

Altman Vilandrie & Company In The News

Prepaid Cell Phone Companies Heading For Showdown

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By Jon Chesto
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Matt Carter is gearing up for a street fight in Boston. The president of Sprint Nextel's Boost Mobile division lives in California now, but he's quite familiar with this area, having grown up in Dorchester. And he knows that MetroPCS will be a tough adversary on his old turf.

Carter comes to this fight armed with a powerful weapon: a \$50- per-month plan for unlimited talking and texting, with no contract required.

The showdown between MetroPCS and Boost is the latest example of a rapid evolution in the prepaid mobile phone industry. After years of focusing on kids and people with iffy credit, the prepaid industry is going mainstream.

The industry had been dominated by brands such as TracFone and Virgin Mobile that specialized in pay-as-you-go service and targeted young, urban consumers. But upstarts MetroPCS and Leap Wireless' Cricket service rapidly gained market share in the past year by offering unlimited monthly plans, undercutting the postpaid cell phone carriers' all-inclusive offerings.

While Leap Wireless' Cricket service won't land in Boston anytime soon, rival MetroPCS steadily built out its own antenna network here in the last two years. Richardson, Texas-based MetroPCS began actively selling its plans in the Boston market in February, opening eight corporate-operated stores in the region and numerous licensed dealers.

Bruce Martin, general manager for the company's Greater Boston operations, says he has been encouraged by the reception MetroPCS has received here so far. He says the company's \$40-per-month plan for unlimited phone service has persuaded many Boston-area customers to drop their old cell phone service or Verizon landlines. The days of prepaid users being forced to talk on cheapo phones are over. MetroPCS phone prices can range up to \$350 for a Samsung Finesse with an Internet browser, MP3 player and camera.

The MetroPCS coverage map includes densely populated urban areas such as Boston, Providence, Brockton and Worcester. But travelers heading down Route 3 toward the Cape could hit radio silence not much farther south than Hingham. Martin says the company will continue to fill gaps in its coverage in the Boston market this year by installing new antennas.

Over at Boost's headquarters in Irvine, Calif., Matt Carter can counter with a much more comprehensive coverage map in New England that piggybacks on the legacy Nextel system that Sprint already owns. Like MetroPCS phones, Boost devices now resemble those marketed by traditional cell carriers. That change, Carter says, has helped erase the stigma that once existed with prepaid service. He also says he shifted Boost's marketing efforts from a hip-hop- focused image to a more broader approach since becoming president last year.

Boost primarily sells its phones through electronics retailers such as RadioShack and Best Buy, but a spokesman says the company plans to open its first store to exclusively sell Boost phones in the Boston market this summer.

The most important recent change for Boost, however, was its nationwide launch of that \$50 unlimited monthly plan in January - a move that has made waves among prepaid and postpaid cell phone

companies. Christopher Collins, a consumer research analyst at Yankee Group in Boston, says Sprint made the move after realizing it could use its Boost subsidiary to compensate for its namesake brand's lackluster growth.

The recession also played a key role in the prepaid industry's rising fortunes. Sure, more people have credit problems that make it tough to sign up for a two-year contract. But even folks who are doing relatively well financially are exploring ways to pare down their monthly bills - and grabbing an unlimited plan with Boost or MetroPCS is one way to do that.

Collins says a prepaid phone's biggest advantage is its flexibility: It's easy for you to move among plans from month to month, depending on your financial situation. He says the biggest disadvantage is the limited access to top wireless devices: You still need up-front contracts, for example, to buy the iPhone or BlackBerry Storm.

Despite their widening acceptance, telecom consultant Michael Grossi says he expects prepaid plans will continue to be more dominant in urban areas and slow to move into wealthy suburbs. But Grossi, director at Altman Vilandrie & Co. in Boston, says he still sees strong growth potential for the prepaid providers outside major cities now that they are no longer considered to be the "dirty laundry" of the cellular industry.

Grossi predicts 2009 will be a banner year for the prepaid cell phone industry. He says the newfound success of the prepaid players could lead to some consolidation - either a Leap-MetroPCS merger or another acquisition - sometime before the end of the year.

It wasn't that long ago when traditional landline companies started to watch their monopolies erode as consumers cut the cord for good and signed up for cell phone contracts. Now, it's those major cellular carriers that are getting worried as they watch prepaid cell companies gain market share. Through it all, the telecoms try to outdo each other with more competitive prices and options.

This MetroPCS-Boost street fight is a welcome showdown. Guess who benefits most from this kind of street fight? You do.

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