

‘Upgrading networks: the choice of the next generation’

speech by

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My name is Paul Reynolds, and I’m the Chief Executive of BT Wholesale. On behalf of BT and my industry, I’m delighted to have the opportunity to participate in today’s important discussion and to share with you BT’s vision of a next generation network infrastructure that will be the enabler of growth in our industry in the UK.

I will talk to you about the commercial drivers for the network transformation and the opportunities such a radical change bring to BT our industry and the 60million people who live work and play in the UK.

All of us in this room, whether you’re from the electricity, transport, water or construction industries, share the same challenge ... of constantly driving for opportunities to improve our assets to bring us greater business efficiency and increased opportunities for growth in changing market conditions.

BT Wholesale is the part of BT that runs the UK’s core national communications infrastructure, and the majority of the services that infrastructure supports, to customers. We make services available to all communications providers across the UK, whether they’re traditional fixed line operators, mobile phone companies, internet service providers or one of a range of other service providers.

There are over 300 significant businesses, including BT, competing and offering a wide range of services to customers in the UK today – whether those customers are consumers in the home or businesses, large and small.

This level of competition is paying real dividends for end user customers, too. In fact, in the last decade alone, the cost of communications has fallen in real terms by up to 80 per cent while the range of services has expanded very widely indeed.

Communications today allows people to do considerably more than at any other time in our history. If you think about it, for the first 80 years or so, and only until about twenty years ago, my industry was characterised by a single service, the traditional telephone and voice calls.

Twenty years ago, mobile communications began. The internet only became a mass market proposition 10 years ago. Broadband started less than five years ago. And today, we're seeing the first major steps towards converged services – the convergence of fixed and mobile communications, of voice and data, of communications and IT – or ICT.

We're witnessing the birth of a fourth wave in telecommunications, the IP revolution. Like the other waves before it, mechanical switching, then electronic and more recently digital switching, the IP revolution is changing everything. The traditional barriers of geography, of technology and difference have faded away. The landscape is decisively different.

The beat rate of innovation and new service development in communications is remarkable and it is accelerating every year.

And just look at the papers – takeover bids left right and centre as our industry forms up to meet this changing landscape – Telefonica buying O2 for £17bn, eBay buying Skype for £2bn, more traditional operators looking at mergers to be leaner, fitter and stronger - C&W and Energis, ntl and Telewest.

A day doesn't go by without big news or speculation in my industry.

So the converged services are creating new growth opportunities ... and new risks.

The market we operate in is very tough.

In BT Wholesale, my business, regulatory and competitive pressures in the UK market are driving £250 million of price cuts each year.

Other parts of BT, other operators in the UK, and operators around the world are witnessing similar margin and revenue reductions. Massive cost reductions or significant new revenue growth have to be achieved just to keep our heads above water. It's hard work just to stand still. Our market is tough.

For an incumbent operator like BT and some of you, the future strategic direction is the key issue and we all have positives and negatives to consider.

For BT, embracing the IP future requires large scale investment and the adoption of new skills. It poses gargantuan operational challenge that will require new behaviours. The size of the financial, technical and operational challenge is enormous.

But in many ways, and as always in times of great change, the human challenge, I believe, is even greater.

My business, BT already has the size, scale and experience to manage major asset deployments. We have the investment strength to upgrade networks, to migrate customers to new platforms, and to exploit new opportunities.

But we also have our downside – legacy can slow us down. Size can be a barrier. Bringing with us 100,000 employees, millions of customers, a multitude of strategic partners, investors, Government, the regulator and policy makersis a huge body of work.

And I will talk a little more about this later.

But of course size, scale and continuity are no guarantee of success in the IP future and what brought any business success in the past could cause its downfall tomorrow. One of the leviathans of world telecoms AT&T now being viewed as a potential acquisition by others.

At BT, we looked at all these issues and decided that we needed to invest, we needed to be radical to capitalise fully on the opportunities.

BT's strategic response is 21CN, or our 21st century network programme. It's a massive £10 billion investment in UK and global networks over the next five years, to provide a state of the art network that will allow BT to deliver a considerably better customer experience to all our customers.

It will give them more choice and control over they choose, buy and use services. It will also allow us to deliver new services more quickly than ever before and will open up the industry to all kinds of new service or applications providers.

21CN will enable us to remove the complexity that decades of technology investments have created, radically simplifying our business and our industry.

