Verizon case study essay

Verizon Wireless is the nation's second largest wireless provider.

With 67 million subscribers, Verizon trails the largest wireless provider, AT&T, by only 4 million subscribers. The business is a joint venture of Verizon Communications and Vodafone PLC, officially named Cellco Partnership, and operates as Verizon Wireless. Verizon Communications is the majority shareholder with a 55% share. " I think the point of it for us is that we are who the customers look too to provide them the services they want. We are going to let them define what they want around advertising.

Do they want location-based things sent to them? Do they want local promotion? If so, we'll do that. Having the customer in control of it as opposed to having the carrier ram things down their throat is an important distinction. " -Lowell McAdams, Verizon CEO With an emphasis on the individual customer, Verizon Wireless recently passed on the Apple iPhone because they would not be able to service it themselves, but rather have to send it to Apple for work. With a strategy of quality and product differentiation within a landscape of vicious competition, Verizon felt it necessary to differentiate based on the service they offered their customers. Verizon is well positioned in the wireless market due to their strong market presence and consumer base. Further, their impending acquisition of Alltel can potentially position them to be the largest US wireless carrier, by adding 13 million additional subscribers.

So where exactly should such a corporate giant look to go in order to further strengthen its brand? History In 1982, the US government ended a 13 year long anti-trust suit against what was at the time the world's largest corporation, AT, forcing it to divest itself into 7 regional Bell companies. Bell Atlantic was created as a result of these proceedings and serviced the northern Atlantic states. In 1996, Bell Atlantic announced that it would merge with NYNEX to become the country’s second largest telephone company. 1996 would be a pivotal year for Bell Atlantic, as the Telecommunications Act of 1996 was passed. Up until this point, communications, broadcast, electricity, and computing were all their own separate industries. The Telecommunications Act eliminated these boundaries and allowed any company to compete in any industry.

The pportunity to increase their services led phone companies into a phase of large scale restructuring and acquisitions. Verizon Communications Inc. was formed in 2001 when Bell Atlantic acquired GTE, the largest independent telephone service provider in the US, in a $58 billion deal. Cellco Partnership, doing business as Verizon Wireless, was a result of a $90 billion joint venture between Verizon Communications and the Vodaphone Group, with 55% and 45% ownership respectively.

Under the leadership of CEO Ivan Seidenberg, Verizon acquired MCI in January 2006 for $8. billion in a move to strengthen its position, which continued a trend of acquisitions and growth for the telecommunications industry. Introduction to the Key Competitors The wireless industry is fiercely competitive in the United States market, which is dominated by several major players including AT, Verizon, SprintNextel, and T-mobile. AT The leading wireless voice and data carrier in the US is AT Mobility with over $37 billion in sales and 70 million subscribers on its “ ALLOVER” network.

The company, which accounts for more than one-third of parent company AT business, provides a full range of wireless voice, messaging, and data services to consumer and business customers. AT Mobility's business services include high-speed wireless Internet access through its " Broadband Connect" service. AT&T Mobility provides extensive international network coverage for its subscribers in about 190 countries across the seven continents. Formerly known as Cingular Wireless, the company was a 60/40 joint venture between AT&T and BellSouth until the two companies merged in late 2006. Following the merger, AT&T launched a re-branding effort to establish AT&T wireless in the United States market. As part of the restructuring following the merger, AT&T cut its total employee headcount by about 10, 000 with most of the cuts coming from the wireless arm.

In 2007, AT&T Mobility gained the distinction of becoming the only U. S. carrier compatible with Apple's new iPhone. Depending on the long-term success of the iPhone, the distinction could be a major competitive advantage for AT&T. Sprint Nextel Running to keep up in an ever-changing telecom race, Sprint Nextel is the result of a marriage of two leading US wireless companies.

The combination of number three carrier Sprint with former number five Nextel Communications has created a wireless giant that aspires to take on Verizon and AT&T. Sprint Nextel, created in 2005 in a cash-and-stock deal valued at $35 billion, is still only the third largest US cellular carrier (behind the wireless units of AT&T and Verizon) in terms of subscribers. However, the deal did add significant resources to the disposal of each company, and management hoped to utilize greater economies of scale into the future.

Since the deal closed the combined company has struggled to retain existing customers and has had a hard time getting new business.

In addition to consumer and business customer defections, Sprint Nextel, historically a provider of telecom services to the US government, suffered a notable customer loss in early 2007 when it was excluded from bidding on government contracts worth billions. Later that year, the board of directors forced chairman and CEO Gary Forsee to resign amid shrinking earnings and subscriber numbers. The company named former Embarq CEO Daniel Hesse to the top spot at the end of 2007. Not long after, Hesse began replacing Sprint Nextel's top finance, sales, and marketing executives in hopes that new blood would speed the revitalization of the business. Continuing to struggle to keep pace with rivals, Sprint Nextel used layoffs during 2007 and 2008 to cut costs.

