



Unthinkable Mergers No Longer a Thing of the Past

By Timothy E. Young, Jr.

"A combination of AT&T and a 'Baby Bell' is unthinkable"

-Reed Hundt, FCC Chairman, June, 1997

The unthinkable has become reality, and in only eight short years after Hundt's statement. SBC, one of the many companies calved from the giant that was AT&T prior to deregulation, has begun to finalize plans to acquire Ma Bell. SBC is shelling out \$16 billion for the ailing leviathan, as well as absorbing AT&T's estimated \$6 billion in debt, for a total of a cool \$22 billion. The implications of this marriage for the telecommunications industry are many and varied, and some will be felt sooner than others. Overall, the merger many analysts characterize as risky may prove to be just that. In swallowing AT&T's assets, SBC also takes on the company's debts and somewhat bleak short-term sales outlook.

The SBC/AT&T merger will, like any consolidation, demand patience on the part of all involved, since it will be quite some time before the full effect of the acquisition can be known. One of the first effects will likely be a serious scaling back of jobs within the companies. Spokesmen for SBC and AT&T told USA Today that the new company plans to eliminate as many as 13,000 jobs over the next year. Companies that provide goods and services to SBC and AT&T are likely to experience slow-down as well. In the time it takes for the post-merger conglomerate to reassess its network and decide what changes to implement, companies with less resistance to market slumps may take grave losses. According to a Merrill Lynch report, companies like Avici, who has provided AT&T with a large number of IP routers in the past may not be able to weather the storm that will accompany consolidation, and the drop-off in business received from AT&T could seriously injure the firm. Furthermore, vendor companies supplying SBC/AT&T now have one less customer. This is, after all, the point of a merger. The companies involved want to spend less money, not more.

"Carriers don't consolidate so they can increase spending, but if they're integrating networks, it may accelerate the migration to an IP infrastructure," said Erik Suppinger, an analyst with Pacific Growth Equities, in an interview with C-Net News.com. This shift would create a demand for service and support on many levels; impacting the demand for OSS professionals may, indeed, increase.

Another concern among many, within the OSS industry and elsewhere, is the limiting of consumers' options that will accompany the merger. Anti-trust hard-liners are naturally wary of the combination, as are many who simply worry that an already shaky customer-service track record for both companies will only worsen as their list of competitors shortens. However, the companies offer, by way of a merger statement available on the SBC website, a list of their myriad competitors, including "IXCs, systems integrators, equipment vendors, VANs, other network providers, foreign carriers, CLECs, cable



operators, and other ILECs.” The obvious logic behind this reassurance is that a wide variety of telecom options will force SBC/AT&T to stay sharp or get left behind. It can be argued, however, that some of these very competitors may turn to consolidation as well in order to properly combat the SBC/AT&T behemoth.

Consider Verizon, relegated to second place with the SBC/AT&T merger, which has agreed to acquire MCI. Likewise, there is talk that BellSouth the, 3rd largest local phone company, may seek to diversify through acquisition as well, and has already teamed up with Dell and SBC to diversify its service portfolio. This domino effect will ultimately be as important in determining the future of telecommunications competition as the moves of any one company.

Some consumers, whether commercial or residential, see the concentration of telecom interests into a few sets of hands as a positive shift. It is a question of access. The idea is that the larger a company’s network, the better the service. In the case of SBC/AT&T, the new company hopes to turn two companies who fill separate market niches, with some overlap, into a single company that performs better on all fronts. SBC has had only intermittent success in the business market, although an extensive, if less-than-satisfied residential base. AT&T, having initially ignored the importance of IP in the late 1980s, made up for its short-sightedness by building a substantial IP foundation. SBC is correct in recognizing the value of such a network, and has chosen to ride the ‘whale’.

Likewise, AT&T saw its residential customers slip away, focused on business, and held on for a while longer until opting for the current merger. Now the two halves of the market are combining their assets and streamlining the overlap. From a market standpoint, it’s a wise decision. AT&T already offloaded its wireless network, which was purchased by Cingular, which is in turn owned by SBC and BellSouth (with SBC holding a 60% share), thereby eliminating one potential area of overlap before the merger was even publicly discussed.

Furthermore, the geographic implications of the merger are significant. SBC, based in Texas, derives most of its business from its home state, the Midwest, and California. Whereas, AT&T has a global fiber-optic network in place and name recognition that spans the globe. SBC, the wealthy wallflower, has scored a dance with the belle of the ball who lives beyond her means. The union is natural. The merger will allow for eventual expansion of all segments of the company, if only to a greater extent than either company was managing on its own.

If all goes according to plan, the future of the combined company looks rosy. However, the long-term benefits must be weighed against the short-term setbacks. SBC must take great care not to test the patience of customers, to honor all outstanding AT&T contracts, to avoid excessive job cut PR problems layoffs entail, and to generally walk on eggshells until all aspects of the business are up to potential speed. After all, if they are being



completely forthright about the numerous and readily available alternatives for telecom services, consumers have no incentive to stay with a sub-par provider.

Ultimately, there is only so much dust that customers will pardon, no matter how grand the final result portends to be. However, regardless of the end result, the deal is an indicator of how much things have changed since Reed Hundt made his misbegotten prophesy, and surely a sign of things to come in the future of telecommunications.