News & Views

IN BRIEF

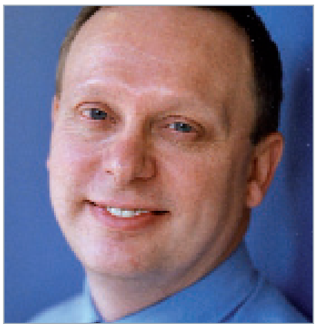
❑ **Pipex** has joined BT in setting up another hotline for dismissed Cable & Wireless customers in the UK. The company hopes to target SMEs looking for a smaller operator than BT which could be perceived as more sensitive to their needs.

❑ **Telstra Europe** has signed a deal to provide co-location services to international law firm, Denton Wilde Sapte. The firm will upgrade its disaster recovery solution with a Telstra Europe solution hosted in London's Docklands area. Denton Wilde Sapte has taken 82 sq m of co-location space at Telstra Europe's Docklands site and has the capacity to add further servers to its private suite as its data storage requirements evolve.

❑ **Interoute** has launched a corporate VoIP service that the company heralds as the first secure, enterprise-class alternative to VoIP services such as Skype. The Isip service provides free internet calls, free national fixed-line calls and reduced charges to mobiles and international calls over Interoute's Europe wide next-generation voice and data network. ■

Lucent and Alcatel in merger talks

The telecoms market has changed a lot in the five years since Lucent and Alcatel first sat down to discuss bringing the two companies together. Now the two companies have released a statement acknowledging that they are in talks to create a global player that would challenge Huawei's recent emergence as well as Cisco Systems strong market position.



Mike Cransfield,
research director, Ovum

Lucent and Alcatel are competing with Huawei which has a cost base that is a fraction of what they operate with. A merger would improve efficiency.

Mike Cansfield, research director at Ovum, said: "The competitive landscape is changing because of the rise of Huawei. The types of products that vendors are making can be duplicated for a fraction of the price in China. The broad trend in this industry, as in many, is that manufacturing is going to China. This is an industry that has historically had national champions, it is becoming a global industry now. There is a larger focus."

Cansfield said there was an overlap between what Lucent and Alcatel offer. "Instead of one vendor specialising in one aspect of the market equipment vendors tend to copy what other companies are doing. This makes vendors sub-optimal." Lucent holds a coveted position in the US market but doesn't have Alcatel's presence in broadband. Cansfield said: "Given the fact that they are talking tells me that they've accepted that the economics are compelling and now they are working out how it is going to get done. The devil is absolutely in the detail." ■

ALL IN THE TIMING

David Ballarini analyses Vonage's recent IPO filing and is left with more questions than answers about the company's long-term future

Analyst's Eye

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Vonage's February 8 announcement of its IPO filing warrants some introspective analysis. Vonage has far and away been the VoIP media darling longer than anyone. And with good reason; for better or for worse, Vonage has built a powerful brand and had long been the dominant residential VoIP provider.

But that was then, and this is now. Vonage probably had a much better chance of getting a multi-billion dollar valuation in the early days when it was truly disruptive – a wonderful example of how timing is everything in the volatile market for VoIP stocks.

Based on its filing, Vonage, has developed a proven, but unprofitable business model, and highly recognised brand, but unlike Skype, which spends an estimated $0.01 per user, is spending in excess of $210 to acquire each user. Vonage lost approximately $190 million in the nine months ended September 30 on less than $170 million in revenues. Over a year, ARPU declined 15% to $26.33. Not great trends.

Perhaps of greater importance is how market conditions have recently changed. The market is more competitive now than when Vonage started, mainly due to cablecos finally launching VoIP services. They have far greater resources than Vonage, and large customer bases and can bundle VoIP into some attractive packages. Vonage cannot presently match these bundles. That Vonage is no longer the market dominator – where for so long it could claim 50%+ market share – is cause for concern about its IPO valuation. And with AT&T now controlling Cingular and potentially the footprints of both Bellsouth and SBC, Callvantage will be positioned to become the VoIP competitor everyone thought it would be in 2004. AT&T now represents a threat to Vonage from an ILEC that is on par with the MSOs.

Another key factor is the regulatory climate, with two issues, E911 and net neutrality, acting as potential impediments to Vonage's growth. In addition there is last mile access, and the degree to which facilities-based providers are obligated to open up their networks to competitors. In all of these cases, the rulings have been generally favouring incumbents, which essentially raise barriers to entry.

It all adds up to more questions than answers. What are Vonage's growth options? How far can a $250 million IPO really carry it? Can a pure-play VoIP offering really compete long-term against the bundle? Might another exit strategy prevail prior to or shortly after the IPO? ■