O'Brien Shares Some Vision And Experience

Entrepreneur Denis O'Brien, one of the most successful people in Ireland's communications market over the past decade sets out his thoughts on the future of the market in a major interview with Comms-Online's MD Cormac Reid

Denis O'Brien is a graduate of University College Dublin (B.A. in History and Politics) and Boston College (MBA in Corporate Finance)

In 1991, he established Esat Telecom in Ireland, which became the first company to compete against the former state-owned telephone company, Telecom Eireann (now eircom). He also established Esat Digifone Limited and won Ireland's second GSM license, to compete against the then state-owned telephone company's mobile section, Eircell. In January 2000, Mr. O'Brien sold Esat Telecom Group plc to British Telecom Group plc for US$2.9 billion.

In November 1998, Mr. O'Brien was voted Ireland's inaugural "Entrepreneur of the Year" in the global competition organised and sponsored by Ernst & Young.

In June 1999, the Taoiseach Mr. Bertie Ahern, appointed Mr. O'Brien as Chairman of the Organising Committee of the 2003 Special Olympics World Summer Games, which were held in Dublin in June 2003 - and for the first time in its history outside of the USA. The games were the largest sporting event in the world in 2003 and included athletes from almost every country in the world. Mr. O'Brien is a director and shareholder of numerous other companies including the Bank of Ireland, Digicel Caribbean Ltd., Media Lab Europe, Quinta do Lago S.A. (Portugal), and Communicorp Group Limited (Ireland). Mr. O'Brien co-financed the establishment of VersaTel Telecom (Holland's second telephone company)

When one sits down with an individual of that experience it is difficult to document his true passion and vigour for the business of Ireland and telecoms in general, here is a snap shot of what was a very interesting conversation.

CR: Where would you position Ireland in relation to the rest of Europe, Asia and Africa with regard to telecommunications

DOB: Probably a bit better than most countries in Europe because, in Ireland we have a strong number two player , who's Fibre based network is fully built, but if you take Spain, Portugal, Italy and Germany, the number two player is very weak and the number three player is even weaker, whereas in Ireland we have a strong player in Esat BT with 25% of the business market. They have a high capacity Backbone Network together with a fibre metropolitan network in each of the major cities, and have a large share of the fixed line voice and data market. My theory on all of this is you really need to re-draw the whole game here because at the moment, you have Eircom with a network that is pre-dominantly copper based, which they are trying to boost via DSL, and then you've got Esat BT who have a pre-dominantly fibre based network appealing to the larger customers. But, if you want to make a homogeneous market with broadband for everybody, you need to just forget about those two models or take bits of them and start all over again. We should pretend that we are way back in the 1890's and build a totally new network. I think there is an opportunity right now for a new operator to maybe raise about €2 Billion, half of it in equity and half of it in long terms bonds, and build out to 80% of homes and bring 8mbps through the door … then you really have a potential information society. This new operator could also use the 19 Metropolitan Network Rings the Government is building.

CR: What can Ireland learn from your own personal international experience?

DOB: I think Ireland can learn from a regulatory point of view, for instance charging for 3G licenses is nonsense. I don't blame that on Etain Doyle. I think that the 'powers that be', made a decision that they should charge up to €100million for a license. That's really a tax on creating an information society, so you might as well tax everyone x number of euros every year to say nothing of the fact that 3G is crap technology. 3G is not doing what it said it would do and everybody has been conned into it. The major kit manufacturers persuaded Brussels to force member states to issue 3G License and the Governments saw it as a revenue generating exercise. I must say that when the licenses were being auctioned, I thought that Vodafone and O2 could have been more assertive. Meteor rightly said that they weren't applying for a license and the only guy in the last three years in Europe who was really brave and who stood up to a Government is a guy called Mark Bouygues who is the number three player in France. He said "I am not going into this charade of an auction to pay billions of Euro for a license that will never ever come close to generating enough return on investment". Where we are now in the telecom business is that the whole industry has been destroyed because of 3G. In 2000 and 2001 all these mobile operators were well funded and had great balance sheets. All the PTT's and the publicaly quoted mobile operators like Wicklow sheep went into the auctions and paid 5 or 6 billion for a license. It is just the craziest thing that I have ever seen. When the rating agencies such as S&P started to evaluate the 3G buying binge of PTT and public quoted companies they were shocked. Then all the No. 2 Fixed players suddenly came into the spotlight. Most of them had a lot of junk bond debt and ultimately their share price collapsed. The debt and equity market closed overnight and suddenly there were no fully funded No 2 players out there and they got crunched!

