Research First Consulting, Inc.℠

# PR1ME INSIGHT + FOCUS

Vol. 1, 2005

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# It's All About the Bundle...

BY ELLIS D. HILL

...says Cox Cable in describing their recent success. This is indeed a success story that we'll be providing more detail on at our **Network Services Marketing 2005 Seminar** in San Francisco **February 1-4**, but I'm providing this data as a lead-in to the topic.

Cox is the best cable company service provider today without doubt in my mind. Cox may even be the best telecom/ entertainment service provider. Let me give you some data and you compare it with your own company.

Cox's bundle penetration, which is defined as a minimum of two of the following 3 products – video, high speed internet, and telephony services – will likely be 45% when the year end 2004 numbers are reported. This bundle penetration has been increasing at 2-3% a quarter for the last 6 quarters as can be seen in the chart (page 3 of PDF version). This penetration is calculated as a percentage of their base customers. Some ILECs express bundle penetration as a percentage of customers, but most use access lines in service, which for most companies will be about 12% higher than the number of residence customers.

In their serving areas, Cox has 70% market share of broadband customers. Most telcos are under 50% and the average is about 40%, although we do see most telcos improving this metric.

Cox's revenue growth for 2004 is projected to be 12-13% and their operating cash flow growth to be about 16%.

Cox's non-video growth will be about 36% for 2004 and they are still growing their

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# Sales Ethics

By Anna Gibson

Slamming and cramming in the telecommunications industry became so prevalent in the 1990s that the terms have been added to Webster's dictionary.

The FCC defines slamming as "the illegal practice of changing a consumer's telephone service - local, intralata service, or interlata service with out permission." Cramming is defined as "the practice of placing unauthorized, misleading, or deceptive charges on a customer's telephone bill."

Each state's regulatory body, in addition to the FCC, has established compliance, complaint and resolution requirements. In an effort to adhere to those specific requirements as well as maintain the integrity of the company, many telcos have implemented specific policies and procedures. The following is a compilation of the steps taken by two major US service providers to reduce occurrences of slamming and cramming in addition to the ensuing consequences should they occur.

Both companies have written policies addressing sales ethics, which cover slamming and cramming. Each policy was introduced to the entire sales/care employee body and is ongoing in new hire training. Upon coverage each employee (occupational and management) is asked to sign an acknowledgement form, which is kept in the employee's personnel file. This confirms that the policy has been covered and the employee clearly understands his/her obligation regarding compliance and the consequences should the policy not be followed. Strong language is utilized in these policies, such

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# DSL Subscribers Exceed 14 Million in North America

By Stan Romero

On a percentage basis, US telco DSL in-service numbers grew faster in 3Q 2004 than either the Canadian telcos' DSL service or the US or Canadian MSOs' cable modem services. However, on a raw numbers basis, the MSOs reversed a trend from earlier this year by gaining more subscribers than the telcos.

Since the telcos are playing catch-up with the MSOs in the US, this quarter did not get them any closer. Furthermore, most telcos gains were lower in the 3rd quarter than in recent quarters. One may be tempted to discount this as a slow quarter except that many of the MSOs 3rd quarter gains exceeded recent quarters.

Most all of the players are now offering higher speeds as well as entry-level "Lite" versions of their service to reach as much of the market as possible. They are also discounting and offering "Get Acquainted Offers" at lower prices for a number of months. Telcos are bundling their DSL with local, LD, wireless and even video services. Cable companies are getting into telecom services via VoIP and now talking about offering wireless services to match the telcos' packages on that basis. And still many MSOs enjoy penetration rates of around 30% while most US telcos hover below 10%.

So, how can the telcos win the market share game? Well, Canadian telco penetrations are 40 – 50% higher than most US companies and some US telcos are in that same ballpark. So let's learn from each other's success as well as examine what the competition is doing right. That is exactly what the BMMA is all about and also why we are holding RFC's **Broadband Services 2005 seminar** in San Francisco **April 6 – 8, 2005** - to discuss some success stories and new opportunities to help us all be more successful.

