

Falling Prices for Prepaid Cell Phone Service Dominates Wireless Market

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NEW YORK (AP) - 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 at a time.

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.

The plan might be working: Since the Boost launch in January, six new users have transferred their numbers to Boost for every one that has moved from Boost to another carrier.

Analyst Craig Moffett at Sanford Bernstein expects Sprint to report adding 300,000 prepaid customers when it announces first-quarter results on May 4. At the beginning of the quarter, he was expecting to see a loss of 275,000. Christopher King at Stifel Nicolaus believes Boost may have added as many as 1 million subscribers.

Neither one expects the new Boost subscribers to completely make up for continued losses in Sprint's postpaid base. Moffett expects Sprint to report a loss of 1.2 million contract subscribers.

But the performance would still be better than recent quarters, which have seen Sprint bleed money and cut thousands of jobs. And investors have taken note -- Sprint's stock has risen 55 percent since the unlimited plan was introduced.

Rival T-Mobile USA has introduced a \$50 unlimited postpaid plan, but only for longtime customers. Such "retention offers" usually turn into "acquisition offers," Altman said, meaning he believes T-Mobile will eventually use it to lure new customers.

The question then would be how the two largest carriers, AT&T and Verizon Wireless, will react. Neither has directly moved to counter the inexpensive unlimited prepaid plans, and they're fighting over a shrinking pool of potential customers. Analysts expect the four major carriers to show that they added just 1 million postpaid customers combined in the first quarter.

Meanwhile, prepaid has more room to grow. MetroPCS has already reported adding 684,000 subscribers in the first quarter, for a total of 6.1 million. More than 10 million people have unlimited-calling prepaid plans, and analyst Scott Pope at First Analysis Securities believes the potential market is about 45 million to 60 million people.

Options for Verizon Wireless and AT&T include creating their own "flanker brands," or simply acquiring MetroPCS or Leap, Altman believes. The acquisition strategy would mainly be an option for Verizon Wireless, because its network is at least partly compatible with those of the upstarts.

AT&T is, indirectly, the biggest player in prepaid. It has a minor prepaid service of its own, but also sells wholesale minutes to America Movil SA, the Mexico-based parent of U.S. prepaid service Tracfone. Tracfone had 11.2 million subscribers at the end of last year. They pay by the minute, and spend an average of \$10 per month.

For consumers, all this attention on prepaid plans is positive, though the services have some downsides.

There are fewer handsets to choose from on a prepaid plan, and hardly any "smart" phones. The phones that are available often are more expensive, because they're either not subsidized by the carrier, or are subsidized less.

But after a few months of cheaper cell service, a prepaid plan comes out ahead in most cases.