

# Business Case Overview - CTP

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# Disruptive Technologies

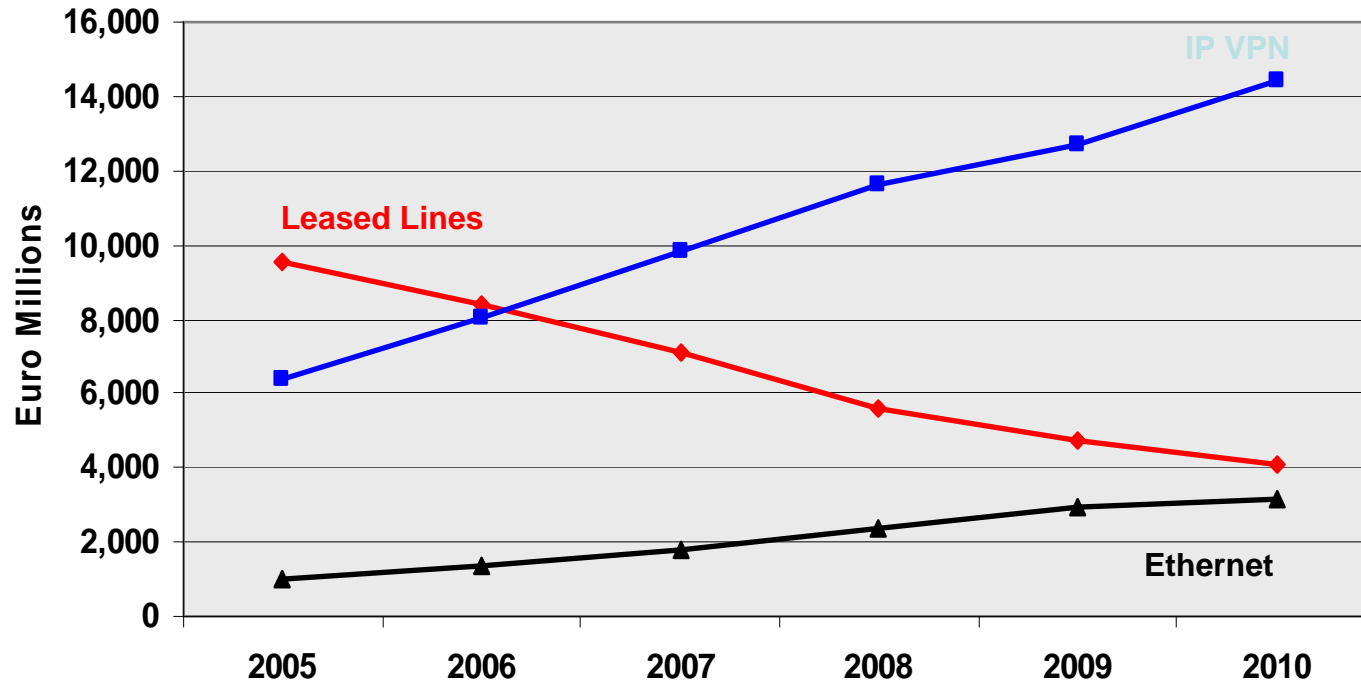


- History Shows That Mature Markets Are Vulnerable To Disruptive Technologies.
- Reference “The Innovators Dilemma” By Clayton Christensen.
- Disruptive Technologies Are Typically Lower Cost Or Higher Utility Alternatives To Legacy Products Or Services.
- Examples Include Mobile Phones, VoIP And P2P.
- CTP Is A Disruptive Technology To The Leased Line Business.

# The Leased Line Market



- A Declining But Very Large Market.



- Driven By Migration To IP, Ethernet And VoIP.

# Leased Line Market Applications



- Leased Lines Used By Enterprises For PBX Trunking LAN Interconnect And Video.
- VoIP Substituting TDM PBX And Therefore IP Is Substituting Leased Lines For Trunking.

Technology	PBX Market Share	Quarterly Growth
IP PBX	69%	15%
Hybrid PBX	25%	-9%
TDM PBX	6%	-15%

