Verizon Communications, Inc - A Case Study

presented by

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1. BACKGROUND

Verizon Communications formed by the merger of two big and successful companies, Atlantic Corp. and GTE Corp., is the largest telecommunication company. Verizon Communications, Inc. has many strengths, weaknesses, opportunities and threats as an organization. The SWOT analysis will serve as a tool for identifying alternative strategies for the organization and help define a 3-year growth plan. Various matrices, including a SWOT analysis and a Financial Ratios Analysis, will also support specific strategies and long-term objectives. Other relevant, recent activities and supporting research will also be supporting the strategies defined in the case analysis.

Verizon Communications, Inc. is one of the largest providers of broadband and Wireless communications in the United States (David, 2004). Verizon operates wireless networks and serves home, business and wholesale customers in 28 states, totaling 49.3 million customers nationwide (Verizon.com, 2003). With their Corporate headquarters in Manhattan, New York, Verizon has nearly 215,000 employees and generates annual revenues of more than $71 billion from four business segments: Domestic Telecom, Domestic Wireless, Information Services and International (Verizon.com, 2003).

Although Verizon Communications is a young organization, formed in 2000, its parent companies have a very solid history and foundation (David, 2004). Verizon was an organization born from the merger of Bell Atlantic and GTE Corp (David, 2004). GTE and Bell Atlantic were two of the leading telecommunications companies in the U.S. and internationally (David, 2004). Their capabilities ranged from providing telephone access lines, wireless services and networks and various Internet services (David, 2004).

Verizon Communications has well defined goals and values in lieu of the traditional mission and vision statements (David , 2004). However, mission and vision statement recommendations will be defined in the case analysis in order to provide clear understanding of what the business is in the today's industry and what is recommended it become in order to execute a long-term growth strategy. This is an important component of a long-term growth strategy so that an organization can stay focused and committed to the objectives at hand. As David states in Strategic Management Concepts, "Business Week reports that firms using mission statements have a 30% higher return on certain financial measures than those without such statements." (David , 2004)

Verizon Communications financial health is positive, but questionable. For example, in 2002, Verizon earned over $67 billion in annual revenues, but only closed the year with $4 billion in net income due to the $49 billion in long-term debt that was paid out (David , 2004). They continued this trend into 2003 with virtually flat growth in revenues and an increase in operating expenses, closing the year with over $67.4 billion in revenue and

$60 billion in operating expenses, which resulted in a decline in net income of $3 billion (Verizon Communications Interactive Annual Report, 2004). Verizon did improve things into 2004 by increasing their revenue by $3.8 billion and decreasing their operating expenses by $1.8 billion, closing out the year with a net income of $7.8 billion (Verizon Communications Interactive Annual Report, 2004). Although it is apparent that spending had to decrease in order to remain profitable, it is still questionable how Verizon will close 2005 given the February 14, 2005 acquisition of MCI for $4.8 billion in equity and $488 million in cash (Thonis, 2005). Verizon does have strong financial ratios when compared to the industry, especially in the area of Profitability ratios (MSN Money, 2005). Therefore, it is to no surprise that they were able to make this acquisition to continue growing their business.

Verizon was one of the first companies to offer a service for costumers to connect to the internet faster using a Verizon location that cannot be breeched by internet solicitors other than Comcast whose internet service is connected through a television cable. It has also eliminated the use of occupying a phone line such as the dial up modem AOL used to offer who can not keep up to the connectivity standards of Verizon. This opened the door for other companies such as America Online (aol) to step up their antics and offer a faster service. Besides the threat of competition, there are many other threats such as structural changes may be occurring such as size growth. As the company expands its services, it will have to expand in the number of employees it has to hire and calculate the cost for each employee in areas such as payroll, benefits, computers, and other needed technology (computers, phones, programs). The company also has to take into consideration the marketplace such as economic or social factors for customers or demographic issues because Verizon cannot offer service to some areas. (From your source Elise) As with any other company, Verizon will always have to have a strategic plan if it wants to remain in the competition and remain as one of the main providers of great internet service.

"Our goal is not to report our progress or a regular basis but also to initiate a dialogue, within Verizon and with our communities, about who we are, what we believe, and where we're going." (Ivan Seidenberg, Chairman, CEO)

Verizon Online DSL owns and operates the nation's most reliable wireless network, servicing 43.8 million voice and data customers across the United States.

Verizon Wireless by all counts is at the top of its communication chain and reasonably price. Women Warrior Inc has dissected this company from the inside out, as of today, the company seems sound and is steadily growing. In the stock market world and in the everyday world Verizon Wireless Online DSL keeps its name in the media as much as possible. This team member is confident that the battle for wireless network and speed will continue into the next millennium. Verizon is a powerful communication company that will be around for a longtime.

The main idea of strategic planning is to accomplish a specific long-term goals and strategies for an organization. Because there is so much competition, Verizon has to invent new technology and innovative ways to improve their online service and offer the consumer a service that no other company can offer at the present.

