

Summary of findings

Ofcom

Survey of BT's wholesale customers

April 2006

BT's progress on the implementation of the Undertakings – how industry relationships are changing

Overview

In March and April 2006, Spectrum Strategy Consultants conducted an independent survey on behalf of Ofcom, investigating how customers of BT Wholesale and Openreach felt that their relationship with their wholesale supplier had evolved since Ofcom accepted the Undertakings from BT in September 2005.

BT Wholesale's and Openreach's customers reported that there had been little concrete change so far, but that it was still 'early days'. The next six months were seen as a decisive period for the success of the Undertakings. While customers were critical of BT Wholesale's and Openreach's current and past performance, there were encouraging signs of growing trust in BT within the industry. Ultimately, though, Communications Providers (CPs) will judge BT Wholesale and Openreach based on their operational performance rather than on softer aspects of the relationship.

Introduction to this survey

Over the course of five weeks, Spectrum conducted 40 interviews with 32 organisations, including LLU players, altnets, service providers, ISPs, mobile operators and business units within BT. The majority of interview participants were senior management representatives within their organisations, including CEOs, Operations Directors, CTOs, Programme Directors and Regulatory Affairs Directors.

The interviews primarily looked at BT's compliance with the spirit¹ of the Undertakings, its delivery of Equivalence² and the resulting evolution of industry relationships. The key areas we focused on included:

- Transparency and availability of adequate information
- Effectiveness of complaints handling
- Adherence to Chinese Walls and confidentiality
- Availability of appropriate information on 21CN
- Speed and effectiveness of product development
- Interaction with, and confidence in, account management and senior management

Respondents were asked to provide a rating of each of these areas in order to allow the comparison of results over time, and then to explain the reasons for their assessment in face-to-face or telephone interviews. We also asked for a view on improvements achieved since the introduction of the Undertakings and on how BT and Ofcom could contribute to making further progress towards Equivalence.

We also spoke to BT and Openreach representatives both from a customer and supplier perspective and asked how the rest of the industry could contribute to a successful implementation of the Undertakings.

¹ "The meaning of 'spirit' of the Undertakings is synonymous with the underlying objective of enabling equal access to BT's infrastructure for BT's competitors, in order to stimulate effective, sustainable competition and incentives for timely and efficient investment. This requires changes, which will bring about the delivery of products and services that are not only equivalent but also good quality and fit-for-purpose. In other words, BT needs to be proactive in addressing customers' needs, deal with customer concerns in a fair and transparent manner and deliver products and services that exceed minimum requirements. These changes to service delivery and customer interaction are 'delivery to the spirit of the Undertakings'."

² During our survey and in this document we have used 'Equivalence' in a broad sense, covering product, process and price equivalence as defined in Ofcom's TSR (see Ofcom, Strategic Review of Telecommunications, Phase 2 consultation document, 18 November 2004, p. 67) and in addition, behavioural aspects such as treating customers in a fair and transparent manner.

The survey forms part of Ofcom's overall programme of work to measure the impact of the Undertakings and will be repeated annually.

Main messages

Customers of both Openreach and BT Wholesale typically reported that there had been few concrete changes since the introduction of the Undertakings. This is, perhaps, not surprising given that Openreach was only established two to three months prior to the interviews. Respondents fell into two broad categories: the 'hopefuls', who were supportive of Openreach, and the 'sceptics' who had yet to be convinced of the benefits of the Undertakings. The 'hopefuls' recognised the effort that had gone into setting up Openreach and appreciated that, given the scale of change being implemented by BT, there were bound to be teething problems during the initial transition phase. However, many stressed that the honeymoon period will soon be over and that Openreach will be expected to deliver against expectations. The 'sceptics' stressed that they needed to see changes before giving their full support to the new structure. In terms of BT Wholesale, many respondents reported they had little faith that things would improve in a material way as a result of the Undertakings.

