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INTRODUCTION

The telecommunications industry is undergoing tremendous growth and restructuring. Overall industry revenues should continue to grow at an average pace of about five percent per year through the late 1990's [6]. Some industry sub-sectors, such as international long-distance and competitive access provider (CAP) services, should realize double-digit growth for the same period. Improving technology and an increasingly competitive marketplace will give rise to a proliferation of new services. With the advent of fiber-optic technology, phone and cable companies will continue to seek partnerships. The legality of mergers between data providers and phone service companies should relax. The resulting technological burring will allow such innovation as video-on-demand, sophisticated interactive consumer services, and other offerings that require the marriage of technologies.

AT&T HISTORY

The Bell Telephone Company was founded in 1877 and expanded rapidly, controlled by group of Boston bankers. They were challenged by Western Union Telegraph, which bought the right to Elisha Gray's devices and hired a young inventor, Thomas Alva Edison, to build a better telephone. Edison did so, but the Bell Company sued for patent infringement. Bell won and went through several reorganizations before becoming American Telephone and Telegraph in 1899, when they moved their headquarters from Boston to New York City. The move put them close to the wellsprings of money, and ingredient AT&T was going to be ever in need of in their zeal to spread telephones throughout the land [5].

After Bell's original patents expired in 1893 and 1894, thousands of independent companies sprang up from coast to coast. AT&T fought them by buying up some of them, undercutting their prices and refusing to connect their lines to the Bell System. The Morgan-controlled AT&T felt one telephone company was enough for the country. In 1909 they enhanced their near-monopoly position by annexing an old adversary, Western Union Telegraph. But that was one acquisition too much. Trust buster were alive and well in the U.S. at the time (they broke up both the Standard Oil and the American Tobacco trusts), and in 1913, to avoid a carve-up, AT&T struck a compromise with the federal government in the so-called Kingsbury Commitment (named after an AT&T vice president, Nathan C. Kingsbury) that set the company's course for the next 70 years. AT&T agreed to sell off Western Union, buy no more phone companies without Interstate Commerce Commission approval and allow other phone companies to connect to the Bell System lines [5].

We said goodbye to Ma Bell in the 1980s. The US's biggest company –measured by physical assets, after tax profits and number of employees- was broken up by the federal government in a classic violation of the principle, "If it ain't broke, don't fix it." American Telephone & Telegraph was shorn of 24 local telephone companies, which were divided into seven regional Baby Bells. AT&T retained the long-distance telephone business; the manufacturing of phones, switches, cables, integrated circuits, computers and Bell Laboratories. The Bell Labs and Western Electric developed many of the milestones of the 20th century, including sound motion pictures (1926), TV transmission (1927), radio astronomy (1933), digital computers (1938), the transistor (1947), microwave relay (1958) and satellite communications (1962). In the World War II they built half the radar the U.S. armed forces used and after the war played a central role in the development of nuclear weapons. After the 1984 divestitures, the company stopped referring to themselves as American Telephone & Telegraph, preferring the designation AT&T [5].

AT&T: WILL THE BAD NEWS EVER END?

<u>The telephone giant is stumbling -just when it faces the fight of its life</u>

After eight years of downsizing, reorganizing, reorienting, and restaffing the telephone giant - and after just as many surprise setbacks and strategy shifts- Bob's Sept. 24 bombshell was, to many, the last straw. That morning, Allen announced the company's earnings will come in some 10% below what analysts had been led to expect - both in the third quarter and the fourth. Also was clear that the phone giant's problems may be growing beyond the grasp of the current management [4]. But worst of all, for many investors, it was disclosing that the company was unable to hold its own even in its core long-distance business and the realities of the long-distance business.

