

# Atandt cingular wireless marketing study

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## AT&T/Cingular Wireless Marketing Study

### Executive summary

Since the advent of wireless phone service, Cingular Wireless emerged six years ago as one of several premier providers of cellular phone service. The current company emerged as an industry leader after a series of buyouts and back and forth mergers with AT&T, among others. Cingular Wireless is currently owned by AT&T and operating under this brand name. Through its various incarnations and series of confusing mergers, the marketing strategies used to keep the public informed and first retain, then increase, marketing share will be examined for impact and effectiveness.

### 1. Introduction:

Cingular Wireless began in 2001 as the merger of Bell South and Southwestern Bell telephone service providers with AT&T as parent company (Wirefly). Although AT&T carried the most familiar brand name, a new brand, Cingular, was developed to highlight new technology and services to customers of the old AT&T company who were more used to land line service and were likely to remember the demise of the old Bell telephone service providers and the “Ma Bell” monopoly which was divided by anti-trust laws in 1984 while AT&T kept their own wireless service under the AT&T name. In 2004 AT&T Wireless merged with Cingular and the moniker of Cingular was retained to identify the new company’s wireless services.

In a series of moves to take over the wireless service provider market, AT&T as parent company merged with SBC. SBC, a telecommunications company, was half owner of Cingular Wireless, along with Bell South, consequently

allowing AT&T half interest through its acquisition. In 2006 when AT&T bought out Bell South, all the telecommunications and brands came under the AT&T umbrella. Finally, this year AT&T retired the brand name of Cingular, using their own name on all cellular phone products and services to strengthen branding (Wirefly).

With the acquisition of SBC, AT&T acquired an existing Internet Protocol network, voice over IP services and combined them with AT&T's Callvantage technology (Wirefly). AT&T also own the rights to yellowpages. com, the leading Internet network for business listings. Currently AT&T is now the America's largest cellular phone company serving more than 63 million subscribers (ATT. com) with the vision statement " To be the most highly regarded wireless company in the world, with a driving focus around best-in-class sales and service".

### 3. Market

Cingular Wireless began its marketing efforts aimed at the personal consumer, teenagers and families in particular. They strongly touted their hands-free technology in 2001 as a way to make " holiday travelers safe" while on the road (Cingular news archive). AT&T, conversely, was wooing business, government and wholesale customers during this period based on the strength of their reputation and brand name.

Currently AT&T/Cingular offers high speed Internet access, WiFi connectivity, home and small business networking, wireless services, satellite television and AT&T Homezone and U-Verse (bundled packaging) in addition to their cellular services with voice messaging in an effort to capture both personal

and business consumers. The company's primary markets are designated geographically with the most intense concentrations in: Alabama, Arkansas, California, Connecticut, Florida, Georgia, Illinois, Indiana, Kansas, Kentucky, Louisiana, Michigan, Mississippi, Missouri, Nevada, North Carolina, Ohio, Oklahoma, South Carolina, Tennessee, Texas and Wisconsin.

#### Size and growth of market

Towards the end of 2001 when Cingular first began doing business, the company claimed to be the second largest wireless carrier (out of seven major carriers) with the highest satisfaction ratings amongst their customers in four of their five largest markets, which numbered 21.3 million. For the current year, AT&T claims a subscribership of over 63 million cell phone users. Their network extends over the 100 largest United States markets in 22 states and 273 million people within. International coverage extends over six continents and 190 countries, with wireless data roaming in over 120 countries for laptops, PDAs, and other data services. Among its subscribers, AT&T claims to serve 95 percent of the Fortune 100 companies and counts more than 80 percent of the Fortune 500 and more than 1200 federal, state, and local government agencies as customers (ATT.com). The resurgence of its business clientele is attributed to its global, wholesale offerings portfolio. AT&T is also targeting government agencies including military and national security agencies by offering integrated portfolios.

Most of the growth in customer base is due to the company mergers which have shaped the existing corporation. Cingular relied heavily on AT&T's already broad customer base when it was first bought out and the company

has come full circle with a complete return to the AT&T brand and the phase-out of the Cingular name.