CR: What's the impact on Ireland?

DOB: Well the large players are trying to cut their cloth worldwide. In Ireland the 2G networks are capex constrained and quality for the consumer has dramatically declined. If you drive from Dublin to the airport you face calls being blocked, dropped calls, the quality of networks have declined in the last number of years.

CR: Well, we are all getting used to it unfortunately.

DOB: Meteor has a network where obviously they don't have as many customers and they probably don't experience the same level of blockages. Right now GSM networks in developing countries like Jamaica are better than in Dublin.

CR: Are there any lessons to be learnt from the mobile market to the fixed line market like ComReg; can they stimulate the competition locally as they have tried to do?

DOB: I think they can stimulate it locally by insisting on roaming, for instance Meteor should be allowed to roam on both networks, then you have real competition and of course number portability is going to increase competition. This is going to be a big issue for all the Networks. There should also be big fines anti-competitive behaviour.

CR: What services are the way forward for the Telco's - Is voice over IP being missed by the local operators?

DOB: I am not sure that I am so sold on VOIP, voice is a junk business now everybody has cheaper rates than the next guy. If you talk to any of the non PTT's of Europe [companies] that are providing voice, their margins are somewhere around 15 – 18%. That is a miserable return for providing billing, customer care, selling, and for the whole infrastructure, it won't cover the costs. The only good business is the data business, voice is so cheap that putting it over IP makes it a bit more competitive but its still a crap business model.

CR: I find in my own personal experience, dealing with the carriers that the voice business is very much the hook that they need to have the relationship with their customers otherwise they are letting the competitor through the door

DOB: If you want to imbed yourself with a customer, there is only one way to do that and that is to put fibre into the spleen of a business. Then it will be difficult for a company to move to another provider. That is why margins are running around 60 – 70% on data.

CR: Do you believe XDSL is a sufficient broadband service offering?

DOB: I think it's never going to do anything other than high (relatively!) speed internet access and there is only one way forward and build a network from scratch. Strategically this is the right time to do it because Eircom have €2 billion of debt so they can not compete on a capex basis i.e. they can't afford to match and follow. It is all very well building new broadband networks to the major towns but unless you are going to bring it to the next stage and bring it in to all the business and homes in the area you might as well build a motor way into a bog.

CR: I see that Minister Dermot Ahern is looking to place a further levy on the carriers for schools, does that seem to be the right way?

DOB: I think since he took over as minister he has been proactive and he understands the issues. Also his Secretary General Brendan Touhy knows exactly what has to be done, but putting on a levy is not the right way forward.

CR: Have the government at this stage had their fingers burnt with the Global Crossing investment?

DOB: That was a risk, taken at a particular time, and nobody should whinge about Global Crossing. We lost a few bob as a country but we took the right decision with the information that was available, i.e. broadband demand was supposedly going to explode coming out of Ireland.

Compared to prices for broadband capacity now, it was a high price but on the other hand they made the right decision, we needed capacity to attract further I.T. inward investment.

CR: Do you believe that the hosting services are going to become more prevalent; I mean the managed services the co-lo services, the hosting?

DOB: I think post 9-11 the whole business of disaster recovery to off site locations is a growing market. You don't need to be in a Telco to be in that game. Right now it is a commodity business where three years ago it was a very sophisticated high margin business, and now it is the reverse of that because there are so many host centres built and they are between half and three quarters empty. It is a buyers market. In three or four years time it won't be a buyers market, because all of these centres will be full. So it is a bit like the property market you need to take a long-term view on it and timing is everything.

