

Evaluating the impact of the Strategic Review of Telecommunications

Statement

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Section 1

Introduction and summary

- 1.1 In our final statement on the Strategic Review of Telecommunications (Telecoms Review) on 22 September 2005¹, we indicated that we would issue a statement outlining our approach for evaluating the impact of BT's Enterprise Act Undertakings (the Undertakings) and the Telecoms Review as a whole.
- 1.2 A number of responses to our consultation on the Undertakings emphasised the need for Ofcom to define a set of measures by which we could assess whether the Undertakings were being complied with, both in the letter and the spirit. Such measures will allow Ofcom to demonstrate where parts of the Undertakings are succeeding, and also to establish where further attention should be focused to remedy any problems.
- 1.3 More widely than this, and again as suggested by respondents to our consultation on the Undertakings, there is a need to determine whether the Undertakings and Ofcom's broader regulatory approach are delivering the outcomes they set out to deliver:
 - As an intermediate step, effective, sustainable competition and incentives for timely and efficient investment; and
 - As the ultimate goal, a communications market that delivers all the characteristics that business and residential consumers require, such as lower prices, choice and innovation.
- 1.4 We have engaged widely with stakeholders in assembling this statement. We held a workshop in November, to which a wide range of stakeholders, including both industry and consumer bodies, were invited. We have subsequently discussed key elements of the statement with a smaller group of stakeholders. In addition, we have engaged on an ongoing basis with both the Ofcom Consumer Panel and UKCTA.
- 1.5 This document describes the approach we will take to evaluating the outcomes of the Telecoms Review, including the anticipated timing of relevant publications. It lays out the framework for evaluation, a description of specific measures that will be used, the sources of data, and the timing of relevant publications.
- 1.6 We intend, in addition to the quarterly implementation reports on the Undertakings, which contain some elements of evaluation, to produce an annual report containing a broad set of metrics evaluating the impact of the Telecoms Review. This will be in parallel to the annual review of consumer outcomes proposed in our consultation on consumer policy².

¹ http://www.ofcom.org.uk/consult/condocs/statement_tsr/statement.pdf

² <http://www.ofcom.org.uk/consult/condocs/ocp/>

- 1.7 In our final statement on the Telecoms Review, we said that we would conduct a review in a year's time as to the efficacy and delivery of the Undertakings. The first annual report evaluating the impact of the Telecoms Review will also fulfil this purpose.
- 1.8 We may make changes to the evaluation approach in the future, particularly if relevant changes are proposed by stakeholders. If you would like to provide any comments, please contact William Hayter on william.hayter@ofcom.org.uk, or 020 7783 4197.
- 1.9 It should be noted that whilst the annual report evaluating the impact of the Undertakings and the Telecoms Review will examine whether or not BT has complied with the letter of the Undertakings, any statements will not be definitive. This is because Ofcom can only reach a definitive view of compliance by undertaking the full process of enforcement action. Any statements made by Ofcom will be based on the information currently before it and will not, and can not, prejudice the outcome of any enforcement action should a complaint be received or further information come to light.

Section 2

Framework for evaluating impact

Types of measures

- 2.1 Figure 1 is an outline framework of the four different types of indicators that we intend to use in evaluating the impact of the Undertakings and the Telecoms Review as a whole.

Figure 1: framework for evaluating impact



Examples

- | | | | |
|--|---|--|---|
| <ul style="list-style-type: none">• Openreach• Equivalence• Governance• Systems• Proven breaches | <ul style="list-style-type: none">• Wholesale product delivery• SORs• BT behaviour• Customer satisfaction• Trust in BT• Openreach branding | <ul style="list-style-type: none">• Numbers of lines (LLU, WLR, etc.)• Investment• NGN interoperability• Merit-based deregulation | <ul style="list-style-type: none">• Retail prices• Quality• Choice and churn• Innovation• Customer satisfaction |
|--|---|--|---|