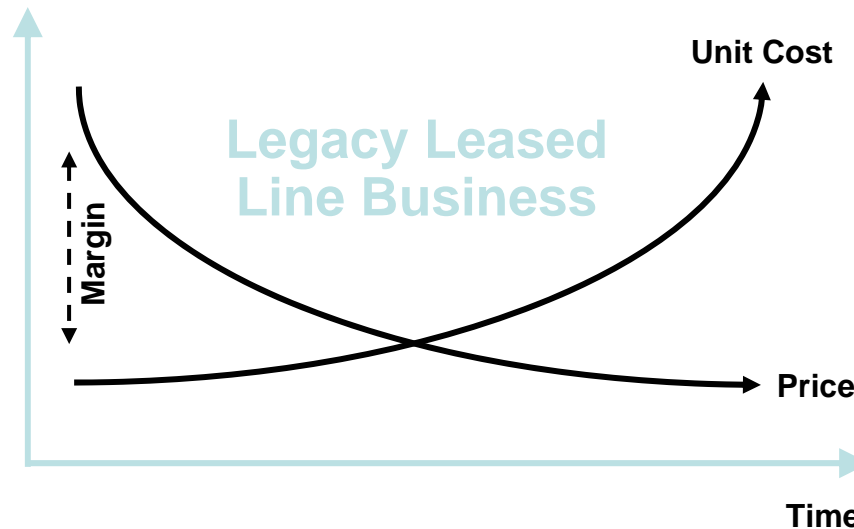
Source: Dell'Oro Group 2005

- Applications Migrating To IP And Ethernet Substituting Leased Lines.
- But Enterprises Will Continue To Use Leased Lines For Some Considerable Time.
- Some Applications Are Not And May Never Be Native IP.

# Service Provider Economics



- Prices, Volumes, Revenues And Economies Of Scale Fall, Unit Costs Rise, Overall Margin Decreases.

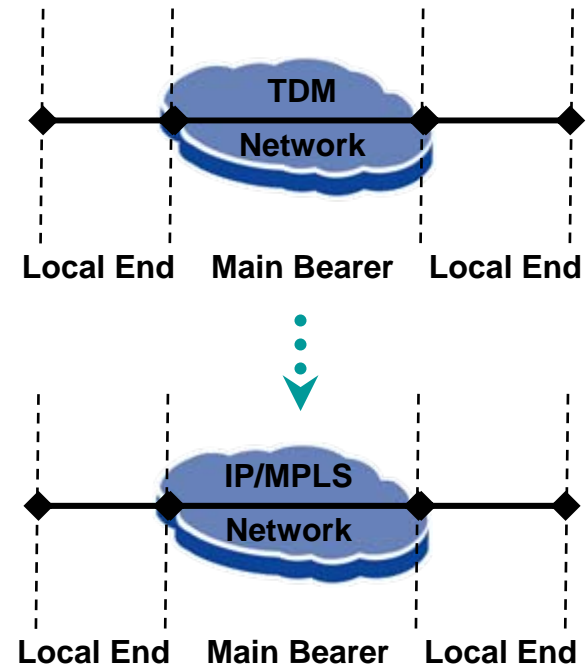


- Need To Retain Leased Line Business To Maintain Revenues And Enable Future Migration.
- Must Reduce Cost Base To Maintain Viable Business.

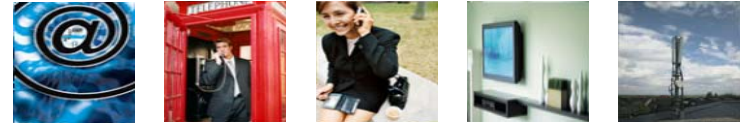
# Circuit To Packet



- IP Service Providers Have Opportunity Of Lower Unit Costs Through MPLS Platform And CTP Technology.
- Shared MPLS Main Bearer.
- Lower Cost Ethernet And DSL Local Ends.
- Finer Bandwidth Granularity.
- Service Bundling Enables Increased Account Control And Pull Through Revenues.



# Respective Economics



- BT Supplied E1 Leased Line Between London and Manchester Costs £39,400<sup>1</sup> Annual.
- Two E1 IP VPN Connections £25,400<sup>1</sup> Annual.
- Assume Two CTP Devices £6,000.
- Assume Three Year Depreciation CTP Is:
  - £39,400 - £25,400 - £2,000 = £12,000 Cheaper.
  - A 30% Annual Cost Saving.
- If Service Providers Do Not Offer CPT Many Enterprise Customers Will Do It Themselves.

<sup>1</sup> BT Published Pricing ([www.serviceview.bt.com/list/public/homepage.htm](http://www.serviceview.bt.com/list/public/homepage.htm))

# The Opportunity



- IP Service Providers Have The Opportunity To Extend Portfolio To Include Leased Lines.
- Minimal Incremental Costs Achieved Through Sharing Of IP/MPLS Platform Enables A Disruptive Offer.
- Competitive Price Positioning And Improved Margin Compared With Legacy Leased Line.
- Loosens Incumbent Account Control And Opens Up Other Incremental Service Opportunities.
- Incumbents Unlikely To Follow Due To The Operational Logistics And Cost Of Change.



Thank You !