



By Bruce Kasrel

With Christopher Mines

Karen Kopikis

Forrester Research, Inc.

1033 Massachusetts Avenue

Cambridge, MA 02138 USA

617 / 497-7090

fax 617 / 868-0577

Forrester Research B.V.

Emmaplein 5

1075 AW Amsterdam

Netherlands

+31 (0) 20 305 43 00

fax +31 (0) 20 305 43 33

www.forrester.com

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The Forrester Report

APRIL 1999

From Dial-Up To Broadband

Consumer adoption of broadband and bundled services will force ISPs to shift focus to delivering more than just Internet access. By 2003, cable and telecom providers will capture 26 million broadband subscribers, causing AOL's market share to drop from 44% to 36%.

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- New market dynamics offer a glimmer of hope to also-rans.

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- 18 million dial-up ISP users will graduate to broadband.

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MARKET OVERVIEW

ISPs Seek New Ways To Compete With AOL

AOL is cementing its lead in consumer Internet access with 10 times as many subscribers as its nearest competitor. Also-ran ISPs hope that both broadband and bundling Internet access with other services will restart the race for ISP market share.

INTERNET ACCESS CONTINUES TO ROLL

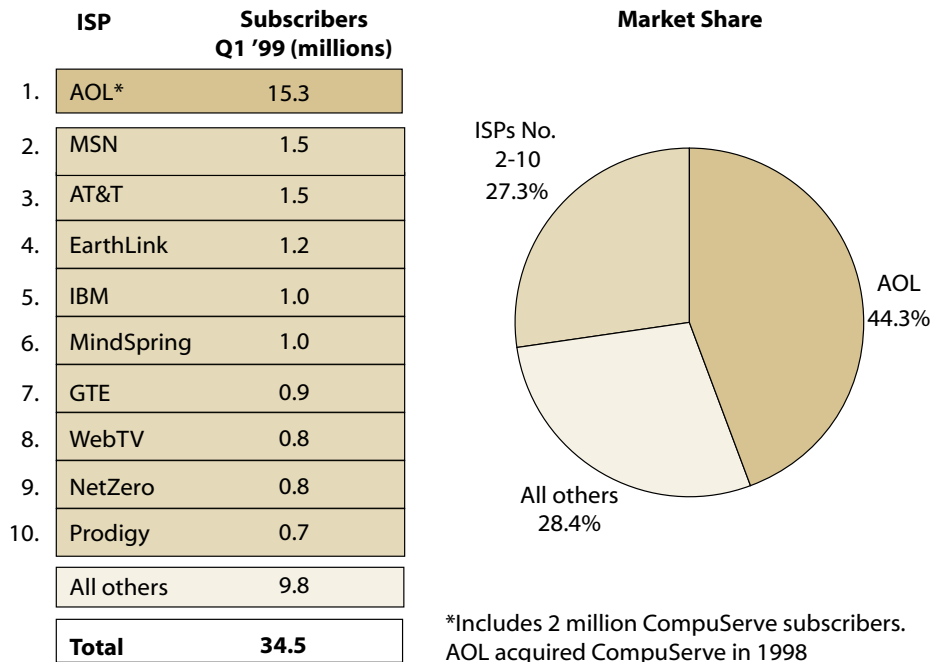
Consumers are jumping onto the Internet in droves, pushing overall spending for Internet access to \$7 billion in 1998. During the past year, more than 5 million new U.S. households went on-line, growing total home-based Internet access penetration to 29%. Today's Internet access market is characterized by three factors: 1) AOL dominates; 2) there is no serious No. 2; and 3) market forces are emerging that ISPs hope will give them a new chance.

AOL Stays In Front Of The Pack

AOL defines the consumer ISP market. It has made the transition to the Web era while offering features, content, and simplicity that other ISPs are still unable to match. As a result, AOL continues to:

- **Gobble up new subscribers.** AOL is keeping up the pace set by a 1998 holiday marketing campaign that added 1.6 million new subscribers in the final quarter. With an average of 2.5 users per account, AOL now serves more than 35 million consumers (see Figure 1).
- **Diversify its revenue stream.** Along with recurring subscription revenues of more than \$2 billion a year, AOL has negotiated \$439 million worth of deals like its recent \$75 million partnership with eBay. Such arrangements with advertisers and eCommerce vendors generate up-front and ongoing sources of revenue. AOL expects its mix of subscriptions-to-advertising revenue to remain at 80/20 for the near future.

Figure 1 AOL Dominates The ISP Subscriber Count



Source: Company reports and Forrester Research, Inc.

