

## **Customer Value Enhancement, North American VoIP Access & SIP Trunking Services Markets**

### **Frost & Sullivan's Global Research Platform**

Frost & Sullivan is entering its 49<sup>th</sup> year in business with a global research organization of 1,800 analysts and consultants who monitor more than 300 industries and 250,000 companies. The Company's research philosophy originates with the CEO's 360 Degree Perspective,\* which in turn serves as the foundation of its TEAM Research\*\* methodology. This unique approach enables us to determine how best-in-class companies worldwide manage growth, innovation and leadership. Based on the findings of this Best Practices research, Frost & Sullivan is proud to present the 2010 North American Customer Value Enhancement Award in VoIP access and SIP trunking markets to PAETEC.

### **Significance of the Customer Value Enhancement Award Key Industry Challenges Addressed by Enhancing Customer Value**

The enterprise communications landscape is changing rapidly, from the perspective of both technology and application delivery models. The onset of a tough economy in 2009 and the business challenges that followed are forcing CIOs to think in terms of driving down costs, derive superior value from technology investments and deliver better customer service in order to compete more effectively under challenging conditions. Forward-looking organizations are turning to IT-enabled solutions to achieve these business goals. This new thinking is especially evident in the type of access infrastructure businesses choose in order to address their evolving communication needs.

### **The Changing Face of the Network**

Advanced technology and marketplace economics have added tremendous dynamism to the communications market, especially voice. VoIP (voice over Internet Protocol) and SIP (Session Initiation Protocol) trunking have emerged as alternative platforms for voice and are gradually eroding fixed-line telephony, which still accounts for a substantial portion of incumbents' revenues. At the most fundamental level, SIP trunking helps move voice trunking from a TDM infrastructure to an IP infrastructure. However, its growing popularity and attractiveness to business customers is not only because of cost benefits, but also due to its ability to integrate multiple applications with the voice platform. It supports the integration of the telephony infrastructure with other enterprise applications such as email, instant messaging, presence, conferencing and customer relationship management (CRM) platforms. SIP helps lower IT costs, but also enables a new and better communication model for businesses.

As companies contemplate VoIP integrated access and SIP trunking, a key issue that they will have to address is the choice of service provider. Understandably, the VoIP access market is teeming with a number of providers, ranging from large national carriers to smaller resellers. Realizing that this market presents enormous untapped potential,

competitive carriers like PAETEC have been building native IP infrastructure, coupled with unmatched service delivery capabilities.

### Impact of Customer Value Enhancement Award on Key Stakeholders

The Customer Value Enhancement Award is a prestigious recognition of PAETEC's accomplishments in the VoIP access and SIP trunking services industry. An unbiased, 3<sup>rd</sup> party recognition can provide a profound impact in enhancing the brand value and thereby accelerating PAETEC's growth. As captured in Chart 1 below, by researching, ranking, and recognizing those who deliver excellence and best practices in their respective endeavors, Frost & Sullivan hopes to inspire, influence, and impact three specific constituencies:

- **Investors**

Investors and shareholders always welcome unbiased and impartial third party recognition. Similarly, prospective investors and shareholders are drawn to companies with a well-established reputation for excellence. Unbiased validation is the best and most credible way to showcase an organization worthy of investment.

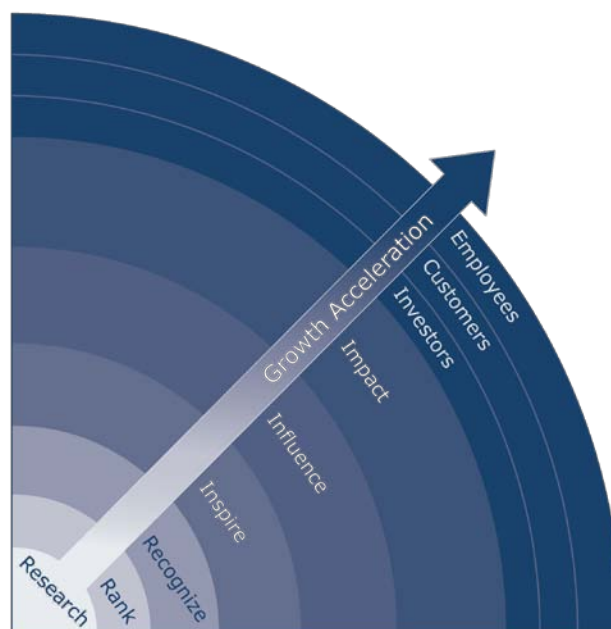
- **Customers**

3rd party industry recognition has been proven to be the most effective way to assure customers that they are partnering with an organization that is leading in its field.

- **Employees**

This Award represents the creativity and dedication of PAETEC's executive team and employees. Such public recognition can boost morale and inspire your team to continue its best-in-class pursuit of customer value enhancement for PAETEC.

**Chart 1: Best Practices Leverage for Growth Acceleration**



## Best Practice Award Analysis for PAETEC

The Frost & Sullivan Award for Customer Value Enhancement is presented each year to the company that has demonstrated excellence in implementing strategies that proactively create value for its customers with a focus on improving the return on the investment that customers make in its services or products. This award recognizes the company's inordinate focus on enhancing the value that its customers receive, beyond simply good customer service, leading to improved customer retention and ultimately customer base expansion.

