Channels · Sales · Customers

FAT PIPE™

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A CHANCE AT THE CHEDDAR
Local Access Market Outlook

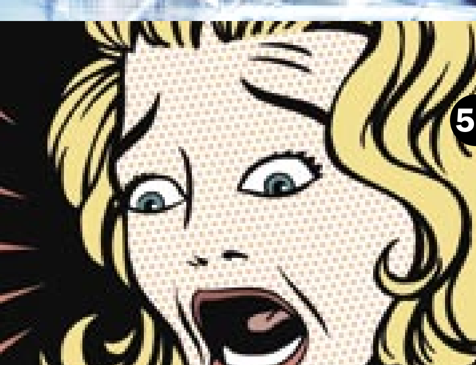
Playing to the Customer

Rebuilding Brands

Slam Survey

Suddenly Surcharged

C O N T E N T S



FEATURES

DEPARTMENTS

Hold Your Fire

Timing is everything, Dagda Mor will tell you. As some of you may recall, he conceived FAT PIPE magazine in March 2000, exquisitely managing to catch the very tip top of the Internet/telecom bubble, launching later that fall, before the full fury of the telecom meltdown was to make its ravages known. Dagda honors his fallen comrades but vows their falling will not be in vain.

Dagda's been hunting since he was a wee lad. And the surest way to miss a fast-moving target is to shoot at where it is now.

Indeed, some have mistakenly and prematurely questioned why any product serving the wholesale segment of the telecom (nee, broadband) business would want to be "stuck" with a silly name such as FAT PIPE. After all, aren't 80 percent of industry revenues generated by voice services, one way or the other? And given the battering all things broadband have taken, didn't the Dagda paint himself into a corner?

Au contraire. (Dagda has relatives among the Gauls). Timing is everything, once you get the direction right. It's sort of like hunting, Dagda says, with that twinkle he sometimes gets in the eye. You have to aim where your quarry is. True, your arrow may yet miss. So timing is everything but only when aiming at the target.

Well, to be precise, Dagda has aimed squarely at where he expects the target to be, since both the arrow and the quarry are moving as fast as they can. Look, Dagda's been hunting since he was a wee lad. And the surest way to miss a fast-moving target is to shoot at where it is now. You'll be pulling arrows from trees all day long.

You see, Dagda also studies history. And he knows some things about major technology innovations. They erupt. There's a frenzy, then a crash, then a "golden age."

FATPIPE

Gary Kim
Editor-in-Chief
garykim@concentric.net

Martin Vilaboy
Executive Editor
martin@dagdamor.com

Ben Folkertsma
Senior Art Guru
ben@dagdamor.com

Contributing Writers
Dan Baldwin, Hunter Newby,
Kelly Kirkendoll Shafer

Robert C. Titsch
Publisher/Editorial Director
bob@dagdamor.com

Berge Kaprelian
Associate Publisher
berge@dagdamor.com

Jennifer Vilaboy
Production Director
jen@dagdamor.com

Dagda Mor Media, Inc.

Robert C. Titsch
President and CEO

Gary Kim
Chief Operating Officer

Deborah Dellisanti
Executive Vice President

Becky Pennington
Vice President/Finance

Corporate Headquarters

19777 N. 76th St., #1307
Scottsdale AZ 85255
480-203-2513 voice
480-203-2514 fax
e-mail: fatpipe@dagdamor.com
Web: www.dagdamor.com

While he wouldn't be excessively a stickler about every single historical element, Dagda would say he sees patterns.

Consider the Industrial Revolution, the development of steam power and railroads, then steel and electricity, then the automobile and oil-based growth. Each has transformed the economy and basic social organization, the very fabric of peoples' lives. The Industrial Revolution, beginning about 1771 in Great Britain, for example, not only mechanized the production of things but brought to the fore the notion of "saving time" and "keeping time." And Dagda can assure you, that wasn't something his ancestors did.

The age of steam power and railroads, beginning in earnest about 1829, created national markets and urban centers, completing a dramatic shift of the places people live and work (farm to city). The age of steel and electricity, hitting about 1875, created large, integrated, pyramidal business organizations and started us down a path of the "work day that never ends."

The age of oil and the automobile, beginning about 1908, not only created mass media and mass markets, it also led to a second major change in the places people lived: from urban center to suburb. The information age, dating perhaps to the early 1970s, has led to globalization of work, the general conquering of distance.

Dagda notes that each of these great waves of technology innovation created new networks in its wake. The Industrial Revolution fostered canals, waterways and turnpikes. The age of steam created railroads, universal postal service, the telegraph, natural gas systems and harbors.

The age of steel and electricity lead to universal electrical and telephone networks. And, you guessed it, the information age has created the Internet, email, wireless, satellite, broadband and packet communications networks.

In each case, Dagda notes, there also was widespread, massive financial over-investment, which lead to financial panics. The Industrial Revolution set off a mania in 1793 for investing in canals, followed by a panic in 1797. The age of steam set off a similar massive wave of investment in railroads, about 1836, with a panic in 1847.

The 1929 stock market crash occurred during the age of oil, and one might liken the 1999 to 2000 stock market bubble as a similar sort of over-investment and panic.

The point, Dagda says, pulling an arrow from an oak tree, is that there seems to be a recurring pattern of hype and promise, followed by overly enthusiastic investment, followed by a crash. Then, ahem, there is an adjustment period where social structures, regulatory regimes and so forth are adjusted to new realities. There's a new "common sense," in other words.

Then, assuming we are dealing with a truly major technological transition, there is a boom period where the actual economic and financial benefits are harvested, at least in part because a major new communications or transportation network takes friction out of all essential productive processes. And, oh by the way, it typically drastically cuts the cost of using the new infrastructure.

Broadband is not merely a service offered by providers. Rather, it is the very context within which capital is accumulated and profits are made.

Also, oh by the way, it takes time for human beings to learn how to use the new innovations. In some cases, regulatory regimes must be recast as well. Frequently, little-noticed "niche" applications "scale," as we once were wont to say, in unexpected ways.

Railroads, for example, were developed as a way to haul coal out of mines. Oil refining and the internal combustion engine once were part of a niche known as "luxury" autos. Semiconductors were developed as a way to build better radios. Thomas Edison once thought the phonograph would be used to record wills. IBM once thought a handful of computers would satisfy world demand. Alexander G. Bell thought the telephone would be used to deliver music (you have to aim where the quarry will be, not where it is).

So here's Dagda's point. FAT PIPE had a vision all along: that broadband would emerge, and soon, as the business context within which money is made or lost in the global telecom business. Broadband is not merely a service offered by providers. Rather, it is the very context within which capital is accumulated, and profits are made.

That doesn't mean voice ceases to drive most of the service revenue, at least in the interim. It means voice becomes an application for a broadband network and the fundamental assumption any marketer has to make in figuring out how his or her business will actually make its money, going forward.

Dagda's been pulling arrows out of trees, like all hunters do. But he never has stopped aiming where he believes the quarry will be. He'll still hit some trees, because timing is everything. But you still have to be aiming the right way.

FAT PIPE is still the right name, because history suggests the vision is still right. If so, we are in the adjustment phase. But the quarry's still running where Dagda thinks it is headed. Sooner or later, the arrow will find its mark. He just has to keep shooting.

– The Clan

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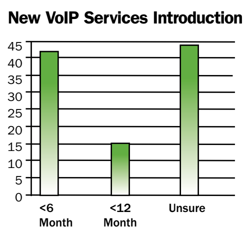
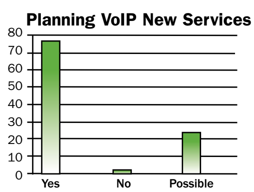
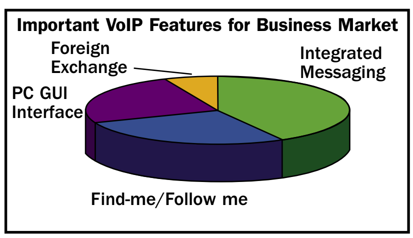




VoIP: According to 66 small, mid-sized and large companies in the ISP, cable MSO, reseller and telecommunications services industries surveyed by **New Global Telecom,** 65 percent will



provide voice over IP services.

About 50 percent of companies believe they'll provision VoIP services themselves, while 40 percent are looking at hosted solutions.

Sixty percent of respondents think price advantage will be the most important customer benefit, but features also are seen as key.

ITXC Corp. carried a record high of 20.1 million billable minutes on Christmas Day 2003, a 36-percent increase over 2002 Christmas Day traffic.

Partnerships: **Broadwing Communications** has teamed with **Covad Communications** to offer enterprise customers nationwide digital subscriber line access in the country's top markets.

Texas Instruments and **Vonage** are working together to provide VoIP equipment designers and manufacturers tools to develop VoIP products compatible with the Vonage telephony network.

Covad Communications signed a resale agreement with **ACN**, using line-splitting to supply ACN consumer and small business customers with digital subscriber line services. Covad also supplies AT&T with DSL in Indiana, Michigan, Texas, Maryland, Massachusetts, New Jersey, New York and Virginia.

Sunrise Telecom Inc. has a partnership with **Mantas, Inc**. to integrate its network monitoring analyzers with Mantas' network and revenue assurance solutions.

New Edge Networks and **Airpath Wireless** have a co-marketing agreement for providing broadband access and managing wireless hotspots throughout the United States. Airpath will recommend New Edge Networks as a preferred broadband access provider to Wi-Fi hotspots. New Edge Networks will recommend Airpath for back-office management solutions such as billing, authorization and provisioning for both free and pay hotspot models as well as roaming settlement and clearing.

Separately, New Edge signed a deal with **Savvis Communications** giving Savvis broadband DSL reach into more than 1,600 new telephone company central office locations in large metropolitan areas as well as more than 360 small cities and towns throughout the country.

Vonage has a co-branded partnership with **Associated Network Partners Incorporated** to deploy broadband telephony service to ANPI's cable television and long distance telephony member companies across 35 states. Vonage also announced a co-branded partnership with **Ygnition Networks** (formerly Interquest Communications) to deploy broadband telephony service to Ygnition's more than 130,000 luxury apartment units served.

VocalData and **Convedia Corp.** have announced the successful completion of interoperability testing between VocalData's application server and Convedia's IP media servers. The certified interoperability of these products facilitates scalable deployment of hosted PBX and IP Centrex applications, while reducing total cost of ownership for service provider customers.

Steleus and **Telcordia Technologies, Inc.** announced plans to jointly market solutions to wireless operators worldwide. The two companies will offer carriers a pre-integrated network monitoring solution.

V-Link Solutions Inc. has entered into a partnership with Dallas-based **Lantana Communications Inc.**, to deliver integrated Wi-Fi business solutions to Lantana's current and future clients.

People and Places: Diana Gowen has joined **Broadwing Communications** as vice president of government solutions.

Quintum Technologies, Inc., a manufacturer of VoIP solutions, announced that Kurt Baumann, former executive for **PSINet**, has been appointed company president.

The Quality Excellence for Suppliers of Telecommunications (QuEST) Forum introduced its 2004 Executive Board. The board consists of twelve members, with six representing service providers and six members representing industry suppliers.

The new board members are Everett McNair, Corning Cable Systems (chair); George Dowell, Verizon Communications, Inc. (vice chair); Nick Addante, Bell Canada; Tim Houghton, BellSouth Corporation; Thomas J. Fallon, Cisco Systems; Shunichi Fujii, Fujitsu; Lynn Mercer, Lucent Technologies; Raghu Rau, Motorola, Inc.; Pat Rhodes, Nortel Networks; Steve G. Welch, SBC Operations, Inc.; and Richard Woodruff, Belgacom. The project director is Kevin Calhoun, Corning Cable Systems.

Interactive Enterprise, provider of cable provisioning/activation systems, announced Ray Bennett has accepted the position of vice president of channel management.

Says Lyn Chamness, **Telarix** vice president: "You can't arbitrage if you can't move fast."

"Gigabit Ethernet is the dial tone of the future," says **TMC Communications** chief technical officer Ralph Widmar.

