cell phone and once-heady growth in the industry is slowing, analysts say carriers are going to be looking at buying each other to increase their scale and to avoid competing too much on price. Consumers have been benefiting from relentless price-cutting on cell phone service in the past few years.

But consolidation doesn't come easy to the industry, and the government may not look kindly on the combinations that reduce competition.

U.K.'s Sunday Daily Telegraph reported that T-Mobile USA's owner, Deutsche Telekom AG, has hired banking advisers to explore a bid for Sprint Nextel Corp.

It's not the first time there has been talk of such a combination, and the buyer would have significant hurdles to overcome. But if it were consummated, analysts say, it could at least momentarily put the price-slashing on hold.

"The U.S. wireless market is crying out for consolidation," Sanford Bernstein analyst Craig Moffett told investors in a research note Monday. He added that "there are too many cooks in the kitchen."

Deutsche Telekom and Sprint wouldn't comment.

Sprint's stock jumped on the news, gaining 38 cents, or 10 percent, to close at $4.15, giving it a market capitalization of $11.7 billion. Deutsche Telekom's U.S.-listed shares fell 8 cents, or 0.6 percent, to $13.79.

This year has seen some dramatic price cuts on wireless service, particularly for customers who don't have contracts and go month to month on "prepaid" plans. Sprint, through its Boost Mobile brand, introduced a $50 prepaid unlimited-calling plan in January. Virgin Mobile followed suit, and regional upstarts Leap Wireless International Inc. and MetroPCS Communications Inc., which were already around the $50 mark for unlimited service, have trimmed prices too.

Those cuts are starting to spill over into the more common plans with two-year contracts, for so-called "postpaid" service. Last week, Sprint announced it new postpaid plans starting at $70 per month in which calls to other cell phones would not be deducted from the monthly bucket of minutes.

The price cuts are coming as growth in the wireless industry has slowed sharply, particularly when it comes to new contract-signing customers. At the end of last year, there were 87 cell phone subscriptions for every 100 Americans, according to the CTIA-The Wireless Association.

Verizon Wireless and AT&T Inc., the No. 1 and No. 2 in the industry, have been grabbing most of the remaining customers who willing and able to sign two-year contracts - Verizon because it has the best network, AT&T because it has the iPhone.

That leaves No. 3 Sprint and No. 4 T-Mobile USA scrambling for lower-paying prepaid customers, where they are also competing with smaller carriers like MetroPCS and Leap.

A big obstacle to a merger would be that Sprint and T-Mobile use incompatible technologies: Sprint phones wouldn't work on T-Mobile's network, and vice versa. Sprint is still dealing with the aftermath of such an acquisition. It bought Nextel, another carrier with an incompatible network, in 2005. That combination has been fraught with problems, and is a major reason Sprint is losing subscribers.

Antitrust concerns could also derail a deal. The Obama administration has signaled a tougher stance toward the wireless industry, and has started looking into practices like exclusive contracts between phone makers and the carriers.

Moffett noted that the Department of Justice has rejected mergers in industries with a similar concentration of players. However, a combined T-Mobile and Sprint could offer more effective competition to AT&T and Verizon, he noted.

In May, when the latest round of speculation about a T-Mobile-Sprint combination was in the air, Stifel Nicolaus analysts said a deal would likely pass antitrust muster as long as the companies could present a credible story about being stronger combined than apart. AT&T and Verizon Wireless are gearing up for the next round of network upgrades, and it could benefit consumers if there's a credible competitor that can offer similar data speeds.

Sprint had 48.8 million subscribers at the end of June, compared to T-Mobile USA's 33.5 million. Together, they would have had 82.3 million, placing them in between Verizon with 87.7 million and AT&T with 79.6 million.

The U.S. wireless industry is already consolidating, but at a moderate pace, with most of the acquired companies being regional carriers. Since Sprint bought Nextel, the largest deal has been Verizon Wireless buying Alltel Corp., once the No. 5 in the industry by subscriber count, in January for $5.9 billion. Sprint has announced a $483 million deal to buy Virgin Mobile USA Inc., increasing its focus on the prepaid market. Virgin phones already use Sprint's network.

In another sign of Deutsche Telekom's desire for consolidation, it said last week that it plans to merge its British wireless unit with that of France Telecom SA to form that country's biggest mobile operator.

Ironically, the biggest beneficiaries of a T-Mobile-Sprint deal could be AT&T and Verizon Wireless. Moffett notes that those companies would benefit from a "more rational" price structure, with fewer players to compete on pricing, while avoiding the messy process of a merger themselves.