- 2.2 On the left-hand side of the diagram, clearly it is important to assess whether BT is complying with the letter of the Undertakings that it has committed to Ofcom. The milestones BT has committed to meet are laid out in the Undertakings, and include a number of specific requirements against which BT's activities can be judged. These include the establishment of Openreach, adherence to particular milestones, on-going compliance with Chinese Wall commitments and the delivery of equivalence of inputs on various products.
- 2.3 Beyond simply delivering the requirements as laid out in the letter of the Undertakings, there is an expectation that BT should deliver to the spirit of the Undertakings. Measuring this is more difficult than monitoring the adherence to particular milestones, but will include measures relating to confidence of BT's customers, the level of trust in the customer / supplier relationship, and the delivery of not just equivalent, but also high-quality products.
- 2.4 Measuring intermediate industry outcomes will assess to what extent Ofcom's regulatory approach is creating the conditions for an industry characterised by effective and sustainable competition and the right incentives for timely and efficient investment. Indicators in this area will include, for example: numbers of wholesale lines, take-up of new products and industry investment.
- 2.5 Good outcomes for businesses and consumers are the ultimate goal of all of Ofcom's regulation. These measures include price, choice and quality, the ability to engage effectively with the market, and protection from harm such as mis-selling and scams. We pointed out in our September statement that the influence

of regulation on some of these outcomes, for example price and quality, may take many years to become evident. However, it is important to monitor these indicators on an ongoing basis so that changes over time become apparent.

- 2.6 Ofcom is currently undertaking a major review of its consumer policy. A consultation document on this is being published alongside this statement, and is available at <http://www.ofcom.org.uk/consult/condocs/ocp/>. The overall objective of this consumer policy review is to define how Ofcom should go about protecting and furthering the interests of consumers. Part of the consumer policy review will establish the indicators which will be used to assess residential consumers' experiences of telecommunications markets. We are proposing as part of this review to publish an annual audit of consumer outcomes, using these indicators. The consumer policy review also discusses how we intend to measure business users' experience of telecommunications markets. We have therefore focused in this statement on the first three elements of evaluating the impact of the Undertakings and the Telecoms Review, as laid out in figure 1. In order to get a full picture of the impact of the Telecoms Review, the evaluation activities described in this statement should be taken in conjunction with the results of the annual audit of consumer outcomes.
- 2.7 We do not propose to set out an exhaustive list of measures by which to evaluate the outcomes of the Telecoms Review. If this were the intention, it would be possible to produce a list of potentially thousands of indicators. Instead, the goal is regularly to publish a set of indicators that allows transparent and effective interpretation by a wide range of stakeholders.

Interpreting the results

- 2.8 In most cases, a great deal of interpretation will be required to draw conclusions from the results of the various measures. It will often not be possible to look at an individual measure and infer a great deal from a downward or upward trend. It may be possible to interpret some individual measures in a way which leads to a misleading conclusion. For example, a high number of complaints to the EAB could indicate either that the complaints procedure is working well and is valued by the industry, or that in fact there is simply much cause for complaint. To avoid these kinds of misleading conclusions, it will be necessary to examine all measures in the round, and to take a more sophisticated view of underlying trends.
- 2.9 In general there are two methods that will help with the task of interpretation:
- Comparisons with other countries, as long as this is taken with a suitable understanding of context; and
 - Comparisons over time.
- 2.10 Some stakeholders have called for Ofcom also to set target levels for particular indicators in advance, against which we could then judge the ensuing levels reached on each indicator.

- 2.11 We agree that targets are important for the delivery of the legal requirements set out in the Undertakings. Indeed, measuring such requirements would be extremely difficult without explicit targets against which to judge performance.
- 2.12 On the other areas of measurement, Ofcom believes targets not to be appropriate, for several reasons.
- 2.13 Firstly, from an objective point of view, we do not believe it is appropriate for Ofcom to set targets for features of the market upon which many factors have a greater influence than regulation. For example, we want to move to a situation where prices are determined not by regulation but by underlying costs – over which we obviously have no control.
- 2.14 Secondly, there are practical difficulties associated with predicting future outcomes. The dynamism of telecommunications markets is such that predicting the range of services available or prices two years ahead can be difficult, let alone five or ten years in advance. In addition, predicting a certain target price level might encourage working towards that price point while not taking into account other considerations, such as sustainable returns.
- 2.15 Lastly, setting good targets would be likely substantially to delay the introduction of measures and, since the targets are likely to be highly contentious, could weaken the credibility and benefit of the overall evaluation programme.

