benchmark-it performance

This authoritative and comprehensive 1,080-page report profiles and compares 62 key providers of communications and related IT services to UK enterprises.

The report includes the following:

- Expert and in-depth market analysis (PEST, sizing, segmentation, positioning, technology and benchmarking)
- Detailed profiles of and insight into the leading 62 service providers
- Data and analysis from the strategic level through to products, services and channels to market

Why buy?

- Genuine insight from an analyst with over 25 years' industry knowledge both working within service providers and helping them independently
- Analyst access to discuss questions and trends related to the report
- Excellent value for money that addresses issues from CEO-level to business development, product management and sales
- Not just simplistic graphics and high-level oversight

Key conclusions:

- Market faces potentially its most significant shake-up since deregulation – driven by the Ofcom strategic review and fixed-mobile consolidation
- Outcome of Ofcom review remains unclear, but it will not be the status quo
- If Openreach is subject to full separation from BT, the UK incumbent looks like a likely takeover target for an internationally expansive player
- BT-EE acquisition looks likely to get approval, but O2-Three seems to face considerable hurdles as the European Commission shifts policy to oppose national mobile market consolidation
- Commoditization of basic fixed and mobile is driving service providers up the value chain to improve margins and engender loyalty
- At the same time, customers need help to deal with the migration to, integration and management of ever more complex environments
- Move to cloud model has implications beyond IT department – decisions will increasingly involve other operational units such as marketing
- Security another key issue that also applies beyond just the IT department

Pricing: normally £995 – Special Promotional Offer: £500

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UK Enterprise Segment Communications Service Providers

December 2015

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Executive Summary

The UK market for enterprise ICT services is facing what will be its most significant shake-up in years, driven by the on-going Ofcom strategic review and by the continued consolidation between fixed and mobile operators. Add to that the structural shift to the cloud and the threats and opportunities are set to be the greatest since deregulation.

As yet, the result of the Ofcom strategic review is unclear – other than the fact that the status quo is not an option. On one extreme would be the full separation of Openreach from BT, which would cause considerable turmoil and make the eventual sale of BT to a foreign owner significantly more likely. On the other, increased regulatory scrutiny and fines would aim to make Openreach more accountable but would still leave the unit under the control of the BT Group.

Whatever happens, competitors to BT have already been making their case – generally for separation – and must prepare to take advantage of whatever outcome is delivered by Ofcom. A full separation of Openreach might not actually be that helpful in the short term for any players reliant on it for access as the disruption would affect all Openreach's customers. The biggest beneficiaries would be competitors of BT that have little or no reliance on Openreach – so Virgin Media Business would be one obvious winner.

When it comes to developments outside of regulation, it is clear that basic fixed and mobile services are commoditized, so service providers are increasingly looking to move up the value chain to engender customer loyalty and to maintain margins. This makes sense also because the increasing complexity of ICT means that customers have a growing need for professional and integration services. At the same time, the role of ICT increasingly as a businesss enabler and provider of competitive advantage means that IT Managers and CIOs do not want to spend their time focused on the day-to-day 'nuts and bolts' of the network – leading to growth in managed services.

The shift to the cloud not only means a change in operational focus from in-house and capex to hybrid and opex, it also entails a more dynamic use of ICT across the enterprise – from marketing to business administration: adding further to the complexity and range of tasks faced by those trying to manage their company's networks and applications.

In case that did not represent enough of a challenge, it is clear that security is also a key issue that spans not just technology, but also systems, processes and even employee contracts – all of this in a world where end users expect to be able to access data and applications at any time, from anywhere and using any device.

Clearly, this is a challenging market, but challenges also represent opportunities for those service providers that are able to work alongside their customers to develop a mutually beneficial partnership. It's time to buckle up – this could be a bumpy ride.

