

Dodging the Wireless Industry's Pitfalls

A Report Prepared by the Citizens Utility Board (CUB)

October 11, 2010

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By loading the bill into the Cellphone Saver, I found out that my service was not providing the best deal for my needs. Cell phone companies do not want to tell you how to cut your costs—it's their job to keep you paying higher and higher fees with more and more services. Everyone needs to start from a position of asking—what's the most basic thing I need and will use, and how much does that cost? Then you know what the bottom line is, especially in these hard economic times.

-Laurie B., Cellphone Saver user

Introduction

In the wake of an announcement by Verizon Wireless that it would refund customers up to \$90 million for erroneous data charges,¹ the **Citizens Utility Board (CUB)** has prepared this report on the state of Illinois' wireless industry to help consumers dodge five major pitfalls that have helped spark an epidemic of bloated cell-phone bills that could be costing Illinois callers nearly \$1 billion a year.

Using new data, this report shows how the cell-phone industry profits off of calling plans that prove woefully inadequate to the needs of Illinois consumers, who are overpaying by an average of \$359 a year but are blocked from finding better deals by a “brick wall” of bloated calling plans.

The telecommunications industry is notorious for pushing unnecessary services and expensive plans that give consumers too much calling time for their needs—and the statistics in this report back that up. However, the report shines a light on a more disturbing problem. Even when cell-phone callers are on the best plans possible, most overpay because even the best plans

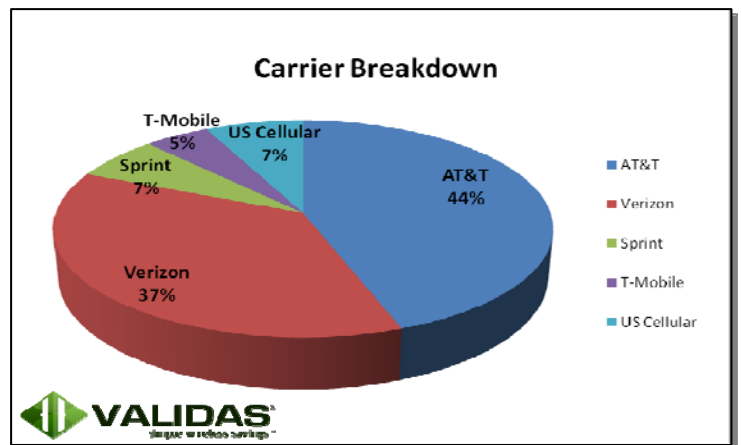
¹ Edward Wyatt, “Verizon Wireless to Pay Millions in Refunds,” The New York Times, 3 Oct. 2010.

are so ill-fitted to a caller’s needs. The analysis suggests that most consumers on individual calling plans could be better served by prepaid wireless services.

“Dodging the Wireless Industry’s Pitfalls” covers a year of statistics, August 2009 through July 2010, gathered by an online service called the CUB Cellphone Saver, www.CUBCellphoneSaver.com. The tool was developed in a partnership between CUB, a Chicago-based nonprofit consumer watchdog group, and **Validas**², a Houston, Texas-based technology company that specializes in analyzing wireless bills and rate plans.

The Cellphone Saver, launched in 2008, does potentially weeks of research in just a few seconds, allowing Illinois consumers to upload an electronic copy of their wireless bill to see a report with customized recommendations on how to cut their bills by potentially hundreds of dollars a year.

The value of the online service, which covers the industry’s top five carriers—mostly AT&T and Verizon, but also Sprint, T-Mobile, and U.S. Cellular—goes beyond saving consumers money. It also has provided CUB with a wealth of aggregate data about the way Land of



Lincoln consumers use their cell phones—and how badly they’re overpaying. In particular, the statistics expose a chasm in the lightly regulated wireless industry between what typical callers use and the outsized plans the cell-phone companies actually market.

² CUB has no affiliation with and receives no financial compensation from Validas. CUB is not affiliated with any wireless carrier.

To summarize, the Cellphone Saver's yearlong analysis of 11,921 lines, revealed that:³

* Illinois callers overpaid on 66 percent of the 4,404 bills studied and were gouged by \$29.97 per month, or \$359.64 a year, on average. Applying those numbers statewide means Illinois consumers could be overpaying by an estimated total of \$905,719,933⁴ a year.

* Illinois callers were left holding the bill for an average of more than six hours of calling time each month.

* Illinois callers were chained to outsized calling plans. The report isolated individual plans to illustrate how poorly matched consumers were to their calling plans. The Cellphone Saver revealed that 9 out of 10 callers on individual plans paid for 450 minutes or more, even though most never used more than 300 minutes a month—and 30 percent used less than 100 minutes.

