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IT'S NOT PANNING OUT

Oct 1, 2007 12:00 PM, By Lynnette Luna

Headlines across the country are heralding the implosion of the municipal Wi-Fi market as EarthLink, one of the service's largest backers, significantly scaled back its initiatives and some cities scrapped their wireless access plans. Is this a sign that the muni Wi-Fi market doesn't work, or is it an indication of an industry settling into a more rational period of deployment based on solid business cases?

Either way, the situation today stands in stark contrast to just a year ago, when muni Wi-Fi was heralded by big-city politicians as the solution for bridging the digital divide and bringing Internet access to the masses (*MRT*, May 2006). Some politicians staked their reputations — and political futures — on initiatives designed to deliver Wi-Fi to constituents and city workers free of charge or at significantly reduced rates.

Today, however, big cities like San Francisco and Chicago are walking away. Last month, San Francisco formally pulled the plug on a deal to build a free muni Wi-Fi network throughout the city, an effort that already was considered over in late August when Internet service provider (ISP) EarthLink rescinded its deal with the city — which included teaming with search engine provider Google — to cover the estimated \$14 million to \$17 million that was needed to build the network.

A committee of the city's board of supervisors sounded the final death knell on the project when it declined to vote on the contract, effectively ending — at least for now — Mayor Gavin Newsom's years-long efforts to blanket the city with free Internet access.

Meanwhile, Chicago scrapped muni Wi-Fi plans after failing to come to an agreement with either EarthLink or AT&T to build the network. Chicago balked at the idea of committing to be an anchor tenant. The city also cited the declining costs of Internet access and the advancement of other technologies as a reason for the deal going sour.

Some ISPs built business models around giving a muni Wi-Fi network to cities for free in exchange for selling Internet access to their constituents. As it turns out, usage has been much less than expected, diminishing the revenues needed to pay for the infrastructure. Vendors and ISPs such as MetroFi and EarthLink have now changed their tune, saying they no longer will offer free public Wi-Fi in cities that won't commit to minimum municipal service purchases. In other words, they want cities to share the cost and risks.

"The whole idea of providing free service is a myth," said Roberta Wiggins, research fellow for The Yankee Group. "Service providers couldn't support this model, and they had to come back to the cities and ask them for upfront payments. ... The cities weren't expecting that."

EarthLink has Wi-Fi operations in about a half-dozen cities and contracts for another half-dozen. According to the company's latest filing with the Securities and Exchange Commission, EarthLink manages 150 square miles of Wi-Fi networks across all of its markets, covering 600,000 households. So far EarthLink has not disclosed usage statistics for any of its Wi-Fi operations.

Last month, EarthLink, which has pumped a significant amount of money into its muni Wi-Fi initiative as a way to prop up slumping revenues from its dying dial-up ISP business, eliminated 900 jobs and closed offices in Orlando, Fla.; Knoxville, Tenn.; and San Francisco. The company not only bailed out of the highly publicized San Francisco free muni Wi-Fi initiative, but also a similar deal in Houston, and earlier this year revealed it would pull back on muni Wi-Fi for the rest of 2007.

During the company's second-quarter conference call, EarthLink CEO Rolla Huff acknowledged that his company's approach to the muni Wi-Fi market was not working.

"We will not devote any new capital to the old muni Wi-Fi model that has us taking all of the risk by fronting all of the capital, then paying to buy our customers one by one," Huff said. "In my judgment, that model is simply unworkable."

To ensure the company sees a return on its investment, he wants "municipal government to step up and become a meaningful anchor tenant on completion of a build."

Meanwhile, MetroFi has said evolving business models have forced it to seek changes in pending municipal agreements. Consequently, some cities are balking. Anchorage, Alaska, and Corona, Calif., have discontinued their municipal wireless projects after MetroFi said it could not offer free service without a commitment from each municipality to be an anchor tenant on the system. In both Anchorage and Corona — in return for exclusive access to light poles, city buildings and other city-owned rights-of-way — the company had originally hoped to deliver a tier of free wireless broadband access supported by advertising, plus a premium ad-free tier at \$19.95 a month. Based on a re-evaluation of the costs, MetroFi asked the city of Anchorage to commit to purchasing \$3000 worth of wireless access services per month. In Corona, MetroFi sought a commitment of \$90,000 a year for five years. Both cities rejected the plan.

"Politicians put their egos on the line because they promised free access, and now they are accusing the vendors of bait and switch. But the promises came when everyone was drinking the Kool-Aid. Now it's sunrise, and it hurts," noted Craig Settles, president of Successful.com and author of *The Economic Development Impact of Municipal Wireless*, a report for the International Economic Development Council that challenges some of the expected benefits of muni Wi-Fi networks.

ONE OF THE BIGGEST problems afflicting a business case that relies on consumer usage is simple physics. The relatively low power of Wi-Fi devices built into laptops and PCs, combined with comparatively weak Wi-Fi signals, creates difficulty in terms of penetrating buildings — where most people access the Internet.

"There was some naiveté in terms of what cities have asked the wireless ISPs to provide," said Anthony Morris, vice president of business development with InMotion, a provider of vehicle-area networks for public-safety organizations. "Asking them to provide 99.99% coverage at 1 Mb speeds is not a business case. Then you have to put in access points that don't generate traffic and revenue to provide a blanket network for the whole city."

That leaves the best access points outdoors. But consumer use of public Wi-Fi networks at parks or other outdoor spaces remains very low at 5%, according to a Forrester Research report.

"It's just tough to make Wi-Fi a replacement for DSL," said Ron Sege, president of Tropos, a leading mesh network vendor that has built networks for EarthLink. "It's early to make a business out of this."

Indeed, Sege believes that given enough time, EarthLink would have succeeded, but it would have taken much longer than anyone expected. A company like EarthLink whose primary business isn't

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