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# Rural Broadband Operators Poised to Enter the MVNO Market



**Jeff Johnston**  
Lead Economist,  
Communications



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## Key Points

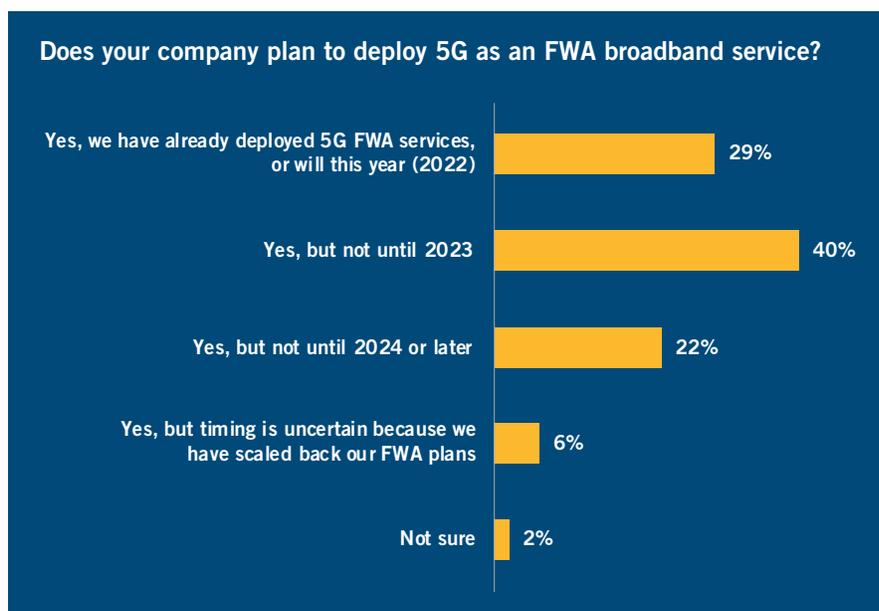
- The days of offering consumers “triple play” bundles of cable TV, internet and home phone service are in the past. Taking their place are broadband and smartphone plan bundles.
- Wireless operators are deploying fixed wireless access (FWA) broadband service and bundling it with their smartphone plans. Large cable operators’ approach is to offer smartphone plans via a mobile virtual network operator (MVNO) model bundled with their fixed-line broadband services.
- Recent market data shows that consumers in urban and suburban markets are gravitating to these bundles, and rural broadband operators are taking notice.
- Many rural broadband operators are evaluating plans to offer smartphone services, and some are moving forward. Their aim is to either reduce churn, gain market share, or get ahead of what they believe will eventually be a standard offering.

## Introduction

The latest communications bundle has gained traction with consumers and is forcing broadband and wireless operators to enter new markets. Today’s bundle includes a smartphone plan and home broadband service, and has been actively marketed by the large wireless and cable operators to much success. Wireless operators are gaining impressive market share in home broadband, while cable operators are taking market share in the smartphone market. Most of this activity has been limited to urban and suburban markets, but that could start to change in the near future. As a result, some smaller/rural broadband operators are planning to offer wireless broadband service by partnering directly with wireless operators, or working with third-party mobile virtual network operator (MVNO) turn-key solutions providers.

This report looks at how the communications bundle is evolving, the disruption it is causing, and whether it makes sense for smaller rural broadband operators to offer a wireless/broadband bundle.

## EXHIBIT 1: Wireless operators' plans to deploy fixed wireless access



Source: Kagan's September 2022 B2B Global 5G survey of 82 companies. Kagan is a media research division of S&P Global Market Intelligence.

### Bundling

Communications companies love to offer bundles. Their rationale is the more services they sell to one customer and the bigger the discount they can offer, the “stickier” that customer becomes. The “triple play” bundle (cable TV, broadband and a home phone line) offered by cable operators was popular for several years, and enabled the likes of Charter and Comcast to become the giants they are today. But as wireless service ate into the home phone market, and streaming video caused consumers to “cut the cord,” the triple play bundle no longer made sense for a growing number of consumers. These developments, and companies’ ongoing quest for growth, have ushered in a new bundle. This bundle includes the long-awaited convergence of cable and wireless in the form of a smartphone plan bundled with a home broadband plan.

### Wireless operators

The national operators’ foray into the home broadband market has been driven by two primary factors: 1) topline growth by leveraging excess network capacity, and 2) a response to customer demand.

National operators are also looking for opportunities to justify the billions of dollars they’ve invested in their 5G networks, and fixed wireless access (FWA) is a natural product extension for them. A recent survey by S&P Global suggests that 98% of operators around the globe either have or are planning to enter the fixed wireless market (*Exhibit 1*). In the U.S., Verizon and T-Mobile have fully embraced the FWA model and are wreaking havoc on Comcast, Charter and Altice’s broadband business (*Exhibit 2*). These results clearly show there is a growing market for the wireless/broadband bundle.

