

the Bandwidth DESK

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SPECIAL REPINT

Bandwidth Exchange Works

Over the Past Two Years, many a bandwidth exchange has arrived on the scene promising a new marketplace for capacity and a new way to do business in telecommunications.

Just as many have gone by the wayside.

From his office in Denver, Howard Holme has watched them come and go. Unlike those *other* brokers, the president of BandwidthMarket.com, has seen his own Web-based capacity marketplace grow fairly steadily in its four-year existence. The firm offers private line, Internet access, dark fiber, colocation, switched minutes and Voice over IP. Offerings are generally on major networks and mimic the service parameters of large carriers.

"Few industries have suffered as much as this one is suffering," he says of telecom's current depression. "Our role has been to work with all these companies in their different stages of life and death. Sometimes the first interest we get from companies is before they've gone bankrupt, as they realize they are laying off so many salesmen that they need help, and as they figure out what they've got to sell and what they are willing to sell it for."

What's interesting is that Holme advocates the same model as many failed entrants into the bandwidth trading game. In fact, most of those firms – or "their bandwidth broker, newly appointed from energy industry" – met with him before they launched their own offering. He eventually caught on that he was being pumped for information, not partnership deals. He was even forced to repeatedly reprimand Enron for sending its employees, posing as students, to

download his listings. As the world now knows, the Big E did not make enough real deals in the telecom market to hurt his business. But that's another story.

While the bandwidth traders have receded in memory, their vision is largely proven at BandwidthMarket.com. The firm regularly works with national and international networks that are down to fewer than 10 salesmen for a billion-dollar network, he says. "They've largely given up on the internal sales force in the current depression. They are trying to rationalize it to get the right number of salespeople. But our methods of providing information are very efficient. We can get the information out for those companies, and the people who are looking on the Internet are more likely to find us and our information than, I suggest, anybody else."

A quick Web search lends credence to Holme's claim. Typing "BandwidthMarket.com" into a search engine yields about 40,000 hits. Typing in the name of a BandwidthMarket.com customer is likely to yield less than 1000 hits.

"Our philosophy is that our value is in providing information and reducing the cost of sales," he says. "We think it's important that buyers and sellers can come to a place and find out what we have to sell and what prices we have." The company's niche means its customer base, and its coverage throughout the market, is expanding even as more telecom firms tumble. Its published list of nearly 700 clients includes enterprises, carriers, government interests and other buyers and sellers from Access Communications to Yipes.

Holme is modest, but he believes his online marketplace could become the primary channel for band-

WWW.SCUDDERPUBLISHING.COM width "over time." With so few exchanges and brokers still active, he's got a decent head start "assuming the industry is going to start growing," he says.

"We continue to grow and prices continue to improve. In this industry in particular, but in the economy in general, there's a surplus of everything except customers. We help the customers figure out where the market has declined enough that their customers will buy enough to justify them buying the bandwidth," he says.

The local loop is the industry's greatest problem, he says, so he works with a large number of local loop, metro wireless and free space optics providers to make sure his customers can complete point-to-point transactions. "We also have a lot of international listings because the principle operates the same way." But the firm's only product is information, so it avoids competing with switch providers – and the related capital costs. Big sellers today are the large circuits – OC12s, wavelengths and dark fiber deals – both to the Internet and point-to-point.

Holme favors the concept of creative destruction -- that disruptive innovation outpaces existing business practices. The cycle of creation and destruction in the industry continues, and technological advances continue to threaten the viability of existing infrastructure. "Holey fiber" promises to increase the amount of data that can flow over a piece of fiber one thousand-fold. Gigabit Ethernet is likely to be widely adopted.

"Assets coming out of bankruptcy are being bought for very low prices by companies that then will have very low cost basis and will be able to sell them very inexpensively," he says. But whether price steadies out remains a function of supply and demand. "Optimists for higher prices [usually the carriers] still face the fact that technology is improving and the cost of providing services continues to come down."

The industry has continued to grow in volume, minutes or bits – everything except revenue, he says.

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“There’s no guarantee that revenue will grow in the next year or even few years – you can overbuild something to the point where it takes a long time to recover.

“There’s a huge glut in the core of the network, and yet I have deals being held up today because it’s difficult to get a connection between two rooms in 60 Hudson Street that are two rooms apart. The people who have what they perceive to be a monopoly on any given floor of any building try to use that to make a living,” he says.

“That’s the reason we work with everybody...The companies that are selling are excellent and make a living selling what they’ve got. When it comes to what they don’t have, 99 percent of what our customers want is off-net for carriers. Fifty to 70 percent of what the carriers see each day is off-net for them,” he says. “For the industry as a whole and for carriers in particular, they are doing the same thing we do – shop for off-net circuits. It makes sense that they are coming to us for this purpose. If somebody is going to do the work to collect all the information as we do, it makes sense pay them something for doing it. And it makes sense to find out if they have a better price.”

The carriers, Holme points out, aren’t especially fond of each other, so it’s not a given that they can get a friendlier reception by direct negotiation than by going through BandwidthMarket.com.

With his view on a large portion of the market, Holme spots some current trends worthy of note. Internet, Ethernet

and Voice over IP are the big sellers. The government, large enterprises who are growing networks and large creative users of Internet sites are the big buyers – and they get a good price.

“You can buy a lot of Internet access for almost nothing,” he says. “We’ve been giving thought to how we might yet again vastly increase the number of hits and the content we can make available.” The firm arranged, for instance, to archive the publications and industry data of the recently defunct TelecomBiz.com. Application developers and streaming video suppliers, who use massive amounts of bandwidth, are poised to be winners as more high-speed Web connections come online. Wireless local loop providers reap the benefits of cheap, ubiquitous bandwidth while RBOC local loops remain expensive.

Bankrupt asset buyers are also well-positioned for success. But the telecom downturn is an ill wind that blows nobody good, says Holme. “I’m working with friends who are on their fourth company. It’s a brutal market.”

But maybe not so brutal for Holme’s firm. His network of clients is growing according to Metcalf’s Law: As the number of companies listing products at fair prices on BandwidthMarket.com grows, the marketplace, he says, becomes more valuable to the enterprises buying as end-users and carriers shopping for type 2 circuits.

Browse listings at www.BandwidthMarket.com. Contact Holme directly at 303/894-4480 or Hholme@BandwidthMarket.com.