Section 3

Outline of planned measures

3.1 This section explains the indicators that we will use in measuring each of the first three elements of evaluation as described in figure 1.

Delivery to the letter of the Undertakings

3.2 BT will be measured against all the commitments it made when it committed to its Undertakings to Ofcom in lieu of a reference under the Enterprise Act 2002. A summary of BT's activity against all of these commitments is outlined in Ofcom's quarterly report on the implementation of the Undertakings, the first of which was published in October 2005³, and the second of which was published on 26 January 2006⁴.

3.3 The measurements that are contained in the quarterly implementation reports include the following:

- Delivery of equivalence of inputs in accordance with the agreed Ready-for-service (RFS) dates on IPStream, WLR and LLU, among other products;
- Delivery of equivalence of inputs in accordance with the agreed Installed Base Migration Complete (IBMC) dates on the products laid out in the Undertakings;
- The establishment of Openreach, BT's new access services division, in accordance with various provisions in the Undertakings;
- The set-up and operation of the Equality of Access Board and Equality of Access Office in accordance with the Undertakings;
- New long-term incentive plans for relevant executives being put in place;
- A new BT Code of Practice and accompanying training in place;
- Development of new products;
- Delivery on commitments in relation to BT's 21st Century Network; and
- The separation of IT systems where required.

³ http://www.ofcom.org.uk/telecoms/btundertakings/implementation/imp1/btu_oct2005.pdf

⁴ http://www.ofcom.org.uk/telecoms/btundertakings/implementation/imp2/btu_jan2006.pdf

Delivery to the spirit of the Undertakings

- 3.4 Measuring delivery to the spirit of the Undertakings requires a mixture of quantitative and qualitative measures.
- 3.5 A number of the quantitative measures we will use are product-specific key performance indicators (product KPIs); for example, order rejections, provisioning times and early life failures. These are not listed fully in this statement, as more work is required to specify exactly which measures should be used. This work is being undertaken in conjunction with industry working groups (which include BT) for each relevant product to define the precise product KPIs that should be used. Many of these product KPIs exist and are reported already. While no single product KPI will ever provide a fully comprehensive picture, the intention is to ensure maximum clarity in reported product KPIs, in a similar way to what has been achieved under the Office of the Telecommunications Adjudicator scheme⁵.
- 3.6 The nature of the precise product KPIs used will depend not only on the product itself, but also the stage in the product's lifecycle. For example, for a product which is in its developing stages in the market, provisioning may be the critical measure, but for one which is more stable, a measure relating to in-life quality may be more appropriate.
- 3.7 On products where the Undertakings require equivalence of inputs, comparisons will be drawn between the performance experienced by BT customers and that experienced by external customers. However, product KPIs are useful not only for ascertaining whether equivalence is being delivered, but also whether wholesale products are sufficient to allow communications providers to supply their customers with high-quality, innovative products. Therefore, for products where either equivalence of inputs is not required, or where the Ready-for-service or Installed Base Migration Complete date has not yet passed, those products will be evaluated on a stand-alone basis.
- 3.8 Such product KPIs are separate from the KPIs described in clause 10.19 of the Undertakings, which requires BT to report performance on KPIs relevant to the Undertakings. Those KPIs are available at:
<http://www.btplc.com/Thegroup/Regulatoryinformation/Ourundertakings/KeyPerformanceIndicators/index.htm>
- 3.9 The products for which performance will be measured in this way are shown below in figure 2. Figure 3 outlines the more qualitative measures of delivery to the spirit of the Undertakings. Figure 3 also lists data sources; the next section discusses these sources in more detail.

