

## FTTH MISTAKES – WIN OUR BOOK ON PROJECT MANAGEMENT

We think we've learned a few things about what works and what doesn't in FTTH.

This knowledge has come from our consulting experience of advising on, as well as building, FTTH businesses for others.

We've also learned from starting up our own operator with minimum investment.

This now has 80,000 subscribers with residential FTTH at 100 mbps symmetric and profitability even with prices down at \$12 per month in some cities for Internet.

The article on the right explains a little about the big errors we've seen companies commit. They're in no particular order. You may have your own ideas or disagree. Let us know and we'll provide feedback in future newsletters and the best 'mistake' will win a copy of Project Management Survival written by Ventura Team Partner, Richard Jones.



## this issue

The 9 biggest mistakes in FTTH **P.1**

# The 9 biggest mistakes in FTTH.

## 1 "If you build it, they will come"

The phrase comes from the film Field of Dreams which was about baseball. Unfortunately some FTTH operations act in the same way. They build a fantastic infrastructure and simply assume that customers will appear. The truth is they don't!

20 years of experience in these markets shows that technology focussed companies don't tend to win – it's market led companies that do. Remember Philips with Video 2000? It was far better than VHS but which technology won? It is the same with fibre; you have to have strategies to attract customers because simply saying 'fibre' is not enough.

ZON launched a 1 gig service in Portugal as a 'halo' service to give them a strong marketing message to combat Portugal Telecom, who were rolling out fibre. They don't mention GPON or P2P... they tell customers they are faster!

Customers buy services not access technologies. Sell the benefits of fibre, not the specification sheet.

## 2 Don't build the company like you're an incumbent

Incumbents have to deal with legacy networks that date back to the Stone Age. This means they still have to employ people to cope with maintaining and operating these networks.

As a fibre operator, you don't need to have the same structures in place. You also don't need to act like a job creation scheme – a role that some incumbents have forced on them by their governments. You have to think lean and focused to succeed.

Compare and contrast the following operators to illustrate the point. Our own start-up is probably one of the most efficient operators in the world according to this measure.

Operation	Subs per employee
Middle East incumbent	450
Malarenergi – wholesale only provider	3000
Ventura's start-up in Sweden – operator across FTTH, xDSL and WiMAX for both retail and wholesale.	2,500

## 3 Size matters

The Danish market is super-saturated with fibre operators and it is very difficult to differentiate. They need to concentrate on operational efficiencies to improve margins but also on acquisitions to create operators with the right critical mass will be the key in that market.

The size of the operation matters. Having more subscribers means you can spread central costs more thinly and negotiate better deals with providers (as you have more traffic and seats for applications).

# The 9 biggest mistakes in FTTH (continued).

## HOW WE GENERATE REVENUE FOR CLIENTS

The following highlights a few of the ways we help our clients across three continents:

Improve business performance – **helping organisations deliver products, services and revenues faster**

**Develop and implement the right business strategy**

**Define the right technology strategy** e.g.

- o HSDPA, WiMAX or LTE
- o FTTH, FTTC or VDSL
- o GPON, P2P or Ethernet

Build realistic, flexible business cases and models – **showing realistic costs and revenue scenarios**

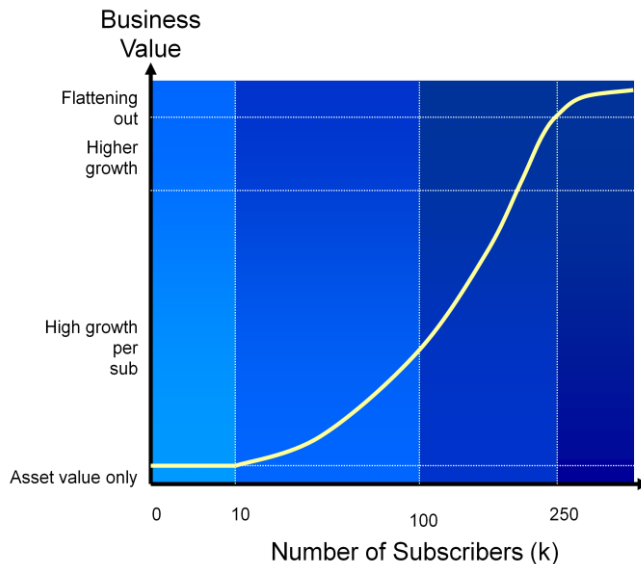
Win telecoms licences against tough competition - **at the right price**

