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The Rationale for Mergers & Acquisitions in the U.S. Wireless Industry

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Précis

The mergers between AT&T and Cingular, Sprint and Nextel, and Verizon and Alltel telecommunication companies have become the most fascinating transactions in the wireless industry. This paper provides a detailed summary of the two companies in each merger as separate entities before the merger, the actions they took while completing the merger, and the new look and strategies they put into place after the merger. This paper provides a thorough view of how AT&T, Sprint Nextel, and Verizon successfully completed their merger plans and how they gained nationwide consumer satisfaction. The reader will examine the problems within the companies such as the case with the Sprint/Nextel merger. The paper briefly shows the intense competition between Verizon Wireless and Cingular/AT&T. The overall question to this thesis is: Which of these companies completed the ideal merger? The thesis analyzes the mergers in chronological order of the merger deals starting from the AT&T Inc. to Verizon Wireless.

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Introduction

Wireless firms around the world have been driven or compelled to merge or seek partnership for a number of reasons. Firms tend to gain market share through mobile products and accessories. Another reason for the mergers is the technology of the products. Since computers and internet are in high demand, the wireless companies include access to fast-speed internet through their phones. In some instances, mergers occur because cost reduction of these products. The smartphones create price competition between these wireless companies. When the companies sell them in the market, they sell the smartphones at a high price to show high quality products. As the phone sales progress, companies price the smartphones at cheaper prices to attract price sensitive consumers. Firms tend to merge because of the inability to gain a strong customer database. The firms believe customer satisfaction is essential to industry. The comfort of communication from the customers enables the wireless companies to become strong. The widespread demand of technology and successful implementation of wireless services are drivers of merging because they are mutual goals between the merging companies.

1. AT&T

1.1 Wireless Companies Preceding the Merger

The New AT&T Inc. has a very broad history in the wireless industry preceding the merger transaction. AT&T Wireless Services was popular during the 1990s capturing urban and rural markets. In the early 2000s, Southwestern Bell Telephone Company became SBC Communications and acquired by BellSouth formed the new wireless service Cingular Wireless LLC. Other regional telephone companies within the Bell System, Pacific Bell Telephone Company and Ameritech Mobile Communications, had interests in Cingular Wireless LLC. Both the popular wireless service companies AT&T Wireless Services Inc. and Cingular Wireless LLC were in close competition with Verizon Wireless, itself a joint venture of Bell Atlantic and NYNEX Mobile Communications. There were ties between both wireless service companies.

A. History of AT&T Wireless Services

AT&T Wireless Services is the service that had a longer history and recognition out of the companies within the merger. AT&T Wireless Services Inc. was not the initial name of the wireless company. The initial name of the company was McCaw Cellular, Inc. founded by an entrepreneur named Craig McCaw. In January 1994, AT&T sought to purchase the wireless company after its split from the Bell System. AT&T's request to acquire McCaw Cellular Inc. created an intervention of the BellSouth Company. In trying to seek a court review, BellSouth believed that this wireless transaction prevents the company from achieving its future goals of providing long distance services to their customers (Naik, 1994). The court favored AT&T's action because the McCaw Cellular, Inc. was not entitled to property rights by any company within the Bell System, which includes BellSouth.

As a result of the court ruling, AT&T purchased McCaw Corporations, Inc. and officially changed the newly acquired service as AT&T Wireless Services Inc. The McCaw corporate executives became doubtful of the situation. However, they also saw this AT&T brand as a powerful company who people can rely on for cellular and long distance services. Over the next few years, these corporate executives' dreams became genuine. In the late 1990s, AT&T Wireless Services Inc. was the leading nationwide wireless service provider that emphasized the no roaming or long distance fees (Richman, 2004). It is incredible to examine how much work the parent AT&T Company put in to create such a successful division. In the 1990s, AT&T established its fame for its home/office phone services and the publicly used cellular phone services.

B. History of Cingular Wireless LLC

SBC Communications, the company current AT&T began in 1983, was expanding during the late 1990s from a Southwestern regional telephone company to a global telecommunications company. BellSouth desired to follow its former bell partner, and focus on wireless and broadband services. In January 2001, BellSouth got its wish of getting hold of and maintaining a wireless phone service. BellSouth and SBC Communications created a joint venture named Cingular Wireless LLC. The company also had a partnership with AT&T Wireless Services Inc. Cingular Wireless became a success in the United States trailing Verizon Wireless as the number two wireless service provider. Verizon was a popular service provider in urban areas. A year later, Cingular Wireless persisted on executing a $4 billion deal to convert its network to GSM. The company used this network after it demonstrated a major success in the European and Asian markets (Microwaves & RF, 2002). Cingular made a wise decision to convert their wireless network system and capabilities. They enable the users to utilize their phones in almost any part of the world.

In May 2003, Cingular continued to make more plans in trying to battle Verizon Wireless for the number one wireless network in the United States. Verizon Wireless outmatched Cingular Wireless 33.3 million customers to 22.1 million customers (Drucker and Frank, 2003). Cingular failed to capture profit from cities with major markets such as Boston, New York, Washington, and Los Angeles. Cingular sought to operate their networks effectively and efficiently by buying licenses from the bankrupt NextWave Telecom Inc. During the same period, Cingular attempted to acquire either the newly created T-Mobile USA or the long known AT&T Wireless Services. These companies closely followed Cingular in the wireless service industry. They wanted to acquire T-Mobile USA because they did not want to rely on the network share in New York City. However, Cingular wanted to merge AT&T Wireless Services because they feared their competition.

1.2 The 2004 Merger

A. Cingular's Successful Bid for AT&T

The year 2004 was the year in which Cingular wanted to put these acquisition plans into action. In February 2004, Cingular Wireless was unsuccessful in its attempt to acquire T-Mobile USA. T-Mobile USA's parent, Deutsche Telekom, declined Cingular Wireless's offer (Van, 2004). During the same month, AT&T Wireless Services decided to auction its services to Cingular Wireless and Britain's Vodaphone Wireless Group. Cingular won the bid for $41 billion and gave SBC Communications $25 billion from the bid (Mohl, 2004). Most industry analysts and consumers throughout the United States believed that with this acquisition Cingular would have an advantage over Verizon Wireless because of the additional customers from the former AT&T Wireless Services.

