Case Study:

British Telecom: Searching for a winning strategy

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1. Introduction

The development of the telecommunications market in the United Kingdom and the corporate strategy and development of the incumbent, British Telecom, represents an interesting object of analysis for several reasons. First, the UK telecommunications market was - along with the U.S. market - among the first telecommunications market that was deregulated in the early 1980s. Also some regulatory innovations, such as price cap regulation, were developed, and first implemented in telecommunications in the UK. Second, British Telecom was the first large incumbent in telecommunications that was privatised in the early 1980s. Third, competition in the UK telecommunications started gradually about ten years earlier than in most of the other European countries, and for a long period the UK market was, in number of competing companies at least, well ahead other European countries. However, competition evolved gradually, and had some country specific features that have affected the development of the telecommunications market, and particularly British Telecom.

The main question to be explored in this paper is how the incumbent, British Telecom, in its strategies utilised the early mover advantage in the deregulated market? First, the development of telecommunications market in the UK after deregulation will be reviewed, and second, the development of corporate strategies of British Telecom will be described.

2. Telecommunications market in the United Kingdom

2.1 The History of liberalisation

Before its 1984 privatisation British Telecom had a legal monopoly over fixed line network operations (local, long-distance, international) and the supply of network services, most apparatus supply, and value added network services. In the beginning of 1980s the agenda was not to privatise British Telecom, but rather to clarify the financial and operational routines and tighten financial control on the company. In 1981 the Beesley report recommended liberalisation of the resale of leased circuits. In the same year the British Telecommunications Act split BT from the Post Office and begins liberalisation. As a result in 1982, Mercury, a subsidiary of Cable and Wireless, was licensed as a national fixed line network operator in competition with BT. In 1982 White Paper announced the government's intention to privatise BT. In 1983 the government announced its "duopoly policy", which meant that for next seven years there will be only two operators, BT and Mercury, for nation-wide fixed line networks. This duopoly policy also prevented cable television companies from providing telecommunications services in their own right. In 1984 British Telecom was privatised: 50.2% of its shares were sold. Two possible models of privatisation of

BT were considered: to privatise it as an integrated company, or to follow the recent model of restructuring of AT&T in the USA, and break up BT, for instance by separating off local services, long-distance services and apparatus supply services. The former model, which also BT's management strongly supported, was chosen. BT was also forbidden from carrying television services on its network.

The liberalisation of the telecommunications market in the UK can be divided into two periods: first, the period of duopoly 1984-1990, and the period of more liberalised market after 1991.

The duopoly policy ended in 1991 following the publication of a White Paper. Earlier in 1989 further liberalisation had taken place: domestic, but not international yet, simple resale was permitted and the duopoly policy in the mobile telecommunications – until 1989 only two operators, namely Vodafone and BT's Cellnet were licensed as network operators – expired. White Paper allowed cable TV companies to start to offer telecommunications services in their own right through their cable networks. At the same time national public telecommunications companies were not permitted to carry TV services on their networks for a further decade.

Armstrong, Cowan and Vickers (1994) describe the first period of liberalisation in the UK telecommunications as a decade of lost opportunities. Competition in the market grew very slowly, e.g. only in 1986, four years after its license was granted, could Mercury could get access to BT's local loop. And due to weak competition there was no need for BT to restructure itself: major restructuring of the company only started at the beginning of the 1990s.

The essential developments are listed below:

- *Gradualism*

Although deregulation of the market and the privatisation of BT were the first major liberalisation decisions and were at that time radical political decisions, which started a new period world-wide in the network industries, the liberalisation policy itself during the 1980s tried to ensure a soft transition to a more competitive market.

- *Duopoly*

In the duopoly policy the gradual, the planned transition to the competitive market can be seen perhaps most clearly. In the literature (e.g. Laffont and Tirole, 2000) it has been pointed out that market forces would have done a better job at selecting worthy competitors to BT than did regulators, and that Mercury might have not been the optimal choice.

- *Growth of the role of regulation*

It is difficult to believe that the aim of the lawmakers was to increase gradually the role of regulatory bodies in developing the competitive market.

At privatisation about half of BT's business was subject to price control, but in mid 1990s around 70% of its business (by revenue) was under price control. The duopoly between BT and Mercury might have created the illusion of possibility of effective regulation by bargaining with Oftel and with final referee of the MMC. To regulate hundreds of companies is a different kind of task.

- *Regulation by bargaining*

There were three regulatory bodies in the UK – the Department of Trade and Industry (DTI), Oftel and the Monopolies and Mergers Commission (MMC). The regulatory authority of Oftel can be extended beyond the powers and duties of the 1984 Telecommunications Act because it can always employ the threat of a reference to the MMC to seek regulatory change. In fact regulation has involved what seems like bargaining between Oftel and BT. This is in quite sharp contrast to rather legalistic type of regulation in the USA, and to very weak regulation in the Nordic countries.

- *Cherry picking*

New entrants, such as Mercury during the duopoly and others after 1994, concentrate upon the high-value-added parts of the network, comprising major cities and especially the City of London, and upon the relatively profitable long-distance and international markets.

- *Competitive mobile telecommunications*

The duopoly policy was applied also to mobile telecommunications, and initially in 1980's only two operators were licensed, namely Cellnet and Vodafone. However, after cancellation of the duopoly policy the licences were granted for two more operators. At the moment all four operators have almost similar market share. Oftel's recent benchmarking work, reflecting prices in August 2001 shows that UK mobile prices are slightly below average when compared to major European economies.

- *Slow restructuring of BT*

The duopoly period, 1984 – 1990, created for BT a soft landing into competition. Although BT sold its manufacturing businesses soon after privatisation it employed more people in 1990 than it did in 1984. The restructuring of the company started only in the beginning of 1990s.

Although competition emerged after 1991, the telecommunications market in the UK in 1990s still had very typical problems coming from 1980s, e.g. the low level of competition in the local, especially residential, market. This is by no means only a British phenomenon. This is crucial in the U.S. telecommunications market and also in the EU telecommunications market as a recent declaration of the European

Commission on the slow development of competition in the local telephone markets shows.

