Having Your Cake And Eating It Too

Michael Weingarten

For small offices, DSL's appeal is much more about lowering your costs, not getting more bandwidth.

The other day, my wife asked me to look at the Bell Atlantic phone bill she receives for her small office/home office (SOHO) connections. My instructions were to:

1. Understand the #&*@#! bill.

2. Figure out why it was so high—a total of $222.25 for local service for four phone lines; her long distance bill, which is much larger than this, is billed directly by the IXC.

3. Figure out how to make it lower.

As a frequent contributor to *BCR* and as the 50/50 bottom-line recipient of any savings, I thought this was the least I could do.

Surprise Surprise

For my wife's four phone lines, she paid $99.76 total in basic monthly fees and $12 in enhanced basic fees for a total of $27.94 per line (Figure 1). There also was a total of $5.23 in intraLATA toll charges. So far so good.

But on top of this, she paid a total of $89.32 in local usage fees. That's because Bell Atlantic charges business customers 2.8 cents for each local call, plus 1.6 cents for each minute of use (MOU), with slightly higher charges for local calls outside the immediate area (call them semi-intraLATA). In this particular bill, she had 655 local calls and 5,055 minutes of use (at 7.7 minutes per call), which generated the fees. There also is a 10 percent "Business Link" rebate credit, and a total 8 percent federal/state tax.

Most of my wife's voice calls tend to be long distance, so the amount of local calling couldn't be more than perhaps 100 calls and perhaps 400 MOUs. However we were shocked to find that the vast majority of her local calls were switched dialup calls to her Internet service provider. We had been working on the assumption that my wife was paying a flat $19.95 per month for switched dialup ISP service with unlimited usage. We weren't thinking about the possibility that for business lines, telephone usage fees could be three to four times the ISP charge. (That's why it always pays to check your phone bill closely.)

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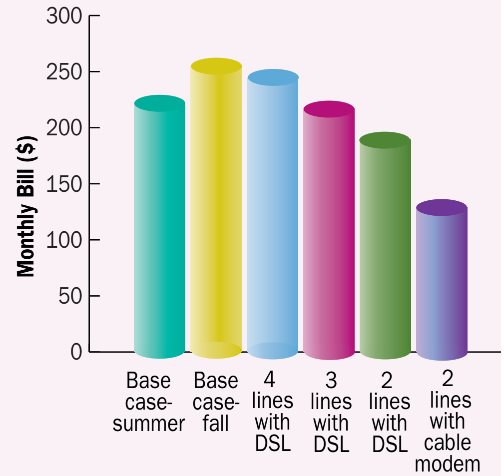
FIGURE 1 Summary: Total Monthly Bill By Case



And the bill, which was for the period from July 19 to Aug. 18, could have been worse. This, after all, was during the summer. My wife was out of the office for six out of the 23 working days of the bill, so she only ran up charges for 17 days. In the fall, assuming that she wouldn't be taking off any vacation time, the overall local usage bill could go up 35 percent, to $120.58. Of this, the Internet dialup portion would come to $109.25.

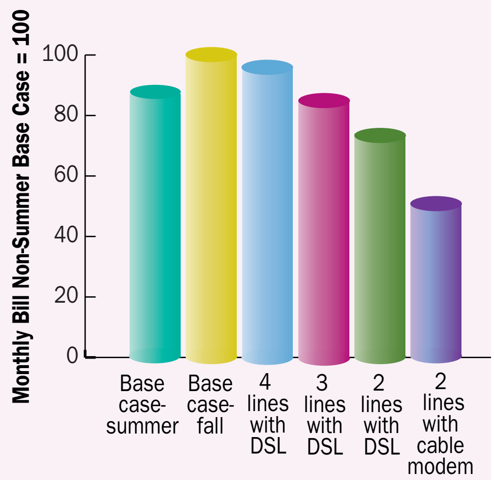
Some Implications

My wife's connectivity costs suggest some important implications for the broader SOHO access market, specifically relating to the benefits of converting to DSL or cable modems. The conventional wisdom about DSL/cable modem is that they cost more than switched dialup, but you get a lot more functionality. In this case—and in many like it—the truth is just the opposite: The reason for upgrading connections is to save money while running the same applications. The new technology doesn't just multiply the user's bandwidth by orders of magnitude; there's a significant cost element as well, by eliminating telco usage fees on business lines.

