

**Service providers are largely negative regarding the present state of the industry.** Many telecom professionals report that capital spending is down from the same quarter last year. In addition, employment has dropped significantly in the past six months.

Even though there is pessimism regarding current conditions, **service providers are cautiously optimistic about the future.** In fact, there is a subset of service providers that are behaving more aggressively than the majority. For example, 35% project an increase in spending next quarter (compared to last quarter) and 52% project an increase in revenue. This suggests that many service providers feel that happier days are once again coming their way—eventually.

**Telecom professionals' attitudes did not change substantively between the January and**

**March data collections.** For example, opinions about overall market conditions are identical—57% of respondents from both data collections believe that industry conditions will improve in the next six months. Results for the five specific areas of inquiry were also very consistent, as follows:

#### 1. Overall capital spending

One-third (31%) of telecom professionals report that overall capital spending is higher this quarter compared to the previous quarter. In the previous data collection, 28% reported that spending was higher.

#### 2. Spending on new development

One-third (33%) of telecom professionals from *both* data collections report that spending on new product/service development is higher this quarter compared to the previous quarter.

#### 3. Revenue

Half (44%) of telecom professionals report that their organization's revenue was higher last quarter compared to the same quarter last year. In the previous data collection, 52% reported that revenue was higher.

#### 4. Employment

Over half (61%) of telecom professionals report that the number of employees will stay the same or increase in the next six months. In the previous data collection, 58% reported this.

#### 5. NASDAQ index

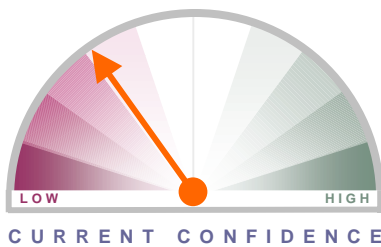
Over half (61%) of telecom professionals report that the NASDAQ value will increase in the next six months. In the previous data collection, 57% reported this.

Service provider confidence indices are reported in the following sections. Indices for overall confidence, current conditions, and optimism are detailed.



For March 2002, the value for the Service Provider Confidence Index is **47.3** out of 100. Similar to January's value of 51.7, this indicates that overall confidence among service providers is **neutral**. Although service providers are concerned about current conditions, they are still cautiously optimistic about the future.

This research will be tracked over the next several months to show if overall confidence remains neutral or if it sways—either to optimism or pessimism.



For March 2002, the **current conditions** index has a value of **30.5** out of 100 (compared to 35 in January 2002). This means that, in general, 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.

- ❖ Half of respondents feel that shares on the NASDAQ are currently undervalued.

However, there are some signs of improvement:

- ❖ Compared to the previous quarter, more respondents indicated that spending on the development of new products and services is higher.
- ❖ Similarly, revenues are reported as being higher, both from the previous quarter, and from the same quarter last year.

In terms of overall industry conditions, feelings are mixed. Although conditions are not good, many service providers feel they could be worse.



For March 2002, the **optimism** index has a value of **63.8** out of 100 (compared to 65 in January 2002). This indicates that service providers are **cautiously optimistic** that the worst is now behind them.

Over the next six months:

- ❖ A majority expect overall market conditions in the telecommunications industry to improve.

- ❖ Over half expect revenues to increase.
- ❖ A majority of telecom professionals 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 expected to rise slightly.
- ❖ Over half of respondents feel that NASDAQ 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, value of the NASDAQ index, and overall industry conditions. 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.

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 per respondent mean of these two determines the **Overall Confidence** index. Note that this is different than calculating a total mean by category (per respondent means are calculated by averaging each individual's record, then calculating an overall mean). 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](http://www.sageresearch.com).

This is the second period of data collection for this longitudinal study—the first was in January 2002. For this period, responses from 57 service provider professionals were included in the calculations.

The sample consists of mostly North American service providers (84%) although other regions are included: Asia and the Middle East, Europe, and Latin America. Telecommunications service provider types represented in the sample are:

- ❖ 26% Incumbent carriers (ILECs, RBOCs, and PTTs)
- ❖ 21% Internet, web hosting, and other network service providers
- ❖ 18% Long distance carriers and IXC's
- ❖ 14% Competitive carriers
- ❖ 9% Wireless operators
- ❖ 7% Application service providers

The remaining 5% contains MSO and cable operators as well as other service provider types.