PREPAID'S NEW CALLING CARD

Data cards redefine the opportunities for no-contract services

By **Martin** Vilaboy

The role played by prepaid in the development and ascent of wireless services has never been fully appreciated. An afterthought for many in the U.S., where it's sometimes considered a market left on the wayside by uninterested tier-one providers, prepaid accounts for about half of all wireless subscribers worldwide. Yet still, even outside the U.S., prepaid remained a back-of-mind issue for most operators up through the early days of 3G deployments.

"The MNOs [mobile network operators] that first launched 3G did not offer a prepaid option," says Declan Lonergan, Yankee Group vice president. "It was postpaid or nothing."

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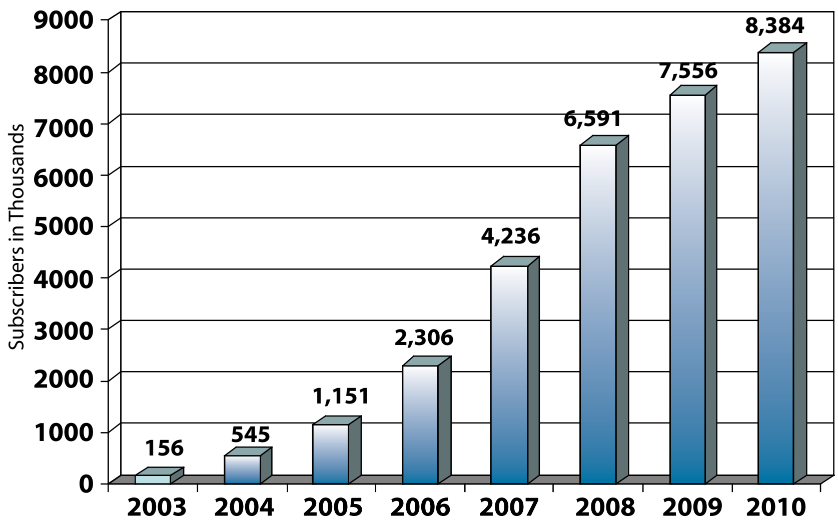

Source: Yankee Group

That all has begun to change during the past few years, as shaky economic conditions forced many types of user groups to re-evaluate lengthy service contracts, while wireless prepaid offerings grew increasingly cost-competitive to postpaid plans. Since the beginning of 2009, for example, mobile prepaid net additions have outpaced postpaid net additions, representing effectively all of first-quarter subscriber growth at mobile operators AT&T and Verizon Wireless.

"With almost 60 million people now on prepaid service," says Dan Schulman, president of Sprint's prepaid group, "the no-contract market has clearly moved beyond the credit-challenged and lower income segments."

Granted, prospects for prepaid mobile voice have been rather limited for channel partners targeting the SMB and enterprise spaces. (For that matter, mobile voice channels overall have been slow to develop.) But the emergence of data services could greatly expand the opportunity to leverage the prepaid model. We can be sure, with the mobile industry looking at a seemingly insatiable appetite for data services, major wireless operators and prepaid providers won't be caught sitting on the sidelines this time.

All the while, "The ongoing buzz around the potential of prepaid market growth is making carriers narrow the gap between their postpaid and prepaid services," says Deepa Karthikeyan, senior wireless analysts for Current Analysis, "and in some cases offer the latter a better deal to hook them in amidst growing competition."

So as the terms and conditions of prepaid plans move more in line

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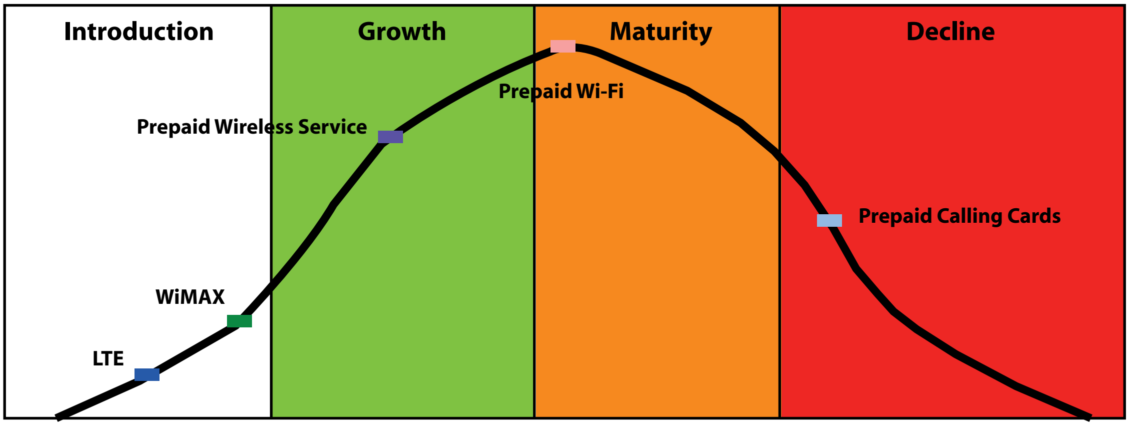
Product Lifecycle of the Prepaid Market



