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Telephone Wars: No Longer a Party Line

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In the beginning, the American Telephone and Telegraph Company dominated all aspects of the telecommunications market. Indeed, AT&T had a monopolistic hold on the industry. Today, the world is different. Due to deregulation, AT&T no longer controls the telecommunications business; nevertheless, it remains a major force in the long distance telephone war. This war is focused on you and me.

What tactics are the major competitors using to earn our loyalty? Are these tactics working? The battle is an uphill one for Microwave Communications International (MCI) and U.S. Sprint. However, if their tactics are sound, they may someday own the market and AT&T may be trying to win you back.

IN THE BEGINNING

AT&T was founded in 1885 and was an immediate success. Its mission statement, laid down in 1909 by Theodore Vail, said it all: "One system, one policy, universal service" (Kennedy, 1989, p. 10). What this meant was plain old telephone service (POTS), which is defined as providing a universal service at a fair price for the average consumer (Kennedy, 1989, p. 10). Unlike many U.S. corporations, AT&T was future oriented in its marketing approach. This outlook led it to become the largest corporation in the world by 1980 (Kennedy, 1989, p. 10). This success, however, would eventually prove deleterious to AT&T.

AT&T should have recognized that events were not moving in the right direction as early as 1968. In that year, the Federal Communications Commission (FCC) began deregulating the telecommunications industry. One of its first moves was to allow users to buy equipment from any supplier and to plug that equipment into AT&T's network. Another warning sign was given in 1969 when the FCC allowed Microwave Communications International (MCI) to enter the profitable private line business between cities. These were two minor incidents that helped fuel the looming anti-trust action that would eventually destroy AT&T's monopoly.

The anti-trust case began in 1981 and continued through January 1, 1984. In the later stages of the trial, AT&T realized it could not avoid losing the legal battle. The loss was going to be either vertical, which meant losing its equipment subsidiary and the Bell Laboratories, or horizontal, which meant losing its regional telephone companies. AT&T eventually chose to take the horizontal loss. In some respects, the loss came as a surprise, for in 1956 AT&T was promised that no real injury would come its way in the future because it agreed to stay out of the growing data processing industry (Kennedy, 1989, p. 10).

Instead, in the 1980s AT&T was stripped of 22 of its former companies. These companies were then transformed into seven regional holding companies called the "baby Bells." The baby Bells provide local phone service to most of the United States. However, they are prohibited from entering the long distance market. On January 1, 1984 a final agreement was reached and a much smaller AT&T was open for business.

The result of the break up of AT&T is that it must now compete for the market share it once ruled. The remaining portion of this article discusses the present battle AT&T must fight with companies such as MCI and U.S. Sprint.

DOWN TO THE BATTLEFRONT

Since the break up of AT&T, the battle with MCI and U.S. Sprint has become quite intense. The break up has also changed the way people look at long distance service. Phone service is now looked upon as a commodity, a product consumers can shop for, seeking the best price or service to fit their needs. With the battle among phone companies continuously escalating, it is vital that each differentiates itself in the consumer's mind. To truly understand this war we need to go down to the front line and see what kind of tactics each of the companies is using to gain market share for today and for tomorrow in this $55 billion industry (Keller, 1992, p. A1).

THE LEADER

AT&T is, without question, the leader in this battle. It is on top of the mountain, and the top of the mountain is where one wants to be. However, leaders cannot just watch from the top. They must protect themselves from competitors' attacks. AT&T needs to fight a defensive battle.

Since AT&T knows it is the leader, its first move should be to have the courage to attack itself. This is done through research into new products and also by going down to the battlefield to see what is actually taking place. One AT&T foray to gain market share has been its "Reach Out America" program. This program makes available seven different discount programs to the customer. These programs offer discounts on calls, based on such elements as the most frequently called area code or the time of day in which the customer makes calls. Another weapon AT&T has unveiled is a pricing plan called Tariff 12. This initiative allows AT&T to create customized packages of services and equipment for businesses such as General Electric, Dupont, and Ford (Seghers, 1988, p. 39).

Another AT&T initiative sent an even more dramatic shock through the telecommunications industry. In 1992 the company acquired McCaw Cellular Communications. This acquisition alters the look of things in the communications industry, for it enables AT&T to move into the wireless communications field. Thus AT&T will be competing for local market share with its own offspring, the "baby Bells." People using cellular phones will be able to go through AT&T instead of using one of the regional companies. This is a strong move for AT&T. It places the "baby Bells" in a bind. They are now going to have to work even harder to find new opportunities (Carnevale, 1992, p. B1).

In point of fact, AT&T seems to be doing a brilliant job of attacking itself. However, it is also the responsibility of AT&T to keep something in reserve in order to block the offensive moves made by MCI and U.S. Sprint. There is no doubt that AT&T has the financial reserves. The issue is whether or not it is paying close enough attention to these seemingly distant competitors.

