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Executive Summary

Communications Industry Report 2009:



Views on the U.S. Economic & Regulatory Climate

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**Communications Industry Report 2009:
Views on the U.S. Economic & Regulatory Climate
Executive Summary**

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TABLE OF CONTENTS

*Boldface numbers
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Introduction	1
Demographics.....	2
Results	4
Business Outlook.....	2
Most Popular Applications for 2009	6
Technologies to Watch.....	2
Which Sectors Are the Most Vulnerable?	9
How to Weather the Storm	11
Biggest Threats.....	3
Policy	5
Net Neutrality	16
Defining Broadband	16
Conclusions.....	7
Appendix I.....	21
Survey Questions & Responses	21
Appendix II.....	33
Sample of Individual Comments	33

TABLE OF FIGURES

*Boldface numbers
are Executive Summary pgs.*

Figure 1: Professional Status of Participants	2
Figure 2: Industry Segments Represented*	2
Figure 3: Types of Companies, Organizations Represented	3
Figure 4: What residential services will draw the strongest customer growth in 2009?.....	2
Figure 5: Cable Digital Phone Net Additions.....	6
Figure 6: Which applications will experience the largest jump in usage in 2009?	7
Figure 7: Sentiments toward advanced video services, by industry sector	7
Figure 8: Which business services will generate the greatest customer growth in 2009?.....	8
Figure 9: Which emerging broadband technologies will generate the biggest change in market dynamics?	3
Figure 10: Which industry sector will suffer most from the recession?.....	10
Figure 11: RBOC Access Lines and Broadband Subscribers.....	11
Figure 12: What is the best business strategy for communications companies during the recession?	12
Figure 13: What currently is the biggest threat to the health of the U.S. communications industry?.....	3
Figure 14: What economic trend will hurt service providers the most this year?.....	4
Figure 15: What will be the most positive change in the industry this year?	4
Figure 16: Confidence levels on Obama admin./Congress handling of telecom policy.....	5
Figure 17: Support for using government grants to spur broadband deployment	15
Figure 18: Sentiments about open access requirements for service providers	16
Figure 19: What is the minimum data speed that should meet the definition of broadband?	17
Figure 20: When will the U.S. achieve universal broadband coverage?	6
Figure 21: Which technology deserves the most government investment?	18
Figure 22: How optimistic are you that the U.S. will hold a sizeable lead in telecommunications innovation by the end of the next decade?	19

Introduction

Pike & Fischer in March and April 2009 conducted our second annual *Communications Industry Survey* of top communications industry executives, engineers and consultants, along with government officials, journalists, and academicians who focus on the communications industry. The 2008 survey, conducted before the global economy plummeted to crisis levels, focused primarily on the regulatory environment and sentiments and expectations regarding the presidential candidates. This year's survey centers on the impact that the recession is having on the communications industry, and on sentiments about the way the Obama administration and Congress are working to expand broadband availability across the country.

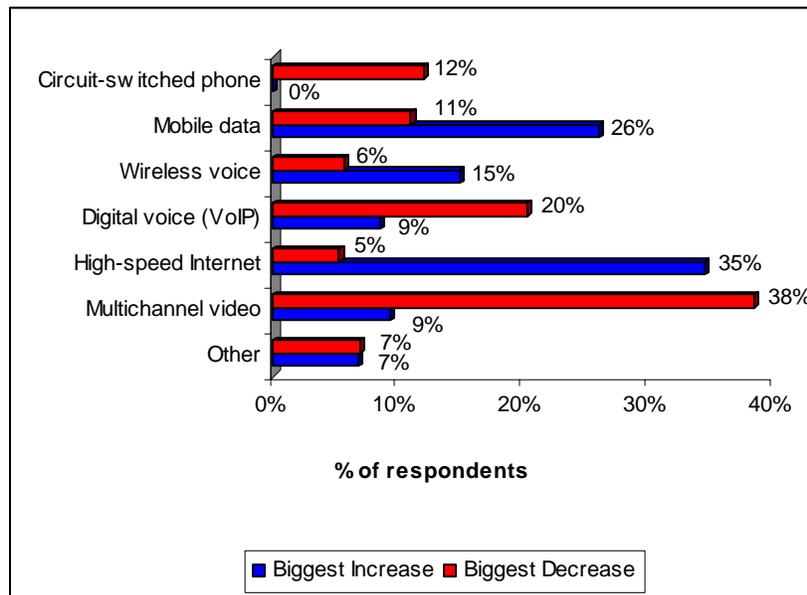
We received 282 responses to our online survey. Among our chief findings are as follows:

