

## All Right, John Sidgmore, Now I Am Scared

Net Forecasts – Peter J. Sevcik

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“Are you scared? The Internet is growing at an incredible rate of doubling every 3.5 months. If you do not build to keep up with the pace, you will be left behind. If you are not scared, you should be. I am scared.”

That was John Sidgmore's rallying cry. He used it in speeches given as early as December 13, 1996, as shown on CNN, and later at numerous conferences. The ever-growing number of Internet followers and investors listened, and followed his call.

Boy, did they ever. Investments flooded into fiber, routers and hosting centers. There were ten versions of Pets.com. The level of investment in everything and anything with the word "Internet" soared. Sidgmore's call was heeded. Everyone was scared of being left behind.

I was dubious and challenged Sidgmore's claim about Internet traffic doubling every 3.5 months in this column in January 1999 (see [www.bcr.com/bcrlmag/1999/01/p12.asp](http://www.bcr.com/bcrlmag/1999/01/p12.asp)). My criticism did not sit well with Mr. Sidgmore, who called me April 1, 1999 to help me “understand.” The call was cordial, but I remained unconvinced and told him so.

Now that Worldcom has filed for the largest bankruptcy in history, and so many other backbone ISPs are failing, we need to know how we got into this mess in order to figure out how to get out. It is time to reconstruct what was happening in the latter 1990s.

### **Worldcom's Goal: To Own the Telecom Market**

In my April 1999 interview with him, it was clear that Sidgmore was playing a high-stakes game. He said, “This has been a race from the beginning. We intend to be the winner of the Internet and the Internet winner is the winner of all telecommunications.”

In the 1990s, the conventional wisdom was that if you became the leading player in an emerging market, you could shape the outcome of that industry. John Sidgmore believed that he was in a

position to ensure the ultimate success of Worldcom.

But the conventional wisdom underestimated how tricky and difficult the market would be. Many competitors flocked into what was quickly becoming a commodity business. By 1998, there were thousands of ISPs and about 20 U.S. national backbone competitors to Worldcom/UUnet.

I believe that Sidgmore's plan was to goad his competitors into overspending on their networks. He hoped his competitors would then fail because there would not be enough revenue to support the enormous debt burdens.

He apparently believed that Worldcom would survive by leveraging its image as being the “best in service” to justify charging premium prices. As Sidgmore put it, “How do we grow capacity faster than revenue and stay in business? It is our effective critical mass and size that keeps us ahead of the game. The cost for bandwidth capacity is less than 10 percent of our total costs.” He argued that since no other carrier had this luxury, the competitors could not grow their capacity very fast and stay in business.

### **The Story Shifts**

Despite Worldcom's size, however, it also could not continue to grow its network capacity by 10-fold per year while revenue grew 2-fold per year. So, Sidgmore and others at WorldCom began modifying their story.

They started with the claim that Internet traffic was doubling every 3.5 months, but that shifted -- it actually was the number of customers that was doubling every 3.5 months, then it was the number of T3 access lines. All of these had at least some relation to demand.

By 1999, however, the story had completely shifted to an emphasis on *capacity*. First they focused on how many big OC12s were in their backbone, then to how many miles of trunk circuits and then to the number of bandwidth-miles. The story kept

changing, and was never backed up with data points that could be referenced over time.

Indeed, Sidgmore did his best to prevent anyone from being able to reconstruct or verify the story. In the aftermath of my January 1999 column, at the Next Generation Networks (NGN) conference in November 1999, he did not permit his slides to be published. Nor did he permit *BCR* to record his speech. He was the only speaker to get away with these demands.

In that speech, when he got to the part where he'd describe the "facts" about UUnet's growth, he remarked, "For the crackpot in the audience who keeps trying to keep track of these things, here are some facts." He then ran through about four slides of topology and bandwidth data in 8 seconds.

Another aspect of Sidgmore's strategy was to grow WorldCom's bandwidth at a much slower pace and thus avoid the trap he was setting for the competition. He did grow WorldCom's U.S. bandwidth capacity by about 400 percent per year from early 1995 through 1998, but from 1999 on, despite his claim that parts of the Worldcom network was growing at 900 percent per year, the actual annual growth rate on UUnet's U.S. backbone was about 50 percent. This vast gap between rhetoric and reality was never made public.

