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- Alvaro Baeza
- Angela Raub
- Bruce Smith
- Mary Udie
- Navaneeth Aguru
- Rob Latham

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Industry Analysis

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Description of Industry

- **600 companies with combined annual revenue of over $110 billion.**
- **Major companies earn about 85 percent of industry revenue**
  - **Verizon Wireless**
  - **AT&T Mobility**
  - **Sprint Nextel**
  - **T-Mobile**
- **The industry is capital intensive:**
  - **95 % of wireless services sales are end-users**
  - **5 % to resellers.**
  - **75 % of the population subscribe to cell phone services**

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Market Structure - Description of firms

AT&T Mobility

- 67.3 million customers
- Largest digital voice and data network in the United States
- 40,000 union workers.

Verizon Wireless

- 59.1 million customers
- Second largest market share in the United States
- Expected double digit growth in revenue from data and entertainment services

Sprint Nextel

- 53.1 million customers
- Third largest wireless carrier in the United States
- Lost market share due poor execution during merger

T- Mobile

- 27 million customers
- Fourth largest wireless carrier in the United States
- 101 million subscribers worldwide (Sixth largest in the world)
- Has the highest customer rating

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Market Structure - Description of firms

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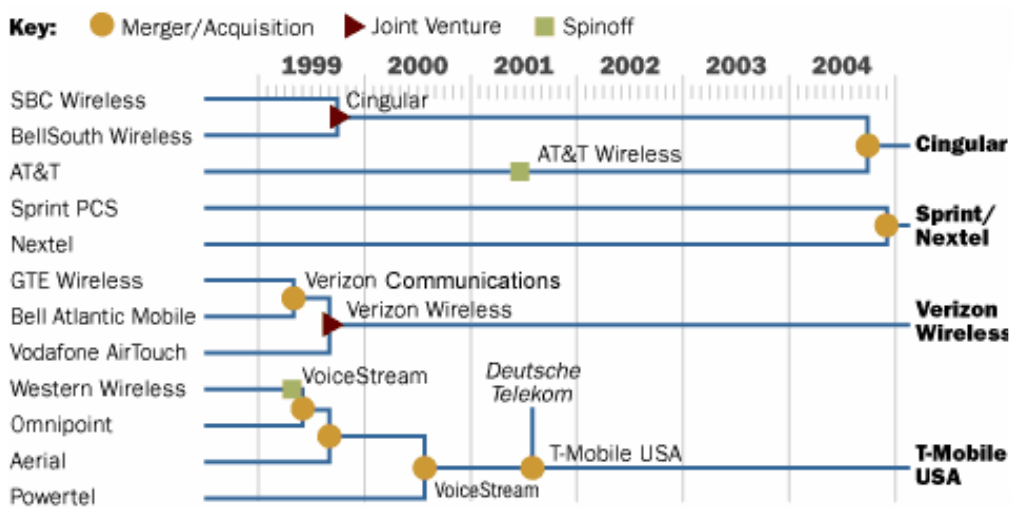
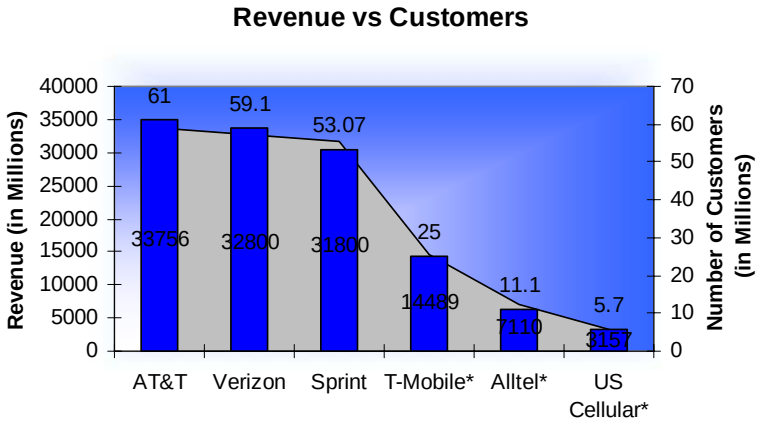
- 12 million wireless customers
- 35 state territory
- Fifth largest provider of wireless services in the United States.