- Industry professionals are much more optimistic about the Obama administration's ability to handle pressing telecommunications issues than they are about Congress's ability to do so. A substantial majority of participants say they are pessimistic about Congress's ability to drive positive change in the telecommunications space.
- More than half of respondents say they expect, with the federal government now providing grants to fuel broadband deployment, that the nation will achieve universal broadband availability within the next five to 10 years. But one-fourth of participants believe it will take more than a decade to reach that benchmark. And a slight majority of respondents say they doubt that the United States can secure a lead in telecommunications innovation over the next decade.
- Industry professionals believe high-speed Internet and wireless services are the residential services that will draw the strongest number of new customers this year. Voice over IP is not widely seen as having much growth potential in the near term.
- WiMAX is by far considered the emerging technology that will generate the biggest change in communications market dynamics over the course of the year.

Business Outlook

Survey respondents overwhelmingly identified broadband and wireless services as the residential services that will draw the largest number of new customers this year. Roughly 34.5% of respondents selected high-speed Internet service as the biggest growth area, while 26% chose mobile data. Nearly 15% said they expect wireless voice service to generate the most subscriber growth.

Figure 4: What residential services will draw the strongest customer growth in 2009?



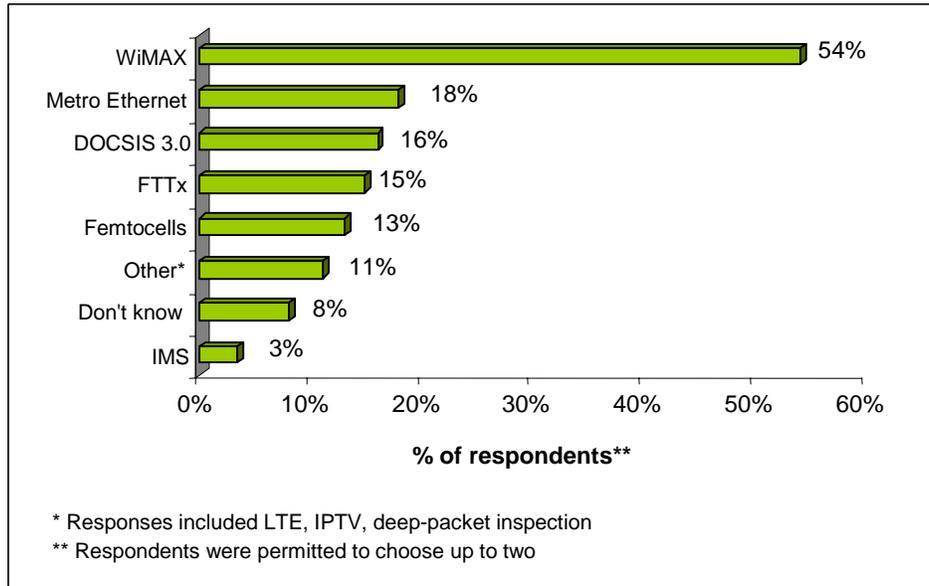
Source: Pike & Fischer Communications Industry Survey 2009

Digital voice service, which had been a major growth engine for cable operators, was cited by only about 9% of survey respondents as the area likely to generate the biggest boost to business in 2009. This result may very well stem from the slowing growth of households signing up for cable digital voice—the result of a combination of sluggish housing growth, households increasingly using wireless service only, and fewer Americans moving to new locations.

Technologies to Watch

We presented survey participants with a selection of various emerging broadband technologies, and asked them to choose up to two that they believe will generate the biggest change in market competition over the next year. WiMAX was selected by 54.1% of total respondents, followed by Metro Ethernet (18%) and DOCSIS 3.0 (16%). IMS (IP Multimedia Subsystem), the architectural framework for delivering multimedia across wired and wireless platforms, received the fewest votes (3.4%). WiMAX is gaining momentum as partners Sprint and Clearwire, with the backing of top cable operators, carry on a rollout of wireless broadband networks across the country, including 75% of the top 50 markets.

Figure 9: Which emerging broadband technologies will generate the biggest change in market dynamics?

