

Research on buying activity in the B2B segment of telecommunication market of Ukraine

Kiev-2008

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General Provisions.

The topicality of the research. B2B (Business to Business) segment of telecommunication market involves companies whose ultimate consumers are commercial structures, and whose products and services are bought by clients/consumers for the organizations' money. In the telecommunication market the participants of the B2B segment are correspondingly companies producing and providing special equipment and companies-integrators on the one hand, and operators of mobile and fixed communication; cable-TV operators; Internet providers and content providers, multi-service providers etc. on the other hand.

Buying activity on the B2B market has its pronounced specific character and is characterized by other distinctive features and regularities than buying activity of the ultimate consumer.

Knowledge of the characteristic features and specificity of buying activity in the B2B sphere is the ground for writing and correcting a company's strategy, planning the promotion of its goods and services. Specific research in this field is therefore of great value. And taking into account the fact that such researches are not carried out on the telecommunication market, the planned research is undoubtedly topical and is going to be of great value for the market participants, first of all for companies producing and supplying telecommunication equipment and providing other services for the operators' segment of the market.

The purpose of this research was to study the specifics of buying activity in the B2B segment of telecommunication market; to study in detail the information needs of operators, their long-term plans, vectors of technical and marketing development, positions and preferences in working with providers.

We should mention that while developing this research the following particularities of the B2B segment marketing were taken into consideration:

- the prevalence of logical constituent in the buying activity motivation (orientation to price, quality and advisability of purchase), while on B2C marketplace irrational motives usually prevail (devotion to a certain trademark, fashion, buyer's emotional state);
- dependence of buying activity on qualification, experience, and interests of people taking decisions;

- consumers' orientation to technological constituent and thus a great value of information about new goods and technologies, and the experience of their implementation etc.;
- most technological buyers' ability and desire to set exact and clear quality criteria for the product they are interested in before purchasing;
- the difference in promoting goods and services (in promoting goods rational factors and arguments prevail, in case of promoting services emotional constituents are much more important, like orientation to the age of the company, the list of its customers, reputation, additional services etc.).

The subjects of inquiry are the leading operators and providers of telecommunication services of all branches of communication, broadband systems, the Internet, television and radio broadcasting, which are actual and potential visitors of the annual EEBC Exhibition.

The subjects of expert survey are companies producing and supplying telecommunication equipment, system integrators which are actual and potential visitors of the annual EEBC Exhibition.

The objects of the research are form and content of the buying activity of the representatives of the B2B segment of telecommunication market of Ukraine.

The methodology of the research

The methods of the research are: questioning technique, telemarketing, interviewing, and the method of expert survey (deep interview).

Estimation of the results: methods of statistic and correlation analysis, electronic processing of questionnaire data using modern statistic software, interpretation of the results with producing graphs and bar charts.

Information about respondents

The research involved 103 experts in the sphere of telecommunications and telecasting.

Predominance was given to questioning top managers (53,4%), technical directors and chief engineers (about 20%), as well as middle managers, mostly managers of development, marketing, sales and client services divisions.

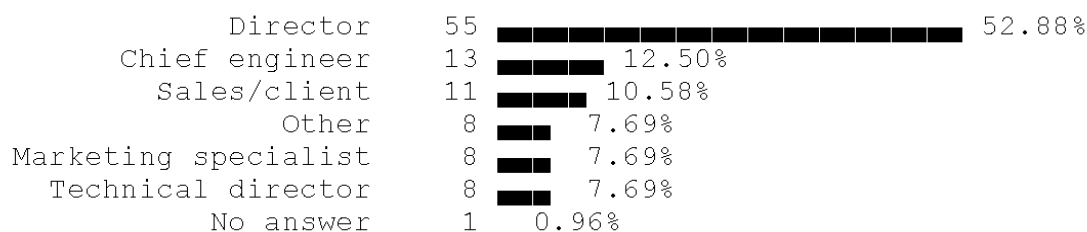


Figure 1. Respondent distribution according to the occupied post.

