Broadband business models are based around “in-built failure”

On 17 Feb, Benoit Felton (who blogs as “Fibrevolution”), said:
“Before the FTTH Council Europe Annual Conference in Milan last week I was invited to speak at a private workshop organised by a vendor. Amongst the speakers were three incumbents. All three made presentations on the techniques they were using to reduce cost of deployment. They all had slightly different approaches of course, but by and large, these techniques were of two natures:
§ degrade the quality of service offered for the time beings (splitting PON beyond 32 or even beyond 64 customers for example)
§ make as much as possible of the infrastructure deployment success dependent (only deploy drops once a customer signs up for service for example)
§ extreme cherry-picking (this wasn’t presented but discussed afterwards) which results in a leopard skin deployment

It struck me that all of these strategies assume take-up won't be good. In fact, they even assume that the ultimate take-up won't be good: in the example of success-dependant drops, your overall cost of deployment per home is higher than if you deployed all the way from the start, so it only makes sense if you're assuming your take-up rate won't go beyond a certain percentage.

It was easy for me coming last to highlight the fact that there's an alternative way to be successful which is to actually sell the fiber access lines. I don't think I realised until that moment quite how bad the failure was built into their business models... I'm also struck by the imbalance between the (considerable) effort that goes into reducing cost vs. the 'quasi non-existent) effort that goes into devising a sound go-to-market. Have these guys modeled the negative impact of a 3 week (at best) time to connect on sales?

I didn't think so..."

In-built failure

I commented that:

“This comment below by Benoit Felton is right on the button. Openreach's model is based on his third category – cherry pick. On the other hand, Virgin Media’s results from 4Q10 show that demand for its 50Mbps service is strong and getting stronger. VM's model doesn’t quite fit into any of Benoit’s three categories, nor his preferred (4th) option.”

To which David Brunnen responded:

“I could not agree more with your view – and Benoit's observation of a sound 'go-to-market' sales strategy.

I'm just back from Sweden where I visited 3 FTTH access network operators fairly typical of those across the country. One was in an urban area of Stockholm, another in the rural and sparsely populated northern region and the third in the south of the country.

In contrast to Benoit's headline their models all seem to have ‘built-in success’ with a very different approach to that of incumbent telco's.

Typically the fibre is only extended to any new area when 60% of the local households have pre-committed to taking the service and this usually involves an upfront payment (between £900-£1500) as a contribution towards capex. There are variants on lower upfront fees in exchange for longer-term subscription. The higher charges for retrospective connection if you miss out on the initial deployment are another incentive to take up the opportunity. Other key parts of their success models are found in the total commitment of public sector organisations (and integrated utilities) to switch completely to the new fibre networks and thus act as 'anchor tenant'. Market share for these non-incumbent networks is typically around 40% and, of course, being ‘Open' the customers have a choice of any mix of services providers including those offered by the old incumbents.

The standard offering is 100Mb/s symmetric and indeed the government’s national target is 95% household coverage at 100mb/s by 2020. Meanwhile the demand for 1Gb/s symmetric
is growing apace from those already hooked on 100Mb/s. The impacts on businesses is dramatic with the new operators able to offer dark fibre at much lower rates than hitherto. In Milan the FTTH Council's prognosis for 'fibre maturity' (20% penetration of FTTHome/building) for the UK was that it will not be achieved until sometime beyond 2020 in company with India and Brazil – but this UK prediction does not yet allow for any emergence of local non-incumbent access networks.

The purpose of my 'expedition' - it was −35C up north – was to plan the itinerary for 'Community Study Tours' that will allow small groups of people (and local decision makers) from urban or rural areas of UK to experience these alternative designs and see for themselves what a difference to economic growth and societal development can be achieved with a bit of joined-up thinking.

Maybe in the UK our relative economic decline has not yet reached a point where the need for urgent action is understood. It was a long way to go to hear a variant on the old phrase 'necessity is the mother of invention' but I did eventually get a translation from the Swedish to underscore why they are now 5-7 years ahead of the UK in digital deployment - 'Ideas are born where they are needed most'.