

## THE TELECOMS INDUSTRY

Welcome to the things they didn't want you to know . . .all the pros and cons of the Telecom Deregulation

### **FIRSTLY THE SMOKE AND MIRRORS**

Telecom companies make on average 35% margin on all their customers including you!

#### **How do they do it?**

**Line rentals**, are you paying full price? Probably yes because you didn't know you could get a reduction. Every telecom service provider in the UK gets line rental at 12% lower than BT's standard rate of £41.15 a quarter and does not have to pass this reduction onto the customer. So doesn't. The average profit, per line presently runs at around £24.72. Not a lot I hear you say, but, multiply this by the million or so lines presently with alternative suppliers and you have a healthy profit.

**Connection Charge**, A nice mark up for the service providers who give the customer a great local rate then charge between zero and 4 pence connection charge on every call this can be variable depending on the type of call for instance, calls to mobiles can be higher than calls to landlines.

**Minimum Call Fee**, Another margin maker once again great rates but the minimum call charge can be much higher than a pence per minute rate ie local call cost 1.9 pence per minute. Small print states minimum call cost 5 pence, so a one minute call costs? Yes, you guessed, 5 pence, add onto this the connection charge of 2 pence, total cost for a 59 second call, 7 pence. How many people fall for this every month? Alot, is the answer.

**Mobile calls**, How can you save money on these? Simple don't ring them or better still use your mobile phone with a cross network tariff to call mobiles for business users, this will cut your costs by around 40%. Some people have been sold sim cards that fit into their systems so the phone call goes out on a mobile network. Great savings are available so long as you call in excess of 4 hours of mobiles and each call is of less than 1 minute 38 seconds, above that and capped calls will do the same job, oh and you'll need a phone system to put one in either way. Not always the best solution there then.

**Contract Cons**, So you've found the best deal as far as the prices go no sneaky minimum call fees or connection charges, well done. But have you read the small print or the reverse psychology sales pitch? A favourite in the industry "Your call charges are guaranteed never to go up" brilliant, yes? Actually, no, as your call charges will never go down either, they are fixed at the agreed rate for the duration of the contract. Ah you say, but like interest rates, prices can rise as well as fall yes? Well sadly the cost of outbound telephony has fallen year on year since the introduction of Deregulation in 1984. Personally, I have never seen the cost rise on any particular destination with the exception of the 3G network. This clause is often used to great effect by companies you sign up to for 5 years making an annual saving of 20% and within 24 months your bill is 10% over priced compared to the rates available. Daily, now I am seeing companies paying 20 pence per minute for calls to mobiles when even BT is at 40% less than that on their standard tariff.

**Contract Duration**, Also you think your tied in for 12, 24, 36 or even 60 months you put in for cancellation with your old provider as you have found the best deal ever (again). Put in to move provider

and shock horror now you have to give a 12 months cancellation period, during which time your new provider has applied to take over your line and if your unlucky will invoke the infamous loss of revenue clause, stating you must pay 25% of revenue lost from the service you agreed to. Thank you! Another money spinner for doing precious little.

**Slamming**, This is the one that you have heard down the local watering hole. A company rings up saying they are either your telecoms provider or in some strange cases your incumbent supplier (yes they really are that devious!). They will check a few details phone numbers, postcode how many lines, decision makers name etc. All seemingly innocent stuff, unless you're truly paranoid, the next line probably goes something like this *"thanks for that now we can save you around 35% on the cost of your telecoms is that something that would be of interest to you?"* obvious answer "Yes". *"Ok I'll get that out to you as soon as I can"*. The calling company now applies to BT for your line. That 's that or so you would think but how do they get the money for the service? Easy, when you know how, the company calling doesn't bill you for 2 or 3 months, then calls or sends an invoice. The first contact you've had in 12 weeks or so, stating that if you don't pay your bill you will be disconnected. You deny all knowledge of any agreement, they say they have a recording, you tell them to send it, and so on. This takes an age by which time you have to pay your bill to them and consequently admit knowledge of the agreement by some strange legalese that no one understands. Even more money to the blaggers. Well done you've officially been SLAMMED!

**Capped rates** First used by BT to great advantage 59 minutes on a call for 10p fantastic! So how can this be a blag? Simple the average call duration is ...one minute 36 seconds in UK business. Ah I hear you say but the one call I make for 40 minutes I can save a fortune. True but what about the other 400 calls you made that had a large connection cost? And you got the answer phone or lost the signal to the mobile you called? It will cost you dearly my friend. Initial findings suggest your bill will either stay the same (30% of customers) or increase (the rest). So are you one of the lucky ones who's bill stayed the same or do you fall into "The rest" bracket?

