



EMCC case studies

Industrial change in the telecommunications sector:

FastWeb

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

Summary

The Italian company FastWeb, founded in 1999, stands as, possibly, one of the most significant players in the telecommunications sector today. It forms part of the latest generation of operators, born out of the opportunity provided by liberalisation processes in Europe.

FastWeb provides ‘triple play’ services – TV, telephony and Internet access – to the Italian residential and business markets by means of its own fibre cable TV network that includes the backbone and the majority of local connections to users and businesses. FastWeb has complemented its fibre optic network with ADSL access.

The company is continuing to expand its network: by the end of 2010, FastWeb hopes to cover half of all Italian homes and connect all cities in the country of more than 45,000 inhabitants.

Growth in revenues and in number of users has been constant since the company began operations. From this year, the company projects that it will generate a positive cash flow and pay dividends to its shareholders.

Innovation is also a constant in FastWeb activities. The company has maintained a regular flow of new products and services by making use of its well-established technological competencies, and by creating imaginatively packaged offerings to its markets. It has also created and developed specific ICT based management systems and applications, as new services require new ways of controlling use of the network and new billing methods. Proof of its success in innovation can be seen in its ‘TV on demand’ service – the first of its kind in the world – and other breakthroughs such as virtual video recorders or access to voice mail systems from any triple play device.

A third factor in the company’s linear growth has been its workforce. FastWeb came through the Internet and telecommunication crisis without shedding jobs. Instead of making employees redundant, the company sold its German subsidiary in 2002, and obtained fresh financial resources to cope with the effects of the crisis and strengthen its competitive position.

The functions of hiring, training and retaining employees have received particular attention, in the search for excellence and commitment. The workforce has responded with a high level of loyalty, as is demonstrated by a turnover rate of less than 4%.

FastWeb’s ‘people’ policies – as the company likes to call what are traditionally known as human resources policies – have always considered the importance of the right attitude, stressing the adoption of approaches like ‘passion for business’, ‘being fast and advanced’, and using a ‘wide perspective’ for looking at everyday tasks.

The company views the future as promising, if it keeps to its strategy of providing new and multiple applications and services to an expanding base of home and business markets, while avoiding any deterioration in quality or speed.

Company facts

FastWeb is an Italian broadband service provider, based in the city of Milan, which offers voice, data, broadband Internet access and video (video on demand – VoD, television) services on an IP (Internet Protocol) network.

The decision behind the founding of FastWeb in 1999 took into account the opportunities presented by the combination of the following factors:

- the progressive convergence of the TV, telephone and Internet access markets;
- the convergence of the technologies needed to provide services in all three markets;
- the significant advance of IP technology over other technologies like ATM or Frame Relay, making it especially suitable for the new convergent market;
- the interest of the financial markets in investing in information and communication technologies, which meant that funding was available to launch the enterprise.

