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December 2002

Buying Telecom Services In A Shaky Market

Helping Business Thrive On Technology Change

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DECEMBER 2002

Buying Telecom Services In A Shaky Market

Firms want the simplicity of a single carrier and the redundancy and low prices of multiple carriers. Buyers can get both, using a combination of new technologies, new intermediaries, and new contract terms.

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INTERVIEWS

TELECOM BUYERS WANT BOTH SIMPLICITY AND DIVERSITY

Telcos plan to improve their business by grabbing a larger portion of enterprise services spend. But will companies opt to buy more services from a single carrier after bankruptcies and fraud have racked the industry? To understand shifts in buying behavior, Forrester interviewed 32 voice and data buyers at large companies.

Firms Are Reducing Suppliers To Simplify Telecom Management . . .

Companies buy services from multiple carriers to get geographic coverage, but many want to move closer to single sourcing. Twenty-five percent of firms we interviewed buy more than 70% of their services from one carrier and another 44% would like to buy a larger percentage of their services from one provider. These companies said a single point of contact and lower prices are their main reasons to consolidate buying (see Figure 1-1).

> "We buy from as few carriers as possible to get the best financial deal and to have one neck to squeeze if something goes wrong." (Chemicals company)

> "We want to leverage our spend with one carrier to lower cost and to have a single point of contact." (Utility company)

> "Consolidated billing, ordering, and service provisioning are important to us. We want a single point of contact for problems." (Utility company)

. . . But They Also Want Redundancy And Diversity

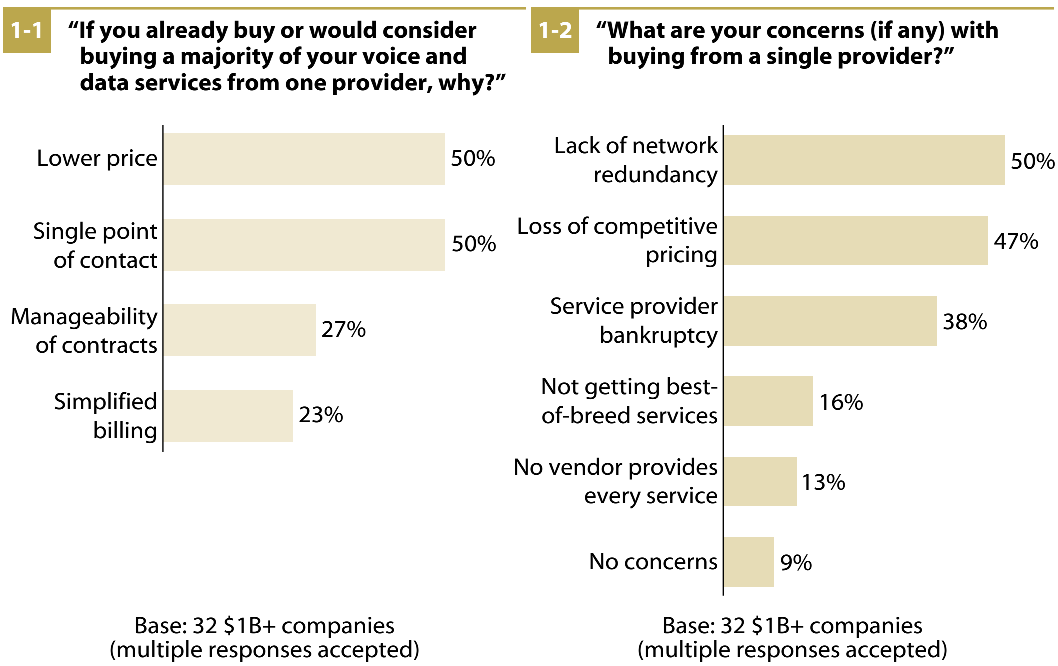
Although many firms would like to buy more services from one provider, all firms say that they want network redundancy and price competition (see Figure 1-2).