2.2 The market structure

The Office for National Statistics (ONS) estimates that there are over 7,000 businesses in the U.K. whose primary businesses can be considered telecommunications. This estimate includes a large number of companies such as those involved in consultancy or hardware and network installations, most of which are outside the scope of regulation. Data used in this chapter is based on Oftel's Market Information 2000/2001 survey that collected data from 82 licensed telecom operators in the U.K. ONS estimates that the turnover of the UK telecommunications industry was £41.4 billion in the year to March 2001.

Gross turnover is, however, a relatively crude measure of the size of the industry because it does not properly take into account purchases by the industry including transactions within the industry. ONS estimates that in 1999, the value added by the industry was £18 billion, which is around two percent of GDP. The growth in revenue

Table 1

Estimated turnover of the UK telecoms industry 2000/01 (£billions)[1]

	Industry total	BT group	BT share of revenues (%)
Simple voice telephony			
- Inland calls	3.4	2.3	67
- Outgoing international	1.2	0.6	50
Other calls	4.5	2.9	65
Exchange lines	4.0	3.5	85
Private leased circuits	1.8	1.2	66
Mobile telephony – retail	6.9	1.6*)	23

[1] Oftel. The UK Telecommunications Industry: Market Information 2000/01. December 2001.
*) Prior to de-merger of MMO2

Interconnect	6.5	2.5		38
Other revenues reported to Oftel	1.7	0.4		32
Estimate of other licensed operator turnover **)	5.6	5.6	}	32
Turnover from other telecoms activity **)	5.9			
Total turnover **)	41.4	20.4		49

has been mainly in newer services such as mobile and Internet but also through interconnect revenue as a result of increased competition. During 2000 the number of mobile subscribers exceeded the number of fixed lines for the first time in the UK. In 1996/1997 there were 30,678 thousand fixed lines and 7,109 thousand mobile subscribers but in 2000/01 there were 34,766 thousand fixed lines and 43,452 mobile subscribers in the UK. Growth in fixed call volumes is almost entirely driven by the internet. In 2000/01 it is estimated that around 40 percent of all call minutes originating on the PSTN were to Internet service providers.[2]

The fixed lines market

In March 2001 there were 35 million exchange line numbers that is one million higher than a year earlier. Growth was primarily in the number of business access lines. Call volumes from fixed telephones increased by 25 per cent. This was driven mainly by

Table 2

Fixed operators: summary of all operators' volumes[3]

	Volumes 2001/02 Q4	2000/01 Q4	C.A.G.R (per cent)	Volumes 2000/01	1996/97	C.A.G.R. (per cent)
Call minutes (millions)						
Local calls	18,810	19,802	-5.0	79,496	86,280	-2.0
National calls	13,645	14,115	-3.3	52,847	29,512	15.7
International calls	1,976	2,114	-6.5	7,750	2,116	38.3
Calls to mobiles	3,456	3,317	4.2	12,096	2,864	43.4

**) May include some non-UK turnover
[2] Oftel. The UK Telecommunications Industry… p. 6.
[3] Oftel. The UK Telecommunications Market…p30; Oftel. Market Information, Fixed Update August 2002.

Others calls	47,077	34,141	37.9	111,110	5,032	116.8
All calls	84,965	73,490	15.6	263,30	125,803	20.3
Lines at year end (thousands)						
Connections	1,214	1,406	-13.6	5,380	4,299	5.8
Lines at year end	35,290	35,047	0.7	34,766	30,678	3.2

huge growth in dial-up Internet usage. Local and national calls were stable while fixed to mobile call volumes and international call volumes increased.

BT's share of the total fixed line telephone market continued to decrease to 65 per cent in March 2001.

Residential fixed line telephone market

In March 2001 there were 24,6 million residential exchange line numbers. The annual decrease was 100,000. Residential fixed telephone volumes have increased from 86,598 million minutes in 1996/97 to 166,320 million minutes in 2000/01.

Residential local call volume has decreased, and national and international call volumes have increased. Calls to mobiles have increased substantially.

(See appendix 1, Fixed operators: residential call volumes by type of call by operator).

Business fixed line telephone market

Business fixed telephone call volumes increased from 49,436 million minutes in 1996/97 to 95,137 million minutes in 2000/01. Local call volumes slightly fell while national, international and calls to mobiles increased substantially. (See appendix 2, Fixed operators: business call volumes by type of call by operator).

The market shares

In the residential fixed line market competition has developed rather slowly. On the one hand BT has been able to defend its local loop position, and has been heavily criticised by its competitors , for example, for using uncompetitive access pricing, and, on the other, new entrants have been more interested in cherry picking the faster growing business fixed line market.

Table 3

The residential fixed line market shares (%) in all calls – volumes.

	BT	C&W	NTL& Telewest	Others
All calls				
1996/97	89.1	1.7	9.0	0.2
2000/01 Q1	74.7	1.0	20.7	4.7
2000/01 Q4	73.1	n/a	21.1	5.8
2001/02 Q4	75.3	n/a	15.5	7.2

Abbreviations used in the tables: n/a: Information not supplied by operator, -: operator did not offer this service, Q1: April to June, Q2: July to September, Q3: October to December, Q4: January to March
Source: Oftel. The UK Telecommunications Industry: Market Information 2000/01December 2001; Oftel. Market Information, Fixed Update: August 2002.

In the business fixed line market competition has emerged fast. BT has lost a substantial market share during the 1990s to its competitors.

Table 4

The business fixed line market shares (%) in all calls – volumes.

	BT	C&W	NTL& Telewest	Worldcom	Others Includes Concert
All calls					
1996/97	76.3	13.0	1.4	0.0	7.3
2000/01 Q2	49.4	12.6	6.1	7.7	24.3
2000/01 Q4	48.0	11.5	6.9	6.1	27.6
2001/02 Q4	48.3	9.8	6.1	6.8	29.0

Source: Oftel. The UK Telecommunications Industry: Market Information 2000/01 December 2001; Oftel. Market Information, Fixed Update: August 2002.

However, it seems that the almost inevitable trend of BT losing its residential and business fixed line market shares has stopped during 2001 and 2002. Partly this might be the result of strategic change in the company, and partly the result of heavy financial problems of BT's competitors.