"We're seeing a lot of pushback at the lower end of the business market on multi-year contracts," says Drew Walker, **ITC^DeltaCom** business services president. "They know somebody else will call tomorrow offering something like it for less money."

"It'll be a really good year for the lawyers," says Peter Karoczkai, **InfoHighway Communications** senior vice president.

Bundles: Fifty-three percent of small businesses say they don't want to buy a service bundle because they are happy with what they've got, according to a December 2003 study conducted by **Equation Research** and sponsored by **Covad Communications** and **Sprint.** Thirty-two percent of the 479 firms, 54 percent of which have five or fewer employees, use dial-up Internet connections. About 30 percent use digital subscriber line, while 26 percent use cable modems. About 10 percent use T-1 or faster connections.

Small Business Bundles, % Use or Interest

Local/LD	Local/LD/ Wireless	Local/LD/ Dial-up	Local/LD/ Broadband	CATV/ Broadband
21	7.4	7.9	15.3	11.5

Source: Covad Communications, Sprint

I Don't Want to Buy a Bundle Because

Happy	Not Offered	Want a la Carte
53	14	28

Source: Covad Communications, Sprint

The Advantage of a Bundle Is

Savings	One Bill	One Vendor
29	28	19

Source: Covad Communications, Sprint

I Would Change or Consider Changing My Suppliers For

Lower Price	Better Package	Faster Internet
70	48	43

Source: Covad Communications, Sprint

Wins: **Infonet Services Corp.** is building a global IP MPLS network spanning more than 250 sites for **Solvay,** a leading global chemical and pharmaceutical group.

Reynwood Communications has deployed **Kagoor Networks**' VoiceFlow remote Network Address Translation (NAT) traversal application. Reynwood is using Kagoor's solution to provide its Xtreme hosted PBX service and high-speed Internet to business and residential customers in New York and New Jersey.

Cavalier Telephone has bought **Mantas Inc.**'s revenue assurance solution for immediate fraud detection, cost reduction and revenue recovery.

OnFiber Communications is providing **MegaPath Networks** metro optical Ethernet services.

IBM and **Cirpack** have signed a multi-year frame agreement with **Free**, a subsidiary of the Iliad Group, the second largest French ISP, to deploy a nationwide network delivering packet-based services to the mass market starting with IP telephony services over unbundled DSL lines.

Intec Telecom Systems has signed an InterconnecT CABS CG license agreement with **TelePacific**, a leading broadband telecommunications provider in the Western United States.

Cable and Wireless, which announced its intention to exit the U.S. domestic market earlier this year, has finalized an agreement whereby **LayerOne** will maintain its United States and international connections via an international point of presence (POP) with LayerOne.

The Missouri Research and Education Network, a unit of the University of Missouri System, has awarded **LightCore** a three-year, $3.3 million contract to provide high-speed bandwidth services.

LogiSense Corp.'s EngageIP Hotspot Suite software solution has been implemented by **Truckstop.net** for the rollout of its Wi-Fi network, which will deliver high-speed Internet access to as many as 3,000 truck stops, travel plazas, repair shops and terminals in North America.

Global Crossing has been selected as carrier of choice by **VoEx**, a high-throughput VoIP integrator and network services provider. Global Crossing is selling VoEx a series of wholesale voice, data and IP services.

Upgrades, Expansions: **Universal Access** has introduced a new one-stop-shopping service for international carriers operating in the United States market. UA*Link provides circuit pricing and availability, network design, provisioning and management services. The service allows global carriers an instant end-to-end U.S. network capability. New York is the first gateway site to be rolled out, says Cyrus Bamji, company senior vice president.

MetTel has expanded service to Maine, New Hampshire, Rhode Island and Vermont. The company offers business customers products and services 10 to 35 percent lower than comparable Verizon rates.

BellSouth launched its first integrated access platform for small businesses and enterprise branch offices. BellSouth Integrated Solutions are available throughout its incumbent territory, and pricing starts at $639 per month for the T-1 version, which includes the basic eight voice lines, the integrated access device and 128 kbps of Internet capacity. The PRI version is available for $120 more per month. Additional channels of voice and data can be added for $30 per month.

RateIntegration, Inc., a leading provider of pricing and rating solutions for telecommunications service providers, announced the general availability of version 5.1 of its PriceMaker rating solution.

Third party verification (TPV) services provider **VoiceLog LLC** announced Free Speech TPV, the first speech recognition-based TPV service offered at standard touchtone pricing.

Houston-based **A + Conferencing** has teamed with **SightSpeed** to offer videoconferencing services. A + Conferencing will be offering SightSpeed videoconferencing software products and services through its agent channel.

TNS' Telecommunication Services Division has a new revenue assurance solution that allows service providers to use SS7 network intelligence to prevent revenue leaks by monitoring and enforcing terms of interconnect agreements.

DSL.net's NETgain One integrated voice and data service offer-

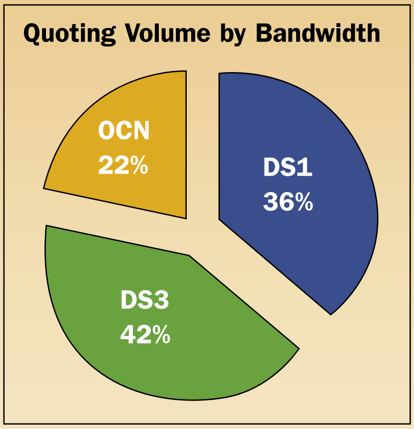
(Continued on page 18)

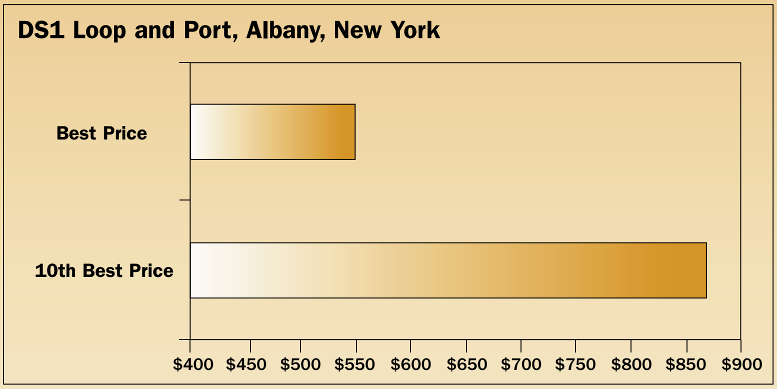
The Bandwidth Barometer

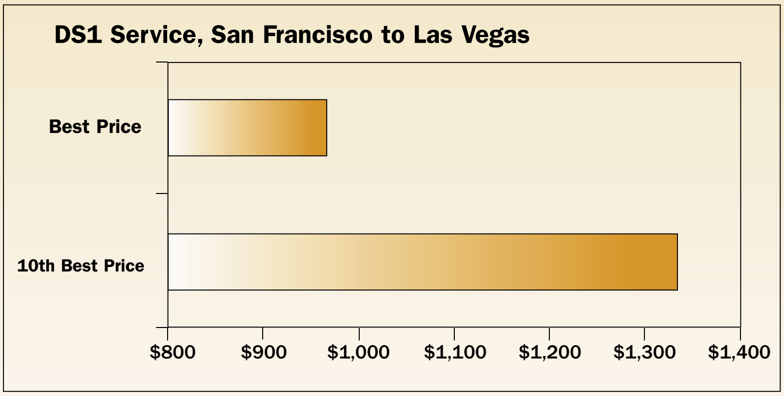
By Global Internetworking, Inc.

In the big picture, demand for big pipes is coming back, and price spreads remain wide. Gig-E is coming, and more service providers are looking for single-source digital subscriber line support.

Quoting volume – our leading indicator of demand – points to a steady improvement in the telecom market. In the calendar quarter ending December 31st, wholesale requests for pricing via Global Internetworking's Pop2Pop pricing portal (www.pop2pop.com) increased by 16 percent over the prior quarter, compared to approximately 3 percent between the first and second quarter of 2003. Just as importantly, we see a significant amount of demand for really big pipes – 22 percent of all demand was for OC-N level service.







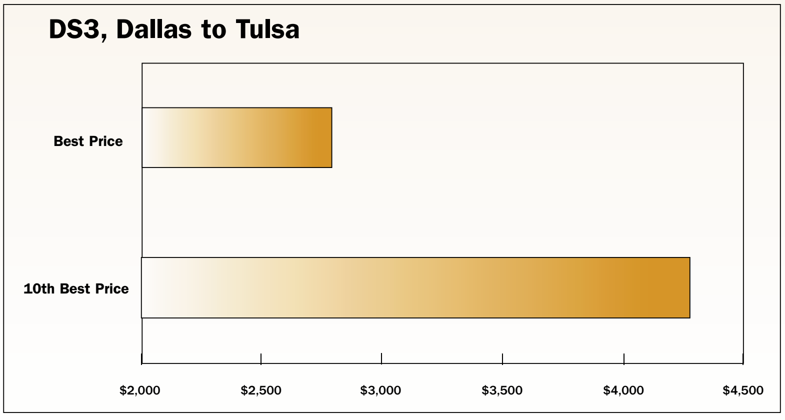
Price spreads on similar services remain high. We continue to see big differences in pricing for similar services and similar routes. On a micro level, this tells us that it still pays to try to bargain for better pricing and look for as many carrier options as possible. On a macro level, it tells us that the market for data transport is still volatile. We would not be surprised to see more overall price declines as lower-priced competitors pull the market in their direction. At the same time, we think that the Qwest-Allegiance deal may be just the beginning of a series of deals by larger carriers to expand their footprint and stabilize pricing through consolidation.

Heard on the Street

We talk to about 60 wholesale data transport carriers every month concerning what trends they see in the marketplace. Here is a sample of what folks are telling us about their needs during the next 12 months:

"Customers are replacing ATM with Gig-E services in a big way."

"What we need is a single source for nationwide DSL services. It is so hard to find good suppliers. We are considering going directly to the RBOCs and doing it ourselves."



"Retailers have woken up to the fact that their customers expect to pay for everything via credit card within seconds, and that's going to fuel a lot of demand for frame relay type services."

A facilities-neutral provider of high-capacity data transport and network cost management solutions, Global Internetworking maintains a proprietary database of pricing and network for more than 1,400 facilities-based carriers and 540,000 points-of-presence in the U.S. and 40 international markets. www.globalinternetworking.com

(Continued from page 14)

ings have been expanded from two to 17 bundled packages over T-1 and business-class digital subscriber line platforms with speeds up to 1.5 Mbps. All bundled services now include unlimited local and domestic long distance calling, while each bundle varies by number of phone lines and broadband speeds.

Martin Group has introduced managed services in the areas of business continuity, remote billing and remote usage management. Other services will be introduced during the next six months.

Melissa Craig has launched **International Business Xchange**, a neutral information resource for technology companies planning to open new markets and develop business partnerships across international borders.

Arbinet-thexchange will launch an Internet protocol capacity exchange, selling spot capacity.

DCANet, a provider of Internet services throughout southeastern Pennsylvania, Delaware and southern New Jersey, has acquired an 80-mile fiber optic ring from **City Signal** that will provide high-capacity network redundancy and self-healing capabilities between its data centers in Wilmington and Philadelphia.

VocalData has signed a multimillion dollar contract with **TELUS**, the largest telecommunications company in western Canada and the second largest in the country, to support the carrier's IP-One hosted PBX service, which was recently launched as the first carrier-grade hosted and managed IP telephony service in Canada.

Marlink now offers a full range of **Inmarsat** services for customers requiring flexible and efficient land mobile communications over satellite.

Additionally, Marlink offers its Regional BGAN users access to a dedicated leased line from **Telenor Satellite Services**.

LayerOne has introduced a service called Virtual POP, which enables Mexican carriers to create a market presence in the United States for the price of a single long-haul circuit from Nuevo Laredo or McAllen to Dallas. Until the introduction of this service, most Mexican communications providers were forced to cross the border at either Laredo or Reynosa because that's where the cross-border fiber is. Only two companies handle the cross-border traffic, which results in a stranglehold on U.S.-Mexican connectivity, says LayerOne.

