
DSM Desotech
FTTH Europe 2011 “Designed for the Future” Roundtable Summary
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Fiber-All-The-Way: Towards a Fiber Future for Europe

DSM executive roundtables have by now become familiar territory for industry leaders at FTTH events and this year’s roundtable event at FTTH Council Europe’s annual conference in Milan on February 9th, entitled *Fiber-all-the-way: Towards a Fiber Future for Europe*, did not disappoint. With a full complement of leading representatives drawn from incumbent telecom companies, start-up FTTH providers, technology vendors, regulators and analysts, the evening’s positive theme provoked much thought among guests. Those frustrated by Europe’s slow progress to date in achieving the FTTH dream were marginally outweighed by those that saw real opportunity in the coming months to widen the reach of fiber-to-the-home in Europe.

Held in the Grand Hotel et de Milan, this “Designed for the Future” roundtable featured executives from a wide range of leading organizations including Acome, Alcatel-Lucent, Belgacom, Corning, Ericsson, PwC, Swisscom, and TDC. The evening began with three brief introductions, the first by Davide Gallino, Head of the Office of Economic and Financial Analysis at Agcom, the Italian national regulatory authority. Said Gallino: as the host nation of this year’s FTTH Europe conference, Italy was at last taking concrete steps to promote FTTH deployment, having recently granted a licence to Telecom Italia to offer retail FTTH services, as well as actively exploring ways to promote competition in the space.

Short speeches then followed from two featured speakers at the FTTH conference, Roland Montagne, Director, Telecoms Business Unit at IDATE and Benoit Felten, Founder of industry consultancy, Diffraction Analysis. Montagne provided guests with the latest snapshot of industry growth trends, drawing comparison between the high proportion of homes passed with FTTH in northern Europe versus considerably deployment levels in the south. Felten, drawing on recent experiences working with Europe-based operators, cited ineffective cost structures—in particular the high incremental cost of switching on a customer whose house has already been passed by fiber—as a potential reason why European deployment of FTTH had not yet reached critical mass.

In keeping with tradition at “Designed for the Future” Roundtables, the debate then switched to the respective tables, where guests drew on their own experiences and opinions to try and plot the path forward for Europe in 2011 and beyond. The ensuing conversation identified seven separate reasons to be optimistic about an acceleration in FTTH deployments in Europe this year.

Reason 1: There is mounting evidence that operators are getting the Go-to-Market strategy right

Regardless of how good the technology is, an FTTH proposition will falter at the first hurdle if it is not brought to market correctly. IDATE’s Roland Montagne, in offering a reason for the large discrepancy between the number of FTTH homes passed in northern Europe compared to southern Europe (for example, 63% of homes have been passed with fiber in Norway, compared with a mere 8% in France), pointed to case studies in Norway that demonstrated that door-to-door sales campaigns are a lot more

effective than other forms of marketing such as advertising, simply because potential customers have a tendency to ask a lot of questions before signing up for the new service.

Diffraction Analysis' Benoit Felten was critical in his opening speech of the way many of Europe's larger telcos were hindering deployment by fixing cost structures so that a high proportion of the cost was incurred once a customer actually signed up. This, said Felten, removed the incentive to sell the service, not to mention disincentivised the customer from making spur-of-the-moment decisions to upgrade to FTTH, knowing that connection could take up to a month.

There are signs that the more fleet-footed operators are learning this lesson, with, again, a Norwegian operator cited for best practice. That operator is Altibox, whose unique selling proposition (USP) is to ask its customers to install the fiber themselves. Altibox also has a policy, said guests, of automatically deploying to 100% of a community once 50% adoption has been achieved, a strategy that has successfully proven the existence of a multiplier effect as consumers have been found more likely to upgrade to fiber once critical mass has been reached in their neighborhood.

Reason 2: Regulators are on board

It was clear from events in Milan that Europe's national regulatory authorities are beginning to feel the urgency required if FTTH is to become a mainstream telecom offering. Neelie Kroes, Europe's Information Society Commissioner, summed up the mood in Brussels in her keynote speech when she called on telecom operators to accelerate deployment to help her meet Europe's 2020 Digital Agenda targets. Those regulators at DSM's "Designed for the Future" salon were unequivocal about the scale of the task facing operators, as well as the amount of support they were prepared to give them to make this happen.

Perhaps most interesting was the willingness of regulators to begin talking about assigning a 'copper cut-off' date; a roadmap to a point in time when a country's legacy copper telecom infrastructure would be switched off in much the same way as the EU's twenty-seven member states are working to switch off their analog TV signal. Such a date may still be some way off, but regulators' willingness to discuss it, and talk about what such a roadmap would look like, was certainly taken as grounds for encouragement.

