

A White Paper

Building Upon a Strong Broadband Foundation

*Inventoring the U.S. Broadband Market's Strengths
For the FCC's National Broadband Strategy Effort*

By Scott Cleland*
President, Precursor LLC
Chairman, NetCompetition.org**
sclerland@precursor.com

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Abstract. The combination of the severe recession and Congress' requirement for the FCC to devise a National Broadband Strategy provides an excellent opportunity to inventory not only weaknesses, but also the many strengths, of the broadband sector and economy. Comprehensive analysis shows much that is going well that mustn't be taken for granted in any new broadband plans. Unlike many other sectors of the economy, the American broadband sector is: (1) an exceptionally strong foundation to build upon; (2) on the right track with much positive momentum; and (3) partnering to solve many of society's most pressing problems. America's competitive broadband market has an exceptionally strong foundation of: financial/economic stability, diversity of choice, responsiveness, resiliency, and American competitiveness. American broadband is on the right track with positive momentum in terms of: investment, deployment, penetration, speed, capacity, price, value, innovation and productivity. The U.S. broadband sector has and continues to be responsible corporate citizens helping improve the environment, health care, jobs, openness, diversity in the workplace and helping the hearing and visually impaired. The task and challenge for the FCC in devising a National Broadband Strategy is not only addressing the Nation's broadband deficiencies, but also preserving and strengthening America's many competitive broadband strengths. In other words, in improving broadband in the U.S. on the margin, it is essential to not undermine the part of the broadband base that works and excels. In colloquial terms, the FCC must ensure it does not unintentionally throw out the baby with the bath water. In sum, in devising its National Broadband Strategy, the FCC has a strong foundation to build upon, positive competitive momentum to continue, and responsible corporate citizens with which to partner.

*Bio: http://www.precursor.com/bio_long.htm

** *NetCompetition.org is a free market e-forum supported by broadband interests.*

Introduction

The combination of the severe recession and Congress' requirement for the FCC to devise a National Broadband Strategy provides an excellent opportunity to inventory not only weaknesses, but also the many strengths, of the broadband sector and economy. Comprehensive analysis shows much that is going well that mustn't be taken for granted in any new broadband plans. Unlike many other sectors of the economy, the American broadband sector is:

- I. An exceptionally strong foundation to build upon;
- II. On the right track with much positive momentum; and
- III. Partnering to solve many of society's most pressing problems.

I. Strong Foundation to Build Upon

America's competitive broadband market has an exceptionally strong foundation of positives on which to build upon, enhance, expand and supplement.

Financial/economic stability: The American broadband sector is an exceptional *relative* oasis of financial stability and economic strength in the U.S. economy. While not unhurt by the recession, the sector is still solidly growing and significantly out-performing the broader economy. There are several reasons for the broadband sector's relative economic strength.

- Consumer demand for broadband/communications remains relatively strong since broadband generally is viewed as a necessity at home and in the workplace, and is viewed as a crucial connection to the marketplace for those seeking employment or new business.
- The broadband sector also has rational and healthy technology-platform competition based on *real* market economics, which makes the sector exceptionally efficient, resilient and sustainable.
- Demand-driven progressive pricing and usage thresholds ensure that those who want the fastest speeds and use the most capacity pay more to help fund the cost of increasing the Internet's overall capacity.
- Demand-driven progressive pricing also keeps the vast majority of users' prices low, because most are lower volume users.
- The relative predictability and rationality of *market-based* competitive economics and return on investment has afforded the private sector the necessary incentives to continue to invest more than most any other infrastructure-based sector, roughly \$50-60b annually.
- Finally, the U.S. broadband sector learned its debt lesson after the tech bubble and cut debt roughly in half to reach historically-responsible levels.

Consequently, the sector generally has strong balance sheets, which is enabling companies to continue to invest through the recession.

In short, the U.S. broadband sector, if unimpeded, is, and can be, one of the primary economic engines that will help pull the rest of the American economy back to recovery.

Diversity of Choice: The competitive broadband system in the U.S. produces a wide diversity of choice of technology platforms, business models, prices, speeds, products and services, because competitors are able to respond to Americans' wide diversity of needs, wants and means. Moreover, the market-based freedom in the U.S. to: experiment, innovate, invest, compete, price and bundle creatively and flexibly make the U.S. broadband economy the most diverse and vibrant in the world.

- For example, Americans enjoy the wide variety of choice that results from having: the most *free* WiFi hot spots in the world; several inexpensive alternatives for dial-up Internet access (for the significant portion of Americans that surveys say only want dial-up for now); and a wide variety of broadband prices, speeds, usage models, for light to moderate to heavy to extreme bandwidth users.
- Furthermore, competitive broadband trends continue to create even more market niches, further increasing the sector's diversity of choice.

Like America, the American broadband economy is exceptionally diverse and not at all monolithic.

