

ISPs And Value-Added Services— What’s The Holdup?

Rebecca Wetzel

Are ISPs giving away the store? There’s a tough trade-off between offering services to retain customers vs. generating new revenue.

Pity the poor ISP—squeezed by low or negative profits, suffering the agony of high customer churn and stagnating growth, and awake at night worrying about long-term survival. With Internet connectivity a price-sensitive commodity, ISPs (Internet Service Providers) desperately need to discover new avenues for growth and new ways to delight customers into remaining in the fold.

The answer—value-added services layered on top of connectivity—sounds simple. “If you are going to be a successful ISP, you either need to be very big, or you need to offer new services and charge for them,” said Josh Mailman, VP of marketing for email service provider Everyone.net. “I don’t think that many ISPs will win the price game. Only one or two low-priced service providers will survive in every market.”

But then why is it taking so long for ISPs to offer new services, and when they do, why do they so often throw them in for free?

Who Is Offering What

It’s important to note that some ISPs are offering value-added services. As Table 1 (pp. 52–53) shows, AT&T and Sprint have an impressive array of offerings for all markets—providing everything from spam filtering to multicasting, with Sprint relying on EarthLink to service its consumer customers. MCI has few value-added services for consumers, clearly placing emphasis on value-added services to businesses.

Meanwhile, EarthLink, MSN and AOL offer a growing array of value-added services, with EarthLink showing the most initiative. By contrast, the cable companies and ILECs are largely

inactive on the value-added service front for consumers, except to support home networking, and to offer Xbox compatibility. Qwest fills the consumer gap by offering MSN service. Both ILEC and regional business ISPs are actively growing their value-added service portfolio to businesses.

Drivers And Drags

Wherever ISPs congregate, the hot topic is always customer churn and how to control it. Churn is particularly painful for consumer ISPs, some 50 percent of whose customers walk during an average year. Business ISPs are also adversely affected, although their churn rates are less staggering because switching involves more effort and risk. Conventional wisdom holds that it costs \$150 to acquire a consumer customer paying \$21.95 per month or less. With many customers leaving before the breakeven point, and with each parting customer needing to be replaced, ISPs have a multimillion dollar headache.

At ISPCON, a conference of ISPs held in Baltimore this past April, sessions on spam (i.e., junk email) were packed, because spam is a primary cause of churn. The service providers are desperate to staunch the flow.

But this discussion about spam highlighted what may even be a larger problem: There was little discussion at ISPCON about how fighting spam might present an opportunity for increased revenue. Since they are motivated by customer retention rather than growth, most ISPs simply throw “spam mitigation” in with basic connectivity at no additional charge.

If continued, this approach may push the entire industry down a very slippery slope: Only very low-cost ISPs will survive. So, given this danger, why don’t more ISPs charge for new services like spam blocking? After all, when the ILECs came up with features like caller ID and call waiting, they didn’t deliver them for free. They charged more for additional *a la carte* services from the outset. Why aren’t ISPs—including the ILECs—not following this model?

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There are some practical explanations. For example, the telcos' internal systems, particularly their billing systems, impede the deployment of new Internet-based value-added services. Christine Heckart, a long-time industry watcher and now vice president of marketing at Juniper, put it this way: "The telcos' billing systems are like 100-year old stretched out underwear that is just about to drop to their ankles and trip them. And, like old underwear, billing systems are a subject no one wants to talk about."

Richard Edmiston, president of Strategic Internet Technology Associates, explained that "One of the clever decisions made for the telephone companies by the Class 5 voice switch vendors was that a relatively small number of pre-defined calling features could be added for small incremental charges, and they were operationally simple to add and support. That resulted in a major enhancement to a carrier's voice service revenue stream. Unfortunately, ISPs don't operate in a sealed environment like a Class 5 switch, so each new service is surface-mounted to a large and complex infrastructure."

The larger the service provider, the bigger the challenge, Edmiston, formerly vice president of research and development at EarthLink, went on to say that, "The obstacles on the operations side all come under the category of business process modifications and enhancements. [While] billing systems often get blamed for thwarting the addition of new value-added services, in reality, the internal organization (CIS, MIS, IT, etc.) responsible for billing-system enhancements has to maintain consistent business processes. It is easy to say 'it takes too much time or costs too much to change the billing system,' when the real problem is modification of complex, undocumented and often poorly understood business processes.

