

Making a Difference at AT&T: Transition to a New Professional Model

By C. Mark Dadd*

The huge changes taking place in AT&T in response to a tougher competitive marketplace mirror those taking place in many U.S. corporations across a broad range of industries. Cost reduction is receiving greater attention. Corporate center staff functions are increasingly being downsized and reorganized to obtain a tighter alignment with the operational and strategic needs of the business. Organizational changes are emphasizing a greater focus on customers. New employee work models are emerging that are less hierarchical and that facilitate greater flexibility and quicker response times. For economic analysts, that new environment has led to an increased emphasis on adding value – providing advice that has direct operational or strategic implications. In so doing, it has changed what work is done and, increasingly, how that work is done.

COMPETITION IN THE U.S. ECONOMY is getting tougher in many ways. Consumers are becoming increasingly savvy with the help of new information sources. They are increasingly looking for best prices. Consumer expectations about customer service are rising. Quality is becoming more important as a precondition of being successful in the marketplace and maintaining a strong brand image.

Producers are responding by improving product and service features to gain competitive advantage. They are reducing cycle times for new products and reducing competitive market response times. New producers are entering from abroad as the economy

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globalizes. Producers are entering and exiting markets. And in some industries like telecommunications, government is reducing the regulations that circumscribe producers' actions and allowing in new players.

AT&T CHANGES

The changing competitive environment has led to substantial changes in the way AT&T operates and is organized. For example, several rounds of cost cutting have taken place in recent years, particularly focused in the corporate center functions and support staff. In 1993, corporate center functions were required to fund themselves by contracting their services with the operating units, except for certain corporate required activities such as taxes. This process spawned a focus on benchmarking.

Contracting was aimed at getting tighter alignment between corporate center functions and the operational and strategic needs of the business, and reducing corporate center costs. Contracting resulted in the appointment of some corporate center function representatives in the operating units and, in some cases, the transfer of functions to the operating units.

In 1996, AT&T was split into four units in part to provide greater focus on customers. The four units were AT&T (telecom services); Lucent Technologies (telecom equipment); NCR (computer services and equipment); and AT&T Capital Corp. (credit and leasing). Subsequently, the finance organization initiated a three-year, 10 percent a year, cost reduction program to get to best quartile cost performance. The central economics organization is part of Finance.

A change also has been made to a less hierarchical work model. Reporting arrangements have been flattened, employees closest to the customer and to issues have greater empowerment, and supervisors are seen more as coaches and supporters (e.g., engaging in less directing, reviewing and rewriting of analyses and reports).

These changes in AT&T have substantially reshaped the central economics function and the activities of the many other economic analysts across the corporation.

WHAT: KEY ACTIVITIES AND FUNCTIONS

Economic analysts are found across the corporation, in the central economics organization, in corporate center divisions and in the operating units.

The Central Economics Organization

The small central economics organization (the Economic Analysis Section) provides macroeconomic and microeconomic analyses and forecasts for corporate center divisions, the operating units, and senior management. The size of the organization fell from nine before the split of AT&T in 1996 to five currently.

The key elements of that work are providing: (1) U.S. economic analysis and forecasts; (2) industry and regional analyses and forecasts; (3) financial market analysis, including interest rate forecasts; (4) analysis of international developments, including foreign exchange rates; (5) U.S. public policy analysis (tax and regulatory); and (6) advice for senior management. The work of the corporate center economics organization in 1990 was described in a *Business Economics* article by a former Chief Economist, Ken Militzer, now retired.¹

The forecasts are of the key macroeconomic drivers of operating unit financials. For example, the forecasts of GDP and of consumer expenditures on services are used as inputs by the product analysts in the units as the drivers for their product demand models. The forecasts for the U.S. economy, interest rates and foreign exchange rates are critical input assumptions for the preparation of budgets, plans and business case analyses. The largest users of the work are the Planning and Strategy organizations, Treasury, Government Affairs, and the product analysis and forecasting organizations in the operating units.

The focus of the work has been, and remains, on the business implications of economic developments and forecasts. Economic forecasts can be readily purchased from reputable external vendors much more cheaply than doing them internally, and we do not believe that it is adding value to try to forecast the economy more accurately than those vendors, at least in the current environment and in the telecom services industry.

Considerable effort has been expended in recent years to ensure that best practices are being used in the central economics organization. For example, a detailed benchmarking analysis of the central economics organizations in thirty-two nonfinancial U.S. corporations was conducted in 1990. The results of that survey were published in *Business Economics*.²

Changes Since 1996

When AT&T split up in 1996, three corporate

center economists went to Lucent – the telecom equipment industry analyst, the international analyst and a junior economist. The remaining five stayed at AT&T.

