

Rivalry Through Alliances: Competitive Strategy in the Global Telecommunications Market

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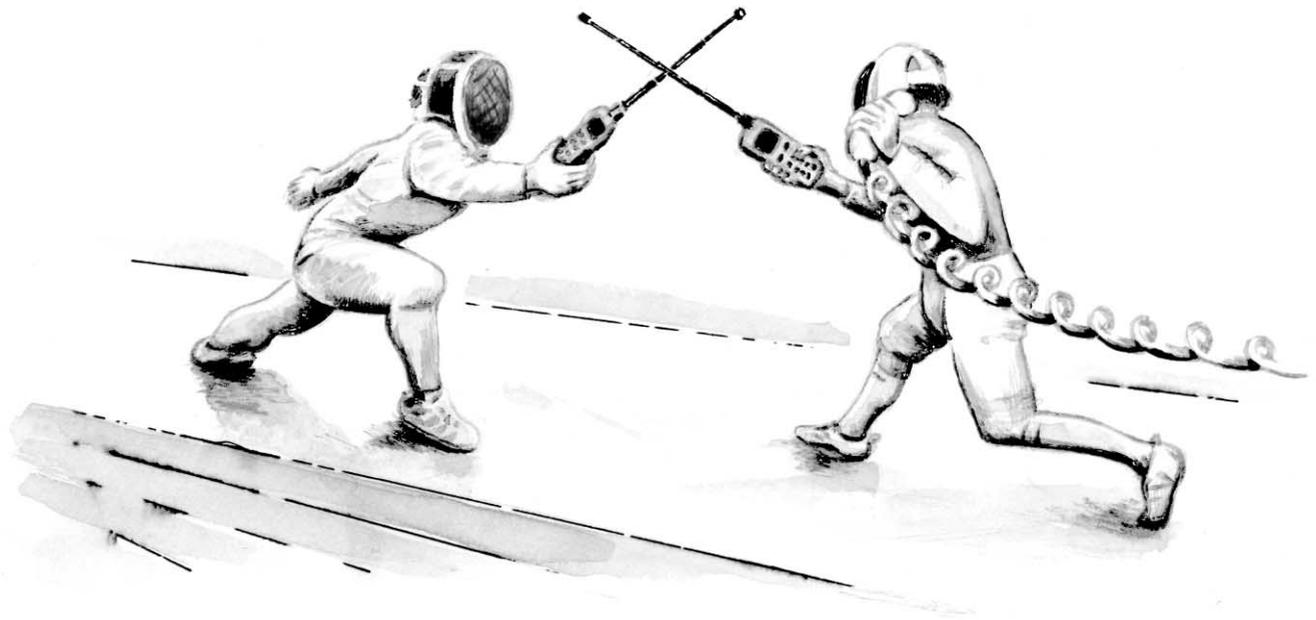
This article is the first and the qualitative section of a two-part strategy research project which examines the state of the global telecommunications market and assesses the business factors and environmental variables such as country/regional economic profiles, political systems and regional alliances, that influence strategic directions of firms in the converging global telecommunications market. The article specifically investigates the forces contributing to the globalization of telecommunications services, major telecommunications strategies and strategic alliances in the global market, and factors that may have contributed to the outcome of these alliances. © 2001 Elsevier Science Ltd. All rights reserved.

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Since the early 1990s, Europe and the United States have witnessed multiple mergers involving leading telecommunications companies. The marriages of AT&T with TCI and Media One, MCI with WorldCom, and Vodafone with Mannesman set the stage of a rapidly changing global telecommunications market as players such as British Telecom (BT), AT&T, and DoCoMo acknowledged their plans to build competitive advantages in the world market

through combinations with other companies. Other strategic partnerships between major telecommunications operators from North/South America, Europe, and Asia are forming almost daily, although the pace has slowed since the decrease in telecommunication and Internet stock prices tightened capital markets in late 2000 (Rosenbush, 2001).¹ The trend towards alliances goes beyond the traditional wire-line telecommunications sector. We are also seeing mergers between major wireless players such as Vodafone and Airtouch, between old and new media companies such as Time Warner and America Online, and between old and new network companies such as US West and Qwest. We are also seeing partial equity investments in leading e-commerce software makers such as Debis by Deutsche Telekom, and online joint ventures in Internet access services between companies such as MCI WorldCom and Yahoo. The nature of competition today in the global telecommunications industry seems to center around market activities that aim at gaining competitive advantages through strategic combinations of resources and presence in multiple products and geographical areas.

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assesses the business factors and environmental variables (e.g., country/region economic profiles, political systems, and regional alliances) that influence the strategic directions of the firms in the converging global telecommunications market. Specifically, this paper investigates the forces that have contributed to the globalization of telecommunications services, the major telecommunications strategies and strategic alliances in the global telecommunications market, and the factors that might have contributed to the outcome of these alliances.

The Converging Global Telecommunications Industry

The drivers of growth for the telecommunications industry are the expansions both of its products and geography. Once a geographically-bound voice transmission service provided over specialized wire-based networks, telecommunications is now part of a worldwide, integrated communications system in which voice, data, and video are transmitted and transformed over integrated wire and wireless networks connected by network and customer devices. This integration redefines markets and products and changes how companies compete.

Convergence of Telecommunications Products: Competing by Connectivity and Functionality

With the convergence of four previously distinct industries: telephone, mass media (print, broadcast and cable), consumer electronics, and computing, the new multimedia, information industry provides products that mix and match four basic components — customer devices, networks, network devices, and

content/software. Customer devices are the devices such as telephones, PCs, and televisions that customers use to receive, send, and interact with information. Networks carry information from one place to another. Network devices, such as Internet host computers and voice mail hosts, process and store information for customers. Content/software refers to the electronic information and intelligence that customers use. Examples include databases, music, videos, portals, and TV programs (Colombo and Garrone, 1998; Jamison, 1999b). Table 1 illustrates the unilateral nature of traditional telephone, television, and data processing services and the multilateral nature of an integrated product such as TV/Internet services in regards to the four components (see Table 1).

Convergence changes dramatically the role of the existing telecommunications companies such as AT&T and BT. Instead of being geographically based and hardwired for voice service, they now compete on the basis of coverage (e.g., MCI WorldCom's local-to-global-to-local strategy) and functionality (e.g., Nippon Telegraph and Telephone's (NTT) multimedia features) (Jamison, 1999a). Thus, the degree and quality of access and the variety and differentiation of features are becoming the strategic focus of many telecommunications multinationals. Coverage and functionality are interrelated because of network effects: Network providers become more attractive to customers when they are able to deliver a critical mass of connected customers and content providers/packagegers, and *vice versa*. The critical mass, in turn, allows the network providers to exploit scale economies and develop and market viable features that make the network more valuable for these customers.

While connectivity and functionality are becoming the basis of competition, means of transmitting and

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