

VoIP Services Boost Broadband Revenues

A cloud-based VoIP offering allows broadband providers to tap into the large residential and SMB voice markets without incurring capital expenses.

By Kevin Mitchell / *Alianza*

At Alianza, we say: “Got fiber? You need VoIP!” We say this because many new ISPs are entering the market without a background in voice, and there’s great opportunity for them to grow revenue, accelerate ROI and deliver a better customer experience with a phone service portfolio.

Demand for ultra-broadband and gigabit-speed internet access is growing, but according to the FCC, 61 percent of U.S. households have no access to even 25 Mbps broadband services or can obtain them from only a single service provider. Cable MSOs, telcos and new players, including municipal utilities, overbuilder ISPs and electric co-ops, are all vying to serve this unmet demand with fiber-to-the-home services.

FTTH has a big price tag though, with cost per home passed at \$500 or much higher, especially in many rural and underserved communities.

Nearly half the small and midsize businesses in the United States plan to evaluate a new business phone system in the next few years. Newly launched businesses will choose IP-based systems from the get-go.

To bolster the business case for fiber, many broadband service providers are launching VoIP services to boost revenues and accelerate investment returns. There’s opportunity to bundle residential voice with video and internet to grow market share and improve subscriber loyalty. There’s also an opportunity to launch VoIP services for small and medium businesses (SMBs) and capitalize on the ongoing transition to IP-based communications.

Even though it is not the cash cow it once was, the voice market is still massive: In 2015, U.S. revenues for fixed-line voice exceeded \$60 billion. More important, the North American voice market is still transitioning to VoIP, fueling new business opportunities for service providers. Fiber broadband providers can take advantage of this market transition, capturing residential and business customers as they make the move to VoIP.

In addition, a Heavy Reading survey shows that service providers see value in offering voice as it broadly helps them with winning customers. Eighty-one percent said that having voice in their portfolios helps drive adoption and growth of other services.

Executing on this opportunity can be easy. New broadband service providers have the luxury of leveraging the cloud to deliver voice services. Without being burdened by obsolete, hardware-based network architectures, they can deliver voice as an application in the cloud, helping

accelerate revenues with a success-based business model that tightly aligns investments with service demand.

THE RESIDENTIAL MARKET

In the residential market, many ISPs can package voice with data and video to grow residential service revenues and curb churn. According to the Leichtman Research Group, nearly 70 percent of broadband subscribers and nearly 60 percent of all households purchase bundled services today.

Though multiplay packages are fundamental for keeping pace with the competition, they are also a major revenue source; nearly half of gigabit broadband providers say they take in \$150 per month per subscriber or more for triple-play services. With prices ranging from \$15 to \$35 per month – depending on market and competition – residential VoIP services are a straightforward way to boost average revenue per user.

Customer adoption can be strong, too. Across all U.S. cable operators, nearly 40 percent of cable broadband subscribers take phone services. One electric cooperative that has been in the triple-play game for more than five years reported a 56 percent take rate on voice.

In rural markets, there is often no choice for advanced VoIP services from local providers, and customers are stuck with antiquated, expensive phone options that have unwieldy à la carte pricing models. Many of these customers are ready to switch and bundle when they have options.

VoIP services also help broadband providers recover costly fiber plant investments more quickly. With the right VoIP solution, broadband providers can realize 60–80 percent gross margins on residential voice services, accelerating investment payback.

THE SMB VOIP OPPORTUNITY

When it comes to VoIP, SMBs are a vast, largely untapped market for fiber broadband providers. Though a majority of large enterprises have already made the move to VoIP and unified communications solutions,

most SMBs still rely on legacy TDM-based voice solutions. A survey of SMBs revealed that approximately 70 percent of businesses with 100–500 employees still use TDM solutions (legacy PBXs, key systems or Centrex), yet more than 80 percent of them are interested or very interested in moving to IP.

And there are lots of SMBs: More than 2.3 million U.S. companies have 500 or fewer employees, according to the U.S. Census Bureau. They employ a total of 56 million workers – each of whom represents a potential recurring revenue source. Small offices and home offices (SOHOs) represent another substantial market opportunity for broadband providers, as there are more than 3.6 million businesses with five employees or fewer in the United States.

Accordingly, analysts see growth ahead for service providers. Hosted PBX/UC licenses for North American SMBs are projected to grow from 8 million in 2014 to 41.9 million in 2021, according to Frost & Sullivan. SMB SIP trunking adoption is also expected to increase; an IHS Markit survey found that 62 percent of SMB respondents would use SIP for a portion of their voice connectivity requirements in 2017 as the use of legacy TDM trunks decreases.

These SMB VoIP services have stronger margin profiles than residential services, and business customers have longer lifetime value and greater customer stickiness.

