EMCC case studies

Industrial change in the telecommunications sector: Lietuvos Telekomas

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

Lietuvos Telekomas is the incumbent Lithuanian telecommunications operator which provides fixed line voice and data services. It became a subsidiary of TeliaSonera in 1992 when the Lithuanian government privatised the company. TeliaSonera also controls Omnitel, the largest mobile operator in Lithuania. Since the early 1990s Lietuvos Telekomas has undergone profound restructuring, which has lead to workforce reduction and new management practices changing the company’s culture.

Lietuvos Telekomas has recorded a continuous decline in the number of its fixed lines since the mid-1990s, accompanied by a decrease in revenues since 2001. The decrease in its fixed line business was particularly acute between 1998 and 2003 which was related to the firm’s poor response to the fast-expanding mobile market. By the end of 2004, the number of mobile subscribers had reached over 90% and mobile services revenue currently accounts for half of the Lithuanian telecommunications market.

Since the introduction of competition in fixed-line telephony on 1 January 2003, the incumbent operator has lost market shares in terms of traffic. However, lower tariffs resulting from competition have boosted the fixed-line market. At the same time, Lietuvos Telekomas has put in place a new product and marketing strategy. Figures for 2004 indicate an improvement in the operator’s situation as they reflect a much slower decline in the number of lines, a slower although still significant decline in revenues (with a sharp increase in revenues generated by broadband activities) and a return to profit.

The company has made important investments in the expansion and upgrading of its network. The network infrastructure is almost complete and over 90% of it is digitalised. The incumbent operator continues to optimise switching equipment as well as to develop transmission and access networks in order to comply with the market’s evolving needs.

The operator’s strategy currently focuses on stabilising the customer base, finding profitable new core business options and controlling operational costs. This follows the strategy of parent company TeliaSonera where priority is given to develop the Internet and data communications markets and invest in cable and contents.

Organisational aspects have played a key role in the above process. In addition to streamlining the overall organisation through a process of voluntary and rewarded redundancies, the company appointed a new president and managing director in 2004. At the same time a new management structure was approved and implemented. Three core functions stand out: sales, finance and technology.

Programmes for improving skills sets and training are being developed throughout the company, with a special emphasis on sales functions and a general objective of improving internal communications.
Company facts

AB Lietuvos Telekomas is the Lithuanian incumbent telecommunications operator and the largest telecommunications provider in Lithuania. The company was created in 1992 to take on the operational functions of the department of communications in the field of telecommunications services.

Lietuvos Telekomas is a consolidated subsidiary of TeliaSonera, holding 60% of the shares. The company was established as a state enterprise in 1992 and incorporated as a joint-stock company in 1997. In 1998, the Lithuanian state sold 60% of the capital to a strategic investor – a consortium composed of Sweden’s Telia and Finland’s Sonera, which merged in 2002. The privatisation process proceeded further by allocating 5% of the company’s shares to employees in 1999 and the sale of 25% of the capital to local and foreign investors through an initial public offering (IPO) in 2000.

AB Lietuvos Telekomas performs the core business of the group, by providing fixed-line telephony, data communication, fixed-line network, wholesale and Internet-related services. It also operates Takas, an Internet portal. The company does not provide mobile services. TeliaSonera, the group’s main shareholder, has a fully-owned distinct subsidiary, UAB Omnitel, which is the largest mobile network operator in Lithuania.

The main services offered by Lietuvos Telekomas are:

• fixed-line telephony services (local, long-distance, fixed-to-mobile and international calls for residential and business customers all over the country);
• a wide range of Internet access services, from the dial-up Internet access service Atviras Takas, flat rate dial-up Internet access service Tako Zona, ADSL technology based access service DSL Takas, to the Internet via leased lines, Internet via Frame Relay and Internet via broadband optical network services;
• various data communication services such as permanent broadband connection, MPLS VPN (Multiprotocol Label Switching Virtual Private Network), Frame Relay, X.25, leased lines.

In 2004, the revenue of the company amounted to LTL730 million (€211 million\(^1\)) which represents a 10.1% annual decrease. The company generated an operating profit of LTL44.9 million (€13 million) and a net profit of LTL40.6 million (€11.8 million), while it recorded an operating deficit of LTL11 million (€3.2 million) and a negative net income of LTL36.1 million (€1 million) in 2003.

