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**THE IMPACT ON AT&T OF THE LONG DISTANCE BUSINESS
COMPETITION IN THE TELECOMMUNICATION INDUSTRY**

BY

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Chapter I

INTRODUCTION

Background

Until the 1970s there was essentially no competition for local or long distance telephone carriers. Local companies enjoyed state public utility grants of monopoly franchises (Crandall & Flamm, 1988). AT&T was a monopolist of telecommunications, protected by the U.S. Federal Communications Commission (FCC), from entry of competitors. As a result of the breakup of the AT&T monopoly that occurred in 1984, other telecommunication companies, such as MCI and SPRINT, entered the market.

AT&T used to hold 100% of the market share; then it saw its share drop down to 50% 12 years after the breakup. This was primarily due to very aggressive marketing by MCI and SPRINT.

How are monopolies opened? John Zeglis (1998), President of AT&T Wireless, stated: "In the United States, the opening in monopoly markets – even longstanding, government – sanctioned, heavily regulated markets – is inevitable. Furthermore, these openings, ultimately, are out of your control (or mine), or even the regulators themselves" (p. 2). This is because organizations are open systems. Open systems continuously exchange materials, energy, or information with their environment. They take in something (an input) and give off something (an output) to the environment. Open systems also experience the tendency toward disorder, breakdown, and loss of energy, but they are able to counter this tendency by taking in inputs of higher energy and order than their outputs. Thus, open systems are able to rebuild energy, repair

breakdowns, and restore order. The tendency towards steady-state behavior goes on despite changes in the environment (Carzo & Yanouzas, 1967).

When an open system is thrown into a state of imbalance by a change in its environment, the system behaves in such a way as to eliminate the effect of this change and to return to a steady state that is as nearly like the former state as is possible (Bradley & Calvin, 1956).

Carzo & Yanouzas (1967) also stated: "It is also possible, of course, for the system to fail in its efforts to maintain a steady state. When the magnitude of the environmental change is so great that the internal processes of the system are unable to compensate, the system will not return to a steady state but will experience death" (p. 15). The business organization suffers bankruptcy for the same reason. Therefore, an organization is influenced not only by what happens inside the organization itself but also by influences of the external environment.

Today, industries and employees are in a state of continuous change because of competition. Driven by customer standards and government regulations, public organizations, industries, and commercial services face the increasing challenges of domestic and international competition. So, companies have to face crises and make plans to survive. As a result, corporate culture is challenged and must change to meet the demands of the public.

Problem Statement

AT&T, the international telecommunications company, is a company undergoing great change. This study, through a review of relevant literature, explores long distance business competition and how that competition has impact on a company that once enjoyed a monopoly over the business.

Purpose of the Study

The purpose of this study is to: (a) observe the regulation of the telecommunication industry, (b) analyze the competition of the telecommunication industry, (c) learn how AT&T responds to environmental change, (d) share some of the reasons reported related to AT&T's success, (e) arrive at a sound conclusion from this analysis. The recommendations from this study will address the problems and possible solutions to the problem of increasing the competition on long distance business. The objective of this study is to demonstrate that AT&T can no longer operate as a monopoly. AT&T has to come to terms with the revolutionary impact of the Internet. AT&T needs to find ways to make money in the Internet business and needs to provide high-speed access to differentiated service if it wishes to regain market leadership.

Definition of Terms

For the purpose of this study the terms used are defined here.

1. Strategic alliances. For the purpose of this study, this is defined as companies giving creative thought and strategic planning to find partners who might complement their strengths and offset their weaknesses.
2. Infrastructure. This refers to the basic equipment and installations (cables) needed for the long distance services of a telecommunication company to route their calls to reach the local customers.
3. Core competence. This is defined as an integration of skills and technologies rather than a single discrete skill or technology.
4. Corporate acquisitions. This refers to companies need to find a partner that will

complement them in geographic positions, business lines or competencies.

5. Merger. A strategic business combination.

6. Restructuring. This refers to a company's strategy for shaping its future by downsizing or strategic alliance to make the company better. This term is often interchanged with re-engineering.

7. Communication. This refers to the exchanging of information.

8. Virtual office. This refers to the work environment where the employee is working from home or a satellite office for the majority of his or her work-time. The term is often interchanged with telecommuting.

9. Regional Bell. This refers to the Local Exchange Carrier (LEC). It has the only telephone wire that connects customers to the telephone systems. This term is often interpreted as regional Bell operating company (RBOC).

10. Lucent Technology. This is a new company that was spun off from AT&T in April 1996 and became independent on September 30, 1996. It is a manufacturer of telecommunications equipment and software. Lucent's big business is building network telephone systems.

11. E-Commerce. Electronic Commerce is the buying and selling of goods and services over the Internet. E-Commerce continues to grow exponentially as an increasing number of consumers gain access to the Internet and security measures improve.