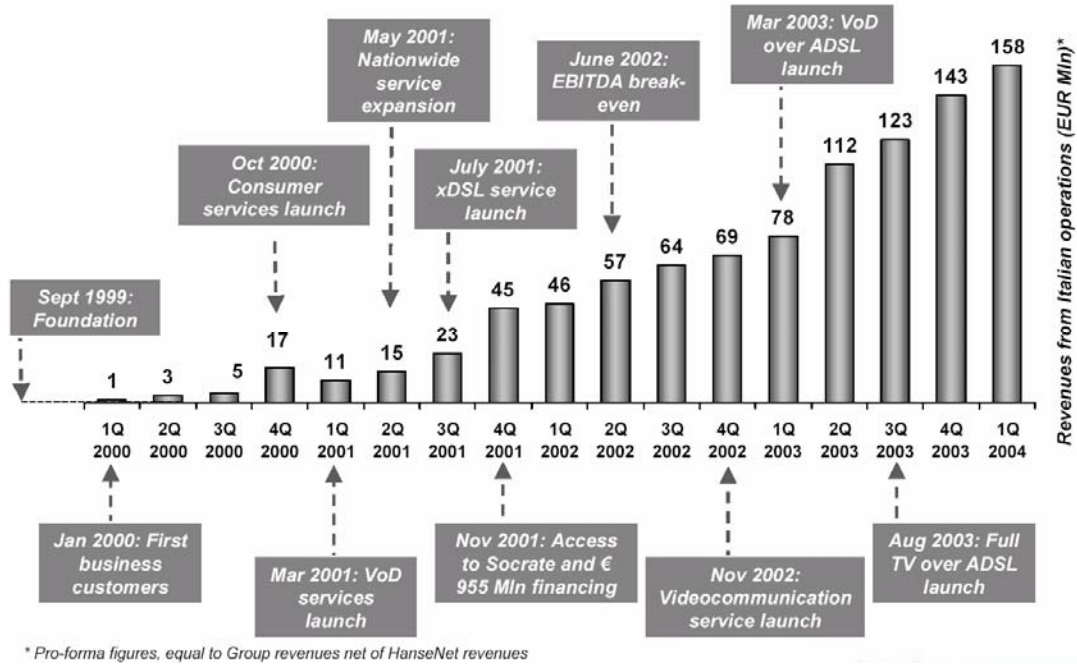
FastWeb was first established as a joint venture between e.Biscom (64.4%) and AEM (30.8%), the largest regional utility in Italy, held by the city of Milan. The e.Biscom group was held by Silvio Scaglia (60%) and Carlo Micheli (40%). Within the group, FastWeb was in charge of providing services, while Metroweb was in charge of rolling out an optic fibre network. In 2000, e.Biscom completed an Initial Public Offering at Milan's Nuovo Mercato and raised €1.67 billion to fund the deployment of its activities in Milan and the North of Italy.

In 2003, e.Biscom exchanged shares with AEM, gaining full control of FastWeb and divesting from Metroweb. In 2004, e.Biscom merged with FastWeb. The name of the group was then changed to FastWeb, given the recognition of the FastWeb brand. Scaglia and Micheli now hold 25% and 10% of the shares of FastWeb, while the rest of the shares are publicly traded.

Since its foundation, FastWeb has grown steadily. Revenue growth from its establishment through the first quarter of 2004, and the main milestones in its evolution, are shown in Figure 1. In 2003, the group sold its German subsidiary, HanseNet Telekommunikations GmbH, gaining fresh financial resources to help it reinforce its competitive position in the Italian market. The company also completed the divestment of its non-strategic operations.

For the past two years, the group has refocused its activities on its core business in Italy. FastWeb has a network of over 12,400 km, with over 7,600 km of access network and 4,800 km of backbone, which serves 3.7 million households in Italy. The company has completed the deployment of its fibre optic network with DSL access based on full unbundling.

Figure 1: Revenue growth and milestones of FastWeb, 2000–2004



Source: FastWeb

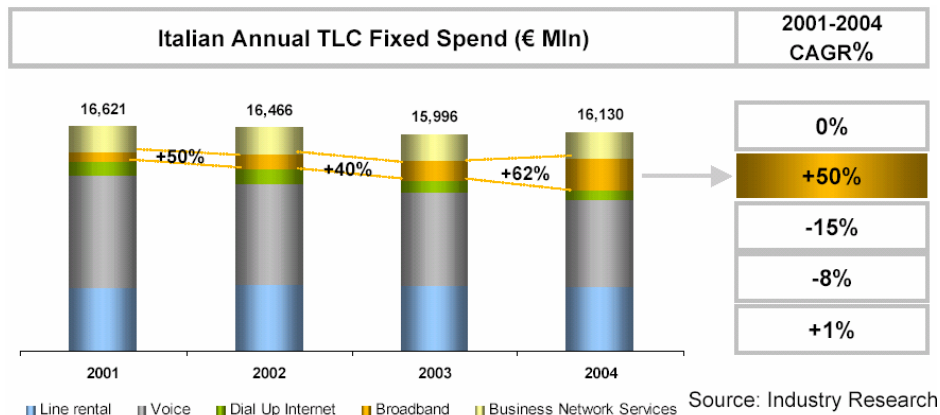
Market dynamics and company changes

Market structure and competitiveness

Development of the Italian market

As Figure 2 shows, total expenditure on telecommunications in Italy has fallen slightly in recent years. Notwithstanding this, spending on broadband services has risen significantly, in contrast to the declines witnessed in voice telecommunications and dial-up Internet access services.

