

# PREPAID PHONES IN THE U.S.: MYTHS, LACK OF CONSUMER KNOWLEDGE BLOCKING WIDER USE

*Prepared for*

New Millennium Research Council

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# Table of Contents

	<u>Page</u>
Background and Purpose .....	2
Executive Summary.....	3
Detailed Findings .....	7
Appendix.....	26

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## Background and Purpose

- This report is based on the findings of a telephone survey conducted by Opinion Research Corporation's CARAVAN omnibus. The survey was conducted among a sample of 1,007 adults (505 men and 502 women) aged 18 and older living in private households in the Continental United States. Interviewing was completed November 21-24, 2008.
- The survey was weighted by four variables: age, sex, geographic region and race to ensure reliable and accurate representation of the total population. The margin of error for surveys with samples of around 1,000 respondents, at the 95% confidence level, is plus or minus three percentage points. Smaller sub-groups in any survey will have larger error margins.

## Executive Summary

Why do so few Americans use prepaid phones?

At a time when Americans are looking closer than ever at their family budgets, the New Millennium Research Council (NMRC) commissioned an Opinion Research Corporation (ORC) survey in an attempt to explore why the U.S. level of prepaid cell phone use is considerably lower than other developed nations where a third or considerably more of consumers opt to go the prepaid route.

The survey of 1,007 Americans found that a combination of consumer uncertainty and myths about prepaid phones may account for the lower level of use in the U.S. Key findings from the national opinion poll include the following:

- About four out of five Americans (79 percent) own a cell phone.
- Fewer than one in 10 (9 percent) of Americans are unfamiliar with “prepaid” cell phones where the consumer pays for the minutes they use. A majority of Americans (86 percent) have heard of or have some familiarity with prepaid cell phones. About one third (32 percent) have owned one in the past, 18 percent have purchased one for someone else and 53 percent say they know someone who has a pre paid phone.
- Of those Americans with cell phones, fewer than one in five (16 percent) have a prepaid phone. Of the balance, 85 percent have “postpaid”/contract-based service where they pay a monthly fee.

## Executive Summary

- Postpaid cell phone use exceeds prepaid use among consumers even though slightly more than half (51 percent) of cell phone owners on a contract plan say they do not use all of their available minutes every month. Nearly one out of five (18 percent) say this happens to them nearly every month, while about one in 10 (11 percent) say this is the case only a few months of the year. Those most likely to not be using all their minutes on a regular basis include more than two thirds (67 percent) of those who are age 65 and over.
- Even though only 16 percent of Americans use prepaid phone services, a much larger percentage would appear to be candidates for doing so. The survey found that 44 percent of Americans speak for 200 minutes a month or less on their cell phone in an average month. When the phone-use “bar” is lowered to an average of 100 minutes per month, there are still about one in three Americans (30 percent) who say they speak for only 0-20 minutes per month (12 percent) or just 21-100 minutes per month (18 percent).
- One reason why postpaid phone use is more prevalent appears to be a lack of awareness about the end of cell phone contract periods and related penalties. Half of cell phone owners with a contract-based phone plan say they know when the cancellation penalty ends, whereas fully 43 percent do not. Awareness of when the cancellation penalty ends varies widely by age. Only 44 percent of those age 18-24 years of age say they know when it ends. This percentage increases to 58 percent among those 25-34 and reaches its peak of 61 percent with those age 35-44. The percentage decreases somewhat to 55 percent for those aged 45-64 and declines sharply to 37 percent among those age 65 and over.

## Executive Summary

- A number of myths about prepaid cell phones appear to contribute to the lower level of usage such cell phones in the U.S. than in other nations:
  - Over half of Americans (51 percent) believe that the following myth is true: “Switching to a prepaid cell phone is expensive because contract-based or postpaid cell phone customers are always under contract and have to pay a cancellation fee whenever they switch carriers.” Only about a third (34 percent) know that this statement is incorrect.
  - Nearly six out of 10 Americans (59 percent) – including 70 percent of 18-24 year olds – mistakenly believe that prepaid phones “are good only for people who rarely, if ever, use their cell phones.” Fewer than a third (32 percent) of respondents knew that this is a myth.
  - Within the margin of error at 42 agree/44 percent disagree, Americans split on the accuracy of this myth: “A contract-based or postpaid cell phone customer with an ‘unlimited’ calling plan is always going to pay LESS than a prepaid customer who pays by the minute.”
  - By a margin of 40-39 percent, more Americans than not mistakenly believe that prepaid phones are only available in “very basic models.”
  - Within the margin of error at 40 percent agree/41 percent disagree, Americans split on the accuracy of this myth: “Prepaid cell phone plans where you pay for the minutes you use always cost MORE per month than contract-based cell phone plans where you pay a monthly fee.”

## Executive Summary

- On the other hand, a majority of Americans understand the following myths for what they are:
  - Over half (53 percent) know that it is untrue that most or all “people only buy prepaid phones for emergency use.”
  - Over half (53 percent) know that it is untrue to say that most or all “people who buy prepaid phones have low income or bad credit - or both.”
  - More than three out of five (62 percent) know that it is untrue that “a prepaid phone only makes sense as a ‘last resort,’ such as when you lose your job.”
  - Half know that it is untrue that “prepaid phones don't get very good reception and only work in certain places.”
  - Almost half (48 percent) know that it is untrue that “you can't get voice mail, text or take photos on a prepaid phone.”

