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August 2019

Recent Insights into Successful Broadband Partnerships

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Inside…

Key Points:

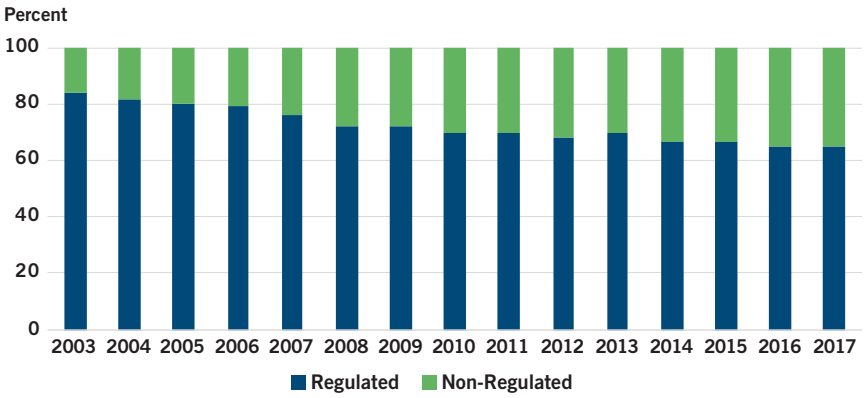
- Broadband partnerships between Rural Local Exchange Carriers (RLEC) and Electric Distribution Cooperatives (EDs) are uncommon, but when done right, can benefit all involved.
- Successful partnerships capitalize on each party's unique strengths, which requires consistent, transparent communication, and flexibility at all levels.
- Once the business model has been agreed upon, it is critical to clearly define each party's responsibilities concerning their shared customers and the infrastructure used to serve them.
- Thinking beyond near-term profits, RLECs and EDs should work with their local communities to maximize broadband's economic development benefits, thereby helping to create long-term community value and growth in their customer base.

Background

Successful broadband partnerships between RLECs and EDs make the most of their respective strengths. RLECs are experts in planning, marketing, constructing advanced communications systems, and producing attractive ROIs, often in highly competitive markets. EDs have an unrivaled ability to build and maintain expansive power systems that simultaneously balance supply and demand, all while minimizing customers' costs and keeping balance sheets strong and stable. Finding synergies in these strengths can help both entities overcome challenges.

RLECs' regulated revenues are facing significant headwinds as consumers disconnect their landline phones in favor of voice over IP (VoIP) or (unregulated) wireless *(Exhibit 1)*. Many forward-thinking RLECs are building out their broadband networks by aggressively investing their federal government subsidies in fiber, which has proven to be a good strategy. But simply building fiber networks in one's territory has limited upside, and may not be enough to offset declining regulated revenues. By partnering with EDs to build fiber networks outside of their RLEC territory, RLECs are realizing economies of scale and revenue diversification.

EXHIBIT 1: Rural Telco Revenue Mix



Sources: Telegree Benchmarking Report and Telecompetitor

Broadband deployment can also enable EDs to not only gain additional revenue, but also increase system reliability and customer satisfaction. Wireless and fiber broadband greatly enable proven features such as advanced metering infrastructure (AMI), outage notification systems, and demand response programs. They also strengthen economic development programs – a major lesson explored further in this report. Indeed, economic growth is often a primary motivator for broadband deployment.

To learn what has worked for them, we recently interviewed several executives at RLECs and EDs who have undertaken joint broadband deployments. These partnerships have taken various forms. Some were informally cooperative, such as the ED providing a simple endorsement of a specific RLEC's services within its service territory. Others were more involved, with each entity contributing and receiving specific portions of the project's costs and revenues, respectively. Despite the diverse forms of these partnerships, the executives we interviewed had learned remarkably similar lessons.

Lesson #1: Stay flexible

Many of the RLECs and EDs we spoke with emphasized the need to be flexible as there is no cookie cutter way to approach these partnerships. They pointed out the many options in terms of who maintains the customer relationship, who owns the middle mile, the type of branding strategy employed, management of day-to-day customer issues, capital contribution ratios, etc.

RLECs and EDs that enter into partnerships should do so with an open mind about how to serve their customers and leverage their respective capabilities. One element that should transcend all partnerships is the establishment of a joint steering committee that meets regularly, perhaps weekly at the project's outset. The steering committee should include representatives from sales, engineering, finance, and operations from both the RLEC and the ED. Its purpose should be to address key performance indicators, such as:

- network performance;
- customer service;
- subscriber growth; and
- technology roadmap/network build plans, etc.

From a network architecture perspective, RLECs that have successfully worked with EDs recognize it doesn't matter who owns the middle mile or the last mile. With an open mind and a commitment to serve the underserved/unserved, partners can establish a business model whereby everyone wins – EDs, RLECs, and the rural communities they serve.

