

Open access - the third alternative

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Broadband operators increasingly find that emerging market realities, not only regulatory action, represent a challenge to their current business model. Broadband access is already a commodity and the introduction of additional network-centric services appears to cost more than subscribers are willing to pay - and take longer to introduce than subscribers are willing to wait. By the time a new network-centric service is made available, subscribers are accustomed to cheap or free internet based alternatives and are already waiting for something new to catch their eye.

The root cause of the challenge lies not in execution, but in the design of the model itself. Internet based service providers, such as Google and Skype, will be able to operate at a cost advantage as long as operators continue to artificially cross subsidise connectivity and services. Similarly, vertically integrated broadband operators will continue to operate at a time-to-market disadvantage as long as they keep at arms length every service that was not developed and brought to market internally. Killer applications are notoriously difficult to predict, and operators cannot afford to hedge their bets and make an upfront investment in all services that show some potential.

As long as the only alternative to vertical integration is selling 'dumb pipes', network owners' reluctance to move away from vertical integration is understandable. Some compare the 'dumb pipes' business to electricity distribution and other public utilities, and argue such a business can be attractive given the right cost base and right approach to funding. They fail to take into account, however, that most public utilities are regulated monopolies, while broadband networks are subject to fierce competition. A 'dumb pipes' business leaves little room for differentiation beyond sheer capacity, and whoever invests in capacity risks their investments being stranded at every tick of the development clock. A competitor will simply enter the market with a newer iteration of a technology - able to offer more for the same, or the same for less.

Open access is an alternative to vertical integration and is now the business model of choice for a small but rapidly growing number of broadband operators in Europe and elsewhere - at last count more than 40.

The open access model

Briefly described, an open-access network is a network with one network owner, and more than one service provider - the latter competing on a level playing field. Subscribers are free to select and deselect any service from any service provider, including Internet access, in real-time and with a click of a mouse. Network owners and service providers co-operate on the basis of technical and commercial contracts that define service levels, risk and revenue sharing as well as basic market rules.

Open access differs from the 'dumb pipes' business in that service providers are offered fully automated (partial) control of the various network elements involved in the delivery of their service. As a result, service providers can cost effectively provision their service in a 3rd party network while maintaining real-time control over factors such as Quality of Service, service integrity and billable events. Service providers are also able to troubleshoot their own services all the way to outgoing ports on shared customer premise equipment. Importantly, service providers can only control and have visibility to their own services. This level of control is a powerful source of differentiation in an increasingly competitive service market and is therefore of significant and tangible value to service providers.

Open access differs from traditional telco wholesale in that there is real separation between network and services. A subscriber has access to parallel services from more than one provider (e.g. a broadband-internet service from provider A, an IP-TV service from provider B, and a VOIP service from provider C, all services delivered on the same pipe but treated individually in terms of QoS, security and billing). The network owner's commitment to maintaining a level playing field is another key differentiator, ensuring that service providers and subscribers can be confident that they are getting the best deal in the long run.

From a subscriber perspective open access is unlike any other broadband experience. Subscribers get all broadband services via one connection while still maintaining full freedom of choice. They can select and deselect any service with the click of a mouse (or a push of a remote control button), and just as easily switch between different providers of each individual service. Subscribers are also able to more effectively influence the range of services being offered. It is easy to add new services onto an open access network, and it is in the network owner's interest to ring the changes as quickly as possible.

An example of an open-access network currently in operation is Malarenergi City Network in Sweden. Malarenergi offers subscribers more than 60 services delivered by 22 service providers, including multiple providers of IPTV, VoD, VOIP as well as a range of local and niche services. Providers of IPTV include CanalDigital and ViaSat, the two leading TV content providers/aggregators in the Nordics. Providers of other services include the Swedish ILEC, Telia, as well as Tiscali, Tele2 and a number of providers of localised content and services. Malarenergi has been EBIDT positive and cash flow positive from the first year of operations and recently received the Cornerstone Award as the world's most advanced fibre to the premise network. Even though most households have access to both CATV and DSL alternatives, and are required to cost a substantial portion of the infrastructure investment, Malarenergi is currently serving well over 50 per cent of the households that lie within its continuously expanding footprint.

Benefits from open access

A network owner pursuing open access avoids the pitfalls associated with the vertically integrated business model. The network owner establishes a more efficient market for available capacity and functionality based upon which service providers and subscribers decide what services will be offered. From the network owners' perspective, services that are in demand are brought to market faster and at little or no up front risk.

Network owners pursuing open access also avoid the pitfalls associated with selling dumb pipes. The technical and commercial relationships established between subscriber and service providers on the one hand, and service providers and network owner on the other, introduce an element of stickiness - resulting in subscribers being less likely to churn away from the network owner. It is important to note and fundamental to the balance of the open access model, however, that this stickiness is not absolute. If the network owner underperforms over time, both subscribers as well as service providers will likely churn.

