

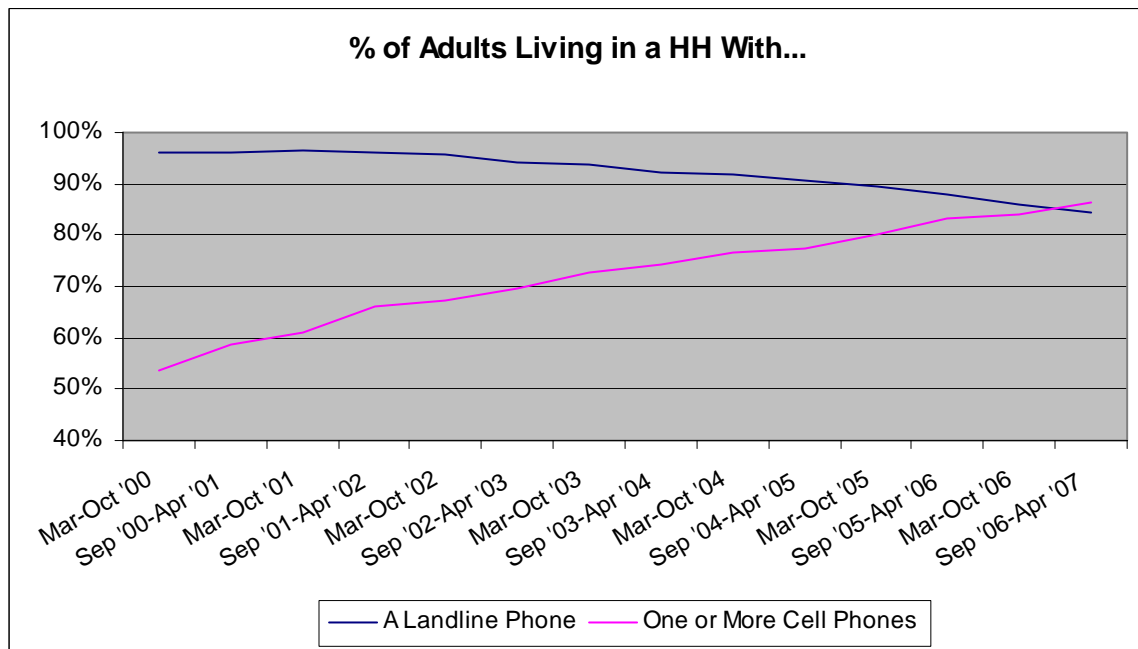
The Birth of a Cellular Nation

By Andy Arthur, V.P. MRI Market Solutions

Sometime between September of last year and April of this year, the United States quietly passed a noteworthy milestone in telecommunications history. That's when the percentage of people living in US households with one or more cellphones (86.2%) first began to exceed the number of people living in households with landlines (84.5%) according to Mediamark Research Inc.

Long-View

Landline and Cellphone Penetration Trends



Source: Mediamark Research Inc. Survey of the American Consumer (Waves 43-56)