**Directory Enquiries**, We all remember with great fondness the heady days of the 192 service, helpful operators, free information and no restrictions on how many times you called. Heady days indeed. So BT had to auction this off, the astounding thing about this is, it was a complete lottery, companies with a vast experience in the industry or your corner shop with a couple of hours and the right paperwork were all bundled in together. Consequently the directory service we had was diluted overnight. If you were lucky enough to get a decent number and I'm sure you know the kinds we are talking of 118\*\*\* this was another license to print money. In the first instance the moment the numbers where allocated there was a huge frenzy within the market to obtain the best numbers, rumours abound of certain suppliers paying 6 figure sums for attractive numbers. The cost of calling these services runs from around 35p up to 59p per call, all set by the owner of the number. Who invariably bought seats in a call centre and hoped they were man enough for the task. Surprisingly enough not all were!

I hear you say we all need the service and don't mind paying if it's up to standard. Here's the rub, you call your selected '118' company, they put you on hold, either by delaying the attendant response time or delaying the speed the information is passed from the operator to the person calling, only by a couple of seconds. This delay is costing the customer. Yes it's you paying more again, one of the more popular 118 organisations increased it's profit by £110,000 a week! By invoking a 3 second delay into every call. Don't you just love them all.

## Overview

Telecommunications in the UK have gone through some remarkable changes over the last 20 years commencing with the deregulation of the BT network in 1984 by the Conservative Government. The intention was to allow people the option of selecting their own provider based on what they wanted from a supplier giving them true freedom of choice.

This was contested at every turn by BT who were making a fairly hefty margin on all aspects of telephony, imagine having a product that everyone needed and being the only company allowed to provide this service. A better business you could not ask for. However this monopoly was soon to be taken from BT and as you can imagine BT were in no rush to lose this strangle hold on the UK's telecom market and tried every thing in its power to hold onto this lucrative profit stream.

The first to pit themselves against BT was Mercury Communications who gave customers a 10 digit code to allow them to charge lower rates whilst the customer continued getting their line rental from BT. Overnight BT dropped their rates to match the ones offered by Mercury.

The newly formed OFTEL stepped in and gave BT a price floor to stop this unfair pricing against new operators, it is worth noting at this time that to become an officer of OFTEL you had to have had a reasonable amount of time working within the Telecoms industry. Consequently the only people who could sit on this body were ex BT executives. This naturally was more than a little biased to the BT cause.

Eventually BT were given a price floor which they could not drop below as far as call charges went, the public were now in a position to get cheaper packages on their phone calls.

However BT still had a strangle hold on the line side of the business this was due to the local loop being what is known as "bundled" new service providers jumped on the band wagon and we became inundated with companies promising massive savings on telecom costs. Some of which were true!

Initially the new "Service Providers" offered call savings of between 20 and 50% on outbound traffic, the down side to this was you would either dial a prefix or have boxes attached to your phone lines. This solution did save money but the providers used call compression and consequently there was a massive reduction in call quality and not all calls were captured, this led to "slippage" an industry term that meant calls that bypassed the steering digits and fell back onto BT's billing platform thereby reducing any saving potential.

This product was pushed heavily during the late 80's and 90's through a whole range of marketing methods and led to some very small companies making some very healthy margins, this was the start of the Telecoms 'bubble'. Companies were formed, built customer bases and then sold at a vast profit. The normal equation was to take the billing per month of a Service Provider multiply by 12 this was considered the value of the business for sale purposes.

Entrepreneurs in the market saw this as a quick buck method of making money, simply put, they gain customers using self employed sales agents offering very low call prices, which the customers got. Then inflating the call prices and added a connection fee per call, which took their billing up by around 20% per customer thereby increasing the monthly billing and the company value. All of this gained the business owner money in the monthly payment and the buyout cost of the business. The only loser in this was the customer as the new owner of the customer base would continue charging the customer the inflated rates and connection charge per call.

This practice though not so prevalent today has left a bad taste with the customers and many maintain an allegiance to BT who have now benefited.

That pretty much deals with the history of why telecoms has a bad reputation in the UK. The next big event on the Telecoms calendar was the splitting of BT into several different companies! A bit of an

open secret. BT is no longer the BT that we think it is, they are now BT RETAIL, BT WHOLESALE, BT SYSTEMS, BT OPENREACH and one or two other smaller subsidiaries.

### **So what do they all do?**

#### **BT RETAIL**

These are BT as we knew them looking after all aspects of a customer billing, fault enquiries, new line installs, in fact the whole range of services that those of us old enough to remember the GPO would have expected. With one subtle difference the man that comes to fix your lines and install new is now an employee of a company called OPENREACH, these guys/girls now have the same agreement with all registered telecom providers who fall under the banner "BT Wholesalers".

#### **BT WHOLESALE**

This is the arm of the old BT who form an access to BT's new service providers ie BT WHOLESALERS for instance if you took on someone who offered you cheaper calls or line rental the application would go via BT Wholesale. The transfer of services, call divert, 1471 etc The telecoms regulatory 'machine' is a vast one; UK regulator Ofcom's budget alone exceeds £100m and most telcos and larger internet service providers employ swathes of people across Europe, hoping to influence their national regulators and the European Commission. To understand why this area attracts so much attention and the likely impact on business users, we need to look at some recent history and appreciate the mechanics of how the regulatory process works.

