

## A Prepaid Calling Card Market Perspective

### The Hidden Costs in Purchasing a Prepaid Calling Card Platform

At IVR Technologies we come in contact with many start-up and existing ventures looking to enter the prepaid calling card market, and over the years we have seen many companies sink or swim based on their initial platform purchase decisions. The investment in a prepaid calling card solution is an important one and each venture has its own set of internal factors (experience, technical and development resources, budget, cash flow, risk tolerances, competitive landscape, security and control thresholds, etc.) that help to shape and determine its platform selection path.

Budget is always a huge consideration for most, if not all, of the companies we come into contact with as they consider their initial purchase of a calling card platform. Unfortunately, many companies tend to focus solely on price, without consideration for the hidden costs of a given platform. Ultimately, this one-dimensional evaluation approach can adversely impact their prospects for success.

In this article we will discuss the following calling card platform options, and the associated costs and caveats with each:

- § Open Source Solution
- § Hosted Solution
- § Entry Level/Low Cost Solution
- § Mature Solution

#### Open Source Solution

For price sensitive start-ups, open source solutions can be a great option, providing some of the lowest entry price points available on the market. Open source solutions are typically managed by a community of developers who help improve the product by publishing their additions to the community at large.

Open source solutions inevitably require modification or adaptation, and are therefore, well suited to start-ups who have development resources on staff (or on contract) that can help customize the solution into a commercially viable product. As a result of their underlying need for additional development and customization, open source implementations often translate into higher personnel costs. It is also important to note that open source solutions usually have little or no documentation and even less support, so companies that opt for these types of solutions will need to rely on internal development resources or the community to help navigate through API, support, feature, and interoperability issues.

The additional development efforts inherent with open source solutions often result in a much longer time-to-market than turnkey solutions, but faster time to market than developing a solution organically. A company that chooses an open source solution can reduce development costs by leveraging a community of developers, however, it is important to keep in mind that issues that are germane to that company's particular network will typically not be addressed by the community, and will therefore result in delayed resolution or lost market share depending on the severity and/or nature of the issues.

Different open source solutions are governed by different license terms and conditions, and with contributions coming from different sources there is the risk of various legal issues to arise, so prospective buyers should be diligent in this regard. Businesses that elect to go with an open source solution should ensure that the product has been around for a while, there is adequate supporting infrastructure (e.g. centralize source code repositories, newsgroups, list servers, etc.), the solution scales and has some real world commercial deployments associated with it as well as an active development community.

### Hosted Solution

For those companies with limited budgets or who lack technical resources, a hosted provider can provide low cost access to a prepaid calling card platform. By outsourcing the platform and its management hosted solutions lower upfront expenditures and allow budget constrained start-ups to direct their scarce resources to sales and marketing, resulting in greatly reduced time to market.

However, inherent within the hosted model, is a sacrifice of control and security. This is due to the fact that there is rarely physical access to the underlying equipment and the platform is typically shared with other users in a partitioned fashion. In addition, since multiple providers share the same underlying platform, it is difficult for each of them to roll out a unique and differentiated service offering. This, in turn, may negatively impact a company's overall competitive advantage.

Under the hosted model there is a symbiotic relationship between the service provider and the client and this inter-dependency means that the success or failure of one can directly impact the other, with the client bearing far more of that risk. However, in exchange for that risk, the client does not need to make a significant investment in hardware, does not need to staff up on technical and development resources, can reach the market more quickly, and can exit the market far more easily.

A drawback to hosted solutions is that support and issue resolutions can sometime become protracted. In the hosted model, a service provider offers front line support to the platform, but typically relies on one or more equipment/software vendors for resolution. As such, the provider acts as an intermediary between the client and the vendor by channeling all support issues, thus denying the client with direct vendor access. This multi-step support path incurs additional costs and delays that can lead to subscriber loss if prolonged; a hidden cost that can ultimately be devastating to any company.

