

## AT&T and Verizon Wireless bet on netbooks

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*Facing cell-phone saturation, carriers are turning to inexpensive netbooks, and not-so-inexpensive monthly data plans, for future growth.*



*AT&T Mobility Chief de la Vega sees netbooks as wireless's "next big growth area" Efe/Zuma Press*

For the country's two dominant wireless phone carriers, AT&T (T) and Verizon Wireless, the arithmetic is clear. Cell-phone penetration in the U.S. is approaching 90% of the population, and the recession is damping enthusiasm for pricey new phones and services. So to avoid a slowdown in sales growth, both cellular giants are getting into a new game: personal computers.

AT&T jumped in earlier this year selling the stripped-down laptops called netbooks at its stores in Philadelphia and Atlanta. These devices are already a big hit for computer makers, priced in the \$300-\$500 range at retail. Now the carriers want to sell them—much the way AT&T sells Apple's (AAPL) iPhone—by discounting the device but making up revenue with two-year contracts for expensive data plans. Long-term, the carriers aim to expand into a whole range of computers, Net-ready cameras, game consoles, and other such products. The goal: to find fresh revenue streams and stoke demand for their new, fourth-generation (4G) data networks, expected to start rolling out next year.

The netbook idea appears to have legs. On May 17, Verizon Wireless began selling Hewlett-Packard (HPQ) netbooks discounted to \$199 with a two-year data contract starting at \$40 a month. "We are ramping up very nicely," says Verizon Wireless CEO Lowell McAdam. Two days later, AT&T announced that by midsummer it would broaden its own netbook experiment to all its stores nationwide, offering Dell (DELL), Acer, or Lenovo (LNVGY) products. If Sprint (S) and T-Mobile USA (DT) follow suit, netbook sales could top 2.1 million units in the U.S. this year, with carriers accounting for 22.5%, market researcher IDC estimates. "We think we are really at the next big growth area of wireless," AT&T Mobility CEO Ralph de la Vega recently told BusinessWeek.

Pricing is still a work in progress. In Atlanta, AT&T subscribers who sign up for a two-year service contract can snag an Acer netbook for as little as \$50, but they must shell out \$40 or \$60 a month for either 200 megabytes or 5 gigabytes of wireless capacity, used for everything from messaging friends to posting photos on Facebook.

Similarly, Verizon customers who pay \$60 a month for a data plan can get an HP netbook for \$199. "You are not going to find too many laptops at that price point," says Verizon Wireless director of marketing Michael Willsey.

Probably not, but buyers may notice that when the service fees are tallied up, the cost could be as much as \$1,440 over two years, plus the price of the netbook. And that may be on top of \$30 a month or more the customer is already paying for another data plan linked to his cell phone. Tech-savvy shoppers may balk at this, given a logical alternative—on some service

plans they can "tether" the computer to their smartphone with a cord and use the high-speed cellular connection. AT&T charges \$15 a month for this on top of a subscriber's data plan.

#### "Limited Viability"

Some analysts say the chances of driving iPhone-like revenues are slim unless the carriers pull in millions of new users with cheaper data plans. That's what's happening in Europe, where service plans cost less and come in a variety of forms, including prepaid monthly and daily plans. As is, the U.S. approach—counting on well-heeled customers with little sensitivity to price—has "limited viability," says CCS Insight analyst John Jackson.

Technical glitches could also spoil the fun, but carriers say they're ready. PC makers will field hardware problems for customers while the service providers handle diagnostics and network issues. "We're very much in coordination with their customer care people," says Glenn Lurie, AT&T Mobility's president of emerging devices, who managed the Apple relationship. "This is nothing new for us."

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