Approaching the SoHo Market Opportunity
Forward

In this paper, we present the Solon approach to the SoHo segment based on our project work with several major operators in the U.S. and EU. The B2B market, and particularly the SoHo segment, is an interesting and increasingly relevant focus area for providers of telecommunication services. It is a large market, and it is becoming the next competitive battleground between incumbents, competitive carriers, and cable operators. As a result, we are seeing innovation in SoHo products, packages, and customer service levels as operators attempt to differentiate themselves. A key challenge for operators in the segment is how to provide SoHo customers with a value proposition that is both compelling and cost-effective.

Solon has closely worked with operators who are launching or re-launching their SoHo products and services suite. We have compiled surveys of SoHo business needs in multiple European countries. We have analyzed the best practices of U.S. and EU operators to establish benchmarks on offers and pricing. And we have developed an understanding of both the common needs of SoHos in general and the unique needs and situations of SoHos in different markets. Our experience has shows us that the needs-based approach is a very effective way for operators to develop or refine their SoHo go-to-market strategy.

Dorothea von Wichert-Nick, Principal

Client Perspective

We have identified the SoHo market as a top priority for UPC Broadband. That’s why we have identified four key operator countries to develop and push SoHo products in their respective footprints. Solon has supported us in developing the overall SoHo strategy, the underlying needs-based segmentation, the product and services blueprint, as well as country specific adaptations in close cooperation with our local teams. The emphasis on creating a “personal touch” customer service experience proved to be an opportunity for us to differentiate our offer. Solon has since assisted us in ramping up the implementation within various countries. The SoHo projects are true milestones for us in achieving our targets in this market segment.

Frans-Willem de Kloet, UPC Broadband
Executive Summary

The Small-office Home-office (SoHo) segment represents a significant market for communication service providers. Incumbent telcos are developing enhanced offers to attract and retain SoHo customers, while new competitors are entering the segment. Competitive carriers and cable operators both see this as the next promising growth opportunity. To succeed in this increasingly competitive market, all providers must understand the product and service needs of these small businesses, and implement best practices in their approach to the market.

Overview and Objective

Within the telecommunications market, the B2B segment is typically segmented according to business size. Since firm size is a relatively good indicator of business complexity, this segmentation also proves to be effective at indicating demand for telecom services. SoHo firms are the smallest companies, typically defined as having up to 10 employees. The telecom needs and purchasing behaviour of these companies are often similar to residential needs, with customers having very limited technical knowledge. Firms larger than this are classified as small and medium businesses (SMB). The SMB segment generally requires more technical and complex solutions such as high-bandwidth connections, private networking, and managed services and may often require services for a multi-site environment.

In the U.S. and Europe, the SoHo segment is currently a critical market for almost all telecommunications providers. Incumbent telecom operators not only need to defend against new competitors, but also seek new revenue growth opportunities beyond simple telephony and broadband services. Value-added services (VAS), such as web hosting, data security software, and integrated communication services appear to be key drivers to significantly increase ARPs. The SoHo segment is regarded as particularly attractive for VAS due to its size. In addition, operators also believe SoHo has a higher propensity to spend on advanced services.

Competitive carriers are also attracted by the SoHo opportunity, in markets where the economics are attractive. Many players have so far purely focussed on quick wins in the residential segment, and, as this source for growth has now been nearly fully exploited, are turning to the next segments. With large enterprises and in parts even SMBs firmly in the hands of the various incumbents, SoHos seem to be the easiest entry point into the B2B market for competitive carriers. In the US, few competitive carriers (i.e. CLECs) have been able to thrive in the SoHo market as the economics of single-line resale access are so poor. However, in many European countries, the regulated resale tariffs are more favourable for competitors and in these cases the SoHo market is attractive.

Cable operators are faced with slowing growth in the consumer segment as the broadband market matures. The B2B segment, historically in the hands of telco incumbents, is viewed as one of the best opportunities to generate significant new growth. Within B2B, the SoHo market is again the natural entry point for cable operators as it is the most similar to the familiar residential market. Unlike competitive carriers in the telco business, cable operators have their own network and are not limited by regulatory decisions regarding resale access prices. Several U.S. and European cable operators have been growing their SoHo customer base rapidly and have already achieved revenue from B2B of up to 10% of total revenue. They have developed SoHo / SMB packages, adjusted their platforms to handle the new services, and aligned their sales forces and customer support organizations.

To pursue this opportunity, operators need to understand the needs of SoHos, and the most effective (and cost-effective) means of attracting these small businesses. Owners of small businesses usually think of themselves as full-fledged business customers, and demand an increased level of customer service. Primary research indicates that these customers are willing to pay for this extra service – for example, paying a small fee per-minute to a customer help-desk. SoHo customers want products to be simple and reliable – e.g. an internet connection that is always ready to be fully used - not sometimes slow and sometimes fast. While this perception of getting a high
quality of service is important, the standard retail sales argument – highest theoretical speed for lowest above the line price – is not. While many SoHo customers claim that their internet connection is “very fast”, most cannot recall the actual connection speed.