This new Cingular/AT&T merger had to find ways to appeal to the public. They had to select the best employees in their staff to handle management and operations. The merger also needed to renovate the retail outlets of both Cingular Wireless and AT&T Wireless Services so that they have a universal structure. In order for it to outmatch Verizon Wireless as the number one leading service provider in the nation, the Cingular/AT&T merger needed to satisfy all customers of the two former entities.

Many people believed that Verizon Wireless retains the number one rank of wireless service provider. Other sources say that the Cingular/AT&T merger gains a huge number of customers making it more difficult for Verizon Wireless to stay in the first rank. A survey from wireless customers shows that the merger would have 46 million customers compared to Verizon's 37.5 million customers (Luke, 2004). The Cingular/AT&T merger had the title for the number one wireless provider. The merger gained customers from both companies and allowed the merged company a better business.

B. Company Management

The combination of the two companies brought many changes to management within the new Cingular/AT&T. The merger shut down several retail stores and kiosks. However, it gave employees of the two companies more job responsibilities to serve this increasing number of wireless customers. Cingular representative Clay Owen stated that the merger planned to hire 4,000 employees to assist with the increase of customer calls (Luke, 2004). The merged Cingular/AT&T wanted to remain fair and loyal to the customers and employees within the organization and advanced the goal of generating a combined effort from all the employees to meet the customers' demands as well as to create an excellent icon for the company.

1.3 Cingular/AT&T: During and After the Merger

A. Surpassing Verizon for the U.S. Mobile Crown

The Cingular/AT&T merger achieved its goal in December 2004 when it surpassed wireless giant Verizon Wireless in customer enrollment. The merger had 46 million customers within the fourth quarter (Cuneo, 2004). The newly merged company decided to take some steps to change its marketing and advertising to its customers. It retained the orange splash symbol. The only change within the merged company's advertising symbol was that the word Cingular was in AT&T's traditional blue font. The slogan of "raising the bar" replaces the slogan "what fits you best" showing that the merger was increasing its wireless services to the public. By Christmas of 2004, the combined cell sites of Cingular and AT&T ranged from 48,000 to 49,000 cell sites (Keefe, 2004). This increase in cell sites shows us the success of the merger. It also demonstrates how difficult it was for other wireless companies such as Verizon Wireless, Nextel, Sprint, and T-Mobile to compete in the wireless market.

B. Christmas 2004: A Blessing for the Company

Heading into January 2005, the merged company appeared satisfied with its fourth quarter results. Its revenue rose by 86 percent and in addition the operating expenses jumped to 96 percent to 7 billion dollars. The revenue of the combined company was 8.1 billion dollars compared to the 7.9 billion dollars from the year before (Drucker, 2005). The 2004 Christmas holiday sales contributed to the merger's increase. These statistics gives us a positive look of the merger. It helped both companies to recover from the woes from the previous year in terms of customer satisfaction and wireless services.

The Cingular /AT&T merger extended their plan of recovering from the past woes going into the year 2005. The merger continued to make more innovations within the service. In March 2005, the Cingular/AT&T merger decided to make an upgrade for high-speed connection, 3G wireless services, which enable the wireless customers to access all internet applications (Yuan and Drucker, 2005). This was a breakthrough in the service because the users have the ability to navigate and search the internet while traveling and without consuming much power as opposed to using the internet on a regular computer desktop. Wi-Fi connection was Cingular/AT&T's vital concern to overcome the Verizon Wireless's strong Wi-Fi services. Jeff Bradley, Vice President of data solutions of the Cingular/AT&T merger, was very optimistic about the move to the 3G wireless network. In an April 2005 interview, Bradley stated that it was convenient to put such a heavy load of data onto a wireless network that is usable for long commutes and travel (Buckley, 2005). The merger was very successful in bringing satisfaction to the customers. It gave consumers the advantage of using the internet on a device that is reliable and more mobile. This internet application gave consumers more reasons to buy and use cellular phones practice.

As Cingular/AT&T continued to make more changes to its carrier applications, it also made more changes within the company during the year 2006. About two years after buying Cingular, AT&T acquired BellSouth for an estimated 67 billion dollars (Granelli, 2006). This acquisition was a rare transaction in which one former member of the long established Bell System acquired another former member. AT&T, originally founded as Southwestern Bell Telephone Company (SBC Communications), acquired BellSouth who infact established the grounds of Cingular LLC. Using the transition law, AT&T used this acquisition strategy to gain more control and fully utilize Cingular to its full potential under the merger. As a result, both the BellSouth and Cingular names folded into one name, simply AT&T, which would take place within the next year.

C. New Identity "Equals" New Icon

The year 2007 proved to be an important year for the Cingular/AT&T merger. In January 2007, Cingular's new name officially became AT&T Inc. During the beginning of the first quarter of 2007, they put their plan into action. In December 2004 during the early days of the merger, company executives combined the Cingular orange splash icon and the AT&T icon so that customers view Cingular becoming AT&T. However, this was a short-term symbol as envisioned by the merger. The executives took a different approach by displacing all of the Cingular icons. The management's only priority was to establish a name for the new corporation.

D. The Beginning of "The New AT&T Inc."

Taking all insignias of Cingular, the company retained all of AT&T's attributes, such as the traditional blue color, because of its popularity during the decades. According to an estimate, advertising costs accounted for about 20 percent of the operating expenses of the new company (Searcey, 2007). Wireless customers recognized the company as AT&T prior to the merger. The merger not only displayed the AT&T that began in the 1980s. It is the new AT&T Inc. demonstrating all the capabilities that were initially established by both Cingular Wireless LLC and AT&T Wireless Services Inc under this popular name in the telephone industry.

E. AT&T Partners with Apple: A Fruitful Alliance

Now that AT&T established an icon, it had other tasks on its agenda. AT&T was planning to continue its deal with Apple Inc. when a year ago AT&T reached an agreement with Apple in the development of wireless services. Originally, Apple planned to brand its own phone for Cingular. Cingular declined the offer and instead decided to produce a mobile phone by Apple to its customers of AT&T. Both AT&T and Apple agreed on the creation of the "New Apple iPhone." Apple chief executive, Steve Jobs, announced of this iPhone's touch screen usage (Richtel, 2007). This phone is competing against the likes of Verizon's Chocolate Phone and T-Mobile's Sidekick Phone. AT&T's strategy in this case was to cooperate with a major company in the computer industry to introduce this touch screen technology.

