

# Strategic Networks Group

## *Insight to Move Forward*

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### **Mobile Price Wars: What Can \$69.99 Buy?**

*March 2, 2010*

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#### **Summary**

- In the U.S. during the preceding decade, adoption of mobile services and devices has been spectacular. Overall revenue from mobile services grew by more than 230%; this has been eclipsed by messaging and 2.5/3G service revenue, which grew by more than 2600%. In the next four years, revenue from these fastest of fast-growing services will more than double.
- Consequently, the nation's largest mobile providers are becoming increasingly dependent on data services to drive overall companywide top line and bottom line growth.
- Recent changes by mobile providers in device choices, service price plans and requirements reinforce this objective.
- Since use of data and messaging services will become widespread, customers who do the math to compare like: like service bundles that include messaging and data services will find that Sprint and T-Mobile help customers stretch budgets further than do AT&T and Verizon Wireless.

## Introduction

In these days of tight budgets, it's natural that people who are shopping for mobile services are looking for great deals. And a number of providers have responded with lower prices for popular services. Verizon Wireless' and AT&T's \$69.99 announcements for 'unlimited' mobile voice services are two recent cases in point.

Any mobile customer in the US knows that often there is more to it than meets the eye. They've been burned by the fine print and exclusions on mobile service and device contracts, and have been taken aback with taxes and fees. So it should come as no surprise that customers should exercise the same caution when examining these recent price changes. From all the recent hype, we know that \$69.99 can buy 'unlimited voice' services from major carriers.<sup>i</sup>

But many of the devices carriers advertise in concert with their 'unlimited voice' plans often encourage and in many cases require that customers purchase 3G services.<sup>ii</sup> Some financial analysts expect that carriers who've made these price changes will make more money, not less.<sup>iii</sup> Indeed, such conclusions have been reached by carriers themselves.<sup>iv</sup> Since carriers' new data service requirements can significantly impact a bill's bottom line, customers should roll up their sleeves and do the math to compare 3G-capable phones and services.

## Setting the Stage

Before comparing prices, let's discuss why evaluating 3G services and prices matter so much. To do this, we're going to take a crash course in some pertinent history:

1. Since 2000, adoption of mobile services has surged, the number of mobile voice minutes has grown steadily higher, and use of text/picture messaging applications has soared (see Tables 1 and 2). In fact, the CTIA estimates that over 20% of US households no longer have a landline phone—they have 'cut the cord'.
2. Use of data applications and services, and adoption of 3G-capable devices, particularly 'smartphones' is the fuel of the current wireless revolution. CTIA statistics show that carrier revenue from mobile data and messaging services has grown by more 250 times in the last ten years (see Table 2); moreover, recent industry analysis anticipate a doubling of US data services revenue over the next four years.<sup>v</sup> Among others, some key contributing factors include rapid growth in downloads of mobile applications and the adoption of new applications, like mobile gaming.<sup>vi</sup> These trends will continue--smartphone adoption will grow by 20-30% each year over the next five years.<sup>vii</sup> In the US, use of these devices will grow by 195% between 2009 and 2014.<sup>viii</sup>

3. As the decade unfolded, carrier dependency on mobile services to grow both revenue and profits has also increased. It's true that some providers, like T-Mobile US, have always been wireless-only providers. And initiatives taken by Sprint earlier this decade make it extremely reliant on wireless -- approximately 82% of its revenues are derived from mobility.<sup>ix</sup> Even the nation's two largest telecommunications services providers, each with a substantial landline customer base, face the reality that their revenue and profitability heavily depend on mobility and on the rapid growth of wireless data-related revenues (see Table 3).<sup>x</sup> Moreover, during the last ten years, the CTIA estimates that average overall revenue per mobile subscriber has grown by less than 10%. Together, these factors put tremendous pressure on carriers to find new sources of revenue and margin growth. This explains their 'push' on mobile data; we estimate that today, data and messaging services make up more than 11% of AT&T's total revenue, almost 16% Verizon's, and more than 28% of Sprint's.<sup>xi</sup> Considering these trends, it's important to examine how carriers' recent mobile services' policies and pricing strategies can take a bite out of your wallet.

