

## Double, double toil and trouble: A brief synopsis of the UK Telecoms market in 2007

Double, double toil and trouble, fire burn and cauldron bubble.

These great words by Shakespeare could have been written to describe the witch's brew that is the telecoms market in the 21st Century. The current market conditions are a true witch's brew, a poison chalice for some and a pot full of golden opportunity for others.

So what is happening that is causing this, and who are going to be the winners and the losers?

According to Ofcom ([www.ofcom.org.uk](http://www.ofcom.org.uk)):

"In 2002 UK telecommunications revenues were £42.2 billion compared to £18 billion in 1984 (at 2002 prices)". In 2005 telecommunications revenue increased by 18.5% from 2002 to £50 billion.

"net capital expenditure by the UK telecommunications industry was on average over £9 billion per year (at 2002 prices). By contrast, in 1984 net capital expenditure in telecommunications was just £3.7bn (2002 prices)".

"There are now approximately 170 public fixed telecommunications providers, 5 mobile providers, 59 mobile service providers and 700 internet service providers".

"Technological innovation has driven changes in the underlying economics of the industry. There is increasing convergence between different sectors. In addition, the growth of the internet and the emergence of different broadband access technologies create new challenges and opportunities for the sector".

At the end of 2006, Ofcom published a report looking at large businesses use of telecom services. The research covered three critical business service areas for large enterprises; Fixed Line Services; Mobile Services and Advanced Data Services. The findings make for grim reading.

In the fixed line segment, the research highlighted:

- 53% of large enterprises switched fixed line suppliers within the last three years.
- 52% of respondents are only 'fairly satisfied' with their fixed line services overall, with only 22% being 'very satisfied'.
- 46% of large businesses are 'fairly satisfied' with the quality of customer service or account management levels with their fixed line services. Only 14% are 'very satisfied' with customer service or account management levels. Worryingly, 18% are 'fairly dissatisfied' or 'very dissatisfied'.
- Perceptions on the quality of customer service or account management over the last year or so remained static for half of the large business respondents (50%), whilst opinion is divided amongst the remainder with 23% commenting this had got better and a similar proportion (26%) thought this had become worse.
- Just over half of respondents (52%) Who changed suppliers in the past three years had said customer service levels neither improved nor worsened over the past year. Only 32% felt there was a slight improvement with 11% stating the changes in choice of suppliers for fixed line services had 'slightly worsened' (7%) or 'greatly worsened' (4%).

In terms of the mobile services segment for large businesses, the results from the Ofcom research provided similar results to the fixed line segment:

- 53% of large enterprises switched mobile services supplier within the last three years. Only 19% have never changed their supplier. 33% found it 'fairly difficult' or 'very difficult' to change mobile service suppliers.
- 58% of respondents are 'fairly satisfied' with only 15% being 'very satisfied' with mobile services from their suppliers.
- 43% of large businesses are only 'fairly satisfied' with the quality of customer service or account management levels with mobile services. 25% are 'very satisfied' with customer service levels, 9% up from fixed line customer service levels. 8% of respondents were 'fairly dissatisfied' and 6% 'very dissatisfied'.

- Four in ten of the large businesses surveyed believe that the quality of service relating to their mobile services has improved over the past year, and half saw this as remaining the same. Less than one in ten (7%) thought the quality of service has decreased.
- One third (33%) of large businesses commented that the quality of customer service or account management on their mobile services had got better in the last year or so and just under half (48%) saw this as remaining the same. 16% believe that this facet of their mobile service had deteriorated.

Finally, the study looked at large businesses views on Advanced Data Services from telecom providers. Advance data services were defined as leased lines, IP telephony, access to the internet, web-hosting, e-business services, security, private circuits and networks. The research highlighted:

- 55% of large enterprises switched advanced data services suppliers within the last three years. 21% of these switched suppliers in the last 12 months, pointing to some very dissatisfied customers. 27% have never changed supplier.
- 36% of respondents are 'fairly dissatisfied' with their advanced data services, with only 8% being 'very satisfied'.
- When judging the improvement or deterioration of certain aspects of advanced data services over the last year, 22% of users of these services felt that the quality of service overall had improved. Over half (55%) felt that this aspect has remained the same, another 14% couldn't give an opinion on this whilst 10% thought that quality of service had decreased.
- In terms of the quality of customer service or account management on advanced data services, over half of large business users felt it had stayed the same (52%) with 18% believing it had improved. A further 15% believed this has deteriorated over the last year or so.

Respondents were also asked if there was anything (else) relating to telecoms that had become an important issue for your company in the last year. This question found that the main issues mentioned (by 4% or more of the sample) were:

- VoIP/IP technology (11%)
- Poor account management/customer services (7%)
- Mobile/remote workforce (7%)
- Convergence issues (4%)

So, what does this mean in practice for those organisations that have to operate services or supply infrastructure to this growing, but increasingly complex market?

