

A Franchise Model May Be the Key to Providing Rural Broadband

In a franchise model, regional service providers purchase brand rights from more prominent IT providers. This model provides a host of benefits for local carriers, large deployers and customers, and helps drive regional economic development. It may also be useful for MDU owners financing their own broadband.

By David Daugherty / *FyberCorp*

Significant carriers often lease network space – and even entire networks – from local network deployers. For instance, Alphabet, Google’s parent company, has been particularly active in this approach, leasing the Huntsville, Alabama, system before it was built. Cellular carriers have leased plenty of fiber backhaul from local deployers as well.

The Alphabet action opens the door to another approach: franchising. A local carrier, for instance, could become a franchise site for, say, Verizon, AT&T, Comcast, or strong regional operators – even operators from other states. MDU networks and regional partnerships of all kinds could sell national branded broadband. Strong international carriers could franchise in the U.S. too.

Consumers and all parties gain significant financial advantages, but there are financial pitfalls and regulatory issues. But benefits often outweigh everything else. New federal grant money could accelerate the process.

THE FRANCHISE MODEL

A person can buy a Big Mac almost anywhere in the world and get about the same sandwich. Why is getting reliable, low-cost broadband in different cities and states so tricky? Why are some internet providers so much better than others? How can financing evolve so

good internet providers can grow faster and add to the national competition, just like a McDonald’s franchisee?

Every internet service provider, incumbent cable company or telecom company has its broadband recipes. Fast food institutions such as McDonald’s built their brands on rapid, consistent access to ingredients, combined with off-balance-sheet physical asset creation. The national burger provider does not usually have to pay for building the physical McDonald’s store.

McDonald’s wrote the book on standardized supply operations. The good news is that the broadband industry is finally getting to a place in which consistent, reliable access to the internet will drive the adoption of fiber-based infrastructure and operating standards.

This broadband evolution has already begun in underserved markets, transitioning from small, disconnected service providers to large, regional, franchise-like service providers. This evolution has already moved the business model for new deployers from one designed to drive Wall Street stockholder dividends to one designed to drive regional economic development. This concept requires a robust set of design, construction, deployment and operational standards – a rich suite of broadband “recipes” attuned to the needs of regional stakeholders.

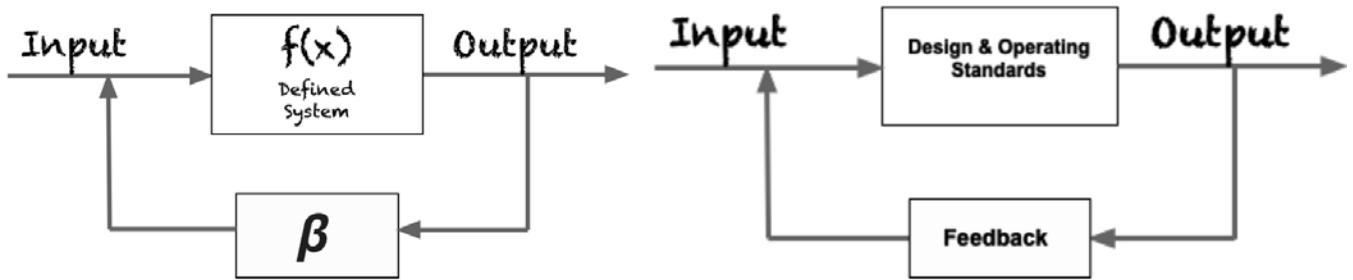


Figure 1

Electric utilities went through a similar transition back in the 1930s. Most urban areas had already been living with the conveniences of electricity for decades. Rural areas were different. Farmers cooked on wood stoves, children did homework by oil lamps, and radio communication with the outside world was unknown. On May 20, 1936, President Franklin D. Roosevelt signed the Rural Electrification Act to provide federal loans for installing electrical distribution systems to rural areas of the U.S. Farmers and ranchers could borrow federal money and take it upon themselves to form local, consumer-owned electric cooperatives. By 1940, 567 cooperatives across the nation provided electricity to 1.5 million consumers in 46 states. Today, nearly 900 electric co-ops serve 40 million people in 47 states.

The pandemic has broadband providers scrambling to deploy (mainly) fiber. In particular, the pandemic has driven up material lead times and the cost of fiber construction. It has also fundamentally changed the nature of short-term opportunities in the broadband marketplace.

The franchise model long ago solved its standardization problems. Now broadband must do the same, providing access to standardized design, construction, operations and customer support. The broadband industry must also provide a better framework for collecting and sharing best practices and real-time customer feedback. Access to this kind of data provides the foundation required for franchisors to improve existing services and introduce new ones.

