benchmark-it performance

This new 231-page report profiles and compares 20 key alternative providers of trans-border telecoms services to corporate customers in Western Europe.

The report includes the following:

- Profiles of 20 carriers
  - Verdict
  - Summary (strategy and recent activities)
  - Geographic reach
  - Portfolio
  - Management (revenues and reputation)

Who should buy the report?

- Operators selling telecoms services to corporate customers in Western Europe
- Companies investing in or supplying the above
- Companies buying services from the service providers covered

Key benefits:

- Source of key information on 20 carriers
- Independent market analysis and comparisons
- Gives customers time to concentrate on analysing implications and to formulate action plans

Updated since last report:

- 19 updated player profiles, one all-new player profile
- Analysis of player positioning and differentiation strategies
- Updated market analysis with assessment of conclusions from previous report

Key conclusions:

- Differentiation is difficult
- Revenues and growth are tending to flatten
- The market is going through a period of consolidation whilst everyone waits for an eventual recovery

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benchmark-it performance

Alternative Trans-Border Telecoms Service Providers In Western Europe

November 2002

Author: Rob Pritchard

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Executive Summary

In this latest report we can define no players as clear winners as there is no service provider that demonstrates a combination of significant size and significant growth. There are, however, eleven potential winners – reflecting the efforts by many players to cut costs and focus on survival rather than growth.

The flipside of the cost-cutting approach has been a tendency towards homogeneity as service providers struggle to differentiate from one another.

The other recent trend has been the movement towards rebirth for players exiting Chapter 11 bankruptcy protection – their re-emergence is likely to lead to continued price pressures, flat revenue growth and further casualties.

Potential winners (look like surviving and could prosper in due course):

- AT&T
- BT Ignite
- COLT
- Equant
- Global Crossing
- Infonet
- KPN EuroRings
- T-Systems
- Vanco
- Versatel
- WorldCom

Niche players (occupy a niche market):

- ETT
- Lambdanet
- Level 3
- SAVVIS
- Sprint
- Telia International Carrier

Question mark (future uncertain):

- Cable & Wireless

Carrion (gone but not yet forgotten):

- Genuity
- Interoute

Market Analysis

The primary focus of this updated report has been to analyse how service providers differentiate themselves in the market.

The motivation behind this has been the fact that many players use similar language and claims in their positioning statements and the vast majority have claimed to be "focusing on sales and marketing."

We take a somewhat sceptical view that all players are focused on sales and marketing – this is evidenced by the fact that many of the companies profiled have slashed their budgets and it is often easy to cut marketing spend as it can prove to be very hard to measure the impact of such investment. It is not at all uncommon across many of the companies profiled to find that 50% or more of the marketing teams have been cut and virtually all have reduced spending on other marketing expenditure.

Whilst driven by the important goals of cost reduction, service providers must also be aware that a business that is driven by a simultaneous focus on sales and cost-cutting can result in the following:

- Customer needs beyond the immediate future are harder to understand, both in terms of product requirements and in terms of broader business drivers;

- The imperative to develop long-term customer relationships can be impaired by a tactical, rather than strategic, approach to market – this is exacerbated by the similar actions of sales teams from competitors as sales-driven organizations tend to increase churn and speed price competition;

- Failure to track competitor activities means that developing a distinctive market position and proposition becomes difficult.

Cut-backs are also likely to impair service providers' ability to improve customer service and develop innovative products. Whilst these may be seen as "nice to haves" in a time of recession as witnessed today, it should be noted that improved levels of customer service are a powerful means of retaining customers and, as and when the market improves, those service providers that are able to build on longer-term customer relationships will stand to benefit disproportionately from the upturn.

On the table overleaf we have analysed the areas of potential differentiation and identified those attributes claimed by each profiled player (where possible).

