Cellphone Services - Recent Consumer Trends

In 2006, the Office of Consumer Affairs published a Consumer Trends Update on cellphone services (Industry Canada 2006). The Update outlined the growing presence of cellphones in Canadian consumers' communication activities, and highlighted related policy considerations. Since then, there have been a number of major policy announcements affecting the wireless marketplace. Technological advances and business responses have also contributed to significant changes in the dynamics of the Canadian cellphone marketplace. This research brief highlights recent consumer trends with respect to cellphone services, and provides updated information on statistics and reports.

Key Statistics

The number of wireless subscribers in Canada has continued to grow, reaching 20.3 million in 2007, compared to 13.3 million in 2003. However, year-over-year growth has been slowing, falling from 13.3% over 2004-05 to 8.2% over 2006-07 (CRTC 2008).

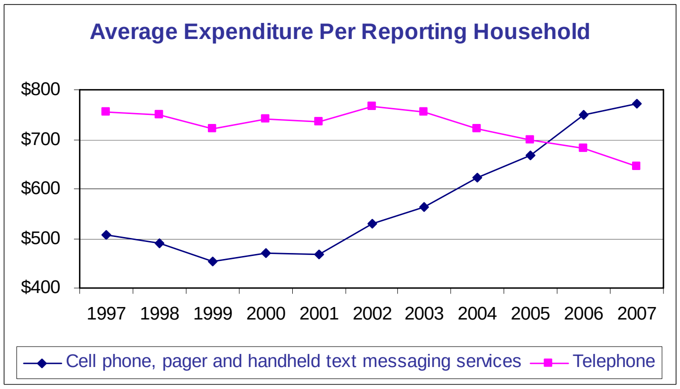
In terms of the percentage of households reporting having a cellular phone for personal use, wireless access reached 71% in 2007.

Percent of Households Reporting Having a Cellular Telephone, By Selected Income Quintile

	Lowest	Middle	Highest
2004	31.2 %	59.8 %	84.5 %
2005	33.5 %	67.6 %	88.6 %
2006	39.9 %	71.1 %	89.9 %
2007	42.5 %	76.2 %	90.9 %

Source : Data obtained from Statistics Canada, Income Statistics Division.

This is up from 59% in 2004, with the greatest increases concentrated in the lower and middle income quintiles.[1] Using a different measure of household wireless penetration rate, a 2008 survey revealed that 72% of households had some access to a wireless phone (CWTA 2008).[2]



Source : Data obtained from Statistics Canada, Income Statistics Division.

For those Canadians who report spending on cellphone and other wireless services, the costs associated with use are significant. In fact, 2006 marked the first year that the average annual expenditure

[1] Data obtained from Statistics Canada, Income Statistics Division.

[2] There are differences in the target population of the various surveys referenced in this report; sources should be consulted for more detailed explanations. For example, the 2008 CWTA-commissioned survey measured access as opposed to ownership, and included both personal and business use. Similarly, Statistics Canada's spending data discussed in the following paragraph groups expenditures on cellphone, pager and handheld text messaging services, a measure that differs from other studies on cellphone costs.

per reporting household was higher for wireless than for conventional telephone services. By 2007, the average expenditure per reporting household reached $773 for wireless services, $128 more than for conventional services ($645).[3] This willingness to increase expenditures on wireless services coincides with reports that many consumers view cellular phones as an "essential" utility, i.e. spending which they are not likely to cut even during a recession (Robertson 2008).

