



Sprint's CEO says he hopes a 4G wind will push the telecom company onward

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A week ago, Dan Hesse relaxed his lean frame in a conference room at Sprint Nextel Corp.'s headquarters and laid his fourth-generation phone on the table.

Not even Steve Jobs, whose Apple Inc. made a fortune selling iPhones, has one of these in inventory. Ditto for Hesse's rival CEOs at AT&T, Verizon and T-Mobile.

Sprint's HTC Evo fourth-generation phone went on sale Friday, and it's the only smart phone capable of delivering next-generation download speeds.

"We're pretty confident none of our competitors will have a 4G phone in 2010," Hesse said a few days before Evo's release.

Rivals will offer 4G phones at some point, but Sprint hopes to capitalize on its advantage in a technology promising to be up to 10 faster than 3G wireless service.

Hesse, during an hour-long interview that has been edited here for clarity and brevity, argued strongly that the Evo arrives as nearly every industry comparison is moving in Sprint's favor.

There's no certainty about the competitive effect of Sprint's 4G edge as the WiMax network it runs on rolls into more markets. But Hesse can feel a 4G breeze at his back. It's a welcome change from the headwinds of recession.

The company's stock price — at its highest level in a year — suggests Wall Street also perceives a favorable turn for the nation's third-largest wireless company.

Sprint employees feel it, too; Hesse said customers say so.

"When I walk around Kansas City, I ask them or they volunteer what their experience is like at the Sprint store. They always talk about not only how great the service is but how energetic and positive the employees are."

Q: What do you think is driving that in particular?

A: First, we really do focus on communicating with the employees very openly and very directly about what's going well and what's not going so well.

Second, they know that we're making progress from a business point of view. Within the context of the industry they know we are standing out from a performance perspective.

More than anything else — not just at Sprint but any company I've worked for — the biggest driver of morale is company performance. People want to work for a winner.

We're not where we want to be yet, but there's no question we're showing progress. The strategies we focused on the last couple of years are paying off. We were in fourth place or were way behind. Now we may be third, in some areas first or second.

They feel proud of the other kinds of things we've been focusing on. In the last two years we've really focused on corporate social responsibility and on being green and the environment. Those kinds of things make people feel good about the company they work for.

Q: Citigroup's analyst claims Sprint has room for more cost cutting, including labor costs.

A: We have taken a lot of cost out of this company. You can always figure out ways to be more efficient.

This year, we're putting a stake in the ground that we are going to start focusing on growth as a company.

Q: Robert Brust, the company's chief financial officer, has told analysts the goal was to stabilize the company and revenues.

A: We always have a rolling three-year plan, so we have an objective. In 2010, 45 percent of our bonuses are going to be driven by revenue.

We haven't told the street whether we will or won't grow revenue this year. Think of 2010 as the year revenues stabilize. Then the position is to start growing the company.

Q: How stable do you think employment is here now?

A: I'm not contemplating right now any further force reductions. But you never say never. You never know what's going to happen with the economy. You never know what's going to happen competitively.

As the company and technology moves you can always be reducing this function and increasing it someplace else. I'm still trying to reduce the number of people that are answering the phones in customer care. I'm trying to reduce the reasons customers have to call and complain.

We've closed 49 call centers in two years. That's been the biggest decrease in labor expenses in the company while improving customer service at the same time. When you talk about the number of employees, those were the big (layoffs), but it was the right thing.

Q: As Evo sales begin, what boost do you expect in terms of customers or revenues?

A: I said it with the Palm Pre and the Instinct, the first few months of a new device is going to be hot. The real test is what legs it has over a long period of time.

We're hopeful that it will. We think it's the best 3G device on the market today. The beauty is it's also got 4G. Wherever it picks up a 4G signal, it works just that much faster.

Q: There are Sprint markets that have been 4G for six months or longer, and they're just now getting a chance to use a fourth-generation phone. Does that mean Sprint has lost some of its first-mover advantage in 4G?

A: No. We're expecting Verizon to launch 4G right around the end of this year in a number of markets. But they're saying they won't have any phones until the middle of next year.

The question is do I launch 4G when people can use computer cards or do you wait until you have the phones? The answer is you launch 4G as soon as you can because it's so much better in terms of a mobile Internet device for your computer than 3G.

We don't really know how big of a deal 4G is until you get the phone because that's what most people are waiting for.

There's no question we expect it to be a tailwind to our numbers.

Q: Will Sprint release a 4G customer count?

A: Possibly. We're talking about it internally.

There's one real good surrogate. Take a look at Clearwire (which operates the WiMax network Sprint's 4G service runs on). When they talk about their number of 4G subscribers, the lion's share of that is Sprint. We may or may not break out 4G or what we call dual-mode numbers.

