

# City Carrier - A successful business model in Germany ? !

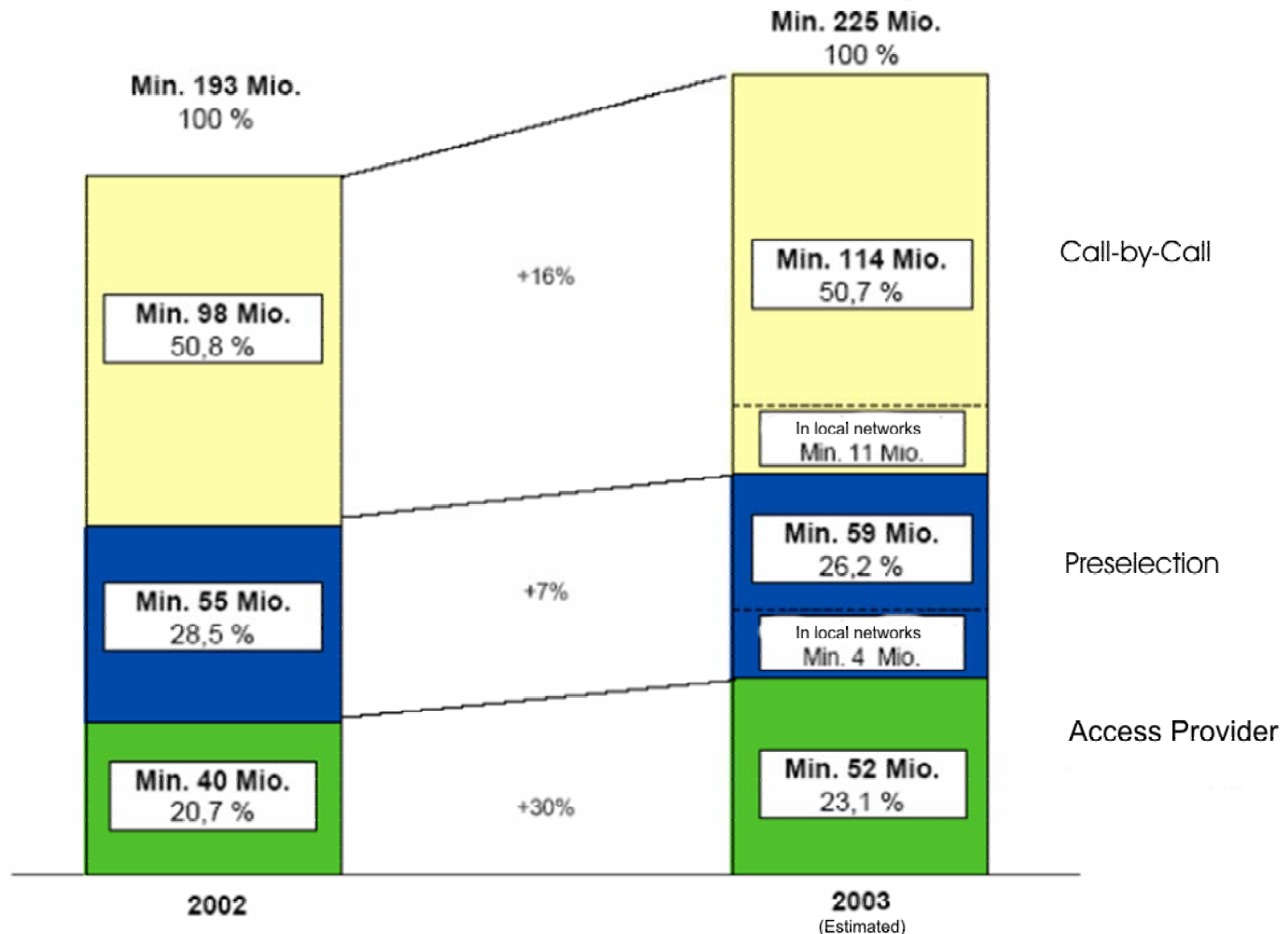
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IDATE-Seminar, The Place of the Local Authorities in the Telecom Networks and  
Services Deployment - Experiences and Business Models in Europe

