

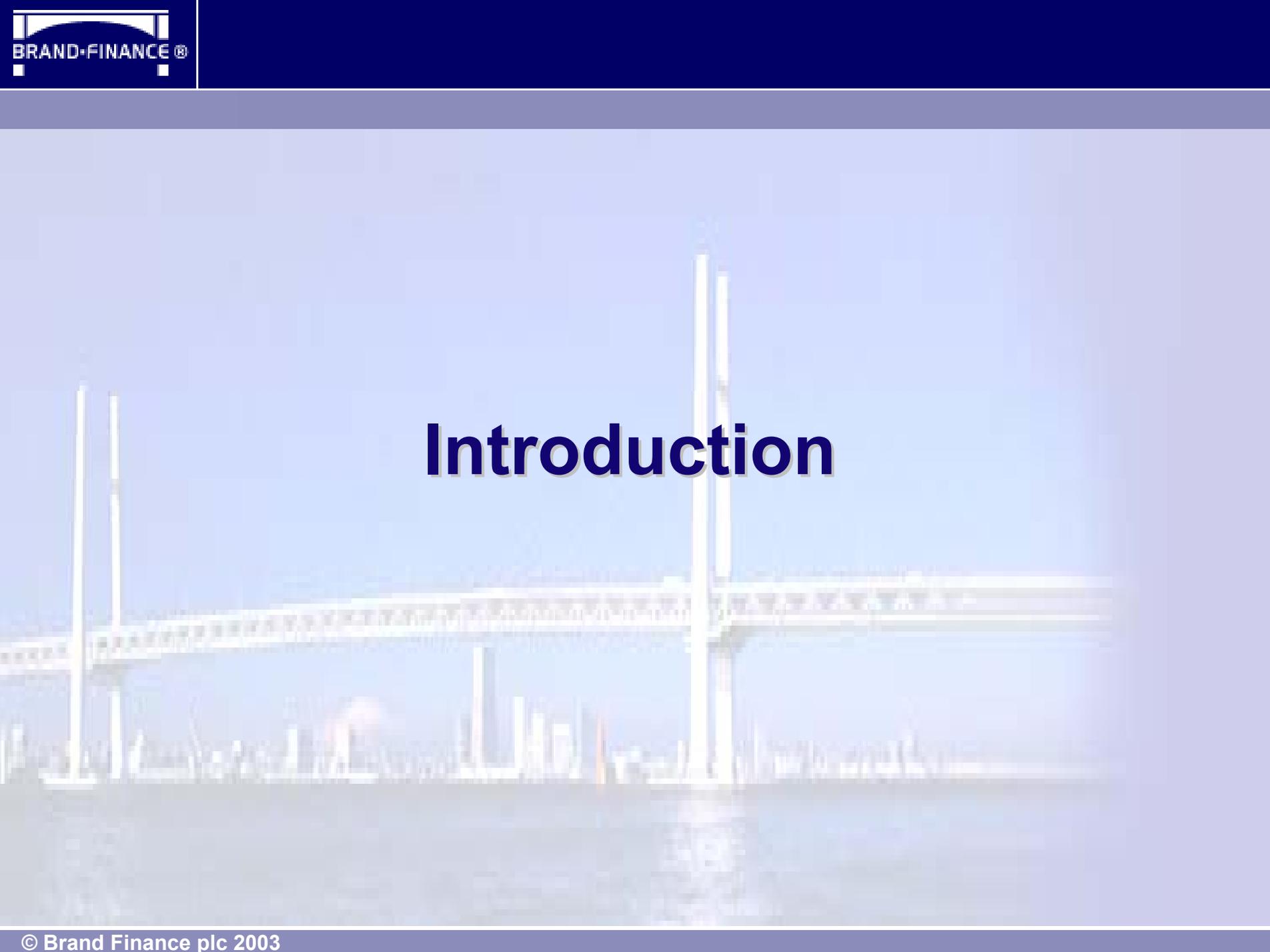


Review of BT's methodologies for attributing marketing & sales retail costs to NTS calls

Brand Finance plc

Tuesday 16th December 2003

- **Introduction**
- **Approach**
- **Summary of findings**
 - Publicity costs - Consumer and Business channels
 - Sales support costs - Major Business channel
 - Sales force costs - SME channel
 - Discussion of externalities issue



Introduction

- Brand Finance asked to review cost attribution methodologies of the top four categories of marketing & sales costs in 2001/02 regulatory financial statements
 - Publicity costs – Consumer
 - Publicity costs – Business
 - Sales Support/ Call centre - Major Business Channel
 - Sales force costs - SME channel
- Represented 66% of total marketing & sales expenditure attributed to BT-OLO NTS call products (hereafter referred to as ‘NTS calls’)

- Separately, Ofcom also asked that we give an opinion on the existence of ‘externalities’ associated with BT’s marketing activities
 - The externalities review is outside the scope of the cost attribution review but is relevant from a cost recovery perspective



Approach

- Cost attribution must comply with BT's own Regulatory Accounting Principles ('RAP's')
- There are 8 principles in total but the most important for this review was RAP 3, the 'Principle of Cost Causality'
- The identification of cost causality is a necessary precondition for assessing what might be an appropriate cost attribution methodology
- If no cost causality is considered to exist then there should be no cost attributed

The principle of cost causality requires costs (revenues, assets and liabilities) to be attributed to products or components in a way that reflects the way that products cause or drive the costs to be incurred (or revenues to be earned or assets to be acquired or liabilities to be incurred)



'Cost Causality flow...'

A key issue to be resolved, therefore, was whether NTS calls were in any way causing or driving BT's marketing & sales costs, and in particular, its publicity costs



'Cost Causality flow...?'

