

Wireless users opt for service without commitment

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In this photo taken, Wednesday, May 12, 2010, a man on his mobile phone walks by a mobile phone store in New York. So far this year, customers have been making a big shift away from two-year contracts toward prepaid service without contracts. That signals a new era for the industry, where old recipes for growth will need to be replaced. (AP Photo/Richard Drew)

(AP) -- For wireless subscribers, commitment is out and short-term relationships are in. This year, customers have been making a big shift away from two-year contracts toward "prepaid" cell phone service, which often costs less and does not require contracts. This is happening even though contracts are needed to get popular phones such as the iPhone and the Droid.

Now prepaid service looks like it will get even more attractive, with further price cuts. That's because wireless carriers have hit a wall when it comes to finding new customers who will sign contracts.

"I would love to have an iPhone. I just can't swallow the \$70 or more bill that would come with it," said Jeff Finlay, a 45-year-old stay-at-home dad in San Antonio who uses a prepaid plan.

Unlike contract plans that bill subscribers each month for the services they used the previous month, prepaid services traditionally let subscribers buy minutes in advance for around 10 cents to 20 cents each. When the minutes are used up, people "refill" their accounts as needed.

For years, such plans were marketed primarily to people who did not have the credit to qualify for plans with contracts. But as the recession forced more people to cut costs, prepaid service appealed to a broader slice of the market, and prepaid services responded by offering better deals.

Now it's possible to make unlimited calls and text messages on a prepaid plan for \$45 a month - half of what it costs a customer with a contract on Verizon Wireless. At Tracfone, the largest independent provider of prepaid service, customers pay an average of \$11 per month.

The popularity of text messaging is also making some people move away from contract plans that provide a big bucket of monthly minutes that may not get used.

Finlay uses prepaid service from Virgin Mobile, a division of Sprint Nextel Corp., because he talks no more than 15 to 20 minutes on the phone each month. That costs him \$5 per month. He sends and receives up to 2,000 text messages, so he tacks on an unlimited-texting option for \$20 per month.

His sons, 13 and 18 years old, use their phones the same way, so they're on Virgin too. Finlay has even converted his parents to prepaid. They're in their 70s, pretty far outside Virgin's target market: 18-to-24-year olds.

Together, the seven largest U.S. [wireless carriers](#) expanded their contract subscribers by just 230,000 people in the first quarter. That's negligible compared to their entire customer base of 280 million.

Prepaid service, meanwhile, attracted about 3.1 million new subscribers to the seven largest carriers in the quarter. (That does not include an additional 1.1 million accounts that AT&T Inc. counts as prepaid but are serving devices that aren't phones, such as e-book readers.)

This marks a sharp reversal of trends. In the same quarter just two years ago, the comparable carriers added 3 million subscribers under contract, and 2.3 million to prepaid plans.

The carriers that rank third and fourth in the U.S. by subscriber numbers, [Sprint Nextel](#) and T-Mobile USA, are losing contract customers. No. 1 [Verizon Wireless](#) and No. 2 AT&T are still adding contract customers, but at the lowest numbers in more than five years.

The prepaid market heated up in January 2009, when Sprint began offering a prepaid plan with unlimited minutes for \$50 a month under its Boost Mobile brand. MetroPCS Communications Inc. and Leap Wireless International Inc., which both target low-income households, had been offering unlimited prepaid plans for a few years, but only in limited areas. The Sprint offer was good nationwide.

Tracfone, a unit of Mexico's America Movil SA, countered with Straight Talk, which provides unlimited calling for \$45 per month on Verizon Wireless' network, sold exclusively by Wal-Mart Stores Inc.

MetroPCS and Leap, which sells service under the Cricket brand, have responded by eliminating add-on fees for taxes and roaming, effectively cutting prices. The price war looks like it will continue.

Ronald Grandison, 56, switched four months ago to MetroPCS after seven years under contract with Sprint.

He said he was paying charges that he didn't understand and couldn't get explained. For him and his wife, the combined bill sometimes rose above \$400 per month.

"That was the last straw," said the Brooklyn law enforcement officer. "I felt bad to switch. I had been a customer for so long. But I get up for work at 4 a.m., and it's hard to make this money."

They now pay \$84 for unlimited calls and text messages.

Because prepaying subscribers can cancel service at any time without penalty, carriers do not subsidize the cost of the phones as much as they do for contract-signing customers. (For instance, AT&T pays Apple close to \$600 for each iPhone 3GS that costs a customer \$199.) That has meant that phones available for prepaid service mostly have been basic models.

That, too, has been changing. It's now possible to buy BlackBerrys for prepaid, and carriers have signaled that they're looking to add more "smart" phones.

But don't expect a prepaid [iPhone](#): AT&T, which carries it, isn't an aggressive player in prepaid. The top two carriers sell [prepaid service](#) at relatively high prices that haven't been gaining them many customers. Apparently wary of eroding their brand names, they've instead jumped on the prepaid bandwagon by selling network access to Tracfone.

On Thursday, Sprint and Wal-Mart Stores Inc. announced a trial of another prepaid plan: Common Cents, which is designed for people who don't use their phones much. Calls will cost 7 cents per minute.

"Through the recent difficulties in our economy, we've seen consumers say loud and clear that their phone was a must-have," said Greg Hall, head of U.S. entertainment and wireless sales at Wal-Mart. "But what we have seen is them really getting smart about getting that connection with the best value."

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