Competition In The DSL Marketplace

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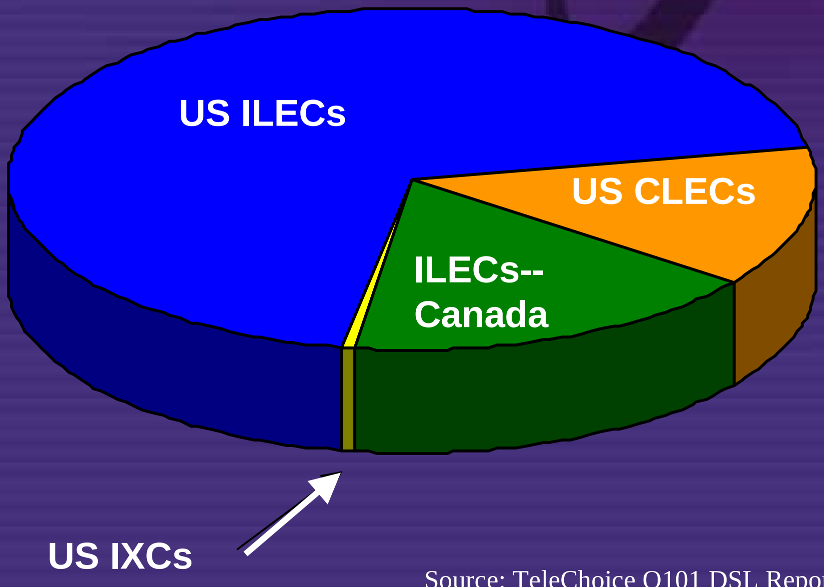
Agenda

- **Current Status of Deployment**
- Competition: Finding a Balance
- Pricing
- Customer Service and Service Performance
- DSL ROI Solutions
- Raising a Profitable CLEC
- Spreading the DSL Gospel
- Summary

North American Market

- 30% of US homes currently passed with DSL
- North American DSL subscribers, Q101: 3.5+ Million
  - US ILEC: 69%
  - US CLEC: 13%
  - Canadian ILEC: 17%
  - US IXCs: 1%

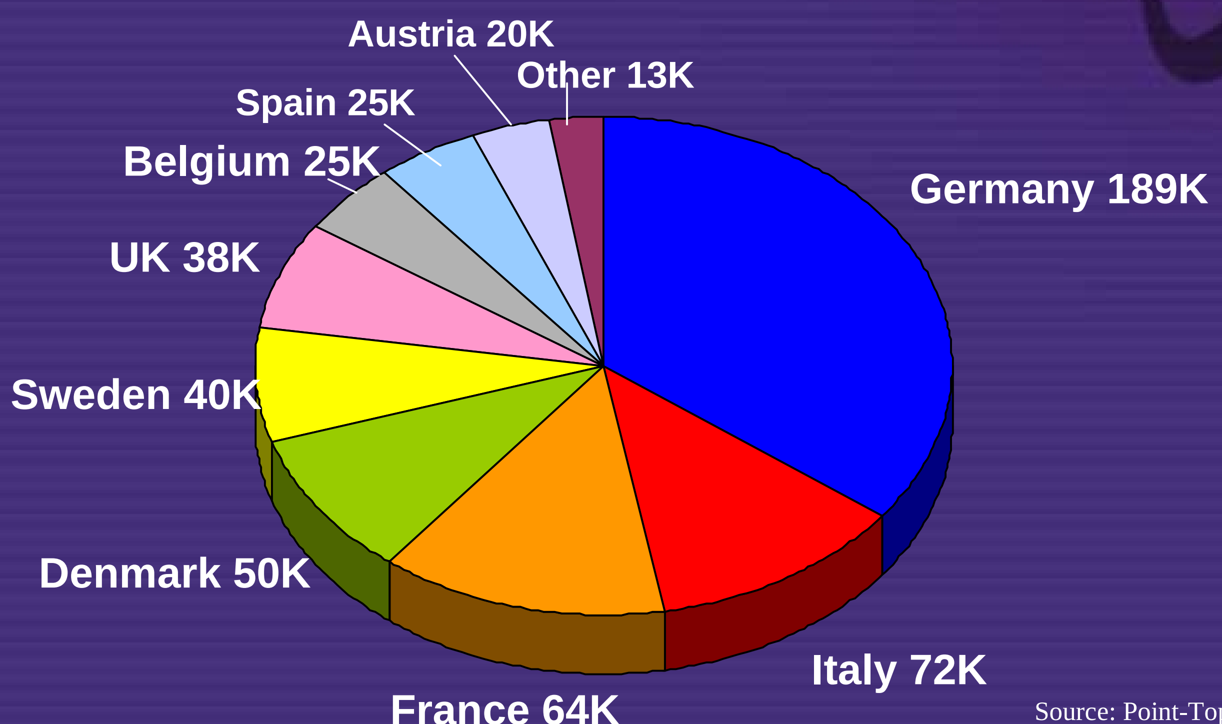
North American DSL Market Carrier Segmentation



