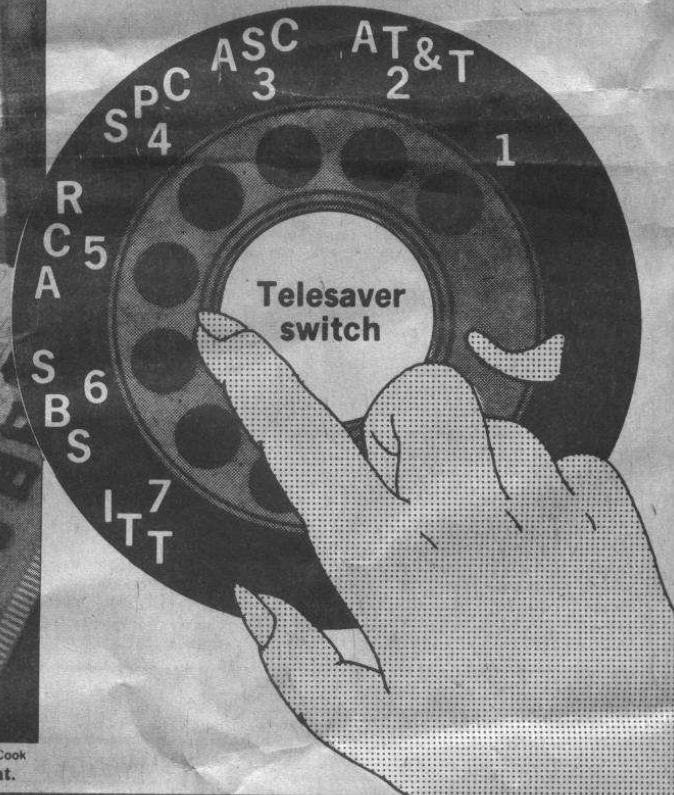




Richard Goldman, Telesaver's president, with a switch component.

How the Telesaver works

1. A consumer dialing long-distance gains access to the Telesaver switch via C&P. The switch connects the call to one of the following lines—the one that offers the cheapest available connection:
2. American Telephone and Telegraph Co.
3. American Satellite Company
4. Southern Pacific Communications
5. RCA Corporation
6. Satellite Business Systems
7. International Telephone and Telegraph Corp.



Long distance 'retail' firm thrives as middleman for discount rates

By Ann Cooper

If the Jewish Community Center of Greater Baltimore had not signed up for long distance service with one of AT&T's competitors a few years ago, Richard Goldman might still be in the nonprofit world.

Mr. Goldman, 39, is president of Telesaver, a sort of retail long distance telephone business that has grown from a one-man operation and \$7,000 in revenues to a small business that Mr. Goldman predicts will have revenues of \$20 million in the coming year.

His transition to the world of profit-seeking began in 1979, while he was still director of the Jewish Community Center's camping services. Impressed by the money the nonprofit center saved when it switched to discount long distance, Mr. Goldman decided he wanted the same kind of savings on his home phone bill.

At the time, however, the discounts offered by such competitors of the American Telegraph and Telephone Company as MCI Communications Corporation were available mainly to high-volume office telephone users. Rather than wait for the competitors to provide lower-cost

residential service, Mr. Goldman banded together a dozen friends whose collective calling would make discount telephone service feasible.

The dozen quickly grew to several dozen. Pretty soon, Mr. Goldman had turned a small profit, put a home computer in his basement and hired a high school student to help part-time with billing the customers in his little long distance network.

By 1981, Mr. Goldman, whose professional training was in Jewish studies and human relations, was ready to give up the nonprofit world to become a full-time entrepreneur.

He left the Jewish Community Center to found Telesaver, which now is based in Owings Mills and has 35 full-time employees and about 11,000 business and residential long distance customers. Telesaver, which had revenues of \$3.5 million in the fiscal year ending September 30, promises those customers savings of 20 percent to 45 percent over the cost of AT&T's direct-dial long distance service.

In telecommunications jargon, Telesaver is known as a resale common carrier. Unlike MCI and the other better-known AT&T competitors, resellers usually have no equipment for transmitting phone calls. Instead,

they take advantage of discounts offered by AT&T and the competitors on bulk purchases of long distance services, such as AT&T's WATS lines.

A reseller buys or leases those services and sells time on them to other customers. Because of the discount received by the reseller, it can sell at a profit but still charge less than AT&T's rates for direct-dial long distance calls.

"Resellers are the K marts of long distance. They buy from a manufacturer, affix their own house brand and undercut the national brand leader in specific markets," said Robert Self, author of "Long Distance for Less," a telephone service buying guide for businesses.

