



Time running out on the big carriers

By Gary Morgenthaler

http://news.com.com/Time+running+out+on+the+big+carriers/2010-1037_3-6043751.html

Story last modified Tue Feb 28 06:00:02 PST 2006

Some have described the Regional Bell Operating Companies as "glaciers" because they are slow to innovate, but once started, nearly impossible to stop.

Five years ago these RBOC companies lived up to that appellation by grinding to dust the dozens of so-called Competitive Local Exchange Carriers that emerged after the 1996 Telecommunications Act to challenge their hegemony.

But now they face another entrepreneurial challenge from companies that want to lop off the RBOCs' most reliable source of profitability: traditional voice traffic.

Skype, with more than 70 million subscribers and the backing of its new owner, eBay, is the most prominent challenger. But other providers of largely free voice over Internet Protocol are also coming on strong: Google, Microsoft, Yahoo, Vonage and the cable companies. Can RBOCs continue in anything close to their present form?

This time, I believe, the answer is "no." I bet within three to five years, all we're going to see of RBOCs will be a sizable pool of water. What Internet pioneer Vinton Cerf called the "commoditization of transport" will have forever melted RBOCs and their hopes for market dominance and high profit margins.

The

It is not as if RBOCs are not working aggressively to avoid that fate. They are moving to add various software

cracking of RBOC dominance, like the calving of glaciers, will be heard for miles.

filters and flow management systems to control access to the communications systems. And they are exercising their considerable lobbying clout in Washington to help preserve their control over the infrastructure they've spent billions of dollars building. Look for RBOCs to counter arguments for "network neutrality" with talk about "fair use networking." We can expect the same mixture of self-justification, guile and below-the-surface barrier building that the RBOCs have proven so adept at in the past.

This time, moreover, RBOCs have created an apparently powerful fallback position in the form of wireless. By controlling most wireless companies, RBOCs have temporarily assured themselves of

growing numbers of voice subscribers, even while they lose their landline base. As new digital functions, such as e-mail and video, have expanded to cellular, RBOCs have created strongholds of subscriber-only mobile services like "mobisodes" and video games. Verizon, for one, is reinforcing those efforts with brand-building advertising featuring the likes of Shaquille O'Neal.

It all looks imposing. Yet this time, the forces arrayed against the RBOCs are even more imposing. These include the many well-bankrolled competitors already backing VoIP. Collectively, they can marshal more clout with legislators and consumers than the RBOCs have ever faced. Consider the deal that Google, Skype and other investors have just put together with Spain's Fon to create a worldwide network of wireless hotspots. RBOCs have never faced competition this bold, this strong and this agile.

The new forces also include new technological permutations that promise to become just as disruptive as VoIP. A real breakthrough, for example, will occur in a year or two, when wireless technology reaches the point where voice becomes just one immaterial sideband of ever-larger data streams. Then voice over Wi-Fi should become generally ubiquitous over desktops and laptops.

Cellular customers will then be able to bypass most of the telephone network most of the time. How long before you sign up for anything more than basic

voice service on your cellular system, when someone offers you free global VoIP? How much are you going to spend on costly minutes and overtime charges over and above your base voice package? Not much.

This is where RBOCs will learn that oligopoly is nowhere near as powerful as monopoly. The weakest provider in each market--whether cable, satellite, independent wireless company or perhaps even one of the less robust RBOCs--will lead a race to the bottom on price. You and millions of consumers will turn on your \$80 3G+ handsets from Best Buy whenever you want for access to whatever you want.

RBOCs will meet the full force of exponential change--the very nature of which is to emerge gradually, then cataclysmically. The cracking of RBOC dominance, like the calving of glaciers, will be heard for miles.

In the end, RBOCs will be left with value only in their infrastructure. At that point, they will have to compete on price and the comparative size of their broadband pipes. That's a very different and less profitable business than they are now trying to create. Who said that global warming is all bad?

[Copyright](#) ©1995-2006 CNET Networks, Inc. All rights reserved.