When the Whole Becomes Less than the Sum of Its Parts: The Story Behind the AT&T Breakup

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In 1995, AT&T announced the largest voluntary breakup in business history. By the end of September 1996, we had already spun off our $20 billion equipment company and were planning to spin off our $8 billion computer company by the end of the year. That would leave the new AT&T as a $51 billion communications and information services company.

To understand why we’re making these changes, let’s begin by looking into the near future and considering the Smith family.

It’s the year after next and Mary Smith knows just what to do when her daughter Susie surfaces from beneath a pile of other soccer players, fighting back tears from the pain of her broken arm.

Mary flips open her cellular phone and dials 911. Then she dials her husband John’s “follow-me anywhere” number to get hold of him at Heathrow Airport near London.

John in turn sends e-mail messages to their other two children, Jack at college and Jill at home. He knows they’ll get the message right away because both of them are likely to be on the Internet, either looking for entertainment or, as they’re supposed to be doing, collecting information for their school work. He also happens to know that Jill won’t be watching the family’s Direct Satellite TV service, because he has programmed it to remain off until after dinner time.

Then, while he is still online, John orders flowers delivered to Susie by contacting the web site of a major U.S. flower vendor. That evening, they’ll all gather for a family video conference at Susie’s bedside.

The Smiths get, indeed they insist on getting, all these services from a single supplier on one bill and for the same reason they get the services in the first place. They want to simplify their lives, not complicate them.

They’re a two-income family. Every moment of their time is precious.
They’re constantly on the go, meaning they have to work hard just to keep in touch. So they want information products and services that are easy to use, that give them more choices, and that they can use anytime, anywhere, in any form.

**The Ultrasophisticated Consumer**

It’s said that families like the Smiths often have more things stuck on the *outside* of their refrigerators than *inside* them. But the Smiths have, without really knowing it, constructed a virtual refrigerator door based on information technology. As modern consumers, they’re ultrasophisticated, using phone, wireless and online services with ease and expecting suppliers to deliver perfect quality and service the first time and to show constant improvement thereafter.

Families like the Smiths are prime drivers of the modern economy. They’re what really lends power to all the other forces we hear about — technology, public policy, globalization, competition — all the usual suspects.

That’s why more and more business leaders are coming to believe that the foremost challenge to business today is focus — the laser-like focus on customers. As the editors of the *Wall Street Journal* wrote recently, “We have entered Nimble-World, an era in which enterprises large and small must have the ability — and willingness — to navigate at warp speed, like Han Solo in *Star Wars*, through a constantly shifting meteor shower of products, consumer whims and competitors.”

Ultimately, that realization is what convinced AT&T’s leadership to undertake a massive reassessment of our strategy and structure. And it led us to conclusions that departed radically from our traditions.

AT&T literally began with the invention of the telephone and a vertical integration strategy that became the heart of our very culture. From the beginning, AT&T set out to supply the phones, the network equipment and the services in what quickly became the finest telecommunications system in the world.

We retained the strategy even after our agreement with the U.S. government to end the Bell System in 1984. Indeed, AT&T’s desire to pursue the strategy was a major motivator for negotiating the agreement in the form it took. Under the agreement, we divested our local telephone companies, but we stayed in the phone equipment and long distance service businesses. Later we went into the computer business.
The strategy served AT&T well throughout our history. Over the last decade and more, we reaped the benefits of our integrated structure in every part of the communications industry. In most of its segments, we were the industry leader. We became an $80 billion company.

But our very strength encouraged us to consider alternatives. After all, what better time for reassessment and change than from a position of strength? Dramatic changes in the needs of customers like the Smiths had been re-shaping our industry and creating enormous opportunities. Other factors were:

- Rapid progress in computing and communications technologies that were erasing all the old boundaries among products and industries;
- A transformation of public policy that was likely to open the ancient local telephone service monopolies to competition, and in return permit the regional Bell companies to enter the long distance markets (policy now legislated in the Telecommunications Act of 1996);
- Extraordinary new opportunities created by the growth and progressive opening of telecommunications markets outside the U.S;
- Competition, not just from the hundreds of companies already active in the U.S. long distance business, or from the expected entry of the Bell companies in that business, but also from other industries and other countries.

Our world was becoming more complex and the pace of change was accelerating. And it became clear to us that the whole was now less than the sum of its parts. In other words, we had reached the point where the advantages of our size and scope would soon be offset by the time and cost of coordinating and integrating business strategies within AT&T that were increasingly in conflict.

As the rules of the communications market changed, we found AT&T’s services businesses competing fiercely with the same companies that were the best customers or potential customers of AT&T’s equipment manufacturing businesses.

For example, if our network equipment business made the best products on the market, we wanted the Bell companies or British Telecom to buy from us without concerns that AT&T’s services business was also competing with them. Conversely, we wanted our services business to pursue its opportunities aggressively, unconstrained by fears that they might bother a competitor who was a potential customer for AT&T equipment.