AT&T is such a strong leader in the long distance industry that it must use its position as a weapon in the fight against the newcomers. Its strength in numbers needs to be employed at all times. For example, AT&T's sales force consists of 5,500 people. Matching it would take up to 40 percent of the entire work force of Sprint (Symonds, 1989, p. 83). AT&T also has the financial resources to fend off price attacks by MCI and Sprint. The question is, how long can AT&T do this?

As long as AT&T continues to be an innovator by attacking itself, and as long as it stays fairly competitive in price, it is unlikely that we will see any drastic changes in market share. What AT&T has to do is keep a close eye on every move the competition makes. This way there will be no surprise attacks and AT&T can always have the "troops" ready to defend its territory.

MCI—THE UP AND COMING FIGHTER

In most cases a smaller competitor would never go after a leader, especially a company with the power of AT&T. It seems, however, that MCI is doing exactly that. MCI has been hitting hard with gains in market share every year since 1988. Holding 17 percent of the long distance market in 1992 (Keller, 1992, p. A1), MCI has begun to ruffle AT&T's feathers.

MCI is making its attack at an unusual point: it is attacking the leader at what appear to be its greatest points of strength. In 1988, MCI made a strong move into the number two position through its advertising campaign "LET US SHOW YOU." The focus was on the changes MCI was making in its customer service. This bottom-up strategy, emphasizing the importance of helping the customer, allowed MCI to begin gaining more market share.

AT&T is doing its part to block all MCI moves. It struck back with advertisements which emphasized its dedication to the customer. AT&T also transferred 2,500 staff employees to line positions in an attempt to increase customer contacts (Sommerfield, 1989).

The second focus of MCI's attack is AT&T's billing procedure. MCI's billing is done directly across the country using a sophisticated billing and tracking system. Why is billing so significant? The Friends and Family service is what makes MCI's billing an important factor in its strategy. With the Friends and Family service, residential customers receive a 20 percent discount off calls made to as many as 12 preselected locations. The people being called must also be MCI customers. This program is strong for two reasons. It motivates MCI customers to recruit more customers for MCI while they benefit themselves. Secondly, AT&T cannot copy this service (Coy, 1991, p. 85). This is what makes billing procedures such a key factor. MCI uses a single source data base which lists all of its customers. When a Friends & Family member calls another MCI customer, the computer checks to see if the customer qualifies for the 20 percent discount. The problem for AT&T is that its local phone companies do the billing for it on a local basis. Thus with its Friends and Family Program MCI is turning an AT&T strength, the fact that it does not have to worry about the billing process, into a weakness.

THE BANDWAGON OF CHANGE

Things indeed are looking up for MCI. In 1992 it also implemented a new advertising plan. The new ads seemed to jump right off the political bandwagon with their emphasis on "A Time for Change." One ad said, "It is the worst of times. In business it is a time for change." Through this campaign MCI was trying to capture the mood of the population (Goldman, 1992, p. B1).

This may indeed be the best of times for a company to position itself as the "other guy." The incumbent doesn't seem to be very popular with the majority. MCI is using this political approach. Claiming in one ad that telecommunications is a two-party system, MCI asks customers to choose between the incumbent, AT&T, or MCI. Here MCI is attacking another AT&T strength. This new tactic is to attack the image of one of the most powerful companies in the world. MCI is asking people to look at the two companies and make their own choice. As another ad puts it, "The status is no longer quo."

U.S. SPRINT—THE FIBER OPTIC NETWORK

U.S. Sprint came into being in 1986 when U.S Telecom and Sprint merged. The first competitive move it made was to be the first company to introduce a complete nationwide fiber optics network. This system is so sensitive you can hear a pin drop over the phone.

Sprint's campaign, "The Most," is a cost savings plan developed to challenge the existing AT&T Reach Out America plan and MCI's Friends & Family service. The Most offers customers discounts of 20 percent on the number that they dial the most that month (Keller, 1992). The Most campaign was launched in shopping malls where customers were given the opportunity to call anywhere in the world on Sprint lines and their pictures were taken with life-sized cut-outs of celebrities (Keller, 1992, p. A6).

U.S. Sprint also has created a bonus program for its long distance customers. The program allows Sprint users to accumulate bonus points based on each month's total long distance bill. After consumers accumulate a predetermined number of bonus points, they may trade their points for free long-distance services, travel vouchers, or electronic goods. Sprint's competitors, however, are laughing at its use of odd promotional tools. Keller points out that Sprint's promotions appear "goofy" next to the savvy moves of AT&T & MCI (1992, p. A6).

The competition better not laugh too hard, however, for U.S. Sprint's market share had risen to 10 percent by 1992 (Keller, 1992). This rise, however, is probably due to Sprint's lower prices. Sprint's prices are currently about 10 percent lower than the market leader AT&T (Symonds, 1989, p. 83). A key challenge for Sprint will be to keep prices lower than its competitors, but not so low that AT&T starts an all out price war.

