



Welcome to ComReg's 2003 National Conference 'Get Connected'.

Many people in Ireland have started to reap the educational, business and lifestyle benefits of getting on-line. However, we have only just begun to see the benefits. We need to do more. That's why we want to stimulate demand and encourage more people to get on-line.

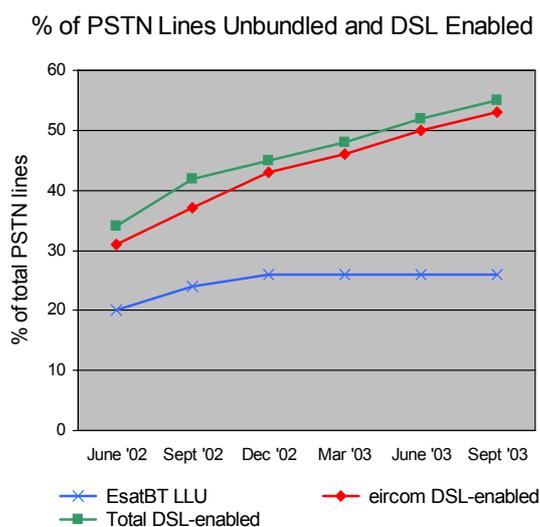
Rapid Progress, but more to do....

In just a few years, Ireland has moved rapidly, from being well behind the curve for example¹:

- in mobile, to 80% penetration and a leading position in new services:
- in licensing frameworks for new radio technologies to a leader in W. Europe:
- in digital television, to 28% penetration
- in leased line quality of service, to among the best in Western Europe

Last year our Conference reviewed the key supply and demand issues, providing information and research on broadband, which I believe made a useful contribution to identifying the problems and potential solutions needed for Ireland.

Fig 1.1: DSL Supply side



The developments during the last 12 months have been mainly on the supply side. 53% of *eircom* lines are at DSL enabled switches as compared with approximately 31% twelve months ago. EsatBT have 40 unbundled exchanges, and also offer DSL services at all *eircom* enabled switches. New entrants in the W-LAN/FWA market account for some 500 subscribers and some localised progress has been made in supplying cable modems in West Dublin. The new FWALA scheme has attracted great interest and evaluation of applications is underway.

¹ See Appendix 1 for more market statistics

The mobile market has also experienced significant development with the expansion of GPRS networks - Meteor's is just about to go live - and the coming on stream of 3G networks. IDC report that 23% of companies use mobile for Internet and ComReg's consumer survey shows 5% of mobile subscribers reporting that they bought 'on-mobile' recently.

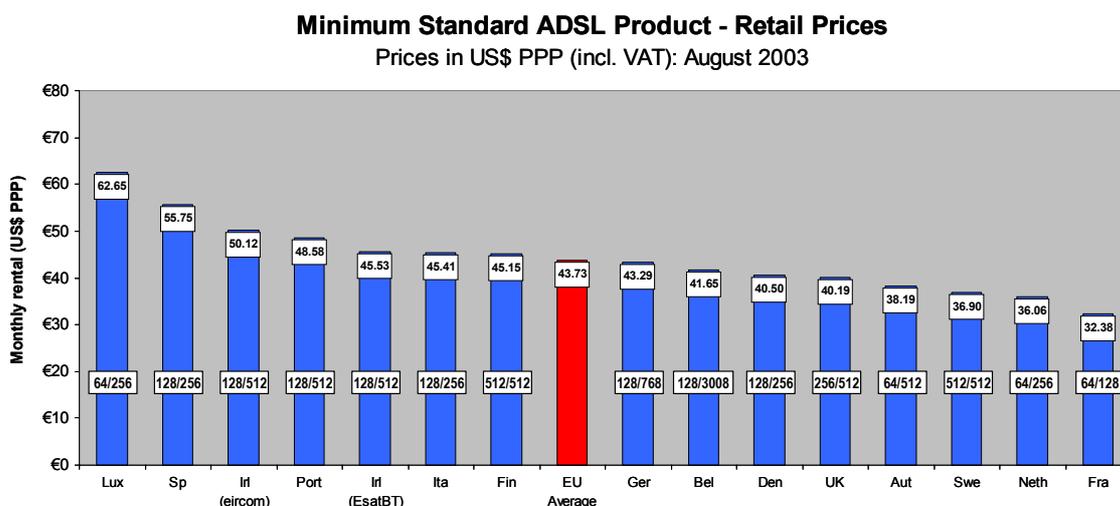
The growth of internet capable wireless networks – mobile, FWA and W-LAN are extremely important given the dispersion of the Irish population, with nearly half the population living in rural areas. The economics of providing access in Ireland are more challenging as a result and we need highly cost-effective broadband provision.

