



With Increased Competition, U.S. Consumers Exert Their Power over Wireless Providers

*A recent American Consumer Institute study found the U.S. wireless market to be more competitive than any other wireless market in the world. The study found high levels of wireless competition, not regulation, were strongly correlated with lower consumer prices, increased consumer demand and improved consumer welfare. However, that study ignored another benefit of competitive markets – namely, that competition requires service providers to become acutely responsive to changing consumer needs. In this **ConsumerGram**, we explore general trends in consumer demand and find that competition – pitting sizable wireless providers against one another – is a key driver behind changing wireless carrier policies and practices. As the U.S. wireless market has matured, with dramatically lower per-minute prices and “all-you-can-eat” data access options, competition is giving consumers increased power over their wireless providers and making them the real regulators of the wireless market.*

Lower Prices, More Usage

With 253 million U.S. wireless subscribers today, it is hard to imagine that the first commercial wireless telephone service was offered just twenty three years ago. Today there are 60% more wireless subscribers in the U.S. than telephone lines in service, a reflection of the market’s robust success and consumers’ acceptance of these services. That success can be largely attributed to competition that has driven down prices, attracted consumers to embrace wireless technology and encouraged widespread use of various wireless services. For example, since 1994, while wireless revenue per subscriber has decreased by 85%, consumers have increased their use of wireless minutes by 500%. Today, the average wireless subscriber uses his or her cell phone for about as many minutes per month as the average wireline customer does. Indeed, studies show that as many as 14% of American consumers now rely exclusively on their cell phone for voice communication services. In addition, wireless services do more today than just telephony, including data, text messaging, email, video and high-speed Internet services. For example, from the beginning of 2005 through the end of 2006, the Federal Communications Commission (FCC) reports that 22 million high-speed wireless devices were added, making wireless broadband services the major contributor to broadband growth in the U.S.

An American Success Story

The U.S. Wireless market is very much an American success story. A recent ACI study examined OECD and the FCC statistics and concluded that the U.S. wireless market is far ahead of its European counterparts. The study found that the U.S. wireless market offers more choices of service providers and handset devices than any Western market. The study showed that increased competition is correlated with lower prices, increased demand and increased consumer welfare. Specifically, U.S. consumers use an average of 800 wireless minutes per month, while most European consumers use less than 200 minutes per month; and U.S. wireless prices are the lowest among the developed countries, with the exception of Hong Kong. The ACI study concluded that the combination of higher usage at lower prices presents compelling evidence that the overall consumer welfare derived from wireless service is higher in the U.S. than internationally. This conclusion was emphasized in a *Wall Street Journal* commentary (August 30, 2007):

U.S. Consumers have access to more wireless operators and more devices than consumers anywhere else in the world. And the top three wireless providers in the U.S. comprise a smaller share of the market than their counterparts in Europe and Asia.

Yes, the Consumer is Always Right

Moreover, the power of competition is continuing to push the market in ways that further benefit consumers. Wireless consumers are expressing more diverse needs and there are indications that carriers are increasing the differentiation of services in order to meet those needs. Pricing solutions that attracted mainstream consumers years ago and standardized “out-of-the-box” solutions are slowly giving way to demands for specialized solutions, flexibility and service differentiation. And, as the following examples suggest, competitive rivals are responding:

- **Service Quality Improvements.** Cell coverage has improved and some carriers are providing online street-level coverage maps to prove it. Service complaints are down, according to the Better Business Bureau, and the Federal Communications Commission reports that wireless complaints fell by 33% in 2006. Faster wireless high-speed Internet services are now available to hundreds of millions of consumers and consumer are demanding more, better and faster services, as evidenced by the frenzy surrounding the iPhone. A recent consumer survey reported that consumers are satisfied with their choice of wireless devices, according to *TR daily* (January 16, 2008). Consumers still need to do their homework, however, to determine which wireless device and carrier best meets their needs, particularly since carrier coverage may vary.

- **Prorating Early Termination Fees** – Many consumers have expressed displeasure with what they consider to be an unreasonably high cost for early termination of 1-2 year commitment plans. In July 2006, one major wireless provider announced that it would prorate early termination fees, leading to competing announcements by three other major wireless providers that they would do the same. Incidentally, consumers can also avoid commitment plans by paying full price for a phone or buying pre-paid services, which are widely available to consumers.
- **Unlocking Phones** – Some wireless carriers lock devices to protect against fraud, theft of minutes and to recover subsidization costs, but some consumers see this as a deterrent to moving their phone to another wireless provider. Currently, Verizon does not lock handsets, T-mobile unlocks discounted phones after 90 days and AT&T typically unlocks them when customers fulfill their contracts or pays full price for the phone. For many consumers, however, unlocking may be of limited benefit. Because U.S. wireless networks use different technologies, moving a device from one network to another is not always possible.
- **Opened Networks** – Some consumers have expressed concern that wireless networks are “walled gardens” that limit the devices and applications available to customers. Verizon has now announced it will open its network to additional third-party devices and applications in 2008. AT&T and Sprint operate certification programs that enable third-party applications for their customers. These developments may encourage other providers to develop similar offerings. The FCC’s 2008 high-speed wireless auction will require the winner to build an open network as well. Google’s new software offering, *Android*, which aims to encourage the development of third-party wireless devices and applications, also may further the trend. It seems clear that wireless carriers will continue to face pressure from policymakers and the market to demonstrate increased “openness” – while also maintaining enough control over their network to ensure service quality and consumer privacy.
- **Other options** – There are many nuances that may attract some consumers to one service provider over others. For example, some carriers offer flexible rollover minutes and most providers offer 30-day no-question-asked return policies. Given the intensity of competition, we expect consumer demand for service innovation and differentiation to continue.

Competition is Best for Consumers

The introduction, development and widespread use of wireless services are truly a success story, particularly in the U.S., where competition is most intense. The U.S. wireless market has among the

lowest prices in the world, most favorable service plans, highest customer use and maximum consumer benefits.

While low prices are important to consumers, so is improving customer service and reliability. Consumers also want to see more services tailored to their specific needs. In this way, competition will continue to offer consumers a wider array of choices. Choices, of course, also mean that consumers will need to do their homework to determine what carrier and which service plans best meet their needs.

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