

The Service Bureau *Could it Be Your Best Choice?*

By Len Bittner

Many phone card distributors make a mistake by overlooking the use of a service bureau for some of their phone card product offerings. Call it a service bureau, virtual switch, virtual platform, prepaid services partition, usage-based services or switch condo; it all means basically the same thing. Instead of investing your own capital on a switch/platform, you simply outsource this function to a company that allows you to rent space on their platform. This can give you the ability to control your product and how many minutes you're quoting and delivering to your target destinations, build your own brand and increase your profit margins at the same time.



One of the major reasons hard card distributors cite for not using a service bureau is that they don't really have a good handle on what their current phone card products are delivering in terms of actual minutes and call quality. Those who do rate decks for the popular phone card products have gotten very good at making their products "appear" to offer

more minutes than they actually do. In fact, the numbers don't seem to make sense at first glance: the rate advertised on the card to call a specific destination is often equal to the cost for buying minutes on the open wholesale market to that destination—and this is before the distributor discount or commission is factored into the equation. If you look a little further at your

current product offerings, you'll quickly find that you can be competitive by looking beyond mere minutes and highest discounts per market to offering a quality product that delivers what you're advertising on your posters, or as close as possible.

The Prepaid Death Spiral

For most distributors, the old axiom -- "If you can't beat 'em, join 'em!" -- is their answer. This means that distributors often end up reselling and building someone else's brand rather than their own. But when you dance with the devil, you're in for trouble, as many distributors have found. Building someone else's brand isn't always the best for your business in the long run. Many distributors selling someone else's brand eventually get caught in the classic squeeze play. Poachers come into their markets selling the popular brand at a lower discount to your stores and sub-distributors, often operating on 1% margins or less causing you to lose precious sales. Payment terms often change, sometimes overnight, and that can put you into a cash flow crunch. Minutes delivered to the cardholder, are often decreased with no advance notice, causing sales to drop off dramatically. In extreme cases, this can lead to the dreaded returned cards phenomena. These problems have put many distributors out of business. But there's a growing contingent of savvy distributors who have taken the high road and are building their own brand. Some have become wildly successful in their respective markets. Plus, they're the ones who are in control of their own destiny.

Squashed Under the Platform

Numerous growth-minded distributors have also taken the path to owning and operating their own switching platform, many with less than positive outcomes. Many distributors went out of business trying. You know who they are, so I won't embarrass them by listing them here. They quickly found

that running a platform is not such an easy thing to do. And at the end of the day, even if they are successful, their platform is costing them at least a penny per minute to operate, plus they have a whole new set of headaches to worry about. They also found that it costs twice as much as they originally anticipated and that it took at least twice as long as was planned to deploy, and that's if they were lucky. For many, it was more like a tenfold difference. Money and time spent building and running their own platform might have been better spent on building their brand—advertising and promoting their brand in their markets.

Carrier-ed Away

Finding and managing carriers also turned out to be a nightmare. At first glance, a distributor looks at the rates advertised on a competitor's card and automatically assumes that there must exist, somewhere, a carrier who will sell them rates, with good quality, at 30% to 40% below the rates on their competitor's cards. They often end up chasing their tail, wasting precious time and money, trying every carrier deal that comes their way in the hopes of finding the magic supplier who has rates that are well below the going market rates but with exceptional quality. What they soon learn is there is no such thing as a magic carrier and "You get what you pay for." Cheap rates equate to poor quality, period.

Service Bureau Takes Away the Headache

Going with an experienced and reliable service bureau allows you to hand off all of these problems to someone else who is equipped to handle them. This leaves you time and money to focus on building your brand.

'But, the numbers don't make sense,' you say. At first glance, I have to agree. How do you buy minutes to a particular destina-

tion at say 5 cents and then turn around and sell them at the same 5 cents less a 30% discount for 3.5 cents? What's really happening is that you're going to be selling at an effective rate that is more like seven to nine cents. More on how to do that later.

