

The Process of Changing Telecommunications Markets

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21 January 2002

Topics

- Why Change?
- Irish Experience
- Impact
- Lessons Learned

Why Change?

- Protected markets are no longer sustainable
- Telecommunications is an international Industry driven by international investment and service criteria.
- National Governments realise that Telecommunications is a critical enabler of wealth creation both directly and more importantly indirectly.
- Wealth creators must have access to competitive telecommunications services in order to function effectively
- Key requirement is for the introduction of competition in order to bring about efficiency gains and service development.

Why Change?

CHOICE – MORE

PRICE - CHEAPER

QUALITY - BETTER

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Irish Experience

Background

- The ODTR - Office of the Director of Telecommunications Regulation – was established on 30 June 1997 under the Telecommunications (Miscellaneous Provisions) Act, 1996.
- The Director is independent and responsible for the regulation of the telecommunications, broadcasting, postal and radiocommunications sectors.
- Liberalisation took place on 1st December 1998 with 29 licences issued. Currently 84 licensed operators with 43 active
- Telecom Eireann – the incumbent, now eircom, was privatised in July 1999 and has recently been taken over by a private consortium.

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Irish Experience

Purpose

The mission statement of the ODTR is:

“The purpose of the Office of the Director of Telecommunications Regulation is to regulate with integrity, impartiality and expertise thereby facilitating rapid development of a **competitive** leading edge telecommunications sector that provides the best in terms of **price, choice and quality** to end users, attracts business investment and ensures ongoing social and economic growth, and to work with the same focus on providing for users within the framework set for postal regulation.”

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Fixed Line Market

Dominant Operator is *eircom*

- Obligations imposed regarding prices and quality of service etc. due to SMP status
- Market share of fixed line sector is 80%

Local, Domestic & International Segments

- 8 operators active in the residential market for local services
- 10 operators active in the residential market for national long distance and international services
- Providing services via Carrier Pre-Selection, calling cards etc

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Mobile Market

3 Licensed Operators

- Eircell (Vodafone), Digifone (BT) and Meteor (WW)

Market Share

- Eircell 58%, Digifone 41%, Meteor 1%

Penetration Rate

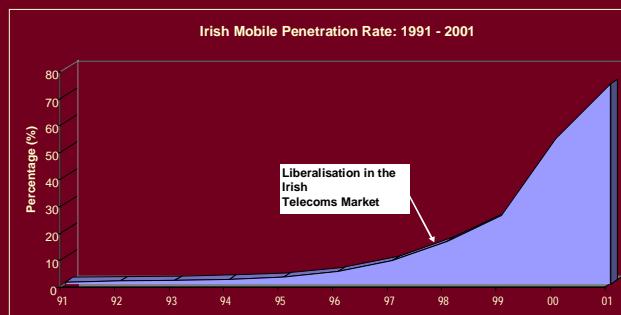
- The percentage of the population that has a mobile phone stood at 75% as at November 2001

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Mobile Phone Penetration Rate



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Irish Experience

Facilities

- ODTR Staff numbers c. 95.
- Standalone systems for IT, Administration, Accounting, Human Resources, Legal Services.
- External legal and accounting advice used extensively
- Financially and operationally independent

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Irish Experience

Start Up

- Initial financial staffing provided by Big 5 accounting firm to handle transfer from Department and establishment of financial and operational procedures.
- Payroll handled initially by Department on a service basis. New payroll set up with an external bureau for all directly employed staff
- Banking and Legal services were put out to tender. Policy is to outsource all non-core services e.g., IT
- Human Resources handled directly at the beginning, then by a consultant and latterly internally by three HR professionals

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Irish Experience

Personnel

- Staffing for the ODTR was provided at the beginning by the Department of Public Enterprise which seconded technical and administrative staff to the ODTR.
- Direct recruitment to the ODTR took time to achieve.
- Most staff now employed directly by the ODTR with consulting support.
- Most difficult area for the ODTR is recruiting telecommunications engineers, legal advisors and regulatory accountants. Cost, time and output implications.

