AT&T Consumer Long Distance Strategic Choices

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***Based on work by Amy Muller and Bob Kostelak**

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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

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Putting Strategy in its Place

MISSION & IDEOLOGY

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

OBJECTIVES

On what dimensions should we judge ourselves ?

STRATEGY

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

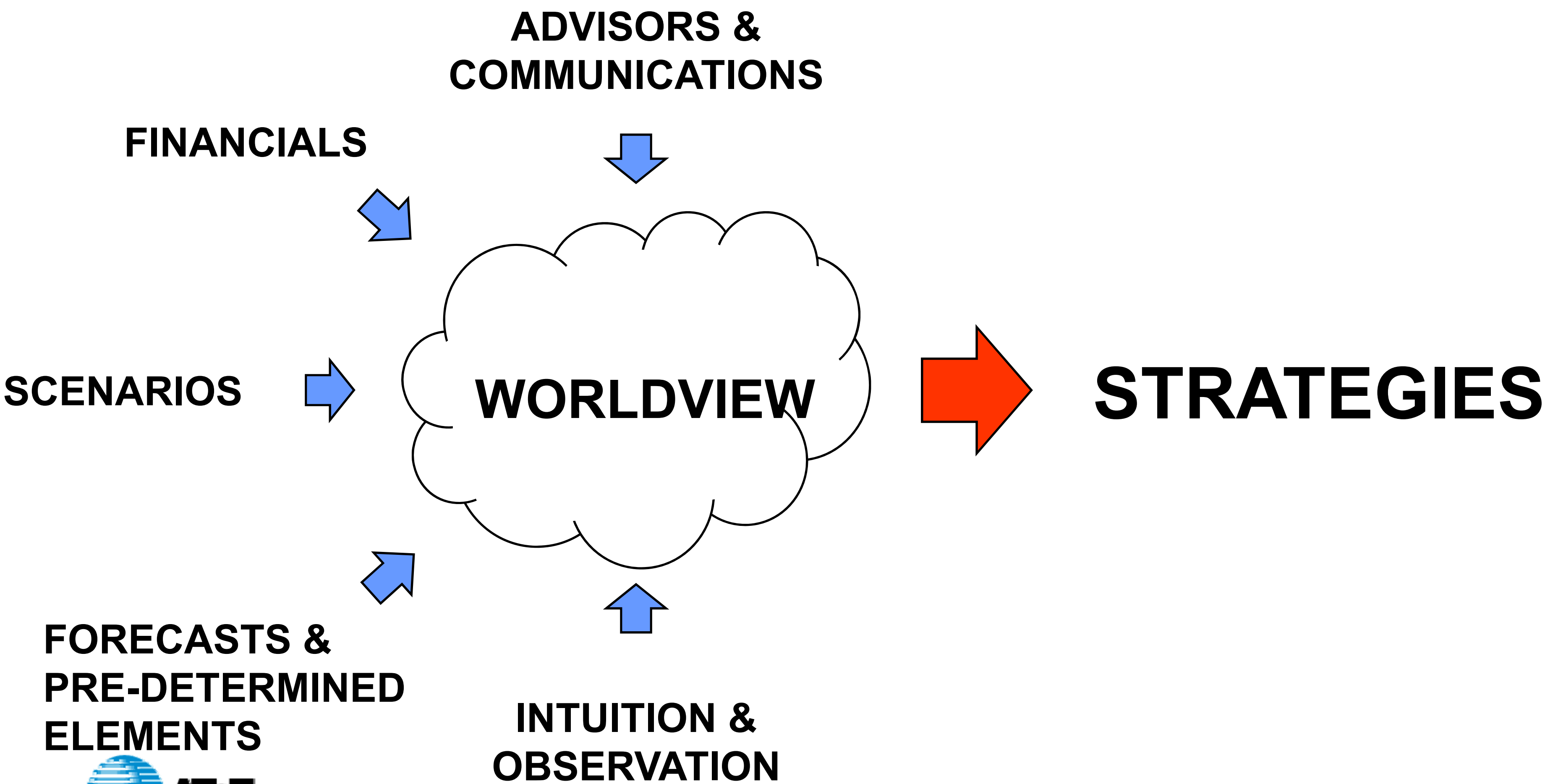
People

Structure

Decision Processes

Rewards

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 ?**

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The Strategic Arena

$S = C^3W$

<u>CUSTOMERS</u>

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

WORLDVIEW

<u>COMPETITORS</u>

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

<u>COMPANY</u>

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

STRATEGY

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Strategy Template

TARGET MARKET
Where will we compete?

NEEDS NOT ADDRESSED
What won't we do ?
What does this strategy preclude?

NEEDS SERVED
How will we get there?
What is the vehicle?