Source: Atlantic-ACM

with traditional postpaid offerings, it's quite possible that the flexibility and potential cost savings of no-contract data services could grow increasingly appealing to the goodly numbers of less-frequent mobile data users, both consumer and professional.

Fully aware that data will be responsible for much of any future growth, and no doubt enticed by the rapid emergence of connected devices such as netbooks, tablets and e-readers, virtually all tier-one carriers, says Karthikeyan, now offer a dedicated prepaid/no-contract broadband service. And in many cases, those same providers have been actively taking steps to improve prepaid resale channels.

Verizon Wireless, for example, which up until recently has largely ignored the prepaid market altogether, opened its network last year to prepaid resellers. Of note is a partnership announced last year with America Movil's Tracfone Wireless division

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on a no-contract, prepaid offering through the new Straight Talk brand, which is being distributed through retail behemoth Wal-Mart. While this was not the first time Verizon Wireless allowed a prepaid company to offer services using its network, the Straight Talk deal marked the first time that a prepaid partner was allowed to use Verizon Wireless branding on the service.

The move couldn’t have come any sooner. In the first quarter of 2010, Verizon Wireless reported direct customer additions of about 288,000 subscribers. That compares to the 1.3 million additions Verizon Wireless gained through its third-party distributors, which analysts note is comprised mostly of its prepaid resale partners, such as Page Plus and Tracfone’s Straight Talk prepaid service.

AT&T Mobility, which last fall unveiled its first prepaid talk and text offering as well as its first prepaid wireless broadband service, fared a bit better than Verizon on the postpaid front, adding just more than 500,000 direct postpaid subscribers during the first quarter. Its indirect channels, however, contributed nearly 1.4 million customers.

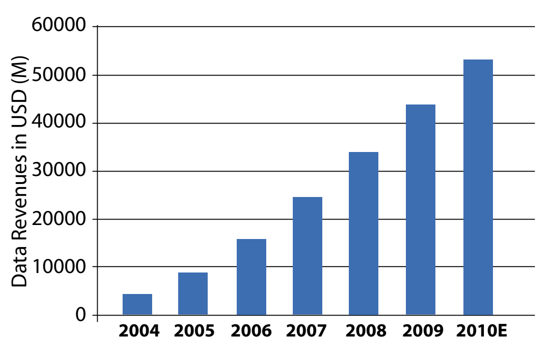
Similar to Verizon, AT&T has made it very clear that its role within the prepaid voice market will be limited, but one has to wonder if that will be the case when it comes to data services and the connectivity to non-traditional devices. AT&T’s 3G data plans for Apple’s iPad, for instance, are basic no-contract, prepaid plans ($14.99 a month for 250 MB or $29.99 for unlimited).

“Those users primarily rely on Wi-Fi connectivity,” says Karthikeyan, “but may feel more comfortable subscribing to a pay-as-you-go broadband option to avoid being stuck in lengthy contract scenarios.”

Sprint, for its part, has always had a decidedly stronger presence within prepaid and prepaid resale, and that should continue. Following last year’s $483 million acquisition of Virgin Mobile USA, Sprint rolled out a continuous stream of new prepaid products, prices, plans and enhancements, including a distribution partnership with Wal-Mart on a discount prepaid service that will charge seven cents per minute or text.

Most recently, the company announced a new multi-brand strategy focusing on distinct prepaid customer segments. The move reportedly was the result of detailed interviews with

U.S. Wireless Market Data Revenues



Source: Chetan Sharma Consulting

Virgin Mobile USA's (Sprint) Broadband2Go Plans

Price	Expires	Megabytes	Use it for (w/o attachments)
$10	10 days	100 MB	5 hours Web browsing or 25 minutes of video or 10,000 emails
$20	30 days	300 MB	15 hours Web browsing or one hour video or 25,000 emails
$40	30 days	1GB	50 hours Web browsing or four hours video or 100,000 emails
$60	30 days	5 GB	250 hours Web browsing or 21 hours video or 500,000 emails

Source: Company Web site

about 2,000 customers, from which Sprint says it was able to match different prepaid market segments to a variety of demographic and psychographic characteristics.