In July 2007, the Apple iPhone became a success. A research conducted in San Francisco showed that consumers bought approximately 525,000 iPhones (Friedman and White, 2007) in the second quarter. This became a huge boost in sales at AT&T retail stores. In September 2007, both AT&T and Apple settled for a new approach. The iPhone's price decreased from 599 dollars to 399 dollars (Wingfield, 2007). The shares of both the companies increased on the new development. These additional, outstanding applications of downloading images, music and videos with the help of touch screen technology were now attainable to customers who became concerned, nevertheless of expensive pricing. In response, AT&T and Apple in this situation agreed to meet the concern of the customers, which was to allow customers who could not afford a high quality phone to use these phones in a practical manner (See Model).

People should not view the Cingular/AT&T merger as a company who focuses within its internal structure. People should look at the merger as a combination of two companies that desire to recover from financial woes and gain better reviews from the customers. The wireless customers are the group most affected by the merger, such as retaining their numbers, and avoiding the long-distance/roaming charges.

1.4 AT&T Inc.: An Ideal Merged Corporation

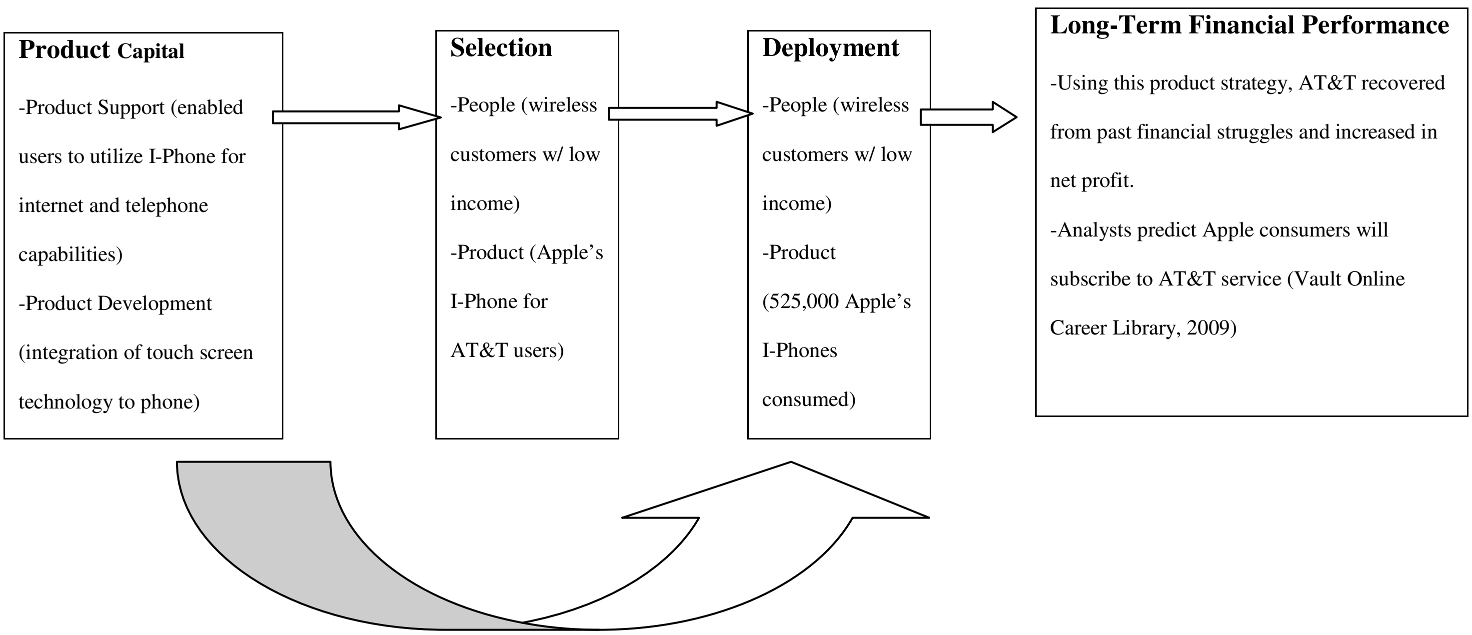
In addition to keeping good relations with their customers, the two companies within the merger maintained a universal goal. The goal for Cingular Wireless LLC and AT&T Wireless was one in which they agreed not to compete against each other to determine the brand name or icon of the merger. Once they cooperated with each other, these two companies had the ability to bring the consumers into buying their products. The companies' concerns had a resolution in such a manner that combined the two small symbols into one strong, concrete symbol. For example, the merger proved this point when it kept the AT&T name and traditional blue color, simultaneously utilizing Cingular's reliable services. This change and the compromise by the two companies were very vital for becoming a successful corporation within the wireless market.

Financially, AT&T showed outstanding results in comparison to its competitors (See Table 3). The only aspect company became successful was its financial strength with a debt-to-equity ratio of 77.83429. Last year, AT&T had the highest stock return of 7.38920. AT&T's net profit margin was 8.65798, while maintaining a slim lead over Verizon. The table shows that although AT&T leads in the telecommunication industry, it is in a close competition with Verizon.

When we look at the merger between Cingular Wireless LLC and AT&T Wireless, we see positive changes within the combination. The merger sought to eliminate problems within its service and deliver customer satisfaction through a combined effort. This is important because a merged organization should follow this strategy. It should focus on the customer demand so that they can benefit as a business, gain customer trust, and expand their services to other prospective wireless customers. Simultaneously, the merger should also focus on the fair business practices for its employees and the willingness to have the two companies cooperate to achieve this success.

Figure 1.1

Model of Product Capital and Performance of Acquisitions



This figure presents a model for product capital and performance of acquisitions.

In particular:

1) The hypothesis is introducing the I-Phone boosted overall financial performance of the merger.

2) The outcome variable is AT&T's long-term financial performance in that merger's profits measures by product and customer usage. In the model, customers bought 525,000 Apple I-Phones.

3) The model contains many predictor variables in the forms of product capital, selection, and deployment. The variables are measure by customer demand, consumption, and sales.

2. Sprint Nextel

2.1 Wireless Companies Preceding the Merger

Sprint Corporation held many partnerships during the 1980s and 1990s. Unlike AT&T, Sprint was not included in the Bell telephone system. The company was a competitor to the Bell telephone system. Prior to the merger, Sprint collaborated with RadioShack stores to house their phone products and merged with MCI WorldCom. Nextel was a smaller company that introduced a new aspect to the cellular phone product. It implemented the “push to talk“system in their “Direct Connect” utility. Both companies individually provided no competition to the booming Verizon or AT&T.

