

Before the  
Federal Communications Commission  
Washington, D.C. 20554

In the Matter of )  
 )  
Implementation of Section 6002(b) of the )  
Omnibus Budget Reconciliation Act of 1993 )  
 )  
Annual Report and Analysis of Competitive )  
Market Conditions With Respect to Commercial )  
Mobile Services )  
 )

**FIFTH REPORT**

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By the Commission:

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## I. INTRODUCTION

### A. Overview

In 1993, Congress created the statutory classification of Commercial Mobile Services<sup>1</sup> to promote the consistent regulation of mobile radio services that are similar in nature.<sup>2</sup> At the same time, Congress established the promotion of competition as a fundamental goal for CMRS policy formation and regulation. To measure progress toward this goal, Congress required the Federal Communications Commission (“Commission”) to submit annual reports that analyze competitive conditions in the industry.<sup>3</sup> This report is the fifth of the Commission’s annual reports on the state of CMRS competition.<sup>4</sup>

With one exception discussed below, this report follows the same general structure as the *Fourth Report*.<sup>5</sup> This report bases its analysis on a consumer-oriented view of wireless services by focusing on specific product categories, regardless of their regulatory classification. In some cases, this includes an analysis of offerings outside the umbrella of “services” specifically designated by the Commission as CMRS.<sup>6</sup> However, because licensees of these other spectrum-based services often compete with CMRS providers, as well as with other providers of telecommunications services, the Commission believes that it is important to consider them in the analysis.

This report focuses on three categories of wireless services: mobile telephony,<sup>7</sup> mobile data,<sup>8</sup> and dispatch.<sup>9</sup> This is a departure from the report’s two previous editions, in which there was also a separate

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<sup>1</sup> Commercial Mobile Services came to be known by the Commission as the Commercial Mobile Radio Services, or “CMRS.”

<sup>2</sup> The Omnibus Budget Reconciliation Act of 1993, Pub. L. No. 103-66, Title VI, § 6002(b), amending the Communications Act of 1934 and codified at 47 U.S.C. § 332(c) (“1993 Budget Act”).

<sup>3</sup> 1993 Budget Act codified at 47 U.S.C. § 332(c)(1)(C).

<sup>4</sup> This report, like the others before it, discusses CMRS as a whole because Congress called on the Commission to report on “competitive market conditions with respect to commercial mobile services.” 47 U.S.C. §332 (c)(1)(C). An individual proceeding in which the Commission defines relevant product and geographic markets, such as a proposed license transfer, may present facts pointing to narrower or broader product markets than any used, suggested, or implied in this report.

<sup>5</sup> Implementation of Section 6002(b) of the Omnibus Budget Reconciliation Act of 1993, Annual Report and Analysis of Competitive Market Conditions with Respect to Commercial Mobile Services, *Fourth Report*, 14 FCC Rcd 10145 (1999) (“*Fourth Report*”). A copy of the *Fourth Report* that includes color versions of the maps may be found on the Commission’s Internet site: <<http://www.fcc.gov/wtb/reports/fc99136.pdf>>.

<sup>6</sup> See, e.g., Section II.C, *infra*.

<sup>7</sup> This report defines the mobile telephone segment to include cellular, broadband Personal Communications Services (“broadband PCS”), and digital Specialized Mobile Radio (“SMR”) operators.

<sup>8</sup> The mobile data industry encompasses a wide array of services ranging from data transmitted over one-way pagers to vehicle tracking from satellites to wireless Internet connections via portable computers or Personal Digital Assistants (“PDAs”). Participants include both CMRS and non-CMRS providers, many of whom also offer mobile telephone and dispatch services.

section for paging/messaging. The Commission believes that mobile data services warrant a more extensive treatment in this year's report. While there are still only a limited number of mobile data services available in the United States beyond paging/messaging, that number is growing rapidly, and it seems clear that a larger mobile data sector is in the process of emerging. In the context of this developing sector, paging/messaging services can be viewed as a part of the larger landscape. In fact, some paging/messaging operators have begun to market themselves as competitors in the emerging mobile data world.<sup>10</sup> Therefore, in this year's report, the paging/messaging section has become a subsection of a larger discussion of mobile data services.<sup>11</sup>

The three consumer-oriented service categories discussed in this report are not as clearly delineated when viewed from the carriers' perspective. For example, some dispatch operators also offer mobile telephone services. In addition, many mobile telephone, paging/messaging, and dispatch operators are leveraging their core assets to enter the growing market for mobile data services.<sup>12</sup> Therefore, while these service categories are used to provide structure for this CMRS competition report, the Commission's view of operators is not limited by the categories in which this report places them.