Monthly pricing for DSL, both wholesale and retail, were high this time last year - above survey estimations as to what users would pay. However, prices for entry level DSL have come down since, and EsatBT's monthly rental is now just 4% above the EU average. Combined with recently announced offers by EsatBT and *eircom* to lower the upfront cost of getting DSL installed. Will this provide the stimulus for rapid expansion?

With just 7,500 subscribers, demand levels in Ireland have lagged far below average levels in Europe. The recent price changes should help make a difference, but are there other issues which need to get attention to continue the broadband market growth? This Conference hopes to take a closer look at the issues for users in 'getting connected'.

What needs to be done? Better sales/marketing? Pricing options? Alternative technology offerings? Are there particular issues for prospective Irish purchasers which need to be addressed?

Fig 1.2: Entry Level DSL prices across Europe



Source: Analysys, Aug 2003

Why is getting connected important?

Improved productivity and competitiveness of Irish economy

Broadband is not, on its own, a solution for Irish business. It is still the missing element for some enterprises in, for example, the software or design sectors whether to enable them to trade quickly and credibly with others in their business. Quality of connection and availability of service are key factors for these groups. Many of these are in the key sectors which are expected to deliver substantially to national economic growth in the future, but there are issues about dispersion. Increasing DSL supply and in particular wireless (including mobile) solutions are beginning to make an impact, and the tech-savvy managers of such companies can play a useful role in gathering support for DSL upgrades or in introducing wireless in a locality. There needs to be substantial take-up to pay for supply over the longer term, and the history of DSL pricing in Ireland makes it clear that there are definite limits on what will be paid by Internet users generally.

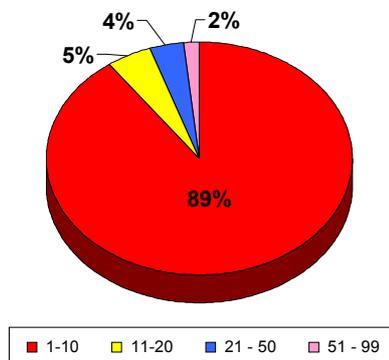
Well designed and implemented ICT investments enable large firms in particular to cut costs, improve productivity and expand: these investments may be essential to ensuring that firms can start or stay in the markets e.g. multinational purchasing, that require on-line access. The standard application of ICT expenditure involves transforming and automating very large processes, installing high grade and fast management information systems, which enable a relatively smaller number of professionals to manage huge business volumes. These may be banking transactions, airline tickets or just-in-time stock control for example. Once usage takes off, the very substantial up-front ICT costs can be rapidly absorbed by savings in pay-roll, rent/buildings, working capital, increased throughput, lower error rates etc... There are, of course, examples of big organisations failing to leverage the benefits of ICT through poor design and/or implementation, and a recent OECD study underlines the difference to national development which can result from inadequately planned and executed ICT investments, a point also made by McKinsey in a number of studies in recent years.

For smaller companies, the spend has necessarily to be smaller, and it is even more critical that it is well designed and executed to deliver business benefit. For the economy as a whole, all of the benefits help productivity and competitiveness.

Many indigenous firms here, particularly small ones, face problems of scale, know-how and cost which may make them slow to adapt ICT solutions. Cross country studies on ICT and other cross firm analyses tend to be based on large enterprises or enterprises in the 10-250 employee category, but Ireland has few of these. In Ireland, MRBI estimate that about 10% of Irish firms are in this employee range – 90% of Irish businesses have 1-10 employees.