The mobile telephony market

Table 5

Cellular services: summary of all operators' volumes
(Mmitts)

	Volumes		C.A.G.R.	Volumes		C.A.G.R.
	2002/03 Q1	2001/02 Q1	(per cent)	2000/01	1996/97	(per cent)
Retail						
UK calls	12,346	10,509	17.5	37,983	6,613	55
Outgoing international	185	128	44.3	452	75	56.9
Whilst roaming abroad	286	238	20.4	882	118	65.8
All calls	12,817	10,874	17.9	39,317	6,806	55
Interconnection	6,032	5,679	6.2	19,833	3,491	54
SMS messages (millions)	4,136	2,762	49.8	8,041	n/a	n/a
Subscribers (000's)						
Connections during period	3,553	4,597	-22.7			
Post paid	14,650	12,937	13.2	13,745	7,109	18
Pre-pay	32,272	29,799	8.3	29,707	n/a	57.2
Total subscribers	46,922	42,736	9.8	43,452	7,109	64

Source: Oftel. The UK Telecommunications Industry…; Oftel. Market Information, Mobile Update: October 2002

Commercial mobile telephone services started in the UK in 1985 when British Telecom and Securicor founded a joint venture company – Cellnet - on 7th January. Later in the same year Vodafone started operations. The joint venture company was named BT Cellnet in 1999, and in the same year BT announced that it would be acquiring Securicor's minority stake in the joint venture. In 1993 Mercury Communications launched its One 2 One mobile telephone service.

Table 6

Mobile market shares 2000/01 in the UK

	Subscribers	Retail revenues	Call volumes
	%	%	%
Orange	27.8	23.4	26.2
One 2 One	22.1	17.0	21.0
BT Cellnet	25.5	23.4	23.6
Vodafone	24.7	36.2	29.3

Source: Oftel. The UK Telecommunications Industry…December 2001

The mobile telephone market in the UK has developed rapidly and market shares of the operators have changed substantially. The fourth and the latest entrant in this market – Orange, entered the market in April 1994 – is at the moment the biggest mobile operator by number of subscribers. (See more detailed information about the development of market shares in the appendix 3, Cellular services: subscribers. Connections, stocks, and net changes by operator). In October 1999 Orange was acquired by Mannesman. In February 2000 Vodafone acquired Mannesman and undertook according the conditions set by the regulator to sell Orange. In May 2000 Orange announced an agreed acquisition by France Telecom. In 2001 BT demerged, as a part of its financial rescue plan, BT Cellnet, which was named mmO2. In the same year One 2 One was re-named by Deutsche Telekom as T-Mobile.

3. Development and corporate strategies of British Telecom

BT's origins date back as far as to the introduction of the first commercial telegraph services in the early nineteenth century. The survivors of these companies were transferred to state control under the Post Office. Thus as in many other developed countries in the early days of telephony telephone services in the United Kingdom were provided by the Post Office in competition with private telephone companies. However, in 1912 the Post Office became the monopoly supplier of telephone services except in a few municipalities. Post Office was a state department until 1969, when under the Post Office Act it was transferred into a public corporation. The British Telecommunications Act, 1981, separated postal and telecommunications activities and created British Telecom as a distinct public corporation. In the beginning of the 1980s the process of opening up the telecommunications market to competition started. The Telecommunications Act, 1984, confirmed the privatisation of British Telecom. In 1984 50.2 per cent of British Telecom shares were sold to the public. In December 1991 the government sold half of its remaining holding of 47.6 per cent of shares, and all the remaining government shares were sold in July 1993. The outcome of the 1984 Act was that British Telecom finally lost its monopoly in running telecommunications network in the UK. The Act, by creating Oftel, completed the separation of regulatory and operational functions that had started in 1981.

A Government White Paper "Competition and Choice: Telecommunications Policy for the 1990s", issued on 5 March 1991, cancelled the duopoly and opened the market for competition. The first major restructuring of BT as an integrated telecommunications company was done in the beginning of 1990s. In April 1991 BT unveiled a new organisation structure, which was the result of twelve months of reorganisation. BT's new organisation focused on specific market sectors to meet better the needs of different customers – the individual, the small business, and the multinational corporations. For the first time after privatisation BT started to cut jobs. The object of becoming a leading global telecommunications operator was set during that time. The main strategic approach for this goal was to expand rapidly into overseas using strategic alliances with telecommunications companies. Earlier, in 1990, British Telecom sold its telephone manufacturing businesses. At its largest the Post Office/British Telecom manufacturing division consisted of eight factories around the country (three in London, three in Birmingham, one in Edinburgh and one in Cwmcarn) and employed 4,000 people. In the same year British Telecom sold also its holdings in cable operating companies: Thames Valley Cable, Ulster Cable, Aberdeen Cable Services Ltd., Swindon Cable and Coventry Cable as a part of its general strategy of concentrating on providing network-related products and services to customers all around the world.

In 1987 Sir George Jefferson resigned as Chairman of British Telecom, and the CEO Iain Vallance became also the chairman of the company. Sir Iain Vallance had joined the Post Office in 1966. He was appointed a director of British Telecom in 1984, and served as CEO from 1986. In 1993 BT and MCI, the second largest carrier of long distance telecommunications services in the USA, announced a joint global alliance through a new joint venture company Concert Communications. This new company was planned to play the main role in transforming BT into a leading global telecommunications operator. During the next few years in order to create a global network around Concert to serve multinational corporate clients BT acquired stakes or founded several joint venture companies overseas: e.g. in 1995 Albacom – a joint venture company in Italy with BNL, Viag InterKom KG – joint venture company in

Germany, Telenordia in Sweden with TeleDanmark and Telenor; in 1996 BT acquired Bell Canada's 25% stake in Clear Communications, New Zealand's second largest telecommunications company and a joint venture company in Korea with Dacom, a joint venture company Telfort B.V. in the Netherlands.

In 1996 at the annual shareholding meeting the chairman Iain Vallance formulated BT's corporate strategy in the following way. "We have a clear strategy…that has been in place for some time now." "First, we will continue to defend market share in the UK… Second, we will expand our overseas presence and our interests, particularly in partnership with others. Third, we will develop the market for advanced, interactive and multimedia services". BT's overseas activity targets were set in three parts of the world: North America – in partnership with MCI; mainland Europe defined as BT's extended home markets, and the Asia-Pacific region. As Vallance put it: "Your company already has a significant presence in most of the major European markets and we are looking forward to the time when we can compete head-to-head with the incumbent operators. We have 12 years experience of competition, they have none." BT also aimed to develop advanced services and with trials of interactive services from video-on-demand to home shopping.

