CLINTWORLD

Customer Value Engineers

Whitepaper:
'Best Price Guarantee' A Pricing Revolution for Telecoms

Clintview enables Best Price Guarantee for telecoms, and this is a highly-attractive offering for both Tier 1 and challenging operators.

Executive summary

In this whitepaper, Clintworld presents an analysis on how a "Best Price Guarantee" (BPG) can revolutionize Telecoms' pricing. In other industries, for example when booking a hotel room or flight, and especially in retail business, customers highly appreciate offerings with a simple "best price guarantee." Another way to look at the BPG is simply a credit for the savings against the lowest-priced product in market. In Telecoms this would guarantee no worries about plans, used minutes, and data consumption.

Operators could address their customers as follows: "Whatever our competitors will offer to the customers, we will match it..." and add to themselves and competitors, "and we do not undercut it."

With Clintview this offering has been realized in Belgium, where Colruyt mobile, an MVNO (Mobile Virtual Network Operator), offers BPG out of currently more than 800 offerings from four network operators and around 20 MVNOs.

When discussing this approach with heads of marketing in several countries, they immediately considered risks related to competitors' behavior. Will the competitors accelerate or slow down the pricing war? BPG gives the opportunity to re-think game theory, ruinous price war, and oligopoly.

Introduction

Telecom is a relatively young industry, still rapidly evolving both technologically and how customers use it. Starting in the 1990s, the monopolistic structures were transformed into oligopolies. The very limited number of licenses issued to mobile operators, for example, prohibits any form of "free market."

Oligopolies can be characterized by:

1. Conceding market share to competitors instead of starting ruinous price wars.

2. Danger (from customer and regulator point of view) of cartel building.

3. Difficulties of new market entrants due to strong financial position of existing competitors.

4. Market segmentation based on non-price differentiators, such as brand or QoS.

5. Necessity to continuously observe competitive pricing and not overreact.

6. Balancing the effects of cannibalization against loss of market share.

While brand, quality of customer service, and network coverage have continuously been considered other differentiators, pricing remains the crucial key to success for operators seeking to gain market share. Economists working on Oligopoly Pricing Theory have attained considerable attention from the Nobel Prize Committee. Game theory has given insight into the following questions; some of them could be best described with the Prisoners' Dilemma and other game theory thoughts:

- How would my competitors act if they knew how I would react?

- How will my main competitor react if a third competitor enters the market? Will the main competitor be "reasonable," and would that "reasonableness" be the same as mine?

- Is there equilibrium between cannibalization and competitiveness, and what is the degree of stability in this equilibrium?

When analyzing the recent years of the mobile market, some markets have shown a high degree of stability for quite some time. In many countries two equally strong operators dominated the scene, ahead of one or two challengers competing mostly on price. With their large customer base revenues at stake, the Tier 1 operators conceded a certain market share, particularly on the low end of customer segments. Introduction of MVNOs increased this trend. Nevertheless the situation could be called stable until technological evolution came into play:

1. Huge investments in data networks favored Tier 1 operators with their strong financial power. The evolution of data networks from 2G to 3G to LTE was only feasible for the market's largest operators.

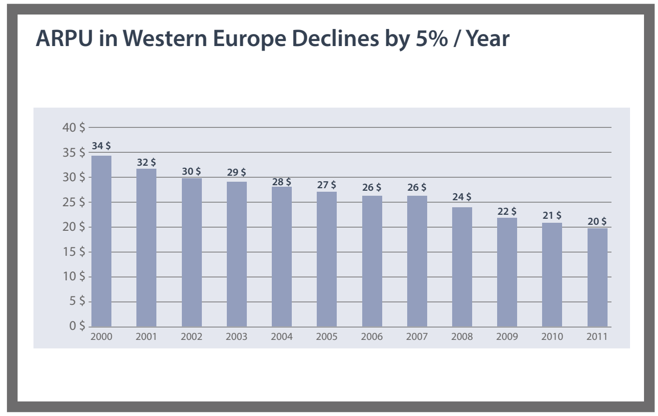
2. Regulatory interventions continuously decreased interconnection charges – in favor of smaller operators.