One of the key considerations for telecom and cable operators in the increasingly crowded SoHo market space is how to differentiate their offers. There are several ways to accomplish this goal, such as high bandwidth, low price, or innovative bundles. While many of these approaches can be effective and are frequently used by telecom operators and cable companies, Solon believes that the positioning component is an opportunity for differentiation that is often overlooked. So far, most operators emphasize “low-cost”, “high-speed”, or “comprehensive solutions”. Low price is certainly an important factor and the other messages are positive. Yet the core needs of SoHos are product simplicity and customer support, and these needs are noticeably absent from most operators’ positioning (See Figure).

### Common SoHo Positioning Themes

<table>
<thead>
<tr>
<th>Theme</th>
<th>Sample Positioning:</th>
<th>U.S.</th>
<th>Western Europe</th>
<th>Eastern Europe</th>
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</thead>
<tbody>
<tr>
<td>Affordability</td>
<td>“Savings your business can afford”</td>
<td>A</td>
<td>B</td>
<td>D</td>
</tr>
<tr>
<td>Bandwidth</td>
<td>“Business broadband - Now up to 20 Mbps”</td>
<td>C</td>
<td>E</td>
<td>G</td>
</tr>
<tr>
<td>Solutions</td>
<td>“We have the solution that’s right for your business”</td>
<td>F</td>
<td>H</td>
<td>I</td>
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<tr>
<td>Competitive</td>
<td>“Don’t play games with your business communication”</td>
<td>G</td>
<td>H</td>
<td>I</td>
</tr>
<tr>
<td>Productivity</td>
<td>“The right tools for your business”</td>
<td>H</td>
<td>I</td>
<td>J</td>
</tr>
<tr>
<td>Simplicity</td>
<td>“Hassle-free services”</td>
<td>I</td>
<td>J</td>
<td>K</td>
</tr>
<tr>
<td>Support</td>
<td>“Always there when you need us”</td>
<td>J</td>
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Source: Solon

### SoHo Telecommunication Needs

Understanding the telecommunication needs of SoHos is the first step towards developing an offer. Within the SoHo segment, there are certain common needs that apply to almost all companies. Three universal SoHo needs are: reliable connectivity, customer support, and product simplicity. The relative importance of these needs may vary by country or market, but all SoHos are looking for a provider that can offer them a solution that can meet these core requirements.

**Reliable connectivity** is the need for dependable voice connections and adequate bandwidth at all times. SoHos need to communicate for their business to function, and unlike larger enterprises, SoHos usually don’t have a “hot switch” backup service. The product implications for operators are telephony, broadband, and some level of basic SLA or QoS. While a SoHo may not have a technical understanding of these services, the assurance of reliability is very important. Additionally, providers need to ensure service continuity during the transition process when SoHos change providers.
Customer support is the second core SoHo need. This can be an important differentiator between the SoHo and residential markets, as SoHos typically expect a higher level of customer service. Service providers must provide support for all their products and ideally should be able to resolve problems at any time via specially trained, dedicated agents. Various operators have addressed this need by offering a 24/7 call center, online support agents, and assistance with the installation / transition phase.

Simplicity is the third core SoHo need. Relative to other B2B segments, SoHo products need to be much more user-friendly, with low technical expertise requirements, and a clear and concise contract. Often, SoHo owners are making all the telecom purchasing decisions, and they have neither the time nor the expertise to develop engage in a technical discussion with a sales agent. Standard packages with clearly defined benefits are very attractive to SoHos. All-in-one bundles can also be very useful, as these allow SoHos to cut down on the complexity of dealing with multiple providers for different services.

In addition to these basic needs, unique circumstances within specific markets can affect the behaviour and telecom needs of small businesses considerably. In some Eastern European markets, for example, owners of small businesses are very entrepreneurial. If one business idea fails, they will often start up a different business. In these markets, SoHos have an increased need for flexibility from their telecom service provider. Low upfront equipment costs and a flexible number of lines and voice minutes may be more attractive options in these Eastern European markets than in Western Europe and the U.S. In some Western European markets, meanwhile, ISDN services have been marketed heavily towards SoHos, with special consideration of voice quality and calling features. SoHos in these markets have come to associate these services with “business look and feel”, and they may well be a requirement for successful go-to-market approaches.

