

Selecting an Internet Telephony Service Provider (ITSP)

A short guide by Club Communications

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Introduction

No-one disputes that the IP train has now officially left the station any more. Resellers are embracing the IP revolution and, more importantly, end user clients are now requesting VoIP information from their telecoms suppliers.

It is foreseen that during the first six months of 2008, SIP trunks will become the de facto product of choice for both the reseller and end users. Right now, for every successful IP quotation accepted by an end user, there are at least three losing tenders from resellers offering traditional products. The quality is there, the price is right and if you can't provide it, someone else will. This represents a compelling call to action: in order to remain competitive, even the most IP resistant reseller realises that they must embrace, migrate or die.

Choose wisely

Now all the networks are equally resilient, the choice of a CPS supplier is all down to cost. That's simply not the case with an Internet Telephony Service Provider (ITSP): major variations in call quality remain across providers, and supplying a sub-standard service will no longer be tolerated by end users. There's a reason that 95% of new ITSP start up companies struggle to trade past the 2 year mark: customer expectations are rightly high. They now expect service as good as or better than PTSN.

Never before has it been more mission critical for independent resellers to concentrate on product procurement and exercise careful consideration in respect of a telecommunications provider. After the massive success of last year's inaugural Comms Solutions show and as a result of the general market trend towards VoIP, there will be an unprecedented number of resellers at Comms Solutions 08 attending with the specific intention of using the show as a method of selecting an ITSP partner. This document has been created to act as a quick reference sheet to help them.

Supplying the market

There are two options available to any reseller looking to break into the lucrative VoIP market. They can either establish their own IP network or find an existing ITSP to partner with. Let's look at the financial implications of 'going it alone' and creating an IP network from scratch. Although a softswitched VoIP environment may appear to be the easy option, building a reliable alternative to partnering with an existing ITSP requires around £800,000 of financial investment, and a comprehensive understanding of Carrier Networking in the IP telephony world. Ongoing costs include technical staffing, connectivity, data warehousing and hardware/software maintenance.

Then the procured bandwidth needs to be populated and managed, and you can double any initial outlay for basic service in order to ensure redundancy, back up and network resilience. Don't expect a huge return on all that investment either. A wholesale ITSP business relies on large volumes of low margin contracts for results: an ITSP makes an average of just 10% margin on a reseller's traffic.

For the vast majority of resellers, then, partnering with an ITSP is the only option for keeping their business competitive in the VoIP era.

Reasons to be careful

What happens when it all goes wrong

You need a long term partner. So many new start ITSPs don't succeed because they don't understand the capital investment required in physical infrastructure, connectivity costs and support teams. More often than not, an ITSP will not be realistically prepared for the challenges, having leapt on the bandwagon with the mistaken belief that somehow working in an IP environment is somehow easy.

For the reseller, having your selected ITSP fail would bring catastrophic consequences to your business. Having to change providers because of poor service and quality could be just as bad. Ideally, the choice of an ITSP should be one the reseller makes once. The migration of a customer base because of a bad partnership is a difficult and costly one for a number of strategic reasons.

- **Engineering**

Ease of migration of an IP connected client is not as simple as CPS IDA and WLR clients. Migrating an IP client will involve re-engineering of CPE routers and gateway IP interface cards.

In addition to these engineering costs the end user will be familiar with the features and functionality of their existing IP supplier, which may all change with a migration to an alternative ITSP. Changing your provider, then, is usually only possible with the end users consent. This consent can only be obtained by delivering a benefit to the user: which often means a price reduction and subsequent loss of margin.

- **Free on-net calls**

Resellers usually offer a free on-net call service to their client base within their community. Maintaining this service would make moving an IP base difficult in terms of both timing and a "one and all" migration requirement.

To efficiently migrate an entire installed base in an appropriate time scale will require total focus of attention from the reseller's technical team, potentially bringing new business installations to a stand still for this period of time.

What's more, if just one site cannot be easily migrated, for whatever reasons the whole free call concept falls through. It is not foreseen that ITSP to ITSP peering will be available anytime in the near future.

- **Connectivity Contracts**

Other practical issues concerning mass migration of your entire customer base include the fact that site connectivity is usually provided on a minimum one year contract. It's more than likely that part of the installed base will still be in initial term, and can therefore only be migrated with the reseller bearing the brunt of uncompleted initial term early settlement costs.

- **Legacy Base**

Assuming that a total client base migration cannot be achieved, the reseller will be left with a legacy base of clients which may reduce purchasing power with the legacy ITSP. It is foreseen that it will not be unusual for ITSPs to increase charges for legacy clients when not receiving new business orders from a reseller.

In addition to compromising the commercial terms, having even one legacy supplier substantially complicates the reseller's billing cycle. All data must be received prior to billing, together with cost price audit requirements on multiple suppliers

- **Customer Service**

Having a 'split' book of suppliers complicates the Customer Service operation and requires an additional 'step' in any customer interface. Establishing which ITSP a particular client is utilising creates a further requirement for an up-to-date data base which will need day-to-day management by all staff within the reseller's operation to ensure that accurate and most importantly up to date information is supplied.