⁵ <http://www.offta.org.uk/charts.htm>

Figure 2: products for which product KPIs will be specified for evaluation

Product type	Examples of current products on which equivalence of inputs is / will be required	Examples of future products on which equivalence of inputs will be required	Examples of non-equivalence of inputs products
Products	<ul style="list-style-type: none"> • BES • IPStream • LLU – MPF • LLU – SMPF • WLR • WES 	<ul style="list-style-type: none"> • IP-based IPStream / DataStream successors • WEES • WESAP • WESBP • WLR successors 	<ul style="list-style-type: none"> • CPS • DataStream • PPC • TILLAP • TILLBP
Method of evaluation	<ul style="list-style-type: none"> • Until RFS / IBMC date: stand-alone evaluation of external customer performance • From RFS / IBMC date: comparison of BT and external customer performance 		<ul style="list-style-type: none"> • Stand-alone evaluation of external customer performance

Figure 3: measures of delivery to the spirit of the Undertakings

Type of measure	Measure	Source
Product performance KPIs	See figure 2	BT, existing reports, e.g. Office of the Telecommunications Adjudicator
Complaints	Number of complaints to EAB / EAO	EAB
	Percentage of complaints received which are investigated by EAO	
	Outcome of complaints investigated by EAO	
Breaches	Summary of non-material breaches	EAB annual report
	Potential breaches	
Openreach branding	Level of awareness of Openreach brand among end-users	Openreach
	Openreach customer satisfaction with execution of branding programme	Ofcom's wholesale customer survey
Equality of Access Board (EAB)	Adequacy of governance / resources	Ofcom
	Objectivity of EAB	Audit of EAB annual report
	EAB industry engagement	EAB minutes
BT culture	Changes brought about by new code of practice	BT employee survey
	Belief in value of undertakings for BT and customers	
Confidence	Confidence in customer / supplier dialogue to resolve disputes	Ofcom's wholesale customer survey
	Confidence in speed of dispute resolution	
	Confidence in senior management of supplier divisions	
	Visibility of senior management in supplier divisions	
	Confidence in statement of requirements process	
	Confidence in EAB / EAO as a complaints-handling body, including transparency and speed of handling	
	Extent to which customers feel well treated	

Intermediate industry outcomes

3.10 Figure 4 outlines the measures of intermediate industry outcomes. These measures will be used to assess to what extent the Telecoms Review is delivering effective, sustainable competition and incentives for timely and efficient investment.

3.11 A number of these measures require Ofcom to take a judgement. For example, it is hard to define objective measures of the smoothness of NGN migration, diversity of product portfolios or innovation. Nonetheless, these are important measures of success. Ofcom is in a good position to make judgement on many of these measures, and we will do so – often informed by comparisons with other countries, making allowances for differences in market context.

Figure 4: measures of intermediate industry outcomes

Type of measure	Measure	Source
Product take-up – numbers of lines	<ul style="list-style-type: none"> • BES • CPS • Datastream • IPStream • LLU – MPF • LLU – SMPF • PPC • TILLAP • TILLBP • WEES • WES • WESAP • WESBP • Wholesale end-to-end calls • Wholesale leased lines • WLR 	BT, existing reports, e.g. Office of the Telecommunications Adjudicator
Innovation	Product innovation	Ofcom - qualitative
	Diversity of product portfolio	
	Smoothness of NGN migration	
	BT and other operators NGN-based innovation	
Other industry activity	Number of operators at exchange level	Openreach
	Number of unbundled exchanges (fibre and copper)	
	Effectiveness of customer / supplier relationships	Ofcom's wholesale customer survey / Openreach
	In addition to these specific measures, other relevant information drawn from the Communications Market Report, such as investment	Communications Market Report
Deregulation	Extent to which market allows merit-based deregulation	Market reviews and other Ofcom activity

Business and consumer outcomes

- 3.12 As described in Section 2, Ofcom's approach for measuring the experiences of end user consumers and large businesses is discussed in our consumer policy consultation document, published alongside this statement. This consultation proposes an annual audit of consumer outcomes, including business and consumer outcomes in telecoms markets.