- **Attract a wide range of users.** Despite the perception that AOL attracts only new on-line consumers while experienced users abandon it for a “real” ISP, the profile of AOL customers is quite similar to other ISPs. Forrester’s Consumers & Technographics Technographics® ‘99 Field Study data shows that 32% of AOL subscribers purchase goods on-line and 8% use on-line financial services, just slightly lower figures than other top ISPs like MSN and AT&T.
- **Keep churn in check.** In the past year, AOL spent \$1 billion on network upgrades to increase performance and reduce busy signals. We estimate that one result was a 50% drop in its monthly defection rate, from 5% to 2.5%. Providers like MindSpring and IBM, which grew by welcoming some of the 800,000 departing AOL users each month, will now have to look elsewhere for new subscribers.

The Crowded Race For Second Place

AOL’s enormous lead forces other players to fight for runners-up status. Consumer ISPs like EarthLink and Prodigy set their sights on breaking away from the pack and establishing a credible Avis to AOL’s Hertz. To do that they are:

- **Tapping Wall Street for funds.** Acquiring newcomers or getting people to switch ISPs requires an expensive marketing campaign. Prodigy and EarthLink recently had successful IPOs that raised tens of millions of dollars in capital needed to scale their networks and build their brands. E-mail and access player Juno slated more than \$10 million of its \$65 IPO proceeds for advertising.
- **Stealing from each other.** With 40% of users switching ISPs as soon as free trial periods end, providers like BellSouth and MindSpring see 75% of their new subscribers coming from another service. The exception is WebTV, which has only 15% of its subscribers coming from the ranks of on-line veterans. IBM reports that it can count on subscriber loyalty once a customer stays active for eight months.
- **Searching for synergy.** Even though access to an ISP requires a local phone call, collectively, local phone companies garner less than 8% of consumer Internet subscribers. With regulatory hurdles making it difficult to create combinations of products from regulated and deregulated businesses, telcos continue to search for successful ways to market the two services in a bundle.
- **Banding together.** More than 6,000 local ISPs serve nearly 8 million consumers. A look at the financials of small-to-midsize ISP consolidator OneMain.com demonstrates that these providers can be profitable even if serving only a few thousand users (see the January 1998 Forrester Report "Internet Access Winners"). Consolidation is motivated by economies of scale that larger providers can achieve through marketing, support, and network costs.

ISPs Hope That New Market Dynamics Will Change The Game

Providers concede that AOL is impossible to catch in the short term, but they are banking on three future trends to give them enough differentiation to make inroads: broadband, service bundling, and free access. They see:

- **Broadband offering experiences dial-up can't match.** Cable modems and ADSL service offer up to 30 times the download speed of dial-up access while eliminating connection time. This combination appeals to experienced Internet users; cable providers Cox and Time Warner currently have 90% of their subscribers moving up from dial-up services. Accelerating the availability and migration of dial-up users will expand the broadband market to 2.3 million homes by the end of this year.

- **The Internet becoming part of a package.** BellSouth recently launched a bundle with half-priced Internet access for customers of its high-end “Complete Choice” phone service. Telecommunications providers see bundling as the way to move consumers’ decision-making from stand-alone Internet access to the convenience and price savings of a complete suite of communications services.
- **Insurgent ISPs dropping prices to nothing.** NetZero, the fastest-growing consumer ISP outside of AOL, is offering an advertiser-supported free Internet service to build subscriber share. Results are favorable so far: The firm has garnered 800,000 subscribers in only six months. While these initial results are impressive, we expect NetZero to hit a ceiling as only a small subset of Internet users will be attracted to a service with little added content and support (see the February 16, 1999 Forrester Brief “Get Your Clicks For Free”).

ANALYSIS

Broadband's Rise Dents AOL's Dominance

Over the next five years, the news will be mostly bad for the dial-up ISPs. Even though the on-line population will continue to expand rapidly, ISPs with new technologies and marketing strategies will siphon off customers and lower the price umbrella. AOL will lose eight percentage points of market share by 2003.

