

Telecom Will Recover Later, Firms Should Renegotiate Now

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Gartner forecasts that the U.S. network service provider (NSP) market won't recover until late 2003. Enterprises shouldn't panic but should renegotiate contracts and address long-standing grievances.

NEWS ANALYSIS

Event

Recently, several U.S. NSPs issued bad news:

- On 18 April 2002, Qwest Communications International lowered revenue estimates for 2002.
- On 22 April 2002, WorldCom's stock price fell almost 33 percent as WorldCom lowered earnings expectations, and financial analysts and credit rating agencies lowered their ratings.
- On 23 April 2002, Williams Communications filed for temporary protection from creditors under Chapter 11 of the U.S. bankruptcy code.
- On 23 April 2002, Verizon Communications announced a first quarter loss of \$500 million and lowered revenue and profit expectations for 2002.
- On 24 April 2002, AT&T announced that revenue in 1Q02 fell 8.4 percent compared with 1Q01.

Analysis

Based on this spate of bad news, Gartner forecasts that the U.S. NSP market will not recover until at least late 2003. The industry continues to struggle with falling prices, excess capacity and increasing competition. More consolidation will likely occur. More NSPs will likely file for Chapter 11, and healthier NSPs will grow by acquiring distressed assets at bargain prices.

However, enterprises should not panic. Price reductions will continue, but their pace has moderated. Likewise, revenue has started falling at a lower rate — in fact, Sprint's 1Q02 revenue *increased* 8 percent from 1Q01. NSPs continue to work through their overcapacity.

This climate gives enterprises an opportunity to renegotiate with their NSPs:

- Enterprises should consider the financial health of their NSPs and do most of their business with the most viable ones.
- In pricing, enterprises shouldn't expect as dramatic discounts as they won in the last few years, but modest discounts remain possible. Enterprises should re-examine their contracts to determine whether the rates specified reflect today's market conditions.
- More importantly, enterprises should seize the chance to work through problems with their NSP. The slow telecom market should make NSPs more willing to resolve long-standing grievances.
- Enterprises can also add services at reasonable prices, but they should set exact service levels and include iron-clad terms in the contract.

The enterprises that can take best advantage of the window of opportunity for negotiations signed their present contracts in 2000 or before. Enterprises that have remained loyal to the same NSP for many years could have difficulty negotiating because the NSP may assume they won't switch to another provider. With the telecom market likely to recover by the end of 2003, the negotiating window will likely close by 1H03.

Analytical Source: Jay Pultz, Gartner Research

Need to Know: Reference Material and Recommended Reading

- “Qwest Struggles for Revenue, Services Could Suffer” (FT-16-3672). Gartner reiterates that the enterprises best positioned to take advantage of Qwest's aggressive pricing are those that can split their business between Qwest and another carrier. **By Jay Pultz and David Neil**
- “The Telecom Industry Will Survive Despite Crisis” (FT-15-5323). Enterprises should not let the scandals and disasters distract them; rather, they should analyze the health of carriers individually. **By Jay Pultz, Bob Hafner and David Neil**

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