

UK Internet Service Providers

their growth and their strategies—a preliminary report

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Introduction

This paper presents a review of the development of the UK Internet services marketplace, including information on its growth and diversification. The companies considered are both the pure access providers (conventionally known as ISPs), and the related service companies that have arisen to meet the needs of those who use or buy Internet access.

The paper also includes summary results of the first survey of UK Internet company aims and strategies, conducted to discover how the companies are responding to the growing market they find themselves in—more detailed results will be available by the end of the year.

Background

The information that forms the basis of this paper is that which has been collected over the last three years or so by Paola Kathuria as part of the maintenance of the UK Internet Listsⁱ, or *inetuk* for short. These lists make up the most complete, and most timely, publicly available listing of Internet access providers, consultants, web design companies, and publications. They are maintained at no cost to the companies on the list, and are freely available on the world-wide web, via FTP and via e-mail. *inetuk* is a Usenetⁱⁱ FAQⁱⁱⁱ that became too big for Usenet. ArcGlade continues to maintain and develop *inetuk* as a free resource for the benefit of the net community.

In addition, we prepared a survey of Internet company aims and opinions, and invited the many hundreds of Internet-related companies to participate. At the time of writing, one hundred companies, from across the whole range of access providers and consultants, have contributed their beliefs and opinions, and much of this paper is derived from that material. The actual questions asked, and summary information on the responses, is included.

UK Internet growth

inetuk started recording information on Internet access providers in 1992. At that time, the list only contained access providers, and there were 12 on the list. In 1994, we added consultants and training companies, reasoning that people who had Internet access might want expert advice in using it effectively.

Additions to the inetuk database

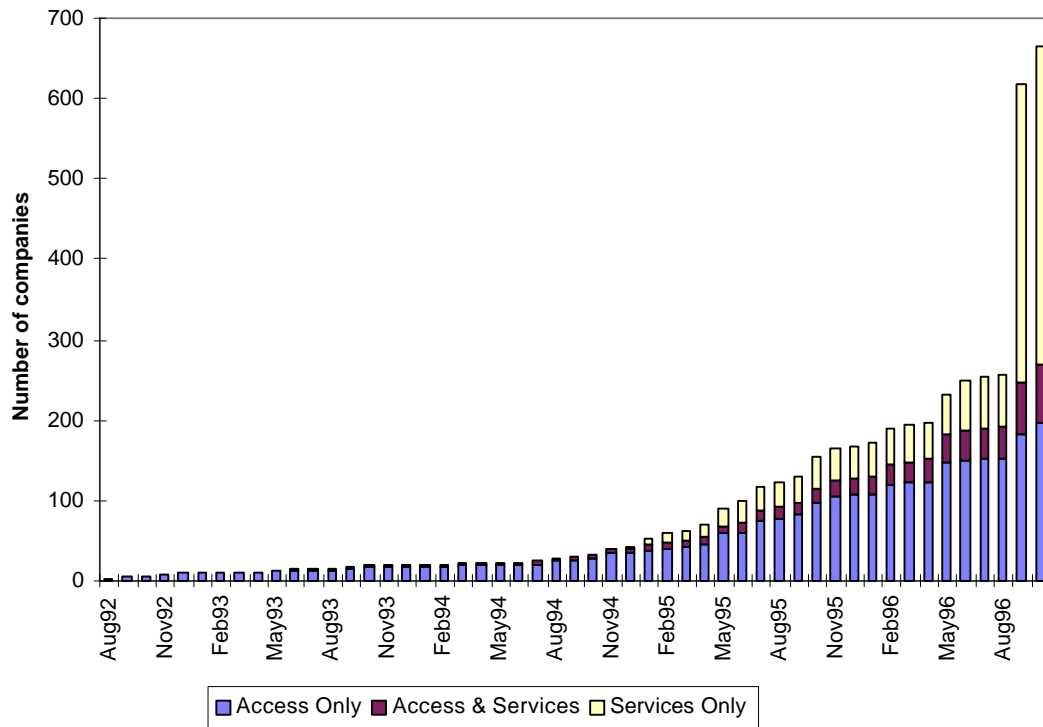


Figure 1: Additions to the inetuk database of access and services providers

Figure 1 shows the growth in access and services providers since then, to the 243 who currently offer access provision today. Note that the figures from the *inetuk* listings reflect all the companies we know about, but every now and then, we find out about more. The most obvious example of this was during the summer of 1996, when we discovered a large number of web design companies on search engines such as *Yahoo!* who weren't there a few months before. This explains the huge leap in total numbers shown in the graph during that period, although the number of access providers didn't increase by much, indicating that our figures for those are more accurate.

These figures really represent a lower bound on the actual numbers, but we believe that at least the access provider numbers are pretty accurate, since it's more in the interest of access providers to advertise their presence, so it's harder for us to miss one.

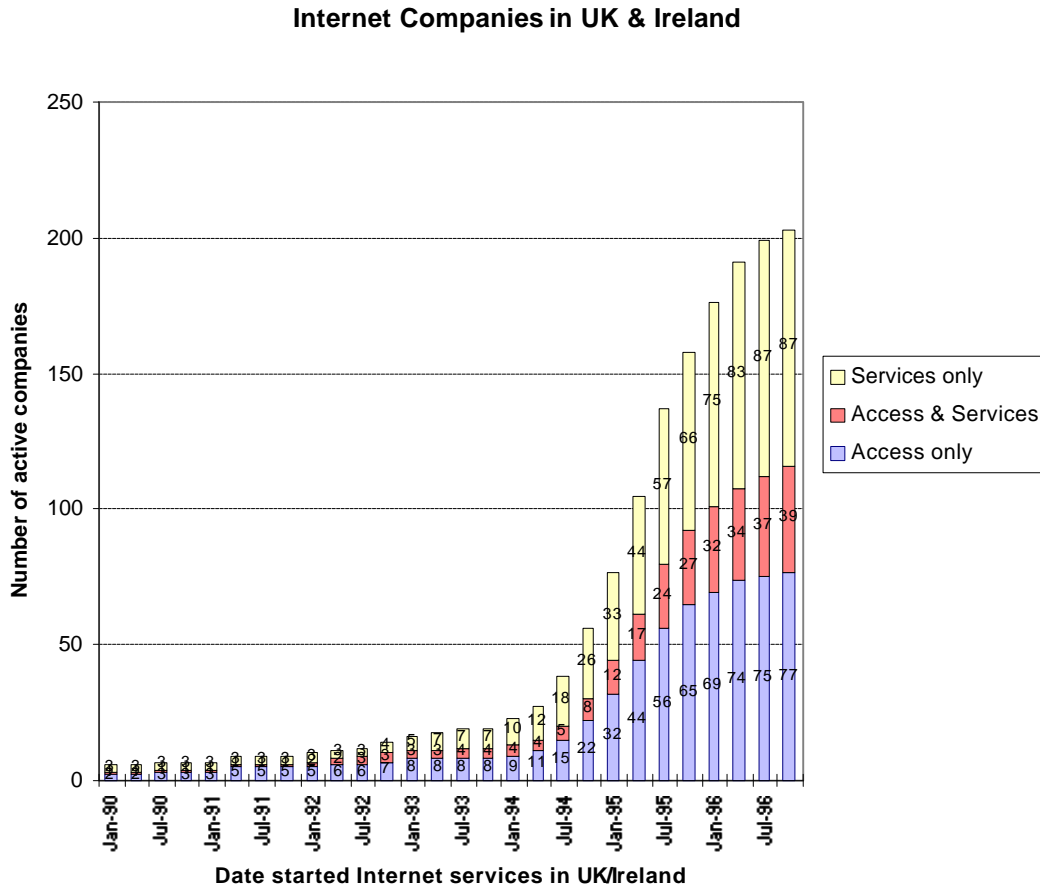


Figure 2: Growth of responding companies in inetuk database

Figure 2 shows the tallies for those companies who actually maintain an entry in the *inetuk* database. These number are smaller than for the total companies on the list, because many companies never respond to our requests for more detailed information about themselves^{iv}.

