Vodafone Air Touch: The Acquisition of Mannesmann

Case Analysis

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I. General Environment

What are the key elements in the general environment of the telecommunications and mobile telephony industry? What are the key opportunities and threats?

(Sky Huvard)

The general environment in which Vodafone operates is composed of several dimensions in broader society that influence the mobile telephony industry, Vodafone, and it's competitors. These environmental segments are economic, demographic, political/legal, technological, sociocultural, and global. Our analysis chose to focus on the segments with the greatest impact on the mobile telephony industry, including demographic, political/legal, and technological segments.

1. Demographic - Opportunity

The mobile phone market was one of the fastest-moving segments in the telecommunications industry in early 2000, beating all forecasts for growth in recent years. Between 1997 and 1999, the mobile phone market more than doubled, growing from 203 million to 475 million customers. Estimates of worldwide growth continued, as evidenced by investment in infrastructure (equipment and transmission networks) between 1997-1999, which increased by 50 percent.

The European market was Vodafone's target. Mannesmann, Vodafone's target for acquisition was based in Germany. Germany at the time, has the lowest penetration rate in Europe, a large number of potential users, and potential revenue per customer well above the European average. The penetration rate in Finland was nearly 3 times that of Germany, so there was quite a bit of growth left in the German mobile phone market.

2. Political/Legal - Threat

European regulation favored convergence, the ability for mobile phone operators to offer the same voice and data services as fixed line operators, allowing for direct competition between the two. Direct competition was a difficult issue facing mobile phone operators because they would undoubtedly have to interact with the existing fixed line operators and agree to their terms in order to provide service to their customers. Industry regulators would closely have to watch the interaction between fixed-line and mobile operators in order to keep competition fair and prevent collusion.

European regulation managed the mobile phone market by requiring licenses for the wireless spectrum. The European licenses were offered under auction, which meant that only the most financially sound mobile phone operators could consider winning a bid for the license. As a result, Vodafone's acquisition of Mannesmann could put at risk their opportunity to win a bid for spectrum licensing.

European regulation mobile phone operator and manufacturer alliances should also have been considered. Industry regulators should have payed close attention to these alliances, making sure that collusive strategies were not in place to restrict mobile phone manufacturers from cooperating with

competing mobile phone operators.

3. Technological - Opportunity

A new factor emerged in mobile telephony, the convergence of fixed-line telephony and wireless telephony. This potential convergence raised some debate as to whether or not mobile phones were a substitute for fixed-line phones, or simply a complementary product. Either way, this convergence favored the mobile phone market due to the fact that the mobile phone industry was growing and fixed-line customers all had the potential to switch to mobile operators because the same services were available.

Some uncertainty existed in picking a type of mobile phone network standard. Some operators might have developed an intermediate infrastructure that would allow full convergence, and there was a chance that it would not be widely adopted. Mobile phone operators could instead hold out, sticking with the existing GSM network and focusing on the next generation (3G) rather than the intermediate UMTS standard.

While fixed-line phone operators enjoyed an existing billing relationship with their customers, the mobile phone operators had an opportunity to build more modern customer relationship management processes. This could create a better relationship with the customer and have higher economies of scale than could be achieved with existing fixed-line operator customer relationship management.

II. Industry Environment

Use Porter's Five Forces Model to determine the attractiveness of the mobile telephony industry. Based on your analysis, is the industry attractive or unattractive?

(Sky Huvard)

1. Threat of New Entrants - Low

While evidence suggests companies often find it difficult to identify new competitors, that is not the case in the mobile phone industry. Because the mobile phone operators must compete for spectrum licenses, they can easily identify their competitors in the individual markets. The threat of new entrants bringing additional production capacity should be downplayed in this industry, because technology should assumed to be similar and thus new entrants do not necessarily bring additional production capacity, nor does their entry hold consumer cost down. The fixed-line operators do however present a risk to mobile phone operators, because they will certainly provide extra production capacity and lower the consumer costs as a result of this competition.

2. Barriers to Entry - High

(a) Economies of Scale - Moderate

The mobile phone companies were expanding internationally at a fast pace, but the potential benefits of economies of scale in R&D and network exploitation remained unclear.

Mobile phone manufacturers did enjoy great economies of scale in production, marketing and R&D, which allowed the three major producers to dominate the industry and sustain a competitive advantage. Strategic alliances with these producers would allow the major mobile phone operators to share in these economies, to lower costs for both companies and to minimize the threat of new entrants.

(b) Product Differentiation - Low

There was no evidence that mobile phone operators achieved product differentiation. In fact, mobile phone manufacturing brands were more important to consumers than those of the mobile phone operators. As a result, mobile phone operator product differentiation could only be successful if in conjunction with the major phone manufacturer brands.

The multimedia content of mobile phone operators could prove to be a successful strategy for product differentiation in the future.

(c) Capital Requirements - High

Compared to capital requirements of the telecommunications industry as a whole, the mobile phone industry capital requirements were low. However, within the mobile phone industry, capital requirements present a significant barrier to entry. Because spectrum licenses went up for auction,

only the most financially fit and liquid mobile phone operators could acquire these essential components of their business strategy.

