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## Microsoft tests 'pay as you go' computers Plan is geared to developing nations

By TODD BISHOP  
P-I REPORTER

People in developing nations are accustomed to buying minutes for their mobile phones in advance. Now, Microsoft Corp. wants to see if they'll purchase PCs in much the same way.

In a departure from their traditional business models, Microsoft and hardware makers will test a pay-as-you-go plan for PC users in emerging markets around the world -- letting consumers buy time on their home computers through prepaid cards and subscriptions.

The initiative, dubbed Microsoft FlexGo, aims to lower the barrier to buying a PC by requiring a smaller initial payment. After paying for minutes on the PC over time, consumers ultimately own it outright -- albeit for a higher total cost than if they had paid in full up front.

After quietly testing the concept in Brazil for the past year, Microsoft and its partners are preparing to roll it out for additional tests in other parts of the world. The company will show the technology this week at its Windows Hardware Engineering Conference in Seattle.

From a business perspective, the market potential is large. Some companies involved in the FlexGo program estimate that more than 1 billion people worldwide earn enough to buy PCs under the initiative, but not enough to buy one on their own.

"There's clearly a potential market for something like this," said analyst Tim Bjarin, president of consulting company Creative Strategies Inc., who has been tracking the project.

It's the latest attempt to enable computing for people in the world's developing economies.

A non-profit program led by MIT's Nicholas Negroponte is working to develop a \$100 laptop. Separately, Microsoft has been rolling out a scaled-down version of Windows, Starter Edition, in an effort to lower the cost of PCs in developing markets.

And Microsoft's Bill Gates has advocated using mobile phones as broader computing devices in emerging nations.

In fact, the FlexGo



The "FlexGo" card for the program in Brazil works like a prepaid phone card. Users pay in advance for minutes on their home PCs.

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In fact, the FlexGo program was inspired by the pay-as-you-go model that has proved successful for mobile-phone companies in many of those countries, said Mike Wickstrand, Microsoft's director of product management for the project.

The initiative uses a full-fledged version of Microsoft's Windows XP operating system that has been adapted with features including a timer counting down the hours in the upper right-hand corner of the PC screen. The pre-paid FlexGo cards come with an access code that can be entered to refill the bank of available time. Time also can be purchased online.

As time runs out, the PC delivers a series of alerts, limits access to programs and features, and ultimately stops working until more time is purchased.

The machines in the FlexGo program come with standard consumer PC specifications, Microsoft says, not stripped down as in some other programs for emerging markets.

One advantage is the ability to avoid mandatory payments or late fees involved with traditional consumer financing plans. The only penalty for not continuing to pay for computer time under the FlexGo program would be the inability to use the PC until more time was purchased.

"The challenge for families in emerging markets isn't just how much income they have ... it's really the irregularity and unpredictability of their income," Wickstrand said.

Microsoft says consumers will be able to keep the computers for as long as they want, without repossession, even if they let the time run out without adding minutes. If people are unable to purchase further minutes for a long period of time, they could sell their PCs to other people, who could get them running again by adding minutes of their own.

The company and its partners are still testing aspects of the overall approach to see what works, and how consumers respond.

For the past year, the company has been testing the FlexGo pre-paid card program in Brazil with national retailer Magazine Luiza, selling 1,000 PCs in all. The response has been positive, Wickstrand said, with the retailer seeing a significant increase in sales during the time the PCs were available through the program.

The company is expected to announce today that it will expand the program in Brazil and launch new trials of the prepaid cards in India, Mexico, Russia and China over approximately the next six months. As part of the program, the computers will come with software and, in many cases, a set amount of Internet access.

In Slovenia, Hungary, Vietnam, India and Brazil, the company will test the concept of using the FlexGo technology for subscription-based payments for the computers, in partnership with telecommunications companies that would offer Internet access as part of the package.

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and Infineon Technologies are working with Microsoft to provide PCs and underlying technology for them.

In addition, chipmaker Transmeta confirmed Friday that a mysterious Microsoft project to which it has been referring in regulatory filings is, in fact, an effort to develop a specialized chip for use in the FlexGo initiative.

Prices and rates for the computers and usage are expected to vary by country, depending on factors including interest rates. Microsoft says one goal of the trial programs is to test different pricing levels to see what makes the most sense in particular countries.

Taking into account both the discounted PC cost and the cost of usage over time, people using the FlexGo program are generally expected to ultimately pay more for a PC than if they were to buy it outright initially.

For example, in the Brazilian trial, consumers were able to pay a discounted price of about \$300 for a computer that ordinarily would have retailed for somewhere around \$600, Wickstrand said. They would ultimately own the PC after spending roughly \$400 to \$500 more on access charges over time.

That makes the total cost, including the original payment for the PC, around \$700 to \$800.

That's 15 percent to 30 percent more than the \$600 price of buying the PC outright. However, Wickstrand likened the difference to a financing charge and pointed out that interest rates are particularly high in Brazil. For some people in developing countries, he said, access to credit cards and consumer loans is limited or non-existent.

"You could think of it as financed with payments that map to a family's budget and their usage of the PC," Wickstrand said.

As a general rule, Microsoft says a consumer using the FlexGo program could expect to initially pay around 40 percent to 60 percent of the standard cost of a PC. But then, the price per hour of usage is expected to range from about 50 cents to 70 cents. Consumers would own the PC after buying a preset number of hours, in the general range of 600 to 900 hours.

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