

Megamergers: Good for Competition?

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Telecommunications today looks like a feeding frenzy. AT&T has purchased TCI and is close to buying MediaOne. SBC has bought Pacific Telesis and SNET and is about to merge with Ameritech if the Federal Communications Commission goes along. Bell Atlantic's merging with GTE will surely be a hot topic at the Bell Atlantic shareholders' meeting here in Atlanta on May 17. The German and Italian companies, Deutsche Telekom and Telecom Italia, want to merge and will be on the search for a US company.

Is this the competition promised by the Telecommunications Act of 1996? In a word, "Yes!" Here's why.

The changes in telecommunications are sweeping. Today's industry has emerged as a global combination industry -- an industry whose networks span the globe to combine entertainment, all kinds of business communications, information processing, and news into products that fit your needs wherever you are and whoever you are. This is quite different from the old Ma Bell, whose little local monopolies let you call someone miles away. Calling was pretty impressive stuff in the 1920s, but it is hardly something to get fired up about for the 21st Century. As a result, all of these old monopolies that were built for the 1920s have to completely remake themselves if they and their employees are to be players five years from now.

What do these companies have to do to give us customers products we can be excited about? First, they have to build customer base. Why does Ty® market teenie Beanie Babies™ through McDonalds instead of Mom and Pop hamburger stands? Because McDonalds has the customers. If telecommunications companies want the builders of whiz bang communications products to beat a path to their networks, they need to follow McDonalds' example and build customer base.

Second, big players have to build global scale. Some of the hottest telecommunications companies today are Qwest, Level 3, and Global Crossing, which are building international fiber optic networks that combine local, long distance, Internet, multimedia, and sometimes wireless communications into a single system. Communications customers who are multinational, work with suppliers and customers around the globe, or simply travel around they globe want a communications company that can be where they are and take them where they want to go. To these customers, the world is their marketplace. They need communications companies that think the same way.

Third, the companies need to respond to competition. What was the logical thing for Bell Atlantic to do when SBC entered its backyard by buying SNET? Get into SBC's

backyard! Merging with GTE would do this. The Bell Atlantic/GTE and SBC/SNET mergers put both companies in positions to compete aggressively for customers whose needs reach beyond the companies' old telephone boundaries.

Lastly, telecommunications companies need to be at the right place, at the right time, with the right stuff. This means they need to constantly innovate, provide excellent customer service, and collaborate with computer, publishing, and entertainment companies. Global reach and the right customer base help them do this.

In short, these companies are merging to create markets for gee whiz innovations, to provide global services, and to attack their competitors. And this is exactly what we had in mind with the Telecommunications Act of 1996.