Research First Consulting, Inc.℠

PR1ME INSIGHT + FOCUS

Vol. 2, 2005

MARK YOUR CALENDARS…

RFC's
2005 SEMINAR SERIES

… designed for telecom directors and their managers in product, market, sales and distribution management.

REGISTER NOW!
www.researchfirst.com

BMMA Annual Meeting
April 4-5, 2005

Broadband Services 2005
April 6-8, 2005

Sales/Care Channels & Operations 2005
April 27-29, 2005

RFC 2005 seminars will be held in San Francisco at the Hyatt at Fisherman's Wharf.

INSIDE THIS ISSUE:

It's the Applications, Stupid

By Stan Romero

…that is what I have to say to myself periodically when I start to get too enthralled with a new technology, gadget or cool "toy." Any good product or marketing manager knows the lessons we learned in business school about applications driving technology, but sometimes we forget in the rush to sell more pipes. The dent in my forehead from the "oh yeahs" gets deeper every once in a while when I read, hear or just reflect on where the profit is.

Remember ISDN? I know it's still out there, but it has been for about 20 years and never really reached its potential before other technologies came along when the need for speed was starting to be recognized. It really was a cool technology that did not have sufficient applications to drive its adoption. I also know there were many problems like availability, cost, ordering and billing system incompatibilities, etc., etc. but those are just hurdles that have to be overcome by the strength of the appeal of the applications.

The DSL analogy is too obvious to ignore. The killer apps like digital pictures that you can easily send in e-mail, the increasing use of high-res pictures on Web sites, the increasing use of larger shared data files, hi-quality pictures in on-line games, etc. have all driven the demand for broadband services. Now the question is: "Where is the profit?" Not to say that there is no profit in selling pipes, but in most analogous situations (radio, TV, local telephone service…) there is even more profit in the content or enhancements.

(Continued on page 3)

The Compensation Dilemma

By Anna Gibson

From its inception, compensation has been the "good, the bad, and the ugly" in each of the ILECs' sales channels. In most cases it follows an evolution as to what is paid, how it is paid, whether additional awards are utilized, and of course, the issue of cash payments or merchandise and travel awards.

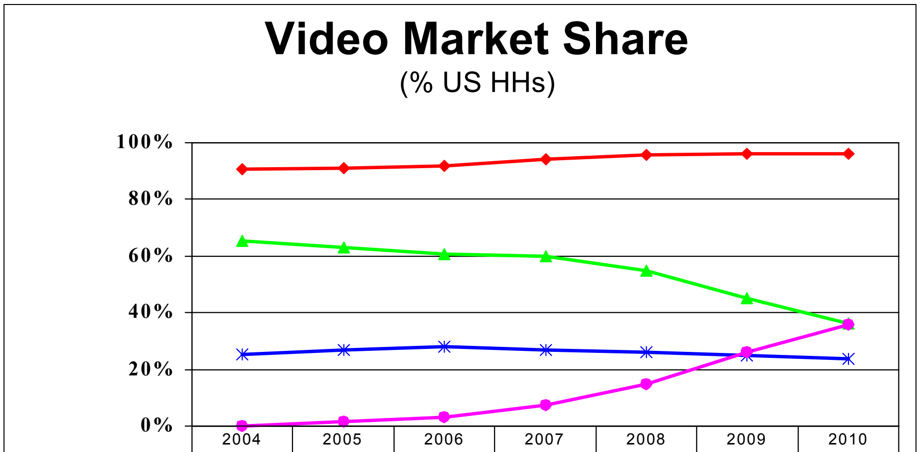
Compensation plans come in basically two flavors: pay-for-performance, or "add-on" incentive plans. In many companies "add-on" plans are awards on top of a set base salary. They typically are awarded as points per sale of a designated strategic product. These points can be redeemed for award credits that can be used to purchase merchandise or travel through an award catalog. In some cases, the award points are converted to cash payments. Add-on plans work well in conjunction with sales objectives that are based on number of units sold of each of the designated strategic products. This approach allows flexibility in changing the sales focus on a monthly basis to coincide with product promotions or new product introductions. Assigning point values to product sales is typically a less complicated way of setting targets than a conversion to revenue values. The biggest positive to this type of plan is simplicity; it is easy to understand for the sales person and easy to administer for both the center management as well as marketing/product management. The downside can be a lack of a true sales culture or mentality, which arguably translates to results.