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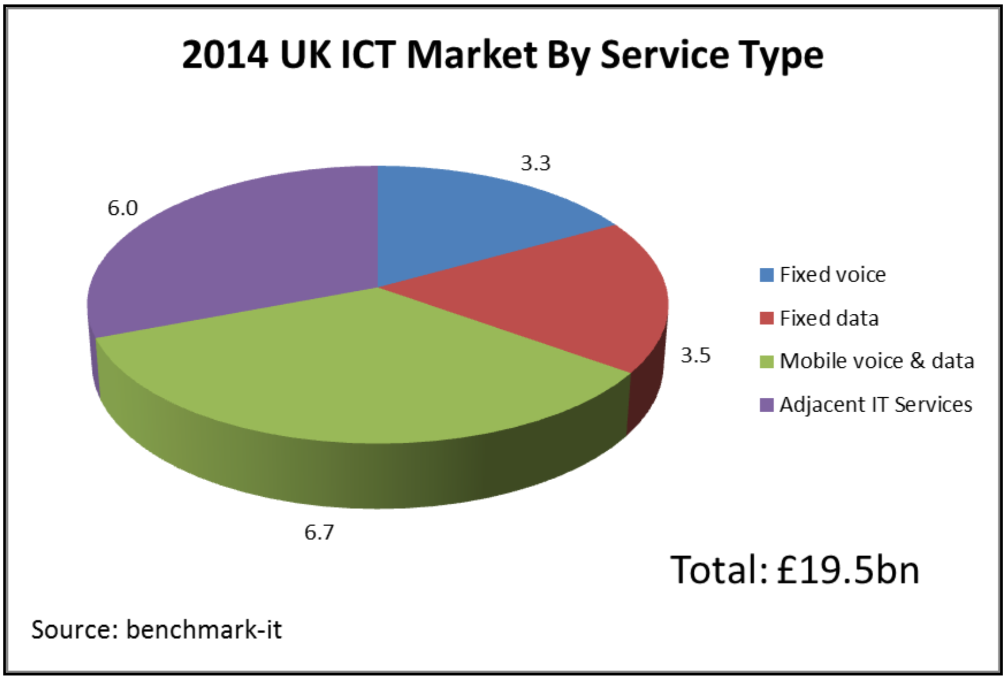
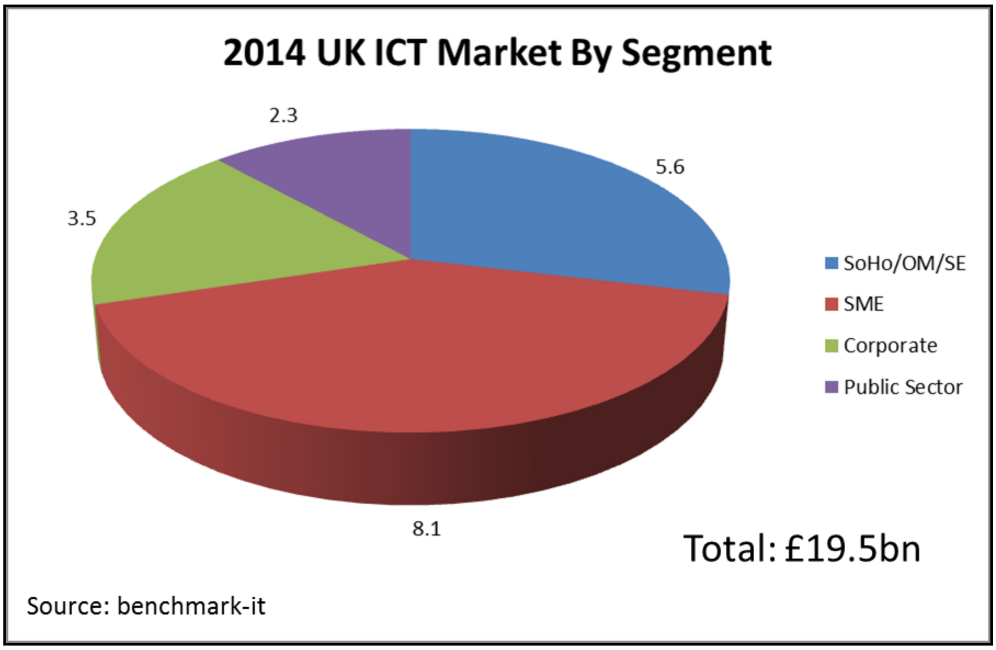
Based on the above inputs and a market model using assumptions for annual spend by customer segment, benchmark-it estimates that the UK market for enterprise ICT is valued at about £19.5 billion, broken down as follows:





Adjacent IT Services are defined as those IT services that are directly sold with or that act as a substitute for traditional communications services (so Web hosting, e-mail, cloud services, etc.). Over time, it is assumed that this converged element of the market will substitute an ever greater share of the traditional fixed and mobile products and services.

