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The significant shift from postpaid to prepaid wireless subscriber additions accelerated in the first quarter of 2009. Whereas approximately 53% of subscriber additions were prepaid last quarter, nearly 72% of the new subscribers added in the first quarter of this year were prepaid.

The transition from postpaid to prepaid was driven by continued attrition of Sprint's postpaid customer base and strong growth among disruptive unlimited providers like Boost Unlimited, Leap's Cricket service, MetroPCS and Virgin Mobile's Totally Unlimited service.

Macroeconomic factors and the financial challenges of late severely impacted the declining pool of prime-credit customers, forcing these potential subscribers to consider prepaid alternatives to traditional postpaid rate plans.

Major U.S. Carrier Performance

Across the major US carriers, Verizon and AT&T continued to be the postpaid providers of choice.

AT&T

- AT&T's strong postpaid growth in Q1 was built predominately around the success of the iPhone
- AT&T had 875,000 postpaid net additions, of which roughly 82% were iPhone customers. This highlights the increasing dependency of AT&T on the Apple product.
- AT&T's TracFone relationship was responsible for the vast majority of its 503,000 wholesale additions

Verizon

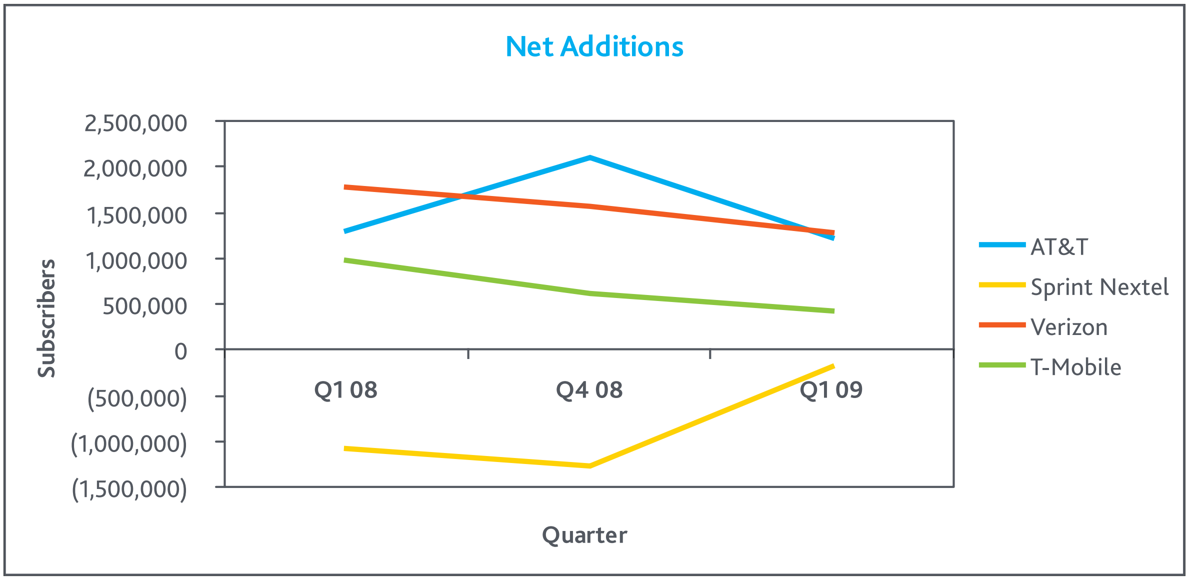
- Verizon grew by 977,000 postpaid customers and 300,000 prepaid customers
- Verizon significantly outperformed AT&T in prepaid, largely due to the high number of seasonal disconnects following the holiday season where prepaid phones are a popular gift

T-Mobile

- T-Mobile's growth continues to be under pressure from being wedged between the disruptive unlimited players and the traditional postpaid behemoths. As a result of this squeeze, they are increasingly losing their differentiation as the value provider in the marketplace.

Sprint

- Sprint's woes continued with the worst postpaid subscriber losses yet, but the strong performance of its Boost Unlimited launch provided a welcome victory



Source: Nielsen Mobile Flowshare, Q1 2009; Carrier 10-K earnings reports, Q1 2009

Smaller Players Steal Share from the Big Four

Providers offering unlimited voice and data plans for a low monthly fee continue to disrupt the equilibrium of the industry.

- Boost Unlimited launched nationwide on January 15, gaining 764,000 prepaid customers
- MetroPCS gained 683,000 during the quarter
- Leap added another 493,000 prepaid customers
- Virgin Mobile reworked its offerings with a flagship $50 unlimited plan during the first quarter while recording a subscriber loss of 133,000, most coming from the lower-end prepaid segment
  - Virgin Mobile's unlimited plan represented about 25% of gross adds, while their other new offerings brought in 65–70% of gross adds

Considering that there is virtually no overlap in Leap and MetroPCS coverage areas, it will be interesting to see how Boost Unlimited and Virgin Mobile will eat into Leap's and MetroPCS' customer base or if all the disruptive players will munch on the Big Four's customer base. We expect that the shift from postpaid to disruptive unlimited prepaid will continue as customers continue to be affected by the economic conditions in the U.S.. The value proposition of unlimited calling and texting at a $40–$50 price point without a contract is attractive to customers who are either already affected or fear that they will be affected by the economic downturn.

Alternative Subscription Models Boost ARPU

With the telecom landscape in constant flux, carriers are identifying unique ways of adding to their bottom lines. One such alternative model is seen with Kindle, Amazon's Wireless Reading Device. Kindle represents the first example of the long-predicted ad hoc subscription model for Sprint and drove a majority of Sprint's 394,000 wholesale additions in Q1. But because Kindle is included in Sprint's overall subscriber numbers, the carrier will see pressure on its ARPU numbers going forward if ad hoc subscriptions become a significant business. We estimate that Kindle may only represent $2 ARPU compared to approximately $56 for a postpaid Sprint subscriber, however.

Another alternative model is the state-sponsored Lifeline Services available through TracFone. These Lifeline Services enable low-income Americans to receive free wireless service with 40 to 80 minutes of use per month, depending on the state they live in, and this model is rapidly becoming a source of growth for TracFone.

The increase in prepaid subscriber share in Q1 is a trend we see continuing well into the second quarter. With the average consumer more concerned with budgets and bottom lines, it only follows that the disruptive unlimited players will continue gaining ground against the traditional carriers across many U.S. markets.

Notes on Author:

Roger Entner is the Senior Vice President, Head of Research and Insights for The Nielsen Company's Telecom Practice. He is responsible for advancing the research and thought leadership position of The Nielsen Company in the world of telecommunications and is one of the most respected industry experts covering the telecommunications industry. He is frequently quoted in the press, including the New York Times, Wall Street Journal and USA Today and has appeared on national and local television on ABC, CBS, NBC, Fox, CNBC and CNN.