



EMCC case studies

Industrial change in the telecommunications sector: UGC Europe

Summary

Company facts

Market dynamics and company changes

Workforce issues

Lessons learned

Contact details

Source list



This case study has not been submitted to the Foundation standard editorial procedures.

Summary

UGC Europe is the successor to UPC, until 2003 a major provider of broadband communication and entertainment in Europe, offering analogue and digital cable television, telephony, broadband Internet access and satellite television services in 17 countries. The company encountered financial difficulties after making the hefty investments required for its expansion and receiving a disappointing market response to its products. In September 2003, after a process of re-adjustment, it emerged with reduced debt and a new structure. Renamed UGC Europe, and a wholly owned subsidiary of United Global Com, Inc., the company is based in Amsterdam and employs some 8,000 people. Revenue in 2003 came to €1,460 million.

The company operates through two divisions, UPC Broadband and chellomedia. UPC Broadband, which has maintained UPC's well established brand, provides 'triple play' services – TV, Internet access and telephony – to a base of over 8 million customers. Chellomedia, for its part, is a provider of content and services for European communications and entertainment companies. UGC Europe can count on a large and loyal cable television subscriber base, representing a combined average penetration rate of 62.6% in the European countries where it operates.

Founded in 1997, the company has grown through acquisitions and consolidations of cable network companies and other content provider firms. More than 40 enterprises have been integrated into UGC Europe in the past few years. As a result, UGC Europe now owns 10,600 kilometres of high capacity, two-way active fibre plant and more than 36,800 kilometres of coaxial distribution plant, of which approximately 22,000 are capable of two-way transmission.

The main lines of UGC Europe's present strategy centre on developing its expanded basic tier service, upgrading its systems, and taking advantage of its upgraded broadband and high cable penetration to offer telephone and Internet/Data services to residential and business customers. Of equal strategic importance are its plans to use digital distribution technology to deliver and integrate its video, Internet/Data, and programming businesses, and to continue to acquire some systems and boost its holdings in others, in order to expand further its area coverage and implement its branded, packaged video, voice, and data product offerings.

The need to integrate acquired companies into a common strategy has demanded frequent staff readjustments, including the elimination of redundant posts. Readjustments in 2003 included a reduction of the workforce, carried out through attrition, involuntary terminations and the reorganisation of UPC's operations to eliminate permanently open positions resulting from normal employee attrition. Following these changes, the company decided to devote more resources to developing procedures for hiring and identifying the personnel needed to attend to its operations and markets. Internal demand for personnel with technical knowledge of IP (Internet Protocol) networks and analogue to digital conversion is particularly acute. Internal training places special emphasis on workflow tools and the rest of the internal IT-based management procedures that are the key to developing the business.

Company facts

Company profile and main characteristics

Milestones

UGC Europe, the successor to the failed UPC,¹ is one of the new actors that entered into the European telecommunications sector following Directive 95/51/EC, which abolished restrictions on the use of cable TV networks for the provision of already liberalised telecommunication services. The favourable European regulatory environment and the experience gained in the USA by United International Holdings (now, United Global Com) spurred the creation of the company in Europe in 1997, through a 50-50 joint venture with Philips, and under the name UPC (United and Philips Communications).

The company began operating in Amsterdam and Vienna, offering mainly cable TV, the predominant method of TV dissemination in the Netherlands. That same year, 1997, UPC made its first acquisition, buying out Philips' part of the company and changing its name to United Pan-Europe Communications. By the end of the year it already had 2.3 million cable subscribers. One year later, UPC entered the cable telephony market, launching the service under the brand Priority Telecom. In 1999, UPC went public on the Amsterdam stock exchange, although after this initial public offering (IPO), it continued to hold around 62% of the company's ordinary shares.

The irruption of UPC in the broadband market took place in March 1999 when 'chello' Broadband launched its services in five European countries (the Netherlands, Norway, France, Belgium and Austria). In April 1999 UPCtv introduced its first television channels. Since that time, the company has continued to follow a policy based on the quick expansion of its networks, its customer base and its products and services, through the acquisition of other European companies with cable infrastructures and services portfolios. Over the years, UGC has acquired more than 40 companies throughout Europe.

Major markets of UGC Europe

Although renamed UGC Europe, the company has kept the UPC brand in Europe, where it is well established and enjoys high loyalty from residential users. The company belongs to an American holding company, but has kept its own management structure and methods.