Figure 2: Evolution of Italian telecommunications expenditure, 2001–2004

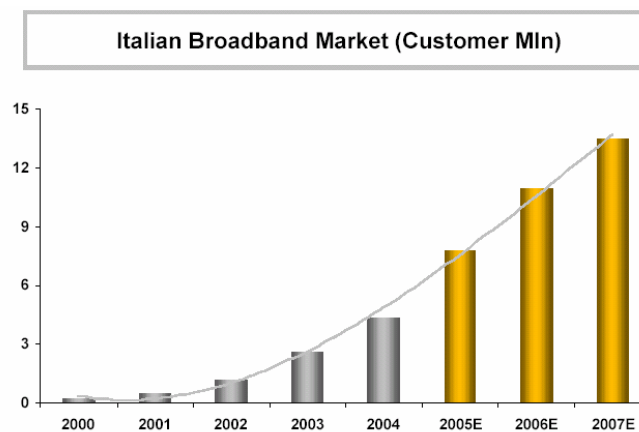


Source: FastWeb

Italy has been catching up with leading European markets in terms of broadband penetration. The number of broadband subscribers increased, from less than half a million (0.8% of population) at year-end 2001, to 4.7 millions (8.2% of population) at year-end 2004. FastWeb forecasts that the number of subscribers will continue to increase at a high rate over the next couple of years, reaching 14 million (around 25% of population) by the end of 2007.

Digital TV markets are emerging, with a particularly strong take-up of digital terrestrial TV in Italy in 2004. This positions Italy as one of Europe's most promising convergent markets.

Figure 3: Broadband market 2004, Italian customer growth 2000–2007



Source: FastWeb

Network deployment

One of the primary axes of the company's strategy has been the deployment of its own cable network in order to compete both on price and service. This technological choice has given FastWeb independence from incumbent operator Telecom Italia and the possibility of offering faster broadband access.

- FastWeb has rolled out a fibre optic IP network, which can transmit television services as well as voice services without recourse to local exchanges. It has long-term lease contracts with local networks Metronet in Milan and SasterNet in Genoa, and leases Telecom Italia's 'Socrate' network. When Telecom Italia took over the TV Channel 'La7', the regulator imposed that it should open 'Socrate', a network which had been rolled out to deploy cable services in Italy. This provided an opportunity for FastWeb to lease additional transport capacities.
- FastWeb has complemented its fibre optic access network with ADSL. The company has opted for full unbundling of lines, only in cities which have a MAN (Metropolitan Area Network).

Following the roll out in the largest cities, FastWeb now targets mid-size cities. By the end of 2010, FastWeb forecasts to cover 10 million homes, equivalent to half of those in Italy.

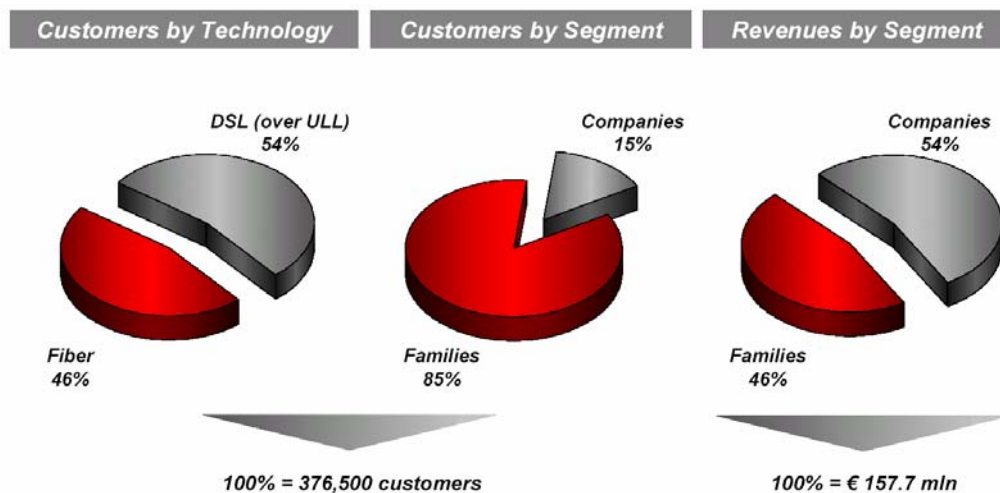
Position of FastWeb in the market

As in many countries, the incumbent operator has built a dominant position in the broadband market. Telecom Italia holds over 70% of the retail market in terms of subscribers. Another competitor is Wind, the largest alternative telecommunications operator in Italy.