Telecoms markets have been opened up across Europe since 1999 and competition has developed. In the UK, large business users have benefited but competition has been slow to filter through to smaller businesses and outside major population centres. Regulation sets out to allow as much freedom as possible for operators to put together innovative services for customers, whilst forcing BT to open up its network and give new entrants wholesale services to allow them to compete. Both of these concepts - reducing retail regulation and improving wholesale services from BT to its competitors - have a bit of a chequered history.

Historically, all of BT's retail services for business and residential consumers have been subject to regulation. Today this regulation is applied to a relatively narrow set of BT's services. Other services such as national and international virtual private networks and data services such as frame relay are free of retail regulation, as are all international calls for businesses. The freedom given to BT should allow it to be more competitive and other suppliers should respond. On the wholesale side, progress has been made in giving BT's competitors access to the incumbent's network but getting that access is often dragged down into trench warfare that takes years to get anywhere. For example, BT has been obliged to offer its basic line rental on a wholesale basis for almost three years now but any large scale competitive offers have had to wait for a final 'fit for purpose' wholesale offer available in January this year. Why the delay? You might well ask. BT would say it takes time to get these things to market. Competitors would say the offer isn't good enough - often it's the operational process such as ordering and fault reporting which give the biggest problems. Ofcom continues to work with industry to get these processes right. The question therefore is: have business users got a better deal as a result of this deregulation? In many ways, yes - there's clearly much more choice and a better deal for many, particularly in the larger enterprise space. But it's still not good enough - the Communications Managers Association in its response to an Ofcom consultation in February 2005 clearly says competition isn't working. Ofcom's own research indicates that businesses think that regulation does hamper negotiation when it comes to

big contracts and BT still gains between 40 and 70 per cent of such contracts, depending on the types of services tendered for.

What should buyers of telecoms services be looking for now? Certainly, you should keep under very strict review your calls budgets - smaller businesses could very likely benefit from moving all of their calls to one of the newer calls providers. Since the deregulation of international business calls last year, these should be cheaper too - again, shop around. Smaller businesses should also start looking at potential alternative suppliers for line rental services, although the savings aren't huge - around 12 per cent seems a typical figure, although some operators are now offering bundled packages where a customer gets line rental and call minutes in one easy to manage package. Voice over IP (VoIP) services are also fast gaining ground and here businesses need to lobby Ofcom to get its act together. There is a regulatory discussion going on about IP and so-called 'next generation networks'. Despite a huge amount of business interest in VoIP - Quocirca research towards the end of 2004 found that more than 90 per cent of businesses are either using it already or think they will at some stage - the regulatory discussion in next generation networks is rather tentative. Regulators are unsure as to how to match new networks with the traditional regulatory model and how in the long term they might be regulated.

There might still be further deregulation of retail markets - but don't bet on it in the near future. BT is still restricted in its ability to offer discounts across the full range of services, but further deregulation here will need more consultation, so don't expect much more progress until 2006. On the mobile side, there is virtually no regulation of retail prices paid by consumers. The wholesale price paid by other operators for calls to mobile phones has been strictly regulated for the past few years, and has driven these prices down. An area of concern remains the price of mobile calls made abroad, the so-called 'roaming' prices. Regulators have struggled for years to find a way of addressing high charges for roaming. The underlying problem is the need to bring down the wholesale prices operators charge each other but here regulators can only affect the prices being charged in the home country and this doesn't benefit the home subscribers. Ofcom could force mobile operators in the UK to reduce the prices they charge overseas networks, but it has no power to get overseas operators to do the same so that prices for consumers in the UK can come down. This issue is now being studied at the European level but it's been slow progress so far and there is no easy solution on the cards.

So what should IT managers do to use the regulatory regime to their advantage? Certainly, contribute wherever possible to the regulatory debate to ensure that user needs are at the forefront of regulators' thinking, in particular in the IP world. The regulator also needs to be encouraged to make some effort to improve information available to customers - an increasingly competitive market also has a propensity to add to greater confusion and less clear offers. From a commercial perspective, it pays to shop around. Over the next year or two, alternative suppliers should be able to offer a better deal on a wider range of fixed services, incorporating line rental and calls. BT's might lead to more packages of this type being available for businesses. Those operating on a pan-European level should find some greater consistency in the services enabled by regulation - the obligation on incumbent operators to rent lines to competitors is gradually spreading out to most of Europe, for example. However, don't expect an explosion of line rental offers in the very short term - alternative providers are still finding lots of problems with operational issues and are somewhat wary of promoting large scale take-up.

The regulatory regime does matter - enabling competition allows innovation to develop, and prices do come down. It's a hard slog however, and choice puts an obligation on customers to check out what is there.