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Gigabit GOLD

How Agents Can Profit From The Big Bandwidth Boom

Michael Murphy's agency, NEF, specializes in selling high-capacity services.

By Khali Henderson

Photo by Ed Hopfmann

MICHAEL MURPHY HAS been an agent for about four years. His company, NEF (originally New England Fiber), is a small shop of five people, but it recently eclipsed \$1 million per month in contracted revenue — all of it from big bandwidth sales.

“It’s definitely not the easiest road, but for us, we are not a volume shop,” says Murphy. “Our systems and support infrastructure is geared toward larger applications, not quoting 100 T1s a day.”

While Murphy’s background in commercial sales for network overbuilder RCN Corp. is a match for NEF’s business model, he fell into the agency opportunity accidentally. He came to the aid of some friends working at NSTAR Communications Inc., a utility network subsidiary that needed help selling its facilities after the telecom bust when carriers stopped knocking on its doors. “That really proved out the model that there were a ton of assets out there with little or no representation,” says Murphy. NEF was formed and now represents several carriers — primarily metro fiber providers and utilities — and, in some cases, acts as the sole sales force for the entire asset or certain segments.

NEF’s customers are large organizations in the finance, health care, higher education, media and content industries that are looking for dark fiber or high-capacity lit services, such as SONET OC3 (155.52mbps) and greater or Ethernet at 100mbps and higher. “What we do with larger customers is understand what their business is, not just what their network needs are, and how they are going to scale and build something cost effective for longer term,” he explains. “A lot of times it’s a paradigm shift because they are going from a commodity-based TDM DS3-type service to a high-end optical network.”

This shift is happening for a lot of companies and with increasing frequency. According to a survey of enterprises published in January by

Aberdeen Group, 94 percent of respondents expected WAN bandwidth demand to grow within the next 12 months; none expected declines. The research firm forecasts much of this growth to be fulfilled by emerging services, such as MPLS and Ethernet (see chart on Page 32).

“Fifty percent of the [agents] are in tune with the direction of the market and understand high bandwidth capacity is going to impact their customer base,” says Brian Sheehan, indirect sales manager business development for metro fiber provider AboveNet, which works with NEF and other agencies to sell big pipes like wavelengths and metro Ethernet. “The other 50 percent are aware of it, but they are just too busy. ... They will get to it in the next two to five years as it impacts their base, which is a risk. They may miss a window of educating their customers about what’s coming.”

Any midsize customer in the vicinity of fiber is at risk of being poached, he warns.

Understanding accelerating bandwidth demand is an opportunity for agents as their installed customers begin to require larger pipes, but it also may enable them to move up-market. In part, this is because the services more often are offered not by incumbents that “own” the accounts, but by metro fiber providers like AboveNet that are embracing the indirect sales channel to win them over.

“I am finding, for the most part, that when we are asking for quotes [for 10mbps fast Ethernet and gigabit Ethernet] from the large carriers, they can’t provide the service yet,” says Heather Selbert, vice president of operations for American Telesis, a private-line reseller that sells through agents. “This leaves a wonderful opportunity for companies like ours to go out there and find creative ways to solve the problem and meet the needs of the customer. The

end user certainly is asking for these services now.”

Selbert says it's a lot more work to deliver such services. “With some of the projects it means a fiber build and fiber splicing and all kinds of specialty pieces (dual entrances and route diversity) and a tremendous amount of project management to bring it all together.”

AboveNet works with resellers like American Telesis and also launched its own agent program in third quarter 2005. The program didn't start booking revenue until second quarter 2006 and closed \$8 million last year, says Sheehan. In 2007, he says, the carrier expects to triple that amount.

This growing opportunity is confirmed anecdotally by Selbert, who reports American Telesis started receiving requests for higher bandwidth services about 18 months ago. She says in the last eight months, these requests have gone from quotes to deployments. Some of the recent installs have been sold by agents. “We will provide all the information [to the customer] through the agent,” she says. “The agent is in the loop, but he is not the one having to provide all the detail. He is simply the facilitator of what is going on.”

Selbert says a traditional private-line agent can sell these higher bandwidth services as long as he has some baseline data networking sales skills. “Having that core understanding so that he has some believability when he is talking to his customer is important,” she says.

