

Shared risks and rewards in a co-investment model

The Swiss national operator is co-investing with utilities in a national FTTH access network that will future proof its business and provide new wholesale opportunities.



In late 2008 Swisscom decided its future lay in providing new services over FTTH. Nearly four years later, and with fibre passing 420 000 homes, the Swiss incumbent remains just as convinced that its long-term viability depends on building out fibre access networks.

“We believe that if we don’t invest in next generation networks we will be out of business because we won’t be able to remain competitive,” said Daniel Staub, head of wholesale, Swisscom.

Today Swisscom faces stiff competition from cable networks, which reach 80% of Swiss homes and can outperform a copper-based rival. “If cable operators can easily offer 50 Mbps or more over Docsis 3.0 and we offer VDSL speeds of 20 Mbps or 30 Mbps then we are clearly at a disadvantage,” said Staub.

But speed is not FTTH’s only selling point: FTTH also offers symmetric data transfers, which will underpin future cloud services. “End-users’ bandwidth requirements will grow substantially in the years to come and our current experience points to exponential, rather than linear growth. Already in mobile networks data usage is doubling every seven months and in fixed networks it is doubling every 17 months. If, as we expect, we see the development of more cloud services then we will need greater capacity and the upstream capacity of fibre, which will give us a competitive advantage over the cable operators” explained Staub.

General Information

Infrastructure owner:

Swisscom and/or utility companies

Location:

Swisscom is rolling out its fibre-optic network in more than 40 cities, municipalities, and cantons. As of mid-2012 Swisscom was cooperating with partners on infrastructure build in the following 15 places: Basle, Bellinzona, Berne, Derendingen, Fribourg, Geneva, Gland, Meilen/Herrliberg, Lausanne, Lucerne, Pfyn, St. Gall, Upper Valais, Winterthur and Zurich.

Not that Swisscom will be alone in offering FTTH broadband services. The operator is co-investing in FTTH networks with utility companies in fifteen major Swiss towns and cities. Swisscom and its partners are laying four fibres per home to facilitate wholesale open access.

Swisscom initially intended to build NGA networks alone. However, utility companies, some of which are part-owned by municipalities, also wanted to invest in FTTH, either because they judged it to be a sound business investment, or because city governors viewed it as essential infrastructure. The only way to avoid the rollout of parallel fibre networks was to co-operate with utilities. “It’s a very fundamental change in culture. We are the guys who know how to build networks and we’re used to doing it alone,” said Staub.

Co-investment comes with a number of advantages: the investment risk is shared between a partner and Swisscom. In addition, the most suitable duct system can be used for the network build out.

Deployment

Size of network:

420 000 homes passed as of mid-2012

Subscribers connected:

9 200 (IDATE estimates, June 2012)

Technology/architecture

Swisscom and partners each lay four fibres to a home, which enables several operators to compete in providing point-to-point network access.

Nevertheless, even though “it’s very interesting for us to have someone who picks up 50% of the cost,” according to Staub, “it creates additional competition, even at the wholesale level.” Some utilities only offer layer 1 and layer 2 wholesale access to alternative service providers. In Lausanne, for example, the utility player and the cable operator are one and the same, which means Swisscom will face competition from a powerful integrated network and service provider.

Business Case

Investment:

Swisscom plans to invest CHF 2 billion in fibre-optic expansion by 2015. Where possible, Swisscom has partnered with local utility companies to reduce costs.

Business model:

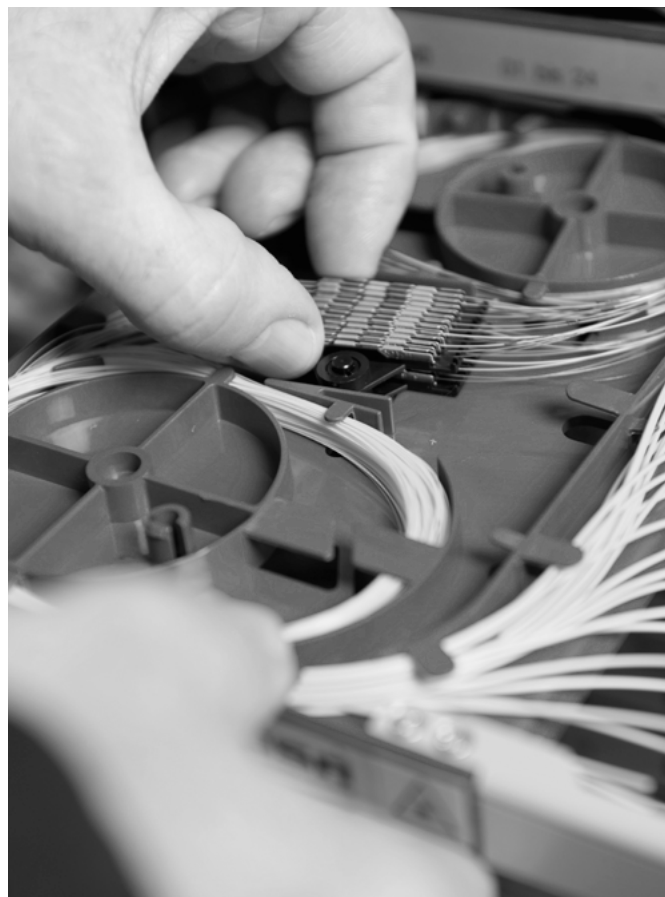
Depends on the utility or municipal business partner.

And Swisscom, which does not intend to compete on wholesale pricing with utility companies, admits it runs the risk of being under-priced by municipalities. However, Swisscom believes its ability to offer national coverage will bolster both its retail and wholesale offer.

Another issue Swisscom faced was working closely with a network partner on the provisioning of new customers. “One of the key challenges was to prepare an automated customer support and provisioning system that responds promptly to customers’ orders, regardless of whether it is Swisscom or a utility company that owns and operates the network,” said Staub.

Swisscom’s customer provisioning and support system became operational in the first half of 2012. Yet despite this and its growing FTTH footprint, Swisscom has deliberately held back from launching a major marketing campaign. As of mid-2012, Swisscom, whose VDSL networks reach 90% of the Swiss population, had a few thousand active users and a small number of FTTH-specific services, according to Staub. “We provide services at a national level. We want to have TV and internet offering for the same price nationally, but it would be a waste of resources to create a national TV campaign with only 420,000 homes passed.”

Instead Swisscom is developing local campaigns to address the local and regional dynamics. It takes between three and five years to build an FTTH network that covers a whole city the size of Lausanne, the company explained. Lausanne’s footprint (as of mid-2012) is between 30% and 35%. “It doesn’t make sense to do a



End-user Services

Swisscom’s retail packages on its FTTH network start at CHF 89 for 5 Mbps internet access, 110 TV channels and inclusive telephone calls. The high-end package costs CHF 159 for 50 Mbps/TV/phone.

Swisscom is planning for a mixed technology network providing 80% of the households with bandwidth speeds of at least 100 Mbps by 2020.

city-wide mass-marketing campaign, so we are running small information events for people living within the footprint. It’s a new dynamic for Swisscom,” said Staub.

In this way, the company hopes to acquire between 40 000 and 50 000 FTTH customers by the end of 2012. In parallel the company plans to have laid FTTH to one third of Swiss households, or one million homes, by the end of 2015, and aims to provide over 100 Mbps access to 80% of Swiss households by 2020 based on a mixed access technology approach.

And Swisscom won’t stop at major towns, Staub says. “We are starting to get requests from rural areas to build FTTH; regional authorities are starting to worry about the digital divide.”

Written in November 2012
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