One method of negating these stiff capital requirements within the mobile phone industry was to acquire or form alliances with existing operators in other countries. These arrangements took shape through the use of roaming agreements, allowing one operator's customers to use their allies' network when their own was unavailable.

(d) Switching Costs - Low

Because product differentiation is low between the mobile phone operators, switching costs are bound to be low. If multimedia content becomes a major opportunity for product differentiation as is expected, this could raise the switching costs for customers.

Switching costs could also be higher if mobile phone operators and manufacturers decided to create and operate equipment that was not compatible across mobile phone operators. This seems unlikely, as it would also reduce the ability of mobile phone operators to put in place roaming agreements with their allies.

(e) Access to Distribution Channels - Low

European regulations governed distribution channels through the use of spectrum licenses. This policy of auctioning licenses to mobile phone operators should be considered a strong barrier to new entrants.

(f) Cost Disadvantages Independent of Scale - Low

There are no cost advantages that the mobile phone operators have established that new entrants can not duplicate.

(g) Government Policy - Low

Government controls the entry into the mobile phone industry through their spectrum licenses. Deregulation would pose a significant threat to existing mobile phone operators, but does not seem to have been on the horizon.

3. Expected Retaliation - High

Mobile phone operators have a major stake in the industry through the purchase of licenses and investment in fixed assets with few, if any, alternative uses. These mobile phone operators also have substantial resources.

New entrants pose a threat in the sense that industry growth is fast and seemingly unconstrained, except for the role of licenses. Vodafone should expect retaliation by its competitors if they acquire Mannesmann, a point where they will have significantly less financial slack than their competitors.

4. Bargaining Power of Suppliers - High

Mobile phone manufacturers are the primary supplier to the mobile phone operator market. These manufacturers were dominated by Ericsson, Nokia, and Motorola with 61 percent of the market. Because the mobile phone manufacturing brands were more important to consumers than the mobile phone operators themselves, bargaining power of suppliers was high.

Industry firms are not a significant customer for the supplier group because the suppliers operate in far more international locations and markets than the mobile phone operators. Suppliers' goods are critical to buyers' marketplace success. Mobile phone manufacturers could integrate forward into the industry. These suppliers were credible, having substantial resource and provide a highly differentiated product.

5. Bargaining Power of Buyers - High

There was very little differentiation among mobile phone operators, and the switching costs are low. Accordingly, the industry firms battle for higher quality, greater levels of service, and lower prices than their competitors, and the consumers benefit.

Mobile phone customers purchase the entire portion of the mobile phone operator's industry output. The sales of the mobile phone service account for the entire amount of the seller's annual revenues. The mobile phone customers could switch to another mobile phone operator at little, if any, cost. The mobile phone industry's products are undifferentiated and standardized. The buyers do not pose a credible threat of backward integration because of the high capital requirements.

6. Threat of Substitute Products - Low

Substitute products for the mobile phone industry could be considered fixed-line phone products if convergence is not considered to exist. This substitute product's price is not lower, and its quality and performance capabilities are negligible compared to mobile phone products. Switching costs are low but the advantage goes to the mobile phone industry because there is a greater chance of switching to mobile phones from fixed-line phones than the other way around.

7. Intensity of Rivalry among Competitors - High

(a) Numerous or Equally Balanced Competitors - High

There are many equally balanced competitors in the mobile phone industry, and industries with these characteristics tend to have strong rivalries.

(b) Slow Industry Growth - Low

Because the mobile phone market is undoubtedly growing, there is little pressure to take customers from competitors.

(c) High Fixed Costs or High Storage Costs - High

Mobile phone operators have high fixed costs due to spectrum licensing and the establishment of wireless network points of access. As a result, these mobile phone companies try to maximize their productive capacity, which leads to excess capacity and intense rivalry.

(d) Lack of Differentiation or Low Switching Costs - High

Because buyers in the mobile phone industry believe mobile phone service is a commodity, rivalry within the mobile phone industry is high. Switching costs for mobile phone consumers are also low, so competitors can easily attract buyers through pricing and service offerings.

(e) High Strategic Stakes - High

Nearly all operators in the mobile phone industry considered it their primary market, so competitive rivalry is intense. Europe is a dense market, high strategic stakes also exist because of this geographic location. These competitors want as much of the markets as then can get.

(f) High Exit Barriers - Low

Specialized assets such as spectrum licenses maintain a high resale value. Fixed costs of exit, strategic interrelationships, emotional barriers, government and social restrictions are all negligible.

8. Summary - Unattractive

An unattractive industry has low entry barriers, suppliers and buyers with strong bargaining positions, strong competitive threats from product substitutes, and intense rivalry among competitors. The mobile telephone industry has high entry barriers and a low threat of product substitutes, but these attractive forces do not sufficiently offset the threats posed by the strong bargaining position of suppliers and buyers in combinations with the intense rivalry competitors face.

III. Competitor Intelligence

Who are the main competitors of Vodafone Air Touch and how does Vodafone Air Touch measure up against these competitors?