* Illinois callers forked over nearly \$8 per month, or nearly \$100 per year, in “extras” charges, with most of it going to largely useless services, such as insurance, directory assistance, and roadside assistance.

While outsized plans have punished Illinois callers, they've proven lucrative for the wireless industry, which raked in nearly \$131 per bill in revenue from Cellphone Saver users—or more than \$1,500 a year.

CUB's report concludes with five pitfalls that cell-phone callers should avoid as well as a call-to-action for the cell-phone industry to improve its service to consumers.

³ Cellphone Saver data produced from Validas.

⁴ To estimate a statewide total, CUB used year 2000 U.S. Census data showing the number of Illinois households, 4,591,779; a Centers for Disease Control and Prevention (CDC) survey released in May 2010 showing that 14.9 percent of homes nationwide only had landlines and another 2 percent had no service; and Cellphone Saver findings that showed 66 percent of bills were overpaying by an average of \$359.64 a year on wireless service. CUB made the conservative assumption that each household had only one cell-phone bill.

The Problem: The Usage Chasm

The CUB Cellphone Saver found that nearly 60 percent of more than 11,000 lines it analyzed used no more than 200 minutes of the calling time consumers paid for in their plans. Visitors to the Cellphone Saver paid for, on average, about 643 plan minutes per line (not including “mobile-to-mobile” and “night and weekend” minutes that come free with most plans), but only used about 270 minutes per line, on average.⁵

The 373-minute monthly gap between minutes allotted and minutes used amounts to six hours and 13 minutes of wasted calling time. That’s the equivalent of a phone conversation that lasts as long as it takes to drive the length of the state, a long car ride from Chicago to Cairo, IL.⁶ Considering that the Cellphone Saver found wireless rates ranging from about 5 cents a minute to 13 cents a minute, that suggests \$18 to \$48 in wasted calling time—each month, or \$200 and up a year.⁷ The Cellphone Saver, however, shows that even the best plans are poorly suited for typical callers.

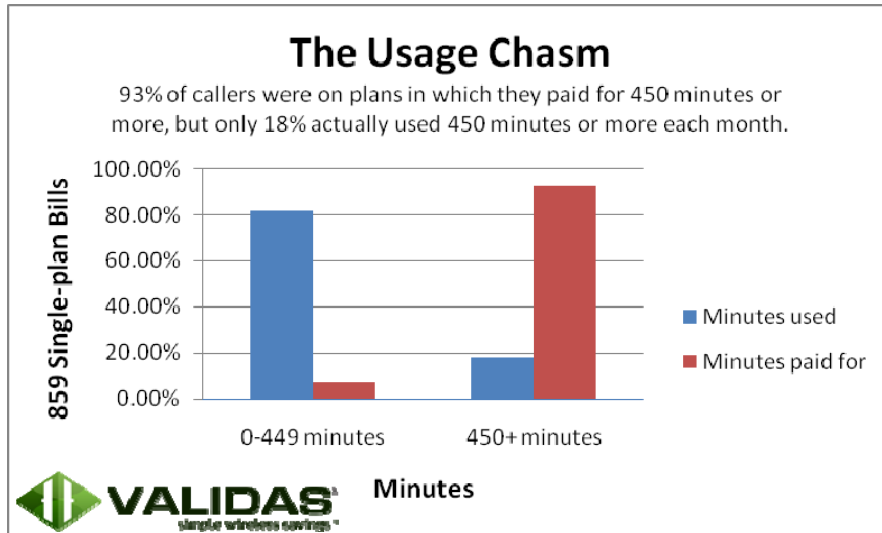
This year, CUB’s analysis took the extra step of isolating a block of single-plan bills to compare plan data with usage data and illustrate just how badly bloated consumers’ bills are. The report put 859 individual plans under a magnifying glass to show the extent of the problem.⁸ It found that 9 out of 10 consumers paid for at least 450 minutes of calling time, even though most

⁵ These numbers do NOT include a small number of unlimited plans in the sample.

⁶ MapQuest estimates a 374-mile car ride.

⁷ The 5 cents per minute rate was estimated by the Cellphone Saver for all rates—including plan minutes that are paid for and other “free” minutes, such as night and weekend calling time. The Cellphone Saver determined that the average cost for plan minutes—the ones you pay for—was 13 cents per minute.

⁸ The 859 lines were individual plans, not part of “share” or “family” plans. These plans gave CUB a unique opportunity to see exactly how ill-fitted plans were for consumers’ calling habits. The total sample had more than 11,000 lines, with most of those part of share plans. Lines were taken out of the overall sample if they were pro-rated (not reflecting a full month’s service) or had “extraction errors” (incomplete data) that jeopardized the statistical validity of the sample.



in the sample never used more than 450 minutes each month—and a significant number, 30 percent, used less than 100 minutes in a typical month.