3. With new messaging and voice services being introduced, setting the right price points became more complex.

4. With improved billing and horizontal market consolidation, operators were able to offer cross-service bundles and convergent products.

These changes have turned the Communications Service Provider industry into an oligopoly, in which the leaders in the market could leverage their advantage upon the challengers.

What are the consequences for challengers? They need to be nimble, innovative, and cost effective. Launching a price war they cannot win is not a good option. Best Price Guarantee can provide them with an alternative to ruining the market and themselves. BPG can also be an option for Tier 1 operators when facing a price war.

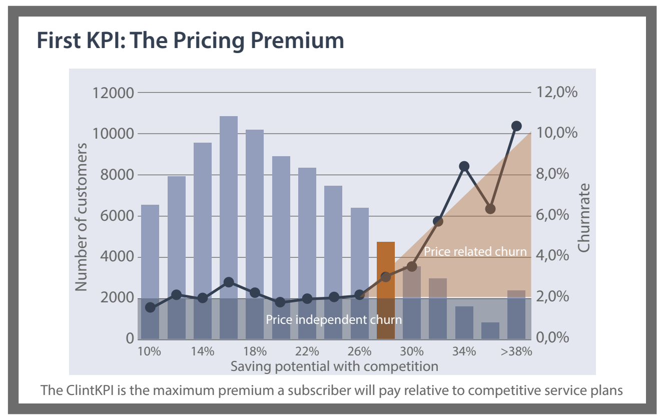


Graph 1: ARPU in Western Europe (Source: Wireless Intelligence, A.T. Kearney Analysis)

Strategy

With this being said, every operator, be it Tier 1 or challenger, should be prepared for a price war. At any time one competitor may start a price war – be it in their own interest or not.

1. Analyze the price sensitivity: Determine price-related churn based on the behavior of the competitor's customer base in their own tariffs. The Clintview white paper on Competitive Analysis gives a very good indication on when pricing churn begins. A good knowledge of ClintKPI will in most cases prevent operators from overreacting to competitive price reductions.

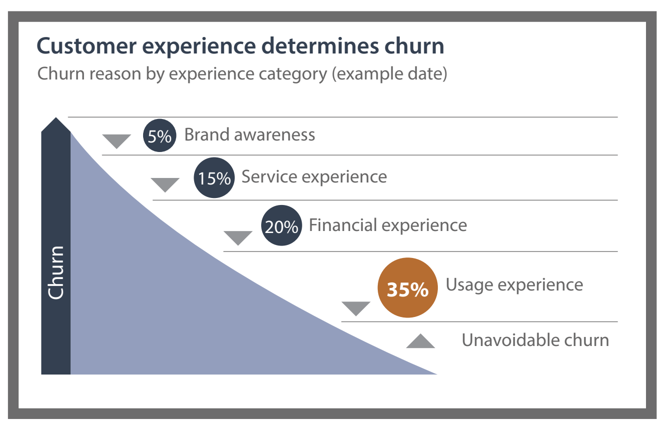


Graph 2: ClintKPI determines price sensitivity of customer segments

2. Optimize and control customer experience: Non-price-related churn is mostly due to bad customer experience, as described in Clintview's white paper in "Customer Experience Score." The most important message: Pricing churn cannot be seen independently from other churn reasons. Customer experience is part of competitive pricing!

    - Quality of service (e.g. data speed) is determined by the customer's tariff plan.
    - Service levels in call centers are different from brand to brand, operator to operator, etc.