¹ Until 2003, UPC was a major provider of broadband communication and entertainment in Europe and Israel. Its products, marketed in 17 countries, included analogue and digital cable television, telephony, broadband Internet access and satellite television. UPC was majority-owned by United Global Com which, in turn, was majority owned by Liberty Media, a large investment holding. Following liquidity problems and Chapter 11 proceedings, UPC emerged from bankruptcy in September 2003 with reduced debt and a new corporate structure. It was renamed UGC Europe as a wholly-owned subsidiary of United Global Com, Inc.. Beyond Europe, United Global Com interests include VTR GlobalCom, the biggest broadband communications provider in Chile, and a minority interest in Austar United Communications Limited, a pay television provider in Australia. This case study deals with UPC and UGC Europe as a single company, as the company has kept its primary visible identity features, with no impact on its operations and customer relations.

UGC Europe is active in 11 European countries:

- its western European cable networks are located in Austria, Belgium, France, the Netherlands, Norway and Sweden;
- the central and eastern European networks are located in the Czech Republic, Hungary, Poland, Romania and Slovakia.

UGC Europe's operations are organised into two principal divisions, UPC Broadband and chellomedia.

Through its UPC Broadband division, the company's largest division, UGC Europe offers triple play services to over eight million residential customers in eleven European countries. These services combine analogue and digital television (including near video on demand (NvoD), video on demand (VoD), pay per view programming), high-speed Internet access services, and telephone services.

The chellomedia division is a provider of content and services for European communications and entertainment companies. The core businesses include broadband Internet access, on-line content, product development, customer support, portals and marketing support; interactive digital TV products, transactional television offerings, pay-per-view TV. In addition, chellomedia manages the non-consolidated investment assets of UGC Europe, Inc. and Priority Telecom, which provides telecommunications solutions to business customers.

The company employs around 8,400 people, of whom some 2,500 work in The Netherlands. The next biggest European branches in terms of number of employees are found in Austria and France. UGC's main offices are located in Amsterdam. Figure 1 and Figure 2 illustrate UGC Europe's main operational and financial figures.

Figure 1: UGC Europe's main operational figures

Franchise homes	17 million
Homes passed	13.6 million (footprint)
Two-way homes passed	8.9 million
Analog cable subscribers	7.6 million
Digital cable subscribers	679,000
Digital DHT subscribers	209,000
Total video subscribers	8.5
Voice subscribers	464,000
Internet / data subscribers	1.1 million
RGUs	10.1 million

Source: UGC Europe

Figure 2: Financial results of UGC Europe, € million

	1999	2000	2001	2002	2003
Revenues	447	1,000	1,378	1,398	1,460
Adjusted EBITDA	(120)	(363)	(145)	271	573

Market dynamics and company changes

Market structure and competitiveness

Situation of the cable industry in Europe

Double play (TV and Internet) services have so far remained the rule in most cable markets. Broadband Internet access service stands alone as the only universally accepted new offer, even though its penetration rates remain low. Telephony has yet to become significant to the cable industry in all but a few markets.

On a pan-European level, broadband Internet services generate the highest monthly average revenue per subscriber (€8 per month). Telephony services are the second most valuable services (€6 per month). Television is the least lucrative service for European cable operators (€15 per month), as video on-demand (VoD) has not yet taken off, following its long-awaited debut on European cable systems.

The low penetration rate of broadband is not so much due to a lack of supply than to other factors, such as the still-small number of PCs in homes, the low use of internet in homes prior to the availability of broadband, and the scant offering of applications that require broadband. In any case, the attractive offers that began to hit the market in 2002 are causing it to move forward. In fact, the turnover in the European market has increased from €5 billion in 2002 to €8 billion in 2003.

Cable operators have been increasingly threatened by telecommunications operators with regard to triple play offers. ADSL has become the main wager of traditional telecommunications companies. Moreover its capacity has kept on growing, making it possible to offer products such as VoD, which only cable operators could provide in the past. Recent growth in broadband has been faster in ADSL than in cable. In addition, all land line technologies, cable included, have been increasingly and strongly threatened by wireless and satellite transmission, in all areas, whether these be telephony or internet or television.

These circumstances have meant that, after a few tough years during which the consequences of massive investments in infrastructure deployment and asset purchases had to be paid, 2003 would become the year of the 'cable rescue plan'. Indeed, in 2003, three of Europe's largest cable groups, UGC among them, underwent extensive restructuring.

