

Time to better leverage LTE?

Benchmarks, dynamics and insights into mobile data services



The 3rd edition of Arthur D. Little's Voice and Mobile Data Service Tariff Plans Benchmarking study has identified trends of decreasing prices and increasing data allowances with a growing demand for both data and LTE networks. European telecom operators are yet to fully leverage the inclusion of value-added services in their plans, while such offerings in Middle Eastern markets are still at an early stage. Mobile carriers can better monetize their LTE investments by further stimulating data consumption through the bundling of OTT services, as well as data volume-tiered or speed-based pricing.

Study and key findings

The 3rd edition of Arthur D. Little's Voice and Mobile Data Services Tariff Plans Benchmarking study analyzes state-of-the-art tariff plans for mobile data and for voice commercial offers. The objective of the research was to assess the evolution in current LTE vs. 3G offers and identify any differentiation in pricing strategies, levels and offered services by country and operator. The report analyses more than 560 comparable tariffs of 56 MNOs in 16 countries throughout Western Europe, North America and, for the first time in this report, six Middle Eastern countries.

According to the study, mobile competition is still strongly increasing value for money with trends including:

- **Decreasing tariffs.** Price competition continues in most countries although several markets, such as the US and UAE, are still experiencing premium prices
- **Higher LTE prices.** LTE is priced higher than 3G in markets where it is still differentiated, such as Italy, due to the expected better customer experience
- **Increasing data allowances.** Mobile data bundles are being expanded up to hundreds of GBs in countries, such as Bahrain, Denmark, Austria, US, Saudi Arabia (KSA) and Kuwait. Plans tend to converge within each market, towards standard data allowances, i.e. comparable cap of data per offer within one country

- Price differences can be huge, varying up to 4 times among different areas and countries
- Value-added service offerings are still untapped, as operators have not yet fully leveraged additional services

Benchmark overview

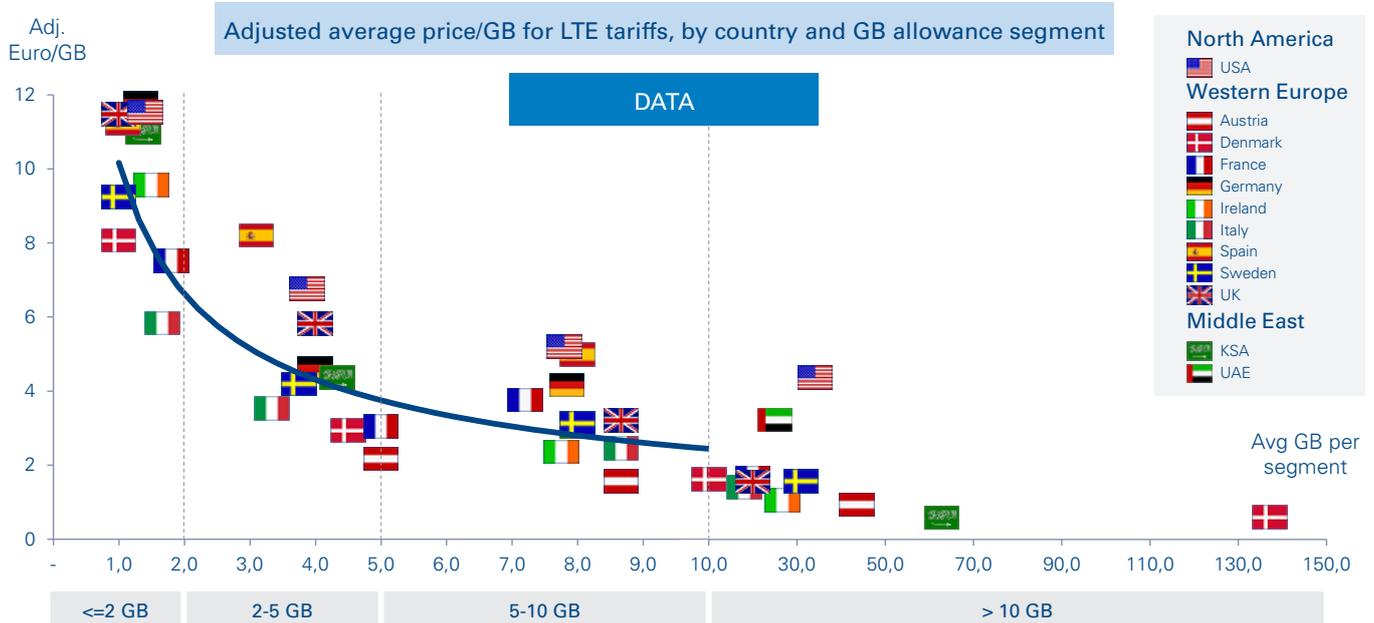
Data plans. Adjusted price per GB ratios show the data offers and prices vary quite significantly across countries:

- Plans offered on the American market are relatively high priced, which impacts customer satisfaction and has motivated some recent public policy interventions
- European data plans tend to converge towards a common trend line with similar adjusted price per GB ratios. Exceptions are the Spanish market (higher price point than peers) and the Austrian market (lower price point than peers)
- The analyzed Middle Eastern plans follow divergent patterns, with tariffs in Saudi Arabia matching their international peers, while data offers remain positioned at a much higher pricing point in the UAE

Furthermore, high values of average GB for the 10+ GB segment show how, in countries like Austria, Denmark or the KSA, the market leans towards offers with very large data bundles.

Voice and Data plans. When analyzed on a country-by-country basis, Data and Voice+Data plans show a similar pattern.

Data plans country comparison of average price per GB



Source: Arthur D. Little Analysis

Note: Big Mac index not available in Bahrain, Kuwait, Oman, Qatar and UAE. For UAE Raw index has been used.

■ European offers converge towards homogenous price points; even the more affordable offers in terms of “adjusted price to GB ratios¹”; recorded on the Danish and Irish market, do not deviate much from the regional pricing trend

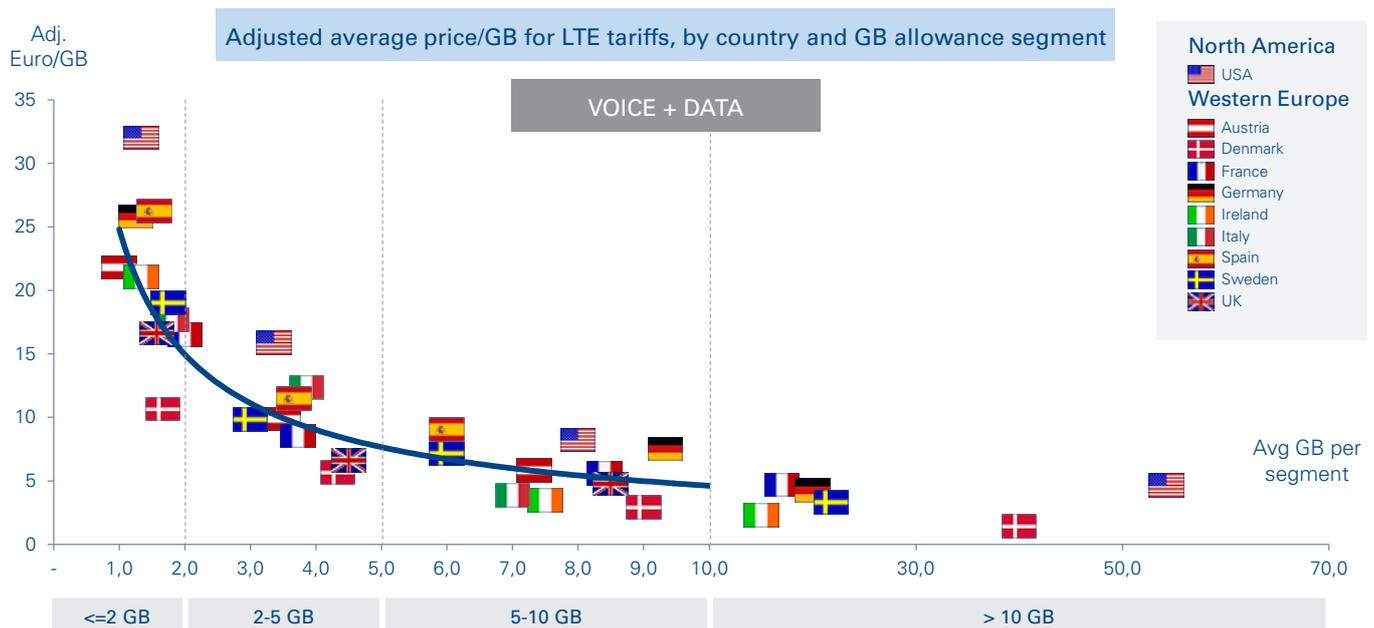
■ The American market, once again, stands out with highly priced tariffs and for very large broadband bundles