> "Provider stability overrides pricing concerns for us. If a carrier folds, our board wants to know who made the decision to buy from that carrier and why. The benefits of bundling don't counterbalance the risks." (Scientific equipment company)

> "We want at least two carriers that we can play against each other for redundancy and pricing." (Transportation equipment company)

> "We can negotiate lower prices by using several smaller service providers." (Computer equipment company)

Figure 1 Firms Want Simplicity And Diversity



Source: Forrester Research, Inc.

ANALYSIS

SINGLE-SOURCING TELECOM SERVICES IS A BAD IDEA

Realizing companies want to buy from fewer providers, telcos like AT&T, SBC Communications, and Verizon Communications have recently expanded the coverage and breadth of their business services. These carriers promise a full range of high quality services that -- when bought from the same carrier -- are cheaper and easier to manage. Enterprises shouldn't take the bait. Sourcing 70% or more of their network services from one provider is a bad idea because:

- **Tier one is not a safe bet.** Buying from tier one providers doesn't guarantee performance or financial stability. It turns out that incumbents and large backbone providers carry financial risks that are nearly as high as those borne by telecom startups. There are no safe havens when tier one providers like Qwest Communications restate financials, WorldCom announces $9 billion in fraud, and Genuity files for bankruptcy.

- **Competition means savings.** Firms believe that carriers will dive-bomb prices to win business, but in reality, carriers offer limited discounts. One healthcare company told Forrester that it gives AT&T 80% of its business but expects only a 5% discount this year. Meanwhile, consulting firm BSI Group saved 17% on its communications services by pitting carriers against each other in reverse auctions.[1]
- **Long-term contracts equal carrier lock-in.** Companies that buy more than 70% of their services from one carrier typically get stuck in three-year contracts. Long-term contracts prevent companies from taking advantage of carriers emerging from bankruptcy or new contract terms like Global Crossing's month-to-month contracts and NTT Communications' no-minimum commitment terms.[2]

STRATEGIES FOR SURVIVING MULTICARRIER MAYHEM

Sourcing services from multiple carriers to ensure local connectivity, network redundancy, and competitive prices is unavoidable. The trick is making it work. Firms should follow one of two strategies based on their primary motivation in structuring telecom deals: control or simplicity.

- **Firms that want control should focus on renegotiating contracts.** Forrester's research reveals that around 40% of companies philosophically prefer to use internal resources to buy and maintain technology and services (see the July 2002 Forrester Report "Telecom Data Services North America: Business Technographics® Data Overview").[3] These firms will build robust networks by purchasing from a handful of carriers and matching the characteristics of the providers to the amount and type of services they buy.
- **Firms that want simplicity should outsource communications management.** Companies that are focused on simplicity should look to systems integrators (SI) like IBM and EDS to handle multicarrier network purchases and management. Firms that don't already do so should also look to the integration arms of carriers, especially in Europe and Asia where procuring local access lines is more difficult.

Firms That Want Control Should Focus On Renegotiating Contracts

CIOs that procure their own communications services should reassess the risk and opportunities associated with current and potential providers. Instead of buying 70% to 80% of every service from one carrier, companies should spread their bets. The goals are network diversity and competitive prices. To get there, firms must:

- **Pick a primary carrier for each service.** To reduce risk, firms should use a dominant provider for each service category, such as frame relay, IP VPN, or voice. One carrier can be used as a dominant provider for multiple services but not all services. For example, a firm could select AT&T as a primary provider for its frame relay and voice service; Cable and Wireless as the primary carrier for IP VPNs; and a backup carrier for frame relay.

