

AT&T bows out: When less is more in telco business

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What does AT&T's decision to pull back from the traditional local consumer voice telephone business mean for the future of telecommunications competition?

Some believe it heralds a future with fewer consumer choices for telecommunications services. That is not a totally crazy view. But it is entirely wrong, because it misses what's really going on in the marketplace.

Well-intentioned government regulations, in effect for the last few years, were designed to provide consumers with competitive choices to Baby Bell local voice service. The regulations mandated that local telephone monopolies, like SBC, permit AT&T and other competitors to piggyback their services over SBC's copper-wire-based network at deeply discounted -- some would say below cost -- wholesale rates. Consumers got the same voice service they always had, but paid someone other than SBC for it.

Consumers of the government-mandated service got cheaper dial tone, but the new regulations pleased few of the competitors.

In March, a federal court overturned the rules, and the regulators have announced that they will largely junk the old framework.

It's against this background that AT&T said it will no longer actively seek new residential phone customers, suggesting that it's because the regulators are abandoning their support for a competitive dial tone market.

Now it's natural to think the departure of the second largest competitor from a marketplace means there will be less competition for that particular service. No doubt when the second largest buggy-whip manufacturer closed its doors in the early 1900s, buggy-whip competition lessened as a consequence. But that sure didn't translate into fewer transportation options for the traveling consumer.

The death of the buggy-whip business was a harbinger of the revolution in mass transportation driven by Henry Ford's assembly line. Buggy whips disappeared because people traded in Bessie for a Model T, and began traveling more, farther and less expensively than ever before. A similar shift in the telecommunications industry is going on today. Digital, optical and Internet-based technologies are fundamentally transforming the very ways in which we tele-communicate, just as the internal combustion engine transformed the ways our great-grandparents traveled. The people running AT&T are not dumb; they know that the traditional dial tone business is going the way of Bessie and the buggy whip. That is why they're getting out of it.

The people at AT&T, MCI, SBC and all the other telecommunications companies know a technological floodgate is opening up, which will soon swamp consumers with choices in the ways they communicate. And the outpouring is carrying an armada of new competitive service suppliers.

It's already become conventional wisdom to say that cellular phone service is making its way as the primary phone service for millions of people. And it's not just a substitute for the old wireline service. In Chicago today, I can choose from at least five carriers that will allow me to call home from Dominick's and send a picture to make sure I'll be bringing home the right detergent. Cable companies, like Comcast in Chicago, with broadband connections passing nearly 90 percent of American homes, are rolling out voice over the Internet services that will totally displace the need for SBC's service. And it's not just a dial tone substitute. In remaking voice service just another computer application, customers will be able to have picture phone conversations as easily as they have blind voice conversations today.

Companies with names like Vonage, IPVoice and redgap are rolling out voice over the Internet services in Chicago, competing with, yet entirely bypassing, SBC's network.

Newly emerging wireless broadband services, known as Wi-Fi, today permit me to carry on a conversation with Auntie Em over my portable computer while shopping the Internet and sipping a Venti Latte at Starbucks all at the same time.

Power companies have figured out how to use the power line into the home to send broadband signals. Soon I might be able to call mom, and get my reruns of "Seinfeld" from ComEd.

The fact is, that brand new competitors, employing technological innovations have not stood still to watch the government, lawyers and consultants wrestle in the regulatory mosh pit to decide who gets to provide yesterday's service. They have done what our free market system allows them to do best: create and sell tomorrow's latest and greatest, gee-whiz stuff to customers at the lowest price.

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