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The merger between T-Mobile US and Sprint reveals a dichotomy between brand value and re-branding

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It is one of the great misunderstandings of brand valuation – the impact of modern business models and customer relations on the longevity (and size) of brand value.

The valuation of one and the same brand can vary widely, depending on the valuator and his perspective. In litigation, courts can tell a thing or two about widely differing valuations of opposing experts. Differences by a factor of 10 times are not uncommon. In the case discussed below, the valuations of one and the same brand name differs by a factor of 50x(!), although it is not a litigation case. The difference has something to do with the nature of the customer relation, and the premise of value. The case is about the value of the Sprint brand, a US wireless telecom business. But let us start from the beginning.

Sprint was a US telecommunications brand with a long history whose origins date back to the mid-70s. Sprint was an acronym for **S**outhern **P**acific **R**ailroad **I**nternal **N**etworking **T**elephony. In the 80s, Sprint owner United Telecom eventually changed its corporate name to Sprint Corporation. In the 90s, Sprint entered the wireless market under Sprint Cellular.

In 2004, Sprint merged with Nextel to form Sprint Nextel. Subsequent acquisitions included Nextel Partners, Ubiquitelpcs, Northern PCS, Virgin Mobile USA, iPCS, and Clearwire. By 2019, Sprint was the United States' fourth largest long-distance provider by subscribers, which offered postpaid and prepaid wireless voice and data services primarily under the Sprint brand, and prepaid wireless services under the Boost Mobile brand. It had a market cap of **$26 billion** (not including debt of $40 billion), and annual revenues of $33.6 billion.

No wonder that the Sprint brand obtained a regular listing on the rankings of the most valuable brands. In the BrandZ Top 100 Most Valuable US Brands 2019[1], Sprint was ranked 61st with a brand value of **$11,509 million**. In the Brand Finance US Top 100 2018[2], Sprint was ranked 89th with a brand value of **$7,455** million. It is basically not relevant here where the difference between these two valuations comes from.

On April 1st, 2020, Sprint Corp. was acquired by T-Mobile US for a total consideration (enterprise value free of debt and cash) of **$78 billion**.[3] T-Mobile itself had a market cap of $55 billion (not including debt of $27 billion) and annual revenues of $45 billion, thus slightly larger than Sprint. T-Mobile US spent **$1.8 billion** on advertising annually to build and maintain its brands. BrandZ Top100 Most Valuable US Brands 2019 values the T-Mobile brand at $**17.9 billion**. In the Forbes Most Valuable Brands 2018[4], T-Mobile gets a brand value of **$9 billion**.

The matter in question now is what happened to the Sprint brand after the merger. Recently, T-Mobile US as the new owner of Sprint disclosed the purchase accounting for the assets acquired in the Sprint acquisition in its 10-K report for 2020. Accordingly, the Sprint brands were valued at only $207 million, only a fraction of ~ $\frac{1}{50}$ of the value reported in the widespread rankings, and despite the high price paid by T-Mobile for Sprint.

As a side note, T-Mobile's valuation of the Sprint brand assumed an appropriate royalty rate of 0.5% (which is not much but still a usual rate in telecoms), and a remaining useful life of 2 years only.

From early on, T-Mobile had decided to discontinue the Sprint brand name after the merger, and to re-brand all Sprint activities to T-Mobile. The merger officially closed on April 1, 2020. Left is the intermediary Sprint logo used from that date. On July 16, 2020, T-Mobile announced that the Sprint brand would be officially discontinued on August 2, 2020. On this date, all retail, customer service, and other company branding of Sprint were switched to the T-Mobile brand.

With the discontinuance of the Sprint brand, no new customers were accepted to the Sprint network or plans going forward, and current Sprint customers can walk into almost any T-Mobile store (and T-Mobile customers can now walk into almost any re-branded Sprint store) to be helped. Customer service and websites were also integrated this day as well. Current customers with both companies would be able to keep their current account, plan, and/or phone for at least 3 years while being switched over to the new T-Mobile brand.

At the date of writing this paper, the proud Sprint brand had effectively disappeared. Looking back at the re-branding, a key question is: Did the value of the Sprint brand – between **$7.5** and **$11.5 billion** according to Brand Finance and BrandZ – simply vanish in thin air? Or was such brand value simply unrealistic and never existent? The answer is: in brand valuation, there is often a serious misunderstanding about the persistence of brand investments.

1 Published by Kantar/Millward Brown
2 Published by Brand Finance plc
3 Sprint's prepaid business including Boost and Virgin was sold separately to Dish Network.
4 Published by Forbes Media LLC

There is no doubt that telecom businesses need to make substantial spendings for marketing and advertising. Accordingly, Sprint spent on average **$1.3 billion** annually for advertising, corresponding to 4% of revenues, in the years prior to the merger.

The key issue at stake is not if such spending for the Sprint brand appropriate. It is rather if it was a long-lasting investment with long-term benefits, or if it was consumed rather quickly after deployment. If it had long-term benefits (returns), the Sprint brand would be an asset. An asset that could be valued, bought or sold, amortized, used as a collateral, or insured against damage or loss. If it had only short-term-term benefits, it would be an expense.

In essence, the key issue in brand valuation is about the longevity of the brand, or its replaceability.