These developments caused the Economic Analysis Section again to change the emphasis of its work. The international economics activity in AT&T, which was heavily focused on telecom equipment sales abroad, declined sharply after the company split up. Moreover, the telecom services industry is less sensitive to the ups and downs of the business cycle than is the telecom equipment industry, decreasing the need for business cycle and macroeconomic analysis. In addition, the new industries like wireless and the Internet are in the take-off stage of development and so are less impacted by business cycle developments. These changes have resulted in the analysts focusing more on industry and microeconomic issues.

Subsequently, the sale of the Universal Card Services credit card operations in early 1998 substantially reduced the need for financial market analysis and forecasting.

Organization Alignment

In 1997, the Chief Economist was given responsibilities in the finance organization for competitive and industry analysis, competitive cost benchmarking, and the estimation of future AT&T costs for use in business cases (about 45 people). This caused a further blurring of the work of the central economics organization economists as they got drawn into some of these broader activities and of the identity of the central economics organization. It also gave rise to synergies, benefiting both the central economics organization and the competitive and industry analysis organization.

Economic Analysts in Other AT&T Organizations

AT&T employs many economic analysts in other organizations, not reporting to the Chief Economist. A few are in Government Affairs providing regulatory and related analyses, and many are in the units analyzing product demand. There is no precise estimate of the total numbers of people at AT&T who would identify themselves as economic analysts, but the number could easily be around 100. In addition, there are a large number of other trained economists at AT&T who use economics in their analytical work.

The work of these economic analysts in the corporation also has changed. The analysts in Government Affairs have been focusing on analysis of the costs of long-distance telecom companies entering local markets under the terms of the Telecommunications Act of 1996. The product modelers in the units have been refocusing their work away from longer-term demand forecasts that are used in planning towards helping with the analysis of new product offers in the marketplace.

¹ See footnotes at end of text.

We expect the trend to a smaller central economics activity and to most economic analysts working in the operating units to continue, given the reduced importance of the business cycle and other macroeconomic developments to AT&T since the company was split up. That is the same trend that NABE has seen in the profession as a whole, i.e., the move from the so-called "traditional" business economist in a central economics organization to the "nontraditional" analyst who is using economics in a functional division or operating unit.

HOW: THE INTERNAL CONSULTING MODEL

The critical success factor for any economic analyst in the corporation is to operate as if an internal consultant, whether or not financed directly by internal clients.

Successful consulting first requires understanding the needs of the customer. So it is necessary to build close relationships with division and operating unit customers in order to understand their needs and to ensure the analyst has a seat at the table. The overarching requirement of internal customers in the operating units is that the economic analyst contribute to the bottom line of the corporation.

Unit customers look particularly for their analytical organizations to see issues in a strategic framework, to have a balanced perspective, to exercise sound judgment, to adopt a shared ownership with them for problems, and to be proactive. Those unit customers also expect the analysis itself to be compelling and timely (quick turn around).

Communication

Emphasize communication. The ability to write clear, concise and compelling analyses is one of the most critical skills for a successful economic analyst. Client time, particularly senior management time, is scarce. The AT&T central economics organization specializes in punchy one-page summaries of longer analyses that are particularly appealing to senior managers. It is also important for an analytical organization to have a brand identity, e.g., the name of the organization should be placed on every piece of work provided, not just the analyst's name. In addition, work in the AT&T's central economics organization is referred to as "analysis," not "research," because analysis to us implies business implications, whereas

research does not. Excellent communication is becoming even more important as corporations become leaner and there are fewer management layers between analysts and the operational unit leaders.

Comparative Advantages of the Economic Analyst

The key skills of the economic analyst compared to other business analysts is the ability to link industry/market developments to the overall economy, i.e., to see the forest as well as the trees. The economic analyst often has a comparative advantage in the analysis of product and financial markets, strategy, deregulation and government policy. The broad training of economists provides a flexibility that allows them to turn their hand to a broad range of analytical problems – a critical attribute in a company experiencing a redirection of industry interests.

Contracting for economic analytical services with internal divisions and operating units may be a viable option based on our experience. We found operating units and divisions very happy to finance us from 1993 until 1997, after which that form of financing was prohibited in AT&T. Internal economics organizations have a competitive advantage over external consulting organizations because of their knowledge of the company and the industry.

CONCLUSION

Implications, implications, implications are the three most important aspects of being a successful corporate economic analyst.

The customer is king. Know your internal customers' needs.

Excellent communication is critical and, potentially, a key differentiator.

Exercise your comparative advantage as an economic analyst.

Be proactive in responding to the changes that corporations are experiencing – change before your management requires you to.

FOOTNOTES

1. Militzer, Ken, "The Business Economist at Work: The Chief Economist at AT&T," *Business Economics*, January 1990.

2. Hoover, Dennis, "Business Economists: Not Just Forecasters," *Business Economics*, July 1992.