

Mobile users move toward contract tariffs as prepaid plateaus

New study identifies Americas as sole prepaid growth region

The split between prepaid and contract-based mobile connections is forecast to remain largely unchanged on a global basis over the next five years, but will include some significant regional shifts.

Wireless Intelligence this week published new operator prepaid/contract forecasts until 2017. We found that the global split today – 77% prepaid, 23% contract (Q1 2013) – will be strikingly similar in five years' time at 76% prepaid, 24% contract in Q4 2017. This suggests that growth in prepaid as a proportion of total connections has now plateaued, having increased steadily from around a third at the turn of the century to more than three quarters now.

Contract-based connections are expected to increase slightly across all global regions with the notable exception of the Americas – where prepaid is still growing steadily in the US.

While market-leader Verizon Wireless has only around 5% of its total connections base on prepaid deals, Wireless Intelligence estimates that prepaid accounts for more than 30% of connections at rivals AT&T, Sprint and T-Mobile USA. Until recently, 'no contract' operators such as MetroPCS and Cricket have also seen strong growth - with the former migrating its prepaid offerings over into the 4G-LTE space. Sprint also offers prepaid LTE through its prepaid Virgin and Boost brands (though AT&T and Verizon do not).

Prepaid is usually associated with low ARPU, but prepaid ARPU levels in the US are high relative to other developed markets. On average, at \$19.44 prepaid ARPU in Q4 2012 in the US was around one third (32%) of average contract ARPU. This compares to about a quarter (26%) in France and Spain; one fifth (21%) in the UK; and 18% in Germany.

"I wish I had a similar no-contract business in Germany or in Europe, as we have in the US," said Rene Obermann, CEO of T-Mobile USA parent Deutsche Telekom on a recent conference call. He noted that ARPU at prepaid operator MetroPCS – currently subject of a merger with T-Mobile USA – was "in the vicinity of \$40, [which] is wonderful".

T-Mobile USA grew its prepaid connections base by 20% in the year to Q1 2013, outperforming its contract base - which contracted by 5% over the same period. Referring to the operator's plans for 2013/14, Obermann explained that "In the combination with PCS, our objective is to have basically flat growth in contract offers... But the no-contract offer stands for 80% or more of the growth. So this is something we like to push very hard". In February, T-Mobile USA launched a new nationwide prepaid brand targeting the low-budget sector called GoSmart Mobile.

Conversely, Northern and Western Europe have seen significant recent growth in contract connections at the expense of their prepaid customer bases, with prepaid as a percentage of total connections falling by 2.6pp and 2.9pp respectively in the year to Q1 2013. Operators in these regions are increasingly focusing on migrating subscribers from prepaid tariffs to contracts in the face of saturation in many markets. For example, in Q1 2013 the level of prepaid connections fell 5.7% year-on-year in the UK, 7.2% in France, and as much as 8.6% in

the Netherlands and 9.8% in Belgium.

As noted above, average prepaid ARPU in Europe is fairly low relative to contract ARPU, especially when compared to the equivalent ratio in North America. In Q4 2012, average contract ARPU in the Netherlands and Switzerland was more than six times greater than prepaid, thus providing a clear incentive for operators to develop new types of contract tariffs aimed at attracting existing prepaid users to switch.

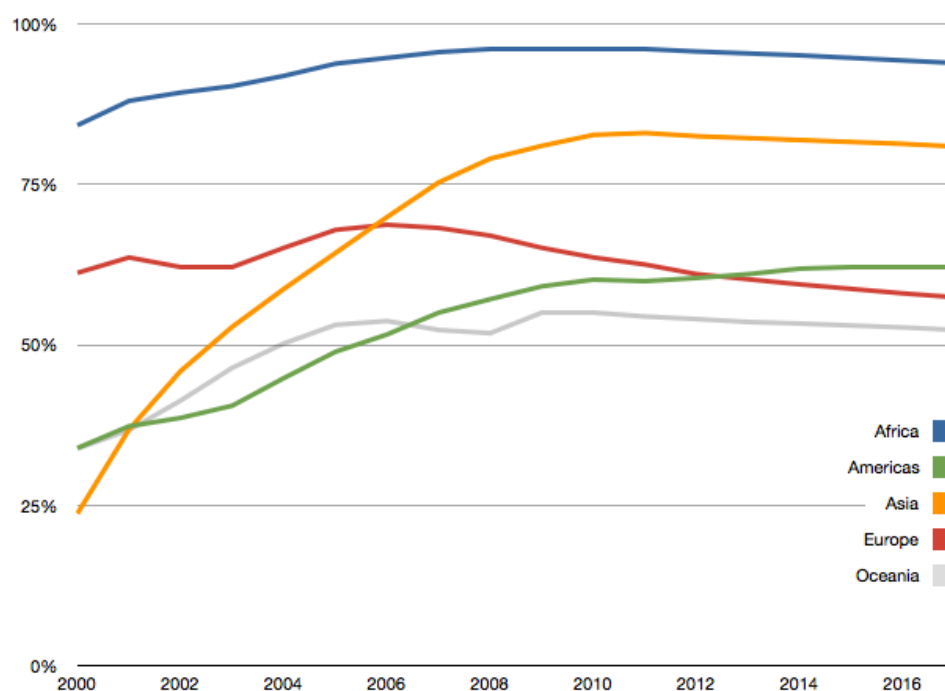
These pricing plans have included SIM-only tariffs, contracts with short cancellation periods and expanded customer loyalty programmes. Bundling is also contributing to contract growth; Orange had 2.5 million customers on its 'Open' quad-play product in Q3 2012.

The rapid rise in the popularity of smartphones has also been a major factor, with operators in many countries still offering large subsidies on high-end devices to customers who are prepared to sign long-term contracts. Despite the wider availability of prepaid data services, contract offers continue to carry most data opportunities for consumers.

Meanwhile, the introduction of new prepaid offers is on the wane in the region. Free Mobile, which launched last year in France, is 100% contract, and the recent brands launched in the country by Orange, 'Origami' and 'Sosh', are both contract-based.

Vodafone's 'Red' contract tariffs, which launched late last year, have 4.1 million customers across 14 markets as of this month and are helping to drive contract uptake across the group's European footprint. As their Q4 2012 report notes, "Vodafone Red tariffs, branded as 'Vodafone Relax' in Italy... are proving popular with contract customers and have also resulted in the migration of some prepaid customers to contracts".

In Europe overall, we expect prepaid connections to decrease by 3.4pp over the next five years to 57% of total in 2017, giving the region the second-lowest prepaid share behind Oceania (52%). The Americas will jump to third place, rising from 60% to 62% prepaid over the same period, while prepaid connections as a percentage of total will decline from 96% in Africa and 82% in Asia currently to 94% and 81% respectively in 2017.



Prepaid as a % of total connections, 2000–2017

Source: Wireless Intelligence

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