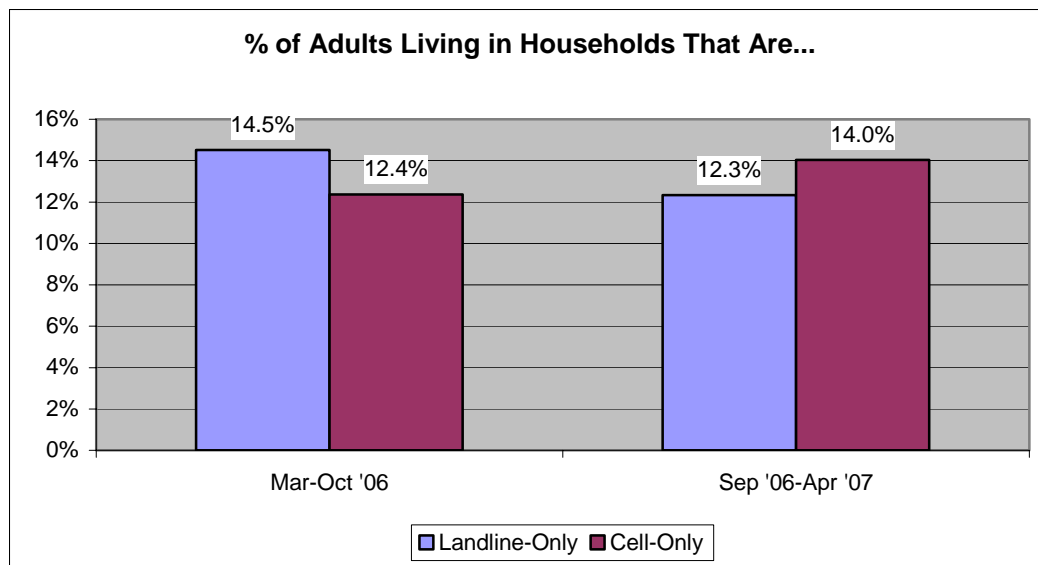
A bit of background: information for MRI's *Survey of the American Consumer* is collected in two survey "waves" per year – one beginning in March, the other in September – each of which includes in-home interviews with approximately 13,000 U.S. adult respondents living in private households. The survey provides trendable data on adult consumers' media choices, product usage, demographics, lifestyle and attitudes.

Because landlines are a household fixture - presumed to be used by the entire household - their presence or absence is addressed at the household level in the MRI survey. Cells, on the other hand, are personal devices, which presents a

difficulty in creating an apples-to-apples comparison between the two technologies. Fortunately, in addition to asking about personal cellphone ownership, MRI asks about the presence of cellphones in the household, and about the number of adults living in the household, providing the elements necessary to determine the number of adults living in households where either, both or neither phone technology is present.

This ongoing trend is being driven by two key segments of the population: the landline-only population and the cell-only population. Both of those groups are changing quickly, *but they are headed in opposite directions*. The landline-only population has been larger than the cell-only population since MRI first began measuring cell-phone use in 2000. This remained true up through the survey wave fielded March-October 2006; in that survey period, the cell-only population was 12.4% of the population, compared to 14.5% who were landline-only. In the most current wave, however, (fielded September 2006-April 2007), those positions were reversed, with the cell-only segment rising to 14.0%, and the landline-only population dropping to 12.3%.

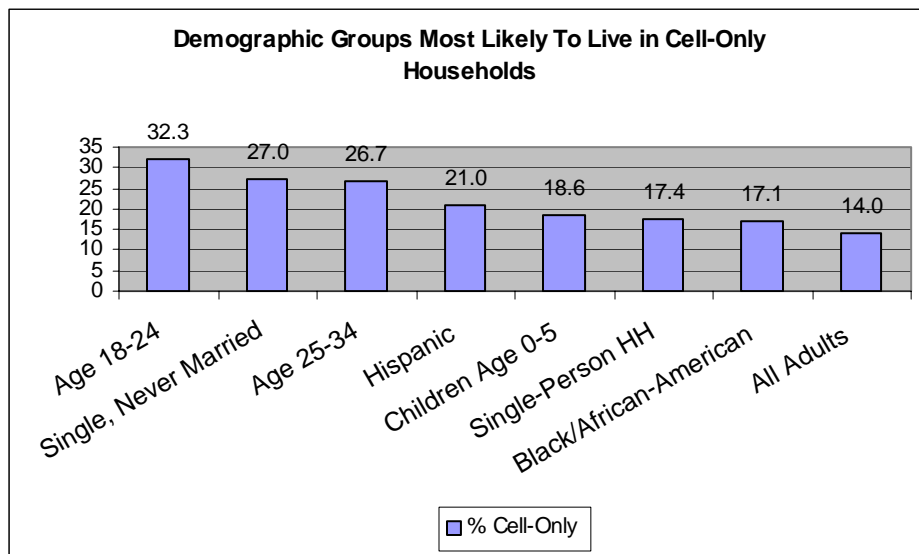
Close-Up
Landline-Only v. Cell-Only, Last 2 Waves



