

Magic of networking externalities

BY RAIS HUSSIN



Propositions with “send” and “receive” ends need to exploit the magic of networking externalities. This is how the fax machine became so quickly indispensable. Once there was a critical mass of users out there, growth became exponential as more and more people went out to buy a fax machine to communicate with other fax machine owners. Telecoms service providers forget networking externalities at their peril.

The same magic drives on-Net voice-over-Internet Protocol (VoIP) connectivity. My friend’s son studying in New York needs to call home to mom several times a week for love and money. The boy badgered his father to buy a VoIP phone similar to the brand he has in his room in the college dorm. Now, for a monthly subscription of US\$19.99, the boy and his mother can talk endlessly without denting dad’s bank account. He could have done the same over Skype (another networking externalities success story), but mom has no use for the computer.

As networking externalities work to build up VoIP’s on-Net muscle, they face cellular recalcitrance. Cellular’s current advantage stems from the fact that 60% of us reach for our cellular phone to make a

call even when the VoIP phone or desktop extension is within easy reach. The handphone is now a part of our persona, a new appendage, an integral part of our lifestyle. The advent of WiFi means that VoIP may bite a chunk off this indispensable device. The cellular establishment, however, is loathe to give up any piece of the action and so, the inside of the handphone is where the next telecoms battle is engaged. Once again, networking externalities get to decide the victor.

VoIP spilt over almost unnoticed into the mobility sector with the advent of WiFi. It began when PDAs started coming out with WiFi chips. Inevitably, the next evolutionary step was VoIP software for cellular phones, the latest one being Skype. This, like I said, pits VoIP head-on against the cellular establishment. For the longest time, hubris as well as WiFi’s short range and voice-related shortcomings meant the cellular establishment was dismissive of this development. Now that WiFi is past these issues, the gloves are off. In a recent European newspaper report, a cellular spokesperson bluntly warned that the cellular companies would collectively work to kill mobile VoIP. I so wish he’d said this to

an American newspaper on behalf of US cellular companies because then, someone could have made a few millions from an anti-trust lawsuit.

The man, of course, is being a little ignorant. WiFi-VoIP is already there. The last barrier to entry was WiFi-cellular interoperability. A WiFi-cellular phone is essentially two separate phones on the same chassis. The user can either make a VoIP call or a cellular call and needs to drop off and dial again should he move into, or out of WiFi coverage. Cooperation from cellular companies was a prerequisite to bridge this chasm but they refused to play ball. The matter languished and the cellular lobby scored again at the consumer’s expense. Or so they thought.

I suggested last year that cellular and 3G interests would be well served if they co-opted WiFi and VoIP while they still had the upper hand. As of this year, they just lost their hand.

Acknowledging WiFi and using it as an adjunct to the cellular air interface necessarily means admit-

ting that 3G is a failure. Any 3G licensee who does that will have to reckon with some serious shareholder and market valuation issues. Until recently, shareholders were being told that 3G was a panacea to 2G’s data-related shortcomings and the billions and billions spent on 3G were well worth it. If 3G is indeed the high-speed data solution, then any investment in WiFi, however modest, would be challenged by shareholders and analysts. So, the only current solution is to keep all

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this under wraps, continue to pitch 3G to the poor user and blow smoke up the shareholder while wining and dining investment analysts into compliance. Nevertheless, when cellular executives wake up at night screaming, it’s because of WiFi.

Instead of energising a defective 3G model, WiFi and the handover solution provided by the likes of The Red Snapper will enable Internet service providers (ISPs) to enter the mobile voice market, much to the chagrin of licensed mobile operators. These ISPs are intelligent, tech-savvy companies that may be the only players in the Asian telecoms market that have truly had to fight for every cent they make. Empowered by a mobile technology that is IP-based and that overcomes WiFi’s range issues, the ISPs can only make it better for the Asian handphone user. With WiFi as their silver bullet, this is a second chance for Asia’s ISPs, slammed by the dotcom bust. It is up to them to exploit the window before the cellular establish-

ment finally begins to see the light.

Similarly, this technology is a god-send for third-tier in-country carriers that are simply tired of being subservient to their dominant carriers. For example, a Thai carrier and The Red Snapper partner plans to simply allow any Thai mobile user to download Red Snapper soft clients into their cellphones. Instantly, calls made from competitor cellphones, albeit over WiFi, get diverted to the Thai carrier. How insidious is that! The more Red Snapper soft clients out there, the more the need for others to have one

in their cellphones, allowing them to talk for free to each other. Once again, networking externalities have worked their magic on a compelling telecoms proposition.

If you think about it, most of today’s most exciting websites are all about networking externalities. If you upload your pictures on a popular website and then invite your friends to sign up to that website so that they can see your pictures or video, that’s networking externalities at play. Eventually, the website becomes heavy with subscribers and gets sold to Yahoo! or Google or as in the case of Skype, which was sold to e-Bay for an ungodly amount of money. The Red Snapper is the first heavy-duty Malaysian initiative to take advantage of networking externalities within and outside Malaysian boundaries. Malaysia could do with a few more. ■

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