

Preparing a comprehensive case analysis, part 2

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Preparing a Comprehensive Case Analysis, Part 2 Katrina D. Pratt Strayer University: Asynchronous Business 490: STRATEGIC MANAGEMENT: CONCEPTS AND CASE December 02, 2012 AT&T Vs. Skype Author's note This analysis will identify the key issues revealed in the case study, " Skype vs.

AT&T and the future of telecommunications" (Strickland et al 2011). The analysis will explore the current state of the telecommunications industry with the rapid emergence of the Voice-over Internet Protocol (VoIP) technology, wireless communications and the effects on traditional landline or what is known as Publicly Switched Telephone Network (PSTN).

This effort will look into current problems and successes with increased focus on AT; T and Skype. Additionally, this paper will attempt to provide a perspective on the key issues with assumptions of what some of the causal factors may have been. Finally, what the companies' leadership may consider for the future. Prior to examining the key issues of Skype and AT&T, what is Skype vs.

AT&T? Skype was currently one of the industry leaders in VoIP and desired to challenge AT&T and other large phone companies.

The telecommunication business is certainly going through a technological revolution with increased demands for faster speeds and services. Additionally the infrastructure is in demand to grow with the customer needs. AT&T along with several other landline based companies owned a major portion of the Internet infrastructure. Skype requires access to the Internet by way of Internet Service Providers (ISPs) in order for Skype to

provide their VoIP service. AT&T with the other companies currently could not charge Skype beyond the normal rates for access to the Internet.

With a looming battle with the large phone companies this presented some key issues with Skype. Skype was building a strategy for the future state, the keys issues Skype had to work toward solution were: Key Issues • Declining revenue after the 685 % surge in 2006 • Competing effectively with other VoIP services • Other larger companies such as Comcast working with VoIP • Address current “ free” services • Establish a plan should Net Neutrality not come to law Assumptions • Revenues could be declining due to the ease of access for free services • Connectivity is unreliable on video phone AT&T may not be the enemy vs. a potential partner AT&T was involved in a significant challenge for the future state let alone being challenged by Skype and other VoIP companies. AT&T was in the midst of significant key issues as follows: Key Issues

- Looming vote by the FCC on Internet Neutrality • Surge in VoIP providers on an Internet AT&T owned significant infrastructure • Cost of Expansive growth via multiple acquisitions and mergers • Infrastructure pressures with expanded use • Customer satisfaction demands with increased Smart Phone (iPhone, android) data requirements Assumptions AT&T expects a return on their investment to the Internet • AT&T has failed to invest in the VoIP business at the rate of its main competitors • AT&T enjoys a strong customer base in traditional landline service and does not want to lose any to VoIP • AT&T’s resources support their acquisition and mergers • AT; T performance indicators lend to AT; T’s abilities for growth Analysis Skype Skype had

experienced unprecedented revenue initially at a rate of 685 percent in 2006 only see significant declines and a flattening in the following years.

In order to meet this challenge Skype had to understand why revenue was dropping and the strategies needed to make the charge at the landline PSTN industry.

Skype lacked the Internet infrastructure of other large companies and a plan to do business with those companies. Most significant, Skype was experiencing unprecedented user growth yet revenue gains were flattening. Skype was failing to earn revenue commensurate with the services and users they had subscribed. Simply put from a business perspective, Skype was losing far too much potential revenue for not charging for several of Skype's most popular services.

Should Skype desire significant revenue growth, Skype needs to think more like a major player versus small time.

Skype needs a strong and experienced partnership. Analysis AT; T AT; T was in the midst of a potential Internet neutrality law. AT; T's angst over this issue demonstrated clear nerves over the fast growing VoIP services. The proposed Net Neutrality law would decrease the power over the Internet the big companies like AT&T took for granted. The Internet is not really owned by any one entity; however numerous companies owned key aspects of the Internet.

The big players, such as AT&T provide critical physical aspects of the Internet such as the routers and the cables making up the foundation infrastructure. Therefore, the big companies were the upstream Internet

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Service Providers (ISPs). If one needed access to the Internet, they needed a relationship with the ISPs. The ISPs could dictate the grade of service provided by speed, data rate transfer. With Internet infrastructure as a monument, non ISPs were currently at mercy of the ISPs, however, the proposed Net Neutrality law would make so the ISPs could not restrict what their customers such as Skype did on the Internet.

On the flip side, should the law not be passed, the ISPs could charge Skype extra to support their requirements.

One could assume ISPs would clearly stand to lose revenue by being able to restrict the accesses without charging VoIP's a premium for the Internet service provided but also loss revenues from customers switching to the cheaper VoIP's. AT&T recognizes this emergence of VoIP but seems to lack a plan to get in the game. Problem Identification Skype clearly wants a bigger chip in the game and desires to take on AT&T by expanding the VoIP service.

AT&T recognizes the surge of VoIP providers but has not really invested significant resources into that business as some its other competitors such as Comcast has. Skype lacks the Internet infrastructure of the larger companies.

Skype is popularly known for free Internet video calls. The key word is “free”. Hence a major issue with a company whose growth rate in usage was far outpacing its revenue. Skype realized cheap international calls and free user-to-user calls and videos although widely popular were not generating revenue required to sustain growth and provide quality of service.

With Net Neutrality aside, Skype is taking a huge risk with its dependence on an unfettered access to the Internet.

Skype lacks a meaningful strategy on revenue growth supported by ease of access to the Internet. Management Action and Recommendations As a near term strategy Skype must immediately establish fees for all the services they provide. Skype needs to demonstrate its ability to gain significant revenues. In doing so, Skype will be able to leverage this strength in dealing with the other large companies.

The fees do not have to be excessive to the point they will scare off its users. “ Sure, Skype has a massive user base, but the percentage of paying customers could be much higher.

“ Consumers are getting a very good deal,” Hsu states. “ The initial revenue model was to charge for minutes, but that’s not generating enough profit. They have to be bold and devise a real pricing scheme for all users. It doesn’t have to be that expensive” (Hsu 2011). AT&T has the resources and experience to establish itself as a player in the VoIP market.

AT&T has used its financial strength in mergers and acquisitions when desiring to expand its business. AT&T is late to the VoIP market and needs to enter to remain a full spectrum telecommunication provider. AT&T recognizes Skype's shortfall in Internet infrastructure that AT&T has. AT&T should develop a merger strategy with Skype. AT&T is clearly positioned to approach Skype due to Skype's current flattening of revenue with merger strategy. Skype may be receptive to this approach based on the future desired state.

Skype has been a jewel to the Internet using community.

The Video phone system is used and enjoyed by millions around the world. However much of this use by millions is not generating any significant revenue for Skype. It is a service many would be glad to pay for. The users would especially be willing to pay if Skype were to be partnered with an ISP who could provide much better data transfer and connectivity. AT; T has the Internet infrastructure in place and ready to go to support Skype either in landline type connections or via 3G and an expanding 4G wireless network.

By establishing either a merger or long term partnership, both companies could stand to benefit. References: Hsu, David, (February 16, 2011) as quoted in Can Skype Go Corporate?, Retrieved from <http://knowledge.wharton.upenn.edu/article.cfm?articleid=2717> Strickland, A.

J, Zarzour, Matt, (2011) Skype versus AT; T and the Future of Telecommunications (Crafting ; Executing Strategy: The Quest for Competitive Advantage: Concepts and Cases, 18th Edition. Irwin/McGraw-Hill, p. C226- C-24