- **Capital Value**

The end goal of the majority of resellers is to build capital value within their business for a potential sale at the highest achievable level. In practice there are only three options for sale of any company: an Initial Public Offering (IPO), a management buyout or a trade sale. Most independent resellers will not achieve volume levels to make the first a viable option, while buy outs are lengthy and expensive to instigate. A trade sale, then, is usually the option that will achieve the highest return for the reseller, albeit based on the synergetic value that can be created by the purchaser.

Typically, this will be an increase in gross margin or a reduction in operating costs. If clients cannot be easily migrated onto the purchaser's network this will significantly reduce the synergic value and subsequently the sales valuation. Having a number of ITSP suppliers will increase the complexity of the book migration and reduce the business valuation.

How to choose a partner

A practical checklist of considerations you need to take into account.

What to look for

“It you wish to predict the future the best starting point is to look at the past”

The most important thing everyone should bear in mind is the pedigree of your proposed supplier. Do they have an established history of quality service and top notch support? There’s simply no point picking a bargain basement service which will cost you in the long run through systems - or worse, total business - failure.

The following list will help you rate your potential partners’ characteristics. While the priority given to each consideration will be a matter of personal choice, each category should be individually analysed and scored.

Financial stability

Score	1	2	3	4	5	6	7	8	9	10
	<input type="checkbox"/>									

“It is easy to trade into multi-millions of debt, but more difficult to trade out of this debt”

The substantial investments required to establish IP services puts a great deal of pressure on many industry entrants. Careful financial due diligence should be completed by the reseller on the potential ITSP partner

Financial independence

Score	1	2	3	4	5	6	7	8	9	10
	<input type="checkbox"/>									

In addition to financial security, financial independence is an important factor given the delicate positioning of the global market right now. Although the proposed ITSP may appear to be well funded and secure, if they have a large reliance on external funding, access to ongoing funds can fluctuate with market trends and companies with high external leverage can become victims of external pressures notwithstanding their current trading status. Funding lines cannot be guaranteed on an ongoing basis.

Reseller focussed

Score	1	2	3	4	5	6	7	8	9	10
	<input type="checkbox"/>									

Channel conflict is an obvious threat from any supplier who also has a direct channel to market. Management may assure that “Chinese walls” are in place, but one has to wonder if these principles are respected at lower levels in the organisation. Especially by below target sales staff or underpaid administrators interested in unofficial bonuses.

More positive results can be achieved with a reseller dedicated supplier as the working relationship can be that much closer. A reseller focussed company has commitments to that channel and is dedicated to understanding its needs and requirements.

Imagine the scenario that you had direct clients returning a 30% plus margin and a channel returning a sub 10% GP, where would your effort and loyalty lie ?

Pricing

Score	1	2	3	4	5	6	7	8	9	10
	<input type="checkbox"/>									

“Not everything that shines is gold”

An initial competitive pricing matrix for connectivity and a call charge tariff is an indication of the purchasing leverage of the ITSP, but it should not be considered in isolation. Your relationship with your chosen ITSP is a long term commitment for both parties.

A promotional initial tariff is all well and good, but you must have discussions and agreements to ensure that a competitive tariff and product offer is maintained for the duration of the relationship prior to signing on the dotted line.

The question of what plans the ITSP has already in place should be asked too. One-off, bespoke arrangements are often difficult to manage and easily overlooked. Having considered this situation with an existing internal procedure in place also demonstrates a true partnership attitude by the proposed ITSP.

Existing relationship

Score	1	2	3	4	5	6	7	8	9	10
	<input type="checkbox"/>									

Business is about people, and existing relationships should be carefully considered when selecting your ITSP. Don’t forget to look at existing commercial arrangements and how these may be affected by your ITSP partnership decision.

Ongoing support

Score	1	2	3	4	5	6	7	8	9	10
	<input type="checkbox"/>									

How will the ITSP help you move your business model from the one you have today? Having a partner that can manage an order from end to end right from the start is a clear advantage. As your experience grows over time, you may want to take on some of these applications, but can you outsource the required services ad hoc in times of skill shortage?

Network Infrastructure

Score	1	2	3	4	5	6	7	8	9	10
	<input type="checkbox"/>									

An in depth evaluation should be undertaken of the ITSP’s network infrastructure, resilience and back up procedures together with the quality and pedigree of software and hardware elements of the network.

Complete mirror resilience should be demonstrated together with identifying single point of failures.

Erlang formulas demonstrating “busy hour” peak time traffic should be available.

Network expansion plans and budgets together with funding requirements should be discussed with the proposed ITSP to ensure that the quality can be sustained in line with the projected growth, without the requirement to renegotiate finance facilities which may or may not be available due to market forces.

Network features

Score	1	2	3	4	5	6	7	8	9	10
	<input type="checkbox"/>									

“The long term battle in Telecoms must be fight on service not price”

Network features will be the centre point of the sales proposition so should be comprehensive, price competitive and easily configurable.

Administrative ease

Score	1	2	3	4	5	6	7	8	9	10
	<input type="checkbox"/>									

Adding services, changing routing and so on should be easily configured with options for both the reseller and end user. Web portal interfaces have proved the most efficient method of deployment and should be displayed in the reseller’s identity to support market branding.