#### 4. Environmental Impact

The socioeconomic impact of the AT&T/Cingular merger extends to the regions served as well as the headquarters locales of the four companies: SBC, Bellsouth, AT&T and Cingular. The growth of the combined companies means a favorable environment for expansion in each of these markets as well as creating a strong competitive force. The company has 301, 840 employees globally with many of those disabled and/or minorities. The expected weeding out of redundant positions has not been a significant negative economic factor thus far.

Since AT&T/Cingular merged and captured the largest share of the cellular services market, prices are coming down for all products and services in the telecommunications industry and this trend is expected to continue. While competitors are fewer, demand is higher and consumers are expecting more for their dollar.

Environmentally, Cingular's GPS (global positioning system) technology has been credited by many major U. S. cities (i. e. San Diego) as reducing the impact of their service vehicles on the environment by providing wireless tracking capabilities, making for a more efficient routing system that cuts down on fuel consumption and effects on air quality. Opponents of the wireless provider companies claim that cellular towers are a hazard to local wildlife and particularly certain species of endangered birds.

In October, 2004, an anti-trust case was brought against AT&T and Cingular Wireless by the United States Department of Justice for violating anti-trust laws and the company was ordered to divest itself of assets in 11 states due to the results of a competitive impact survey. Every time a merger and/or buyout has taken place murmurs of violations against the Clayton Act are rampant but AT&T/Cingular has so far succeeded in keeping the majority of their market share without substantive damage.

## 6. Competition in Market

With the merger of AT&T Wireless and Cingular Wireless, four additional companies are seen as major players left on the field of wireless service providers: Alltel, Sprint, T-Mobile, Verizon. According to an August, 2007 report by Gartner Research, AT&T and Verizon Wireless are the two emergent leaders capturing the majority of wireless enterprise service market share with Sprint nipping at their heels. A handful of niche players are available to provide services in local, rural markets. Read about FHP wireless

The strongest growth in data revenues for the first quarter, 2007, came from Verizon with a jump of 83% over the last quarter of 2006 with the Sprint being the leader in overall data revenue followed by AT&T and T-Mobile. All experienced double digit percentage growth with the exception of Sprint. One and a half million subscribers is the narrowing distance between AT&T market share and Verizon's slightly smaller presence.

Please refer to Appendix A, B and C for further market share, revenue and revenue share statistics for wireless service providers from the first quarter of 2007 courtesy of Chetan Sharma Consulting.

## 7. Promotion Techniques

After AT&T's buyout of Cingular, the company decided to keep the AT&T name and scrap the Cingular moniker. Executives also realized that the mergers and acquisitions between companies for the preceding six years were confusing to the general public and needed to rectify this situation by applying a single brand and logo. To this effect, AT&T began a campaign which lasted several months in January of this year with the slogan: "Cingular Wireless is the New AT&T." After inundating customers with this message, the Cingular name was completely removed and all stores, packaging and advertising reformatted with the AT&T logo and name only.

At roughly the same time, the company launched the "Cingular Sounds Valentines Day Gift Ringtone" promotion whereby customers could enter a simple key word and send one of 66 ring tones to a loved one of their choice. The promotion was successful in part due to the advanced technology used to inform the giver of the status of delivery of the ring tone as well as a sophisticated billing system.

By far the most successful promotional campaign for AT&T/Cingular was the agreement with Apple for exclusive rights to distribute the iPhone with an expiration date of the contract in 2009. Launched at the end of June, 2007, the iPhone was offered for either \$499 or \$599 depending on capacity and required a two-year service agreement with AT&T. Due to its overwhelming success and many instances of selling out of the iPhone, the price was reduced by \$200 by Apple, angering customers who had bought the earlier, more expensive models. AT&T created its own customer dissatisfaction by requiring a conversion from an old AT&T family calling plan and activation of a <https://assignbuster.com/attcingular-wireless-marketing-study/>

new service contract. AT&T is struggling to convert customers on their old family plan to the new one with an expected completion of March, 2008 (Blackfriars, 2007).

