THE SLEEPING GIANT AWAKES
WHAT TELCOS HAD BEEN DREADING FOR YEARS HAS STARTED TO HAPPEN IN THE US, WHERE CABLE OPERATORS’ NEW IP TELEPHONY SERVICES ARE LURING HOARDS OF CUSTOMERS AWAY FROM THE INCUMBENTS

Cable operators in the US are competing more forcefully than ever with regional Bell operating companies for residential broadband subscribers. And, thus far, there’s one clear winner – the consumer, who’s already getting lower bills.

The sleeping giants in the US telecommunications industry – also known as ILECs (incumbent local exchange carriers) – are being rudely awakened from their sound slumber during which they contentedly dreamed that they were still the de facto lords of the telephone.

What’s jostling them into consciousness is the sound of doors slamming, as their customers leave en route to the competition situated on the other side of the living room: the cable operators.

Both sides are using the most destructive weapon known to business – pricing.

“This is just the beginning,” says Lynda Starr, vice president of telecom consultants Probe Group. “The cable companies are stepping up their competition against the incumbent phone companies, and the ultimate goal for both sides is to get the “triple” – that is the customer who subscribes to voice, video and data services. No one will back down.”

Cable operators are aggressively moving into the telephone business by providing voice over IP (VoIP). They are doing it not only because this is an unregulated area, but also because it’s a less expensive way of providing telephony. There is a monumental market to go after; and if cable companies can succeed, their revenue streams would be torrential.

Just before last Christmas, Time Warner Cable dropped a lump of coal into the stockings of ILECs by announcing it was entering multiyear partnerships with MCI and Sprint to provide Internet-based phone service to consumers, beginning this year. The service is branded as Time Warner Digital Phone.

Thus far, the primary counter-attack from the telcos has been to step up their marketing of almost irresistibly priced packages of residential services and features, intended to serve as huge speed bumps for the cable operators’ marketing strategies.

Cable’s desire to take market share from telcos is nothing startlingly new (operators Cox and Comcast have been sniping at the telco market for years), though this particular effort is significantly fiercer.

To demonstrate the early success of Digital Phone, Time Warner’s Keith Cocozza says rollout of the IP-based telephony offering is already a hit with consumers. He reveals that only seven months after launching the service in the local market of Portland in May 2003, approximately 90% of the Digital Phone customers had dropped incumbent landline carrier Verizon, and were porting their local phone numbers to Time Warner’s service.

That’s saying something.

However, Portland-based Verizon spokesman Peter Reilly doesn’t think it’s saying very much: “There’s not much of a contest when you compare what we offer phone customers versus what Time Warner Cable offers,” he says. “Feature-by-feature, our ‘Verizon Freedom’ package provides a superior deal. We offer better service, higher reliability and more features – including home voicemail and unlimited local, in-state and domestic long distance calling – all for less than what Time Warner Cable charges.”

That may be true, but there are significant benefits for cable operators that build a telephony system with an IP-based infrastructure. The system is more inexpensive and faster to deploy, while more services (notably those related to messaging) can be developed and marketed economically. Also, customers are generally satisfied with the video and data services they are already getting, and – for the most part – trust the provider.

US cable operators have awakened a sleeping giant, and it looks as if it’s got out of the wrong side of the bed. The ILECs clearly have the most to lose, and so they will fight the hardest. They are already moving fast by cutting prices and expanding services.

But cable operators won’t be easily scared away. They are aggressively promoting their new technology to established and satisfied customers.

It’s too early to tell who will prevail, but – for now – consumers are the happiest. It’s never been cheaper to make calls.

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