A good opportunity for Terra
Sandra Sieber, IESE professor

Telefonica’s takeover bid, from a competitive point of view, is a very good option for Terra, in spite of the fact that it clearly prejudices most of its investors. In order to find out why it is useful to look back over the strategies of rival portals like MSN or AOL. The owners of both portals consider them to be just a small part of their businesses and from which they don’t even need to make a profit. In this way, AOL Time Warner is not only the largest Internet provider in the United States, but it also has one of the most important producers of audiovisual content in Hollywood. Therefore, the sale of content and Internet access are the real sources of income for the company that emerged from the merger directed by Steve Case, while the portal centralises traffic and provides visibility for AOL Time Warner on the net.

Microsoft follows an integrated strategy as well. Bill Gates’ company does not consider MSN as an end in itself, but as a vehicle to boost the role of Windows, Internet Explorer and even Office. Quite simply, the giant of Redmond cannot allow any other company to lead the sales (or distribution) of browsers and gain audience in a market where Microsoft is king: the software market.

Terra’s turnover, however, depends critically on its business as a portal. As time has shown, income derived from publicity and the sale of services will still take some time to arrive so Terra has been forced to reactivate its anaemic Profit and Loss account with the only business that appears to go well: the sale of Internet broadband access. This is where the conflict with Telefonica emerges. Their fixed and mobile line businesses are reaching maturity. The operator has seen that the Internet broadband access is a juicy business to enable them to continue their growth and it is understandable that they want to keep all the profit. All of this has left Terra in a very weak competitive position.

On the other hand, the integration of the portal in Telefonica strengthens both companies, as it lets them eliminate duplicities and take advantage of synergies. With the purchase of Terra, Telefonica acquires a strong position in Internet, four million access clients and 1.8 million paid subscribers for communication and portal services. In this way Telefonica can really follow an integrated strategy, taking advantage of the strengths and opportunities of both the traditional and Internet markets. Channels will open to commercialise new products and integrated services, beefing up its competitive position given the future challenges of the multimedia world.