



Could Tele-Living Point the Way Out of the Telecom Turmoil?

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Rarely has the telecommunications industry been through more turmoil than it faces today. Titans such as AT&T, Lucent and Worldcom are going through upheavals as prices collapse and profits shrink. According to a recent article in *BusinessWeek*, telecom companies have laid off at least 170,000 workers since January, and several have gone belly up. "Never before have you seen this kind of a bust in telecom," a telecom economist told *BusinessWeek*. What's the right strategy for a telecom company to follow during these tumultuous times?



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Joseph Bonocore believes he has some answers. While his 25 years in telecommunications didn't fully prepare him for the cataclysmic changes whipsawing the industry, the consultant, author and Wharton guest lecturer nonetheless finds he has some recommendations. Among his suggestions: Cash-hungry phone companies could find new revenues through "tele-living," essentially pushing Internet services further into the home.

A former industry consultant with KPMG and Coopers & Lybrand, Bonocore, in February 2000 founded a San Francisco-based telecom strategy shop called Eclipse Networks with help from the investment firm Thoma Cressey Equity Partners. Earlier this year some of Bonocore's recommendations about emerging trends in telecommunications appeared in his book, titled *Commanding Communications: Navigating Emerging Trends in Telecommunications*, (2001, John Wiley & Sons, New York).

Bonocore's book offers an overview of the telecom service industry in broad strokes leading up to the standard management guru stuff: 12 habits - or in this case - commandments of successful mega-network operators. Among them: Listen to your customers, but especially to your innovative customers. Also: don't fear the ire of shareholders when it's time to change your business model.

But these days, with the industry is overburdened by debt, wracked by pending breakups of AT&T and Worldcom, and a pileup of bankruptcies by upstarts including Winstar Communications and PSINet, shareholders are up-in-arms about a lot more than business models.

Was Bonocore surprised at how quickly the industry deteriorated? "Yes, absolutely," he says.

What happened? "First, the story was too good, the hype was too big," points out Bonocore. "Everyone talked about convergence and people expected by tomorrow that we'd have communications anywhere, any time, anyplace." Of course Bonocore wasn't exactly silent on the issue. As he says in his book, "convergent communications promises to deliver an exciting world of interactive services and new-age conveniences."

To be sure, Bonocore picked a tricky and swift-moving topic to devote 202 pages to. Released in January, some of the industry dynamics that underpin the assertions in the book are already strikingly dated.

Bonocore says one of the biggest misjudgments about convergence he made was that AT&T would continue to ride its cable plan across the country. Like many, Bonocore believed that by selling a full bundle of phone, TV and Internet service AT&T could avoid the full impact of its falling long-distance business. Today, of course, no one at AT&T is talking about convergence any more. Instead, the topic du jour is that AT&T Broadband is in play, and could be taken over by any of its suitors, including Comcast and Cox. That doesn't mean that convergence is dead, though. Convergence will still happen, says Bonocore, it's just going to take a lot longer. "Convergence is dragging out now because you don't have that big gorilla AT&T pushing integration anymore," he says.

And now that the industry is being sucked dry by a vanishing voice business, which Bonocore predicts

will be gone as a source of revenue in five years, what are his big clients like AT&T, SBC and Verizon asking him?

"The first thing these companies are focused on is expanding their revenue base," says Bonocore. "The key companies know what is going to happen. They are making dramatic changes so they get there faster. The \$350 billion to \$400 billion spent on voice will go away in five years and it has to be replaced by something."

Bonocore asserts that telecom's next great opportunity is inside the house. He calls it "tele-living." Those copper phone lines and cable lines attached to nearly every home will be coaxed to go the "extra mile," as Bonocore calls it.

Like power lines that once fed the light bulb and then spread to appliances of every sort, communications lines will soon reach beyond the phone, the PC and the TV, says Bonocore. Obviously smart toasters and Internet-ready central air systems have been promised for years, but Bonocore says some appliances like fire detectors and burglar alarms are much closer at hand. In some cities, for example, phone companies are already offering services such as home security, he says.

"This is where we believe the intelligence or software is going to be added to the network so you can provide these services and charge for them," he says. "And now is the right time to start identifying and offering these services. Because, if we are right, when voice service becomes free in five years, these new revenues would help offset those declines."

Tapping new money streams isn't Bonocore's only concern. He is also keen on helping companies cut costs. Bonocore says he is helping an airline reduce its customer service costs through automation. The airline, which he declines to name, wants to steer ticket buyers away from call centers, where the costs of ticket agents translate to \$8 per ticket sale. The airline would rather have customers book tickets online where transaction costs are \$1.04. Bonocore's solution: Voice-recognition software that essentially allows callers to navigate the airline's Web site.

Sounds like a good case study for business school. So what does Bonocore think of his book in the hands of future telecom managers? "I like to think of it as a work in process," he says. "I don't want to say I'm contrary to the norm but I want to have them thinking beyond the wires and transport."

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