Convergence of the U.S. Communications Industry: M&A Trends Analysis in the Early 2000s

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Technology development, fierce competition and deregulation have transformed several divergent communications markets into a converged market. Digital convergence encourages mergers and acquisitions (M&A) between companies in different areas. This study postulates that the trends of these M&As represent the changes of the converging market. From data collected during 2001-2004, the trends of M&A are investigated. Mergers within industry and between industries are examined. Using cluster analysis, the pattern of mergers in the communications industry is scrutinized. Results show that merger within an industry is still dominant against mergers between industries, although merger between industries is becoming significant. Telecommunications companies occupy central positions in this changing market of mergers. Discussions about that phenomenon are presented from the view of digital convergence.

Key Words : Digital convergence, Mergers and acquisitions, Communications industry, Horizontal and vertical integrations, Cluster analysis

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I. Introduction

Technology development, fierce competition, and deregulation have changed the communications market from a static market to a dynamic market. The development of telecommunications technology has turned the segmented communications market into one converged market. Competition in this market has forced players to discover new markets and new business models. Deregulation, which has removed entry barriers, has given telecommunication carriers an opportunity to enter the market and to create a new market for bundling services. These internal and external forces drive telecommunication operators to search for new breakthroughs. Digital convergence is one of the alternatives. Convergence has led to the emergence of bundled services across market boundaries.

Convergence induces a variety of changes that are based on the notion that regulators have not been able to successfully integrate certain changes. Changes in technology and the market have forced regulators to come up with a new framework for telecommunications policy. The amendment of the Telecommunications Act of 1996 in the U.S. and the European Commission (EC) competition law under Article 90 of the EC Treaty are examples of these changes. The phenomena of convergence between telecommunications, broadcasting and IT affect the market structure of the communications industry.

A recent surge of mergers in the communications market is a reflection of the drastically changing environment of the market. Research on convergence in the communications market has usually focused on the substitutability of fixed and mobile services, on the value chain for the provision of the telecommunication services, and on regulation matters. Research on mergers has dealt with explanatory variables and merger performance. There is lack of research on merger cases for convergence in the communications market.

This study tries to answer the following questions: Do the merger trends represent the digital convergence? What resides in the core of the convergence? What is the direction of convergence through mergers in the future? To answer these questions, this study investigates the difference in merger trends between and within industries. This study attempts to discover the merger trends in the communications market in the context of digital convergence. This study uses data from 515 cases from a journal of Mergers & Acquisitions from 2001 to 2004. This study investigates the mergers trends within and