KSCL PROFILE[1]

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1/Origins and Development

In 1965 Systems Consultants Limited (SCL) was formed in Edinburgh as a specialist computer consultancy, software bureau and time sharing service. It was founded by three former IBM engineers and had a turnover in its first year of £15,000.[2]

Originally the company focused on the travel, leisure and construction industries. In 1986 it took a change of direction when it supplied its first billing system to a mobile service provider. According to CEO, Michael Lacey, "That was the beginning of the company's transformation".[3]

Take-over by Kingston

In 1991 the company was bought by Kingston Communications (Hull) PLC and became Kingston-SCL.

Kingston Telecom was created in 1904 and given a local monopoly within the Hull area. It was owned by the municipal government and remained unaffected by both the nationalisation of telephone companies in 1911 and the subsequent privatisation in 1984.[4] The company was the last of the 13 local authorities originally awarded operator's licences to remain in business.[5]

Following the take-over by Kingston the company started to expand its international operations. In 1992 it opened offices in Paris and Munich. In 1993 an office was opened in Hong Kong and in 1998 a branch was opened in New Delhi. This growing international side of the business helped the company to win the 1997 Queen's Award for Export Achievement.

Management Buy-out

In 1998 the company underwent a management buyout in a £65 million deal. Speaking of the deal Lacey stated that, "Kingston-SCL had grown faster than the rest of the Kingston group and they realised that it did not really belong in the group".

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[2] KSCL Web site
[3] Quoted in The Scotsman (21/9/99)
[4] The European (9/3/98)
[5] FT (3/6/99)

With the break from Kingston the company returned to its roots by moving from Hull to Edinburgh.[6] Its new HQ in Edinburgh was opened by HRH The Princess Royal in February 1998.

In November 1999 the company changed its name to KSCL Limited. This, together with a new logo and corporate image, was designed to reflect the company's leading position in the global telecommunications market place and to prepare it for the next millennium.[7] During 1999 the company won the Insider Buy-out/Buy-in of the Year Award.[8] That same year it also won the 3i Award for Scotland's leading Technology company. According to two surveys, also carried out in 1999, the company was confirmed as the largest software development company in Scotland , the 17th largest software house in the UK and the 39th largest in Europe.[9] During 1999 more than 19 million subscribers were billed by KSCL software in some 30 countries world-wide.

Trade Sale Rather than Public Listing

In late 1999 Lacey had indicated that the company was set to change its status once again, claiming that, "It is inevitable that within a few years we will become listed".[10] Merrill Lynch was advising on the form the listing would take.[11] No listing took place, however, and in August 2000 it was reported that the company was being sold to Telesens, a German software services group. The estimated price was put at £135 million in cash (25 percent) and shares (seventy five percent).[12]

KSCL's own press release described the deal as a merger and indicated that the new company would be known as TelesensKSCL. The merged operation, it stated, would form the largest independent product house for billing systems in Europe with an annual turnover of around 120 million euros. It would employ around 1,500 people.[13] KSCL may have been inclined to view the deal in terms of a merger since it was the larger of the two companies both in terms of employees and annual turnover. In 1999 Telesens had a turnover of £15.4 million compared with almost £35 million for KSCL.[14] Given that Telesens was a listed company, however, it was able to use its shares as currency to acquire the larger Scottish company.

Key Personnel

CEO Michael Lacey joined the company in 1994. On his personal web site Mr Lacey states that he was a member of the Murrayfield Cramond Rotary Club in Edinburgh until pressure of work meant leaving it. This sacrifice seems to have paid dividends

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[6] FT (8/10/99)
[7] Company Web site
[8] The Scotsman (21/9/99)
[9] KSCL Press Release, 01-Feb-1999
[10] Quoted in The Scotsman (21/9/99)
[11] FT (27/8/99)
[12] FT (13/8/2000)
[13] Telesens Web site
[14] The Scotsman (15/8/2000)

with Lacey emerging form the Telesens deal with almost £1 million in cash and £4 million in Telesens stock..[15]

2/Investors

The £65m Management Buy Out (MBO) in 1998 was Scotland's largest ever in the technology sector. At the time of the MBO Royal Bank Development Capital and 3i jointly invested £30 million in the company to become majority shareholders with around 29 percent each. The parent, Kingston Communications, retained a 24.9 percent stake in the company. A sizeable share was also held by management and employees.[16]

With the company being sold around two years later for more than twice the MBO price, the investment proved a profitable one for KSCL's various backers.

