Verizon Wireless to charge $30 fee for upgrades

(Reuters) - Verizon Wireless will start charging customers a $30 fee for cellphone upgrades, on top of the price they pay for the new device, as the company looks to supplement its income to cover costs.

The change at the biggest U.S. mobile provider follows a fourth-quarter decline in its wireless profit margins, which came under pressure from hefty subsidies it had to pay Apple Inc (AAPL.O [1]) for the popular iPhone.

Carriers pay such subsidies because devices like the iPhone help to attract new customers and boost revenue.

However, upgrades can be less attractive to operators because despite paying a subsidy for the new device, mobile companies often get no extra revenue from existing customers who switch phones.

BTIG analyst Walter Piecyk said that the fees could add up to $1 billion a year and boost the Verizon Wireless profit margin by as much as 150 basis points. In the fourth quarter Verizon Wireless posted a profit margin of 42.2 percent.

"The incremental fee by itself is hardly going to be enough to materially curtail upgrade activity but it is yet another step by a major operator to recoup the margin reducing impacts of phone upgrades," Piecyk said in a research note.

Piecyk said his estimate assumes fees from 33 million Verizon Wireless phone sales to its existing customers.

Verizon Wireless, a venture of Verizon Communications (VZ.N [2]) and Vodafone Group Plc (VOD.L [3]), said the fee, which comes into effect starting April 22, would help it "provide customers with the level of service and support they have come to expect". For example, it cited wireless workshops, online tools, and expert advice on devices.

AT&T Inc (T.N [4]), the second biggest U.S. mobile service, said in January that it would tighten its upgrade policies this year to help reduce handset upgrade costs. Spokesman Mark Siegel said AT&T increased its device upgrade fee to $36 from $18 in February. It had charged $18 for upgrades without a price change for 10 years, Siegel said.

AT&T has also reduced the number of upgrades it allows. Under its new policy AT&T only allows its customers to upgrade their phones after 20 months compared with previous allowance for upgrades as early as 13 months.

Sprint Nextel (S.N [5]), the No 3. U.S. mobile service, also charges a $36 upgrade fee.

Verizon shares were up 1.5 percent at $37.37 on the New York Stock Exchange on Wednesday.

(Reporting by Sinead Carew [6]; Editing by Dale Hudson [7] and Tim Dobbyn [8])

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