

Enterprises increase network spend

> **Enterprises are** re-evaluating the way they view convergence, according to *Competing through Convergence*, a report released in September by AT&T and the *Economist Intelligence Unit*.

Customer service is now seen as an important or critical pay-off from convergence, according to 70% of respondents, whereas previously it has been seen as a way of reducing cost.

In addition, 45% said that convergence was critical or very important for achieving their organisation's strategic and business objectives, but only 20% had done a business case analysis for anticipated return on investment. Enterprises are realising the value of converged networks but need help in justifying the implementation costs.

Furthermore, less than 10% of respondents said that their networks are sufficiently equipped for the business challenges they will face in the next two years.

Lloyd Salvage, AT&T UK sales vice president, said that enterprise customers need to come up with a business case for convergence to align infrastructure with business strategies internally. Salvage characterised this as a "cry for help" from IT and network managers.

"Lower capital and operational expenditures, while no doubt important, are secondary benefits of convergence," said Hossein Eslambolchi, AT&T's CTO. "Network convergence should be more concerned with how you create the next generation of services that will enable you customers or partners to create value. This is all about services transformation."

60% of enterprise respondents now believe that converged networks would be deployed across most if not all of their organisations by 2008, and in the next two years, more than half of the respondents said that they expect a significant increase in network investment.

The AT&T survey interviewed 236 senior executives, including 77 chief executives, across a range of industries. ■

Analyst's Eye >



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THE PRICE IS RIGHT?

DAVID BALLARINI QUESTIONS THE STRATEGY BEHIND THE RECENT EBAY DEAL TO TAKE OVER SKYPE. WILL IT REALLY HAVE AN IMPACT ON THE FUTURE DIRECTION OF TELECOMS SERVICES?

> **My piece** last month which predicted the continuing onslaught of online giants making significant forays into telecom services appeared to be spot on, judging by this month's announcement that Ebay would acquire Skype for a massive US\$2.6 billion. However, after reviewing some of the factors driving the deal, I have seriously to question whether this transaction will have a real impact on the future direction of telecom services. In my view, it will more likely result in a completely different direction for how Skype is utilised and its potential impact on competitive communications services.

Before looking at the overall strategy, I have a few comments on the Ebay decision to buy Skype and the resulting price paid. Despite the public announcement of major Skype investor Tim Draper that Ebay got a great deal and my overall respect for Ebay's past track record at organic and acquisition related growth, I'm not alone in thinking that Ebay's decision to acquire Skype and the price it paid for the company were very questionable. Wall Street seemed to agree with me – as can be seen by drop in Ebay's stock price of 5% in the three days following the announcement. This drop coincidentally also equated to \$2.6 billion in reduced market value. Essentially, the markets decided the acquisition would reduce Ebay's value by 100% of Skype's acquisition price.

In my view, Ebay will use Skype's voice, presence and messaging capabilities to reduce "friction" encountered on high-end e-commerce transactions and thereby assist in driving its core revenues from auctions for motors, jewellery, property and its other tough-to-sell item categories. It may also charge users to talk to each other and so derive some incremental usage related revenues. It probably will not aggressively build a large stand-alone competitive telecom offering – a business which is much more competitive and much less profitable than Ebay's core business.

An obvious question is why would Ebay pay billions for this enabling technology when this capability really could be built in a matter of months by a number of technology and integration companies from standard SIP-based components at a fraction of Skype's price? This question didn't get addressed by Ebay's CEO Meg Whitman in her round of discussions with Wall Street analysts, nor was a detailed review of the synergy assumptions discussed to justify the price.

What may be more conceivable is that Ebay was reacting to and defending against competitive threats to its core franchise by other online giants such as Microsoft/MSN, Yahoo and Google, all of whom are currently implementing advanced communications services which can be extended to their current and future shopping and auction portals and all of whom were mentioned as potential suitors for Skype.

We can look at the future with at least some answers. Will Skype assist in improving the pervasiveness of Ebay's auction and shopping services? Yes, very likely. Will Ebay become more profitable in the long run because of this capability? Probably it will. Did Ebay overpay compared to its other options to achieve these goals? Certainly, in a big way. Is this take-out of a competitor a reprieve for both incumbent and next-generation telcos? Possibly, at least for a brief period until another of the emerging Skype lookalikes or online giants takes over on Skype's original business proposition. ■