COMPETITION

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CABLE'S OTHER FRONT IN THE TELCO WARS

BY GRABBING THE TELCOS' SMALL AND MID-SIZE BUSINESS CUSTOMERS, CABLE CAN ENHANCE ITS REVENUE AND DISRUPT A FAVORITE TELCO SUBSIDY.

An obvious reason for cable to go after the small to midsize business (SMB) commercial market is that there's lots of money there. By some estimates, SMBs account for more than $80 billion in annual spending on telecom equipment and services in the U.S. There is also another less obvious attraction to that market: Going after it enables MSOs to undercut the telcos' ability to subsidize their residential services.

SMBs—defined variously as having between five and up to 300, 500 or 999 employees—typically pay more than residential users for similar services (see table). This disparity is justified in part by SMBs' higher customer support costs and more intensive usage, but it is also a remnant of a long-standing bargain between telco monopolies and state regulators that has kept residential rates affordable through subsidies from business users. Now that competition has substantially replaced regulation in reducing rates for residential telecoms services, the subsidy from business users serves the telcos' competitive interests rather than helping to achieve public policy objectives.

SMBs lack the negotiating leverage of large enterprises and historically have been captive to the telcos. Understandably, as a result, their share of the subsidy burden is disproportionately high. This provides fertile ground for a new facilities-based provider such as cable, especially in locations where cable plant operates in the vicinity of potential SMB customers.

Recognizing this opportunity, major cable operators have formed dedicated organizations to develop and market products tailored for SMB telecom needs and to provide the necessary level of customer support. While some MSOs are further along than others in defining products for commercial customers, it's timely that this market segment has caught their attention. Cable operators, which are facilities-based and have a dominant residential base, can serve this market segment profitably, unlike the CLECs, which were fatally dependent on reselling unbundled telco network elements.

The telco subsidy swamp can be drained to the extent that SMB spending is diverted to cable, and even more so once telcos respond to competitive pressure by reducing their rates to SMBs and investing more in SMB customer support. Thus cable will benefit twice from the growth of its commercial business: first by increasing top-line revenue; second, by limiting resources otherwise used by telcos to compete for cable's core residential customers. ■■■

Verizon Rates (Massachusetts, as of September 2006)

	Residential ($/month)	Business ($/month)	Business Price Premium
Local Phone Line:			
Measured Rate	$12.70	$17.25	36%
DSL:			
768kbps/128kbps	$14.95	$24.95	67%
3Mbps/768kbps	$29.99	$39.95	33%
FiOS:			
5Mbps/2Mbps	$34.95	$39.95	14%
15Mbps/2Mbps	$44.95	$59.95	33%

Source: Verizon