The trick for the reseller is to figure out which, and how much, of the bulk services to buy. If a reseller doesn't have enough lines, customers will get busy signals instead of connections. "If they buy too much service, too many lines, they run the risk of not using them enough and losing money," said a Federal Communications Commission official.

"Our profit is very dependent on guessing which lines we need and how many," said Mr. Goldman.

Just a couple of years ago, there

was no such thing as a resale common carrier. Now, according to a trade association representing the new industry, Telesaver is one of about 50 companies around the country offering similar services.

Despite their newness, the resellers' original services are already showing signs of becoming antiquated in the fast-paced field of telecommunications.

For decades, AT&T provided the only option for calling long distance. Largely because of legal challenges by MCI, however, barriers to long distance competition were struck down in the 1970s. MCI, Southern Pacific Communications Company, ITT and Western Union—called "other common carriers" because they had their own transmission facilities—began offering alternative long distance service cheaper than AT&T's to selected cities.

AT&T still has almost 96 percent of the long distance market, but MCI's share has grown to more than 2 percent. The rest of the market is divided among other common carriers and the resellers.

"MCI sort of pried the window open, and a whole lot of people followed them," said one telecommuni-

See TELESAYER, K12, Col. 1

Long distance 'retailer' thrives as

TELESAVER, from K7

cations analyst. "Now, a lot of competitors are coming in and figuring out ways to do things better."

Among the competitors are the resellers, who found that by shopping around and buying discount services from several companies, they could provide customers with the ability to dial any phone in the country at discount rates. Until recently, MCI and the other AT&T competitors did not offer "universal service."

That is changing. MCI has a service called OMNI-CALL that allows its customers in about 50 cities, including Baltimore, to dial long distance anywhere in the country at below-AT&T rates. Eventually, all of the other common carriers are expected to offer universal service by doing the same thing the resellers do—buying discount service from each other and from AT&T.

Resellers still may offer better rates, or lower monthly service charges, but their future is highly de-

pendent on what the other common carriers do, said MCI spokesman Gary Tobin.

"The economics of the reselling industry are real, real tight, because they are totally at the mercy of the companies that provide the service," he said.

Having lost their advantage of universal service, resellers now need to offer their customers more specialized services, said Mary Dominiak, an official with the Association of Long Distance Telephone Companies, called ALTEL.

"We'll see a lot of companies go down the tubes, the ones that have not thought, 'Hey, what would happen if. . .,'" she said.

In fact, the resale common carrier field already has had casualties. Some early firms were started by profit-seekers who knew little or nothing about the telephone business, according to industry observers. One would-be reseller, a North Carolina man who promised discount service to 1,000 Maryland subscribers,

pleaded guilty to mail fraud charges here this summer after he failed to provide the service.

Federal regulators and industry observers said failures are to be expected in a brand new industry, however.

Those resellers that do survive are likely to remain small, regional companies, said Ms. Dominiak. That can provide some advantages over the nationwide focus of a company such as MCI, she said, because "resellers tend to go after their customers on a much more individualized basis."

Among the new services both resellers and other common carriers are offering or considering, Ms. Dominiak said, are telephone conference calls, more detailed billing and codes that can show a company which employee made each call on a bill. The latter service can cut down on unauthorized employee use of long distance lines for personal calls, she said.

Telesaver offers some specialized

as middleman for discount rates

services to business customers, according to Mr. Goldman. For instance, businesses can get the codes that show who made calls. Local law firms that sign up with Telesaver are given codes that indicate which long distance calls should be billed to each of the firm's clients. Conference calls, automatic call forwarding and other services "that we haven't even thought of yet" are likely to be added in the future, Mr. Goldman said.

He and his wife own 89 percent of the stock in Telesaver, which he said has paid no dividends. Profits have been put into research and development, he said.

When Mr. Goldman became a full-time businessman in 1981, he had two office employees and a sales staff consisting of enthusiastic friends and customers who sold the service in their spare time. Telesaver initially resold time on a single long distance network, the one operated by Southern Pacific, which meant customers could call only a

limited number of cities around the country.

To provide universal service and increase the likelihood of profits, the company needed switching equipment that could route a call to one of several different long distance services. Buying another company's switch was too costly, Mr. Goldman decided, so he and a friend trained as an electrical engineer designed their own. In the meantime, he found investors who could help finance the company's new divisions for research, development and manufacture of a switching system.

