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Abstract: Analyzes the second divestiture of AT&T and the strategy to create three global independent companies: A new AT&T, NCR and Lucent Technologies.

AT&T "Beyond Long Distance"

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Strategic and Policy Issues: AT&T

"Beyond Long-Distance"

Submitted by Team 5

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CORPORATE HISTORY

AT&T, known world-wide for its long distance services, is a corporate giant initiated by Alexander Graham Bell and his invention of the telephone in 1876. As the parent company of the former Bell System, AT&T's primary mission was to provide universal telephone service. The Bell System was split up into the "baby bells" in 1983, putting an end to its monopoly in telephone service.

This paper focuses its analysis on the second divestiture of AT&T's history, the strategic move to create three global independent companies: a new AT&T, NCR and Lucent Technologies.

SWOT

Strengths

AT&T has one of the strongest brand names in history, synonymous to telephone service in every country in the world, 280 in all. Its "Worldwide Intelligent Network" handles more than 210 million voice, data and image call each business day.

AT&T's long history of a monopoly gives it a tremendous installed base of telephone lines and switches, enabling direct-dial access to more than 260 countries and territories. With 95% of all traffic over fiber optic lines, and many billion miles of circuit miles of transmission facilities, AT&T has the ability to assure reliable service as it can easily re-route traffic within its vast network. This also allows the company to offer its services competitively priced.

Its R&D flagship, Bell Laboratories, with a big staff of excellent engineers, has allowed AT&T to build a large portfolio of patents and products to support innovation and build out its technical leadership position.

AT&T's long-distance service is a cash-cow, attracting investors. With 2.3 million shareholders, it is the most widely held stock in the United States, giving AT&T the resources to afford even huge write-offs. From the stock-markets view, AT&T's valuation is 22 times earnings, reflecting the faith investors have in this company's ability to generate returns much greater than the average S&P 16 times earnings.

With its large advertising budget of $700 million, AT&T as a brand name stays in the minds of the marketplace.

Weaknesses

AT&T is an organizational monster, with 300,000 employees worldwide. With many layers of hierarchy and a bloated bureaucracy, inefficiencies result from a century of monopoly. Essentially, AT&T provides a "utility service" to the nation, and the world, compromising the company's ability to respond in a competitive and changing environment. The corporate culture of fat margins and a dominant role in its core business may prevent ATT from responding quickly to competitive pressures. Despite the influx of outside managers to help in the restructuring, the old ATT mindset still exists, still holds an idealistic view of the marketplace, much the same way IBM thought its dominance in mainframes entitlled it to dominace in PC's.

AT&T's management has made many mistakes, such as the acquisition of NCR, and has not been able to translate all the restructurings into similar profits for shareholders, as competitors were able to do.

Opposing views in management have hindered a clear strategy of how AT&T will go into the new century, and jumps from one approach to another have led to bad capital decisions, and costly write-offs.

Opportunities

Globally, developing countries have an increasing need for telecommunications infrastructure, an area that many governments are willing to invest big sums. Businesses see the opportunity to gain efficiencies by implementing and using the best way to capture and share information. Even though AT&T has been losing share in the long distance market, it has been increasing market share in the business sector.

Customers have become more knowledgeable about information technology, and demand and use wireless voice, Internet access, data transfer, information and entertainment services in increasing numbers. New technologies have become available, such as the Internet, direct TV, satellite communications. Customers are buying, as a mature and efficient semiconductor and electronics industry can produce and market the products that will embody the new services.

The new telecommunications bill breaks up service monopolies. While this looks like a big negative for long distance companies, it gives AT&T the new opportunity to enter other areas of information service delivery, such as video over cable. Also, what was the baby bells local phone market after the break-up in 1984, local phone service is now fair game again for AT&T. Long-distance providers have had to modernize their switching systems and had to reduce overhead early on, which puts them now in a competitive advantage to the local providers that have been protected longer. Opportunities present themselves in bundled services that converge voice, data and video communications onto one monthly bill for its cutomers. Currently, no other long distance company offers local service as part of a bundle.

Threats

Wireline phone systems are not the only way how phone service can be brought to new customers in developing countries. Many can not afford the wait, and skip a step in the evolution, using wireless phone systems (cellular phone service) to penetrate new areas quickly and cost effectively. Satellite services allow international access to any country without having to negotiate rights over the AT&T-owned phone lines.

The political climate of deregulation found a new highpoint in this year's telecommunications bill. This will allow non-traditional competitors, such as cable companies, and the baby bells, to enter into the $76 billion long-distance market. For many years, competitors have already been chipping away at AT&T's long distance market share, losing 40% over 10 years. AT&T lost against arch-rivals MCI and Sprint, but performed better than Bell Atlantic. Some analysts predict that local phone companies may be able to garner 25% of the long-distance calls in their regions within three years of this telecom bill.

