THE BUSINESS RATIONALE BEHIND GOING FROM A VERTICAL BUSINESS TO AN OPEN ACCESS FIBER BUSINESS

BACKGROUND

DELTA Fiber Nederland, a key telecom player in the Netherlands with DELTA and Caiway as commercial brands, offering broadband, television and telephony to both consumers and business.

DELTA Fiber, formerly named CAI Westland (CAIW) has under the brand name Caiway, provided internet access services to private customers in the Netherlands since 1995 and originates from a joint venture between seven Westland municipalities that developed a cable TV business in 1981.

In 2008 their passive network and its operations were transferred to a separate company, Communicate Infrastructure Fund (CIF), and in 2014 a new open access Ethernet Access offering was launched, enabling other Service Providers to sell and provide retail services in CAIW's network.

In 2018 CAIW merged with DELTA and became DELTA fiber Nederland under the new owner EQT.

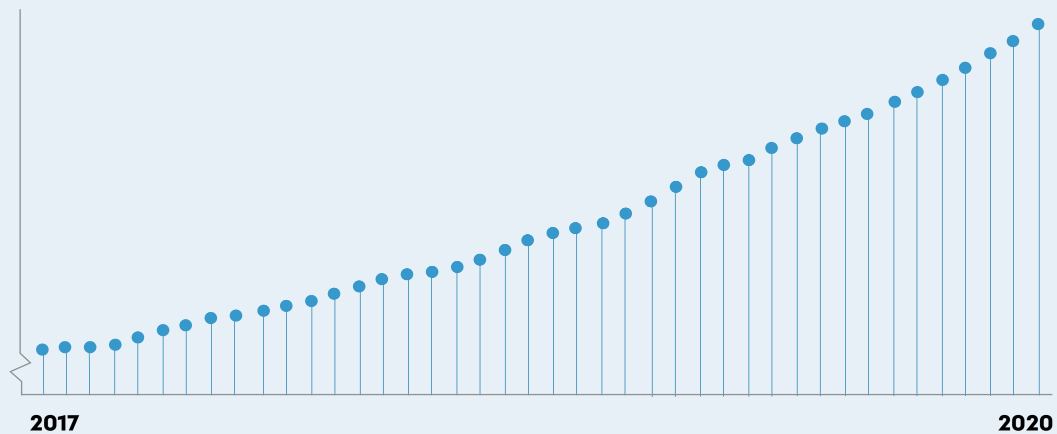
DELTAFiBER NL

Headquarters: Schiedam, South Holland

Type: Privately Held

Founded: Founded 1981, under the brand CAIW

Market: The Netherlands

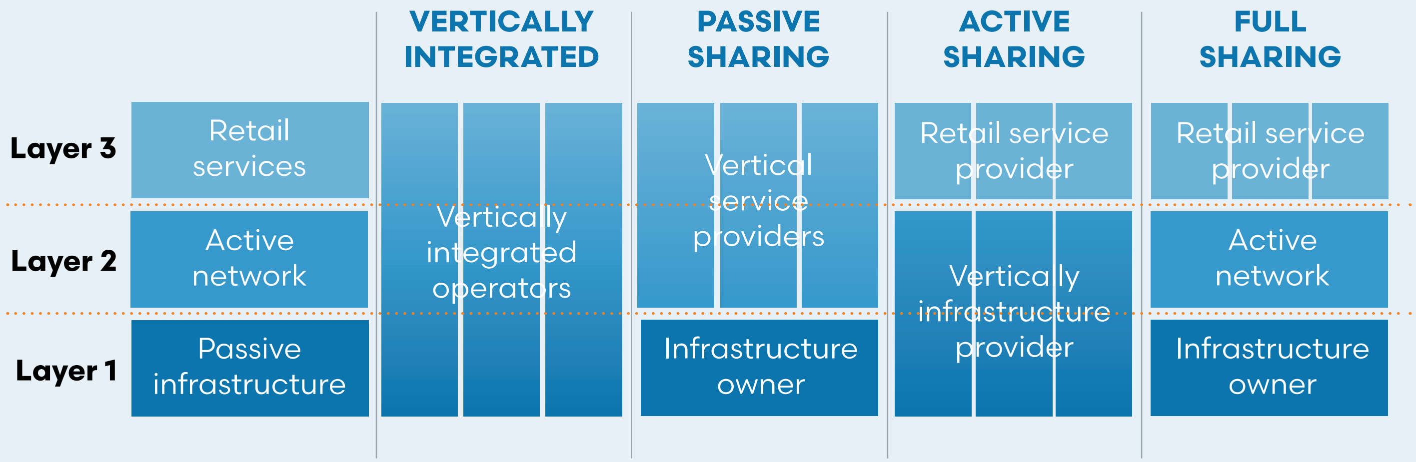


Subscriber growth

OPEN ACCESS AS A BUSINESS MODEL

Opening up a network on an open access basis – splitting – can be performed between different layers in the value chain.

1. One split is between layer 1 (passive infrastructure) and layer 2 (active network), performing this split will make the passive fiber business an own entity.
2. Split between layer 2 (active network) and layer 3 (retail services), separating the service and the network business. This split enables the possibility to have multiple retail service providers on the same network.
3. White labeling the services in layer 3 and wholesale them to retailing service providers.