- **Match provider choice to service stickiness.** Companies should select primary and backup carriers by matching provider risk to the ease of switching to another carrier (see Figure 2). Firms should consider Risky Bets and Contenders like Global Crossing and Broadwing to get deals on highly available, easy-to-migrate services like voice and Internet access -- while sticking with Leaders for hard to transition data services like frame relay.
- **Update RFPs with flexible terms.** RFPs should demand maximum flexibility, eliminating items like three-year contract lengths, preferred-provider status, and minimum commitments. By removing the primary-provider clause from its RFP, a pharmaceuticals firm discovered that it could save $360,000 a year switching its voice to Global Crossing instead of sticking with a WorldCom bundle.
- **Use route control to save money and mitigate risk.** Route control overcomes the Internet's reliability issues by monitoring links for latency and packet loss and then selecting the best performing route. Firms gain diversity, cost savings, and better performance by combining route control with cheap links from bankrupt providers like XO Communications and ITC^DeltaCom (see the October 2002 Forrester Report "Saving Bandwidth Bucks With Route Control").[4]

Firms That Want Simplicity Should Outsource

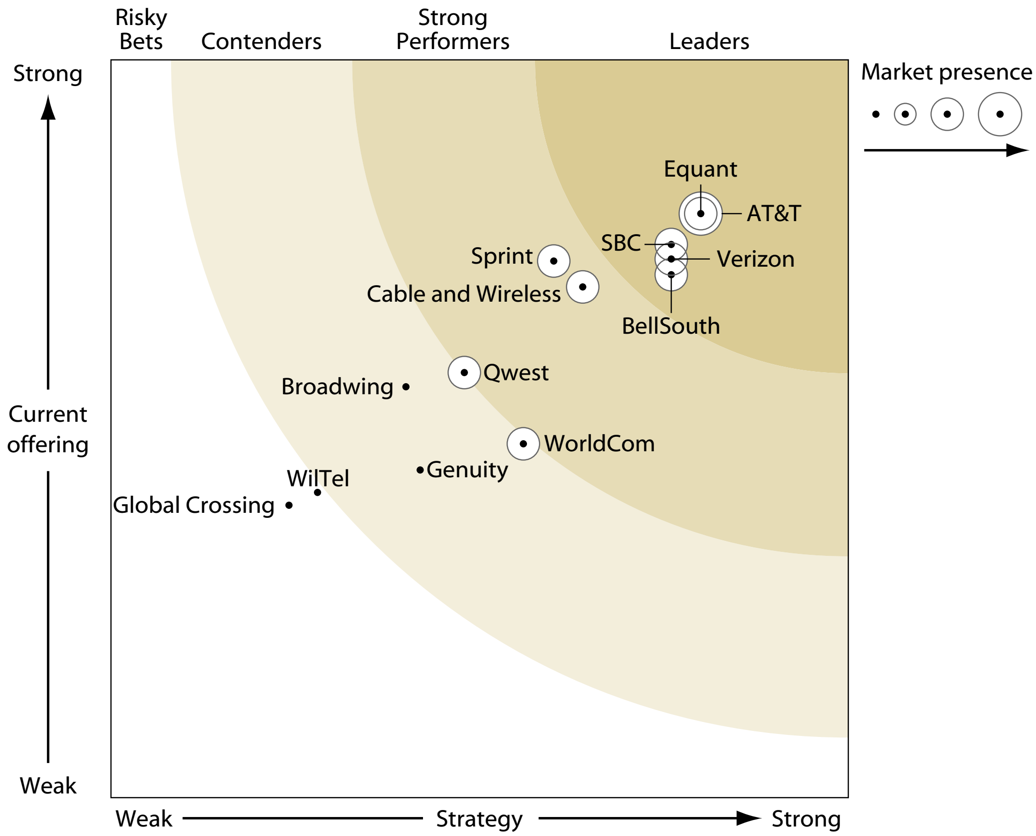
One in five of the firms we interviewed use a systems integrator or third-party consultant to help with services procurement and management. Forrester sees this percentage increasing as firms look to maintain the simplicity of single sourcing while also introducing more carriers for network diversity (see the February 2002 Forrester Report "US Outsourcing Decelerates").[5] Simplicity buyers should look to systems integrators and service bureaus to outsource:

- **WAN procurement and management.** Network outsourcers like Greenwich Technology Partners and ThruPoint help companies build new networks or migrate to new services. Other integrators like Accenture and Deloitte & Touche will manage the RFP process and network integration while Affiliated Computer Services (ACS), CSC, and EDS manage WAN services. Firms should also consider a carrier's integration arm -- like AT&T Solutions or Equant Integration Services -- if the carrier is willing to incorporate best-of-breed WAN services from other providers.

