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Commitments to Customers in a World of Competition

by Craig M. Clausen

Ma Bell Takes Care of America's Telecom Network

Our telecommunications industry is one of America's true success stories. Built from the ground-up on American ingenuity, the Bell system and its independent cousins were catalytic in transforming the United States into an economic powerhouse during the first half of the 20th century. While sound-minded observers debate the value of the organizational structure that developed through the 1980s, few would question the overall quality of the network or service offered.

Keep in mind that the Bell System was, to a significant extent, driven by engineers. Any fault in the network – their network – was perceived as a direct reflection of their professional know-how. Bell System employees guarded their network like pit bulls for various reasons, but without doubt one of their prime motivators was the unwillingness to let anyone screw it up. Therefore, innovation was slower than it could have been and non-Bell devices, such as the Carter phone, were barred from being attached to the network.

Contrary to what economists would expect, the old Bell System was committed to providing sound and reliable service, even if that meant spending more or not cutting enough.

Creative Destruction: Enter Competition

Competition, in contrast, can be a messy proposition. With "Ma Bell," end-users knew the service and quality they would receive. Quality was a sure thing. With the introduction of competition, consumers who switched carriers presumed that they would receive the same level of service from a competitor as they did from AT&T. And, the initial long-distance carriers banked on that presumption. End-users soon found that not all competitors were created equal and that there were going to be differences in service quality and customer care. This meant, in turn, that competitive choice was a two-edged sword: new services and improved rates may have been available but at the expense of service quality. One had to be able to discern the good from the not-so-good. These new competitors didn't necessarily hold themselves to (or simply provide) the same level of quality as Ma Bell.

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The Network of Networks Emerges & The “Who You Gonna Call?” Games

With new market entrants and service providers springing up during the 1990s, America’s network became a “network of networks.” The various sub-networks of this patchwork could, and often did have varying service quality levels and end-users’ experiences varied accordingly. Still, given that each sub-network relied on numerous others – including components provisioned by other competitors – it became too easy for nascent providers to pass the buck and point a finger at another service provider whenever outages or service deficiencies popped up. The blame game became a convenient way to excuse service quality issues. Customers were often left shaking their heads wondering who to turn to when an issue arose.

This problem became particularly acute during the mid-1990s as switched local competition began to take hold. “Switched” competition meant that competitive providers (the “competitive local exchange carriers” or “CLECs”) had to, through increasingly complex arrangements, directly interconnect their networks with those of their primary competitors – the Bell Operating Companies. Whether or not it was justified, Ma Bell’s offspring, the Baby Bells, quickly became the scapegoat for CLEC service deficiencies.

A Case In Point:

Winstar Communications, Inc., a now-defunct CLEC that attempted to provision its own local access and bypass incumbent carriers by using fixed wireless solutions, experienced numerous service quality issues. A common refrain, however, heard by customers from the company was that the fault lay with another service provider. More times than not, Winstar laid the blame at the incumbent’s feet; other times it could be a long-distance carrier’s fault or an Internet backbone carrier’s problem. Rarely, though, did anyone hear a *mea culpa* from Winstar.

Service Provider Maturation and the Commitment to Customers

As with anything else we encounter, there is a clear maturing process through which service providers’ appreciation for the customer grows. It is only through this process that carriers reach that state of nirvana in which responsibility to customers and customer care becomes central. During this maturing process, the evolving providers comprising the sector also take on different primary foci or business objectives. Unfortunately, in the telecom sector, the end-users were not always the primary focus of providers during its maturation, as shown in Table 1. This, in turn has lead to many of the customer care issues experienced in the recent past.

The framework below begins to shed light on why end-users have and will continue to experience customer service deficiencies. It captures what many of us probably recognize at an intuitive level, providing a structure for the remainder of our discussion and spotlighting the importance of service quality in carriers’ maturation process.