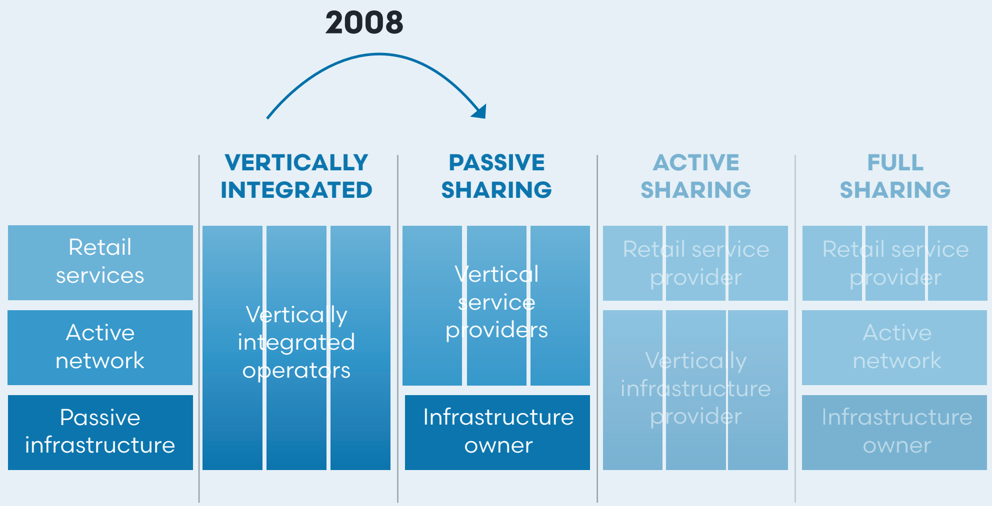


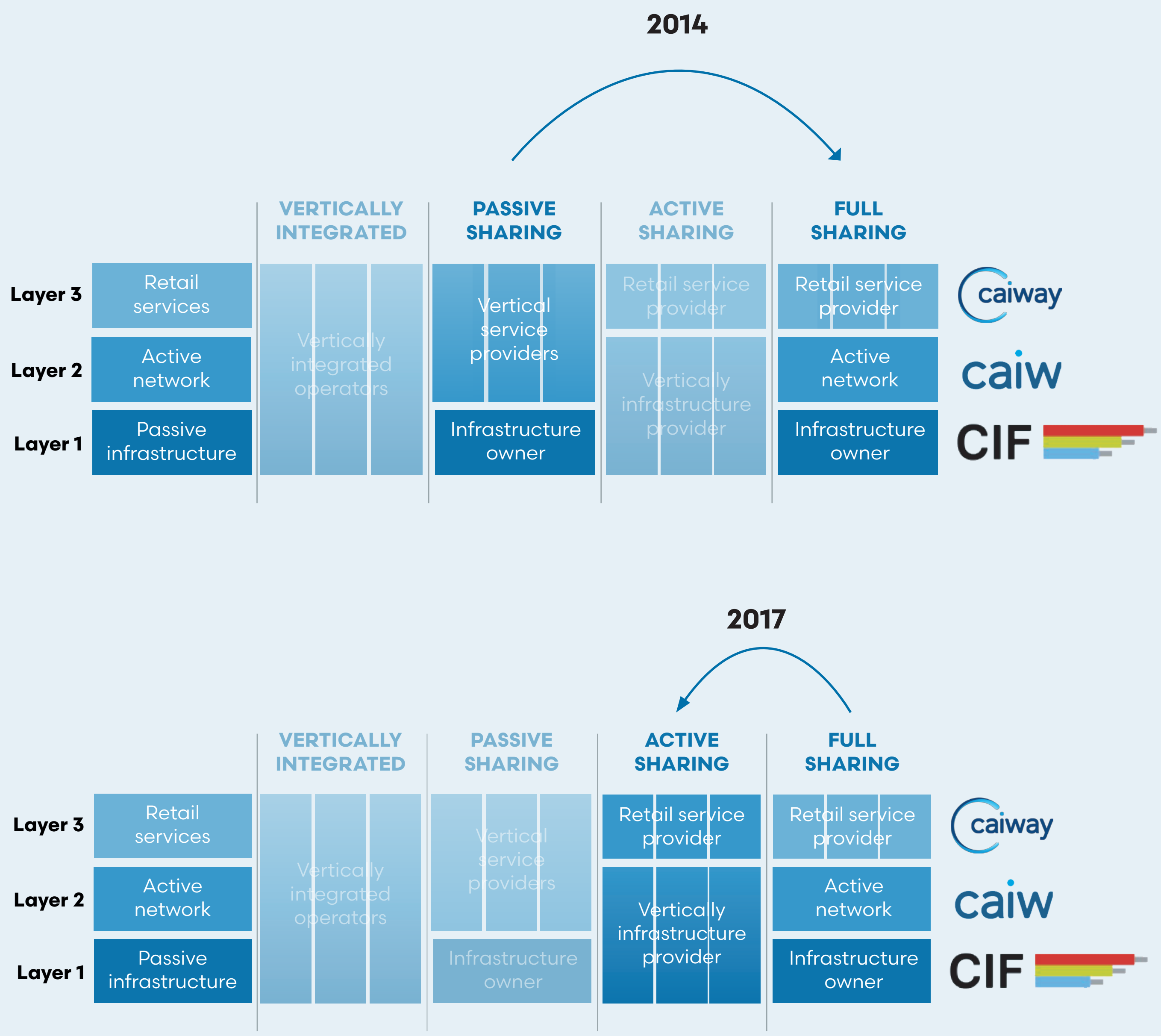
DELTA FIBER'S JOURNEY TOWARDS OPEN ACCESS

DELTA Fiber started as a vertical integrated, meaning they managed all three layers. They owned and controlled both the passive and active network, and provided services directly to consumers in the top layer.

The establishment of CIF in 2008 meant that CAIW performed a split between the passive infrastructure and the active network and the retail services. In doing so, they had CAIW as a single service provider.

This split played a key role in their decision to invest in FTTH. It allowed them to take a long-term approach for the passive infrastructure investment, where they had the highest cost in their fiber business. The split was made between layers 2 and 3. They created the brand Caiway, which was the brand the consumers saw. CAIW was the company that managed the operations of the active network.





The full split

The focus of this case study is on the 2014 split that separated the retail business of Caiway from the active network business of CAIW and the choice to enable other Service Providers to sell their services in their network.

In 2017 CIF was remerged with CAIW to form an integrated active and passive network infrastructure business.

They retained their retail brand Caiway, but they also allowed other retail service providers to market, provide, and sell their services in the new open access network. The main reason why they kept their brand was that they needed a brand to start out with when they expanded their fiber network into new areas.

