

Analysis - A Letter to Sprint Nextel’s New CEO

By Keith Mallinson Tuesday, January 15, 2008

Late last year, Sprint Nextel named Dan Hesse to the CEO post.

In this open letter, author Mallinson identifies what Hesse will need to correct at the Tier 1 carrier.

Dear Dan,

I’ve been critical of Sprint’s lack of strategic focus since I began writing analysis columns for Wireless Week last year. This letter will seem like more of the same, but is offered up in the spirit of getting Sprint Nextel heading in the right direction under your leadership.

Sprint must improve operational discipline and simplify things for customers, as Acting CEO Paul Saleh admits, but success demands more. Merely improving existing strategies is insufficient: Sprint has lost significant ground to AT&T and Verizon over the last couple of years, whereas T-Mobile USA benefits from the global purchasing scale of its parent in GSM/WCDMA. Sprint also trails these market leaders in fixed line services to the corporate markets.



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Sprint needs to drive profits through improved differentiation and fewer “me too” offerings because it probably never can match market shares. As Peter Drucker insightfully put it, doing the right things is more important than doing things right. But what things should Sprint be doing in order to establish a strong and enduring competitive position?

CUSTOMER SERVICE

Call center response rates are just the tip of the iceberg. However, they are more a symptom than a cause of Sprint’s problems. In mid-December, The Wall Street Journal reported a leaked document from a recent board meeting describing the company’s “inferior results” in customer service. It said 53% of customer service problems were resolved on the first call versus 71% with T-Mobile. More significantly, it reported nearly three times as many care specialists. Saleh says great efforts are under way with a cross-functional task force to analyze the customer care process and sort things out. However, when I’m happy with my wireless service, I tend not to call customer service. Sprint’s underlying problems are widespread.

BUSINESS MODELS

Sprint has an incoherent range of sub-brands, services, networks and customer targets. It needs fewer, less complex customer offerings and internal rationalization to weed out or fix the lemons. Although you may point out that Proctor & Gamble has even more brands, Sprint’s issue is it also operates with many different business models including postpaid, pay-as-you-go, unlimited, retail, wholesale, affiliate, the Pivot joint venture and Xohm’s “Internet-oriented” distribution. This is too much for a new CEO to fathom – even one who knows Sprint as well as you.

Sprint has ditched CEOs who misread sub-primes’ bad habits including Chuck Levine with ClearPay in 2002. The unexpected need to force so much “involuntarily” churn with Nextel’s acquired customers was a major contributory factor to Gary Forsee’s departure. Is the unlimited model in the ascendancy with the number of people who qualify for postpaid plans decreasing in the sub-prime crisis, or will the already high levels of churn just increase further? Take note that Leap Wireless’ share price has halved since July.

NETWORK MIGRATION

Sprint has neglected the network and subscriber assets it bought with Nextel. As a Yankee Group analyst at the time of Sprint’s merger with Nextel in 2005, I wrote that “until a robust alternative to iDEN’s PTT (push-to-talk) on CDMA2000 is available, Sprint will need to load and grow the iDEN network as aggressively as ever.” Among

other observations, I also predicted that Sprint would need to maintain the iDEN network well beyond 2010, rather than decommission it rapidly. Instead of focusing on its prime PTT customers, Sprint has foundered with iDEN growth, re-banding and complicated its network strategy with the major distraction of WiMAX that has a weak business case and offers limited synergy to the core cellular or PTT businesses.

Migrating the loyal Nextel push-to-talk base to CDMA, where it along with other customers can benefit from low-cost voice and high-speed data is of greatest strategic importance. The PTT franchise is what made Nextel uniquely successful and Sprint has led the nation with cellular data since 2001. Dual-mode CDMA-iDEN with PowerSource is a necessary stop-gap, but this can only ever provide customers with a limited range of unremarkable and costly phones.

Make the migration to QChat work starting Q1 2008 as planned, migrate most of the iDEN customers over the next couple of years and you will have created something unique beyond PTT. Other carriers can only dream about this kind of high-performance end-to-end VoIP network. A recent Nokia Siemens analyst presentation indicates that VoIP will be a low priority on the GSM/WCDMA/HSPA technology migration path until efficiency can be increased over circuit switching with the arrival of LTE in 2010.

Sprint used to call itself the integrated carrier. With or without WiMAX, Sprint could forge a 2- to 3-year lead over any other carrier worldwide with a fully converged and IP-based, voice, data, fixed and wireless offering.

Regards,
Keith

***Mallinson is founder of WiseHarbor, solving commercial problems
in wireless and mobile communications. www.wiseharbor.com***