In January 1996 Sir Peter Bonfield, the former chairman of ICL, joined BT as Chief Executive. Sir Iain Vallance continued as Chairman of BT. The general strategy was to transform BT into a global telecommunications player. The major role in this was planned to be taken by Concert Communications, a one billion joint venture with MCI Communications. In June 1996 BT and MCI announce that they are close to completing the world's largest Internet network. Later in November in the same year

BT and MCI announce that they have entered into a merger agreement. However, the management of BT underestimated Worldcom's CEO Bernie Ebbern. The bid battle between BT and Worldcom for MCI finally came to the end in November 1997 when Worldcom offered $37 billion for MCI. This left BT in need of a global partner.

In July 1998 BT and AT&T agreed to pool their international operations into a joint venture. In January 2000 Concert, a global joint venture between BT and AT&T formally comes into existence. However, its estimation of $7 billion in revenues in 2000 is about $3 billion less than originally predicted. Soon Concert with the end of telecommunications boom becomes a heavy burden for both of the companies. Finally in October 2001 BT and AT&T announce the close of Concert. This mean a £1.2 billion charge for BT and charges of $5.3 billion for AT&T.

4. Aftermath of abandonment of global player strategy

Rapidly changed market conditions in 2000 forced BT, and many other incumbents too, to concentrate all efforts to secure the financial stability of the company. Now the debt issue was on the agenda of every meeting of the senior management, and every management decision was constrained by the serious financial problems of the company.

After the third generation mobile phone licence auctions BT, just like other European telecommunications companies who won licences, became heavily indebted. At the start of 2000 it was expected that in the UK each licence would cost £500 million - £1 billion. The result was £4.5 billion per licence. In addition it is estimated that each licence winner must invest around £3 billion - £4 billion in the physical network. BT won licences in the UK, Germany, and in the Netherlands. During 2001 the financing of the massive debt of BT became the key issue driving the rescue strategy of the company. European telecommunications companies spent around Eu128 billion on 3G licences. However, the massive debt of European telecommunications companies results not only from the 3G licence payments, although they certainly are the largest single debt item. In early 2001 the total debt of France Telecom, Deutsche Telekom, BT, Telefonica, KPN, Telecom Italia, and Sonera – to mention some of the most indebted European incumbents – was Euro 233 billion. The very high licence fees were part of a strategy of the aggressive growth that was based on optimism and faith in a sort of

Table 7

Telecom debt	Projected 2001 net debt (€bn)	Debt/ earnings ratio
France Telecom	62	5.0
Deutsche Telekom	56	4.3
BT (before restructuring)	45	4.5
Telefonica	24	1.9
KPN	22	5.9
Telecom Italia	19	1.3
Sonera	5.7	3.8
Source: Financial Times		

technological determinism that would create high and growing consumer demand for new services. The fact that most new entrants in telecommunications services on the both sides of Atlantic are now in serious financial problems although even if they did not pay high licence fees tells us something. On the one hand, it suggests the growth optimism and confused strategies of these companies, and on the other how easy it was to raise funds for future investment projects. The change in market conditions has exposed these companies shortcomings. Until spring 2000 non-incumbent companies like Atlantic Telecom, Colt, Viatel could easily raise hundreds of millions of pounds to fund ambitious expansion plans. A representative of Viatel, a Nasdaq-listed company, which has 4,000 corporate clients in the UK after buying AT&T's business in the UK, says: "We have been a victim of circumstances, which is the change in market conditions. The investment houses that were preparing to provide money for the purpose of building this network are the same investment houses that are punishing us for carrying so much debt".[4]

Business Week in April, 2001, writes that "The saga of BT is full of lost changes" The journal argues that while trying to create a global BT through partnerships with the US telecommunications companies – with MCI and later with AT&T - the management of BT missed what was happening in Europe. Later BT tried to compensate this by "an 18-month buying binge in mid-1999". However, BT, unlike Vodafone, spent billions to acquire mainly minority stakes in second-tier mobile telephone companies. In the spring 2001 BT faced all the problems of high debt. If the company was not able to pay off at least $15 billion of its debt by spring 2002, its credit rating would fall to the lowest investment grade, triple B.[5] This would raise the cost of BT's interest payments by as much as $300 million annually.

Table 8

	Projected 2001 net debt (Euro bn)	Required debt reduction Triple-B rating (Euro bn)	Single-A rating (Euro bn)

[4] The Sunday Times, March 18, 2001
[5] Standard and Poor's investment grades are AAA, AA, A, and BBB. Ratings BB, B, CCC, CC, and C are regarded as having significant speculative characteristics. Source: www.standardandpoors.com

France Telecom	62.0	18.3	30.8
Deutsche Telekom	56.0	10.5	23.5
BT	45.0	10.1	20.1
KPN	22.0	9.1	12.8
Sonera	5.7	2.9	3.7

Source: Financial Times March 16, 2001

Also refinancing of the debt would become more expensive. The financial situation of BT was critical. The financial rescue plan approved in November 2000 had become insufficient in only six months. A new more radical rescue plan was approved in May 2001. Would this plan save the company? And can the management deliver it? There was some skepticism in the City, and particularly in the media. The market seems not to believe in effectiveness of the dual management of a new chairman and an old CEO.

The debt reduction plan in November 2000

Aim
To cut debt by £10 billion and give individual businesses more freedom.
Method
Float a 25% stake in BT Wireless to raise £5 billion or more.
Float a 25% stake in Yell, BT's directory business. *)
Create a new network company serving other telecoms carriers to isolate regulatory skirmishing with Oftel.
Retain full ownership of newly created BT retail, Ignite, and Btopenworld.

Management
Sir Ian Vallance to be chairman until July 2002.

The debt reduction reality, May 2001

Aim
To cut debt to £15-20 billion by March 2002.
Method
Right issues of shares to raise £5.9 billion.
Sale of Japanese mobile interest to Vodafone.
Sale of Airtel in Spain for £1.1 billion.
Dividend payments scrapped to save £1.4 billion.
Demerger of BT Wireless.
Future Bt to embrace BT Retail, Bt wholesale, BT ignite and Btopenworld.
Management
Sir Christopher Bland replaces Sir Ian Vallance.
Sir Peter Bonfield's contract extended.

