MDS GLOBAL

The ‘Un-carrier’ approach

Using pay-anytime plans to win market share and increase customer lifetime value

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In most telecoms markets, there are two universal truths: competition is driving down revenues and customers want more for less. It’s become a fine balance between giving customers what they want and staying profitable.

Take the launch of Reliance Jio in India. It’s taken the market by storm with an ‘everything free for 6 months’ offer, followed by additional discounts on normal rates after the offer period expires. With such an aggressive stance, it’s clear how quickly value can be stripped out of a market.

It’s causing pain for the bigger players who are trying to keep up with the disruptors. Vodafone India recently announced that their prepaid average revenue per user (ARPU) had declined 28% in the quarter ending December 2017. That’s tough to swallow.

So how do you increase the ARPU or, at the very least, the customer lifetime value (CLV), of price conscious prepaid customers?

We think it’s achievable by turning your strategy on its head. Offer customers something unexpected, but useful and valuable, that will start them on a journey away from prepaid and towards ‘pay-anytime’ plans.

In this eBook, we outline several ideas that can facilitate this journey. We consider each interaction with the customer to be a ‘breadcrumb’ that entices them to think differently about how they use their phone and, ultimately, persuades them that prepaid isn't the only way. This breadcrumb approach empowers customers to use their mobile phones as they want, when they want, using anytime payment plans.

This isn't a prescriptive approach, so you can use these breadcrumbs in various combinations. They will enable you to increase the value of your existing customers, and even to recruit new customers you may previously have deemed irrelevant or too high risk.

Where to begin? Leave your assumptions at the door

The beauty of this approach is that no breadcrumb is bound to a single segment. In fact, you can reach segments that you may previously have excluded. You can grow value from new, often overlooked customer profiles, and increase value from exisiting ones.

Follow the breadcrumbs
to higher customer value

For instance, could you take on customers who have a poor credit history and high-risk profile? It may seem an unlikely approach, but it's possible if you study your customers. For example, building a credit profile of customers over time will help you to identify how many reliably pay the same amount each week or month. You can then offer them small amounts of credit, amounts that won't damage your business, and monitor how they respond. It's a low-risk strategy as the customer can't rack up large bills, yet it's an extremely effective way to learn how you can grow value and market share.

And that's the first step to take - assess the segments you think you could grow, and identify those you've previously dismissed which could actually prove to be lucrative. The customers you rejected in the past could turn out to be the most valuable, especially if you follow some of the approaches suggested below.

Is prepaid really a customer segment?

Prepaid customers have traditionally delivered a lower ARPU than post-paid customers, but is that still the case?

Historically, there have been many reasons why customers would choose a prepaid offer, ranging from a general lack of engagement with telecoms brands to the need for anonymity, as in the case of the classic 'burner phone' beloved of US cop and spy shows.

In some subsidised markets, prepaid growth is a consequence of poor credit ratings. If customers can't pass a credit check, they will have no choice but to go prepaid. Mostly though, the driver for choosing prepaid has been the need for control. Customers want to manage their budget, so they choose a mobile phone service that won't result in any unexpected or unpleasant bills.

However, in our recent whitepaper **The VNO Journey: Step 3 - Evolve the Business,** we argue that to succeed in today's competitive markets, operators and VNOs must adopt an 'un-carrier-like' strategy, just as T-Mobile did in the US. This means removing restrictions to your service, such as credit checks, and providing different models that

will enable consumers to get what they want in a way they can afford.

The first step is to abandon the notion that customers should be segmented by their chosen method of payment.

Give customers control through an app

The advancement of technology has removed the main reason why customers would choose a prepaid plan. If a service provider can offer a real-time rated service, which they must do to deploy prepay on their network, and can offer an app that lets customers take control of their spend, then they have already taken the first steps towards offering pay-anytime plans.

In the past, it has been difficult for operators to learn anything about their prepaid customers due to the anonymous nature of the business model. However, the arrival of the app has changed this as customers must provide an email address to log in. That's already a big leap forward in terms of building a relationship.

But if you are really clever when you set up your app, you can glean more personal data during the sign-up process, particularly if you promise a more a personalised experience as a result. We will return to this point later on.

