

# **"The Impact of the Current Market Situation on the Emerging Trends in the Communications Industry"**

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## Current Market Situation

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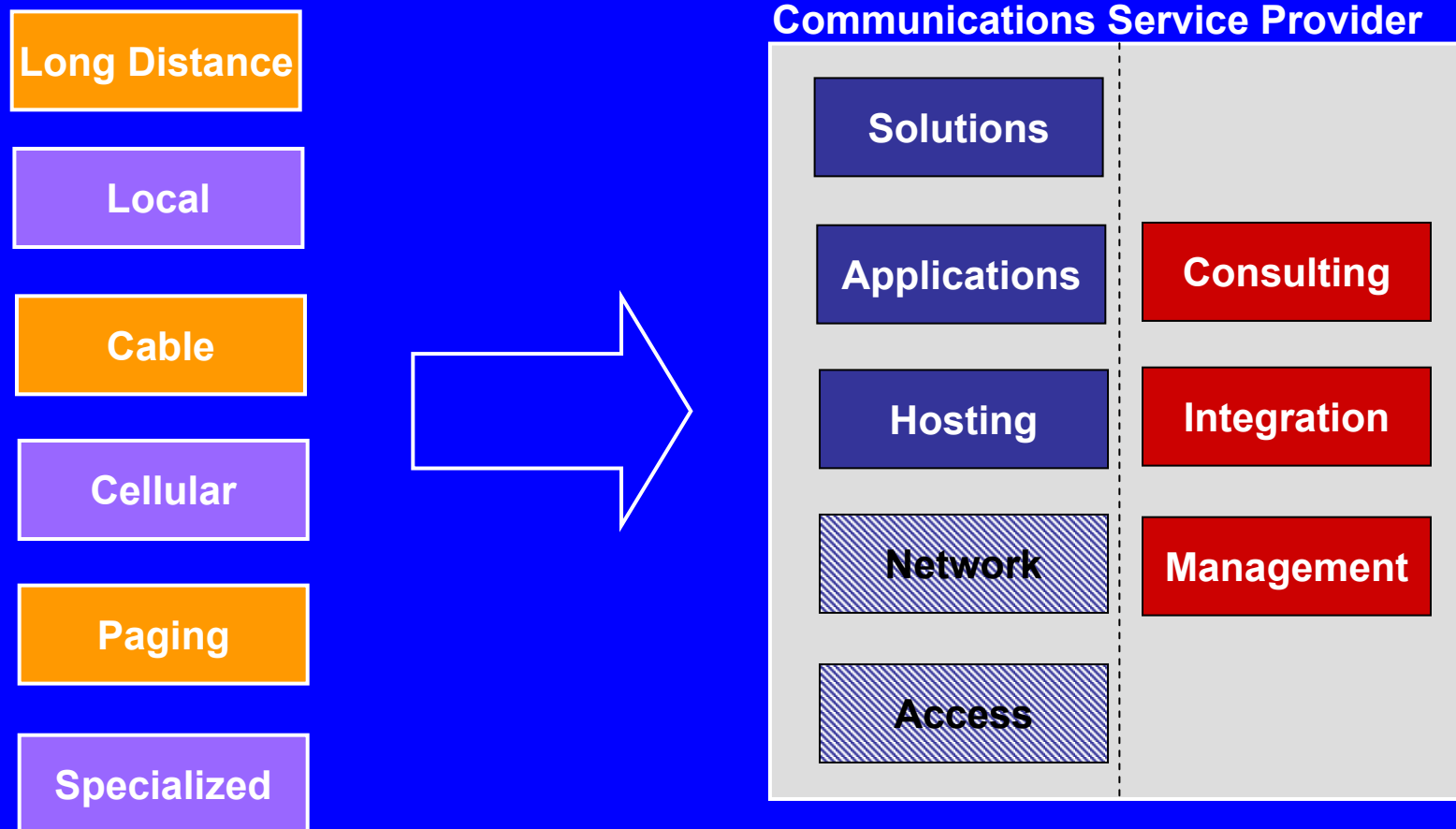
- Declining revenues make it hard to justify the large capital investments made in the recent past
- Market suspicion of large corporations will hinder the raising of new capital
- Service providers are hesitant to invest in new opportunities that cannot provide immediate benefits
- Data services not delivering on high expectations
- Wireless spectral investments have crippled growth opportunities domestically as well as internationally
- Network services and applications limp along as enterprises curb spending
- Regulation continues to bandwidth hindrance to truly competitive markets and lower cost structures

