

Wireless!

The forces and strategies that shaped a revolution



Lecture 26: Case Studies 2:
Nextel & Sprint

Lecture 26- Classwork

1. Write a paragraph or two about what you learned in the reading that you think was important about Nextel as a company and about the merger with Sprint.
2. Do you think that the merger of T-Mobile and Sprint might be different?

The FCC's other idea:

Channels for “SMR”

- “Specialized Mobile Radio” systems
- FCC allocated spectrum in 900 MHz (UHF-TV)
 - Groups of 5-20 channels shared by several fleets (e.g. police, taxi, etc.)
 - Up to 1 MHz allocations
 - Groups may be more efficient than single channels?
- These were not popular, and many were later bought by Nextel (originally Fleet Call) and Motorola. **Why?**

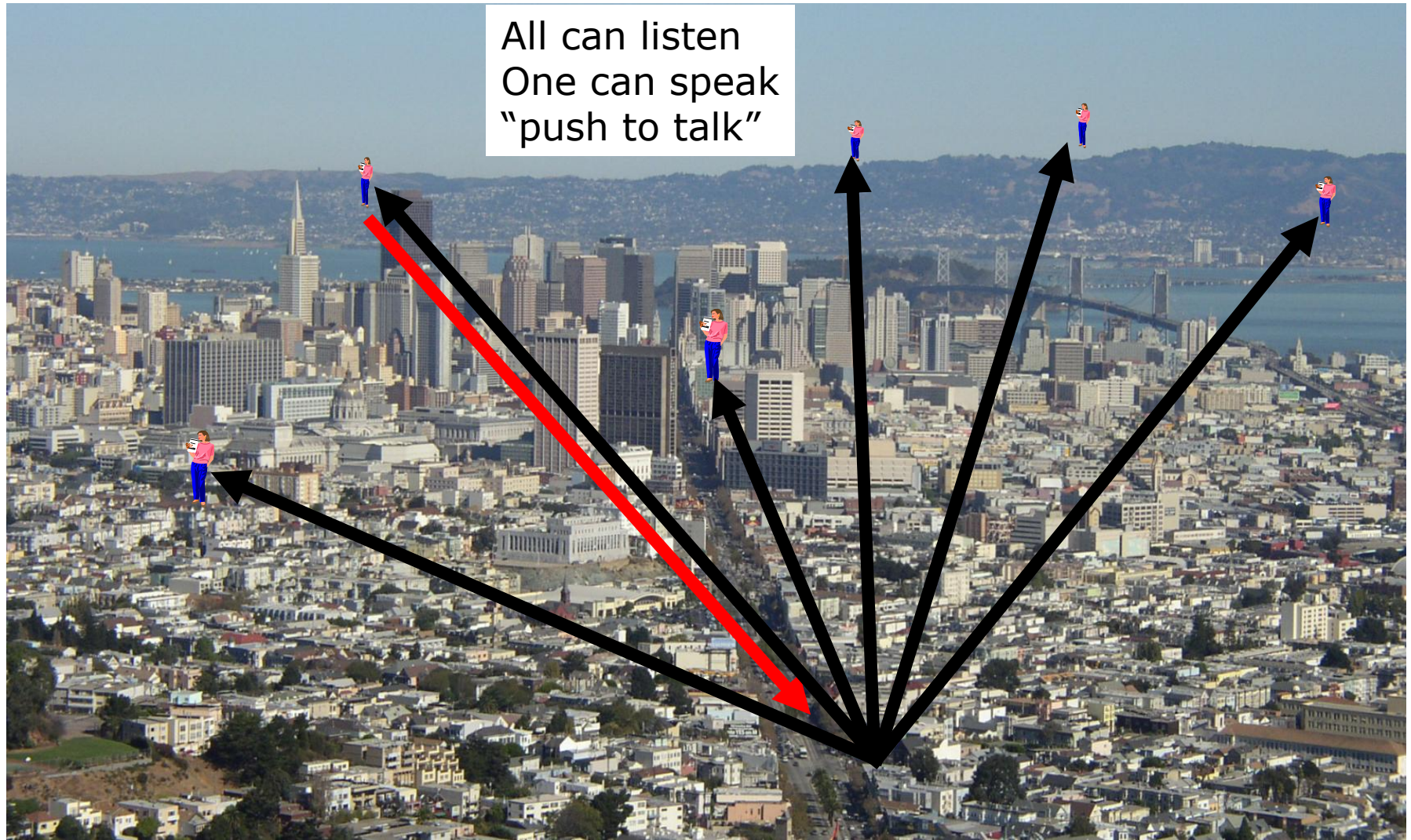
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 - To **compete with cellular**

Nextel's group call

“Fleet call” from the SMR channels (+ digital)



Visions of cellular: Using the SMR channels

In 1991, the FCC allowed Nextel to operate cellular-type systems on the SMR bands. The systems would continue to accommodate existing fleet dispatchers but, by going digital, would allow thousands more calls to be placed.

