Analyst Take: T-Mobile Willing to Go Where Others Won't

Andrew Berg

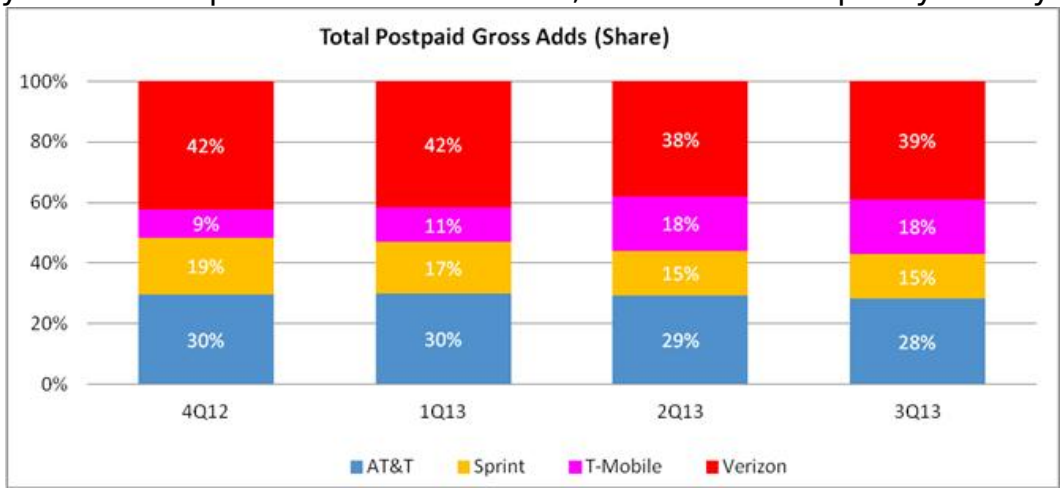
Say what you will about T-Mobile's recent moves, the company has managed to rattle a cage or two lately. While there's undoubtedly a certain amount of smoke and mirrors [1] involved, the 4.4 million net customer additions the carrier reported for 2013 can't be denied. Here's a look at a couple aspects of T-Mobile's strategy, and what effects it will have on the industry at large.

Good or bad, the payoff wars have begun

By offering to pay early termination fees, AT&T and T-Mobile have set the stage for the kind of incentivized offers made by long-distance voice providers back in the late 80s and early 90s. No, switching wireless providers isn't quite that simple, but operators in the United States may be seeing the beginning of the end for the security, and predictability, of the postpaid contract.

Eddie Hold, vice president of connected intelligence for NPD Group was in the audience for John Legere's "Un-Carrier 4.0" announcement at the International CES. He said Legere reminds him of Richard Branson back when Virgin Mobile was looking to shake up the prepaid market.

"This will eventually have an impact on all the carriers, but T-Mobile is pretty clearly going after AT&T."



And while the landscape is surely altered by T-Mobile's offer to pay off ETFs, the question arises whether the product it's offering is on par, in capacity or coverage, to those from AT&T and Verizon's.

"Here's the great thing, if you sign up for T-Mobile and it doesn't work out, you haven't signed a contract, so you can then go back to AT&T," Hold said.

He also suggested that AT&T's preemptive salvo last week in this battle, which pays

T-Mobile customers over to its side, may be a good way of winning back those customers that defect but are unsatisfied with T-Mobile's coverage or service. "If you go back to AT&T after switching to T-Mobile, AT&T will give you $200 to switch away. So, as John put it, it's kind of no-risk guarantee thanks to AT&T," Hold said.

