

Address given by

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at the 2008 MPs' Business Briefing

Tuesday 17 June 2008 in the Grand Hall, Executive Wing, Parliament Buildings

**"TRANSFORMATION - THE TELECOM NEW ZEALAND STORY"**



Members of Parliament, members of the Business and Parliament Trust, customers of Telecom New Zealand, special guests, ladies and gentlemen.

*Kia ora tatou* and good evening.

I'm impressed by such a large turnout! Outside of the debating chamber I don't think I've ever seen so many Parliamentarians assembled in one place.

And I guess it confirms that telecommunications is very much a hot topic. With Telecom in the hot seat.

Telecommunications has the power to transform our lives, for the better. That's something I'm passionate about and perhaps you have an interest too. The telecommunications industry has an impact way beyond the social chat. Modern information technology is enabled by it; our kids use it for educational resources as well as gaming; it helps us get our work done, wherever we are; Broadband is a key enabling infrastructure for the future. That's the opportunity that links all of us together

And which helps explain the transformation Telecom itself is now undergoing. We are beginning our change and it's dramatic:

- From the phone company to a broadband company
- From a closed book to an open partner
- From internal focus to customer focus

Speaking of which...

I think Telecom owes you an explanation about a number of things.

What have we been up to, and why?

When we say we're transforming, what do we mean, really?

And why should that transformation matter to New Zealand and New Zealanders?

What difference is operational separation making?

Does Telecom believe in competition, really?

When we talk about delivering fast broadband to New Zealanders, is it fast, really? How fast?

And will only people living in or near the centre of our largest cities get to benefit from this fast broadband?

How does Telecom stack up internationally?

Do customers here get good value for money?

Has Telecom changed, really?

That's quite a lot of explaining to do over the next 25 minutes!

So bear with me.

Where I come from people are straight talkers. They say what they mean, even if you might think the accents are a bit strong.

I can't change my accent, but I can promise you no spin.

**Transforming**

In a nutshell, Telecom New Zealand is transforming.

'Big deal', you might say. What telco worth its salt isn't transforming right now?

Fair enough. Developments in technology, regulation and consumer preference are driving transformation around the world.

But Telecom New Zealand is going much further and faster than others I can think of.

As of 31 March this year, Telecom was operationally separated.

That means three standalone businesses each facing their own customers. No more monolithic Telecom.

Now we're a networks business, a wholesale business, and a retail business.

The networks business is called Chorus and I'll talk more about what Chorus does shortly.

Telecom Wholesale works with Telstra Clear, Vodafone and many other providers - including Telecom retail - to help them offer calling and broadband service to their retail customers. They've been doing this for several years already and are now expanding the services and are striving to improve levels of service.

And Telecom Retail competes furiously to provide consumers with an array of services and products, from fast fixed-line broadband, to mobile data cards, to hands-free kits, to Blackberries.

We also have Gen-i. New Zealand's major provider of network and IT services to corporations and Government.

**Good for Telecom**

My mind was made up before I arrived: this operational separation into business units is good for Telecom, good for our customers

and good for New Zealand.

Why? Because our new structure removes the old crutches that propped up our business. Now each of our businesses has a very strong incentive to focus on its customers.

The legal Undertakings that shape this separation and outline our binding commitments are set out in a document more comprehensive, more detailed, and more demanding than anything equivalent elsewhere in the world.

They feature a number of important milestones Telecom is committed to meeting - including significant investment in new network.

And we are delivering on this already.

To the benefit of New Zealand and New Zealanders.

The Undertakings, or Separation agreement as it is sometime referred to, reflect a much healthier relationship between Telecom and the government. Or perhaps I should say between Telecom and Parliament, given that the plan to operationally split Telecom enjoyed near universal support across the political spectrum.

Telecom needs a strong relationship with government, and I intend to keep it that way.

Like any relationship, it might get strained from time to time - but we need to make it work.

It is too important not to.

**Good for NZ**

But let's pause for a moment...

Telecom, the 39th biggest telco in the OECD, plays a big role in New Zealand in many ways.