BROADBAND MIGRATION DEFINES THE FUTURE ISP MARKET

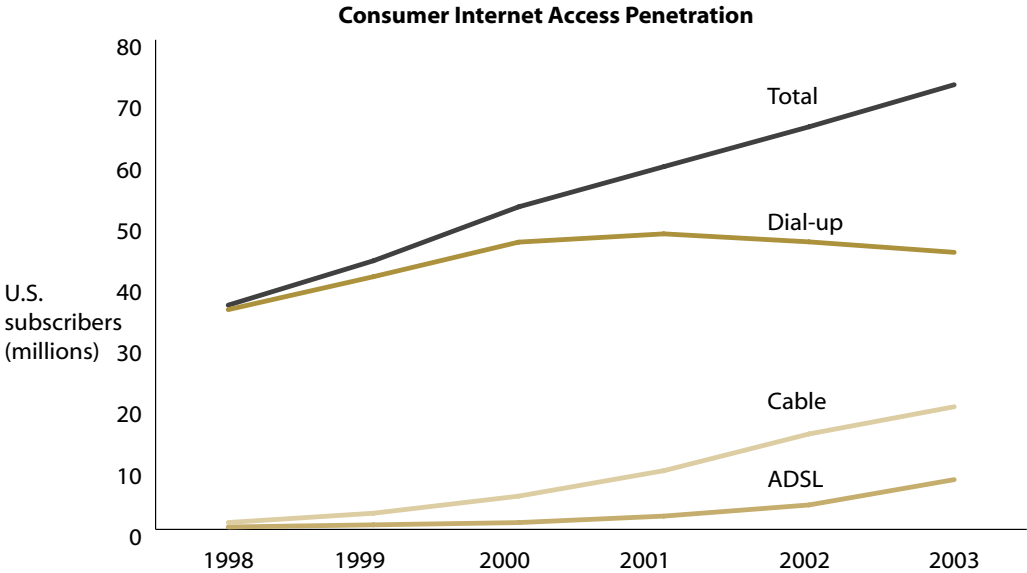
Despite the surging growth of the Internet in general, the next five years will bring mostly bad news for dial-up Internet access players. Broadband and bundling will capture 26 million consumers as cable and telecom providers parlay the advantages of high-speed access and value pricing for a suite of services.

Broadband Fuels Penetration And Spending Growth

Over the next five years, Internet penetration will nearly double -- resulting in 75 million paying ISP consumers. Forrester sees the following trends:

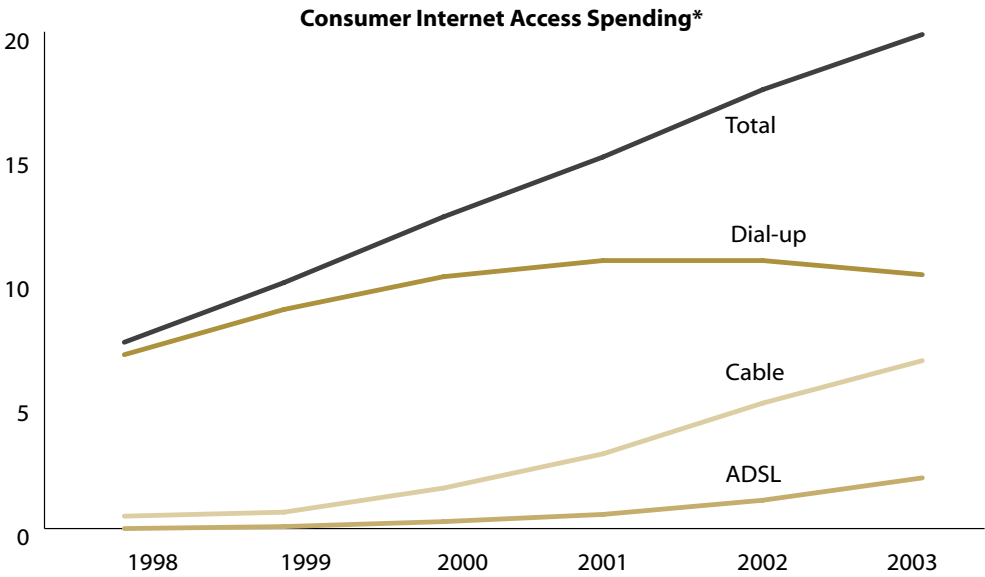
- **Internet household penetration will climb to 56% in 2003.** Driven by continued growth in PC sales, Internet penetration will cross the 50% mark in 2003, up from 29% today. The number of paying subscribers per household will increase from 1.1 in 1998 to 1.25 in 2003, driving total subscribers to 78 million. Dial-up access will flatten out in 2001; cable modem and then ADSL services will grow to capture 27% of all on-line subscribers in 2003 (see Figure 2).
- **Heated competition will drop dial-up prices.** Reversing the recent trend, average dial-up access prices will drop 15% over the next five years. A price war between rival ISPs will push monthly dial-up charges down to \$16 in 2003. Dial-up ISPs will offer high-end customers premium service for \$4 more a month that guarantees no busy signals and faster speeds -- we expect penetration to reach 20% of dial-up customers by 2003.

