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## Firing ARPU



**While many telcos have become accustomed to seeing their ARPUs continue on a course of slow decline, it is clear that by adopting the right practices, operators can halt the decline and even increase their customers' spending.**

Fede Membrillera, a partner at Delta Partners, a Dubai-based telecoms investment and consultancy firm, admits that telcos could do far more to increase ARPU in a number of areas, including voice, data and value added services.

While Membrillera says that there “remains a lot of value to be captured” from voice services, it is mobile data, VAS and bundled offerings that offer the most potential, according to Membrillera.

### **Differentiation**

Whether an operator is looking to raise ARPU through VAS, broadband or bundled services, the ability to differentiate between different types of customers is vital. “Segmentation is key and the telecom industry has been very good historically at selling one thing to many people,” Membrillera says. “There are a lot of products and services but they are not properly segmented. This should be the name of the game going forward.”

One area where segmentation is particularly important is mobile broadband, with different types of customers needing different types of data offering. Indeed, despite demand for mobile broadband surging in the region, many telcos are finding it tough going to increase ARPU in this side of their business.

“With mobile internet, from a traffic perspective and user stand point, it is proven that there is a lot of demand, but mobile operators have not managed to capture value here,” Membrillera says. Traffic is growing exponentially but revenues are not improving that much.”

He adds that mobile broadband via phones appears to be offering telcos “quite a healthy margin” partly because the amount of data that can be consumed is not as high as on a laptop or desktop. “The profitability that it generates for the operator is close to 60-70% which is clearly not the case on the pure mobile internet access,” he says.

Membrillera points out that there are distinct mobile broadband businesses; broadband via dongles, which has limited profitability, and broadband on mobile phones, which is likely to prove more lucrative. “Within this there are several categories because the profitability that is being generated by phones is much higher, and this will have an impact on the type of value proposition that you are going to send to the market and the type of devices you are going to promote,” he adds.

Omani operator Nawras is just one telco that has looked carefully at ways to increase ARPU through its mobile broadband offering. This is particularly important given that the “highest areas of growth” across Oman is broadband, including fixed and mobile, according to Ross Cormack, CEO, Nawras.

Cormack says that Nawras has about 500,000 regularly users of mobile data, of which about 40% are considered to be “high use” broadband access customers. “The hungriest aspect is broadband access. Generally people want to check their Facebook, or look up some information they need,” Cormack says.

“That is one of the main areas we are looking to grow,” Cormack says. He adds that Nawras recently repositioned its mobile broadband bundles for both postpaid and pre-paid users in a bid to ensure it had packages to suit “everybody’s pocket and types of use”.

To ensure its mobile broadband services remain profitable, Cormack says that it is important to “be clear with customers” and offer simple, differentiated packages. Under Nawras’ prepaid mobile broadband service, customers can pay OR1 for up to 1 gigabit use for 24 hours; OR2 for 2 gigabits for 48 hours, or OR3 for 3 gigabits for five days.

“It’s attractive for our customers because they know where they stand. It’s the youth that has driven a lot of this because they are the largest segment,” Cormack adds. Nawras has also found ways to increase ARPU from customers on its fixed monthly broadband tariffs. When a customer on Nawras’ Silver or Gold packages reaches their limit of gigabits, the service slows down to a slower speed. This at least allows the customer to continue using data services after passing their limit.

But Nawras has also taken the concept a step further with its Silver Plus and Gold Plus packages, which allow users to pay a lower rate for over-use. “These have been popular types of packages because they suit different types of people,” Cormack says.

“The main thing to say is that you need to segment your market so that you can offer customers the packages that suit their pockets, needs or desires.”

### **Linking fixed and mobile**

Operators can also do much to raise usage of both fixed and mobile services by offering bundles that incorporate both, although many operators appear to be doing a poor job of offering these types of services. “They are not doing a particularly good job, Membrillera says. “No-one is leveraging the fact that they have two businesses. They still treat the business in a completely different way. One thing is voice, something else is data and they are still not capturing it in the proper way,” he says.

“If you look at the UAE, no-one is offering bundles where using the data services helps to generate extra traction on the voice, and the other way round.” Membrillera says that operators should promote these kinds of converged bundles as a way of raising ARPU. “They may be able to find a price plan or a specific offer that tackles this. They should do more.”

He adds that while some operators claim they are already offering certain types of price plans that connect mobile and fixed services, or voice and data, they still need to take a more holistic approach to the issue. “The mindset, the organisational structure and the focus of the sales and distribution is not combining voice and data,” he says. “There is a lot of effort that the operators need to make to ensure that they get the offering close to what the customer needs.”

### **Keeping it simple**

Part of the problem is that telcos often fail to focus on their services and what they mean for customers. As an example, Membrillera points to the way some operators focus on the number of megabits of data offered by specific packages. The problem with this type of marketing is that it means little to the customer, who probably does not understand what a given number of megabits translates into in terms of services.

“They are forcing us to learn what is a megabyte or gigabyte. As a customer, either I don’t know or I don’t care. What I do know is that I want to use Facebook, do some browsing, and watch or listen to some Youtube. The operator should just tell me what product I need,” Membrillera says.

“There is a lot that needs to be done on the simplicity front and on the proper segmentation. We do segment quite a lot but the addition of simplicity would really help create additional stickiness to the product and will help the customer to make the decision,” he says. The industry has a lot of room for growth. There is no reason why mobile advertising or financial services are not working, it is a question of focus.

### **Adding value**

Another area where operators can seek to raise ARPU is through value added services, although this has also proven quite difficult for many operators that have tried. “I think there is value to be captured but so far no-one has managed to crack it. If you count the amount of resources and

time that operators have devoted to adjacent businesses, there is only 1% to 2% of ARPU that comes from these VAS so far. Clearly operators need to keep investing there,” Membrillera says, referring to services such as mobile advertising and mobile financial services.

“Adjacent business will increase loyalty and reduce churn in terms of customer creation and lifetime value will be helped and will contribute with the addition of dollars to ARPU,” he adds. Cormack points to a number of VAS offered by Nawras including ringback tones and an SMS-based email service. While this type of service might not have a big impact on their own, Cormack says that their combined contribution to ARPU can be significant.

“They all add up, but they are all highly focused, so when you look at them in aggregate they make a bit difference, although they can be quite small on their own,” Cormack says. Rashid Abdulla, CEO, Batelco Bahrain, also sees significant value in VAS. “The adoption of innovative VAS plays a key role in increasing ARPU across all areas for telecom operators.

“It is important to enhance value in order to increase customer usage so that ARPU’s remain at reasonable levels for the industry,” he says. “Different strategies work better depending on market segment; it is vital for operators to know their market and understand their customers’ requirements and then deliver specific products and services accordingly,” he adds.

Strategies to increase usage across the board can also help increase customer spend. Nawras launched a customer loyalty scheme programme called Elite Rewards. This allows users to accrue points as they use services. The more they use services, the more points they earn, and these points can be redeemed later against other services. “It also increased loyalty and therefore ARPU in the longer term,” Cormack says.

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