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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*

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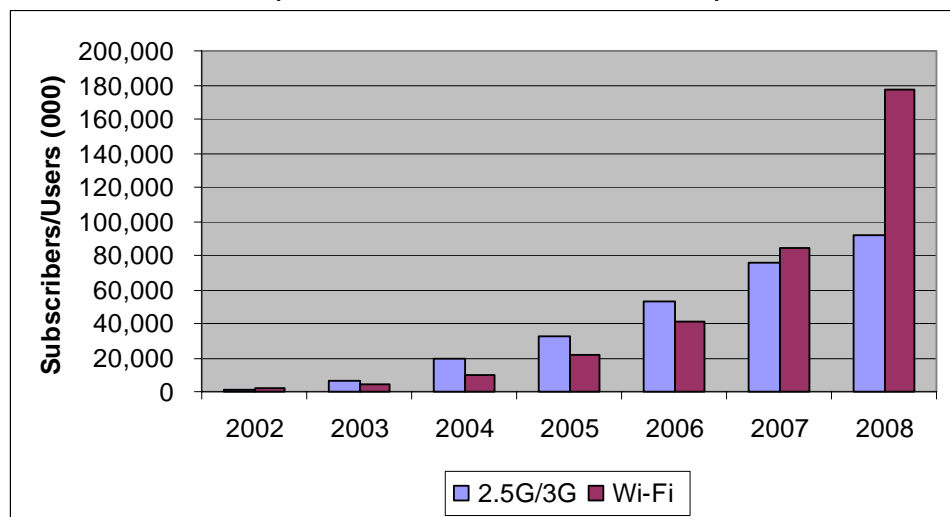
*While comparing Wi-Fi to 3G is an "apples to oranges" exercise, it is nevertheless the case that in the years ahead, more Americans will consume mobile data using Wi-Fi than using 2.5/3G. This trend will have a profound effect on how mobile carriers package and price 2.5/3G data services. This Perspective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

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.

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



Source: Pyramid Research.

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

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 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."

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 terminology 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 Report

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

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100+ pages; 51 exhibits

To order, please contact Camila Eisenstadter at 617-494-1515 x246.

Additional Pyramid Research Resources

WiMAX and Wi-Fi: Unwiring the World, Pyramid Research Report, December 2003

Worldwide Wi-Fi: A Global Survey of Wi-Fi and the Telecoms Industry, Pyramid Research Report, June 2003

Wi-Fi for Road Warriors: How Wi-Fi is Revolutionizing the Hotel Industry — and What's In Store for Other Industries, Pyramid Research Report, March 2003

QUESTIONS? COMMENTS?

- What's going to happen next?
- Where's the opportunity?
- **How could this affect you?**

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