Despite continued growth, Canada's wireless penetration rates continue to lag behind most Organisation for Economic Co-operation and Development (OECD) countries. Canadian prices are still relatively higher than those in other countries when comparing OECD baskets of mobile telephone charges, particularly for medium and high usage. Furthermore, the mix of subscribers in Canada remains uniquely dominated (close to 80%) by post-paid, longer-term service contracts.[4]

Changing Wireless Market Dynamics: A Review of Recent Announcements

Since March 2007, wireless service providers have been required to allow consumers to switch to a competitor without changing their telephone number. So far, the "implementation of national wireless number portability (…) has not had a significant impact on the churn rates of the top three wireless carriers" (CRTC 2008). A number of competing forces render it difficult to isolate and assess this particular policy's final impacts on churn rates. For one, Canadians who were cellphone users at the time when wireless number portability (WNP) was introduced appeared to be generally satisfied with their provider.[5] Another consideration is the fact that raising consumer awareness of policy changes takes time.[6] A lag may also naturally exist in WNP's effect given Canadians' previously noted tie-in to longer-term service contracts. The advent of new entrants expected as a result of the spectrum auction (see below) may amplify WNP's effect in future years. The same may be true for investments in next-generation wireless operations that are compatible across the three national carriers (Avery 2008).

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[3] Data obtained from Statistics Canada, Income Statistics Division. Note that expenditures on conventional telephone services include long-distance charges.

[4] For the latest OECD data, see OECD 2007. In a number of OECD countries, use of the pre-paid "pay-as-you-go" plans is significantly higher than for post-paid contracts.

[5] In a March 2007 survey, 87% of 482 Canadian adults surveyed who own and pay for their own cellphones reported being very or fairly satisfied with their current provider (TNS Canadian Facts 2007). However, recent reader survey results, based upon 18,465 responses from ConsumerReports.org subscribers in Canada, suggest that Canadians' satisfaction with cellphone services is relatively low, with the main complaint being about the cost of the service (Consumer Reports Canada 2009).

[6] At the time that WNP was introduced, only about half (51%) of 482 Canadian adults surveyed who own and pay for their own cellphones reported being aware of this new capability (TNS Canadian Facts 2007).

In July 2008, Industry Canada completed the Auction of Licences for Advanced Wireless Services and Other Spectrum in the 2 GHz Range. Part of the spectrum included in the auction was set aside exclusively for new entrants to bid on: "The set-aside spectrum was put in place to help create a more competitive market and to increase the number of service providers, a decision designed to lead to lower prices" (Industry Canada 2008). Some analysts expect "new choices from regional cable operators, new players setting up in major cities and possibly one new national phone company" (Avery 2008b). Recent media reports have noted that new wireless carriers could be operating in specific areas by the second half of 2009 and early 2010.[7] The anticipated entry of new players in Canada's wireless market has since been credited for changes in how major carriers price their services.[8] It has also raised expectations of intensified competition in the segment of budget-conscious consumers (George-Cosh 2008b).

The summer of 2008 saw text messaging gather significant media attention. Two of Canada's major carriers announced their plans to charge 15 cents per incoming text message to customers without a text message plan. While text messaging is increasingly popular among Canadian wireless users[9], many are not affected by the price change given that they have subscribed to a plan. Changes in texting fees will likely require further attention and analysis, along with other consumer issues noted recently by industry observers: these include unilateral changes in long-term contracts, high early contract termination fees, and cell-based spam.[10]

Keeping an eye on health and safety issues

Since 2006, Quebec and Nova Scotia have joined Newfoundland and Labrador in banning drivers from using handheld devices while on the road. Ontario has recently introduced legislation proposing to do the same (Ontario Ministry of Transportation 2008). Concerns about potential longer-term cancer risks have also been repeated over the past months (e.g., Mittelstaedt 2008). Health Canada, however, reiterates that there is currently no firm evidence of health risks that would lead it to consider the use of cellphones as unsafe (Wagler 2008).