Section 4

Sources of data

Introduction

4.1 The sources of data that we intend to use are laid out below in figure 5, with an indication of how relevant they are to each area of measurement.

Figure 5: sources of data

	Delivery to the letter of the Undertakings	Delivery to the spirit of the Undertakings	Intermediate industry outcomes	Business and consumer outcomes
Ofcom's Undertakings team	✓	✓✓		
Equality of Access Board (EAB)	✓✓	✓✓		
BT employee survey / Openreach focus groups		✓✓		
Ofcom's wholesale customer survey		✓✓✓	✓✓	
Data provided by industry	✓✓	✓✓	✓✓	✓✓
Existing Ofcom data-gathering			✓	✓✓✓

✓✓✓ Very relevant
 ✓ Partly relevant

4.2 Some of these sources of data exist already, but some are yet to be established. We explain each of these sources of data in more detail in the following paragraphs.

Ofcom's Undertakings team

4.3 Ofcom has a team working with BT, UKCTA and other stakeholders to facilitate and monitor progress towards implementation of the Undertakings. It is this team that is primarily responsible for providing the information used in the quarterly Undertakings implementation reports, the first of which was published in October 2005. These reports will be used to assess delivery to the letter of the Undertakings.

EAB

4.4 Some of the measures that are being proposed relate to the activities of the Equality of Access Board (EAB), which is supported by the Equality of Access Office (EAO). Most of the information will be included in the EAB's annual report to Ofcom, and further information may come from the EAB's minutes,

notifications of non-trivial breaches and information on complaints handled by the EAO, the findings of which are reported to the EAB.

BT employee survey / Openreach focus groups

- 4.5 It will be useful to understand to what extent behaviours and culture are changing in BT as a result of the Undertakings. The best way to do this will be to get information directly from BT employees. There are two ways of doing this: regular surveys and focus groups.
- 4.6 BT already carries out a regular survey of its employees. BT has added questions to this annual survey and has offered to share the results with Ofcom.
- 4.7 Openreach has also decided, as part of its implementation programme, to carry out a number of focus groups to understand how successfully various Undertakings-related initiatives are being put in place. It will be possible to use these groups to address some of the questions related to cultural change within Openreach.
- 4.8 Obtaining data from BT employees will be one way of assessing behaviours and culture at BT. There will be a focus on Openreach and BT Wholesale, because that is where BT has committed to the most change.

Ofcom's wholesale customer survey

- 4.9 Some ways of evaluating the impact of the Undertakings and the Telecoms Review are clearly quantifiable and can be relatively easily tracked month by month. These are what could be called "hard" measures such as product key performance indicators.
- 4.10 However, much of the exercise of evaluating the impact depends on "softer" measures, particularly when it comes to assessing indicators of adherence to the spirit of the Undertakings. Many of these indicators rely on a qualitative understanding of confidence, trust or satisfaction.
- 4.11 BT already carries out a survey of its wholesale customers, conducted by a third-party research organisation. However, we believe it would be appropriate for Ofcom also to commission its own survey of BT's wholesale customers. This will be carried out annually by a third party on behalf of Ofcom. It will seek to obtain a more in-depth understanding of the sentiments of senior managers within BT's wholesale customers, as well as quantitative data of the sort gathered by BT's existing survey. Carrying out this survey annually will allow us to track changes in these quantitative measures over time.
- 4.12 The results of this survey will need to be assessed in an objective way, both by the consultants carrying out the survey and by Ofcom. The survey will contain a wide range of opinions and comment, all of which will need to be judged within the context in which they are provided.

