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U.S. text usage hits record despite price increases

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SAN FRANCISCO--Despite a 100 percent price increase over the past couple of years, SMS text messaging usage is exploding in the U.S.

American cell phone subscribers are sending more text messages than ever, according to a [recent survey](#) released here Wednesday by the mobile industry's trade association CTIA. About 75 billion SMS text messages were sent in June, averaging about 2.5 billion messages a day, the report said. This represents an increase of 160 percent over the 28.8 billion messages reported in June 2007.

Short message service, or SMS, text messaging first became popular in Europe and Asia, because it was much cheaper to send these short text messages than make an actual phone call. In countries such as the [Philippines](#), the cost of sending one text is less than one penny. And in Europe where cell phone users are still penalized with high roaming charges between countries, texting is still a more economical form of communication.

But that's not the case in the U.S., which has seen the price of sending and receiving individual text messages [skyrocket 100 percent over the past two years to 20 cents a pop](#). Sprint Nextel was the first to introduce the new 20 cent per text message rate last year. And other major carriers, such as AT&T, Verizon Wireless, and T-Mobile USA, soon followed.

The new wave of price hikes came just one year after all the major carriers raised individual text messaging rates from 10 cents a message to 15 cents per message.



So what's with the 100 percent price hike in two years? Well, there's nothing that has changed in terms of the cost associated with delivering this service. In fact, text messages cost carriers very little to transmit. And when compared with what carriers charge for transmitting other data services, such as music downloads or surfing the Web, the text messaging rates seem exorbitant.

Despite the rising price of texting, U.S. subscribers are using the service more than ever. And the combination of higher prices and heavier volumes of text traffic are driving enormous profits for carriers. In fact, CTIA also reported Wednesday that data services, which primarily consist of text messaging service, generated \$14.8 billion in revenue for the first half of 2008, or accounted for about 20 percent of total mobile carrier revenues. This represents a 40 percent increase over the first half of 2007, when data revenues totaled \$10.5 billion.

The big profits and high price hikes have raised eyebrows among some lawmakers in Washington, D.C. On Tuesday, Sen. Herb Kohl (D-Wis.), who is chairman of the Senate Judiciary Antitrust Subcommittee, [sent letters to Verizon Wireless, AT&T, Sprint-Nextel, and T-Mobile USA](#), expressing concern over the 100 percent increase in texting rates since 2005.

"What is particularly alarming about this industrywide rate increase is that it does not appear to be justified by rising costs in delivering text messages," Kohl's letter said. "Text-messaging files are very small, as the size of text messages are generally limited to 160 characters per message, and therefore cost carriers very little to transmit."

The senator from Wisconsin suggested in his letter that the price hikes are related to industry consolidation, which has reduced competition and put more control in the hands of four major carriers. He also asked all four of these carriers to provide evidence of the factors that led to the price increases.

It will be interesting to see what justification the phone companies come up with for the price hike. But even though the price of the service has increased dramatically, the fact that usage is growing as quickly as it has suggests that the actual 20 cent per message price is not more than the market can bear. Of course, as a consumer it's frustrating to have to pay more for a service that I know costs next to nothing in other countries. It's also frustrating to know that carriers are making big bucks off a service that really costs them nothing to provide. I guess, at least for the moment, mobile operators have found themselves a goose that lays golden eggs.



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