

DEVELOPMENT APPROACHES AND STRATEGIC MOVEMENTS WITHIN THE MOBILE TELECOMMUNICATION FIELD

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Abstract

In February 2000, when Vodafone took control of the British operator Orange, they had to split, because Vodafone owned two mobile telephony licenses in the same country – Great Britain – fact that was interdicted by the European legislation. So, on 30th of May 2000, France Telecom announced the purchase of the mobile telephony operator – Orange public limited company (plc) – from Vodafone for the amount of 40 billion euro.

Focusing on the fusion – acquisition as a way of development for the mobile telecommunication companies, this paper begins with a theoretical analyze of some concepts related to the external growth. The example taken reveals the advantages and disadvantages of the fusion – acquisition France Telecom – Orange as well as the dangers that an enterprise has to face when it decides to appeal to the external growth.

Key words: external growth, mobile telephony, cultural issues, subsidiary

The analysis of the different actors' strategies reveals a certain number of ways for their development. These movements will be widely presented in this paper, focusing on the example of the fusion acquisition France Telecom – Orange.

Ways of development

Beginning from their initial positioning, the different telecommunication actors searched to develop themselves within one or many dimensions, depending on the identified opportunities. This development was made taking into consideration the different modalities or organizational arrangements.

The choice of the development modalities depends on the resources and competences that the enterprise disposes of reporting to the considered activities. Particularly, the familiarity with the activities (in terms of market, technologies and products) will influence the choice of the participation way:

- The internal development for the familiar activities;
- The networks creation, to avoid the fact that the new activity will be drowned by the existent activities;
- The acquisition that offers the possibility of a rapid entry taking advantage of the existent technical or marketing competences. The integration of an enterprise with its own culture, its own rules and procedures, implies a certain risk;
- The alliances, joint-ventures and partnerships: these ways are particularly pertinent when the enterprise wants to limit its investments and reserve some possibilities to withdrawal. These ways may also constitute an intermediate phase towards an integration
- The educational acquisition consists in making limited investments in view of familiarizing with an activity which it is far from the base profession. The American regional companies (RBOC) made reduced investments, but very diversified, in the years 1980, in

view of exploring certain ways of development, such as TV cable, financial services or the micro-

computers distribution. The number of this type of acquisitions aims to rise facing the multimedia development.

The familiarity with the product	New	Joint-venture	Educational acquisition	Educational acquisition
	New Familiar	Internal development Acquisition	Network Acquisition License	Educational acquisition
	Current	Internal development	Internal development Acquisition License	Joint-venture
		Current	New Familiar	New

Technologies and services
 Source: Day (1990), adapted after Roberts&Berg (1985)

Figure 1. The development ways

In order to define the target markets for further development, there is necessary to elaborate a systematic procedure of evaluation and comparison. This procedure has five stages:

- *The current potential estimation.* The first phase consists in the current potential estimation of every considered markets; this work is made beginning with the existent documentation, completed with the information gathered together from surveys.
- *The future's potential foreseen.* There is about the anticipation of the local economical, political, cultural and commercial conditions' evolutions, with the help of experts. The business media often present this kind of synthesis.

- *The market share foreseen.* The difficulties usually met within the foreseeing of a market share are higher when there is about an international market. The company that sells a telecommunication service abroad has to evaluate the manner that buyers appreciate the relative advantages of the product and the company that made it.
- *The costs and profits foreseen.* The costs depend on the chosen strategy to penetrate the market. If a telecommunication company sells a license, its costs are established by the contract. If it creates a unity in another country, its costs have to take into consideration the local working conditions, the fiscal system, the commercial practices and the

exactingnesses concerning the local people employment. After evaluating these costs, the seller deducts the turnover so as to reveal the company's benefits for every year of the foreseen horizon.

- *The profitability foreseen.* In order to foresee the profitability, the profit has to be reported to investments. The profitability has to be sufficient to cover not only the company's profitability common objectives, but also the risk attached to the marketing activity of the concerned country.

The fusion – acquisition

The fusion is a transaction through which two companies of equal size, from the same branch of activity, accept to integrate their operations in view of competitive advantage creation throughout the reunite of their resources and capabilities.

The acquisition is the transaction through which a company buys the majority shares' package of other company, transforming it into a unity within its portfolio.

