



Is Wi-Fi Wagging The 3G Dog?

In The US, Wi-Fi Users Will Outnumber 3G Users By 2007, Compelling Operators To Pursue Bundled 3G/Wi-Fi Services

By John Yunker ■ *Pyramid Research*

While comparing Wi-Fi to 3G is an “apples to oranges” exercise, it is nevertheless the case that in the years ahead, more Americans will consume mobile data using Wi-Fi than using 2.5/3G. This trend will have a profound effect on how mobile carriers package and price 2.5/3G data services.

Wi-Fi Users (Free and Paid) Will Surpass 2.5/3G Users by 2007

We compared US forecasts for paid 2.5/3G users with forecasts for paid and free Wi-Fi users (shown below). For 2.5/3G, we included the following technologies: EDGE, 1x, EV-DO and UMTS, of which the overwhelming majority of users is represented by 1x.

This trend is not necessarily bad news for 3G. After all, a consumer may very well use both 3G and Wi-Fi. However,

this trend should be a wake-up call to any carrier offering or planning to offer a cellular data service.

Wi-Fi/cellular service is particularly attractive to business users—typically a higher-margin customer segment.

“...it is becoming increasingly common to see wireless carriers position their services against Wi-Fi or co-opt Wi-Fi terminology in an effort to sell 3G services.”

Bundling Wi-Fi and Cellular is Working for T-Mobile

T-Mobile has taken a great deal of criticism over the past few years for its investment in Wi-Fi deployments. However, we believe that by bundling Wi-Fi and cellular, the carrier has created a service worth more than the sum of its parts. Furthermore, a bundled

T-Mobile reports that more than 30% of its hotspot users are also cellular subscribers

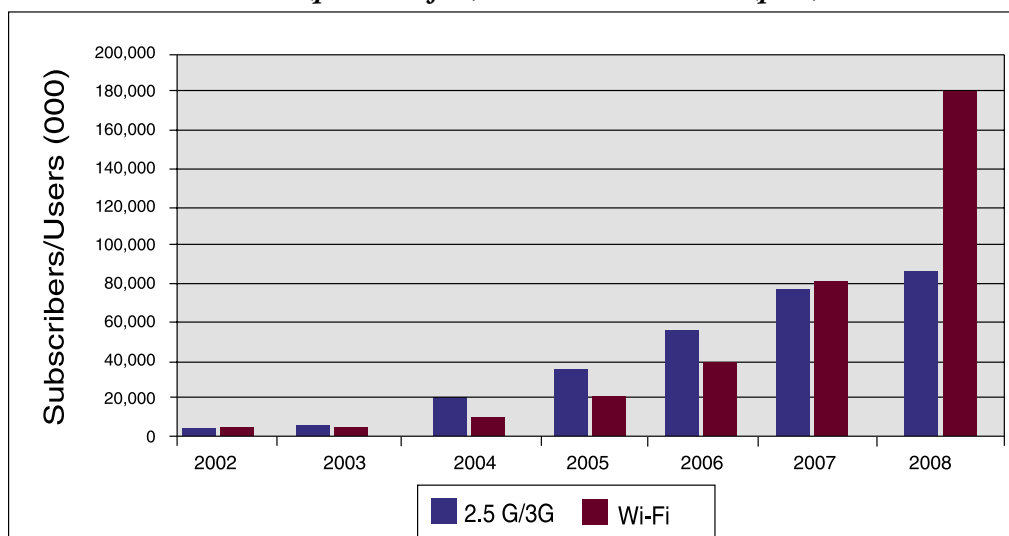
While we cannot say that Wi-Fi alone resulted in added cellular subscribers, the correlation between the two services is significant. We believe that T-Mobile can justify its Wi-Fi investment purely through cellular customer acquisition and retention. A 0.2% decrease in T-Mobile’s customer churn from the enhanced utility from a bundled Wi-Fi/mobile plan would more than justify the Wi-Fi venture.

That said, there is still plenty of money to be made from commercial Wi-Fi revenues. Direct Wi-Fi access revenues in the US could exceed \$1.5bn by 2008.

Will Other Carriers Catch the Wi-Fi Wave?

It is remarkable how quickly Wi-Fi has become the benchmark by which other wireless data services are measured. In March 2004, AT&T Wireless CTO

Exhibit: US Wi-Fi Users (paid and free) vs. 2.5/3G data users (paid)



Source: Pyramid Research

"...Wi-Fi will be, for millions of people, their first experience with broadband wireless technology."

Rod Nelson said the following about his carrier's four-city UMTS upgrade:

"Our UMTS service will turn these markets into giant 'hot spots,' providing customers with connection speeds rivaling those of some broadband services."

"...a consumer may very well use both 3G and Wi-Fi."

People understand what a hotspot is, so AT&T is using this frame of reference for promoting UMTS. Today, it is becoming increasingly common to see wireless carriers position their services against Wi-Fi or co-opt Wi-Fi termi-

nology in an effort to sell 3G services. Verizon Wireless often emphasizes the "Wi-Fi-like" speeds of EV-DO.

Looking ahead, Wi-Fi will be, for millions of people, their first experience with broadband wireless technology. Savvy carriers will learn how to

turn these Wi-Fi users into cellular customers through creative bundling and pricing. ■

About The Author

John Yunker is a wireless analyst at Pyramid Research (www.pyr.com), a global telecommunications research firm. His most recent report is "WiMax and Wi-Fi: Unwiring the World." He welcomes feedback at jjunker@pyr.com.

*This Perspective is excerpted from the new Pyramid report, **The New Wireless Road Warrior: How Business Travelers Are Shaking Up the Telecoms Industry—from Wi-Fi to 3G**. For more information about this report, please contact the Pyramid sales team at sales@pyr.com.*

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