



## OPINION

# BDS Market Dynamics Harm Rural America and Prevent Wireless Innovation

BY RAUL KATZ

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Although most Americans secure wireless service from the two largest nationwide providers, the wireless ecosystem, by necessity, is richly populated with hundreds of providers. Competitive carriers often provide service in locations that are difficult to serve, sparsely populated, or both; by doing so, many competitive carriers help to ensure rural America is connected to public safety resources and innovative new services, like telehealth, that boost quality of life. By offering a competitive alternative, these providers also play a critical rule in

disciplining wireless service prices and plans across the broader wireless ecosystem.

With the explosion of data consumption over the last several years, competitive carriers, like all carriers, are enhancing their network infrastructure and adapting their business models to deliver the faster and more reliable service that consumers expect. Successful wireless service, in large part, is predicated upon adequate wireline infrastructure capable of backhauling data from a tower or cell site to the network core and interconnecting with other carriers. Business data services, or BDS (formerly known as Special Access Services), include high-capacity backhaul for mobile broadband. Backhaul is a critical input for all mobile providers looking to deploy next generation technology. Seventy-three percent of service locations comprising this \$45 billion market are controlled by one and sometimes two “incumbent” providers who benefit from legacy wireline service constructed during the early days of telecommunications infrastructure, under monopoly conditions. Unlike AT&T and Verizon, many competitive carriers don’t have the benefit of built-in

legacy wireline networks. Where BDS is not owned, it must be purchased; for small rural providers, BDS must be purchased from one of several large incumbents and often their competitors' affiliates—namely AT&T, Verizon, CenturyLink, and Frontier—that freely exploit their market power by inflating BDS prices.

Data on the BDS marketplace from the competitive carriers demonstrate the undisciplined BDS market has a devastating impact on wireless investment in rural America.

First, the data indicate high backhaul costs are diverting scarce financial resources away from network deployment. Backhaul cost represents, on average, 4.3 percent of a wireless carrier's total operating expenses and 30 percent of its network costs, diverting capital away from network deployment. Reducing the inflated costs of backhaul would mean operating expenditure savings would be reinvested as capital expenditures. The historical evidence indicates that 85 percent of those savings would be spent upgrading a carrier's network infrastructure,

yielding improved service quality, better coverage, lower churn and increased competition against the two largest wireless providers.

Second, the study showed that that high BDS costs restrict the ability of competitive carriers to increase the number of cell sites needed to meet the growing demand for wireless traffic. For carriers racing to deliver the promise of ubiquitous wireless coverage to rural America, failing to implement network upgrades in time with rising consumer demand will reduce service quality and encourage consolidation.

Third, high BDS costs make it cost prohibitive for competitive carriers to consider deployment of 5G services, which require a dense network of cell sites all connected to BDS backhaul. There is a consensus among telecom executives that backhaul cost is the most important barrier to 5G migration.

This means falling behind incumbent providers with significant “first mover” market advantage.

In each of these scenarios, consumers lose, especially those living in rural America. Additionally, rural areas will not be benefitting from high quality wireless service and latest technology. This will have a negative impact on economic development and reinforce the digital divide.

The Federal Communications Commission now has an opportunity to adopt a competitive market test for BDS that will supply meaningful competitive constraints on backhaul pricing. Without FCC intervention, incumbent providers have little incentive to charge reasonable, market-driven prices for backhaul. Adopting meaningful BDS reforms will position America's wireless ecosystem for a successful bid at pervasive next-generation network coverage across the country, and is comfortably supported by data on record.

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