### Challenges for the sector

- 1 The telecoms sector is changing rapidly as it moves from historical business models based on the delivery of voice calls over switched-circuit networks to business models based on the delivery of data over internet protocol networks.
- 2 These changes bring uncertainty as well as opportunity, particularly for investors; yet companies have a limited opportunity in time to make the significant, long-term commercial decisions required if they are to remain competitive in the future.
- 3 The UK telecoms market offers choice and value to the end user in a :competition in fixed line telecoms remains fragile. Additionally, many of the advantages upon which competitors have based their businesses are being eroded, not least by the transition to next generation networks.
- 4 Consumers' behaviour is changing as new technologies penetrate the mass-market. However, with growth in choice and innovation has come an increase in the potential for confusion, as consumers seek to navigate increasingly complex competitive retail markets.
- 5 A pan-European telecom industry is emerging. The search for economies of scale and the implementation of pan-European strategies, cross-border investment has driven merger and acquisition activity to above 70 billion Euros in 2005, the highest level since 2000. Incumbents today are receiving between 5 and 27% of their income from European business outside their home country. Some are becoming challengers in other EU markets even while remaining incumbents at home. This development is changing the market position, business orientation and also policy view of many operators.
- 6 The ever increasing competitive landscape has put account management levels at a premium. With the number of telecom service suppliers increasingly steadily, this could be the decision between buying and rejecting a supplier's offer.
- 7 The ability of telecom providers to differentiate themselves from the competition in a crowded market place.

The key message emerging from all of this is that companies that want to be successful in the new era that telecoms is entering, must act swiftly and decisively. This in itself brings risk, and with the risk, the potential for huge rewards if companies get their strategy right.

### Voice over IP

The following are excerpts from Ovum's research into the Telecoms market published December 2005

"The appeal of VoIP is obvious and the example of Yahoo! Broadband in Japan shows how compelling it can be when combined in a broadband package. The majority of Yahoo! Broadband's 2.5 million broadband customers have also subscribed to its Internet telephony service. They are now benefiting from free unlimited calls to other Yahoo! Broadband customers, and cheap long-distance calls to other destinations both in Japan and internationally". "The threat of VoIP is obvious. VoIP service providers can bypass much - or all - of the PSTN and offer very competitively priced calls or call packages. This poses a direct threat to service providers who rely on both interconnection and traditional voice for the bulk of their revenues and more importantly profitability.

Not only are there emerging new entrants specialising in cheap voice, but VoIP has started rumblings in the cable world: the consequences of major cable operators ploughing their way into VoIP is a prospect that could well keep telcos awake at night".

"Internet telephony will make up 12 per cent of all telephony revenues in five years time, according to a study by analysts Juniper Research published last Friday, Juniper reckons the VoIP (Voice over Internet Protocol) market will contribute \$32bn, out of a total telephony market worth approximately \$260bn, by 2009. Service providers face the challenge of balancing new VoIP revenues against declines in their traditional fixed-line revenues, as flat-rate IP-based voice tariffs replace time and distance related charges. These changes will benefit more nimble service providers, according to Juniper". (The Register 24th May 2004)

According to another Ovum report, VoIP users will pass the 200 million mark by 2008, although they say half will be users of 'softclient' services such as Skype.

## The Telco view

Ovum predict that Telco's in countries with the highest VoIP uptake, predicted to be Japan, USA & Canada, Telco's will lose 3% of revenues year on to 2008 resulting in an anticipated drop in total revenue of 20%. In countries where VoIP take up is less, predicted to be most of Western Europe and some Asian countries, the cumulative total revenue loss to Telco's is predicted to be of the order of 15% by 2008. This loss could be compounded if the new generation of VoIP providers also introduces low cost flat rate packages early in the uptake cycle, by driving down consumer price expectations overall and hence eroding PSTN pricing strategies. With these two combined forces operating on the Telco market, Ovum predict revenue losses could be as high as 5-10% per annum cumulative for the worst hit countries, with most suffering 3-5% per annum drops.

Given the significance of these numbers, Ovum predicts that established Telco's, whilst having to develop new business plans to take into account these reducing revenue numbers will also be searching for value-added services (thought by many to be an uphill struggle against the new entrants) whilst concurrently needing to identify new revenue streams with ever increasing urgency.

## The equipment and service provider view

"Most service providers are using low-cost and bundled packages as the hook to attract new customers. This is having some success, however VoIP can do so much more. There are significant opportunities for service providers to offer multiple line operation on broadband networks or to partner with other service providers to offer attractive gaming, messaging and voice packages. This would allow them to target their offerings more narrowly at small businesses and specific segments of the consumer market, for example. (Ovum December 2005)

## So what does this mean for equipment and service providers?

It means understanding clearly which elements of the market that are targeting, and why, and aligning their capabilities to become the best in each segment they choose to address. User choice is exploding in both the consumer and business marketplaces so no one company can any longer 'own' the marketplace. This is driving new complex partnership models, as well as high rates of acquisitions and mergers in the marketplace.

Consumer choice is taking off, driven by Local Loop Unbundling as well as by the integration and bundling of new services, and their availability through any device operating on mobile, WiFi, satellite, cable or copper. With the advent of new IP offerings and services such as Hybrid (SIP/WiFi) phones; Unified Messaging; PRBT; Network Address Books; Improved Reachability; 'Push-to' services; VoD; EPG; PVR; Communications TV; Amigo TV; and MyOwn TV coming to market right now.

