

WHERE HAVE ALL THE PAY PHONES GONE?

The cell phone has transformed our culture. With wireless phones in our pockets and purses, we can be connected to friends and family at almost any time of day or night. That said, is there any need for the pay phone? Or will it end up in machine heaven with the typewriter?

But hold on a minute. Let's not forget 9/11 when cell phone networks got jammed up and thousands of shellshocked New Yorkers stood in line at pay phone terminals all over Manhattan. Nearly a million calls were made from Verizon pay stations over the next 10 days.

Mike Black, D.A. Comp Consulting, outside of Dallas, is a consultant to pay phone service providers (PSPs). "There will always be a pay phone for public communication," said Black. "We need them for emergencies and for the underbanked population who can't afford cell phones."

Despite the ubiquity of cell phones, about half of the US population doesn't own one, according to the Cellular Telecommunications and Internet Association.

There's no doubt, however, there are changes in the wind for the pay phone business.

Pay Phones Concerns

A number of major problems beset the pay phone industry. "Dial-around" calls, the industry term for prepaid phone cards and 800 numbers, are a big issue. "Pay phone owners get 24 cents for a completed call, compensation from the government to offset costs for independents to compete with Regional Bells," said Howard Segermark, executive director of International Prepaid Communications in Washington, DC.

The American Public Communications Council, a Virginia-based trade association representing independent pay phone companies, estimates that up to half of all calls made from pay phones are dial-around calls. Dial-around calls direct the call away from the pay phone's network and enable another company to collect fees. The company that operates the pay phone is compensated 24 cents.

Pay phone owners are lobbying for increased compensation for dial-around to offset their operating expenses, as much as 49 cents per call, as well as losses from theft and vandalism. "It is difficult for owners to make a profit," noted Mike Black. "Not only that, PSPs have difficulty collecting their fair share from prepaid companies and the government. If an 800 call is made today, an owner might not see his money for six months."

To compete with cell phones and cover their costs, pay phone companies have raised prices on calls to 50 cents in many areas and callers are complaining – or calling collect.

Another major problem is regulations. Black said that many “mom and pop” type PSPs are overwhelmed by complicated regulatory paperwork required to collect their compensation from the FCC.

“There are too many regulations and not enough use, especially for long distance,” said Bruce Burke, director of marketing, Just Right Telecom in Salt Lake City, UT. Burke said that all of the regional Bells are getting out of the business, simply because there is not enough money in it and the equipment is expensive to maintain.

Facing extinction?

The first public coin telephone was installed in 1889 by William Gray at a bank in Hartford, CT. It was a “postpay” machine. By 1902, there were 81,000 pay phones in the US. After a century of popularity, Bell South announced on Feb. 2, 2001 that it was getting out of the pay phone business, making it the first major phone company to do so.

Verizon has also announced plans to build Wi-Fi “hotspot” extensions of its broadband service in New York, using existing pay phones as the distribution vehicle. In 2001, Verizon marketing director Bob Elek said his company believed the pay phone industry was alive and viable. “Pay phones are part of the mix, and I don’t think we are ready to abandon any particular form of telecommunication completely,” said Elek. (*Tampa Bay Business Journal*, October 15, 2001).

Recently, a spokesperson for Verizon said the company would upgrade more than 200,000 pay phones in Manhattan to create 802.11b-compliant network nodes for its high-speed subscribers. Supposedly, the move is to lure customers into the burgeoning marketplace for offering wireless Internet access via Wi-Fi. It may be that the service will be a free add-on for its broadband subscribers.

Boosting Revenues

Phone 1 is helping to revive the payphone industry by providing international calling on payphones with coins, ranging from 25 cents to \$1 for up to 10 minutes. Dilowe Barker (pronounced Dial o), COO of Phone 1 in Miami, FL, said, “This product is the biggest revenue booster for the pay phone industry to come down the pipeline in years.”

Thousands of SBC pay phones have been enabled to accept coins for domestic and international calls following the company’s alliance with Phone 1, according to a press release (May 6, 2003) from Phone1Globalwide, Inc.

Through programming and interface platforms, Phone 1 has made it possible for pay phone users to make international calls on over 100,000 pay phones throughout the US. Specially equipped phones with bright yellow handsets and distinctive Phone 1 logo are available in all major national airports.

In a press release (May 28, 2004), Verizon Communications and Phone 1, Inc. announced that callers in upstate New York can make a one-minute call for just 25 cents to many countries when they call from Verizon pay phones. More than 15,000 Verizon pay phones are equipped to handle international direct-dialed calls through an agreement with Phone 1.

Stated in the press release, “Phone 1 has assembled an international calling network that makes worldwide communication easy and affordable,” said Dario Echeverry, president and CEO of Phone1Globalwide, Inc. “This is a service option that will add new value for consumers to the thousands of payphones Verizon operates in New York.”

What’s Next?

“When Bell South announced they were out of the pay phone business, this was one of the biggest de-acquisitionings in history,” said Howard Segermark. “Pay phones are an 80-year old technology maintained by federal rules. Demand has declined, yet the pay phone lobby wants an increase in subsidies.”

Michael Boyle, president and CEO of Elcotel Inc., a Sarasota-based pay phone company, has said that the pay phone industry is a mature, consolidating and shrinking industry. Boyle predicted the US pay phone market will consolidate down to about 1.5 million pay phones. There are still 5.6 million families in the US that don’t have home phones, another reason why there’s still a need for pay phones.

Many of the Bells are selling their pay phones to smaller PSPs. One company paid \$300 apiece for pay phones from Bell South, expecting healthy profits in prime locations.

As of April 1, PSPs will collect revenues directly from switch-based retailers like Just Right Telecom. “This is a boon for us, because we actually know how many calls were completed, not the FCC or the prepaid companies,” said Burke. He believes that pay phones will become a different “animal.” It will look different, connect differently, and use a different pay system, probably a type of debit card.”

Meanwhile, PSPs are cutting costs by buying cheaper line time from resellers. They are also getting advice from consultants on how to maximize their revenues. One such idea is a Web-enabled pay phone with full-color screens that lets travelers check e-mail, get stock quotes, and local entertainment and dining information.

There are many ways to add on value and reinvent the pay phone, but new technology costs money. Will lack of funds doom the business?

Dilowe Barker takes a sanguine view, noting, “Pay phones are still the greatest and most convenient form of communication for the immigrant population, the credit challenged, and cell phone users with drained batteries.”

