

VENDOR PROFILE

Carrier Profiles: tw telecom

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IDC OPINION

IDC believes that the U.S. enterprise Ethernet services market will continue to experience very high revenue growth rates over the next few years (a 19.4% CAGR from 2010 to 2015). IDC expects to see additional new offerings of managed solution-based offerings from Ethernet service providers in addition to dedicated and switched WAN and metro services. IDC expects that there will continue to be further refinements to existing Ethernet WAN services in 2012 to keep up with the increased demand for Ethernet WAN services from more medium-sized enterprises. tw telecom Inc. is already in a strong position as one of the market share leaders in high-bandwidth Ethernet and IP VPN enterprise services. By actively positioning itself as the hybrid VPN solution provider of choice for these combined IP/Ethernet VPN services, tw telecom continues to demonstrate service innovation. tw telecom's differentiated Ethernet and IP VPN service offerings include:

- Solution expertise on key vertical market IP/Ethernet for healthcare, financial services, manufacturing, government, and distribution
- Fractional 10GE offering for datacenter, storage, and disaster recovery that provides flexible bandwidth growth and use of burst capacity
- Dynamic capacity to enable enterprises to use Ethernet services on a pay-as-usage basis and use self-service to access additional bandwidth on-demand and cloud-based services
- Enhanced managed solutions to provide enterprises real-time network visibility of IP VPN and Ethernet service performance at any location via an easy GUI Web portal
- Future path toward application-aware-oriented services, enabling enterprises to monitor and optimize the use of metro and WAN network resources

IN THIS VENDOR PROFILE

This IDC Vendor Profile examines tw telecom's Ethernet and IP services offerings targeted to businesses. It reviews the vendor's Intelligent Network, Ethernet services strategy, and Ethernet/IP product portfolios and provides an assessment of its go-to-market strategies vis-à-vis the enterprise market.

SITUATION OVERVIEW

Company Overview

tw telecom (formerly known as Time Warner Telecom) is headquartered in Littleton, Colorado, and has close to 3,100 employees. The service provider operates competitive enterprise services with extensive fiber facilities in 75 U.S. metro markets, which it connects via its own regional and national IP backbone.

tw telecom offers a range of managed data, Internet, and voice networking solutions to enterprises, state and local governments, and other carriers. Specifically, the provider offers managed network services specializing in business Ethernet, IP VPN, converged Internet access, transport data networking, voice and VoIP, and security.

As of December 31, 2011, tw telecom's fiber network spanned approximately 27,000 route miles (including approximately 21,000 metropolitan route miles), connecting to 15,500 buildings served directly by local fiber facilities with over 27,500 customers. tw telecom continues to invest in expanding its fiber footprint, network capacity, and market reach for its data, voice, and IP networking capabilities within the U.S.-served markets, supporting secure end-to-end business Ethernet, IP VPN, and converged solutions for customers. Through partnering relationships, tw telecom extends IP VPN networking solutions to over 65 countries.

Financial Performance

For 2011, tw telecom reported revenue of \$1.367 billion, an increase of 7.4% when compared with 2010. 2011 enterprise revenue was \$1.053 billion, up 9.4% from the prior year with strong growth in data and Internet revenue, which was \$646.8 million, up 18.2% YoY. tw telecom's revenue growth continues to be driven by very robust growth of strategic Ethernet and IP VPN services, which in 2011 contributed to approximately \$330 million in revenue that is included in the data and Internet revenue. This was 27% growth, substantially higher than the 2011 U.S. Ethernet and VPN market growth rates .

tw telecom's margin of 36.4% has improved, and the company continues to execute on a network expansion strategy, with an increase of 30% more on-net buildings from 2010, bringing the total to 15,500. On-net lit buildings expand tw telecom's footprint and enable growth of higher-value Ethernet and VPN services along with the rollout of additional new software-based value-added network and application management services in 2011 and 2012.

tw telecom is traded on Nasdaq under the symbol TWTC.

