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# Market Roundup

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## Google Tries IM

By *Jim Balderston*

Google announced this week its plans to begin testing a new service that will allow users to instant message or talk with others over the Internet. Google Talk will be available to those that have a Gmail account with Google. Up until now, Gmail accounts have been available only by invitation from Google; the company said it would make those accounts more available in the future. Google joins AOL, MSN, Yahoo, and Skype, among others. More than a hundred million people use one or more IM services in the United States, and a number of the IM services are beginning to offer the ability to connect with other IM vendors' networks.

That Google is getting into the IM business should not be all that surprising. Yahoo!, which started as a search engine, has been offering IM services, and Google has already been offering email, storage, maps, phone searches, and so forth. Why not IM? IM is increasingly being used as a quicker form of communication than email, in some respects relegating email to near snailmail status. A user can determine if a contact is online, fire off a quick message, and get an answer instantly as opposed to waiting for the recipient to check the email inbox and respond. Google seems intent on entering any hot markets no matter how entrenched the competition may be. Clearly Google management is not concerned with first-mover advantage.

The IM market is clearly maturing, and at this time AOL claims the highest number of IM users with 41 million active last month. Other services total more than 80 million users, according to press reports, and the number is growing. At the same time, IM vendors are beginning to understand that they have to allow their users to connect with users of other IM services, and are beginning to make that happen. MSN announced a deal to connect with Vodafone users; Skype, with 51 million users world-wide, announced that it would allow its users to connect with other services. The strategy of trying to keep IM users on the reservation by not allowing them to connect universally may have passed its prime; in essence it would be akin to offering an email service that only connects with others with email accounts on the same system. In effect, those services offering universal connectivity are essentially locking down existing users since they would have little incentive to move to an alternate. We see a consolidation of IM services in the coming year, as IM increasingly becomes a commodity and those vendors with high subscription numbers — or in Google's case, high name recognition and brand value — will find themselves absorbing the subscription numbers of lesser players who face few alternatives. Maybe Google will start spending some cash for those users; in any case it should be fun to watch IM consolidation if for no other reason than the alacrity with which such consolidation will occur.

## DSL Price Pressure: Verizon Offers \$14.95 Package

By *Clay Ryder*

This week Verizon announced its latest consumer DSL offering dubbed Verizon Yahoo! for DSL Service. Qualified customers will be able to purchase a 768 kbps downstream/128 kbps upstream service for \$14.95 a month with an annual service commitment. The new service includes premium Yahoo! features valued at over \$200 a year, including premium email, 100 MB storage, an all-in-one security suite, and commercial-free LAUNCHcast Radio service. In addition, the latest offering includes 24/7 live technical support, nine email boxes, 10 MB of personal Web space, Verizon's Site Builder tool, access to the world of online games from WildTangent and RealArcade, and other multimedia content and services. The 768kbps/128kbps service complements Verizon's other consumer

DSL services including a 3Mbps/768kbs package priced at \$29.95 a month with an annual service agreement or in combination with a qualifying package of calling services from Verizon.

Not that long ago we noted SBC's jaw-dropping \$14.95 DSL offering and wondered just whether it would provide enough of a nudge to drive DSL further into the consumer marketplace. While we don't yet know the answer to this question, it is pretty clear that the competition has a similar faith in the marketplace as does SBC. With Verizon entering into the competitive fray we now have a large competitor with a broad service area, and deep pockets, challenging SBC in the quest for consumer DSL dominance. Given the size of these two communications behemoths, it is quite likely that the \$14.95 price point is going to be around for sometime. For the late adopter who still prefers his/her Internet at glacial speeds, the 768kbs offering will seem like a souped-up hot road, even if it is only a mid-sized, moderately powered sedan. Yet despite the increase in speed, the reality is that the persistence of a connection is more important than the redline speed of said connection. For Fred and Ethel, 768 will do just fine.

But perhaps of more importance to LECs such as SBC and Verizon is the removal of dialup connections off the PSTN and onto a data platform. Freeing up the switching capacity for local lines in the CO removes the need for further investments in CO scale which get sopped up by inefficient dial-based data connectivity. Thus the carrier gets to generate nearly the same income, yet frees up a circuit in their infrastructure and gets better leverage of the local loop out to the home. Additionally, since 768 kbps is not pushing the edge of DSL limitations, LECs could possibly offer the lower-speed service in some territories where only slower, and more costly, IDSL could be provisioned. Overall, we see this as a win-win scenario, assuming that the long-term economics play out favorably, for those looking to move into the 21st century of connection, but at a modest and measured rate.

## IBM Ventures Forth

*By Jim Balderston*

IBM has announced it is forming a Venture Capital Advisory Council that will consist of leading venture capital firms investing in the U.S. and abroad. Members of the council will include partners from Hummer Winblad, Accel Partners, Darby Overseas Investments, 3i, U.S. Venture Partners, and Wladen International. According to IBM, members of the council will have access to high-level IBM officials in the company's hardware, software, services, and research units. The council will meet to review opportunities to create new business that would fit within IBM's partner ecosystem. An emphasis will also be placed on developing startups in Brazil, Russia, India, and China (BRIC). New venture capitalists will be asked to join the council based on their expertise.

Having watched some interactions between VCs and IBM officials, we suspect this council could reward both sides of the equation handsomely. In earlier interactions, VCs wanted IBM simply to lay out a technology roadmap, give the VCs an idea of where the technology white spaces were, and let the VCs go off trying to fund companies that could fill those white spaces. IBM, on the other hand, was not quite willing to reveal what in most cases would be sensitive strategic information to people who in all probability would have passed that information around more broadly. For IBM, a deeper partnership was required before providing such valuable information.

Perhaps the council will provide the kind of environment where not only do VCs receive more detailed and nuanced data about IBM intentions and strategic vision, but also IBM is given an opportunity to affect where VC funding is spent. When one throws in IBM R&D capabilities, one suspects that IBM has some very interesting ideas about what the future may look like ten or twenty years down the road. A few VCs may have as advanced a view of the future, but we would bet that quite a few would be more than slightly interested in taking a good long look into IBM's crystal ball. IBM also benefits if this relationship grows more intimate. Not only does it get insight into which startups may be developing technology that IBM considers critical, it also has the chance to play a major role in investing in those companies, either in early- or late-stage arrangements. When one considers that acquisition is the likely exit strategy for many companies (IPO seems so 1990s) having IBM closely involved in the development of firms allows the company to drive external innovation and bring it inhouse when the time is right. Let's hope this council does what it apparently intends to, since that could be a key in developing new technologies and getting them into the customer's hands as quickly as possible.