So…if this works well, why have some

(Continued on page 4)

IPTV IS THE END GAME FOR TELCOS

BY ELLIS D. HILL



	2004	2005	2006	2007	2008	2009	2010
Cable	65.4%	63.0%	60.8%	60.0%	55.0%	45.3%	36.3%
Sat (EDH est.)	25.1%	26.7%	28.2%	26.9%	26.2%	24.8%	23.8%
Telco/IPTV	0.0%	1.5%	3.0%	7.4%	14.7%	25.9%	35.9%
Tot HH Subs %	90.5%	91.2%	92.0%	94.3%	95.8%	96.0%	96.0%

The telcos' Achilles Heel has been video and entertainment. The cable companies' Achilles Heel has been wireless service. We have seen deals cut and partnerships made between wireless carriers and CableCos such as that between Comcast, the nation's largest broadband provider with over 6.5 million high-speed customers and approximately 22% market share, and Sprint PCS. This agreement certainly mutually strengthens their respective positions. Sprint PCS needs this agreement because they will lose access to the local telco market this year after their spin off of Sprint Local Telecom Division (LTD). This will also give Sprint PCS entertainment and high-speed offerings for their own customers.

Video/entertainment is now the emphasis for telcos. As we all know this is because the CableCos have used their leverage in video to move into high-speed offerings and then subsequently to telephony service. As mentioned, wireless was the last piece of the puzzle CableCos were missing.

Once customers commit to a particular high-speed Internet service, it is very difficult to get them to change their CPE and associated software. This is why churn is much lower for DSL and cable modems than for standard telephony service and basic cable, which are their respective bread and butter offerings. Video is as much a defensive measure as it is an offensive one – defensive in that the base revenue from local services must be protected and offensive in that new revenue can come from the video services. The real profitable products will involve content not the pipe. Companies are finding this is true of broadband data today and will be even more so with video of the future.

So the deals that BellSouth, Qwest, SBC, and Verizon have done with DirecTV and that which Qwest and SBC have done with Dish Network provide a stopgap video offering. These deals are not very profitable to the RBOCs due to reseller arrangements and agent arrangements that provide the satellite companies with basically the same revenue they would have gotten if they had sold the service themselves.

The real margin will come when the telcos offer their own video service. That is where IPTV comes into play. BellSouth, SBC, and Verizon are participants in TV2 a consortium of US and some foreign telcos and vendors lead by Microsoft that provides the software required to drive IPTV. IPTV allows service providers to offer multiple high definition channels (each requiring about 8 Mbps), high-speed data, video on demand, and telephony over the same pipe.

RBOCs are committing vast resources to meet the demand they intend to create for IPTV. We will see the commercial launch of IPTV services in late Q4 2005.

Verizon has the most aggressive fiber build out plan and has announced a goal of passing 3 million fiber-to-the-premise locations by the end of 2005. BellSouth already has 5 million miles of fiber in their network that passes 1 million customers. BellSouth will provide IPTV capability to an estimated 180,000 to 200,000 customers in 2005, to an additional 1 million both in 2006 and 2007, and by the end of 2009 will have 80% of their customers equipped for IPTV. SBC plans to reach 90% or 18.1 million of its "high-value" residential customers by 2007. Qwest will deploy fiber to approximately 50% of their customers in the next five years.

BellSouth, Qwest, and SBC are using a fiber to the node (FTTN) strategy to overbuild in existing locations and fiber to the premise (FTTP) strategy in Greenfields (new builds). Verizon is using a pure FTTP strategy. Verizon's reason for going directly to FTTP is that they will eventually have to do it and this provides maximum video opportunities. The reason for deploying FTTN versus FTTP is that FTTN can be completed in less time with about 20-30% of the capital investment.

