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TECHNOLOGY

Google, Cablevision Challenge Wireless Industry's Business Model

Companies Ready Phone Plans That Dial Up Pressure on an Industry Already at War Over Prices



Cablevision will start offering a Wi-Fi-only mobile-phone service next month. PHOTO: BLOOMBERG NEWS

By RYAN KNUTSON, ALISTAIR BARR and SHALINI RAMACHANDRAN

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Google Inc. and Cablevision Systems Corp. are preparing new cellphone services that would turn the wireless industry's business model on its head, increasing pressure on companies already dealing with an intensifying price war.

Google's service would hunt through cellular connections provided by Sprint Corp. and T-Mobile US Inc. and Wi-Fi "hot spots," picking whichever offers the best signal to route calls, texts and data, according to people familiar with the situation.

The service could be rolled out in the first half of this year and would likely be offered nationwide.

But previously scheduled launches—including one in October 2014—have been delayed, so the timing could slip again, some of these people said.

Cablevision, meanwhile, will start offering a Wi-Fi-only mobile-phone service next month, making it the first U.S. cable operator to introduce a service that others have discussed. The service, dubbed Freewheel, will include unlimited data, talk and text for \$9.95 a month for the company's broadband Internet subscribers and \$29.95 for noncustomers.

SHAKING UP CELLULAR

Two companies, two plans

- Google's service, which could be rolled out in the first half of this year, would sift through cellular connections provided by Sprint and T-Mobile US and Wi-Fi 'hot spots,' picking the best signal for routing calls, texts and data.
- Cablevision next month will start offering a Wi-Fi-only mobile-phone service dubbed Freewheel, that will include unlimited data, talk and text for \$9.95 a month for broadband Internet subscribers and \$29.95 for noncustomers.

In different ways, the two companies' plans would challenge the wireless industry's prevailing system of supplying service through exclusive agreements with individual phone carriers like Verizon Communications Inc., AT&T Inc., Sprint and T-Mobile.

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While that approach has helped carriers collect the steady income needed to support massive investments in what are now some of the world's most advanced wireless networks, critics say it leads to higher prices and sometimes worse service.

Both efforts face substantial challenges—from stitching individual Wi-Fi hot spots into a reliable network to handling new customer-relations issues. And there is no guarantee the services would catch on with subscribers.

Still, Google and Cablevision are throwing their weight behind an idea that up to this point has been pursued only by a handful of startups with names like FreedomPop, Republic Wireless and Scratch Wireless.

Google executives previously have indicated that they are interested in using Wi-Fi and cellular networks together.

MOBILE ALTERNATIVES: A Q&A

- **Q: What is 'Wi-Fi only' wireless service?**

- A: Basically, it's a plan where all your calls, texts and Instagram uploads would go over Wi-Fi instead of a phone carriers' cellular networks. Your calls would go over the Internet via built-in voice capability or via apps like Skype. Texts could be handled via WhatsApp.

- **Q: Is that feasible?**

- A: It depends on what you need and where you are. More than 90% of mobile data traffic flows over Wi-Fi. If you need to join a conference with your boss while driving into work, relying on Wi-Fi isn't the best idea. But if you're a student or young kid, it might be enough. Signals might be easier to find on campuses or dense urban areas like New York.

- **Q: Are there other options?**

- A: Yes. Some companies like Republic Wireless offer 'Wi-Fi first' plans that direct your traffic over Wi-Fi but can fall back to a cellular network like Sprint's to fill the gap when Wi-Fi isn't available.

The company is lobbying the Federal Communications Commission to free up vast quantities of spectrum to facilitate more Wi-Fi-like hot spots.

“There is a combination of Wi-Fi and wireless—they actually have a symbiotic relationship,” Patrick Pichette, Google's chief financial officer, said at an industry conference about a year ago. “We continue to be an active participant to look at how this evolves.”

Cablevision Chief Operating Officer Kristin Dolan said its new service could be appropriate for users like college students, who are often connected to Wi-Fi, or

others such as children or people on a fixed income.

