

Cingular/AT&T Wireless Deal Will Trigger More Consolidation

William Clark, Phillip Redman, Tole J. Hart, Michael J. King, Nick Jones

Cingular Wireless' win in the bidding war for AT&T Wireless will reshape the U.S. wireless service provider market and ultimately produce better coverage and rates.

NEWS ANALYSIS

Event

On 17 February 2004, Cingular Wireless announced an agreement to acquire AT&T Wireless for \$15 per share, or \$41 billion. The combined company would have 46 million customers and a combined 2003 revenue of more than \$32 billion.

Analysis

Gartner believes that this acquisition, which the Federal Communications Commission is likely to approve, signals the start of increasing wireline and wireless carrier consolidation through 2008.

We expect that the next likely merger will be of Sprint PCS and Nextel Communications. Nextel offers an attractive enterprise customer base, but lacks global scale for its iDEN technology and capital for its third-generation buildout. T-Mobile stands to be the most isolated of the remaining wireless providers. Cingular could drop its roaming relationships with T-Mobile, jeopardizing T-Mobile's position as the only other national Global System for Mobile Communications (GSM) provider in the United States.

The acquisition also highlights a trend toward regionalism as wireline carriers guard their subscriber bases in anticipation of wireline-to-wireless migration. Vodafone, owner of a 45 percent stake in Verizon Wireless, has likely missed its last major chance to showcase its GSM technology in one of the world's most important markets. NTT DoCoMo's diluted stake in the venture and lack of success in transplanting its i-mode technology lessens its influence in the United States.

The new company faces several short-term challenges, which will be of particular concern to enterprises. Gartner expects that debt accumulated from the acquisition will force an initial public offering by the combined entity by mid-2005, and that operational efficiencies and major changes to business and consumer offerings won't take effect until 2Q06. Cingular must reconcile its offerings if it plans to take advantage of AT&T Wireless' expertise with business customers and in mobile data. Enterprises deploying BlackBerry devices must ensure that support is contracted through Research In Motion (RIM), rather than Cingular or AT&T Wireless, and negotiate grace periods in billing cycles during the transition.

Cingular and AT&T Wireless customers should expect some delays in coverage and service issues during the merge of operations. But they should also expect overall better coverage by mid-2005 and 5 percent to 10 percent annual price reductions in mobile voice services through 2007. Other carriers, particularly Verizon Wireless, will likely pick up subscribers, as Cingular and AT&T Wireless form a new management and operational structure.

Analytical Sources: William Clark, Phillip Redman, Tole Hart, Michael King and Nick Jones

Recommended Reading and Related Research

- "AT&T Wireless Buyer Remains Uncertain" — Gartner predicted that Cingular Wireless or Vodafone was the most likely to buy AT&T Wireless. **By Tole Hart and Phillip Redman**
- "Magic Quadrant for U.S. Wireless Service Providers, 2003" — Gartner evaluates the strengths and challenges of U.S. wireless service providers. **By Phillip Redman, William Clark, Tole Hart, Michael King**

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REGIONAL HEADQUARTERS

Corporate Headquarters
56 Top Gallant Road
Stamford, CT 06902-7700
U.S.A.
+1 203 964 0096

European Headquarters
Tamesis
The Glanty
Egham
Surrey, TW20 9AW
UNITED KINGDOM
+44 1784 431611

Asia/Pacific Headquarters
Level 7, 40 Miller Street
North Sydney
New South Wales 2060
AUSTRALIA
+61 2 9459 4600

Latin America Headquarters
Av. das Nações Unidas 12.551
9 andar—WTC
04578-903 São Paulo SP
BRAZIL
+55 11 3443 1509