

how to succeed in telecom by BUCKING the trend

AN INTERVIEW WITH
TOM EVSLIN, CEO OF ITXC

by Gene Retske

→ IN THIS EXCLUSIVE INTERVIEW, EVSLIN GIVES HIS VIEWS ON WHY ITXC SUCCEEDED BY BUCKING THE TREND OF MOST OTHER STARTUPS, AND MANY ESTABLISHED TELECOM COMPANIES, MANY OF WHOM FAILED. EVSLIN ALSO REVEALS, FOR THE FIRST TIME ANYWHERE, ITXC'S STRATEGIC DECISION TO FOCUS ON PREPAID, AND WHY.

ITXC is, in many ways, an anomaly in the world of telecommunications. While they were founded and grew during the high-flying days of the late 1990s, they did just the opposite of most of their more visible, better funded and higher profile compatriots. In an era when EVERYONE was building infrastructure and buying networks, ITXC decided to utilize existing networks. While startups large and small were vying for investment capital, ITXC deliberately avoided building up debt or selling equity to raise money. When everyone else was focused on building, buying or stealing a retail distribution channel, ITXC bucked the trend and concentrated on wholesale strategies. Where everyone else was raising loads of investment capital and using the money to go on a shopping spree, buying up diverse and too often, unrelated companies, ITXC concentrated on building their own core business.

And, oh yes, in a final rebuke of the norms in startup telecom companies, ITXC has also survived where most of its startup competitors and a number of entrenched companies failed, littering the road to telecom success with piles of expensive roadkill.

Today, ITXC not only survives, but thrives, in complete defiance of the trends in an otherwise lethargic telecom industry. It has grown revenues from \$2 million in 1998 to over \$173 million in 2001, notably without racking up any



significant debt. Much of the credit for the success of ITXC resides with its founder and CEO, Tom Evslin. It was his vision and his unwavering dedication to his management principles that have made ITXC one of the top 20 carriers in the world today.

ITXC fought, kicking and scratching its way through, doggedly adhering to the concept of employing VoIP, using the Internet for transport, along the way resisting the temptation to go for a quick hit and cashing out the founders. Instead, Evslin and his team plugged along, executing their strategy one country at a time. Today they have connections to over 175 countries.

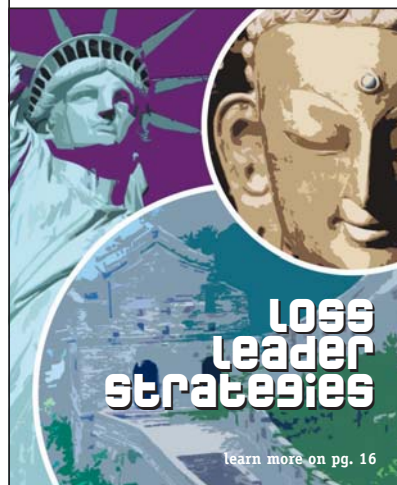
Forget everything you think you have learned about high tech and telecom in the past few years, ITXC did it all "wrong." Not only did they design the "incorrect" strategy, according to all the pundits, but they refused to stay flexible and change their long term strategy every quarter and instead remained focused on their original plan. ITXC is not only significant in the prepaid industry as a carrier, but as an example of how to manage a telecom company in the new telecommunications world order.

In this exclusive interview with The Prepaid Press, Evslin candidly shares his thoughts on the success of ITXC, the state of the telecom business, and why ITXC is now focusing on prepaid markets. He also gives us a tantalizing peek into what to expect for 2003, and beyond.

continued on pg. 13...



read about it on pg. 15



learn more on pg. 16



COMPETITIVE long-distance sees PRICE HIKE

by Brian Bergstein

It seems to defy a basic law of business: competition is increasing in the long-distance phone market, but prices are going up anyway.

How can this be? Companies and analysts say it's partly because prices for long-distance calls — and many other telecommunications services — simply got unsustainably low in recent years.

But it's also because of the nature of the competition itself.

Increasingly, long-distance calling is available as part of "bundled" packages that also include local phone service and high-speed Internet access. Customers

who don't sign up for such packages, and instead take basic services a la carte, are less profitable for the leading long-distance players, AT&T Corp., Sprint Corp., and WorldCom Inc.

Those basic calling plans are the ones that have seen increases in recent weeks. AT&T and WorldCom's MCI division — Nos. 1 and 2 in long distance, respectively — have raised several monthly fees and per-minute rates, and indicated more increases are on the way. Sprint, the third largest long distance player, is widely expected to follow suit.

