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Wireless Providers Poised to Win Spectrum Licenses
By KEN BELSON and MATT RICHTEL

When the government's multibillion-dollar auction of radio spectrum licenses began two weeks ago, it looked as if newcomers might get the chance to buy their way into the mobile phone business, leading to more choices for consumers.

But now the country's biggest cellular providers appear poised to win many of the 1,122 licenses up for auction, allowing them to expand their reach and reducing the chance that a new entrant might bring down prices.

At the same time, cable companies like Time Warner and Comcast have teamed up with Sprint Nextel to bid on chunks of spectrum to expand their limited presence in the wireless business. Analysts said the cable companies were likely to use the spectrum to offer wireless Web access, not necessarily phone service.

Of the $13.3 billion in bids registered thus far, $2.2 billion has come from the cable providers, bidding together in a consortium with Sprint, the third-largest cellular carrier. But about 60 percent of the total bids have come from Cingular, Verizon Wireless and T-Mobile, the first-, second- and fourth-largest cellphone companies. T-Mobile has bid nearly $4 billion, mostly for licenses in major metropolitan areas, while Cingular and Verizon have sought licenses that cover broader regions.

In throwing their financial weight around, the cellphone companies may have scared off DirecTV and EchoStar, the two largest satellite television providers, which were expected to make a charge into the wireless arena but withdrew from the auction last week.

"The kings of the hill defended the hill," said Roger Entner, a wireless industry analyst at Ovum, a telecommunications consulting firm. "The dream of another wave of new entrants has died."

The lack of new participants, however, could also reflect a realization that building another nationwide cellular network would be prohibitively expensive. The four largest carriers already have about 85 percent of the nation's 218 million cellphone subscribers, and they have spent more than a decade and tens of billions of dollars building their networks.

Cable companies would also have to spend billions more to market their service in a country where most people already have cellphones. They would probably attract only about 2.5 million subscribers who would pay about $45 a month, according to estimates by Jason Bazinet, who tracks media and entertainment companies at Citigroup.

Emerging technology that lets wireless phones use data networks instead of traditional cellular networks to connect calls could give the cable companies a route into the phone market.
More likely, analysts said, cable companies are buying spectrum because they are interested in building a network of wireless hubs to let their customers log onto the Internet not just at home, but also in cafes, parks and hotels.

The cable consortium has bid for dozens of licenses, some of which cover the New York metropolitan area, where Time Warner Cable provides service, as well as Philadelphia, Washington and Chicago, where Comcast is the main provider. It has also bid for licenses in Los Angeles, San Francisco and other cities.

While wireless data networks are cheaper to build than voice networks because fewer towers are needed, it is unclear whether the cable companies will ever make enough money from data service to offset the cost of offering it. Verizon Wireless and Sprint already sell so-called 3G, or third-generation, data services that are only just catching on, analysts said.

“I don’t think cable is going to get into mobile voice because it’s overgrazed, but they’ve drunk the 3G Kool-Aid and believe that a lot of nomadic people that they can’t reach are signing up for wireless services,” said Edward Snyder, a telecommunications analyst at Charter Equity Research. Mr. Snyder questioned this strategy, asking, “Why go head-to-head with something that’s been around for years?”

Satellite television providers may have reached that conclusion. DirecTV and EchoStar had put more than $972 million on deposit ahead of the auction, more than any other group, suggesting they were committed to buying a lot of spectrum. Analysts said the companies might want to introduce a vast fixed wireless or even mobile phone network. But after just a week of bidding, the companies withdrew. Their early departure could have been a tactic to win more favorable terms from potential partners that already own spectrum. By showing a willingness to spend heavily, the companies could have been trying to signal that they were able to go it alone if need be, said Mr. Bazinet of Citigroup.

Still, Mr. Entner said that the satellite companies were astute in backing out of the auctions because, by his estimates, it could take 20 years or more to generate a return on their investment in spectrum.

“Their delusions of grandeur were abruptly brought to the ground,” he said. “They thought they could buy this on the cheap, but wireless is not something you can buy on the cheap.”