

Wireless Carriers To Enterprise Customers: "We Never Promised You A Rose Garden"

Editor's note: *LB3 partner Kevin DiLallo contributed greatly to this column.*

For all the convenience that wireless services have brought to enterprises, wireless carriers have shown disappointingly little interest in innovative products, services, or pricing models. Instead, the industry has focused on value-added services for consumers—e.g., games, ringtones, and video streaming—that have no practical application in the business environment. Enterprise customers, looking for advanced products and services that could cut the skyrocketing cost of wireless service, have been largely ignored.



What'll it take to get a better deal?

Paleolithic Pricing

Wireless pricing models have changed little since the introduction of cellular. Buckets o' minutes plans, with their attendant overage charges and hard-to-meet MOU sweet spots, remain the wireless carriers' true cash cows. The promise of flat-rated voice plans has not been realized, as carriers have recognized that the pricing model is too transparent to maximize profits. Even pooled plans, which really do offer the greatest savings for enterprises, are difficult to optimize for a population with divergent usage patterns.

Enterprise customers repeatedly ask why the carriers don't just offer packages of millions of voice minutes per month for a flat per-minute rate, or true "pay-as-you-go" plans without the gotcha of a minimum per-user minutes requirement. The answer is that the leading wireless carriers, like their wireline owners, have become a duopoly with lockstep voice and data pricing.

For reasons that elude us, Sprint's market share continues to erode despite having comparable services, better rates, and a better attitude than Veri-

zon Wireless or AT&T Mobility. T-Mobile has never really understood the enterprise market, notwithstanding the inroads it has made in the consumer market. Among the leading carriers, only pricing for PC-air-card data service (for which enterprise demand has been lackluster) has measurably decreased in the past couple of years.

Another gotcha the carriers work tirelessly to protect is the myth that equipment subsidies somehow justify minimum service periods and absurdly high early termination fees (ETFs) that bear no relation to any actual subsidy the carriers may have applied to

equipment prices. To perpetuate this lock-in mechanism (which is what the ETFs are), the carriers make it very hard for customers to bring their own equipment. Some carriers say they'll allow it "if the equipment is compatible and can be authenticated on their networks," but that rarely happens.

The Walled Garden

Instead, enterprises face a limited selection of devices with hobbled capabilities and proprietary applications meant to enrich the providers, not serve the needs of customers. This much-decried walled garden serves several carrier goals:

- 1) It allows them to lock in customers through hefty early termination charges;
- 2) It creates a market for value-added services;
- 3) It preserves the market for the carriers' parents' far more robust wireline broadband services; and
- 4) By barring devices with WiFi and Bluetooth capabilities, it forces customers to buy airtime minutes rather than bypass the carriers' networks using VOIP and landline broadband.

Until the walls of the garden come crumbling down, a more affordable, feature-rich wireless

landscape where numerous innovative products and services compete, will be nothing but a pipe dream.

But there is some good news. Sprint has announced a new consumer service, "Airave," that uses a femtocell mini-base station that interconnects with the consumer's landline Internet connection (thereby immunizing Sprint's pricing for residential service from special access rate hikes) and allows the consumer to use her wireless handset to place calls while in the house. The service offers flat-rated, unlimited local and long distance VOIP calling from home—a revolutionary approach to pricing for U.S. wireless customers.

If this service and pricing model catch on (and why wouldn't they?), it shouldn't be long before enterprises begin to demand similar technologies and pricing for the business environment.

And we are starting to see other hybrid WiFi/cellular devices and services designed for the enterprise, the ultimate endgame of which is a fixed-mobile solution that interconnects with the IP-PBX, and thus combines mobility with on-net calling, PBX functionality, and use of one's mobile device to make VOIP calls. Enterprise fixed-mobile adoption has been slow, the technology is still kludgy, and wireless carriers are reluctant to promote any service that would divert minutes from their cellular networks to corporate WANs or the Internet. Nevertheless, the promise of combining mobility at reduced costs with PBX functionality is too alluring to write off yet.

Google And Skype To The Rescue?

It was only a matter of time before the high-tech industry told the wireless industry: "We want in." Skype was first to strike, petitioning the FCC to adopt rules for wireless services that would parallel the decades-old *Carterfone* rules for wireline.

Thanks to *Carterfone*, users have long been able to connect devices of their choosing to the PSTN, provided those devices meet published specifications and do not harm the carriers' networks. Skype wants the FCC to apply those rules to wireless, along with a similar rule that would allow users to run any applications they want using their wireless services and devices. While a simple extension of the *Carterfone* rules to wireless might seem like a no-brainer, the carriers took a hard-line against the market opening proposal.

Then the FCC opened its proceeding on auctioning the most valuable spectrum to come available in some time—the 700-MHz frequencies that TV broadcasters have to relinquish as they convert from analog to digital. Google and a coalition of forward-thinking companies and organizations argued that any license grant should be conditioned on compliance with open access rules that would not only allow users to use wireless devices, and run wireless apps, of their choosing, but also require the carriers to publish technical standards and prohibit them from discriminating

against devices and applications provided by third parties. In the end, the FCC adopted a slightly diluted version of these rules, but only for 22 MHz of spectrum, the so-called 'C Block.'

Whether these rules will have any effect on the rest of the industry is debatable, given their limited application, but the FCC has said that, if the experiment works in markets operated by C-Block licensees, it may extend the rules to other frequencies and licensees. The problem with the C Block rules is that the C Block frequencies will be auctioned (next January) as either 12 regional licenses or a single nationwide license. Only if a bidder or coalition acquires a nationwide license will an open network have any effect on competitors.

If incumbent carriers grab random slices of the C Block by buying geographic licenses, they will only be required to comply with the open access rules in the markets in which they use those licenses, and only with respect to the users they serve with the 700-MHz spectrum. Across the rest of their networks, they will be free to perpetuate their traditional, discriminatory walled garden.

If, however, a Google or coalition of like-minded bidders can win the nationwide license, then, maybe, users will get to use their own devices and run their own applications, and finally realize the full potential of wireless. And maybe these forward-looking licensees will use their creativity to think outside the BOCs when it comes to leveraging VOIP, avoiding interstate access charges, and adopting customer-friendly pricing models without all the "gotchas."

It remains to be seen whether this will be the last winter of enterprise customers' discontent with wireless, and whether spring will herald the beginning of the end of the wireless walled garden. Let's hope □



The 700-MHz auctions offer a (slim) ray of hope

Companies Mentioned In This Article

AT&T Wireless (www.wireless.att.com)
Google (www.google.com)
Skype (www.skype.com)
Sprint (www.sprint.com)
T-Mobile (www.t-mobile.com)
Verizon Wireless
(www.verizonwireless.com)

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