CIT

22 June 1999

Deutsche Telekom's competitors give up their non-fibre diets

In the first flush of competition the resellers had the most startling effect on Deutsche Telekom's market share, according to Telecoms Markets in Germany, a new report from CIT Publications. Having cut swathes through the former monopolist's territory MobilCom alone claimed 10% of the long-distance market by the end of 1998. 'The first year of deregulation was bad for Deutsche Telekom but worse is on its way as Deutsche Telekom's competitors increase the build out of their own networks,' says Lucy Berridge, editor of the report.

In its first year of full competition Deutsche Telekom was hit harder and faster than any of its fellow incumbents in newly liberalised markets. And though its 1998 revenues increased - albeit by a modest 3% - in the first quarter of 1999 its turnover fell by 6.7% on the equivalent period in 1998 chiefly as a result of massive tariff cuts and increasing competition. The company can take comfort from its rapidly rising cellular, ISDN and online customer bases and, to some degree, the rapid growth in income from interconnection charges. Yet this last crumb may provide only short-term sustenance. After six months of competition the German regulator estimated that the new operators were handling what it termed a 'meagre' 30 million minutes of traffic every day - 12% of daily call volumes. By the end of the year, however, they were handling over 100 million minutes of traffic every day.

Company name	Average daily minutes of telephone traffic - end 1998
Deutsche Telekom	482 million
MobilCom	20 million
Mannesmann Arcor	19 million
o.tel.o	10 million
TelDaFax	7 million

As the demand for bandwidth grows, however, more and more operators have faced up to the fact that to reduce their dependence on Deutsche Telekom and provide sufficient capacity for customers, building their own networks is a necessity. In the multi-tiered construction site of the German telecoms market, operators such as Mannesmann are building out national networks while city carriers are interconnecting their local infrastructure to create a number of rival regional ones. All intend to erode the power of Deutsche Telekom's trump card - control of the local loop. Surrounding these are the

numerous pan-European and international carriers, intent on securing their position in the heart of Europe and adding large-scale investment to Germany's building boom.

The cut-throat competition is reflected in the fierce advertising war. In 1998 German telecoms companies spent DM1.56 billion on advertising, a 79.8% increase on the previous year. Deutsche Telekom alone spent DM317.5 million, raising it from the eighth to the third highest spending advertiser in the country. Comparative figures from the UK, however, provide only cold comfort for Deutsche Telekom. In 1998, some 15 years after it first encountered competition, BT retained its place as the UK's top advertiser, spending £138 million on advertising in that year, the equivalent of nearly DM403 million - some 27% more than its German counterpart