

## **VOIP: Competitive and Operating Consideration**

**By Nicole E. Paolini**

Last month we looked at the regulatory framework – or lack thereof – for VoIP over cable. With the current regulatory uncertainty, why should you get in the VoIP game? Because many independent cable operators will soon face heavy competition from the Regional Bell Companies (“RBOCs”) and rural telcos for the triple play – voice, video and data.

**New entrants in the video market.** All four RBOCs already resell DBS service, and recent FCC orders on fiber-to-the-curb and fiber-to-the-home have encouraged RBOCs to sink billions of dollars into fiber build-outs to enter the video market as full-fledged, facilities-based competitors. The RBOCs will begin launching video services this year.

Taking advantage of the hundreds of millions of dollars available through USDA loans and loan guarantees for broadband facilities, many rural telcos are also planning to enter the video-over-IP market.

**How are cable operators competing?** Cable operators are strengthening their competitive position by offering VoIP. There are three basic approaches to offering VoIP services: DIY, turnkey solutions and marketing agreements. Because of interconnection, back-office, and potential regulatory challenges, DIY is not a feasible option for many cable operators. We discuss the pros and cons of turnkey solutions and marketing agreements below.

**Turnkey VoIP solutions.** A growing number of providers offer turnkey VoIP solutions, including Net2Phone, Level 3 and Sprint. Mediacom and USA Companies are two independent cable operators who have paired with turnkey providers to offer VoIP. A turnkey partner gets you to the market quickly, takes care of back office functions, and saves you the expense of building telecom infrastructure. These advantages come at a price however. The major turnkey providers get a per-order fee of \$11-\$15 per customer, and require a revenue share of around 50%-75%.

Turnkey VoIP agreements may contain other traps for the unwary. Are there minimum volume commitments? What kind of service level guarantees does your potential partner offer? What kind of support services does it offer? Will you need to spend big dollars to reconfigure your system to use the service? Does the provider offer any “killer-apps”? Does the provider let you go somewhere else for advanced applications, or does it require exclusivity? Is the provider interconnected locally so that it can provide your customers with a local phone number, or will your customers have to take an out-of-town number? These and other questions must be examined before entering the market with a turnkey partner.

**Marketing agreements.** Comcast, Time Warner, Cox, Charter and Mediacom have all entered into agreements with AT&T to jointly market its CallVantage VoIP service. Marketing agreements are a quick way to enter the market. They can drive broadband sales and alleviate any service burdens. On the other hand, you have no flexibility to determine or differentiate your services, and they can also cannibalize any VoIP services that you decide to offer in the future.

**Upshot.** VoIP can give you the competitive edge you need against other triple play providers, but turnkey and marketing agreements can be full of traps for the unwary. Make sure that you understand how your deal works both financially and operationally.

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