US Cellular

- 6.07 million customers
- 189 markets
- 26 state territory





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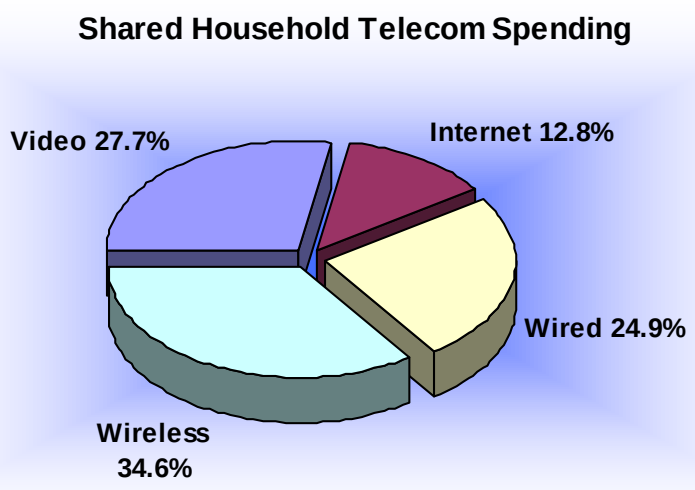
Size of industry relative to economy

- **Highly capital intensive**
- **Strongly supports economies of scale**
- **Fixed costs over a larger revenue base, results in a lower cost per subscriber.**
- **A decrease in the number of carriers leads to:**
  - **Reduced competition**
  - **Lower customer acquisition costs**
  - **Less churn**
  - **Return to scale in advertising and sales which are key factors to drive revenue growth and profitability**.



Source: TNS Telecom (1st Qtr 2006)

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Demand Factors

- Voice
- Higher data speed
- Multi-use
  - Games
  - Video
  - Audio
  - Email
  - Internet
- Bundled packages

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Production & Cost Issues

- **Two major technologies (GSM-CDMA)**

	GSM	CDMA
Technology Differences	➢ Open standard ➢ Quicker to market ➢ All over the world ➢ More consumer friendly (example multiple phones use the same sim card many phones one phone #) ➢ Providers experiencing exponential growth	➢ Proprietary of Qualcomm Technology ➢ Slower due to Qualcomm approval control ➢ Few countries ➢ Flexible consumer experience
Speed	Slower	Faster
Security	Secure	Secure
Reliability	Reliable	Reliable
Cost	Cheaper because of multiple companies manufacturing parts	Expensive because only one manufacturer of parts

- **GSM technology cost advantage sustainable?**
- **Hard to have Proprietorship/Unique Services → New products copied very quickly by competitors.**

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Non-Economic Factors

- **Health Issues**
- **Interference with Sleep**
- **Drag on the Commute**
- **Government Regulations**

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Firm Analysis

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Alltel Demand Factors

- Latest services and features
- Improved call quality
- Better customer service
- Larger network coverage
- Competitive price
- Greater reliability
- Faster data transmission

Source: S&P index data: S&P 500 Copyright © 2006

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Alltel Strategies

- **Low cost regional player**
- **Fast follower- on the footsteps of Nextel**
- **Rolled out- My Circle**
- **Network agreements with Sprint & Verizon**