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BT

Verdict: Operationally, BT continues to protect its revenue base as a whole across its divisions, with an on-going move towards more hosted and cloud services, accompanied by further development of value-added, managed and professional services. The company is quietly milking its legacy services as cash cows, whist trying to be more competitive in areas of growth as it looks to win market share – notably in broadband services.

As it stands, the proposed acquisition of EE is looking like it should complete before the new financial year, which should unleash a new generation of converged products, bundles and propositions as the businesses combine. The addition of now largely commoditised mobile is more important in terms of securing the largest share available of individual businesses, rather than for any inherent growth – hence BT's decision to acquire EE as the largest and first 4G operator rather than BT's own former mobile business, O2.

The most significant event on the horizon is Ofcom's strategic review of the market, which has galvanized competitors and other interested parties to have their say over the future of BT and Openreach in particular. Strangely, one interested party that appears to have had no say so far is the customer – which probably says something about the enduring culture of the UK market. Early signs are that the status quo is not going to be an option, so impacts range from the full separation of Openreach to BT keeping Openreach but with closer regulatory scrutiny. The arguments on both sides have some force: competitors complain that Openreach cannot truly be independent and operate fairly whilst still a BT company. BT points out that Openreach is more sustainable and better able to finance investment as part of the wider group – and that examples of structural separation in other countries cannot be filed under 'roaring success.' Interestingly, there has been little political discussion beyond the 'nuts and bolts' of the potential impact on UK plc of BT being subdivided. With Deutsche Telekom set to become a major shareholder when the EE deal completes, were Openreach to be separated, BT's retail divisions would make an attractive acquisition target for a player with international growth ambitions – leaving the UK with another strategic sector with no global market leader.

Summary

BT describes itself as "one of the world's leading communications services companies, serving the needs of customers in the UK and in more than 170 countries worldwide. Our main activities are the provision of fixed telephony lines and calls, broadband, mobile and TV products and services, as well as managed networked IT services.

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Daisy

Verdict: Daisy has established itself as a large player in the UK enterprise market through a combination of acquisitions and organic growth – most recently and most significantly being that of Phoenix IT, which has added both to Daisy's base of larger corporate customers and to its cloud and IT services portfolio.

Addressing all segments of the UK market, Daisy needs to make its proposition to the corporate market more compelling to help move away from the perception that Daisy is a player only in the SME segment – through both direct and indirect channels. As it moves up the value chain, Daisy can be expected to grow its portfolio in terms of security and professional services to ensure success in cloud/IT.

Summary

Established in 2001, Daisy Communications has grown through both organic means and numerous acquisitions.

The company describes itself as follows: "When Daisy Group was first established, it had a simple business model: to be an alternative provider of telephone lines and calls for UK-based small and medium-sized enterprises.

A decade on and both Daisy and the telecoms industry are almost unrecognisable. As technology and the different types of communication have advanced, Daisy has continued to evolve to ensure that it is able to offer clients and partners a full suite of telecoms products and services.

Over the last decade, Daisy has developed through a combination of organic and acquisitive growth. With a business-only focus, the company now boasts more than 60,000 customers and supplies IT and communications to some of the UK's best-known organisations. The company provides a range of unified communications and IT services, including connectivity, voice, maintenance, as well as cloud and hosting solutions."

Daisy gives the following reasons why customers should choose it as their service provider: "Technology should enable companies to operate effectively and evolve - but without the teams of specialists on hand to work out how it all fits together, businesses of all sizes can be held back by its complexity. Change becomes difficult and risk management becomes tough, which can put the brakes on a business' digital journey. At Daisy, we make life simpler for our customers so that they can focus on what really matters. We have built a strong business with in-house skills across the entire breadth of communications and IT services and solutions, so we can take that burden of complexity on our broad shoulders.

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Network Reach:

Exponential-e has invested “millions of pounds” in its 100Gbps VPLS network. The 100Gbps network is built around four major nodes housed in carrier-neutral hotels: two in Docklands and two in the City of London.

The company claims to have one of the largest metropolitan networks in London, and has over 150 PoPs and a presence in more than 33 data centres. Exponential-e estimates that its network can serve around 90% of all UK businesses, including over 35,000 post codes in London.

Exponential-e’s network offers six QoS options, each of which is backed by SLAs and guarantees for bandwidth, latency, jitter and packet loss.

