benchmark-it performance

This new 367-page report profiles and compares 31 key providers of telecoms and related services to UK SME customers.

The report includes the following:

- Expert market analysis (sizing, segmentation, positioning)
- Profiles of 31 service providers
  - Verdict
  - Summary (strategy and recent activities)
  - Network & Portfolio
  - Management (revenues, reputation and promotion)
- Compares them in terms of:
  - Network
  - Portfolio
  - Revenue
  - SME focus
  - Customer base

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 31 suppliers
- Independent, up-to-date market analysis and comparisons

Key conclusions:

- The ‘credit crunch’ has turned into recession, impacting the whole economy, which will make life tougher for telecoms service providers
- However, smaller and medium-sized businesses will remain the engine for employment creation, making the segment a key target
- Service providers need to reassess their marketing strategies in the light of the downturn to identify their core proposition and their target customers, as well as working extra hard to retain their existing base

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

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UK SME Segment Telecoms Service Providers

January 2009

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Executive Summary

In July's UK SME report we observed: "It is still unclear whether the global economic slowdown and 'credit crunch' will have a significant effect on the segment." It has become clear since then that the slowdown has evolved into a recession and the impact is spreading across multiple sectors, with the UK economy set to shrink by a few percentage points over the course of the coming year.

However, during the course of 2007, almost 200,000 new businesses were created and the small business segment is still likely to be the driver of private sector employment, as long as (or as soon as) those businesses that need it can get access to credit.

The most recent statistics have shown a marked increase in business insolvencies in the UK, so service providers are bound to be impacted by the harsh trading environment. Some may choose to compete on price in order just to capture revenue, although it is likely that those customers buying on price alone will be more prone to failure.

There will be many businesses, however, that continue to trade successfully and there will be some that continue to grow – obviously, these will be the most attractive target. Of course, service providers neglect their existing customer base at their peril, so extra efforts should be made to work closely with customers both to understand their evolving needs and to ensure levels of service engender loyalty.

Players should not forget that communications and associated services can deliver enhanced productivity, lower costs and greater employee satisfaction – all of which will be of high importance to customers now more than ever – so emphasizing the business benefits of existing and new products will be vital.

In terms of the structure of the supply side of the market, the consolidation process is set to accelerate. Cable & Wireless has completed the acquisition of THUS and other mid-sized operators look potentially vulnerable. The reseller community will continue to consolidate – assuming that deals can be funded.

In the meantime, mobile operators are making increasing efforts to finesse their propositions for the SME segment and are building up their fixed product portfolios, and Internet Service Providers are increasingly moving into the voice market using IP-based offerings.

In conclusion, service providers need to undertake a strategic assessment of the market, their strengths and capabilities, and revisit their marketing strategy in the context of the current downturn. Things are inevitably going to be tougher, but that environment presents potential opportunities as well as threats – having a clear vision of what your core proposition is, who your key target customers are and being able to deliver efficiently are the keys not only to survival, but also to long-term growth.