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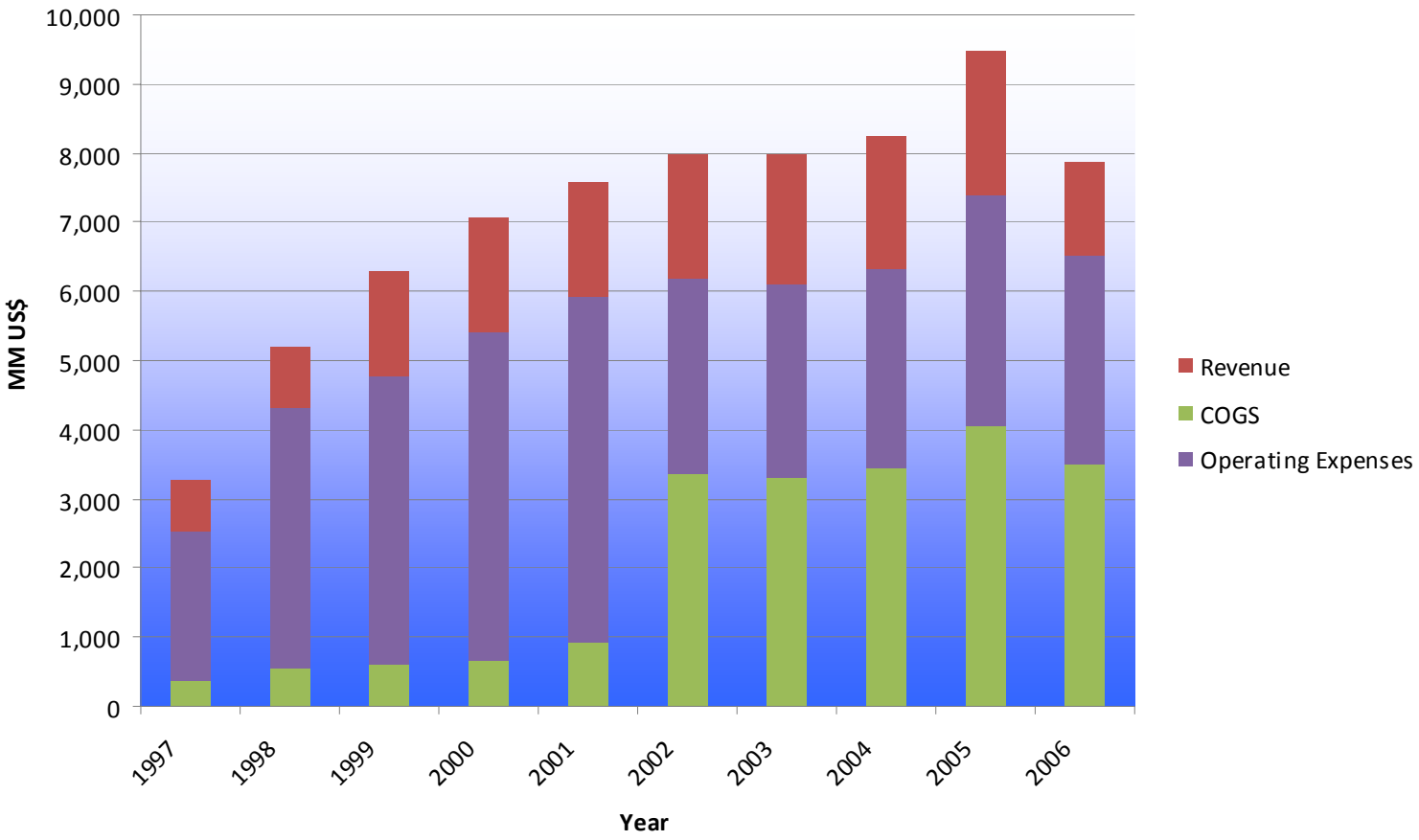
Alltel Revenue versus Expenses



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Forecasts

Projections

Recommendations

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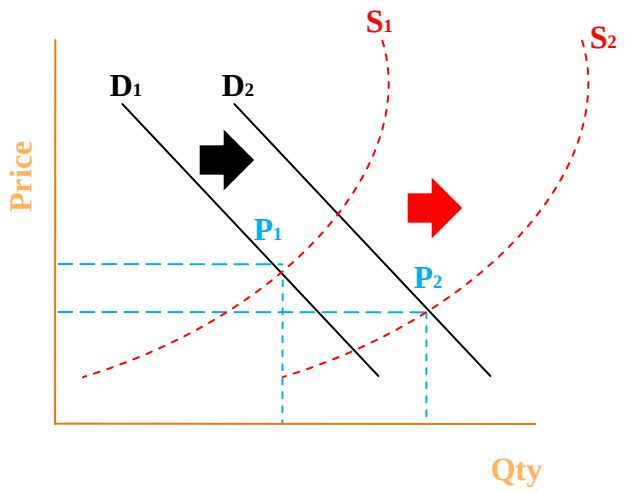
Reduce Costs of Production

- **Leverage existing infrastructure**
- **Increase investing in 2nd/3rd tier markets**
- **Outsource services in saturated markets (partners)**



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Expansion / New Products

- **EVDO- rev.A network, evolution of the highest speed network**
- **Increase investment in high speed network - will provide framework for convergence and bundling of services**
- **Position for merger opportunities (must have national footprint, must show increasing margins)**

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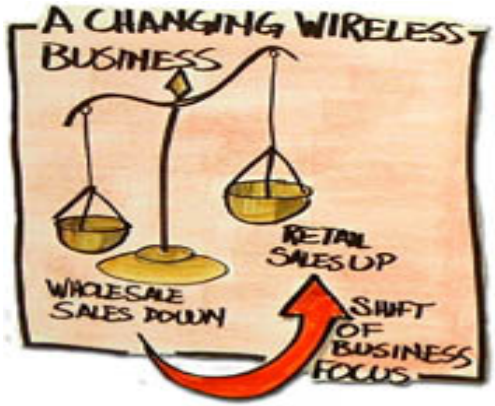
Other Strategies

Merger with Sprint or Verizon.

