Tell the naysayers to go home.
CLECs, particularly facilities-based, are blossoming. Network growth persists, and competitive service options are expanding.

In the last three years, CLEC have transformed from alternative local transport companies into competitive access providers, and then, as regulatory restrictions eased, into CLEC. Today, the industry is morphing again as companies become integrated communications services providers.

Data reflecting the size, reach and scope of the industry, magnitude of network assets, and the facilities to attract capital and revenue prove the industry’s success. When alternative local transport providers emerged in 1988, there were two companies: MFS and Teleport. Today, more than 160 companies operate as facilities-based CLEC. Despite a rash of mergers and acquisitions, the number of new entrants has risen progressively. In the past two years, the number of competitive carriers has grown nearly fourfold.

As the number of competitors multiplies, the areas covered also multiply. In 1996, CLEC operated in 303 U.S. markets, primarily in Tier 1 and Tier 3 cities. Business customers in large population centers had multiple service options, while smaller cities and rural areas were disregarded. Currently, CLEC serve customers in 566 U.S. markets. While Tier 1 and 2 cities still compose the bulk of the areas covered, CLEC are extending their reach to an increasing number of Tier 3 and Tier 4 cities.

**Building Network Assets**

CLEC network assets translate to improved margins and more control over installation intervals, Quality of Service and customer relationships. Although resale is still used as an entry strategy by many CLEC, insufficient margins have pushed more carriers into purchasing facilities.

From the end of 1997 through 1999, growth rates in network assets are as follows:

- Route miles, 47%;
- Voice switches, 87%;
- Data switches, 164%; and
- Access lines, 250%.

While the growth in installed fiber and switches is notable, the increase in access lines is even more significant, as it translates directly into CLEC revenue.

Competition for capital to build networks has prompted many to use a “smart build” strategy, in which capital expenditures are more closely timed and tied to revenue generation. This strategy seems to have worked; from April 1996 through January 1999, the CLEC sector raised $6.1 billion in debt and $3.1 billion in equity.

**Revenue Has More Than Doubled**

Revenue growth is the most important part of any long-term strategy for profitability. Overall revenue growth for CLEC has been explosive, and has more than doubled in the past two years. The rate of growth has accelerated since 1996.

An important development is the percentage of revenue generated by each service segment. At the beginning, CLEC were largely limited to offering competitive local access and private line services. Consequently, revenues were derived almost solely from these sources. While able to provide long distance, most CLEC declined to compete with their own best customers, the interexchange carriers. That philosophy has changed.

Regulations that opened the local service market slowed the growth of private line and dedicated access service revenues, while switched services revenues multiplied. As more consumers demand larger bandwidth and less expensive local access, a larger revenue portion comes from integrated services and network edge products.

Many CLEC are no longer small-time players. Eleven percent, or 17 of the 160 facility-based competitive carriers, reached 1998 revenues of more than $100 million; 27 CLEC, or 17%, earned between $10 million and $100 million during that time.

**The Market’s Expanding**

There are many signs of health. Competitors are maturing, broadening their scope and reaching into new territories. CLEC are moving closer to profitability as they nail down capital and begin to reap benefits from their investments in network assets. Carriers are acquiring more customers and diversifying their revenue streams as they capitalize on new service segment opportunities.

Our forecasts predict that in 1999 the CLEC industry will, for the first time, realize a dollar in revenue for every dollar of invested capital.

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