	Price	Stability	Portfolio	Network	Customer service	Niche focus	Solution selling	Reach
AT&T		X	X	X	X		X	X
BT Ignite		X	X		X		X	X
Cable & Wireless		X			X	X		
COLT		X		X	X			
Equant		X	X	X	X	X		X
ETT					X	X	X	
Genuity				X				
Global Crossing	X			X				X
Infonet		X	X	X	X		X	X
Interoute		X		X	X			
KPN EuroRings	X	X		X				
Lambdanet	X			X		X		
Level 3	X	X		X	X	X		
SAVVIS	X	X		X	X	X	X	
Sprint								
Telia IC	X	X		X		X		
T-Systems							X	
Vanco	X				X	X	X	
Versatel						X		
WorldCom	X		X	X	X			X

From the above we can see how difficult it is to develop a truly differentiated position in the market:

- Price – a few players can deliver here but have to be cut-throat in their approach to costs and should aim to benefit from economies either of scale, focus or business model;
- Stability – no player will openly admit to being unstable and although customers value stability as a criterion they can rarely feel absolutely sure in today's market, even on the rare occasion when a service provider is in a robust position;
- Portfolio – tends to benefit the larger players as they have the resources to develop a broad range of products;
- Network – it is not unsurprising that most players regard their network as a differentiator as it is their core business, however the fact that so many regard it as a differentiator underlines the relative weakness of this message;
- Customer service – all players claim to offer superior customer service but only a few can back it up with comprehensive SLAs and independent awards;
- Niche focus – this can be a true differentiator as long as no more than two or three other players are following a similar strategy;
- Solution selling – often used for even very simple products, such players are either very close to their customers, offer a comprehensive portfolio or can supply complementary services such as systems integration;
- Reach – this again tends to be restricted to those players that can afford to deliver services directly using their own network over a wide range of geographies.

Other key conclusions from this report are:

- Survival has become the name of the game for many players – cost-cutting is endemic as each service provider looks to attain a level of financial stability that will deliver long-term viability. Some players have successfully managed to keep debt levels low, others are in the process of matching costs to revenues, others are wiping out debt levels through financial restructuring;

- Basic telecoms services have become a commodity. Nonetheless, they are a valuable and technically complex commodity that have an intrinsic worth – successful delivery enables customers to exploit a key resource that is central to the running of their core business;

- Chapter 11 bankruptcy protection is fast becoming a non-issue in the eyes of customers. With so much uncertainty in the industry it would take something extraordinary to surprise customers and so a telecoms service provider filing for Chapter 11 is no longer shocking. Indeed, for those companies able to exploit this U.S. law (or any similar national European protection laws), the future looks more certain than for those companies unable to exploit it. Potentially, a service provider emerging from Chapter 11 has a much reduced debt and a restructured company and is often in a better position to compete than competitors that have continued to operate within normal business boundaries;

- Consolidation is happening and will continue – although there appears still to be too much capacity in the market for the volume of custom available, the following notable service providers have disappeared, been absorbed or withdrawn from the trans-border services market since the first Alternative Carriers report in May 2001:

    - Carrier 1;
    - Concert;
    - Ebone
    - Energis;
    - Genuity;
    - Global One;
    - KPNQwest;
    - Storm;
    - Ventelo;
    - Viatel.

- Another point worthy of note since the first report in May 2001 has been the steady collapse in the rate of revenues growth. In the first report, 7 of 14 profiled players had annual revenue growth of over 50%. By the second (November 2001), this had shrunk to 5 of 14. The third (May 2002) saw just 2 of 20 growing at such a rapid rate. In this report (November 2002), the number is 0 out of 17;

- It is also worth noting that the language of these service providers has generally changed from talking about network roll-outs, new cities and "pipe" sizes to stability, "success-driven" capital expenditure and cost reduction;

- We still believe that the most important factor in delivering success is operational excellence (despite the opt-out of Chapter 11). Senior managers at successful players need to understand the complex telecoms market, with its technical, regulatory and financial challenges. They also need to be able to communicate and motivate staff, investors and customers – a not insignificant challenge in itself;

- Recent research on behalf of BT by RSM (Telecommunications In 2002) shows "Concern for suppliers' finances" as the top response amongst corporations interviewed. It is also notable that "Price/costs" had reduced in importance from 2001 and that "Supply products/services that users need" had quadrupled in importance from the previous year's research – implying an early and negative impact of cut-backs in marketing budgets and product development;

- The same research also showed the two most important factors when choosing a service provider to be "Established/large/solid company" and "Quality product/service/range";

- As forecast, the hosting business continues to commoditise and many of those profiled in this report have been shutting down, selling off and consolidating their hosting centres. On a brighter note, IP VPN services are being aggressively launched by most players and some are even launching voice over IP services too;

