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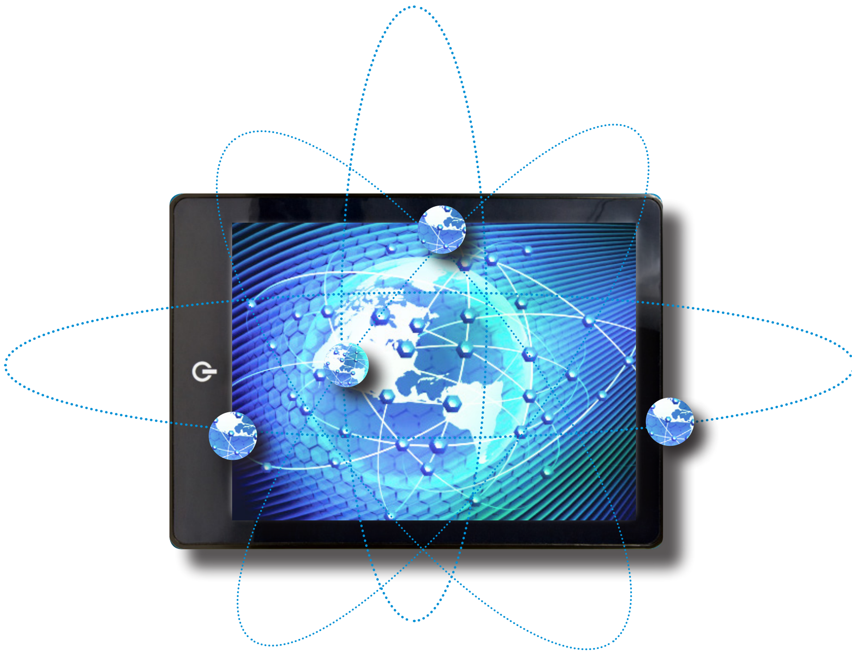


Unlocking **Mobile Data** Revenue Potential

Research shows that operators can unlock unrealized revenue by acting on the triggers of mobile data usage throughout the customer lifecycle.

Peppers & Rogers Group

Unlocking Mobile Data Revenue Potential

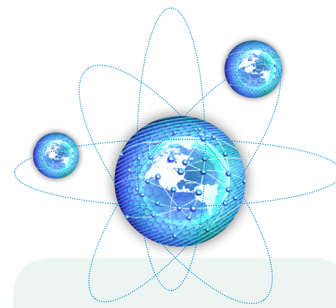
Research shows that operators can unlock unrealized revenue by acting on the drivers and triggers of mobile data usage throughout the customer lifecycle.

Executive Summary

Today's world is a mobile world. Gartner reports that devices (PCs, tablets and mobile phones) are on pace to total 2.4 billion units worldwide in 2013, a 9 percent increase from 2012, with mobiles and tablets set to overtake PCs in coming years. As more people use more mobile devices, the use of voice is shrinking while data use expands. Operators need to deliver a compelling mobile data strategy to get, keep, and grow their customer base.

Peppers & Rogers Group recently conducted research in on the mobile data behavior of more than 8,000 people in both emerging and mature telecom markets around the world. We found that competition is heating up, and neither price nor network quality will provide enough differentiation moving forward. It is important for operators to understand the behavioral patterns and triggers in different stages of the customer lifecycle to fuel mobile data growth.

This white paper examines the state of the mobile data market, and offers recommendations on how to interact with mobile customers along four lifecycle stages to capitalize on unrealized revenue potential.



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Key findings

- Around the world data revenues are on the rise, while voice revenues are starting to decline. Data revenues will grow to US$150 million and contribute 43% of total operator revenues worldwide.
- As emerging market dynamics become similar to mature markets, competition will become more intense, leading to price pressure.
- Operators are looking to increase mobile data market share and control network and operations costs to capitalize on this mobile data boom.
- There are four key customer lifecycle stages on which operators should focus their efforts: awareness, adoption, addiction, and monetization.

Mobile Data Dominates Wireless Strategy

Mobile data usage has grown sharply in the past years, and we are only at the beginning of the of mobile data era. The mobile phone is becoming an integral part of the modern society and has led to behavior changes. We are now keen to connect frequently with friends while on-the-go, track anything from stocks to weather, check-in for flights, play online games, and browse the Internet on our devices.

