

Large Companies are Against the Public Interest

A letter to the FCC to disapprove AT&T to acquire T-Mobile

by Eric A. Johnson, Concerned Citizen, Engineer at T-Mobile, Bothell, WA, May 2011

Large companies are against the public interest because they are less efficient in their operations, innovations, and distributions. Larger mergers allow companies to buy size instead of earning it in the marketplace. I encourage you to disapprove AT&T to acquire T-Mobile.

Limiting the size of companies can limit the damage created if they make poor decisions. There will be no need for the government to bail them out because they are “too big to fail.” Large pools of investors and retirees will not be wiped out because companies doctored their financial results. They will not have the power to influence policies favorable to them; A smaller auto industry could not lobby so effectively against more fuel efficient vehicle standards; A smaller oil industry could not be so intertwined with regulators to create lax oversight and have a company like BP perpetrate a massive oil spill in the Gulf of Mexico. We are well on our way toward the consolidation of industry that occurred in the early 1900’s when corporate abuses incensed the public enough to demand intervention. I encourage you to stop this trend instead of repeating history.

Limited the size of companies is necessary to minimize their market dominance over potentially superior companies. Strength does not equal ingenuity. Market power allows companies to sit on any innovations that that have, if these ideas can even make it through their large bureaucracies.

The government in recent years has been unsuccessful in prosecuting the monopolistic practices of American Airlines, Intel, and Microsoft in their industries. At least these companies earned their dominance instead of buying it through a merger. The most effective tool to prevent market dominance is to deny large mergers.

The AT&T application states that a bigger company will create “synergies” and “efficiencies” but it does not provide any evidence. AT&T has gone through dozens of mergers in the last decades, so they should have ample evidence on how much more efficient then have become over the years. I urge you to ask them explain how their past acquisitions have created these synergies:

- What is the expected economy of scale? What percentage of fixed costs will be reduced by removing duplicate departments and duplicate network equipment?
- What is the EBITA before and after? How long did it take to absorb the costs of the acquisition to become profitable again?
- What is the operational efficiency before and after? What is the number of employees per EBITA? What is the number of employees per cell site? How many customer service representatives per customer? What is the customer churn before and after?
- What innovations occurred before and after? What significant network upgrades occurred before and after? How did the handset lineup change? What benefits in

the culture did the acquiring company see, and how much did the acquiring company culture change to benefit from this better business practice?

- How was the customer satisfaction score before and after? What were the results of JD Powers and Nielson before and after? What is the customer cost per minute and cost per MB before and after?
- How do the benefit packages for employees compare before and after the mergers? How much is paid to healthcare benefits before and after? What is the company expense for benefits per employee before and after?

The AT&T application for approval speaks frequently about their need for additional spectrum, and T-Mobile's lack of spectrum to migrate to LTE. The efficiencies gained by the combination of spectrum will be minimal compared to the efficiencies lost by creating an even larger company. I urge you to press them for more information: What will the combination of spectrum allow each company to do that they could not otherwise do independently? What were their plans for spectrum without a merger?

If AT&T and T-Mobile merge, then it would be unfair to prevent Verizon and Sprint from merging, and then there would not be enough competition for lower prices. T-Mobile has always had the best value and the best customer service, so the merger eliminates this option for consumers.

The following describes some data showing that large companies are less efficient in their operations.

Less Efficient in Operations

Fortune magazine published a feature story surveying corporate strategies; observing the **high costs of complexity inherent in excessive organizational size**. [1, p. 29].

The *Wall Street Journal* reported in a front-page story that “**small manufacturers display the nimbleness** the times require.” [1, p. 29].

Some advantages of these economies, to be sure, reflect **advantages in bargaining power**; however profitable they may be for an individual firm, then do not benefit the community at large. [1, p. 30].

Measuring productivity by the number of workers per vehicle produced, GM in the late 1990s (excluding the strike year 1998) was 6 percent less productive than Chrysler and 13 percent less productive than Ford. **GM, Ford, and Chrysler, in turn, were 24-38 percent less productive** than North American transplant product facilities operated by Honda, Toyota, and Nissan. [1, p. 32].

Two decades of reorganizational programs at GM, for example, have **cost the firm tens of billions of dollars**, while rendering it even less productive in important ways. [1, p. 33].

Market power, not production efficiency, seems to have been the primary purpose of the U.S. Steel combine. [1, p. 35].

