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## Telecom menu only gets longer

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### More services, higher monthly bills

Though competition has brought the cost of basic phone service down, the average communications budget has gone way up as people add wireless phones, Internet service and other options.

|       |  WIRELESS |  VIDEO |  INTERNET |  TOTAL |
|-------|--|---|--|---|
| 2000  | \$55.47  | \$25.23   | \$34.67  | \$115.37  |
| 2001  | 53.00  | 31.96   | 36.85  | 121.81  |
| 2002  | 60.66  | 37.40   | 39.34  | 137.40  |
| 2003  | 48.50  | 44.07   | 41.90  | 134.47  |
| 2004* | 47.10  | 48.76   | 44.05  | 139.91  |

\*2004 does not include fourth fiscal quarter.

Kansas City, Mo., based on 2004 survey.

Source: U.S. Census Bureau, Communications Services Cost Study

Todd Mick and his family cut the cord to Ma Bell a year ago. The family of four now relies entirely on wireless phones.

Peter McGee and his family will rely on the Internet for phone service at their new home in Overland Park. He's planning a wireless network with Voice over Internet Protocol phone service.

Charles Knapp of Kansas City, Kan., is using the cable company for everything from cable TV to phone service.

Telephone service isn't what it used to be. All sorts of companies are battling to entice people to spend more of their money on communications. And people are biting in record numbers.

A combination of factors — ubiquitous wireless phones, competition from cable companies, and new independent Internet-based phone services — is giving us choices we didn't dream of a decade ago. And those choices are transforming the telecommunications industry much the same way that Kansas City undertaker Almon B. Strowger did when he invented the dial telephone system 114 years ago.

Now wireless and cable television companies are pushing to lure away local customers of telephone titans such as SBC Communications Inc. and the other Baby Bells. The Baby Bells, which have retained most of their customers and are still in a powerful competitive position, are countering with new initiatives to bundle traditional phone services with their own broadband, wireless and video offerings.

The public is responding. By the time all the costs are added up for local telephone service, wireless plans, Internet connections, cable and other communications services, U.S. households are spending, on average, nearly three times as much on these monthly bills as they did a decade ago.

In exchange, we're better connected than ever, with wireless phones, high-speed Internet and often limitless long-distance service.

"There is so much pressure to have the latest technology," said Ginny Waters, who occasionally teaches a household budgeting class in the Community program at the University of Missouri-Kansas City. "It is the siren call that you have to spend lots of money to be with the program."

It may not have seemed like it at the time, but the long-distance price wars of a few years ago presented people simpler decisions. Sorting through all those competing offers from dinner-hour telemarketers had to be easier than making today's communications choices.

Which company? What technology? Which plan?

"There are more options than there were two years ago," said Charles White, vice president for TNS Telecoms, a Jenkintown, Pa., telecommunications market research company.

## Turf invasions

As an indication of just how topsy-turvy it has all become, the companies vying for supremacy aren't content anymore just to sell telephone service. Cable companies are encroaching on the turf of SBC, Sprint and other carriers by selling phone service. Phone companies are returning the favor, gearing up to sell TV service. And sometimes the competitors are even teaming up to provide bundles of wireless and wired phone service along with cable and high-speed Internet.

"This is one wild marketplace, and it is changing rapidly," said Cindy Brinkley, president of the Missouri division of SBC.

Although their family budgets feel squeezed, many people are embracing the new ways to communicate and be entertained.

Growing numbers of people are relying solely on wireless service to stay in touch after scrapping their land-line phones. Younger adults led the movement, but increasingly older people and even some families are joining.

"If cell phones had come out first, and then they came out with a land line, who would buy it?" asked Todd Mick, whose family of four dropped SBC service in Platte City for wireless phones. "There's no logical reason to have one."

Executives of the Bell companies and the local telephone division of Overland Park-based Sprint clearly have noticed the cord-cutting phenomenon.

Yet it is the cable companies that really have their attention.

Time Warner Cable and its industry peers have been in the telephone business for just over a year, but they're already grabbing a growing share of the market. Since it began selling the service in the Kansas City area a year ago, Time Warner has signed up more than 32,000 local subscribers for its Digital Phone product.

Gary Amerine ditched an extra phone line he had for his computer and now enjoys a high-speed Internet connection. He also likes the price break he got from Time Warner when he signed up for cable television, Internet and telephone service last fall.

"Now I don't need the second phone line," said Amerine, of Kansas City. "That cut the phone bill right there."

