

Ionica: A Promising Telecoms Start-Up

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Ionica was based on a novel concept for using FM radio waves to deliver the local loop stage of telephone calls for the business and consumer markets. The company was started in Cambridge early in 1991 by a team led by Nigel Playford, who had become familiar with the technology while working at Scientific Generics. Nigel Playford lived in Huntingdon, the Prime Minister's constituency. He lobbied directly at

Ionica was established in 1991 at St John's Innovation Centre in Cambridge. It aimed to become the principal national alternative supplier of fixed telephony services, using its innovative wireless system to deliver the local loop connection. The team, led by Nigel Playford, successfully obtained an operator's licence and planned to commence operations in 1995, achieving 75% national coverage by 2000. In 1997, Ionica became Cambridge's first \$1bn firm, but problems encountered in applying the new technology, the challenges of raising sufficient finance, and changes in the competitive environment meant that by 1999 the firm was in receivership.

local business events to enable Ionica to become a licensed competitor. The UK government wanted to see the main players, BT and Mercury facing competition BT still had 92% of the market by 1991, with Mercury having achieved 7% of market share six years after entry. However the cable companies (many American) were also an expanding source of competition in the consumer phone market. Ionica planned to provide a complete alternative to BT with a full range of services. The use of radio technology avoided the cost and damage of installing cables. These savings could in principle be passed on to consumers. The aim was to capture 5% of the market for small businesses and residential customers in the UK over the next decade. Licenses for overseas markets were also obtained with a view to subsequent expansion.

By 1993 Ionica had obtained £100m to finance their operation and the launch was planned for 1994 (CEN 11.2.93) They had numerous backers including Yorkshire Electricity, Kingston Communications, merchant bankers Robert Fleming, financial institution Ivory and Sime, and two US investors. There was also enthusiastic support from the British government and from the regulator OFTEL, both of which were keen to see a new challenge to BT's virtual monopoly.

The low capital equipment cost of the system meant that international interest was strong and Ionica arranged to license the system for use overseas. The company aimed to outsource by selecting a

manufacturing partner for equipment, approaching Northern Telecom (Nortel) and later GPT. The importance of marketing was recognised from the outset and Ionica made a strong drive to recruit advertising and branding partners (BW 16.2.93). The company's headquarters was seen as part of this effort and the innovative energy-saving building, in a prominent position on the edge of the Innovation Centre, was opened by Michael Heseltine, then President of the Board of Trade, in November 1994.

However, by the end of 1993 Ionica had to admit that the service would not be launched until the first quarter of 1995. By November 1995, the launch date had slipped to March 1996, but the service did not actually start until May 1996 and then only with limited coverage in East Anglia. Despite this, the company succeeded in presenting a positive message to potential investors and obtained a further £300m to fund further expansion.

Struggles to Organize Productive Activity and Obtain Revenues; The Entrepreneur's Perspective

Though a network of partnerships was planned and partially organized to create the infrastructure for a low cost consumer phone service, Ionica were unable to achieve the hoped-for strategic partnership which would have provided funds for two years ahead. The founder, Nigel Playford, explained that he was continually having to restrain expansion because he never had more than 18 months worth of cash available, and often less. In 1994 Ionica reached the point of having only 30 days of cash left and considered closing the business. The team succeeded in obtaining further private funding, but funds again ran short in 1995. A launch on the stock market seemed to be a healthy source of capital as market conditions were good, and in 1997 the company made an Initial Public Offering (IPO). At its peak in October 1997, Ionica was valued at over £690m (US\$1.1bn), the first Cambridge firm to reach that level.

The Board supported the founding entrepreneur, Nigel Playford, and backed his vision: "They made out I was a hero. It was sycophantic." Playford was a charismatic entrepreneur who shared his vision in a company in which employee commitment remained very high throughout the pressures of early expansion. Employee numbers climbed from 4 to 1000 within just six years.

