

The Trick is Better Execution

An Interview with William M. Daley, President,
SBC Communications Inc., San Antonio, Texas

EDITORS' NOTE *Despite several years of unprecedented activity, the telecom industry still has "one leg planted in the old world, with a heavily regulated service and product, and one leg in the new world of high technology," SBC President William Daley reflects, noting: "That's a difficult gap to straddle for an extended period." Nevertheless, the sector "has been straddling it for a rather long time" now, he points out, leading major players to rethink their structures and strategies so "the industry won't snap." For SBC, "the trick is better execution," Daley asserts, so now the company runs "as a lean, sleek operation."*

A former Clinton-administration secretary of commerce, Daley served as chairman of former vice president Al Gore's presidential campaign. Prior to his involvement in U.S. government, Daley was vice chairman of Evercore Capital Partners L.P.; a partner at the law firm of Mayer, Brown & Platt; president and chief operating officer of Amalgamated Bank of Chicago; and a lawyer at the firm of Daley and George. The recipient of an LL.B. from John Marshall Law School and a B.A. from Loyola University, Daley serves on the boards of Merck & Company, the John F. Kennedy Center for the Performing Arts, The Joffrey Ballet of Chicago, and the Committee on U.S.-China Foreign Relations.

COMPANY BRIEF *San Antonio, Texas-based SBC Communications Inc. is one of the world's leading diversified telecommunications companies and the number-two local-telephone and cellular provider in the United States, with nearly 60 million access lines and 22 million wireless subscribers across the country. Under the Cingular Wireless (in partnership with BellSouth) and SBC brands, it offers a wide range of products and services, including local and long-distance telephone service, wireless communications, paging, Internet access, and messaging; telecom equipment; and directory advertising and publishing. SBC's international portfolio includes managed investments in similar products and services in 27*

countries across North America, Europe, the Middle East, and Africa. Traded as SBC on the New York Stock Exchange, the parent corporation reported earnings before accounting changes and extraordinary items of \$7.5 billion in 2002, from revenues of \$43.1 billion.

How optimistic are you about SBC's growth, given the current economy?

The state of the general economy is the number-one issue that affects our ability to grow rapidly, and it's anyone's guess when the downward trend will turn around. We're cautious – not yet cautiously optimistic, but no longer pessimistic – about the economy, and we see some real opportunities for growth. We're the largest DSL provider in the United States, with more than 2.5 million subscribers, and that business has grown substantially over the last months. We're providing long-distance service in California, and our customers are responding enthusiastically. We've achieved 13 percent penetration in about three and a half months. We've also grown in the Southwest, where we have had approval to provide long distance for a couple of years now.

How do you differentiate your services and products from those of your competitors?

One differentiator is our reputation. We've served people through good times and bad, and we'll be there if, God forbid, a tragedy occurs. We also differentiate through our customer service. The high level of service we offer starts with our service reps' treatment of customers over the phone, and extends to the way our technicians treat our customers on site. Also, our pricing and marketing is aggressive. Older companies have not been as innovative with their pricing as SBC has. In fact, I think most people today would say that SBC has become the most aggressive of the large regional Bell companies in pricing. Further, we're using massive advertising to go after the lucrative long-distance market in California, where we have a lot of room for growth. Obviously, we have the capacity to grow a great deal there, because we weren't in that market before this year.

Are you satisfied with SBC's current level of brand awareness in the marketplace?

We're satisfied that brand awareness for SBC is growing. Last fall, we made the decision to bring the Southwestern Bell, Pacific Bell, Ameritech, and Southern New England brands under the SBC umbrella brand. Overall, our brand awareness is about 85 percent. So we're pleased with it, but it's a constant effort.

Where will SBC expand next?

We have investments in countries outside the United States, and, as we have received approval to offer more long-distance service, we are expanding our footprint in the United States too, outside the 13 states in which we currently have a market presence. By the end of this year, we should have approval to provide long-distance service throughout our entire Midwest region, which will give us an opportunity to follow some of our large enterprise customers outside our current network and around the country. That's something we've focused on aggressively. Further, through our 60 percent ownership of Cingular, we have a national footprint in the wireless field.