AT&T's Performance, 1990 - 1995

	AT&T	MCI	Sprint	Bell Atlantic
Revenue Growth	26%	98%	52%	9%
Earnings Growth	49%	83%	28%	41%
Stock Appreciation	35%	80%	86%	28%

Derregulation of U.S telecom markets prompted two megamergers: Bell Atlantic and Nynex, Pacific Telesis and SBCCommunications. And with the possible merger of WorldCom and MFS Communications, AT&T has now three serious rivals that may sell as a package local and long distance calling, and internet services (see Appendix).

CRITICAL ISSUE: TECHNOLOGY

Technology stocks have not soared without reason: new technologies have the power to revolutionize the way we live, and the new "information age" will be dominated by those companies that are able to recognize new technologies, develop them, apply them in products and market them to hungry global customers. The winners will be companies that recognize the need for new services that these new technologies make possible, and have the ability to bring them to market.

AT&T will have to transform into a high-tech growth company, and ditch its expectations that its strength in long-distance markets entitles it naturally to win big in adjacent markets. AT&T must be a leader in new services and capabilities. For quite some time, AT&T has been working on developing the multimedia information highway that the Internet has now become. Where it had expected to be in the driver's seat to get the charges for faxes, phone calls, live radio programs and teleconferencing, the new paradigm of the net leaves AT&T only the wholesale charges for the low-cost commodity part of the business. Internet calling itself remains a novelty, as fewer than 50,000 people use that technology regularly. One source estimates that as much as 16% of U.S. voice traffic may travel over the Internet by 2000. ATT must assert itself in this market. While the quality of traditional phone systems is hard to beat, it is cheaper for the consumer to use e-mail without having to go through phone company switches and incurring the respective charges.

Unfortunately, the explosion of customers seeking web-access, and the mushrooming number of local access providers stepping into that role, have lead to the collapse of several networks. Data brown-outs are the result of too many customers for too few lines, so companies that can offer increased capacity, as well as reliable service, will be in the driver's seat. Here AT&T has a big advantage, if it can pair its Internet offerings with its powerful phone network. A new technology that may aide this undertaking are cable modems, providing higher speed links to the home, while allowing to bypass local phone companies.

But it is also critical to recognize the limits of a technology (such as financial), and its appropriate timing for market introduction.

For example, a nationwide plan to bring fiber to every house to enable broadband information services such as video-on-demand, phone service and data all via one line has not been carried out because of forbidding costs ($1,000 per household). Such situations provide opportunities for innovation of a different kind, such as making the most out of twisted pair wiring in terms of data transmission rates. AT&T did not really have to deal with delivery of information services to the home, since it was not involved in local telephone service since the breakup. Now, the waiting time has paid off. While local companies pay millions to maintain their antiquated mainframe and switching hardware and software, AT&T already installed their high-speed switches and full fiber optic networks many years ago, and can invest in new technology.

STRATEGIES

To quote Chairman Robert Allen:" We intend to be the premier deliverer of a whole range of services: local, long distance, wireless, entertainment." Critical goals for AT&T are to generate cash by pleasing stockholders, locking in customers into long distance service, restoring a direct link into people's houses.

In order to grow and remain competitive long-term, AT&T needs quicker decision making, and is looking for more responsiveness. It has been termed the quest for a "Microsoft mentality".The following strategies are employed towards that end:

Acquisitions

NCR was acquired in 1991 in a hostile take-over. See details under "divestiture".

McCaw Cellular was acquired in 1994, propelling AT&T from zero to first place in cellular service. Together with a planned PCS (personal communications service), what is now called AT&T Wireless will be able to eventually cover 80% of the nation's population.

Agreements

AT&T has signed agreements with several competitive access providers, a customer group most likely to switch to local carriers in competition with AT&T. These companies have high-speed lines that connect corporate customers directly to long distance nets.

AT&T sees its most valuable market segment of long-distance service in large business customers. It won back IBM and Merrill Lynch for long-distance service from MCI, thanks to a new outsourcing division, AT&T Solutions, which provides communications operations for major corporations.

New Services

In March 1996, AT&T made inroads into Internet service: for an unprecedented $19.95, it offered unlimited Internet access (WorldNet), and a free one-year trial for its 80 million long-distance customers, a smart move to bundle services. As the service hit the market, AT&T was not prepared to handle the enormous market demand, and quickly got a reputation as being slow to respond. Subsequently, the company learned to bring products to market accompanied by requisite customer service,support and capacity, and on a broader scale. By year-end, AT&T WorldNet Service will offer its customers the software to make phonecalls over the Internet. This an interesting move since AT&T's engineers disdain the low quality of Net calls, but it could be too dangerous to just wait until the quality has reached that of current voice telephone service.

