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Less Is Not Necessarily More: U.S. Wireless Companies Still Lead Europe in Investment, Service Speed, and Capacity

by

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On December 11, the independent regulator of UK communications industries, Britain's Office of Communications (OfCom), released a [report](#) touting the low price of communications services in the UK. The [report](#) ranked the UK above Italy, France, Germany, Spain, and the U.S. as offering customers wireless voice, text, and data service at the lowest prices. The report relies on this finding to support its assertion that "consumers in the UK are benefiting from one of the world's most price competitive marketplaces for communications services," as James Thickett, Ofcom's Director of Research, said. Although these findings may seem indicative of success in the UK's telecommunications service market, the low prices available in the UK may actually be harming the wireless service market there.

The intense pressure on telecom companies in the UK and other countries in Europe to reduce consumer prices has caused those companies to lose revenue and delay investment in infrastructure and innovation. Moreover, the plans available for such low prices do not include the data capacity that the average wireless customer today demands. As such, the low prices offered by wireless companies in the UK are not a proper basis for assessing the differences in consumer welfare between the wireless marketplace in the U.S. and the wireless marketplace in the UK.

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The report by OfCom claims that wireless operators in the UK are able to offer a month of cell phone service for an average of \$22.70 compared to \$63.62 in the U.S., according [The New York Times](#). OfCom’s report found that on average, UK wireless providers offer a typical handset with 200 minutes, 50 texts, and 200MB of data that costs on average \$22.95 per month. In the U.S., OfCom claims that this same package would be offered at a price of \$93.43 – four times as much.

These reports do not provide the full picture of wireless service offerings in the U.S. versus the UK or EU. First, the OfCom [report](#) considers eight mobile phone usage profiles to determine the average price of service. The profiles range from a basic handset with a low call allowance, to a premium smartphone with a large call, text, and data allowance to calculate the average cost of wireless services in the UK. Although this method does consider a range of usage habits, it is likely that the profiles used to determine an average UK mobile device user are not directly comparable to average U.S. consumer user profiles. This is particularly so given the significant difference between U.S. and EU consumer usage habits, as discussed below. In other words, given the vast variety of offerings and user habits in the mobile marketplace today, it is difficult to compare apples to apples.

Second, there are indeed U.S. wireless providers that match the low-price offerings of providers in the UK; U.S. consumers have just not been choosing them. Nearly half of American adults own smartphones, including 66% of young consumers (ages 18 to 29) and 78% of people living in households with an income of \$75,000 or more, per [Pew Research surveys](#). The two largest providers of such smartphones, Verizon and AT&T, offer plans averaging around \$70 a month, according to [TIME](#), which is higher than the reported average UK price of \$22.95. However, U.S. providers can match the low prices available in the UK: A U.S. consumer can get a handset with 200 minutes, *unlimited* texts, and *unlimited* data for [less than \\$25](#). Most U.S. consumers demand a monthly plan that offers *unlimited* talk, data, and text. U.S. wireless providers offer that option as well, and for as low as [\\$20 a month](#). The charts below compiled by [Prepaid Phone News](#) in September 2013 provide examples of monthly wireless service offerings available in the U.S. today, which match or beat the average offerings of UK wireless companies.

Unlimited Voice and Text Plans

Operator	Plan	Network	Phones	Monthly Cost	Voice min.	SMS	Data
Spot Mobile	\$24.99 Unlimited Mobile	T-Mobile	Unlocked GSM	\$24.95	Unlimited	Unlimited	none
ChitChat Mobile	Unlimited Package	Sprint	Most Sprint	\$19+ 1	Unlimited	Unlimited	none
Republic	Unlimited data talk & text	Sprint	Republic Only	\$19+ 2	Unlimited	Unlimited	Unlimited
Red Pocket Mobile	Unlimited Talk and Text	AT&T	AT&T or unlocked GSM	\$29.99	unlimited	unlimited	100 MB
Airvoice Wireless	Unlimited Talk and Text	AT&T	AT&T or unlocked GSM	\$30.00	unlimited	unlimited	100 MB

