

# CLECs AND THE EVOLVING TELECOMMUNICATIONS MARKETS

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# AGENDA

I. State of the US CLEC Industry

II. Growth Drivers

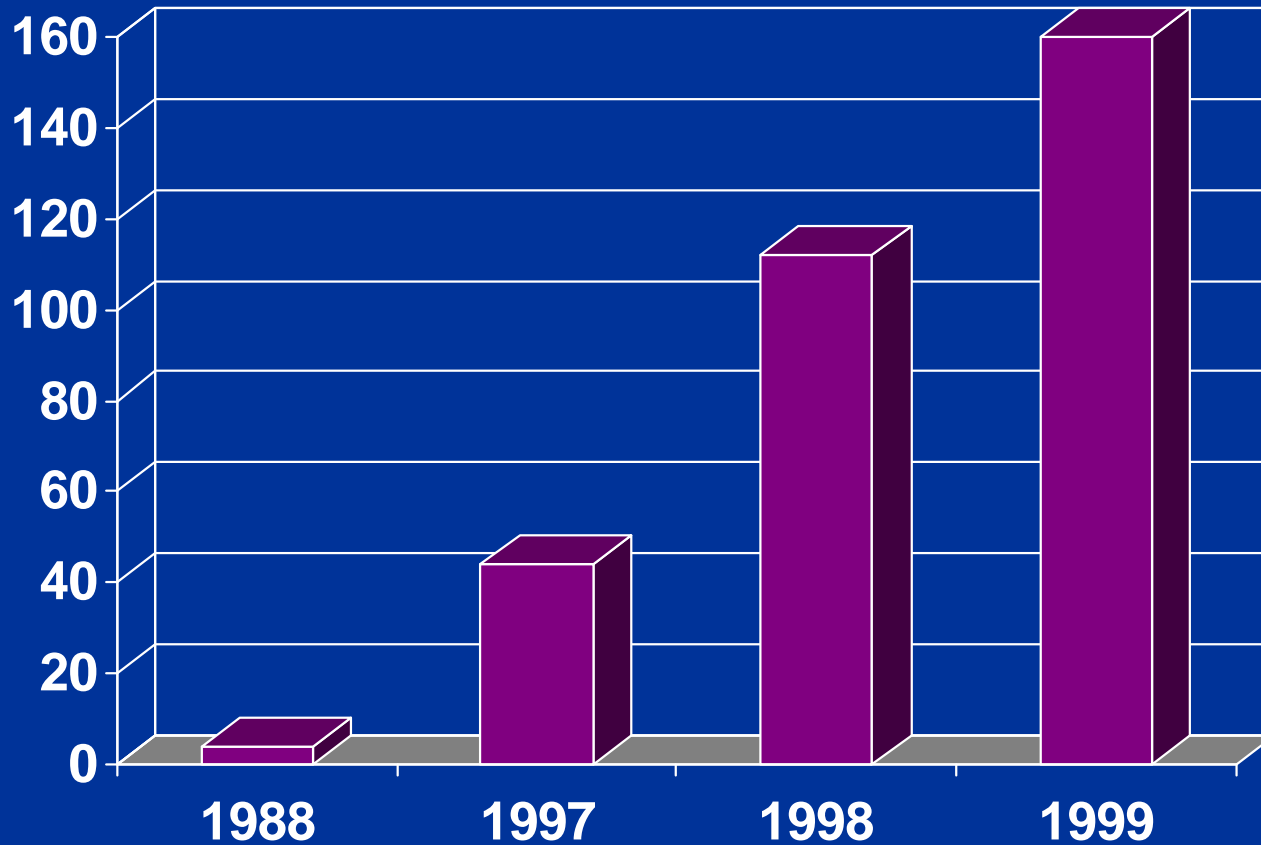
III. Trends

Services

Consolidations

# **I. STATE OF THE US CLEC INDUSTRY**

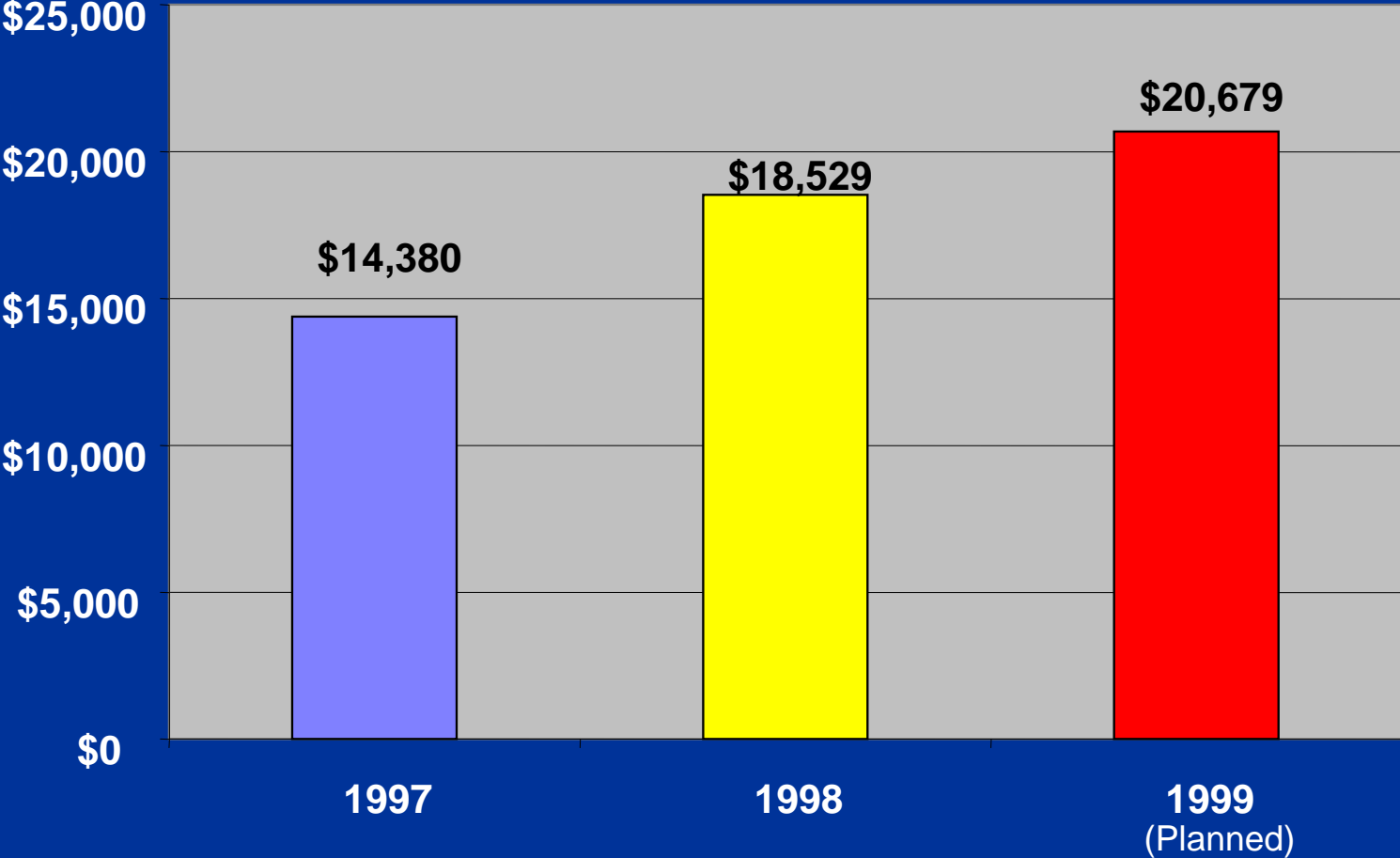
# 10 YEAR CLEC ENTITY GROWTH



# CLEC NETWORK GROWTH 1998-1999

Route Miles	47%
Voice Switches	84%
Data Switches	104%
Access Lines	250%

# CLEC CAPITAL EXPENDITURES (in \$ millions)



# CLEC REVENUE GROWTH 1997-2001

	<i>Revenue (in Millions of \$)</i>				
<b>Revenue Category</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>
Switched Local Service <sup>1</sup>	\$1,768	\$3,546	\$6,879	\$12,107	\$20,825
Long Distance <sup>2</sup>	\$657	\$1,041	\$1,728	\$2,938	\$5,053
Dedicated Access & Private Line	\$1,301	\$2,450	\$3,528	\$4,763	\$6,096
Data <sup>3</sup>	\$541	\$2,466	\$7,447	\$19,512	\$44,878
<b>Total CLEC Service Revenue</b>	\$4,267	\$9,503	\$19,583	\$39,320	\$76,852
All Other Revenue <sup>4</sup>	\$268	\$1,141	\$2,191	\$3,965	\$6,662
<b>TOTAL REVENUE</b>	<b>\$4,535</b>	<b>\$10,644</b>	<b>\$21,773*</b>	<b>\$43,285</b>	<b>\$83,513</b>

