

# CANADIAN BUSINESS

## New kid on line

by Geoff Hamilton

**With its residential voice-over-Internet-protocol service, Montreal's babyTel is taking on the big boys of telecommunications.**

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The Montreal offices of babyTEL have nothing of the frantic feel of a technology company about them. To begin with, babyTEL resides on the seventh floor of a brick building overlooking René-Lévesque Boulevard in the city's core — far from the shabby highway-side tenements that typify many tech firms. Inside, there is a quiet, reflective air broken only by the occasional impassioned debate over a finer point of service provision. The view from the windows in every office — no cubicles here — shows the reviving business district growing up all around. And then there's the boss.

Wearing a comfortable V-neck sweater and grey slacks, Stephen Dorsey couldn't look less like a person who feels he has something to prove. A friendly, relaxed man who rides to work on a bicycle, Dorsey is clearly enjoying his latest incarnation. "I spent many years selling to the corporate world where relationships develop so slowly," he says. "It's a nice change of pace to be able to sell to the retail side where decisions to buy or not can be made on the spur of the moment." Most of babyTEL's 20 employees have been with Dorsey for years, and it is easy to see why. "A pleasant work environment makes for productive people, and that improves the bottom line," says Dorsey.

Dorsey's habit of keeping his eye on the bottom line has served babyTEL well. Since introducing its residential voice-over-Internet-protocol service in May, babyTEL has received accolades from research groups and users in this highly competitive field of telephony. The SeaBoard Group's report on the state of VoIP in Canada called babyTEL's service quality "best of breed" — an area where other VoIP companies have had issues. The privately financed firm has grown its customer base surprisingly quickly, and this despite not having the war chest needed for the kind of advertising blitz U.S. competitors have been running.

The competitive heat in this field is understandable. Market analyst Frost & Sullivan predicts that more than 375,000 Canadians will be using a VoIP service by the end of next year, and this within the growing target market of three million high-speed Internet users. The prospect of winning a slice of this hefty pie has led many would-be telephone companies to enter the VoIP fray. In the past six months, Internet telephony has grown to become a household name from the technical abstraction that it was when babyTEL's parent company, Voice & Data Systems, entered the field in 2002.

The major telephone companies have been characteristically cautious in launching their own VoIP solutions, despite owning the vast majority of high-speed Internet subscribers through services like Sympatico. They have been installing the required technology for some time but are working to overcome the fact that the proliferation of VoIP can only erode their own telephone customer base. SaskTel, for instance, has launched its own VoIP service through subsidiary Navigata — but only for customers in parts of British Columbia and Alberta.

At the same time, the telephone companies want to make sure the Canadian Radio - television and Telecommunications Commission leaves VoIP unregulated before they enter the market. One way or the other, the telephone utilities are expected to launch their VoIP solutions within the next six months. Major cable Internet providers Rogers Communications and Shaw Communications are expected to roll out VoIP solutions in early 2005.

Meanwhile, babyTEL has been taking advantage of its good position and selling as much as it can. In addition to marketing to end users, it has met success in partnering with high-speed Internet providers that are looking to expand their range of service and see VoIP as a natural fit. In some cases, babyTEL service is being re-branded by ISPs and resold. "Many VoIP subscribers might be using babyTEL without realizing it," says Dorsey.

It is no surprise, then, that babyTEL has attracted the attention of venture capital firms looking to gain a foothold in this fast-growing industry. "We've been approached by a few firms, from here in Canada and also the U.S.," says Dorsey. "We'd certainly benefit from investment, but for me it's a matter of making sure we find a good fit in a financial partner. Having the right partner can make all the difference to an innovative company."

He should know. Dorsey has some background with innovative companies. In 1967, Dorsey — a Massachusetts Institute of Technology-trained engineer — founded AES Data Inc. in Montreal, developing industrial remote-control applications. In 1972, AES launched the AES 90 computer, years before Microsoft and Apple were companies. Marketed as a "word processing system," the AES 90 was really the world's first general-purpose personal computer. AES went on to grow to more than \$200 million in annual sales.

Dorsey launched his next venture, Micom Co., after selling his stake in AES in 1975, again selling word processing and office automation systems. Having directed Micom to \$200 million in revenue, Dorsey sold it to Philips NV in 1984 and founded Voice & Data Systems in 1991. The company found success in deploying cutting-edge fax-over-data network technology to phone companies internationally and in providing unified messaging solutions to some of the world's largest financial firms. And, once again, Voice & Data Systems is poised to go big through its subsidiary babyTEL. Of this, Dorsey is absolutely convinced.

The way he describes it, VoIP is a technology whose time has come. "Even just a couple of years ago, the Internet didn't have the bandwidth or quality to support an application like this," explains Dorsey. "We're very lucky that we started working on it before some who are just rushing to get into VoIP now. We've done all the technological development, and now we can focus on growing our subscriber base while the other guys try to sort out their service problems on the fly."

Given Dorsey's track record, it is hard to believe that luck has anything to do with the company's success. Nevertheless, being ahead of the pack has given babyTEL the opportunity to think about the future and work on its customer interface. "Internet telephone is something that's in everyone's future," says Iain Grant of the SeaBoard Group. "The day will come when all telephone calls will be by VoIP. The significance of it isn't just price, it's about the flexibility of the medium to offer a wide range of features. BabyTEL's web interface is a perfect example of this: you can check your voice mail and look at call logs in real time. That just isn't possible with a traditional telephone line."

Voice & Data Systems today reaches more than 20,000 users daily, and babyTEL's immediate plans are to reach an additional 1,000 high-speed subscribers each week over the next year by partnering with ISPs. The company is in the final stages of signing contracts with two large ISPs, and there are no signs of this brisk trade slowing down. Because of the huge opportunity and untapped market, all of the companies selling VoIP in Canada are growing quickly — even those with spotty service records. If babyTEL keeps meeting its growth targets, it will be generating roughly \$50 million a year in revenue by 2006, giving it a solid footing to compete with the telephone companies when they enter the playing field.

The prospect of encountering the phone utilities on their own turf doesn't faze Dorsey in the least. "I see our advantage as offering the kind of fast and personal customer service that the telephone companies just can't," he explains. "The flexibility of VoIP is a big selling point. Last week my son called me from outside a hotel in Paris; he caught their WiFi signal on his laptop and made a local telephone call over the Internet to me here in Montreal. That sort of thing was unthinkable until very recently."

For now, though, babyTEL has an ongoing battle to fight competition from around the world, as well as some public misconceptions about VoIP. It may be tempting to imagine what could be, but Dorsey is keeping his feet squarely on the ground, making sales one at a time — the same as he's been doing for 30 years.

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