Figure 2 Broadband Takes A Bite Out Of Dial-Up's Dominance



Consumer Internet Access Prices Per Month

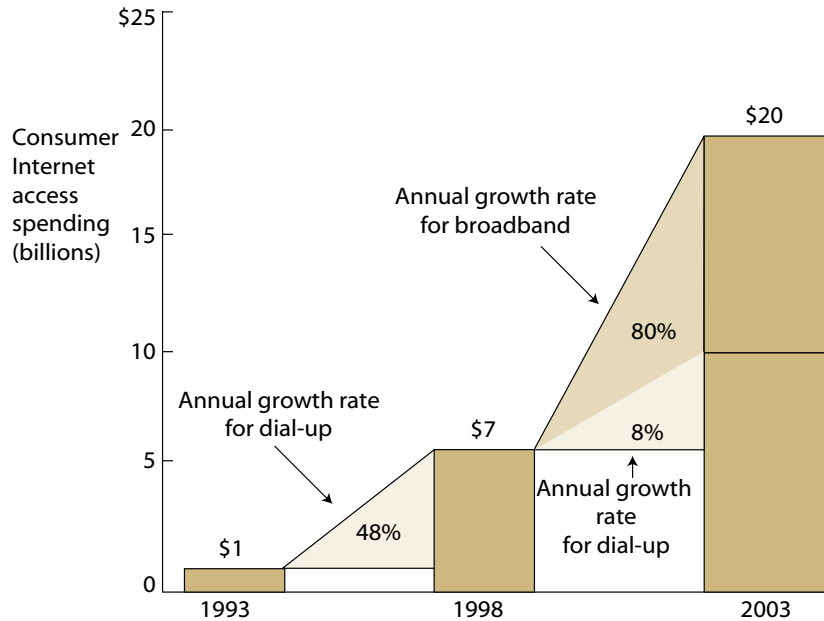
Dial-up	\$18.50	\$18.00	\$17.50	\$17.00	\$16.00	\$16.00
Cable	\$40.00	\$40.00	\$39.00	\$37.00	\$35.00	\$32.00
ADSL	\$55.00	\$50.00	\$45.00	\$40.00	\$36.00	\$31.00



* Excludes costs associated with installation, equipment, etc.

Source: Forrester Research, Inc.

Figure 3 Broadband Drives Growth In Consumer ISP Spending



Source: Forrester Research, Inc.

- **Pent-up demand will prop up broadband prices.** We expect a war of words but not of prices between cable and ADSL services, as both sides sign up early adopters who will gladly pay a 100% premium for speed. By 2003, ADSL prices will drop below cable's as Bell Atlantic and US West reduce infrastructure costs and achieve network scale that matches the cable rollout. After that, consumers in some areas will see the first wave of price competition in high-speed access.
- **Broadband will propel consumer spending to \$20 billion.** Overall spending will increase by 19% annually over the next five years, from \$9.9 billion in 1999 to \$19.9 billion in 2003. While dial-up's share of consumer ISP spending plummets, from 95% in 1998 to 51% in 2003, broadband's share will soar from 3% to 44% (see Figure 3).

Broadband Migration Comes From Two Sources

By 2003, cable and ADSL high-speed Internet services will capture 36% of on-line households, with the growth coming from two sources (see Figure 4):

Figure 4 26 Million Consumers Either Migrate Or Go Directly To Broadband

	1999	2000	2001	2002	2003
1 Existing dial-up subscribers (at beginning of year)	36.89	42.39	47.23	49.51	48.14
2 New to dial (throughout the year)	6.02	6.22	4.85	2.75	2.01
3 Graduates to broadband (throughout the year)	1.61	2.57	3.79	5.29	4.88
4 Total dial-up at year-end (1+2-3)	41.29	46.04	48.29	46.98	45.27
5 Existing broadband (at beginning of year)	0.75	2.67	5.91	11.25	19.26
6 New to broadband (at beginning of year)	0.24	0.53	1.26	2.27	3.25
7 Total broadband at year-end (3+5+6)	2.60	5.77	10.97	18.80	27.39

Figures in millions of subscribers










Source: Forrester Research, Inc.

- **18 million graduates from dial-up.** Dial-up services will serve as a training ground for broadband consumers as cable and telcos convert 26% of existing dial-up users to broadband by 2003. We estimate that in 2003, 11% of dial users will move up to broadband.
- **8 million new broadband users.** In 2003, there will be 2.6 million new on-line households that go straight to broadband. These consumers will exceed new dial-up customers by 1 million users as 62% of all on-line newcomers go broadband.

FOUR ISP CAMPS TAKE DIVERGENT PATHS TO BROADBAND

Four major groups of providers -- cable, AOL, telecom, and other ISPs -- with different migration and bundling capabilities will deploy diverse strategies to capture the broadband market (see Figure 5). Cable will maintain its early lead while AOL, telcos, and other ISPs come from behind as they must deal with slower broadband deployments.

Figure 5 Provider Migration And Bundling Strengths And Weaknesses

	Cable	AOL	Telcos	ISPs	
Attract graduates from dial-up	 No dial-up customer base.	 Excellent migration once broadband is available.	 Only GTE has a significant dial-up base.	 Will be tougher to get favorable broadband deals.	
Bundle broadband	 TV and Internet bundle a good match. Can sell Internet on set-top screens.	 Tel-save was a success but has not led to additional bundles.	 Huge customer base for bundles but slower broadband rollout and regulatory hurdles.	 No other services to bundle.	

