

Cellular Number Portability: Really Such A Big Deal?

*The FCC ruling on number portability may have
little effect on an already competitive market*

By Kenneth G. Robinson

Foreword

MCI's longtime economist, Dr. Roger Noll, once assailed the "All-Channel Receiver Act" -- that Kennedy-era law which mandated VHF and UHF television tuner comparability -- for causing millions of Americans to pay lots of money for something they never asked for and didn't intend to try. Of course, that same sort of "involuntary expenditure" observation might well be made of lots of Government policies, even in telecommunications. Try the Bell System breakup, high-definition TV, or, more recently, the Federal Communications Commission's (FCC) "broadcast flag" mandate, requiring smart TVs and DVDs, ostensibly to frustrate any digital "pirates."

The Cellphone "Porting" Decisions

But this past week, the FCC announced yet another chapter in the long-running cellular number portability saga. Earlier, the agency had ordered all cellphone companies to start allowing customers to keep their cellphone numbers if they change carriers. (I agree with the AT&T Wireless spokesperson who remarked it was an expensive way to add some increment of competition in a business that's already competitive -- too competitive, some contend. But as Jean-François Revel said, when the choice on the menu is between spaghetti and potatoes, asking for caviar is the same as making no choice at all. So, as Mayor Marion Barry sometimes said, "Get used to it!")

This time, however, the FCC ordered the wireline phone companies into the number portability process. Now they'll also be required to let their customers take their landline phone numbers if they want to switch to cellular. The deadline was the same: November 24 (for smaller companies and markets, it's next May). Nobody seems to have the foggiest how much all of this will cost, much less who'll pay for it. But as a top government official once remarked of phone companies, "They get capital from everywhere." And, all the FCC Commissioners seem persuaded this measure will somehow increase competition, presumptively a good thing.

Better Even Than Sliced Bread?

Now, to read the separate FCC statements associated with this latest portability action, you'd think this

directive was a really big deal. Wall Street must have agreed as well, because for a while there, Bell company shares were pushed down. Evidently lots of people assumed many wireline customers soon would go all-cellular.

The PBS "News Hour" featured a leading Washington "electro-political" stock market adviser who said this was surely a good deal for consumers because they'll now have both wireline and wireless carriers competing for their patronage. Rudy Bacca of the Precursor Group suggested we might see also the percentage of phone users who rely solely on cellphones double soon -- it's about 3 percent now. That low percentage is a bit misleading, by the way. As *American Demographics* has noted, the younger and higher income the person, the more likely it is he or she will rely chiefly on their cell -- indeed, in some of the "age/income bands," the percentage of cell-only folks is more than 15 percent. It's probably worth noting that there's certainly no "digital divide" here -- cellular use is significantly higher among African-American groups than for the rest of the population.

Before Getting Too Excited

But before getting too excited and selling anyone's shares short, please bear in mind the following realities.

- First, something like 60 percent of the American public already has cellphones -- according to the leading trade association, there are some 149 million subscribers. So assuming the fabled "law of diminishing returns" applies here, too, don't assume expanded number portability alone is going to cause some further "Great Leap Forward" in cellphone subscribership (and, some commensurate drop in wireline subscriptions). Telecommunications markets are like VLCCs -- very large crude carriers. Nothing really happens that fast.
- Second, please remember the statistics on "cellular displacement" remain ambiguous. In general, the more phone lines going into a residence, the more cellphones there are, too -- that's because lots of wireline phone lines betoken a heavy telecommunications user. That's also true of business installations. So while there may be changes in some narrow categories, experience to date would suggest that the more wireline service a customer buys, the more wireless he or she (or it) will buy, too. Competition in this regard, therefore, may not destroy markets; rather it'll build them both.
- Third, don't assume this is all going to be like Wal-Mart, with steadily falling prices forever. Cellphone prices already are a lot more alike than different, when you strip away the hype. The price per minute's still running in the 20 - 35 cents a minute range. And, at today's prices cellphone companies aren't making bundles of money. That's why they're all adding new and innovative fees -- and paring away on the size and

flexibility of any calling "bucket." Or, like AT&T Wireless this weekend, downsizing another 1,700 employees so that John Zeglis's bonus won't have to be cut.

-- Fourth, number portability isn't the sun-and-the-moon, either, for the simple reason most people have managed to survive quite well without it. Ten percent of the American public seems to move annually, and odds are whenever you move you get a new phone number. Americans today also change jobs regularly -- and get new phone numbers at work, too. Some large percentage of cellphone subscribers today have a hard time remembering their cell number -- they use the device to place, not generally receive calls (their offices have the number, and that's who mostly calls). And, if number portability and continuity are so critical, why do about 25 percent of the American public seem cheerfully to change their Internet address annually? Are they that much more attached to their phone number? Probably not.

-- Fifth, just because you can take your cell number with you doesn't mean contract termination penalties and other charges won't apply. Will there be special charges when new cell customers want to "transfer" their old wireline number? Or, terminate service? The FCC has been flexible on this in its various publications. In all fairness, however, shouldn't it be the "cost-causers" who pay? That's the way it is in other communications contexts, right?

-- Sixth, it's not like either the wireline or wireless incumbents have all these irate customers just itching to switch. The annual J.D. Power and Associates surveys -- done by market experts and statisticians who know what they're doing -- indicate that the level of customer satisfaction is actually growing in virtually every telecommunications market sector. The number of complaints to the FCC or state agencies may be rising simply because (a) it's easier with email and (b) people think there's a better chance something will be done.

You're always going to have what AT&T calls the "spinnners" -- that 20 - 30 percent of the market which bounces all over the place continuously. But that sort of commercial Brownian motion's not typical. Most Americans today are fairly pleased with their various telecommunications services.

-- Eighth, since none of the telecommunications companies today are really making it big-time, it's naïve to think that the price of either wireless or wireline service will fall because of competitive pressures. You're going to get more bells-and-whistles. All the "vertical services" that cellphone carriers offer for "free" will probably start being offered to wireline customers, too. But labor and other costs are rising. All the companies use basically the same equipment, so their underlying costs are quite

similar. The "technology dividend" here probably isn't sufficient to allow all the price reductions some imagine. Investors are running the show these days, not the management and not the customers, and they want to be paid.

Conclusion

Number portability isn't as popular and publicized as the Federal Trade Commission's 2003 telecommunications policy initiative -- the famous "Do-Not-Call" list (which, the last time we checked, had more people signed up than voted in the first Reagan-Carter presidential race). The President isn't going to be staging any Rose Garden ceremonies soon to recognize the first successful "porting" of a cellular or landline telephone number. No FCC Commissioners will be invited on network TV, or "Meet the Press." Unless the whole system becomes utterly unmanageable shortly after the November 24 deadline for compliance -- which folks say is unlikely -- it may well be that most Americans won't even notice these changes have been made.

Personally, I have this sense that large amounts of time and money are being spent to indulge a relatively small fraction of the customer universe, those for whom it is critical. I'm not convinced these changes are going to yield the dramatic changes critics and supporters contend.

But it may well be the FCC didn't have lots of options. Having brought the cellular carriers into the number portability process administratively -- the plain language of the statute notwithstanding -- the agency probably had to bring the wireline companies in as well.

Kenneth G. Robinson is editor and publisher of the weekly Telecommunications Policy Review.

Source: Ubiquity, Volume 4, Issue 39, Nov. 26 - Dec. 2, 2003