\(^1\) All Lithuanian Litas (LTL) euro equivalents have been calculated at a rate of LTL3.45 per euro.
Table 1: Key financial results of Lietuvos Telekomas, 1999–2004

<table>
<thead>
<tr>
<th></th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
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<tbody>
<tr>
<td>Revenue (LTL million)</td>
<td>980</td>
<td>1,039</td>
<td>1,058</td>
<td>968</td>
<td>812</td>
<td>730</td>
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<tr>
<td>Change (%)</td>
<td>6.0</td>
<td>1.8</td>
<td>-8.5</td>
<td>-16.1</td>
<td>-10.1</td>
<td></td>
</tr>
<tr>
<td>EBITDA as % of revenues</td>
<td>42.2</td>
<td>50.4</td>
<td>53.3</td>
<td>52.0</td>
<td>47.6</td>
<td>46.0</td>
</tr>
<tr>
<td>Net income (LTL million)</td>
<td>104</td>
<td>240*</td>
<td>182</td>
<td>67</td>
<td>-36</td>
<td>41</td>
</tr>
<tr>
<td>Net income as % of revenues</td>
<td>10.6</td>
<td>23.1</td>
<td>17.2</td>
<td>6.9</td>
<td>-4.4</td>
<td>5.6</td>
</tr>
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</table>

* Excluding the gain on sales of Bitë GSM shares – LTL 174 million.

Source: Lietuvos Telekomas

Market dynamics and company changes

Evolution of the Lithuanian telecommunications market

Liberalisation process

The June 1998 law on telecommunications (revised in January 2003) established a regulatory framework to complete the liberalisation of the telecommunications sector as part of Lithuania's accession to the European Union. An independent regulator, the Communications Regulatory Authority (RRT), was established in May 2001. In 2004, the Lithuanian parliament adopted a new telecommunications law that transposed the 2002 EU communications regulatory framework into national legislation.

The fixed-line sector opened up to competition on 1 January 2003, when the exclusive rights of Lietuvos Telekomas expired. The selection and pre-selection of the operator was introduced in 2004.

On 1 January 2003, the regulatory authority designated Lietuvos Telekomas as an operator with significant market power (SMP) in public fixed-line telephony network and services, leased-line services and interconnection services market. Consequently, Lietuvos Telekomas had to take on a number of obligations, including transparency, non-discrimination, accounting separation, access provision, number portability and cost-oriented tariffs.

In the mobile sector, competition was introduced in the second half of the 1990s, with the allocation of two GSM licences to Omnitel and Bitë GSM in 1995 and a third licence to Tele2 in 1999. There are no licensing requirements concerning the provision of Internet access.

Market development

The Communications Regulation Authority (CRA) valued the Lithuanian telecommunications market at LTL2.029 billion (€588 million) in 2003, up by 25% from LTL1.623 billion (€470 million) in 2002. Cumulated revenues for the first three quarters of 2004 amounted to LTL1.577 (€457 million). The rapid expansion of the market has
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resulted from the boom in mobile telephony, which accounted for 51% of revenues in 2004 (excluding interconnection revenues).

In comparison with other European Union countries, Lithuania shows a density in the mobile market over average but has the lowest fixed-line density. The total number of mobile subscribers increased from 880,000 at the end of 2000 (24% of the population) to 3.3 millions at the end of 2004 (91% of the population). In terms of lines, mobile services outnumbered fixed-line telephony in the first half of 2002. The number of fixed lines has kept on decreasing, from 1.2 million at the end of 2000 (33% of the population) to 822,000 at the end of September 2004 (23% of the population), although at a more moderate pace in 2004.

The poor quality of fixed-line telephony as well as an underdeveloped commercial activity by Lietuvos Telekomas when mobile providers entered the market favoured the success of mobile services. The development of competition has contributed to creating a dynamic market as three network operators – Omnitel, the subsidiary of TeliaSonera, Bite GSM and Tele-2 – and several virtual network operators – with Eurocom, Laracijos telekomunikacijos and Teledema – entered the market in the second half of 2003.

Since the liberalisation of the fixed market, a large number of enterprises have entered the Lithuanian market and Lietuvos Telekomas faces increasing competition, particularly in the international call segment. By the end of September 2004, 21 companies were providing international fixed-line telephony services, seven of those were also providing domestic call services.

With increasing competition, tariffs have decreased significantly, by 44% on average for international calls in 2004. This has stimulated the market. As a result, Lietuvos Telekomas’ traffic figures increased for the first time in 2004 after several years of continuous decline. The turnaround resulted from a surge in dial-up Internet traffic and from an increase in voice traffic. With regard to fixed lines, the decline persisted, but at a more moderate rate.

