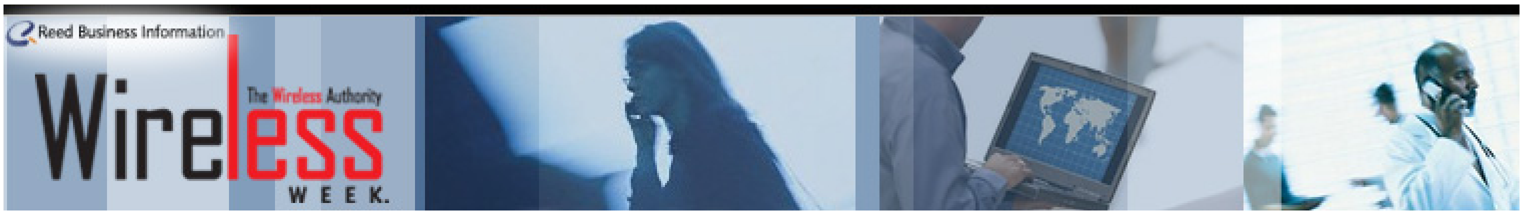

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Hybrid Payment Plans: the New Alternative

With pay-as-you-go and higher-end phones in the mix, the line between prepaid and postpaid is getting even finer.

By Monica Alleven
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Remember when prepaid meant buying a plastic card and refilling minutes as needed? Although those cards are still available, today's prepaid options range from the traditional prepaid phones and cards to the non-traditional hybrid plans that look more like postpaid. And talk about options. By at least one analyst's estimate, about 50 companies offer some sort of viable prepaid offering – and that's not counting the lesser-knowns.

These days, the definition of prepaid may vary. Committing to a monthly plan upfront each month essentially would seem a form of prepayment, but to Kirk Parsons, senior director of wireless services for J.D. Power and Associates, prepaid means topping up every month, where the customer must proactively go out and pay more money to continue service as opposed to getting a statement each month.

Then there are plans known as pay-as-you-go, which Virgin Mobile successfully promoted to avoid any negative connotations associated with the word "prepaid." Add hybrid plans into the mix and you've got more flavors. Amp'd Mobile, for example, recently unveiled what it calls its hybrid plans, which look more like postpaid and allow customers to get service on a month-to-month payment plan by routing their billing through a debit or credit card. There is no contract, and customers also can access multimedia content such as live concerts and 99-cent songs.

GROWTH DRIVERS Many operators offer prepaid hybrid plans, although they're not always called "hybrid." Such plans will drive prepaid growth in the future, but not significantly for a couple of years as newer MVNOs get off the ground, analysts say. Overall, about 11 percent of wireless subscribers are prepaid – and that may rise to 12 percent or 13 percent in a year, with most of the growth coming in 2007 and 2008 when the effects of hybrid plans show up, says Marina Amoroso, analyst with the Yankee Group.

Of the estimated 55 MVNOs that have launched in the United States, the majority are prepaid. The postpaid trend started to materialize after Qwest sold its infrastructure to Verizon Wireless in 2005 and transitioned its subscribers to Sprint's network, Amoroso says. Dozens of new MVNOs popped up, the most prominent being Amp'd Mobile, Helio, Disney Mobile and the now exiting Mobile ESPN.

One of the more mature prepaid MVNOs is 4-year-old Virgin Mobile. In a J.D. Power and Associates 2006 Wireless Prepaid Customer Satisfaction Study earlier this year, Virgin Mobile ranked highest in overall customer satisfaction among current wireless prepaid customers.

"It hasn't always been easy, and it's not as easy as it looks," says Howard Handler, chief marketing officer at Virgin Mobile. "But we were able to kind of change the way the people think about wireless and give people more options. What we said coming out of the gates is we want to take the mobile phone from behind the glass case and put it on a peg so it's easy for people to grab it and go."

One of Virgin Mobile's main sources of competition these days is the family plan, which national operators offer alongside their own versions of prepaid. To counter that, Virgin Mobile points out that its target market is heavily skewed toward teens and young adults who value their financial independence and who don't necessarily want to be on their parents' plan. Handler likens it to buying a car; a parent can buy the teen a phone and say, "You're responsible for the gas," thereby giving them more independence.

MORE TO THE PARTY Although Virgin Mobile received the highest rank overall in the J.D. Powers study, it had company. Verizon Wireless followed Virgin Mobile in the rankings and performed particularly well in call quality and company image. Other prepaid carriers that scored at or above the industry average were T-Mobile USA, Boost Mobile and TracFone, Parsons says.

With such a crowded market, why does prepaid continually attract so many players? The cost of getting into the business is relatively low, and prepaid provides higher profit margins than postpaid. That said, "it's not an easy market," Parsons says, noting the price competition and challenge of attracting customers who already may have a contract with another carrier.

Still, new entrants keep coming even as others are leaving. **Tim Maliyil, president and founder of Data Guard Systems, which offers software that eliminates the physical prepaid calling cards and allows retailers to sell prepaid cellular minutes in real time over the Internet, sees all kinds of potential for prepaid growth in the U.S. market. Retailers are looking for any and all opportunities for new revenue and increased profit, he says, noting that more than half of the mobile users in Europe and Asia are prepaid cellular users. The same can happen in the United States, he says.**

During the past five years, the effective price of a postpaid minute has dropped from 22 cents in 2000 to 0.067 cents in 2005, an average decline of 21 percent per year, according to the Yankee Group. The price per prepaid minute is still high compared to postpaid – on average, prepaid is about 20 cents per minute. But prepaid MVNOs have enough room in their margins to remain competitive and lower their prices toward an average of 15 cents or 10 cents per minute, Amoroso says.

Airlink Mobile, a Sprint MVNO, is shipping prepaid phones to about 5,000 convenience store locations, and its main problem now is keeping up with demand, according to Airlink President and CEO David Stanek. Airlink's handsets sell for about $30 but are free after a mail-in rebate. "We have very strong margins," he says, attributing much of the company's success to a strong distribution network. The company expects to be in 7,000 stores by the end of this year.

As long as the margins are good and the cost of entry is low, there's little doubt that the prepaid offers will keep coming, regardless of how they're defined.