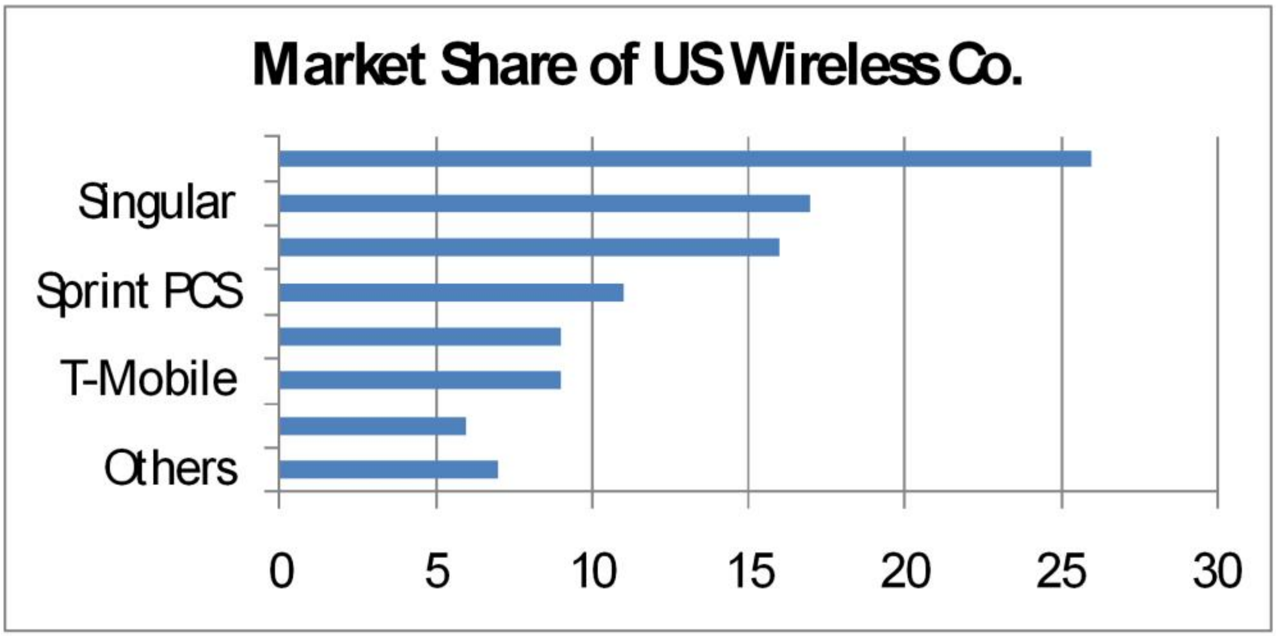
Verizon Profile – key indicators

- Formed by merger of Bell Atlantic and GTE in June 2000
- Largest US wireline & broadband carrier
- Second largest US wireless service provider
- Leading print & online directory company
- Fortune 500 Company – Rank 12
- $67.8b - 2003 Revenue - from four business segments:
  - Domestic Telecom –Fiber Optic Network
  - Domestic Wireless – 69m customers nationwide
  - Information Services
  - International
- 228,600 + employees , Revenue $93.5b (2008)
- Acquired MCI(2005) , Rural cellular Corp. (Aug 2008)
  - Integration , Consolidation & Bundling
- Awards : Carrier of the year(2008), Customer satisfaction (2008), call Quality(2007), Most reliable & responsive (2006), loyalty leader(2005)
- Major Competitors : Alltell, SBC
- 32.5 Million customers
- In 49 of the top 50 US markets
- Revenue and Income are flat for 2000-2003

- Spent 12 billion in 2002 to build out fiber plant (DSL)