Q: Is there a reason to release Evo just ahead of Apple's new iPhone announcement?

A: If I could have announced this a month ago, two months ago, a day ago, it would have been done. It's brand new technology. It's really pushing the envelope. It is the most advanced phone by far. It was just as soon as we could get it ready.

Q: You have focused on improving the Sprint brand and customer experience. How do you connect those to Sprint's customers losses (churn) and to new customer additions?

A: There's a relationship, but the biggest reason customers churn is they can get a better deal with a competitor or the competitor has a new shiny device like an iPhone. There are so many other factors.

There's also the brand metrics: "most want to investigate" and other loyalty measures such as "most likely to recommend." Last year Sprint customers, if they were going to buy a new product, their willingness to buy from Sprint was most-improved.

But we have a long way to go because our absolute scores in "likelihood to recommend" are not at the top.

In a lot of these metrics, you'd see Sprint a couple years ago, three years ago, was way back. We're improving those substantially, but they're not the best in the industry even though our "want to investigate" numbers are best in Sprint's history.

The University of Michigan (customer satisfaction index) would say that even though we were behind Verizon and T-Mobile and ahead of AT&T, we were in a statistical dead heat within the margin of error. Two years ago we would have been lapped a couple of times. Now we're basically right in the hunt but we're not clearly first and that's where I want to get the company.

There's a brand lag. Customers' perception of reality is going to be a little bit behind what reality is in terms of the quality of service, but it eventually will catch up. That's why trend lines are so important.

Q: T-Mobile may be under more pressure with Sprint's introduction of the Evo. Is Sprint pulling away from T-Mobile competitively?

A: Analysts will tell you that T-Mobile's performance, their trends lines, are declining while Sprint's are improving.

Q: And what do you say?

A: I won't speculate. Our competitive position is definitely getting stronger.

Q: The stock has had a nice run. (It closed Monday at \$4.66.) Obviously it's still below levels a lot of investors paid. It was between \$8 and \$10 even in 2008. What role does the stock price play in your outlook, your decisions and what you do?

A: It doesn't. I take a long-term view of just strengthening the company.

A big driver of stock performance is the overall market and economy. If you were to go back to 2007 and 2008, those were difficult years for Sprint investors. 2009 was a superb year for Sprint investors, and 2010 a good one as well.

I just focus on improving the customer experience, the brand and generating cash. The stock price will take care of itself.

Actually I usually find out how the stock is doing when my wife mentions it. I very rarely look at it.

Q: How much has the recession hurt?

A: We felt it particularly among business customers. Of the major carriers, we have the highest percentage of our customers being business versus consumers.

What you saw with layoffs all of a sudden — take the financial industry — all those BlackBerries went away.

Companies, even if they did keep their employment levels, they said we're not going to pick up the cell phone any more, you're on your own. So we did feel it.

Right now, it feels as though the consumer's back. Business has been a little slower to come back. They're a little more hesitant. Business confidence continues to improve, but it's not at the point where business leaders believe the economy is out of the woods yet.

Q: What's Sprint's position on Internet neutrality?

A. We've always espoused the principles of a free and open Internet. That's what we believe we have today.

The "net" of net neutrality, if you will, is that proponents of net neutrality say we want to put these rules in place to make sure nobody does violate them. Our view is we're concerned there could be some unintended consequences.

If we are forced to open our networks to any application and any device, they could have implications for the security of the Internet.

Wireless networks are different. We need to manage the capacity on those networks.

In a 3G city you could have four guys who decide in the same sector they all want to start downloading movies. They could take all the capacity of the network, you couldn't make a 911 call or nobody else could get service.

Net neutrality, the way it's written, would not allow us to throttle that back for the good of the sector. That's an unintended consequence.

What they want to protect (against) is Sprint saying we want to let our content go through first. We're not in the content business. We want to manage the resource the best we possibly can for all users.

We support the principles. We're quite concerned that the regulations could do more harm than good.

Analysts turn bullish Spring has produced a new crop of buy recommendations for Sprint shares.

From a low point at the start of November, Sprint's stock price climbed above \$5 for the first time in nearly a year. Recently, several analysts have issued buy recommendations, including these three.

April 19 — Outperform "We believe Sprint has continued to see fairly good momentum with its Any Mobile Anytime plan. We also believe Sprint will show solid growth in its 4G subs (subscribers)."

Jennifer Fritzsche, Wells Fargo Securities

May 5 — Buy "Sprint's (stock) valuation continues to imply the business is in terminal decline and not, as we believe, turning the corner."

Brett Feldman, Deutsche Bank Securities

May 23 — Buy "We have revised our expectations and upgrade to buy in a tactical call, which drives our 12-month price target to \$6."

Jason Armstrong, Goldman Sachs Group

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