Carry out better due diligence – **saving clients from costly errors**

Launch new operators – **getting to revenues faster**

**Optimising network sharing** across operators

**Commercial re-launch**



The chart above also shows how the value per subscriber in an FTTH business increases as the business grows. For example, one Ventura Partner's business sold at 1,000 Euros/sub to a company that, because it was bigger following the acquisition, sold at 2,000 Euros/sub.

### 4 Don't over-complicate

Operating expenditure is a key part of your profitability. It may seem a good idea to add lots of products but remember Pareto's Law. You will earn most of your profit from 20% of you products (roughly). The other products are contributing to covering fixed costs but... each product requires management and product management attention.

### Don't over-complicate (continued)

Having 100's of different product variants doesn't just create complexity in your business but also confuses customers. Confused customers ring the call centre and that costs money. More products mean more chance to make an error in provisioning, leading to a complaint and the need to fix the mistake (and more cost to the business).

### 5 Ignoring other technologies

Sometimes it is impossible to make a business case with FTTH alone. That doesn't mean you give up!

We all know fibre is superior but if you need to spread your costs over a large number of customers then you may have add subscribers using other technologies (WiMAX, xDSL etc).

### 6 Getting into a price war

The situation for fibre players in some countries (e.g. Denmark) is challenging because it has become impossible to charge a significant premium for fibre services. There is a 'glass ceiling' that operators struggle to deliver against.

The significance for new players is that they should never get into a price war. If you undercut the incumbent by a small amount, they can retaliate if they choose to as they tend to be cash rich. However, if you are cutting say 10% off the residential price for a few customers, the incumbent has to decide if it's worth doing the same across their many customers. Their overall loss would be far greater than the new operators and so they may choose to not follow your lead.

Although the number of subscribers may be important for valuation purposes, you are better off losing a few percent of your customers rather than a few percent off your prices.



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The reason is that if you only have 95% of the subscribers you would otherwise supply, you only have 95% of the associated costs for CPE, customer service calls etc.

### 7 You can't build everywhere

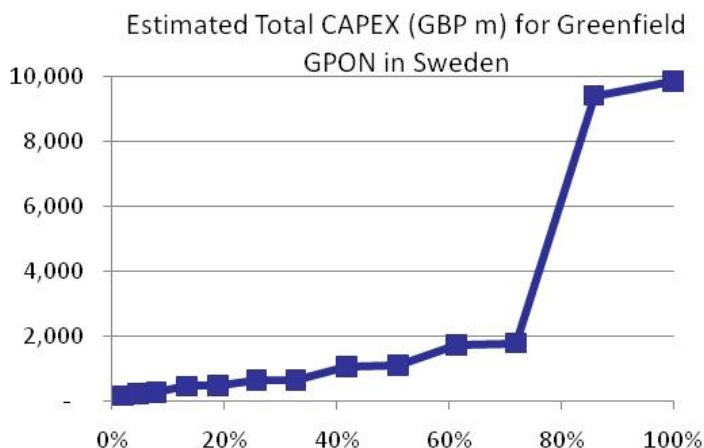
If you have to dig fibre into the ground (and I hope you don't if you can avoid it), then you have to understand that you cannot do it everywhere. Fibre is not a technology that can serve all parts of a country (or even of a city) unless there are some external advantages such as subsidies or municipal fibre. The chart below shows the cumulative capex to put fibre across all of Sweden.

