AT&T's Retail Sales Problem

How Outsourcing Compromises Customer Service and Job Quality

AT&T CONSUMER ALERT

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Introduction

AT&T is the largest telecommunications company in the country with $164 billion in sales and 135 million wireless customers nationwide.[1] And while the company brings in over $1 billion in profits every month, this financial success may be at risk, not only from intense competition, but also from a self-made crisis in customer service.[2] AT&T wireless employees across the country are gravely concerned that the company's increased reliance on outsourced retail operations is lowering standards for both workers and customers. As 21,000 wireless workers in 36 states and DC negotiate with AT&T for a fair union contract, they are speaking out against the outsourcing of customer service.

When shoppers walk into an AT&T store, they believe they are interacting with AT&T employees, but a growing percentage of store fronts are operated not by AT&T itself, but by third party dealers that appear to be focused on pumping up sales rather than providing quality service. The result: poor customer experience and potential defections to competitors. As AT&T grapples with a multi-year drop in the number of consumers subscribed to its postpaid wireless service, the company cannot afford to sacrifice the quality of the customer experience.[3]

Third-party cell phone dealers, known as "authorized retailers," look the same as corporate-run stores, but behind the logo there are substantial differences in training, compensation and incentive pay, all of which can lead to worse outcomes for customers and employees. Customers complain that dealers fail to disclose the terms of a sale, sign them up for extra features without their knowledge, and offer promotions that are unavailable.

The following report details the poor conditions and pressures faced by workers employed by third-party dealers – which now make up more than 60% of AT&T's branded retail stores – and the impact of deceptive sales practices on customers.[4] These problems are not news to AT&T, which is the real power player behind the conditions at dealer stores. While AT&T does monitor its third-party dealers, the company's efforts have so far failed to hold dealers accountable for quality customer service.

AT&T's own retail and call center employees are at the front lines, staving off the blowback from third party dealers' abuses, and they have provided a window into AT&T's customer service nightmare. The analysis in this report is based on a survey of more than 1,300 AT&T employees, as well as interviews with authorized dealer employees, and an examination of the disclosures made by AT&T and its authorized dealers about their business.

Just as Wells Fargo workers who blew the whistle on problematic sales quotas sought to improve their company from within, AT&T workers would like corporate executives and shareholders to take substantive action to reverse this damaging trend before the impact on the business and their jobs becomes severe.

Customer Pain Points at AT&T's Third-Party Dealers

While many customers do not know the difference between an AT&T corporate store and a third-party dealer, they may find out the hard way. In a survey of more than 1,300 AT&T employees who work at corporate retail stores and call centers, 76% said that customers came to them with problems caused by authorized dealers multiple times per week and an additional 17% had this experience about once per week.

Corporate employees surveyed report frequent customer problems:

86% *said customers reported dealers failed to disclose terms of service*

83% *said customers reported dealers referred them to corporate stores to handle service issues, requiring customers to spend even more time to get issues resolved*

64% *said customers reported dealers enrolled them in services not requested*

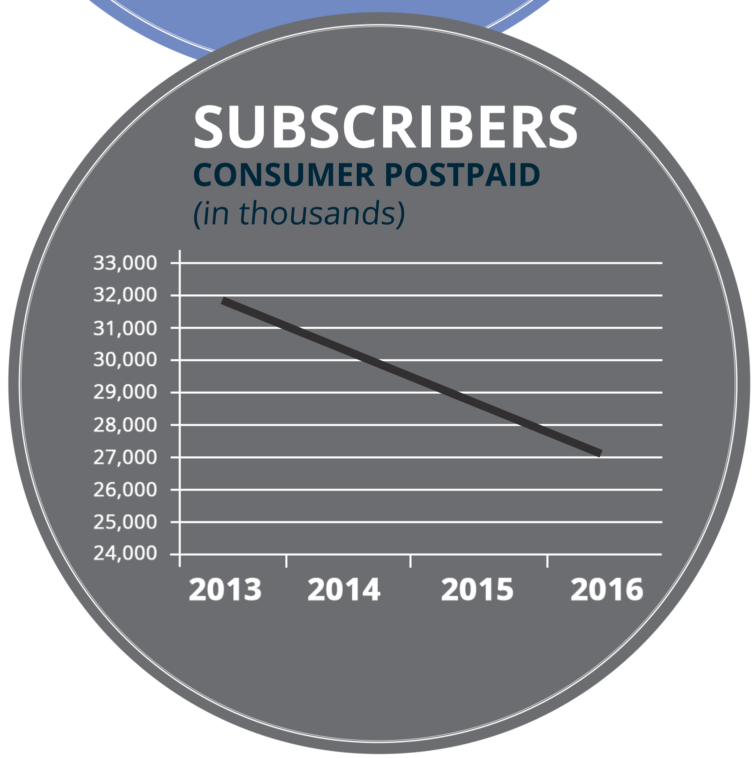
40% *said customers reported dealers offered services that are not actually available*