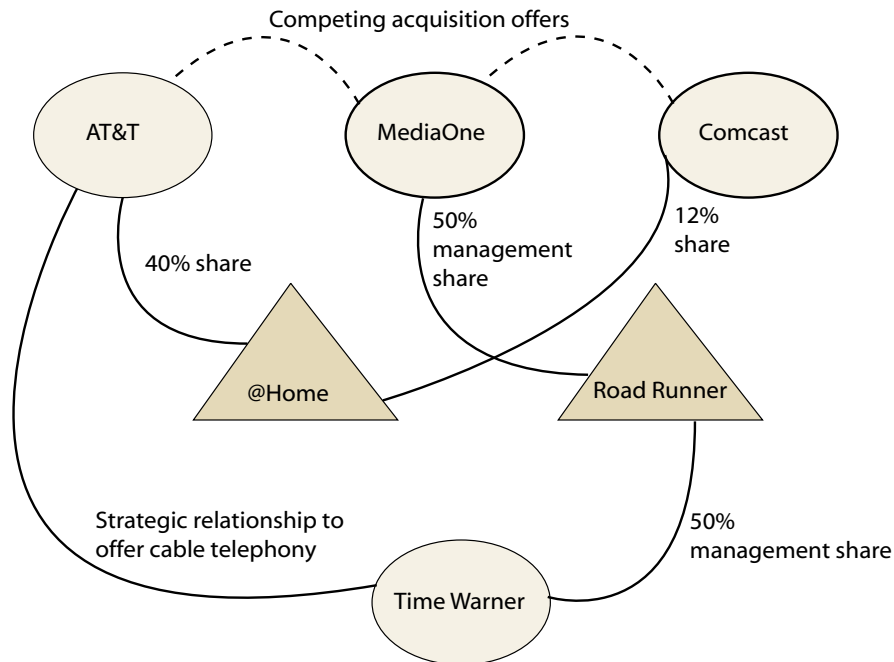
Source: Forrester Research, Inc.

Cable Jumps Out To An Early Broadband Lead

For the next several years, cable ISPs will dominate the high-speed market, capturing 77% of the \$8.8 billion in consumer broadband spending in 2003. Cable will have success both in migrating dial-up users and getting new broadband consumers. Cable ISPs will:

- Create migration paths for dial-up customers.** The recent acquisition of Excite by broadband player @Home gives it access to the 17 million users who visit the portal every month. It will augment Excite pages with audio and video to entice dial-up users to high-speed connections. AT&T will use the same techniques to move a portion of its 1.5 million WorldNet dial-up subscribers onto its digital cable network as it rolls out during 2000 and 2001.

Figure 6 The Road Map To Merging @Home With Road Runner



Source: Company reports and Forrester Research, Inc.

- **Consolidate their brands and customer base.** The potential merger of MediaOne with either Comcast or AT&T and the relationship struck between AT&T and Time Warner give the top three cable companies connections to both @Home and Road Runner (see Figure 6). Rather than have competing broadband efforts, we expect these parties to pool their interests behind the larger, better capitalized @Home. Smaller cable operators will either align with AOL or the Paul Allen-backed HAS (High-Speed Access) Corp.
- **Reach out to apartment dwellers.** As cable operators wire multidwelling units like apartments and condo complexes, they will work with networking vendors like Tut Systems and 3Com to wire the buildings for high-speed data in every unit. Cable providers like Century and OpTel will team with building managers to sell Internet service to residents in exchange for a cut of the ongoing revenues.
- **Narrow the pricing gap with dial-up.** With broadband competition absent, cable ISPs will keep prices high. As ADSL service becomes more widely available in 2000 and 2001, cable will offer tiered pricing based on the amount of bandwidth delivered. Providers like Cox will offer a “midband” plan that charges just a 25% premium over dial-up service.

AOL Takes It Slow With High-speed Service

Despite its massive market power, AOL will be dependent on others to implement its broadband strategy. Its ability to migrate users as well as offer bundled services to attract new users will hinge on relationships with network providers. AOL will:

- **Light the ADSL torch, but find it's more like a candle.** AOL's pace toward broadband will be determined mainly by the rate at which its telco partners, SBC and Bell Atlantic, build out high-speed lines. Hindered by the lack of modem and infrastructure standards, ADSL rollouts will not hit their stride until 2001. With its mass-market reach and emphasis on an easy customer experience, AOL will not pitch broadband to its subscribers until the service is broadly available.
- **Easily upgrade customers when broadband is available.** In markets where ADSL is provisioned, AOL will have little trouble upgrading its best customers. Applications like "You've Got Pictures" stretch the limits of dial-up as consumers download and send large files to friends and family. By 2003, we project that AOL will have upgraded 4 million customers to a \$30 per month ADSL-based service tier that represents 50% of all ADSL users and 15% of the total AOL user base.
- **Settle for second-tier partners in bundles.** With virtually all of the telecom and cable players forging their own bundle strategies, AOL's bundling partners will be slim pickings. Assembling a hodgepodge of relative unknowns in the local, long-distance, TV, and wireless markets into a cohesive package will net AOL little bundling penetration.

