

Rural Providers Reach For The Future

Connecting a Global Ecosystem
of Local Network Operators



By Ben Edmond

Globalization, the arguably irreversible integration of the international economy, has led to expanded telecom markets, made cheaper resources available to companies in the telecom ecosystem, and spearheaded the development of a business environment with an undeniably international complexion. Due to this, and despite consolidation among larger players in the telecom marketplace, local markets are still unique. There, carriers represent a mix of players that grows bigger and more diverse every day thanks to the ever-increasing appetite for, and advances in, wireless technologies and data services.

In addition to these global trends, recently enacted changes to the USDA-Rural Development's Rural Utilities Service (RUS) have squeezed profits and increased telecom competition in rural areas. In February 2013, the agency enacted a final rule to expand access to broadband service in rural areas, which finalized interim rules issued in the March 2011 extension of the 2008 Farm Bill.

The changes from earlier legislation included restricting funding in areas with 3 or more incumbent service providers and requiring that at least 25 percent of the households in the proposed service area do not have access to more than 1 incumbent service provider.¹ In effect, this restricted the subsidies offered to service providers looking to create a footprint in numerous geographic areas where this incentive would have previously been available. While unsustainable in the long run, the reduction of these subsidies has narrowed profit margins for Local Network Operators (LNOs) seeking to establish a presence in many still marginally served rural areas.

Compounding the challenges in rural markets is the fact that many of these areas are currently experiencing a network infrastructure building boom. Telecom competition is increasing in rural areas as more businesses, especially multi-national Internet companies, locate major facilities in these areas to take advantage of the low cost of land and labor to create a more competitive solution for customers. This insatiable demand continues to drive data center growth nationwide, creating an ongoing and intense competition amongst various states for major data center projects. Google, for example has built a data center near Council Bluffs, Iowa, and last year announced its plan to begin constructing a second, taking its level of investment in the state to \$1.1 billion.²

In a seemingly contradictory manner, savvy regional business councils are also trying to prevent a population outflow to more urban centers. They are working hard within their communities to supplement their traditional agriculture and mineral extraction-based economies and to position themselves and growing their communities' knowledge-based value chains.

The bottom line: The more rural telecom markets open up to competition, the more urgently LNOs must change their business strategy.

Talk About Reach

Due to this increased competition and ever-changing regulations, LNOs are faced with the challenge of seeking higher revenue from their existing footprint with minimal increase in sales and marketing costs. In order to do so, they need to increase the addressable market for their network footprint with a greater number of buyers.

The good news is that the continuing and dominant trend of the globalization also means new opportunities for LNOs. Global and national operators need access to local networks so they can extend services to rural customers. Competitive voice, data, and wireless providers also crave access to Last Mile facilities.³ Clearly, interconnection and reach are more important than ever before.

These factors are forcing regional providers to adapt. The savvy ones will do some, if not all, of these things to ensure they adapt and not falter:

- Partner to expand network services beyond their existing footprint. LNOs will benefit by simultaneously serving as a wholesaler at the delivery end of their network, enabling the reselling of their footprint to other carriers and serving as a retailer to local customers in need of connectivity beyond the local footprint. A great opportunity exists here for LNOs to not have to say "no" when asked by their corporate customers if they can handle an enterprise's telecom needs in a local market.

Rural Opportunities

- Advertise their footprint and capacity to a wider national and global market as well as other local service providers. Communicating the ability to deliver reliable, local services to a broad base of on-net locations is key to driving new, monthly recurring revenue and remaining competitive. Furthermore, service providers worldwide need to be able to employ an optimal network design leveraging local service providers who have built access networks to the locations they need to access.
- Offer competitive pricing. Increased competition in the market introduces the need for LNOs to price services based on a greater supply and demand equation of local end customers. This rise in available wholesale services also enables LNOs to gain value from their on-net assets and routes that are now made available to a new market.
- Optimize Operational Costs. Early attempts at interconnection after the Telecom Act of 1996 clearly showed the limitations and problems associated with creating individual gateways across a highly fragmented and diverse business landscape. Today's LNOs look to extend network reach and fill the service gaps in their footprint without the complexity of designing, contracting, and managing multiple interconnections. LNOs will have an advantage by leveraging a single interconnected network platform to extend their reach beyond their own network infrastructure to multiple geographies.
- Automate the pricing and ordering of network connectivity solutions while ensuring they obtain the fastest, most competitive quotes. Reducing the complexity of procuring network connectivity services saves time, resources, and operational costs while simultaneously delivering a higher volume of proposals to the market. Speed to market for competitive quotes is vital for LNOs to win more business and simplify the procurement of connectivity.

Reaching For The Future

In this highly complex access market, LNOs need to leverage their existing network footprint. In order to do this, savvy LNOs will take advantage of the market intelligence resources available to them. By gathering information from a trusted resource, they will better understand the current locus of demand for their network which will help them and determine the best steps to take for their future.

In addition, LNOs must establish interconnections at key aggregation points to extend their network reach and connect to high demand Cloud and Internet services. Finally, smart LNOs will come together with other local providers to gain a competitive advantage against larger players in the global marketplace.

The best solution for forward-thinking LNOs is to tap a resource that offers an interconnected, physical network aggregation platform with a cloud-based application that automates the design, pricing, and ordering of network solutions. This platform can help extend their network reach through a uniform, standardized interconnect with real-time access to competitive market rates. One solution that offers those elements is called "One Marketplace", an offering by Global Capacity.

In the next decade, successful LNOs will be those that understand their competition, how to gain market share, and how to drive Return on Investment (ROI) under changing market conditions. By leveraging the right network platforms, savvy LNOs will remain competitive, ensure scalability, and increase their reach in an increasingly diverse and demanding telecom ecosystem.



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