*) Yell was sold in June 2001 for £2.14m to a partnership of venture capitalists, Apax Partners Ltd and Hicks, Muse, Tate and Furst.

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The Sunday Times, May 13, 2001

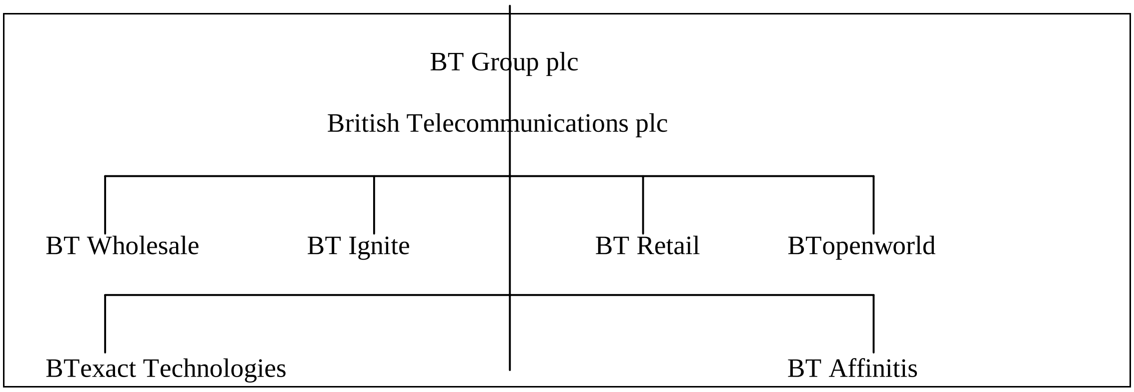
Rebuilding credibility

The changing market conditions forced BT, like other telecommunications incumbents and new entrants, to reformulate their strategies. In November 2000 BT announced a radical restructuring that would break the business into five separate public companies. In the spring 2001 the management of BT with new chairman Sir Christopher Bland announced that BT's strategy was to concentrate on the voice and data markets in the UK and elsewhere in Europe. This was a major change from the previous strategy of the global leadership in telecommunications. A substantial part of this strategy is the reorganisation of the company. Two separately quoted companies were to be created: BT Wireless (later MMO2) and Future BT (later BT Group plc). BT Group plc was the listed holding company for the BT group companies. BT Group plc represented the group as a whole to external audience such as shareholders, financial analysts and the media. Under this structure British Telecommunications plc was a wholly owned subsidiary of BT Group plc. British Telecommunications plc was to own separately managed businesses comprising:

BT Ignite – an international broadband business network business focused primarily on corporate and wholesale markets; BTopenworld – an international mass-market Internet business; BT Retail – serving end-business and residential customers;

BT Wholesale – which sells network capacity and call terminations to other carriers; BTexact Technologies – engineering and technology R&D activities; BT Affinitis – a business offering services, which can be, bought stand alone or in integrated offerings.

The new corporate structure of BT.



What are the strategic options facing BT? The strategy of becoming a leading global telecommunications company finally came to an end then it became impossible to finance an aggressive global enlargement programme. The Concert joint venture with AT&T became a heavy burden, which worsened the already shaky financial position of the both companies. If these companies could not conquer the telecommunications world, who could? The question asked in many articles, and most probably in the boardrooms of telecommunications incumbents, is whether to be an integrated telecommunications company, or to focus on some of the strengths of the company, or to move into new businesses?

Only a few years ago it seemed to inevitable that "content is king" would be true in telecommunications. There was a strong belief that the market will no longer reward ownership of infrastructure and that there would be a swift move toward a market that rewards the ownership of content: "the development and provisioning of content and advanced services will be key to telecom's future".[6] However, there are now not so many strong believers in such a claim.

Recently BTopenworld's chief executive Andy Green said: "We have taken a very simple position: we are running an access business. Telecoms companies are taking a

[6] Charles Sirois (1999) "Telecom in the new millenium: A shift of power", Telecommunications – American Edition, May 99, Vol. 33 Issue 5, p 18, 1p.

huge risk already by investing in infrastructure, other people have got to think about providing attractive broadband content" (Financial Times, September 18, 2001). However, only a few months later the chairman Sir Christopher Bland said that BT could become a fully-fledged broadcaster within two years. The chairman even highlighted more ambitious possibility of BT producing its own content. (Financial Times January 8, 2002). However, Sir Christopher took a few steps back a few days later on 9th January and pointed out that BT would eventually use its network for television but would not enter directly into the media and entertainment business. These announcements illustrate the complexity and uncertainty facing strategists in the changing environment of telecommunications, media, and information technology.

However, gradually the measures of rebuilding the credibility of BT started to bring positive results. The target to cut the massive debt set in the spring 2001 was reached a year later in March. The credit rating of BT did not fall to the lowest investment grade. Standard & Poor's rates the company A-. The recent announcement of selling its stake in Cegetel, the French telecoms group, to Vodafone would bring BT's debt down near to £10 billion level. In its debt cutting BT seems to be succeeded well: it now has less debt than its European peers.

The debt reduction reality by the end of March 2002

Result
Debt has been cut to 13.7 billion
Method
Cost-cutting
£5.9 billion rights issue in June 2001
£8 billion of disposals
The closure of a loss making Concert joint venture with AT&T
£2.4 billion sale and leaseback of its UK properties

Floating off wireless activities into mmO2
Management
Sir Christopher Bland replaced Sir Ian Vallance in April 2001
Ben Verwaagen replaced Sir Peter Bonfield in December 2001
Senior executive team reduced from 16 to 5
The heads of BT's three main business - retail, wholesale and international network business – placed on the board
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The Birmingham Post, May 17, 2002; The Guardian, April 08, 2002, and July 25, 2002

The City welcomed the annual results, April 2001 – March 2002, of BT Group under Ben Verwaayen, its new chief executive. The turnover of the group rose 8 per cent to £18.4 billion, and earnings before interest, tax, depreciation and amortisation (EBITDA) were £5.7 billion, which were in line with the previous year.The numbers in the first quarter of 2002 show that BT's wholesale and retail businesses combined grew 1.5 per cent.

