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The Changing Boundaries of AT&T, 1995-2002

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MBA 552
Term Paper
October 8, 2005

The history, development, and growth of the company over time.

The American Telephones and Telegraph Corporation was formed in 1885 to provide the first long distance phone service across the United States. Alexander Graham Bell had a patent on the telephones until 1894 and created a company called American Bell Telephone. AT&T purchased American Bell and grew by acquiring stock in other telephone providers. After his patent expired, American Bell avoided competition by price fixing, and mergers. Eventually this strategy led to AT&T becoming the nation's leading telephone provider and enjoyed a government-sanctioned monopoly in the long distance market. In addition, AT&T also controlled 22 local telephone service providers. Although there was competition with other providers such as Sprint, the raw size of AT&T made it a monopoly. In 1974, there was antitrust suit by the Justice Department for AT&T to breakup its local market. The FTC interjected in 1975 to allow long distance competition ending the monopoly in long distance. In 1982 a settlement was reached with AT&T to breakup the monopoly in the local service market. Thereafter, the local service markets represented were in seven Independent, regional, Bell-operating companies, known as "Baby Bells" (Hochheiser, 2002).

On January 1, 1984, America woke up to find their telephones still worked. The FTC had broken-up AT&T. The Bell System was dead. Before its breakup, AT&T had $149.5 billion in assets: it now retained $34 billion. Before the break up AT&T had 1,009,000 employees, it retained 373,000. Even the famous Bell Log and name, were gone with the exception of in Bell Labs. The new logo contained a stylized globe and monogram "AT&T" (Hochheiser, 2002).

The old AT&T had a non-competitive culture that stifled innovation. The new AT&T had to find its identity and learn how to find out customers needs and wants. Immediately, competition began to chop away at AT&T market share. Prior to its break-up, AT&T commanded over 90% market share. Competitive pressures as well as new technology fiber optical transmission employed by competitors forced prices to plummet, dropping by an average of 40%. This boon to consumers was disastrous for AT&T. As traffic increased profits plummeted, AT&T carried in 1984, 37.5 million per average business calls compared to 105.9 million in 1989. By 1999, AT&T handled 270 million calls per business day (Hochheiser, 2002).

AT&T was forced to look for new markets. In 1994, AT&T purchased McCaw's cellular company for $11.5 billion, which was renamed to AT&T wireless. McCaw gave the company 2 million subscribers. Unfortunately, there were cultural differences between companies. AT&T was a strongly monopolistic hierarchical culture and McCaw was an upstart and free form. When corporate AT&T man Don Hesse was brought in 1997 to lead the Wireless, original McCaw employees started to worry. AT&T Wireless remained the leader and the nation's largest cellular provider. Although the company remained popular with businesses, they suffered a brain drain. Marketing held them up offering digital one rate; plan offering national coverage with no roaming or long-distance fees. The rest of the industry followed for example, Verizon Wireless came out with the single rate plan. In 1999 and 2000 the cell phone industry began to consolidate to better compete with AT&T. Competitors merged and merged companies merged becoming Cingular Wireless in 1999 and 2000 Verizon Wireless. By the end of 2000, AT&T Wireless was the number 3 carrier. Problems surfaced in substandard custom care, spotty coverage, and dropped calls. Verizon was taking away the customer base. Finally, wireless telephone portability forced the company to itself sell to Cingular. Cingular Wireless purchased AT&T Wireless for $41 billion in 2004. Cingular is owned 40% Bell South and 60% SBC so the Bell spin-offs purchased their mom (Richman, 2004).

No longer the monopoly it once was, AT&T was unable to compete and today is no longer an independent company. Some say due to breakup, the creativity, technology and innovation was gone. Others point to a series of poor management decisions. In 1995, AT&T restructured into 3 separate units. 1. Lucent Technologies, the systems and equipment manufacturer, became separate taking the name of Bell Labs. 2. NCR, a computer company that AT&T acquired in the 90's was no longer affiliated by AT&T. 3. The communications divisions of AT&T remained with AT&T. The division consisted of AT&T long distance, international and wireless (Hochheiser, 2002).

AT &T broke in three parts in response to a number of factors. 1. The expected deregulation of the US Telecommunication act. The 1996 US Telecommunication act allowed the local and long distance companies to enter in each other's market. This led to more competition in the long distance market. Now AT&T can reenter the local market. 2. AT&T could enter in new markets around the world due to privatization of state owned telephone companies. 3. were change in the telecommunications business such as wireless, and the Internet. Management wanted to focus AT&T entirely on core telecommunication group (Hill, Jones, 2004).

