



Hotels Provide Glimpse Into The Future Of WiFi: Will It Be As Free As The Soap In The Rooms?

By John Yunker ■ *Pyramid Research*

The WiFi industry has enjoyed significant media, vendor and operator attention as of late. Yet for all the buzz about WiFi, many questions remain, among them—will WiFi be free or fee? The hotel industry, which includes successful examples of both business models, sheds some light on this question. Ultimately, we believe that free and fee WiFi can and will coexist—with access fees varying by customer segment and services offered.

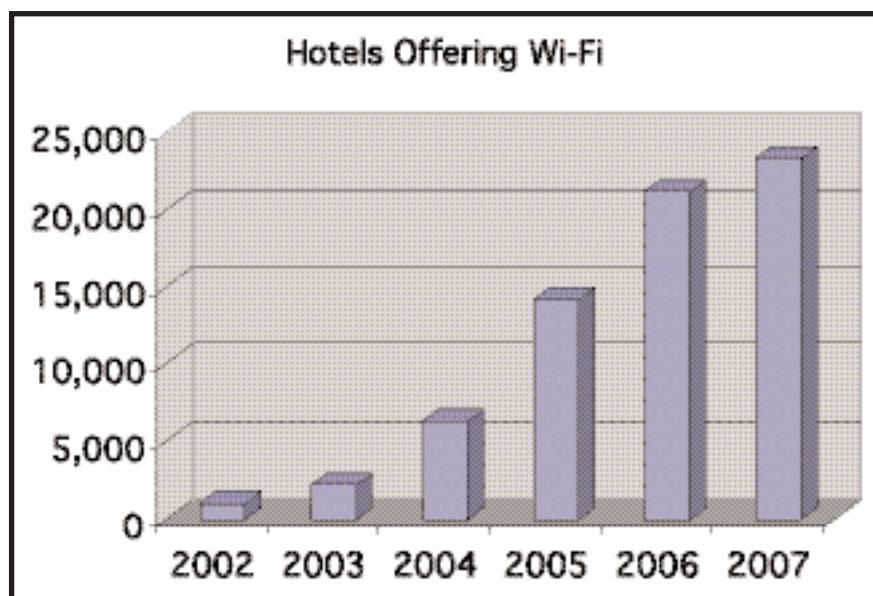
Hotels Migrate from Wires to Wi-Fi

By early 2002, approximately 5% of mid-scale, first-class and luxury properties in the U.S. offered high-speed Internet access (HSIA) in some or all rooms. Among the majors, Marriott was the most aggressive, wiring more than 400 properties. Up until this point, providing HSIA required running cable or installing a DSL modem in each guestroom, at an average installation cost of between \$285 to \$450 per room.

WiFi, which is cheaper to install than wired Internet access, significantly alters the economics of HSIA. With WiFi, a hotel can provide access in the lobby, meeting rooms and guests rooms for roughly \$225 in installation costs per room. Furthermore, the sheer "buzz" factor of WiFi gives hotels an effective way to leapfrog competitive hotels that had previously invested in the more expensive wired networks. While WiFi access is still largely limited to public areas and meeting rooms, increasing numbers of hotels are embracing site-wide WiFi installations.

In 2002, more than 500 hotels added some degree of WiFi access, more than dou-

Exhibit 1: Hotels Offering WiFi (Global), 2002-2007



Source: Pyramid Research

bling the total number of WiFi ready hotels on the market. Based on our discussions with service providers and hotels, we expect the number of WiFi-installed hotels to surpass 2,000 this year. Assuming the economy improves over the next 12 months, the number of WiFi hotels will reach 5,000 by the end of 2004, making hotels the leading industry segment offering public WiFi access.

WiFi as a Profit Center

The majority of hotels in the U.S. offering WiFi charge an average of \$9.95 per day. Usage rates as a percentage of hotel occupancy range widely, from 3% to 12%. Every hotel we spoke with that offers WiFi report-

ed a doubling in usage over the previous year and expects growth to double in the year ahead. As usage stands right now, a hotel can generally pay off its investment in a site-wide WiFi network within two years. Pyramid's report WiFi for Road Warriors simulates the financial return on WiFi deployment for various scenarios, taking into consideration price erosion and incremental hotel occupancy.

