

AT&T Chief Presses to Keep iPhone, Deepen Wireless Push

by Amol Sharma



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When Randall Stephenson became AT&T Inc.'s chief executive, the company had just started offering the iPhone. The blockbuster device has since reeled in millions of new customers and helped revitalize the telecom giant's brand.

But AT&T's exclusive deal to carry the iPhone in the U.S. expires next year, according

to people familiar with the matter, and Mr. Stephenson is now in discussions with Apple Inc. to get an extension until 2011.

An Apple spokeswoman declined to comment, saying only, "We have a great relationship with AT&T."

Keeping the iPhone away from rivals and finding the next hit devices, such as smart phones and multimedia handheld tablets, are among the challenges the 48-year-old CEO faces as he shifts AT&T's energy away from the crumbling U.S. landline phone business and into the wireless market, where technologies evolve quickly and hit products don't last long.

Mr. Stephenson also is seeking to overhaul AT&T's marketing to make wireless the priority. The next step, he said, is to do away with a requirement that customers have AT&T's home-phone service to qualify for discounts on TV or broadband Internet services. Being a wireless customer should be enough, he said.

"We have 77 million wireless customers and 30 million consumer phone lines," Mr. Stephenson said in a recent interview at AT&T's headquarters in Dallas, where he moved the company last summer. "Which customer base would you rather work from? We tend to come at this backwards."

Mr. Stephenson is trying to remake AT&T amid a recession that has accelerated the decline of the home-phone business, intensified pricing pressures on wireless services and forced carriers to pull back on investments. AT&T is cutting 12,000 jobs and reducing capital spending by 15% this year.

The big push into wireless has been costly. Since Mr. Stephenson took over two years ago, AT&T has made \$18.8 billion in acquisitions of radio spectrum and smaller cellphone companies, and it has spent upwards of \$1.3 billion to discount the iPhone.

Scaling back the landline business, meanwhile, has been painful, with that unit expected to take the brunt of the layoffs this year. The company is now locked in tense union negotiations as it tries to pare the health benefits of 90,000 landline workers.

AT&T rival Verizon Communications Inc. is facing the same pressures. Along with wireless services, Verizon also is betting on television through a \$23 billion network that strings high-capacity fiber-optic cable to homes, a wager that has been paying off lately with strong demand for the service. AT&T has made a more modest video investment that still uses copper lines.

Mr. Stephenson symbolizes generational and technological change in the telecom industry. The wiry, six-foot-four executive, the son of a cattle feed businessman from Moore, Okla., started out in 1982 in the technology department of Southwestern Bell, the predecessor of modern-day AT&T.

He rose quickly through the ranks as a financial whiz, eventually becoming AT&T's finance chief and chief operating officer.

Mr. Stephenson's predecessor, Ed Whitacre, a tough, quail-hunting Texan known to some employees simply as "The Chairman," didn't keep a computer on his desk. Mr.

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Stephenson, who generally goes by "Randall," has a 32-inch flat-screen monitor on his desk.

He holds staff meetings through a newfangled Cisco teleconferencing system. And he had his technology staff create a custom iPhone application so he can read his internal AT&T financial reports.

Umesh Ramakrishnan, a technology and telecom specialist at executive search firm CTPartners, credits Mr. Stephenson with "pushing AT&T more into mobility than ever before."

Still, he said, the U.S. market is saturating and the company needs to look abroad for growth. "They haven't been as aggressive as they could be in this downturn looking at the overseas market," he said. "It's an issue that could come back and bite them later."

Mr. Stephenson did spend several months last year evaluating potential acquisitions in India. And at one point he discussed a deal with Indian cellphone giant Reliance Communications Ltd.

But Mr. Stephenson balked at the price, which could have been as high as \$30 billion at the time, people familiar with the discussions said.

Mr. Stephenson declined to discuss the terms of AT&T's agreement with Apple -- only saying it is a multi-year deal. The company has said it added 4.3 million iPhone subscribers in the second half of 2008 -- about 40% of whom were new to AT&T.

With or without the iPhone, Mr. Stephenson said AT&T plans to invest heavily in wireless to "future proof" the business as new bandwidth-hogging devices come online. Mr. Stephenson said two-thirds of the company's capital outlays in the next five years will go to wireless-network investments and acquisitions.

"This business cycle is going to cycle," Mr. Stephenson said. "You got to make sure that you're positioned when it cycles back out to be the leader in the industry, and to do that you have to be the leader in mobility, first and foremost."