

We're not ready for the mobile revolution

July 1 2010, By Chris O'Brien

The mobile revolution has hit a major roadblock. Two events got me thinking about this. The first was when Apple unveiled the new iPhone but said video chat would be available only through Wi-Fi because AT&T's wireless network was not ready for it. The second was when AT&T scrapped its unlimited wireless plans, a move that Verizon Wireless is reportedly also considering.

These are both symptoms of the same problem: We are reaching capacity on our wireless networks. The gadgets we use have caused such a dramatic surge in mobile data that it is creating a bottleneck in the infrastructure needed to carry the traffic. Even worse, this is happening as smartphone innovation has made the United States the world's most exciting mobile market after years of lagging. Now that innovation could be put on hold while the networks catch up. That's bad for consumers, investors and the economy.

"It's clear that smartphones are moving from becoming a luxury to becoming a necessity for millions of Americans," said John Leibovitz, deputy chief of the wireless telecommunications bureau for the Federal Communications Commission. "At the FCC, it's a huge issue for us to stimulate investment by removing regulatory hurdles."

Before we look at how to fix this, let's examine some of the culprits:

- **Competition:** Or I should say, the lack of it. In late May, the FCC released its annual report on the state of competition in mobile and wireless markets. The news is not good. Consolidation has accelerated to

the point that we are all but living in a duopoly controlled by AT&T and Verizon Wireless.

At the end of 2009, those two companies controlled 60 percent of the wireless market, adding 26 million subscribers over the last two years. The next two largest providers, T-Mobile and Sprint Nextel, lost about 1 million combined subscribers during the same two years. The report cites one index that shows industry concentration has increased 32 percent since 2003.

John Britton, an AT&T spokesman, counters by saying that AT&T has taken the lead in enabling the wireless revolution by offering devices like the [iPhone](#) and various Android devices. He argues that the new pricing plans in fact were moves to make mobile data devices more affordable to a wider range of users.

- Investment: AT&T and Verizon boasted about the money they are spending on their wireless networks. "We've spent \$59 billion on our network since Verizon Wireless was formed, about \$5.5 billion a year, every year," said Nicola Palmer, vice president for networks at Verizon.

Britton said AT&T has spent almost \$55 billion over the last three years.

But according to the FCC report, because the number of subscribers has exploded, this spending has actually fallen as a percentage of revenue, from 20 percent to 14 percent between 2005 and 2008.

- Exclusive handset deals: These deals are making the bottleneck worse in two ways. First, all the iPhone traffic gets carried by one company's network, rather than being distributed over several networks. And second, exclusive deals allow carriers to compete on the availability of handsets rather than the quality of service. "If consumers could get an iPad and put it on any network, they would," said Chris Riley, policy

counsel at Free Press, a consumer advocacy group. "And it would drive AT&T to invest more."

Britton disagrees, pointing to the hype this week over the new iPhone 4 and the buzz over the new HTC Droid announced by Verizon. "If you had everyone with the same access to the same devices, you would not have the same spending and innovation from the entities that are building them," Britton said.

- Spectrum: Here's one that everyone does agree on. "We have been suggesting that there is a crisis brewing and there needs to be a focus on bringing spectrum to the market," said Chris Guttman-McCabe, vice president of regulatory affairs for CTIA-The Wireless Association.

Grim, right? But there's plenty that can be done to keep things rolling:

- End, or limit exclusive handset deals: Yes, there's an argument to be made that such deals reward the upfront investments needed to develop revolutionary gadgets. But that needs to be balanced against the anti-competitive nature of these arrangements.
- Scrutinize acquisitions: There's probably no stopping the trend to greater consolidation. But as the big two gobble up smaller competitors, federal regulators need to extract promises of investment in exchange for approval.
- Lower investment barriers: The national [broadband](#) plan contains a host of measures the FCC has proposed to lower the cost of building networks. The plan has been wounded by the controversy over whether the FCC has authority to regulate broadband. But steps to make it cheaper to add more [wireless](#) capacity should be broken out from the broadband plan and approved by Congress.

- Spectrum: The FCC has a goal of allocating 500 Mhz of spectrum in the next 10 years. But that may be less than half of what we need as mobile data usage continues to explode. The national broadband plan also contains a number of proposed steps that should immediately be adopted, including more financial incentives for various parties to give up unused spectrum and more efficient methods for auctioning new spectrum.

More may be required. But for now, there's plenty for regulators and industry to act on. If they don't, the country's moment at the epicenter of the global mobile revolution will be short-lived.

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