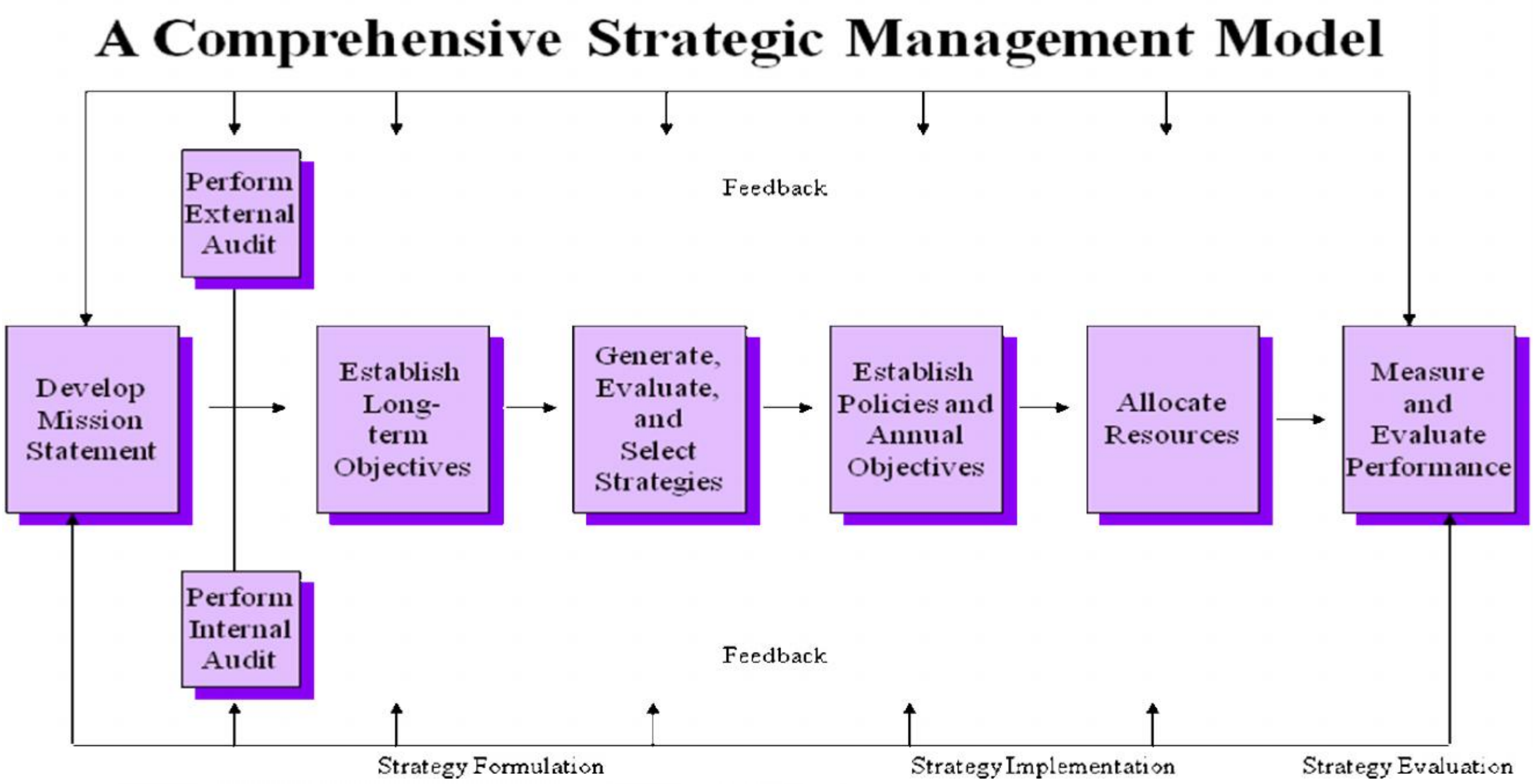
2. CASE SETTING

- Case Analysis is done as per 2003 data (as provided in the case)
- Accordingly strategies suggested is relevant to that period
- Along with this Actual strategies followed by Verizon is given and compared
- Verizon is under debt of USD 49 Bn
- Out of the four business divisions, Wireless has growing profits, while all other 3 divisions have decreasing growth in profits



3. AGENDA

A comprehensive strategic management model was used to analyze the case. The model used is presented on next page.



Source: Strategic Management: Concepts and Cases – Fred R David

4. MISSION & VISION

Verizon had following well defined goals and values in lieu of the mission and vision statements

- To be market leader in delivering innovative, integrated communications solutions to customers at home, at work and on the go
- To mobilize and empower the millions of individuals and organizations-employees, retirees, customers and non-profits
- To promote employee volunteerism through matching gift programs that recognize contributions of money & time
- Making sure that people have the fundamental skills – like literacy and access to technology

The above stated goals and values are different from conventional Mission and Vision statements in terms of lacking:

- Markets,
- Technology
- Concern for survival
- Growth and profitability
- Self-Concept

The importance of well defined mission and vision statements is clear from the following:

“Firms using mission statements have a 30% higher return on certain financial measures than those without such statements." (David, 2007)

Along with the key concepts of formulating the mission and vision statements within the well defined goals and values of the firm, the proposed statements for Verizon are:

- **Mission:**

  – To be the global market leader in delivering innovative, integrated communications solutions to customers at home, at work and on the go.

  – To mobilize and empower the millions of individuals and organizations — employees, retirees, customers and nonprofits —that comprise the Verizon community

  – To promote employee and community volunteerism through matching incentives that recognize their dedication and time.

  – To build a strong and lasting infrastructure

  – To optimize returns for shareholders by leading a competitive integrated communications process that focuses on continuous improvement in service, quality, technology, process and costs.

- **Vision:**

  – To be a customer-valued, world class, strategic and integrated communications provider that continually enhances Verizon's competitive position globally.

5. INTERNAL ASSESSMENT

(a) <u>Financial ratio Analysis</u>

	2001,2002	2003	Ind.	Str.	2006	Ind.
<u>Liquidity Ratios</u>						
Current Ratio	0.61,0.79	0.68	0.7	N	0.7	0.72
Quick Ratio	0.55,0.73	0.64	0.5	S	0.65	0.53
<u>Leverage Ratios</u>						
Debt-to-Total-Assets Ratio	0.37,0.31	0.27	N/A	N/A	0.20	0.27
Debt-to-Total-Equity Ratio	1.97,1.63	1.35	0.86(<0.5)	W	0.79	1.47
Long-term Debt-to-Equity Ratio	1.40,1.35	1.17	N/A		N/A	0.59
Times-Interest-Earned Ratio	3.42,4.79	2.7	N/A(>1.5)		N/A	5.69

	2001,2002	2003	Ind.	Str.	2006	Ind.
Activity Ratios						
Inventory Turn-over	21.6,11.5	16.9	37.1	S	23.32	10.4
Fixed Assets Turnover	0.9,0.91	0.9	N/A	N/A	1.07	
Total Assets Turnover	0.4,0.39	0.4	0.4	N	0.46	.5
Accounts Receivable Turnover	7.7	8.1	S	8.6	8.6	
Profitability Ratios						
Gross Profit Margin	0.38.0.7	0.67	0.59	S	0.59	0.59
Operating Profit Margin	0.17,0.22	0.11	N/A	N/A	0.15	
Net Profit Margin	0.006,0.06	0.05	0.07	N	0.07	0.11
Return on Total Assets (ROA)	0.002,0.024	0.018	0.045(>5%)	W	0.032	0.054
ROE	0.012,0.125	0.091	0.149(>5%)	W	s0.127	0.123
Earnings Per Share (EPS)	0.143,1.49	1.11	0.58	S	0.49	0.55
Price-earnings Ratio		9.8	15.4	W	17.1	18.2
Growth Ratios						
Sales	0.001	0.006	0.005	N	0.27	0.48
Net Income	9.48	0.24	0.22	N	-0.16	0.11
Earnings Per Share	16.41	-1.65	N/A	N/A		
Dividends Per Share	-.17	3.41		W		

S – STRENGTH , W – WEAKNESS , N – NEUTRAL , N/A – NOT AVAILABLE

The above analysis clearly shows the following facts about the company:

- Highly leveraged but current ratio and quick ratio are comfortable
- Financial health is positive, but questionable

- USD67 billion annual revenues, but $4 billion in net income (flat growth but Op exp increased from 2002 to 2003)
- 2005->2006->2007 : Sales increased but Net income decreased as operating income increased despite acquisition of MCI

