

Internet phone service providers anticipate rapid growth in subscribers

By Tom Rafferty, The Bismarck Tribune, N.D.

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Oct. 10--Mark Armstrong is among a group of thousands who pay a 3 percent federal excise tax on telephone service.

That's not startling news.

What's more interesting is that the federal excise tax is the only tax Armstrong pays for his phone service -- a drop in the bucket compared to the many federal, state and local taxes and fees that jack up most phone bills.

Long distance charges don't concern Armstrong anymore. His monthly phone bill is a flat \$20.65, which includes unlimited long distance in the United States and Canada.

"We just don't even worry about it. It's not an issue," Armstrong said.

He also gets virtually every calling feature available, including voice mail that he can retrieve from his phone or a computer, and he can make international calls for a fraction of what phone companies normally charge.

What's the catch?

There isn't one, according to Bryan Martin, CEO and chairman of Santa Clara, Calif.-based 8X8 Inc.

Martin's company provides long distance services to Armstrong via the Internet by what's known as voice over Internet protocol.

It's not new technology, but its use is growing quickly.

"It's kind of just word-of-mouth," Martin said. "A lot of people don't even know you can do this over the Internet."

VOIP converts the voice signal from your telephone into a digital signal that travels over the Internet. The signal is then converted at the other end for the listener.

Calls can be made with a regular telephone hooked up to the computer with an adapter or with a microphone plugged into a computer. The computer doesn't have to be on for the phone to work.

Calls placed will go through the local phone company to a VOIP provider, then over the Internet to the called party's local telephone company for completion of the call. The call also can be placed by using a computer keyboard.

The equipment to hook up a phone to the Internet is free when you sign up with 8X8.

"They sent me the equipment, and it works like a charm," Armstrong said.

Martin's company is small in comparison to other telecommunications companies that offer the service, but he said the services 8X8 offers are the cheapest.

"For the most part the bigger companies are still confused because they already have customers paying \$30 or \$40 a month for dialup services," Martin said.

8X8 had 17,000 subscribers nationwide as of June, but it is seeing growth of 50 percent each quarter, Martin said.

Among the large companies offering VOIP are AT&T and Qwest Communications Inc.

Claire Mylott, a spokeswoman for Qwest in Denver, said Qwest currently handles 1.8 billion minutes of VOIP per month.

Last week Qwest announced it expanded its OneFlex VOIP service to small, medium and enterprise business customers in 10 additional markets, including Bismarck.

"Ultimately, the customers want VOIP and Qwest is delivering it," Mylott said.

Qwest does not make public the number of VOIP users it services or prices and taxes associated with the service.

Mylott did say that Qwest has a big advantage over other VOIP providers.

"We have the security and reliability that some competitors can't offer," Mylott said.

One of the drawbacks of the service offered by 8X8 is if Internet services or power is out, the phone can't be used.

Another disadvantage of VOIP that Armstrong has encountered is that Qwest won't publish his number in phone books even though he is willing to pay to have it done.

But competition in the VOIP business is still strong. Armstrong said he looked into several companies that offered the service, but 8X8 was the only one that allowed him to have a Bismarck area code and prefix. 8X8 also offers numbers with Fargo and Grand Forks prefixes.

Cable companies also are getting in on the VOIP market. Tom Simmons, vice president of public policy for Midcontinent Communications in Sioux Falls, S.D., said the company will be implementing VOIP in a test market before the end of this year or the beginning quarter of next year. Simmons said an announcement of where the test market will be could come within the next month. He said as phone services migrate to the Internet, phone companies will begin to offer more plans that have a base fee that includes unlimited long distance.

"Ultimately what will happen is you'll see more wide open competition," Simmons said.

As more and more communications companies flood the market with VOIP services, the government will have to decide how to regulate the business. Simmons said the regulatory issues will be tougher to deal with than technology issues. The government will have to figure out how to tax the service and determine how providers will pay each other for their part of the network.

The Federal Communications Commission regulates interstate calls, and each state regulates calls within their boundaries, but the Internet is not regulated and not taxed.

The FCC has organized an Internet Policy Working group to tackle policy issues that arise as communications services move to Internet-based platforms.

The only reason Armstrong has to pay a 3 percent federal excise tax is because 8X8 is voluntarily collecting it on advice from a tax attorney.

Another regulatory concern about VOIP is how it fits in with 911 emergency services. Customers using 8X8's services can dial 911, but dispatchers might not recognize where the call is coming from. The company charges an additional \$3 a month for enhanced 911.

Mylott said VOIP customers should keep their communications diversified by having a traditional land-line phone. Armstrong also has a traditional land-line phone and a cell phone, but he said he will eventually get rid of the land-line phone.

"I just really see this as the way to go," Armstrong said.

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