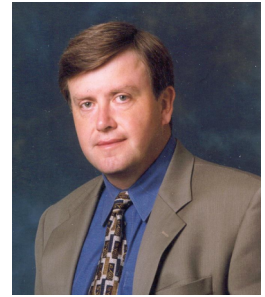


The Commoditization of Web Conferencing

By Ian Widger and David Coleman

Ian is the CEO of Encounter Collaborative, and has been involved in telecommunications and the audio/web conferencing space for many years. Since its founding three years ago, Encounter has moved into the Web or Data conferencing arena, with a very different take as to what is required to make web/data conferencing as common as today's conference call. Some of you might find Ian's thoughts, challenging or thought-provoking, but they also carry a certain amount of insight that many of the analysts here at CS agree with... David Coleman



Ian: The last three years have seen an enormous fallout within the dot com market - and it is with some surprise to me that web conferencing companies have been among the survivors.

David: In the latest real time collaboration (RTC) report from Collaborative Strategies, we identified and profiled almost 40 data/web conferencing vendors.

Ian: The surprise is not because web conferencing as an application is flawed but, rather, that the market for which web conferencing companies built their products was so distorted by dot com thinking!

David: It's worth noting that all (audio/video and data) conferencing stock prices soared in the immediate aftermath of September 11th 2001. However, this was a relatively short-lived phenomenon, and 2002 saw many of these stocks revert to their previous valuation levels, and indeed some of them today are under-performing the market. A recent Forbes article compared a handful of public conferencing providers from this vantage point (Simons, David, "Market Bet On Terrorism Goes Bad". Forbes, 04.03.03; the figure above was excerpted from this article). As noted, Polycom has particularly under-performed the market over the past year or so.

Ian: In order to survive initially all of these companies had larger than life marketing budgets, launched technologies that were not quite 'ready for prime time' and lacked a real understanding of what they stood for. And, as the old adage goes, "If you don't stand for something, you'll fall for anything." Not only did these companies have the dot com marketing budget and quality issues -- but they punctuated it by calling themselves abc and xyz dot com. In my opinion, this significantly wounded these companies. (They also had to contend with multiple forms of funding, both in preferred and debt, a legacy that continues to encumber many of them today.)

Web conferencing survivors have had to become very focused on their target markets - and to shed all forms of baggage unrelated to their primary goals. In today's market that means they have to appeal to the corporate user. By and large, the survivors have designed their web conferencing solutions to cover all of the possible needs of large corporations. The way these conferencing companies charge for usage has also been designed for corporate environments. Perversely, I wonder if the failures of the dot com market drove web conferencing providers away from the real customer, the end user. Let me give you an example.

I challenge everyone reading this article to look around and approach the first person or two that you see, assuming you know him or her, and ask if that person can set up an audio conference within the next 15 minutes. The answer will be "Of course!" - and, if all else fails, they know that they can call AT&T or MCI and their chances for success will be extremely high.

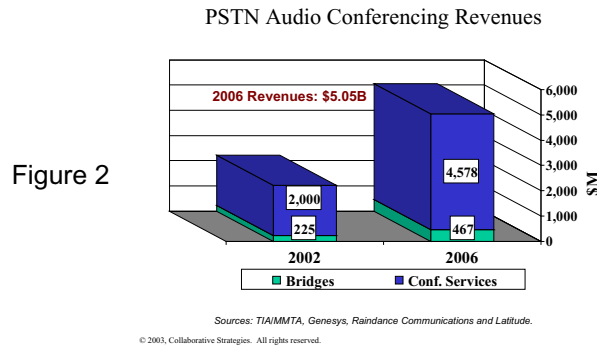
If you ask the same person or persons to set up a web conference, your chances of success will be immediately revealed by puzzled expressions -- as anyone who has tried this already knows that setting up a web conference account generally takes several days. And if you dare to involve your IT department, it may take several months. In my opinion, that demonstrates how immature this market still is.

