

WIRELESS RETAIL WORLD

A competitive industry hunts for customers.

When cellular phones were first introduced on the market, they were heavy, bulky and expensive to operate, viewed largely as toys for those with money to spend. Celebrating their 20th anniversary this year, cell phones have become light and petite high technology devices that bear little resemblance with the brick-shaped "car phones" of the early '80s, and whose usage has infiltrated every aspect of modern life.

Cell phone use has exploded over the past five years, the contributing factors being increased coverage, improved service quality and falling prices.

"Wireless has shifted from an expensive, elitist and primarily outbound service to an affordable, mainstream and bi-directional service," says Charles Golvin, an industry analyst at Forrester Research.

There are six major service providers in Orange County: Cingular, AT&T Wireless, Sprint PCS, T-Mobile, Verizon Wireless and Nextel Communications. This means that the competition for customers is stiff, and it's mainly based on price.

"The industry is increasingly competitive, with pricing falling more than 30 percent over the past five years," says Ken Muche, public relations manager for Verizon Wireless.

Sprint PCS spokesperson Stephanie Kelly confirms, "We recently lowered our prices to provide more attractive services to our customers, and we also try to deliver the best possible clarity of service."

Service clarity is probably the most criticized aspect of wireless telephony, as customers complain about dropped calls, spotty coverage and poor reception. One explanation for this problem is the Southern California topography, which presents problems to carriers in delivering service within certain areas.

"There are so many hills and valleys, making it a challenging region to provide an optimal network in," says John Mendez, spokesperson for AT&T Wireless in Orange County.

Residential areas pose the biggest challenge, says Cingular spokesperson Lauren Garner.

"The traditional method of locating sites in commercial areas near residences is no longer sufficient to meet wireless calling needs in residential areas. Opposition to antenna sites, usually expressed through unhappy residents, is a major concern."

Landline phones may have an overall better service quality, but they cannot compete with the mobility and technology offered by wireless service. Anaheim Hills business consultant Beth Adkisson

uses her cell phone extensively in her work. Her job involves meeting with CEOs and business owners to provide leadership development, and she relies on her cell phone to remain reachable while commuting to and from meetings.

"It's a wonderful tool that enables me to maximize my drive time," Adkisson says.

While safety concerns have contributed to the banning of cell phone use while driving in some states, California drivers are still allowed to talk on the phone in their cars. Nevertheless, carriers are increasingly promoting hands-free devices that enable drivers to keep both hands on the wheel. Adkisson says she uses either her phone's headset or speakerphone function when she is driving.

"We try to encourage our customers to use these devices for responsible and undistracted driving," Kelly says.

Adkisson also uses her cell phone to check her e-mail account when she is out of the office. This function is

made possible by data service, which enables people to access the Internet and download ringtones, games and screensavers.

The introduction of cell phone camera attachments last year received a lot of attention. They snap onto the phone so that the user can take digital photographs and send them to any e-mail address. First out on the market was CommuniCam, the camera attachment for the Sony Ericsson T68i. The most recent advancement is the Sanyo 5300 phone, which has a camera embedded in the handset.

"A husband may take a picture of a shirt in a store and e-mail it to his wife, asking her if she wants him to buy it," Mendez says. "It's a revolutionized form of instant gratification."

The Sony Ericsson T68i also has a high-resolution color screen, which is another recently added cell phone feature. Mendez compares it to the change from black-and-white to color television.

"Once you've switched to a color screen, you can't imagine switching back," he says.

Other phones featuring color screens are the Motorola T720 and the Samsung A500.

"They are among our most popular phones," Kelly says. "Of course, the newest phones are always the most popular ones."

Mendez describes the Orange County consumers as on-the-go people who are very mobile and use up a lot of minutes per month. The service plans reflect this increased demand for airtime. One of the biggest sellers for AT&T Wireless is "Minutes Without Limits," a plan that allows customers unlimited calling for \$99.99 per month. Similarly, Sprint PCS offers a 2000-minutes-per-month plan for \$85 that has become very popular in Orange County.

Until recently, customers lost the minutes they did not use every month, but Cingular has been the first carrier to introduce Rollover service.

"The package minutes that go unused one month roll over to the next month for up to 12 months, allowing customers to keep what they are paying for," Garner says.

As cell phones are becoming cheaper and more convenient to use, a growing number of people are abandoning regular landlines and making a cell phone their primary phone. This trend is most prevalent among college students and young adults, who also tend to favor prepaid service.

"Young people who are living in their first apartment often don't want to have to deal with monthly bills," Mendez explained.

Young cell phone users have also been the first to embrace text messaging, or SMS, which enables users to send short text messages instantly from one cell phone to another. Americans are currently sending and receiving roughly 450 million text messages per month.

"The SMS market is small but fast growing in the U.S.," says wireless analyst Linda Barrabee at the Yankee Group. "Around 10 percent of all wireless customers are using the service."

That is a small number when compared to Europe and Japan, where "texting" is an everyday form of communication, generating billions of dollars in yearly revenue for the carriers. However, SMS traffic in the U.S. has more than doubled in the past six months. One of the factors enabling its expansion has been inter-carrier messaging.

Launched last year, it allows users to exchange messages across different carrier networks, something that was previously impossible. This year, AT&T Wireless customers will also be able to vote on American Idol using text messaging.