3/Mergers, Acquisitions and Joint Ventures

Acquisitions

As stated above KSCL was itself acquired by Telesens in August 2000, after only two years or so as an independent operation.

Joint Ventures

In 1991 a strategic business partnership was established with Debis Systemhaus to provide bureau billing solutions. Through this company KSCL's clients were able to outsource their billing operations. The company itself is the outsourcing arm of Daimler Chrysler.[17]

As well as working with Debis Systemhaus, KSCL also collaborates with Panafon Services to provide its Jupiter Bureau product to wireless, wireline and IP customers world-wide.

During 1999 the company also entered a strategic alliance with XACCT, increasing its ability to bill for IP services.

In July 2000 KSCL stated that it had agreed to incorporate various software systems supplied by Tertio into its Jupiter Solutions product. The agreement which focussed upon service provisioning and data mediation software followed on from a number of past collaborations between the two companies. KSCL Marketing Manager, John Hammond, emphasised that the deal indicated that the company was always prepared to bring in new competencies rather than only using its own developments.[18]

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[15] The Scotsman (15/8/2000)
[16] FT (27/8/99, 8/10/99)
[17] FT (8/10/99)
[18] KSCL Press Release (26/7/2000)

Also in July 2000 KSCL continued with this policy of enhancing its Jupiter product via the importation of third-party technology through an agreement with Alcatel. The deal involved the integration of Alcatel FMS, a fraud management system for the telecoms industry. By enhancing its service in this way KSCL hoped to increase its appeal to an industry which was estimated to lose around $12 billion a year through fraudulent practises.[19]

In October 2000 KSCL announced a partnership with Information Builders, a company which had designed a technology known as WebFocus, which, when combined with the Jupiter product, would allow KSCL's clients to access their billing information over the Internet. The system would be compatible with all the major new standards such as IP, WAP, GPRS and UTMS.[20]

Customers

In 1991 the company produced the world's first GSM billing system for its first overseas client, the Finnish mobile operator, Radiolinja.[21]

By 1997 Jupiter was supporting 2.5 million subscribers for France Telecom Mobiles (FTM).

In 1998 Torch Telecom (part of Kingston Communications) became the company's first wireline customer.

Also in 1998 Elsacom became its first satellite customer.

In 1999 it conducted the world's largest billing migration for BT Cellnet – involving 1.3 million subscribers.

Also in 1999 it took charge of the world's biggest package billing upgrade for FTM – involving 5.5 million subscribers.

Again in 1999 Jupiter provided the world's first convergent, fully overlaid, combined, PCS/GSM billing solution for SmarTone.

4/Network

Not applicable

5/Addressable Market

Lacey suggests that the company has a 5 to 10 percent share of the global billing market.[22] In combining with Telesens the company has increased its capacity to

[19] KSCL Press Release (24/7/2000)
[20] KSCL Press Release (4/10/2000)
[21] All customer information from the company Web site
[22] The Scotsman (21/9/99)

target the potentially vast market for third generation mobile billing. In that the company deals in software and unlike the telecom operators has no need for a physical network, it can easily operate at a global level. This has long been the case for KSCL which has no actual customers in its Scottish homeland.

6/Stock Market History

While KSCL never made it to the London stock exchange, its name does now appear as part of TelesensKSCL on the "Neuer Markt" in Germany. Telesens had been quoted on that market since 21 March 2000. Given that KSCL's former owners were paid partly in Telesens' shares they have a direct interest in the stock market performance of the combined group.

In early August 2000, prior to expressing an interest in KSCL, Telesens' shares stood at around 42 Euros. By the beginning of November their value had reached almost 70 Euros, before declining (along with technology shares in general) to around 37 Euros by the end of the month.[23]

7/Company Data

Table 1 – **KSCL Employees**	
1994	100
1996	350
1998	550
1999	700
Source: Company Web site	

In late 1999 the company announced that it would be creating a further 1000 jobs over the next three years.[24] In late 1999 it was estimated that the company had an R&D team of 180 people.[25]

After the take-over by Telesens the joint company had a world wide work force of approximately 1500.[26] The German company indicated at the time of the take-over that it had no plans to reduce the number of KSCL's employees.

