

Mobile and VoIP Game Changers

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OVERVIEW

Four interconnected issues have caught our attention in the last few weeks. They collectively herald the dominance of mobile telephony and the acceleration of VoIP (Voice over Internet Protocol). These announcements foreshadow lower communication costs and prices. They will rapidly bring next generation technologies to market. They will pave the way for new content applications and will further drive customers to mobile and to the mobile web.

The four game changers are:

1. Fortune Magazine and other sources indicate that Apple's 3G next generation iPhone for the AT&T network will be priced at \$199
2. JaJah's (VoIP service provider) announcement of its expanded telecom strategy and partnership with Yahoo
3. The deployment of femtocells to allow mobile phones to utilize a fixed VoIP connection inside a building
4. The commitment to 4G (fourth generation wireless broadband roll-out) by Sprint, ATT Wireless and Verizon Wireless

Apple's likely pricing doesn't need a lot of explanation. The implication is that a fabulous form factor device will now be within the

price reach of most advanced mobile phone users. This will accelerate the use of the mobile web because the iPhone makes accessing the web so easy. Word is that Apple stuffed RIM/Blackberry in North America by using its clout to get ATT to delay the marketing of the next generation RIM device named BOLD. Apple's market power in action!

Apple now has at least two major issues to address. Security and compatibility for the enterprise user are key deficiencies. Executives who love their iPhone may well drag their enterprise IT managers into the 21st century, but there will be a lot of kicking and screaming along the way.

JaJah is what used to be called a dial-around company www.jajah.com. That is, dial an access code, then punch in the called number and get routed, via a lower cost access network, to that number. With VoIP, the possibilities are endless and JaJah is taking advantage of that at \$0.029 for most international calls. JaJah's killer app is its integration with mobile handsets. Also, JaJah just announced an agreement to be Yahoo's supplier for its premium voice service.

We recently wrote about femtocells, very small mobile cells that can be placed in homes and businesses. These cells, when connected to broadband, allow

mobile phones at customer premises to tap into the broadband connection instead of using the public wireless link. Sprint's solution is called Airave. It allows the subscriber to use his or her existing handset by using Sprint's licensed wireless spectrum from the femtocell and not from the cell on the nearby tower - <http://www.sprintenterprise.com/airave/>. T-Mobile has a similar offering. It uses unlicensed WiFi spectrum and requires a dual-mode handset - <http://www.theonlyphoneyouneed.com/>. Femtocells will truly merge mobile and landline functionality and improve in-building wireless signal strength.

The three major US wireless carriers have now committed to wireless broadband. ATT Wireless and Verizon Wireless have committed to LTE (Long Term Evolution) while Sprint with Clearwire has announced their commitment to WiMAX. T-mobile is testing LTE and will most likely commit in the near term. Carriers have different time-frames for 4G deployment from later this year to 2012. As 4G rolls out, customers will be able to receive high quality graphics, pictures and video directly to their handsets. The web is already delivered to the handset and faster networks will make this experience the

norm rather than the exception. Now the applications and the channels to deliver the content will have to accelerate to match the network speeds. You have to love the leapfrog game of faster networks fostering bandwidth rich apps and then bandwidth rich apps fostering faster networks!

We see nine important implications for mobile carriers, VoIP carriers and technology providers, and for application and content providers.

1. Acceleration of the mobile web as iPhone customers and other web-enabled handset customers accelerate the use of their inviting form factor phones for search and transactions. We haven't seen anything yet!!
2. Mobile content companies need to rapidly expand their initiatives beyond ring-tones and games to capture the expanding web-enabled handset market.
3. Femtocells have economic cross-implications for carriers. Carriers will experience reduced revenue (less so since the introduction of \$99 dollar "all you can call" pricing plans) but more stickiness and increased cell capacity due to femtocell "offload" and reduced Capex requirements.
4. Improved signal strength for callers, especially in buildings. The WiMax guys (Sprint and Clearwire) need to adopt femtocells since WiMax 2.4/2.5G spectrum has poor building propagation characteristics. The traditional cellular/PCS carrier customers

will realize improved in-building coverage.

5. Additional flattening of the world will occur as lower cost international calling expands, especially by younger callers (the most mobile of the mobile users) when they use JaJah to call around the world. Skype needs to get moving or it will lose its lead! Vonage, once it resolves its financing challenges, should probably buy JaJah.
6. All four game changers will further continue to reduce the need for landlines.
7. These announcements provide overwhelming evidence that the telephony world is going IP
8. The IP voice world begets IP messaging and IP content and eventually IPTV. The killer app!
9. Further evidence that FMC (fixed-mobile convergence) isn't just a figment of the imagination of the gearheads!

There are also several important implications for enterprises:

1. Corporations in the insurance, retail and travel industries, to name a few, have an opportunity to take advantage of this change in technology by accelerating the development of their mobile marketing strategies.
 - Building and buying applications that deliver purchasing, servicing and better content options for their customers.
2. Enterprise IT managers need to rapidly upgrade their mobile

technology staffs to enable them to converse with mobile applications suppliers. This will help them select the best solutions and integrate those solutions with existing and new platforms.

3. Games, short film clips, mobile social networking and location based services will all be more readily available as the mobile data environment becomes more attractive to customers through faster networks and better handsets
4. Mobile advertising is now poised to break-through as customers become even more tethered to their mobile handsets.

We recognize that this report is North American centric. Similar and even more expanded big events are occurring elsewhere around the world where mobile is even more critical to communication and to web access, and where VoIP is also expanding rapidly. For example, in Japan 45% of mobile customers are web-enabled (compared with less than 14% in the US). And in France 34% of all households subscribe to VoIP compared to a single-digit fraction of that in the US.

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