

September 27, 2004

For Cingular, Becoming No. 1 Also Poses Risks

By KEN BELSON and MATT RICHTEL

ATLANTA - Ralph de la Vega, chief operating officer at Cingular Wireless, has a vision for the future. In it, cellphone bills will fall, reception will improve and mobile access to e-mail and the Internet will be fast and easy.

Mr. de la Vega also has a big challenge. He must see that the impending union of Cingular and AT&T Wireless, which would create the nation's largest cellular company, goes smoothly.

Any serious disruption in customer service or the network could prove extremely costly in the cellphone wars. Even without major missteps, Cingular's rivals - including [Sprint](#) and [Verizon](#) Wireless, a joint venture of Verizon Communications and Vodafone - are sure to exploit uncertainties created by the megamerger by courting Cingular customers.

"The biggest implication of the merger is that you cannot sacrifice quality because there are choices in the marketplace," said Richard P. Nespola, chairman and president of the [Management Network Group](#), a telecommunications consulting firm.

The immediate obstacle for Cingular, which announced its plan to acquire AT&T Wireless for \$41 billion in February, is getting antitrust approval from the Federal Communications Commission and the Justice Department. The current betting is that regulators will approve the deal in the next few weeks. But the regulatory agencies may ask for certain concessions, like the sale of wireless spectrum in areas where Cingular and AT&T Wireless have overlapping holdings, according to the companies and industry analysts.

While they wait for approval, the two companies are steeling themselves for a consolidation that will affect 46 million cellphone customers and could take as long as two years to complete.

They will have to reorganize everything from calling plans to cell towers to retail stores. They will also have to lay off thousands of salesmen, technicians and office workers, though Mr. de la Vega said he would not know how many workers would be let go until he got a closer look at AT&T Wireless's operations. The companies will have to solve the service problems that have plagued AT&T Wireless. And they will have to blend two very different corporate cultures into one.

The disruptions, industry analysts said, will very probably sap morale among workers and frustrate customers, a phenomenon not uncommon in a merger of this size and in an industry where consumers have many other choices. Such problems popped up when traditional phone companies bought wireless providers, which had more entrepreneurial corporate cultures.

But Cingular and AT&T Wireless, despite differences in corporate culture, brands and networks, are more similar than different, said John Hanson, the director of the communications practice at Mercer Management Consulting. "This one feels different," Mr. Hanson said. "It is more like when SBC bought Ameritech: similar companies buying similar companies."

The main challenge for Cingular and AT&T Wireless, he added, is whether they can set priorities quickly - like

which potential customers to go after and how - without being distracted by the deluge of smaller problems that are sure to emerge.

Undeterred, Mr. de la Vega said all the work that is being done now in advance of the merger will lead to better service in the combined company.

"We've got an all-out blitz planned for right after the approval," said Mr. de la Vega, 52, who formerly led [BellSouth's](#) Latin American operations. "We want to do it, and get it over with."

The deal, which will reduce Verizon Wireless, with its nearly 41 million customers, to No. 2 in the market, will certainly give Cingular more power to sell its services and cut its costs. But the very size of the combined business raises antitrust concerns. Because Cingular is owned jointly by [SBC Communications](#) and BellSouth - with SBC owning 60 percent and BellSouth 40 percent - the merger would give two of the three largest regional telephone companies control of the biggest wireless company.

To address this concern, analysts said the Justice Department might well ask Cingular and AT&T Wireless to sell some radio spectrum in markets like Atlanta, Dallas and Boston, where both carriers have similar holdings. But most observers, including groups opposed to the merger, say they do not believe that the F.C.C. or the Justice Department will block the deal.

"The conventional wisdom is that this will breeze through," said Gene Kimmelman, senior director of Consumers Union, which publishes Consumer Reports magazine. Approval seems likely because after the merger Cingular will still face competition from four other national companies: Verizon Wireless, Sprint, T-Mobile and Nextel.

But removing even one competitor, consumer advocates argue, could still lead to higher prices for service. The Cingular-AT&T Wireless merger will push up prices by 8 percent on average, according to a study done by the Phoenix Center for Advanced Legal and Economic Public Policy Studies, a research group that studies the telecommunications industry. Mr. Kimmelman also says that, although there will be five national wireless carriers, the Cingular deal will help its parent companies become even more dominant in their regions.

Mr. de la Vega contends that anticompetitive worries are groundless because Cingular, like its rivals, markets its products nationally and operates retail outlets throughout the country. He also notes that there are nearly a dozen cellphone companies, including smaller providers, selling services in Atlanta, where Cingular has its headquarters.

While regulators review the antitrust issues, Cingular's rivals are looking to take advantage of any hiccups. Sprint, now the fourth-largest cellular carrier, may announce new mobile phone plans at the end of the year, and will likely start marketing campaigns to lure customers away from Cingular and AT&T Wireless.

"We certainly plan to capitalize on their disruption," said Mary Nell Westbrook, a Sprint spokeswoman. "Obviously we're going to be very aggressive."

Jessica Zufolo, an analyst at Medley Global Advisors, an equity research company, said the big test was "whether Cingular can provide service that is better combined than they did as separate entities."

Executives from Cingular and AT&T Wireless are forbidden for legal reasons from making decisions on the specifics of the merger until it receives government approval. They can only discuss the noncompetitive aspects of their union, like how to integrate their e-mail systems.

So, pending regulatory approval, all preparations for the consolidation have to be made at arm's length. The companies have hired a consultant, [Accenture](#), to come up with a plan that can be put into action immediately after the merger is approved.

Accenture has set up a "clean room" in Atlanta - off limits to Cingular and AT&T Wireless employees - where its analysts are studying data on everything from retail networks to billing systems to advertising budgets.

For instance, Cingular and AT&T Wireless run some 2,800 retail stores, and tens of thousands of authorized agents and third-party resellers like [Best Buy](#) and [Wal-Mart](#) sell their handsets and calling plans. To decide which of these stores to close and which to expand, Accenture is looking at a variety of factors, including the number of subscribers each store has signed up, its cost for signing up customers, its location and distance from other company stores (and stores operated by rival carriers) and its size and lease provisions.

Accenture is also looking at ways to eliminate overlap in calling plans and services. Mr. de la Vega said Cingular planned to cut its more than 100 calling plans to about 20; calling plans from AT&T Wireless will also have to be mixed with Cingular's.

Given that Cingular and AT&T Wireless combined will have nearly 70,000 employees, analysts expect thousands of workers to be laid off. The first jobs to go may be the roughly 10,000 contract workers the two companies employ, including those technicians working remotely and operators at call centers. Staff reductions at the headquarters of both companies are also likely.

Mr. de la Vega and industry analysts say they expect the integration to take at least 18 months to complete, and possibly two years.

Andrew Cole, a vice president in the wireless practice at A. T. Kearney, said, "Give Cingular two years and they'll come out a strong company.

"But it's going to be a headache," he added. "And in the meantime, Verizon Wireless comes out the winner."

Ken Belson reported from Atlanta for this article, and Matt Richtel from San Francisco.