Key feedback

Set out below are the key messages that emerged from the survey:

- Not much has changed so far, but it is still early days
- Openreach's management is enthusiastic, credible and approachable – however, Communications Providers' (CPs) views on whether it will be able to deliver on its promises were cautious and there was a concern that the organisation might fail them
- Within Openreach, there have been several teething problems related to the complexity of the restructuring involved in setting up the organisation:
 - account management teams are still in the process of being set up with many customers, including BT Retail, only recently having been allocated an Account Manager or, in some cases, yet to be given one
 - there are persistent problems with service delivery, particularly for backhaul to exchanges
 - respondents also voiced concerns over the delay of the EMP programme and WLR3
 - respondents indicated that excessive concerns over compliance within Openreach and uncertainty over expectations are paralysing staff ("if it could breach the Undertakings don't do it") and are preventing the pragmatic resolution of issues. This is particularly true at the junior levels
- Whilst most of Openreach's customers appreciate that the pace of change has been such that there were bound to be teething problems, many stressed that the honeymoon period is now ending and that they required significant improvements within the next 6-12 months. Priorities include:
 - scaling up staffing and putting the necessary account management teams in place
 - focusing on resolving hands-on operational and service issues such as timely service provisioning, effective product development, correct billing, and effective mechanisms for conflict resolution. The pure 'relationship' aspects of the interaction between wholesale customers and Openreach were perceived to be secondary
 - ensuring that focus on Equivalence does not result in the lowest common denominator and, consequently, 'equally poor' instead of 'equally good' services for all concerned

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- ensuring that Equivalence is not interpreted as a 'one size fits all' approach and that Openreach is prepared to develop differentiated solutions as long as any CP has the potential to purchase these
 - With respect to BT Wholesale, the following points were made:
 - whilst service delivery for some products (e.g. voice interconnect) is generally good, there are persistent issues around some services, in particular PPCs
 - the level of trust in, and expectations of, BT Wholesale is lower than that for Openreach as BT Wholesale is not perceived to be as affected by the Undertakings as Openreach
 - there is a general concern that BT Wholesale's 21CN consultation programme is not effective: CPs feel that they are constantly bombarded with information which is not organised in a way that shows clearly what information is most important, and that many of the issues they raise at industry fora are not acted upon
 - The majority of respondents outside BT felt that Ofcom should remain closely involved in the implementation of the Undertakings and the 21CN debate.

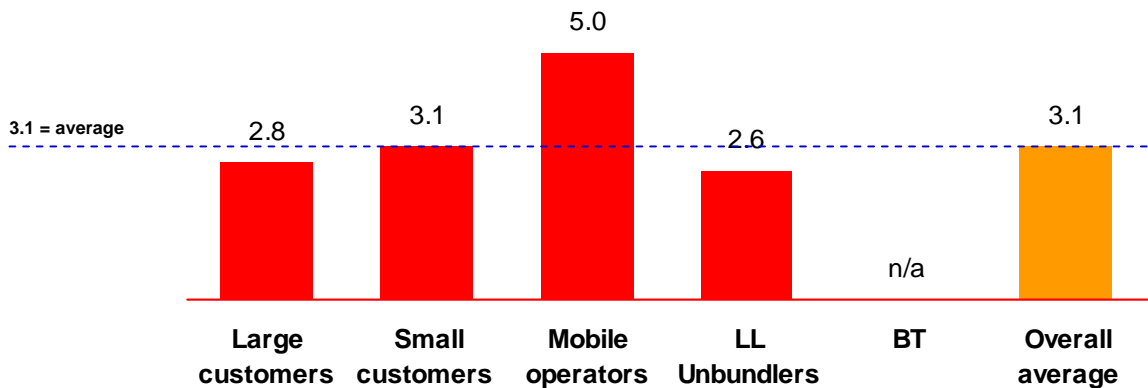
Respondents' ratings of BT's services

The majority of points mentioned above were highlighted by a broad range of respondents. However, there were clear differences in the overall degree of satisfaction between customer groups, depending on size and service portfolio used:

- Larger altnets, who buy the broadest range and largest quantity of services, were least satisfied with BT's wholesale service provision
- Smaller service providers and resellers rated BT's wholesale service provision better than larger providers. These customers are resource-constrained and focused on operational issues. Equivalence was seen as an abstract concept
- Mobile operators, who primarily rely on established transit and interconnection products, reported a good working relationship with BT. One respondent indicated that mobile operators' growing need for broadband backhaul may create challenges in the future, as operators show an increasing interest in broadband products which are today used by CPs to provide services to end users
- LLU operators, with one exception, were optimistic about Openreach and felt that they had seen positive change already. Openreach has concentrated much of its attention on LLU, and while there were issues with backhaul delivery, LLU providers acknowledged Openreach's efforts on improving services, even though they stressed the need for further work.