SOME STRATEGIES TOOK BY AT&T:

- Pay consumers to switch to AT&T ($1.5 billion). After a poor showing in the second quarter, when AT&T admitted to being blindsided by a pack of feisty small competitors, the company's efforts included mailing some $1.5 billion in checks to pay consumers to switch to AT&T. But this plan didn't work as expected.
- Forget to charge a premium for its brand and fight competition on price. To recover its market share, AT&T will offer a $0.15-a-minute flat-rate service 24 hours a day –a respond to Sprint Corp.'s popular $0.10-a-minute program, which is limited to off-hours.
- Paid $7.5 billion for NCR Corp. to restart AT&T's computer operation. Then racked up some $2.6 billion in losses in the business before deciding to get out of computer altogether.
- Problems on its Universal credit card business. Whenever AT&T goes into he water, they make big waves. In 1990, they decided to go into the credit-card business. But AT&T's fast-growing Universal credit card is being overhauled because of high default rates. Also its president, David K. Hunt, resigned on September 4,1996 [4].

AT&T can no longer afford such costly missteps. Its new calling plan only confirms what competitors have been proving: Long-distances services are becoming a cost-sensitive, commodity-like business. Now, Allen is fighting a price war to defend his long-distance business just when he needs to launch the strategies the company must have in place to survive in a world of deregulated phone markets and new high-tech communications.

This is where AT&T runs into the called IBM problem. Just as IBM was caught between perpetuating its dominance in mainframes and pushing forcefully into faster-growing new market such as personal computers, AT&T is faced with the question of how to move beyond long distance [4]. The earnings from today's business that Allen is counting on to fund the future are in jeopardy. AT&T ability to move into other areas depends on a healthy core business, and their core business is not healthy right now.

The Status of Competition

Historical Context

- The explosion of electronic technology over the past sixty years shows little sign of abating. This technological revolution, affecting communications, has expanded the scope of telephone service beyond anyone's wildest dreams. Dramatic changes in government changes in government regulation, pricing, and competition have accompanied these technology improvements in the telecommunication industry.
- AT&T had enjoyed its definite monopoly in U.S. telecommunication industry for as long as half a century since its foundation in 1899.
- Despite the popular belief that the telephone network is a natural monopoly, the AT&T monopoly survived until the 1980s not because of its naturalness but because of overt government policy. In the late 1950s, technological change, regulatory distortions,

and entrepreneurial energy combined to create pressures for entry into various facets of the telecommunications industry. The expert agency entrusted with federal telephone regulation, the FCC(Federal Communications Commission), found it increasingly difficult to deny entrants the right to offer equipment and services in direct competition with AT&T. The FCC lost control of the process, however, because it could not successfully arbitrate disputes between the incumbent (AT&T) and the new challengers. When the new competitors failed to get what they wanted from the FCC, they changed their strategy and looked for relief in the antitrust courts. In 1974 these competitors persuaded the Justice Department to file a mammoth antitrust suit against AT&T, and the stage was set for the last battle of AT&T, which AT&T lost. The settlement of the suit was in 1982.

- As a result of the 1982 antitrust decree that divided the American Telephone and Telegraph Company (AT&T) into eight separate forms and spun off two other telephone companies in which AT&T had a minority interest, the customers can no longer buy local service, long-distance service, and telephone equipment from the same vender. [1] The telephone equipment and services sector has changed from a tranquil, regulated monopoly into a set of increasingly competitive markets in which domestic and foreign suppliers compete for the patronage of household and business users.

  - AT&T was no longer alone, even in its long-distance service markets. By virtue of the 1982 settlement, two other large long-distance carriers, MCI and Sprint, emerged to reshape the structure of long-distance service markets.

- Thus the telephone industry has evolved into a much more competitive industry, constrained by Federal, state, and judicial regulators. Of the three regulators, the FCC has pressed most actively for substituting competition for regulation whenever possible and for using more rational approaches to regulatory ratemaking whenever competition is economically or politically impossible. These policies have led to a significant repricing of telephone service — raising local access rates closer to costs and reducing long-distance rates markedly. Many state regulators as well as state and federal legislators have attempted to slow the pace of deregulation and cost-based pricing because of the apparently mass popular appeal of low monthly access rates. They have had limited success at best, owing to the perseverance of the FCC.