Through interactions with customers who are coming to them with their service issues, corporate employees, get insight into the specific problems that may be caused by third-party dealers, including the following:

- Signing up customers for more lines or higher priced data plans beyond what they need, sometimes without the customer's knowledge
- Engaging in "cramming" of extra services, like a hot spot or phone features, onto customers' accounts that they didn't want or need
- Offering promotions that are not available in order to close a sale
- Failing to explain all the terms of a promotion, misquoting the cost of a service or failing to disclose standard fees, claiming that the total monthly bill will be lower than it actually is
- Telling customers that a particular charge can be taken off their bill, or credited, if they call customer service, when in fact it cannot
- Adding insurance that the customer did not request
- Sending customers to a corporate store to fix problems or to get free services that the authorized dealer should provide, like transferring customer data from an old phone or providing a SIM card for a new phone.

Minimum Wage, Maximum Sales: Bad Incentives and Low Pay at AT&T Third-Party Dealers

AT&T's third party dealer stores look like full-fledged AT&T outlets, but they are often skeleton operations with smaller staffs and less ability to meet customer needs. It appears that the companies running these stores are not looking to burnish the brand – after all, they depend on AT&T to provide a quality network and compelling marketing – rather they seem to be seeking to maximize sales with minimum expenses. This business model may lead to perverse incentives that result in the customer harm described above, but it can also be a raw deal for dealer employees.



As in the infamous case of Well Fargo, where employees were required to meet sky high, predatory sales quotas that led to widespread fraud and the creation of two million accounts that may not have been authorized by customers, AT&T third-party dealers' incentive structure drives an unhealthy focus on sales over customer service in a similar fashion.[5] As detailed above, AT&T corporate employees report that customers frequently complain of authorized retailers enrolling them in services they did not request and failing to disclose important terms.

> ***AT&T is increasing its authorized dealer stores even as it faces a multi-year drop in consumer subscriptions.***

Workers at third-party dealers report intense pressure to meet sales goals over providing service.[6] At one dealer, workers were strongly incentivized to sell more than thirty-five new service plans per month, as of January 2017, because the percentage commission they earned was 30% higher on every single sale once they hit that threshold. For total units (including new plans, upgrades and home internet), workers earned 40% more per unit if they sell above 80 units in the month.[7]

Many of the workers in dealer stores report they are paid minimum wage or slightly above (minimum wage remains below $8 an hour in 23 states, and below $10 in an additional 20 states) with the opportunity to earn more through commissions.[8] One of the major third-party dealers, Spring Mobile, pays an average base wage of $8.48 per hour.[9] Even managers at Spring Mobile make only about $30,000 a year depending on location, and often have to work fifty hours or more per week, equating to an hourly rate of $11.50 or less.[10]

Because of the poverty-level base wages paid by some dealers, workers depend on their commission pay just to cover groceries and rent for their families – a position that encourages the sale of the unneeded and unwanted services outlined above.

By contrast, retail sales representatives at AT&T corporate stores are paid an average of $16 an hour plus commission, making them less vulnerable to pressure from management to engage in unethical upselling. Corporate employees are concerned that the low-wage dealer stores put downward pressure on their own standards.

Little Training and Few Staff: Recipe for Exploitation and Poor Service

Interviews with dozens of current and former dealer employees indicate that these stores often have only two staff on duty, including the manager, and sometimes only one person is available. This staffing structure means if there is a rush of customers, workers might have to spend less time with each one and rush through a sale, causing them to skip over disclosures or make other mistakes. Some workers report that understaffing means they are unable to take breaks or use time off. By contrast, corporate stores have more than 10 employees per store, on average.

Workers at dealer stores also cite other poor conditions, including:

- Inadequate training and a “sink or swim” mentality from management
- Stress and excessive workload
- Arbitrary and frequent changes to sales goals
- Unaffordable health insurance

Dealer store employees report low job satisfaction and they do not see AT&T or the dealer company investing in their careers as sales associates, but rather treating them as disposable and replaceable.

Large Companies Dominate AT&T's Dealer Stores

The majority of AT&T's 3,360 dealer stores are run by two massive corporations: Prime Communications, which is privately-owned and operates about 550 stores nationwide, and Spring Mobile, owned by video game giant GameStop, which runs more than 1,400 AT&T locations in almost every state and 68 Cricket locations (AT&T's low-cost subsidiary).[11]

GameStop is a $9 billion corporation that operates more than 7,500 stores across 14 countries.[12] As its core video game business declines because of competition from digital downloads, GameStop is seeking growth with AT&T.[13] It purchased Spring Mobile in 2014 and quickly expanded through acquisitions of regional dealers and 160 defunct RadioShack locations.[14] The company plans to continue buying mature stores from smaller dealers as well as from AT&T itself.[15]

The business model of Spring Mobile, Prime Communications and other large third party dealers appears to be premised on minimal staffing and maximal selling. In other words, these companies seem to be in it for the commissions, and not the customer service. Despite AT&T's desire for brand consistency, third party dealers may undermine the company's reputation if they compromise customer trust and loyalty.