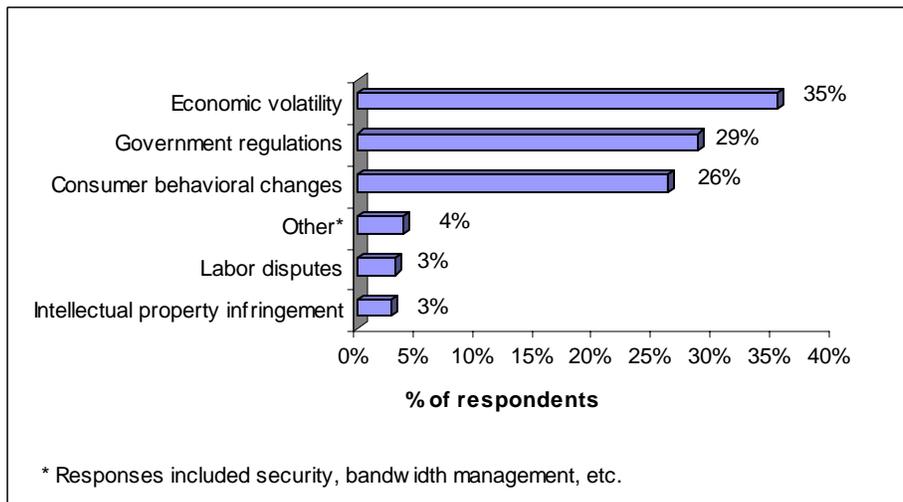


Source: Pike & Fischer Communications Industry Survey 2009

Biggest Threats

Overall, industry professionals view the struggling economy, changing consumer behaviors and government regulation as the biggest threats to the communications industry. More than 35% of those who took part in our survey said economic volatility is the biggest threat, while 29% pointed to government laws and rules. Slightly more than 26% cited consumer behavioral changes as the biggest current threat to business (see Figure 13).

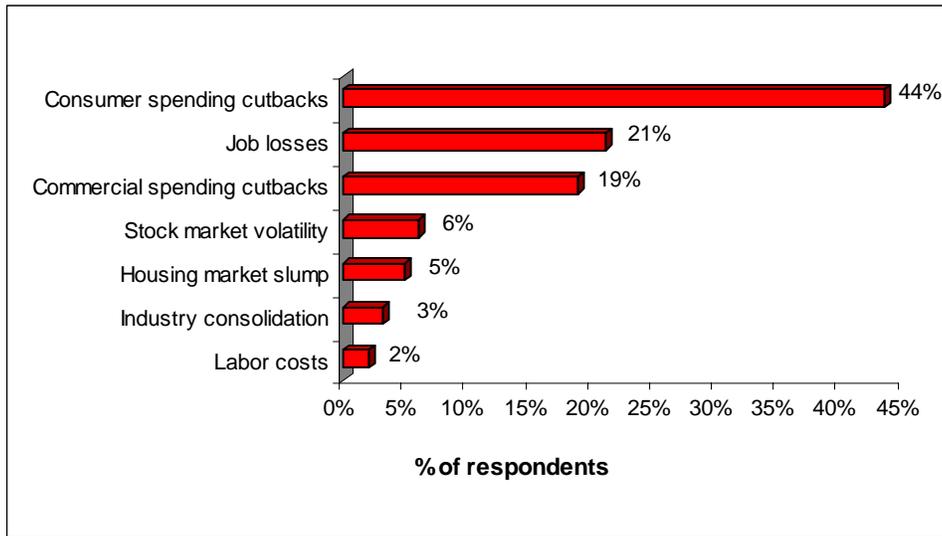
Figure 13: What currently is the biggest threat to the health of the U.S. communications industry?



Source: Pike & Fischer Communications Industry Survey 2009

In looking at current economic trends, participants from across all industry sectors were most concerned about the impact of customer spending cutbacks (both residential and commercial), with 44% of survey votes marking this as the most harmful trend. Further, 21% chose as most detrimental the spread of job losses across the country, which presumably leaves many people no longer able to pay for many of the telecom services they have been purchasing.

