



# The Commoditized, Broadband Soup. What's Your Recipe?

By Edward Villars ■ *Capanis*

**Y**ou, the guest in room 166, how much did you say you paid for in-room Internet service at Hotel A versus Hotel B? Well, whatever the price was, did you feel as though you were being asked to pay for your in-room shower curtain, or rather, that extra firm mattress pad to enhance your rest?

And Mr. Hotel owner, thanks for installing that costly state-of-the-art broadband Internet system that XYZ (that leading hospitality service provider) sold and maintains for you at a monthly fee. You've not only gotten your hands tied in having to charge a usage fee to your guest and/or perhaps paying a fixed monthly per room charge to your service provider, but worst of all, you need to do three things; One, constantly make sure that your rates are competitive enough with that of your competitors or nearby Internet Cafes. Two, have your margins skimmed by your service provider in the name of maintenance and support. Three, make sure that the initial total capital outlay for your broadband Internet system is covered within X number of years—which may never happen.

Spurred by the demand of business travelers, hotels all over the world are adding wired and wireless broadband connections. But before you're raked into the euphoria of thinking that once upon a time "guests for many years paid for in-room telephone calls at profitable rates and so will they for broadband," think again. Just as cellular phones stole those revenues, so will the very rapidly growing wireless and cellular broadband technologies and the ever-dropping Internet access service rates, eviscerate this revenue "sweet spot."

According to industry reports and trends, obscene amounts of dollars are being dou-

bly-redoubled by the Verizon's in the US and other GSM providers in Europe to expand already existing third generation wireless data networks (EV-DO Evolution Data-Optimized) to compete. More so, with the

hospitality tail onto the broadband donkey." You should ask questions like "Why do I need to incur an additional monthly per room overhead for broadband if my occupancy levels are not guaranteed and broad-

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proliferation of freely floating "WiFi" networks and the constantly dropping subscription rates for broadband service, the justification of hefty investments by hotels to suite the trend becomes questionable.

Hospitality owners and operators should not be stymied by such a trend but rather strongly concern themselves with two things mainly. One of which would be the hospitality owners' choice in the service provider and the type of technology used in delivering broadband within the hotels. This choice would greatly determine their initial capital investment in a service that is being commoditized by the minute. Mind you, when it comes to technology, pricier does not always equate to better. Wireless or wired solutions should not mean a significant difference in your spending if you're dealing with a company that knows how to use what you already have to give you what you want—not all components need to be bought or built from scratch.

Secondly, a service provider who understands where broadband fits into the hospitality business and not one that "pins the

band Internet is more or less a commodity?" Does your service provider understand this concept or does he embark on giving you the "value" spin?

It's economically disastrous to witness hotels, both large and small, get sucked into deploying expensive state-of-the-art technology to deliver broadband Internet with the dream of generating a new source of revenue instead of adding value to lodging. This is similar to the wireless "Hotspot" dash where companies have and are still building expensive wireless networks at airports, hotels, restaurants and the like and hoping for the "traveling surfer" to give them a payday. A payday on a service that has almost zero barriers to entry and has a rapidly declining profit margin? I guess not all of us learned from the recent telecom burst where carriers adopted the "build it and then they'll come" business approach. Unless of course it's a very well orchestrated spin to get investment dollars for floozy business models or to inject capital spending in a bloodied industry.

In a recent In-Stat/MDR research, it is found that, while hotspot venue growth has

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outpaced earlier expectations, there are still troubling issues surrounding low usage rates. According to this research firm, over the past several years, hotspot venue availability has spiraled exponentially. "Worldwide locations have grown from a few hundred locations worldwide in 2000 to 40,000 locations in 2003," according to In-Stat/MDR.

Yet, despite these successes in venue growth and the elevated awareness due to media coverage and the aggregate dollars spent in build-outs, usage of hotspots continues to lag. In-Stat/MDR also discovered concerning usage trends in a study conducted of potential business users. The survey explored usage trends for Visitor Based

Networks (VBNs), which includes both wired (such as a hotel guestroom broadband connection) and wireless (i.e. hotspot) public access service. While results showed that slightly over half of the respondents had used a VBN, it was found that the occasions of use were, on average, scanty. In all venues, except hotels, the majority of respondents indicated only using hotspots less than six times per year and the average monthly VBN expenditure among users was only \$12.10.

Other In-Stat/MDR findings include:

- 62 percent of VBN-using respondents indicated that availability of broadband would influence their choice of venues to

visit, but over half of those respondents indicated that it would only affect their choice if access were free.

- The availability of free broadband would impact a significant percentage of users' choice to pay for broadband service.

As the level of scrutiny of your broadband investment/budget increases, you the smaller, medium and even large sized hotel owners and chains stand a better chance to provide, with less strain, these services that research has proven to only make sense as a freebie to guests. Only one or two hospitality service providers have currently adopted this service model of delivering "Free" broadband to hotels as a value added for other services they provide. Hopefully, the rest will follow suit. ■

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#### **About the Author**

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