

# Wood chop

Why it's good news that ihug is cuddling up to an Aussie.

THE RECENT MERGER OF IHUG, THE country's largest independent ISP, and the Australian company iiNet was both the end of an era and – its principals hope – the beginning of a new one.

I can recall quite clearly the day in November 1995 when I walked into "the bunker" – ihug's old premises in Auckland's Newton Rd – met Nick Wood and had him sign me up for one of the company's new flat-rate accounts: all the Internet you could eat for \$39 a month.

As it turned out, I had already encountered Nick and his brother Tim without knowing it. Early in 1994, the Woods' fledgling company, the Internet Home Users' Group (hence ihug) was contracting to my first ISP Iconz. It was Nick and Tim who processed my account.

By the following year, Iconz had passed into new ownership, and complicated new pricing and poor management choices drove away many of the original Iconz crowd. Some of us went to ihug, attracted by the flat-rate account; an innovation made possible by a clever deal the brothers did for their international bandwidth.

At the same time, the wave of mainstream Internet adoption was starting to break. In May 1996, Telecom launched Xtra. Clear Net followed before the end of the year. Those two, ihug, Voyager and a couple of dozen others competed for tens of thousands of new customers.

Ihug was in a number of ways the most important. Its flat-rate model was a challenge that the big players were obliged to take up: Xtra and Clear Net would have charged access at \$5 an hour for a lot longer than they did, had the upstart not kept them honest.

The Woods were also technical innovators. They were the first to ditch the old modem racks in favour of new hubs that could handle many dial-in connections at once. They kept their international bandwidth costs down by buying a chunk of satellite capacity from a company called PanAmSat in 1997, defying the prevailing wisdom that satellite bandwidth wouldn't work, with some clever routing technology.

In October 1997, ihug's satellite venture fed into SatNet (now known as Ultra) – the first genuine broadband service for residential Internet users in New Zealand. SatNet began as a terrestrial service beamed from Auckland's Sky Tower and was subsequently extended to beam data direct from PanAmSat's satellite to anywhere in New Zealand. It was always hampered by the fact that its return path was the clunky old phone line, but it was a remarkable achievement.

Ihug also became a provider of voice services in 1999, offering cheap, good-quality toll calls via its Internet protocol network. But other ventures – a digital TV service, a travel agency, an online printing service, a computer store, an "Internet training academy", the purchase of the Video Ezy chain – were less successful.

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In many ways, ihug mirrored the tech boom. It flourished when the imperative was growth, and its bold initiatives were rewarded. But as the flood of new customers ebbed, the management shortcomings began to tell. Valuable staff left the company.

A new management style was called for: some men in suits to replace the *enfants terribles*. That change took place last year: a new chief executive, Martin Wyllie, moved in, and the Woods stepped back from active management (Nick, ever the entrepreneur, bought a resort in Fiji, which he now manages). The company has done a good job of focusing on new business customers – in particular, central Auckland's hordes of Asian Internet cafés.

The iiNet deal values



**Tim (left) and Nick Wood: stepping back from ihug.**

ihug at \$81 million, represented as \$26.5 million in cash, plus shares, which will see the Wood family holding 20 percent of the new transtasman company. Several smaller ihug shareholders will also have a stake. Both iiNet and ihug will retain their respective brands.

If nothing else, the deal answers questions that have hung over ihug for nearly five years, during which time proposed investments by several potential buyers, including Sky TV and Force Corporation, were thwarted.

But it ought to do more than that: ihug's Australian business makes a good fit with iiNet's – the two companies are strong in different regions. Ihug's work in IP telephony and wireless broadband will be a key part of the new company's strategy, and iiNet's status as a publicly listed company offers access to investment capital.

In a way, it's a good thing that a sale has taken so long: the iiNet deal is rational in a way that most earlier proposals were not. It offers a path to the future. And ihug, with its mad, important history, deserves a future more than most.

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