- 4.13 This survey will be directed to CEOs, heads of regulatory affairs and senior operational managers from a representative cross-section of BT Wholesale's and Openreach's customers.
- 4.14 The survey will address topics along the lines of the following:
- Satisfaction with statement of requirements process;
 - Confidence in customer commitment of Openreach / BT Wholesale management;
 - Smoothness of transition to BT's 21st-century network; and
 - Confidence in commercial customer / supplier dialogue to resolve up-coming issues.

Data from industry

- 4.15 The telecoms industry, including BT, provides data to Ofcom already, particularly for example on issues relating to wholesale products – for example numbers of lines or product performance.
- 4.16 The evaluation process will rely on these existing channels of data provision where relevant.
- 4.17 The industry also supplies a good deal of information Ofcom on an ad hoc basis, and we will continue to draw on this as a source of data.

Existing Ofcom data-gathering

- 4.18 Ofcom already collects a considerable amount of data relating to telecommunications markets, both at a wholesale and retail level. Such information is used in a number of documents, including Ofcom's Communications Market Reports.
- 4.19 Some measures, for example wholesale product innovation, will require a discursive assessment. We will do this based on a combination of data gathered as described in the previous paragraph and Ofcom's understanding of the markets it regulates derived from its day-to-day business.

Section 5

Publication timetable

- 5.1 As discussed in Section 2, we are focusing in this document on measuring delivery to the letter and spirit of the Undertakings, and measuring intermediate industry outcomes. Our proposals for measuring consumer and large business end user outcomes are set out in our consultation on consumer policy.
- 5.2 Figure 6 provides an outline of the annual timetable for publication of the key documents which are relevant to evaluating the impact of the Telecoms Review.

Figure 6: publications timetable

	Jan - March	April - June	July - Sept	Oct - Dec
Ofcom Undertakings implementation report (some aspects of evaluation)	✓	✓	✓	✓
Ofcom report measuring a broad set of metrics evaluating outcomes of the Telecoms Review			✓	
Ofcom review of consumer outcomes (subject to outcome of consumer policy document)			✓	
Ofcom Communications Market Report	✓		✓	
EAB annual report		✓		
BT KPIs	✓	✓	✓	✓

- 5.3 More detail on each of these publications is provided below:
- **Ofcom Undertakings implementation report** is published quarterly. The first was published in October 2005, and the second was published on 26 January 2005. These reports contain some elements of evaluation of impact.
 - **Ofcom report evaluating the impact of the Telecoms Review.** One of these implementation reports each year, in July, will contain a broad set of metrics evaluating the impact of the Undertakings and the wider regulatory programme. This report will include all the measurements described in Section 3.
 - **Ofcom review of consumer outcomes.** Our consultation on consumer policy is proposing that Ofcom should publish an annual audit of consumer

outcomes, including businesses' and consumers' experience of telecommunications markets.

- **Ofcom Communications Market report.** This report is published each summer, with an additional update this year in February; it provides extensive data on the development of the markets that Ofcom regulates in the UK.
- **EAB annual report.** The EAB is required to publish an annual report on the implementation of the Undertakings, the first of which will be published in the summer.
- **BT KPIs.** BT is required under the Undertakings to publish performance quarterly against key performance indicators relevant to the Undertakings. The first of these were published at the end of January 2005. They are available at:
<http://www.btplc.com/Thegroup/Regulatoryinformation/Ourundertakings/KeyPerformanceIndicators/index.htm>

Section 6

Next steps

- 6.1 Before the publication of the next quarterly Undertakings implementation report in April, we will be carrying out the work in conjunction with industry product working groups to specify the exact product KPIs that we will use.
- 6.2 Before the development and publication of the first annual report, in addition to Ofcom's usual activities, we will:
 - Appoint consultants to carry out the wholesale customer survey;
 - Meet members of the EAB to review its annual report;
 - Collect data from BT from its employee survey and focus groups.
- 6.3 It is possible that between now and publication of the evaluation report, some details of the measures that we use or how we collect information may change. This will be explained fully in the reports.
- 6.4 This work forms part of a wider programme which is getting under way to evaluate the outcomes of all Ofcom's policies.