False start holds back ISPs

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THE eVANGELIST

AOL's rampant success as an Internet service provider has proved an age-old business truth: there's no money in giving stuff away for free.

This might seem a little obvious but at the height of the dotcom madness the "business plan du jour" was exactly that; "Let's just give it away." Internet service providers were the most obvious example. Freeserve was first out of the starting blocks, closely followed by Virgin.net leading Compuserve by a length with btinternet pushing hard on the outside and, as in the Grand National last weekend, only a few of them will stay the course.

While AOL resisted the urge to give it away how the UK scoffed at it. How many of us would be stupid enough to pay for Internet access when good old Dixons would dole it out for free? Well, more than a million of us were, actually.

Meanwhile, mid-scoff, AOL became the world's largest media company with the acquisition of Time Warner. I know hindsight is a wonderful thing but it's pretty basic stuff really. If it's free it's a commodity. If it costs, it has a value. Yes, £15 a month can now get you flat-rate access to the Web from several providers, including Freeserve. But the difference is perception. With AOL, the commodity (phone time) is now seen to be free, with Freeserve, it's the service.

It's not just the Internet access industry that has been caught up in this. The media industry has also been another high-profile sufferer. Like lemmings they have all jumped off the give-it-away-for-nothing cliff and have been in freefall ever since.

Profits of Pearson, owner of the FT, FT.com and the recently defunct FTYourMoney.com, were reduced last year by a cool £196 million due to its e-commerce investments. The Guardian has been ploughing £20 million a year into Guardian Unlimited, yet Express Newspapers sold its online rights for £1. As a dedicated evangelist I can't condone this sort of activity but I must admit that is £196,000,001 more than Pearson earned from its websites last year.

Media companies are now living with a Catch 22 of their own creation. They know that a large part of their future will be online but they can't prop up these costs forever. At some point they need to start charging and we will now see this happening more and more.

Leading this particular Kentucky Derby are (again) the US media companies with The New York Post and The Wall Street Journal in particular enjoying a loyal and expanding stable of subscription customers.

IN MY opinion, the answer to making money out of this is to attract paying customers with personalised service and special access to content that your customers really value.

That brings me to pornography. For all its critics, even among the greatest Internet cynics, no one can deny the success pornography has made of the Web — 36 per cent of home Internet users have visited porn sites and last year they rang up more than £1.5 billion of sales over the Web. Putting any moral dilemmas aside for a second, we can actually learn a lot from studying online porn from a business perspective. The Web's biggest money-spinner by far has successfully attracted customers willing to subscribe for members-only content, by literally teasing them with free content that doesn't quite satiate their needs. This growth has been achieved without damaging the off-line end of the market at all.

So now you have a perfectly valid excuse if caught in a compromising browsing position: "I'm just trying to establish how they've managed to become so damn successful, honest."

As I pen this piece I notice that AOL is advertising its *free* (trial) of its Internet access service, beautifully satirising the competition. But still, as we saw at the Grand National, its competitors may still have time to wipe the mud off, realise the error of their ways, remount and get to the finish line for a place.

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