FastWeb has become Telecom Italia's main competitor in the broadband market, thanks to a unique positioning as the only triple play operator in Italy. With the integration of voice, virtually unlimited data transmission capability, Internet, video and TV services over a single connection, FastWeb has developed a comprehensive and sophisticated range of services that meets the requirements of every customer segment, from large corporate clients with offices throughout Italy, to small businesses and families alike.

Supported by its technological capabilities, the firm is constantly innovating, launching new products and services onto the market, and offering imaginative combinations of services and prices. For example, the company was a world leader in launching VoD (video on demand) services, one of the pillars of the converging services offerings.

Figure 4: Customer and revenue composition of FastWeb, March, 2004

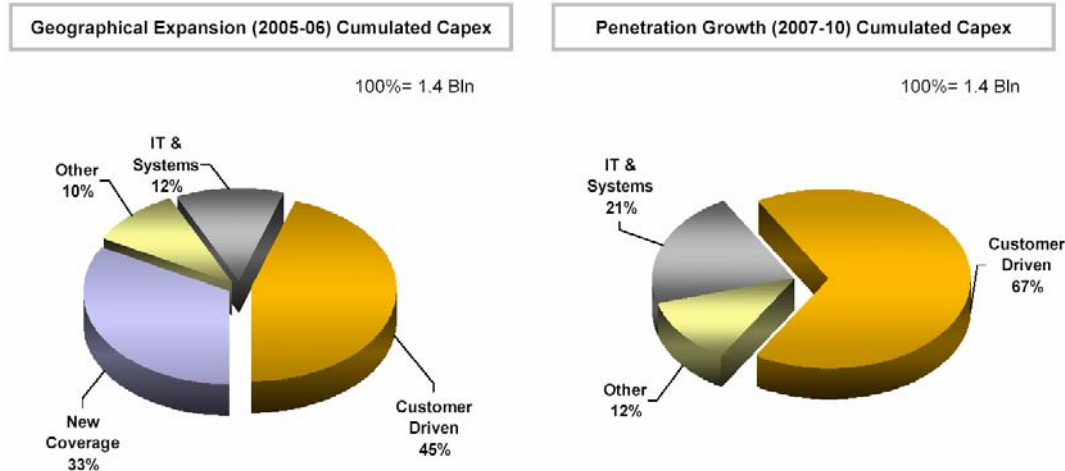


Source: FastWeb

The trend towards reduced tariffs made it clear that creating new and innovative services, priced to cover the required investment, would become even more important than the infrastructure itself. Such plans require large investments, planned to a schedule based on the relative importance of the predominant factor. Thus, for the period 2005–2006, one of the predominant factors is the need to expand territorial coverage. During 2007–2010, however, particular attention to customer demand factors will take on great significance. The importance of the IT and systems factor will also increase during this latter period, due to the foreseeable need to improve internal efficiency as the company's market

matures and its competition strengthens. The figure below shows a graphic representation of the distribution of factors that affect spending on infrastructure development.

Figure 5: Capital expenditure (capex) needed for geographical expansion, and penetration growth of FastWeb