Keep in mind, however, that ROI (Return On Investment) hinges on a very unstable pricing environment, shown in Exhibit 2, on page 32.

Prices in a Free Fall

Mobile operators and WiFi aggregators

originally bet that consumers would pay upwards of \$45 per month for WiFi access. They bet wrong. While business travelers have been the early adopters of WiFi, mass-market acceptance will require more affordable rates. Access fees have descended rapidly as operators attempt to increase usage. In the first quarter of 2003, T-Mobile and FatPort reduced their rates by nearly half. We expect AT&T and the European operators to follow suit.

The question then becomes, how low will prices go? And how quickly will they drop? The following exhibit illustrates where we believe prices are headed based on current trends and interviews with service providers. The model also takes into the account the growing pressure exerted by venues that provide WiFi for free. (See Exhibit 3, on page 32).

WiFi Migrates from Fee to Free

While the migration of hotels from wires to WiFi may at first appear to be little more than a technological shift, there are more significant forces at work. Hotels view wireless broadband much differently than they view wired broadband. While few hotels have dared to offer free wired HSPA to their guests, many more hotels have already begun offering free WiFi.

Why free? From a general manager's perspective, why "nickel and dime" your guests when you can use WiFi to pull in additional guests? As the general manager of the Hampton Inn (Auburn Hills, Michigan) said, "If I sell one additional room a night I pay for the service." The Hampton Inn offers free WiFi in all of its rooms and has indeed reported an increase in occupancy (particularly repeat occupancy) as a result of the service. Pyramid found that hotels that offer WiFi for free report more than twice the usage levels—upwards of 20%. This figure indicates that there is a percentage of hotel guests that want WiFi, but not if they have to pay the going rate of \$9.95/day.

In February, Omni Hotels announced that it is giving away free WiFi access in all guestrooms and public areas. As of February 25th, four hotels were WiFi-enabled, with the remaining 26 to come online over the next six months. Wyndham hotels bundle in

WiFi access as part of its successful "ByRequest" membership program. Selected Hyatt properties have also begun testing free WiFi access in its lobbies.

Even managers of hotels that currently charge for WiFi privately tell us that they expect their service to be bundled into the room rate within three to five years. As more hotels dive into the free WiFi waters, it will be difficult for their competitors to resist following along. This explains why so many hotels are anxious to install WiFi now—they want to recoup the investment before the "fee window" has closed.

The Coexistence of Fee and Free

Ultimately, we believe that the free/fee debate will result in a draw. A hotel may offer WiFi to its guests for free but may also be a member of an aggregator's network

(such as Boingo or iPass). An iPass user would then be charged for using the same network that the hotel offers its guests for free. Aggregators feel that business travelers will gladly pay for a service that eliminates the hassle of fiddling with the different connection interfaces that the various hotel chains offer and offers a degree of corporate security. Hotels that own their own WiFi networks will enjoy the best of both business models. They will share in any revenues generated by the aggregators while simultaneously appealing to leisure travelers who may make hotel decisions based on free WiFi.

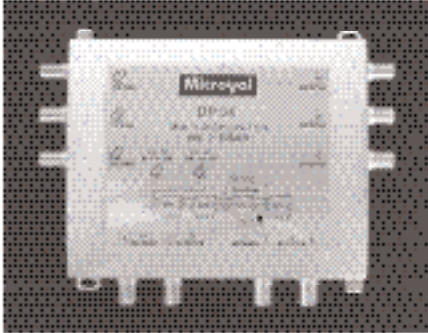
Internet Access is Just the Beginning

Ultimately, we believe the larger value of a WiFi network will be gained through applications delivered over the network, not the network itself. For example, some hotels

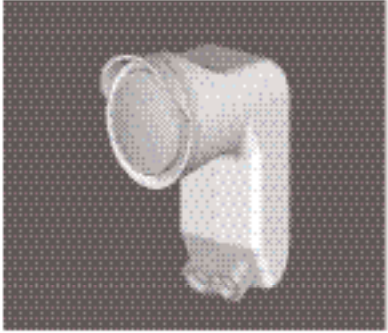
Microyal manufactures & wholesales

**Multi Switch, Digital Modulator, Dishpro LNBF
FTA Receiver and Sat. Accessories**

DP-34 Multi Switch



DP-300S Dishpro LNBF



Main Products:

1. Multi Switch For Dishnet: DP-34, DP-34A, DP Adaptor
DP-33, DP-41, SW-21, SW-21X, SW-44, SW-64
2. MRX-900 FTA Receiver, DSS Multi Switch,
3. Digital Modulator And Heterodyne Modulator

**Microyal Canada Ltd.
Kingsky Industrial Co. Ltd.
Add: 119, Hidden Valley Park NW Calgary
Alberta T3A 5M4 Canada**

**Tel : 403-730-5336 ; Web: www.microyal.com
Fax: 403-274-4481; E-Mail: sales@microyal.com**

are now using WiFi networks for employee communication, housekeeping management, and curbside check-in. Starbucks recently began using its WiFi network to allow field managers access to the company's network. This service, launched in January, has been a "huge success," according to Starbucks. So while there is indeed money to be made from offering Internet access, there is also money to be made from providing new applications through this rapidly evolving and global network. And while Internet access revenues will no doubt continue their downward spiral, applications and support revenues are only just beginning to take off. ■

About the Author

John Yunker is a wireless analyst at Pyramid Research (www.pyr.com), a global telecommunications research firm. His most recent report is "WiMAX and Wi-Fi: Unwiring the World.." He welcomes feedback at jyunker@pyr.com.

Companies to Watch

The WiFi industry is both chaotic and growing daily. To better understand where the public WLAN sector is headed, we recommend keeping an eye on the following companies:

Hardware Providers

- Intel
- Vivato
- Cisco
- Linksys
- Proxim

Aggregators

- Boingo
- FiberLink
- GRIC
- iPass

Operators

- AT&T Wireless
- BT
- China Telecom
- France Telecom
- NTT DoCoMo
- Sonera
- Swisscom
- T-Mobile USA
- Verizon Wireless

Service Providers

- Accenture/Toshiba
- Cometa Networks
- LodgeNet
- Megabeam
- STSN
- Wayport

Venues

- Major airports
- Major hotel chains
- Public libraries
- University campuses
- Starbucks
- McDonald's (and other fast food chains)

Exhibit 2: Comparing WiFi Price Plans

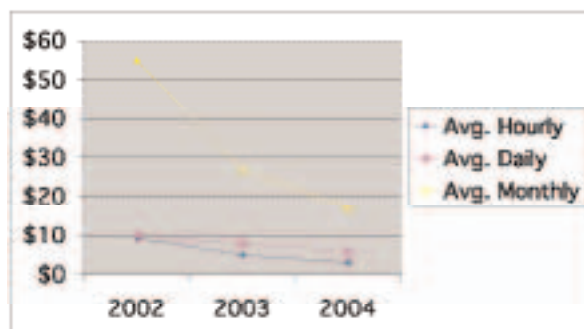
	2 Hours	24 Hours	Monthly
Wayport	Not available	\$9.95	\$49.95
Boingo	Not available	\$7.95 (\$24.95 for 10 Connects)	\$49.95
T-Mobile*	\$12 (\$6/hour) (reduced from \$10/hour on 3/1/03)	Not available	\$30 (annual contract) \$40 (month to month) (reduced from \$50/national and \$30/local on 3/1/03)
FatPort	\$4.95/hour (reduced from \$8/hour on 3/1/03)	\$9.95 (reduced from \$15 on 3/1/03)	\$34.95 (reduced from \$40 on 3/1/03)
AT&T Wireless GoPort	Not available	9.99 for 1 Connect \$29.99 for 5 Connects \$49.99 for 10 Connects	\$69.99
BT Openzone (U.K.)	US\$9/hour	US\$23	US\$134 (Unlimited use)
Swisscom (Europe)	US\$14	US\$35	N/A
Megabeam ** (Europe)	US\$8	US\$32	US\$92

*T-Mobile does not offer coverage of hotels at this point, only airports and Starbucks locations. We included it for comparison purposes only.

** Megabeam has recently been acquired by Swisscom

Source: Pyramid Research

Exhibit 3: WiFi Access Fees, 2002-2004



Source: Pyramid Research