



## Voicing optimism; VoIP supporters see migration to future technology despite economic slump.

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You can't keep a good idea down, and according to its supporters, packetized voice - more specifically, voice-over-IP (VoIP) - is a good idea even in an economic downturn.

"We do have customers today who are rolling out commercially available services, making money on it and really showing what you can do with these kinds of platforms," said Laura Thompson, vice president of corporate marketing and channels for softswitch maker Sylanro Systems. "They're showing what the softswitch excitement was all about in the beginning."

A VoIP market survey commissioned last fall indicated small to medium-sized commercial customers would be willing to move to IP.

"There's a big opportunity to displace in-house phone systems. One of the things we heard in the focus groups was a lot of complaining about the trouble people have managing phone systems. There's a lot of angst there," Thompson said.

'Whether it's an [interexchange carrier] or an ILEC, long-term [the incumbents] have to go to IP.'

- Rob Ennis, Tekelec

She emphasized that Sylanro's target market is not the residential user or the giant corporate campus. Sylanro targets businesses with six to 50 employees, 90% of which have some type of in-house phone system that could be switched to an IP model provided by an outside service provider.

"There's an interesting window in time for service providers to come to the market with a service-based alternative to these in-house phone systems," Thompson said. "About 60% of the people [in the survey] said they would be willing to outsource."

She added that the small business market opportunity is "not about migrating people from Centrex, it's more about replacing the need for in-house phone systems today."

Considering Sylanro's corporate agenda, the survey results might seem skewed. However, the results don't indicate that consumers are rushing out to buy new phone services but rather that they will migrate to IP on an as-needed basis. The survey is logical and unbiased, said Joe Gagan, an analyst with The Yankee Group.

Though some users will remain conservative, he said, "The Yankee Group is bullish about companies in this area, especially companies that offer the levels of enhancement and functionality and features that Sylanro has. It's really giving you more advanced features and functionality...for your dollar spent."

Cisco Systems sees similar possibilities - but on a much grander scale. The networking giant has a suite of IP phone products aimed at giant corporations that can use Cisco's networking and customer premises technology.

The goal is to offer centralized call processing and applications at a regional or corporate headquarters and use that connection to feed satellite offices, explained Hank Lambert, Cisco's director of enterprise voice and video.

"You don't have to buy as many servers, it doesn't cost as much to administer these systems and you get productivity enhancements because all the users get access to all of the features that are available in the applications and call processing from the regional and corporate headquarters," Lambert said.

Cisco uses IP phones, some with large displays, to add Internet-like capabilities. Even better, Lambert said, the phones can be personalized on the fly. This melds nicely with the move toward a roving employee base that spends only part of its time in an office environment.

"Because our IP phones are really computers on a data network, it's very easy for us to be able to let users walk up and log on in a way similar to what you would do with a computer terminal," Lambert said. "It becomes your phone. When you place calls, the called party will see your call and name display."

On a less grandiose scale - although no less lucrative - Tollbridge Technologies is taking aim at the residential base.

"In the broadband access world in general, the concept is to start by supporting the existing installed base of telephones," said Kevin Woods, Tollbridge's product marketing vice president. "Then, with new subscribers over time, you can add the special phone appliances like the Cisco phones."

Tollbridge is coming at this from a completely different angle, he said, adding "Cisco and [Tollbridge] are going to end up in the same place one of these days."

That's because Cisco's campus network is end-to-end IP and contained within the corporate structure, while Tollbridge mixes pieces of the wider switched network with a local IP network that feeds the consumer home. Broadband service providers looking to upgrade or update their existing hard-wired services would migrate to this architecture, Woods said.

"If you're an existing provider and you have access to a logical or physical wire that goes to a potential subscriber... all the numbers work out really well," he said.

Brian McCormack, senior product manager for Mapletree Networks, is another VoIP believer, but he thinks the U.S. market may be a little farther off than other players predict. Mapletree's current market is a world away - in Asia, to be specific.

"They don't have a lot of infrastructure. They're in the mode of really building out," McCormack said.

China's not the only place, said Scott St. Clair, vice president of communications for NetSpeak. There's a demand for IP anywhere wires have gotten too old or have never been put into place.

"It's in China, Latin America, Europe. You have much less developed infrastructures," he said. "There's no drive in the U.S. for IP telephony because it's too expensive to offer local access services because you have to do broadband local loop to do that."

Not quite, said McCormack.

"The big thing to think about is the cost. If you're looking at a Class 5 switch, those are in the millions of dollars range. If you're looking at a strictly IP switch, your cost factor is probably 10% of that," he said. "The other thing is they can add more features."

Adding features is an attractive part of IP telephony, which has drawn the attention of an unexpected U.S.-based audience: the RBOCs.

"The RBOCs... won the game [over the competitive local exchange carriers]," said Krishna Yarlagadda, president and CEO of software maker HelloSoft. "They're really going to packetized voice because one of the ways to get more revenue is to add more services." Not only will it offer incumbent local exchange carriers (ILECs) and ISPs new revenue opportunities, he added, but "packetized voice is going to give them huge margins."

David Greenblatt, president and chief operating officer of Adir Technologies, agrees that "there is definitely pressure on the ILECs now to do it. If you're putting in large fiber today, you're putting in IP. No one's going to put in circuit-switched fiber."

Greenblatt follows Sylvania's belief that IP is a migration, not a change-out.

"The evolution is two to four years, but the process has already started. You'll see large telcos testing new kinds of services around the world," he said.

That kind of time frame gives the heebie jeebies to companies that don't have the money to hang around that long - or longer - especially if the ILECs drag their feet because they have no real competition.

"Whether it's an [interexchange carrier] or an ILEC, long-term [the incumbents] have to go to IP," said Rob Ennis, Tekelec's director of packet telephony. "They realize there are economies that they can benefit from once they go to IP. They're just very conservative, slow to move."

Meanwhile, the ILECs' incentive is gone.

"The pressure from the CLECs is off," Ennis said. "They're going to move, it just takes a while."

Some companies don't have "a while," although all will give it a last-gasp try.

"The market climate relative to a year ago is tougher, more challenging," said Kathleen Meier, marketing vice president of VocalData. "You just have to be more selective and make your bets clearer on [which] customers [and] what service providers have the right vision, enough money and the right savvy to win in this game. This isn't just about softswitches, this is about [building] operations and game plans and marketing plans to win."

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