

# Verizon to introduce installment plans for phones

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Verizon Wireless, the country's largest cellphone carrier, on Thursday said it's joining AT&T and T-Mobile in providing an installment plan for its phones, aiming to satisfy customers who want to upgrade their devices faster or avoid paying the upfront cost of their phones.

The plan, dubbed Edge, will be introduced Aug. 25, and allows the buyer to spread the full retail price of the phone, without subsidies, over 24 months. A buyer who has paid off 50 percent of the cost of the phone can upgrade to a new phone after six months.

"We have a lot of customers in the technology edge that want to upgrade sooner than they would under our historical, legacy, subsidy model, if you will. And we have other customers who don't want to pay upfront for the large cost of the phone," Verizon Communications Inc.'s chief financial officer, Fran Shammo, told analysts on a conference call Thursday.

Now that nearly every adult American has a cellphone, easy growth in the wireless industry has ended, and carriers are looking to other avenues for growth. One way to do that is to boost phone sales, but most phones are sold at a big loss, so any gains in phone sales under the traditional model are counterproductive. The phone companies subsidize the cost of, for example, an iPhone, by hundreds of dollars to get retail price down to \$200.

With Edge, Verizon isn't paying a subsidy, and the buyer shoulders the entire cost of the phone. That means frequent upgrades help Verizon rather than hurt it. For customers, Edge makes financial sense only if they are unwilling to deal with the hassle of selling their old phones when they want to upgrade to a new device; for those buyers, the trade-in option is convenient.

Rumors about Verizon Edge had surfaced on several blogs earlier this week.

Competitor T-Mobile US Inc. stopped signing up customers for two-year service contracts in March, in favor of selling phones on installment plans. To further cater to frequent upgraders, it introduced an option called "Jump" last week. It provides device insurance and more frequent upgrades for \$10 a month.

On Tuesday, AT&T announced its own frequent-upgrade option, called "Next," which is very similar to Verizon's Edge. Starting July 26, customers will be able to buy their phones on installment plans, with the option to trade in the devices after a year.

Shammo made his comments while discussing the company's second-quarter results on a conference call with analysts.

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Verizon Wireless added 941,000 devices to its contract-based plans in the April to June period, exceeding analyst estimates and continuing a strong run. It boosted service revenues by 8.3 percent from a year ago. Its closest rival, AT&T, is seeing revenue increases of around 4 percent.

Almost all of the gains on the wireless side were due to customers upgrading to higher-priced plans or adding more devices to their plans, as opposed to an influx of new customers.

Analysts saw some weakness in the results, pointing to a decline in the profit margins on the wireless side, and Shammo's comment that the rate of device upgrades would be roughly the same as last year. Because the company subsidizes each new smartphone by hundreds of dollars, frequent upgrades are costly.

Verizon shares fell \$1.15, or 2.3 percent, to \$49.60 in morning trading. It was the first time the shares went below \$50 this month. The shares hit a 12-year high of \$54.31 on the last day of April.

Shammo said margins were in line with the company's own forecasts, and that the slight miss compared to analyst expectations was due to the large number of new subsidized devices added to the network.

Net income at Verizon Communications was \$2.25 billion, or 78 cents per share, up 23 percent from a year ago, the company said Thursday. Excluding a pension-related gain, earnings were 73 cents per share. That beat the average estimate of analysts polled by FactSet by a penny.

Revenue was \$29.79 billion, up more than 4 percent from a year ago and in line with analyst expectations.

New York-based Verizon Communications owns 55 percent of Verizon Wireless, which means that only that percentage of its profits flow to its bottom line. The rest goes to joint venture partner Vodafone Group PLC, a British cellphone company with wide-ranging international interests.

Verizon Communications has a long-standing interest in buying Vodafone out of Verizon Wireless, and analysts expect a deal could be reached later this year. Shammo had no comment Thursday on the prospects for a deal.

Shammo reiterated that Verizon is interested in buying into the Canadian wireless market, since there is a government auction coming up for a band of the airwaves that Verizon already uses in the U.S. However, the company is only in the early stages of exploring a Canadian venture, he said.

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