#### **The Plan Worked.....**

Sidgmore's claims were accepted by the community at large. The dot-coms, hosters, VCs and many others were inspired to join the Internet movement. His influence helped convince others to invest in what was becoming the Internet growth myth.

In my survey of the backbone ISPs for the January 2001 column ([www.bcr.com/bcrmag/2001/01/p10.asp](http://www.bcr.com/bcrmag/2001/01/p10.asp)), I was surprised by how many of the backbone ISPs were following Sidgmore's clarion call; capacity was growing at an alarming rate. Overall, excluding WorldCom, U.S. backbone capacity between January 1999 and January 2001 grew at 460 percent per year. Clearly, many were trying to grow at a pace close to Sidgmore's magic 900 percent per year.

But then came the carnage. PSInet's fall into bankruptcy foreshadowed what was to come. Sidgmore must have felt that his plan was working -- one competitor was gone and its customers were fleeing, looking for a "safe" service provider, a survivor. The backbone ISPs that grew the fastest generally were the first to suffer or fail, while established players, like AT&T, who didn't try to achieve hyper-growth in their IP backbones, were not reporting financial difficulties from their Internet service units. It was beginning to look as if the last would be first, after all.

#### **....It Worked Too Well**

Sidgmore's strategy was a very risky, kind of like creating a backfire to stop a wildfire of competition. When the fire burned out of control and the Internet bubble burst, not even Worldcom could avoid the flames -- Sidgmore may be CEO, but the company is really controlled by a bankruptcy judge.

The repercussions have proved devastating. More than half the U.S. backbone players are gone or in serious financial difficulty. Estimates of the number of telecom jobs lost since January 2000 range from 400,000 to as high as 1 million, and the carnage continues. The combination of diminished carrier capacity, plateaued growth and the huge loss of staff to keep things running will surely take a toll. Service is already suffering and it will only get worse.

So, finally, I am taking Sidgmore's advice: *I am scared*. The fundamental Internet structure is in a financial crisis. More than half of the U.S. national backbone capacity is operating under bankruptcy protection.

But even as the carriers keep their wallets tightly shut, traffic on the Internet keeps growing, and at a very fast pace: 100 percent per year (doubling every 12 months). We are now headed toward having too little capacity relative to traffic demand, and unless things change, by fall 2003, we will start seeing serious failures of performance and basic services.

All of this is likely to produce considerable sound, fury and maybe even a little action from Washington. Heavy hitters, such as Jeff Bezos of Amazon or Meg Whitman of eBay, probably are

already meeting with Congress to discuss how to stop the Internet's free-fall; after all, the 'Net remains the foundation of their businesses. We're also likely to see companies like the airlines complaining that on-line ticket sales are suffering. At some point, Congress will get involved to insure better stability and performance of the infrastructure.

Washington also will be pressured to prevent the marketplace from being deceived about the fundamental balance of traffic supply and demand. It's time for some major intervention, because it doesn't look like the Internet industry can govern itself (see my column in *BCR*, November 2001 -- [www.bcr.com/bcrrmag/2001/11/p10.asp](http://www.bcr.com/bcrrmag/2001/11/p10.asp)). New regulations out of Washington aren't likely to help us today, but maybe they can help us avoid a repeat of past chicanery.

### **Conclusion**

What will end this death spiral? The sheer force of traffic demand. We need to look for the signs that demand is not being served.

The industry will come out of this bruised and battered and, I'm sorry to say, with little zeal for the innovation that characterized the early Internet.

That's unfortunate, because we need companies like UUnet to prosper, not to fade away. UUnet was the best and most important Internet backbone, but whether it can reclaim that title remains to be seen.

Clearly, the Internet community has to mature out of adolescence, and accept some accountability. Among my biggest concern is that the current crisis won't produce new dynamic leaders, but only move the Internet community directly into cynical, conservative middle age. We need responsible leaders to build the next-generation Internet and rebuild confidence in this industry.

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