In 1990 U.S. Sprint chose actress/celebrity Candace Bergen to represent its company. Jorge Rodriguez, Vice President of Marketing, stated, "Bergen was the obvious choice because she depicts many of the qualities that we like to have people associate with Sprint" (Bertrand, 1992, p. 25). These qualities include intelligence, wit, and caring. Bergen's exemplary reputation helps Sprint appeal to its target audience. "Candace is a popular spokesperson and without question this is quite advantageous to Sprint," Rodriguez notes (Bertrand, 1992, p. 25).

To continue to be successful Sprint should use a flanking style of marketing warfare. Sprint can do this by taking control of the business communications niche opposed to the residential customer market. Focusing Sprint's resources exclusively on the business communications market will allow it to become the specialist in this field. Consumers tend to prefer specialists to generalists. However, Sprint must be prepared to concentrate in its new market; the pursuit is just as important as the attack. If Sprint fails to narrow its focus and find its niche, it will continue to be just another long-distance provider lingering in the shadows of AT&T and MCI.

A SLEEPING GIANT

Since 1984 the baby Bells have been restricted from entering the long-distance market. However, should competition in the long distance market decline, the sleeping giant may awake. For this reason alone it is highly unlikely that AT&T or MCI will try to eliminate Sprint (Keller, 1992, p. A6). Judge Harold H. Greene said he would allow the baby Bells to enter the long distance wars when they are unable to use their monopolistic power to impede competition (Labich, 1989, p. 86). That day has yet to come, unless, according to *Fortune* magazine, "you assume that the addition of a wolf to a flock of sheep would maximize competition in the flock" (Labich, 1989). Meanwhile the baby Bells argue that restricting them to being only regional phone companies sentences them to death (Labich, 1989, p. 87).

SLEEPING GIANTS ATTACKED

While the baby Bells concerned themselves with being everything to everybody in 1992, they forgot to protect their own market. The baby Bells are the market leader in local phone business and should be using defensive strategies to protect this market. Instead of worrying about the long distance market, the Bells should have concentrated on their successes and protected themselves by attacking themselves and blocking all competitive moves. As a result of the Bells' lack of defense, AT&T was able to surprise the Bells by hooking up with McCaw Cellular Communications. AT&T's move will require the Bells to work a little harder and a little faster in the local phone business. Yet some Bell executives see the AT&T announcement as an opportunity to push Congress to allow the Bells to enter the long distance market (Carnevale, 1992, p. B1). AT&T contends it is not after the low-margin local phone business controlled by the Bells, but rather the high-margin mobile phone services that will offer consumers communication flexibility (Carnevale, 1992, p. B1). This move by AT&T and the continuing efforts of the baby Bells to enter the long distance arena are a prime example of today's marketing objective: take the competition's business while maintaining your own.

THE INVISIBLE ONES

The remainder of the telecommunications industry is controlled by small companies like General Electric. These companies operate primarily in small towns and provide local phone service. These companies use guerilla warfare; they find a small segment of the market they can defend. In short, they try to become a big fish, or sometimes the only fish, in a small pond. Despite their successes, they must never attack the leaders, or they will be overwhelmed. However, should the leaders decide to attack them, they must be prepared to move at a moment's notice. Ninety-four percent of all the telecommunications companies will be in this category and must use their flexibility to adapt to the industry's many changes.

WHERE DOES THIS LEAVE US?

With all of this competitive action taking place, the consumer is the ultimate beneficiary. This was the purpose of deregulation to some extent: to protect the consumer. Nevertheless, competition is changing directions everyday and the price wars seem to be winding down (Coy, 1990, p. 85). All three major long distance telephone companies seem to be moving toward a quality and service approach. This may leave the door open for someone else to start a price war, but that seems unlikely because it would take tremendous financial backing to enter this battle today.

Many challenges yet remain in the telecommunications industry. If the baby Bells enter the long distance arena, it could mean chaos. U.S. Sprint has to find its position as a long distance company serving the business community; otherwise, it will never be a significant player in the war. MCI has made it clear that it wants to be known as the service for the next generation. It is aiming at the consumer market and it offers lower rates than AT&T. Nevertheless, the quality of service offered by AT&T will always be difficult to match.

So what does the future hold for this industry? It is our opinion that unless AT&T begins to at least acknowledge the price difference between its rates and those of MCI, MCI will continue slowly to gain market share. AT&T must use its resources to build for the future. Its recent division of itself into three separate entities may represent a brilliant illustration of a company attacking itself in order to grow. Only time will tell whether this defensive strategy will pay.

In truth, telecommunications as we know it today may be obsolete in twenty years. AT&T has the capability of changing the way everyone communicates. Video phones may someday be as common as today's touchtones. For now, the industry is at a stagnant point. It has matured. The battle is moving away from a pricing war, but there does not seem to be anywhere for it to go. In the end the innovator, not the imitator, will be on top of the mountain.

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