Dense areas are relatively cheap (on the left of the graph) but as soon as you hit less dense areas the costs soar.

Similarly, the table on the right shows the distance per home passed of street for differing numbers of homes in a European city. You can see that reducing the number of homes passed by 52% results in a 59% reduction in the distance per home passed. That means for half the homes your capex is only 20% of the total compared to if you passed all the homes.

Homes Passed	Street Distance Per Home Passed
875000	4.4
685000	3.7
577000	3.3
416000	1.8

In one country, it was clear that a very well known operator could not gain enough subscribers without going to less dense areas that would cost them significantly more (+275%). There was no business case in our opinion (they were not our client) and eventually our opinion proved correct and they withdrew without ever using the license they had won.



## TRACK RECORD

Seasoned, experienced professionals

Ventura Team has probably the most sophisticated and experienced team of business strategists, business case specialists and implementers in the industry, having:

- worked on \$100 billion of telecoms finance deals

- invested in, and built, fibre based business for ourselves – including an 80,000 subscriber fibre broadband company in Sweden

- started up operators across three continents

- board level experience across Europe, the Gulf and Africa

- deployed more than 15,000 kilometres of fibre

We are not the typical consultancy that deploys inexperienced people - our average age is 45 and you cannot apply to join Ventura Team. We invite individuals with a proven track record of success in the industry.

## TRUSTED BY THE INDUSTRY

Recent clients include the key mobile and FTTH industry bodies, the GSM-Association and the FTTH Council.

## 8 Overspending on IT

It never fails to amaze us how much money is spent on developing IT systems that don't deliver.

The systems need to deliver simple remote provisioning, diagnostics etc. and minimise the need for engineering visits.

You can spend \$60 million on OSS/BSS (we saw it done on one project we worked on) but how are you going to make money if you only have 50,000 subscribers!

## 9 Bad business case

The most frustrating part of FTTH deployments is the money lost on 'bad' projects while 'good' projects fail to get funding because the business plan has been done badly.

We've seen too many companies screw up their business case and lose funding when confronted by investors and/or banks. Business cases need to be realistic and bullet proof.

We like developing new operations/businesses in FTTH because we can apply our consulting and operational experience to make sure our clients maximize their revenues and avoid costly mistakes.



## THINGS YOU MAY NOT KNOW WE DO...

Our experience includes:

leading the first network sharing project in mobile

writing the report for the EU that kicked off unbundling

change management to optimize performance and delivery of new products/services

taking on projects and programmes of up to \$500 million investment

## CONTACT US

Contact our practice leaders to catch up with us.

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## Catch up with us

As always we've been collecting the air miles at high speed. Our teams have recently been hard at work across the globe including in the UK, Dubai, Jordan, Oman, Bahrain, Saudi Arabia, Sweden, Norway, Denmark, Portugal and the US.

## Upcoming Events

### **FTTH Council Europe Conference – Lisbon – 24 – 25 February 2010**

We are proud to be analyst partners to this event once again and will be presenting for the fifth year in succession. We will be holding a unique workshop on business strategy and how to succeed in FTTH.

### **Broadband Global Summit on 9-10 March 2010 in Dubai**

We have been invited to hold a one day workshop on business modeling and strategy as well as chairing some sessions.

### **WiMAX MEGNA – Dubai (Informa)**

### **FTTX MEGNA – Dubai (Informa)**

### **FTTH Conference – Lisbon (Hansecom)**

You may have missed us speaking, chairing and/or holding workshops at the following recent events

### **GSM 3G Conference – Dubai (Informa)**

We chaired the session on WiMAX and were on a panel regarding regulation

### **FTTH Council Middle East – Jordan**

We ran an interactive workshop on business strategy and cases for fibre.

### **FTTX MEGNA – Dubai (Informa)**

Held one-day workshop on FTTH business modeling and strategy and chaired

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