
Rebalancing the value from voice and SMS to data

A new approach to data tariffs for operators in developed markets

Calum Dewar, Forecasting Manager
Mark Giles, Senior Analyst

cdewar@gsma.com
mgiles@gsma.com

The continued decline in voice and SMS revenues coupled with a rise in data revenues illustrates the ongoing transformation in the mobile operator's business model. This is reflected in the strategies of developed market operators, which are transitioning their tariff structures to become increasingly data-centric.

However, having previously sold data services as an add-on to voice and SMS bundles, and often offering data in unlimited quantities, this transition is a challenging one. Mobile tariffs, while in many cases reducing in complexity, are becoming increasingly granular, with a growing number of operators splitting out handset costs to lay bare the incremental charge for their network services.

Mobile operators must seek to manage the change in usage patterns and pricing to minimise any cannibalisation of voice and SMS revenues, and to ensure that margins are protected and future investment remains viable.

Initially these new data-centric tariff structures were largely a defensive response to the erosion of voice and SMS revenues by IP-based substitutes. In some cases they have precipitated further declines in ARPU, however while they have eroded value in terms of the loss of some incremental charges, operators can point to other benefits such as reduced churn, increased net promoter scores, more stable in-bundle revenue streams, and the ability to link returns more directly to network investment.

The incremental data allowance model does away with the long-held assumption that heavy voice users will also be heavy data users, as operators try to get a more detailed understanding of how much data their customers are consuming – and in some cases how they are using that data. When operators know the data usage patterns of their customers, they can influence them to move up the data allowance ladder – e.g. by promoting specific types of premium content – thereby boosting data revenues.

Tele2, which operates across nine countries in Europe and Asia, is a key proponent of this tariff model. At Mobile World Congress 2014 in February, the group's President and CEO Mats Granryd stated that “in many of our countries, we charge only for data”, and that “my customer base on postpaid, more than 50% is on bucketised price plans”.

“The trick here is to realise how much data is each and every one of us going to use,” Granryd continued, “So we want people to first get into a bucket, and then move up the bucket chain”. Tele2 has since reported that in Q2 2014, in its largest market, Sweden, “almost 60% of its customer stock [is] now on bucket price plans”, while service revenue for the group as a whole was up 7% year-on-year.

Another prominent example of data-centric tariffing is Vodafone, which launched Vodafone ‘Red’ in September 2012. As with Tele2’s plans, Red tariffs incorporate unlimited voice minutes and SMS, with prices scaling based on incremental data allowances.

As of Q2 2014, 14.3 million customers had signed up for Vodafone Red plans, with the proposition available across 20 countries. While it has witnessed some ARPU erosion as a result of its introduction, Vodafone points to its simplified tariff structure as driving higher net promoter scores (NPS – a key metric used to measure customer satisfaction), lower churn, and greater data usage.

By focusing on incremental data allowances, Vodafone can tailor its plans to stimulate data use. In its 2012/2013 annual report, it quoted that on average, Europeans smartphone users consume 250MB of mobile data per month – approximately a quarter of that consumed on average in the US. However, as of Q1 2014, Vodafone revealed that Vodafone Red smartphone customers were on average consuming 800MB per month; almost double that of its non-Vodafone Red customer base. In addition the company is also seeing an uplift in voice usage, with Vodafone Red customers on average generating an extra 11% voice traffic.

Vodafone Red’s tariff structure is also designed to help protect its profit margin by enabling it to better control handset subsidy costs. By segmenting the price of its network services from the price of the handset, Vodafone Red not only ensures a set return on non-handset services, but also provides greater visibility of the cost of the service to its customers.

This approach was also implemented by AT&T in July 2013 when it introduced AT&T Next – a handset financing scheme which also segments the price of its network services from the price of the handset. In doing so, the operator is attempting to transition its postpaid customer base away from the use of handset subsidies and on to handset financing plans. As a result, its mobile revenue mix is changing, with equipment revenues increasing by 45% year-on-year in Q2 2014, and service revenues declining by 1.4%. In addition to substantially reducing subsidy costs, AT&T also credits the plan (alongside its Mobile Share Value plan), as having helped it post its lowest ever postpaid churn and its best postpaid customer growth in nearly five years in Q2 2014.

This is a more pressing concern for operators in ‘Digital Pioneer’ and ‘Connected Player’ markets than their counterparts in the ‘Fast Grower’ and ‘Discoverer’ segments, who still rely on voice for two thirds of their service revenues (see figure below). Yet, the same trends are becoming apparent in these latter two segments, and thus their future strategies are likely to mirror those of the former two segments. ‘Discoverer’ and ‘Fast Grower’ operators will be paying particular attention to what is happening in the ‘Digital Pioneer’ markets, where data-centric tariff plans are currently being implemented as operators attempt to move away from the current strong competition on subsidies, which is putting pressure on operator profitability.

