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Dauids take broadband battle to Goliaths

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There is a fight for market share in one of the fastest growing sectors of our global financial crisis-affected economy. In this bout, the dominant player is losing ground to its small, relatively unknown, competitors. To date these small players have seen their share prices skyrocket. Is this just the beginning?

I'm talking of the contest between the internet service providers for the retail broadband customer. In the red corner we have Telstra - big, brash, arrogant, powerful and perhaps a little complacent. In the blue corner we have the young upstarts, the listed iiNet and TPG (listed as SP Telemedia) and the private Internode, Exetel and Netspace - young, agile, fast, competitive and, importantly, lean.

The spoils for winners are enormous. The number of domestic broadband customers has been growing at rate of around 10 per cent per annum. On current projections there will be over 9,000,000 customers by 2010. Multiply this by a conservative \$60 per month and you have revenue of \$6.5 billion the prize pool.

This past result season has seen some telling results. Telstra gained 20,000 customers in financial year 2009, however it lost 23,000 in the most recent half, the first loss in the company's history. By contrast iiNet added 47,000, Optus 46,000 and TPG can be expected to add around 40,000.

So why is migration of customers occurring? Well much comes down to pure value. A typical monthly mid-usage ADSL plan for Telstra costs around \$90 per month. For iiNet or Optus similar plans are closer to \$50. And given the investment the smaller players have been making in their own networks, the differential in service level is now minimal. For what is fast becoming just another utility for the homeowner, that spread is just too wide. I don't care if I get my electricity from AGL or Origin or TRUenergy, I simply want

it to be reliable and inexpensive. The same is becoming true for the internet.

So Telstra finds itself in a classic Catch 22. It has its existing customer on expensive but very profitable plans. And it cannot publicly compete on pure pricing without discounting its current plans aggressively. However by doing that it will simply cannibalise the profitability of its existing client base that choose Telstra because of the quality of its network and perhaps the reassurance of using a big name. Factors that are simply becoming less of a selling point.

Of course the fly in the ointment for the whole industry is the looming national broadband network. How this will play out is uncertain, but for now the numbers simply don't add up. Divide the quoted \$43 billion cost by 10 million households and we are talking over \$4000 per household. For an internet connection that will be just four times faster than current speed

Of course technology is changing so fast that by the time any 100Mb fibre-optic network is rolled out, it is likely they will be via a different technology. The current technology is being replaced by a new technology.

So as the smaller players leverage their networks and customer support infrastructure, they are becoming increasingly competitive and more of a threat. Rest assured Telstra will not allow itself to be knocked out in round two, but the small players are beginning to land some heavy blows.

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