The new service works both ways, of course, so U.S. carriers can have direct access to Mexican and other Latin American communications providers.

M&A: **Switch and Data** has completed the acquisition of Philadelphia-based **MeridianTelesis,** a privately held company providing carrier-neutral and network-neutral colocation services.

FiberNet Telecom Group has acquired **Gateway Colocation**, which operates a communications hub and colocation facility at 165 Halsey Street in Newark, N.J.

Info Directions has bought point-of-sale software provider, **Lexys Technology**.

US LEC's bid to purchase substantially all of the assets of **FastNet Corp.** has been approved. These assets include the broadband and dial-up Internet access, colocation and managed hosting business units of FastNet, as well as two data centers in eastern Pennsylvania.

Survey Says: According to a recent **BuyTelco Broadband Index**, for December 2003 consumer demand for broadband services was highest at the beginning of the week, with demand peaking on Tuesday. "Clearly customers begin shopping for services on Sunday and Monday with order activity peaking on Tuesday and Wednesday." says Steven McKean, BuyTelco CEO and president.

On a state-by-state basis, the highest demand was in Utah, lowest in Alaska

December 2003 Demand By Day of Week

	Shop	Buy
Monday	17.7%	16.5%
Tuesday	17.9%	20.2%
Wednesday	16.4%	18.6%
Thursday	14.6%	15.4%
Friday	13.2%	15.0%
Saturday	9.6%	7.0%
Sunday	10.5%	7.3%

Source: BuyTelco Broadband Index

December 2003 Highest And Lowest Demand By State

Highest Rated*		Lowest Rated*	
Utah	161	Alaska	29
Iowa	158	North Dakota	37
Maine	132	South Dakota	43
Florida	130	Rhode Island	51
Delaware	128	Arkansas	54

*Source: BuyTelco Broadband Index; * A rating of 120 means that activity is 20 percent greater than average for that metric.*

Earnings: **Fibertech Networks** closed on more than $45 million in new sales contracts during 2003, an increase of more than 50 percent from 2002, the company reports. Fibertech sold 77 new customer contracts in 2003, up from 47 in 2002. Total sales contracts now total $195 million since the company's start-up in May 2000. The firm added $3.3 million annual recurring revenue run rate, versus $1.5 million in 2002. Fibertech also further diversified the customer base. More than 65 percent of 2003 sales were to enterprise customers.

Case studies: **Matanuska Telephone Association** had a problem. It couldn't monitor legacy equipment and non SNMP-enabled batteries over its 10,000-square-mile network. The company solved the problem by deploying SNMP-Link 81 (SL81) by **Omnitronix** and a network monitoring system known as InterMapper by **Dartware.**

Milestones: **Frost & Sullivan** named **New Edge Networks** its 2004 Telecommunications Service Provider Company of the Year.

Raymond James Financial and **Kaufman Bros., L.P.** have initiated coverage of **U.S. LEC Corp.** stock. Raymond James has given US LEC a rating of "strong buy," while Kaufman Bros. has issued a "buy" rating.

Arbinet-thexchange posted its 14th consecutive quarter of growth in December. Trading was up 57 percent to 7.9 billion minutes. The exchange has 298 members.

Telarix, Inc., formerly known as Emerging Technologies Group, says its iXTools Interconnect Billing Optimization (IBO) software has enabled **Embratel** to process 200 million call detail records in 12 hours.

A Chance at the Cheddar

Local services outlook for 2004

By Gary Kim

There are a number of reasons to think 2004 a challenging year for providers of local access services. Ferocious incumbent win-back programs, still-plentiful competition, regulatory uncertainty and an uneven economy across regions are but a few cautions. “We’re seeing ferocious, aggressive sales efforts by the ILECs,” says Harry Lalor, Focal Communications vice president. And at least in some cases, they “look more like a CLEC these days,” says Kevin Teeters, Mpower Communications vice president. “They’re a lot more creative and lean and are totally willing to cannibalize themselves, it seems.”

Despite clear signs of economic life, "it's going to be a scary, challenging year," says Easton Telecom CEO Rob Mocas. "I don't think the market has bounced back as much as people seem to think, in our region."

The overall services market hasn't grown in three years, and prices don't seem to have stabilized, yet, either. Neither can we expect the year to pass without a significant rearrangement of the competitive part of the industry, at the very least.

Cable TV companies may not yet have expanded their voice initiatives into the small business market, but they will. And one can make the argument that the foundation products we used to call "local access lines" and "long distance minutes of use" are in fact in a process of replacement. "Ultimately, we'll see elimination of the difference between long distance and local," says Mike Kallett, ICG Communications chief technical officer. "What's the cost of terminating a call, whether from India, New York City or local?"

The white-hot fight over the "unbundled network element-provisioned" (UNE-P) platform continues at the state level. "If you are tinkering with UNE-P, you endanger most competition that already exists," says InfoHighway Communications senior vice president Peter Karoczkai. "UNE-P is going through the roof, as it did last year," notes Don Culeton, Info Directions president.

Also, the voice over IP (VoIP) hurricane is going to smash ashore, heedless our well-crafted plans.

The robustness of competition means retail price deflation will continue to bedevil everybody. And as mergers heat up, resellers will have to pay more attention to their supplier arrangements. "It's part of the background I have to pay attention to, just like the regulatory environment," says Mocas.

And, as has been the case for the past year, SBC in the Ameritech region seems to be "culling the herd" as far as its channel partners, Mocas says. "Commissions are dropping from $1,800 to $500, and residuals are going away, in some cases." There also are more retail sales people on the street.

So the issue is, will SBC move in the direction of a stronger retail presence in the small business market, or is it preparing to beef up its wholesale channels?

Optimism?

On the other hand, 2004 could emerge as one of the most exciting years we've seen since the mid-1990s. "The most exciting thing in the TDM part of the business is bundling," says Jack Baron, Pae-Tec chief marketing officer. "The most exciting thing, period, is VoIP."

True, we might not end the year "partying like it's 1999." Given the continuing uncertainty about UNE-P – arguably the sine qua non of mass-market local competition – that's not a likely outcome. Still, sticking to the knitting is going to pay off. "There's still a trend in the consumer market for choice," says TalkAmerica CEO Edward Meyercord III. And TalkAmerica doesn't see any reason to put the brakes on its "savings, simplicity, service" approach, 97 percent built on UNE-P, or on its use of multiple channels and emphasis on customer service.

"You'll see us stick to our game plan," says US LEC senior vice president Jeff Blackey. "We'll add products, but customers won't be surprised."

Still, by the end of the year, we might just have seen the first real glimmers of the ways converged services allow contestants to win – or lose – huge chunks of existing customer business. "We sense, early in the year, a tremendous opportunity in our business segment to leverage the whole high-speed Internet access ser-

vice," says Kevin Stephens, Choice One Communications senior vice president.

We're talking about leveraging broadband to deliver VoIP (as well as its

Local Services Revenues, $ Million

Year	Local	Toll	Total	% Growth
1999	$109	$108	$217	–
2000	$119	$110	$228	5.1
2001	$126	$99	$225	-1.5
2002	$122	$85	$207	-8.2
2003	$118	$78	$196	-5.1

Source: Federal Communications Commission

other incarnations), of course. "It's the real deal, although people often cannot articulate why," says Gregg Smith, Z-Tel Technologies CEO.

We aren't saying VoIP will have turned the world upside down by the end of the year. It won't. "Fortune 500-sized firms can't convert 100 percent to VoIP because their current platforms are meshed with interactive voice response, call center and other applications for which interfaces don't yet exist," says Kallett.

So the issue isn't the growth rates or absolute volume of VoIP displacement of

End User Lines by Type and Service Provider

Customer Type	2001	2002
ILEC Segment		
Large enterprise (000)	38,622	35,734
% Change	-0.4	-7.5
Residential and small/medium business	133,422	127,008
% Change	-3.9	-4.8
CLEC Segment		
Large Enterprise (000)	10,614	10,405
% Change	23.2	2.4
Residential and small/medium business	9,489	14,361
% Change	43.3	51.3

Source: Telecommunications Industry Association

time division multiplex (TDM). Instead, the key thing is the ways it will have begun to dramatically alter the business context within which the fortunes of channel partners and competitive and legacy service providers alike are made possible. At a practical level, "VoIP is taking us up-market, into larger enterprise accounts," says Wayne Bell, Pac-West Telecomm vice president.

More fundamentally, up to this point, bundling has been about aggregating disparate services and billing them together. "As we go forward, the ultimate bundle is a very high-level integration of data, telephone services and the devices that enable them," says Stephens.

And that really does create a new window of opportunity for some providers to eclipse others. "We're going to be spending more time and money integrating services on our customers' behalf," says Ralph Widmar, TMC Communications chief technical officer.

It also creates new opportunities for wholesale partnerships, as the technology and speed-to-market requirements will favor teaming. Premises and hosted IP-PBX services both will be used, at the same accounts, simply because enterprise sites always have remote branches, for example.

At the same time, indirect channels could shift as well, especially as the customer premises equipment becomes something a service provider cannot simply assume but must take some hand in provisioning and managing. "The whole distribution architecture could change in 2004, because it's not a per-minute game any more," says Smith. "It's about solutions, now."

We also will see a greater shift to facilities-based competition on the part of the emerging industry players. That's something regulators have been wait-

ing for and something the competitive segment of the industry will make key strides toward. "You can transition from UNE-P to VoIP if you have the broadband," says Stephens.

Wall of Worry

But we'll have to climb the wall of worry first, Dagda Mor says. And there are demons lurking out there. For starters, it's awfully hard to characterize today's business as a "growth" market. Spending on transport services was essentially flat in 2003 at $285 billion, according to the Telecommunications Industry Association.

originated on wireless handsets last year.

Regulatory treatment of local, broadband and VoIP services remains in flux, arguably slowing some types of investment by incumbents and competitors alike, while certainly contributing to a great deal of short-term thinking by executives of all stripes.

Practical Matters

Of course, all that grand strategy stuff has to be balanced by eagle-eyed attention to the day-in, day-out priorities that bring cash in the front door. And new customer acquisition rates among larger customers seem to be slowing. Chalk up part of the slowdown to vigorous win-back efforts and part to "retail price erosion, which means you have to dig deeper to get the next customer," says Karoczkai.

CLEC Local Access Lines (000)

Year	Resale	% of Total	UNE	% of Total	Owned	% of Total
2001	4,250	21.6	9,332	47.5	6,072	30.9
2002	4,662	18.8	13,709	55.4	6,396	25.8

Source: Federal Communications Commission

Local exchange revenues declined 2.9 percent to $118 billion, following a 3.3 percent decrease in 2002, TIA says. In fact, "overall spending on local services has declined since 2001, the first decrease since the Great Depression," TIA says. And the industry group doesn't see growth until 2005, when local revenue "will flatten," to rise in 2006. Sobering words, all.

And there's virtually unanimous agreement that bundling will be as important as ever, increasingly for business customers as well as residential. "You'll see bundles, including some form of 'all you can eat' long distance, even for business customers," says Myles Falvella, KMC Telecom marketing vice president.

Local Service Revenue, $ Million

Year	ILEC	% Growth	CLEC	% Growth	Total
2002	107,932	-6.2	13,570	27.7	121,502
2003	101,000	-6.4	17,000	25.5	118,000

Source: Federal Communications Commission

Toll-service revenues also fell 8.2 percent to $78 billion, the third consecutive year of decline. Just as important for the crucial wireline segment of the business, product substitution continues unabated.

Last year, wireless services revenue passed that of toll revenue for the first time. Wireless revenues were up 14.3 percent to $89 billion. And think on this: TIA says a quarter of all long distance calls

Also, 2004 will bring an expansion of customer segments for a number of players. Some firms are going up-market, others down-market. Choice One, for example, is doing both. It has created a new business unit serving residential customers as well as dedicated teams for key accounts, especially larger regional or national companies within its footprint.