Integrated Services

Wholesale to retail



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Economic Environment

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Description of Current Environment

- **The US has the largest and most technologically powerful economy in the world, with a per capita GDP of $45,700**
- **U.S. consumers are paying less, using wireless more and have more choices than any others in the world.**
- **The U.S. telecommunications market grew, with total revenues reaching $856.9 billion in 2005 – up 8.9 percent for the year – and is projected to reach over $1 trillion by 2009. *[TIA Telecom Market Review and Forecast]***

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USA Economic Facts (Jan 2007 est.)

- **Population: 301,139,947**
  - **Population Growth rate: 0.894%**
  - **Net Migration of Rate 3.05/1,000 population**
- **Unemployment rate: 4.6%**
- **Per Capita GDP: $45,700**
- **Per Capita by Sector**
  - **Agriculture .09%**
  - **Industry 20.6%**
  - **Service 78.5%**
- **Inflation rate: 2.7%**
- **Interest rate:**
  - **Current - 3.50%**
  - **Previous - 4.25% (last change Jan 22 2008)**

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Economic Environment – Current & Past

1996-2007

Year	Gross domestic product	Net exports of goods and services	Government consumption expenditures and gross investment	Real GDP % change from preceding period
1996	7,694.10	-96.2	1,416.00	3.7
1997	8,182.40	-101.6	1,468.70	4.5
1998	8,627.90	-159.9	1,518.30	4.2
1999	9,125.30	-260.5	1,620.80	4.5
2000	9,709.80	-379.5	1,721.60	3.7
2001	10,057.90	-367	1,825.60	0.8
2002	10,377.40	-424.4	1,961.10	1.6
2003	10,808.60	-499.4	2,092.50	2.5
2004	11,517.50	-613.2	2,226.20	3.6
2005	12,265.80	-716.7	2,372.80	3.1
2006	13,061.10	-765.2	2,479.60	2.9
2007	13,843.0	-712.7	2,691.40	2.2

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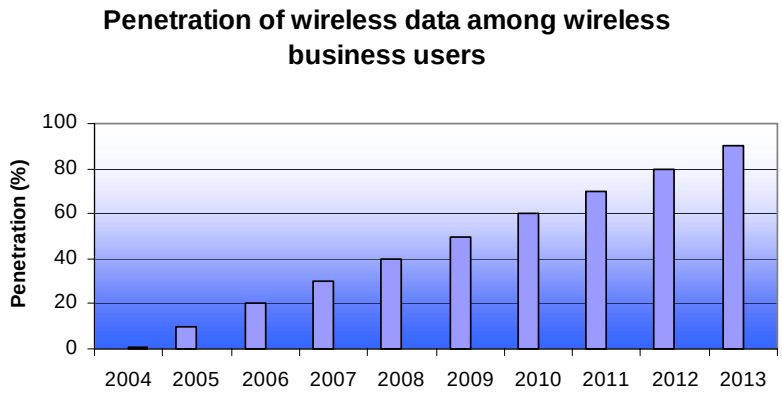
Forecast of future changes

- **Workforce is increasingly becoming mobile (as the processing power of mobile devices (blackberry, palm etc) continue to grow exponentially**

- **Enterprise mobilization (Expenditures by enterprise firms -1,000 or more employees on wireless data will grow an average of 18% per year through 2009. (Source: In-Stat))**



Source: Department of Taxation

Source: Ovum

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Macro Impact

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Macro Impact on Firm and Industry

- **Consolidation within industry**
- **Growth in economy**
- **Rising demand for latest technology**

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Macro Impact on Firm and Industry

"Everyone wants the phone to do everything with the fastest service. Alltel's challenge is to find the appropriate packaging prices for their "sub-prime"/pre-paid customers."

Kevin L. Beebe

Ex- President & CEO

ALLTEL Corporation

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Q & A

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