KSCL has shown itself to be quite innovative in terms of its employee relations. It has in place a programme called REWARD which includes provisions for flexible working times and the possibility of buying and selling holiday entitlements.[27]

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[23] Telesens Web site
[24] FT (27/10/99)
[25] The Scotsman (21/9/99)
[26] Telesens Web site
[27] The Scotsman, recruitment section (1/12/2000)

Table 2 - **KSCL Turnover**	
1997	£20m
1998	£24m
1999	£34.9m
Source: Company Web site	

In 1999 turnover growth increased by more than 47 percent to a record £34.9 million (£23.8m in 1997/98), whilst pre-tax profits also continued to show exceptional growth, increasing by 36 percent to yet another record of £5.3 million (£3.9 million in 1997/98).

According to the Scotsman over 72 percent of the company's turnover comes from outside of the UK.[28]

8/Strategy

The company's strategy in recent years has revolved around the Jupiter billing system launched in 1993. In 1997 a Unix/Oracle version of Jupiter was introduced. The system is now used by around 40 European and Asian telephone companies, with 18 million users served by its software.[29]

Research

One of the key challenges in the telecoms software market is ensuring that the product remains leading edge and competitive. KSCL seeks to achieve this by having a large and dedicated Research and Development group whose sole focus is keeping Jupiter a leading-edge product. 1999 was a record year for research & development with more than £5 million invested.[30]

The company has worked with a number of clients on WAP trials and Jupiter will be one of the first Billing and Customer Care (B&CC) systems to be used for commercial WAP services. Additionally, KSCL have been working with network vendors and clients to ensure that Jupiter is capable of supporting GPRS services.

Convergence of Systems

Until recently the company focused upon the mobile sector of the telecoms market. With the liberalisation of Europe's fixed-wire market in 1998 it began to adapt its billing software to appeal to the growing number of fixed operators. Its first wireline

[28] The Scotsman (27/10/99)
[29] FT (8/10/99)
[30] Company Web site

customer was Torch Telecom, part of Kingston Communications, which provides services to corporate and non-residential customers.

It is these new fixed line operators which Lacey describes as the "big excitement" for the firm, while he claims that the company could eventually make around half of its income from this market.[31] Lacey later backed up these comments stating that, "Jupiter is no longer just a mobile billing system".[32]

This multi-medium approach indicates that a large part of the company's strategy revolves around the convergence of different services (telecoms, Internet and entertainment) which can be billed jointly. As Lacey puts it, "There are not that many convergent telcos today but convergence is on its way and it's an unstoppable trend".[33] As part of this convergence approach the company is also working on facilities to allow customers to view and pay their separate bills over the Internet.[34]

Marketing

For one of Scotland's most successful companies KSCL still has a fairly low profile in its homeland. As Lacey has stated:

> "…we're not really known about here, we've no customers in Scotland – our nearest clients are in Leeds and Wakefield. Perhaps that's why we have such a low profile" [35]

Within the company's new corporate identity and high profile recruitment campaign, however, it can be anticipated that it will become more widely recognised. Given its specialist market, however, it is unlikely that a lack of public recognition will be any great burden. Undoubtedly many mobile phone users will be billed via its software without ever being aware of the fact.

KSCL as Part of Telesens

KSCL's emphasis upon convergence within the telecoms industry was taken to its logical conclusion when it joined up with Telesens. While both companies produced billing system software KSCL focussed on fixes line and mobile telephony, while Telesens had more expertise in Internet Protocol (IP) and broadband services such as ATM. By combining their expertise the companies would be well placed to exploit the technical developments within the industry, not least in the mobile sector where UMTS (universal mobile telecommunications system) and GPRS (general packet radio service) are poised to become the dominant standards.