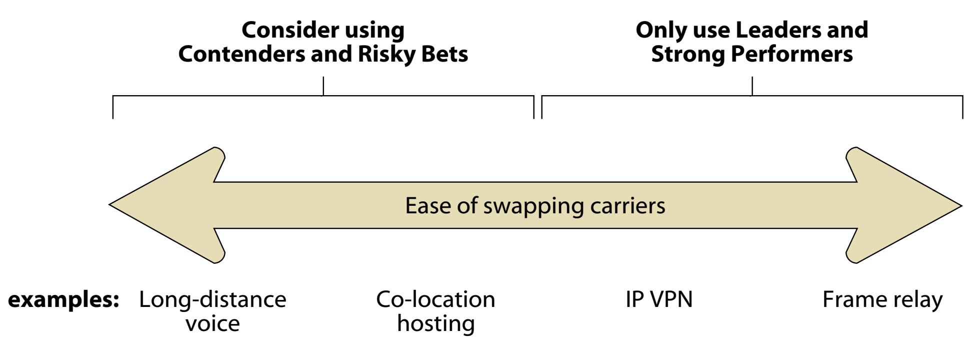
Figure 2 The Forrester Wave™: Telecom Carriers for $1B+ Firms, Q4 '02

2-1 **Assessing the risk of telecom providers**

View the data supporting this graphic by clicking the online "Get Data" button above the figure.



2-2 **Entrust leaders with telecom services that are hard to transition.**



Source: Forrester Research, Inc.

- **Network administration.** Service bureaus provide simplicity and savings by auditing and managing telecom services. QuantumShift chops 10% to 30% off telecom bills with a hosted service that deciphers bills, optimizes network utilization, and manages ordering and trouble tickets. Meanwhile, ProfitLine and Teldata Control audit telecom bills for accuracy. Teldata secured $360 million in refunds for its clients last year, saving them an average of 5% to 7%.

- **Internet multihoming.** To expand business, collocation providers will offer new services that help enterprises multihome their Internet connections. For example, Equinix plans to update its multinetwork management services with a portal that lets its customers compare pricing and SLAs across 75 carriers and purchase Internet connectivity on a month-by-month basis.

ACTION

Given that companies demand both simplicity and diversity, what should carriers do? Give up their dreams of own-it-all and instead:

Create performance transparency for enterprise customers.

Companies want to buy best-of-breed services -- so how can a carrier prove its service is better than the other guy's? It should put a route control box from Proficient Networks or RouteScience Technologies at the edge of the customer's premise. Then companies can use these boxes in report-only mode to independently verify network performance and reliability.

Prepare for a single-service reality.

Companies' need for network redundancy will stifle carriers' multiservice opportunities. To regroup, providers should focus on two areas: 1) reducing the cost of sales and increasing volume by creating indirect channels for single-service sales, and 2) reducing expenses by integrating order management and workflow with .NET or Java Web services instead of expensive EAI software.

RELATED MATERIAL

Online Resources

Figure 2 is backed by an online spreadsheet available by clicking the online "Get Data" button above the figure. The spreadsheet includes 13 scorecards, each with more than a dozen data points. Use these scorecards to evaluate enterprise telecommunications services providers in detail.

Companies Interviewed For This Report

AT&T
www.att.com

BellSouth
www.bellsouth.com

Broadwing
www.broadwing.com

Cable and Wireless
www.cw.com

Equant
www.equant.com

Genuity
www.genuity.com

Global Crossing
www.globalcrossing.com

Level 3 Communications
www.level3.com

ProfitLine
www.profitline.com

QuantumShift
www.quantumshift.com

Qwest Communications
www.qwest.com

Verizon Communications
www.verizon.com

WilTel Communications
www.wiltelcommunications.com

WorldCom
www.worldcom.com

Related Research

October 2002 Forrester Report "Saving Bandwidth Bucks With Route Control"
August 2002 Forrester Report "Transforming Outsourcing With Organic IT"
May 2002 Forrester Report "The Truth About Web Services"
April 2002 Forrester Report "Putting Services RFPs On A Diet"

GRAPEVINE

Shareholders of the world unite!

