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At SBC, It's All About "Scale and Scope"

CEO Edward Whitacre talks about the AT&T Wireless acquisition and how he's moving to keep abreast of cable competitors

SBC Telecommunications' financial performance of late hasn't been much to write home about. For the third quarter, it just reported flat earnings of \$1.2 billion on revenue of \$10.3 billion, up a scant 0.3% over the same period last year. But given the onslaught of competitors eating away like pigeons at SBC's (SBC) bread-and-butter landline business, scant growth is better than the alternative. "Is [our] revenue growth great? No -- it's terrible," says CEO Edward Whitacre, who adds, "but it's a lot better than losing."

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The truth is, Whitacre hates losing. He has always been primarily concerned with spurring the company to further growth, creating "scale and scope," as he likes to say, and generating market value. First, he bought Pacific Telesis and Ameritech in the late 1990s, and then AT&T Wireless last year (see BW Online, 8/31/05, "[So Long AT&T? Not So Fast](#)").

Now, with his acquisition of AT&T nearing approval -- it requires not only federal approval, which is expected any day now, but the sign-off from state regulators,

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expected in November -- Whitacre has created the largest communications company in the nation (see BW, 10/31/05, "[Storm Warnings for Kevin Martin](#)").

COMPETITIVE VERIFICATION. Such moves have prompted even his biggest rivals, including Verizon ([VZ](#)) and Comcast ([CMCSA](#)), to strike similar deals just to keep pace.

"It's kind of verification that maybe we're doing the right thing," Whitacre says of his competitors. Dapper in his coat and tie, and cheerful despite the swirl of market forces facing his company, the SBC CEO sat down with *BusinessWeek* Chicago Bureau Chief [Roger O. Crockett](#) in Chicago to talk about how his company stacks up against the competition. Edited excerpts of their conversation follow:

Given that we've entered a new era in telecom where the Internet rules, how would you describe your strategy now?

It's still about scale and scope. It's about owning the assets that connect customers. The assets that probably can't be duplicated except maybe by the cable companies. We have that, Verizon has that, BellSouth ([BLS](#)) has some of that. The cable companies have it. It's the numbers of customers you can get to. So it's scale and scope.

How much do you expect to compete against Verizon?

Well, a lot in wireless. They're going to have essentially the same capabilities that Cingular [SBC's wireless joint venture with BellSouth] has in a lot of locations. So I would think Verizon is going to be a big competitor. I think the cable companies will be the biggest competitor across the footprint.

In what other areas will you compete with Verizon?

In voice. We're clearly going to be fierce competitors in the big enterprise space. I suspect we'll compete in the small- and medium-business space, and for the consumer too.

For the consumer? How?

As Voice over IP gets bigger, they will have the capability to come into our so-called geographical footprint, and we'll have the same capability to go into theirs. I suspect over time there will be a lot of that.

Do you have a timeline for when that competition will heat up?

Over the next four or five years, I would think it will pick up a lot.

Some analysts believe that the new SBC won't be able to fully utilize AT&T to win business in the south as long as SBC is in its joint venture with BellSouth. Do you agree?

No. BellSouth and SBC have a fiduciary duty to make that business do as well as we can. In order for Cingular to do good, it's going to want to utilize everything that it can. One of the things it's going to utilize is this relationship with AT&T.

Won't BellSouth be concerned about losing some of its business customers to you, its wireless-venture partner, once your merger with AT&T is approved?

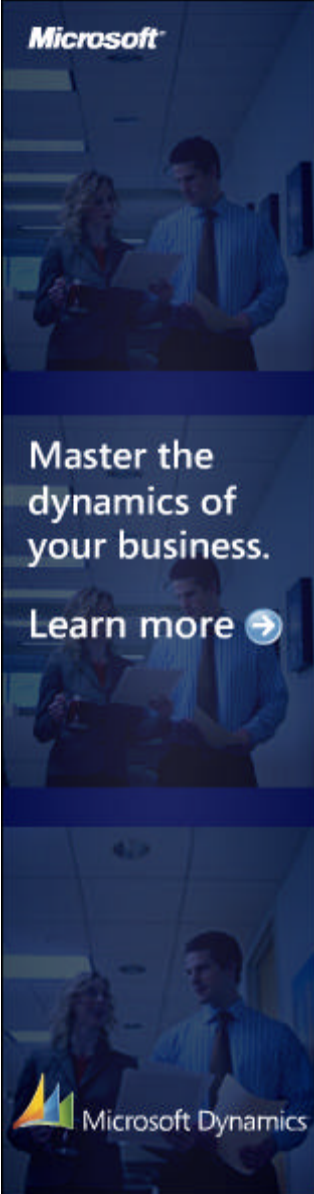
Well, they might be. BellSouth already competes against us in the enterprise space. And sure, we'll go and compete for some of their enterprise customers, and we'll sure use Cingular Wireless in doing it. But they can do the same thing. I just don't think it's the deal everybody is making it out to be.

Is it a possibility that SBC would acquire BellSouth?

It sure would be nice, but it doesn't have much chance of happening because of market power, size, etc. I think it would be real hard to do. I don't think the regulators would let that happen, in my judgment.

Have you made an overture?

I wouldn't say we haven't done that in the past, but I'm not going to do it now. I've certainly thought about it a few times, and I'm sure Bell South has thought about it



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too.

How concerned are you about Internet upstarts like Google ([GOOG](#)), MSN, Vonage, and others?

How do you think they're going to get to customers? Through a broadband pipe. Cable companies have them. We have them. Now what they would like to do is use my pipes free, but I ain't going to let them do that because we have spent this capital and we have to have a return on it. So there's going to have to be some mechanism for these people who use these pipes to pay for the portion they're using. Why should they be allowed to use my pipes?

The Internet can't be free in that sense, because we and the cable companies have made an investment and for a Google or Yahoo! ([YHOO](#)) or Vonage or anybody to expect to use these pipes [for] free is nuts!

What's your approach to regulation? Explain, for example, the difference between you and Verizon in how you are approaching regulatory approval for Telco TV [digital-TV service offered by telecoms].

The cable companies have an agreement with the cities: They pay a percentage of their revenue for a franchise right to broadcast TV. We have a franchise in every city we operate in based on providing telephone service.

Now, all of a sudden, without any additional payment, the cable companies are putting telephone communication down their pipes and we're putting TV signals. If you want us to get a franchise agreement for TV, then let's make the cable companies get a franchise for telephony.

If cable can put telephone down their existing franchise I should be able to put TV down my franchise. It's kind of a "what's fair is fair" deal. I think it's just common sense.

What if the regulators don't agree?

Then there won't be any competition -- there will be a cable-TV monopoly.

I know you're a competitive person. Who are your biggest competitors?

Our big competition in the future is with the cable companies. Verizon's going to be a player, and certainly I want to compete. And I want our shareowners to do better than anyone else.

How have you managed to turn losses into growth?

We've worked our asses off. We've bundled, we've got new products.

How do you feel the business is performing overall?

I'm not real pleased now. It's not a good industry for stock holders because of all the uncertainty. But we're growing revenues again.

Portions of our business are pretty strong. We're doing pretty good on the data side, on the Internet side, on the broadband-pipe side, on the wireless side. So I'm feeling better than I've felt in a long time.

Edited by Patricia O'Connell


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