We're also building new systems that will give easier control and access to the network to other, non-BT operators.

Being successful in any business is a matter of balance.

It's a balance between investing to generate profitable new revenues without allowing costs to spiral out of control.

It's about getting the balance right between delivering business results today and planning and preparing for tomorrow ... and often doing this whilst the rules of the game change beneath our feet.

And in my role, it's about getting the balance right between what we're doing to support BT's business' success, and - at the same time - the success of the industry and their customers.

21CN has three key objectives and they have been consistent from the early days of the development of our plans.

First is to empower the customer with control, choice and flexibility in a way that is simply not possible today.

This means giving customers – my intermediate market customers and their end users - the ability to amend and change service parameters in real time themselves.

And for end users it means the capability to access services from anywhere on any device – fixed or mobile, telephone or PDA, PC or fridge.

The second is to develop exciting new services for customers much faster than we can do today.

This is critical. The drumbeat of new service delivery from the communications industry is accelerating all the time.

As I've already mentioned, product life cycles are reducing and customer expectations accelerating and the average of 18 months it takes to bring a new product to market today is simply too slow for success in the 21st century.

My customers, the other service providers across the UK want new services that they can provide – and that they can sell – faster than ever before.

This is crucial to their revenue streams and their competitive advantage.

And they want these services to be easy to differentiate, easy to customise. And they want them cheaper than ever before.

And end users want access to new services that make their lives easier, more productive and more efficient. And they don't want to wait 18 months for the privilege.

21CN has been designed to help deliver this. We expect average product development cycles to reduce by at least two thirds by using common, reusable capabilities.

And thirdly, by reducing the complexity and collapsing multiple BT service-specific platforms into one all IP end to end platform, 21CN will help reduce costs and grow cash cost savings - expected to amount to £1 billion per annum by 2008/9.

Considered together, the objectives we've set out for the programme offer something to customers at all levels.

But crucially, the economics that underpin our industry are changing. BT Wholesale, other parts of BT, other operators in the UK, and operators around the world, are witnessing continual margin erosion and revenue reductions.

The telecoms market is a tough place to be and it takes a lot of hard work, a lot of additional sales and continual cost-savings - just to stand still.

Communications in the UK is an ultra competitive market and that level of competition will continue to drive continual downward pressure on prices.

The cost savings from 21CN will help ensure that BT can continue to deliver better and better value, year after year, as it has done.

Those service providers that put customers at the heart of their strategies will have the best chance of success in the future.

In designing the 21CN programme, we thought about the customer and what they needed. We also asked them what they wanted.

They told us they wanted greater control, flexibility, simplicity and choice from their communications services and how they use them.

21CN is designed to embed the potential of that flexible, converged future into the network.

Wouldn't it be great if you could access voice messages, data or video on any device at any time?

Wouldn't it be terrific if you could move seamlessly between the written and the spoken word on the same call?

And wouldn't it be fantastic if you could share your personal contact directory across your home phone, PC, mobile & PDA.

And wouldn't life be easier for all of us if we never had to think about bandwidth – because it's as wide as we need it to be, all of the time?

This is the kind of service flexibility we're building into 21CN, a massive systems challenge, but the green-field element of 21CN means we have the opportunity to design it in from the beginning.

Of course, a change as strategically significant as 21CN will have an indelible impact on us all, the whole of the communications industry - in the UK and across the world.

We at BT believe that all service providers in our market place who depend on BT's network to offer customer services deserve a say in how this new network infrastructure and operating environment can help them put their customers at the heart of their strategies.

That's why we're taking a fully consultative, open and transparent approach with industry, through our Consult21 programme.

Consult21 is a forum to help us all think about how we plan to grow our businesses as BT implements this network infrastructure with the range of new, compelling services it will support.

We see 21CN as the enabling infrastructure for growth for everyone that uses it. So we're asking people to work closely with us.

The transformation we are undertaking with 21CN is a world first for a major incumbent and the approach we are taking to consultation within our industry is also unique.

We believe that our Consult21 programme has already helped us find a way through the complexity of the changes we are planning.

And it is giving key players in our industry the opportunity to talk and influence how we plan to migrate all our customers to the new 21CN world.

It is the largest voluntary industry consultation programme of its kind ever undertaken, anywhere in the communications world.