The geography of the research embraced the whole Ukraine: 36% of the pollees from Kiev, as for the rest all the regions and all-sized settlements are equally represented (million-strong cities, region and district centres).



Figure 2. Geographical respondent distribution

The majority of the respondents are cable operators (37,5%), Internet-providers and multi-service providers (34,6% and 16,35% correspondingly). Over 45% of the respondents represent networks serving up to 1000 subscribers, about 40% - networks serving up to 10000 subscribers, 15,6% - networks with over 100000 subscribers base. Around 58% of respondents represent companies existing for 5-10 years on the market.

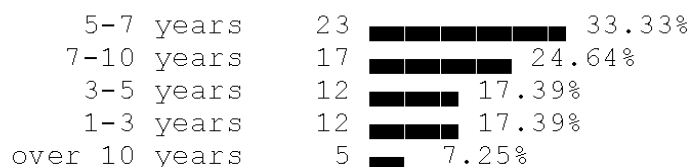


Figure 3. The age of companies participating in the research

The expert survey within the framework of the research involved producers and suppliers of telecommunication equipment, representatives of specialized media, non-governmental organizations and unions.

Total ratio of respondents and experts is 82 to 22 (78,8% respondents, 21,2% experts).

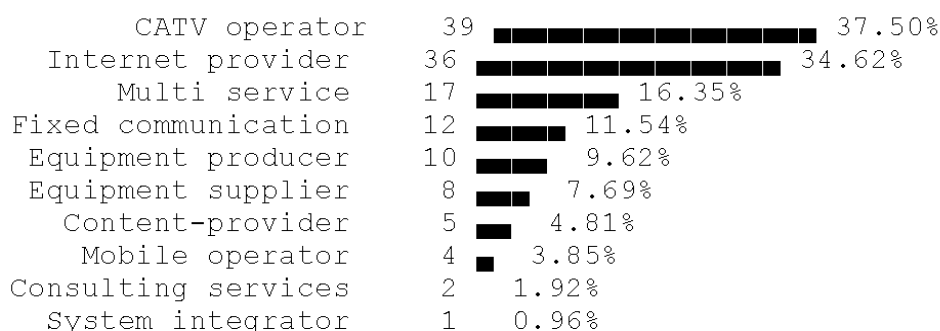


Figure 4. General distribution of research participants according to the scope of activity.

Research results

In general the research has shown dynamism and promotability of telecommunication market in Ukraine. According to the experts' opinion, a number of regulatory and market factors can favour further marketplace development at this stage.

Among the former ones (related to legislative and executive power) there are:

- Implementation of a working government program of developing the branch;
- Improvement of the existing legislative and regulatory systems in the sphere of telecommunications in the issues related to regulating the activity of telecommunication operators and bringing it up to today's fundamentals;
- Putting things right in the structure of the branch management and regulation, particularly:
 - creating a new executive body to tackle the questions of informatization and communication;
 - ensuring a clear distribution of authorities between the President and the Government concerning the formation of the National Committee of Communication Regulation of Ukraine and control over the work of the Committee;
 - a clear distribution of functions of NCCR and other regulating bodies in order to avoid dualism in authorities and responsibilities between them;

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- Conversion of radio frequency resource of Ukraine in favour of civil users and alteration of the RF plan.

Among the stimulating factors of market character the experts have named:

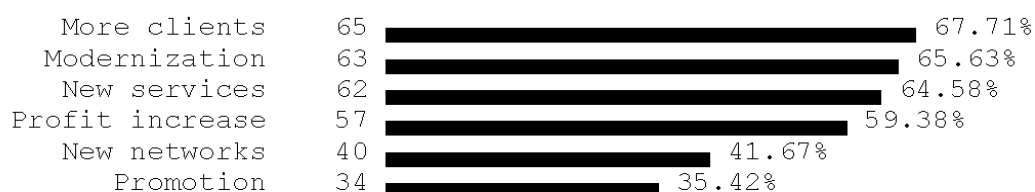
- Investment increase in the branch;
- Dynamic increase in the informatization of all spheres of economy, the growth of information needs;
- Competent antimonopoly policy (first of all regarding «Ukrtelecom»);
- Liberalization of the market;
- Increase in the population's buying capacity allied with general economical growth;
- The rise of population's competence as a result of educational work explaining the advantages and popularizing new technologies and services;
- New, more affordable technologies and solutions;
- The development of national scientific basis, sufficient financing of national research officers - developers in the sphere of informatization and communication;
- Active experience exchange between market players.

According to the research data, the telecommunication market in Ukraine is now experiencing a period of stabilization and limited growth. The majority of companies have gone through the stages of intense rise. Among the strategic aims of the companies represented in the research the predominant ones are broadening of subscribers (customers) base, expansion into new markets (about 68%) and expansion (modernization) of the existing networks (65,6%). We should state that the investments into capital construction and building new networks are considered a priority task about 42 % of the respondents.

A significant number of respondents also stated that the priority direction in their companies and networks development is introducing new services (about 65%).

Among the important strategic aims of Ukrainian telecommunication companies at this stage we can also name maintaining the existing positions on the market and promoting companies, as well as rivalry with competitors (31% and 22% accordingly).

Profit increase is considered the priority aim by about 60% of respondents, while expense minimization – by nearly a half (around 31 %).



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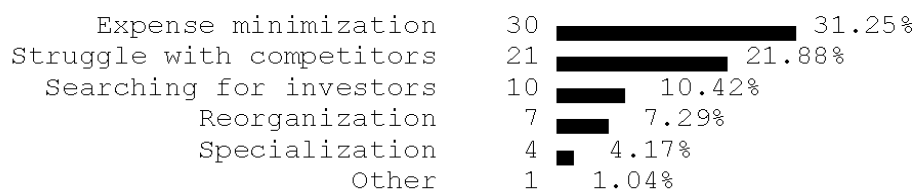


Figure 5. Distribution of strategic aims of the companies participating in the research.

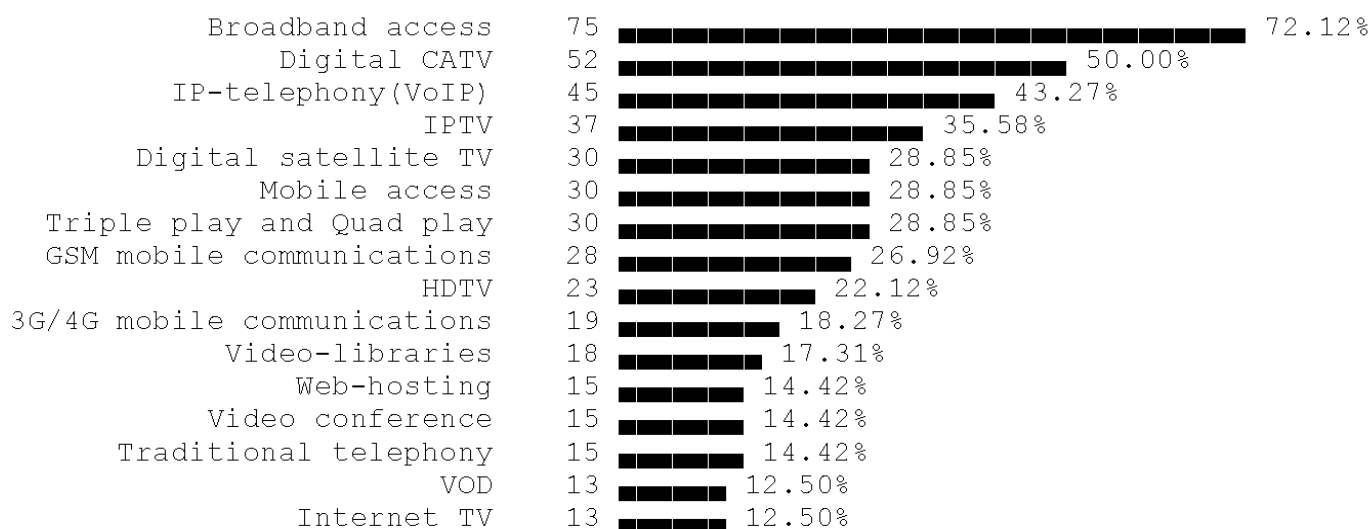
The launch of new services is worth special attention. The respondents consider Broadband Internet access the most promising and profitable (72,12%). Among cable television operators the most promising is digital cable television, and a fairly high rate of the pollees categorized the development of digital satellite television as promising.