From the founder's point of view, the great disadvantage of the decision to go early to the stock market was that he lost control over "the Ionica Story." There were a very complex set of partnerships to manage. It was hard to control delays in the roll-out of a telecommunications infrastructure, in particular delays in the delivery of software from Nortel. The young company was exposed to harsh criticism.

"We were sorting out these problems but they could be misrepresented, and were misrepresented. The press write-up in a very facile way. Analysts are incapable of understanding innovative new firms. They have a very short time horizon. They treat new firms as though they were already established. They know about numbers but not about problem-solving. Ionica was a problem solving set-up. When we had to hang out all the washing after the IPO the press produced a completely misleading account of what was going on. This scared investors. It was terrible trying to deal with supply partnerships when the share price had fallen through the floor. Nortel never committed themselves and were two years late with the software, delaying customer take-up. This was represented as lack of demand. We set up the relationship with Nortel before we knew what was entailed and too early to introduce penalty clauses; (we thought these) could have wrecked the relationship."

Meanwhile the cable phone companies were making much better headway than expected, aided by their TV services. They proved formidable rivals. Furthermore, BT had responded to competition by reducing prices and improving services. Before long the Board of Ionica had ceased to share Playford's vision. He was dismissed by his Board in 1998, when the share price collapsed, following negative analyst and press assessments. Market sentiment made it impossible to raise additional funds and the company failed in 1999 with debts of over £400m. By this time Ionica had 60,000 customers and was offering a service to 2.8 million homes, which represented 15% of the country compared with the 75% coverage required under its licence.

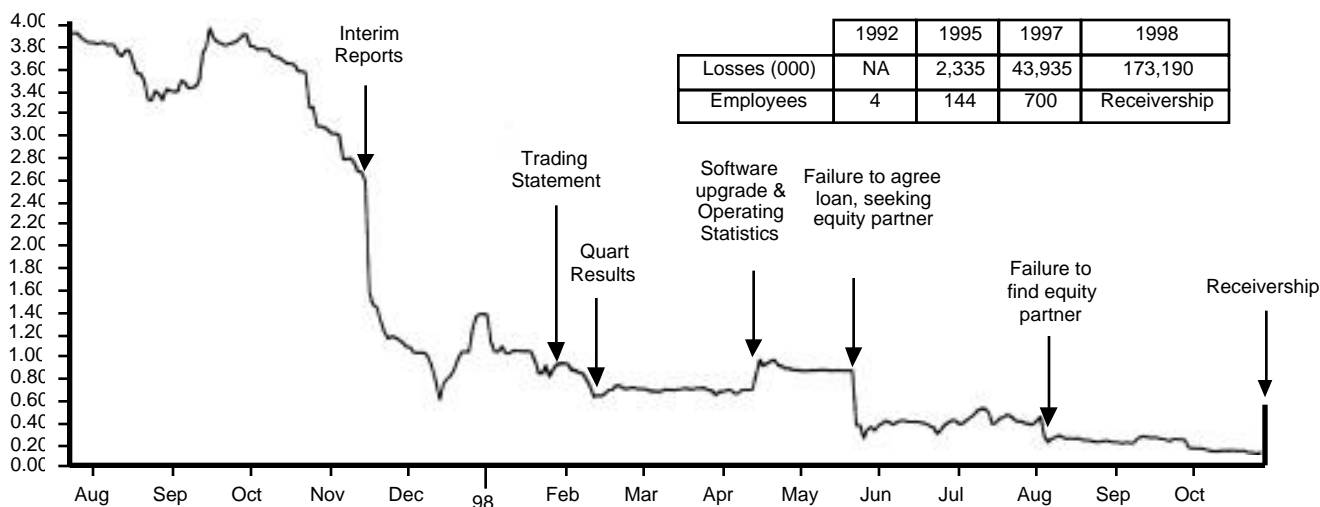


Figure 1 - Ionica's Share Price following poor interim results announced in November 1997

(Interview with Nigel Playford 25.6.99).