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Selecting A VISP Provider Everything you need to know

Introduction

If you are reading this report it is no doubt because you have realized the phenomenal opportunity available in becoming a virtual ISP (VISP). Other than to state that many of the biggest names in Internet access began as a VISP and some are still semi-virtual, we will focus this report on how to match your needs to a VISP provider rather than on the opportunity itself.

Numbers are not easily accessible but we estimate that there are probably at least 35-50 VISP providers in America and probably more than 5,000 VISPs. The good news is that these 5,000 or so VISPs have secured millions of subscribers. The bad news is that about 80% of the subscribers were secured through about 20% of the VISPs. Or another way to look at it is that 80% of the VISPs only secured about 20% of the subscribers. The major reason that numbers are difficult to come by is that both VISPs and VISP providers go in and out of business practically every month. Does this then mean that becoming a VISP is a risky business? Absolutely not. In fact, there are few businesses in which there is less risk. However, it does underscore the importance of understanding the business and knowing what to look for. And of course, that is the purpose of this report.

Why then is there this sort of turmoil within the industry? Our research indicates that the primary reason is marketing related - the myth that a cheaper price will compensate for the lack of brand recognition. Although there are ways of compensating for a lack of brand recognition, a cheap price appears to only exacerbate the problem. Except for a very small segment, of those subscribers that switched ISPs price was not even an issue. If it were, AOL, MSN and Earthlink would probably be out of business as they price their dial-up service at between \$22-\$24/month while competing with thousands of ISPs/VISPs that price their service at \$9-\$12/month or even less. Whether a provider or a VISP, offering a cheap service squeezes margins and gives the perception of low quality. Add to that an unknown brand and the savings of \$10-\$15/month is not enough to cause most to switch.

If this is true, how have so many VISPs been able to capitalize on this opportunity and secure tens of thousands of subscribers? They have succeeded because they have built a recognized brand with a different product/service or in most cases, they have built a network of marketing partners that recommend their service. Each of these marketing partners has a group of prospective subscribers with which they have influence and credibility. When they recommend a VISP's service many of these people will make the switch. The more marketing partners a VISP can engage, the more subscribers they will

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secure. And from a marketing standpoint, this is an ideal situation for a VISP as they pay for results only. As a result, there are no limits to the size of the network of marketing partners a VISP can build. One VISP we interviewed loves to travel in his motor home. He stops in every town and seeks out potential partners and makes a presentation. As a result, he has marketing partners from coast to coast, securing subscribers for his VISP each and every month.

Those VISPs attempting to compete on price find no margins left to pay marketing partners with the end result being going it alone trying to secure subscribers through search engines, mass mailings and personal sales. From our research, we were unable to find even one VISP that has been able to secure any substantial subscribers using these techniques. Without a doubt, measurable success came through marketing partners.

Understanding what it takes to succeed as a VISP is the first step in selecting a VISP provider. Now the real job begins because there are so many providers from which to choose and no two are alike. Our research found that start-up costs range from nothing to as much as \$50,000. We found that the wholesale “per user” costs range from as little as \$3/month to as much as \$15/month. These vast differences appear to be an anomaly in comparison to other opportunities that we have researched. As a result, our research took much longer, went much deeper and hopefully makes this report a far more useful evaluation tool. What we discovered were amazing “night and day” differences. Although the major differences are based upon what you receive or do not receive from the provider, there are also a vast range of quality issues which will be very important in keeping each subscriber you secure from switching to another ISP. Once research was completed, it was easy to see why some VISPs are so successful and why others have little or no success at all. Selecting the provider best suited for you and your objectives is far more critical in this business opportunity than most others we have investigated. The differences are huge! And those prospective VISPs that make that decision based upon cost alone will be very disappointed in the outcome.

General Tips


Prior to getting into specifics, we want to share a few general tips. The fact that you are reading this report indicates that you are probably not a technical person or interested in a facilities-based operation. So our first tip is that you can quickly rule out the \$3-\$6/month providers as all that is included is “raw access.” This means that you will need to acquire costly hardware and software and need a full time technician to use their service. In addition, you will need to create a technical help desk that subscribers can call if they experience problems. We suspect that most people reading this report are looking for a “turnkey” service whereby their only responsibility will be marketing to secure subscribers. If this is your case, don’t waste your time with these “access only” providers.