All the participants of the survey denote the VoIP and IPTV services as quite promising (43,27% and 35,58% accordingly).

About one third of the pollees also emphasized the potential of mobile access to Internet, Triple play and Quad play services.

27% of the pollees admitted the promotability of GSM mobile communications and only 18% admitted the promotability of 3G/4G mobile communications (it is notable that the number of choices in this matter is close to the number of choices in traditional telephony).

The outsiders are interactive educational and entertaining applications (about 10%), digital radio (8,65%), NVOD/PVOD services (pseudo VOD), mobile TV (8,65%), and the last in the list of popular and promising services is PPV service (pre-paid broadcast) – 2,88%.



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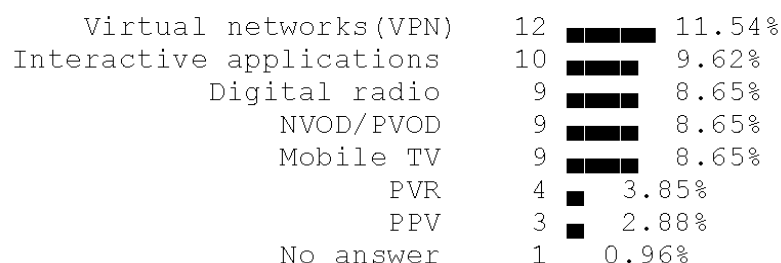


Figure 6. Estimation of new services promotability.

A separate task of this research was to study the attitude of the subjects of telecommunication market in Ukraine to various new technologies. The experts' opinion concerning this issue practically coincided with that of the respondents. That is why we will present the data generalized for all interrogation participants. (In this part of the report we offer a percentage without considering "No answer" line).

The most promising technologies in the field of wireless communication are WiMax and WiFi/WLAN (over 50%). A significant number of votes was given to WCDMA/CDMA2000 technologies (over 30%), the latter getting more votes.

Compared to the above mentioned technologies, a very small number of votes was given to such technologies as Edge GSM (5%), LMDS (5%), WirelessUSB (3,75%), DECT (2,5%). UWB technology (Ultra-wideband) didn't get a single choice.

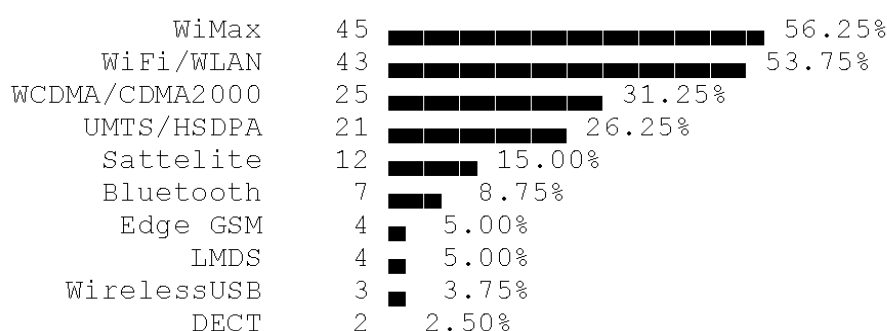


Figure 7. Estimation of promotability of new technologies in the field of wireless communication.

