

The Sunday Brief: While You Were Out 2 September 2012



Greetings from Dallas and Kansas City, where the high school and college football seasons have begun and the summer heat still lingers (which creates the double rainbow in the attached picture – one of the few positives from Hurricane Isaac). Many of you are enjoying a long weekend, and as a result not reading this column “live”, but for those of you who regularly digest the Sunday Brief on a “same day” basis, happy Labor Day weekend. Our industry been through a tremendous amount of change this year, and it’s largely due to your efforts. A special shout out to my long-time friend and colleague Craig Cowden at Brighthouse Networks, who

led the telecommunications operations for the RNC this week in Tampa. No small feat.

As the summer draws to a close, it’s a good time to take a look at three events below the radar screen that will impact the close of the year for the industry. For those who have been long-time readers of The Sunday Brief, think of this as an expanded version of the “Five You May Have Missed” section,` just for the entire summer as opposed to one week.

Item 1: Unlimited 4G Data Plan Details (And Underlying Economics) Emerge. Unless you work for one of the affected carriers, you may have missed the competitive reaction from the rest of the wireless community to the “Share” plans offered by AT&T and Verizon Wireless. Specifically, in the past two weeks both [T-Mobile](#) and [Metro PCS](#) introduced new unlimited plans.



T-Mobile’s plan incorporates a truly unlimited data “adder” for their two unlimited voice and text plans, creating an unlimited voice, text, and data bundle for \$89.99/ month if you buy the plan with a subsidized phone, or \$69.99/ month if you bring your own device. While T-Mobile removed data *throttling* from the new plans, they also removed data *tethering*, which theoretically allowed up to 2GB of smartphone hotspot usage.

For the 60% or so of the T-Mobile base who never used their smartphone as a mobile hotspot, it was no big deal. But for the existing base who liked the feature, the previous data plan (which is rumored to include a higher data ceiling) might be the better option. Regardless, T-Mobile’s removal of throttling from the current data plan structure makes this unlimited plan one without asterisks for the individual smartphone.

Metro PCS, on the other hand, got out the sledgehammer. Sure, they only cover 14 markets, but those are very big ones (over 102 million of the US population). They have thrown down a \$55 unlimited voice, text, and 4G data tax-included rate with a \$50 rate for any “family” phones added to a \$55 plan (for \$50 per month, you might find some lost relatives). Again, it does not include tethering, but a \$55 rate implies a \$10-15 unlimited 4G “adder” (using Metro’s \$40 for base voice/ data/ 3G tax-included rate as a baseline). Aggressive – sure, but if you can bring \$200-300 to the table right away for one of their higher-end devices, it’s a bargain.

Two takeaways from these announcements: **First**, both of these plans take aim at Sprint and Leap/ Cricket's individual users who desire high speed performance today (and do not care about the complexities of sharing data). To the extent that current or future iPhones will lure away current Android users, T-Mobile and MetroPCS have put together a good defense by going on the offense.

Second, we get some economic insight into the retail price per Gigabyte (GB) which, when purchased in bulk, now translates into \$5-7/ GB for smartphone usage (\$5-7/ GB with 3GB monthly usage = \$15-21 which is the high-end of the MetroPCS incremental ARPU range and in line with the T-Mobile number). Metro PCS just took Verizon and AT&T's incremental pricing (e.g., moving from a 2GB to a 4GB shared plan) and incorporated it into their base rate. Aggressive, but not irrational pricing, especially when you consider that the \$5-7 is for a more limited coverage area than Verizon Wireless (and 4G costs go up for more rural markets).

Verizon and AT&T continue to control over 100% of the net postpaid retail additions, but with the Samsung Galaxy III coming to MetroPCS later this year, you cannot help but think that the individual user (or, in the case of Metro, the "family" user) is going to come under attack by the assurance of an unlimited bill. With a consistent lineup of \$199-\$299 "bring your own" devices with 1GHz processors and no two-year contract commitment, the economics will get more rational later this year (consumers and small businesses will see that the device "pays back" in five months or less versus a post-paid plan).