Our second tip comes as a result of interviews conducted with VISPs that have partnered with more than one VISP provider. When selecting a VISP provider, you are really selecting a partner. This is not a one-time sale, but an ongoing relationship. Like a marriage, if you select wrong, it will cost you a lot to make a change.

Provider Classes

To better understand these vast differences in what providers offer, let's first look at the class in to which they fall. We will start at the low end and work to the high end.

-  **Affiliate Class** – Generally speaking, an affiliate class program offers very little flexibility. Although you may be able to brand a website, you will have little control on changing the site. The provider for the most part determines the price to the consumer which is usually very low. As a result, you are paid a very small commission that will require that you secure hundreds to thousands of subscribers before the commission becomes meaningful. There usually is no set-up cost to offer their services however the provider owns the subscriber thereby giving this class of VISP nothing back except for a monthly commission. Where subscribers are owned by the VISP, the VISP banks a nice windfall should they wish to sell their subscriber base. Our research shows that churn (subscribers leaving for other ISPs) is quite high in this class. This may be acceptable to those that offer the service in a passive way as they would any other affiliate program and are content with whatever, if any, commissions they receive.

-  **Vanity Class** – Most (upwards of 85%) of the VISP programs you will find through a search engine will fall into this category. Like Affiliate Class providers the monthly cost and start-up costs are generally lower and many provide you a little more flexibility. Some include most of the components for a turnkey operation, others offer them a la carte and a few do not offer some of the key components required at all. For example, some will provide you with a basic website from which you can sell your service; some require that you build your own. The range of quality and price from one provider to another in this class can be dramatic. Most of the programs in this class allow the VISP to own the subscribers, but some do not. So it is important that you make sure. In a couple of cases, we were even able to uncover certain charges not obvious at first glance (hidden charges). Our research indicates that most provider and VISP turnover takes place in this class. Although it is difficult to research failed providers or VISPs, we suspect that margins were too small and at the prices they were charging, did not include the marketing tools necessary to succeed. This is not to say that due to these problems you should avoid Vanity Class providers. We

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found the quality of service ranged from very poor to good within this class. We found several providers that are doing a good job within their class and anyone with aspirations of securing a small subscriber base may find these providers the best match for their needs.

- ✚ **Carrier Class** – What makes a provider qualify for a Carrier Class rating? When a vISP provider offers a program with a level of quality that could be distributed by highly visible and brand valued companies, offering features capable of competing head to head with the likes of AOL, MSN and Earthlink, it is classified as “Carrier Class.” Our research found less than half a dozen VISP providers in this classification. As you can imagine, these programs are very feature rich and any VISP using them has no need to worry about tarnishing their image. Naturally, Carrier Class programs have higher start-up costs and higher monthly costs than what we found in Vanity Class. Start-up costs run from about \$10,000 to \$50,000 with monthly costs ranging from about \$10-\$15 with volume commitments. Setting aside the initial start-up costs, it is easy to see why a VISP might find it far easier to succeed with a Carrier Class over a Vanity Class program. Anyone with a marketing plan for securing a mid-sized or large subscriber base will no doubt find a Carrier Class program the best fit for them. In fact, we would recommend that anyone considering the high-end of Vanity Class providers to also consider the low-end of the Carrier Class providers. You might find for a little more investment your likelihood of success is greatly enhanced by moving to a Carrier Class program.

Comparison

Consumer Research wondered what made up the differences in price between Vanity Class and Carrier Class providers. Is it mostly profit margin or is there real value? As we began to analyze our research, we suspected that the mentality behind each class had a lot to do with the price. In our opinion, Carrier Class programs are born from the number one objective being “quality” throughout the service with “price” as a secondary consideration. Vanity Class programs are born from the number one objective of a “lower price” with “quality” as a far lower consideration.

To understand how we came to this theory, allow us to share with you an exercise we went through. In an effort to recreate the great discrepancy in price we see today, we went back to the infancy of the internet and discovered that initial VISP programs were all Carrier Class. And then as is usual in most industries, enterprising entrepreneurs sought out ways of lowering prices in an effort to bring the VISP concept to the masses. In looking how that might affect pricing in today’s market, we began to look at the key

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components of a VISP program and how each one can be done at lower price. What we discovered was astounding.