- It is becoming a characteristic of many PTT-backed organizations (with a few notable exceptions) to return to an old-style strategy of defending their home turf and focusing on serving the international needs of domestic customers – global domination is pretty much off everyone's agenda for the foreseeable future;

- One of the success stories appears to have been the rise and rise of VNOs (Virtual Network Operators), whose low-cost model and customer intimacy has helped drive their revenue growth and international expansion. However, they still face the challenges of building a substantial presence in terms of revenues and market share – part of this challenge is to develop awareness of their existence and to make themselves into viable service providers for the biggest corporate customers;

- Customers are often looking to de-risk their telecoms service provision – one means of doing this is by using a third-party (either a VNO or a prime contractor) or they are choosing to use multiple service providers where before they may have chosen one (e.g. SWIFT's recent announcement).

Finally, we make some predictions for the next six months:

- It looks like both WorldCom and Global Crossing will emerge from Chapter 11 bankruptcy protection with healthy looking balance sheets. This will pose a renewed threat to other service providers as both players are likely to compete on price and continued annual price declines of up to 25% look quite possible;

- Further consolidation is likely, although there are getting to be fewer and fewer "pure" alternative carriers and the market is looking more and more like it did ten years ago with many familiar names like AT&T, BT, Deutsche Telekom and Sprint;

- In some case capacity (in terms of number of service providers) will be taken out of the market by strategic decisions to withdraw – there has already been some evidence of this by recent strategic changes at Cable & Wireless;

- A return to growth will be largely dependent on a broader economic recovery – we cannot yet see any signs of this happening in the first half of 2003.

Check-list From The Last Report

In common with our approach of monitoring which alternative suppliers have kept their promises and done what they said they would, benchmark-it also tracks the accuracy of predictions we make. Below is a summary of some predictions made six months ago and what has happened subsequently:

- BT Ignite needs to sort out its channels in France and Italy – the sale of BT's stake in Cegetel is enabling the company to re-establish a direct sales presence for corporate customers in this key market;

- Cable & Wireless' revenues from corporate customers in Continental Europe still remain disappointing – the company is now withdrawing from offering in-country services outside of the UK and Japan;

- Cable & Wireless appears not to have successfully integrated the various people and assets gathered during its acquisition process – it is now selling various assets in the USA and in-country services in Continental Europe are being withdrawn;

- COLT has 50% of its revenues geared towards the finance, travel and media sectors and this may cause some difficulty as these sectors are the most likely to be hit by the present economic downturn and are increasingly being targeted by COLT's competitors – COLT's rate of revenue growth has fallen to its lowest level ever;

- Equant's lower revenue projections may be an early warning of flatter revenues as a result of harsh trading conditions – this has materialised during the course of the year;

- Genuity faces increased competition as other carriers also market IP services – Genuity ceased funding of its European operations during the past six months and has recently agreed a sale of its remaining assets to Level 3;

- Global Crossing needs to resolve its ownership issues and provide clarity over which networks and products will remain as corporate customers are likely to be somewhat wary of signing new contracts – with its future now apparently sorted out, Global Crossing has stabilised its revenues;

- WorldCom still faces the significant challenges of integrating its workforces, networks and systems and rationalising its portfolio – progress has been made to this effect and the issues should be a high priority for the new management team.

