

SBC Targets Broader Market With \$14.95/Month DSL

Kathie Hackler, Jay E. Pultz

SBC Communications is offering digital subscriber line (DSL) service for \$14.95 per month, making broadband less expensive than some dial-up plans. Other telephone companies should make similar moves to hold market share.

NEWS ANALYSIS

Event

On 1 June 2005, SBC, the second-largest incumbent local telephone company in the United States, announced new pricing for its SBC Yahoo! DSL Express service of \$14.95 per month, with certain restrictions:

- A one-year commitment and a one-year subscription to SBC's local voice service are both required. SBC does not yet offer "naked" DSL service (without a phone line).
- The service must be ordered online.
- The price does not include applicable Universal Service Fund charges.
- The offering will be available only to new SBC Yahoo! customers in SBC's thirteen-state coverage area and only for a limited time.

SBC is also offering its higher-speed SBC Yahoo! DSL Pro for \$24.99 per month, with similar restrictions. (DSL Pro offers speeds ranging from 1.5 Mbps to 3.0 Mbps, compared with speeds of 384 Kbps to 1.5 Mbps for DSL Express.) Both offers include a \$99 instant credit toward various hardware options, such as a DSL modem.

Analysis

This offering represents the most dramatic in a steady stream of aggressive DSL price reductions that have enabled SBC to acquire 5.6 million DSL subscribers. SBC now has the largest subscriber base of any DSL provider — and is second only to Comcast in total broadband subscribers — and is making strong market share gains in its coverage area. SBC clearly hopes to gain substantial broadband market share by offering cost-sensitive consumers price points that cable operators have been reluctant to match. The latest offering also positions SBC to take market share from more expensive premium dial-up services, such as AOL's.

Enterprise interest may be limited somewhat by the lack of nationwide availability and the requirement for a subscription to SBC local voice service. (Gartner expects SBC to eventually offer naked DSL service, likely requiring a subscription to SBC/AT&T voice over IP (VoIP) service.) Nonetheless, Gartner believes that the SBC offering will likely prove attractive to many consumers and small businesses in SBC's coverage area.

Recommendations

Other telephone companies: Make similar pricing moves while you still have a substantial subscriber base that can eventually be upgraded to broadband service.

All Internet service providers: Act quickly to move your dial-up customers to broadband, which is clearly the platform of choice for future value-added services, including VoIP, video content and wireless convergence.

Enterprises with locations in SBC territory: Carefully consider the SBC offer, including its terms and conditions. It may be appropriate for remote locations and teleworkers with limited bandwidth needs.

Analytical Sources: Kathie Hackler and Jay Pultz, Gartner Research

Recommended Reading and Related Research

- "Market Trends: Consumer Telecommunications and Online, United States, 2004-2008" — By 2008, 29 million households still will not be connected to the Internet. This presents a significant opportunity for vendors. **By Amanda Sabia and Margaret Schoener**
- "Market Focus: Internet Access Growth Stalls in U.S. Households" — U.S. Internet adoption has remained at 60 percent of households since 2001. Growth inhibitors include cost and the lack of a compelling reason to go online. **By Amanda Sabia**

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REGIONAL HEADQUARTERS

Corporate Headquarters
56 Top Gallant Road
Stamford, CT 06902-7700
U.S.A.
+1 203 964 0096

European Headquarters
Tamesis
The Glanty
Egham
Surrey, TW20 9AW
UNITED KINGDOM
+44 1784 431611

Asia/Pacific Headquarters
Level 7, 40 Miller Street
North Sydney
New South Wales 2060
AUSTRALIA
+61 2 9459 4600

Latin America Headquarters
Av. das Nações Unidas 12.551
9 andar—WTC
04578-903 São Paulo SP
BRAZIL
+55 11 3443 1509