Is it difficult to balance superior service with reasonable prices?

Great customer service is our heritage. It sets us apart from the competition. And we've been able to improve service while lowering prices, in part because we've eliminated costs. In fact, we've been very aggressive in cutting costs, and have cut about \$600 million within the company in the last year. The trick is better execution – we've been able to manage our costs, and now run as a lean, sleek operation. We will continue to manage our costs through good execution, and, unfortunately, through some tough staffing decisions. But we've brought the prices down, and we continue to be aggressive.

Technology must play a critical role in SBC's operations.

Technology is changing the way we do business internally, and it's changing the nature of the communications business. Obviously, we're using certain technology to increase productivity and better manage our business and our costs, but

technology is changing the way people communicate as well. Not so long ago, kids would talk to their friends on the telephone at night; now they IM [Instant Messenger] each other. Businesspeople would leave a meeting and go to a pay phone to call the office; now they use their cell phone or their BlackBerry. So technology continues to make a big difference. For instance, Internet voice communications presents an area of tremendous potential growth for us, but what the future holds for that sort of network is anybody's guess.

Will SBC's future growth come predominantly from mergers and acquisitions, or will it be more organic?

At the moment, SBC's growth is more organic. However, the industry is moving toward additional consolidation, as it ought to be. So we ask ourselves, "How will policy makers respond to that?" As this industry moves forward, one of the large difficulties we face is that people view us as having one leg planted in the old world, with a heavily regulated service and product, and one leg in the new world of high technology. That's a difficult gap to straddle for an extended period, and as of now, the industry has been straddling it for rather a long time. Hopefully, the industry won't snap.

Does Wall Street fully understand SBC's vision?

The financial community has always had a fair understanding of the company. However, the major players in the telecom industry often get lumped together by Wall Street, which is unfortunate since certain companies in our sector did things the rest of us didn't. Nevertheless, I do think Wall Street appreciates our current ability to compete more aggressively than we ever have before, even though analysts are still rather negative about the industry as a whole.

In light of the recent spate of corporate-governance scandals, do you think the corporate sector will be able to renew the average investor's confidence in its integrity?

If it doesn't, we're in for a very difficult period. I don't think there's any question that this pendulum swung too far one way, and now it has swung too far back. It's up to corporate leaders and government officials to help it stabilize in the middle ground. Every leader of a major, midsize, or small company has an obligation to live up to certain standards. Obviously, we all have to comply with Sarbanes-Oxley. But forget what's required of leaders by the law; it's vital that the corporate leadership of the United States lives up to those standards anyway.

Under Ed Whitacre's leadership, good corporate governance has always been part of SBC, and he's put together a very diverse board of directors. In fact, he's the only inside member of the board. So we don't face the sort of challenges that other companies do in implementing corporate-governance practices. However, the public will have its suspicions about corporate America

