



CELL PHONES

New rules, new choices

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The big news in cell phones isn't the handsets, even though they're more elaborate than ever. It isn't the calling plans, even though they're more generous with the allotment of minutes. The biggest news centers around the 10-digit phone number itself.

On Nov. 24, after years of delay, the Federal Communications Commission gave cell-phone customers unprecedented power with number portability, allowing them to take their phone number along when they change carriers. The FCC action affects the entire phone industry, not just the cell-phone companies, because the government also allows consumers to move a wired-phone number to a cell phone.

"There will be a massive reshuffling of the deck," says Charles Mahla, an economist with Econ One, a California research firm that regularly tracks cell-phone rates. Seven to 8 million people were originally expected to switch by March, according to Roger Entner of The Yankee Group, a Boston-based research firm that follows the cell-phone industry.

That's on top of the industry's normal "churn," or turnover, of 25 to 50 percent. Customers jump ship because they're fed up with dropped calls, dead zones, static, and other universal cell-phone problems.

Once that reshuffling takes place, carriers will have to adopt a new attitude toward consumers. Until now, carriers focused on finding new customers, at a cost of more than \$300 a head. But now that cell-phone users have more latitude

to switch, companies will need to work harder to hang on to their customers.

NOW: BAITING THE SWITCHERS

In a statement issued in early November, Michael K. Powell, the FCC chairman, said that number portability "promises significant consumer benefits." Michael J. Copps, one of the five commissioners, said that portability "gives consumers much sought-after flexibility and it provides further competitive stimulus to telephone industry competition."

CR QuickTake

Consumers have gained new power because they can keep their cell-phone number when they change carriers. But consumers still need to watch for pitfalls.

- Carriers are offering sweet deals on calling plans and phones, but they often tie the best deals to the longest contracts.
- Numbers may be portable, but phones are not. If you change carriers, you'll need a new phone.
- Number portability hasn't solved chronic problems with service that affect every carrier—dropped calls, dead zones, static, and the like.
- Despite those persistent problems, it's a good time to switch carriers if you don't like your current service and if your existing contract is about to expire.
- Congress and state regulators are pushing to improve service and make it easier for consumers to compare carriers on that basis.

What will this new competition look like? Will consumers find that their new power vanishes like the voice in a dropped call? Some important changes are already evident:

Wireless will gain, landline will lose.

Powell and other industry experts expect number portability to accelerate the trend toward using cell phones over wired ones. Already, according to a survey by The Yankee Group, nearly one-third of long-distance calls once dialed from a wired phone are now dialed on a cell phone. The Yankee Group also estimates that 15 percent of wireless users will give up their wired phones over the next five years; only 4 percent have done that so far.

(Wireless isn't the only source of competition. An increasing number of calls travel over the Internet, and they are cheaper than regular calls. This Voice over Internet Protocol, or VoIP, is attracting the attention of companies that want to get into this lucrative market, as well as state regulators and the FCC. We'll cover the issues behind VoIP later this year.)

Portability sparks a fare war. An unprecedented number of new offers surfaced at the end of the year, all designed to lure you away from your present carrier. The more noteworthy deals were these:

- AT&T Wireless pledged a "90-Day Best Deal Promise": If you signed with AT&T and it offers a better deal in your first three months, you can grab it.
- Sprint has decided that its nighttime calling hours begin at 7 p.m., not 9 p.m.

- Verizon was offering its Internet customers an Audiovox Thera for \$100. The device, which combines a PocketPC organizer and a cell phone, sells for as much as \$500 elsewhere.
- T-Mobile has rolled Fridays into its weekend calling time.

Contract length increases. Carriers are sprinkling salt on many sweet new deals by tying the best prices on phones to two-year contracts. Of the major carriers, T-Mobile alone offers one-year contracts. Early-termination penalties of \$150 or more are still part of the landscape.

The bottom line: A good time to switch. The current round of rebates and deals, and the intensified competition, makes this a good time to switch cell-phone carriers, but only if your contract is about to expire and if you aren't happy with the service you now have. Don't break an existing contract just to take advantage of the deal du jour. And don't replace a wired phone with a wireless one. You will need the wired phone for emergency calls.

COMING: A NEW PUSH FOR QUALITY

People change carriers mainly to get better service. Up until now, though, customers couldn't be sure that the new carrier would be any better than the old one. The cell-phone industry has resisted regulations that would show how good each carrier's service is in a given locality.

