

It's coming! BOOST MOBILE . . from Precept!

Tustin, California – A year ago, a joint venture between wireless giant Nextel and a group of aggressive marketers from Australia quietly launched Boost Mobile, a unique prepaid wireless service powered by the Nextel system.

You've probably heard stories about the phenomenal market acceptance of the Boost offering and its success at retail. If you've heard the buzz, believe it! Boost Mobile has arrived!

The Precept experience is that over 20% of the total prepaid wireless 'refresh' revenue in California is generated by Boost. Some Precept merchants have Boost phone sales amounting to 80-90% of their total phone sales.

The typical Precept merchant has his Boost customer return to the store 2.1 times per month to purchase an average \$25.60 PIN – which means recurring revenue of \$53.76 per month per customer. In a short time, the 'residuals' on PIN sales are greater than the profit on the initial phone sale.

The reasons for this success are simple:

- Boost service has Nextel features such as nationwide 'walkie talkie'
- Boost appeals to the young as a fun phone but also is demanding by the traditional prepaid customer
- Boost's phone-in-a-box product is the easiest c-store sell in the industry
- Boost and Precept make it easy and very profitable for the merchant.

Precept sold the first Boost PIN and activated the second Boost phone. And sold lots of PINs and phones since the launch. We think we can show you the keys to Boost success and help you get your share of this business.

Boost will soon launch in Texas and Florida and several other markets. If you want to be part of the Boost success story, check out Precept.

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www.thePINco.com

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VICTOR NAPPE CEO, DuoCash

by Gene Retske

Victor Nappe is the founder and CEO of DuoCash, the first payment processing and clearing network to enable Internet purchases through the use of prepaid calling cards. Through its partnerships with telecommunications companies, prepaid calling card manufacturers and Internet merchants, DuoCash's network extends the stored value on prepaid calling cards to the electronic payments marketplace.

GR: So, Victor, why do we hear so much about stored value, but there doesn't seem to be a lot of sales of stored value products in the prepaid telecom industry? Why do you think that is?

VN: Yeah, stored value is really interesting, because when you're in the space, you understand it because you're there. However, for the outside people who look at phone cards...they see a phone card, they say, 'Oh, a phone card. Oh, that's all it is, huh?' Not realizing that the largest stored value product in the entire marketplace right now, globally, is the phone card. So what it really is, is that DuoCash is piggy-backing on that major distribution, that major consumer market base that already understands what a phone card is. And, it really drives home the issue. If we take a step back from what you were just saying, that everybody knows what a phone card is, and 17% approximately, buy a phone card on a frequent basis.

GR: 17%? In the US?

VN: Yes, correct. Absolutely. In the US. It's obviously higher abroad. I say I have 17% of this marketplace. I'm trying to get more of it. Everybody turns around, and instead of creating a market, they fight for margins. Eroding each other's margins over the 17%.

Rather than saying '80%+ of the population in the United States doesn't buy a phone card, - I don't care about those people, even though they know what my product is.' That, if I am going into this business, would drive me crazy. If 80% of the population knew what my product is, knew where to buy it, saw it everywhere and really chose not to buy it because they saw no value to it.

GR: You've brought up a lot of interesting issues, here. Let's see if we can attack them one at a time. 17% of the people in the US buy cards on a frequent basis?

VN: On a frequent basis. That is what last year's numbers said.

GR: So, 17% buy cards on a frequent basis. Okay, I saw numbers suggesting that the industry is about six billion dollars, plus. So do you think that percentage is going to go up, or down? Or, does it matter?

VN: That's a good question. You have to see what drives that number. Right now, its pretty much three markets.

Unbanked, which is people coming into the States, establishing credit, establishing some roots here. Then the business travelers and college students. These are the strongest markets that purchase prepaid phone cards. If we start to talk about stored value cards, we can also look at prepaid wireless.

GR: What is the impact of cell phones on the prepaid card market? Many people are using cell phones instead of long distance now.

VN: That's why you are seeing a lot of carriers moving to the cell market and prepaid cellular. The market is declining for prepaid cards, or maybe not growing as quickly as it could be if prepaid wireless was not an option.

GR: I have not seen many cards that do a lot of stored value stuff, other than long distance and wireless, have you? Why is that?

VN: You just opened Pandora's box for me! Put me on a soapbox. I think what it boils down to is, if you look at the products that are out there, they are trying to solve a problem of another form of currency. It's kind of a broad market. You really need to pick some specific pieces. The merchants who come to us are ones who can't use a credit card. They are trying to access the teen market, because they are selling music. In that case, ninety percent of the market does not have a credit card anyway. Plus, they are selling a music download for 99 cents, so the credit card, again, wouldn't work. There is a sweet spot in that market. With a phone card, it's an 800 number and a PIN, so it's a much quicker shopping experience and checkout. Anonymity. I asked myself, 'Why do all these people make products that don't take off?'

I think a lot of them tried to own the entire chain. They built their own little processing hub to leverage that stored value, and then they tried to sell that card into retail stores. And then, they tried to be the merchant. Really, it's a big undertaking to do just one of those pieces.

GR: Oh, the problem with stored value is that most of the companies that have tried to enter the market so far have tried to capture it vertically, instead of horizontally?

VN: Let's look at Visa and American Express. I use an open network – closed network analogy. American Express issues their own cards, then goes to the merchants who accept that card. Nobody else can participate in the network. Visa, on the other hand, allows banks to issue Visa cards. They are a clearinghouse. Then, they go to merchants. Visa, this year, did over a trillion dollars. AMEX did four hundred and some odd million.

GR: And, DuoCash is an open network model?

VN: Correct. Let's look at Napster, who just came back into the market with their own proprietary card. We both walk into a retail store,

and we see a Napster card that you have to pay \$14.95 for, and you can only redeem your money at Napster. Or, you see a phone card that has a DuoCash logo, which means you can use it as a phone card, but more importantly, you have hundreds of merchants that participate in the DuoCash network where you can use that card. That includes downloading music, books, etc. Consumers want choice, and previous stored value cards were closed networks. That's the reason I believe that so many of the stored value cards failed. They became an American Express model.

GR: Who are some of the merchants that use DuoCash now?

VN: Right now, music is a huge market for us. Online dating is a big one also. A lot of people are dating online. People don't want to give up their identity on a credit card because they are worried that it will be traced back to them. All these video games, like Sony Playstations, that are played online. They charge for that service. Again, the teen market, shareware. There is a huge shareware market, where you want to download a little application. There's also a big market in porn. People want to be anonymous and they don't want to give their credit card. Would you really trust that kind of site?

GR: So your model is to be the Visa clearinghouse for online products by using a phone card as the mechanism?

VN: Yes, if you issue phone cards, and include the DuoCash logo, you will enable that revenue. That will change your market from 17% of the population to a much larger number. If you are still considering yourself as selling an LD product, you are really missing the growth. Realize that your strongest asset is your distribution and your ability to touch a customer with that product you have in the retail place. Focus on finding value add products, rather than trying to go penny to penny price on a commodity product that is not going to grow at nearly the same rate. ■

•• Victor Nappe is CEO of DuoCash. He can be reached at victor@duocash.com. Visit DuoCash online at www.duocash.com