Some comments are necessary to put this growth into context. Many companies are acting as resellers of Internet access, without actually becoming involved in the technical side of access provision themselves. There appear to be some variations on the basic theme, with Pipex (now UUNET/Pipex) being the oldest company to support a reseller model. This allowed it to concentrate on its original core business of providing Internet access for larger businesses, while letting other companies (sometimes referred to as the *Pipettes*) sign up smaller businesses and individuals. Pipex claim around sixty per cent share of the business connectivity market in the UK^v, something that clearly made them a valuable acquisition target for UUNET.

So who are they, anyway?

Providing a comprehensive listing of companies here would be an interesting exercise in wasting paper, much like many of the original Internet books that came out as mildly-formatted reprints of the big on-line listings^{vi}. As will become apparent when reviewing the summary results presented later, most of the companies offering Internet access or services are recent start-ups (within the last three years for access providers, within the last year for web design companies). Those in the field the longest are also among the biggest: for example, EUNET (now part of PSINet) and Pipex are relatively mature businesses by Internet standards, each being several years old; Demon Internet, the largest dedicated ISP in the UK, was formed in mid-1992. By 1994, most of today's larger, relatively stable Internet access companies were in business. Around this time, many of the smaller providers started springing up, often spurred on by an entrepreneurial rush to grab a piece of the action in an

ISP, on the grounds that they claim to have over half-a-million paying customers^{vii} using their Internet access services;

Compuserve offers on-line services through which one can access the Internet, and also offers direct TCP/IP access, effectively making it an ISP too, one with millions of customers, although the actual number who regularly use direct Internet access versus the on-line service access isn't available;

Demon Internet claims to be the biggest ISP in the UK, and certainly their 75,000 or so dial-up customers can be used to justify that; it may even be true if fewer than 20% of Compuserve's reported 400,000 users use them as an ISP instead of an on-line service;

AOL claims^{viii} to be the world's most popular Internet on-line service provider^{ix}, and the world's first billion-dollar interactive services company;"

IBM Global Network could also be in with a shot at being the biggest Internet access provider for businesses only, since they have more points of presence than UUNET, and 28,000 corporate customers world-wide^x they could easily claim to be the world's *biggest* ISP (based on sheer size), in much the same way that they could claim to be the world's biggest software company, but we haven't seen them officially do that.

Despite the surprisingly large number of companies offering to connect people to the Internet in the UK (243), based on the results of our survey, as mentioned earlier the commonest size of a company is just five people. However, the average size is over twenty, but this indicates the significant influence of those few companies that employ many more than the average, such as Demon Internet.

The number of companies that are of a large enough size to survive any serious price competition remains to be seen. For those who are interested in knowing the relative customer bases of the UK providers (something they're mostly coy about), Robert Hoare has prepared an approximate ordering^{xi} by using the major e-mail directory *Four11* to count usernames registered in each ISP's domain.

The Yanks are coming

One feature of the maturing nature of the UK access provision market, and one that some people see as heralding the a shake-out in the market, is the arrival of U.S.-based access providers into the U.K.. This has happened in two ways: companies arriving on their own (such as Netcom and AOL), and companies merging or taking over existing U.K. companies to obtain instant market share. During the last twelve months or so, PSI has acquired EUNET-GB, UUNET has merged with Pipex, and various rumours have buzzed past our ears concerning other U.S. telecommunications companies eyeing up U.K.-based access providers that we can't go into yet. Of course, the real meaning of this is the arrival of serious capital combined with longer Stateside experience of the Internet access business, both of which will tend to squeeze out all but the most competitive access providers, if that's the only service they sell.

One question we asked in our survey of Internet companies was whether they saw the commoditisation of Internet access as a threat or an opportunity. By this, we mean the conversion of access and web space provision into things that people buy purely based on price, much the same way the long-distance phone service business has gone. Surprisingly, many companies saw this as an opportunity rather than a threat to their business, which leads us to believe that one of them or us doesn't understand the question, since relentless price competition tends to distil a market down to a small number of deep-pocketed players.

So are the committees

Something else that has happened in the last year or so has been the gradual arrival of two other things indicating maturity: special-interest groups and the authorities. The *Internet Service Providers Association* has been developing over the last fifteen months or so, with the stated overall aim to promote the interests of Internet Service Providers in the UK," and no fewer than ten principal aims listed on their web site^{xiii}.

For their trouble, the ISPA are getting mixed up in a variety of fights that are now developing around the Internet, such as the pre-election caterwauling about on-line pornography. They currently have around sixty members; although they include most (but not all) of the major providers, we wonder if those sixty are feeling a bit miffed about carrying the fight for the hundreds of others who aren't currently members.

ISPA followed a year after the formation of the other major body, the London Internet Exchange, or LINX^{xiii}, which represents the 28 biggest ISPs in the UK, and serves to co-ordinate network traffic between them.

And so is the serious money

Some of the biggest ISPs in the UK have received cash injections over the last year from investors who are finally deciding that the business adage of a couple of years ago, "no-one is making money from the Internet," isn't true any more. Richard Branson was interviewed some months ago by *Wired* magazine^{xiv} on Virgin's plans for an Internet service (which, as we recall, is due to launch about now). Media companies are getting with the programme; after its brief stint as an Internet Service Provider a couple of years ago, the BBC is creating an on-line offering (called, strangely enough, *BBC Online*). And advertising companies, potentially large and on-going buyers of Internet expertise, are starting to buy pieces of web designers such as *Webmedia*.

Because of all this change and growth, we thought it appropriate to ask those in the business what they thought of what was going on.

Summary results from survey

Overview

The survey was conducted by means of an on-line questionnaire on the *inetuk* web site. It was password-protected to prevent those not invited to participate from submitting entries. We invited every company on the *inetuk* list to submit a response—the invitations were submitted by e-mail. Of the 629 companies invited to respond, one hundred have so far responded, and the results presented here are based on their responses.

Caveats

We are still analysing the results, and so cannot yet speak for their statistical significance. However, based on our knowledge of the Internet access and consulting business in the UK, we believe they represent a fair picture of the beliefs and make-up of companies in the field. Given that the sample is self-selecting, we cannot guarantee that the other 500 companies who didn't respond wouldn't all take the opposite view, but we would be quite surprised if they did.

Who responded?

The position of the respondents generally reflected the kind of people one would hope had information on the company's strategy and business—fully 96% of respondents were owners, board-level or relevant senior management:

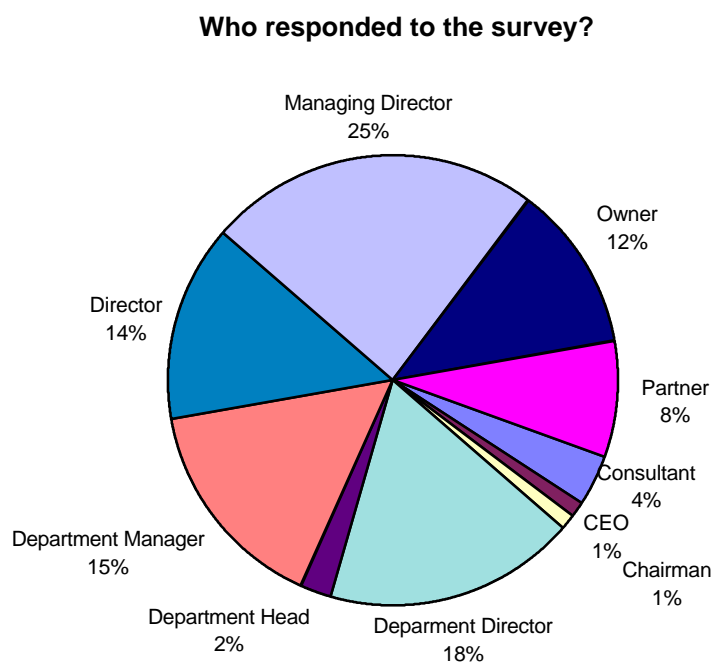


Figure 3: Positions of respondents to the survey

In fact, given that many of the individuals that we normally correspond with in organisations are in sales or marketing, or maybe a webmaster, we were pleasantly surprised by the calibre of respondents.