Item 2: Amazon Plays It Cool (Which Means It's Going to be Very Cool). In the middle of the iPhone 5 mania, Amazon quietly announced that they were going to have a press conference next Thursday at the Barker Hangar in Santa

Monica, CA. The [Wall Street Journal reported late Saturday night](#) (subscription required for the article's link) that they would be announcing a 10 inch tablet that would include subsidized ads. The concept thrown out was that on or immediately after the "unlock" screen, the advertisement would appear.

Ad-subsidized devices carry risks. But, if you are a long-time Amazon user (or if you are a Prime customer), they might also create opportunities. And, if they carry additional benefits for Prime customers (which was a key attraction of the Kindle Fire), it could be a huge winner. If anyone can get ad-subsidized models right, it's Amazon or Google. And, if the new device comes out at \$299 or less, expect Amazon's market share to grow (and look for a patent lawsuit to be levied against Amazon by Apple).

On September 5, Nokia unveils their Windows 8 lineup and Google/ Motorola release their first ["screen to the edge" smartphone](#). Microsoft will begin selling its Surface line of tablets in a month or so. Google has had a successful summer of selling their Nexus seven inch tablet. It's going to get very crowded in the tablet arena, and Amazon's new product launch in a movie production hangar should provide a clue as to where they are headed with their business strategy. As the Fire proved, customer attraction to content (through a subscription) can be a successful acquisition strategy. If Amazon gets there first, they might lock up a long-term "top 3" finish.

Item 3: AT&T's Acquisition of Nextwave. At the beginning of August, [AT&T announced](#) that they would be purchasing the equity and debt of Nextwave, the remaining principal holder of the Wideband Communications Services (WCS) spectrum. WCS sits in the 2.3 GHz band, so think of its reach and performance as better than Clearwire, but not quite as good as AWS.

AT&T already held WCS spectrum, but there was a potential problem: Sirius/ XM broadcast interference. Having seen the tussles between LightSquared and others, AT&T got proactive and proposed a joint solution with Sirius to the FCC. However, Nextwave was not willing to consent. So AT&T removed the obstacle and bought the company for a song. [As Kevin Fitchard at GigaOM](#) put it:

It's a fascinating – and kind of brilliant – maneuver: AT&T is buying spectrum it can't possible[sic] use for 4G, but in doing so AT&T could then turn its own worthless WCS spectrum into highly valuable 4G airwaves.

Many analysts have speculated that this will become the download “fast lane” for AT&T. And, while AT&T is demurring on the transaction, their RF engineers are very bright and would love to work with a chunk of nationwide spectrum in the 2.3 GHz band (call this the “Goldilocks” band – not too high, not too low, but just right for large data downloads). Combine this spectrum acquisition with other spectrum grooming/ harvesting efforts, and it's clearly an under-reported story that deserves careful attention in upcoming months.

Service provider 4G pricing changes, ten inch ad-supported tablet launches, and entire spectrum band acquisitions (and band reorganization partnerships) would have been headlines in 2011. All of them are key ingredients to the recipe for four to ten-inch screen market share. Consumers understand these headlines (as opposed to ones involving the nuances of patents), and analysts can model their effects. They reflect a dynamic market hell bent on disruptive change within their respective parts of the telecommunications ecosystem. Their success will be seen against the marketing backdrop of new Apple device launches, the integration of Motorola into Google, and the new-found co-opetition between every cable company and Verizon Wireless.

There's over one *trillion* dollars of market capitalization at stake (over \$250 billion of it in cash and marketable securities). The next Kodak, Unisys, and AOL will be created as a result. It's a blockbuster that makes [The Expendables 2](#) look as action-packed as [All Dogs Go to Heaven](#). Let the games begin!

Next week, we'll cover the tablet and smartphone announcements described earlier, and preview the September 12 Apple news event. Keep those comments coming, and feel free to pass along to a friend (or have them get their own copy by sending an email to sundaybrief@gmail.com). Thanks for your help and continued readership. Have a great week!

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