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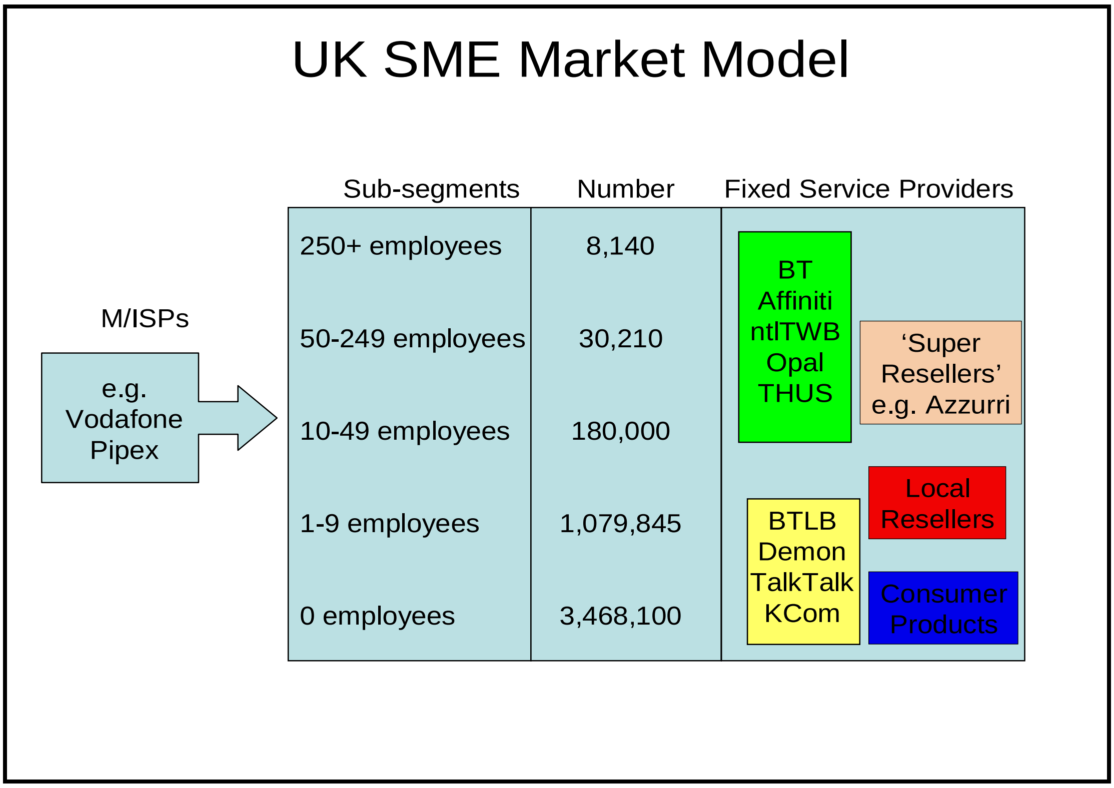
Market Model

The chart below is an illustration of the UK market for SME services, showing the typical service providers by customer employee number and the number of target businesses within each sub-segment.

It also notes the increasing disruption to the traditional fixed market by M/ISPs (Mobile and Internet Service Providers).



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Key Trends

- Office of National Statistics figures show that the base of smaller businesses in the UK continued to grow into 2007, meaning that the segment continues to represent a key market opportunity for providers of communications and related services;

- However, with the recent massive rise in companies going insolvent as a result of the recession (up by 220% year on year in the most recent statistics), life can be expected to become far more difficult, with individual customers going bust and the total addressable base likely to shrink;

- The sectors most at risk from the economic downturn are construction, estate agencies, financial services and retail;

- It should be noted that, despite the general economic downturn, there will be customers generating rapid growth (both organic and inorganic) and there will also be a growing proportion of customers for whom networking and applications is the lifeblood of their business – the continued substitution of High Street retail by Internet retail is a case in point;

- Many customers will want to sweat their existing assets rather than take on new commitments, but this should provide an opportunity to sell services such as SIP trunking for legacy PBXs and a growing range of SIM-only mobile offerings;

- Some service providers are likely to resort to selling on price alone as they look to drive revenues. This may be disruptive to the market as a whole, but service providers should bear in mind that customers looking to buy on price are likely to be those that are most in danger from the recession;

- Generally, communications service providers should be in a fitter state than businesses in many other sectors as they have been through rough times at the beginning of the decade with the dot.com boom and bust;

- However, it is likely that eight or so years of strong economic growth will have seen a number of them lose their leanness and failures are inevitable;

- Larger service providers may benefit from the fact that they can pay for investments using cash flow, whereas many smaller players are reliant on access to credit for investment and the credit crunch has made this source of funding almost impossible to obtain;

- The consolidation process has continued – mainly at the level of resellers building up critical mass, but also with the Cable & Wireless acquisition of THUS. A tough economic environment will serve to speed this process;

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BT

Verdict: BT Business continues to dominate the market for communications for the UK SME segment. The unit has delivered continued growth in the face of an increasingly challenging marketplace, driven by on-going growth in broadband and by new products in the mobility and IT spaces, including a growing portfolio of hosted business applications.