Additionally, the company announced in 2008 that it would close nearly 10% of its 1, 400 retail shops and 20% of its 20, 000 distribution points. In an effort to differentiate itself from it's competitors Sprint Nextel has invested $3 billion in a new network based on Intel's WiMAX protocol which depends heavily on increased demand for broadband services for it to be successful. In addition, Sprint Nextel has formed several joint ventures with cable companies to bundle their services and a venture with Clearwire combining their wireless broadband businesses. SprintNextel's huge investment in wireless broadband technology is seen as a big gamble but their investment could pay off handsomely if demand for those services increases dramatically. T-Mobile USA T-Mobile USA, a subsidiary of Germany-based Deutsche Telekom's T-Mobile International business, provides wireless voice and data communications services to subscribers in the US. It has approximately 27 million customers using its GSM (global system for mobile communications) network in the US, and they are also able to connect to the GSM network of its parent company when in Europe.

The company also provides wireless Internet (Wi-Fi) service through its T-Mobile Hotspot brand. T-Mobile USA resells phones, PDA's, and accessories from Motorola, Nokia, and Samsung among other manufacturers. T-Mobile USA, formerly known as VoiceStream Wireless, was spun off from Western Wireless in 1999. Deutsche Telekom's 2001 acquisition of the company included southeastern US GSM operator Powertel, which now operates as T-Mobile USA. T-Mobile USA has built its subscriber base in part through the acquisition of regional carriers.

In 2008, the company made a move to strengthen its presence in the southern US with purchase of SunCom Wireless for $2. 4 billion. The deal added over a million customers in the southern US and Caribbean region to T-Mobile's subscriber base. Industry Trends Two trends in telecommunications services are working in concert to bring significant changes to the world of Wireless Network Operators. Consolidation and the move by consumers toward wireless and away from wireline services are reshaping the industry.

In the process, the traditional phone company is becoming a thing of the past. Two deals provide examples of these trends. With ALLTEL's purchase of Wireless and Sprint's acquisition of Nextel Communications, all wireless carriers (in the US and elsewhere) now are affiliated with wireline carriers.

Traditional wireline carriers increasingly need wireless operations to remain viable, with more consolidation likely in the future.

The development and adoption of new technologies is an area where the industry has experienced widespread changes. Network systems evolved rapidly from analog to first-generation digital to second-generation (2G) and 2. G intermediate systems. But the promise of 3G (third-generation) technology has been slow in coming. Sometimes hailed as the “ killer ap” that finally provides “ converged” voice, data, and video services that drive us all to demand high-speed, high capacity connections, 3G has been slow in coming and brings with it additional costs to cover increased bandwidth and content.

But it has arrived despite weak starts in Asia and Europe. 3G networks are poised to deliver on the promises. However, newer technologies may make 3G seem too little, too late. The popularity of Wi-Fi (wireless fidelity, also known as 802. 11b technology), which provides fast wireless Internet connections in designated “ hot spots” like airport lounges, coffee shops, and city parks, has created some demand for WiMAX networks covering larger geographic areas.

Despite a slow start and some rival technologies, WiMAX is expected to attract more wireless Internet users. AT&T and Verizon primarily use 3G networks for their advanced phones while T-mobile dominates the hotspot market and SprintNextel is the leader in WiMax technology. General Environmental Issues As of December 2006, there were 229. 6 million

American wireless subscribers, a number that is expected to rise to 276 million by the end of this year.

This would represent a 90% penetration level of the US population. Clearly, the United States is currently inundated in a wireless calling culture where it is possible and even expected to be able contact someone anywhere anytime. One of the major challenges Verizon and its competitors face is converting their networks over to the 4G (fourth generation) platform. Verizon Wireless currently runs its network on CDMA technology, and supports up to a 3G (third generation) platform. Verizon currently spends over $8 billion a year to maintain and expand its network. In September of 2007, Verizon announced a joint venture with Vodafone to convert their networks into the 4G standard LTE.

LTE has the potential for 100Mbps downloads and 50 Mbps uploads a significant increase in speed from the current standard. LTE is part of the GSM family, which means it will have to switch its network from its current CDMA format. However, as was stated earlier, technology in the telecom industry is rapidly changing and evolving. What is cutting edge today may become outdated in no time at all. The industry is also not without its fair share of legal concerns.

