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inCode Announces Top 10 Telecom Predictions for 2009

Key Trends: Fewer Operators and Vendors, Bandwidth Caps, A New Rival to iPhone

ATLANTA, GA—Jan. 6, 2009—inCode, Inc. a [trusted, independent advisor](#) to some of the most influential telecommunications companies and leading enterprises in North America, today unveiled its sixth annual Top 10 Telecom Predictions. The 2009 predictions identify emerging economic, technology, and marketing trends affecting consumers and businesses.

Here are some highlights (full text follows this release):

- Tough economic conditions will reduce the number of major wireless operators and infrastructure vendors.
- To help maintain service quality, operators limit bandwidth “hogs” and institute pricing resembling airline tiers.
- A device competitor will close the gap with the iPhone, but Apple may stay on the leading edge with a disruptive, next-generation media offering.

“We anticipate that economic pressures will accelerate convergence of telecom and the Internet, affecting telecom services in unexpected ways in 2009,” says Rob Prudhomme, inCode Vice President, Practice Development. “We’ll see Internet firms take a larger role in funding technology innovation. To save money, even more consumers will substitute wireless voice and data for wireline.”

Each year, the inCode predictions are eagerly anticipated for their [insight](#) and accuracy. inCode is one of North America's largest consulting organizations focused on the [telecommunications](#) and [mobility applications](#) market. The highly experienced consulting team supports premiere participants in the industry including leading wireless, wireline, and cable operators; infrastructure and device suppliers; applications and service developers; private equity and venture capital firms; and enterprises deploying mobility applications to enhance their business. Over the previous five years, inCode annual predictions have proved correct about 80 percent of the time.

inCode 2009 Top 10 Predictions for the Telecom Market

1. Traditional Wireless Players: No Safety in the Middle

Wireless operators and manufacturers stuck in the middle of the pack when the credit markets froze are in a precarious position. One or more of these companies is acquired or broken up for its piece parts. On the carrier front, [AT&T](#) and [Verizon](#) continue to jockey for top position by growing organically and acquiring companies. Smaller carriers such as Leap Wireless, Metro PCS, and U.S. Cellular post gains with a ruthless focus on specific segments. Sprint, and to a lesser degree T-Mobile, are left vulnerable. Regarding vendors, [Nokia](#) and [Ericsson](#) lead with more than 60 percent of market share. In emerging markets, Huawei and ZTE set the price floor. Those in the middle—Motorola, Alcatel Lucent, and Nortel—are suffering. The outcome? The ranks shrink by one major operator and one major infrastructure vendor.

2. Cord Cutters “Leap” to Unlimited Plan Carriers

As economic pressures increase on America’s families, the trend toward substituting mobile voice for traditional wireline service accelerates. For the first half of 2008, [U.S. government researchers](#) said 18 percent of American households had cut the cord completely, and 31 percent reported getting all or nearly all their calls on wireless phones. Primary access line losses at AT&T and Verizon averaged 9 percent over the past year. Companies like Leap Wireless and Metro PCS, which focus on wireline replacement at the low end of the market, see their fortunes improve dramatically. With more mobile Internet options available from Clearwire (XOHM) and T-Mobile, fixed mobile substitution for data services encroaches on traditional broadband. However, those substituting mobile broadband for DSL and cable primarily are younger consumers and lower income residents who move frequently.

3. Private Equity Slows Investment, Internet Innovators May Benefit

Large private equity and venture capital firms bypass high-tech investment opportunities except those with the lowest risk profiles. The result is stagnation for innovation in the traditional wireless industry. Very few, if any, large-scale deals are announced except fire sales for companies with solid cash flow that can achieve attractive “unlevered” returns. Many smaller, VC-funded companies who sell to operators and infrastructure vendors struggle to get additional funding. Innovation may further shift to the major Internet firms, such as [Google](#), [Apple](#), and [Microsoft](#), which have a longer history of supporting and acquiring leading-edge firms. That could increase the competitive threat to traditional wireless operators.

4. The Pack Chases the iPhone and *Almost* Catches It

When Apple launched the iPhone in June 2007, the mobile device game changed from hardware and design differentiation to an integrated hardware-software-services model. Uptake for all the subsequent smartphone imitators combined still pales against that of the iPhone. A leading device innovator or new entrant introduces a model that closes the user experience gap with the iPhone. This launch comes from: 1) a leading OEM (Samsung, LG, Motorola, HTC) and select Tier I global operators or 2) device OEMs with strong service integration, such as Nokia (Ovi) or RIM (BlackBerry). Meanwhile, Apple may cause another disruption in a different direction as it begins to integrate the PC, iPhone, iTunes, and Apple TV into a next-generation media experience.