In the field of digital television and radio broadcasting the first place was given to the family of European standards for digital television DVB, above all for cable, satellite and terrestrial signal delivery environment: (DVB-C, DVB-S, DVB-T) – 66,67%. Broadcasting for portable devices (DVB-H) was estimated as promising by 22% of the respondents. Over a half of the respondents also highly evaluated IPTV.

And such technologies of digital radio broadcasting or digital multimedia broadcasting as DAB/DAB+ were not highly estimated (2,47% choices), as well as the family of standards DMB (T-DMB, S-DMB), which didn't receive a single choice.

Broadcasting technology for portable devices MediaFlo was not favoured with respondents' attention (1,23%).

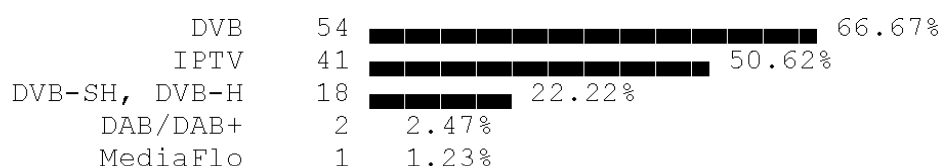


Figure 8. Estimation of promotability of new technologies in the field of digital television and radio broadcasting.

Among the most promising technologies for the development of broadband Internet access the research participants named FTTx (38,82%), xDSL (37,65%) and Cable TV Modem (32,94%).

Power line Internet access technology received an insignificant number of choices (5,88%).

The technology of broadband wireless access LMDS got the least number of choices (2,35%).

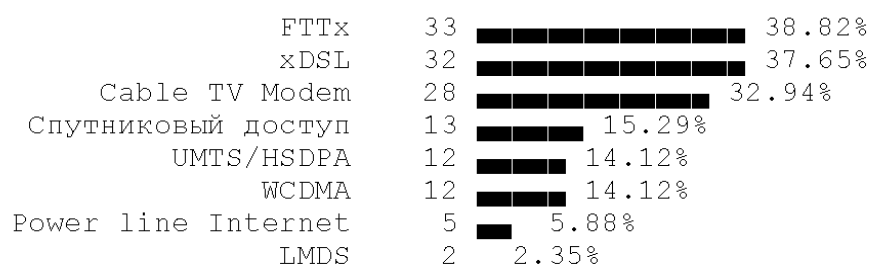


Figure 9. Estimation of promotability of new technologies for the development of broadband Internet access.

In the sphere of wire broadband Internet access the ADSL2+ modem technology is considered the most promising (55,81% of the survey participants).

A relatively large number of choices was also given to the new LAN/Ethernet technology (44,19%).

The FTTx/GPON technology of fibre-optic communication is considered a little less promising for the Ukrainian market at the moment (about 30%).

The promotability of the DOCSIS standard was estimated as mediocre (16,28%).

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An absolute outsider of the group is the ISDN integrated services digital network (1,16%).



Figure 10. Estimation of promotability of new technologies in the sphere of wire broadband Internet access.

Speaking about the main reasons why they refuse to introduce new technologies or buy latest equipment, the survey participants first of all name the lack of assets to invest into new technologies and interrelated factor - high cost of new equipment (about 55%), as well as unavailability of consumer market and lack of demand for certain services (46,15%).

Legal problems remain the issues of current importance for the development of Ukrainian telecommunication market (around 28% of respondents defined them as a limiting restraining factor).

A number of respondents named inner restraining factors as obstacles for introducing new technologies (lack of qualified experts, need for company reorganization etc.) – 12,5%.

And the problems related to the lack of information (both technical and marketing) do not seem to worry the research participants much - such factors were defined as restraining by 2-8% of the pollees.