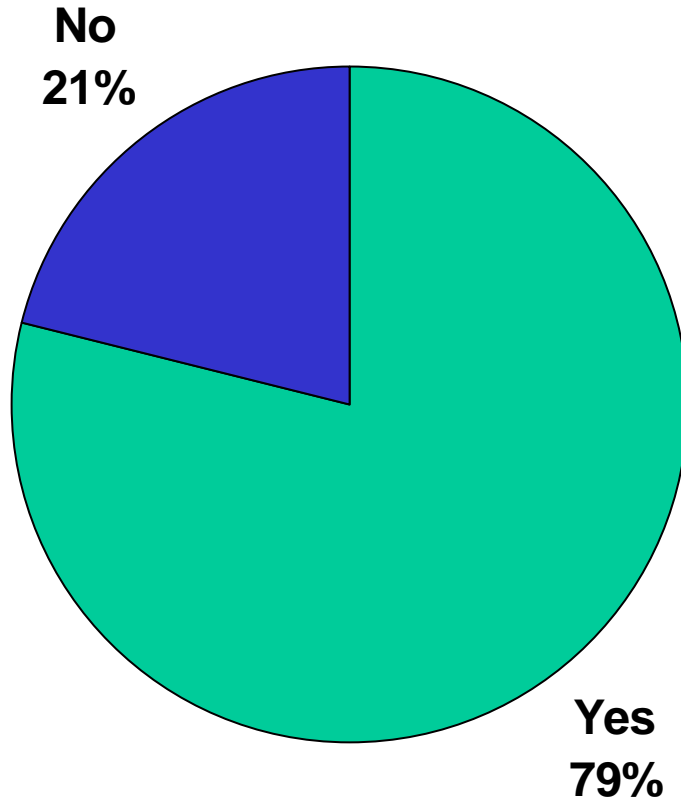
# Detailed Findings

# Cell Phone Ownership

- Most Americans (79%) own a cell phone. Twenty-one percent do not.
  - Women are more likely than men to own a cell phone (82% vs. 75%).
  - Contrary to some preconceptions, younger people are not the most likely to say they own a cell phone. 86% of those age 35-44 have a cell phone compared to 72% of those age 18-24 and 72% of those age 65 and over.
  - Those in the South (83%) are more likely to have a cell phone than those in other regions.
  - Cell phone ownership in households with lower levels of education or income is lower than in households with higher levels of either income or education.
  - Interestingly those in households who live alone are less likely to have a cell phone (65%) than are those in households with two persons (79%) or with three or more persons (82%).

# Cell Phone Ownership

P1: Do you own a cell phone?



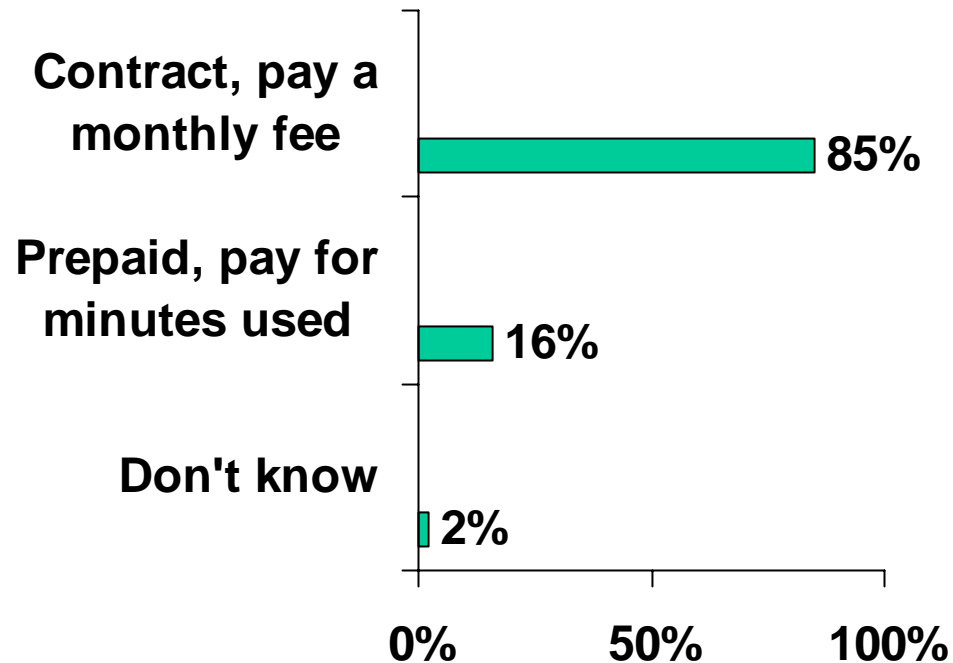
Base = Total respondents, 1,007 adults. Conducted September 21-24, 2008.

# Type of Cell Phone Service

- Most Americans (85%) who have a cell phone have a contract where they pay a monthly fee for use. Only 16% have a prepaid phone where they pay for the minutes they use.
  - Prevalence of a having a contract-based cell phone instead of a prepaid phone is a lot higher in households with incomes of \$75,000 or more (94%). It is also much higher in households where the respondent has a college degree (89%.)
  - Those living in households with three or more people are more likely to have a contract-based phone (88%). Those living alone are more likely to have a prepaid cell phone (21%).

# Type of Cell Phone Service

P2: What kind of cell phone service do you have?



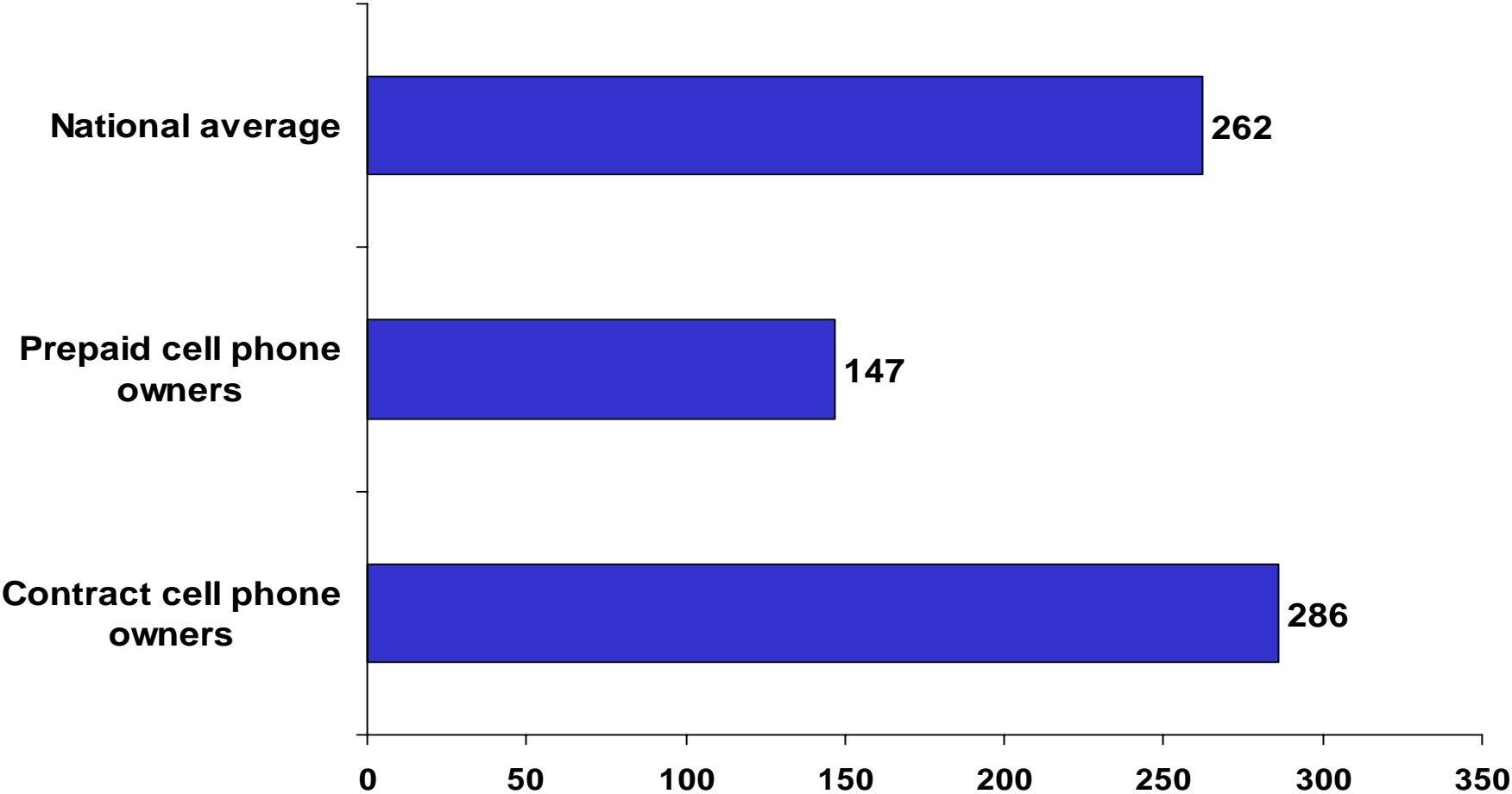
Base = 774 adult cell phone owners. Conducted September 21-24, 2008.