Benchmarked Suppliers

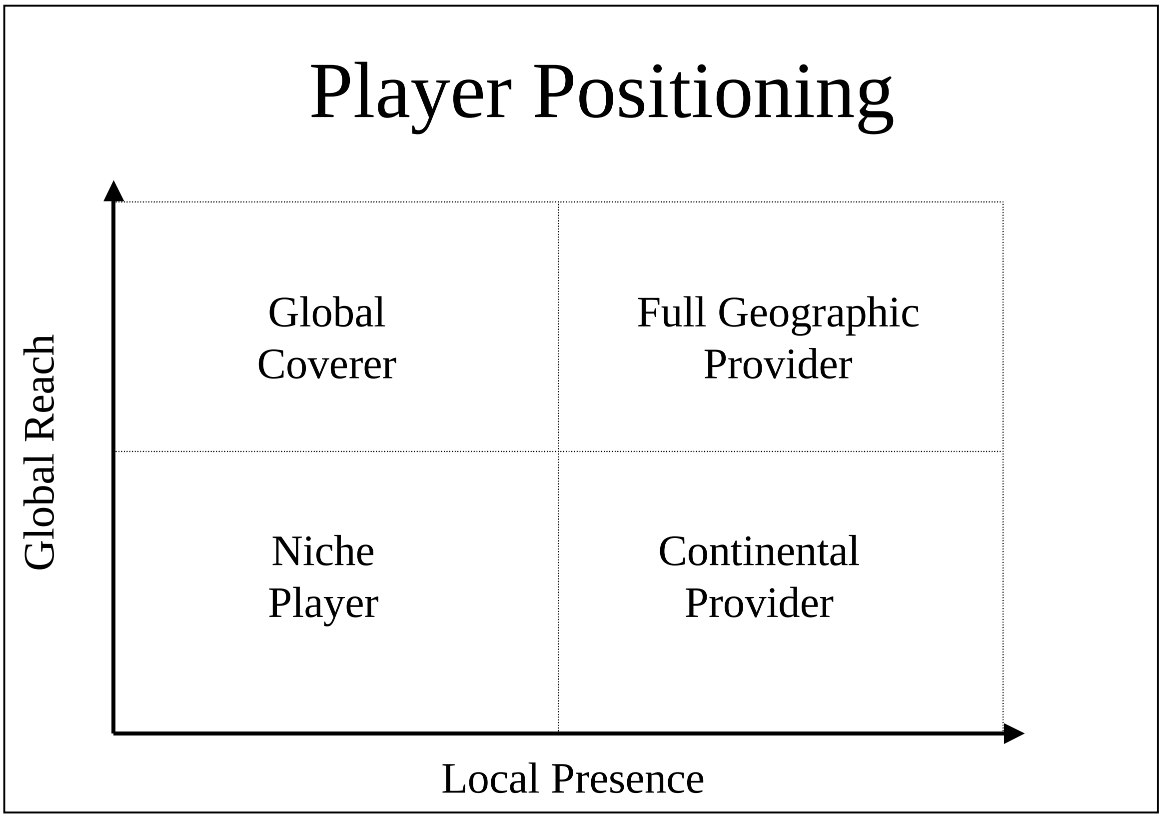
This section places the companies analysed in this report in comparison with each other from the points of view of relative positioning, stability, strategic focus and revenue performance.

A summary of these benchmarks is shown below:

Supplier	Coverage	Stability	Focus	Growth
AT&T	Good & growing	Stable	Good	Steady
BT Ignite	Good and deep in some countries	Stable	Good	Steady
Cable & Wireless	Solid	Rocky	Good	Steady
COLT	Good metro reach & depth	Appears stable	Very good	Steady
Equant	Unmatched global reach	Stable	Excellent	Flat
ETT	(VNO)	Stable	Excellent	N/A (probably good)
Genuity	N/A (dropping European ops).	Being sold post Chapter 11	Niche	Negative
Global Crossing	Good reach with some depth	Stabilising	Good	Flat
Infonet	Very good	Stable	Excellent	Flat
Interoute	OK	In administration	Niche	Flat
KPN EuroRings	Solid & growing	Stable	Good	N/A
Lambdanet	OK in-country	Appears stable	Niche	Steady
Level 3	Solid & growing	Appears stable	Niche	Steady
SAVVIS	Solid	Stable	Good	Steady
Sprint	Solid	Stable	Niche	N/A
Telia IC	Solid	Stable following re-organization	Niche	Steady
T-Systems	Solid	Appears stable	Lacking	Flat
Vanco	(VNO)	Stable	Excellent	Excellent from low base
Versatel	Low reach, good depth	Looking better	OK	Steady
WorldCom	Good reach and depth	Stabilising	Good	Flat