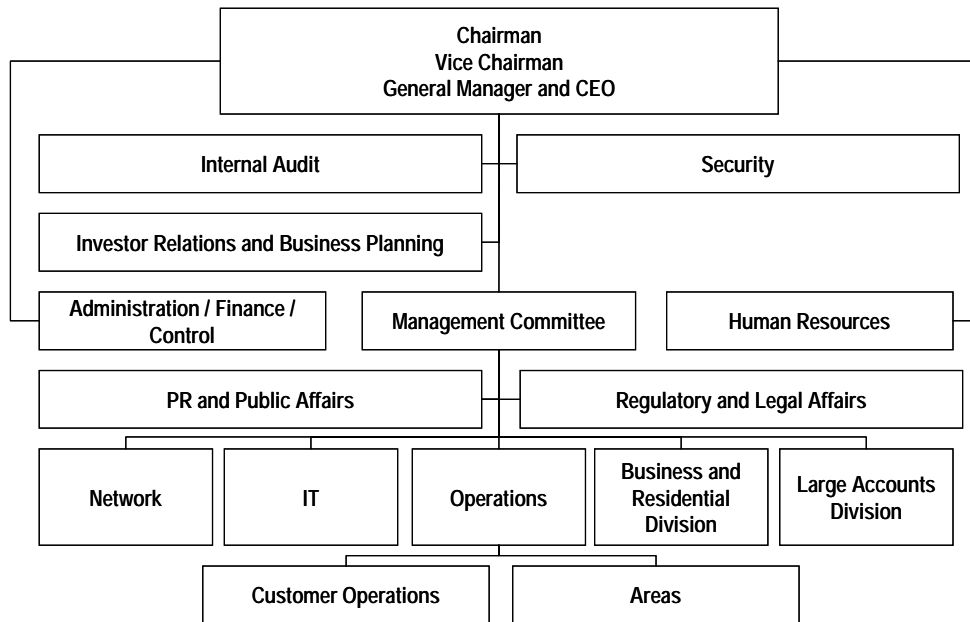
Source: FastWeb

Main organisational and business process changes

Initially, FastWeb operated only in Milan, with a very simple organisational structure and the motto: 'think first, and act immediately'. This philosophy, provided by the company itself, gives an idea of the company's organisational priorities during those first months.

Today, FastWeb has two sales divisions, 'Business and Residential' and 'Large Accounts', and two technical divisions, 'Network' and 'IT' (Figure 6). The 'Operations' division, which includes sales, network deployment, customer care and after sales support, is represented in the headquarters in Milan and in the regional branch offices. Sharing the same organisational structure allows a more fluid flow of information to and from the headquarters and the regional branches. It has also proved beneficial when it comes to opening new branches in other cities, increasing the efficiency of the process.

Figure 6: Organisational chart of FastWeb



Source: FastWeb

Apart from the organisational and management changes needed to adapt the company to the evolution of its market, FastWeb also had to face unexpected challenges.

- Firstly, a new competitor appeared in the market: SKY TV (a pay TV provider). Sky Italia is the Italian satellite broadcaster formed from the merger of Telepiu and Stream, and is owned by News Corporation and Telecom Italia. This firm serves over 2.2 million subscribers using set-top boxes. It offers digital TV service for the Italian market, providing over 100 television, audio, interactive and pay-per-view channels, ranging from sport, cinema and news to entertainment, documentaries, children's programming and music. The company's entry into the market obliged FastWeb to revise its product and pricing policies, and boost its efforts towards enhancing the efficiency of its operations. However, as the regulator obliged Sky Italia to provide its TV offerings for wholesale resale, FastWeb has also benefited from access to the best video content.
- The second event was the bursting of the so-called 'Internet bubble', which forced FastWeb to manage growth with a minimum of financial resources. e.Biscom completed its IPO before the 2000 crash and the operation was one of the most successful in the Nuovo Mercato. During the crisis, the price of FastWeb shares fell from a high of €40 to only €12 in a period of just one year¹. Faced with this reduction in financial resources, FastWeb decided to divest abroad, selling its participation in Hansenet, a cable company that FastWeb had acquired in Germany. Thanks to the extraordinary revenue obtained from the sale of Hansenet, FastWeb did not have to adopt redundancy measures.

¹ FastWeb ordinary shares are now trading at around 40 €

Internal efficiency

The company views the development of innovative solutions for managing and improving internal efficiency to be as important as its ability to innovate in products and services and to package attractive offerings. Innovation has been a constant in developing information and communication technology (ICT) solutions to support internal processes and other needs related to the company's growth. From very simple disk operating systems (DOS) and customer relationship management (CRM) systems, originally used as the only available ICT tools for supporting management, the company has evolved towards very sophisticated workflow and management support systems, including a complex billing system, enterprise resource planning (ERP) and CRM, among others.

Substantial effort has been put into developing efficiency targeted ICT tools. When the firm started its operations, there were no specific solutions for managing an offer of services based on triple play. As a result, FastWeb had to adapt and expand the generic solutions available at that time. Indeed, the company was forced to develop from scratch an ICT based support system to manage VoD services, as FastWeb was the first company in the world to offer these services.

