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Consumer Benefits From The Breakup Of AT&T

BY MARTHABUYER
DAILY RECORD COLUMNIST

TELECOM LAW

MARTHA BUYER

Given my line of work, I'm not sure that I can count the number of complaints I've heard suggesting that despite the evolution of the telecommunications industry over the past 20 years, consumers are no better off today than before the Bell system was broken up just over 20 years ago. Many people reminisce fondly about the good old days of making one phone call to resolve a telecommunications problem, rather than the four or five routinely required today to find out whose responsibility it is to solve that pesky phone problem, let alone actually solving it.

As a frequent speaker on this topic, I have done my best to convince naysayers that the changes brought about by divestiture have been for the best. However, absent hard facts, I have often found myself swimming upstream to explain why the complexities that competition brought to the telecommunications marketplace have been beneficial. More often than not, my audience merely glazes over.

However, within the past week, the non-partisan Phoenix Center for Advanced Legal & Economic Public Policy Studies in Washington released a report called "The $10 Billion Benefit of Unbundling: Consumer Surplus Gains from Competitive Pricing Innovations" (http://www.phoenix-center.org/policyb.html).

At last there is a report that provides statistics that backup the position that since the break up of the Bell system, in the aggregate, consumers have saved $10 billion. That's a huge number.

For residential and small business users who have taken advantage of new pricing and packaging of telecommunications services, this breaks down to $429 per household (or small business) per year. This savings has been realized for those residential and small business consumers who have switched from traditional telecommunications service with one carrier for long distance services, where bills were generated based on actual usage, and another carrier for local service, to the newer unlimited local and long distance packages currently offered by the former Regional Bell Operating Companies (RBOCs) and their competitors (Competitive Local Exchange Carriers, or CLECs).

These relatively new unlimited usage options frequently contain additional options including caller ID and voice mail at no additional cost. Taken separately, the parts are much more expensive than the whole, but together the savings in combining these product offerings is significant, thus yielding the $429 per year per household. That isn't chump change. In fact, it's almost enough to compensate consumers for the time spent figuring out who to call when there's a problem.

The savings are largely the result of the innovative technology, pricing and marketing strategies of those carriers that have taken advantage of the opportunities created by the Telecommunications Act of 1996. Among many other things, the Telecom Act has required the Regional Bell Operating Companies to open up their doors to competitors, thus creating, perhaps with a heavy hand, competition on the local level or "last mile."

According to the FCC's Local Telephone Competition report released in December 2003, as of June 30, 2003, CLECs were serving 14.7 percent of the national local services market. Also of interest is the fact that of those local service lines provided by CLECs, only 18 percent are the result of strict resale, with 58 percent provided by some form of unbundled network elements (a topic for an entire separate column). The remaining 24 percent of the CLEC-provided services are operated over local facilities owned by the CLECs.

Absent the provisions of the 1996 Act, this sort of competition would have been nothing short of unthinkable. No start-up company would have had the ability or resources to create its own plant from scratch. Thus, the opportunities created by the existence of CLECs have enabled more customers to gain access to more features for less money. At the most basic level, this is a win.

With the advent of the many flavors of unlimited service packages currently available, the power in the telecommunications marketplace (at least from the perspective of voice services) is slowly shifting from the large long distance providers (including, among many, AT&T, Sprint, and MCI) to the companies that provide local service. Further, as more people invest in wireless phones and services, the big beneficiaries will (again) include the RBOCs, as owners (in total or in part) of wireless carriers Verizon and Cingular among others). With the increasing presence of Voice over Internet Protocol (VoIP, see column from December 2003) services, the traditional long distance providers have been forced to reevaluate — and even recreate — their business models.

The long distance market as we know it is going away. In light of technological and marketing developments, the distance between calling and called parties has become irrelevant. If you doubt this, consider the vast number of call centers for American businesses that are now located in India (local companies that have moved call centers overseas for cheaper labor and seamless implementation include, among others, HSBC).

Not that long ago, the thought of an American company basing a call center thousands of miles and 10 time zones away was unthinkable. Now it's the norm. This arrangement, although not necessarily the best in terms of actual customer service, has saved companies millions of dollars and made heroes out of telecom managers who have both stars and dollar signs in their eyes when they compare labor costs in the United States with those offshore.

Going forward, it's important to remember — no matter how long you're on hold waiting to find who is the right person to fix the noise on your phone line — you are spending less for phone services than you would have in the days before the great AT&T breakup.

Thanks to the FCC's recently released statistics, we can now prove that competition — even government mandated competition — has saved consumers $10 billion. That's a plus in almost every way. Remember that next time you're on hold.

Martha Buyer is an attorney concentrating in the practice of telecommunications law. Her clients range from Fortune 500 companies to small family-owned businesses where she has provided a range of telecommunications consulting and legal services, primarily geared to support corporate end-users working with carriers and equipment providers. Buyer can be contacted at martha@marthabuyer.com.