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BROADBAND: THE SECOND WAVE

Australia's bandwidth trickle is finally becoming a torrent and the channel is well placed to ride the wave



By Adam Turner

Ten years after the great suburban cable rollouts and five years after Digital Subscriber Line (DSL) made broadband available over copper phone lines, Australia's high-speed internet access has reached critical mass and exploded.

Three-quarters of the country's 830,000 small to medium businesses have moved to broadband, opening up a gateway for the channel to provide a raft of value-added products and services.

Having embraced 'first wave' dial-up technologies such as email and internet access, the market is now hungry for the 'second wave' services that broadband enables.

Voice over Internet Protocol (VoIP), Video on Demand (VoD), videoconferencing, security, managed services, software as a service and off-site back up are just some of the strings that tech-savvy resellers and system integrators can add to their bow when looking to add value to a broadband offering.

The take-up of broadband amongst small to medium businesses has helped revive the Application Service Provider (ASP) model, which involves businesses accessing applications such as Customer Relationship Management (CRM) over their broadband connection rather than having it installed on their desktop computer.

Such services allow the channel to offer economically a suite of applications that were previously only available to the top end of town, according to Landry Fevre, telecommunications and consumer markets research director with research firm IDC Australia.

'The second wave addresses enterprise applications where companies are trying to do more than just email with their internet connection. We've seen a huge surge around ASP



Pacific Internet's Muscat: Channel integral in take-up of 'second wave' services

such as web-based accounting packages or even CRM like salesforce.com,' Landry says.

'They seem to be quite attractive to small businesses because, from their perspective, there's no headache of maintaining it because it's hosted elsewhere. It also allows a distributed work force, because people can access the application from home.'

Australian internet service provider Pacific Internet has monitored the country's broadband take-up over the past three years with its Broadband Barometer report, commissioned from IDC.

As well as finding 73 percent of SMBs are on broadband, the research predicts there will be a 210 percent increase in SMBs adopting ASP tools over the next 12 months. In addition, industry-specific applications that often rely on broadband, such as health systems, will see a 75 percent growth in SMB use.

The channel will play an integral part in the take-up of second wave services, says Pacific Internet managing director Dennis Muscat.

'Riding the second wave requires asking what applications are going to be attractive to small businesses as they move into the future. Second wave services are things like ASP applications, intrusion detection systems, industry-specific software applications, remote access and monitoring,' Muscat says.

'If you've got a relationship on the ground with an SMB and are able to articulate this, you're going to be in a really strong position to cash in because you will understand what the customer wants.'

Internet service providers are reliant on the channel to provide such services, which allows channel players to value-add for greater margins, Muscat says.

'We as an ISP don't have the coverage to be with the customers, so when an end user is looking for services, consulting and functionality for this broadband pipe, they'll be looking to

their computer consultant or systems integrator to provide that service for them,' he says.

'It is very difficult for even the largest companies to have direct relationships with hundreds or thousands of businesses, so we're tied in closely to the reseller channel. If you don't work closely with resellers and system integrators you're not able to have a strong penetration and a strong impact in that market, [so] you'll end up being boutique or very narrow focused.'

The complexity of options available to SMBs today means they are looking for someone to stitch together a managed services and connectivity solution as a 'one-stop shop', says Warren Hardy - Optus wholesale and satellite managing director.

'As a systems integrator, anything you can do that makes the delivery, the use and the pricing of such services as simple as possible will give you some cut through in the current market. Technology is moving at such a pace that businesses are just starting to get overwhelmed by it all.'

“Simply selling broadband connections is a fool's strategy as it is based on volume”

DSL is the dominant broadband access technology for SMBs, with Pacific Internet's Broadband Barometer showing a 160 percent increase in its adoption from 2004 - with 58 percent of connected SMBs now using it for high-speed internet access.

The use of DSL means a reliance on Telstra's copper phone line network, and the bulk of these connections is provided either by Telstra or by Telstra wholesalers.

The more common form is Asymmetric DSL, with faster downloads than uploads, which Telstra throttles to 1.5 megabit per second downloads despite its ability to go faster.

Despite Muscat's views that the channel is vital for understanding the customer, broadband behemoth Telstra seems determined to go it alone. This month the telco giant announced it aims to boost its broadband market share from 41 percent to 55 percent over five years, assisted by an in-depth customer analysis system.