Source: TeleChoice Q101 DSL Report

European Market

- Total subscribers at EOY 2000 = 538,000
- Projecting substantial increase to around 1.5 million by end of 2001



Source: Point-Topic.com Q101 Report

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Competition: Finding A Balance

- **com· pe· ti· tion** (kmp-tshn) *n.*
  Rivalry between two or more businesses striving for the same customer or market
- Markets constantly under pressure to achieve “happy medium”
  - Spurs innovation and improvement
  - Differentiation of service, product
  - Sparks creativity and strategy development
  - Regulates pricing and service components

Competition Should…

- Foster Innovation/Improvement
  - VoDSL/VoIP/VoB Innovation/Improvement
    - Interoperability
    - "Best-of-Breed" equipment solutions
- Differentiation of Service
  - More than DSL offered in multiple speeds
  - Services bundled with more then the basics: Web hosting, email, etc…
  - Differing levels of service
  - Solutions specific to customer needs
- Foster Strategy/Product Development
  - New pricing models
  - New retail options

Is There Enough?

- Signs that the DSL market is changing…
  - Competition begins to thin out
    (either by failure or cannibalization from others)
  - Prices begin to rise
  - Offers exist to meet the needs of all potential customers
  - Regulatory intervention can subside

US Competitive Shakedown

- Disruption in the CLEC/DLEC market
  - Bankruptcies
    - NorthPoint
    - Teligent
    - Winstar
  - Growth/Financial Warnings – Bankruptcy Ahead?
    - Rhythms
    - Covad
  - NASDAQ De-listings and Layoffs

European Competitive Shakedown

- Health of the tech economy more positive then US
  - Start-up failures are starting to be noticed
    - AduroNet
  - Will the trend follow and how quickly

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US DSL Pricing Analysis

- Basic Pricing has increased by 25% since last year
  - Average price for services in Mid-2000: $39.95
  - Average price for services currently: $49.95
- Discounts/Waivers for equipment and installation are disappearing
- Demand has suffered

Will a reversal occur?

European DSL Pricing Analysis

- Currently, Europe is still the most expensive place to buy DSL
- Basic Pricing hovers around $65 month
  - Deutsche Telekom priced around $50 per month (low)
  - British Telecom priced around $77 per month (high)

Pricing Summary

- Price increases by US ILECs seen as “necessary” and “within acceptable levels” by the service providers
- US ILECs’ increase in pricing coincides with departure of national/regional competition
- Expect pricing to fluctuate until demand for DSL services decreases, or as new competition arrives
- Conversely, in order to achieve mass market acceptance, European DSL pricing must also come in line with market demand
- US market has let the market drive the cost
- European market has let the cost drive the market

Will these strategies overlap in the future?

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US Quality Of Service And Provisioning

- QoS still high priority in US despite market turbulence
- Solutions necessary to maintain acceptable profit levels
- Solutions include:
  - Self-Install Kits
  - Line-Qualification Testing Software
  - Auto-Provisioning Software

European QoS And Provisioning

- No major European DSL provider came close to signing up expected 2000 numbers
- European DSL Market said to lag 18 months behind US Market+
- Many orders remain in "queue," waiting to be installed
- Bottlenecks attributed to:
  - Accuracy of Line Testing
  - Lack of sophisticated auto-provisioning process
  - Lack of qualified DSL technicians to keep pace with new targets

+ Source: Point-Topic.com Q101 Report

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DSL Return On Investment

- Entry-level service pricing doesn't cover cost of providing the service
  - Hence price increases
- How to increase the options available to customers and increase the revenue
  - Quality of Service
  - Class of Service
  - Value-added Service

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CLECs: Achieving Profitability

- US DSL Market Keys:
  - Focus on existing network builds; increase number of customer per CO
  - Cease unnecessary capital expenditures
  - Sustain manageable operating costs
  - Focus on value-added services
  - Develop strategic alliances (e.g., Covad/Compaq; Qwest/Microsoft)
  - Avoid radical changes to business/product strategies