COMPETITIVE ADVANTAGE
How will we win?
Does our advantage fit existing competencies?

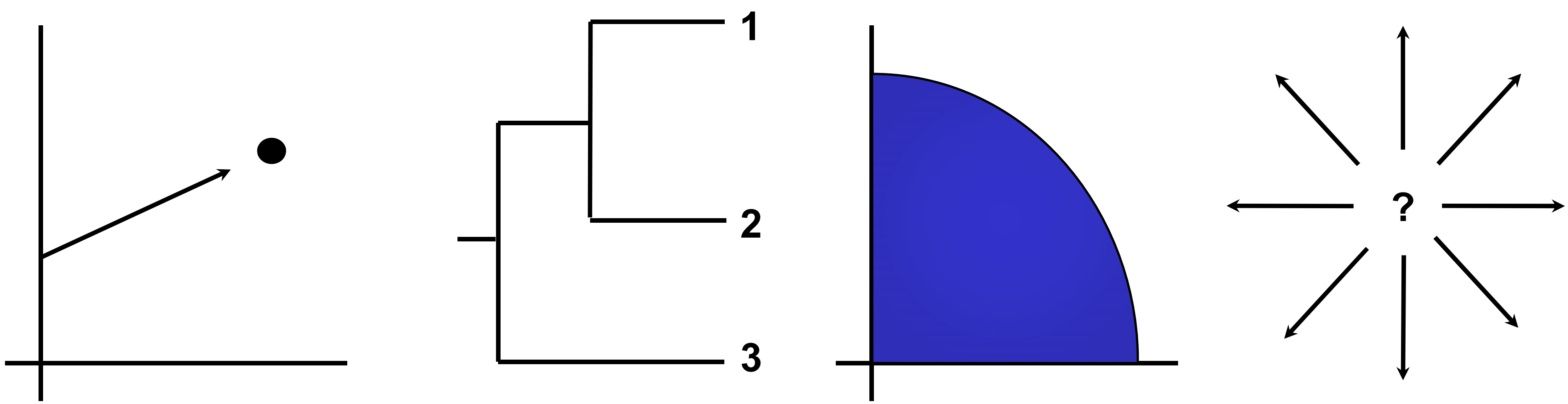
Assessing Strategic Options

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

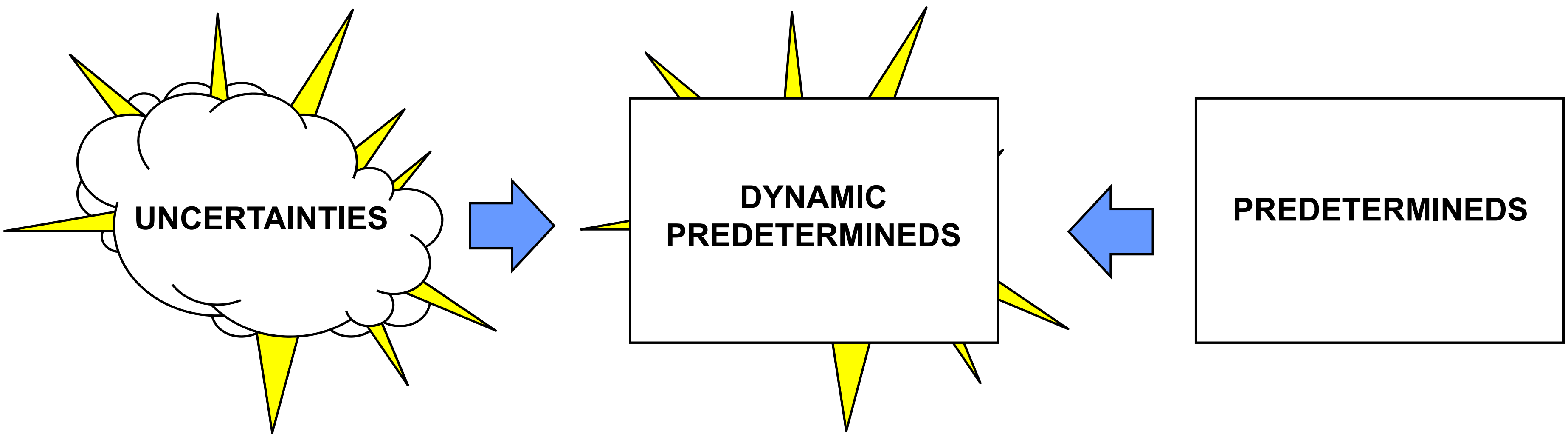
Source: HBR November-December 1997 pp. 66

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

31 Critical Uncertainties
76 Predetermineds

18 Critical Uncertainties
12 Predetermineds

4 Clusters:
Connectivity and Access
Consumer Perception and Choice
Competitor Evolution
Government Affairs

3 Axes

3 Axes

Ad Hoc ***connectivity*** ***Convergent***

Will consumers receive services via "**converged** access"
(coordinated, deeply interoperable media and devices)
or through "**ad hoc** access" (uncoordinated standalone media and devices)?