Our spending means others can spend. Our income means income for others.

We employ nearly 7,000 staff directly, and our main contractors employ another 3,000.

Over the past year alone we've recruited more than 1,000 people, mostly into highly-paid technical and specialist roles.

Our investment gives others the certainty, and the wherewithal, to invest to benefit their customers. Our total capital spending in the current year is forecast to touch just under \$1 billion - that's about \$3 million every day.

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With another billion the year after that, and the one after that.

Yet our prices are falling. Our average calling and access bundle prices are almost 7% lower than 1 year ago, 15% lower than two years ago, and 35% less than five years ago.

Our success helps others to succeed. We have preferred supplier arrangements in place with many companies across New Zealand – everything from software to corporate apparel!

Success for us means success for the people who depend on us: customers, staff, shareholders, suppliers and many others. At the end of the last financial year we had 50,000 New Zealand-based shareholders.

And yes, we do pay tax - more than a million dollars a day.

### The big picture

Back to our transformation. First, let me paint the big picture.

### Fast broadband

We are building a world-class broadband network that will bring faster broadband to over 80% of all New Zealand homes and businesses.

We are not talking about it, or planning it.

I mean building it. Right now.

That means providing connect speeds of between 10 megabits per second and 20 Mbps to every place with 500 or more lines.

That could be up to 10 times the speed you get now, depending on your modem, how far you are from the nearest telephone exchange, and what sort of subscription plan you've got with your internet provider.

Is 10 to 20 Mbps to over 80% of New Zealanders world-class in terms of reach and speed? You bet it is.

The programme means we are spending very large sums of money. Our fibre rollout and associated work is expected to cost \$1.4 billion over the next four years – making it the largest private sector infrastructure project in New Zealand by a country mile.

To achieve it we are bringing fibre optic cable to a nationwide network of roadside cabinets that contain the electronics for broadband.

The techies call it fibre-to-the-node. I call it fibre-to-the-village.

It means the installation of 3,600 cabinets over the next three years, all made in New Zealand.

Why do we need this fibre?

Another Scotsman, who travelled further than I've ever done, once said that you can't alter the laws of physics, Captain.

Broadband speeds get slower the longer is the length of copper between the home and

Telecom's exchanges. It's a bit like pushing water down a garden hose. If the hose is 10 metres long you will get good water pressure; if it's 5km long you get a trickle.

But thanks to a very clever technology called ADSL, we can now do amazing things with these copper lines way beyond the simple speech telephony they were originally designed for.

The latest ADSL2+ technology, which Telecom has now installed at exchanges across all of our major cities, delivers great broadband over lines several kilometres long. That's the very best technology in use in the vast majority of copper broadband lines worldwide. In the UK for example, British Telecom is only just beginning to install it.

But getting significant further improvement requires us to shorten the length of copper, the distance between the network electronics and the home, so that we can overcome the limits of the physics. That's why we have already begun to replace part of the old copper with fibre, to achieve the broadband speeds that future multi-media applications will need.

Over time this will be upgradeable with even faster electronics or even fibre all the way to the home.

Here's what I mean.

The scale of this deployment, and the connect speeds it will support, stacks up extremely well if we compare ourselves with other, much richer countries...

Something that I've noticed New Zealanders like to do almost constantly!

Deployment is now well under way.

Auckland's Pt Chevalier has been in the headlines as one of the first places to be fibred. Consumers there are already experiencing much, much faster speeds.

And now the fibre and street cabinets are popping up around New Zealand, including in Christchurch, where the cabinets are made at the Eaton factory.

### Fast enough?

Are the speeds I've talked about – 10 to 20 Mbps – fast enough? That question could be answered with another one: fast enough for what exactly?

If you only want to send email, then very low speeds are quite sufficient. We've had them in New Zealand for many years.

With higher speeds of course you can do much more and spend less time waiting for pages to download.

With speeds of 10 to 20 Mbps, which is what we are committed to delivering, you can do a staggering array of things with broadband apart from the emailing we are all used to now.

And online shopping.

And, yes, real-time gaming- if you've a mind to!