Presentation of results

The following sections summarise the results gathered from the respondents according to the major category of result, and then into groups by respondent type.

The major categories are:

Business Origins and Make-up

this contains information about the background of the company, its size and structure

Aims

this section looks at the major strategies the companies are pursuing in order to get business; more interestingly, it also reveals how companies are adjusting their strategies over time

Threats & Opportunities

how the companies consider those specific developments in the short- and medium-term that are likely to have some impact on Internet related companies

Other comments

information such as how the companies feel their business is going, and excerpts from comments the respondents made

Within each of these categories, results are grouped both as a whole, and divided into groups according to the major business functions of the respondent, allowing us to separate out the opinions of web-design companies from pure Internet access providers, for example.

Business Origins

The survey invited each respondent to answer these questions:

History

When was your organisation established?

If you didn't provide Internet services in the UK until some time after you started, when was that?

Were you providing Internet services before this time outside the UK? If so, from when?

If you've stopped providing Internet services, when did you stop? And why?

Size & Ownership

This section asks some general questions about the size and ownership of your business; we're not interested in things like your actual turnover, or the identities of shareholders, we'd just like to classify your organisation better, which will help us put the answers to other questions into context.

Total number of employees?

Percentage of employees dedicated to Internet activities?

Percentage of Internet employees who are freelance/part-time?

Percentage of turnover specifically-relating to your Internet services?

Percentage change in Internet-related turnover over the previous year (if relevant)?

What kind of organisation are you?

an individual or sole-trader

a partnership

a privately-held company

a publicly-traded company

Is your company a subsidiary of an Internet services company based overseas?

If yes, did it begin that way?

Business Background

These questions attempt to discover the principal aims of your business, to determine how those aims have changed in response to the changing market, and to determine how you think things are going in a general sense.

Core Business

What is your company's current core business?

- Internet Access
- Web Design
- Other Internet-related
- Technical Services
- Advertising
- Graphic Design
- Public Relations
- Other Media
- Another core business

Origins

Was your company created specifically to address this business area?

If No, select the category that best describes its origin or original focus:

- BBS
- Computer company
- Design company
- Media company
- Promotions company
- Advertising company
- another type of company, please specify

The responses to these questions helped us to categorise the responses to subsequent ones, and also helped us to understand something about how the companies are developing. Summarising them is pretty straightforward:

Core Business

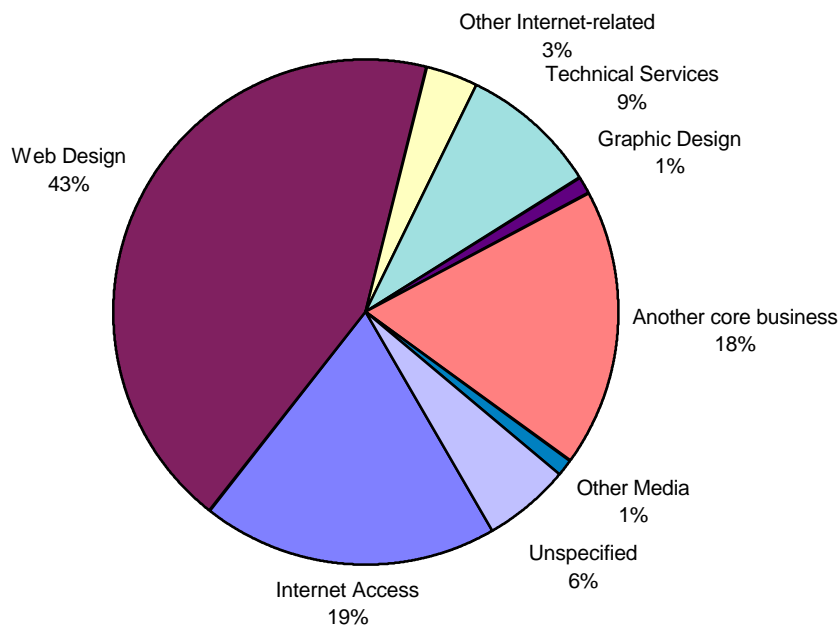


Figure 4: Core business of responding companies

Original Focus

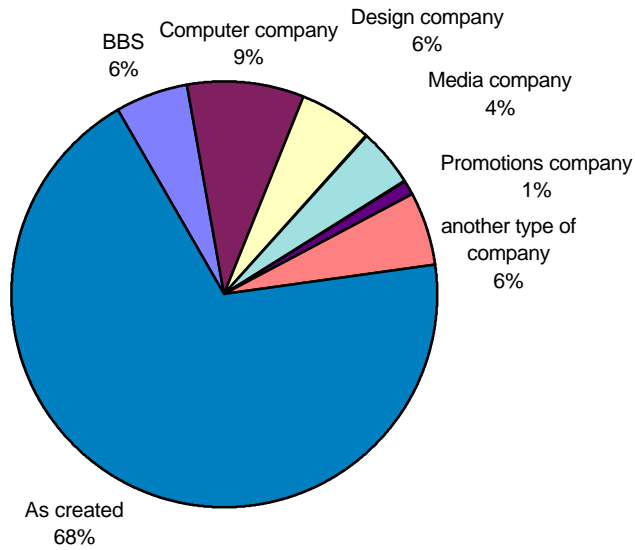


Figure 5: The purposes for which the company was founded

These show that about two-thirds of the companies have been specially created for their Internet-related purpose, with about one third being conversions. We also asked the companies how business had been so far, bearing in mind their original expectations, and what they thought was going to happen to them over the next two years:

How has business been so far?

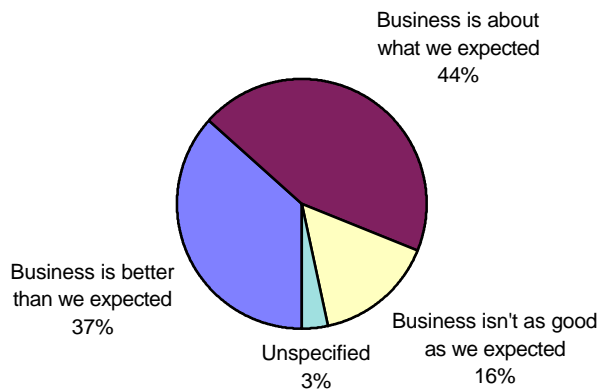


Figure 6: Companies' assessment of their business to date

How do you see your business developing over the next two years?

