ALLTEL’s $9 billion public offer for CenturyTel on August 14th is the natural outcome of the merger and acquisition activity occurring in the non-urban telecommunications market. New Paradigm Resources Group (NPRG) discusses this trend in our Competitive IOC Report: New Challenges, Established Carriers™. ALLTEL, operating as both a Competitive Local Exchange Carrier (CLEC) and an Incumbent Local Exchange Carrier (ILEC) is the largest Competitive Independent Operating Company (CIOC) in the US and seeks to secure its dominance through this merger. The merged Company would enjoy significant operational synergies and efficiencies. Importantly, the merger would both significantly expand the combined Company’s highly profitable wireline operations and strike a better balance of wireline and wireless holdings. The combined Company would pose a credible competitive threat to the Bell Operating companies in many domestic markets. Nonetheless, CenturyTel is wholly opposed to ALLTEL’s offer. NPRG believes CenturyTel’s resistance to this merger is understandable but shortsighted.

CenturyTel, like most CIOCs, has a strongly customer-centric. CenturyTel has stated its interest in divesting itself of its wireless assets to concentrate on wireline operations. Given its operational philosophy, the proceeds of this divestiture would likely be used for the improvement and expansion of its wireline operations. However, CenturyTel’s strategy is flawed. Wireless operations are an invaluable tool to CIOCs. Wireless operations in rural areas frequently operate hand-in-hand with wireline operations and are an important marketing tool for expanding brand awareness and gaining market penetration. By divesting its wireless assets to concentrate on its wireline assets, CenturyTel surrenders a significant competitive advantage in its wireline markets and invites competition into its franchise markets.

CenturyTel’s management is, like that of other CIOCs, conservative and resistant to change. Unfortunately for CenturyTel, merger and acquisition activity among the CIOCs is accelerating, the merger of NTELOS and CEI being the most recent example. The CIOCs with their inherent profitability have substantial cash reserves and funding options. This capital is being used to expand into new markets and to acquire smaller CIOCs and failing CLECs. Citizens Communications raised
$1.75 billion in August 2001 and is likely looking for suitable additions. TDS initiated a 1.2 million share stock repurchase in 2001 and NPRG anticipates that it is also seeking advantageous acquisition opportunities. However, CenturyTel is unlikely to find other suitors willing to top ALLTEL’s $9 billion bid. As the non-urban telecommunications market consolidates, CenturyTel’s unwillingness to welcome change jeopardizes its ability to compete.

*About New Paradigm Resources Group*

New Paradigm Resources Group, Inc. is a research and consulting firm monitoring and analyzing developments in the competitive telecommunications industry. NPRG maintains an extensive array of proprietary databases that support our foundational industry reports, which, in turn, fuel our client-specific expert consulting work. NPRG publishes the CLEC Report™, a biannual multi-volume review of the state, trends and future of the competitive local telecom industry, as well as the ISP Report™, DSL Report™, ASP Report™, Utilities in Telecom Report™, and the BLEC Report™.