Case Study 3: Sprint Corporation

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ABOUT THE AUTHOR

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Sprint Corporation (Sprint) is an Overland Park, Kan., based, global communications company serving more than 26 million business and residential customers in more than 70 countries. With 80,000 employees, the firm is a major user of a wide variety of real estate facilities throughout the world.

Sprint is widely recognized for developing, engineering, and deploying state-of-the-art network technologies, including America's first nationwide all-digital, fiber-optic network (FON Group). Sprint also operates the largest all digital, nationwide wireless network in the U.S., serving 16.7 million subscribers (PCS Group). Nearly 100 percent of Sprint's customers are served by digital switching technology, providing a platform for a portfolio of network-based voice, video, and data services.

MANAGEMENT STRATEGY

In November 2000, Sprint announced a series of key strategic initiatives to build its wireless business into a major world-class service provider and to transform its wired service into a data-centric operation.[1] This would be achieved by:

- **Wireless Operations:** Investment to increase Sprint's U.S. wireless network to third-generation capability. This would result in up to a doubling of voice capacity nationwide and dramatically increase data speeds. The upgrade also would allow Sprint to improve spectrum efficiency, which should lead to improved operating margins.

- **Wired Operations:** Growth in wired based products and services. This would primarily come from leveraging the company's Tier 1 Internet backbone, which should help to expand transport capabilities, Web hosting, value-added services (such as managed network services and applications), and global IP services.

FINANCIAL PERFORMANCE

The two Sprint tracking stocks, NYSE: FON and PCS, trade separately and both have come under the same financial pressures affecting the entire telecommunications industry — a combination of intense competition and the general slowdown in the overall economy.

FON Group: Sprint's FON Group outperformed the S&P 500 through most of 2001, but ended the year announcing a fourth quarter loss of $906 million. The Group came under additional pressure in early February as a result of the bankruptcy of Global Crossings Ltd, a customer of Sprint. Concerns also were developing about the debt structure of the telecommunications industry, largely because of short-term debt pressure on Quest Communications International. Most analysts did not expect the FON Group's operations to be affected, largely because it was not involved in similar accounting issues and seemed to have sufficient debt capacity. Sprint had been downgraded by Fitch Ratings, however, and was under review by Moody's and Standard & Poors.[2]

While revenue and net income were down in the first quarter of 2002, financial performance appeared to be stabilizing. Chairman and Chief Executive, William T. Esrey stated:

> "This quarter, the FON Group demonstrated its resilience in the face of a challenging marketplace. In our local operations, we continue to aggressively manage costs, improve operating profits, and sell our services in value-adding bundles."[3]

PCS Group: Sprint's PCS Group had incurred a loss of $328 million in the fourth quarter of 2001 and announced in mid-February that it was closing five of its thirteen call centers and laying off 3,000 people, approximately 9 percent of its workforce.[4] On a positive note, PCS announced a few days later a new technological breakthrough — an easy-to-use software solution that would allow Sprint customers to access corporate e-mail, calendar, company directory, and personal contacts without having to synchronize when they returned to the office. Best of all, the customer's computer did not have to remain connected to the network for the solution to work.[5]

PCS financial performance in the first quarter of 2002 continued to be strong. Revenue grew 41 percent as average monthly revenue per user climbed to $60. Sprint PCS also continued to add new subscribers. EBITDA more than doubled from the same quarter in 2001.

PCS continued to prepare for the introduction of its third-generation wireless service (3G), with launch projected for the summer of 2002. Mr. Esrey noted that:

> "3G offer greaters speeds and the applications that businesses and consumers need on a wide array of devices. With new data services such as e-mail and photo attachments, 3G will allow Sprint customers to stay connected with a broad range of applications."[6]

Regarding Sprint as a whole, Mr. Esrey said:

> "Despite a challenging economy, we are seeing improvements in our traditional wireline business and continue to deliver outstanding results in our wireless business. Nevertheless, we remain focused on improving the efficiency of our operations enterprise wide."[7]

SPRINT REAL ESTATE

Sprint Real Estate (SRE) is responsible for managing a worldwide inventory of real property assets and services supporting the company's operating and growth requirements. Assets include retail stores in most major cities; office facilities in regional and international locations; transmission and maintenance facilities in numerous locations; and warehouse facilities throughout the world.

SRE services include leasing, developing, and disposing of real property facilities, lease administration, payment of property occupancy costs, and providing building security services.

While human resources (HR) is not a direct management responsibility of SRE, there is a close working relationship with the HR group in making certain that the physical work environment is conducive to the highest level of employee morale and work efficiency. SRE also interface on a continuing basis with the financial reporting group regarding ongoing real property operations, cost control initiatives, and cash management.

