

## Competitive Intelligence Report

# Verizon Adds New Service Level Agreement for DS-1 and DS-3 Customers

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Current Perspective:

Positive

Vendor Importance:

Moderate/High

Market Impact:

High

Summary

### Event Summary

August 29, 2006 – Verizon Partner Solutions (VPS) announces a National Service Level Agreement (SLA) for wholesale interstate DS-1 and DS-3 special access services. Wholesale customers can select the Basic SLA, which offers remedies for provisioning and repair on a circuit-specific basis, or choose the National plan, which offers SLAs based on a monthly average across the customer's network. Verizon has automated its credit process and does not require National SLA customers to file credit request forms.

### Analytical Summary

- Current Perspective: Positive on Verizon Partner Solutions' implementation of its National Service Level Agreement (SLA) plan for interstate DS-1 and DS-3 special access services, because the carrier is differentiating its service and trying to win business through service guarantees with teeth rather than straight price reductions. The wholesale market has struggled over the past several years as carriers have increasingly relied on price cuts to win wholesale deals. Verizon's move changes the competitive landscape by offering customers an incentive other than price to buy its transport services.
- Vendor Importance: Moderate to high to Verizon Partner Solutions, because the carrier is offering wholesale DS-1 and DS-3 interstate special access customers options in how SLAs are measured. The carrier's offer to issue SLA credits once notified of a problem, without filling out any additional credit request forms, also makes it easier for the customer to do business with Verizon.
- Market Impact: High on the wholesale DS1/DS3 transport market, because Verizon is trying to change the dynamic of the competitive landscape in the wholesale arena from the "race to zero" practice of price cutting, to one of creating new services and improving

**Current Analysis**

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network performance and customer service in order to win business. The first tactic of most carriers that are trying to win in the transport business will still be to undercut the competition rather than add value, but this is a step in the right direction for wholesale services.

**Current Perspective:**

**Positive**

**Target Markets**

CLECs, Global Carriers, ILECs, IXCs, Mobile Wireless Operators

**Vendor Importance:**

**Moderate/High**

**Perspective**

**Market Impact:**

**High**

**Current Perspective: Positive**

We are taking a positive stance on Verizon Partner Solutions' (VPS) implementation of its National Service Level Agreement (SLA) plan for interstate DS-1 and DS-3 special access services, because the carrier is differentiating its service and trying to win business through service guarantees with teeth rather than straight price reductions. The wholesale transport market has struggled over past years as carriers increasingly relied on price cuts to win wholesale deals. Verizon's move changes the competitive landscape by offering customers an incentive other than price to buy its services.

The regional Bell operating companies (RBOCs) and other incumbent local exchange carriers (ILECs) are required to file tariffs with the states and the Federal Communications Commission (FCC) that detail services, prices and terms (including SLAs) for their regulated carrier products. Given the regional beginnings of the carriers and the subsequent acquisition of properties outside of their original region, these tariffs have evolved into a complicated morass of information, with terms of service varying from region to region within each carrier's footprint. Verizon found that many of its customers did not have a good understanding of the transport services SLAs, so the carrier created a cross-functional/cross-company team to evaluate existing SLAs and craft a solution that would be both easy for the customer to use and understand, one that also differentiates Verizon's service from transport services from competing providers. One of the first steps in the process was the standardization of DS-1 and DS-3 tariffs across all regions. Verizon has been working with the FCC to standardize SLAs across its four tariff areas. In order to qualify for the National SLA, customers must use Verizon-approved electronic interfaces for ordering and trouble reporting and at least 70% of the customer's combined monthly order and trouble reporting transactions must be made via this interface. The customer must have at least 80 combined transactions (electronic or manual and can be orders or trouble reports) a month. Neither the automation nor the transaction volume benchmark should be an issue for wholesale services buyers of significant size.

DS-1 and DS-3 transport services are a staple of the telecom industry and are the basis for the multitude of services that wholesale customers might want to offer to their customers including private line circuits, dedicated Internet access, integrated voice and data, IP VPNs, Ethernet, frame relay/ATM and more. This market is huge and posts modest growth, and VPS' National SLA plan aims to make it easier to do business with Verizon through automation and standardization. All VPS DS-1 and DS-3 customers are eligible to receive VPS' Basic SLA, which consists of the carrier's pre-existing circuit-specific non-recurring

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**Current Perspective:**

**Positive**

**Vendor Importance:**

**Moderate/High**

**Market Impact:**

**High**

charge (NRC) credits for missed installations and a combination of fixed fee and fractional monthly recurring charge (MRC) credits for outages. VPS' national SLA offers wholesale customers an alternative structure that considers the customer's entire network and offers remedies based on network-wide performance, with installation remedies of up to 50% of the MRC or up to \$500 for a DS-1 and up to \$1,000 for a DS-3; and repair remedies of up to \$250 for a DS-1 and up to \$1,000 for a DS-3, if the outage is not resolved within 3.99 hours for a DS-1 and within 2.99 hours for a DS-3. If the target threshold is missed, then the carrier will issue circuit-specific credits for individual circuits. The carrier will work with the customer to determine the best SLA option based on the geography of the customer's network, Verizon's past performance and other criteria. Verizon also has taken the steps to automate service credits, tying the crediting process to Verizon's trouble ticketing system: Instead of filing credit requests manually, VPS issues them automatically once the customer notifies Verizon, and Verizon confirms the problem. Existing customers can opt in to Verizon's National SLA between October 1 and December 31, 2006, though it seems likely the offer will be around in various forms for a long time to come. Customers that find that the Basic SLAs were a better solution can move back to Basic SLAs at any time.