David: At CS we see the data conferencing market moving along the technology adoption cycle from the early adopter to the early majority, which as we have said in past editorials is a very different animal from an early adopter. Early adopters are often interested in technology and have the vision on where it can be applied and how it can be used in their organization. In addition to being technophilic, they are also willing to live with a high level of risk (after all some of the technology solutions they are looking at are often unproven). Although audio conferencing is a more

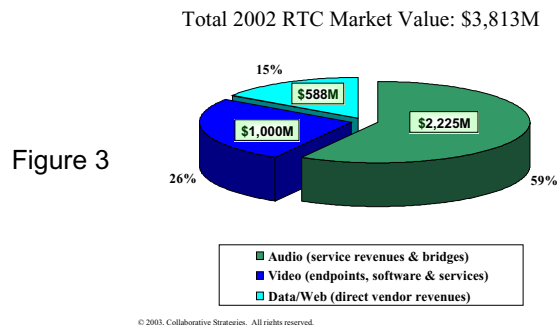
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mature technology, early adopters bought video and data conferencing in the late '90's and around the turn of the century. But with the dot bomb and the resulting slump in the economy, everyone tightened their belts and focused on core business issues. These hard-nosed business types are part of the "early majority." They are technology agnostic, and will use technology when it solves a specific problem they have. They have little tolerance for risk, and will stick with their old or non-technical process if the technology is too hard or too expensive to implement. This is the market for many of the collaboration technologies (web conferencing) we have today.

The audio market today, depending on how you do the calculations, is a multi-billion dollar market (see Figure 2 below)



Web conferencing, with all the money and venture capital expertise being poured into these organizations, can still only muster up a market size of several hundred million dollars (see figure 3 below)



Ian: In my opinion, this is not because web conferencing isn't desirable - but rather that users today would still rather send a PowerPoint presentation to participants by email - than run the gauntlet required to activate a web conference. And, when you think about it, these companies have done it to themselves! By focusing on the corporate market, they focused on the corporation -- and not on the individual.

For web conferencing to be successful, the following three things need to happen:

- Anyone should be able to set up a web conference as easily as an audio conference call
- Web conferences should, in an ad-hoc manner, be able to be billed to credit cards
- Web conferencing should be so simple that no training is required

In other words, web conferencing has to be as intuitive as today's audio services. And, the price point for web conferencing services needs to decrease: the calls themselves are still too expensive.

David: What Ian is asking for above is to make web conferencing into a commodity, and in a commodity market the two factors for choosing a service or product are price and availability. With Microsoft's acquisition of PlaceWare and its subsequent movement into this market, there can be no doubt that web conferencing is rapidly becoming a commodity. But to be a commodity a technology generally has to pass what I call the "Mom" test, i.e. my mom has to

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be able to use it. Now my mom is pretty smart, but she did not grow up with computers (as I did) and has only in the last few years gotten a Mac and now does e-mail with the family. However, a product that was added to our "Technologies to Watch" list a few months ago called Glance (www.glance.net) was the first RTC product to actually pass the Mom test. Encounter Collaborative's (www.encounter.net) forthcoming product called 'ShareItNow™' is also of the same ilk should also pass the Mom test and be added to our Technologies to Watch list. Now two products in a category don't make a trend, but in the last RTC report we did look at the trend we call e-meetings, which are small (2-10 people) meetings and they seem to be the majority of virtual meetings that happen today (over 90% according to most vendors).

Ian: I accept the fact that the software may have been difficult, initially, to develop -- and that web conferencing companies needed to make large capital investments in servers and networks -- but I find it hard to understand why the technology is any more complicated or expensive than a browser, web server and a DNS. As soon as these companies recognize that the market price for their services cannot be sustained at current levels, and they build business plans that price the product at a level that will meet broad market acceptance, it is hard to envision that they will not be successful.

David: Actually, CS has seen this trend happening over the last year with both Genesys and Latitude and many others offering plans for under \$30/month. Many of the vendors in the RTC report have looked at the market leader WebEx, and tried to offer similar services at half the price. Such strategies are truly those of a commodity market.

Ian: In conclusion, to the extent that I am prepared to speculate, I believe that, within the next couple of years, we will find it commonplace for web conferencing to be offered at a few cents a minute (and probably bundled with audio conferencing services.) As a result, it is by no means clear to me that the ultimate leader in this market can be identified at this point in time.

David: CS agrees with Ian. In that WebEx is currently the leader based on revenues, we expect that 2004 will continue to bring consolidation to the RTC market, and with Microsoft as part of this mix, it will be interesting to see how the market begins to shake out.

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