

Like a Rock: Granite Grows on Solid Performance

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Posted on: 04/26/2010

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Truth be told, I wasn't easily sold on the idea of writing an article about [Granite Telecommunications LLC](#). Really, what's so interesting about a POTS reseller? The good folks over there, including CEO Rob Hale, a longtime industry friend, readily admits there's not one thing sexy about it – until you consider that the privately-held company's annualized revenue is about \$500 million.

That makes Boston-based Granite one of the largest CLECs in the country – on par with companies like Broadview Networks Inc. and One Communications Inc. and just behind the billion-dollar boys – PAETEC, XO Communications Inc. and Level 3 Communications Inc. This is a particularly compelling statement considering Granite's relatively low profile; it just may be the largest CLEC you never heard of. I'm exaggerating, of course; it's not like Granite's been hiding under a rock. (Forgive the indulgence; bad puns are a personal weakness.) But, I'll bet even those familiar with the company are surprised to learn of its size.

How did this happen right under our noses?

Granite was formed by Hale and his late father Robert Hale Sr. (Bob to his friends) in June 2002 to provide local dial tone to businesses under the now-defunct UNE-P model. (A quick refresher: UNE-P stands for unbundled network element-platform and it describes an alternative to resale wherein a CLEC could lease loops, transport and switches on an unbundled basis, effectively becoming a local telco without the investment in network facilities.) The FCC put the kibosh on the service in 2004, phasing it out completely by March 2006. Companies like Granite were forced to make other plans — namely add switches and migrate to UNE-L, transition to VoIP or sign commercial contracts replacing UNE-P agreements. This last choice, which entailed less favorable rates, was not seen as a popular option but rather an interim one for many UNE-P providers. A few like Granite stuck it out, signing agreements with the ILECs to cover a majority of the United States.

In an interview with PHONE+, Hale recalled the “seismic shift away from local resale” as a result of losing UNE-P. “We had grown to critical mass and could negotiate favorable rates,” he said of his decision.

The mass exodus, in part, may have helped to fuel Granite's growth in a niche few have focused on. In 2004 when Granite transitioned its UNE-P contracts, Hale said the company was running at about \$77 million in annual revenue. By 2005, it had nearly doubled to \$141 million.

"Other carriers aren't particularly interested in providing the service, leaving the door open for Granite," said Craig Clausen, executive vice president and co-founder of [New Paradigm Research Group](#), a consulting firm that follows the CLEC market. "However, no company can be successful if there isn't demand for their product. In Granite's case, there still is demand for simple POTS service. It's low-margin and not 'now and wow,' but POTS lines fill a niche for many end-users — even large end-users like Walmart."

Why didn't the company diversify like most other former UNE-P CLECs? "It was working," said Hale matter-of-factly. "We have no debt. No investors. We're profitable. ...We add 20-30,000 lines per month."

In February, Granite reported that it had 900,000 lines installed, having added 100,000 in the previous nine months.

"This business is contrarian in nature because if you listen to the prognosticators or experts, VoIP and wireless have taken over, but someone forgot to tell the end-users," Hale said, noting that Granite serves 9,100 businesses, 172,000 retail sites, 61 of the Fortune 100 and the country's top 10 retailers.

"I wish I could take credit for a genius business plan or something like that, but it's not the case," he said. "We're a simple business that focuses on a particular niche that frankly other people are not concerned about because there is no glitz to POTS lines."

Hale may be too quick to reject praise. This low-margin business requires efficiencies and scale to have a chance at success.

"Granite is a good example of a company succeeding by remaining focused on one service and not being sucked in chasing the next bright, shiny object," said analyst Clausen. "And perhaps this approach is most important when it comes to low-margin industries. In these instances, the participating companies have to remain exceptionally efficient."

Cornerstone of Success. To that end, Granite created its own middleware, aptly named "Cornerstone," that connects it to the Bell operating systems, enabling it to download hundreds of thousands of bills into a single file and provide that data to customers in a format compatible with their preferred accounts payable software program.

"We take the Bell company geography and make it one national footprint," Hale said. "That's a big selling point to our customers."

While the company is mostly sticking to its knitting, it also resells DSL and offers inside wiring services. Granite executives are unconcerned about ILEC copper retirement threatening the CLEC's foundation. "We believe that fiber will become the standard facility used for new 'greenfield' builds for the industry, but that the existing copper infrastructure will continue to form the backbone of the network for the foreseeable future," said Charlie Pagliazzo, Granite's director of alternate channels. "These trends, along with the fact that other technologies don't meet all our clients' needs today, point to a real need to maintain the existing copper network for many years. We believe the FCC is aware of these realities and will continue to act for the best interests of the user community."

Analyst Clausen also said Granite has little to fear at least in the short term. "Perhaps in the longer term [it's a problem], but copper plant still has life left," he said. "The increased interest in technologies such as Ethernet over copper offering cost-effective midband solutions to SMBs has also drawn more interest in keeping copper lines available. Regulators won't let them go anytime soon."

That said, Granite is not sitting completely still. By the end of the second quarter, it plans to venture internationally, replicating its model throughout Canada. As of press time, the company was finalizing contracts with major carriers and awaiting regulatory approvals.

Sam Kline, vice president of carrier relations for Granite, said the CLEC will be sating initial demand from U.S. companies with locations in Canada.

Granite owes its success to 750 employees, including more than 40 direct salespeople, and its growing indirect sales channel.

Channel Foundation. Active agents number 140 and contribute about 10 percent of revenue, but the company hopes to grow both figures.

Channel chief Pagliazzo said the company added a channel administrator to the existing team of five and a sales executive in first quarter "to support and continue the 25 percent line growth the program saw in 2009." In addition, he said Granite would be rolling out updated training on its partner portal and product offerings. In second quarter, the CLEC will be launching a new sales campaign called "Grow with Granite" that includes a spiff and increases in residual commissions.

In addition, Pagliazzo said U.S. based partners will be able to sell the company's new Canadian footprint. Granite will also recruit Canadian agents as well.

David Gardner, managing partner for [Advantage Communications Group LLC](#), is one of Granite's agents that's looking forward to being able to sell the company's services in Canada. [Advantage has developed an international specialty](#) serving U.S.-based multinational companies. "Granite's the first place we are going to look for POTS lines there," Gardner said.

That's because Advantage has come to depend on Granite for reliable service in the past five years that it's been an agent for the CLEC. Gardner points to aggregated billing, savings in most cities and a "great set of online tools" for its customers as the primary reasons that he is a loyal partner. The bottom line, he said, is "they perform well because they are laser-focused."