



The World's Top Telecoms Companies

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Ten years ago there would have been little need for a report tracking the fortunes of the [world's top telecoms companies](#). Even five years ago the world of telecoms looked very different. In those far-off days competition in telecoms markets was a theory rather than a reality and the world's major operators were sitting happily on their monopolies. Only a handful of the world's biggest telecoms service providers had experienced competition at first hand by 1989, and though all had no doubt contemplated what it might mean for them the prospect of actually losing market share to fleet-footed competitors was still a distant one - a future world for the strategists to worry about. Most of the boardrooms could busy themselves languidly discussing ways of slimming down their overmanned, overfed and out-of-condition state-owned cash cows. This cosy world was soon to be shattered.

Fear and aggression set in

Above all else, the main factors driving change in telecoms companies around the world have been fear of losing market shares at home and plans to replace them by stealing revenues from abroad. These twin forces have combined to make the world's major telcos huddle up. Faced with future uncertainty, frightened operators sought safety in numbers. Having a potential competitor as a friend and ally gives national PTOs one predator less to worry about and a strong companion to go hunting with. From the incumbent operator's point of view the most dangerous animal eyeing up the soon-to-be exposed flesh of its home market is a neighbouring service provider. This was what drove France Télécom so quickly into an alliance with Deutsche Telekom back in 1994 and more recently saw Bell Atlantic merge with NYNEX and Telia and Telenor agree to get together. The fear of AT&T muscling in on the UK market helped persuade BT to take a 20% slice of MCI. An anxious BT - having seen its MCI bid trumped - finally went the whole hog and arranged a tryst with AT&T, its transatlantic bête noir.

Fear of AT&T's marketing power and global reach helped persuade the Telia/Swisscom/PTT Netherlands alliance Unisource to welcome the US company as a partner. Better to split some of the corporate revenues with the American company, they argued, than see them just disappear abroad. It is even possible to trace some of Telefónica's South American success to this fear factor. While it certainly had to pay high prices for many of its stakes in Latin American telecoms operators and though its cultural and linguistic similarities with the vendor governments obviously helped its cause, ministers must have calculated that should they not tie Telefónica down to a partnership with their PTO then it risked facing a powerful Spanish adversary in its home market in the future.

New market opportunities

The secondary driver behind the string of alliances which has dotted the recent history of world telecoms has been the desire to seize market share in new geographic areas.

Leaping into bed with local partners in the hope of spawning a healthy new competitor has been the general reaction of the world's major telecoms operators as the prospect of new opportunities abroad has opened up before them. BT and Telefónica are two of the most prolific operators in this field, though each has adopted very different tactics. While the UK's former monopoly operator has built up an impressive string of alliances aimed at seizing new licences in some of the major telecoms markets around the world, the Spanish PTO has forked out a fortune in purchasing expensive stakes in dilapidated former monopoly operators in South America. Ironically the two nearly formed an alliance themselves in 1997 when it looked certain that BT, which was on course to purchase the remaining stake in MCI, had won the long fight to become Telefónica's preferred partner outside Latin America.

No change for NTT and co

The company names heading CIT's league table of top telecoms service providers ranked by revenues have changed very little over the past few years (see page 8 & 9). NTT still sits proudly on top of the pile, followed by AT&T and Deutsche Telekom. The two recently merged US giants Bell Atlantic, now incorporating NYNEX, and MCI WorldCom are the only new entrants in the top twenty. The companies growing fastest are the previously dormant giants Telebrás and China Telecom with revenue growth rates of 25.6% and 47.4% respectively, reflecting the massive investments in installing new lines that is going on in Brazil and China. Apart from these two huge national PTOs pride of place in the growth stakes naturally goes to mobile operators. NTT DoCoMo, Vodafone, Mannesmann (mainly mobile) and AirTouch all reported exceptional growth in revenues. In terms of the top 50 operators Mannesmann showed the greatest increase in turnover with a 61.1% rise in twelve months, followed closely by AirTouch (59.6%) and Vodafone (41.3%). Further down the table Orange, reported an increase of 47.6%, was eclipsed by Omnitel in Italy which reported revenues shooting up by 143.3% albeit from a small base.