Once customers have the app, they are able to control their spend. They will no longer be bound by a hard stop when they run out of credit as they can use the app to set flexible spend limits.

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UK-based MVNO iD mobile led with this ‘capped contract’ proposition and has been extremely successful in taking share in the lower-value subscription market. As a result, it grew to over 700,000 customers in under three years.

This model also enables customers to continue their access to services, even when they have reached their spend limit; they can use the app to buy a few extra days of service, or a small bundle of data to tide them over. They can even get friends or family to gift them some of their unused data.

What’s more, once you have established how frequently customers top up, you can make a business case to offer a small loan arrangement, giving customers access to emergency credit, which is deductible from their next top up.

An important benefit of offering spend management is the associated uplift in brand perception. By allowing customers to exercise control and manage their account via the app, you will increase brand engagement, loyalty and trust. Whilst previously customers might only have interacted with your brand when they topped up, which was often via a third party, they will use the app more regularly to check their balance, buy credit, or just see how much data they have left. Your brand will become sticky.

Most importantly, these regular interactions with the app improve the customer experience and increase the likelihood of customers recommending your service, which is the best marketing of all.

Reward your customers for giving you their information

Now that your customers are using your app regularly, you can start to develop your relationship further.

In markets where prepaid SIM card registration is not mandatory, you can encourage customers to share more data with you by offering small rewards. For example, if customers disclose their address, date of birth or link to their social media account, you could give them something that they value – more voice minutes, texts or data. By analysing a customer's payment transaction data, or even asking them directly, you can ensure that your offer is attractive.

From here, you can take the next step along the road to more structured payment plans. Offer a more flexible tariff, in which customers can receive bundles of voice, text and data if they top up regularly, or an auto top-up mechanism, whereby their balance is replenished when it reaches a certain threshold. Customers retain control, but their experience is dramatically improved. After all, no one wants to be cut off when they need to make an important phone call.

This model is all about trust. In the past, the typical prepaid customer would have been uncomfortable with this approach as they wanted a no-frills service, but app-based models have changed attitudes. The ability to set limits boosts the customer's sense of control, increasing the likelihood that they will accept new payment models.

Use your data to build segmented propositions

Once your customers are using your app regularly and you have gained their trust, you can start to collect more data, which will allow you to better understand and segment your customers. This is crucial if you are going to sell more value-add services.

For example, you may see that you have a group of customers who burn through data when accessing social media or over-the-top (OTT) messaging services. Using this insight, you can develop application-based charging or application-based bundles, such as unlimited free access passes to their preferred app, be it Facebook, Twitter or Snapchat. This approach of encouraging customers to swap out of paid-for data into an 'all you can eat' streaming bundle may seem high risk, but it can be very lucrative. In fact, research undertaken by Expert Market Insight shows that of customers who take an application-based bundled service, 35% also take a paid-for data plan[1]. As high data users, they want to be certain that they can access other services beyond those in the application-based bundle.

Having additional offers targeted at specific segments is a great way to improve customer revenues without having to move customers to a full subscription model. Customers can enhance their current plan, be it prepaid, hybrid (a blend of post-paid and prepaid services) or post-paid, with additional highly-targeted, highly-valued, but low cost offers.

1 'Proven use cases for mobile operator data monetization in emerging markets', Expert Market Insight, **https://www.allot.com/resources/WP-EMI-Emerging_Market-Monetization-UseCases.pdf**

Simyo, a low-cost Spanish VNO, is a prime example of a VNO that uses this digital approach to cross-sell to its customers. In fact, more than 75% of its 800,000 customers have been acquired through digital channels, and its proposition takes advantage of the growing consumer trend for personalisation by allowing customers to build their own bundles during the online sign-up journey.

75%

Percentage of Simyo customers acquired through digital channels

5%

Percentage by which Simyo increased its ARPU through offering low-cost 'toppings' to existing customers

It has subsequently enhanced its offering by giving customers access to additional 'toppings' – low-cost extra value offers only open to existing customers. Simyo has said that this approach has increased its ARPU by 5%, and is a contributor to its market leading customer NPS of 45.