The western European data market, in particular, had become much more competitive in 2003, as local telephone carriers accelerated their expansion of digital subscriber line

(DSL) services. Telephone services, which have always been subject to high levels of competition, now faced the added challenge of wireless services growing at the expense of landline services. Moreover, satellite providers continued to limit subscriber growth in certain company markets.

Strategy of UPC

The company now operates in diverse European countries and markets with a common objective: ‘to provide its customers with a personalised world of entertainment, communication and information’. This corporate expression accurately sums up the company’s orientation towards the triple play – TV, telephony and Internet – and its goal of progressively offering customised product interactivity in order to counter increasing competition in the three markets.

Additionally, the company plans to continue with its policy of acquiring some systems and increasing its holdings in others. In July 2004, UGC purchased 100% of Noos, the largest provider of digital and analogue cable television services in France and a leading provider of high-speed Internet access services in that country.

UGC has several assets:

- a large, loyal cable television subscriber base, representing a combined average penetration rate of 62.6% , with a monthly churn rate of less than 1%;
- first mover advantage for the introduction of cable and wireless voice services, as UGC Europe is the first to compete with incumbent telephone providers in a substantial majority of its markets; and
- a superior cost-effective broadband infrastructure and the planned upgrade of the majority of its network to 860 MHz Hybrid Fiber Coaxial (‘HFC’).

Figure 3 illustrates the current product strategy of UGC Europe. The company’s digital TV product strategy emphasises content, albeit always accompanied by the corresponding infrastructure development. Both are indispensable if it is to compete with the emerging offer of telecommunications operators.

Figure 3: Product and strategy update, December 2004

Analogue	Digital	Telephony	Internet
Maintain and up sell	Content leadership	Price leadership	Product leadership
Revitalise marketing	Expand footprint	Roll out VoIP in 9 markets	Tiering at low end
Win-back programs	Channel development	Discount to incumbents	Increase symm. speed
New build	VoD / PVR	Leverage features	Bundle with VoIP

Source: UGC

UGC's telephony strategy is based on offering competitive prices and on the implementation of VoIP (voice over IP) services. The replacement of fixed line telephones by mobile phones is making it difficult to gain new market shares in telephony, but the broadband feature of the network and the possibility of including telephony in service packages gives cable operators an advantageous position in this area. The goal for internet access services is similar; here, high access speeds and the possibility of linking the offer to TV and voice services are vital to winning new customers in residential markets.

UGC is using its strong penetration in the TV market as a base from which to launch its VoD offer. This product is considered by both cable operators as well as traditional telecommunications operators as one of the future pillars of their product strategies. Nevertheless, VoD continues to face two important obstacles to success – the high cost of the technologies involved and a lack of available content.

UGCtv produces and markets its own pay TV products, besides channelling a large number of TV channels produced by third parties. A substantial increase in this market is not foreseen in the short term, however, partially due to the difficulties involved in obtaining fresh content. For example, to show a new motion picture in Europe, a cable operator has to wait for at least six months after theatrical release. In the United States, this delay is just 50 days. On the other hand, companies like UGC, present in 11 different markets, have to take into account the differing preferences of each, which means they have to adapt programming. In any event, and this is the good news, the television markets of Europe and the United States are different: even though the latest cinema may not be available, a varied range of local productions, documentaries and news channels may prove sufficiently attractive to the European market.

Main organisational and business changes

The restructuring process of the company began in November 2001 when UPC announced a review of its balance sheet and capital structure while initiating a strategic review of the company's long-range plan. In February 2002, UPC N.V., the financial holding company, signed an agreement in principle with key stakeholder United Global Com ('UGC') to recapitalise UPC's Balance Sheet. UGC Europe emerged from bankruptcy in September 2003. UGC Europe, Inc. was established as a financial holding company after the recapitalisation of UPC N.V. UPC then became a subsidiary of UGC Europe, Inc., in turn a wholly owned subsidiary of United Global Com, Inc.

To meet the challenge of greater management and operational efficiency, the company has used information technologies on a massive scale in its own management systems. Beginning in 2000, UPC undertook a significant upgrading and integration of its IT systems, creating a pan-European infrastructure to support the delivery of its services. The main purpose of the project was to integrate software applications and processes into a complete information technology and business solution. This involved, among other things, having to integrate the different systems of the many companies acquired by the company, including 7/8 networks and 29 software platforms. Various modules, such as billing and collection, customer care, activation and provisioning, capacity management and reporting were linked to a pan-European data centre located in the Netherlands. By the end of 2002, UPC had migrated more than 3.4 million customers in France and The Netherlands to the new platform. Its customer service organisation employs a varying number of people, ranging from 700 to 900 at any one time, while its state-of-the-art integrated customer administration system – code-named 'Derby' – in operation from 2001, facilitates the ongoing improvement in levels of service.