[Following a large consolidation of the steel industry in the early 1900's] production and cost standards generally fell below those considered everyday practice in other industries; with inadequate knowledge of its domestic markets and no clear appreciation of opportunities in foreign markets; with **less efficient production facilities than its rivals** had ... the corporation was apparently a follower, not a leader, in industrial efficiency. [1, p. 36].

The minimills flourished during the 1970s and the 1980s—years when America's steel giants were incapacitated by imports and continuously please for government protection from foreign competition. The minimills' superior operating efficiency enabled them to win expanding shares of the steel market, from foreign steel producers and well as from America's steel giants ... By 1980, U.S. minimills were producing wire rod at a cost **28 percent less than that incurred by larger, integrated U.S. steel firms**; by 1990, American minimills were producing cold-rolled steel sheets at a cost 29 percent less than that of the biggest integrated U.S. Steel firms (\$285 per ton versus \$400 per ton)—and 30 percent lower than the largest integrated Japanese steel concerns! The minimills' costs were low, not because they paid third world wages, but because their smaller size enabled them to utilize their labor far more productively. By the early 1980s, for example, **a steel bar was being produced, on average, by 30 employees at one minimill form, in contrast to the 130 workers needed by big still companies to produce the same product.** By the early 1990s, Nucor's state-of-the-art Indiana plant was producing steel sheets in less than an hour—sheets that took as much as a week to produce at Big Steel's most efficient plan—and by some estimates was **six times more efficient** than Japanese steel producers. In fact the superior efficiency and labor productivity of the minimills has enabled them to **pay workers wages higher** than those paid steelworkers abroad, yet enjoy **lower average labor costs per ton** compared with their foreign counterparts. [1, p. 37]

Minimills were intimately familiar with their customer's needs ... avoided bloated staffs ... **cannot afford extravagant executive dining rooms** and company lodges. [1, p. 38].

Reductions in firm size have dramatically improved Big Steel's operating efficiency and productivity. At the U.S. Steel Corporation, for example, labor productivity jumped from 118 percent 1960 and 1990 (from 121 tons to 264 tons per employee), and skyrocketed another 143 percent over the 1990-1999 decade (reaching 642 tons per employee by 1999) ... Smaller clearly is better when it comes to operating efficiency and global competitiveness in steelmaking. [1, p. 40].

Large conglomerates, it was claimed, were able to unclench the miracles of “synergy” ... its imagined benefits extended to revitalization of sluggish companies and industries; improvement in managerial efficiency ... the giant conglomerates ran aground on the reefs of “reverse synergy”—the old math, **whereby two plus two more often equals three once bureaucratic complexities are factored into the equation.** [1, p. 42]

In six of the twenty industries the **cost advantages of multi-plant firms were either negligible or totally absent**; in another six, the advantages were perceptible but fairly small; and in the remaining eight industries, no estimates of advantages could even be obtained. [1, p. 44].

A disturbingly large proportion of acquisitions continue to destroy shareholder value rather than create it with an estimated failure rate of 60 percent. A study of large transnational mergers and acquisitions by KPMG found that **83% of mergers were unsuccessful in producing any business benefits as regards to shareholder value ...** the British *Economist* observes that, “the real disappointment about mergers is that, on average, they do not result in higher profits or greater efficiency; indeed, they often damage these things.” And in a devastating survey finding merger failure rates of 60-80 percent—either because the **merged entities fail to deliver hoped-for “synergies”** through cost reductions, or because they underperform stock market trends more generally—*Barron’s* concludes that “buying a company is one of the most dangerous things a chief executive can do.” [1, p. 45].

Large companies are less innovative:

In 1939, the Federal Trade Commission cited AT&T for sitting on such read-for-market innovations as automatic dialing, office switchboards, and new handsets ... for a while RCA was extremely innovative. The company introduced the first color television in 1939 and pioneered the video-guided bomb during World War II. Like AT&T, however, **RCA tended to sit on technologies, not least because it enjoyed such an immense advantage in market** over any potential rival. [2, p. 171].

The monopolies undertook real innovation only after the government used its antitrust powers to create new rivals. [2, p. 172].

For five straight years, Illinois Tool Works, Eaton, C.R. Bard, and Parker Hannifin have each invested **substantially less in R&D than their industry peers—56% less on average.** Yet from 2000 to 2005 they consistently exceeded their competitors in seven critical performance measures—sales growth, gross margin percentage, gross profit growth, operating margin percentage, operation income growth, total shareholder returns, and market capitalization growth. In other words, they are charging more for less. [2, p. 173].

