



PREPAID phone cards



Ring up solid profits and repeat business

by Kym Wolfe

Prepaid phone cards have become a staple in c-stores. The convenience of a quick in-and-out purchase appeals to phone card consumers, and savvy c-store operators are building a loyal, repeat customer base by catering to this growing market segment.

According to the Canadian Wireless Telecommunications Association, half of all Canadians are mobile phone customers. Approximately 3.7 million of them are on a prepaid plan and they visit retailers 1.2 times each month, on average, to top up their phone time. The c-store operators we spoke to said that cellular cards make up the bulk of their prepaid phone card business and that youth are the main customers purchasing cellular cards.

The market for prepaid long distance cards is more mature, but research conducted by Frost & Sullivan indicates there are still opportunities for growth, especially for international calling cards. There are "clean cards" that have no connection fees or other hidden costs and are best for people who make multiple short phone calls. There are "dirty cards" that have connection fees but lower per minute rates and are best for longer phone calls. "Consumers are more aware of clean versus dirty and will choose what gives them the best value," says Reg Traves, marketing supervisor at RSVP Communications.

"The prepaid card market is not regulated in Canada, so there are a lot of fly-by-night operators," says Tristan Roffey, team leader for TELUS's Retail Card Services Group. "We caution retailers to ensure they are dealing with reputable products, distributors, and card providers, especially small independent operators who may purchase hard cards upfront and then get stuck with worthless inventory."

While travellers, youth and credit-challenged people are common customers, the majority of prepaid long distance cards are purchased by new Canadians, and some cards target specific ethnic populations. "People are calling countries all around the world," says Grace Caputo, manager business development at Now Prepay. "They purchase cards because they are cost-effective and also as a way to control costs, so there is no large bill at the end of the month."

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Faye Peterson, manager, Express 24, Highland Park, Red Deer, AB, shows a customer her book of available prepaid phone cards.

WHICH ONE IS FOR YOU?

For retailers, one challenge in selling prepaid phone cards is finding the right product mix. There is a variety of cellular brands, each with cards of different denominations, and hundreds of long distance cards are available in the market. Many c-store operators have opted for a POS terminal, giving them access to a wide range of products without having to carry physical inventory.

Caputo explains, there are three basic options for prepaid phone cards: traditional hard cards, "live" cards with a pre-loaded value; blank hard cards that have no value until they are loaded using POSA (point-of-sale activation) technology; and paper vouchers with a PIN number that are printed at the POS terminal.

A terminal can be purchased outright for \$300 to \$350, or it can be rented. Now Prepay charges \$5 per week, but reduces that fee according to volume of sales generated. "Once sales reach \$2,000 per month, then the terminal becomes free," says Caputo. "One key benefit is that the retailer is not charged until the card is activated or the voucher is printed, whereas traditional live cards need to be paid for in advance. It eliminates the risk of theft or of carrying unsold inventory."

Faye Peterson, who manages the Highland Park Express 24 in Red Deer, Alberta, says her store no longer carries any hard cards. She describes the POS terminal as very user friendly, she likes not having to deal with inventory, and she never worries about running out of a specific card.

Brent Sweet, owner of Summerside Garage in Summerside, Newfoundland, is also happy using POS technology. "It offers any number of long distance cards, and there is no cost to us. They supply the equipment, paper, etc. and our only expense is staff, who are here anyway."

Curtis Andrus, owner of Par-A-Mart Food, a c-store in Nipawin, Saskatchewan, says POS vouchers are fine for cellphone top-ups or long distance calls when consumers use them immediately. But, since vouchers are printed on heat transfer paper, they aren't practical for prepaid long distance for people making multiple phone calls over time. "Any heat or moisture turns the paper black and damages the PIN so it is unreadable, and there are no returns or refunds," say Andrus. "We sell a ton of hard cards."

The important thing is ensuring customers know you carry prepaid phone cards.
"IT'S A PLANNED PURCHASE FOR SURE."

C-stores typically have a book that customers can look through that lists all available prepaid cards, with the rates and features of each. Some stores have display racks filled with blank cards or "wobblers" at the cash register to promote prepaid products. The important thing is ensuring customers know you carry prepaid phone cards, since, as Peterson says, "It's a planned purchase for sure."

Sweet has used radio spots to let customers know he carries prepaid phone cards in his convenience store, a move that he feels has paid off. There are six small communities in the vicinity of his business, and he says, "It seems like every kid has a cellphone."

"Sales of pre-paid cellphone cards have expanded exponentially in the past year, although margins are small," says Andrus. "They do bring people into the store, no doubt, and 70 to 80% who come in to purchase phone cards also buy something else. We carry them as a loss leader to bring people into the store." Joanne Grisé at RSVP Communications confirms that cell card margins are low, ranging from four to 8.5%, compared with a 15 to 28% profit margin for prepaid long distance cards. But with POS technology in place, the prepaid market is poised for explosive growth. **YCM**

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