A. History of Sprint Corporation

Cleyson Leroy Brown and Carlos Florendo Jr. founded the Brown Telephone Company in Albeine, Kansas in 1898. The company changed into several names, such as United Utilities and Telecom, during its run toward the mid 20th Century. In 1978, Southern Pacific Communications Company (SPCC) created a long distance division that utilized Private Line connections. SPCC used the Sprint service, which was only available to six urban cities such as New York, Boston, Philadelphia, Los Angeles, San Diego, and Anaheim. Los Angeles and New York were the cities that maintained the switches to the service Thus, the user needed to pay and have the Private Line connections to any of these two switches to use the Sprint Service.

In 1989, United Telecom purchased interest of US Sprint, after it had merged with GTE Telenet and US Telecom, from SPCC. Two years later, United Telecom acquired US Sprint and eventually renamed itself Sprint due to the rising demand for the Sprint Service. In 1992, Sprint corporate executives believed that its upcoming deal with Chicago-based Centel Corporation would increase the number of subscribers for this merger (Ramirez, 1992). In the Spring of 1993, Sprint completed its merger with Centel. At the time, Sprint was the only telecommunications company in the United States that included cellular, local, and long distance services (Pendleton, 1993). Sprint went on to create joint ventures with overseas telecommunications companies, such as R.P. Telekom S.A., a Polish independent telephone network (New York Times, 1994).

By the late 1990s, Sprint created a wireless service known as Sprint PCS, which made a major breakthrough for the company. In 1998, Sprint PCS bought stocks from cable television partners such as Comcast, and Cox Communications. Analysts believed the initial public offering (IPO) of Sprint rose between $500 million and $1 billion (Phillips Business, 1998). Sprint PCS brought more capital to the company in the same year.

B. History of Nextel Communications

In 1987, telecommunication lawyer Morgan O'Brien founded a telecommunication firm known as Fleet Call in Reston, Virginia. It was a direct competitor of American Mobile Systems. Fleet Call held an advantage over AMS. Fleet Call had 40,000 subscribers in New York, which was double the amount AMS had in five years, and the same amount in Los Angeles, where AMS had no services (Crouch, 1988).

Before Christmas of 1992, Fleet Call successfully acquired Dispatch Communications Inc. in a $268 million transaction (Naik, 1992). In March 1993, there were several changes for the Fleet Call Company. It created a digital wireless communications service named Nextel, and renamed the company Nextel to reflect the success of this service (Wall Street Journal, 1993).

Nextel gained a lot of popularity during the late 1990s. In November 1997, the company discontinued charging roaming fees, and developed the walkie-talkie cell phones for kids and adults (Mehta, 1997). Nextel walkie-talkies were different from the traditional cell phones other companies used. The walkies served as two-way radios allowing each user to speak one at a time. It has better reception than public phones and cheaper than the ordinary cell phone. Nextel stated that these radio frequencies would expand across all urban areas in the nation to accommodate for their growth in subscribers (Van, 1997). In March 1998, Nextel took a step further internationally. The company purchased a 21% stake in J-Com Co from Nippon Motorola, Japanese subsidiary of Motorola (New York Times, 1998). Both Sprint and Nextel had carried their successes from the late 1990s into the early 2000s. After witnessing the successful merger between AT&T and Cingular in 2004, both companies decided it was time for them to start negotiating a deal.

2.2 The 2005 Merger

A. Another Blockbuster Merger

Critics were right when they said that 2004 was going to be a big year for these wireless companies. In December 11, 2004, both Sprint and Nextel negotiated a possible deal of merging after both companies rose in the stock market after the former rejected Verizon Wireless offer to merge (Meyerson, 2004). Many felt that the merger between the number 3 and number 5 ranked companies has the possibility to surpass AT&T/Cingular Wireless and Verizon Wireless. Five days later, the critics' expectations came true when Sprint CEO Gary Forsee and Nextel CEO Timothy Donahue announced a $35 billion merger (Alexander, 2004). Both companies claimed that the changes to the service would not occur immediately. The companies stated that the merger would remain as one company with two available wireless networks for customers.

During the holiday season of 2004, critics positively predicted that Sprint Nextel would stay number three directly behind Verizon with 39 million wireless customers (Montalbano, 2004). In August 15, 2005, the Federal Communications Commission (FCC) approved of the Sprint and Nextel merger (Transport Topics, 2005). The FCC also announced the new company simply named as Sprint Nextel Corporation. One immediate sign of the growth potential was during the end of August when they bought affiliates, Gulf Coast Wireless and IWO Holdings Inc (Los Angeles Times, 2005). Sprint Nextel merger was unique in that both companies of the merger were not members of Bell telephone system. These two companies developed through many decades to become successful as they are today.

B. Company Management

Although they were able to acquire affiliates after the Summer 2005 merger, Sprint Nextel Corporation had a few internal matters to deal with. Sprint Nextel Corporation tried to find ways on how to differentiate their services. The deal of each company had a benefit. A Sprint customer has the option to have a $100, 2,000-minutes-per-month rate plan, giving him or her, the ability to add free incoming calls. A Nextel customer has the option to pay $10 extra per month to talk free evening hours starting at six in the evening.

Initially, the merger completely ignored the Nextel portion prohibiting Nextel customers from switching and using Sprint's features. The reason for this technicality is Sprint Nextel did not purchase Nextel partners, a separate entity that is responsible for some of the Nextel brands. In late October, Nextel Partners exercised the option allowing Sprint Nextel to buy the smaller wireless entity (Wall Street Journal, 2005). The company began taking action into restructuring stores of both services to retain all customers.

2.3 Sprint Nextel: During and After the Merger

A. Combined Identity "Equals" Combined Icon

Unlike Cingular/AT&T, the Sprint Nextel merger began plans on creating an icon shortly after the merger took place in 2005. As they announce in early 2005, the merger simply referred to as Sprint Nextel Corporation. In the same manner, the symbol would include icons from both companies. In September 2005, the Sprint name began to appear in a "Nextel" font and bathed in "Nextel yellow" (Fershleiser, 2005). The stores carrying both services would also include these changes. The merger made a correct decision in creating this icon because they wanted to include members and customers of both services as being a part of the merger's success.

