

More cellphone users switch to prepaid plans

February 22 2013, by Marc Lifsher

Philip Hsiang and his wife, Mary Ann, used to pay almost \$1,000 a year for a pair of cellphones under a family plan contract.

But as [recession](#) gripped the economy a few years back, the Davis, Calif., couple opted for low-cost prepaid phone service and never looked back. They shaved \$800 off their annual phone bill, even though Hsiang could easily afford the pricier plan on his salary as an electrical engineer.

"As a Chinese immigrant to the U.S., it's a virtue to be frugal," Hsiang said. "Wasteful spending is a bad thing."

Like the Hsiangs, millions of American [cellphone users](#) fed up with soaring bills are flocking to prepaid plans. Long a lifeline for low-income consumers and people with bad credit, these phones have become one of the hottest performers in the U.S. wireless market.

Total U.S. prepaid subscriptions shot past 100 million as of June, growing by 12 percent over the previous year, while traditional wireless [telephone services](#) with monthly bills remained flat. About 1 in 3 U.S. cellphone owners now opt to pay as they go.

Prepaid service has come into its own because of a trio of customer-friendly factors: The cost sometimes is less than half that of a traditional billed service; there's no restrictive contract or hefty early-cancellation fee; and some high-end providers offer smartphones with unlimited Internet, text and roaming capabilities that weren't available previously.

"It's not your father's [prepaid service](#). It doesn't have the same stigma it used to," said Jeff Blyskal, a senior editor at Consumer Reports magazine. "It's a legitimate option for consumers who want to save money and have good service and no contract."

This prepaid boom has traditional cellphone companies scrambling for a piece of the action. The big four national firms - AT&T Inc., Verizon Wireless, Sprint Nextel Corp. and T-Mobile USA - have upgraded their offerings with the addition of options for high-speed data downloading and other features popular with tech-savvy customers.

In addition, a slew of smaller players, including Virgin Mobile, have entered the fray with pay-as-you go smartphone plans for as low as \$35 a month.

But the biggest U.S. prepaid company, with just over 21 million customers, is TracFone Wireless Inc. The company is a subsidiary of Mexico's America Movil, owned by Mexican mega-billionaire Carlos Slim, who is leveraging his long experience in Latin America north of the border.

The move toward prepaid cellphone service in the United States is starting to mimic the pattern that has long been the rule in the developing world. Prepaid accounts for 95 percent of cellphone handsets in India, 80 percent in Latin America, 70 percent in China and 65 percent in Europe, according to Chetan Sharma, a Washington state wireless consultant.

Growth is spurring a wave of international mergers. TracFone Wireless Inc. is acquiring Simple Mobile of Irvine, Calif., while Deutsche Telekom's T-Mobile plans to merge with MetroPCS. Japan's Softbank Corp. is buying a 70 percent stake in Sprint.

The U.S. switch to prepaid accelerated during the recession as nervous consumers decided not to get bogged down with lengthy contracts and phone charges they couldn't predict.

"They didn't want to cut their cellphones in tough economic times," said Jennifer Fritzsche, an analyst with Wells Fargo Securities.

Since then, many companies have begun to offer upscale handsets using 4G networks. That's helped prepaid shed its reputation for low-cost, hard-to-track phones favored by drug dealers on television crime shows.

"Burner phones" are hard to trace because their SIM cards - memory chips that activate the handset - can be purchased off a store shelf for cash, and the new owner doesn't need to sign a contract or get a credit check.

Prepaid has "moved quickly into the smarter phones with more sophisticated users and is really challenging the market," said Sam Simon, who follows telecommunications issues at the New Millennium Research Council in Washington.

Still, the monthly cost of a prepaid phone plan can run as low as \$20 every three months for bare-bones, 60 minutes of voice service with a \$10 handset offered by TracFone. Per-minute costs drop with added usage, and unused minutes can be banked for future local or long-distance calls.

"It's cheap. I can talk for half an hour and don't have to worry," said TracFone customer Barri Clark of Los Angeles. The retired Screen Actors Guild employee said she doesn't like to spend too much time on the phone. "For me, this is perfect as long as it's going to be reliable," she said.

TracFone doesn't have its own network of cell towers and electronic

spectrum. Instead, it buys excess capacity from the big four cell companies. "People can get the same phone networks for less than half the price," said F.J. Pollak, TracFone's chief executive and founder.

On the high end of the market, MetroPCS Communications Inc. offers unlimited voice and data for about \$55 a month, about 60 percent less than the most competitive contract plan.

The downside is that prepaid customers must pay the full costs of their phones upfront because the devices aren't subsidized by a long-term contract. At MetroPCS, a top-of-the-line Samsung Galaxy S III smartphone sells for close to \$500. However, prepaid proponents contend those costs can be recouped in a year or so. And users never get stuck with an unexpected bill for going over their plan limits.

MetroPCS customer Toni Bayoneta said hidden charges on a conventional [cellphone](#) plan turned her off for good; she said she got stuck with a \$253 bill for a plan that was supposed to cost her \$60 a month. She's sold on prepaid.

"These phones are easier to use," said Bayoneta, paying her bill recently at a Sacramento, Calif., MetroPCS store. "They don't charge by the data, texts or minutes. I don't have to worry about the kids getting on the phone and downloading things I don't want."

But U.S. wireless customers need to evaluate their individual circumstances before they make a similar switch, experts suggest. They should compare the cost for the handset, monthly service, cancellation fees and charges to link tablets and other devices, spread out over the standard 24-month contract period, suggested Jayne Wallace, director of corporate communications for Sprint and its other prepaid brands.

"For some consumers, [prepaid](#) is a real benefit and savings," she said.

"Be aware of what the options are, and pick a plan that makes the most sense to you."

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Citation: More cellphone users switch to prepaid plans (2013, February 22) retrieved 27 April 2024 from <https://phys.org/news/2013-02-cellphone-users-prepaid.html>

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