The Status

- The challenge that has been facing regulators and antitrust officials since 1984 has been to effect policies that will cause competition to emerge in long-distance telephony. Those policies, if successful, would cause profit margins to fall by half or more and largely eliminate the rationale for regulation of long-distance markets. Numerous responses to the challenge, the most resent being the Telecommunications Act of 1996, seek to activate the transformation to competitive markets. But none of the earlier responses has produced results that measure against a standard for a finding of open and pervasive competition.
- The results of the first decade since divestiture imply that direct regulatory management of prices and services does not work. [2]
- Basic change in regulatory policy should be able to further the development of open and competitive markets in long-distance telephone services. Those policies calling for change had been embedded in the waiver process of the judgment court, which so resisted change that it gave the impression of complete inactivity. Now the legislative reform initiative in the Telecommunications Act of 1996 promises basic movement of the barriers to new long-distance market competition. But the Act does not appear to be able to deliver on its promise, given the way the legislation structures the regulation of entry of potential competitors into long-distance service markets. Perhaps AT&T, MCI, and Sprint will compete more in television advertising of “discount” plans with famous actresses. But those advertisements do not imply that the carriers cut each other’s prices

to gain market share in the way that the trucking companies and airlines did when they were deregulated in the late 1970s. There has been no concrete proposal to deregulate telecommunications because policy makers have placed virtually no weight on the benefits to consumers from interLATA (LATA—Local Access Transport Areas) competition by the Bell operating companies. The objective instead of both old waiver and new checklist policy has been to prevent the Bell operating companies' supposed incipient

- However, AT&T currently faces significant competition in the communication and information services industry and expects that the level of competition will continue to increase. For example, non-RBOC LECs (RBOC — Regional Bell Operating Company, LEC — Local Exchange Carriers), which are not required to implement the Telecommunications Act's competitive checklist prior to offering long distance in their home markets, have begun integrating their local service offerings with long distance offerings in advance of AT&T being able to offer combined local and long distance service in these areas. This forward integration adversely affected AT&T's consumer long-distance revenues and earnings in these service regions in the first half of 1997.

- In addition, most of the RBOCs have indicated their intention to petition the
- FCC during 1997 for permission to provide interexchange services in one or more states within their home market. To the extent that the RBOCs obtain in-region interLATA authority before the Telecommunications Act's checklist of conditions have been fully or satisfactorily implemented and adequate facilities-based local exchange competition exists, there is a substantial risk that AT&T and other interexchange service providers would be at a disadvantage to the RBOCs in providing both local service and combined service packages.

- In addition to the matters referred to above, various other factors, including market acceptance, start-up and ongoing costs associated with the provision of new

services and local conditions and obstacles, could adversely affect the timing and success of AT&T's entrance into the local exchange services market and AT&T's ability to offer combined service packages that include local service. In addition, the simultaneous entrance of numerous new competitors for interexchange and combined service packages is likely to a
diversely affect AT&T's long distance revenues and could adversely affect earnings. [3]

Opportunities and Threats

A NEW ORDER OF BATTLE

The AT&T CEO must now move beyond the old wars to develop and execute a strategy for the 21st century –and a $500 billion market [4].

NEW MARKETS

Deregulation means AT&T has no choice but to offer local calling –all its competitors will- but it is a market with a daunting risk/reward ratio. AT&T must spend billions getting in, and it could still take years to break the dominance of today's monopoly local phone companies.

NEW TECHNOLOGIES

AT&T can no longer call the shots on which technologies and standards will dominate the phone system. Instead, a plethora of new and unproved transmission systems –Internet calling, digital wireless, low-orbit satellite services, broadband networks- will jockey for the customer's calls [4].