Equipment

We found that at bare minimum, a Carrier Class provider will have a high powered server for each service they offer (radius authentication, email, hosting, billing, SQL, etc.) and a duplicate, mirrored from the first in case a server goes down. In many cases they will have several sets around the country. We were amazed to find out that if the provider's objective is to lower costs to the lowest level, they could provide these services from a single computer. This is not to suggest that this is the way that all Vanity Class providers offer services, but we suspect there are some that do. Since we noticed dramatic price differences even within Vanity Class providers, we know shortcuts are taken somewhere and we suspect there is every variation in the range you can imagine. However, it helps explain why one provider would have higher costs than another. It would also indicate a vast difference in reliability for your subscriber.

Connectivity

Whatever the equipment used, it must be connected to the internet. A Carrier Class provider will at a minimum (depending on number of VISP and subscribers) have a T1 connection from two different carriers to build in redundancy just in case one goes down for some reason. In most cases, they will have several T1s or DS3s. These connections allow for a lot of traffic and cost up to several thousands of dollars each month. Again, we were amazed that it is "possible" to connect by using only a single DSL connection and although the savings are tremendous, every subscriber suffers. Every service your subscriber relies on will slow to a crawl and prove ridiculous even in a start-up phase. Should the DSL line go down, there is absolutely no service. Again, this is the extreme but the many variations available between this example and Carrier Class service can save a provider thousands of dollars every month. And again, the subscriber suffers greatly in the process.

Software

Naturally all of the equipment used requires software. A Carrier Class provider will use robust, top of the line, often referred to as "best of breed" software that costs thousands of dollars. The software vendors are consistently upgrading their software for improved performance. Our research indicated that there is also "open source" software that is available at a very low cost or no cost at all. Naturally this software is not of the same quality and is not upgraded often. Although there are several levels of software quality between the examples we

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have used, the important point is that thousands of dollars can be saved by using low-end software to the detriment of your subscriber. Again, we want to state that some Vanity Class providers we talked to did use higher-end software, but some wouldn't even disclose what they used. We will let you draw your own conclusions for these cases. Nonetheless, a provider using low-end software can charge less for their service.

Support Call Center

We were surprised to find that most of the Carrier Class providers outsourced their call centers. We felt this might be a place where Vanity Class providers had an edge. However, as we dug deeper we found that that most Vanity Class providers also outsource their call centers. So our research team compared outsourced call centers to in-house call centers. We were not surprised to find that the quality of both in-house and outsourced call centers varied drastically. Hold times ranged from less than three minutes to some that never answered and we gave up after 1 hour on hold. However, we did find that the best outsourced call centers did appear to be more professional, polite and helpful than the best in-house call centers. We suspect that the reason for this is that is the core business of the outsourced center and this is all they do. As a result you would expect them to have better trained staff, better equipment and better resources. We were unable to determine the cost of in-house call centers but found it easy to secure pricing for outsourced services. The pricing we secured for the call centers with the worst quality service was as low as 50¢/month per subscriber while the cost of the best call centers were as high as \$4/month per subscriber. This component alone can account for a disparity of \$3.50/month per subscriber. We also found that Carrier Class providers were using the high-end call centers and the Vanity Class providers were using the low-end call centers. Naturally we were not surprised by this considering it allows them to trim anywhere for \$1 to \$3 a month from their "per user" costs. However, considering the cost to secure a subscriber and that it is easier to keep a subscriber than secure a replacement, we would suggest that this certainly is not a good place to save money.

Networks

There are many regional and semi-national network wholesalers that provide "raw access" at numerous locations. Of course, in order to use the networks you have to have a variety of costly equipment and software that is connected to the internet. VISP providers buy raw access from these networks, add many value-added services and then offer them to their VISPs. Our research shows that they pay between \$3-\$6/month per subscriber for access to these locations. The small regional networks are at the low end of that scale and the large semi-national at

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the high-end. Many of these wholesalers charge a monthly minimum to the provider and the higher the minimum the lower the rate they pay. However, the differences in the rate they pay based upon minimums are not that significant but it does contribute to the disparity of rates the VISP will pay the provider.

