

Maximize Profitability by Marketing Most Profitable Services

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Presenter



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WHEN WORLDS COLLIDE
**Accounting versus
Marketing**



Two Very Different Perspectives

The Marketing Type says:

Wow, look how beautiful it is out there, let's go for a walk in the sunshine.

What's the biggest ad we can run in this magazine for the money we have?

The business isn't doing too well lately; we should dump big dollars into a huge advertising campaign.

This new product is going to open entire new markets to us!

Oh boy, it's the office softball game tonight.

Hey, we've got \$100,000 left over that we haven't spent yet, let's spend it on something or accounting will never give us the money when we do need it.

Happy New Year!

In business you need to spend money to make money.

The Accounting Type says:

Is this project on budget?

That expense cannot be recorded in this fiscal year, it must accrued into last fiscal year to match it to the recognized revenue.

The Accounting Type says:

Hey, close the blinds, I can't see my spreadsheet.

What's the smallest size ad we can run and still keep marketing quiet?

The business isn't doing too well lately. We need to layoff the whole marketing department.

This new product is going to mean an entirely new note to the financial statements!

Oh boy, it's month end close off tonight.

Hey, we've got \$100,000 left over that we haven't spent yet — hide it from marketing.

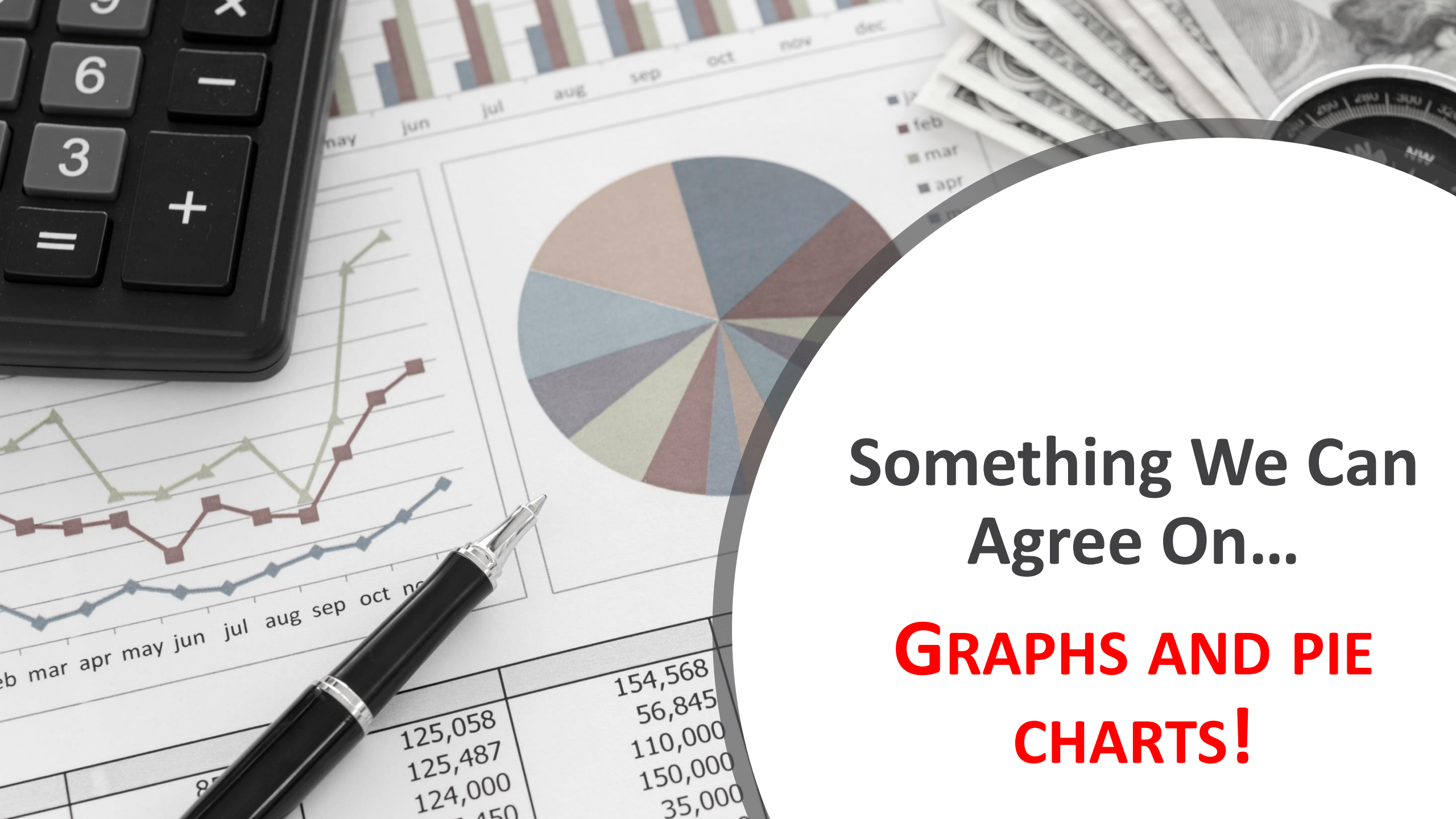
It's December 31st, let's get a head start on the year-end working papers.