Mobile handset technology has improved tremendously in recent years, and this continuous innovation will bring advanced smartphone features and apps to the mass market at increasingly affordable prices. This explosion in the telecom market is why we conducted research about the current and potential use of mobile data in both the emerging and developed world. The study surveyed more than 8,000 people about their mobile data use in both emerging and mature telecom markets around the world. Mature telecom markets include the United States, United Kingdom, Australia, Singapore, and Hong Kong. Emerging markets include India, Indonesia, Thailand, Malaysia, Brazil, Nigeria, Turkey, and the Philippines.

Innovation will bring advanced smartphone features and apps to the mass market at increasingly affordable prices.

Respondents were categorized based into four groups: youth, professionals, senior, and low-income. They were surveyed primarily about their decision to sign up for mobile data, spending habits, price sensitivity, and overall satisfaction of the service.

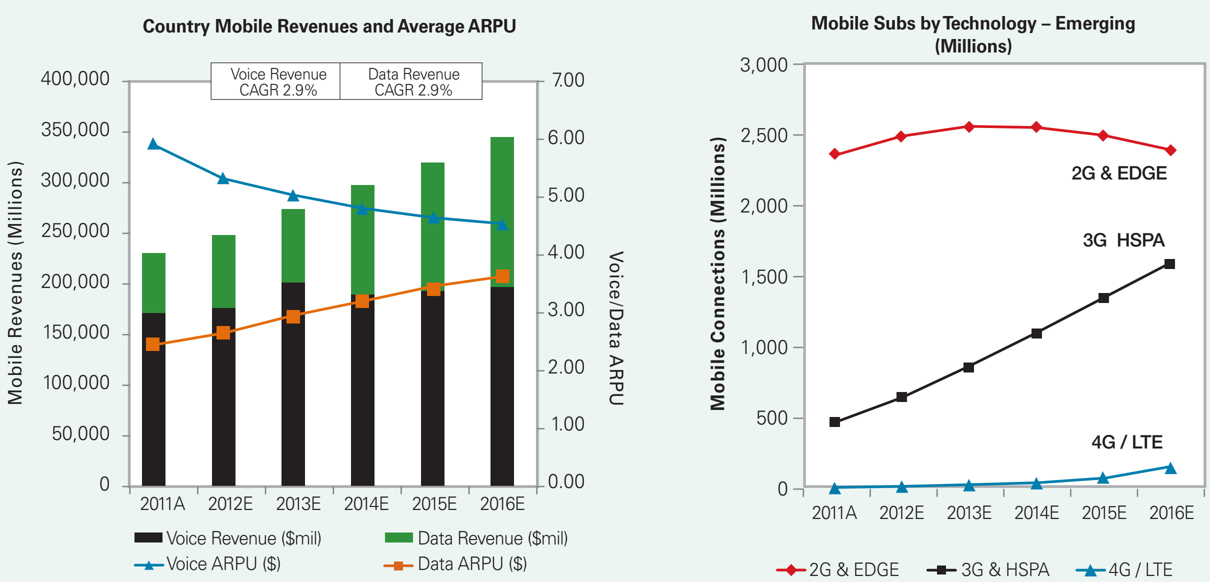
Our research findings for emerging markets show that youth are the heaviest users of mobile data, followed by professionals, low-income segments, and finally seniors. All segments stated that they changed their handset devices after more than two years.

Mobile Data Market Outlook and Forecast

Sixty-seven percent of handsets discussed in the research were 3G enabled in mature markets; 35% in emerging countries. Tablets, which were virtually non-existent in 2010, now represent approximately 5% of devices, according to the Wireless Federation’s April 2012 report. Operators are responding by upgrading their networks to prepare for demand from data-hungry users.

Figure 1: The Future of Mobile Data Spend

Consumers will spend more on mobile data and less on voice in the near future.



The research, along with Peppers & Rogers Group analysis, indicates the potential for a rise in data revenues, while voice revenues will stagnate and start to decline. Overall data revenues will grow to USD $400 billion and contribute 47% of total operator revenues worldwide by 2016. The number of 3G connections will take over as the dominant mobile data technology, while some markets will see 4G connections pick up momentum in 2015 onwards.

