

Small ISPs Ignore Experts, Continue to Thrive

June 21, 2007

Don't add small and independent ISPs to the endangered species list just yet. Not only are the little guys holding their own, they're consistently coming out ahead of the bigger companies. Despite numerous predictions foretelling consolidation, the ISP market continues to grow, with more than 6,600 ISPs catalogued in one major ISP directory.

Small ISPs own more than 60 percent of the commercial ISP market, according to an article in Upside Today by Aaron Goldberg, executive vice president of Ziff-Davis Market Intelligence. Such well-known ISP/Web hosts as PSINet, AT&T Corp., UUNet and BBN Corp all own less than 3 percent of the ISP business in commercial accounts. America Online has a notable portion of the market share for small businesses, but once you enter the realm of the 500-plus employee businesses, even they fall by the wayside.

What accounts for small ISPs defying the reports of their widespread demise? By providing better customer service than the big companies and expanding their range of services beyond just dialing-up.

Small ISPs can provide a level of personal customer service that the big boys cannot match. Forbes Magazine recently profiled several small successful ISPs such as Peace's Pennsylvania Online. The ISP, run on a farm in Harrisburg, was started on \$60,000 and now has 750 phone lines and 7,500 customers. The company's founder, George Peace, was able to provide instant and personal service to his clients. After meeting with one new client, Peace was able to erect a new Web page before the client arrived home.

Small and medium-sized business owners have responded to the "hand-holding" that small ISPs can provide. In some cases, small ISPs literally provide an around-the-clock-I'll-come-running service. With small ISPs, businesses often deal with one of the owners instead of being passed around from one service representative to another as with big ISPs.

In addition to providing superior customer service, small ISPs have added numerous services beyond dial-up access, such as Web hosting and design, dedicated access, and e-commerce initiatives. Other small ISPs have focused their efforts and contents to specific markets like their hometowns or, as in the case of Nwf.net, the National Wildlife Federation. Nwf.net is a small ISP that offers specific content, such as a news service, that keeps its members up-to-date on wildlife conservation issues and NWF activities across the globe.

Despite the growth and success of small ISPs, many experts still preach caution. A recent report by Analysys, a telecoms consulting firm, predicted

that independent ISPs will face a difficult road in the future as competition intensifies.

According to the report, ISPs are intermediaries between the owners of transmission networks over which Internet traffic passes and the owners of content that is made available via the Web. Maintaining their position requires ISPs to compete in both the infrastructure business and the service provision business.

"Over the next five years, independent ISPs will find themselves increasingly required to juggle the requirements of these two different businesses," says the report's lead author, Philip Lakelin.

Small ISPs that stick with dial-up access will need to grow rapidly to survive. Instead of trying to amass large customer bases, other small ISPs will offer expanded business services and target specific or niche markets.

"Gaining a large number of customers is less crucial for business-focused ISPs that offer dedicated access and other business services," says Katrina Bond, the study's co-author. "Although economies of scale are still important, these ISPs have greater scope to differentiate their operations and target niche markets."

No doubt in the coming years competition will increase and consolidation will inevitably occur. Eventually, many small ISPs will fall by the wayside or be gobbled up by bigger companies. But for now, small and independent ISPs are growing, thriving and thumbing their noses at the naysayers.