Fig. 1.3: SME size in Ireland

Breakdown of Employee Numbers in Irish SMEs (1-99)



Source: MRBI, Aug 2003

Firms with under 10 employees are mainly in retail and personal/professional services. A very high proportion (74%) of these small businesses use Internet - mainly dial up - for information and e-mail purposes. They are among the target group for FRIACO always-on, dial up narrowband services, as well as broadband DSL, various radio technologies and cable modems which offer greater capacity always-on services.

Why should these buy broadband? What would it do to enhance their business?

The answer needs to be carefully considered. We have moved from the heady days of the ICT 'bubble' when it was common to state that ICT investment automatically resulted in growth, based often only on correlations between growth and ICT expenditure. Now there is a much clearer understanding with more detailed analyses of productivity. These indicate that even US growth had more to do with the quality of managerial use of ICT, in combination with other technological and logistical changes in a very limited number of business sectors (characterised already by large firm concentrations or resulting in large firm concentrations).

Where do our smaller enterprises fit into the future? There is a trend of retail and professional/personal services moving from separate, widely dispersed, individually owned enterprises to various types of linkages. There are for example franchises – popular with fast food restaurants; co-operative and other chains such as Spar and Centra in the food sector and we also see more privately owned groups of shops such as pharmacies and bookmakers all availing of increased efficiency due to better integration. Links via common web-sites are increasingly making an appearance, for example, 'Myhome.ie' advertises properties for sale from many auctioneers across the country and 'buy4now.com' which hosts a number of well know high street brand names.

How likely is this kind of development for other professional services currently provided on a dispersed basis? Does it present a more effective business model than each firm developing its own e-business strategy, web-site etc? What increased connectivity is needed for this? Will development be in some completely different direction, or will there be a range of new business models?

ICT development does allow micro-dispersal of employment with teleworking for example, and some technologies – wireless and DSL ‘pizza box’ equipment can be cost effective in low density areas - but its largest effects are in encouraging concentration. The incremental cost of processing extra volumes tends to be low, and the greater the concentration, the lower the unit costs. It is relatively cheap for a UK or USA based aggregative site, whether of holidays, tickets, properties etc. to include an Irish section. Going on such a site has many attractions for Irish businesses and should not be discouraged, for free trade plays an important part in curbing Irish inflation and giving consumers choice.

Does Ireland have ambitions to be a substantial host of such consumer sites? Is increased inter-firm co-operation needed to ensure that smaller Irish firms have a substantial presence in the e-commerce space for their services in Ireland?

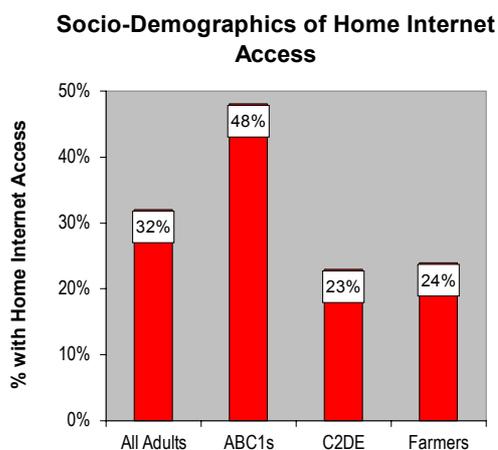
At the beginning of the last century, Horace Plunkett and his colleagues adapted international co-operative models to Irish conditions. They built the agricultural co-ops which formed the basis for increased output, improved quality and marketing for farmers for half a century and more. What are the range of future development paths for our SMEs generally, which contribute so significantly to the life of and employment in the smaller towns around the country?

Like any other investment, it is essential that broadband is integrated into business plans. State services on-line need to be available in narrowband for inclusively reasons, but broadband applications can be an important part of the financial equation for SMEs. For example, networks of architects, engineers, quantity surveyors and builders generally exchange large design/costing files on-line. The key agents outside this network are the planning authorities who do not generally accept or handle planning applications on-line. No doubt this will change, bringing cost savings and enhanced process management not alone to the hard pressed local authority planning departments, and to the networks of larger firms in the construction industry, but also encouraging other, smaller firms in this business to upgrade to broadband.

