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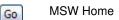
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# Pay-As-You-Go Computing Debuts

By Aaron Halabe May 26, 2006

Employees might wish for bigger paychecks, but every 15<sup>th</sup> and 30<sup>th</sup> of the month, they can at least count on knowing how much Microsoft will deposit into their bank accounts.

That's not the case in emerging markets around the world, where millions of people wait tables, drive cabs or have other jobs where unpredictable incomes are a part of life.

The resulting financial uncertainty is a real barrier to buying bigger-ticket items, even for middle-income individuals. Many parents, for example, want to buy a PC for their children, but they resist because of inadequate access to consumer credit, high entry costs and irregular income.

To remedy this and to make home PCs more accessible, Microsoft modified the popular prepaid-card business model used by more than 1 billion mobile-phone owners.



In Franca, Brazil, the Ferrante family – Luciana, Mario and daughter Gisele, 13, became proud owners of PC a year ago through the FlexGo market trial. Photos courtesy of Paul Prokop

# How and why FlexGo works

Bill Gates announced the program, called FlexGo, this week at WinHEC. It allows consumers to purchase a full-featured PC with a small down payment, about \$250, and then pay off the balance, approximately \$350, through the purchase of prepaid activation cards that allow the PC to operate.

Consumers repay the remaining cost of the PC as they use it, and as their income stream allows, without risk of defaulting on a traditional loan and having their PC repossessed for nonpayment. They can buy time online, by

phone or by purchasing additional prepaid cards at local stores. After sufficient time is purchased, the PC is paid off and cards are no longer required.

Microsoft has run trials of the program in Brazil for more than a year with a national retailer, Magazine Luiza, and will expand the pilot to select markets in Mexico, India, Russia and China over the next few months.

In the current Brazil market trial, the FlexGo pay-as-you-go computer includes a 17-inch hybrid flat screen CRT, 80 GB hard drive, 512 MB of RAM and a DVD-CD/RW. It runs Windows XP Home Edition, which is modified to monitor the remaining runtime and allow owners to add time using prepaid cards. The PC provides regular alerts as time runs low so the user is never caught by surprise. It also offers a "reserve tank" once time runs out. In this mode, the user has limited access to the computer, and can access documents and add time to the computer.



The ad in a Brazil store highlights the FlexGo prepaid-card model that can make PC ownership a reality for many who live with irregular incomes.

"Countless middle-income families in our Brazil market trials told us that without the pay-as-you-go offer they would not have been able to afford a PC in their homes," said group product manager David Edelstein of the Market Expansion Group

One of them is Dona Ana, whose husband lost his job shortly after they bought a FlexGo PC. "That was hard. If I had bought it through traditional financing, I would have had to deal with the high installments. This way, I'm paying according to my ability; since I don't earn much I can only cope with small installments."

Another Brazilian customer expressed similar sentiments. "It fits into my budget, yes," noted Anisio, a cab driver who purchased a pay-as-you-go PC for his children and to augment his income with an online shoe business. "The installments are very affordable – they're not installments that sometimes force you to cut back on other obligations."

# Stakeholders bought into idea

The FlexGo team spent more than two years researching the approach and developing partnerships with PC makers and retailers, chip vendors and financial institutions, which play "an instrumental role in the pay-as-you-go computing model," he noted.

"At the time of purchase, the consumer pays an entry price of between 40 and 60 percent of the full price of the PC. The financial institution pays the balance owed to the retailer. The retailer is, therefore, made whole and the consumer assumes a loan with the financial institution – a loan denominated in hours."

Revenue from the sales of the prepaid cards goes to the financial institution – effectively paying off the loan, including interest. Edelstein said the system is transparent, with people always knowing how much they are paying per hour, hours purchased to date and total hours required. Microsoft's only revenue source is through genuine software licensing.

# Program has potential

Those with variable, unpredictable incomes "really embrace this model,

which is intuitively fair, familiar and comfortable because it allows people to control their budgets," Edelstein added.

Edelstein said the FlexGo team wouldn't project potential sales but laid out a persuasive series of facts: Roughly 6 percent of households in emerging markets have home PCs today. There are more than a billion cellphones in emerging markets, more than 70 percent of which are operated via prepaid cards.

"We look at that and think there are literally hundreds of millions of people who want a PC but who have irregular income flows. We want to bridge that gap."

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