As with the real estate groups of most US corporations, SRE view the line of business units (LOB) of the company as its major customers. The heads of these units have the option of utilizing local, non-Sprint real estate resources, which are generally viewed by SRE as being non-standardized, duplicative, slower in execution, and of generally higher cost to the corporation. As a result, the SRE group seek to provide "integrated, innovative, cost-effective, and profitable services for the business enterprise" and, by so doing, become the "sole provider of real property services" to each of the firm's business units.[8]

As an example, in providing space for the PCS Group's operations, SRE had to deal with the fast-moving world of technological product development and deployment. With the objective of achieving early market share penetration, the roll out of new products often required significant new physical infrastructure and facilities.

Some of these facilities came through the acquisition of existing firms, a portion was leased in the local real estate markets, and, in some cases, involved new building development. There also was pressure on SRE to consider the reuse of existing Sprint facilities that were no longer required for their originally intended use. Unfortunately, this often required more time to execute and/or involved getting mired in corporate red tape.

In all cases, the pressure on SRE to keep up with product deployment is intense. Given the high opportunity costs involved, no one wants a lack of real estate to become a bottleneck in the race to market. In some instances, this results in higher acquisition, development, and operating costs which, in turn, require greater financial resources if the effort is to be successful. In some cases, this situation is further complicated by business strategy decisions such as combining office and warehousing in the same building.

If a new product turns out to be unsuccessful, SRE is faced with the job of unwinding Sprint's real estate commitments. This could involve the sale of facilities, releasing to new tenants, or transferring employees to other Sprint operations. Again, this might result in higher costs and/or sublease revenue shortfalls, which could put additional strain on corporate financial resources.

Unlike most high growth technology firms, Sprint is faced with the additional uncertainty of operating within the constraints of government laws and policies that regulate the telecommunications industry. Even if a product is successful in the marketplace, there is always the possibility that a required license might not be obtained in a timely fashion or the merger of a competitor could lead to changes in regulatory requirements.

In addition, there also is the issue of how facility costs should be allocated within the corporation. Should they be charged to the independent business unit that is utilizing the facility or to "Mother Sprint" as an overall corporate allocation? This issue becomes particularly critical in situations where facility costs are considerably higher than budgeted due to the pressures for rapid product deployment.

Operating within this environment of market, regulatory, physical, and corporate constraints, SRE management knew that they had to develop a clear understanding of what they could and couldn't do.

PROJECT "EVOLUTION"

SRE leadership believed that a major key to improving their ability to deliver for their LOB clients was the development and integration of a Web-based real property information system. Beginning in 1996, Sprint corporate management sought to become "net ready" through a series of firm-wide technology based initiatives that provided the foundation for such a system.

In November 2000, management committed to the vision of transforming SRE operations through the development of a more robust end-to-end, automated and Web-enabled business model. Based on Cisco's "Net Ready" success factors of leadership, governance, technology and competency, Project Evolution ("Evolution") was launched.

The project addressed five key areas:[9]

- **Information Management:** Through Evolution, SRE sought to improve the timeliness and accuracy of information and intelligence needed to support better decision-making.

- **Streamline Processes:** Another objective was to streamline SRE's management processes. Targeted processes included space forecasting; facility planning; moving, adding, or changing operating facilities; project management; accounting; and tracking company real property assets.

- **Initiative Prioritization and Selection:** By establishing priorities, SRE expected to establish clear guidelines and insure better coordination of all Sprint property activities.

- **Accountability Metrics:** In order to establish greater employee and business group accountability, accurate and timely metrics would be required. These metrics would help to better align operations and support overall enterprise objectives.

- **Organizational Alignment:** Finally, Evolution was expected to better align the real estate function in terms of customer focus, communication, and efficient operations.

The plan was to implement Project Evolution in three phases:

Phase 1.0

Phase 1.0 began in early April 2001 with the formation of a project team and selection of a Big 5 consulting partner. Interviews with SRE associates, customers, and process partners were conducted and several areas of immediate improvement were identified. These areas included streamlining processes, improving customer touch points, and strengthening SRE's strategic positioning within Sprint. A roadmap was developed that outlined two major imperatives:

1. Focus on seven core areas for initial process improvements.

2. Identify key opportunities for SRE to focus its migration to a Web-enabled business model.

Between May and October, seven SRE teams explored the opportunities for improving existing processes, standardizing data, developing better performance metrics, and establishing a better understanding of the firm's real property assets.

On October 11, 2001, the teams presented their Phase 1.0 recommendations to the whole group in order to understand better each team's approach and to identify areas of synergy within SRE and other process partners within the corporation. At this meeting, near term implementation targets (Phase 1.5) were identified as well as longer-term (Phase 2.0) visions and recommendations.