#### 8. Methods for distribution

AT&T/Cingular has a large marketing presence in cellular phone service provider outlets - contracted as well as owned, in conjunction with Apple retailers for the iPhone and a strong web presence with Internet browsers directed to ATT. com from both Cingular and AT&T searches. Retail stores are also able to sell business broadband Internet services.

To provide the most comprehensive Internet services, AT&T is attempting to move into local access markets with no previous telecommunications heritage. AT&T has not achieved much success in moving into metropolitan markets with access dominated by other wireless carriers.

#### 9. Pricing methodology

AT&T/Cingular offers two tiers of pricing: personal and wholesale. AT&T rolled out the launch of the GoPhone, pay-as-you-go service in June of this year. Their strength of their pricing strategy is in their bundled packages, which offer a discount if the customer signs up for more than one service, such as Internet access and wireless phone service.

#### 10. Financials

The following financial information was extracted from the ATT. net's Investors Relations web page. The second quarter of 2007 is the latest



financial postings available. The official news release states that the company enjoyed its ninth straight quarter of double digit growth:

Wireless service revenues grew 14.9 percent versus the year-earlier quarter to \$9.5 billion. Total wireless revenues, which in addition to services include revenues from sales of handsets and accessories, were up 12.7 percent to \$10.4 billion. This marked AT&T's fourth consecutive quarter of improved growth rates in wireless revenues.

Wireless data revenues increased 66.9 percent versus the year-earlier quarter to \$1.7 billion - driven by strong increases in both consumer and business data usage including messaging, downloads, media bundles, laptop connectivity, smart phone connectivity and enterprise vertical market solutions. At the end of second quarter, AT; T's wireless operations had nearly 37 million active data users, up 39 percent over the past year. During the quarter, these customers sent 277 million multimedia messages and nearly 18 billion text messages, with both volumes more than double totals in the year-earlier second quarter.

Boosted by strong data growth, AT&T's wireless service ARPU posted its best year-over-year growth in several years. Total service ARPU in the second quarter was \$50.63, up 3.6 percent. Postpaid ARPU growth was even stronger, up approximately 6 percent.

AT&T posted a second-quarter net gain in wireless subscribers of 1.5 million to reach 63.7 million in service, up 6.4 million over the past year. Net adds were up more than 22 percent versus AT&T's gain in the first quarter of this year and in line with results in the year-earlier second quarter. Postpaid net

adds totaled 912, 000, up more than 34 percent from results in the first quarter of this year.

Sales of the Apple iPhone have been robust. The June 29 launch allowed for less than two days of sales and activations before the end of the quarter. In that time, AT&T activated 146, 000 iPhone subscribers, more than 40 percent of them new subscribers. Sales of the iPhone continue to be strong in July with store traffic above historical levels.

Strong network coverage and attractive handset selection contributed to further improvements in subscriber churn in the second quarter. Average monthly subscriber churn for AT&T's postpaid wireless customer base was 1. 2 percent, down from 1. 5 percent in the year-earlier quarter and 1. 3 percent in the first quarter of 2007. Total churn, including prepaid and reseller results, was 1. 6 percent, down from 1. 7 percent in the year-earlier quarter and in the first quarter of 2007.

AT; T posted strong growth in wireless operating income in the second quarter, driven by revenue gains, strong execution of merger initiatives and continuing operational improvements. On a reported basis, second-quarter wireless operating expenses totaled \$8. 8 billion, up 7. 1 percent versus the year-earlier quarter, and operating income was \$1. 6 billion, up 57. 7 percent from \$1. 0 billion in the second quarter of 2006. Before merger-related costs, second-quarter wireless operating expenses totaled \$7. 8 billion, up 1. 3 percent versus the year-earlier quarter, and operating income was \$2. 6 billion, up 70. 6 percent from \$1. 5 billion in the second quarter of 2006.

AT; T's reported wireless operating income margin for the second quarter was 15.4 percent, up from 11.0 percent in the year-earlier quarter. Before merger-related costs, AT&T's wireless operating income margin was 24.9 percent, up from 16.4 percent in the second quarter of 2006.