# Average Number of Minutes Used on Cell Phone in a Month

- Americans with cell phones use an average of 262 minutes in a typical month.
  - Those with a contract use a slightly higher monthly average of 286 minutes, while those with pre-paid service use 147.
  - The greatest number of monthly minutes are used by those age 25-34 (345) compared to 326 for those age 18-24 and 121 for those age 65 and over.
  - Households with only one person use an average of 192 minutes per month compared to 289 for households with three or more people.

# Average Number of Cell Phone Minutes Used in a Month

P3: In an average month, how many minutes would you estimate that you use on your cell phone?



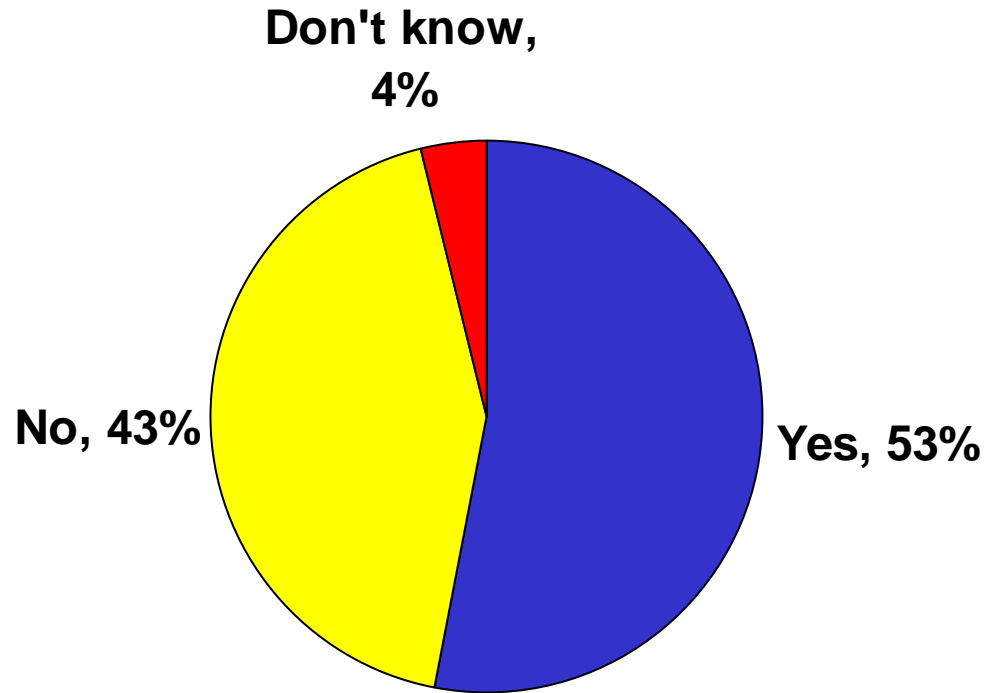
Base = 774 adult cell phone owners. Conducted September 21-24, 2008.

# Know When the Cancellation Penalty Ends?

- Half of cell phone owners with a contract-based phone plan say they know when the cancellation penalty ends. Forty-three percent do not.
  - Awareness of when the cancellation penalty ends varies widely by age. Only 44% of those age 18-24 years of age say they know when it ends. This percentage increases to 58% among those 25-34 and reaches its peak of 61% with those age 35-44. The percentage decreases somewhat to 55% for those aged 45-64 and declines again to 37% among those age 65 and over.
  - Regionally, those in the Northeast are a lot more likely to say they know when the penalty ends (69%), compared to any other region of the country.

# Know When the Cancellation Penalty Ends?

P4: Do you know when the cancellation penalty for your cell phone ends?