In Nextel's words, the Fleet Call system would provide a healthy form of competition for “entrenched and technologically limited**” **cellular companies**, while providing customers with new options only available with digital technology. Although Nextel lost \$10 million on only \$34 million in revenue during 1993, its market value was quoted at a staggering \$9.5 billion. This **indication of investor confidence** was based on the formidability of Nextel's emerging alliances, as well as on the future potential of its services (*sic*).**

The results were increasing revenues but increasing losses

All revenues/costs in \$M

	1996	1997	1998	1999	2000	2001
Revenue	333	739	1847	3326	5714	7689
Expenses						
Cost of Revenue*	248	289	516	697	2188	2888
SG&A	330	862	1551	2094	2278	3020
Depreciation	401	526	832	1004	1265	1746
Interest	206	378	622	782	849	1196
"Restructuring"						1769
Net after expenses	(852)	(1316)	(1674)	(1251)	(866)	(2930)

Nextel 2002-2004

Turning the corner?

All revenues/costs in \$M

	2002	2003	2004
Revenue	8721	10820	13368*
Expenses			
Cost of Revenue	2535	3169	4003
SG&A	3039	3453	4241
Depreciation	1595	1694	1841
Interest	990	802	565
"Restructuring"	35		
Net after expenses	527	1702	2718

***still getting \$835/user!**

When you want to compete with the big guys, merge with another company?

Sprint, Nextel in \$36B merger

Wireless company will have about 40 million customers, putting it closer to 2 larger rivals.

December 15, 2004:

The companies called the deal a merger of equals, saying shareholders will each own about 50 percent of the new company, which will be called Sprint Nextel.

"It's a great deal for Sprint. They didn't pay much of a premium for Nextel. I'm not sure how they pulled that off," said Greg Gorbatenko, telecom analyst for Marquis Investment Research.

But Gorbatenko also said the two companies are not the best of fits with each other, with very different customer bases and business models.

Another view

By Kent German (CNET “cell phone guru”)

September 6, 2005

The oddest of odd couples permanently joined forces last month when Sprint and Nextel completed their \$36 billion merger. When the marriage was first announced last December, it astounded the wireless world. The AT&T and Cingular merger made sense; they operated on similar networks, offered some of the same handsets, and catered to a comparable customer base. However, Sprint and Nextel seem to have very little in common. Sprint uses CDMA, while Nextel operates over a proprietary network. Sprint attracts a broad range of customers, while Nextel has long depended on a loyal base of business people who love the carrier's pioneering push-to-talk (PTT) functionality and its corporate-friendly services. Plus, Nextel's *bulky Motorola mobiles are a sharp contrast to Sprint's long line of stylish silver flip phones.

*low volume product doesn't get improved

Sprint-Nextel: The Deal from Hell

Sprint has written down nearly \$30B,
which is pretty much what they paid for Nextel.

Feb 28, 2008

Nextel started out as simplex (push to talk service) for taxis and other dispatch services, using one or two hill-top, community towers. The Nextel interference problem started when Nextel was allowed to expand into cellular service. As Nextel built out cell towers, nearby, low-power police radios were drowned out. The FCC said it wouldn't be a problem. They were wrong.

Under the plan agreed to in 2004, Nextel would exchange 16 megahertz of spectrum spread around the 700 MHz, 800 MHz and 900 MHz bands for 6 megahertz in the 800 MHz band and 10 megahertz in the 1.9 GHz band.

- According to Sprint Nextel's 10-K report, the best-case scenario is that re-banding will cost the carrier between \$2.7 billion and \$3.4 billion.

More recent numbers for Sprint Nextel

	2006	2007	2008	2009	2010	2011	2012
Revenue \$B	41.0	40.1	35.6	32.2	32.6	33.7	35.3
Net gain	1.5	-29.8	-2.8	-2.5	-3.4	-2.9	-4.3

Lessons learned from Sprint & Nextel

- ❑ Couldn't make both the old (fleet call) and new (cellular) customers happy. Couldn't handle the different standards and technology
- ❑ Split bands are a problem
- ❑ Mergers are always a problem
 - Incompatible systems, unhappy people
 - Inefficiencies; layoffs
- ❑ Few companies have the skill to manage them
 - None of AT&T's many acquisitions lasted!
 - ❑ (but the press release is always about "synergy")
 - ❑ Will T-Mobile and Sprint do better?
 - A better match, and maybe AT&T and Verizon have problems