12. Internet. A global collection of private networks that are interconnected through public links.

13. Protocol. A standardized set of rules that allow computers to connect with one another

by specifying the format, timing, sequencing and error checking for data transmission.

14. Packet switching. An economical, high-speed method of sending data in bursts by dividing it into small blocks - or packets - and then sending them along various routes to a destination, where they are reassembled.

15. Internet protocol. This refers to the form of packet switching used by the Internet to move all forms of digital information - voice, video, data and images - across all kinds of networks.

16. Broadband. A communications channel with wide bandwidth that enables it to carry more information at higher speeds than a narrowband channel. A broadband system can transmit many different signals at the same time. Each set of signals is translated into frequencies that do not interfere with one another.

17. AT&T broadband. AT&T broadband gives its customers incredible entertainment options, so they can watch the programs they love, on the channels they want. Customers enter the future of entertainment with AT&T Digital Cable, and take control of the way they watch TV. They join the cable Internet revolution with AT&T@Home and become connected to the Web through their cable at lightning fast speeds.

18. Intranet. A set of web servers installed on an internal network that can display data and documents for anyone who is directly connected to that network.

19. Outsourcing. Procuring services or products from an outside supplier or manufacturer with expertise in the field in order to cut costs.

Limitations

The focus of the study is limited to a 15 year time period. This covers the time from the beginning of the AT&T divestiture in 1984, and relates to restructuring implementation trends in American business.

The author recognizes that, as an AT&T employee, there is the tendency for a natural bias. However, the access to information she has and the personal cultural knowledge she possesses were beneficial to the framing of this study.

Chapter II

REVIEW OF THE LITERATURE

Overview

The literature review is divided into five sections. The first section presents the AT&T mission statement. The second section focuses on the facts about AT&T Key Success Factors before the Communication Act of 1996 (as cited in AT&T Annual Report, 1999) took action. The third section covers the impact on AT&T of the long distance competition resulting from the Federal Communication Commission (FCC) Regulations. The fourth section focuses on how AT&T responds to environmental change. The final section is the analysis of the economic factors. The author's conclusions are drawn from this analysis.

AT&T Mission Statement

AT&T is engaged in a dynamic industry. According to the AT&T Annual Report (1993), AT&T is a global telecommunications company that is bringing people together, giving them easy access to each other and to the information and services they want and need, anytime, anywhere. The goal is to enrich customers' personal lives and to make its business more successful by bringing to market exciting and useful communication services and by building shareowner value in the process.

AT&T Key Success Factors

To share some of the reasons reported as related to AT&T's success, the author organized a few key factors that made AT&T very successful before the Telecommunications Act of 1996 was implemented.

Outstanding Customer Service

AT&T has a reputation for providing excellent customer service to its customers. Because of its dedication to provide high quality service, AT&T Universal Card and Consumer Communication Services received the highest quality honor in 1994, the Malcolm Baldrige Award. AT&T differentiated its products through its service and this has contributed to its success in the past. AT&T language line services give customers access to professional interpreters in over 260 languages and dialects, instantly. When an interpreter is needed, the language line is conferenced in and an interpreter is usually on the line within a minute. The AT&T Language Line is customer focused and accommodates special requests. Also, the AT&T Language Line gets high marks from customers as a fast, user-friendly and customer-focused service (AT&T TODAY, 1998). AT&T takes pride in its outstanding customer service.

Technology

AT&T has differentiated its service on the basis of customer service and quality of the network. According to AT&T Annual Report (1995), AT&T continues to set, and quickly break, records for the number of calls handled by its network, and AT&T completes those calls with better sound quality than any other company. The AT&T network continues to be more useful to customers every day by building in features like Internet access and dial up video conferencing (p. 9).

Innovation

“Innovation” is inevitable and has become a part of AT&T’s culture. Furthermore, innovation is the engine that will keep the company vital and growing. The culture of AT&T values creativity, seeking different perspectives in analyzing risks for new opportunities. AT&T laboratory constantly searches for new ways to make technology more useful to customers.

Brand Name

AT&T is one of the most recognized names in the world. According to the corporate historian Sheldon Hochheiser, "One of AT&T's big jobs at divestiture in 1984 was establishing the AT&T brand name in the minds of the general public" (as cited in AT&T TODAY, 2000, p. 1). AT&T enjoys tremendous brand recognition in doing its business. According to Farris and Reibstein (1979), brands with average relative quality but high relative advertising budgets were able to charge premium prices. Consumers apparently were willing to pay higher prices for known products than for unknown products (as cited in Kotler, 1997, p. 509).

However, the international telecommunications company that used to be the world’s greatest giant is undergoing great change because of the FCC Regulations.

