

# BusinessWeek

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## Carriers Buy into Startups to Boost Their Networks

Lest they be seen as "dumb pipes," wireless network operators are investing in startups to gain a proprietary technological edge with data users

By [Stacey Higginbotham](#)

As consumers increasingly pick up smartphones rather than feature phones, wireless carriers are investing more cash in startups, hoping to make such devices more useful—and their networks more profitable. The uptick in carrier investments has been particularly pronounced over the last few months as [wireless operators try to boost data revenue](#) and differentiate their services by getting access to new technology first.

Just this week, Eventful, a location-based calendar service, announced [a \\$10 million round](#) that included money from Telefonica. In September, two firms announced deals with carrier participation: social calendaring service Zvents, which [raised \\$24 million](#), some of it from AT&T, and femtocell systems maker Percello, which [raised \\$12 million](#), including money from T-Mobile.

"In my opinion the operators are becoming a little more aggressive and the equipment folks are less aggressive, with less to spend on R&D," said Matthew Fix, a principal at Vodafone Ventures, the investment arm of the British network operator. "Carriers are more aggressive because there's a lot of uncertainty around their business models."

### PAYING NOT TO BE A "DUMB PIPE"

Operators spent the last decade focused on growing their business through building out new 3G networks and gaining subscribers, but as markets become saturated the only way to boost revenue is to get people to use the network for data. In some countries the only way to gain market share is to steal customers, rendering the differences among the services being offered by carriers—and exclusive access to those services—more consequential. As Fix observes, operators don't want to become dumb pipes for data, delivering [services that only enrich others](#). They want to own their destiny. And they want to charge for it.

Driven by flat-rate plans, more widespread 3G coverage, and the iPhone, data spending in the U.S. reached \$8.2 billion in the second quarter of 2008, or about 21% of total wireless-services revenue. This compares to spending of \$5.85 billion, or 17% of total services, for the same period in 2007. The boost in wireless services increased average revenue per user by 5%, to 50¢, offsetting a 5¢ decline in voice ARPU, according to data released in August by [Chetan Sharma Consulting](#). So to avoid becoming the dreaded dumb pipes, carriers are funding startups to get exclusive access to services, and possibly technology.

As one venture investor at a large European carrier noted to me, buying exclusivity from established vendors isn't cheap. Still, the carrier he works for, which doesn't allow him to talk to the press, has ramped up its investments to about a dozen from just one or two in prior years. His increased investment also puts him in the path of many fundraising companies, meaning he and his employer get a first look at new technology—and interesting startups—even if they don't choose to fund them. Russ Shaw, global innovation manager for Telefonica, said the Spanish telecommunications firm created a venture fund for similar reasons a year ago. The

fund had 20 million euros to spend in the past year, and another 20 million euros is authorized for the coming year.

### WHY WAIT FOR NOKIA?

Aside from gaining access to exclusive features, or getting in early on the innovation curve, Eric Zimits, a general partner at Granite Venture Capital, predicts that carrier investments in hardware might become more common as carriers seek to exert added control over the component side of their business. He points to investments in femtocells as well as NTT DoCoMo's recent decision to invest in [Quantance](#), which offers a handset component to increase battery life. Zimits is an investor in Quantance and Percello, the T-Mobile-backed femtocell company.

"It just seems to me that as carriers—especially wireless operators—look for a competitive advantage in the market, they should try to get proprietary access to key technologies instead of waiting for Nokia to take two to three years to figure it out and then sell it to all comers," Zimits said. "The big change for the startup is they have to sell to the operators from Day One. They are hard organizations to navigate, but the payoff can be enormous if you get them to specify your technology."

Back during the telecom bubble in the late '90s, carriers made investments in some of their suppliers, too. But for the most part, this turned out badly; the industry was soon beset by a glut of capacity—and too many me-too startups selling gear. This time around, carriers appear to be investing in silicon and software that can differentiate their services in a way they can market to the end user. Maybe it's access to a cool calendar feature or a longer battery life, but the efforts to fund startups this time around are all about making each carrier unique.

*Stacey Higginbotham is a writer for [GigaOM](#).*

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