The Top Ten Hardest Lessons Learned From Utah Municipal Networks

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It's amazing that a rural state nestled in the heart of the Mountain West is where we're seeing some of the biggest innovations in community broadband. And yet the woes of UTOPIA and iProvo, the latter of which was sold to a private company last year, seem to be what's making the front page news. Despite a series of missteps, the future of open wholesale access looks bright… so long as we're willing to learn some hard lessons. Here's what I've learned from watching Utah's municipal networks.

Lesson #1: Businesses are king. On iProvo, a single business account was worth on average as much as three single-family homes or eight MDUs, yet the connection cost was exactly the same. Unfortunately, iProvo failed to attract more than a single business-class provider and UTOPIA has just now gotten around to adding more of them. When you're splitting those dollars with retailers every little bit of cash-flow helps. Business-class providers can also bring their existing customers and switch them to your transport with minimal effort. Viola, instant customers, little effort.

Lesson #2: Businesses alone will not pay for your network. They are valuable, but you must have a solid bread-and-butter base of residential customers to make ends meet. Even if 100% of the businesses in Provo had taken services in the city, it would not have made up the revenue deficits that lead to the network's sale. The most valuable customers are the stable single-family homes that have a high rate of adopting triple-play services and a sharply decreased tendency to switch providers.

Lesson #3: The more providers, the better. If you need a 40% take rate to break even, it is much easier to accomplish it by splitting the load between 20 service providers as opposed to 3. You also aren't putting all of your eggs into a single basket. UTOPIA bet its fortune on AT&T early on and iProvo on HomeNet only to be crushed later on. AT&T abandoned the network following their merger with SBC and HomeNet went bankrupt.. This left both networks spending a lot of money on a new video headend for a video novice, Mstar, to handle their triple-play. Embrace the competitive environment whole-heartedly. If you're having trouble finding providers, just flip to the list of dial-up and DSL providers in your yellow pages and start calling them up. Call all of the CLECs too. They're all hurting from anti-competitive tactics at the hands of the incumbents and wouldn't mind some payback.

Lesson #4: The more participating municipalities, the better. UTOPIA is unique in that it is a consortium of cities across the state of Utah. This helped them secure a better bonding rate and provides a much larger market for service providers. Many ILECs and MSOs will be unwilling to explore entering a rival's territory unless you can provide 50,000 or more serviceable addresses for them to market to. Provo hit this limit early on with just 34,000 addresses, something that would have been overcome by partnering with UTOPIA. Combined, they would currently have over 76,000 serviceable addresses with a potential to hit over

100,000 by this summer. That would be bound to attract some top-name providers.

Lesson #5: Eating the install costs is painful and probably necessary. Provo wouldn't make back its money on MDUs for nearly 7 years. Single-family homes took almost 3 years to pay off the install costs. Businesses fared better at 8 months. (Remember Lesson #1?) The cost of hooking up a serviceable address can easily approach $1,000 or more and it's very hard to convince customers to eat that entire cost. UTOPIA has been experimenting with slightly higher service rates in an effort to pay down the install costs more rapidly. Another option is to split some of the cost with the service provider and charge a small amount to the customer. Bear in mind, however, that telcos and cablecos are often willing to install for free.

Lesson #6: Charge what you're worth. iProvo and UTOPIA sold a 15Mbps symmetrical connection for $40 a month. Comcast's closest product, a 8Mbps/2Mbps tier, ran $56 per month if you bundled. Their new 22Mbps/5Mbps tier is around $65 per month. Sure, compete on price, but don't sell your Cadillac for less than the price of their Chevy. If your cable company is offering a 50Mbps/5Mbps connection for $150 per month, sell your 50Mbps symmetrical connection for $130 and clean up. You don't have to completely blow them out of the water, just enough to get people to switch.

Lesson #7: Details matter. Comcast has cleaned UTOPIA's clock on options such as DVRs, VOD, and HD channels. There's also a much better selection of on-demand local programming. Start getting innovative by offering whole-home DVR based on inexpensive MythTV appliances, streaming video from YouTube, and on-screen caller ID. Also consider public access channels and local government programming such as city council meetings.

Lesson #8: Voice is necessary, even in the age of cell phones. You can't have triple play without voice service and despite the predictions of everyone moving to cell phones, unlimited-use VoIP lines are still a booming business. The biggest complaint on iProvo was constant problems with call quality. While much of it was related to the choice in system hardware, there were also routing problems from the service provider's office to the upstream VoIP provider. Don't be afraid to steal ideas either; companies like Vonage and GrandCentral have managed to cook up more than a few good ones.

Lesson #9: If you build a product and nobody knows it exists, you will lose money. UTOPIA has suffered through some terrible marketing. Many potential customers don't know that it exists. Too many thought that Mstar, the largest provider, was the only provider. The take rates for UTOPIA are down in the 18% range across its network because it relied on providers to advertise. Unfortunately, only one of the three put any real effort into it. (Care to guess which one?) Make sure you get your name out there and emphasize the competitive choice.

Lesson #10: Adopt a build plan that makes sense. You are highly unlikely to complete your full build-out in one fell swoop. Build smaller phases in the areas most likely to subscribe to services and use that revenue to fund future construction. UTOPIA burned bright and fast leaving behind a patchwork quilt of areas with service. Some blocks without service are surrounded on all sides by areas with service. Customers are also frustrated because it takes significant effort to find out if their address is or is not in a service area.

Bonus Lesson: Incumbents will play all kinds of dirty tricks to hold you up. They will file frivolous lawsuits in court, they will sell services in your footprint for below cost (replete with contracts and ETFs), and they will try and get your local legislative body to make what you're doing illegal. UTOPIA made a big misstep in not anticipating Qwest's lawsuit and the subsequent 18-month delay in construction. iProvo didn't re-evaluate their business plan when the laws changed to prevent them from being the retail provider. Monticello, MN is learning that lesson right now as they duke it out with TDS, their incumbent telco.

It's too late for Provo to reverse course now that the network has been sold to a private company, but UTOPIA has taken its lumps and is starting to learn from these hard lessons. Signs of the turnaround have already started showing as they increase the providers and experiment with new pricing to improve cash flow. If you're looking into an open wholesale network, do the smart thing and learn from someone else's mistakes.

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