

## **british telecom: searching for a winning strategy**

*Case Study, 2003*

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## **the paper**

### ***aim***

explore how BT “strategies utilised early mover advantage in the deregulated market”

### ***structure***

- 1 - development of telecoms market in UK after deregulation
- 2 - development of BT strategies

## **why care?**

- one of the first telecom deregulations
- first large telecom incumbent privatised
- regulatory innovations (e.g. price caps)
- gradual deregulation

## **part 1. development of UK telecommunications market**

## history pt.1 - duopoly

1981 - *Beesley report* recommends some liberalisation

- *British Telecommunications Act* splits BT from Post Office.

1982 - *White Paper* signals privatisation policy

1983 - "duopoly policy"

- 7 years, only BT and Mercury
- Cable TV and telecom markets kept segregated

1984 - *Telecommunications Act*. BT privatised. Creates Oftel.

1985 - mobile duopoly

- Vodafone and BT's Cellnet - Ends 1989

## history pt.2 - liberalisation

1989 - domestic resale permitted

1991 - white paper cancels duopoly

- cable TV companies allowed into telecom services market
- telecoms barred from TV for decade

## **methods and problems**

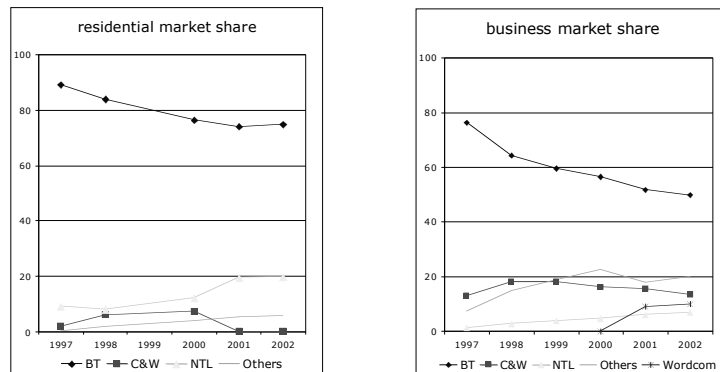
“decade of lost opportunities”

- gradualism
- duopoly
- regulation by bargaining
- growth of role of regulation
- cherry picking
- slow restructuring of BT

## **market structure**

- 7000 businesses primarily in telecoms (ONS)
- many in consultancy or installation, mostly outside scope of regulation
- £45 in 2002
- growth in revenue driven by mobiles, internet and interconnections
- no. of mobile subscribers overtook fixed line in 2000 (34.8 and 43.5m in 2001)
- 40% of landline calls are to ISPs

## fixed line markets



## mobile market

1985 – Cellnet founded by BT & Securicor

1989 – BT buyout

1993 – Mercury creates One2One

1994 – Orange enters market

2000 – Vodafone buys Mannesmann.

Regulator forces sale of Orange.

Acquired by France Telecom.

2001 – BT Cellnet demerged to MMO2.

Deutsche renames One2One T-Mobile.

**part 2.**  
**development of BT strategies**

**dreams of global dominance**

- white paper ends duopoly, Mar 1991
- new structure unveiled, Apr 1991
  - focus on market sectors
  - first job cuts
  - “leading global telecommunications operator”
  - “network related products and services”
- ‘Concert Communications’ with MCI, 1993
- Italy, Germany, Sweden, NZ, Korea and NL!
- lose bidding war for MCI to Worldcom, 1998
- ‘Concert’ alliance with AT&T, 2000
- Collapse Oct 2001. £1.2bn exposure

## markets change

- forced to concentrate on debt in 2000
- 3G – predicted <\$1bn, actual 4.5
- BT buys in UK, Germany and NL
  
- not only cause of debt, “part of a strategy of aggressive growth based on optimism and faith in a sort of technological determinism that would create high and growing demand for new services”

## debt

- “the saga of BT is full of lost chances”: missed European opportunities chasing MCI and AT&T, then tried to catch-up with “shopping binge” in mid-99  
(Business Week, Apr 2001)
  
- 2001Q1, Cut debt £45bn to 15 or get dropped to lowest credit rating, BBB

## rebuilding credibility

- replace chairman
- concentrate on voice/data in UK/Europe
- split BT into separate companies under holding company, BT Group Ltd
- “we are running an access business, other people have got to think about [...] content” (CEO BTopenworld, Sep 2001)

result... £9.6bn debt, Mar 2003

## current strategy?

- Apr 2002 new CEO, Ben Verwaayen, announces new “3-year strategy”
  - cut cost
  - focus on core UK business
  - reduce borrowings
  - major acquisitions ruled out
- 3 businesses: Retail, Wholesale, Global
- broadband central, cut prices
- mobile services though de-merged MMO2
- new leadership style, (from 16 execs to 5)
- heads of 3 main parts now on the board
- set targets



## **future**

- sell mobile services through others (“we don’t need to own a network to offer decent mobile services”)
- mobile-fixed interconnections “cash-cow”

## **Lessigs’ model**

Constraints on individual action

- law
- markets
- architecture
- norms/culture

