



Will June 3rd Deliver a Haymaker to Rogers Communications Inc., or Just a Light Jab?

Description

June 3rd is a day that many Canadian cellphone users have looked forward to. It's also a day that our telecommunications providers have been dreading.

It's all because of a new regulation, one that essentially prevents telcos from locking consumers into three-year cellphone contracts. The regulation went into full force on Wednesday, meaning that from now on, every three-year contract can be canceled after just two years. This has created a wave of expired cellphone contracts, and more people than ever are free to shop around.

Most analysts agree that **Rogers Communications Inc.** ([TSX:RCI.B](#))([NYSE:RCI](#)) will be the most impacted. Why is this the case? And just how big a deal is this for the company?

A customer service problem

For many years, Rogers has had a love-hate relationship with its customers, and that's putting it lightly. Even CEO Guy Laurence admitted the company has been "neglecting our customers for years." He is on a mission to reform the company's customer service practices, but has acknowledged that this can't be done overnight.

In the meantime, subscribers continue to leave Rogers. In the most recent quarter, the company's churn rate (which measures the percentage of subscribers who leave in an average month) clocked in at 1.24% for wireless postpaid subscribers. At **BCE Inc.**, this number was 1.18%, and it was only 0.91% at **Telus Corporation**.

As a result, Rogers is losing market share. The company lost 26,000 postpaid subscribers in the first quarter, while Telus and BCE each gained roughly 35,000. And that was when many subscribers were still locked into three-year contracts.

How big is the effect?

In a January report, Scotia Capital analyst Jeff Fan estimated that 10-18% of postpaid subscribers

could be set free on June 3rd. At Rogers, that would likely mean over one million subscribers are affected. At \$66 of revenue per subscriber per month, that could equal up to \$1 billion in revenue.

No one is saying that this many subscribers will rush for the exits. But clearly this is a big deal to Rogers, one that has forced the company to act drastically. Anecdotal evidence suggests that high-value customers have been offered steep discounts, free additional data, and/or free upgrades. There's no doubt this will impact margins.

Is this just the beginning?

Rogers will certainly hold on to the vast majority of its subscribers, but the company isn't out of the woods yet. With three-year contracts effectively banned, Rogers will have to do a better job of pleasing its customers. Otherwise, they will leave in greater numbers.

So, shareholders should brace themselves for some messy results over the next few quarters. If this is too much for you to stomach, I would recommend holding Telus instead.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:RCI (Rogers Communications Inc.)
2. TSX:RCI.B (Rogers Communications Inc.)

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