When a company files for Chapter 11, there aren't many channels for shareholders to vent their frustrations over their losses. But as always, the Web community has found a mouthpiece. While researching Global Crossing, a Google search called our attention to a relevant but renegade site: www.globaldoublecrossing.com. In addition to angry commentary, the site boasts Corporate Scandal Trading Cards and asks for donations to the GX Executive Sponsorship Fund to support now-unsalaried execs. Forrester is curious to see what clever domain name snubbed shareholders will think of next . . . www.disingenuity.com?

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Who'll watch over your telecom bills? Not your carrier.

We recently spoke with Kevin Elmore, VP of marketing at QuantumShift, about the company's strategy to manage telecom ordering, billing, and trouble tickets. When Forrester asked him to explain why an enterprise wouldn't just outsource this function to its primary carrier, he said, "Letting a carrier manage features like communications expense is like letting the fox guard the chicken coop. They just can't be trusted." Well, with carriers like WorldCom misfiling billions of dollars in expenses, we believe Mr. Elmore has a valid point.

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The next hot restaurant spot -- Chez Genuity?

A client recently gave us a real laugh when he said, "Have you seen Genuity's Network Operations Center in Woburn? It's a beautiful NOC, but what will they do with it? With all that glass and the multiple levels, I think it would make a great modern New York-style restaurant. Couldn't you just see people dancing and a big bar near the network map?" Now we know what Level 3 can do with all the Genuity assets it expects to close down.

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Marketing in the telecom meltdown? It's all about stinking less . . .

An executive recently summarized for us how the telecom downturn has impacted the service provider sales pitch. Specifically, when discussing his business telecom needs with an AT&T sales representative, the rep's message was clear: "We stink less." While Forrester applauds the candor of this statement, we're pretty sure the sentiment is not widely supported at AT&T HQ.

ENDNOTES

1 The May 2002 GSX press release "GE Global eXchange Services Helps Customers Save More Than $200 Million through e-Auctions in 1Q 2002," provides data on reverse auctions saving for BSI and other companies. See www.gxs.com/gxs/press/release/press20020508.

2 In today's contracts, companies agree to spend a certain dollar amount with a carrier, called a minimum commitment, in order to get cheaper rates per minute or per megabyte. Additionally, there is a minimum contract length -- usually three years -- to get a discount.

3 Forrester surveyed 193 North American companies and found that 41% of the companies purchased no managed services. Additionally, in a phone survey of 36 Global 3,500 firms for the June 2001 Forrester Report "How To Buy Web Infrastructure" we asked companies for their opinions on using internal resources versus outsourcing, and 44% of the firms responded that they internally source technology or services to maintain control.

4 Companies can buy route control as a service from Sockeye Networks or Internap Network Services and as a product from netVmg, Proficient, or RouteScience. These products will make multihoming easier and cheaper by providing expert BGP templates that eliminate the need to hire a BGP engineer. These products also allow a company to route traffic based on performance or lowest cost route.

5 Forrester forecasts that over the next four years, more and more companies will choose to outsource network management, and the market size of outsourced network management will increase from $4 billion in 2002 to $11.2 billion in 2006.

Forrester's WholeView™ Research provides clients with unified guidance on customer trends, business strategy, and technology investments through Technographics®, TechStrategy™, and TechRankings™. WholeView Research drills down into the most important details of an issue while maintaining a holistic perspective of the impact of technology change on business.

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Customer Relationship Management
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From Push To Pull: The New Demand-Driven Auto Industry

Los Angeles, Calif.
February 18-19, 2003

Technology Leadership Forum 2003
Organic IT: The Next Computing Revolution

Scottsdale, Ariz.
February 23-25, 2003