In 2006, reporters uncovered that the NSA had been collecting calling records from major telecommunications companies in a warrant less surveillance program. Many questions were raised about what exactly the role is that telecommunications companies should play in the potential survellience of private citizens. This debate raises the potential of lessening customer confidence in these companies, while also potentially creating legal threats. How telecommunication companies balance the privacy and interests of their subscribers while assisting the government in the fight against terrorism will be a key issue moving forward.

A last important general environmental concern relating to the telecommunications industry is the potential implication of new technology on a person's health. Since the introduction of cellular phones, there have been concerns about the health repercussions of long-term mobile phone use. Although studies have yet to find a link between cell phone usage and negative health effects, it remains a concern for many people, and should be a principle concern of companies in the industry. The Industry: An In Depth Look A simple overview of the risk factors discussed in Verizon's February 2008 10k report would be enough to prove to anyone that the telecom industry is rife with threats and hurdles that must perpetually be overcome.

By applying the Porter's five forces framework (plus one) to the telecom industry, one can see how these factors relate specifically to Verizon and its ongoing business operations. Buyers The telecom industry is largely characterized by highly competitive pricing and high-volume sales. As of December 31, 2007, Verizon's wireless business network " covered a population of approximately 263 million and provided service to 65. 7 million customers" (yahoo finance).

Given the staggering amount of customers that comprise Verizon's total portfolio of clients, there is very little, if not absolutely zero, buying power in the hands of any individual customer of Verizon wireless. This means that the company is faced with almost no threat from its buyers. Furthermore, a standard service provider plan has a two-year duration. This means that customers cannot typically change providers without paying a large early termination fee. So, not only can buyers not affect prices, but they are also typically locked in at a given rate for a significant period of time.

Complementors There are not many direct complementors to wireless services. Given the changing legal climate in many states, many drivers are no longer permitted to use cell phones while driving unless they use a handheld device. This means that cell service has emerged as a significant complementor to hands-free devices such as Bluetooth, but the sales of these devices do not impact the sales of cell phone service plans. Verizon has tried to create some complementors, specifically among its business clients, by bundling voice, data, and video services, as well as broadband connectivity services, along with its wireless offerings.

In doing this, Verizon attempts to provide clients with a one-stop shop for all of their communications needs. EntryThere are significant barriers to entry in the telecom industry. As a national provider, Verizon has access to significant resources (i. e. “ The Network”) that allows client to receive and make calls in almost all locations.

The effect of economies of scale is significant in this industry, and new entrants are unable to readily provide national service. Rivalry The company directly addresses the issue of rivalry in its 2008 annual 10k report. On the issue, it states the following: “ We face significant competition in our industry. The rapid development of new technologies, services and products has eliminated the traditional lines between local, long distance, wireless, cable and Internet communication services and brought new competitors to our markets, including other telephone companies, cable companies, wireless service providers, satellite providers, electric utilities, and providers of VOIP services.

” (Edgar Online) Clearly, competition is a major concern for Verizon. Given how high this threat is, the company must constantly search for ways to provide innovative calling plans, provide low-cost services, and ensure top-of-the-line customer service. While no one buyer has any real pricing power, Verizon’s service is highly price elastic, and the market therefore is quite responsive to any alteration of the company’s service offerings. Substitutes The field of communications is rapidly evolving with changes in technology, but there is not currently any realistic alternative to wireless communication tools such as cell phones. Free service providers (principally Skype) have shown the foundation of potential to possibly compete with larger providers such as Verizon in the future; but for now, cell phones are pretty much a staple of American (and global) culture.

Suppliers The company’s annual 10k report also provides some insight into its threat from suppliers: “ We also depend upon various key suppliers and vendors to provide us with the equipment that we need to operate our business. If these suppliers or vendors fail to provide equipment or service to us on a timely basis, it could have an adverse impact on our ability to implement our business strategy and, in addition, we might be unable to satisfy the requirements contained in our FCC licenses regarding the construction of our wireless network. (Edgar Online) Verizon’s size allots it significant pricing power when dealing with its suppliers, but the number of companies able to produce the highly technological equipment that Verizon requires is rather small, which means that the company must establish and maintain strong relationships with these suppliers. As a result, there is a moderate threat from its suppliers. Internal Analysis Strengths " Verizon Wireless is the largest domestic wireless carrier in terms of total revenue and the most profitable, as measured by operating income.

(Verizon 10k). With this in mind, it is evident that Verizon looks to succeed by profit driven revenues, as well as customer quality. It leads the industry in lowest ' churn,' that is consumers who quit their contracts prior to the official contract end date. Verizon leads with a 1.

0% churn rate, with AT&T in second in churn with 1. 7%. Sprint lost over 1. 3 M customers in 2007, giving them the highest churn rate of the top four at 2.

