

Views on the News:

AT&T Launches Business U-verse with competitive pricing to ward off MSOs, but lacking important features

Date: May 28, 2008

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Basis for topic:

AT&T is offering 10 Mbps downloads plus free unlimited WiFi and Protection features included in the \$100 monthly price. U-verse is AT&T's video, voice and high-speed Internet services that ride on its next generation fiber-to-the-node (FTTN) plant, built out under the Project Lightspeed initiative. AT&T began its deployment of U-verse in June 2006 when it launched the service to consumers in San Antonio, TX. Since then, AT&T has made U-verse available to 7.9 million homes in 37 markets in 11 states, with a goal of passing 30 million homes by 2010.

Now AT&T has launched its High Speed U-verse Enabled Business Edition, offering broadband access to its business customers that exceeds download speeds available across the carrier's DSL infrastructure today; and offering the potential to deliver enhanced VoIP and video services to Business U-verse customers in the future.

Business U-verse supports four download/upload speed tiers: 1.5 Mbps/1 Mbps, 3 Mbps/1 Mbps, 6 Mbps/1 Mbps and 10 Mbps/1.5 Mbps. Prices range from \$40 to \$100/month, and AT&T is currently waiving the \$95 installation fees, and including unlimited WiFi at over 17,000 hot spots and wireless office networking in the offer.

The Customer Premise Equipment used for the Wireless Gateway is a 2Wire Model 2Wiwire 3800HGV-B. Customers with other AT&T High Speed Internet service will need to get the new CPE which will provide wireless networking at the business facilities.

The Wireless Gateway will be provided for the term of the service at no charge and will need to be returned pursuant to instructions provided by AT&T if the service is canceled. The Gateway can support a maximum of 32 computers with the 10 Mbps Max service, or 20 computers with the 6 Mbps Elite service.

The average installation time to install AT&T U-verse for Business service is expected to be 2.5 hours. When a customer converts from other AT&T High Speed Internet service to U-verse Enabled HIS, there will be a down time just during the

technician visit, but the customer can still access his e-mail from another computer by using his service provider's remote access if available.

Analysis:

Prior to the launch of Business U-verse, AT&T's highest Internet speed tier was its AT&T High Speed Yahoo Elite DSL service with up to 6 Mbps download/768 kbps upload, which has been well below competing business services offered by cable competitors such as Comcast, Charter, Cox and Time Warner Cable that have been offering tiered services at up to 16 Mbps/2 Mbps and beyond.

Although AT&T launched U-verse in 2006 and accelerated deployment of U-verse in 2007, the carrier is just now making U-verse available to business customers in 22 of the 37 markets where the service is now available. So it is playing a bit of "catch up" in some respects, finally leveraging Project Lightspeed to address a broader appeal for the important SMB Enterprise markets.

The cable operators' broadband Internet services are well-established in the SMB market, and they have already bypassed AT&T's top tier download speed with offers of 15 Mbps or higher, and they continue to increase download speeds. These operators are able to deliver broadband services to businesses across most of their national footprints rather than in just a few markets.

AT&T's move was mandatory at this time in order to keep pace with offers from competing cable operators and CLECs. The cachet of a fiber-based triple play service is not enough; it must offer competitive services over it. This announcement is a step in the right direction. But today the offer is not complete, as Business U-verse is a data-only service with limited availability, and is still missing VoIP and the static IP addressing that is important to small businesses that want on-site Internet servers.

Cable operators are continually offering faster download speeds; however, AT&T could apply its vast amount of resources and experience in creating business services to make Business U-verse a solution with its value.

AT&T's move to upgrade U-verse and offer it to business customers lets the carrier use its infrastructure to attract higher value, lower churn business customers, and strengthens the carrier's competitive position against cable operators. The faster speed tier and the addition of free unlimited WiFi will put AT&T on a more competitive footing against cable operators in the small and medium business segment.

AT&T's stated price of \$100 for its maximum tier of 10 Mbps download/1.5 Mbps upload is less than the price for competing cable offers at the same speed tier, and demonstrates AT&T's willingness to be competitive on pricing. AT&T is also including free unlimited WiFi at over 17,000 hot spots, and wireless office networking - features that the cable operators do not currently offer which provide it some additional differentiation. Protection features such as Anti-Spy, Anti-Virus, Pop-Up blocker, Content Controls, SpamGuard Plus and AddressGuard are also included.

But not everything is playing into AT&T favor as U-verse is an Internet-only service; AT&T does not currently offer a VoIP option as part of the U-verse bundle to these business customers, in contrast with Comcast and TimeWarner, which have begun

(and are in the early stages of) offering business voice services. Moreover, the product does not include an SLA at this time. And AT&T's U-verse for Business service cannot be billed to a telephone number of choice, but a bill separate from the telephone bill will be generated for the AT&T Business U-verse High Speed Internet service.

Business U-verse's offer of 10 Mbps/1.5 Mbps service will be attractive to smaller businesses that need to transfer large files and download images. Some examples would be real estate, insurance and legal offices. These same businesses, however, will also want to have an online presence, sometimes a Web site or their own, or an e-mail server that requires a static IP address. Business U-verse currently only supports dynamic IP addressing; businesses that require a static IP address will need to consider alternative service offers.

Business U-verse is an Internet-only service. Customers can bundle U-verse with traditional voice service which is provided over a separate copper loop, or with a wireless service plan, or they can subscribe to a VoIP service from a third party VoIP provider such as Vonage. However, major competing cable providers like Comcast and Time Warner Cable, as well as Verizon, offer business customers the ability to utilize their broadband service for voice and data.

The carrier launched U-verse Voice for consumers in five markets in Q1 2008, and plans to add additional markets this year. We expect that AT&T will also begin to roll out U-verse Voice out to its business users at approximately the same time; in order to increase the value of the U-verse bundle to SMBs.

It is important that AT&T has taken the first step in extending U-verse to its business customer base, and the carrier needs to follow through on its plans to expand the feature set and geographic availability of the service in order to establish momentum against its cable competitors. This was a good first step to enhance its competitiveness, and an indication that AT&T will continue to contribute to price competition - but we expect AT&T will need to add voice to this service as part of a bundle before long to maximize its competitiveness.