Lesson #2: Respect the ED's brand equity

RLEC executives we've interviewed in recent months who have partnered with EDs said they are impressed with the EDs' relationships with their members. Many EDs have built these relationships by earning customers' trust over decades. They felt that associating their brand with the ED's is worth its weight in gold to an RLEC.

We don't think the full value of these customer relationships is fully appreciated amongst the RLECs and should serve as one of the motivators to work with EDs. Building a trusted relationship with EDs to bridge the digital divide can be parlayed into an overbuild strategy that should give the partnership an advantage over any less-savvy competitors in the broadband space.

Lesson #3: Deploy wireless as a stop-gap

To address the current unserved markets, RiverStreet Networks' partnership with North Carolina's Electric Cooperatives is planning to deploy fixed wireless infrastructure and then follow up with fiber builds in a few years. They cite the Rural Development Opportunity Fund (RDOF) as an opportunity to replace fixed wireless with fiber, which has much better operating expenditure economics. Because the wireless network is temporary, RLECs use unlicensed spectrum and off-the-shelf Wi-Fi equipment that is cheaper than building a carrier grade network with LTE (long-term evolution) standards-based equipment and spectrum. This multi-step, collaborative partnership will help ensure that the fiber networks being built will be self-sustaining and generate returns for the partnership.

Lesson #4: Pick up the phone

Despite the synergies and benefits these partnerships offer, the lion's share of ED broadband builds are still being done without partnering with RLECs. When we asked an RLEC executive what advice he'd give to those RLECs considering a partnership, he said, "Pick up the phone, call your local ED, and have lunch." He was amazed at how a simple conversation over lunch unearthed a number of opportunities for each organization to leverage their respective strengths and to deliver broadband to their underserved/unserved communities.

Lesson #5: Note broadband's economic benefits

Throughout our conversations, it became clear that a successful broadband deployment should assign significant importance to economic development without overestimating the potential near-term benefits. This requires that RLECs and EDs look beyond their balance sheets to the broader economic vitality of the communities they serve. While this objective is valuable in its own right, it also drives creation of long-term business for the RLECs and EDs.

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The clear majority of peer-reviewed studies have found that increased broadband availability typically has a significant and positive impact on overall labor productivity, employment, and economic growth more broadly.[1] Our interviewees agreed with this conclusion, but suggested that those RLECs and EDs that work closely with their local economic development representatives and business community will have a leg up in translating increased broadband availability into widespread economic opportunity.

There is some empirical evidence which suggests that rural communities with a relatively high degree of technologically-skilled labor typically benefit much more from broadband deployment than those without.[2,3,4] Other recent research has found that the closer a rural service territory is to a metropolitan area, the more attention startups will pay to whether the territory has broadband, and the more likely such companies will be to set up shop in a broadband-enabled locale.[5] Several of our interviewees generally agreed with both of these conclusions, and noted that some portions of their service territories had realized greater economic benefits from broadband than others.

Community-specific economic impact analysis can clarify many of these dynamics and can provide for informed, realistic expectations among community stakeholders.

Conclusion

When the respective capabilities of RLECs and EDs are fully appreciated, they can be leveraged to provide highly beneficial broadband services to their communities. Initiating these enterprises can be as simple as picking up the phone and taking some time to establish a sense of common objectives, trust, and roles. In doing so, both sides will need to demonstrate flexibility in the distribution of responsibilities and revenues. Throughout this process, the well-being and satisfaction of the customers should be paramount. This will require regular engagement between the RLEC, ED, and their local schools, employers, economic development professionals, and other community stakeholders.

Endnote References

[1] *Bertschek, Irene and Briglauer, Wolfgang and Hüschelrath, Kai and Kauf, Benedikt and Niebel, Thomas, "The Economic Impacts of Telecommunications Networks and Broadband Internet: A Survey." ZEW - Centre for European Economic Research Discussion Paper No. 16-056. (August 2016). http://dx.doi.org/10.2139/ssrn.2828085*

[2] *Kolko, Jed. "Broadband and Local Growth." Journal of Urban Economics, 71 (2012) 100-113. doi:10.1016/j.jue.2011.07*

[3] *Atasoy, Hilal. "The Effects of Broadband Internet Expansion on Labor Market Outcomes." ILR Review66, no. 2 (April 2013): 315–45. doi:10.1177/001979391306600202*

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[5] *Kim, Younjun, and Orazem, Peter F. "Broadband Internet and New Firm Location Decisions in Rural Areas." American Journal of Agricultural Economics, Volume 99, Issue 1, January 2017, Pages 285–302, https://doi.org/10.1093/ajae/aaw082*

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