



NEW PARADIGM RESOURCES

CLEC 2.0: Looking Ahead to 2009

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Today's competitive carrier sector is markedly different than the CLEC sector immediately following the 1996 Act. The new generation of CLECs offers a sophisticated range of highly competitive services customers of all sizes, and it does so with more fiscal discipline and greater market presence. As a result, incumbent carriers are increasingly feeling competitive pressures in both specific geographic markets as well as with specific customer segments and product lines.

In many respects, CLECs have always been pressured to extend their commercial service reach beyond the SMB space. While shifting to an IAS strategy may have given them a temporary reprieve from the eroding margins of UNE-P offerings, many competitive carriers are recognizing that even this market space is becoming saturated.

CLECs are now focusing their efforts on solidifying their SMB customer base by either up-selling their lower margin UNE-P customers to their proprietary IAS offerings, or by removing them from their customer base altogether. In addition, there are some early indications that the CLECs are further sub-segmenting their SMB customers into two separate groupings – one emphasizing IAS products and the other emphasizing lower bandwidth Ethernet offerings.

However, in order for CLECs to gain an edge over the ILECs and cable MSOs in these expanded segments, they need to more fully exploit any advantages they have with regards to their network presence or their advanced network technologies. Competitive carriers who have invested heavily in transitioning to an all-IP network need to now leverage this lead by developing a wider service portfolio with an emphasis on higher-end SMBs as well as larger enterprise and wholesale customers.

And all indications show that this is exactly what the CLECs are doing right now.

Among other things, the CLEC strategy for 2009 and beyond must include the addition or expansion of metro Ethernet services. It must also incorporate wholesale special access solutions for the growing number of cellular backhaul customers and independent VoIP providers. All these areas represent higher-margin markets which could go a long way in enabling the CLECs to carve out a profitable business niche completely independent of the ILEC networks.

CLECs of today no longer operate with the intentions of transforming themselves into "mini-ILECs" offering the same, albeit cheaper, suite of products. While many CLECs still struggle with issues of debt and profitability, these burdens are somewhat ameliorated by their ability to provide state-of-the-art products that satisfy the enormous demand of both small and large business customers. With newer capabilities that allow for applications such as wide area networks, file and application sharing, web conferencing, and VoIP, CLECs are slowly but steadily making inroads into areas that were traditionally ILEC markets.

Nevertheless, it must be emphasized that advanced technology platforms only represent a better means of delivering products – they are not products themselves. And while the CLECs may

have advantages in certain markets with regards to their technology platform, they cannot rely on this alone as a tool for generating revenue.

Indeed, this is a lesson that most of the surviving CLECs seemed to have internalized. While the CLECs themselves are quick to highlight their advanced IP-based networks, they now focus their marketing and sales efforts primarily on emphasizing bandwidth capabilities and promoting superior customer service. And in the end, this is what really matters to end users.