Early adopters of the open access model were cities and municipalities investing in fibre-to-the-home (often referred to as City Carriers) as well as property owners investing in the same. These were among the first with a 'fat pipe' that needed to be filled with services, and the first to recognise that developing and bringing all these services to market internally was beyond their capabilities and time. The open access business model allows city carriers and property owners to focus on what they do best - deploying and operating local infrastructure, while still ensuring that subscribers are offered services in a timely fashion.

Volker Stevin Telecom, deploying a broadband network on behalf of a cooperative in the Dutch city of Nuenen, has proven the benefits of open access in terms of combining time to market with ensuring that the offering is attractive to subscribers. The Nuenen project was up and running in most areas in only six months and now enjoys a market share of 97 per cent. In addition to the traditional triple play offering, more than 100 'innovative services' are to be offered by various third parties, of which 50 are already available.

A second, but equally important factor for City Carriers in particular, has been the benefits of open access for the community as a whole, both in terms of freedom of choice for subscribers and the opportunities it brings for local economic development. As a result of the ease of adding multiple services, local businesses as well as public services find the network attractive. Oresundskraft, a utility currently deploying an Open Access network in Helsingborg, Sweden, for example, sees themselves as building "a city within a city, where virtual meetings between schools, the council, industry, organisations, and associations on the one hand and national and global service providers on the other can create a wide range of products and services."

Open access networks are now in various stages of planning, early trials or deployment in European capital cities such as Amsterdam, Copenhagen, Vienna and Oslo, as well as in a wide range of larger and smaller communities world-wide.

More recently, a number of European ILECs and CATV operators have started looking into open access. The specific trigger for an interest in open access varies, but are all related to shortcomings in the vertically integrated business model. This is in line with the findings in a recent survey by the Telco2.0 initiative where 92 per cent of respondents rated 're-thinking the strategic role of the operator' as a key priority.

Challenges associated with open access

A first noteworthy challenge is legacy. Incumbents already have a way of doing business as well as a corresponding infrastructure and mindset - all of which must be tuned in order to accommodate open access. New entrants' challenge is that they have no legacy and as a result no customer base. It is more challenging to bring in service providers when there are no subscribers to take up their services.

A step-by-step approach is key. For incumbents this could mean maintaining internal control over existing services, bringing in third party providers within new service categories only. Alternatively it could mean implementing open access in a limited part of the footprint - e.g. in conjunction with green-field projects. For new entrants this could mean establishing initial control over a broadband access service or even the full triple-play, followed by a planned pull back from service activities as soon as the network reaches critical mass.

Nasa Fibernet, a business unit of the electricity utility serving the greater Copenhagen area in Denmark provides an example of a successful such step-by-step approach to Open Access. NESA produced services internally until it had gained sufficient momentum to attract 3rd party service providers. Today, Nesa Fibernet has multiple providers of services within all triple play service categories and has pulled back from services completely.

A second challenge is the details of the business model itself. Market rules, technical and commercial arrangements (including revenue shares), as well as roles and responsibilities (e.g. the who, what and how of first line support) must be developed and agreed upon by both network owner and service providers. New initiatives will be able to benefit from the experience of open access pioneers that have now spent five years on getting the business model right.

Another important challenge is the need for control, automation and third party access to network elements as well as the systems platform. Open access requires a very granular control over services based not only on service category and available network resources, but also source and destination address. In a complex and dynamic open access environment, such control is only economically feasible if combined with full automation and well-built interfaces for internal as well as third party integration.

The final and most difficult challenge is making sure business model, operations, systems and network platform are in alignment. Open access requires preparation in all of the components specified above - and equally as important it requires that each component is prepared in a way that provides a fit with the other components. Given the costs, both in terms of money and credibility, typically associated with post deployment tweaking and tuning, a lack of alignment can prove a disaster. The best remedy for a lack of alignment is an upfront and detailed view of what is to be accomplished, available and shared across the various parts of the organisation from day one.

Open access in the UK

To date there have been no major open access deployments in the UK. This may partly be on account of Ofcom's aggressiveness and UK incumbents' responsiveness as compared to regulators and incumbents in most other European markets. Early champions of open access, whether communities, subscribers or service providers, were driven forward by a disaffection with incumbents' way of doing business. It is likely that, in a more progressive UK market, such disaffection has been less pronounced and thus that the drive for alternatives has not been as strong and not been as urgent.

This may be about to change, however. The commoditisation of broadband access and high cost and long time to market associated with network centric services relative to internet based services should be of increasing concern also to semi vertically integrated operators. Similarly, selling 'dumb pipes' is no more attractive in the UK, than it is elsewhere. Finally, a range of broadband initiatives driven by various communities and property owners are about to hit the UK market.

Now that pioneers of open access have shown that there is a viable third alternative - an alternative that is as popular with subscribers as it is with service providers; an alternative that is as applicable for incumbents as it is for community and property owner initiatives - one should expect to see a growing interest in open access in the UK. Indeed, on account of the forward leaning stance of Ofcom as well as incumbents, and the sheer number of new broadband initiatives, the UK may well turn out to be the open access powerhouse of tomorrow.

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