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In U.S. Market, Cellphone Users Are Often All Talk

By KEN BELSON

One of the most popular new cellphones this holiday season is the Razr, an ultrathin model that stresses style over services. That is good news for [Motorola](#), which makes the Razr, but bad news for wireless carriers that are spending billions of dollars to build high-speed networks in the hopes that their customers will do more than just talk.

Carriers like Cingular Wireless and [Verizon](#) Wireless are hoping that faster speeds will entice customers to use more data services - trading photos, downloading songs and surfing the Internet on their handsets. Such services can add more than \$10 a month to subscribers' bills and help defray the cost of the extra voice minutes that carriers are offering customers to keep them from jumping to competitors.

Users in the United States, however, continue to think of a cellphone as a device for talking, not text messaging. The Razr from Motorola, as well as popular models from [Nokia](#) and others, focus more on slim good looks and less on functions like Web browsing and e-mail, although the handsets are capable of handling data services.

"Consumers this holiday season are looking for voice first and data maybe," said Delly Tamer, the chief executive of LetsTalk.com, an online cellphone store. "I wouldn't be surprised if carriers are a bit disappointed by data sales."

Data services account for 4.7 percent of the revenue of American carriers. While that is up about two-thirds from 2003, it lags far behind what many operators earn in Europe and Asia. The lukewarm demand is not a complete surprise, given that high-speed data networks - with speeds as fast as broadband access on a desktop computer - are new and handsets are expensive and often clunky.

There is also a cultural issue at work. People in Europe and Asia often have more time to browse the Web and e-mail on their phones because they spend more time commuting on trains, while Americans tend to spend more time in cars, where their hands are occupied.

Yet American carriers have had little choice but to add networks. Cellphone subscriber growth, while healthy, is expected to slow in the coming years, as it has overseas. Carriers have also been offering more free minutes to lure new customers and retain existing ones, further eroding growth in revenue from voice calls.

Though the numbers do not appear to be encouraging to wireless providers, the companies are committed to faster networks because "they have to say something," said Edward Snyder, who follows the cellphone industry for Charter Equity Research. "It's a competitive market, so you have to think up something to do. It's all about marketing and positioning as a leader."

There are 113 third-generation networks in the world, twice as many as in 2003, according to Andrew Seybold, the editor of 3GToday, an industry newsletter. (In the industry's lingo, the analog networks of the

1980's are the first generation, while the second generation are the digital voice networks of the 1990's.) Most new networks are in Asia and Europe. Handset makers have joined the fray, with 56 vendors making at least 606 3G-enabled devices. New networks are pricey, though, as carriers have to refit cell towers, add software, offer new handsets and, in some cases, buy more airwave licenses from the government.

In the United States, Verizon Wireless has been the most aggressive, setting up its EV-DO wireless data service in 20 cities. So far, Verizon has targeted business travelers who use data cards costing up to \$300 that are plugged into laptop computers to get high-speed connections on the road.

Verizon charges \$79.99 a month for unlimited use of the connections, and less for those who pay based on how many megabits of data are sent and received. In time, the company will offer cards for handheld devices, and later for 3G-enabled cellphones.

Prices for data plans and devices may fall as more carriers offer high-speed services. Until then, most of the customers will remain business users with expense accounts.

"It's not a very big pie of people who can pay for that," said Kirk Parsons, who tracks the industry for J. D. Powers & Associates. Just 70,000 of Verizon's 42 million subscribers have signed up for its high-speed data service. Cingular, which uses a different third-generation technology called Universal Mobile Telecommunications System, charges essentially the same as Verizon for its data plans, which are now available in Dallas, Detroit, Phoenix, San Diego, San Francisco and Seattle. The company plans to expand coverage in the coming months.

It is too early to tell whether these faster connection speeds will entice Americans to spend more on data services, and whether that will compensate for declining revenue from voice calls. But as a guide, it is worth looking at [NTT DoCoMo](#), Japan's largest carrier and the first company to introduce third-generation cellphones.

Since October 2001, when DoCoMo switched on its 3G network, the company's revenue from data services has risen 27.9 percent, with customers now spending an average of 1,970 yen (\$18.76) a month. Data now make up nearly one-quarter of DoCoMo customers' monthly bills.

But the extra sales did not make up for the fall in revenue from voice calls. As a result, spending by DoCoMo customers has dropped 6.9 percent in the last three years. While users are downloading more data, most of it is in the form of text messages, a service that has been around for years.

By comparison, Verizon Wireless generated \$300 million in revenue from data services in the third quarter, just 4.7 percent of its overall sales. That was up from 4.2 percent in the second quarter and 2.3 percent in the third quarter of 2003.

[Sprint](#) has had more success. Spending on data more than doubled in the third quarter and now makes up 8 percent of a typical monthly bill. By contrast, at the European carrier Orange, which is part of France Télécom, revenue from data grew 30.7 percent in the third quarter and now makes up 14.3 percent of total sales.

Despite the talk about persuading customers to send more data by cellphone, the biggest use of the new networks may ultimately be plain old voice calls, some analysts said. Carriers are still adding hundreds of thousands of new customers every quarter, and older second-generation spectrums are stretched thin, making 3G an important tool for boosting capacity.

If data services fail to achieve double-digit growth as the carriers hope, the spectrum now dedicated to high-speed data networks may end up routing more talk than photos, music and games.