We found that most Carrier Class providers offer multiple networks. The logic in this is that access is available in more locations, meaning more opportunities to secure subscribers. It also means that in communities where there is more than one location, if a “node” of one network goes down, the subscriber can be moved to another network with little or no inconvenience to each subscriber.. And last, we learned that several networks have gone out of business in the past. Should this happen in the future, they can quickly move the subscribers to a different network rather than them switching to a different ISP. Carrier Class providers tend to use many networks while Vanity Class providers tend to use only a few. By putting all of their subscribers on just one or two networks, they can force their prices down. Of course this means several things to the VISP; the possibility of lost opportunity with fewer locations in areas where they might secure subscribers; potential busy signals for subscribers as they attempt to access the VISP network; and less opportunity to move subscribers to a different access number if there are network problems. Nonetheless, by using a limited number of networks providers can trim their costs and what they charge the VISP.

Billing System

A critical component of a VISP program is the billing and reporting system. Our research showed these to also be all over the board. Some even used PayPal as their billing system which of course, other than the credit card discount, is totally free. There are also a wide variety of third-party billing systems that are being used by providers that we had an opportunity to review. Some are pretty robust while others leave a lot to be desired and as you would suspect, prices ranged accordingly. Naturally, Carrier Class providers use the high-end more expensive systems or create their own. Vanity Class providers tended to use the less robust systems or PayPal. We were very impressed with a proprietary billing system that one Carrier Class provider offers. As a result, we will use it as an example of how different a high-end solution can be. Not only did it automatically bill the credit card each month, but it showed every logon, the length of the logon, what location they dialed into and what location (by telephone number) they dialed from. Of course, it showed all customer data including user name and passwords (even for secondary email address), making it easy to resolve any problem the subscriber may have. Better still it allows the VISP to run diagnostics on accounts and easily

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fix a problem without even knowing what the problem might have been. Imagine how quickly a problem can be solved when a subscriber calls the support center!

However, if we were amazed by this feature, we were totally blown away to see how, when integrated with the online sign-up page, it automatically configured the user's computer (Outlook email & dial-up networking) branded the user's browsers with VISP's name and set the portal start page as their home page. The entire process took about 5 seconds. Early in the report we mentioned the advantage of using marketing partners to secure subscribers. This specific billing system allows for the creation of codes that can be tied to a marketing partner and/or a specific rate plan, giving the VISP the best of both worlds. It allows for email and/or printed invoices. It is perfect for a VISP with a web-based operation or a VISP with a physical store. Naturally, this is a very high-end billing system but the point is that there is a big difference between the low-end and high-end billing systems with several layers in between. The costs to the providers have a large range just as do the benefits to the VISP and subscriber. Not only does this account for some of the cost differences to the VISP but also underscores the importance of understanding the billing system you will receive from the provider with whom you partner.

Website/Portal

One of the major differences from the subscriber's perspective between a Vanity Class provider and a Carrier Class provider is their website/start page. Some providers within the Vanity Classification may offer the VISP a website from which to offer their services, others do not. Where they are offered, some are quite attractive while others look rather shoddy. The Carrier Class providers that we reviewed offered a dynamic portal (as opposed to static web pages). What initially appeared to be not all that important changed into a very key issue as we began to look deeper. We researched the issue from the desires and needs of both the VISP and the subscriber. What we found can have an impact on a VISP's success.

Chances are that a prospective subscriber is far more likely to sign-up from an attractive site than a shoddy site just as with a physical "bricks and mortar" store. Who wants to do business with a place that looks like they are about to go out of business? And considering that a web presence is the one place that a company run from a kitchen table can "appear" as large and successful as General Motors, why would anyone settle for less? However, we took it a step or two further than the obvious.

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All of the Vanity Class providers that we researched offered static pages. Some give the VISP flexibility to alter the look and feel if they are a web designer, while some do not. Regardless, those members of our research team familiar with web design suggest that much time will be taken from marketing activities (where the money is) to maintain the site. The other issue we considered is the value to the subscriber once they have signed up. After reviewing what Carrier Class providers offer, we were disappointed with the few Vanity Class “start pages” we found. Yes, they may have lots of links, news headlines and weather, but none of them offered subscriber personalization. So once a subscriber has signed up, they will then go to Yahoo, MSN or wherever they can find a portal that will allow them to personalize it with the content and productivity tools they desire. Suddenly the VISP has handed control of the subscriber over to Yahoo, MSN or a portal that allows personalization. When we compared churn rates (subscribers switching ISPs), it was substantially lower among ISPs and VISP with a portal that can be personalized. However, to be perfectly fair and balanced, it is important to note that there were also many other factors that no doubt also contribute to lower churn.

