



EXPERT OPINION:

Profitability in emerging markets – just an illusion?

The squeeze between strategy and operational business needs

The Middle East and North Africa (MENA) region is one of the world's fastest growing mobile subscription markets, even as the world economy slows. Leading analysts underline a revenue growth of up to eight per cent until 2012. Nevertheless, as Andreas Freund finds, operators need to position themselves carefully as market liberalisation, GSM licences and new entrants characterise the competitive situation.



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Established players have many opportunities to expand their position – but they feel the squeeze between long term strategy and the need to immediately launch new services. And they have to accept, that new operators also achieve significant market share. Now the time is ripe to invest – in new infrastructure, in pragmatic ideas, in strategic alliances and in valuable services.

In the MENA region voice and SMS are still the most used services. But voice revenues are steadily declining, reducing the margins significantly. SMS is the most successful data service, but mobile operators can't rely on the success of SMS. So they have to find other attractive services to compensate for the declining SMS margins. Is MMS an alternative yet? Unfortunately not, as the slow uptake of MMS usage seems to continue for years. The subscriber group with high end devices and data packages is still very small; and services are relatively expensive.

Customer segmentation

Since there is no clear preference for the services demanded by the subscribers, operators have to follow a try-and-buy approach combined with a thoughtful segmentation strategy. Operators in the MENA region should consider leveraging the long-tail effect. In addition to the individual service, combining services into packages and bundles can provide a profitable way to address a particular customer segment. But operators have to follow through: if a new service,

bundle or campaign does not achieve the necessary benefit, it has to be discontinued and replaced by a better offering.

Why? Well, operators have invested a lot to introduce mobile data services. Innovative devices in combination with flat rate data plans caused an upswing in service usage. Data traffic in mobile networks is expected to grow more than 15 times during the next three years. So far so good, but data revenues will only grow two-fold.

Curb your costs

How can we solve this dilemma? To enable the mobile network to cope with the expected traffic, operators need to invest heavily in network infrastructure. But beware, if costs increase without a similar rise in earnings, the business becomes more and more of 'an adventure'.

As flat rate plans will be difficult for operators to give up, the cost of delivering each bit has to be reduced. In addition to cost savings in the network domain (e.g. using high-speed IP backhauled, network sharing, and investment in LTE architecture) charging related measures offer a wide range of opportunities to operators: One is content-specific charging, where extra charges are applied to services that occupy a high bandwidth. Another opportunity is to be more efficient in delivering traffic by reducing peak demand. Through the implementation of certain policies, usage can be prioritised into classes, ►

"The time is ripe to invest in infrastructure, ideas, alliances and services."



where conversational VoIP traffic has strict delivery requirements, whereas email can be delivered using whatever remaining capacity is available.

Fair use enforcement needs to be invoked to avoid a few users hogging all the available bandwidth. By significantly reducing peak demand, less network capacity is required, reducing network costs. Finally, the attractiveness of flat rate plans with built-in constraints can be increased by bundling them with other service/price options. Subscribers may accept these limitations because it is the only way they can have access to benefits provided by other parts of the package. With these measures operators have the chance to manage mobile data traffic more efficiently, bringing the costs to an acceptable level and ensuring that mobile data remains a profitable business.


Flexible bundles

CSPs in the MENA region should combine services with devices and price plans flexibly in order to offer them to particular subscriber segments. Services have to be attractive, adaptable, suitable for combining with other services, and plentiful. The most important factor for service attractiveness is still the pricing. It has to be fully transparent to the subscriber, predictable in every situation and, of course, affordable for the customer.

The affordability of a service depends directly on the device required to use that service. The device needs to fit the service in order to provide the best usability. Not all services will be provided by the CSP. The attractiveness of a service offering and the willingness to purchase a high end device can be improved if the access to well known third party brands is part of the offer. The result is a hybrid offering that requires the implementation of revenue sharing strategies between all the parties in the value chain.

As the MENA region is driven by prepaid the avoidance of subscriber churn is the most important topic. Besides number portability, at least the change from one CSP to another is easy for the subscribers.

What's the conclusion?

In addition to an attractive service offering, intensive customer relationship management is required. For an efficient CRM the process behind it has to be automated. This creates demand for marketing campaign management, recharge promotions, bonus programmes and event-based, real-time interaction with the subscriber. It's a challenge for operators, vendors and system integrators – with one common goal: sustainable profitability in an attractive market. 

IN BRIEF

To best exploit opportunities in home markets as well as to support pan-regional growth the strategy is: think customer. Valuable offerings, transparent prices, easy handling and accurate billing are the main drivers behind customer satisfaction, customer loyalty and customer retention. These points are fundamental, as most subscribers are prepaid – and potentially ready to churn.



VanillaPlus Jargon Buster

CRM = Customer Relationship Management

CSP = Communication Service Provider

MENA = Middle East & North Africa

MMS = Multimedia Message Service

SMS = Short Message Service