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## Why Is T-Mobile Losing Customers?

ARTICLE DATE: 02.25.11

By Peter Pachal

T-Mobile reported its earnings for the previous quarter early this morning, and the dump of information included one, somewhat troubling statistic: the cellphone carrier actually lost customers last fall—the only one of the four major providers to do so. Why are T-Mobile's customers seemingly in such a hurry to ditch the service?

"It's a lot of different things adding up," says Sascha Segan, PCMag's senior mobile analyst. "There's still a consumer perception that T-Mobile was late to 3G and doesn't have as much coverage as other carriers. The company is also 'stuck in the middle,' getting crunched from above by AT&T and Verizon's economies of scale and from below by Cricket and MetroPCS."

In an absolute sense, the number of customers lost wasn't huge: Last quarter T-Mobile's net customer losses were 23,000, compared with a total customer base of 33.73 million. However, looking at contract customers only—the ones signing those coveted two-year agreements—the net loss was 318,000. Officially, the company attributes the losses to customers shifting away from contracts to prepaid plans, a discontinued promotion ("kids are free"), and "competitive intensity."

The company acknowledged the problem during its U.S. Investor Day last month. In a presentation on the company's strategy for the coming year, T-Mobile acknowledged it hadn't solved "churn," or the attrition rate of subscribers, which was 2.5 percent last quarter and has hovered around 2.3 percent for the past two years. By comparison, Verizon's churn rate last quarter was 1.34 percent.

The company also laid out a multiple-point plan for reducing churn, which includes "going big" with Android to fight the iPhone, improving its customer risk management to fight fraud, and aggressively marketing its 4G network and Wi-Fi calling to ward off any network criticisms. Will any of it help?

"I think their marketing is pretty good," says John Ruf, managing partner at New England Consulting Group, which does work for the cellphone industry. "It hits smartphones and 4G, and they've been growing their smartphone business, which has been a real plus. But I don't think it helps the rest of their business."

Ruf's right that T-Mobile has been growing its smartphone customers—it added over a million in the fourth quarter. But smartphone owners account for just 24 percent of T-Mobile's customers. Clearly, much of its business still relies on lower-end services such as feature phones and prepaid plans, and that part of the economy hasn't been faring so well.

"T-Mobile was also hit particularly hard by the recession because its economically lower-tier customers were more likely to have credit problems," says Segan. "And the company's marketing wasn't well-coordinated nationally."

Ruf agrees, though he also sees the competition from other providers, with more attractive devices, as greater than ever.

"Historically churn has been driven by customer service and plans, but now I think it's driven more by all the new phones that are coming out," he says. "The competition is intensifying because of the [Verizon] iPhone. That's going to hurt them going forward."

It wasn't all bad news for T-Mobile, though; the company's average revenue per customer grew over 25 percent from the previous year, the largest year-over-year increase among the major providers. The jump seems to indicate that T-Mobile's overall strategy is working: to transition itself from a lower-tier, value-based company to a higher-positioned carrier with a respectable network and attractive smartphones. But the downside could be fewer customers overall.

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