- 1 Assess the existence or otherwise of a cost causal link between NTS calls and the activities undertaken by the relevant cost centre
- 2 Where a cost causal link is identified, assess the strength of the link
- 3 Review existing and potential alternative attribution methodologies and assess which best reflects the nature of the cost causality (and hence best reflects BT's RAP's)

- Review activities undertaken by cost centre
- Review campaign documentation or other evidence to determine existence of cost causality
 - Campaign business cases and “closure reports”
 - Communications briefs
 - Creative briefs
 - Creative material
- Meetings with BT
- Meeting with OLO’s/ Service Providers
- Review cost attribution excel calculations



Summary of findings: Publicity costs

- Design, planning, implementation, liaison with external agencies
- Types of marketing:
 - Mass media advertising
 - Direct marketing (significant business publicity cost)
 - PR
 - Exhibitions and seminars (significant business publicity cost)
 - Sponsorship
 - Market research
- A significant proportion of total costs related to mass media advertising

- Much of BT's publicity is non-product specific. As a result, it was necessary to define cost causality in two ways:
 - Direct cost causality
 - Indirect cost causality
- Direct cost causality demonstrated by:
 - Explicit references to NTS calls
 - Revenue, margin or volume targets for NTS calls
 - Other (non-financial) product specific objectives in business cases or communications briefs
 - Objectives clearly reflected in actual creative material finally produced

- A high proportion of the BT's publicity material reviewed aimed to promote BT or telephone and internet use in general
 - Communicates general concepts such as Value for Money or brand positioning
- No specific mention of individual products
- In such cases, it is not possible to conclude that direct cost causality exists for individual products which would mean that BT's publicity costs would not be attributed anywhere in its regulatory accounts - a perverse result
- The generic nature of BT's publicity resulted in the need to develop the concept of indirect or implicit cost causality

- Exists between a product and publicity costs where, despite no explicit references to that product in campaign material (no direct cost causality), it can, nevertheless, be reasonably inferred that the advertising campaign was intended to benefit the product in question (*Brand Finance definition*)
- An intention to benefit a product in the case of a profit maximising company such as BT, can be inferred if:
 - 1 The nature of the advertising is such that it encompasses the product in question
 - 2 The product is profitable for BT

- It could be argued that BT publicity promotes BT products and that there is no intention, explicit or implicit, to stimulate NTS calls
- BUT - some of BT's publicity, in particular consumer publicity, is focussed on promotion of broad "Value for Money" concepts and stimulating use of the telephone and internet in general
- BT cannot control the types of calls its customers make and produces publicity aimed at overall customer number maximisation and customer call volume maximisation
- To the extent that this is successful, this will result in additional calls being made across the full product set including NTS calls

- Provided that the product is profitable (produces a positive contribution towards BT's fixed overhead cost) then it is not unreasonable to assume that there is some incentive for BT to boost the call volumes of this product
- If so it is possible to infer that BT did intend to promote such calls, even if this is not explicitly stated anywhere, and that to a greater or lesser extent such products cause or drive publicity activity

- Using this logic, a more profitable product for BT would have a greater influence in causing or driving campaign costs to be incurred
- We believe it is reasonable to infer that, if BT had explicitly recorded its intended revenue and margin campaign objectives for each product, its intention would have been to increase volumes and revenues on its more profitable products in preference to its less profitable ones
- These higher margin products therefore have a stronger cost causal link to publicity costs than lower margin products
- NTS calls are very low margin for BT

- Where the objective of BT's publicity campaigns is to increase or maximise volumes, either via customer acquisition/ retention or call stimulation, and those customers can be shown to use or be expected to make NTS calls, then some level of indirect or implicit cost causality exists
- Due to the fact that NTS calls are low margin for BT, we conclude that they must only be a very weak driver of campaign activity when compared with a number of other products which are more profitable to BT and that this should be reflected in the cost attribution methodology used

- One final consideration is that approximately 90% of all NTS call volumes are internet calls
- Where a campaign appears to be very voice-oriented, rather than voice and internet or internet only, then the likely cost causal link to NTS calls will be to NTS voice calls rather than internet calls
- Given that NTS voice calls only represent approximately 10% of total volumes, on which BT makes only low profits, then the extent of any cost causal link in the case of these voice-oriented campaigns will be very weak indeed

- Having reviewed numerous individual campaigns, to simplify the analysis Brand Finance characterised them into 5 broad categories and our overall findings for each are as follows:

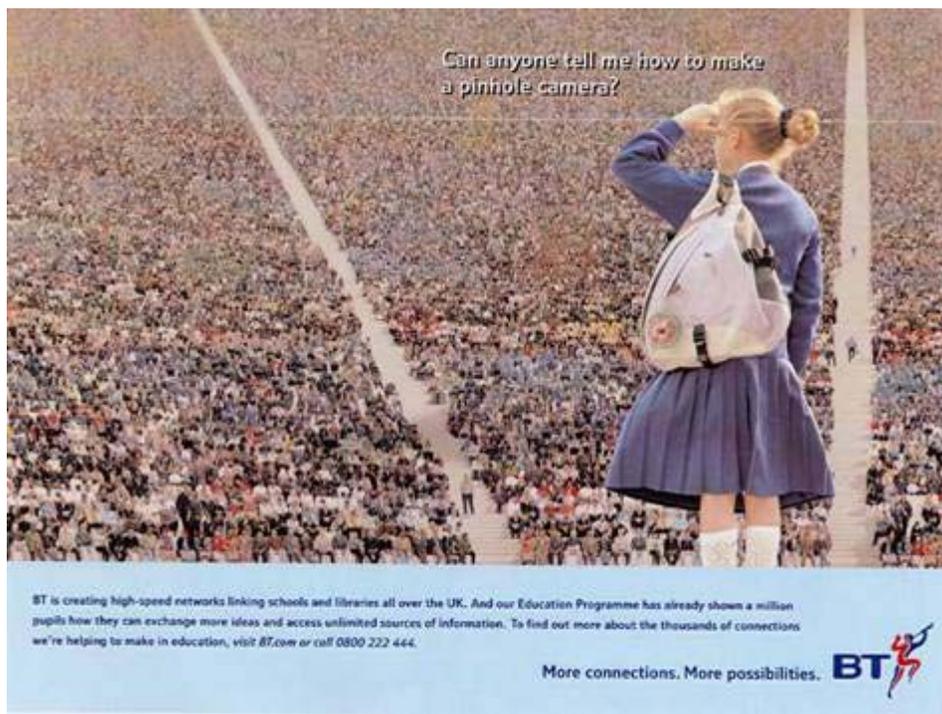
Campaign category	Direct Cost Causality	Indirect Cost Causality	Strength of cost causal link
General promotion of the BT brand	No	Yes	Weak
Campaigns that potentially address a range of products	No	Yes	Too weak to warrant any cost attribution
Customer research/ surveys	No	Yes	Too weak to warrant any cost attribution
Reseller and reconnection campaigns	No	Yes	Too weak to warrant any cost attribution
Promotion of specific services that are highly focused on one product	Yes	n/a	Strong: full cost attribution