But where Simyo has really made a difference is in its use of insights. It goes far beyond just using customer data and segmentation to decide which micro offers to develop. As the offers are deployed, it tracks which segments take up the offers and when. This greatly improves its knowledge of its customers' behaviour, and allows it to identify triggers that indicate when a customer is most likely to buy.

The key message here is that once you have a robust data set, including past purchase history or attitudinal data, you can build propensity models for each customer segment. You can then proactively target customers with the offer that is most likely to appeal to them as they are using the app.

According to Mintel[2], 60% of Millennials would be willing to provide details about their personal preferences and habits to marketers. A small incentive, such as a £10 voucher, was enough to change the minds of 30% of Millennials who were reluctant.

60% Percentage of Millennials willing to give their data to marketers

30% Percentage of Millennials willing to give their data to marketers if offered a small incentive

It is very clear, then, that offering a more personalised experience can increase the loyalty and tenure of your customers. In addition to this, customers will often give you the data you need to personalise their service, but if they are initially unwilling, a small offer may be enough to sway them.

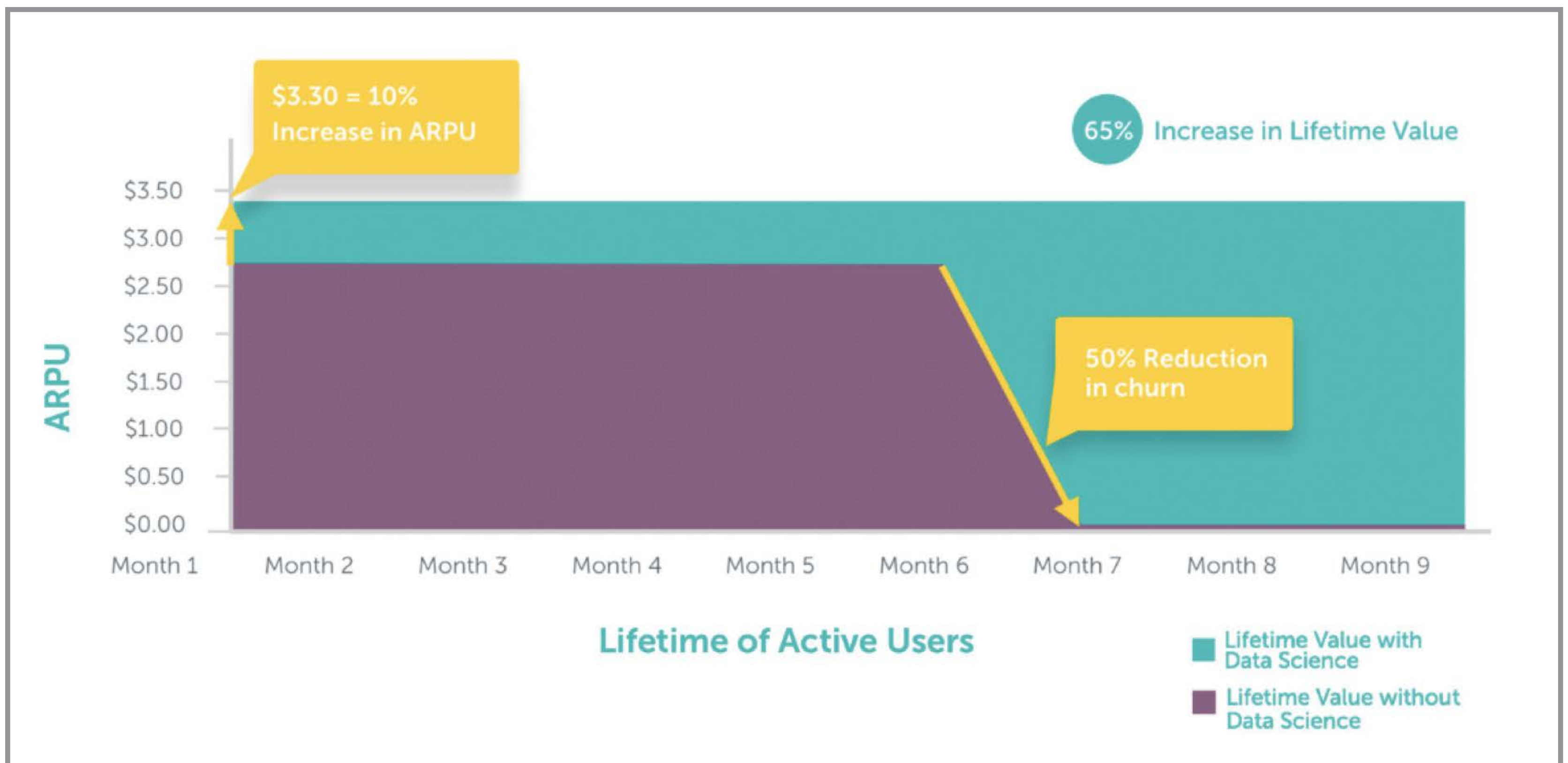
Juvo, a US-based data analytics company, researched the impact that a data-led model would have on moving a customer from prepaid to a more regular payment

