

5 Minutes With Pete Pattullo, NetworkIP

By Gene Retske



It does not take a genius to figure out that the prepaid calling card market has changed radically in the last several years. Look at the companies who advertised and exhibited at trade shows five years ago, and see if you can find them now. Many are changed, merged, or just gone. NetworkIP was a company that started in the prepaid business in 1998. The "IP" in the name signaled a focus that it was not to be a traditional platform services company. And, it has not been conventional. For one thing, it has survived, even grown, where many others have fallen. Pete Pattullo is the CEO of

NetworkIP, and it is his vision that positioned the company where it is today. He shared with us his observations of where prepaid calling services have been, and where they are going.

GR: So, what is new in the industry right now? Prepaid calling has obviously not gone away, as has been predicted for 20 years.

PP: I thought we were all going to have wireless phones by now.

GR: (laughing)

PP: And, it would be free! I'm waiting for my free phone to show up.

GR: That's right. Free phone and free long distance. What happened?

PP: The industry is consolidating, and it is focusing on brands. You can walk into any Hispanic grocery store and see 73 cards hanging on the shelf, and that is going to change. Ultimately, the consumer is attracted to strong brands, like Pepsi or Coke. It's all about creating strong brands.

GR: So, the model that has evolved over the last 10 years that has created this wall of posters is going to collapse?

PP: I see that collapsing. We are already seeing it happen in the marketplace. Our customers that are successful with us are growing strong brands. When they invest in brand, and treat it like it's a Coke or Pepsi, they see their business

"The industry is consolidating, and it is focusing on brands. You can walk into any Hispanic grocery store and see 73 cards hanging on the shelf, and that is going to change. Ultimately, the consumer is attracted to strong brands, like Pepsi or Coke. It's all about creating strong brands."

grow. The ones that are out there advertising 1000 minutes to Mexico on a \$5 card are shorter lived. The price model is waning.

GR: Sounds like consumers are not looking for a quick one time buy to get the cheapest price, but now they want a product to use over again.

PP: The industry has consistently misunderstood, or underestimated, the intelligence level of consumers. These consumers have learned how to figure out and see through prepaid card offers. The Hispanic market, especially, is tied to word of mouth. They know what's going on. A lot of it is the price model driven by smaller brands and marketing guys who think they have to give storeowners a 1000-minute poster or they won't buy the card. At the end of the day, consumers want a prepaid card that delivers what it says it will.

GR: So, as the marketplace matures, it is going in a different direction.

PP: It's like any other industry. Look at the soda pop or candy bar industry. It would be like walking into a grocery store and wanting a Coke, and there are 70 versions; some say '82 ounces', but they only have 20 ounces in them. All I wanted was to buy a Coke to quench my thirst. All I wanted was to call Mexico. Look at any other industry. They have consolidated down to a handful of solid brands. That is the imperative now. Will you be one of the players left standing here in the next couple of years, with the brands, and the trust and loyalty of consumers?

GR: That would tell me that the price differentials might not be as big as they once were.

PP: They are not. We have seen a major trend in the last year -- the importance of quality connections. The product has to not only offer a competitive rate, but the calls have to complete successfully. The days are gone when you could distribute a card for calling India with low cost and low quality. It has to work. It has to have quality, not just a thousand minutes on a poster.

GR: Are we at the point yet where the differential in price is not significant enough to make that the overriding factor?

PP: Businesses that are growing successfully are focusing on brand. Their mind set is focused on marketing, distribution and platform. You really need all three. The reality is, now, that if you are going to spend money on advertising and create a brand, you have to have all three legs of that stool. You can't go spend a bunch of money on marketing and then not have distribution, or have a platform that may go down on you, or the calls fail because of quality, because all that money you spent on your brand will be wasted. You might as well flush it down the toilet.

"Businesses that are growing successfully are focusing on brand. Their mind set is focused on marketing, distribution and platform."

GR: What has been the impact of all the various regulatory issues - DAC, USF, consumer issues - on prepaid calling cards and branding?

PP: The regulatory issues have become even more important. If you are going to create a brand, you can't hide from it. Some businesses change their names and try to operate below radar. If you're going to create a brand and prosper in prepaid, you need to get involved in helping to influence the regulatory issues affecting this industry. In fact, I wrote an article for the *Prepaid Press* (February issue) that addresses these concerns.

GR: On another topic, how important is POSA?

PP: POSA was promised years ago, when we first started. POSA is just now starting to reach its stride. It's an important technology that needs to be integrated at the merchant level. It allows us to automate this portion of the distribution chain. POSA is going to continue and actually increase in popularity.

GR: What is the most important characteristic you see in companies that are successful?

PP: It's the knowledge and passion that are needed to create a brand. It is so easy to just go the easy route, just sell on price and follow the herd. When I see someone who understands that creating brand is 'the' primary value proposition, I see that as a key indicator for success.

GR: What is the opposite? What characteristic causes warning signs to go up, and make you think they may not be successful?

PP: Let me give you an example. When I see a customer in an empty office that has three posters on the wall - one offering 700 minutes that they used two months ago, one offering 800 minutes that they used last month and one that they are going to distribute to stores now with 1000 minutes, that concerns me. This is a company with three posters on the wall, and a logo on the door, and that's all. When I see that, I run!

GR: You are a platform provider. So, what is the most important thing you need to provide to be competitive, beyond the obvious need for quality?

PP: Innovation! One of our industry-leading innovations is our programmable interface, API. It allows companies to roll their own Internet based service and enables converged products combining Prepaid or Postpaid Calling Cards, Long Distance, Web and Audio Conferencing Services, Voice Mail, International Call Back, VoIP and Prepaid Internet. It allows our customers to create an Internet based business without having to buy switches, platforms or anything.

"If you are going to create a brand and prosper in prepaid, you need to get involved in helping to influence the regulatory issues affecting this industry."

GR: What are the other things that have to be done to be successful, given this new environment?

PP: NetworkIP wants to focus on established and proven businesses that are passionate about trying to build a brand. We feel that established businesses have the experience and relationships to be the most successful in the future. These businesses are telling us they have to have quality, a strong infrastructure and platform that is going to be there for them day in and day out.

GR: No more mom and pops?

PP: Historically, the barriers to entry in prepaid have been very low. Pretty much anybody can go to a provider, print up cards and move cards into the market. Going forward, this industry needs to support quality providers, rather than slash and burn brands.

GR: What are the survival rates for people like that?

PP: It is certainly a lot less now than it used to be. The marketplace has evolved over the last eight years and I can now tell you, based on my experience, who is going to be successful. If you are a baseball fan and watch little league all the time, then one day you go watch the Yankees, you say, 'that's baseball!' Same thing in prepaid. We say, 'that's brand!'

Pete Pattullo is CEO and President of NetworkIP, a provider of converged network solutions. According to the company, since 1998, NetworkIP has been the innovator of patented and best-in-class stored value technologies, systems and integrated services that ensure reliability, minimize complexity and increase profitability. Visit the company website at www.networkip.net.

"NetworkIP wants to focus on established and proven businesses that are passionate about trying to build a brand."