In search of profitability
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While the number of European Internet users reaches 55 million and keeps on growing, the number of access providers is diminishing to a few dozen. The fragmented landscape formed by around 4,000 ISP companies some years ago in Western Europe is now reduced to 70 access providers.

If the causes of such an extraordinary concentration are not found in the absence of clients they will have to be sought in the very business of the Internet providers. In fact the Internet access has turned into a commodity, a low value service, so much so that in many cases it is given away free. Therefore to survive in this market –key in the digital convergence context- Internet providers need content and services to make users loyal and infrastructures profitable. The integration of content and technology, portal and ISP in a single offer is benefiting the most prepared players, such as AOL, T-Online, Tiscali or the recently reinforced Wanadoo. But even in a scenario limited to barely half a dozen providers, survival is difficult.

These groups’ sustainability strategies go in two directions: the above mentioned bundling of products and services to bind users to the company without taking the price factor into account; and vertical integration that enables the company to monopolise as many stages in the value chain as possible. An example that combines both ingredients is the acquisition of EresMas by the France Telecom subsidiary. New Wanadoo enlarges its content and services portfolio with EresMas’s numerous thematic and geographic channels. And thanks to commercial agreements between both companies, Wanadoo becomes the only end-to-end provider.

This merger will also bring other types of synergies. Among them are the rationalisation of resources, the access to new distribution networks and the addition of clients. The profit taken from these clients (what in the sector jargon is called ARPU, Average Revenue Per User) will depend on the success of the operation. Whatever the result of this formula, the concentration of Spanish and European service providers is an unstoppable process.