



broadband





# State of the broadband nation

Broadband has finally taken off, with service providers vying for your custom. But does it have the staying power to continue to pack a punch in the year 2003? Guy Dixon stares into his crystal ball and predicts a ballistic year

Anyone watching the falling prices of ADSL (asymmetric digital subscriber line) provision over the summer and autumn months could be forgiven for thinking that as we move into the third year of the third millennium, vendors will soon be paying us to take their services. Trust us on this one – they won't.

It's always dangerous to make predictions in this industry, but we're going to stick our necks out on this occasion – broadband pricing isn't likely to fall much further. The only factor that could upset our bold prediction would be more price cuts by BT Wholesale, which supplies the UK's ADSL resellers. In this event the intense rivalry between ISPs would almost certainly result in the savings being passed on to end-users. In short, if you have been holding out for a bargain-basement deal, there's not a lot of point in holding on much longer.

BT Wholesale is typically non-committal when it comes to pricing plans. "We made our price cuts back in April and have no immediate plans for any further reductions," says head of broadband

marketing for BT Wholesale, Rebecca Webster. According to Webster, the coming year is more about sniffing out pockets of demand for ADSL broadband in areas of the UK that have yet to have their telephone exchanges upgraded.

## Trigger happy

As we bring in the new year, getting on for around 200,000 ADSL wannabes should have signed up to the BT Wholesale preregistration scheme via their chosen ISP. When the signups reach the set trigger level, BT Wholesale then upgrades the exchange safe in the knowledge that it can cover its investment costs.

The coming year will also see BT ironing out some of the difficulties it has experienced with ISPs, some of whom haven't proved as efficient as they could be when it comes to feeding registrations back to BT Wholesale. So far more than 10 exchanges have been upgraded (or are being upgraded) as a direct result of the preregistration scheme, enabling a further 34,000 households to access

broadband services. Hopefully many more will follow over the coming year. Expect to see a lot more 'Come on Britain – you know you want it' advertising.

So it's unlikely that the £14.75 ex VAT per month that ADSL resellers pay BT Wholesale every month for the right to supply its cheapest ADSL product will change in the immediate future.

## Margin for error

This doesn't leave a great deal of profit margin to go round if, like budget ADSL reseller Gio Internet (the UK's cheapest ADSL supplier at the time of writing), you're only charging £15.31 ex VAT per month.

ADSL resellers then have to cough up for the cost of the central pipe: a 155Mbps (megabits per second) central pipe with 5,000 users will cost your average ISP £40,000 per year. Using the *PC Advisor* office calculator, this accounts for 66.67p per user per month.

Then you've got the credit card merchant service charges and the not-insignificant cost of support (if provided

adequately) to think about. At the time of writing, Gio's service was available to both residential and business customers on a three-month minimum contract.

The company couldn't have forked out much on their legal costs when drawing up its terms and conditions. The eagle-eyed reporters at the website ADSLguide,

it will have a negative knock-on effect for other no-name budget ADSL resellers that do have a sound management team with a sound business plan.

For these companies to survive, they will need the sympathetic ear of their respective bank managers, while they work out ways of 'extracting more value'

access to more content than you can shake a stick at, thanks to its Time Warner connection. So while AOL Broadband doesn't boast its own broadband infrastructure, it does possess arguably the hottest content in town.

AOL has also been very successful in making money out of migrating its narrowband customer base to more profit-friendly access packages (more than two million), and there's no reason to suspect it can't do the same with broadband. Maybe 2003 will be the year AOL finally proves that content is king, as it positions itself as "The mother of all broadband services".

Freeserve, which with 2.55 million active users, claims to be the UK's most popular ISP, goes into the new year on less of a firm footing. Just a third of its customers opt for monthly payments – the majority still go for the 'free' subscription that shot Freeserve to fame in the first place. Nor does it have access to anything like the same content enjoyed by archival AOL or the obvious, zero-hassle, 'blue phone bill' advantages enjoyed by no-frills BT Broadband. Though it had no alternative to match AOL on broadband pricing at the end of October – £27.99 inc VAT – further price cutting would be a high-risk strategy.



We reckon it's going to be a good year for AOL Broadband, as long as it can fend off accusations of Enronesque book-cooking

recently spotted that Gio's terms and conditions and acceptable use policy looked surprisingly similar to those of ISP veteran Pipex.

In fact, clause 4.4 of Gio's ADSL terms even stated: "All fees are subject to change from time to time in the event that the Carrier increases its fees to Pipex". Now we're not telling you not to do business with a company like Gio, but this kind of thing hardly inspires confidence.

### No-name ADSL

So what will 2003 harbour for these no-name budget ADSL resellers? Well, like many of their narrowband forebears, some will go bust. ET Global Solutions was the first in the great 'Freeserve' shakeout of 2000 to start this trend at the end of October and will no doubt be joined others.

And the problem with the demise of companies like ET Global Solutions is that

from their customers by selling them more profitable services. So if you've signed up with a no-name player, expect to hear about their irresistible web hosting and firewall deals pretty soon.

And if, like ET Global Solutions, more no-name budget ADSL resellers go belly up, this will serve to reinforce the position of the big players to whom punters will turn in the face of insecurity.