**Table 1: The Phenomenal Growth of US Wireless Services, FY 2000-2009**

	Number of Wireless Subscribers (M)	Number of Wireless Minutes (T)	Wireless Penetration as Percent of US Households	Wireless Payroll (\$B)	Total Wireless Services Revenue (\$B)	Average Revenue Per Subscriber (\$)
2000	97.036	.193	34%	1.8	45.3	45.15
2009	276.611	2.23	89%	14.3	151.2	49.57
Percent Change	185%	104%	162%	694%	234%	9.8%

Source: CTIA Wireless Quick Facts [http://www.ctia.org/media/industry\\_info/index.cfm/AID/10323](http://www.ctia.org/media/industry_info/index.cfm/AID/10323)

**Table 2: The Astronomical Growth of US Mobile Data Services, FY 2000-2009**

	Monthly SMS Messages (B)	Annual Data and Message Service Revenue (\$B)	Data and Message Service Revenue as a Percent of Wireless Services Revenue
2000	.0122	.1394	.3%
2009	135.2	37.0	24.4%
Percent Change	11081%	2640%	780%

Source: CTIA Wireless Quick Facts [http://www.ctia.org/media/industry\\_info/index.cfm/AID/10323](http://www.ctia.org/media/industry_info/index.cfm/AID/10323)

**Table 3: Select AT&T and Verizon Financials, as Reported, for FYs 2007& 2009**

	AT&T-FY 2007 (\$B)	AT&T - FY 2009 (\$B)	AT&T- Percent Change	Verizon-FY 2007 (\$B)	Verizon- FY 2009 (\$B)	Verizon- Percent Change
<b>Total Revenue</b>	123.0	118.9	-3.3%	93.5	107.8	15.3%
<b>Total Wireless Revenue</b>	42.6	53.6	25.6%	43.9	62.1	41.6%
<b>Wireless Equipment Revenue</b>	4.0	4.9	23.3%	5.9	8.6	41.2%
<b>Wireless Service Revenue</b>	38.6	48.7	26.1%	38.0	53.5	40.7%
<b>Wireless Data and Messaging Service Revenue</b>	6.9	14.1	103.6%	7.3	17.1	134.2%
<b>Wireless Operating Income</b>	7.0	13.3	88.7%	11.8	17.5	48.4%
<b>Landline Operating Income</b>	12.0	7.9	-33.9%	4.5	2.0	-55.9%

## How Much Can \$69.99 Buy?

Using information obtained from their websites, we compared wireless prices and carriers' mobile device/service requirements. Our analysis assumes a new two-year term plan for domestic services and mobile devices, and compares monthly recurring service charges:

- **Individual Subscriber Plans:** Depending on your choice of carrier, \$69.99 need not buy just voice (see Table 4). It can buy both unlimited voice and messaging from T-Mobile US. With Sprint, \$69.99 can buy all three services--unlimited messaging and unlimited 3G service, with enough minutes for calls to/from local landlines. Certainly other service combinations are possible, but they all require forgoing or limiting use of one or more service.<sup>xii</sup> One of the important issues about buying the mobile calling plan that provides the best value is understanding who you call, and when. Although many customers gravitate to 'unlimited voice' plans to avoid overages, most individual subscribers use only a few hundred minutes a month to talk with subscribers who aren't on the same mobile network, or who are on local landlines.<sup>xiii</sup> If you are like so many others, why pay for what you don't use?<sup>xiv</sup>
- **Family Plans.** Since most families buy wireless services as a family unit, it's important to look at family plans. \$69.99 won't go far for a family of three. But what would \$159.99 buy? That's an average price of \$53/family member—significantly below our budget for an individual subscriber. In the case of AT&T, T-Mobile and Verizon Wireless, it will buy all three family members unlimited messaging and unlimited voice. In the case of Sprint, it buys all three family members unlimited messaging, unlimited 3G service, unlimited any mobile:mobile, and 1500 (shared) minutes/month for calls to/from local landlines.<sup>xv</sup> Of course, there are many other possible service combinations – but we've made our point. The more you know about how you use/will use mobile devices and services, the better job you can do finding the best value in the marketplace.

### **Other Important Service Considerations**

*When considering mobile providers, service price is not the only important consideration. As has been heavily advertised by AT&T and Verizon Wireless recently, service-specific coverage and availability (2G for voice and text messages, 3G for all other applications) varies by provider. The good news is that many providers' websites provide service-specific coverage information on both a nationwide and a local basis, so take the time to compare. Other important factors include device selection and price, applications (breadth of selection, price and quality), and customer support. This last subject should not be underestimated, since customers who buy a new smartphone frequently contact customer support with a device-use question within their first 30 days of purchase.*