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# Market development

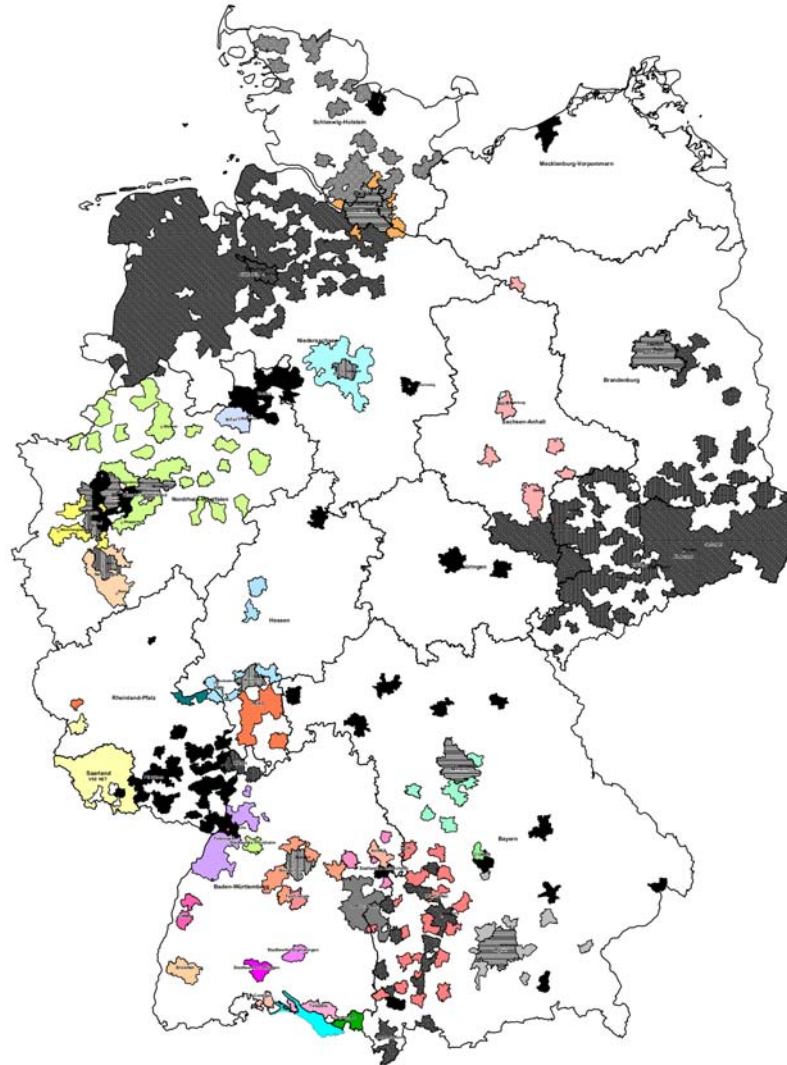


# City Carrier in Germany

- About 70 infrastructure-based city carriers in Germany
- Regional focus, municipal areas and further expansion to the surrounding areas
- Great variance with regard to size
  - The turnover is considerably less than 50 mio. Euros for more than 90 per cent of the city carriers. The number of employees is less than 100.
  - Only a few city carriers generate turnovers of more than 100 mio. Euros (Versatel-Group, Tropolys-Group, Ewetel, Netcologne, Hansenet, ISIS). These companies have up to 700 employees.
- Till October 2003 RegTP has issued 187 licenses for voice telephony on the basis of self-operated telecommunications networks. About 100 providers offer voice telephone services over their own core and access networks, approximately 2/3 of them are city carriers

- City carriers usually have regional licenses of class 3 (transmission lines) and class 4 (voice telephony) according to their regional presence.
- Regional areas are often:
  - Federal states
  - Administrative districts (Landkreis)
  - Cities
- Only 10 per cent of the city carriers have a nationwide voice license (z.B. Ewetel, Heag Medianet, Komtel, Tesion).

# Coverage of City Carriers



## § 14 Structural separation

- Companies having significant market power in other markets than telecommunications have to provide telecommunications services in legally separated entities
- Relevant for (local) utilities (electricity, gas and water companies)
- Structural separation not necessary for the provision of dark fibre, ducts or other intermediate products
- Potentially very relevant in Powerline Communications
- Answer to critical discussion on the market entry of energy companies into telecommunications
- In practice not a relevant restriction because coherent with normal business behaviour

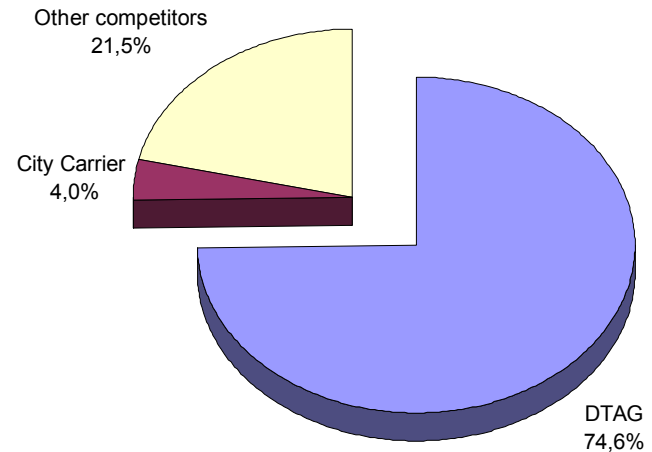
## § 50 Rights of way

- Public ways to be used by telecom operators are free of charge
- Cabling needs approval by local authorities
- If local authorities are directly or indirectly engaged as telecom operators regulatory authority gives approval for (local) cabling