(Sky Huvard, Matt Wentz, Lindsay Zolad)

1. Deutsche Telekom

Deutsche Telekom focused on the full range of telecommunications applications, including fixed-line telephony and Internet service. These additional services were offered through subsidiary companies. In the future, Deutsche Telekom wanted to maintain their large integrated offerings of telecommunications services and maintain a presence in all important markets. A lack of aggressive plans for the future denotes their lax attitude towards risk.

2. France Telecom

France Telecom shared many attributes of Deutsche Telekom, operating in the fixed-line and mobile telephony industry. France Telecom also had an Internet service provider and cable television business to strengthen their fixed-line offerings. France Telecom wanted to pursue an aggressive strategy towards international expansion, a risky objective.

3. Telefonica

Telefonica was one of the most active companies in the industry, exploiting its scale and providing new services. Telefonica believed in convergence, so to supplement their fixed-line and mobile telephony businesses, they decided to integrate their company to provide content services including television and the Internet. These moves pointed towards their first-mover status by adopting new types of strategies for convergence and content offerings.

4. British Telecom

British Telecom is another competing on both fixed-line and mobile telephony fronts. BT was interested in expanding internationally in the future through the use of acquisitions and alliances with other telecommunications providers like AT&T. British Telecom was Vodafone's greatest threat in Europe.

5. Telecom Italia

Telecom Italia had strong leadership in its home country. Telecom Italia operated in the fixed-line and Internet service businesses like most of the competition. Telecom Italia was focused on internal expansion for the future through the acquisition of companies already operating in these international markets.

IV. Competitor Analysis

During our competitor analysis, we determined what would drive Vodafone's competitors, as shown by their future objectives, what their competitor's are doing and can do, as evidenced by their current strategies, what the competitor's believe about the industry, as shown by their assumptions, and what the capabilities of competitors are, as shown by their strengths and weaknesses.

1. Future objectives

(a) How do our goals compare with our competitor's goals?

Vodafone, unlike its competitors, focused exclusively on the mobile telephony market. Vodafone believed that fixed-line operations would be a distraction from being a pure wireless operator. This exclusive focus allowed Vodafone to offer sale and rental of mobile phone handsets, transmission of both mobile voice and data, and support a wide range of products and a variety of payment systems. Vodafone, unlike it's competitors, had a focus strategy.

(b) Where will emphasis be placed in the future?

Chris Gent, CEO of Vodafone suggested that voice, data, and the Internet would all move to wireless because of its convenience, and placed additional rational for their exclusive focus on wireless because its return on investment was higher than operating fixed-line networks. Vodafone will continue to operate as a pure wireless company in the future.

(c) What is the attitude toward risk?

Vodafone has an aggressive mobile telephony strategy as evidenced by being the first digital service provider for mobile telephony. Additionally, they were heavily investing in international expansion through acquisitions and alliances. Through their continued focus on wireless, Vodafone wanted to be the technological leader of the industry through the development of the first digital mobile wireless network in Europe and the development of new methods to send voice and data over the network. These examples show that Vodafone was not afraid of risk.

2. Current Strategy

(a) How are we currently competing?

Vodafone faced its competitors through the use of a focused strategy. This strategy allowed Vodafone to produce services that service the entire mobile telephony segment.

(b) Does this strategy support changes in the competitive structure?

Vodafone's strategy actively targeted all mobile telephone users in and around their market areas. Their strategy of producing services to the entire telephony segment had been maintained and updated with the changing technology in the mobile world.

In order to maintain a sustainable competitive advantage Vodafone would have to continuously

update their services with the ever changing technology that exists in the mobile market. The mobile market had many different competitors each with their own competitive advantages, and specialties and each within their own market. In order to break out of their current market and expand into new markets they would have to take on the big fish in the smaller ponds, and constantly provide better service through improved technology and higher quality. The costs of imitation to these new technologies by the smaller companies will make it hard for them to imitate the service structure that Vodafone provides. The high quality of service will make it non-substitutable and become the new standard of what mobile customers expect from their service providers.

Vodafone's competitive strategy worked in their competitive structure but will need to be constantly updated to stay at the front of the technology curve and not fall behind to its competitors, who would also be attempting to constantly improve on their current services and technologies. Vodafone's exclusive mobile focus should be extended into a first-mover strategy.

3. Assumptions

(a) Do we assume the future will be volatile?

The future will be volatile. The existing strategies of the incumbent telecommunication providers was about to change. No longer could they compete with low efficiency and inadequate cost, so these companies had to focus on cost reduction. Concentration seemed to be a way for these incumbents to solidify their position through alliance and acquisition with their competitors.

(b) Are we operating under a status quo?

The telecommunications industry was in an upheaval. The European monopolies were being privatized, restrictions on national markets were being lessened, and new technologies for the transmission of voice and data were making a great impact on the industry.

(c) What assumptions do our competitors hold about the industry and themselves?

Competitors recognized that alliances and acquisitions must be put in to place to grow their networks. All competitors recognized the lack of differentiation within the industry and sought to change that. Some strategies were to build roaming agreements, making the network offered more attractive to the customer. Another differentiation focus was providing content, a radically different market that traditional telecommunications network services.

4. Capabilities

(a) What are our strengths and weaknesses?