The importance of technological innovation in the implementation of the company's strategy has led to the designing of two lines of action aimed especially at technology:

- UGC's 'technology roadmap', as the planning and management instrument for the rolling-out of the broadband communications infrastructure. The company strives to benefit from scaling and standardisation of the network components, and strategic vendors work with the company's management on reducing procurement times and improving discount structures and viable end-to-end economies.
- UGC's European Lab Facilities, based in Amsterdam, provide support for the company's participation and control in crucial standards for cable. The Labs also make up the formalised face in acceptance testing of the set-top computer and cable-modem sets.

Workforce and management issues

The organisation has attempted at all times to adapt itself to the changes that have taken place in the sector and in the response from its markets. Since its founding, the biggest difficulty faced has been the need to integrate some 40 to 50 different companies into a common strategy, which has necessitated frequent shake-ups in their corresponding staffs.

The structure of the organisation was simplified following the recapitalisation of UPC. This included the elimination of certain job positions. Overall workforce reduction was effected through attrition, involuntary terminations and the reorganisation of UPC's operations to permanently eliminate open positions that resulted from normal employee attrition. Excluding personnel, restructuring costs came to nearly €200 million in 2003, with office closures and assets disposal costs.

The company ended the 2004 fiscal year with about 8,000 employees worldwide, down from approximately 10,200 at the end of 2003. Most of its operating subsidiaries are parties to collective bargaining agreements that cover some of their employees. The company believes that its 'relations with employees are good'².

Recruiting has become more demanding with time and because of the need to respond to the demands of greater internal efficiency. After the above-mentioned readjustments were made, the company decided to devote more resources to the development of procedures for identifying and hiring the personnel needed to attend to its operations and markets. Especially pressing is the internal demand for personnel with technical knowledge of IP networks and the conversion of analogue to digital. Internal training places special emphasis on workflow and other internal management procedures grounded in the information technologies.

Remuneration systems are based on fixed salaries and performance incentives. Stock options have been used in the case of the managers and some employees of the company's subsidiaries.

Labour unions are not present in the company, although there are representatives from the major unions in the different local subsidiaries.

The corporation has a Code of Business Conduct for all employees and a Code of Ethics for chief executive and senior financial officers. Both are deemed of great importance as the main references for in-company behaviour.

Lessons learned

Vision of sector evolution

The company is convinced of the possibilities of the broadband market, and is drawing up its strategy accordingly, with plans for a progressive increase in the bandwidth of its networks. As sufficient and steady supply of content is key to the development of this market, UGC Europe plans to continue its activities of content production and third-party purchasing.

With triple play as the constant reference, the company's most innovative strategies focus on the emerging VoIP market, on profiting from off-Net capabilities and on the possibility of adding mobile networks to its offer.

² UGC Annual Report, 2003

In any case, the trend toward hybridisation of networks means that the company will be forced to act to meet demands on two fronts with equal aggressiveness: on the one hand, the requirement of constantly developing the functionalities of their networks; on the other, the need for ongoing innovation, to tailor their services to fit ever smaller market niches.

New working practices

Efficiency is the action paradigm. A combination of highly volatile markets and growing competition requires, besides constant innovation, more efficiency in the use of all resources. Therefore, the company is placing great emphasis on the methods and tools needed to manage more efficiently the resources of its network, its human resources and its customers themselves. Top priority investments are made to acquire workflow tools that are better adapted to its needs and to assure that personnel are well trained in their use.

Contact details

Company name: UGC Europe, Inc.
Website address: <http://www.ugceurope.com/>
Address: Boeing Ave.
53119 PE Schiphol Rijk
The Netherlands
Tel: +31 (0) 20 778 9840
Fax: +31 (0) 20 778 9841
e-mail: mkohnstamm@upccorp.com
ablair@upccorp.com

Source list

This case is based on personal interviews with Mr. Manuel Kohnstamm, Managing Director, Corporate Affairs and Mrs. Amy Blair, Director, Human Resources, and on the following information sources:

- UnitedGlobalCom in Europe
- UnitedGlobalCom, UBS presentation, 32nd Annual Media Week Conference; December 7, 2004
- UnitedGlobalCom, Annual Report 2003
- Company's website: <http://www.ugceurope.com/>
- ECCA (European Cable Communications Association) website: <http://www.ecca.be/>