



# AT&T Consumer Long Distance Strategic Choices

Ann Skudlark\*  
DAAG  
May 2000

\*Based on work by Amy Muller and Bob Kostelak



# *What Is Strategy?*

- A strategy is the identification of a **unique** market position, along with a uniquely aligned implementation system
- The goal of strategy is to **find a position** in the industry wherein the company can best defend itself against competitive forces or can influence them in its favor

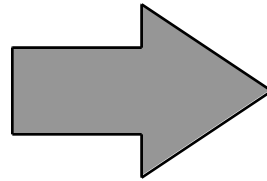
*-- Michael Porter*

- Strategy should be about **changing industry rules** or creating tomorrow's industries
- Strategy has to be **subversive**. If it's not challenging internal company rules or industry rules, it is not strategy
- Strategy isn't a "thing" or a "process." Instead, it must be a **deeply embedded capability**

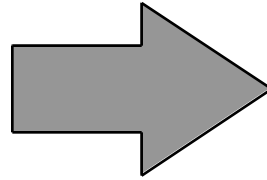
*-- Gary Hamel*



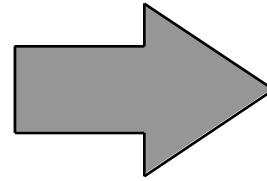
# Putting Strategy in its Place



What do we value most deeply ?  
What do we fundamentally want to achieve ?

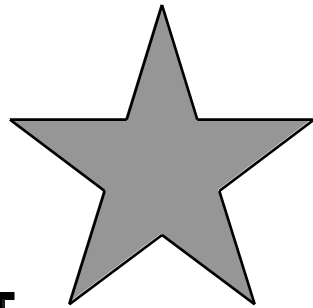


On what dimensions should we judge ourselves ?



What are the central, integrated concepts for achieving our objectives ?