    There is a value equilibrium between Financial Experience and Network Experience and Service Experience, such that if the sum of Network and Service Experiences goes down, so must the Financial Experience be improved in order to maintain the Value Equilibrium. The Value Equilibrium is tied to churn. The overall customer experience score for every customer is highly pricing sensitive, and if there is no other means of improving it, the Financial Experience is the last (and most expensive) option.



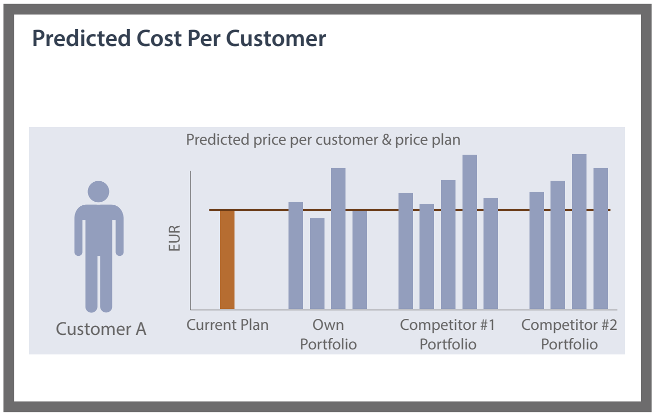
Graph 3: customer experience and churn

3. Make the first move: Get prepared with a sophisticated answer on all pricing challenges.

Analyzing the impact of a Best Price Guarantee

As a first task, the operator needs to determine in detail how a Best Price Guarantee should be presented. One approach would be to simulate every customer against every offering that exists in the market.

The result of the simulation makes it easy to compute how many subscribers are in danger of price-driven churn and the associated revenue at risk. We call this the Competitive Threat KPI (CTKPI).



Graph 4: Predicted cost customer by customer for all products in the market

Table of scenario variations for BPG that need to be considered:

	Name	Description	Options	Effect
1	**Portfolio**	Decide which of the competition's price plans are subject to consideration	1. Allow only plans that are active for at least three months. 2. Exclude special promotions and regional offers *or* 3. Create regional BPG-portfolios with regional competitors only 4. Use corresponding portfolios for special segments (students and others)	The expected credit per customer will decrease
2	**Segment**	Not all customers will be offered BPG	1. Prepaid Customers with minimum credit amount 2. Customers prolonging their contracts 3. Customers paying an amount of EUR x,xx for the BPG	The BPG message will be weakened Risk is reduced
3	**Optimization Rules**	Some rules can significantly change the effect of BPG	1. OnNet Usage is always considered "Own Onnet" 2. "Own" Friends & Family rules apply 3. Exclusion of Optimization for Roaming, International and Special Numbers	The BPG message will be weakened The expected credit per customer will decrease
4	**Price Elasticity**	Customers' usage can increase when billed under BPG	1. Scenarios without increase 2. Scenarios with global increase (in percentage of current usage) 3. Scenarios with increase in limited destinations only or for specific customer segments with high price elasticity	Some scenarios will evidence ARPU increase

With those scenarios set, a pricing simulation system like Clintview is able to compute the effect on the base (customer by customer).

Clintworld's long-term experience indicates segment revenue losses in the range of 10% to 30%. This is based on constant usage behavior. A reasonable assumption is usage will increase in relation to the reduced price. The price elasticity can be well determined with historical data for each given customer segment. Clintview will help to easily build scenarios on the upsides and downsides of usage changes.

