

On-line Backup (OLB) as a Tool for Subscriber Management and Revenue Growth in the Broadband/ISP Industry

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The Cable TV industry is at a competitive crossroads. Now in its seventh consecutive year of either flat or negative basic subscriber growth, industry executives continue to debate their next play. That said, cable has done a remarkable job defending its turf. Cash flow is at a record high, they continue to steal voice customers away from the telcos and broadband customers away from other ISPs, and the industry has seen a remarkable turnaround in customer service ratings. And bundling has proven to be an enormous churn management strategy. However, as Verizon recently announced it's millionth video customer, and AT&T announced an aggressive video roll-out in Charter's St. Louis backyard, the question for cable has now clearly shifted from will we lose subs to how much market share will we lose over the next 5-10 years: five percent; twenty percent?

For those of you who have been in the industry long enough, the tenor of the conversation about the ultimate efficacy of the Telcos is similar to that heard about the satellite companies in the early to mid-90s: fly-by-night, underfinanced, consumers don't want it, etc. Many cable executives as recently as early last year spoke with great confidence about the overestimated threat represented by the Telcos. From developments in 2007, Telcos appear to be here to stay in the bundled telecommunications business. In fact, the February 2008 issue of *Consumer Reports* rated Verizon's FiOS bundled suite of services higher than any cable provider. And in many markets, their cheap introductory prices are forcing many operators to lower their prices, thus cutting margins even slimmer. In our opinion, and to make matters worse we think, cable operators are investing considerable energy and money on applications like "Start Over" that are

nice but need to find an audience. Instead, they should be launching enhancements that consumers and small- and medium-sized businesses (SMBs) actually need. One type of broadband enhancement product that has been largely overlooked by virtually all ISPs, and certainly those within the cable industry, is on-line data backup (OLB), the next Killer Retention App!

Until recently, backing up data has not been a priority. But not because it's not necessary. With expensive-to-replace digital music and irreplaceable digital photos, and the growing legion of SoHo (small office/home office) workers with no intuitional IS support, the stakes have never been higher. Historically, part of the problem has been how clunky and boring the process is: zip drives, flash drives, CDs, external hard drives, etc. Even the pay-by-the-gig consumer systems out there are a deterrent because many people vastly underestimate how much data is on their hard drives, then they have to decide which of their precious files they backup, and then they get socked with an exorbitant monthly bill. What we all want and need is what *The Atlantic* called "crash insurance," but at a reasonable price and with great certitude that our data will be restored completely and properly if need necessitates a full data restore.

So with all this most users do not back up at all, and for those who do (only 13% of consumers), they do not do so either regularly or comprehensively. Conversely, 81% of consumers report they have lost data because of mechanical hard drive failures (12 million units annually), viruses and other malware (3 million units annually), or OS corruption. With traditional methods of back-up both time consuming and subject to user error/inconsistency, no wonder there is such a crisis of data. And rewards will come to the company that provides this service. Imagine the stress and anxiety generated by the consumer or SMB that has lost data, but conversely the elation and relief of having retrieved that seemingly lost data. Think of the love and goodwill generated towards

the company that provided the OLB service, then think about the last time a cable company received a love letter from a customer. Companies that offer OLB service receive love letters every day from customers who successfully recover lost data.

In the data security game, SMBs fare no better as data protectors and there is more at stake. Their systems can easily be sabotaged by disgruntled employees. Tape backups are often stored in the same location and thus at risk from theft, fires, floods, etc. (this same risk applies to consumers who back-up at home as well—so if you backup to an external drive and your house floats away, so goes that external drive, backup CDs, etc.). It is estimated that 70% of “business-critical” data resides outside “corporate data centers,” the biggest culprit being laptop-based data, which tends to not be included in most server-based back-up protocols. But here is the most shocking stat of all: 60% of ALL business data is not backed-up at all. Further, 70% of companies that lose data go out of business within six months. Finally, corporate officers are under federal mandate to be HIPAA Compliant and to have disaster recovery plans in place.

Passed by Congress in 1996, the Health Insurance Portability and Accountability Act (HIPAA) was designed to promote, among other things, data security standards for all healthcare-related data. The law requires companies to have formal data backup plans, disaster recovery plans, and emergency mode operation plans in place. There is a similar mandate under the Gramm-Leach-Bliley Act of 1999 which requires, among other things, companies to securely store and safeguard personal financial information. By law, companies are mandated to protect important data. And corporate officers face personal liability for failure to take due diligence in this regard. Who’s going after this market?

Many companies are pitching their OLB business-class services, though most of them are targeting the lucrative enterprise market. Some of the bigger names in this space include CA,

IBM, Sun Microsystems, Akami, and others. Even Amazon recently announced they were joining the fray. But the solutions these companies offer, while perfect for larger clients, tend to ignore the needs of the SMB market, which we define as server-based companies between 2-200 seats. Cutting-edge, VC-funded start-ups tend to have the edge in the SMB market, and their products are often better and more affordable, an attractive combination for any small company.

Cable's key competitors have actively embraced OLB as a strategic priority. AT&T's Online Vault is in this space, but their product is hard to recommend to anyone given how much better the competition is. Verizon aggressively promotes their own consumer online back-up product, which they can bundle along with a broader suite of so-called security services, including firewall, malware protection, etc. While Verizon's product is massively overpriced (\$19.95 per month for 1 GB of data; note: the typical consumer has more than 20 GB of data on their PCs/laptops), they recognize that online backup is an important tool in managing churn, but possibly more important as a product and marketplace differentiator. Verizon also markets OLB to commercial clients under the rubric "Verizon Business." They, like other organizations that take OLB seriously, recognize the enormous revenue opportunity with OLB.

As of September 2007, it was estimated that there were more than 57 million broadband users in the U.S. This puts the value of the consumer online backup market opportunity at approximately \$3.4 billion. The market for SMB online backup is even more stunning. The market size there is estimated at nearly \$17 billion! So as cable operators are looking at finding innovative ways to attract and keep their best customers and to generate incremental revenue, why not try to grab a piece of this relatively untapped business? And wouldn't online backup serve as a powerful adjunct to the broader strategy of cable operators tapping into the lucrative SMB market? Comcast is now running full page ads in *USA Today* and elsewhere promoting "Comcast Business Class,"