And graphic design, indeed a host of business applications.

And browse YouTube!

And potentially TV as well. Several service providers in the UK offer DVD-quality TV over 2mbit speed lines. 10-20mbits in fact offers sufficient speed for multiple streams of high definition TV. Services that are have not really been launched yet at any scale and for which there is very limited evidence of consumers' willingness to pay.

So we're already building a network that can cope with foreseeable future services, and can be upgraded to even faster speeds and fibre to the home when necessary. That seems a good plan to me.

### The fastest?

So, it's not quite the world's fastest network but it's more than enough for the world's fastest consumer applications and services.

And what is really important, we are building a network that reaches much further than most others: it goes beyond the densely populated cities to a much greater proportion of New Zealanders than is the case with fibre plans in Europe and the US.

Unquestionably it's a huge improvement on what is available to most New Zealanders at a reasonable price today.

And it's a network that will be open to all service providers. Not just Telecom.

That's the way operational separation works.

The plans for all of this have come together in the past few months.

Resource-rich Australia is still at the talking and debating stage about the sort of fibre network Telecom New Zealand has already begun to run services over.

And in Australia the issue of open access to other service providers remains a simply a dream. A dream that Telecom's Australian subsidiary, AAPT, would love to enjoy. We'd be thrilled, and much more competitive, if in Australia we had the prices, the speeds and the open access that Telstra Clear enjoys here in New Zealand.

A plea for trans-Tasman tax reform was made at this weekend's Australia – New Zealand leadership meeting. I would add the levelling of the telecommunications playing field to future debates.

### Cheap enough to turn on?

What about prices? Are New Zealanders getting a good deal?

According to the OECD, we already have the world's seventh-cheapest broadband among member countries. That's not too bad actually.

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And yet in terms of uptake – that’s customers choosing to buy the lowish-priced broadband that’s available nearly everywhere - we rank only nineteenth out of the 30 member OECD countries.

That’s up two places from two years ago. Hardly stellar but evidence we are starting to turn on to broadband. In fact we have the sixth-fastest broadband growth rate in the OECD. And I know that Telecom retail is attracting broadband subscribers at a very healthy rate.

We’d all agree that a motorway without cars to run along it is not smart. In broadband terms, these cars are applications and services. Content, in short. So, now we all need to do more to encourage the development of services and content to excite and add value for New Zealanders’ broadband experience.

It’s interesting for example that less than 1% of all retail sales in New Zealand are on-line. The Christmas sales figures from Europe are over 20%, signalling a massive difference in on-line activity that’s much more to do with the lack of services than a slow or expensive network.

This pricing sheet from US company Verizon is instructive.

Verizon is recognised as an international leader in fibre rollout.

This slide shows that Verizon does offer some high speeds – but at a very high price (US dollars).

I’d argue that Telecom’s retail offerings compare extremely favourably.

### **Fibre-to-the-home**

What about fibre-to-the-premises, a topic we’re hearing a lot about these days? Not just to the cabinet, but right to the threshold of homes and businesses? Could that really supercharge our broadband experience in a way that will lead to dramatic, long-lasting productivity improvements across the New Zealand economy?

It’s a good question, at the heart of the ongoing broadband debate, and one occupying the minds of observers here and overseas.

The newspapers are full of it.

What you might not hear about is that Telecom has already laid 20,000km of fibre across New Zealand.

Other questions that we and other members of the sector need to ask include:

Do we appreciate the complexities of building such a network?

How will it be paid for?

Who will use it?

What will they use it for?

Will it last like we want it to?

For now I’ve not seen any settled answers.

What I can say is that Telecom is working with the industry now and will continue to work with central government to help push fibre out to where it’s needed.

We’ll work with others, too, such as local government, for example through our commitment to look at public-private partnerships where local government investment might be available. We’re already doing that, as part of our commitment to leaving no stone unturned to get better broadband to more New Zealanders, wherever they live.

In the meantime Telecom’s contribution to the broadband debate is a clear one: we’re already building a fast broadband network!

