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The evolving structure of the worldwide telecommunications industry 1997-2007

We have reached an interesting point in time in that we are almost as distant from the telecoms meltdown as the meltdown was from the sharp upturn in the fortunes of telecoms operators during the 1990s. During 2001, almost every company included within the sector, even if broadly defined as TMT to include closely related media and technology companies, suffered a sharp downturn in its market value. During the years prior to 2001, almost all of them saw sharp increases, but the years since 2001 have been rather more erratic. The initial question, therefore, is whether we are broadly back where we started, or whether structural changes have been so extensive as to make comparisons invidious. A further question concerns why the structural changes have taken place, and in particular whether they have been market-driven.

This paper is the latest fruits of an ongoing research programme lasting roughly one decade which tracks the evolving structure of the worldwide telecommunications industry. In recent times this has been tackled on a continent-by-continent basis in a series of related papers and publications. However, this particular paper concentrates upon restructuring in relation to the world's largest TMT companies irrespective of their physical location.

The starting point is the FT500 which is published at roughly one yearly intervals. In this case, the period covered is 1997-2007. The beginning of this period coincides with the time when TMT companies were growing in value much faster than companies in other sectors and hence were becoming increasingly prominent in terms of market value, the primary indicator used in compiling the FT500. The paper then traces the fortunes of these companies over the ensuing decade, both in terms of their ranking within the FT500 and, insofar that like-for-like comparisons can be made, in terms of absolute market value.

The evidence from the data broadly indicates that there was an overall upward trend during 1997-2001 followed by an overall downward trend during 2002-2004. The experience since then has, however, been very patchy, with major recoveries offset by continued slumps. It is evident that once a company falls out of the FT500 it rarely claws its way back in. Naturally, many companies disappear because they are taken over, so attention needs to be paid to the role of M&A activity in restructuring.

It is undeniable that more restructuring has taken place in the TMT sector during 1997-2007 than in any other comparable industrial sector. Given the constant 'creative destruction' driven by new technologies, this conclusion is hardly a surprise. Nevertheless, any presumption that the main beneficiaries have been technology companies would be misplaced. But which companies have prospered and why? Are there any common threads or is it an essentially random process? This paper sets out to answer some of these kinds of questions using an extensive database unique to the author.