The complimentary nature of the two companies was highlighted by Telesens CEO, Genadi Man, who stated that:

[31] Quoted in FT (27/8/99)
[32] Quoted in FT (8/10/99)
[33] Quoted in FT (8/10/99)
[34] FT (8/10/99)
[35] Quoted in FT (27/8/99)

> "Telesens and KSCL fit together perfectly. In KSCL we have found a partner with over fifteen years experience in the billing market. The combination of our systems guarantees us a top position in content billing for new services such as UMTS and GPRS".[36]

For his part Lacey of KSCL stated that "Telesens gives us exactly what we need. Know-how in the areas of IP and broadband billing…Together, we're unbeatable"[37] The belief that the two companies would together form a strong team was also expressed by Kingston Communications' CEO, Steve Maine, who stated that, "The combination of Telesens and KSCL will constitute a formidable European telecoms and Internet software competitor"[38] The status of the new company is visible in its client list with KSCL bringing on board BT Cellnet and France Telecom Mobile, while Telesens has an established relationship with Deutsche Telekom.

9/Competition

In a review of the telephone billing software market the FT identified the main player as Sema, the Anglo-French IT services company.[39] It had previously taken over LHS, a US billing software company in a $4.7 billion deal. The two companies combined would provide billing software for around 140 million subscribers.

In the same report the nearest rival to Sema LHS was identified as Amdocs, a US vendor which recently merged with Solect Technology of Canada. Another significant player mentioned was ADC Telecom, a US equipment maker, which last year acquired Saville Systems, a UK billing company.

10/Other Threats

The Cost of Third Generation Mobile Licences

The auction for third generation licences in the UK during early 2000 resulted in the mobile companies paying much more for their new licences than had originally been anticipated. The final sum raised by the UK government was £22.5 billion, compared with original forecasts of between £1 billion to £2 billion. Commenting upon the huge sums involved, the FT commented that:

> "The mobile future is uncertain. It is impossible to prove that the licence winners have overpaid. But it is hard to see how they can earn a return on this investment that exceeds their cost of capital and creates value for shareholders"[40]

There were also those who believed that the high licence costs amounted to an effective government tax on the mobile industry, something which could hinder its

[36] Quoted in PR Newswire (14/8/2000)
[37] Quoted in Ibid
[38] Quoted in Kingston Press Release (14/8/2000)
[39] FT (21/6/2000)
[40] FT (28/4/2000)

development.[41] The effect of such high auction prices will be that UMTS services will have to be priced at a higher level. This compounds the risk that the services will not be sufficiently popular for the operators to recoup their investments. As the FT pointed out in mid 1999 only one percent of mobile users were then using their mobile devices for data transfer.[42]

The UK experience has been repeated in a number of other European countries, with licence costs far exceeding original estimates. As a company providing billing services to the mobile operators KSCL will naturally suffer if third generation services do not lead to a significant market expansion.

Safety and Environmental Issues

Just after the UK Government had reaped its windfall from third generation licence fees there was a resurgence in the issue of health risks associated with mobile phone use. A report headed by Sir William Stewart raised particular concerns about the effect of the phones upon children – an increasingly important segment for the industry.[43]

The issues of health, together with environmental impact, could take on a new impetus as the mobile operators start to role out their third generation networks. According to Ericsson, the dominant 3G infrastructure supplier, the new networks will possibly require between three to five times the number of antennas used on the existing digital networks.[44] Following the recent Stewart report it was suggested that, Yvette Cooper, public health minister in the UK Government, was "minded" to accept the report's conclusion that all new masts should be subjected to full planning procedures.[45] This could prove to be a time-consuming headache for the mobile operators who are keen to roll out their advanced networks as quickly as possible. With numerous local planning meetings on the agenda the mobile companies could also face further scrutiny over the social desirability of their operations.

Again if the road ahead proves difficult for the mobile operators then KSCL's own prospects for future growth will suffer. The company is fundamentally a provider of support services and is vulnerable to any developments which negatively impact upon its customer base.

Loss of Independence

Despite the official enthusiasm surrounding the deal with Telesens, KSCL is now no more than a division of the German company. At the time of the take-over there were promises that no jobs would be lost at KSCL and that its management's autonomy would be respected.. This may well be an easy promise to keep so long as the company (and the sectors which it serves) continue to experience substantial growth. Should there be any downturn in total telecoms usage, however, then the German

[41] See, for example, FT (30/4/2000)
[42] FT (9/6/99)
[43] FT (11/5/2000)
[44] FT (14/6/2000)
[45] Ibid.

parent company may see things differently. In another notable case involving UK and German companies in the telecoms sector, that of Vodafone AirTouch and Mannesmann, various commitments were made by the UK group which were later diluted or broken all together.