

M2M and MVNOs driving US connections growth

According to our research, MVNO and M2M services are playing an important role in boosting US mobile operators' quarterly connection gains, often offsetting slowing growth in traditional mobile services.

Mobile operators in the US typically define wholesale connections as MVNO connections that they often group with M2M connections in their reporting. These metrics have historically been reported by six US operators – namely AT&T, T-Mobile, Sprint, US Cellular, Clearwire and Verizon Wireless – and in this analysis, M2M has been grouped within wholesale connection totals.

Our estimates show that the sum of MVNO and M2M connections for these six operators has increased by almost 30 million between Q2 2010 and Q2 2013 to reach a total of close to 70 million. While combined total connections among them has grown by 20% over the last two years, when excluding their respective MVNO and M2M bases the level of total connections growth is approximately halved at around 12%. Over the past two years, MVNO connections have contributed just over half of the joint MVNO and M2M connections aggregated among those six operators, and we expect MVNOs to continue their positive growth in the near term.

On average across AT&T, Sprint and T-Mobile US, MVNO connections represented just over half (51%) of wholesale connections (including M2M) in Q2 2013. The share of MVNO within wholesale connections has decreased by three percentage points at AT&T between Q2 2012 and Q2 2013 to 49%, compared to a twelve percentage point decrease at Sprint to 50% and one percentage point increase at T-Mobile US (59%).

The sharp quarterly decline in Sprint's wholesale connections in Q2 2013 was the result of a move to eliminate inactive connections from its MVNO base. Joseph Euteneuer, Sprint's CFO, explained that "as expected our wholesale and affiliate business had net customer losses of 228,000 in the second quarter primarily due to a targeted effort by our wholesale MVNOs to eliminate inactive accounts in their base, and [Lifeline](#) recertification".

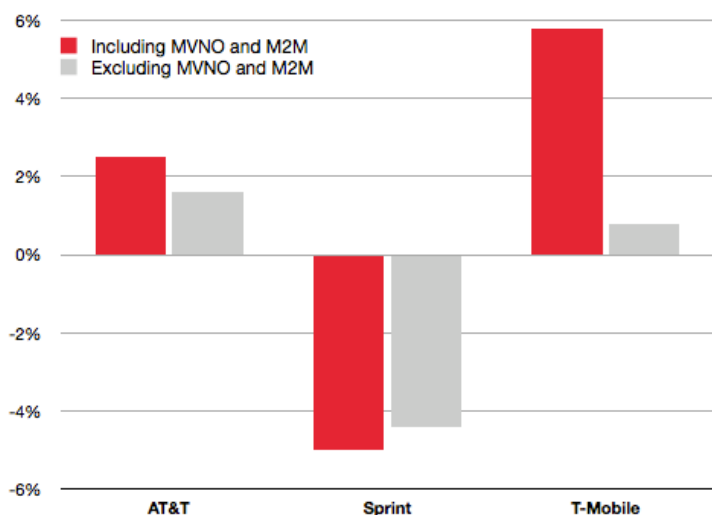
In Q2 2013, T-Mobile reported an annual connections growth rate of 33% on the back of the acquisition of MetroPCS acquisition and its 8.9 million prepaid customers, but also thanks to organic growth due to improved branded contract churn and higher branded contract gross additions. T-Mobile recently noted that "the increase in wholesale net customer additions was due to the continued popularity of government-subsidised Lifeline programmes offered by our MVNO partners and higher MVNO gross customer additions, partially resulting from new MVNO partnerships entered into during the second half of 2012".

In parallel with MVNO growth, M2M services are also positively impacting mobile operators' total connections. As highlighted in our recent report, [Mobile operators' global M2M footprint](#), emerging M2M services are becoming an important source of growth for mobile operators. This sentiment was recently voiced by Verizon Wireless' SVP, Michael T. Stefanski who stated that "we're gaining a lot of momentum around machine-to-machine and that is driving incremental revenue, albeit very low individual unit per subscriber type revenues. But, again, as we start to gain momentum and sell hundreds and hundreds of thousands of these types of devices, that's

going to contribute to those revenues and contribute to the overall growth of Wireless”.

In Q2 2013, M2M represented around half of wholesale connections (MVNO and M2M) on average for AT&T, Sprint and T-Mobile US – growing by four percentage points year-on-year. The share of M2M within total connections for these three operators increased by just over one percentage point between Q2 2012 and Q2 2013 to reach around 10% on average (excluding the effect of the acquisition of MetroPCS on T-Mobile's connection base).

M2M and connected devices¹ are a key growth opportunity for AT&T, with the operator's President and CEO, Ralph de La Vega, recently explaining that “gains in connected devices more than offset losses in the reseller segment”, adding that AT&T plans to further monetise M2M through applications within segments such as home security, automation and connected cars. AT&T has been particularly active in the automotive segment. In February 2013, the operator signed an agreement with General Motors (GM) to provide wireless connectivity for all GM vehicles in the U.S. market beginning in 2014. More recently, AT&T announced an agreement with Sirius XM Satellite Radio to provide mobile connectivity supporting a suite of security features and services for Nissan in North America, and an agreement with Audiovox to provide network connectivity, telematics and location-based service systems.



Annual total connections growth (including and excluding wholesale), Q2 2012–Q2 2013²

Source: GSMA Intelligence

¹ Data-centric devices such as eReaders, home security monitoring, fleet management and smart-grid devices

² T-Mobile Q2 2013 figure excludes 8,918,000 connections from acquisition of MetroPCS