People



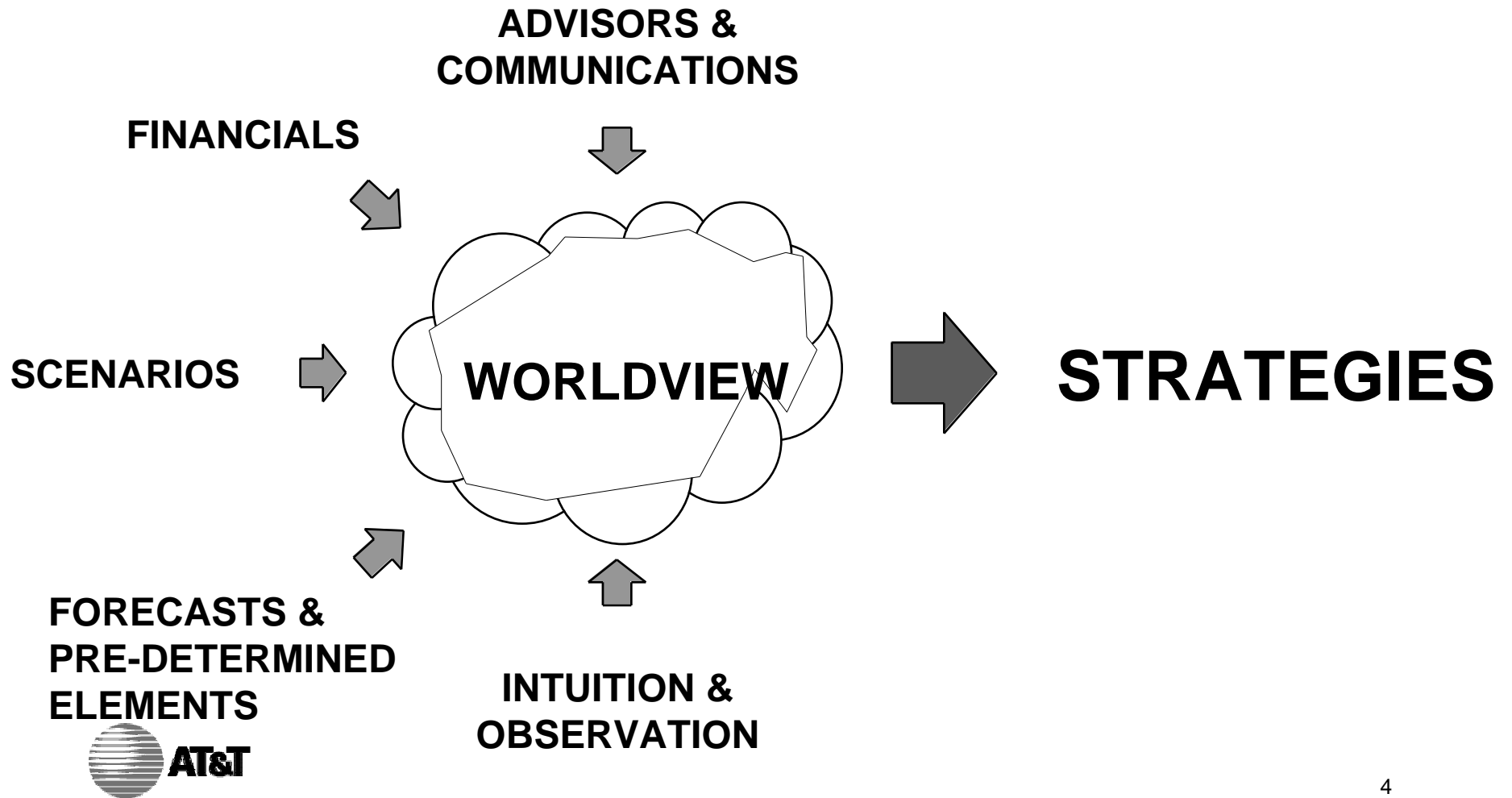
Structure



Rewards

Decision Processes

# Shaping A Strategy



# *Forming a Worldview*



*A well-developed and adaptive worldview is a key to successful strategy development*

*“When its on the business page it is too late -- you must catch it on the front page”*

- **How is today’s environment different from yesterday ?**
- **What are the 6-10 major external trends ?**
- **What do we already know ?**
- **What don’t we know ?**
- **What will be tomorrow’s big trends ?**



# *The Strategic Arena*



$$S = C^3W$$

CUSTOMERS

- Start with customers & their needs
- View customers several levels down

COMPETITORS

- Who are they?
  - traditional
  - potential
  - oblique
- What are their strengths & weaknesses?
- Where are they headed?

**WORLDVIEW**

COMPANY

- What are our strengths & weaknesses?
- What are our resources?



**STRATEGY**



# Strategy Template



# *Assessing Strategic Options*



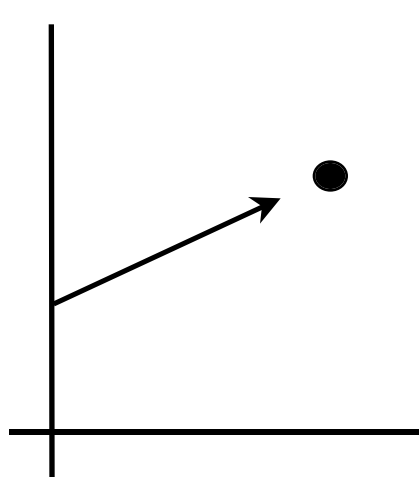
## **OPPORTUNITY IDENTIFICATION**

- Companies may find that their competitive approach is inappropriate for their capabilities or environment. Or, they may recognize an opportunity to adopt new or additional ways to compete.
- Contingency Planning is one competitive approach that is especially attractive in rapidly changing environments.



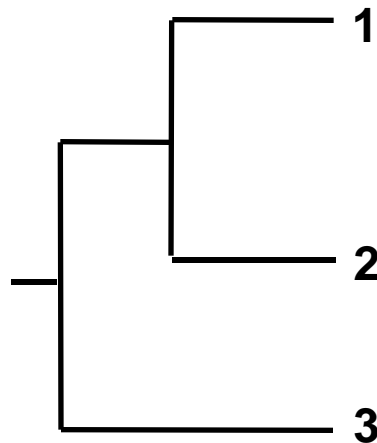
# Strategic Development

*Determining the strategic process, and ultimately which strategy is best, depends on the level of uncertainty in the environment*