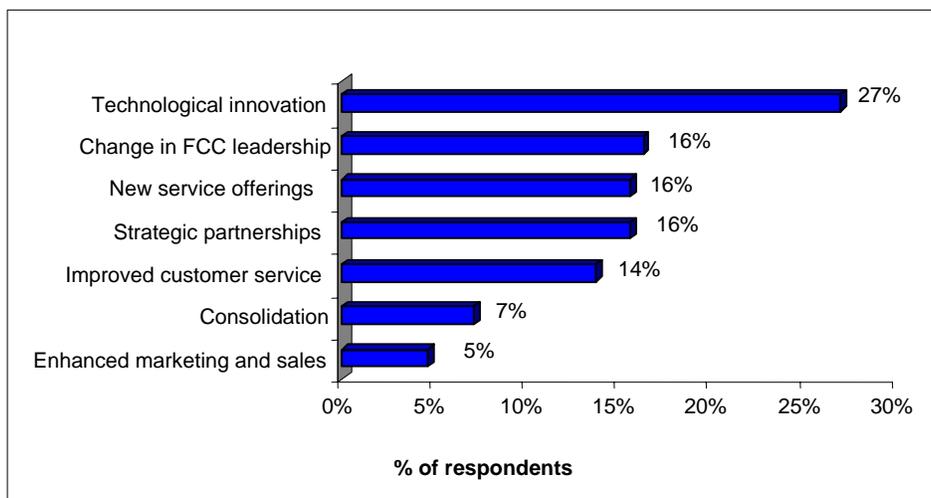
Figure 14: What economic trend will hurt service providers the most this year?



Source: Pike & Fischer Communications Industry Survey 2009

But respondents haven't totally lost hope. A full 27% said technological innovation would bring the most positive change to the industry in the coming year (see Figure 15). Another 16% expect that lift to come from the leadership changes at the Federal Communications Commission; 31% cite new service offerings and strategic partnerships as the biggest catalysts for positive change.

Figure 15: What will be the most positive change in the industry this year?



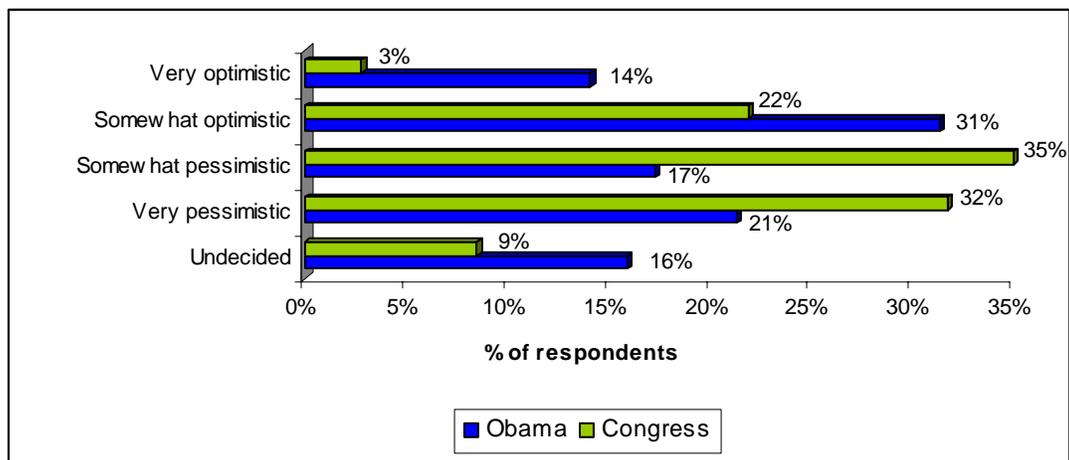
Source: Pike & Fischer Communications Industry Survey 2009

Policy

About 45% of participants in our survey said they are very optimistic, or at least somewhat optimistic, about the way the Obama administration will handle telecom policy, with another 39% expressing pessimism, and about 16% saying they are undecided as to how the administration will handle telecommunications policy.

Participants reserved far more pessimism for the way Congress will handle telecom policy. A hefty 67% of participants said they are somewhat or very pessimistic about Congress's ability to effect positive change in the telecom space. About 22% said they are somewhat optimistic, but less than 3% said they are very optimistic. Fewer than 9% of respondents said they are undecided about how Congress will perform.

