

## Communications IT News

By Jesse Cryderman

Earning and subscriber reports from major communications service providers (CSPs), vendors, and over-the-top (OTT) challengers illustrated a highly competitive industry that is in flux. While the lead dogs in the US wireless market--Verizon, AT&T, and Sprint--all performed well in the second quarter and added new contract subscribers, smaller wireless service providers did not fare so well. MetroPCS, Cricket (Leap Wireless), and US Cellular and T-Mobile reported a decline in subscriptions. Leap Wireless, doing business as Cricket, lost 289,000 subscribers, enough to stimulate discussion of a possible buyout and some accounting discrepancies with roaming partner Sprint. US Cellular lost a record number of contract subscribers (48,000), but added about 20,000 contract-free subscribers. T-Mobile lost more than 200,000 subscribers, and MetroPCS shed nearly as many; 186,000.

In keeping with a trend we've witnessed quarter after quarter, Comcast and Time Warner both reported additional phone customers while bleeding video customers to telco-TV. Comcast added 158,000 new subscribers to take their phone customers total to 9.7 million, and Time Warner Cable added 45,000 subs to end the second quarter with 5 million total voice customers.

The rate of new high-speed internet subscriptions in the U.S. is slowing down, due primarily to market saturation, but still displayed some positive growth in the second quarter. With the exception of AT&T UVerse, whose numbers can be deceiving based on bundling, cable operators continued to add the largest number of new broadband internet subscribers. Comcast led the pack in both new and overall subs, adding 156,000 Internet customers in the second quarter to reach 18.7 million total. By contrast, Verizon added just 2,000 internet customers in the second quarter, the worst result it has reported for that metric in four years.



Competition continues to be fierce in the video market, but subscribers are more apt to bounce between cable, satellite, and telco-TV offerings than cut the cord completely and go over-the-top (OTT). Multi-system operators (MSOs) like Comcast and Time Warner lost about 325,000 subscribers in the second quarter of 2012, while telco-TV offerings added about 275,000 subscribers. This trend is nearly identical to what was seen last year, indicating that subscribers are being lured by offerings from Verizon and AT&T, not OTT.

"While reports of multi-channel video industry losses in the second quarter of 2012 have rekindled

pronouncements of cord-cutting impacting the industry, the reality is that industry-wide losses in the traditionally weak quarter were nearly identical to losses in last year's second quarter," said Bruce Leichtman, president and principal analyst for Leichtman Research Group, Inc. "Over the past year, multi-channel

video providers added about 375,000 subscribers, compared to a gain of about 210,000 over the prior year."

Amdocs saw their earnings rise in their third fiscal quarter, reporting modest improvements in total revenue (up .9 percent) and gross operating profit (35.7 percent, up from 34.9 percent). License revenue, directory revenue, and managed service revenue were the leading cash generators, in order, for Amdocs, and the lion's share of revenue growth came from countries outside Europe and North America. Cisco was predicted to post relatively poor performance thanks to the rise in software-defined

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networking, but instead boasted a 14-percent increase in operating revenue and a growth in revenue of more than 4 percent. ZTE reported a precipitous drop in quarterly profit, the worst since 2006, as telecom equipment spending slowed. ZTE is not alone in this trend; Ericsson, Alcatel-Lucent, and Huawei have also seen similar dips. While global spending has cooled, the tide is likely to turn in China, as the market is booming and operators will invest in infrastructure and software to support exploding demand.

Even as wired and wireless infrastructure spending has decelerated, CSPs are making improvements to their core networks as part of the drive to an all-IP, converged paradigm. According to ABI Research, the mobile gateway core sector is bucking the larger infrastructure trend, and is set to increase 19 percent in 2012. Next-gen 4G LTE networks require evolved packet core (EPC) equipment, which is driving the lion's share of the spending. Just last week, KPN announced it is modernizing its core network with ZTE's unified offering.

**Going against the flow**

Verizon, AT&T, and many global CSPs have moved away from unlimited data models and are pitching their new shared data plans, but T-Mobile swam against the mainstream and announced unlimited 4G data plans. Will this entice customers at big red and big blue to jump ship? It may depend on whether or not a customer has already purchased a 4G LTE device. In light of their poor second-quarter performance, MetroPCS dropped the price on its unlimited plans to just \$55 per month, all-inclusive. Sprint, of course, has been offering "unlimited" 4G for quite some time, and the strategy paid off in the second quarter, as they enticed the vast majority of new US iPhone subscribers to drive their new machines toll-free on the Sprint network.