Inclusivity

The Internet is as good or bad as its content, and its connectivity relative to its use, but an ability to use it is becoming as essential as being able to drive a car. The range of services and on-line prices are increasingly relevant to many peoples’ lives, although with a bias towards the more affluent members of society who are better able to afford the leisure products which account for much current e-purchases.

Fig 1.4: Home Internet Access



Source: Amarach Consulting, Aug 2003

There are issues about spending priorities for families at or below the average industrial wage of €23,000 (2001 figure). Just 23% of all C2DEs have home Internet access compared to almost half of all ABC1s. Falling hardware and service prices should reduce this divide over time. We should nonetheless be aware of the need to reduce inequalities and increase Internet accessibility both through public access points (libraries, etc) and also, more importantly through our education system.

It is important that we address the digital divide effectively for economic as well as social reasons. To take one example, the unit costs of delivering many public services on-line - or with on-line support, for example in the health sector - should be far cheaper and more efficient than traditional methods. However, if a large proportion of the population cannot use these services, parallel and expensive systems will have to be run concurrently. Other countries are also working on transforming their Government services. We need to maintain the momentum.

How does this Conference contribute?

The Minister for Communications, Marine and Natural Resources, Mr Dermot Ahern TD, has kindly agreed to open the Conference. His commitment to developing the communications sector and increasing access is evident in his action programme over the last year, and he is due to chair a range of key EU meetings from January next, including the Communications Council.

We have asked Senator Fergal Quinn, a well known successful businessman in the Irish Market and Head of Superquinn, who has an excellent reputation for delivering quality in the FMCG (fast moving consumer goods) sector, to have a look at the messages used to encourage purchase of 'low end' broadband and also at the issues he faced in seeking to use e-commerce approaches in his business. We believe that his experience and reflections will be very helpful to both sellers and potential purchasers of broadband among the SMEs and the public generally.

Professor Jim Norton has extensive experience in devising and delivering the internet message. Prof Norton led the cabinet office team in the UK that produced the Performance and Innovation Unit (PIU) report for the British Prime Minister in September 1999. A former head of the Radiocommunications Agency, Professor Norton has advised ComReg on a range of regulatory issues over the years and is a member of our Forward Looking Steering Panel which advises ComReg on future technological developments.

Professor Norton will explore the future trends in technology and the issues around broadband supply.

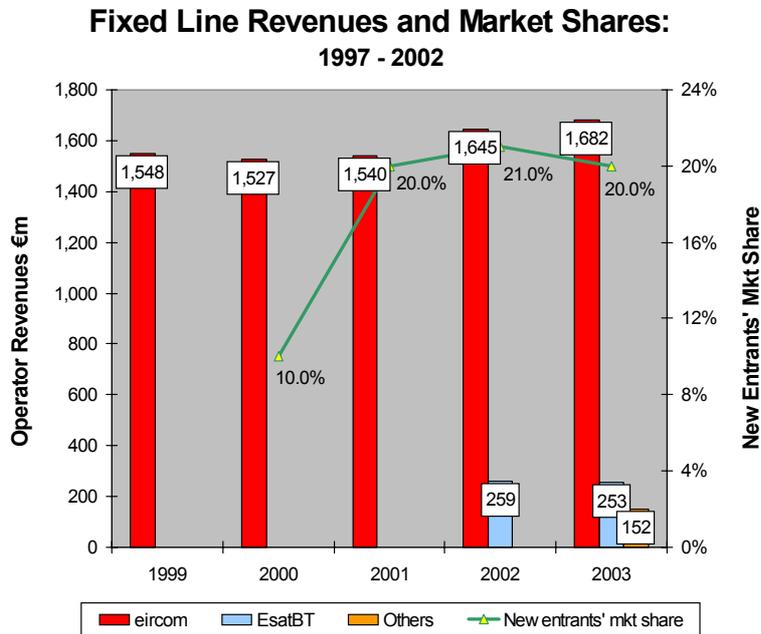
This is followed by a series of presentations on the issues around getting connected from a number of speakers who have experience of rolling out broadband solutions in rural environments. We are also pleased to have Mr John Dunne, Chief Executive of the Chamber of Commerce who will discuss the issues facing his members, particularly in the regions, on getting connected.