Boost Mobile	Talk & Text Unlimited	Sprint	Boost BlackBerry Only	\$30.00-45.00 3	unlimited	unlimited	none
Page Plus	Unlimited Talk n Text	Verizon	Most CDMA	\$39.95	unlimited	unlimited	500 MB, Overage \$0.05/MB
Verizon	Unlimited	Verizon	\$50.00	unlimited	unlimited	unlimited	1 GB
AT&T	Unlimited	AT&T	AT&T or unlocked GSM	\$50.00	unlimited	unlimited	unlimited for non-smart phones
T-Mobile	Unlimited Talk Text & Web	T-Mobile	T-Mobile or unlocked GSM	\$50.00	unlimited	unlimited	Unlimited (throttled after 500 MB/month)

Limited Monthly Plans

Operator	Plan	Network	Allowed Phones	Monthly Cost	Voice min.	SMS	Data
Page Plus	The 12	Verizon	Most CDMA	\$12.00	250	250	10 MB, overage 10¢/MB
NET10	750 Minute Plan	Verizon, T-Mobile or AT&T	NET10 non-smart-phones	\$25.00	750 minutes/texts	750 texts/minutes	charged by the minute of browsing
AT&T	\$25 Monthly	AT&T	AT&T or unlocked GSM	\$25.00	250, overage 10¢/ea	unlimited	1¢ per 5 KB (\$2/MB) 1 50 MB \$5 200 MB \$15 1 GB \$25
Page Plus	Talk n' Text 1200	Verizon	Most CDMA	\$29.95	1200	3000	500 MB, Overage \$0.05/MB
Virgin Mobile	payLo	Sprint	Virgin payLo	\$30.00	1500	1500	30 MB overage \$1.50/MB
Straight Talk	All You Need	Verizon, T-Mobile or AT&T	Straight Talk non-smart phones	\$30.00	1000	1000	30 MB no overage
T-Mobile	Monthly 4G	T-Mobile	T-Mobile or unlocked GSM	\$30.00	1500 (combined minutes and messages)	1500 (combined minutes and messages)	30 MB, no overage

Although monthly plans comparable to the “average” plan in the UK are available, they have not gained as much popularity with U.S. consumers as contract-based plans with the larger carriers. This is changing, however, as sales of [prepaid smartphones have risen 91%](#) year over year, according to data from the research firm [NPD Group](#). Stephen Baker, vice president of industry analysis at the NPD Group, explained, “As the smartphone market matures, and as growth slows,

carriers have been smart to aggressively market some of their best current smartphones on a pre-paid basis to a new set of customers, in order to keep sales humming along.” So although the “average” monthly price for wireless services may still be higher in the U.S. than in the UK and EU overall, the U.S. wireless market is swiftly changing and the gap between “average” plan prices in the U.S. and the UK should narrow over the next few years. This is particularly probable given slowed investment and deployment rates throughout Europe, which make it unlikely that the EU will make significant progress to catch up to the U.S.

Differences between user profiles and consumer plan preferences help clarify the implications of the UK’s cheaper wireless service offerings. However, the disparity between average prices for wireless plans in the U.S. versus the UK is attributable to other factors as well. Predominantly, wireless customers in the U.S. “use their devices more intensely than consumers in the EU,” according to a report by global mobile operator industry representative [GSMA](#). In the U.S. especially, analysts found that “continued traffic growth from additional usage and multiple devices is encouraging users toward more expensive plans, which is resulting in consistently increasing [average revenue per user] ARPU.” In other words, U.S. consumers pay more in order to get more service.

U.S. consumers take advantage of the advanced speed and data offerings of U.S. wireless providers to talk longer, send more messages, and use more data than customers in the UK, and so on average choose plans with greater capacity in those usage areas. In 2012, U.S. consumers used 901 voice minutes per month on average, more than five times the EU average of 170 minutes per month. In terms of data use per connection, Cisco’s [VNI Mobile Forecast 2012-2017](#) projects that U.S. consumers will use nearly twice as much data per connection as their European counterparts by the end of 2013, with EU customers using 415 MB and U.S. customers using an estimated 810 MB. Additionally, while EU and U.S. consumers are equally likely to own smartphones, U.S. consumers are more likely than those in the EU to use their phones for web-related activities, according to a [Nielsen survey](#).

Although the U.S. is already a world leader in usage, adoption, and investment among other metrics, the wireless services marketplace continues to offer U.S. consumers more value. For one, mobile voice and data prices continued to decrease in 2012, even as Americans continued to increase overall usage, and particularly data. Specifically, [CTIA](#) found that the overall price per MB has fallen more than 93% in just five years in the U.S., from \$0.46 in 2008 to \$0.03 in 2012, while data usage in the U.S. grew more than 69% in the same period from 866.9 billion MB in 2011 to 1.468 trillion MB in 2012.