Actually accounting types don't say anything; they're speechless when you talk that way.

The Marketing Type says:

You mean there's a budget?

Huh?



**Something We Can
Agree On...**

**GRAPHS AND PIE
CHARTS!**

125,058	154,568
125,487	56,845
124,000	110,000
150	150,000
	35,000



Strategy

HARNESSING THE POWER OF MARKETING AND ACCOUNTING

WHEN MARKETING
AND ACCOUNTING
WORK TOGETHER

**It leads to a clear
path to success**





**Are you marketing
based on
most popular services or
most profitable services?**



92% services did not match most popular with most profitable

77% services did not match even 2nd most popular

Also, 77% did not match even 3rd most popular



Costs of Providing Typical Telecom Services

Loop

Network

Equipment

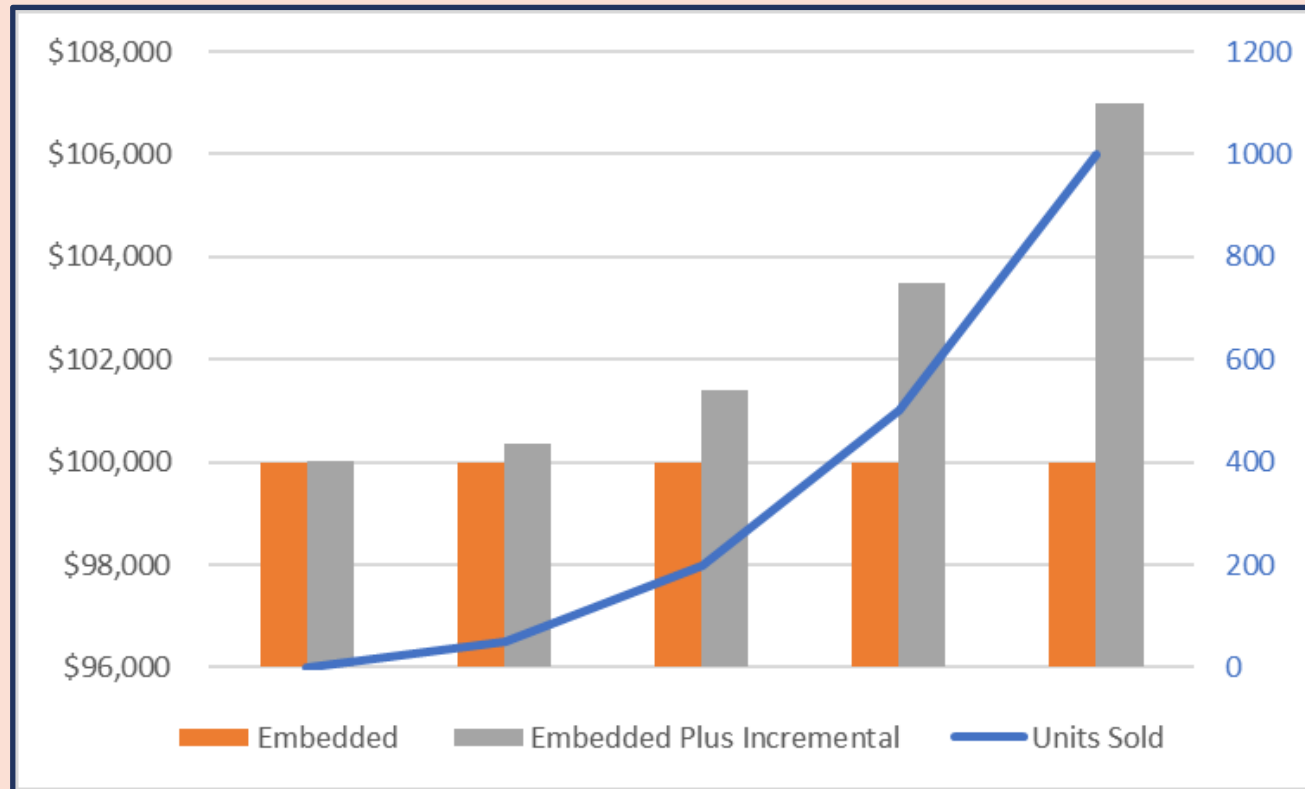
Technical

Service Support

Administration

General Support

Incremental or Embedded



- Embedded
 - Fiber
 - Electronics
- Incremental
 - EU Equipment
 - Customer Service
 - Licenses
 - Bandwidth, for example

Service-Specific Costs – Broadband

- Bandwidth
- Transport
- Equipment

- Allocations to each service tier for comparison to monthly EU charges

Service-Specific Costs – Voice

- Equipment
 - Local
 - Long Distance
 - HPBX
-
- Allocations to for comparison to monthly EU charges



Service-Specific Costs – Video

- Programming Charges
 - Group agreements
 - Direct agreements
- Customer Service
- Truck Rolls