The strategy includes a full relaunch of the Virgin Mobile brand, continued emphasis on the Boost Mobile brand, as well as the Assurance Wireless brand, which is aimed at low-income customers, plus a yet-unnamed brand focused on the pay-per-minute market. Moving forward, Sprint also has suggested that prepaid could be part of its future 4G mix.

For its resale partners, Sprint earlier this year announced what it calls the industry's first wholesale prepaid data solution, effectively allowing partners to sell on-demand access of prepaid mobile broadband by day, week, month or megabyte. Available as a standalone product or packaged with back office services, Mobile Broadband on Demand is a plug-and-play, USB-based data card product with over-the-air activation, sold through Sprint partner Telespree, a provider of on-device, self-service solutions. Telespree works with distributors to customize specific service offerings, say the companies, and is able to integrate into existing partner backend systems or provide a complete turnkey solution, including billing and logistics.

Recent Updates and Announcement from Some Major Prepaid Providers

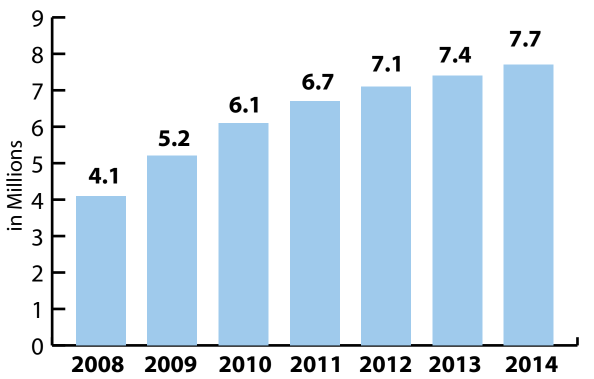
January 2009 Boost Mobile unveils unlimited voice and data cell phone plan for $50.
October 2009 T-Mobile unveils no-contract unlimited voice, texting and Web browsing for $79.99 per month.
October 2009 AT&T Mobility throws hat into prepaid unlimited ring with $60 per month unlimited prepaid voice and text package through its GoPhone service.
October 2009 Wal-Mart introduces Straight Talk (via Tracfone Wireless), a $45 all you can talk/text/surf plan over Verizon Wireless' network. $30 plan also introduced. 3,200 stores go live.
November 2009 Sprint completes acquisition of Virgin Mobile USA.
November 2009 Verizon announces first prepaid wireless broadband plans.
February 2010 MetroPCS CEO Roger Linquist suggests plans to extend its budget prepaid business model into the new 4G mobile broadband service.
March 2010 Sprint, in conjunction with Telespree, unveils its first wholesale prepaid data solution dubbed Mobile Broadband On-Demand.
March 2010 Virgin Mobile USA unveils Broadband2Go plans, offering customers access to more data at existing prices on nationwide 3G network, with no activation fee.
April 2010 T-Mobile removes the overage charge for its 5GB plans and halves the overage fee for its 200MB plans to $0.10 per MB. Offers no-contract 5G plan for special price of $40 a month, beating comparable offers by as much as $20. 200 MB now $25 a month.
April 2010 Verizon and AT&T separately announced more prepaid subscriber additions that postpaid additions.
May 2010 T-Mobile announces Hour Pass: 99 cents for unlimited wireless Web browsing for one hour.

Sprint says its partner-branded on-demand broadband solution is simple enough that a wide variety of distributors can add wireless broadband to their portfolios – from traditional MVNOs to entities that cater to more casual users such as rental car companies, airport kiosks, hotels and coffee shops.

The service "allows any company to compete in the wireless space with a tailored solution that best meets the needs of their customers," says Bil deKay, Telespree CEO.

All partners need do, says Sprint, is essentially sell the branded data cards, possibly even from a vending machine, or access can be bundled with other services. Users simply plug in the device, click on the connection manager, select a plan and pay with a credit card, prepaid wireless card or other payment method. The aircards activate automatically, minimizing the need for customer care, says Sprint, and users can "top off" their accounts with additional megabytes as needed.

U.S. "Business" Prepaid Wireless Subscribers



Source: Compass Intelligence

"This is among the first tools on the market that accommodates the requirements of mobile operators, who, in addition to supporting consumers and enterprises, are also building a robust wholesale channel," says Mark Lowenstein, managing director of consulting firm Mobile Ecosystem.

Assuming price, restrictions and coverage are reasonable, it would appear the convenience of such an on-demand aircard-based service could appeal to a seemingly healthy base of laptop-totting, less-frequent or sporadic travelers. Of course, this won't be the first no-contract service these users have come across.

