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THINKING IT THROUGH *by Barbara Lancaster*

SWIMMING WITH SHARKS…

The proliferation of new service providers has certainly stirred up the industry, but when the silt settles to the bottom, will we see anything very different from the old days, when a small number of very large companies ruled the fishpond? How can today's small fish improve their chances for survival, and grow?

There are three effective strategies for newcomers in the foreseeable future. If a new entrant doesn't adopt one of these three approaches, they either don't understand the business or are very smart and have found a way to make money that others have missed.

The first approach is to build big. Telecommunications is an industry based on a complex infrastructure. But the people who pay for this industry - the end users- just want to communicate. They want service to be a commodity that's ubiquitous, highly reliable and inexpensive. The brute reality of infrastructure economics means that unit costs of building and running the network decrease as operating companies get bigger. Bigger companies also have more opportunities (even if they don't always take them) to optimize processes and systems so that everything keeps working just the way customers want it.

There's still room for new entrants to break in by leveraging new technology and leapfrogging the incumbents. But it is hard, expensive and takes a long time to become profitable. To grow big successfully means laying down solid plans and finding investors interested in going the distance. Among those that don't manage to grow, the lucky fish are swallowed alive, and the rest just die.

Second proven approach is to build it, then sell it. Some companies purposefully build a network, win some customers, and sell the business to a competitor. This approach can net the investors and employees some money if done properly, and it's nothing to be ashamed of. Being clear and honest about the real objectives is the first step to success for a build-to-sell approach. The technology choices, market strategy and product choices are different than for building big.

Success requires securing a customer base that will be attractive to a future corporate buyer that's expanding or diversifying. Targeting a slice of the incumbent's existing core business won't necessarily achieve that. Systems and network elements need to be selected that serve customers and run operations, but that will also integrate with relative ease into a future buyer's infrastructure. Expensive, state-of-the-art support systems and network technology may be liabilities if they complicate migration. An inexpensive - and therefore disposable - procurement strategy is shortsighted for a company intent on building big, but can be the right choice for a company that's building to sell.

The third option is to forget the network and become a retailer. In almost every area of commerce, buying pre-made goods and selling them at a markup is the way it's done. The people who are good at running factories are generally different from those good at selling things. Local car dealers make a reasonable living, for example, and don't lie awake at night thinking they need to build their own car factories to succeed.

Yet in telecommunications everyone seems to want to own the infrastructure, torun the factory while selling to customers. There's room for companies to sell retail network services proudly and profitably, adding value by delivering great service, useful content, and appropriate products to a community of customers they know.

As James Gleick pointed out in a different context, "There are pilot fish that manage to swim with sharks, and there are fish that get swallowed". For telecommunications operators there are three choices: become a big shark, get eaten for money, or find a way to swim with the sharks and prosper.

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