Apple iPhone Offers Little Growth to AT&T

AT&T remains the king of the iPhone, but that distinction means less with each passing quarter.

The Dallas telecommunications giant sold 4.3 million iPhones in the first quarter, more than 1 million more than Verizon Wireless, and almost certainly more than Sprint Nextel, which sold 1.8 million in the fourth quarter at the height of the iPhone 4S buzz.

So why did AT&T only add a fraction of the contract customers that Verizon nabbed in the same period?

The results highlight an increasingly alarming trend with the wireless carriers: the decreasing benefit that the iPhone brings to customer growth. With the iPhone on virtually every carrier in the country -- including small regional ones -- it no longer has the cachet of being a hard-to-get exclusive device. Instead, it's become the minimal offering every carrier needs just to compete, a disturbing turn considering the high cost of its subsidy.
The iPhone is a hot seller, but that doesn't mean it's a growth driver for the industry. (Credit: CNET)

"Most iPhone sales go to existing subscribers, so it isn't a good proxy for growth," said Craig Moffett, an analyst for Sanford Bernstein.

In fact, despite selling more iPhones in the period, AT&T actually added fewer new customers than Verizon. Kevin Smithen, an analyst at Macquarie Securities, estimated that Verizon added 2.5 million new iPhone subscribers in the period, while AT&T just added 903,000 (AT&T said it's closer to 1 million).

"We view margins as unsustainable and (expect) share losses to Verizon to accelerate," Smithen said in a research note today.

In total, AT&T added a net 187,000 postpaid subscribers, or customers willing to sign a two-year contract in exchange for a subsidized device. But Apple's other product may have actually contributed more to growth, with 180,000 net new tablets sold in the period. Apple's new iPad launched on AT&T in March.

In comparison, Verizon added 501,000 postpaid subscribers in the same period.

That's despite the fact that AT&T has all three models of the iPhone available, including the 99-cent iPhone 3GS.

Much of AT&T's growth may have come from 180,000 net new tablets sold in the period -- a vast majority of which likely came from the new iPad.

The minimal growth from the iPhone is why AT&T is pushing so hard to diversify its product portfolio. Last year, the company tried to go aggressive with Android, but its customers continued to snap up iPhones. It recently embarked on a massive campaign with Nokia and Microsoft to push the Lumia 900 as its newest flagship product, and early response has been positive.

But in the first quarter, sales largely came from the iPhone. The 4.3 million iPhones represented a bulk of the 5.5 million total smartphones sold, which the company notes is a record for the period.

Verizon has actually been able to diversify its sales a bit more largely due to the work that it previously did to build up its own Droid franchise. Even when AT&T had the exclusive lock on the iPhone, Verizon was able to weather the storm by offering up a strong lineup of Android devices.

AT&T actually reported decent financial results in the first quarter, showing revenue growth and higher profitability. Much of that profitability came as a result of fewer iPhone upgrades, analysts noted.

AT&T executives struck an optimistic tone on the conference call, highlighting a 20 percent jump in mobile data revenue and strong smartphone sales.

"Smartphone sales set a new record despite more iPhone competition," said Ralph de la Vega, head of the company's mobile business.

And while the iPhone isn't bringing in as many new customers anymore, it is helping to retain existing ones. The turnover rate for iPhone customers was at the lowest point in more than a year, De la Vega noted. That's largely because many of its customers are on family or business plans.

Those financial benefits are the ones that the iPhone have long promised, and AT&T is starting to see them. But those benefits are tarnished in part by concerns that the company may not be able to keep the flow of new customers coming in.

While Verizon showed the ability to keep adding new customers, analysts note that it too is starting to feel the effects of slower growth, something the other carriers will likely see as well.

"We think this will be a common theme for the industry this quarter," said Jonathan Chaplin, an analyst at Credit Suisse.

It's unclear what the next catalyst for growth will be for the wireless industry, perhaps different data plans, connected devices, or some other new venture. But with the iPhone available nearly everywhere, it probably won't be it.

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