The low prices offered in the UK may seem appealing in the abstract, but if consumers knew that they were trading the prospect of improved connection speeds, data offerings, and network capacity for low-cost service plans, the dramatically low price-point offered in the UK might be seen through a different lens.

Generally, competition is beneficial to any market by giving consumers choice in products or services. However, when companies focus too closely on competing on just one metric, such as price, the broader, long-term success of the business may suffer. Telecom competitors in the UK seem to have made just such a misstep by focusing too intently on offering low-prices while losing sight of the importance of investing in infrastructure and innovation.

The slowed pace of investment in wireless broadband networks throughout Europe has contributed to the slower speeds and smaller data capacities offered by European telecom companies. I have [noted previously](#) that connection speeds in Europe lag behind the U.S. and other regions. For example, the [New York Times](#) reported on December 11 that in France, the average mobile connection speed in 2012 was 1.3 megabits per second compared to 2.5 megabits per second in the United States in the same year. According to [GSMA](#), U.S. data connection speeds are 75 percent faster than the EU average, and the gap between the countries is expected to grow by the end of the decade. [Cisco](#) projects that by 2017, average mobile connection speeds are projected to exceed 14 Mbps in North America, compared to 7 Mbps in the EU.

Throughout the EU, not just in the UK, telecom companies have engaged in similar practices. Analysts have observed that the pressure to offer communications services for low prices has caused major EU carriers like Vodafone in Britain and Deutsche Telekom in Germany to lose revenue. In the [New York Times](#) report, Steven Hartley, who runs the industry communications and broadband team at the consulting firm Ovum in London, said, “In Europe, regulators have emphasized competition over investment We are now at a point where cheap deals don’t necessarily mean the best value for consumers.” Other analysts from [Reuters](#) and [HSBC](#) have found that downward pricing pressure in Europe has caused “[increasingly commoditized service](#),” resulting in pricing that has “continuously deteriorated.” In contrast, U.S. markets offer a relatively high level of product, service, and price-plan differentiation, given the rapid deployment of new network technologies. The choice of these offerings, combined with consumer preferences for higher usage allowances has led many U.S. consumers toward more expensive plans.

Any barriers to investment in the UK and the EU more broadly may be especially disadvantageous to telecommunications companies there, given the impressive investment and growth in the communications and information technology sectors occurring in competing nations. In many regions, the telecommunications sector drives domestic investment, which has led to improved network infrastructure, increased speeds, and broad penetration of broadband networks. For example, in the U.S., telecommunications and cable companies invested \$50.5 billion of the \$149.8 billion invested in the U.S. overall in 2013, as [reported](#) by the Progressive Policy Institute in September. According to [CTIA](#), U.S. providers invested almost six times more per subscriber than the rest of world in 2012 – approximately \$94 per subscriber, compared to an average of only \$16 per subscriber by non-U.S. providers. And the level of wireless capital expenditures in the U.S. grew more than 70% between 2007 and 2013, while declining in the EU.

This investment has enabled providers in the U.S. to offer average mobile data connection speeds that are among the fastest in the world, nearly twice those speeds offered in Western Europe, according to the [Four Years of Broadband Growth](#) report released by the White House

in June. Also, the U.S. is the world leader in the deployment and use of high-speed mobile networks. The United States accounts for half of the world's 4G LTE subscribers despite having only 5% of the world's wireless subscribers, [CTIA](#) reported. By the end of 2013, 19% of U.S. connections will be on LTE networks, compared to less than 2% of connections in the EU. As Scott Cleland of Precursor LLC and NetCompetition [stated](#), "Without market economic thinking and pricing that plans ahead and continually funds infrastructure investment, the EU will continue to fall further behind other countries around the world."

While the U.S. still has more work to do to remove unnecessary regulations and barriers to investment and growth of the information and communications technologies sector, Europe is clearly behind the U.S. in these areas. Although American consumers may pay more in wireless service bills on "average," in return they demand and receive faster connection speeds, greater data capacity, and the assurance of continued development and innovation of broadband networks in the U.S.

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Further Readings

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Sarah Leggin, "[Don't Let the U.S. Become Over-Regulated Like France](#)," *FSF Blog*, (April 17, 2013).

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