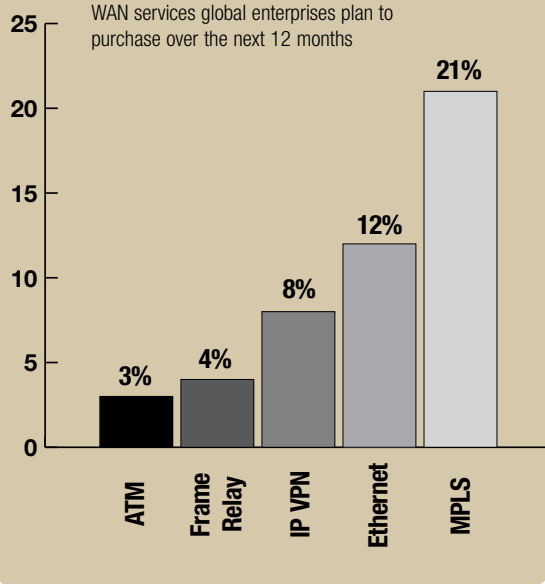
Agent Dale Bohannon, president of IP Distribution Systems (IDS), is leveraging his data networking knowledge from nearly nine years on MCI's national accounts team and more than 10 years as an agent to sell bigger bandwidth. Like most agents, he started selling to SMBs, but built a large enough base to move up-market in 1999 and begin selling to larger accounts (\$75,000 to \$100,000 per month in spend) with longer sales cycles. He recently graduated from ATM, frame relay and IP VPNs to metro optical networks. Earlier this year, he cut over a 12-node metro optical network on the Qwest Communications International Inc. network for a hospital in his home state of New Mexico. “The sale itself is not that difficult. The pricing model is not that different from private line, but it is inherently complex on the back side of it,” he says. “You really have to know something about networking to have an idea of what's going on.”

Agent Chris Palermo, president of Global Communication Networks Inc., also was a self-described “minutes peddler” who has evolved his agency to sell high-capacity services almost exclusively over the past two years. “A circuit is a circuit. As far as turning it up, it's not harder than turning up a T1,” Palermo says, noting he has deployed gigabit Ethernet pipes in as little as 10 days for content customers that were collocated in an Internet exchange with bandwidth providers.

Palermo, also a former carrier direct sales rep, says in his 10 years as an agent he has found that larger corporations are paying a lot more than the market rate, making them ideal customers

WAN Bandwidth Demand Grows

WAN services global enterprises plan to purchase over the next 12 months



Source: Aberdeen Group, January 2007

for agents that can get in. Palermo's “in,” for instance, in one case, was an acquisition of a client by a much larger entity. He used the “courtesy” meeting to secure a chance to bid, which turned into a win as well as subsequent wins and referrals. “It's all referral; I am not knocking on any doors,” Palermo says of his current clients, which are attracted by competitive pricing, carrier-neutrality and a single point of contact.

“Once you have built that relationship with a customer, they are going to recommend the agent and the carrier to someone else in a similar situation,” says American Telesis' Selbert. “You see your business begin to grow simply within that community that talks together in the IT world.”

On the downside, agents need to be prepared for a much longer sales cycle. “Truth be told, as far as an agent goes, it's a pretty risky sale when you add up everything — the amount of time you have to invest in it, and how long it takes to get up and billing, and to actually get paid on it,” agent Bohannon says, noting it took 14 months for IDS to receive a commission on the hospital deployment. Bohannon figures it will be eight months before IDS gets a return on its investment in the project, which required “tons of planning sessions.” This could be abbreviated in cases where construction is not required, he says. “If you have existing fiber in the building where you want to put this, you are not in such bad shape.”

Agent Murphy agrees. “It would be difficult for agents who are in a very transaction- [and] commodity-based business to have the level of commitment needed to get through those sales cycles. You can't be halfway in,” he says, noting customers aren't going to figure it out on their own and then come back to the agent to place an order.

Fortunately, a deployment of this magnitude usually means a multiyear term with little maintenance from the agent. “Once it's in, it's in,” says Bohannon. “It's very similar to private line. We shouldn't have to mess with it. It should just run.”

In addition, the commission on high-capacity services can be five to 10 times greater than for T1 lines. “By definition, the monthly recurring [revenue] is simply higher because the circuit size is so large,” says Selbert, noting that a gigE can range from 10,000 per month to \$60,000 per month depending on the route. A DS3, by comparison, is about \$1,500 intracity, but \$6,000 to \$7,000 cross-country, she says. American Telesis sells agent wholesale rates and lets them set their own margin. Sheehan says AboveNet's high-capacity services range from \$5,000 to \$30,000 and net agents 8 percent to 12 percent commissions. +



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