

Who Will Own the Pipe?

By Arthur Middleton Hughes

AT&T and Verizon are losing 3 percent to 5 percent of their landline customers every year.

In 2005 Verizon had 50.7 million business and residential phone lines -- plain old telephone service or POTS -- down 5.5 percent from the same time in 2004. Where are these customers going? Some people with cell phones are discontinuing their land line phones. Others are going to telephone service provided by cable companies like Comcast. Still others are shifting to Vonage or Skype. Is this a problem for the phone companies?

The situation is not as bad as you might think. Look at the chart below from the Verizon annual report for 2005:

Verizon 2005	Customer		Revenue Per	
	Connections	Revenue	Connection	ARPU
Domestic Telecom	53,700,000	\$37,600,000,000	\$700.19	\$58.35
Verizon Wireless	51,300,000	\$32,300,000,000	\$629.63	\$52.47

Verizon, of course, also owns Verizon Wireless. The revenue from the average wireless customer is almost the same as that from the average POTS customer. So when a customer goes from paying \$700.19 per year to paying \$629.63 per year, who is going to cry about that?

Of course, not all of Verizon defectors go to Verizon Wireless. Some go to Cingular or Sprint or T-Mobile. And others will go to Comcast or elsewhere. But the revenue from those who do go to Verizon Wireless is enough that, in the end, Verizon probably comes out even. Besides, as good marketers, Verizon can figure out where their defectors have gone. If they have a Verizon wireless phone, don't worry about it. If they don't, make them a special offer to get them back. This is a no-brainer. Or is it?

Verizon and AT&T have to look ahead. Owning the pipe into a home is an advantage. What is over the horizon is the "Triple Play". This is the phrase for the three services: telephone, broadband and television that are now, or soon will be, offered by telephone companies and by cable TV companies. Comcast and other cable giants have long been offering the triple play. The triple play is advantageous because by selling three services at once, you get more revenue and are more likely to keep the customer. The phone companies are not far behind.

Last year, AT&T made its U-verse TV service commercially available to 5,000 consumers in San Antonio. By the end of this year AT&T plans to offer TV in 20 to 30 markets throughout the United States. Moreover, AT&T plans to spend \$4.6 billion to bring TV and high speed broadband to 19 million homes by 2008. This service, as announced, will include 200 channels, video-on-demand, three set-top boxes, HDTV, a

digital video recorder, and an interactive program guide. These services appear to be more than many cable TV companies are offering for a comparable price.

True video-on-demand (VOD) can be a far better service than pay-per-view, which has traditionally been offered by cable TV companies. Pay-per-view offers a dozen or so movies that begin at half hour intervals. Advanced VOD offers service that starts whenever you want it, and can be stopped, rewound, replayed or fast forwarded at any time, since it is based on Internet Protocol TV (IPTV).

Whoever is able to sell the triple play to a consumer at a bundled price will probably have that consumer for a long time. And that is where phone companies losing the pipe into a customer's home becomes a problem. If you have only a cell phone in your home, buying the triple play from a phone company may involve stringing a new cable to your house, and possibly rewiring it. Someone is going to have to pay those extra costs. You may end up getting your triple play from the cable TV folks.

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