

Altman Vilandrie & Company In The News

Prepaid Plans Shake Up Wireless Industry

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As wireless carriers start reporting first-quarter results this week, investors will be looking at the effects of some spectacular price cuts for prepaid cell phone service.

That's a change from recent years, when flashy new phones and data services hogged the spotlight. This year, the developments have been more appropriate for a recession: People who are least able to pay are getting cheaper service.

In traditional prepaid service, which generally has been marketed to people with iffy credit, customers buy minutes in advance, and often are charged a fee for each day they use the phone.

The big change this year has been the rise of prepaid plans with no limit on the minutes used.

In January, Sprint Nextel Corp. made a bold move to capture a larger share of the prepaid market, launching a service with unlimited calling, texting and Web access for \$50 per month under its Boost Mobile brand.

The plan was partly a response to MetroPCS Communications Inc. and Leap Wireless International Inc., two upstarts building their own wireless networks. In the last few months, they've expanded into New York, Boston, Philadelphia and Chicago with unlimited plans that cost around \$50 a month, depending on the options.

Sprint's price cut left Virgin Mobile USA Inc., another big player in prepaid, in an untenable position with its \$80 per month unlimited plan. This month Virgin Mobile said it would slash its product to \$50.

This is a contrast to the situation a year ago, when the four national carriers AT&T Inc., Verizon Wireless, Sprint and T-Mobile USA offered unlimited service at about \$100 a month on their "postpaid" plans, the kind used by subscribers who sign contracts, usually for two years.

Because of the rise of more attractive prepaid plans, the recession, and the fact that nearly everyone who can afford postpaid service already has a cell phone, analysts expect carriers this year to add more prepaying customers than contract subscribers for the first time ever.

The major carriers have approached prepaid service in different ways.

Sprint has dealt the best with the challenge posed by MetroPCS and Leap, said Rory Altman, director at telecommunications consulting firm Altman & Vilandrie. By using Boost as a "flanker brand" with a lower price, Sprint still leaves room to sell higher-margin postpaid service under the Sprint brand.

Since the Boost launch in January, six new users have transferred their numbers to Boost for every one that has moved away from Boost.