However, while some analysts are still skeptical about the depth of the cultural change in the company, most agree that the chaos in telecommunications, and particularly the situation with alternative telecom companies creates an opportunity for BT.

Table 9

Telecom debt (at calendar year end)

	Total debt	**Debt to revenue ratio**		
	2001	2001	2000	1999
	Euro (bn)			
BT Group*	30.1	0.9	1.5	0.5
Cable&Wireless*	4.8	0.4	0.6	0.7
Colt Telecom Group	2.2	1.5	2.1	3
Energis**	1.9	1.5	2.1	1.4
Telewest	9.4	4.5	4.5	4.5
NTL	19.4	4.6	5.3	5.1
France Telecom	63.2	1.5	1.1	0.6
Deutsche Telekom	67	1.4	1.5	1.2
Telefonica	27.7	0.9	0.9	0.8
Sonera	2.8	1.3	2.8	0.7

Telecom Italia	20.6	0.7	1.4	0.4

* At 31 March 2002, 2001, 2000,
** At 31 March 2001, 2000, 1999
Source: www.Fisonline.com, Mergent Inc; Annual Reports

5. BT's current strategy

In April 2002 Ben Verwaayen, announces BT's new three-year strategy. The main elements of this strategy are: to cut costs, increase revenues in BT's core UK business and reduce borrowings.

"After three years of rapid expansion followed by an embarrassing u-turn on its international strategy, BT has returned to its home territory. Under the plan, BT aims to improve revenues from its residential and business customers in the UK and stop losses in its remaining international network business, Ignite". (The Guardian, April 09, 2002)

BT Ignite supplies large corporate customers and other telecommunications operators with international voice and data communications. It operates BT's core 35,000 mile network spanning 290 European cities. Ben Verwaayen set in the strategy a 12-month deadline for BT Ignite to break even.

In the strategy major acquisitions for the foreseeable future are ruled out. The CEO scotched speculations over BT's ambitions to move into broadcasting. Broadband is a central plank of its strategy for the next few years. BT has already reduced rather substantially its wholesale internet prices for internet service providers. BT will also offer mobile services under the BT brand using mmO2's network mobile services to business customers. Later in October BT announces that it plans sell mobile services to customers using the mmO2 network under the brand Mobile Sense also to consumer market.

The strategy also illustrates the changes in the management style of the company. BT's senior executive team was reduced from 16 to 5 in an effort to speed up decision making within the group. Sir Christopher Bland had already earlier noticed that BT's divisional heads focused on independence rather than cooperation. This accelerated particularly when the stockmarket took off in the late 1990s. "That caused some disruptive patterns of behaviour", admits Sir Christopher. One of the first things to do was to place the heads of the group's three main businesses – retail, wholesale, and the international network business, Ignite – on the board. "It has had quite a unifying effect," says Sir Christopher. (The Guardian, July, 25, 2002).

In the strategy Mr Verwaayen set targets for each of the company's four businesses – ranging from 3% annual revenue growth at BT Retail to 35% revenue growth at Openworld. Overall the company plans to attain 25% compound annual growth in earnings per share, and 6% to 8% organic revenue growth.

The focus in the UK core business, however, does not mean that BT would have forgotten lucrative opportunities of broadcasting , and in general opportunities of convergence of media and telecommunications. In July this year BT announces a new approach to broadcasting, but now in the framework of the new strategy. BT Group and BSkyB announced a broadband interactive TV alliance. The deal gives Sky customers the option to upgrade their interactive TV facility to a faster BT broadband connection. Sky hopes that this will boost demand for its interactive TV services such as betting and shopping.

BT plans to use its DSL network to enhance communications experience to the PC through video and multimedia. BT will focus on new applications in the communications / PC area that linking PC, telephone, sound system and TV will provide. BT announced that its network strategy includes the principle of multimedia capable network intelligence offering a customer-centric open architecture with opportunities for third party applications. The company plans to exploit new technology and partnerships to extend broadband reach to a wider customer base.
November 6th BT announces with Microsoft an alliance in collaborating on how to bring dynamic broadband applications to the market for residential and business customers. Ben Verwaayen, chief executive of BT Group, said:
'BT has accelerated on all fronts during the past two years to make broadband as attractive as possible to potential customers, residential and business, by giving them the compelling applications that will deliver a superb online experience that meets their needs and aspirations. That's where this alliance comes in.'
The alliance focuses on five key programmes, developing applications for multimedia home computing, increasing the productivity and flexibility of large organisations, the new generation of mobile computing, Net and web services, and portals.

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Appendix 1

Fixed operators: residential call volumes by type of call by operator

Call volumes (millions of minutes)

	All Operators	BT	C&W Comms*	ntl & Telewest	Others
Local Calls					
1996/97	60,730	54,805	114	5,817	6
1997/98	62,841	53,715	3,343	5,757	26
1998/99	63,680	51,815	4,241	7,318	306
1999/00	61,079	47,772	4,100	8,196	1,011
2000/01	55,618	43,286	634	10,142	1,555
National Calls					
1996/97	21,590	18,993	1,148	1,398	51
1997/98	23,066	19,730	1,744	1,413	179
1998/99	23,917	19,887	1,937	1,682	411
1999/00	23,954	18,654	2,014	1,871	1,415
2000/01	24,609	17,026	265	4,445	2,873
International Calls					
1996/97	2,051	1,578	180	163	131
1997/98	2,358	1,702	261	137	259
1998/99	2,502	1,796	254	182	270
1999/00	2,919	1,709	211	153	846
2000/01	3,063	1,603	32	338	1,089
Calls to Mobiles					
1996/97	1,212	1,060	26	126	1
1997/98	1,611	1,420	28	146	17
1998/99	2,772	2,186	257	272	57
1999/00	5,076	3,724	372	670	310
2000/01	7,134	5,209	80	1,448	398
Other Calls					
1996/97	1,015	737	18	253	6
1997/98	5,969	5,070	71	788	39
1998/99	15,470	12,100	1,387	1,915	68
1999/00	37,077	28,503	2,896	5,255	423
2000/01	75,896	56,536	687	16,759	1,913
All Calls					
1996/97	86,598	77,172	1,486	7,757	183
1997/98	95,845	81,637	5,448	8,241	519
1998/99	108,340	87,784	8,075	11,369	1,112
1999/00	130,106	100,362	9,593	16,146	4,005
2000/01	166,320	123,660	1,699	33,132	7,829

*C&W Comms and ntl & Telewest figures from 1997/98 are not comparable with earlier figures. For more information see general notes. Local, national and international comprise only simple voice calls (including ISDN). Other calls include number translation services (including revenues from the called party), premium rate, DQ, operator calls and the speaking clock.