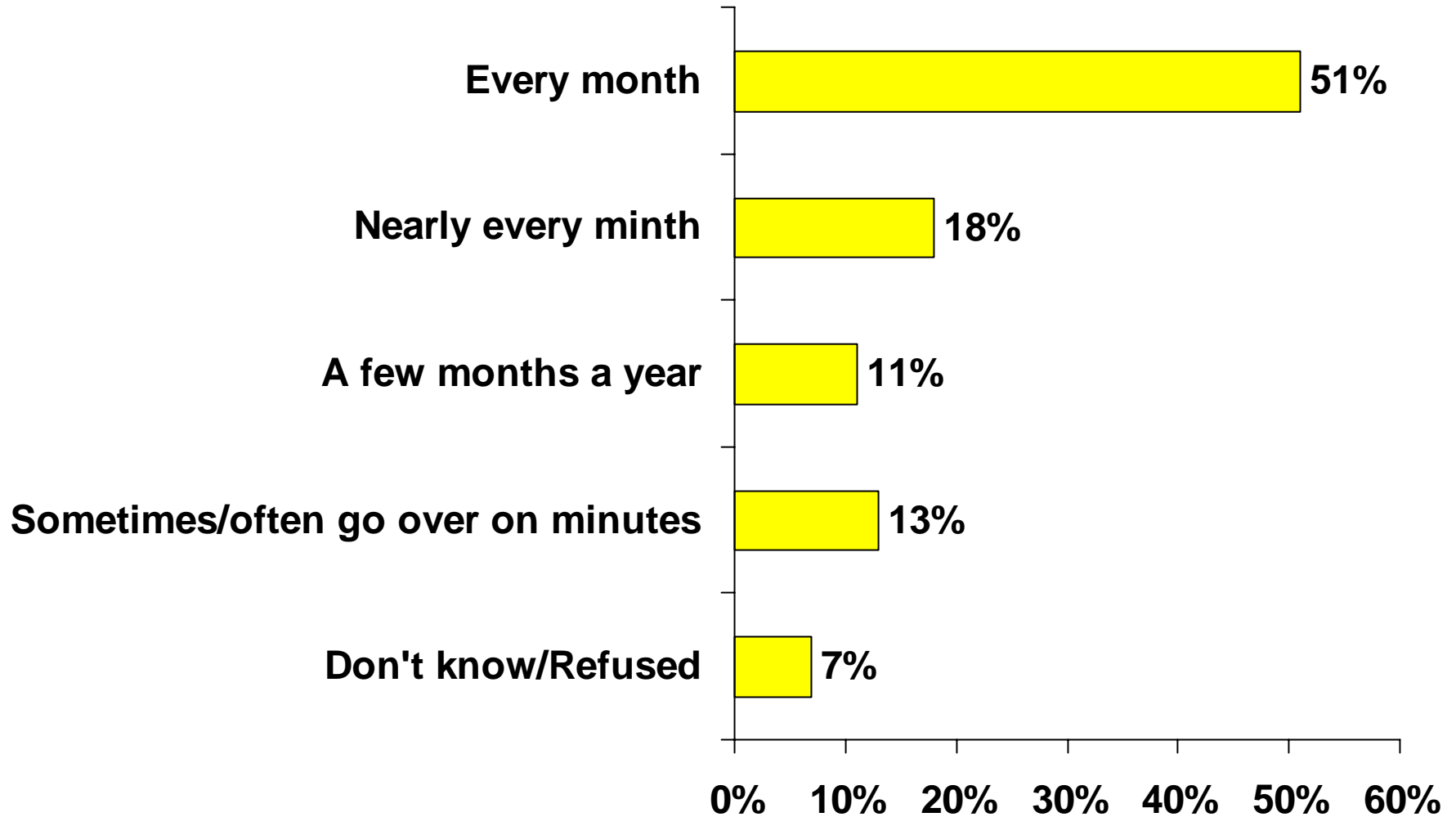
Base = 650 adult cell phone owners who have a contract based phone plan. Conducted September 21-24, 2008.

## How Often All Available Cell Phone Minutes Are Not Used

- Half of cell phone owners on a contract plan (51%) say they do not use all their available minutes every month. Eighteen percent say this happens to them nearly every month, while only 11% say this is the case only a few months of the year. Thirteen percent say they are often or sometimes going over on their minutes each month.
  - Those most likely to not be using all their minutes on a regular basis include those who are age 65 and over (67%).
  - Also, those in the Northeast (63%) are a lot more likely to say they don't use all their minutes on a monthly basis, than any other region of the country.

# How Often All Available Cell Phone Minutes Are Not Used

P5: How often would you say that you do NOT use all of your available cell phone minutes under the plan that you have?



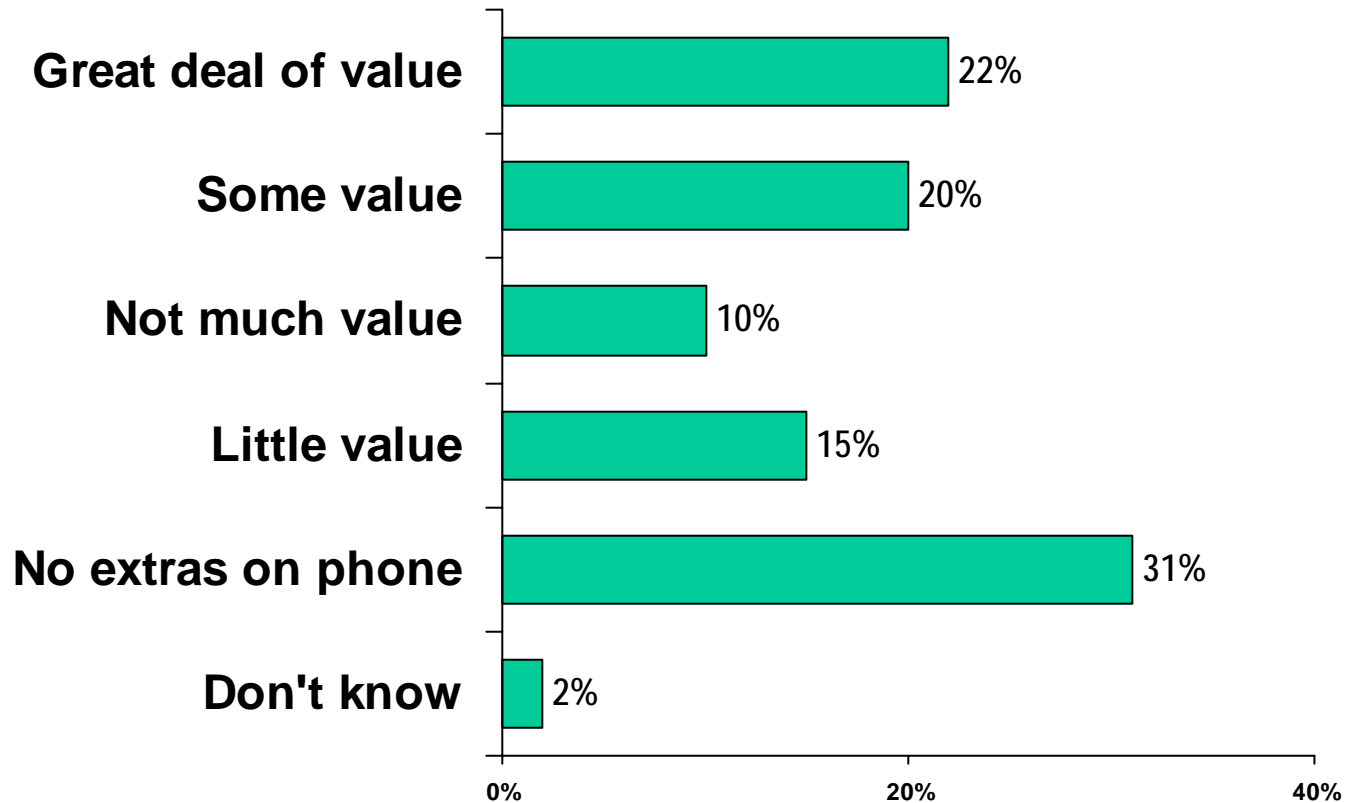
Base = 650 adult cell phone owners who have a contract based phone plan. Conducted September 21-24, 2008.