Our second session will focus on the user and Mr Paul McSweeney, from the Telecommunications User Group at IBEC will outline the developments in user demands and Professor William Webb from PA Consulting Group will conclude with an overview of applications and developments in mobile.

I hope this Conference will be informative, will raise awareness of the issues facing our industry and will stimulate the debate on moving Ireland forward in broadband adoption.

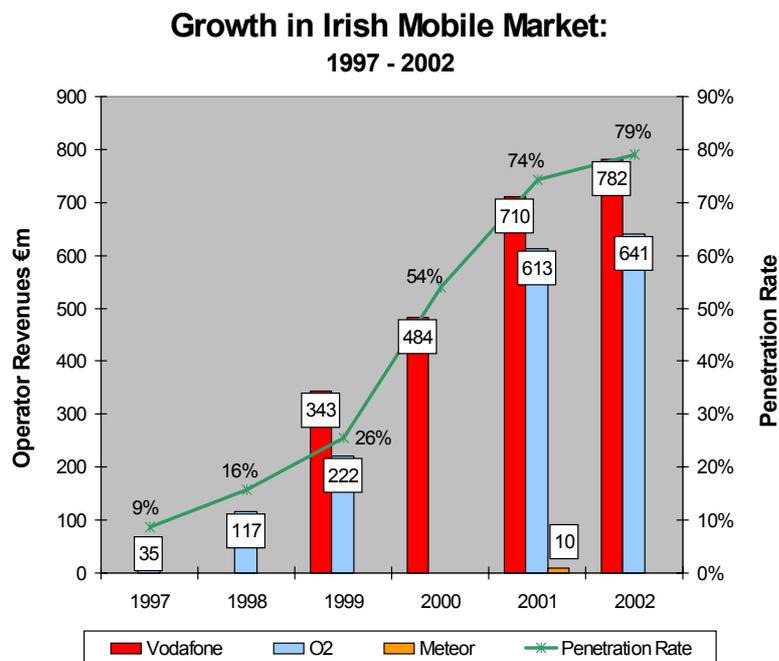
Appendix I: Market Statistics.

Fig A1.1: Fixed-line revenues and market share 1997-2002.



Source: eircom Bond Documentation July 2003

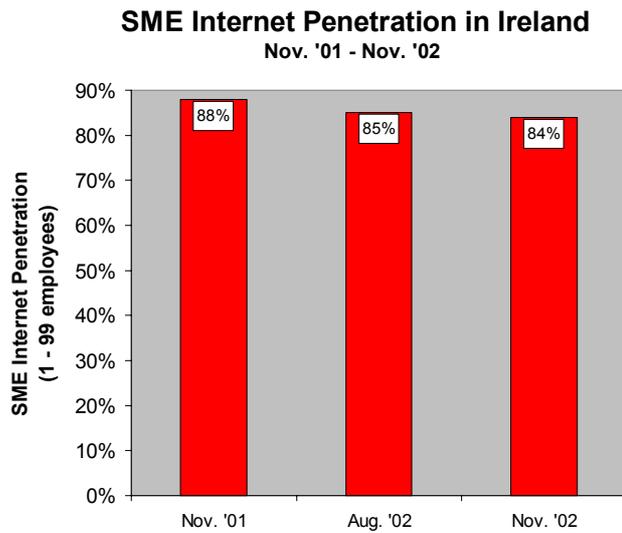
Fig A1.2: Mobile revenues and penetration 1997-2002.



Source: Operators Financial Results for the 12 months to end March X1.

