The Sunday Brief: What Trends Do Telecom Carriers Face As We Head Into the Summer (Part 2)?
5 May 2012

Greetings from Kansas City and Dallas, where spring is quickly turning into summer. This is the big show week (CTIA), and the new positioning of CTIA to early May couldn't be better (some might argue that it's now interfering with The Cable Show in late May, but I think it's actually a terrific complement – call it a Wireless & Cable month). Expect more dialogue, announcements, and perhaps a surprise or two by the time summer is in full swing.

All of the large wireless carriers and cable providers have released earnings, except T-Mobile, who had a cryptic blog about how their pre-paid business had doubled. If this is truly implied that their base has blossomed into 15 million pre-paid users overnight (Q1 pre-paid base was 7.57 million users), that would be news. Likely, it's referring to activity, whether migration from post-paid to pre-paid or another sub-figure that would lead to higher gross additions. T-Mobile announces earnings at the show, which I am confident will clear everything up.

Many of you may also remember how last year, I wrote a Sunday Brief prior to CTIA predicting a dull show with no new headlines, only to have to issue a redaction 12 hours later following the AT&T/ T-Mobile merger. So this week's Sunday Brief is coming later in the day – just in case.

Last week, we looked at three trends facing the telecommunications industry as we head into summer:

***Trend #1: Voice and SMS drive diminishing value to the wireless customer*.**
Trend #2: Microsoft will disrupt mobile phone pricing. Others will follow. Postpaid carriers will cheer.
Trend #3: Social networks also battle for time and attention. Facebook still wins, but does not dominate.

We had a ton of comments on last week's post, including one of you who said "Poor inventory planning on Nokia's part does not constitute a smartphone launch victory." I also had two of you quickly point out that the Nokia Lumia device is no longer atop the Amazon Wireless charts (or, as one of you pointed out, not even in the top 5 Top Selling AT&T phones). Regardless of weekly gyrations, rest assured that Microsoft will fight to the finish when it comes to Windows Mobile.

We also had a fair amount of comments on the role that pre-paid devices play with relationship to smartphones. It's worth a series of summer Sunday Briefs (great beach reading), but suffice it to say that the pre-paid market will continue to increase in relevance to the *individual* smartphone user, but that the "family" or "business" value will continue to make incremental postpaid additions as well (e.g., Hotspot device additions that are a part of the upcoming family or business shared data plans). Given the saturation of the market, each new device (e.g., a remote video monitoring or other telemetry device for business customers) will be seen to post-paid carriers as another contributory data node. It's a subtle but important change. Look for more analysis and commentary throughout the summer.

This week, let's look at two additional trends that the industry faces:

Trend #4: "Big Data" growth will spawn new discussions about privacy.
One of the primary means of indirectly monetizing a large database of information is through large-scale, anonymized analysis. The term "big data" has been a popular one for several years and has been actively used by advertisers and search engine providers for nearly a decade.

What's different today is that there's now an accumulated history of Tweets, Facebook posts, searches, and other bits of information that has been amassed over our digital lifetimes. Big Data is not only becoming large in terms of bytes, but it's becoming pretty good at predicting your next move. Here's the database profile that a large database provider could have for one of my neighbors:

- 45-54 years old
- Lived in the same house for over ten years
- Family annual income between $150,000 and $300,000
- Active email user (sends and checks each day on computer and smartphone)
- Active Facebook user who values her geographically disperse family (smartphone FB user)
- Likes gardening, wine, and bargains (but is not a coupon clipper)
- Eats locally (2-3 times per week) based on Facebook and Foursquare check-ins, especially on Mondays at restaurants within 2-3 miles of their home
- Subscribes to on-line and physical (paper) news sources
- Moderate to strong religious views (based on search and email "click thru" histories)
- Conservative voter (based on friends, companies/ groups followed, and email responses)

We could go into more details (a good Big Data company could have more), but suffice it to say, the world of "big data" is likely to raise serious privacy concerns among the smartphone masses. The "life profile" additions to consumer profiles that smartphones add are amazing, but the disclosure of this information (including participation in a zip code "pool" of 45-54 year-old women) should be able to be controlled by the end user to some extent (e.g., a "do not disclose" option similar to the "do not call" lists of the telephony era).

I am a big proponent of the use of big data to improve the next Groupon offering (please – no more manicure offers – wrong demographic!) or to improve my service and my life. I like suggestions and recommendations for my next book, movie, or computer. When recommending the next church, god, or candidate – I'm not so sure I want to participate.