In terms of profit margins it is naturally those players largely unaffected by competition at home that have managed to keep above 20%. However, BT is one of the best positioned in this respect in the top twenty with its 10.9% profit margin beating that of AT&T (9.0%), Deutsche Telekom (4.3%), France Télécom (9.5%) and MCI WorldCom (-1.1%).

The jockeying for position among the chasing pack below the top twenty has certainly shaken up the lower reaches of the table. The willingness of the main operators to pay out huge sums for equity stakes in PTOs in developing countries as well as to invest in new operators in mature markets has ushered in a period of profound change in the world's telecoms markets. In spite of the slew of new licences that have been awarded around the world and despite the flurry of new investors in telecoms, almost without exception the companies that will cause the incumbent operators the biggest headaches are at least partially owned by one or other of the world's biggest telecoms players. While the names of the top twenty and their individual rankings may not have changed much, their markets and their strategies have been transformed. Over 400 of the world's main telecoms companies are now at least partially owned by the biggest 100 operators. Yet only ten years ago the world's main PTOs would have had only a handful of foreign or domestic subsidiaries to their names. This has vastly increased the reach of the main operators as their array of interests has spread out around the world.

New kids on the block

The show stealers in this department threaten to be two relatively new operators - UK-based mobile company Vodafone and Italian Olivetti. Both are symbolic of the recent shift in world telecoms markets. Both have come from relative obscurity, at least in telecoms terms, to become, potentially, two of the biggest players in world telecoms - and both owe it all to the tremendous growth in mobile services over the past ten years. Vodafone, which first launched an analogue service in 1989, currently claims 5.373 million UK customers (March 1999) and a further 4.627 million around the world. It was in January of this year that Vodafone surprised many analysts by launching a US\$58 billion bid for US mobile giant AirTouch. The funding for this takeover attempt came largely from the UK stock market's valuation of Vodafone's future potential. Should the proposed deal go through it will create the first truly global mobile company and will place the merged outfit at number 26 in the CIT league table. The pair are already in cahoots in the Swedish and Egyptian markets and a combined company would have an impressive spread of operations encompassing AirTouch's 14 million US customers as well as shares in operators in Belgium, France, Germany, Greece, India, the Netherlands, Portugal and Spain. Vodafone is not the only newcomer pushing its way into the exclusive club of major telecoms players. The erstwhile Italian typewriter manufacturer Olivetti recently launched an audacious bid to take over the incumbent Italian operator Telecom Italia. Olivetti, which has for some time seen telecoms as the best hope of transforming its otherwise unexciting computer business, is currently the owner of Omnitel Pronto, Italy's second largest mobile player and ranked 81 in CIT's league table. Should the move come off, the new company would be placed sixth. Certainly it seems the funding is there for Olivetti the question is whether Telecom Italia can successfully fight the bid by persuading its shareholders not to sell out.

New breed

This is a new problem for PTOs. The spate of privatisations involving formerly state-owned telecoms companies in recent years has created a new breed of profit-hungry shareholders which the major companies now have to keep happy. The old days of political expediency are but a memory for most of the major operators now they have a much more exacting task on their hands - keeping their army of retail investors happy with future growth prospects and current profitability. As the number of acquisitions made by the major telcos continues to grow, making it practically impossible to keep track of who owns whom, many analysts take the cynical view that some of the less strategically important deals are driven partly by a desire to be seen to be doing something rather than being part of a fully thought-out longer-term battle plan. The prime example of this in the past three years has been the grand old lady of telecoms herself, Cable & Wireless. Desperate to regain some respect after a boardroom rumpus which saw the removal of its CEO and chairman at the end of 1996, C&W set about reforming its operations. While it knuckled down at home and reformulated its UK PTO Mercury as Cable & Wireless Communications (in alliance with three major UK cable operators), internationally it turned from a respected dance partner to a dizzy blonde. In the past two years C&W has flirted shamelessly with a series of attractive major operators. From BT to Deutsche Telekom to Telecom Italia, C&W has held hands with them all. Yet while none of these short flings was ever consummated C&W's share

price has recovered well and it has gained kudos among analysts as a company constantly striving to meet the right partner.

The pace of change in the telecoms world is hotting up. It is not so much that CIT's league table will look radically different in ten years time, but that it will look radically different in ten months time. For the moment it provides a valuable snapshot of the state of play among the world's leading telecoms operators until, of course, the next big deal is announced.