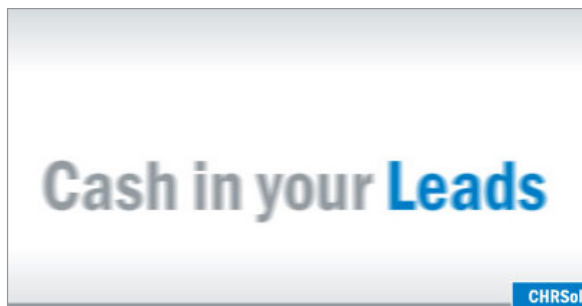
**Month of firsts**

With the explosion of mobile data consumption, the demand for streaming video, and the rise of cloud computing, strain on networks has never been greater. In both the wired world and the wireless world, network firsts were achieved this month. XO Communications announced that it has deployed the first coast-to-coast network in the U.S. using fiber optic technology from Nokia Siemens Networks. The

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nationwide network is capable of delivering 100 Gbps across 96 separate wavelengths of light, for a transfer speed of 9.6 Terabits per second. What's more, the network has the ability to scale to 400G and beyond.

In South Korea, SK Telecom became the first wireless service provider in the world to launch Voice over LTE (VoLTE) service. How does the branded HD Voice service work? Probably pretty well, considering 99 percent of Koreans have LTE access. Moreover, the development and support of multi-carrier (MC) LTE devices means interoperability across networks. "Going forward, high-quality voice call is expected to be realized among VoLTE customers of different carriers through service interworking among three Korean mobile carriers," SK Telecom said in a statement.



**4G LTE really is 'All that and a bag of chips'**

We've all heard the grand pronouncements and prophetic predictions related to 4G LTE, but a new research report from J.D. Power and Associates indicates all this yammer has not been empty prognostication. In their latest wireless quality study, J.D. Power and Associates says wireless service provider infrastructure investment strategies are paying off, as 4G LTE networks are delivering increased data revenues, reduced churn, and improved customer experience. The best wireless service experience occurs over 4G LTE, with fewer problems tallied across ten areas of measurement. Customers on 4G LTE pay an average of \$6 more per month compared to average smartphone customers. Finally, the positive effects on churn have also now been documented: the likelihood of 4G LTE customers jumping ship is significantly lower compared to other network technologies.

## Big news from Big Red

If the amount of ink spilled is any indication of activity, Verizon has been moving at lightspeed as of late. Big Red started out the month by reporting its churn was at a record low, 0.84 percent among postpaid subscribers. Compared against the other leading wireless service providers, this marked the ninth consecutive quarter in which Verizon posted the lowest churn. Later in the month, Verizon also outranked all other incumbents for wireless service experience, besting competitors in all but one region. The company also boasted the largest LTE footprint, reaching 75 percent of the United States population.

How are they doing it? It has everything to do with three letters: LTE. As the J.D. Power and Associates report (referenced above) indicated, LTE delivers on its promises of lower churn, better service experience, and higher ARPU. With a larger LTE footprint than any other U.S. wireless CSP, it stands to reason Verizon would be doing well. However, new devices and new technologies sometimes come with a steep learning curve that must be addressed. Enter smartphone school. Verizon's Wireless Workshops have seen a record increase in attendance, and this surely has had a positive effect on their results.

This would all be an amazing month for most CSPs, but the wins didn't stop there. In late August, Verizon got the go-ahead from the FCC to purchase Advanced Wireless Spectrum (AWS) from a cable industry consortium. The approval grants Verizon additional wiggle room for LTE, and opens to door for the CSP to sell off lower-band spectrum in the 700 MHz range.

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"This purchase represents a milestone in the industry and we appreciate the FCC's diligent work to review and approve the transaction," Dan Mead, president and chief executive officer of Verizon Wireless said. "We will work aggressively to ensure that we put this previously unused spectrum to use quickly to benefit customers."

It wasn't all peaches for Verizon in August. Verizon Wireless agreed to pay a \$1.25-million settlement with the FCC regarding tethering policies. The CSP admitted no wrong doing, but at issue was whether or not charging customers \$20 per month to use their 4G LTE devices as hotspots was kosher. Further, Verizon must allow its customers access to tethering apps in the Google Play Store; it was alleged that Verizon had pressured Google to hide the apps from Verizon Wireless customers..