Traditional contract plans seem to trap callers between two expensive problems:

Analysis of 859 Single-plan Bills	Plans	% of Total
Plans with Leftover Minutes	774	90%
Plans with 60+ of Leftover Minutes	754	88%
Lines with Overage	83	10 %

punishing per-minute “overage” fees and plans that are too big to fit their needs. The analysis suggests that the bigger problem is bloated plans. For example, in that same sample of single-plan bills, about 10 percent,

or 83 plans, had overage penalties, which range from 25 cents per minute to 49 cents per minute when a customer exceeds a plan’s allotted calling time. Nearly 90 percent of the bills, however, had at least an hour of leftover minutes that customers paid for but never used.

The cell-phone industry would better serve consumers with a more flexible portfolio of plans, but a driving force in the industry, ARPU (pronounced R-Poo), or average revenue per user, indicates why it does not. The industry raked in average revenue of \$48.36 per month for

each phone number the Cellphone Saver analyzed. That works out to an average of \$130.90 in revenue per bill, for a yearly total of \$1,570.80.

The \$48.36 in ARPU is in line with the typical average of about \$51 per user across the industry, meaning that Cellphone Saver users tend to be like most wireless users and a savings of even \$5 to \$10 per month could make a big impact on their bills.⁹

The Problem: Useless Extras

While outsized calling plans are a major problem for consumers, it is not the only problem. Beyond the issue of billing errors raised by the recent Verizon controversy, cell-phone callers also burn money on unnecessary services. CUB Cellphone Saver users paid \$23,066.48 per month on potentially useless extras. The biggest chunk of that, \$17,381.84 per month, was burned on three potentially unnecessary services: roadside assistance, directory assistance, and insurance.¹⁰

Insurance, which amounted to \$12,627.93 a month, is often so limited that unless a customer has a very expensive phone with all the bells and whistles, it's not worth the average \$5.49 per line that Cellphone Saver users paid for the service.

More than 1,000 visitors to the CUB Cellphone Saver also forked over \$3,898.91, or \$3.88 per line, for directory assistance services. This has been a surprisingly persistent misstep on cell-phone bills, given that free services are readily available, including 1-800-GOOG-411, 1-800-Info-Fast, and 1-800-FREE-411. In one extreme example, CUB Executive Director David

⁹ Validas analysis.

¹⁰ The "other" savings category includes potentially unnecessary services or fees, such as insurance, directory assistance, and roadside assistance, but also could include "tethering" plans (which allow people to use a cell phone's data connection to provide Internet access to another device, such as a laptop) and premium text content subscriptions (sports, weather alerts).

Kolata was interviewed by a Chicago TV host whose family paid \$27 on directory assistance charges in one month.

The CUB Cellphone Saver even uncovered 282 lines with a total of \$855 in Roadside Assistance charges, or about \$3 per line. Many people may be surprised to learn that the wireless industry has peddled emergency assistance for car problems. Even CUB's communications director has fallen prey to this charge in recent years, despite the fact he already paid for a similar service through an auto club.

Illinois Caller Profile

The CUB Cellphone Saver analyzed 4,404 monthly bills—most of them from AT&T and Verizon—that averaged 2.7 lines and \$149.13 per month. The online service found ways to cut 2,908 of those bills, or 66 percent. Of those bills, the average monthly savings were \$29.97—or \$359.64 per year.

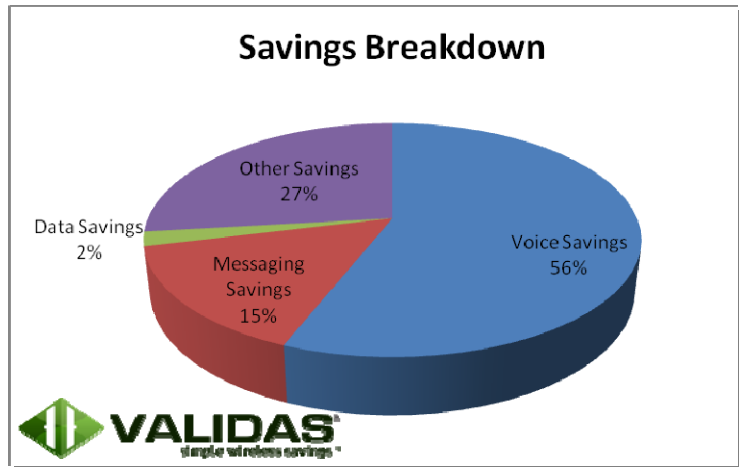
Cellphone Saver users ate up more than 7.9 million minutes of talk time, or an average of about 691 minutes per line, and used more than 7.1 million text messages, or about 805 per line that had text messages.