Consumer Campaigns

General promotion of the BT brand

Campaign category	Direct Cost Causality	Indirect Cost Causality	Strength of cost causal link
General promotion of the BT brand	No	Yes	Weak
Campaigns that potentially address a range of products	No	Yes	Too weak to warrant any cost attribution
Customer research/ surveys	No	Yes	Too weak to warrant any cost attribution
Reseller and reconnection campaigns	No	Yes	Too weak to warrant any cost attribution
Promotion of specific services that are highly focused on one product	Yes	n/a	Strong: full cost attribution



- Ads of this kind promote the BT brand generally in both voice and internet spaces
- They are indirectly cost causal because they promote general call activity among BT customers without identifying specific products
- We agree that there is a 'weak' cost causal link with NTS calls but cost attribution should be modest

- 'Bringing people together'
 - Deaf Talent-spotting
- This ad promotes the BT brand generally by showing technological capability in the video call market
- Communication via BT to make life easier
- They are indirectly cost causal because they promote general call activity among BT customers for all types of product
- We therefore assume a 'weak' cost causal link to NTS calls and costs are attributed to NTS calls accordingly



Consumer Campaigns

Promoting call packages

Campaign category	Direct Cost Causality	Indirect Cost Causality	Strength of cost causal link
General promotion of the BT brand	No	Yes	Weak
Campaigns that potentially address a range of products	No	Yes	Too weak to warrant any cost attribution
Customer research/ surveys	No	Yes	Too weak to warrant any cost attribution
Reseller and reconnection campaigns	No	Yes	Too weak to warrant any cost attribution
Promotion of specific services that are highly focused on one product	Yes	n/a	Strong: full cost attribution

- 'BT bringing people together'
- Various ads targetting different user groups.
 - Father and Baby
 - Indian Mother etc
- Accompanied by special bundled price offers
- Ads of this kind promote the BT brand generally in the voice call market
- They are indirectly cost causal because they promote general voice call activity without identifying specific products
- Only 10% of all NTS calls are voice related
- We therefore assume that the cost causal link to NTS calls is too low to merit a cost attribution of this activity to NTS calls



*Free
baby-sitting
service
from BT.*

Clare wants to go out for a drink with the girls, but Mike isn't used to baby-sitting.

Luckily for her, BT Together with unlimited UK calls means Mike can talk to his Brummie mate Brian for as long as he likes.

And that's long enough for Clare to leave the baby with him and go out with her friends.

For just £18.50 a month with Direct Debit, you can get free national and local calls during evenings and weekends, just like Mike and Clare.



BT Bringing you and the UK together.

Get the best from BT. Call 0800 800 950 or visit BT.com/together

£18.50 with Direct Debit or Monthly Payment Plan (subject to status). Standard price £18.50 a month. Call charges apply after 60 minutes on each call, but you can hold as often as you like. Excludes Chester, Ipswich, Milton, 0913, 0870 and internet calls. Other conditions apply.



*Free
bedtime
stories
from BT.*

"No one tells bedtime stories like Grandpa," says Jill.

Trouble is, Melvin lives fifty miles away. But thanks to BT Together with unlimited UK calls, he can be with his granddaughter every evening with a new story.

For just £18.50 a month with Direct Debit, you can get unlimited free national and local calls during evenings and weekends, just like Melvin.



BT Bringing you and the UK together.

Get the best from BT. Call 0800 800 950 or visit BT.com/together

£18.50 with Direct Debit or Monthly Payment Plan (subject to status). Standard price £18.50 a month. Call charges apply after 60 minutes on each call, but you can hold as often as you like. Excludes Chester, Ipswich, Milton, 0845, 0870 and internet calls. Other conditions apply.

Press - 'BT bringing people together'



*Free
UK calls.*



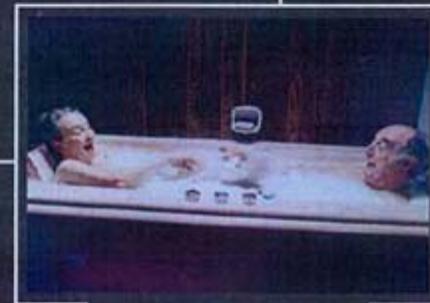
Now BT offers free national as well as local calls. With BT Together you can get free evening and weekend calls to anywhere in the UK. BT Together with unlimited UK calls is just £18.50 a month with Direct Debit, including line rental.

BT Bringing you and the UK together.

Get the best from BT. Call 0800 800 950 or visit BT.com/together.



*Wish your mum
a happy
Mother's Day.
(Just make sure
it's at a
convenient time).*



With BT Together, all evening and weekend UK calls are free, so there's simply no excuse.

BT Bringing you and your mum together this Mother's Day.

BT Together with unlimited UK calls is just £18.50 a month with Direct Debit including line rental. Call 0800 800 950 now.

Press - 'BT bringing people together'

Start limbering up. 



fig.1 fig.2
fig.3 fig.4

Unlimited local evening and weekend calls with BT Talk Together.

Call 0800 05 55 55 or visit bt.com

Start limbering up. 