### **Mobile**

This fast broadband network is not the only big network infrastructure build we have under way.

We are going flat-out to build a completely new, national coverage mobile network in just one year. It will give our customers even better coverage, better phones, PDAs and services, including the capability – at last - to roam pretty much anywhere overseas, whatever the network.

When you come back to Telecom you can even bring your 021 number with you!

The new mobile network will be operational before the end of the year, and just last week I made the first test call on it.

### **Chorus**

One of the broadest brush strokes we’ve made over the past few months has been the establishment of our Chorus business.

Chorus builds and maintains Telecom’s copper and fibre network. And make that network available for other telco providers to use.

That’s 130,000 km of copper cable, enough to stretch between here and London five times.

20,000 km of fibre optic cable.

670 telephone exchanges.

8,800 active telephone cabinets.

All of which has to be serviced by 2,500 field service technicians, 140 network engineers and support people, and just 80 management and operations staff.

That’s quite a sizeable enterprise to have up and running in just over six months.

Chorus is very much at the sharp end of the major commitments Telecom has signed up to as part of our *Undertakings*.

We are ramping up from the installation of fibre and cabinets from 90 a year to 1,200 a year, or 25 every week.

All to be delivered by the end of 2011. That’s

a very heavy demand on the men and women of Chorus.

In Singapore, with a total land area of just 16 square km, the rollout of fibre to the home will take four years.

Chorus is now working together with customers from Telecom and other providers, local government and the industry to build a world-class network for New Zealanders.

### **Seeing red**

There are some interesting signs and symbols of this...just last week many of Chorus’ senior people went about their Wellington office wearing bright red Vodafone shirts and caps.

That’s because Vodafone is a major customer of Chorus, and they were set to announce an important new initiative in the broadband area that Chorus is supporting through its unbundled local loop product.

The Chorus story has been mirrored elsewhere in Telecom over the past year.

You might not always read and hear about but believe me – we are moving fast. We have to.

Current Telecom Wholesale initiatives include its work with New Zealand telecommunications company WorldXChange to provide services across fibre in new subdivisions.

That really is fibre to the doorstep, and Telecom is helping to make it happen in a way that perfectly illustrates how operational separation is working.

### **The small picture: a range of improvements**

But we’re not moving so quickly that we’re neglecting the small brush strokes either.

Details matter to customers, whether household consumers or businesses. We don’t deserve any thanks for fast fibre services if the user experience isn’t up to scratch.

So we’re enacting a range of smaller, incremental improvements and give New Zealanders an even more compelling reason to turn onto broadband.

We have announced a partnership with the largest modem and gateway provider in the world, Thompson. This deal will make state-of-the-art modems available to Telecom’s broadband customers, to get the most from the fast fibre that we are bringing to their street.

No, Telecom’s retail offering in some cities didn’t fare so well in the recent Commerce Commission survey. We are doing something about that, so you watch future surveys with interest.

The report itself states that larger providers will always face issues that smaller ISPs won’t see - and this is the impact of

having large volumes of customers using the network at any one time.

The period covered by the report won't necessarily reflect current work and investment taking place for broadband - investment that will make a difference for all providers accessing the telecom network

### **Making mistakes**

Do Telecom people turn up at work in the morning wanting to do their best for their customers?

Of course they do! They are decent and exceptional people, from Auckland to Invercargill, just like you in this room.

But, do we get it wrong from time to time? Of course we do. We're a very large company, working with millions of customers who collectively make tens of millions of transactions every day: phone calls, text messaging, buying new devices, making bill payments, surfing the web, and much more.

But do we like getting things wrong, and annoying the hell out of customers? Hell, no!

### **New faces**

I've talked about new networks, new businesses, and other initiatives.

Telecom has new faces, too. In recent months we've appointed a new chief financial officer, a new head of retail and a chief transformation officer.

And in recognition of the important roles their businesses play in Telecom's future, the head of Telecom Wholesale and the head of our ICT business now sit at the executive table, too.