All of the Carrier Class providers we reviewed offered dynamic portals that could be personalized by the subscriber. Although they all offered many features over the static website, some were far more feature rich than others. At the low-end, some remembered such things as zip codes for weather and tasks and appointment schedules, while at the high-end, the subscriber can add and delete content, games, change colors, localize the portal with local news, weather, yellow pages, etc. They can add many productivity tools and even translate the portal into many languages. These high-end portals allow the VISP to compete head to head with AOL, MSN, Earthlink and other large ISPs. From the standpoint of the VISP, the high-end portals allow the VISP to make many changes to the portal without being a web designer – using simple tools such as a browser and a mouse. This means less time spent with the portal, leaving more time for marketing. At the low-end of the Carrier Class portals we found that we would need to hire (at additional expense) the provider to make changes to the portal. However, what surprised us the most is that the Carrier Class provider with the most high-end dynamic portal had far lower start-up costs than the Carrier Class providers with the low-end dynamic portals. Although this made no sense to us, it underscores the importance of doing your own research and thoroughly comparing what is available.

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Marketing Support

The entire concept behind a VISP program is that the VISP is responsible for all of the marketing and the provider is responsible for all or most other things. However, we found that some providers, particularly among the Carrier Class, provide certain marketing support and tools that will make the VISP's job easier and more successful. For example, one provider offers their customers a marketing website that includes thousands of sources for free content for your portal. It also includes plug-ins that add neat features to the portal. It contains links to specialized software, directories and many other things. It even has a marketing ebook library. And best of all, access to the site is free to their VISPs.

One provider also offered an instant web page for VISP's marketing partners. By including a marketing partners name and their code in the link to this page, the page is populated and personalized for the marketing partner. They also have online software where the marketing partner can visit anytime to see how their business is growing and what commissions they have earned. These "extras" may not seem like much, but our team members with marketing backgrounds felt that these had critical intrinsic value. Keep in mind that marketing is the most difficult part. As we mentioned before, those that enjoy the greatest success use marketing partners. So every bit of marketing support and help, specifically as it relates to marketing partners, should be worth its weight in gold. Be careful to not under value these tools.

Summary

After reviewing all of our research into VISP programs we have learned that there are very good reasons for the price disparity between providers. As a general rule of thumb, "you get what you pay for." Clearly a Carrier Class program provides far more value for the investment and has far greater likelihood of success than other classes. However, we also recognize that not everyone has the capital to invest in a Carrier Class program. So in summary, we would offer the following advice.

Hardly any of the VISP programs are the same. As a result, it is not possible to make a sound decision based solely on price. Making a sound decision requires thorough investigation of what each provider has to offer. The quality of each component of a provider's program can vary widely as will the cost to the provider and then to the VISP. Generally, higher prices did mean higher quality with the noted exception that the provider with the most robust portal actually had the lowest start-up costs among Carrier Class providers.

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If your objective as a VISP is to secure a few dozen subscribers from the likes of friends and family, you will probably find that an affiliate or Vanity Class provider is better positioned to serve your needs. On the other hand, if your objective is to secure hundreds or thousands of subscribers, we would recommend considering only Carrier Class providers. The costs are indeed higher but so are the benefits to the VISP and subscriber. Your margin per subscriber may be less but you gain increased capabilities to secure and keep subscribers. In the end, the VISP will earn higher profits overall. Which is better; high per subscriber margins but an inability to secure and keep subscribers or a lower margin but an increased ability to secure and keep a large volume of subscribers?

The difference in *retail* prices from a high-end ISP/VISP (\$20-\$25) and a low-end ISP/VISP (\$10-\$15) are not enough to motivate most subscribers to switch. It takes a recommendation from a creditable source to prompt a move. As a result, most successful VISPs are built through a network of marketing partners that market their services to those with which they have influence. Those using marketing partners grow rapidly while those that try to do it on their own experience retarded growth. Consider the marketing tools offered by each provider as it can mean the difference in your success or failure.

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