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AT&T CEO Randall Stephenson Offers His Take On The Company And Its Future

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In the three and a half years since becoming chief executive at AT&T Inc., Randall Stephenson has positioned the Dallas-based telecom giant right where he wants it.


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DAVID WOO/DMN
AT&T CEO Randall Stephenson didn't reveal when AT&T's exclusive U.S. rights to the iPhone will finally expire - but he did say that he's happy with the company's move to Dallas.

Now he's concerned that federal regulators considering tighter regulations on broadband Internet providers will make it impossible to hold that hard-won ground.

The rules that could be used to oversee broadband were "written in 1932 for the rotary dial telephone," Stephenson said. "So we're going to regulate [smart phones], the networks for the iPad, by regulations written in 1932. If you impose that kind of regulatory environment on this industry that is at full capacity for investment, do you think investment goes up or do you think it goes down?

"History will tell you it goes down. You don't have to speculate; you don't have to wager."

AT&T plans to invest as much as $19 billion nationally in its wireless and wireline networks this year – 10 percent more than last year.

Stephenson touched on regulatory concerns, AT&T's transformation into a wireless company, the explosion in mobile broadband usage and the future of land lines during an interview in his office last week on the 37th floor of Whitacre Tower in Dallas. And, no, he didn't reveal when AT&T's exclusive U.S. rights to the iPhone will finally expire.

Here are edited interview excerpts:

Do you think of AT&T as a wireless company now?

When I took this job, one of the first things I told Larry [Solomon, senior vice president of corporate communications] and his boss is that when people say AT&T, they've got to think of a wireless company. At the time, I remember people saying, 'Are you sure you want to do this?' I felt absolutely that was the right thing to do because that's where the business is going. That is the future of our business.

AT&T likes to point out that mobile data usage on its wireless network grew 5,000 percent from 2007 to 2009. Was that faster than you expected or wanted?

I don't think we could have anticipated the pace that the volumes took off. We all had these expectations in terms of where the volumes would ultimately get. If you go back two years, we spent $9 billion on spectrum that we have not yet deployed. But that spectrum was bought in anticipation of this. The pace at which we went there – literally 5,000 percent in three years – surprised us. But the absolute level has gotten where we expected it to be, just a couple years faster.

Was the iPhone the main driver of that growth?

The iPhone made what's possible with mobile broadband networks a reality very quickly. I think you have to give the iPhone a lot of the credit for accelerating the deployment of these devices. This device here [Stephenson lifts the Google Android-powered Samsung Captivate smart phone he currently uses], do you think Samsung would have a device that looks like this today if the iPhone were not out three years ago? Probably not. Would they have ultimately gotten there? I believe so.

Is smart phone sales growth starting to taper off?

It's hard to think of this as nascent, but I think we're in the nascent stages of it. What's driven it so far? Fifty percent of our post-paid customers have an Internet-accessible, keyboard-type device. And if you look at our monthly sales, month in and month out, well over 70 percent are buying them. That tells you you're at least going to get at 70 percent just with these. Now we haven't even got to what's the new wave, the tablets. I don't think in a couple of years there will be many things you will see in a Best Buy that are not wirelessly connected in some fashion.

AT&T's wireline business seems to be steadily trending down as more consumers cut the cord and go wireless. Does the wireline segment have a future at AT&T?

The number of voice telephone subscriptions over a fixed-line environment will probably go down till the day I retire. I fully expect that. But what are we selling over that fixed-line infrastructure? We're growing broadband every month. We're growing video every month. All we've done is digitize the capabilities going over these cables.

Within a couple of years, your expectation will be whatever content is important to you, whether it be video or broadband content, you're going to expect it to be available to you. Whether it be here [lifts phone], whether it be your tablet, whether it be your PC or whether it be your TV, it will be your full expectation. You may even expect to have it in your car. What do you need to make that reality? You need spectrum, wireless capabilities, but you cannot deliver that without fixed-line infrastructure as well. A lot of the experiences that you require, a high-def picture on your large-screen TV, cannot be done wirelessly. So fixed-line infrastructure is critical.

Speaking of infrastructure, AT&T has taken a lot of criticism for the reach and reliability of its wireless network. AT&T has acknowledged that its network in some cities, particularly New York and San Francisco, was not up to snuff but has been improving. Why has it been so hard to get that right?

Not all cities are created equal. In Dallas, we're able to get infrastructure put in place quickly and deployed. A city like San Francisco, it's painfully slow to get the permitting you need to put up cell sites. Even just to modify existing cell sites. But we're getting there. And New York's very good. I spend a lot of time in New York, and in New York City, the service quality is getting very, very good.