**Table 1:
Service Provider Evolutionary Process and Business Foci**

Evolutionary Stage (Stage of Maturity)	Business Focus	Notes
Nascent/Emerging	Network deployment & capital procurement	Customer care not on radar
Developing	Stabilizing the operation; gain toehold in market primarily through price competition	At this stage, quality customer care would help stabilize operations by reducing churn.
Maturing	Focus on price competition begins to take a backseat to quality of service	At this stage, quality customer care would prevent competitors from encroaching on existing customer base.
Established	Understanding of importance of customer care; quality of service coupled with network cultivation and service innovation	Established ("mature") carriers recognize that competitive alternatives exist and quality of service counts; these carriers don't just give it lip-service (think: your last flight on United and the post-flight spiel)

This model provides a basic structure for understanding why, at times, customer care and service quality have taken a back seat. The end-users' ride down the competitive road was often chock full of potholes that ultimately dampened the growth prospects for new market entrants. This was particularly evident in the CLEC sector.

The Early Customer Experience with CLECs

The CLEC sector has followed the development process outlined above. Many failed to mature quickly enough and are, for a variety of reasons, no longer around. Many, maybe most, first generation CLECs didn't truly grasp the importance of customer care. These companies were largely engaged in a land-grab, cheered on by investors. Network deployment for first generation facilities-based CLECs was, without a doubt, the primary objective. As networks were rolled out, CLECs began their push for customers primarily on the basis of price ("XX% off the incumbent's rates" was a common pitch, for instance). Unwitting end-users, based on decades of experience with the Bell system, assumed that all carriers were created equal. They quickly discovered differently. Today's surviving CLECs are evolving into the "Established" stage, understanding that customer care and service quality are indeed critical success factors in the communications industry. Some even tout better customer care *vis-à-vis* the "stodgy" incumbents as their prime differentiator—a claim born out by their lower customer churn rates.

Creating a Customer-centric and Controlled Structure

The telecommunications market, with its numerous complexities, presents challenges for end-users as they seek to make buying decisions. Price is an easily identified and understood factor, but as noted above, it is only one factor. Quality of service (QoS) is a paramount buying criterion, especially when the service being purchased is mission-critical.

Complete information for consumers is essential in enabling the sound functioning of any competitive market. Incomplete information leads to poor, “inefficient” decisions by consumers. Required information includes much more than pricing, and will range from product features and functionality to overall quality. All of this should go into consumers’ calculations in determining which competitor’s product or service to purchase. Without such information, end-users are flying blind.

Currently, all but the most sophisticated telecom customers lack the requisite tools to discern if their service provider is indeed living up to their verbal commitments. As the market and carriers continue to evolve, customers will demand better information. And, as we have found in our research on other evolving sectors (see our Metro Ethernet discussion below), tools that provide QoS information to end-users are being used by savvy carriers as a key differentiator.

Table 2 identifies some of the necessary (but not necessarily sufficient) conditions that must be met if customers are to be able to hold carriers accountable.

Table 2: Adding Teeth To Carrier Commitments: Required Service Information for Customers	
Information Component	Tools
Quality of Service (QoS)	Clear Service Level Agreements (SLAs)
Mean Time To Repair (MTTR)	Reports on network-wide and customer-specific compliance
Pre-emptive Notification	Required contact of customer by carrier as service issues arise
Single Point of Contact	Designated support contact, with clear escalation list in case of emergency
Meaningful Penalties	Must recognize the importance to the customer of a given service
Ease of Monitoring by Customer	Online portal