Embedded ***consumer choice*** ***Explicit***

How will consumers purchase connectivity?
Will it be **embedded** in other applications, services, and devices
or will it be an **explicit** purchase?

Free for All ***industry structure*** ***Constrained***

Will the barriers to entry be high or low?
(gov't regulation, available capital, defacto lock-in, etc...)
creating a **free for all** or a **constrained** market?

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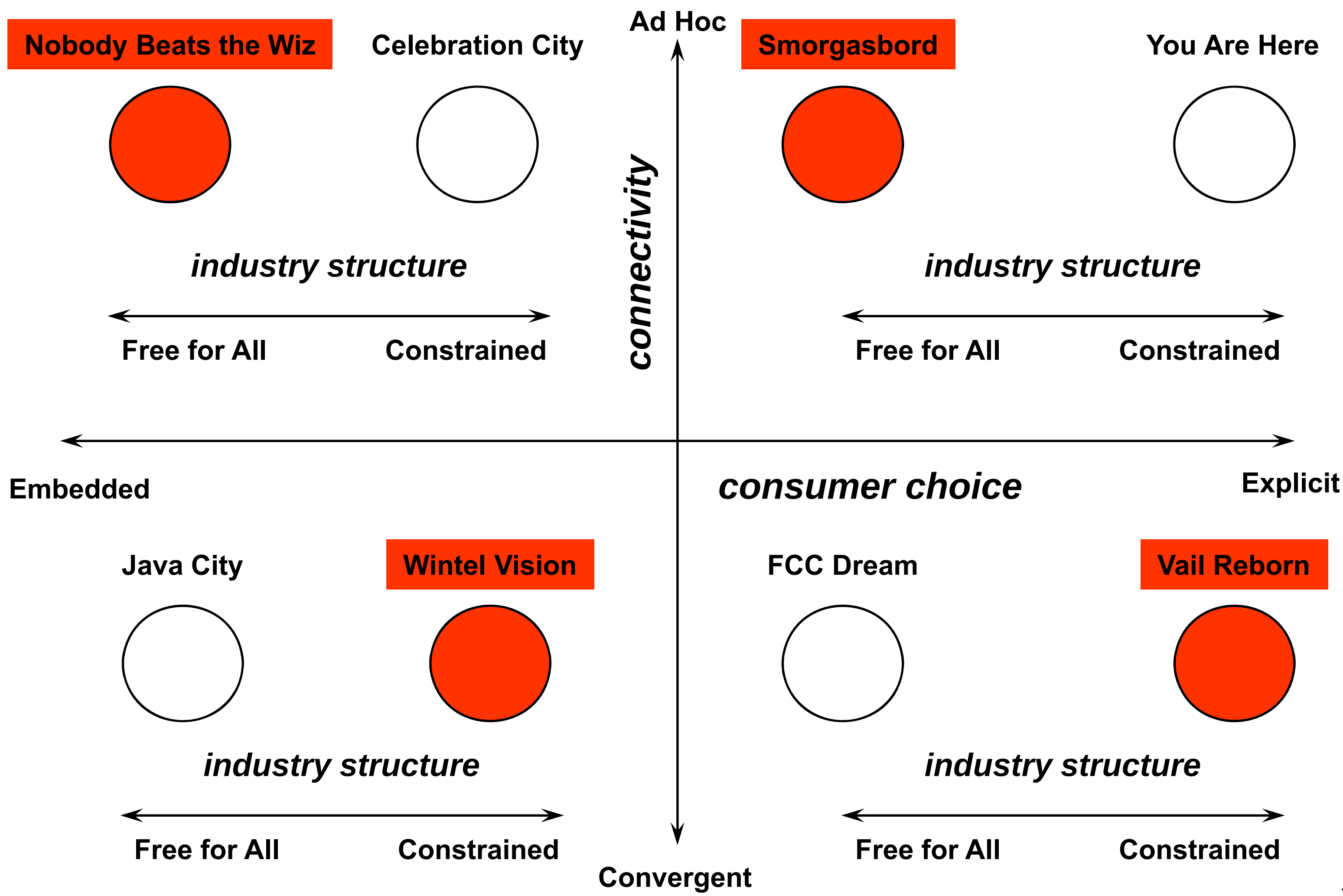
Telecom Scenarios



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

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

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

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

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

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

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

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

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

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

MCI Announces PrePaid Paging
PRNewswire, June 4, 1997

CLD Strategic Choices - Windtunnel

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

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