2 'The oversharing generation: 60% of Millennials willing to share personal data with brands', Mintel, https://www.prnewswire.com/news-releases/the-oversharing-generation-60-of-millennials-willing-to-share-personal-info-with-brands-249034631.html

plan, focusing specifically on the understanding the customer's behaviour and taking a different approach to credit-worthiness[3].

They found that this approach had a massive positive business impact:

1. An increase in prepaid ARPU of 10-15%
2. Prepaid churn reduced by 50%
3. Customer Lifetime Value (CLV) doubled



Juvo concluded that understanding customer behaviour and using data insights could unlock a $70bn global opportunity.

It is important to note that this $70bn opportunity isn't reliant on attracting new customers, but is achievable by getting existing prepaid customers to follow the breadcrumbs to enhanced personalised offers.

3 'Data Science: Driving Mobile Operator Digital Transformation', Juvo https://juvo.com/driving-mobile-operator-digital-transformation/

Add incremental revenue through extra value adding services

Reaching a point where your customers are happy for you to take monthly payments for hybrid 'capped contract' offers, or simply when they need their next data hit, are major milestones. But there are plenty of opportunities to increase the number of services a customer will take. As we have already mentioned, identifying these opportunities relies on strong analytical insight.

Many VNOs have already recognised that as their mobile revenues come under pressure, they can cross-sell additional services to their mobile customers to bolster their margins. One such service is streaming.

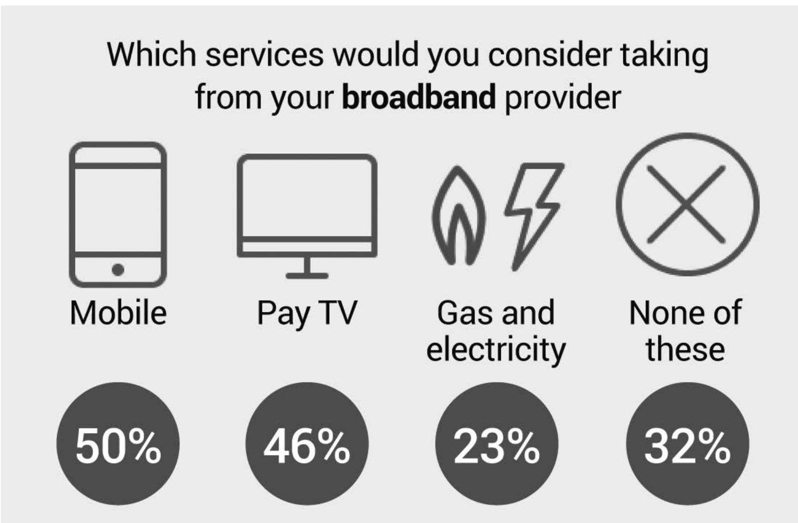
Zenith Media forecast that in 2018, the average consumer will view 36 minutes of video content via their mobile each day, compared with 18.5 minutes on laptops and PCs. It also predicts that by 2019, 72% of all online video viewing will be via mobile devices[4].