Reason 3: Investors are warming to fiber

Along with highly effective legacy copper networks, one of the strongest disincentives for large telcos in Europe to deploy FTTH is the perceived damage such a move would have on their share price. Lessons from across the Atlantic, where Verizon was punished by investors for making a long term investment in FTTH, have been heeded by European incumbent executives, most of whom admit that even today they are investing in FTTH mainly because of the competitive pressure they are facing from cable and new entrants such as utilities.

But this could change, as roundtable guests reported that some investors are beginning to regard FTTH penetration rates to be indicative of a company's health. One guest pointed out that in the Netherlands, where the incumbent KPN recently made an investment in Reggefiber, a respected start-up FTTH operator, financial analysts gave a green light to the deal, even though executing Reggefiber's business plan would require a large amount of capital expenditure (CAPEX). What is more, the same analysts were also becoming more critical in their research reports of incumbents for

not doing enough to invest in FTTH, which they see as essential for long term viability in the face of competitive pressure.

Reason 4: Microsoft Kinect provides a killer application for FTTH

All successful technology platforms need a killer application, and the absence of one for FTTH to date has often been cited as a reason for the slow pace of deployment thus far. Kinect from Microsoft, a gaming platform that responds to human gestures rather than the traditional controller, could be about to change this. Applications for Kinect range from multi-person video conferencing to online poker games, all of which will require huge bandwidth that only FTTH can support. What is more, Kinect gamers, used to fast reaction times using their living room consoles, are expected to soon be demanding the best broadband speeds so that their user experience is not compromised when they play online.

This technology breakthrough demonstrated by Kinect has the industry discussing the much broader implications for future bandwidth-intensive applications, which in turn further supports the strong need for FTTH. Advocates for Kinect believe that this new technology platform will spark the creation of continuous applications similar to what the iPhone has done for the mobile application platform. Such applications include, but are not limited to, telecommuting from home via an eco-friendly 'virtual office', security monitoring, and video conferencing for business and personal use.

Reason 5: Implementation is improving

Deploying fiber to the home isn't necessarily easy, and the many attempts at kick-starting large-scale FTTH businesses have created a wealth of best practice expertise that is being exploited by the current crop of operators. One guest, commenting on a past project to deploy fiber in a major European capital city, was strongly in favor of operators starting their deployments in small towns before moving to bigger cities. The reasons he gave ranged from the technical – MDUs in big cities tend to be bigger, hence gaining permissions and access can be more time consuming – to the emotional, as people in smaller towns were far more likely to become advocates, spreading the word about fiber and helping achieve that much-sought after multiplier effect.

Operators are also getting better at deploying fiber. One roundtable guest pointed to Switzerland as an example of good fiber deployments, where the local telecom incumbent was working with landlords to run fiber into apartment buildings. The incumbent was able to ask the landlord to pay the cost of running the fiber into the home - roughly 33% of the total deployment cost - because it was found that landlords placed a premium on being able to offer FTTH to prospective tenants.

Reason 6: Competition is heating up

Competition is the lifeblood of the ICT industry and one of the greatest potential drivers of FTTH. Those roundtable guests with insight into FTTH strategy within Europe's larger incumbents were unanimous about the importance of competition for promoting action, with the Netherlands being the most cited example of a national market with a strong cable sector also giving rise to one of Europe's most advanced FTTH networks.

But while the cable threat was seen by some as a driver of FTTH deployment within telcos, other guests suggested it was competition from new quarters, including utilities, that posed the biggest threat, especially in some markets such as Switzerland, Sweden and Denmark where utilities were partnering with municipalities to run fiber into new homes and apartment blocks. This renewed pressure from disruptive forces, plus a growing acceptance within incumbents that copper's days are

numbered—even for VDSL—is seen by many as the greatest reason why telecom incumbents will begin investing in FTTH with a new urgency from 2011.

Reason 7: Technology is improving

This discussion was sparked by enthusiasm regarding the strong business case for FTTH presented by Benoit Felten at the conference. Guests were unanimous that operators have new grounds for optimism due to highly innovative new technology that is not only improving the reliability and quality of fiber optic networks, but also helping reduce costs and improve the revenue potential of new networks.

Latest generation fiber coating technology, represented by DSM's DeSolite[®] Supercoatings, was observed as one of the stand-out innovations in fiber optic materials of recent years. Engineered for low microbend sensitivity which produces several key performance benefits in optical fiber, DeSolite[®] Supercoatings have been shown to enhance fiber performance at wavelengths of 1575 nm and above, as well as deliver desired performance in extreme temperatures, allowing for longer fiber lifetime and due to this higher level of performance can be applied at thinner layers to enable higher fiber capacity in compact cable designs.

With such material innovation, guests concluded that operators were able to make long-term investments in their networks with the confidence that their networks would enjoy extended lifetimes, which drastically improves the investment fundamentals of fiber-to-the-home.