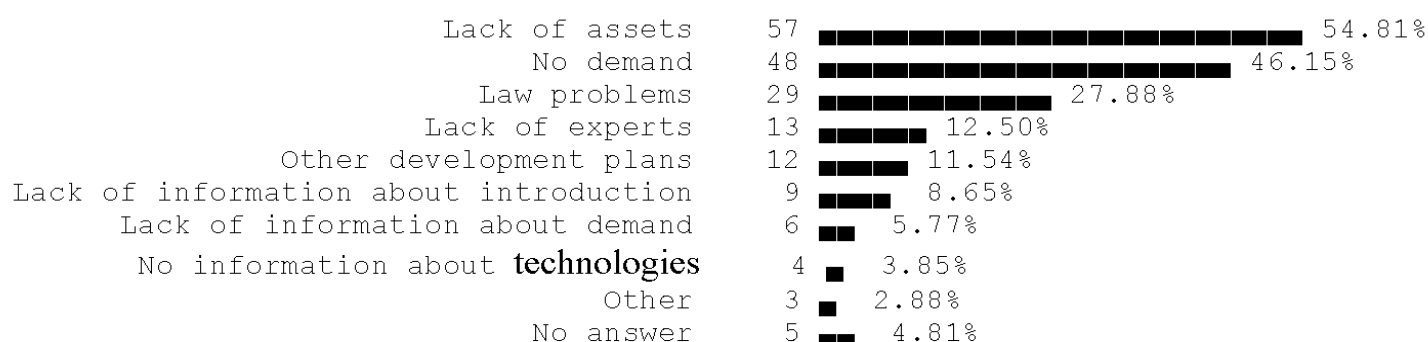


Figure 11. Reasons for the refusal to introduce new technologies.

On the whole, the research participants have shown quite a large conservatism concerning introducing new technologies and services. Over 72% of the respondents answered that their

expenses on maintaining and expanding the existing networks are larger or significantly larger than those on introducing totally new technologies and solutions. 13% more estimated this ratio as 50 to 50.

The number of respondents whose companies are ready to invest into new technologies and services more than into expanding and maintaining the existing networks comprise up to 14%.

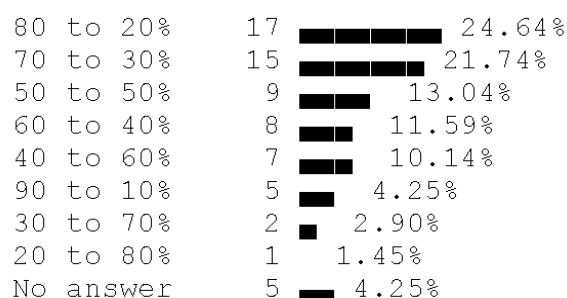


Figure 12. Ratio of companies' expenses on maintaining and expanding the existing networks and on introducing totally new technologies and solutions.

It is noteworthy that in the last 2-3 years the survey participants have invested into the network development as a whole:

- *\$ 10 to 50 thousand into the networks with up to 1000 subscribers*
- *\$ 100 thousand to 1 million into the networks with up to 10000 subscribers*
- *\$ 10 to 50 million into the meganetworks with up to 10000 subscribers*

And at the same time the majority of respondents (71,69%) mentioned that the amounts of expenses on developing their networks are going to increase in the coming 2 or 3 years. About one fourth of the pollees stated that the expenses will remain at the present level. And only 3,45% told that they were going to cut the expenses on network development.

Among the factors stimulating investments into the development of innovative technologies the market experts named a drastic increase in consumers' demand for some services (24,69%), seldom – others' positive experience showing an undoubtful advantage of introducing new technologies/equipment (13%).

A very insignificant number of respondents among the stimuli to innovation marked strengthening of competitors' positions (9,88%) or unplanned profit increase, investment inflow, and spare circulating assets (6,17%).



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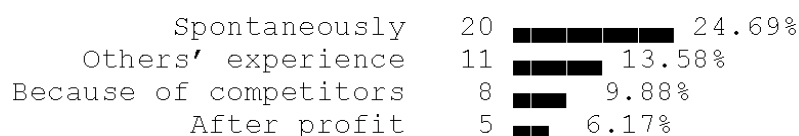


Figure 13. The principle of reaching decisions to buy new equipment and introduce new technologies.