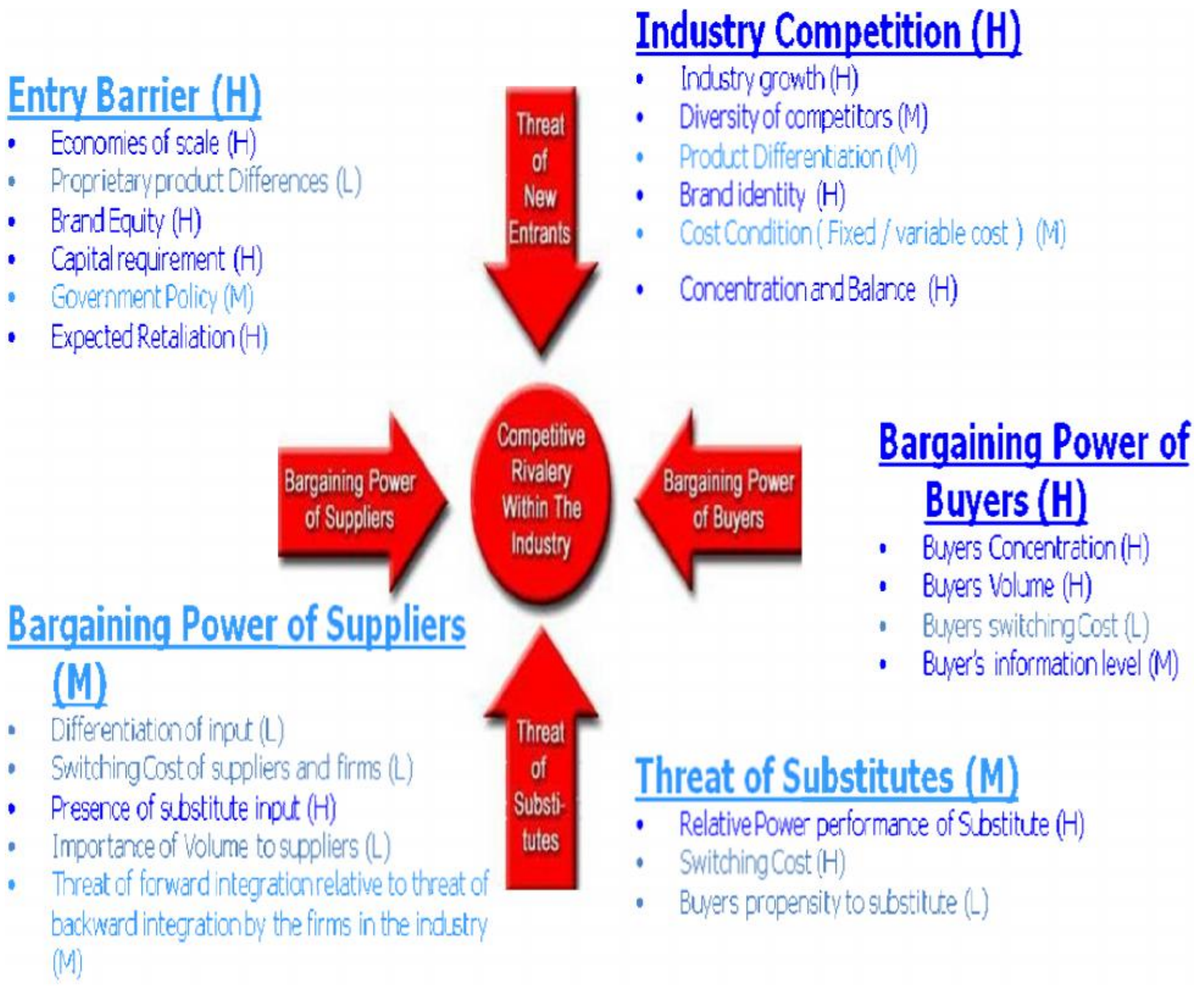
(b) The IFE (Internal Factor Evaluation) matrix

KEY INTERNAL FACTORS	WEIGHTS	RATING	SCORE
Strengths			
1. Employee satisfaction	.05	3	.15
2. Well positioned with Strong brand recognition equity	.10	3	.30
3. Profitable and willing to invest	.10	3	.30
4. Offering fiber-optic lines	.10	4	.40
5. Largest directory publisher (in US & 13 others)	.05	4	.20
6. Top in the industry for cell phone subscribers (49/50)	.15	4	.60
7. Largest provider of local,long distance,data and broadband services to 2/3 of top 100 markets in US	.05	3	.15
Weaknesses			
1. $49b long term debt	.10	1	.10
2. Not much emphasis on R&D	.05	1	.05
3. Global coverage	.05	2	.10
4. Technological competencies	.05	2	.10
5. Lack of Internet services	.10	1	.10
6. Lack of Cable services	.05	1	.05
TOTAL	1.00		2.60

Above average in its overall internal strength

6. **EXTERNAL ASSESSMENT**

(a) **<u>Porter five forces Model</u>**



H – High , M- Medium , L- Low

The above Porter diagram conclusively yields that with significant bargaining power of suppliers, high competitive pressures, and very high bargaining power of buyers, the industry scenario is **HIGHLY COMPETITIVE.**

(b) External Factor Evaluation (EFE) Matrix

KEY INTERNAL FACTORS	WEIGHTS	RATING	SCORE
Opportunities			
1. Increasing usage of wireless service	.15	3	.45
2. Acquisition of smaller companies like MCI	.10	3	.30
3. Growth in income of households	.10	2	.20
4. Strengthening of foreign currency vs. dollar	.10	2	.20
5. Increased desire for high speed internet globally	.10	4	.40
Threats			
1. Price pressures in the industry	.10	3	.30
2. Declining tariff of long distance services	.10	2	.20
3. Decline of fixed line services	.05	2	.10
4. Increasing overlap of telecom territories	.05	3	.15
5. Number portability (regulatory body)	.15	1	.15
TOTAL	1.00		2.45

With a EFE score of 2.45, Verizon is **"Below Average"** in its effort to pursue strategies that capitalize on external opportunities and avoiding threats.