The Impact on AT&T Resulting from the FCC Regulations

AT&T is heavily impacted by FCC regulations. According to the AT&T Annual Report (1999), "The Telecommunications Act of 1996 was designed to foster local exchange competition by establishing a regulatory framework to govern new competitive entry in local and long distance telecommunications services. The Telecommunication Act also permits Regional Bell Operating Companies (RBOCs) to provide inter-exchange services originating in any state

in its region after demonstrating to the FCC that such provision is in the public interest and satisfying the conditions for developing local competition established by the Telecommunications Act" (p. 28). The FCC allowed RBOCs to enter the long distance market and vice versa. This means the local companies now could enter the long distance market if they opened their local market for other companies. In the last 5 years this has not happened. AT&T spent about 3 billion dollars in the market but received only 90 million dollars in revenue because local companies were reluctant to lower their prices for their network. This is because the only telephone lines into homes belong to regional Bell Telephone Companies (known as Bells). AT&T must hand over 80% of its revenue to these Bells as fees. This means the Communication Act in 1996 created two forms (Local and Long distance) of competition. The telecommunication war has started since then. With bureau reports, Catherine Arnst (1997) explained that local and long distance carriers have filed a flurry of claims and counterclaims since the Telecommunications Act of 1996 passed, in an effort to keep each other out of their respective markets. Several of the regional Bells, for example, sought and won a federal injunction recently blocking federal rules that would have required them to lease networks to competitors. "Winning for the Bells means delaying competition in core markets, and that leads you to be fairly conservative," says James F. Moore (as cited in Arnst, 1997, p. 2), president of Boston's Geopartners Research Inc. The regional phone companies are very consistent. They are not innovating and not taking risks. The regional Bells figured they could afford to go slow because none of the big long-distance carriers could afford to build multibillion-dollar local networks connecting homes and cities while fighting it out in the low-margin consumer long-distance. She also reported that AT&T could not easily retaliate by buying into local phone

systems itself. When AT&T hinted that it was in talks to merge with the second largest local carrier, SBC Communications, earlier in 1997, federal regulators made it clear that they would oppose any combination that hints of putting the Bell system back together. "Acquisition is definitely the way to go because the cost of trying to build something from scratch is simply too capital-intensive. But it's taking too long for the regulators in Washington to realize that" says Robyn G. Nietert (as cited in Arnst, 1997, p. 2), a partner at the Washington law firm Brown, Nietert and Kaufman.

Michael Armstrong (1998) explained that the Telecommunications Act of 1996 is simply to benefit consumers by opening the regional Bell operating company (RBOC) monopolies to competition. The RBOCs have had a protected market for the better part of this century. According to Armstrong, they have the only telephone wire that connects to the consumer; they had, and still have, 98 % of the consumer local exchange market.

Armstrong (1998) also stated, in his lecture to the Economic Strategy Institute in Washington, D.C., that the purpose of the Telecommunications Act of 1996 is to enable local competition to attract investment in new local service facilities, and give consumers better local value. At least in the short term, this will happen only if new competitors are given a fair chance to re-use or compete for the only wire that connects customers to the telephone systems. The Communication Act holds RBOC entry into long distance as a "carrot" for opening their local markets to competition. The regional Bell operating companies' entries into long distance is to be a consequence of opening their markets. As noted above, the RBOCs have been protected from market forces for close to 100 years. For market competition to work, they must allow competitors to use their facilities on an economically viable basis.

How did AT&T Respond to Environmental Change?

In 1996, in order to respond to the environmental change and meet the market demand, AT&T had to restructure itself into three stand-alone companies: the new AT&T, Lucent Technologies (a manufacturer of telecommunications equipment software), and NCR Corporation. Bob Allen (ex-CEO of AT&T) (1995) said: "We now see this restructuring as the next logical turn in AT&T's journey since divestiture. It will make AT&T's businesses more valuable to our shareowners, even more responsive to their customers, and better able to focus on the growth opportunities in their individual markets" (p.1).

AT&T Strategies

Restructuring

AT&T was facing a turbulent environment because of the external environmental pressures brought by MCI, SPRINT, Bell Atlantic, and Qwest. AT&T needed to become the low cost provider while at the same time protecting its profit margins in the industry through restructuring and through discontinuing expensive marketing promotions. Because of external environmental pressures, in recent years AT&T has undertaken the extremely painful task of downsizing and restructuring.

We are making an intense effort to live that value now as we go through the difficult process of reducing our skilled and capable work force by about 40,000 jobs, or about 13 percent. The employment levels we decided on represent the number of people needed to win in an increasingly competitive, cost-sensitive set of businesses. Good and talented people will be leaving us because they are not a match for our future needs and size. That can't be helped. But they will have a package of financial benefits and support services to help them into new careers. Major change always comes with some degree of sacrifice, and AT&T has been no stranger to major change over the last 15 years. The restructuring we are doing now has to be seen in the context of a continuing journey for AT&T that is brought us from the pioneering days of telephony into a new world of

information technology. You don't make a journey of this magnitude without hitting some bumps along the way. And you certainly don't do it without making major Changes (Allen, 1995, p. 6).