BUSINESS CHARACTERISTICS

By comparing business models, one where you focus on the network infrastructure and the other one when you have a retail service business, meaning you provide services directly to end-customers, you can see many differences. Below is a comparison between these two models in different areas.

	Network Infrastructure Business	**Retail Service Business**
Marketing & sales	Build footprint by contracting housing companies and by strategic rollouts. Sales driven by the retailing providers.	Mass-market approach
Customer base	A low number of Service Providers (typically < 30)	Large volumes of private customers
Operations & maintenance	Infrastructure oriented	Consumer oriented
ARPU & margins	ARPU lower than a retail offering, margin depending on penetration	Retail ARPU and margins
Competition & attrition	Virtually no attrition but time-to-market is critical to build footprint and customer base	Attrition depending on competition
Impact of low penetration	Limited revenues but more importantly low profitability	Limited revenues

BUSINESS RATIONALE

Penetration is the most important factor for a profitable network infrastructure business.

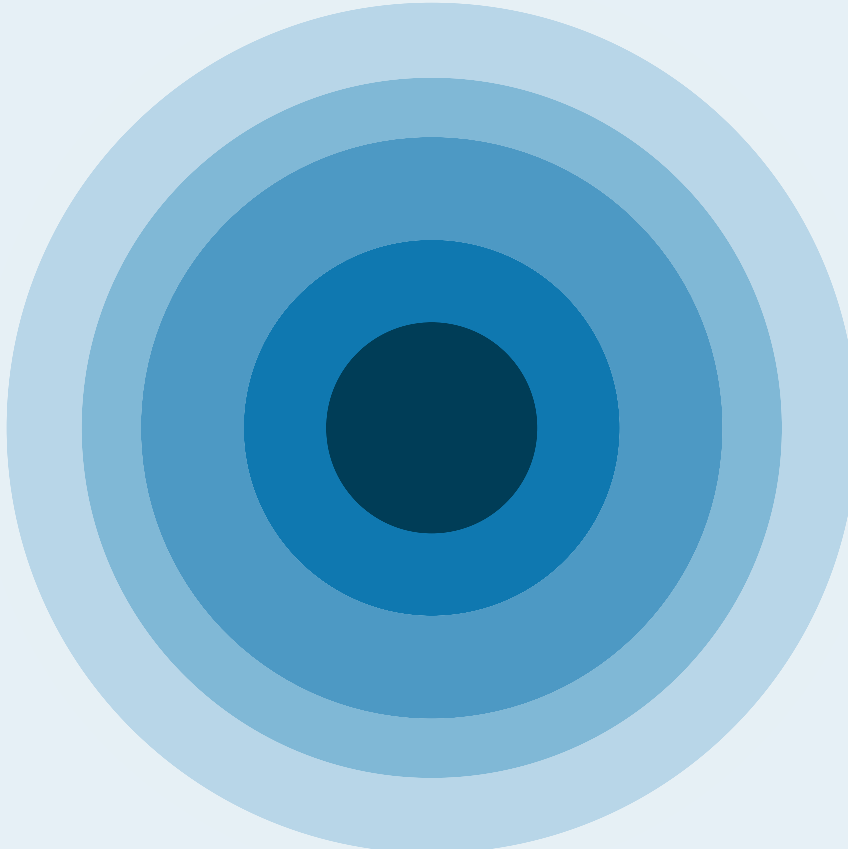
DELTA Fiber knew that their customers wanted choice. By introducing more service providers, they expected to attract more customers.

