British Telecom: Searching for a Winning Strategy

Case Study, 2003
T Summanen and M Pollit, JIMS

Riccardo Amorosi

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
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
Questions?