At anywhere from roughly $9.99 to $15 for 24 hours of access, a traveler outside the office or away from home can rent a stick or buy access from hotels, airports, even on airplanes. At those costs it would only take four days a month to see savings in plan of say $30 a month for 1 GB of on-demand service. That would provide enough capacity for a few hours of basic Web browsing over a handful of days, perhaps with a few minutes of video mixed in, and ample email time.

There's also a window to the more frequently mobile smartphone users, who might be well served by access to email and simple Web browsing the majority of trips but occasionally requires the full broadband PC experience while out on the road.

In both these scenarios, the price gets much more appealing without 10-day or even 30-day term limitations on by-the-byte plans, currently a common prepaid restriction. The ability to share sticks among a few sporadic road workers also improves the economics for buyers. Surveys by Compass Intelligence, for example, suggest that very small businesses would be interested in company "group plans," say for five or fewer employees, says the research firm.

Not that price is all that matter's here. In fact, at least so far, "cost does not seem to be the primary factor at this point," say researchers at Compass. Then again, the price wars that have swept over prepaid mobile voice haven't fully hit the data side yet, so savings isn't always available as a motivational force once non-subsidized device costs, overage charges, etc. are factored in. Still, among the small amount of organizations that have adopted prepaid, it's typically flexibility that matters most.

"Long-term cost is also believed to play a role, but respondents are most likely to say that choosing prepaid is simply 'less of a hassle,'" says Compass, which estimates there are more than 6 million "business prepaid" users in the U.S., accounting for about 11 percent of the prepaid market today. Compass expects business prepaid users to climb to just more than 7.5 million by 2014.

There's also some value in the "dedicated connection" where ever and whenever it's needed. After all, hot spot numbers are rising, but healthy and available Wi-Fi access can't always be assumed, and one doesn't have to be a platinum-level traveler to have experienced inadequate service over shared hotel connections.

For telecom resellers and value-added distributors, the relatively simple USB stick dramatically lowers at least one major barrier to the entry of wireless services in general: obtaining the capabilities to warehouse, deliver and, especially, support after sale the myriad of ever-upgrading handheld devices. Although grossly simplified, on the surface it's the difference between stocking and supporting a small, two-inch driver versus a battery-powered personal, hand-held computer with a memory stick of its own. Indeed, for this very reason, mobile broadband data cards already are acting as an entry point into wireless services for resellers and providers of wireline voice and data services.

At the same time, the lack of device subsidizes common to prepaid also becomes less of an issue. With data cards available at a fraction of the cost of even the most affordable smartphones, it's even conceivable we'll eventually see fully subsidized air cards, at least for corporate users.

Those still skeptical of prepaid's "emergence," content to judge no-contract service strictly by its history, would be wise to consider the recent actions of Verizon Wireless and AT&T Mobility. Essentially bystanders as the prepaid markets evolved and grew, both AT&T and Verizon publically have made clear that they don't have intentions to become dominate players in the prepaid space.

"It's something we monitor; something we're watching," said Verizon executive vice president and CFO John Killian, while speaking at a recent J.P. Morgan Technology, Media and Telecom Conference. "I wouldn't say it's a big concern right now."

In the past few quarters, however, the two leaders separately have introduced "unlimited" prepaid offers, tweaked and re-tweaked their respective prepaid voice plans and have entered into major resale relationships. AT&T recently became the first to ink a prepaid deal with Apple, and it's prepaid GoPhone service now boast well more than 5 million subscribers, while Verizon, according to Wall Street Journal counts, directly and indirectly accounted for nearly half of all prepaid additions in the first quarter of this year.

"This is the year that prepaid moves to the forefront of the wireless industry," says Sprint's Schulman.

Before that happens for prepaid broadband, we still likely need to see improvements in plan details. Areas such as geographic coverage, terms limitations, overage costs, ease of renewals, term limitations and bandwidth restrictions need to go away or get better so the prepaid proposition mirrors, if not surpasses, the value of postpaid data.

"If I can get the contract experience without the contract, I think most customers would go for that," says MetroPCS CEO Roger Linquist.

In the meantime, things are moving quickly in this marketplace, as rarely does a month go by without the industry feeling the impact of another "breakthrough" service announcement. So it's likely we'll soon see competitive wireless broadband options that are competitive to postpaid in terms of coverage and cost but also offer the flexibility of on-demand, pay-as-you-go service. And even with a few glitches in the terms and limitations, that could be good enough for a good amount of business users.