AT&T Dealer Spring Mobile, By the Numbers

Spring is part of a multi-billion dollar corporation, but pays its employees just above minimum wage

Number of AT&T stores operated by Spring Mobile	**1,431**
Sales of parent company GameStop (last twelve months)	**$9,087,500,000**
Compensation of GameStop CEO J. Paul Raines	**$9,139,897**
Hourly Base Wage of Spring Mobile Worker (Average)	**$8.48**
Annualized Value of Base Wage for a Full-Time Employee	**$16,960**

AT&T Corporate Employees: Cleaning Up after Third Party Dealers and Trying to Protect the Brand

Many of the workers at AT&T's corporate stores and who staff the company's customer service lines have a long-term commitment to the company's success, but they have begun to lose trust in their employer.

Because of their commitment to high-quality customer service, the problems at third-party dealers are distressing to corporate employees. When frustrated customers call or visit corporate employees to get help, those AT&T representatives attempt to resolve the issues by fixing errors in the customer's account, explaining the real terms and costs of services or providing free services such as transferring customer data from an old phone or providing a SIM card for a new phone.

Despite the valuable service they are providing, these corporate employees are actually penalized for cleaning up problems caused by dealers. Addressing these mistakes takes time away from their ability to earn their own commissions on sales. It can also lower their compensation because part of their pay is based on customer satisfaction, and negative customer surveys caused by bad experiences at dealer stores are often factored into the evaluation of corporate employees, even if they fixed the problem.

AT&T's 40,000 corporate employees in retail stores and call centers are fighting to protect the integrity of their jobs from the negative impact of third-party dealers. They are currently in negotiations to ensure they have job security and a future with their company as AT&T continues to expand the number of dealer stores.

Third-Party Dealers are AT&T's Business

AT&T appears increasingly willing to accept the low standards of third-party dealers because it is profitable to outsource retail operations in the short-term. AT&T saves money by avoiding the costs of operating dealer stores, instead simply paying dealers commissions on the sale of service plans.[16] And dealers can have lower operating costs than AT&T because they pay lower wages, have fewer employees per store and focus on sales over service. Both corporations profit, while workers and customers lose out.

However, AT&T's increasing reliance on third-party dealers, and the low standards they may impose can come at a cost. Since 2013, the number of AT&T contracted authorized dealers has increased by 13% nationally to 3,360 stores, and the ratio of stores that are run by dealers compared to corporate stores has risen nearly 20%.[17] At the same time, the company is seeing a steady decrease in wireless subscribers at rates higher than its competitors.[18] In such a competitive environment, AT&T has to offer a customer experience that justifies its claim to be a superior carrier focused on winning high-quality, profitable subscribers.

Conclusion

AT&T appears to be scrambling to address some of the problems with dealers by increasing corporate oversight of these stores – district managers are assigned to supervise both corporate and dealer stores.[19] But AT&T's plans do not include treating workers better or changing incentive structures. Without real investment in customer service and the workers who provide it, AT&T will face a growing crisis of confidence from its customers. As price competition increases and network quality equalizes among the large carriers, AT&T simply won't be able to maintain customer loyalty without addressing the mounting concern over customer service and worker complaints.

While many are unfamiliar with the extent of the company's outsourcing, this report shows that beneath the surface, AT&T is encouraging a business model the exploits both customers and workers—but increasingly doing so at its own peril. While third-party dealers may offer a financial incentive in the short-term, overreliance on a system that puts profits above both customers and employees puts long-term business success at risk. Whichever wireless company solves this problem first will reap the dividends of increased loyalty from its customer base, and from its workforce company as AT&T continues to expand the number of dealer stores.

Endnotes

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13. GameStop Corp., Form 10-K for the period ending January 30, 2016. See "Our Strategy" and "Risks" at p3-4 and P11-12. Available at: https://www.sec.gov/Archives/edgar/data/1326380/000132638016000323/a10ka-fy15q4.htm

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16. See, for example, GameStop Corp., 10-KA for the period ending 12/31/2016, "Revenue Recognition, at p.F-9.
https://www.sec.gov/Archives/edgar/data/1326380/000132638016000323/a10ka-fy15q4.htm

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18. Cowen & Company Research, "Wireless Survey – 4Q," January 18, 2017, pp2-3.

19. For example, see LinkdIn Profile of a Retail Account Executive who oversees both corporate and dealer stores: https://www.linkedin.com/in/eric-christen-444031134

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