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Are AT&T Wireless Customers In for a Busy Signal?

In a move to increase market share, AT&T recently introduced its "Digital One Rate" plan that would allow consumers to purchase large blocks of airtime for a flat rate. Prior to the one-rate plan, consumers had to pay for each minute of cellular phone use. Under the new plan, consumers can choose to purchase blocks of airtime per month; 600 minutes for $89.99; 1,000 minutes for $119.99; or 1,400 minutes for $149.99. Anyone exceeding the minutes in their chosen plan is subjected to a charge of $.25 per minute.

How does AT&T's new Digital One Rate plan measure up? Let's look at a hypothetical consumer who switched to the One Rate plan of 600 minutes for $89.99. The consumer pays a flat fee of $89.99, which permits her to make up to 600 minutes in calls at no additional charge. This implies that the relative price of using the cell phone is zero for calls up to 600 minutes. After 600 minutes she must pay $.25 per minute.

This flat-rate plan will likely help AT&T attain its goal of attracting new customers and expanding existing customers' usage of cellular phones. However, as America Online can attest, offering flat rates can backfire. In the late 1990s, AOL experienced a surge in demand when it initiated a flat-rate plan for online use, and as a result thousands of paying AOL users were left with busy signals and no Internet connection. To remedy the capacity problem, AOL had to spend about $350 million to expand its capacity and increase its customer support system.

Will AT&T experience problems like those AOL faced? Probably not. The difference between the two flat-rate plans is that AOL's offer permitted unlimited access to its services, while AT&T's plan limits free calls to a specified number. Our hypothetical customer, for instance, must pay $.25 per minute for phone usage in excess of 600 minutes per month.

Sources: "AT&T Unveils Flat-Rate Plans for Frequent Cell Phone Users," *The Wall Street Journal Interactive Edition*, May 8, 1998; and "AOL Agrees to Reimburse Customers Left Off-Line," *The Wall Street Journal Interactive Edition*, January 29, 1997.