- Equipment



Video Options

- Transition EU charges to be profitable
 - Potential changes to line-ups
- Streaming options
 - NCTC options
 - TiVo
 - Vendor options
- No alternative provided – force EUs to turn to streaming providers
 - EU considerations (elderly population, etc.)

Video Option: Transition to OTT

- Notifications
 - NCTC(?) notification
 - Direct agreement notifications
 - EU notifications

Video Option: Transition to OTT

FCC Online COALS

- Log in to see what will need to be done, but probably too early now
 - Will need to deactivate CUIDs and PSIDs (communities and systems)

IUB

- Statewide video franchise, or local?
- Letter to IUB letting them know discontinuing video service and terminating video certificate with an effective date

City – Mayor (Courtesy – Common PR)

- Courtesy letter so city is aware

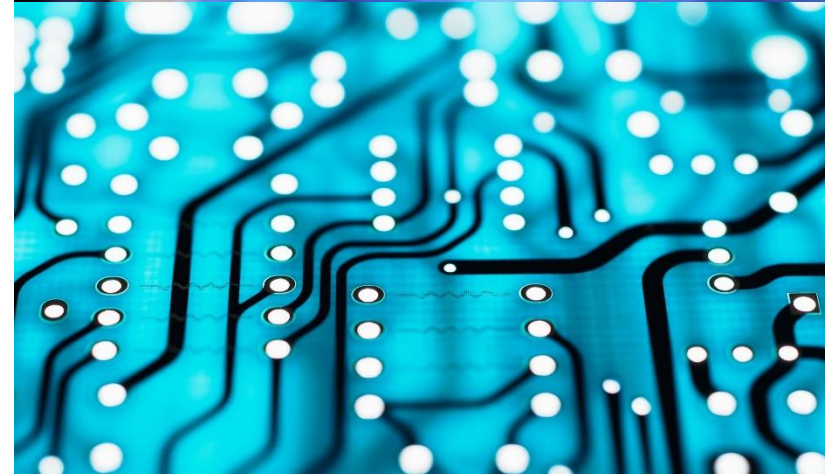
Aureon - Circuits

- Give notice to turn down

Service-Specific Costs

- Ancillary Services

- Special Access, Lit Services, and/or Dark Fiber
- Security & Monitoring services
- Other services





Other Considerations

Other Pricing Considerations

- Know your competition in or near service area
 - Fiber, DSL, cable, fixed wireless, wireless, satellite
 - Know their market tactics
 - Additional charges & fees
 - Promo pricing
 - New customer pricing
- Current Pricing and Subscribership
 - Pricing updates may need transition periods

