

Analysis - Hard Times for Some, Free Lunches for Others

By Keith Mallinson Thursday, December 25, 2008

**The holidays are times for spending, giving and reaching out.
Who did well and who's with cinders this season?**

The recession is reducing handset sales. Declining handset churn is bad news for manufacturers and a mixed blessing for carriers. Outside developing nations, handset sales are almost entirely replacements. Component suppliers have it even worse as inventory levels are being slashed throughout the supply chain.

Carriers are deriving some benefit. Whereas few consumers will discontinue cellular service entirely, many are delaying their upgrades. This will reduce carriers' subsidy costs. However, it also results in less up-selling of services such as the lucrative 3G data plans that go hand-in-hand with new smartphone sales.

THE WAL-MART FACTOR

Price-based competition is increasing. This depresses margins across the entire market. In Sprint's attempt to staunch its enormous subscriber losses, it is intensifying price sensitivity among consumers.



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Many subscribers are switching to more frugal pre-payment plans with flat rates, or pay-as-you-go delivering lower ARPUs even at increased prices per minute.

SHRINKING PIE

The infrastructure supply sector is ripe for further shakeout in 2009. Declining technology costs and intensifying competition from Chinese vendors continue to squeeze margins, depress sales volumes and trim market shares. Most carriers have no appetite for another new network technology overlay just yet and LTE won't be ready for commercial deployment for another year.

Alcatel-Lucent predicts the market for telecommunications equipment and related deployment services to shrink by between 8% and 12%. The company expects to maintain its market share. Nortel is on the verge of Chapter 11 and Motorola's infrastructure business also desperately lacks scale.

SHUTTING UP THE HYPEON OPENNESS

"Open" was surely the most over-used and misinterpreted word last year. And there's still no consensus on what it means. As far as I'm concerned, there is no such thing as a free lunch. The punter always pays one way or the other. Open source is like free speech, not free beer. Openness is about one's ability to participate - not about getting something for nothing.

Perhaps we can develop some more meaningful terminology in 2009? Who's for royalty-free, strings-attached licensing? Or, open access with awkward egress from the clutches of Apple, Google, RIM, Ovi or one's carrier?

SWEETHEART DEALS IN THE ETHER

Free-riding on the airwaves was also popular in 2008. Undeterred by failure to attract the reserve on price on the 700 MHz D-block spectrum, FCC Chairman Kevin Martin is having another go at trying to sell spectrum on the cheap in 2009.

Here's the deal: low-cost spectrum in return for providing a regulated offering at low or no charge to public authorities or consumers. Rather than limit what can be done with the spectrum and thus reduce its value at auction, why not apply some proven universal service concepts instead? Incentivize all service providers with reverse auctions or subsidies to offer lifeline wireless broadband services at low prices where and to whom they are most needed.

How will that be paid for? Run a proper auction and maximize its receipts. The surplus few billion dollars would also temper the spiraling government spending deficit.

YOU CAN'T PUT THE GENIE BACK IN THE BOTTLE

Another kind of free-riding is with unlicensed spectrum. Whereas this has proven useful with Wi-Fi and Bluetooth for short-range connections, unlicensed, in so-called White Spaces, will not work well in the wide area where rogue emissions disrupt or raise the noise floor for other users. Shannon clearly identified that signal-to-noise-ratio, as well as bandwidth, determines the throughput of a communications channel.

Unlicensed use should not be comingled with licensed wide-area services in broadcasting or communications. Dolly Parton and her fellow radio microphone users are just the tip of the iceberg. Unlike licensed users, once unlicensed terminals are out there they are very difficult to find, let alone rein-in when interference occurs, as was clearly the case with some of FCC's own tests. Let's not poison the well.

ERRATUM

For those of you who read the print edition, full marks if you noticed that the final paragraph of my November column on enterprise mobility erroneously reappeared at the end of my December column on basebands. Editorial production is not infallible. The Web edition was corrected.

RSVP

What do you think? I've been writing this column in most editions of Wireless Week for eighteen months. I welcome your comments on my comments and ideas for future columns at kmallinson@wiseharbor.com. Happy New Year.

Mallinson is founder of WiseHarbor, solving commercial problems in wireless and mobile communications. www.wiseharbor.com