## B. Status of Competition

In the year 2000, the CMRS industry continues to benefit from the effects of increased competition as evidenced by lower prices to consumers and increased diversity of service offerings. For example, by year-end 1999, the number of mobile telephone subscribers had reached 86.0 million or 32 percent of the country's population.<sup>13</sup> In addition, according to the U.S. Department of Labor's Bureau of Labor Statistics, the price of mobile telephone service declined by 11.3 percent between the end of January

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<sup>9</sup> This report's discussion of the dispatch market includes several different segments of that market, including: interconnected commercial dispatch carriers, which operate primarily in the 800 MHz, 900 MHz, and 220 MHz bands and are referred to as "trunked dispatch;" and non-interconnected, non-CMRS, commercial dispatch service carriers, which are referred to as "traditional dispatch." See Application of Various Subsidiaries of Geotek Communications, Inc., *Memorandum Opinion and Order*, DA 99-1027 (rel. Jan. 14, 2000).

<sup>10</sup> For example, the paging/messaging operator Pagemart Wireless, Inc. recently changed its name to Weblink Wireless, Inc., stating that the change was made to reflect the company's change "from selling simple alert, telephone-centric services to wireless data Internet-based products and services." *PageMart Wireless Officially Becomes Weblink Wireless*, News Release, Weblink Wireless, Inc., Dec. 1, 1999.

<sup>11</sup> This report defines the paging/messaging segment to include paging and narrowband Personal Communications Services ("narrowband PCS") operators.

<sup>12</sup> See Section II.B, *infra*.

<sup>13</sup> The nationwide penetration rate is calculated by dividing total mobile telephone subscribers by the total U.S. population. The 32 percent figure is based on a 1999 U.S. population estimate of 271.0 million. See Dennis Leibowitz *et al*, *The Global Wireless Communications Industry*, Donaldson, Lufkin & Jenrette, Winter 1999/2000, at 15 ("DLJ Report").

1999 and the end of January 2000.<sup>14</sup> Another analyst estimates that mobile telephone prices fell 20 percent between 1998 and 1999.<sup>15</sup>

The process of carriers building nationwide footprints<sup>16</sup> continues to be a significant trend in the mobile telephone sector. The two most prominent mobile telephone mergers announced during 1999 involved large regional operators seeking to create nationwide footprints in order to compete effectively with existing operators offering attractive nationwide pricing plans.<sup>17</sup> In parallel with the process of footprint building, mobile telephone operators continue to deploy their networks in an increasing number of markets, expand their digital footprints, and develop innovative pricing plans.

In the mobile data sector, the ongoing transition from paging/messaging to more advanced mobile data services makes it difficult to generalize about the status of competition. The paging/messaging subsector has long been highly competitive, but there has been little change in the demand for paging services.<sup>18</sup> At the same time, virtually all wireless providers – from existing mobile telephone operators to numerous new entrepreneurs – have announced plans to offer consumers an impressive variety of mobile data services. However, many of the providers currently offer mobile data as an add-on to existing mobile voice services. Further, the services currently offered by a variety of carriers are diverse in a number of characteristics including different levels of geographic coverage and various target markets.

In the dispatch sector, 220 MHz licensees are beginning to deploy their networks. In addition, some mobile telephone operators are beginning to offer services that cater to the needs of the dispatch sector, creating the potential for inter-service competition.

### C. Industry Development

*Mobile Telephony.* Since the release of the *Fourth Report*, the mobile telephony sector of CMRS has experienced another year of strong growth and competitive development.<sup>19</sup> In the twelve months ending December 1999, the mobile telephony sector generated over \$40 billion in revenues,<sup>20</sup> increased

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<sup>14</sup> U.S. Department of Labor, Bureau of Labor Statistics databases, Bureau of Labor Statistics' Internet site at <<http://www.bls.gov/sahome.html>> (“*BLS Database*”).

<sup>15</sup> The Strategis Group, Inc., 2000; *see* Section II.A.1.d, *infra*, for a detailed discussion of price competition.

<sup>16</sup> “Footprint” is an industry term of art referring to the total geographic area in which a wireless provider can offer services over its own facilities.

<sup>17</sup> For a further discussion of nationwide pricing plans, *see Fourth Report*, 14 FCC Rcd at 10159-10160.

<sup>18</sup> *See* Section II.B.3, *infra*.

<sup>19</sup> All of the data in this report are taken from publicly available sources. These sources include: trade associations, securities analysts, company releases and Web sites, filings with the Securities and Exchange Commission (“SEC”), newspaper and periodical articles, and certain materials made available to the Commission that were prepared by research companies and consultants that study various aspects of the wireless industry. The accuracy of the data from these materials, however, was not independently verified by the Commission. The inclusion of these data in this report does not constitute a representation or warranty by the Commission of their accuracy or completeness.

<sup>20</sup> *See* Appendix B, Table 1, p. B-2.

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