Exponential-e has network points of presence in the following towns and cities:

- Aberdeen;
- Armley;
- Aylesbury;
- Basildon;
- Basingstoke;
- Birmingham (2 and metro);
- Bracknell;
- Bristol (2 and metro);
- Bromley;
- Cambridge (2);
- Cardiff (2);
- Chelmsford;
- Coventry;
- Crawley;
- Croydon;
- Derby;
- Edinburgh (2 and metro);
- Enfield;
- Epsom;
- Farnborough;
- Gateshead;
- Glasgow (metro);
- Guildford;
- Harlow;
- Harrow;
- Hemel Hempstead;
- High Wycombe;
- Hounslow;
- Hove;

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Portfolio:

SoConnect VOICE:

- Business Phone Lines and Call Plans:
    - Business Telephone Line Rental:
        - From £9.90/month;
        - New line installation or transfer of existing line and number;
        - Inclusive call bundles available;
    - Business Telephone Line Rental and Call Packages:
        - From £16.90/month;
        - Applies to UK landline telephone numbers;
        - One month free line rental;
        - Capped rates on international, UK landline and mobile calls;
        - Landline rates from £0.065/minute;
        - Mobiles from 5p/minute;
    - Business Phone Lines:
        - Standard Business Phone Line;
        - Digital Business Phone Line (ISDN);
        - VoIP Channels;
        - Non Geographical Numbers:
            - 0800;
            - 0845;
            - 0870;
        - Call Rates – bespoke packages available;
- Business Phone Systems:
    - On-site and hosted business phone systems and telephony services;
    - From £7.95/month per user;
    - Options:
        - Hosted Horizon – see below;
        - Mitel On-Site Telephone Systems:
            - Offers a wide variety of features;
            - Role-specific phones;
            - Ethernet socket input giving power over Ethernet;
            - Communications Director enables customer to choose the features they want;
            - Users get their own phone number, voicemail and redirection to mobile;
- Call Centre Solutions:
    - Virtual call centre phone systems with ContactWorld Technology;
    - Packages:
        - Express: £29/month per user;
        - Professional £59/month per user;
        - Enterprise: £89/month per user;
    - ACD (Automatic Call Distribution):
        - Queuing and routing of inbound calls;

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Portfolio:

Business Internet and Data:

Ethernet Circuits (Leased Line Replacement Circuits):

- ESA & OSA Point to Point:
  - Symmetric fibre circuits for connecting two sites;
  - EAD (Ethernet Access Direct) provides speeds of 100Mbps, 1Gbps or 10Gbps at distances up to 45km;
  - OSA (Optical Spectrum Access) provides speeds of 10Gbps, 40bps, 80Gbps or100Gbps;
- GEA Ethernet:
  - Symmetric, uncontended service using FTTC technology;
  - 20Mbps for £149/month;
  - Available as direct Internet or site-to-site connectivity;
  - MPLS Private WAN option;
  - Auto-fail solution with failover to an ADSL or VDSL service;
  - Compatible with Spitfire's Hosted Firewall as a managed service;
- Fibre Ethernet:
  - Bandwidths available from 10Mbps to 1Gbps;
  - SLAs covering:
    - Uptime availability: 99.93%;
    - Packet loss: maximum of 0.01%;
    - Jitter: <3ms;
    - Latency: <10ms;
  - Fixed IP address allocation as standard;
  - Available as direct Internet or site-to-site connectivity;
  - Unlimited usage;
  - DSL back-up options;
  - Optional managed preconfigured router;
  - Optional SNMP monitoring;
  - Prices from:
    - 10Mbps: £280/month;
    - 100Mbps: £390/month;
    - 1Gbps: on request;
- EFM Copper Ethernet:
  - Flexible, symmetric bandwidth from 2Mbps to 35Mbps;
  - Delivered over multiple copper lines;
  - 10% 'headroom' built in to ensure the customer gets the full bandwidth ordered;
  - Unlimited usage;
  - Guaranteed SLAs for throughput, reliability and uptime;
  - 2Mbps EFM from £120/month;
  - 10Mbps EFM from £200/month;
  - 20Mbps EFM from £295/month.