Trend #5: Business "Core Competency" arguments will lead to greater pruning and shareholder activism.
In May 1990, CK Prahalad and Gary Hamel published an article called "The Core Competence of the Corporation." In this seminal tome, they outline several criteria for determining a company's core competence:

1. It is not easy for competitors to imitate.
2. It can be re-used widely for many products and markets.
3. It must contribute to the end consumer's experienced benefits.

These criteria have been actively discussed for over two decades, and, when combined with portfolio analysis techniques (one of my favorites is outlined in the book "The Value Imperative" by James McTaggert, Peter Kontes, and Michael Mankins), businesses begin the pruning process.

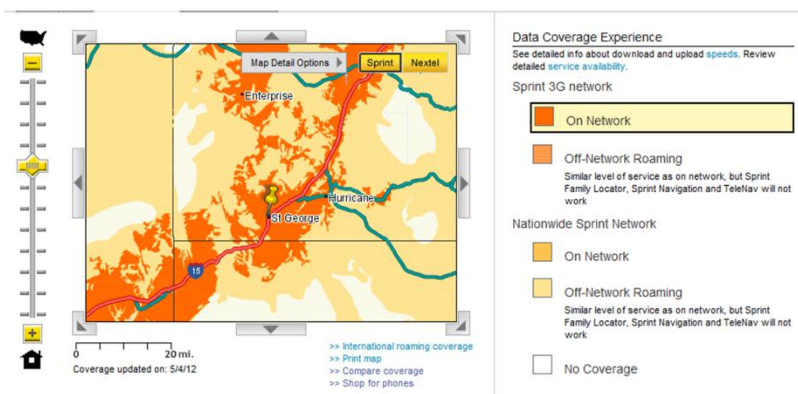
One example of how pruning can lead to value creation is the recently announced sale of 53% of AT&T's Advertising and Interactive Units to Cerberus Capital Management. Unlike the Idearc (now Supermedia) spinoff by Verizon in 2006 which resulted in a bankruptcy filing less than three years later, AT&T's management will be more actively involved in

the new company, but will not have majority control. Also, the new company will have responsibility for the development of platform services that benefit the entire AT&T Mobility base: this will not be a "cut and run" event. However, if Groupon or Living Social or Facebook devises a better base for "daily deals" than AT&T Interactive, the company can use alternatives that best enhance shareholder value.

As last week's value analysis clearly portrayed, the telecom and cable industries are playing catch-up to new business models amid a software-driven economy (update: even with Apple's dip this week, the Four Horsemen have created more than $161 billion of additional market value year-to-date than publicly traded telecom and cable companies). Activist investors are becoming more anxious, and CEOs are responding (for those of you who missed it, here's the Friday letter from Sprint's CEO to the Board foregoing $3.2 million of next year's salary and bonuses. Is this a completely voluntary decision? I'll let you decide).

Strategic decisions based on core competence are not new – in fact, they existed long before Prahalad and Hamel's article. Shareholders are asking the question "How do we create more value?" with greater frequency and urgency, however, and each service provider is likely asking the following questions:

1. *Should we focus our operations and scare capital on particular geographies and not others?* How important is St. George, Utah (population 73,000 as of the 2010 census) to our operation? Can we be #1 or #2 in this area for any of our targeted segments? Could this geography be run better by someone else? (Sprint map shown, but this could apply to any large service provider). Could the cable company in St. George (Baja Broadband) run the operation more efficiently and locally?



2. *Should we deselect segments, pricing plans, and products?* For example, should we stop carrier branded products and services where 10 or more applications exist through the Apple or Google Play markets? How would that change the product organizations in wireless? If a cable provider had actually provided stand-alone digital phone services to consumers and small businesses (if it was ever started, my guess is that it was quickly stopped), they would be asking this question. Many access providers like CBeyond deliberated this question with respect to serving portions of the small business market and are in the middle of entire business transformations.

3. *Should we be in the ____________ business?* For AT&T (and Verizon, Sprint, and Qwest) the blank was "directories" but could easily have been "hosting" or "systems integration" or "dial-up modem" or "branded applications" or even "telemetry/ M2M." This is not to say that the answer will always be "yes" but with greater shareholder activism, every corner of every business unit is undergoing careful inspection.

These are trying times for shareholders and management alike. Unlocking value is critical to improved balance sheets and stock prices because it frees up capital and management attention to focus on critical matters that restore competitiveness and competence.

Next week, we'll review the CTIA show and discuss the increasing role cable providers are playing in the wireless industry.

I look forward to connecting at CTIA. Send an email to sundaybrief@gmail.com and we'll arrange a time. Have a terrific week!

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