

Tyco Telecommunications and the Tyco Global Network

WHOLESALE BANDWIDTH FOR THE NEW AGE OF TELECOM

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THE TELECOMMUNICATIONS INDUSTRY IS changing and Tyco Telecommunications, a business unit of Tyco Electronics, is leading the way in re-defining the new industry structure. While current market conditions remain challenging, the industry is re-inventing itself through consolidation, rationalization and creation of new business models, with the surviving companies setting the foundation for the industry to emerge back into prosperous times. A necessary consequence of industry re-structuring is the re-definition of industry layers and segments. In the end, there will undoubtedly be fewer layers in total, and while there is still a much-needed role for global wholesale bandwidth providers, the business model will be considerably different than previous ones.

Tyco Telecommunications has three business segments including Turnkey Undersea Network Supply, Marine Services, and Network Service Provider on its own Global Network – The Tyco Global Network (TGN). Tyco Telecommunications recognizes the importance of the global wholesale bandwidth provider and has through its development of the TGN positioned itself to excel as a global wholesale bandwidth provider. A fundamental tenet of the Tyco Telecommunications' Network Services strategy is taking a market-focused approach, understanding individual customer needs and developing customized solutions to meet those needs. This includes the ability to offer robust technical services with flexible and innovative commercial approaches provisioned in an integrated bundled solution. This article addresses some key highlights and advantages of the Tyco Telecommunications' global wholesale bandwidth provider business model.

Success as a global wholesale bandwidth provider requires a model, which promotes financial stability, lowest possible operating cost structures, global partnerships, effective sales methods and products, and general high overall customer satisfaction. In order to realize this strategy, providers will need to establish effective operational tactics, which minimize financial risks, ensure customer satisfaction, leverage true core competencies and utilize strategic relationships to fill non-core gaps.

Low Cost Structure

There has been significant focus recently to how wholesale bandwidth providers are evolving the cost side of their businesses into competitive advantages on a global basis. Put simply, this means developing

the lowest possible Operating Expense (OPEX) structure as the cornerstone of a corporate strategy. A company's OPEX structure is indicative of actual corporate cash flows and is the root of long-term competitive advantage. In an environment where the wholesale bandwidth prices remain under pressure, those companies with the lowest OPEX will be able to price services at competitive market rates and sustain the best marginal profit potential.

Furthermore, the values of the network assets around the world have seen much scrutiny in recent times. From a competitive perspective, a network's valuation is somewhat irrelevant in that it represents a sunk cost. And while network value impacts corporate performance at the net income level (by virtue of an asset depreciation charge), this is a consequence of accounting rules and regulations. So, while the concept of acquiring a distressed asset at deeply discounted price points appears like an attractive way to enter the market on the surface, it is in fact far from enough to establishing a successful business model. Distress assets come with a myriad of issues related to integrating, operating and managing the network services in a manner that establish and preserve the low OPEX structure required to succeed. Not to mention the issues with establishing quality network services and customer care.

Tyco Telecommunications' ability to establish the lowest possible OPEX structure is a tenet that not only ensures success in the current telecom environment, but one that will ultimately influence the future structure of the industry. The original concept of the Tyco Global Network (TGN) was based on a large-scale construction of dedicated infrastructure to serve the global market needs. As the development of TGN progressed, Tyco Telecommunications better understood the regional economics and real one-time and recurring costs related to each of the sub-networks. As such, the TGN footprint was optimized to focus on building those parts of the TGN where Tyco Telecommunications was capable of establishing and maintaining the lowest OPEX cost structure. Strategic partnerships around the world provide complementary off-net connectivity and services.

Strategic Global Partnerships

Today's customers require broader connectivity delivered in shorter provisioning intervals. When

coupled with the existing competitive environment, this requires wholesale bandwidth providers to develop cost efficient means to provision off-net services. In order to enable timely service provisioning while maintaining efficient network operations, and minimize any additional capital outlay, strategic partners are the most logical alternative. The scope of effort and associated timeframe required to solve any particular customer-specific city termination requirement (which cannot be reliably predicted in advance) is substantial. It is unmanageable and impractical to establish these relationships on a case-by-case basis. Therefore, Tyco Telecommunications has established a flexible partnering approach that focuses on accommodating customers' needs while maintaining prudent and judicious capital investment strategies.