(c) Competitive Profile (CPM) matrix

		VERIZON		Alltel		SBC	
CRITICAL SUCCESS FACTOR	WEIGHTS	RATING	SCORE	RATING	SCORE	RATING	SCORE
1. Market Share	.20	4	.80	2	.40	1	.20
2. Financial Position	.15	2	.30	3	.45	4	.60
3. Sales	.10	2	.20	4	.40	1	.10
4. Product Range	.10	3	.30	3	.30	4	.40
5. Price Competitiveness	.15	3	.45	4	.60	2	.30
6. Consumer Loyalty	.20	2	.40	3	.60	3	.60
7. Brand Awareness	.10	4	.40	3	.30	3	.30
TOTAL	1.00		2.85		3.05		2.90

With the above analysis it is evident that the firm has very "**STRONG COMPETETORS**"

It is however worthwhile to note here that Verizon acquired MCI (2005) and AT&T (SBC acquired AT&T Corp in 2005, merged with Bellsouth(2006),acquired Cingular wireless & YELLOPAGES.COM)

7. GENERATE, EVALUATE & SELECT STRATEGIES: MATCHING

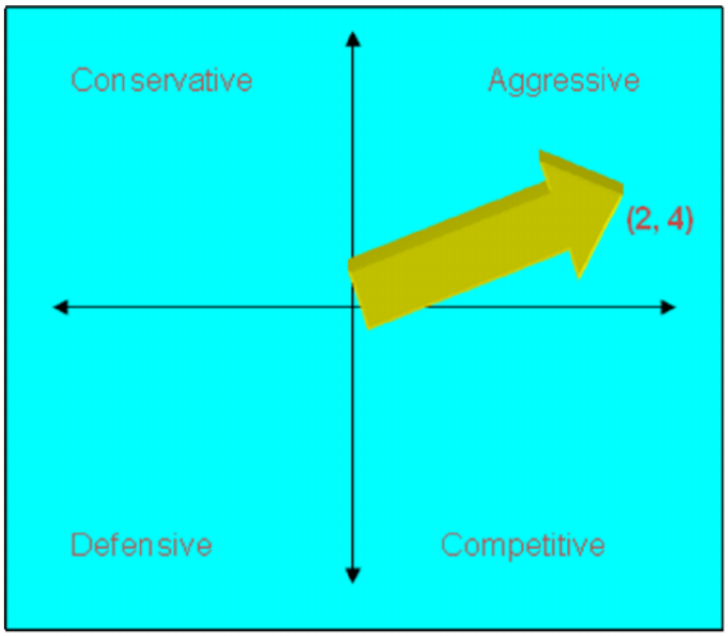
(a) SWOT matrix

	<u>STRENGTHS</u>	<u>WEAKNESSES</u>
	S1. Employee satisfaction (HR) S2. Well positioned with Strong brand recognition, equity(MK,MG) S3. Profitable and willing to invest (MG,F) S4. Offering fiber-optic lines (MG) S5. Largest directory publisher (in US & 13 others) (MK) S6. Top in industry for cell phone subscribers(49/50) (MK) S7. Largest provider of local,long distance,data and broadband services to 2/3 of top 100 markets in US*(MK)	W1. $49b long term debt (F) W2. Not much emphasis on R&D (R&D) W3. Global coverage (MK,MG) W4. Technological competencies (MG,R&D) W5. Lack of Internet services (MK,MG,R&D) W6. Lack of Cable services (MK,MG,R&D)
<u>OPPORTUNITIES</u> O1 : Increasing usage of wireless (MK, R&D, O) O2: Acquisition of smaller companies like MCI (F, MG) O3: Growth in income of households (MK) O4: Strengthening of foreign currency vs. Dollar (F, MG) O5: Increased desire for high speed Internet globally (MG, MK)	<u>SO STRATEGIES</u> SO1: Promote more heavily to target small businesses for wireless and Internet bundle services with higher investment in wireless sector (S2, S3, O1, O2) SO2: Provide family plans for wireless and Internet (high-speed) services (S2, S4, S5, S6, S7, O3, O5) SO3: Acquire small domestic wireless providers such as MCL, Powertel, Ariel (S3, S6, O1, O2) SO4: Expand high speed internet services in foreign countries (S3, S5, O1, O4, O5) SO5: Invest capital in fibre-optic cable to compete with cable companies (S3, S4, O5)	<u>WO STRATEGIES</u> WO1: Offer services to foreign countries for increased revenues by taking advantage of strong foreign currency (W1, W3, O2, O4, O5) WO2: Takeover of international wireless providers and R&D Center (W3, W4, W5, O1, O2, O3, O4) WO3: Provide more household bundles such as wireless, internet and cable services (W3, W4, W5, W6, O1, O2, O3), O5
<u>THREATS</u> T1: Price pressures in the industry (R&D , MG) T2: Declining tariff of long distance services (MG) T3: Decline of fixed line services (MG) T4: Increasing overlap of telecom territories (MG) T5: Number portability (MK)	<u>ST STRATEGIES</u> ST1: Offer bundled plans that include merging of wireless and home phone plans (2 for 1) (S2, S3, S4, S6, T1, T2, T3) ST2: Consider acquisition of related firms to offer bundled services (S3, S5, T1, T3, T5) ST3: Development of new service products through employee motivation (3M culture) (S1, S3, T1, T3, T5)	<u>WT STRATEGIES</u> WT1: Liquidate fixed line telecom services to reduce long term debt (W1, T3) WT2: Expand suite of services to foreign markets (W3, T2, T4)

MK – Marketing , MG – Management , F – Finance , O – Operations , R&D – Research & Development