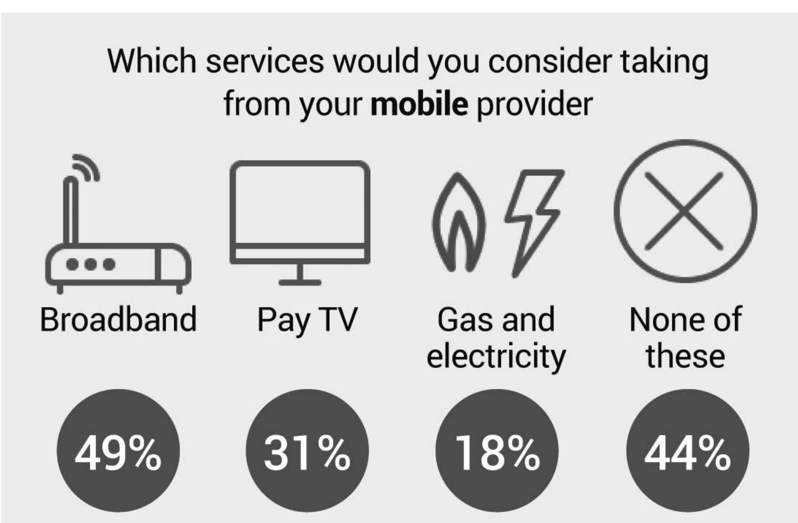
36 **minutes a day:** Length of time consumers will spend watching video content on mobile in 2018

18.5 **minutes a day:** Length of time consumers will spend watching video content on laptops and PCs in 2018

72% Percentage of videos viewed on mobile devices by 2019

4 'Mobile devices to lift online video viewing by 20% in 2017', Zenith Media, https://www.zenithmedia.com/mobile-devices-lift-online-video-viewing-20-2017/





We have already discussed how application-based charging can allow VNOs to offer free access passes to customers' favourite content providers, so the next obvious step is to take payment for content that usually has an associated cost. Whether it's a daily pass to access sports content, or a monthly fee for Netflix or Spotify that is rolled into the mobile plan, the customer demand is there and the commercial deals are already being signed.

Recent research by Graystone Strategy[5] reinforces the need to take first mover advantage. It found that there are six different customer segments that are very comfortable buying additional services from their telecoms provider. 31% of customers would buy pay TV from their mobile provider, and in some segments, this rose to as much as 40%.

However, music and film services aren't the only opportunities. Consumers are becoming more concerned about protecting their mobile device, especially when using it online. Security-as-a-service is therefore a perfect cross-sell to meet this demand, and a solid way to grow revenue and margin. In the UK, Vodafone offers Secure Net, an online mobile security product that offers protection against malware, viruses and phishing attacks, for just £1 per month.

Security-as-a-service will soon become a standard offering as services converge with the Internet of Things (IoT), the connected home becomes a reality, and the need for 'always on' access to content grows. Consumers will expect to access these services in an uninterrupted and user-friendly way. They won't want to pay in advance, but on demand.

5 'Graystone Strategy Market Segmentation 2017', Graystone Strategy
www.graystonestrategy.com

Investing in the future

We've now outlined four ways in which you can encourage your prepaid customers to become more engaged, spend more and consider moving to post-paid services in the long-term. Success will rely on reading the market and anticipating the trends that are here to stay, understanding customer behaviours and needs, and implementing flexible technology that can deliver the services consumers want, whenever they want.

There are plenty of examples of VNOs doing this well, but they haven't sewn up the market yet. There is still huge potential and VNOs that respond now and invest wisely will win share.