"It's a segment we've been serving, but the effort wasn't as focused," says Lisa Schnorr, company director. Where in the past Choice One typically has chased down branch office type accounts and then worked up the headquarters sites, the new teams will work "top down," starting with HQ sites to get the dispersed branch offices.

Choice One also is leveraging its business customer base in creating its residential services unit. "The incremental margin is fairly significant, in double digits," says Stephens. Part of the reason is that the company is building on its business customer base to acquire home office connections and employee accounts on an affinity basis. "We'll be marketing to non-profit organizations our business customers are in, for example," says Stephens.

Mpower Communications also is moving up-market this year. "Traditionally, we have focused on businesses with 50 employees or less," says Teeters. "This year, we're up to 150-employee accounts." And it has no intention of doing so on the strength of "plain vanilla" services. Rather, Mpower will concentrate on some vertical markets and a solutions-focused approach.

"We want to offer best-of-breed features that are optimized for industries such as health care, for example," says Teeters. "We offer applications that provide billing and reporting support required so they can deliver bills to insurance agencies, as well as systems for secure transmission of patient records and medical images," Teeters adds. Going forward, Mpower will be looking for more third-party, network-delivered applications.

That's similar to thinking at Pac-West Telecomm, which sees more customer segmentation and more niche opportunities. "We've targeted the real estate vertical and car dealerships, for example," says Bell. "It takes more than saying you have a solution," Bell notes. "You have to understand their environment and how they use communications."

ITC^DeltaCom, for its part, has created a totally separate business unit for its residential business with its own channel strategy, says Drew Walker, company president. "It's a price-driven, high-churn business, so we don't put live feet on the street," says Walker. "We use door knockers and direct mail, as well as UNE-P."

Z-Tel, on the other hand, is shifting toward business and away from the residential segment. "Business lines now are 50 percent of our net adds," says Smith. It also is shifting away from UNE-P and toward VoIP. "By the end of 2004, we are more a managed service utility than a UNE-P play, in some sense," Smith says.

And Z-Tel has the most practical of reasons for doing so. "If a customer shops first for wireless or broadband, then as a voice provider you are a third choice, at best," Smith says. VoIP changes all that, because “you provide a better solution,” where “the customer gets control over call management,” including call screening, call redirection or delivery, according to customer-specified routing choices and call-handling rules.

“With VoIP, you provide all the value, and the other guy is the dumb pipe provider,” Smith says.

And VoIP isn’t just for the larger markets. KMC Telecom operates primarily in tier three communities but still “has to have VoIP as a product by the end of this year,” says Falvella.

For many providers, wholesale operations also will assume greater importance. “That’s where our real opportunity is,” says Falvella.

Of course, UNE-P isn’t a major concern for service providers that rely on T-1/private line access bandwidths, such as US LEC. Digital subscriber line is more frequently a solution for branch office support in these cases, says Blackey. “Our typical customer is a commercial user who requires 500 kbps of Internet and 10 phone lines,” he says.

In the area of the integrated access and T-1 staples, some firms, such as ITC^DeltaCom, will be adding dynamic products that support frame relay, voice and Internet. Pae-Tec also sees a nice migration path for VoIP over its clear channel T-1s.

One of the more innovative new offerings is a 32 voice-channel T-1 that also supports data or Internet, now offered by Focal Communications. “We’ve redefined what is meant by a T-1,” says Lalor. It’s a product specially suited for enterprise branch offices, toll bypass and site interconnections, especially where an extremely large local calling area has to be covered, Lalor says.

“The real challenge is to provide the branch office workers with the same features available at the headquarters locations,” says Elizabeth Vanneste, Focal executive vice president.

Key Industry Trends for 2004

Bundled services
Flat-rate pricing
Per-minute long distance charges going away
Local/long distance distinction disappearing
Wireline subscriptions falling
IP applications entering the mainstream

Source: Telecommunications Industry Association

So why is Dagda Mor so optimistic? Even if overall industry revenue doesn’t nudge much, share shifts will continue, and dramatically so, in some categories. Stronger competitive players will emerge as mergers occur, and faster broadband access deployment simply means greater opportunity to disintermediate “access” and “features.”

The key strategic business imperatives are matched by a transition to new technology platforms, principally broadband and the key VoIP application that rides over it. "During the next couple of years, massive movement of voice minutes from TDM to IP will occur," says Kallett. Just at the point where maximum efficiency is required, the tools appear. Just when the old business model shows it is indeed exhausted, tools to support construction of the new model are dropped into our laps.

Local Services Revenue and Share Growth, %

Year	ILEC	Share	CLEC	Share
2003	-6.4	85.6	25.3	14.4
2004	-4.0	82.9	17.6	17.1
2005	-3.1	80.3	15.0	19.7
2006	1.1	78.8	10.9	21.2
2007	3.2	77.8	9.8	22.2

Source: Telecommunications Industry Association

In addition, key customer gains by emerging carriers, married to the new platforms, will allow a graceful migration to greater use of facilities, a public policy goal and margin-enhancing step. Also, the new platforms promise to bring the full benefits of competition to residential and smaller business customers, a process which mirrors the evolution of the long distance segment of the industry. To wit, enterprise see the benefits first, then mid-sized and smaller businesses, then consumers.

Where competitive carriers have been charged with "cherry picking" customers, they now increasingly will be seen providing advanced and innovative services to residential and smaller business customers, an important step for the emerging carriers.

Also, the U.S. economy is recovering, if unevenly so far, and appears to be matched by the first synchronized and global economic recovery we've seen in a while. (Dagda may be wrong, he's the first to admit, but he's pretty sure he's right about this one.)

And though Dagda is absolutely convinced that some executives are going to make the same mistake with VoIP price arbitrage that they made with reciprocal compensation, many will seize upon the key services differentiation to vault themselves into even more attractive customer positions.

Dagda Mor also believes some key competitive dynamics are about to change. In both the cable TV and local exchange industries, there has been a long-standing gentleman's agreement not to attack each others' core businesses. Dagda believes this accord is breaking down.

At the same time, the U.S. competitive local exchange business will see important consolidation moves, strengthening survivors and rationalizing the level of competition in each local market. "It will be a really exciting year," says Bell. "The survivors are going to grow." **FAT**

A Better Branding

By Kelly Kirkendoll Shafer

When people hear the word “branding,” they often think of company names, logos and advertising. That’s the “what” of branding. The “why” of branding is that a successful branding effort cuts churn, lowers customer acquisition costs and allows a service provider to charge higher prices than other competitors in its niche. Of course, sometimes it also pays to rebrand.

“The greatest difficulty you face in rebranding is really trying to understand where your customers and the marketplace are going to be one, three, five years out and picking the place you want to position yourself in so that you’re relevant in your marketplace two to three years from now,” says Mueller.

While improving the bottom line is the ultimate driver behind any rebranding initiative, a variety of reasons have fueled many telecom rebranding efforts, including:

- company merger, acquisition or spin-off;
- scandal surrounding name (i.e. WorldCom’s name change to MCI);
- original name doesn’t work well as a Web address or logical Web address is taken by another company;
- company expands scope of services and the original name is limiting;
- shed a bad reputation (i.e. Voicestream’s name change to T-Mobile);
- erase market confusion (i.e. Nextlink’s name change to XO – one driver was the confusion with the Nextel name); and
- original brand name is too difficult to say or remember.

Why does branding reduce churn? Because when branding is congruent with, and backed up by, your actual performance, it reinforces a customer’s sense of having made a wise choice. Randy Mueller, chief marketing officer at the newly rebranded Callipso (formerly CNM Network) defines a brand as a promise. “It’s your promise to the marketplace, to your customers.” Successful branding, he points out, results in customers staying loyal over time, continuing to buy your products and services. Similarly, Z-Tel’s Sarah Bohne, director of investor relations, defines branding as “creating customer confidence and loyalty in the services you provide.”

Brands Still Hot or Not?

Some marketers may question the wisdom of placing significant resources behind a branding or rebranding campaign. For starters, the argument goes, brands worked best when there were fewer choices available, and today’s Web marketplaces generate massive amounts of choices in a matter of mouse clicks. What’s more, as the Web and other channels make it harder for producers to hide information about cost and price, the higher margins that were supposed to come with better brands become harder to maintain. Products and services are more easily commoditized and brand loyalty is weakened.

Historically, argue strategists at Market Strategy Associates, brand strength has carried an ability to charge a price premium. For example, consider the brand strength of three television brands:

Brand Strength or Equity (100 point scale), Market Price (27-inch Stereo Television)

Sony	$289	90
RCA	$209	63
Goldstar	$179	44

Source: Market Strategy Associates

Still, not every product is as easy to brand, they argue.

Ability to Differentiate Products

Low Premium (<10%)	Pain Relievers, Cheese, Frozen Vegetables, Orange Juice
Medium Premium (11-29%)	Cake Mix, Dishwashing Liquid, Fabric Softener, Jams, Coffee
High Premium (>30%)	Dog and Cat Food, Shampoo, Soft Drinks, Toilet Tissue, Cold Cereal

Source: Market Strategy Associates

Plus, some argue, price may outweigh the value of brand preferences, in some segments and for some products. On the other hand, others will counter that the proliferation of choices is precisely what sustains the power of a brand. Consider, for example, a Web shopping search that generates a dozen providers. If a buyer only has heard of a few of those options, the selection is going to be quickly whittled down. So here branding is applied as a means of reducing buyer risk.

A similar argument can be made about price transparency. If price is no longer a major reason to buy one product instead of another, and if service terms and features are roughly equivalent, a brand is an attribute that cannot easily be copied.

So rather than simply questioning the effectiveness of branding, executive who have failed to see the impact of recent campaigns should first ask themselves if they have consistently supported the brand promise across all customer experiences. And that applies today as much as ever.

> "Just having a brand is not the key to success," says Bohne. "Having a strong brand that customers associate with reliability and a company that treats their customers well and does business ethically – those are the keys to a successful brand."

Successful branding also creates a mental shortcut. And that lowers your customer acquisition costs. The first goal of this shortcut is awareness, so prospects say, "Oh, I've heard of you" instead of, "Who the hell are you?" Of course, "awareness" can be a negative. What marketers want is to create a positive impression, in order to get to a customer "yes" faster.

Top 10 Total Advertising Spenders, January 2003 to September 2003

Carrier	Total Spending ($000)
Verizon	772,944.06
SBC	643,748.07
AT&T Wireless	470,820.72
Sprint	413,973.63
MCI	299,872.33
Deutsche Telekom (T-Mobile)	205,751.46
AT&T Corp.	178,501.45
XO Communications	153,506.56
Qwest	101,537.30
Alltel	69,993.61

Source: TNS Media Intelligence/CMR

Lower customer acquisition costs are among the very practical advantages of successful branding. It's a matter of "awareness and credibility," says Steve Faulkner, senior vice president of product and marketing at Birch Telecom. "When you think about phone service," he says, "of course you're going to think about Bell." So Faulkner wants Birch to be the next name that comes to mind, and he credits brand awareness for his company's success.

1Q 2003 Brand Equity* Study, Rankings of Telecom Companies

AT&T	70
Verizon	133
BellSouth	200
Sprint	170
Qwest	364
Cable & Wireless	525
SBC	498

Source: CoreBrand
**Measurement of how familiar and favorable a company is among business decision-makers; almost 1,000 brands across all industries tracked*

By a rule of thumb, it costs about five times more to obtain a customer than it does to retain one. Still, customer loyalty is elusive these days. A November 2003 loyalty study conducted by WalkerInformation found that 25 percent of the telecom consumers surveyed are "high risk," (have a low intention to continue with their current provider); 46 percent are "trapped" (not thrilled about their provider but planning to stay for now); and only 28 percent are "truly loyal" (both happy and planning to stay). The study collected 6,347 corporate brand observations from 3,314 completed questionnaires.

But branding is neither cheap nor easy. In the first three quarters of 2003, TNS Media Intelligence/CMR reports that Verizon's advertising expenditures totaled $77.3 million. SBC spent $64.4 million, while AT&T spent $65 million ($47.1 by AT&T Wireless and $17.9 by AT&T Corp). One might question how effective branding is in supporting prices, but Verizon Wireless is universally acknowledged to be the "highest quality" wireless provider, and it commands the highest prices in the space.

