Major Projects Association

Major Projects in a Volatile Environment: Lessons from the Telecoms Sector. An MPA seminar held at the BT Tower, London on 21 January 2004.

Participants

More than 45 participants attended the seminar and the following organizations were represented:

Accenture, AEA Technology Rail, Airwave mmO_2 Ltd, Arup Project Management, BAA Plc, British Telecommunications Plc, Cisco Systems, CMS Cameron McKenna, Freshfields Bruckhaus Deringer, Henley Management College, Herbert Smith, IBM UK Ltd, Linklaters, MOD, Mott Macdonald Ltd, MTR Corporation, National Air Traffic Services, National Audit Office, Network Rail, Nortel Networks, Northcroft, Office of Government Commerce, PA Consulting Group, Partnerships UK, PricewaterhouseCoopers, Risk Solutions, Rolls-Royce Plc, Scott Wilson Railways, Strategic Rail Authority, The Ecademy Ltd, The Nichols Group, Washington Group International

Characteristics of a PFI Projects

Two of the case studies were PFI projects. The characteristics of a PFI project are:

- In theory a bespoke (or nearly so) product is created—the business case is agreed between contractor and customer. Actual costs and financing are the contractors' alone. Repayment by the customer is "as you go" and contingent upon delivered service levels.
- The private capital market can easily support a well-structured deal, while new capital funds from government are not always easy to programme. Often the concept of spreading the cost over the operating life of the service is more palatable to the Treasury than a lump payment.
- PFI contracts are concentrated in capital intensive areas like construction and IT infrastructure and services.

During the 1990s alongside traditional telephony, the internet and email technologies and their markets expanded hugely, while the rise of the mobile sector seemed to continue in an apparently ongoing telecoms boom. The seminar captured the atmosphere of a sector enjoying extraordinary growth, and then suddenly having to adapt to change when there was a sharp downturn in demand for these products. Agility was all.

Representatives of two major multinational IT companies recounted how their companies responded to the crisis, while another explained the business transformation at BT Major Business that has allowed it to position itself more effectively in a hyper-competitive market. There were also accounts of two major communication projects: the GCHQ project in Cheltenham and the Airwave project to introduce a nationwide radio service for the police.

Case Studies

The Airwave programme

Airwave is a national digital network to replace all the police radio systems in Great Britain. It will cover 51 territorial police forces and three national forces (the British Transport Police, National Communication System and the Scottish National Communications System. It will be integrated through eight large switching centres and a network management facility and will provide access to the Police National Computer and its Scottish counterpart. Through the police dispatch and control facilities it will connect to some 250,000 users.

Airwave is being procured under a PFI contract. It will have 15 years of operational life after the five-year build phase and will cost some £2.5 billion. Needless to say, given its size, it has a huge number of stakeholders: central and local government departments, the City and investment community, the media and last but not least action groups.

The IT bubble bursts: its consequences

Mobile communications companies spent huge sums of money on 3G (third generation) or Universal Mobile Telecommunications Systems licences in the UK and Germany. Spain had let its 3G licences before people were aware of the IT bubble and when France and Italy let their licences the lesson of the UK and German markets had been learned, but not before a great deal of money had been lost.

Consequences

Of course the stock of these companies went down, financing dried up and companies wondered what to do with this asset so dearly purchased. Most decided not to spend money on building a network. Contracts in respect of volumes and deliverables weren't worth the paper they were written on and had to be renegotiated.

Companies cut back and focused on key areas, and every telecoms operator and vendor went through massive downsizing, with the aim of taking cost out of the business, even at the risk of damaging future revenue. Acquisitions

MPA events are confidential, although this summary has been compiled so as not to breach confidentiality. Full proceedings and entry to MPA events are available only to members.

Cost consequences of a one-year delay on a major PFI project

- 10 per cent of net present value
- almost as much on labour bid rates
- that can add up to as much as 15 per cent of margin
- and there may be liquidated damages as well.

Some quotes:

"When you go up, you compete for talent, which is stressful. But it's still preferable to laying people off." – *Member of the wireless networks sector*

A lesson for finance managers—"Rather than simply tightening budgets and creating "challenges" for project managers, it is actually worth funding low risk programme acceleration efforts." – *Member of the wireless networks sector*

"The breadth of the stakeholder list presented a real challenge for the roll-out of Airwave." – *Member of the wireless networks sector*

"Start-ups have energy and a speed of action that are often lacking in larger organizations. This makes them attractive to big companies." – *Academic from a management college*

dearly bought were sold. R&D was focused on a small number of centres of excellence.

Recent developments

The industry is moving on, costs have been driven down and wireless will soon be ubiquitous, with people using their phones to download videos, games and ring tones—a promising development for the industry.

Large companies with several networks—voice or data—will be combining them. The lines between different business—mobile, wireline, transmission—have become blurred. All companies will have to adapt.

Partnering

The GCHQ accommodation project is being procured under a PFI contract with a consortium partnership of Carillion, Group 4 and BT.

Partnering as defined by the Treasury is "a managerial approach used by two or more organizations to achieve specific business objectives by maximizing the effectiveness of each participant's resources".

- Build a mutually supporting team.
- Aim to minimize short-term thinking and build relationships based on reliance and trust.
- Communicate in a clear and timely manner.
- Recognize others' endeavours and achievements.

Lessons: recurring themes

- Have effective leadership—whatever the project—to manage business ownership and buy-in.
- Active governance is always essential but where businesses have to respond quickly and need to be in continual change those managing the change or transformation must be committed and aligned to ensure others are also.
- Make sure enough time is allowed for project definition.
- Ascertain who all your stakeholders are, what there expectations are and how you will keep them informed. Take every opportunity to communicate and to convey key messages to them.
- Be customer focused and people centric, and pay more attention to what they want. There is a tendency in ICT (information, communications technology) projects and businesses for innovation to be driven by the technologists.
- Communicate and communicate and communicate within the organization to make sure culture change or any transformation envisioned flows down through the organization to secure buy-in. Soft people skills are required for this, coupled with education and training.
- Manage the process of requirements sign-off, scope and delivery; remember that predictable delivery is essential.
- IT subprojects must be watched to make certain they don't become detached from the business's objective and needs. When IT projects are delayed, business confidence can be lost.