NEW COMPETITORS

The Telecommunications Act of 1996 –was signed into law in early February- has set the stage for hordes of new competitors to enter the long-distance market, among them the powerful Baby Bells. AT&T could also be facing electric utilities, cable-TV operators, even corporations in other industries. Bye-bye, the AT&T dominated oligopoly; hello, shrinking market share. [4]

STRATEGIES IMPLEMENTATION

AT&T Restructuring. AT&T has a difficult work ahead. The company is now trying to hold on the market share while growing in new services. To do that, AT&T has completed the separation of its equipment business Lucent Technologies Inc. in September 30, 1996, and computer NCR Corporation in December 31, 1996 [7]. Restructuring allows each of the three companies to pursue growth in shareowner value, without strategies conflicts: AT&T in the communications and information services business, Lucent Technologies in the communications systems and technology market and NCR in transactions-intensive computing. This way AT&T can launch its strategy of focusing in its core business. AT&T now operates in two industry segments, the telecommunications industry and the financial service industry. The telecommunication industry consists of a wide range of services to residential and business customers, including domestic and international [7].

Telecommunications Industry

Wireline long distance voice	Data and video services
Wireless services	Network management
Business consulting	Outsourcing
Electronic commerce solutions	Internet access service

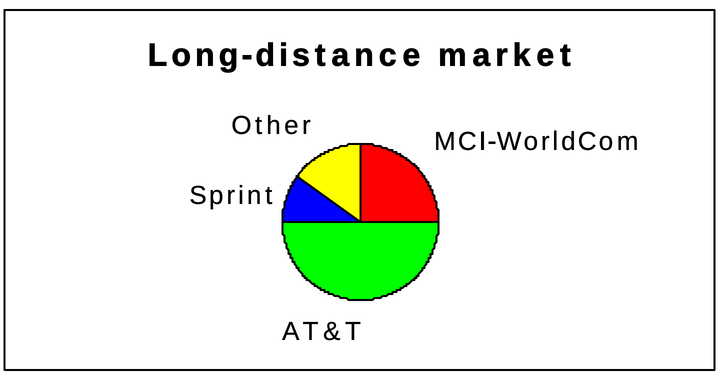
The financial services segment primarily consists of its AT&T Universal Card credit card business. But also plan to sell its credit card and customer support units by the middle of next year. For some analysts, this cash inflow will help to support AT&T's new investments.

But AT&T still has another real challenge. AT&T needs to move from a productfocused organization to a market –and customer- focused organization [4]. In this new market, the company has to respond to its customers' needs. Customers expect combinations of services –ranging from familiar long distance and local service to wireless communications, advanced information services and electronic commerce. But AT&T has done little to exploit the possibilities of cross-marketing of its services. For long term growth, the company must roll out all-new services and capabilities. MCI Communications Corp. already beat AT&T by offering a combination long distance/wireless services/Internet-access package to consumers in selected regions in April, 1996, followed by a similar offer to business customers in Sept. 96. AT&T only announced a similar package for business customers on Sept. 96 [4].

The future of AT&T depends the smart utilization of its secret weapon. Its gold-plated name –AT&T's one unquestioned asset- is its most important weapon in the new telecom market. In communications, no brand is more recognized than AT&T's, not least because it spends some $700 million a year on advertising to keep it before the public. The brand is the cornerstone of AT&T's new strategy to sell "bundles" of products such as local and long-distance calling, wireless services and Internet access.

Innovations and Products. To respond to the new market environment, AT&T had been working in the introduction of new technology in communications and products development. A part integral of AT&T's strategy is the AT&T labs. AT&T labs provides research and development to support AT&T's strengths in providing communications services. In 1996, AT&T labs was involved in development work for impressive offering such as AT&T Digital PCS and AT&T WorldNet Sercvices. AT&T was the first company to offer the next generation of digital wireless technology and WorldNet become a leading provider of online services. Also was the first company to offer access to home entertainment through its equity interest in DIRECTV. The most obvious threat to AT&T and other phone companies is the Internet. But AT&T has been working on a new technology that will provide Multimedia Telephone Communications. AT&T's new GlobeSpan technology will enable anyone in the world to hold a phone conversation while simultaneously using the same copper phone line to view a "live" event on TV, quickly download high-definition multimedia files from the Internet to PC, conduct a video phone call or receive movies on demand [7].