The overwhelming majority (70,37%) of the pollees claim that decisions to buy new equipment or introduce new technologies are reached in their company according to the strategic plan of development. About one fourth of respondents admitted that in their company such decisions are taken spontaneously, as far as the needs develop.

At the same time the decisions to modernize technical basis or develop a new service are taken mostly after a consolidated resolution of top-management (51,25%), rarely – by the chief manager themselves (18,75%).

Such decisions are often reached according to the idea of the chief engineer or technicians (35%), and seldom according to the data of marketing offices research or the conclusions of a special development department (around 17%).

Calling independent advisers and basing strategic decisions on their opinions is never used on this market.

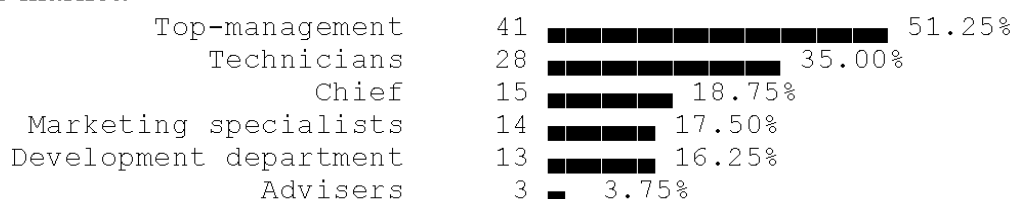


Figure 14. People in charge of reaching strategic decisions.

At the stage of choosing an equipment supplier or an integrator-company the interrogated telecommunication market operators first of all pay attention to the availability of equipment of famous brands by well-known producers (45, 12%).

Ukrainian operators also traditionally value personal contacts with suppliers and the duration of cooperation (40, 24%), as well as recommendations of specialists they know, and good reputation (23%).

A wide supply of equipment of the same type from different producers, and a wide range of prices, or wide specialization (availability of equipment of different lines for different network districts) is a more attractive variant for national operators than working with particular-

speciality companies. About 60% of respondents prefer the former variant, and only 8,5% - the latter.

Other factors (like convenient location and territorial proximity, low prices, domestic manufacture, famous clients in the service record) are not important enough for reaching the decision to collaborate with a supplier.

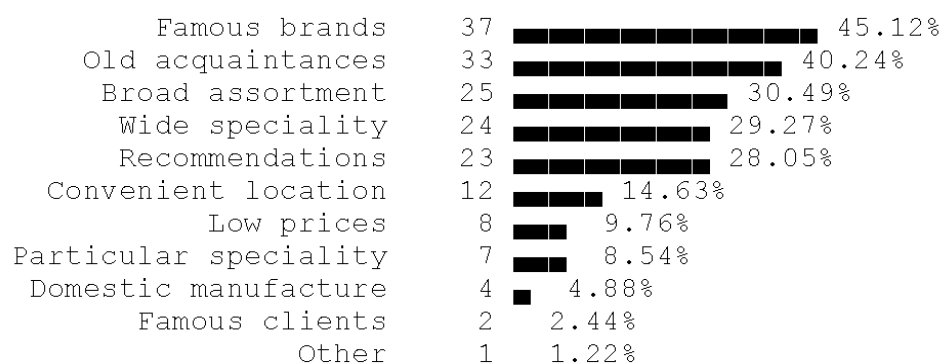


Figure 15. Principles of cooperation with suppliers.

We should mention that with other equal factors (assortment, contacts, reputation), the arguments inclining operators to choose this or that supplier are those related to financial expenses – willingness to offer single discounts for certain produce (54,35%) or permanent loyalty programs (42,39%).

A significant number of respondents also pointed to the importance of information provided by a supplier concerning the experience of using the equipment or implementing certain solutions by other operators (38%). At the same time formal recommendations from other clients are not an important factor for Ukrainian operators (7,61%).

