

Scott Moritz

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Wireless Broadband Race Tightens

Scott Moritz

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Everyone's playing to win the wireless data game, but the approaches are starting to differ.

Big telcos such as **Cingular**, **Verizon Wireless** and **Sprint** (FON) are driving the high-speed push. Neck-and-neck in the early stages of this high-stakes race, they see wireless data as a big sales opportunity just as calling-service revenue is starting to plateau.

Selling office-speed Internet connections to on-the-go mobile customers could be worth billions to equipment companies like **Lucent Technologies** (LU), **Ericsson** (ERICY) and **Nortel Networks** (NT) as well.

But there are a host of challenges that make so-called third generation, or 3G, wireless a risky bet.

The cost of upgrading a national network is steep, and there's no guarantee of payback. And as compelling as fast mobile Net access sounds, the actual demand for the service -- which carries a hefty \$80 monthly price tag -- has only been guessed at. Then there's a phone upgrade required, and new high-speed-enabled handsets fetch a budget-busting price of \$200 or more.

Meanwhile, outfits like the **T-Mobile** division of **Deutsche Telekom** (DT) have gone the other route, installing Wi-Fi gear in coffee shops, airports and bookstores to create a system of hot spots where subscribers can log in with laptops for \$30 a month.

While officially the phone companies say damn the skeptics and vow to charge full-steam ahead, at least one of the players is pacing itself.

Last month, Deutsche Bank analysts said Cingular would likely trim its target cities to less than the 15 to 20 originally planned. The company says that's not true. One person familiar with the network upgrade says Cingular will probably stick to its promise rather than take a demerit for coming up short.

However, that doesn't mean Cingular's plan to shift to faster universal mobile transmission system, or UMTS, upgrades are completely on track.

Cingular, it seems, is all tuckered out from a series of complex tech overhauls. Not only is the company completing a difficult integration of AT&T Wireless' operations, it has been making a comprehensive tech changeover. Cingular is going to global systems for mobile, or GSM, tech from an older standard, time division multiple access, or TDMA. Adding its UMTS effort to the workload has been a little tough, says the person familiar with the work.

Rather than pull up lame in the broadband race, you'll see "some game playing going on."

"They will meet their launch date in the UMTS markets, but the 2005 budget will probably be cut and full buildout in those markets will not be completed by launch time," says the insider.

A Cingular representative says the original launch target hasn't changed, and though some money may get moved around from one market to another, the \$6 billion spending plan hasn't been cut.

Meanwhile, Verizon and Sprint are pressing ahead on the evolution data-only, or EV-DO, front.

Sprint is trying out its EV-DO systems in a few markets now, and is expected to announce the official launch of the service later this summer in some 30 cities.

Verizon, at last count late in 2004, had 75,000 EV-DO subscribers. The company has not offered any updates, but still expects to have the network footprint large enough to be available to 150 million people. Reports earlier this year, however, showed sluggish sales.

Without a lot of big spending and so-called heavy lifting, T-Mobile has managed to sign on 450,000 Wi-Fi subscribers. The nation's largest Wi-Fi shop said this week that it plans to expand locations and roaming agreements to double its hot-spot count to 9,000.

"I see T-Mobile as the dark horse," says one money manager who does not own the stock.

Unlike 3G, Wi-Fi is a universal standard, meaning one adapter fits all networks. Wi-Fi is also integrated into most new laptops, which

is the fastest-growing segment of the PC industry.

Though far from ubiquitous, Wi-Fi is spreading rapidly. Phil Solis, an analyst with ABI Research, predicts the number of hot spots in the U.S. will more than double this year to 55,400.

Wi-Fi has a lot to offer and it will be 3G's biggest threat, says Ed Snyder of Charter Equity Research. T-Mobile's expansion "will further undercut the limited appeal of expensive 3G service," says Snyder.

But analysts say each approach has an appeal to fast, connection-hungry users. Wi-Fi fits with slightly mobile laptop users, while 3G is for very mobile cell phone and laptop owner.

Solis says 3G will take a while to catch on. He predicts that "among business professionals there's probably going to be a lot of demand, but it is priced too high right now for consumers."

But Solis says combining both technologies is the ultimate direction the industry is headed.

"Fast wireless is the natural progression of where things are going," says Solis, who adds the company that bundles both services will probably have the most success.

If there is room for both Wi-Fi and 3G, it won't be under Verizon's roof. In April, to support the launch of its EV-DO offering, Verizon shut down its Wi-Fi hot-spot service in New York.

Clearly, the wireless data race is under way and some bold lines have already been drawn.

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