Holliday’s Holiday Horoscope – 2008

Top Ten Telecommunications Forecasts for the New Year

(This is an annual collection of predictions for the New Year by Clifford Holliday, an IGI analyst and author of the Lightwave Series. It is intended for your information and, in some cases, amusement. For the first time, we are introducing our year’s forecast as a part of our High Speed Access Report. Many details of these forecasts are available from the author’s latest reports (“FTTP- The New Standard and How It Is Changing,” - Just updated late 2007, “FTTP Equipment and Cable Requirements,” “Internet Growth,” “On the R-OADM to the Lightwave Network,” “The Next Generation Network – Will the RBOCs Get Googled Up?” and “How Much Bandwidth Is Enough in the Access Network?”) which can be obtained from the Information Gatekeepers Web site, www.igigroup.com.

Could it be that another year has gone? It seems just a few days ago, no more than a week or two, that I was thinking about the likely events in 2007. Now here it is time to talk about 2008! If you want to see how I did with my 2007 forecasts, go to the Information Gatekeepers Web site – www.igigroup.com for a review. My grading of last year was a 77.5% - If you like, go to the Web site and send us your grade.

We are somewhat late with our publication of these forecasts this year, as we wanted to see some of the carriers’ fourth-quarter results before committing to forecasts for 2008. In the interests of continuity, we are still styling this the "Holiday Horoscope." You can think of it as a late Christmas present.

The following is a continuation of our series of annual forecasts for wireline telecommunications (a strange term now that almost no new stuff is wire). Before we go into our predictions for 2008, we feel compelled (if we had not done well, we probably would not feel so compelled) to cite our results for the last few years. Our Horoscope for 2003 was only slightly over half right – but batting .500 pays big money in the major leagues! In 2004 we outdid ourselves by achieving a better than 70% result. The 2005
result was even better at about 85%. For 2006, we did very well, also, achieving a 77.5% grade. As noted above we also hit 77.5% in 2007.

Let us look now at our predictions for 2008. (To help those wanting to get a quick look at the actual predictions, and not to be bothered with my reasoning or lack thereof, the actual predictions are underlined.)

We invite you to review the forecasts and let Dr. Polishuk (ppolishuk@igigroup.com) or me (c.holliday@ieee.org) know what you think about the forecast. We may publish the most interesting (or amusing, or both) responses in the Reader’s Corner of the HSAR.

1 Capital Expenditures – The 2007 expenditure of capital exceeded our forecasts (actual of about 115.5% of last year’s, compared to our estimate of 110%). The levels of capital expenditure by the major telcos (the others are important, too, but the RBOCs spend so much more than everyone else, the others do not matter much) continue to be high with the new FTTx networks that are being installed. Also, the telcos capex had been so low for the last several years that basic asset replacement needs were not being met. Adding to the overall increase was somewhat of a surprise from Comcast, which was up about 50%. The cable companies overall were up about 27%. We are again predicting an increase, and, after being low the last two years, we are going with the flow this time. The RBOCs have started (in varying degrees) several new capital programs that will tend to require more capital expenditures and we expect the cable companies to continue upgrading.

We are therefore forecasting a 15% increase (2008 over 2007) in capital expenditures by the major telcos, cable companies, and IXCs. Most of this will be from the RBOCs. Our report “Next Generation Network - Will the RBOCs be Googled Up?” now available from Information Gatekeepers, details this forecast.

2 High-speed Access – We believe (and we can show the calculations to strongly support that belief, see our report “Internet Growth”) that high-speed access is now the main source of traffic growth on our backbone networks. We think that high-speed access penetration (percentage of households equipped with high-speed access) has reached the part of its ‘S’ growth curve that goes up dramatically. Last year we had predicted that it would reach 54% to 57% and it did, at about 56.5%.

In 2008, we predict a somewhat slower growth, with the telcos held back by emphasis on advanced high-speed products (FiOS) and the attendant greater cutover requirements. In this case, we believe the demand is there, but the supply problems – the harder cutovers – will hold down actual growth. Our forecast for 2008 is for high-speed access achieving 60% - 65% penetration by year’s end as measured by US households.
3 High-speed Access, Part II – A major battle is in progress between the cable companies and the telcos for dominance in the high-speed access arena. The cable companies achieved a two-to-one lead over the telcos that stood up through 2003. However, in 2004, (might we be permitted to say, “exactly as we forecast,”) the RBOCs began a massive effort to correct this situation, and the two-to-one lead melted to about 53.5%-46.5%, still in favor of the cable companies. Last year we predicted that the telcos would cut this lead to 50%-50%, but it only reached 53.5%-46.5%.

For 2008, we predict that this trend will continue, but very slowly, with the telcos reaching 47% to 47.5% by year-end.

We also predict that before 2008 is over at least one major US MSO will be seriously working with a version of FTTP!!