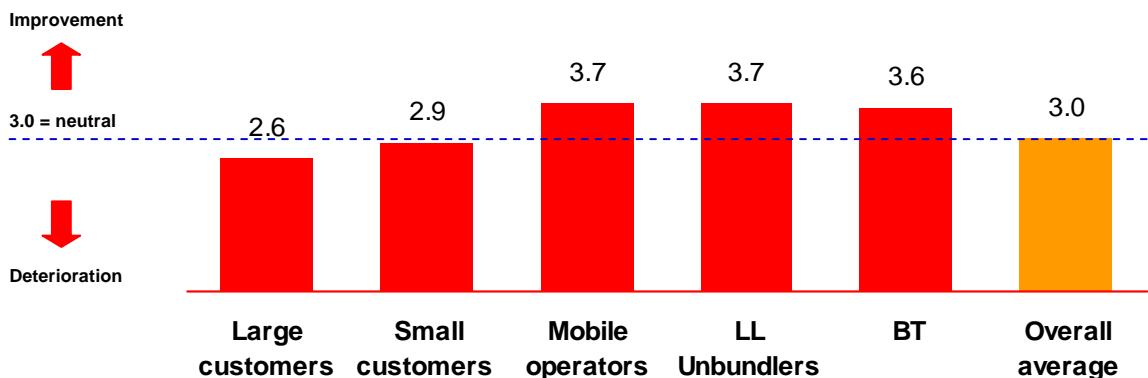
Exhibit 1: Overall satisfaction levels and service improvement per customer type

Overall satisfaction with BT's service provision (average score)



Note: BT business units did not provide a rating of their overall satisfaction

Degree of improvement since the introduction of the Undertakings (average score)



Scores – overall satisfaction

- 1 Unacceptable
- 2 Amongst the worst of my suppliers
- 3 Below average but not the worst
- 4 Average – poorer than my best supplier but about average amongst all my suppliers
- 5 Very good – almost as good as my best supplier
- 6 Excellent – as good as my best supplier

Scores – degree of improvement

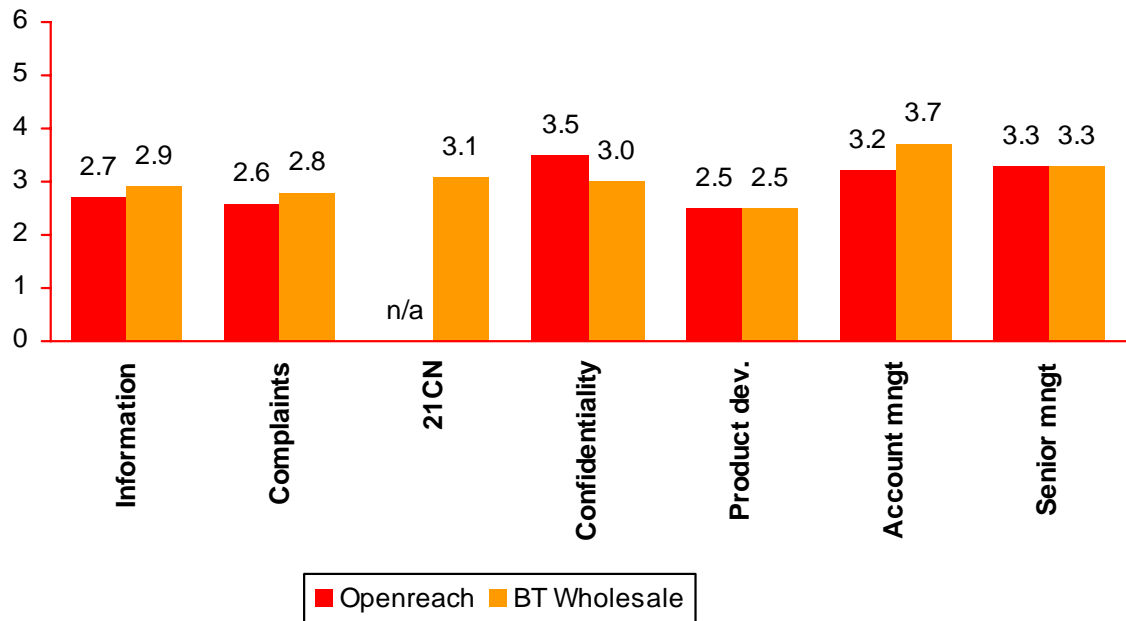
- 1 Deteriorated significantly
- 2 Deteriorated a little
- 3 Remained about the same
- 4 Improved a little
- 5 Improved noticeably but could do better
- 6 Is as good as my best supplier – no improvements required