Again, IPTV is the end game for this set. It is the ultimate sticky glue that keeps the customer with that company until the next disruptive technology comes along. Having said that, where does Research First see the market share going? We show this in the graph above.

The red line at the top shows the total percent of US households subscribing to cable, satellite, or IPTV. The green line shows the cable companies' market share and the blue line the satellite market share. The purple line shows the growth of IPTV from 2004 with no customers to 35.9% market share in 2010.

It is our view that in the early years of FTTN and FTTP build out, the ILECs will help the penetration of satellite services. But once the build out reaches a critical mass, the ILECs will focus on the sale of IPTV for the increased margin and bundle it with DSL, local, LD and in most cases wireless. This accounts for the blister effect on satellite companies' penetration. The market share loss will come primarily from the existing market share leaders: the CableCos.

How did we come to these conclusions? We invite you to our **Broadband Services 2005** seminar in San Francisco April 5-8 and we'll share that with you.

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

IVM—Missing Piece of the Marketing Mix

By Carol Ferrari, SoundBite Communications

To compete effectively and help retain and win clients, telcos need solutions that enable them to promote customer loyalty, reduce churn and add value to customers' perception of their service. Enter interactive voice messaging (IVM).

Interactive voice messaging is personalized, professionally recorded messages that are delivered to live people or an answering machine. The key ingredient is the ability for the recipients to interact or respond to the message in real time. It can be used to increase response rates on existing channels or replace current marketing channels of live calling, direct mail and email.

A sophisticated and flexible IVM solution can generate immediate, measurable impact on communications services companies' sales and marketing goals. Telco sales and channel managers can leverage it in a variety of ways, including for promotional offers and incentives, direct mail follow up, and cross-sell opportunities. What makes IVM unique is that it decreases marketers' cost-per-contact over other marketing vehicles like direct mail, while increasing customer penetration rates over traditional customer acquisition, and retention initiatives as it reduces wrong persons reached and hang ups. It also allows service providers to consistently and cost-effectively deliver high-quality, branded messaging to help keep your company top-of-mind and differentiate it from competitors.

Think about the time wasted when a customer service representative reaches an answering machine, gets a busy signal or no answer, connects to the wrong individual or waits to connect with the right individual. IVM eliminates this wasted time and allows agents to speak only with those parties who are interested in the telco's offer or promotion. And since it is an interactive solution, IVM can also enable immediate sales transactions, often without agent involvement.

Web-based IVM solutions hosted by an application service provider allow marketers to seize opportunities as they emerge. They provide the ability to implement targeted programs "on-demand," without incurring the cost or headaches involved with hardware or software implementations. Telcos can test marketing messages and offers rapidly, at a low cost. And oftentimes, hosted solutions provide unlimited calling capacity, which allows telcos to send messages instantly whenever needed. With nothing more than customer contact data and a sophisticated IVM platform, a marketer can develop flexible scripts that deliver a personal interactive experience for each customer who receives a call regardless of the total number of customers being contacted.

One mobile communications company used SoundBite's IVM solution to encourage existing customers to renew their wireless service contracts at the company's retail stores. The SoundBite provided a personalized message with the offer and dynamically inserted, depending on the recipient's zip code, the nearest store location. The company saw traffic in multiple stores increase 10 to 15 percent within 72 hours of initiating the IVM marketing campaign.

(Continued on page 4)

Applications

(Continued from page 1)

Of course, it follows that the more applications you can run over the pipe without degrading service, the more potential profit. Isn't that one of the reasons the telcos are so interested in adding video services to their list of applications and why they are moving to fiber to make room in the pipe for more applications? Sure, adding video makes the bundle stickier and is a good competitive tactic. But there are also huge potential revenue streams associated with advertising, pay-per-view, premium services, etc. that come along with video services.

So, what other apps do we need to be adding to our pipes to increase profit and make <u>our</u> pipes more attractive than the competitors? How about video content like baseball games, movies and music videos? And speaking of music, how about on-line radio stations and music downloads? If you have been on the BMMA monthly calls, you've also heard about how big and profitable on-line gaming is as well as how video chat is coming of age. These are the things that people get excited about and can make them choose to keep your service when you provide them in a way that makes your service more attractive than your competitors'.

