

Prepaid phones gain popularity as users seek to lower bills

September 8 2010, By Bridget Carey

Sales have never been better for MetroPCS. The prepaid cell phone retailer broke records in the first and second quarter of 2010 with new subscribers to its no-contract, monthly flat-rate mobile service.

Once aimed at customers with poor credit or those who rarely used a cell phone, prepaid phones increasingly are drawing customers angered by mobile bills of \$100 per month, said Steve Roberts, regional vice president of sales and distribution of MetroPCS's Miami office. Some parents are even buying prepaid phones to teach their teens to limit costs.

What's keeping those customers with MetroPCS and similar services are phones common in the marketplace but new to prepaid customers: feature-rich smart phones.

To keep up with smart-phone demand, MetroPCS added a second BlackBerry phone to offerings this summer. A phone that runs on Google's Android operating system is "on our roadmap," Roberts said. The company will be adding 4G wireless speeds to Florida by the end of the year.

Competitor Boost Mobile just launched its first touch-screen smart phone and first Android smart phone -- the No. 1 selling smart-phone operating system in the U.S.

All major cell phone carriers also offer prepaid plans and phones. Service giant Sprint has seen 60 percent of its new customers this year

choose a no-contract option, such as Boost or [Virgin Mobile](#) -- both of which it sells.

"The economy was a catalyst for people to look at no-contract options, and people adopted it and are happy," said Neil Lindsay, chief marketing officer for Sprint Prepaid.

The numbers tell the story. Monthly bills for [smart phones](#) tend to run around \$70 to \$120 a month on plans from major providers when part of a two-year contract. Those contracts help subsidize the cost of the phone, bringing prices for the latest, most advanced phones to about \$200 -- and sometimes far less.

But without a contract, the initial cost of a smart phone is more expensive -- and the phone may have fewer features. Boost's [Android](#) phone, the Motorola i1, costs \$350 -- and runs more slowly than newer versions. The BlackBerry Curve 8530 is \$230 at MetroPCS and \$250 at Virgin Mobile; neither is the latest model. But the monthly bill for those prepaid phones is locked to around \$60 a month -- which means that over a two-year period, buying the phone and sticking with the prepaid plan is cheaper.

Marketers for no-contract phones are working hard to tell their side of the story. Virgin Mobile last week launched a campaign saying it's "stupid" to spend \$100 a month on a plan when customers can go "crazy" and get unlimited text, e-mail, data and Web access -- including 300 monthly anytime phone minutes -- for \$25. Customers can increase to 1,200 minutes for \$40, or unlimited everything for \$60.

Even among major service providers, prepaid options have become more popular. T-Mobile has seen its prepaid customers double since 2006, and spokesman Graham Crow said more customers are using prepaid as a way to test-drive a bill.

"Parents are having their teenagers try prepaid as a way to learn about how many minutes or text messages they'll actually use and to learn a little bit about the cost of owning a phone," Crow said.

And though most major carriers -- including AT&T and Verizon -- that focus on contract agreements offer less-snazzy phones for their prepaid plans, they too are seeing increased demand for their no-contract options.

Prepaid subscribers made up 20.3 percent of the industry in December 2009, up from 17.8 percent at the end of 2008, according to the international wireless trade group, CTIA.

"The demographic was someone who didn't have great credit," said Chuck Hamby, Verizon spokesman. "Now that doesn't matter, it's people who want to be smart with their money."

Still, data shows most prepaid customers make less than \$50,000 a year and are older than 45, according to CTIA.

For all prepaid phone users, the lower monthly price comes with trade-offs. Prepaid networks, like Boost, run on slower networks with less coverage than major carriers. While that might not matter for light users, those who use their phones for Web access and frequently send files might not find the savings worth it.

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Citation: Prepaid phones gain popularity as users seek to lower bills (2010, September 8) retrieved 20 March 2024 from <https://phys.org/news/2010-09-prepaid-gain-popularity-users-bills.html>

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