Source: Oftel, The UK Telecommunications Industry: Market Information 2000/01, December 2001.

Appendix 2

Fixed operators: business call volumes by type of call by operator

	All Operators	BT	C&W Comms*	Worldcom	ntl & Telewest	Others
Call volumes (millions of minutes)						
Local calls						
1996/97	24,544	20,751	2,096	n/a	979	717
1997/98	26,089	21,061	2,492	n/a	948	1,587
1998/99	26,246	19,772	2,879	n/a	1,246	2,350
1999/00	25,129	17,100	3,640	n/a	1,483	2,906
2000/01	22,823	13,945	3,254	n/a	2,105	3,518
National calls						
1996/97	17,860	12,275	3,337	n/a	556	1,692
1997/98	20,046	12,469	3,370	n/a	560	3,647
1998/99	22,362	12,390	3,339	n/a	664	5,970
1999/00	24,708	12,048	3,529	n/a	822	8,309
2000/01	28,001	11,123	4,572	3,724	1,840	6,742
International calls						
1996/97	2,421	1,014	582	n/a	56	768
1997/98	3,017	1,009	710	n/a	58	1,239
1998/99	3,534	992	660	n/a	80	1,801
1999/00	4,145	970	644	n/a	70	2,461
2000/01	4,676	893	680	1,431	123	1,549
Calls to mobiles						
1996/97	1,580	l,138	288	n/a	48	106
1997/98	2,054	1,431	444	n/a	65	114
1998/99	2,843	1,829	420	n/a	86	508
1999/00	3,917	2,329	654	n/a	147	787
2000/01	4,907	2,727	948	n/a	320	912
Other calls						
1996/97	3,031	2,526	137	n/a	43	325
1997/98	5,095	3,483	393	n/a	126	1,093
1998/99	11,379	5,910	797	n/a	225	4,447
1999/00	21,114	11,453	1,559	n/a	792	7,311
2000/01	34,731	18,277	2,493	2,152	1,437	10,371
All calls						
1996/97	49,436	37,705	6,440	n/a	1,683	3,608
1997/98	56,300	39,453	7,409	n/a	1,757	7,681
1998/99	66,365	40,893	8,094	n/a	2,301	15,076
1999/00	79,013	43,900	10,026	n/a	3,314	21,773
2000/01	95,137	46,965	11,946	7,307	5,825	23,094

*C&W Comms and ntl & Telewest figures from 1997/98 are not comparable with earlier figures. For more information see general notes. Local, national and international comprise only simple voice calls (including ISDN). Other calls include number translation services (including revenues from the called party), premium rate, DO, operator calls and the speaking clock. There may be some double counting of revenues and minutes, particularly for international calls, due to calls supplied by an operator to a reseller being counted by both the operator and the reseller.

Source: Oftel, The UK Telecommunications Industry: Market Information 2000/01, December 2001.

Appendix 3

Cellular services: subscribers
Connections, stocks and net changes by operator

	All Operators	Vodafone	BT Cellnet	One 2 One	Orange
Connections during year (0OOs)					
1996/97	3,324	1,152	1,245	389	538
1997/98	4,728	1,668	1,567	834	659
1998/99	9,002	3,479	2,288	1,534	1,702
1999/00	18,124	5,454	4,793	3,577	4,300
2000/01	24,189	6,423	6,464	5,324	5,978
Subscribers at year end (O00s)					
Post paid					
March 1997	7,109	2,867	2,728	620	894
March 1998	8,556	3,232	3,077	1,021	1,227
March 1999	10,439	3,728	3,613	1,297	1,801
March 2000	12,164	3,712	3,813	2,094	2,545
March 2001	13,745	4,293	3,455	2,715	3,281
* June 2001	14,030	4,360	3,435	2,755	3,480
Pre-pay					
March 1997	-	-	-	-	-
March 1998	467	198	-	177	92
March 1999	4,438	1,847	909	951	731
March 2000	15,021	5,079	3,591	2,924	3,426
March 2001	29,707	7,985	7,705	6,266	7,751
* June 2001	28,689	6,180	7,455	6,673	8,381
Total					
March 1997	7,109	2,867	2,728	620	894
March 1998	9,023	3,430	3,077	1,198	1,319
March 1999	14,878	5,575	4,522	2,249	2,532
March 2000	27,185	8,791	7,404	5,018	5,972
March2001	43,452	12,279	11,160	8,981	11,032
* June 2001	42,719	10,540	10,890	9,428	11,861
Net change during year					
1996/97	1,374	423	337	209	405
1997/98	1,914	563	349	577	425
1998/99	5,854	2,144	1,445	1,051	1,213
1999/00	12,307	3,216	2,882	2,769	3,440
2000/01	16,267	3,487	3,756	3,963	5,060

*Subscriber data for June 2001 shows revised Vodafone & BT Cellnet data. See notes for more details.

Source: Oftel, The UK Telecommunications Industry: Market Information 2000/01, December 2001.