For example, Japan’s NTT Docomo highlights its need to “break away from [a] cash rebate-centric customer acquisition model”, and to “differentiate through network and services”. It recently introduced new billing plans such as ‘Kake-hodai’, which offers unlimited domestic calls, and ‘Pake-aeru’, which allows a data quota to be shared among family members or over multiple devices owned by a single user.

Meanwhile, in South Korea, SK Telecom launched a new tariff plan in April 2014, offering ‘unlimited’ LTE data. Each of its unlimited tariff plans includes a set monthly data allowance, for example the LTE85 plan includes 12GB of LTE data per month, as well as an additional 2GB of LTE data per day. After both have been used up, the customer’s speed is then limited to 3Mbps. SK Telecom reports that 60% of new and upgrading LTE subscribers opt for its unlimited data plan, which has helped to increase ARPU levels.

In order to further fuel data demand and earn a return on its 4G network investment, SK Telecom has sought to introduce additional LTE data services. During 2012, in addition to ‘T Sports’, a mobile sports broadcast service, SK Telecom launched ‘Btv Mobile’ - a mobile IPTV service which provides 80 real-time channels for KRW 9,900 (approximately \$9.60) per month. As of Q2 2014, 1.9 million of SK Telecom’s customers had subscribed to the Btv Mobile service. South Korean mobile operators have recently been subject to bans from signing up new customers due to their continued use of “illegal” subsidies, with SK Telecom’s rival KT noting that competition is moving away from subsidies to service quality.

Indeed with voice and SMS becoming less significant in the overall mobile offering, quality - of the data networks themselves as well as in terms of customer satisfaction levels - will rank highly alongside data bucket prices as a key differentiator between operators. As data networks are increasingly used for applications such as video streaming or financial transactions, providing a seamless service is paramount - and the key to generating increased data usage and therefore moving customers up the data allowance ladder.

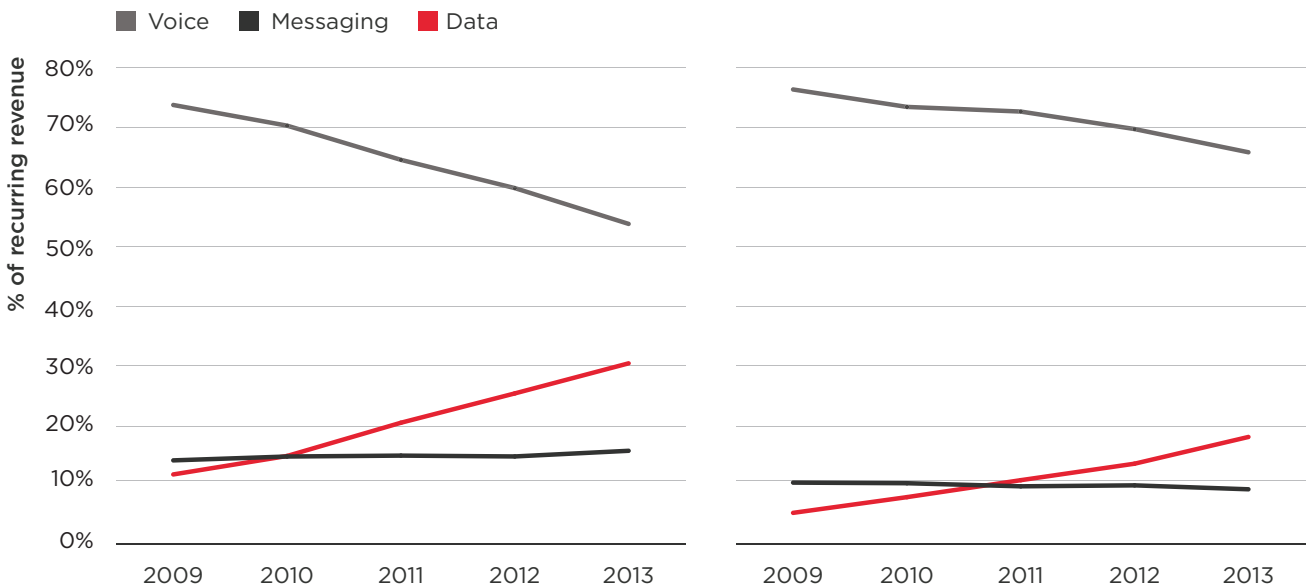


Figure 1: Share of recurring revenue by type, Digital Pioneer and Connected Player operators (left) versus Fast Grower and Discoverer operators (right), 2009-13

Source: GSMA Intelligence

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GSMA Intelligence, 5 New Street Square, New Fetter Lane, London EC4A 3BF