Please visit our website to register or learn more about Broadband Services 2005 and www.BMMA.us to learn more about the BMMA. We would love to have you join us!

*Stan Romero*
*RFC Vice President*
*BMMA Executive Director*
*205-403-0690*
*stan@researchfirst.com*

| Broadband Service Provider | 2004 | | |
|---|---|---|---|
| | 3Q In Service | 3Q Gain | 3Q % Gain |
| **Major Telco DSL** | | | |
| SBC | 4,679,000 | 402,000 | 9.4% |
| Verizon | 3,253,000 | 309,000 | 10.5% |
| BellSouth | 1,872,000 | 134,000 | 7.7% |
| Qwest | 956,000 | 103,000 | 12.1% |
| Sprint | 432,000 | 49,000 | 12.8% |
| ALLTEL | 216,885 | 22,351 | 11.5% |
| Frontier | 187,500 | 23,300 | 14.2% |
| Cincinnati Bell | 122,800 | 5,800 | 5.0% |
| CenturyTel * | 120,869 | 11,889 | 10.9% |
| **Total US** | 11,840,054 | 1,060,340 | 9.8% |
| Bell Canada | 1,766,000 | 96,000 | 5.7% |
| TELUS | 654,900 | 30,600 | 4.9% |
| Aliant | 140,300 | 4,900 | 3.6% |
| MTS | 97,451 | 5,505 | 6.0% |
| **Total Canada** | 2,658,651 | 137,005 | 5.4% |
| **Total Telco** | **14,498,705** | **1,197,345** | **9.0%** |
| **Major Cable** | | | |
| Comcast | 6,554,000 | 549,000 | 9.1% |
| Time Warner | 3,716,000 | 168,000 | 4.7% |
| Cox | 2,430,000 | 184,000 | 8.2% |
| Charter | 1,819,900 | 108,500 | 6.3% |
| Cablevision | 1,259,000 | 79,982 | 6.8% |
| Adelphia | 1,248,657 | 84,347 | 7.2% |
| Bright House * | 700,000 | 25,000 | 3.7% |
| Mediacom | 350,000 | 23,000 | 7.0% |
| Insight | 311,500 | 37,600 | 13.7% |
| **Total US** | 18,389,057 | 1,259,429 | 7.4% |
| Shaw | 1,020,938 | 23,488 | 2.4% |
| Rogers | 879,500 | 28,100 | 3.3% |
| Videotron | 476,000 | 29,000 | 6.5% |
| Cogeco | 245,026 | 5,190 | 2.2% |
| **Total Canada** | 1,600,526 | 62,290 | 4.0% |
| **Total Cable** | **19,989,583** | **1,321,719** | **7.1%** |

Source: Company reports, SEC filings, RFC data, etc.