The hosted model is a great way for the new entrant to test the prepaid calling card market without significant cost outlay, investment, resources, or delay. However, the hidden cost of the hosted model is a lack of ownership, security and control. Within this model, it is generally recommended that the client own and manage the relationships of the origination and/or termination routes, receive timely backups of the subscriber and configuration database, and have an upgrade or migration path should the client ever outgrow the hosted model or the relationship. In some cases, the hosted provider, itself, might even go out of business, so it is critical to always have a migration plan in place when dealing with a hosted solution.

### Entry Level or Low Cost Solution

There are many entry level and low cost prepaid calling card solutions on the market. Some vendors of these solutions offer low price points by buying market share at the expense of a lack of field hardening and experience. Others are back-end loaded, offering low initial

pricing but significant post-sale costs as requisite features are sold piece meal. Still others are based on a multi-component solution from a vendor who is leveraging older technology based on outdated protocols like RADIUS and H.323 that is bolted onto an internetworking solution to allow interoperability with next-generation networks. All of these solutions can provide a full or partial turnkey solution with low investment costs, time to market advantage, and additional control and security over the hosted model. However, some of these solutions may not be fully turnkey, but rather built on additional third-party components in order to make up a comprehensive solution, translating into hidden costs with increased ongoing administrative and management cost to operate and maintain.

New entrants to the marketplace lack field experience which means there are many unknowns associated with them in respect to market viability, performance, scalability, and interoperability. Unless you have a previous relationship with the founders, or a vested interest in their business (beyond being a customer), then it is strongly recommended you avoid these solutions that layer-on additional and unnecessary risk to your business.

Some established vendors offer products based on legacy protocols. These platforms typically scale well, but based on years of incremental improvements, their ability to implement next-generation features and functionality may be somewhat limited and may require external servers/components in order to offer contemporary services or interoperate with today's networks, which drives up the cost and complexity of these solutions.

#### Mature Solution

Mature solutions are ones with an established customer base and market experience of five years or greater and a seasoned management team with many years in the technology and/or telecommunications field.

Mature solutions, typically appear more expensive than the other options discussed, but under closer scrutiny this may not be the case. When one weighs all of the costs associated with a platform (from acquisition, deployment and operation) the total price tag for a mature solution, in many cases, is lower than the other options discussed. Mature solutions have a more conventional business model so their initial pricing, while typically higher, already factor in the hidden costs of the solutions we have discussed earlier such as time-to-market advantage, market experience, verifiable customer reference list, turnkey platform, hardened field-proven applications, unlimited 24x7 support model, thorough documentation, security, ease of scalability, and extensibility. These solutions also offer more in the areas of product features, development, and technical resources, as well as back-end infrastructure (testing tools, support tracking system, customer portals, etc.) which translates into greater value and benefit for the end customer.

Mature solutions offer a longer time to market than hosted solutions, but a shorter time to market than open source and entry level solutions. Furthermore, these solutions offer greater stability, scalability, feature-sets, extensibility and control, plus they are field hardened and proven. As a result of all of these elements, mature solutions should not be dismissed solely on a perceived higher initial cost outlay.

As these solutions are facilities based, they do require higher management and administrative overhead than hosted solutions, but less in comparison to open source and entry level systems. Mature solutions do require technical resources on staff or contract, but they are much easier to install, configure and maintain as a result of more

comprehensive documentation, better support infrastructure, market experience, iterative improvements and more substantial development and technical resources. Turn-up will generally be faster than non-hosted solutions, and issue resolution is substantially quicker than all of the other options, given direct access to greater and more seasoned development and technical resources.