So we resolved to split up the company and create three publicly held,
global companies in its place:

- A communications and information services company with revenue of some $51 billion that would retain the AT&T name and include our wireless and credit card businesses;
- A $20 billion communications equipment and technologies company (now Lucent Technologies) that would immediately become one of the largest companies of its kind in the world and build on the rich heritage of Bell Laboratories;
- A computer company (now NCR) that was and is in the midst of a turnaround that will leave it concentrated on serving the three markets in which it has a leading position — retailing, financial services and communications.

Once we decided on the course of action, we moved swiftly to make it happen. A massive restructuring of this kind is disruptive enough without prolonging the struggle.

This was above all else a strategic restructuring. Its primary purpose was to give each of the three new companies the best chance to grow and create shareholder value by seizing the enormous global opportunities that lie before them.

For example, communications services is a $750 billion, global market. The worldwide market for communications products and systems measures some $550 billion. Growth rates in these markets may vary from the single to triple digits, depending on the niche or segment. But each of the new companies is a major player in its market. Each has a large domestic position with ample room to grow outside the United States.

The breakup will create other shareholder benefits as well. It will give shareholders a more focused play in each of the three industries involved, and it will allow shareholders to evaluate each of the new companies on its own merits. The breakup will also unlock shareholder value. Companies like Lucent, for example, command stock price multiples higher than the multiples for the old AT&T as a whole. And in the “new” AT&T, the value creation potential of our very fast-growing wireless business won’t lie buried any more under the sheer size of the old AT&T.

We expect all three of our new companies to soar with the eagles, but let me focus on the outlook for the new AT&T, because I will remain

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with that company as chairman and CEO.

The Future of AT&T

The new AT&T will build on some major strengths, including one of the world’s strongest brands, the most advanced technology in the industry, deep financial resources, and more than 10 years of experience competing in the long distance business. But our single greatest strength is our base of 90 million customers, a base that no other company can approach.

The needs of such a huge customer base are many and diverse, so we’ve segmented our strategy, as well as our marketing and customer care structures, accordingly. But our strategy does have a major unifying theme. It focuses on providing customers with the best total value, not shaving a penny or two off the latest blue plate special in long distance pricing.

Over the past several years, customers have seen a bewildering proliferation of new information services. As a result, they’ve increasingly been asking us to help them pick and choose among services — and to help assemble the services into solutions and applications. Our strategy is to focus on meeting these needs. It’s a strategy that builds on AT&T’s traditional strengths in such areas as networking, customer care and systems development.

But to deliver solutions, we can’t confine ourselves to just the long distance business anymore. We need to build a wider range of capabilities, which we’re working aggressively to do in five areas:

- **Local Service.** We’ve filed to provide it in all 50 states and are pursuing several options for doing so, which include building our own facilities and negotiating to resell services from the established carriers.
- **Wireless.** We already have the largest wireless footprint in the industry and by early next year we’ll be able to serve 80 percent of the U.S. using our own facilities.
- **Online services.** We’ve launched a series of successful Internet-based services, including our WorldNet access service, which has garnered more than 400,000 customers in less than a year.

*We expect all three of our new companies to soar with the eagles.*
• Home entertainment. We’ve made an offer with DirecTV this year that will give our 90 million customers access to direct broadcast satellite services at bargain prices.

• And, of course, long distance. We’re strengthening our leadership in long distance, rebuilding our network with advanced technologies that will help make it the new infrastructure for multimedia services and electronic commerce in the 21st century.

We’ll provide these services separately, if that’s the way customers want them. But many customers will want combinations of services. For example, our residential customers say they want to turn to one company that can give them a bundled offer— with one point of contact, seamless customer care, and one monthly bill. That’s exactly what we intend to provide.

Our business customers naturally have more complex requirements than residential customers but they, too, are asking for bundled offers tailored to their business needs. So AT&T is developing packages of integrated services that that offer businesses the kind of tools they need to raise productivity and achieve competitive advantage in a fiercely competitive world.

For example, we have a package for people starting up a small business. The package includes long distance, cellular, office equipment and a fax-back service that delivers information on everything from accounting rules to exporting and importing requirements. Our business packages are targeted to businesses according to both their size and industry, and we adapt the packages to individual needs as well.

Overall, our goal is to turn good customers into even better customers, whether they’re business people or consumers, both by increasing the amount they spend with us and by deepening the bonds of our relationship.

There’s obviously much more to this story. The breakup of AT&T will have major impacts on employees, shareholders, customers and communities. Some will be painful. But we’ve undertaken these massive changes because we believe that the good will far outweigh the bad.

We’re making the changes for solid, strategic reasons. We’re responding now, rather than later, to a fundamental transformation of the communications industry. And we’re freeing ourselves to put our talents and technologies fully to work on behalf of our customers, shareowners, and employees. 

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