A significant number of respondents named as a positive factor the willingness of equipment producer or supplier to hold a seminar/master-class on using the new equipment for the consumer-company's colleagues, or to render advisory services concerning the purchased equipment in the course of its operation (31,73%).

A number of operators state that warranty service prolongation and accompanying technical documentation in Ukrainian or Russian are considerable bonuses (20,65% and 17,31% correspondingly).



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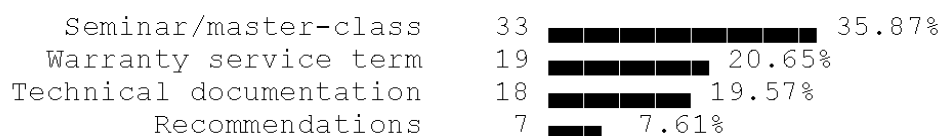


Figure 16. Additional factors influencing the decision to buy new equipment.

Interestingly, Ukrainian operators consider that the most acceptable way to modernize a service yard and buy equipment is to buy all equipment from different suppliers with its installation and servicing by themselves (40,74%), rarely –to buy all equipment from one supplier with its installation and servicing by themselves (35,8%). In other words, 77% of the pollees prefer avoiding expenses on postproduction service and do with their own resources.

Such ways of modernizing service yard as buying all equipment from one supplier with following installation and servicing or searching for integrators to complete end-to-end solutions is chosen only by 12 % of the interrogated operators.

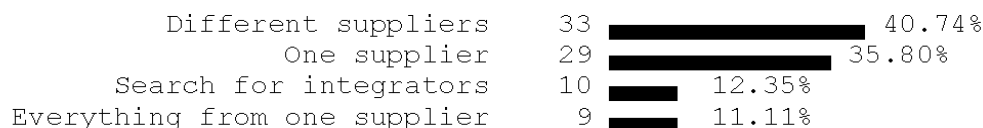


Figure 17. Ways of service yard modernization.

The research results have shown that the operators themselves think that by the moment of purchase they know exactly what goods and with what technical characteristics and quality criteria they need (61% of operators told so). 31% of operators claim they realize the functions the commodity has to perform or the tasks it has to accomplish, but have no idea of technical characteristics and quality criteria it must have.

At the same time the questioning of respondents and experts has shown that in Ukraine there is a very small number of operators having a clear idea of the coming problem but leaving the selection of equipment required for its tackling to the experts of selling companies (up to 8% of the pollees marked this option in the research).

And the experts, most of whom were telecommunication equipment producers and suppliers, claim that in their work they often face operators that realize the functions the commodity has to perform or the tasks it has to accomplish, but have no clear idea of technical characteristics and quality criteria it must have (67% of experts).

At the same time among the major problems with clients the experts named low proficiency of customer-company specialists (about 50%) and a wish to save at the expense of produce or solution quality (around 40%), as well as reluctance to pay for after-sales service (30%). A rather smaller problem is clients' lack of clear idea of their own needs (30%). Among other

problems the experts also named excessive bureaucratism, failing to fulfil commitments (including payment for merchandise, shipping etc.), clients' wish to buy all equipment of different brands from different suppliers with following installation and servicing by themselves and as a result of this - violation of conditions and rules of equipment operation.

Another question dealt with the ways of attracting new clients to selling and producing companies. Noteworthy, the pollees appeared to be very conservative in this matter. Among the most popular means of promoting companies remain advertising in specialized mass media, "grape-vine" – passing information from customer to customer, and working at special exhibitions (about 47% of the interrogated experts). Organizing special events, seminars and presentations are ranked the second. Introducing PR-campaigns and special marketing arrangements (discounts, bonuses etc.) go last - 13,3%.

From this perspective we would like to recommend special exhibitions as a powerful and time-proved way to promote companies, and to wish the research participants effective cooperation with the organizers of such events.