More than 90% of all mobile data traffic in the U.S. was carried over Wi-Fi networks in 2013, according to Cisco Systems Inc. Yet wireless bills don't reflect that reality.

Carriers such as Verizon and AT&T have tailored their plans in recent years to charge customers more for increased data use.

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- Cablevision to Offer Wi-Fi Phone Service in New York Area (<http://www.wsj.com/articles/cablevision-to-offer-wi-fi-phone-service-in-new-york-area-1422248714>)

Now that their cellular networks have been upgraded to faster LTE technology and are more robust, they are trying to increase traffic, rather than limit it, and thus spur customers to buy larger buckets of data.

Google has struck deals with Sprint and T-Mobile and is preparing to offer wireless service, people familiar with the matter have said.

The move would build on the sizable role Google already has in wireless, thanks to its Android mobile operating system, which powers about half the smartphones in the U.S.

At the same time, it has to tread carefully, because relationships with carriers are important to extending Android's reach.

The company's aim is to get the best and fastest wireless connection without phone users having to worry about a long-term relationship with a carrier, two people familiar with the effort said. Lowering prices isn't the goal, one of the people said.

Eventually, though, the technology the company is developing to switch between services based on quality also could be used to consider price as well, creating a bidding war for momentary connections that could drive down prices.

"It's a very aggressive move," said Dave Fraser, CEO of Devicescape, a company that is stitching together a network of millions of Wi-Fi hot spots world-wide. "You can imagine Google driving down the price to be disruptive and paying for

it with revenue from other services that the company already provides, like search and advertising.”

AT&T said subscribers need its network if they want to be connected wherever they go.

Verizon Chief Financial Officer Fran Shammo said on a call with analysts Thursday that Google will have to overcome many challenges for its service to succeed, including dealing directly with consumers. “Resellers, or people leasing the network from carriers, have been around for 15 years,” Mr. Shammo said. “It’s a complex issue.”

Sprint, mindful of the risks, put volume triggers into its contract that would allow it to renegotiate if Google’s service takes off, one person familiar with the matter said.

Apple Inc. got a lot of attention in October when its new iPads included a so-called SIM card that could work with three of the four big U.S. carriers. SIM cards let subscribers use a network, and carriers in the U.S. have typically supplied their own, tying subscribers to their service until the cards are replaced. The iPads’ “soft SIM” sparked speculation that customers could one day buy short-term data connections a la carte. Verizon declined to participate.

The carriers argue that reliable and secure mobile service is only possible with their networks of cell towers and fiber optic links that move YouTube videos and Instagram photos among cellphone users. The big four national carriers have built those networks at enormous expense--bids in a continuing spectrum auction at the FCC have approached \$45 billion—and they command a high price. Middle income American households spent about 50% more on cellphone service in 2013 than in 2007, according to an analysis of Bureau of Labor Statistics data.

Smaller companies have experimented with ways to use Wi-Fi to bring down wireless bills, chipping away at problems like the need to log in to dozens of Wi-Fi networks or how to hand off phone calls between them so they don’t drop.

FreedomPop, a Los Angeles based company that began offering free mobile service in 2013, launched a new service last week that will give cellphone customers access to nearly 9 million hot spots with a single login for \$5 a month.

Republic Wireless developed technology to hand off Wi-Fi calls and has a few hundred thousand customers for services that work only on Wi-Fi or include cell-network fallback. Its plans range from \$5 a month to \$40, depending on whether the customer wants to use Wi-Fi exclusively or fall back on Sprint's network when necessary.

Motorola, owned by Google until last year, has three models—the Moto X, G and E—that work with Republic's Wi-Fi-first plans.

Cablevision's new service will be available only on one device at launch: Motorola's Moto G. The phone will come with the cable company's video and voice apps already installed and will cost \$99.95.

Cable companies began building millions of Wi-Fi hot spots across the country in recent years, triggering speculation that they might try to stitch them together into a wireless offering. Comcast Corp., which is awaiting government approval to buy Time Warner Cable Inc., told regulators last year that a merger could help spur the development of a Wi-Fi first cell service.

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