

Wireless: Hardly a Place Left for the Little Guys

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Anyone interested in wireless telecommunications, which should include just about all of us these days, might give some thought to the shape of this industry in the wake of the November 8 Federal Communications Commission (FCC) decision to first ease and then remove limits on ownership of wireless spectrum. In the deregulatory vein that Commission Chairman Michael Powell espoused upon taking office earlier this year, the FCC voted 3-1 to raise immediately, from 45MHz to 55MHz, the amount of Commercial Mobile Radio Services (CMRS) spectrum that any single entity will be allowed to hold in any particular geographical area. The FCC said the cap on spectrum ownership – imposed during the Clinton Administration to help assure opportunity for more wireless carriers in each market – will be eliminated completely on January 1, 2003.

The FCC said it was raising the wireless spectrum caps to 55MHz in all markets immediately to address concerns about capacity constraints in large urban markets. The period between now and the 2003 sunset date is intended to provide a transition period that will give the industry an opportunity to adjust to the planned new approach and give the Commission time to develop needed guidelines and procedures.

The FCC decision gives large, established wireless service providers the opportunity to further consolidate their positions in key markets, which may easily translate into buying up or simply overwhelming smaller competitors. Investment bankers

are surely well prepared with advantageous acquisition proposals and they must be delighted that Christmas has come early this year. Obvious beneficiaries of the FCC decision are companies like AT&T Wireless, now completely independent of AT&T; Cingular Wireless, a joint venture of SBC Communications and Bell South; Sprint PCS; Nextel; Verizon Wireless, a joint venture of Verizon Communications and the Vodafone Group plc, of the UK, which will be spun off through an initial public offering (IPO) later this year or early next year; and VoiceStream Wireless, a subsidiary of Deutsche Telekom. Typically, these companies enjoy a well-established customer base, strong name recognition and substantial resources.

Acquisitions and consolidations have been commonplace in wireless, as in other areas of telecommunications. Just a month or so ago, AT&T Wireless agreed to pay \$4.7 billion in stock and assumption of debt to purchase Telecorp PCS, which serves some 900,000 customers and holds licenses in areas with a combined population of 37 million people, from the Great Lakes to the Gulf of Mexico. And, more recently, Verizon Wireless, VoiceStream Wireless, Cingular Wireless and partners of AT&T Wireless reached agreement with NextWave Telecom that will free up a total of 95 wireless licenses originally acquired by NextWave in a 1996 FCC auction, then taken back for rebidding after NextWave went into bankruptcy, and subsequently, until now, held up in court proceedings.

The FCC decision may bring some important benefits to business customers and consumers as well. More intense com-



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petition among the half-dozen or so heavyweights could produce greater efficiencies and economies of scale in wireless markets, extend service areas for many customers, bring services to some areas now left out, and reduce the costs of upgrading networks for improved and emerging services. Consolidation and new efficiencies could also help to lower prices for customers. Smaller companies sometimes offer customers attractive service packages and lower prices than larger providers and may pay more careful attention to customer care as well, but they may not be able to offer the regional or nationwide service that more and more customers seem to want.

Allowing large service providers to further extend their reach seems like a strange way to promote competition in wireless. Lifting or certainly eliminating the cap on ownership of wireless spectrum could open the door for large companies already in the market to acquire a lion's share of this valuable and limited public good and make it more difficult than it already is for smaller providers to acquire and hold onto a viable segment of the spectrum and the market.

The hard reality is that wireless telecommunications is increasingly national in scope, with fewer and fewer spaces for truly independent small companies. Even where there are places for smaller companies, the

price of entering the wireless service industry is not cheap, by any standards, and few small firms have the financial resources needed to survive. This may not be the model we would like for a competitive wireless industry, but it is what we have.

Still, we should not just hand over this exciting and promising segment of telecommunications to anyone, certainly not to those who already control huge parts of local, long distance and international services or to their subsidiaries and offspring, without some assurances. The regional Bell companies, after all, have sought for years to limit or even stifle competition in local telephone service, notwithstanding the clear intent of the Telecommunications Act of 1996. The dominant firms in wireless include the most prominent local and long distance providers in the nation, who until quite recently have made grudging progress in extending broadband to small businesses and consumers and some who have moved even more slowly to integrate their networks with the Internet for delivery of more powerful and versatile next-generation-network applications.

FCC Chairman Michael Powell describes wireless telecommunications as the most competitive part of the industry – hardly a claim that will raise resounding cheers – but if wireless is competitive, let's keep it that way. Wireless has been the hottest

sector in telecommunications for years now and its continuing remarkable growth has encouraged new companies to enter the market year after year. Increasingly, and especially since September 11, cellular phones are seen as important both for the added security they can provide and, even more than that, just as a convenient way to stay in touch. Prices for wireless service have fallen quite dramatically, with discounted monthly calling plans, free weekend calls, reduction and even elimination of roaming charges and more. Some customers are even giving up their wired service altogether to rely entirely on their cellular phones. This is the kind of dynamic that should be encouraged in any industry.

Mr. Powell says that the FCC will continue to review proposed mergers, as will the Justice Department. But in neither case is the record altogether reassuring. To address carriers' concerns that they need greater capacity to meet increasing demands in large metropolitan areas, the FCC is right to allow ownership of more spectrum, in individual cases, with care, discretion and in a manner that serves the public interest. The Commission must be particularly careful to continue to encourage those who have the incentive to press forward toward the promises of third-generation (3G) broadband wireless and beyond.

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