Current Consumer Spending Patterns

Subscribers are at a nascent stage of mobile data adoption and usage. Consumer spending patterns are slowly evolving toward developed market trends as subscribers continue to spend more on data and less on voice. Youth spend on average 11% of their telecommunications spend on mobile data services in emerging markets, and 33% in developed markets. Overall mobile data spend has a lot of room to grow and spending patterns will quickly shift to developed market spending patterns.

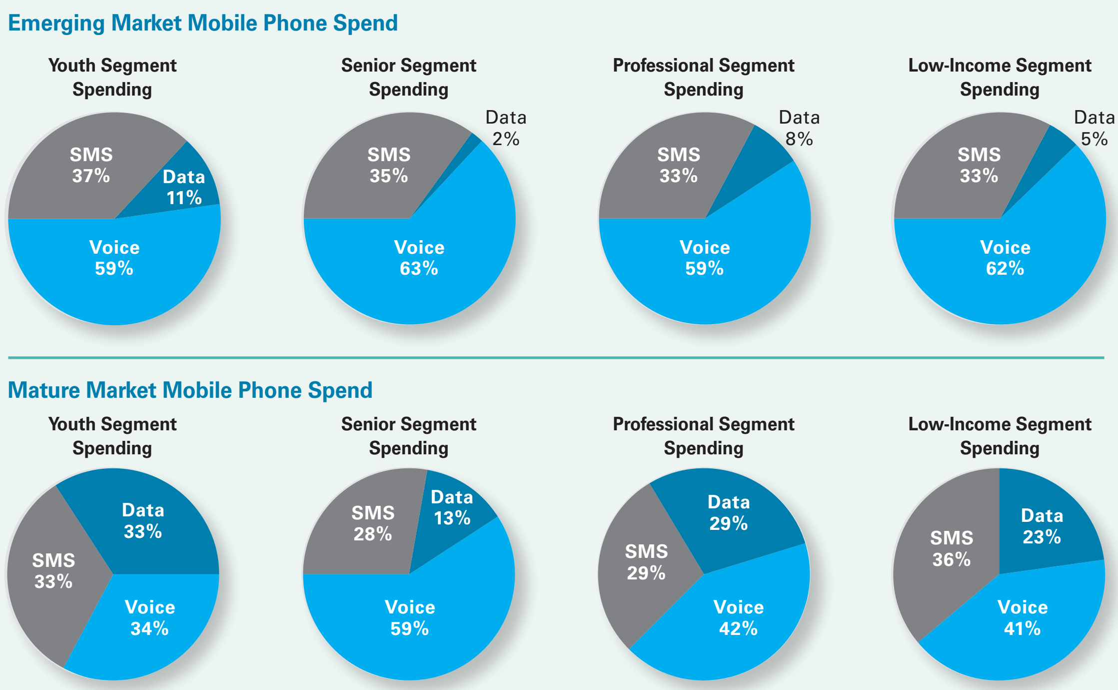
Subscribers are at a nascent stage of mobile data adoption and usage.

Prepaid is still dominant in emerging markets and respondents stated that the main reasons they did not want to sign up for contracts with their current operator were because they did not want to make a commitment and that their usage is irregular. Also, 8% of respondents said that they recharged their devices daily, 30% said they recharged 2 to 3 times a week, and 31% said they recharged once a week.

In contrast, 50% of prepaid users in developed markets said that there was no incentive for them to switch to postpaid. They also recharge much less frequently. A majority (48%) recharge at least once a month, but with up to 7 to 10 times more per recharge than compared with prepaid subscribers from emerging markets.

Figure 2: Consumer Spending Patterns

The research highlighted spending patterns across four customer groups for each market: youth, senior, professional, and low-income



Subscribers in emerging markets have a higher price sensitivity toward voice than data, due to the simple fact that most of their spending is on voice. In contrast, youth and professional segments from mature markets are more likely to leave when data charges increase, while seniors and low-income are more sensitive to increases in voice charges. Subscribers from mature markets wanted better prices while subscribers from emerging markets wanted better network speed and quality.

Peppers & Rogers Group collected data from more than 3,000 mobile data plans to create a mobile data affordability index. Looking at the entire index, a few trends emerged:

- In mature markets, the net price for data plans is higher than in emerging markets, but consumers' willingness to pay is higher than consumers in emerging markets.
- In emerging markets, the net price for mobile data is lower, but consumer purchasing power is much lower in comparison.
- In mature markets, price per MB is estimated to be 40% lower than in emerging markets. This shows that mobile data is more affordable in mature markets.