Responsiveness: Technology platform competition in capital-intensive industries produces a very consumer-friendly and responsive marketplace. Since the marketing and operational costs of acquiring a new customer are so high in relative and absolute terms, existing customers have a lot of leverage and routinely benefit from a myriad of value enhancements designed to keep customers happy. Broadband customers routinely get more speed for the same price and are offered a variety of additional features, products and services for free or at a deep discount. Because competitors want to avoid the dreaded high cost of losing a customer, or "churn," competitors increasingly anticipate consumers' needs, and adapt to meet consumers' ever-evolving needs and wants.

- Moreover, the diversity of choice in offerings enables competitors to be responsive to consumers needs in this recession to save money, by enabling them to spend less on lower priced bundles or to eliminate individual communication services entirely.

Resiliency: Another powerful benefit of the true technology-platform competition that exists in most of the U.S. is that network reliability is essential to avoid expensive churn. Another advantage to the economy that technology-platform competition has over monopoly-resale environments is the relative resiliency of infrastructure redundancy. All of America's cybrastructure eggs are not in one basket.

American Competitiveness: While the OECD's data on broadband penetration suggest U.S. deficiencies on that measure, it is important that any national broadband strategy to improve upon that measure does not inadvertently harm other measures at the same time where the U.S. is strong, on the right track or the world leader. In colloquial terms, it is important to not throw the baby out with the bathwater.

There is substantial independent evidence that the U.S. broadband sector has a strong foundation to build upon. No less than seven independent studies conclude that America is at, or near the top, in worldwide competitiveness in the converging sector of Internet, broadband, communications, and information technology.

- World Economic Forum: Global Information Technology Report - 2008-2009: Ranks the U.S. third in "Networked Readiness" -- up one place in the world rankings from last year.
- **ITU** -2009: The U.S. has the most affordable broadband in world.
- **University of Calgary** - 2009: The U.S. ranks #1 in the world in their "Connectivity Scorecard."
- **IMD** Swiss Business School - 2008: The U.S. ranked #1 in the world for the 14th year in a row in the 2008 World Competitiveness Yearbook.
- **World Economic Forum** - 2008: The U.S. ranked #1 in competitiveness in its 2008-2009 Competitiveness Report.
- **Economist Intelligence Unit:** The U.S. was ranked tied for second in the world in "e-readiness" per their latest rankings.
- **Neilsen** - 2008: The U.S. ranked #1 of 16 countries surveyed in mobile Internet penetration.

II. On Right Track with Positive Momentum:

While there is always room for improvement, by almost every objective competitive measure over the last several years, the trajectory has been towards more competition, choice, and value for consumers and businesses. The most important indicators of competition are positive.

- Despite the recession's substantial contraction of the overall economy, broadband investment, deployment, and penetration continues strongly apace.
- Broadband connections and networks continue steadily getting faster and have more and more overall capacity.
- The price/value proposition for the average broadband consumer continues to improve substantially.
- Competition is driving smart network innovation to reduce the threats of spam, viruses and malware on networks.
- Increasing broadband use also continues to provide productivity gains that benefit the broader economy.

III. Partnering to Solve Society's Broader Problems

The broadband sector has been and continues to be responsible corporate citizens in partnering with groups and government to help improve and solve some of society's most important problems.

- A healthy broadband industry able to invest and innovate helps provide more opportunities to telecommute, a big green benefit in keeping cars off the road, and minimizing the need for travel. Another green benefit from broadband and wireless broadband is smart grid and remote energy management to better manage and lower the Nation's energy usage and costs.
- A competitive broadband industry also is able to invest and innovate to bring the benefits and health care savings of telemedicine, remote medical monitoring and digital health records to more and more Americans.
- On the matter of jobs in this severe recession, it is important to remember that the broadband industry provides substantially more stable employment at better compensation and benefit levels than is the norm in the broader economy.
- On the matter of openness, the two thousand broadband providers in the U.S. have had near perfect compliance with the FCC's Broadband Policy Principles, handling literally quadrillions of communications without incident every year.
- The broadband sector has long been a leader in the economy in promoting diversity in the workplace.
- Finally, the broadband sector also has a long and strong record of helping better the lives of the visually and hearing impaired through tailored or innovative services.

IV. Conclusion

The task and challenge for the FCC in devising a National Broadband Strategy is not only addressing the Nation's broadband deficiencies, but also preserving and strengthening America's many competitive broadband strengths. In other words, in improving broadband in the U.S. on the margin, it is essential to not undermine the part of the broadband base that works and excels. In colloquial terms, the FCC must ensure it does not unintentionally throw out the baby with the bath water.

In sum, in devising its National Broadband Strategy, the FCC has a strong foundation to build upon, positive competitive momentum to continue, and responsible corporate citizens with which to partner.