Phase 1.5: Near Term Implementation

Phase 1.5 was kicked off in July 2001. It addressed the first imperative on the strategic roadmap, namely to develop a future vision of seven core areas and to identify and develop process improvement opportunities, which could be implemented independent of major technology investments. The seven areas targeted were:

Target	Team
Lease Administration	*(Project Habitat)*
Data Standardization	*(Project DNA)*
Resource Management	*(Project Globalization)*
Project Management	*(Project Lifecycle)*
Facilities Services/MACs	*(Project Ecosystem)*
Performance Metrics	*(Project Biometrics)*
Culture Process Team	*(Project Biosphere)*

Seven teams, comprised of cross-functional SRE managers and supported by director-level sponsors, completed detailed process maps and implementation plans.

In addition to the Phase 1.5 process teams, an analysis was begun in mid-December 2001 to develop an overall IT strategy that would integrate and align with the business plans and strategy of both SRE and the Sprint Enterprise as a whole. This strategy addressed the following areas:

- Architecture
- Applications
- Data
- Operations

Between October and March, the SRE team focused on Phase 1.5 implementation. This resulted in several key accomplishments:

- A **Project Initiation Form** was developed which would allow SRE customers (LOBs) to begin initiating projects electronically.

- A **High Level Project Cost Template** was rolled out for use in discussing cost and budget issues with the business units finance organization.

- **Livelink** was selected and implemented as the corporate wide repository to access business documentation. In addition, significant progress was made in reducing the number of signatures required to obtain fiscal approval of real estate projects.

- A **Project Tracking Tool** was developed and rolled out for immediate use. Approximately 45 SRE associates were trained in the use of this tool in late February

- In March, SRE rolled out a **Financial Tracking Tool** for use in coordinating activities between corporate finance managers.

- **Vendor Sourcing** strategies were developed to validate selection of service providers.

Phase 2.0: Longer Term Visions and Recommendations

Phase 2.0 was designed to address the recommendations from the IT strategy analysis, the strategic roadmap from Phase 1.0, and build upon the process and technology implementations from phase 1.5. Three major opportunities were identified:

- Project/Financial Management
- Self Service
- Robust integration of IT Infrastructure

There are two key aspects of the IT strategy; 1) a focus on "end-to-end" core real estate processes and 2) differentiation and education of the required technology components/layers required to achieve the overall SRE vision.

SRE executive leadership indicated that they wanted to manage the real estate business from an end-to-end process perspective to help eliminate the silos of information and reduce process handoffs. Additionally, the SRE vision calls for a "highly collaborative" organization that is "sought after" for real estate solutions. Standard end-to-end real estate processes and identifying new enabling technologies to help achieve the vision of a highly collaborative, sought after organization quickly became the core business drivers of the IT strategy.

ISSUES AND CHALLENGES

- As of mid-April, SRE leadership faced several challenges in the implementation of Project Evolution:

- As noted, the SRE organization operates in functional organizational "silos" with limited knowledge of the other processes required to deliver a complete real estate product (e.g. fully equipped office space). In the Evolution world of the future, people will be asked to be accountable for end-to-end processes that cover the entire real estate life cycle. The challenge will be to migrate solutions to support this fundamental change in organizational focus.

- New technical functionality will be required to meet the new business needs required by the changing organization. At the same time, SRE managers must ensure that they are leveraging existing technology investment as much as possible.

- In addition to changes in technology, enhanced leadership capabilities will be required to migrate to a new SRE business model based upon an end-to-end process view.

- Measurable accountability will have to be assigned to one person for each process function.

- Decisions involving project management, financial management, and self-service real estate operations will be critical in the success of the implementation effort.

- Decisions pertaining to integration of current user applications supporting the vision of Project Evolution and the selection of new solutions to address future Evolution process requirements.

- Decisions pertaining to managing the business based upon a "balanced scorecard" of measurements.

Most, if not all, of the SRE leadership know that they have their work cut out for them if they are going to be successful in utilizing technology to fundamentally change the way real estate is managed within the corporation. If they can pull it off, SRE will move a long way towards achieving its goal of becoming *"a valued partner by delivering innovative and competitive solutions"* and by so doing, becoming the *"sole provider of real property services"* to Sprint's operating divisions.

ENDNOTES

1. Company Web Site, April 21, 2002.
2. Dow Jones Business News, February 19, 2002.
3. Company press release, April 15, 2002.
4. Company press release, February 15, 2002.
5. Company press release, February 20, 2002.
6. Company Press Release, April 15, 2002.
7. ibid.
8. Internal Sprint document.
9. Internal Sprint document.