The AT&T and T-Mobile Merger

Is this an opportunity for the tech industry's next generation?

On August 31, the Department of Justice (DOJ) took an official position on the proposed $39 billion merger between wireless giants AT&T and T-Mobile USA by filing a lawsuit in federal district court to stop the transaction. In short, the DOJ claims the proposed merger would harm consumers. Not surprisingly, the DOJ's primary focus is on the lack of competitive pricing that could result in the wireless market if AT&T were able to rid itself of T-Mobile, which has consistently worked to characterize itself as a low-cost service provider. But a secondary issue in the debate is receiving some attention and should be of much greater interest to the entrepreneurial community. That issue is the impact of the merger on future technological innovation in the wireless industry.

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The DOJ's position is that combining these two wireless giants will remove incentives within the resulting organization to invest in innovation. In its complaint, the DOJ specifically alleges that the transaction would result in "less product variety and innovation." The rationale is that the surviving company, the new AT&T, will have fewer rivals in the marketplace and, therefore, will not feel the pressure to constantly be coming up with the next new product or service.

But even if it were true, would that really chill innovation of the underlying technological innovation in the industry? Or would it just chill the economic incentive of that single, resulting entity to innovate, thereby opening the field to a greater number of young, entrepreneurial companies with the talent and vision to step in and make that next great technological innovation? Given the traditional growth of tech industries through innovation from small startup companies, why does the DOJ believe that the only source for innovation of new technology in the wireless industry is from companies at the very top of the market? Clearly, innovative restructuring of existing network coverage will most likely come from those companies and carriers large enough to compete on a national scale. But the underlying technology that will be the basis for the next great innovation in this industry is just as likely—if not more likely—to come from a small startup company as from one of the market leaders. Empirically, more often than not, true innovation in tech fields has come from the smaller visionaries and entrepreneurs, while the market behemoths have focused on refining and producing more efficient and inexpensive products and services already on the market.

Therefore, it is worth considering whether this proposed merger would actually have any substantial effect on true technological innovation in the wireless industry because whatever incentive for innovation is lost by AT&T after it acquires one of its primary competitors will be picked up by the hundreds and hundreds of existing young companies in this market. In that sense, the merger would actually provide these young technology companies with an opportunity to contribute and succeed where one might not have existed before.

Obviously, the DOJ's primary concern is pricing, and it has strong arguments. Nevertheless, it continues to pay lip service to the impact the proposed merger might have on innovation in the wireless industry. But the DOJ, as well as the outspoken critics of the transaction, are not really talking about technological innovation in the industry; they are talking about technological innovation at the new AT&T. In its review and its arguments, it would behoove the DOJ to at least consider the notion that the new AT&T's presumed loss of innovative edge might just be an opening and opportunity for the next generation of small technology companies.

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