

## Don't Count Telecom Competition Out Yet

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**RICHARD THAYER, PH.D.**  
President & CEO

7018 Beechwood Drive  
Chevy Chase, MD 20815

T: 301.913.2883  
F: 301.913.2884

Email: [info.tti@verizon.net](mailto:info.tti@verizon.net)  
<http://www.ttinetwork.com>

**A**mong the many provocative stories on the telecom industry in the news this week was a particularly interesting and intriguing article in this past Monday's Washington Post exploring the future of competition in consumer phone services. Amid the ruins of many would-be competitors in telecommunications, losses totaling many hundreds of billions of dollars and more than half a million jobs gone – to mention only the most obvious fallout from the industry's collapse – former executives, investors and observers are asking whether the basic telecom network may be a natural monopoly after all.

A good question, to be sure, but recent conversations we have had with senior telecom executives around the world suggest that any such conclusion would be premature at best. Global Crossing, WorldCom and other recent disasters surely provide instructive business cases for students of this industry and others, but they may offer better case studies for responsible and ethical management and accounting rather than the viability of competition in telecommunications.

Executives we have spoken with in recent months at large and small companies, established carriers and competitors, relate first-hand and personally the trauma of the past two years and are quick to point out that the shakeout will continue for the remainder of this year. The industry and their own companies, they say, have had to reassess and reorganize to address customer demands quite different from those envisioned in the nineties. Nearly all have had to cut back. And more of that is coming.

Many different factors led to the collapse of the telecom industry and the demise of thousands of competitors in the telecom industry. One of those factors, mentioned often by the men and women executives we interviewed, was the widespread expectation, beginning in the mid-nineties, that as the number of Internet users and Internet traffic continued to grow, as they have, there would be related growth in new and lucrative telecom services as well. With this easy logic, Wall Street hyped telecom startups with no less restraint than they gave to emerging dotcom entrepreneurs.

There were important reasons for this exciting prospect. The economy was booming, stocks seemed to hit new highs quarter after quarter, without fail and money seemed plentiful. Then, in February, 1996, Congress passed and the president signed the long-awaited Telecommunications Act, heralding a new era of competition in the industry. The FCC moved quickly and aggressively to implement the new law and crack open the old, incumbent monopolies.

But critical elements were overlooked or ignored. The Internet has grown by leaps and bounds not just because of the unprecedented opportunities and advantages it holds out for all of us, but also because, in the U.S., home of "the Big Internet," as some Europeans say, access is not priced on a usage basis and, after a monthly access fee is paid, subscribers have unlimited Internet access at no further cost.

The result of this pricing plan, beneficial as it is, is that continued growth in Internet users and the time they spend on line does not directly result in higher telecom revenues. The related, laudable goal of

expanding access to the Internet universally and so bridging the “digital divide” also did not and does not necessarily mean significant new opportunities for existing service providers or competitors in telecommunications.

The economic model intended to encourage competitive newcomers in local telephone markets had inherent problems too. The discounts required by the Federal Communications Commission for resale of so-called “unbundled network elements,” (UNEs), to competitors did indeed encourage new firms to enter local markets, but incumbent providers saw little reason to cooperate and resisted competition at every turn.

The FCC has also ruled that, in provisioning of local broadband access, established local carriers must afford competitors access to their broadband facilities. Fair enough, it seems, since these companies enjoy lucrative local telephone franchise and the enormous benefits of incumbency. But, on the other hand, cable TV providers have similar benefits of franchise and incumbency and, in offering broadband access to their customers, they have no such sharing requirement.

Competitors we spoke with are not discouraged either by past mis-

takes, miscalculations, or the fallout of the last two years. The survivors, they say, will be stronger and more able competitors in an industry that is emerging as quite different from that we have known. Fundamental changes are occurring in the network, in services and in the structure of the industry itself

In every part of the world, carriers are building IP into their networks – not replacing the traditional public switched telecommunications network (PSTN) facilities, but integrating IP technologies with the PSTN. IP networks are now seen as an efficient way of introducing advanced services for customers everywhere. By helping to overcome the important cost hurdle, for example, an IP approach allows providers to more quickly expand telecommunications in countries where the telecom infrastructure is less than adequate. IP-based networks are being built and utilized by established carriers and competitors.

Nowhere are the power and potential of telecommunications more evident than in wireless. Cellular services, in particular, are setting the pace for new technologies and applications. Cellular providers throughout the world are shifting to digital technologies in their networks

and moving aggressively to provide 2.5G and 3G wireless. These new technologies will afford not just higher quality voice service, but interactive data, text and, eventually, multimedia applications as well.

Another important change in telecommunications is that broadband access finally has begun to catch fire. Through cable modems, digital subscriber line (DSL) technology provided by local telephone companies, more advanced direct-to-home satellite service, and, not too far in the future, 3G wireless, broadband access is growing and with it will come important and productive new applications for small and mid-size businesses as well as consumers.

We interviewed 50 industry executives in our recent study, many of them in tough, competitive markets and all of them upbeat for the upturn they see coming.

Richard Thayer is President & CEO of Telecommunications & Technologies, International, Inc. [www.ttnetwork.com](http://www.ttnetwork.com), a telecom and IT consulting firm located in Chevy Chase, MD. Contact by email: [rthayer.tti@verizon.net](mailto:rthayer.tti@verizon.net), or phone: 877.913.2883.

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