benchmark-it performance

This new 241-page report profiles and compares 26 key providers of telecoms services to UK SME customers.

The report includes the following:

- Profiles of 26 carriers
  - Verdict
  - Summary (strategy and recent activities)
  - Network reach
  - Portfolio
  - Management (revenues, reputation and promotion)
- Compares them in terms of:
  - Target customers
  - Portfolio & coverage
  - Focus
  - SME revenues

Who should buy the report?

- Operators selling telecoms services to SME customers in the UK
- Companies investing in, partnering or supplying the above
- Operators wanting to understand the impact of competition on the SME segment in a relatively mature market

Key benefits:

- Source of key information on 26 suppliers (including 10 all-new profiles)
- Independent market analysis and comparisons
- Gives customers time to concentrate on analysing implications and to formulate action plans

Key conclusions:

- Resellers and focused regional/national service providers are benefiting as many international players scale back their UK SME operations;
- DSL represents a significant opportunity for growth – adding as much as 12% to the value of the market;
- BT continues rigorously to defend its dominant position.

Pricing is £995 for a corporate licence (intranet licence).

benchmark-it performance

UK SME Segment Telecoms Service Providers

October 2002

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Executive Summary

The turbulence in the international telecoms market has resulted in the majority of service providers scaling back their ambitions. Of particular note over the last twelve months has been the withdrawal of many international players from serving in-country SME markets with some players set to withdraw altogether (Telia International Carrier UK as a wholesaler to resellers) and others refocusing their efforts on the top-end, higher spending customers (Cable & Wireless, WorldCom).

This has been good news in general for the community of resellers and focused regional/national service providers – not only have they tended not to be subject to financial problems by running up massive debts during the telecoms boom, but they are also able to pick up extra business as their larger peers change their focus.

This advantage has also been helped in part by the UK cable companies, both of which have been struggling to sort out their debt problems and cutting costs, resulting in slowed, if not stagnant, performance from their business divisions.

To add further to the already significant opportunity, 2002 is becoming the broadband gold rush with ADSL and, to a much lesser extent, SDSL services rolling out and providing new revenue streams and, often, potential salvation for smaller Internet/hosting-focused service providers. Our rough estimates show that DSL could add an annual £900m to the value of the UK SME telecoms segment, which we estimated to be worth about £7.75bn in 2001 – a 12% boost.

Of course, it's not just resellers and regional/national alternative service providers that are looking to benefit from the explosion in demand for DSL. Incumbent BT is looking once again to dominate the market for local connectivity – its new management has embraced broadband and is backing its roll-out and take-up with massive advertising. This will also be of benefit to BT's competitors as it improves overall awareness of broadband, but BT obviously expects to dominate the market – either way, whether BT Retail or BTopenworld make DSL sales, BT Wholesale will control the market as its over 100 resellers actively sell its broadband products.

One way or another, the community of SME customers across the UK generally stands to benefit from a renewed effort to capture their business. Already prices have come tumbling down but also, equally, there are already complaints about the standards of service and support available for DSL products. SMEs will continue to choose on a balance of price, customer service and portfolio – any service provider that manages to get the balance right should prosper.

Selected pages from the report:

What To Look Out For

- BT continues to dominate as it benefits from broadband push and local sales teams. We expect BT to continue to dominate the market as it benefits from customers taking up broadband – this will benefit both BT Retail and BT Wholesale. The establishment of local sales teams should also help the incumbent to generate a more local look and feel which will complement its strong national brand. If it can successfully absorb the expense of multiple sales forces and maintain its increasingly competitive pricing, it will remain the player to beat;

- Further consolidation expected – with companies like Eurocall snapping up other resellers and on-going financial woes in the telecoms sector as a whole, coupled with pricing pressures, it is inevitable that further consolidation will occur;

- Cable companies may move closer to their eventual merger – once NTL and Telewest have both sorted out their finances it would appear that their next logical step would be to merge and drive through further economies of scale and synergistic savings;

- Resellers look like they will continue to prosper due to their customer proximity, low capital base and the continued trouble at larger, international service providers;

- Resellers will have to find smart ways to differentiate their xDSL services as they rapidly commoditise – the most likely way will be through excellent customer service and a breadth of services, possibly emphasized through bundles of fixed voice, Internet and mobile services;

- Mobile will continue to play a larger part in the service provision as service providers and resellers look to develop more SME-segment-specific propositions. It will be interesting to see if mobile service providers will continue to offer their services as standalone and resale packages, or whether they might also look to exploit the strength of their brands to offer a more comprehensive range of fixed, mobile and Internet services;

- Continued convergence of voice, data and IP solutions is likely, although for suppliers successfully to sell such products they will have to move away from talking about IP phones and sell the benefits in terms that are comprehensible (and relevant) to customers.

