

Frost & Sullivan Award for Product Differentiation Innovation



AWARD DESCRIPTION

The Frost & Sullivan Award for Product Differentiation Innovation is presented each year to the company that has best demonstrated the ability to develop and/or advance products with more innovative capabilities than competing vendors and products. This Award recognizes the company's successful adoption of new or existing technology that has become a part of its well-designed product family. Such innovation is expected to significantly contribute to the industry in terms of product performance and degree/rate of technical change.

RESEARCH METHODOLOGY

Before considering the recipient of this Award, the analyst team tracks competing market participants' product differentiation strategies through ongoing research. This research consists of market participant interviews, end-user surveys, and extensive secondary research. The data compiled through this research is analyzed based upon specific measurement criteria for this Award. Participants are then ranked with respect to the measurement criteria. The Award recipient is ranked number one in the industry.

MEASUREMENT CRITERIA

In addition to the methodology described above, there are specific criteria used in determining the final ranking of industry competitors. The recipient of this Award has excelled based on one or more of the following criteria:

- Degree of differentiation innovation compared to other market participants
- Positive impact on sales directly related to product differentiation
- Time to market improvement based upon product differentiation strategy



- Benefit to end-users due to product differentiation
- Effect of product differentiation on ease of adaptability for new end-user applications
- Effect of product differentiation on market maturation

AWARD RECIPIENT:

CBEYOND COMMUNICATIONS

For the year 2005, Cbeyond Communications is selected as the recipient of Frost & Sullivan's Product Differentiation Innovation Award within the U.S. small business telecom services markets.

Cbeyond utilizes completely private VoIP networks and softswitching to deliver its VoIP services in 5 markets including Atlanta, Chicago, Dallas-Fort Worth, Denver, and Houston. Cbeyond's VoIP network processes nearly 2 million calls per day. Within the CLEC segment, Cbeyond with its integrated VoIP and Internet access services, is a provider that specifically focuses on small business customers.

With regards to deployment of VoIP services to the small business customers, Cbeyond leads a pack of well-known incumbent as well as competitive operators. In addition, Cbeyond's entire customer base subscribes to local, long distance, and high-speed Internet access from the company--a figure that sets Cbeyond significantly apart from its rivals.

In addition, the company reports that 100 percent of its subscribers receive their Cbeyond services bills online and more than 30 percent pay online, which in turn translates to reduced billing costs for Cbeyond. Apart from 100 percent adoption rates for its voice and high-speed Internet packages, the company is also expanding penetration rates for other services/applications such as email, hosting, VPNs, secure back-up and fileshare, and conference calling.

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Cbeyond's competitive advantage within the small business markets largely stems from the fact that the company has developed and commercially deployed VoIP services since 2000. Several leading providers in the small business markets including incumbent telcos, have only recently (in the past 12 - 24 months or so) begun to market VoIP to the consumer market and small business markets.

Cbeyond's other competitive advantage over a number of rival CLECs is its private VoIP network. Unlike several UNE-P and UNE-L CLECs, Cbeyond faces little impact of recent regulatory changes affecting UNE-P providers. This means that while a number of CLECs will either struggle to maintain their existing customer base and/or will see stifled subscriber growth rates, Cbeyond is likely to continue to experience an increase in its customer base through provision of VoIP services.

Cbeyond utilizes multiple channels to reach out to its 16,000 small business customers, some of which include direct salesforce, value-added resellers, and inbound/outbound marketing. This channel mix helps Cbeyond reach out to specific niche segments within the small business segment that may generally buy through these channel members as opposed to directly through carriers.



For instance, a small business within the medical segment may deal with value-added resellers due to the complex nature of technology solutions utilized by the company. Having a relationship with value-added resellers and other similar providers enables Cbeyond to gain visibility into these niche segments.

From a customer retention perspective, Cbeyond proactively monitors and manages customer churn. The company reports below 1 percent churn per month within its customer base. One of the ways the company minimizes churn is through faster service provisioning. In terms of service provisioning, the company measures installation timeframe in terms of "calendar days" as opposed to "business days." Use of the calendar day metric enables Cbeyond to reduce overall provisioning timeframe for its customers. For Cbeyond, reduced provisioning time is one of the key factors that differentiate the company from its rivals. Cbeyond Communications is a worthy recipient of the 2005 Frost & Sullivan Award for Product Differentiation Innovation.