S/TMUS: Opposition From Mobile Virtual Network Operators Likely to Gain Traction With DOJ

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Event Driven Takeaways

- Sprint and T-Mobile have aggressively sought to partner with Mobile Virtual Network Operators, or MVNOs, to expand market share in the prepaid market. Moreover, Sprint has been the pacesetter among the big four when it comes to providing advanced enablement platforms to MVNOs, thus bringing down costs for these virtual networks.
- A Sprint/T-Mobile combination could harm this competitive dynamic that has provided significant support to the MVNO model in recent years.
- Both Sprint and T-Mobile compete aggressively for MVNO subscribers. **In this sub-market, the two companies together command an almost 60 percent market share.**
- MVNOs have targeted specific customer segments, including immigrant communities, offering low-cost plans with unlimited data packages. It is likely that arguments from Peter Adderton, the founder of Boost Mobile, and the National Wireless Independent Dealer Association will carry weight because they describe potential consumer harm (rather than just harm to smaller competitors) to millions of MVNO subscribers that could result from the merger.

Market participants involved with prepaid mobile plans and mobile virtual network operators, or MVNOs, are voicing concerns about how a combined Sprint/T-Mobile will affect consumers and those that do business with the major carriers.

With AT&T and Verizon taking the lead in the U.S. wireless market, the smaller Tier-1 operators such as Sprint and T-Mobile have aggressively sought to partner with MVNOs to expand market shares in prepaid markets. Sprint executives have often viewed MVNOs as "another army" to help the company gain more subscribers on its networks. A Sprint/T-Mobile combination could harm this competitive dynamic that has provided significant support to the MVNO model in recent years.

As Figure 1 illustrates, T-Mobile and AT&T are currently leaders in the branded prepaid market. The two companies offer prepaid services under the MetroPCS and Cricket brands, respectively. Sprint and T-Mobile compete aggressively for MVNO subscribers. **In this sub-market, the two companies together command almost 60 percent of the market share.**

Figure 1: Total Prepaid Customers as of December 2017

Total Prepaid Customers as of December 2017			
Network	**Branded Prepaid Subscribers**	**MVNO Subscribers**	**Total**
T-Mobile	20.7 million	13.87 million	34.57 million
Sprint	9 million	13.64 million	22.64 million
Verizon	5.40 million	10 million (approximately)	15.4 million
AT&T	15.34 million	9.37 million	24.71 million

Note: There were approximately 97.44 million total prepaid (branded and MVNO) subscribers in the U.S. as of Dec. 31, 2017. That means prepaid customers accounted for 23.5% of the total 414.1 million subscribers.
(Click here to enlarge.)

Sprint has emerged as an industry leader in enabling MVNOs through its Sprint Wholesale Solutions platform. Over the years, the company has continued to offer advanced enablement platforms that have brought down costs for MVNOs to launch operations, with some estimates suggesting that it costs less than $1 million to launch one.

With the impending merger with T-Mobile, it is not clear if the combined entity would offer similar wholesale pricing for its enablement services to MVNOs. This is particularly significant, as despite the positive structural trends, MVNOs operate in a deeply saturated market (more than 80 MVNOs are in operation in the U.S.) and must contend with thin margins. The cost dynamics, as some MVNOs fear, could take a negative turn with the loss of competition that would result from T-Mobile acquiring Sprint.

"Once Sprint and T-Mobile get together, we believe that they will have the power to raise prices to MVNOs, which will make MVNOs less able to compete against Sprint and T-Mobile prepaid brands," antitrust attorney Lisl Dunlop told Event Driven. Dunlop, a partner at Manatt Phelps & Phillips, has been retained by Peter Adderton, the founder of Sprint's prepaid subsidiary Boost Mobile, to advocate at the DOJ on behalf of MVNOs.

"There are huge practical barriers to switching between other networks," meaning that it would be difficult for MVNOs to start doing business with AT&T and Verizon post-merger. "MVNOs are effectively locked into the network that they're on," Dunlop said.

Despite these concerns, it is also true that the market for providing wholesale services to MVNOs is highly competitive, since MVNOs often contract with multiple host carriers, with some degree of flexibility to move business to host carriers that offer them the best pricing. But business flexibility is often a function of how contracts between host carriers and MVNOs are structured in the first place.

With Sprint and T-Mobile competing aggressively for MVNO subscribers, MVNOs have been successful in exercising some leverage when finalizing contractual agreements. This tension may be lost once Sprint and T-Mobile merge.

From a market standpoint, the MVNO business model has evolved in recent years to the benefit of consumers across the board. MVNOs have targeted specific customer segments, including ethnic and immigrant communities, offering low-cost plans with unlimited data packages.

Some, like Republic Wireless, have pursued innovative strategies such as "WiFi first," where the network offloads usage - including calls - to WiFi wherever possible and switches to 3G/4G if the subscriber is not in the range of WiFi. Other MVNOs, like Ting, have adopted an innovative pricing scheme, which separates cost of voice, data, and SMS, charging customers subscribers on a tiered basis based on actual usage. Both Republic Wireless and Ting offer their services on Sprint's network. The MVNO space has thus seen continuous innovation in terms of pricing and bundle strategies in recent years to the benefit of the cost-conscious consumer. As Figure 1 above illustrates, **there were approximately 47 million MVNO subscribers in the U.S. at the end of 2017, or roughly 11% of the total U.S. wireless subscriber population.**

Although the DOJ often views comments from competitors with some skepticism, the arguments from the likes of Adderton and the National Wireless Independent Dealer Association, or NWIDA, will likely carry weight because they shed light on potential consumer harm (rather than just harm to smaller competitors) to millions of MVNO subscribers that could result from the merger.

Even for traditional mobile network operators, or MNOs, such as Sprint and T-Mobile, that have a sizable presence in the U.S. prepaid market, it is not always possible to address the needs of all customer segments under the same set of retail pricing plans. As a result, this opens up opportunities for MVNOs to build their user base by concentrating on niche markets that fall outside the traditional marketing approaches or are too costly to serve using a conventional pricing model.

In its review, the DOJ is likely to take note of the positive impact of the MVNO business model and how its growth in recent years has benefited certain customer groups in the prepaid market - especially low-income and economically vulnerable sections of the population. The fact that Sprint has been the pacesetter among the big four when it comes to partnering with MVNOs could further convince regulators to seek tangible remedies in order to approve the deal.

NWIDA president Adam Wolf stressed to Event Driven that his organization is "not against the merger." But the competition issues related to prepaid markets "need to be solved."

"From our point of view, it doesn't make sense for the new T-Mobile to keep both brands," Wolf said. "It is very often the case that they are within half a block of each other."

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