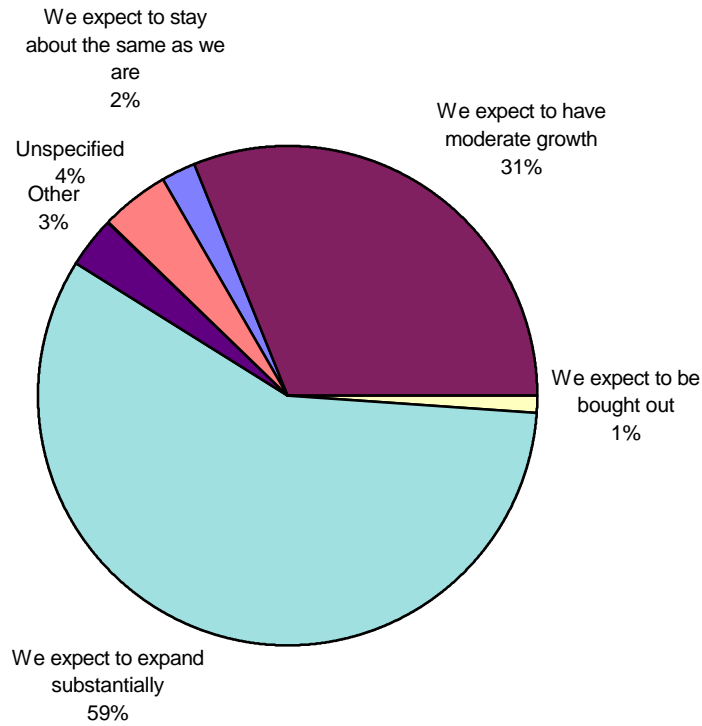


Figure 7: How the companies expect to develop over the next two years

It's especially interesting to see 90% of respondents anticipating growth, which implies that even those who over-estimated the market aren't doing so badly (or they're still over-estimating). The employee information is also interesting, showing the relatively large number of relatively small companies:

Company Sizes - Internet Access Providers

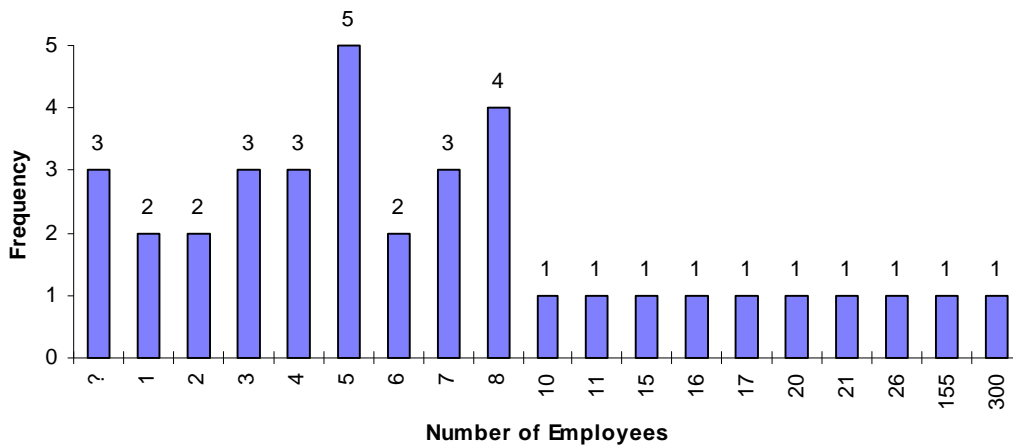


Figure 8: Distribution of company staff levels

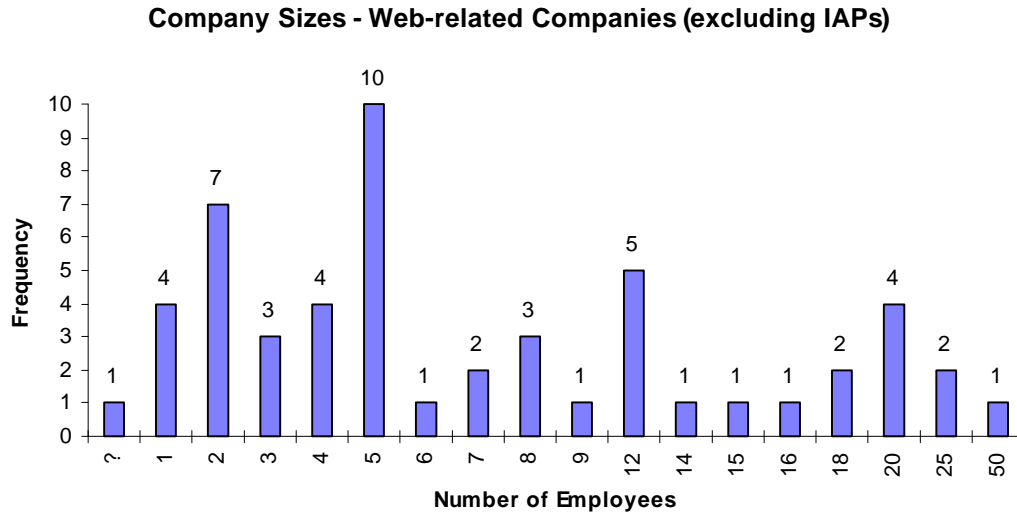


Figure 9: Distribution of company staff levels for non-access providers

By considering the related data, and plotting them on the next chart, we can see that the average company dedicates *most* of its employees' time to Internet work, but not all of it, and that the average company is getting by with about 40% freelance or temporary staff, a clear sign of a shortage of readily-available staff.

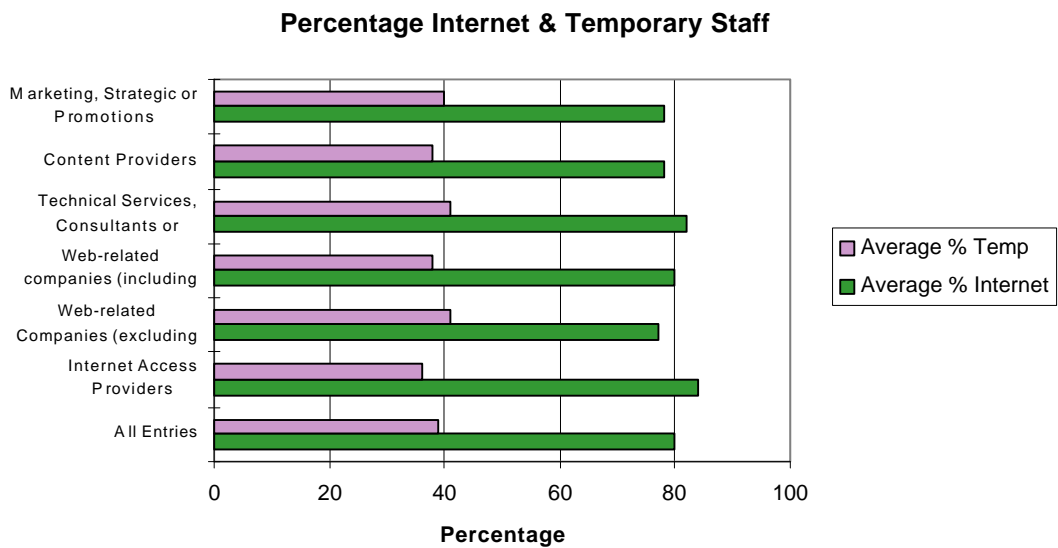


Figure 10: Proportion of employees who are freelance/temporary, and proportion who devoted to Internet work

Changing Aims

One of the things we asked companies was what their business aims were when they started, and what they are now. In part, we were interested in finding out what kinds of business each company was pursuing. We were also interested to find out what companies had changed their minds about since they started, which we thought might indicate what companies had found difficult to achieve, and what they had found easier^{xv}.