There has also been recent progress in the development of the Internet market. The total number of subscribers to Internet access services reached 362,000 at the end of September 2004 (10% of the population), 29% of the subscribers used broadband communication technologies. The number of broadband subscribers per 100 inhabitants rose from 1% to 3% between the end of year 2003 and end of September 2004.
Figure 1: Comparison of the number of fixed and mobile telephone communications subscribers per 100 inhabitants

Source: Lithuanian Communications Regulatory Authority

Lietuvos Telekomas market position

Since the introduction of competition in January 2003, the market share of Lietuvos Telekomas has quickly fallen in the international call segment (73.2% in terms of traffic by the end of September 2004). The incumbent operator has however maintained a strong position regarding local calls (with a market share of 98.7%), long distance calls (93.2%) and fixed-to-mobile calls (91.6%). Tele2, which has operated a GSM network since 2000, has become Lietuvos Telekomas’ main competitor in the fixed telephony market.

In the data market, Lietuvos Telekomas has also remained the market leader. In the first three quarters of 2004, it generated 44% of revenues in the leased-line market, followed by Lietuvos Energija (28%) and Infostruktūra (11%). The operator has built a strong position in the Internet market, with almost 50% of all Internet revenues and 94% of the xDSL market in terms of connections. The number of its ADSL subscribers jumped from 14,000 to 23,699 in between 2003 and 2003 and increased further to 47,465 at the end of 2004.

The situation of Lietuvos Telekomas in terms of lines and traffic improved in 2004. The number of lines decreased by 9,000 after having decreased by 108,000 in 2003. Traffic generated in the network of the operator also increased. However, revenues continued to decline, by 10% in 2004, following a 16% decrease in 2003. Fixed telephony revenues decreased by 13%, as a consequence of tariff reductions. Revenues from leased-line services also decreased. This was only partially compensated by a 22% increase in revenues from Internet services.
Although Lietuvos Telekomas provides only fixed-line services, mobile services play a role in the company’s strategy since TeliaSonera, the parent company, also owns mobile network operator Omnitel. TeliaSonera, therefore, has to consider the Lithuanian market as a whole, in order to maintain the prospects of sustained growth and profits in both companies.

**Main organisational and business process changes**

The company currently faces the challenge to stop the number of lines declining, retain its customers, find new sources of growth, while improving efficiency. The introduction of competition has forced the company to adjust its resources and redesign its products portfolio and commercial activity. The company, which was designated as an SMP operator in January 2003, has also faced new constraints imposed by the regulator. Thus, the operator had to overhaul its management practices and conduct guidelines for executives and employees.

Indeed, the changes that Lietuvos Telekomas faced since the early 1990s need to be considered against the background of the overall transformation of the country. As part of the transition process to democracy and an open market economy, the entire country has undergone far-reaching legal, economic, cultural, and social changes.

The company’s adaptation process includes network modernisation, adaptation of its organisational structure, elaboration of a new product and pricing policy, implementation of customer care programmes and a special emphasis on internal efficiency.

**Network modernisation**

From the date of its privatisation, Lietuvos Telekomas has carried out an important investment effort to expand and upgrade its network. In 2004, investments of the group amounted to LTL75 million (LTL51 million in 2003), a major part of which were dedicated to the development of fast growing xDSL access network and upgrade of information technology systems.

In 1995, the company started to replace the quasi-electronic automatic phone exchanges with digital exchanges, and to deploy optic-fibre cables. The company brought the share of subscriber lines connected to digital exchanges from 25% to 92.7% in between 1998 and 2004. During the past two years, the operator also completed the construction of the third national loop using a new-generation SDH equipment, which connects the cities of Vilnius, Šiauliai, Panevėžys, Kaunas and Klaipėda. It enables the provision of data communication services in a more flexible manner and serves as a basis for new data communication services.

In response to an increasing demand for bandwidth and high quality data communication services, Lietuvos Telekomas has developed the data communication network based on Internet Protocol (IP), increased the capacity of the ADSL network throughout the country as well as its international Internet access capacity. The ADSL network of the
company now covers the majority of Lithuanian cities and towns and more than 120 rural areas.

*Organisation*

Before 1998 the company’s organisation was based on a regional structure. Since then, it has been evolving towards a centralised model, under the influence of its parent company TeliaSonera. The company’s main functions depend on a single decision centre.

In 2003, the company adopted a new structure based on three core business units, following the structure of parent company TeliaSonera: marketing, products and services; networks and technology; chief financial and operations officers. Marketing, products and services, and networks and technology are organised at group level in order to ensure economies of scale and access to global markets. There are also a number of support services functions including communications, legal affairs and internal audit.

In 2004, a new president and managing director were appointed and a new management structure was approved and implemented, giving more weight to marketing and sales, operations and finance. Each of these functions lies within the responsibility of a chief officer. From a geographical standpoint, the operations of the company are centralised in Vilnius headquarters although five branch offices remain. The reorganisation process is supposed to be completed as Lietuvos Telekomas has almost aligned its management principles with those of TeliaSonera.