Now What?

While gaining brand loyalty in the telecommunications market is a daunting task these days, experts offer advice that may help. "Most companies are reactive," says Robert Passikoff, Brand Keys president, and this must change. He says many companies are stuck in the previous century, trying to use old branding principals in a new age. "It's just not working. It's gotten to a point, especially in telecommunications, where there is no real differentiation," he says.

"Companies need to know what people think as opposed to what they say they think," he continues. "If they're able to understand what the market really wants, where people's expectations really lie, they can then begin to develop marketing programs that respond and resonate to those values." He cautions that, even so, many of these efforts will have a short window of opportunity, because it takes so little time for the competition to catch up, and customers' needs and expectations change so rapidly. "Even when you know what people really want, and what they think versus what they say they think, the question then becomes – will they believe it about your brand?"

A well-known brand is important, but it cannot stand alone. "You have to deliver on your brand's promise," says Mueller. "Otherwise, your brand means nothing." Indeed, says McKenna, branding exercises not accompanied by genuinely great products and services will fail.

The most recent Walker Loyalty Report found that less than six in ten (57 percent) of the respondents are pleased with their telecom customer support services. "Earning a reputation for being customer focused is the number one driver of loyalty," it concludes. And loyalty pays. According to Walker's report, "On future spending alone, truly loyal consumers are more than 25 times more likely to increase spending with their telecom provider than are high-risk consumers."

Bohne says she doesn't hear Bell customers say that they don't get dial tone, but she does hear from Z-Tel's customers that they leave Bell because it comes across as incredibly impersonal, provides poor customer service and jacks up their rates. "Just having a brand is not the key to success," she says. "Having a strong brand that customers associate with reliability and a company that treats their customers well and does business ethically – those are the keys to a successful brand."

How do smaller service providers, with limited marketing budgets, create brand awareness in the world of big brands, big ad budgets and overwhelming confusion and noise?

"I'm never going to have the voice, the frequency or reach of any of my primary competitors, not even anywhere close," says Faulkner. "It's not the same game."

That doesn't mean Birch chooses not to advertise. Faulkner says Birch can still benefit from pure awareness advertising.

"With the 1,800 or so messages everyone sees every day, spending the kind of money I do, we must have something that pops through it." Buddy, a local dog that graces the company's quirky billboard ads, Web site and other marketing materials leads the charge. The company's Buddy campaign has helped build awareness. When his salespeople come to a door, Faulkner says prospects are familiar with the brand and say things such as, "Oh yes, Birch. The dog ads."

Faulkner says people sometimes ask why Birch doesn't simply run advertisements that say the company has better service and prices. "Well, we do, but everyone says that. If I say the same thing everybody else does, you aren't going to read my billboard," he replies.

"It's obvious that we don't have a marketing budget the size of an AT&T," says Z-Tel's Bohne, "so we must pick and choose our advertising opportunities carefully." Z-Tel served as the backbone provider for MCI's The Neighborhood and now powers Sprint's local operations in 36 states plus Washington D.C. "We wouldn't be able to acquire wholesale customers such as these without a strong brand and a strong reputation," says Bohne.

What they lack in ad budget, many of the smaller companies make up for in personal customer service. "When we get customer feedback," says Faulkner, "we usually get comments about how friendly we are or how easy we are to work with. I can't claim we intentionally built this attribute; it's part of our culture."

Marketing guru Regis McKenna proclaims that, "Every product, every customer is an advertiser. Every customer is a distributor." Bohne agrees, and says about a third of Z-Tel's customers come from referrals. Faulkner says Birch also relies heavily on customer referrals and references.

Rebranding

"There's an old famous *New Yorker* cartoon," says Passikoff, "that shows a box of cereal that becomes 'the new and improved cereal with Zappo,' which then becomes the old fashioned box of cereal that then becomes the box of cereal that it always was." If you're a packaged goods company, and you want to give your sales, market share and/or profits a boost, these are typical ways to reinvent your self.

But Passikoff says rebranding tends to be the course of last resort and admits he's cynical about most rebranding efforts because he doesn't normally see any big changes when it happens. "It's not like they changed it then got 10 percent more market share," he says.

In some cases, such as WorldCom trading in its tainted name for that of MCI, he thinks rebranding is a good idea. "WorldCom needed to move on, and that's usually a way of doing it."

Nextlink, another company that rebranded, had built strong brand awareness as a competitive local exchange carrier in 50-plus markets but aspired to become a national and international provider of integrated services. The company didn't think Nextlink expressed the company's desired identity, and there was some name confusion in the market between Nextlink and Nextel. So, in September 2000, Nextlink became XO. At the same time, the company launched a new set of integrated service packages and spent

$20 million on a new ad campaign.

Callipso rebranded from CNM Network in mid-December 2003. Its objective, says Mueller, was to find a promise to its customers and a position that encompassed where the company thought the market was going and what it would be long term. "All of the functionality that used to happen at the network level and various disparate devices are all coming down to a single device at the user level. And IP enables that," says Meuller.

So Why the name Callipso? "In the center of Callipso you have IP, which is the centerpiece of the types of technologies we roll to the market." He says the Callipso also wanted something unique and recognizable in the market. "The feedback, so far, has been overwhelmingly positive."

Of course, rebranding isn't easy. "The greatest difficulty you face in rebranding is really trying to understand where your customers and the marketplace are going to be one, three, five years out and picking the place you want to position yourself in so that you're relevant in your marketplace two to three years from now," says Mueller. In addition to the mundane (and costly, if you're a large company) changes such as stationary, business cards and signage, other challenges include trying to find a relevant name that someone else isn't using and then getting employee buy-in. "We really worked hard at getting our employees in the loop early on, so they had a sense of ownership," says Mueller.

Measuring Success

Most service providers in the wholesale segment won't be able to accurately measure their branding success. Even for the biggest players, the bottom line is the bottom line. But there are soft measures.

Faulkner relies on his sales force. "As long as I hear pretty steadily that when we solicit a customer, that customer knows who we are – and under that we have established credibility and people have some strong emotion associated with Birch – I know we're on target with our branding efforts," says Faulkner.

"On a very granular level," says Bohne, "when you meet people on the street and they know who you are and what you do, you know you're on the right track." Z-Tel also relies on customer, investor and partner feedback to gauge its branding success.

"From an intangible standpoint, do your customers make a connection and do they see the relevancy of your brand?" says Callipso's Mueller. "Long-term, we need to be sure that what we're communicating in the brand is coming through in our metrics in our call centers, customer service and network reliability and quality?"

Customer testimonials, internal metrics, loyalty surveys and brand awareness studies all provide companies with useful information. But the real proof is in a different set of numbers – a company's revenue, profits and market share. **FAT**

Kelly Kirkendoll Shafer is a freelance writer with 13 years of marketing experience in the telecommunications industry. She can be reached at kellyshafer@charter.net.

Segment Segue

Survival strategies for less-than-best customers

By Gary Kim

When performing a symphony, the orchestra has to segue seamlessly from one piece to the next, without an abrupt break in the flow of sound. Likewise, in every segment of the service provider business, every provider has customer segments that are desirable but tough to acquire and retain on a profitable basis. So the key is fluidly matching channels, acquisition and retention strategies to the characteristics of the segment.

Verizon Retail Access Line Changes, %, Wholesale Lines (000)

Segment	1Q 2002	2Q 2002	3Q 2002	4Q 2002	1Q 2003	2Q 2003	3Q 2003
Business	-5.3	-6.2	-6.0	-5.2	-5.0	-4.6	-4.6
Residential	-1.7	-2.2	-2.5	-2.6	-3.0	-3.1	-3.5
UNE-P	2,278	2,400	2,741	3,186	3,572	4,090	4,570
Resale	1,359	1,277	1,150	1,049	999	909	809
UNE, TSR	3,637	3,678	3,891	4,235	4,571	4,999	5,378
VGE (000)	131,402	132,792	134,875	135,797	136,570	137,616	139,388

Source: Company reports

Of course, some executives might argue, tongue only slightly in cheek, that there's no such thing as a high-margin customer anymore. "Some competitors are doubling their discounts to preserve volume," says AT&T CEO David Dorman. Initially shocked by the practice, AT&T's chief now vows: "we don't intend to lose on price."

"We intend to take share in 2004, in the business segments," says Dorman. "We were too slow to respond on the price side." Asked to clarify his position on price, Dorman answers without hesitation: "We have to be aggressive to take share. That's the principal weapon RBOCs and others are using."

Sounds like a knock-down, drag-out kind of year to Dagda Mor. Consider that Verizon has experienced at least two years of consecutive access line declines and increases in wholesale business that almost matches. Of course, voice grade equivalents have exploded, representing the equivalent of 139.4 million voice circuits, where Verizon has about 56 million voice lines in retail service. That's product substitution and sheer new product growth.

"Big Three" Operating Margin, %

Carrier	3Q 2002	4Q 2002	1Q 2003	2Q 2003	3Q 2003
MCI	-2.0	-4.5	4.8	6.1	–
AT&T	14.8	12.7	13.0	12.5	10.3
Sprint	2.8	1.9	0.3	1.4	2.1

Source: Bear Stearns

The point is that every provider can figure out ways to take care of its most important, largest customers. "From our perspective, we've always had a senior, CEO-to-CEO relationship with all our providers," says Steve Ray, Lightyear Communications director. It's support for small customers, at the very edge of the threshold a company has set for itself, that causes all the heartburn.

It's a tall order to be sure, for every provider, in every line of business, every time, for good reason. One simply cannot always provide superb service to customers that are low-margin and low-volume. Says one industry executive: "What can you really say, 'we suck less'"? It's tough. Always tough."

It's not much easier on the sales side of things. "If you use the wrong channel, or chase the wrong customer, on the residential side, your churn rate goes north of 10 percent and then it doesn't pay," says Gregg Smith, Z-Tel Technologies CEO.

In a broad sense, it traditionally has been the small and mid-sized business segment that has proven most challenging. In the residential markets, large providers traditionally have relied on mass media, direct mail and other mediated acquisition channels. Large enterprises continue to be supported by direct sales. It's in the middle where all the work has to be done.

On a cost of sales business, one might prefer not to dispatch live human beings to prospect for new business. On the other hand, a prime advantage smaller competitors have had is that the established providers never had done so. That may be changing, as the fight to retain lines and accounts grows white hot.

Still, the response by the largest incumbents, while clearly more active, lacks consistency. "In some of our markets, we see more headcount on the streets, working the small and medium businesses, and then it stops," says Kevin Stephens, Choice One Communications senior vice president. "It's incoherent across the footprint."

"All the ILECs have increased their level of play," says Wayne Bell, Pac-West Telecomm vice president. It's just not completely consistent and baked into the culture, yet.

Baked in, or not, the sales fusillade often will have effect, especially when the unbundled network element provisioned (UNE-P) platform is the access platform, for example. "Why use somebody else who simply buys the loop from us?" That's what customers will hear, says ITC^DeltaCom business services president Drew Walker.

"The Ameritech folks are still aggressive, but we think they'll mellow out after they've hit their numbers," says Rob Mocas, Easton Telecom CEO. "I will say, however, that their sales force has been beefed up, and they have quotas."

"They're better," says KMC Telecom vice president Myles Falvella.

Of course, sometimes "being better" isn't enough, especially when there are structural issues to deal with. Alltel executives, for example, have been emphasizing recently that 40 percent of that company's local line losses are because of wireless substitution, while another 30 percent are because of broadband substitution. Together, then, 70 percent of local line losses are caused by product substitution, not competitor market share gains or the economic downturn.

Though it isn't what they would prefer, the wholesale business is growing, and the retail business is shrinking. Like it or not, that's one way to deal with low-margin business: go wholesale and let your partners take care of the retail accounts. About 51 percent of AT&T's long distance voice volume now is wholesale, for example.

