

## **Illustration of Customization, Value and Flexibility: Power Line Communications**

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Powerline Communications (PLC) offers traditional power companies a great opportunity to get in on the broadband and broader communications game. No other technology offers power companies such potential profitability in comparison to their low-margin utility business.

As of Q1 2003, several companies have announced the successful completion of large in-home trials of PLT networking technology in North America. (HomePlug Alliance is one, for example.) At a recent PLC conference where a Fine Point Technologies' representative spoke, industry experts predicted mass deployment within 18 months, i.e. Q2 2004. Given the ubiquity of home electrical networks, the technology has a strong chance; however HomePNA, Bluetooth, WirelessLAN and others have significant advantages due to their earlier commercialization – but again, as Fine Point Technologies is able to service them all, whatever the technological outcome, the Company is uniquely positioned to win.

The PLCs face a full spectrum of deployment options, however one thing is clear; Fine Point Technologies can add great value to this roll out. PLCs will have to leverage 3rd party vendors and partnerships for profit and risk sharing. In the end however, what PLCs are good at is high volume commodity sales, therefore they will probably not be our main targets. Either way, Fine Point Technologies has opportunity.

Even without PLCs in the marketplace, the competition for customers is increasing. PLCs' initial costs will be lower, as there is less infrastructure to build out than was present with cable, however there are some costs which will be common to other providers. In the internet deployment market, there are several “dumb pipe” options for subscribers: dial-up, xDSL, cable, fixed wireless, and wireless. Now, power lines have come on the scene and they need the tools to distinguish themselves. There is no doubt that they will be a convenient and viable option for subscribers, but to win the race they need to be user-friendly as well. They need to differentiate themselves by offering value-added products and services. Because the electrical infrastructure is already in place, they can offer these services cheaply and still make a profit. And by using tools to stay communicative with their subscribers they can create a loyal customer base.

PLCs face three major hurdles which the xDSL and Cable predecessors had to, and continue to deal with:

- **A. Physically reaching the Subscribers**

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In urban areas increased population density means each transformer can serve more customers, however there is high existing DSL and Cable penetration. In rural areas there is low cable penetration and most DSL providers limit their service to 16,000 feet from their CO. Yet greater distances may mean more transformers – and this is where Fine Point Technologies steps in to help them acquire customers.

- **B. Engaging the Subscribers**

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Once they have reached their new customers, they can leverage branding, mass marketing, bundled services, and all other marketing mechanisms to truly acquire and retain the customers. Fine Point Technologies can address all these needs; however PLCs will have to leverage the lessons of self repair and other subscriber management mechanisms to ensure profitability.

PLCs will need to employ self-repair technologies that can test and diagnose any issues with the broadband connection. Fine Point Technologies has the template for such a technology and can easily

adapt this for utility use. This might even include enabling the remote control of the subscriber's computer.

Successful broadband deployment also includes mechanisms that will prevent problems before they start. Pre-qualification supplemented with diagnostics throughout the subscriber life-cycle will save the service provider great amounts by the prevention of help desk calls. It also ensures subscriber satisfaction, thereby reducing churn. These are tools that will be crucial to the initial success of PLC services.

In order to deploy internet service, the provider must be prepared to create a structure of customer service and remote repair help. This is a new challenge for utility companies, and products such as those provided by Fine Point Technologies make the establishment of these services simple and manageable.

## • C. Retaining the Subscribers

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PLCs are in a good position to offer competitive pricing, as their set-up costs are so minimal. But this means that they can offer various forms of up-sell and services, to increase their profits without driving their subscribers away with high prices. They need to employ software that allows them to manage their subscriber base to get the most out of this service delivery model. Fine Point Technologies offers solutions that will enable this. The Company's experience can also help utilities form the necessary partnerships to get ahead.

Utilities are used to owning the services that their company provides to the public. Customers have little choice in which power company they use. Because of this the utilities have never had to worry about fostering a relationship with their customers, but in the communication sector they will. The most successful deployment software will have the means for doing this built right into the program.

Fine Point Technologies offers "hooks" in their software which link the service provider to the subscriber, improving and solidifying communication between the two. It is proven that if a customer can build loyalty for their service provider they are less likely to churn. By deploying push technology and security measures, a PLC can improve their relationship with each subscriber and build loyalty. In summary, the key is not owning the services per say, but owning the subscriber relationship.

## The Future: Service Delivery

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Broadband pipes have been laid, and continue to proliferate in the form of new technologies such as PLCs. Subscribers are going online both domestically and internationally. And still service providers cannot break even. The key to doing so is going beyond the standard \$49.95 charged per month for broadband service and entering the world of service delivery. Service delivery means empowering service providers to offer their subscribers the greatest range of revenue-generating options possible. This ranges from VoIP and streaming media, to the increasingly interconnected world of convergence of computing and entertainment.

Service Delivery can be implemented on a much broader scale than just through the use of portals. As part of the value-added revenue model, the Company has engaged in the resale of products that are complementary to, and bundled with, the software. The Company believes in the "Trojan Horse" model of service delivery, meaning by owning the subscriber desktop the service provider can gain access to pushing services (such as new software, various upgrades or totally new applications) to the subscriber. This is an interactive relationship, ensuring that the provider remains involved, though unobtrusive, with their customer base, and able to influence and direct their own profitability.

The residential broadband market is growing rapidly but service providers aren't making money on their massive investments. Value-added services are gaining some traction but the broadband industry's *current* interest in investing for the full triple play of services -- voice, video, and data -- is rather limited. At the same time, many industry players are still trialing rich content or multimedia services. The profitability of the triple play scenario is still in the future, but Fine Point Technologies posits that service providers have to leave the door to subscriber communication cracked so as to *later* capture this opportunity.

In the meanwhile, in addition to betting on rich multimedia content, there is alternative user-generated and shared content among peers that taps into consumers' willingness to pay for communication, not (rich) content. We expect this to have significant near-term revenue opportunities. This union of content and communication creates a compelling proportion which several companies (SMS TV, Sha mail, Friends Reunited, online personas, video chat and broadcasts, and multiplayer games.<sup>1</sup>) are leveraging.

Current industry studies corroborate the soundness of Fine Point's revenue model of service delivery. A recent comprehensive report by Cahners In-Stat Group, "Moving towards Broadband Ubiquity in U.S. Business Markets," which includes analysis of the U.S. residential market, considers the greatest opportunity provided by broadband services to be "new revenues from bundled value-added services, including voice, entertainment, e-commerce and home management and control". The key to unlocking internet subscriber revenues is only through service delivery, by which companies can become increasingly profitable and retain their valuable subscribers.

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<sup>1</sup> Forrester Research, June 2003, Exploiting Conversational Content To Speed Up Broadband Profitability.

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