# The Value of Cell Phone “Extras”

- Four-in-10 (42%) cell phone owners on a contract plan say they cell phone extras that they pay for like texting or internet connectivity have a great deal or some value to them. One-fourth (25%) think these extras have not much or little value. Thirty-one percent don't pay for any extras on their phone.
  - The younger the respondent, the more value they place on these extras. Three-fourths of those age 18-24 said they have a great deal or some value, compared to only 21% of those 65 and over. The perceived value of the extras decreases in direct relation to the respondent's age.
  - Respondents who are 65 years of age and over are the least likely to pay for any extras (44%). Ninety percent of those age 18-24 have these extras on their phone.

# The Value of Cell Phone “Extras”

P6: I want you to think about the “extras” you pay for on your cell phone – such as Internet connectivity, email and texting. Given what you are paying for these extras, how much value do you think you are getting out of them? Would you say…?



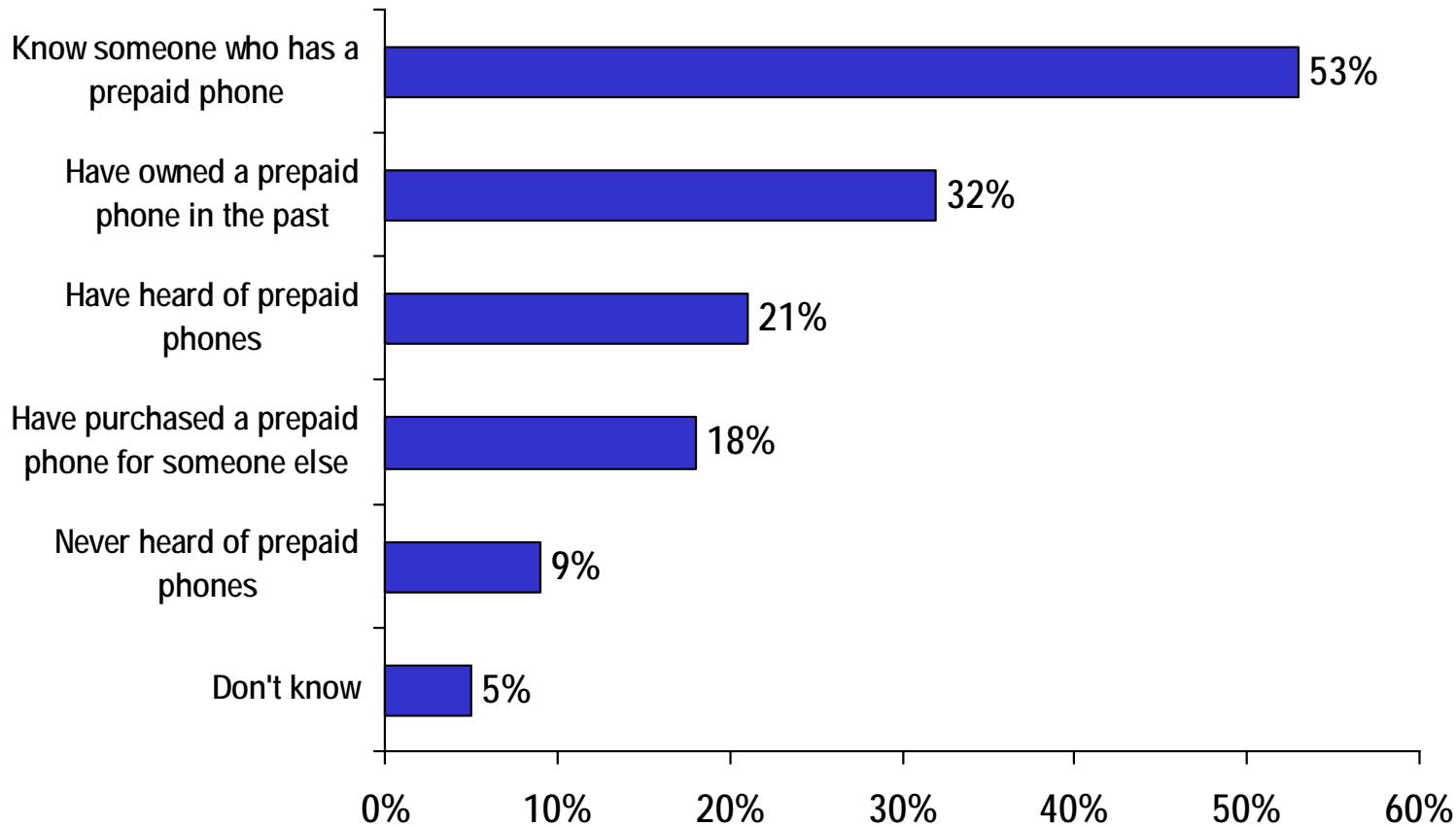
Base = 650 adult cell phone owners who have a contract based phone plan. Conducted September 21-24, 2008.

# Prepaid Phone -- Awareness, Ownership and Familiarity

- A majority of Americans (86%) have heard of or have some familiarity with prepaid cell phones. One-third (32%) have owned one in the past, a fifth (21%) have heard of them, 18% have purchased one for someone else and 53% know someone who has a pre paid phone. Only 9% have never heard of them.
  - Awareness or familiarity with prepaid cell phones is higher among those age 18-24 (96%) than it is among those respondents who are 65 and over (77%).
  - Eighty percent of those who live alone are aware of these phones compared to 90% of those in households with three or more people.
  - Respondents with any children in the household are more likely to be aware of these phones than are those with no children present (91% vs. 83%).

# Prepaid Phones -- Awareness, Ownership and Familiarity

P7: Which if any of these statements describe you?