The plan is part of a massive Telstra network overhaul including a \$10 billion next generation IP core network along with the replacement of the CDMA mobile phone network with a national, 3G/GSM mobile network. ADSL infrastructure is being upgraded to ADSL2+, offering 24Mb/s download speeds. Currently this is being done by upgrading Telstra's Digital

State of play

- 75 percent of Australia's 830,000 SMBs have moved to broadband
- Offering services like VoIP, Video on Demand, video conferencing, security, and managed services are key to success
- Expected 210 percent increase in SMBs adopting ASP tools over next 12 months
- ADSL infrastructure being upgraded to ADSL2+, offering 24Mb/s download speeds
- Wireless a big opportunity for the channel

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Optus' Hardy: Tied in closely with the reseller channel

Subscriber Line Access Multiplexer (DSLAM) hardware in telephone exchanges. The new network upgrade involves running high-speed fibre connections to the street level in five mainland capital cities and then connecting to premises using less than 1.5km of copper phone lines. Such a model is known as Fibre to the Node (FTTN).

At the announcement, Telstra chief executive Sol Trujillo said 'broadband is the key to the future of Telstra', but strongly indicated this new infrastructure would not be available to Telstra Wholesale customers.

'The new things that we want to invest in, they ought to be for the benefit of our shareholders, not for the benefit of shareholders in Singapore and other places,' he said.

While some Telstra competitors have installed their own DSLAMs in Telstra telephone exchanges, it would be impractical for competitors to install hardware at the street level. Such a system would deprive the channel of the competitive pricing and innovation in broadband that competition brings.

Such plans make it clear Telstra does not want to offer wholesale access to competitors, says internet service provider Internode's founder and chief executive Simon Hackett.

'This plan implies an intention to actually disconnect customers from competitors' DSLAMs and voice equipment in the telephone exchanges,' Hackett says.

'The only real solution is for the regulator to force Telstra to offer access to this new network to the wholesale channel. If that doesn't happen, then competition will be officially dead and buried for two-thirds of the market in the five major cities within five years.'

Telstra should be embracing the new world of IT-based wholesale services, says telecommunications analyst Paul Budde.

'They see wholesale as evil and will fight it in any way they can. This will mean many more years of delays and frustration. They

want nothing less than a monopoly and are anti-competitive towards any attempts by the government to increase competition,' Budde says.

If Telstra builds for its own exclusive use a new fibre access network to eliminate local exchanges and associated copper lines, they will devalue, if not destroy, the access network investment made by competitors, says IPprovide managing director Phil Sykes.

'As for channels, I can't see Telstra Business Services changing their tune any time soon from their position of two months ago where they indicated that they wanted to help and embrace the channel but still wanted to "own the customer". Reality is, the channel already owns the customer because of the nature of SME trust relationships,' Sykes says.

A former Telstra executive and Request Broadband chief executive, Sykes and two former colleagues from Request set up IPprovide to deliver the IP-based voice and data services to SMEs/SMBs in conjunction with AAPT.

'We think the SME market has been starved of sophisticated – and I don't mean complicated – communications services. The retail divisions of Optus and Telstra have not bothered to put the effort into presenting those services in a way that the business benefits can be easily grasped and wouldn't want to then service a large number of small businesses with sophisticated products, so they just continue to offer consumer-style products,' Sykes says.

'If smaller services providers just want to resell broadband internet services and not add any new value, they will fail financially. As we heard from Telstra's Sol Trujillo, he's going to concentrate his forces on his retail business, with Telstra wholesale concentrating on supplying regulated, bulk commodities to other larger carriers.'

'This will make life very difficult for the hundreds of service providers who currently buy services from Telstra Wholesale and then add their value to support the needs of small and medium enterprises,' Sykes says.

Internode's Hackett: Impractical for competitors to install hardware at street level



The power of the industry giants means the broadband reseller channel must focus on adding value rather than simply selling a vanilla service, says Matt Lowgrove, sales and marketing general manager of IT and teleo service specialist SecureTelecom.

'Simply selling broadband connections is a fool's strategy as it is based on volume. Resellers who focus on the volume market will find it very difficult to make money as you are competing directly with the larger telcos who have the brand and deep pockets to spend on marketing,' Lowgrove says.

‘‘We really are in the horse and buggy days at the moment of the true power of IP-connected SMEs’’

'You must add value to the underlying broadband service and there are a lot of opportunities out there for resellers. More than ever clients are wanting a one-stop shop for their IT and telecoms services, so bundling is key to win in this space.'

Advances in long-range wireless technologies now offer the channel a viable alternative to relying on Telstra-controlled copper. It also allows high upload and download speeds, something that symmetric flavours of DSL struggles to offer over long distances.

Access Providers began rolling out metropolitan wireless networks four years ago after initially looking at DSL, says chief executive Keith Ondarchie.

'We chose a wireless platform to provide connectivity to businesses who have a need above ADSL. From a resellers' point of view, there are so many questions over what Telstra will do that within its SME customer base everybody must be concerned.'

'If resellers really educate themselves and think about where they're going in the future they can grab great market share because of the nervousness of everybody,' Ondarchie says.

Sydney-based wireless broadband provider BigAir offers symmetric links of 2Mb/s and beyond, specialising in VoIP and Virtual Private Networks, says managing director and co-founder Jason Ashton.

