

Ed Whitacre: Best Man for the Job at GM?

A Telecom Analysts's Perspective

By Lisa Pierce, President, Strategic Networks Group

Let me start by saying I don't know any more about the automotive business than the average person does but I think anyone who volunteers to fix the GM mess deserves our admiration. And if successful, that same person deserves all the glory and compensation such a wondrous accomplishment would merit. Indeed, it would be difficult to over-compensate anyone for such an achievement.

That being said, I do know a lot about the telecommunications business. So let me tell how what I know applies to GM's recent decision to appoint Ed Whitacre as Chairman, and why there has to be someone who is a better fit.

Ed Whitacre at AT&T

Ed Whitacre's primary claim to fame in telecom was in acquiring companies, especially those with substantial profit margins in their own right that were not in danger – imminent or long term – of going belly-up. In order of occurrence, Whitacre began with Southwestern Bell, which became SBC, which acquired Ameritech, Pacific Bell, SNET, AT&T, AT&T Wireless, and Cingular. At that point, SBC re-named itself AT&T and then acquired Bellsouth.

Today, in its own footprint, the company we call AT&T is the primary local telecom access and services provider in 22 states. That's a big deal but it gets better. In the U.S., a good part of the local access and (analog voice) services revenue is still regulated and hence enjoys legally-guaranteed, protected profit margins – I've seen estimates from financial analysts as high as 70% margins on select regulated product lines.

The biggest competitor to AT&T's local voice service in the near term is wireless, not cable VOIP. So, consider the movement to cut the landline telecom cord to really be a type of intra-company transfer price. Bottom line: By cultivating a large wireless customer base, Whitacre helped seal the deal for AT&T going forward on profits.

Related to the above, Whitacre's other telecom claim to fame (some would say infamy) is in his bigger-is-better, anti-competitive stance. Read the two Business Week articles from the November 7, 2005 issue and you'll discover why neutrality advocates are no friends of Ed's. And vice-versa.

Regardless of what you think of Whitacre's desire to squish telecom competitors like bugs and keep the gravy train going for as long as possible, all of these moves require strategic long term thinking. He clearly has strong, deep insight into the telecom business and its unique characteristics, and a resulting enviable track record of making moves that kept AT&T in great financial shape. Which is what makes the GM decision so hard to understand.

Some Key Differences between GM and AT&T

As he himself admitted, Whitacre doesn't have a deep background in the automotive industry. He says he's of the mindset that good management practices are generic, that it's not essential to know an industry in-depth. I'm no Peter Drucker, so I won't quibble. But at the same time let's not take Whitacre's perspective as fact.

Instead, let's look at General Electric, a company that is legendary for raising highly competent managers. But not all of them have fared well away from that well-run company. In recent years, Nortel, Motorola, Home Depot and Chrysler come to mind as businesses that did very badly under the leadership of former GE executives. Industry expertise can matter. A lot. So does the context. By that I mean that part of these CEOs' underlying problems may be their lack of prior experience fixing the problems of companies in serious trouble.

GM is the corporate equivalent of the Titanic – badly damaged and in severe danger of sinking outright. But Ed Whitacre really doesn't have any significant experience righting a ship that's taken on water, much less one that's taken on soooooo much water. Rather, he has been at the helm of a succession of ever-larger, very profitable companies for decades.

Which brings us to size. By his track record and own words, Whitacre knows how to build and likes to lead massive organizations. AT&T is a huge fish in a big pond. Just as an example, I estimate that AT&T and Verizon's combined share of the US MPLS (a very important IP-based business service) market is 80-85%.

By contrast, Edmunds' Auto Observer estimated that GM's share of the US auto market in February 2009 was 20.3%, and the combined share of the big 3 US auto makers was 44.2%. Compared to AT&T, GM is a much smaller fish in a big pond. And assuming it survives, the GM we'll know will be much smaller than it is today, which is a fraction of it was 10, 20, 30 years ago. Strong organizational deconstruction skills are part of the requirements for the GM job, but put kindly, this is not the strongest part of Whitacre's resume.

Which brings us to the popular issue of corporate "nimbleness." To survive, the new GM will have to be a much more nimble competitor that anticipates market and environmental requirements, and can successfully, repeatedly bring relevant products to market on a timely basis, as well as sell, support and service them, profitably. But much of the prowess of the AT&T Whitacre built is based on size, money and great lobbying.

Local phone companies like Southwestern Bell, Ameritech, and Pac Bell are typically the last carriers to implement new technologies, long after they become mainstream elsewhere. And looking at today's AT&T, it is not the R&D machine it was 15-20 years ago. In fact, it rarely is first to market with a new technology or service. Rather, AT&T is and remains a major player primarily through size, not nimbleness.

Finally, union experience is critical to GM's turnaround but not all union experience is relevant. True, Whitacre has lengthy experience dealing with U.S. telecom unions. Although not as powerful as they were in the 1980s and 1990s, the CWA and IBEW still hold significant sway in the US telecom industry.

But compared to the UAW, U.S. telecom unions are pussycats. GM's new Chairman has little if any experience with unions with this level of power and (going-forward) financial stake in the game.

I hope Ed Whitacre proves me wrong, because I have no desire to see GM become a footnote in automotive and American history. More importantly, I don't want to see tens of thousands people, or more, out of work. Executive theatrics aside, Ed Whitacre knows he has a lot to prove, and why. Now you know, too.