Due in part to FCC filing requirements, the National SLA was filed as promotion with a limited time frame for opting in. Carriers can opt out and move back to Basic SLAs at any time, but they cannot move back into a National SLA once they opt out. This makes it difficult for CLECs and other carriers in transitions such as management changes, mergers and other situation that might make the customer re-evaluate suppliers and services. Additionally, Verizon's National SLA does not offer truly proactive service credits, in that Verizon must still be notified of an outage in order to qualify for a service credit.

VPS' introduction of a National SLA plan is an important development for the wholesale market in that Verizon is trying to change the dynamic of the competitive landscape in the wholesale transport arena from the "race to zero" practice of price cutting to one of creating new services and improving network performance and customer service in order to win business. The first front among carriers trying to win business will continue to be undercutting the competition, offering better service guarantees is a step in the right direction for wholesale services.

**Positives and Concerns**

**Competitive Positives**

- DS-1 and DS-3 transport services are a staple of the telecom industry and are the basis for a multitude of services that wholesale customers might want to offer to their customers, including dedicated Internet access, integrated voice and data, IP VPNs, Ethernet, frame relay/ATM and more. The transport market is vast, and Verizon's decision to differentiate its service by making it easier to do business through automation and standardization is a positive step.
- VPS' standardization of SLAs and automation of credits makes it easier for the customer to get a credit for service problems; it also reduces Verizon's operation overhead by eliminating the manual process of manually rechecking and responding to customer credit request forms. Most carriers require the customer to file a credit request. Verizon's National SLA takes that burden off of its customers, making modifications to systems that it already had in place in order to improve the customer experience as well as monitor its own performance.



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**Current Perspective:**

**Positive**

- Customers that choose the National SLA option can choose later to back out and return to the Basic SLA option. This way, a wholesale customer using the National SLA plan always has a fallback in case it finds the plan is not delivering the same measure of performance as the pre-existing Basic SLAs.

**Vendor Importance:**

**Moderate/High**

**Market Impact:**

**High**

**Competitive Concerns**

- Due in part to FCC filing requirements, the National SLA was filed as promotion with a limited time frame for opting in. Carriers can opt out and move to Basic SLAs at any time, but cannot move from Basic to National SLAs mid-year or opt back in to the National SLA once they opt out.
- Verizon cites proactive service credits, but it is more accurate to call its service credit process automated instead of proactive. The customer must still notify Verizon of the problem and the carrier needs to confirm it before a credit is actually applied to a customer's account; a truly proactive service would issue a credit if it detects a network problem regardless of whether the customer issued a trouble ticket.
- Verizon is the incumbent local exchange carrier in the northeast and mid-Atlantic states, and operates a patchwork quilt across many additional states. But there are many states where the carrier has minimal or no incumbent local carrier presence. Locations outside Verizon's incumbent local service territory don't benefit from Verizon's National SLA.

**Recommended Actions**

**Recommended Vendor Actions**

- Differentiation on network performance and customer service is a strong step in the right direction. Verizon should evaluate SLAs for other regulated access services to find innovative ways to improve service offerings to wholesale customers. While price will always be a factor in a decision, making it easier for a customer to do business with the carrier, proactive steps to address customer issues and clear communication in ordering and billing will also carry weight with prospective customers.
- In order to maintain a leadership position, Verizon must continually seek ways to improve performance and the customer experience. The SLA repair terms of less than 3.99 hours for a DS-1 and less than 2.99 hours for a DS-3 are good, and in line with other carriers. Verizon might want to consider decreasing the time frame to further distinguish its service quality.
- Though it has filed the tariff on its National SLA as a limited period promotion, Verizon needs to continue updating the program's availability dates indefinitely, tweaking metrics

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based on competitors' SLA responses and based on customer feedback.

**Verizon Adds New Service Level Agreement for DS-1 and DS-3 Customers****Recommended Competitor Actions**

- Competing carriers should consider automating their SLA credit processes, getting rid of their service credit request form. While on the surface this may appear to mainly benefit the customer, there may be the added benefit of reducing the carrier's operational overhead by eliminating manual processes. Whether SLAs submitted in writing or electronically, someone from the carrier must go through the document, then re-confirm the outage and associated details. This process is time consuming and ultimately unnecessary if the relevant systems can be linked and automated.

**Current Perspective:**

**Positive**

**Vendor Importance:**

**Moderate/High**

**Market Impact:**

**High**

- Competing carriers offering wholesale services in Verizon's 28-state footprint will want to review their wholesale SLAs to see if there are ways for their SLAs to be improved or streamlined. Wholesale carriers must find ways other than price to differentiate themselves. Seeking to improve SLAs may bring the risk of issuing more service credits, but it may also force carriers to make performance improvements in the network.

- Competing carriers can emphasize that a mean time to repair of less than 3.99 hours for a DS-1 and less than 2.99 hours for as DS-3 are relatively standard for the industry, and don't represent a significant improvement from their own guarantees. Carriers that offer non-averaged time to repair guarantees should knock these averaged service outage metrics as not being particularly meaningful.

**Recommended End User / Customer Actions**

- Existing Verizon wholesale customers need to review the relevant details about the SLA options to determine if the National SLA might be suitable for their needs. They can then work with their Verizon account team to evaluate network geography and needs to determine if they qualify for the National SLA, and whether or not switching SLA programs will benefit them.

- CLECs that have large volumes of traffic and require services in Verizon's footprint will want to examine the SLA details as well. If they are using multiple carriers in the region, they may want to consider moving some services over to Verizon where possible, if Verizon's SLAs are better than the other carrier's