<u>The new competitors</u>. With the new telecommunications Act, AT&T will face competition from electrical utilities, cable-TV operators, even corporations in other industries among the Baby Bells. So far, AT&T has three important rivals in long distance: a merger between Bell Atlantic and Nynex, the other between Pacific Telesis and SBC communications, and third MCI-WorldCom [8].



A critical element in AT&T's plan is local calling. In August, the FCC ruled that the local phone companies must "unbundle" their network –and lease each part separately to AT&T of anybody else that wants to compete in the local market. That could cut by 40% or more the $13.5 billion a year AT&T now pays in access charges-the fees for connecting long-distance calls to their final destinations. AT&T's strategy is to win 15% to 20% of the new local calling market that will double is revenues and still a relatively low-share player. But as AT&T moves into local, it had to prepare for the arrival of the Baby Bells in long distance as well. Some analysts agree that AT&T has a better chance than any other newcomer in the $90 billion local-calling market [4]. The Bells, on the other hand, will have a far cheaper task going after long-distance customers, because they won't have to build their own network: There is plenty of excess long-distance capacity for sale.

AT&T has already filed with state regulator in all 50 states to provide local service and areas where final decision had been made represented more than 118 million access lines –80.7 percent of the total lines in the country [7].

<u>New markets.</u> With a new competition after the deregulation, AT&T has no choice but look for a new markets. According with the CEO Bob Allen, the new rules let AT&T jump into local service in less costly way [4]. The company started its first local trials in California, Connecticut and Illinois initially by reselling service leased from a combination of local phone companies and private-line competitors. This only part of a more sweeping strategy for the converging voice, data, and video communications industry. This new megamarket presents AT&T with the fight –and opportunity- of its life. If it plays its hand right and grab a healthy chunk of this $500 billion-a-year business, the continuing erosion of its 56% share of the $76 billion U.S. long-distance market won't matter in the end [5]. AT&T has expand its market through the world. AT&T began offering business and consumer services in the United Kingdom in 1996, making the first time the company set up shop in direct competition with an established local provider outside the U.S. Also AT&T had joined forces with allies to reach new markets with AT&T-branded services. But AT&T operates in more than 200 countries.

AT&T alliances around the world

COMPANY	COUNTRY
Alestra	Mexico
AT&T/Unisource	Europe
Birla AT&T	India
CANTEL AT&T	Canada

The Government Market is other are where AT&T is playing a big role by building a backbone network, and provide access and transmission services for Defense Information Systems Agency. Also it won a multiyear $1.5 million contract to provide communications services to the U.S. Navy, Cost Guard and Marines [7].

But the main goal of AT&T is to be the first choice of multinational companies as they expand into different regions of the world. It seeks travelers access to AT&T's network and billing around the globe.

New Management. With problems growing beyond the grasp of the current management, AT&T decided to pick a new chief. In October 20,1997, the company picked the Turnaround specialist C. Michael Armstrong [8][9]. He transformed Hughes form a stodgy defense company into a fast-growing satellite business, now he most attack AT&T's problems with the similar zeal [9]. Armstrong had deep international experience and a penchant for changing stodgy corporate cultures, cutting costs and turning outdated growth strategies upside down. AT&T's stock went up in response of support to its new leader.

AT&T Stock Price

Dates	Price
January 1996	$45.50
October 1996	$32
January 1997	$42
April 1997	$31
October 1997	$45
October 1997	$47.50

Note: the last two dates are from October 18 and 20 of 1997 [8][9].

CONCLUSION

As we mention in our introduction, the telecommunication industry is under tremendous growth and restructuring. With the new Telecommunication Act of 1996, AT&T has the opportunity to go into the local calling market. But also it will have more competition in the long-distance market. Specially, the merge between MCI and WorldCom. These changes -combined with the evolving technologies and escalating customer demand- are moving the company toward large restructuring. AT&T still has the muscle to move around because the long distance is just one component of its capabilities that can include local, wireless, online services, access to home entertainment and many other services. But the question is if Michael Armstrong, its new CEO, can put the pieces together. Because if he does it, the erosion of its long-distance market won't matter in the end.

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