In October 2008, the Commissioner for Complaints for Telecommunications Services issued its first annual report. The CCTS is an independent agency established pursuant to an April 2007 Order in Council. It provides a complaints mechanism to consumers of

[7] See George-Cosh 2008 for information on Globalive Communications Corp's plans for the second half of 2009, and Nowak 2008 with respect to Quebecor Inc's plans within the fall 2009/winter 2010 timeframe.
[8] For example, Bell Mobility recently introduced a rollover plan allowing users to carry forward unused minutes for one month, "a level of flexibility previously unavailable in Canada" (Avery, 2008c). The introduction and significant advertising of Koodo, Telus Communications Company's discount brand, in March 2008 has also been interpreted as a "preventive attack" in anticipation of enhanced competition following the auction (Bergeron 2008).
[9] Canadians sent more than 10.1 billion person-to-person text messages in 2007, which represents more than twice the 2006 level of 4.3 billion messages (CWTA 2008b).
[10] See, for example, Geist 2008 and Kimura 2008.

certain telecommunications services in Canada, including wireless services.[11] Wireless services accounted for 31% of the 2,226 complaints accepted as being within CCTS' scope during its initial year of operation, giving it the number one ranking among the type of services for which complaints were accepted.[12] The agency's involvement in consumer issues is likely to increase as its 2008-09 strategic priorities include creating consumer awareness of its services.

Another key event in 2008 was the Canadian launch of the iPhone, portrayed by some as the 2007 invention of the year (Time 2007). This recognition is notably due to it "bringing the internet surfing experience of a desktop computer to the cellphone" (Nowak 2008b). The rate plans for the iPhone in Canada have been the subject of some criticism (Nowak 2008c). It remains, however, that similar "smartphones"[13] are considered the fastest-growing segment in the cellphone market (Hartley 2008).[14] The introduction of cellphones using open source operating systems may eventually further expand the non-voice data use of phones for web surfing and for downloading new phone-based applications (CBC News 2008b).[15]

The advanced functionalities and network access associated with smartphones increase consumers' opportunities to easily access the Internet and, hence, enhance the potential for online shopping.[16] Growth is also expected in Canadians' use of the cellphone as a payment mechanism for real-world purchases, another element of mobile commerce.[17] However, these devices may also intensify privacy and security concerns, as computer-based Internet threats may migrate to, and transit through, the cellular phone.[18] The

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[11] The CCTS mandate also covers forborne i.e., deregulated local exchange services and VoIP services (including calling features), long distance services (including prepaid calling cards), Internet access services, white page directories, directory assistance, and operator services.
[12] Other complaints were distributed as follows: 29% for local exchange and VoIP services, 23% for Internet access services, 16% for long distance services, and 1% for other services (CCTS 2008).
[13] "Smartphone" is commonly used to designate a cellphone with information access. "It provides digital voice service as well as any combination of e-mail, text messaging, pager, Web access, voice recognition, still and/or video camera, MP3, TV or video player and organizer" (PC Magazine).
[14] Competition in consumer-oriented smartphones is expected to increase, as new products such as the Blackberry Storm are launched (CBC News 2008).
[15] The first smart phone to run on Google's Android mobile operating system was launched in the United States in September 2008; however "Google has no set timetable for bringing an Android-capable phone to Canada" (Hartley 2008b).
[16] Some online retailers are actively targeting mobile consumers; for example, Future Shop offers an application for users to browse and buy Future Shop products directly on BlackBerry phones (Future Shop 2008).
[17] For example, the Royal Bank of Canada and Rogers Wireless are expected to introduce a pilot in mid-2009 allowing consumers to wave and pay for goods at the point of sale using their mobile phone (Bruno-Britz 2008).
[18] For example, in a report on malicious software (malware), the OECD notes that there is some debate on the current seriousness of the malware threats on mobile devices. It adds, however, that "there is also recognition that such threats, while emerging, are quite real". Future issues may include the risk that "undetected malware on a smartphone could get transferred to a corporate network and used to perform further malicious functions". (OECD 2008, p. 14)

OECD has underscored that the use of mobile phones for transactions raises key issues such as problems of limited screen space for adequate disclosure and increased risks of commercial exploitation of minors (OECD 2008b). A more detailed analysis of these and other mobile commerce and payment issues will be provided in an upcoming 2009 Consumer Trends Update.

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