**PAETEC's Performance in the VoIP Access and SIP Trunking Services Market**

PAETEC's communication solutions for businesses span three broad areas – data, voice and applications. Like many of the competitive carriers, PAETEC has seen some major shifts in its business over the last decade, with access revenues overtaken by significant growth in data and integrated services. It is, however, experiencing considerable growth in next-generation voice services, more specifically its Dynamic IP access services bundled with local and long-distance (LD) minutes. In 2009, PAETEC registered a strong growth of 30 percent to reach revenues of over \$100 million in the North American VoIP access and SIP trunking services markets due to a consistent focus on IP-based services that form the pivot of its expansive applications delivery model.

The company's Dynamic IP service allows customers to integrate voice, data, Internet access and a virtual private network (VPN) over a single IP connection with G.729 compression for voice services and network security from the Session Border Controller . PAETEC also offers a variety of network platforms, right from a T1 to DS3 or Ethernet. The company's strong service provisioning capabilities are backed by its geographically distributed Class-A Customer Data Centers and a private IP-MPLS network. Figure 1 represents PAETEC's service provisioning capabilities, which help greatly enhance the value it delivers to its customers.

**Figure 1: PAETEC's Customer Value Enhancement**

**Quality of Service Provisioning**

**Customer Value Enhancement**

**Network Access Fees**

*Source: Frost & Sullivan*

## Key Performance Drivers for PAETEC

PAETEC is successfully transforming itself from a legacy carrier to a provider of a broad set of next-generation products and services including IP-based integrated access and SIP trunking services, premises-based IP telephony, hosted IP telephony and a variety of advanced hosted communications applications. The company has been continuously investing in its IP network infrastructure and contact center capabilities in order to ensure that it provides superior services to its business customers.

The following factors contribute to PAETEC's strengths in delivering enhanced value to its customers:

### Factor 1: Strong Platform Capabilities

PAETEC's strong IP network capabilities are standardized around the Cisco Internet Protocol Next-Generation Network (NGN) edge and core platforms. The company's core IP-MPLS network helps it deliver VPN and IP trunking services with superior availability and reliability than those of its competitors. The multi-gigabit core allows PAETEC to provision high-bandwidth applications, including high-definition voice and video. The network platform is at the center of its accelerated deployment model for next-generation collaboration services such as UC in the cloud. A native IP infrastructure allows PAETEC to offer core traffic management tools to customers for classifying and prioritizing their IP traffic into different tiers for voice, video, data etc. The company also offers 'hybrid' VoIP services, such as integration between IP trunks and legacy PRI (primary rate interface) services, thereby putting legacy customers on the migration path to value-added IP services.

Frost & Sullivan believes that PAETEC's continuous investments in IP assets will help in delivering next-generation services such as SIP trunking and associated value-added application integration to its large customer base of 45,000 businesses.

### Factor 2: Comprehensive Professional and Managed Services

Any SIP trunking implementation needs a strong design framework in terms of how the SIP trunks connect to both the IP-MPLS and TDM networks. One of the key success factors in the service provider space is the possession of an extensive array of managed and professional services skills that include overall network design, testing, installation, optimization and ongoing monitoring and maintenance. PAETEC offers design, installation and maintenance services for local area networks (LANs) and wide area networks (WANs), in addition to the installation and management of communications customer premises equipment (CPE) from different vendors. Leveraging its subsidiary, Allworx, the company developed the IP Simple product with end-to-end telephony and network systems coupled with hardware and digital engineering services that are designed specifically for small and medium businesses (SMBs). The company has several integration partners for the delivery of equipment and services that are not included in its current portfolio.

PAETEC owns and operates four customer service centers and six network operations centers (NOCs) and it also partners with third-party providers for select customer service functions. The NOCs are operated by skilled personnel that have gone through four levels of certifications. Paetec offers remote monitoring, diagnostics and onsite service escalation, that help greatly reduce downtime and network management costs. Thus it helps businesses take advantage of the cost savings and other benefits offered by IP without the associated risks. In addition, PAETEC deploys carefully designed back-end processes and infrastructure that help manage its operational support services very efficiently.

### Factor 3: Flexible Delivery Models Addressing Specific Customer Needs

PAETEC focuses on large and medium-sized businesses and, to a lesser extent, the small business segment for its IP trunking services. It applies a consultative approach to sales, which includes working closely with each of its customers in order to deliver services that align with their needs. The company has developed software tools that allow its sales force to develop highly customized solutions and build broader service bundles that deliver value to

its customers. It also offers flexible pricing, which helps further differentiate its offerings in a market that is gradually getting commoditized. Customer service portals with an array of self-service tools, quick response time to customer queries, periodic quality surveys, NOC surveys and the employment of NPS (Net Promoter Score) all form a part of PAETEC's rigorous customer experience program that helps ensure greater customer satisfaction.