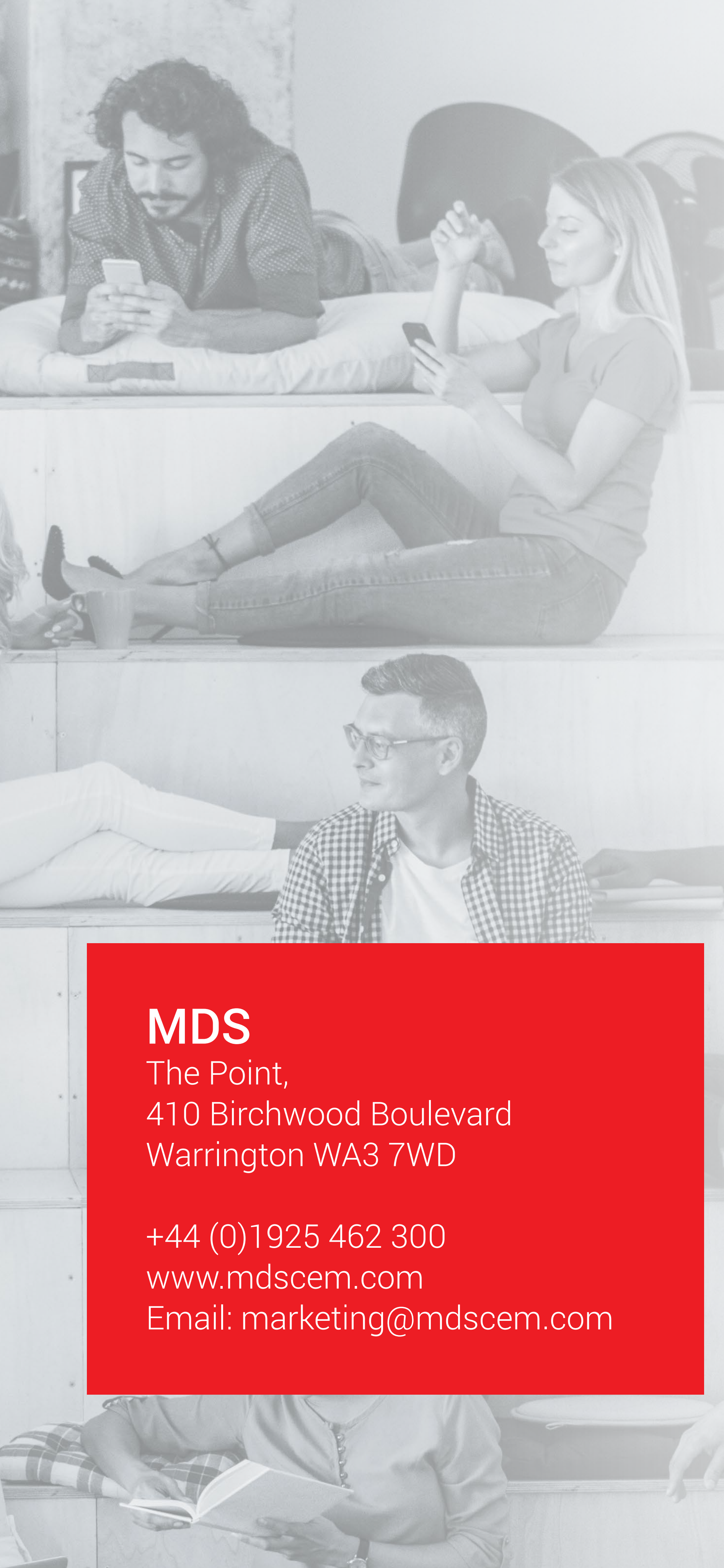
VNOnDemand- Empowering customers to pay anytime

MDS' VNOnDemand platform gives VNOs, large and small, access to the payment, billing and analytics capabilities previously only accessible to Tier 1 carriers. VNOnDemand can enable the process we have outlined above, including delivering truly real-time rating, awesome analytics, and the consultancy and experience necessary to turn that data into actionable insights. And it's all managed in the cloud.

VNOnDemand incorporates a best practise framework to provide a low-cost starting point from which to get your VNO business running swiftly. Our best practice model can be tailored to meet your exacting needs, whilst reducing risk and effort.

In addition, our managed as-a-service architecture supports constant business transformation through our DevOps model, giving you the operational agility to match your market pace.

To find out more about VNOnDemand or to request a demo, please **Contact us.**



About the author

Andy Peers has 25 years' experience in the telecoms industry with a broad background in IT, finance, revenue assurance and service management. He is responsible for defining MDS' company strategy and future direction. Through his work in Australia, the US and Europe, he has extensive international telecoms experience, working on major projects with operators, service providers and MVNOs.

Andy has successfully implemented MVNOs and took the lead in developing MDS' converged Managed Service offering, delivered as a combination of SaaS plus Application Management Services. Most recently, he has been responsible for the outsourced delivery of end-to-end converged BSS to operators around the world.

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