*Products and prices*

Confronted with emerging competition, Lietuvos Telekomas took its first strategic steps in the first half of 2003 to consolidate its position in the fixed line market. The company designed and launched a new product and marketing strategy to make service prices more market driven and put new value-added services on the market.

Major initiatives taken in the past two years have included:
- significant reduction of tariffs for all voice telephony services;
- various discount campaigns;
- introduction of new service packages, such as ‘Pasaulis’ for subscribers of international payment plans, ‘off-peak tariff’ plans, ‘Vietinis’ for the local calls, ‘Šalies’ or ‘Miestai’ for long distance calls at peak times;
- development of a large range of dial-up and broadband package services;
- increase in speed of ADSL service for unchanged charges in the business segment;
- introduction of Voice-over-Internet Protocol (VoIP) service in January 2005.

Recent results have been encouraging. The loss of customers in telephony has almost halted and the company has enlarged its customer base with new services. By the end of 2004, 420,000 customers subscribed to payment plans, resulting in a more stable customer base. The number of ADSL subscribers more than doubled in 2004 amounting to 47,465. Progress in the dial-up and broadband Internet market has positive
consequences on the traditional activity of the operator. The company estimates that every five new Internet customers bring an additional fixed line to the company.

The convergence of technologies and markets and the need for expansion of the present markets of the company are forcing Lietuvos Telekomas to explore opportunities in the markets of cable applications and provision of contents, where TeliaSonera has already made some attempts in Estonia.

Customer care activities

The company has adopted ‘The best served customers’ as one of its main mottos. Following the strategic line of its parent company, TeliaSonera, Lietuvos Telekomas strives to be perceived by its customers as the service company that best fulfils their primary needs.

Lietuvos Telekomas provides face-to-face services in customer care centres located in the 10 largest cities of Lithuania. It also serves its customers via call-free telephone numbers (call centres) and the Internet via a dedicated website, which offers authorised subscribers the possibility to subscribe and modify their services. During 2003, customer care centres served more than one million customers and at the end of the same year, the website counted 10,000 subscribers.

According to customer surveys carried out by Lietuvos Telekomas, the company has seen the satisfaction of its customers raise to an average score of eight out of ten, up from the score of five a few years ago.

Internal efficiency

Since the beginning of the decade, the company has engaged in a process of operational efficiency enhancement through process re-engineering and upgrading of internal IT systems like the network management system.

One important step in the process was the implementation of a CABS (customer care and billing systems) system, which included customer care, by the end of 2000. This includes order management, billing, mediation, settlement and report applications, integrated with other legacy systems like ERM and NIS. The new system was aimed at facilitating the launch of new services and to make a more efficient use of customer information. The results proved to be positive as billing was more accurate. Tariffs could be changed, new pricing packages easily introduced as well as making a wide range of customer information available.

In 2002, the company’s Network Management System (NMS) became totally operative. Before their integration into the NMS, the independent component parts of the company’s network, such as digital exchanges, data transmission network and backbone network were operated by independent management systems. The NMS made it possible to speed up the provision of new services, effectively plan network functioning activities,
efficiently make temporary and long-term changes of network parameters, optimise the use of network resources, save network technologies (computers, servers, etc), reduce network maintenance expenses, improve quality of the network and services, quickly eliminate and reduce network faults, as well as obtain thorough information on the network status.

Workforce issues

Staff reduction

Lietuvos Telekomas, which inherited an oversized staff from its past as a monopolistic and state-owned entity, has drastically reduced its workforce in order to adapt to new market conditions. The number of employees went down from 9,521 to 3,586 in between 1998 and 2003. In 2004, it was further reduced to 3,120 employees. Staff reductions mainly targeted the company's administration. Redundancies have been achieved through voluntary leaves and agreed incentives.

Figure 2: Number of employees

![Bar chart showing the number of employees from 1998 to 2004.](chart.png)

Source: Lietuvos Telekomas
New management

Personnel reduction has been the most visible part of a profound and quite lengthy process of change in the management and organisation of the company, including the following elements:

- a centralised organisation;
- a strong and committed management;
- a great impulse to the commercial functions, activities and positions;
- a new sales strategy;
- a substantial effort in training and education;
- a clear focus on productivity and the market;
- an effort to promote a set of shared corporate values.

As part of the TeliaSonera group, Lietuvos Telekomas is progressively adopting the TeliaSonera ‘People Framework’, which gives a high priority to the management of competences. In 2004, Lietuvos Telekomas implemented a common internal job market, adopted the group's method for conducting annual development and assessment dialogues. With these initial achievements, the company encourages career development and offers opportunities to the individual.

