



Content and Services! Thousands Needed!

By Steven S. Ross ■ *Editor-in-Chief*

It is almost axiomatic in our industry that content, not bandwidth, sells. Thus, there's plenty of talk about getting beyond the triple play. Such talk is necessary. But it is not sufficient. We need to develop ways to sell *thousands* of new services over broadband.

The industry may not realize how dire is the need, though. In the wake of our own biggest-ever Broadband Summit in Dallas – which attracted 600 attendees and sold every square inch of exhibit space – and with the FTTH Council annual meeting coming up in Las Vegas, it is easy to be upbeat. Fiber to the Home gets cheaper and cheaper. Bandwidth gets higher and higher.

Even the real estate slowdown is a plus to many. Sure, there are fewer massive greenfield projects. But more and more, bandwidth is seen as a market differentiator. If your property has it, you're more likely to sell it, fill it with good tenants, move it off the market faster.

Behind the Cable Labs Report

Those who see fiber as the only cheap, reliable way to provide that bandwidth were also heartened by a July 31 confidential report that Cable Labs sent to its clients, the nation's major cable companies. Cable Labs was created to standardize data delivery over cable TV outside plant. The result was a brilliant success, with three generations of the DOCSIS standard leading the industry into vast new markets for data delivery, voice, and video on demand.

Said the report, according to the Wall Street Journal in a front-page story August 17: The higher bandwidth demands of HDTV, consumer desires for fast upload speeds, IPTV, video over Web interfaces and a myriad of new services are simply outrunning DOCSIS. Would it be cheaper in the long run and easier to compete with telcos installing fiber, Cable Labs suggested, to simply bring fiber closer to consumers' homes rather than

to DOCSIS nodes that each serve 100 or more families?

No amount of damage control by the cable companies could hide the fact that this proposal would force them to spend a lot more on delivery systems than they had planned. In fact, the Cable Labs bandwidth projections evidently matched ones this magazine has been publishing, most recently in our August issue – 100 Mbps near-symmetrical demand by 2011 or 2012.

Wall Street's reaction? No effect on stock prices at all. As stock analyst and long-time fiber observer Timm Bechter notes in this issue, the problem is not with the technology nor with the ability of the phone and cable companies to install bandwidth cheaply. In fact, it is cheaper to pass a home with fiber now, dollar-for-dollar, than it was to pass that home with DOCSIS and coax 10 years ago. And fiber is more reliable while delivering vastly more bandwidth.

No, the problem is on the revenue side. Customers were willing to spend \$50 a month for cable modem or DSL as recently as 2003. They now pay less than \$40 on average, and the average continues to fall even as bandwidth increases. Sure, overall industry revenues continue to climb – DSL and cable modem fees were \$14 billion in 2003 and will be \$20 billion this year. But that's due to volume – more customers. And these broadband services actually cannibalize telco land-line businesses.

Sooner or later, Wall Street figures, the industry will run out of new customers to hook into broadband. And fiber, now the villain as far as investors are concerned, will drive broadband prices ever-lower because fiber brings new competitors – the telcos – into the business.

This may be news to many property owners and managers. But the issue is understood all too well by telecommunications firms. Large firms, on average, have

seen their stock prices plummet more than 20 percent since 2000. Smaller telecoms have fared even worse. Since that time, the broad S&P 500 and Dow Jones Industrials fell, but climbed again and are now almost where they were in 2000.

Ways to Do It

What's going on? The simple fact is, broadband providers haven't figured out how to make money – or even to lose less money – on new content and services. Most of them are given away on the Web, or come packaged as “software” users buy and use themselves. That's worked so far, after a fashion. But it precludes many services from getting to the public because it raises the cost or marketing and thus investors' risk in startups.

We see very little in the pending Telecommunications Act rewrite that would change things. The telecommunications companies themselves get nervous about endorsing and carrying a large catalog of services developed by others, in exchange for a marketing fee.

I can understand why. Per-Mbps rates in the US are still among the highest in the world. After covering the CeBIT show in New York in 2003 I looked askance at NTT DoCoMo's attempt to boost mobile phone revenue with services that included a videophone hookup with your pet, GPS tracking for your kids (this, in super-safe Japan), and hundreds of other products – most with narrow customer interest.

I was wrong. Taken together, they provided (and continue to provide) good revenue lift and even better profit lift. And, need we say it, some of these services will emerge as Killer Apps.

See www.KillerApp.com for details.

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