\* Industry Revenue Exceeds Industry Caplex.

Notes:

1. Includes Resale Revenues.
2. Includes Resale Revenues.
3. Includes Internet Access and DSL Services.
4. Includes both miscellaneous telecom revenues (e.g. Reciprocal Compensation) as well as non-telecom related revenues (i.e., network development).

## **II. BUSINESS DRIVERS**

# WHAT ARE BUSINESS DRIVERS FOR CLECs?

<u>STAGE</u>	<u>CATEGORY</u>	<u>DRIVER</u>
I.	Small < \$10MM	Revenue Generation
II.	Mid-Size \$10MM-\$100MM	Cash Flow
III.	Large > \$100MM	Profitability

# THREE BASIC CLEC STRATEGIES

	<u>Pure Resale</u>	<u>Switched Based Resale</u>	<u>Facilities-Based</u>
Capital Req.	Low	Moderate	High
Risk	Low	Moderate	Moderate
Reward	Low (10-15%)	High (50-60%)	Very High (65% - 80%)
Differentiation	Price	Price + Customization +Value Adds	Price + Customization +Value Adds

# REQUIREMENTS FOR DRIVER REALIZATION

- Fast growth and expansion
- Rapid facilities deployment
- Get to market before competition
- Heavy capital expenditure requirements
- Selecting vendors / partners for Hardware, Software and Network Services
- Learning how to deal with LECs and other wholesalers

# REQUIREMENTS FOR DRIVER REALIZATION (cont.)

- Acquiring skilled personnel