Subscribers from mature markets wanted better prices. subscribers from emerging markets wanted better network speed and quality.

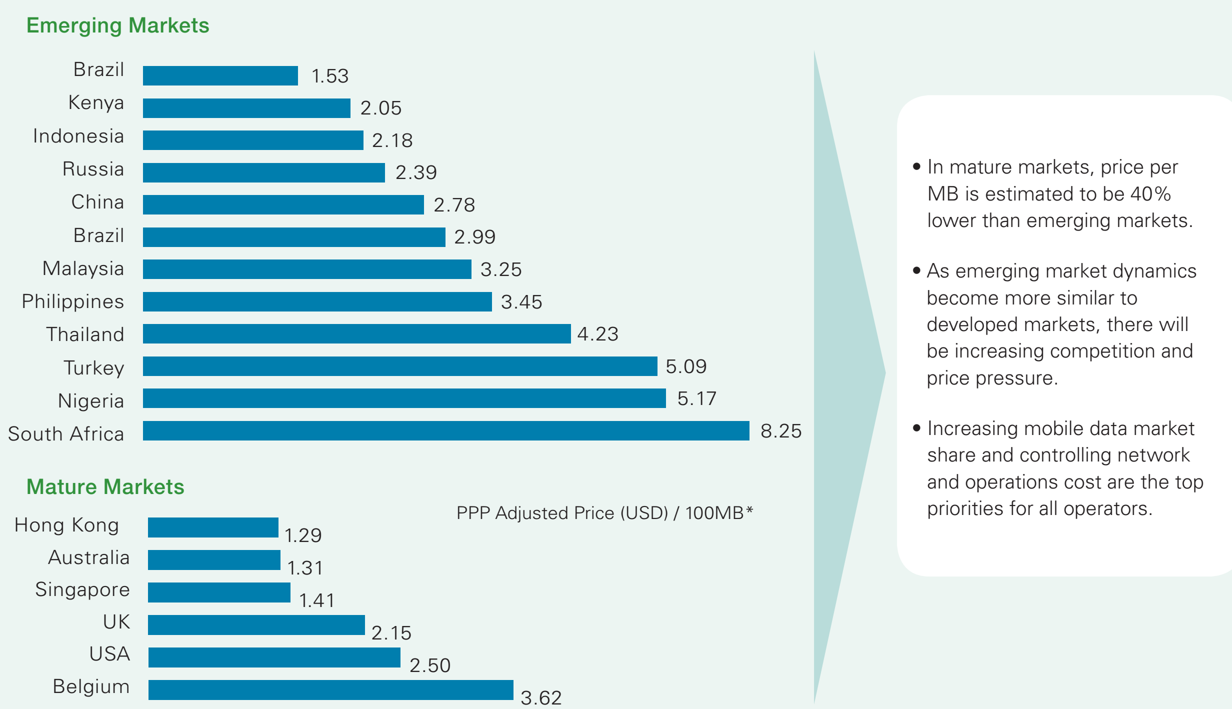
What this means for operators: As emerging market dynamics become similar to mature markets, competition will become more intense, leading to price pressure. In this growth stage, operators are looking at increasing mobile data market share and control network and operations costs to capitalize on this mobile data boom.

The How and Why of Mobile Data Usage

More than 60% of emerging market users said that social networking was the main reason they started using mobile data. An overwhelming 70% said that high prices prevented them from increasing the use of mobile data, followed by network speed and network quality.

Figure 3: Mobile Data Price Pressure

Historical trends show that emerging market will continue to experience competition which leads to price decline.



8 Ways to Drive Mobile Data Growth

During the course of our research, we identified eight common initiatives that are being used by operators globally at different stages of the customer lifecycle.

1. Try & Buy campaigns: Operators need to design effective Try & Buy campaigns that link free trials with a sales conversion program to boost market share quickly and obtain 'first mover' advantage in emerging markets. If executed well, it will build awareness among prepaid subscribers and contribute to increase in operator revenue.

> **Example:** Vodafone's 'Data Test Drive' campaign allows people to experiment with 3G mobile data. At the end of the month it suggests the best plan based on their usage patterns.

