GSMA Intelligence

Expanded financials coverage shows mixed fortunes for developed and developing mobile markets

Authors Kavi Bains, Mark Giles
Published on 10 September 2015

Tags Australia, Developed, Developing, Europe, United States of America, arpu, Research note, revenue

GSMA Intelligence has expanded its coverage of financial metrics, with projections of revenues and ARPU to 2020. Over one-third of operators worldwide consistently report these metrics, across just over half the world's countries. GSMA Intelligence has modelled values for the remainder that do not report ARPU or revenues to obtain a complete picture of the financial performance of mobile operators globally. GSMA Intelligence clients can access the full set of financial metrics here:

- Total revenues
- Service revenues
- ARPU

New revenue projections highlight growth-limiting factors at play

Our bottom-up modelling approach and analysis show that over the six years from 2014 to 2020, mobile operators will drive revenue growth at a CAGR of 2.1% globally, to hit $1.2 trillion in revenues by the end of the decade. This represents a significant drop in growth compared to the last six years, when stronger connection growth, particularly in developing markets, offset falling ARPU to drive revenue growth of 4.3% per annum on average.

The key limiting factor now is market saturation. ARPU declines are slowing on average as pricing in many markets approaches a floor. However, at the same time, subscriber penetration in many markets is approaching a threshold – the addressable population. Opportunities for growth through traditional means are therefore becoming increasingly limited.

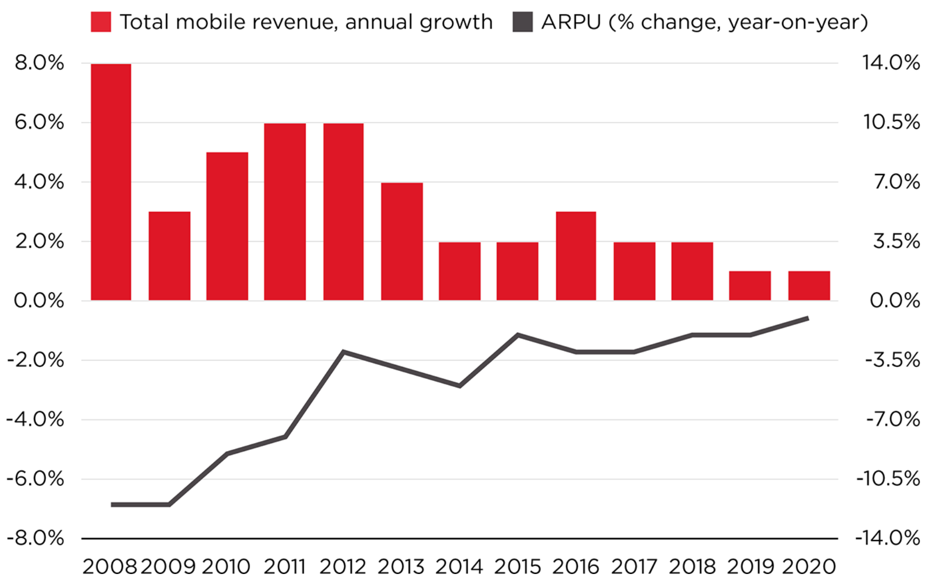

Figure 1: Mobile revenue growth and ARPU, 2008–2020

Source: GSMA Intelligence

Weak macro-economic outlook constrains developing market outlook

2014 was the year in which revenue growth in developing markets fell below that of developed markets. Such has been the reduction in growth within this segment – a 6.4 percentage point reduction on that witnessed during 2013, to hit a low of 1.6% in 2014 – that it appears unlikely to return to historical levels of growth any time soon. So is low, single-digit growth the outlook for developing markets in the medium term?

We anticipate something of a rebound in revenue growth in 2015/2016. Nevertheless, weak economic growth in many of the segment's largest and hitherto strongest growth markets (particularly some of the BRICS), compounded by the drop in global commodity prices that many developing market economies depend heavily on, will serve as a constraint. Brazil and Russia are two key examples of former high-growth developing mobile markets whose economies have recently entered into recession, and whose economic outlook remains poor. Brazil's government has already implemented austerity measures, while sanctions and the drop in global oil prices have hit Russia hard.

In addition to macro-economic issues, growth in developing markets is constrained by sector-specific factors, including growing market saturation, regulation and intensifying competition. Major markets such as China and South Africa have experienced a decline in their Herfindahl-Hirschman Index (HHI) of more than 10% since the end of 2010, indicating a more even spread of market share between operators.