Selected pages from the report:

The following table shows the benchmarked portfolios of the profiled suppliers (at a top level as detailed comparisons can only really be carried out on a product by product basis):

Player	Voice	Data	Internet	Mobile	Bundles
BT	Y	Y	Y	Y	Y
Bulldog	Y	Y	Y		
Cable & Wireless	Y	Y	Y		
Claranet	Y	Y	Y		
COLT	Y	Y	Y		
Easynet		Y	Y		
Energis	Y	Y	Y	Y	
Eurocall	Y	Y	Y	Y	
Fiberne	Y	Y	Y		
Firstnet		Y	Y		
Kingston Communications	Y	Y	Y	Y	
Mistral	Y	Y	Y		
Netscalibur			Y		
NTL	Y	Y	Y		Y
One.Tel	Y		Y	Y	
Opal Telecom	Y				
Redstone	Y	Y	Y	Y	
Symphony	Y	Y	Y	Y	
Telewest	Y	Y	Y		
Telia	Y	Y	Y		
THUS	Y	Y	Y		
Tiscali	Y		Y		
Via Net.Works			Y		
WorldCom	Y	Y	Y		Y
Your Communications	Y	Y	Y	Y	Y
Zipcom	Y		Y		

Selected pages from the report:

THUS

Verdict: THUS continues to prosper despite the general malaise in the telecoms sector. It has kept its finances under control and maintained a clear strategic focus on business customers, whilst also benefiting from the strength of its Demon brand when selling Internet products. The success appears to be set to continue as THUS is the largest ADSL provider in the UK after BT and as such will benefit disproportionately from BT's advertising push without having to pay for it.

Summary

THUS started life as the telecoms subsidiary of Scottish Power and was originally called Scottish Telecom when launched in late 1994. Whilst it still serves the communications needs of Scottish Power, it has now built up a significant base of customers won in a commercial environment. The company is now effectively an independent service provider with a focus on the SME and corporate segments.

THUS offers a wide range of data and communications services to the UK market, including direct and indirect, switched, freephone, premium rate and other number translation services. The company provides non-switched products including capacity, leased line and managed data services. THUS also offers call centre services, including telemarketing, call centre integration, fulfilment, consulting and disaster recovery services.

The company also offers a variety of Internet services, mainly under the Demon brand. It offers subscription dial-up services and business access services, including Web hosting, Web design, leased line and e-commerce facilities.

The way THUS positions itself is as follows:

"THUS provides a comprehensive range of voice, data, Internet and contact centre services. Customers can take advantage of our national UK network, advanced data and service strategy and leading quality of service.

THUS delivers solutions that enable businesses to maximise their customer relationships and profitability. The products and services provided by THUS are available individually, fully integrated or delivered as part of a bespoke solution to suit individual customers' needs."

Selected pages from the report:

Network Reach

- easynet Telecom has built a fibre-optic network around the UK, consisting of 350,000 fibre kilometres on a 3,500 route kilometre network;
- The network runs through 50 major towns and cities with well over a million businesses and nearly 3,000 large corporations located within 1.5km of its footprint;
- Four data centres: Brick Lane, London (78,000sq feet) – main centre, London, Slough and Brighton;
- Services over unbundled local loop to be rolled out in the following cities:
    - Manchester;
    - Leeds;
    - Sheffield;
    - Newcastle;
    - Edinburgh;
    - Glasgow;
    - London;
    - Birmingham;
    - Liverpool;
    - Nottingham;
    - Bristol;
    - Reading;
- Plans for LLU (Local Loop Unbundling) in 70-100 exchanges during 2002, each costing £100k. Such exchanges need to be less than 15km from the easynet network, support more than ten EasyDSL customers and have the potential for more than 50 customers per exchange;
- There were 54 such exchanges as at 4th July 2002, supporting 5,161 DSL business customers with 385 ULL customers installed (295 on order) and 680 "own loop customers" and 10% of exchanges already having covered their costs at that date, even only eight months into the roll-out programme;
- By 31st August 2002 854 "own loop" customers and 71 unbundled exchanges;
- Target of 2,000 ULL customers by end of 2002 and 5,000 wholesale customers;
- The following is an illustrative case study of an unbundled exchange (Battersea) that serves as an illustration of easynet's financial model:
    - 48 customers installed;
    - £1,500 average ARPU;
    - £130 non-recurring set-up fee;
    - £78,240 total revenue;
    - £31,000 operating expenditure per exchange;
    - £47,240 gross margin;
    - £90,000 capital expenditure per exchange;
- 14,583 Business DSL customers at 30th June 2002;
- easynet estimates that the installation of its own equipment in a BT exchange becomes economically viable once it has attracted 25 customers;
- The network is also connected to ten major UK Internet peering points.

