



Will Telecom Disruption Spell the Demise of Quebecor Inc.?

Description

Quebecor Inc. ([TSX:QBR.B](#)) has been in the news recently; it announced job cuts to its workforce of approximately 8%, or 220 workers, from its media units. This sizeable cut in its workforce has largely been attributed to disruption within the media industry—traditional print, television, and radio media are largely being replaced with “new age” media technologies and applications.

Company restructuring

The employees that remain at Quebecor will be moved around with the focus being on creating a “universal” sales team focusing on national sales, research, and creativity.

The shift away from traditional print is apparent; the main focus of the restructuring will be to eliminate 125 jobs in the company’s subsidiary TVA, one of the largest French publishers and broadcasters in North America. This restructuring is aimed at increasing company-wide productivity with the majority of the cuts being in the print media division; the newsrooms and French news coverage remain largely unaffected.

Restructuring cost/benefit analysis

Declining advertising revenues and the advent of large-scale online news platforms has put Quebecor in a precarious position. While the restructuring costs and potential savings were not laid out for the public, it appears that the company will take another hit with this restructuring—it has to pay out bonuses and early retirement benefits to many of its long-time employees.

It remains to be seen what economic impact such a restructuring will have on the company’s next quarter earnings, but we’ll be cautious. The potential long-term impacts of this restructuring will take time to materialize, and we maintain our “wait-and-see” approach.

Fighting fire with fire

The acknowledgement of how the industry is changing is an important first step in finding ways to be profitable over the long term. Quebecor is taking some very aggressive steps in this regard, evidenced

by the recent CRTC hearing for its subsidiary, Videotron.

Videotron recently launched a music-streaming service for third-party music services, allowing its customers to stream music from such services without the data counting toward customers' data caps.

This "zero rating" or "differential pricing" technique is one of the ways other growing tech and telecom companies are carving out a niche in an otherwise mature and stable industry with high barriers to entrance.

The CRTC hearing is discussing the issue of whether or not the current pricing system for data plans in Canada is really working for the average Canadian, if differential pricing should be part of the equation, and if data caps should simply be eliminated completely.

Where Quebecor is headed

It appears the high level of uncertainty within the telecom and media industries will continue for some time; revenue declines and cost increases are to be expected. Our focus with a company such as Quebecor is whether or not the company's restructuring toward creative staff and sales employees will allow the company to innovate sufficiently to keep it relatively more profitable than its peers over the long run.

In assessing the long-term potential of the company, we will re-assess the company's financial position at its next quarterly release, focusing on the costs associated with the restructuring, as well as any immediate short-term benefits we can focus on as long-term productivity indicators.

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