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Cost-minded chief puts Sprint Nextel back in the running

Interview
Dan Hesse
Sprint Nextel chief executive

A brand that had become a synonym for poor customer service has been rebuilt, writes Paul Taylor

Dan Hesse has been Sprint Nextel's chief executive for five tumultuous years, during which he admits the company's survival has sometimes been in doubt.

Now, after slashing costs, rebuilding a brand that had become synonymous with bad customer service, fending off the threat posed by AT&T's abortive bid for T-Mobile USA and negotiating a much-needed cash infusion from Japan's SoftBank; Mr Hesse says the future looks brighter.

"I think we began to turn the corner in the second quarter of 2011," says Mr Hesse, who joined Sprint Nextel in December 2007, at a time when the Kansas City-based company was haemorrhaging customers and cash following the disastrous 2005 merger of Sprint and Nextel Communications.

"Everybody knew that the company was having troubles; that's why they were recruiting a CEO. But the situation was more dire than I had expected," he says. "When I came on board the projection was for the company to go bankrupt in a matter of months."

Mr Hesse describes his first few months as "akin to catching a falling knife".

"Not only were all of the company's performance metrics deteriorating, they were deteriorating at an accelerating rate," he says. "It was very clear that we hadn't bottomed out or even come close to bottom yet."

Within weeks of his arrival, he announced a large quarterly loss reflecting a $29.5bn writedown in the value of the Nextel acquisition. "We were in a tough situation," he admits. "We just had to take spending way down and do it very quickly."

To do that he cut capital spending by 60 per cent, cut the number of employees from 61,000 to 40,000 and halted plans for a 4G data service. Instead, he folded its 4G assets, including spectrum, into Clearwire.

> The company fended off the threat posed by AT&T's abortive bid for T-Mobile USA

"The main reason that the company was in the distressed situation [at the end of 2007] was it was beginning to lose customers at a very rapid rate because it had allowed customer service to deteriorate," Mr Hesse says. In the final quarter of 2007, Sprint Nextel lost 638,000 contract customers.

To halt the slide Mr Hesse linked pay to improvements in customer service and insisted that "improving the customer experience" be at the top of every meeting agenda.

Slowly the numbers did begin to improve. "It was probably around the second quarter of 2009 when we bottomed out and began to move in a positive direction," says Mr Hesse who notes with obvious pride that since then the company's customer service consistently tops independent rankings.

Next, he backed an upgrade plan designed to enable Sprint Nextel to phase out the costly old iDen network and position the company to compete more effectively with larger rivals by rolling out a 4G mobile broadband service based on LTE technology. He also announced a deal with Apple in 2011 that would enable it to offer customers the iPhone.

While some analysts questioned whether Sprint Nextel could afford the big subsidies associated with iPhone sales, Mr Hesse says it had no real choice. "The one thing we believed we were missing" was the ability to offer the iPhone, he says.

Helped by the iPhone sales, Sprint Nextel began to grow again and its improving financial performance helped turn the company's share price into one of the biggest gainers last year.

But Mr Hesse says one event above all else has helped define what he describes as "the new Sprint". At the end of 2011 AT&T abandoned its $39bn bid for Deutsche Telekom's T-Mobile USA unit, in the face of regulatory opposition. "In terms of importance, on a scale of one to 10, I would say it was an 11," Mr Hesse says. "I think perhaps it was the most important development during my first five years [at Sprint Nextel].

"Had that bid been successful, we think it would have really changed the wireless landscape in the US in not a good way ... Masa [Masayoshi Son, SoftBank's chief executive] has said publicly that he would not have invested $1,000 in the US wireless market had, in essence, the government sanctioned a duopoly."

Dan Hesse: negotiated a SoftBank cash infusion Bloomberg

As it is, SoftBank announced in October that it would pay just over $20bn for a 70 per cent stake in Sprint Nextel, providing it with an $8bn cash infusion.

Mr Hesse has begun to exploit this new financial flexibility, using the proceeds of a convertible bond bought by SoftBank as part of a deal to buy both spectrum and customers from US Cellular and announce an agreed $2.97bn bid for the shares in Clearwire it didn't already own.

The transaction "has enabled us take control of our 4G destiny," he says. "Now we can begin to accelerate our turnround because we have financial resources that we were missing."