Myths and realities of broadband business
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Expansión

The takeoff of broadband infrastructures has seen operators investing huge sums, not knowing how or when they will become profitable

"It is essential that broadband expansion be radical" George Bush declared a couple of weeks ago in his first speech directed to the technology industry since the events of September the eleventh. It is an idea that many sectors share. The crisis in the telecommunications sector has prompted some North American pressure groups to call for a Marshall Plan for broadband, which would include tax breaks for users and greater deregulation of the sector. The European Union also has broadband on its agenda of priorities. In the latest edition of the e-Europe plan, which is being presented at the moment at the European summit in Seville, there are a series of measures to improve the infrastructure and security of broadband between now and 2005. The Spanish Government, for its part, has announced its intention to promote a package of measures to help to spread these types of networks before the end of the year.

The rush to stimulate high speed nets is not limited to the public sector. Operators, technology companies, suppliers of content and analysts agree that the popularisation of broadband is the formula that will lift the sector out of the current recessionary spiral. Intel, Microsoft and AOL place it at the centre of their strategies for the future, convinced that through these types of nets they will be able to provide more and better services. Unlike the users of narrowband, those using broadband tend to spend more time connected, sometimes round the clock, so it is hoped that they consume more and establish more profitable relationships with their suppliers.

Even so, it is not easy. It is still not known how or when the telecommunications sector will be able to make its broadband activities profitable. The takeoff of these infrastructures has obliged operators to make large investments that will not be easy to recover. In the last ten years North American companies have laid out more than 97,000 million euros for the construction of fibre optic networks. Its amortisation has run up against the appearance of technologies that operate on already available nets or that can carry out tasks more economically, like ADSL. In Europe, the acquisition of UMTS licences, that should make cordless broadband a reality, has cost operators more than 110,000 million euros. An exaggerated cost for services that today are still inexistent and whose real calendar is continuously being postponed. To the economic exhaustion and the technological doubts is added the lack of market receptivity, with supply far superior to demand. The North American National Research Council estimates that in reality less than ten percent of the population (some nine million homes) have high speed access to the Internet. In Europe, and according to OECD data, there are only three million broadband connections. Moreover, the majority of broadband surfers are students without any income, used to downloading audio and video files free of charge.
Although domestic users will not put up with elevated tariffs, a recent University of Berkeley study reveals that the majority of professional users (small businesses and teleworkers) would accept a flat rate tariff of between 32.5 and 54.2 dollars.

Users

Investment in broadband is not taking off because there are not enough users and there are no users because there are no services or content available over some nets still in development. In order to break this vicious circle it is necessary to apply a successful service that motivates consumers to sign up for broadband on a massive scale. And, above all, that they are prepared to pay for it. Low demand video should have been like that, but the absence of interactive contents and the large number of audiovisual contents that other media offer impeded its takeoff. A recent study carried out jointly by McKinsey and Jupiter Media Metrix pointed to new forms of income for broadband, like online games and the sale and distribution of non-interactive content. The problem of these types of initiatives is that they reserve all the margin for the suppliers of the contents and the operator is left out of the business. For the moment, the most useful formulas are integrated packages, which combine audiovisual contents with high speed access to the Internet and telephone. But in themselves they do not appear to be able to stimulate widespread adoption of broadband. If Bush's idea is correct, the way out of the crisis depends as much on the technology as on a successful application which has long been necessary.

The Question

"What is the most adequate business model for broadband?"

First things first, create loyalty in the customer
Jordi Gual, IESE Teacher

The development of broadband is difficult, as the takeoff of the infrastructure is expensive and difficult to make profitable if the companies working in this business are unable to differentiate their product. In order to obtain a viable business model it will be crucial to avoid access becoming a commodity, and to create value for the customer in a way that his readiness to pay is increased. Because of the fact that the suppliers of broadband will mostly not be able to have exclusive content, the strategy must centre on the creation of applications and packages of content that encourage loyalty among the clientele and create addiction. It is a question of getting the user used to the supply of content, in the same way that the readers of a newspaper get used to a specific printed medium, or radio listeners to a transmission and TV viewers to a specific television channel.

Not everything should be the Internet
Sebastián Muriel, Senior Consultant PwC

The concept of broadband has evolved along with technological advances. In the future it will be a convergent net of almost unlimited capacity, irrespective of the underlying technology, and capable of offering a multitude of applications at any time, in any place. However, today it is only on the first rung of the ladder, as the user hardly
perceives it as an improved medium of access to the Internet. The disintegration of the value chain and the competition in the sector stimulate different business models, in search of new services that supply higher margins. Paradoxically, the challenge consists in making it favourable for operators to make the necessary investment in an atmosphere of mistrust of the financial markets. In short, the relationship between broadband and suppliers of applications is vital, as technological advance will make innovation in services possible beyond the ambit of the Internet.