By 1998, AT&T was positioned to reenter it to gain access to the consumer. They launched a buying binge. 1. AT&T purchased (TCG) Teleport Communications Group to get into the local phone service market for 11.3 billion. TCG had local markets networks in 90 markets including New York, Boston, and Chicago. TCG had 3,000 employees with a growing base of blue chip business companies such as Merrill Lynch. Also, in 1998 AT&T merged with their cable division cable called Telecommunications Inc. at a cost of $48 billion.   In purchasing TCI, acquired a cable leader with more 11 million customers. If you included affiliate partners, there were 14 million cable partners. In 1999, AT&T acquired Media One for 62 billion. To purchase Media One, AT&T had to pay a lump sum of $24 billion. However, MediaOne had 5-million customer base. Together, Media One and TCI had access to more than 41 million households.   With the acquisitions of both cable companies, AT&T became the biggest cable TV operator but at an inflated cost. To calculate the inflated cost add 48 billion + 62 billion/ 41 million households which comes out to $2,683 a subscriber. In December 2001, this inflated overhead forced AT&T to exit the cable market and sell to Comcast for $72 billion, which included $47 billion in stock, and $25 billion in debt to purchase broadband. This cash crunch hurt leading AT&T to be purchase by SBC for $16 billion in January 31, 2005 (Cauley, 2005).

Identify the company's internal strengths and weaknesses.

The strength of AT&T was its name and reputation. AT&T had a long history of being an American icon. AT&T was a monopoly for more than 70 years.   Its stock was recommended to widows and orphans. Since 1913 the Department of Justice filed numerous legal action to limit AT&T 's market share. The company was finally broken up due to antitrust lawsuits in the early eighties as earlier discussed.   AT&T legal bill was more than 360 million (Cauley, 2005).

The weakness of AT&T was the monopolistic culture that led to awful management decisions. Leadership was lacking. In particular, CEO Michael Armstrong was the leader who encouraged the investment MediaONE. As indicated earlier, lack of accounting cost analysis caused the acquisitions to finally bring down AT&T with it (Cauley, 2005).

Another weakness of AT&T was in the Wireless area. When AT&T had a technological advantage, it did not capitalize. In mid 90's AT&T Wireless had been the only cellular carrier close to nationwide network. AT&T failed to market their leading coverage. Moreover, because of AT&T's spending in TCI and MediaONe it hurt the Wireless division in that it did not have the cash to improve the quality of the cell phones or service (Richman, 2004).

Threats to AT&T are the competition and the government. In 1996, AT&T earned $50 billion in annual sales $6 billion in net profits and had 90 million customers. Long distance accounted for 80 percent of annual revenues and 100 percent of the profits. Their market share was a 50 percent more than both MCI and Sprint. However, the market share was not the 100 percent market share that AT&T had in the Bell days. The government came up with the land Telecommunication act in 1996, which allowed local and long distance companies to invade each other market. It allowed the cable TV operators to enter the phone market, which is a threat to AT&T. The Bells merged to invade the long distance market. For instance Bell Atlantic and Nynex merged. In addition SBC purchased Pacific Telesis. These deals allowed Bell Atlantic and Southwestern Bell to take control of the eastern and western halves of US. The Bells had created war chests for the $100 billion long distance market. Another threat to AT&T was other long distance such as MCI. During this period MCI than World Comm. inflated their profits with fraudulent accounting allow them to compete on price (Cauley, 2005).

Opportunities for AT&T were in the voice, cable, and data markets. To get in the local phone market AT&T acquired Teleport Communication Group. To get in the cable and data, AT&T purchased TCI and MediaOne. These cable TV networks allowed AT&T to gain direct access to homes (Cauley, 2005).

Analyze the external environment.

Porter's model of AT&T deals in the long distance area. 1. is the threat of a substitute. A substitute to the long distance market would be cell phones and voice over IP. 2 are the intensity of the rivals. AT&T has numerous rivals trying to take away market share such as the Bells, Sprint, and MCI that are well positioned in the long distance market. Rivals based their competition on price and price wars to gain market share. 3 are the bargaining power of the buyers. The buyers have control in the long distance market since it is price driven. Customers are not loyal to AT&T and will go for the best price deal. 4 are the bargaining power of the suppliers. AT&T did not have control over the suppliers like it used to when it was a monopoly. AT&T has to have control or the suppliers took advantage of them. If one supplier is large enough impact to affect a company's margins and volume then they hold substantial power. Suppliers in telecommunications gained more power as companies were broken such as AT&T. 5 are the risk entry by potential competitors. Certainly there is a threat of new entrants due to the deregulation of the telecommunication industry. In addition, customers are not as loyal to AT&T and left for better service. Also, the switching costs for a customer was low due to the fierce competition and lower margins in the long distance market.

