

Monthly smartphone bills down at AT&T

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In this Oct. 18, 2011 file photo, a man using a cell phone passes an AT&T store, in New York. AT&T is gaining new wireless subscribers at the lowest rate in eight years, as the number of people joining the network through resellers and non-phone devices like the Kindle is dropping sharply. (AP Photo/Mark Lennihan)

(AP) -- Hidden in AT&T Inc.'s financial statements is a story that runs counter to its optimistic profit projections: The company is making less and less from each new smartphone subscriber.

Calculations by the Associated Press, based on AT&T's public statements, indicate that the average monthly bill for its smartphone subscribers has fallen from \$88 to \$80 in the space of a year.

That number should be of great concern to Dallas-based AT&T, because like most big phone companies, it is struggling with a slowdown in new subscribers. Nearly all adults -and many kids- in the U.S. already have

cellphones. AT&T's executives have been touting smartphones as the solution, since the devices require consumers to pay for data use in addition to voice calls. Smartphone subscribers, therefore, pay more. So moving customers from regular phones to smartphones will keep boosting revenue, AT&T has said.

But an analysis of AT&T's own figures indicates that smartphone bills have shrunk by 9 percent over a year, challenging the company's picture of long-term revenue growth.

The Associated Press' calculations are based on various figures AT&T makes public -and a bit of high-school algebra. The company doesn't disclose the average smartphone bill, but says it's 90 percent higher than the average non-smartphone bill. AT&T reveals the number of smartphone and non-smartphone subscribers, and the average monthly bill for a contract-based plan, which is \$64.46. Together, these numbers allow for an approximate calculation of the average smartphone bill.

AT&T did not explicitly confirm the calculations, but its chief financial officer, John Stephens, said that the composition of new smartphone customers is changing. The early smartphone adopters were business people and others willing and able to pay high monthly fees. Now, AT&T and other phone companies are going after people who can't pay as much.

"We go after the biggest spenders at the start, that's natural economics," he said.

But even these lower-paying customers are profitable, he said, because they use the network less.

In a more typical projection, Ralph de la Vega, the head of AT&T's wireless division, told analysts Tuesday that demand for wireless data is

going to continue to drive an increase in monthly bills.

"Quite frankly, it's hard for us to see a cap on that," de la Vega said.

Bills for non-smartphone subscribers on contract-based plans are shrinking at about the same rate. Only by shifting these subscribers to smartphones has AT&T been able to keep its average monthly bill for contract-based plans rising, by 1.7 percent from a year ago.

AT&T, the country's largest telecommunications company, reported first-quarter results Tuesday morning, showing that that it essentially gained no phone subscribers on contract-based plans in the first quarter. That's only happened once before: A year ago, when Verizon launched its version of the iPhone.

Contract-based plans are by far the most lucrative for a phone company, and the number of new customers is an important measure of growth.

AT&T gained a net 187,000 customers on contract-based plans in the January to March period, but these were almost all tablet users, brought in by the launch of the new iPad in March.

By contrast, Verizon last week reported adding 501,000 subscribers on contract-based plans.

Over the last five quarters, Verizon has added nearly three times as many contract subscribers as AT&T. Over the previous two years, the rivals split new subscribers nearly evenly.

AT&T gained a net 726,000 subscribers of all kinds in the first quarter, counting ones on no-contract plans and ones on non-phone devices like the Kindle. That was the lowest figure in eight years, and less than a third of the number of subscribers added in the same period last year.

The head of AT&T's wireless business, Ralph de la Vega, said a drop in sales of e-readers that connect to AT&T's network were behind much of the drop in overall subscribers.

Amazon.com Inc. has been selling Kindle e-readers that use AT&T's network, but its new flagship device, the Kindle Fire, only uses Wi-Fi.

Weak subscriber figures are usually good for a phone company's earnings in the short term, since it doesn't have to subsidize new devices.

The Dallas-based company's net income for the January to March period was \$3.6 billion, or 60 cents per share, up 5 percent from \$3.4 billion, or 57 cents per share, a year earlier.

Analysts polled by FactSet were on average expecting earnings of 57 cents per share for the latest quarter.

In particular, AT&T saved money by selling fewer iPhones than analysts expected. AT&T subsidizes each new iPhone by hundreds of dollars, hoping to make the money back over time in the form of service fees.

AT&T said it activated 4.3 million iPhones in the first quarter. That was down from 7.6 million in the fourth quarter, when AT&T began selling the iPhone 4S. However, the number was still up from the 3.6 million iPhones AT&T sold in the same quarter a year ago.

Revenue was \$31.8 billion, up 2 percent from a year earlier. It matched analyst expectations.

AT&T shares rose \$1.27, or 4.2 percent, to \$31.88 in afternoon trading. The shares are close to a four-year high of \$31.97 hit a month ago.

Macquarie Securities analyst Kevin Smithen said the strong first-quarter

earnings could mislead investors. He believes AT&T's profits will shrink this year as it upgrades more handsets, even as it continues to lose market share to Verizon.

Craig Moffett, an analyst at Sanford Bernstein, was more optimistic, saying the first-quarter results demonstrated "the successful hand-off from growth to profitability." It's possible, he said, that AT&T will be able to wring more money out of each wireless subscriber through data usage fees. It also looks like the company is getting better at reining in smartphone subsidies, he said.

A look at AT&T subscribers and what they're paying

Here's a look at how many subscribers AT&T has in several categories, and how much they pay.

-Number of smartphone users on contract-based plans: 41.2 million

The average smartphone user's monthly charge: \$80

-Number of non-smartphone users on contract-based plans: 28.2 million

The average non-smartphone user's monthly charge: \$42

-Number of non-contract phone and tablet users: 7.4 million

The average non-contract phone or tablet user's monthly service charge: roughly \$20

-Customers of companies such as Tracfone, which resell AT&T service: 13.9 million

Revenue AT&T gets from each of those customers per month: about \$5

- "Connected devices," which includes e-readers, GPS navigation devices, and smart utility meters: 13.3 million

Monthly subscription charges for each device: a few dollars.

- Total number of devices on AT&T's network: 103.9 million

Service charges generated by those devices every month: \$4.9 billion

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