- Corporate Discounts.** The pricing scenarios we examined assumed subscribers were paying retail rates. But many obtain discounts by buying individual and family plans through employer-negotiated discounts. However, company-negotiated discounts can vary significantly -- the largest carriers usually offer discounts on voice services, but not on messaging or data. If your employer has negotiated discounts with each of the nation's top three providers, look closely at the detail to see which offers the lowest post-discounted total price.<sup>xvi</sup>
- Other Price Considerations.** Too many to enumerate, but one many customers focus on is device price. Prices for the most recent models of devices can vary significantly—we found differences of up to \$70 for Blackberries.<sup>xvii</sup> In contrast, mobile carriers' prices for recent models (but not the most recent) often are very close or exactly match. 'Loyalty' programs often offer additional device savings/incentives, as do carriers' specials or promotions. Among many other possible ways to save money, one receiving greater public notice is unbundling the mobile device from the term plan (eg: the approach recently popularized by Android).<sup>xviii</sup>

**Table 4: What Can 69.99 Buy?**

2 YEAR TERM PLANS	AT&T - NATION UNLIMITED	SPRINT - EVERYTHING DATA: ANY MOBILE, ANY TIME	T-MOBILE US - EVEN MORE	VERIZON WIRELESS - NATIONWIDE TALK
<i>Source: Carrier Websites</i>				
'Unlimited' Messaging (text, picture, video)	N	Y	Y	N
'Unlimited' 3G Service	N	Y	N	N
• # Premium data apps included	N/A	6	N/A	N/A
• # Phones that don't require 3G	11	14	15	13
• # Phones with 3G minimums	14	5	0	9
• # Phones that require unlimited 3G	14	7	12	19
'Unlimited' Voice				
• Intra-carrier mobile:mobile	Y	Y	Y	Y
• Inter-carrier mobile:mobile	N	Y	N	N
• Nationwide long distance	Y	Y	Y	Y
• Mobile voice mail access	Y	450 minutes	Y	Y
• 2G domestic roaming	Y	450 minutes	Y	N/A
• Calls to from local landlines	Y	450 minutes	Y	Y
• Unlimited weekend minutes	Y	Y	Y	Y
• 'Unlimited' night rates begin at ...	9:00 PM	7:00 PM	9:00 PM	9:01 PM

## Conclusion

Our analysis clearly shows that budget-conscious consumers should carefully examine (1) how they use mobile services, (2) how changes in providers' policies can impact them, and, (3) the types of devices they use and will use over the next several years. Assuming adequate device choice, service coverage and availability, whether you are a voice-centric, message or 3G-heavy mobile subscriber, you can stretch your budget by comparison shopping. Since more and more mobile customers will use 3G services, you owe it to yourself and your wallet to seriously compare all available alternatives, including T-Mobile and Sprint.

## **About Strategic Networks Group**

**[www.strategicnw.com](http://www.strategicnw.com)**

Since businesses are becoming increasingly reliant on telecommunications and IT services, Strategic Networks Group works closely with business customers to optimize landline and wireless telecom lifecycle activities, including architecture, sourcing, negotiations, and performance management. By providing telecom and IT service providers with unique insights gained from working with business customers on a daily basis for over 15 years, we help them maximize the effectiveness of the product, pricing, marketing and sales strategies targeted to business customers.

### **About Lisa Pierce**

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Lisa Pierce is the founder of Strategic Networks Group. She is an expert on emerging business class network services, including UC/VOIP/FMC, MPLS, Ethernet, and 4G. A frequent speaker and media commentator, she has authored and published more than 800 reports. Her professional background includes 10 years as Vice President of Telecommunications Research at Forrester Research, four years in telecommunications protocol consulting and training at Telecommunications Research Associates, and nine years at AT&T in new business services product development, management, research and forecasting.

## Notes, Links and Bibliography

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<sup>i</sup> Such price points are for individual subscribers, and currently require that a postpaid customer commit to a 2 year contract.

<sup>ii</sup> A February 10, 2010 CNNMoney.com article examines the hidden (data) costs of recent price plan changes. See “Your Cell Phone Company’s Dirty Little Secret” by David Goldman. Similar analyses are available from CNET (“ATT-Verizon Price War Debunked” on January 20, 2010); PC World (“Verizon-ATT ‘Price War’ May Cost You” on January 20, 2010 and “Verizon’s Unlimited Voice Plan Got Cheap, But What About Data?” on January 18, 2010); and BroadbandReports.com (“Yet Another Telecom ‘Price War’ That Isn’t”, January 20, 2010)

<sup>iii</sup> See the January 20, 2010 Business Week article, “Verizon Wireless-AT&T ‘Price War’ May Boost Revenues”, by Olga Kharif.