The figures on this page provide an overview and comparison of combined Data and Voice offerings across different countries within our sample², with average GB per allowance segment on

1 Actual €/GB ratio corrected by the Big Mac index, Euro-adjusted valuation (Purchasing-power parity index created by the Economist and based on the average price of a Big Mac for each country. The adjusted index uses the “line of best fit” between Big Mac prices and GDP per person for each country).

2 The theoretical €/GB curves serve as a reference and is built as a regression on EU observations, for the average GB size of plans offered within a given country and GB allowance segment

Voice and data plans country comparison of average price per GB



Source: Arthur D. Little Analysis

Note: Big Mac index not available in Bahrain, Kuwait, Oman, Qatar and UAE Big Mac. No LTE Smartphone plan available for KSA and UAE.

LTE plans percentage price per GB evolution 2H13 – 2H14

											
DATA	<=2 GB		-4,8%		-24,3%		-27,7%	-7,0%	69,7%	-10,6%	7,4%
	2-5 GB	17,3%	-29,1%	-51,6%	-31,0%		-4,8%	-2,9%	-8,0%	2,9%	-3,9%
	5-10 GB	24,2%	-20,9%	-13,8%	-4,3%		-24,0%	9,1%	-8,0%	-16,0%	-1,4%
	>10 GB	-9,1%	-24,8%	16,3%		-2,4%	-17,1%		23,4%	18,8%	-3,5%
VOICE + DATA	<=2 GB	-25,6%	-49,2%	4,8%	-29,8%	-18,4%	-3,5%	-15,9%	8,5%	-42,3%	-24,4%
	2-5 GB	-9,5%	25,9%	-13,7%	-9,7%			-29,5%	9,4%	-26,5%	-6,7%
	5-10 GB	-24,3%	0,0%	-42,6%	-21,0%				6,8%	-12,8%	-24,5%
	>10 GB		32,4%	24,6%					-7,3%		-27,5%

Red cells highlight a decrease in average price/GB ratio
 Green cells highlight an increase in average price/GB ratio

White cells indicate unavailable data or no significant changes

Note: 69.7% price increase in Swedish Data Market (<=2GB) due to the introduction in the 2H14 report of new tariffs by different operators.
 Source: Arthur D. Little Analysis

the y-axis and with adjusted average Euro per GB on the x-axis. The analysis was carried out on comparable mobile data tariff plans with no device subsidies and on voice and data tariff plans with unlimited voice and SMS.

Price Dynamics

In most countries, there has been a general tendency towards tariff reductions for both Data and Voice+Data plans. Indeed, out of the GB allowance segments under scrutiny, 73 percent experienced price reductions between December 2013 and December 2014.