Vodafone's strength is its new operating structure. Because Vodafone was a new company, their cost structure was much lower than the incumbents. The incumbents did however enjoy a billing relationship with the customer already in place. Vodafone could also focus sharply on its primary market, mobile telephony, while all of its competitors would have to focus on their fixed-line

operations as well.

(b) How do we rate compared to our competitors?

Despite the fact that the European Union was consolidating into a single market, Vodafone did not have high market shares in EU countries, suffering the effects of Orange, an innovative new entrant quickly gaining market share. Vodafone was growing quickly however, allowing their strengths in technology and acquisitions and mergers to maintain its nearly 65 percent growth.

5. Response

(a) What will our competitors do in the future?

Competitors in the future would certainly lower their cost base, focus on increased differentiation, and some will support concepts relating to convergence while others will ignore it. Competitors will continue to expand internationally through the use of acquisitions, mergers, and strategic alliances that will offer customers an expanded network territory.

(b) Where do we hold an advantage over our competitors?

Vodafone had the advantage of a low cost structure and delivered innovative solutions for their customers by focusing on research and development. Competitors were starting to match the cost structure of Vodafone. Orange, a new entrant, was meeting the levels of innovation exhibited by Vodafone. Orange, unlike Vodafone, had little experience in acquisitions and alliances, a critical part of success during the future of telecommunications.

(c) How will this change our relationship with our competitors?

Competitors would attempt to match Vodafone on innovation and cost, perhaps through new sorts of agreements that require Vodafone to share technology in return for the use of its competitor's networks.

V. Internal Environment

Evaluate Vodafone Air Touch's tangible and intangible resources? Which are more important as a source of competitive advantage? Why?

(Sky Huvard, Rodridgo Salcedo, Lindsay Zolad)

Vodafone's strongest resources were their intangibles such as human resources, innovation, and knowledge which put them a step ahead of their competitors. By definition these resources are more costly and hard to imitate. These resources are rooted deep in the company's history by staying focused in mobile markets and not diversifying into other technology categories that would loose the company's primary focus and drive through its core competencies. As the company grew to be the largest in the industry, they remained focused on the leading edge of mobile technology.

1. Tangible Resources - Strong

(a) Financial Resources - Strong

Vodafone had been operating on a net profit year to year of several hundreds of millions of pounds, allowing for plenty of acquisitions and money to be spent on research and development. Vodafone had the expertise to reorganize these assets to earn above average returns. Each year, investors were willing to lend more credit or equity. By 2000, Vodafone was the largest telecom in Europe, twice the size of its nearest competitor, Deutsche Telekom. Activity ratios indicate that Vodafone is more efficient than its competition at collecting on its receivables and making its inventory work, adjusted for economies of scale.

(b) Organizational Resources - Strong

Vodafone's formal reporting structure and formal planning, controlling, and coordinating systems are strong, as evidenced by their low cost base, high innovation, and numerous successful acquisitions and mergers.

(c) Physical Resources - Strong

Vodafone operated a significant amount of mobile telephony network base stations and owned the spectrum licenses to many mobile telephony markets.

(d) Technological Resources - Strong

Vodafone developed a next generation wireless standard, UMTS, that allows for voice and data on the same wireless network.

2. Intangible Resources - Strong

(a) Human Resources - Strong

Managerial goals seemed to be aligned with company goals. Managerial experience is great and led to

numerous successful acquisitions and mergers. Detailed and experienced knowledge of the market and technology that is involved in the mobile markets. Vodafone has applied this knowledge to the many markets it has entered and has proven successful.

(b) Innovation Resources - Strong

Vodafone has focused exclusively on mobile telephony and has strengthened their role in the market by offering a next generation network, UMTS, which they developed themselves.

(c) Reputational Resources - Weak

Vodafone, like all other mobile telephony operators, suffers from low differentiation. This leads to an imperceptible difference in product quality, durability, and reliability.

3. Which resources are most important as a source of competitive advantage?

All of the intangible resources a company has are more important than the tangibles because they are hard to copy by competitors, they are long lasting such as trust and knowledge, and they are not based on a tangible asset that could fade away or change like the management, raw materials, or location.

Vodafone has to focus on improving its trust with customers because it doesn't have alternative businesses to rely on to bring in the business like Internet services or fixed-line systems.

Vodafone's most valuable intangible resource is their knowledge and experience in the mobile phone industry and their international presence. These things define the company as a great investment and a name you can trust. Knowledge and experience will take them further into the future at the edge of technology and their international presence leads to more universal understanding and networking of the business itself.

Achieving economies of scale is essential to remain competitive as cost leader in a market. The strengths of Vodafone that could most contribute to economies of scale are its financial resources, organizational resources, and human resources. These resources will most allow Vodafone to grow through acquisition and strategic action, which will support European market penetration more quickly than building physical infrastructure.

What are Vodafone's capabilities and core competences?

(Sky Huvard)

By using the resource-based model to assess Vodafone, their collection of unique resources and capabilities should be considered the basis for their strategy and the primary source of its returns.

4. Capabilities

Vodafone's capabilities are their ability for management to complete successful acquisitions and their research and development to enable innovative technology. Vodafone's management has the ability

to acquire and merge with other companies while maintaining an effective, low cost, organizational structure. Through their research and development, Vodafone is able to maintain technological leadership in mobile telephony systems.