Company Strategy

Leveraging the Intelligent Network

tw telecom positions itself as a national competitive fiber-based provider offering exceptional customer service and a broad portfolio of data and IP products including a range of Ethernet-based services, IP VPN services, and VoIP. Its local presence as

a provider positions itself as a facilities-based alternative to incumbent carriers, and the company differentiates itself by providing end-to-end connectivity and QoS to numerous local markets.

tw telecom's business objective is to be one of the leading national providers of high-bandwidth enterprise network telecom solutions with competitive access. The company emphasizes the flexibility of its bandwidth services by providing a long-term service relationship with its customers. tw telecom's capital investment focus is on building an integrated IP/Ethernet network with more automated operational capabilities and advanced support tools. tw telecom's position as a U.S. Ethernet services market share and growth leader is a testament to tw telecom's strategy, which began several years ago and is now yielding more revenue per customer, of focusing on high-bandwidth, value-added IP and Ethernet services.

The carrier's focus on developing its medium-sized and large enterprise customer base is yielding successful results, with approximately 78% of its 2011 revenue derived from its enterprise customer base, up from 75% in 2010.

tw telecom's solutions emphasize higher, value-added data networking service offerings, which include IP VPN and an expanding portfolio of business Ethernet data products with Class of Service (which allows customers to assign different priorities to various traffic types). tw telecom also offers a set of converged service offerings that comprises data, Internet, voice, security, remote access, and managed routers. tw telecom continues to also provide traditional wireline enterprise and wholesale services including a dedicated network service portfolio with private line, special access, and private transport networks; voice services; and secure Internet access with speeds up to 10Gbps.

tw telecom markets the company's investment in a national fiber-based Ethernet/MPLS-switched network architecture with a set of integrated network assets, which includes network management, as the "Intelligent Network." tw telecom's recent branding campaign depicting the Intelligent Network as an enabler of advanced, dedicated, highly available, automated suite of enterprise data service offerings is part of a campaign to appeal to both medium-sized and large enterprises. This strategy is to differentiate the enterprise managed data service offerings with strong customer management and more self-service automation tools, thus avoiding traditional bandwidth connectivity commoditization, sometimes referred to as "bigger pipes" — the first phase of which, Enhanced Management, was introduced in 2011. As these capabilities evolve, tw telecom expects to provide customers with the ability to manage their own network services using decision-making tools, including network performance information obtained through Enhanced Management, and planned service offerings to enable customers real-time control over the properties of their service and the prioritization of their traffic on that service, either manually through a customer portal or using automation through application program interfaces.

The findings from IDC's *2011 U.S. WAN Manager Survey* confirm that the ability to dynamically allocate bandwidth to maintain maximum performance and the ability to prioritize the mission-critical applications are the top 2 most important enterprise data networking requirements for the next one to two years. tw telecom's focus on these emerging enterprise networking challenges, as businesses increasingly look to

migrating some of their network applications to the cloud, is well timed. It reinforces the need for enterprise visibility and control of these enterprise networks with increasingly virtualized software applications using Ethernet or VPNs. Converged voice, data, and video services must be transparent. Performance-optimized networking and end-to-end quality of service become even more important as enterprises incorporate cloud-based infrastructure and applications into their IT/network environments. To this end, tw telecom is expanding its presence in Equinix's carrier-neutral datacenters to support the secure connectivity requirements of both cloud service providers and their enterprise cloud customers.

The Intelligent Network branding reinforces tw telecom's short-term and long-term goals to provide the company's enterprise Ethernet and IP VPN service customers with:

- ☒ End-to-end visibility of network performance correlated to site-specific bandwidth utilization, or Enhanced Management, which launched in 2011 for IP VPN and converged services and will extend to tw telecom's business Ethernet services in 2012
- ☒ Dynamic capabilities to manage flexible amounts of bandwidth on demand or scheduled bandwidth availability as needed, initially through a customer portal and in the future by incorporating automation with application interfaces
- ☒ The ability to manage and prioritize their applications running on the tw telecom's services provided through portals or application interfaces

Additional intelligent capabilities and automation features are planned for the near future so that services will continue to meet changing demands of enterprise customers:

- ☒ Comprehensive suite of multisite large-bandwidth data solutions applying IP VPN and Ethernet technology
- ☒ Evolving Intelligent Network capabilities, adding visibility to network performance and customer control to a portfolio of data and managed services
- ☒ Flexible multiproduct managed converged solutions that include voice, usage, Internet, data, and network security services and managed customer premise routers