The wireless companies’ FWA strategy is quite simple – offer FWA service in markets where there is enough

capacity to support fixed wireless customers, while not overloading the network to the detriment of their smartphone customers. T-Mobile appears to be achieving this balancing act quite well, as 96% of their FWA subscribers are in areas with low network congestion.

It is important to note that T-Mobile and Verizon are not deploying dedicated FWA network capacity. Assuming this remains their strategy, they will eventually run out of network headroom and will have to moderate their FWA growth. To maintain network capacity and moderate capital expenses, the companies will need to delicately balance sales growth, customer churn and capital budgeting. Another consideration for wireless companies is how long FWA will continue to disrupt cable companies’ broadband business. On aggregate, the FWA growth numbers will likely decline, but that does not mean there won’t be battleground markets for many years to come.

T-Mobile has said it forecasts 7 million to 8 million FWA subscribers by 2025, up from the current count of roughly 3.6 million. And T-Mobile is not shying away from

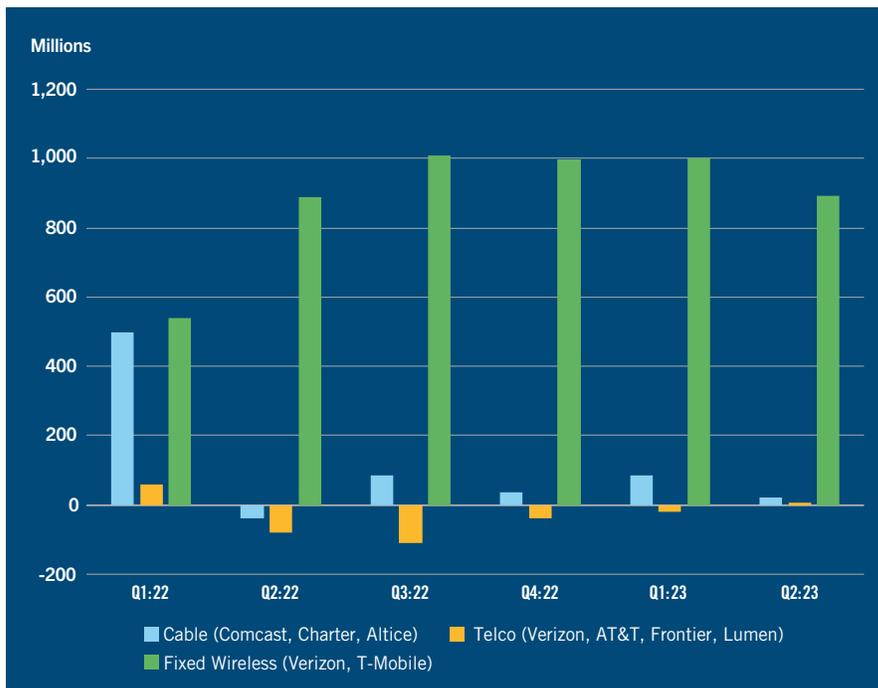
competitive markets; T-Mobile’s FWA service competes with either fiber-to-the-premise (FTTP) and/or hybrid fiber-coaxial networks in 97% of its markets.

### Cable goes mobile

Comcast and Charter have been offering a bundled wireless/broadband service for several years and the results have been impressive (*Exhibit 3*). The results are even more impressive considering Comcast and Charter have taken ~50% of the postpaid net additions of smartphone plans in recent quarters, while only selling into their broadband subscriber base. Couple that with the fact that they have largely avoided subsidizing iPhones – a common practice for the national wireless operators – and the cable operators clearly have a compelling value proposition.