Other Pricing Considerations (Cont'd)

- Regulations
 - ILEC/CLEC/competitive areas have different regulations & recovery
 - SLCs/ARCs
 - FUSC
 - Tariffs/Price Guides

Broadband Affordability

- “Affordability” has various definitions and estimates
 - Differences based on level of service and service areas
- U.S. FCC Reasonable Comparability Benchmark
 - Used to ensure providers offer at least one broadband offering that meets benchmark
 - Comparability is applied from urban areas with lower costs of service to rural areas with higher costs

FCC Reasonable Comparability Benchmarks

Download Bandwidth (Mbps)	Upload Bandwidth (Mbps)	Capacity Allowance (GB/mo)	2022 U.S. Benchmark	2022 AK Benchmark
100	20	500	\$100.74	\$147.18
100	20	Unlimited	\$105.67	\$156.79
50	5	500	\$77.96	\$126.85
50	5	Unlimited	\$82.96	\$136.53
25	3	500	\$71.09	\$121.63
25	3	Unlimited	\$75.93	\$131.16

Download Speed (Mb/Sec)	100	Download Speed (Mb/Sec)	100
Upload Speed (Mb/Sec)	100	Upload Speed (Mb/Sec)	100
Usage Allowance (GB)	unlimited	Usage Allowance (GB)	unlimited
US Benchmark Rate	\$96.47	AK Benchmark Rate	\$147.58

What Other Assets are Marketable?

