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SunRocket: Death of a VoIP Provider

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Sometime on the 16th of July, a strange thing happened. SunRocket customers (around 200,000 of them) picked up their handsets to find... nothing. I'm sure many a modem and gizmo was power-cycled, and many a customer service contact attempted, but all of that was for naught, as SunRocket was dead.

The VoIP provider, which had been established in early 2004 by former MCI employees Joyce Dorris and Paul Erickson, had experienced some rough times in recent days, but few, if any, subscribers expected such an abrupt and complete shutdown as the one which greeted them on the 16th. Rumors of SunRocket's failure had been circulating for some time and escalated in June, but no one affiliated with the company would confirm the rumors.

There were quite a few lay offs of the employees and C-Level execs, although sources differ on the exact numbers. This included Chief Technology Office Mark Fedor and Chief Information Officer Robert Kramer. CFO David Samuels resigned July 2 and left SunRocket July 13. The initial layoffs were clearly designed to lure investors, from whom the company was seeking a fourth round of investment to complement the \$80 Million or so that had been sunk into the company since May of 2005.

There are also rumors swirling about millions owed by SunRocket to vendors, including Level 3 and Global Crossing. It is widely speculated that it was likely one of these companies that pulled the plug, though neither could be reached for comment. As one might expect, they aren't the only ones who are tight-lipped at the moment, as SunRocket officials, Sherwood Partners, LLC (the firm that has been tasked with handling the shutdown and liquidation of the company), and any other firm directly associated with the situation either declined to comment or failed to return our calls by press time.

So what are subscribers to do? The biggest name in VoIP, Vonage, has troubles of its own, as it warned earlier this year that it may not survive if it loses the patent case it's involved in with Verizon. Other providers like Nuvio, Primus, and ViaTalk have been throwing lifelines out to customers, but what of the fears that this episode was not just an indictment of SunRocket, but of all VoIP carriers?

Nuvio's CEO, Jason Talley, maintains that the problem, in this case, was unique to SunRocket, but is indicative of the wider problem of providers spending too much money to acquire customers from whom they see relatively little revenue. "From what we've been able to ascertain," says Talley, who claims no knowledge of the inner workings of the SunRocket situation, "the problem in this case had much more to do with poor business decisions than regulatory issues, competition from cable providers, or other issues analysts may point to." By Talley's math, SunRocket was spending around \$450 for a customer's first year of service, spending \$300 to acquire the customer and \$150 per year to provide service. SunRocket's compensation? \$199 for an annual subscription. Shaky ROI. "If you're spending much more than the first month's revenue on acquisition," says Talley, "you're losing money."

In its first attempt to make any contact with its customer base, SunRocket sent the following email to its customers in the wee hours of July 20th:

Dear Customers,

After significant effort by the Company to avoid this result, SunRocket is in the process of closing its operations and therefore will no longer be able to provide you with the phone service that you have been accustomed to. However, this email provides you with an opportunity to sign up with select service providers who we believe will offer outstanding replacement service

In order to assist you, we have entered into negotiations with a number of service providers. As a result of those negotiations, we have entered into agreements with 8x8, Inc., provider of the Packet8 service, and Unified Communications Corp., provider of Teleband service to offer you the best options and we are proud to recommend the following alternatives to you. Please make your decision to move to a new service provider immediately as future service is uncertain.

After which, there was a detailed description of the advised replacement services that were available to customers through 8x8 and Unified Communications. The question, however, is whether SunRocket customers will take these recommendations to heart, or whether it's "Once bitten, twice shy." Talley asserts that the VoIP provider business model is not doomed, per se, but that the companies simply "must be run in a manner that is judicious." This may mean higher price points and lower acquisition budgets, both of which make SunRocket-level VoIP providers less appealing to the wallet and less visible to the end user. In an era when cable customers are barraged by digital voice offers and FTTH makes a telco triple play more viable, is there room in the customer consciousness for VoIP providers? Especially when some customers have the sound of SunRocket's silence ringing in their ears?

The curtain is down on SunRocket. Now the main attraction is whether the rest of the VoIP world can survive the backlash of a beleaguered customer base and a skittish population.

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