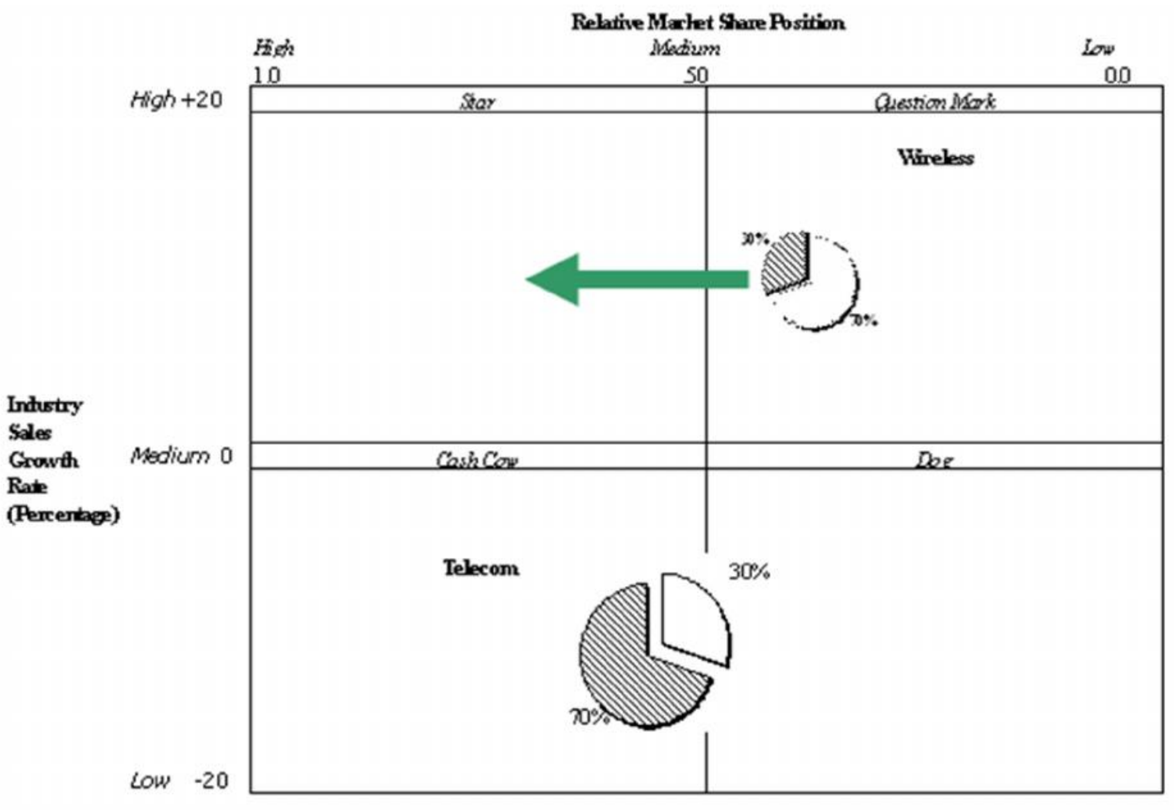
(b) <u>SPACE matrix</u>

Y axis	*Financial strength*	*+4*	*+1 worst to + 6 best*	
	Environmental stability		*-2*	*-6 worst to –1 best*
X axis	*Industry strength*	*5*	*+1 worst to +6 best*	
	Competitive advantage		*-1*	*-6 worst to –1 best*
	Y axis: 4 + (-2) = 2		*X axis: 5 + (-1) = 4*	



Thus the company needs to adopt Aggressive Strategy which means the company should concentrate on Market penetration, Market development and Product Development

(c) BCG matrix



It may be noted that due to non-availability of Market Share data for other two divisions of Verizon (i.e. Directory Services and International operations), these could not be plotted on BCG matrix.

From the above matrix, Verizon should consider converting "Wireless division" to a STAR by way of following Intensive Strategies:

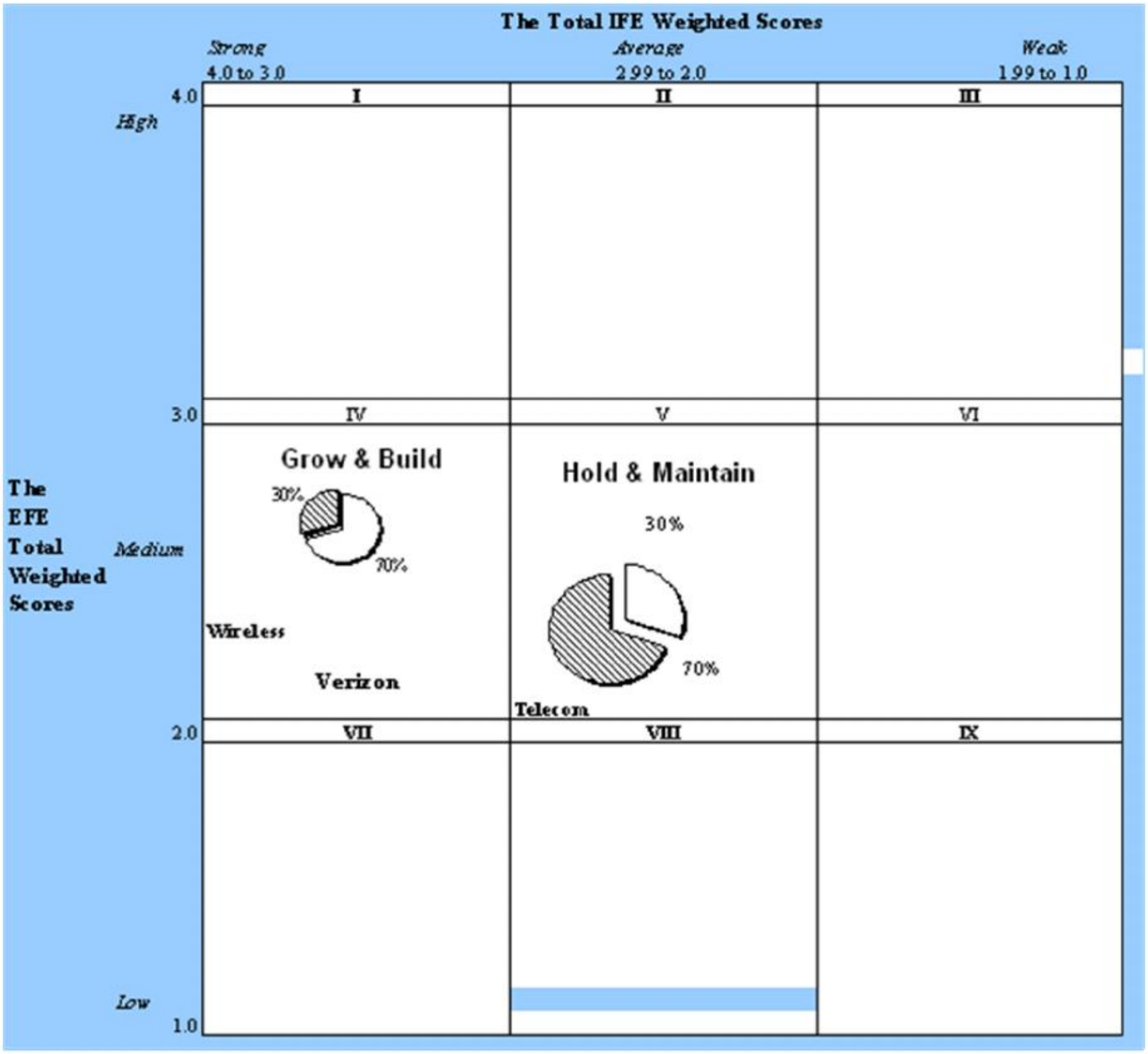
- Penetration by increase in
    - Sales person
    - Advertising

