

Going High-Fiber

David McCourt ~ Chairman and CEO ~ RCN

by Meryl Davids Landau

David McCourt isn't mincing words. In a thick Boston accent that trumpets his New England roots, McCourt calls the decision by the telecoms to rebuild rather than install new networks "one of the biggest business blunders of the 20th century." He tells reporters that large conglomerates like his competitors "never seize opportunities" and announces brazenly that competitor Bell Atlantic "has out-lived its usefulness."

The 43-year-old bold, bespectacled, and bald chairman and CEO of upstart RCN does have at least some claim for bravado. His three-year-old, Princeton, NJ-based firm is making small but steady inroads in its quest to be the nation's dominant one-company-fits-all provider, laying fiberoptic networks capable of bundling local and long distance telephone service, cable, and high-speed Internet connectivity.

Having raised more than \$3 billion last year alone (including \$1.65 billion from Paul Allen's Vulcan Ventures) and with the backing of construction/investment powerhouse Peter Kiewit Sons, RCN had laid more than 3,646 miles of fiber, by the end of 1999, an increase of 156 percent over 1998.

The number of "marketable homes"—those that can get its full suite of offerings—jumped to a half-million last year, double that of a year earlier. (To more quickly acquire customers, RCN has purchased Boston ISP Erols Internet and New York cable provider Liberty Cable, among others.) The appeal of RCN's connectivity offering is clear; its lines feed into the home at speeds 1,000 times as fast as a conventional phone modem and five times as quick as traditional cable.

So far, RCN's customers collectively buy 1 million services (each offering—cable, phone, etc.—is counted separately), a figure poised to grow greatly now that the company has launched a more comprehensive, competitively priced plan, "ResiLink," to increase the average number of bundled services per customer from two to four.



RCN's core strategy: focus on high-density markets like the Boston-Washington corridor, San Francisco-San Diego, and more recently, Chicago and Portland, where a great number of customers can be served for each inch of cable deployed. To wit, RCN's annual report notes that 44 percent of the country's telecom usage takes place in only 6 percent of the country. Unlike the monopolies, which are required to serve everybody, RCN can cherry-pick customers, offering residents a lower price, more options, a single bill, and one-call customer service.

Of course, the road to beating back the Goliaths who dominate these utilities—a prospect that

this relentless David seems to relish—isn't without peril. First, there were lawsuits by Time Warner in New York and Cablevision Systems in Boston, as RCN threatened their cable territory. Both suits are settled and were not wholly unexpected by McCourt, who derogatorily terms it "Monopoly Behavior 101."

Then, there's the ongoing challenge of developing back-office systems for an industry that hasn't existed before. Not to mention the traditional risks for a startup venture—especially one whose top competitors, such as AT&T, view RCN's 1999 revenue

believes RCN's product is terrific. "I keep asking, when are they coming to my house?"

Rather than dwell on the many challenges, McCourt prefers to keep his focus keen on his business plan. He views his venture as a once-a-century opportunity, akin to the days 100 years ago when telephone lines were being laid, or a generation ago when cable was. "Usually, in a capital-intensive business, the first person in has a huge advantage," he says. "But here, the technical, regulatory, and consumer environments are changing so rapidly that a new business like ours has the advantage of competing in a cost-effective way."

While his determination is serious, McCourt's demeanor is anything but. The light-hearted CEO donned a long blond wig at work last Halloween and points to a "no whining" sign in his office when required. The father of two is also the consummate family man, running out to catch his son's lacrosse or daughter's soccer games—although he admits to going back to the office afterward.

Taking advantage of the cheaper movement of data over the Internet, McCourt says that by first quarter 2001 his long distance service will be delivered that way, followed, eventually, by local telephone. He is also excited about the unknown—and unknowable—offerings of the future. "When electricity was built, it was for lights. But today only 9 percent of electrical use is lights. That's how it will be for bandwidth," he says. Anticipating those future uses, RCN's networks are built on the "85/15 model," where all the current services combined use only 15 percent of capacity.

"In the future, when home security, video on demand, energy monitoring, interactive advertising, and who knows what else become available, we won't have to upgrade our infrastructure," McCourt says. That's when he'll really have reason to crow. ■

of \$276 million (up 31 percent from '98) as lunch change.

Finally, there's the not-insignificant hurdle of retraining technicians who have spent their entire careers installing and repairing one type of line (be it phone or cable) to handle them all. To that end, RCN recently opened a "Cable Camp" training center—an idea McCourt credits to his young son, who convinced his dad that camp was the best place to learn new skills.

Says Chris Larsen, telecommunications analyst at Prudential Securities: "They have their glitches, just like any startup, especially in trying to make their offerings seem seamless to the customer." Nonetheless, he