"The internal processes of handing off information, training customer support, training technical support, changing provisioning options and managing customers' configurations are required for virtually any incremental service," he continued, "and in my experience these are at least as likely to block the addition of new services as the billing system."

For consumer ISPs, there is a strong impetus to "throw in the french fries" when it comes to services that reduce pain. Any service that lowers customer churn, especially if it also lowers support and operational costs, is likely to become a freebie. Reducing spam makes customers happier,

causes them to call help desks less and lowers server loads to boot. By lowering costs as well as increasing retention, a pain-relieving service makes the ISP more profitable, even absent a new revenue stream. Because it is in the consumer ISP's best interest for as many customers as possible to have anti-spam service, consumer ISPs are unlikely to charge for it.

Progress Being Made, But Slowly

Despite challenges, EarthLink is deploying—and charging for—value-added services. For \$21.95 per month, EarthLink provides dialup connectivity with spam filtering, instant messaging, pop-up blocking and website storage thrown in. For an additional \$4.95 per month, EarthLink provides the ability to listen to email by phone and reply via voice attachments.

Remote PC access costs \$19.95 more per month, home networking support can be had for \$9.95 per month and global roaming is available for 15 cents per minute.

To stem the tide of customers abandoning its dialup service in favor of snappier broadband DSL and cable connections, EarthLink offers a turbo-

charged dialup service called EarthLink Plus for \$7 above its base service fee. Using compression, caching and persistent connections, EarthLink speeds its dialup service by an average of three to five times, and sweetens the deal with better customer support, promising wait times of under five minutes. With all consumer dialup ISPs losing customers to broadband, rest assured that EarthLink's competitors will emulate this service.

And it's possible that value-added services will provide a lifeline for regional business ISPs. Unlike their larger counterparts, they are unfettered by enormously complex systems and can quickly and flexibly add, tailor and bill for new services. Burke Anderson, president and CEO of NAI (Mansfield, MA) sees opportunity for his regional business ISP.

"We can get things done in a month that it would take a bigger player much longer to do," Anderson said. He sees his firm able not only to implement new services on a dime, but also to change vendors easily if a better solution comes along to improve and modify services.

Anderson sees new services as essential to his firm's future. "If we don't do it, we will lose our customers eventually. For example, if we don't address the spam issue and someone else does, our customers will leave, and once they switch, I'll never get them back. Picture my ultimate

**A regional ISP's
ideal customer would
use Web hosting,
DNS, VPN, security
and
spam services**

“The dumb ISPs are giving away new services for free”

customer. We host their website, handle their DNS, operate a VPN for their remote workers, operate their intrusion detection system, have customized spam white lists for hundreds of their users—and we control all of that. While we may lose revenue on the bandwidth side, we can win it back with additional services. For customers to kick us out, they would have to redo all their services. It gives us fantastic customer retention advantages.”

What’s Ahead?

For business-oriented ISPs, new services should not just be about stickiness, but also about revenue growth. Said Anderson: “The dumb ISPs are giving new services away for free. It’s crazy. Even a lot of my staff wants to give away spam control for free. The value-added stuff has to have real value. If customers want it, they have to pay for it. You

don’t want to roll out something simple. You want to roll out something real. Because we provide service to businesses, we need to provide quality virus and spam services, for example. It needs to be the best solution for business and productivity. I love offering new services *a la carte*, because product offerings are constantly changing.”