Ethernet Service Strategy

tw telecom's strategy is to leverage its national network of local fiber assets while delivering exceptional customer service. The company's Ethernet service strategy is centered on developing a set of premium, value-added metro and WAN Ethernet services and providing consultative approach to customer support. tw telecom provides a lot of flexibility to its customers to self-manage with a simple portal to easily add, change, and prioritize high-bandwidth data applications within tw telecom's Ethernet service offerings, which is a key differentiator. tw telecom is also one of the first major Ethernet service providers to offer enterprises the choice of a flexible, on-demand bandwidth service plan with an ability to use dynamic bandwidth

capacity, which enables Ethernet services on a pay-as-usage basis for applications that only require large amounts of bandwidth for short durations (e.g., telepresence and storage backup). At the same time, tw telecom is leading the market with a creative high-bandwidth offering, with its unique fractional 10GE service.

The provider continues to grow and invest in sales and support resources with more than 500 sales account executives, with the majority of its sales force focused on the higher-value enterprise segment.

tw telecom targets medium-sized and large companies in key vertical markets such as healthcare, media, higher education, financial services, manufacturing, and government (local, state and federal). The company focuses on enterprises that have a national footprint with multiple locations and employee size ranging from 250 employees to over 5,000 employees. tw telecom serves 40% of the Fortune 1000 businesses.

Ethernet and IP Data Services Product Portfolio

tw telecom offers a variety of solutions to enterprise and communications providers including managed data, Internet, and voice networking solutions, as well as mobile backhaul. The solution suite focuses on multisite large-bandwidth data solutions applying IP VPN and Ethernet technology, leveraging:

- ☒ Evolving Intelligent Network capabilities, adding visibility to network performance and customer control to a portfolio of data and managed services
- ☒ Flexible multiproduct managed converged solutions that include voice, usage, Internet, data, and network security services and managed customer premise routers

Data Services

tw telecom data services include metro (local) and WAN solutions to connect business locations and internal local area networks together into a single managed solution. tw telecom offers options to manage a mix of business and communication applications, including voice, Internet, and other types of connectivity. tw telecom offers business Ethernet layer 2 solutions and IP VPN layer 3 services, which are discussed in the sections that follow.

Metro Solutions

- ☒ **Switched NLAN** is a metropolitan business Ethernet solution that provides an economical, shared network infrastructure to connect multiple locations in speeds up to 10Gbps. Five Class of Service options are offered that allow customers to prioritize varying types of traffic by their business importance. tw telecom also offers flexibility for enterprises to choose unlimited or pay-as-you-go VLAN tag, a good differentiator.
- ☒ **Elite NLAN** is a point-to-point metropolitan business Ethernet service that provides dedicated, protected, high-availability Ethernet transport service between two locations at bandwidth speeds up to 10Gbps.

- ☒ **E-LINE** is a business Ethernet private line and virtual private line service supporting point-to-point and point-to-multipoint customer configurations, available within most metro markets with speeds up to 10Gbps.

Wide Area Solutions

- ☒ **E-LINE** is a business Ethernet private line and virtual private line WAN service supporting point-to-point and point-to-multipoint customer configurations available inter-connecting most metro markets with speeds up to 10Gbps.
- ☒ **Extended NLAN** provides business Ethernet connectivity between most of the markets and is available in either point-to-point or multipoint configurations, generally up to 1Gbps, and includes Class of Service options.
- ☒ **IP VPN Services** connect multiple customer sites by creating a virtual network for the customer within the United States and to approximately 65 other countries. Class of Service functionality is available with Premium IP VPN service. Connection speeds are available up to 1Gbps.
- ☒ **Managed IP VPN** is a turnkey VPN solution that provides connectivity to a secure Multi-Protocol Label Switching (MPLS) IP VPN network with customer premise-based routers that we procure, configure, maintain, and manage. The service includes active monitoring and alarming, onsite installation, and hardware maintenance.

