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REACH won't overstretch

It may not be able to mould the market, but it can keep itself in shape, says CEO

Many wholesale carriers have fallen by the wayside — KPNQwest and Carrier1 are notable pan-European examples. The capacity such companies built out, however, is still with us — a fact that is not making life easy. Dick Simpson, the CEO of the Asian wholesale carrier REACH explains how things look in wholesale.

"There are a lot of people talking about growth in the sense of capacity growth, but very few people talking about growth in the sense of top-line revenue. The pricing is compressing at such a rate that you are not seeing a lot of revenue growth. Voice is a little different to data. Voice is seeing good growth in the minutes. There is compression in the margins, but even so it does offer some revenue growth," says Simpson of the overall picture.

Asia is often touted as the growth market *par excellence* as vendors lick their lips over access to Chinese and Indian demand. Simpson expects growth, too, though he is not predicting any short-term bonanza. "In the data market in India last year, we grew nearly 400 per cent year-on-year. But, I wouldn't suggest that the Indian market in total is necessarily growing at that rate, though it is growing very quickly. When you then look at the size of that market, versus the size of, say, Japan, which is as an established market, you have to do a lot of growing in India to represent the volume that is coming out of Japan," says Simpson.

Dick Simpson
CEO, REACH

REACH, which is joint-owned by Telstra of Australia and PCCW of Hong Kong, offers voice, international private leased circuits (IPLCs), and IP data services primarily within Asia, with connectivity to most major markets including the US and Europe. Its principal footprint advantage is its interests in more than 50 submarine cables, including AJC, APCN2, China-US, Japan-US, and RNAL.

Submarine cables never saw the building frenzy that developed in Europe and they do provide essential diversity away from satellite, but Simpson does not pretend that the going is soft. (According to preliminary findings from the forthcoming *International Bandwidth* report published by TeleGeography, the cost of bandwidth on intra-Asian routes fell 60 per cent in 2003. Prices on transatlantic routes fell by around 25 per cent over the same period.)

Even so, REACH has no plans to try to move away from the wholesale market. "We accept the way the market is and whilst it may be difficult, there is a lot of collaboration starting to happen and so there is some position for us to occupy... [Also], while the market may not be within our grasp to shape it exactly the way we want it, REACH is," adds Simpson pointing out that REACH reduced its cost base by US$30 m in 2002 and expects to get further efficiencies from its unified systems and new IT platform in 2004. "Our strength is that we are the strongest international carrier in Asia and Asia itself is expanding and we aim to expand with that. Our view is that if we can provide very, very good service at a competitive price REACH will prosper," says Simpson.

As things stand, the Asian market would still appear to be too small to provide sufficient demand for REACH's services. As a privately held company, it does not publish results. However, Telstra reported in its Q4, 2003 results that the total revenue at REACH in the half year ended 31 December 2003 was US$450 m, down from US$622 m in the same period of 2002. REACH made a loss of US$113 m in the six months to the end of 2003.

The CEO of Telstra, Ziggy Switovski, was asked by analysts during the Q4 results conference call whether they intended to change their position on REACH. "The position today [on that] is 'no'," he replied, pointing out that the "tremendous competition reducing their pricing" is a global trend. He did add that they were not anticipating any "new, substantial levels of support" though they would be prepared to make a potential US$65 m payment for the debt at the Australia-Japan Cable (AJC) due from REACH at the end of 2004, if required to do so — all of which sounds as though REACH will not be orphaned by its parents just yet.

Simpson was not willing to be drawn on what plans REACH's parents might have for it. "If you said to me, 'at an international capacity level, is it desirable that there be some consolidation?', I would say, 'yes, absolutely'. That would be a good thing for the longevity of the industry," he says. He added that he expects to see carriers cut the number of carrier relationships they maintain — something he views as positive for REACH.

Simpson also believes that 2004 may start to show some light at the end of the pricing tunnel. "If I were to try to categorise from the retail end of things where the major telcos are at, they probably are anticipating that 2004 would be at least as good, if not better, than 2003. So, they are looking forward to 2004 with some ray of hope," says Simpson. Obviously, the extended hope here is that any improved margins from end customers will also flow back into wholesale. Simpson is certainly reasonably confident that corporates will have to start spending more for the capacity they use. "What is interesting is that the good old IPLCs are still very highly regarded by corporates..., so, to tempt them off it people are offering tremendous amount of bandwidth at a very aggressive price. I would envisage that that would start to taper off because once you have got people over... you don't need such a special price," says Simpson.

— Ouida Taaffe