The long distance market is mature market. Growth is little and demand is limited. The telecommunication act of 1996 allowed companies to switch markets. For instance, the Bells could enter the long distance and in return AT&T could enter the local market. The long distance market became saturated and price wars occurred. This particularly hurt AT&T since long distance accounted for 100 percent of their profit and 80% of their revenue. In 2000, AT&T per minute price dropped 75 percent trying to find the bottom. Note: World Com at this time was manipulating their numbers and AT&T was following. World Com had the $11 billion accounting scandal (Caules, 2005).

Demographics were also a factor people were buying local and long distance at cheap price per minute. When AT&T was a monopoly consumers were forced to buy from them, there were no competitors. Consumers were not as loyal in a commodity market. In terms of technology, consumers were buying cell phones, which worked as different networks. This played a part in the maturing long distance market.

Evaluate the SWOT analysis.

In looking at AT&T's positioning, it could not survive with a strategy of differentiation: all in one shop. AT&T strategy tried to offer voice, data and video. AT&T had serious financial difficulties because of the MediOne Deal and missed out on improving its Wireless Division, as well as other opportunities. Management missed managed funds and could not keep the company a float. When, Comcast purchased the cable division for 72 billion and AT&T lost 38 billion. Not many companies could sustain such a loss and AT&T was forced to sell SBC for $16 billion (Cauley, 2005).

Analyze corporate-level strategy and Analyze business-level strategy.

AT&T had stated "Our mission is to exploit technical innovations for the benefit of AT&T and its customers by implementing next-generation technologies and network advancements in AT&T's services and operations (AT&T, 2005)." The corporate strategy of AT&T is the differentiation strategy all in one shop voice, cable, and data strategy was ahead of the time. It eventually was used for the voice over the Internet, but by then AT&T was too financially weak to do it. AT&T had moved away from the core group long distance.

AT&T purchased its way to the cable market by buying MediaONE and TCI. In addition to get in the local market TCG was purchased. AT&T rationale for the investment is to rescue the company from the long distance market. The business level strategy was implemented from corporate. It is to be a differentiated strategy by the one stop shop of voice, data, and video. AT&T missed out excelling on the wireless industry due to revenue problems. The strategy did not work and Cingular purchased AT&T wireless. Wireless was a victim of a failed cable strategy. Comcast purchased the cable from AT&T for $72 billion and SBC purchased AT&T for $16 billion (Cauley, 2005).

Analyze structure and control systems.

The structure of AT&T is a vertical bureaucratic approach. Decisions are made from the top. Employees have no say in the decisions. In contrast, McCaw used a decentralized approach before AT&T purchase McCaw. For example, employees at McCaw the cell phone wireless division used to be able to debate management decision loudly before AT&T purchased them. In addition, even high-ranking executives could be told that there are other views in the McCaw culture. AT&T discouraged management imitative and executives being challenged by the employees. Even the corporate geography of AT&T hurt the Wireless division. For example, the wireless division was out in Seattle while the executives lived in New Jersey. This isolated the McCaw employees. Second, the AT&T regime had different spending habits; more went to executives' salaries and the support staff buildings in New York. Also, more went to New Jersey and the corporate jets, which led to less money to maintain and improve of the wireless network and customer care division. The network is the reason that the wireless failed with problems on the east coast. Finally, the heads of AT&T Wireless did not have the large amount of experience in the cellular industry. Thus management inexperience and arrogance led to the demise of AT&T Wireless (Richman, 2004).

Make recommendations

Recommendations: 1) SBC can build up the long distance business sector that AT&T developed. Also, SBC can take advantage of the network that AT&T started adding voice over the Internet or IP Voice. The name AT&T is widely recognized and by having SBC improve the quality and service customers will come back. AT&T is an American icon that needs a fresh start and with the financial backing of SBC, AT&T will give SBC market leadership.

AT&T Wireless: win back the customers that AT&T lost by improving the cell phones and service. Customer will benefit from on expanded network and better coverage. Cingular is consistently aggressive in growth and is a good fit to win back the customers. Cingular needs to improve customer care, spotty coverage, and dropped calls that led customer to leave AT&T Wireless (Richman, 2004).

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