4 Network Traffic – We have been forecasting network traffic for several years. This has been really a "gimme" forecast for several reasons. First, there is no ‘network’ in the sense that one can measure things on it. Then the question of measuring the traffic (if there were a single network) is also problematic. However, in spite of these very formidable problems, this issue is very important. Traffic growth is the source of investment need and profit growth. It is really the basis of our business. Therefore, we try to estimate the increase in traffic on the network every year. Last year we estimated that network traffic would increase by 150%. We have recently completed two reports on network traffic (“How Much Bandwidth Is Enough in the Access Network?” and “Internet Growth”). In preparing these reports, we concluded that 150% is too high a growth estimate for the backbone networks, and that it is more like 50%.

For 2008, we predict that network traffic will continue to be influenced by IPTV traffic, even though IPTV will be on its own networks. However, we think overall growth will be between 45% and 50%.

5 Mergers – This is the forecast that we hit out of the ballpark in 2005 and again in 2006. We correctly predicted the RBOC-IXC mergers in our 2005 Holiday Horoscope and the Lucent-Alcatel merger in the 2006 version of the Horoscope! Last year, 2007, we predicted a major equipment vendor merger, and we missed that completely. For this year, we continue to feel that there are too many major telco equipment vendors in the US. We just think that the market is too small to support Lucent-Alcatel, Nortel, Siemens, Fujitsu, Ericsson, and the others.

We predict again that one or more of the large, traditional telecom vendors will be involved in a major merger, or will leave the US market.
Mergers II, or “Who’s Going to be Googled Up?”– There has arisen a new class of telecom competitor in the Googles, Yahoo's, and MSNs of the world. These customers/competitors have found ways to profitably use the growth of data traffic in their basic businesses much more so than any of the traditional telecom companies. Last year, we predicted Google would become very active in telecommunications, which it did.

This year we are predicting that one or more of these companies will make an even more dramatic move toward direct, active participation in the telecom market place. Our report, “The Next Generation Network – Will the RBOCs Get Googled Up?” deals with this in detail.

Regulation – The 2007 trend towards lighter regulation will continue. With that in mind, we make the same prediction as last year: the network access-sharing rules will continue favoring the incumbent carriers; that the Internet will continue untaxed; and that any prospective telecom vendor merger will be allowed. What future years will hold will likely depend on the 2008 elections.

Network Modernization and the NGN– Our existing network, at almost every level, is a conglomerate of various generations and types of technologies. There has been substantial work done on the development (from a standards viewpoint) of a next-generation network (NGN.) Capital constraints have previously prevented the initiation of any real replacement program for the older technologies. In addition, while we have been in a deep freeze as to investment, technology and product advancements have continued. While capital may be loosening up a little, there is still a strong pressure for profitability, suggesting the need for expense containment.

For all of these reasons, we predict a definitive continuing movement toward an NGN in 2008. This is much the same as last year’s prediction, and we will likely carry it for several years, as it is a long-term venture. This program will be based on elements like ROADMs, next-generation DWDM, next-generation SONET, and optical switches. It will be directed at making the network more flexible, more reliable, and less labor-intensive. Our report, “The Next Generation Network – Will the RBOCs Get Googled Up?” outlines this prediction in great detail.

ROADMs – As noted under Network Modernization, we believe that the time has come for reconfigurable optical add/drop multiplexers (or, as we say in Texas, “Rode ‘ems.”) The RBOCs will begin to deploy these elements in metro networks, and the IXCs and cable companies will continue to use them in long-haul networks.

We predict that there will be a continual effort towards strong deployment of ROADMs in 2008. Again, this is similar to our 2007 prediction. Our report “On the ROADM to the Lightwave Network” details this.
FTTP – Verizon continues its FTTP program vigorously, and has added video to its offering. AT&T has begun its real commercial program (although it is slightly different from Verizon’s), and it appears that AT&T will continue its U-verse program in the old BellSouth territories.

For 2008, we predict that AT&T will enter the FTTP arena (changing from FTTn to FTTP – perhaps without an announcement) and will be pursuing a strong deployment of GPONs by the end of the year. As an alternative, and one with a low probability of happening, we could see AT&T drop its entry into wired video, and just concentrate on high-speed access and satellite-delivered video. Our reports “FTTP: The New Standard and How it is Changing,” and “FTTP Equipment and Cable Requirements” detail these forecasts.

So, there are our predictions for 2008. We hope they will be useful to you, or at least have offered you a laugh or two.

Notes to the media:

For interviews with Dr. Polishuk or Clif Holliday (author of the Lightwave Reports), please contact Dr. Polishuk at 617-782-5033 or at marketing@igigroup.com

Charts and graphs from the latest IGI telecom reports, noted above, can be made available to media outlets as needed, as can information from our latest reports on Network Traffic, FTTP, NGNs, and R-OADMs.