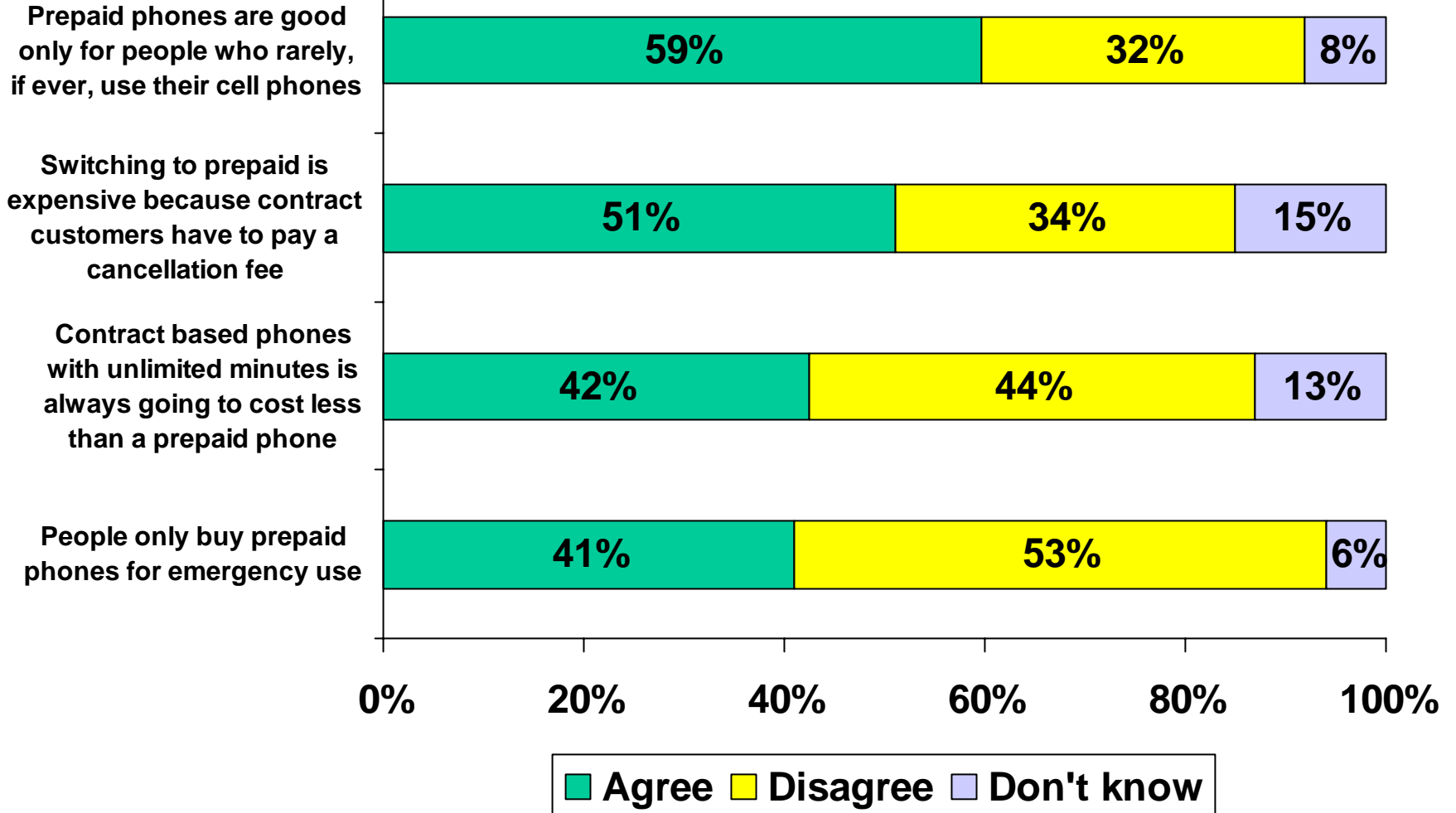
Base = Total respondents, 1,007 adults. Conducted September 21-24, 2008.

# Various Statements About Pre Paid Phones

- All respondents who said they were aware of or had heard of prepaid phones were asked a series of statements about them. Each of the statements is untrue or false and respondents were asked how much they agree or disagree with each.
- More than half (59%) agreed with the statement that prepaid cell phones are good only for those who rarely, if ever use a cell phone, and 51% agreed with the statement that switching from a contract phone to a prepaid phone is expensive because of the cancellation penalty.
- Four in ten agreed with the following statements: contract based phones with unlimited calling plans cost less than prepaid cell phones (42%), people only buy prepaid phones for emergency use (41%), prepaid phones are available only in very basic models (40%), and prepaid phones where you pay for the minutes you use are always more expensive than contract based phones with a monthly fee.
- As shown on the next charts, in some cases a substantial portion of respondents do not know if they agree or disagree with these statements.

# Various Statements About Pre Paid Phones

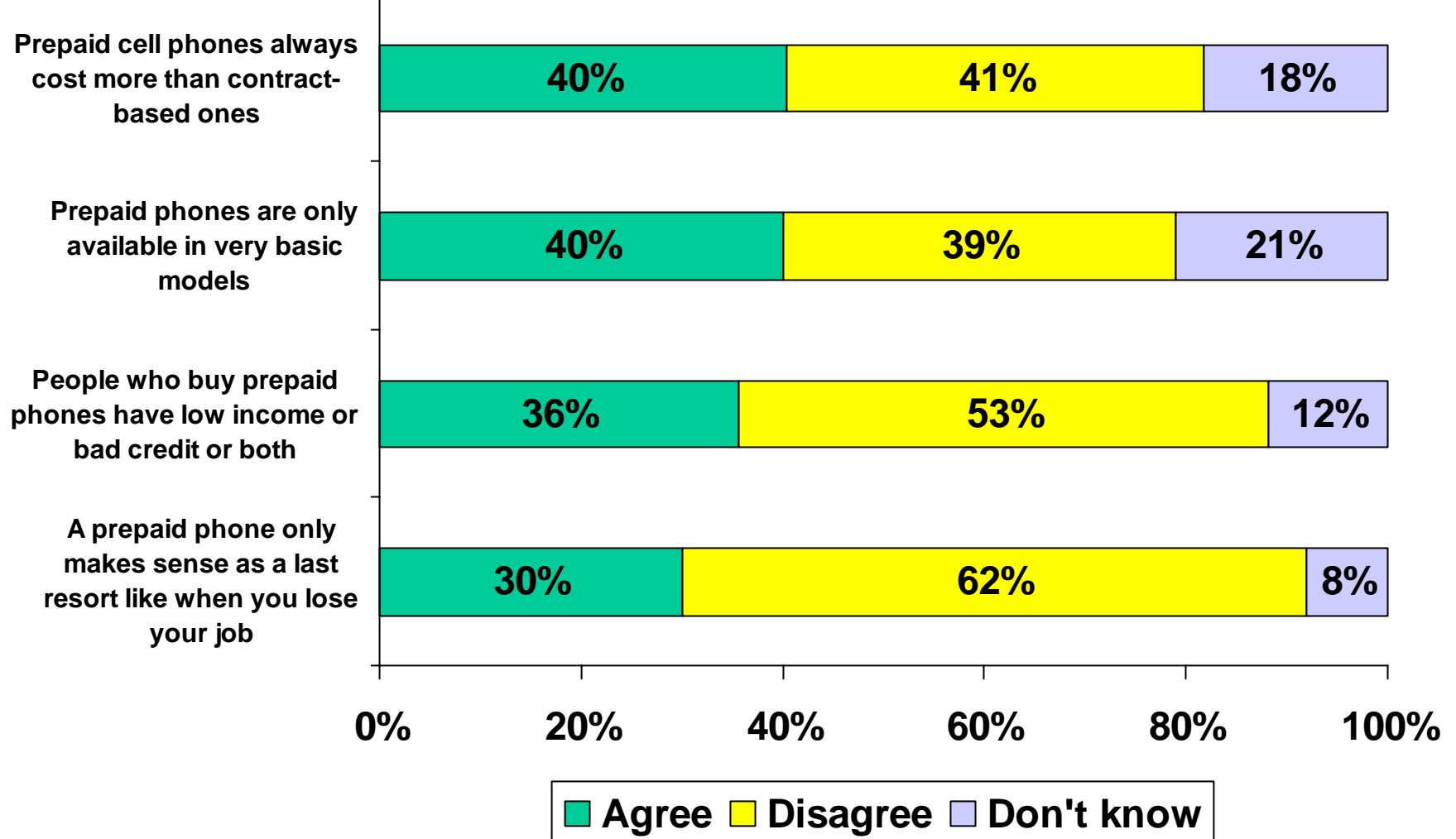
P8: I am going to read you some statements about prepaid cell phones. Please tell me whether you completely agree, agree somewhat, somewhat disagree or completely disagree with each of the following statements.