Incumbent LEC Operating Margin, %

Carrier	1Q 2003	2Q 2003	3Q 2003
BellSouth	27.3	25.3	26.6
SBC	14.7	11.5	11.3
Verizon	18.8	19.6	21.2
Qwest	5.5	5.1	–

Source: Bear Stearns

Consumer Plans

In the consumer space – the classic high-churn, low-margin segment – some strategists are banking on the fact that most consumers are unclear about their actual long distance usage on their wireline phones. So "all you can eat" long distance plans essentially can be seen as a way to trick some people, in some segments, into paying more than they have to for toll services. "Most customers don't belong on those plans," says TalkAmerica CEO Edward Meyercord III. That's one way to raise your average revenue per unit in a tough segment.

Another accepted way is to keep the offering simple. "You have to offer the same phone, the same phone number, the same lines, the same 911, no switching fee, no sign-up fee and a money-back guarantee," says Meyercord.

Distribution strategy also is key. "For lower-margin residential segments, you must have a different distribution program than for business," says Lisa Schnorr, Choice One Communications director. "You want to do things like push people to a Web site and avoid driving calls to your call center," she says.

Automation of the provisioning process also is really helpful, since it helps preserve margins. "Give people the tools they need to do their own troubleshooting, through the Web or using interactive voice response," Schnorr says.

Generally speaking, of course, one doesn't sell to the mass market using a relationship sell. "Referrals are important, as are outbound telemarketing, direct mail and online and agent partners," says Meyercord.

A good credit scoring process also helps, even in the business segment. "We just decline anybody with credit problems or require a deposit," says John Marsch, TMC Communications CEO. "We also accrue about 2 percent a month for bad debt, though we've never hit 1.5 percent, in practice.

"Most of the problems we see are generally caused by people who don't pay on time," Marsch adds.

Scaling Support

It's also a no-brainer to differentiate levels of customer support, based on value of the account. "You simply provide a higher level of service to clients who provide a higher level of value," says Stephens. One way to do that is to create differentiated support groups based on skill level, so that the biggest clients, those with the most longevity or those using the most complex services, get the most experienced support staff.

Of course, being "lucky" is better than being "smart." And, sometimes, a company can build its whole operational system around small customers to begin with. That's very helpful when the customer base expands to include larger companies, but the heavy automation features are simply built right into all the core processes. "Small, emerging carriers were always our clientele, so we built all our systems around small, growing customers," says Brian Metherall, General Telecom vice president.

Increasingly these days, companies are able to take advantage of "network effects" (the value of the relationships grows as more relationships are added) to provide more value to their customers. The General Telecom "Global Village," for example, is a Web-based tool that allows every partitioned switch customer to see what's available from other carriers. "They run it, not us," says Metherall. "It doesn't take my sales force's time, and all we know is that we get an order for a loop-around port."

As a rule, in fact, support of small customers can present an exchange-based network with advantages. That may especially be true when transactions are highly automated and visible, as is the case in an exchange setting. "Frankly, it often is the smallest partners who add the most value, even though they are hard to support well," says Andrew Goldsmith, Global Internetworking vice president. One might consider the value of an owner with a single, hard-to-reach route, in an exchange whose volume is provided by tier one carriers, for example.

Of course, even there, "to give a smaller customer the proper level of support, you need a sufficient share of their wallet," says Goldsmith.

Tough as it is to pull off, support for smaller customers may actually be improving. "I find the support I'm getting is better than what I was accustomed to getting years ago," says Bill Vanderphloeg, Union Worker Communications owner. "My suppliers get stuff up, and they respond, fast."

There's no silver bullet here. "The small guys always are trying to get attention, and it's just tough for a supplier to give it to them," says Ray. In the final analysis, "just say no" is one way suppliers can make sure they aren't taking on customers they cannot serve well. "We just can't do a 'come one, come all' kind of strategy," says Stephens.

"You just have to execute and deliver," says Meyercord. "Last year we answered 1.8 million inbound calls in an average of 38 seconds." And every type of customer issue can be dealt with from a single inbound phone number, Meyercord adds.

All of which means highly repeatable, automated systems, efficient operations and customer niches. "We just see more segmentation and more niche opportunities," says Bell.

Sure, it'll always be tough to serve low-volume and low-margin customers. But that's why bigger providers always will need channel partners, and why nimble, customer-focused providers will take market share. **FAT**

Suddenly Surcharged

Newly enforced stipulation widens the gap for resellers between on- and off-net pricing

By Kelly Kirkendoll Shafer

If you're a reseller on a your underlying carrier's blended rate plan, you may want to take a closer look at your recent bills, especially those from Qwest. If you're an agent, what's on those bills will ultimately impact you as well.

Several months ago, a new charge suddenly appeared on many resellers' Qwest bills. This charge, called the RBOC/ITC surcharge, is a 3 to 4 cent per minute penalty stipulated in most wholesalers' switched access blended rate contracts. Blended rate plans have been around for years, and the contracts have always stipulated that only 15 or 20 percent (depending on the contract) of the reseller's traffic could originate (and, in some cases, terminate) in non-RBOC (regional Bell operating company) territory. Until now, however, no wholesale carrier has ever enforced this stipulation.

One reseller saw the surcharge show up on its Qwest bills a couple months ago, and says, “Before they charged me, they never talked about it or billed me for it.” This same reseller also took a close look at its bills and found some errors in how the surcharge was assessed. “They admitted making some mistakes and issued some credits to us.”

Another reseller, which bills around half a million dollars per month with Qwest, was surprised a month ago when it received a bill for almost $40,000 in non-RBOC termination charges. “They charged us penalties on origination and termination traffic,” says the CEO. Contractually, he says, Qwest is only allowed to charge penalties based on origination traffic. After disputing the termination-related surcharges, Qwest agreed to issue a credit for these charges. “I think they’re trying to see what they can get away with, charging everybody and seeing who catches it.”

There seems to be some discrepancy in the interpretation of the contracts too. Some interpret the contract to say that the ratio should be calculated at the end of the contract’s term, allowing for monthly fluctuations. Others, including Qwest, it seems, interpret it as an ongoing monthly obligation. “Because it’s a US West lawyer-induced contract,” says one reseller, “depending on how you read it, they basically can charge it almost however they want.” He says the reseller’s original contract with Qwest was much simpler and straightforward, but since the US West merger, it’s become a 50-page document that is difficult to read.

What’s even more frustrating to many resellers, according to a source close to these issues, is that when the carriers originally entered into these blended rate contracts with Qwest, the sales reps often said something like, “now we have this ratio formulated here, but we don’t know how to track it, so don’t worry about it.”

Maximizing Margins

“Qwest is trying to move all of its resellers off their older, blended pricing product. And it appears as though it’s a revenue-avoidance scheme, set out to get only high-margin customers,” said Brian Sledz, president and CEO of Connect America.

Another executive, who asked to remain anonymous, said Qwest was using this as a penalty stick, to bring the resellers to the table to negotiate a new deal. They’ll let resellers out of the penalty charges, he says, if they sign up for a tiered pricing plan with a new contract for an equal or greater term commitment.

“I think what happened,” says another industry executive, “is the guys who figured out margins at Qwest a long time ago priced it too low. With that pricing, they got a bunch of business, and now they’re trying to get rid of the stuff that’s not making them any money.”

“Because it’s a US West lawyer-induced contract,” says one reseller, “depending on how you read it, they basically can charge it almost however they want.”

What reasoning does Qwest provide? Officially, they told FAT PIPE, “Our agreements with customers are confidential and we really can’t discuss any contracts or any of the contract terms in detail because of this.” They did, however, encourage customers that have questions about their agreements to contact their account reps and said they’d be happy to discuss it with them directly.

One reseller says he did just that. “I talked to my account rep and told her that I’m going to have to move my business.” Her reply? “Do what you gotta do,” he says. He thinks Qwest reps have been put under strict margin control and might even be in a mode where the sales reps’ commissions are not being hit when customers leave due to the new pricing.

“If you’re a sales rep and your commission depends on how much your embedded base bills, I don’t think ‘do what you gotta do’ is an answer you give them when they tell you they’re taking their traffic away.” He says that even before they started charging the penalties, he asked Qwest for pricing reductions in several states, and Qwest came back and actually raised prices in a couple, almost doubling it in some. “I pushed back, but they said that’s the way it is.”

Unofficially, a source at Qwest says that this is a very touchy, flammable issue right now. He says that, in general, the industry is changing, and the true costs of terminating a call are now being factored in. “Independent access is more expensive,” our source explains, “and those of us who want to stick around are actively getting very granular on our cost models.” When asked if the enforcement of the 85/15 ratio is one way to do that, he answers, “Absolutely. It’s still a minute business, and the fundamental costs, the actual costs of originating and terminating a call have to be acknowledged.”

One reseller agrees, saying “Qwest has been upfront about this, and this shouldn’t be anything new to resellers. It’s fortunately or unfortunately how our business is run right now.”

Why Now?

Some speculate that until recently Qwest simply didn’t have the ability to track and assess these penalty charges. Others disagree, saying that perhaps they didn’t beef up their billing and information systems until recently, but that the capability has been there for years.

Another source points to abuse as the driving factor, saying, “Somebody probably messed it up by taking advantage of the situation, and so they started policing it.”

Ed Shanahan, principal with management consulting firm TMNG, says the market, rather than systems, is likely the driver here. In previous years, the competition was fierce, and no one focused a lot of energy on tracking the non-RBOC ratios. They wanted to win business. "Today" Shanahan says, "there are less carriers going after the wholesale business, and there's probably less pricing pressure." The pressure, instead, seems to be on margins.

Qwest, in all business units, has become more aggressive on revenue assurance and other initiatives to improve its balance sheet. Dick Notebaert, Qwest's chairman and CEO, highlighted "margin expansion" as a company goal at a December 8, 2003 Lehman Brothers Conference and says, "We will continue to optimize and strengthen [our] balance sheet…We will continue to look at all options."

One area where Qwest is praised is that it realizes resellers can't control where their switched access customers call and has only put stipulations on originating traffic. Other carriers, such as Global Crossing, put stipulations in their contracts on both originating and terminating switched traffic.

"Independent access is more expensive," our source explains, "and those of us who want to stick around are actively getting very granular on our cost models."

Trickle-Down Effect

"What the carriers are doing is pushing the risk down to us, and we can't push it down to our customers because it's not a sellable retail concept," says Rob Mocas, president of Easton Telecom.

In turn, some of the pain is oozing out to the agents. Some resellers are still trying to work this out with Qwest and have had to tell their agents, "We can't pay you on your Qwest traffic until we resolve this." Some have sent their agents addendums to their agreements, making them liable for surcharges resulting from too much traffic in non-RBOC territory. Others say that so far, they have been able to take the brunt of the sudden surcharges without hurting agents.

In most scenarios, the resellers and agents have been pushing to move traffic to another underlying transport provider. Almost all resellers use more than one wholesale provider, and it looks like this move by Qwest may be a plus for other wholesalers.

But will they be inheriting business they don't want either? If so, it appears they may be inheriting more than just non-RBOC traffic. One reseller says that he'll gladly move to Qwest's tiered pricing plan, but the company's tiered rates are so egregious that he's already in the process of moving lots of ANIs and 800 numbers over to Global Crossing. Another reseller executive, already on Qwest's tiered product, says he just tried to renegotiate his tiered rates with Qwest, and their rates in many states "weren't even in the ballpark" with Global Crossing's. He'll soon be moving traffic as well.

Indirect Charges

Is anyone else charging these penalties? As far as we can tell, no. Though indirectly, some say, the answer is yes. WorldCom, for example, says one reseller, charges a much higher rate for non-RBOC traffic, and "they don't care where it originates or terminates because the rate is so high." And all the wholesalers have tiered pricing plans, all with a higher rate for non-RBOC traffic.

What Happens Next

In the short-term, many resellers will fight the surcharges and many will be forced to switch to Qwest's tiered product and/or move their traffic to other carriers.

Longer term, we're likely to see end-users' rates increase in non-RBOC territories. In cases where the blended rate plans were abused, customers received artificially low rates for non-RBOC calls. And the underlying carrier foot the bill. Now, they're pushing the burden down to the resellers, which in turn, will be forced to push it down to their customers.