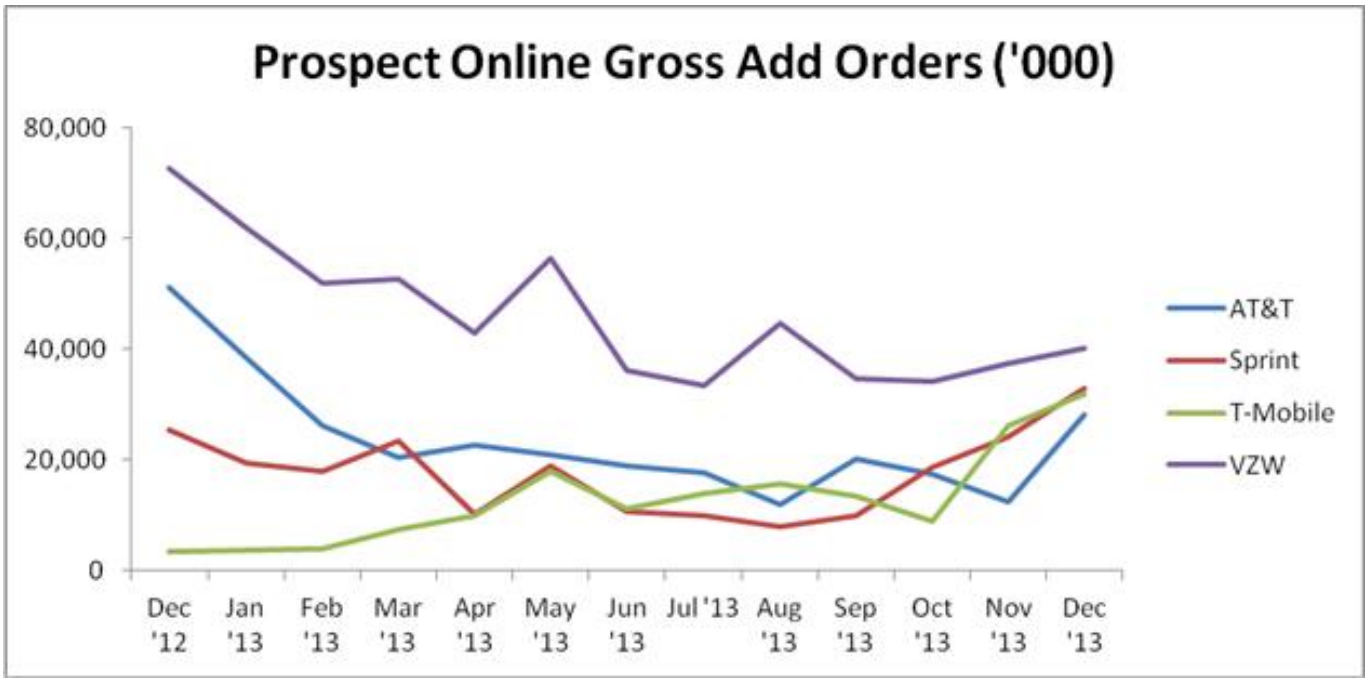
In the end, Hold said T-Mobile's primary concern is to make switching carriers as easy as possible.

"T-Mobile's just trying to get people to jump over quicker and get out of their contract," Hold said.

Online subscribers

Another thing T-Mobile has been able to do is to get people to subscribe for new service online, reducing even further the friction involved in switching carriers.

Millward Brown Digital notes that T-Mobile added almost as many new customers online in December 2013 as Sprint and more than AT&T. The firm points out that the surge in online orders is an important component in the Total Postpaid Gross Adds Share (incorporating both offline and online Postpaid Gross Adds) growth, where T-Mobile has been progressively eating away at the share of their competitors.



When asked whether those online additions might be due to the fact that T-Mobile has fewer retails outlets than other carriers, Millward Brown Digital Senior Analyst Chris Collins, said he's not necessarily sure that's the reason.

"T-Mobile historically has had a lower share of online orders to total orders, what we call "online contribution", than AT&T, Sprint and Verizon Wireless," Collins said, adding that company's online share gains are driven less by the number of retail stores and more by changes to T-Mobile's device portfolio.

"With both the iPhone 5 and Samsung S4, T-Mobile.com is now selling the two most popular phones bought by online shoppers," Collins said.

Collins said other reasons for the uptick in T-Mobile's online sales could include the company's clever online marketing, such as the “Catch Jeremy” campaign it ran in the fourth quarter, which drove people to the website, rather than to retail. Also, T-Mobile made massive improvements to its website in August 2014, which Collins believes helped drive improved online conversion.

Crossing the Rubicon

Rajeev Chand, managing director and head of research at Rutberg & Company Research, says at the core of T-Mobile’s recent success is its willingness to go where others either haven’t imagined or haven’t dared. Mayberry said it’s a strategy that is particularly suited for the U.S. market.

"T-Mobile's strategy is to do things that would hurt it less than it would hurt the other operators to do those same things," he said.

And while the hype has been deafening, Chand cautions that the reasons for T-Mobile’s 4.4 million net customer additions in 2013 are still unclear.

"We're still not 100 percent clear yet whether the improvements are due to the Un-Carrier strategy, the addition of the iPhone, or even those customers that came over with MetroPCS," he said.

Overall, Chand calls T-Mobile an interesting development. "This is another sign that the U.S. market is very competitive. It's brilliant for T-Mobile and it was a good move by AT&T to try and preempt with its move."

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