AT&T's unadjusted second-quarter wireless OIBDA service margin was 35.8 percent, up from 31.6 percent in the year-earlier quarter. Before merger-related costs, AT; T's wireless OIBDA service margin was 37.5 percent, up from 32.6 percent for the year-earlier quarter. From first-quarter 2007 levels, OIBDA service margins declined 170 basis points on an unadjusted basis and 140 basis points before merger-related costs, reflecting increased customer acquisition costs, including handset discounts and a higher percentage of advanced handsets in the sales mix, and costs required to prepare for the June 29 launch of the Apple iPhone. For the full year 2008, AT&T expects to achieve an average adjusted wireless OIBDA service margin in the low 40 percent range. (OIBDA service margin is operating income before depreciation and amortization, divided by total service revenues.)

According to Randall Stephensen, AT&T chairman and chief executive officer, "AT&T has a strong foundation for growth in wireless and IP-based services, and in the second quarter we improved our trajectory in key areas. Wireless revenue growth accelerated for the fourth consecutive quarter."

For further financial specifics, please refer to Appendix D.

#### 11. Analysis of marketing strengths and weaknesses

AT&T enjoys the benefit of a well known name and brand which it has attached to its Cingular wireless phone services. One of the greatest

weaknesses in AT&T's market strategies was the decision to buy out Cingular years ago but continue with the lesser known brand name. With years of buyouts and mergers, the general public is generally confused as to what company offers what services. Realizing its mistake, AT&T decided at the beginning of this year to dispose of the Cingular brand and name altogether.

While this has helped the company's brand strength it has potentially hurt its market positioning. Many customers still think of Cingular first when it comes to companies providing wireless access while AT&T is associated with land lines and business services. It will take a strong marketing campaign to overcome these expectations and access a new customer base to stay competitive with the other carriers.

The company's marketing strength comes from its price points and bundled packages. While it is seen as a positive attribute to some consumers, others may find themselves associating the only services available from AT&T are bundles and be unaware of standalone wireless plans as well as the new pay-as-you-go cellular plan.

Customer service ratings, previously discussed, are a very big positive in today's dog-eat-dog retail selling environment and these should become the focus of a new advertising campaign. Maintaining a user-friendly web site as well as continuing the standards of telephone customer service and support previously set are paramount to the AT&T/Cingular's success.

## 12. Recommendations.

Future marketing needs to focus on customer awareness of the various cellular service plans offered under the umbrella of AT&T/Cingular. Based on

the strength of the AT&T name and reputation, all references to Cingular should be mere pointers to the appropriate AT&T product. Although AT&T is a much more recognizable brand than the other wireless service providers, the demise of Cingular needs to be total.

AT&T would be wise to continue filing with the FCC and demand entrance into markets previously closed, particularly in major metropolitan areas. Their strongest competitor, Verizon Wireless, is best known for its large network and accessibility in the most physical locations in the U. S. To be able to retain their position on the top of the wireless carriers pyramid, AT&T/Cingular will have to show a stronger presence in markets across the country.

Further inroads into the wholesale market are highly recommended. Through government organization and small business contracts, the share of AT&T/Cingular's wireless market should continue to increase, as it will need to do to stay ahead of competitor Verizon. Additional outlays to the marketing and promotions department should be focused on the wholesale segment.

With rebranding of Cingular to AT&T complete, the company still needs to focus on AT&T branded education to potential customers. Advertising campaigns would benefit from a complete revamp and begin to target a younger demographic, particularly with the addition of their iPhone offerings.

AT&T/Cingular is poised to take over the wireless service provider market, leaving its competitors behind, and with proper leadership in the marketing department should continue to grow its market share.

Appendix A: Wireless Carrier Revenues First Quarter 2007

Appendix B: Revenue Share of Wireless Carriers, First Quarter 2007

Appendix: Wireless Carrier Market Share, First Quarter 2007

Appendix D: AT&T Wireless Combined Statement of Income

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