The AT&T Network

**An Interview with Randall L. Stephenson,
Chairman and Chief Executive Officer, AT&T Inc.**

Randall L. Stephenson

EDITOR'S NOTE *Randall Stephenson assumed his current post in 2007. He began his career with Southwestern Bell Telephone in 1982. From 2001 to 2004, he was the company's Chief Financial Officer, and from 2004 to 2007, he served as the company's Chief Operating Officer. He was appointed to AT&T's board of directors in 2005. Stephenson is a member of the board of directors of Emerson Electric Co., a member of the PGA TOUR Policy Board, and a National Executive Board member of the Boy Scouts of America. Stephenson received his B.S. in accounting from the University of Central Oklahoma and his Master of Accountancy from the University of Oklahoma.*

COMPANY BRIEF *AT&T (www.att.com) is one of the world's largest telecom companies with $127 billion in 2012 revenues. It continues to spearhead the mobile Internet revolution, driving innovation and investing more capital into the U.S. economy over the past several years than any other public company. AT&T customers enjoy the nation's fastest and most reliable 4G LTE network. By bringing together fast mobile networks and cloud-based services, AT&T is helping customers mobilize everything from business solutions to cars to education. In addition to providing sophisticated communications services for businesses of every size, AT&T offers high-speed broadband connectivity and advanced TV services to millions of consumers and businesses across the United States.*

What factors have contributed to the enduring success of AT&T?

You must have the right leadership talent at the top that is committed to constant innovation, constant reinvigoration of the business, and constant and persistent investment through good and bad times. In fact, the investments we've made through the down cycles have always been when we have taken competitive leaps forward.

Is it more challenging to maintain a culture of innovation as you get to a certain size and scale?

Size is a detractor from innovation, but so is the nature of our revenues. We're a service company and we tend to have large recurring revenue streams. So, in our industry, innovation oftentimes means replacement and substitution of existing revenue streams.

If you don't have a culture that drives relentlessly on innovation, here's what happens: You hold onto embedded recurring revenue streams and legacy products and never move to the next place. Then someone else will come and take the market from you.

These are the inherent gravitational pulls away from innovation. You need a mindset that says we will innovate and not be afraid of cannibalizing our own revenue streams in order to bring customers the latest technology. It can be painful in the short run, but it's critical to do.

The classic example is wireless. The more you invest in wireless voice and data quality, the more you put at risk your fixed-line voice and data revenue streams. But you need to recognize where the market is going, commit to it, and make the necessary investments – and then deal with the cannibalization, because that is what your customers want.

Do today's job candidates understand how AT&T has evolved and the type of career this organization can offer?

We've done well in attracting good, high quality technical talent over the years. A lot of this talent has come through acquisitions, but we've also done a good job bringing in talent at the grassroots level and growing it.

We have also been very aggressive and successful at bringing in talent at a senior level. Convincing people of the dynamism, excitement, and innovation in this industry is not difficult.

How critical is it that your workforce mirrors the diversity of your clientele?

A lot of people call diversity a sustainability effort and something we have to do. I maintain that if you don't commit to diversity, you cannot succeed.

So we are disciplined and focused to ensure that our leadership team reflects our markets. If you don't grow up and live and breathe in different cultures, it's much more difficult to know how to serve them in the marketplace.

Will future growth be throughout the organization or driven by specific parts of your operations?

It's across our business. In our industry, it seems that every time somebody predicts the death of a particular set of services, that area reinvigorates itself. For instance, consumer home solutions is a fixed-line business for us that hadn't seen growth in four or five years. But in just a few years' time, we have built AT&T U-verse TV and high-speed Internet into a business with nearly $11 billion in annualized revenues.

Now we're making further investments through an initiative we call Project VIP, which will provide significant bandwidth to millions of homes. Bandwidth to the home is going to be a major driver in this industry for a long time.

The other area that will drive all parts of the market over the next five or six years is the convergence of high-speed mobile networks – think 4G LTE – with cloud technology. In fact, this convergence is playing out right now.

As we begin to combine these technologies, new services and opportunities are appearing all over the place. The connected car can only become a reality when you combine fourth-generation high-speed mobile networks and the cloud. We're changing the home-security monitoring industry – which hasn't changed in 20 or 30 years – by virtue of this same dynamic. Businesses and industries across the board over the next five years are going to be reinvented.

One of the most exciting places you will see this is in education, which includes our recent announcement involving Georgia Tech, AT&T, and Udacity.

Education is an industry that has largely escaped the productivity revolution over the past 20 years; costs have gone up and quality has gone sideways.

Next year, together with Georgia Tech and Udacity, we are introducing a fully accredited online Master of Science degree in Computer Science at a fraction of the cost of a traditional on-campus program. This is radical. Only the technological innovation of high-speed connectivity and the cloud can make this happen.

How tough is it to get the message across about what makes a company unique in this space?

You have to invest in branding your capabilities and your business. Branding is critical. In fact, we spend more on advertising and brand positioning than maybe any other industry.