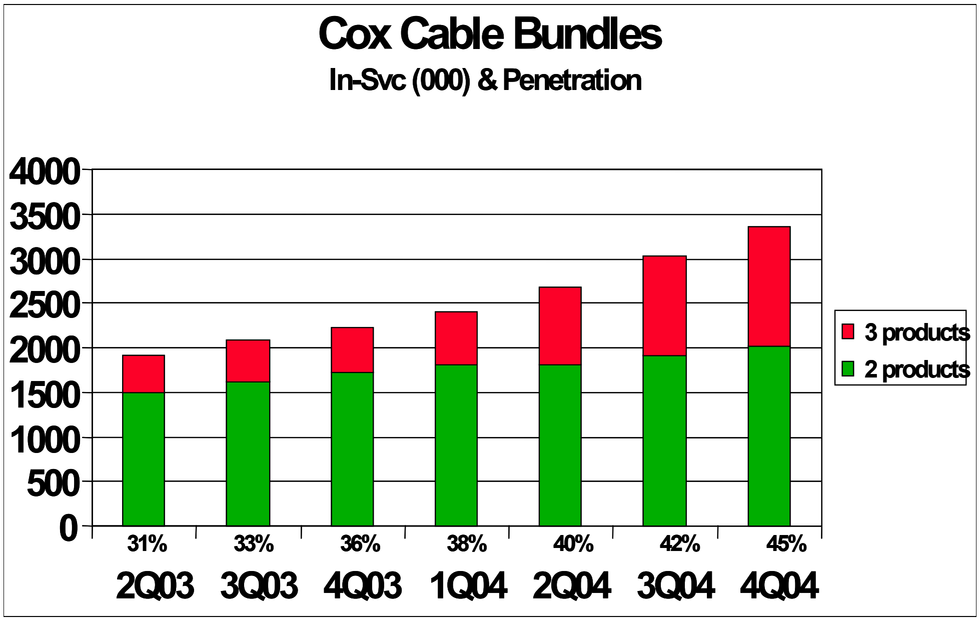
* Estimate

# Bundles

(Continued from page 1)

core video business. These increases come from high-speed Internet (HIS) and telephony service. Total ARPU per customer is over $74 per month and the average ARPU from HSI is $41.04 per month. Telephone service is available to over 52% of their customers. Of those who have telephony service, 79% subscribe to Cox's LD service. Cox's telephony penetration is 11% based on total customers and is growing.

How did Cox do it? Cox says it's all about the bundle. They are selling 3 product line bundles to 58% of their new customers. Three-product customers churn 44% less than just video customers. More importantly in my mind is the fact that they fixed their billing problems, addressed service outages by improving plant, and improved customer service dramatically. Cox won J.D. Powers' 2004 top customer satisfaction award for local telephone service and for bundled services that included LD.




Come join us next month at our Network Service Marketing 2005 seminar (formerly called CLASS) to learn about other best practices in bundling, churn reduction, and new revenue generation. Visit www.researchfirst.com for details.

*Ellis Hill, RFC President, founded RFC in 1987 after 12 years at BellSouth.*
*ellis@researchfirst.com*

# Ethics

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as "under no circumstances will an employee place any optional telecommunications product or service on a customer's account without the customer's explicit authorization." They clearly address that there is zero tolerance for unethical behavior and infractions will be dealt with by means of firm disciplinary action.

Upon investigation of an allegation of slamming or cramming, an employee could be immediately dismissed. In such cases the normal steps of progressive discipline do not apply, which include warnings, final warning, suspension without pay, etc. However, an employee who is found to have engaged in unintentional activity in violation of the policy will be given a final warning. Any recurrence of noncompliance will result in immediate termination. One of the companies has included the disciplinary steps in their collective bargaining agreement with the union.

Expectations of management are also clearly defined. Company policy strictly prohibits supervisors or other members of management from requesting or pressuring employees to engage in unethical or unlawful conduct. One company established an ethics help-line for employees to call should they believe they have received such a request from their management.

Sales ethics is an important part not only of new hire training but also of ongoing methods and procedures. In both companies their polices regarding slamming and cramming are found throughout the service representative handbooks. They address specifically what constitutes inappropriate behavior and what is expected in order to counteract any possible perception of these practices. Service representatives are required to recap the entire order product by product to ensure that the customer clearly understands what he has purchased. In the case of PIC changes, the representative must comply with a 3rd party verification. Some states require that "basic service" be disclosed prior to any discussion of additional products or services.

Part of the supervisor's job is to ensure that all policies and regulations are complied with. This includes service sampling (observing) as well as periodic order sampling. One of the companies utilizes a "mystery shopper" to further validate compliance.

Both companies have specific procedures to follow should an allegation of slamming/cramming be received. This includes order issuance to remove the product/service and the amount of adjustment to be given. In addition, these complaints are referred to a central complaint organization for further investigation and tracking.

It is unfortunate that such rigor to eliminate slamming and cramming is necessary but with the efforts to increase revenue along with the complexity of bundled services it will be an ongoing way of life for the industry.

*Anna Gibson*
*RFC Vice President*
*anna@researchfirst.com*