

Telcos Touchy on Net Push

Scott Moritz

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Three years and billions of dollars into the wireless industry's broadband expansion, the big telcos have yet to deliver on their bold promises.

Remember the hype? How the new so-called third-generation, or 3G, wireless network would get you TV on your cell phone? How it would let you play collaborative video games with pals around the world and take in live music broadcasts? New mobile applications were going to open the spillways for countless new revenue streams.

But today's 3G reality has a decidedly less space-age feel. You can get short video clips, sports and news alerts, music and ringtone downloads. Fun? Without a doubt. Life altering? In most cases, no -- neither for consumers nor for the big wireless carriers.

To be sure, the spread of wireless services has been one of the strongest growth stories in recent tech history, propping up otherwise staid telcos like **AT&T** (T) and **Verizon** (VZ). But as the first wave of subscriber growth slows, telcos will need to have more compelling services to keep that momentum going. That's how so much hope got hung on 3G.

And yet, not even one cell phone in 10 sold in the world this year will be a 3G unit, says Charter Equity Research analyst Ed Snyder.

"That's pathetic," he says. "Here it is, 2006, and we can barely reach 10%."

It's fair to say that 3G hasn't been a storming success so far, at least in the U.S. But industry watchers like Ovum's Roger Entner say "it all depends on your expectations." And each of the three top players has helped determine a level of anticipation.

Cingular has set the lowest bar. The largest wireless telco -- a joint venture of planned merger partners AT&T and **BellSouth** (BLS) -- plans to have its 3G universal mobile-telecommunications system, or UMTS, network in about 90 cities by year-end. But the company has been mum on what services it plans to offer, says Entner.

Verizon Wireless, co-owned by Verizon and **Vodafone** (VOD), is in the middle, with its VCast media download offerings and a mobile-access card for laptop-toting business users.

Sprint (S) has set hopes the highest, with lots of talk about video packages and TV phones. A lot of "hype," says Entner.

Of course, the telcos have a slightly different take.

"I would argue that it hasn't been a big disappointment," says a Sprint representative. "Video on the phone is one capability we offer, and it is definitely gaining traction."

The Sprint rep says the company is getting \$7 in monthly average data revenue per user, which he says is tops in the industry. But as wireless experts point out, most of the so-called data revenue comes from text messaging -- an older technology that wasn't part of the 3G rollout.

Verizon Wireless also points to its rising data ARPU and attributes a portion of the gains to 3G. "We've got hockey-stick growth rates going on with all these services," says the Verizon Wireless rep.

And as for failing to deliver streaming video, Verizon isn't willing to take the hit.

"Don't hold Verizon Wireless accountable for overhanging the market on streaming video," says the rep. "That's Sprint's problem. We never claimed that 3G would permit streaming or that customers would even want it. What we have on 3G are downloadable video clips made for a cell-phone experience."

To counter the notion that billions of dollars in network upgrades went for naught, Verizon points to the 55 million downloads of games and ringtones it handled in the second quarter and the popularity of its \$10-a-month navigation service, which uses 3G technology to give users maps and travel directions.

Ovum's Entner adds that focusing on the revenue side is only part of the 3G equation.

Higher network capacity helps cut costs, says Entner. "A UMTS network can provide a minute cheaper" than an older technology standard, such as global systems from mobile, or GSM.

Still, critics say there's no payback in sight on 3G investment by the big-spending telcos.

"Will a CEO admit they spent billions on a system that can't even pay the cost of debt?" asks Charter's Snyder. "Never."

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