Telecom Banks On Bundling For New Users

Traditional communications providers like the RBOCs and Sprint will play up the integration of the Internet with other services. Their strong suit will come from leveraging core products like local and long-distance phone service. They will offer:

- **Multiple services for one low price.** BellSouth and USWest will offer a package of phone, Internet, and wireless services that features 20% discounts on each service. Prices will drop even lower by 2000 as the RBOCs are allowed to package long-distance service in return for meeting Telecom Act requirements upon opening up their local network.
- **Internet interfaces to communications.** Efforts by SBC and Bell Atlantic to integrate multiple services over one IP-based network will be a technical nightmare. Instead, they will convert some dial-up customers by creating the illusion of integration using Web-based tools to organize e-mail, voice mail, and personal data in a personal portal (see the July 1998 Forrester Report "Messaging Moves To The Web").

- **The wireless wild card.** AT&T will extend its Personal Network to include wireless Web access in 2000. They will find customers receptive to offers of Internet service for both wireless and fixed devices for an additional \$5 per month.

Dial-Up ISPs Fight Over The Leftovers

The penetration of dial-up access will begin to decline in 2001, and dial-only ISPs will find themselves fighting over slices of an ever-decreasing pie. ISPs without broadband or bundling plays will:

- **Position for a buyout.** Players lacking a direct route to broadband will boost their takeover valuation by increasing their subscriber numbers. They can do this either through acquisition or through aggressive promotions to gain organic growth. There will be safety in numbers for EarthLink, Prodigy, and MindSpring as they form a single dial-up conglomerate by 2001.
- **Watch free ISPs take share.** By distributing software on the Internet and offering minimal customer support, free services will do little to bring non-Internet households on-line. Instead, their impact will go right to the revenue lines of dial-up ISPs as they steal away 2 million bargain-hunting consumers, garnering 3% of the overall market in 2003.

THE COMPETITION GAINS SERIOUS GROUND ON AOL BY 2003

By 2003, we project that AOL will have lost eight percentage points of market share to broadband and bundled service providers but will still be the No. 1 provider by a sizable margin (see Figure 7). The results of the emergence of broadband will be:

- **AOL's content and commerce deals go toward the lower end.** Broadband ISPs will siphon off high-end customers, limiting the scope of AOL's future content deals. Less able to satisfy the upscale audience demands of merchants like American Express or DLJ Direct, AOL will focus on deals with mainstream merchants like Value America and Wal-Mart. As a 20% price erosion and a significant decrease in subscriber growth hit in 2003, AOL will increasingly rely on commerce and content deals to keep the bottom line healthy.
- **Broadband defines the Internet lifestyle.** During 2001, more new on-line consumers will adopt broadband service than take on dial-up. This transition will shift content providers' investments toward broadband, as Yahoo! and NBC begin to focus on broadband consumers (see the August 1998 Forrester Report "Broadband Hits Home"). Streaming video and rich, multimedia-laden interfaces will become standard fare for many on-line consumers.

Figure 7 2003 ISP Market Share Breakdown

ISP	Subscribers in '03	Growth from '98	Share in '03	Comments
1 AOL	26.5	71%	36%	•Lack of cable slows growth
2 MindSpring/ EarthLink/Prodigy	5.7	84%	8%	•Ready to be bought
3 Time Warner	4.9	2,213%	7%	•Best cable ISP
4 AT&T	4.7	208%	7%	•Slow cable build-out slows growth
5 OneMain.com	4.5	759%	6%	•Aggregates dozens of local ISPs
6 Comcast	3.7	1,500%	5%	•Aggressive rollout momentum
7 SBC	3.0	465%	4%	•Largest of the RBOCs
8 BellSouth	2.6	2,935%	4%	•ADSL smarts makes it a player
9 NetZero	2.3	1,284%	3%	•Strong ad targeting
10 Bell Atlantic	2.2	120%	3%	•Keep building off GTE base
All others	12.5	28%	17%	•Smaller cable and local dial-ups
Total	72.6	111%	100%	

Source: Forrester Research, Inc.