Last February, the first computerized switch was installed in Baltimore. Telesaver began buying service from several different long distance companies, using the switch to automatically route calls to the cheapest available telephone service. Which service the switch chooses depends on the call's destination and the time of day it is placed.

About 1,500 of Telesaver's 5,000 Baltimore-area customers have ac-

cess to any phone in the country, except Alaska and Hawaii, through the local switch. Telesaver also has switches in use to serve its customers in Philadelphia and Hazleton, Pa., and San Francisco, Washington and Rochester, N.Y., are scheduled to get switches later this month.

In other cities, Telesaver still resells only one long distance service, the one offered by Southern Pacific. Customers pay the same price per call they would pay to Southern Pacific, but Telesaver charges them a lower monthly fee.

Mr. Goldman said reselling Southern Pacific in those cities is not profitable, but will help Telesaver build a customer base for the future, when the company might put switches in those cities and offer universal calling through discount service bought from several companies. In addition, maintaining service in those cities allows Telesaver to sell a travel service to customers who want to make long distance calls when they are away from home.

OCCs offer long

Telesaver offers resale sharing

by Linda J. Elengold

Three years ago, a group of friends trying to save on their overhead, formed a group to share the cost of a long distance telephone service. Today, Richard J. Goldman, who began the telephone cooperative, is president of the Owings Mills-based Telesaver, a company which resells the service of OCCs (other common carriers) and provides reduced rate long distance calling services to 11,000 business and residential customers across the country.

The service mushroomed from the initial group of 10. "All of us had parents and friends we called long distance, and they wanted to join the group. I realize that this was an opportunity to fill a void that no one else was touching, so I started a long distance resale sharing service," said Goldman.

After about a year, Goldman left his job, set up an office and Telesaver was born. The company has grown from 10 part-time sales representatives to 35 full-time employees and 500 part-time sales reps. "We are probably one of the fastest growing corporations in the state," Goldman claims proudly. "We have offices functioning in six cities, and we are opening an average of two more each month." Telesaver revenues totaled \$5 million last year, and Goldman predicts that figure will rise to \$20 million next year.

"Being relatively small, we are trying to establish a decentralized national organization," explains Baltimore/Washington area sales manager Marshall Sapperstein. "We stress response to customer needs on a local basis. By being the local long distance telephone company we can better empathize with our customers."

Telesaver is operating its original "sharing" service in about 130 cities coast to coast. A new Universal Calling Service, currently available in Baltimore and Philadelphia, allows customers to call any telephone in the 48 continental states at flat discounts off Bell System rates. The Universal service will be operating in the Washington and Annapolis areas before the end of the year and will soon be offered in Frederick.

With Universal service, business customers receive discounts of 24 percent during business hours, 45 percent during evening hours, and 32 percent for nights, weekends and holidays. The service charge is \$5 monthly. Residential customers pay \$3 each month for a similar package, but with a daytime discount of 20 percent.

"We have tried to make it simple, so

that a businessman with a \$500 telephone bill during the day knows that he can save \$125," Sapperstein says. He points out that another unique feature of the service is a discount for volume usage. "We also try to offer better service than the other companies by using the best transmission lines available," adds Sapperstein.

"We are what is called a resale common carrier," Goldman says. "We do not own the transmission facilities ourselves. We lease lines primarily from Southern Pacific, ITT, RCA and AT&T. We shop around. We buy in huge volumes—millions of dollars of circuits—so we can obtain large discounts."

"To do this, you need very sophisticated computers and switches. We have a little computerized brain that decides

which is the best line to route this call on based on the quality of the line, the cost of the call, and which line may be free at the time. It is possible that we can pay as much or more than we charge for a particular call.

"We set up our own switching equipment, which no one else has done. We are manufacturing our own switches now. We are getting together with other corporations through joint ventures to install our switches and install universal service. I anticipate that in the next 18 to 24 months, Universal service will be available in about 50 cities," Goldman adds.

Long distance telephone service is a fast-growing business due to federal deregulation and technological advances. "This type of business could not have existed three or four years ago. The technology did not exist," Goldman states. "What we are able to do with the little switch we have is what the telephone company spent millions and millions of dollars to do about 10 years ago."

"The long distance market today is about \$24 billion. AT&T has 95 percent of the business right now. There are probably now about 30 to 40 active OCCs and resellers nationally. I think that there will be more companies coming into this type of thing. The volume of business is growing at 8 to 10 percent a year."

"In the past two years with all their competition, AT&T's profits from long distance has increased more than any other area of their business," Goldman concludes. "The technological advances are immense. The real beneficiaries of this are the consumers." □



Richard J. Goldman