So, as part of our survey, we invited companies to indicate which of twenty-three different aims their business had had at its inception, and which ones they had now. The aims we suggested were:

1. Become the leading company in our business in the world;
2. Being the best company in our local area;
3. Being a one-stop shop (for access, services, products);
4. Packaged-service based;
5. Offer a substitute for the Internet;
6. Concentrating on winning larger clients;
7. Concentrating on winning smaller clients/individuals;
8. Offering specialised services (e.g., political, legal, charitable);
9. Specialising in specific platforms (e.g., Amiga, Mac);
10. Supporting specific user bases (e.g., lawyers, families, technophobes)
11. Offering exclusive added-value content;
12. Developing products rather than services;
13. Being a systems integrator;
14. Developing custom solutions;
15. Operating within a bigger picture (e.g., adding Internet access to a BBS or to a cable company's range of services, or web design for an ad agency);
16. Creating a new franchising opportunity;
17. Raising awareness of the net;
18. Exploiting a specific entrepreneurial opportunity;
19. Reselling the products or services of others;
20. Pursuing mainly private consumers;
21. Pursuing mainly business customers;
22. Wanting to be a part of the new media revolution;
23. Meeting the demands of existing clients;

In addition, we left three blank aims, and invited companies to enter their own; we also had the choice 'No particular strategy' available in case businesses were prepared to admit to apparent aimlessness. The overall summaries of all aims, split by access provider and web company, look like this:

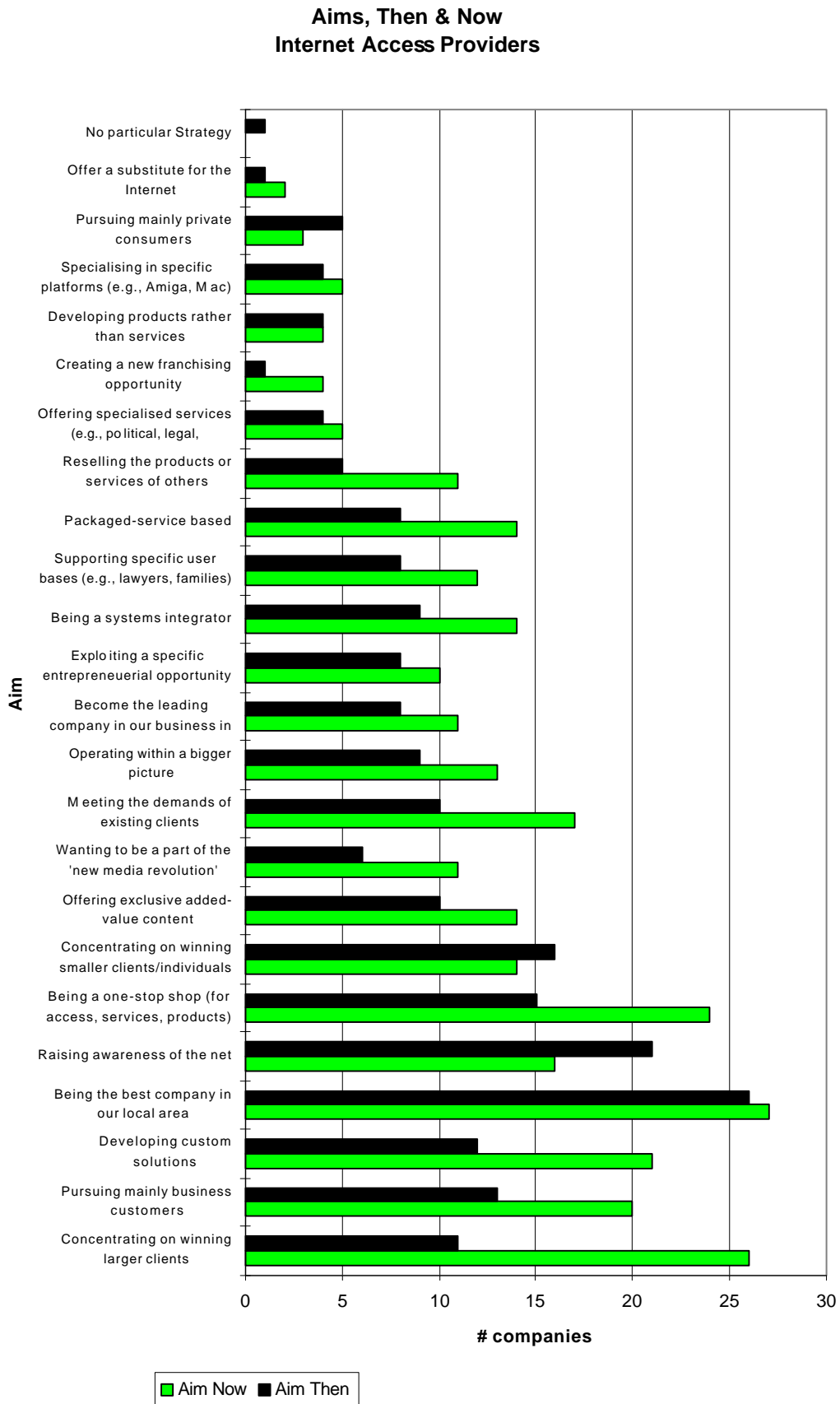


Figure 11: Summary change in business aims between start of business and present day

Aims, Then & Now
Web-related Companies (excluding IAPs)

