

EXIT MATTERS...



By Nigel Cook, ceo of Evolution Capital

In life, as in Bridge, it pays to play to your strongest suit. A recent report from analyst group Gartner supports this view. It noted that telecoms carriers are investing billions in IP technology and came to the dispiriting conclusion that more than half will fail to establish new lines of business over the next four years.

Their strategies are increasingly driven by mobile broadband, IP Telephony and content provision. The risk, says Gartner, is that over investment in immature technologies is not a sure bet for future profits. It's better, it thinks, to adapt to a world with lower margins and concentrate on maximising the value in the core business.

Typical of investment in new markets to compensate for lower voice call revenues is Telecom Italia signing deals with Fox, MGM and Sony, to distribute content over high speed fixed line broadband connections, and SK Telecom's acquisition of Korean record label YBM Seoul Records. Gartner warns of the dangers. Many carriers have limited knowledge of their existing subscriber base and a weak understanding of new business models. It points to the failure of Germany's E-Plus with content portal iMode, among other examples.

Carriers that diversify are likely to do so by acquisition, particularly with media and IT service companies. Competition will become fiercer and pricing will come under pressure especially for those businesses with consumer target audiences. With any acquisition you can take defensive measures. Gartner suggests that carriers think through risk mitigation and put potential exit strategies in place. If there is separate network access and new, non-telecom service units, individual companies should be incorporated. If results fail to match projections, subsequent disposal would be simplified.

Man differs from the apes because he has a prehensile thumb and can think two steps ahead. Bridge players and M&A professionals tend to think three steps ahead.