Managed Services

tw telecom offers a suite of managed services to complement the data, Internet, and converged service offerings. These services allow customers to reduce the overall management burden of their data systems and IT staff (also see Managed IP VPN mentioned previously):

- ☒ **Enhanced Management.** This is an interactive solution that gives customers detailed, site-specific visibility into the performance of their IP VPN services through tw telecom's customer portal (see *Customer Care*) by providing real-time data with respect to latency, packet delivery, and jitter correlated to their bandwidth utilization on their network from end to end.

FUTURE OUTLOOK

The U.S. business wireline market is undergoing an intense period of consolidation as carriers pursue acquisition binges designed to gain scale, expand their footprint, improve their share of business revenue, and expand their IP, datacenter, cloud, and managed services portfolios. tw telecom has not participated in the most recent round of acquisitions; however, IDC believes that communications market consolidation will continue with tw telecom-like participants, either as acquisition targets or more likely as acquirers. IDC expects that tw telecom's position as one of the leading Ethernet and IP enterprise service providers will continue, given that tw telecom has remained at the forefront of the market transformation that includes the introduction of managed switched Ethernet services, Ethernet for mobile backhaul and on-demand alternatives in addition to the dedicated IP/Ethernet services.

IDC is expecting to continue to see higher growth rates for switched Ethernet traffic as enterprise customers shift some of their WAN requirements from predominantly more expensive, dedicated point-to-point services to more economical and flexible, shared point-to-multipoint and multipoint services, which could make up as much as 35–40% of service providers' revenue within the next five years. tw telecom's focus on a longer-term view of its Ethernet service business by enabling more intelligence in handling of Ethernet and IP applications is exactly what U.S. enterprises are looking for.

Challenges and Opportunities

tw telecom has made its name based on its core strength in the Ethernet services market, although it does have a wide portfolio of other services including VoIP. IDC believes that tw telecom will continue to see strong demand for Ethernet and IP VPN services. tw telecom's key challenges will include increasing competition over the growing medium-sized enterprise segment from the other major national Ethernet/IP service providers such as AT&T, Comcast Business, Level 3, Verizon, and XO. These medium-sized enterprises are consolidating their private line, private IP, Internet access, and Ethernet service provider contracts with one or two providers.

Larger competitors like AT&T, Verizon, Level 3, and CenturyLink have also made strategic investments, acquisitions, and partnerships with cloud infrastructure service provider companies, which may be combined and packaged with Ethernet/IP data services to compete against tw telecom's offerings.

tw telecom will likely also have to continue to partner with international Ethernet/IP providers for global VPN connectivity. tw telecom's biggest opportunity is to leverage the advanced capabilities for active network visibility, self-service tools, and intelligence in management of bandwidth capacity, applications that are ahead of most of its competitors'.

ESSENTIAL GUIDANCE

Advice for tw telecom

IDC believes tw telecom is well positioned to capitalize on the strong growth in Ethernet and IP data services, particularly for high-bandwidth datacenter connectivity and scalable Ethernet solutions purpose built for critical applications like storage networking, financial low-latency trading, telepresence, and VoIP.

IDC also believes that tw telecom must expand strategic relationships with facilities-based cloud enablers such as Equinix, leveraging its engagement with major cloud service providers (Amazon Web Services and salesforce.com) to position tw telecom as a key provider of next-generation cloud connectivity services. tw telecom can further leverage its in-house development and tools for network-based application and on-demand service management and partner with leading enterprise XaaS vendors like Microsoft, Avaya, Citrix, Oracle, IBM, salesforce.com, and SAP to extend this leading capability. This will position the company for emerging Ethernet/IP cloud-

based enterprise-class applications by leveraging the Ethernet and IP asset and combined with strong customer support capabilities.

IDC also recommends that tw telecom form strategic global partnerships with Ethernet/IP service providers that allow tw telecom to extend its VPN customers networks beyond the United States. IDC believes a possible partnership with companies like Tata Communications, SingTel, or Colt would benefit tw telecom.

Finally, tw telecom has an opportunity to offer more bundled services along with its Ethernet and IP VPN solutions. Integrating VoIP and unified communications solutions on top of the VPN and Switched NLAN along with tw telecom's strong network management visibility tools could be a strong differentiator.

LEARN MORE

Related Research

☒ *U.S. Carrier Ethernet Services 2011–2015 Forecast* (IDC #231257, November 2011)

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