Narrowing the Telecommunications Field

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In 2008, the telecommunications industry will have to navigate the twin challenges of serving increasingly wider corporate strategies with an increasingly narrower, and potentially less innovative, array of tool sets.

Competition, in both terms of sellers and buyers, in a particular marketplace is important to many aspects of the product or service being offered. When you have many "seller" competitors, you have price and innovation competition. When you have many "buyer" competitors, you have a diverse marketplace where new "sellers" are encouraged to join the market.

In fact, you could say that the following quote from William Knudsen applies:

In business, the competition will bite you if you keep running; if you stand still, they will swallow you.

The telecommunications and business intelligence markets have seen an unprecedented consolidation, or "swallowing," at almost the same time.

Consolidation in the telecom service provider industry has removed not only competitors on the "seller" side of providers, but competitors from the "buyer" side of the business intelligence market. The consolidation in the business intelligence industry has reduced the number of enterprise partners for those telecom service providers to support their customers.

Looking at Too Many Trees

One of the more interesting aspects of taking potshots… err… blogging on the telecommunications industry is that you sometimes get the bite-sized snippets of information and not the whole picture. In other words, you may not see the forest for the trees. For example, a look at the individual merger and acquisition activity in the telecommunications space from a blogger's perspective shows the following:

- June 2006: Nokia and Siemens merger

- December 2006: SBC and AT&T BellSouth merger finalized
- January 2006: O2 and Telefonica merger approved by shareholders
- January 2006: Verizon and MCI merger finalized
- September 2007: Deutsche Telekom acquires Orange Netherlands
- October 2007: Dobson and AT&T merger "approved" by the Department of Justice
- November 2007: Telemar and Brasil Telecom merger forecast

However, it is not until you pull back and see a visualization of what the forest looks like that you understand what all of this merger and acquisition activity means. For example, I recently found a map (see below) that shows in the broad strokes the Regional Bell Operating Company (RBOC) coverage in the United States. Also, it should be noted that this map is not 100% accurate for coverage and shows the “majority” RBOC for each state. However, it does portray exactly how widespread the “new” AT&T’s footprint is.

Looked at individually, all of this merger and acquisition activity can just seem like a collection of events. However, it is truly interesting the amount of consolidation that has occurred in the telecommunications industry. And this consolidation is not confined to the United States (see the aforementioned Telefonica and Deutsche Telekom) or to a particular part of telecommunications (sees Nokia and Dobson). It appears that all telecom providers are attempting to become "all things to all people" – from voice in terms of both wireline and wireless to video in terms of cable, satellite and IPTV to data in terms of DSL, mobile broadband and fibre to the home (FTTH).

Caveat Venditor

Most of us are familiar with the concept of "caveat emptor" or "buyer beware." However, when there is a relatively low number of buyers (read: competitors or enterprises) in an industry, this creates a situation where the buyers have more power with that industry's suppliers than if there are a relatively large number of buyers. This is a situation that might be described by Michael Porter's Five Forces Model as "caveat venditor" or "seller beware."

Whether they are reacting to the consolidation of "enterprise buyers" in the telecommunications industry or not, the predominant information technology providers are themselves undergoing a similar round of consolidation. This has been highlighted by the recent slew of merger and acquisition activity surrounding business intelligence vendors. Here are some highlights of the past 18 months of activity:

- May 2006: Hyperion completes acquisition of Upstream Software
- January 2007: Cognos acquires Celequest
- January 2007: Hyperion to acquire Decisioneering
- March 2007: Oracle buys Hyperion
- April 2007: Business Objects intends to acquire Cartesis
- May 2007: Business Objects acquires text analytics leader Inxight Software
- September 2007: Business Objects acquires data quality expert FUZZY!
- September 2007: Cognos to acquire Applix
- October 2007: SAP agrees to acquire Business Objects
- November 2007: IBM purchases Cognos

Again, if you were to simply look at these as individual events, you might miss the fact that the business intelligence organizations supplying the telecommunications industry have gone from a relatively large number to a relatively small number, thus theoretically "stabilizing" the power between buyers and suppliers of information technology to the telecommunications industry per Porter's Five Forces Model.

In fact, this has caused quite a bit of debate on the pluses and minuses of these types of consolidated or conglomerated organizations.

Unrelated Diversification Equals …

In both of these merger and acquisition trends, the industries in question seem to be violating another of Porter's theories. This one is the concept of generic strategies. Simply put, Porter theorizes that companies should pick to be:

- A low cost provider to all parts of an industry
- A value-add provider to all parts of an industry
- A niche player to a particular part of an industry

To attempt to be all things to all buyers in an industry leads to unrelated diversification or the concept of conglomeration. These mega/one-stop/one-throat-to-choke organizations seek to enter "any industry and any business in which they think they can make a profit."

In doing this, companies, whether they be Verizon attempting to provide all telecommunications services to every man, woman and child in the United States or Oracle attempting to provide every enterprise application conceivable to all companies, have historically faced difficulty putting all the pieces together to be successful at attempting to operate across all those different aspects of a particular industry without diluting their products/service, their brand or their corporate resources.

In fact, some say that the only way to be successful with this type of conglomerated organization is to have "extra" headcount in the corporate office to support and direct this unwieldy structure.

Note: I have never read a press release about a merger/acquisition that did not include the obligatory "synergy" language, but I have also never seen those synergies include keeping around "extra" executives to implement the strategy… with the possible exception of GE under Jack Welch – but I would say that the Welch/GE combination was the exception rather than the norm for unrelated diversification.

Double Black

For the telecommunications industry, all of this means that they will have to navigate the twin challenges of serving wider and wider corporate strategies to serve their diverse customer base and customer requirements with a narrower, and potentially less innovative, array of enterprise tool sets from their smaller collection of enterprise partners. Business intelligence organizations in the telecommunications industry will have to manage these risks to the best of their abilities.

On the ski slopes of Colorado, we will often describe this type of risky proposition as “no guts, no glory” or with the double black diamond symbol:

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Providing increasingly precise and segmented customer strategies to serve the many disparate markets will require integration across multiple operational systems. Many of these operational systems will be coming from a single enterprise vendor. While it is possible that the data integration and extract, transform and load (ETL) aspects of their jobs will get easier with an integrated business intelligence stack from a single enterprise vendor, the question remains if these solutions will be the best for the telecom service providers or the best for the few organizations providing those solutions.

Being locked into that single vendor’s solutions will create challenges for business intelligence organizations that want to think outside of the box of that vendor’s product road maps if those solutions do not meet their requirements for functionality or price. Often, these business intelligence organizations will require the ability to put together quick “prototype” models beyond the planned vendor functionality. It is possible that the business intelligence organizations will need to look to outside platforms or vendors to meet the requirements that the enterprise vendor does not provide.

In any event, business intelligence organizations will face continued challenges and rewards from the consolidation of not one, but two marketplaces. And, it will be a slippery slope to meet those challenges.