But consumers' changing expectations about cell phones, along with pressure from Congress and state regulatory agencies, are combining to make quality of service the next big cell-phone issue.

The Cellular Telecommunications & Internet Association, the industry's trade group, has published a 10-point "consumer code" covering quality and customer service. Carriers that comply receive a seal. Michael Altschul, the CTIA's general counsel, says it will be "like the Underwriters Laboratories seal," adding that "carriers will lose the seal if they don't live up to the code."

However, it's not clear how much policing CTIA intends to do. Altschul says he expects the market to do that: "Competitors, consumers, and reporters watching the carriers is the best enforcement possible," he says.

A recent study by the National Regulatory Research Institute, at Ohio State University, highlights changing consumer attitudes. The study found that even though many cell-phone users were dissatisfied, they had low expectations. "Early adopters have been willing to put up with dropped calls and noise on the airwaves to receive the desired quality characteristic of mobility," the study says, adding, "New users may not realize the problems that come with mobile service and be less willing to accept them."

The institute advocates "some oversight of wireless service quality" and a telecommunications bill of rights that includes service quality. State regulators, including Anne Boyle, chairwoman of the Nebraska Public Service Commission, are looking for ways to gain that oversight. Boyle told us: "Self-regulation through competition and the marketplace won't take on the problems. Wireless is becoming an essential service, like gas, water, or electricity." She added, "This industry needs to grow up and realize its responsibility."

Carl Wood, who heads the California Public Utility Commission, echoed Boyle's point of view. "Cell phones used to be a rich person's toy," he said. "Today, they're a utility. People expect performance and service quality." Wood's agency is one of the most aggressive in policing cell-phone abuses. For example, Cingular faces a \$12.1 million penalty from the PUC for failing to give customers a grace period.

Sen. Charles Schumer, D-N.Y., is one of the legislators who has introduced a bill to improve cell-phone service. Among other things, the Schumer bill would require carriers to disclose charges in a uniform manner in ads and brochures, and it would require the FCC to publicize statistics for each carrier on dropped calls, blocked calls, signal strength, and the like.

The U.S. General Accounting Office has also called on the FCC to pay more heed to quality of service in its regular review of the cell-phone industry. But the FCC has promised only to look into the matter. FCC Chairman Powell told the GAO that his agency isn't likely to get involved with more regulations, saying, "The commission remains dedicated to allowing market forces to work in order to provide high-quality mobile-phone services."

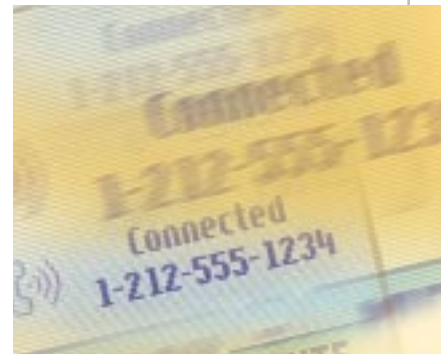
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THE SMART WAY TO MOVE A NUMBER

Local-number portability took effect on Nov. 24 in the 100 biggest metropolitan areas; portability takes effect everywhere else on May 24. Go to www.fcc.gov/cgb/consumerfacts/wirelessportability.html to find out when you qualify. Regardless of the date, wait until your existing contract expires to avoid a stiff penalty.

To make sure the move proceeds as smoothly as possible, follow this advice:

- Use the reports that follow to research carriers, plans, and phones.
- Don't cancel service from your old carrier. The new carrier will handle that. If you do cancel first, you could lose your number. However, the old carrier must honor your switching request, even if you still owe money.
- Handle the switch in person. Go to one of the stores run by the new carrier.



Bring a recent bill to expedite retrieval of records and to make sure account information is transferred properly.

- According to the FCC, switching cell-phone carriers shouldn't take more than 2½ hours. Some reports, including complaints we have received at our Web site www.escapecellhell.org, have cited widespread delays during the first weeks of number portability, with AT&T customers having the most difficulty.
- Be cautious in using Web sites that purport to help with number-moving. Some sites receive a fee from a carrier that picks up a new customer through a referral via the Web site. Others may have commercial affiliations with some carriers. The result: You may get incomplete information. Also check to see whether the site has information from all six national carriers. The absence of a company like Sprint or Cingular is a clue that the site may be playing favorites.