CPs' explanations of their satisfaction levels point towards a significant performance gap between established services (e.g. Voice Interconnection and CPS) and newer services (e.g. WES, BES, PPCs and WLR3) that suffered more frequently from issues such as delivery and product development delays.

While BT Wholesale and Openreach seem relatively strong at handling 'business as usual' and managing the relationship with their customers, including - in most cases - confidentiality, CPs saw a need for improvement in service development, provisioning and complaints handling.

Exhibit 2: Satisfaction by issue investigated

Average score



Scores – overall satisfaction
 1 Unacceptable
 2 Amongst the worst of my suppliers
 3 Below average but not the worst
 4 Average – poorer than my best supplier but about average amongst all my suppliers
 5 Very good – almost as good as my best supplier
 6 Excellent – as good as my best supplier

In many cases, dissatisfaction was related as much to legacy issues and past experience as to BT Wholesale's and Openreach's performance following the Undertakings. Regulatory managers tended to be more critical than senior management (CEOs, CTOs, MDs) and operational managers. Representatives across all organisations and roles stressed that building trust would require time.

Improvements and areas to work on

Aspects of BT Wholesale's or Openreach's wholesale service provision that have most improved

Most respondents stated that they had not seen any specific improvements so far but felt that it was too soon to comment. Some interviewees mentioned a change in attitude, in particular within Openreach, and that they had seen some unusual concessions, e.g. on payment terms, which they believed to be a sign of goodwill from BT.

Three key areas that BT Wholesale and Openreach should improve on

CPs' key concerns revolved around operational questions and the impact of 21CN, rather than softer aspects of the relationship with BT:

- Many felt that BT Wholesale and Openreach need to address organisational issues and begin to:
 - adhere to agreed deadlines for provisioning, product launches and fault repairs
 - improve billing accuracy
 - speed up product development and improve industry involvement
- A number of respondents were dissatisfied that Openreach has taken time to get account teams in place
- Others particularly stressed the need to resolve acute product development and system delivery issues, such as EMP, WLR3 and backhaul
- Many respondents felt that the current 21CN consultation process has led to a flood of information, much of which was irrelevant to them. They felt that establishing an improved, more targeted communication and consultation process was a high priority.

Effectiveness of BT's organisational structure

Few CPs had views on the new organisational structure at this stage.

- Confidence in the good intentions and integrity of Openreach's senior management team was high. At the same time, doubts over its ability to deliver with a team largely made up of long-term BT staff were abundant. Some felt that Openreach should hire more 'new blood' with different backgrounds
- Some respondents felt that the structure of Openreach engineering teams by region had led to a deterioration of communication and negative impact on the speed of fault repairs (this structure was not mandated by the Undertakings, but was introduced upon the initiative of Openreach)
- Trust in BT Wholesale was generally lower. Some respondents felt that BT Wholesale's commitment to deliver Equivalence had been diminished as the attention of Ofcom and the industry has focused on the introduction of Openreach. Others felt that BT Wholesale still had to find its feet in the new structure and that both the Undertakings and internal restructuring had left a lack of sense of purpose within the organisation

Most CPs have had little or no interaction with the Equality of Access Board (EAB) and Equality of Access Office (EAO) and felt that they had not faced any issues within the remit of the EAB. A number stated that the existence of the EAB and EAO was a good comfort factor. Some argued that because of the way the Undertakings have been written, the definition of what types of issues could be referred to the EAB was not sufficiently clear, suggesting that it was easier to refer an issue to Ofcom than to the EAB.

While the re-branding of Openreach was criticised, it appeared of little concern to many interviewees. Some, including Openreach representatives, saw it as valuable as it symbolised the separation of Openreach from BT and gave Openreach a new identity. Others were concerned that the reference to BT Group in the logo and its consumer campaign had resulted in an actual promotion of the BT brand and overstated the position of BT in the market place.