B. Connecting the Phone with "The Tube"

In the Fall of 2005, Sprint Nextel made deals with several cable companies to broadcast their programs using the Sprint PCS service. The firm collaborated with Time Warner Cable, Comcast, and Cox Communications to provide the wireless services for fast speed Broadband services and television programming to Sprint Nextel subscribers. Sprint Nextel Corporation felt that the cellular service along with this package overcomes the regional Bell markets and expands into the television market (New York Times, 2005). Sprint Nextel Corporation makes a breakthrough by expanding from the telecommunications industry into the entertainment industry.

C. Sprint Nextel's Touchdown

Besides the entertainment industry, Sprint Nextel Corporation became involved with the sports industry soon after its merger in Summer 2005. Sprint Nextel signed a five-year deal with the National Football League (NFL) allowing it to broadcast NFL games, highlights, and all NFL content (Wall Street Journal, 2005). The company paid $200 million to the league directly and an additional $100 million for advertisements and sponsorships to the NFL Network and NFL.com.

In 2006, NFL fans were impressed by Sprint Nextel's live stream of the 2006 NFL Draft showing the NFL executives and top prospects for the draft. Steve Gaffney, director of sports marketing, stated that the NFL fans would be a crucial part of the wireless company's success (Hiestand, 2006). In addition, these same fans would be able to create their own fantasy teams using the features of their Sprint Nextel phones. The 2006 NFL Draft sparked a $3 billion to $4 billon boost to both the sports industry and wireless industry (McCarthy, 2006). Sprint Nextel made a bold and successful move in that they captured a sport in which people of all ages watch.

D. Sprint Nextel's Financial Failures

During the initial stages of today's current economic recession, Sprint Nextel Corporation faced many predicaments internally and externally. In January 2008, the company's stock price fell $2.87 to $8.70, at least 25% per share, marking it the stock's largest price drop since July 1980 (Los Angeles Times, 2008). The cause of this was the intense competition from Verizon Wireless and AT&T. Sprint Nextel lost many customers from November 2007 to January 2008. These customers were people fascinated by the VCast service and offers with Verizon Wireless, and by the Apple I-Phone service officially partnered with AT&T.

These external problems spread to the company's internally. Sprint Nextel Corporations had to deal with their outlet stores and their employees. Sprint CEO Gary Forsee left in October 2007 and accused Nextel for weakening the merger while the merged company's board blamed him for financial crisis (Sharma and Lublin, 2007). In January 2008, Sprint Nextel announced it would cut 7 percent of the company's workforce and close 125 retail stores to ensure is survival in this economic downturn (Goldfarb, 2008). The closing of the stores caused average sales of phones to drop. The only situation where Sprint Nextel recovered from the drop was when it owned 49 percent of Virgin Mobile (USA) (Vault Online Career Library, 2009). The only option the Sprint Nextel employees had was to leave the organization or to operate in a more remote location.

2.4 Sprint Nextel Corporation: A Well Matched Combination

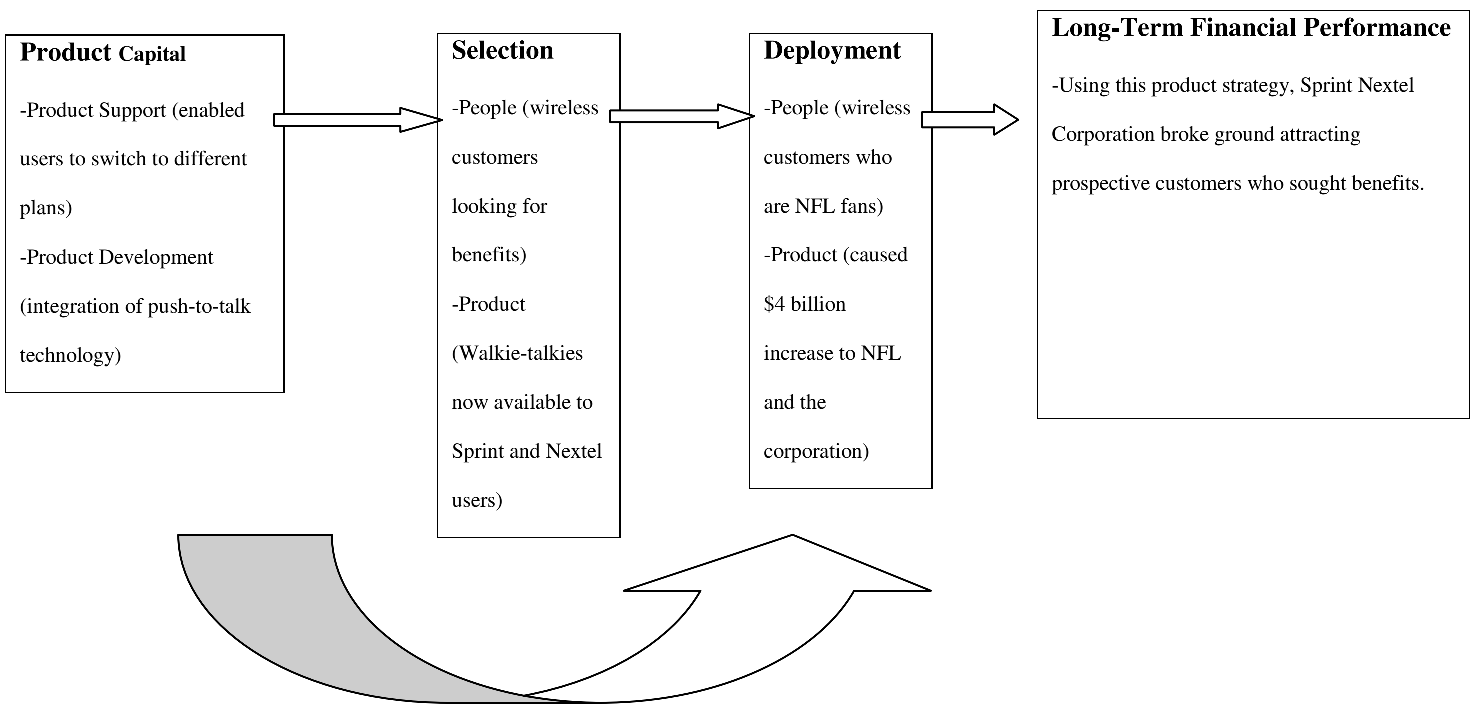
Sprint Nextel Corporation had a good start during the initial stages of the merger in Summer 2005. As they progressed through the year, they had problems in maintaining a specific goal. Both Sprint and Nextel almost competed against each other in the merger when they debated which service was more promising to the merger's overall customers. During Summer 2005, the board of each company had to devise this option of allowing customers of each service to switch to the other service's plan as opposed to planning about this option after the merger took place. The goal of the Sprint Nextel Corporation is consistency. Both companies within the merger are supposed to be equals. Therefore, they operate as equals. For instance, the merger could allow Nextel users the option of adding the NFL package in their cell phones. In the same manner, the merger could develop more walkie-talkies for Sprint users. Another goal is find partners, such as Microsoft, to develop products for Sprint Nextel similar to how AT&T collaborated with Apple to create the I-Phone for AT&T.