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Irish Experience

Financing

- Entirely self Funding with surplus returned to Exchequer
- Funding from Licence fees and telecommunications levy.
- Licence fees for radio, broadcasting transmission spectrum and telecommunications licence administration.
- Telecommunications Levy on licensed operators of .2% i.e. one fifth of one percent of turnover

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Irish Experience

Legal Position

- Award of 3rd Mobile licence was tied up in a lengthy court appeals process for nearly 2 years. Supreme Court found in favour of ODTR and licence awarded
- Since June 1997, 14 High Court actions taken against ODTR of which it has won every one.
- Legal position was that licences could not be awarded until all legal avenues had been exhausted. This was changed in March 2001 so that the Regulator's decision now stands until a decision in the Courts finds otherwise.
- Some evidence that legal process has been used as a strategic weapon
- Need for clear legal power for Regulator. Maximum fine is currently ECU 2000. Proposed up to 10% of turnover

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Irish Experience

Consulting Requirements

- Biggest cost to the ODTR. 40% of total budget in 99/00. (Does not include Legal) due to limited staff and accelerated timetables.
- Reviewing incumbents costing systems is long, difficult, expensive and always problematic
- Legal, engineering, economic and financial requirements
- Procurement through EU for large projects
- Building relationships with large and small consulting firms is essential to get expertise when required
- Need strictly managed ToR and deliverables, consulting guidelines.

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Irish Experience Irish Experience

Structure

- Nature of the organisation is flat.
- Cultural issue for seconded staff
- Project based, teamwork, multidisciplinary
- Focus on outputs rather than process
- Merit based performance management system. Bonus system in place of up to 15%
- Three operational divisions and three support divisions. Market based structure. Moved away from traditional structure based on telecommunications, radio and broadcasting.
- Each division has range of skills, experience and background – administrative, legal and technical.

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Management Structure



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Irish Experience

Information Technology

- Outsourced to a facility management company from the outset
- Key enabler in transition from seconded staff to direct employees.
- "Expert" knowledge captured within the IT system and made available to all.
- Always on Internet access for all on demand
- E Mail, Website WWW.ODTR.IE

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Irish Experience

Communications

- Web presence
- Public consultations used extensively
- Public Seminars e.g. - Fixed Wireless Access, Liberalisation, 3G Mobile
- Public Accountability
- Speaking Engagements by Director and senior management
- Informal Communications

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Irish Experience

Accountability

- Minister has proposed that all Regulators would operate as a Board comprising a minimum of three people
- Accounts are audited by the State Auditor – the Comptroller and Auditor General and the accounts are laid before the Parliament
- The Director appears before cross party committees dealing with Public Accounts and Public Enterprise

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Irish Experience

Relationships

- Department of Public Enterprise
- Department of Enterprise Trade and Employment
- Forfas/National Competitiveness Council
- Competition Authority
- European and International representation. IRG, Commission, OECD, CEPT, ERC.

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Impact of Deregulation

- Corporate Perspective
- SME Perspective
- Consumer Perspective
- Price Impact

Impact Analysis

Impacts

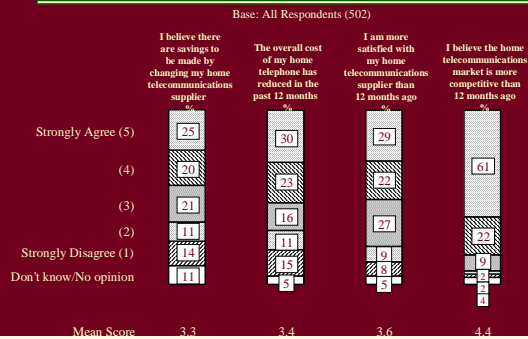
- Fixed Market Share of the incumbent is now 80% which is one of the lowest market shares in euro area countries
- Mobile Market Share of the incumbent is now c. 60% which again is one of the lowest euro market shares.
- The telecoms sector accounts for 3.1% of Irish GDP
- There are now over 160,000 business and residential subscriber lines using CPS.
- Mobile Penetration is c. 75%

Impact Analysis

Impacts

- Of larger corporate users 67% believe that the telecommunications market is more competitive and 40% say that the cost of their telecommunications has reduced.
- 85% of SME's believe that the overall cost of telecommunications has reduced in the past twelve months.
- 83% of residential consumers and 95% of SME's believe that the home telecommunications market is more competitive than 12 months ago.
- 66% of consumers were satisfied with the value for money rating of using their home telephone.