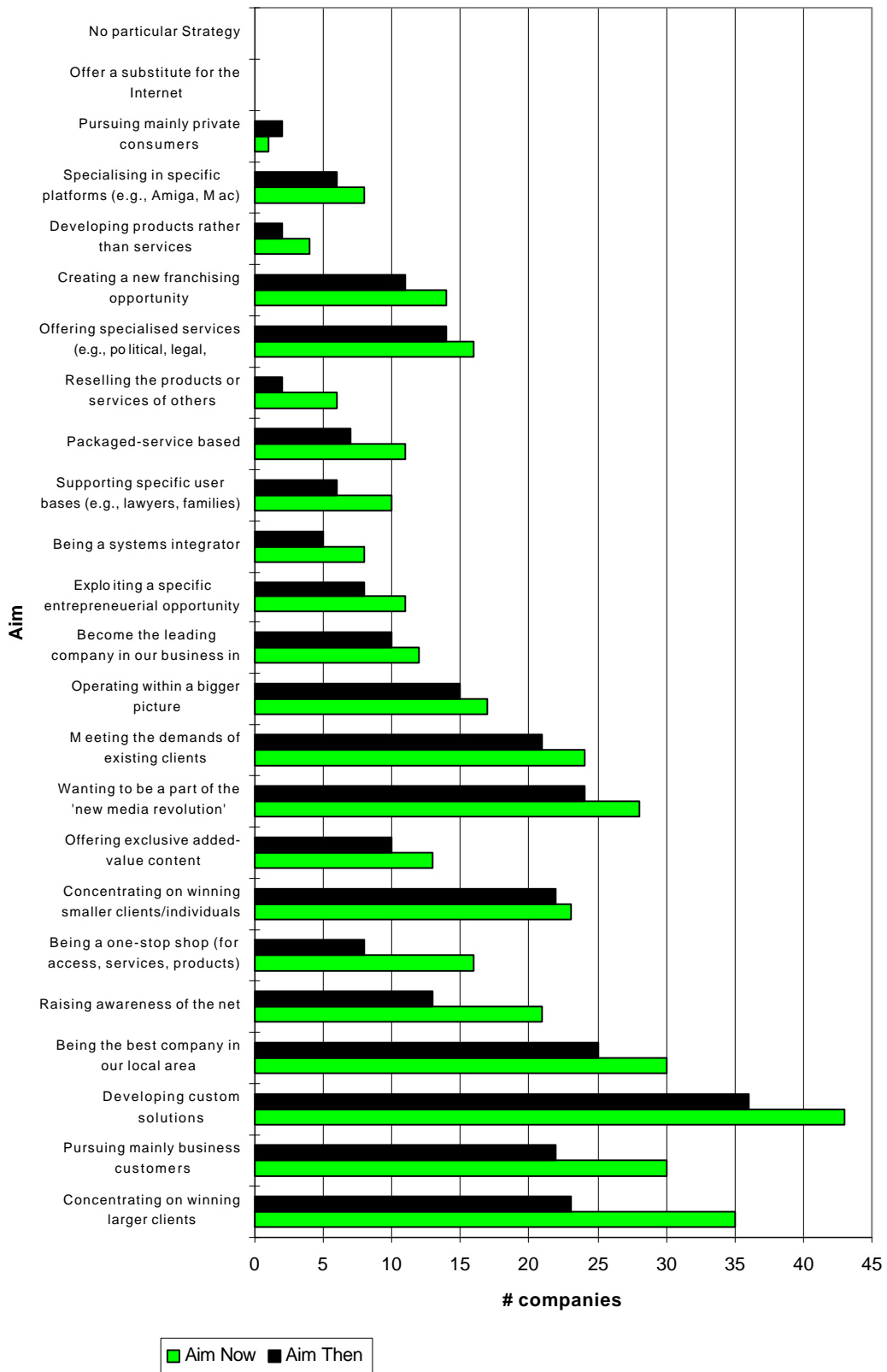


Figure 12: as figure 11, but non-access companies only

One of the interesting things to note is that, on average, companies have acquired aims since they started. An alternative view of the summary data shows the changes that have occurred:

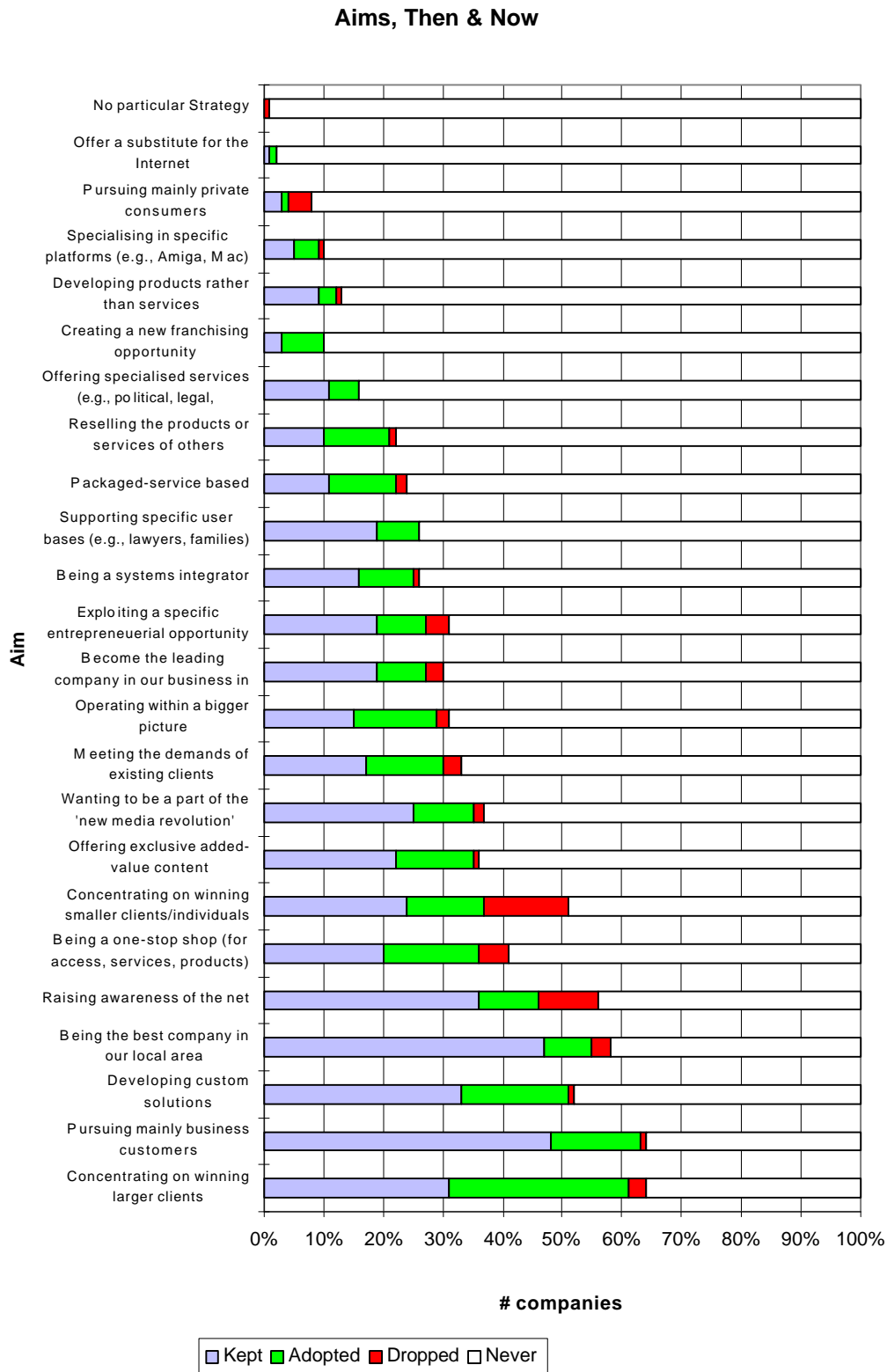


Figure 13: Summary changes, showing which aims were most kept, adopted or dropped by access providers only

