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For Consumers, Little to Cheer in AT&T Deal

By JENNA WORTHAM

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The \$39 billion proposed merger of [AT&T](#) and T-Mobile could save the companies a lot of money. For everyone else, it could cost a lot of money. No sooner did the two companies announce a \$39 billion merger on Sunday than industry analysts began assessing the impact on the biggest potential losers in the deal: consumers.

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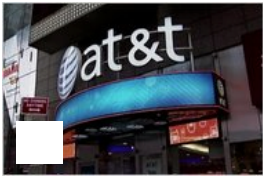
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Richard Perry/The New York Times

AT&T's acquisition of T-Mobile could improve service and network quality for both carriers' customers, but analysts say it could also push prices higher.

Multimedia



AT&T Deal May Raise Consumer Costs

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Richard Perry/The New York Times

A T-Mobile store in Manhattan.

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If approved by regulators, the merger would leave just three major cellular carriers in the United States, a development that consumer advocates warn could eventually lead to higher prices for a wide variety of services. For this reason the deal is likely to attract close scrutiny in Washington.

It is too early to say how much — or even whether — rates might rise for consumers, who on average pay \$55 a month for their wireless plans, said Roger Entner, who tracks the wireless industry for the Nielsen Company. But while consumers may see some immediate benefits — in network quality, for example — they are not likely to benefit in the long run, some analysts and industry experts said.

The bottom line, they said, is that competition is likely to suffer, leading to higher prices and less innovation. That is because the deal would leave just AT&T, [Verizon](#) Wireless and the much smaller Sprint to divide up the voracious smartphone market — with the AT&T and T-Mobile union likely to dominate the market.

“Without some of the smaller competitors, you won’t have the competitive pressure that leads to lower prices and innovations and offerings among the carriers,” said Paul Reynolds, electronics editor at Consumer Reports.

AT&T maintains that the merger will be good for consumers.

“The benefits of this transaction are possible at this scale and on this timeline only from the combination of these two companies,” Randall L. Stephenson, chairman and president of AT&T, said in a call to investors and analysts on Monday. He added that the merger “will improve network quality” and “give more customers access to more services.”

Other analysts also had a rosier view, suggesting that AT&T may diversify its offerings if it acquires T-Mobile. T-Mobile has long built its reputation by offering affordable, low-rate cellphone plans, including ones that do not require annual contracts or a minimum voice plan.

“Having 30 million new subscribers might convince them to add more attractive data pricing,” said Chetan Sharma, an independent wireless analyst, referring to T-Mobile’s customer base. “Things like data family plans could become a reality.”

Whatever happens to prices, the availability of cellphone coverage in the United States is likely to expand, analysts said. AT&T and T-Mobile have invested in different parts of the country, and customers of the two companies would have access to a larger, combined network. Potentially, the acquisition of T-Mobile, with its additional wireless spectrum, could also help AT&T with the rollout of its next-generation wireless network, known as 4G.

Improved service and network quality could be another boon. T-Mobile and AT&T use the same underlying GSM cellphone technology, which should reduce any friction of blending the two networks. AT&T could take advantage of T-Mobile’s latest high-speed network, in which the company has invested millions to upgrade and bring online. By adding T-Mobile, AT&T will gain cell sites equivalent to the number it would have taken five years to build, experts say. All this means, in theory at least, that service should improve. But the cost to buy that coverage is likely to go up.

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“Typically, the more competition there is, the faster prices drop,” Mr. Sharma said. “In a situation where there are two main carriers, pricing is not likely to move as much.”

One burning question raised by the potential of a merger with AT&T is what will happen to the wide range of inventive T-Mobile data plans, which are some of the lowest in the country, and have helped keep pressure on competitors. The company also offers a wider choice of smartphones for younger users, like the popular Sidekick line, which T-Mobile recently said it would revive.

AT&T is expected to honor contracts through their expirations, but it is unclear what will happen once those contracts expire.

“The prospect of having those kinds of options go away is a real concern,” said Mr. Reynolds of Consumer Reports. “It’s a welcome offering for people in this market that can be quite unaffordable otherwise.”

If approved, the merger is expected to save both companies \$3 billion annually. That saving, Mr. Sharma said, along with the influx of millions of new consumers, might persuade the company to be more competitive in family data plans as a way to draw in new subscribers and increase competition with Verizon, the new company’s chief rival. If the merger is approved, AT&T would have about 129 million wireless customers and Verizon about 101 million. Sprint has about 50 million customers.

Another potential byproduct could be a drop in pricing for sleek, high-end smartphones. Hardware makers, for example, might offer AT&T a lower rate for bulk purchases of new smartphones and tablet computers.

“AT&T’s new scale would give them pricing advantage,” Mr. Sharma said. “You could end up seeing \$100 or \$150 smartphones for consumers in the future.” A typical smartphone can cost \$200 with a contract. One constant in a consumer’s life could remain: frustrating experiences with customer service.

“In terms of customer satisfaction, AT&T was clearly in last place, below average in comparison to other carriers, including T-Mobile,” he said.

Although T-Mobile has historically performed well in the annual surveys conducted by Consumer Reports that rate satisfaction, in big takeovers the larger company typically tends to swallow the smaller one, he said.

“The overall consumer experience might become more like AT&T than T-Mobile,” Mr. Sharma said.

A version of this article appeared in print on March 22, 2011, on page A1 of the New York edition.



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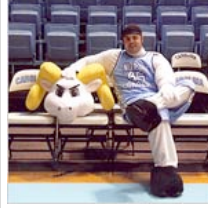
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