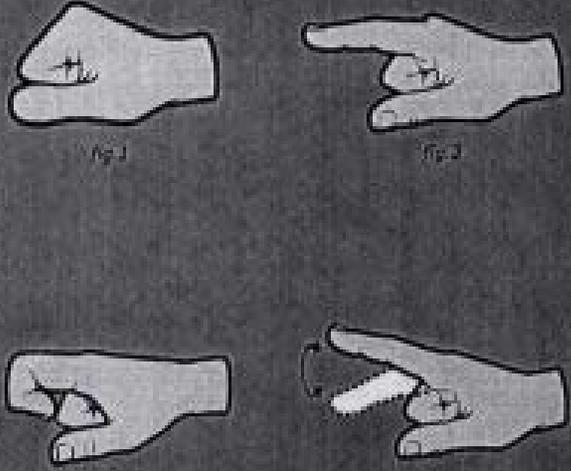
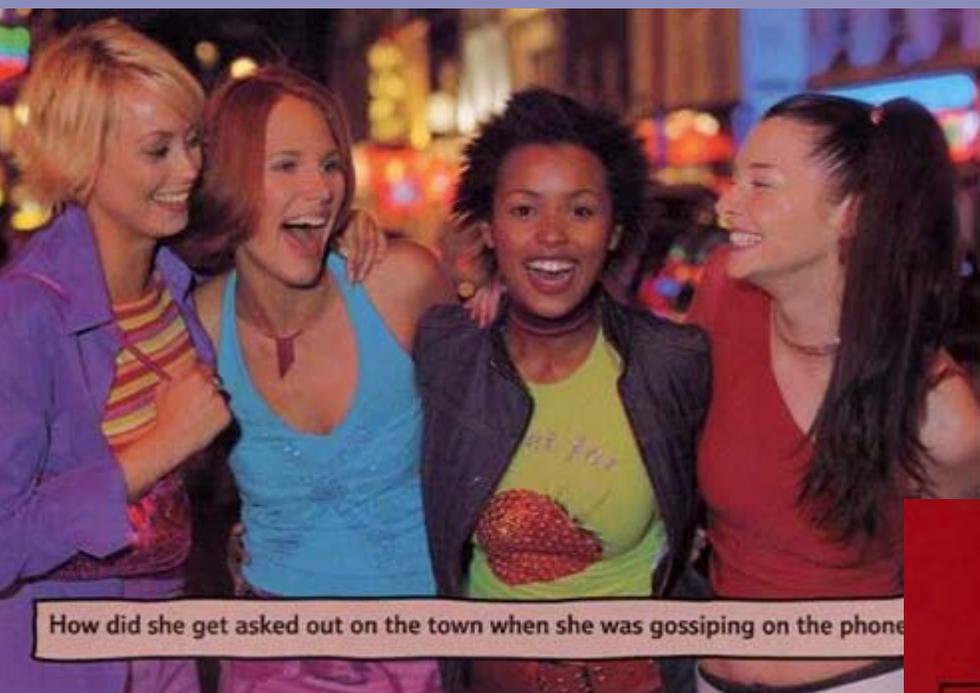


fig.1 fig.2
fig.3 fig.4

Unlimited local evening and weekend calls with BT Talk Together.

Call 0800 05 55 55 or visit bt.com



How did she get asked out on the town when she was gossiping on the phone

BT Answer 1571.

The only free service that answers calls when you can't.

Now you never have to miss another call. Whether you're on the phone, away from the phone or surfing the net, BT Answer 1571 will take messages for you. And it's absolutely free, even when you dial 1571 to retrieve your messages.

It's quick and easy to activate. Just call 0800 917 1571 from your home phone today.

Using BT Answer 1571 is easy, too. If you're away from your phone, BT Answer 1571 will answer your calls after seven rings. If you're engaged or on the Internet your calls will be answered immediately. Then to retrieve your messages, just dial 1571. What could be simpler?

Call now to activate BT Answer 1571. Phone calls aren't the only thing you could be missing.

Call 0800 917 1571

 **Bringing people together**

- Objectives of customer acquisition and call stimulation achieved via promotion of BT as good ‘Value for Money’ and ‘softening up’ customers through unlimited call packages
- BUT, in respect of NTS calls:
 - Talk Together adverts specifically excluded calls to certain NTS numbers (0800, 0845), including internet calls
 - Promotion of good Value for Money cannot apply where there is no Value for Money proposition on internet calls
 - Adverts very voice oriented
- We therefore conclude that any cost causal link is likely to be too indirect or weak to warrant any cost attribution



Consumer Campaigns

Research Surveys

Campaign category	Direct Cost Causality	Indirect Cost Causality	Strength of cost causal link
General promotion of the BT brand	No	Yes	Weak
Campaigns that potentially address a range of products	No	Yes	Too weak to warrant any cost attribution
Customer research/ surveys	No	Yes	Too weak to warrant any cost attribution
Reseller and reconnection campaigns	No	Yes	Too weak to warrant any cost attribution
Promotion of specific services that are highly focused on one product	Yes	n/a	Strong: full cost attribution

- The survey questions were divided into the following sections:
 - Your satisfaction as a BT customer
 - You and your home telephone
 - You and the Internet
 - You and your mobile phone
 - You and your TV
 - You and the future
 - Other information
- Only two sections of the survey relate to the use of the telephone or the internet

A few minutes of your time can generate £1 for ChildLine

Please see our message on the reverse of this form, which outlines why we'd like you to complete this survey.

Please complete the questionnaire, using a black or blue pen, either by placing a tick in the appropriate box, or by writing in your answer as requested. Please leave blank any box which doesn't apply to you. If you need to change your answer, erase your tick by completely shading the box and then place a tick in the correct box.

If you'd like to complete this survey online, you'll find it at www.bt.com/go/survey. To do this, you'll need your BT Account Number which is:

Any questions you have about completing this survey can be answered by the NOP Survey Helpline. Simply phone Free/any 0500 309 9699 (one hour for a parking hour).

A. Your satisfaction as a BT customer

1. How satisfied are you with BT's overall service?

(Please tick a mark out of ten from zero (means you are totally dissatisfied) and ten (means you are totally satisfied)

Totally Dissatisfied 1 2 3 4 5 6 7 8 9 10 Totally Satisfied

2. How satisfied are you that BT provides good value for money?

Totally Dissatisfied 1 2 3 4 5 6 7 8 9 10 Totally Satisfied

3. In the future, what improvements or changes could be made to the overall service you receive from BT?

B. You and your home telephone

1. How many telephone users are there living in your household? (Please include both adults and children)

1 2 3 4 5 6 or more

2. How many telephone lines, including those connected separately to fax machines or computers, do you have at home?

BT telephone lines: 1 2 3 4 or more

Other Supplier Lines: None 1 2 3 4 or more

(If you have a telephone line from another supplier, how satisfied are you with their overall service?)