2. Staggered data plans: They can be implemented in emerging markets where the majority of subscribers are spending small amounts and do not want to make long-term commitments for data plans.

> **Example:** NTT Docomo offers postpaid pay-as-you-go users the option to switch to volume-based plans if they exceed a certain data limit.

3. Dynamic data pricing: Operators can offer specific discounts at the right time to reduce traffic congestion and modify subscriber behavior to consistently use mobile data and increase addiction. This will be effective in emerging countries where subscribers are price sensitive and promotion-driven.

> **Example:** AXIS Indonesia offers 'pay-to-boost' speed where users pay a small fee to increase the speed of their mobile data for a limited time once the user has reached his data limits and experience 'throttling.' MTN Africa offers 1GB at a 50% discount to 'Night Owls' who typically use their device late at night.

4. Bucket pricing: This presents opportunities to increase share of wallet and cost savings. Operators need to educate consumers about bucket plans and find solutions for the increase complexity in service provisioning and billing.

> **Example:** AT&T USA is aggressively pushing bucket plans for multi-devices under one plan, where additional devices can be added into data plan for additional USD $10 per month. Reliance India is promoting family bucket plans where each family is given 3GB of data in addition to free talk time that can be shared among 3 subscribers. Additional lines can be added with a charge of USD $9 per month.

5. Education campaigns: Operators from emerging markets need to have a clear marketing communication strategy for educational campaigns to promote awareness and improve consumer understanding on the available plans and the benefits of mobile data on their daily lives.

> **Example:** Operators around the world are developing educational pamphlets, apps to monitor usage and current spend, and making educational information available on sales brochures online.

6. Wi-Fi bundling: This can be used as a strong value proposition to move subscribers to volume-based plans or as an add-on service with a small fee. However, operators should ensure the proper availability and quality of their Wi-Fi service, and allow subscribers to seamlessly connect.

> **Example:** Vodafone UK partnered with BT OpenNet to offer over 4,000 hotspots. Vodafone's apps detect Wi-Fi hotspots when they are in range and automatically switch the user over from 3G to Wi-Fi, if the latter is faster.

7. Leveraging social platforms: Facebook-type packages can be used to hook subscribers on mobile data.

> **Example:** Globe Telecom in the Philippines leverages social media packages with access to Facebook, Blackberry Messenger, and Google.

Effective campaigns to drive mobile data growth

Each of the eight initiatives is most appropriate at certain steps of the customer maturity lifecycle.

Trend	Maturity LIfecycle Stage			
	Adoption	Addiction	Monetization	Awareness
Try & Buy Campaigns	✔	✔	✔	
Tiered Data Plans	✔	✔		
Dynamic Data Pricing		✔	✔	
Bucket Pricing	✔	✔		
Education Campaigns				✔
Wi-Fi Bundling	✔	✔		
Leveraging on Social Networking	✔	✔		
Reverse Handset Subsidies	✔			

8. Reverse handset subsidies. This strategy is an alternative method to incentivize subscribers. The operator collects full payment for devices up-front, and then gives back to the customer a portion of the value monthly in a form rebates for free voice and data services.

> **Example:** MTS India offers two models of smartphones, for which subscribers pay full retail price. In return, they get a monthly rebate in the form of free voice, SMS, and mobile data over a period of 12 months valued at more than the price of the phone.

For mature markets, the ability to purchase higher-end smartphones (34%) and the need for information on-the-go are the main triggers of mobile data usage. Mobile data users from mature markets said that price (44%) and data limit (50%) were the main reasons that would hinder them from increasing mobile data usage.

Our research also covered non 3G users. We found that the majority of subscribers in emerging markets believe they do not need mobile data (55%), but they would consider if they were offered free trials and education on how to use mobile data to improve their lives. In mature markets, 41% of non-mobile data users said that they believe they do not mobile data, and that they would consider using mobile data if they were offered discounted rates and upgraded to a smartphone.

Taking Action Throughout the Maturity Lifecycle

The research findings suggest that different segments in different markets respond to different types of triggers and promotions. In emerging markets, the need for social networking and information on-the-go were the main reasons why subscribers start using mobile data. Emerging market subscribers are also more likely to start using mobile data if they are given free trials and education on how to use.

