Highlights

1 The deal will mean a client base of 46 millions for Cingular with Verizon Wireless, owned by Verizon (55%) and Vodafone (45%) lagging behind with 37.5 millions. Moreover, the new Cingular, owned by SBC and BellSouth with 60% and 40% respectively, will have licenses in 49 states and will have coverage in 97 out of the 100 biggest markets in the USA, in addition to the largest GSM network.

2 The US wireless market has 155 million users and moves $80 billion per year. Cingular (now with a share of 37%), Verizon Wireless (30%), Sprint PCS (13%), T-Mobile USA (10%) and, finally, Nextel Communications (10%) are part of this market. Intensive competition has cut prices by 36% since 2001.

3 One of the major challenges of the new company is the adoption of a single technological platform. Although both AT&T and Cingular use GSM – the standard wireless technology all over the world except in the USA — there are differences in the level of client migration to GSM and the speed of data transmission networks.

4 The global mobile market, measured in number of clients, is led by China Mobile (153 million customers), followed by Vodafone (118 millions), China Unicom (86 millions), Cingular/AT&T Wireless (67 millions) and Deusthce Telekom (65.8 millions).

When size is not important any more
Josep Valor
e-business Center PwC&IESE
27/02/2004

Wireless phone companies, especially with number portability, sell a product that is less and less different, that is to say, a commodity. That is the reason scale economies play a very important role in this market. Given that it is not possible to make a large margin on the service that they offer, companies must focus their strategies on saving costs. Moreover, the more clients a company has, the more saving it can get thanks to the sharing of fixed costs, such as the network use, administration, marketing or advertisements. Size also affects other important aspects, like the capacity to negotiate with technology providers and financial institutions. Then, it is not surprising that only companies from the wireless phone sector participated in the bid for AT&T Wireless. Their aim is to add new users to their client base as quickly as possible.

In this way a consolidation process is taking place, not only in the USA but also in the other two big economic areas. In Europe, for instance, Vodafone has bought British Airtouch and Spanish Airtel. For their part, the Italian TIM, T-Mobile and Telefónica Móviles agreed to a pan European deal to compete against Vodafone, the leading worldwide wireless operator.

However, scale economies can’t be applied forever. When a company achieves a certain size, marginal profits derived from this kind of economies are not significant any more. Capacity to negotiate has a limit and, when it reaches a certain point, providers can’t reduce their margins further. Moreover, huge global companies, albeit with local strategies, cannot but assume fixed costs in each country they operate in.

So, among telecommunications behemoths, consolidation profits come from reducing the number of rivals and increasing the level of users locked in rather than from size. Can the new Cingular do it? The opportunities are there, but technological and management challenges are not trouble-free.