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Muni nets can work to incumbents' advantage, Yankee advises

By Carol Wilson

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A leading broadband analyst is urging telephone companies and cable companies to consider the advantage of working with –not opposing – municipal broadband networks.

Matt Davis, director of broadband access technologies for Yankee Group, said Thursday in an Web conference called “Like It or Not, Here Comes Municipal Broadband,” that both telephone companies and cable companies could benefit more from working with municipalities who plan to build either fiber optic networks or broadband wireless networks.

“If I were a telco, I’d be encouraging fiber build-outs,” Davis said today in a phone interview. “I’d want to kill wireless or WiMAX, but I’d encourage fiber.”

The reason, Davis said in his presentation, is that telephone companies stand to benefit if municipalities build out fiber networks and offer those services on a wholesale basis.

“Telcos are building national video headends with limited fiber facilities to deliver services,” he said. “Most open access municipalities would welcome a deep-pocketed, high-brand-awareness video partner. Telcos should take advantage of a unique low-risk wholesale opportunity.” In fact, municipal networks would be a boon to telephone companies trying to rapidly compete with cable operators, in areas where they cannot build their own fiber networks, Davis said.

For their part, the cable companies should be eyeing municipally built wireless broadband networks, using mesh technology or WiMAX when it is available, as an opportunity to address the small to mid-sized business market that they don’t currently serve in a cost-effective way.

The Yankee Group is recommending that telcos embrace muni fiber networks as a means to more quickly challenge the cable companies’ push into VoIP as part of their service bundle with a bundle of their own. Cable companies likewise can work with municipalities to become the first providers of wireless data when hotspots are turned up.

To date, that advice is resonating more with cable companies than with incumbent telcos.

“The cable companies seem more interested,” Davis said. “It’s still pretty religious with the telcos. Local people aren’t looking at [municipal networks] from a corporate strategic viewpoint -- for them it’s still like a bomb being dropped on their operations.”

Particularly as SBC Communications and Verizon become national carriers, following completion of the mergers with AT&T and MCI respectively, it makes sense for these mega-carriers to begin selling off rural copper and focusing on their higher margin territories -- and to begin competing out of region.

In either scenario, Davis said, buying wholesale network facilities from a local municipality begins to make sense.

“Within your own footprint, you have the brand name, you have the reputation for reliability and the infrastructure for customer service, so it makes sense to do it in your own region,” he said. “But telcos are more apt to listen to it in an out-of-region strategy.”

Both SBC and Verizon are acquiring significant local colocation facilities, built out by AT&T and MCI when they planned to compete locally, that could become bulkheads for out-of-region competition. Municipal networks then become logical last-mile facilities.

At the same time, however, municipalities need to exercise caution in planning their network investments, Davis added. “The digital divide exists for a single reason: Service Providers found it difficult to get an ROI in rural markets,” he stated in his presentation. “Efforts to reduce infrastructure costs will ease the barriers to entry and prove the case for a wholesale community broadband model.”

A key planning metric is to examine the community’s need from all sides, including businesses, consumers and public agencies, such as governments, schools, hospital and public safety agencies, he added.

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