

## **NMRC: THREE EMERGING TRENDS LIKELY TO FURTHER FUEL SHIFT OF U.S. CONSUMERS TO LOWER-COST PREPAID/NO-CONTRACT CELL PHONES**

***NMRC Was First in 2009 to Correctly Forecast Major U.S. Consumer Shift to Prepaid Cell Phones at Expense of Wireless; New Evidence Points to Likelihood of Accelerated Switching.***

**WASHINGTON, D.C.//October 7, 2010//**The shift in U.S. consumer habits that started in the fourth quarter of 2009 away from contract-based (or “post-paid”) wireless in favor of less expensive no-contract (or “prepaid”) cell phone service is going to pick up even more speed in the balance of 2010 and in 2011, according to the New Millennium Research Council (NMRC), an independent telecommunications and technology think tank.

Three important trends – the recent emergence of “flexible pricing,” for prepaid, the entry of smartphones in the prepaid space, and the full-scale adoption of prepaid by big-box store retailers – will work to result in even more consumers dumping higher-priced contract-based wireless plans in favor of thrifty no-contract alternatives, including those providing unlimited talk/text/email/Web service for \$50 a month or less.

The forecast from NMRC carries special weight since the organization was the first in March 2009 to forecast a major recession-related shift in consumer habits from contract-based to no-contract/prepaid wireless. (For more information, see [http://newmillenniumresearch.org/news/031909\\_NMRC\\_ORC\\_cell\\_phone\\_survey\\_news\\_release.pdf](http://newmillenniumresearch.org/news/031909_NMRC_ORC_cell_phone_survey_news_release.pdf).) In March of this year, NMRC reported that the 4<sup>th</sup> quarter of 2009 marked the first time that the number of new prepaid wireless customers in the U.S. outnumbered new contract-based cell phone providers, according to industry data from both Ovum/Datamonitor and IDG. Based on the ongoing recession and the recent surge in attractive prepaid phone deals, NMRC said that it expected the trend in favor of prepaid cell phone use to continue throughout 2010. (For more information, see [http://newmillenniumresearch.org/news/033110\\_prepaid\\_trends\\_news\\_release.pdf](http://newmillenniumresearch.org/news/033110_prepaid_trends_news_release.pdf).)

Sam Simon, senior fellow, New Millennium Research Council, said: **“Penny pinching in the ongoing recession is now just one of the major factors driving millions of U.S. wireless consumers into the arms of no-contract prepaid wireless companies. As the prepaid space offers new pricing, better phones, national coverage, and stronger support from trusted major retailers, the trend away from more expensive contract-based cell phones will accelerate as never before. What is going on right now in wireless cell phone service is starting to look an awful lot like what happened in long-distance service 20-25 years ago. People once scoffed at the notion that consumers would ever pull the plug on Ma Bell and go over to an upstart competitor.”**

### **UNDERSTANDING THE THREE NEW TRENDS**

Simon highlighted three emerging trends as the basis for assuming that there will be even wider consumer adoption in the U.S. of prepaid services:

- **EMERGENCE OF FLEXIBLE PRICING.** While the prepaid space has always been home to much more diverse prices than in the contract-based wireless world, new pricing arrangements in prepaid have the potential to have broad appeal with cell phone consumers fed up with paying for minutes and other services that they never use. For example, Net10 is now offering a new, highly flexible “hybrid” pricing model that allows consumers to switch at will from month to month between unlimited service (\$50 for unlimited talk/text/email/Web access/411) to a capped number of minutes for moderate use (\$25 for 750 minutes) or even extremely low use (\$15 for 200 minutes). Simon noted that this kind of pricing arrangement would appeal to consumers who had higher-volume calling months (e.g., during summer vacation and the holiday season) and lower-volume calling in other months.
- **SMARTPHONES COME TO PREPAID.** In 2009, NMRC noted that no-contract/prepaid wireless was on the cusp of moving into the increasingly popular smartphone space. Since then, a number

of leading service providers, including Boost/Virgin (BlackBerry Curve/Samsung Intercept) and Straight Talk (Nokia E71), have started warming up the world of smartphone users to the notion of switching to prepaid/no-contract service. Simon pointed out that this trend likely will be bolstered now that the emergence of Android-powered phones is shaking up the dominance of the iPhone and BlackBerry models.

- **BIG-BOX RETAILER ADOPTION OF PREPAID.** In several consumer spaces, retailers such as Walmart and Target dominate U.S. consumer sales due to low prices and a massive retail distribution network stretching from coast to coast. Based on the success of Walmart's "Straight Talk" unlimited prepaid offering, the retailer recently added its new "Family Talk" prepaid line. Target and other major big-box retailers are now making similarly aggressive moves into promoting wireless as a smart consumer penny-pinching move during the uncertainty of the recession. Major retailers have been aggressive about advertising substantial consumer cost savings with prepaid, including Walmart ads that have touted possible cell phone bill cuts of \$850 a year for consumers switching from contract-based to no-contract unlimited service, according to Simon.

On December 10, 2009, NMRC noted that "(o)ne of the last remaining barriers to broader consumer acceptance to prepaid phones in the United States is now crumbling as prepaid cell phone companies are introducing more and more sophisticated handsets that can be embraced by younger text- and Web-oriented wireless customers." (For more information, go to [http://newmillenniumresearch.org/news/121009\\_news\\_release.pdf](http://newmillenniumresearch.org/news/121009_news_release.pdf).)

On October 15, 2009, NMRC issued a follow-up statement that the explosion over the summer and early fall in increasingly inexpensive and diverse prepaid wireless cell phone plans represented a likely "tipping point" in consumer habits. (For more information, go to [http://newmillenniumresearch.org/news/101509\\_media\\_availability.pdf](http://newmillenniumresearch.org/news/101509_media_availability.pdf).)

On March 19, 2009, NMRC released a survey on March 19, 2009 of more than 2,000 Americans conducted by Opinion Research Corporation (ORC) showing that 39 percent or 60.3 million were contemplating cutting back on their cell phones to save money if the recession continued. NMRC correctly noted that the 2009 data "strongly suggest that a recession-related shift in attitudes and purchasing habits is already underway." (For more information, go to [http://newmillenniumresearch.org/news/031909\\_NMRC\\_ORC\\_cell\\_phone\\_survey\\_news\\_release.pdf](http://newmillenniumresearch.org/news/031909_NMRC_ORC_cell_phone_survey_news_release.pdf).)

## **ABOUT NMRC**

Created in 1999, the New Millennium Research Council is a Washington, D.C. think tank. The work of NMRC focuses primarily on the fields of telecommunications and technology. The contributors to NMRC reports develop workable, real-world solutions to the issues and challenges confronting policymakers. For more information, please visit <http://www.thenmrc.org> on the Web.

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