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Number Portability Aftermath: The First Few Months

The cellular market has undergone a dramatic growth curve over the past two decades and had gone through its share of growth pains, caused by competitive pressures, when Local Number Portability (LNP) went into effect on November 24th, 2003 in the top MSAs in the United States. This implementation struck fear on the part of cellular providers, as it meant that their subscribers were now not only allowed to switch providers, but also to take their phone numbers with them – something that had not been permitted until that time. While painful for cellular carriers, the implementation of LNP is a true win for consumers – wireless providers are challenged to offer better service and price in an attempt to retain their customers.

Although churn rates are comparatively lower than in recent years, when they typically averaged 3% or more per month or 36% or more per year, they still average 2% to 3% of customers per month, which means that one-fourth to one-third of a carrier's customers churn in a typical year. This number is exceedingly high when compared to churn in almost any other industry. As a result of LNP implementation, churn rates were expected to increase again. For many reasons, some not clearly known or understood, churn did not increase as dramatically as some had predicted. And, while churn rates were anticipated to increase at some carriers more than others, AT&T Wireless was one of the biggest losers due to LNP implementation – a somewhat unexpected event.

In a recent survey of its Technology Adoption Panel, completed in February 2004, In-Stat/MDR found that 5% of respondents (more than 1,000 cellular phone users) had changed their cellular service provider since November 24th, 2003. Of those who had switched providers, 63% kept their phone numbers when switching. Another 7% of respondents said that they expect to switch providers in the next three months, and at least half of them plan to take their number with them when they switch. Note that In-Stat/MDR's Technology Adoption Panel is primarily made up of business users. These findings will differ from the industry overall, due to this composition.

Looking at the top six cellular providers (soon to be narrowed down to five with the acquisition of AT&T Wireless by Cingular), AT&T Wireless's customers were, comparatively, less satisfied with their provider than subscribers to other services. Verizon Wireless's customers were most satisfied. Despite this finding, according to our survey, more of T-Mobile's customers actually switched during this three-month period than any other providers'. Eleven percent of T-Mobile's customers switched to another provider within the first months of implementation, compared to 8% of Cingular's customers (second) and a mere 2% of AT&T Wireless's customers.

While this resistance to change might seem contradictory to the fact that AT&T's customers were least satisfied, In-Stat/MDR believes that the carrier's heavy population of business customers explains it (at least in part). Many business users are committed to their providers through corporate contracts that are struck by their companies. These contracts commonly average two years in duration; therefore, any immediate changes would require that a penalty fee be paid to break the contract early. With all of the well-publicized problems that were experienced by consumers during the first few weeks of LNP implementation, most corporations held back any changes, not wanting to risk any problems in the flow of day-to-day business.

Yet the company will have to look out in the future. In the next three months, 14 percent of AT&T Wireless' customers are thinking of switching – higher than any other provider by a factor of two. Additionally, 200 respondents to our survey are also decision-makers for their

corporation's service providers. When asked about plans to switch providers, the highest percentage of these telecom decision-makers said they are considering switching from AT&T Wireless to another wireless carrier.

The majority of respondents (end-users and decision-makers) who are thinking about switching say the number one action carriers can do to keep their business is to offer better service pricing. Although many respondents also say that wireless service providers can improve coverage to reduce the number of dropped calls, this aspect will be more difficult for them to address in the short-term. While lower ARPUs are not the goal of any cellular company, more aggressive actions involving bundling and increasing the value of service received for the dollar (i.e., more minutes, offering rollover minutes, greater features) are likely on the horizon for many providers, including AT&T Wireless. The first few months of number portability saw little change, but with the kinks ironed out and with more cellular contracts expiring, churn is bound to increase.

About the Panel

In-Stat/MDR's Technology Adoption Panel (TAP) is a dynamic online group of thousands of technology users and decision-makers interested in contributing opinions and insights about technology usage and issues in the workplace. The panel is recruited from many different sources and is comprised of a diverse group, representing a wide range of company sizes, industries, and expertise.

Data for this report was collected via a brief Internet survey. Participants — members of In-Stat/MDR's Technology Adoption Panel — were e-mailed an invitation to participate in a Web-based survey conducted from February 1st – February 5th, 2004. Responses from 1,043 people are included in this research. If you are interested in joining the Technology Adoption Panel and/or learning more about it, please go to <http://www.instat.com/panels>.