### **Making friends**

We need the right partners, too. So does any large telco on a transformational path. But a smaller operator like Telecom doesn't have the scale of resources the big telcos like AT&T or Deutsche Telecom from which to fund multiple R&D programmes or leverage multiple vendor relationships.

Our partners include technical and network specialists, call centre providers based domestically and offshore, and so on.

Our large technology and service partners include some of the world's leading companies in their respective fields: Alcatel-Lucent, Brightstar, Teletech, Tech Mahindra.

These are global players, who can choose who they want to work with. But it's clear that the power of Telecom's transformation story right now is such that these companies want to join with us.

### **Finishing what's on our plate**

If you now have the impression Telecom New Zealand has a lot on its plate, then you'd be

right!

The big workstreams I've outlined are under way concurrently.

Now here's a comparison with Telstra and with BT. What does it tell you?

It tells you that:

BT doesn't have a 3G mobile offering!

Neither BT nor Telstra has a FTTN fibre rollout in train.

BT has completed its operational separation process, Telecom's is underway as we've seen, but it's simply not on the agenda in Australia. Yet!

And with respect to the IP rollout, Telstra's plans are unclear, and BT's programme will take much longer than Telecom's by the time they are finished.

In summary, Telecom is doing all of it, all at once.

This plan is much more in a much tighter timeframe than the other large and much better-resourced telcos with whom we are often compared.

Can we deliver?

You bet. We've started already.

Telecom has now come through a period of huge uncertainty and upheaval. Now that we have a clear vision, a clear strategy and a clear operational structure, along with what I hope will be an environment that provides a degree of certainty and stability, we can get on and deliver.

### **Conclusion**

Nine months is a long time in telecommunications...

Nine months ago Telecom was not operationally separated.

Today we are three standalone businesses, each with an intense customer focus.

Last October we were barely ready to compete in the new environment provided by operational separation.

Today we are ready, and competing. And building. And helping others to compete and build, too, through the networks and services we provide to them.

A year ago the investment climate for us was beset with uncertainty. Now we know where we are going, and what we need to spend our money on. That means \$1.4 billion on the fast broadband network over the next four years.

A year ago relations between Telecom and the government were pretty testy.

Today, with our Undertakings on operational separation signed, this all-important relationship is on a much sounder footing.

A year ago the idea of Telecom staff wearing Vodafone gear during office hours, on office premises, would have been laughed at. A Christmas party joke.

Now it's all part of the customer service our Chorus business is passionate about delivering to its customers, of whom Telecom is just one.

A year ago the idea of a ubiquitous, fast broadband network for New Zealanders was a pipe dream.

Today, it's being built and it won't just serve Telecom's customers, but customers from across the industry. And it will go further than just about anywhere else.

A year ago the unbundling of Telecom's telephone exchanges, to give other customers access to our copper lines, was only being talked about.

Today many exchanges have already been opened to other providers, such as Vodafone and Orcon, enabling them to provide broadband and other services to their own customers.

A year ago Telecom's mobile technology was rapidly heading into a cul-de-sac.

Today we're completing a whole new mobile network. With phones and devices that will roam in Australia, in Europe and across the world.

A year ago Telecom had 605,000 retail and wholesale broadband customers.

Today we have close to 750,000. New Zealanders are turning onto broadband, and Telecom is helping them to do it.

I hope that at the very least you have an appreciation of the scale of our challenge.

And beyond that maybe I can look forward to your support in delivering more fundamental change at once than any other telco in the world.

Thank you.

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*Dr Paul Reynolds was appointed Chief Executive of the Telecom Group on June 28 2007, effective from 27 September 2007. His previous role was as Chief Executive of British Telecom Wholesale in the United Kingdom.*

*Paul joined British Telecom in 1983 after completing a doctorate in geology at the University of London. He has had a distinguished career, encompassing senior leadership roles in sales and marketing, strategy, information systems, broadband, and guiding British Telecom's wholesale business through the complex process of operational separation, when Openreach was created.*

*He served on British Telecom's Board of Directors from 2001. In 2006, the Telecommunications Industry Association of America awarded him its 'Global Icon' award for his leadership and innovation.*