Content and other applications that drive sales, improve retention and increase profits for DSL will be discussed at RFC's Broadband Service 2005 seminar April 6 – 8, 2005 in San Francisco. Please join us to hear some of the applications that your peers are introducing and discuss the issues surrounding them. We will also cover effective marketing programs, retention improvement strategies and new technologies. So register today at www.researchfirst.com. We have a good time discussing these issues and would love to get your input.

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

IVM

(Continued from page 3)
Also, customers who received the IVM made additional purchases when they renewed their contracts at the store.

Another mobile communications carrier used SoundBite as a follow up to a direct mail piece to increase its contract renewals. The carrier was seeing less than 1% response rate with their current direct mail program. The SoundBite provided a personalized contract renewal offer and allowed the recipient to direct connect to the call center to renew. Compared with a direct mail piece that didn't generate responses until 30 to 90 days after it was sent, their IVM campaign increased renewals by over 55 percent versus the direct mail piece, for one-sixth of the cost.

With IVM, marketers have the ability to improve the efficiency and effectiveness of their communications initiatives. And with an ASP, Web-based solution, campaigns can be up and running in just a few days instead of weeks or even months at a fraction of the cost of other methods of customer communications.

Join us at RFC's **Broadband Services 2005** and **Sales/Care Channels & Operations 2005** seminars for further discussion on how IVM may positively impact your business goals.

This guest article was provided by ***Carol Ferrari, VP of Marketing for SoundBite Communications,*** *who has more than 15 years of high-tech software marketing experience.*

Carol may be reached at 781-359-2265 or cferrari@soundbite.com.

Compensation

(Continued from page 1)
companies changed to a pay-for-performance plan? First, let's define what we mean by pay-for-performance. PFP is a compensation plan whereby a portion of the sales rep's salary is at risk if a certain percent of their objective is not met. The upside opportunity is greater than 100% of base salary. The risk plan percentages vary from 60/40, 70/30 to 80/20. Advocates of such a plan believe that increased accountability is achieved, along with a very strong connection between performance and reward. This has allowed the companies to move to the next level of a professional sales mentality.

Once a sales person's base salary is at risk, an entirely new set of challenges is created. One of the most difficult is development and management of a tracking and objective-setting infrastructure. Payment is no longer made on the basis of number of widgets sold but rather on actual revenue generated by the individual products sold. Therefore, it is an absolute necessity to have in place the ability to look at product sales historically on a net basis as well as forecast volumes going forward. The credibility of a pay-for-performance plan hinges on the ability to fairly and accurately set objectives for the sales person. If a reasonable number of sales people are not able to achieve 100% or better of salary, then the plan may not be adequately designed, objectives may not be achievable or the appropriate support mechanisms such as training and coaching are not adequate. If the plan is well designed, a significant revenue increase will be achieved.

There can be a dark side to pay-for-performance. Unfortunately, increased competitiveness can occasionally drive undesirable behavior that result in sales ethics issues. In addition, a huge culture change occurs in the centers, which can result in excessive turnover as well as union arbitrations. These issues are all manageable as long as they are anticipated and action plans are put in place.

The evolution of pay-for-performance plans over the past few years has seen changes in the area of richness of the plan. In some cases, uncapped upsides resulted in salaries that were out of bounds for the market. Spifs and kickers have been reduced, and in some cases, eliminated as they had been coupled with cash compensation. One company found that it was too confusing for the sales reps when their main compensation was cash related to revenue production and on top of that additional cash or merchandise was awarded for sales of specific products. In some cases, reps weren't even sure what rewards were for and some were overused.

At the inception of pay-for-performance, the support managers were also on the "at risk" plan. The strategy was that everyone should be incented to help the sales rep be successful. Recently, all management, except center supervisors and managers have been removed from the plan as it was difficult to measure the effectiveness of support positions as they relate to revenue generation.

Although pay-for-performance is notably more complex, is it worth the trouble? The answer is a resounding.....YES.

Anna Gibson
RFC Vice President
anna@researchfirst.com