5. Core Competencies

Vodafone's capabilities in management and research and development should also be considered their core competencies because these abilities give them a source of competitive advantage over its rivals. Acquiring and merging with companies has allowed Vodafone to grow their customer base internationally. By investing in research and development, next generation platforms for mobile telephony for both voice and data allow Vodafone to maintain a competitive advantage.

Does Vodafone have a sustainable competitive advantage?

(Sky Huvard)

Only using valuable, rare, costly-to-imitate, and non-substitutable capabilities create sustainable competitive advantage. Vodafone had valuable, rare, costly to imitate capabilities, but these capabilities were substitutable, thus, they had a temporary competitive advantage. However, if Vodafone finds a way to successfully differentiate itself to become non-substitutable, it will have a sustained competitive advantage. This temporary competitive advantage has performance implications of average returns to above-average returns.

(a) Valuable - Yes

Because Vodafone sticks to what it knows best, mobile telephony, and has not ventured into fixed-line telephony or providing content, they created value for their customers by being the best and most focused.

(b) Rare - Yes

Vodafone's ability to develop innovative technology and successfully merge are rare capabilities. However, Orange, a competitor acquired by Mannesmann also has these rare capabilities.

(c) Costly to Imitate - Yes

The organizational culture of Vodafone must be strong to successfully complete mergers and acquisitions, while simultaneously developing innovative technology. These capabilities have developed over time and the expertise gained will be very difficult for other firms to develop.

(d) Non-substitutable - No

Vodaphone's mobile telephony is substitutable, as evidenced by the high turnover throughout the industry.

VI. Business-Level Strategy

What is the business strategy being pursued by Vodafone? Is this strategy appropriate for offsetting the main forces in the industry?

(Sky Huvard, Matt Wentz, Lindsay Zolad)

By using the five forces model of competition, competitor analysis takes place by understanding how the threat of new entrants, the bargaining power of buyers, the bargaining power of suppliers, the threat of substitute products, and the rivalry among competing firms will effect competitors in an industry. These five forces have a direct effect on Vodafone's strategic competitiveness and above-average returns.

1. Rivalry with Existing Competitors

Vodafone's position as cost leader, competitors have a hard time competing on basis of price because the competitors will fall on their face if any aspect of the logistics or operations are inferior.

2. Bargaining Power of Buyers

The buyers in the mobile telephony industry are strong. These powerful buyers can reduce the cost leaders prices, but not past the level of their closest competitor. This ensures Vodafone will continue to profit at above average returns compared to its closest competitor.

3. Bargaining Power of Suppliers

Suppliers of the mobile telephony industry are strong. Vodafone, by being a cost leader, operates with margins greater than its competitors, which, in turn, allows them to absorb price increases from its suppliers easier than its competitors. By being a large, focused player of the mobile telephony industry, Vodafone could hold suppliers costs down, and it could make a profit even if its competitors are making only average returns.

4. Potential Entrants

While the threat of new entrants is weak, Vodafone must continue to reduce costs below that of its competitors. By maintaining high levels of efficiency, Vodafone can help make the entrance into the mobile telephony industry unattractive to its potential competitors.

5. Product Substitutes

Vodafone faces a low threat of product substitutes. The focused cost leadership strategy that Vodafone operates under makes it difficult for a comparable substitute to be produced at a lower rate by their excellent use of economies of scale, their buying power, and their absorption of temporary price increases that come from suppliers that don't need to be passed on to the consumer.

6. Summary

Vodafone is pursuing a focused cost leadership business-level strategy through their exclusive focus on the mobile telephony industry. Because Vodafone did not have the distractions that faced their

competitors (such as fixed-line telephony) they are able to save money and pass the savings to their customers or maintain a profit even when their closest competitor is only achieving average returns. Vodafone maintained a broad competitive scope and focused on cost for their competitive advantage.

VII. Corporate-Level Strategy

What were the main reasons for the Mannesmann acquisition (and others) by Vodafone?

(Sky Huvard, Matt Wentz, Lindsay Zolad)

Vodafone was heavily focused on acquisitions, including Mannesmann, to open cost advantages through economies of scale. Vodafone wanted technological leadership in the mobile telephony industry. Vodafone wanted to strengthen its standing in continental Europe, a geographically significant area where they had low market share.

Vodafone wanted to acquire Mannesmann because they held a considerable portion of the market share in their industry. By acquiring Mannesmann Vodafone would be able to gain cost advantages as well as gain market share and market power in Europe. By buying a competitor off the market Vodafone could gain their entire market share and eliminate the risks associated with rivalry that had been present between the two companies. This acquisition would also be a diversification for Vodafone if they chose to take advantage of the fixed line capabilities of Mannesmann. It would also help Vodafone reduce the barriers to a greater share of the European market since Mannesmann already had a strong market share.

Vodafone merged with Airtouch to become Vodafone Air Touch, the largest mobile phone operator in the world. It gave Vodafone an easy way to expand to North America with low barriers to entry since Air Touch was already the leader in that market. This was "a major step forward in our strategy to expand the penetration of mobile phone services to the largest possible number of customers and the largest possible markets…" said Chris Gent, Vodafone CEO, on the merger with Air Touch.