Totally Dissatisfied 1 2 3 4 5 6 7 8 9 10 Totally Satisfied

3. Do you pay for your BT service monthly or quarterly? (Please complete one part only)

<input type="checkbox"/> Monthly Approximately how much do you believe you pay monthly to BT, including the cost of line rental and all call charges, any other service costs and VAT?	<input type="checkbox"/> Quarterly Approximately how much do you believe you pay quarterly to BT, including the cost of line rental and all call charges, any other service costs and VAT?
<input type="checkbox"/> £15 or less <input type="checkbox"/> £16-20 <input type="checkbox"/> £21-30	<input type="checkbox"/> £30 or less <input type="checkbox"/> £31-60 <input type="checkbox"/> £61-90
<input type="checkbox"/> £31-40 <input type="checkbox"/> £41-50 <input type="checkbox"/> £51 or more	<input type="checkbox"/> £91-100 <input type="checkbox"/> £101-120 <input type="checkbox"/> £121-150
<input type="checkbox"/> Don't know	<input type="checkbox"/> £151-200 <input type="checkbox"/> £201 or more <input type="checkbox"/> Don't know

4. Thinking about your entire household, what types of cable are made from your home phone(s)? (Please tick all that apply)

Local National International Premium Rate (i.e. numbers starting with 09)

to Mobile Phones Internat

5. Thinking about your entire household, when are most of the calls made using your home phone(s)? (Please tick all that apply)

Weekday Daytime Weekday Evening Weekend

6. Do you or anyone in your household make calls using a company other than BT over your BT home phone line? (Please tick all that apply)

No Don't know (If 'No' or 'Don't know', please go to section C. You and the Internet)

Yes - via a pin number before the call Yes - via a dialler box connected to the socket

7. If 'Yes', approximately how much does your household spend per month with the other company / companies?

£5 or less \$6-10 £11-15 £16-20 £21-25 £26-30 £31 or more Don't know

8. How satisfied are you with the overall service from the other company / companies?

Totally Dissatisfied 1 2 3 4 5 6 7 8 9 10 Totally Satisfied

C. You and the Internet

1. Where do you and the members of your household access the Internet? (Please tick all that apply)

At home At work Through internet shops / calls At the library At school / university

Through internet payphones

Don't access the Internet (If 'Don't access the Internet', please go to section D. You and your mobile phone)

2. What do you and your household use the Internet for, at home or elsewhere? (Please tick all that you think apply)

e-mail Surfing / browsing Information / Education Work / Professional activity Shopping

Banking / Bill Paying Online games Downloading music or video Chat rooms Other

(If you and your household don't access the Internet at home, please go to section D. You and your mobile phone)

3. How many hours do you and your household spend using the Internet at home in a typical week?

Less than 1 hr 1-2 hrs 3-4 hrs 5-8 hrs More than 8 hrs Don't know

4. How do you and your household pay for your home internet use?

Pay call charges as you go Unlimited access evenings and weekends Unlimited access anytime

Work provided Other Don't know

5. Who is your main Internet Service Provider (ISP) for your home internet use?

BT / BT Openworld NDL Proxad net / EUnet Web provided Other / Don't know

6. How satisfied are you with the speed of your home internet access?

Totally Dissatisfied 1 2 3 4 5 6 7 8 9 10 Totally Satisfied

7. How satisfied are you with the quality and reliability of your home internet connection?

Totally Dissatisfied 1 2 3 4 5 6 7 8 9 10 Totally Satisfied

D. You and your mobile phone

1. How many mobile phones do you and your household use and pay for?

1 2 3 4 or more Don't know *Please go to section D. You and your BT*

2. Approximately how much does your household spend per month in call and fixed charges, through using these mobile phones?

£10 or less £11-20 £21-30 £31-40

£41-60 £61-100 More than £100 Don't know

E. You and your TV

At some point in the future, we may be able to offer our customers television and other similar services. To help us to do this, we need to know a little bit about the types of television services you currently use.

1. Besides the standard terrestrial TV channels (BBC1, BBC2, ITV1, C4 / 5, C5, C6), does your household have any of the following TV services?

Only the standard channels (Please go to section F. You and the future)

Do not have a television (Please go to section F. You and the future)

ITV Digital net Sky Telewest Other Don't know

2. Does your household have any telephone or internet services supplied by the same company that currently supplies your TV services?

Yes No Don't know

3. How much does your household spend per month on TV services, including Pay Per View but excluding the cost of your standard TV licence?

£20 or less £21-30 £31-40 £41-60 £61 or more Don't know

F. You and the future

We are continually looking to provide new products and services for our customers. In order to do this, it is very important and relevant to each of our residential customers, and it is for you to answer the following questions.

1. In the future, would you be interested in any of the following services?

	Yes	Maybe	No	Already Use
Broadband - internet access up to 10 times faster than standard modem access that also allows you to talk on the phone whilst surfing the net.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Entertainment, music and internet services that can be accessed by any member of your household, in any room of your house, and all at the same time.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Smartphones, where you can see the person you are talking to.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Receiving and paying your BT bill online.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Being able to send and receive text messages over your home phone line.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
A package of computer hardware, software and advice that helps you get the most out of home computing and the internet.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Regular alarm services provided via your home phone line.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
CCTV surveillance for your home, including the ability to access the CCTV images remotely.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Online computer games you can play over the internet.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Using public internet terminals which give access to the internet and allow you to send and receive e-mails when travelling.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Digital equipment (e.g. cameras, modems and DECT phones)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2. Are there any other product or services that you would like BT to consider providing at some point in the future? If 'No', please go to section G. Other information

G. Other information

1. Are you a BT shareholder or have you previously been a BT shareholder?

I am a BT shareholder I have previously been a BT shareholder No

2. From time to time we may need to contact you about saving money on your bill or new products and services. Which are your preferred ways of being contacted? (Please tick all that apply)

Mail Telephone e-mail Via bt.com Via your bill

If contacting you by e-mail would make things easier for you, please provide us with your e-mail address:

To see the details of our registered data use on from the BT Group, BT will contact us via the data controller / customer contact. Please tick the box if you do not wish your details to be used in this way.

As a result of the information you have provided in this survey, BT Group may wish to contact you about products and services we think may be of interest to you. Please tick the box if you do not wish to be contacted by BT Group in any way, as a result of this questionnaire.

Thank you for completing this survey. A donation of £1 will be sent to ChildLine.

To send the questionnaire back to BT:

1. Moisten left-hand guarded area and fold over to stick down. Your address should now show on the left-hand side.
2. Moisten right-hand guarded area and fold over to stick down.
3. Make sure the BT address is now showing.