BT Group *	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Total turnover a)	13,337	13,242	13,675	13,893	14,446	14,935	16,039	18,223	21,903	29,666	24,642
Total operating profit (loss)	3,37	2,403	2,982	2,663	3,101	3,245	3,657	3,474	3,198	-370	-1,861
Profit (loss) before taxation	3,307	1,972	2,756	2,662	3,019	3,203	3,214	4,295 b)	2,942	-1,031	1,461 c)
Expenditures on R&D	240	233	256	271	282	291	307	268	345	364	362
Expenditures on tangible fixed assets	2,446	2,155	1,171	2,671	2,771	2,719	3,031	3,269	3,681	4,986	3,101
Total debt	3,768	3,386	3,199	3,551	3,637	3,176	4,771	4,333	11,004	30,911	18,441
Net interest payble	304	256	230	259	170	129	310	286	382	1,314	1,622
Return on capital employed	19.3	13.60	17.8	15.6	18.3	19.3	19.5	19.2	18.2	14.90	16.0
Earnings (loss) per share - pence	33	20	29	28	32	33	27	46	32	-28	12
Dividends per share	14.40	15.60	16.70	17.70	18.70	54.85	17.00	18.30	19.60	7.800	2.00
Share price (year end)	3.620	4.240	3.390	3.180	3.540	4.300	8.130	13.590	5.140	2.530	2.800
Number of lines (000's)	25,595	26,084	26,64	27,072	27,301	27,553	27,601	28,101	28,501	28,951	29,113
Staff numbers	210,5	170,7	156	137,5	130,7	127,5	124,5	124,7	136,8	137	108,6

* At March 31

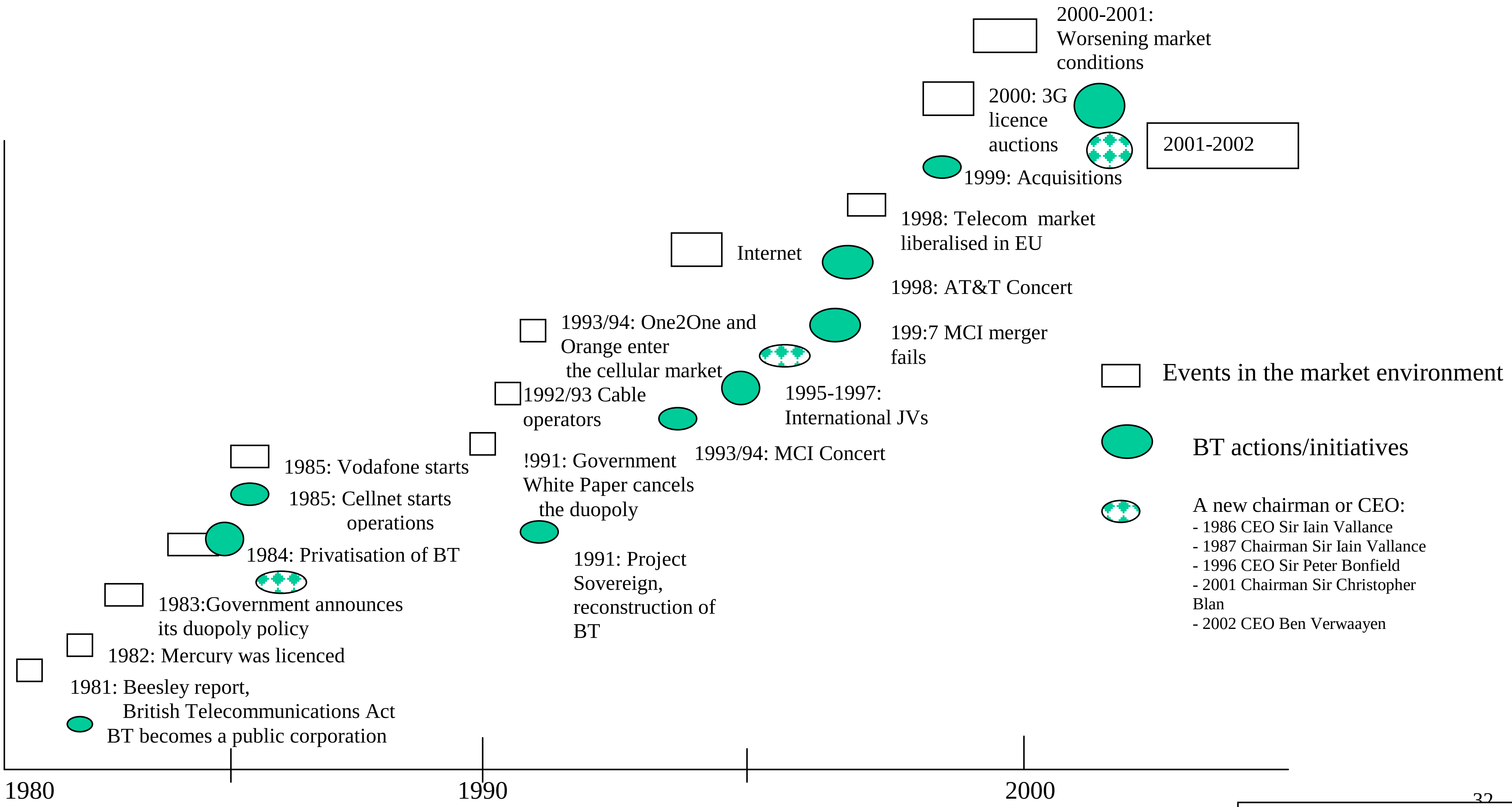
a) Includes discontinued activities: e.g. 1998: £3,425m,1998: £3,425m; 1999: £2,037m; 2000: £3,675m; 2001: £8,598m; 2002: £2,827m.
During the 2002 financial year, in addition to the demerger of mmO2, BT disposed its interests in Japan Telecom and J-Phone Communications, Airtel and Yell.
These business activities are shown as discontinued activities.
b) Includes exceptional gain of £1,107m
c) Includes net exceptional profits of £4,357m. Net exceptional profits in 2002 are principally profits on sale of discontinued activities.

Source: Annual Reports of BT

BT Group **Selected Operational Statistics**	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
UK exchange line connections ('000)	25.488	25.595	26.084	26.64	27.072	27.299	27.553	27.599	28.099	28.499	28.949	29,07
Business (000)		5,859	5,947	6,129	6,459	6,798	7,16	7,521	7,982	8,45	8,91	9,03
% growth over previous period			1.5	3.1	5.4	5.2	5.3	5.0	6.1	5.9	5.4	1.3
Residential (000)		19,729	20,114	20,471	20,613	20,5	20,393	20,13	20,067	20,04	19,97	20,027
% growth over previous period			2.0	1.8	0.7	(0.5)	(0.5)	(1.3)	(0.3)	(0.1)	(0.3)	0.3
Service providers (000)										90	70	56
% growth over previous period											22.20	20.00

Source: Annual Reports of BT

BT:
Searching for a winning strategy



Source: Annual Reports of BT