All of this is accomplished with “feedback,” an engineering term used

to describe the difference between defined and fuzzy systems. Feedback is used to adjust the input to any system $f(x)$ to tune output to the desired outcome. Systems without feedback are undefined (see Figure 1).

The same principles apply in business. Broadband service providers can and often do use feedback to measure customer satisfaction and determine if they are meeting customer expectations. Ideally, a service provider should use this kind of feedback to interpret trends in technology and anticipate future expectations. Unfortunately, most incumbent service providers do not proactively incorporate customer feedback into their business models. But eventually, their local franchisees could, and many smaller deployers already do.

Historically, however, customer support in the IT service industry has been reactive. Feedback in the form of updated customer support run books/scripts is incorporated into the business model only if a particular problem reoccurs. Unique, nonrepetitive customer problems are handled by senior support technicians in a network operating center (NOC) or escalated to local support technicians as truck rolls. These problems are treated as one-offs and typically not incorporated into customer support systems. What’s more, service providers outsource truck-roll support to third-party companies that may or may not be familiar with a particular network.

What’s terrible about incumbent IT service providers’ underlying lack of awareness is that unique, nonrepetitive problems are often excellent indicators of industry trends and potential value-added services. These issues provide

precisely the kind of information (or feedback) required for proactive support systems and the introduction of new services. In other words, this is how to build a brand and customer loyalty and deploy future-proof IT services beyond what incumbent internet service providers provide. In most franchise businesses, the franchisor spreads the word to help ensure service standards and quality.

FRANCHISING: THE DETAILS

Regional service providers purchase brand rights from a more prominent IT provider in a typical broadband franchise enterprise. They pay an initial franchise fee to the franchisor for the rights to use the brand, in addition to ongoing franchise fees for marketing, royalties and more. This is a wholesale model for IT services.

Some of the advantages of this approach are:

- **Established brand and customer base.** The most significant advantage of buying into an existing franchise is the brand’s strength and customer loyalty. Brand loyalty results in reduced time to market and cash flow. It also creates a ready universe of potential buyers when franchise owners wish to sell assets.
- **Marketing support.** Broadband franchises have prepared marketing collateral material.
- **Reputable suppliers.** Franchisors typically have established relationships with equipment suppliers and solution partners for access to technology and support.
- **Centralized Tier-1 and Tier-2 customer support.** Customer support is one of the more significant advantages of

a broadband franchise model. Centralized, mature, proactive customer support is a byproduct of standardized design and operating models. This model allows franchise owners to focus on providing regional, customer-facing support.

- **Solution training and certification.** Broadband franchise operations offer training and periodic certification for service technicians.
- **Financial assistance.** Broadband franchisors provide loans and other forms of financial assistance to help franchisees.
- **Membership in a collaborative.** Franchisees are all members of a Broadband Solutions Collaborative. This body meets periodically to exchange information on best practices and proactively update customer support systems.
- **Ongoing research and development, new products.** Regional broadband franchisees can focus on local operations and let the franchisor update customer service models and develop new products.
- **Reduced risk.** Building a regional IT service company using an established brand will always be less risky than starting a business from scratch.

There are also various disadvantages to this approach:

- **Franchise fee and startup costs.** In most cases, franchises require an initial payment to access the brand and associated marketing collateral

material. For established brands, this payment can be substantial.

- **Royalty payments.** Franchises require monthly royalty fees, which help cover ongoing costs of maintaining the knowledge base and related updates to marketing collateral material.
- **Limited flexibility.** Broadband franchises have very detailed design and operating standards. Franchised service providers participate in a Broadband Solutions Collaborative but are restricted in making ad hoc changes to existing standards.
- **Sole sourcing.** Broadband franchise operations have a limited range of options for solution partners and equipment vendors. Broadband franchise agreements stipulate those franchisors buy supplies from an approved list of suppliers. The good news is that economy of scale typically results in lower costs.

MAINTAINING OPERATING STANDARDS

Unlike design standards, operating standards are not static; they are dynamic and associated with broadband technology: The human/machine interface. They must be derived from everyday use (or best practices) in real time and constantly updated to anticipate future demand. Operating standards delivered through regional broadband franchises provide the foundation for sustained, reliable access to broadband and the seamless delivery of service regardless of where the service is offered or who is providing the service.

Operating standards also drive the development of economies of scale and knowledge through a Standards Collaborative, which consists of financial institutions and solution partners that meet periodically to compare best practices and review, revise and publish updated operating standards. The resulting knowledge base is packaged into information products and services for subscribers' benefit and continuing education and certification.

