Telecom
Telecom's Bundles Of Joy
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Telecom companies want you to have it all.

Since the start of the year, one after another has rolled out packages combining not only a variety of phone services but also telecom, broadband and Internet. "Get services like local & long distance & international & wireless & Internet. All on one bill," reads one of the ads in the $200 million marketing campaign launched yesterday by **AT&T** (nyse: T - news - people).

Faced with a continuing drop-off in land-line customers, other telecom companies have decided to go even further, rolling out partnerships with digital television providers so the services include video as well. **SBC Communications** (nyse: SBC - news - people), working with **EchoStar Communications** (nasdaq: DISH - news - people), is debuting a service called SBC Dish. Last week **Verizon Communications** (nyse: VZ - news - people) announced its own venture with the top U.S. satellite television provider, **DirecTV**. The telecoms hope that, by bundling phone service with beamed-in entertainment, they can stop cable companies from making further inroads into their business.

The telecoms' pitch--one-stop shopping for local, long-distance and wireless phone service, as well as broadband access and, yes, television--is alluring. And they have tried this before. Since 1996, the Baby Bells and the big providers of digital television have struck countless marketing deals, without much ever coming out of them. But the phone companies are now more motivated for the partnerships to work, and consumers' experience with cable companies just might turn the tide in the former's favor.

The phone companies are under tremendous pressure to find new sources of revenue. They have been losing the war for broadband customers, are threatened by the possibility of cheap Internet-based phone calls and are missing out on new sources of growth.

At the end of last year, only 7.4 million customers were getting their broadband access via digital subscriber lines (DSL)--the service offered by the telecoms--compared with 14.6 million for cable, according to research by the Yankee Group, a technology consulting firm. Cable is expected to maintain its lead in 2004.

Phone companies' core business is also shrinking. The number of wireless lines is soon expected to exceed that of land lines. Three million people have already switched to cable from plain old phone service. And the exodus has just started: Once the likes of **Time Warner Cable**, a subsidiary of **Time Warner** (nyse: TWX - news - people), start offering Internet-based phone calls, the battle for telephone customers is bound to get even fiercer.

"The phone companies' alliance with satellite TV providers is not only a good move, it's an essential move," says Ford Cavallari, senior vice president of Adventis, a strategy consultancy. If the telecoms want to stand a chance against the cable companies, he says, they must gain access to the booming market for interactive video services.

Luckily, satellite companies can't provide those services alone, because they don't have a two-way data network. But combine satellite with DSL and you obtain a hybrid service of equal or superior quality to cable, says Cavallari. In the future, the DSL/satellite match could not only make interactive television possible but may also provide customers with a better viewing experience. "It uses a dedicated network that makes it much more responsive than cable," he says.

Telecoms may have the upper hand in another respect too. According to a recent Yankee Group report, consumers trust their local phone companies more than their cable providers and give the former higher scores for customer satisfaction.

It seems to be a lesson the telecoms have absorbed. Unlike the loose partnerships of the past, both Verizon and SBC now promise one bill and a single customer-service contact. This is a move in the right direction, says Boyd Peterson, a senior analyst at the Yankee Group. But he warns that the strategy must be backed by serious integration efforts, because "for the bundle to succeed, it must appear seamless to the customer."

When correctly implemented, though, bundles are big winners with customers, says Laura Behrens, an analyst with technology consulting firm Gartner. In particular, she foresees a bright future for so-called triple-play bundles--packages that combine video, data and phone service. "With bundling, the more services you get, the deeper the price cuts," she explains.

There are advantages for providers as well. They can lump together big- and small-margin services, enabling them to balance out costs and lowering the risk that a customer will terminate the contract.

Behrens is pessimistic, however, that the telecoms can make up for the huge head start the cable companies have in the bundling game, especially since the telecoms must deal with the integration costs of complicated partnerships.

She cites **Cox Communications** (nyse: COX - news - people) as a cable company that has done bundling right. While it gained only 0.7% more video subscribers in the last quarter, Cox's number of high-speed Internet customers rose 51% in the past quarter, and its number of telephone subscribers grew 40% over the last year. Currently, 33% of its customers are in a bundle plan, and 15% of users in markets where Cox offers phone service have a triple-play bundle. Unlike the satellite TV providers, cable companies don't need a partner to offer phone service.

And therein may lie the biggest challenge for the telecoms: convincing customers that combining two technologies (DSL and satellite) is better than the simplicity of one.