#### **Factor 4: A Broad Portfolio of Service Enhancements**

Apart from offering vendor certifications of interoperability with its SIP trunking services, PAETEC has also built a broad array of adjacent value-added services that can be bundled with its core access and voice products. These include an MPLS-VPN service for secure voice and data, managed fraud protection services, and Network Diversity Engineering that complements enterprise disaster recovery plans by drastically reducing service outages, enhancing network connectivity, simplified network management and exceptional scalability. Its Direct Trunk Overflow service allows load balancing of voice calls by distributing inbound calls to trunks that are operating with idle or surplus capacity. Over the last few years, PAETEC has seen a significant uptick in its revenues from these value-added services, an indicator of future growth potential in IP-based services and solutions.

Overall, Frost & Sullivan believes that PAETEC has all the organizational capabilities for sustaining its dominant position in the VoIP access and SIP trunking services market. The company has very broad and deep technology and functional capabilities to cater to the demands of enterprises as well as its large wholesale customers. PAETEC's constantly evolving range of pure IP services will help expand its user base across vertical and horizontal industries and more importantly, help create new, profitable customer segments for sustained growth.

### **The CEO 360 Degree Perspective™ - Visionary Platform for Growth Strategies**

The CEO 360 Degree Perspective model provides a clear illustration of the complex business universe in which CEOs and their management teams live today. It represents the foundation of Frost & Sullivan's global research organization and provides the basis on which companies can gain a visionary and strategic understanding of the market. The 360 degree perspective is also a "must-have" requirement for the identification and analysis of best-practice performance by industry leaders.

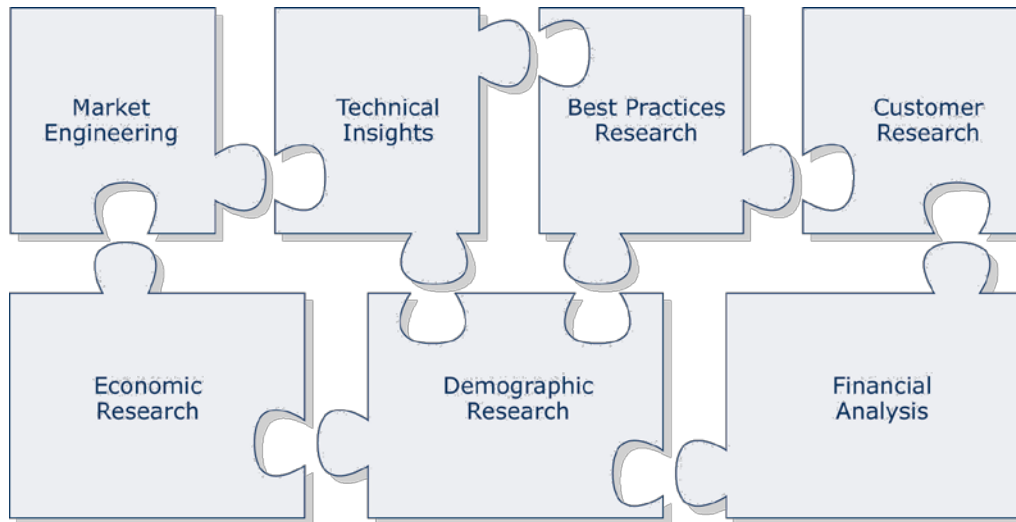
The 360 degree model enables our clients to gain a comprehensive, action-oriented understanding of market evolution and its implications for their companies' growth strategies. As illustrated in Chart 2 below, the following six-step process outlines how our researchers and consultants embed the 360 degree perspective into their analyses and recommendations:

Chart 2: How the CEO's 360 Degree Perspective Model Direct Our Research?



### Critical Importance of TEAM Research

Frost & Sullivan’s TEAM Research methodology represents the analytical rigor of our research process: it offers a 360 degree view of industry challenges, trends, and issues by integrating all 7 of Frost & Sullivan’s research methodologies. Our experience has shown over the years that companies too often make important growth decisions based on a narrow understanding of their environment, leading to errors of both omission and commission. Frost & Sullivan contends that the successful growth strategies are founded on a thorough understanding of market, technical, economic, financial, customer, best practices and demographic analyses. In that vein, the letters T, E, A and M reflect our core technical, economic, applied (financial and best practices) and market analyses. The integration of these research disciplines into the TEAM Research methodology provides an evaluation platform for benchmarking industry players and for creating high-potential growth strategies for our clients.

**Chart 3: Benchmarking Performance with TEAM Research**

### About PAETEC

PAETEC (NASDAQ GS: PAET) is personalizing communications solutions for business customers across the United States. It offers a comprehensive suite of data, voice, and IP services, as well as enterprise communications management software, network security solutions, CPE, and managed services.

### About Frost & Sullivan

Frost & Sullivan, the Growth Partnership Company, enables clients to accelerate growth and achieve best in class positions in growth, innovation and leadership. The company's Growth Partnership Service provides the CEO and the CEO's Growth Team with disciplined research and best practice models to drive the generation, evaluation and implementation of powerful growth strategies. Frost & Sullivan leverages almost 50 years of experience in partnering with Global 1000 companies, emerging businesses and the investment community from 31 offices on six continents. To join our Growth Partnership, please visit <http://www.frost.com>.