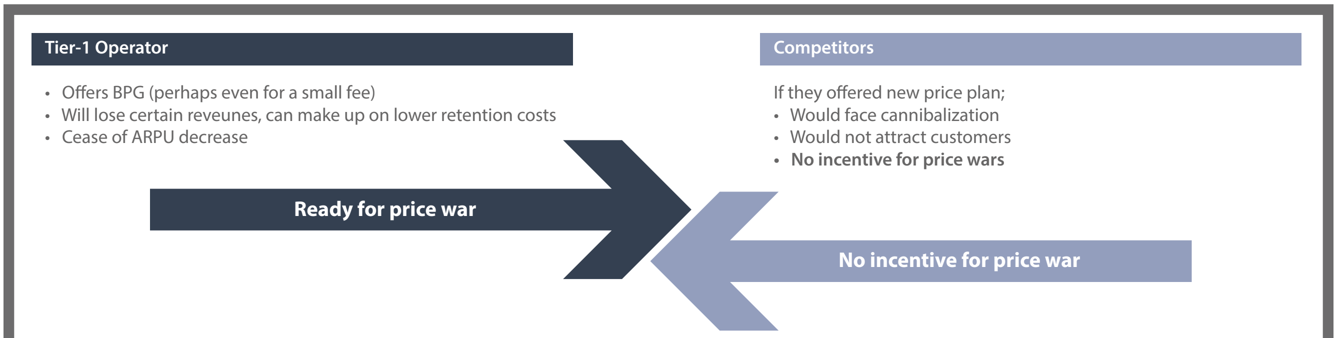
Some evident consequences for a company introducing BPG are:

1. For competition, the incentive to decrease prices is reduced, since this will cause cannibalization without increasing the competitiveness on price.
2. The loss of revenue will most likely be significant. Usage increase will partially compensate the lower price.
3. The loyalty of existing customer base increases.

Some market reactions need to be specifically considered.

Prediction of market reactions

A: Tier 1 Operator introduces BPG

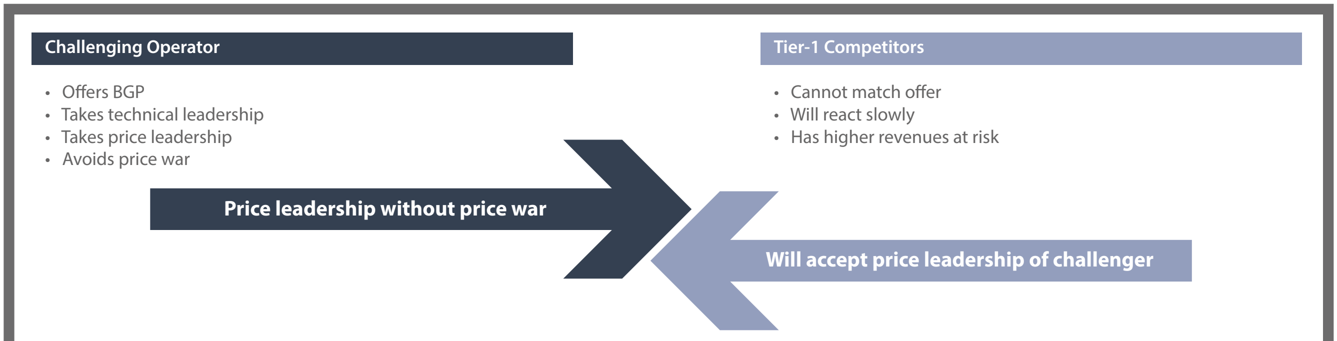


A BPG offering in a portfolio is a technical advantage that can protect operators with large customer bases from ruinous price wars.

With a large amount of revenue at stake, the Tier 1 operator will be tentative about introducing a BPG. Nevertheless the BPG introduction can make sense in situations when price wars are expected or a new round of price reductions is foreseen anyway. The specific considerations are:

1. For competition the incentive to decrease prices is reduced, since this will cause cannibalization without increasing the competitiveness on price.
2. The loss of revenue will most likely be more significant than for the competition.
3. Price is no longer an excuse for churn. The company can start focusing on other areas.

B: Challenging operator introduces BPG



A BPG offering in a portfolio is a technical advantage that can enable challenging operators to create price leadership without initiating a price war.

Challenging operators can use the BPG more aggressively:

1. They create awareness and pricing leadership without starting a price war.

2. They can be sure competition will react slowly to such on offer.

Some potential positive side effects are:

- Investments in expensive billing features are unnecessary, since the best tariff platform provides this.