It starts, though, with having a differentiated experience. We believe – and time has

proven this – that a high-quality network experience will always be a differentiator in this industry. It sounds easy, but it's not.

So we have invested aggressively in wireless spectrum, which is the critical resource in our business. You cannot have a quality experience that is differentiated without the spectrum and technological innovation that rides on top of it – this is how you get to the future first.

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Once you achieve that, positioning yourself in the marketplace – through aggressive branding – does produce significant returns. In the U.S., we have differentiated ourselves in virtually every segment of the market – consumer as well as high-end business and small business.

AT&T is associated with the phrase, "Rethink Possible." What does this messaging convey?

You have to ask: What is your enduring proposition? What do you do that goes beyond making a buck?

We believe that what we're about is human progress. To the extent that we invest and bring new capabilities to market, it results in human progress. At its most core level, it's about increasing productivity and broadly improving prosperity through fixed and mobile broadband. The way we facilitate innovation and productivity is by opening up our capabilities to innovators and challenging them to rethink how we change customers' lives.

A lot of people were apprehensive about our doing a deal with Apple for the iPhone. It looked like a wonderful opportunity to us – it caused us to rethink our business model and allowed us to rethink possible. It also allowed Apple to do the same, so they opened their platform to application developers.

To the extent that you invest and open your capabilities, you have created a new opportunity for layered innovation.

What is the value of corporate responsibility for AT&T? Is it important that the areas you support align with the business?

I have always believed that when we reach out to our communities, we need to do it in places that make sense not just for the communities but for the business.

This is why we have made education a huge focus with our philanthropic dollars as well as why we ask our people to volunteer their time – particularly focusing on the high school drop-out epidemic. It's important to us because we hired 26,000 people last year alone, and the type of people we hire need to have technical skills. We don't necessarily need a lot of Ph.D.s in engineering, but we do need people who can do technical support work for customers, including installation of technical services for large-scale businesses.

So when we have high drop-out rates, it's not only detrimental to society, it also impacts our business. We obviously need a good, well-educated workforce, so we made this commitment. You don't have to sell a lot of people on investing in education when it serves the needs of the business as well as the community.

How tough is it to keep up with the advances in technology and how far out do you need to be looking?

We are making network design decisions today in light of a world that we believe will be very different five years from now.

Five years out, we believe the lion's share of the traffic on our network will be driven by video. Specific services that will drive video consumption will include some that we bring to market, but the lion's share will come from letting innovators create on top of our network infrastructure. We believe the best way to participate in innovation cycles is to open up our networks and turn the innovators loose, although we have an industry that has traditionally been averse to that.

AT&T used to sell the telephone that was hardwired into the wall and that was the service you got. Then we opened up these networks and began to see innovation evolve and develop.

We are strong believers in this model – you build aggressively and invest aggressively in core capabilities and let the innovators create on top of it.

Has there been an understanding from your people of the need to continually evolve? How important is it to reinforce the need for change when you have a company with such a successful history?

When I assumed this role, Ed Whitacre (former Chairman and CEO) had already assembled some great assets – in business services and wireless, plus the traditional local exchange businesses.

Six years ago, when he handed me this business, we determined that we had to become a wireless company. We weren't that at the time, though we had wireless assets.

Most of the people in our company had grown up in the fixed-line or wireline side of the business. But we realized that we were going to have to make a hard pivot.

To accomplish this, we said there would have to be cultural change and that would require resetting the mindset of everyone in this business.

One of the first things I did was go to my HR guy and say, we're going to create AT&T University, a place where we'll bring the leadership of this company in and make them invest considerable time in where we want to go as a company – where the industry is headed and what our role will be in it – all building from this idea of being wireless driven. At that time, we were launching an iPhone and it helped drive this concept home.

Within a short period of time, we got our employee team fully in sync. We also had to get our owners aligned because they weren't completely sold at first.

Mobility soon became the focus of the business. Capital allocation, our approach to the marketplace, and how we branded the company – everything was wireless driven. Today, we are regarded largely as a mobility company. It wasn't easy, and it required a lot of painstaking diligence, and investing in culture, but the payoff has been worth it.

Are you concerned about the competitiveness of U.S. companies globally, and are we still an innovation leader?

When you consider the key global drivers over the past six years, I would say there have been two great innovations that have changed the complexion of business and economies around the world: energy and the mobile Internet. Look at what has happened with hydraulic fracturing and horizontal drilling; it's driving a revolution around the globe in terms of energy extraction and availability, and even bringing the United States closer to energy independence.

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The other place that has been just as revolutionary is the mobile Internet, and all of the ecosystems surrounding it and what that's doing to productivity in every area, from health care to retail. There is not an industry that hasn't already been affected or that will not be even more radically affected over the next five years, by virtue of the mobile Internet.

The mobile Internet and the total ecosystem surrounding it – including the applications community and the new services community in Silicon Valley – have come into existence over just the past five or six years and they've all largely been driven by the United States. So, yes, we are doing a terrific job in this area. ●