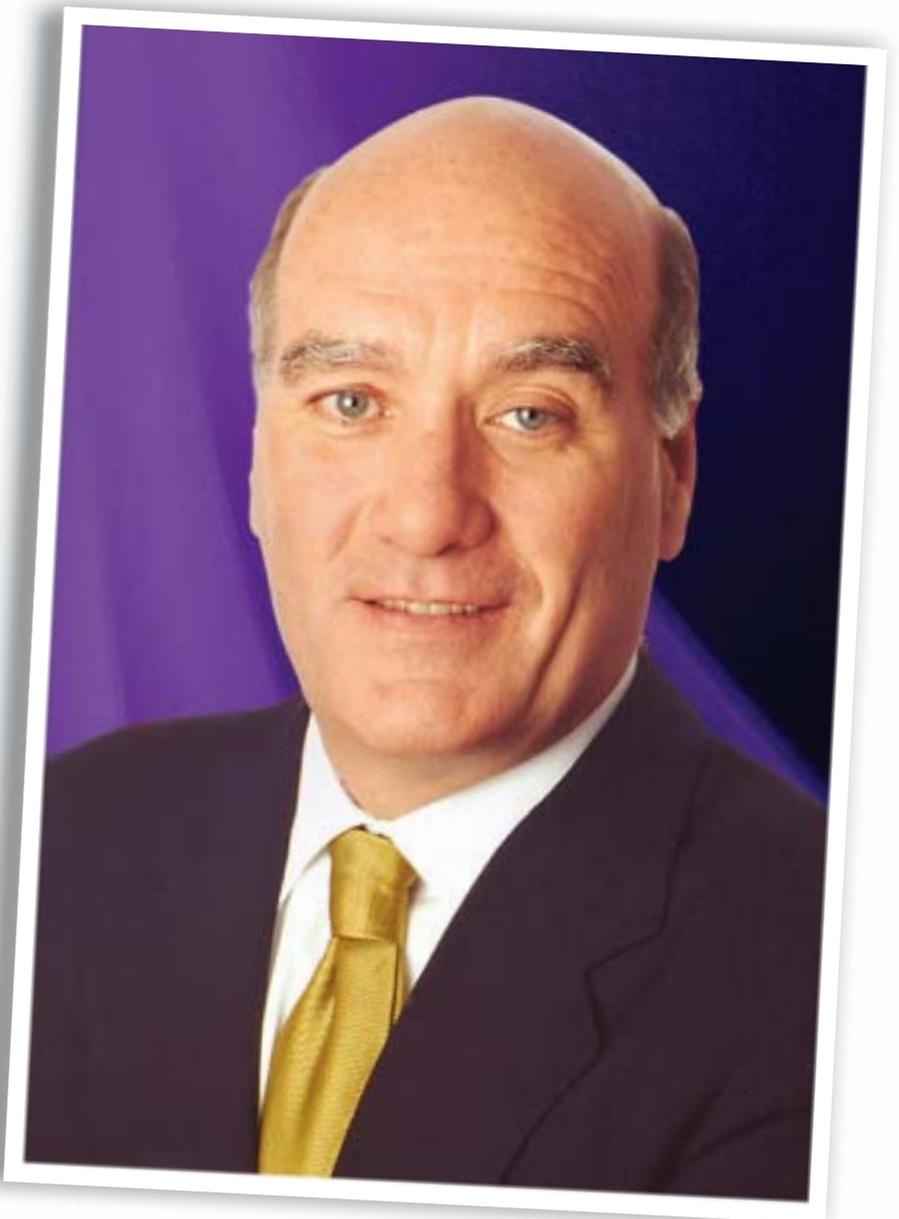
for a while, and we will all have to address that on a continuing basis going forward.

Over the last decade or so, the media has built cults around certain CEOs. In general, do you think there is too much emphasis placed on the CEO as an individual, and not enough placed on the company?

There are periods when the focus is not on the company, but on the individual. For example, in the 1990s, I think there was too much emphasis on the hero

What are your areas of leadership within SBC?

I spend the vast majority of my time on regulatory public-policy issues, because they so heavily impact our business. So I've applied my experience in government and the political realm, and I've also tried to better understand this business and the technology that goes along with it. When I was secretary of commerce, I had the pleasure of being involved in a bunch of technology issues, and it's fascinating that the



CEO – someone who could come in and save a company.

SBC is a company that has a very strong chairman and CEO, but he makes it very clear that the company was around long before he was, and will be around long after he has gone. SBC has 175,000 employees, and each one of them works as hard as the next, and expects as much from others as he gives himself. In short, we all give as much as we expect to get from others, and that makes for good leadership.

new technologies I worked with then will make SBC a different company.

Is it ever possible for you to turn off the job completely?

If I said yes, that would be like saying I can get away from my life. That's not to say it's all consuming and that it drives everything I do all the time. The fact of the matter is, as an executive at my level, I've got to be worried about everything. I can't just go to the beach and forget about it all, nor do I think I should. ●