- The ultimate goal of market research is to provide data to enable more effective publicity campaigns
- The objectives of research are therefore the same as the campaigns it supports
- Cost causality conclusions should therefore match those of the publicity campaigns

- However:
 - Only part of the survey relates to areas relevant to NTS calls
 - It cannot be predicted what types of campaign the survey would support
 - From the campaign documentation reviewed it seems reasonable to assume that only a small proportion of such campaigns would be sufficiently voice AND internet oriented to justify any cost attribution
- We therefore conclude that any cost causal link is likely to be too indirect or weak to warrant any cost attribution



Consumer Campaigns

Reseller/ Reconnection

Campaign category	Direct Cost Causality	Indirect Cost Causality	Strength of cost causal link
General promotion of the BT brand	No	Yes	Weak
Campaigns that potentially address a range of products	No	Yes	Too weak to warrant any cost attribution
Customer research/ surveys	No	Yes	Too weak to warrant any cost attribution
Reseller and reconnection campaigns	No	Yes	Too weak to warrant any cost attribution
Promotion of specific services that are highly focused on one product	Yes	n/a	Strong: full cost attribution

Why not just use BT?

Cut your call costs with BT.

You may be using another telephone company at the moment because you were promised cheaper calls. Now that we've introduced BT Together packages* with call price reductions of up to 49%, isn't it time you reviewed that promise?

Local calls are free every evening and all weekend† with BT Talk Together. Calls can last up to one hour and you can redial as often as you like. You pay just £14.50 a month (by Direct Debit or Monthly Payment Plan)† which includes your line rental.

National calls are up to 49% cheaper with BT Together packages.

International calls are up to 78% cheaper. With BT Talk Together our evening and weekend rates to Canada, Australia and the USA have been greatly reduced.

BT Talk Together is just one of the packages offering you value for money. To see how much you could be saving, call us today on **Freefone 0800 085 5296** or visit **www.bt.com**

Freefone 0800 085 5296
or visit **www.bt.com**



How much does it cost to talk for free?
NTL: 4.9p. BT: 0p

BT Bringing people together

With BT standard line rental you get up to 180 minutes* free call time a month. Free. With NTL you get free calls too. They cost 4.9p each, because NTL charge a 4.9p set up charge even on their free talk time.

Feel free to find out how to reconnect free. Call 0800 800 823 or visit BT.com

*Based on local evening calls of over 3 minutes duration. Excludes reconnection after non-payment of bill. Other conditions apply.

Calls to mobiles are up to 42% cheaper with BT than they are with Telewest. (Pleased?)

BT Bringing people together

Calls to any UK mobile network are cheaper with BT than they are with Telewest. Any questions?

You can't afford not to reconnect to BT. Call 0800 800 010 or visit BT.com

Based on comparison between BT Standard and Telewest's 0.1.007 service. Reconnection is FREE except after non-payment of bill or in previous Home Highway. Other conditions apply. *Based on analysis of BT customer calls.

- Promote BT as a 'Value for Money' telco by comparing tariffs with resellers and cable operators
- Objectives are customer acquisition/ retention and call stimulation (which could include NTS calls)
- We therefore conclude that some indirect or implicit cost causal link exists between these campaigns and NTS calls
- However, the campaigns were again oriented towards voice call products and therefore the cost causal link is considered to be too indirect or weak to warrant any cost attribution

Campaign category	Direct Cost Causality	Indirect Cost Causality	Strength of cost causal link
General promotion of the BT brand	No	Yes	Weak
Campaigns that potentially address a range of products	No	Yes	Too weak to warrant any cost attribution
Customer research/ surveys	No	Yes	Too weak to warrant any cost attribution
Reseller and reconnection campaigns	No	Yes	Too weak to warrant any cost attribution
Promotion of specific services that are highly focused on one product	Yes	n/a	Strong: full cost attribution

E.g. "Surftime" - Product 340 BUT no promotions of BT-
OLO call products in year of review!



Business Campaigns

Promotion of the new positioning of the BT brand

Campaign category	Direct Cost Causality	Indirect Cost Causality	Strength of cost causal link
General promotion of the new positioning of the BT brand for businesses	No	No	n/a
Promotion of the BT brand for businesses linked to promotion of a particular BT service	No	No	n/a
Market research	No	No	n/a
Promotion of specific services or a range of services	No	No	n/a
Sales incentive programmes for sales staff	No	Yes	Too weak to warrant any cost attribution

- 'Connections that get results'
 - Motivational guru
 - Primal scream

Press - 'You Can' campaign



Are you making the most of your IT investment?

BT knows that information technology is only as useful as you make it. That's why we are working with Cisco Systems to help thousands of small businesses make the most of their IT investments. For hardware or advice on installation and on-going support from one experienced team, *Free/one* 0800 7836306 or visit www.bt.com/sme

BT  **YOU CAN.**

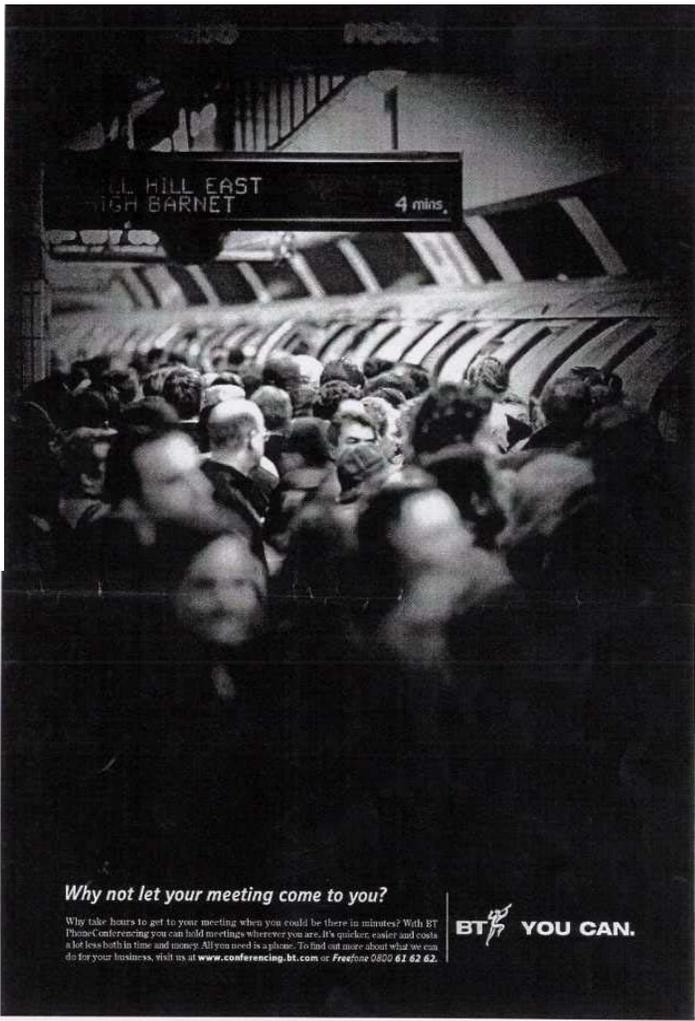


Create closer working relationships without a daily 'group hug'