With landline revenue plunging at AT&T and Sprint, and WorldCom in bankruptcy, it makes sense that the companies would try to extract more money from customers who make relatively few calls, or steer them into bundled services, which are likely to maintain more attractive prices, analysts said.

continued on pg. 13

PRSRST STD
U.S. Postage
PAID
Tampa, FL
Permit No. 2397

HOW TO SUCCEED IN TELECOM BY BUCKING THE TREND

continued from pg. 1

GR: *There have been a number of notable failures of telecom companies, including well established, well financed carriers. Why has ITXC survived, even thrived, in this environment? What was the key to success?*

TE: One is VoIP and voice on the Internet in particular, which has much lower capital requirements, so we were able to build a 175+ country network without using up the \$300 million or so that we had raised. It is significant that we raised that money as equity, not debt. If we had been a traditional carrier, it would have cost billions of dollars to build a network the size that we did. We would have had to borrow those billions of dollars and we'd be in the same fix as the other carriers who couldn't pay the borrowing back. Because we did not invest in fixed network assets, as the price came down, we were able to take advantage of it, rather than suffer from it. And, we were able to pass that advantage on to our customers. Now, we are in the enviable position of being one of the last left standing with a huge network, with the capital to expand it, with the capital to help our customers and affiliates to expand, and to take advantage of the opportunities that exist.

GR: *What was your plan for building the company?*

TE: The steps were: developing the technology to let us get reliable quality on the Internet, deploying broadly on the Internet instead of investing in assets that were quickly going to lose their value, and borrowing money that had to be paid back. And, finally, ending up in a strong financial position with a huge network and the ability to expand it.

GR: *How did you market the services?*

TE: One thing that is very important to us is that we are very, very focused. We believe that the industry is becoming a very horizontal industry, as opposed to the old vertical integration like AT&T did. Remember that?

GR: *Oh yea, I remember that!*

TE: Right! We used to make the phones, and own the subs (subs = subscribers, or customers. An old AT&T expression from the monopoly days -ed) and everything else. So now it's a horizontal industry. The people who distribute, distribute. They know how to do that. The people who sell, know how to sell. The platform providers know how to provide platforms. We know how to provide transport, and even that doesn't mean digging ditches and laying fiber, or owning fiber, but it means using the assets that are in place to do that. We kept ourselves focused on the carrier market, serving those who were resellers, rather than becoming a reseller. That not only preserved our cash, but made our customers comfortable that we weren't their competitors.

GR: *How difficult was it to maintain that focus, when investors were crawling all over telecom? You must have had tremendous pressure for investment.*

TE: We felt stupid, you know? People

called us up every day and told us how stupid we were. Our VCs obviously bought into what we were planning to do, but there were VCs who didn't end up being our VCs because they didn't think that was a good business plan. We had brokerage houses calling us, saying, "How can you be crazy? Money is free. We can get you a billion dollars next week, and you don't want it?" You wonder, because everyone else is doing something else.

GR: *Why do you think the prepaid industry has been so strongly attracted to VoIP?*

TE: VoIP has been responsible for the second renaissance of prepaid for several reasons. One is the deployment of VoIP is very fast. And, it is not so much VoIP as it is Voice over the Internet, the way that we do it at ITXC. If we established a private VoIP network, we would have many of the same problems as the PSTN.

GR: *But aren't there quality issues with using the Internet for transmission? Like the congestion on the Internet caused by the release of the Lewinsky files a few years ago.*

TE: There certainly are. You can't just throw voice on the Internet. In order to give consistent quality, we had to develop a significant amount of technology, most of which we've patented. We have to be interconnected to the major backbone providers around the world as we are.

GR: *I assume that you are not just using a cable modem to connect to the Internet.*

TE: When you are using a cable modem, part of the bad quality comes from the last mile. We connect directly to the backbone providers to make sure that is not happening. And, we always have alternative paths for our traffic. The Internet is a public highway system. It does have traffic jams. It does have wrecks. It does have special events like the Monica Lewinsky papers. But we do have the ability to detect those very quickly and route around them to keep the call quality up. When you are able to do that, the Internet often becomes the more reliable, not the less reliable way. You can get around PSTN congestion because the Internet has so many different pathways.

GR: *So do I assume that you have your own peering agreements, and operate your own backbone circuits?*

TE: We don't own any backbone ourselves. We buy access from the backbone providers is the way to think about it. We're not an ISP so we can't enter into a peering agreement in the formal sense. But we have the same kind of interconnects that a peer might have as a huge, redundant connection, connected to the backbone routers of the backbone providers so that we get the same level of service you would normally associate with a peering agreement.

GR: *This must require a lot of network management to assure adequate levels of quality since you don't own the transport mechanisms. How do you assure reliability?*

TE: From the beginning, we engineer the solution to be reliable, and then, in real time, as we are running traffic, we are always monitoring the element to the network. If one route doesn't work for getting to somebody, we go to

continued on pg. 20...

Develop your own custom programs, create brand identity, and control your margins with a carrier that is **profitable, stable and secure.**

SPEED
557 Connectivity
Fastest Call Setup
Fastest Program Implementation
Tier 1 Carriers

CAPACITY
1 Billion Monthly Minutes
Supporting over 500 Custom Programs

RELIABILITY
Serving Telecom since 1988 using Nortel, Hewlett-Packard, and Cisco platforms, Certified and Tariffed
24/7 Customer Service and Fulfillment
100% Money Back Guarantee

FLEXIBILITY
High Margins, Low Rates Usage, First Use Billing
Payment Plans, Terms
POSA Activation

encompass™
Prepaid Telecommunication Services

CALL TODAY: 877-746-6273
www.encompasscommunications.com • Email: sales@ecllc.com