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For Cingular, Becoming No. 1 Also Poses Risks

By **KEN BELSON** and **MATT RICHTEL**

Published: September 27, 2004

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 Vodaphone - 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.



Erik S. Lesser/Bloomberg News

One issue that Ralph de la Vega, chief operating officer of Cingular Wireless, will face is the future of Cingular and AT&T Wireless retail stores - some 2,800 of them.


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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

NYT Store



Photo: Alexander Graham Bell opens New York-Chicago phone line, 1892

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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.

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