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# **Bandwidth exchange**

Katherine Cavanaugh, 06.01.98, 12:00 AM ET

Looking for ways to cut your corporate phone bills? How about squeezing a few more drops of bandwidth? Savvy technology managers at multinational companies and international financial houses now have a new and nifty way to buy and sell both long distance phone minutes and bandwidth efficiently and at reduced prices.

In fact, telecom bargain-hunters of all types are discovering that the new web-based bandwidth exchanges, where bids and offers are made on a global basis for T1 and T3 high-speed connectivity, are an efficient way to find far-flung buyers and sellers and cut a deal. Just imagine the

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potential savings for corporate networks like Bear Stearn's Bear-Net or Merrill Lynch's MerNet.

The catch is, analysts say, that these startup exchange services--a year to several months old--could soon die out as bigger, Wall Street power players take over to quickly move into a futures exchange mode.

# These startup exchange services could soon die out as Wall Street power players take over.

"Use them while you still can," warns telecom analyst Jeff Pulver, publisher of the web-based Pulver Report.

Recently, Richard Elliott, cofounder of one such exchange, came from London to speak in New York. He joined a panel of telecommunications experts, analysts and academics at a Columbia Institute for Tele-Information (CITI) conference, where his key message was: "Transmission capacity will soon become a commodity--like coffee or cocoa."

Band-X, Elliott's one-year-old startup effort, is the world's first webbased exchange for buyers and sellers of international telecom capacity, and wholesales both long distance minutes and bandwidth.

Observers note that the exchange is somewhat revolutionary in that it is breaking down the barriers of the old boys' telecom network and allowing deals to take place in a more efficient, streamlined and webenhanced manner.

"In the old days, everyone in the telecom world knew everyone else, but with the advent of global deregulation, there is no limit to the number of players out there. These new exchanges are serving a useful purpose," notes Tim Stronge, a telecom analyst with TeleGeography, a specialized telecommunication publishing house.

For now, users include primarily large and small phone companies and Internet service providers.

"Multinationals with a private network might sell their excess bandwidth," notes Scott Whelan, president of RateXchange, a competitor to Band-X that launched in January.

"And corporate telecom managers can benefit by using an exchange as a benchmark for their buying activities," he adds.

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At present, both Band-X and RateXchange operate more like worldwide bulletin boards or virtual marketplaces. Sellers of bulk quantities of circuit capacity can post anonymous offers: for example, from 500,000 up to 5 million minutes from New York to China at a rate of \$0.47 cents per minute or phone minutes from New York to Israel at a flat rate of \$0.13 a minute.

Traders can also post bids and offers on bandwidth. A T1 connection from Toronto to New York, for example, is offered on the Band-X exchange at \$3,000 a month, plus a one-time, \$1,500 installation charge.

Bids and offers posted on Band-X's and RateXchange's global web sites are anonymous and free until two parties want to strike a deal. The exchanges then act as off-site brokers, providing contact information and bringing the two parties together.

Band-X charges a basic commission rate of 0.625%. However, 2.25% is charged on the initial \$200,000 transacted between parties.

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RateXchange takes 0.3 cents per minute on all transactions at 25 cents or below, 0.4 cents per minute for all transactions above 25 cents and a 2% charge for a bandwidth purchase.

Thus far, the Band-X system, physically based in west London offices and running on Internet service providers located in Ontario, Canada, has attracted a respectable following: 2,000 registered members from over 80 countries, with approximately 1,500 bids and offers and 250 matched buyers and sellers over the course of one year. RateXchange, based in San Francisco, started up in January, and has thus far registered 400 members and matched 40 buyers and sellers. Both companies are privately held.

For now, users seem pleased by exchange operations, though some say they would like to see value-added services like E-mail alerts and updates regarding bid offerings and more precise quality standards and ratings.

John Friedman, president of EOT Long Distance Services in New York and a first-time user, found one rate on a route his service particularly values that he described as nothing less than "smokin'." Chris Hall,

president of Transmission Network in Orange, Calif., says he has cut deals on the exchanges at savings of anywhere from 10 to 50 percent.

Paul Reilly, national telecom manager at MCI Worldcom in New York, likes the time savings involved. "Normally, a deal might take anywhere from 30 to 90 days. When I placed an offer on one of the exchanges, I got a call and two weeks later after the credit was approved, the deal was done," he said.

Both exchange founders say they are gearing up for a scenario where trades in phone minutes migrate to a real-time format, and for the possibility that the powers that be on Wall Street will want to get in on the act. Actually, ArbiNet, a third telecom startup in New York, founded by **Alex Mashinsky**, a former commodities exchange broker, has a head start in switching to a real-time format.

Last year, ArbiNet created the ArbiNet Clearing Network, short for arbitrage network. For now, it only targets the major carriers and currently has only a short list of a dozen or so users who take advantage of its computerized network to find the lowest-cost carrier at any given time and then reroute the call on the fly. ArbiNet makes money by taking a five-percent commission on each transaction and by selling related equipment. "In the future, we want to become the standard for this type of real-time transaction," **Mashinsky** said. With its proprietary technology, some say ArbiNet is in the best position to work in concert with the powers that be on Wall Street. Only time will tell.

#### See also:

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