Base = Those who have heard of prepaid phones, n=907 adults. Conducted September 21-24, 2008.

# Various Statements About Pre Paid Phones

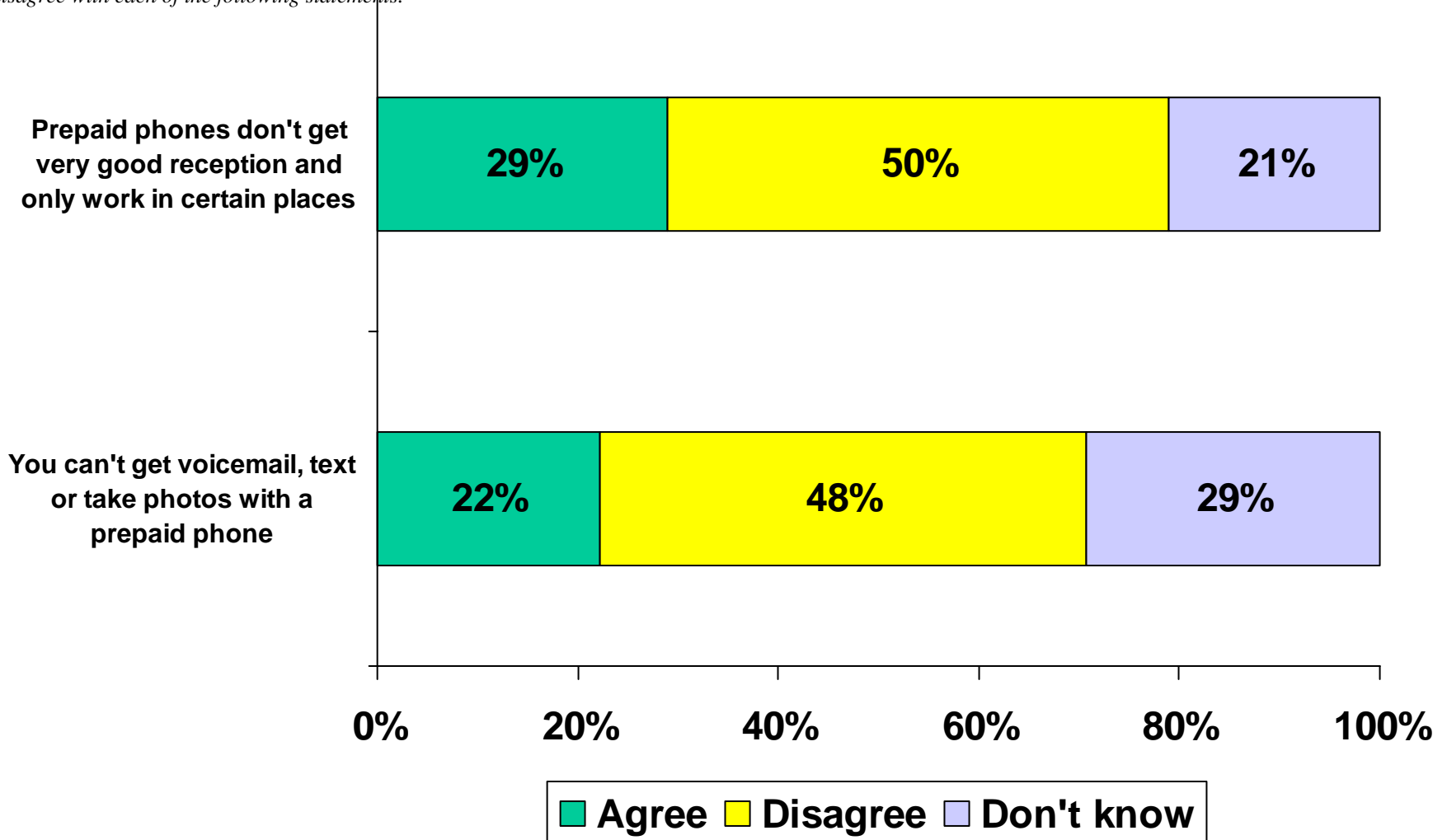
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# APPENDIX

## RELIABILITY OF SURVEY PERCENTAGES

Results of any sample are subject to sampling variation. The magnitude of the variation is measurable and is affected by the number of interviews and the level of the percentages expressing the results.

The table below shows the possible sample variation that applies to percentage results reported herein. The chances are 95 in 100 that a survey result does not vary, plus or minus, by more than the indicated number of percentage points from the result that would be obtained if interviews had been conducted with all persons in the universe represented by the sample.

