

Wireless data slowly extending to prepaid

BY KELLY HILL

Postpaid customers may take for granted their ability to outfit their phones with jazzy ring tones, flashy wallpaper and nifty games, but prepaid customers historically haven't been offered those luxuries. Increasingly, however, prepaid services are beginning to include a wider selection of downloads and services such as mobile Internet access and multimedia messaging, and analysts expect that customer demand and handset turnover will eventually expand prepaid content offerings even further.

"Prepaid is a payment choice. It is not necessarily indicative of anything else in terms of consumption of services," said Andrew Cole, president of TMNG Strategy, who predicted that as prepaid services expand, they will look ever more similar to postpaid.

Scott Ellison, vice president of wireless and mobile for IDC, noted that up until about three years ago, carriers looked at prepaid customers with the attitude of "if you really want wireless, you're lucky we offer it to you." And, Ellison said, wireless operators "still trumpet the low proportion of prepaid subscribers in their quarterly filings and when they brief Wall Street, sending the message that 'we don't really want them' in terms of they're not ideal"—in spite of the fact that the percentage of prepaid customers in net retail additions is expected to increase as the U.S. wireless market saturates.

That high wireless penetration rate is forcing carriers to take a new look at their prepaid offerings—not just in terms of voice pricing, but in terms of content and the range of available handsets. Though voice is still key to

both postpaid and prepaid customers, a certain niche of prepaid customers—called the "glossy" or the "flashy" side of prepaid by Fedor Smith, director of strategy for Atlantic-ACM—expects to be able to access higher-end services. And these customers, often young users, are likely to use those services heavily, particularly as more functional handsets make their way into the prepaid market.

"Just because they're credit-challenged doesn't mean they're poor," Smith said. While the low-income stereotype may still categorize most prepaid customers, he added, "There are people out there who are willing to pay for those services."

Sprint Nextel Corp.'s Boost Mobile was an early pioneer of offering content, as well as providing its iDEN network push-to-talk service for all Boost Mobile phones for \$1.50 per day of use. Mobile virtual network operator Virgin Mobile USA L.L.C. was another trailblazer whose offerings proved that prepaid customers can and will pay for data content. Alltel Corp. recently announced that it was revamping its prepaid offerings; part of that is to offer high-end phones, including Motorola Inc.'s Razr, to prepaid customers. Leap Wireless International Inc. is planning a launch of CDMA2000 1x EV-DO services later this year that will be available to both its postpaid Cricket and prepaid Jump Mobile customers, and Leap's Fernando Corona, vice president of channel development, said the company wants to differentiate itself by offering "locally relevant" content.

Text messaging is ubiquitous among prepaid offerings, and many prepaid services also offer at least a limited selection of ringtones for download. However, prepaid customers currently cannot access the highest-end services, such as video and full-length music downloads offered by Verizon Wireless and Sprint Nextel Corp. Monthly game subscriptions, a common offering to postpaid customers, also are off the table.

As Scott Ellison of IDC noted, some of the very customers who are most likely to buy rich content—young Hispanics and African Americans—are also significantly more likely to not have a bank account or credit history. He says the industry is still struggling with how to serve these audiences, and how to move beyond simply requiring users to refill their accounts using prepaid cards, which can be eaten up quickly with a few downloads of games or ringtones.

Ellison said that IDC expects increasing growth in hybrid plans in the next few years, which may require some sort of short term commitment from customers, have recurring monthly charges or be linked to a bank account or credit card for payment. He also expected carriers to examine the possibility of extending a small amount of credit to prepaid customers, such as allowing them to go a few dollars over their allotted amount before turning off service.



Prepaid service Jump Mobile uses local artists to create murals that promote its brand in various markets around the country. Jump, which is offered by Leap Wireless International Inc., plans to expand the content available to its customers when Leap begins offering EV-DO service later this year.

However, most prepaid customers are still low-income and low average revenue per user; prepaid service provider Tracfone Wireless Inc., which accounted for nearly a million of Cingular Wireless L.L.C.'s 1.8 million net retail customer additions last quarter, reported that its fourth quarter ARPU for U.S. operations was a mere \$14. And as Leap's Corona put it, "for the most part still, the killer app is voice."

"At the end of the day, the phones are used to talk to your community and text message your community," said Corona. "The data component is growing, but it's still 5- to 10-percent of overall usage." Jump Mobile, he added, is working to provide users with the data services they want, but the basics of wireless communications still "have to be spot on."

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PREPAID CONTENT

	Ringtones	Text messaging	Web browsing	Games	Graphics
Boost Mobile	\$2-3	.10 to send, free to receive	.20 per day	\$2-\$15	\$1.50-\$2
Virgin Mobile USA	\$1.50-\$2.50	.10 to send, free to receive	\$1/day	\$1-\$6	\$1-\$2
Tracfone	\$1.50	.03-.05 to send, free-.05 to receive	N/A	N/A	N/A
GoPhone (Cingular Wireless LLC)	\$2.00-\$2.50	.05 to send or receive	.01 per KB	\$3-\$8	\$2
Jump Mobile	\$2-\$3	free to send and receive	N/A	\$2-\$8	\$1.50-\$2.50

SOURCES: Jump Mobile; Web sites of Boost Mobile, Virgin Mobile USA, Tracfone, Cingular Wireless LLC



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