

Competition In The DSL Marketplace

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28/06/2001

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

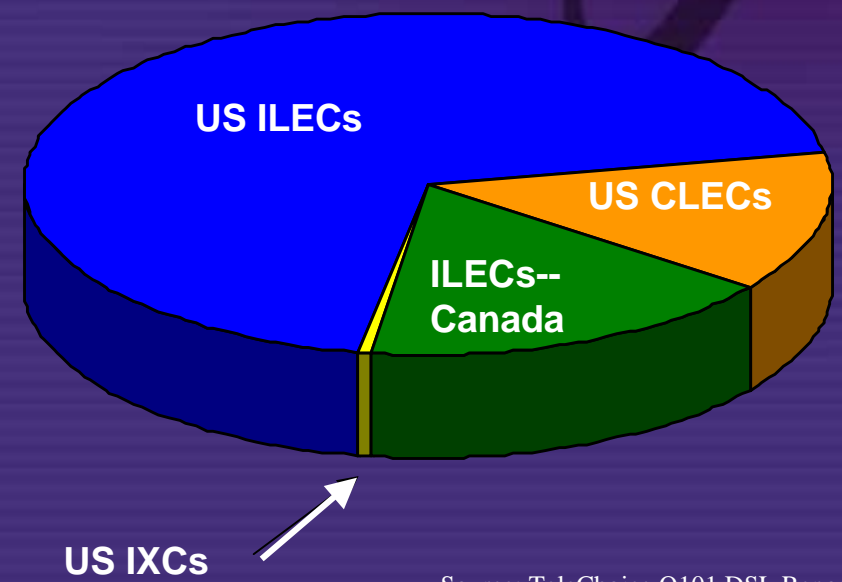
North American Market

- 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%

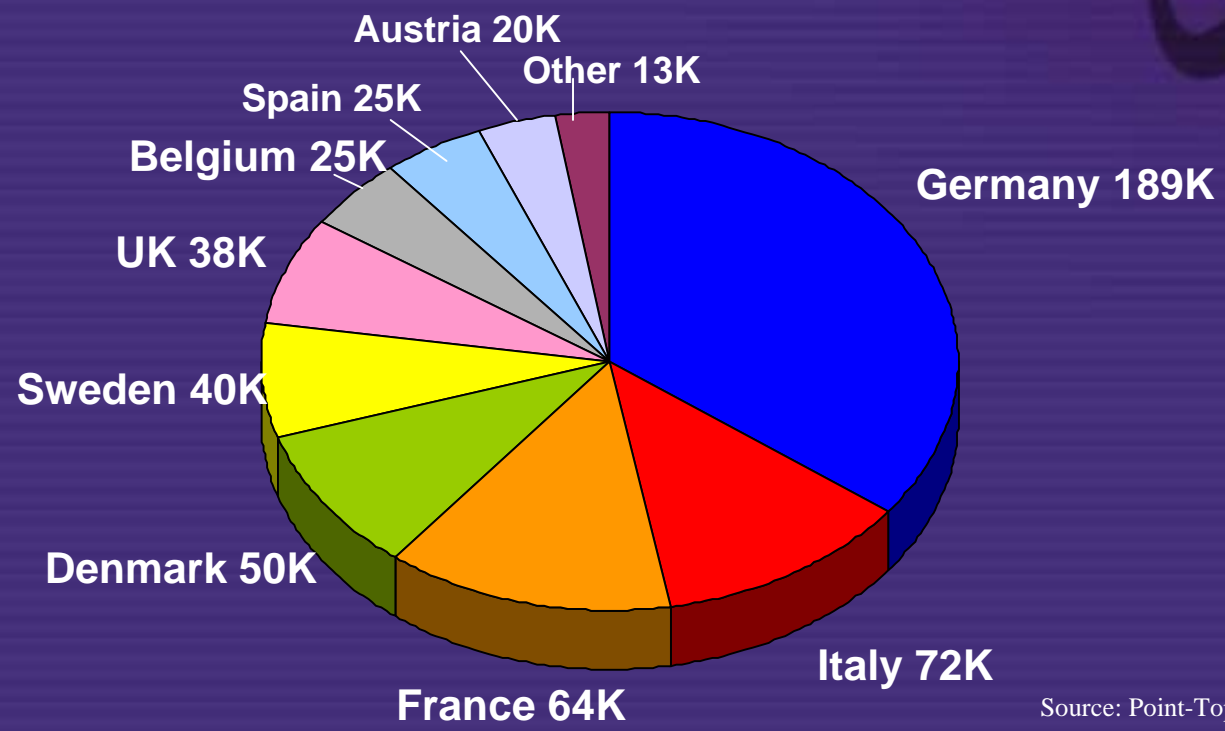
North American DSL Market Carrier Segmentation



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 than 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 than 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

The background is a solid dark blue. In the top left corner, there is a decorative graphic with a grid pattern and some glowing points. In the top right corner, there is a stylized atomic model with three spheres and intersecting orbits. The main title "Pricing Appendices" is centered in the middle of the page in a large, white, sans-serif font.

Pricing Appendices

US DSL Pricing Analysis

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

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

	Platform	Speed (Down/Up)	Monthly Rate	One Time Charges
Provider				
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