AT&T had more than 303,000 employees. During restructuring technical, managerial, and professional positions were being eliminated at an unprecedented rate (Allen 1995). Further, the lay-offs were not simply the result of a stagnant economy. In this case, downsizing was part of a long-term process of restructuring the organization to minimize its costs. Many employees were bewildered by the lay-offs and the new directions. All the change on environment requires a new mind set. According to Bridges (1991), a new mind set requires a very significant transition, as the old expectations are painful to abandon and a long difficult journey is made through the neutral zone before any viable new beginning is in sight.

In order to survive, a company has to undergo restructuring (re-engineering) and downsizing. Survival and profit become the primary concern. Employees cannot think that the company always takes care of them. Linden (1994) stated: "Because re-engineering is threatening, disruptive and potentially costly at first, it is important for the organization to be experiencing real pain. Without such pain or tension between the current and desired state, the staff won't feel the need for radical change and probably won't support it" (p.124).

It is clearly seen that the effort of the CEO to communicate the essential message of change must reach to all parties. Those messages were aimed at clarifying the mission and rebuilding trust. Strong competition, which was threatening the loss of main revenue (from long distance services), made AT&T streamline its own organization through restructuring and downsizing. The "old" AT&T was divided into three separate independent companies: AT&T Communications, Lucent Technologies, and NCR Corporation. In order to compete, AT&T had

to reduce the permanent core of employees to a relatively small cadre. This was aimed at reducing the human capital cost. Centralized decision making was replaced by decentralized decision making. AT&T relied on its people to work efficiently and effectively by empowering them to make decisions in providing satisfactory services to customers.

In short, the organizational culture at AT&T had to change because of external environmental pressure. The change was needed in order to survive and make profit. Therefore, restructuring and downsizing were unavoidable and had to be done to retain the markets and share value.

AT&T continued to make efforts to reduce costs across the business. Peter Elstrom (1997) reported that AT&T's new CEO, Michael Armstrong, planned to slash overhead from 29% of sales in 1996 to 23% or less (p. 2). Peter Elstrom also reported that in a business with economies of scale, there is no good reason for the largest player to have the highest costs. But AT&T's sales, administrative, and general expenses are 28% of revenues, compared with 27% at MCI, 22% at Sprint, and 19% at WorldCom. "They need to get leaner and meaner. Certainly, AT&T has every reason to be the low-cost provider," says Jonathan Kolle of Wilmington Trust Corp, an AT&T shareholder (p. 3). Mr. Armstrong took dramatic steps to streamline spending. In particular, savings were on direct mail and telemarketing to consumers, including the efforts to focus on targeted customer segments. Administrative expenses were cut through business units. Lower marketing and sales costs in business markets were achieved through the consolidation of functions and reductions in support staff and corporate staff. The announcement of a Voluntary Retirement Incentive Program (VRIP) in 1998 was a 2-quarter re-evaluation of the business. It appeared that the company was on target to meet its objective. In addition to cutting costs,

another key part of AT&T's new CEO Mike Armstrong's cost reduction strategy was outsourcing. The author will give an example to show how the well-managed strategic outsourcing allowed companies to obtain greater sales at less cost.

Joint Venture (Buying instead of Merging)

Caroline Ellis (1996) reported that strategic alliances are surging in popularity because companies offer each other the promise of new markets, new technologies or the needed access to a newly opened market, and which perhaps was won quickly and painlessly. Alliances have become an integral part of contemporary strategic thinking in the way many companies do business. McKinsey's Joel Bleeke and David Ernst, co-authors of the book Collaborating to Compete (1993), say the rate of joint venture formation between U.S. companies and international partners has been growing by 27% annually since 1985 (Sherman, 1992).

During the 1980s, the American economy was restructured significantly by a wave of mergers and acquisitions. Approximately 24,000 firms acquired others or merged with each other. Many of the U.S.'s largest firms were among those acquired, including 28 percent of the 1980 Fortune 500. Acquisitions represent a serious strategic choice and often involve the commitment of substantial resources (Shleifer & Vishny, 1988, as cited in Haunschild, 1993, p. 2). Why the boom in alliances? First, they are trying to establish core competence leadership to win the race of future competition. Second, companies give creative thought to find partners who might complement their strengths and offset their weaknesses. When the strategic alliance is well-managed, it allows companies to obtain greater sales at less cost (Kotler, 1997, p. 86). Third, and perhaps more important in the global marketplace, many companies have discovered

that they lack resources and access to newly opened markets (Kotler, 1997, p. 86). The most popular way to establish this leadership is to acquire or develop the constituent skills or technologies that make up a particular core competence. For the first reason of strategic alliances to build core competence leadership in order to win the race of future competition, AT&T bought Tele-Communications, Inc. (TCI). AT&T WorldNet Service is serving more than 1.1 million subscribers. Immediately following the merger with TCI, AT&T combined its consumer long distance, wireless, and Internet services units with TCI's cable, telecommunications, and Internet access business to create a new subsidiary, AT&T Consumer Services (AT&T Annual Report, 1998).