4%. Once again, Verizon was ranked highest in the American Customer Satisfaction Index (ACSI), showing that not only do they retain their customers consistently, but they provide them with the most superior services (AllBusiness. com). Not only is Verizon highly thought of by their customers, their employee culture and training are also well regarded. They ranked fourth in best training, and were the only wireless firm in the top ten in US and Canadian Firms for 2008, as ranked by Business Ranking Annual, 2009 (Gale).

Not only are they top in training, they were also ranked eighth as the best large company to work for in information technology by the same publication. Their large investment into employee training, as well as their recognition as one of the best places to work, shows dedication to investment in human capital, an intangible asset that very often pays large dividends. Also, a happy workforce is a productive workforce, and their productivity will increase revenues and profits relative to their competitors. Lastly, the Verizon Wireless cellular service reaches over 200 million potential customers in the US alone. They have the first nationwide broadband phone service based on the CDMSA and EV-DO platforms.

As the original carrier in wireless broadband they hold the first mover advantage. Strengths VRIO Analysis Having the strongest balance sheet in the industry gives Verizon many options. It allows them to compete with anyone, using both cash flow and overall revenues to re-invest in R&D and other internal capital markets. This resource is highly valued, rare, and hard to imitate.

Supernormal profits give Verizon a large edge in the market, and allow more room to make high reward-high risk decisions. Being known as one of the leading companies for customer satisfaction in any industry will make a company more appealing to customers, thus, Verizon's top position in that ranking makes them the standard bearer. Setting the standard for all wireless service providers makes this a strong competitive advantage. The value is derived from the fact that all other firms have to attempt to adhere to their standard. The rarity derives from the fact that there can only be one firm that is better than the rest.

It is tough to take over a top spot without a lapse in service, and as a firm dedicated to service it seems unlikely Verizon would change their dedication to service. Finally, Verizon has positioned itself as the leading ‘ service’ provider, focusing on customer needs and preferences. When a firm is known for their development of human capital they are most likely to attract the strongest potential employees. This is the case at Verizon Wireless.

They are not only the top training firm in the Wireless market, but are fourth among all firms in America and Canada. A strong, motivated, and well-trained workforce is a valuable intangible asset in any industry, and one that is hard to create and exceedingly rare in the Wireless telecom market. Weaknesses Verizon has two main weaknesses. The first is the fact that their phones rely on the CDMA/EV-DO standard.

It is estimated that 3. 0 B of the world’s wireless phones are on the GSM standard, while less than 250 million are on the CDMA standard. While both standards are capable of mobile broadband, it is the majority of the GSM phones that are fully compatible with the 3G standard, and capable of utilizing all the speed of the 3G standards. When a vast majority of the world’s cellular telephones are on one standard (GSM), including those of their fiercest competitors, AT&T and T-Mobile, Verizon will have a hard time competing without a change in the status quo. Secondly, Verizon has little to no footprint in the international market.

They also do not accept the standard that is widespread amongst foreign cellular devices, and thus cannot capitalize on international phones in the United States. The US is a highly saturated market, with an estimated penetration of 80 to 85% (S&P Net Advantage). Verizon’s parent firm, Verizon Communications, made 96. 7 percent of all revenues in the US last year.

While they have extensive underwater cabling, they obviously do not have cellular resources overseas(DataMonitor SWOT). Without the same resources as other firms (most significantly GSM/GPRS accessibility), Verizon is missing out on a valuable and rare resource that is costly to imitate. It is our belief that the carryover to GSM/GPRS standard would help open up the world market to Verizon Wireless as well. With 3.

B customers using GSM/GPRS technology, it is the only way to move forward. Recommendations As has been illustrated throughout this report, Verizon is in a strong financial position, with significant capital to invest in those areas that it feels are most likely to generate the greatest competitive advantage. The question is, where is that area? Should Verizon continue to invest in the domestic market and expand its already significant service provider network? Should it invest in upgrading its technology to be compatible with newer service platforms? Or should it roll the dice and diversify into the international market? While a significant case can be made for Verizon selecting to adopt any of the above strategies, it is imperative that they first ensure that they provide the most technologically sound service possible. Therefore, it would be wise for Verizon to first look to upgrade from its current 3G platform into newer, 4G networks.

Verizon’s principle business strategy has been to differentiate its product and to provide high quality customer service. A major element of such a strategy is to ensure that the product being offered is top of the line. In order to do this, Verizon must ensure that it keeps pace with the evolving technologies of the industry, and doing that, in Verizon’s case, means upgrading its service platform. Once this technological component of Verizon’s service has been upgraded, additional decisions and investments can be made with the remaining financial resources.

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