

The Sunday Brief: Why Does Apple's Pre-paid Move Matter?
10 June 2012

Greetings from Kansas City, where it's been a week filled with speculation about tomorrow's Worldwide Developers Conference. Yes, the ecstasy begins at 11 a.m. Pacific Time and runs all week. Speculation is running rampant about what is included in this year's version of the iOS operating system. Siri for iPad, Twitter-esque integration for Facebook, and a new Apple mapping application (good-bye Google Maps) seem like the safest predictions right now. Here's a few new articles from [Slashgear](#) and [PC Magazine](#) as well as [9to5 Mac](#) to whet your appetite. If you really need more of an Apple fix, here's the [transcript](#) of Tim Cook's interview at D10, the Wall Street Journal's annual technology confab.

While this week's focus will be on the product roadmap, the iPhone is quietly going through a distribution renaissance. As we discussed in a previous column, Cricket Wireless (parent company is Leap) is going to be launching the iPhone 4 and 4S models through their stores in slightly less than two weeks (June 22). Not to be outdone, Virgin Mobile will also be launching the same devices through their distribution channels in slightly less than three weeks (June 29).

Below is a comparison chart of the Cricket, Virgin Mobile, and AT&T postpaid offerings. There are a number of factors in play here, but the bottom line is that while there is a lot of press about increased distribution, if you can qualify for credit (and many in the Leap and Virgin Mobile target segments will not), the full first year costs are remarkably similar.

			
Contract?	No	No	Yes
On Sale	June 22	June 29	Today
16GB iPhone 4S	\$499	\$649	\$199
8GB iPhone 4	\$399	\$549	\$99
Likely mo. rate plan	\$55	\$30	\$80
Unlimited data included?	yes	yes	no (300MB)
Data limiting begins @	2.3 GB	2.5 GB	N/A
Voice minutes in plan	Unlimited	300	450*
Estimated Yr 1 costs**	\$1160	\$1009	\$1160
Min. Wage equiv. hrs.	160	140	160

There are many ways to do this comparison, but in the minds of the target segment, the most important factors will be "How much money up-front?" and "What do I get for the monthly fee?" We chose to express the costs in terms of minimum wage hours worked (the federal minimum wage is \$7.25 per hour).

We also chose to do this comparison against a rate plan that included unlimited messaging using the rationale that most users of the service still have friends that are not on the iMessage application (meaning they do not own an iOS capable device). This drives the total cost for the AT&T post-paid user to \$80/ mo. (prior to taxes, fees, etc.).

The next factor is voice, and Cricket has a lot riding here in comparison to Virgin Mobile. If no contract iPhone users are going to talk more than 20 hours per month, Cricket is by far the better option than Virgin. If talking is not your thing, Virgin Mobile is a better bargain than Cricket if you can shell out \$150 more up-front. (The asterisk next to AT&T's post-paid comparison indicates that mobile-to-mobile minutes are included in unlimited text plans, so for 450 minutes you could easily receive 1000-2000 minutes of total benefit).

The bottom line is that an iPhone consumer earning minimum wage would need to work at least a month (likely more given the timing of income tax refunds, etc.) to justify the first year costs of the iPhone Cricket, Virgin, or AT&T post-paid alternatives. Compare this to a Metro PCS plan (\$50 unlimited would be an equivalent for 4G speeds, with a [\\$149 4G phone available](#)), and the Apple brand premium amounts to ~ 50 additional hours of minimum wage work per year (glad to provide all of the calculations on request).

All of this leads us back to the original Sunday Brief question "Why Does Apple's Prepaid Move Matter?" The answer is that the no contract market has not developed Android or (more importantly) Apple habits to date. They are smartphone users (Cricket reported in their announcement that nearly half of their base were using smartphones), but a significant number of them aspire to the iPhone brand.

Google is quickly trying to establish an Android habit using technology (4G Wi-Max and LTE) as well as low entry price points on 3G devices (\$70 for 3G Android devices at Metro PCS and Leap). They see from the post-paid experience that Apple's iPhone retention is very high. They also see the next wave of free iPhones hitting the market (with the next generation of the iPhone coming out later this year, the iPhone 4 will likely be (nearly) free with a two-year contract). Splitting the market at the low end with Apple is not an option. Besides, Google Maps is getting kicked to the curb as a pre-load!

Apple's move is brilliant. To cop a previous AT&T tag line, they are looking for "more iPhones in more places." A better move would have been to skip the Leap and Virgin channels and move directly to Wal-Mart's [Straight Talk](#) channel. That's where they are inevitably headed, and that's where the fun begins.

Next week: The annual strategic planning primer, also known as the "What the carriers are talking about" issue. Until then, if you have a friend who would enjoy getting this brief, please send an email to sundaybrief@gmail.com and we'll get them on the list. Have a terrific week!

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