

VoIP Emerges:

Select VoIP Applications Have Made the Transition from “Technology Push” to “Market Demand Pull”

After nearly seven years being “the next big thing” in telecommunications, Voice over Internet Protocol (VoIP) is finding its place in the delivery of telecommunications services. In the public mind, VoIP means voice over the Internet but, of course, moving voice in the form of IP packets has general applicability over the full range of telecommunications.

VoIP is impacting telecommunications equipment from PBXs to carrier networks, as well as telecommunications services from local to long distance. To date, VoIP has been largely invisible to the end-user as carriers have cautiously applied the technology inside their networks to gain the efficiencies of packet-switched over circuit-switched transport. Now VoIP has emerged onto the desktop and is profoundly changing the customers’ experience both in the cost and the functionality of telephone communications.

Carriers and regulators are scrambling to deal with what is rapidly becoming a truly disruptive technology. It is not that VoIP comes as a surprise. What is surprising is the rate at which it is now gaining momentum. It now threatens to unhinge the plans of service providers, equipment vendors, investors and regulators who had anticipated an orderly migration from circuit-switched voice to VoIP.

While it is true that VoIP is having an impact across the whole spectrum of telecommunications, that impact is much more disruptive in certain segments. Cisco Systems (CSCO-NASDAQ), by seizing the opportunity to push the introduction of the IP-PBX, has come from being a non-participant to being one of the largest vendors in the PBX market. Level 3 (LVT-NASDAQ), by an early commitment to IP, has emerged as the largest, international VoIP carrier. Connecticut Research (CR) has interviewed three small companies, Vonage, Cbeyond and DSL.net (DSLN-NASDAQ), which are seeking to exploit select VoIP market segments. While successful execution is not guaranteed for any of these companies and none has attained profitability, their stories illustrate some of the tantalizing potential in VoIP.

From the case studies of these three small companies, we draw a key finding. Any

technology-based service, before it emerges with significant value, must first pass through a stage of critical examination. In that stage technologists try to win over skeptical customers. If successful, customer demand becomes self-generating. This was the case with fax machines, PCs, e-mail, cell phones and WiFi. We assert that the observations that: (1) Vonage is rapidly signing up customers with little direct marketing, (2) Cbeyond is getting 30% of its sells from customer referrals and (3) DSL.net has found that it can sell VoIP without feet-on-the-street, suggest that VoIP in the "sweet spot" market segments has crossed over from "technology push" to "market demand pull."

This is the first of three installments focusing on the VoIP industry. All information in this and the upcoming installments comes *from "VoIP Finds Its Sweet Spots – You May Be Surprised Where" a Connecticut Research White Paper available from www.connecticutresearch.net.*

About Connecticut Research

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