### Summary

Start-ups should focus their searches on consolidated platforms (i.e., with built-in application server, media server, real-time billing server, class 5 feature server, registration & location server). All-in-one solutions reduce administrative and management overhead and reduce the number of support touch points resulting in faster issue resolution and better user experience. The solution must have proven scalability to ensure that it can meet current and future needs. The worst time to realize your solution is not scalable is when you are at the point of expansion; a pivotal moment when any associated scalability issues can result in lost revenue, lost customer confidence and lost reputation, which can all culminate into a lost business. The best time to migrate from an unproven and unscalable platform to a proven and scalable one is in the beginning, during the initial due diligence purchasing phase. The cost to migrate later (under customer pressure and load and with months or years of current and archival data) can be very costly, difficult to recover from, and is most often fatal.

An open and extensible architecture is another important aspect to look for in any prepaid calling card solution for its ability to allow third party integration and reporting, and for enabling companies to develop and offer unique and differentiated services that work to provide competitive advantage. A centralized license model is another key ingredient since it allows a company to expand its network and address scalability and redundancy issues without per server licensing costs. This empowers a company to more efficiently allocate licensing resources based on time-zone and load differences. Also, licensing should be in a just-in-time fashion so that a start-up is not forced to over-purchase, but can increase licensing as its business grows, thus reducing initial exposure and helping to manage cash flow.

Any prospective solution should be based on current protocols with a future and growing market-share rather than out-dated protocols that are well past their "best-before" dates, such as H.323 and RADIUS. SIP, which is modeled after HTTP, has shown its ability to scale, and new protocols like it, are able to build off the shortcomings of antiquated protocols and architectures, improving on their benefits while shedding their shortcomings. In addition, with widespread and growing adoption there is broader and growing interoperability with these new protocols which helps drive down equipment and origination/termination costs.

Other options to look for in prepaid calling card solutions are dynamic routing/rating, customizable and centralized reporting, and an open and flexible database to extend the solution as well as fully analyze data to help with managing subscribers, revenue, calling patterns and carrier costs.

Never overlook the fact that many new-to-market solutions are simply unproven. If you are starting a new prepaid calling card business, do you really want to be a "guinea pig" for an unproven calling card platform? You have so much to risk if there are product shortcomings, release bugs, or unresolved issues, which, as you know, are all too common with first release and unproven products.

Your calling card platform will be your primary interface to your valued customer-base -- in your customers' eyes, your business is your calling card platform. The prepaid calling card business is often a word-of-mouth business, with a word-of-mouth "domino effect", so each happy customer has the ability to bring hundreds of new customers into your network. In turn, each customer lost is not just one customer, but potentially hundreds. Therefore, to limit exposure you should choose a proven, dependable and scalable platform that comes with a very responsive support team who stand firmly behind their products. The last thing you want to do is lose new customers due to platform problems or slow response times to technical issues as you may never get those customers or your reputation back. Be diligent in calling on the vendor's customer references and be sure to ask detailed questions regarding past issues, average technical response times, feature enhancements, and release bugs.

There is a lot to consider when deciding on a calling card platform, and because it is such an important customer facing element and a primary revenue center, it is important to carefully assess your options and properly identify all of the associated fiscal and non-fiscal costs of each option, as these can ultimately be the difference between your company's success or failure.

We wish you the very best in your search for the right prepaid calling card platform/solution for your business!

## Calling Card Platform Purchase Checklist

The following is an important checklist to consider for all prepaid calling card platforms, be it hosted or facilities based or from an incumbent or a new venture:

1. Can it provide rapid deployment and short time to market and ROI?
2. Is the platform extensible, open, and flexible?
3. Do you have control and security over the database and its management?
4. Is a high level of product documentation and supporting materials provided?
5. Is the platform highly scalable with fixed and/or centralized licensing and does it provide the ability for seamless expansion and live updates?
6. Do you have one-stop, 24x7 direct access to the manufacturer's technical support team for rapid issue resolution?
7. Is the platform turnkey and based on a consolidated and fully-integrated solution?
8. Does the solution provide top-notch rating, routing, and reporting to help maximize revenue, minimize cost, and provide you with detailed management oversight?
9. Is the solution built around standards-based and future-driven protocols?
10. Is this a real-world proven solution with a long history of market experience and verifiable customer references?