# Revenues and market shares of City Carrier

- Revenues of city carriers reached a volume of 1.3 bn Euros in the year 2002.
- Related to the total market for TK-services this corresponds to a share of 4% in the fixed network market.
- The largest city carriers by revenues are:
  - Versatel Group 236 Mio. €
  - EweTel 143 Mio. €
  - Netcologne 122 Mio. €
  - Tropolys Group 105 Mio. €
  - Hansenet 83 Mio. €

Market Shares in the German Fixed Network Services in 2002



- Regional or municipal utility providers have often founded City Carriers
- The present ownership structure of many City Carriers still reflects this:  
Major owners:
  - Local electricity, gas and water supply companies,
  - Local / regional public banks (Stadtsparkassen).

# Changes in the ownership structure

- The changes in the ownership structures are characterized by:
  - National suppliers take majority interests in City Carriers (e.g. Arcor - ISIS, Netcom Kassel, WÜCOM).
  - City Carriers expand by the take-over of other City Carriers. For example: Tropolys-Group (14 City Carrier), Versatel-Group (4 City Carrier), Ewetel (3 City Carrier).
  - Foreign Carriers holding shares in City Carriers: Telecom Italia acquired the majority of Hamburg City Carrier Hansenet. The Finnish Carrier Elisa is the major owner of the Tropolys Group and Dutch Versatel is the equity holder of the same named Germany holding.

- The business models of City Carriers are very heterogeneous. However, the core models have in common:
  - Regional supply
  - Own infrastructure
  - Winning market share from the incumbent by service and price
- Customer focus
  - City Carrier as Full Service Supplier.
  - Focus of business customer and Carriers'-Carrier-Services, some still are focussed on the mass market model (private households)
- Infrastructure
  - Connecting main distribution frames via optical fibre
  - Local loop unbundling
  - Direct access for business customers
  - Regional optical fibre backbone
  - Easy access to local infrastructure resources (rights of way, duct, dark fibre)

- City Carriers are usually regional / local full service suppliers
- Competitive access providers on the basis of own infrastructure and ULL
- TK-Standard services
  - Access
  - Voice telephony
  - Internet access
- Leased lines, carriers carrier services
- Intelligent network services
- Special internet services
  - VPNs, Hosting, Firewall

# Trends in the business models

- Stronger concentration on business customers
- Lower infrastructure-based expansion
- Stronger focus on broadband access
- Development of new products and services (ADSL-Access)
- Business models will be less technology driven, rather “customer responsive “
- Financing bottlenecks
- Regulatory decisions are essential drivers for change in the business models
- Increasing productivity and profitability as a major strategic focus

# City carriers as DSL providers (I)

- There were about 4.0 mio. DSL lines in Germany in the middle of 2003
  - About 5% were connected by City Carriers
  - Another 2.5% by other carriers which connect customers directly
  - The remaining 92.5% or 3.7 mio. are operated by DTAG
- The City Carriers have regionally very high DSL market shares. For example:
  - Hamburg 50%
  - Köln 22%
  - Düsseldorf 13%

# City carriers as DSL providers (II)

- Relative customer growth above average
  - City Carriers +17%
  - Nationwide suppliers +12%
- Reasons:
  - City Carriers tariff rates are 12% below the mean average value of all suppliers
  - Higher bandwidth
  - High availability

# Market Reality of ULL in Germany

Total number of access lines (2002):	39,2 Mio.
Number of ULL (end of 2003):	~ 1,3 Mio.
- Market share of alternative providers:	3,3 %
- Share of City Carriers:	90 %
Number of contracts for ULL:	95
Number of MDF (DTAG):	7.900
- connected by alternative access providers	2.600
	☐ 33 %
- share of access lines addressable	~ 50 %
Market of alternative access providers by subscriber lines	
- analogue:	0,8 %
- ISDN:	7,2 %
- PMX:	16,5 %
- Market share by channel:	4,4 %

# Strength and weakness of City Carrier in competition I

## Strength

- No. 2 in local access markets
- (Potentially) sustainable infrastructure based market position
- Access to local bottleneck infrastructure
- Full service operators
- Strong local marketing approach
- Major support from owners in
  - customer base
  - customer acquisition
  - infrastructure-based resources

# Strength and weakness of City Carrier in competition II

## Weakness

- Strong dependency from wholesale services and regulatory decisions
- Low market shares
- Company size
- Access platforms for value added services

# Major Challenges for City Carriers

- Becoming EBITDA / EBIT / Cash Flow positive
- Reaching cost efficient market shares
- Motivating owners / (new) investors to further investments
- Meeting the challenge of carrier selection for local calls
- Meeting the (potential) challenge of subscriber line - resale
- Reaching minimum optimal scale of business through
  - internal growth
  - cooperation
  - holding structures



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