The brand valuation firms look at advertising expenses as some sort of long-term, durable investment. Sprint's brand value reported by BrandZ **($11.5 billion**) corresponds to an equivalent of 9x annual advertising spending.[5] In other words, and very simply speaking, the assumption is that all advertising lasts and has its full effect for **9 years** before it vanishes. Or, if the impact from advertising wears out over time, it will have a (steadily decreasing) effect over a period of **18 years**. Either way, a very long period considering the daily advertising pressure on consumers' memories, and oblivion.

T-Mobile US, Sprint's new owner, takes the opposite perspective to look at Sprint's brand value. For T-Mobile, the Sprint brand name has a remaining life of only 2 years, and the persisting effects from advertising (the **0.5% royalty rate** applied in the valuation) are only a fraction of the **4% annual advertising spending**. Accordingly, Sprint's brand value for T-Mobile is only **$270 million.**

T-Mobile US left no doubt why it acquired Sprint: for its spectrum licenses and network, and for its customer relations. But not for its brand name. For T-Mobile, the Sprint brand name was dispensable, resulting in its discontinuance and its replacement by the T-Mobile brand name, within few months after the merger. From the replacement, T-Mobile US expected synergies (cost savings) of **$1+ billion** annually, or a total net present value of **$11 million**.[6]

When to re-brand?

Like many acquirors before, T-Mobile US was confident to re-brand Sprint. Any successful rebranding is executed on two premises:

- First, that it will cause no substantial customer churn, or that an eventual customer churn would be minor and could be compensated at reasonable cost, or that only unattractive customers would turn away
- And second, that the cost of the rebranding is lower than its (long-term) benefits.

There are a couple of factors that foster these premises:

Customer lock-in

- Customer lock-in prevents customers to quit the vendor from which they currently buy products and services. Lock-in may result from contracts, subscriptions, automatic renewals, warranties, replacement and spare parts, integrated systems, connectivity, portability, and other. The quitting is painstaking for contractual or technical reasons.

Switching costs

- Switching costs are the costs associated with a customer switching from one supplier to another. Switching costs may result from entry fees, registration fees, signing fees, loss of standing, loss of loyalty advantages, waiting and down times, write-off of stock and inventory, technical changeover, migration, and most importantly the risk of uncertainty and making a bad decision

[5] For Brand Finance, the longevity and persistence of Sprint's advertising is a little shorter, but not materially different.
[6] This is the annual run-rate synergies in sales, services and marketing, mostly saved store and advertising cost. Source: investor presentation upon announcement of the transaction.

with the switch. High switching costs make customers loyal to their current suppliers.

Location advantages

- Some businesses rely on location or proximity advantages. Although this factor becomes less important from digitization and home deliveries, it still plays an important role for businesses like retailers, gas stations, banks, airlines and airports, restaurants, and most personal services. Where relevant, proximity greatly supports customer retention.

Point of difference

- A customer is unlikely to switch if he cannot expect something better (or cheaper) from another vendor. If he can expect only the same (or less), why should he switch? In markets where the product or service is a hard to differentiate (commodity markets), customers are rather sluggish to try something new. In this context, telecom and banking services can be considered as commodity markets.

  In contrast, brands can be most important to differentiate the offering of different vendors. In markets with a high differentiation of products or services, and with specific positioning and branding of different vendors, a rebranding would be rather counterproductive (unless a brand is unsuccessful, out-of-date or conveys a negative image).

Continuity

- If customers are confident that the supply of products or services from their current vendor does not change after a rebranding, they are likely to stay loyal. However, if they fear that products or services might be of different (lower) quality, they might think about leaving. Product/service complexity, technology and innovation plays a major role for such perceived continuity.

Digitized customer data and communications

- Digitization revolutionized the relations between vendors and their customers. Digitized customer relations facilitate direct communication with customers, and their accurate information. It is much easier (and cheaper) to explain the reasons for a rebranding and its benefits, and to alleviate fear and distrust, in a digitized customer relation than through mass or impersonal channels.

Apart from keeping customers on board, a re-branding must make sense from a financial point of view. In other words, the (long-term) benefits must outweigh the (one-off) costs to re-brand.

Costs

- The primary costs of a re-branding include the development and testing of the new branding, is legal protection, the phase out of products with old branding, and the remake of branded facilities, equipment, fleets, signages, websites, printed matters, etc.

  For a full cost approach, additional elements need to be included, i.e. the cost of communicating the change to customers, and the eventual loss of customers as a result of the rebranding.

Benefits

- A re-branding can have two distinct benefits. One is the synergies (savings of advertising and other costs of branding) resulting from merging two brands into one. The other is if the new brand performs better on the current range/customer portfolio than the old, phased out brand.

Overall, a complex decision. We observe that the number of re-brandings in corporate acquisitions (M&A) is constantly increasing, in particular due to the effects resulting from an increased digitization of business models and customer relations. T-Mobile did just that: it expected to keep the customers, dumped the Sprint brand, and gained substantial synergy benefits.

For marketeers and CFOs, this means that they must be careful about the longevity of their brand names, and brand values accordingly. If there are signs that a brand is replaceable, any marketing/branding expenditures should show a reasonably short pay-back period.

Often it is helpful to imagine why a potential acquiror would be interested in acquiring the business. Would it be for its brand name, or rather for its customer relations? Also helpful is a look at previous M&A in the sector and what happened to the acquired brand names. Were they maintained, or replaced? If the conclusion is that there are no serious obstacles for an acquiror to re-brand, it is risky to consider the brand in question as a (financial) asset. It should not be valued, capitalized, amortized, used as a collateral, or insured against damage or loss.

And the flattering (high) brand values reported in various rankings should be treated as flatteries.

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