In mature markets, the need for information on-the-go and the purchase of new devices were the main reasons why subscribers start using mobile data. Mature market subscribers are also more likely to start using mobile data if they upgrade to a smartphone or are given discounted rates, especially among the youth and professional segments.

Figure 4: Customer lifecycle areas of focus

Operators should focus on different areas when considering customer strategies around mobile data.

It is important to understand the behavioral patterns and triggers for mobile data growth in different stages of the customer lifecycle. We have identified four customer lifecycle stages on which operators should focus their efforts: awareness, adoption, addiction, and monetization.

Awareness In the awareness phase, it is important to over-communicate with the customer about the benefits of mobile data. Understanding the micro-segments' needs, behavior, and value will enable smart operators to personalize offerings and educational materials to attract non-users. There also needs to be transparency in price plans and clarity in terms and conditions so that the customer will not get unpleasant surprises at later stages of the lifecycle.

Adoption In the adoption phase, operators should look for ways to enable users with Internet and 3G capable devices. Most emerging market consumers are looking for feature-rich smartphones and prices below USD $100. There are a growing number of handset makers that have introduced advanced and affordable smart devices such as Huawei's Ascend line, Karbonn and Lava in India, Cherry mobile in Philippines, and a wide array of China OEM smartphone manufacturers. Operators should commit and deliver Internet access with reasonable speed and high connection reliability. By closely monitoring the market behavior trends and keeping up to date with the latest consumer demands, operators should be able to discover an emerging need and develop a more targeted data package offering.

Addiction In the addiction phase, it is important to increase convenience and stimulate usage with personalized bundles and add-on plans. Promotions and discounts are popular ways of fostering addiction among data users, but operators have to be careful not to build up destructive addiction that will cause revenue cannibalization on main revenue streams. Due to the increased number of devices and social relationships that an individual has, operators can leverage their existing usage to penetrate new and neighboring devices from within their base.

Monetization At the monetization phase, operators should be collecting and mining customer data to:

- Enhance revenue generation capabilities by increasing adoption rates and discovering new usage patterns
- Drive up profitability by effective cost management
- Regulate usage trends on the right time with the right network policy
- Maximizing ROI on assets by utilizing unused capacity and opening up new revenue streams

Operators can leverage the abundant amount of customer data to build info-smart capabilities through customer analytics. Operators that excel in customer analytics will be able to understand the mobile data usage behavior per segment such as usage times, popular websites browsed, reload patterns, response rate to promotions, and other customer insights. These insights will allow an operator to target below-the-line campaigns that appeal to these distinct micro-segments. Understanding customer behavior, value, and needs will also allow an operator to boost revenue stimulation programs.

In short, operators should focus on different areas when dealing with customer segments at different phases of the lifecycle. Figure 5 depicts the different priorities along the customer lifecycle.

In the addition phase, it is important to increase convenience and stimulate usage with personalized bundles and add-on plans.

Figure 5: Prioritizing activities around lifecycle stages

There are different priorities for each stage of lifecycle management.

	Priority Level for Each Stage			
Focus Area	Adoption	Addiction	Monetization	Awareness
Simplicity	●	◑	N/A	●
Transparency	●	●	N/A	●
Subsidy	◕	◔	N/A	N/A
Bundling	◑	◕	◑	N/A
Price Discount	◕	◑	◑	N/A
Price Premium Services	●	◕	◑	N/A
Revenue	●	◑	◑	N/A
EBITDA	◔	●	●	N/A

Increasing Importance
◔ → ●

Conclusion

The number of mobile phone users has skyrocketed in the past few years, and our research shows that the market shows no signs of slowing down. But it is changing. Interest in and usage of mobile data is accelerating in both mature and emerging markets. To capitalize on this mobile data boom, operators need to move away from traditional price competition and instead look to the customer experience.

It is important to understand the behavioral patterns and triggers for mobile data growth in different stages of the customer lifecycle. Treatment strategies across four customer lifecycle stages optimize the best ways to reach customers in the most relevant ways. It's an exciting time to be in the wireless space. With an in-depth customer strategy, you can make the most of it. ■

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Peppers & Rogers Group is a leading management consulting firm, dedicated to helping its clients improve business performance by acquiring, retaining, and growing profitable customers. We help clients achieve these goals by building the right relationships with the right customers in the right channels to maximize customer relationship and financial performance.

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