VoIPeering

INTERNET TELEPHONY

Cutting Out the Middleman

By Hunter Newby, Columns: VoIPeering

E-mail to a Friend　　Order Reprints　　Print　　TrackBack　　Bookmark　　Free Magazines　　eNewsletters　　RSS/XML

Arbinet, "the leading provider of solutions to simplify the exchange of digital communications," has taken a step into the turbulent ocean of business-model disruption with its recent announcement of PeeringSolutions for the U.S. domestic market. Arbinet solutions "simplify the exchange of digital communications in a converging world". This does not specifically mention, or limit them only to voice, but their current primary focus is the exchange, transaction management and managed services which streamline performance and improve profitability of voice services for Members. Those members include, Telecom Argentina, Telefonica Argentina, Columbus Communications Jamaica, Telefonica Chile, Telefonica Peru, Telmex Chile, and Verizon Dominicana to name a few. The sea-change from arbitraging minutes to peering endpoints may be gradual, but the direction is polar.

As their press release explains, "PeeringSolutions allows U.S. Domestic carriers, including competitive local exchange carriers (CLECs), cable and mobile operators, to peer and exchange traffic with each other regardless of their network technology." This in and of itself is a great service because translations and trans-coding will haunt us all for as long as there are competing vendors and technologies. Beyond this initial level of mediation the service goes to the root of calls by performing number matching. As the release states, "Arbinet queries each inbound call attempt against a database supported by the SPIDER Registry and sends routable calls via its switches to terminating Members based on instructions from this database. Settlement for these calls is determined and agreed upon by the providers, with a variety of settlement options including traditional paid settlement and bill and keep agreements, allowing carriers to maintain full control of the economics of their business." This type of call rating is also known in the industry as "seller-sets" and basically uses ENUM in a Least Cost Routing (LCR) fashion.

 There are some real benefits and interesting dimensions to this new offering that essentially get summed up in a quote from the original press release that was provided by a member of the executive team at PaeTec.

"Joe Ambersley, Executive Vice President, **PAETEC Communications** (news - alert) Vice Chair/Treasurer of COMPTEL commented, "PeeringSolutions gives a competitive carrier a simple way to establish and manage paid peering relationships with other carriers in the U.S. and internationally. The carrier maintains control of its payment terms for terminating minutes and benefits from the high call quality generated by direct routing to and from other paid peering members. In addition, the competitive carrier eliminates intermediary carrier termination fees, improving its cost structure. PeeringSolutions also eliminates expenses associated with carrier access billing (CABS) and provides interoperability between TDM and VoIP networks, delivering the benefits of VoIP

peering today without requiring costly network upgrades."

The first thing that stands out is that this service offering is "paidpeering". This is interesting in terms of its efficiency and the economics of minutes. Since the Arbinet Members are largely in the business of generating revenue from minutes they continue to look for ways to protect that revenue and eliminate costs from the network to increase the overall margins. This makes a lot of logical sense.

Peering implies a free exchange of traffic. This assumption comes from the legacy definition of peering in the ISP sense that still exists today. The exchange of IP traffic over a common Ethernet switch fabric is multi-lateral, or open to all and settlement free. There is no cost from one network to the other for transit. Paid-Peering also exists in the ISP world. The technical exchange doesn't change, but the economics do. Paid-peering is less expensive than transit, but more than free.

There are multi-lateral voice peering services that exist today as well and they facilitate a completely free exchange of voice traffic between the endpoints of the network operator participants. This is essentially an extreme position to take from the perspective of some CLECs and other endpoint owners that still make money on minutes, and the Arbinet service helps them ease into the future by allowing them to set a rate to terminate a call to any one of their endpoints. One technical benefit of this functionality, as Joe Ambersley stated, is the high call quality from direct call routing. Here is where the business model disruption comes in and it gets really interesting.

If those service providers that possess endpoints all begin to contribute their numbers and query the Registry for outbound calls, at some point a majority of all calls between "minutes" carriers becomes direct and essentially on-net to each other. Clearly there are quality benefits to this, but what happens to the IXCs, the "long distance arbitragers" that Arbinet's business was founded on? They get cut out. It's just like how transit providers get cut out when ISPs and other IP networks peer directly. Whether it is paid-peering, or true multi-lateral, those that control the endpoints are the "landowners" essentially and the middlemen go away.

This technology and overall industry change comes as no surprise to Arbinet and as Cliff Radziewicz, Vice President Business Development for Arbinet stated, "We are proactively addressing this business model seachange and therefore will be able to better control our destiny. Most service providers, regardless of type, will still need help with TDM/VoIP conversion, routing decision tools, interconnection infrastructure, and settlement during and after the transition to a peering world, and Arbinet will be ready to serve them." Where that leaves Arbinet with their existing customer base depends largely on the speed at which the new service develops. The faster "all" the numbers and associated positive hit rate increases in the registry the faster the middlemen IXC's decline. This is not to say of course that all endpoints will become on-net in the future, so there will always be the need for IXCs in some form, but it does prove that owning the number, or identifier, for the endpoint on a network is the value and power for operators going forward.

*Hunter Newby is chief strategy officer for **telx**. ([news](#) - [alert](#)) For more information, please visit the company online at http://www.telx.com.*