As for the future of value-added services for consumers, Richard Edmiston predicts, “We will see widespread availability of various voice-over-IP services, and continued proliferation of approaches to stop spam. We may see a boom in gaming services with targeted features such as highly responsive connections (low delay and high bandwidth). This may ultimately create a demand for multicast network connections. The area of sharing and distributing digital images will yield a large number of potential new services. In the short term this will just be sharing photos with

TABLE 1 Value-Added Service Matrix

Target Market	Service	IXC ISPs			National Consumer ISPs			Cable ISPs		
		AT&T	Sprint	MCI	EarthLink	MSN	AOL	Comcast	Cox	Charter
Consumer and Small Office/Home Office	Anti-spam	√	√		√	√	√			
	Anti-virus	√			√	√	√			
	Popup Blocking		√		√		√			
	Content Filtering	√	√		√	√	√			
	Listen to Email by Phone	√	√			√				
	Video Email	√								
	Global Roaming	√	√	√	√					
	Dialup Acceleration		√		√					
	Premium Help Desk Support	√	√		√					
	Remote PC Access		√		√					
	Home Networking Support		√		√	√	√	√	√	
	Instant Messaging	√	√		√	√	√			
	Personal Web Space	√	√		√				√	
	Prepaid Internet (Like Prepaid Calling Card)	√	√				√			
	Online Game Playing (Xbox Compatibility)		√		√	√		√	√	√
Small to Large Business	Router Management	√	√	√						
	VOIP	√	√	√						
	IP VPN	√	√	√						
	Managed Firewall	√	√	√						
	Intrusion Detection	√	√							
	Authentication	√	√	√						
	Conferencing	√	√	√						
	Managed Hosting	√	√	√						
	Multicasting		√							

Key



Services provided by Earthlink



Not Applicable

family, uploading them for processing and printing, and this may require more symmetric broadband services to the home. Videoconferencing is going to increase in use because of the availability of cheap cameras and high bandwidth to the home and desktop, so I expect videoconferencing will attract service options. Another area of growth I see is support for various wireless devices. Obvious extensions of wireless are services to hot spots such as Boingo.”

National consumer ISPs are likely to lead the way for these new value-added services because they do not own infrastructure, and therefore must add value quickly to retain customers and augment revenue. DSL and cable providers, on the other hand, are likely to be slower to implement new services, because broadband customers are still on a honeymoon and high churn has not become an issue—yet. But when the honeymoon

ends and buyers have more choices, broadband providers will have to emulate EarthLink and add more services to their offerings, either as part of the basic package or as standalone services.

Peter Sevcik, president of NetForecast and *BCR* columnist, argues that ISPs need to change how they think about value-added services, because continuing to offer new services for free is a recipe for disaster. “It is clear that national ISPs are not going to make money with value-added services. Anti-spam service is just the latest in a long list of features that are out of their quiver.


“It is time to look at all these features in a completely different way,” he continued. “Instead of wringing their hands over churn, ISPs should institute a customer *retention* program. For example, EarthLink could take at least six of their features and still offer them as free but only after a customer has stayed with the service for 6, 12 and 18 months. The features would still be on the configuration page but be shaded-out as ‘currently unavailable’. The curtain of what a user can’t get would either go away over time, or be accelerated by paying more. Once a user has an account with all the features they want, they will not be so enticed to switch to AOL and start the long process all over again. This is just one idea in some new retention plan that every ISP must develop.”

Being an ISP will never be easy, but value-added services will play a key role in sustaining and growing Internet service providers in both the consumer and business markets. Equally important, these new services will stimulate growth and innovation for product vendors who enable the services. Although challenges abound, IP-based value-added services provide hope for ISPs to keep customers and/or increase revenue, and catch up on lost sleep □



ISPs should use services as an incentive for customer retention, not new sign-ups

	ILEC ISPs			Regional Business ISPs		
	Verizon	SBC	Qwest	NAII (MA)	FastNet (PA)	DISC (CA)
	√		√			
			√			
		√	√			
	√	√	√			
	√	√	√			
	√					
	√	√	√	√	√	√
			√			√
	√	√	√	√	√	√
	√	√	√	√	√	√
	√	√	√		√	
	√	√	√	√	√	√

 Services provided by MSN

Companies Mentioned In This Article
AOL (www.aol.com)
AT&T (www.att.com)
Boingo (www.boingo.com)
EarthLink (www.earthlink.net)
Everyone.net. (www.everyone.net)
Juniper Networks (www.juniper.net)
MCI (www.mci.com)
MSN (www.msn.com)
NAII (www.naii.net)
NetForecast (www.netforecast.com)
Qwest (www.qwest.com)
Sprint (www.sprint.com)
Strategic Internet Technology Associates (www.sitassociates.com)