Anti-trust history

The newly appointed Clinton officials promised to restore the federal government’s presence [in antitrust prosecution] by bring more intervention-minded “post-Chicago” economic concepts to bear upon dominant firm exclusionary behavior. The fruits of the Clinton program became front-page news when the government brought monopolization or attempted monopolization cases against such commercial giants as American Airlines, Intel, and Microsoft. American Airlines obtained a summary judgment ... the FTC settled

with the Intel matter on terms of disputed significance ... **the case against Microsoft fell short of its remedial goal—break up.** [3, iv].

To many Americans, the resulting industrial upheaval endangered democratic institutions and threatened intolerable social and political corporate hegemony. In 1887, legal scholar Frederic Jesup Stimson warned, “American ingenuity has invested a legal machine which may swallow a hundred corporations or a hundred thousands individuals; and then, when all the corporate irresponsibility, their united power be stored, like a dynamo, in portable compass, and wielded by one or two men. Not even amenable to the restraints of corporation law, **these ‘trusts’ may realized the Satanic ambition,--infinite and irresponsible power free of check or conscience.**” [3, p. 19]

A second basis for challenging the trusts dealt with their methods for subduing rivals, such as **predatory pricing** [3, p. 19]

Investors were defrauded by watered stocks; workers were discarded as worn-out tools by indiscriminate and harsh plant closings. [3, p. 20].

Woodrow Wilson said: “If the government is to tell big business men how to run their business, then don’t you see that **big business men have to get closer to the government even than they are now?** Don’t you see that they must capture the government, in order not to be restrained too much by it?” [3, p. 34].

The Conference Committee Report on the Clayton Act and FTC Act warned that “**it is impossible to frame definitions which embrace all unfair practices. There is no limit to human inventiveness in this field.**” A growing consensus, therefore, favored a statute of containing a general condemnation of undesirable trade practices, especially for its capacity to respond flexible to changing conditions and business techniques. Owing to concern that Standard Oil’s rule of reason betrayed judicial hostility to antitrust enforcement, Congress decided to entrust an administrative agency with enforcement responsibilities, i.e. the FTC. [3, p. 35].

References

[1] Walter Adams and James W. Brock, "The Bigness Complex: Industry, Labor, and Government in the American Economy." Stanford Economics and Finance, Stanford University Press, CA, 2004.

[2] Barry C. Lynn, "Cornered: The New Monopoly Capitalism and the Economics of Destruction." John Wiley & Sons, NJ, 2010.

[3] Ernest Gellhorn, William E. Kovacic, and Stephen Calkins, "Antitrust Law and Economics in a Nutshell." Thomson West, St Paul, MN, 1994.

Mergers in Wireless Communications

AT&T (formerly Cingular and SBC) is a conglomeration of over 100 companies, but the most important or most recent mergers are as follows:

- AT&T acquiring Centennial in 2008 for \$1B
- AT&T acquiring Dobson Communications in 2007 for \$5B
- Cingular acquiring AT&T Wireless in 2004 for \$41B
- SBC acquiring Ameritech in 1999 for \$63B
- AT&T Wireless acquiring McCaw Cellular in 1994 for \$11B
- AT&T Wireless acquiring Suncom in 2002

T-Mobile USA (formerly Voicestream, Western Wireless, and Pacific Northwest Cellular):

- T-Mobile USA acquiring Suncom in 2007 for \$2.4B
- Deutsche Telekom acquiring Voicestream and Powertel in 2001 for \$35B and calling it T-Mobile USA.
- Voicestream acquiring Aerial and Omnipoint in 1999
- Pacific Northwest Cellular acquiring General Cellular in 1994 and renamed as Western Wireless (with brand name Cellular One) and other division Voicestream created that was spun off in 1999.

Sprint Nextel

- Sprint WiMAX acquiring Clearwire in 2008 and calling it Clear with Sprint in majority ownership
- Sprint acquiring Nextel in 2005 for \$6B

Other acquisitions in wireless communications:

- Vodafone Airtouch acquiring Mannesmann in 1999 for \$183B
- Bell Atlantic acquiring GTE in 1998 for \$53B
- Qwest acquiring US West in 1999 for \$48B