

FROM THE INDUSTRY

TalkTalk's Next Chapter

STRATEGIC BREAK-UP OR
STRATEGIC RETREAT?

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TalkTalk are never long out of the press. By now, their PR team must be firm believers in P.T. Barnum's mantra that "there's no such thing as bad publicity". Such is their rollercoaster journey since they were founded in 2003 as part of Carphone Warehouse and later spun out as an independent company in 2005.

I bought many a mobile phone from Carphone Warehouse in my youth as I tried to keep up with trends when 12 month contracts were still a thing and Nokia were still king of the hill. As Carphone Warehouse pitched themselves as cheap and cheerful mobile deals, TalkTalk did the same for fixed broadband. At its peak, TalkTalk was the archetype of disruption: low-cost, high-volume, infrastructure-light. It democratised access to broadband, even if its customer service often drew criticism.

In its latest appearance in the headlines, TalkTalk is rumoured to be considering a breakup of its consumer and wholesale infrastructure divisions. Undoubtedly this is driven by its financial situation as a result of the decline of the "mid-tier" position being squeezed between BT and nimble alt-nets. In that, I found myself pondering the implications for both TalkTalk and the wider industry as well as the question of inevitability. Is this a pivot or an endgame? And who else might get sucked into the "mid-tier" decline?

With over 3m broadband customers, TalkTalk has something that many of the alt-nets crave. Penetration. But that number is declining significantly year-on-year as noted by Kieran Smith in the Financial Times due to being "at the sharp end of [broadband price] pressure

as both the altnets and TalkTalk appeal to the lower end of the market." What then for the consumer part of the sale? In today's telecoms landscape, simply selling connectivity isn't enough. The winners are bundling services, content, energy, and even doorbell and video cameras. The new owners of the TalkTalk brand, if there are indeed to be any, will have to be far more innovative in their product offering. Almost every operator I speak to as part of my role uses the language of services platforms like they are interviewing for a job at Netflix or Amazon. Considering how disruptive TalkTalk were in their formative years, it's surprising how far from the madding crowd they now find themselves.

The appeal of TalkTalk's wholesale infrastructure business, recently rebranded as PlatformX Communications (PXC), is much easier to understand. Investors are still wedded to the network asset value prop; at least until they get their money out of those alt-nets whose value is eroded close to zero through overbuilding. With the rate of consolidation in the industry ramping up, a network that has instant wholesaleability (not a real word...yet) is obviously attractive. In fact, I would not be surprised if it had more suitors than a Love Island contestant at an M&A afterparty, all whispering sweet nothings about EBITDA multiples and synergies.

Assuming there is some truth to the rumours, it is unlikely to have far-reaching consequences in the industry. The CMA is unlikely to get involved as even an acquisition by OpenReach or VMO2 wouldn't trigger a dominant market position investigation. There are, however, two storylines that could have wider industry implications.

Firstly, the sale price of such a wholesale network could set the benchmark for every alt-net aspiring to an exit. And many of them may be unhappy with the number of zeros on the cheque. If TalkTalk, with its national scale and established cash flows, struggles to command a premium, what hope is there for fragmented, loss-making fibre rollouts in overbuilt suburbs?

Secondly, it may signal the start of the disappearing middle. TalkTalk didn't lose because of a scandal, a failed product, or even poor demand. It lost because the market changed faster than its ability to adapt. As Charlie Elphicke once said, "We didn't do anything wrong, but somehow, we lost." How many other broadband providers won't do anything wrong but may still lose?

TalkTalk may or may not be splitting up, but the real story is about how telecoms businesses need to evolve to stay relevant. Scale, once a superpower, has become a burden. Price leadership no longer guarantees sustainability. And in a market defined increasingly by infrastructure ownership, operational leverage, and long-term capital, TalkTalk found itself caught in the middle between the giants and the guerrillas.

In the annals of history, TalkTalk's retreat may come to be considered the end of an era in UK broadband. The moment it finally dawned that scale wasn't everything and that margins couldn't come second.

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