Selected pages from the report:

Mistral's ADSL service comes in the following packages:

Service Name	Downstream Speed	Upstream Speed
Mistral ADSL500	Up to 500kbps	Up to 250kbps
Mistral ADSL1000	Up to 1Mbps	Up to 250kbps
Mistral ADSL2000	Up to 2Mbps	Up to 250kbps

Features include:

- Includes managed router with installation and configuration at customer's site;
- Allocation of routed IP addresses for the customer's network;
- 24-hour support hotline with 24-hour network monitoring and fault detection;
- Includes domain name registration, SMTP mail transfer, DNS and news service;
- Includes virtual server hosting.

Contracts are a minimum twelve-month period.

Mistral is trialling its ADSL Self-Install products which give customers the option of which router they want to use (rather than having to use the "traditional BT router"). The service comes with a free two-way splitter (microfilter) which needs to be plugged into the phone socket by the customer.

Service Name	Downstream Speed	Upstream Speed
Mistral Wires Only 500	Up to 512kbps	60-250kbps (depending on distance from exchange)
Mistral Wires Only1000	Up to 1,024kbps	256kbps
Mistral Wires Only 2000	Up to 2,046kbps	256kbps

- RADSL (Rate-Adaptive Asymmetric Digital Subscriber Line) - extends the each of the company's ADSL service to up to 5.5km from the enabled exchange.

- Enterprise ADSL – designed for customers that require three or more ADSL connections, this service is a package of the above ADSL options

Mistral claims to be the only supplier that offers a back-up option for its ADSL service. It includes a managed Cisco router that monitors the state of the ADSL line and, in the event of a failure, it automatically connects using ISDN at 128kbps. The service costs £799, but installation is free.

Selected pages from the report:

Management

Revenue:

Group revenues of £8,493m in 2000/01 had, through slowing markets and disposals, come down to £5,911m in 2001/02, with pre-exceptionals EBITDA of £822m.

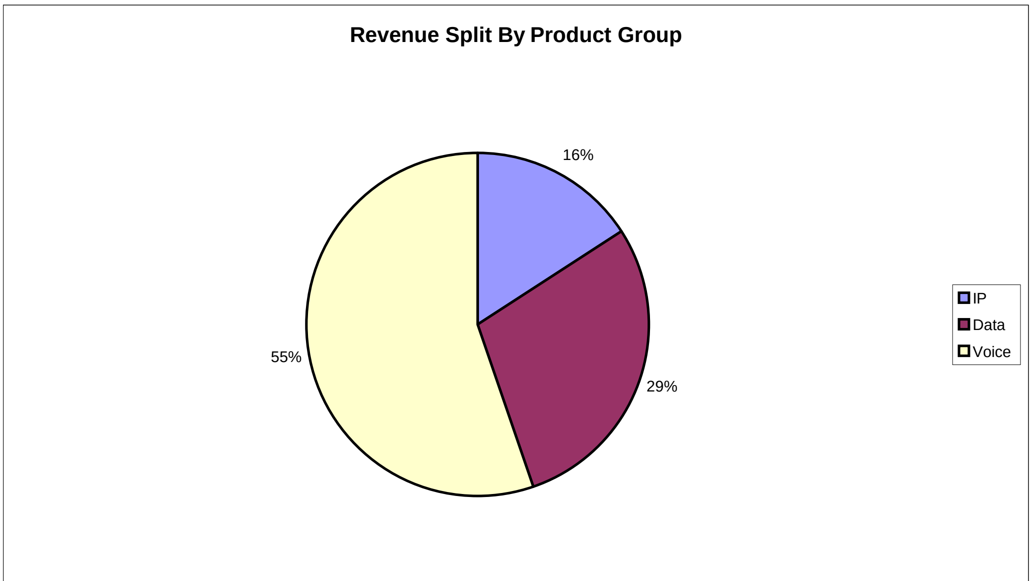
During the course of the last financial year Cable & Wireless' revenues from SMEs (Business Markets) declined by 18% which was a reflection of the company's strategy to withdraw from unprofitable business as well as the prevailing climate:

"We have no illusions as to the challenges we face in the current environment. Nevertheless, the underlying competitive strengths of the businesses combined with our cash position provide a sound basis for improvements in future profitability and cashflow."

The company has set a goal of becoming free cash flow positive by the fourth quarter of 2003/04.

Despite the company's lessening emphasis on the SME segment, such customers in the UK accounted for £470m in revenues in the last financial year, coming third in overall contribution behind UK Service Providers and UK Enterprise customers.

The chart below shows how 2001/02 revenues were split by product type across all SME customers (i.e. more than half represents revenues from SME customers outside the UK):



The figures show a marginal shift since the half-year figures of 1% in revenues from voice to IP. This illustrates that voice still dominates the SME market.

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