### Broadband big boys

And what about the big boys? We reckon it's going to be a good year for AOL Broadband, as it finally works out what it's going to do with all its music and film assets. But we don't anticipate any further price reductions. It has already wrong-footed the market back in October when it slashed its monthly charges by £7 per month to £27.99 – just a pound more than the no-frills BT Broadband – but with

### Playing for frills

Potentially the biggest ADSL player, no-frills BT Broadband – which just provides a leg up to the internet at broadband speeds – has received some flak for so far steadfastly refusing to budge on its £27 per month pricing. However, we think it will only cut prices if it falls seriously behind on its target 500,000 signups by next summer.

Firstly, BT Broadband is not allowed to run a service at a loss, given the obvious market advantages it enjoys over rival ISPs. Secondly, it has to stick with a no-frills strategy because rival ISPs wouldn't be able to distinguish their own product ranges from those offered by BT Broadband, which has agreed to keep its massive paws off more profitable services.

The company therefore can't offer more lucrative sidelines such as web hosting. So £27 per month is where BT Broadband is likely to stay, because it has to make money out of broadband

provision itself, rather than subsidising it with other products.

Another factor militating against hefty price slashing is the kind of people who actually want broadband. According to recent Oftel (Office of Telecommunications) research, the demand for broadband actually comes from households who can more than afford it – high-income users who live in the UK's posher regions.

### Telcos tragedy

The two cable telcos, NTL and Telewest, are also unlikely to make across-the-board price cuts. The companies have debts of £12bn and £5.3bn respectively and both see broadband as a means of digging their way out of debt-ridden holes.

It's unlikely that their creditors would look too favourably on 'creative', money-losing strategies for gaining customers that claim to pay rich dividends two years down the line. They tried that with their breath-taking spending sprees in the late 1990s and it didn't work.

However, NTL and Telewest do need to attract more broadband customers, which is proving challenging in the face of the marketing onslaught by the likes of BT Broadband and AOL. Much of the strategy will be to migrate lower-speed customers up to more profit-wielding, faster services.

But the telcos also need to pull in new punters – so look out for special deals. For example, the last two months has seen NTL offering its top-of-the-range 1Mbps (megabits per second) service for £34.99, instead of the usual price of £49.99 per month – twice the speed of BT Broadband for just £8 per month more. Of course, at some point you'll then be expected to start paying the full price and subscribe to umpteen shopping channels because that's the point of special offers.

### ADSL does the business

According to BT Wholesale's Rebecca Webster, only one in four of all ADSL connections in the UK are a business line. We reckon 2003 will be the year small businesses start to look at DSL (digital subscriber line) pricing in a more favourable light. This is because of the arrival of leased-line equivalent speeds and reliability at distinctly non-leased line prices.

So much so that service level agreements will become the norm with the provision of business ADSL services. The challenge for the purveyors of these services will be to demonstrate their reliability, rather than work out bargain-basement packages, because of DSL's favourable pricing when compared with leased line.



In short, with pricing settling at sustainable, stable levels, there's never been a better time to go broadband

The UK's oldest ISP, Demon, for example, has just started offering contention ratios of between 5:1 and 1:1 (equivalent of a leased line) through its Demon Premier Express range. The service means you are sharing your connection with a maximum of five other users, ensuring high bandwidth is always available.

### Ratio star

Demon achieves these ratios by handing customer data connections from BT Wholesale's BT Datastream over to parent telco Thus, which uses its own ATM (asynchronous transfer mode) network for

forward transit into Demon's IP network. This allows Demon to precisely dictate levels of contention.

Top-of-the-range Demon Premier Express Gold, which will set your business back £600 per month, offers a 2Mbps downstream connection and 256Kbps (kilobits per second) upstream and a 1:1 contention ratio. In other words, businesses can, for the first time, reasonably expect an ADSL service to handle so-called 'mission critical' applications without fear of downtime. And at prices far below those quoted by some leased line providers. So confident is Demon of the increased performance that Ian Hood, director of corporate communications, believes Demon will be offering business customers service level agreements within the next 12 months.

Over 2003 Demon will be extending its service beyond the London area though it's not publicly stating a timescale. A potential down side is that while businesses can now get leased line contention levels, Demon can't improve on the standard upstream speeds of 256Kbps.

Companies which need to do a lot of their own web hosting therefore might be tempted to stick with a leased line – until the imminent rollout of wholesale SDSL (symmetric digital subscriber line), that is.

### Great expectations

What can we expect in 2003? Well, it will hopefully go down as the year that the BT Wholesale SDSL pilot, which has involved around 30 leading ISPs, came to commercial fruition. This will offer businesses upstream speeds that match downstream speeds, again turning up the heat on the leased line vendors and prompting more arcane businesses to sling their ISDN modems in the bin once and for all.

In other words, BT Wholesale will soon be selling wholesale versions of SDSL in the same way it does with ADSL. Based on trial prices, we reckon you'll be looking at £350 per month for a top-of-the-range 2Mbps service (both downstream and upstream) with a contention ratio of 10:1 and setup costs approaching £500.

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