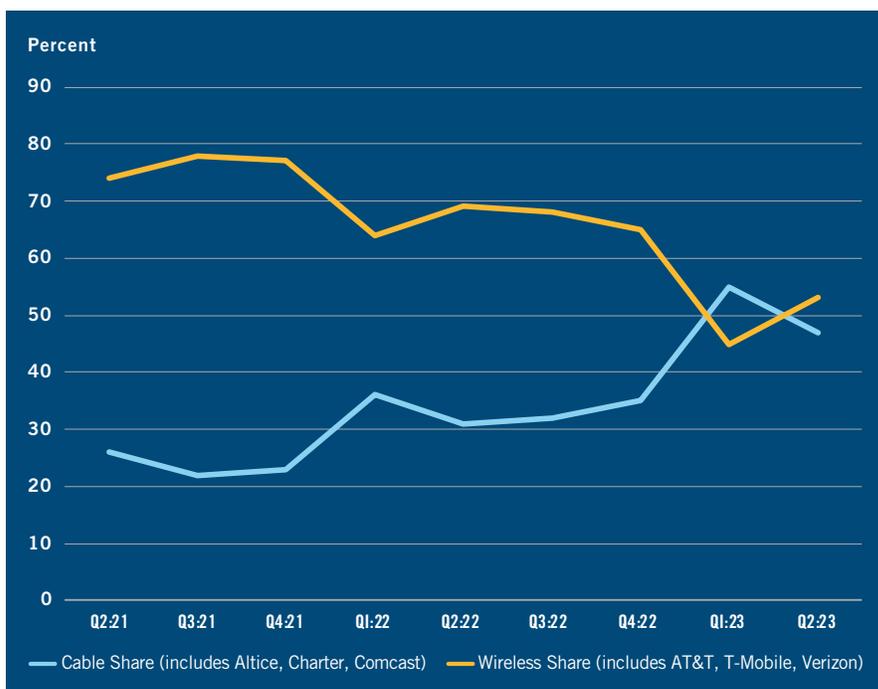
It’s important to note that cable operators are willing to sacrifice service margins to grow their smartphone share (*Exhibit 4*). The low-cost wireless strategy is clearly meant to preserve cable operators’ margin-rich broadband customers, an important factor in the decision to enter the wireless market. The wireless industry is incredibly competitive; unless the service helps a company achieve some other strategic, high-margin business initiative, offering wireless service as a stand-alone seldom works.

**EXHIBIT 2: Net added broadband subscribers**



Source: S&P Global, company reports

**EXHIBIT 3: Market share of postpaid net customer additions**



Source: Company reports

#### EXHIBIT 4: Single-line pricing comparison for smartphone plans



Source: S&P Global as of July 2023

#### MVNOs for rural operators

Smaller/rural operators have been carefully monitoring the market and evaluating if and when it makes sense for them to offer a wireless/broadband bundle. The conventional wisdom was that the MVNO model was something for the larger cable companies because the competitive threat and resources needed for rural operators didn't line up. That thinking appears to have changed, at least for some operators.

According to the National Content & Technology Cooperative (NCTC), which represents 700+ independent communications service providers, broadband operators are looking at using its MVNO white-label service. NCTC has partnered with AT&T to offer fully customizable solutions that includes billing, service provisioning, customer self-service and more. The NCTC has an initial batch of nearly 50 members signed up to offer service, with a secondary group of between 60-80 members exploring the option.

The decision to enter the wireless business is a big one, and it largely boils down to two factors: reducing churn and/or increasing market share. Some rural operators' churn is so low and competition so minimal that it does not make sense for them. But the strategic rationale is different for others who offer service in more competitive markets. Finally, another cohort of operators is proactively offering the bundle as they try to get ahead of what they believe will eventually be a standard bundled offering. This is especially true in light of what's coming down the pike from T-Mobile.

Last year T-Mobile purchased over 7,100 2.5GHz spectrum licenses in the FCC's auction 108, with the vast majority of this spectrum located in rural America. Currently, T-Mobile's rural 5G network uses spectrum in the 600MHz band, which is great for coverage but lousy for speed and network capacity. Translation: T-Mobile does not currently have a good network configuration to offer FWA in rural America.

T-Mobile already owns the lion's share of 2.5GHz spectrum, which is serving the vast majority of its current FWA customers. T-Mobile's 2.5GHz spectrum is ideal for FWA given the amount of spectrum it has, and its attractive propagation characteristics. A cell site broadcasting this spectrum can deliver download speeds up to 245Mbps, and support more customers than T-Mobile's current 600MHz 5G rural cell sites. The company plans to begin deploying this spectrum in rural America in 2024, and when it does, we fully expect them to offer their 5G home internet service.

Entering the wireless market is a big decision for rural broadband operators: It comes with opportunity risk as resources are allocated away from the core business. Even for some operators who have decided to move forward, consensus is not 100% amongst the management teams that it's the right call. But not doing so also comes with its own set of risks.

## Conclusion

As consumers seek out new value propositions and communications companies look for new growth opportunities, a new wireless/broadband bundle is emerging. Large wireless operators see FWA as a natural extension to their smartphone business, without having to invest new capital to offer the service. And cable operators see the MVNO model as a way to not only prevent their high-margin broadband customers from churning, but also outperform the national wireless operators in the smartphone market. Smaller/rural broadband operators have been watching this play out in urban and suburban markets, with many deciding that now is the time to offer a smartphone/broadband bundle.

It's a big decision that comes with opportunity cost and risk. Some are getting pressure from investors to do so, while others believe it will reduce churn and/or help them gain market share. And there are some that plan to offer the bundle to get ahead of what they believe will eventually be a standard offering. ■

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