Top 5 Charges	Total Bill Amounts
Voice Plans	\$371,011.17
Taxes and Govt. Fees	\$80,276.20
Messaging Plans	\$50,457.93
Data Plans	\$47,187.91
Other Voice Charges	\$32,107.96
Total Bill (including other charges)	\$656,755.57

In total, they burned \$656,755.57 on their monthly wireless bills. The largest expenditure, by far, was voice-related: a total of \$371,011.17 per month on voice plans and another \$38,066.28 on related charges. The next biggest total expenditure was on taxes and

government surcharges, \$80,276.20, reinforcing Ben Franklin’s legendary quote: “In this world, nothing is certain, but death and taxes.” Other major expenditures included messaging plan charges, at \$50,457.93, plus \$5,962.69 in other messaging charges and another \$3,299.62 in messaging overage charges. Data plan charges amounted to \$47,187.91, with another \$27,812.05 in related data charges. Carrier surcharges and fees totaled \$25,733.58.

The savings recommendations amounted to \$87,141.35. More than 56 percent of that, or \$49,049.36, was attached to voice plans, indicating that cell-phone callers are lured onto bloated plans that don't fit their calling habits. The CUB Cellphone



Saver also recommended \$23,066.48 in other savings, most of that connected to largely unnecessary services and fees: insurance, roadside assistance, and directory assistance. That was followed by savings tips connected to text messaging, \$13,299.91, and data usage, \$1,725.60.

Conclusion

This yearlong analysis offers further proof that cell-phone callers are plagued with far too many minutes and far too many services—but far too few choices to fix their bloated bills. And the cell-phone industry is laughing all the way to the bank, raking in an average of more than \$130 a month in revenue per bill from visitors to the Cellphone Saver.

To summarize, CUB’s report identifies five pitfalls consumers should avoid:

Wasted Minutes: Cell-phone callers are paying for too many minutes they simply don't use. Use the Cellphone Saver to identify a plan that's a better fit. Those who use 300 or fewer minutes of calling time each month should consider a prepaid calling plan. Prepaid plans avoid a lengthy contract, and users don't have to suffer through overage charges. CUB has a fact sheet outlining some typical deals in the industry, at www.CitizensUtilityBoard.org.

Billing Errors: Consumers should scan their bills for any fees that have been added erroneously, as in the case of the Verizon controversy, or intentionally, through a growing scam called "cramming." They should beware of strange "download" charges, for example, and make sure they're not being charged for supposedly "free" night and weekend minutes.

Insurance: Out of 11,921 lines that were analyzed, 19 percent had insurance at a cost of \$5.49 per month, or \$66 a year. Such protection is often so limited that unless a customer has a very expensive phone with all the bells and whistles, it's not worth the price tag.

Directory Assistance: More than 1,000 Cellphone Saver users paid \$3,898.91, or \$3.88 per month, for directory assistance, even though free services are readily available, including 1-800-GOOG-411, 1-800-Info-Fast, and 1-800-FREE-411.

Roadside Assistance: The Cellphone Saver found that hundreds of people were paying for Roadside Assistance charges, at a cost of about \$3 per line. Many people may be surprised to learn that the wireless industry has peddled emergency assistance for car problems.

The CUB Cellphone Saver is encountering more and more callers who hit a brick wall, so to speak, with traditional wireless companies. Even when they're on the best traditional, contract plans available, they still are overpaying. The traditional industry faces an increasing customer exodus to prepaid cell-phone plans unless it becomes more flexible and creative in its offerings.

Based on these results, CUB has developed a call-to-action for the wireless industry.

Offer more choices. The industry would continue to make healthy profits if it offered intermediate minute allotments: 150 minutes, 250 minutes, 550 minutes, etc.

Leftover rewards. Over months, callers build up hundreds, even thousands, of minutes of leftover calling time, and yet AT&T is the only company to offer some benefit for such customers in the form of “rollover” minutes. However, even “rollover” minutes are no help to customers who will never come close to using all their calling time. Why not give customers something else in return? Allow them to trade in those minutes for points that can be redeemed for shopping discounts or rental car deals or something else of value, similar to frequent-flyer programs with the airlines or rewards programs with credit cards.

Add-on minutes. At the very least, the cell-phone industry should send customers text alerts if they risk going over their allotted minutes in a given month. However, the companies also could take an extra step to serve customers: Allow them to pay a small extra fee to add on minutes. For example, customers could pay \$5 to add 100 minutes onto their plans to get through a certain month when they are in danger of paying overage fees.

CUB, however, recommends that consumers not wait for the cell-phone companies to reform themselves. Take a few minutes to scan the monthly wireless bill, be on the lookout for pitfalls listed in this report, and use the CUB Cellphone Saver, www.CUBCellphoneSaver.com.