- Commissions and handset subsidy costs are reduced due to perceived higher value on price.

Execution

The reference of Colruyt mobile in Belgium showcases the feasibility of Best Tariff Guarantee. The technical procedure is as follows:

1. Customers are billed a simple price plan (e.g. 0.10 EUR per Minute, per SMS, and per MB).

2. All products on the market are managed in Clintview.

3. On a monthly basis, the best product on the market for every customer is computed and the savings determined.

4. The difference will be credited, and the customers informed.

Bill the customers
Both prepaid and postpaid are suitable for "Best Tariff Guarantee." If all "best tariff" customers are moved into one specific price plan, this will support various administrative processes around customer management. This price plan should not be the best by itself; for relevant segments it would be wasted money. A uniform structure like 0.10 per Minute, per SMS, per MB, may by a good starting point, taking into consideration customers may need to top up according to their usage in order to fully exploit the BPG.

Set up all products
This is a continuous task for managing a Best Price Guarantee. In Belgium more than 800 products are on the market; other countries have more than 10,000. We estimate less than one FTE to execute this task. For Best Price Guarantee, it is important to clearly communicate the rules and to be as precise as possible, which includes Roaming costs and costs for special phone numbers. With Clintview managing all these pricing items, it is a structured and comfortable task.

Compare the results
Here the rules come into play. Which tariffs do we compare? Student tariff rules can be different from operator to operator, and some offers are promotions, so there is a need to define clear rules. Certain inclusion rules should be taken into account, such as:

a. only plans offered by competition for three months in a row.

b. plans with corresponding handset price.

c. plans and options that are not special promotions.

Credit the difference and inform the customers
Clintview will compute the results as fast as an ordinary billing system generates an invoice. The system set-up will target a maximum four to six hours for the computation of a full monthly run on all customers. This results in:

- For Postpaid
    1. the credit amount can be on the same invoice.
    2. The CSRs are ready to use for online bill or print.
- For Prepaid
    1. The customer can be informed (via SMS) regarding a fixed number of days of the subsequent month.
    2. The details of the computation are available for any type of customer management activity.

Summary

A **Best Price Guarantee** provides operators with a strategic pricing option that can be applied to smaller or larger customer segments. It will generate uncertainty and doubt with competition, resulting in less aggressive pricing. Therefore Best Price Guarantee will reduce price erosion while providing price leadership for those operators who move first.

Whereas Best Price Guarantee has become a commodity in other markets, Clintworld's product will provide innovative operators with a competitive advantage that can be an important role in the fight for profitable customer segments.

There are many game plans for a best tariff strategy. This paper gives only a few suggestions on how such a strategy may be leveraged. Creative operators will go beyond these suggestions.

Best Price Guarantee strengths

Strength	Detail
Unique Offering	• BPG cannot be matched by competition for a lengthy period.
Time to Market	• BPG could be introduced within a few months.
Flexibility	• BPG could be combined with different value propositions. • Network Quality Credits. • Handset Subsidy "savings-plan".

Best Price Guarantee opportunities

KPI	Opportunity
Revenue	• Increase of market share thanks to price leadership. • Increase of customers' usage because cost uncertainty is decreased. • End to ruinous price war
Internal Costs	• No need for development of complex pricing and billing features.
Customer Satisfaction	• Monthly crediting leads to positive feedback
Cash and Churn	• Prepaid users in BPG are required a high credit amount

Next step: assess the scenarios

Clintworld provides a variety of services for estimating the price sensitivity of customers. This should be the important first step on the way to innovative pricing. Once ClintKPI and competitive threats to the customer base are under control, the decisions on Best Price Guarantee can be taken with increased certainty. Given the competitive situation, the minimum requirement is to "be prepared" for the oligopoly game. Clintworld offers case studies that are essential for building a full business case.

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