Vodafone formed a strategic alliance in the United States with Bell Atlantic that would use the same digital technology as Vodafone Air Touch and it would be the largest mobile telecommunications company in the US. They owned 45 percent of the company giving them a high potential for profits. Since Bell would be managing the company, Vodafone would not have to worry about understanding the competitive conditions, legal and social norms, and cultural idiosyncrasies of the US market, which would help Vodafone manufacture and market a competitive product.

What type of diversification best represents Vodafone's mix of businesses (i.e., single business, dominant business, related constrained, or related linked)?

(Sky Huvard, Matt Wentz)

Vodafone had recently expanded internationally through an alliance with Bell Atlantic, a merger with Air Touch, and several acquisitions. These value creating strategies of diversification exhibit high operational relatedness between businesses and somewhat low corporate relatedness because Vodafone did not maintain managerial control in all of its new ventures. These related diversifications would increase Vodafone's economies of scope by sharing activities and transferring core competencies. Vodafone's market power would be increased by being able to block competitors

through multipoint competition.

What is the international corporate-level strategy being followed by Vodafone?

(Sky Huvard, Matt Wentz)

Vodafone pursued a global international corporate-level strategy. Their low market share in continental Europe could be considered an artifact of their global strategy. The basis for their mobile telephony network remained unchanged throughout their diverse markets, these standardized products point to a global strategy. While their global strategy produces lower risk, they may not grow as fast as their competitors who have a multi-domestic strategy. As a result, recent diversifications, like the strategic alliance with Bell Atlantic seem to point towards a more multi-domestic strategy to take advantage of their specialized corporate core competencies by delegating the management tasks.

Vodafone's global international corporate-level strategy is succeeding. The technology, GSM, that enables their mobile telephony networks is built to global standards, and has led to significant economies of scale in producing and operating these networks.

What was the choice-of-entry mode used by Vodafone in its expansion into international markets?

(Sky Huvard, Matt Wentz, Lindsay Zolad)

Vodafone entered into international markets initially through merger, and later through acquisitions and alliances. Vodafone's choice to use a cooperative strategy led to alliances with its competitors in Europe, including Mannesmann, Belgacom, BT, Cegetel, TDK and TIW. Vodafone was trying to get a larger market share in Germany so they bought 35% of D2 from Mannesmann, who is Vodafone's top competitor in Europe. Vodafone partnered again with Mannesmann to buy 21% of Omnitel (an Italian company). Vodafone had alliances with Government organizations in Greece, Holland, Portugal and Sweden. By partnering with competitors in Europe, Vodafone increased its market shares.

VIII. Financial Analysis

What are your conclusions from the financial analysis of the case data?

(Sky Huvard, Rodrigo Salcedo, Lindsay Zolad)

1. Profitability Ratios

Vodafone's operating margin was 1.2 percent higher than the competitor average in 2000. From 1996-1999, Vodafone's gross, operating and net margins exceeded those of its primary competitors, British Telecom, Deutsche Telekom, France Telecom, and Telefonica. Vodafone's return on assets and return on equity have surpassed competitors.

2. Liquidity Ratios

Vodafone was less liquid than its competitors, on average and individually between 1996-2000 because they maintained lower inventory levels as a percentage of working capital. Vodafone is cash and receivables poor relative to its short term obligations, but those obligations are miniscule compared to their total portfolio. Vodafone has traditionally operated with low liquidity and less inventory than its competitors, and has maintained above average profitability.

3. Leverage Ratios

In 2000, Vodafone was more aggressive than most in assuming debt to fuel growth. Between 1997 and 1999, debt ratios were above industry averages. Vodafone is in a position to leverage itself for further growth. Acquisitions and their subsequent returns have given them massive retained earnings and very little debt.

4. Activity Ratios

Industry turnover was second best in the industry. For Vodafone to maintain above-average leverage ratios, it had to be significantly more efficient than its competitors economies of scale. Average collection period and accounts receivable turnover was second best in the industry. Total asset turnover was twice that of the industry average, and best in the industry.

5. Key Growth Rates

Vodafone maintained operating profits in 2000 while its competitors averaged a loss. Vodafone exhibits high rates of investment through its growing sales and debt. Vodafone has experienced tremendous growth due to superior management, operational competence, and low overhead.

6. Summary

Vodafone was in a superior financial position compared to its competitors, with substantial assets and high operational efficiency. Vodafone is the largest player in the European mobile telephony market through its newly acquired assets and organizational expertise. Vodafone has a high gross margin and profit margin when compared to its competitors, making more money per customer than its competitors, with more customers than its competitors. Across the board, profit margins are

decreasing at an increasing rate. In a fast cycle market such as the mobile phone industry it is important to stay ahead of the curve and constantly improve and search for better ways to accomplish the same goal at a low cost. By being first-mover, Vodafone can retain high price points and profit margins compared to its competitors.

IX. SWOT Analysis

Provide a summary SWOT analysis and a statement of problems facing the company. What are your recommended solutions to these problems? Be sure to explain how the solutions should be implemented.