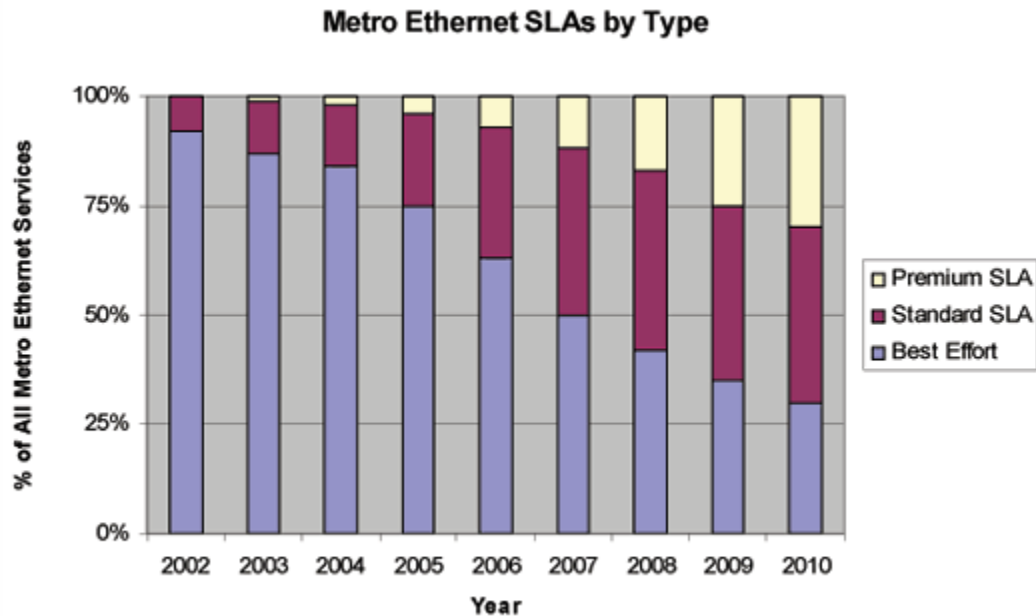
A Case Study: The Evolution of Metro Ethernet SLAs

Metro Ethernet services have seemingly burst on the telecom scene to become one of the fastest growing set of telecommunications services. When New Paradigm Resources Group, Inc. (NPRG) first covered this sector just a half dozen years ago, a formal label hadn’t yet been assigned to it.¹ Today, these services are gaining wide acceptance as bandwidth requirements continue their exponential growth. However, in addition to Metro Ethernet’s functionality, carrier commitment to end-

¹ See NPRG’s *GIG-E/MAN Report*™ (2001)

users reflected by service level agreements (SLAs) are helping shore up confidence that this sector and the associated services are real and here to stay.

Chart 1 below shows the clear progression of end-user commitment, with service providers offering increasing rigorous SLAs.



Source: New Paradigm Resources Group, Inc.

**Chart1:
Commitment to Customers: The Evolution of Metro Ethernet SLAs**

So, Where Is It Going?

Commitment to customers will play an increasingly important role in the evolving and increasingly competitive communications industry. Tearing down the walls of monopolies and laying the road for competitive entry by permitting a rush of new service providers to enter the telecom realm has led to many of the customer benefits foretold by economists and policy-makers, including more efficient pricing, increased innovation and enhanced choices. Service quality and customer commitment have at times taken a backseat to other business objectives during the early stages of telecom competition, particularly as competitors' service offerings entered the "switched" service arena and became increasingly complex. Operating a telecom network is not, as many found, a simple proposition.

While the road to competition has involved customer dissatisfaction and confusion, a benefit-cost analysis of the overall situation would show that end-users are in a better position than they were before competitive alternatives existed. Work still needs to be done on the customer care and commitment front, however, before the full benefits of competition are realized.

Table 3: Metro Ethernet Service Level Agreements (SLAs): Industry Norms			
	Best Effort	Standard	Premium
Network Availability	N/A or 99.5%	99.5% - 99.95%	99.95% - 99.995%
Latency	N/A	< 50 ms	< 5 - 10 ms
Jitter	N/A	N/A or 2-5 ms	< 1 ms
Packet Delivery	N/A	99.50%	> 99.95%
MTRR	N/A	4 hours	2 hours

Source: New Paradigm Resources Group, Inc.

Customers have climbed up the learning curve and will increasingly be holding carriers' feet to the commitment fire. Tools are being demanded and developed that will permit end-users to actively monitor the quality of service they receive and then act on the information they receive. Ultimately, customers won't have to take the carriers' word when it comes to service commitments. Instead customers will be able to decide for themselves if commitments are being lived up to and "vote with their wallets" to hold carriers accountable.

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