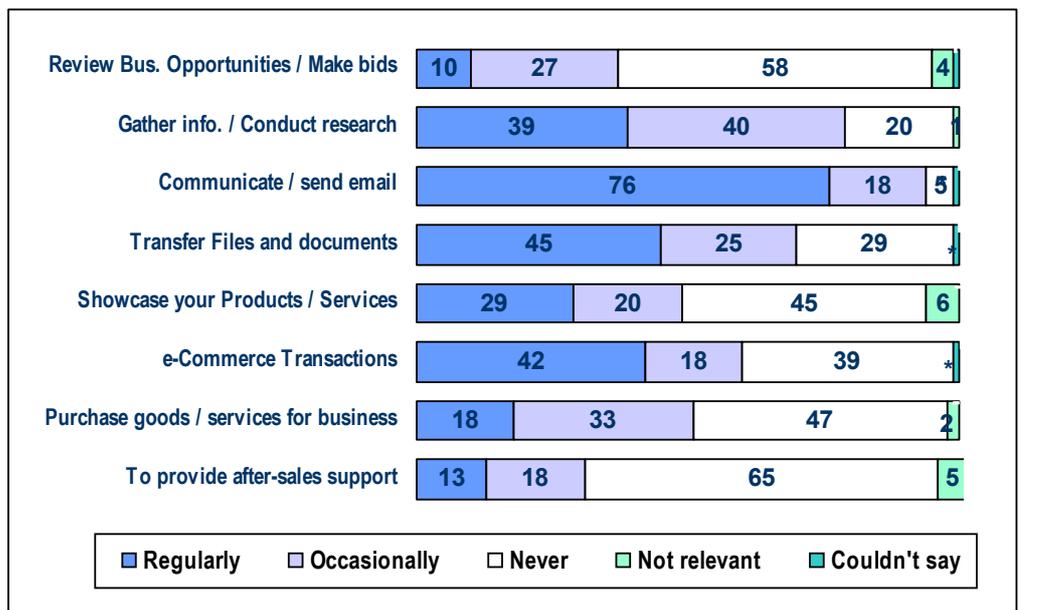
Note: In the case of 2001, both O₂'s and Meteor's relate to the 15 month period to March 2001. Prior to 2001, O₂'s (then Esat Digifone) year end was in December.

Fig A1.3: SME Internet Access in Ireland (1 - 99 employees)



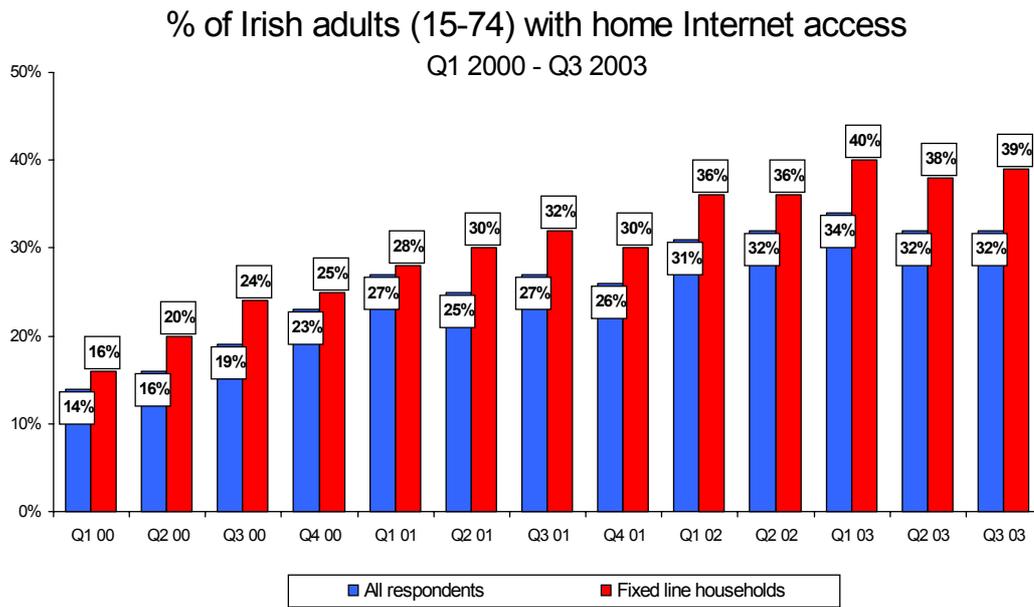
Source: MRBI

Fig A1.4: Irish SMEs Frequency of Using Online Services (August 2002)



