



Flagship firms, consolidation and changing market structures within the mobile communications market

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Abstract

The structure and character of the European Union (EU) mobile telecommunications market are changing. Consolidation, scale economies and the far-reaching repercussions of 3G have given rise to a series of 'flagship firms' that have sought to co-ordinate the 2G and 3G licences held. In this paper, the co-ordination strategies of two flagship firms, Vodafone and Hutchison Whampoa, are examined. The paper concludes that competitive enhancing co-ordination strategies can be identified in six different areas, though these have not been uniformly adopted by the two flagship firms examined.

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1. Introduction

Over the course of the last 2 years or so a relentless tide of headlines has testified to how much the mobile telecommunications market has changed. The early euphoria of 3G licensing has given way to pessimism and anxiety. The seemingly unstoppable rise of share prices has been reversed to such an extent that companies are worth just a fraction of their former value, and serious doubts have been expressed by a range of commentators as to whether 3G will ever be deployed. The underlying premise of this paper is that as sentiment has moved against the mobile telecommunications industry, and especially against those with a significant exposure to 3G, those companies with multiple 3G licences will seek to enhance their competitiveness through a variety of co-ordination strategies. Such strategies facilitate a reduction in the cost of network development, shorten the time to launch and generate revenue through encouraging roaming and the uptake of new services.

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With this in mind, this paper is structured as follows. The first main section describes the mobile telecommunications landscape, focusing primarily on the aftermath of the 3G licensing process. This is then followed by a description of the ‘flagship firms’ model, which is used to identify areas of co-ordination by Vodafone and Hutchison Whampoa. The final section of the paper discusses the co-ordination strategies identified.

2. The European Union 3G landscape

The European mobile communications industry can be divided chronologically into two periods—the period leading up to the UK and German 3G auctions in mid-2000 and the period after these auctions. Prior to these auctions the industry witnessed unprecedented growth, with mobile phones becoming ubiquitous and penetration rates of more than 60% being not uncommon. Rising penetration rates fuelled increases in the stock market capitalisation of mobile phone companies, with Vodafone becoming for a while the most valuable company in Europe. [Minges, Mannisto, and Kelly \(1999\)](#) were not alone in arguing that the future of the telecommunications industry belonged to mobile and not fixed telephony.

The UK and German auctions mark the pinnacle of enthusiasm towards mobile communications. Not only were the sums raised considerably more than that anticipated, but also as part of the bidding process the auction drew attention to the wide array of products that companies were intending to launch onto the market. However, the large amounts paid for licences in the UK (\$35.36bn) and German (\$46.11bn) led to some questioning the underlying assumptions of the successful licence bidders. In particular, were the services proposed by the successful bidders appropriate? Secondly, would these services generate a sufficient return on investment? Thirdly, would the technology work as anticipated? Fourthly, would customers migrate from existing technologies to 3G? Taken together these questions began to undermine confidence in the sector, with much of the debate focusing on the level of debts incurred by successful bidders and whether or not sufficiently attractive services are available to entice customers onto the network.

It is clear that participating in the 3G licensing process has been costly. Across the EU, the process has raised more than €110bn for the governments of Member States. This is, however, only the headline figure, as it does not include the cost of either the network infrastructure or services. The cost of entering the 3G market can be seen in the level of debts incurred, with licences accounting for a third of the total debts of BT and KPN and almost all of Telefonica’s ([The Economist, 2001](#), p. 71). Concern over the level of debt carried by telecommunications companies has expressed itself in two related ways. Firstly, the credit ratings of the major European telecommunications companies have been downgraded by the likes of Standard and Poor’s. Declining credit ratings have in turn influenced the strategies of mobile telecommunications companies in the post-licensing period; companies have scaled back their investment programmes as well as sought to raise capital through asset sales.

Secondly, share prices have declined across the sector. Vodafone’s declining share price is particularly illustrative. The price has dropped from over £4 in March 2000 to around £1.20 in May 2003. This decline has been driven by the belief of some that slowing subscriber growth and stable average revenue per user (ARPU) figures are turning Vodafone from a growth into a utility stock, and that new data services that offer the possibility of additional high margin revenues are

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