

RBOCs, IXC, CLECs: Who's Going to Buy Whom Next and What Does That Mean for You?



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Biographical Information - The seminar will be led by Steven Taylor, President of Distributed Networking Associates and Publisher/Editor in Chief of Webtorials.Com, a premier source of on-line telecommunications seminars and market research. An independent consultant, planner, author, and teacher since 1984, Mr. Taylor is frequently quoted in the trade press and is one of the industry's most published authors on high bandwidth networking techniques. Distributed Networking Associates may be contacted at 2707 Lake Forest Drive, Greensboro, NC 27408; (336) 288-3858. E-mail: taylor@distributed-networking.com.

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Who's Buying Whom? The Technologist's View

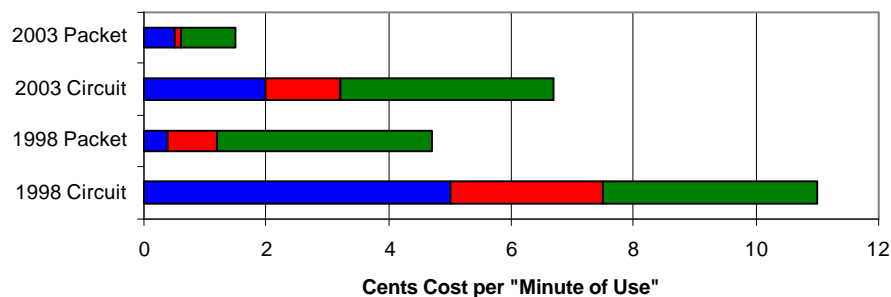
- Approaching this issue from the perspective of technology impact and compatibility
 - No tips for buying stock
 - No legal opinions
 - No prediction of the next FCC whim
- The underpinning of the networks must (or should) reflect a firm technological foundation unless the agreements are no more than marketing
 - "Telecommunications Code-Sharing"

Who's Buying Whom? The Technologist's View

- What do you think will happen to the following mergers/deals?
 - AT&T/TCI, AT&T/BT, MCI/WorldCom, BA/GTE, SBC/Ameritech, SBC/SNET...
- Two key trends:
 - Local / ICX integration
 - Artificial barriers created in 1984
 - Hampers LAP ability to offer interLATA service
 - Except out-of-region
 - Network integration

Local / IXC Integration

- Means that IXCs pay dearly for local access
- ITSPs may have a VERY brief advantage



Note: ESP exemption removed for 2003.

■ Access ■ Network ■ Sales, General, & Admin.

Data Source: Business Communications Review / August 1998

Network Integration / Consolidation

- Example MCI / WorldCom Frame Relay
 - Existing FR: sizable market share and loyal customers
 - The nets run on different platforms with different pricing
 - Assuming both platforms survive...
- Consolidation Advantages
 - Sales and marketing, Back-up nets
- No Consolidation Advantages
 - Operations and maintenance
- Possible loss of customer loyalty?

Who's Buying Whom? The Technologist's View

- What will happen to (a long list of players)?
- Start-ups:
 - New technology and lots of bandwidth
 - Packet (ATM / IP) technology from the ground up
 - Voice as a key competitive driver
 - Incumbents are not growing the circuit switched base
- RBOCs (BellSouth and USWest)
 - More aggressive out-of-region the in-region
 - Best of both worlds...

What will happen to... (continued)

- Traditional IXCs
 - Sprint - ION could "make or break"
 - C&W - Worldwide presence could be leveraged
- AOL
 - Market penetration is a big plus
 - Could carry a lot of "stealth voice" (e.g. NetMeeting)
 - Addition of voice could be the Achilles heel
 - Must have local access of some sort

Are more phone company/cable company mergers likely?

- Yes
- Local access is still the most challenging technically
 - Cable - IXC is a good match
- Right of way is more important than imbedded base technology
 - Still no clear winner for full duplex high bit rate communications
 - xDSL, Cable Modem each have problems
- Also watch for wireless local access / mergers

Hardware and Software Suppliers

- How do the computer manufacturers fit into all of this? Are they the next generation of service providers?
 - No; Margins on hardware aren't sufficient to leverage the capital needed.
- Do you think Microsoft would do anything on the M&A front with telecommunications providers?
 - More likely than hardware; lots of money
 - Collect revenue more frequently with service MRCs than with Windows updates...

Regulatory Issues

- FCC
 - Expect Enhanced Service Provider (ESP) exemption to disappear within 5 years
 - Voice and data services *should* become indistinguishable
- Public Utility Commissions
 - Will continue to be an annoyance
 - Carriers will find ways to offer unregulated services

Wider Implications

- Are there any trends to note across these mergers that have larger, wider implications?
- Yes, as noted throughout...
 - Local access solutions
 - Voice / data convergence
 - Market consolidation for marketing, not technology
 - Continuation of "alliances" in international markets
 - More strict regulation internationally than in US precludes extensive global "free electronic commerce"
 - But VERY difficult to enforce...

Net Effect on End Users

- Lower prices?
 - Yes
- More options?
 - Yes
- Better, more reliable service?
 - Maybe
 - Due to advanced technology infrastructure
- Simpler choices?
 - No