Figure 16: Confidence levels on Obama administration/Congress handling of telecom policy



Source: Pike & Fischer Communications Industry Survey 2009

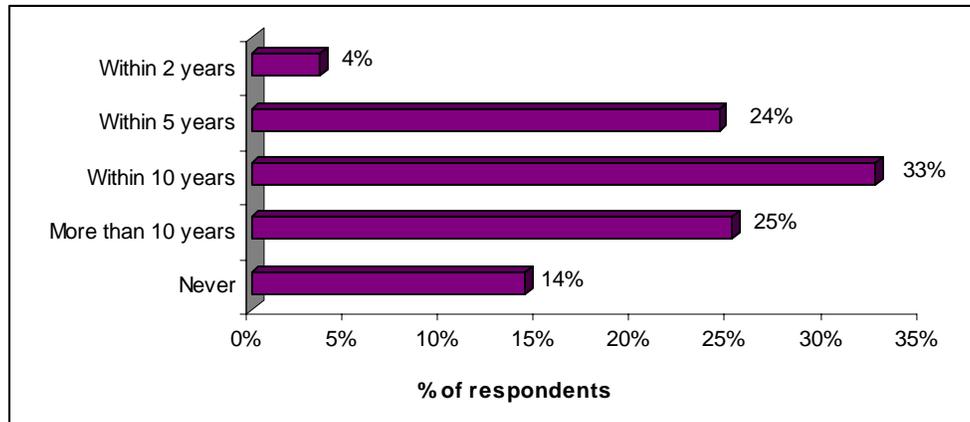
Those we surveyed were split on the question of using government grants for broadband deployment, as Congress has authorized in the economic stimulus legislation it passed in February. A full 44% of respondents said they support such grants, while 38% oppose them. Slightly more than 18% said they are undecided.

Participants were also split in the survey on the question of open access or network neutrality requirements being imposed on service providers. About 37.5% oppose net neutrality requirements, while 35.4% favor them. More than 27% remain undecided.

Those opposed to net neutrality said they believe competition will keep discrimination on the Web in check and that service providers need to have some autonomy to manage their networks in order to deliver a reasonable quality of service to customers. But others describe the current Internet service market as monopolistic, and said open access is therefore essential.

We also asked participants how soon they believe the nation will achieve universal broadband availability now that the federal government is offering more financial support for deployments. As Figure 20 reflects, there seems to be no general consensus. About 33% said they expect universal broadband availability to occur within the next decade, while 25% said it would take more than 10 years. Another 24.4% said they expect to see broadband available across the nation within five years. And 14.3% said they believe the country will never see broadband accessible everywhere.

Figure 20: When will the U.S. achieve universal broadband coverage?



Source: Pike & Fischer Communications Industry Survey 2009

Conclusions

The results of our survey lead us to conclude that President Obama, undoubtedly the most tech-savvy president in history, has impressed communications industry professionals at a time when the nation is trying to recover from economic catastrophe.

That sentiment may change a bit as his administration begins to push controversial policies such as net neutrality—a principle that still sparks heated debate between major network operators and open-access advocates. Obama campaigned on a promise of supporting net neutrality.

The economic crisis is severe enough that every sector of the communications industry is likely to back any plan that Obama and Congress put in place to generate jobs and spur consumers to spend money. While participants in our 2008 survey cited government regulation as their biggest complaint, this year the survey participants are much more worried about the economy.

Nevertheless, we found there is widespread sentiment against government interference in the communications market. In our sample, smaller companies—presumably the type of providers that the economic stimulus programs are likely to target—are just as likely as large enterprises to be opposed to federal grants for broadband deployment. Many of them may spurn the opportunity to apply for those monies, worried that the grants will come with too many onerous rules attached.

With or without government help, service providers are likely to spend the remainder of the recession investing in infrastructure upgrades, and to a smaller extent product improvements, rather than engaging in other types of strategic spending. Pouring money into lobbying, research and development, and corporate acquisitions may be seen as too risky or frivolous in the current financial climate.

About the Author

Scott Sleek, Director of Pike & Fischer's Broadband Advisory Services, also serves as Managing Editor of our online newsletter Broadband Daily. Scott also oversees the development of all Research Reports & Briefs and manages the Trackers & Projections database. Scott regularly tracks competition between cable operators and telephone companies for voice, video and data customers, and follows trends in the adoption of broadband services and emerging applications. He has investigated and provided projections on such emerging consumer services as video on demand, fiber-to-the-home, Voice over Internet Protocol and mobile multimedia. Scott has more than 20 years of experience as a writer, editor and researcher. Contact Scott at 301-562-1530, x291 / ssleek@pf.com.



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