General Attitudes Consumers (502 Sample)

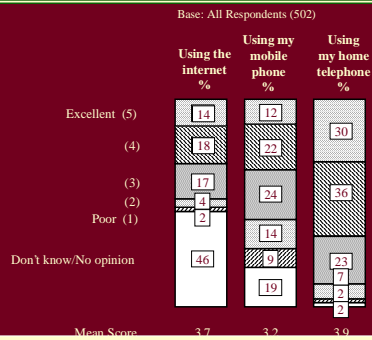


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VALUE FOR MONEY RATING CONSUMERS



Q. Using a scale of 1 to 5, where 5 is excellent and 1 is poor, please rate the following services in terms of value for money:

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Price Developments

Impacts

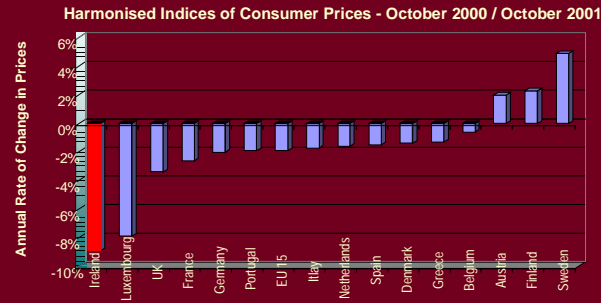
- Between 1996 and 2000 the Harmonised Index of Consumer Prices (HICP) has fallen by 18% in Ireland which is the second highest fall in the Euro zone countries (behind Germany 20.1%)
- Between 1998 and 2000 the Harmonised Index of Consumer Prices (HICP) fell by 10.9% in Ireland.

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Price Developments



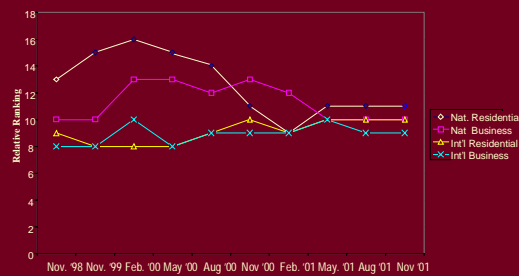
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Relative International Position PSTN

Ireland's Relative Position in the Various PSTN Baskets: Nov. '98 - Nov. '01



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Lessons Learned

- Be financially independent
- Recruit core staff at the earliest opportunity
- Spend generously on IT and support systems
- Produce monthly management accounts and run the business side efficiently
- Use consultants to gain experience and speed of implementation
- Obtain the necessary Legislative powers for enforcement and decision making support

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Lessons Learned – cont'd

- Structure the organisation to reflect the market and build in flexibility at the outset
- Consider restructuring the organisation every few years
- Keep focus on Price, Choice and Quality

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Lessons Learned Cont'd

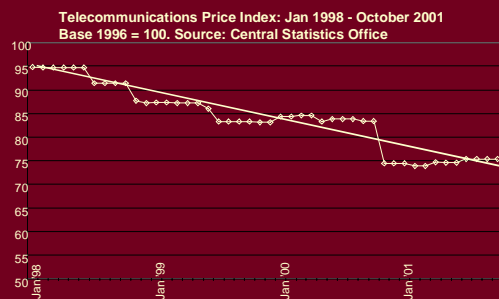
- Devote considerable resources to reviewing the costing systems of the incumbent at the earliest opportunity
- The Regulatory body must ensure that costs for new entrants are set on a cost efficient basis. This implies that inherited inefficient legacy costs and current cost inefficiencies should be strongly resisted.
- Key areas are interconnection rates and separated accounts for cost visibility.
- Relative cost advantage is more important than the absolute level of cost reduction.
- Very strong enforcement powers are necessary to ensure that decisions of the Regulator can be implemented and not frustrated.

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Thank You

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