**Aims, Then & Now
Web-related Companies (excluding IAPs)**

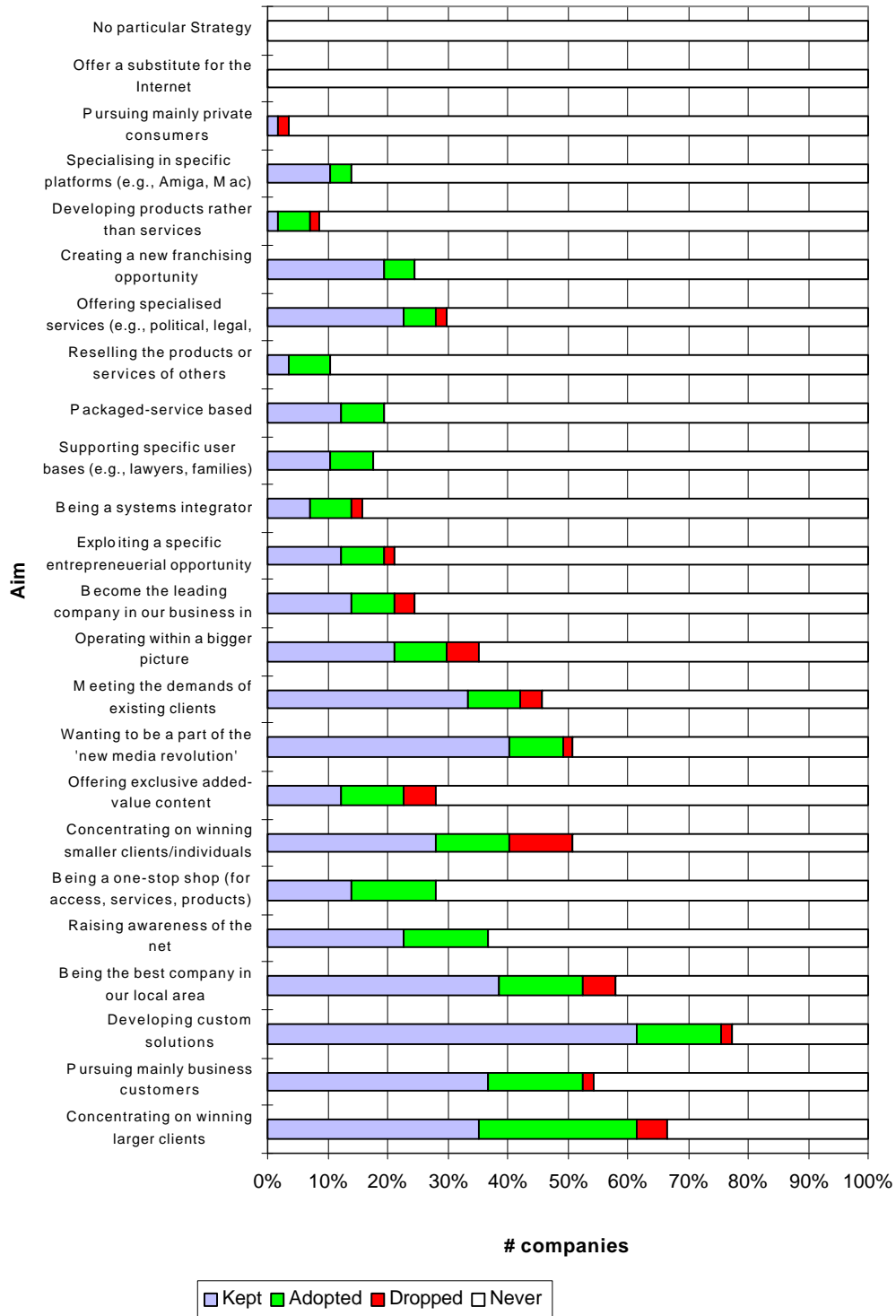


Figure 14: Summary of which changes were kept, adopted or dropped by non-access providers

Apart from demonstrating that the company with no particular strategy decided that it had one, these show that certain aims are being dropped at least as often as they are being adopted. For example, 'concentrating on winning smaller clients/individuals' was the most-dropped strategy, while

‘concentrating on winning larger clients’ was the most-adopted one, hinting perhaps at a belief that bigger business is more lucrative.

Interesting also that being the best company in our local area turns up as being so popular, given that the Internet is inherently a locality-weak medium, and that access is increasingly becoming available at flat pricing across the UK, eroding the local providers’ price advantage. More than one ISP commented that ISPs serving a local area were doomed, with national ISPs taking over. It would seem that many companies currently in business are betting that they aren’t.

Threats & Opportunities

Finally, we asked the companies which of twenty-two future developments they saw as a threat to their business, as an opportunity for exploitation, or as neither. The developments we listed were:

1. Government regulation of the Internet
2. WYSIWYG web-site building tools
3. Telecommunications deregulation in Europe
4. Free local calls in the UK
5. Increasing network security breaches
6. Closer collaboration between entertainment, media and computer companies
7. Declining investor interest in Internet companies
8. Increasing volume of unsolicited e-mail
9. Increasing activity of robots and agents
10. Substantially greater bandwidth to the home
11. Increased use of Java and Active/X in web pages
12. Commoditisation of Internet access/web space
13. Overloading of the Internet infrastructure
14. Increased competition in your competitive framework
15. Dissatisfaction with the reality of the net versus the hype
16. Increased use of multi-media in web pages
17. Trans-national legal disputes over jurisdiction and content
18. The wholesale replacement of the Internet with an alternative network
19. Microsoft’s current Internet development strategy
20. Low-cost Network Computers
21. The shortage of experienced design and development staff
22. The shortage of well-informed potential clients

The summaries of the results are:

Threats & Opportunities Internet Access Providers

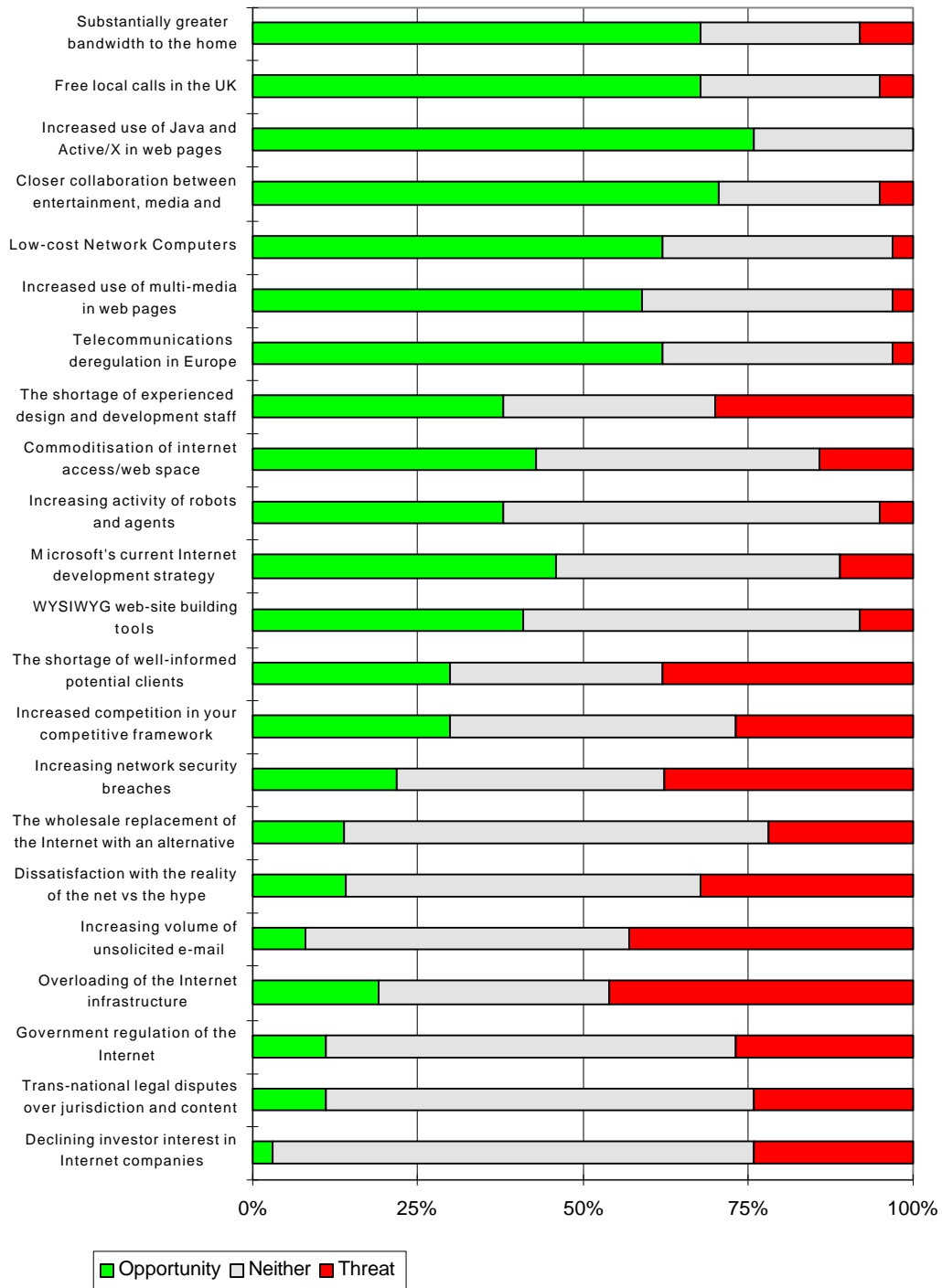


Figure 15: How access providers rated the suggested future developments as affecting them