While demand for bandwidth remains evident, the current market environment contains economic factors that demand more prudent capital investment decisions that seek to rationalize the existing supply base. As such, build-buy-partner decisions are a consideration in almost every network expansion effort. In order to address the broader market opportunities, it is necessary to leverage strategic partners that complement the core TGN footprint. This ability to extend network reach includes establishing capabilities for metro circuits, general tail circuits and to some extent higher order services such as IP or sub-STM services. The implication in the market is that there will only be a small handful that can provide high-bandwidth circuits on a global basis. By leveraging the strengths of the respective partners, both will benefit from the rationalization of supply. Furthermore, such a strategic relationship will serve as a stabilizing force within a currently volatile industry. The ability of Tyco Telecommunications to rapidly provision metro circuits in the NYC area and to offer sub-rate services in select markets around the world has been positively received by our customer base, and improved our overall market capture.

Tyco Telecommunications partnering strategy is predicated on offering the best overall value and solution to customers. By coupling a robust global wholesale bandwidth business with a set of strategic partners around the world, Tyco Telecommunications is able to offer customized network service solutions in line with customer needs. Some key attributes of a world-class strategic partner are characterized below:

- Complementary network footprints;
- Ability to share capital expenditures on future joint network expansion;
- Cooperative R&D efforts to enhance and promote service offerings;
- Opportunities to offer integrated bundles of higher value services; and
- High standards for customer satisfaction.

Quality Customer Service

Customer service is one of the most important elements of any carrier's success in today's market. Having a high quality network with the most expansive global reach and flexible commercial offerings is only part of the solution. A customer's needs must be identified, acknowledged and satisfied in an effective and proactive manner. In order to provide a quality Customer Service program, a carrier needs to understand their customers, listen to their customers and adapt to make sure customer satisfaction and customer retention is achieved.

Tyco Telecommunications recognizes the importance of quality customer care, and as such, invested in the most advanced Operations Support System (OSS) to put in place a world-class customer service program. Some of the features planned for Tyco Telecommunications OSS and Customer Service program include:

- Customer control of purchased products through a single totally web-enabled OSS;
- Online capacity purchasing and self-provisioned within minutes;
- Re-configuring circuits within minutes to meet demands;
- Interactive access between OSS of different networks;
- Customer Care delivered by multiple channels, voice, video, assisted/power browsing;
- An infrastructure that personalizes products and services to individual customers; and
- Comprehensive customer care achieved by the retrieval and presentation of data from a single repository.

Summary

As consolidation continues, the industry will arrive at a point where, perhaps, only a few network providers remain in the global wholesale bandwidth segment. It is expected that the new models like that of Tyco Telecommunications will continue to evolve and flourish – models where providers work cooperatively to improve the overall efficiency of network supply and bandwidth solutions. Inasmuch as the entrepreneurial carrier's carrier model revolutionized the industry, these models for the new age of telecom will undoubtedly impact the industry in the upcoming

years, providing wholesale providers like Tyco Telecommunications with opportunities to expand the scope of service offering, by either organic growth or via strategic alliances.

While it is still too soon to predict the exact future of the telecom industry, those players that will survive the current telecom environment, are those companies that are refocusing their corporate business models. Along those lines, several things appear to be certain. Strategic partnerships will play an important role in realizing short-term financial success and will help to rationalize the current supply-demand imbalance.

Business models that are flexible and scaleable to navigate through volatile and new market conditions are likely to prosper. And, finally, those companies that can establish the lowest relative OPEX structures are best positioned to achieve leadership positions in their respective markets. Tyco Telecommunications is applying these core values to establish this new paradigm for the global wholesale bandwidth provider, where providers remain focused on customer needs and in-line with market conditions.

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