By signing up so many customers like Amerine, Time Warner is off to a good start. Cox Communications has been in the Internet phone business longer and has more than 1.4 million telephone customers to show for it. In select areas, such as Omaha, Neb., and Orange County, Calif., Cox claims 40 percent of all local phone customers.

## Just one bill

Internet phone service was a big topic at the 2005 National Cable & Telecommunications Association trade show last week as cable companies talked about the progress they're making in signing up telephone customers.

Jim Robbins, chief executive of Cox, said customers liked both the phone service and the convenience of a single phone and cable bill, and didn't care which technology brought it to them.

"They don't know whether they're getting it over IP or circuit switched or a couple of cans," Robbins said.

That's apparent to the telephone industry.

"The future is fairly clear to us," said Ben Buley, president of Sprint Local Consumer Solutions. "We are going to be fighting tooth and nail with our cable competitors out there."

Internet phone service offered by the cable companies tries to lure customers with unlimited long distance and other calling features. That gives them an edge over traditional telephone service from the Bells, according to the Convergence Consulting Group, a Toronto technology and telecommunications consulting company.

Cable firms will claim at least 11 percent of the entire telephone market within two years, the Toronto researchers wrote recently.

Sprint, SBC and their land-line peers have no intention of ceding turf to the upstarts.

Phone companies have started fighting back a bit by including satellite TV, such as the Dish Network, in their packages. They have grander plans still.

"We have got to crack the code on what we are going to do with our video entertainment strategy," Buley said.

Sprint is close, Buley said, to conducting trial runs in which it will provide video over its fiberoptic network to select groups of customers.

SBC has bigger plans. The company is planning to spend \$4 billion to deliver TV over new fiberoptic lines.

Those kinds of creative counterattacks are necessary in the face of growing competition that has become increasingly fierce in recent years, said Brinkley, the SBC executive in Missouri.

"Every technology is growing except the incumbent wire-line providers," Brinkley said.

## **Monopoly busting**

The push to bring more competition to the telephone industry was not meant to confuse the public.

The idea was to spur innovation and bring people better choices by breaking the monopoly domination of AT&T, and then later of SBC and the other Bells.

It worked.

Long distance once was pricey, but now it is sold for a few pennies a minute, or simply tossed in as perk to calling plans. It took longer to take hold, but local competition finally emerged in recent years, and the average cost of basic local service had edged downward.

MCI and regional competing telephone companies lured away Bell customers in droves with all-you-can-call flat-rate packages. Bell companies eventually countered with flat-rate bargains of their own.

American households that switched to flat-rate plans saved about \$429 a year each, a total annual savings of nearly \$10 billion, according to the Phoenix Center, a Washington think tank that follows the phone industry.

Competing phone companies that piggybacked on Bell company networks were the driving force of the competition that brought these benefits. New federal regulations and other recent industry developments brought the near demise of this system.

As recently as last fall, some industry observers saw a "gathering storm" that was forcing Bell competitors from the market and threatening to diminish consumer telephone choices, said Lawrence J. Spiwak, president of the Phoenix Center. Although it showed promise, Internet phone service didn't seem to be sufficiently refined to provide robust competition to traditional phone carriers, he said.

In the past couple months, however, Spiwak has changed his mind.

Cable companies and carriers such as AT&T, which has an Internet phone service called CallVantage, are gaining traction, Spiwak said. Other Internet phone companies such as Vonage also are making an impact.

McGee, who is building a house in Overland Park, said he spent about \$928 for two SBC phone lines last year.

In January, McGee switched to SunRocket, which like Vonage is one of a growing number of Internet phone services. His bill will drop to about \$200 a year.

"It's really easy to install yourself, it's stylish, and the support is great," McGree said.

Although it took nearly a decade for competing phone companies to claim less than a fifth of the market under the old system, Internet phone firms and others using new technologies are not likely to require so much time before they become formidable telecommunications forces, Spiwak said.

"It is going to happen much faster," Spiwak said, and such big names as Wal-Mart, America Online and the Shop at Home Network have recently joined the rush to market Internet phone service.

State regulators are watching all the turbulence and wondering how they can best watch out for the interests of the public.

"Consumers are receiving the benefits of competition," said Janet Buchanan, telecommunications chief for the Kansas Corporation Commission.

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- **In MoneyWise:** *See what some families are doing to sort out the telecom choices and get more for their money.*