- **A collective “serious second” emerges.** Though no ISP other than AOL will crack 10% market share, the top three cable players -- AT&T, Comcast, and Time Warner -- will hold 17% of the 2003 Internet access market with 10 million broadband households. Through @Home, these players will negotiate AOL-like deals with merchants like Amazon.com and Citigroup.
- **Consumers, not lobbyists, will open up cable.** After broadband services have mined the ranks of the early adopter market, they will gun for the mass market and run up against the loyal AOL user base. These customers will demand both AOL interface and features along with cable broadband speeds. Wholesaling cable transport to AOL to reach its millions of users will become an attractive business proposition for Time Warner and others by 2001.
- **Microsoft gets out of the access business.** Unable to provide a better mass-market experience than AOL or have direct access to the pipes like cable and telecom, MSN will sell its ISP subscribers to AT&T. Armed with a well-funded portal as well as software to create compelling broadband content like MSAudio, Redmond will work to become the top broadband portal player in competition with Yahoo! and @Home/Excite.

ACTION

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Providers in all parts of the communications industry must reevaluate their strategies and assets in light of millions of subscribers moving to broadband.



Cable should spread the Internet throughout the house.

Broadband's main selling point is high speed, but its real advantage is instant availability. By teaming with home network providers like 3Com or Diamond, cable companies like Cox and Time Warner can take their cable modems and turn them into home Internet hubs that spread data tone to multiple PCs and TV screens throughout the house. Cable will become synonymous with the Internet lifestyle as users access the Internet in every room of the house.



AOL must enlist consumers to open cable.

AOL will gain access to cable networks only if it can show cable companies that a majority of its users will not move to broadband services without the AOL interface intact. By collecting large blocks of broadband-ready consumers in the same areas as major cable modem rollouts, AOL can bring a powerful bargaining chip to the table. Much like pay-per-view and premium channels do with cable operators, AOL should be prepared to share in the content and commerce revenue stream.



Telecom should position the Internet as “bundle glue.”

To show the integration of the various communications services, Bell Atlantic and US West should use the Internet to demonstrate the value of combining phone and data products. The Internet could be used to access a consistent on-line support and billing interface for all services. For example, customers wanting to buy more minutes for their mobile phone could use on-line provisioning to purchase more wireless network time.



ISPs must merge or perish.

With the upcoming wave of broadband passing them by, pure-play ISPs must gang up and create large user bases to help amortize marketing and network costs. AT&T and Comcast will want to acquire large subscriber chunks of 1 or 2 million users at a time. ISPs like Juno and SourceNet should join up and shop themselves to the highest bidder.

WHAT IT MEANS

The great broadband migration will bring a host of new content and services to consumers.



Portals move to broadband.

In the future, the value of portal will be judged not only on its ability to generate an audience but also on how well it can migrate users to broadband. Players like Yahoo! and other mainstream portals will create tiered sites that can incorporate multimedia elements like video news clips and MP3 downloads. They will team with cable and ADSL players like Cox and BellSouth to migrate users to broadband access.



Cable becomes the first telecom handyman.

Using their fleet of installers to put in cable modems and home networks, cable companies will become the MIS department for consumers with multiple accounts and Internet devices. Installation and ongoing support will become a new revenue stream for cable as technicians respond to calls to fix a misconfigured router.



Rural users get USB rabbit ears.

In areas where the population is not large enough for cable to install two-way service or is too far from an ADSL-enabled central office, users will have to turn to wireless for high speed. As local broadcasters roll out SDTV instead of HDTV, they will use the extra bandwidth to beam high-speed data to computers. CompUSA stores in rural areas should stock USB antennas that allow computers to suck in the data stream.



Broadband content brings the files closer to the user.

As portals begin to shift from serving pages of text to pages of multimedia content, their performance will be determined by the ability of their servers to shell out data. Consumers will expect blazing performance and content providers like CNET and Disney to contract with content distribution service vendors ranging from broadcast.com to Sandpiper and Akamai to deploy local content POPs (see the March 1999 Forrester Report “Scaling Web Performance”).