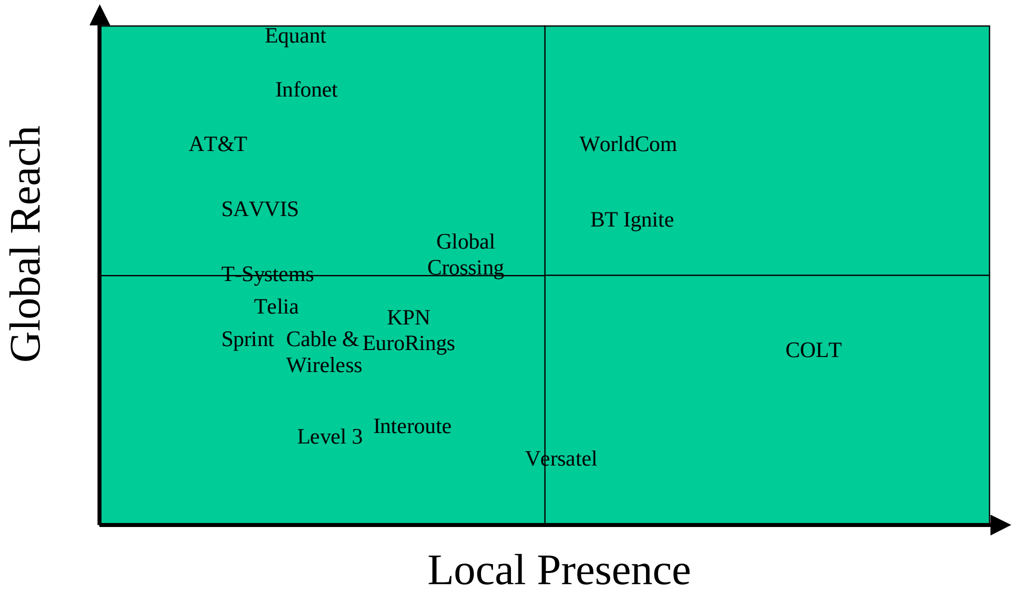
Coverage refers to the breadth and depth of networks offered (in Western Europe);
Stability refers to the financial, managerial and strategic consistency of the company;
Focus refers to the extent to which the company is focused on supplying services to the corporate segment (in Western Europe);
Growth refers to the company's recent ability to grow revenues (in Western Europe).
The table on the previous page was derived from analysis of data included in the report which is summarised in picture format later (note that positions are indicative of relative positions):

Players in this report can be characterised in the following way:



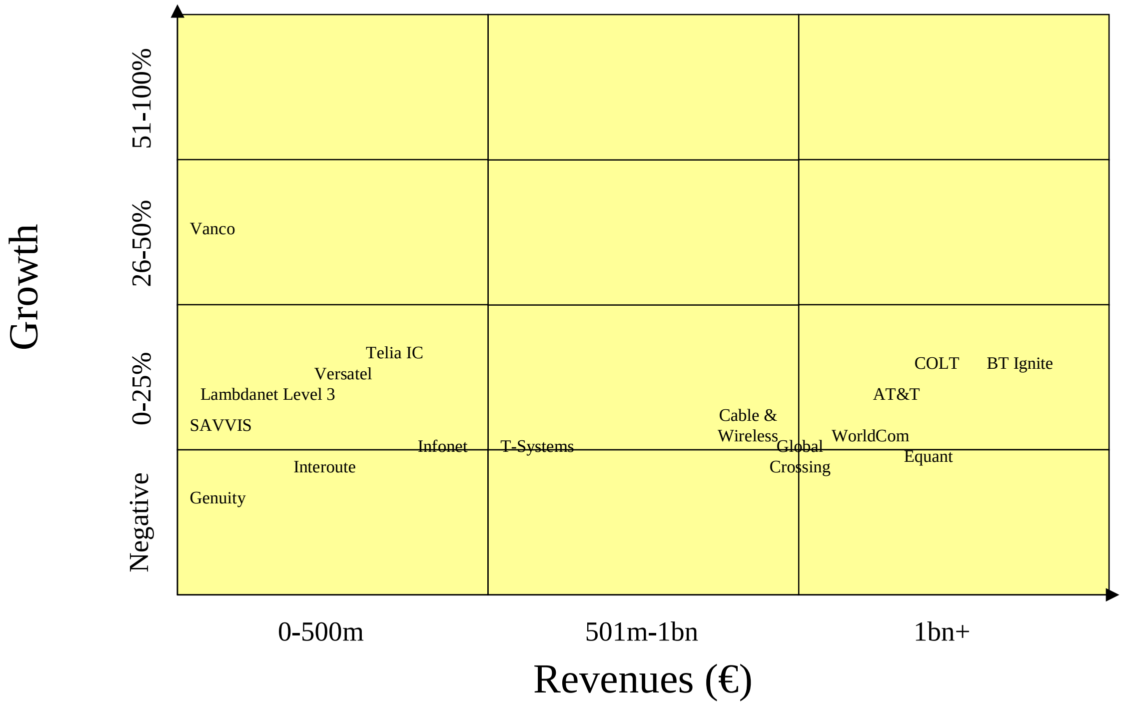
Ideally, suppliers would occupy the top right-hand of the chart, meaning they would be able to offer comprehensive global coverage combined with in-country depth across multiple countries, thus maximising their addressable market. As yet, no such global super-carrier exists, although a number of suppliers are edging towards the position.

