Moving up the value chain

According to **Stuart Horwood**, managing director of BT Wholesale Markets, the only way to make a living from wholesale is to diversify the product portfolio as much as possible.

Wholesale is better than no sale. That's the view of most telcos in these cash-strapped days, even if it does carry the risk of giving a helping hand to would-be rivals.

And one company making a success out of this philosophy is BT Wholesale. "We're now probably the fastest growing division in BT," says Stuart Horwood, managing director of Wholesale Markets (the sales, service and marketing arm of BT Wholesale). "We generate around 40 per cent of the company's [Future BT] overall revenue, and about 70 per cent of its operating profit."

Stuart Horwood ▲
managing director, BT Wholesale Markets

Horwood has every right to take pride in this achievement. In 1996 he was appointed to head up BT Wholesale Markets (then known as BT Carrier Services) when it was a relatively obscure entity within the BT organisation and whose existence was primarily seen as a means to satisfy the UK regulator. Today, the BT Wholesale organisation employs more than 30,000 people and posted revenues of £2.9 bn (€4.64 bn) for the quarter ended 30 June 2001 (the BT Group turnover for the same period was £5.45 bn/€8.72 bn).

How did this remarkable transformation come about? "The change came when we recognised that there was a business opportunity in the wholesale market," explains Horwood. "So, rather than simply being a reactive organisation we became a proactive one. From 1996 onwards, we have actively marketed products and services to a range of OLOs [other licensed operators] and service providers."

And realising that traditional network services would quickly become commoditised, BT Wholesale's over-riding goal has been to become a one-stop shop for a diverse range of telecoms products and services. To that end, it secured board approval in 1999 to wholesale the entire BT portfolio. "At that time [1999] our revenues had doubled since 1996, but we realised we had to move up the value chain into solutions and business services if we were to be successful," says Horwood.

BT Wholesale has entered into a string of partnerships with vendors and other service providers — such as Telsis, Nortel, Cisco, Lucent, Dell and Unisys — allowing it to offer niche services. Systems integration, information flow management, consultancy and outsourcing are all part of the BT Wholesale portfolio. "We've got a full range of products and services which go well beyond lines and calls," stresses Horwood.

Indeed. BT Wholesale has now over 3,500 products and can also offer its customers international services through BT Ignite (a provider of data services in Europe) and Concert (BT's global joint venture with AT&T). However, at the time of going to press (mid-August) BT was considering its options with respect to Concert, a joint venture which has suffered heavy losses.

Although the majority of BT Wholesale's revenue comes from internal customers (ie, from other parts of the BT Group) it still managed to notch up £867 m (€1.38 bn) from its 500 external customers (which include Concert) during the quarter ended 30 June this year. "About 90 per cent of our revenue comes from around ten per cent of our customers," says Horwood, "but as more operators enter the market we will become less dependent on just a few of our customers. That will be good for us."

Shortly after the appointment of Sir Christopher Bland as BT's chairman in May 2001, it was announced that the mobile interests of BT (known as BT Wireless) would be demerged by the end of the year and that Future BT would act as a holding company for BT Wholesale, BT Retail, BT Ignite and BT Openworld. Each now operates autonomously under Future BT with their own P&L accounts. Moreover, as part of the restructuring, BT Wholesale becomes fully responsible for DSL rollout and LLU (local loop unbundling) progress in the UK.

But with only a handful of unbundled lines so far, and ADSL penetration covering no more than 60 per cent of UK households, how does BT Wholesale answer the charge that it has been dragging its feet on this issue? "We have met every objective and deadline set by the regulator [Oftel]. If there is a problem [for CLECs], then they should take it up with Oftel, not us," says Horwood.

One complaint levied by the CLECs and ISPs at BT Wholesale is that its IPStream 500 wholesale service (which allows downstream speeds of 500Mbps over ADSL) is too expensive at £35.00 (€56) per customer per month. With retail services at around £39.99 (€64), the margins are clearly tight, prompting Freeserve, the UK's largest ISP, to increase the monthly charges for its ADSL service by £10 to £49.99 (€80) in July 2001. This month, BT Wholesale managed to reduce the IPStream 500 charges by £5 to £30 (€48), indicating that its price-reduction intentions are serious. For its part, BT Wholesale claims that the costs are as high as they are since it still needs to send out an engineer to the customer's premise to install the ADSL modem. It is BT Wholesale's intention to introduce self-installation before the end of this year, however, which should give it another opportunity to review its prices.

Because narrow margins are now the norm in the wholesale business, it's vital that costs are kept to a minimum. For BT Wholesale, this has meant emphasis on improving its OSSs (operations support systems), particularly the front-office systems for capturing and processing orders. "Ten of our top customers are on our own system [known as e.Co Order], which we have developed over the last four years. It enables bulk ordering on a zero- or one-touch provisioning basis right through to our service centres," says Horwood. "That translates into 70 per cent of business volume today." By the end of this year, BT Wholesale intends to launch its e.Co Repair service, which is a fully automated system that enables customers to report and track faults online.

"Our target for this year is have an increase of 13-15 per cent in cost-efficiency," continues Horwood. "We're also looking to increase our CAGR, which already stands at 39 per cent growth. Despite these difficult targets, we're positive we can achieve them."

— Ken Wieland