

Houston, We Have a Problem: Lessons from the OEN Collapse

Optical Entertainment Network's FISION ceased operations last month, leaving a trail of broken promises. OEN's fiber technology was not the issue.

By Lawrence Kingsley ■ *Contributing Editor*

In November Optical Entertainment Network (OEN), the Houston-based startup, folded its tent, ending its innovative plans for triple play over fiber. "We're saddened by the passing of OEN," said Diane Kruse, founder of Zoomy Communications and past Chairman of the Fiber to the Home Council.

OEN set out to become an all-fiber MSO in areas where Verizon's FiOS and ATT's U-verse have yet to arrive. It finally had begun lighting up a dark fiber backbone provided by other companies in Houston, and also expected to offer regional telephone companies a complete content and Internet package that would allow OEN to control a national network from there.

In time, only two or three mirror sites would be needed to compete with Comcast and Time Warner, according to former OEN CEO Thomas Wendt. Private Cable Operators, ILECs, and even individual MDU managers throughout the country were expected to form partnerships with OEN, which not only would blast multimedia from Houston, but handle all billing, installation, and operational issues.

There was nothing wrong with OEN's concept, which, even now, remains a testament to the power of fiber. Brian Morris, Vice President at Cisco Scientific Atlanta, points out that switched digi-

tal video has become the Holy Grail of the cable industry. As we move to HD, video on demand, and niche content, traditional analog systems are reaching a capacity limit in terms of the variety of programming that can flow through coax. Fiber, of course, is fast enough to allow multiple video, Internet, and telephone streams on demand.

Execution and planning at OEN, however, reinforce different, elementary lessons. These lessons in no way call the merits of fiber into question, but they highlight shortcomings in OEN's financing and operations. Al-

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though OEN insiders and partners such as Nexans, Alloptic, PacketFront, Eagle Broadband, and Phonoscope decline to comment about OEN, we have over the years discussed the company with its staff, founder Wendt, and recent CEO Albert Estrada.

Lesson 1: CANDOR

Don't squander development funds on premature hoopla. At the FTTH Council's annual conference in 2005, OEN began promoting its service before completing its headend, licensing arrangements with content providers,

or field tests. Business partners might have emerged, and investors may have been impressed by expression of interest from potential customers, but, from the beginning, OEN looked more like puffery than substance. The outflow of cash could last only so long before reality set in. (See *Broadband Properties*, January 2006, page 24, or online at www.broadbandproperties.com.)

Lesson 2: FUNDING

Allow sufficient operating expense and then, for safety, open long lines of credit. Estrada was a no-show at the

FTTH Council Orlando meeting, where he had been scheduled for a keynote. FTTH Council President Joe Savage was mum at the time, but now observes: "OEN further empha-

sizes the level of investment required to compete satisfactorily in this industry." OEN tried to undertake an IPO before it had a single paying customer. At what must have been no small expense, OEN drew up and distributed a prospectus for the London Stock Exchange.

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cancelled. OEN then had to fall back on angel financing, which could only be temporary. Zoomy, in comparison, never commences a fiber project unless it is fully funded, Kruse says.

Lesson 3: CONSISTENCY

Formulate a stable business plan, one that does not have to be changed before the company has the resources to do so.

One of the main selling points for OEN was that it, eventually, was bringing some 300 TV channels to Phonoscope, which claims to be the largest privately-owned fiber Metropolitan Area Network (MAN) in the U.S. Merely signing up a reasonable percentage of the households that Phonoscope passes would make OEN a billion dollar company, according to OEN's former investor relations officer John Phan. But Phonoscope and OEN never finalized their deal, and OEN wound up purchasing a limited fiber system from Eagle Broadband.

To accommodate the network change, OEN changed its equipment supplier from Alloptic to PacketFront, choosing an active network whose comparatively large cabinets in each neighborhood would have to be air-conditioned. In Houston's hot, humid climate the air conditioning would have to be robust, but quiet enough for residential neighborhoods. "Street furniture" can run afoul of local regulations and drive up cost for alternative siting.

Houston, with no citywide land use plan or zoning, is hardly the ideal place for neighborhood-by-neighborhood negotiations. Alloptic's passive network additions to Phonoscope's backbone would have minimized the cost of municipal compliance and had been field-tested by OEN before the switch to Eagle. While OEN expired before zoning and building code issues materialized, they may well have factored into the calculation of how much capital OEN would need. OEN originally calculated

that it would need 15,000 customers to break even. Switching to Eagle and to an active system upped that number to at least 20,000.

Lesson 4: OPERATING EXPENSES

Walk before you run. The rule of thumb often heard is that, except in greenfield deployment, installing fiber to the home can cost \$500 to \$1,000 per new customer. Thus, OEN would have negative cash flow for a time on each new customer. The company supposedly burned through \$15 million – a not unreasonable sum considering the size network it was building.

Estrada reported that OEN conducted a pilot project with 1,000 customers, who had free service. When the freebie ended, OEN converted only 350 customers to paid accounts as of August. Poor phone service was evidently a factor. Not only did each customer rep-

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resent a net short-term loss, but if two thirds of targeted customers tried OEN and turned down the service, the bandwagon that OEN hoped to create was running out of gas.

Lesson 5: DIFFERENTIATION

There is a short window of opportunity, which prolonged fundraising can doom. OEN looked good before FiOS and U-verse came to fruition and certainly was competitive with cable companies on price, speed, and number of channels. Usually, there is room for a David among Goliaths. Yet, OEN's distinction and plans for aggressive national growth began to fade as incumbents like Time Warner Cable moved to rebuild their plant. As Mark Harrad, Senior VP for Corporate Communications, says, Time Warner has found that upgrading its DOCSIS hybrid fiber coax

(fiber to the neighborhood, coax to the home) allows for video on demand and the switching of niche content to each node, so that fiber all the way to the home is unnecessary, at least in the short term. Time Warner, Harrad says, is now implementing this switched capability throughout the network and expects to complete work by the end of 2008.

"Pure" fiber is of course the gold standard for connected homes, but if all the customer wants right now is TV in the living room and Internet access faster than DSL, hybrid systems yield little to OEN, especially since there were customer complaints about OEN's service reliability.

Lesson 6: MARKETING

The target market is not admiring pundits, but paying customers. Unreliable service was bad enough. But despite resourceful marketing, OEN was un-

able to overcome the indifference noted by Shelly Palmer, author of *Television Disrupted: The Transition from Network to Networked TV* and

President of the Emmy Awards in NY: "Technology, even great technology, is not a business unless there is a compelling consumer value proposition. It is very hard to communicate why one pipe might be better than another – people don't watch transport protocols, they watch programs."

Verizon and almost 400 other fiber operators have shown that reliability, bandwidth, customer service, and innovative products along with the video will up the take rate and make fiber profitable. OEN was able to offer a delicious buffet of programming, but programming alone was not the full "dining" experience that customers expected. **BBP**

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