Player Positioning



N.B. relative positions are indicative and like-for-like comparisons are not always possible.

Growth vs Revenues



N.B. chart is indicative of relative positions in Western Europe and based on company results or (where these were unavailable) benchmark-it estimates.

FOLLOWING ARE SOME SAMPLE PAGES FROM THE REPORT

COLT

Verdict: Potential winner. Changes of management, restructuring and the general economic slowdown have hindered progress recently. Assuming the recent changes can be implemented successfully, COLT may emerge as one of the few genuine alternative carriers to survive in the market.

Summary

COLT Telecom Group plc was founded by Fidelity Investments in 1992 and was floated in London and New York in 1996. It was amongst the first significant alternative pan-European carriers and was once one of the fastest-growing stocks on the market. COLT now believes it connects more buildings end-to-end than any other pan-European communications provider.

COLT claims it is differentiated from its competitors by a combination of things: "There is the breadth and depth of our networks across Europe enabling end-to-end service for our customers over a single integrated network. There is our reputation for excellent customer service, further recognised in 2001 with even more awards for excellent customer service. There is our track record for successfully executing our business plan and there is our strong financial position."

COLT also claims that: "If there is a single factor at the heart of COLT's success to date it's been our consistent ability to deliver on our promises. Quite simple, we achieve what we say we will achieve." COLT is certainly consistent with this statement, this is the third of its CEOs to which it has been attributed – despite that relative level of turmoil, the company has generally kept its growth going and regularly gets recognition for he quality of its customer service.

The company lists the following reasons why customers should choose it for telecoms service provision:

- The 20,000km wholly-owned and managed optic fibre network is one of the most advanced in the world;
- COLT is a financially stable business with a broad funding mix;
- COLT solutions are designed to offer optimum price and performance at local, national and international levels;
- The COLT EuroLAN links all the major cities in Europe;
- COLT operates 32 optic fibre metropolitan networks in Europe's major business centres;
- We have a good, experienced, well established management team;
- Our customer base includes some of the world's best-known business organisations – as well as a number of exciting newcomers;
- COLT solutions are not sector-specific – we operate in every major business area;
- All our solutions are supported by our outstanding, award-winning customer service and the COLT SLA.

Geographic Reach:

Western Europe:

Genuity has PoPs/dedicated access points and data centres (in blue) at the following locations:

Austria	Vienna
Belgium	Antwerp, Brussels, (Luxembourg)
Denmark	Copenhagen, Copenhagen
Finland	Helsinki
France	Bordeaux, Lille, Lyon, Marseille, Paris, Strasbourg, Toulouse, Paris
Germany	Berlin, Cologne, Dresden, Dusseldorf, Frankfurt, Hamburg, Hanover, Munich, Nuremberg, Stuttgart, Frankfurt, Munich
Ireland	Dublin
Italy	Milan, Rome, Turin, Milan
Netherlands	Amstelveen, Amsterdam, Rotterdam, Amsterdam
Norway	Oslo
Portugal	Lisbon
Spain	Barcelona, Bilbao, Madrid, Valencia, Madrid
Sweden	Gothenburg, Malmo, Stockholm, Stockholm
Switzerland	Bern, Basel, Geneva, Lausanne, Zurich
UK	Birmingham, Bracknell, Bristol, Edinburgh, Leeds, London (2), Manchester, Nottingham, Reading