(Sky Huvard, Lindsay Zolad)

1. Strengths

- Experience and knowledge in the mobile phone business.
- Multi-market and multi-structure outlook on the mobile consumers and the many markets in which they are present.
- Strong ability to manage change and acquisition.
- Research and development.
- Immense market power, twice as big as nearest competitor.

2. Weaknesses

- Managerial resources thin due to rapid growth and numerous acquisitions.
- Low market power in Europe.

3. Opportunities

- Restructuring and smaller acquisitions than Mannesmann.
- Acquisition of Mannesmann to dominate many markets with economies of scale.

4. Threats

- Undervaluing themselves by overvaluing Mannesmann.
- Management can be overly focused on acquisitions.
- Low differentiation.

5. Problems and Solutions

Vodafone as with all its competitors, has a severe lack of differentiation. By adopting a greater focus on the customer and maintaining technological leadership, Vodafone can differentiate itself. By maintaining a strong organizational structure through continual restructuring, Vodafone can bolster its weak managerial resources. The expansion of markets will soon be the only way for Vodafone to continue its growth after penetrating European Union markets. The continuation of their acquisition strategy and strong managerial leadership will enable sustained growth into new markets.

X. Mannesmann Acquisition

(Sky Huvard, Rodrigo Salcedo, Matt Wentz, Lindsay Zolad)

1. Was Vodafone paying too high a price for control of Mannesmann?

Vodafone was not paying too high a price for Mannesmann because the dollar value of the merger does not reflect all benefits. Claiming Mannesmann changed Vodafone's strategic situation. Vodafone was a relatively small player in the European market and had a significant network only in Britain.

Vodafone faced competition in its primary market from an innovative new company, Orange, that had better technology and would add economies of scale and global penetration to its competitive advantages with its acquisition by Mannesmann.

Vodafone was not in a position to compete with Orange/Mannesmann directly. Vodafone had two options – to acquire Mannesmann or to acquire a different multi-national telecommunications firm and try to match or exceed Orange/Mannesmann's advantages of scale and technology.

2. Would this acquisition strengthen Vodafone's leadership?

Mannesmann had significant power in certain markets that Vodafone had not yet controlled and that would give Vodafone new leadership opportunities in new markets that could increase the leadership position of the Vodafone group.

3. Was the acquisition of Mannesmann the best way to win leadership in the European market?

The acquisition of Mannesmann would tremendously increase Vodafone's market power. A bid for a different telecom company would have been seen as a move to gain scale against a competitor, but that move would not have guaranteed primacy in any market. Vodafone would still be facing a significant competitor. Such an acquisition would have been an acquisition for survival, and would have been easily rebuffed by a management team arguing that its shareholders should not side with a potentially losing team.

4. Were there other options?

Vodafone may have continued growing and improving their presence in the market without Mannesmann, but would have taken far more time to reach the leadership position that they wanted through the acquisition but it would have been a less risk. The costs associated with many smaller acquisitions and alliances would likely be in excess of what Vodafone would pay for Mannesmann.

Vodafone/Mannesmann would be the largest player in the world market – almost double the size of its nearest European competitor, British Telecom. Economies of scale in service provision, sharing of technical knowledge between Orange and Vodafone, and other benefits would add intangible value. The blunting of the threat from Orange would be an important but secondary benefit.

XI. Update of Events

Provide an update of events for Vodafone. Be sure to link the update to the main issues in the case.

(Sky Huvard, Lateshia Tuppince, Lindsay Zolad)

Soon after the case study ends, the Mannesmann acquisition was completed. Vodafone almost doubled in size, and continued to dominate each market it entered, including new markets in unknown territories through joint ventures with TDC Mobile A/S and France Telecom. The Bell Atlantic investment in the United States is now known as Verizon Wireless, the largest mobile network in the US. The company continued to grow through its office in China and entered a strategic alliance with China Mobile in 2001. Then they acquired Eircell, Ireland's leading mobile company.

Through acquisitions, joint ventures and strategic alliances Vodafone has managed to control or participate in the majority of the mobile phone service around the globe. Mannesmann was only one of many ventures that made this growth possible.

1. Acquisitions

(a) Mannesmann, 1999-2000

Vodafone was in negotiations with Mannesmann during the end of the case. On February 4th 2000 Vodafone had officially acquired Mannesmann and Chris Gent, CEO, continued to dominate the mobile telephony industry and make alliances.

(b) China Mobile, 2000-2002

On November 3rd 2000, Vodafone acquired newly issued shares of China Mobile representing approximately 2.18% for a cash consideration of 2.5 billion. On February 27th 2001, the Vodafone and China Mobile entered into a strategic alliance for mobile services, technology, operations and management.

On June 18th 2002, the Vodafone Group invested a further $750 million in China Mobile and obtained the right to appoint a non executive director to the China Mobile board. Vodafone's stake in China Mobile increased to approximately 3.27% as a result of this transaction.

(c) SFR and Cegetel, 2001-2003

As of April 1st 2001, Vodafone had a 20% direct interest in SFR and an approximate 15% interest in Cegetel Groupe S.A., the French telecommunications group with 80% of SFR, making Vodafone's effective interest in SFR approximately 31.9%.