Feasibility Analysis

Understanding your competitor's products is the first step in determining whether or not it's feasible to run a particular product on a usage basis. Sure, they say that they are giving 500 minutes to Mexico on a \$5 card but what are they really delivering to the consumer? How many minutes is the product delivering on one long call? Are they delivering 80-90%? Plus how many minutes are being delivered on multiple average length calls? Is it 50%, 75%, or what? Some simple testing of a competitor's card will easily help you figure out what is happening.

What Is Your Break-Even Point?

The next step is to determine how many minutes you can deliver. To do that you'll need to know what your break-even point is. Here's what you'll probably find: Even though the poster says 500 min-

calculate your break-even minute at 150 minutes and you see that you can easily offer 120 minutes and make a tidy profit. Plus, all of those calls to higher margin A-Z destinations help out your margins nicely, too.

Determining your break-even point is as simple as dividing your carrier costs into the value for which you're selling your card. For instance, a \$5 card that is discounted 30% sells for \$3.50 and your carrier inbound & outbound costs are 3-cents, you'll divide \$3.50 by 3-cents which yields a break-even of 116.7 minutes. Now compare this to what your current product is delivering. Sure you're going to be upside-down on those few long calls when someone talks for 300 minutes, but, statistically, that rarely happens.

Don't Overlook The Quality

Next, how is the quality of your cardholders' calls, really? In making ten test calls, how many times does the cardholder actually get what they expect, which is the ability to talk to the person they're calling. Don't be surprised that you can't get through 10 out of 10 times to some third world countries, even though that's what you



utes to Mexico City, you were only able to make 10 phone calls averaging 12 minutes each for a total of 120 minutes, a far cry from the advertised 500 minutes. You then

probably think is happening with your existing products. So don't get excited when you make some test calls on your service bureau's network and ten out of ten calls don't

go through either. You'll probably find you can do a better job at this than your competitors so long as you choose the right service bureau company as your provider.

What To Look For In A Service Bureau

Making the Service Bureau solution work for you is contingent upon selecting the right company for the job at hand. You'll need to consider factors such as:

- How long the service bureau provider has been in business?
- What version of software they're running (hopefully not 1.1)?
- What type of switch are they using?
- Do they have redundancy?
- What is their pricing model for their services?
- How is carrier quality measured and assured?
- Can you bring in a few of your own carriers?
- Do they use SS7 signaling, VoIP?
- What aspects of your product can you directly control?
- What reports are available for tracking profitability, recharge activity, customer service activity, traffic flows, and more?

This is where experience and longevity of a Service Bureau are crucial. You're better off going with companies that have been primarily in the service bureau

business, not just as a sideline, and for as many years as possible. This means their software has already gone through multiple updates, catching many of the bugs and problems that can negatively affect your level of service to your customers. You're taking a risk if you go with a company using the first or second version of software. Good software is an evolutionary process.

Training and support for you and your staff are also important. You're going to need help building rate decks and in learning how to use the software. Slick graphics and bright colors are nice but are not as important as actual functionality.

How do you buy minutes to a particular destination at say 5 cents and then turn around and sell them at the same 5 cents less a 30% discount for 3.5 cents?

Quality – The New King of Prepaid

Quality is more important today than ever. This is one of the most major shifts to occur in the industry. Consumers are no longer tolerant of poor connections in favor of a good rate—they want both competitive rates and good quality. Ask your prospective service bureau providers how they handle



this. You're looking for software systems that track various quality stats like ASR (call completion ratios), ACD, Post Dial Delay, repeat callbacks after only a few seconds, and other stats so that poor performing carriers are automatically pulled from routing. The more carriers a Service Bureau provider is connected to the better. This gives them the ability to route to other carriers who can complete the call. This is where SS7 signaling comes in. Make sure your Service Bureau provider uses it. Without it, your customer's calls are thrown on the floor when the underlying carrier's route becomes congested. With SS7, calls that reach congested or problematic routes are handed back to the carrier so that the call can be re-routed to a carrier who can complete the call for you—very important and often overlooked. With SS7, this process takes milliseconds.