Source: Mediamark Research Inc. Survey of the American Consumer (Waves 55-56)

What’s driving this pivotal change? Young, single consumers, particularly those who live on their own, dominate the growing cell-only population. For instance, 32.3% of 18-24 year-olds live in a household with a cell, but no landline, as do 27.0% of adults who meet the census categorization of “single, never married.” Other notable demographic groups that tend to be cell-only include Hispanic and African-American consumers.

Close-Up
Demographic Groups Most Likely to Be Cell-only



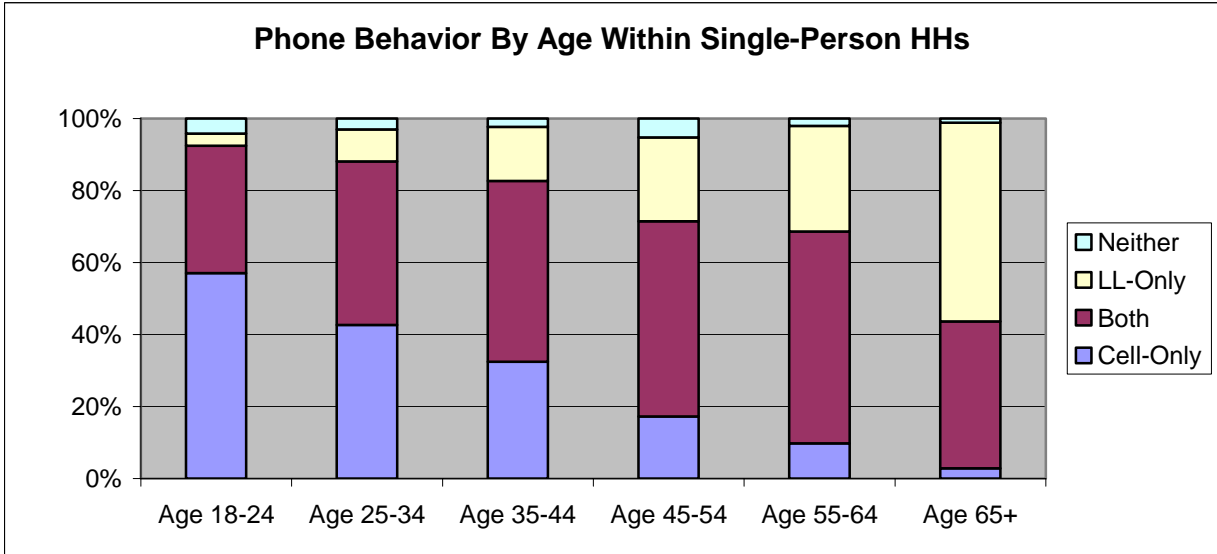
Source: Mediamark Research Inc. Survey of the American Consumer (Wave 56)

A word of caution, however: these groups are not mutually exclusive, and it is therefore possible that a single factor, such as age, might be responsible for the other items on the list. For instance, the median age of the general adult population is 44.8

years, compared to a median age of 39.5 for African-Americans and 36.0 for Hispanics. When we focus on the age 18-24 segment of the population, however, we find that 31.5% of African-Americans aged 18-24 are cell-only, as are 30.5% of Hispanics aged 18-24. But an even higher percentage – 33.2% – of 18-24 year olds who are neither African-American nor Hispanic are cell-only, undermining the argument that these segments are driving the trend. In terms of demographics, age is the underlying driver for the cell-only segment.