RELATED MATERIAL

Companies Interviewed For This Report

America Online (AOL) <i>www.aol.com</i>	IBM Internet <i>www.ibm.net</i>	SBC <i>www.sbc.com</i>
Ameritech.net <i>www.ameritech.net</i>	Juno Online Services <i>www.juno.net</i>	Software.com <i>www.software.com</i>
AT&T WorldNet <i>www.att.net</i>	Lucent <i>www.lucent.com</i>	Sprint <i>www.sprint.com</i>
Bell Atlantic <i>www.bellatlantic.com</i>	MCI WorldCom <i>www.mci.com</i>	US West.net <i>www.uswest.net</i>
BellSouth.net <i>www.bellsouth.net</i>	MediaOne <i>www.mediaone.com</i>	WebTV <i>www.webtv.net</i>
Big Planet <i>www.bigplanet.com</i>	Microsoft Network <i>www.free.msn.com/msncom</i>	
Bright Light <i>www.brightlight.com</i>	MindSpring <i>www.mindspring.net</i>	
Cable & Wireless USA <i>www.cwusa.net</i>	NetZero <i>www.netzero.net</i>	
Cisco <i>www.cisco.com</i>	Nortel Networks <i>www.nortelnetworks.com</i>	
Clairvoyant Software <i>www.clairvoyantsoftware.com</i>	OneMain.com <i>www.onemain.com</i>	
Concentric <i>www.concentric.net</i>	Portal Software <i>www.portal.com</i>	
Cox <i>www.cox.com</i>	Prodigy <i>www.prodigy.net</i>	
EarthLink <i>www.earthlink.net</i>	RCN <i>www.rcn.net</i>	
Gateway <i>www.gateway.com</i>	Road Runner <i>www.rr.com</i>	
GTE Internet <i>www.gte.net</i>	Rocky Mountain Internet <i>www.rmi.net</i>	

Related Research

- February 16, 1999 Forrester Brief “Get Your Clicks For Free”
- August 1998 Forrester Report “Broadband Hits Home”
- July 1998 Forrester Report “Messaging Moves To The Web”
- January 1998 Forrester Report “Internet Access Winners”

GRAPEVINE

Y2K kills a “classic” ISP.

In October of this year, Prodigy will officially close down its Prodigy Classic service due mainly to the fact that it is not Y2K-compliant. In operation since 1988, the service still has 124,000 users, but Prodigy CEO Samer Salameh told us that it would require \$30 million to make the upgrade. The company chose to take the smarter path of just trying to switch users to its Internet service. One other odd fact -- it is still getting 200 daily account requests from old promotional disks still in circulation.

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When pigs and PCs dance.

MindSpring President Mike McQuary gave an interesting perspective on PC companies offering free ISP service or ISPs offering free PCs: “It is kind of like making a pig dance. Sure you can do it, but it won’t be a pretty sight, and the pig is not going to like it very much.” We are not sure about the pigs, but PC vendor Gateway seems able to make a cow dance as more of its PC customers take its in-house ISP rather than opt for AOL.

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Two examples of AOL’s market might.

When we spoke with Jonathan Saks, SVP and general manager of AOL Service, he mentioned two interesting facts that demonstrate AOL’s influence over the market. The first is that 85% of subscribers’ on-line time is spent within the friendly confines of AOL content and services. The second fact was that these users still purchase goods at impressive rates. Saks estimated that AOL generated \$1.2 billion in revenues for its commerce partners during the 1998 holiday season.

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Bundling broadband backfires in Baltimore.

In all new service launches, there are bound to be a few customer horror stories. We recently ran across the plight of a Baltimore woman who wanted cable Internet service but not cable TV. During the installation, Comcast technicians were unable to install the trap to filter out the TV signal and said that she could enjoy TV service free of charge until they came back and finished. After a few weeks, instead of installing a video trap, Comcast charged her with cable fraud. The issue was eventually dropped, and the woman now uses the service to maintain a Web site detailing the ordeal. Check out <http://members.home.net/maycomp/cablemodem.htm>.

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Providers in all parts of the communications industry must reevaluate their strategies and assets in light of millions of subscribers moving to broadband.



Cable should spread the Internet throughout the house.

Broadband's main selling point is high speed, but its real advantage is instant availability. By teaming with home network providers like 3Com or Diamond, cable companies like Cox and Time Warner can take their cable modems and turn them into home Internet hubs that spread data tone to multiple PCs and TV screens throughout the house. Cable will become synonymous with the Internet lifestyle as users access the Internet in every room of the house.



AOL must enlist consumers to open cable.

AOL will gain access to cable networks only if it can show cable companies that a majority of its users will not move to broadband services without the AOL interface intact. By collecting large blocks of broadband-ready consumers in the same areas as major cable modem rollouts, AOL can bring a powerful bargaining chip to the table. Much like pay-per-view and premium channels do with cable operators, AOL should be prepared to share in the content and commerce revenue stream.



Telecom should position the Internet as “bundle glue.”

To show the integration of the various communications services, Bell Atlantic and US West should use the Internet to demonstrate the value of combining phone and data products. The Internet could be used to access a consistent on-line support and billing interface for all services. For example, customers wanting to buy more minutes for their mobile phone could use on-line provisioning to purchase more wireless network time.



ISPs must merge or perish.

With the upcoming wave of broadband passing them by, pure-play ISPs must gang up and create large user bases to help amortize marketing and network costs. AT&T and Comcast will want to acquire large subscriber chunks of 1 or 2 million users at a time. ISPs like Juno and SourceNet should join up and shop themselves to the highest bidder.