## Emerging Trends

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- Wireless revenues continue to increase as long distance revenues decline and local calling revenues stagnate
- Globalization
  - Long distance
  - Wireless
- Emergence of the “Total Communications Service Provider”
- Convergence of
  - Enterprise and telecom networks
  - Networks and applications

# Total Communications Service Provider



# Impact

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- Service providers are scaling back grand visions
- Making overly cautious investments
- Cost management, cash preservation is the name of the game
- Expect significant shake out
  - Long distance
  - Wireless – domestic and international
  - Equipment vendors

# **12 Commandments of the Communications Megahighway**

“Commanding Communications:  
Navigating Emerging Trends in  
Telecommunications”

# Commandment #1

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- Instead of targeting their best customers to determine future network opportunities, telecom companies should zero in on innovators who use their networks in different and unique ways
- Current situation and impact
  - Business innovation has slowed down
  - Future opportunities need to leverage current assets
  - Telcos and equipment vendors should preferably develop new opportunities after soliciting customers

## Commandment #2

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- Realize that intelligent applications on the network represent the next major development stage, and communications service providers that continue to dwell on content will find themselves left behind in the competitive dust.
- Current situation and impact
  - Look for applications that can be used internally and leveraged for resale to customers
  - Deliver the whole solution rather than a component of it

## Commandment #3

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- If the traditional communications service providers are going to survive, they will have to change their business model.
- Current situation and impact
  - Risky to do for high cash flow companies with sizable market caps
  - Recommended for companies with hammered down market caps, and recognizable cash flow

## Commandment #4

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- Companies that spend billions of dollars building out their networks will be successful only if they have the appropriate operating support systems (OSS) and business support systems (BSS) in place to leverage that investment.
- Current situation and impact
  - Connecting legacy OSS/BSS with next generation will take several years
  - OSS and BSS offer new revenue generating opportunities

## Commandment #5

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- Instead of developing proprietary applications, embrace open architecture as the bedrock for the evolving communications network.
- Current situation and impact
  - Marketplace expecting end to end compatibility between carriers, applications and networks
  - Standards and flexibility are required for quick success in the enterprise marketplace

## Commandment #6

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- The U.S. telecom industry has a tremendous opportunity to succeed on the global stage, but it must make sure it is pursuing the right competitive business model, or risk losing the advantage it already enjoys.
- Current situation and impact
  - US Wireline carriers are bathed in a sea of uncertainty
  - European carriers are equally confused
  - Wireless operators might be in a position to accomplish this

## Commandment #7

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- Understand the forces beyond the direct control of the telecom industry that can pose a massive roadblock to construction of the communications mega highway.
- Current situation and impact
  - Power shortages and high gasoline price continue to plague cost controls
  - The current economic slump is anticipated to continue for several months, with a very slow recovery
  - Excessive capacity investments made may not get used for several years to come

## Commandment #8

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- The virtually unlimited demand for network-based applications in the foreseeable future should continue to encourage significant industry investment in increased capacity, along with new and better services.
- Current situation and impact
  - The search for the 'killer application' continues
  - Voice, data, and video convergence will increase the demand for bandwidth

## Commandment #9

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- The extra mile within the home is moving from a telecommuting to a teleliving space, and this transition brings with it a new world of opportunities for communications service providers.
- Current situation and impact
  - New 802.11 standards and capabilities promise significant potential for a relatively untapped market
  - Service providers are best poised to exploit this space with their networks and operational abilities, however, don't seem to recognize the opportunity