Don Bean, president and chief operating officer of TMC, says his company already has tiered pricing from all its underlying carriers. "We choose to blend the rates ourselves. We put in all of our flat rate contracts that the end user can only have 20 percent non-RBOC traffic; if they go over, they get billed the difference." He says TMC runs customer detail records and analyzes customers' traffic patterns to protect itself.

All sources agree that this move by Qwest will ultimately result in higher prices for non-RBOC traffic. One says we may even see some wireless-like pricing attempted, where customers are forced to pay more to terminate a call in a non-RBOC area, although most think end-users will balk at any of these attempts.

Rate reform may be in the picture as well. Resellers will be unable to provide rates consistent with the telecommunications act, fulfilling the obligation to offer rural areas the same rates as non-rural areas.

"A carrier must have a blended rate for end users but can tier it to other carriers," says one industry expert. "In turn, these carriers must offer blended rates and cannot discriminate. How can resellers afford to do this?" They can't. No one can, not even Qwest.

"It's a tough situation," says another industry expert, "and the only way to really solve it is to lower the access fees in the rural and other non-Bell territories." How and when that will happen remains to be seen. **FAT**

Kelly Kirkendoll Shafer is a freelance writer with 13 years experience in the telecommunications industry. She can be reached at kellyshafer@charter.net.

Verification Documentation

A bench mark of telecom's slamming-control methods

Slamming, like spaming, is very much an issue in the telecom industry. To find out how carriers are dealing with slamming, **FAT PIPE** sponsored a study of verification methods, conducted by Massachusetts business research firm Primary Point, of 122 telecommunications marketers. The survey used a mix of Web-based and telephone interviews of companies selected at random from the Federal Communication Commission carrier lists, association membership lists and **FAT PIPE** subscribers. In addition, the survey results were compared to a 1997 study conducted by MultiMedia Publishing Corp.

Among the major conclusions:

- Most telecom companies consider slamming an important business issue. Eighty-four percent rated it "very important" and another 10 percent said it was "somewhat important."
- Third party verification (TPV) is the primary method of slamming control used by the telecommunications industry. We found that 89 percent use TPV, while 76 percent use letters of authorization (LOAs). In the 1997 survey less than half of the respondents said they used TPV.
- Eighty-four percent say their general opinion of TPV was "excellent" or "good." By comparison, 69 percent rated LOAs as "excellent" or "good." TPV also is rated as more effective in slamming control by most of the industry: 55 percent said that TPV was most effective, compared to 29 percent for LOAs. Even among LOA users, 47 percent consider TPV most effective versus 35 percent for LOAs.
- Other significant types of order verification by telecom companies include electronic signatures on electronic LOAs and electronic verification. About 20 percent of respondents reported using each of these.
- Automated verification has grown dramatically and is now used by more companies than live operator verification. About 43 percent of telecommunications companies use a mix of automated and live operator verification, while about 35 percent of companies use automated TPV only, and 22 percent use live operator verification exclusively.
- About twice as many companies now using live operators are considering automated services, compared to firms using automated services and considering using live operators.
- In general, larger companies are more likely to use live operator verification than smaller companies. Companies selling more than 500 lines a month are about equally split between automated and live operator verification.
- The primary factor used to select a TPV vendor is price. Other important factors include reputation of the vendor, reliability, integration with the sales process and effectiveness in preventing slamming.
- Third party verification vendors have changed dramatically since 1997. Several major companies in 1997 have disappeared, such as Teltrust and Quick Response, and one company, VoiceLog, is used by 64 percent of companies that named a vendor. Several newer vendors (The Verification Company, Calibrus, 3PV and VerbatimTPV) have established at least some market penetration.

The Respondents

A total of 122 companies completed the survey. Almost 30 percent of companies reported 5,000 or more residential long distance sales per month and 14 percent reported 5,000 or more monthly business sales.

Respondents by Sales per Month

Number of Sales	Monthly Residential Long Distance Sales	Monthly Business Long Distance Sales
1 to 100	18%	29%
101 to 500	25%	28%
501 to 1,000	11%	13%
1,001 to 5,000	16%	16%
5,000 plus	29%	14%

These companies use a variety of sales channels: 64 percent use agent sales, 60 percent use outbound telemarketing, 57 percent use direct sales, 45 percent use direct mail and 15 percent use resellers.

Just under two-thirds of respondents do at least some sales in languages other than English. Spanish is the most popular non-English language, with about half of all the companies dong marketing in Spanish, followed by Chinese (Mandarin or Cantonese) at 12 percent, Vietnamese at 10 percent and Korean and Tagalog both at 8 percent. Other languages being sold in are Japanese, Russian, Farsi, French, Polish, Arabic, Hindi, Bulgarian, German, Greek, Portugese, Romanian and Urdu. Larger marketers, those with more of a consumer focus and companies using agent sales are more likely to sell in non-English languages than smaller providers.

Other than English, What Languages Do You Use in Your Sales Efforts?

Language	Total	Use Tele-marketing	Use Direct Sales	Use Agent Sales	Big Marketers (500+ p/mth)	Residential Marketers (Large 100+ p/mth)	Auto TPV Users Only	Live Op. TPV Users Only	Both Auto and Live Op. TPV Users Only
English Only	37%	30%	33%	26%	28%	27%	38%	33%	32%
Spanish	49%	59%	52%	62%	61%	60%	38%	54%	60%
Chinese/ Mandarin/ Cantonese	12%	12%	13%	14%	15%	15%	16%	4%	15%
Korean	8%	8%	7%	10%	10%	12%	8%	4%	13%
Vietnamese	10%	12%	12%	14%	15%	14%	11%	4%	15%
Tagalog/ Philipino	8%	11%	10%	9%	13%	10%	11%	8%	9%

Verification Methods

The vast majority of these respondents, and almost 90 percent of larger providers, use TPV. LOAs are used by 76 percent of respondents. About 10 percent of those selling by direct sales did not report using LOAs. That's unusual, since LOAs have traditionally been the first choice for order verification for direct sales.

Electronic LOAs with electronic signatures and electronic verification – where the customer calls back to a toll-free number and follows an interactive voice response script – were used by about 20 percent of companies.

About 55 percent of respondents believe that TPV is the most effective method of slamming control, while 29 percent believe LOAs are most effective.

Which Verification Methods Do You Use?

Methods	Total	TPV Users	LOA Users	Use Tele-marketing	Use Direct Sales	Use Agent Sales	Big Marketers (500+ p/mth)	Residential Marketers (Large 100+ p/mth)	Business Marketers (Large 100+ p/mth)
Use TPV	89%	100%	89%	93%	93%	94%	99%	95%	93%
Use LOA	76%	76%	100%	71%	90%	82%	80%	77%	80%
Use E-signature or E-mail	21%	23%	26%	23%	25%	27%	27%	22%	24%
Use electronic	20%	21%	22%	21%	20%	24%	27%	24%	27%
Internal controls	13%	12%	14%	14%	16%	14%	14%	13%	13%

About 10 percent of the sample reported that they were not using TPV but were considering adding it. Of these, 42 percent said that they were likely to add TPV in the next six months, and about half said they would add TPV after 6 months but within a year.

What is Your General Opinion of Each of the Following Verification Methods?

Methods	Excellent	Good	Fair	Poor	No Opinion
Third party verification (TPV)	48%	36%	11%	3%	3%
letters of authorization (LOA)	29%	40%	24%	5%	2%
Internal management controls	18%	31%	24%	12%	14%
electronic verification	13%	20%	14%	9%	44%

Which Verification Method Do You Consider the Most Effective Method of Slamming Control?

Methods	Total	TPV Users	LOA Users	Use Tele-marketing	Use Direct Sales	Use Agent Sales	Big Marketers (500+ p/mth)	Residential Marketers (Large 100+ p/mth)	Business Marketers (Large 100+ p/mth)
TPV	55%	56%	47%	60%	54%	55%	54%	57%	53%
LOA	29%	30%	35%	27%	28%	31%	34%	29%	33%
Internal controls	11%	8%	11%	7%	12%	8%	7%	7%	8%
Electronic	3%	3%	3%	3%	3%	4%	3%	3%	3%
No opinion	3%	3%	3%	3%	4%	3%	3%	3%	3%

Buying Criteria

Price is a key buying criteria. Almost 40 percent of companies reported price as the factor about automated TPV that appealed to them most, with consistency at 20 percent and availability at 10 percent.

Live-operator users are especially likely to find the lower price of automated as most appealing. While users of automated TPV find price to be the most important factor, 30 percent say consistency is most appealing.

What Single Factor Appeals to You the Most about Using Automated TPV?

Factors	Total	Auto TPV Users Only	Live Op. TPV Users Only	Both Auto and Live Op. TPV Users Only
Access to recordings	6%	5%	4%	4%
Availability	10%	8%	4%	13%
Consistency	20%	30%	4%	22%
Manageability	7%	11%	4%	7%
Price	39%	38%	48%	39%
Speed of answer	8%	8%	4%	13%
Other	2%	0%	4%	0%
No opinion	8%	0%	26%	2%

Objections to automated verification include customer friendliness (45 percent), possibility of cheating (23 percent) and reliability (11 percent). Some 10 percent of respondents worry that automated verification does not meet Federal Communications Commission requirements.

What are Your Primary Concerns Regarding Automated TPV?

Concerns	Total	Auto TPV Users Only	Live Op. TPV Users Only	Both Auto and Live Op. TPV Users Only
Too easy to cheat	23%	24%	33%	15%
Doesn't meet FCC regulatory approval	10%	11%	13%	6%
Not customer friendly	45%	32%	63%	53%
Not reliable	11%	19%	8%	9%

Live operator verification has attractions: better customer service (27 percent), friendlier (24 percent), getting more sales (16 percent) and usability (16 percent).

What Single Factor Appeals to You the Most about Using Live Operator TPV?

Factor	Total	Auto TPV Users Only	Live Op. TPV Users Only	Both Auto and Live Op. TPV Users Only
Better customer service	27%	27%	17%	37%
Friendlier	24%	22%	21%	24%
Get more sales	16%	8%	25%	20%
Usability	16%	16%	21%	11%
Other	5%	0%	13%	4%
No opinion	12%	27%	4%	4%

One-quarter of all respondents named price as the most important factor in selecting a TPV vendor, with 30 percent of automated TPV users citing price as the most important factor.

Which Factor Do You Consider to be the Most Important in Selecting a TPV Vendor?

Factors	Total	Auto TPV Users Only	Live Op. TPV Users Only	Both Auto and Live Op. TPV Users Only
Access to recordings	4%	5%	0%	4%
Client service	10%	3%	22%	11%
Don't know	1%	3%	0%	0%
Effectiveness	12%	16%	13%	9%
Integration	16%	11%	17%	22%
None of the above	3%	3%	0%	4%
Price	25%	30%	13%	22%
Quality of personnel	7%	3%	17%	7%
Regulatory knowledge	10%	14%	0%	16%
Reliability	9%	11%	9%	4%
Speed of answer	3%	3%	9%	0%

Companies that use live operator verification are more than twice as likely to be considering automated verification than the reverse. Of those using only live operator verification, 56 percent report considering the use of automated TPV, while only 24 percent of automated TPV users are considering the use of live operator verification. In addition, among companies that don't use TPV but are considering it, two-thirds are considering either automated TPV only or a mix of automated and live operator, while 8 percent are considering only live operator TPV.

TPV Users Using Only Live Operator

Have you ever considered using automated third party verification?	
Yes	100%
Are you considering using automated third party verification?	
Yes	56%

TPV Users Using Only Automated TPV

Have you ever considered using live operator third party verification?	
Yes	57%
Are you considering using live operator third party verification?	
Yes	24%

TPV Vendors

The TPV marketplace has changed significantly since 1997. Then, Teltrust and Quick Response were two significant vendors, but both companies are now gone. Neither 3PV nor Calibrus were mentioned as vendors in the 1997 survey, and both have now achieved some level of market penetration. VoiceLog, which was reported then as the most frequently used vendor by a small plurality of companies, is now named by more than half of all respondents and almost two-thirds of those naming a TPV vendor.