**Threats & Opportunities
Web-related (excl IAPs)**

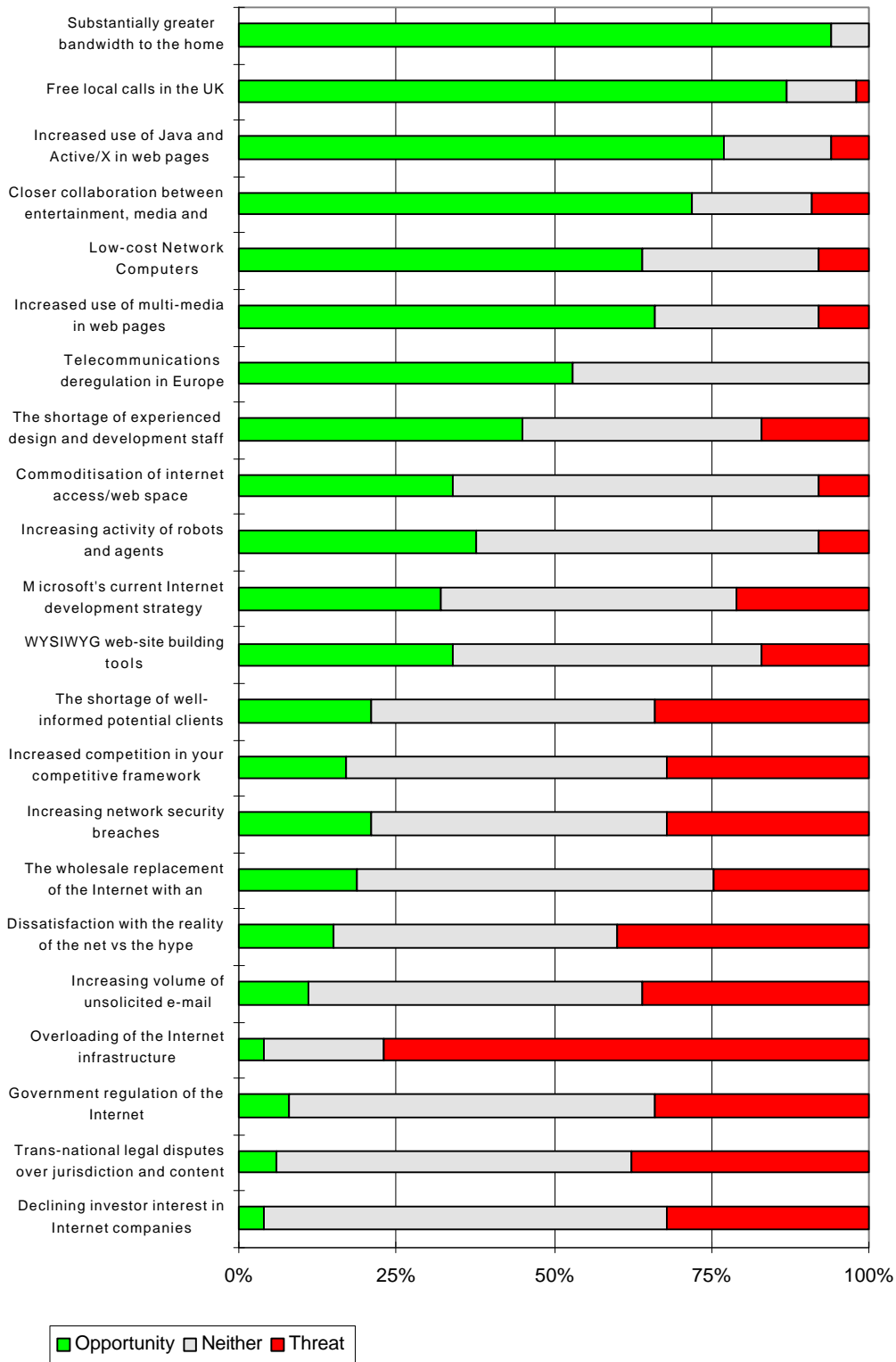


Figure 16: How non-access providers rated the same suggested developments

To a certain extent, there are few surprises, although about a third of both groups recognised the problems associated with having ill-informed clients (likely through experience), and the great

majority were concerned about over-loading of the infrastructure. A curiously large number felt that increasing competition was an opportunity for them, as did those who felt the same about Internet access and web space becoming commodity items. As a relative old-timer, it is also pleasing to note the number who believe that unsolicited e-mail is a threat.

Other comments

We invited respondents to add any additional comments, and most did.

- A number of respondents offered the view that smaller ISPs and web design companies would either 'consolidate or sink,' as one put it.
- A number also expressed concern about the effect that Microsoft would have on the overall market, mainly in the area of setting the standards that most suited it; they seemed to see this as inevitable.
- Java and Network Computers were also repeatedly mentioned as important technologies for something, although few went on to explain what they would actually be useful for—it would have been nice to know that these people weren't simply regurgitating marketing rhetoric, but actually saw real potential in these much-hyped technologies.
- The strategy of being the 'one company that provides access and content' (a.k.a. the on-line service) was seen as failing today, and the strategy of providing pure web development services (without contributing to content) was seen as failing tomorrow.

Many other comments were made by respondents, which will be expanded on in the more detailed report due out soon.

Long-term prosperity was seen in being either a large company (probably U.S.-owned) providing networking and access services, or in being a content-producing company. We believe that a major third strategy is that of developing the (hardware and software) products that allow the customers who buy the access to look at the content. The fourth strategy, that of consulting and advice to companies wanting to make best use of the medium and the technology, is most likely to have a limited lifetime, but will still be good for at least several years outside the media businesses.

Further work

Work continues in analysing and preparing the survey results, and in collecting information on the providers themselves. We expect to have more detailed information available on the *inetuk* site towards the end of the year, <http://www.limitless.co.uk/inetuk/>. If you'd like to be e-mailed when more information becomes available, please e-mail us at inetuk@arcglade.co.uk.

Notes

ⁱ Note that the UK Internet Lists also contain information on companies in Ireland, so the name has become something of a misnomer.

ⁱⁱ Usenet is a massive collection of discussions, organised into *newsgroups*, that have been echoing around the world for over fifteen years, with no sign of stopping.

ⁱⁱⁱ Frequently-Asked Questions list; the time-honoured Usenet tradition of recording information that people ask for repeatedly into a freely-available and authoritative form, principally to cut down on the amount of network traffic generated by having the same questions asked and answered over and over again. The concept has been kind of obscured by the commercial stampede to the net, but still survives strongly if you know where to look. Many business people simply don't understand it, or refuse to believe it, when it's explained to them. Heigh-ho.

^{iv} We like companies to maintain their own entries, because we feel that's the best way for us to remain impartial. Those companies that don't respond have basic information about themselves entered into the list, taken from advertising or other publicly available material.

^v See ads on miscellaneous London taxis, as well as <http://www.uunet.pipex.com/company/uunetpipex/index.htm>

^{vi} If you're really interested in such a comprehensive listing, our obvious recommendation would be to peruse the *inetuk* site itself at <http://www.limitless.co.uk/inetuk/> .

^{vii} <http://www.netcom.com/press/500ksub.html>

^{viii} <http://www.aol.com/>

^{ix} whatever that means

^x <http://www.ibm.com/globalnetwork/facts.htm>

^{xi} <http://www.contractjobs.com/isp/uk/>

^{xii} <http://www.ispa.org.uk/>

^{xiii} <http://www.linx.net/>

^{xiv} March 1996, UK edition

^{xv} Or at least what they believed/hoped.