## A CLEAR-ENOUGH FUTURE

Linear Extrapolations  
Trad. Strategy Tools



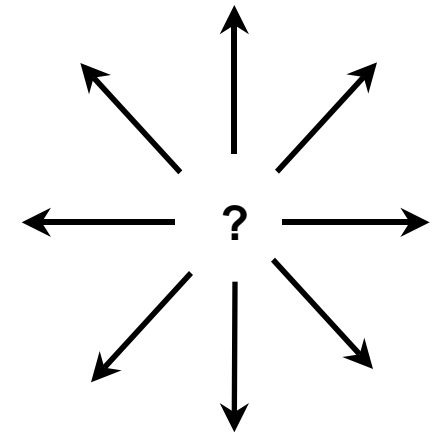
## ALTERNATE FUTURES

Decision Analysis  
Option Valuation  
Game Theory



## RANGE OF FUTURES

Scenario Planning



## TRUE AMBIGUITY

Analogies &  
pattern recognition



# *Scenarios to Strategies*

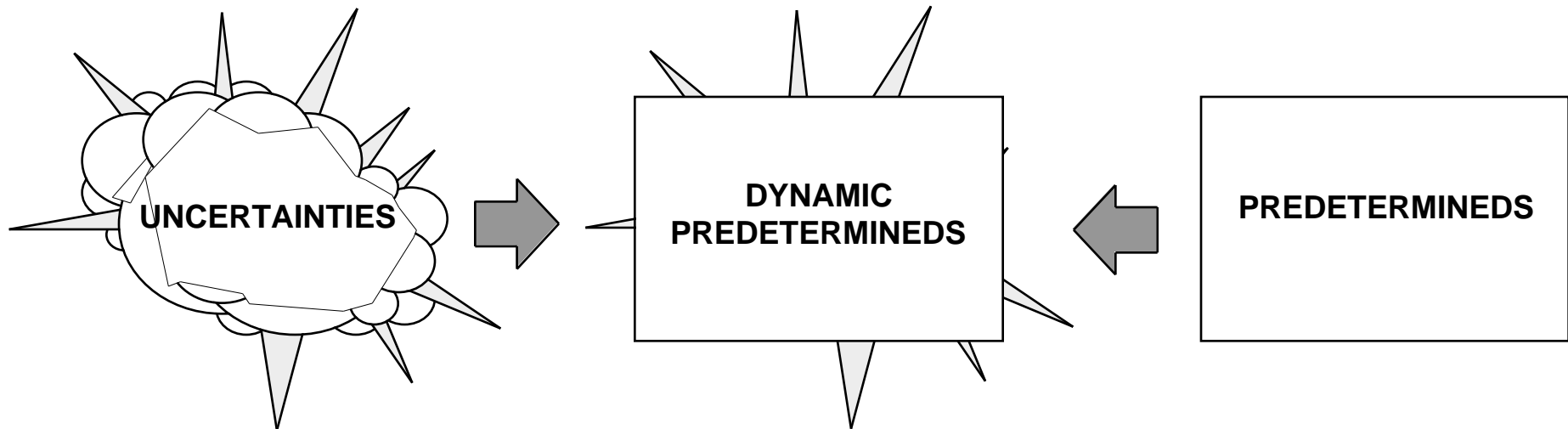


## **Tools for Bridging the Gap**



# *Predetermined Elements*

*It is rare that a strategist knows absolutely nothing of strategic importance about the future. It is important to capture this knowledge in the strategy.*



# Strategic Redesign - Windtunneling



*Windtunneling strategic options through the scenarios provides a map of the robustness of those strategic options and is an effective means of evaluating those options*

	Scenario 1	Scenario 2	Scenario 3	Scenario 4
Strategy A				1
Strategy B	4	1	2	3
Strategy C	2	3	1	4
Strategy D	1	3	2	4



1 = worst

# *Strategic Responses - Windtunneling*

- Pick one scenario and “Bet the Company”
- Pursue the “No Regrets” option
- Hedge Across All Scenarios
- Modify Existing Strategy
- Drive the Future to One Scenario
- Monitor Signpost & Configure Organization for Strategic Flexibility



# *Scenarios to Strategies*



## **AT&T Consumer Long Distance**



# *AT&T Strategy Example -*



•STRATEGIC INTENT:

•DESCRIPTION:

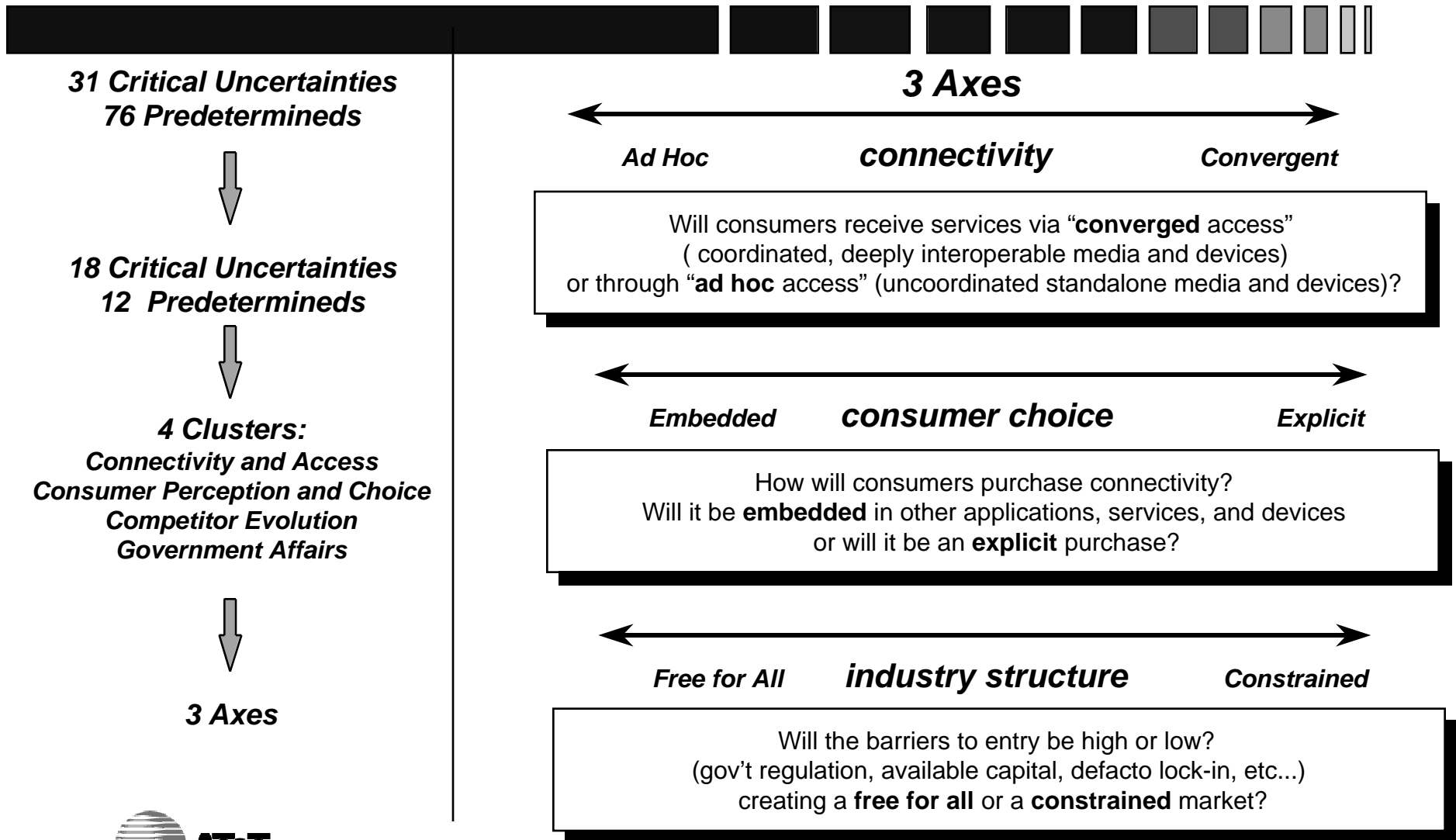
•VALUE PROPOSITION:

•POSITIONING:

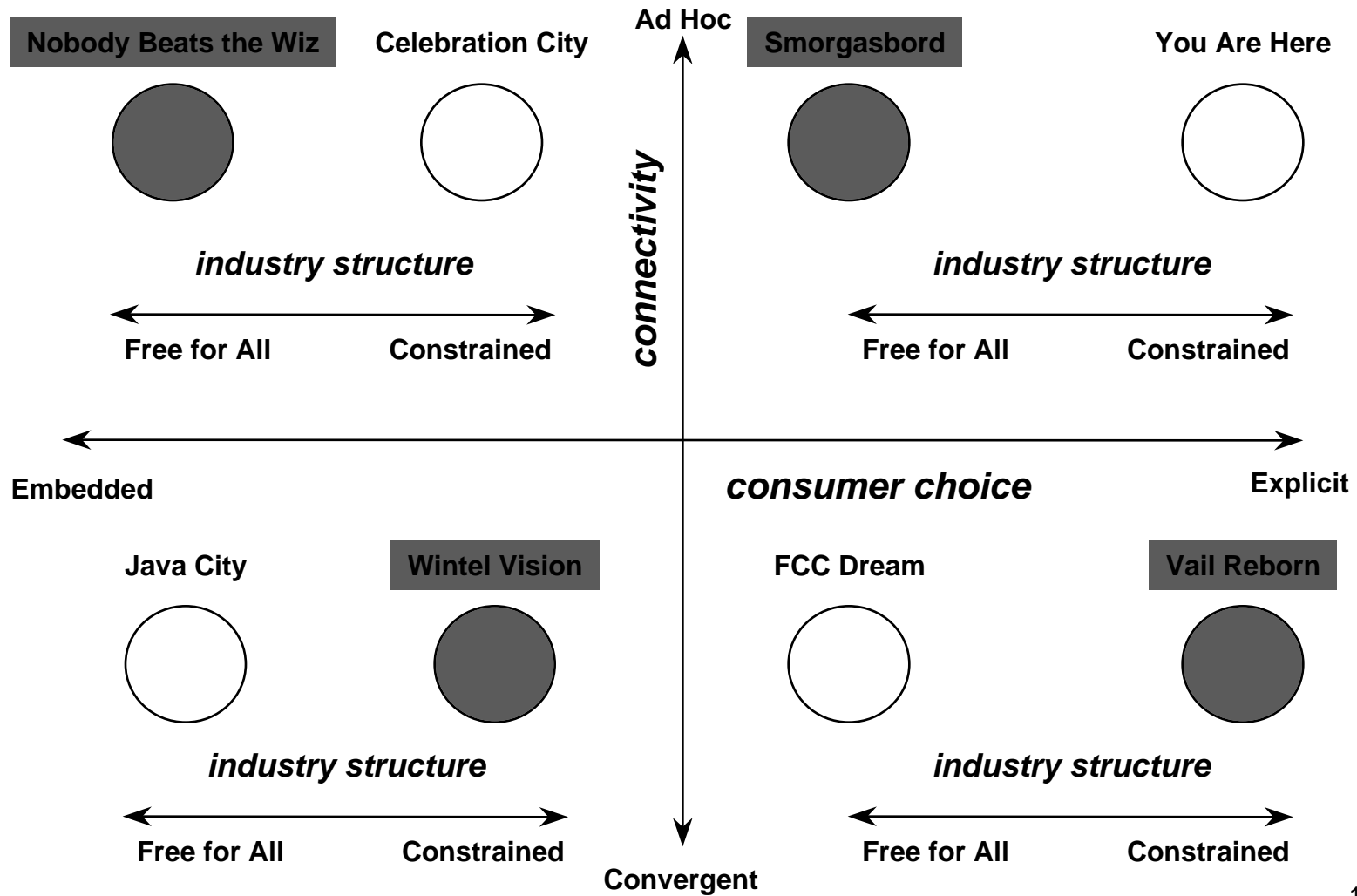
•TARGET MARKET:



# Scenario Axes Definitions



# Telecom Scenarios



# *Scenario 1 - Smorgasbord*

## *Smorgasbord*

Free for All

- Multiple competitors providing a la carte offers and devices or discounted bundles targeted to niche, fragmented segments
- Non-traditional players, such as retailers, affinity groups and banks, sell communication services directly to their audiences
- Growth & differentiation achieved through innovation of product features
- Consumers are deluged with telemarketing & direct mail offers

# *Scenario 1 - Smorgasbord*



**FCC Proposes More Open U.S. Telecom Markets**  
Reuters, June 4, 1997

**Christian ISP Has A Mission**  
c/net, May 15, 1997

**PC and TV Camps Loath to  
Compromise Over Conflicting  
Scanning Methods**  
EE-Times, May 19, 1997

**Two Powerhouses In Marketing  
Plan to Merge**  
**HFS Inc. & CUC Int'l providing goods  
& services in a entirely new way**  
NYTimes, June 2, 1997

**The Hungry Piranhas With Big  
Ideas**  
**USA Global Link Goal to Route Int'l  
Calls at Lowest Cost**  
CommsWeek, June 4, 1997

# *Scenario 4 - Vail Reborn*



## *Vail Reborn*

- A major leapfrog of technology, likely combined with government backing, has occurred that spurs revitalization of telecom brands
- Few “supercarriers” offering predominately communication services through a convergent network
- Consumer enjoy integrated broadband services provided by one or two supercarriers
- Growth comes from high margin broadband applications
- New class of devices emerge to support broadband services.

