Wireless carriers look for new things to sell, new approaches to selling

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The phone company would like to sell its customers some video.

Once considered cutting-edge and hugely profitable, such advances as cellular calls, text messaging and cellular data have started to lose their shine in a market where just about everyone who wants a smartphone already has one.

With the U.S. fast approaching that milestone, major wireless carriers are hunting for what's next, a bid to stay relevant in a technology industry dominated by nimble software makers.

In 2014, despite growth in selling Internet data, the U.S. wireless industry posted its first-ever decline in revenue derived from selling bundles of wireless services, according to a wireless industry trade group.

"It's a real change," said Chetan Sharma, a closely watched industry consultant based outside Seattle. "They have to start investing."

The largest wireless carriers have.

AT&T, newly minted owner of the DirecTV satellite TV business, is offering broadened bundles that include Internet and phone service. Verizon's new smartphone app, go90, targets young consumers with video content produced by its AOL unit and others.

In addition to nascent video efforts, the rivals have placed other bets in such areas as Web advertising, networks for connected cars and software. Both AT&T and Verizon are said to be among the potential suitors for Yahoo, the struggling Silicon Valley Internet-content pioneer.

The moves envision a future where, in addition to building the network that powers smartphones and tablets, wireless carriers provide more of the content being beamed to the devices.

T-Mobile US, based in the Seattle area, has a different idea. The company, led by outspoken Chief Executive John Legere, has deployed an aggressive marketing campaign and consumer-friendly services in a bid to grab market share, moves that have put pressure on its rivals.

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The battle for the future of the industry has high stakes for Seattle, a cradle of the wireless business that remains a hub for the industry.

Craig McCaw, starting with a Centralia cable TV business he and his brothers inherited, built the first national cellular network, in part by beating telephone giants in government auctions for rights to the airwaves to carry wireless signals.

McCaw Cellular was ultimately sold to AT&T in 1994, and the company's Seattle-area corporate descendants went on to form components of the other four major U.S. wireless carriers.

Jeff Bradley, a senior vice president with AT&T, oversees a direct descendant of McCaw. He joined AT&T in the Seattle area in 2002, taking a role that charged him with "building this category called 'the smartphone,'" he says.

AT&T's Seattle-area operations have since helped move the wireless industry beyond basic phones, pioneering technologies that let businesses control multiple devices at the same time and connect corporate truck fleets to a network.

Last year's DirecTV deal, meanwhile, thrust AT&T into the position of selling the delivery of video and Internet data on everything from big-screen TVs to tablets and smartwatches. The company has 37 million satellite and Internet television consumers, and provides wireless connectivity to about 7 million cars.

"The pieces and parts in play are wildly different from even five years ago," Bradley said. "We're playing a different game now."

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T-Mobile is also playing a different game.

The carrier traces its roots to Western Wireless and VoiceStream Wireless, Seattle-area companies founded by McCaw Cellular alum John Stanton. Today, the company is doubling down on the core pieces of the wireless business.

Majority-owned by German telecommunications giant Deutsche Telekom, T-Mobile has a smaller war chest than its bigger peers. That gives the company less room to make expensive, futuristic bets that might not pay off, analysts say.

T-Mobile has instead pushed an aggressive "Uncarrier" marketing campaign, which portrays rivals as out of touch with consumers. "It almost seems as if our competitors have stopped trying until they need to," Legere, the CEO, said in a call with investors in February.

T-Mobile has followed up Legere's provocative talk by adding such features as no-contract wireless service and the elimination of industry-standard fees for exceeding data usage caps.

More recently, the company introduced its "Binge On" feature, which keeps some popular Internet services such as Netflix and YouTube from counting against customers' monthly data plans.

Some watchdog groups have said Binge On is a step toward improperly throttling Internet access in a way that violates net neutrality principles, among other watchdog criticisms of T-Mobile's business practices.

But the company's strategies have boosted the company's subscriber count and profitability. T-Mobile last year hurdled Sprint, becoming the third-largest U.S. wireless carrier by subscribers.

"A carrier business is not a bad business if you just focus on it," said Joe Levy, a wireless-industry veteran who most recently worked for Zettics, a data-analytics company whose customers include wireless carriers. "John (Legere) has really embraced that. 'Let's just be a really good carrier and not get into things that we're not going to be good at.'"

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The Seattle area does excel at one thing - software development - that the wireless carriers traditionally haven't been very good at.

The region's glut of software-development talent, seeded by such giant employers as Microsoft and Amazon.com, has made it home to many companies that make mobile applications sold to smartphone makers or to consumers through the app marketplaces owned by Google or Apple.

In February, location-technology developer Glympse and voicerecognition software company Voicebox, both based in the Seattle area, each announced deals to integrate their services into Samsung smartphones.

Microsoft, after scaling back its own ambitions as a smartphone maker, has emerged as a major builder and buyer of applications for Google and Apple smartphones, joining dozens of smaller companies in the area.

"Seattle is super well positioned for that," said Levy. "We have those skills - people who just get the economics of mobile. And frankly we're just better positioned because of our software talent, the raw horsepower coming out of these companies."

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Wireless giants want a cut of that talent, but they're cautious about going head to head with the likes of Google or Microsoft.

"As you move beyond connectivity, the competitive landscape changes dramatically," Sharma, the mobile consultant, said. "That's what they'll have to grapple with, is what role to play."

AT&T a few years ago weighed building its own phone-user interface, Bradley said, a move that would have put the company in direct competition with the software makers that own smartphone screens. The idea was ultimately shelved.

"We came to the conclusion that wasn't our core," Bradley said. The company does make some applications, he said, covering tasks such as cloud data storage and including AT&T's slate of DirecTV apps, but it doesn't have ambitions to be a major builder of consumer-facing software itself.

Verizon plans to walk a similarly fine line, said Greg Haller, who leads the company's West Coast operations. "It's not our goal to create another App Store," he said. "But if you look at the entire ecosystem, there are opportunities for us to be involved."

Wireless giants may not own the applications that their customers spend most of their time with, but they might be able to command a slice of that attention, and charge for the ads around it.

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Key to the success or failure of those efforts are people like Terry Dell.

Dell admits that his title at Verizon - "innovation specialist" - is vague even by the buzzword-happy technology industry's standards. More specifically, the Seattle-area resident is charged with being the company's eyes and ears in the Northwest, finding new uses for Verizon's network and building relationships with potential partners.

The company has to be ready to help play a bigger role with technology startups, or be a partner with the next corner of big business to be upended by digital technology, Dell said.

The gloomy alternative is that the expensive networks that wireless carriers built to haul calls, texts and data will be reduced to the plumbing that other technology companies use to reap their profits.

"There's no value," Dell said, "to being a big, dumb pipe."

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