The fusions are usually reciprocal agreements between two companies, whereas the acquisition is based on the force constraint from the buyer company. From the point of view of their frequency, the acquisitions are more numerous than the fusions.

The arguments for the horizontal acquisition are:

- *The growth of the power on the market.* Throughout a horizontal acquisition, there are purchased not only the buildings, equipments and products, but also the market share. Together with the market share's growth, the power of the company widens and the number of the strategic options, the company can afford, expands.
- *The overtaking of the barriers for the market entrance.* The growth throughout the gradual monopolize of concurrent company's market share proves sometimes to be a strategy that

consumes time because the competitors fight for every customer. To avoid the fight, it is advisable the acquisition that leads to the objective fulfillment within the shortest time. However, the acquisition is a way to overtake the entrance barriers on the new national markets.

- *Costs and time consumption decrease.* The development and launching of new products always prove to be an expensive and time consuming experience. For this reason, it is sometimes preferable the acquisition of the company that had already developed a new product and the ulterior expansion of the commercial and production operations.

- *The risk decreasing.* Besides the higher financial and time costs, the new products' development initiative is also marked by the presence of a higher level of incertitude. There is never a certitude that a company can create a successful product from a commercially and technically point of view. Throughout the acquisition the access to a successful product is assured.

The problems associated to the horizontal acquisition are:

- *The organizational integration difficulty.* In the acquisition movement there are major difficulties when there is necessary to join together two different organizational cultures, to connect the financial – accounting systems and construct the operational collaboration relationships between the two unities. Usually, the purchased company's employees oppose resistance to the imposed changes by the buyer company.

- *The possibility to pay an overprice.* In the case when the managers of the buying company don't pay attention to the market value and the obligations of the purchased company, they risk to pay an overprice, fact that will be reflected into the further profitability.

- *The higher financing cost.* Often, the acquisitions are financed either throughout a bank loan or shares issue.

In the both cases, the financing cost is high.

- *The overestimation of the synergic potential.* Usually, throughout the acquisition, there is the intention to combine the resources and capabilities of the two unities in view of new and distinctive competences. Many times, the foreseen result is not at the same level with the effective result due to the impossibility to combine the resources.

France Telecom – Orange: a worm in the fruit?

France Telecom Group's Specific

France Telecom provides fixed telephony and mobile telecommunications, data transmission, Internet, and multimedia services to consumers, businesses, and other telecommunications operators in primarily in France, the United Kingdom, Spain, Poland, and rest of Europe. It operates in three segments: Personal Communication Services (PCS), Home Communication Services (HCS), and Enterprise Communication Services (ECS). The PCS segment provides mobile telecommunications services focusing primarily on the transmission of voice and data over digital networks using the GSM standard, as well as mobile broadband and UMTS services. The HCS segment offers fixed telecommunications services, including fixed-line telephony, multimedia, Internet access services, public telephone and card services, portals and e-merchant services, content services, and operator services, as well as engages in sales, distribution, and customer service operations. The ECS segment provides communication solutions and services to businesses, such as fixed-line telephony, including access, national and international calling, and customer relationship management; data services, which consist of leased lines, fiber optic services, and non-Internet protocol

managed data services; and network services, including DSL and Wi-Fi services, fiber optic services, Internet protocol network services, and mobility solutions. In addition, France Telecom offers integration, project consulting, and management services, as well as various other services related to the network or infrastructure that comprise speed dialing, call management and telephone conferencing, invoice management, communication of the new number, number retention and virtual private networks, and network management services. Further, it provides broadcast services and equipment sales and leases. The company has a strategic partnership with Nokia Corp. France Telecom was founded in 1990 and is headquartered in Paris, France.

France Telecom serves more than 172 million customers in five continents of which two thirds are Orange customers. The group had consolidated sales of 52.9 billion euros in 2007 (13 billion euros as of March 31, 2008). As of March 31, 2008 the group had 111.9 million mobile customers and 12 million broadband internet (ADSL) customers. France Telecom is the number three mobile operator and the number one provider of broadband internet services in Europe and one of the world leaders in providing telecommunication services to multinational companies. It developed an almost 100% digital network, with more than 1,5 million kilometers optical cable. For the partial privatization of the France Telecom company, the French government obtained over 7,1 billion dollars.

