TOTALTELECOM
daily news for global communications

Carriers weigh up the cost of CEE network build

Carriers World CEE

Print (text only)
Email this article

By David Molony, for Total Telecom, in Budapest

24 November 2005

TeliaSonera says carriers need to get their costs in line in Central and Eastern Europe. Deutsche Telekom thinks it knows how.

International telecoms operators want to build networks and markets in Central and Eastern Europe, but an executive from Nordic giant TeliaSonera warns that they first need to get their costs in line and place a stronger emphasis on customer care.

"We always have to strike the balance between price and service - good quality service at a price that's affordable to the local market," said Eva Lindqvist, outgoing president of TeliaSonera International Carrier, who was speaking at the Carriers World CEE conference in Budapest.

"And yes, international carriers are in a form of commodity market, and the economics school books say that only price matters in a commodity market. But international telecoms is not just about price. It's about added value and [service levels]," Lindqvist added.

Lindqvist said the only category of international carrier business in which prices are rising is IP transit, and that's because providers are offering a range of value-add services, including IP VPN, value-add routing and other IP services.

She cites a survey by IBPR of TeliaSonera's top 80 customers - a mix of enterprises and other carriers - that shows loyalty and satisfaction levels of 46% at the top end, compared with an average of 11% across the industry.

Other operators agree that value-adds and service levels are the key to building revenues in CEE.

"Add SLAs and you will win business," said Stuart Evers, director of international business at Cesky Telecom, the Czech Republic's national operator that is now owned by Telefonica.

Evers recounted Cesky Telecom's earlier neglect of service levels, and the consequences in the immediate years after deregulation of the Czech telecoms market.

"In April 2002 [the date Evers joined the company] Cesky Telecom controlled 20% of inbound mobile traffic and just 3% of outbound mobile," he said.

That was especially disastrous because of the importance of mobile in the region. Then, mobile accounted for 30 million minutes a month of traffic, against just 17 million minutes from fixed. The outbound mobile minutes were worth 5.85 million euros. The fixed minutes were worth only 0.38 million euros a month.

"The situation has improved since," said Evers. "Now, 60% of Cesky Telecom's outbound traffic is mobile-originated."

Evers' case underlines the power of mobile services in the region.

"You need to concentrate on mobile if you are in wholesale," he said.

That sounds good sense for big carriers. But mobile has its downside too - runaway price erosion.

"Mobile termination rates in our region fell 24% in the first half this year," said Erik van Stokkom, sales director, CEE, for France Telecom.

That not only makes it hard for Von Stokkom's sales people to meet their revenue targets each quarter. It can also play havoc with the cost/income equation, even if the carrier is committing its own capacity to run the new business.

In that sense, managing profitable telecoms business in CEE is about hedging investments against the probability of price and revenue slippage. No matter the operator can build networks and roll out services quickly and get a headstart collecting revenues - prices fall away faster.

TeliaSonera's Lindqvist said carriers will have to manage costs a deal more carefully from now on.

"The costs of higher-bandwidth DWDM cards are much higher relative to costs of building wholly new DWDM network than say five years ago," she said.

Deutsche Telekom has noticed the shift, and thinks it has the answer.

"Reuse your network," said Tamas Sandor, executive vice president, CEE and Mediterranean, at Deutsche Telekom ICSS. "Identify your cost saving opportunities first, sure. Buy your own equipment in volume - you'll reduce unit cost per megabit. Review your bilateral interconnect deals by all means. But most of all, redeploy your network and make it work harder for you."

Sandor said 50% of the new installations that his team are doing across CEE are using network elements redeployed from cities and nodes in the carrier's Western European network.

Re-utilisation has a double advantage. If a city node like Vienna has reached capacity, for example, the business case for upgrading is much easier when there's the prospect to redeploy the redundant equipment in a new market, like Bucharest.

Deutsche Telekom is so convinced of the merits of re-utilisation, it has its own line of business helping other operators do the same. CTDI Nethouse is engaged in what it calls reverse logistics - retrieving abandoned or failing equipment in a network, restoring it and selling it on to another network operator.

This sort of economics is important for the low per-capita income CEE region. Western European operators may have strategic investments here, but their cost bases are everyday and not so far from home. That's because they are using mostly their own personnel and expertise in developing networks.

One engineer with Deutsche Telekom's integration arm T-Systems complained that it is hard to compete with global outsourcing specialists such as Accenture, which is providing network management personnel at rates as low as 45 euros an hour to lure local service providers into extending their operations into converged mobile and video services.

Telekom's rates are at least six times as much, but it argues that it is providing a fully thought through and coherent architecture to the same technological standards as Deutsche Telekom has in its domestic network.

Accenture's clients may not get the same deal. But they may not care either.

"For sure, the network in CEE is going to be a hybrid network," said Nadine Berezak-Lazarus, managing director of bmp telecommunications consultants, a Duesseldorf based consultancy that specialises in access technologies like DSL and powerline. "Already, there's a more competitive mix of cable and fibre, fixed and wireless, than in Western Europe. And meshed networks will provide an even more disruptive element than elsewhere."

In any case, managing investment costs may not be enough to capture market share in this region.

The share of disposable income currently being spent by telecoms users in CEE is much higher than in the U.S. or Western Europe - as much as 5% in Hungary, according to Christopher Mattheisen, chief operating officer at T-Com Magyar.

"That's extremely high in international terms," said Mattheisen. "It makes consumers very price sensitive, and more open to alternatives."

In other words, cable and satellite operators, VSAT providers and possibly future fixed broadband wireless operators are all in with a shout in this region. In fact, they all could have a share in whatever broadband network emerges here.