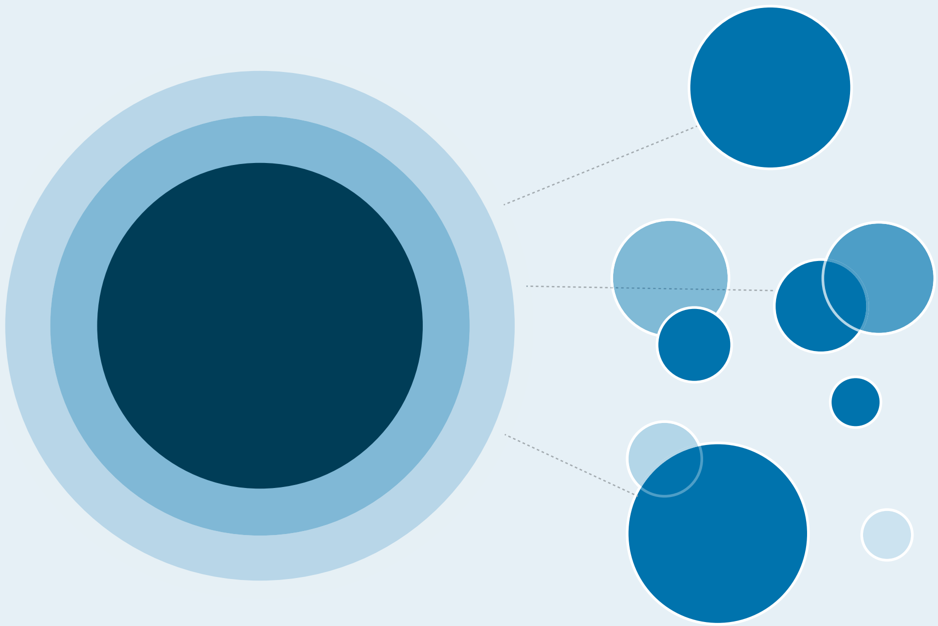
Customers want choice, and having multiple service providers on a network allows for a broader and more distinct overall offering.

By opening up the network and attracting more customers with a diversified choice of providers and services it was expected that penetration and take rates would increase.

With the brand Caiway, the retail service business was retained, ensuring direct control of the value chain and making strategic marketing decisions easier. By not being completely dependent on external service providers, which they are not able to control, it means that they ensure more control over the entire value chain.

Although Caiway was exposed to competition, the combined business of CAIW and Caiway was expected to become more profitable.





RESULTS

The split from passive sharing to full sharing was performed within a year.

Old footprint

DELTA Fiber saw an increased penetration, especially when new large service provider brands were launched – ideally a provider that brings a new different offering onto the network.

DELTA Fiber decided to select which external service providers would be able to sell their services in their network. As a service provider, it needed to bring something unique that complemented the portfolio.

New footprint

DELTA Fiber saw a reduced time to reach rollout thresholds. Scientifically higher penetration-levels compared to the old footprint.

Moreover, it saw scientifically higher penetration levels compared to the old footprint.

The scale effect of higher penetration drove down COGS (Cost Of Goods Sold) and thus improved the margin of the active network businesses of CAIW.

THIS IS NETADMIN

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- Quick delivery

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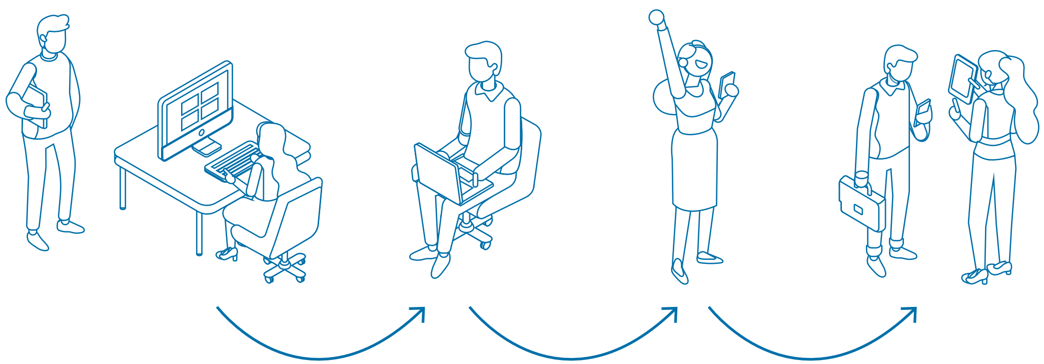

MISSION

Enabling digital experiences - Essential software for wholesale fiber operators