Financially, Sprint Nextel showed dismal results in comparison to its competitors (See Table 3). The only aspect company became successful was its financial strength with a debt-to-equity ratio of 124.56720. Last year, Sprint Nextel had a stock return of -41.51960, which was 48.9088 lower than AT&T's stock return. Sprint Nextel's net profit margin was -33.07065, which was 41.72863 lower than AT&T's net profit margin.

The table shows that Sprint Nextel fails in the telecommunication industry because of its losses exceeding its gains.

Figure 2.1

Model of Product Capital and Performance of Acquisitions



This figure presents a model for product capital and performance of acquisitions.

In particular:

1) The hypothesis is introducing the NFL package to Sprint Nextel phones boosted overall financial performance of the merger.

2) The outcome variable is Sprint Nextel's long-term financial performance in that merger's profits measures by product and customer usage. The walkie-talkie phones with the enhanced NFL feature gave a $4 billion revenue to the NFL

3) The model contains many predictor variables in the forms of product capital, selection, and deployment. The variables are measure by customer demand, consumption, and sales.

3. Verizon

3.1 Wireless Companies Preceding the Merger

Both Verizon Wireless and Alltel Wireless were top selling wireless carriers during the 2000s along with AT&T and Sprint Nextel. Verizon Communications was one of the seven Baby Bells operating in the Atlantic Region from the 1980s to the 2000s. Alltel Corporation's creation occurred in the 1940s after which other independent companies merged with it. Prior to the 2008 merger, Verizon's service, Verizon Wireless, was runner up to AT&T after AT&T merged with Cingular to take the wireless carrier crown from Verizon, and Alltel was fifth largest carrier in the nation.

A. History of Verizon Wireless Communications

Verizon Communications, Inc. began as Bell Atlantic Corporation (NYSE: BEL) and NYNEX Corporation. Bell Atlantic Corporation, formed in 1983, was one of the seven "Baby Bells" within the Bell telephone system. Bell Atlantic Corporation included regional telephone companies such as Bell Telephone Company of Pennsylvania, New Jersey Bell Telephone Company, Diamond State Telephone Company, Chesapeake

Potomac Telephone Company, Chesapeake Potomac Telephone Company of Maryland, Chesapeake Potomac Telephone Company of Virginia, and Chesapeake Potomac Telephone Company of West Virginia. In 1994, the names simply referred to as Bell Atlantic- Name of State. For example, the names for some of these companies were Bell Atlantic-Pennsylvania, and Bell Atlantic- Maryland. NYNEX Corporation was a regional Bell company formed in 1984 by subsidiaries New York Telephone Company and New England Telephone. NYNEX had a few noticeable troubles in the 1990s. An example was the infamous violation of the Bell System breakup decree in February 1993. Before filing $1 million fine, NYNEX appealed in court on the grounds that it informed the Justice Department about purchasing Telco Research. NYNEX executives claimed they moved computer used by MCI Communications and transfer ownership to them (Carnevale, 1993).

In April 1996, Bell Atlantic Corporation and NYNEX Corporation initially agreed to merge. The FCC approved the $25.6 billion merger in August 17, 1997 referring the merger as the “New Bell Atlantic” (Electronic News, 1997). Bell Atlantic merger was one of the largest combinations in the wireless industry during the late 1990s. Bell Atlantic accessed about 40 millions telephone lines and 5.5 million customers in more than 19 states. Bell Atlantic thrived during this period providing both well received local and cellular phone reviews.

In July 2000, Bell Atlantic underwent a significant change. Pace University Graduate and Bell Atlantic CEO, Ivan Seidenberg, felt the need for Bell Atlantic to expand into more states in the Atlantic such as Maine and Vermont (Howe, 2000). Seidenberg’s wish became true when the FCC approved $59 billion merger between Bell

Atlantic and GTE Corporation (Nathan, 2000). The merged company was no longer Bell Atlantic. The name of the merger was Verizon Communications, Inc. This giant merger deal provided telephone service to 95 million homes in 30 states and brought 25 million customers. Verizon Communications and Vodafone Group PLC created a joint venture known as Verizon Wireless. Urban areas were the markets where Verizon gained its customers. Throughout the 2000s, Verizon Wireless ranked number 1 in wireless carrier ahead of competitor Cingular Wireless until its recent merger with AT&T, and became well known for its outstanding Verizon Online DSL competing with Time Warner Cable.

B. History of Alltel Corporation

In 1943, Charles Miller and Hugh Willbourn, Jr. founded the Allied Telephone Company, an independent telephone company in Arkansas mainly responsible for installing telephone cables and poles throughout the state. In 1983, Mid-Continent Telephone, founded by Weldon and Nelson Case, merged with Allied to create Alltel Corporation. Alltel had many successes during the mid to late 1980s. In 1985, it created its first wireless service. In 1989, Alltel had two instances of acquisitions. In January 3, 1989, Alltel acquired CP National Corp., A San Francisco telecommunications and gas utility holding company. During the acquisition, Alltel exchanged 1.15 of common stock for approximately 7,550,000 outstanding shares of CP National Corp. (Wall Street Journal, 1989). In March 1989, Alltel acquired HWC Distribution Corp, a Houston distributor of electrical cables and wire. This acquisition involved Alltel acquiring HWC Distribution for $26.05 per share, at about $143 million (Wall Street Journal, 1989).

In March 1990, Alltel made a huge leap. The company acquired Systematics Inc., software maker, about 16 million shares at a market value of $528 million. Systematics Inc., well known for its advanced software for banks and other financial institutions, proved to help Alltel expand while operating independently (Wall Street Journal, 1990). Throughout the 1990s, Alltel acquired many small regional telephone companies. Throughout the early to mid 2000s, the company acquired regional telephone services of companies such as Verizon and Cingular. However, Alltel was a failed telephone company because it was only accessible to rural areas. In 2008, Alltel made itself known when it made its largest deal when agreeing to an acquisition by Verizon for $27 billion.