In order to obtain greater sales at less cost, AT&T acquired IBM's Global Network business for \$5 billion in cash. The two companies had agreed to enter into outsourcing contracts by using each other's core competencies. IBM global data network service has more than a million individual users in 59 countries. More important, it has local ports into its network all over the world. The IBM network will generate about \$1.2 billion in revenue from IBM's existing customers in the first year after the joint venture (AT&T Annual Report, 1998).

To establish the newly global marketplace, AT&T has a joint venture with British Telecommunication Company. John Zeglis (1999) reported that it is no secret that the only sure solution to giving customers what they want is carrying services over AT&T's own facilities. And that is where the AT&T/BT Global Venture comes in. Today's global customers expect their communications to work the same way on the road and in the air as they do in their living rooms. They expect a single point of contact for all their communications needs. Moreover, they expect services at competitive prices. They have every right to expect all this and more. Unfortunately, until recently, most global networks were a

patchwork, which raised costs and made service quality uneven at best.

Zeglis (1999) stated that in the absence of owning its own facilities, all AT&T could do for customers was negotiate the best deal it could country-by-country. In the end, getting what customers needed involved too many negotiations, too many contracts, and too many compromises. That is why AT&T decided that one of the keys to going forward was to build a global communications system with "nothing borrowed." The overriding strategy for the Global Venture is the same one AT&T is pursuing here in the U.S.: buy, don't rent.

Zeglis (1999) also noted that this is why AT&T bought Teleport Communications Group (TCG), the local services provider, and TCI, the country's premiere cable company. Also, it is the reason AT&T is acquiring IBM's global data network and why AT&T is in a joint venture with Time Warner. AT&T Canada is in a joint venture with MetroNet for the same reason. In each and every case, AT&T -- alone or with partners -- controls the network architecture. What the Global Venture will own -- when operational -- includes undersea cable systems, cable stations, earth stations, and network operations/management centers around the world (p. 4).

Chapter III

DESIGN OF THE STUDY

Background

The foundation for this study resulted from the competition in the telecommunication industry regarding the local company entering the long distance business. The literature was gathered from business and professional journals, books, annual reports, press releases, consultant reports, and Web sites.

In this study, the author follows the qualitative research procedure by reviewing literature in order to analyze the effect that the competition of long distance business in the communication industry has on AT&T.

The author has evaluated a few assumptions of qualitative designs identified by Merriam (1988) and has found them to be very useful in this research. Qualitative researchers tend to analyze their data inductively. Also, the qualitative researcher is the primary instrument for data collection and analysis. Data are mediated through the human instrument rather than through inventories, questionnaires, or a survey.

The author focused on literature that addressed current business trends as well as materials that speculated about the future trends of corporate America in the telecommunication industry. By using the supply of reference material that specifically addressed the implementation of new technology, and then building a relationship between those references and the materials which addressed current and future business trends, the foundation of the study was established.

Chapter IV

CONCLUSION AND RECOMMENDATIONS

Recommendations

To survive in the communications market in the future, AT&T must come to terms with the revolutionary impact of the Internet. This will be one great opportunity to offer a wide range of communications services beyond long distance to add monetary value of retaining customers. In an Internet world based on moving huge amounts of packet-switch data, voice communications costs and prices are headed to near zero. Voice phone service is becoming little more than a cheap commodity. AT&T should invest wisely to grow in the Internet business, but not worry about the competition in the long distance business. Also, AT&T should make it a higher priority than entering the local telephone market because it is one of the very strategic growth areas for AT&T. AT&T needs to find ways to make money in this business and should provide high-speed access to differentiated service to benefit customers so that AT&T can push the price up in this market. This is because the high-speed access Internet service enables Internet users to manage their communications online rather than using the telephone line for calls.

The author offers several examples to show the importance of the Internet. According to the America Online/Roper Starch Worldwide Adult Cyberstudy 2000, the use of the Internet has impact on people's everyday lives. It is fundamentally changing the society in which we live, and it is the new media to transform our lives in the future.

For the first time in 1998 when this Cyberstudy began, the majority of online Americans say they go online to make purchases. These findings are dramatic because since 1998 the number of persons who have made online purchases has nearly doubled (from 31% to 56%); booking travel

reservations/tickets is up by about half (from 32% to 49%), as is banking (from 16% to 25%) (Cyberstudy, 2000).

Looking ahead, online Americans predict a much more wired world. Three-fifths of respondents (60%) believe that every room in their house will be wired for online access within the next 10 years (Cyberstudy, 2000).