Consult21 supports a range of working groups to produce detailed plans for issues such as interconnection, technical standards, timing and commercial arrangements to make 21CN a reality for a whole industry, not just BT.

Consult21 will also help industry to think about the products, services and applications that can hang off the 21st Century Network, all with one common factor in mind – the customer experience that can be offered.

As an industry we need to move the discussion to also being about what's in it for large corporate customers.

And what about smaller businesses? The inherent flexibility being built into 21CN will provide small and medium size enterprises with the ability to act like corporate businesses with scale. How do we leverage this as an industry?

21CN will also give service providers, third party applications developers and device manufacturers the opportunity to experiment more at less cost and at reduced risk. These are future big discussions to be had too.

Convergence is driving the need to change and will bring a wealth of new services and a radically better experience for communities and businesses across the UK.

And this programme is set to continue as we plan our rollout and customer migrations.

In fact we have shared our rollout proposals for this new network infrastructure with industry and we are working with the key operational leaders to work out how we can migrate all of our customers on to the new IP network in the most cost effective and customer friendly way.

That's a key message for everyone here – openness and transparency are critical to success in the 21st century.

Regulation also has a key role to play in our industry like it does in many of yours. In the UK I feel that regulation has enabled the growth of competition, innovation and customer choice in the telecommunications industry. But I also believe that BT has done its part to create a competitive and dynamic market

But now, my industry is having serious discussion about regulatory withdrawal – not departing completely from regulation - but withdrawing from those areas of operations and services that are no longer what we call economic bottlenecks.

These economic bottlenecks are elements of the infrastructure that would be uneconomic for a new entrant to replicate. In essence, we're talking about the access network – the network that connects customers' homes and business premises to the local telephone exchange. Sometimes, it's called the local loop or the "first mile". But we're talking about de-regulation elsewhere.

Markets do not need to remain regulated indefinitely if the market and competitive landscape no longer supports full regulation.

Ofcom, our regulator, along with BT has now agreed a settlement as part of the Telecommunications Strategic Review that ensures tighter regulation on regulated parts of our business, and de-regulation elsewhere.

We believe that this regulatory settlement creates the right foundations for our industry for the years to come.

It allows BT to make the investments necessary to deliver 21CN, and to ensure that any returns we achieve on that investment are not regulated away.

And we're committed to something called equivalence of outcome, so that all competitive operators have equal access to bottlenecks.

We've agreed to set up a separate line of business within BT called Openreach that will be tasked with providing fair and equal access to all service providers in these bottleneck areas.

This level of transparency should give all operators the confidence that BT treats all its customers equally and in return, we are look for progressive de-regulation in non-bottleneck areas.

It's a radical solution to regulation but, as I've said, these are radical times, challenging but optimistic times, in the telecommunications industry.

So looking forward to the task ahead and to give you an idea of the scale of what we are setting out to do 15 million customers representing just under 20 million lines plus must be converted within the first two years, that is 144,000 every WEEK!

To achieve all of this; site surveys are in progress to identify requirements for power, accommodation, transmission, fibre connectivity, and resilience.

That's just a part of what we are going to do.

And we're starting the rollout in the Cardiff area with 350,000 customer lines in the second half of next year before moving to mass migration.

The transfer engineering programme alone is unprecedented.

We also need to get thousands of the right people in the right place at the right time, with the right skills.

And of course keep our promises to customers while we do all of this.

To conclude....

We are facing the fourth major wave of innovation in our industry and it will require change on a massive scale. There are real opportunities ... and threats. However, we at BT believe the risk of doing nothing is even greater.

21CN will move BT from an incumbent telephone company to a networked IT services and solutions company fit for the 21st century.

It's a gargantuan technical, logistical and operational test, but I believe BT has the capability to deliver.

21CN is a fundamental infrastructure investment to the UK economy, and will require around £10 billion investment in UK and global networks over the next five years to deliver.

21CN will help businesses to compete, in UK and in global markets.

It will help those tasked with attracting and retaining inward investment to the UK and help make the UK a compelling business location of choice in the global marketplace. It will support the delivery of new and compelling services in the educational and health sectors, for example.

And that puts it in perspective. 21CN is clearly very important for BT..... but it's also a fundamental enabling infrastructure for growth in the 21st century.

What we do in the communications industry really does matter. The choices are ours.

The change is already with us. In communications you either innovate and invest ... or die.

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