5. “G” Whiz. . .Forget About the Gs, HSPA Takes on All Comers

Although 4G gets all the hype, [High-Speed Packet Access \(HSPA\)](#) quietly and methodically comes to dominate the market. HSPA and HSPA+ are poised to serve the data needs of wireless customers for a long time. The HSPA experience may be good enough to compete with WiMAX and offers better geographic coverage than WiMAX for the next couple of years. The faceoff for the technology best able to make in-roads in the embedded consumer electronics space is between WiMAX, backed by Intel, and HSPA, offering coverage ubiquity and economies of scale. Finally, Long-Term Evolution (LTE) gets to market in 2010 primarily due to a strong push from North American CDMA carriers looking to counter HSPA+.

6. Operators Build Traffic Lights on Information Superhighway

3G networks finally are providing an acceptable Internet experience. Network improvements have led to the proliferation of smartphones and the continued uptake of 3G air cards. However, operators increasingly are risking traffic bottlenecks driven by certain video and peer-to-peer applications. Increasing fine print for all-you-can-eat data plans will limit the worst bandwidth hogs. Bandwidth caps and pricing schemes look like tiered airline pricing with first class reserved for the highest ARPU customers and applications. Operators start managing quality of service (QoS). They also promote WiFi and femtocells to help offload 3G traffic and protect “first class” surfers. However, bandwidth limitations raise issues about net neutrality that have produced major discussion in wireline broadband.

7. Network Outsourcing—Back in Vogue

Operators are increasingly trying to differentiate themselves by a “cool experience” rather than network coverage and quality. Capital and cost pressures mount, and one of the major network operators outsources its most sacred cow—the network. At least one of the Tier I or II carriers outsources labor intensive functions, such as network planning, designing, buildout, and operations, to an OEM/services partnership. Companies best positioned to take this business are IBM, which has large outsourcing contracts with major operators worldwide, and Ericsson, an investor in services and network outsourcing for the past eight years. Outsourcers need to gain scale quickly, perhaps by signing a Tier I operator as an anchor tenant and adding Tier II and Tier III operators, which face capital constraints.

8. A Telecom Industry Outsider Succeeds in the Land of the Converged Operators

The trend toward time- and place-shifting for digital media increases. An innovator deploys a true “three-screen” service enabling consumers to discover, purchase, consume, and share digital content seamlessly on three screens with a “wow!” customer experience. The leader could be an Internet company (Google, Yahoo, Amazon), consumer electronics OEM (Apple, Sony, Panasonic, Microsoft), or media firm (Fox Interactive). Open mobile networks enable a business model combining advertising, ad-supported, subscription, and pay-per-use models. The successful player has:

- Celebrated devices with strong industrial and user experience design
- World-class Internet infrastructure and systems integration experience
- A digital content library with mass consumer appeal

9. Facebook for Fun, Location for Money

In 2008 consumer awareness was raised for the benefits of personal location beacons. [Zoombak](#) commercials now appear regularly on cable and network television highlighting family and personal safety as a core driver for purchasing these wearable services. Advances in cellular-based location services such as Assisted GPS (A-GPS) and sophisticated Uplink Time Difference of Arrival (U-TDOA) are deployed for wearable personal safety, a natural evolution for

established safety-centric brands such as On Star, Life Alert, and others. Telemetry-friendly cellular plans coupled with small, battery-efficient devices elevate the position of wearable safety on many family budgets. Wearable LBS also gains a foothold in the social networking market where fun and connectivity are the primary drivers over safety and security.

10. Femtocells Continue to Climb the Hype Curve

In tough economic conditions, subscribers reduce spending by discontinuing wireline service. Operators experiencing strong customer dissatisfaction over in-home coverage are first to order [femtos](#) in 2009. This reduces pricing and sets the stage for massive femto adoption in 2010. The proliferation of unlimited data plans pushes operators toward offloading expensive wireless traffic to more economical wireline broadband.

11. Bonus Prediction: Telecom and the Environment: “Green is the New Black”

To lower costs and take better care of the environment, many companies are adopting green technologies and reusable energy sources. AT&T, Sprint, and Google have led the charge. This year, the move to green occurs on four fronts. First, more mobile operators leverage environmental awareness when marketing solutions such as video conferencing and digital/mobile transactions that keep people off the roads. Second, at least one enterprising operator tries to generate economic value by helping business customers reduce their carbon footprints. Third, to push best practices for environmentally-friendly development and production down the value chain, operators and industry leaders prod suppliers to adopt more scrupulous energy-reduction programs. Fourth, recycling programs and “green” mobile devices gain favor.

About inCode

inCode (www.incodetel.com) is a respected professional services organization providing comprehensive business strategy and technology consulting to telecommunications companies and leading enterprises. inCode clients include some of the most well-known operators and corporate brands in the world. Broadband, wireless, infrastructure, device, and application companies rely on inCode to develop and implement effective strategic plans. The company also provides customized mobility solutions and integration services that help enterprises leverage telecom for competitive advantage. Founded in 1998, inCode is headquartered in Atlanta. The company has additional bases of operation in Washington, DC, Seattle, San Diego, and Toronto.

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