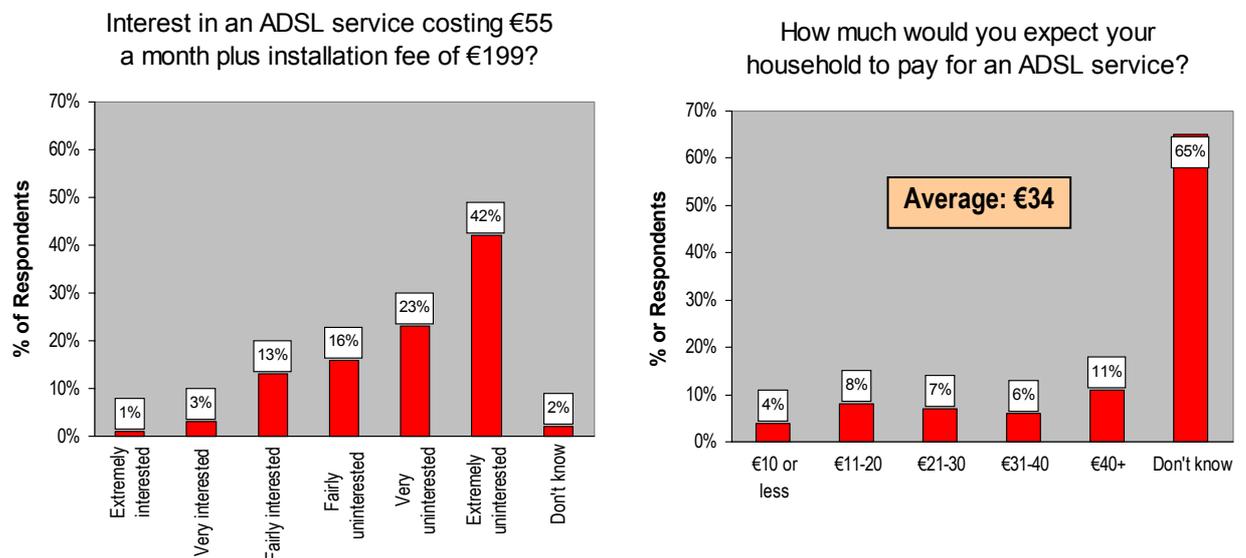
Source: MRBI / ComReg, Future Delivery of Broadband in Ireland, September 2002.

Fig A1.5: Home Internet Access in Ireland: Q1 2000 – Q3 2003



Source: Amarach Consulting, Consumer TrendWatch Q3 2003, August 2003.

Fig A1.6: Consumer Attitudes towards DSL Pricing: Q2 2003



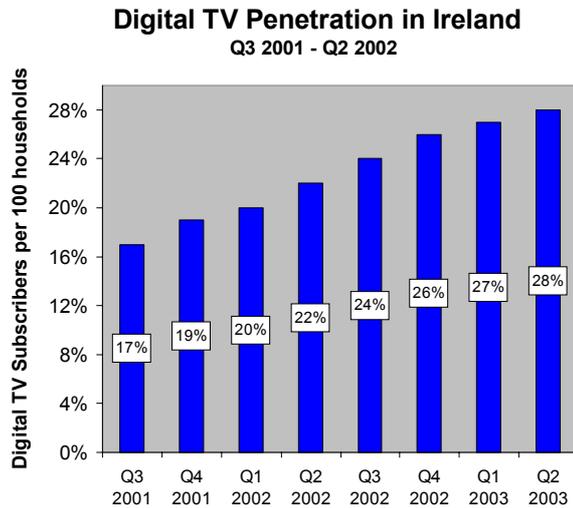
Source: Amarach Consulting, Consumer TrendWatch Q2 2003, May 2003.

Fig A1.7: Leased Line Delivery

	Feb. '01	Nov. '02	Jan. '03	Apr. '03	July '03
All Leased Lines	54	20	17	17	18
Of Which:					
Sub 2Mbit Lines	n/a	20	17	18	18
2Mbit Lines	n/a	23	16	13	14

Source: ComReg 00/28 Service Levels provided to OLOs by Operators with SMP, March 2002.
ComReg, Quarterly Key Market Updates,

Fig A1.8: Digital TV take-up



Source: ComReg, Quarterly Key Market Update.