MCI's Risky Deal

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Nov. 6, 1996

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British Telecommunications' $22 billion deal for MCI is not just another big media merger, because MCI isn't just another media company. It is the company that single-handedly invented competition in telecommunications, the David that took on the world's largest company, AT&T.

When the dust settled, AT&T had been split into eight pieces, and MCI was growing at a double-digit rate to a market share approaching 18 percent compared with AT&T's 53 percent share. Consumers benefited. Long-distance calling became cheap, customer-oriented and innovative.

It is claimed that MCI, poised for entry into local phone service, needs BT's deep pockets to compete with the Baby Bells and that such competition would help consumers. But why would BT pour billions into American infrastructure? BT's priority is to become a ubiquitous European long-distance carrier, not to spend its money wiring America. MCI will have to take care of itself.

It is curious that at a time when small Internet entrepreneurs run circles around the traditional telecommunications companies and create new markets in a hurry, big companies believe that becoming even bigger and multinational is the route to survival. Yet such companies are hard to manage, and they invite regulatory constraints. AT&T understood that and recently focused itself by spinning off several of its parts. But MCI is going in the opposite direction, diversifying and even putting more than a billion dollars into Rupert Murdoch's media empire.

Of course, telecommunications companies must serve large corporate customers that operate around the world. But that does not require running expensive physical networks everywhere. It is easier to package services produced by other companies and to resell them under one's own brand name. This indeed is MCI's strategy in mobile telephones, where it avoided having to spend billions for frequency licenses.

Why then did MCI give up its independence? Probably because the price was right for its shareholders, especially since competition in long distance will soon include the Baby Bells, driving down industry profits. Beyond that, there are few advantages to the merger, and even fewer that couldn't be achieved through the agreement the two companies already had. At the same time, MCI's effectiveness will drop as its open and aggressive culture -- its main asset -- is merged with BT's more traditional style. In the not-so-distant old days, one could reach MCI's legendary chairman, the late Bill McGowan, directly through the switchboard. It's hard to imagine Sir Iain Vallance, BT's chairman, operating in the same way.

It would be hypocritical and counterproductive for the United States to oppose the MCI merger after pressuring other countries to lower their barriers to American telecommunications investments. Fortunately, competition in America has now taken root and does not depend on any particular company. Tomorrow's new challengers are likely to come from Internet companies. Thus, the competitive torch is being passed to the next telecom generation. It's unavoidable, but sad nevertheless.

A version of this article appears in print on , Section A, Page 27 of the National edition with the headline: MCI's Risky Deal