Consider e-mail, video-conferencing or an intranet instead. Every week around 50,000 businesses contact BT to find how they can best be brought together to share information and ideas. To find out more **Freephone 0800 800 997** or connect to BT.com/business

BT.com/business

Connections that get results. **BT**



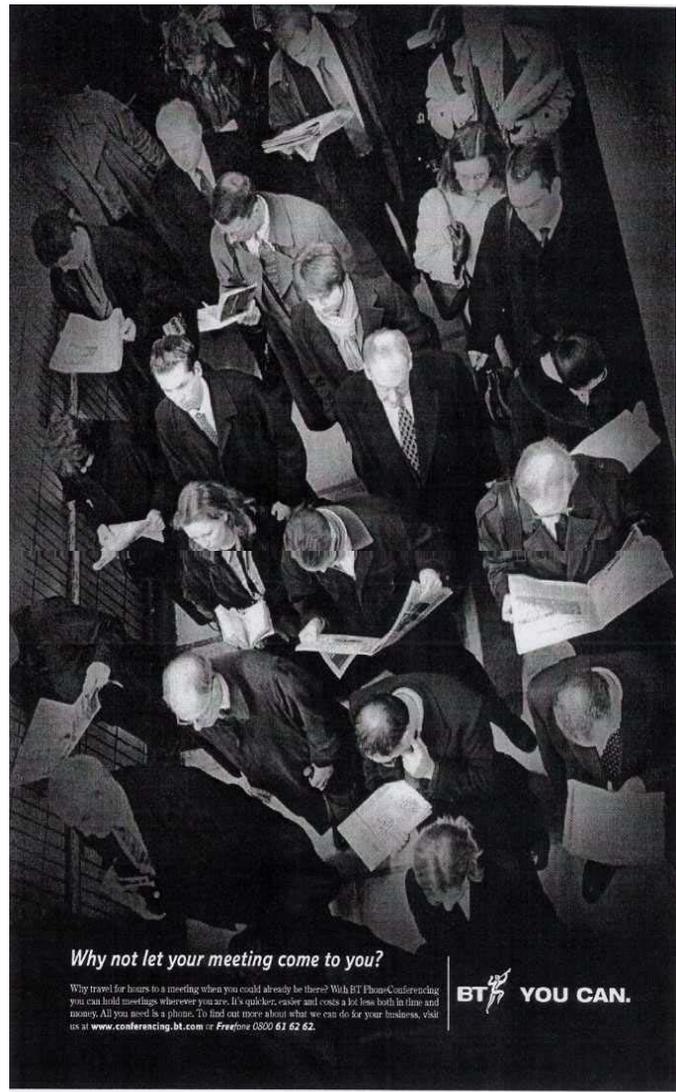
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Why take hours to get to your meeting when you could be there in minutes? With BT Phone Conferencing you can hold meetings wherever you are. It's quicker, easier and costs a lot less both in time and money. All you need is a phone. To find out more about what we can do for your business, visit us at www.conferencing.bt.com or **Freefone 0800 61 62 62**.

BT YOU CAN.

GOLDEN STUDIO
 Golden Job no 1880
 Client: British Telecom
 Order no: 06020
 Job no: BT112P2019
 Date: 07/12/04 10:40:00
 Publication: TBC

Date: 20/02/05
 Report date:
 Run on: 04
 Print: 1
 Operator: RUC
 Incentive date:



Why not let your meeting come to you?

Why travel for hours to a meeting when you could already be there? With BT Phone Conferencing you can hold meetings wherever you are. It's quicker, easier and costs a lot less both in time and money. All you need is a phone. To find out more about what we can do for your business, visit us at www.conferencing.bt.com or **Freefone 0800 61 62 62**.

BT YOU CAN.

GOLDEN STUDIO
 Golden Job no: 1829
 Client: BT
 Order no: 06470
 Job no: BT112P2019
 Date: 07/12/04
 Publication:

Date: 23/02/05
 Report date:
 Run on: 04
 Print: 1
 Operator: RUC
 Incentive date:

- Publicity promoted new positioning for BT amongst businesses (SME and Major Business channels)
- Objectives were:
 - Position BT as an “enabler”
 - Not just a telephone company but an “ICT” (Information Communications Technology) provider
 - A partner for business, a “one stop shop” for all communications and web-based solutions
- Question: Is it reasonable to state that NTS calls were, to a greater or lesser degree, causing or driving campaign costs of this kind?

- The campaign documentation and creative material does not suggest that an objective of the publicity was maximisation or stimulation of call volumes (voice or internet), of which NTS calls may be a part
- Campaigns promoted new services (e.g. end-to-end solutions, systems integration, secure networks, web-enablement, video-conferencing) which businesses may not have been aware were available from BT
- We therefore conclude that no cost causal link exists between these publicity campaigns and NTS calls

Campaign category	Direct Cost Causality	Indirect Cost Causality	Strength of cost causal link
General promotion of the new positioning of the BT brand for businesses	No	No	n/a
Promotion of the BT brand for businesses linked to promotion of a particular BT service	No	No	n/a
Market research	No	No	n/a
Promotion of specific services or a range of services	No	No	n/a
Sales incentive programmes for sales staff	No	Yes	Too weak to warrant any cost attribution

- Market research:
 - Major piece of market research was an attitudinal survey for SME's and Major Businesses
 - Market research assumed to be undertaken to support existing publicity
 - Therefore appropriate to arrive at the same conclusion for research as for the campaigns themselves (same objectives)
- Promotion of specific services or a range of services
 - Major campaign was a 'BT Communications Catalogue' aimed at driving sales of equipment to smaller end of SME market
 - Not relevant to NTS calls and therefore no cost causality