Size of Sample on Which Survey Results Are Based	Approximate Sampling Tolerances Applicable to Percentages At or Near These Levels				
	<u>10% or 90%</u>	<u>20% or 80%</u>	<u>30% or 70%</u>	<u>40% or 60%</u>	<u>50%</u>
1,000 interviews	2%	2%	3%	3%	3%
500 interviews	3%	4%	4%	4%	4%
250 interviews	4%	5%	6%	6%	6%
100 interviews	6%	8%	9%	10%	10%

### Additional Sampling Tolerances for Samples of 1,000 Interviews

<u>9% or 91%</u> 2%	<u>8% or 92%</u> 2%	<u>7% or 93%</u> 2%	<u>6% or 94%</u> 1%	<u>5% or 95%</u> 1%
<u>4% or 96%</u> 1%	<u>3% or 97%</u> 1%	<u>2% or 98%</u> 1%	<u>1% or 99%</u> 2%	

## SAMPLING TOLERANCES WHEN COMPARING TWO SAMPLES

Tolerances are also involved in the comparison of results from independent parts of the sample. A difference, in other words, must be of at least a certain number of percentage points to be considered statistically significant – that is not due to random chance. The table below is a guide to the sampling tolerances in percentage points applicable to such comparisons, based on a 95% confidence level.

Size of Samples Compared	Differences Required for Significance At or Near These Percentage Levels				
	10% or 90%	20% or 80%	30% or 70%	40% or 60%	50%
1,000 and 1,000	3%	4%	4%	4%	4%
1,000 and 500	3%	4%	5%	5%	5%
1,000 and 250	4%	6%	6%	7%	7%
1,000 and 100	6%	8%	9%	10%	10%
500 and 500	4%	5%	6%	6%	6%
500 and 250	5%	6%	7%	7%	8%
500 and 100	6%	9%	10%	11%	11%
250 and 250	5%	7%	8%	9%	9%
250 and 100	7%	9%	11%	11%	12%
100 and 100	8%	11%	13%	14%	14%

*Topline results of telephone interviews with 1,007 adult Americans, conducted November 21-24, 2008.*

P1 Do you own a cell phone?  
(Weighted Base N= 1,000)

79%	YES
21	NO
--	DON'T KNOW
--	REFUSED

IF OWN A CELL PHONE P1(01), CONTINUE. ALL OTHERS SKIP TO P7.
---

P2 What kind of cell phone service do you have?  
[READ LIST. SELECT AS MANY AS APPLY FOR 01-02. WAIT FOR YES OR NO FOR EACH. RANDOMIZE.]  
(Weighted Base N= 785)

85%	Contract based where you pay a monthly fee
16	Prepaid where you pay for the minutes you use
2	DON'T KNOW
--	REFUSED

P3 In an average MONTH, how many minutes would you estimate that you use on your cell phone?  
[READ LIST. RECORD ONE ANSWER.]

12%	0-20
18	21-100
14	101-200
25	201-500
26	501 or more
5	DON'T KNOW
--	REFUSED

IF HAVE A CONTRACT BASED PHONE P2(01), CONTINUE. ALL OTHERS SKIP TO P7.
--

P4 Do you know when the cancellation penalty for your cell phone ends?  
(Weighted Base N= 666)

53%	YES
43	NO
3	DON'T KNOW
1	REFUSED

P5 How often would you say that you do NOT use all of your available cell phone minutes under the plan that you have?

[READ LIST. RECORD ONE ANSWER.]

51%	Every month
18	Nearly every month
11	Only a few months each year
13	You sometimes or often go over on your minutes
6	DON'T KNOW
1	REFUSED

P6 I want you to think about the “extras” you pay for on your cell phone – such as Internet connectivity, email and texting. Given what you are paying for these extras, how much value do you think you are getting out of them? Would you say...?

[READ LIST. RECORD ONE ANSWER.]

22%	A great deal of value
20	Some value
10	Not much value
15	Little value
31	I DON'T HAVE ANY EXTRAS ON MY PHONE (VOL)
2	DON'T KNOW
--	REFUSED

[ASK EVERYONE]

P7 Which, if any, of these statements describe you?

[READ LIST. RECORD AS MANY AS APPLY FOR 01-03. WAIT FOR YES OR NO FOR EACH]

(Weighted Base N=1,000)

32%	You have owned a prepaid cell phone in the past
18	You have purchased a prepaid cell phone for someone else
53	You know someone who has a prepaid cell phone
21	You have heard of prepaid cell phones
9	You have never heard of prepaid cell phones
4	DON'T KNOW
1	REFUSED

IF HAVE NEVER HEARD OF PREPAID CELL PHONES, P7 [04], SKIP TO NEXT SECTION. ALL OTHERS CONTINUE

P8 I am going to read some statements about prepaid cell phones. Please tell me whether you completely agree, somewhat agree, somewhat disagree, or completely disagree with each of the following statements.

[RANDOMIZE ITEMS]

(Weighted Base N=911)

A People only buy prepaid phones for emergency use

14%	Completely agree
27	Somewhat agree
23	Somewhat disagree
29	Completely disagree
6	DON'T KNOW
--	REFUSED

B Prepaid phones are good only for people who rarely, if ever, use their cell phones

31%	Completely agree
28	Somewhat agree
16	Somewhat disagree
16	Completely disagree
8	DON'T KNOW
1	REFUSED

C People who buy prepaid phones have low income or bad credit – or both

15%	Completely agree
21	Somewhat agree
21	Somewhat disagree
32	Completely disagree
11	DON'T KNOW
1	REFUSED

D Prepaid phones are only available in very basic models

18%	Completely agree
22	Somewhat agree
17	Somewhat disagree
22	Completely disagree
21	DON'T KNOW
1	REFUSED

E A prepaid phone only makes sense as a “last resort,” such as when you lose your job

10% Completely agree  
19 Somewhat agree  
20 Somewhat disagree  
43 Completely disagree  
7 DON'T KNOW  
1 REFUSED

F Switching to a prepaid cell phone is expensive because contract-based or postpaid cell phone customers are always under contract and have to pay a cancellation fee whenever they switch carriers

24% Completely agree  
27 Somewhat agree  
19 Somewhat disagree  
15 Completely disagree  
15 DON'T KNOW  
1 REFUSED

G A contract-based or postpaid cell phone customer with an “unlimited” calling plan is always going to pay LESS than a prepaid customer who pays by the minute

19% Completely agree  
23 Somewhat agree  
24 Somewhat disagree  
20 Completely disagree  
13 DON'T KNOW  
1 REFUSED

H Prepaid phones don't get very good reception and only work in certain places

14% Completely agree  
15 Somewhat agree  
22 Somewhat disagree  
28 Completely disagree  
20 DON'T KNOW  
1 REFUSED

I You can't get voice mail, text or take photos on a prepaid phone

10% Completely agree  
12 Somewhat agree  
18 Somewhat disagree  
30 Completely disagree  
29 DON'T KNOW  
1 REFUSED

J Prepaid cell phone plans where you pay for the minutes you use always cost MORE per month than contract-based cell phone plans where you pay a monthly fee

18%	Completely agree
23	Somewhat agree
23	Somewhat disagree
19	Completely disagree
18	DON'T KNOW
1	REFUSED