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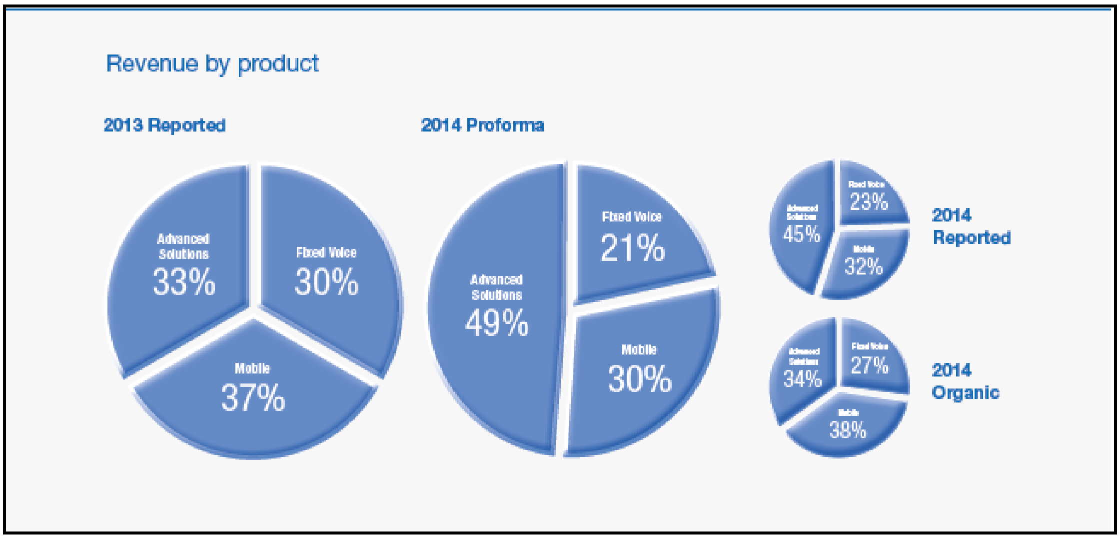
Management

Revenue:

In its financial year ended 30th September 2014, Alternative generated revenues of £137.8 million (2013: £114.3 million), up 20% year on year (1% organic growth). 2014 adjusted EBITDA was £19.6 million (2013: £15.9 million), up 23% year on year.

Proportionate revenue by product set is illustrated below:



£m	2014 Reported	2014 Underlying	2013	Change
Non-recurring				
Hardware/software	21.1	15.3	15.6	36%
Professional Services	5.9	2.7	2.5	135%
Subtotal	*27.0*	*18.0*	*18.1*	*49%*
Recurring				
Maintenance	10.7	10.7	10.6	1%
Data/WAN	6.3	6.3	5.3	19%
Co-location	1.6	-	-	-
Managed Hosting	13.1	-	-	-
Billing	4.0	4.0	3.9	3%
Subtotal	*35.6*	*21.0*	*19.8*	*80%*
Total	**62.7**	**39.1**	**37.9**	**65%**

2014 financial year mobile revenues were £43.8 million (2013: £42.0 million), with 'mobile bonus revenues' of £2.8 million (2013: £3.8 million). At the end of 2014, Alternative had 91,391 mobile subscribers (2013: 81,396).

2014 financial year fixed voice revenues were £31.3 million (2013: £34.4 million).

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Management

Revenue:

Timico had 2014 turnover (to 31st December) of £42.0 million (2013: £42.5 million), down 1% year on year, with EBITDA of £4.7 million (2013: £4.9 million). The company expects to deliver 'modest organic growth' during 2015 and states that it now has annualised revenues 'approaching £60 million.'

The table below illustrates turnover breakdown by service:

£000s	**2014**	**2013**
Service		
Managed Networks & Connectivity	19,205	18,399
Unified Communications	13,027	12,886
Cloud & Hosting Services	3,066	2,953
Mobile Services	6,650	8,211
Other	89	77
Total	**42,037**	**42,526**

Customer Focus:

Timico was set up in October 2004 with the mission "to respond to the communications needs of small/medium enterprises in the UK." Timico states that it has about 12,000 business customers.

Timico is structured around three channels to market, supported by four business units ('Centres of Excellence'):

- Channels:
    - Enterprise Services – larger multi-site organizations (typically 500+ employees and a turnover in excess of £50 million). More than 250 clients served;
    - Business Services – small and medium businesses (about 12,000 SMEs). Around 6,000 customers;
    - Partner Services – indirect channel partners;
- Centres of Excellence:
    - Managed Networks;
    - Unified Communications;
    - Mobile Services;
    - Cloud & Hosting.

Timico highlights how its services can help customers in the following verticals:

- Automotive;
- Construction;

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