

The competitiveness of European Telecommunications Operators in the environment of changing market structures

A comparison of
British Telecom, France Télécom and Deutsche Telekom

submitted by

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ABSTRACT

Study Background

Market structures in telecommunications have been changing rapidly towards open competition. Most telecommunications operators, however, were organised as state monopolies in the past which ruled out competitive behaviour. In order to keep up with private competitors they were forced to adjust their internal structures accordingly.

The study worked out by the author in November 1994 compares three European operators, *British Telecom*, *France Télécom* and *Deutsche Telekom*, and evaluates their international competitiveness along various dimensions. The study shows that only through **privatisation** an operator can establish a competitive structure. However, it also stresses the necessity of an effective **regulation** to ensure that the risk of merely transforming a state monopoly into a private monopoly is excluded. (A summary of the detailed results is provided in the attached tables).

Results

The example of *British Telecom* shows that privatisation has led to higher competitiveness and at the same time points out to the vital role of a regulation authority. The low tariffs and outstanding quality of services shown in the attached tables are due to regulation, for shortly after privatisation tariffs had risen and quality had impoverished. Only after the establishment of OFTEL it became possible to drive down prices and bring up quality to the current high standard. As it can also be seen from the tables, BT has the highest ratio of equity capital to company capital (76%) and is considered the most attractive partner for international strategic alliances.

Deutsche Telekom and *France Télécom*, however, proved far less competitive than British Telecom. *Deutsche Telekom's* tariffs are too high and quality is poor. Because of its low percentage of equity capital the company lacks financial independence and is not regarded as creditworthy. But chances are that the privatisation process embarked on in 1989 will transform the company into a powerful competitor. With the exception of its highly developed network, *France Télécom* fared only slightly better than Deutsche Telekom. It has thus also worked out plans for a (partial) privatisation.

Conclusions

The results of the study imply that British Telecom's competitive edge is due to privatisation and regulation. It can thus be concluded that the best way to prepare a telecommunications operator for a competitive market structure is by privatisation which in turn leads to competition and to lower tariffs, a higher quality, a better level of supply as well as a higher productivity of capital. To ensure competition, however, the existence of a (state independent) regulation authority is essential, at least until full competition has been established.

Criteria of Competitiveness

	DBP Telekom	France Télécom	British Telecom
Telephone tariffs			
Local calls and long-distance calls	local calls are cross-subsidised by long-distance calls, but tariffs are being reformed in both countries.		tariffs for local calls are comparatively high, whereas long-distance calls are much cheaper => BT fixes tariffs on the basis of the actual costs.
Business and residential telephone charges	much higher than those charged in the countries compared (10.9% resp. 29.6% above OECD average)	slightly lower than those charged by DBP Telekom, but higher than BT tariffs (residential customers are 0.9% above, business customers 9.2% below OECD average)	until 1992, higher charges for residential customers than France Télécom and DBP Telekom; since 1993, however, charges have been the lowest of the three compared countries
International call charges	higher than in Britain, but lower than in France	on average the highest of the three countries	on average, the lowest (BT as a “global player”)
Fixed charges, usage charges	The ratio of fixed charges to total charges is lower than at BT, as fixed charges have been kept lower in comparison with usage charges => charges are not being fixed on the basis of	actually incurred costs	the ratio of fixed charges to total charges is higher than in France and Germany, as BT fixes prices on the basis of actually incurred costs.
Mobile communications charges	medium	slightly higher than those charged by DBP Telekom	lowest (as full competition has already been established on the market)
Based line charges	highest	lower than in Germany; but some charges more than double those of British Telecom	lowest (because of full competition)

	DBP Telekom	France Télécom	British Telecom
Quality of services	medium	very high	very high
Infrastructure	fully established	fully established	fully established
Size and prospects of growth	the world's third-largest telephone company	the world's fourth-largest telephone company	the world's fifth-largest telephone company
Number of main lines per 100 inhabitants	lowest (due to the backwardness of the new federal states)	highest	medium
Level of supply (as compared to GNP)	lowest	medium	highest (the most innovative telecommunications market)
Number of calls per main line	In comparison with other countries (mainly the USA) the number of calls per main line is low in all three countries		
Revenues	high due to high charges; mainly resulting from the public switched telephone network	medium mainly resulting from the public switched telephone network	"lower" revenues due to lower tariffs; due to a more diversified range of services a smaller part of revenues comes from services provided over the public switched telephone network
Percentage of main lines connected to digital exchanges	30%	86%	64%
Investment	investment expenditure is too high because of high purchasing costs	Since its peak in the 1970s, investment has been continually reduced; due to the formerly high investment level, FT has one of the world's most developed networks	the highest <i>actual</i> amount of investment because of lower purchasing costs

	DBP Telekom	France Télécom	British Telecom
Productivity			
Productivity of capital	lowest	medium	highest
Productivity of labour	Compared with other countries, the productivity of labour is low in all three countries as resources are left unused		
R & D expenditure	1,5 % of turnover = DM 910 million; DBP pays 10% of the industry's R&D expenditure; due to a change in purchasing policies the company's R&D costs have been reduced	4 % of turnover = about DM 1,483 million; France Télécom pays 60% of the industry's R&D expenditure	1,9 % of turnover = DM 658 million; British Telecom pays 32% of the industry's R&D expenditure
Organisation structure	transformation into a divisional organisation structure with regional branches	the organisation structure has been flattened to three hierarchies	BT was decentralised into only three profit centres in 1990.
Ratio of equity capital to company capital	lowest (22%)	the actual loan capital is higher than registered on the balance sheet, as company debts are treated as state debts and thus do not appear in the annual accounts	highest (76%)
Strategic alliances	foreign investments are not provided for by the respective national law; in both companies, alliances can only be concluded through subsidiaries which cannot easily make strategic decisions		BT's high percentage of equity capital and its financial independence make the company more attractive as an international strategic partner
Level of competition	voice services and network monopolies; but markets have been opened to competition for telephone sets and VAS.		open competition

- Main sources:**
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