Getting the best rates possible with good quality are as important as ever. But remember that you get what you pay for. What good is a low rate if it doesn't work and you can't complete calls? The big competitors have figured this out a long time ago, and prefer to work with Tier 1 carriers and those carriers with their own direct routes.

Rates Still Rate

It's imperative to know what your

rates are in advance. It's hard to be profitable with the tight margins of the prepaid business if you don't know what your rate is going to be in advance. Some Service Bureau providers say they'll give you their rates at cost and then charge a small switching fee to make their profit margin. How do you know you're really getting their costs? Service Bureau providers who use the cost-based pricing model are not very motivated to find the best rates for you—they get paid either way, whereas the carrier who offers fixed-rate pricing is highly motivated to shop for the best rates possible for you. Otherwise, he'll lose money. So go with a fixed-rate pricing model for best results.

Great rates are also affected by the volume of minutes your Service Bureau provider is running to a particular destination. The more minutes they have the better rates they can get from their underlying carriers, although there is a point at which the rate simply does not get any better. See if the service bureau will allow you to connect your own carriers into their platform so that you can use them to terminate your calls. This also keeps your Service Bureau on their toes and gives you additional leverage with them—they don't want your traffic going to another carrier. Expect to pay a small switching fee for this option, if the Service Bureau

provider offers it. Remember, if you were running your own switching platform, it's going to cost you about a penny per minute when you factor in all of the associated costs, so paying a switching fee of a half a cent per minute or so is a bargain both financially, and for your own peace of mind.

You'll also need to know what type of

switch, or preferably, switches, are used in the platform. Look for large "carrier grade" switches that have lots of capacity. The Nortel DMS250/300, Lucent 5E, Siemens, and DSC600s are the 18-wheeler equivalents of the switching industry. They are very efficient and cost effective for running large volumes of traffic. Stay away from smaller "scalable" switches that need to be strung together to mimic the big iron switches. This

...distributors often end up building someone else's brand rather than their own.

will force the Service Bureau to operate multiple switching platforms which is very difficult, not to mention, expensive, to do. Keeping one switch running is tough enough. Plus, if a call comes in on one switch and needs to terminate on another switch to get the best rate, it may not be possible. This ends up costing you money in the form of higher rates. These smaller switches are probably suitable for a distributor's own traffic but are not as robust for use in a Service Bureau application. Both classes of switches will most likely use a combination of VoIP and legacy TDM connections to hand off calls to their carriers. Redundancy is

also important. If a switch goes down or if the city the switch is located in is negatively affected by the forces of nature, it's nice to be able to switch the traffic over to another switch in a different part of the country.

Building Your Brand

Promoting your brand online is a great way to eliminate the highest cost of distribution and build a residual revenue base that pre-pays for its minutes—a nice cash flow position to be in. If selling on-line is one of your business objectives, then your website needs to talk with your Service Bureau's platform. At a minimum, you'll need features that will enable to your website to automatically recharge PINs using your customer credit cards when their phone card reaches a certain predefined balance level. You'll also want to be able to pull CDRs from the switching platform so that your on-line customers can see their call records and charges for them. What you're looking for here is whether or not your Service Bureau provider has an API. This is what is used to allow your website to communicate with the switching platform for these and other important functions.

Building your brand, not someone else's, is ultimately more rewarding both financially and from a "control" perspective, and is not a difficult thing to do if you can invest your limited capital in promoting your brand rather than buying equipment that may be obsolete and worth 10-cents on the dollar in one year or less. Think about leaving the expensive and all important task of running the switching platform to the experts, the right experts, and you may actually get ahead in the ever competitive game in the world of prepaid.

Len Bittner is Vice President of Sales for the prepaid services division of NetworkIP. He can be reached at 951-244-8887.

