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Cable and Satellite TV Set Their Sights on Airwaves

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In the telecommunications business, it seems everyone wants to do everything. Now the biggest names in cable and satellite television are poised to get into mobile phone and wireless data services.

On Wednesday, [Time Warner](#), [Comcast](#), Cox Communications, [EchoStar Communications](#) and DirecTV, a unit of the [News Corporation](#), will be among the 168 qualified bidders in the government's multibillion-dollar auction of radio spectrum, that precious commodity that allows voice calls and data to be sent over the airwaves.

But these companies are not necessarily planning to use those frequencies for TV signals. Rather, they appear to be preparing to battle [AT&T](#), [Verizon Communications](#) and other companies that sell traditional phone lines, broadband connections and wireless services — and are now diving into television.

Though the cable and satellite providers declined to discuss their strategies, many analysts expect them to buy at least enough spectrum to build networks that will allow them to sell wireless Internet connections and mobile phone services.

That would let the cable companies and, to a lesser degree, the satellite companies, complete a decade-long transformation: instead of just selling packages of TV channels, they are becoming one-stop shops with a full line of communications products.

"The nontraditional players will be the main bidders," said Sharon Armbrust, an analyst at Kagan Research. "It's a hole in their game plan they need to fill."

An alliance that includes DirecTV and EchoStar has put the most money into a deposit for the bidding, more than \$972 million. Another alliance, led by Comcast, Cox, Time Warner Cable and others, has put down \$638 million. T-Mobile, Cingular Wireless and Verizon Wireless have made separate deposits.

To counter the cable and satellite companies, cellphone companies are expected to add to their stores of spectrum, particularly in cities where their networks get the most use. They may also bid up the price of some of the 1,122 licenses on sale to make it more expensive for their rivals to gain a foothold in an already intensely competitive market, analysts said.

Whoever wins the auctions, the mobile phone industry is at a crossroads. Now that nearly three out of every four Americans have cellphones, new subscriber growth is starting to slow and competition to retain customers and find new ones is intensifying.

As one indicator, newcomers like ESPN Mobile and Helio — which run over the [Sprint Nextel](#) network rather than operate their own — have so far found it tough to gain traction, analysts said.

Their challenges have raised questions about whether new entrants can survive in an already crowded market. They have also cast doubt on whether sophisticated data plans that let users download music, send e-mail and watch television are worth the investment.

Verizon Wireless, which has spent years and invested billions of dollars in its data services, is just starting to see the benefits. It brought in more than \$1 billion from such services in the second quarter, nearly twice as much as in the second quarter of 2005. Cingular and Sprint have similar services up and running, making it tough for new entrants. It also means that adding more spectrum is a luxury rather than a necessity for the three largest wireless carriers.

“We will always look at spectrum,” said Doreen A. Toben, chief financial officer at Verizon Communications. “But we are in good shape through 2010, so there is no gun to our head to buy now.”

Verizon and other big carriers may tread lightly in this auction and instead focus on an auction scheduled for 2008, analysts said. That spectrum, now used by broadcasters, is better suited to the types of video services mobile phone carriers are keen to offer.

However, T-Mobile, the No. 4 player in the mobile market and a unit of [Deutsche Telekom](#), does not offer many of these so-called third-generation services. It is expected to be an eager buyer of spectrum in this round so it can introduce services to catch up to its larger rivals.

“T-Mobile is quite spectrum-constrained in quite a few markets,” said Roger Entner, a telecommunications analyst at Ovum Research. “They desperately need that spectrum.”

The outcome of the auction is not likely to be known for weeks because the format allows for many rounds of bids. But it is unusual for its size and scope. The blocks of spectrum for sale — many of which were reserved for the military and other government agencies — stretch across the country, so they represent a rare chance for newcomers to quickly offer nationwide service.

Analyst estimates of how much the auction could raise for the Treasury vary widely, from \$7 billion to \$21.5 billion, which means it has the potential to surpass the \$16.8 billion worth of bids in 2000 and 2001. The average paid per license, though, is unlikely to surpass the prices paid during the height of the dot-com boom, when some

companies overbid and went bankrupt.

Some analysts also said the bidding might be tempered by the slumping values of wireless stocks and fears that the industry is already overcrowded.

Still, dozens of smaller and regional companies are expected to bid as they try to cover rural areas and expand into potentially lucrative services offering ultrahigh-speed wireless Internet connections, particularly in less-populated areas of the country.

But the risks for them are high. Even after buying spectrum, they will need to build cellphone towers and other network equipment, work with handset makers to develop phones and products, and market their services — all while giants like Cingular and Verizon counter their moves.

“This is not a mom-and-pop business,” Mr. Entner said. “You need billions of dollars to play this game. It’s quite likely that a few of the bidders of this auction will go out of business and the spectrum will be reallocated.”

Still, the auction could be good for consumers because new companies might get into the game and offer new services, increasing competition and bringing down prices, said Ranjan Mishra, a telecommunications industry analyst with Mercer Management Consulting.

“Given you have so many new players, you’ll have at least one new infrastructure player in each of the major markets,” he said.

The impact of giving consumers another choice for wireless service is unclear, though. The amount customers spend each month on cellphone plans has leveled off, even as carriers have introduced new services on networks that cost billions of dollars to build.

“There’s always a limit to how many guys can survive,” said Bret Sewell, chief executive of Venturi Wireless, which helps carriers offer multimedia services. “Some more competition will be good, but the incumbents are in the strongest position after many years of figuring out mobility.”

Despite the questionable economics, cable and satellite companies feel they have no choice but to participate in the auction. Cellphones are clearly a favorite with consumers, and companies that do not offer wireless services — even money-losing ones — risk losing customers to the Bell companies and their wireless units, Cingular, owned by AT&T and [BellSouth](#), and Verizon Wireless, a joint venture of Verizon Communications and [Vodafone](#).

For their part, the satellite companies, which have limited broadband services and no phone products, are expected to use any spectrum they buy to offer wireless broadband access, Mr. Mishra said.

“If EchoStar and DirecTV get the spectrum, they’re likely to build broadband networks and compete head-to-head

with fiber,” the ground-based networks owned by cable and phone companies, he said. The cable companies now offer cellphone service only by piggybacking on Sprint’s network. Cable companies and Sprint have been working for months to develop products that will, say, let customers program their digital video recorders from their wireless handsets.

In the auction, an alliance of cable companies that includes Comcast, Cox and Time Warner Cable has joined with Sprint to bid for spectrum. Analysts say Sprint could provide expertise in operating wireless networks, while the cable companies could focus on how to combine their existing products with mobile phones without having to rely on Sprint’s network.

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