# *Scenario 4 - Vail Reborn*



*ISPs Will Continue To Be Snatched Up By  
Service Providers, For Their Own Good*  
Network World, June 6, 1997

*AT&T, SBC May Link Up*  
CNNfn, May 27, 1997

*Consumer Demand For Bundled Communications  
Services Reaching "Critical Mass"*  
Business Wire, June 9, 1997

*Rising Phone Bills Are Likely  
Result of Deregulation*  
*Lawmakers are Angered*  
*Free Market Rules Mean End to  
Subsidies That Have Let Millions  
Afford Service*  
NYTimes, March 30, 1997

*Rural Advocates Sees  
'Unintended' Fallout in Telco Act*  
Congress Daily

*Socialist "might renationalize  
France Telecom"*  
Financial Times, February 10, 1997

# *Scenario 3 - Wintel's Vision*

## **Wintel's Vision**

- No more than one or two major players providing communications, entertainment, and software
- Mass consumer adoption of PC/TV's and handheld PDA's
- Capacity becomes cheap, long distance is too cheap to meter, and communications is embedded within tailored software applications. Consumers no longer select their communication provider.
- Communication services are available predominately through a convergent network

# *Scenario 3 - Wintel's Vision*



*Microsoft Invests \$1 Billion In Comcast  
Investment to Advance High-Speed  
Networking For Consumer, Educational &  
Business Markets*  
PRnews, June 9, 1997

*Intel to Increase Its  
Investment In CNET*  
PRnews, June 5, 1997


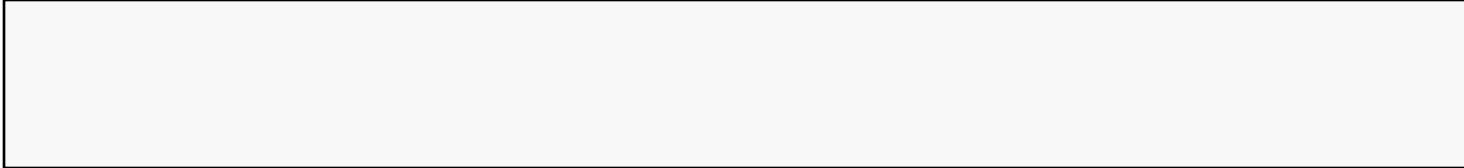
*Microsoft Opens SS7 Window*  
Telephony, June 9, 1997

*Cisco Ready With Gigabit Switch for IP*  
Communications Week, May 5, 1997

*PC Penetration In U.S.  
Households Tops 40%*  
*As more than half of households with  
children have PC's*  
*"Generation X" & Over-60*  
*Households Show Faster Growth*  
BW, June 9, 1997

*Compac Takes Aim At \$799 PC*  
Computer Retail Week, April 25, 1997

# *Scenario 4 - Nobody Beats the Wiz*

- 
- 
- A few major players in the business-to-business market providing reliable network services to major consumer electronics manufacturers
  - Consumers don't explicitly choose their communications carriers. The telecom brand is carried through on some devices as a guarantee of reliability and compatibility.
  - Growth comes from intelligent electronics and appliances that communicate with networks and other devices to perform integrated functions
  - LD minutes are so inexpensive that it is not worth metering and is commonly given away free with a phone purchase

# *Scenario 4 - Nobody Beats the Wiz*



*EarthLink and Sony Team to Include Internet  
Access On Millions Of Sony Music CD's*  
Business Wire, June 9, 1997

*Study: Handhelds Point to  
Growth*  
c/net, May 20, 1997

*Web Veteran & Startup Spin  
Embedded Net Software*  
*Embedded controllers to find their way  
into almost every mechanism in the  
household*  
EE-Times, May 19, 1997

*PC Users Are Starting to Resent Taking Part In  
Science Project*  
WSJ, May 15, 1997

*MCI Announces PrePaid Paging*  
PRNewswire, June 4, 1997

*Pioneer Preps DVD Car-  
Navigation Unit*  
PRnews, June 5, 1997

# CLD Strategic Choices - Windtunnel



<b>LEGEND</b> 5 = Exceed Wall Street Expectations 1 = Unacceptable to shareholders	<i><b>Smorgasbord</b></i>	<i><b>Vail Reborn (merger)</b></i>	<i><b>Vail Reborn (no merge)</b></i>	<i><b>Wintel's Vision</b></i>	<i><b>Nobody Beats the Wiz</b></i>
<i><b>Strategy A</b></i>	4	3	2	2	1
<i><b>B</b></i>	3	4	3	1	2
<i><b>C</b></i>	2	1	4	2	2
<i><b>D</b></i>	4	3	1	2	3
<i><b>E</b></i>	1	1	1	2	1
<i><b>F</b></i>	3	3	2	1	1
<i><b>G</b></i>	2	3	1	2	1