- Promotions
- Bundling

o Development by

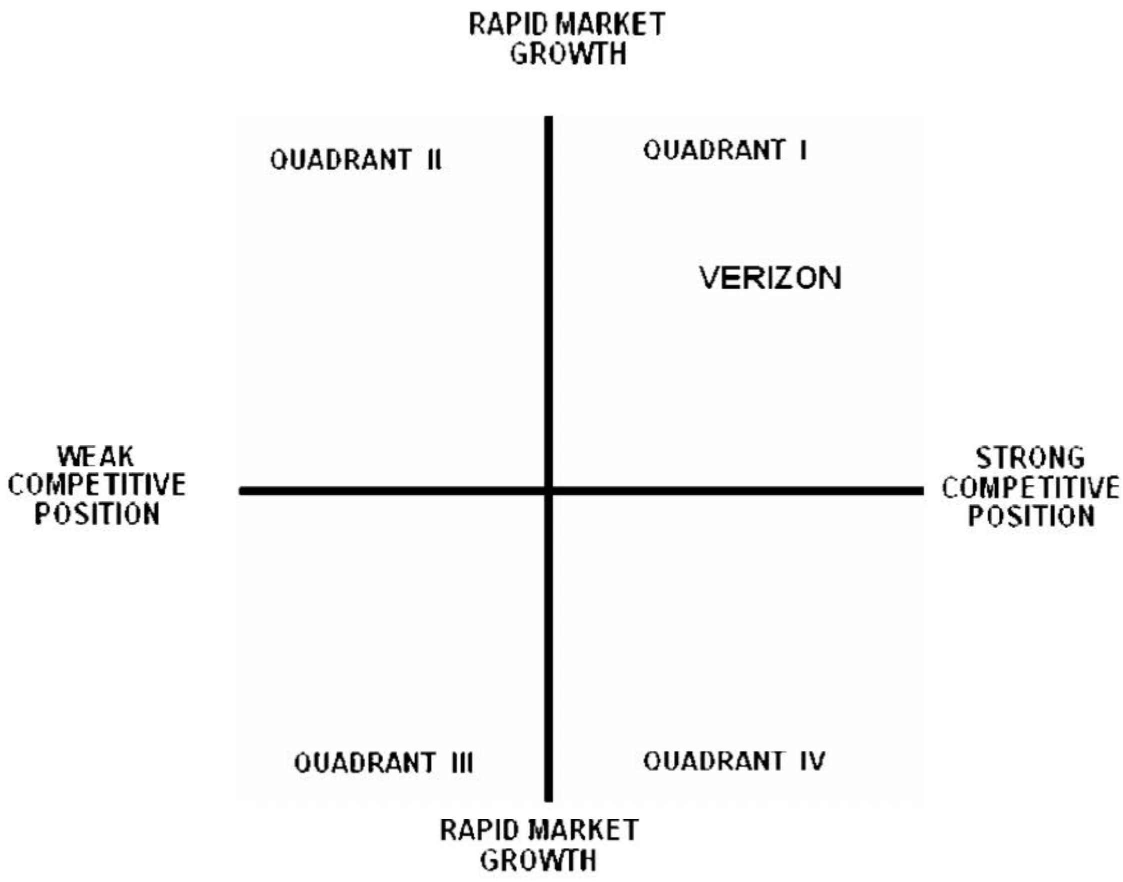
- Enter new markets like Europe, UK, Canada and developing countries

(d) <u>IE matrix</u>



Strategy implications are same as that of BCG matrix.