On January 21st 2003, the Vodafone announced that its subsidiary, Vodafone Holding GmbH, completed the acquisition of SBC's 15% interest in Cegetel Group for a cash consideration of $2.27 billion, increasing the Group's effective interest in SFR to approximately 43.9%.

(d) Vodafone Spain, 2001-2003

On May 2nd 2001, the Vodafone announced that it had agreed to acquire BT's 17.8% shareholdings in Vodafone Spain for a cash consideration of 1.1 billion pounds, increasing its ownership interest in Vodafone Spain to approximately 91.6%. The acquisition was completed on June 29th 2001.

On April 2nd 2002, Vodafone acquired a further 2.2% interest in Vodafone Spain for 400 million pounds, following the exercise of a put option held by Torreal, S.A., increasing the Group's interest to 93.8%.

On January 21st 2003, the Vodafone Group announced that it had acquired the remaining 6.2% interest in Vodafone Spain for approximately 1.4 billion pounds. The transaction completed on January 27th 2003, at which time Vodafone Spain became a wholly owned subsidiary of the Group.

(e) Vodafone Japan and Japan Telecom, 2004-2005

March 31st 2004, Vodafone held a 66.7% stake in Vodafone Holdings K.K., and a 39.67% stake in Vodafone Japan. In addition, Vodafone Holdings K.K. held 45.08% of the issued share capital in Vodafone Japan, making the Vodafone Group's effective interest in Vodafone Japan 69.7%.

In the first half of the financial year ending March 31st 2005, the Group increased its effective shareholding in Vodafone K.K. to 98.2% and its stake in Vodafone Holdings K.K. to 96.1% for a total consideration of 2.4 billion pounds. On October 1st 2004 the merger of Vodafone K.K. and Vodafone Holdings K.K. was completed, resulting in the Group holding a 97.7% stake in the merged company, Vodafone K.K.

2. Strategic Shifts

Arun Sarin became Chief Executive of Vodafone and implemented a new strategy. "We believe Vodafone is uniquely positioned to succeed through our scale and scope and the customer focus of all our employees." To achieve this success, Vodafone has focused several strategic goals, including, delighting their customer, leveraging their scale and scope, building the best global team, and expanding market boundaries.

(a) Customer Needs

A core strategic goal Vodafone has is delighting its customers. The Vodafone Group has 171 million proportionate customers around the world with a desire for simplicity and transparency. Vodafone aims to deliver increasing value to its customers by creating innovative services that meet different needs, supported by world class customer service.

The launch of the 3G consumer service in November 2004 was a key element in pleasing their customers. This service fundamentally changes mobile communications for their customers and gives Vodafone a platform to deliver a market leading, differentiated proposition. Most importantly, it represents a significant ongoing growth opportunity for the Group through new and enhanced

services, additional network capacity and innovative pricing.

(b) Economies of Scale and Scope

Another key goal is to deliver fully the benefits of their scale and scope. Vodafone aims to leverage scale and scope through a combination of standardizing designs and processes, reducing duplication, centralizing certain functions and sharing best practices. This will improve time to market for new products, create a consistent customer experience across networks and with a low cost position.

In May 2005, Vodafone announced their new network will be available across 14 markets, leveraging their unrivaled footprint. This is a significant step in reducing roaming complexity for their customer base. It offers simple pricing that is transparent to customers so that they will know exactly what their charges will be when abroad. The basic principal is that, where available, a customer's home tariff will apply abroad, with the same call set up fee being charged for each call made.

(c) Organizational Structure

Since the beginning of 2005, Vodafone has restructured the business to create a flatter organizational structure that is better positioned to respond to the rising expectations of their customers and to deliver on 3G networks.

The previous regional structure has been simplified so that major countries and business areas now report directly to Arun Sarin, Chief Executive. This new structure focuses more attention on customers in Vodafone's local markets, enhances their ability to deliver seamless services and speeds up execution.

(d) Market Boundaries

The proposed acquisition of TIW's mobile interests in the Czech Republic is very much in line with Vodafone's acquisition strategy, focusing on selected opportunities, primarily in Central and Eastern Europe. These businesses are fast growing and the Vodafone Group believes they will retain financial flexibility, allowing them the slack to act quickly and enhance shareholder wealth.

3. Financial Update

- Vodafone is attempting to refocus its strategy after a failed attempt to enter the Japanese market by investing and restructuring assets. (Intangible Business)
- Vodafone may be ripe for a takeover as it's share price trades at 12.1 times 2006/2007 earnings, compared to a European average of 12.8.
- Vodafone has been under pressure to divest itself of assets and is expected to sell off its 45% stake in Verizon, for 50 billion dollars and about a fifth of their total value.
- Rumors circulate about a plan by Blackstone (a private equity firm in the U.S.A), Telefonica, and Verizon communications to bid for Vodafone Group with the intention of breaking it up. (The

Economic Times)

4. Summary

Over the years the Group has made excellent progress in executing against their strategic goals however Vodafone is still looking to improve and remain innovative. They have restructured the business to more closely align themselves to their strategic goals and have outstanding and passionate leaders and people in the organization to deliver them. Their commitment to deliver on their goals is supported by their values, which state that "everything they we do is driven by our passion for customers, our people, results and the world around us."

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