The group's operating activities are organized by geographic zones. These are composed either by country, by groups of countries, or worldwide for enterprise business customers. Their mission is to closely coordinate all customers' activities and adapt the overall strategy to the requirements of the local markets.

The convergence of services accessible on fixed lines, mobiles and the Internet and the distribution of content on all platforms characterize the group's innovation and strategy. The personal communication services, home communication services and enterprise communication services are directing the group's global strategy in terms of customer offers. Content and healthcare departments lead these new business territories.

The Fusion – Acquisition France Telecom - Orange

Owned by the Hutchison from Hong Kong, Orange was sold in October 1999 to the German Mannesmann for 34 billion euro. On the 19th of November 1999, Mannesmann underwent a public offer of buying from the British Group – Vodafone. There was finally a public offer of exchange which ended this operation with 186 billion euro in February 2000. However, there was a condition: the transfer of Orange. Because the European laws interdicted the fact that an operator had 2 mobile telephony licenses in the same country, Vodafone was obliged to separate from Orange. The attribution of licenses per state limited the number of mobile telephony operators on every national market. To the licenses for the GSM technology there were added the so called „third generation” licenses in 2000 (3G and UMTS). So, five UMTS (Universal Mobile Telecommunication Systems) licenses were attributed in Great Britain to TIW, Vodafone-Airtouch, British Telecom, Orange and One2One (Deutsche Telekom), whereas in France, there were 4 licenses that had the power. For an operator, the only way to enter on a national market was to take control of an already installed enterprise. So, Deutsche Telekom entered on the British market buying One2One in August 1999 and the Dutch KPN Company bought the German operator E-Plus.

This very competitive context determined the actors to appeal to the external growth, which had as a consequence a concentration of mobile telephony operators.

Because Vodafone was forced by the European authorities to give up Orange, France Telecom manifested its interest in it. Specialized persons were charged to evaluate a fusion-acquisition with Orange. The purchase plan was finally presented on the 5th of May 2000 to the Vodafone leaders. Besides its high amount, the purchase was approved by the French Government.

In this case, we can distinguish the external growth. More precisely, from a juridical point of view, it is not a fusion, in the restricted term, because a fusion is an association of entities and none of these entities has to be perceived as buyer or target. Or, in this case, France Telecom was clearly designed as buyer. It is the case of an absorption. The Orange acquisition by France Telecom was made by a bilateral negotiation, the capital of Orange being owned by Vodafone within its network – Mannesmann.

The transaction payment (40 billion euro) was made half in numeraire for the repurchase of Orange shares and the other half for the France Telecom shares as an exchange with the remained Orange shares. However, it is not a public offer of purchase (POP) nor a public offer of exchange (POE). A public offer of purchase for the Stock exchange quoted shares is initiated by a company, following a determined exchange proportion between the „target” company's shares and the „purchaser” company's shares. The POP and POE regards the entire titles' owners of a quoted company. In the Orange case, only two enterprises were negotiators – France Telecom and Orange.

France Telecom repurchased Orange for the following reasons:

- *The rapid development of a mobile telephony network.* The main

advantage of the external growth operations, reported to the internal growth, is the possibility to have an almost immediate operational activity.

- *The possibility to become a mobile telecommunication operator on the British market.* Because the licenses were already established, France Telecom's only chance to enter on the British market was to take control over an existing mobile telecommunication company that already had a license.

- *Foreseeing an opportunity of purchase.* Till 1999, the international strategy of France Telecom was characterized by certain prudence. The operator proceeded to some participation taken abroad, but these were alliances that were privileged. Thus, France Telecom associated with Telfin to launch Mobistar in Belgium in August 1996. However, the operator made a convention with Deutsche Telekom to discuss every possibility of acquisition before putting it together. This collaboration contributed to the creation of the Wind consortium, in association with the Italian electricity company Enel. As a result, fixed and mobile telephony services were launched in Italy in March 1999. But, Deutsche Telekom cut off this partnership when it tried to fusion with Telecom Italia in April 1999, without consulting its French partnership. This betrayal led France Telecom to change its development by intensifying its international presence within external growth beginning with 1999, focusing on the access to the United Kingdom (Orange) and Germany (MobilCom). The forced sale of Orange by Vodafone constituted an irresistible opportunity to establish this development strategy of France Telecom Group.

