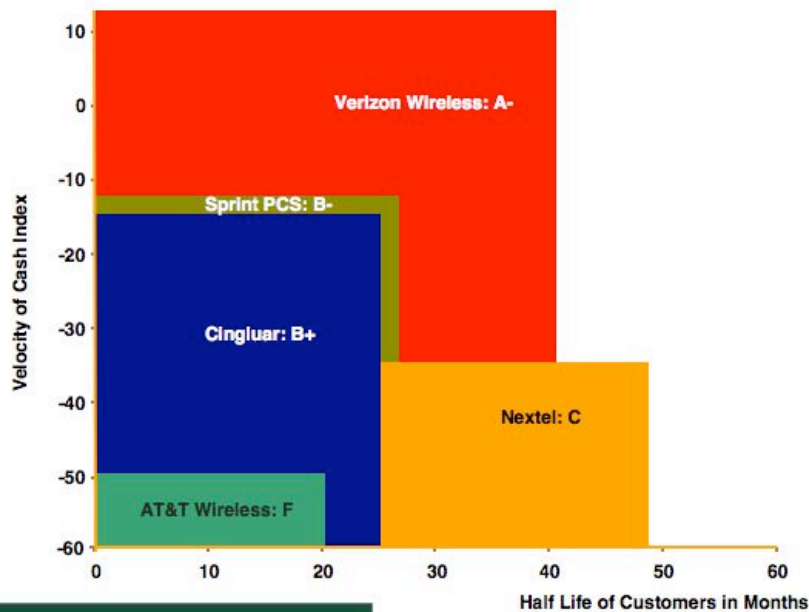


SprintNextel

Kaua'i - The Sprint-Nextel merger and the subsequent spinoff of Sprint's wireline business has cost Len Lauer his job as COO of the new company, which is a shame because he is one of the best operating executives in the business. The problem seems to be that the new company didn't get the boost in value it expected from the two deals. Churn is running at 2.1%, nearly twice what it needs to be and ARPU is off 6% (see "After Spinoff SprintNextel Finds Still More is Needed," The New York Times August 7.)

In my February 2004 North River Advisor, I went into the issue of Nextel versus the rest of cellular in some detail, showing that Nextel got a longer customer half life (nearly twice Sprint's) at much lower cash velocities than top performers like Verizon Wireless. The reason was Nextel's push-to-talk feature that its customers find addictive.

Customer Service Envelope



As always, my **North River Navigation Rule on Mergers** says that the cash velocity and **Customer Service Envelope** of the combined entity will track those of the worst performing parties, in this case Nextel, making the stress on combined operations significant and raising the risk of acquisition failure.

Equally, Nextel customers -- whose needs are unique; the 17.8 million customers Sprint acquired were not cellular customers but wireless customers, a big difference -- report that Sprint immediately took down Nextel's highly effective web site, a severe blow to Nextel's customer service.

So, churn up, cash velocity down, a guaranteed value destroyer.

SprintNextel faces another, more complex problem still. In the mid 1990s, my North River Advisor warned of the financial problems facing carriers that tried to upgrade their wireless networks before their existing networks were paid for. Then, in December 2000, my North River Advisor said that cellular itself had a limited shelf life on the price-performance curve and that it would soon be surpassed by cheaper and more powerful technologies like WiMax.

The solution, I told my North River clients, was to unload your big iron wireline operations while they were still worth something, clear out your balance sheets, and move fast to get ahead of the wireless price-performance curve. This is the path to enduring value creation, the Wal-Mart model of teleocm, and is exactly what Sprint did though it moved about five years too late and after an unworkable merger.

The other shoe has yet to drop in most of the world's major carriers. Vodafone, for example, is trying to get into wireline, mistaking this for price-performance leadership. Verizon is moving into fiber (This site is brought to you by their FIOS), mistaking fiber too for price-performance.

All these operators should be unloading poor price-performance wireline and wireless operations for WiMax and UWB. These technologies have much higher capital velocities - no big iron - and superior price-performance and time-to-market.

SprintNextel and Verizon both have a third problem, Qualcomm, which, I discovered when trying to show CFOs how to cut their capital budgets with advanced interference cancellation technologies, is forcing carriers that use its CDMA to spend more on capex – drive down their capital velocities -- in order to meet Qualcomm's own feature agenda and guaranteed license revenue stream. Nothing has alienated CFOs more and is pushing the most Qualcomm-dependent companies into WiMax first.

Len Lauer got caught in the middle of these complex moves. He did the right thing but Sprint's sequencing was off and the Nextel deal unnecessary.

This post was written by Francis on Sunday, August 27, 2006.

[Course Corrections](#)