As mobile users in developing markets tend to be more price-sensitive than their developed market counterparts, mobile revenues may not be as resilient as they have proved in some developed markets when faced with similar circumstances. Mobile spend is significantly lower in developing markets, which leaves less room for tariff readjustment. As a result there will be downward pressure not only on connection and subscriber growth but also mobile usage and therefore ARPU. In markets particularly hard-hit by growing economic headwinds, we anticipate further mobile operator consolidation, as growth opportunities will be limited and the pressure to reduce costs takes precedence.

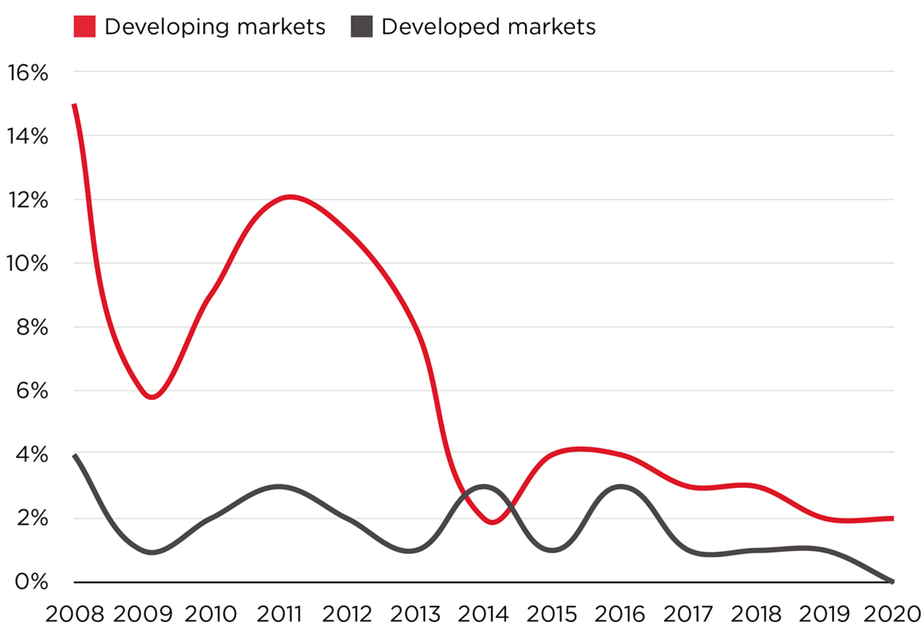

Figure 2: Annual mobile revenue growth, developed versus developing markets, 2008–2020
Source: GSMA Intelligence

Developed market growth has stabilised, but for how long?

In contrast to developing markets, revenue growth for the developed market segment has been more stable over the last six years following the global economic downturn, consistently returning low, single-digit growth. However, this masks considerable variance within the segment, with European markets witnessing strong revenue declines as economic and regulatory factors weighed heavily on the region.

2013 marked the nadir for European revenues, with declines hitting 7%. Since then, the outlook has improved; regulatory-induced cuts to termination and roaming rates have largely been factored in, and there is less room for cuts in tariffs as prices approach cost. We expect European revenues to continue to decline during 2015 and bottom-out in 2016, returning to a low-growth environment from 2017, as consolidation and the ability of converged operators to leverage ownership of fixed networks and content to support mobile will promote more sustainable mobile markets.

Outside Europe, the picture has been much more positive to date, with markets such as the US and Australia demonstrating continued strong revenue growth at the same time as European mobile revenues were contracting sharply. Despite this, the outlook of the segment is less clear today. Whereas European revenues are showing signs of stabilisation, other developed markets face increasingly challenging operating environments. Principal among these is the US, the largest mobile market in the world by revenues. Increasing competition is forcing prices (particularly roaming prices) downwards, while also driving an evolution of the mobile business model as operators move from the traditional handset subsidy model towards handset financing schemes.

During 2014 AT&T, for example, posted a 55% increase in non-recurring revenues on the back of strong demand for the iPhone 6, as well as the migration of customers to AT&T Next (its handset financing plans) and SIM-only plans. At a market level, US operators saw a year-on-year decline in service revenues of 0.8% in the second quarter of 2015, while non-recurring revenues grew by 23.7%, and contributed to total mobile revenue growth of 3.2%. As competition continues to ratchet up in the market, in light of Softbank's reaffirmation of its commitment to Sprint, we anticipate further downward pressure on pricing and ARPU.

Outside the US, economic and competitive headwinds look set to affect developed market revenue growth. As with developing markets, declining global commodity prices have adversely affected the economic growth of a number of developed markets, with for example Canada having already entered recession and Australia poised to follow suit. Although developed mobile markets tend to be more resilient to economic headwinds than their developing counterparts, recession will compel operators to reduce prices, placing further downward pressure on revenues.

 gsmaintelligence.com • info@gsmaintelligence.com • @GSMAi

GSMA Intelligence, GSMA, The Walbrook Building, 25 Walbrook, London EC4N 8AF