



# COMPETITION

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## PROMISE OF FiOS WILL COME AT A COST

VERIZON'S EXPENSIVE BUILD-OUT MIGHT LEAD TO CUTTING CORNERS DOWN THE ROAD, AND CABLE'S MARKETERS SHOULD BE ON THE LOOKOUT.

Verizon's daunting FiOS network build-out and connection costs suggest vulnerabilities that cable may be able to exploit.

Let's assume Verizon meets its goals for lower FiOS deployment costs in 2006. In addition, we'll say that Verizon achieves its five-year target market penetrations of 25% for FiOS TV and 30% for FiOS Internet. Even so, the FiOS network build-out cost would equal at least \$2,967 per subscriber.\* Adding \$715 per FiOS connection would bring the total cost to \$3,682 per subscriber.

rate advantage would be temporary since cable operators also will continue to increase their Internet access data rates while holding steady on price.

- FiOS TV will be competitive with cable but in general not easily differentiated. Picture quality will be comparable whether via FiOS or well-maintained cable systems; FiOS TV employs set-top boxes from a mainstream cable STB supplier; cable can match FiOS capacity for HD and other channels without having to invest in substantial network upgrades; and cable has a head-start aggregating on-demand content.

### FiOS DEPLOYMENT COSTS

	Start of 2005	Verizon's Goals for 2006
Average Cost per FiOS Home Passed	\$1,400	\$890
Cost per FiOS Connection	\$1,200	\$715

Source: Verizon press release, February 28, 2006

FiOS' connection cost is high because there is a lot to install. Installing FiOS Internet includes an optical network terminal (ONT), battery backup, CAT5 cable and wall jacks to the subscriber's PC, plus a wireless home networking router. According to Verizon's website, these installation tasks typically require four hours. Installing FiOS TV, with connections for up to three existing TV outlets, requires still more time.

Actual network cost per subscriber will be higher because the FiOS target penetrations are a stretch:

- Unlike DSL, FiOS Internet will not undercut cable on price. For example, the lowest currently advertised price for FiOS Internet is \$35-\$40 per month for "up to 5 Mbps/2 Mbps." Although Verizon may claim that FiOS Internet offers higher data rates than cable at comparable prices, any FiOS data

*CableWorld* (April 10, page 56) and others report that early FiOS customers are delighted with Verizon's cost-is-no-object network installation and customer service. Why wouldn't they be? However, FiOS' deployment costs present a formidable challenge even for an operator as large and determined as Verizon. When reality intrudes and Verizon is compelled to tighten its FiOS purse strings, subscribers may notice, and astute cable marketers can follow up by spotlighting any FiOS cost-cutting compromises. ■ ■ ■

\*To arrive at the figure of \$2,967 per subscriber, divide Verizon's anticipated cost per FiOS home passed (\$890) by the target penetration of subscribers per homes passed (30%).