3.2 The 2008 Merger

A. A Mega Merger for Wireless Crown

In June 2008, Verizon Communications and Alltel were behind AT&T in nation's top carrier, which gained an abundance of subscribers due to the popularity of the I-Phone. Reports showed AT&T had at least 71.4 subscribers in the first quarter of 2008 (Sharma, Berman, Ng, 2008). Verizon developed a deal in which it could potentially surmount AT&T's number of customers. The number two wireless carrier talked with Alltel, the number five wireless carrier, about a possible $27 million merger that creates about 80 millions subscribers for the merged company. Although it was behind AT&T prior to the merger, Verizon's service, Verizon Wireless, was ahead of Sprint Nextel. Some sources state that Verizon gained and will snatch customers from Sprint Nextel, who had their problems of retaining customers (Sharma, Berman, Ng, 2008).

During the merger, Verizon invested on other services. One of the services includes buying 700-megahertz licenses that TV operators formerly owned, for about $10 million (Cauley, 2008). Alltel explained one of the benefits of its merger with Verizon is the fact that both companies share the same technology for their cell phones known as CDMA. The company also stated that with its assistance, the merger enables Verizon to expand into certain rural regions that it never provided service. Analysts believed the Verizon/Alltel merger bring benefits to the rural areas by providing the next generation fast-speed internet connection, known in those areas as Long Term Evolution. This internet connection claimed to bring nearly perfected streamed videos to cell phones and wireless videoconferencing on laptops. On November 5, 2008, the FCC approved the Verizon acquisition of Alltel. The newly formed company simply referred to as Verizon Wireless gained approximately 105 markets, where the wireless company coincides with Alltel (Los Angeles Times, 2008).

As predicted, Verizon's acquisition of Alltel made it number one wireless carrier in the United States surpassing AT&T. Strong advertising on its smartphones, such as the Blackberry Storm, currently stands at more than $10 billion (Ward, 2009). Verizon made a superb strategic move. By acquiring Alltel, Verizon highlights their fast wireless services to rural residents.

B. Company Management

Although 2009 is the first full year of the Verizon/Alltel merger, the merger discloses a few amount of information regarding company management. Analysts predict of a future conversion of Alltel services converted into Verizon services and products similar to the case of 2004's AT&T and Cingular merger. Advertising will also reveal that Verizon is indeed the parent company of Alltel. Another positive is that there are currently no arguments between the companies as opposed to Sprint and Nextel merger conflict, indicating that Alltel agreed to collaborate with Verizon to establish a sound strategy.

3.3 Verizon: During and After the Merger

As predicted, Verizon has become the nation's largest telecommunications company due to gaining Alltel's customers. Unlike AT&T and Sprint Nextel, there is little change within Verizon Wireless. Alltel simply becomes Verizon, who receives the benefits of additional customers. Alltel collect benefits of Verizon Wireless' Open Development initiative, which allows all third parties to use the Verizon Wireless network (Network Business Weekly, 2008). Many customers of both companies view the merger as a success because each provider offer two similar wireless networks into a large integrated network.

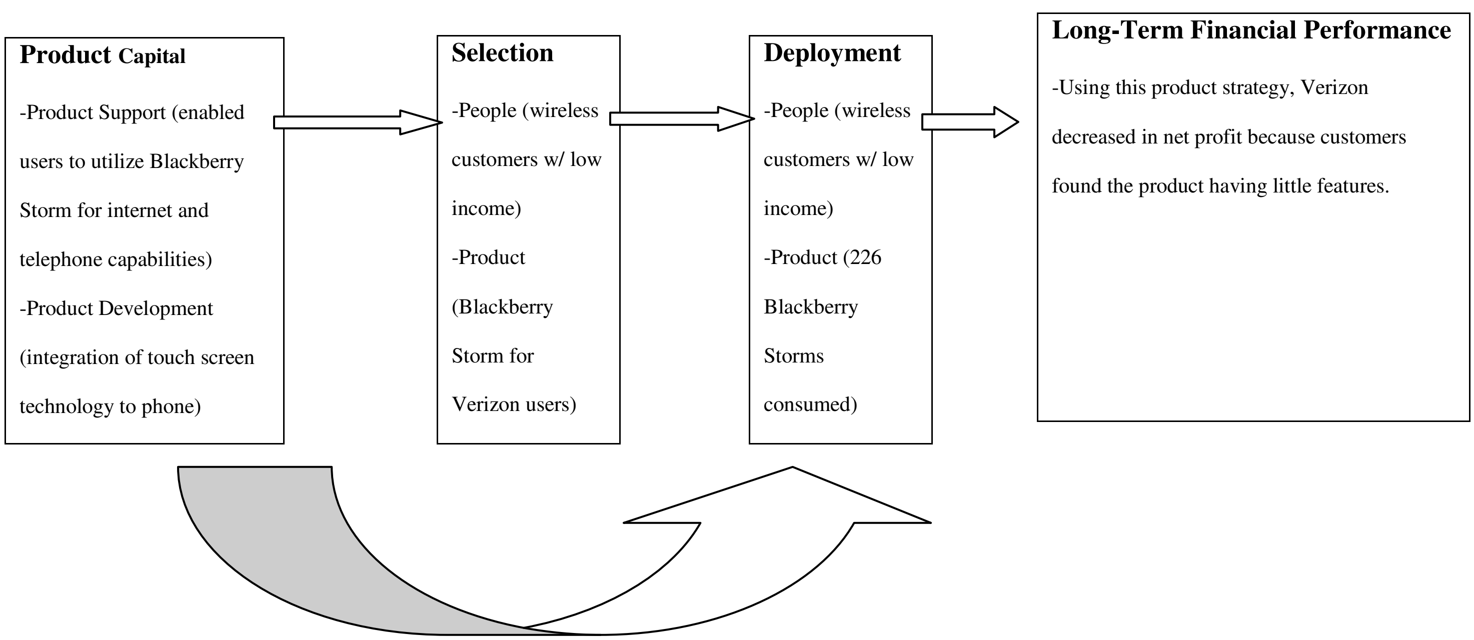
3.4 Verizon Wireless: A Flourishing Merger

Although AT&T holds the contract with Apple and the I-Phone product, Verizon wins the battle with customers. Since it released the I-Phone in 2007, AT&T gained customers who were mostly responsive for the product as opposed to the wireless service and eventually became number one service provider. In the second quarter of 2008, both Verizon and AT&T dropped below 2 million subscribers, approximately the quantity of subscribers of each company in the fourth quarter of 2007. After making the deal with Alltel, Verizon has a customer database it had never imagined of attracting before. Verizon's Blackberry Storm may not be as attractive as the I-Phone, but it is more formal (Pittsburgh Post, 2009). Verizon will improve the Blackberry Storm and its existing products to make progress in the near future.