CR: With regard to the Government's rollout of the nineteen metropolitan networks, do you think that the markets outside of Dublin will attract providers?

DOB: I think it is a good initiative, a brave one, it is a gamble, and it is the right decision to make. If the Cap-Ex budgets in Eircom cannot go that extra distance to serve these towns, with broadband, then the Government will have to do it.

CR: With many carriers that have filed for bankruptcy and some have come out the other end, do you believe that fallout is nearing an end?

DOB: Nearly, there is a few more I think that will happen. But, if you take VersaTel, they had a recap where the original equity players diluted to 20% of the equity but it is now earnings positive, has cash on its balance sheet and is buying up distressed operators in the Benelux region and Northern Germany. Now it's a pretty good model. It has come full circle. Versatel is the strongest No 2 player in the Benelux region and a real player in those markets.

CR: Do you think there is a good opportunity to buy these weaker carriers?

DOB: Yes if you believe in the second carrier model and believe that you can make a profit. Take MCI. They were the number two in the US, now look at the problems they are having with their accounting, but the fundamental question is whether they as a player can get a decent return on investment as a number two guy, in what is now a mostly commodity style U.S. market.

Being the number two player in a 2G mobile market is a much clearer investment opportunity, because being number two you have a great chance. In Europe the fixed line market is going to have to consolidate and I can see a grand merger between VersaTel and maybe JazzTel and some of the other fixed line operators in France and Germany. None of them are individually that strong at the moment, but coming together they could get economies of scale in network, IT/Billing and cross border sales. Personally, I am not touching Telecoms in Europe right now.

CR: How do you think the single billing when it comes out will affect the local market?

DOB: I don't think it will create any problem at all. I don't believe it has been a blocker for customers. You turn that to your advantage because sometimes the only thing that is different between carriers is the quality of the billing platform so billing in a commodity market can be a big strategic advantage, you can already see that in the cellular business. The products and packages that you can go in with by having a flexible billing solution will give you a great advantage.

CR: I am familiar with how well "Digicel" in the Caribbean is going at this stage and the significant growth path – was that the foresight of seeing a good opportunity or was there better technologies used?

DOB: We were all unemployed! We just looked around the world and asked ourselves where the monopolies existed in the cellular market? Cable & Wireless were the only game in town for cellular in the Caribbean. In the last two years the whole market has de-regulated and now they have three new licenses in most of the Caribbean countries of which Digicel has one. There are three licenses in Jamaica where we (Digicel) are the number one player with 800,000 customers. We passed out C&W in less than a year. There is phenomenal demand for mobile because people love to talk and previously could not afford to buy a cellular phone as they were being charged extortionate amounts for calls. In St Vincent and the Grenadines C&W were charging $1.30 for calls to New York per minute (in minute instalments), and no per second billing. When we launched there we got 40,000 customers in St Vincent's out of a population of 110,000 after seven weeks!

CR: That a nice bit of business you've got going there!

DOB: That is the equivalent of 35% of the Irish market in seven weeks!! In the next 3 months we will add Grenada, Barbados and Aruba to our Network in Jamaica, St. Vincent and St. Lucia.

Prices in Ireland on the fixed line side are quite competitive compared with the rest of Europe. People are giving out about the price of broadband but this is all changing. It's just the mobile market that has not changed at all. Prices are still high.

CR: I know, the prices from the cellular operators are the singularly most expensive product to the fixed line carriers that is fixed to mobile. I guess it suits the mobile operators.

DOB: Yes it does. The Regulators are trying to reduce fixed to mobile fees charged by mobile operators. The result is that mobile operators like Orange just bumped up their prices on certain calls by 5p per minute. They are punishing the Regulator for interfering in their business!!

CR: So, Denis what's the next big thing?

DOB: For me it's building Digicel's cellular operations in countries that don't have competition – cellular is where it is at and it is where our team has deep experience.

We have six countries built with another six to go subject to licensing. After that i.e. end of 2004, God only knows what will happen!