

No-Frills TracFone Dominates Prepaid Cell Market-America Movil Unit, Targeting the Low End, Adds Customers Wary of Contracts to Pay-As-You-Go Mobile Service

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As wireless providers push pay-as-you-go service with splashy advertising campaigns and new pricing plans, it's easy to forget the market leader, TracFone Wireless Inc.

TracFone, a unit of America Movil SA and the fifth-largest U.S. mobile operator, is the silent giant in the prepaid market. It offers limited customer care and does almost no marketing, and its financial results are folded into the parent company. Still, TracFone has been able to attract more than 10 million customers in the U.S. through a wide distribution network, making it the envy of other prepaid service providers.

As more consumers take to prepaid service -- which doesn't require credit checks, lengthy contracts or the obligation to buy a certain number of minutes -- TracFone finds itself in an enviable position. It has a lock on the Hispanic market, which other operators have failed to attract, and serves customers on such a low end of the spectrum that other players are afraid to follow.

"TracFone's belief is that there's plenty on the low end for them to target," said Michael Grossi, a director for consulting firm Altman Vilandrie & Co. LLC. "They've concocted a business model and carrier economics that allow them to be competitive in that space."

TracFone's customer growth doesn't show any signs of slowing down as more people seek a cheaper alternative to traditional contract wireless service. Its customer additions even outstripped two of the major carriers. TracFone added 743,000 customers in the fourth quarter, 100,000 more than Deutsche Telekom AG's T-Mobile USA and far better than the 1.3 million subscribers lost by Sprint Nextel Corp.

"Half of all cellphone owners are buying minutes they're never going to use," said Derek Hewitt, senior vice president of marketing for TracFone. "We're better positioned to help than other people."

While many look to Apple Inc.'s iPhone as a catalyst for AT&T Inc.'s subscriber growth, TracFone has actually contributed to the telecom giant's increasing mix of prepaid customers. Because TracFone buys wireless minutes from AT&T and resells them, its customers are counted under AT&T.

In comparison to TracFone's 10 million customers, Virgin Mobile USA Inc. -- often held up as the gold standard for prepaid service -- had 5.2 million at the end of the third quarter. MetroPCS Inc. and Leap Wireless International Inc., which both offer unlimited regional calls for a flat rate, combine for a little more than eight million customers.

TracFone offers cheap, often-refurbished cellphones that are meant to be disposable.

On a per-minute basis, TracFone's rates are actually slightly higher than other prepaid services, but it is easier to get started. For \$20, a consumer can get a phone and 120 minutes of talk time, with phones as cheap as \$10. The more minutes a person buys, the cheaper the rate. The average monthly revenue per user is around \$12.

It's a business model that other prepaid service providers can't -- or won't -- match. Leap, MetroPCS and Virgin are afraid to dive that low into the market, preferring to stick with prepaid unlimited calling plans

that are pricier. "Other prepaid carriers like Virgin and Leap have been reluctant to go there and chase them down-market because of the impact on their prices," said Mr. Grossi.

Leap and MetroPCS offer monthly plans in the \$50 range. Sprint's Boost Mobile, which recently launched a noncontract, unlimited-everything plan for \$50, is also unlikely to lower its prices. Virgin's monthly average revenue per user was \$20.19 as of the third quarter.

TracFone customers mostly use the service for phone calls and limited text messages, so there is limited opportunity to generate additional revenue through data services.

TracFone phones and prepaid calling cards are sold at Wal-Mart Stores Inc., Target Corp. and RadioShack Corp. stores, along with drug stores and other local retail outlets.

The wide distribution specifically targets poorer communities and relies on word of mouth rather than costly ad campaigns. It's how TracFone has succeeded where others have failed. The road is littered with shuttered businesses that also tried to tap the Hispanic market, including Movida Communications Inc., Dexa Wireless Inc., IDT Corp.'s TuYo, and Viva Liberty.

Looking ahead, TracFone has a potential growth driver in SafeLink Wireless, a government program that provides low-income households with free mobile service. Last month, TracFone launched SafeLink in New York, and the wireless provider said that could result in as many as 1.5 million households in the region getting the service.

TracFone is firmly entrenched in the lowest end of the market, and doesn't appear to aspire to move higher.

"I'm of the belief that TracFone will remain squarely in that low-end market because of how they're sold and where they're sold," Mr. Grossi said. "Arguably, they can gain a lot more share, particularly given the economy."