Hitting the Wall

By Keith Mallinson Monday, May 14, 2007

Since 2000, top wireless operators have competed largely on the basis of subscriber acquisition and retention, minutes of use growth and consolidating properties. As the U.S. market nears saturation, how do the top four wireless carriers compare in today's changing competitive environment?

Moving forward, growth will be mostly achieved through multiple device adoption and increasing non-voice usage. Most people who want a cell phone, including those with low incomes or broken credit, have already got one. On the basis that U.S. subscriber penetration saturates at around 85%, as in Western Europe, it will only be another year or two before the United States – with net additions running at 4 million to 5 million per quarter – hits the wall.

Network coverage and economies of scale in branding and distribution will continue to be important. However, operators increasingly must seek to differentiate with:

• Mobile broadband – including 3G network focus, WiMAX by Sprint Nextel, and services focus by the network owners, Amp'd Mobile and many others.

• No frills cost-efficiency, as exemplified by Leap Wireless and Metro PCS maximizing penetration and usage through low-priced offerings.

• Fixed mobile convergence (FMC) with the quad play promised by Verizon, AT&T and Sprint Nextel with cable companies.

• Enterprise services including global voice and data roaming for business travelers led by AT&T.

Which strategies are being effectively pursued?

Sprint Nextel is in disarray because of inadequate management stability and focus. Lackluster Q1 2007 results revealing an operating loss and nearly 600,000 net additions put it in the position of also-ran in the 2-horse race between Verizon and AT&T. Former COO Len Lauer's replacement is long overdue, and its advertising agency was just replaced with a botched re-branding following the Nextel acquisition. Sprint Nextel is pursuing too many disparate initiatives. In addition to re-branding, re-banding, iDEN integration and migration, its EV- DO Rev A upgrade, QChat push-to-talk and WiMAX deployments, it's also seeking to take Leap and Metro PCS head-on with an all-you-can-eat offering under its Boost brand. This complements Boost's existing prepaid offering, but the strategic requirements are totally different, requiring ruthless attention to cost with a narrow device and service portfolio. Sprint Nextel just has too much on its plate.

T-Mobile is late with 3G. Fortunately, 3G has been slower to take off than anticipated worldwide, with much of U.S. demand in the niche data card segment rather than in handsets. T-Mobile can benefit from advancing and lower-cost technology pioneered by its competitors including HSDPA with AT&T, but there are snags. Its 3G deficiency has created a questionable distraction with Wi-Fi. The AWS spectrum it bought last year is in different radio bands than those already in use, so there is no pre-existing equipment. It must subsidize implementation and suffer from a limited product portfolio while other carriers warehouse their spectrum and wait. T-Mobile's focus must be to invest significantly to catch up with 3G competitors.

AT&T has forged a position of strength. Cingular overcame major integration challenges and costs in migrating from TDMA to GSM, assimilating a rather tarnished AT&T Wireless with its poor GSM migration and adding a WCDMA/HSDPA overlay. It leads in enterprise mobility. CMO Marc LeFar, who recently quit, deserves credit for building a strong Cingular brand. The brand was not broken: According to IAG Research, it is still the strongest wireless brand. Re-branding back to AT&T and doing FMC with the wireline organization is a risky fix.

Verizon Wireless is as sure-footed as ever with stellar Q1 2007 results including 1.7 million net additions and great earnings, but it too has a weakness. Until recently, international roaming offerings have been limited with only a few world-capable devices in comparison to anything from Cingular or T-Mobile. Roaming currently demands GSM and GPRS or EDGE networks. These GSM carriers have taken this most lucrative slice of the market, including the Fortune 1000 companies Verizon seeks to serve with other services. International roaming easily can run to thousands per month, at a dollar or more per minute versus pennies for domestic use. The upcoming launches of the trim Blackberry 8830 with CDMA and GSM/GPRS by Verizon Wireless and Sprint Nextel are a major step forward for these CDMA carriers. More such devices are needed including EDGE and increasingly WCDMA.

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