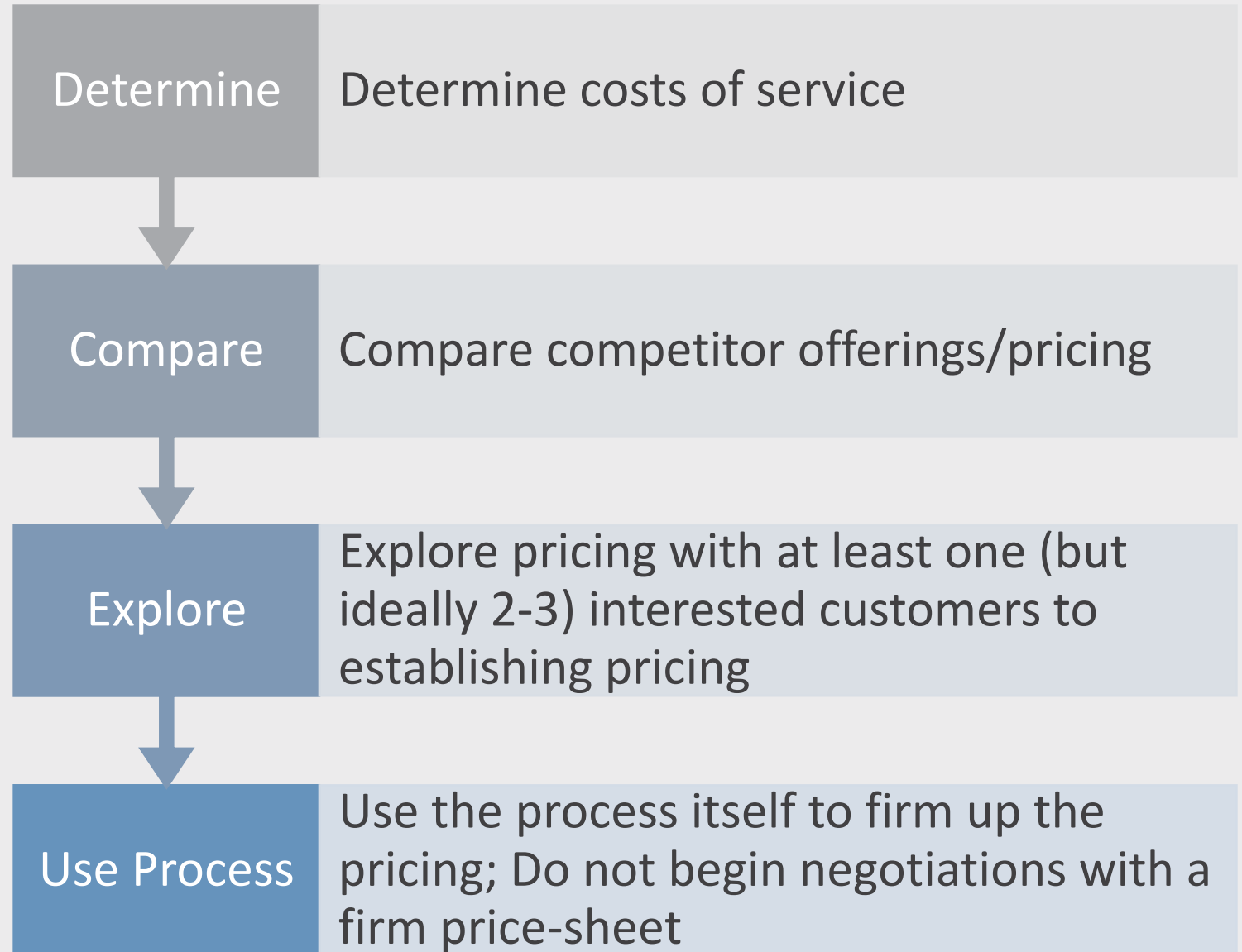
Fiber Network –
Extra Capacity

DWDM Network –
Lease Wavelengths

Carrier Ethernet –
Lit Ethernet Services

Rack Space,
Power, Co-
location

Lease Rate Development Process



Lit Services

	ETS-CT Rates		
	Low	Avg	High
NECA Tariff #5	\$ 55	\$ 625	\$ 11,680
NECA Tariff #6	\$ 210	\$ 400	\$ 560
Other FCC filed tariffs	\$ 55	\$ 270	\$ 850
	ETS-BP Rates		
	Low	Avg	High
NECA Tariff #5	\$ 30	\$ 335	\$ 6,265
NECA Tariff #6	\$ 400	\$ 735	\$ 1,045
Other FCC filed tariffs	\$ 70	\$ 310	\$ 980

- ETS
 - Rate variables include agreement term commitments, tariffed or non-tariffed provider, etc.
- Pricing differences within/among tariffs
 - Comparison of 1 Gbps rate elements>
- Non-tariffed pricing can be up to 50%
- NRCs \$500-\$2,000

Dark Fiber Services

Pricing varies widely

- Timing
- Construction Costs
- Geography
- Competition
- Fiber availability in the area

Little market transparency

Dark Fiber Considerations

- If not already in place, will provider or customer be responsible for costs to connect between customer and existing facilities?
- Additional costs:
 - Co-location
 - Rack space
 - Splicing
 - Make-ready
 - Administrative costs

Dark Fiber Pricing Structures

- Most common: Charge per month/year
 - Based on construction and maintenance costs
 - Compared against competition
 - Typically 3-10 years
 - Renewal terms
 - Price review or cost of service/inflationary adjustment
 - Term Discounts
 - 10%-30% for 3-10 yr agreements
 - Stringent SLAs drive prices higher

Pricing Structure Examples

- Agreements between “friendlies”
- Arms-length transactions and IRUs
- Highest rates came from RBOCs or areas with difficult terrain

Rate Type	Per Fiber pair/mile/mo.
Rural	\$
Urban, High Demand, or Entirely in Town	\$\$

Other Considerations



Remember that leased fibers on only one or few network segments may make corresponding fibers on the rest of the network less useful



Cost Study
Considerations

Agreement Considerations

Fiber Construction Phase

Colocation, Power, Rack

Who Performs Maintenance/Splicing

- Insurance considerations
- Limitation of Liability

Potential Attachments

- SLAs
- Maintenance/Performance Standards
- Network/Equipment Ownership

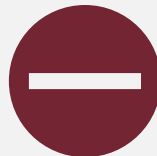
Additional Agreement Considerations



Liens (specifically in IRU scenarios)