Broadband providers can cash in on this massive market opportunity by capturing SMBs as they transition to IP. A Hanover Research survey found that nearly half of U.S. SMBs plan to evaluate a new business phone system – most within the next one to three years. In addition, newly launched businesses will choose IP-based systems from the get-go.

VOIP IMPLEMENTATION OPTIONS

Service providers have a variety of options for delivering residential and business VoIP services. They can build out and manage their own infrastructure, leverage a traditional VoIP wholesale hosted/white-label solution or take advantage of new cloud voice platforms that deliver VoIP as an elastic service.

Build your own network. The build model is the most capex-intensive, resource-demanding and time-consuming of the three approaches. With the build approach, the service provider designs, integrates and manages its own voice infrastructure, using traditional VoIP network elements (softswitches, session border controllers, application servers and so forth) or newer network functions virtualization (NFV) solutions – a complex, costly and technologically immature proposition. Large capital outlays and high ongoing operations expenses translate to lopsided

SMB VOIP OPPORTUNITIES FOR BROADBAND PROVIDERS

Business Lines offer advanced features such as hunt groups, advanced call forwarding and other hosted call-control capabilities for analog phones and key systems. Ideal for smaller offices that do not require a complete set of premium communications capabilities.

Hosted IP PBX/UCaaS delivers a fully managed, feature-rich, cloud-based communications solution with IP phones that can be integrated into business systems such as CRMs and office productivity suites. Perfect for SMBs that want to extend office voice and unified communications (UC) services to multiple offices, mobile employees and teleworkers.

SIP Trunking offers IP-based PSTN connectivity services for on-premises PBXs and UC systems.



BUILD

- VoIP hardware/software
- Heavy CAPEX
- Regulatory burden
- Staff
- Legacy technology
- Slow to market
- Limited agility
- Good operational control



RESELL

- Retail CLECs or local telcos
- Hosted 3rd party hardware/software
- Legacy technology
- Low margins
- Fast to market
- Limited agility
- Low control



CLOUD SOURCE

- Fastest to market
- Turnkey virtualized, web-scale software
- APIs
- High-margin
- Zero-CAPEX, success-based SaaS
- High agility
- Good operational control

business models with long payback periods. The build approach also diverts valuable capital and staff from strategic endeavors.

Use a wholesale hosted/white-label service. With the wholesale model, the service provider hands over the implementation, hosting and management of the VoIP infrastructure to a third party – often a retail CLEC. Most wholesalers leverage obsolete softswitch implementations that were not designed for today’s software-as-a-service (SaaS) world and will struggle to support emerging technologies and future standards.

The hosted/white-label approach frees service provider staff to focus on differentiated services but is still inherently costly and inflexible, given its reliance on third-party gear. Most wholesalers simply mark up their costs and pass them along to service providers. The wholesalers often maintain control over product definition and have little ability to roll out requested enhancements, as they do not own the underlying technology platforms. Worse still, most CLECs are focused primarily on their core retail services. Many treat their wholesale hosted operations as side businesses and do not make the investments in product and support necessary to ensure successful outcomes.

Cloud source. With the cloud source model, a trusted software partner delivers VoIP as a cloud-based service. Unlike conventional wholesale VoIP solutions, new cloud voice platforms leverage the latest virtualization technology, bringing all the benefits of the cloud – web scalability, unrivaled service agility and pay-as-you-grow economics – to the telecom world. All the VoIP network elements that service providers normally need to buy, build and operate are virtualized, securely hosted in the cloud and managed by the cloud provider. The SaaS solution integrates with CLEC carrier services, simplifying the operational environment.

Best-of-breed cloud voice platforms provide easy-to-use web portals to simplify customer life cycle management and deep, flexible application programming interfaces to streamline integration with back-office systems and other third-party integrations. They let broadband service providers launch VoIP services quickly and cost-effectively while maintaining strict control over branding, pricing and customer relationships.

By cloud sourcing VoIP services, broadband providers can accelerate time-to-market with an agile platform, simplify operations, benefit from a

success-based business model and free resources to focus on premium services.

CONCLUSION

Fiber broadband providers should launch VoIP services to tap into the \$60 billion fixed-line voice market. Adoption rates of 20 to 40 percent by residential customers will improve ARPU and boost customer loyalty. Offering VoIP services for SMBs further extends the addressable market and helps local businesses rapidly migrate to superior IP communications. With high take rates and margins, VoIP services help improve asset monetization and accelerate investment returns.

New cloud voice platforms let broadband providers roll out residential and business VoIP services quickly, easily and profitably while maintaining full control over product definition and customer relationships. A zero-capex financial model tightly aligns expenses with business demands, eliminating risk and uncertainty.

If you’ve got fiber, there’s sound reason to have VoIP too. And with the cloud, there’s an easy way to do it. ❖

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