Going online is becoming a critical part of the shopping process for many online Americans. Solid majorities, especially those who have had home online access for at least 3 years, agree that going online is a good way to get information about products to buy (82%) and that going online is part of the research process before making any major purchase, like a television or car (62%). Half also agree that bargains can be found online (51%) and that going online is a "great place to get gift ideas" (50%) (Cyberstudy, 2000).

Perhaps these findings are not surprising for a service that has, for the majority of online Americans, "made life better in some way" (78% agree) and "can help [them] be more productive" (60%) (Cyberstudy, 2000).

Asked if stranded on an island whether they would prefer having a telephone, television, or Internet-connected computer, most (69%) would choose the computer (Cyberstudy, 2000).

As in years past, online Americans are especially likely to go online to do some type of research (91%), including getting information about products they might purchase (80%), getting news (76%) and health information (70%), and reading online magazine articles (55%) (Cyberstudy, 2000).

E-mail is preferred over other methods when it comes to communicating with business associates (e.g. 50% prefer e-mail vs. 34% who prefer the phone) and co-workers (e.g. 48% vs.

38%, respectively) (Cyberstudy, 2000).

Not only has being online helped families stay connected, it has also allowed many online Americans (41%) to find or reconnect with people they had lost touch with - people they had not been contact with for an average of 12 years (Cyberstudy, 2000).

Clear majorities agree that going online has helped their children develop key skills needed To succeed down the road - job market skills (70%), homework quality (64%), and quality of written communication (59%). In many online households with children, the online medium has fostered an interest in hobbies (58%) and news/current events (47%) among young online users. Some (41%) parents believe it has had a positive impact on their child's relationship with family and friends as well (Cyberstudy, 2000).

The Internet is the preferred means of communication because 30% of women said they used the Internet 16 hours or more per week for business. Business and financial Web sites were the most frequently visited sites (more than 60% of the respondents visited those sites), followed by travel/map/weather sites and news sites. 83% of those surveyed said they expect the growth of e-commerce and the Internet to have a positive effect on their careers. (Survey of women attending 21st Annual Leadership Conference for women, Simmons Graduate School of Management) (as cited in WOW!Facts: Women Section, 2001).

A career online is a fast-growing trend because more than half of working women currently online use the Internet for work purposes. Two-thirds have used the Internet to learn about careers and career advancement, and almost half of working women online have used it to find a job.

John Zeglis (1999) stated the Internet has enabled electronic commerce on a global scale without regard to political, economic, or geographical borders. That's why Amazon.com's real-world address is irrelevant. All that matters is their Internet address: Amazon.com. People have learned they can go "on-line" instead of standing in line. They can learn and communicate or buy at their convenience with one click, no waiting. Consumers purchased more than \$13 billion worth of goods on-line in 1998; everything from books and clothes to cars and stocks.

Businesses have learned to use the Internet to improve the full spectrum of their operations. The Internet can make purchasing more efficient, marketing more effective, distribution more economical, and customer care just much better. E-commerce works for business of all sizes. In fact, 37% of businesses with fewer than nine employees regularly access the Internet (Zeglis, 1999, p. 6).

More than a million of the businesses have Web sites (Access Media International, as cited in "AT&T Perspectives," 1998) and: (a) 75% of the small businesses with websites report increase in sales inquiries. (b) 50% say the web has improved their customer service (Joint study by Cyber dialogue/FindSVP and C+C Data Inc. Cited in AT&T Perspectives, pp. 4-5). (c) 39% say the web will lower their communications costs (Cyber dialogue/FindSVP and C+C Data Inc. Cited in AT&T Perspectives, pp. 4-5). (d) Small businesses with websites grew sales about 40% faster than those with no on-line address (American City Business Journals and Network of City Business Journals Study, 1997, cited in AT&T Perspectives, p. 5).

Moreover, Laura Kujubu (1997) reported the traditional telephony players are making their first moves in response to the threat of Internet telephony, with GTE rolling out voice and fax via Internet Protocol (IP) services in 1998, and Bell Communications Research, or Bellcore, setting

up a business unit to develop Internet-telephony products in conjunction with hardware vendors. This will deliver a service that will allow users to transmit faxes via the Internet. A full-fledged service that offers voice via the Internet is also planned. This would probably not appear before the end of 1998 (Bolduc as cited in Kujubu, 1997). Meanwhile, Laura Kujubu (1997) also reported that Bellcore -- recently acquired by Science Applications International and previously the research arm for the RBOCs -- has announced a business unit, Soliant Internet Systems, which will focus on business-to-business Internet-telephony solutions for the midsize to Fortune 1000 companies. Analysts (as cited in Kujubu, 1997, p. 2.) noted Internet telephony is a technology that telecommunications players would be rather foolish to ignore. "Bellcore understands this is the wave of the future," said Rebecca Wetzel (as cited in Kujubu, 1997, p. 2), an analyst at TeleChoice, in Verona, New Jersey. According to Laura Kujubu (1997), observers believe that technology is moving fast and quickly. "Big players, such as Lucent and [Northern Telecom], are getting behind [Internet telephony] and if telecommunication companies don't see that, they are at risk," said Rebecca Wetzel (as cited in Kujubu, 1997, p. 2).