- In Europe, there is a widespread trend towards price reduction in a large majority of countries in our study, with both mobile data and voice tariffs significantly decreasing in Denmark, France, Germany, Ireland, Italy, Spain and UK. Price increases are exceptions and were only found in the Swedish market, in which two out of four carriers increased their voice and data tariffs over the last twelve months, and in the Austrian market, in which operators launched services with higher speeds (up to 150 Mbps) at higher price points
- In the US, prices are also decreasing with the two premium players, Verizon and AT&T, engaged in a strong price-based competition. Both are lowering their tariffs, while simplifying their offering towards standard bundle sizes

Competitive dynamics and investment rationalization seem to be the main reasons behind price tension, with many countries witnessing simultaneous price reductions by multiple carriers. Specific cases of price increases tend to be due to the introduction of premium offers (network quality, value-added services, etc.).

An exemplary instance of price tension can be found in the Danish market for voice and data plans, where every one of the four mobile operators either decreased the price or increased the allowance (for the same price) of some of their offers.

Some plans sustain above market tariffs, like the 16GB "Forfait carré" by SFR France, yet those can be considered niche offers, comprising several perks, including international roaming, TV and music contents, extra-SIMs for additional devices, concierge service and large cloud storage.

The figure above provides a view on price dynamics of LTE plans between December 2013 and December 2014. Tariff evolutions are computed as the percentage difference between average prices per GB for each GB segment.

Value-added services

Mobile operators are increasingly including OTT and value-added services to their offering; this trend, however, varies greatly across geographical regions. Middle Eastern operators rarely pair their offering with free entertainment content, accessibility (roaming, tethering, Wi-Fi) or productivity tools; nonetheless some top-of-the line contracts, designed for demanding high-spending clients, include VIP and concierge services. In contrast, mobile offerings in western European markets are progressively including access to TV channels or music streaming services, hot spot networks, cloud storage and several other supplements. The US market emerges as the most advanced with this respect. Most operators are adding high value services to their broadband offerings, with media and music content, share plans³, widespread proprietary hotspot

³ "Share plans" allow to share an allotment of wireless data usage, along with unlimited domestic talk and texting services among up to a maximum number of Devices.

networks, cloud and software productivity tools largely included in Data and Voice plans.

Examples of this trend are Verizon’s “More Everything” and T-Mobile’s “Simple Choice Unlimited” with the former offering 25 GB of cloud storage, multi-device share plans, and high-value NFL and INDICAR exclusive content; the latter offering free Rhapsody unRadio music content, free WiFi on a nationwide proprietary hotspot network and unlimited data and texting in more than 120 countries.

The figure below provides a view on the extent to which value-added services are offered within the geographical regions. Regional fit is represented as the portion of operators offering each category of service, for plans within our study.

Value Added Services fit

Value Added Service	Western Europe	North America	Middle East
Media & entertainment (music, TV, news)	Low fit	High fit	Low fit
Accessibility (international roaming, wifi)	High fit	High fit	Low fit
Productivity (cloud storage, software)	Low fit	High fit	Low fit
Share plans	Low fit	High fit	Low fit

Source: Arthur D. Little Analysis

Low fit  High fit

Key insights and recommendations

LTE offers (in substitution of 3G) are becoming more widespread, but LTE is yet to generate the perception of higher value mobile services with customers (with exception of the US) until the complete network rollout, such as in Italy and Spain. The current global trend towards tariff reduction highlights the importance of generating and promoting data usage through LTE’s enhanced customer experience. Thanks to LTE, some operators are now generating higher ARPUs through increased data consumption and bundled value-added services.

Introducing value-added services can also be a functional way for mobile operators to promote broadband usage; when successfully perceived by customers as a differentiation factor, it can be a rewarding way to enhance the value proposition and support sustainable growth. To better monetize their LTE investments, telecom operators should leverage pricing models that further stimulate data consumption, such as data volume tiered pricing, speed-based differential pricing or bundling of OTT services. Such pricing schemes can be offered on a stand-alone basis or in combination and are being successfully leveraged by operators in the US, Europe and in emerging markets.

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