Even with low prices, T-Mobile customers flee

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This file combination photo displays logos for AT&T, left, and Deutsche Telekom AG. The Justice Department filed suit Wednesday, Aug. 31, 2011, to block AT&T's $39 billion deal to buy T-Mobile USA on grounds that it would raise prices for consumers. (AP Photo/dapd File)

(AP) -- The Justice Department's move to block AT&T Inc. from buying T-Mobile USA is motivated by the desire to keep a low-priced competitor in the game. But that's a game T-Mobile is losing.

Despite low prices and a peppy pitchwoman in a polka-dot dress, T-Mobile customers have been voting with their feet, leaving for other carriers in the last year and a half.

T-Mobile's 33.6 million customers may be heaving a sigh of relief Wednesday that the federal government is trying to block the merger, so they can keep their wireless service plans. But in the long run, T-Mobile is in an unsustainable position. Analysts say the company's past decisions have painted it into a corner.

The No. 4 wireless carrier is being squeezed by competitors from two directions. At the high end of the market, it can't compete with Verizon Wireless and AT&T Inc., the market leader and no. 2, respectively. At the low end, T-Mobile is struggling against competitors like Sprint Nextel Corp., which sells government-subsidized "lifeline" service, and MetroPCS Holdings Corp., which targets urban, working class consumers with cheap "unlimited" plans.

Essentially, T-Mobile is seen as a cheap brand by those who can afford better, and as an expensive one by those who pinch every penny.

"We're stuck in the middle from a brand point of view," T-Mobile CEO Philipp Humm said in January.

The most valuable customers, the ones who buy smartphones and sign up for two-year contracts with lucrative data plans, are leaving T-Mobile the fastest.

It's not because T-Mobile's customers are particularly dissatisfied with the service - they like their provider better than AT&T customers theirs, according to the American Customer Satisfaction Index.

Instead, the lure of the iPhone and wider network coverage is what draws high-paying customers to AT&T and Verizon.

So, even though T-Mobile is profitable, its revenue is shrinking fast - in the latest quarter, it was down to the level of 2007.

Customer flight could speed up even more this fall, if Sprint gets to start selling the iPhone, as The Wall Street Journal reported recently. That would make T-Mobile the only one of the four national wireless carriers that doesn't sell Apple Inc.'s coveted phone.

In about two years, T-Mobile will face another problem: limited wireless spectrum, or space on the airwaves. While other carriers have been bulking up their spectrum holdings in the last five years, T-Mobile stayed mostly on the sidelines. That means growing smartphone data use could fill up T-Mobile's airwaves in a few years, according to the company's own estimates.

Even before AT&T's $39 billion deal to buy T-Mobile was announced in March, T-Mobile's corporate parent, Deutsche Telekom AG of Germany, said it's not interested in investing more in its U.S. subsidiary. It gave CEO Humm a mission to stop customer flight and start growing revenue, but he'll have to do it with the U.S. subsidiary's own resources.

Recon Analytics analyst Roger Entner traces T-Mobile's current troubles in part to Deutsche Telekom's unwillingness to invest in T-Mobile's spectrum and network in the last few years. It waited until 2009 to start building out a wireless broadband network, several years behind Verizon Wireless, AT&T and Sprint Nextel Corp.

Entner said Sprint, the industry's No. 3, is a good example of a carrier that has overcome a lot of adversity. It has slowed subscriber flight in the last few years through improvements in customer service.

"The US market is competitive and companies can come back from near death when they do things right. The problem is that T-Mobile USA's parent Deutsche Telekom is not committed to the US market the same way its competitors are," Entner said.

When the AT&T deal was announced in March, it came as a surprise.

Industry rumors, instead, hinted at a linkup between T-Mobile and Sprint. If AT&T fails its appeal, that buzz could reemerge. But T-Mobile and Sprint use different network technologies, which would make any merger difficult.

Sanford Bernstein analyst Craig Moffett also thinks the Justice Department's reasoning in the AT&T case would preclude a Sprint-T-Mobile merger.

There would be a silver lining for T-Mobile if the deal falls through. AT&T would have to pay T-Mobile $3 billion in cash and transfer to it some unused spectrum. In addition, T-Mobile would get a renegotiated roaming agreement with AT&T. None of those are likely to change Deutsche Telekom's reluctance to invest in T-Mobile.

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