After buying a 2.5% stake in the Hughes venture, in March, AT&T announced plans to market DirecTV's satellite TV service. It is now offering special discounts on DirecTV to its long distance and Universal Card customers.

New Products

AT&T Labs is working on the "renaissance network" , following a strategy of "digital convergence", essentially the idea to integrate voice, video transfer and computer data over high-speed broadband networks. The paradigm of communication with anyone, anywhere, will require than any form of communication is is made available over the same medium and network.

Divestiture

The breakup of AT&T, more appropriately a "trivestiture", into three separate companies (AT&T, Lucent Technologies and NCR) is targeted for completion at year-end of 1996. The strategy serves to re-focus onto the separate markets and services, and improve efficiencies by paring down personnel.

Spinning off **NCR** will rid AT&T of a problem. The $8 billion computer business, lost $600 million pre-tax in 1995, and caused a $1.6 billion dollar restructuring charge. The company has had five disastrous years under AT&T after the hostile take-over in 1991. The company may already be well underway to a turn around: The workforce has been pared down from 55,000 then to 39,000 today, and has gotten out of being in too many markets at once. Its strength lie in equipment for retailing, financial services and telecommunications. It leads the worldwide automated teller market, with 24% market share. And new opportunities can be found in new services, such as data warehousing - pioneered by NCR- and where mainframes and large UNIX-based servers are being replaced, for example with NCR's new Octascale technology.

By spinning off **Lucent Technologies** as a separate equipment company, AT&T divided its hitherto integrated communications business into two separate entities. In April 1996, in the largest initial public offering in U.S. history, 111 million shares of Lucent Technologies Inc. were snapped up by the market. Lucent, with $21 billion in revenues in 1995, is the world's largest telephone equipment maker, in a booming telecom market. While it has a large installed base, it will no longer be able to depend on the guaranteed business by mothership AT&T. From now $2 billion a year, Lucent will have to find new customers to make up for only $3 billion guaranteed by AT&T over 3 years, and will receive no preferential treatment thereafter. But breaking out from underneath the shadow will have its advantages: Lucent will be able to sell equipment to local phone companies, a flexibility it never had because of conflict of interest.

The name AT&T will remain with its core business and flagship service, long distance.

New management

As part of the strategy to transform AT&T into high-tech growth company, CEO Bob Allen has brought in experienced managers from industry. The success of this approach remains to be seen as many managers have left the company, like Pier Carlotti, who came from Digital Equipment, and is now at Oracle, or Alex Mandl, who now heads a wireless startup.

CONCLUSION

This is a difficult time for AT&T. The company, whose cash generating long-distance service has been the source of all new investment opportunities, is facing fierce competition in its core business, and price wars from smaller, agile companies that can underbid the giant with lower overhead costs. At the same time, technology is racing ahead, and a strong strategic intent with keen leaders is required. Investors have become leary of the below-average performance of AT&T stock, and the telecommunications bill has further opened the market for more up-and comers. Many experts believe that AT&T has all the pieces of the puzzle, but ask : Can they put them together? To quote Robert Allen, " the big challenge is the execution."

How can AT&T move beyond long-distance? With a strong strategic intent, rather than the ad-hoc strategies of the last five years, that will help drive a change in culture. But the vision has to come from the top. This may be the time when a change in mindset through a new leadership style is required. Robert Allen has been trying to bring in fresh blood, but if he and if the company can't locate it in due time, and the pressures from the stock market continue, the board may force a solution.

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You needed to refer these in the body of the text, if you had used any ideas from any of them

Appendix

Competitive Analysis: AT&T in the Telecommunications Market					
Companies	1995 Revenues	Primary Markets			
		Long Distance	Local Calls	Wireless	Video
AT&T	$47.28 Billion*	XXXX	X	XXXX	XX
GTE	$19.96 Billion	XX	XXXX	XX	none
BellSouth	$17.89 Billion	X	XXXX	XX	X
MCI	$15.27 Billion	XXXX	X	X	X
Bell Atlantic	$13.43 Billion	X	XXXX	XXXX	X
NYNEX	$13.41 Billion	X	XXXX	XXXX	X
Ameritech	$13.43 Billion	X	XXXX	XX	X
Sprint	$12.77 Billion	XXXX	XX	X	XXXX
SBC	$12.67 Billion	X	XXXX	XXXX	none
US West	$9.48 Billion	none	XXXX	XX	XXXX
Pacific Telesis	$9.04 Billion	X	XXXX	X	X
Time Warner	$8.07 Billion	none	XX	none	XXXX
TCI	$6.77 Billion	none	X	X	XXXX
Comcast Corp.	$3.36 Billion	none	X	XX	XXXX
Airtouch Comm.	$1.59 Billion	none	none	none	XXXX
360 Degrees	$834 Million	none	none	none	XXXX

* after divestiture of Lucent Equipment unit and NCR