The intensive use of management systems also brings a high degree of dependence on technologies and a high level of exposure to the risks stemming from change. Bearing in mind that changes in systems occur relatively frequently and that their impact is felt on all levels of the company, FastWeb developed procedures and practices for handling the systems and tools related to internal management. When facing new ICT challenges to support new and innovative services that require solutions not available in the market, FastWeb turns to both internal resources and capabilities (for both network and systems planning) and external support from ICT companies of strong entrepreneurial character.

This approach aims to ensure the ongoing development of a continuous flow of innovative solutions and an ever more flexible network. These efforts are channelled at the present time towards:

- the design stage, with emphasis on applying project management techniques, and on strong coordination among the different areas, especially network and IT engineering but also project management;
- the production stage, by way of making an extra effort in sales force training and a formalised means of exploring customer needs;
- constantly nurturing new knowledge generation and its integration.

The generation and management of new knowledge and experience has been key to FastWeb. New and unexplored areas of knowledge are a constant target in the company's strategy. The generation and integration of knowledge is achieved through:

- hiring the most highly trained and skilled technology professionals – mainly from other companies rather than new graduates – to develop new technologies, products or services. This is what FastWeb terms looking for the 'seeds of knowledge' that can be exploited in the future;
- developing and enhancing capabilities to manage projects of great complexity and high uncertainty;

- actively promoting entrepreneurship and self-motivation in project teams.

Subcontracting

Striking a balance between internal knowledge generation and management and cost efficiency, FastWeb's strategy is to keep in-house only those areas that pertain to the company's core business. In general, FastWeb subcontracts most recurrent activities or processes, such as customer activation and network management, along with most of its sales activity and part of its IT support activities.

Some activities, such as the company's call centre, were formerly subcontracted, but are now managed as internal units to ensure better control over customer service activities, which are now considered to be core business.

Present strategy focus

The company's strategy for the two-year period 2004–2005 focuses on increasing its market share in the Italian cities already served, and on extending operations in the northeast and south of Italy, as previously mentioned. In 2010, FastWeb's network should reach 45% of the Italian population, which would mean an increase from 3.1 million homes in late 2003 to some six million by the end of 2006.

FastWeb believes that the targets announced in 2000 will be reached and, in particular, that from 2005 on, it will generate a profit and positive cash flow. The substantial cash flow that it expects to generate will allow FastWeb to distribute high pay-out dividends to shareholders starting from fiscal year 2006, thus ensuring them a return on the considerable investment risks borne over previous years.

Although it is still impossible to assure that these results will be achieved, analysts coincide in their praise of the company's business model as one of Europe's most advanced. In this respect, analysts have gone so far as to declare that: 'FastWeb now has a clear-cut competitive advantage; FastWeb's network offers its customers services which are unmatched by its competitors with high levels of efficiency, both in terms of operational and maintenance costs. Indeed, FastWeb's business model is recognised to be the telecommunications model of the future'².

Workforce issues

During 2004, around 600 new people were hired at FastWeb, bringing total personnel to 2,000 at year's end.

Building a workforce suitable to FastWeb's plans has proven a complicated task. It should be kept in mind that the company's policy has been to base its growth, not on acquisitions, but on building a structure on the basis of its own resources. Finding the necessary staff profiles and training them, especially in technological areas, has

² Gartner, 'Italy: e.Biscom's FastWeb Case Study', April 2004. Ovum, 'e.Biscom's FastWeb: Italy's broadband stallion thunders on', March 2004.

demanded considerable efforts of entrepreneurship and self-motivation, together with an ability to be involved in new things. The company's success is now helping to attract the best professionals.

Particularly effective in this recruiting process has been a combination of methods, such as:

- aggressive advertising: an advertisement was placed in important newspapers in Italy, soliciting for '10 Mbps people' to work at FastWeb;
- including a specific section on the company's website where applicants can send their CVs.

As a result, and after much CV screening, more than 5,000 interviews were conducted during 2004.

Another and highly effective channel for contacting interesting potential employees is to use the personal relationships of FastWeb executives.

Salary structure

Salary structure depends on hierarchical level in the company. Salaries are composed of a fixed and a variable part. The variable part, for some 30% to 40% of the workforce, is calculated on an MBO (management by objectives) structure³:

- 30–40% based on corporate results, measured through the balanced scorecard of the company;
- 60–70% based on personal or team results.