Summary

BT describes itself as "one of the world's leading providers of communications solutions and services. Our principal activities include networked IT services, local, national and international telecommunications services and higher-value broadband and Internet products and services."

Smaller UK business customers are served by BT Retail, the country's largest communications service provider, by market share, to the consumer and small business markets.

Overall, BT's group strategy is based on defence of traditional markets and the growth of 'new wave' markets:

- Defend traditional:
  - Improved service;
  - Price innovation;
  - Reduce costs/improve margin;
  - Creative marketing;
- Grow new wave:
  - Networked IT services;
  - Broadband;
  - Mobility solutions.

In terms of BT's SME division, BT Business, the company is looking to transform the way UK SMEs work:

- Helping customers grow their revenues or reduce costs;
- At the heart of the SME community;
- Linking customers, suppliers and partners;
- Enabling communication, collaboration and commerce.

In order to deliver on the above, BT is positioning itself as 'the communications/collaboration company:'

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Portfolio:

Broadband and Landline:

- Office 3:
  - £39.99/month;
  - Free HP laptop (80GB hard drive, wireless-ready);
  - Up to 8Mbps downstream broadband;
  - 50 hours of inclusive calls per week to 01/02/03 numbers;
  - Inclusive any time calls to all other business customers;
- Business Caller and Free Broadband:
  - £24.99/month;
  - Up to 8Mbps broadband downstream;
  - Free wireless router;
  - Inclusive any time calls to other business customers;
  - Call package options:
    - Unlimited peak-time calls to 01/02/03 numbers (Mon-Fri 9am-5pm);
    - Unlimited off-peak calls to 01/02/03 numbers (Mon-Fri 5pm-9am);
    - 150 mobile any time minutes (excluding 3);
  - If the customer is not in an area covered by Opal, rental is £34.99/month;
- Landline Only:
  - Office 2:
    - £24.99/month;
    - Line rental and 50 hours of bundled peak-time calls each week to 01/02/03 numbers;
    - Inclusive any time calls to business customers;
  - Business Call Flexible:
    - £24.99/month;
    - Inclusive any time calls to other business customers;
    - Call package options:
      - Unlimited peak-time calls to 01/02/03 numbers (Mon-Fri 9am-5pm);
      - Unlimited off-peak calls to 01/02/03 numbers (Mon-Fri 5pm-9am);
      - 150 mobile any time minutes (excluding 3);
  - Business Call:
    - £16.99/month;
    - Inclusive any time calls to other business customers;
    - Choice of two packages:
      - 500 any time minutes to 01/02/03 numbers;
      - 50 mobile minutes (excluding 3);

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Management

Revenue:

Alternative Networks generated revenues of £93.707 million in 2008, up 30% on 2007's £72.083 million. Operating profits grew 15% to £8.765 million (2007: £7.595 million) and EBITDA was £10.75 million (2007: £8.135 million).

Mobile network sales amounted to £43.6 million in 2008, network services £34.9 million and advanced solutions (IP PBXs, IP VPNs and associated services) £15.2 million – notably up £10.8 million year on year.

SME Focus:

Alternative Networks is focused on the business-to-business market, with a focus on those that spend between £1,000 and £10,000 on communications per month. As at 30th September 2008, there were 1,410 customers spending over £1,000 a month (2007: 1,334).

The company had 5,014 customers at the end of 2008. It served 51,990 mobile end users at year-end (up 14% in 2008 over 2007), with network services lines/channels of 52,262, up 28% year on year. Of the customer base spending more than £1,000 per month, 70% took more than one product and 50% three products or more.

Management Team:

The company was co-founded by James Murray and Chris Wilson in 1994. Murray is CEO.

Alternative Networks employed 430 people at the end of September 2008 (2007: 324) across four offices in the UK (in London, Reading, Manchester and Leeds), 235 of whom were in selling and distribution roles.

Advertising & Promotion:

Alternative Networks positions itself as offering solutions, excellent service and flexibility. The company attends numerous industry and regional trade shows.