Salary

The rewards system is based on TeliaSonera’s policy, taking account of specific conditions of the country. Employees are rewarded through fixed and variable pay, incentives and benefits. The variable part of the salary is based on individual performance in achieving business targets. The company carries out a regular benchmark of salaries and benefits with practices in the market in order to apply market-competitive rewards and attract, retain and motivate people.

Internal communication

Reorganisation of the company has been supported by a comprehensive plan for improving internal communication. For example, managers have used every opportunity of getting the personnel of the company together, like ‘summer meetings’, to give information about the new structure, strategic lines and values and to disseminate new ideas or corporative mottos like ‘devoted people’.

The development of a human resources policy as well as efforts to improve communication within the company have produced a genuine change in the perceptions and attitudes of the workforce. The company carries out regular surveys on personnel commitment with corporative values and objectives, and categorises its employees accordingly. The category ‘ambassador’, which includes the most committed, loyal and satisfied employees, comprises at the present more than 45% of the staff. On the other hand, the category of least motivated people is the smallest.
Qualifications and training

Enhancing the level of competence of employees and promoting commercial functions are the current priorities of the company. Human resources management are giving special attention to sales positions in terms of career plans, training opportunities and incentives schemes.

In 2003 the company devoted much attention to management development both through the tailored management development programs and by supporting managers’ master studies at universities and other higher education institutions in Lithuania and abroad. The company dedicated quite intensive efforts to staff training in the fields of state-of-the-art technologies, sales and customer care.

At department levels, managers have the responsibility for providing adequate training of the workforce, channelled through a specialised unit of the Lietuvos Telekomas group. This unit provides internal training services and also sells its competences to the market.

Lessons learned

Vision of sector evolution and innovative strategies

Lietuvos Telekomas has undergone a major transformation process over the past decade, transforming itself from a monopolistic administration to a modern telecommunications operator and service provider acting in a competitive environment. The company has benefited from the experience of its parent company TeliaSonera in adapting its management practices and organisation to new market conditions.

The company now concentrates its efforts on achieving stability in its business figures as in its internal structure and clientele. The process of adaptation has probably, not yet ended, but significant progress has been made to consolidating the position of the company. Although the company registered another year of decline in revenues in 2004, it also saw a return to profit as a result of lower operational expenses and financial expenses.

The current challenges of the company are:

- stabilise market position and maintain profits and positive cash flow;
- develop commercial actions to win back part of the lost market share;
- continue to promote synergy among companies in the group;
- further improve efficiency;
- find new sources of profitable growth, organically and through acquisitions.

Current attention is given to cable networks. Given that the current infrastructure of existing cable is not enough to meet the growing needs of broadband, the company considers to acquire existing cable infrastructures in order to act in the ‘triple play’ field of television, Internet access and telephony.
Working practices

In order to acquire stability as well as developing activities in emerging markets, the company continuously reinforces the mechanisms of commercial and technical training. The company also pursues these in order to enhance its company image vis-à-vis its clients and employees. In this sense, Lietuvos Telekomas carries out innovative projects, such as the fourth High Potential Development Programme and the second Graduate Training Programme, aimed at retaining the image of an employer able to attract, employ and keep the best young employees. In addition, the company became a sponsor of the Vilnius University Career Centre and supported a number of education-focused student events in many Lithuanian universities.

The company emphasises the difficulty of acting with equal intensity on different fronts, as the only method to achieve stability. Its investment plans to develop new infrastructures have momentarily been halted and operating resources focus on:

- commercial activity in new market niches, total dedication to customer care in traditional markets;
- the improvement of internal instruments for human resources promotion.

Contact details

Company name: AB Lietuvos Telekomas
Website address: http://www.telecom.lt/
Address: Savanoriu Avenue, 28
          LT-03501 Vilnius, Lithuania
Tel: +370 46 48 15 11
Fax: + 370 5 212 66 65
e-mail: send from: http://www.telecom.lt

Source list

This case is based on face-to-face interviews with Mr. Stefan Albertsson, Chief Commercial Officer and Deputy General Manager and Mr. Edis Kasperavicius, Human Resources Manager, and on the following information sources:

- http://www.telecom.lt
- Lietuvos Telekomas 2003 Annual Report
- Lietuvos Telekomas Press Releases
- Review of the economic and social situation in the Republic of Lithuania in 2003;
  Ministry of Economy, Vilnius, 2004
- Comprehensive monitoring report on Lithuania’s preparations for membership.
  Communications Regulatory Authority, Lithuania, 2004