Tax Considerations



Non-compete



Finding Opportunities

Proactive & Passive Strategies

Talk to your neighbors

- Telcos
- RECs
- Wireless Backhaul

VPS Network Alliance

VPS Network Alliance: Power in Partnership

Transport Buyers

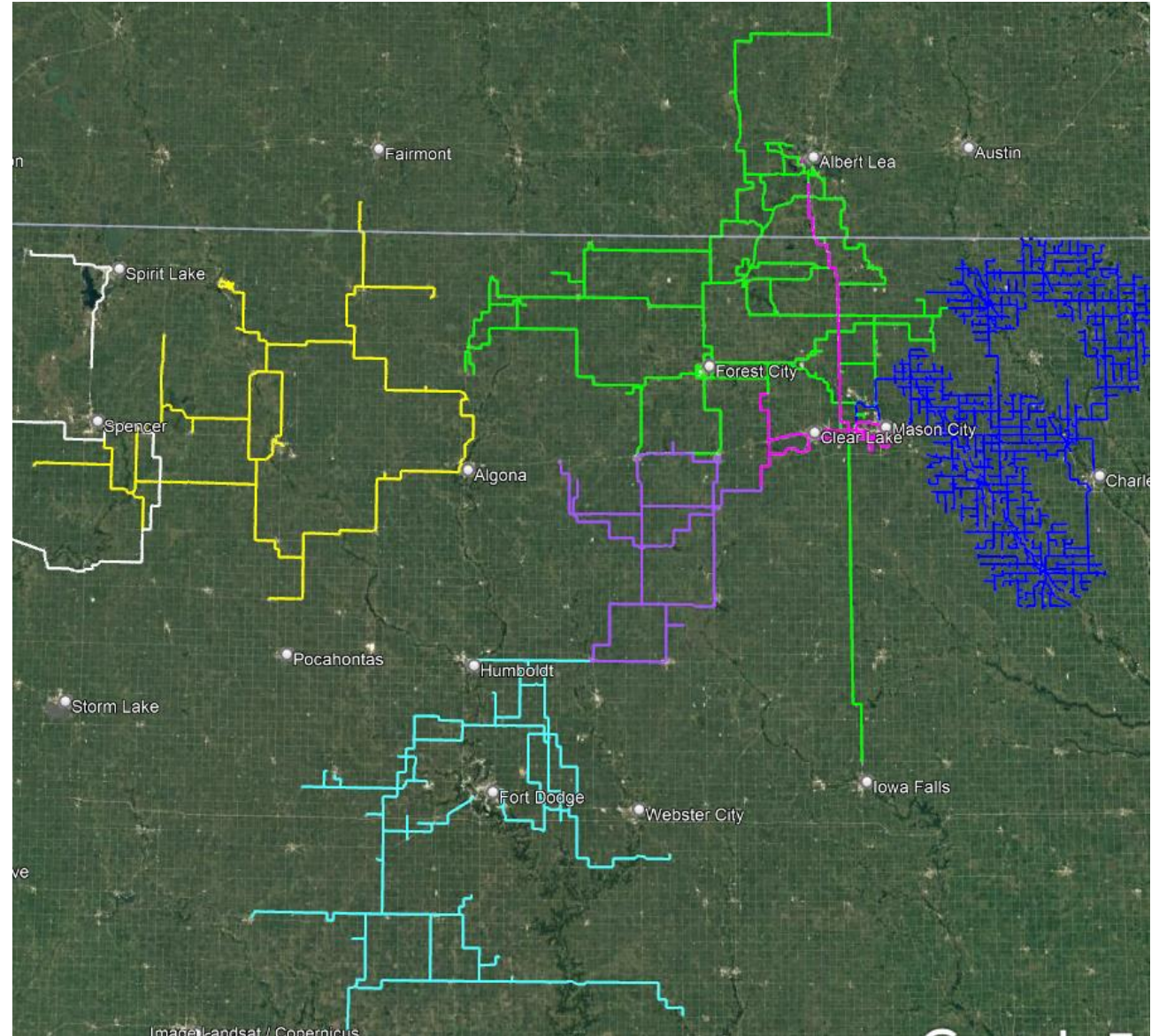
Want a single managed route
Want low-hassle leasing process

