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Consolidation Of Service Providers In The Wireless Industry

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Since October 2004, there have been three major mergers/acquisitions announced in the telecommunications industry. If all three go through, they will represent a major consolidation in the wireless industry.

The first of these was Cingular's purchase of AT&T Wireless. Second, in mid-December, although officially billed as a merger of equals, Sprint, the third-largest wireless operator in the United States was acquired by the fifth largest operator, Nextel. Third, during the first week of the new year, a smaller, but no less important deal was announced between the sixth largest wireless provider, Alltel, and Western Wireless. Although this third deal is not as wide-reaching as the first two, it does represent what many believe is a major step toward consolidation of regional carriers into the largest ones with a nationwide presence.

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These strategic combinations aren't just about long-term fiscal health and stability. These deals are the end result of critical technology developments that, in hindsight, proved to be the sparks that lit the flame of consolidation. This shaking out of the wireless industry is particularly interesting given the near-saturation of the American wireless marketplace.

In case you haven't seen the numbers or the press, the impressive growth curve in the wireless industry is flattening out. Looking ahead, the money in wireless will be made not in attracting new customers, but in offering feature-rich products in a market that will be almost totally dominated by the biggest players. The technology that each behemoth company relies upon will make the difference in what customers choose.

The networks of Cingular and AT&T, along with that of T-Mobile, a player that has thus far remained out of the acquisition fray, all operate on the GSM standard. While this is the standard that is used in Europe, GSM has never gained the widespread acceptance in the United States that it has there. The fact that Cingular and AT&T Wireless relied upon the same technical standards made their combination easier to pull off and a logical "next step."

Verizon and Sprint rely upon a standard called CDMA(code division multiple access) which allows a large number of users to occupy the same time and frequency allocations within a given bandwidth. Given that spectrum resources are a limited commodity, implementation of CDMA technology, which allows the greatest number of people to access the network at maximum efficiency, has been quick and successful.

Interestingly, Nextel has chosen to base its network on a proprietary standard called iDEN which has supported its very popular "push to talk" feature. The problem, however, is that as the industry upgrades to 3G and 4G (third generation and fourth generation) wireless, iDEN was out of upgrade paths, leaving it vulnerable to obsolescence.

According to a recent article in *The Economist* (Dec. 16, 2004), prior to its deal with Sprint, Nextel's management had been evaluating two alternative technologies as it looked forward to raising the technology bar. One of its options is a proprietary technology called Flash-OFDM, developed by a company called Flarion. The second is the high-speed, high-capacity version of CDMAcalled EV-DO.

Verizon and Sprint have both recently announced that they will deploy this technology (there were also rumors that Verizon and Sprint were talking about joining forces, but for now, those rumors have subsided).

One of the other ties that bind Sprint and Nextel together is that, in combination, they control a very valuable section of the available spectrum that will be used to expand their service offerings. Currently, between the two of them, Sprint and Nextel own almost all of the spectrum licenses for the unused 2.5 GHz frequency band.

This is the high rent district of wireless real estate and will be used to build a fourth generation network which could end up using WiMax, an emerging wireless-broadband standard developed by Flarion. Thus, the Sprint-Nextel merger helps Sprint and Nextel catch up with Verizon and Cingular in 3G, but it also gives them a jump start on 4G going forward.

In addition to the issues of technology migration, another major issue in the wireless industry has been geographic footprint. While carriers like Verizon Wireless have done an impressive job of establishing nationwide coverage, as anyone who has traveled to remote areas knows, no one carrier has a lock on nationwide service. All of the carriers and their customers clearly recognize that in unity, there is strength. Practically, rather than burn the time and money required to build out a network, it's just plain easier to acquire another carrier's network along with its customers.

The Alltel-Western Wireless deal is really about geographic presence. Western Wireless, which has a presence in 19 western states under the "Cellular One" moniker, doesn't share much of a geographic footprint with Alltel whose business is based in Little Rock, Ark. By combining forces, Alltel has dramatically expanded its reach and has made a move toward joining "the big boys" at the table.

The Alltel-Western Wireless deal, if it's completed (there remain some major points that have yet to be negotiated), may also signify another step in the evolution of the industry away from what was once a fleet of small regional carriers to a handful of nationwide carriers that can provide service, not only in major metropolitan areas, but also to remote rural — and traditionally less profitable — areas.

Wireless telecommunications is a topic that is always in a great state of flux. Now that the number of new wireless consumers is expected to level off (after all, a great majority of American households have at least one wireless phone in addition to the more traditional land line), it will be up to the surviving companies to identify and exploit creative differences between them. In this kind of environment, consumers win. From my perspective, that doesn't happen often enough in the telecom world.

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