Our biggest issue is not permitting and cell sites, it's supply and the supply chain. This is a global issue. Manufacturers of a lot of this equipment, whether it be Nokia Siemens or Ericsson or Alcatel-Lucent, are having trouble keeping up with demand.

In 2008, the financial panic caused a lot of people to really pull back manufacturing capacity. Our industry was no exception. Even through the financial crises, demand accelerated. We invested through the crisis. But the supply community – and it's not just the guys making chips, it's the guys making electrical power cords within a cell site, it's every little piece of the supply chain – experienced a lot of pressure from shutting down manufacturing capacity. But you're seeing that capacity slowly come back online.

When AT&T issued its investment plan for 2010, it said the $18 billion to $19 billion estimate hinged on an assumption that "the regulatory environment remains favorable." It seems AT&T and the wireless industry have had a somewhat combative relationship with the Federal Communications Commission since President Barack Obama took office over issues such as early termination fees for cellphone contracts to net neutrality (the concept of whether broadband providers should be allowed to restrict or prioritize certain types of data traffic on their networks) to the proposed broadband reclassification that would give the FCC more authority to regulate Internet providers. What are your thoughts on these relationships?

I don't think it's combative. But I do think this is a high-stakes issue. I would tell you that the industry is almost at full capacity for its ability to invest. I'm not sure it could invest much more right now.

Now, enter the potential for a regulator to come in and impose a regulatory regime that would influence how you price your services, how you deliver your services, how you provision your services. That's what we're talking about here. If you impose that kind of regulatory environment on this industry, do you think investment goes up or do you think it goes down?

History will tell you it goes down. [In] 2000, we were investing at what was full capacity at that point in time – $12 billion a year. I was CFO in 2001, and the government came in and imposed some regulations on our industry. Within months, our $12 billion went to $5 billion a year. This industry went through chaos and turmoil for about three years. [In] 2004, the courts threw those rules out, and here we are again, investing at full capacity. The industry lost 500,000 jobs during that downturn.

If the proposed rules go through, can you say how much AT&T's network investments would drop?

There's no way of doing that because I don't know what the rulemaking would look like. What I do know is [it] would involve much heavier regulation of this industry, which heretofore has been unregulated. I can't tell you, if they do that, investment does this. I can tell you, unequivocally, as an industry, it will go down.

AT&T's total revenue has been holding steady over the last several quarters as growth in wireless is offset by declines in wireline. How do you get total revenue growing again?

The piece that's causing the biggest drag is the enterprise business space. It shrunk 4.5 percent last quarter. It was shrinking 7 to 8 percent two or three quarters before that. That is the one place where the economic crisis hit our industry hard. We call that a butts-in-seats business. Companies buy our products and services as they hire people. So until you start to see hiring come back in corporate America, it's going to be hard to see that line getting back to positive growth.

Before Cowboys Stadium opened, AT&T was widely expected to purchase naming rights to the building. So far, that hasn't happened. What are your criteria for buying naming rights?

From my chair, it's all about ROI [return on investment]. Is that the highest, best use of capital for our company? You can see some areas where that does make sense. So we put some capital behind putting our name on the biggest scoreboard in the world. Every time that scoreboard is on TV, you see the AT&T globe. There are few places, few people, few brands that I think highly enough of that I'll attach my brand to it because we happen to think very highly of our own brand. That stadium, Jerry Jones, the Cowboys are one of those brands that I was willing to attach my brand to, out there on that big screen.

Apple is a brand that you look at hard and say, 'I'm willing to attach my brand to that.' The Performing Arts Center. That's a classic. If you'd asked me before we moved to Dallas the odds that I would be willing to put capital behind our brand being attached to a Dallas arts community, I would have said fat chance. But I met with the people that were behind the Performing Arts Center and I looked at the vision and I visited with the mayor, and I said, this is special.

Cathy Coughlin, who is my global marketing officer, the analogy I give her is, "That brand is my 13-year-old daughter, and I'm giving you responsibility for protecting her. Do not attach that brand to anything that we do not have the highest confidence in."

Note: AT&T discontinued its sponsorship of Tiger Woods in January after widespread reports of the golfer's marital infidelity.

It's been a bit over two years now since AT&T relocated its corporate headquarters from San Antonio to Dallas. Any second thoughts?

When we made this move, we cast the net wide and far. I told Jim Callaway, who ran the process for me, that I'm open to anywhere in the United States as long as it's in Texas [laughs]. The environment for doing business in Dallas is really, really strong. What I like about it is this is a community that not only is it not resentful of business, it likes business. People recognize that profitable companies are companies that hire and help cities grow. And that's not the case around the country."

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