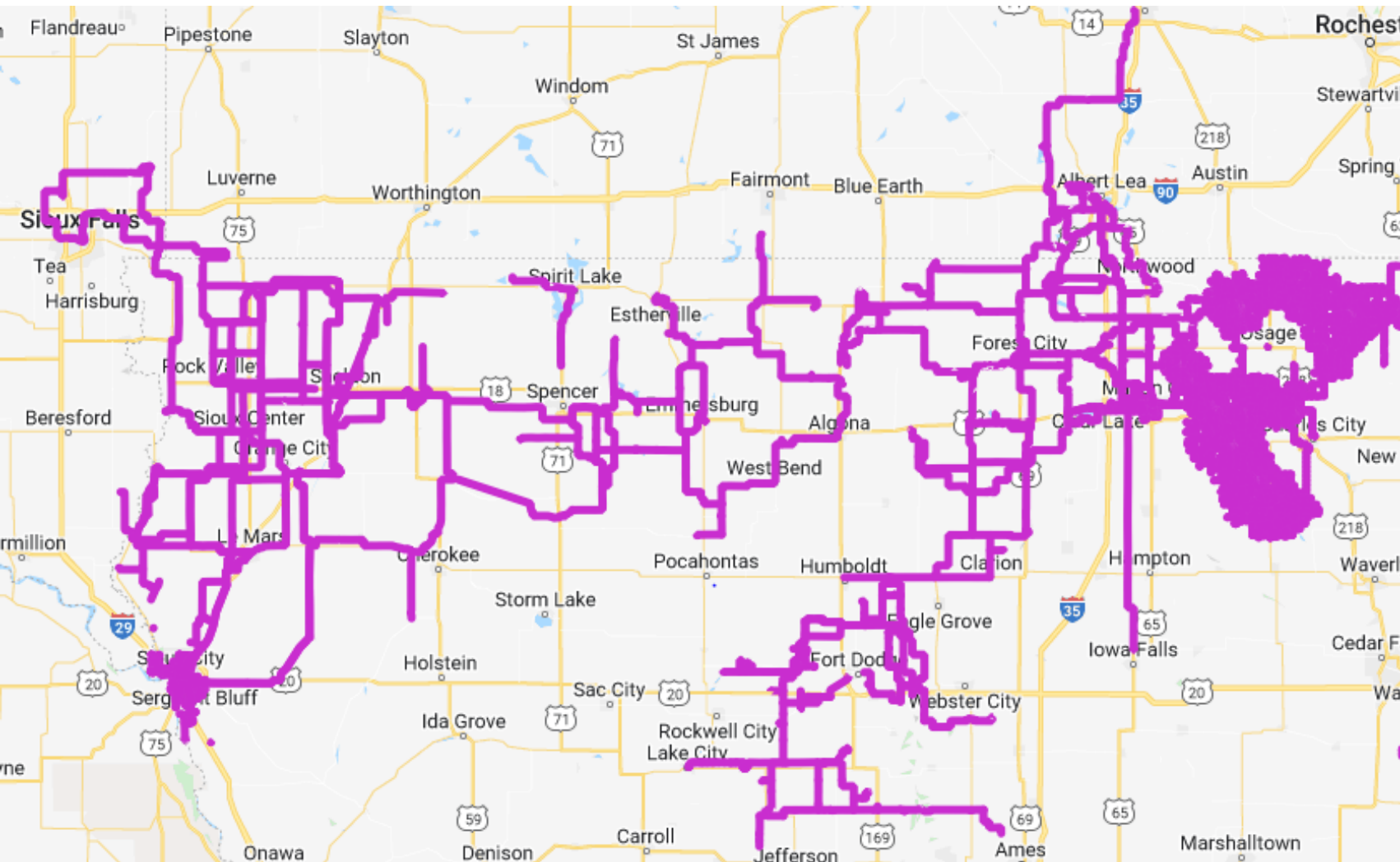


Network Operators

Transport Assets Available
Seeking Revenue Opportunities

Coverage of 8 unique networks





VPS Network Alliance Coverage

Combines multiple
independently-
operated networks
into a single managed
route.



**Market Your Most
Profitable Services**

Summary



Determine costs of service and net margins

Compare to current pricing and service packages

Compare rates to competitors

Review current subscriber-ship

Consider ancillary services and charges

Consider new services that take advantage of company assets

Implement any necessary changes

Track metrics
Monitor
Adjust

Thank you!