- Sales incentive programme:
 - Major cost included prestige travel awards for most successful salesmen
 - Sales staff revenue and contract value targets could be achieved through selling any products within the BT range, including, which would include NTS calls
 - We therefore accept that there is an indirect or implicit cost causal link between NTS calls and this type of ‘campaign’ cost
 - Our view is that the link is too weak to warrant any cost attribution, however, due to the fact that the focus of the salesmen’s activity is likely to be in line with BT’s business advertising



Sales Support - Major Business channel

- Call centre staff handling orders or change requests
- Direct cost causality with products
- Cost attribution based on activity surveys conducted by BT
- Brand Finance recommends no change



SME sales force

- Desk and field sales staff and admin support
- Targets assumed not to be set at individual product level, hence no direct cost causality
- It is likely that sales force will focus in the same areas as BT's business publicity such that the same cost causality conclusions would apply
- Insufficient insight into the activities of the sales force could be obtained from BT to conclude no indirect or implicit cost causality exists
- However, we expect that any cost causality would be too weak to warrant any cost attribution to BT-OLO NTS call products



Review of alternative cost attribution methodologies

- Cost attribution methodology used should best reflect BT's RAPs and strength of cost causal link considered to exist
- Six options considered:
 - Up-front agreement between BT and OLOs
 - Volumes
 - Margins
 - Revenues resulting from BT advertising (i.e. what percentage of revenues earned can be attributed to BT as opposed to OLO/ Service Provider marketing)
 - Net revenues retained by BT (after out-payments to OLOs)
 - Gross (billed) revenues (existing approach)

- Pros:
 - A direct cost causal link between NTS calls and BT's publicity costs would be achieved were BT and the OLOs to agree in advance of every campaign the amount of the campaign costs to be borne by NTS calls
- Cons:
 - Unlikely to be practical or workable

- Pros:
 - Help limit the seemingly unfair allocation of BT publicity costs to high value products, such as PRS calls, which do not appear to drive marketing costs in the same proportion to which they currently bear the costs
- Cons:
 - The relative differences in volumes between products are unlikely to best reflect the relative differences in strength of the cost causal link between each product and BT's marketing activity
 - This is due to the fact that the relative differences in volumes between products differ substantially from the relative differences in profits earned by BT

- Pros:
 - Likely to better reflect the relative differences in the strength in cost causal links between products and BT's marketing activity
- Cons:
 - Numerous ways of measuring margin which could produce quite significantly different results
 - Calculation of margins is open to the exercise of professional judgement (less objective than revenues)
 - Ignores product life-cycle issues where unprofitable product is marketed heavily in early stages of life-cycle
 - Results in no cost attribution to line rentals (a loss-leading product), ignoring the fact that it is critical to BT to sell line rentals in order to enable it to sell its other profitable products - in this case cost attribution would not reflect cost causality

- Using econometric analysis to enable the proportion of total revenues resulting from BT advertising to be determined
- Pros:
 - 'Fair'
 - Assuming analysis shows a low proportion of revenue resulting from BT publicity then likely to better reflect actual strength of cost causal link than current approach
- Cons:
 - Potentially costly and time consuming
 - Particularly if 'below the line' data was gathered for a complete picture of the marketing environment (which would likely be necessary)

- i.e. Those NTS revenues which BT retains after making whatever out-payments are required to the OLOs
- Pros:
 - Better reflects strength of the cost causal link between NTS calls and BT's marketing activity than billed revenues
 - “Apples with apples” comparison across the product set (for other products revenues billed by BT = revenues retained by BT)
 - Would not require significant adjustment to current calculations
- Cons:
 - Some circularity in the process by which the cost attributed is calculated (net revenues used to calculate NTS Retail Uplift, which in turn is an element of the net revenues figure)
 - This can be resolved in a number of ways which will not materially impact the outcome

- We therefore recommend 'Net Revenues to BT' be used to attribute marketing and sales costs to BT-OLO NTS call products
 - Practical
 - Easy to transition to
 - Objective
 - Avoids complications of margin approach (conceptually our preferred approach)



Externalities

- An additional piece of work outside of the scope of the main review of cost attribution
- Brand Finance was asked to consider the impact of Oftcom's 'Principles of Cost Recovery', specifically the principle of 'Distribution of Benefits', which states:
- 'Costs should be recovered from the beneficiaries especially where there are externalities'

- The ‘externalities’ argument had been raised as possible justification for cost recovery from OLOs of a proportion of BT’s publicity costs
- The question was therefore whether BT’s advertising resulted in additional NTS volumes and revenues, which benefited OLOs
- (Brand Finance was not specifically asked to comment on whether BT benefited from OLO advertising)

- In our opinion, NTS call volume is primarily driven by two factors:
 - OLO/ Service Provider marketing
 - Functional need
- In the case of PRS calls, such as chat lines, call volumes are largely driven by OLO/ Service Provider marketing
- In the case of functional services, such as train timetable information provision or internet access, demand is largely driven by the requirement for that service

- Our opinion is that the above two factors are responsible for driving the majority of NTS call volumes
- BT's publicity campaigns, being more general in nature, will not stimulate volumes to the same extent as specific, targeted, publicity campaigns from OLOs/ Service Providers
- BT was not able to provide market research evidence to support its claims that its advertising would stimulate NTS calls specifically
- Brand Finance was able to review Service Provider research which demonstrated a strong take-up of services after specific Service Provider campaigns

- OLOs/ Service Providers will benefit to a limited extent from some of BT's consumer publicity campaigns, i.e. 'externalities' do exist in some instances
- However, considering the much greater impact on call volumes likely to exist as a result of the other drivers previously discussed, we consider these benefits to be very small
- The fact that OLO/ Service Provider advertising is a major driver of NTS calls also raises the question of whether there is a 'reverse' externality operating. i.e. The call stimulation effects of the highly specific OLO/ Service Provider advertising are such that Ofcom should be considering whether BT is benefiting from an (OLO paid for) externality!!

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“Revenue (including transfer charges), costs (including transfer charges), assets and liabilities shall be attributed to cost components, services and businesses or disaggregated businesses in accordance with the activities which cause the revenues to be earned or costs to be incurred or the assets to be acquired or liabilities to be incurred.

Where it is not possible to attribute revenues, costs, assets and liabilities in accordance with the preceding paragraph, the attribution shall be such as to present fairly the revenues, costs, assets and liabilities accounted for in the Financial Statement for each Business as disaggregated, and to present fairly a comparison between the Businesses as disaggregated.”