- *The strategic imitation.* In the time of the repurchase of Orange (1999-2000), the acquisitions of operators by the great groups were multiplying. We could find titles in newspapers such as: "Deutsche Telekom penetrates the British markets buying One 2 One in

August 1999", "The KPN purchase the German operator E-plus". Sometimes the enterprise's managers can adopt irrational decisions from a strategic point of view imitating the comportment of their main competitors.

- *The Orange brand.* In 1997 Orange asked the Office of Harmonization on the Interior Market to register a community mark "Mobilix" for its telephonic products in Denmark. The Albert René Publisher House attacked the company arguing that there was a similarity between "Mobilix" and "Obelix" from the comic strip "Asterix", mainly because of the "ix" suffix. The problem was the resemblance between the two names: the same length, a similar sequence of letters and they produced very similar sounds. As a result, the Court of the European communities rejected the demand of the Albert René Publisher House and authorized Orange to use the name "Mobilix". Beginning with June 2001, Orange renamed its marks – "Itinériss" and "Mobilix" – in "Orange".

- *The management team.* Hans Snook, the Orange founder, and his team played an important role in the success of Orange in United Kingdom. Orange Operator was the fourth and last entrant on the British market. At that time, the three actors already present on the market had complex and high tariffs. So, to make itself a place, Orange innovated by proposing cheaper fixed prices, which included complementary services. Orange was the first operator in the United Kingdom that proposed the concept "Talk Plan", with a monthly fixed price of communication time, minutes report on this fixed price and the invoicing per second. The mark made the offer accessible to the large public by simplifying it. As a result, the enterprise knew a commercial, but moreover a financial success. In June 1996 Orange became the youngest enterprise quoted on the stock exchange British market. France Telecom wanted to take advantage of the managerial skills of

the leaders of Orange UK to adopt a new culture throughout its mobile telephony subsidiary.

In the case of the France Telecom – Orange fusion, we can identify the following difficulties associated to the external growth:

The cultural difficulties. The employees “ex-Orange” had a feeling of proud because of their success on the British market. The employees “France Telecom” wanted to impose their rules

and culture to the Orange UK employees.

On the 30th of September 2000, France Telecom Mobiles Group - the first mobile telecommunication operator in France (49,6% market share in France), was present within its subsidiaries in 20 countries, whereas 13 subsidiaries were in Europe.

The cultural difficulties between the two organizations are market as follows (Table 1):

Table 1

France Telecom and Orange culture before the fusion

	France Telecom Mobiles	Orange
History	French subsidiary of the historical French operator	Launched in 1994, Orange was the last entrant on the British market
Profession	Mobile telephony	Mobile telephony
Qualitative dominant objectives	Technical expertise	Marketing (the mark, the brand)
Evaluation criteria	Users number, territory covering	Users number
Repository in terms of development	Number of countries	Innovation marketing
Positioning	Technical control	Client orientation
Decision process	Procedures	Management team
Information and controlling system	Hierarchical report	Oral and informal communication
Structure type	Bureaucracy	Entrepreneurial organization
Attitude and comportment	Culture of “big group”	Conviviality, familial culture
Identification and membership elements	Culture of engineer	The brand

Source: Joffre O. (2006), “Le management de l’intégration dans les fusions “entre égaux””, Thèse de doctorat à l’Université Paris Dauphine

The transaction amount. The granted amount for the transaction was a handicap from the beginning, deducting the gains that the buyer expects to obtain after the acquisition. There is always a risk to pay too much

comparing to what the acquisition really can bring.

France Telecom paid out 40 billion euro (plus 4 billion euro resumption of debts) to buy Orange from Vodafone. Every one of the 6 million subscribers was worth 6600 euro. As a comparison,

a subscriber valued 138 euro when NTL bought Virgin Mobiles in April 2006 (offer of 1,38 billion euro for 10 million subscribers). [a5] It seems that the market perceived the operation as a bad affair: the France Telecom shares course continued to diminish from 130 euro at that time of the purchase to 20 euro in 2003.

The problem of cultural integration in the external growth operations is not only linked to the cultural differences of the organizations that merged into one.

It is also an excuse made by the enterprise's actors. When some people come across relational difficulties, they hide behind the cultural argument.

All in one the fusion-acquisition France Telecom – Orange permitted the company to expand itself. Eventhough the paid price was considered too high, the leading team managed to cover the costs and obtain profit due to the cheaper prices and other free complementary services.

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