## Commandment #10

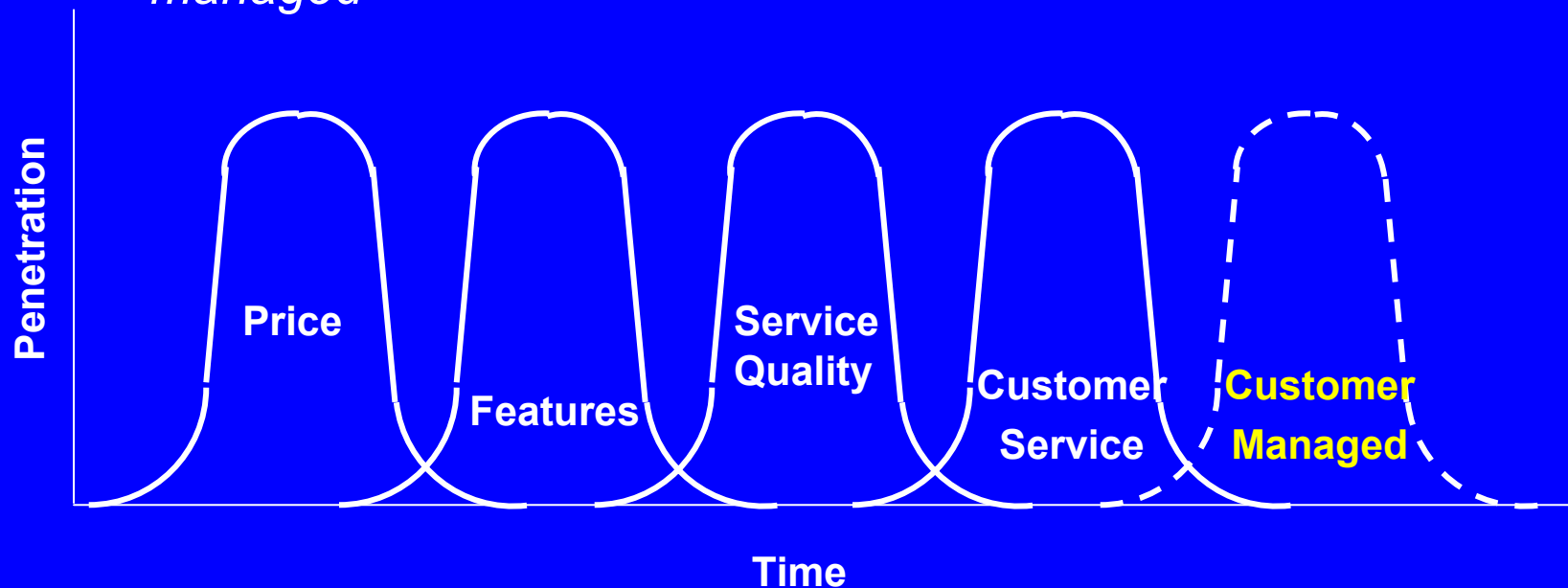
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- For the full potential of the network to be realized, regulators should respond - but not react too early - to issues that are still evolving in the marketplace.
- Current situation and impact
  - Keep open the opportunity for multiple solutions to the “last mile” access issue
  - It may be too early to declare the “winning” technology to deliver communication services to the home.

## Commandment #11

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- Embrace customer-managed as the new service paradigm for the twenty-first century
- Current situation and impact
  - CRM and voice quality are still regarded as competitive differentiators
  - Customers have yet to mature to appreciate '*customer managed*'



Source: KPMG Consulting Study

## Commandment #12

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- If network-based intelligent services represent the real future for communications service companies, then strategic alliances are the vehicle that will speed them to that destination.
- Current situation and impact
  - Alliances are a low cost, low risk option in today's economy
  - However, understand what the future business models might be, and where future value lies in the value chain

# Market Lessons

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- Coping with the current environment:
  - Focus on doing a few things, and doing them well
  - Focus on established clients
  - Remain profitable
  - Marketing driven rather than technology driven
- Near-term future:
  - High level of uncertainty in telecom equipment will continue
  - Service providers will proceed with caution with vision implementation focusing on new revenue opportunities as well as cost cutting
  - Transition out of legacy
- Ingredients for success in the future:
  - Back to business basics – make money and grow
  - Spend wisely rather than for the sake of spending
  - Make the network smarter