Financially, Verizon grew steadily in comparison to its competitors (See Table 3). The company showed signs of financial strength with a debt-to-equity ratio of 124.56720. Last year, Verizon had a stock return of 2.60630, which was 4.7829 lower than AT&T's stock return. Verizon's net profit margin was 7.41794, which was 1.24004 lower than AT&T's net profit margin. The table shows that Verizon is in close competition with AT&T with its financials.

Figure 3.1

Model of Product Capital and Performance of Acquisitions



This figure presents a model for product capital and performance of acquisitions.

In particular:

1) The hypothesis is introducing the Blackberry Storm boosted overall financial performance of the merger.

2) The outcome variable is Verizon's long-term financial performance in that merger's profits measures by product and customer usage. Consumer totals of Blackberry Storms were about 226 phones.

3) The model contains many predictor variables in the forms of product capital, selection, and deployment. The variables are measure by customer demand, consumption, and sales.

Table 1: Pre-Merger Analysis of the Firms

The table profiles strengths and weaknesses of the Wireless companies involved in the merger.

Wireless Companies	Strengths	Weaknesses
i) AT&T	- Became popular service provider during the rise of cell phones in the 1990s - Gained customers from its no roaming and long distance fee policies	- Its lack of integrating technology caused Cingular and Verizon to surpass it in early 2000s - It was unable to capture the urban markets
ii) Cingular	- First users of GSM technology - Acquired AT&T in 2004 for $41 billion to create a company with 46 million customers	- Sprint rejected their offer to merge in 2002
iii) Sprint	- Purchased stocks from Comcast to increase revenue - Sprint PCS became a main factor for the company's successful stock purchases	- Sprint PCS caused disagreement within company's partners - Has less customers than AT&T during the late 1990s
iv) Nextel	- Became popular because of the walkie-talkie phones - Followed AT&T's strategy of no roaming and long distance fee policies	- Battled with financial data during the late 1990s - Losses during this period exceeded investor expectations
v) Verizon	- Commonly used service provider in urban and rural markets - Became well-known for mobile provider in various businesses - Added about 500,000 new long distance consumers in April 2001	- Struggled with price competition with its competitors
vi) Alltel	- Created partnerships within companies in other industries,	- Only accessible to rural areas

	such as fuel and banking	

Table 2: Post-Merger Analysis of the Firms

The table profiles strategic moves and missteps of the Wireless companies involved in the merger.

Wireless Companies	**Strategic/Synergistic Moves**	**Missteps**
i) AT&T/Cingular	- Surpassed Verizon from 2004-2008 as number one wireless carrier - Upgraded 3G network to phones to attract customers - Acquired BellSouth for $67 billion - Gained profits from sales of Apple I-Phone from AT&T and Apple consumers(Vault Online Career Library, 2009)	- Established an identity several months after 2004 merger
ii) Sprint/Nextel	- Attracted NFL fans using the NFL fantasy league feature - Allowed members of both services to stay or switch to the other service provider	- Conflict within company executives - Sprint CEO Gary Forsee left due to company's blame of contributing to financial crisis - Cut 7% of workforce - Closed several stores causing phone sales to drop
iii) Verizon/Alltel	- Recently surpassed AT&T as number one carrier with a larger customer database with 80 billion customers - Continued to improve wireless and broadband services for all brands of phones - Created Long Term Evolution bringing fast-speed internet connection to rural areas	

Table 3: Ratio Analysis and Comparisons

This table presents financial performance as of 2008of the three companies resulting from their respective mergers. The debt-to-equity ratio is in percentage, sales and earnings per share (EPS) are in U.S. dollars. Stock returns, gross margin and net profit margin are in percentages.

Financial Metrics/Ratios	AT&T-Cingular	Sprint-Nextel	Verizon-Alltel
A. *Financial Strength*			
Current ratio	0.5333	1.1513	1.0065
Quick ratio	0.5333	1.0666	0.9257
Debt-to-equity	77.8343	106.9994	124.5672
B. *Growth Measures* (*avg.*)			
Sales, last 1 year	4.2883	-9.0458	4.1564
Sales, last 5 years	25.0884	8.5162	7.6096
EPS, last 1 year	11.3986	-23859.3100	18.7983
EPS, last 5 years	4.1454	-99999.9900	12.5162
Stock returns, last 1 year	7.3892	-41.5196	2.6063
Stock returns, last 5 years	1.6400	0.0000	1.8400
C. *Profitability and Margins*			
Gross margin	55.1940	54.4936	53.9328
Net profit margin	8.6579	-33.0706	7.4179

Conclusion

In evaluating the mergers, the company that is the best and ideal merger in the wireless industry is number two-ranked AT&T Inc. Although AT&T performed well in most of its financial areas such as, highest gross margin and net profit margin, it had some weaknesses. As seen on the financials on Table 3, AT&T assumed less debt and lacked liquidity with its low current ratio compared to its competitors. AT&T's relatively low quick ratio shows its inability to pay off debts. AT&T's financial success was mainly from its ability to integrate its efforts to merge with its joint venture, Cingular Wireless, to create a large telecommunications company. The newly formed company was able to collaborate with another successful technology company, Apple. While partnering with Apple, both companies created the most innovative and well-marketed product in this decade, the Apple I-Phone exclusively for AT&T. Verizon Wireless is number one in the wireless industry and already overcome AT&T with its strategy of attracting customers. Although Verizon was below AT&T in terms of gross margin and net profit margin, it faired better than its competitor did in its liquidity and ability to pay debts. In terms of product sales, it needs to perfect its work on touchscreen technology phones so that it will overcome the profitability of the I-Phone. Sprint Nextel, number three-ranked provider, has a tougher time to become number one. It had dismal financial results in almost all ratios. Unless the company resolves its internal and customer problems, it may have close competition with the other two companies. The walkie phones are innovative, but they cannot attract customers for the company if Sprint Nextel poorly markets the products. A successful merger involves both innovation and strategic planning.

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