Going one step further, there also sub-segments within the SoHo market that have unique needs. Solon has found that each of the following sub-segments has characteristics that impact their telecom needs:

<table>
<thead>
<tr>
<th>SoHo Market Segments</th>
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<tbody>
<tr>
<td><strong>Vision</strong></td>
</tr>
<tr>
<td><em>Residential package plus business-enabling VAS</em></td>
</tr>
<tr>
<td><em>Simplicity is critical, everything else is secondary</em></td>
</tr>
<tr>
<td><em>No-hassle simplicity with a business video service</em></td>
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<tr>
<td><em>Tailored solutions with dependable support</em></td>
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<tr>
<td><strong>Characteristics</strong></td>
</tr>
<tr>
<td>No own permanent office outside of the home</td>
</tr>
<tr>
<td>Private environment</td>
</tr>
<tr>
<td>Manual labor, with the majority of time spent at customer site</td>
</tr>
<tr>
<td>Base of operations is home or small office</td>
</tr>
<tr>
<td>SoHos whose businesses are open to the public</td>
</tr>
<tr>
<td>May require public video services</td>
</tr>
<tr>
<td>Small, independent offices with dedicated space for professional work</td>
</tr>
<tr>
<td>Multiple employees</td>
</tr>
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Home workers, examples of which include tele-workers, writers, and independent contractors, are often one person firms with a need for one voice line, sufficient bandwidth for both residential and business applications, and video service. This segment is the most similar to the residential segment, but with a slightly higher willingness to pay for extra customer service and support. A business-labelled invoice may also be attractive to home workers because of tax deductions.
The trades & craftsmen segment is composed of workers such as builders, electricians, and plumbers. Employees of these SoHos spend a lot of time at client sites, and have a high need for mobility and low needs for fixed voice and internet bandwidth. They generally have the lowest ARPU of the four segments.

Public venues, which may include retail stores, restaurants, salons, and health clinics, generally have simple voice and data needs. However, their public nature often creates a need for unique services such as a publicly-licensed video service, public Wi-Fi, or a second line for payment transactions.

Finally, the office workers segment contains the most sophisticated SoHos. Examples may be small offices such as law or professional services firms. They typically need multiple voice lines, secure internet service with adequate bandwidth, and a scalable solution that can accommodate a growing firm. Furthermore, productivity-enhancing VAS such as email and web hosting are particularly attractive to this segment.

As a final note on the needs based approach, it is also interesting to consider the products that are not needed by SoHos. None of the segments have a need for complex or expensive services such as multi-office private networking, costly premise-based firewalls, or software-as-a-service (SaaS). These are products designed for medium-to-large businesses and are far more complicated than useful for SoHos. Fixed IP service is useful for some SoHos, but in Solon’s experience, it is more of a niche product that can be a useful add-on feature for an extra cost. It is certainly not an essential part of a SoHo bundle. To serve the SoHo segment, operators do not need the most technically advanced services. Instead, “simple solutions that work” need to fulfil the basic needs of reliability, connectivity, simplicity, special needs due to local market conditions, and segment specific add-ons. Clear communication of these features is more important than technology centric developments. These findings are in stark contrast to the technology focused VAS strategies of many operators.

Developing a SoHo Offer

Both telco and cable operators are now developing or refining their go-to-market approach to the SoHo segment. Solon has developed a needs-based approach together with its clients as the basis for developing a comprehensive product strategy. The elements of such a strategy can be seen in this illustration.

Source: Solon
Once the SoHo needs and customer experience expectations in a specific market are clearly understood, the next step is to design a SoHo offer. Five key components of the offer are products and value added services, packaging (i.e. bundle vs. a la carte), support, pricing, and positioning. Different operators have developed a wide variety approaches to the offer, but there are clear patterns and best practices that emerge from an analysis of these approaches in the U.S. and Europe.

Regarding products, many operators do not differentiate speed brackets between residential customers and SoHo customers. Basic voice service often have an included bucket of local and long distance minutes instead of a full flat rate found in residential offers. The number of VAS bundled at no extra cost varies significantly by market, but generally includes several email accounts, anti-virus software, and possibly a few hundred Megabytes of online web storage. These products address the core product needs of SoHos and provide a good foundation for future growth. More advanced SoHo customers can be up-sold to additional services such as higher bandwidth, a full web hosting package with a fixed IP address, online remote backup, and voicemail.

In terms of packaging, there is a significant amount of variation among service providers in terms of how many services are bundled together. Some operators allow customers to choose the products they want (e.g. voice, internet, TV) and combine them into a customized bundle. Other operators take more of an all-or-nothing approach, giving customers one or two double-play or triple-play options. Both approaches work. The key to success in packaging for SoHo customers is keeping the options simple – easy to understand and few in number.

