



# How Low Can Low-Cost Wireless Carriers Go?

David Goldman  
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*This article is part of a series related to being **Financially Fit***

At a time when major wireless carriers are beginning to require expensive data plans for many of their users, low-cost mobile companies keep making their prepaid calling plans broader and cheaper.

Cricket, the low-cost, pay-as-you-go wireless carrier operated by Leap Wireless (LEAP), said Tuesday that it would begin offering the nation's first \$30-per-month unlimited nationwide talk and text plan. Coverage will be available in 125 U.S. cities across all 50 states.

That's \$10 a month cheaper than any other prepaid nationwide unlimited plan available in the United States. Low-cost rival MetroPCS (PCS) offers a \$40-a-month plan and competitor TracFone Wireless' Straight Talk has a \$45-per-month plan.

As for the major carriers, Sprint's (S) Boost Mobile has a comparable prepaid plan for \$50 a month, and T-Mobile and AT&T (T) both offer similar prepaid plans for \$60 a month. Verizon (VZ) does not offer a comparable prepaid unlimited talk and text plan.

## Price Wars

The \$10 divide between Cricket and its competitors probably won't last long. Wireless industry analysts say prepaid prices will continue to fall as low-cost carriers battle for customers.

"The pricing wars will definitely continue on the prepaid side," said Richard Murphy, mobile analyst with IDC. "This could affect how competitors respond. Boost said it was not going to change its prices, but this could make them rethink their strategy."

The prepaid wireless industry represents just 20% of the U.S. mobile market, but its customer base is growing about five-times faster than the traditional postpaid customer base.

The combination of a tough economy and lower rates has many customers flocking to prepaid services. Most prepaid customers make less than \$50,000 a year, and are quick to snag the best deal possible, analysts say. Since prepaid customers are not under contract like postpaid customers, it's easy for them to switch to another provider if they can get a lower rate.

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To reduce the rate of customer attrition, or churn, prepaid mobile companies have jockeyed for the position of being the lowest-priced carrier with the best offer. And like Cricket, many low-cost wireless carriers have unveiled nationwide plans recently.

As a result, mobile customers could soon see prepaid services for under \$20 a month, according to Yankee Group analyst Chris Collins. But Collins notes that the big question is: Under \$20 for what?

"When you think about how low they can go, you have to define what kind of service you're looking for," said Collins. "It is possible for low cost providers to offer very basic services for below \$20 per month, but more advanced services ... take a significant investment, making it more difficult to compete on price alone."

For instance, MetroPCS is building out its own 3G network, which would allow MetroPCS customers to access the mobile Web at much faster speeds than its competitors. IDC's Murphy said Cricket has some network quality questions to address, and the company lags behind some of its competitors in handset offerings.

At the same time, MetroPCS' investment in its 3G network will likely prevent it from offering prices that beat Cricket's. So customers are best served to examine the whole package before deciding on a network.

#### **Cricket Banks on Coverage, Cost**

The announcement comes at a good time for Cricket. The company added just under 300,000 customers in the fourth quarter of 2009, the lowest number of net additions among its low-cost prepaid competitors. Prior to Tuesday's announcement, Cricket had been operating in just 35 states, forcing customers to roam in the areas in which the company didn't operate.

Cricket said it hopes that the expansion to nationwide coverage -- and for the lowest price in the country -- will help give the company the boost it needs. Al Moschner, chief operating officer for Cricket's parent company, Leap Wireless, said the No. 1 reason why Cricket customers leave the service is the company's coverage.

As with most low-cost carriers, much of Cricket's infrastructure is not owned by the company itself. Instead, it partners with other carriers either through a reciprocal agreement (you can use our infrastructure if we can use yours) or by paying a fee. As Cricket has grown (30% in each of the past three years), it has been able to secure better deals with its partners by buying network space in bulk.

The company said it is partnering with about 40 different wireless carriers across the nation to achieve nationwide coverage.

"We've been able to cover much more of the country at a cost structure we were happy with," said Moschner. "That makes us far more attractive to customers who are value-oriented."