'I think wireless represents a more significant opportunity for the channel because you're actually able to offer a product that is completely independent from Telstra and as a result we can differentiate ourselves from Telstra and offer better margins to the channel,' Ashton says. 'One of the services that we're seeing some

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IProvide's Sykes: Managed services offer enormous opportunity

demand for is off-site backup and disaster recovery. With our very fast broadband services, such as 10Mb/s and faster, we can offer them a way to build an off-site data recovery site and to back up the organisation's files, on a daily or even hourly basis.

Despite concerns over Telstra's plans, industry figures such as IProvide's Sykes and Internode's Hackett still see broadband as a golden opportunity for the channel.

'Some of our partners make a good return out of just monitoring uninterruptible power supplies that are used within businesses and they can do this over the VPN,' Sykes says.

'I think there will be more and more instruments, devices and sensors that are IP-aware and will be connected to the companies' VPN. Service providers will be able to write applications for those that either monitor, or are part of, the business process. I think we really are in the horse and buggy days at the moment of the true power of IP-connected SMEs.'

Such managed services offer an 'enormous opportunity in the SOHO and small business markets', Sykes says.

'If you're dealing with a company with 20 staff they may find it's a lot cheaper if they don't have an IT person,' Hackett says.

'Instead they can have their mail servers managed on a virtual basis by someone else, not necessarily by an ISP but in effect as an ASP model. The benefit is all of the security and intrusion concerns have been outsourced to somebody that does that for a living,' he says. 'As those businesses get bigger there's a secondary opportunity for integrators and resellers to work on the process of in-sourcing it again.'

Demand for hosting of email and Microsoft's SharePoint collaboration application is growing with increasing broadband penetration, says

Andrew Spicer, chief executive of application service provider WebCentral.

Customer relationship management, human resources, accounting, content management, tax, storage and backup applications are all well suited to the ASP model, he says.

'SharePoint in particular is really starting to take off. Microsoft is putting an enormous amount of weight behind it,' Spicer says.

'This is creating a big role for partners, because it needs to be configured and set up properly. A lot of small businesses aren't particularly technically savvy and the channel plays a critical role in getting them set up.'

'Part of the reason Microsoft has announced they're going to launch a hosted CRM version is because they're seeing how well salesforce.com is going. Siebel and PeopleSoft have also had to launch hosted versions of their products. Whereas those products tended to be very much in the corporate space, they can now move down because a hosted version which is more standardised, the cost of sale and delivery is a lot lower. The SAP-lite type concept is coming down to the small business.'

Microsoft has recently re-embraced the ASP software-on-demand model with the announcement of Windows Live, providing consumer services via NineMSN, and Office Live, targeted at small businesses.

While details are scarce until at least the release of the Office 12 beta early next year, Office Live will offer advanced features to complement rather than replace desktop software, says Microsoft Australia partner group director Kerstin Baxter.

'We do not believe that Office Live services are going to displace our existing products or the existing channel models, either through our OEM partners or reseller partners.'

'We fully expect those two communities to still thrive. In fact this just helps create a new opportunity to go back and talk to customers

about how this can help them in their businesses,' Baxter says.

'The technology will also allow resellers to increase productivity and become more profitable, because instead of having to go and install it, they can help the partner be better supported by being able to do it remotely. So they can focus more on getting the business functionality that is of higher value to the small business, and that's typically a more profitable business.'

Faster data links are also opening up markets for video over IP provider Broadreach Services, says channel manager Andrew Allsopp.

'We knew the big boys would get into voice pretty quickly, protecting their existing investments and customers. However, the video offers a lot of opportunity and, in many ways, is a more compelling application for convergence,' says Allsopp.

“If anyone out there just relies on broadband they're kidding themselves from a business point of view”

He sees integrating video applications into Microsoft Office as more of an opportunity for the channel than just videoconferencing. As the move away from ADSL increases both available upload and download speeds, he says video-based applications will take off.

'What we do isn't mainstream yet, but we're definitely on the verge of that. There are a number of large organisations looking to deploy large scale video-based solutions.'

IP-based video surveillance and video security – from home security to in-store surveillance – are also key areas the channel should examine, says Zac Swindells, managing director of wholesale internet service provider ispOne.

Email storage and archiving, as well EFTPOS over IP instead of over ISDN, also offer interesting opportunities, Swindells says.

'I believe you have to move into those areas to make a sustainable, viable business in the future. If anyone out there just relies on broadband they're kidding themselves from a business point of view, because it's not going to be a sustainable business in the next three to four years,' he says.

'Broadband will become a commoditised product and the only ones that are going to win when you get a commoditised state are the biggest players. Once you build other drivers around it like email, VoIP and security, that's where you can run a sustainable business. If you don't think about it now it's going to be very hard in the future.' □

ispOne's Swindells: IP video surveillance and security key areas for the channel

