

“Wi-Fi at the Edge—Broadband Outposts Turn New Economic Profit”

For years now, the soothsayers of industry predicted a panacea of wireless roaming mixed together with flowing streams of incremental revenue for public Wi-Fi spots. Rather abruptly, many of these pay-for-service access hotspots have shifted their model to balk the trend and become closely linked to an establishment’s core offering as a free complement—not the per minute meter of old. Whether bundled as a monthly service in wireless voice and data plans, large carriers realize the value of public Wi-Fi hotspots as a way to *complement*—and therefore differentiate—their mainstay service plans.

In the economic sense, enabling patrons and subscribers to enjoy Wi-Fi service without any additional cost burden is in fact enhancing the value perception and thus driving profits higher. All things held constant, the notion of free broadband access has proven to be a discriminate variable when selecting common locations such as hotels, meeting facilities, restaurants, and other venue options. More so, the desirable connection speed means capturing a higher propensity of spend for that same service over a comparable service without broadband access. So, in a twisted sort of way, broadband is paying its fair share of dividends to those who provision the access points and maintain the service.

But asked the question of whether or not public Wi-Fi can be profitable on its own, the jury is still out to recess on the long-run economics involved with securing location rights, online signup and billing support, and tempering price to conform in specific markets. Take college or university towns for instance. Most of the upstart service providers that began two or three years ago have since found it difficult to sustain operations—especially when the competing restaurant next door offers free access within their spectrum radius. This is especially problematic inside shopping centers and mall environments where patrons are known to frequent particular hotspots by connection strength to adjacent facilities where payment is expected. Moreover, the actual service differentiation in terms of quality or speed is null.

What this implies is an adage of old: bundling the beverage with the meal means a more enticing value proposition. And in the case of high-speed Internet access, consumers may just see more incentive to pay more for a premium experience when bundled together—versus taken apart. Conformity is certainly applying another pressure tactic on pushing free Wi-Fi to the masses. Like the self-serve soda fountains and free refill concepts that dominated fast-food chains in the late 80’s, pay-point access will ultimately need to progress significantly to change its value delivery or else face the way of the soda fountain. Pressure from establishment competitors is already driving this direction. One hotel general manager remarked recently that they abolished per day access charges to guests in order to compete with the amenity list of a brand property across the street.

And although it may seem the investment case in public Wi-Fi remains a tad cloudy, the initial data on gross economic spending for public Wi-Fi equipment in Q1, 2004, proves a noticeable 12.7% increase over the same period last year (2003). This imparts an opportunity for service providers to aggressively market broadband to the

mass public service environments and those facing a customer demographic that prefers access at a premium. Also notable, the gross profit margins of core products and services rose by an average of 4.8%, citing a change in bundled service amenities as a measured variable. Clearly, this poses a strong argument for those who engage in offering broadband service will realize a difference in product throughput and potentially higher margins in total receipts.

As the saying goes, there really no such thing as a free lunch—or a latté for that matter. Those with an eye toward making the investment case in Wi-Fi outposts realize the implicit value behind changing customer demand preferences and aligning these to command a higher price. So, if Starbuck's Coffee charges an average of \$3 per cup of Joe, then why not achieve a higher price to incrementally adjust for added convenience? Some say it's purely a matter of time while others have started moving in the direction of gratuitous access already. For the rest, it may just be market stubbornness.