To see just how much can be saved, let's return to our Bell Atlantic case. For business customers, they charge $99.95 for a 90 kbps uplink/1.6 Mbps downlink DSL line with no usage fee. Ahah! So my wife can dramatically upgrade her Internet functionality *and* actually save $10 per month

A small office/home office's main concern is saving money—not spending it

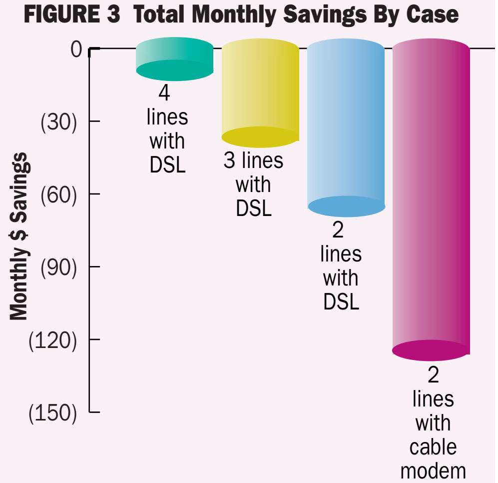
FIGURE 2 Summary: Total Monthly Bill (Indexed)



(Figures 2 and 3). And she could save even more if she decides to jettison one or two of her four phone lines (she has two lines dedicated to modem calls; with DSL, we could order one DSL line and hook up a router to allow multiple Internet DSL connections). With this arrangement, she could book a total savings of $38–66 per month. (Since her business is growing, she won't in fact drop the lines, but she also won't have to get more lines right away as the business expands.)

Even better, we have a cable modem option. RCN, a CLEC that wires large apartment buildings and provides telephony, CATV and cable modem service, is installing coax in our building. That opens up another scenario: Keep two phone lines from Bell Atlantic, get rid of the two lines used for ISP dialup, and obtain cable modem service from RCN for $39.95. With that setup, we could save $126 per month. And if she cuts out her Internet service provider and goes only with RCN's service, take off an additional $20 (she probably won't, since she needs dialup access when she is out of the office).

FIGURE 3 Total Monthly Savings By Case



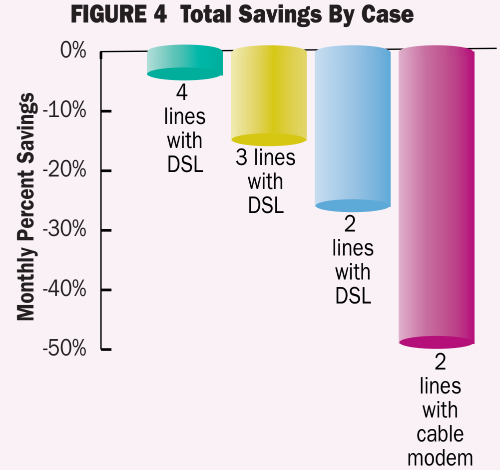
By the way, a service that I haven't seen anywhere but which makes sense is for a cable modem/DSL provider to sell ancillary switched dialup for $5–10 a month to their broadband subscribers, who would use the dialup service from the road. This can be justified economically on the basis that the ISP would experience much lower-than-normal switched dialup peakload usage, so it can provision this service with far more than the usual 10–15 subscribers per modem.

Conclusion

A lot of people are focusing on the SOHO market, and they assume rapid increases in the number of business lines sold, with constant average revenue per line. However, the above example suggests that this won't happen.

Assuming that my wife stays with Bell Atlantic for DSL service and removes two phone lines, her monthly bill for a non-vacation month will drop by as much as $66, or 26 percent versus the $222.25 she is now paying (Figure 4). If Bell Atlantic loses her business to cable modem, along with a loss of two phone lines, the RBOC is out 49 percent of her monthly charges. And if she signs up with RCN for local telephony service, Bell Atlantic loses 100 percent.

FIGURE 4 Total Savings By Case



Given all this, we should be thinking about DSL/cable modem services as SOHO cost reductions, not simply as value-added services. Service providers tend to stress the need for value-added services, but a small office/home office's main concern is saving money, not spending it. What my wife (and many other SOHOs) want at the moment is a fat dumb pipe with a reasonable flat rate per month.

If we're talking value-added services, an offer that would get her attention would be adding four to six voice lines over DSL (a variant of which Covad, Northpoint, Rhythms and others are working on), with low marginal cost for each voice line versus what she pays Bell Atlantic—because the net result is a cost savings. Anyone trying to sell her something else has to deliver a clear benefit□