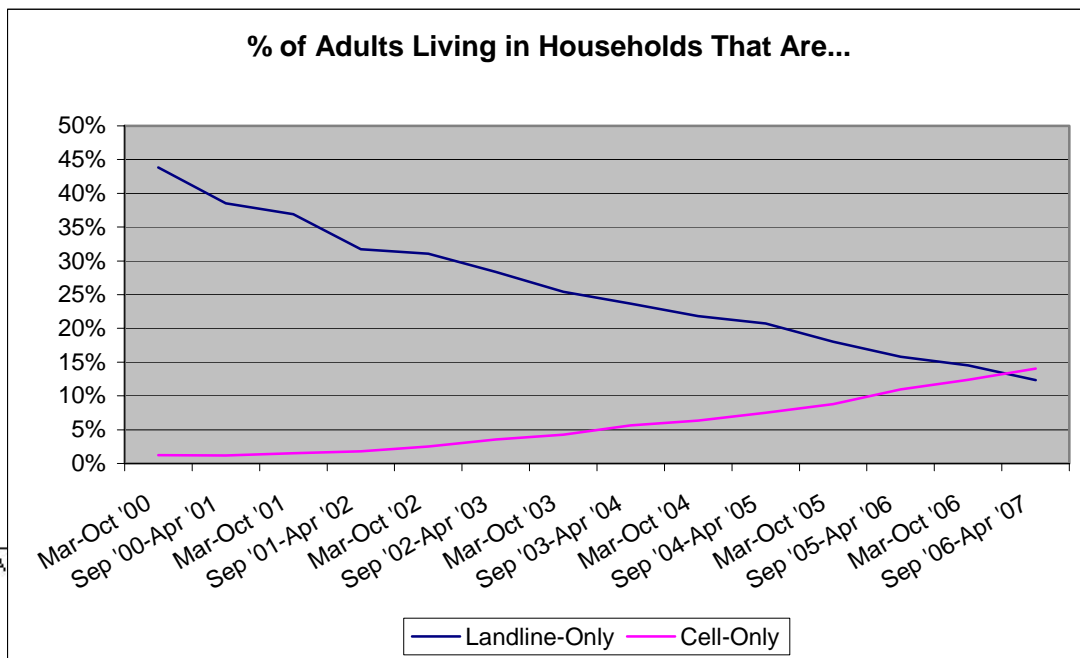
Another key characteristic related to the cell-only lifestyle is the number of people living in the household, particularly in combination with age. Logic would suggest that single-person households would have less need for a landline – and, of course, fewer income-earners to pay for one. In fact, the numbers show a relatively modest correlation: adults living in single-person households are about 24% more likely than the general population to be cell-only. But when you break out single person households by age, the numbers are very striking; in fact, 57.1% of 18-24 year-olds who live in single-person households are now cell-only, making them over 4 times as likely to be cell-only as the average adult.

Drill-Down
Phone Behavior By Age Within Single-Person HHs



Source: Mediamark Research Inc. Survey of the American Consumer (Wave 56)

The increase in the cell-only lifestyle has been remarkable, but in terms of the total population, the sustained rapid decrease in the landline-only population has been more significant. Since the March-October 2000 survey wave, the percentage of adults living in cell-only households has risen from 1.2% of all adults to the current 14.0% – a net increase equating 12.8% of the adult population – while the landline-only percentage has dropped precipitously from 43.9% to 12.3% – a net decrease of ~~27.3%~~ **31.5%**. *In other words, over a quarter almost one-third of the adult population migrated out of the landline-only segment in the space of six years.* But if only 12.8% of these adults went cell-only, what happened to the other 18.7%?



