Financial Impacts of VoIP

CITI Workshop

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We examine three sources of VoIP service provision

- Broadband VoIP service
  - Vonage, AT&T CallVantage
- Cable telephony
  - As announced by all major MSOs
- Bell Offerings
  - Defense or Offense
In the baseline case, Bell local lines are falling...

- We would anticipate the fall in Bell local lines to slow through 2008.
- We forecast ARPU to fall by 2% per year to $38.52 by 2008.

Source: UBS Investment Research and Analysys Consulting
... while Bell long distance lines continue to increase

- We project the pace of growth of long distance lines to slow
- We assume ARPU falls 4% per year until 2008 to $17.51 per month
- By 2008 we project long distance penetration to be 57% of local lines

Source: UBS Investment Research and Analysys Consulting
Broadband determines the addressable market for residential VoIP...

- We assume 1.2% annual increase in households over this period
- Broadband penetration is assumed to be 60% by 2008, up from 23% at the end of 2003

Source: U.S. Statistical Abstract, FCC, and Analysys Research
... but is less likely to be a limiting factor for small businesses

- We assume less than 1% annual increase in small businesses over this period.
- Broadband penetration is assumed to be 81% by 2008, up from 67% at the end of 2003.

We forecast over 11 million residential VoIP lines by 2008

- This assumes the following VoIP penetration by 2008:
  - 20% of cable modem households
  - 10% of xDSL households
  - 15% of households with other broadband access

Source: Analysys Consulting
...and 4 million small business VoIP lines by 2008

- This assumes a penetration of 23% of small businesses by 2008
- Each small business has on average just over 4 lines

Source: Analysys Consulting
Bell revenues fall 12% from baseline case by 2008

- VoIP provider revenues approach $5 billion by 2008 with a 4% yearly drop in ARPU
- Bells lose $8 billion in revenue from both local and long distance services
- If VoIP users have 10% higher ARPU than average, Bell revenues would fall a further 10% by 2008

Source: Analysys Consulting
Possible defensive strategies of Bells

- Across the board reduction in rates
  - Cut in local and long distance rates leading to a 5% fall in ARPU
  - Would lower Bell Revenues another $2.3 billion by 2008
  - Would need to win back over 4 million lines from VoIP providers for this to break even (31% of all VoIP lines)

- Offering of own VoIP package to compete with other providers
  - Every customer retained is a win-back of roughly $30-40 per month
  - But every Bell customer who switches to Bell VoIP is a loss of up to $20 per month

Source: Analysys Consulting
Potential Bell Offensive Strategy

- Replace network with all IP network
  - Means of offering VoIP to existing customer without necessarily eroding ARPU but with cost savings
- Use new IP network to offer new services
  - Triple play or other value-added services
What will be the shape of revenues in the coming years?

Cost phase: VoIP drives down costs, which increases downward pressure on prices and revenues.

Service phase: VoIP enables new services, which increase revenues.