Connectivity options

Score	1	2	3	4	5	6	7	8	9	10
	<input type="checkbox"/>									

There's no one size fits all silver bullet to IP telecoms. A comprehensive variety of connectivity options is vital. It is therefore important to select an ITSP who offers choice in both service and price position, and demonstrates commitment to multi-carrier choice as well as independence in the market. Manageability of the connectivity is also key, being able to measure the call traffic right to the customers end point will pay dividends to the reseller resulting in fewer call outs.

Absolute client ownership

Score Yes/No

For a reseller to achieve what is probably their end goal, in realising the value that they have built within their client base total client ownership is an absolute requirement. Dual branding can confuse this situation and can further complicate client migration to a potential purchaser. The reseller should ensure that they hold the contract with the end user client and that they invoice the end user utilising the reseller's Vat number.

End to end responsibility

Score	1	2	3	4	5	6	7	8	9	10
	<input type="checkbox"/>									

The golden rule is that when more than one person is responsible, no-one is responsible applies nowhere more than in emerging technologies. The ITSP must be prepared to offer end to end responsibility with optional network and site equipment to monitor the network resilience. Being the one-stop shop for second line customer service ensures a smooth and efficient resolution to issues, through issue ownership and responsibility.

Reseller training

Score	1	2	3	4	5	6	7	8	9	10
	<input type="checkbox"/>									

Training is a key subject, chargeable or not. Sales, Operations, Scheduling and Technical training should all be available in a 'classroom' environment. Support should be offered via an online portal to ensure that 'distance learning' can take place and all attendees can be updated of any changes

Right sized supplier

Score	1	2	3	4	5	6	7	8	9	10
	<input type="checkbox"/>									

“Is it better to be a big fish in a small pond or a small fish in a big sea?”

This is a simple consideration although the answer is not always as easy as the question. Specifically in the UK telecoms market, to have any leverage with legacy Tier 1 carrier a reseller must be purchasing in excess of £10 million a year. This threshold is destined to increase with the consolidation within the sector.

The safe zone is that your potential business should account for somewhere between 1% - 9% of your proposed suppliers turnover. Below this threshold you will be “off the radar” and above this you could present a business treat to your supplier.

Interoperability

Score	1	2	3	4	5	6	7	8	9	10
	<input type="checkbox"/>									

The requirement to regularly test interoperability with various manufacturers’ SIP compliant IP PBX equipment is essential. This allows the reseller to address as wide a market place as possible. It is essential for a reseller to ensure that the proposed ITSP has interoperability with their preferred vendor, but an ITSP should have a range of certifications with manufacturers and an agnostic approach to the market together with flexibility within their network to interoperate with new entrants if required.

Numbering

Score	1	2	3	4	5	6	7	8	9	10
	<input type="checkbox"/>									

The availability of a comprehensive numbering range is imperative, including both Geographical and Non-Geographical number ranges.

In addition to new number allocations it’s also important to have a range of Number Porting agreements in place to enable the reseller to capitalise on new business opportunities from alternative traditional telephony suppliers.

For an ITSP to effectively achieve a comprehensive numbering portfolio they would require an operator’s Point Code, which is issued by Ofcom. It is important that a reseller ensures that its ITSP is recognised as an operator by Ofcom

Regulatory

Score	1	2	3	4	5	6	7	8	9	10
	<input type="checkbox"/>									

It is imperative that the chosen ITSP can demonstrate Publically Accessed Telephone Service (PATS) compliancy. Details of what this entails are available at www.ofcom.org.uk. The major relevancy is 999 emergency calls, but it also covers operator assistance and facilities for the hard of hearing.

A full understanding of how your selected ITSP manages 999 and the appropriate data base management is essential to avoid future potential litigation.

24/7 customer support

Score	1	2	3	4	5	6	7	8	9	10
	<input type="checkbox"/>									

In the unfortunate event of an out of hours fault the end user client needs a single point of contact who is trained and able to quickly identify the point of failure. To do so requires access to the main switch, the data centre, remote connectivity, site equipment and interconnected carriers and have the ability to escalate the identified failure and to instigate alternative routing during the downtime.

Remote site access

Score	1	2	3	4	5	6	7	8	9	10
	<input type="checkbox"/>									

This is a developing market and evolving technology: from time to time you will need to upgrade site software and firmware. This must be done in a timely and efficient manner, and automated upgrading is essential.

In reality no end user site equipment should be installed without 'heart beat' connectivity. Although this will reduce the range of CPE equipment installed by a reseller, it will over time negate the requirement for an expensive return to site or bespoke dial in engineering resources

Conclusion

Rise to the challenge

Although this document may appear challenging it should not be viewed as a barrier to entry. If any reseller delays their ITSP decisions they will clearly lose the valuable first mover market advantage and early adopter learning experiences. It is essential for resellers to start building successful referral sites as this will inevitably quickly become a market requirement.

Comms Solutions is clearly the annual 'shop window'.

All resellers who wish to retain or grow their market position should take full advantage of the line up of exhibitors at Wembley 2008.