This Standards Collaborative provides services such as those Telcordia offers. Telcordia was established in 1983 to provide operating standards, training and centralized point-of-contact functions for its co-owners. They originally included the seven regional holding companies (or Baby Bells) divested from AT&T as holding companies for the 22 local Bell operating companies.

UPHOLDING FINANCIAL STANDARDS

Historically, financial responsibility for the construction and operation of broadband infrastructure has been the province of incumbent ISPs. The financial responsibility will change as broadband moves into underserved regional markets. Deployment of broadband infrastructure in underserved regional markets will include several additional components:

- Access to a rapidly growing range of state and federal subsidies
- A large group of key stakeholders
- Local institutional and private investment
- A diverse set of asset/equity owners

Financial operating standards will provide a framework for funding/investment, deployment and ongoing operation of regional networks, stipulating construction requirements, and minimum financial performance for ongoing operations. Another critical mission for infrastructure financial services is fraud mitigation during construction and post-deployment operation.

Project elements that further compound financial planning include rapidly growing demand for broadband in underserved markets, complex construction logistics due to lengthy

HOW GOOD IS YOUR SERVICE PROVIDER?

Most service providers use something called the net promoter score (NPS) to measure customer satisfaction. NPS is an index ranging from -100 to 100 that measures the willingness of customers to recommend a company's products or services to others.

It is used as a proxy for gauging customers' overall satisfaction with a company's product or service and loyalty to the brand. With an NPS rating of 42, the IT services industry is average at best. Small, regional service providers have a unique opportunity to stand out in the industry by investing in client satisfaction and quality of service, especially in underserved markets.

material lead times and lack of construction recourse, and the deluge of federal and state subsidies. Resultant financial requirements will be at least as complex and vital as technical specifications and operational requirements.

Because most infrastructure deployed today is designed to accommodate current subscriber demands, it is typically outdated when it gets installed in a network. Moreover, current subscriber support systems are always *reactive*. Design standards must anticipate future market demand and subscriber expectations at least five years into the future. An updated set of design standards will result in deploying infrastructure designed using anticipated needs of subscribers and *proactive* support systems.

Future infrastructure design will use deep learning and emerging AI technology from companies such as NVIDIA to anticipate future subscriber expectations. Network design and operating standards will be written for networks capable of predicting future subscriber demands. These will include intelligent, proactive support systems that anticipate future subscriber expectations and proactively upgrade infrastructure, cyber security, network equipment configuration and programming.

SUPPORT STANDARDS

According to Mark Curtis, head of innovation at Accenture, “the pandemic compelled consumers – en masse – to shift their expectations more rapidly and completely than at any other time in history. They are using their new mindsets to decide where and how they buy. Through their purchase choices, they purposefully seek to influence their communities and the environment, and to confirm how they see themselves in the world.”

Access to reliable internet is a mission-critical component of emerging life systems and must incorporate proactive support to meet future subscriber demands. Elements of an aggressive support environment will include:

- Centralized 24/7/365 Tier-1 customer support

- Regionalized Tier-2 customer support
- Regional truck-roll support

WARNINGS

The franchise regulatory environment and contingent tax liability make “franchise” a four-letter word in most business settings. When a national or regional carrier leases broadband capacity, for instance, the cost of the lease is usually carried on the national carrier’s balance sheet. The franchise approach usually avoids that. These days, most national carriers have high liabilities on their balance sheets and don’t want to increase the penalties. Instead, the asset is carried on the balance sheet of the franchisee – in this case, the local carrier.

But the franchiser must keep track of possible problems and perhaps reserve a contingency fund to fix the issues if they happen. That fund would be carried on the franchiser’s balance sheet rather than being expensed if chances for contingencies happening total 50 percent or more under generally accepted accounting practices. Moreover, if the overall chance of bad things happening does indeed exceed 50 percent, it could destroy some motivation to franchise in the first place, on top of possible tax liabilities.

But regardless of the reaction from financial advisers, the franchise mode often is the most cost-effective way to extend broadband in underserved markets. It also anticipates future broadband deployment and operational requirements. The franchise model allows franchise owners to focus on customer-facing functions and helps integrate and maintain value-added products and services. ❖

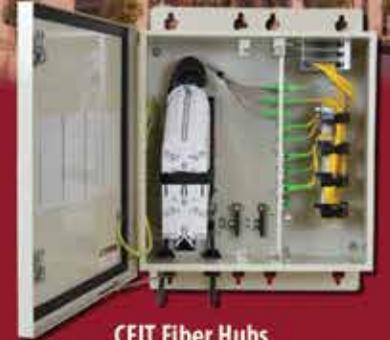


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underserved communities. He can be reached at david@fybercorp.com.

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