Among the important qualitative factors when evaluating results, the company plans to include in the MBO scheme not only 'what' parameters, but also 'how' ones.

FastWeb has an evaluation programme for everyone in the company, independent of whether they are included in the fixed or variable salary structure. The review, supported by IT, comprises the following phases:

1. The manager evaluates competencies (not only technical) and potential (fitting in with company values). All factors are measured on a scale of one to five.
2. The evaluation is confirmed by the manager's manager.
3. Once all reviews are completed by all divisions of the company, results are shared in a general meeting and a map of the company is drawn up, depicting average competencies and potentials across company divisions.
4. The results of the evaluation are used to determine salary increases, and to define specific training needs and programmes and distribute training resources across divisions.

³ FastWeb has plans to include more people in the MBO program.

People strategy

FastWeb speaks of having a ‘people strategy’, rather than the more commonly used term ‘Human Resources strategy’. As part of this ‘people strategy’, FastWeb is implementing a job posting system on the company Intranet. Its goal is to reduce the forced transfer of employees to cover vacant positions by letting employees apply for job positions that interest them within the company.

One indication of the high level of acceptance of working conditions in FastWeb may be the low staff turnover, currently under 4%⁴.

FastWeb’s large volume of subcontracting and outsourcing means that the demand for resources and effort given to training are correspondingly high. This is especially true in cases where the subcontractor is a new one and its personnel have to be trained in previously unknown techniques and procedures.

Representation

The three most relevant Italian unions are present in FastWeb through employee representatives. Relationships are fluid and the employee representatives have little involvement in the company’s strategy planning process. The trend is towards more involvement of staff in unions as the company gains size.

Up to 2000, FastWeb signed the general collective worker agreement⁵ of the manufacturing industries sector. Since that time, a new and more specific agreement for the telecommunications sector has been negotiated. FastWeb is one of the latest companies to join the telecommunications agreement.

Lessons learned

View of sector evolution

As convergence is the undeniable trend, all bets have been placed on the triple play model. This triple play of Internet access, telephony and television is attractive for residential customers. Growth in consumer revenues will stem from increasing the take-up of services such as voice over IP, and from other services that are still under development. Future services will drive domestic revenues even higher. Residential customers offer a huge range of growth as many home appliances could be connected to a network like FastWeb’s.

For businesses, the key is to offer virtually unlimited broadband and technological solutions, and to adapt the customer requirements as flexibly as possible.

⁴ Excluding the Call Centre, where turnover is around 30%.

⁵ Collective workers agreements are agreements signed by labour unions, industry representatives and the Government, which establish the minimum basis for labour relations between workers and companies in a particular sector.

Consequently, the company views the future as promising, if it keeps to its strategy of providing new and multiple applications and services to an enlarging base of home and business markets, while avoiding any deterioration in quality or speed.

Innovative strategies

Innovation is key in the company's strategy. The launching of new products and services is supported both by the technological capabilities of FastWeb, and by its ability to create imaginatively packaged offerings for its markets. This innovation capability, which has allowed the company to be first to market with some new products, is supplemented by innovation in the creation and application of ICT based management systems and applications.

New working practices

According to the people interviewed at FastWeb, the new working practices learned from the company's experience can be summed up as follows:

- 'Passion for your business', and entrepreneurial spirit. People must believe that the idea is good and be confident that it will succeed.
- The basis of business must be project management, seeking out efficiency. To achieve benefits, it is necessary to focus on improving efficiency, not on something like 'I like having that fancy technology'.
- It is important to open the minds of people who focus on very specific subjects or areas, to allow them to have a 360° perspective (a general overview) of the company, so they can gain an understanding of how their work affects the rest of the workforce.
- Staff must have a feeling of being 'fast' – always on the cutting edge of technology and services – as a way of differentiating the company from its competitors. Balancing this internal sense of fast innovation with the relative slowness of the external reality is also important.

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Source list

The case is based on personal interviews with Ms Rosanna Cella, Director of Human Resources, with Ms Simona Geroldi, Director of External Relations, and with Mr Stefano Parisse, Director of Residential and Business Division, along with the following information sources:

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