<sup>iv</sup> For example, in its January 15, 2010 presentation to Financial Analysts, Verizon Wireless specifically states these price changes will “...drive higher data revenue...” and result in “overall revenue growth” from multiple sources, including “...higher ARPU...” (average revenue per unit). Download the presentation and listen to the webcast at [http://news.vzw.com/investor/events/2010/event\\_2010-01-15.html](http://news.vzw.com/investor/events/2010/event_2010-01-15.html)

<sup>v</sup> Source: Telecom Industry Association (TIA) February 10, 2010 press release, “Spending on Wireless Data to Skyrocket from \$43B to \$93B in 2013”.

<sup>vi</sup> Source: Fierce Wireless. See the December 21, 2009 article, “Mobile Application Download to Hit 5 Billion by 2013” and the March 13, 2009 article, “Forecast: Mobile Gaming Poised For 25% CAGR Through 2012”.

<sup>vii</sup> See the February 8, 2010 article “ARM Sees Faster Smartphone Growth in 2010” at [http://www.reuters.com/article/idUSLJ12263620091119?loomia\\_ow=t0:s0:a49:g43:r1:c1.000000:b29121054:z0](http://www.reuters.com/article/idUSLJ12263620091119?loomia_ow=t0:s0:a49:g43:r1:c1.000000:b29121054:z0)

<sup>viii</sup> Source: Frost and Sullivan, October 27, 2009 presentation, “Smartphones Look to Dominate Handset Sales- Which OS Will Thrive, Which Will Fail?”, by Todd Day.

<sup>ix</sup> The two largest strategic initiatives Sprint took to achieve this objective were to (1) acquire Nextel and subsequently (2) spin off its landline local services unit (called Embarq, this company was subsequently acquired by Century Tel).

<sup>x</sup> In addition to long distance and wireless services, AT&T and Verizon both have substantial local landline services businesses. Verizon wireless is jointly owned by Verizon and Vodafone.

<sup>xi</sup> According to FY 2009 financial reports, AT&T’s reported \$14+B of \$118+B in total revenue was derived from mobile data services (2.5, 3G and messaging services). For the same period, Verizon Wireless reported \$107B of total revenue, \$17+B was derived from the same types of services. Based on ARPU data supplied in its financial statements, we estimate Sprint’s FY 2009 CDMA data revenue at \$9.158B; for the same period, total revenues were reported at \$32.26B.

<sup>xii</sup> For example, \$69.99 can buy unlimited 3G service and intra-carrier mobile:mobile, with 450 voice minutes for calls to/ from local landlines and to/from other mobile carriers (AT&T and Verizon Wireless, T-Mobile -500 minutes). Other combinations for this price point are possible -but they all involve forgoing usage of a particular service (above example-no messaging service) or capping usage of one or more services.

<sup>xiii</sup> According to several mobile telecom expense management vendors we’ve worked with, examination of bill detail shows that actual usage/subscriber for ‘offnet’ purposes is typically well under most providers’ monthly 450

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minute minimum allocations (typically used for calls to/from local landlines and subscribers on other mobile carriers).

<sup>xiv</sup> Many customers' standard wireless bills don't include call detail. But paying \$1.99 for monthly bill detail can be worth it—especially for the last few months before you service contract expires. By understanding your calling patterns and voice, messaging and 3G volumes, you'll be able to make the best economic decisions, even if you stay with your current carrier.

<sup>xv</sup> Service/price examples for all four providers derived from interacting with their websites' price/configuration applications.

<sup>xvi</sup> As an example, we recently reviewed a corporate discount plan that shaves 18% of the monthly recurring price of all of Sprint's bundled plans (voice; voice + messaging; voice + messaging + 3G service), except Simply Everything. Other types of possible savings in corporate-negotiated discounts include discounts on mobile devices and accessories, reduction/waiver of activation fees, etc.

<sup>xvii</sup> For instance, according to their respective websites, when bundled with a 2 year term plan, the list price for a Blackberry Bold 9700 from AT&T is \$199.99, and from T-Mobile is \$129.99. The list price for a Blackberry Tour 9630 from Sprint is \$149.99, and from Verizon Wireless is \$99.99. In contrast, prices for recent-generation 8XXX-series Blackberries are much closer—for a Curve 8530, identical for the two CDMA providers (\$44.99); for the 8520, a difference of \$20 (\$99.99 - AT&T, \$79.99 T-Mobile).

<sup>xviii</sup> For further information, see the January 20, 2010 DM Radio broadcast of "Customer Analytics and the New CRM" <http://www.information-management.com/dmradio/-10016944-1.html>