Other Regions:

USA/Canada	National coverage in USA, Canada through TELUS
Eastern Europe	Belgrade, Bratislava, Bucharest, Moscow, Prague, St. Petersberg, Warsaw
Middle East/Africa	No presence
Asia Pacific	Hong Kong, Sydney, Tokyo
Latin America	Rio de Janeiro, SaoPaulo

Network:

Genuity has deployed an OC-48 (2.5Gbps) fibre ring in Europe which runs IP over DWDM. This network connects London, Amsterdam, Frankfurt, Paris, Milan and Zurich. Of the company's approximately 500 PoPs, 230 are international local access PoPs.

Data centres are located in the same buildings, or close proximity to, network access points and are directly connected to the Genuity backbone, with the exception of those centres acquired with Integra, which were expected to be connected by the beginning of this year.

Portfolio:

Level 3's portfolio is focused on IP services and transport services such as Ethernet transport, private lines and wavelengths.

Global Wavelength:

- (3)Link Global Wavelength is a 2.5Gbps or 10Gbps wavelength service available over intercity and international fibre routes and is available between nine European cities.

Private Line:

- The (3)Link Private Line Metro service provides customers with connectivity between long-distance points of presence at speeds between DS-3 and OC-48. The service comes in two categories:
  - Metro Point-to-Point is a circuit between two sites via the Level 3 Gateway;
  - Metro Access is a circuit from the customer site to access the Level 3 network via a Level 3 Gateway and can be provided on-net or off-net.

Colocation:

- (3)Center Colocation - Level 3 offers co-location facilities at its 74 global Gateway data centres in 66 markets around the world – this service is particularly targeted at ASP, ISP, content providers and carrier customers. Currently, the company has secured almost 6m square feet of co-location space, of this about 3m square feet has been built out.

Internet Access:

- (3)CrossRoads Internet Access is a wholesale Internet access service offering that allows customers to choose from multiple access locations at port speeds of STM-1, STM-4 and STM-16 in Europe.. The service is backed up by SLAs that guarantee 100% network availability. It also offers an innovative pricing option where customers can either pay a flat-rate monthly fee or for the amount of traffic carried.

Dark Fiber:

- (3)Link Dark Fiber is Level 3's dark fibre service available over its own infrastructure. It is also available as an "Off-Net Lateral" version, connecting customers to the Level 3 network on an ad hoc basis. In Europe it is available across nine metropolitan markets with more than 28 loops and offers access to more than 90 on-net buildings.

Management

Revenue:

	FY98	FY99	FY00	FY01	FY02
Revenues	$292m	$303m	$481m	$662m	$646m
EBITDA	$18m	$21m	$19m	$92m	$69m

Although revenue growth from 2000 to 2001 was 37% and Infonet slightly exceeded its forecast revenues for 2001 of $660m, the company issued a warning that its AUCS business was seriously underperforming and had revised its estimates for full-year 2002 revenues down to $700m (subsequently revised to $666m-$698m) and coming in at $646m (benchmark-it had estimated $655m).

The underperformance was blamed on a number of factors:

- Transitioning clients from legacy AUCS services;
- Renewing existing contracts in competitive pricing environment;
- Lack of sales of new Infonet services to existing AUCS customers;
- Getting channel partners used to new business practices.

Now the AUCS outsourcing contract is over, we expect Infonet to be able to re-focus on its core activities and, despite the problems of the global economy and continued tough competition, the company should return to growth long-term as it pushes its new generation of IP-based products and continues its selected expansion of geographies and partnerships. However, with revenues for the first half of FY 2003 so far amounting to $290m (core EBITDA $12m) it may yet take some time.

One advantage Infonet also has over many of its infrastructure-based competitors is the relative lack of price competition – the company claims that it sells solutions to business problems, rather than commoditised network services. Of course, one problem with a consultative sales approach is when to start charging customers for the expertise being delivered, so only basic consultation is free. Once a customer embarks on a NAP service, for example, the clock starts running.

Infonet still has about $511m in cash and equivalents on its books (mostly left over from its partial IPO), which makes it one of the more stable service providers as it is not burning through its reserves.

The company expects to be cash-flow positive at the beginning of 2003.

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