Enterprise choice is also taking off as a result of IP anywhere. With services such as Managed business communication services (MBCS); Managed employee interaction services (MEIS); and Managed customer interaction services (MCIS) all coming to market right now, the need to focus and become the best has never been more paramount.

The competitive confusion is compounded by user choosers having Brand confusion driven by diversification strategies being forced onto organisations in attempts to stem revenue bleeds, or in attempts to establish themselves as leaders in a new upcoming field. This process often results in companies partnering with organisations who would traditionally not have been seen as complimentary, such as BT & Vodafone, bitter rivals in the mobile market not long ago, now partners in BT Fusion.

The other potential result of a diversification strategy is that organisations engage in major acquisitions and mergers such as Sky's acquisition of EasyNet, leading to their announcement this month (July '06) of free broadband, possible as a result of Local loop Unbundling. Also seen recently has been Carphone Warehouse's acquisitions of Opal Telecom, to obtain SME penetration and OneTel (a consumer POTS override provider) to gain Consumer penetration. This has led to the launch (again using Local Loop Unbundling) of their low cost land line, and free broadband offering, TalkTalk.

The reason for this activity is that user choosers are looking for either a familiar 'trusted supplier' Brand to guide them through the brave new world of integrated IP offerings, or they want highly innovative, fully integrated offering bundles at very low prices to reduce the risks involved in trialling the unknown.

As always, the telecom market is very fragmented, but moving into the new digital age as the market is seen to be today, it broadly falls into two camps:

- 1 Those customers who are looking for trusted advisors to guide their choice while they focus on their own areas of interest
- 2 Those customers who see this as interesting and important, who can provide their own integration and are willing to be early adopters with all the risks that entails, but as a result are highly price sensitive.

## Conclusion

The following conclusion was taken from a white paper, published by Alcatel entitled Exploiting IP Networks to Create Sticky Services:

"In the short to medium term, traditional services will evolve and remain recognizable as separate services: voice calling, say, or Internet or multimedia (e.g., entertainment) services. In time, however, services will blur these traditional boundaries, and they will become much more device-independent and user-centric. As that happens, voice, Internet and multimedia elements simply become components of a larger overall value proposition to the end user. This blending and convergence will happen in the enterprise and the consumer spheres, alike.

Of course, the more distant future of services entices the imagination. Yet, for the service provider seeking to differentiate and grow today, perhaps the most compelling vision is the new service revenue potential available now".

The choice is clear either;

1 understand and maintain an ongoing view of exactly what is happening in the end user market, whether driven by consumer demand, new technology, new entrants or new offerings, and constantly adapt current product and service offerings to ever changing demand, particularly in the areas of total consumer and business services

2 or deliver low cost products and services which have a very short life cycle in terms of consumer usability and hence value.

The impact on market perception of individual Brands will be significant. Those that are ahead of the curve, highly sensitive and responsive to changing customer need patterns in the market will be highly thought of; the rest will suffer. For many, this will be terminal.

## What can ICDL offer?

ICDL creates [High Performance Organisations](#), sensitive and responsive to the smallest changes in market demand patterns. ICDL calls these organisations Outside-In.

So what's the difference? In many cases the answer is deceptively simple. Identify what is truly important to your customers; build offerings to meet these real requirements; deliver the right offerings to the right people in the customer, in a way that is appropriate for them.

## So if it is this easy, why is everyone not doing it?

Most organisations invest in the wrong activities, identify inappropriate information, and build their futures on what they think is important, not what their customers think is important. ICDL call these organisations 'Inside-out'.

Inside-out organisations sit in their offices, analyse their offering and invest time, energy and resource in trying to identify how they can 'beat the competition', and where they can sell more of their products or services. They do not invest in understanding the customer's needs and continuously adjusting their offering to achieve best fit. The result is generally seen as follows:

- Unreliable Sales Forecasts
- Poor Customer Service
- Focus on Cost Cutting
- Highly Competitive
- Blame Culture
- Take no Risks

## ICDL call high performance organisations 'Outside-In'

Outside-in organisations go out and stand in the shoes of their ultimate end users, look back at them and their competition and ask themselves, "standing here, looking back, what do I need to do to make my organisation, our offering and our partners seem more valuable to this end user than our competitors"?

This thinking drives remarkable change throughout the organisation, and through this, changes the perception of the end user. The results are clear:

- Take 'Customer' Risks
- Reliable Sales Forecasts
- Focus on Customer Needs
- Everyone Focused on 'Customer'
- Strong Orientation on 'Partnership'

Not all organisations, nor all sales teams are ready for change of this magnitude, nor are they all capable of implementing it. Those that can and do, however, will be the winners.

ICDL exists to enable our customers to have this choice.

Click [here](#) to Start the Change.

# Accelerators



For more information on how ICDL can help you, call us today on +44 (0)118 979 8433  
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