

There was a lot of hype surrounding the new postpaid MVNOs targeting the upscale market with unique content and applications. However, the postpaid MVNOs soon found they were chasing a group of customers targeted by the major carriers. Most of the customers these MVNOs are trying to attract are already committed to the major carriers by long-term contracts. The new MVNOs are finding it difficult to compete against the national carriers, which have big marketing budgets and established distribution channels. Low-cost, no-frills MVNOs like Virgin Mobile, TracFone and Boost Mobile, which cater to the lower-end prepaid market are succeeding much better than the new MVNOs pursuing the big-spending customers. TracFone originally targeted the Latin American community, while Virgin Mobile targeted the youth market. The average ARPU of prepaid MVNOs is much lower than the industry average, but their costs are lower, and they do not have to worry about collecting their revenue. These companies have mass-market distribution channels as well as online sites. They may be able to survive on low ARPUs because of their low costs.

MVNOs targeting the youth market face increased competition from traditional providers that are marketing family plans featuring free calling within the network and charge relatively small incremental fees for additional family users. Nearly half the wireless users in the 18-to-24 year-old age group are on their parents' family plans.

With penetration reaching the saturation point, the major carriers are always looking for ways to attract new customers. They watch the new services offered by the MVNOs and quickly provide similar services, as was the case with Verizon Wireless offering a child-tracking service similar to the one offered by Disney Mobile.

Despite the travails many MVNOs have experienced, there are new companies entering still the market. Sprint Nextel's WiMAX deal with Clearwire enables the creation of MVNOs by Comcast, Time Warner and Bright House Networks, allowing these cable companies to add wireless communications to their service bundles. Additionally, at the end of July 2008 a new low-end MVNO called Trumpet Mobile announced that its products will be available at 6,000 Walgreen stores. The service, which runs on Sprint Nextel's network, is prepaid, with a cost of 10 cents a minute.

## Prepaid Wireless

Prepaid cellular service is a growing segment of the wireless industry, with more than 40 million subscribers in 2008, comprising 17 percent of all wireless subscribers. Prepaid wireless is popular because it requires no long-term contract, no activation or termination fees, and no credit check. Carriers are making prepaid plans more attractive by enhancing service, lowering price and adding phones.

The major wireless carriers initially concentrated on postpaid customers because they have a higher ARPU than prepaid customers. Additionally, since they have to

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sign contracts of a year or more, postpaid customers have a much lower churn rate than prepaid customers, whose commitment lasts only as long as the number of minutes they purchased. With the wireless subscriber base approaching saturation, however, carriers are turning to the prepaid market as an additional source of revenue. Carriers also hope that by introducing customers to wireless through the prepaid platform, they can encourage them to migrate to the more lucrative postpaid model. Price per minute is higher for prepaid plans than for postpaid plans, but postpaid subscribers use more minutes, making their monthly spending higher. Although ARPU is lower for prepaid customers, carriers spend less to acquire and service prepaid customers than to acquire and service postpaid customers.

Originally, prepaid wireless was used primarily by members of demographic groups such as immigrants and ethnic groups who did not have the credit history required for a postpaid contract. The market has undergone a transformation, with more businesses and individuals turning to prepaid as a means of controlling costs. Parents are an important segment of the market, since they can control the cost of their children's wireless service. Light users and those who use cellular phones only for emergency purposes are additional significant market segments, as are senior citizens and others who are new to the wireless market. Prepaid plans can be cheaper than postpaid plans for those who use wireless phones on a limited basis. Service can be initiated for as little as \$25. Prepaid plans have no unforeseen surprises for consumers, as all taxes and fees are included in the per-minute price.

In the past, carriers generally provided only a limited number of handsets for the prepaid market. This caused resentment, particularly among young people who did not want to be identified by their cheap prepaid handsets. Carriers are now expanding the variety of handsets available to prepaid subscribers. In addition to the latest phones, carriers are also making all their ringtones and other downloads available to their prepaid customers. Carriers continue to charge more for prepaid phones than for those sold with a contract, as they are reluctant to subsidize phones without a guarantee of long-term use.

TracFone, owned by America Movil, Latin America's largest wireless carrier, is the top U.S. prepaid phone provider, followed by Virgin Mobile and Boost, subsidiaries of Sprint Nextel. All three are MVNOs. In fact, MVNOs service the majority of prepaid customers. Wireless carriers T-Mobile and AT&T are the next largest prepaid providers. Verizon Wireless prepaid subscribership is relatively small.

Many prepaid wireless services are available, each with a different pricing structure and marketing plan. TracFone offers prepaid cards ranging from a 60-minute card for \$19.99 to a 200-minute card for \$39.99. These cards expire in 60 days, but their expiration dates can be extended by purchasing additional cards. TracFone also has a plan suited for occasional users, which offers 400 minutes that can be used for a year for \$99.99. TracFone phones have a display that shows how many minutes are left and when more minutes must be purchased to keep the

account active. TracFone prepaid airtime cards are available online and at more than 60,000 retailers nationwide including Wal-Mart.

Sprint and Nextel were among the first major carriers to market their prepaid plans with their subsidiaries Virgin Mobile and Boost Mobile, respectively, prior to the merger. Virgin Mobile's pricing plans include an 18-cent-a-minute anytime plan with no monthly fee, as well as plans that include a fixed number of minutes ranging from \$14.99 for 100 minutes to \$99.99 for 1,000 anytime minutes and unlimited off-peak minutes as well as unlimited in-network calling. Boost Mobile, which began its nationwide rollout in 2004, also has a number of different plans ranging from the basic plan, which costs 10 cents a minute anytime, to its \$1 a day chat plan, which costs \$1 everyday and includes unlimited nights and weekends, unlimited text messages, unlimited calling to other Boost, Sprint and Nextel subscribers, and 10 cents a minute for all other calls. Boost Mobile also promotes its walkie-talkie service as an add-on for \$1 a day.

Verizon Wireless and Cingular Wireless (now AT&T Mobility) were more cautious in pursuing the prepaid market. That changed in 2005, when both carriers updated their prepaid plans. In February 2005, Verizon Wireless relaunched its FreeUp service, renaming it INpulse, and the company currently has three prepaid plans. The INpulse Core plan, with a 99 cent daily access fee, includes unlimited calling to other Verizon Wireless customers and 10 cents a minute for other calls or for text messages. The INpulse Plus plan, which has a daily access fee of \$1.99, includes unlimited in-network calling, unlimited night minutes and 5 cents for other calls and text messages, while the INpulse Power plan adds unlimited weekend calls and only 2 cents for other calls and text messages for a daily charge of \$2.99. In each of these plans, daily access fees are charged only when the phone is used.

In May 2005, Cingular Wireless (AT&T Mobility) revamped its GoPhone prepaid service with the introduction of two Pay As You Go plans. The basic plan costs 25 cents a minute anytime with no daily charge, while the Unlimited Talk plan includes unlimited calling to other AT&T subscribers and 10 cents a minute for all other calls for a \$1 daily access fee on days the phone is used. AT&T sells cards ranging from \$15 for a 30-day card to \$100 for a 365-day card. As an incentive to keep the plans active, AT&T allows minutes to be carried over if a user purchases another card before the expiration of the first card.

In April 2008, T-Mobile introduced its Pay By The Day plan, which is similar to the plans of its major competitors in that it charges a \$1 access fee when the phone is used and includes unlimited in-network calls and unlimited nighttime calls, with 10 cents a minute for other calls. This new plan is an alternative to the company's standard Pay As You Go plan, which ranges from \$10 for 30 minutes to \$100 for 1,000 minutes.

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