Peter Gwynne (1997) stated: "For the past five years, industry analysts have foreseen increasing links between computer technology and telecommunications. Internet telephony has not only become a fact of life for some businesses, it has also embarked on a steep curve of development that will significantly expand its use in coming months" (p. 1). Even a conservative approach suggests a \$53 billion/year market by 2002, says Roger Lall (as cited in Gwynne, 1997, p.1), a consultant to Internet phone company Rockwell Switching System Division, Downers Grove, IL. The Yankee Group (as cited in Gwynne, 1997, p. 1) predicts \$10 billion in annual revenues by 2000, for consumers alone, exclusive of business-to-business applications. Peter

Gwynne (1997) also reported that Internet telephony is moving in two entirely different directions. The first involves expansion of the traditional uses of the Internet to enable phone calls over the World Wide Web by attaching handsets to computers and installing the appropriate infrastructure to the Internet. That permits individuals to make long-distance calls without paying long-distance charges. This advanced technology, Internet telephony, "can lead to a lot of possibilities – joint editing, collaborative computing, and intelligent agents that are able to process transactions" (p. 4).

This leads to the final point: the Internet will be our communications future; there is no reason for anyone to deny. Customers will benefit from an unprecedented array of global services that translate into growth for their businesses and low-cost service for all telecom users.

AT&T needs to find ways to make money in this business and should provide high-speed access to differentiated service to improve the "World Wide Wait" and benefit customers so that AT&T can push the price up in this market. This is because the high-speed access Internet service enables Internet users to manage their communications services online rather than using the telephone line for calls.

AT&T should develop a new generation of Internet telephony - smart phones, that connect users to the Internet without need for computers. This form of Internet telephony makes electronic mail and the World Wide Web available to specially designed phones; in just the same way it is normally available to computers. This will benefit consumers who don't have a computer at home and use computers at work or at school and who know the benefits of e-mail. This development started in earnest slightly more than a year ago, recalls Joe Gillach of Diba, Inc., Menlo Park, Calif., a technology company providing open, end-to-end products for the development and

delivery of information appliances and services. At that point, he explains, "telephony companies said: 'How about centering e-mail activity around the phone?'" "A \$299 phone and keyboard would drag a bunch of people into a community of e-mail users," said Gillach (as cited in Gwynne, 1997, p. 3).

Corporate strategies must be worked out that take into consideration not only the reaction of the market and the long run of organization, but also the probable reactions of competitors. The organization must decide not only where it is going but also how to get there while insuring that others do not.

Conclusion

AT&T's market share has fallen from 62% to 50% in the past 5 years and will continue to drop as Regional Bells enter the business. The competition in long distance and local business is inevitable. Paul Davidson (2000) reported the traditional long-distance carriers hoped to make up for the slowing growth by entering the local phone business under 1996 deregulation. But they, and some upstarts, have snared just 5% of the Bells' market share. They say they can't make money because of the high prices the Bells charge to access their networks, despite FCC moves to lower them. AT&T has attempted to sidestep the local Bell bottleneck by buying cable giants Tele-Communications Inc. and MediaOne and offering the full gamut of communications services over cable lines. But the \$100 billion national effort has gone more slowly than envisioned, with AT&T signing up just 350,000 customers. However, it is not too difficult for Regional Bells to enter the long distance business market. In Texas, Southern Bell (SBC) has signed up 1 million long-distance customers in just three months. And Verizon has exceeded that

figure in New York, nabbing 15% market share since January 2000. Each is cadging customers from the likes of AT&T and Sprint. Since they own the wires to homes, the regional Bells simply buy long-distance wholesale and mark it up. While they do some advertising, a good portion of the new business comes when customers order new service or call the company for other reasons. In addition, it is easy to tack long-distance onto the existing bills. Verizon's costs to acquire customers are 20% to 30% lower than that of long-distance companies, says Maura Breen (as cited in Davidson, 2000, p. 6), a group president of Verizon Long Distance.

Some analysts estimate that once the regional Bells arrive, they could take 10% of the market each year for 3 years. Increasing pressure on the telecommunication companies is also going to lower the long distance prices.

The industrial structure of the communication industry of the future will be a complex product of technological and institutional change. The declining costs of information processing and information transportation are crucial elements in the attractiveness and adoption of these technologies. Therefore, AT&T should adopt these new technologies for operating its business productively.

