Session 7: Corporate Strategies in Network Industries

Outline

- A taxonomy of strategies
- Water company strategies in the UK
- Electricity company strategies in the UK
- Global telco strategies
- Presentation on Scottish Power
- Presentation on BT
- Presentation on AOL-Time Warner
- Lessons for Napster
A Taxonomy of Strategies
(see Chan-Olmsted and Jamison, 2001)

- Following Porter (1980) and Hax and Wilde (1999)
- Cost Leadership
  - Often promoted by development of horizontal, vertical and conglomerate scale economies (e.g. Nucor and Southwest Airlines).
- Product Differentiation
  - On design, reliability and service often promoted by advertising (e.g. PowerGen, Scottish Power).
- Focus
  - Concentration on a market area, segment or product in order to know customer well and develop ‘a franchise’ (e.g. NIE).

A Taxonomy of Strategies
(see Chan-Olmsted and Jamison, 2001)

- Customer Solutions
  - Offer a bundle of products customised to satisfy most target group needs, such as multinational customers (e.g. AOL-Time Warner).
- Lock-in Strategy
  - Via achieving de facto proprietary standard and maintaining and attracting complementors (e.g. Microsoft).
- Strategic Alliances
  - These aim at achieving size, speed and scope in the market (e.g. BT-MCI (Concert)).
Strategies in the England and Wales Water Industry

- At privatisation in 1989:
  - 10 WAScos
  - 19 Water Only Companies
- Golden shares in WAScos limited takeovers until the end of 94.
- 1994 and 1999 price reviews.
- Elements of cost leadership, focus and customer solutions strategies possible.
- Lock-in, strategic alliances and product differentiation strategies not plausible given the nature of the product.

- 1989-99 companies focus on driving costs down and reinvesting surplus profits.
  - Horizontal expansion
    - Some domestic acquisitions but limited by regulator
      - Eg. Mid Sussex Water and Southern Water (1990)
    - Overseas expansion
      - Malaysia, Mexico, Thailand, Macau (North West Water)
  - Conglomerate expansion
    - Electricity and water mergers
      - Hyder (Welsh Water and South Wales Electricity)
      - United Utilities (NORWEB and North West Water)
      - Scottish Power (Southern Water and Scottish Power)
    - Non-related business expansion
      - Hotels (Welsh Water)
      - Engineering consultancy (Welsh Water)
      - Waste management (Severn Trent)
Strategies in the England and Wales Water Industry

- Only 3 water companies successful in terms of strategy:
  - Anglian Water Group (facilities management focus)
  - Severn Trent (some international expansion)
  - Thames (high R+D expenditure but recently bought by RWE)

- 1999- domestic regulation tightened again, some companies worried about financial viability especially beyond next price review in 2004.
  - Financial restructuring proposed by Glas Cymru for Welsh Water
    - Separation of asset ownership and operation
    - 80% contracting out of cost base
    - Ownership by 200 members
    - Bond Financing of purchase from current owner
    - Not-for-profit and customer benefits shared

Strategies in the UK Electricity Industry (Thomas, 2001)

- Electricity Industry at Privatisation in 1990
  - Generation Companies (4)
    - National Power, PowerGen fossil fuel generators
    - Nuclear Electric/Scottish Nuclear later British Energy
  - Transmission Company (1) - NGC (initially owned by RECs)
  - Regional distribution and retailing companies, RECs (14)

- Development of Competition
  - 1990 competition in >1MW market
  - 1994 competition in >100KW market
  - 1998-99 full supply competition
### Strategies in the UK Electricity Industry

- **Three distinct periods**
  - 1990-95, 1995-98, 98-
- **1990-95**
  - Golden shares restrict take-overs before April 1995.
  - Gencos
    - National Power and PowerGen forced to yield market share
    - New entrants (e.g. Enron) build 50% of new capacity
    - Large productivity improvements based on focus and cost leadership strategies
  - Transmission company
    - Focus strategy leads to large cost reductions.
  - Distribution and retailing companies
    - Some expansion into generation limited by regulation (e.g. Eastern)
    - Focus strategy (e.g. East Midlands following diversification attempt)
    - Conglomerate expansion (e.g. United Utilities)

### Strategies in the UK Electricity Industry

- **1995-98**
  - Golden shares lifted on distribution companies, most taken over.
  - Distribution companies
    - Become overseas takeover targets (e.g. London-Entergy)
    - Vertical expansion into generation (e.g. PowerGen-East Midlands)
    - Conglomerate expansion into Water and Gas and emergence of customer solutions strategies (e.g. Scottish Power)
  - Gencos
    - Attempt to expand into distribution and retailing
    - International expansion into IPPs and running existing stations
      - International Power eventually de-merged from National Power (Innogy)
  - NGC freed from distribution companies in 1995
    - overseas expansion exploiting economies of scale and scope (e.g. New England Electric System)
Strategies in the UK electricity industry

- 1998-
- Focus companies emerge in distribution and retailing
  - Independent Energy (since taken over by Npower)
  - GPU Power take-over Midlands Electric distribution network
- Cost leadership companies in each stage of production:
  - PowerGen (generation)
  - Eastern and Southern (distribution)
- Customer solutions companies: Npower, PowerGen, Scottish Power
- Successful strategies:
  - Scottish Power - multi-utility brand (Demon, water, gas, electricity)
  - PowerGen - built national brand (sponsorship of weather forecast)
  - National Grid Company - focus company
  - Eastern (TXU) - cost leadership achieved via joint ventures

Strategies in the global telco industry
(see Chan-Olmsted and Jamison, 2001)

- Cost Leadership
  - Cable companies such as NTL and Telewest promote themselves as low cost providers of service.
- Product Differentiation
  - BT re-branded itself for international marketing purposes.
  - France Telecom branded itself as innovative, customer-oriented net company offering wireline, wireless and internet convergence.
- Focus
  - NTT and China Telecom have Asian focus.
  - Vodafone has focussed on wireless communications.
Strategies in the global telco industry

- Customer Solutions:
  - Qwest and KPN creating a pan European network for data, voice and video.
  - BellSouth offer a single bill for wireless, Internet and wireline services.
  - MCI WorldCom acquired Uunet, MFS Communications, Brooks Fiber Communications and GridNet to provide local, long-distance, Internet and advanced services.
  - Telefonica (Spain) has invested heavily in content development aiming to become a distributor of content via its internet provider (Terra Networks SA), its traditional network and its mobile network (Telefonica Moviles).

Strategies in the global telco industry

- Strategic Alliances
  - Concert: BT-AT+T
  - Global One: Sprint, Deutsche Telekom and France Telecom
  - World Partners: AT+T and KPN (Netherlands), Telecom Italia, Telia (Sweden), Swiss Telecom, KDD, Telstra (Australia), Unitel (Canada)
  - These have a number of theoretical advantages in telecoms:
    - Reduce risks and entry costs into new markets.
    - Reduce costs due to econs of scale and access to critical commodities components.
    - Allow co-development and co-production high-tech products more efficiently and effectively.
    - Allow benefit from the advantages of pooling limited resources.
Presentations on:

Scottish Power

BT

AOL-Time Warner

Lessons for Napster
(or for Record Company Strategy)

- Cost Leadership
  - Drive down costs of music distribution.
- Product Differentiation
  - Improve quality of conventionally distributed music.
- Focus
  - Concentrate on high willingness to pay yuppie market.
- Customer Solutions
  - Offer range of music appreciation services: internet, CD, cassette etc.
- Lock-in Strategy
  - Seek better security for recordings to prevent copying.
- Strategic Alliances
  - Team up with Internet distributors.