(e) GS matrix



Being in Quadrant I (Strong competitive position and Rapid Market Growth), the company should adopt the following:

- Market Penetration
- Market development
- Product Development
- Forward Integration
- Backward Integration

- Horizontal Integration
- Concentric Diversification

8. RECOMMENDED STRATEGIES

After comprehensive review of above matrices, following are the potential recommendations:

- Expand Fiber network to increase domestic sales opportunities
- Enter into Foreign markets
    - Wireless
    - High Speed Internet
- Acquire smaller wireless service providers to grow in Domestic as well as foreign markets
- Strategic alliance with large providers for Wireless

9. QSPM MATRIX

KEY INTERNAL FACTORS	WEIGHTS	Invest in Fibre Network AS	TAS	Take over MCI for bundling AS	TAS
Opportunities					
1. Increasing usage of wireless service	.15	1	.15	4	.60
2. Acquisition of smaller companies like MCI	.10	1	.10	4	.40
3. Growth in income of households	.10	2	.20	3	.30
4. Strengthening of foreign currency vs. dollar	.10	-	-	-	-
5. Increased desire for high speed internet globally	.10	4	.40	1	.40
Threats					
1. Price pressures in the industry	.10	1	.10	3	.30
2. Declining tariff of long distance services	.10	--	--	--	--
3. Decline of fixed line services	.05	--	--	--	--
4. Increasing overlap of telecom territories	.05	--	--	--	--
5. Number portability (regulatory body)	.15	--	--	--	--
Strengths					
1. Employee satisfaction	.05	--	--	--	--
2. Well positioned with Strong brand recognition equity	.10	2	.20	3	.30
3. Profitable and willing to invest	.10	4	.40	4	.40
4. Offering fiber-optic lines	.10	4	.40	1	.10
5. Largest directory publisher (in US & 13 others)	.05	--	--	--	--
6. Top in the industry for cell phone subscribers(49/50)	.15	1	.15	4	.60
7. Largest provider of local,long distance,data and broadband services to 2/3 of top 100 markets in US	.05	3	.15	2	.10

<u>Weaknesses</u>					
1. $49b long term debt	.10	3	.30	3	.30
2. Not much emphasis on R&D	.05	--	--	--	--
3. Global coverage	.05	1	.05	2	.10
4. Technological competencies	.05	2	.10	3	.15
5. Lack of Internet services	.10	4	.40	1	.10
6. Lack of Cable services	.05	4	.20	1	.05
TOTAL			3.30		4.20

10. DECISION

- Primary
  - Grow US wireless market by Taking over MCI for bundling of services
- Alternatives
  - Buy smaller wireless providers
  - Move in Foreign Markets
  - Increase Optical Fiber capacity

11. IMPLEMENTING STRATEGIES - ISSUES

(a) Marketing

Market Segmentation

- Shift the advertising emphasis from Wireline to Wireless , Standalone to Bundled Services
- Services are bundled as per regional customer requirements / preferences

Product Positioning

- Using Conjoint analysis and Multi Dimensional Scaling

Make effective online distribution channel

(b) Finance

Amount Needed : $10b = MCI valued at $5.3b + $2b for buying smaller firms + $1b for Enlarging Fiber network + $2b for moving to foreign markets

EBIT-EPS Analysis

EPS-EBIT Analysis

(All figures in Million)

Amount Needed	10000
Interest	10%
Tax Rate	35%
Shares Outstanding	2765
Share Price	25

Common Stock	# shares		400
	Recession	Normal	Boom
EBIT	5000	10000	15000
Interest	0	0	0
EBT	5000	10000	15000
Taxes	1750	3500	5250
EAT	3250	6500	9750
# shares	3165	3165	3165
EPS	1.03	2.05	3.08

Debt Financing		# shares	0
	Recession	Normal	Boom
EBIT	5000	10000	15000
Interest	1000	1000	1000
EBT	4000	9000	14000
Taxes	1400	3150	4900
EAT	2600	5850	9100
# shares	2765	2765	2765
EPS	0.94	2.12	3.29

70/30 - Stock/Debt	# shares		280
	Recession	Normal	Boom
EBIT	5000	10000	15000
Interest	300	300	300
EBT	4700	9700	14700
Taxes	1645	3395	5145
EAT	3055	6305	9555
# shares	3045	3045	3045
EPS	1.00	2.07	3.14

30/70 - Stock/Debt		# shares	120
	Recession	Normal	Boom
EBIT	5000	10000	15000
Interest	700	700	700
EBT	4300	9300	14300
Taxes	1505	3255	5005
EAT	2795	6045	9295
# shares	2885	2885	2885
EPS	0.97	2.10	3.22

Projected Financial Statements

Projected Income Statement			
Sales	67752	74527	10% improvement
cogs	21783	23961	
gross margin	45969	50566	
SELLING EXPENSE	24999	21999	20 % improvement
admin & other exp	13476	14824	
EBIT	7494	13743	
interest	2733	3033	
EBT	4761	10710	
tax	1252	2816	
Net Income	3509	7894	
Accounting change	432	432	
Net Income	3077	7462	
Div		1492	
RE		5970	
Projected Balance Sheet			
Assets			
Cash	699	1669	
Receivables	9905	9905	Plus figure
Inventory	1283	1283	
other current assets	6406	6406	
Total Current assets	18293	19263	
Plant & Equipment	75316	78016	fibre+ foreign services for $2.7b
other	72359	79659	Buy MCI and others for $7.3b
Total Fixed Assets	147675	157675	
Total Assets	165968	176938	
Liabilities			
Accounts Payable			
Notes Payables	5967	5967	
other	20603	20603	
Total Current Liability	26570	26570	
Long term Debt	39413	37413	Pay back $5b
others	66519	66519	
total liability	132502	130502	
RE	9409	15379	
paid in capital	24057	31057	
Net worth	165968	176938	

12. COMPARISON

We suggested

- Primary
  - Grow US wireless market by Taking over MCI for bundling of services

- Alternatives
    - Buy smaller wireless providers
    - Move in Foreign Markets
    - Increase Optical Fiber capacity

Verizon actually followed all these four strategies

- Financed through contributed capital + debt
- Sales and net income increased in 2004 and 2005
- 2006 operating income increased but operating expenses increased to a greater extent (cost of services & sales + Selling general & admin expenses + Minority interest) : Net result decrease in net income

13. STRATEGY EVALUATION FRAMEWORK

- Revised IFE & EFE
- Compare Planned to Actual progress toward meeting stated objectives
- Corrective Action
- Balanced Scorecard

WORKS CITED:

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