

What is a confidence index?

The mid 1980s were a difficult time for the economy. Interest rates were high, taxes were high, unemployment was increasing, and consumers were not spending on domestic products. Yet one of the main ways out of the economic difficulties was for consumers to increase their spending. It was in this environment that the Conference Board, an international business think tank, established the Consumer Confidence Index as a simple measurement of how consumers felt about the economy, and, based on this, how short-term consumer spending might be affected. Economists, as well as consumer goods suppliers, use the Consumer Confidence Index in their estimates of short-term market conditions.

Why a service provider

confidence index now? Today, conditions are difficult in the telecommunications industry. The boom of the 90s is over, and telecom service providers are consolidating in order to cut costs and return to profitability. This, in turn, affects the entire industry that supplies telecommunications equipment and technologies. It is in this environment that Sage Research has established the Service Provider Confidence Index (SPCI), a tracking study measuring the confidence of professionals at Service Provider organizations. The SPCI is designed to provide companies supplying products and services to telecom service providers with an indication of what their customers are thinking.

The Service Provider Confidence Index looks at six areas of service provider activity: capital spending,

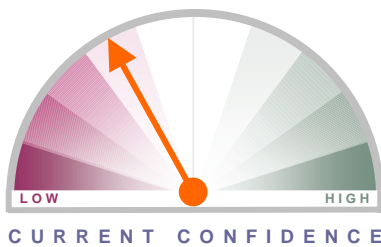
spending on new product and service development, employment, stock prices, and overall industry conditions. In each of these areas, telecom professionals are asked about current conditions compared to the previous quarter and the previous year, and what they think will happen over next two quarters. Responses to these questions are analyzed, and two indices, **current conditions** and **optimism** are produced. Combined, they provide an index of service providers' **overall confidence**, as shown on the Sage Gauge.

This is the first period of data collection for this longitudinal study. Therefore, these results form the baseline. The results of each subsequent survey will be compared to this baseline.



*For January 2002, the value for the Service Provider Confidence Index is **51.7** out of 100, indicating that overall confidence among service providers is **neutral**. Although they are concerned about current conditions, they are cautiously optimistic about the future. They believe a turnaround is coming, even if it isn't imminent.*

Over the next several months, this research will show if their optimism is justified, and if not, if it is replaced by a more pessimistic outlook.



For January 2002, the **current conditions** index has a value of **35** out of 100. This means that overall, service providers consider current conditions to be **negative**.

- ❖ Capital spending is down significantly from the same quarter last year, and down somewhat from the previous quarter.
- ❖ Employment is down significantly over the past six months.

❖ Most respondents feel that shares on the Nasdaq are currently undervalued.

Nevertheless, there are some signs of improvement:

- ❖ Although spending on the development of new products and services is down from last year, it is up slightly from the previous quarter.
- ❖ On average, revenues are reported as up slightly, both from the previous quarter, and from the same quarter last year.

In terms of overall industry conditions, feelings are definitely mixed: although conditions are bad, most service providers feel they could be worse.



For January 2002, the **optimism** index has a value of **65** out of 100. This indicates that, in general, service providers are **cautiously optimistic** that the worst is now behind them.

Over the next six months:

- ❖ A majority of service providers expect overall market conditions in the telecommunications industry to improve slightly.

- ❖ Revenues are expected to increase.
- ❖ A majority of respondents are confident that their budgets for capital equipment and service development will not be cut in the next quarter. Those budgets for the next quarter are up slightly.
- ❖ Most providers feel the Nasdaq has bottomed out, and stock prices will increase.

On the other hand, the employment picture among service providers is not good, with more respondents expecting layoffs in the next quarter than expecting employment growth.

Methodology

The Sage Service Provider Confidence Index is a longitudinal, or tracking, study with data collected bimonthly. Respondents are asked a series of questions about their organizations that probe both current conditions and future expectations. The questions cover six categories:

- ❖ Spending on capital equipment
- ❖ Spending on product and service development
- ❖ Revenues
- ❖ Employment
- ❖ The value of the Nasdaq index as an indicator of investor confidence
- ❖ Overall perceptions of industry conditions

For each question category, a **Current Conditions** value and an **Optimism** value are calculated. The Current Conditions Index and Optimism Index are the means of the values for each question category. The arithmetic mean of these two determines the **Overall Confidence** index. All three indices are normalized to a scale of 0 to 100, the higher the score, the greater the degree of confidence. A score of 50 is neutral.

More complete details of the Sage Service Provider Confidence Index methodology may be found on the Sage website: www.sageresearch.com

For this period, responses from 93 service providers were included in the calculations. The results of this survey are accurate to within $\pm 5.2\%$ with a level of confidence of 95%.

The sample consists of mostly North American service providers (75%) although other regions are represented: Europe (13%), Asia and the Middle East (7%), and Latin America (5%).

Telecommunications service provider types represented in the sample are:

- ❖ 26% Incumbent carriers (ILECs, RBOCs, and PTTs)
- ❖ 19% Long distance carriers and IXC's
- ❖ 12% Internet, web hosting, and other network service providers
- ❖ 12% Competitive carriers
- ❖ 8% Application service providers
- ❖ 8% Wireless operators

The remaining 15% contains MSO and cable operators as well as other service provider types.