Long-View

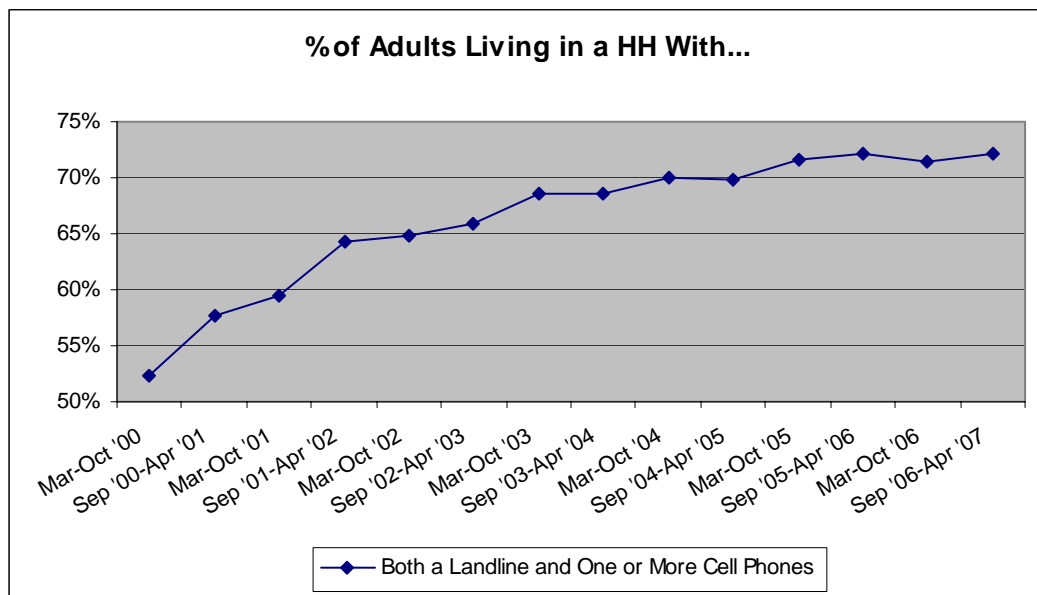
Source: Mediamark Research Inc. Survey of the American Consumer (Waves 43-56)

They didn't abandon phones altogether; rather, they moved into the group that uses *both* landlines and cells. In the latest MRI survey wave, the "phoneless" segment of the population remains small, at 1.4% of all adults, just above half of the 2.6% level measured in March-October 2000. Meanwhile, the group that uses both landlines and cells has grown: since the March-October 2000 wave, the net growth of the "both" group equaled 19.9% of the adult population.

Long View

HHs With Both Landline and Cell Phone

Source: Mediamark Research Inc. Survey of the American Consumer (Waves 43-56)



But over the past two years, that growth has slowed to a crawl, increasing only 0.7%, from 71.5% to 72.2%. The shorter two-year trend hints that the market is reaching a crucial nexus. Over the past two years, the landline-only population has shrunk from 18.0% of adults to 12.3%, a net population decrease of 5.7%; meanwhile, the cell-only population has grown from 8.8% to 14.4%, an analogous increase of ~~5.6%~~ 5.3%. The "both" and "phoneless" segments have meanwhile remained stable.

Over time, the size of the "both" segment may be unsustainable. The segment will be subject, naturally, to a sort of "gravity" related to income and spending: why pay for two devices that perform the same function? The usual justifications for landlines,

such as voice quality and reliability, may prove most attractive to those with higher levels of disposable income. Moving forward, the lowest-income tier of the “both” group, having become accustomed to cellphones, are the most likely to drop their landlines in order to make ends meet. Even now, the “both” segment has over twice the median household income (\$66,638) as the balance of the population (\$30,843), suggesting that this may be happening already.

The last six years can be described as the period in which the mainstream population stopped using landlines *exclusively*, most by adding cell phones alongside their existing landlines. As the landline-only population dwindles, however, its ability to provide new entrants to the “both” segment will inevitably diminish. This sets the stage for one of two medium- to long-term scenarios: either the cell-only group will continue to grow at the expense of the “both” segment, or the cell-only group will flatten. Given the youth of the cell-only segment, the latter seems unlikely.