The switch to automated TPV has put tremendous downward pressure on prices in the TPV marketplace. In 1997, many companies were paying $2 to $4 per TPV transaction. Now, 81 percent of those who answered the question report paying less than $2 per transaction and 35 percent report paying less than $1. **FAT**

What Company or Companies Do You Use for Third Party Verification?

	3PV	Calibrus	Capitol Verification	The Verification Company	ADC	VoiceLog	Refused
Use	5%	7%	5%	8%	5%	52%	19%
Among Non-refusers							
Use	6%	9%	6%	10%	5%	64%	NA

About How Much Do You Pay for Third Party Verification Services per Average Transaction?

	Percent	Responders
Less than $1	21%	35%
$1.00 to $1.49	24%	40%
$1.50 to $1.99	4%	6%
$2.00 to $2.49	5%	9%
$2.50 Plus	5%	9%
No response	41%	N/A

Remember the Alamo! But Meet Me at 100 Taylor

An ongoing series examining carrier interconnection options in major North American cities

When in San Antonio, you must remember two things: The Alamo and the 100 Taylor Telecom Center. One was lit with gunfire; the other is lit with optical fiber.

San Antonio was a secondary market, so the flood of telecom build out was not as feverish as the primary markets. As a result, the carriers were not as motivated to build out huge stand-alone facilities in San Antonio and instead decided to locate their main POPs in the 100 Taylor Telecom Center.

The three-story building originally was built as a Studebaker dealership around 1912. Cars were parked on every floor, so the entire building is poured-in-place concrete. Serendipitously, that means the building now has ample floor loads for telecom equipment. Likewise, the elevator shaft was designed to carry four cars, meaning it now has a great riser for interconnections. Still, there are really two other motivating reasons for carriers to locate their network in the building.

For one, the building is only one block away from the SBC central office. SBC has both a copper DMARC in the basement and a fiber DMARC on the third floor, which travels directly to the central office via an aerial fiber home run. Additionally, every carrier that has hard network in the ground runs through the vault in the street directly in front of 100 Taylor. For this reason of proximity, other carriers began to locate there.

Secondly, when the music stopped for the telecom industry in late 2000, it was the only colocation game in town. Multiple carriers, with lit fiber and switching equipment, were located in the same building. That, coupled with the fact that the building was one of the only facilities to have all of the physical characteristics of a carrier hotel, plus proximity to the incumbent's main central office for the 210 area code one block away, made it the place to be.

Success was, in part, ensured by the lack of competition in the marketplace. Also, the building's owners are focused more on real estate than technology, so there is a very complementary relationship with the tenants. The owners are only looking for a fair rental rate for the building and have no intentions of offering any type of telecom services that might compete with their tenants.

Tenants are able to interconnect with one another very easily, with only a small interconnect fee. As might be expected at a facility whose virtues include lower rent, no enhanced services are offered. Going forward, the owners' main focus is to make the facility as user friendly to the tenants as possible. Their philosophy is the same as many of the other successful traditional real estate owner-operators, and that is the more successful their tenants are the more successful the facility will be.

One example of the owners' efforts to facilitate this atmosphere is their investment in conduit tracking software. More than 180 conduit runs have been documented and recorded on a CAD program, which combined with the software, allows the property manager to track conduit from suite to suite. So it's possible to identify the owner, contents and exact location of all conduits, all from the desktop computer in the manager's office. The tenant simply submits a request for pathway rights to the property manager listing the two desired termination points, and the property manager can then find any under-utilized conduit, or possibly empty conduit, from past tenants, saving everyone a lot of time and effort.

One of the most unique aspects of the subject property is a 225-foot cell tower that sits 30 feet away from 100 Taylor Telecom Center. The tower was originally erected in the early 1980s and was used by an existing tenant for its point-to-point microwave network. But the 100 Taylor Telecom Center now owns the tower, and it should be noted that the tower has conduit running directly into the building.

In downtown San Antonio, just two blocks away from the Alamo, it is very difficult to get permits for any new tower structures. Yet every wireless network must interconnect with the wired network somewhere, so what better place than the most "lit" building in central and south Texas. It's one more reason the 100 Taylor Telecom Center is definitely a site to check out if you need to be in the area.

For more information on the 100 Taylor Telecom Center, contact Brad Hardy, senior associate Cross & Company Commercial Realty Advisors, (210) 824-9080 x 287 or bhardy@cross-co.com.

If you own, operate or know of an interesting property that you would like featured in this series, please contact Hunter Newby at hnewby@telx.com Thank you!

Attributes of Carrier Hotel

Building size	80,746 sq. ft.
Union building	N/A
Building generator	None
Generator rooms for tenants	Available
Roof access	Yes
Tenant conduit rights	With proper agreement
Is there a building meet me room?	No
Is this MMR the featured site?	No

Interconnection Guidelines

Can customers order home runs to any other building tenant?	Yes
Is the average turnaround time for cross connects 48 hours or less?	Tenant performs work
Is on-site technical support available 24/7/365?	No
Can customers access the site 24/7/365?	Yes
Can the technicians test and turn up circuits?	N/A
Does the meet area operator perform the cross connect?	No
Can the customer perform the cross connect?	Yes
Are all home runs tagged and inventoried?	Yes
Is there a shared fiber panel (MDF, CFDP)?	SBC facility only
Can the customer bring and install its own fiber distribution panels?	Within suites only
Is there a shared COAX or copper panel?	SBC facility only
Can the customer bring and install its own COAX or copper panel?	No
Are there monthly recurring charges to home run between tenants?	Yes
For carriers not in the meet area, the interconnect options include	Tenant to tenant home runs
The costs and availability are determined by	Negotiations with the landlord

Carrier Tenant List

Adelphia	SBC
Capital Telecom	Tex-Link Communications
Grande Communications	Time Warner Telecom
Grande River Communications	WorldCom
ICG Communications	XO Communications
McLeod	Xspedius Communications
Qwest	

BY DAN BALDWIN

Wider, Tighter & Worldwide

Three Key Telecom Agent Trends for 2004

Diversification, specialization and Internet marketing – those are the three key trends for successful telecom agents in 2004. While agents aren't abandoning the old-fashioned date they brought to the dance – voice long distance, data and equipment – they do have their eye on some new dance steps to teach to their dates.

Diversifying telecom agents are adding business communication services to their portfolios that aren't generally thought of as "telecom," such as email blast services and Web hosting. Agents are rapidly learning and profiting from the idea that they are only constrained to "agent" status for regulated telecom services. In the realm of non-regulated telecom and business communication services – almost everything except usage-sensitive voice and data products – agents can be true value added resellers.

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Many agents that aren't diversifying are specializing. Thanks to Internet search engines such as Google, among others, there's never been a better time to know everything about just one thing – especially if the one thing you're a specialist at can be distilled into a unique word or phrase. Want to see your future as a specialist? Distill the subject you know the very most about down to a three-word or less phrase and then Google that phrase. What Google is showing you is what all your prospects are seeing – your competitors – which is a perfect segue to the third key trend, Internet marketing services.

Alas, some of us are experts at nothing – except for showing other experts how to vacuum the Internet for more leads than they can possibly process. The thing that makes specialist "special" (meaning they have little interest in anything other than their specialty) makes them perfect prospects for telecom agents marketing themselves as lead generators. With this in mind, we offer the following information to help agents take advantage of the three key trends for 2004.

Diversify into Value Added Resale

As stated above, the telecom agent diversification trend is centering on agents adding value to non-regulated services that can be resold directly to end users. Non-regulated services that are best suited to value added resale include almost any service that does not have a price-sensitive usage component. Almost all Internet services are perfect examples.

MChost at www.mchost.com offers anyone with $35 a month the opportunity to become a Web hosting provider for an unlimited number of domains. While it's probably not a profitable venture for an agent to attempt to be the Web hosting provider for business customers with complicated Web sites, MChost makes it easy for telecom agents to basically give Web hosting away for free to the majority of small businesses that require only the most basic of sites.

Though MChost actually offers more than just the basics, and their WHM and CPanel5 Control Panels make it a snap for agents to set up Web sites for their clients and for the clients then to manage their own Web site services, such as email, passwords, etc. TAA's only knock on MChost is that their customer service tends to be a bit spotty. If you're looking to try this out, search Google for WHM (the reseller interface) or CPanel (the end-user interface) and try several providers before settling on one. Look for support from real humans.

Other areas ripe for value added resale include email blast services, live and recorded audio streaming and, of course, flat-rate voice and Web conferencing.

The two keys to successful value added resale are not so much the service you resell as the fact that it is a service (as opposed to a physical product) and the ability to have the customer prepay for the service via credit card. Avoid reselling tangible products, as it's harder to add unique value to them, and you'll have to collect and remit sales tax. Focus on selling only flat-rate services. The beauty of flat-rate service is that once you set a customer up for automatic credit card billing, you almost never have to involve yourself in billing again as the money just automatically shows up in your checking account each month. Of course, you'll want to sell a service that you buy at a flat rate, such as the MChost service mentioned above, to make sure you're turning a profit each month.

The reason you can be a profitable business communications specialty consultant in 2004 is because the Internet now gives you access to so many more prospects than was ever previously possible. Where in the past you were limited to the number of subscribers to your local yellow pages, now any prospect with access to a search engine is no more than one phone call away from hiring you to help them.

Lead Generation Services

Now many readers of the above section may lament being a jack of all trades and master of none. To which I respond – then create a lead generation service for the masters. With little more than the information provided above, almost anyone can start their own lead generation service and learn why many geniuses are not rich but most good marketers are.

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What's Your Specialization?

The key to profitability via specialty is "searchability." As mentioned above, distill your best specialty to just three words or less and then enter that phrase into several Internet search engines to see what comes up. If you're lucky enough to be an expert in something with a rather unique keyword, such as "RespOrg resolution services," your success in efficiently attracting prospects will be much higher than if you're an expert in something with only generic keywords, such as "telecom consultant." As a specialist in anything, you can make money in one of two ways: as a distributor of the service you're an expert in or as a paid consultant.

To test the waters of profitability, write up a two-page "How To Buy X" or "Top Ten Things To Know About Buying X" where X is your specialty. Make your two-pager meaty enough for the reader to feel as if you've delivered true value but generic enough to leave them wanting more. Close with a statement along the lines of, "Of course, all situations are unique and a solution that might be perfect for one can invite disaster for another. For a free 15-minute consultation about your unique situation, please call anytime at (800) 555-1234 to speak to me directly."

Put your two-page teaser on the Internet and then buy several Google ads with different unique key words to see what drives the most calls. When you get the calls, spend as much time as possible doing two things: giving the caller the best information you can (they're your first reference for future paying customers) and learning as much about them and their problem as possible (so you can better understand how to target and attract others with similar problems).

To get into the lead generation business, there's only item that must be added to the tools mentioned in the section above: ".htaccess" software. This is the software that requires registration of an email address in order to access a certain Web page that contains information one wishes to obtain. To find a package that best meets your needs, simply Google ".htaccess." The best package will allow automatic access without human intervention. The seller or your Web site host provider should be able to install the software.

With this software restricting access to the two-page summary, which you are using to bait prospects via several Google advertisements, every day is another day of downloading leads and selling them to the highest bidder. Oh the tedium! Of course, since there is virtually no entry barrier to this type of business, those that get in first have a better chance of staying in the game once competitors enter the market and drive up the prices of the Google ads. Early entrants will be able to live off their free Google listing if they get in early enough, pad their sites with good searchable copy and get other key sites to link to them.

What's Your Take?

The information in this column is no more than the opinion of one man. What's your opinion? Is your current reality or vision of the future similar or different? Share your thoughts by contacting the author, Dan Baldwin at 206-203-6115 x2.

Dan Baldwin is a telecom agent and editor-at-large for Telecom Agent Association (TAA). TAA publishes information useful to its membership of agents, vendors and end-users, which distribute, provide or use telecom and other business communication services. Learn more about TAA at www.TelecomAgent.org.