Another important component of a SoHo offer is the level of customer support. This has appeared as a critical need for SoHos in multiple surveys in different markets in the U.S. and Europe. Telecom services are mission-critical to SoHos and so is having reliable support when problems arise. For service providers, contact throughout the customer lifecycle is crucial to providing the personal touch and becoming the SoHo customer’s dependable partner. There are various methods to achieve these customer contacts, with the best-in-class operators providing a dedicated SoHo business support team, live support online and offline, and a guaranteed response time.
Pricing for SoHo products varies dramatically by market. In the US, SoHo ARPs typically range from $100-200, per month, while in Europe ARPs are generally lower and absolute price levels vary by market. However, one common element in pricing across all the markets is the universal existence of a premium to residential pricing for comparable services (i.e. with similar broadband speeds and voice minutes). Of course, this premium is one of the reasons why the SoHo market is so attractive to operators – with nearly the same products and sales channels, they can gain valuable SoHo customers with higher ARPs. For cable operators, this SoHo price premium over a comparable residential offer is typically in the range of 30-40%. From a product perspective, the differences between the residential and consumer offer are small. In many markets, a few carefully selected value-added services, an increased level of customer support (e.g. call priority), and a business-labelled invoice will justify the higher price.

| Source: Solon |

The final element of the SoHo offer is the positioning. Typically, operators position their offers to emphasize price, or broadband speed, or all-in-one solutions. These themes are similar to the positioning of residential products. However, because of the unique needs of SoHos, there may be an opportunity to differentiate an offer with a positioning that emphasizes simplicity and support.

Approaching the SoHo Market

Defining a SoHo offer is a critical first step to pursuing the SoHo market. To fully take advantage of the SoHo opportunity, Solon follows a 4-step approach in its projects with operators who are entering the SoHo market:

- Define the products and offer for the SoHo market. This should include a market-specific analysis that considers the market size, growth, and competitive intensity. What needs are unique to SoHos in this market? Which SoHo segments are the most prevalent in this market? By answering these questions, a market-specific offer can be constructed.

- Develop additional network and IT capabilities. What are technology gaps, given current capabilities versus needs? What is the right timeline for rolling out new services in order to achieve sales and product goals? What are the capex and opex requirements for these new services?
• Design the SoHo sales and support processes. What are the gaps given the organization’s current capabilities and what new processes are needed to get to market quickly? Operators may need to use “swivel-chair” processes in the short-term, but must develop a timeline for a more automated sales and support process as the SoHo organization gains scale.

• Launch SoHo services and monitor performance. Operators need to create an implementation plan, develop a full business model, set up a launch organization, and aggressively move into the market. Small course-corrections may be needed in the initial few months, but these improvements should be easy to adopt.

In some ways, these four steps are an ideal approach. In reality, many operators are already partially serving the SoHo segment, and may only need to refine their approach. Developing simple, all-in-one packages and improving the emphasis on customer service is highly effective and can be done with product building blocks that most operators have “off-the-shelf” from their consumer or large enterprise services. For operators who are already serving SoHos, the following steps to optimize the existing approach are recommended:

• Sales strategy and operations. Review sales channels, organizational structure, and processes. Given current market size and share, what is the appropriate channel mix? Which channels in the SoHo market yield the highest return on sales expense? Based on the answers to these questions, a re-alignment of channel mix as necessary

• CRM strategy and operations. Develop an encompassing customer service strategy. What are the current customer touch points and where are the gaps in the current approach? How can SoHo customer service be increased to best-in-class levels as cost-effectively as possible? Implement the new B2B service-based approach.

The SoHo market is an attractive opportunity and provides an excellent entry point into the B2B market. Future opportunities for service providers can build on the first steps into the SoHo market. These opportunities include developing more services to penetrate deeper into the SoHo customer case, growing up-market into the 10+ employee SMB space, and network expansion to target specific business clusters.

For operators who are considering an entrance into the SoHo market or a refinement of their existing approach, Solon is well-equipped to assist in this first step of developing a SoHo offer that is aligned with their needs.
Dorothea von Wichert-Nick

Dorothea von Wichert-Nick is Principal at Solon. Her project work includes M&A support as well as new business development for Cable operators, telcos, media companies and their investors. Dorothea is the driving force behind the biannual Solon European Cable Survey, the largest strategic and benchmarking study of European Cable. Finally, Dorothea is a board member at CTAM Europe, the Marketing organisation of European Cable operators.

Justin Hotchkiss

Justin is a Senior Consultant at Solon and has focused on strategic and operational projects in the telecom and cable industry in the US. He has particular experience small business marketing and channel strategy, new product business models, video & content strategy, and financial modelling to validate investment hypotheses.

Solon Management Consulting

Solon is the leading consultancy for the European Cable TV industry with offices in Munich, Budapest & London. Services range from the development and implementation of corporate strategies to M&A transaction support. Clients include Cable operators, telecommunication and media companies, as well as banks and private equity funds.

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