Concerns about Equivalence

Respondents who were not involved in regulatory affairs were largely unconcerned about Equivalence as such, provided that they received the services they required to serve their customers on the agreed date, at the agreed standard of quality and that no contractual breaches were made. Many stressed that their primary

expectation was to be treated as a customer. Respondents questioned whether, and at what speed, the cultural change required to achieve Equivalence and/or noticeably improved service provision would trickle down in the organisation and how quickly long-established behavioural patterns of BT staff could be unlearned.

A number of CPs, including BT Retail, were concerned that were Equivalence applied too strictly it would put a stranglehold on BT Wholesale's and Openreach's service provision. Operators, including BT Wholesale, feared that Equivalence might lead to a 'lowest common denominator' and to service levels that are not 'equally good' but 'equally poor' for everyone in the industry.

Satisfaction with the implementation of the Undertakings

Some respondents felt that Openreach's management focused on 'ticking the box' to comply with the letter of the Undertakings and pointed to the risk that formal compliance might take precedence over 'getting things right'. In the view of a number of respondents, this was exacerbated by the time pressure on Openreach and its current resource constraints.

Suggestions for Ofcom's contribution

Many respondents felt strongly that it was too early for Ofcom to withdraw from active involvement in the implementation of the Undertakings and in 21CN. The main requests were:

- Put more effort into understanding the operational and technical practicalities of the Undertakings and 21CN, in order to improve its understanding of operators' concerns and to be able to suggest workable solutions
- Do not forget about the end goal of the Undertakings: improving services for business and consumers
- Be 'hands-on' until the Undertakings are firmly established, 80% compliance is not enough
- Step in early when there is a problem and "don't let it grow into a formal dispute"

The 21CN consultation process was a particular concern for many CPs, who stressed that they saw NGNs as a critical issue and were keen to be involved, but in a way that was manageable in terms of resources.

The absence of a mechanism for Ofcom to impose financial penalties was seen as an important issue by some. Some CPs believe that this will prevent Ofcom from addressing breaches quickly and effectively without having to refer them to the courts or the Competition Commission.

BT's feedback on how industry can best contribute to the successful implementation of the Undertakings

Both BT Wholesale and Openreach stressed that, in many cases, there had been a noticeable improvement in the level of trust by, and quality of interaction with CPs. They also mentioned that this varied from operator to operator. Similarly, the scoring by CPs of BT Wholesale's and Openreach's service provision varied widely, suggesting that there is a great degree of variation in the relationships CPs have with Openreach and BT Wholesale.

BT Wholesale and Openreach representatives highlighted that "Equivalence is a two way street". They stressed that, without adequate information about service requirements and issues, they could not provide the services required. But they also acknowledged that building the necessary trust required time and needed to be earned through tangible improvements for customers.

BT Wholesale and BT Retail also suggested that the behaviour of a small minority of CPs had been unhelpful and had put an unnecessary burden on their organisations. This behaviour included directing their customers to the BT Retail call centre when there were service issues relating to Openreach or BT Wholesale and referring customers to BT Wholesale engineers without providing adequate first-line technical support in-house.

BT Retail stressed that it felt relationships between BT business units were changing from informal-internal relationships to customer-supplier relationships and that this has helped BT's different business units to understand external CPs' point of view better.

Openreach acknowledged the teething problems highlighted by CPs. It stressed that it expected another three to six months to pass before the organisation was fully set up and that, while they were grateful for feedback, the aggressive approach shown by some customers was not helpful. However, Openreach's management also emphasised that it was making progress and expected that CPs would soon notice improvements in its performance.

Conclusions

The implementation of BT's Undertakings is still at its early stages and interviews with BT's customers and BT itself both overall showed encouraging signs:

- Trust within the industry has improved
- Industry gives Openreach's management great credit for "having their heart in the right place"
- Openreach acknowledges its teething problems and emphasised the same areas for improvement that were highlighted by its customers
- There is uncertainty over the role BT Wholesale will, and should, play
- Practical results are not yet visible to most industry stakeholders
- Ofcom should continue to be involved closely in the monitoring of the implementation of the Undertakings and the 21CN debate

Many respondents were hopeful, but not yet fully convinced, that the Undertakings would lead to significant improvements for their organisations. They stressed that they needed to see tangible results within the next six months.

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