CLECs: Achieving Profitability

- European DSL Market Keys:
  - Discover and replicate one or more order-of-magnitude improvements
    - Provides differentiation
    - Difficult for incumbents to duplicate
  - Customer interest does not equal market success
    - High demand for service doesn’t ensure your position
    - Provide unique and defensible business strategy
  - Implement “Best-of-Breed” QoS/Provisioning Processes

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Raising DSL Awareness

- Increase DSL awareness through:
  - “Trial” offers: Several providers offering a discounted daily rental rate
  - Discounts for existing telephony/narrowband customers
  - Strategic alliances with enterprises (Tele-workers)
  - Seek complimentary product partnerships (Hosting, email, etc…)

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Summary

- Competition…
  - Fosters innovation
  - Spurs improvement
  - Regulates sustainable pricing
  - Maintains Quality of Service
- Without Competition…
  - Prices increase
  - QoS is threatened
  - Regulatory issues are raised
  - Service/Product selection is minimized

Pricing Appendices

US DSL Pricing Analysis

	Platform	Speed (Down/Up)	Monthly Rate	One Time Charges
ILECs				
Verizon Online	Bronze Plus Enhanced Bronze Plus Silver Silver Plus	1) 768K/128K 2) 768K/128K 3) 384K/384K 4) 1.5M/384K	1) $49.95* 2) $59.95* 3) $69.95* 4) $79.95*	1) $50 2) $60 3) $50 4) $60
SBC	Basic Service Enhanced Enhanced+	1) 384K-1.5M/128K 2) 384K-1.5M/128K 3) 1.5M-6M/384K	1) $49.95 2) $64.95 3) $179.95	1) $0-$200* 2) $50-$378** 3) $50-$378** *Based on Service Order, Equipment, and Installation Charges **Includes above plus any router charges
Qwest	DSL Select DSL Deluxe Pro Deluxe DSL Pro	1) 640K/256K* 2) 640K/256K** 3) 640K/256K*** 4) 640K/640K+ * For moderate use ** For unlimited use ***Telecommuter pkg. + Small Biz/Telecommuter	1) $19.95* 2) $29.95 3) $50.00 4) $60.00 *ISP Charges	Activation: $69 Single User Modem: $150

Source: TeleChoice 5/01

US DSL Pricing Analysis

	Platform	Speed (Down/Up)	Monthly Rate	One Time Charges
DLECs/ISPs				
Covad	TeleSurfer TeleSurfer Pro	1) 608K/128K 2) 1.5M/384K	1) $49-$69* 2) $69-$89*	*Vary by ISP
Earthlink	Earthlink DSL Earthlink Biz DSL	1) 1.5M/256K 2) 144K IDSL 3) 192K SDSL 4) 384K SDSL 5) 768K SDSL 6) 1.1M SDSL 7) 1.5M SDSL	1) $49.95 2) $129 3) $139 4) $199 5) $289 6) $349 7) $399	1) $99 2) $225 (Prof. Install) $399 (Equipment)
DSL.net	NetGain 200 NetGain 400 NetGain 800 NetGain 1200 NetGain 1500	1) 192K SDSL 2) 384K SDSL 3) 768K SDSL 4) 1.1M SDSL 5) 1.5M SDSL	1) $155 2) $195 3) $305 4) $355 5) $405	Installation: $299

Source: TeleChoice 5/01

European DSL Pricing Analysis

Provider	Platform	Speed (Down/Up)	Monthly Rate	One Time Charges
Deutsche Telekom	T-Online DSL	1) Downstream Max: 768K	1) $47.58	1) Installation Waived 2) Equipment Charge Waived 3) Includes ISP Charge 4) Pricing decreased over last six months
Telecom Italia	Teleconomy 24 Home	1) Downstream Max: 256K	1) $48.33	1) $117.50 2) Equipment Charge Waived 3) No change in price over last six months
Belgacom	Turbo Line Go	1) Downstream Max: 750K	1) $50.90	1) Installation: $22.75 2) Equipment: $229.55 3) Pricing decreased over last six months
France Telecom	Netissimo 1	1) Downstream Max: 500K	1) $69.49	1) Installation: $108.71 2) Equipment: $279.14 3) Reflects minor price increase over last six months
British Telecom	Openworld Home	1) Downstream Max: 512K	1) $77.19	1) Installation: $220.59 2) Equipment: Waived 3) Includes ISP Charge 4) No change in price over last six months

Source: Point-Topic.com