

## TELECOMMUNICATIONS IN THE NEXT TEN YEARS

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As dramatic as the changes in the telecommunications industry have been in the ten years since divestiture, the next ten years will bring even greater change. During this period, convergent technologies will lead to worldwide end-to-end voice, data, fax, video, and image services. These services will begin between "hub" cities and work their way outward toward suburban and rural areas, much the way telephone service did in the 1920s and 30s. Non-traditional and global competitors will play major roles in the emerging multimedia information storage, processing and transport business.

Companies in the telecommunications industry will have to compete under a very different set of requirements. The utility mindset which has served shareholders and ratepayers so well for so long is already obsolete. Creating shareholder value in the transformed telecommunications industry requires companies to do two things: first, to generate greater cash flow from their operations, and second, to strategically use that cash flow to take advantage of growth opportunities and position themselves for the future.

### Generating Greater Cash Flow

Cash flow may be increased in several ways:

- **Cost reduction:** Companies will have to continue improving productivity in order to be competitive. The industry will become globalized and intensely competitive in the next few years, and will be forced to further shed its historical lifetime employment arrangement in favor of greater utilization of assets. In addition to rightsizing, firms will have to *reengineer* many of their business processes based on available and emerging technological capabilities.
- **Better marketing:** Companies will have to make more intensive and better use of marketing to generate greater revenue from their existing infrastructure. For example, they will have to create greater awareness of their offerings, develop more brand equity, and increase the use of third-party distributors to obtain greater market coverage.

- **Managing the regulatory process:** The move towards more competitive markets will enhance opportunities for growth, and should be welcomed. The regulated firms have a level playing field in both existing core business (access and toll) and receive fair access to expanded market opportunities.
- **Writing off obsolete equipment:** Regardless of how regulatory and financial accounting determine their depreciation and asset returns, service providers must begin to use management accounting practices to understand the real sources of productivity and profitability. This will entail taking write-off losses for obsolete but not fully depreciated capital equipment, thereby generating greater cash flow.

## **Growth Opportunities**

As telecommunication companies generate more cash flow, they will need to find growth and investment opportunities within the industry. Diversifying into unrelated industries, as many companies did in the past, would be a serious mistake; focusing on their core competence will be a crucial success factor.

There are several major growth avenues available in the industry. These are categorized below as short-term, medium-term and long-term opportunities:

### **Short-term**

The most immediate growth opportunity is in the area of wireless communications. Every sector within this market is either already growing rapidly (as with cellular services) or is projected to grow enormously (as with Personal Communication Services or PCS). Even wireless technologies which have been around for a long time (such as one-way paging) are experiencing booming growth.

Cellular subscribers in the U.S. already number 13 million and are increasing at 30-40% per year. PCS may attract as many as 60 million U.S. customers within a decade of deployment. The demand for wireless data services, currently very small, is expected to explode in coming years; the services will likely be used by a majority of the 40 million or so mobile workers in the country.

The wireless opportunity is truly a global one; it is estimated that seventy new national wireless networks will be established globally in the next several years—a huge opportunity for a global-minded company such as BellSouth. The wireless opportunity also spans all forms of information, as the capabilities of wireless systems will expand rapidly to enable interactive broadband multimedia communication. There will thus be no "Negroponte switch," which suggests that what now goes over

the air (video) will go under the ground and what goes under the ground (voice) will go over the air. Instead, there will be a convergence between wireless and wireline information superhighways capable of broadband multimedia communication/

### **Medium-term**

Beyond providing wireless communication capabilities, there will be significant opportunities in the provision of video-on-demand services. There will be at least six such services:

- **Video entertainment:** The provisioning of video entertainment programming unconstrained by time will clearly be a major source of revenues.
- **Video advertising:** A huge amount of advertising will shift from local newspapers to video, adding at least \$20 billion a year to industry revenues. Both the classified advertising business of newspapers and the directory business of telephone companies will be shifted from paper to broadband media.
- **Video shopping:** In an increasingly time pressured society, interactive video shopping will grow rapidly. As customers increase the use of interactive technology for ordering, revenues from toll-free "800" calling services will be impacted.
- **Video education:** There are already over sixty corporate video education networks in place; this trend will greatly accelerate, as most publishers begin to develop multimedia education materials on CD-ROM platforms.
- **Tele-working:** An increasing proportion of work today is location-independent, and represents a great opportunity for increasing network usage by providing workers with "virtual telepresence"—access to all the information available to them at a worksite, as well as to coworkers located there or anywhere else.
- **Tele-medicine:** The impact of this is already being felt, and will increase rapidly as resource sharing and cost reduction in healthcare continue to be burning issues.

### **Long-term**

For long-term growth, telecommunications companies in the developed world will have to target emerging nations. In the 19<sup>th</sup> century, the world economy grew through growth in Europe. In the 20<sup>th</sup> century, the United States and Canada have served as the engines of global economic growth. In the next century, it will be the

huge emerging nations of Asia and Latin America, along with other developing countries.

The magnitude of this opportunity for telecommunication companies is simply staggering. Worldwide, it is estimated that fewer than 50% of the population has ever made a single phone call. The global subscriber base is less than 500 million. Most developing nations now place an equal if not higher priority on creating a telecommunications infrastructure as they do on roads, bridges and electricity. The World Bank is stepping up its lending for telecommunications projects, and a new development bank is likely to be created solely to fund such initiatives. The China market alone is projected to add twenty million access lines a year for many years to come. The India market may soon generate comparable demand. It is no coincidence that global companies such as General Electric and Motorola have looked at the world and concluded that their future lies in such growth markets.

### **The BellSouth Advantage**

BellSouth is ideally positioned today to capitalize on these growth opportunities. Some of the factors in its favor:

- **Location:** BellSouth's territory is entirely in the sunbelt, the growing part of the U.S. economy. The Census Bureau has forecasted that growth will continue in the sunbelt at least at the same rate between 1990 and 2000 as between 1980 and 1990.
- **The emerging North-South axis:** With NAFTA and its successor treaties, the North-South axis will become very important; more and flows of goods, services, money and information will occur along this axis. BellSouth already has a major wireless presence in Latin America. It is in the right place at the right time.
- **Current position:** BellSouth is a leader in wireless services; it is one of the largest cellular players, and owns part of RAM Mobile Data.

Status quo management will not allow companies to take advantage of these opportunities. They will have to think out of the box—to anticipate where the technology and the market are going, and to aggressively position themselves to prosper in the future.

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