- Training personnel
- Introducing new products rapidly / integrating verticles
- Implementing business systems and processes-ordering, billing, etc.
- Acquiring new customers

# PROBLEMS ASSOCIATED WITH DRIVER REALIZATION

- Limited Capital
- Market Unknowns
- Complex Business
  - Learning Curve
  - Uncharted Territory
- Rapid Changes in Technology
- Limited Manpower
- Scarcity of Skilled Workers
- Changing Regulatory Environment

# PROBLEMS ASSOCIATED WITH DRIVER REALIZATION (cont)

- Lack of Clear “Direction” for Selecting OSS
  - What’s Required?
  - What’s an Integrated System?
  - What Processes Needed?
  - How Much Automation?
  - How to Approach - Buy/Build?
- Chaos of Rapid Expansion
- Disparate Systems in Place as Result of Consolidation

# III. CLEC TRENDS

# CLEC TRENDS

- Consolidations
- Market Distribution Channels
  - Geographic
  - Segment
  - Product
- Whither the IS?

# OSS APPROACHES

- Stage I.** Companies:  
Mostly manual processes
- Stage II.** Companies:  
Piecemeal approach - Will look at automating certain areas of the operation
- Stage III.** Companies:  
Interested in reducing human involvement in processes  
Interested in integrated systems and flow through processes