AT&T is in the process of changing the way it does business. The company is focusing on understanding and responding more quickly to customers' needs. AT&T is planning to shift away from the traditional model of purely disseminating corporate and brand information on www.att.com towards online sales and even customer care. In addition, the company is also mulling the idea of offering a free, scaled down, Web-based e-mail service, similar to Hotmail, in which AT&T customers could go to att.com to retrieve all their e-mail and it could be password-protected for AT&T customers, enabling them to access certain product information, check their

telephone account status and even send and receive e-mail effectively. AT&T identified the Internet as one of its five core businesses for the year 2000 along with long distance, local, wireless telephony services, and direct broadcast entertainment.

In the international market, AT&T has been seeking new partners. AT&T is not affected by the Asian economic crisis, as AT&T does not have "footprints" established in the region. The international strategy was to expand through an alliance with other telecommunications companies. AT&T has realized that growth in the international market will not be accomplished without a strategic alliance or acquisition because the company sees tremendous opportunities in wireless, long distance, and Internet in both Europe and Asia.

The Internet is growing and more and more people are getting familiar with it. This is good for the telecommunication business. Also, remoteness will become less constraining in the United States because more people will work on the road or at home in a virtual office and that means more phone lines will be needed.

In order to respond to the environmental change and meet the market demand, AT&T CEO Michael Armstrong announced in November 2000 that AT&T has to restructure itself into four companies: AT&T Business services, AT&T Broadband, AT&T Wireless and AT&T Consumer services.

This author believes that AT&T should strengthen profitability through cost reduction activities, invest wisely to grow in the Internet Business, speed up the marketing strategy decision making process and quickly respond to customer needs to receive 100% customer satisfaction. This will enable AT&T to regain the market leadership.

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Appendix

A source of citation

Cheng, Theresa H, CCARE

From: Cheng, Theresa H, CCARE
Sent: Friday, February 16, 2001 11:40 AM
To: 'john.zeglis@attws.com'
Subject: Requesting Information for completing my thesis

Dear Mr. Zeglis,

I read your speech (Something Old, Some Things New, Nothing Borrowed, Never blue) that was delivered to British-American Chamber of Commerce and quoted your organized views in my thesis.

=====
John Zeglis, President of AT&T Wireless (1999) stated that the Internet has enabled electronic commerce on a global scale without regard to political, economic, or geographical borders. That's why amazon.com's real-world address is irrelevant. All that matters is their Internet address - amazon.com.

Businesses have learned to use the Internet to improve the full spectrum of their operations. The Internet can make the purchasing more efficient, marketing more effective, distribution more economical, and customer care just much better. The e-commerce works for business of all sizes. In fact, 37% of businesses with fewer than nine employees regularly access the Internet.

More than a million of the businesses have websites.

- * 75% of the small businesses with websites report increases in sales inquiries.
- * 50% say the web has improved their customer service.
- * 39% say the web will lower their communications costs.
- * And small businesses with websites grew sales about 40% faster than those with no on-line address. (American City Business Journals and Network of City Business Journals Study)

My thesis advisor required me to cite the year and page for the source that is mentioned above - (American City Business Journals and Network of City Business Journals Study).

It will be greatly appreciated if I may receive these information from you so that I can complete my thesis.

I hope that it won't bother you too much.

Have a great weekend!

Theresa Cheng
Telemarketing Distribution Strategy Services

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Cheng, Theresa H, CCARE

From: Edwards, Arthur W (Art), PR
Sent: Friday, February 16, 2001 2:15 PM
To: Cheng, Theresa H, CCARE
Cc: Zeglis, John, WSTRN
Subject: Facts and Figures

Ms. Cheng,

Mr. Zeglis asked me to send you the information you requested.

All this information was cited in a journal called *AT&T Perspectives*, Edition 10, September, 1998, pages 1-7.

In fact, 37% of businesses with fewer than nine employees regularly access the Internet.

More than a million of them have websites. (Access Media International, released in a *Business Wire* article on 2/9/98. Cited in *AT&T Perspectives* on page 4) And they aren't doing this just to be "hip."

- 75% of the small businesses with websites report increases in sales inquiries.
- 50% say the web has improved their customer service. (Joint study by Cyber Dialogue/FindSVP and C+C Data Inc. Cited in *AT&T Perspectives*, pp4-5.)
- 39% say the web will lower their communications costs. (Cyber Dialogue/FindSVP and C+C Data Inc. Cited in *AT&T Perspectives*, pp4-5.)
- And small businesses with websites grew sales about 40% faster than those with no on-line address. (American City Business Journals and Network of City Business Journals Study, 1997, cited in *AT&T Perspectives* on page 5)

Please contact me if you have any other questions and good luck with your thesis.

Art Edwards

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Cheng, Theresa H, CCARE

From: Cheng, Theresa H, CCARE
Sent: Friday, February 16, 2001 3:36 PM
To: Edwards, Arthur W (Art), PR
Cc: Zeglis, John, WSTRN
Subject: RE: Facts and Figures

Dear Mr. Edwards,

I appreciate very much receiving the information that I requested.
Thank you very much for being so prompt.

Theresa Cheng

thcheng@ems.att.com